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 7 of 2022

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

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1.2 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 April 2022.

We are the owners of the GEPF, and we have the right to expect the GEPF Board of Trustees and the PIC to manage and invest OUR money in a responsible and profitable way, to the advantages of members and pensioners. Take note of the single pensioner on the BOT, with the election coming up.

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

The Editor's Word

For those of you who skipped the first page. AMAGP has achieved enviable credibility since inception, but the pensioners driving AMAGP all have a use by date. We really need willing leader servants to complement what we have to take over the drive for the long term viability of the GEPF and sustainability of its return on investments

Note. The Fund's investment values used in the newsletter are from the 2021 GEPF Annual Report. Such values are probably from about December 2020, making the data only a guide to what the value of our Fund's visible investments currently are.

The horrific increase in the fuel price is going influence us all.

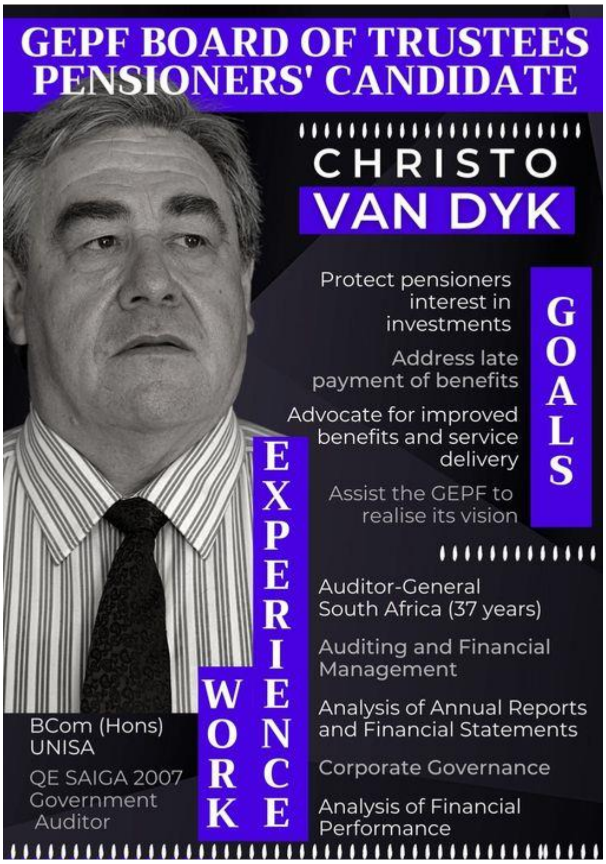
The end of the state of disaster is extremely welcome and long overdue. However, it looks like the 'government' wants to maintain the control it had over the country with the proposed new 'health regulations', in reality perpetuating the disaster regulations. The ease the 'government' enacts regulations to suit itself must make us even more aware of any similar action even remotely linked to the GEPF.

The BOT election

Each and every pensioner should vote for the pensioner's representative on the BOT. Keep in mind if you don't vote you can't complain about the BOT as you didn't exercise your right to vote for your representative.

Note the closing date for voting in the election is 6 May 2022.

See the boxes below for details of the AMAGP candidate.



Remember the most terrifying words you can ever hear: "we are from the government and we are here to help". Ronald Reagan 1986.

Now for news from the media

We start off with the appointment of the new CEO of Absa. This appointment has caused the PIC to complain about Absa's lack of dedication to transformation, although it only has about 5,4% of its shares [actually it's the GEPF's]. It seems the PIC follows 'government' instructions on investing, including deciding for the GEPF what race the management of the companies it invests in for the GEPF [us], must be.

Gemfields had a gem of a year according to the financial news. Of course, this is good for the Fund too.

Hulamin has been having dull times with little to show. However, it seems their hard work is starting to pay off, with the possibility of dividends in the next year or so.

AdvTech is one of the private education companies showing good growth and good news. The private education industry has been hard hit by Covid and is slowly recovering.

Renergen is a good investment with good prospects. Helium seems to be a good investment with Renergen a leader.

There are some titbits to keep you up to date with small happenings with our Fund's funds. Makes for interesting reading when you realise the economic news has a direct bearing on how well you are going to retire.

An interesting court case, where the pension funds adjudicator was overruled by the court, in favour of a beneficiary who felt entitled to more of his pension than his pension fund wanted to pay him. This will probably lead to an appeal.

Nampak has progressed with its turnaround, but is still facing challenges getting its cash out of the African countries it is doing business in. Except for that, Nampak seems to be improving.

Barloworld is doing well, busy with selling off non-core businesses, like Nampak is doing, focusing on its core business. ROI looks promising.

We have good returns from KAP, a holding company for a number of other companies. Yes, I also didn't know such a company even existed.

An eye opening report about Acsa. How its shareholding came about and what the 'government's' hand, arm and fingers in the company means to investors. Yes, we also didn't realise the 'government' actually owns Acsa and, therefore, manages most of our airports.

NUUSNEWSNUUS

Synopsis

PIC wags finger of disapproval at Absa's new CEO appointment

Moneyweb
By Akhona Matshoba
1 April 2022

Image: Moneyweb

The PIC has expressed its "downright disappointment" with the Absa board's decision to appoint Arrie Rautenbach as its new CEO.

In a statement released on Friday, the PIC noted that by appointing Rautenbach, Absa missed the opportunity to show its commitment to transform the group and advance diversity, inclusivity and racial and gender equity in the group's most senior positions. "The PIC expected that the board would have placed the required focus on transformation in the process to recruit a new CEO" the PIC says. "This should be a key business risk for the board, considering the nature and breadth of services Absa provides to South African society."

Absa announced Rautenbach's appointment in a JSE Sens statement on 29 March, making Rautenbach the first internally appointed CEO since 2006.

Prior to his appointment as Absa CEO, Rautenbach, who has 25 years' worth of experience in the banking sector, served in the group in various positions such as the group's chief risk officer and chief executive of retail banking South Africa. Rautenbach also provided executive leadership for the Group Separation Programme and Group Strategy Office.

PIC to meet with Absa

The PIC, which according to Absa's shareholder information owns a 5,41% stake in the bank, says it has requested an urgent meeting with the bank to discuss its transformation strategy and plan.

"Initiatives to advance transformation in large corporations should expressly be linked to incentive structures of the organisation, with a significant weight accorded to the executive and senior management, to ensure that the requisite commitment and accountability take full effect in practice," the PIC notes.

"Transformation should be a core strategy of the bank, driven from board level. This should incorporate a clear commitment, with clear targets for all levels of management."

Responding to Moneyweb's questions via email, Absa says it takes the PIC's transformation concerns seriously, further adding that as a bank it looks to engage the fund manager on its concerns. "The PIC is an important stakeholder not only to Absa but to wider society," Absa says. "We take their concerns seriously and will continue to engage them constructively."

However, ABSA stuck to its decision of appointing Rautenbach as CEO, citing Rautenbach's track record in business performance and his ability to deliver on group objectives as some of the reasons supporting his appointment.

Absa further allayed any concerns that Rautenbach's appointment will result in the delay of the bank's transformation efforts. Further adding that Rautenbach, as well as the board, are fully aligned with the group's transformation strategy.

"Furthermore, Arrie has a demonstrable track record of appointing diverse teams at the bank, both in terms of race and gender. The team that he most recently assembled in retail and business banking led to the commercial turnaround of the group's largest business unit," Absa says.

"Both Arrie and the board are fully aligned on the principle of driving transformation across all levels within the group," Absa concluded in its statement.

Comment

We have about R11,7bn in Absa.
What on earth does the PIC have to do with Absa's transformation strategy and plan? And presuming to prescribe to any other company it invests in? And that transformation for a bank must be its core strategy and not banking for its clients? My word!
It doesn't seem as if the PIC is focused on wise investing and ROI for its clients if it has the time and used our money to meddle in other companies' management, counter to its investment mandate from the GEPF. All the indications are that the appointed Absa CEO is the best choice for the post, while it seems the PIC would want anybody else irrespective of the influence on ROI.

Synopsis

MEDIA RELEASE 2/2022

Issued on behalf of the Association for the Monitoring and Advocacy of Government Pensions. (AMAGP)
Cape Town
4 April 2022

ABSA'S NEW CHIEF: THE PUBLIC INVESTMENT CORPORATION SHOWS ITS RACIST COLOURS

The appointment of a white male as ABSA's new Chief Executive Officer has elicited objections from the Public Investment Corporation (PIC), which clearly reveal its racist and political obsessions. Moreover, it is more than arrogant to dictate to ABSA that transformation should be its main strategy, while it only possesses a minor share in it. Apparently, it was expected from ABSA to make transformation the “required” focus with this appointment. Who requires it? Cadres? Impertinence? No, behaviour that was to be expected from cadres on the PIC Board.

AMAGP’s allegations years ago, about everything not being well with the PIC, have been proved correct by the judicial Commission of Inquiry (the Mpati Commission) that was instituted at our request. The malfeasances exposed by the Commission were so serious that the whole Board, including the chairperson (a deputy minister), resigned. An Interim Board was then appointed under the chairmanship of a respected business person.

The Commission levelled serious warnings about political interference and *inter alia* recommended that Board members be appointed by the Finance Minister on recommendation by the Board. **The Board should elect the chairperson, who moreover was not to be a politician.**

The reason for the governing party rushing the PIC Amendment Act, which provides for the appointment of a deputy minister as chairperson, through parliament at high speed, only recently became clear when the DA exposed the appointment of cadres by the ANC. The cadres’ blatant racism and political prejudices are now being revealed by their unabashed actions regarding the ABSA appointment.

The PIC being a state owned corporation and owing its existence to its monopoly as investment manager for the Government Employees Pension Fund (GEPF), has now become a threat to government pensioners. If transformation and NOT advantageous investments is their main strategy, the GEPF’s investments are certainly not safe in their hands. The time has come for independent investment managers.

The ANC cadres’ behaviour at the PIC also raises concerns about what is going to happen with the Board of Trustees of the GEPF. A new Board must be appointed in the near future. There cannot be any doubts about what the Cadre Deployment Committee’s preferences are going to be. **The result of both the PIC and GEPF being in deployed cadres’ hands? Capture of the pension fund!!**

MEDIAVRYSTELLING 2/2022

Uitgereik namens die Vereniging vir die Monitering en Bevordering van Regeringspensioene (AMAGP)

Kaapstad
4 April 2022

ABSA SE NUWE HOOF: DIE OPENBARE BELEGGINGSKORPORASIE WYS SY RASSISTIESE KLEURE

Die Openbare Beleggingskorporasie (OBK) se rassistiese en politieke beheptheid blyk duidelik uit sy beswaar dat ŉ blanke man as ABSA se nuwe Hoofuitvoerende Beampte aangestel is. Boonop is dit arrogant genoeg om aan ABSA, waarin dit slegs ŉ klein aandeel besit, voor te skryf dat transformasie die hoofstrategie moet wees. Daar is glo van ABSA verwag dat die " verlangde" fokus met die aanstelling op transformasie moes wees. Wie verlang dit? Kaders? Voorbarigheid? Nee, optrede wat van ontplooide kaders op die Raad van die OBK verwag kon word.

AMAGP se bewerings jare gelede dat alles by die OBK nie pluis is nie, is korrek bewys deur die geregtelike Kommissie van Ondersoek (die Mpatikommissie), wat op ons versoek ingestel is. So erg was die wanpraktyke wat by die Kommissie geopenbaar is, dat die hele Raad, insluitende die voorsitter wat 'n adjunkminister was, bedank het. 'n Tussentydse Raad is aangestel met ŉ gerespekteerde sakeman as voorsitter.

Die Kommissie bet ernstige waarskuwings oor politieke inmenging gerig en, onder andere, aanbeveel dat die Trustees deur die Minister van Finansies aangestel moes word uit persone wat deur die Raad aanbeveel is. **Die voorsitter, wat nie 'n politikus moes wees nie, moes boonop deur die Raad verkies word.**

Die rede waarom die regerende party die OBK-Wysigingswet, waarin bepaal word dat 'n adjunkminister die voorsitter van die OBK-raad moet wees, met spoed deur die parlement gejaag het, het eers onlangs duidelik geword toe die aanstelling van kaders deur die ANC, deur die DA openbaar gemaak is. Hierdie kaders se blatante rassisme en politieke bevooroordeeldheid word nou skaamteloos deur hul optrede aangaande die ABSA-aanstelling onthul.

Die OBK, wat 'n staatsbeheerde korporasie is en sy bestaan ontleen aan sy monopolie as beleggingsbestuurder van die Staatsdienswerknemerspensioenfonds (GEPF), het nou 'n bedreiging vir staatsdienspensionarisse geword. As transformasie en NIE voordelige beleggings nie, hul hoofstrategie is, is die GEPF se beleggings nie veilig by hulle nie. Dit het tyd geword vir onafhanklike beleggingsbestuurders.

Die ANC-kaders se optrede by die OBK bring ook vrees mee oor wat by die Raad van Trustees van die GEPF gaan gebeur. 'n Nuwe Raad moet eersdaags aangestel word. Daar kan geen twyfel wees oor wat die Kaderontplooiingskomitee se voorkeure gaan wees nie. **Die gevolg van beide die OBK en GEPF in ontplooide kaders se hande? Kaping van die pensioenfonds**!!

Comment

Enough said.

Synopsis

Gemfields signs off on a sparkling year

28 March 2022
INCE|Community
The Finance Ghost

If nothing else, the Gemfields announcement taught me the term *annus mirabilis* which is the opposite of *annus horribilis* - another Latin term with a first word that hasn't aged well.

CEO Sean Gilbertson called 2021 an *annus mirabilis* - a remarkable or marvellous year - which is a fitting description for a period that has seen a dramatic rise in the share price. There's even a special dividend of $20mn to top it all off.

2021 saw record-breaking auction revenues at Kagem Mining in Zamibia (emeralds) and Montepuez Ruby Mining in Mozambique. Faberge, a jewellery manufacturer famous for its egg-shaped creations, also achieved record revenues, so 2021 was the group's best-ever year for revenue.

There are other investments in the group, like a 6,54% stake in Sedibelo Platinum Mines and a 75% stake in Nairoto Resources, a potential gold resource in Mozambique.

Revenue increased appreciably vs. 2020 which is a reminder of the disaster that Covid caused. Compared to 2019, revenue is up by a sensible 19%. Operating profit is up by 18% vs. 2019 and net profit is 66% higher than 2019.

Looking at net profit and loss over the three-year period tells quite a story: a profit of $39mn in 2019, a loss of $93,2mn in 2020 and a profit of $65mn in 2021. This is an aggregate of nearly $11mn in net profit over three years. Covid caused chaos for many businesses and Gemfields was hit harder than most.

After slipping into a net debt position in 2021, Gemfields has swung sharply into such a positive cash position that the special dividend of USD1,7 cents per share is possible.

Headline Earnings Per Share (HEPS) in 2021 was $0,05 cents. Friday's closing price of R3,52 means that the company is trading on a Price/Earnings multiple of below 4.9x (which would fluctuate based on the share price and the exchange rate).

The market treats this one with caution, not least of all because of the underlying exposure to Mozambique. Provided there are no disruptions to operations, Gemfields seems to be in a strong position.

Comment

We have about R18,9mn in Gemfields. Looking forward to a good year with good dividends for us.

Synopsis

Hulamin: a big result but no dividend

29 March 2022
INCE|Community
By The Finance Ghost

Hulamin released a cracking set of the results for the year ended December 2021. Much of it seems to have been priced in, as the company only closed 2,8% higher.

The result was strong right from the top, with sales volumes up 34% and revenue up 52%. This means that the result was driven by both production and pricing improvements, the holy grail for any industrial company.

Local sales were up 54% thanks to increased beverage can consumption and import duties on aluminium flat rolled products into South Africa. This is a good example of where trade policies can support local industry, something a company like PPC is screaming out for in the cement industry.

Thanks to the benefits of operating leverage, operating profit increased by a whopping 760% to R538mn. The group has swung from a headline loss per share of -94 cents to HEPS of 82 cents.

Cash flow conversion lagged operating profit growth, with free cash flow from operating activities up 166% to R239mn. Hulamin is working capital intensive, requiring net working capital investment of R346mn in 2020 and R291mn in 2021. Working capital is the net of inventories, accounts receivable, accounts payable and related derivatives.

Momentum looks promising into the new financial year, with a positive narrative around demand and pricing.

Despite the much stronger result, there's still no dividend. The share price of R4,75 reflects a Price/Earnings multiple of 5.8x.

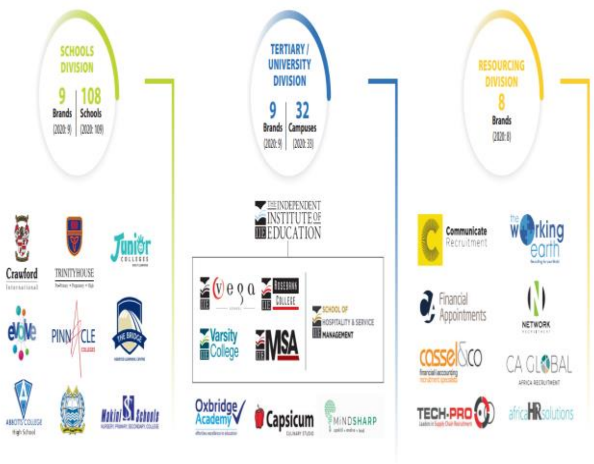
Comment

We have about R8,9mn in Hulamin. Looks like Hulamin is improving; even if no dividend is paid, the increase share price should make up for it.

Synopsis

ADvTECH shows (cost) discipline in the classroom

29 March 2022
INCE|Community
By The Finance Ghost



For the year ended December 2021, ADvTECH achieved revenue growth of 8%. The Schools South Africa division could only manage revenue growth of 4% and the Tertiary/University division achieved a similar result. The higher growth numbers came from Rest of Africa (up 36%) and the Resourcing division (up 20%).

Despite the modest revenue growth in some areas, restructuring efforts and cost controls led to an increase in operating profit of 22% to R1,1bn, reflecting an operating margin of 18,7%.

The cash followed the earnings nicely, with cash generated by operating activities up by 21%. Normalised earnings, which the company reports to help investors understand the underlying result without the impact of once-offs, increased by a meaty 35% to R656mn.

The standard measure that investors always look at is headline earnings per share. HEPS increased by 33% to 121,6 cents, so yesterday's closing price of R16,48 is a Price/Earnings multiple of 13.6x.

The dividend has increased sharply from 20 cents per share in 2020 to 50 cents per share in 2021. This is a 3% yield on yesterday's closing price. The final dividend still to be paid to shareholders is 31 cents per share, included in the 50 cents for the year.

ADvTECH's share price is down 7,4% this year. In the peer group, Curro Holdings is down by a similar amount and Stadio is up 13,3%.

Comment

We have about R831mn in AdvTech. The private education industry in general is slowly recovering but time lost is never going to be recovered.

Synopsis

Renergen announces another strategic investor

29 March 2022
INCE|Community
By The Finance Ghost

Renergen's projects are full of helium and so is the share price, with another 9,7% increase yesterday. The year-to-date performance is now a 27,7% jump, which is a wonderful return especially when viewed against global equity markets.

The latest rally was driven by the news that the state-owned Central Energy Fund (CEF) will subscribe for a 10% stake in Tetra4 (which holds 100% of the highly coveted Virginia Gas Project) for R1 billion. The proceeds will be used in the development of Phase II of the project.

This transaction still needs to go through due diligence and approvals at levels as high as National Treasury. It's not a foregone conclusion by any means, but deals like this usually aren't announced unless the parties believe there is a high probability of completion. There are 141 days for all conditions precedent to be fulfilled (I guess 140 days was just too much pressure...)

This is another feather in Renergen's cap after a recent announcement that Ivanhoe Mines will take a strategic stake in the company and put in capital towards the Phase II development. It's clear that Renergen's operations are attracting major strategic investors.

Phase I operations at Virginia Gas Project are due to commence in April. The nature of energy companies is that the lead times between investment and revenue are long, so the Phase II capital is being lined up before Phase I has even started producing.

The introduction of the CEF as an equity participant in this project is an important political step, as the government now has a stake in the project. This gives the CEF economic participation in South Africa's first and only onshore petroleum production right. It's usually a good idea for energy companies to have a strong working relationship with government, so this is positive news for Renergen for reasons beyond the injection of R1bn.

Renergen's share price has increased by nearly 370% over the past five years. The army of retail investors in this business will be thrilled to see institutional and strategic investors putting their money behind Phase II.

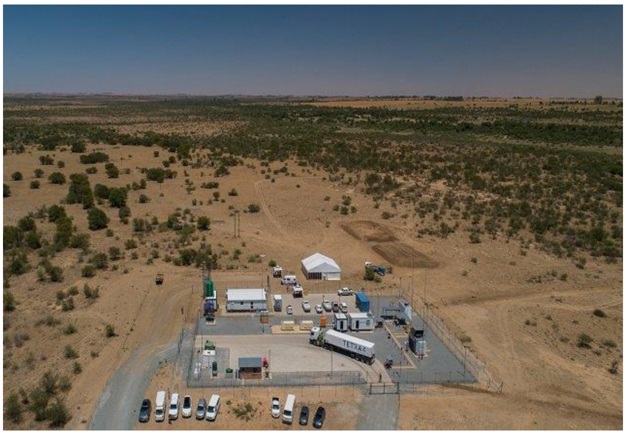
Comment

We have about R247,6 in Renergen. Renergen is doing well with the gas exploitation, and the CEF invested.

Synopsis

Government invests R1 billion into natural gas project in South Africa

BusinessTech
Staff Writer
28 March 2022



The Central Energy Fund (CEF) will invest R1bn into the country's Virginia gas project as part of a renewable energy push.

The Virginia Gas Project is the only onshore petroleum plant in South Africa, with the site covering an area that includes Welkom, Virginia, and Theunissen. It is owned and operated by Renergen through its subsidiary company Tetra4.

The R1bn investment will see 10% of Tetra4 sold to the CEF, subject to the completion of conditions, Renergen said in a statement on 28 March.

"Renergen and the CEF's relationship goes back many years. Importantly, during this time Renergen has successfully grown Virginia in a size and scale, highlighted by the growth both of our helium and methane reserves, which have finally reached the critical mass to enjoy CEF's involvement," said chief executive Stefano Marani.

Renergen has previously estimated its helium reserve could be as large as 9,74 billion cubic metres, more extensive than the known reserves of the entire US.

While helium is perhaps best known for its use in balloons, its benefits go far beyond this. Helium is considered highly valuable for its use in medical scanners, space travel, and superconductors.

Certain unique properties make it an essential component in manufacturing fibre-optic cables, microchips, and other electronic equipment. It is also used to inflate car airbags and in high concentrations in deep-sea diving tanks.

Comment

Some more information about the gas project and the CEF. Good news is always welcome.

Synopsis

TITBITS

Ince/Connect
The Finance Ghost

28 March

RMI has reminded the market that it won't be pursuing a rights offer anymore, as the sale of 30% in Hastings Group raised enough cash. The unbundling of a 25% stake in Discovery and 26,8% in Momentum Metropolitan will be completed by 25 April.
We have about R3,1bn in RMI.

Hyprop's proposed acquisition of four European properties from Hystead was met with a resounding shareholder approval at the general meeting. 99,92% of votes were cast in favour of the deal.
We have about R894mn in Hyprop.

Oceana has finally released its annual results and integrated annual report for the year ended 30 September 2021. It has been a tumultuous few months for the company after numerous issues and executive changes. Shareholders will hope for stability going forward.
We have about R826mn in Oceana.

29 March

Telkom has obtained spectrum for R2,1bn and the related announcement is hardly a celebration. Although Telkom can pay ICASA from existing balance sheet capacity, the

shocker for shareholders is that year-to-date free cash flow is negative and tracking below expectations. On the positive front, this is the first time Telkom Mobile will own sub-1GHz spectrum and the company notes that this will increase coverage and capacity. Telkom is still following a court application process as it believes that the auction process is not promoting effective competition in the mobile market. The application is set down for hearing on 11 - 14 April 2022.
We have about R3,3bn in Telkom.

Raubex released a trading statement for the year ended 28 February 2022, noting expected HEPS of at least 286,9 cents (a 250 cents increase on the prior period). The narrative looks positive in all divisions and regular readers will be aware that Raubex is in the process of making a mandatory offer to the shareholders of Bauba Resources. Raubex closed nearly 5% higher at R40 per share.
We have about R565,5mn in Raubex.

Capital Appreciation Group has guided growth in HEPS of between 25% and 35% for the year ending 31 March 2022. The narrative looks good across the group, with significant reinvestment of profits as the group operates in high-growth verticals like cloud computing and payments. Interestingly, the company is directly responsible for getting Meta (Facebook/WhatsApp) into trouble with local competition authorities after that group attempted to terminate GovChat's use of their services. GovChat is an associate of Capital Appreciation Group.
We have about R333,3mn in CAP.

The **Tiger Brands** Venture Capital Fund has made its first investment in Herbivore Earthfoods, a supplier of plant-based and vegan products. In a surprise to absolutely nobody, such a business is found in Cape Town. Tiger hopes to bring strategic guidance to the deal along with route-to-market and R&D expertise. These deals are interesting but are way too small, with investors focusing on far more important matters like pricing dynamics in the FMCG market.
We have about R5,2bn in Tiger Brands.

30 March

At **Absa**, Jason Quinn has been serving as interim CEO while the bank decided on its future leadership. Quinn will return to his familiar CFO role, making space for Arrie Rautenbach to be appointed as CEO. Rautenbach currently runs the Retail and Business Banking division and has been at Absa since 1997. Punki Modise has been serving as interim CFO while Quinn played the role of interim CEO. Modise will take over as interim chief executive of the Retail and Business Banking division, the seat left open by Rautenbach's promotion. In summary: musical chairs of note for the bank as it seeks to build on significant positive momentum that has recently been achieved.
We have about R11,7bn in Absa.

Omnia Holdings is participating in the Sun City conference, an event for analysts whose suits and ties have been gathering dust during the pandemic. The presentation is available on the company website. It's worth a look, as Omnia is an interesting business with a presence in 25 countries. The company finds itself right at the core of global geopolitical issues, as Omnia's business touches fertilizer and related products.
We have about R1,5bn in Omnia.

Comment

Some titbits to keep you u

Synopsis

Source: www.groundup.org.za

Adjudicator overstepped her authority in deciding that pension fund's rule did not apply retrospectively

Moonstone
by Mark Bechard
28 March 2022

The Gauteng High Court has overturned a determination by the Pension Funds Adjudicator, ruling that she exceeded her jurisdiction and did not follow a fair procedure when deciding that a fund's amended rule did not apply retrospectively to an accrued benefit.

The court also condoned the late filing of the applicants' appeal, saying leaving the determination unchallenged posed a threat to the sustainability of the fund.

Matome Ramohlale, the first respondent in the High Court case, lodged a complaint with the Adjudicator in 2014 after he was paid a withdrawal benefit of R132 173 instead of the R264 347 he had expected to receive.

When Ramohale joined the Municipal Employees Pension Fund (MEPF) in 2006, one of the fund's rules provided that a member leaving the fund early would be paid a withdrawal benefit calculated at three times the value of his or her contributions.

In February 2013, the MEPF's actuaries advised the fund that the high withdrawal benefit was placing a significant financial strain on the fund, and the fund was at risk of failing to meet its liabilities. It was recommended the rule be amended to ensure the fund's sustainability.

In June 2013, the fund resolved to amend the rule with retrospective effect from 1 April 2013. The amended rule provided for the calculation of withdrawal benefits at a rate of 1,5 times the member's contribution. The registrar approved the amended rule on 1 April 2014, with an effective date from 1 April 2013.

Ramohlale resigned from the Ekurhuleni Municipality and ceased to be a member of the fund on 15 May 2013. He received his withdrawal benefit in August 2013.

In January 2018, the Adjudicator ordered the MEPF to pay Ramohlale the difference between the expected amount of R264 347 and R132 173.

She said the amended rule could not be applied to benefits that had accrued before the date on which it had been approved by the registrar. Its retrospective effect applied only to active members and those who left the fund on or after the date on which the rule had been approved.

Adjudicator exceeded her authority

The MEPF and Akani Retirement Fund Administrators asked the High Court to review and set aside the determination, contending it lacked jurisdiction and was procedurally unfair because they had not been allowed to make submissions about the validity of the amended rule.

Judge Marcus Senyatsi agreed with the applicants that the Adjudicator had exceeded her authority by determining that the amended rule could apply only retrospectively. He said the MEPF's rules allow it to regulate itself and to amend its rules, and the Adjudicator has no authority to determine how the rules will apply.

Restriction in section 12 applies to creditors only

Ramohlale contended that the registrar's approval of the amended rule was invalid because it conflicted with section 37A of the Pension Funds Act (PFA) and the fund's rule 48. Rule 48(1) states: "The rules of the fund may be amended, rescinded or added by the Committee, subject to the provision of section 12 of the Act and section 79 quote (5) of the Ordinance."

Judge Senyatsi said the authority conferred on the trustees by rule 48(1) to amend the fund's rules was qualified only by the requirement that an amendment be consistent with section 12 of the PFA.

The only restriction section 12 places on amendments are that they may not affect any right of a creditor of the fund, as opposed to a member, and they must be approved and registered by the registrar.

Judge Senyatsi said there was no evidence or allegation that the amendment affected the rights of the fund's creditors. Even if this were the case, it would have required the registrar to have been challenged on registration of the amended rule, which had not happened.

Rule 48 does not limit the trustees regarding a reduction of benefits, because the trustees have a fiduciary duty to the fund to ensure its sustainability for the benefit of all its members. "It is for that very reason that, upon being advised by its actuaries that the old rule calculation of benefits was unsustainable, that the amended rule was introduced."

Turning to section 37A, he said its purpose is to protect members' benefits from their creditors. It does not apply to the relationship between a member of the fund and the fund itself, but to the relationship between a member and his or her creditors.

Applicants had a right to be heard

The MEPF and Akani submitted they were not informed by the Adjudicator that she would be deciding the matter on the basis that the amended rule could not be applied to members who left the fund after the date on which it had been approved, and they had not been given an opportunity to make submissions in this regard.

Judge Senyatsi said the Adjudicator was obliged to allow the applicants to make submissions before she made findings on the validity of the rule, and not calling for more submissions from them "amounted to a serious irregularity". The determination therefore fell foul of section 6(2)(c) of the Promotion of Administrative Justice Act.

Late filing condoned

In terms of section 30P of the PFA, the applicants were required to launch their appeal by 2 April 2018, but only filed the papers on 27 July 2018. The MEPF and Akani said it took time to locate the file relating to the matter. They sought condonation for bringing the appeal later than six weeks of the date of the determination.

In condoning the late filing, Judge Senyatsi said the old rule had placed the fund under significant pressure, because the invested contributions were not yielding high returns after the global financial crisis. "If the determination of the Adjudicator is left unchallenged, it will lead to the unsustainability of first applicant, and, in my view, the trustees acted properly by implementing the recommendations of their actuaries."

Judge Senyatsi ruled that the Adjudicator had no jurisdiction to make the determination, and it was invalid. He replaced it with an order dismissing Ramohlale's complaint. Ramohlale was ordered to pay the costs of the appeal.

Comment

A technical matter with legal jargon. However, it is important to note that the pension fund's actions and subsequent court actions can be litigated with success. Of course, it needs money to do that, but keep it in mind if it seems the pension fund is acting to your detriment. Look for the appeal …

Synopsis

Nampak has a wobbly

30 March 2022
INCE|Community
By The Finance Ghost

The market dished out a slap to Nampak that even Will Smith would be proud of. The share price closed nearly 7% down after releasing a voluntary trading update for the five months to the end of February 2022.

It's not obvious why the share price took pain yesterday until you read through the entire announcement. The announcement starts out by noting strong demand for products, with volume growth for beverage cans driving revenue growth of over 20% vs. the corresponding period in the prior year.

The metals business is where the demand for beverage cans was enjoyed, with aluminium price increases driving higher selling prices as well. The increases were passed through to customers using contractual pass-through mechanisms. The metals business also benefitted from a strong result in Nigeria, a better result in Angola albeit off a low base and a really good second quarter in the DivFood business with fish can sales as a particular highlight.

The plastics division delivered an outcome that you won't read every day: the performance in the Zimbabwe operations was stronger than in South Africa!

Interestingly, Zimbabwe was also a source of happiness in the paper division, along with improved volumes in Zambia and Malawi. In this division, revenue and trading profit were "significantly" up which shareholders will be pleased to hear.

Despite the input cost pressures that are a feature of the current business landscape, operating profit also increased. Importantly, so did EBITDA for covenants, as Nampak has been on a road to balance sheet recovery for some time now. Nampak complied with funding covenants for the three months ended December 2021.

The first sign of any trouble is in the section dealing with cash repatriation. Transfers from Angola were fine but foreign currency availability in Nigeria has slowed. It's really important for Nampak to be able to get the cash out from Africa, so I suspect this is what spooked the market.

The balance sheet risks are exacerbated by the need for higher working capital requirements. Supply chain pressures are driving higher investment in inventories to ensure supply of raw materials.

The company is also struggling to sell the non-core assets due to current market conditions. Again, this isn't great news for the balance sheet.

Of the R1bn non-recourse trade finance facility, around R400mn has been utilised. R206mn of that number was used to permanently reduce the group's banking debt. Nampak is also trying hard to limit the working capital investment by negotiating with both debtors and creditors. The idea is to get paid faster by debtors and to take longer to pay creditors.

Nampak is required to reduce net interest-bearing debt by R1bn by 30 September 2022. The funders will assess the situation on 30 June 2022. The pressure on working capital and the lack of success in selling non-core assets makes shareholders worry about the risk of an equity capital raise to settle the debt.

The earnings story looks promising, but Nampak needs to convert assets and profits into cash and only has a few months left to do so.

Nampak's share price chart is fascinating. It is up over 25% in the past 12 months but the latest sell-off means that the year-to-date performance is flat.

Comment

We have about R260mn in Nampak.

Synopsis

Barloworld: masters of tough times

29 March 2022

INCE|Community

By The Finance Ghost

Barloworld rallied more than 9% yesterday based on a voluntary trading update for the five months to 28 February. The share price has taken a nasty knock this year based on the group's exposure to Russia.

This is a strong group and I was incredibly impressed with the company's balance sheet management over the course of the pandemic. With some smart dealmaking and great capital allocation strategies, Barloworld weathered the storm and arguably emerged stronger.

In the Equipment Southern Africa business, revenue for the period was up 2,3% thanks to activity in other African countries, as South Africa was subdued due to delayed deliveries. The good news is that the revenue is still coming, with the firm order book up by 43% to R4,6bn based on strong mining demand and improved activity in South Africa.

Despite the modest increase in revenue, operating profit increased by 4,8% as expenses were tightly controlled. Operating margin expanded 20 basis points to 8,8% and EBITDA increased by 12%. The margin improvements were assisted by a return to profitability in the Bartrac joint venture in the DRC.

There's a distinct narrative in the market around working capital pressures and Barloworld hasn't escaped them, with a strong order book putting pressure on cash flows as Barloworld prepares to fill those orders. This isn't a problem provided the cash is available, as return on invested capital (ROIC) on a rolling 12-month basis is 16,5%.

Equipment Eurasia is having a much tougher time at the moment, not least of all based on the needs of employees. Trading is restricted as one might imagine, with a difficult environment of rules and sanctions. The company has already suffered some cancellations and expects more based on the current disruptions, including the announcement by Caterpillar of the suspension of manufacturing facilities at the Tosno plant in Russia. The conflict has really derailed an otherwise excellent story, as the order book was at record levels at the end of February.

Barloworld flags that an impairment (accounting write-down of assets) could be on the cards here. I struggle to see how that situation would be avoided unless things improve significantly and very quickly. Despite the obvious risks, the underlying business delivered revenue growth of 11% in this period with Russia leading the way. EBITDA cash conversion was 90% so the cash follows the profits.

One must remember that this period was only impacted in its final few trading days by the Russia/Ukraine conflict. The numbers aren't a reflection of what the next few months could look like.

Ingrain (the business that Barloworld tried hard to wriggle out of buying from Tongaat) grew revenue by 48%. The operating margin has decreased though based on a normalised sales mix. The company's exposure to maize price fluctuations is limited thanks to the hedging strategy and it has secured enough maize to meet customer demand well into the next financial year.

The car rental business posted a whopping 205% increase in operating profit vs. the prior year and is 17% up on pre-Covid levels. Insurance business has rebounded and so has travel. Despite trading volumes being at just 65% of 2019 levels, the record EBITDA margin of 27% has driven a strong result in operating profits. Fleet utilisation averaged 79% (300 basis points higher than the previous year) and various other management initiatives have paid off.

The Avis Fleet business is also looking stronger, with operating profit up 17% vs. last year and 10% vs. the pre-Covid period. Record EBITDA margins of 54% (vs. 48% in the prior period) bear testament to management's skills in managing through difficult times.

Barloworld is looking at ways to exit its car rental and leasing business, Avis Budget. This may even include a separate listing via an unbundling.

Many of the logistics businesses were sold and the remaining businesses are dedicated customer contracts which are either being transferred or exited in an orderly manner. Barloworld is engaging with potential buyers for the Supply Chain Solutions business.

After paying a special dividend in January, Barloworld is well within target debt and gearing levels. Net debt to EBITDA is 1.2x (the target is to be below 3.0x) and EBITDA cover is over 8x (vs. group target of over 3x).

Interim results for the six months to March 2022 are due in May. If there is enough certainty of a difference of more than 20% in earnings vs. the prior year, a trading statement will be released before then.

This was an impressive update and I'm not surprised that the market liked it.

Comment

We have about R3,1bn in Barloworld. It is a company with a multitude of different interests. The ROI seems to be good.

Synopsis

KAP shows strong momentum for FY22

30 March 2022
INCE|Community
By The Finance Ghost

KAP has provided an operational update and trading statement covering the eight months to 28 February 2022. This is effectively the most recent interim period plus another two months.

PG Bison is performing well thanks to demand in the domestic and export markets. The eMkhondo particleboard plant expansion was commissioned in February/March and has added 14% additional production capacity to the division. This will offset much of the anticipated production losses due to scheduled maintenance in the second half of this financial year.

The Restonic business can't say the same unfortunately, with a slow start to the period and pressure on raw material costs. KAP does highlight that the second half of the year is usually better than the first half in this business, which shareholders will hope to be the case.

Automotive components company Feltex has been struggling with technical challenges. Performance has improved into the second half of the financial year, as these challenges have been resolved and there is more stability in vehicle build volumes.

The narrative around Safripol sounds really positive, with the double-whammy benefit of strong demand for all three polymers and higher selling prices. Local manufacture and supply is favoured by global supply chain issues.

Unitrans is stable at least, with South Africa performing better than operations in other countries, especially Botswana.

Shareholders will be pleased to know that KAP does not have exposure to the crisis in Ukraine, other than the obvious macroeconomic impacts that affect all companies.

These are very early days for a trading statement (only eight months of the year have been completed), but KAP has indicated that HEPS should increase by at least 50% for the full financial year vs. the previous year.

That implies HEPS of at least 64,5 cents, which puts KAP on a forward multiple of 7x if that number plays out as expected.

Comment

We have about R1,49bn in KAP. Which is a holding company for a number of other companies. Which all seem to be OK but not really good. The ROI seems to be good, however.

Synopsis

AFTER 20 YEARS, INVESTORS REMAIN TRAPPED IN THE AIRPORTS COMPANY. IT CASTS A CLOUD OVER RHETORIC THAT THE PRIVATE SECTOR SHOULD INVEST ALONGSIDE GOVERNMENT IN ESKOM

BL Premium
31 MARCH 2022
By Rob Rose

For anyone thinking of investing in Eskom's "unbundling", here's a cautionary tale of broken promises, deception and government capriciousness. It all begins in 1998, when the government laid out a blueprint to list the Airports Company SA (Acsa) on the JSE within three years, which it started by selling 20% to Italy's Aeroporti di Roma for R819mn and 4,2% to a black empowerment group for R172mn.

Mac Maharaj, minister of transport at the time, described it as "the best deal for our country". Acsa's prospectus said this was the first step in the government's "two-stage divestment of its shareholding in Acsa", with "the second stage [being] to divest its shareholding by means of an initial public offering".

The empowerment group mostly funded its stake with debt from lenders including Futuregrowth, Old Mutual and Nedbank, which was to be repaid from the dividends it was meant to get from Acsa.

Then red lights began to flicker. Maharaj's successor, Dullah Omar, told the FM in 2002: "Our agreement with Aeroporti di Roma is only to consider a listing but we are not *compelled* to list." Which was news to the investors. And it certainly *wasn't* what the government had promised.

Not that this worried Omar, or his successor, Alec Erwin. Instead, the government quietly scrapped the JSE listing, and in December 2005, the PIC was deployed to buy back the 20% from Aeroporti di Roma.

Yet no offer was made to the empowerment group, even as the dividends from Acsa began drying up. As the interest bill grew, nearly all of the group's members were forced to cede their shares to the funders.

It meant lenders like Futuregrowth became accidental minority shareholders in a state-owned company that had abandoned any pretence of being a commercial entity, and had begun to make decisions just like every other money-guzzling state-owned entity.

"Acsa didn't bother inviting us to their AGMs, they didn't offer us a board seat or any voice. We were just an inconvenience they could ignore," says Andrew Canter, chief investment officer of Futuregrowth.

"We couldn't sell our shares without the agreement of the Minister of Transport, who ignored us. But realistically, who would buy our shares anyway, since the government had decided to make Acsa a tool of the development state, killing its profitability."
Andrew Canter

This was clear from the decision to build the King Shaka airport near Umhlanga in KwaZulu-Natal, a project much favoured by then Deputy President Jacob Zuma. Economically, it was a disaster. King Shaka cost R10bn to build, which puts the annual debt bill at R900mn, many multiples of the R10mn in operating profit it made in 2019. Only, it wasn't Acsa that decided King Shaka must be built, the politicians told it to do this.

In 2013, the minority shareholders asked Acsa to buy their shares back at the company's NAV, but Acsa refused. Instead, it offered half that price.

"We were *gatvol*," says Canter. "They never kept their promise to list; they breached the Acsa Act which obliged them to act with a commercial, rather than a developmental interest, and we were being abused, so two of the minority shareholders filed a lawsuit — the first case brought under the 'oppression of minorities clause' in the new Companies Act."

On the steps of the court in 2017, Acsa caved in, and agreed to a settlement in which a third-party valuator, RisCura, was appointed to put a value on that 4,2%, which Acsa would then buy back. In 2018, RisCura said its calculations showed that Acsa should pay R77,92 a share (nearly tenfold the R8,19 they'd paid 20 years before).

But no surprises for guessing what happened next: the government reneged again — this time on a court order. In July 2018, then Transport Minister Blade Nzimande and Acsa applied to court to "rescind" that court order — and, surprisingly, the judge agreed.

Futuregrowth was furious, and appealed to the Supreme Court of Appeal, which heard this case last November but has yet to issue its final ruling.

Either way, it's been a two-decade debacle, with serious implications for President Cyril Ramaphosa's goal of luring private investors to invest alongside the government in local infrastructure. Apparently, a pipeline of water, energy, sanitation, agriculture, agro-processing and transport projects have been lined up.

This month, Futuregrowth's Sarah de Villiers and Kearon Gordon wrote that Acsa was "one of Futuregrowth's initial investments into SA infrastructure", yet it has unravelled to such an extent that the fund manager now remains trapped in an unviable investment being run according to the wrong principles.

It also undermines Ramaphosa's claim last week that investors can feel assured that their money is secure, "that the operating environment is stable, and that you are supported by policy certainty and regulatory safeguards".

And it casts a cloud over the much-touted notion of "private-public partnerships", and the rhetoric around selling any part of Eskom. At the very least, it surely hikes the risk premium for any would-be investors.

As Canter puts it: "When Public Enterprises Minister Pravin Gordhan said they wanted private shareholders to partner at Eskom, my response is that I'd never be a private shareholder alongside government again. Let the private sector buy it and run it, or let it have a majority stake. But here, they broke so many promises, you'd have to be pretty brave to believe what they say."

Comment

We have about R309,8mn in Acsa. While investment in South Africa is high on the 'government's' economic agenda, the reality as reflected on the ground by SOE and, in this case, Acsa, doesn't inspire confidence in 'government' initiatives. And on the ROI the members and beneficiaries of the Fund depend on.

THE GEPF WATCHDOG/WAGHOND FACEBOOK PAGE

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

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

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

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

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

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

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

VRYWARING

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