

# CADIZ ABSOLUTE YIELD ABIL RETENTION FUND

June 2018



## KEY FEATURES

**INCEPTION** 18 August 2014

**INVESTMENT MANAGER** Alastair Sellick

**FUND SIZE** R57.5 million

**INITIAL FEE** 0%

**ANNUAL MANAGEMENT FEE** 0%

**NAV PRICE @ 18/08/2014** 109.72

**NAV PRICE @ 13/03/2015** 108.96

**NAV PRICE @ 31/08/2015** 124.20

## FUND OBJECTIVE

The objective of the Cadiz Absolute Yield ABIL Retention Fund is to segregate illiquid ABIL assets from the Cadiz Absolute Yield Fund. It was established solely for the purpose of holding the ABIL assets until such time that they can be sold or otherwise liquidated, traded or excluded.

## NATURE OF THE PORTFOLIO

This is a closed ended portfolio holding debt instruments issued by ABIL. The portfolio is restricted to the investors who were in the Cadiz Absolute Yield Fund as at inception date. Repurchases are suspended until such time as the assets are liquid or are able to be traded.

## UPDATE ON THE AFRICAN BANK BONDS

Since the last significant return of capital to investors, we have been able to transact in further inflation linked African Bank (also known as "Good Bank") bonds in the market, and we were also able to realise some value on some of the ABIL stubs.

Stubs represent a claim that all then ABIL bond holders were given to compensate them for the 10% haircut which was imposed on all ABIL bond holders by the SARB when the Reserve Bank was forced to step in and guarantee the depositors at ABIL. At the same time, the then FSB implemented the resolution framework whereby bond investors were side-pocketed and forced into ABIL Retention Funds such as this one. This was to allow an orderly resolution of the debacle that the default of ABIL caused – mainly to prevent a systemic shock to the South African banking system which would have been caused by a disorderly default and a cascading effect of huge losses through asset managers and banks across the country.

When we first started selling the Senior Stubs, we were realising 10c per R1 nominal. Our most recent sale realised 90c per R1 nominal. Why would one sell at 10c when we are now able to realise 90c? Simply put, there was way too much uncertainty, and it was initially difficult to ascertain how much value the Curator would be able to realise on the Bad Book – all the questionable loans made by ABIL which were hived off when the SARB stepped in with its guarantee. On Sunday 10<sup>th</sup> August 2014, the SARB paid R7bn for the Bad Book, which supposedly had a book value of R17bn, net of specific impairments, but those impairments were perceived to have been inadequate. This was due to reckless lending to individuals with poor credit records, who represented a much worse credit risk to ABIL than reported.

## AFRICAN BANK INSTRUMENTS 30 June 2018

INSTRUMENT	DESCRIPTION	STATUS	MATURITY DATE
MFRN4971	Floating rate Note	Senior	19/09/2019
ABK10	Floating rate Note	Senior	14/02/2020
MFRN4968	Floating rate Note	Senior	07/03/2020
ABKS1	Floating rate Note	Subordinated	05/04/2021
ABK103	Inflation linked	Senior	13/10/2021
URDSOS	SARB Stub	Subordinated	31/12/2080
URDSTS	SARB Stub	Senior	31/12/2080

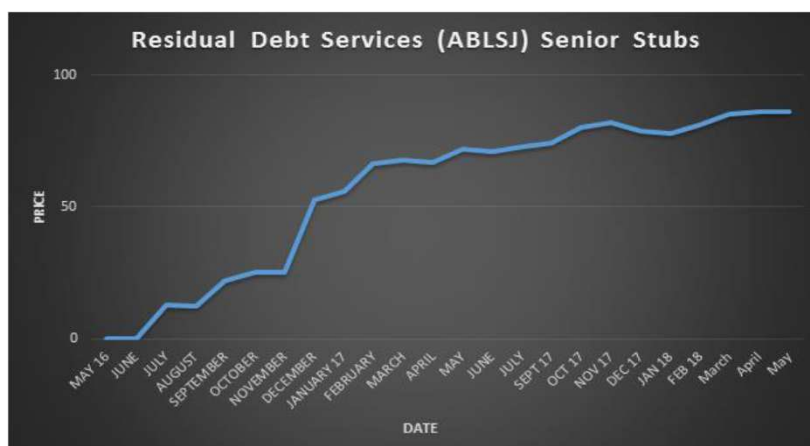
## Performance 30 June 2018

Fund	
1 Year (annualised)	28.57%
2 Years (annualised)	15.09%
3 Years(annualised)	7.81%
Since Inception (annualised)	9.10%

Source: Morningstar

## Total Expense Ratio (TER) and Transaction Costs

PERIOD (Annualised) 01 July 2015 - 30 June 2018	
Total expense ratio	0.03%
Transaction costs	0.00%
Total investment charge	0.03%



Source: Residual Debt Services Limited (under curatorship)

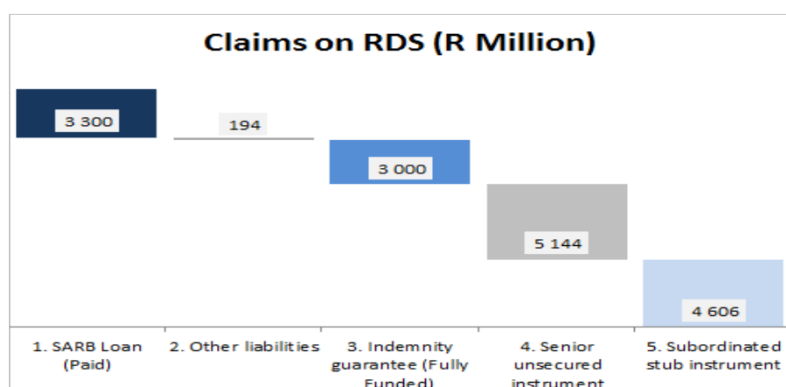
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## UPDATE ON THE AFRICAN BANK BONDS (continued)

As has been repeatedly said to those investors clamouring for an immediate return of their capital from this Retention Fund, we have prioritised the realisation of maximum value over the speedy return of a reduced amount of capital to investors. We at Cadiz were placed under a lot of pressure to close this fund and to return capital to investors in 2016 and 2017 while many of our institutional competitors did so. We resisted, however, as doing so would have prejudiced the interests of investors, i.e. they would not have received as much of their capital back as they are now doing. Those who received quick settlements of their ABL Retention Fund investments from our competitors would be well served to inquire from their asset managers as to what exact value their stubs were sold at. Did they get compensated for the deflation in the value of the Senior Stub? And at what price were their Subordinated stubs sold, if applicable? We have a similar situation now with the Subordinated Stub Instruments. These were priced at 0 for the better part of the last two years, but we were recently able to sell some at 5c per R1. Why would we sell now? It is part of the price discovery process which allows those buying the Subordinated Stubs to build positions on an expectation that the Curator will realise further value. The latest bid we have seen is now 7c, and we expect this to rise as the Curator makes further progress.



Source: Residual Debt Services Limited (under curatorship)

The above claim waterfall chart shows that once the R 5.1bn senior unsecured instrument (the Senior Stub) has been provided for, there is a remaining R4.6bn claim for the Subordinated Stub. It is becoming apparent that there is enough value in the Bad Book to repay a portion of the Subordinated Stub, although the Curator was not forthcoming when asked at the most recent results presentation.

Over the course of the year, African Bank bonds continued to pay their coupons, and earn the high yield associated with the BBB investment grade status. The rating upgrade has led to spread compression on the bonds after their initial widening post the refloating of the Good Bank bonds. As stated in my previous commentary, when African Bank offered to buy back certain of its bonds, for settlement on the 19<sup>th</sup> September 2017, this was at very attractive yields (and high prices) – the lowest yields (and highest prices) traded since the refloating of African Bank bond market debt in April 2016.

The Morningstar two year performance of the Cadiz Absolute Yield ABIL Retention Fund was 15.10%, and we encourage investors to remain patient as we attempt to wrap up this Fund, through returning the remaining capital, via the Cadiz Absolute Yield Fund. We shall continue in our endeavours to realise maximum value from the remaining assets in the Retention Fund, and every effort will be made to return the remaining capital to investors as soon as possible.

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