



Gordon Gekko @GordonG93945684 · 7h



1/n This is a thread about Trustco and Conduit

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2/n Old Gordo did his time in Otis Federal Prison where I've found redemption. Now I think it is time to use my market insights to try and warn public investors about the shenanigans at Trustco and Conduit. This is Gordo's OPINION based on the FACTS in the public domain.

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3/n It doesn't take an idiot like Bud Fox to figure out a few things by chronologically analyzing the SENS feed from TTO and CND

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4/n Trustco used to develop residential and industrial properties which they sold initially, many years ago, in exchange for cash. Then they got more aggressive. So they bought a bank. Then they channeled DFI money through the bank to extend loans to buyers to boost sales

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5/n When some of those loans didn't perform, Trustco bought the props back instead of auctioning them on the market. Reason? Simple - value of props were under water and bank didn't want to impair its book. Gordo is betting Trustco bank's whole property book is under water.

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6/n Here is an extract from the SENS dated 20Dec2018 where Trustco repurchased properties by essentially writing off the loans the extended to the buyer to acquire those properties in the first place.

3.1 The acquisition of the Cumbrae Properties and its shareholders loans, and the EEP 101 Properties and its shareholders loans were funded via various loans provided to Cumbrae and EEP 101 by Trustco Capital (Pty) Ltd ("Trustco Capital").

3.2 The details of the loans referred to in 3.1 above are as follows:

3.2.1 The acquisition of the Cumbrae Properties by Cumbrae was funded via a loan from Trustco Capital on 15 February 2017 in the amount of NAD 371 296 280 ("Cumbrae Acquisition Loan"). A further loan was provided by Trustco Capital to Cumbrae on 22 March 2018 in the amount of NAD 30 000 000 to fund part of the development costs of the Cumbrae Properties ("Construction Loan").

3.2.2 The acquisition of the EEP 101 Properties by EEP 101 was funded via a loan from Trustco Capital on 28 June 2017 in the amount of NAD 465 102 375 ("EEP 101 Acquisition Loan"). A further loan was provided by Trustco Capital to EEP 101 on 28 June 2017 in the amount of NAD 371 296 280 to fund the acquisition of all of the issued share capital of Eisenheim Estate Property Number One Hundred (Pty) Ltd ("EEP100 Acquisition Loan").

3.3 The property market in Namibia experienced severe pressure due to the implementation of new regulations issued by Bank of Namibia ("BoN") determining loan to value restrictions when commercial banks extend mortgage loans to customers, causing a change in the demand and affordability for residential housing, with the result that it is no longer economically viable for the Seller on a short term basis. The advantage of Trustco's property division is the long-term view the Group has towards property development in Namibia and the fact that the property portfolio is extremely lowly geared.

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7/n We all know the Namibian property market is in the shitter. Trustco's quality of earnings deteriorated and they were running out of cash. They reclassified properties to Level 3 so that they could push through property revaluations, which they then reported as earnings.

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8/n Here are the extracts from the 2017 financial statements. That year about R1.2bn was moved from Level 2 to Level 3. Then they booked R194m in "fair value gains" on their property and reported it as profit.

Assets and liabilities v
ents in inactive mark



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9/n Trustco's MD, Van Rooyen, get's remunerated based on Trustco's earnings. Trustco is reporting paper profits, Van Rooyen's company Next gets rewarded for the paper profits, but at the back end cash is running out and Trustco is getting in a bind.

7. Remuneration of group ma

Next Investments (Pty) Ltd ("I follows:

- 0.5% of the turnover of t
- 1% of the headline earni
- 1% of the basic earnings

Dr. Q van Rooyen, the group n remunerated by Next.



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10/n Cash is running out. Apart from Van Rooyen, who are the other big shareholders in Trustco? Riskowitz Value Fund and Conduit. If Trustco implodes, their investments will be written down to zero. They have to intervene.



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11/n

SENS 7Jul2017

First R250m from Riskowitz Value Fund (RVF)

Trustco shareholders ("**Shareholders**") are advised that Trustco has entered into a convertible loan agreement ("**Agreement**") with Riskowitz Value Fund LP ("**the Fund**") dated 6 July 2017 ("**Signature Date**").

In terms of the Agreement, the Fund will lend the Company NAD 250 000 000 (“**Loan**”) (one NAD being equivalent to one South African Rand). The Loan will be converted into Trustco ordinary shares (“**Conversion**”), subject to the obtaining of all requisite regulatory approvals.

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12/n

SENS 24Nov2017

Another R1.2bn from RVF for 20% of Trustco subsidiary Legal Shield Holdings (LSH). Bizarrely they are willing to value LSH at R6bn while the attributable net assets were R2.2bn, Remember those assets already inflated by prop revaluations.

areholders”) are advised t
TABLE TO LEGAL SHIELD H
d into a sale of shares agree
(twenty percent) of the iss
fits attributable to Legal Sh
subsidiary of Trustco for Holdings’s most recent year

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13/n Over at Conduit, they have their own problems. The insurance business is a mess and the investments aren't performing. Trustco is one of Conduit's biggest investments. The CEO of Conduit, Sean Riskowitz, is also the manager of RVF.

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14/n Conduit results to June 2019:

Investment portfolio down -32%

Net assets down -47%

Net insurance result worsened from loss of -R141m in 2018 to -R288m in 2019

Net Asset Value (NAV) per share decreased by

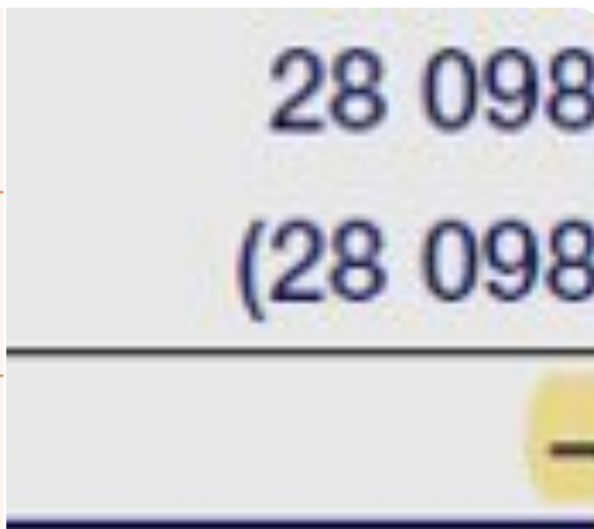
46.9% to 105.1 cents

Headline **loss** of
R622.9 million

Weighted return on investment portfolio

32.3% loss

(including dividends)



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15/n All this puts tremendous pressure on Conduit's capital requirements. From June 2019 report:

The MCR refers to the absolute minimum level of eligible own funds that an insurer must hold to protect all its policyholders and the prescribed minimum MCR ratio is 1.00.

The SCR on the other hand refers to the level of eligible own funds that an insurer must hold to ensure that the value of its assets will exceed the technical provisions and other liabilities at a 99.50% confidence level over a one year time horizon. The SCR model therefore requires an additional surplus of assets (buffer) above liabilities to take account of potential adverse outcomes of both the inherent risk of underwritten portfolios and the future cost of claims of these portfolios. The prescribed minimum SCR ratio is 1.00.

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16/n Conduit June 2019 report: ratios were below the prescribed minimums

Given that CICL's SCR ratio of 0.95 and CLAH's SCR ratio of 0.83 as at 30 June 2019 were below the PA's prescribed minimum of 1.00, both insurers have entered into ongoing correspondence with the PA, detailing various action plans to restore the respective companies' SCR to levels above 1.00 and to add an additional safety margin.

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17/n Conduit June 2019 report: suggested remedial actions, includes "capital injections in the form of capital and cash"

The planned actions to improve the entities' SCR ratios to levels above the minimum requirement of 1.00 by 30 June 2020 include the following:

- Further shareholder capital injections in the form of equities and cash;
- The orderly placement of a portion of the equity portfolio, by October 2019, mainly via block trades, to rebalance the cash component of the total investment portfolio in line with each company's liquidity requirement;

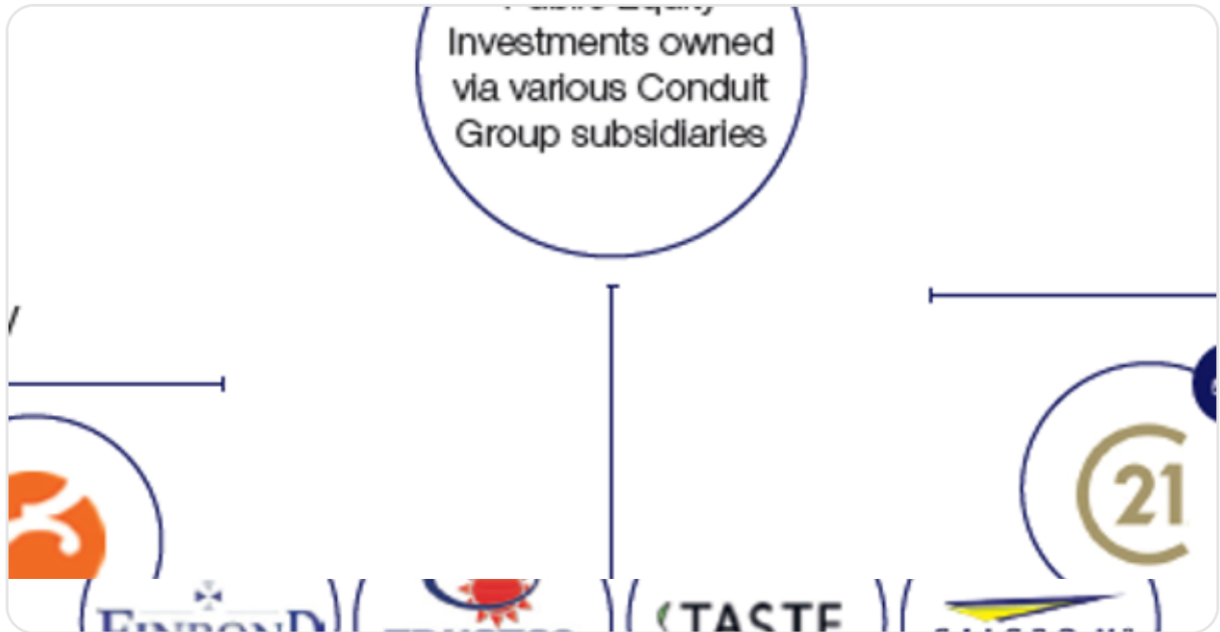
- Continued intervention to improve the cash generative ability of each company, including underwriting and operational interventions;
- The continued sustained turnaround of CICL's property and casualty business through focused remediation initiatives in progress; and
- Continued optimisation of the use of reinsurance structures to transfer some insurance risk to reinsurers.

It should however be noted that, notwithstanding the substantive remediation efforts already underway, should the planned initiatives not be successful, the companies' SCR may not be restored to a minimum level of 1.00 in the short term.



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18/n Conduit's main listed portfolio investments are Taste, Trustco, Finbond and Calgro. From June 2019 report:



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19/n As of today, returns on Conduit's listed portfolio investments since their June 2019 report were:

- Taste: -71% (from 14c to 4c)
- Trustco: -38% (from 834c to 515c)
- Finbond: -37% (from 395c to 250c)
- Calgro: -56% (from 600c to 264c)



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20/n It is obvious that Conduit (for Constantia which is 100% owned by Conduit) needs to beef up capital significantly and urgently. What to do?

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21/n Simple. Buy a piece of land in Namibia that has a book value of R138m for a total value R1bn. Settle R50m in cash and the rest by issuing shares. Voila. By forking out only R50m in cash, Constantia has suddenly increased its net capital with R950m. All below from SENS 13Feb

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 e Holdings Proprietary Limited boths as at 30 Se
 entered into a binding share to Herboths for the
 ty Holdings Proprietary Limited NAD to ZAR is 1:
 iary of Legal Shield Holdings y Constantia to Tr
 s Limited (“Trustco”). In ter 000 (one billion Ra
 antia has agreed to acquire 10 as follows:
 shares”) of Herboths Proper led or
 antia issuing shares to Trust consid

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22/n Back to Trustco and Legal Shield Holdings (which owns Herboths). LSH can now book a profit of R862m on Herboths cause they did a transaction at R1bn vs the carrying value of R138m. Nice! RVF can report 20% of that via their holding in LSH. And the mgmt fee to Next bumps up!

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23/n By shuffling R50m, Constantias capital increase R950m, Trustco makes paper profit of R862m which they will report as income, RVF gains on holding in LSH, QvR fee increases. While they at it, why not siphon off some more by way of a

property management fee...? SENS 11Feb2020

3.3 The parties and/or their nominees entering into an arm's length market-related Property Services and Management Agreement in form and substance acceptable to each of the parties, including to provide for the payment of a property management fee in an amount equal to 1% of the value of HB Property and the HB Development, which agreement must be completed within 4 (four) weeks from the Signature Date.

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Gordon Gekko  @GordonG93945684 · 4h 

24/n Gordo will pause here for now. But there's much more folks. Don't forget that AFTER THIS deal, in terms of the 9Dec2019 SENS Conduit intends to sell the WHOLE Constantia back to LSH. THAT will be dirty. Good luck to you all.

Capital ("the Board") is pleased to advise shareholders that Conduit Capital has entered into a binding term sheet ("Agreement") with Trustco and its subsidiary, Legal Shield Holdings Limited ("LSH" or "the Purchaser"). In terms of the Agreement and subject to certain suspensive conditions, Conduit Capital has agreed to dispose of 100% of the issued ordinary shares of Constantia Risk and Insurance Holdings Proprietary Limited ("Constantia") and Conduit Ventures Proprietary Limited ("Conduit Ventures") (Constantia and Conduit Ventures collectively, "the Disposal Assets") in exchange for shares in LSH ("the Disposal").

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Gordon Gekko  @GordonG93945684 · 3h 

25/n While Gordo is on a rant, he has a few questions for the "gaurdians":

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Gordon Gekko  @GordonG93945684 · 3h 

26/n How is the Prudential Authority and other regulators protecting insurance policy holders when they approve capital requirement ratios based on assets that are illiquid and overstated?

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Gordon Gekko  @GordonG93945684 · 3h 

27/n How can the auditors sign off on inflated property values and knowingly approve AFS showing profits without economic substance?

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28/n How can SARS turn a blind eye to a transaction where exorbitant capital gains are realised in Namibia whete there is no CGT, and then the inflated base value is imported to SA. That's profit shifting to reduce SA CGT in the future.

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Gordon Gekko

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Following



29/n Where are the financial journos?
Why aren't they digging really deeper
and reporting detailed analysis to the
public?

12:05 PM - 12 Feb 2020

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