# EDITORIAL: Resolving Reinet’s reticence

## Tensions are rising amid punters’ frustration with Reinet’s dismissive attitude and lack of guidance about what it will do with its cash hoard

*(123RF)*

The Rupert family is synonymous with long-term wealth creation for local investors. The old Rembrandt Group (now Remgro), founded by Anton Rupert in the late 1940s, and luxury brands group Richemont have been cornerstone holdings for institutional and individual shareholders over the decades.

But Reinet, the Rupert-controlled international investment company, has been startlingly different and is now becoming a point of ugly conflict between the main shareholder and furious minority shareholders.

Tensions stem largely from the decision by Reinet not to commit clearly to mobilising its cash pile accumulated from the recent sale of its two biggest investments. The market, by and large, had been expecting Reinet to declare a meaningful special dividend or at least give clear guidance on the use of the cash pile.

Officially, Reinet argues that "a strong liquidity position provides the flexibility to evaluate new investment opportunities selectively, with a continued focus on long-term value creation and capital preservation". This might seem prudent; after all, Berkshire Hathaway, the best-known investment company in the world, is sitting on a record level of cash. If equity markets do tumble (and they are looking toppy at the moment), large cash holdings will be more than handy. Investors at Berkshire Hathaway don't seem too bothered about the cash hoard.

But punters seem disinclined to give Reinet that leeway, citing the group's so-so track record since inception in late 2008. Reinet's NAV has had a compound growth rate of 8.3% a year (including dividends) in euro terms since March 2009. Nothing really to write home about, and it lags the MSCI world index by a gaping distance. But arguably it has delivered on the group's mandate "to provide shareholders with an investment vehicle which will manage their funds in a conservative manner, protecting capital while aiming to achieve growth over the long term".

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The central question then is whether shareholders trust Reinet, which pays stiff management and performance fees to a Rupert family-controlled asset manager (more than €1bn over the years), to be a smart allocator of the €5.5bn cash on hand. There appears to be doubt, perhaps driven by recent events. Reinet's sale of its stake in British American Tobacco was executed at levels far below the current share price, while the sale of the stake in Pension Insurance Corporation was clinched at a 10% discount to the group's own carrying value.

That question, unfortunately, cannot be openly mulled. Reinet has no shareholder engagement via investment presentations on financial results, and the AGM, held in Luxembourg, has offered no remote access. This contrasts starkly with Remgro and Richemont, which both engage robustly and openly with shareholders at investor presentations. Reinet's original prospectus notes: "The company will establish a policy of active communication with shareholders." Yet several asset managers have spoken of Reinet's dismissive attitude to shareholders, and there can be no doubt that the JSE will be petitioned to urge Reinet to open up this year's AGM for remote participation.

It would be surprising if Reinet continued to subject shareholders (mostly South African) to this frustrating reticence. The optics would not be good, with the Rupert family controlling Reinet with only 25% of the economic interest. Shane Watkins, chief investment officer at All Weather Capital, argues: "Absent this special voting structure that the Rupert family has entrenched, there is no doubt that shareholders would be attempting to make management changes. If they dispute this, dismantle the high voting shares and then we will see how long the family stays in control."

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