

Allan Gray defends 'good value' Net1

By [Hanna Ziady](#)

10 Mar 2017

Allan Gray, the country's fourth-largest asset manager, has defended its decision to invest in Net1 UEPs, the controversial parent company of social grants distributor Cash Paymaster Services (CPS).



Andrew Lapping, chief investment officer, Allan Gray

Net1 UEPS was a "controversial stock" that prompted "vigorous debates" among Allan Gray's investment team," said chief investment officer Andrew Lapping.

Allan Gray, which had assets under management totalling R461.7bn at June 2016, holds a 15.6% stake in the company on behalf of investors.

Net1 UEPS owns CPS, which distributes social grants on behalf of the South African Social Security Agency (Sassa). The firm is at the centre of a numerous legal challenges by the Black Sash and Corruption Watch, among others.

At the heart of these are allegations that various Net1 UEPS subsidiaries have unduly benefited from the social grants contract administered by CPS by selling and marketing products such as microloans and insurance to Sassa cardholders.

The group, which is dual-listed on the Nasdaq and the Johannesburg Stock Exchange, owns, among other subsidiaries, payment businesses and financial services providers including a life insurer and microlender.

It was the right of grant beneficiaries to have access to products such as microloans, airtime and prepaid electricity, said Lapping. "We can't make rulings about what people are allowed to spend their money on."

Various regulators that had looked into the matter had not found any wrongdoing with these deductions, he said.

In an affidavit filed in the Constitutional Court on Tuesday, Net1 UEPS group CEO Serge Belamant said Net1 subsidiaries lawfully "market and provide financial products to [grant] beneficiaries" in line with applicable financial regulations.

He denied - under oath - that CPS shared beneficiary data with these subsidiaries or any other third party.

Beneficiaries agreed to certain terms and conditions when signing up for Sassa-branded Grindrod Bank accounts, which were subject to banking regulations, he said.

Grindrod Bank said it was awaiting legal clarity on debit-order deductions from these accounts, which it continued to process in line with National Payment System rules.

"The social benefit of the service provided by Net1, which sees millions of people receive social grants every month, far outweighs the social cost of offering microloans to these individuals," said Lapping.

"Whenever we make an investment, we weigh up the social benefits versus the social costs," he said.

"We go through the same process when we discuss Sasol, for example. It's a big polluter, but it is also one of SA's largest taxpayers and employs 25,500 people here."

Allan Gray is one of 36 local asset managers that are signatories to the UN's Principles for Responsible Investment. Signatories commit to incorporating environmental, social and governance factors into their investment decisions.

"[Net1] trades at a discount to its valuation and we believe it is a good investment for our clients, even without the Sassa contract," Lapping said.

Net1's main future focus is to provide financial products and services through its EasyPay Everywhere financial service offering which, according to its latest annual report, has 1.6m account holders.

EasyPay Everywhere, which is marketed to Sassa card-holders, is a transactional bank account that offers microloans, life insurance and bill payments through cellphones.

These offerings "bring financial inclusion to millions of cardholders who were previously unable to access any formal financial services," said Net1.

In a quarterly earnings call last month, Belamant was clear that the group's plan was to achieve scale by targeting existing customers, such as grant beneficiaries and employees of companies using its payroll technology, with financial products and services.

Since 2012, Net1 had issued more than \$1.8m in short-term loans, sold nearly 300,000 life insurance policies and provided more than 3m customers with prepaid products every month. The bulk of this would have been sold in SA.

Magda Wierzycka, CEO of Sygnia, said it would not invest in Net1 for moral reasons.

"People living off grants should not be buying electricity and airtime without a conscious decision to do so."

For more, visit: <https://www.bizcommunity.com>