



**GROWING
INTERGENERATIONAL
WEALTH**

The beginning of Royal Bafokeng Holdings

FROM THE PUBLISHER

‘After nourishment, shelter and companionship, stories are the thing we need most in the world.’

Philip Pullman, author

There is a power in stories. A power, simple yet profound, that has the potential to connect people across generations, to build bridges, repair breaches and ultimately transform lives.

Stories help us see the world in new and different ways, moving us towards inspired action. They connect us to the heart of life and force us to re-examine our perceptions. They connect us to the past and the future. The story you are about to read is one that honours the commitments made by generations gone, to secure the future of generations yet unborn.

In the dawn of our new millennium, when the Kgosi of the Royal Bafokeng Nation began to enact his vision of sustainable prosperity for his people, he broke new ground. His commitment to broad-based inter-generational wealth creation is one of the first concerted efforts to change the status quo, to be a ‘guardian for future generations’.

I have wanted to have this story told, and to contribute to its creation, for many years now. The simplicity of its vision and the scope of its achievement provide a beacon of hope. As a model for intergenerational equity in practice, the story of Royal Bafokeng Holdings has many lessons to share with others on a similar journey. This has driven me to instigate and motivate for its telling.

I would like to thank most especially Niall Carroll and Gillian Kettaneh for the opportunity they both afforded me to work with RBH throughout the period from inception until 2012 and for being willing to support my desire to have this story told. Whilst there are some voices missing, I would like to thank all those who have supported the Trust in this endeavour and contributed to its telling. I trust this first effort will encourage further conversation and a deepening of the lessons learned. May stories like this seed the growth of a sustainable future for all.

Tamzin Ractliffe
CEO, Impact Trust

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section 1

PEOPLE OF THE DEW

The early morning dew in the Rustenburg Valley tells many stories. It tells of a fertile land, fat cattle and good harvests. It speaks of a place to settle, a place to cultivate a secure, prosperous future.

For the Bafokeng, known as 'people of the dew', it speaks of the determination, through generations, to have and hold this promised land.

Starting in the 1860s, the Bafokeng began buying the title deeds to land they had been farming for 400 years, using as proxies the missionaries living amongst them. Championed by their leader, Kgosi (King) Mokgatle, they would pay with cattle and part of the wages they earned in the Kimberley diamond mines a thousand-kilometre trek away. That mining enabled the Bafokeng to own this land, foretold the unforeseen.

For hidden deep under the dew, another story emerged sixty years later. This quiet valley was the epicentre of the Merensky Reef, the richest known platinum deposit in the world.

Successive governments, aided by mining conglomerates, attempted to take away the land rights of the Royal Bafokeng Nation. The 'people of the dew' persevered, going to court to defend their legal and birth rights so frequently that they became known as 'the

tribe of lawyers'. After withstanding the might of apartheid and the rapaciousness of the Bantustans, the Royal Bafokeng Nation settled a nine-year court battle out of court to secure a dramatically improved royalty agreement from Impala Platinum. This gave Implats permission to mine the wealth deep under the dew in exchange for a decent return.

Today the Nation owns 1 200 square kilometres of land in the Rustenburg valley, home to 150 000 people of whom two-thirds are Bafokeng. And the return from that extractive has become an intergenerational sovereign wealth fund with a net asset worth currently (2018) in excess of R32 billion.

How did it happen? How does a non-renewable resource meet the needs of present and future generations? How can the worlds of tribal tradition, mining and corporate investments co-exist, and co-exist with the potential for so much good?

We tell one chapter of a bigger story. Our focus is on the origins of Royal Bafokeng Holdings (RBH) from 2004 to 2012, when the tipping point was reached. Our chapter ends when less than 50% of RBH assets were comprised of extractive investments.

The story continues today. This is a snapshot in time.

The story of the crocodile

The RBN crocodile suggests movement towards water – movement which the Bafokeng people regard as indicative of contentment and peace of mind. A Tswana expression frequently used in Bafokeng literature is “a e wele mo metsing,” whose literal meaning is “let it fall into the water;” or, more idiomatically: “let there be peace”.

‘Other Sotho or Tswana groups depict the crocodile with its mouth open. In contrast, the RBN crocodile’s mouth is always closed. An explanation enjoyed by the Bafokeng people is that a member of the royal family once said: “We have always kept our mouths shut.”

‘The crocodile is recognised for having withstood the test of time, for its strength and resilience during hardship, and for its reputation as a caring, nurturing parent – all qualities with which both the Nation and Royal Bafokeng Holdings enjoy being associated.’

RBH Annual review 2006

The Bafokeng are an offshoot of the Bakwena, literally “people of the crocodile.” Today the symbol of the crocodile is celebrated in the logo of RBH. The spherical orb next to the name of Royal Bafokeng Holdings is inspired by the open eye of the Bafokeng crocodile.

section 2

THE ARCHITECT & THE ANALYST

Kgosi Leruo Molotlegi never expected to become king of the Bafokeng. Born in 1968 into the Bafokeng royal family, he completed his schooling at the elite Hilton College in the rolling hills of KwaZulu Natal, South Africa, and later graduated with a degree in Architecture from the then-University of Natal.

His life plans were disrupted when his brother Prince Fosi Molotlegi, second in line to the throne, died in 1999, followed a year later by the death of his brother Kgosi Lebone Molotlegi II. In the space created by the deaths of his elder brothers, the quiet and reserved architect had the mantle of leadership thrust upon him. In 2000 Kgosi Leruo became the 36th king of the Bafokeng.

He may have preferred to live his life as a professional architect without the weight of responsibility for over 100 000 people. He might have liked more opportunity to fly, given that he was a qualified pilot. He may have preferred to live somewhere other than in the small community of Phokeng in South Africa's beautiful but poor North West province. As a shy person, reported by those who know him to be fairly introverted and modest, the new Kgosi may have preferred to live a quieter life, outside of the limelight of leadership.

Whatever his dreams might have been, architect Leruo Molotlegi picked up the baton from his ancestors and, rather than design buildings, became the designer and architect of an extraordinary intergenerational wealth creation strategy aimed at securing the future of his people, the Bafokeng. While the Kgosi is 'understated, not one to blow his own trumpet', the kinds of investment deals that the Bafokeng entered into through their investment vehicles 'relied on an X-factor that the King could offer' says one of his past colleagues:

‘What was needed was leadership that also has integrity... vision that has soul and depth... a sense of wisdom. The Kgosi is a leader who is not rapacious, not impatient. He is interested in wealth creation for the collective, for a community of people who have been severely disenfranchised for a long time.’

Kgosi Leruo was committed to leveraging the platinum assets under Phokeng ground to secure the financial independence of the Bafokeng people. But he lacked training and experience in professional investment management. So the Kgosi recruited people with the appropriate skills sets to deliver his vision.

In 2002 Royal Bafokeng Resources was set up as a company whose mandate was to maximise the opportunities of the Nation’s mineral reserves. Depending solely on extractives for financial security was a risky option. It was essential to prepare for a post-mining future by diversifying the Nation’s assets into non-extractive investments. In 2004 Kgosi Leruo recruited Niall Carroll, a smart and experienced investment manager, to set up and run Royal Bafokeng Finance (RBF).

Carroll was a chartered accountant and chartered financial analyst, who had joined Deutsche Bank in 1991. By 2004 he was Managing Director of Investment Banking at Deutsche, a position he had held for some five years, when he left to run the small start-up called Royal Bafokeng Finance.

Carroll saw his role at RBF as one intended to actualise the Kgosi’s vision of a Bafokeng Nation that was educated, healthy and financially secure for future generations. His particular mandate was to build a non-mining investment portfolio. Unlike many empowerment groups who relied on borrowed wealth, the Bafokeng had solid mineral assets. These assets, with the right strategy and leadership, could be leveraged to sustainably grow the nation’s wealth. It required execution of a dual strategy:

Carroll was a big picture man, a far-sighted and highly experienced commercial leader who could envision and articulate just how the right investment strategy would help to deliver the Bafokeng's Vision 2020.

'He was able to initiate and deliver transactions too big or too complex for many others to conceptualise and manage,' one interviewee explained. Where the Bafokeng's Vision 2020 was far-sighted, 'a decade ahead of where we were as a country', as an advisor described it, Carroll had the ability – with the Kgosi's backing – to see that vision actualised. He had a talent for recruiting, and inspiring, people who sparked together effectively. He brought on board individuals able to flourish in a start-up environment. His first decision as CEO was to recruit Andrew Jackson, also a former analyst at Deutsche, as Chief Investment Officer. As his business partner and 2IC, Jackson was central to the success of Carroll's execution plan. They combined imagination and rigour to assess long-term benefit, and to minimise and manage risk.

A colleague describes Carroll as being 'ten steps ahead':

'Niall can be quite disarming. He does it all with a sense of humour and a twinkle in his eye. He can simplify things, distil them. He cuts through everything to see it exactly as it is. Such clarity of thought. He is understated, not an alpha male. He is easy to underestimate. But he is the ultimate chess player. He is ten steps ahead of the rest of us. He can see the end game and has it all mapped out. He creates something in his mind down to the last detail. He has an incredible work ethic. He is emotionally mature and deep.'

While flattered by this description, Carroll paints a more nuanced view:

‘I certainly couldn’t calculate ten moves ahead, if only because the world is always changing. But I did try, and encouraged the team to try, to retain mental flexibility and a sense of options open to us, if the unexpected happened. Being able to react clearly and quickly to events is far more valuable than trying to calculate ten moves ahead.’

Keeping Royal Bafokeng Resources and Royal Bafokeng Finance as separate entities facilitated specialisation. But it also made it difficult for the Nation to craft a holistic, integrated wealth creation strategy. The structure split resources instead of leveraging them effectively. In 2006 it was agreed to merge RBR and RBF to create Royal Bafokeng Holdings, or RBH, with Carroll as its founding CEO and the Kgosi as Chair. In the Kgosi’s words, the ‘consolidation of the two entities allowed us to rationalise oversight and bring a holistic focus to the management of the Royal Bafokeng Nation asset base’ (RBH Annual Review 2006).

RBH’s mandate was to grow the wealth of the Bafokeng Nation. This wealth was to enable the independence and sustainability of future generations, while supporting the ongoing social development of the Nation.

There was no rule-book to follow. It was unheard of for a traditional community to build an investment company. Committed to serving the best interests of the Bafokeng, the Kgosi recruited talented and experienced professionals who were, with some exceptions, not Bafokeng. They all shared his vision. Royal Bafokeng Holdings employed the best people, capable of working collaboratively and with vision, to deliver outstanding results.

Bringing in Carroll was a courageous move, a decision reflective of personal integrity, for the architect leader. In identifying and selecting an investment analyst turned banker to develop RBH into a meaningful intergenerational sovereign wealth fund, the Kgosi had made a bold strategic move.

section 3

TRADITION & MODERNITY

‘Land remains core to our identity. It is the link between our past, present and future. It is also our land ownership that allowed us to craft a development strategy and to diversify our asset base over time.’

Kgosi Leruo Molotlegi, State of the Royal Bafokeng Nation address 2018

Tribal tradition and modern commerce come from different worlds. For the Kgosi’s mandate to be met, a bridge was needed to cross the chasm between the two.

Being part of a traditional tribal authority, RBN is recognised as a ‘universitas’ in South African law. As part of modernising and restructuring, the Bafokeng rebranded from Bafokeng Tribal Authority to Royal Bafokeng Nation. While the name changed, powerful traditions remained intact.

Royal Bafokeng Holdings was established to be a modern investment company – a corporatised, legally understandable asset investment house. It was not an impact investor, concerned primarily with the social impact of its investments. The RBH investment portfolio was not selected on the basis of reflecting traditional values, if indeed such a concept has shared meaning. It would be judged on the same commercial terms as any other holding company.

It is different from most other holding companies because the wealth it generates is for the financial health of a traditional community, defined by shared land, leadership and history. Royal Bafokeng Holdings is one of the largest and most successful community investment companies in the world.

How does a high-performing, modern investment holdings company align successfully with a shareholder that is a traditional community? Especially when land was core to the Bafokeng identity: land the Bafokeng needed to share with others to become truly independent - land as an asset class, competing with other assets for superior financial return.

‘Mining assets are our patrimony but not our wealth. This is the hand we were dealt, but we had to transform it into something else – a diversified portfolio that is not mining-dependent.’

In 2004 the Royal Bafokeng Nation Development Trust, or RBNDT, was established as the vehicle through which all the Nation’s resources would be managed. When Royal Bafokeng Holdings was set up in 2006 it became a wholly-owned subsidiary of that Trust. The beneficiaries of these commercial assets – managed by Royal Bafokeng Holdings – are members of the collective Bafokeng Nation. RBH reports to the Trust, and the Trust reports to the community.

Royal Bafokeng Holdings emerged from and interacted with community governance systems that had been in place for hundreds of years, as well as with the newer notion of a constitutional democracy. Where some traditional leaders stand accused of authoritarian rule and a pursuit of their own personal interests, for the Bafokeng community authority resides ultimately with the people.

The highest decision-making structure of the Royal Bafokeng Nation is the community general meeting of Bafokeng citizens, called the Kgotha-Kgothe. It meets twice a year to review the overall performance of the various Nation entities and to take formal decisions similar to those made by company shareholders in a general meeting. At the Kgotha-Kgothe all major decisions concerning land and strategic assets must be agreed to by resolution.

The second highest decision-making body, the Supreme Council, comprises of traditional headmen, with elected and appointed councillors. It is responsible for establishing and monitoring policies and social spending priorities. As Kgosi Leruo Molotlegi told the Zimbabwe Mining and Infrastructure Indaba of 2013:

‘There have been many occasions in the past where recommendations put forward by the Administration, the Supreme Council of dikgosana (headmen) and councillors and even the King have been rejected by the general meeting.’

To ensure good governance, the accounts of all bodies within the Nation, including those of the Kgosi’s office, are audited annually and full financial reports are scrutinised by the Kgotha-Kgothe every year. Likewise, Royal Bafokeng Holdings has consistently put a clear emphasis on strong and transparent governance as a precondition for its sustainability and success. The annual review provides public disclosure of key information such as ownership, governance structure, major financial transactions and investments, corporate social investment and compliance. Transparency supports not only good governance, but trust.

There is a clear delineation between the structure charged with making money – Royal Bafokeng Holdings – and the structures charged with allocating and managing the spend on the Nation’s infrastructure and social development.

Royal Bafokeng Holdings is an engine for wealth creation. It is accountable for its financial returns and for delivering the agreed strategy. It had to succeed on its own financial terms independently of how its returns were used. If an investment by RBH did not yield the expected financial return, it could not be an excuse that the investment provided jobs for Bafokeng people. It was judged on financial returns, not social ones.

Although accountability for making money was separated from accountability for spending it, the impact of social spend was important to Royal Bafokeng Holdings – just as RBH’s returns were essential to social spend. Financial returns without social returns would contradict the very reason for existence. While the distinction between accountability for making money and spending it is critical, delivery was required in both areas in order to keep the system going. Royal Bafokeng Holdings had to be a model corporate citizen, with a mandate made clear to both international investors and rural villagers.

Investors grasped the story quickly enough – the RBH team spoke their language. Giving meaningful feedback to a rural community needed rare empathy and communication skills. Charts and graphs may complicate rather than help.

RBH needed to convey the investment portfolio, performance and volatility to a diverse Supreme Council, who in turn needed to report and explain to the community. When investments are successful, the message is easily digested by non-specialist beneficiaries. When investments lose value it's a different story. There were times of investment value decline when community members suspected Royal Bafokeng Holdings leadership were stealing suitcases of money owing to the Bafokeng.

The gap between tradition and modernity was compounded by vast differentials in privilege. While the Bafokeng continued to live in relatively deprived social circumstances – albeit much improved due to sharing and reinvestment of profits into the infrastructure of Phokeng and 28 surrounding villages – Royal Bafokeng Holdings occupied elegant offices in Johannesburg's high-end Melrose Arch precinct. While the Bafokeng continued to battle multiple social challenges and joblessness, Royal Bafokeng Holdings' leadership were paid market-related packages to attract and retain the country's top talent.

It was difficult for many Bafokeng to witness the relative wealth of RBH leadership, while the beneficiaries of RBH remained relatively poor.

Well-meaning initiatives to bridge the gap, developed with the best of intentions in Johannesburg, were sometimes greeted with wry amusement in Phokeng.

'People would come out from Joburg saying, "We've got the answer for you, we've got the initiative, we've got the consultancy that will solve all your problems..." We would reply, "You don't understand anything." It became a running joke.'

Despite misalignments, the gap between tradition and modernity was mostly bridged. There were five connection points.



Vision

Royal Bafokeng Holdings was set up to deliver a vision for the Bafokeng people that had been entrenched over time. This vision had already resulted in the Bafokeng holding title deeds to land.

‘Those who came after could not have done what they did without the contribution of those who came before,’ said a past RBH Director. ‘A great leader understands that you yourself are being led.’



Leadership

Creating a powerful intergenerational wealth fund drove both the Architect Kgosi and the Investment Analyst. Both engaged with the actual and potential consequences of decision and action.



Governance

While some governance issues took time to resolve - for instance, the number of non-executive directors on the Board - a governance code with a high level of integrity and transparency was instituted at Royal Bafokeng Holdings from day one. The shareholders were represented by the Kgosi as Chair, as well as financially and commercially astute non-executive directors such as Steve Phiri and Thabo Mokgatlha.



Communication

The keys to good communication are consistency and transparency - regularly sharing good and bad news. Delivered through traditional structures and formal reporting, communication may not always have been perfect, but it was consistently provided, feeding a reservoir of trust and goodwill.



Luck

Of all the farm lands in sub-Saharan Africa to settle on, the Bafokeng chose a valley that almost 400 years later revealed minerals of immense value in the modern world. Yet it was leadership, and not luck, which ensured that the wealth was preserved, grown and shared.

The immense good fortune of the Bafokeng Nation was built with an inclusive vision, unyielding determination and consistent effort. Other communities with access to natural resources, who lack these ingredients, too often neglect or squander the luck of their inheritance.

The hybrid governance and character of an investment company, owned and mandated by a traditional community, is a model for a divided country. The model offers synergy in place of division. Modern investment strategies can serve traditional communities, without the community diluting its identity or the holding company compromising its investment rationale and corporate modus operandi.

‘As Bafokeng we know that the only way to build a future is to have the purpose of a vision and a mission, and to go by the guidance of a plan and a strategy.’

Kgosi Leruo Molotlegi, State of the Royal Bafokeng Nation address 2018

section 4

NEEDS OF TODAY VS NEEDS OF TOMORROW

Royal Bafokeng Holdings had a dual mandate:

- To safeguard the long-term financial independence of the Bafokeng
- To generate sufficient income to meet essential social and infrastructural needs of the Nation

This meant leveraging existing opportunities, mainly platinum, while future-proofing against the decline of extractives by diversifying into longer-horizon opportunities.

The strategic balance of current needs and future financial health creates a dynamic tension – for families, companies and nations. The approach requires conservative budgeting together with long-term investment horizons – particularly challenging for governments in developing nations who face cyclical elections, large-scale poverty and inequality.

The balance between long-term investment and short-term spend was an area of moral turbulence for the leadership of Royal Bafokeng Holdings and the Nation. Many interviewees expressed ambivalence, as they considered this tension in one moment through the lens of a relatively poor community struggling to meet daily needs, and in the next moment through the lens of an ambitious community striving to build intergenerational wealth.

‘The Royal Bafokeng Administration needed to balance the short-term needs with the long-term needs of the community and walk that political tightrope. I don’t know if we ever got that right. To what extent did we prioritise the needs and priorities of people today and what they’ve been through with what we imagined to be the needs and priorities of their grandchildren and great-grandchildren? That’s a very hard line to walk.’

The Kgosi and Nation’s leadership needed to walk this tightrope with wisdom and integrity. RBH needed to execute the mandate they were given with impeccable and transparent governance.

Some interviewees compared the RBH model to an endowment fund that is structured to grow principal capital, while generating immediately accessible income, used for current needs or optimally reinvested. Academic institutions such as universities frequently manage endowment funds, the returns of which contribute to their day-to-day running costs. (The establishment of the first endowed academic chair is attributed to Marcus Aurelius, the Roman emperor and philosopher who ruled from 161 to 180 AD.) Yale University is cited as a current example. However, university endowment funds are invariably enriched by capital injections received from successive generations of alumni. RBH could not expect such largesse.

Some likened the model to a sovereign wealth fund. Sovereign wealth funds are used by resource-rich countries, including Norway and Saudi Arabia, to preserve and grow wealth; diversifying from a cash-generating but limited natural resource. Other sovereign wealth funds have been based on the proceeds of privatisation, balance of payment and fiscal surpluses. Since 2005 at least 40 have been created, according to the Sovereign Wealth Fund Institute. While the Royal Bafokeng Nation is not a country, the natural resource under its land has been leveraged to generate wealth, intended to endure long after the primary resource loses value or runs out.

While there are similarities with endowment and sovereign wealth funds, RBH pioneered a model of community intergenerational wealth that is to date uniquely its own.

Platinum dominated the portfolio from launch – leaving the fund at the mercy of extreme volatility due to global economics, industry factors and investor sentiment. This was evidenced during the first half of 2008, when the Royal Bafokeng Holdings asset portfolio rose sharply as a result of high commodity prices and positive market sentiment. In the second half of the year, however, the global financial crisis caused the value of the RBH portfolio to decrease by 40%. At the same time, dividends increased markedly due to the previous strong performance of the precious metal.

To balance the volatility, and to honour the mandate, a conservative approach to investment was necessary. As a past Director of Royal Bafokeng Holdings explained, managing a community's wealth is 'like looking after one's parents' pension'. It needed careful, low-risk, long-view investing. Carroll and others describe their investment approach with self-deprecating humour as 'dull and boring', and 'simple and stupid'. As guardians of the Nation's well-being they had to minimise risk. General wisdom says higher returns come from higher risk investments. But Royal Bafokeng Holdings could not gamble the Nation's future. RBH was buying long-term assets, not looking for a quick flip. It was not interested in start-ups or turnarounds. By definition, the financial imperative of a start-up is untested, whereas investment confidence in sustained growth requires evidence.

Royal Bafokeng Holdings steered clear of companies trading on high price-earnings

multiples. They chose investments in sectors that they thought would remain relevant in 100 years' time. And while being opportunistic, they were not interested in bargain basement deals. 'We would rather pay a fair price for a good investment than a good price for a fair investment.' They were not about 'trophy investments', the flavour of the day, or even about investing in businesses because they were dedicated to social good. RBH was an asset management house with a 'do no harm' approach, but it was not an impact investor. RBH's focus was high, stable returns. The 'impact' part of its mandate lay in its commitment to sustaining and growing intergenerational wealth. RBH needed to deliver significant growth safely, quickly and consistently.

RBH did not prioritise synergies between its investments. Its mission was to build a portfolio of good businesses with good prospects and good management. Along with strong long-term compound growth, RBH sought strong and resilient cash flows – the Bafokeng needed to resource the needs of today. The performance measurement was aggressive and the team was tasked with delivering against a high hurdle rate. Despite the conservative investment approach, or possibly because of it, from 2005 to 2012 Royal Bafokeng Holdings achieved excellent financial results, comfortably surpassing the high hurdle rate. To achieve these outcomes, RBH needed to be part of a 'dream team', together with leadership in Phokeng and external advisors.

'Everyone made valuable contributions,' Carroll said. The roles we took at RBH were made for each and all of us.'

There were two imperatives: select the right deal, and structure the deal right. The dream team had the experience to do both. Doing this, in the service of a community, gave everyone:

‘... a sense of fulfilment and joy. It wasn’t about winning and losing. It was about all parties winning. We couldn’t sell a bad deal on day one that would become apparent on day three. It was about understanding the value that RBH brings. We were committed, we believed in what we were doing. We were on the side of the angels, which gave us courage. This was our moment. We could shape what we wanted Royal Bafokeng Holdings to be.’

The alignment of overarching purpose with an exceptional skills set and energy helped facilitate Royal Bafokeng Holdings’ ability to deliver on its mandate. In seven years the company had increased the Bafokeng’s wealth approximately fourfold. In business terms they were an unqualified success, consistently surpassing the Johannesburg All Share Index rate of return. In Niall Carroll’s words:

‘Technically we were competent. We had strong investment views. We had an understanding of long-term value drivers. You need to understand the investment you are buying into and then structure the transaction in a way that increased the odds of success.’

RBH became an active shareholder, engaged in the sustainable practices and proper governance of investee companies. It took a deep and personal interest in its investments on behalf of the Bafokeng Nation. To this day, interviewees describe RBH as 'a model shareholder'.

How did this translate into meeting the daily needs of the Bafokeng people? Royal Bafokeng Holdings was accountable for generating money, not for spending it or for allocating the wealth it generated. The Royal Bafokeng Administration (RBA) mandate was to conduct needs analyses, consider what Royal Bafokeng Holdings could provide in the form of dividends allowing for three times annual needs as cover, and then develop a budget based on affordability limits. It was RBA's job to balance the needs of today with those of tomorrow.

There was not universal understanding among the Bafokeng about how the money allocated for spend was arrived at. Many members of the Nation were disappointed that the handsome profits of RBH did not translate into more significant personal financial relief. As a past Royal Bafokeng Holdings Director commented, the high-quality financial returns RBH generated meant little to the jobless person who used a pit latrine and had no electricity at home. The Nation had to find a way to grow its asset base while ensuring that the poor, the unemployed, the sick, the elderly and the young benefited.

Some believe it was the very distinction between making money and helping people that was problematic. Local preferential employment was built into Royal Bafokeng Holdings' mining deals, but one past Director argues RBH could have done more

to assure preferential employment in order to increase employment rates and add to the flow of money in the community. It could also have invested more intentionally in labour-intensive spaces which offered employment accessible to the Nation, he said. While it was true that the Nation's Royal Bafokeng Enterprise Development (RBED) trained members of the Bafokeng in entrepreneurial skills, self-critical past Directors question whether RBH could have enabled the entrepreneurial dreams of more Bafokeng with a core allocation of profits or investment capital to such enterprises.

If RBH had been given a social focus as its investment mandate, that would have meant adding a non-financial criterion to its decision-making. It would have also removed, or at least reduced, the distinction between making money and addressing local economic issues. But it could also cause confusion. To an ordinary Mofokeng, possibly without a matric, it may have made little sense to occupy the identity of both a shareholder in a profitable asset and a semi-skilled or unskilled worker earning commensurate wages in the same enterprise. One past Director commented that there may have been some individuals with unrealistic expectations, who believed that RBH's investee companies should open access to well-paid jobs irrespective of generally accepted recruitment criteria.

Could Royal Bafokeng Holdings have done more in relation to creating job opportunities for members of the Bafokeng in its investee companies? The answer to the question 'Could we have done more?' is always yes, says Carroll. However, he believes both 'I don't think we did enough' and 'I don't know how we could have done more'.

Carroll's words reflect an internal conflict, a puzzle with only imperfect solutions. RBH had supported an initiative called the 'Class of...' programme, which put some 20 to 25 people a year through a programme at Wits University's Business School and placed the graduates with investment companies including RBH, Rand Merchant Bank, Fraser Alexander and others. And there was money spent on setting up small and medium enterprises (SMEs) and procurement portals with the mines.

'We spent time on it. It was a real need. But we didn't have the skills set to be job creators. We were not resourced for it. For jobs to be sustainable, they have to meet an economic need in a cost-efficient and sustainable way. We didn't always have the capacity to provide training and exposure. We tried, but I don't think we did that very well. It wasn't really our mandate. It wasn't what we were.'

This tension between present and future needs was a persistent issue at RBH, despite its clear and unambiguous mandate. Leadership wrestled with an impossible set of competing demands. The Nation faced a high rate of HIV infection. Health needs were overwhelming. Unemployment was somewhere above 40%. Located in the economic and political context of South Africa, Phokeng reflected the same challenges and hopes as elsewhere in the country. In a community hailed as financially successful, referred to as 'the richest tribe in Africa', many Bafokeng felt poor and disenfranchised. The political fortunes and misfortunes of the ANC, the rise of populist, intolerant rhetoric and the failures in service delivery were all keenly felt in the daily lives of the Bafokeng. Dignity and economic stability are basic human needs.

One past Director reflected on whether the Nation's wealth could be used solely to give each member of the Bafokeng the highest level of education and training. Would a generation of highly educated Bafokeng assure the long-term financial sustainability of the Nation? Perhaps. Is education the key and sufficient lever to end poverty? Key, probably, but not sufficient. Allocating wealth solely to educating the Nation would have been a high-risk investment strategy from which there could be no return if it was unsuccessful. Another option, dividing up the wealth and handing it over to the people, would have created short-term relief, but if not well used the assets would have been dissipated in less than 10 years – far less than a single generation. Besides, could the impoverished and the sick be ignored? Could infrastructure be allowed to degrade?

The Nation selected its social spend carefully. Much of the community budget was invested in infrastructure: streets, electricity and lighting, housing, a water reticulation system, schools and clinics. These were infrastructural improvements that continue to benefit the Nation today. Streets make transport safer and business more efficient. The schooling infrastructure can better accommodate more children. Families have access to clinics and healthcare. Phokeng and the other Bafokeng villages have visibly benefited. The area attracts 'immigrants' from elsewhere who enjoy the same benefits on Bafokeng land.

Some questioned whether infrastructural development should have remained the responsibility of government. When government didn't and doesn't deliver, should the Nation step in? Have the Bafokeng relieved the municipality of duties they are responsible for? The authorities could well have grown used to relying on the Bafokeng to deliver services that are government's responsibility. One perspective is that the Nation should indeed have built the infrastructure, but not taken on its maintenance. For example, build much-needed roads but when a pothole develops, insist that the municipality must fix it. Resources spent on maintenance might well have been better used elsewhere, such as in delivering education or even reinvestment. However, the reality was: if the Nation didn't fix the pothole, it would remain unfixed. There were other communities, the local government might argue, with more pressing needs and far less cash.

Some questioned whether the social spend allocated by RBA, from the profits generated by RBH, was used as efficiently as possible. Could it have been better leveraged for the benefit of the Nation? Strategic and compassionate decisions constantly needed to be made and implemented. Needs compete for limited funds. Even with the benefit of hindsight, there is no perfect way. However, a closer study would pave the path to lessons learned and a refined model. Whatever the opportunities for improvement might be, RBH performance resulted in annual community disbursements rising from R300 million to a peak of R1.2 billion in five years. The community benefited visibly and substantively. Public good was delivered at scale.

The social tension between short- and long-term needs is time-consuming, often heart-wrenching, with no ideal solution. The Nation's decision-makers were wise enough to limit Royal Bafokeng Holdings to a clear commercial mandate – to make money, not spend it. Yet it remained important for RBH to remain alive to these social concerns.



section 5

GETTING THE DEAL DONE: LEVERAGING AUTHENTIC B-BBEE

The road to Broad-Based Black Economic Empowerment is paved with good intentions. South Africa urgently needs to achieve a more representative balance of opportunity and wealth-creation. This means a rapid transition to an inclusive economy, increased employment, upskilling, and diverse leadership and ownership.

International companies are practised in dealing with local empowerment legislation that exists in China, Australia and over 20 countries in Africa. Namdeb and Debswana are equal partnerships between De Beers and the governments of Namibia and Botswana respectively. The fact that the Botswana government also has a 15% shareholding in De Beers illustrates a new balance of power. Mining houses accept, and in some cases welcome, a fair slice of a pie, even if the pie is diminishing.

Yet the tales of B-BBEE going terribly wrong are legion. Cynical fronting and cronyism abound. Financial risks for companies include the funding of empowerment partners who lack assets – for the very historical reasons underpinning the B-BBEE rationale – and bearing the misfortune of a funded partner cashing out as soon as it can. Confusion over whether ‘once empowered, always empowered’ applies causes hesitation.

In this high-stakes game, Royal Bafokeng Holdings holds a good hand.

Truly broad-based

In its first iteration, Black Economic Empowerment catapulted a handful of favoured sons into the significant wealth club. Little trickled down to those outside the magic circle. Defined sets of broad-based beneficiaries were thin on the ground. The Royal Bafokeng Nation has over 100 000 defined beneficiaries with a long and noble history. They have earned the right, over generations, to benefit from the land they cherish and own. They have shown fortitude in retaining their right to the land, by withstanding the crushing hand of apartheid and corrupt local homeland puppets. They have a good story. There are no shadows here.

Long-term investors

A flurry of deals had been done and undone, as beneficiaries saw the opportunity to cash out quickly. The grey areas in the statutes left corporates in doubt about whether they needed to re-empower themselves once their original partners had sold to the highest buyer. In contrast, the Royal Bafokeng Holdings philosophy was based on the long term – steady growth, not the quick win. Others may claim the same, but few others had beneficiaries with a track record of steadfastness that stretched over 500 years and a considered vision of a secure, prosperous future.

Significant assets to fund participation

So many BEE deals have foundered on rising waves of debt, exacerbated by economic contractions and an uncertain stock market. Royal Bafokeng Holdings had significant platinum assets, with a mandate to leverage them and diversify away from them. RBH could offer a deal that would put neither seller nor investor at undue financial risk.

Smart, purpose-driven people

From the start RBH was a tight team, committed to excellence and lighting a beacon of hope.

‘We can do this. We can create something that will resonate internationally, that will be meaningful ... a catalyst.’

The team became a trusted bridge between the aspirations of a traditional community and the demands of modern capital. They were well-versed in how to construct deals that make sense to all parties. Deal-making flowed, strengthened by good working relationships. Technical analysis and culture fit were treated as equally important. Royal Bafokeng Holdings set out to be active shareholders in significant investments, contributing value at Board level. As non-executive Directors, they were not there to make up the B-BBEE numbers – neither were they there to second-guess the executive.

RBH focused on good governance and sustainability, for themselves and their investments, blending traditional beliefs and practices cherished by the Bafokeng with the corporate governance codes developed by the King Commission.

Empowerment + Patience + Assets + Good Governance was a powerful formula for corporates who were willing to share and wanting to grow. Very few could match it. Carroll set out the Royal Bafokeng Holdings partnership philosophy in the 2006 Annual Review.

‘We aspire to be competent and reliable partners to the boards and managements of the companies in which we invest. We are less concerned with control than with relevance, which flows from our ability to add value to our investments. We enjoy engaging with energetic, trustworthy managements and believe we have much to contribute besides our capital and robust financing structures – sound human capacity, good governance, credible transformation frameworks and a sustainable communal investment model that generates both financial and social returns.’

This philosophy, together with RBH’s ability to strike a good deal, led to Royal Bafokeng Holdings being awarded the Business Map ‘Deal of the Year’ for its Impala Platinum (Implats) transaction.



Impala Platinum – the deal that took 40 years to make

‘The highpoint of 2006 at RBH, indeed for the entire Bafokeng Nation, was the transaction announced with Impala Platinum Holdings Limited (Implats), in terms of which our previous royalty arrangement was exchanged for a larger shareholding in Implats, totalling 13.4%. RBH’s advancement to active shareholder status in Implats was followed by a significant appreciation in the Implats share price, indicating broad market support for one of the largest Black Economic Empowerment (BEE) deals in South African history.’

Chairman’s Message, RBH Annual Review 2006

From a royalty in a single mine that was ageing, becoming deeper and more costly, Royal Bafokeng Holdings would now share in the profits from all Implats activities, present and future.

The market value of the transaction – R14.7 billion – was an exponential leap for the Nation. In 2005 the community's asset base was worth R8.8 billion; two years later the value was R33.5 billion. The opening RBH gambit struck gold.

The transaction was also significant for marking the shift in the Bafokeng's status from a passive landlord to an active investor. RBH gained meaningful non-executive representation on the boards of Implats and its operating subsidiary, Impala Platinum Limited. The mandate was to work with management in the areas of strategy, conversion of new order mining rights and transformation processes.

It was a 180-degree turnaround. Implats and the Bafokeng had a history of strained relations. A disadvantaged landlord versus a wealthy tenant was a combustible mix. The Bafokeng had begun leasing their platinum-rich land to mining companies, including Gencor (later to become Implats), in the 1920s. Rental bore little relation to the wealth being mined. Between 1990 and 1999 the Nation fought a protracted legal battle with Implats to eventually secure royalties. This opened new avenues of mistrust: were profits being hidden to keep royalties artificially low? 'There was animosity on both sides,' said an observer, 'from Implats to the community, from the community to white Afrikaners.'

Then the South African Government threw a curved ball. It demanded royalties from mining profits. A three-dimensional chess

game had begun. First, Royal Bafokeng Holdings clarified that the royalty Government was seeking did not replace community royalties – and Government published guidelines to confirm this. Now RBH had leverage. Implats had to pay two royalties, or make a mutually positive deal with RBH.

The animosity was also tempered by a helpful coincidence – David Brown, who was elevated from CFO to CEO of Implats in September 2006, had been at school with Niall Carroll. They were both Chartered Accountants. This personal connection took some scratchiness out of the conversation.

New networks were as vital as the old ones if Royal Bafokeng Holdings was to become a bridge between established wealth structures and new aspirations. RBH worked tirelessly with central government, in particular with the Departments of Minerals and Energy, Land Affairs and National Treasury, to define policies that were legal and just. The ground--breaking transaction with Implats was enabled by the full support of national Government.

Asset growth was compounded as the price of energy-related commodities skyrocketed. The Implats deal meant that 85% of the RBH portfolio was dependent on mining – albeit from a more geographically diversified selection of mines. While platinum stocks rode high, all was good. But it was also dangerous. Over-dependence can create victims of market volatility. How would the Nation flourish if the platinum market crashed? Having 85% of your eggs in a single basket that you don't control is a recipe for insomnia.

‘We also have a long-term goal of building major pan-African businesses in three attractive sectors- resources, financial services and infrastructure. This particular combination of sectors offers both profit synergies and investment diversification benefits.’

RBH Annual Report 2007

To these three sectors was added telecommunications. Each sector selected for investment by Royal Bafokeng Holdings was BEE-sensitive – for government and parastatal business it was crucial. Specific charters in some sectors demanded increased compliance. Other sectors were more insulated from BEE pressures. Fast-moving consumer goods (FMCG) and retail chains, for example, had a broad base of customers and so had far less to lose. RBH wanted to lead with their strength – to be the leading community-based investment company in South Africa... and the world.

Royal Bafokeng Holdings’ investment strategy secured their core assets while developing a portfolio that dramatically lessened dependence on them. In particular, RBH was determined to build a financial services sector platform of substance.

While guided by this high-level strategy, RBH management kept a sharp look-out for out-of-favour businesses near the bottom of their profit cycles. Called contrarian by some, opportunistic by others, RBH’s investment approach revealed a flexibility allied with rigour. RBH knew where they wanted to go and were prepared to go off-road to get there.

Their strategy was also informed by the Bafokeng Nation’s attachment to the land. The easiest and fastest way to diversify was to sell Implats, or a portion of it. The idea was discussed with the Nation, but the view was that the Bafokeng should not dispose of this asset they had fought so hard to gain influence over, that had ‘sprung out of the soil’.

Diversifying into hard currencies was also intensely debated. The Bafokeng felt they could be relevant and add most value to South African companies. So for RBH it was not just about generating money, it was about adding value. Going to the United States or Europe would undermine that relevance. As a BEE shareholder, RBH could buy at ‘wholesale’ prices rather than ‘retail’. If they invested overseas they would lose that advantage. They would play an

away game. The RBH team knew the bankers and other players in the local market. It would have been difficult to migrate the model to another market where Royal Bafokeng Holdings would be an outsider.

The risk would have created vulnerability, only partially mitigated by the currency hedge. Several South African companies who have committed to offshore ventures have ended up with a bloody nose. Royal Bafokeng Holdings didn't want to confuse home game advantage with investment genius. They knew what they knew well and traded global possibilities for a unique local value proposition.

In 2008 Royal Bafokeng Holdings was selected as the lead strategic Black Economic Empowerment partner for Vodacom SA, resulting in a R2.3 billion investment. The home game was paying off. However, the need to diversify further was intensified as platinum showed its dangerous volatility. During the first six months of 2008, platinum group metal prices soared to all-time highs, only to plummet in the second half of the year. In those 12 months, the net asset value of the RBH portfolio rose from R33.5 billion to a peak of R43.5 billion, before diving to R22.5 billion.

RBH was committed to building a financial services sector platform of substance. Discussions were held with Old Mutual plc regarding the proposed acquisition of Mutual & Federal, but were terminated due to a difference in valuation in the face of crumbling stock markets.

The investment in Zurich Insurance Company, the sole representative of financial services in their portfolio, comprised only 1% of RBH assets.

As South Africa prepared for the 2010 World Cup, Royal Bafokeng Holdings assessed the empowerment credentials of the major financial services groups. Most had deals in place – the significant exception was RMB Holdings (banking) with its sister company RMI Holdings (insurance). The combined group consisted of significant investments in First National Bank, Rand Merchant Bank, Wesbank, Momentum, Outsurance and Discovery. RMBH/RMIH was the prize every empowerment partner sought, and their owners knew it.

How did Royal Bafokeng Holdings win the prize? And at what cost?

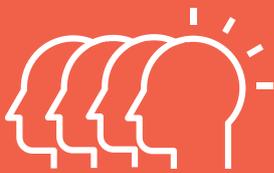
The 'Financial Services Sector Platform of Substance'

RMH was founded by South African leading business men GT Ferreira, Laurie Dippenaar and Paul Harris over 40 years ago. It represents the merger of Rand Consolidated Investment and Rand Merchant Bank, then owned and managed by Johann Rupert of Remgro. Our founding members still play an important role in the decision-making of RMH.

'Since its listing in 1993, RMH has provided shareholders with a vehicle to co-invest with the founders of FirstRand. In 2011, insurance interests were separately listed as Rand Merchant Investment Holding Limited (RMI). Since then RMH has been a dedicated investment vehicle into FirstRand, one of South Africa's most successful financial services groups.'

www.rmh-online.co.za

Why choose Royal Bafokeng Holdings as a partner?



True broad-based empowerment
a basic requirement



Good governance
a basic requirement



Assets/cash to fund the investment
a definite plus



Quality people
'RBH was and is a great outfit, a professional team' is the consensus of those who have known Royal Bafokeng Holdings well over several years.



Proof of concept
Royal Bafokeng Holdings' growing portfolio of investments demonstrated its strategy in action. They had secured their mining assets and diversification was in progress.



Mutual respect
'They stuck to their long-term goals and had a credible story to tell – investing in the inter-generational security of their Nation.'

As with most major events, a number of factors added up. And there was a defining moment. In 2009 Niall Carroll went to the beginnings of a building site in the bush on the outskirts of Phokeng, together with a founder of RMH. 'In 10 months,' Carroll said, 'this will be a five-star hotel reserved for the English team at the World Cup.' It was scarcely credible - until it was done. The Nation delivered. RBH won the prize because, ultimately, the Royal Bafokeng Nation was a reliable partner in the shared future of a country powered by good governance and enlightened capitalism.

While Royal Bafokeng Holdings were hungry for the deal, they didn't pay over the odds. On the contrary. While accepting the market price as a base, they then factored in the price of liquidity. As RBH was committing to a long-term investment, they could not take advantage of any stock market surges. This illiquidity discount was reflected in the advantageous cost of the deal. Flexible financing terms for the debt use to part-fund the acquisition also helped.

The team leveraged authentic B-BBEE credentials to land the right deal, and structure the deal right.

When Royal Bafokeng Holdings was formed in 2005, mining assets comprised 93% of total portfolio value. RMB Holdings and RMI Holdings were the investments that changed all that. When the deal was concluded in 2011, their combined value in the RBH portfolio was just under R9 billion, almost half of

the R19 billion holdings in platinum. A year later, RMB and RMI asset values had risen by 50% while platinum shares had stagnated. Mining assets were now under 50% of the portfolio value, with financial investments up to 33% and telecoms approaching 10%.

The 2017 Royal Bafokeng Holdings Integrated Review reflected the value of RMB and RMH to be approaching R27 billion, while platinum holdings had dwindled to R4.3 billion. Platinum, a finite resource, has been replaced by finance, an infinitely renewable resource.

The road to diversification has had a few bumps and potholes. Some investments have been average, a few were worse.

'We made some mistakes,' says Carroll. 'But if you get no investments wrong, you are being too conservative.'

This first stage of the Royal Bafokeng Holdings trajectory was pulling against the gravity of status quo. A senior banker reflected:

Authentic B-BBEE put Royal Bafokeng Holdings on the first rungs of the ladder. Implementing the clear vision of the Nation's intergenerational aspirations propelled RBH upwards. RBH had effectively leveraged the opportunity offered by B-BBEE into a story of hope, belief and unfolding reality.

‘They did diverse investments – sometimes you take investments that aren’t necessarily the best to get on the ladder. You take what you can find.’

section 6

LEADERSHIP AND CULTURE

Founding CEO Niall Carroll has an instantly recognisable charisma. He uses language carefully, pausing frequently to choose the best word or to rephrase a statement for greater accuracy. He speaks quietly and with personal authority. People who know him describe him as 'very smart' and a masterful deal-maker. They talk about his talent for articulating a vision and enrolling others in that vision. Carroll is a 'big picture guy', says an RBH advisor, and he is able to plan and deliver deals bigger and more complicated than most can conceptualise. He deals in complexity and nuance with ease. He engenders confidence in his leadership, and trust in the specialist know-how and skill he draws on to generate wealth for investors.

One interviewee said that when Carroll originally established RBH precursor Royal Bafokeng Finance, it was he who sold his vision to the King as much as the King sold his vision to Carroll. Carroll took the intention of the King and the Nation and transformed it into a proposal that wove together the business case with the social outcome. He captured the spirit of the moment.

Carroll could speak 'business':

'RBH is an unlisted investment holding company mandated to manage the commercial assets of its sole shareholder, the RBN.'

And he could speak 'higher purpose':

'We are perhaps better described as an intergenerational investment trust. We have been entrusted with an asset base acquired through the sacrifice and courage of previous generations of Bafokeng.' RBH Annual Review 2006

The capacity for word-craft is an essential ingredient of leadership.

Language takes the complex and makes it clear. And it defines for the audience where each player fits – the value they can give, the value they may receive.

Carroll fostered an organisational culture that would support Royal Bafokeng Holdings' purpose, recruiting a team of high-impact, high-quality individuals who drove exceptional standards of delivery. They bridged the traditional and modern worlds they served, feeling that they were 'based at the Holdings office with one foot still in Phokeng'.

The office space in Johannesburg's Melrose Arch was 'stylish, elegant and energised'. The offices were open plan with pause areas for coffee, lunch and conversation. Desks were arranged in a half-oval. Sunlight poured in through the windows.

RBH was infused with ambition and the team dared to dream big. A team member of the time recalls the spirit.

'We felt wow, we can create this, this could be a platform for something really world-changing. We can create something that will resonate internationally, that will be meaningful. A catalyst. A world-class case study of what could be achieved. Sure, there were some frustrations and conflicts, but we all had our eye on something bigger, something more meaningful. It was beguiling, full of optimism and possibility.'

Despite appearing 'understated, not an alpha male', Carroll demanded the best and could be a harsh critic

'He would go over a document with a red pen, but he was absolutely right.'

The team was diverse in background and experience. At the top were highly experienced and educated leaders with qualifications from institutions such as Harvard and the London School of Economics. Others were first-generation university graduates.

‘It meant people came at things from completely different angles, different perspectives. I was always learning. I always had to test my assumptions.’

Royal Bafokeng Holdings maintained a relatively flat structure. Everyone was hired and retained on merit.

‘No one was there because of their skin colour, or because they were a Mofokeng, or anything else.’

The small team of 25 could not carry passengers. Low energy people simply didn't last. There was too much going on and the prevailing attitude was 'go, make it happen'.

‘Nobody was ever bored. Stretched, frustrated, enthused, but never bored. People were self-motivated because they bought into the vision. The culture was, don't blame anyone else outside this room.’

Carroll could drive accountability in the Royal Bafokeng Holdings offices, but it was more complex in Phokeng. Traditional and corporate governance sometimes sat uneasily together, making for difficult power dynamics. Whatever the strains, shared integrity and trust were the bonds that held a unity of purpose.

It was essential that as a community-held investment company, RBH should be above reproach in relation to governance and transparency. RBH published an Annual Review which reported on financials and progress against the agreed strategy. The Review dealt with commercial investments, sustainable development, corporate governance, social investments and group structure. Board meetings were tightly managed, with detailed minutes. The executive believed in sharing information internally, and staff were kept apprised of every deal.

If companies, like people, have personalities, the personality of Royal Bafokeng Holdings reflected the characters of the Architect and the Analyst. A leader of an RBH investee company commented that the RBH personality was professional, and that its professionalism remained unruffled even under the most trying conditions. It was self-deprecating and modest, with understated authority.

‘The people at RBH were mild-mannered, soft-spoken, they were gentlemen. They built trusting relationships. They were interested in fair value, not a quick buck.’

Royal Bafokeng Holdings’ approach to a new investment was ‘slow and steady’. The team invested time in discovering whether investor and investee were sufficiently like-minded to work well together. They focused on building relationships and exploring opportunity, more than discussing the technicalities of the commercial agreement. Price came at the end of discussions and was managed graciously and fairly. This approach created an easier transition for an investment process, and paved the way for RBH to join an investee board as a value-adding active shareholder.

As Royal Bafokeng Holdings grew and matured, the entrepreneurial, exciting owner-manager culture that had been established needed to become more institutional in nature. Remuneration packages for senior executives were restructured to reflect this transition: from the lower basic package and higher incentives of an unproven start-up, to the higher basic package and capped performance bonuses of a proven business model.

The challenge was to manage this evolution without losing too much of the owner-manager, entrepreneurial culture in which deal-makers thrive. Carroll and a number of the leadership team left shortly after the initial goals had been achieved. In seven years, the investment portfolio of the Royal Bafokeng Nation had been transformed twice. First, from platinum royalties and a few industrial investments to a significant platinum shareholding. Second, leveraging an over-reliance on platinum into an A-list empowerment partner for long-term growth.

2012 was a year of changes for the Architect and the Analyst, as recorded in the 2011 Annual Review:

Chief Executive Officer of RBH, Niall Carroll, will be stepping down in 2012, after eight years at the helm. Niall, who has led RBH since its beginnings as Royal Bafokeng Finance, can be credited with a great deal of the success enjoyed by RBH to date. The team, partnerships and the strong reputation that Niall built at RBH are an invaluable contribution, and for that, we sincerely thank him and wish him well as he takes on new challenges.

I will shift the balance of my own focus to the development initiatives under way in the community, and will hand over the chairmanship of RBH to our incoming Chairman elect, Monhla Hlahla. As founding Chairman, I am indeed satisfied by what we have achieved, and as I shift to take on the shareholder oversight role, I will ensure that the founding principles of RBH remain strong. I am grateful for the privilege and confidence that my people have placed in me to establish and lead RBH.

Finally, a word of appreciation to management and the entire team at RBH: your commitment to building a business capable of generating strong financial returns for the Bafokeng is steadfast. Your promise to remain at the vanguard of responsible, sustainable approaches to business must remain fundamental to everything you do. I thank each and every one of you for sterling performance.'

Kgosi Leruo Molotlegi, Chairman 31 March 2012



Diverse, entrepreneurial teams sometimes have a limited lifespan. There is an incandescence that burns brightly, igniting a flame. It is a stage one rocket, blasting into outer space, from which the finely tuned stage two takes over to guide to a destination. However, unlike that stage one rocket, the original Royal Bafokeng Holdings team flourished.

Today Royal Bafokeng Holdings continues to be enthused by purpose and inspired by vision, reports an investment banker. They remain 'on the side of the angels'.

section 7

A STORY TO GRAB THE IMAGINATION OF INVESTORS

‘Keep capital excited’

Advice from an investment banker.

From the beginning Royal Bafokeng Holdings had a story to fire the imagination. A traditional community had stood strong against political pressures, commercial threats and land contestations to enable the intergenerational security of its people.

It is a story of extraordinary financial growth in a sea of poverty and worsening financial indicators. A story of unwavering moral and business leadership, of promoting transparency and strong governance in a country wracked by widespread corruption. A story of focused planning and effective execution in a morass of delivery failures. A story of leaders from worlds far apart finding common purpose.

Royal Bafokeng Holdings has grown to be the world’s leading community investment company - a beacon for dispossessed communities everywhere. This was a story that business partners and investee companies wanted to be a part of.

Kgosi Mokgatle, who in the 19th century began to pool community resources to buy the land the Bafokeng had occupied for centuries, died 33 years before the world’s largest deposits of platinum group metals were discovered under Bafokeng land. His foresight enabled his people to lease their mineral rights and eventually to claim royalties.

In the spirit of his ancestor, reigning Kgosi Leruo Molotlegi launched Vision 2020, and then Vision 2035, bold plans to transform key social and economic issues of the Nation.

The Kgosi was clear about the fusion of innovation and governance in a world often dominated by an 'either/ or' approach.

'Inspired by our history of visionary leadership, we will continue to embrace innovation... In order to realise our hopes and dreams, turn challenges into opportunities and fulfil our obligations, our structures and methods must be "fit for purpose". Our governance and internal controls must be benchmarked against the very best. Our plans must be realistic and affordable. They have to be this way not only to justify the investment of our non-renewable resources in them, but also so that they command the commitment and respect both within our community and beyond, that they need to succeed.'

The Kgosi took the view that the Bafokeng were in charge of their destinies. He rejected the quicksand of victimhood and reinforced the value of agency and of tradition.

'Self-reliance is a theme. It informs much of what we do. This concept stems from our determination to become less dependent on the mining sector and for every Mofokeng to address the culture of dependency inherent in waiting for others to fix the problems which we encounter... We Bafokeng have a responsibility to meet the challenges of today and tomorrow while preserving our culture and heritage.'

Royal Bafokeng Nation Stakeholder Report, ~2009

The Bafokeng shaped Royal Bafokeng Holdings, lent it their gravitas and their reputation. Business and social partners, investors and target investees – all could identify with this independent community that sought sustainability for its descendants. RBH carried the torch of the Bafokeng Nation, adding a new chapter to the Bafokeng story. The RBH team contributed investment savvy to strengthen the position of the community. They had the skill to engage with wary corporates and intransigent mining houses. They were unmoved by bully tactics. Their ambition was unbounded. They represented a cause that gave them a moral platform.

An interviewee from an investee company says Royal Bafokeng Holdings was introduced to him as 'a credible organisation which had as its purpose the upliftment of the community'. Another says RBH offered the opportunity for 'righting the wrongs of the past', a compelling promise for many business leaders.

'Where other communities and other BEE deals have concentrated wealth in the hands of a few, the Bafokeng created tangible wealth for large number of people. Nation-level investment is a model that resonates because it is broad-based transformation, not enrichment of a few. With the right leadership there are deals that can be done which will benefit communities: where "what's in it for me" doesn't dominate "what's in it for us".'

Luck also played a huge part in success. The Nation had been twice blessed:

- A land desired for agriculture yielded the fruits of a rare mineral
- The World Cup of 2010

The Bafokeng hosted six football World Cup matches in 2010. It was a world first: never before had a traditional community been a World Cup venue.

South Africa's hosting of the 2010 World Cup gave Royal Bafokeng Holdings and the Nation the opportunity to enhance their investment narrative. From the time South Africa heard its bid had been successful, RBH took the opportunity to elevate its brand on a world stage.

The Bafokeng had a sports stadium, built by the previous king. 'It all started because the stadium was there.' The stadium was dilapidated. Weeds fought their way through concrete slabs. Basic maintenance drained the coffers of the Nation.

Now, through the World Cup, the Bafokeng Nation could be on a world stage. It was an opportunity too good to ignore. Royal Bafokeng Holdings offered to manage the World Cup project, brought in the right people and significantly leveraged their investment. The Bafokeng put in R150 million to upgrade the stadium. They spent a further R350 million developing the five-star Royal Marang Hotel and Bafokeng Sports Campus. The South African government matched the R150 million for the stadium with a further R1.5 billion for upgrading the roads and IT infrastructure.

For RBH, the World Cup was a spectacular success. The English team made Phokeng its home. The King toured the United Kingdom. Media, especially British media, covered the story. The world saw a traditional community in a new light – here was an empowerment vehicle they could do business with. The worth of media coverage alone was estimated at over R1 billion. Leveraging the World Cup was both strategic and opportunistic. An investment of R500 million triggered an extra R2.5 billion in infrastructure and publicity.

When you are clear about where you want to go, you use each piece of good fortune to help you get there.

section 8

RBH DELIVERS: GROWTH, DIVERSIFICATION & RESILIENCE

However well-intentioned an investment company may be, performance in the marketplace is the final arbiter. By this metric Royal Bafokeng Holdings significantly over-performed, despite its heavily weighted portfolio of extractives.

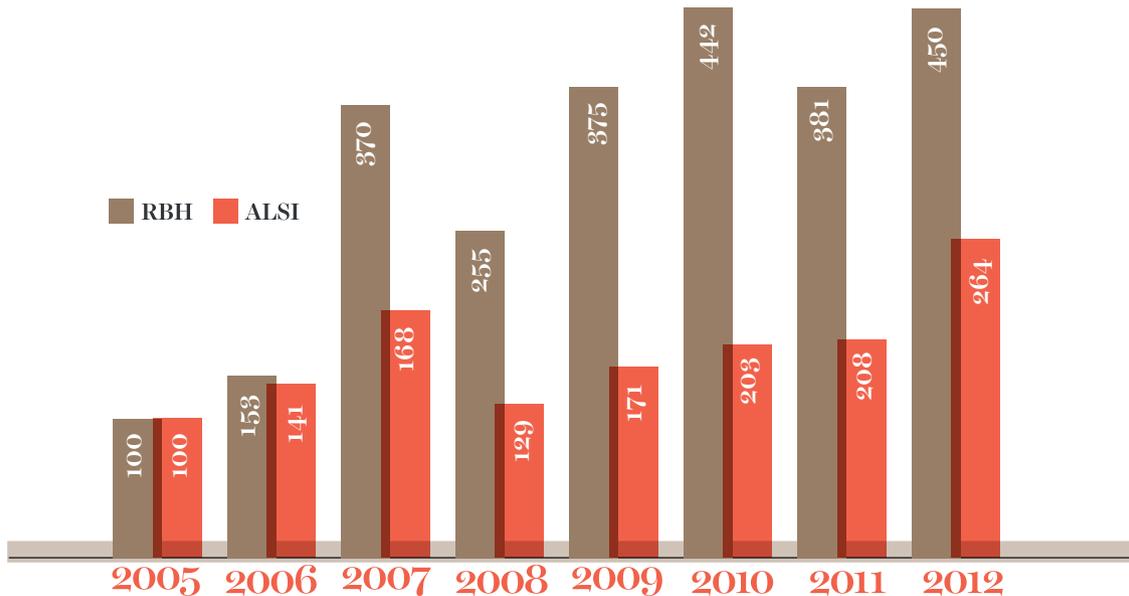
In April 2004, Royal Bafokeng Finance (RBF) was formed with zero assets. The net asset value of RBF at the end of 2005, when it merged with Royal Bafokeng Resources (RBR), was R590 million. The Royal Bafokeng Holdings opening net asset value on 1 January 2006, representing the combined balance sheets of RBF and RBR, was R8.8 billion. Some 93% of the portfolio value comprised of mining assets, which were subject to the unforgiving laws of global demand and supply.

Between 2006 and 2012 Royal Bafokeng Holdings delivered a 21.8% annual internal rate of return (IRR). By contrast, the Johannesburg Stock Exchange All Share Index (ALSI) generated a 14.9% annual IRR.

The cumulative total returns, being capital appreciation plus dividends, when indexed, illustrate that Royal Bafokeng Holdings, although constrained by a heavy weighting in extractives, enjoyed vastly superior performance in good times and bad.

When both indexed at 100 in 2005, RBH enjoyed 350% growth while the ALSI achieved growth of 164%. While many fund managers struggle to beat the average, RBH more than doubled the ALSI performance.

Cumulative Total Returns: RBH & ALSI



In cash terms, R8.8 billion invested in the ALSI at the beginning of 2006 would have yielded a respectable R23.3 billion in 2012. The same investment that launched Royal Bafokeng Holdings had generated R39.7 billion six years later. R16 billion extra value had been secured by smart, ethical investment.

As it built intergenerational prosperity, Royal Bafokeng Holdings continued to address the current needs of the Bafokeng. Between 2006 and 2012 RBH paid R3.8 billion in dividends to its shareholder – an average of R541 million per annum.

At the same time, Royal Bafokeng Holdings transformed its almost exclusive dependence on mining. In six years the 93% weighting of extractives in the portfolio was reduced to less than 50%. It was a prescient move, as the value of platinum shares has been in free-fall since.

Diversification has made the portfolio more resilient – more able to deal with this uncertain world.

While performance and dividends have not been anywhere near as stellar since the exit of the original executive team, the portfolio remains in good shape at the time of writing, despite platinum's plunge. Intergenerational security had been secured.

(Figures taken from RBH Integrated Reviews, 2012 and 2017)

section 9

A BLUEPRINT TO GROW INTER- GENERATIONAL WEALTH

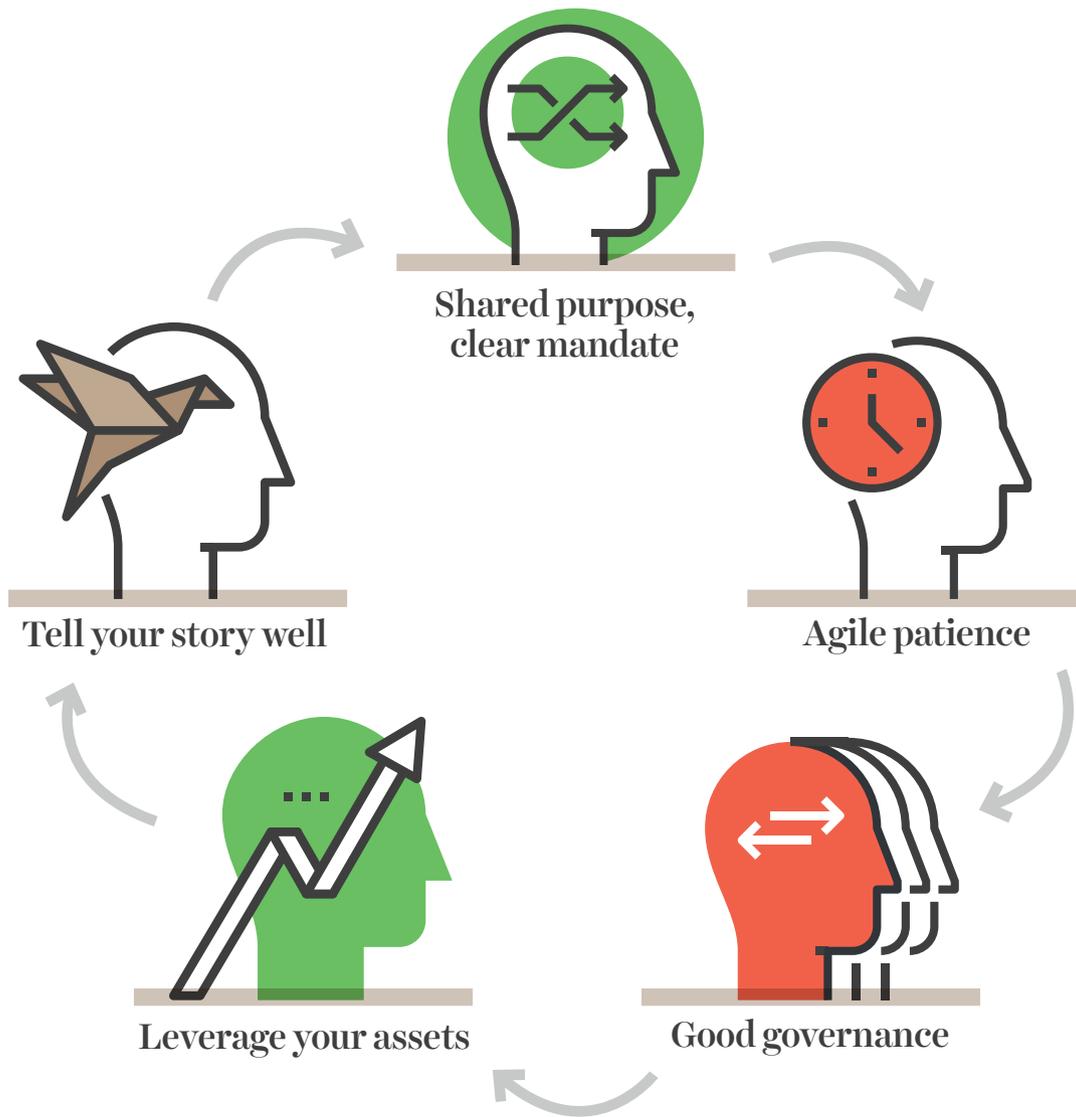
‘The fact of storytelling hints at a fundamental human unease, hints at human imperfection. Where there is perfection, there is no story to tell.’

Ben Okri, Nigerian author and winner of the Man Booker Prize

As Carroll says, the answer to ‘Could we have done better?’ is always yes. There were some investments RBH made that in hindsight were less than wise; some investments missed that should have been made. However, the numbers tell a compelling story. In seven years RBH grew to be a world-leading community investment vehicle. It was a ground-shifting success.

A past advisor to Royal Bafokeng Holdings suggests that RBH can offer a blueprint for growing broad-based intergenerational wealth. Could the model be used by others to guide their strategy, he wonders.

After immersing ourselves in the origins of RBH, the authors offer this as a draft blueprint:



Shared purpose, Clear mandate

Royal Bafokeng Holdings' purpose was clear and unambiguous from the start, and it never changed. Its purpose was to protect and grow the financial assets of the Bafokeng in order to generate sufficient yield to fund the needs of the current generation, while protecting and growing assets for the benefit of future generations.

A shared purpose inspires and enthuses. It aligns strategy and culture, guides decisions and is the yardstick by which outcomes are measured.

The mandate was equally clear. The task of Royal Bafokeng Holdings was to sustainably grow and diversify the investment portfolio. By articulating what is in scope, what is not in scope becomes apparent. RBH's job was not to decide on the allocation of spend, even if at times its advice may have been sought and given. Its mandate was not to create jobs, even if it sometimes did. Its mandate was not to invest in companies on the basis of their social impact. A clear and measurable mandate focuses minds and coalesces efforts around shared objectives.

Agile patience

Royal Bafokeng Holdings practised the art of the long view. While RBH could be opportunistic, short-term benefit never overrode achieving long-term purpose. Patience is hard to practise in a financial world that often confuses activity with strategy, change with progress. The short view is the easy one. RBH and its stakeholders were smart enough to be led by the long view – it was about intergenerational wealth, not the 'quick buck'.

Agile patience is being always alert – sensing and acting on strategic opportunities, letting the irrelevant and unattractive pass by. A good investment at a fair price beats a fair investment at a good price, every time.

And agile patience is being opportunistic. When the deal is right – snap it up.

Good Governance

The whole strategy depends on good governance to succeed. A local community-based investment company could not compete among the giants without having impeccable credentials to show. RBH demonstrated integrity and accountability from the outset. First-class investments seek trusted investors: those who have grown a deserved and admired reputation. Good governance extends to bringing good value to the investee beyond the transaction: adding value as an 'active shareholder'.

Above all, good governance is needed to achieve what Aristotle calls the 'golden mean'. RBH balanced the needs of today with the needs of tomorrow, even if imperfectly, without capitulating to the demands of either. They found ways to build connections, rather than choose sides. They began to bridge the chasm between a traditional, rural community and a modern, competitive investment company.

Good governance earns trust.

Leverage your assets

Royal Bafokeng Holdings leveraged a collection of assets:

Mineral wealth

The Royal Bafokeng Nation challenged the might of mining houses to secure a royalty. RBH leveraged the royalty into shareholding, and the asset base into a strategically diversified portfolio. Both moves significantly reduced the Nation's reliance on the volatility of platinum prices. In 2005 mineral assets comprised 93% of the RBH portfolio. Seven years later non-extractives had risen from just 7% to over 50% - without any disposal of mining investments.

As mines and fisheries contract, asset acquisition and diversification become vital to sustain communities.

Broad-Based Black Economic Empowerment

While South Africa has its unique B-BBEE legislation aimed at correcting gross economic inequality, more and more countries recognise their moral obligation to support an inclusive, diverse economy.

RBH's impeccable B-BBEE credentials were desirable assets to enterprises, offering moral and economic value. In return, RBH could secure a better deal than most.

Human assets

The RBH team and advisors were handpicked for ability, passion and grit. While they fulfilled their mandate, they examined their hearts and questioned whether they could have done better for the Nation. How could community allocations be considered as 'investment' rather than 'spend'? And what should be expected as a requisite return on such investment into community? This is a part of the blueprint that will need further detail, as others grapple with the needs of today and tomorrow.

Infrastructure assets

A weed-infested stadium became a World Cup venue with a new world-class sports campus and a five-star hotel which housed the English football team. A R500 million investment triggered an additional R1.5 billion in infrastructure development, and a rush of global publicity. An unknown Nation graced the world stage and the investment community took notice.

While a World Cup and an existing stadium are unique in traditional communities, many places and many communities have infrastructure, or natural or historical resource, that is underutilised or wasting away. How might such resource be envisioned or re-purposed to attract investment, enrol community and build reputation?

Tell your story well

In the competitive global village, having a compelling and authentic story, one that speaks to hearts and minds, is a stand-out competitive advantage. It is difficult to think of a story more compelling, more resonant, than that of the Bafokeng Nation - leveraging the foresight of its forebears to build security for its descendants. It is a narrative that RBH told really well to the investment community, less well to the beneficiaries.

It is not easy to find and express shared meaning. While investment and dividend policies have resonance for a corporate with a healthy balance sheet, they mean little or nothing to a Bafokeng family with no jobs or toilets. RBH tried. However, beneficiary communications are a part of the blueprint still to be more artfully drawn.

section 10

SPRING 2018

The Phokeng Mall is end-of-month busy. Unlike most of South Africa in 'technical recession', there are no 'To Let' signs. The town and surrounding villages are not oppressed by litter. Front gardens of roses and topiary-sculpted bushes reflect local pride. The Royal Marang Hotel, built to host the English 2010 World Cup team, is full – mostly with visitors to Sun City, just 30 kilometres away.

Eight years on from the World Cup, the pitch of the Royal Bafokeng Stadium remains emerald green. Sprinklers create an early evening dew. The only community-owned stadium in the country, it also hosts an athletics track, tennis, netball, basketball and volleyball courts, plus an Olympic-sized swimming pool. The pool is out of action due to some cracks. The Phokeng-based football and rugby franchises have disbanded – there is talk of new ones. In the gathering dusk, basketball and netball coaches walk by. They are excited about their teams' prospects in the national championships to be held here.

Meanwhile, prospects for the future of platinum are less positive. Its use in catalytic converters, the biggest industrial application of the metal, faces the triple threat of more electric cars, less diesel and recycling.

Ten years ago, the platinum price was over \$2 000 and the bulls were rampant. Today, the price hovers around \$800 and bears prowl the market. Mass retrenchment plans have been announced. The dynamic balance of meeting the needs of today while catering for the needs of tomorrow may need to be recalibrated. In retrospect, the strategy to secure the Bafokeng mineral assets in order to diversify away from them was remarkably prescient. It created a safety net for a time of freefall.

In 2012, when the tipping point of 50% was reached, Carroll and the executive team left Royal Bafokeng Holdings. In a little over seven years, the goal of securing intergenerational wealth had been achieved. The weighting of non-extractives in the portfolio had risen from 7% to over 50%. Today, due to the growth of investments in financial services and telecoms, coupled with gloomy platinum share prices, the value of extractives is less than 15%. The RBH portfolio now includes renewable energy and a growing property stake. The purpose remains intact.

The early morning dew that graced Phokeng over 500 years ago continues to provide nourishment and inspiration.



THE STORYTELLERS

The Impact Trust commissioned Freedthinkers to tell the story of Royal Bafokeng Holdings, the world's largest community-held investment company, from its beginnings until 2012. With its roots in the GreaterCapital/GreaterGood SA group, the Impact Trust's leadership was witness to the unfolding of a vision that became RBH. Its interest lies in recording what is possible in sustainable development when one combines vision with action, inspiration with discipline. The authors' brief was to craft the narrative in a way that was honest and true, and that reflected a prescient vision and care for a community. We have tried to do that.

We drew on a range of rich sources:

- Desk research, including annual reports, records and documents in the public domain, and academic papers
- Discussions with founding CEO Niall Carroll
- Interviews with 12 extraordinary stakeholders including past employees of RBH and other RBN entities, specialist advisors to RBH, associates of investee companies, and others who were close to the business between 2004 and 2012. We are most grateful to the interviewees, who provided information, perspectives, insights, anecdotes and texture

Not all of our interviewees were comfortable with being quoted, and so we took the decision to maintain the anonymity not only of those who requested it, but of all 12. It is a pity that we can't ascribe each quote to its author and each insight to the person who articulated it, but we have the benefit of being able to include all that we found interesting and useful.

We wish to express our gratitude to the Impact Trust for the commission. We believe it is most important to capture histories such as RBH, as they unfold. Ongoing case studies offer the opportunity to learn from evolving models and improve upon them...generation after generation.

Mike Freedman, Orenna Krut
Freedthinkers

Freedthinkers is a partnership that conducts in-depth research and advises on purpose-driven futures.

Growing Intergenerational Wealth
The Beginnings of Royal Bafokeng Holdings
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