

# PGI Group

## Bon appétit, Mr. Roditi!

- Cryptic announcement ahead of Extraordinary General Meeting.
- Reshuffle of interests in fund management division.
- Is the major shareholder keen to increase his stake?

---

Dear Reader,

On the following pages, you are going to read information that has not yet been published anywhere else.

Or has it?

Company law and stock market regulations sometimes make for a funny situation. At times, I cannot help but wonder, whether anyone still understands the intricacies of it all - especially with regards to the question of what a company needs to publish, how, and when.

That's how I came into possession of information that I bet every single shareholder of PGI Group would be dying to lay their hands on.



These documents offer answers to many of the questions currently bugging the owners of the aforementioned company. From what I can tell, so far I am the only shareholder (besides the management and the major shareholders) who has managed to get his paws on these valuable pieces of information.

Nonetheless, from a purely legal point of view it's publicly available information and using it would not constitute an act of illegal insider trading. What's more, I didn't even have to break into the company's office.

Confused?

It gets better still. All that I had to do to lay my hands onto this amazing array of documents, was to send out a courteous email.

Two days later, the door swang open and I was even treated to coffee while sifting through the stacks. Life as an investigative shareholder ain't so bad, as long as you know where to look, whom to ask and what to do with it. Oh, and smiling while asking generally takes you further too.

### **Why last Friday I paid PGI a personal visit**

Next week, on Wednesday, shareholders of AIM-listed PGI Group (ticker symbol 'PGI') will get together to vote on two special resolutions relating to a seemingly far-reaching reorganization of the company.

News about this forthcoming reorganization, which includes the CEO of PGI Group stepping down, has led to a steep fall in share price. During the past 3 weeks since the announcement was made, the company's share price has fallen from 41p on the day before the announcement to just 22p at the close of the market on Friday. It had been trading as low as 21p, and the price has stabilized over the last couple of trading days.

If you fancy reading some mind-boggling legalese, you can check the full-length announcement by visiting [www.londonstockexchange.com](http://www.londonstockexchange.com) (enter 'PGI' as search term and then check the announcement dating June 30th). Though chances are, that after reading through the announcement you will have more questions than answers. Who ever wrote this announcement clearly did not make an effort to make the issues transparent and comprehensible to an outsider.

As you will see later, maybe that's just the way it was intended to be.

The only sure thing currently, is that the Extraordinary General Meeting that has been called for next week Wednesday July 24th, will be the only venue where outside shareholders will have a chance to get a better understanding of the issue.

Or is it?

If you had the luck to not just read the official stock market announcement, but instead also received the slightly more detailed circular sent to PGI shareholders by post (which is also available on the website, [www.pgi-uk.com](http://www.pgi-uk.com)), you would have come across the following titbit of information:

*“In accordance with Section 164(4) of the Companies Act of 1985 a draft of the Contingent Purchase Contract will be available for inspection by members of the Company at the Company’s registered office for 15 days prior to the date of the general meeting and shall also be available for inspection by members at the general meeting.”*

The announcement to the stock market was virtually identical to the actual letter sent out to shareholders. However, it was only the posted letter to shareholders that contained the mention of documents being available for inspection at the company’s registered office.

Good thing, that your humble author spends many a night reading through all sorts of insanely boring legal documents – so that you don’t have to.

So what better to do on a rainy Friday afternoon, than to hop onto London’s derelict underground network to pay the company a visit – in 81 Carter Lane, London, SW1Y 5EY, right near St. Paul’s Cathedral. In the boardroom of the otherwise deserted office, I sifted through a stack of material that proved to be the ultimate preparation material for the forthcoming EGM next Wednesday.

It seems that I was indeed the only outside shareholder to ever have asked about these documents. That’s why I dare to say, that it’s only here that you can read all about it well before the EGM takes place. If ever there was a legal way to stay ahead of the crowd, this website hopefully is it.

### So what exactly is going on at PGI?

On the surface of it, the recent announcement made for shocking news.

Reading in the first paragraph that the guy who had so far lead the company, Steve Wayne, “will resign as the Chief Executive of PGI”, isn’t the kind of news that would have investors jumping for joy. After all, it had been Wayne’s appointment to the company’s top position in 2005 that had originally provided the setting for this sleepy company’s revival.

Little wonder that the market reacted as if the entire company was about to fall apart. It took less than two dozen trading days before the share price had halved.

However, not everything is what it seems on the surface. Once you have had a look at afore-mentioned documents, the entire situation actually becomes much clearer. What’s more, it throws up some aspects that make for a slightly different situation than what the market is seeming to anticipate.

Or in other words, the company’s shareholders might just be in for a positive surprise next Wednesday.

If you are looking for an opportunity where a share price could soon be freed up from massive oversupply caused by temporary uncertainty and then experience a massive bounce, I’d strongly advise you to continue reading.

### An interesting week beckons

Granted, a certain portion of this report’s content will stay in the realms of speculation. Some pieces of the puzzle are still missing, despite my best efforts to diligently comb through these contracts. I feel that I am 80% clear about what is going to happen. For the remaining 20%, I need to resort to Sherlock Holmes-like deductions.

I am going to the EGM with plenty of notes and question already scribbled down in my notebook. I might not yet have all the answers about the changes at PGI, but I can now certainly ask the right questions. Next week on Wednesday, I’ll have a go at trying to fill in the last remaining gaps. Needless to say, I long ago ordered to be issued with the proxies for my shares so that I could attend in person.

**Regulatory Announcement**  
Go to reader news section

Company	PGI Group PLC
ICDN	PGI
Headline	Proposed Transaction
Released	15:42:42-04
Number	2008015

RNS Number: 9058X  
PGI Group PLC  
30 June 2008

30 June 2008  
PGI GROUP PLC

PROPOSED TRANSACTION WITH A DIRECTOR, POSSIBLE PURCHASE BY THE COMPANY OF ITS OWN SECURITIES AND RESIGNATION OF A DIRECTOR

The directors of PGI Group PLC ("PGI" or the "Company") announce that they have signed a conditional agreement with Mr. S. W. Wayne ("Mr. Wayne"), a director of the Company, which will, subject to shareholder approval, have the following effect:

- Mr. Wayne will resign as the Chief Executive of PGI, but will remain chief executive of the Jensen Group.
- PGI will retain its current interest in the existing Jensen Group companies.
- PGI will release Mr. Wayne and his connected companies from substantially all their obligations not to compete with the business of the Jensen Group and will not have any entitlement to an interest in the management of any future property funds which may be raised by Mr. Wayne (subject to paragraph (iv) below).
- PGI will have an option to take a 20 per cent. equity interest (which would be proceeds from division) in each of the management company, the general partner and the certified trust partner of a new fund which the Jensen Group has been preparing to raise (the "Proposed New Fund").
- In consideration for the release of Mr. Wayne and his connected companies from the obligations described above, Mr. Wayne will procure that Jensen Group Holdings LLC ("Jensen Holdings"), which is connected with Mr. Wayne, will, following shareholder approval of the transaction, endeavour to sell the 9,200,000 ordinary shares which it holds in PGI in a private placing to be arranged by PGI's bankers, Panmure Gordon, and will pay to PGI a sum equal to half of the net proceeds of the sale of PGI's shares as are so placed.
- If any shares held by Jensen Holdings in the Company are not sold in the placing described in (v) above, Jensen Holdings shall, in addition to the payment referred to in (v), sell to the Company for a total aggregate consideration of £1,000,000.

**The 30th June announcement by PGI**  
(source: London Stock Exchange)

---

What I am already totally sure about however, is that I have just seen some figures that most likely not a single outside shareholder was aware of until this point. In a way, that's really gratifying. After all, there had to be some kind of pay-off in return for making the journey out to London's City and spending my time reading through these contracts. Those who do diligent research should always be rewarded by getting themselves slightly ahead of the pack.

On 2pm on July 24th, shareholders should be learning about some of the following.

### **Did Jensen just launch another fund?**

The good news is, that Steve Wayne's team in St. Petersburg seem poised to soon launch another fund. With that, I am not even referring to simply drawing up some vague-ish plans to hopefully find some investors for another fund that only exists on the drawing board. I am talking about a fund for which the first closing date (the date at which fund subscribers needed to commit their capital) has actually just passed a mere 6 days ago.

In 2006, the PGI-subsiary Jensen had launched the \$100m "Jensen Russian Real Estate I Fund LLP". This was the original project that made PGI and its subsidiary, Jensen Group, appear on the map for the first time for me. However, as I said in my original PGI report, the stock market needed to see another (and preferably bigger) project in order to be convinced of PGI's plans for building a fund management division. That's why I also wrote extensively about a future "Jensen Russian Real Estate Fund II LLP". This was the new project that I hoped would set PGI Group on the track of becoming a world-class fund management operation.

Indeed, the 2nd fund seems to be virtually ready to be launched. Or more precisely, it might have been launched some 6 days ago and we might just get some information on it on the day of the EGM.

The fund was scheduled to have its first closing date on July 15th. What's more, throughout 2008 Jensen has already spent a total of \$1.85m on preparing the fund's launch. In other words, this is more than just an early-stage project that might happen at some point in the future. Even the further likely costs for launching the fund have already been worked out. Once everything is done, the fundraising and subsequent launch of the fund should cost \$2.2m.

These figures are taken from documents that are part of the appendix of the amended agreements that can currently be viewed at the registered office of PGI. The documents that I viewed last Friday gave a brilliant insight into some of the activities that PGI shareholders would love to know about, given the uncertainties currently surrounding the share.

Unfortunately, the amended agreements also spell out some bad news. The core to it all seems to be, as far as an outsider can tell, that Roditi and Wayne must have had some kind of falling out. Nowhere has this been officially confirmed. But unless I am totally on the wrong path, that's pretty much the only deduction that one can draw from the available information at this stage.

An argument seems to have set in about who does what and (in turn) who receives what.

"One of the business opportunities which Mr Wayne wishes to pursue in the Russian Federation is the possible raising of a new fund which will make investments in Russian real estate. The general partner of the new fund is to be K2 GP Ltd., the manager is to be K2 Management Ltd. and the carried interest partner is to be K2 CI Ltd."

Source: PGI contracts as displayed at registered office

This subject is actually briefly touched upon in PGI's cryptic announcement.

In 2005, PGI had purchased an 80% stake in Jensen Group. Steve Wayne kept 20% in the company that he had set up. Subsequently, PGI got almost 80% of the investment management fees and performance fees that the first fund generated (a small part of these fees went to management members of Jensen - which is why it is not quite the full 80%).

The recent announcement then stated, that "it has become clear that, in order to incentivise the local management team in Russia, it would be necessary to provide them with a significantly greater share of the equity in the management companies of the funds than they have in relation to the management of Fund 1."

---

In simpler terms, the local executive team wanted to get a piece of the action rather than to be mere employees. The situation leaves room for speculating, that Wayne had expected Roditi (and his team) to actively contribute to growing the fund management business. If I had to take a guess, I'd say that the Russian executive team of Jensen felt that they were doing all the hard lifting while Roditi's PGI Group got to keep all the proceeds. It's mere speculation, but this is how it appears from the outside.

Another reason that might have played into this, could be the structure of PGI itself. Cynics could remark that PGI Group much more resembles a colonial African farm run on Lord of the Manor principles, than a modern-day stock market listed entity. At least, no one I have ever spoken to understood why Zimbabwe-born Roditi hung on to the eclectic mix of Rose farms, macadamia nut plantations and the management of Russian property funds. Besides that, I personally have seldom come across a listed company that was as bad at providing sensible information to shareholders, as PGI is. If Roditi offered other Jensen executive staff PGI shares, they might have turned it down purely because they didn't want to be rewarded with shares in a listed company that is run on the principles of a privately owned vehicle. And to take these thoughts a few steps further, could the stubbornness of PGI's management have hindered the Jensen team's fund raising efforts? Just imagine a potential fund subscriber looking up the parent company of Jensen, and finding that it does not comply with modern-day capital market standards. Who would want to be invested in a fund ultimately managed by a company that can't even keep its own house in the kind of order that the stock market nowadays expects as standard. PGI has remained hopelessly stuck in the past, and if my take of it isn't mistaken, this did at some point start to hurt the fund management operation. For this, none other than Nick Roditi's representatives on the board are to blame – a board where minority shareholders effectively have no representation at all.

I have long been an advocate of modernizing PGI's structure faster, so I might simply be biased to believe that these factors have played a role here. In any case, the result of all the recent developments at PGI is that the profits generated from this new fund are going to be distributed in different way.

In somewhat simplified terms, PGI Group gets an option to claim 20% of the investment management and performance fees of the new fund (to be precise, PGI Group has an option to purchase a 20% stake in all of the fund management companies that Steve Wayne creates in the future, though to actually spell out the exact arrangement involving all the individual companies would need a separate report about the length of this entire report). The Jensen management team around Steve Wayne get to distribute the other 80% among themselves.

This is what the entire EGM is actually about. PGI Group and Steve Wayne need to re-arrange their contracts in such a way, that this reshuffling of claims to future income streams becomes possible. For the first fund, by the way, the original arrangements are staying in place.

As part of these new arrangements, PGI Group is going to be compensated for letting its stake in future fund management projects go down.

E.g., as part of the rearrangement, Steve Wayne had to give a personal guarantee that the newly created fund management companies would not make a loss during the first two years of operation, and that they would make a certain profit during their lifetime (defined as the maximum expenditure of these companies not being allowed to be higher than a certain percentage of the investment management fees). If the cost structures of these companies go off the rail, Steve Wayne will have to personally make up for the shortfall. What PGI effectively gets, are 20% stakes in fund management companies that are guaranteed to never make a loss during the first two years, and guaranteed to make a profit during the remainder of their lifetime.

Also, PGI clearly does not divorce itself from Steve Wayne. At least, it doesn't yet. The new contracts spell out that PGI can take the 20% stake in the management companies of all "new funds or co-investment schemes that Mr Wayne raises." In other words, whenever Steve Wayne and his team go out there to raise a new fund, PGI will automatically get the best seats in the house – i.e. a 20% stake in the management company, with no down-side risk and all the upside potential. If the Jensen team around Steve Wayne flourishes and builds a world-class fund management operation of a decent size, then PGI will to a certain degree still be the beneficiary of it – over and over again. Nice!

This deal does not fully make up for the fact that PGI was supposed to be the 80% owner of Jensen Group, and with all future fund management projects launched through Jensen. However, for what is effectively a partial divorce, this ain't so bad a deal. In any case, it certainly doesn't mean that the original plans have all gone up in smoke.

### Making sense of the wild swings in share price

When Roditi's PGI Group and Steve Wayne originally joined forces, Wayne received 9.2m PGI shares in return for handing over 80% of Jensen Group to PGI. As part of the new arrangement, Wayne needed to agree to sell his entire stake in PGI – and half of the sales proceeds will end up in the coffers of PGI.

This is all part of a deal that effectively leads to Steve Wayne leaving the upper deck of the ship (PGI with all its diverse African agricultural assets) and focussing on building Jensen Group and other fund management projects. For the time being at least, Wayne doesn't actually leave PGI. Instead, he focuses on fund management projects (in which PGI gets the afore-mentioned risk-free stakes).

The PGI shares currently held by Wayne will be placed with buyers during a private placement, which is to be organized by the broker, Panmure Gordon.

Who could possibly be a buyer for these shares? And at what price are they going to change hands?

One of these questions is easier to answer, than the other.

Roditi currently owns 65.81% of PGI. The 9.2m shares currently held by Wayne represent another 7.11%. There are no other large shareholders with any kind of influence worth mentioning. Besides that, there are no analysts following PGI, and the company is extremely intransparent thanks to years of only reporting the most basic set of information about the operative businesses. E.g., for the agricultural business in Africa, PGI does not even publish the total number of hectares of land.

"The parties have agreed that subject to the satisfaction of the said conditions, in consideration for the release of him and Jensen Management from certain of their contractual obligations to PGI, Mr Wayne shall try to sell, by way of private placing, the 9.2m ordinary shares which it currently holds in PGI and shall account to PGI for half of the net proceeds from the sale of the shares as it succeeds in placing."

Source: PGI contracts as displayed at registered office

It doesn't take much to figure out, that Roditi himself (or a close friend) will be the only serious potential buyer for this stake.

As to the price... With only one likely buyer in the fold, and with the private placement carried out by a broker, it's a safe bet that the official share price at the time of the placement will at least be a major yardstick for determining a price. Unless I am entirely mistaken, Roditi should be jubilant about the drop in share price (to put it mildly). If anything, it'd make the acquisition of these 9.2m shares for him a lot cheaper. If he bought them at 22p instead of 41p, it'd save him GBP1.75m. Additionally, half of the purchase price for the shares will get to PGI, of which Roditi in turns owns more than half.



After such a transaction, his stake in PGI would be 72.92%. Not that he needs the extra shares to gain control of the company. Yet, I am sure that if he smells a bargain, the old stock market pro is likely to pounce.

---

And a bargain it is, that's for sure.

### Where now?

The bottom line is, that PGI shares currently trade as low as 2005. At that time, Steve Wayne was issued new shares for a price of 20p each. Later, PGI carried out a share issue at 25p. Roditi snapped up additional shares during the placement and happily paid 40p per share for a tranche of shares that had not been subscribed to by the investors who were entitled to it.

Since then, the 80% subsidiary Jensen raised a \$100m fund for Russian property. The fund invested these monies and by now, rapidly rising property prices in St. Petersburg should have yielded a juicy amount of performance fees for Jensen – payable when the fund starts to take a profit on these investments (which is why these accumulated performance fees do not yet show up on the balance sheet of PGI).

Also, PGI has reorganized the agricultural assets. Less lucrative ones were disposed of, and the ones with better perspectives for growth saw additional capital injected into them. This division has risen in value purely because of this successful restructuring. The recent surge in prices for soft commodities has certainly added further value, as has the increased interest in Africa as an investment destination.

Within the next few weeks, PGI should receive a 20% stake in the management company of the Jensen II fund – with a guaranteed upside and a protection against downside. Again, here is a new asset that's definitely contributing to the company's overall value.

As set out in my original report, my best bet is that the company is worth a lot more than it is currently trading for on the stock market. Just back in May last year, one of the directors bought 500,000 more PGI shares for a price of 50p. PGI does remain a bit of a black box and the business divisions are anything but easy to value. Still, Roditi has for years been upping his stake and in the past he was willing to pay much more than the current share price. Since then, the value of PGI probably increased further.

Will Roditi try to increase his stake by buying Wayne's 9.2m shares?

My bet is, that he will.

Will he try to get them for the cheapest possible price?

He probably wouldn't be Nick Roditi, if he didn't try to do just that.

And it's here, that short-term traders might now get a perfect opportunity.

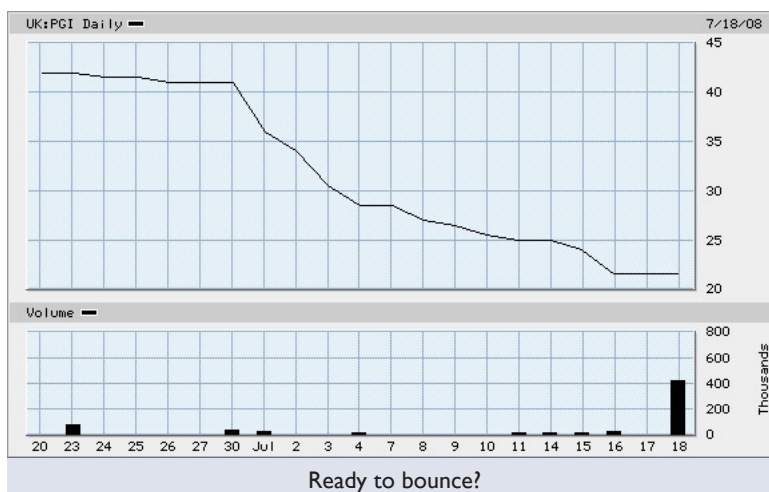
### Will the share bounce back?

Another piece of information that wasn't contained in the stock market announcement, but which is included in the contracts, is the timing for the private placement.

As soon as the EGM is over next Wednesday (with guaranteed approvals to both agenda points, given Roditi's overwhelming number of shares), the new contracts will be signed.

The private placement then needs to take place within 5 days.

Chances are, we are in for an interesting few weeks at PGI. We should received information that Wayne has closed the Jensen II fund, one where PGI can claim a 20%



---

stake in the management company. We should also see 9.2m shares being placed with a new investor, an event that will go to show that there is after all serious interest for the shares (if only from one investor).

Once all that is done, the lid should be taken off PGI shares.

Or, if you want to put a slightly conspirational slant to it all, by then no one will any longer have a reason to suppress the share price.

Nota bene that for the 50% fall to happen, less than a few hundred thousand shares had to change hands. It took less than 0.5% of the outstanding share to make the share price drop by half.

Honi soit qui mal y pense!

### **A quick trade – and then what?**

A few years back, PGI's Chairman, Rupert Pennant-Rhea (an ex Bank of England Governor who nowadays also chairs the \$100bn fund management giant, Henderson) promised shareholders at a meeting that over a period of 3-5 years he wanted to "sharpen the financial appeal" of the company.

Until recently, the plan seemed well on track. Legacy assets that no longer fitted into the business were sold off, the African assets were streamlined first and then started to expand in a well-managed fashion, and the fund management business run by the Jensen division established itself by raising and investing a property fund with \$100m in equity (= about \$300m in spending power once leverage is taken on).

Now, these plans seem to have been thrown back. Needless to say, the assets are there. PGI still owns 80% of Jensen, and it will now get a 20% stake in the future fund management projects of Steve Wayne. These stakes are likely to eventually throw off lots of cash. However, the sex factor behind the story – having ex Soros fund manager Roditi and young hotshot Steve Wayne join forces to build a fund management empire – clearly isn't there anymore.

On Roditi's report card, PGI is – at least currently – a clear and utter failure. More than 4 years after the restructuring of PGI started, the share price is at the same level that it came from. Wayne has thrown in the towel as far as his CEO post at PGI is concerned. The fund management business will be grown with PGI as a holder of minority stakes, rather than with PGI as the driver and majority owner. The board of PGI failed to come up with an early plan to align the interests of the Jensen team with the interests of PGI.

What next then, Mr Roditi?

Clearly, here is a question that would be ideal to ask at the forthcoming EGM. And needless to say, I will ask.

Whether much information will be forthcoming, however, remains to be seen. In the past, PGI's management very much had the attitude that the company is essentially a private vehicle. For an outside shareholder, PGI was a vehicle to hold on to Nick Roditi's coattails. However, it clearly wasn't a company that provided the kind of in-depth information that one would normally expect from a listed entity.

Somehow, I've got a feeling none of that is going to change.

Or at least, not for as long as Roditi spots a chance to increase his stake further now that the share price is trading at a fraction of the value of the underlying businesses. If I had to place a bet, it'd be that Roditi will soon pick up the 9.2m shares from Steve Wayne and then continue to add shares through purchases in the market.

The increase in his stake is likely to continue for a while. PGI shareholders could be in for a bit of a wait, albeit a slightly more pleasant one as the share price is likely to gradually recover (driven by Roditi increasing his stake).

Nonetheless, it's already well nigh possible to draw up scenarios that are more likely than others. E.g., Roditi could go back to his original plans of using PGI for acquiring and managing agricultural assets

---

in Africa. That's what the price expected him to do back in the late 1990s, when he first took control of the company. Back then, it was expected that Roditi and Soros would jointly build PGI into a listed vehicle for investments into Africa.

Clearly, the time to promote such a vehicle would be now. PGI has high quality agricultural assets to start with, and the company could be used to create a listed entity aimed at investors who are keen to gain exposure to African agriculture assets. For such a move, it'd be necessary to spin off or sell the remaining interests in the fund management business – simply because Russian property fund management and African agricultural assets will never be a anything but a random, off-putting mix. The need to clean up PGI's structure remains there.

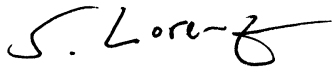
Could PGI shareholders be in for a surprise turnaround? It's always hard to believe in a turn of events just when sentiment has hit rock bottom.

And yet, PGI currently definitely registers a embarrassing failure mark on Nick Roditi's otherwise pristine reputation. Will he accept that for long?

My bet is, we won't have heard the last of this company.

And for short term traders, next week's EGM could well provide the catalyst for a strong bounce in share price. The bets are on, whether the share price will rally shortly thereafter.

I, in any case, bought some more shares last Friday.



Sven Lorenz

[www.undervalued-shares.com](http://www.undervalued-shares.com)

## Terms of use:

The material provided on my website is a personal investment diary, reflecting some of the transactions carried out for the personal portfolio of the author. It is not a commercially run website, and does not aim to provide financial advice in any way. Neither are the reports published on this website of a commercial nature in any way. They are a method for the author to put his own thoughts into order and to communicate with personal friends and contacts.

The website as well as the reports contained on it are for general information purposes only. The website and the reports are not intended to provide specific financial advice.

You may only use Undervalued-Shares.com - A Globetrotter's Personal Investment Diary for your private, non-commercial use.

No information on the site or in the reports is intended as securities brokerage, investment, tax, accounting or legal advice, as an offer or solicitation of an offer to sell or buy, or as an endorsement, recommendation or sponsorship of any company, security, or fund.

The information on the site or in the reports should not be relied upon for purposes of transacting securities or other investments. The author / Undervalued-Shares.com - A Globetrotter's Personal Investment Diary, cannot and does not assess, verify or guarantee the adequacy, accuracy or completeness of any information.

You, the reader, bear responsibility for your own investment research and decisions, and should seek the advice of a qualified securities professional before making any investment.

The author / Undervalued-Shares.com - A Globetrotter's Personal Investment Diary is not registered as a securities broker-dealer or an investment adviser anywhere in the world. I am actually a university dropout!

The author is usually invested in the securities mentioned on this website.

Those who choose to access the site and download reports do so on their own initiative and at their own risk, and are responsible for compliance with local laws, if and to the extent applicable.

© [Undervalued-Shares.com](http://Undervalued-Shares.com) - A Globetrotter's Personal Investment Diary  
Responsible for the website and its content: Sven Lorenz