

# **GEPF 2018 ANNUAL REPORT (AR) REVIEW**

## **ALL THE ELEPHANTS IN ONE ROOM**

In the 2018 ~~AR~~ the GEPF refers to the elephant in the room and then elaborates on certain investments which made headlines during 2017/8. They however do not deal with the biggest elephant in the room namely the PIC, its external investment manager.

My review will shine the light on a couple of other Elephants, who also has been in the room for a while but do not get honorable mentions in the AR. Discrimination against the older Elephants cannot be supported. For completeness sake, they need to be mentioned.

## **THE FRAMEWORK FOR THE REVIEW**



### **FIRST GLANCE**



**VISION : GLOBAL LEADER & REPUTABLE PENSION FUND**



**MISSION 1: SUSTAINABILITY**



**MISSION 2: DELIVERY OF BENEFITS**



**MISSION 3: EMPOWERMENT THRU COMMUNICATION**



**TOTAL RECALL**



**THE FUTURE: THE NEXT 4 YEARS**

## AT FIRST GLANCE

THE GEPF'S ANNUAL REPORT FOR 2017/18 WAS TABLED IN PARLIAMENT AT THE END OF NOVEMBER 2018.

SUBSEQUENTLY, THE INFORMATION HAS BEEN MADE AVAILABLE TO MEMBERS OF THE FUND VIA THE GEPF'S WEBSITE.



THE 106 PAGE REPORT, FOR ALL INTENT AND PURPOSES, HAS BEEN COMPILED ON THE SAME BASIS AS THE 2016/17 ANNUAL REPORT. AS SUCH, THE VARIOUS OPAQUE DISCLOSURES POINTED OUT PREVIOUSLY HAS BEEN RETAINED. (MORE DETAIL WILL BE IN CHAPTER 🐘 TOTAL RECALL)

WHAT HAS IMPROVED IS THE SEPARATE DETAIL ANNEXES THE GEPF HAS PROVIDED IN SUPPORT OF THE INVESTMENTS.

### LINKS:

[HTTP://WWW.GEPF.GOV.ZA/UPLOADS/ANNUALREPORTSUPLOADS/AR\\_2018\\_\(20181128\)\\_FINAL\\_SUBMITTED-MIN.PDF](http://www.gepf.gov.za/uploads/annualreportsuploads/AR_2018_(20181128)_FINAL_SUBMITTED-MIN.PDF)

[HTTP://WWW.GEPF.GOV.ZA/UPLOADS/ANNUALREPORTSUPLOADS/ANNEXURES TO THE GEPF ANNUAL FINANCIAL STATEMENTS - 31 MARCH 2018.PDF](http://www.gepf.gov.za/uploads/annualreportsuploads/ANNEXURES_TO_THE_GEPF_ANNUAL_FINANCIAL_STATEMENTS_-_31_MARCH_2018.PDF)

# HIGH LEVEL OVERVIEW

## 1. ACTUARIAL VALUATION

THE ACTUARIAL VALUATION WAS NOT UPDATED EFFECTIVE 31 MARCH 2018. THIS IS CONTRARY TO THE EXPECTATIONS CREATED IN THE 2017 ANNUAL REPORT AND THE ACTUARY'S RECOMMENDATIONS IN HIS COMPREHENSIVE VALUATION OF 2016.

THE EFFECT OF THIS IS THAT THE PENSION LIABILITIES AND RECOMMENDED RESERVES HAVE NOT BEEN RECALCULATED AND UPDATED.

THIS IN TURN PREVENTS US FROM RECALCULATING AND MEASURING THE PROGRESS OF THE FUND AS TO ITS FUNDING LEVELS AS AT 31 MARCH 2018.

NOTWITHSTANDING THIS LIMITATION, WE KNOW THE LONGTERM FUNDING TARGET OF THE TRUSTEES OF A 100% HAS YET AGAIN NOT BEEN ACHIEVED.

IN 2016 THE AMOUNT REQUIRED WAS 2TRILLION. TWO YEARS LATER, INVESTMENTS IS 1.8TR, SOME 200BN SHORT OF THE 2016 TARGET.

WHAT IS A CONCERN IS THAT THE AUDITORS NOTED THE PRACTICE OF BIENNIAL VALUATIONS YET MADE NO ADVERSE COMMENT ABOUT THE ABSENCE OF AN UPDATED VALUATION FOR 2018.

## 2. APPOINTMENT OF AN OMBUD IS A PROJECT THAT STARTED IN 2014/5.

FOUR YEARS LATER AND THIS CAPACITY IS STILL NOT FUNCTIONAL.

IN FEB2018 THE POSITION WAS RE-ADVERTISED . NO FURTHER PROGRESS HAS BEEN REPORTED ON THE WEBSITE AND THE ANNUAL REPORT MAKES NO MENTION ON THIS TOPIC.

ITS UNCERTAIN WHAT AMOUNTS HAVE BEEN SPENT ON THIS PROJECT TO DATE BUT IN VIEW OF THE ABSENCE OF FINALITY, THOSE AMOUNTS DOES NOT APPEAR TO REPRESENT VALUE FOR MONEY. NEEDLESS TO SAY, GEPF MEMBERS STILL DON'T HAVE RECOURSE TO AN OMBUD.

### **3. OPERATIONAL CASHFLOWS REMAIN NEGATIVE**

A BIG CONCERN IS THE CONTINUED NEGATIVE CASHFLOWS FROM OPERATIONS. IN 2018 THIS AMOUNTED TO 21.8BN (2017: 21.3BN)

THE MAIN CAUSE IS THE CONTRIBUTIONS THAT IS LESS THAN BENEFITS, A TREND THAT STARTED IN 2014 AND HAS CONTINUED EVER SINCE.

THE KNOCK ON EFFECT OF THIS IS THAT NEW INVESTMENTS IS FAR LESS THAN CONTRIBUTIONS RECEIVED. IN 2018 THE SHORTFALL WAS 15BN (71BN - 56BN) AND IN 2017 IT WAS 40BN (66BN -26BN) SO IN TWO YEARS, NEW INVESTMENTS WORTH 55BN HAS NOT BEEN MADE.

IF THIS TREND OF NOT TAKING CONTRIBUTIONS AND INVESTING IT CONTINUES, THE FUNDED STATUS WILL INVERT.

IT IS JUST A QUESTION OF WHEN.

### **4. PRODUCTIVENESS OF INVESTMENTS**

BETWEEN 2017 AND 2018 THE INVESTMENT BALANCE INCREASED BY 137BN, FROM 1.664Tr TO 1.8Tr.

NOTWITHSTANDING THE INCREASED INVESTMENT BALANCE, THE CASH IN-FLOWS FROM INTEREST AND DIVIDENDS REMAINED STATIC IN THESE TWO YEARS AT +/- 74 BN.

WHEN WE LOOKED BACK 11 YEARS WE FIND THAT THE INVESTMENT BALANCE MULTIPLIED BY 2.7X, INVESTMENT INCOME ONLY 1.3X BUT INVESTMENT EXPENSES MULTIPLIED BY 9.8X.

WHAT THIS TELLS US IS THAT THE INVESTMENTS HAS ALREADY REACHED THE POINT OF DIMINISHING RETURNS ( REFER TO A POINT AT WHICH THE LEVEL OF PROFITS OR BENEFITS GAINED IS LESS THAN THE AMOUNT OF MONEY OR ENERGY INVESTED.)  
AND  
THE FUND IS CARRYING HIGHER INVESTMENT COSTS FOR COMPARATIVE REDUCED RETURNS. (INEFFICIENCY)

## 5. BENEFITS PAID

THE TREND SINCE 2014 CONTINUED WHERE BENEFITS PAID EXCEEDED CONTRIBUTIONS RECEIVED.

2018: 94BN VS 70BN ....24BN DIFF

2017: 88BN VS 65BN... 23BN DIFF

SOME ADDED CONTEXT....

11 YEARS AGO NET INVESTMENT INCOME OF 115BN WAS ENOUGH TO COVER THE 22BN BENEFITS 5.4 TIMES.

IN 2018 NET INVESTMENT INCOME OF 153BN COVERED THE 94BN BENEFITS ONLY 1.6 TIMES.

THIS IN PART ILLUSTRATES FURTHER THE LOSS OF PRODUCTION CAPACITY OF INVESTMENTS.

### IN SUMMARY - AT FIRST GLANCE

#### **TIMELINESS:**

REPORT WAS ISSUED AT THE LAST POSSIBLE MOMENT  
INFORMATION IS ALREADY 8MONTHS OLD



#### **COMPLETENESS:**

WITHOUT THE UPDATED ACTUARY VALUATION THE REPORT IS LIKE A HALF BAKED CAKE.

#### **IMPROVED DISCLOSURES:**

SEPARATE ANNEXURE ON INVESTMENTS WELCOME.  
NO IMPROVEMENT ON OTHER ISSUES RAISED IN 2017  
OMISSION OF MATERIAL MATTERS IE. NEGATIVE OPERATIONAL CASHFLOWS, OMBUD PROGRESS, STILL NO PDO.

### OVERALL FIRST IMPRESSION..

.....**DISAPPOINTED** 😡