

## **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**

## **TOTAL RECALL - THE INDIVIDUAL PARTS**

IN THIS CHAPTER WE WILL REVISIT THE 2017 ANNUAL REPORT REVIEW TO SEE IF THE GEPF ACTUALLY LISTENED AND IMPROVED DISCLOSURES.

PART 1: I WILL BRIEFLY STATE WHAT THE ISSUES WERE , AND THEN LOOK AT THE 2018 STATUS.

PART 2: I WILL EXPAND ON A NUMBER OF ISSUES WHERE FURTHER ANALYSIS WAS DONE ON THE “FACTS” AS PROVIDED BY THE GEPF. THESE “FACTS” WERE THEN CORROBORATED AGAINST OTHER INFORMATION READILY AVAILABLE IN THE PUBLIC DOMAIN.

## **BACKGROUND TO THE 2017 ANNUAL REPORT REVIEW**

THE REVIEW WAS DONE IN DECEMBER 2017 AND COVERED THE FOLLOWING BROAD CATEGORIES:

- + BUSINESS PLAN AND BUDGET ISSUES
- + INFLATION AND AFFORDABILITY
- + INVESTMENT PERFORMANCE
- + NO TENDERS
- + PERFORMANCE INFORMATION

**THE TRUSTEES DID NOT ANSWER ONE QUESTION THEMSELVES.**

REPLIES WERE PROVIDED BY THE PRINCIPAL EXECUTIVE OFFICER (PEO), WHO IN ALL FAIRNESS, IS THE HEAD OF ADMINISTRATION BUT NOT THE ACCOUNTING AUTHORITY. SO TECHNICALLY, I DID RECEIVE A RESPONSE, BUT VERY FEW ANSWERS TO MY QUESTIONS. NO ADEQUATE ANSWERS WERE FORTHCOMING FROM THOSE THAT SHOULD BE ACCOUNTABLE, NAMELY THE TRUSTEES.

IN THE END, FOR MOST PART, MY NEED FOR INFORMATION REMAINED. THIS REQUIRED FURTHER ANALYSIS, RESEARCH AND CORRESPONDENCE IN THE LEAD UP TO THE RELEASE OF THE 2018 ANNUAL REPORT.

## OVERALL SUMMARY: REVISIT THE 2017 ANNUAL REPORT REVIEW

### THE 2018 ANNUAL REPORT STILL DOES NOT INCLUDE:

- + PROPER PREDETERMINED OBJECTIVES REPORTING
- + PROPER REPORTING OF PERFORMANCE INFORMATION, NO BUDGET VS ACTUALS PER LINE ITEM.

### INFLATION AND AFFORDABILITY CONTEXT:

- + CPI ACTUALLY REDUCED BY 2,31% FROM 6.12% IN 2017 TO **3,81% IN 2018.**
- + PENSIONERS ANNUAL INCREASES ON AVERAGE WAS 5,8% SINCE 2015.

- + TRUSTEES RELATED EXPENDITURE **INCREASED BY 32,2% (2017: 45%)** NO BOARD PERFORMANCE APPRAISALS WAS DONE IN 2017 AND 2018.

- + INVESTMENT RELATED EXPENSES **INCREASED BY 28,9%! IN 2018 IT WAS 4,9BN (2017: 3,8BN)**

- + DIRECT EXPENDITURE INCURRED BY ASSET MANAGERS FALLS OUTSIDE THE GEPF'S BUDGET CONTROL. IT HAS INCREASED BY 42% (R800MILLION) TO 2,7BN (2017: 1,9BN) **IT NOW REPRESENTS 45% OF THE TOTAL EXPENDITURE DISCLOSED BY THE GEPF!**



- + ACTUAL INVESTMENT PERFORMANCE WAS 8,5% (2017 : 4,6%). THIS **IS LESS** THAN THE ACTUARY EXPECTATIONS/ DISCOUNT RATE OF 11,4%. THE SHORTFALL CAUSES A **"SUBSTANTIAL STRAIN"** TO THE FUND ESTIMATED TO BE R195BILLION OVER THE LAST 4 YEARS.
- + LOSSES WITH THE SALE OF INVESTMENTS ALMOST DOUBLED UP SINCE 2017 (1,7BN VS 979MILLION) AND STILL NO IMPROVED DISCLOSURE.
- + SCRIP LENDING REDUCED BY HALF. STILL NO CLARITY AS TO THE AMOUNT RECEIVED AS REVENUE.
- + AT LEAST +/-70% OF PROCUREMENT ARE DONE WITHOUT FOLLOWING THE PRESCRIPTS OF THE GEPF'S OWN SCM POLICY. THE AR CARRIES NO DISCLOSURE ON THE DEVIATION.

# **BUSINESS PLAN AND BUDGET ISSUES**

## **SUMMARY OF THE ISSUES RAISED IN 2017:**

**ACHIEVEMENT AGAINST THE BUSINESS PLAN AND THE BUDGET: AS A START, THE APPROVED BUSINESS PLAN AND BUDGET WAS NOT IN THE PUBLIC DOMAIN.**

## **2018 STATUS**

**THE DISCLOSURE IN THE AR HAS NOT IMPROVED TO THE EXTENT TO ACTUALLY COMPLY WITH SECTION 10 OF THE GEPLAW.**

**THE RESULT IS AN ANNUAL REPORT THAT IS NOT COMPLETE AND DOES NOT DISCLOSE ALL THE RELEVANT AND REQUIRED INFORMATION ACCURATELY AND COMPLETELY. 🙅**

**THE ABSENCE OF THE REQUIRED DISCLOSURES ALSO IMPACTS THE WORK OF THE AUDITORS, WHO SHOULD, IN TERMS OF GEPLAW S13(2)(A)(II), PROVIDE A REPORT ON....” WHETHER THE INFORMATION FURNISHED IN TERMS OF SECTIONS 9 AND 10 IS FAIR IN ALL MATERIAL RESPECTS AND, IF APPLICABLE, ON A BASIS CONSISTENT WITH THAT OF THE PRECEDING YEAR.”**

**BUT THE AUDITORS CANNOT PROVIDE SUCH AN CONCLUSION ON FAIRNESS BECAUSE THERE IS NOTHING DISCLOSED IN A WAY THAT ALLOWS THEM TO AUDIT AND THEN TO REPORT IN THIS MANNER.**

### **10 Report by Board on state of affairs, business and financial position of Fund**

(1) The Board of Trustees shall together with its annual financial statements submit to the Minister a report with regard to the state of affairs, the business and the financial position of the Fund and the degree in which the objects of the Fund have been furthered.

(2) Such a report shall in addition-

- (a) set out the functions and objects of the Fund;
- (b) set out the extent to which the objectives of the Fund for the financial year in question have been achieved;
- (c) contain relevant performance information with regard to the economical efficient and effective application of the resources of the Fund; and
- (d) indicate the total amount of all money received from the Government in respect of the financial year in question and contain information of all financial commitments by the Government in favour of the Fund.

REMEMBER! THE NON COMPLIANCE WITH THE REQUIREMENTS OF THE GEPLAW WAS POINTED OUT TO THE TRUSTEES IN DECEMBER 2017 ALREADY.

## **PERFORMANCE INFORMATION**

SUMMARY OF THE ISSUE RAISED IN 2017:

I HAVE REVIEWED THE ANNUAL REPORT 2017 AND CANNOT READILY FIND INFORMATION THAT SUPPORTS COMPLIANCE WITH S10(2)(C). PLEASE DIRECT ME TO THOSE SECTIONS IN THE ANNUAL REPORT WHERE THE RELEVANT PERFORMANCE INFORMATION CAN BE FOUND.

S10(2)(C) DEALS WITH THE ECONOMICAL, EFFICIENT AND EFFECTIVE USE OF RESOURCES.

## **2018 STATUS**

THE 2018 AR ON PAGE 16 REVEALS

“THE GEPF INCURRED R3.2 BILLION IN EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2018 AGAINST A BUDGET OF R3.4 BILLION, WHICH REPRESENTS A TOTAL EXPENDITURE OF 94% OF THE BUDGET. THE EXPENDITURE EXCLUDES OTHER DIRECT EXPENDITURE THAT WAS INCURRED DIRECTLY BY ASSET MANAGERS TO THE VALUE OF R2.7 BILLION.”

**THIS DISCLOSURE REMAINS INADEQUATE.** 🙄

TO ILLUSTRATE HOW INADEQUATE THE GEPF'S DISCLOSURES ARE, PLEASE CONSIDER THE CALCULATIONS IN THE TABLE HEREWITH. THE DATA COMES DIRECTLY FROM THE AR PAGE 16 AND THE NOTES TO THE FINANCIAL STATEMENTS.

IS IT A COINCIDENCE THAT THE **STANDOUT** LINE ITEM IN THIS ANALYSIS (DIRECT EXPENDITURE INCURRED BY ASSET MANAGERS) IS THE ONE THAT FALLS OUTSIDE OF THE BOARDS BUDGET AND AS A CONSEQUENCE OUTSIDE THE NORMAL BUDGET CONTROLS?

**FURTHERMORE, THESE ITEMS HAVE NOT BEEN PROCURED  
TO THE GEPF'S OWN SCM POLICY.**

<b>GEPF EXPENDITURES (R' BILLION)</b>		<b>FY2017</b>	<b>FY2018</b>	<b>COMPA %</b>
<b>BUDGET</b>	<b>BUD</b>	<b>3,6</b>	<b>3,4</b>	<b>-5,6%</b>
ACTUAL	A	2,9	3,2	10,3%
DIRECT EXPENDITURE ASSET MANAGERS	B	1,9	2,7	42,1%
<b>TOTAL EXPENDITURE (2018AR PAGE 16)</b>	<b>A+B</b>	<b>4,8</b>	<b>5,9</b>	
<b>DETAILED BREAKDOWN PER THE NOTES TO THE 2018 FINANCIAL STATEMENTS</b>				
NOTE 15 INVEST EXPENDITURE	C	3,80	4,90	28,9%
NOTE 17 ADMIN EXPENDITURE	D	0,98	1,04	6,1%
<b>TOTAL</b>	<b>C+D</b>	<b>4,78</b>	<b>5,94</b>	<b>24,3%</b>
<b>STATS</b>				
ACTUAL VS BUDGET	A/BUD	80,6%	94,1%	
DIRECT VS TOTAL EXPENDITURE	B/A+B	39,6%	45,8%	
DIRECT VS INVEST EXPENDITURE	B/C	50,0%	55,1%	
INVESTMENT EXP VS TOTAL	C/A+B	79,6%	82,5%	

**APPARENTLY, THESE DIRECT EXPENSES ARE MONITORED.  
BUT BASED ON THE INCREASES AND RATIOS ABOVE, HOW  
EFFECTIVE CAN THIS POST FACTO MONITORING REALLY  
BE?**

**YEAR ON YEAR THE TOTAL INVESTMENT EXPENSES HAS  
INCREASED BY 28,9%. THIS INCREASE IS TOTALLY OUT OF  
LINE WHEN COMPARED TO THE ACTUAL INCREASE IN  
INVESTMENTS (8%) AND WITH DUE CONSIDERATION OF  
THE REDUCTION IN INFLATION SINCE 2017. SURELY  
THESE FACTS REQUIRES SOME DISCLOSURE AND  
EXPLANATION AS IT IS WELL KNOWN THAT RAPIDLY  
RISING COSTS ARE A CANCER TO A PENSION FUND.**

**CONSIDER FURTHER THAT ALL THE ASSET MANAGERS ARE  
NOT APPOINTED BY THE GEPF ITSELF FOLLOWING A  
COMPETITIVE BIDDING PROCESS (ECONOMY)**



AND  
THAT THE ACTUARY IN 2016 ALREADY IDENTIFIED BELOW  
EXPECTED INVESTMENT RETURNS AS A SIGNIFICANT  
STRAIN TO THE FUND (INEFFECTIVE)

AND  
CONSIDERING THAT THE FUND IS CARRYING HIGHER  
INVESTMENT COSTS FOR COMPARATIVE REDUCED  
RETURNS. (INEFFICIENCY).



BASED ON THE CURRENT DISCLOSURES IN THE 2018  
ANNUAL REPORT, COMBINED WITH THE ABOVE  
MENTIONED FACTORS, I CANNOT REACH THE  
CONCLUSION THAT THESE DIRECT EXPENSES AND THE  
TOTAL INVESTMENT EXPENSES ARE IN FACT  
ECONOMICAL, EFFICIENT AND EFFECTIVE,...

**CAN YOU?**

## **INFLATION AND AFFORDABILITY**

SUMMARY OF THE ISSUES RAISED IN 2017:

THE AR UNFORTUNATELY DOES NOT IDENTIFY  
("HIGHLIGHT") LINE ITEMS WHERE YEAR ON YEAR  
INCREASES EXCEEDS THE INFLATION RATE. IN ADDITION,  
NO NARRATIVE IS PROVIDED TO EITHER EXPLAIN OR TO  
JUSTIFY THE AFFORDABILITY OF THESE INCREASES.

ABOVE INFLATION INCREASES (SELECTED LINE ITEMS):

- + PEO'S SALARY  $3.5/3.2 = 10\%$
- + EXECUTIVE PAY  $3.8/3 = 26\%$
- + TRUSTEES REMUNERATION  $8.7/5.6 = 55\%$
- + STAFF REMUNERATION  $15/12 = 25\%$
- + AND THE RELATED PARTY DISCLOSURE PIC  
MANAGEMENT FEES  $996.6/906.8 = 9.6\%$

## 2018 STATUS

THE GEPF IN ITS INVESTMENT REPORT ON PAGE 36 OF THE 2018 AR INDICATED THE FOLLOWING ABOUT INFLATION...

During the year under review, the inflation rate as reflected by the Consumer Price Index (CPI) dropped to 3.81% (2017: 6.12%). CPI remained at the lower end of the South African Reserve Bank's (SARB) target range of 3% to 6%. The SARB cut the repo rate by 25 basis points in July 2017 and a further 25 basis points in March 2018, leaving the repo rate at 6.5%.

THERE IS STILL NO IDENTIFICATION AND NARRATIVE TO EXPLAIN OR JUSTIFY THE YEAR ON YEAR INCREASES WHICH CONTRIBUTED TO THE EXPONENTIAL GROWTH OF EXPENDITURE WHICH THE FUND MUST ABSORB. OVERALL THE TOTAL EXPENSES INCREASED BY 24,3% (CPI = 3,81%)



HEREWITH A RELOOK AT THE SPECIFIC LINE ITEMS IDENTIFIED IN THE 2017 REVIEW...

<b>Rands MILLION</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>Increase</b>
PEO's salary	3,5	3,8	8,6%
Executive pay	3,8	5,8	52,6%
Trustees Remuneration	8,7	10,9	25,3%
Staff remuneration	15	14,5	-3,3%
Related party disclosure PIC Management fees	996,6	1100	10,4%



IT WAS ONLY THE ONLY STAFF REMUNERATION THAT DECREASED. ALL THE OTHER EXAMPLES ARE CONTINUING ON THEIR FOREVER UPWARD TRAJECTORY FAR IN EXCESS OF CPI, WHICH WE KNOW HAS, YEAR ON YEAR, REDUCED BY 2,31% IE. FROM 6.12% IN 2017 TO 3,81% IN 2018. THIS REDUCTION YEAR ON YEAR IS ABOUT ONE THIRD. COMPARED WITH INFLATION, THE MAJORITY OF LINE ITEMS OF EXPENDITURE VISIBLE IN THE ANNUAL REPORT INCREASED OVER AND ABOVE CPI. NO NARRATIVE INDICATES INCREASED VOLUMES THAT COULD PARTLY EXPLAIN THE INCREASES.

### STANDOUT LINE ITEM - TRUSTEES EXPENDITURE

THE TOTAL AMOUNT PAID AS REMUNERATION TO TRUSTEES SINCE 2015 HAS BASICALLY DOUBLED BY A MASSIVE R5,3MILLION (FROM R5,6MILLION TO R10,9MILLION). YEAR ON YEAR THE INCREASE WAS 25,3% WHICH IS 6 TIMES THE CPI! 👎

FURTHERMORE, HERewith IS A CALCULATION INCLUDING THE TRAVEL EXPENSES. FOR FY2018 THE INCREASE, INCLUSIVE OF TRAVEL AND OTHER EXPENSES, IS 32,2% WHICH IS 8 TIMES CPI! 👎👎

Trustees expenditure	Rands Million	Increase Millions	Increase %	Board performance assessed?	Your vote YES /NO	IF NO..WHAT % or Amount is fair?
FY2015	5,7			No		
FY2016	6	0,3	5,3%	Yes		
FY2017	8,7	2,7	45,0%	No		
FY2018	11,5	2,8	32,2%	No		
FY2019				YES!		

THE CONTINUED INCREASED COST TO THE FUND APPEARS TO BE EXCESSIVE.

THE NUMBER OF TRUSTEES SERVING ON THE BOARD REMAINED THE SAME, THE COMPENSATION IN THE PAST WAS DEEMED REASONABLE, AND THERE IS NO VISIBLE ADDITIONAL OUTPUT OR EXTRAORDINARY PERFORMANCE . ON TOP OF THIS, THERE IS THE MATTER OF THE TRUSTEES NOT PERFORMING BOARD ASSESSMENTS AS REQUIRED.

**ANOTHER OPPORTUNITY FOR YOU TO BE THE JUDGE.....**

PENSION INCREASES	
FY2015	5,80
FY2016	5,30
FY2017	6,60
FY2018	5,50

SO AS ONE OF THE 450 322 PENSIONERS WHO HAVE BEEN RECEIVING PENSION INCREASES ON AVERAGE OF 5,8% SINCE 2015,

HOW DO YOU FEEL ABOUT THESE YEAR ON YEAR INCREASED EXPENSES IN RESPECT OF TRUSTEES AS REPORTED ABOVE?

IF YOU COULD VOTE ON THE ACCEPTANCE OF THE ACTUAL EXPENDITURE, WOULD YOU APPROVE IT? AND IF NOT, WHAT WOULD YOU ALLOW?

AT AGM'S SHAREHOLDERS DO VOTE ON MATTERS SUCH AS THIS. IT WOULD BE INTERESTING IF THIS EXERCISE WAS PERFORMED AT THE GEFP.

HANDS UP, HOW MANY GEFP MEMBERS ARE HAPPY WITH THE TRUSTEES EXPENDITURE, AMOUNTS AND INCREASES SINCE 2015?



IN THE INTERIM, NOTHING STOPS GEFP MEMBERS AND PENSIONERS FROM CONSIDERING THE ABOVE AND SENDING YOUR VIEWS TO THE PARLIAMENTARY OVERSIGHT COMMITTEE'S DEALING WITH THE GEFP'S ANNUAL REPORT.

## INVESTMENT PERFORMANCE

### THE ACTUAL INVESTMENT PERFORMANCE REPORTED SUMMARY OF THE ISSUES RAISED IN 2017:

OUTPERFORMING THE BENCHMARK WAS DISCLOSED AS AN OVERACHIEVEMENT. UNFORTUNATELY, THE BENCHMARK USED WAS FAR BELOW THE MINIMUM OF THE OVERARCHING FRAMEWORK OF THE INVESTMENT BELIEFS. IN ADDITION, THE ACTUAL ACHIEVEMENT COULD NOT EVEN MATCH CPI.

### 2018 STATUS - ACTUAL INVESTMENT PERFORMANCE

THE PEO REPORTED CORRECTLY THIS TIME 👍 ON PAGE 15: “THE PENSION FUND ACHIEVED AN OVERALL INVESTMENT PERFORMANCE RETURN OF 8.5%, UNDERPERFORMING ITS STRATEGIC BENCHMARK RETURN OF 11.3%.”

The 2016 Actuary report already reported that funding levels were reducing AND identified below expected investment returns as one cause of “substantial strain” to the Fund.(The 2016 actuary report page 29 )

#### Investment returns:

A strain has arisen to the extent that the investment return achieved on the fair value of the assets was lower than that assumed. The Fund has earned an approximate return, net of management fees, of 8.97% per annum over the two years ending 31 March 2016. This is lower than the assumed discount rate (11.4% per annum) and has resulted in a substantial strain to the Fund.

HEREWITH AN ESTIMATE OF THE STRAIN AS REFERRED TO BY THE ACTUARY .....  
(CALC: INVESTMENT BALANCE X STRAIN% X 0,8 )

THE AMOUNT ESTIMATED BELOW IS SUBSTANTIAL AND

	Investments Rbillion	STRAIN%	Amount Rbillion
FY2015	1 597	2,4%	31,0
FY2016	1 638	2,4%	31,8
FY2017	1 664	6,8%	90,5
FY2018	1 801	2,9%	41,8
TOTAL			195,2

HAS A  
MATERIAL  
IMPACT  
ON THE  
FUNDING  
RATIOS.

## **LOSS WITH THE SALE OF INVESTMENTS**

### **SUMMARY OF THE ISSUES RAISED IN 2017:**

NOTE 15 TO THE ANNUAL FINANCIAL STATEMENTS (AFS) INDICATES AS A ONE LINE DISCLOSURE THAT LOSSES WITH THE SALE OF INVESTMENTS AMOUNTING TO RM979 (2016: RM 2298) WERE INCURRED. NO OTHER DETAIL WAS PROVIDED IN THE AR.

### **2018 STATUS - LOSS WITH THE SALE OF INVESTMENTS**

THE AMOUNT IN 2018 WAS R1,7BN COMPARED TO R979MILLION IN 2017. SO LOSSES BASICALLY DOUBLED SINCE 2017! NOTWITHSTANDING THIS MATERIAL INCREASE, THERE IS NO IMPROVEMENT IN THE DISCLOSURE OF NOTE 15 TO THE FINANCIAL STATEMENTS. 🙄

## **SCRIP LENDING**

### **SUMMARY OF THE ISSUES RAISED IN 2017:**

NOTE 3.1.5 TO THE FINANCIAL STATEMENTS LISTS A NUMBER OF SCRIP LENDING TRANSACTIONS AMOUNTING TO RBN6.4

NO DISCLOSURE WAS MADE ITO THE CONSIDERATION(S) (THE FEES OR CHARGES PAYABLE BY THE COUNTER PARTY OR AGENT) WHICH WAS/WILL BE RECEIVED BY THE GEPPF? IN THE EVENT PAYMENTS HAS BEEN RECEIVED IN YEAR, ITS UNCLEAR WHERE THE AMOUNTS ARE REFLECTED IN THE AFS OR INCLUDED AS PART OF ANOTHER AMOUNT IN THE NOTES TO THE AFS?

### **2018 STATUS UPDATE - SCRIP LENDING**

NOTE 3.1.5 TO THE FINANCIAL STATEMENTS LISTS A NUMBER OF SCRIP LENDING TRANSACTIONS AMOUNTING TO RBN3.3 (2017: RBN6.4). SO ON FACE VALUE THE PRACTICE HAS REDUCED BY HALF SINCE 2017.

CONSIDERING THAT SCRIP LENDING IS REGARDED AS A LOW RISK PRACTICE WHICH GENERATES ADDITIONAL REVENUE TO PENSION FUNDS, THE REASON FOR THE REDUCTION YEAR ON YEAR SHOULD HAVE BEEN DISCLOSED.

IN ADDITION, THERE IS STILL NO DETAIL PROVIDED AS TO THE ACTUAL AMOUNT RECEIVED AS REVENUE FOR THESE TRANSACTIONS. 🙅

THERE IS ALSO NO CONFIRMATION AS TO THE STATUS OF A POLICY ON SCRIP LENDING.

ITS ALSO UNCERTAIN AS TO HOW AND WHY DEUTSCHE BANK WAS ELECTED/APPOINTED AS SOLE COUNTER-PARTY IRO EQUITIES.

#### **ADMINISTRATION EXPENSES\***

SUMMARY OF THE ISSUES RAISED IN 2017:

NOTE 17.1 ATTEMPTS TO PROVIDE A BREAKDOWN OF THE VARIOUS UNDERLYING AMOUNTS MAKING UP ADMINISTRATIVE EXPENSES FOR THE YEAR AMOUNTING TO RM976.

UNFORTUNATELY THE FIRST LINE ITEM IS DESCRIBED AS "ADMINISTRATION EXPENSES" AND AMOUNTS TO RM873 WHICH REPRESENTS 89% OF THE TOTAL.

THE PURPOSE OF NOTES TO THE AFS IS TO PROVIDE MORE DETAIL TO THE READER TO ENHANCE USEFULNESS AND ULTIMATELY ACCOUNTABILITY.

PLEASE PROVIDE A FURTHER BREAKDOWN OF THIS SIGNIFICANT AMOUNT DISCLOSED ONLY AS ADMINISTRATION EXPENSES.

#### **2018 STATUS UPDATE - ADMINISTRATION EXPENSES**

NOTE 17 TO THE 2018 FINANCIAL STATEMENTS REMAINS SILENT ABOUT THE GPAA. IN ADDITION NO LINKAGE IS PROVIDED TO THE RELATED PARTY DISCLOSURE IN NOTE

22. 🙅

(\* WITH HINDSIGHT, THE ISSUE OF ADMIN EXPENDITURE DOES NOT BELONG UNDER THE CATEGORY OF INVESTMENT PERFORMANCE. I KEPT IT HERE FOR CONSISTENCY PURPOSES ONLY)

## **NO TENDERS**

### **SUMMARY OF THE ISSUE RAISED IN 2017:**

THE 2017 ANNUAL REPORT INCORRECTLY STATED THAT NO TENDERS WERE APPROVED BY THE BOARD DURING THE 2016/17 PERIOD UNDER REVIEW. (PAGE 25 OF THE AR REFERS)

THIS REPRESENTATION WAS CONTRADICTED BY NOTE 17.1 TO THE FINANCIAL STATEMENTS WHICH INDICATED THE FOLLOWING:

- + AUDITORS FEES R3M(WE KNOW DELOITTE AND SABAT NEXIA ARE JOINT AUDITORS)
- + ACTUARIAL FEES R3M+R2.6M( HOWARD BUCK?)
- + INVESTMENT ACCOUNTING FEES R2.2M (STANDARD BANK?)
- + INVESTMENT PERFORMANCE ANALYSIS R6.5M  
(I ASSUME THE WORK DONE ITO THE ALM BID 7/2016 FOR ONE IS INCLUDED HERE)

HOWEVER THE MOST SIGNIFICANT AMOUNT RELATES TO THE PAYMENT OF EXTERNAL MANAGEMENT FEES. THE AMOUNT OF R1.4BN (NOTE 15) IS INVOLVED OF WHICH R996M WAS PAID TO THE PIC. IT IS NOT CLEAR WHICH EXTERNAL MANAGER(S) RECEIVED THE BALANCE OF +- R400MILLION.

AS THESE PROCURED SERVICES FALLS WITHIN THE AMBIT OF THE SCM POLICY, ITS UNCERTAIN, IN THE ABSENCE OF ANY OTHER MEANINGFUL DISCLOSURES WITHIN THIS AR, WHETHER A COMPETITIVE BIDDING PROCESS WAS INVOLVED.

### **2018 STATUS**

THE 2018 ANNUAL REPORT MAKES NO REFERENCE TO TENDERS AT ALL. SO THE GEPF AVOIDED REPEATING THE SAME MISTAKE IN 2018👍 .

REGARDING THE OTHER ISSUES RAISED, THERE HAS BEEN NO IMPROVEMENT OR CLARITY. THE USE OF THE SUPPLY CHAIN MANAGEMENT POLICY (SCM) IS CENTRAL TO THIS...

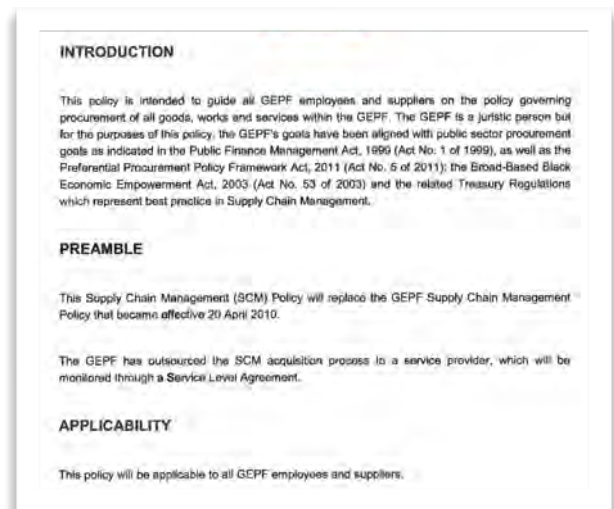


## OVERALL USE OF THE SCM POLICY

ON PAGE 1 OF THE SCM POLICY ITS STATED THAT THE POLICY GOVERNS THE .....

.”...PROCUREMENT OF ALL GOODS, WORKS AND SERVICES WITHIN THE GEPF”

THAT IS THE INTENTION, BUT THE ACTUAL SITUATION IS FAR REMOVED FROM THIS.



CONSIDERING THAT THE TOTAL ACTUAL EXPENDITURE IN 2018 WAS 5,9BN (2017: 4,8BN), AND EXCLUDING ITEMS THAT WOULD NOT BE PROCURED, THE TOTAL PROCUREMENT RELATED EXPENDITURE IS +- R4BN PER ANNUM.

FROM WHAT IS VISIBLE ON THE GEPF WEBSITE, ONLY A FRACTION OF THIS AMOUNT WAS ACTUALLY PROCURED IN TERMS OF THE SCM POLICY.

## THE EXAMPLE OF EXTERNAL ASSET MANAGEMENT EXPENDITURE

FOR EXAMPLE, BY LOOKING AT EXPENSES RELATED TO THE EXTERNAL ASSET MANAGERS ONLY THE FOLLOWING EMERGE.

IT DOES APPEAR TO BE COUNTERPRODUCTIVE TO HAVE A SCM POLICY WHICH IN EFFECT IS NOT USED FOR AT LEAST 70% OF PROCUREMENT!

R'BILLION	FY2017	FY2018	COMBINED
MANAGEMENT FEES EXTERNAL	1,4	1,6	3
DIRECT EXPENDITURE ASSET MANAGERS	1,9	2,7	4,6
<b>SUB TOTAL</b>	<b>3,3</b>	<b>4,3</b>	<b>7,6</b>
<b>TOTAL EXPENDITURE</b>	<b>4,8</b>	<b>5,9</b>	<b>10,7</b>
PERCENTAGE	69%	73%	71%

THIS DEVIATION IE. THE NON USE OF THE SCM POLICY, IS NOT DISCLOSED IN THE ANNUAL REPORT.

IN ADDITION, THE DIRECT EXPENDITURE INCURRED BY THE EXTERNAL ASSET MANAGER(S) ARE NOT INCLUDED IN THE GEPF BUDGET. SO OVER THE PERIOD OF TWO YEARS (2017 & 2018) AN AMOUNT OF 4,6BILLION WAS EXPENSED OUTSIDE OF THE GEPF'S BUDGET PROCESS AND CONTROL.

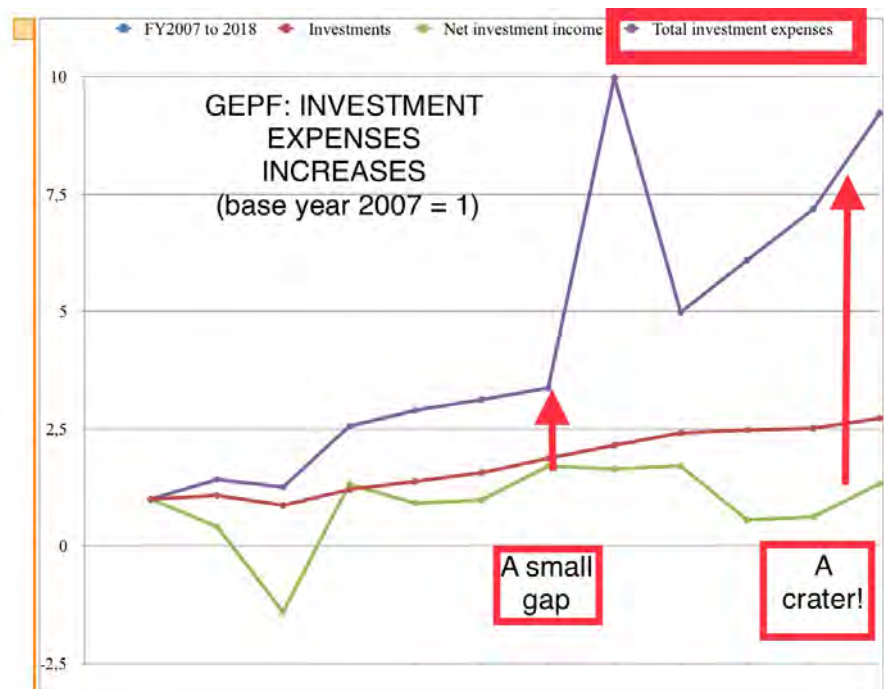
THE ABOVE-MENTIONED PROCESS AND OUTCOME DOES NOT APPEAR TO BE ALIGNED WITH THE INVESTMENT BELIEFS OF THE GEPF WHICH STATES THAT...

"Minimizing the costs of investing is vital for long term

investment success, and management fees should promote an alignment of interests between the Fund and its managers. "

The graph shows that **investment expenses** has been increasing proportionally

more than **Investments** itself AND **Investment income**. Whilst expenses increase, investment income is not following suit suggesting inefficiencies. Between 2015 and 2016, although the investment balance was steadily increasing, relative higher investment expenses were incurred BUT investment income was actually reducing. **The gap exploded in 2014 and is now a full blown crater!**



## TENDER INFORMATION ON THE GEPF WEBSITE



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### GEPF TENDERS

In order to make GEPF's supply chain management user-friendly, all relevant documentation, policies, tenders and information can be found on this page.

BID GEPF 01/2018: STRATEGIC INVESTMENT ADVISORY SERVICES	
NAME OF BIDDERS 01/2018	<a href="#">Download</a> →
Newspaper Advert: Strategic Investment Advisory Services	<a href="#">Download</a> →
Response to enquiries on strategic Investment Advisory Services Bid (GEPF 01/2018)	<a href="#">Download</a> →
RFP: STRATEGIC INVESTMENT ADVISORY SERVICES TO GEPF	<a href="#">Download</a> →
BID GEPF 06/2017: RFP Cleaning Services	
BID GEPF 06/2017: Cleaning Fabric clarification	<a href="#">Download</a> →
BID GEPF 06/2017: Names of bidders	<a href="#">Download</a> →
BID Results: 06/2017	<a href="#">Download</a> →
Newspaper Advert for Cleaning Services	<a href="#">Download</a> →
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- [Who is a GEPF Pensioner?](#)
- [Joining the Public Service](#)
- [GEPF Rule and Law](#)

### Twitter

### Events



[More](#) →

GEPF will host a roadshow in Western Cape (Khayelitsha) on 24 March 2018.

You are invited to attend a roadshow hosted by the Government Employees Pension Fund (GEPF) on 24 March 2018.



[More](#) →

GEPF will host a roadshow in Sharpeville (Gauteng) on Saturday, 25 November 2017

GEPF will host a roadshow in Sharpeville (Gauteng) on Saturday, 25 November 2017

**FROM THE GEPF WEBSITE WE LEARN THE FOLLOWING:**

**IT APPEARS THAT BID 4/2017 DISAPPEARED? THERE IS NO INFORMATION?**

**BID5/2017 - ACTUARIAL CONSULTING SERVICE.**

**THE BID RESULTS, WHEN DOWNLOADED, INCORRECTLY REFLECTS THE RESULTS FOR THE CLEANING SERVICES.**



**ITS UNCLEAR WHO WON THE ACTUARIAL BID AND AT WHAT AMOUNT?**

**THE BID QUESTIONS ANSWERED CONFIRMED THE NON EXISTENCE OF A QUALIFIED ACTUARY IN HOUSE.**

**IS THIS NOT A CONCERN CONSIDERING THE MAGNITUDE OF THE PENSION LIABILITIES OF THE GEPF?**

**HOW MANY OTHER PENSION FUNDS IN THE TOP 20 GLOBALLY DO NOT HAVE AT LEAST ONE PROFESSIONAL QUALIFIED ACTUARY ON ESTABLISHMENT?**

**THE WORK STARTED 1 APRIL 2018 WITH A 6% MAXIMUM ESCALATION PROVIDED FOR BASED ON CPI FORECASTS.**

#### **4. CHAPTER 4: APPOINTMENT OF CONSULTANTS**

##### **4.1. Introduction**

4.1.1. The purpose of this chapter is to explain the procedures for selecting, contracting, and monitoring consultants required for projects. In general, the procedures described in the previous chapter apply. Only the peculiarities of appointing consultants are dealt with herein, as the services to which these procedures apply are of an intellectual and advisory nature. These procedures do not apply to general services such as construction works; manufacturing of goods; operation and maintenance of facilities or plants; surveys; exploratory drilling; aerial photography; satellite imagery; catering; cleaning, and security in which the physical aspects of the activity predominate.

4.1.2. For the purpose of this policy, the term consultant includes, among others, consulting firms; engineering firms; construction managers; management firms; procurement agents; inspection agents; auditors; other multinational organisations; investment and merchant banks; universities; research agencies; government agencies; non-governmental organisations (NGOs); and individuals with an exclusion of GEPF's employees.

##### **4.2. Applicability of Procedures**

4.2.1. The procedures outlined herein apply to all contracts for consulting services. In procuring consulting services, an evaluation committee must be appointed and should satisfy itself that:

- a. The procedures to be used will result in the selection of consultants who have the necessary professional qualifications;
- b. The selected consultant will carry out the assignment in accordance with the agreed schedule; and
- c. The scope of the services is consistent with the needs of the project.

REGARDING THE ACTUAL WORK, THE QUESTION REMAINS, WHY COULD THE ACTUARY NOT COMPLETE HIS VALUATION IN 6 MONTHS (APRIL TO SEPTEMBER) TO BE IN TIME FOR INCLUSION IN THE AR? SURELY PROPER PROJECT MANAGEMENT CAN AND SHOULD HAVE THIS OUTCOME AS A RESULT?

## **EXTERNAL ASSET MANAGER APPOINTMENT**

PERHAPS ITS RELATED TO THE MISSING INFORMATION ON BID 4/2017 BUT THERE IS NO INFORMATION IN THE AR OR ON THE WEBSITE THAT CONFIRMS THAT A COMPETITIVE BIDDING PROCESS WAS FOLLOWED TO APPOINT THE EXTERNAL ASSET MANAGER(S). 🙄

THE SCM POLICY ADOPTED IN 2013 IN CHAPTER 4 CLEARLY STATES THAT ALL CONSULTING SHOULD BE PROCURED VIA A COMPETITIVE PROCESS. THE TERM CONSULTANT INCLUDES MANAGEMENT SERVICES AND GOVERNMENT AGENCIES.

CONSIDERING THAT THE EXPENSES RELATED TO EXTERNAL ASSET MANAGEMENT CONSTITUTES +/- 70% OF TOTAL EXPENDITURE, ITS STILL NOT CLEAR **WHY THE CONTRACT(S) TO PROVIDE EXTERNAL ASSET MANAGEMENT SERVICES HAS NOT BEEN BEEN ALLOCATED AND CONTROLLED IN HOUSE VIA THE GEPF'S OWN SCM POLICY?**

## **COMBINING ALL THE DISCUSSION POINTS TOGETHER**

AT THIS TIME YOU MAY VERY WELL THINK, SO WHAT? HOW DOES ALL THESE ISSUES TIE IN TOGETHER.

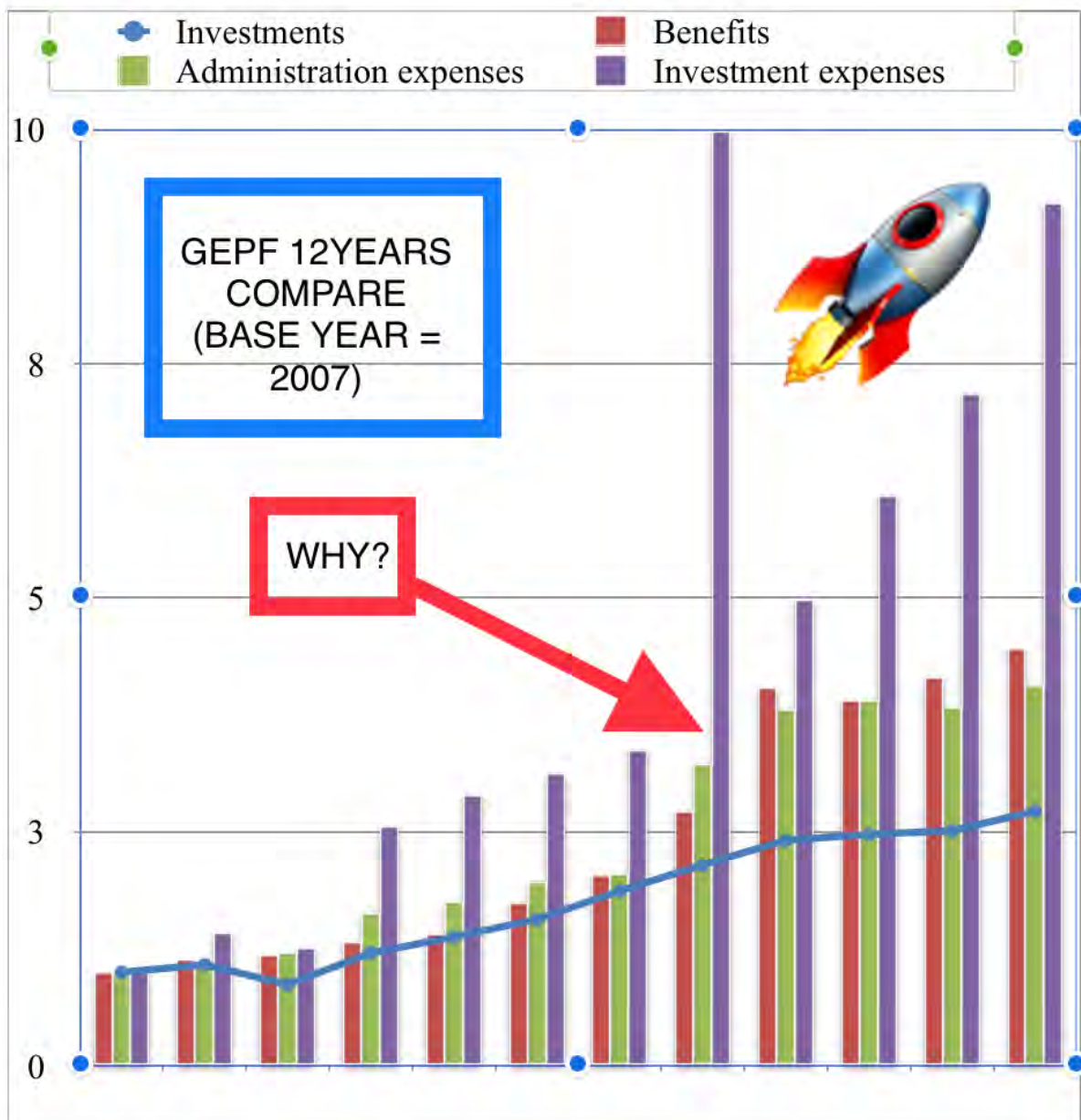
THE FOLLOWING GRAPH MAY BE OF ASSISTANCE .

THE GEPF LOVES THE GRAPH SHOWING THE INCREASES OF THE INVESTMENT BALANCE OVER A NUMBER OF YEARS AND REACHING R1,8 TRILLION. HOWEVER, INVESTMENTS DON'T GROW BY ITSELF, SO I WILL SHOW THE INVESTMENT EXPENSES INCURRED TO “GROW” THE ASSETS TO ITS CURRENT LEVEL.



**THEN A PENSION FUND EXISTS TO PAY BENEFITS, AND TO DO THIS THE GEPF INCUR ADMINISTRATION EXPENSES.**

**USING 2007 AS A BASE YEAR LETS LOOK AT THE INCREASES OF ALL THESE ITEMS IN ONE GRAPH.**



**OVERALL PICTURE... EXPENSES AND COSTS ARE INCREMENTALLY EXCEEDING THE GROWTH IN THE INVESTMENT BALANCE, ESPECIALLY SINCE 2014. INVESTMENT EXPENSES HAVE INCREASED FASTER THAN THE UNDERLYING INVESTMENTS BY A RATIO OF 3,4:1 (9,2/2,72)**



<b>R Billion</b>	<b>FY2007</b>	<b>FY2018</b>	<b>Compare</b>
<b>Investments</b>	<b>662,33</b>	<b>1 801,82</b>	<b>2,72</b>
<b>Benefits</b>	<b>21,25</b>	<b>94,88</b>	<b>4,46</b>
<b>Administration expenses</b>	<b>0,25</b>	<b>1,04</b>	<b>4,07</b>
<b>Investment expenses</b>	<b>0,53</b>	<b>4,92</b>	<b>9,22</b>

FROM 2014 ONWARDS, THE GRAPH CLEARLY INDICATES THAT INVESTMENT EXPENSES IS ON A TRAJECTORY UNRELATED TO THE INVESTMENT BALANCE. THIS IS SURPRISING AND ANOMALOUS. THE TWO SHOULD BE CLOSELY RELATED. IN 2014 SOMETHING SIGNIFICANT OCCURRED AND SINCE THEN INVESTMENT EXPENSES ARE FOREVER RAPIDLY RISING AT ITS OWN PACE. THE MANDATE WITH THE PIC WOULD MAKE FOR INTERESTING READING IF EVER RELEASED.

THE FACT THAT NO COMPETITIVE BIDDING PROCESS IS FOLLOWED PLUS DIRECT EXPENSES FALL OUTSIDE THE GEPF'S BUDGET IS CONTRIBUTING FACTORS TO THIS TREND. ONLY DECISIVE INTERVENTION WILL HALT AND NORMALIZE THIS.

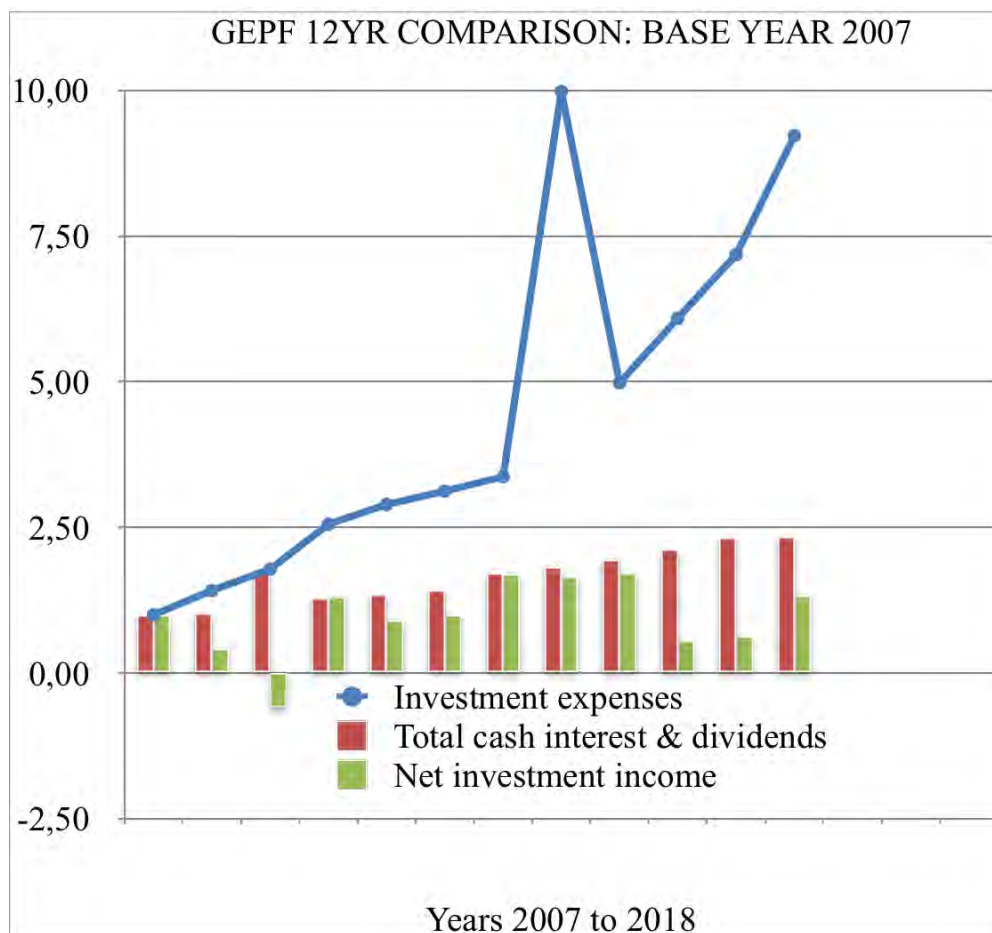
INVESTMENTS ITSELF, AGAIN SINCE 2014, THE GROWTH PREVIOUSLY EVIDENT IS NO MORE. THE INVESTMENT BALANCE IS NOT GROWING IN THE SAME MANNER AS BEFORE 2014. FROM A SEPARATE ANALYSIS THE REASONS ARE TWO FOLD, FIRST, ALL CONTRIBUTIONS RECEIVED ARE NOT INVESTED AND SECONDLY, THE PRODUCTION CAPACITY OF THE ASSETS HAS DETERIORATED.

ADMINISTRATION EXPENDITURE ALSO SHOWED AN SUDDEN UPWARDS INCREASE IN 2014 AND FROM THEN ON SLOWLY INCREASING. AT LEAST THE RELATIVE INCREASE COMPARED TO BENEFITS WAS LESS FROM 2015 ONWARDS.

**BENEFITS. THE GEPF CLAIMS THAT THE INCREASES FROM 2014 AND 2015 ONWARDS CAN BE ATTRIBUTED TO INCREASED RESIGNATIONS. AGAIN, PER A SEPARATE ANALYSIS, OF THE TOTAL R80BILLION INCREASE, ONLY R30BILLION COULD BE READILY EXPLAINED BY RESIGNATIONS. THERE ARE OTHER UNKNOWN REASONS WHICH FURTHER RESEARCH WILL REVEAL.**

**IN TERMS OF HIGHEST INCREASES OVER THE 12 YEARS, INVESTMENT EXPENSES IS THE CLEAR WINNER.**

**LETS ISOLATE THREE OF THE INVESTMENT ELEMENTS.**



**AGAIN THE INCREASES OF THE INVESTMENT EXPENSES COMPARED WITH THE 2007 BASE IS STEEPLY UPWARDS. IF WE LOOK AT THE CASH RETURNS OF INVESTMENTS, THERE IS ALSO AN UPWARD TREND, BUT WHICH IS LESS DYNAMIC.**

**THIS TREND IS MIRRORED BY THE NET INVESTMENT INCOME UP TO 2015 WHEREAFTER A SIGNIFICANT DROP IS NOTICEABLE. FURTHERMORE THE RAND VALUES OF**

**TOTAL INVESTMENT INCOME IS STRUGGLING TO MATCH THE 2007 LEVEL, THIS NOTWITHSTANDING THE FACT THAT INVESTMENTS IN 2018 IS 2,7 TIMES MORE THAN IN 2007!**

INVESTMENTS R000	FY2007	FY2018	COMPARE
Investment balance	662 330 825	1 801 819 134	2,72
Total cash interest & dividends	32 135 807	75 089 618	2,34
Net investment income	115 641 140	153 409 209	1,33
Investment expenses	533 924	4 923 078	9,22

**IN MY VIEW, THIS IS CAUSED BY THE INCREASED UNPRODUCTIVENESS OF THE INVESTMENTS. NET INVESTMENT INCOME IN 2018, RELATIVE TO THE INVESTMENT BALANCE, HAS DIMINISHED BY HALF SINCE 2007. (1,33 / 2,72)**

**STATED DIFFERENTLY, USING FY2007 AS BENCHMARK, THE NET INVESTMENT INCOME IN 2018 SHOULD HAVE BEEN R314BILLION WHICH SUGGEST THE UNPRODUCTIVENESS OF THE ASSETS COULD BE AS HIGH AS R161BILLION IN 2018..**

**TO BE MORE CONSERVATIVE I ALSO USED THE DISCOUNT RATES PER THE ACTUARY'S CALCULATIONS IN 2016....**

**YOU DECIDE WHETHER YOU ARE AN OPTIMIST, PESSIMIST OR REALIST.**

NET INVESTMENT INCOME 2018 R'Billion	FY2007 RATE	ACTUARY 2016 RATE	ACTUARY 2014 RATE
RATE OF RETURN	17,5%	12,5%	11,4%
Projected	314,6	225,2	205,4
Actual	153,4	153,4	153,4
Shortfall from the benchmark rate	161,2	71,8	52,0

## **OVERALL CONCLUSION ON PART 1:**



FOR MOST PART THE GEPF BOARD OF TRUSTEES HAS NOT MADE USE OF THE OPPORTUNITY TO IMPROVE THE CLARITY AND UNDERSTANDING OF THE DISCLOSURES IN THE 2018 ANNUAL REPORT.



EVEN IF THE TRUSTEES DO NOT WISH TO CHANGE THE ANNUAL REPORT, THERE ARE OTHER MEANS TO PROVIDE THE INFORMATION REQUESTED.

THE ISSUES WITH A FINANCIAL IMPACT AS HIGHLIGHTED IN 2017 APPEARS TO BE CONTINUING UNCHECKED. THE RESULT IS A STEADY BUT CONTINUING NEGATIVE IMPACT ON THE FUND AS A WHOLE.

THE ROOT CAUSE OF THIS RELATES BACK TO WHO RESPONDS TO THE QUESTIONS AND WHO SHOULD AND DOESN'T.

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**PART 2 to follow: FACT CHECKING & OTHER MATTERS ARISING.....**