Association for Monitoring and Advocacy of Government Pensions (AMAGP)
NPO Registration No: 198-822
SEMPER VIGILANS

The Association for Monitoring and Advocacy of Government Pensions: An independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.amagp.co.za

GEPF Watchdog - Waghond

GEPF your investment, your future

NEWSLETTER NO 19 of 2018

AMAGP – Association for Monitoring and Advocacy of Government Pensions
BOT – Board of Trustees [of the GEPF]
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
PEO – Primary Executive Officer
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SC – state capture
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOC – state owned company
SOE – state owned entities

"The GEPF now has R1,8 trillion assets under management, up 8,3% (R1,7 trillion) from 2017. There are 1 273 125 active members, and 450 322 pensioners and beneficiaries." Moneyweb, 10 December 2018

The Editor's Word

The GEPF Annual Report is available on http://www.gepf.gov.za/uploads/annualReportsUploads/AR_2018_(20181128)_Final_Submitted-min.pdf. The report doesn't really say anything we don't already know or suspect, but ... A glance at the charts on page 8 and 9 show stagnation in growth and decreasing ROI for the last four years. The notes to the financial statements take up half the report. There is intense use of numbers and statistics to dazzle the mind and explanations of what they are, without explaining what they mean. The steak seems to be hiding behind lots of sizzle, if it hasn't already been eaten elsewhere.

Read the articles below about the Annual Report, then read the report itself and see if it makes sense. Try to spot the gaps and anomalies and write to your local newspaper about them. More publicity means more investigation by the media.

Writing off investments is done only after due diligence has been completed. I wonder about the due diligence in writing off Lancaster and Sekunjalo losses so soon. The billions in commission the PIC earn surely includes the PIC applying some of it to unlock any remaining value in these two investments? If it is written off, who owns it then?

Diversifying to include offshore investments makes only good financial sense; our pension investments have too long been restricted by political expediency to what is inside South Africa, and to a certain extent Africa. A gradual increase offshore would add value to the GEPF portfolio.

The true cost of all the PIC investments isn't available. The transaction cost for listed investments are about R 250 million per year, with an additional R 125 million trading cost per year. I know you have to pay the brokers, advisors, etc, but R 375 million per year still is a huge amount of our pension for underperforming investments; of course the cost of the unlisted investments haven't been added yet.

There is follow up reporting by amaBhungane about the Shivambus, the EFF and VBS; just more detail about the VBS looting. About what some of the VBS money was used for, how it got there and who did it. Go the Daily Maverick and Scorpio Breaking News for juicy details.

Editor

NEWS NEWS NEWS

Synopsis

NATIONAL

State pension fund hit by R7.4bn in write-offs

The fund had R7.4bn in impairments for the 2017/18 financial year, compared with R995m the previous year

3 December 2018 - Linda Ensor

Renosi Mokate. Picture: Arnold Pronto

The pension fund responsible for managing the savings of government employees has written off two of its most controversial investments at a cost of R5.3bn.

The GEPF R4.3bn investment in Steinhoff's empowerment shareholder, Lancaster, which is partially owned by Pepkor Holdings chair Jayendra Naidoo, was rendered worthless after the 2017 accounting scandal wiped off about R200bn of the furniture retailer's value.

The GEPF also wrote off about R1bn of loans and investments in companies controlled by Iqbal Surve, the owner of Independent Media, the publisher of The Star newspaper.

The fund had R7,4bn in impairments for the 2017/18 financial year, compared with R995m the previous year, according to its annual report tabled in parliament on Monday.

Lancaster 101 became Steinhoff's strategic black empowerment partner after the PIC loaned R9,35bn to Lancaster in 2016 to acquire Steinhoff shares in a bid to drive transformation within the international retailing group.

The GEPF owned about R28bn of Steinhoff at the end of March 2017, equivalent to about 10% of the company and 1% of the fund's assets.

The annual report also revealed that the pension fund had written off a total of R1,06bn in loans and investments in Surve's companies Sekunjalo and Independent News and Media SA, due to their failure to honour their payment obligations.

The PIC provided finance to Sekunjalo for it to purchase Independent News and Media SA in 2013 and also acquired a direct 25% equity stake in the media group.

Former finance minister Nhlanhla Nene indicated in parliament in July that the PIC was in the process of withdrawing from its investment in the media group.

"As a result of declining traditional print and advertising revenue, the Sekunjalo term loan, the INMSA [Independent News and Media SA] shareholder loan and preference shares were impaired as INMSA and Sekunjalo did not honour their payment obligations under the transaction agreements," Renosi Mokate, chair of the GEPF board of trustees, said in her statement.

In November, Business Day reported that Independent Media had not met its obligation to the PIC to repay the R253m loan in August, as was required by the agreement.

Also included in the GEPF's impairments was the R375m investment in VBS Mutual Bank, which collapsed in 2018 amid allegations of massive fraud that saw directors steal about R2bn, as well as R492m in Afgri Poultry.

The fund said its assets managed by the PIC grew 8.3%.

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"What is Impairment
Impairment is an accounting principle that describes a permanent reduction in the value of a company's asset, normally a fixed asset.
https://www.investopedia.com/terms/i/impairment.asp

Comment
Writing off loans and investments is a commonly accepted business practice,

implying all efforts at recovering value have failed. However, there should still be considerable value in these institutions that can be unlocked to the advantage of the GEPF instead of just throwing it away. Read Magda's brilliant comment about Isibaya and Ayo below. The billions written off is the pensioners' future disappearing.

AMAGP Statement

Issued by: AP Stemmet
On behalf of the Association for the Monitoring and Advocacy of the Government Employees Pensionfund. [AMAGP]
Cape Town
6 December 2018

We at the AMAGP are still analysing the 2018 annual report of the GEPF and will in due course issue a statement about our findings.

Except for the usual withholding of information from stakeholders and lack of evidence of complying with the declared policy of monitoring investment performances we note that no information is given of any action against perpetrators in for instance, the VBS saga or to any person or instance being held accountable for losses by the pension fund.

A cursory glance at the report revealed the following:

1. 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 long term funding target of the trustees of a 100% has yet again <u>not been achieved.</u>

In 2016 the amount required was R2trillion. Two years later, investments are R1,8tr, some R200bn 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 Feb 2018 the position was re advertised. No further progress has been reported on the website and the annual report makes no mention on this topic.

It's uncertain what amounts have been spent on this project to date but in view of the absence of finality, those amounts do not appear to represent value for money. Needless to say, GEPF members still don't have recourse to an Ombud.

3. Operational cash flows remain negative

A big concern is the continued negative cash flows from operations. In 2018 this amounted to R21,8bn (2017: R21,3bn). The main cause is the contributions that are less than benefits, a trend that started in 2014 and has continued ever since.

The knock on effect is that new investments are far less than contributions received. In 2018 the shortfall was R15bn (R71bn - R56bn) and in 2017 it was R40bn (R66bn - R26bn) so in two years, new investments worth R55bn have not been made.

If this trend of <u>not</u> 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 R137bn, from R1,664tr to R 1,8tr. Notwithstanding the increased investment balance, the cash in-flows from interest and dividends remained static in these two years at +/- R74 bn.

When we looked back 11 years we find that the investment balance multiplied by 2,7x, investment income <u>only</u> 1,3x but investment expenses multiplied by 9,8x.

What this tells us is that the investments have 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: R94bn vs R70bn ... R24bn diff
2017: R88bn vs R65bn ... R23bn diff

Some added context....

11 years ago net investment income of R115bn was enough to cover the R22bn benefits 5,4 times. In 2018 net investment income of R153bn covered the R94bn benefits only 1,6 times.

This in part illustrates further the loss of production capacity of investments.

Adamus p. Stemmet
Spokesman: AMAGP

Comment
We are facing uncertainty about the auditors' report, eg no real comment about the lack of actuarial valuation [only acceptance], the commission and fees charged by the brokers seem exorbitant, etc. The auditors might eventually need to consider the ongoing litigation where reputable auditing companies have to explain what happened to due diligence in their audits.

Statement by the PSA

PSA

4 December at 14:30
MEDIA RELEASE

PSA outraged by GEPF write-offs of investment losses

DATE 4 December 2018

ENQUIRIES communication@psa.co.za

The Public Servants Association (PSA) is outraged by reports that the Government Employees Pension Fund (GEPF) has written off billions of loans and investments in amongst others Steinhoff, the collapsed VBS Mutual Bank.

The GEPF's Annual Report that was tabled in Parliament on 3 December 2018, indicated that the Fund, with assets of some R1,8 trillion, suffered losses of R7,4 billion for the 2017/18-financial year of public servants' pension investments mainly through Steinhoff heist by its Board of Directors, compared to R995 million the previous year.

"Despite the GEPF regarding these losses as insignificant, the PSA is of the opinion that these losses could have made a significant contribution in alleviating the needs of public servants related to amongst others, housing and medical assistance. Whilst most public servants can hardly afford bonded housing and medical aid contributions, the GEPF simply wipes out R7,4 billion of their hard-earned pension growth," said PSA Acting General Manager, Tahir Maepa.

The PSA indicated that the Union as far back as December 2017 warned both the PIC and the GEPF to excise due diligence when dealing with public servants' pension investments. "The PSA is extremely disappointed that the PIC and the GEPF have opted not to join a class action against Steinhoff International Holding to recoup money lost public servants money lost to "accounting irregularities" in December 2017. In addition, the GEPF deems it appropriate to simply write off losses," said Mr Maepa.

"The PSA will demand a written response from the GEPF to explain the reasoning behind its decision to simply write off losses without any effort of recovery. The PSA will also in view of these developments strengthen its efforts to ensure that competent, uninfluenced individuals are entrusted with the duty to ensure that public servants' pension investments are treated with the diligence that a portfolio of this extent deserves," said Mr Maepa.

END

Comment
There is significant and disappointing lack of comment and participation from other unions with government employee members.

Thinus Groenewald

5 October 2017

MEDIA RELEASE: **PSA continues to probe investments made by PIC**

DATE: 5 October 2017

ENQUIRIES: Tahir Maepa 082 883 7238

The Public Investment Company (PIC) manages South Africa's largest pension fund, the Government Employees Pension Fund (GEPF) which accounts to 88.2% of assets under PIC.

The Public Servants Association (PSA) representing more than 230 000 members in the public service is perfectly justified to be concerned and probe issues around investments of members' pensions.

According to the PIC's Integrated Annual Report 2017, one of the dominant media issues (page140) is the 'Disclosure of PIC's unlisted investments to the Standing Committee on Finance (SCOF)'. The PSA demands a full list of such investments including actual investments made and the current value of each to be made public.

"We believe this will enable the GEPF to track the portfolio and it is vital that the report includes a list of politically connected persons. The 5% investment guideline for BEE investments represents a substantial sum and in the current political climate justifies stronger oversight," said PSA General Manager, Ivan Fredericks.

The PSA through a representative of the Board of Trustees from the Union will judicially request the details on the 5% portion. The PSA still reiterates that since the GEPF holds the biggest percentage of investments in the PIC, the investors which are the government employees should be represented in the PIC Board of Trustees and should participate on how their money is used.

"The PSA is further insisting labour positions on the Boards of all companies where GEPF funds are invested by the PIC. Although the PIC is the only investment manager in South Africa that focuses exclusively on the public sector, it is not the only one that can do the job if the ultimate solution is to withdraw the GEPF to another investment manager. The PSA will not rest until it is satisfied that members' pensions are not sacrificed for the benefit of the elite few," said Mr Fredericks.

Comment

Although dated, the PSA release clearly indicates commitment to improving the GEPF and highlighting the lack of transparency.

Synopsis

NATIONAL

If GEPF moves 20% of funds offshore, it could be more devastating than credit downgrade

Government employees may score, but economy could suffer

19 September 2018 Londiwe Buthelezi

The GEPF plan to move some of its investments offshore is warranted, but it can impose additional strain on the Rand and trigger more economic woes for the country, investment analysts said on Tuesday.

Rowan Burger, head of strategy at Momentum Investments, said the fund can get better returns from increased offshore exposure in the short to medium term, which was in line with its fiduciary duty to optimise returns for its members.

However, chief economist at Econometrix, Azar Jammine, said a sudden outflow of just a little of GEPF's funds could be more devastating than even the impact of a credit downgrade. "A Moody's downgrade can trigger about R100bn to R150bn of capital outflows … if the GEPF moved just 20% of its funds offshore, we'd be looking at about R400bn in outflows," he said.

With only 10% of the GEPF's funds allowed for investment offshore, public servants have been distinctly disadvantaged compared to workers in the private sector, whose pension funds are allowed to invest up to 30% abroad, said Jammine.

"Their investment returns have definitely been jeopardised, so it is necessary to look for investment opportunities offshore. But it has to be done gradually so that the impact doesn't send shock waves to the rest of the economy."

The GEPF said last week its plans for shifting some investments offshore were gaining traction. The fund's investment strategy says up to 5% of its monies can be invested in global equity, and up to 4% in global bonds.

Allocation on African assets is even lower, at a cap of 2% for African bonds and property and 3% for African equity. In 2017, the GEPF was ranked among the 20 biggest pension funds in the world by UK advisory platform Consultancy.uk.

Similar-sized funds in the top 20 have far more global exposure: Canada's Ontario Teachers' Pension Plan only had 45% of its assets invested in Canada at the end of 2017. Teacher Retirement System of Texas had 57% of its funds allocated to global equity markets, of which only 18% was in US public equities. Denmark's ATP pension fund has more assets invested in listed international equities at 37.9bn kroner ($5.92bn) than in listed Danish equities, at 31.9bn kroner ($4.99).

"The GEPF has historically been more constrained in its ability to invest offshore than its peers … It makes good sense that the restriction to invest offshore be lifted," said Burger. He said investing offshore was likely to deliver inflation-beating returns, which is what the fund needs to meet growth requirements for its members.

Sonja Saunderson, chief investment officer at Momentum Investments, said for the GEPF, where inflation beating returns are guaranteed to the investor, increasing offshore exposure probably provided the best option to match its liability.
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Comment
A sudden outflow would not be beneficial but a gradual outflow would hardly be noticed. The restriction on offshore investment is probably political in nature, ie investment in companies to promote personal and party political goals and might be indirectly linked to the current still ongoing thirst for personal enrichment.

7 December 2018

SOEs a major exposure for the PIC

The asset manager is often called on by cash-strapped, overindebted and struggling SOEs to provide funding
in National by Linda Ensor

The PIC has a R183bn exposure to SOE acting CEO Matshepo More revealed in a presentation to SCOPA on Thursday night.

The asset manager is often called on by cash-strapped, overindebted and struggling SOE to provide funding. An example was the R5bn one-month loan granted to crisis-hit Eskom in February on the basis of a government guarantee.

Mondli Gungubele. Picture: Supplied

Of the R183bn invested in SOE R94bn is invested in Eskom. This is largely underpinned by government guarantees. The PIC's executive head of listed investments, Fidelis Madavo, said that this investment had not been increased in recent times because of worries about governance.

The PIC appeared before the committee to discuss the documents that it had submitted on the demand of the committee. The documents dealt with its listed and unlisted investments, and transaction advisers and costs.

Other major PIC investments in SOE include R27bn in Transnet, R23bn in South African National Road Agency Ltd (Sanral), R15,4bn in the Development Bank of Southern Africa and R16bn in the Trans Caledon Tunnel Authority.

Under questioning, PIC chair and deputy finance minister Mondli Gungubele said he could not divulge the issues between resigned CEO Dan Matjila and the board, but insisted that they were not investment or corruption related.

PIC executives told MPs that the total assets made available to private asset managers was R4,6-trillion, of which R416bn was managed by black asset managers.

A total of 86,5% of assets with black-owned firms were managed by 10 asset management companies — Taquanta, Aluwani Capital, Mazi, Kagiso, Argon, Mergence, Vunani, Meago, Sentio and Perpetua.

According to the documents provided by the PIC, total transaction costs paid for its listed investments in the four years between 2014 and 2018 amounted to R960m, with the largest amount of R193m being paid to Symphony Capital Advisory Services, R110m to Mergence Africa Capital, R86m to Deutsche Securities and R46m to DM5, Sao Capital, White & Case, Templars.

Total trading costs for the listed investments in the four years from 2014-2018 amounted to R540m.

Of the R379m in advisory fees paid to transaction advisers for listed investments, R203m was paid to Mergence Africa Capital and Symphony Capital Advisory Services for the sale of the government's stake in Vodacom in 2015. Symphony was paid R77m in fees in 2016 for the PIC investment in the R9.4bn Steinhoff/Lancaster deal.

DA finance spokesperson David Maynier said these fees seemed to be exorbitant and very worrying.

Total dealing costs of R182m were paid by the PIC between 2014 and 2018 for its unlisted investments, while total trading costs over this period amounted to R540m.
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Comment
Any transaction on a stock exchange has costs, which the buyer and seller pay. The same for property and similar investments. Also, the costs mentioned above are probably for listed investments only, leaving us to speculate on the unlisted investments' costs, which should be about a quarter of the listed ones. Perception – the true total cost the GEPF is paying for PIC's services – transaction, trading, advisory, etc – is a huge sum of our pension money, the ROI for this sum is decreasing rapidly, and there is doubt if the services are reasonably market related. Hopefully the inquiry will clarify this.

Synopsis
South Africa

Former PIC CEO Dan Matjila said to contest exit

Sam Mkokeli and Loni Prinsloo 26 November 2018

The PIC said late last week he had quit. Picture: Moneyweb

Daniel Matjila, the outgoing head of the PIC, is contesting the circumstances surrounding his departure, according to people familiar with the matter. Matjila argues that the PIC misinterpreted his offer to resign last week, said the people, who asked not to be named as the information isn't public. He had intended to quit formally in early 2019 and serve out a notice period, but the PIC considered his departure to be with immediate effect, they said.

He's now seeking to get paid out for the remainder of his contract that would have ended in December 2019, according to the people.

PIC Chairman Mondli Gungubele, who is also deputy finance minister, told Johannesburg-based broadcaster Power FM on Wednesday that Matjila's package would be within the confines of the law.

A dispute over his exit would cap a tempestuous relationship between the PIC and Matjila, who had been under pressure to resign.

Comment
If you offer to resign you mustn't be surprised if it is accepted.
Contesting his exit is to be expected; this is the political game that has become the norm in South Africa. I keep wondering who funds

their legal costs and if SARS know about the sources of the funds.

ISIBAYA FUND OFFERS SA SALVATION IF IT CUTS TIES WITH PIC

6 December 2018

By Sygnia CEO, Magda Wierzycka

As SA suffers a new wave of power cuts, or to use its gentler euphemism "load shedding", one has to wonder how we are going to get ourselves out of the hole we are in. There is government issued debt, government guaranteed debt issued by state owned enterprises SOEs such as Eskom and SAA, and the direct debt of the same entities. All need to be serviced in an environment of virtually no growth, increasing unemployment, declining tax revenues, poor education and deteriorating health care services. In fact, there is a long list of cash hungry initiatives, which, if not addressed soon, will quickly send us further into the economic abyss. Most significantly, we are not only running out of money, we are running out of time.

If we do not get the fiscal situation under control we will waltz into the arms of the IMF and an austerity loaded bailout. Unfortunately, we have very few options on the table. Consequently, one needs to be a lot more creative in how we allocate what resources the country has. There is one existing solution, which, if deployed properly, could make a material difference to SA's situation. It is the Isibaya Fund, managed by the PIC on behalf of the GEPF. On paper, the Isibaya Fund provides finance for projects that "generate financial returns while also supporting positive, long term economic, social and environmental outcomes for SA". In practice, it has been a slush fund for BEE entrepreneurs with questionable credentials. Instead of supporting growth, it has destroyed value while propping up companies that should not exist. Someone really needs to look into the affairs of Ayo Technologies, where R4,3bn of the PIC's money is in the process of being looted while the share price is manipulated on a daily basis.

The very fact that the PIC refuses to disclose the transactions it has supported tells us a lot but the past is the past. Looking forward, the money could be deployed as initially envisaged to resolve some of the massive issues facing SA, boost growth and reduce unemployment. But this requires a completely different set of competencies than the rest of the PIC's responsibilities. If managed on a commercial basis in a completely transparent manner by the very best investment minds with impeccable credentials as opposed to political cadres; the fund could invest in projects that support the provision of education and affordable health care, renewable energy initiatives and myriad other opportunities that could make a material difference to our country's trajectory. The money could also be deployed to aid SOEs, provided they can demonstrate adherence to good governance and the ruthless elimination of overspending and corruption, a big ask at this stage. For this to work, the fund would need a mandate similar to that of a sovereign wealth fund. It would also need to be split from the PIC, which has too many issues to deal with to be effective in the execution of even its primary mandate.

While the PIC's largest client is the GEPF, its largest stakeholders are SA taxpayers. The GEPF is a defined benefit fund and any shortfall in its ability to pay pensions must be met by taxpayers. Taxpayers thus have a right to transparency, not only in the PIC's primary mandate but also in the investments made by the Isibaya Fund. If the fund's mandate requires short term financial returns to be risked in a trade off against long term growth, it should need to account for its investments to taxpayers. My appeal to the board of trustees of the GEPF is simple: take control of the money entrusted to you and use it for the benefit of both your members and the broader SA. The chances of this being successfully achieved will be much greater if the Isibaya Fund is constituted separately from the PIC.

Publication: Business Day (Late Final)
Date: Wednesday, 5 December 2018

Synopsis

Ayo execs blew whistle over Survé-linked conflicts of interest

A leaked letter makes damning allegations regarding the company's corporate governance issues, including “a lack of professionalism”.

amaBhungane
8 December 2018 - Sam Sole

A leaked letter written to the board of Ayo Technology Solutions by its executive team reveals a host of concerns regarding corporate governance issues at the company.
Ayo is controlled by African Empowered Equity Investments (AEEI) that owns about 49% of the shares. Iqbal Survé’s Sekunjalo Investment Holdings in turn controls 61% of AEEI.

The damning letter alleges “lack of professionalism” and interference in the affairs of the company by board members and executives linked to Survé-controlled entities.
Ayo was listed on the JSE in December 2017 following a controversial private placement that saw the PIC subscribe for the entire private offering at a price of R43 a share — a R4.3bn investment for a 29% stake.

The offer raised eyebrows as the net asset value of Ayo at the time was just 15 cents per share. Ayo shares are barely traded, but on Friday were offered at R23.65 a share.

In August, Ayo issued a Sens announcement stating its CEO Kevin Hardy and chief investment officer Siphiwe Nodwele had resigned, without giving an explanation. The letter, dated 7 August, was signed by Hardy, Nodwele and CFO Nahied Gamieldien, who has stayed on as acting CEO. The letter lists 14 points of concern relating broadly to conflicts of interest between Ayo and AEEI and to questionable decisions that appear to be driven by those conflicts.

The letter complains of the “continued interference” of AEEI CEO Khalid Abdulla [Survé’s brother-in-law] and his executives in the daily operations of Ayo, warning this “could lead to a breach of the Companies Act and the JSE listing rules”.

The letter decries “resolutions … sent to the board for signature without any consultation with the Ayo executives” and notes concerns “around the lack of independence on the board and the significant representation in particular from INL”.

INL refers to Independent News & Media SA (INMSA), of which another Survé-controlled vehicle, Sekunjalo Independent Media, owns 55%.

The GEPF announced this week that its R1bn loan to Independent had been fully impaired after INMSA and Sekunjalo “did not honour their payment obligations” when they became due in August. It is understood that about R400m was due.

At the heart of questions about the PIC’s investment in Ayo was the suspicion it was partly aimed at allowing Survé companies to meet their obligations. The letter references two transactions that might have a bearing on those obligations.

One was a concern raised by the executives about a decision to transfer R400m of the PIC investment in Ayo at the instruction of the board to 3 Laws Capital, a company of which Survé is a director.

The letter notes: “The requirement for the R400m investment/loan imposed onto the company by AEEI into 3 Laws Capital Proprietary Limited (a related party) to be returned with interest in our bank account by the due date of 31 August … (note various attempts to gain visibility on statements of the account have failed to date which has given us much consternation).”

In previous reports amaBhungane questioned the valuation and suggested the transaction was aimed at unduly benefiting AEEI. Now the letter shows the three Ayo executives shared those concerns. Hardy was previously BTSA CEO.

As one concern it lists: “The nature of the BTSA transaction and in particular the inflated valuation of R990m for a 29,9% stake. It is noted that a commitment was made by AEEI that they would withdraw from this transaction given the state of the BT relationship and our concerns as the AYO executive.”

BT Group said it would not comment on “what appears to be confidential correspondence between third parties” but emphasised it was fully committed to BEE transactions that “also satisfy the highest levels of governance”.

✲ Additional reporting byWarren Thompson, Craig McKune and Susan Comrie.

Comment
A logical deduction is the funds to repay the loan appear to be amply available in the interrelated Survé companies although some seem to be technically insolvent; funds in their millions seem to move between these companies with the ease of a politician but not to the company that has to repay a loan; the GEPF wrote the loan off three months after the loan was due. Makes you wonder doesn't it?

Synopsis
Columnists

GEPF: Long-term funding level dropping over time

Barbara Curson 10 December 2018

GEPF funds are a veritable oasis as government funds begin to dry up. They need to be protected and nurtured. Picture: David De Vleeschauwer

The GEPF now has R1,8 trillion assets under management, up 8,3% (R1,7 trillion) from 2017. There are 1 273 125 active members, and 450 322 pensioners and beneficiaries.

Cash and cash equivalents amount to a healthy R22,2 billion (2017: R30,2 billion). Included in cash and cash equivalents are short-term investments of R19,5 billion (2017: R27,7 billion). These investments comprise money market instruments with original maturities of three months or less. The GEPF provides no details of these money market instruments.

Funding levels

The funding levels provide an indication of the health of the fund. The minimum funding level is above the target of 100%, but the long-term funding level is following a downward trajectory.

An actuarial valuation is carried out every three years, and the last one is 31 March 2016. The actuarial valuations to date show a declining long-term funding level, from 83,1% at 31 March 2014 to 79.3% as at 31 March 2016. This falls below the board of trustees' target of 100%.

Even though the 2016 actuarial valuation indicates that the GEPF is 115,8% funded, the long-term funding level indicates that only 79,3% of the liabilities and the recommended reserves could be afforded at that date.

Year	Minimum funding level	Long-term funding level
31 Mar 14	121.5%	83.1%
31 Mar 16	115.8%	79.3%
31 Dec 18	?	?

Actuarial valuations

The actuarial valuation is based on the assumption that the fair value of the assets is correct. The BOT is responsible for the valuations of the unlisted investments, which "involves the use of various complex valuation models and sensitive inputs as well as significant board of trustees' judgements".

The external auditors, Deloitte and Nexia SAB&T, opined: "We consider the disclosure of the unlisted investments in the financial statements to be relevant and appropriate."

We will have to wait for the next actuarial valuation to be completed at the end of December 2018.

Investments

Investments include listed equities, domestic bills and bonds, unlisted equities, and foreign collective investments. Not all investments are registered in the name of the GEPF.

The net investment income of R153 billion for 2018 (2017: R72,1 billion) indicates an excellent return of 8.5% on the investments of R1,8 trillion. Or does it?

The reality is the cash statement. Cash income, comprising interest and dividends received for the year, amounted to R75,1 billion (2017: R74,4 billion). However, net contributions and benefits paid for the year resulted in a deficit of R18,7 billion (2017: R18,4 billion). An amount of R56,5 billion (2017: R26,7 billion) was spent on purchasing new investments.

The other adjustments to investments comprise the few minor cash items, and then the large journal entries, namely, impairments for the year of R7,4 billion (2017: R1 billion), and the massive adjustment to fair value of R69 billion (2017: R60,9 billion). The impairments comprise mainly the Lancaster Group (R4,3 billion) and Independent News and Media (R1 billion).

Fair value of assets

The fair value calculation is subjective, and it has been checked by the external auditors. Nevertheless, it has a significant impact on the investment return as well as the actuarial funding level.

Between the GEPF and the PIC detailed schedules have now been provided of all listed and unlisted equity investments, all direct loans, advisory fees, transaction costs per service provider, trading costs per investment, and the quantum of capital allocated to bond issuers.

Listed equity investments can be evaluated according to information in the public domain. However, it is not possible to do so for unlisted equity investments or loans. The GEPF includes loans under unlisted investments. However, the GEPF does not provide the interest rate payable on loans, nor does it provide details of any unpaid interest or unpaid dividends. Accounts receivable includes investment debtors of R2,2 billion (2017: R2,7 billion). Presumably this reflects unpaid interest and unpaid dividends on the unlisted investments?

The detailed Isibaya Investment Schedule at 31 March 2017 provided to parliament by the PIC, which includes loans and equity investments on behalf of the GEPF, provides an indication of unpaid interest and nil equity returns on investments. Many direct loans were not paying any interest.

This raises three questions:
1. Is unpaid interest capitalised, and added to the loan? In other words, would this be included in the ‘increase’ in the investment?
2. Is the impairment of investments in the amount of R7,4 billion for 2018 realistic?
3. If no interest has ever been paid on a loan, is it realistic to expect the capital payments to be made?

Significant future events

The next actuarial valuation, which is expected on 31 December, may indicate further declines in funding levels.

IFRS 9 (International Financial Reporting Standards) must be implemented in 2019. This may result in significant adjustments.

In 2016 the GEPF was involved in litigation in regard to changes made to the fund on actuarial factors used in calculating the payment of benefits. This matter has not been concluded.

It is trite that the government pension fund is guaranteed by the government. Any guarantee becomes useless if the guarantor starts running out of funds. The sad reality is that until all the audited reports of the various state-owned enterprises dribble in, no one has any idea how dire the situation is. The GEPF funds are the last remaining deep well surrounded by encroaching desert – until that too runs dry.

Unfortunately, taxpayers will take the eventual hit.

Comment
*From the columnists view above “*actuarial valuation is based on the assumption that the fair value of the assets is correct.” *It is horrifying to realise our pension fund’s value is based on an assumption!*
We also depend on the auditors’ statement, which seems to be lacking in some respects, such as the unlisted investments, the lack of return on loans, the actuarial valuations of the unlisted investments seem to be subject to very creative excuses [“complex valuation models and sensitive inputs as well as significant board of trustees’ judgements”]. *Further reason for concern I believe.*

Synopsis
PARLIAMENT: SCOPA demands answers on Steinhoff, VBS and PIC's other troubled investments

Published Date: 2018-12-10 Source: DailyMaverick

The PIC is rid of two executives and has moved to debar them for having failed to inform it of the looting at VBS Mutual Bank. Not quite what happened at Steinhoff, another

PIC investment, although the PIC is part of a class action suit.

This emerged in Thursday's briefing to SCOPA. MPs also heard that with R183-billion invested in SOE, more than half that in the troubled power utility Eskom, the PIC is re-assessing its risk there.

The PIC came with a 14-strong delegation of board directors and executives to the after-hours session on the last day of the 2018 parliamentary calendar.

SCOPA had called the meeting over a series of controversial investments by the state-owned asset manager of some R2-trillion of government workers' pensions and social savings, including in VBS Mutual Bank, Steinhoff and elsewhere.

The briefing happened with a new acting CEO, Chief Financial Officer Matshepo More. Unusually, the PIC was allowed to make a more than a 60-minute presentation of its 93-page submission before SCOPA members raised their questions. The presentation was nothing to write home about, the usual rah-rah-rah state entities and departments present to MPs. Except that at SCOPA, they don't get away with it.

With regards to the collapsed VBS Mutual Bank, the PIC had two executives on their board. What happened, asked ANC MP Nthabiseng Khunou. "I believe the rot... was too deep," said More, adding that the board had asked the executive team to reflect on processes. "What they did not report to us is that there were potential fictitious transactions."

SCOPA chairperson Themba Godi intervened: "What did they tell you?". "Nothing," replied the acting CEO. "On appearance, they were telling us everything is good..."

And it emerged that both executives the PIC deployed to the VBS board - head of legal Ernest Nesane and head of risk Paul Magula - are gone, having respectively resigned and been fired. More also confirmed the PIC had had both professionally debarred and is looking at laying criminal charges.

Asked about consequence management over the Steinhoff debacle, PIC investment management executive Rubeena Solomon said issues were raised. "The engagement was not always successful; we received pushback from the company (before collapse)... We did not reap the rewards we would have liked to."

But the PIC maintained it believed there was "still significant value in the investment" in the Africa portfolio, despite concern over lost value. The PIC is part of a class action to try to recoup lost monies lost in the Steinhoff share price collapse.

Yes, MPs were told, there were other issues on investment where due diligence did not prevent dodgy investments like Steinhoff, where the corporation had depended on auditors.

And yes, MPs were told, there were issues around the letter offering to resign in April 2019 by former CEO Dan Matjila made to the Board that led to the Board accepting his resignation. Deputy Finance Minister Mondli Gungubele told MPs he'd prefer not to go into detail of an employee-employer relationship.

"There are statements made in the letter the board... they affect the relationship between the CEO and the board. I strongly appeal to the committee not to force us to tell you," he said, adding later: "There is no corruption discovery... but there are other pertinent issues which we prefer not to deal with."

UDM leader Bantu Holomisa, who had pushed the PIC governance concerns, has welcomed President Ramaphosa's announcement of the inquiry in October 2018. "The inquiry should clean up the mess at the PIC and get to the bottom of the rot... The pension funds of past and present government employees should be protected from the ruthless sharks that are eating away at their financial futures," said Holomisa in a statement at the time. **DM**

South Africa

GEPF would buy Eskom debt, Business Times reports

The company can’t be allowed to fail, says Abel Sithole.

Paul Richardson, Bloomberg 9 December 2018

Eskom's total debt is R419bn, while the GEPF says it has R1.6tr of assets. Picture: Bloomberg

South Africa's state pension fund would buy Eskom bonds if the government offered them to help refinance the ailing power utility, the Business Times reported.

The company can't be allowed to fail because of the negative impact it would have on the country's economy, the Johannesburg-based newspaper reported, citing Abel Sithole, principal executive officer at the GEPF. Eskom's total debt is R419 billion.

"If the government came to me or the GEPF or any investor and says, 'We will issue a bond because we need to refinance Eskom, we'll give you a guarantee, and we'll give you a good coupon, the duration of this bond is suitable for your liabilities,' yes, thank you very much, we will take them," the paper quoted Sithole as saying.

Eskom, the supplier of almost all of South Africa's power, is being battered by declining sales, high fixed costs, surging debt and unplanned outages that are holding back economic growth. The Johannesburg-based company poses the biggest credit risk to Africa's most industrialised nation, according to S&P Global Ratings.

Comment
What is there to comment? Any government aid comes from our taxes remember. Here is sensible comment from Stan, one of our regular contributors:

"Must the GEPF buy ESKOM debt - I assume that it is a question of buying further future debt?

As a citizen of RSA YES because the economy needs the electricity;

As a taxpayer - possibly NO because they could approach the Treasury for further bailout help funded by taxes;

As a member of the GEPF Yes because it means risk free interest that the fund will be earning - provided that the rates are market related;

As a responsible portfolio manager MAYBE, because you have to evaluate the mix of investments and the risks involved AS WELL AS the possible LOSS of income because such investments would prevent investments in more profitable equity investments;

As the elephant in the room, the answer could possibly be YES provided the basic responsibilities relating to the original mandates coupled with responsible basic considerations of all of the above GOING FORWARD.

The overall answer is to be a responsible player in the South African economy ALL OF THE TIME".

Synopsis
Business
City Press

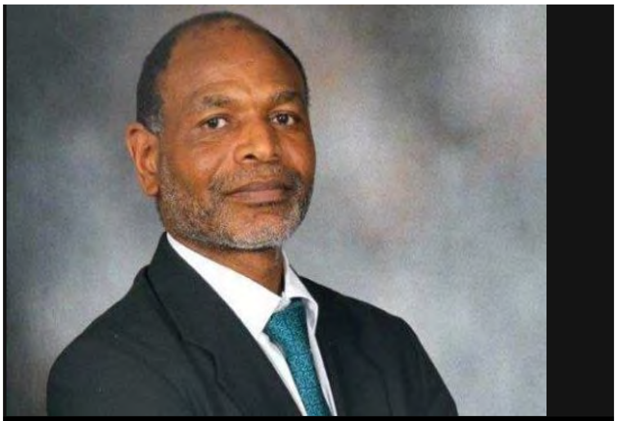
State pension fund tries to get R1 billion independent loan repaid

Justin Brown 2018-12-11

The GEPF is investigating ways of getting the R1 billion loan it made to Independent Media and related entities repaid. GEPF principal executive officer Abel Sithole said this comes after the multi-platform company defaulted on a payment due in August.

"There are negotiations to find other ways to get repayment … We still expect payment," Sithole said during an interview with City Press last week.

"[Independent Media] is not the only non-performing asset [in the GEPF portfolio], we have plenty of those … If an asset manager gets 60% of its decision right, then they are doing well."



Abel Sithole

A GEPF official said during a media conference that the term of the loan was seven years and that Independent Media had only defaulted on one portion of the pension fund's loan. "We are currently in negotiations to restructure that payment," the official added.

It could prove difficult for the GEPF to get any payment for the capital or interest from the Independent Media loan because the documents that went with Sagarmatha Technologies, which failed to list on the JSE, showed that by December 2016 Independent Media had accumulated losses of R617 million.

Another factor that will make it difficult for Independent Media to repay any GEPF debt is that as at December 2016, its total liabilities – almost R2.8 billion – were greater than its nearly R2.4 billion assets. The company is technically insolvent. In indication of the dire situation the company faces, the GEPF has impaired the full loan it has with the company to zero.

About the PIC investment at Ayo Technology Solutions, Sithole said the GEPF had been following up on "some of the questions that had been asked". "We want to get more clarity around the decision-making process," he said.

"The broad answer is that when [the PIC] invested in Ayo at the time, the prospects for Ayo were indicative that they were very profitable. Since then there have been developments, certain business promises that they expected to be realised have not been realised and led to a revaluation of the asset," Sithole said about the questions the GEPF was asking of the PIC regarding how the Ayo investment was valued.

Regarding the R18 billion that the pension fund lost owing to the implosion of **Steinhoff,** Sithole said what the fund learnt from that failure, which related to investments in general, included the requirement for rigour in the analysis of the investments one makes and the due diligence that follows.

Another key lesson was that the GEPF's investment in Steinhoff was largely a passive one, where the pension fund followed investment trends when it bought a stake in the international retail holding company.

Sithole defended the GEPF's passive approach to investment and tracking investment trends, saying generally the approach had "paid off handsomely".

The GEPF is part of the class action to reclaim Steinhoff investment losses.

President Cyril Ramaphosa has set up an inquiry to probe the affairs of the PIC. Sithole said to date the pension fund had not been asked to participate in the PIC inquiry. "We are concerned about governance issues at the PIC," he added.

Comment
Interesting the default of the whole payment; why not pay what you area able to? It looks like more information is going to bubble up later about this default.
If we accept Abel Sithole's statement of "plenty" non-performing investments and 60% success rate in investment decisions, the question immediately arises why the PIC is paid such a huge amount for 40% failures? Other pension funds surely have a higher success rate, even in South Africa.
The media reported widely on Ayo before the GEPF investment. It seems the negative reporting didn't reach the GEPF decision process.
It appears the GEPF focuses on finding excuses for companies it invested in, when they perform poorly. See Ayo in the column on the left.

The GEPF AMAGP: Invitation

GEPF members, either still working or pensioned, are cordially invited to join the GEPF Monitoring Group/AMAGP. We always need members and co-workers, all contributing to the cause and, of course, it is in their own interest.

Soos meeste staatsdienspensioenarisse is u waarskynlik afhanklik van u maandelikse pensioen vir die gehalte van u lewe. Agv die swak toestand van regering in die RSA, die aanloklikheid en omvang van ons Fonds asook staatskaping [nog nie heeltemal weg nie], ontstaan die vraag hoe volhoubaar die pensioen is en gaan bly, dws hoe lank gaan ons nog die volle pensioen bly kry. Ons by die AMAGP se oorwoë mening is dat daar wel gevare is en dat ons, die aandeelhouers van die pensioenfonds, dringend hieraan aandag moet gee. Verontagsaming hiervan kan lei tot ‘n soortgelyke situasie as dit waarin Spoorweg pensioenarisse hulle steeds bevind. Om die rede versoek ons dat u ons ondersteun. Sluit aan by die AMAGP, ‘n vrywillige organisasie, bestaande uit staatsdienswerknemers en -pensioenarisse, met die doel om ons Fonds te beskerm.

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If you are interested in becoming a member of the organisation, please complete a membership application to be found on the FB page or on the website.

Semper Vigilans!

CONCLUSION

To reflect about…

Dear Reader,

1. The AMAGP endeavours to ensure the sustainability of the GEPF to the benefit of current and future members of the GEPF. We want many more members for logical reasons – to provide the ‘voting power’ to ensure the GEPF Trustees carry out their assigned roles.

2. The MG was established in 2016 as a voluntary organisation and, as the AMAGP, will remain so for the foreseeable future. The AMAGP maintains good relations with the GEPF Trustees as well as the PIC. The AMAGP is also in continuous communication with other stakeholders and interested parties to ensure the widest possible concern for our current and future pensioners. This increasingly includes members of parliament on all sides of the political spectrum, as soon as they realise their voter’s pension is endangered.

3. Although until recently [about 2013] the GEPF performed satisfactory in its endeavour to provide sustainable pension benefits to pensioners and future beneficiaries, SC and its resultant tentacles started reaching out to the GEPF and PIC and created alarm. The blatant SC leading inevitably to degrading our democracy and the resultant downgrade in international financial grading still threatens our GEPF’s sustained viability, including those very same politicians who eventually want to retire on pension. As SC recedes other dangers threaten our Fund, such as the non-performing SOE and bankrupt municipalities that the government wants to use our Fund to fund.

4. The financial woes of ESKOM, SAA and other SOE [PETROSA, PRASA, Transnet, etc] feature largely, making looting the GEPF very attractive.

5. In conclusion dear reader, decide if you want to risk the retirement you are excited about, to be similar to other departed and failed pension funds, or are you prepared to become a paid up member of the AMAGP? Litigation and court interdicts are expensive, although we haven’t gone that far yet.

Comments, articles and recommendations about and for the newsletter are welcome. No anonymous submissions will be accepted; however, names may be withheld on request.
Please submit to: editorgepfmg@gmail.co.za

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