GEPF

All our eggs in one basket!

All our eggs in one basket!

Common wisdom implores that you should not put all your eggs in one basket. The GEPF is itself one BIG basket but there are some very BIG eggs which, if they should break, will have a significant impact on our Fund.

Below is the investment summary as per the GEPF 2017 Annual Report:

INVESTMENTS

3.1 Investment summary

	Notes	Fair value 2017 R'000	Amortised cost 2017 R'000	Total 2017 R'000	Total 2016 R'000
Money market instruments*	3.1.1	–	36 517 174	36 517 174	9 793 504
Direct loans*	3.1.2	–	40 032 840	40 032 840	22 162 371
Bills and bonds**	3.1.3	548 680 414	–	548 680 414	551 891 552
Local		530 284 820	–	530 284 820	526 393 124
Foreign		18 395 594	–	18 395 594	25 498 428
Investment properties**	3.1.4	13 502 658	–	13 502 658	10 524 312
Equities**	3.1.5	928 936 204	–	928 936 204	956 637 410
Listed equities		882 929 188	–	882 929 188	915 519 277
Primary listings		684 100 250	–	684 100 250	659 843 355
Secondary listings		198 828 938	–	198 828 938	255 675 922
Unlisted equities		46 007 016	–	46 007 016	41 118 133
Local equities		36 905 227	–	36 905 227	31 985 379
Foreign equities		9 101 789	–	9 101 789	9 132 754
Preference shares**	3.1.6	3 972 193	–	3 972 193	3 024 727
Collective investment schemes**	3.1.7	92 381 707	–	92 381 707	83 557 345
Local instruments		230 903	–	230 903	213 262
Foreign instruments		92 150 804	–	92 150 804	83 344 083
		1 587 473 176	76 550 014	1 664 023 190	1 637 591 221

Concentration risk

Concentration risk is the risk of losses arising due to poor diversification within funds. This relates to both credit and market risk as excessive concentrations in a particular or correlated sector, issuer, asset class, term structure or financial instrument type can result in undesirable risk exposures. This risk is managed in accordance with investment mandates and approved policies, which dictate the level of concentration.

STATEMENT BY AMAGP: CONCERNS ABOUT CONCENTRATION RISK PRESENT IN GEPF INVESTMENTS

The statement and questions were released on 18 December 2017 to the GEPF.

6 MONTHS later and the GEPF has not even bothered to acknowledge receipt let alone provide answers to the critical questions posed.

The FULL AMAGP statement can be found at this link: https://www.amagp.co.za/media/07concernaboutconcentrationingepfinvestments.pdf

Herewith an extract from the statement with the unanswered questions:

*"Bearing in mind that the GEPF, on the second page of its 2017 Annual Report as part of its Mission and under the heading of Integrity, states that it will "**Not misrepresent or withhold information to which our stakeholders are entitled"**, the GEPF Monitoring Group wishes to ask the following detailed questions relating to the management of concentration risk, and to which it expects an honest and detailed answer consistent with the stated policy of the GEPF as quoted above.*

1. *Is it accepted by the Trustees of the GEPF that their mandate is, above all, to protect the interests of members and pensioners, that the GEPF and the funds at its disposal is not a primary instrument responsible for the growth of the South African economy and which funds should not be deployed to satisfy political goals, however praiseworthy these may be?*

2. *• How can a concentration risk, such as present in the investment in Naspers by the GEPF, as well as in the case of other investments clearly evident from the 2017 Annual Report, possibly be justified, and how is it possible that this situation was allowed to develop?*

3. *• Is there a plan to reduce the extent of concentration risk present in the investment portfolio of the GEPF? If so, what are the details? If not, why not?*

4. *• Why was the level of investments made abroad not substantially increased some years ago already?*

5. *• Has the level of investments made abroad been increased relative to that pertaining at 31 March 2017, and if so, what are the parameters and time scales?*

6. *• Are there any upper limits on individual investment exposure by the GEPF (in terms of amount, % ownership and/or the proportion of investment totals or sub totals)? If so, what are these limits? Further, if indeed so, how often does rebalancing take place?"*

Sometimes receiving no comment or answers says far more than any detailed explanation repeating the standard boilerplate answers.

How exactly can the GEPF actually justify the continued concentrations as pointed out by the AMAGP? See the calculations and examples herewith. Between three entities ie. Naspers, the SA Government and Eskom, 35% of all investments are accounted for!

GEPF Concentration risk examples

Billions FY2017	Equity	Bills & bonds	Other	Total
NASPERS	161,9			161,9
SA GOVERNMENT		327		327
ESKOM		89		89
Other	767	132,6	186,5	1086,1
Total	928,9	548,6	186,5	1664
Big eggs %	17%	76%		35%

These outcomes are effectively in terms of the past and present decisions of the PIC and supported by the BoT itself. What is worrying is that those tasked with external oversight does not place enough emphasis on this critical matter. Their continued silence implies consent.

THE KEY DISCUSSION POINTS REGARDING THE CONCERNS OVER CONCENTRATION will be dealt as follows...

SA GOVERNMENT

DOMESTIC MARKET

PUBLIC INVESTMENT COMMISSIONER (PIC)

THE SA GOVERNMENT

The GEPF's exposure to SA government backed debt via SOE's like Eskom is enormous. Earlier this year, we all realized the impact of ESKOM, not only on the economy but the potential disastrous impact it may have on the GEPF.

Republic of South Africa

Like the first domino in the domino effect, if the ESKOM one tumbled we were in serious trouble! So what did the Pension fund via the PIC do? Well it had to pony up R5bn to tide things over. Not the SA Government, not National Treasury, but the GEPF pension fund via their agents the PIC! Does ESKOM not have its own pension fund?

In addition to "backing" SOE debt, the SA government also "guarantees" the benefits of the GEPF. So, the SA Government didnt have R5bn spare to bailout ESKOM for a month. If push comes to shove in respect of honoring the GEPF guarantee, how will they manage to get their hands on R84 billion per annum (that is 7billion Every month!) to make good the benefit payments to GEPF beneficiaries? Also remember, the SA Government would need to return the R487bn invested to the GEPF. What are the realistic chances of someone taking over or buying that "investment" at that R487bn price-tag?

Then we also REMEMBER THE TRANSNET PENSIONERS and the SA Governments strategy to deal with that particular problem. Like an asset who has come to the end of its useful life, pensioners are to be written down! This is not a good testimony of a caring government that makes good on their guarantees and/ or do the right thing.

Also think about, if the SA Government did not have Cash for ESKOM, how can any other SOE of lower importance to the SA economy really have any hope on actual tangible government support in a time of crisis?

THE SA GOVERNMENT – CLIENT, MASTER , SHAREHOLDER, GUARANTEER, ETC

The SA Government guarantees pension benefits, as employer it pays contributions to the GEPF, is the sole shareholder of the external investment manager employed by the GEPF, and appoints half the Board of Trustees. The SA government bonds amounts to R324bn and together with Parastatal bonds of R163bn the total invested amounts in SA INC is R487bn. This is almost 30% of the total investments of the GEPF!. Eskom, with all its governance problems, expose the GEPF to at least 85bn in bills and bonds.

Even with the aftermath of State capture, the question that needs answering is it responsible investing and in the best interest of the pension fund to be exposed to the SA government to the level currently on the books?

Furthermore, In view of the above, is it possible for the GEPF, as a separate legal entity, to actually have arms length transactions with the SA government?

At the height of the Steinhoff debacle, the GEPF confirmed publicly that they require the highest standard of corporate governance from all those that they invest in. IF this criteria is strictly applied, the GEPF should be liquidating their investments in the SA Government and the parastatals with due haste. Just go read the Auditor-General's (AG) general report where the poor status of corporate governance of Government departments and public entities are reported year after year. (http://www.agsa.co.za/Portals/0/Reports/PFMA/201617/GR/01%20exec%20summary.pdf)

The AG commented on SOE's following the audits of the 2016/7 financial year:

"The accountability for government spending at state-owned enterprises (SOEs) is an area receiving attention in the public, as government funds and guarantees are being used to sustain some of the SOEs. The audit outcomes of SOEs continued to regress – most often as a result of inadequate controls, monitoring and oversight. Of the 25 SOEs we report on, only five received clean audit opinions in 2016-17 and the audits of six were still outstanding – four in the South African Airways (SAA) group, SA Express and the Independent Development Trust. The audit outcomes of the SOEs audited by private audit firms also regressed. "

Are we to believe it is responsible investment to continue investments in enterprises which audit outcomes are regressing? Is this the behavior of a prudent investor of pension funds? We wonder if this will stand up in court?

This absence of corporate governance excellence is not new and regardless of all the periodic public announcements of clean up and zero tolerance for fraud, the malfeasance continues unabated. We have seen the hiring and firing of Boards of Control. Each new spate of hirings promises clean up and clean administration. Very few deliver.

As such, an institutional investor with such high standards of corporate governance , apart from practicing what they preach, should put their money where their mouths are. As a start, no more new investments until such time as we have say three consecutive years of improvement of corporate governance and improved audit outcomes.

Will this happen?

Not likely, as the decision makers at the GEPF and the PIC are unfortunately closely related and influenced by the SA Government. If the Trustees really were acting with an INDEPENDENT mind ONLY in the best interest of the FUND, it is difficult to see how investments can be continued in the SA Government and its closely related parties on the scale currently visible.

DOMESTIC MARKET

The GEPF invest more than 50% of its funds in SA Equities. Although they attempt to manage concentration risk by investing across sectors, the fact remains, country concentration risk does exist in that only 5% is in equities offshore. This comes courtesy of the BoT who have VOLUNTARY adopted regulation 28 of the Pension Funds Act. Although we are all proudly South African, the wisdom of this original decision, and the assumptions it was based on, must surely be overdue for revision by now.

	Total issued shares (number)	GEPF's shareholding (number)	GEPF's shareholding %	Fair value 2017 R'000	Fair value 2016 R'000
1. Primary listing on the JSE				**684 100 360**	659 843 355
Naspers Ltd	438 265 253	69 974 719	16	**161 991 474**	140 916 592
Vodacom Group Ltd	1 487 954 000	228 888 176	15	**34 791 003**	36 300 139
MTN Group Ltd	1 884 269 758	278 017 564	15	**33 918 143**	38 856 448
Sasol Ltd	651 389 516	85 165 089	13	**33 264 632**	38 306 970
Standard Bank Group Ltd	1 618 018 412	192 356 750	12	**27 651 283**	26 329 560
FirstRand Ltd	5 609 488 001	494 877 122	9	**22 942 503**	24 671 630
Sanlam Ltd	2 166 471 806	264 928 123	12	**17 848 208**	18 277 152
Remgro Ltd	529 217 007	83 817 238	16	**17 273 895**	19 491 275
Aspen Pharmacare Holdings Ltd	456 435 185	54 387 731	12	**14 941 397**	16 327 726
Bidvest Group Ltd	335 404 212	53 596 337	16	**13 918 969**	17 956 691
Other				**305 558 743**	282 409 152
2. Secondary listing on the JSE				**198 828 938**	255 675 922
British American Tobacco Plc	2 027 019 508	44 701 596	2	**39 401 775**	44 196 980
Anglo American Plc	1 405 467 840	185 477 868	13	**37 846 759**	17 768 168
Steinhoff International Holdings	4 322 903 037	431 025 976	10	**27 658 937**	[illegible]1 511 565
Old Mutual Plc	4 929 894 751	493 772 035	10	**16 630 242**	20 738 199
Richmont Securities AG	5 220 000 000	147 746 219	3	**15 664 054**	17 918 396
BHP Billiton Plc	3 112 071 796	61 609 067	3	**12 764 783**	9 052 532
Reinet Investments S.C.A.	1 959 412 860	235 929 136	12	**6 879 694**	7 424 569
Mediclinic International Plc	737 243 810	53 866 494	7	**6 419 809**	10 165 161
Mondi Ltd	367 240 805	19 830 517	5	**6 384 435**	–
Glencore Plc	14 586 200 066	89 697 196	1	**4 712 691**	–
Brait SA Ltd				–	8 337 394
SAB Miller Plc				–	43 042 291
Other				**24 465 759**	36 520 667
3. Unlisted equities				**46 007 016**	41 118 123
Pareto Ltd	3 459 251 062	2 629 030 807	76	**10 591 000**	7 639 000
Lexshell 44 General Trading (Pty) Ltd	1 000 000	500 000	50	**8 884 227**	7 105 006
Pan African Infrastructure Development Fund*	–	–	40/98	**3 901 649**	3 360 356
African Bank Ltd	487 500 000	121 875 000	25	**2 240 000**	2 500 000
ADR International Airports SA (Pty) Ltd	166 000	166 000	100	**2 204 000**	2 090 000
Bayport Management Ltd	30 720 108	6 377 550	21	**2 091 499**	2 183 372
Opiconsivia Investments 230 (Pty) Ltd	100	66	66	**1 854 000**	1 898 000
Libstar Holdings (Pty) Ltd	3 707 200	736 044	20	**1 390 000**	866 165
MTN Nigeria Communications Ltd**	402 590 263	7 105 633	2	**996 000**	1 978 325
Housing Impact Fund of South Africa*			10.93	**794 587**	–
Community Property Fund*	–	–	13/100	–	1 428 600
Other				**11 060 054**	10 069 309

Regarding investment holdings in the Domestic SA market itself, the bulk is made up of bonds (34%) and equities (49%). Thus 83% or 1.3 trillion is locked into the SA economy (and as pointed out above, out of every R10 invested R3 is in the SA Government). The GEPF and the PIC is very proud of the quantum of the assets, but realistically, are we not suffering from a big fish in a small pond illusion here?

THERE IS SOME REALLY BIG EGGS IN THE INVESTMENT BASKET

Its evident from the list that the Naspers shareholding , on its own, is fundamental i.e R161bn* is 16% of the total for listed investments. The question is, regardless of how good a share Naspers is, can the GEPF afford the risk of a Steinhof type share meltdown?

The other top 10 shares, although substantial, is only a fraction of the NASPERS shareholding.

(*This is equal to 2years benefit payments!)

Unlisted equities - 76% shareholding in Pareto Ltd accounts for 10bn (25%) of the total amount of this asset class. Is this not over concentration? The 24% shareholding sold in 2016 was criticized and described as "This is not black empowerment but pillaging" https://www.ujuh.co.za/this-is-not-black-economic-empowerment-but-pillaging/

AND THEN THERE IS THE SA GOVERNMENT AND ESKOM.

The domestic equities held are all deemed to be "good shares" as most local asset managers have invested here.(Perhaps in part, courtesy of regulation 28 dictates?)

However, Steinhoff was also a "good" share and look what happened there. Its of little comfort to GEPF pensioners that other private investors have also lost money.

Losing money with investments is not a competition GEPF pensioners wishes to win. The GEPF invests in a combination of investments that seek growth – such as equities and property – and those that are designed to reduce risk, such as bonds and cash.

Eskom Bonds

According to my understanding of the GEPF's Responsible investment policy and the management of credit risk, the current exposure to ESKOM bills and bonds are outside the parameters of acceptability with due consideration of ESKOM's investment rating.

At the start of May2018 the following was reported in the media:

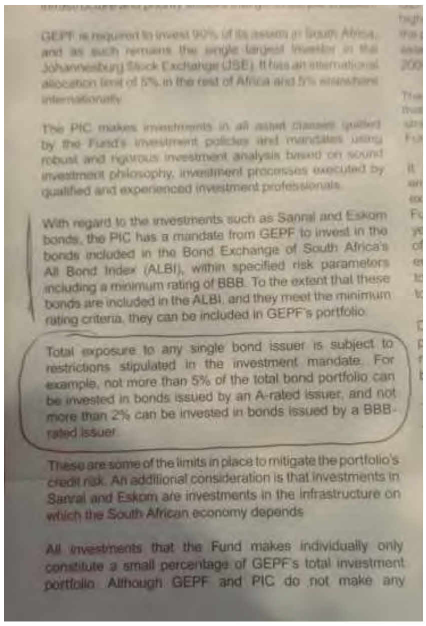
https://www.businesslive.co.za/bd/companies/energy/2018-05-03-eskom-wins-a-reprieve-as-fitch-leaves-its-view-unchanged/

"Fitch's decision to hold Eskom's bonds at its third tier of junk contrasts with Moody's, which cut the power utility to its fifth tier of junk, and S&P Global Ratings, which cut it to its seventh tier of junk.
Moody's on March 28 downgraded Eskom to B2 with negative outlook, and S&P cut Eskom to CCC+ with negative outlook on February 27."

Junk is junk, regardless of which level.

We were told by GEPF management as far back as 2016 of the restrictions in place regarding investments in bonds.

See extract from the GEPF fundtalk|Second edition 2016 page 2.
Copy attached.....



GEPF is required to invest 90% of its assets in South Africa, and as such remains the single largest investor in the Johannesburg Stock Exchange (JSE). It has an international allocation limit of 5% in the rest of Africa and 5% elsewhere internationally.

The PIC makes investments in all asset classes guided by the Fund's investment policies and mandates using robust and rigorous investment analysis based on sound investment philosophy, investment processes executed by qualified and experienced investment professionals.

With regard to the investments such as Sanral and Eskom bonds, the PIC has a mandate from GEPF to invest in the bonds included in the Bond Exchange of South Africa's All Bond Index (ALBI), within specified risk parameters including a minimum rating of BBB. To the extent that these bonds are included in the ALBI, and they meet the minimum rating criteria, they can be included in GEPF's portfolio.

Total exposure to any single bond issuer is subject to restrictions stipulated in the investment mandate. For example, not more than 5% of the total bond portfolio can be invested in bonds issued by an A-rated issuer, and not more than 2% can be invested in bonds issued by a BBB-rated issuer.

These are some of the limits in place to mitigate the portfolio's credit risk. An additional consideration is that investments in Sanral and Eskom are investments in the infrastructure on which the South African economy depends.

All investments that the Fund makes individually only constitute a small percentage of GEPF's total investment portfolio. Although GEPF and PIC do not make any

Coincidently, when Eskom had a rating of BBB, a 2% of the total bond portfolio should have applied BUT WAS NOT ADHERED TO. WHY NOT? DID ANYBODY ASK?

At the end of the FY2017, ESKOM's Bills and Bonds amounted to R85.8bn out of a total local portfolio of R530bn. This constitutes 16%, which even exceeds the maximum guidance % for A rated Bond issuers (which is set at a max of only 5%).
I am not sure what ESKOMs "official" ratings are in the view of the GEPF, BUT according to media reports it does not appear to be investment grade. Combine this with the Auditor-General's reports and findings on corporate governance it would appear that regardless of ESKOM's past payment history, and the SA Governments so called guarantees, the recent investment ratings movements (all downwards!) there is an unnecessary concentration risk implied by the 16% of portfolio holdings. So ESKOM is 3x oversubscribed even if we imagine, and ignore all of the above, them to be an A Grade investment.

3.1.3 Bills and bonds

	Issuer rating long term	Fair value 2017 R'000	Fair value 2016 R'000
Bills		**1 524 218**	2 718 968
Eskom Holdings Ltd	BBB	**1 524 218**	2 718 968
Commercial paper		**1 362 480**	303 550
The Thekwini Warehousing Conduit (RF) Ltd	AAA	**1 012 356**	303 550
Development Bank of SA Ltd	AAA	**201 551**	–
Macquarie Group SA Ltd	AAA	**148 573**	–
Government bonds		**327 028 762**	335 543 141
Republic of SA	AAA	**324 678 045**	333 170 207
Republic of Angola	B	**1 771 595**	1 808 535
Republic of Namibia	AA-	**579 122**	564 399
Corporate bonds		**36 683 389**	36 795 548
Standard Bank Group Ltd	AA	**7 383 973**	9 914 619
FirstRand Ltd	AA	**6 358 714**	5 345 137
Pareto Ltd	AA	**8 581 899**	7 928 878
Nedbank Ltd	AA	**2 912 285**	2 319 724
ABSA Group Ltd	AA	**2 393 264**	2 115 528
The Thekwini Fund Ltd	AAA	**1 379 813**	925 396
Barclays Africa Group Ltd	AA	**1 302 095**	1 261 327
Investec Group Ltd	AA	**986 143**	966 391
Mercedes-Benz SA (Pty) Ltd	A	**891 002**	1 035 981
African Bank Ltd	BBB	**687 160**	854 293
Other	–	**3 807 041**	4 128 274
Parastatal bonds		**163 685 971**	151 031 917
Eskom Holdings Ltd	BBB	**84 362 318**	73 787 518
South African National Road Agency Ltd	AA	**25 152 684**	24 829 193
Transnet Ltd	AAA	**25 016 823**	23 832 648
Trans-Caledon Tunnel Authority	A	**12 740 484**	12 250 760
Development Bank of SA Ltd	AAA	**12 517 732**	12 790 951
City of Johannesburg	AAA	**746 504**	728 093
City of Cape Town	AAA	**712 963**	702 536
Airports Company SA	AAA	**648 529**	634 343
Rand Water Board	AA	**529 733**	–
Ekurhuleni Metropolitan Municipality	AAA	**420 279**	411 586
Land and Agricultural Development Bank of SA	AAA	–	332 577
Other	–	**837 922**	731 712
Foreign bonds		**18 395 594**	25 498 428
Black Rock Advisors (UK)	AA	**13 496 702**	20 101 997
International Bank for Reconstruction and Development	AAA	**4 898 892**	5 396 431
Total bills and bonds		**548 680 414**	551 891 552

✓ Eskom

As far as we know, investments are made in Bonds to reduce risk, not create risks that can impact the Fund in a significant or fundamental way.

In ESKOM's case all these principles and guidance in managing risk has not been applied by TCWG over a period of time for various reasons. This has been allowed to continue because decisive action was not present when needed and full disclosure did not allow proper accountability.

As with Steinhoff, it appears as though the Regulators are playing a rather passive role. For instance the FSB cannot (will not) act because of a combination of legal constraints aided by a fundamental conflict of interest. In the absence of access to a regulator like the FSB, GEPF members have effectively no independent authority to turn to.

It may be worthwhile to have sight of all the due diligence reports and investment committee minutes related to ESKOM's transactions. Perhaps then we can connect all the dots.

THE PUBLIC INVESTMENT COMMISSIONER (PIC)

The use of the PIC as preferred supplier of asset management services by the GEPF is more a case of historical convenience than that of supplier of choice secured via a competitive bidding process.

The GEPF invests its funds via the PIC. Direct management fees paid to the PIC is now almost R1billion annually. The investment mandate is apparently "negotiated" annually. The investment mandate and the deliverables and its quid pro quo is a secret. We are not sure what part is performance based. What we do know is that the year on year the escalation of fees has been outgrowing inflation by a healthy margin. Between 2017 vs 2016 the increase was 9.6%, this whilst CPI was 6.3%. Stated differently, if the PIC year on year growth in fees was restricted to CPI, the GEPF could have saved R30million. This saving would have covered the GEPF Staff remuneration for two financial years based on the 2017 figures.

PIC

We are told that the PIC has done an excellent job with investing our pension funds. The GEPF is satisfied with the PIC's performance. Unfortunately there has been a significant number of negative media articles about the way in which the PIC is conducting its business.

Recently, with VBS bank case, the Sagarmatha almost investment, Ayo case, the public has been given a glimpse of what appears to be some significant cracks in the due diligence process in operation at the PIC. City Press got hold of some emails and reading those made for interesting reading. (https://city-press.news24.com/News/pics-r43bn-risky-investment-20180321) All the while, the murmurings of political connectivity and influence on investment decisions does not go away. The PIC has fired some staff, but still the murmuring remains. (https://m.fin24.com/Economy/pic-executives-purged-as-more-deals-questioned-20180429-3)

At a point in time, someone will realize that systemic failure cannot be fixed by firing one or two persons. Time for an independent and proper review of the PIC is overdue. The forensic investigation mentioned last year needs to happen. Some people believe a judicial commission is the way to go.

The only shareholder of the PIC is the SA government. The use of the PIC as preferred supplier is more a case of historical convenience. As far as could be determined, the PIC has not won its status as external investment manager via a competitive bidding process.(Contrary to the GEPF's own SCM policy by the way). In addition, as the only investment manager to the State, the PIC is basically a monopoly. On top of this, where other external investment management firms are involved' they work via the PIC. As such, the PIC subcontracts on the GEPF's behalf. Is this why other asset managers remain silent about the PIC's claims of being cost effective? OR is the silence more a case of don't bite the hand that potentially must feed you!?

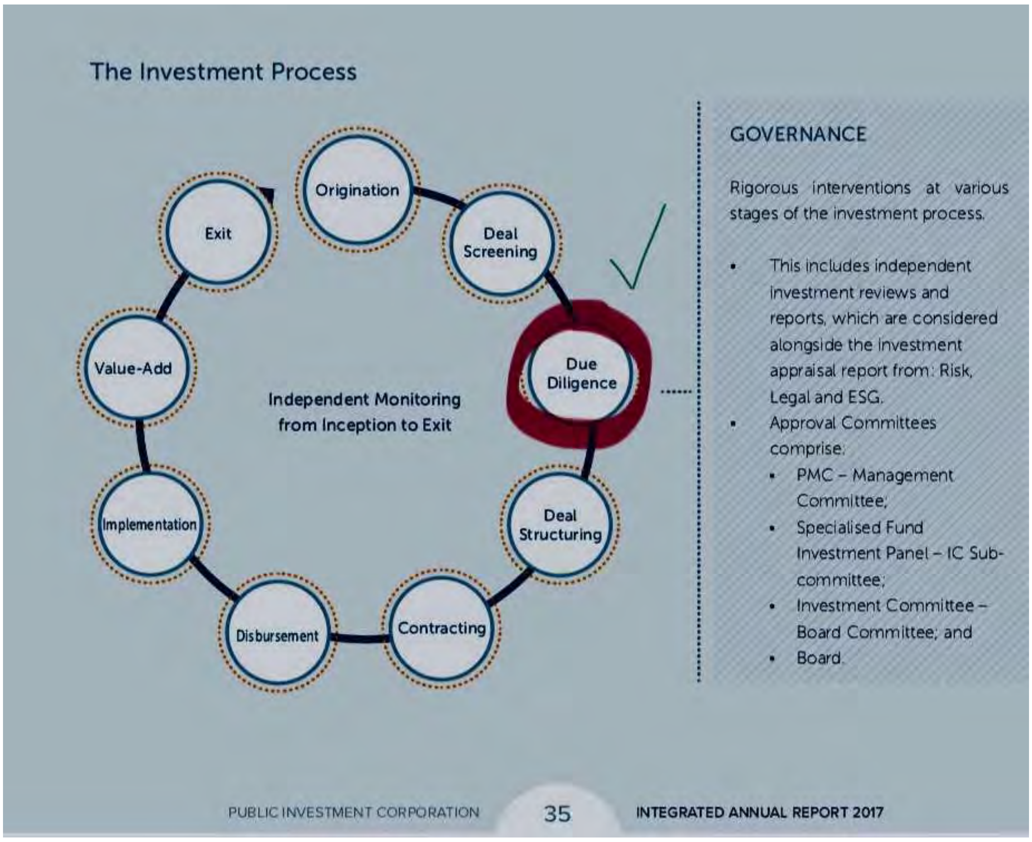
The problem with monopolistic enterprises is that there is no real competition to drive cost effectiveness and competitiveness. (ESKOM is another bad example) When we look at how the media (and parliament) deals with the Pension Fund matters, one would be forgiven if you had the idea that the GEPF was reporting to the PIC. This illusion is further enhanced when you look at the executive compensation of the three legs of the GEPF structure. The PIC's compensation is 5x that of the GPAA and 3x that of the PEO of the GEPF itself.

It sure does look as we have a case of where one tail is wagging two dogs.

DUE DILIGENCE

One of the critical processes within the investment approval process in operation at the PIC is the due diligence process. Like the SCM process at other government entities, this process is a key control ... actually a vital component in the investments approval process.

The PIC describes the Transaction Approval Process as follows: *"Once a transaction is presented to the PIC, it goes through an initial screening process to establish if it fits the mandate, is commercially viable and falls within acceptable risk parameters. If it meets these requirements, it is tabled at a Portfolio Management Committee (PMC) to*



seek authorization to conduct due diligence. This Committee is chaired by an Executive Director, and its members include a mix of Executive Heads as well as other members of Senior Management………….

Once the initial deal screening process has been concluded, the outcomes thereof are presented and discussed at a meeting of the respective PMC. Should the PMC at that meeting resolve that a transaction is worth pursuing, the PMC will recommend that a detailed due diligence be undertaken."

THE INVESTMENT COMMITTEE's MANDATE

It is the responsibility of the PIC's Investment committee to amongst other things, to ensure that appropriate due diligence procedures are followed WHEN acquiring OR disposing of investments.

Now on paper this process inspire confidence as it includes all the good qualities of a key control.

BUT THEN CITY PRESS got hold of information that suggests HOW this Key Control can actually be circumvented.

Investment Committee Mandate

The Board has established various Committees to assist it in discharging its duties and responsibilities. The Investment Committee (IC) was established to provide oversight and decision-making in respect of investment activities. The primary purpose of the IC is to assist the Board to discharge its statutory duties and its oversight responsibilities in relation to listed and unlisted (including properties) investment activities. The IC is comprised of a majority of Independent Non-Executive Directors.

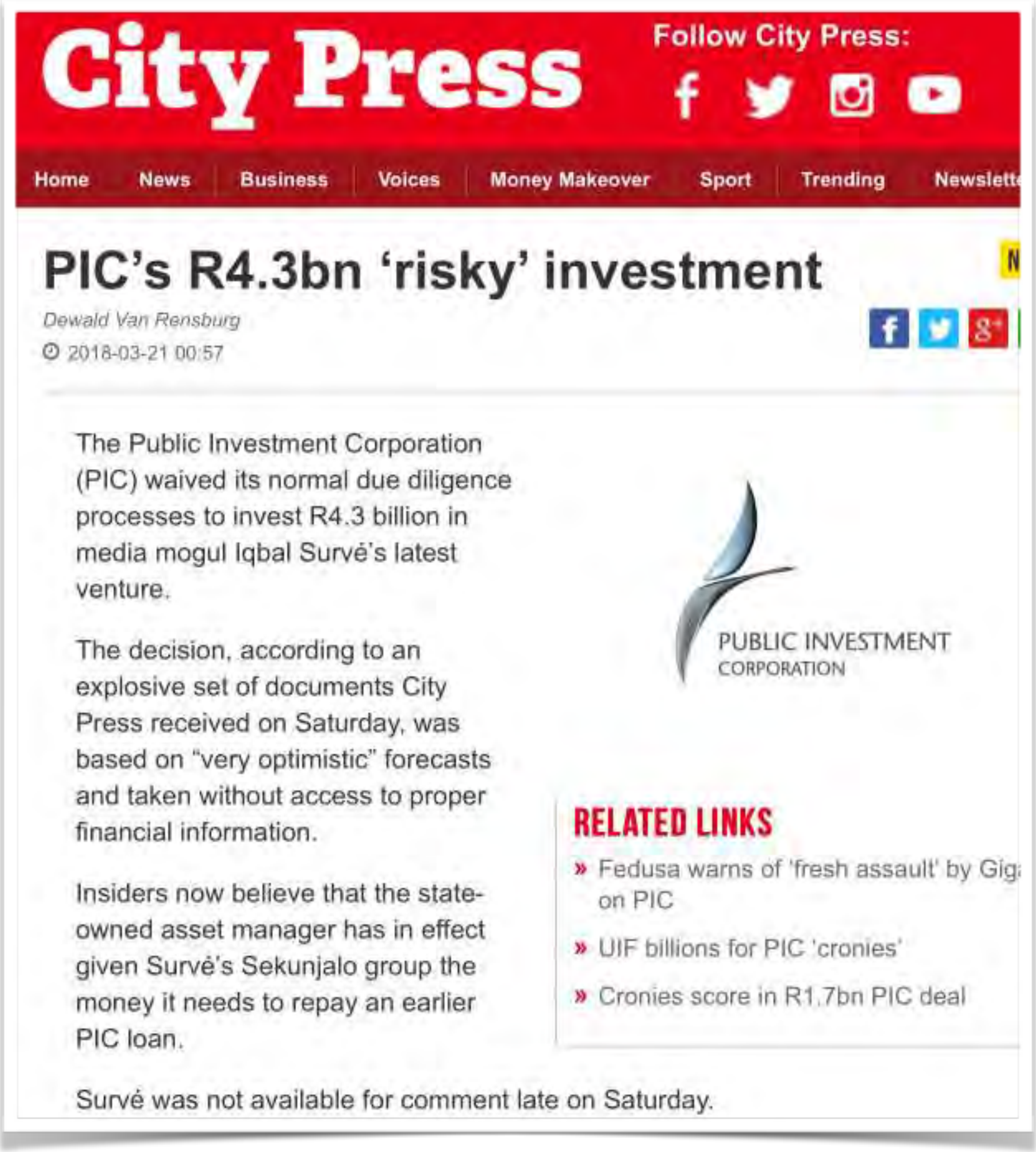
The IC operates in line with approved ToR, DoA Framework and policies which are reviewed on an annual basis.

The responsibilities and duties of the IC are to:

- Ensure that investments, disposals and acquisitions (listed, unlisted and properties) are in line with the PIC's overall investment strategy;
- Ensure that appropriate due diligence procedures are followed when acquiring or disposing of investments;
- Ensure that investments/divestments are in the best interest of clients, increase Shareholder value and meet the PIC's financial and ESG criteria;
- Make recommendations to the Board concerning further action about investment/divestment opportunities;
- Give due consideration to the relevant provisions of the Companies Act, read with the Companies Act Regulations, the PIC Act, the approved DoA Framework, King IV, competition laws and any other legislation and regulations;

The article can be read in full here. https://city-press.news24.com/News/pics-r43bn-risky-investment-20180321

This transaction must really have ticked all the right boxes during the initial screening process Ie. it fits the GEPF's mandate, was deemed to be commercially viable and apparently fell within acceptable risk parameters for the PIC to decide the waive the due diligence process.



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PIC's R4.3bn 'risky' investment

Dewald Van Rensburg

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The Public Investment Corporation (PIC) waived its normal due diligence processes to invest R4.3 billion in media mogul Iqbal Survé's latest venture.

The decision, according to an explosive set of documents City Press received on Saturday, was based on "very optimistic" forecasts and taken without access to proper financial information.

Insiders now believe that the state-owned asset manager has in effect given Survé's Sekunjalo group the money it needs to repay an earlier PIC loan.

PUBLIC INVESTMENT CORPORATION

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Survé was not available for comment late on Saturday.

The system description per the PIC's annual report as indicated above, however, does not suggest that the due diligence exercise can be waived as a transaction moves from initial offering to actual investment approval.

But, now we know that it can be waived, surely this is a matter that requires full disclosure. It would surely make for interesting reading when the GEPF fully inform beneficiaries of all those investments made/ or sold where the due diligence process was waived.

AND LAST BUT NOT LEAST …STEINHOFF……

STEINHOFF INTERNATIONAL HOLDINGS N.V.

OUR OWN HUMPTY DUMPTY WHO SAT ON A WALL……..

To date the Steinhoff shareholding by the GEPF is arguably one of the worst ever in terms of rand value lost. How else, as it warranted a special joint committee meeting in Parliament during January 2018. No less than three separate Committees were involved. All the King's men trying to put humpty dumpty together again… included the joint CHAIRPERSONS, MR YUNUS CARRIM, MR THEMBA GODI AND MR CASSEL MATHALE. Following that session, the joint committee were very critical of the absence of decisive action by a number of role players ie.:

"However, the Committees did not get the sense that the Financial Services Board (FSB), Independent Regulatory Board for Auditors (IRBA) and National Treasury (NT) are being decisive enough in pursuing the Steinhoff matter, especially given its gravity and huge implications.
They urged these bodies to be thorough but also swift, and undertook to actively monitor the progress. The Committees feel far more needs to be done, decisively and swiftly."

However, and very surprising, was the comments directed to the GEPF and its agent, the PIC :

"While recognizing that there are always risks in investment decisions, the Committees feel that the Government Employees Pension Fund (GEPF) and Public Investment Corporation (PIC) have to draw clear lessons from their experience of Steinhoff and be more careful about their investment decisions."

The best 3 chairpersons of parliamentary committees tasked specifically with public accountability could only come up with a bit of friendly advice … ie. learn your lessons and be more careful with your investment decisions. Really!? This is what parents tell their kids…This heavyweight committee of parliament can only provide some parental advice to someone accountable for investments of 1.67trillion!?

What a disappointment! Its as though these chairpersons will Hear no evil, see no evil, speak no evil as it relates to the GEPF BoT. What are we missing here?

The key role player that is accountable to protect the FUND (the GEPF BoT) again were allowed to escape being held to account by our elected representatives in parliament.

Perhaps we should be grateful that it wasn't the full cabinet session presiding over this case. Who knows, perhaps the GEPF and the PIC would have received medals of honor (the fidelity guard award!?) for their sterling efforts in NOT closing the stable door AFTER the horse has bolted.

The one thing that is certain, it does appear Steinhoff has broken through the glass covering of the investment tray and we are met with the smell of other rotten eggs. VBS bank, Ayo, Sagarmatha (almost), Independent media is some of the names causing headlines for all the wrong reasons. And then there was also Centre Point, African Bank, Lonmin, Afrisam, Erin AND before that Shanduka (Mtn). And the list just goes on and on....

Off course, because the GEPF is so heavily invested in the JSE and the SA Economy, basically any corporate failure and government SOE failure has an impact on the investments of the pension fund.

But the majority of these ills are actually self inflicted. Remember the BoT decision to apply Regulation 28 voluntary? Add to this an over-reliance by the GEPF BoT on the PIC's capabilities as asset manager and you have a nice recipe for accidents waiting to happen to the life savings of workers.

In addition to the above examples, we cant even list the faceless (nameless) investments where the GEPF actually incurred losses on the sale of it totaling R40bn since 2007. We can only refer to these as the R40billion losses described in one line and in small script in the Annual reports because that is how the GEPF disclosed it. Perhaps the GEPF can at least confirm if those sales/divestments resulting in a loss have in fact followed the due diligence process prior to the disposal thereof. Would we be surprised if there are cases where the due diligence was waived when initially the GEPF invested? Not really.

There is a saying that either you are part of the solution or part of the problem. To this can be added that, the first part of problem solving is to acknowledge there is a problem. And finally, we know that Sunshine is the best disinfectant.

The only way to really understand what is the root cause of the losses the Fund suffered through these investments, is full disclosure and a proper independent investigation of these cases and the reason why key controls have not succeeded to safeguard and protect the pension fund assets from losses.

The GEPF's philosophy appears to be ... you win some you lose some. Losing pension funds via investments is normal. We are told the GEPF does not invest to lose money. These are all admirable and noble intentions. But again to be honest, professional gamblers will tell you the same thing, they don't wager to lose, they calculate the odds and try to beat it with added information. The difference is, they wager with their own money not the life savings of working folk.

Prudent investing should clearly demonstrate intention and actions to avoid losses. This starts and ends with proper risk management and not sidestepping key controls AND actually answering difficult questions without retreating behind a Chinese wall of secrecy.

But self interest is a powerful motivator, especially if you can be held liable for poor investment decisions that result in losses. If those decisions included waiving a critical key control and down the line losses are suffered, it sure follows that there is legal recourse for the FUND to recoup those losses.

But for all the dots to be connected, sunshine, or in the absence of natural light, a very strong spotlight is needed...in the right place!