Association for Monitoring and Advocacy of Government Pensions (AMAGP)
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SEMPER VIGILANS

STATEMENT

Issued by A P Stemmet
On behalf of : The AMAGP
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THE GEPF CAN NOT AFFORD FUNDING SOE's AND OTHER ENTITIES WITHOUT ULTIMATELY HARMING WORKERS AND PENSIONERS

Hardly a week now goes by without the Government Employees Pension Fund (GEPF), and/or the Public Investment Corporation (PIC), receiving news coverage about proposals for investments, and often even demands for utilising its funds to bail out other failing entities and SOE's.

It appears as if some individuals, political leaders, institutions and even sometimes Union leaders sees the GEPF's funds as being the solution to all of South Africa's financial problems, even to kick-start the economy post Covid-19, up to individual investments in failed State Owned Enterprises (SOE's) such as the SAA, Eskom and Landbank and even private enterprises with the excuse that it should save jobs.

If we exclude the comments and proposals from the take "it all crowd", the amounts mentioned range from R10 billion to R250 billion.

At the end of March 2019, the GEPF had R1.8trillion in investments. The GEPF is a long-term investor. This means that the investments, once made, will remain on the books for a considerate period, 10 years, 20 years even perhaps longer. Sure there is turnover, but this is very limited.

The amount bandied about to rescue ESKOM from its debt trap is at present about R250 billion.

We need to put the GEPF's capabilities in some context.

The total new investments made by the GEPF over the past six years (since 2014 to 2019) amounts to R248 billion.

New investments primarily come to the Fund from member contributions. This R248 billion in investment is primarily the result of 1,2 million GEPF members who had to diligently work and contribute towards their pension for a total of 72 pay days (6 yrs x 12 months).

It took the GEPF six full years to make up this amount of new investments spread out over ALL asset classes. Even if the GEPF could magically convert this amount (*) into ONE asset, it would surely be ignoring the threat of over concentration and be an extremely high risk move.

It seems as though every SOE that requires a bailout or recapitalisation, is thinking of an amount of R10 billion.

Some context of the GEPF's capabilities in this regard:

The average new investments that the GEPF made since 2014 were R41 billion per annum, spread out over all asset classes. The highest amount in a single year was R56 billion (in 2018) and the lowest R22 billion (in 2015).

So, to entertain any investment in any SOE the GEPF would likely have to liquidate existing investments. On face value (and in theory) this is not a problem considering the R1,8 trillion of investments held.

So what will the GEPF do? Liquidate the high growth high performing assets?

The GEPF is sitting on an investment portfolio that is a ticking time bomb when we consider that the below expected investment income amounting to R225 billion resulted in substantial strain to the Fund between the actuarial valuations of 2016 and 2018. The current portfolio is already overtaxing the good performing assets. To now sell those good performing assets off to invest in known under-performing entities is on face value not a wise defensible strategy.

Liquidate the poor performing assets?

The GEPF has been keeping on its books a lot of dead weight (under-performing assets). This we see from the substantial strain caused by the below expected investment income and the growing list of impaired investments.

The GEPF claims this is because they are primarily investing long-term. This may be so, BUT we also know that by keeping these dead dogs on the books, the GEPF is postponing the inevitable day of reckoning i.e. when they not only have to sell these investments at a loss, but then to also disclose this loss with the sale of assets in the annual financial statements.

To generate enough cash to reinvest R10 billion the selloff of poor performing investments is indeed bound to have an impact on the markets, and then of course the current disclosure of these individual losses in the Financial Statements are anything but fully transparent.

But there are moves to rectify this so that a proper determination can be made i.r.o. the ethical principles adopted by the GEPF....

> "*<u>Responsibility</u>: Trustees are responsible for the Fund's assets and actions and must be willing to take corrective actions to keep the Fund on a strategic path that is ethical and sustainable*".

> "*<u>Accountability</u>: Trustees are collectively and individually accountable and should be able to justify their decisions and actions to members, beneficiaries and other stakeholders of the Fund. Trustees may be liable for any breach of governance that results in any loss to the Fund and to its members, pensioners and beneficiaries*".

The strategic path mentioned above ...

The above scenarios do not even cater for the increased foreign exposure which should have started in 2014 already.

EVERYBODY IS STILL WAITING ON THE FINANCE MINISTER TO FINALLY APPROVE THE REVISED ASSET ALLOCATIONS. IT IS GATHERING DUST ON HIS TABLE SINCE 2014!

We have pointed out before, and now again confirm our conclusion that the GEPF cannot afford the suggested adventures or demands by so many instances / people with nothing to lose seeing that their views affect money not belonging to them. In coming to this conclusion we again also had regard to the independent actuary's reports of 2017 and 2019 in which he clearly recommended that the Government's contribution to the pension fund be drastically increased. We accept that due to financial constraints the Government could not comply.

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