

Association for Monitoring and
Advocacy of Government Pensions

(AMAGP)

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STATEMENT

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On behalf of : The AMAGP
Cape Town

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ANC'S : ELECTION MANIFESTO : POSSIBLE EFFECT ON PRIVATE PENSION FUNDS

1. The proposal in the ANC's election manifesto to force private pension funds to invest in bankrupt state-owned enterprises created waves of protests especially in some quarters.
2. We at the AMAGP have been watching all this from the side line. Despite our many protests, this is exactly what happened over the years and is still happening with the funds of the GEPF.
3. Obviously we are opposed to this misuse of money belonging to workers and pensioners. The question can, however, now be asked whether it would not be fair for this burden to be spread over all pension funds ?
4. Views like this have been expressed and other conflicting ones are still being expressed.
5. We were surprised by the views of Magda Wierzycka, in our view a highly respected commentator, in an article in Business Day on 17 January 2019 : ZERO COUPON BONDS AN ELEGANT SOLUTION TO ESKOMS CASH CRUNCH----- Deploying GEPF funds is a far better option.....
6. We have asked our team of financial experts for their comments on her views. Here it is :

**COMMENT ON THE COLUMN IN THE BUSINESS DAY OF 17 JANUARY 2019
“ZERO COUPON BONDS A SOLUTION FOR ESKOM” BY MAGDA WIERZYCKA.**

- It was astounding to take note of the content of the abovementioned column.
- It is also surprising considering that it was written by a person that is known for fair and balanced comment that loyal and well-meaning South Africans would normally do well to take careful note of. This, however makes the content all the more dangerous, and therefore requires a firm rebuttal of the ideas expressed so that they are not eventually awarded the status of a generally accepted truism and a solution to an intractable problem which has been allowed to develop to the point it is at today.
- Magda Wierzycka is fundamentally wrong in her opinions, specifically concerning the issuing of zero- coupon bonds by Eskom to the GEPF-expressed in this article.
- The reasons are, among others, as follows:
 - There is confusion between the role and nature of the PIC and the GEPF. The PIC is, and will remain, an instrument of the Executive Branch of the Government. Over time it has been awarded the role as the only/dominant asset manager for the GEPF which unfortunately causes a significant conflict of interest between the Government, on the one hand, and the GEPF on the other. This situation, if allowed to continue, will further exacerbate the damage to the GEPF, its pensioners and eventually to the taxpayers of South Africa. At the very least the role of significant asset managers for the GEPF should be split between a number of reputable managers, which may or may not include the PIC, and who would compete to achieve the best returns, after expenses, for the benefit of the GEPF.
 - There is confusion about the nature of the funds of the GEPF. There is no doubt that these are private funds which belong to the members of the GEPF. It is not public money to be deployed for public purposes. Perhaps the time has now come to approach the Courts to settle this question once and for all.
 - There is confusion about who (should) take the decisions about GEPF investments. It is not the Government, but the Board of Trustees (BOT)- both on an individual and collective basis- of the GEPF. Perhaps it is also time for the Courts to be requested to pronounce on the fiduciary nature of the BOT duties and responsibilities and the commencement with a process to hold these functionaries to account where this responsibility has clearly not been adequately exercised in the recent past.
 - There is confusion about the exact nature of the Government/Taxpayer guarantee to GEPF pensioners and its status as a “defined benefit” fund. What exactly does this mean? Until the nature of this guarantee

(specifically also the defined benefit especially after several years of retirement) has been clarified and documented in a watertight legal manner to guarantee pensioners a certain standard of living and this right has been entrenched as a first charge on the National Revenue Fund, the actual substance of the guarantee is anything but definitive. In the meantime, it needs to be treated for what it is, i.e. merely a piece of paper of which the content is so inadequately defined that it may well be worthless.

- There is confusion, to the extent that it is ignored, about how the sustainability of the GEPF will be maintained if the cash flows of the fund, which are already emitting red warning signs, are allowed to be further impaired by the issuance of zero-coupon bonds which do not result in interest linked cash flows. An analysis of the historical trend of GEPF cash flows indicate that these need to be urgently enhanced and increased to maintain the sustainability of the GEPF. A further impairment will amount to gross negligence on the part of the responsible decision makers.
- One could further continue with detailed remarks but suffice to say for this purpose that the content of the column is unfortunate, to say the least.
- The use of GEPF assets in an irresponsible way in the hope (as Ms. Wierzycka specifically remarks) that it will buy time is not a sound strategy for a significant asset in South Africa. It is indeed hoped that influential role-players, including the Rating Agencies, will also point to the folly of the approach suggested.
- The present position of Eskom is a problem shared by all South Africans, and we all unfortunately need to pay the price and to make the required contribution to fix the problem. This clearly must also specifically include the responsible politicians who should be called to account through the ballot box. The burden cannot be only be borne by a group of vulnerable individuals whom, as a result of inadequate institutional arrangements and confusion on key aspects, may at this point present an easy and expedient target.

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