

**QUESTIONS POSED REGARDING THE MEDIA RELEASE OF THE PUBLIC
INVESTMENT CORPORATION ON 4 JULY 2018**

The PIC (Public Investment Corporation) issued a Media Release on 4 July 2018 regarding the City Press and UDM Claims. (This Media release can be seen in full at the end of this document).

The AMAGP, through Mr Christo van Dyk, posed a number of questions to the PIC in response to this Media Release, via E Mail on 8 July 2018. The text of this mail can be seen below

The media release issued on 4 July refers.

The following extract refers:

“The GEPP portfolio for example, the biggest of PIC’s clients, has also grown consistently. Since 1 March 2017, in a low growth environment, the GEPP portfolio grew by 7.8% or R134 billion, to R1.814 trillion. The GEPP is fully-funded by 116 percent. In simple terms, this means that the Fund has sufficient assets to cover liabilities (calculated by the fund actuaries), in full.”

Can you assist with providing clarity on the following please:

1. The 116% funded level referred to above, is that the short term funding level as at 31March2018?
2. The actuary calculation referred to as the source of this 116% funding ratio, would that be contained in the 2018 actuarial valuation?
3. The updated actuarial report would also reveal the long term funding ratio (LTF) and the affordability of the recommended reserves as at 31March2018.

Perhaps this information can be released so GEPP members can see if there has been an significant improvement in restoring the LTF ratio to its 2006 level based on the excellent investment acumen of the PIC over the intervening 12 years.

Your assistance to address the above three issues will be appreciated.

Regards

Christo van Dyk

After not receiving any response and additional E Mail was sent to Mr Sekgoela of the PIC on 10 July 2018. The text of this mail can be seen below

Subject: Re: Pic media release City Press and UDM Questions of clarity. Update.

Good day Mr Sekgoela

Whilst I am waiting for your reply to my prior enquiry (see below) I have taken the liberty to update my own calculations based on your media statement. This will allow you to have context to my concerns.

First prize obviously would be to obtain the 2018 detail from the actuarial report.

However, certain trends do emerge from the study of the prior actuary reports which I used in my calculations above. I don't think my estimates for 2018 would be far off the mark.

The Funding level referred to in your media statement is described as the "short term funding level" in the table and graphs. As indicated, my focus and request for comments relates to the long term level, which as can be seen from the graph below, remains **BELOW** the target of the Trustees.

Translating the percentages into Rands provides a rather disturbing picture. The graph clearly shows that investments (the PIC's area of expertise) are not catching up to the LTF requirement. The long term funding (LTF) shortfall is now estimated at R469billion, up from R424billion barely two years ago. We are rapidly approaching a shortfall of half a trillion rand!

To place this amount in context to the National budget... the Total tax (2018/19) to be collected from ALL South Africans (personal income tax) is 505billion.

And lest we forget, in 2006 there was NO shortfall.

I am looking forward to your comments.

Regards

Christo van Dyk

GEPF FUNDING RATIOS



MEDIA RELEASE

4 July 2018

PIC addresses City Press and UDM claims

PRETORIA -The Public Investment Corporation (PIC) must address a series of media reports, more recently by the *City Press* newspaper, in concert with a public campaign by the United Democratic Movement (UDM), that have questioned this institution’s investment processes, its investment decisions, and its corporate governance standards, to the extent of implying that the PIC has been reckless in carrying out its duties.

The PIC performs an important function in society; that of investing and managing the assets on behalf of the Government Employees Pension Fund (GEPF), as well as various other funds of huge societal importance, including the Unemployment Insurance Fund and the Compensation Fund. Collectively, these funds have grown over the years to just over R2.1 trillion, which is equivalent to approximately 40% of South Africa’s gross domestic product. These are responsibilities the PIC not only feels privileged to perform, but ones that it takes very serious.

The PIC, therefore, operates in an environment where its clients, the Shareholder (Government, through the Minister of Finance), and various other stakeholders expect it to carry out its duties with the highest level of integrity.

Ill-informed and sensational reporting

Sensational headlines, poor news analysis and impaired logic by some journalists, have the potential to cause unnecessary panic among pensioners, beneficiaries and pension contributors about the security of their money.

Furthermore, such reporting has the potential to cause a systematic risk to the South African economy given the size of the PIC’s portfolio, the fact that it is the largest investor on the JSE and given the role the institution plays in the broader financial services eco-system.

In a news analysis on Sunday 1 July 2018 - *“What happened at VBS Bank?”* – the *City Press* newspaper made a number of startling allegations, including that:

- The PIC *“refused to lend VBS the R1.5 billion to force its collapse...”*
- *“VBS’s crash could have been engineered by the PIC and its proxies...”*

- “A hostile takeover bid” that was ostensibly “launched” by the PIC and “its proxies” to acquire the companies of Bophelo Insurance Group (BIG), which companies the newspaper describes as “worthless and debt-ridden”.
- “Lebashe and its directors stand to make millions...” from the PIC’s investment in the BIG.

This is a continuation of a persistent trend of similar, questionable reporting by the same newspaper – “PIC’s R4.3bn ‘risky’ investment” [21 March 2018], “PIC executives purged as more deals questioned” [29 April 2018] and “PIC hit with more claims” [1 July 2018].

Closer reading of these reports points to a concerning lack of understanding of how asset management works. Equally concerning is that confidential company, board or employee information is regularly leaked to some journalists, given a distorted or falsified meaning, and presented by some media as fact.

Shareholder activism

The PIC, like any other asset manager, invests in different asset classes and in companies across several sectors of the economy. The PIC is not directly involved in how investee companies are run on a daily basis. Investee companies are governed by their own independent boards of directors and operated by their own management teams.

Through its environmental, social and governance (ESG) policies, the PIC takes an active position to advance good corporate governance in the companies in which it invests. As an asset manager, the PIC does not attempt to conduct a ‘policing function’ on the daily operations of investee companies. Where companies are laggards on ESG principles, the PIC engages their management and boards to propose strategies to deal with their shortcomings, in particular on empowerment and transformation.

The PIC is an asset manager. It has no business, and indeed no investment mandate, to bail-out poorly run banks and, in particular, one that has been placed under curatorship by the South African Reserve Bank (SARB).

The allegation that the PIC could have engineered the collapse of VBS is absurd. It is insidious and irrational to argue that the biggest asset manager in this country would allow a bank, one in which it itself is invested, to collapse.

The BIG is an independent company with its own board of directors. It is regulated by Financial Services Conduct Authority (FSCA) and the company is capable of executing its own transactions. The decision to be exposed to VBS was the BIG’s own. Currently, the PIC is not selling its own stake in the BIG nor is the PIC funding the purchase of BIG shares by Lebashe Investments. To allege the PIC has orchestrated the entire transaction – for Lebashe to acquire

a shareholding in the BIG - to benefit “*the band of super-wealthy black elite close to the PIC*” as *City Press* asserted, may be borne of ignorance, but it is patently false.

Lebashe’s involvement in BIG

Due to the non-recoverability of its funds that were deposited with VBS, the BIG board of directors approached its two shareholders to recapitalize the business. Vele, the majority shareholder with 70% ownership in BIG, did not respond to the BIG board’s request for capital. The PIC, with a 30% shareholding in BIG, was committed to support the business, pending the finalization of the PIC’s own internal processes. BIG was approached by a number of other potential buyers but these interests dissipated when they were informed that the BIG subsidiaries – Bophelo Life Insurance Ltd. and Nzalo Insurance Ltd. – were about to be placed under curatorship by the SARB. The only company that retained its interest in BIG was Lebashe.

On 28 June 2018, Vele entered into an agreement with Lebashe for the latter to acquire the 70% Vele shares in BIG for R1, since the company (Vele) had a negative net asset value. This allowed for the release of R60 million to Bophelo Life Insurance and R40 million to Nzalo to ensure continued liquidity. Both Bophelo and Nzalo are profitable and lucrative businesses.

There was no “hostility” in this transaction which both the PIC and the SARB supported, in the public interest.

City Press further argued that “buried on page nine of the PIC’s 2016 annual report” the investment rationale for the BIG transaction is explained. The newspaper then concludes its own *masterplan*: Lebashe and its directors – “*the band of super-wealthy black elite close to the PIC... [who] stand to make millions*” – are further being enabled by the PIC’s allowing for VBS to collapse.

Here are the facts: The PIC invested in the Bophelo Insurance Group in 2016. Lebashe is a new business that was established in 2017.

Should we then accept that, back in 2016, the PIC had the prophetic foresight that VBS would be placed under curatorship in 2018, and that a company registered only in 2017, would be enabled through ‘favourable treatment’ by the PIC, that includes forcing a bank to collapse? Surely this is illogical.

The UDM allegations are unfortunate

The repeated allegations of systemic corruption at the PIC by the UDM leader, Mr Bantu Holomisa, is unfortunate and lack substance. Earlier this month the UDM brought an urgent application in the North Gauteng High Court, Pretoria, in which it seeks for the suspension of the PIC CEO, Dr. Daniel Matjila.

The PIC intends to oppose this application and is seeking appropriate legal advice to this effect. Submitting a letter with new allegations against the PIC and a number of other business entities to the office of President Cyril Ramaphosa, as the UDM has now done, will not deter the PIC from defending itself before court in order to show that the UDM's allegations are malicious, patently false and imminently contestable.

The PIC welcomes the legal proceedings that Lebashe has instituted this week against the UDM and Holomisa before the North Gauteng High Court, Pretoria.

Equally, the allegations against the PIC's investment in Harith must be challenged. The PIC is a 30% shareholder in Harith General Partners and 46% shareholder in Harith Fund Manager. These investment were made by PIC Corporate, an internal operations fund, not with money from any of its clients.

Harith was established in 2006 to raise domestic financial resources to invest in infrastructure, which is critical for economic development. The PIC provided a seed capital of R25 million which was repaid within 24 months. In return, the PIC received equity in the business. From that point onwards, the Harith team went around the continent to raise funds through the Pan African Infrastructure Development Fund (PAIDF) I and II.

It is important to point out that the GEPIF made capital commitments directly to the PAIDF I and II and not through the PIC.

PAIDF I and II infrastructure projects have raised an additional US \$4bn of debt finance (R54bn) and are creating much-needed jobs, skills development and increased economic growth. The PIC has co-invested with Harith in two successful projects - Lanseria Airport and Kelvin Power station. These transactions, including those involving Lebashe (previously Petratouch), have gone through PIC's thorough investment process and there is nothing untoward in the commercial relationship between the PIC and Harith. The Harith portfolio is performing very well.

PIC's track record and commitment

The PIC is a professionally run public institution with no adverse findings by the Auditor-General over successive financial years, including audits performed on its investment decisions.

The PIC has generated positive returns that exceed the investment benchmarks of its clients. The PIC's listed equity portfolio has consistently outperformed the JSE SWIX All Share Index and more importantly, the PIC's clients are happy with the returns generated. The Compounded Annual Growth Rate (CAGR) for the PIC's listed portfolio over the past ten and five years has been 10.6% and 18.4% respectively, consistently outperforming the benchmarks of its clients.

The GEPF portfolio for example, the biggest of PIC's clients, has also grown consistently. Since 1 March 2017, in a low growth environment, the GEPF portfolio grew by 7.8% or R134 billion, to R1.814 trillion. The GEPF is fully-funded by 116 percent. In simple terms, this means that the Fund has sufficient assets to cover liabilities (calculated by the fund actuaries), in full.

The PIC achieved these investment outcomes whilst simultaneously contributing to the developmental objectives of the country and driving transformation across several sectors of the economy.

Media Investments

The PIC is invested in a number of media institutions through the shares obtained in their holding companies – including the publishers of *City Press* newspaper. These investments go back some time and range from above 11% to about 25%.

Notwithstanding these shareholdings, the PIC respects media freedom as a constitutional imperative. The PIC has never interfered with the editorial independence, even when media reporting is critical of the institution or its investment decisions.

The recent media focus has almost exclusively been on a small number of underperforming investments and it seems the intention is to drive a message that funds under the PIC's management are at a danger of being eroded, or that the PIC has underperformed as an asset manager. Neither is correct.

Journalists may disagree with the PIC's investment decisions but they are not investment specialists. They cannot prescribe how the PIC conducts its affairs as an asset manager, particularly in light of the PIC's investment performance.

Transformation drive

The PIC is committed to drive socio-economic transformation while generating good returns for its clients. The PIC has started its programme to develop Black Industrialist across different industries, which will be aligned to similar support for Black Asset Managers, Black Private Equity Managers, Black Managers in Real Estate.

Ends.../

Issued by

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