# GEPF MONITORING GROUP

## Government Employees Pension Fund Monitoring Group

SEMPER VIGILANS

**Vol 2 No 4**

Editor's note

It is with utmost concern that we read in the media that the Minister of Finance, Mr Gigaba, says that he considers the PIC, the investment arm of the Government, to be an equity partner to the SAA.

The PIC has about R1.9 trillion at its disposal to invest of which about 88.8% belongs to the GEPF. The balance belongs to other state entities such as the UIF and the Road Accident Fund.

Apart from the SAA there is also talk of taking a larger share in Lonmin which is a private enterprise that is also experiencing financial difficulties. The reason for the state's interest being that should Lonmin go down, there will be about 35 000 jobs at stake. Something the ruling party can barely afford.

The GEPF Monitoring Group has no objection to investments to promote socio economic conditions. The question, however, is: How does the interest of 35 000 workers weigh up to the interests of about 400 000 pensioners?

Our concern is that the SAA has for several years now been a bottomless pit and any investment by the PIC in the SAA could trigger the flood gates to all other struggling SOE's like Eskom, etc. to the detriment of the GEPF.

We often hear the argument that the GEPF is a fixed benefit fund but the law and the rules could easily be amended by Government to dwindle our benefits. Even if the benefits do not change the taxpayer will have to make good the shortfall. What this boils down to is that you and I will have to help prop up the GEPF to pay our own pensions. Somewhat ironic, isn't it?

*Dries*

Van die redakteur

Dit is met uiterste kommer dat ons in die media lees dat die minister van finansies, mnr Gigaba, sê dat hy dit oorweeg dat die OBK, die beleggings arm van die staat, 'n aandeel vennoot in die SAL moet wees.

Die OBK het ongeveer R1.9 triljoen tot sy beskikking om te belê waarvan nagenoeg 88.8% geld van die GEPF is. Die balans is diè van ander staatsentiteite soos die UIF en die padongelukke fonds.

Benewens die SAL is daar ook sprake daarvan om 'n groter aandeel in Lonmin te neem wat 'n private onderneming is en wat ook finansiële probleme ondervind. Die rede vir die staat se belangstelling is dat as Lonmin sou vou daar ongeveer 35 000 werksgeleenthede op die spel sal wees. Iets wat die regerende party beswaarlik kan bekostig.

Die GEPF Moniteringsgroep het nie besware teen beleggings wat sosio ekonomiese belange bevorder nie. Die vraag is egter: Hoe weeg die belange van 35 000 werkers op teen die belange van nagenoeg 400 000 pensioenarisse?

Ons bekommernis is dat die SAA nou al vir etlike jare 'n bodemlose put is en enige belegging deur die OBK in die SAA kan die sneller wees wat die sluise oopmaak vir ander sukkelende staatsondernemings soos Eskom en andere tot nadeel van die GEPF.

Ons hoor dikwels die argument dat die GEPF 'n vaste voordeel fonds is maar die Regering kan maklik die Wet en die Reëls wysig om op die wyse die fonds te laat wegkwyn Selfs al word die voordele nie gewysig nie moet die belasting-betaler die tekort aanvul. Wat dit op neerkom is dat u en ek sal moet help om die GEPF staande te hou om ons eie pensioene te betaal. Ietwat ironies, is dit nie?

*Dries*

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## INHOUDSOPGAWE



**The following is an excerpt from a news report that appeared in Fin24 on May 17, 2017. Similar news reports were published in Eyewitness News and other media.**

# PIC in the mix of options to fund loss-making SAA

May 17 2017 12:59 **Liesl Peyper, Fin24**

Cape Town — National Treasury is considering a "number of avenues" to finance the loss-making SAA, which may include the Public Investment Corporation (PIC) as a public equity partner.

During a Parliamentary briefing on SAAs financial performance, the Democratic Alliance's Alf Lees and David Maynier pressed Acting Treasury Director General Dondo Mogajane to say whether SAA will be partly financed with funds from the Government Employee Pension Fund.

"I want to know if SAAs equity partner could be a public one," Lees said. "National Treasury made it clear there will be a recapitalisation of SAA. And we're left with the distinct impression that the GEPF could be the public equity partner who would invest pensioner's money into the loss-making airline. Has this been proposed?" The DAs questions followed after Finance Minister Malusi Gigaba recently acknowledged in a Parliamentary question-and-answer session that SAAs consideration of a minority equity partner may not necessarily be a private one, but that it could also be a public entity.

Mogajane told members of Parliament on Wednesday that National Treasury is taking a "long-term view" with regard to the recapitalisation of the airline, which may also include a cash injection.

He did not reject the possibility of the PIC as an equity partner outright, but said there are "options available".

"It could make sense to get other lenders to take over the current debt, including engagements to repatriate funds in foreign currency. It may not even be necessary to recapitalise the airline to such an extent," Mogajane said. Deputy Finance Minister Sifiso Buthelezi earlier in the briefing said SAA's cash flow was affected by R1.05bn that cannot be repatriated from Angola, Zimbabwe, Nigeria and Senegal. National Treasury will call on the highest office — even President Jacob Zuma if need be — to get these funds back, he said.

SAA is currently using Seabury consulting group to re-evaluate SAA's long-term turnaround strategy, including its recapitalisation needs.

During a second round of questions, the DAs Maynier said it would be outrageous for a public investment company, such as the PIC, to invest in SAA.

"This is pensioners' money that will be invested in an enterprise which has no chance of returning to profitability."

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# Briewe aan die media

## AP Stemmet

Bekommerde Gepf-lid in DB 13 Mei 2017 se stelling dat die Gepf-Moniteringsgroep nie veel kan doen om te keer dat die Staatsdienspensioenfonds geplunder word nie, is gedeeltelik waar. Net so kan die ganse polisiemag nie altyd keer dat misdaad gepleeg word nie.

Wat die groep wel kan doen is om roekelose, nalatige en beleggings met 'n politieke kleur voortdurend aan die kaak te stel en knaend druk op die beleggers van die fonds te plaas. Hiervoor het ons die hulp van elke lid van die pensioenfonds nodig. Al 1,67 miljoen van hulle en die organisasies , vakbonde en politici wat hulle verteenwoordig. Uit die oord van personeelorganisasies, unies en vakbonde hoor mens egter min of niks. Hulle moet tog sekerlik bewus wees van wat besig is om met die fonds te gebeur. Oefen hul lede druk op hierdie organisasies uit om na hul belange in die pensioenfonds om te sien?

Die Moniteringsgroep eis geen krediet nie maar lede van die fonds kan gerus kennis neem van optredes in verband met geheime beleggings, die kernkragkontrak, Fees Must Fall, beleggings aan bankrot munisipaliteite, Independent Media , die skep van staatsbanke, staatsondersteunde instansies ( soos Sanral, Eskom, Acsa en ander) en vele meer.

Daar word verwys na 0% opbrengs op beleggings.Dit is erger want verliese tot minus 55,02% is al aangeteken. 'n Leser verwys na R60 miljoen onopgeëiste geld in die fonds wat vir kernkrag geleen kon word. Dit is eintlik R600 miljoen wat voorgestel is om vir tersiêre opleiding, en dus Fees Must Fall, aangewend te word. Dit is ook hopelik doeltreffend gestop omdat die geld aan die lede van die fonds behoort en nie na willekeur aangewend kan word nie.

A P Stemmet
Segsman. Moniteringsgroep
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### Herman Hanekom

DIE REGERINGSDIENS PENSIOENFONDS

Dit blyk dat daar veral onder politici ‘n misverstand is met betrekking tot die Regeringsdiens-pensioenfonds. Die fonds is die spaargeld van dienende staatsamptenare en begunstigdes wat reeds ‘n pensioen ontvang. Dit is nie die staat se geld nie. Die regering administreer die fonds deur middel van die Openbare Beleggings Korporasie (OBK) wat die staat se beleggingsarm is en die geld van die fonds tot die beste voordeel van die lede van die fonds moet belê. Die staat is nie die eienaar van die fonds nie. Ek gaan nie talm op die soms skokkende gebeure van die afgelope 23 jaar nie maar eerder konsentreer op gerugte wat tans die rondte doen wat ‘n bedreiging vir die fonds inhou. Die jongste hiervan is dat die fonds moontlik gebruik kan word om die rampspoedige SAL in die lug te hou.

Elke keer as die staat groot bedrae nodig het om sy verpligtinge na te kom, is daar oproepe vir geld van die pensioenfonds. Onlangs, gedurende die *Fees Must Fall* veldtog, het ‘n parlementslid voorgestel dat ‘n heffing van 5.5% op die fonds ingestel word om vir tersiêre onderrig te betaal. Kort daarna het twee professore, nogal, voorgestel dat ‘n sogenaamde *Education Scheme* uit dieselfde bron befonds word. Net om nie oortref te word nie is dit onlangs voorgestel dat R600 miljoen onopgeëiste geld in die fonds vir die doel aangewend word.

Enige persoon wat tans vir die staat werk asook alle pensioenarisse behoort hulle vakbonde te nader en hulle besware te opper. Hulle moet ook daarop aandring dat die vakbonde iets doen sodat die fonds nie misbruik word nie.

Sou die fonds deur die OBK by die SAL betrokke raak sal ons ook permanent in die moeilikheid wees.

Daar is ‘n groep vrywilligers bekend as die GEPF Moniteringsgroep. Kontak ons by adamusp@telkomsa.net vir meer inligting.

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# Press release by GEPF Monitoring Group

Many disconcerting reports about happenings at Lonmin are appearing almost daily in the newspapers. In this regard a very important article by Linley Donelly,”Pic can't say no to Lonmin" appeared in Mail and Guardian on 12 May 2017. Another report about an audit report by Kpmg about this mine also causes concern.

It would appear that not everybody understands or believe what is really happening and the consequent danger to our pension fund in particular and the country in general.
We believe that what we are seeing is the beginning of the process of the nationalisation of mines and whatever will follow. With an adviser like Professor Chris Malikane and statements recently in

Durban, inter alia about pension funds, by Minister of Finance Gigaba nationalisation becomes a real possibility.

The position at Lonmin is that during 2015 when the mine experienced financial problems, the Pic's shareholding was 7% with a share value of at one stage R284,47 per share. When a forced rights issue was not fully subscribed, the Pic filled in the deficit by increasing its shareholding to 29,9% . At one stage the share price plummeted to 11c. It recovered to R44 a year ago but for reasons best known to itself, the Pic did not get rid of their shares. Perhaps the interests of the 25000 to 35000 mineworkers were regarded to be of more importance than the interests of the pension fund the Pic represents. At present it is selling at around R17 per share but is obviously on the way to crash again. To safeguard its interests the Pic will have to increase its shareholding again in a possible unavoidable new rights issue. This is exactly where the danger lies.

In terms of the Companies Act if the shareholding in a company is in excess of 35% this shareholder has to make an offer to buy the shares of the remaining shareholders. The result in this case will be that the Gepf, through its agent the Pic, will become the owner of a mine. In fact nationalisation would have taken place without the Government spending a cent. Either in loans or investments because it would have used its piggy bank.

It is very possible that this will be the beginning of the nationalisation process. Next on the list will obviously be the banks. Because nationalisation of existing banks will not be regarded everywhere to be in the interest of the country, the obvious solution will be to create new banks. Three of these have already been announced. The Post Office Bank, the KZN bank and lately a bank which looks a lot like the old building societies. The capital to get these state banks off the ground will be enormous and can be estimated to be in the vicinity of R60 billion each. The government will not be able to provide these funds. The obvious source to look at will again be, it is our fear, the piggy bank. Thus our pension fund.

The result of the above scenarios will be nationalisation without us being able to call it by its real name.

The Gepf Monitor group is obviously worried about what is happening under our noses and appeal to all concerned to raise their voices against it.

A P Stemmet
Spokesperson

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# Government employees are propping up Eskom

Warren Thompson

Government employees could unwittingly be sucked into state capture through the increased purchases of debt in state-owned entities like Eskom using their retirement savings.

For the year ending March 2016 — the latest available reported figures — the government employees' pension fund (GEPF), of which national and provincial public servants are members, increased its ownership of Eskom debt through the additional purchase of R8.3 billion of Eskom bonds.

Moneyweb understands that this trend continued in the year ending March 2017.

At the end of March 2016, the GEPF held R73.7 billion of bonds and bills in the embattled state-owned utility, making it the largest single owner of Eskom debt by a long way. In fact, so large has the GEPF's buying of Eskom bonds become, it now dominates ownership for many of the utility's bond issues.

This is particularly disquieting because Eskom ceased public auctions for its local rand denominated bonds as far back as 2014. This means the GEPF - through the Public investment Corporation that manages its investments - has been continuing to buy bonds through private placements.

The difference between a public auction (where details of a bond issuance are distributed to a large number of buyers - 'the market"), and a private placement (which entails deals behind closed doors between a single or small number of buyers), is stark.

A public auction allows the market to test the pricing of the bond issue and brings transparency to the process. For X amount of bonds at a proposed interest coupon of Y, the bond market will indicate how much of the debt it is prepared to buy from the issuer and at what yield (price).

A private placement, by contrast, is a deal struck between the issuer and one or a few buyers. (In the case of Eskom, it might involve a call from its Treasurer to one of the investment managers at the PIC.). Market forces are excluded, and as a result, no-one has an idea if the yield being agreed to by the buyer in a private placement is fair, or whether there is even any appetite to buy the bond in the first place. And therein lies the problem for the pensioners and members of the GEPF:

With Eskom continuing to sell bonds to only one party (the PIC/GEPF) in this manner, no-one can be sure whether their pension savings are getting a fair deal.

While the quantum of lending by the GEPF to Eskom has increased in absolute terms in recent years, the good news is that on a relative basis, the exposure to Eskom has stayed constant. But size is also a problem for the GEPF. With R1.6 trillion in assets, most of which are invested locally, it might just be too big for the market in which it operates.

While Eskom b not that big in the eyes of the GEPF, in the power utility’s eyes the GEPF Is massive. Without the funding provided by the GEPF over the last few years, Eskom would simply not be able to operate.

It becomes Important to reassure ourselves that the funding provided by the GEPF is being done on an arms-length basis, because if we can't, it implies no other investors would be prepared to step in and buy the company's debt on the level the GEPF has (or alternatively might demand much higher yields to do so) and this would fundamentally comprise the utility as a going concern.

Is the GEPF continuing to buy Eskom bonds to a) prevent the government from having to bail-out the state utility directly; b) protect its own Investment in Eskom by preventing the company from going bust; or c) safeguard the long-term interests of its members by buying fixed income instruments on a measured basis**?**

Deciphering this becomes particularly grueling when evaluating the deteriorating governance standards at Eskom and its business model, which seem to be in terminal decline (Eskom produces and sells less electricity now than it did in 2004). And what about the concentration of risk in the economy? Is pumping money via government employee savings (who In turn derive their Income from taxes) into an SOE that already depends heavily on taxpayer bailout, prudent?

Andrew Canter, the chief Investment officer of Futuregrowth, was widely excoriated when he threatened to atop funding SOE’s with delinquent governance records. But he was right, because look what we have learned since: not only has Eskom lent the Guptas money, abolished penalties owed to it by them, but greatly enriched them with incredible coal contracts.

If you hold the view that state-owned entities are nothing but a piggy bank from which a predatory and parasitic political elite extract rents as has been alluded to in a number of reports relating to Eskom specifically (State of Capture, Dentons, PwC) and reinforced by the re-appointment of Brian Molefe as CEO -- then continued buying of bonds by the GEPF is nothing more than a form of prescribed assets enabling state corruption. The money is funneled via the savings of government employees to prop up over-indebted SOEs like Eskom so that the rents can be extracted through their procurement processes.

Moneyweb sent a number of detailed questions directly to the GEPF, Minister of Finance, and the PIC over the nature of the relationship between the various stakeholders, as well as what, if any, engagements had taken place over governance at the company**.**

Deon Botha, responsible for stakeholder engagement at the PIC, responded with the following (the full statement has been published at the bottom of the article):

'The PIC, on behalf of its clients, does hold a substantial amount of bonds of various SOEs. A significant portion of the PIC’s bond holdings in SOEs is government-guaranteed. At the outset, it should be stated that SOEs have never defaulted on any of the PIC’s bond investments. It should also be contextualised that bondholders do not have the same rights as shareholders.

The government is the sole shareholder in SOEs and therefore has the right to appoint members to the boards of SOEs. The PIC is concerned with governance practices of certain SOEs and has engaged the National Treasury in this regard. The PIC le also currently in discussion with external company law experts to determine what changes can be made to the PIC’s governance policies to enable the PIC to exercise a greater degree of oversight on the governance structures of investee SOEs.'

The PIC also has an Environmental, Social and Governance (ESG) which is based on corporate governance best practice and in which it applies a ratings matrix to companies in its purview. The PIC engages companies on these matters.

Answers to more detailed questions about the engagement of 'external company law experts' had not been received at the time of going to press.

It's probably fair to say that the public has been perpetually disappointed with the management and governance at a number of SOEs that include Eskom and Transnet. The ratings agencies have noted the risk to the country’s sovereign credit rating due to the risks posed by contingent liabilities emanating from SOEs, most notably Eskom, which is by far the largest. It is one thing throwing good money after bad trying to bail them out - as the latest noises coming out of the SABC indicate - but doing it with the retirement savings of 1.6 million people is unacceptable.

**PIC's full statement in respect of questions put to it by Moneyweb**

*“The Public Investment Corporation (PIC), on behalf of its clients, does hold a substantial amount of bonds of various State Owned Entities (SOEs). A significant portion of the PIC's bond-holdings in SOEs is Government-guaranteed. At the outset, it should be stated that SOEs have never defaulted on any of the PIC's bond investments. It should also be contextualised that bondholders do not have the same rights as shareholders.*

*The Government is the sole shareholder in SOEs and therefore has the right to appoint members to the boards of SOEs. The PIC is concerned with governance practices of certain SOEs and has engaged the National Treasury in this regard. The PIC is also currently in discussions with external company law experts to determine what changes can be made to the PIC's governance policies to enable the PIC to exercise a greater degree of oversight on the governance structures of investee SOEs."*

*The PIC has an Environmental, Social and Governance (ESG) Policy, which is based on corporate governance best practice, specifically for SOEs. This policy takes into account, inter alia, documents such as King IV, the Companies Act and the Public Finance Management Act. The PIC also has an ESG Rating Matrix with various metrics on environmental, social and governance best practice with which it rates the ESG scores of SOEs. The PIC actively engages all investee companies, including SOEs, on ESG matters based on our ESG policies and the ESG score derived from the ratings matrix.*

*As a result of these engagements, Eskom understands what our views are on a number of issues, including governance. The PIC can assure government employees and pensioners that it is not conflicted as an organ of state, as all investment decisions are taken in the best interest of our clients and in line with client mandate requirements and the investment risk parameters stipulated* *by client mandates. In the case of the Government Employees Pension Fund (GEPF), this mandate is approved by the GEPF board of trustees and is based on a detailed asset and liability study. The continued support of SOEs will be underpinned by these mandate requirements. Moreover, all investments are also subject to a robust due diligence process which includes a credit analysis, ESG reports as well as risk and legal reports. The PIC remains fully committed to work with National Treasury and Government to improve governance and public finance management in SOEs."*

***(An abridged version of an article that appeared on Moneyweb on May 25, 2017 – Ed.)***

# Banks 'can resist' market shock

Lynley Donnelley 05 May 2017 00:00

(John McCann)

The threat of further credit ratings downgrades and the risk that billions of rands may leave South Africa has thrown a light on the Public Investment Corporation's exposure to any potential hit to the country's stock market, and particularly its banks.

The PIC manages R1.8-trillion in pensions on behalf of the Government Employee Pension Fund. The state asset manager is a main shareholder in the country's major banks, which together have assets of roughly R4.8-trillion, according to a PwC banking survey.

At the end of 2016, the PIC owned about 6.9% of Absa, 6.2% of Nedbank, 11.8% of Standard Bank, 9.5% of First Rand and 7.4% of Capitec.

The PIC's exposure to the local banking system would be one of the things the Reserve Bank is aware of, because its size makes it systemically significant to the financial sector, said Kuben Naidoo, registrar of banks at the Reserve Bank.

But the bank has not considered the risk to be high, given the local banking sector's ability to withstand a severe market shock. In addition, the PIC is well capitalised, he said, and the nature of the government pension fund, which is a defined benefit pension fund, as well as its high funding levels of about 100%, makes it a stable investor in the local stock exchange.

If there was a major market event that required the PIC to recapitalise the banks, this could potentially increase contingent liabilities for the state, Naidoo said.

The concentration of the PIC's holdings in the banks means it is not an insignificant element in the wider financial system. This is partly thanks to Basel banking regulations, which place stringent capital requirements on banks, including holding tier-one capital — essentially, shareholder equity and retained earnings that can be used to absorb losses and keep a bank running during an adverse event.

On Tuesday, in its latest financial stability review, the Reserve Bank said that, despite the recent credit ratings downgrades by S&P Global and Moody's, the local financial sector could withstand any adverse shocks.

Following the president's recent Cabinet reshuffle, the country's sovereign ratings were downgraded, as were the credit ratings of all the major banks. The rand fell 12.2% during this period before recovering, and the banks saw a drop in their market capitalisation of R140-billion, according to the review.

Deputy Reserve Bank governor Francois Groepe said the central bank believed that local banks could withstand a major market event.

Last year, the Reserve Bank conducted a common scenario stress test, which consisted of four macroeconomic scenarios including a severe scenario of protracted recession and a most adverse scenario, characterised by excessive financial market volatility and risk aversion.

In this scenario, portfolio outflows would spike and inflows would dry up, resulting in an assumed 56% depreciation in the currency. Inflation would rise because of a weakening exchange rate, and so would interest rates to counter the inflationary effects of the currency depreciation. Groepe said the banks were so well capitalised that even in such a scenario far worse than the impacts seen recently, they could withstand a severe shock.

Although banks were well insulated against a crisis, the Reserve Bank warned of the likelihood of further credit ratings downgrades and more financial losses for South Africa. Should the local currency debt be further downgraded, this could have a "significant impact on the country's cost of funding and investment flows into the country".

Increased market volatility could see losses in the currency, bond and equity markets, negatively affecting domestic financial system stability.

The potential exclusion of South Africa from key global bond indices as a result of further downgrades was particularly "disconcerting" given the country's dependency on portfolio inflows to finance its current account deficit.

It viewed the probability that South Africa would continue to be downgraded as high. This was likely as a result of, among other things, weak economic growth, political developments, fiscal sustainability, notably concerns over contingent liabilities linked to state-owned enterprises, and the slow progress with structural reforms.

Expected impacts on South Africa's financial stability included capital outflows, further downgrades for the banks, leading to higher cost of and reduced access to funding for banks.

Nevertheless, the banking sector's strong capital buffers were reflected in a total capital adequacy ratio of 15.9%, well over the minimum regulatory requirement of 9.75%, according to the Reserve Bank.

Other key indicators aimed at ensuring the banking sector's robustness include the liquidity coverage ratio, which, according to the review, rose to 110% in January, far above the minimum level of 70%.

The liquidity coverage requirements are aimed at ensuring that a bank has sufficient high-quality liquid assets to cover a short-term outflow of funds.

Aside from the various capital and liquidity buffers, there are a range of mechanisms available to banks to mitigate against an "unlikely" crisis, according to Costa Natsas, banking and capital markets leader at PwC.

These "mitigating management actions" could include halting dividend payments, revaluating staff requirements and making an effort to contain costs.

**PIC mindful of the risks of further downgrades.**

The Public Investment Coporation (PIC) was mindful of the risks of a further credit ratings downgrade on the country's local currency debt and the adverse effect it may have on South African companies, said its head of corporate affairs, Deon Botha.

But the state asset manager had full confidence in the South African Reserve Bank's view that local banks were adequately capitalised to deal with the effects of a cut to a sub-investment grade, he said.

There had not been any need for the PIC to discuss its holdings of bank shares with the reserve bank as these holdings remain within its clients' mandated parameters and within the regulatory limits of the Banks Act said Botha.

The PIC's clients include the Government Employees Pension Fund, as well as smaller funds such as the Unemployment Insurance Fund (UIF) and the Compensation Commission Fund.

Any changes to these shareholdings are driven by client mandates and the PIC's investment strategy he added.

The PIC is "not a short-term investor", and all investments are managed with the objective of ensuring that the growth in client assets meets or exceeds the growth in their liabilities. This reduced risk for clients and ultimately for government he said.
2017/05/14

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# Government Employees Pension Fund — GEPF

*Opinion by Daniel Sutherland*

7 May 2017

A message to all the members of the Government Employees Pension Fund — GEPF, administered by the PIC -Public Investment Commissioner.

I composed a post on 22 January 2016 regarding the GEPG and today, adding additional important information. Whoever works for the state and will one day have to survive on a GEPF pension might need to know how your money is dwindling away.

This message is to everybody who belongs to the Government Employees Pension Fund [GEPF]. [Administered by the Public Investment Corporation-PIC].

The ZANC, through the PIC, is spending your money on investments that will yield no results, and that means your pension will be smaller one day.

What investment results will be there from the Public Investment Corporation's investment in e-tolls, as there is a massive boycott of e-tolls?

In 2013, the PIC helped Iqbal Serve to buy control of Independent Media by stumping out most of the R2 billion price tag with an R500 million co-investment and an R800 million loan. The latest annual report of the GEPF suggests that Surve's company has not yet serviced the loan [M&G]. In 2014, the PIC paid $ 270 million, about R3 billion then, for a 30 % stake in Camac Energy, a near bankrupt oil and gas firm led by Nigerian-American Kase Lawal. Lawal was exposed by the M&G in 2003 for a Nigerian oil deal designed to benefit prominent ANC members. The PIC concluded its purchase of the Camac stake a day before the 2014 elections. Camac denied it had donated to the ANC, but Lawal said nothing, and the ANC answered ambiguously.

On Wednesday the PIC's stake in Camac, [now Erin Energy], was down to about $ 103 million, less than 40% of the $270 million it had invested. [With reference to the report on page 3 of today's M&G, that talks about the claims by Bantu Holomisa that the PIC gave the ZANC R 40 million to pay the salaries of ZANC personnel ]

Updated:

It was also revealed by News24 last Sunday [City Press], that the PIC entrusted R3,5 Billion of GEPF funds to be managed by Mvunonala

Asset Managers, run by an illegal ZOMbobWEAN (sic) immigrant, one Bongani Mhlanga.

Bongani Mhlanga used fraudulent documents to open and register his company and was just deported back to ZOMbobWE. (sic)

It also came to light that the PIC, with GEPF funds, owns 30% of Bophelo Insurance group, an affiliate of Mvunonala Holdings.

It also came to light that Bophelo Beneficiary Fund, yet another affiliate of Mvunonala, was bankrupt and that up to R500 million of the pension money of the workers of Anglo Platinum is gone. Stolen.

If this was the situation when Mcebisi Jonas was the chairman of the PIC, how much worse will it be now that the new Zupta deputy finance minister, Sifiso Buthelezi, became the chairman of the PIC?

Sifiso Buthelezi is a staunch Zupta ally and is from KZN, he was parachuted into Parliament last year.

https://southafricatoday.net/south-africa-news/government-employees-pension-fund-gepf/

5/18/2017Government Employees Pension Fund -GEPF I South Africa Today

## STATEMENT FROM PUBLIC INVESTMENT CORPORATION (PIC)

The Public Investment Corporation (PIC), on behalf of its clients, does hold a substantial amount of bonds of various State Owned Entities (SOEs). A significant portion of the PIC's bond-holdings in SOEs is Government-guaranteed. At the outset, it should be stated that SOEs have never defaulted on any of the PIC's bond investments. It should also be contextualised that bondholders do not have the same rights as shareholders.

The Government is the sole shareholder in SOEs and therefore has the right to appoint members to the boards of SOEs. The PIC is concerned with governance practices of certain SOEs and has engaged the National Treasury in this regard. The PIC is also currently in discussions with external company law experts to determine what changes can be made to the PIC's governance policies to enable the PIC to exercise a greater degree of oversight on the governance structures of investee SOEs.

The PIC has an Environmental, Social and Governance (ESG) Policy, which is based on corporate governance best practice, specifically for SOEs. This policy takes into account, inter alia, documents such as King IV, the Companies Act and the Public Finance Management Act. The PIC also has an ESG Rating Matrix with various metrics on environmental, social and governance best practice with which it rates the ESG scores of SOEs. The PIC actively engages all investee companies, including SOEs, on ESG matters based on PIC ESG policies and the ESG score derived from the ratings matrix.

As a result of these engagements, Eskom understands what our views are on a number of issues, including governance. The PIC can assure government employees and pensioners that it is not conflicted as an organ of state, as all investment decisions are taken in the best interest of our clients and in line with client mandate requirements and the investment risk parameters stipulated by client mandates.

In the case of the Government Employees Pension Fund (GEPF), this mandate is approved by the GEPF board of trustees and is based on a detailed asset and liability study. The continued support of SOEs will be underpinned by these mandate requirements. Moreover, all investments are also subject to a robust due diligence process which includes a credit analysis, ESG reports as well as risk and legal reports. The PIC remains fully committed to work with National Treasury and Government to improve governance and public finance management in SOEs.

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Board of Trustees 3rd Floor Block A, River Walk Office Park 41 Matroosberg Road Ashlea Gardens, Extension 6 Menlo Park Pretoria, South Africa

- **MEDIA STATEMENT**
- Thursday, 25 May 2017
- **GEPF is not funding South African Airways (SAA)**

Government Employees Pension Fund (GEPF) would like to reiterate and to assure its members, pensioners and beneficiaries that their pension savings are safe.

Last week National Treasury told the National Assembly that it is considering various options to recapitalise South African Airways (SAA) which includes the Public Investment Corporation (PIC) who is our fund manager as a possible equity partner, however Treasury speculation is perceived as confirmation that the GEPF's assets will be used through the PIC to Fund SAA.

The GEPF would like to assure its members, pensioners and beneficiaries that the Fund has not received or been approached with such a proposal and no discussions have been held with GEPF on this matter, therefore we urge all our members and pensioners not to panic or read too much into this speculation. The GEPF through the PIC receives many requests all the time and rigorously considers the merits of all investment opportunities and invests prudently in the best interests of its members, pensioner and beneficiaries.

The GEPF adheres to strict regulations governing its financial liability to members, beneficiaries and pensioners, as well as its financial soundness. Moreover, the GEPF has confidence in the PIC's ability to prudently invest funds on its behalf in terms of the agreed investment mandate. The GEPF constantly monitors and evaluates the PIC's performance in accordance with its investment policy and mandates.

GEPF members, pensioners and beneficiaries are reminded that the primary role of the GEPF is to protect the wealth of its members and pensioners by safeguarding their retirement benefits through proper administration and prudent investment.

**Issued by Government Employees Pension Fund**

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# Public Investment Corporation – is it really independent?

## It owns more than half the bonds of dysfunctional state-owned companies…

Ciaran Ryan / 30 May 2017 00:10


News from the bond market is that several state-owned enterprises (SOEs) have suspended their monthly bond auctions due to dwindling support from private investment firms. This leaves the Public Investment Corporation (PIC) – custodian of nearly R2 trillion in public servants' pensions and savings – as the primary backstop of financial support for SOEs.

Something is clearly wrong here. The PIC is willing to put public servants' savings into bonds that private investment firms won't touch. It is an established fact that a major reason for SA's sovereign credit downgrade is the ongoing concern among ratings agencies over the state of governance in our SOEs.

As the accompanying table shows, the PIC (and the Government Employment Pension Fund) owns 48% of Sanral (SA National Roads Agency) bonds, 56% of Eskom's and nearly two-thirds of Transnet's.

| Top 10 owners of bonds | | | | | |
|---|---|---|---|---|---|
| | Eskom | | Transnet | | Sanral |
| GOVERNMENT EMP PENSION | 78,116,390,000 | GOVERNMENT EMP PENSION | 25,024,403,000 | GOVERNMENT EMP PENSION | 14,067,054,000 |
| OLD MUTUAL PLC | 8,719,739,000 | PUBLIC INVESTMENT CO | 2,215,000,000 | OLD MUTUAL PLC | 3,511,631,000 |
| TRANSNET SECOND DEF | 3,892,867,000 | TRANSNET LIMITED | 2,089,900,000 | MMI GROUP LIMITED | 1,787,616,000 |
| RMB CAPITAL MARKETS | 3,821,118,000 | OLD MUTUAL PLC | 1,863,894,000 | SA NATIONAL RD AGENC | 1,272,367,000 |
| SANLAM LIFE INSURANC | 2,964,389,000 | SANLAM LIFE INSURANC | 1,169,964,000 | PUBLIC INVESTMENT CO | 758,000,000 |
| MMI GROUP LIMITED | 2,288,058,000 | NEDCOR CAPITAL TREAS | 1,069,501,000 | SANLAM LIFE INSURANC | 624,225,000 |
| ESKOM PENSION & PROV | 2,037,836,000 | ABSA TREASURY BONDS | 835,000,000 | LIBERTY LIFE ASSURANCE | 590,557,000 |
| AIPF-NT | 1,292,000,000 | MMI GROUP LIMITED | 757,632,000 | SECLEND POOLED COLLA | 400,000,000 |
| LIBERTY LIFE ASSURAN | 1,236,806,000 | SANLAM LTD | 595,713,000 | FNB PENSION PENSION | 337,375,000 |
| NEDCOR CAPITAL TREAS | 866,281,000 | RMB CAPITAL MARKETS | 581,633,000 | STANLIB ASSET MANAGE | 284,234,000 |
| | | | | | |
| PIC ownership % of SOE bonds | | PIC ownership | Total bonds issued | PIC % ownership | |
| Eskom | | 78,490,390,000 | 139,592,467,383 | 56.23% | |
| Transnet | | 27,239,403,000 | 43,631,000,000 | 62.43% | |
| Sanral | | 14,825,054,000 | 30,819,000,000 | 48.10% | |
| | | | | | |
| Source: Bloomberg | | | | | |

The PIC itself states that it practices a policy of shareholder activism, with the aim of ensuring that “the entities in which we invest on behalf of our clients are well managed, accountable and transformed.”

That being the case, the PIC should exercise its mandate to its clients and use its massive investment muscle to push for well-managed, accountable and transformed management at the many SOEs in which it is invested.

It claims to be doing this, but the fruits of this activism are not readily visible. SAA under Dudu Myeni, who has racked up more than R10bn in losses during her chairpersonship, still squats in her chair. Brian Molefe, sometime CEO at Eskom and friend of the Guptas, has just been returned to the CEO post at the behest of the board and the minister of public enterprises. This is the same board that showed largesse to the Guptas – lending them money, abolishing penalties they owed Eskom, and dishing out amazingly generous coal contracts to them. SAA is not involved in raising bonds, although bond-raising has been touted as a solution to its financial crunch. The PIC does not seem at all keen on this, so we can assume Treasury is going to have to figure this one out some other way.

The obvious solution is to take a firehose to the boards of these SOEs and restore some credibility. There’s no sign of that happening.

In the last few months both Transnet and Sanral have suspended their monthly bond auctions due to lack of support. Their own internal treasury guidelines require them to seek a diversified spread of investors as a risk-mitigating mechanism. That is no longer possible. Where there is hardly any support left, it seems the PIC is left to pick up the slack. Some have argued that the PIC is the lender of last resort to these malfunctioning institutions, thereby placing public servants’ savings at risk.

Transnet held an auction in March this year, which was well supported. Support crashed in the April auction: it raised just R45 million of the R200 million it was seeking in that month. It has some flexibility to reschedule its capital expenditure programme, and has already extended a seven-year capex programme into a 10-year one. This also means that it will have to scale back on its massive R360-380-billion capex programme over the next 10 years – and this is something the economy can ill afford. Our rail and other basic infrastructure suffers from decades of under-investment and is a critical bottleneck to growth.

Transnet is able to access Development Finance Institutions (DFI) and Export Credit Agencies (ECAs), provided the funding is tied to specific projects. But neither of these will support basic maintenance and office overheads. That then leaves government as the final backstop, but even this is becoming less and less tenable. The sovereign downgrade makes it more difficult even for government to raise capital on the bond market, and it will have to pay higher interest costs than has been the case until recently.

The Eskom board's insistence on re-appointing Brian Molefe to the CEO position – a decision that has created a rift between the ANC and Minister for Public Enterprises Lynne Brown – also has financial consequences. SA's credit downgrade is already priced into Eskom bonds, and the same applies to all other SOEs in SA. Eskom has a sophisticated treasury operation which gives it some flexibility in its capital raising options, but as in the case with Transnet, it is able to tap the DFI and ECA programmes (provided its fund raising is tied to specific projects). Hence, the impact of the "Brian Molefe affair" and other instances of mis-governance are not visible from the bond data provided by the JSE. But Eskom's bonds are trading at significantly wider spreads above their respective benchmark bonds than was the case a few years ago. That tells us all we need to know about the market's perception of governance in the organisation, and of SA's sovereign credit rating.

**Sanral**

Earlier this month, Sanral announced that it had cancelled all future bond auctions pending the outcome of a governmental task team inquiry into road funding. Sanral needs to borrow about R600 million a month to cover its interest bill and operations, but, as already mentioned, the auctions have been poorly supported over the last year. Sanral says it has enough cash to last a few months. Urgent action is required to arrest its deteriorating cash position, and the options are few.

Options include:

1. Solicit additional grants from government (the least favoured option, given the budgetary stresses already in place).
2. Extend government guarantees and re-price the bonds (ie. offer additional yield) to entice investors to support the bond auctions.
3. Attempt to improve revenue collection by pursuing legal action against e-toll boycotters, though this is not an option that is expected to yield any tangible result, now or in the near future.
4. Lean on the PIC to back these bond auctions, which in itself is arguably an abuse of public servants' savings (even though the PIC will pick up additional yield on these bonds).
5. Embark on a Zimbabwe-style money printing programme and lend the money directly to SOEs – in which case the rand will tank, inflation will rise, and we can say farewell to any hope of economic recovery.

Obviously none of these are particularly satisfactory.

The bottom line is that there are growing concerns that the PIC is being used as a funding arm of government, and in apparent violation of its own investment guidelines.

PIC was asked for comment, but had not replied at the time of publication.

*(Acknowledgement to Moneyweb May 30, 2017)*

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# Malusi Gigaba & Co. want PP to investigate Treasury - NEWS & ANALYSIS Politicsweb

**NEWS & ANALYSIS**

## Malusi Gigaba & Co. want PP to investigate Treasury

News24 I

30 May 2017

Dept accused of not increasing social grants in line with inflation, protecting friends in business elie

**Ministers ask Public Protector to investigate Treasury and banking sector**

Johannesburg — The Office of the Public Protector on Tuesday confirmed that several ministers have written a letter requesting that she investigate the conduct, alleged collusion and corruption at National Treasury and other financial institutions.

Public Protector Busisiwe Mkhwebane's spokesperson Oupa Segalwe said, "The Public Protector received a complaint against National Treasury, South African Reserve Bank, Financial Intelligence Centre, Public Investment Corporation and the Financial Services Board.

"The complaint bears the names of 90 people who identify themselves as 'ANC MPs and concerned South African citizens'. There are signatures next to only 49 of the names.

"The complaint will be subjected to the standard process of assessment for jurisdiction and merit before a decision is made on whether it will be investigated or not."

The list of minister requesting Mkhwebane to investigate state capture include Malusi Gigaba, Nomvula Mokonyane, Bathabile Dlamini and David Mahlobo.

According to the letter, the entities consistently work in a manner detrimental to the majority of South Africa's population.

"Currently, they operate in the interests of the few instead of the majority. The phrase 'state capture' is now commonplace in South Africa and these institutions need to be investigated. They are at the heart of it, and always have been.

"This same Treasury has not increased welfare grants anywhere near in line with inflation. This imposes further hardship on our country's most vulnerable citizens. Scandalously, food inflation is even higher than general inflation," the letter said.

"This means grant recipients are not just getting slightly poorer in terms of what they can buy with their money, but are even less equipped to fulfill their basic needs. This is tragedy in what is considered Africa's most developed nation."

The ministers claim that many South African companies enjoy high profits.

"Treasury protects its friends in the business elite. This needs to be investigated... The banks that treasury protects fail to provide access to financial products for black entrepreneurs. The working poor have virtually no access to credit."

The ministers want Mkhwebane to investigate the PIC and treasury's "control over it".

"Why is there no investigation into why the Big Four banks shut the accounts of a major South African employer, almost overnight, with no credible evidence or explanation?...Our President has made enemies of this elite and that is why they are out to destroy him."

http://www.politicsweb.co.za/news-and-analysis/malusi-gigaba--co-want-pp-to-investigate-treasury?utm source= Pol iticsweb+Daily+Heacilines&utm ca... 6/6

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**The GEPF Monitoring Group – Recruitment message**

Please note that it is **not** the intention of the GEPF Monitoring Group to replace unions and other organisations. Our aim is to cooperate with them in order to protect the pensions of pensioners and those who are still employed and contribute to the pension fund.

Most civil servants and retired civil servants' pensions are administered by the GEPF (Government Employees Pension Fund) responsible for managing a fund of some R1,8trillion (18 zeros). The fund is administered effectively to a relative extent, however, threats do exist that the fund could be stripped.

With the poor economic situation in the RSA, an aimless government, the level of corruption, allegations of state capture as well as the attractive scope of the extent of the fund it will be naïve to believe that nothing could go wrong with the fund. Already there are indications of misappropriations of investments or investments with political aims such as investments in African Bank, Independent Newspapers, etc.

Because of these reasons a number of volunteers established the GEPF Monitoring Group with the aim to protect the fund and have it grow to the benefit of future pensioners contributing to the fund and existing pensioners benefitting from the fund. Albeit that we are assured that matters are going well with the fund we cannot help to recall what happened to the Transnet pension fund.

In the short time of its existence the GEPF Monitoring Group achieved the following:

1. A media profile exposing our opinions and raising questions was published.
2. Our own website and a monthly electronic magazine.
3. A constitution through which our actions can be regulated.
4. A meeting held with fund trustees during which our concerns were discussed with them.
5. Inputs were given to Parliament's portfolio committee regarding our pensions for use during the annual reporting of the GEPF and PIC (Public Investment Corporation).
6. Discussions were also held with influential competent figures such as Dawie Roodt.

To make an effective input and difference the GEPF Monitoring Group needs members and co-workers. We also need assistance in the form of financial contributions to cover general administration needs, the gathering of information and possible litigation.

Regarding co-workers we need members who could, when required and on a voluntary basis, undertake certain tasks to assist us.

We know that there is a lot of competence and experience amongst us. Assistance can also be rendered by means of computers and the internet.

Should you be interested to join please complete the attached application form and submit it as soon as possible to the email address as indicated at the bottom of the application form.

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# GEPF MONITORING GROUP – MEMBERSHIP APPLICATION

1. Surname ........................................................................................................................

2. Christian names ..............................................................................................................

3. Call name ........................................................................................................................

4. Address: Home address .......................................................................................

   ...........................................................................................................................

   Postal address ..................................................................................................................

   ...........................................................................................................................

   E-mail ..............................................................................................................................

5. Contact numbers: Phone ....................................Cell ..........................................................

6. ID-number .......................................................................................................................

7. In which Government Department were you employed .......................................................

   ...........................................................................................................................

8. In which section of the Department .......................................................................................

9. Please underline where you can possibly assist:

   i) Finding and interpreting information
   ii) Media liason
   iii) Administration and logistics
   iv) Legal matters
   v) Skills regarding economic matters
   vi Other for example administration ..........................................................................

10. I undertake to monthly/annually pay R.................. . The guideline for membership is R300 per year. More or less will also be welcome.

    Signed at ........................................... on .................................................................

    Signature ........................................................................................................

    Banking details:
    A.S. Janse van Vuuren
    ABSA Bank Lyttelton
    Branch code 632005
    Account number 020226560

    Use your name as reference. As soon as the organisation is registered a new account will be opened in the organisation's name.

    E-mail completed form to:

    **Alan Luck** – armyrenewal@vodamail.co.za
    **Gerda Putter** – gerda.putter@gmail.com

## ONS SOEK DRINGEND HULP

Die GEPF  Moniteringsgroep verlang die dienste van:

‘n Ekonoom;

‘n Assistent vir die voorsitter en

‘n Liasseerklerk vir elektroniese liassering.

Die Moniteringsgroep is ‘n vrywilliger organisasie en daar is geen vergoeding aan die poste verbonde nie.

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# In ligter luim

Reg voor die oue tehuis is daar ‘n busstop.  Twee ou toppies sit elke oggend daar en knoop geselsies aan met die mense wat op- of afklim.  Een oggend klim daar ‘n vreemde, mooi jong poppie af, netjies uitgevat en haar parfuum kom so saam met haar uit die bus.

Toe sy so wegstap, roep die een ou:  “Nooientjie, nooientjie!”  Sy stop en kyk om: “Roep oom vir my?”

“Ja nooientjie, wil jy nie net weer hier verbystap nie?”  Sy vererg haar so effens vir die stuitige ou man en vra: “Hoekom oom?”

“Ag my kind, jy ruik so lekker.  Hier binne waar ons bly ruik jy net bloekomolie, Vicks en Zambuksalf”.

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