Association for Monitoring and Advocacy of Government Pensions (AMAGP)
NPO Registration No: 198-822
SEMPER VIGILANS

**The Association for Monitoring and Advocacy of Government Pensions: An independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.**

www.amagp.co.za

GEPF
your investment, your future

# NEWSLETTER NO 10 of 2018

**AMAGP – Association for Monitoring and Advocacy of Government Pensions**
**BOT – Board of Trustees [of the GEPF]**
**FSCA – Financial Sector Conduct Authority [previously the FSB]**
**GEPF - Government Employees' Pension Fund**
**PEO – Primary Executive Officer**
**PIC – Public Investment Corporation**
**PSA – Public Servants' Association**
**ROI – return on investment**
**SC – state capture**
**SCF – Standing Committee on Finance**
**SCOPA - Standing Committee on Public Accounts**
**SOC – state owned company**
**SOE – state owned entities**

***There are 1 273 784 active members, 437 051 pensioners, and "R 1 67 trillion in assets under management". GEPF Advertisement for a Government Employees Pension Ombud. Rapport 4 February 2018.***

## The Editor's Word

Dear reader, you will see ever increasing news of the PIC and its activities, not just in the newsletter. Much of it will be negative as there is unfortunately little that is really positive. Realise that the news comes as a result of the AMAGP activities since its inception in 2016 and not just by coincidence – lobbying, letters, influencing, parliamentarians, questions in the press, agitating for wide-spread concern, etc. However, keep in mind not all is bad at the PIC/GEPF, there are many there who indeed diligently look after our Fund's interests.

There is some concern about the PIC buying Eskom bonds for the past three years through private placement. Private placement is just that, purchase is private with little known about market related cost, maturity and return on investment. It may be the PIC is the only purchaser, making it even scarier. This means there is continuing outflow of our Fund money into Eskom without it being market related or commonly known.

PIC. Ever in the news. I believe the BOT can expect to start feeling the heat soon, even if they don't want to believe it.

See the last article; Daily Maverick's opinion piece on private investments. Well worth the read to realise how creative accounting can hide and eventually cause catastrophic failure. Don't skip it.

Sorry for the delay in the newsletter, I have contract work at last and need to prioritise my time. Next one should be sooner.

Editor

NOTICE
The AMAGP needs the contact details of influentials in your area. YES WE ARE TALKING TO YOU! Particularly members of parliament [national and provincial] contact details, so we can increase their awareness of what is happening to their GEPF and sensitise

them to action!  Send contact details directly to adamusp2602@gmail.com please.  No comebacks please, we want the real person's contact details, not the secretary.

## NEWS NEWS NEWS

*Synopsis*

**SA INVESTING**

## Glencore still flirting with PIC in Chevron deal

*EDINBURGH — Rumours have been swirling for some time that the PIC is seriously considering buying Chevron Corp's southern Africa assets together with Glencore. Glencore, a major global commodities trader listed on the London and Johannesburg stock exchanges, has been circling refineries in South Africa and Zambia. In October, Glencore issued a statement about its purchase of Chevron Corp, noting that it intends to manage its overall oil asset portfolio to ensure that net additional capital investment is limited to less than $500m over the next 12 months. At the time, the Financial Times reported that people familiar with the company's thinking said Glencore would look to reduce its stake by bringing in another investor, something Glencore has done in many 2017 deals to spread costs. The PIC will not be drawn on providing details, though it does hint that it is still working through the deal specifics in order to make a decision. – Jackie Cameron*

**By Paul Burkhardt and Loni Prinsloo**

(Bloomberg) Glencore Plc and a black investor group are the only partners in a potential $1 billion deal to buy Chevron Corp's southern African assets, according to three people familiar with the situation.

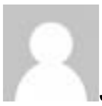
Business Day reported earlier that South Africa's PIC could emerge as a 50% partner in a joint bid with Glencore. It didn't disclose how it got the information. The assets to be acquired include a 100 000 barrel-a-day refinery in Cape Town and more than 800 gas stations in South Africa and neighbouring Botswana.

Chevron Oil Refinery, Cape Town, South Africa.

There hasn't been any indication that the PIC would take up any of the stake said one of the people, who requested anonymity because the information isn't public. A spokesman for the PIC said no investment decision has been made.

Chevron agreed last year to sell its 75 % holding in the southern African business to the Chinese group known as Sinopec. However, the deal stalled after black-owned minority partners, backed by Glencore, exercised a pre-emptive right on the stake.

Glencore is supporting black investor group Off The Shelf Investments Fifty Six Pty Ltd. as a technical and financial partner, it said previously. Off The Shelf's investors own the other 25 % of the Chevron business.

Jackie Cameron 6 June 2018

*Comment*

*What does this actually mean, if the PIC should own 50% of Chevron Corp?  What would its responsibilities entail as half owner? How would the business be run with the notable shareholding in Glencore in mind? Does the PIC really have sufficient business acumen to manage such a business given its known propensity for poor investments?*

*Synopsis*

'n Brief opgestel deur Albert van Driel: 'n bondige weergawe van drie belangrike sake.

Met verwysing na Dr Matjila se onlangse verslag in die Parlementêre Staande Komitee oor Finansies [SCOF].

1. Die Nigeries-geregistreerde maatskappy Erin Energy het in Maart 2018 vrywillig in 'n VSA hof aansoek gedoen om sekwestrasie; Erin het werklike en ongerealiseerde verliese wat R 8 Miljard oorskry soos volg:

Deel 1: R 3 miljard kapitale investering vir 30% aandeelhouding (blykbaar het Casi Lawal, die oorspronklike eienaar, gereëlde skenkings aan die Zuma-familitrust beloof).

Deel 2: Bykomende befondsing dmv die "Mauritian Commercial Bank" (MCB), waarvan R1,084 miljard aangewend was deur Erin; aangesien OBK die lening gewaarborg het, sal dit n debiet vir die OBK wees.

Deel 3: Die Londonse Internasionale Hof vir Arbitrasie het vir Casi Lawal [van Erin] beveel om uitstaande lisensiegelde (VSA $200 miljard) te vereffen aan Italiaanse ENI mattskappy. As n 30% aandeelhouer sal die OBK R 0,75 miljard moet bydra.

Deel 4: Opgehoopte tekorte vir Erin beloop VSA $1,17 Miljard (Erin webtuiste, 2017 balansstaat en 4de kwartaal data). Konserwatief bereken is dit 'n verdere verpligting op die OBK, ten bedrae van R 3,75 miljard.

Al die OBK verliese by Erin, werklik en toekomstig beloop ongeveer R 8,584 miljard.

2. <u>Surve ondernemings</u>. Na die "Independent Media" (IM) fiasco moes die GEPF en OBK van beter geweet om nie weer pensioenfondse te misbruik in 'n twyfelagtige sogenaamde Swart Bemagtigingsmaatskappy nie. AMAGP beskik oor betroubare inligting dat die blootstelling aan IM die bedrag van R 2 miljard beloop het, en nie R1,3 miljard soos deur Dr Matjila gerapporteer nie. Die hele IM-transaksie was onprofessioneel saamgestel sodanig dat IM(Sekunjalo) slegs na vyf jaar rente betalings op 'n lening kon doen. Die eerste afbetaling op kapitaal behoort in Augustus 2018 plaas te vind. In die 2017 GEPF Jaarverslag word vermeld by "impairments" dat IM 'n bedrag van R 86,377 miljard aan die GEPF verskuldig is. Die AYO belegging moes dus nooit plaasgevind het nie weens die swak kontraktuele prestasie van IM. 'n Belaglike oorgeevalueerde prys is vir AYO-aandele (R43) betaal om sogenaamd 29,9% van Ig se aandele; welke belegging n hoë risikoprofiel het, asook sonder enige "waarborge". GEPF/OBK belanghebbendes sal moontlik 'n hofinterdik moet oorweeg om OBK daarvan te weerhou om verdere beleggings in Sagharmata te doen!

3. <u>VBS Venda bank.</u> Die VBS projek is 'n klassieke geval waar Swart Bemagtiging teen enige realistiese kostes deurgeforseer word, terwyl ongunstige faktore van meet af duidelik was. Met 25% aandeelhouding sou mens verwag dat die GEPF/OBK se direkteure op VBS se direksie ten minste sou toesien dat die "ESG" formule vir verantwoordelike beleggings toegepas word. Daar is geen sprake dat enige professionele monitering deur GEPF/OBK by VBS plaasgevind het nie. Daar bestaan genoeg bewyse dat min binne bestaande wetgewing by VBS reg plaasgevind het nie. Derhalwe het die Reserwebank dit goedgedink om VBS onder kuratorskap te plaas. (ESG - "Environmental, Social en Governance")

*Kommentaar*
*Net om te wys dat die AMAGP nie 'n vae liggaam is nie, maar aktief op hoogte is en bly met die saakmakende aspekte van ons Fonds met 'n werklik diepgaande kennis oor baie van die OBK se aktiwiteite en die invloed daarvan op ons Fonds.*

*Synopsis*
**NATIONAL**

## PIC pays IT executive R7m to leave

8 June 2018 Carol Paton

The PIC paid its chief IT executive Vuyokazi Menye about R7,5m to leave the organisation, while the organisation signed an acknowledgment that she had done nothing wrong. Her subordinate, head of IT security Simphiwe Mayisela, was dismissed following a hearing last Friday.

The two are casualties of a frantic attempt by PIC CE Dan Matjila and his board to unmask the identity of an anonymous whistle-blower who e-mailed executives and board members with allegations that Matjila had corruptly funded "a girlfriend".

However, the attempt to find the whistle-blower went awry when the South African Police Service decided it was more apt to investigate the whistle-blower's claims than to discover his identity.

Both staff members were suspended on a charge that they had failed to inform Matjila that he was the subject of a corruption investigation by the police. Mayisela also faced several other charges.

The details of the events are recorded in the judgment of Mayisela's hearing, presided over by advocate Nazeer Cassim. While Menye is subject to a nondisclosure agreement, Mayisela had decided to speak out.

The saga dates back to September 2017 when executives and directors of the PIC received the e-mail. Matjila responded to the claims with a written rebuttal to the board and was also interviewed on his statement by the head of PIC's internal audit. Although the internal audit report was not conclusive, the board cleared Matjila. Menye and Mayisela were instructed to find the sender of the e-mail.

Mayisela says the e-mail was traced as far as a server in France, and for him to continue any further required the assistance of the police, who could subpoena the company concerned. On Matjila's go-ahead, Mayisela reported the matter to the Brooklyn police station.

However, on taking his complaint, the police decided the crime that needed investigation was the allegation of corruption against Matjila, not determining the source of the e-mail.

These facts are not in dispute and in his judgment against Mayisela, Cassim said he believed the police did the right thing in prioritising an investigation into the veracity of the allegations over the identity of the sender. Cassim also found that the employees were following the instructions of Matjila in going to the police.

Menye's hearing was settled midway through proceedings. Business Day has, however, ascertained that Menye's payout was equivalent to 29 months' salary, amounting to about R7,5m.

While Menye was deemed to be not responsible for the charge of failing to inform Matjila of the corruption probe, Mayisela, who reported to her and kept her abreast of developments, was found guilty. This, said Cassim, was because he had a duty of good faith to his employer, which he did not uphold.

Mayisela saw the police on two separate occasions. On the first occasion he went on Matjila's instruction and was told by the police that they wanted to investigate Matjila. Mayisela says the police had told him he was now a witness and had enlisted his co-operation. At first he told neither Menye nor Matjila that this had happened. However, later, when the police called him for a further interview, he informed Menye and took her along.

Cassim said Mayisela's omission to inform his superiors after the first occasion was deliberate and done in bad faith.

Mayisela was also found guilty of being in possession of confidential documents, which he argues he obtained with the access permissions granted by Menye after the two of them discovered a breach of IT security. Mayisela also says he was keeping the documents to give to the police.

Cassim was also highly critical of the way Matjila was cleared of the "girlfriend" allegations, saying he found the conduct of the board wanting.

"The nature of the allegations levelled against the CEO requires a more profound investigation, and the process itself ought to have encompassed the hallmarks of transparency and accountability…. The CEO should have extricated himself completely from any investigation," Cassim said.

***Carol Paton***
Deputy Editor: Business Day

*Comment*
*I would also adhere to my non-disclosure if I was paid R 7,5 million for it. Divided by 29 tells you that the PIC are very well paid indeed. However, the GEPF pays the PIC an extremely large amount for its work, so it is our money being used for the payment to Menye.*
*I like the way the Police addressed the core of the situation, not the source of the email but the contents!*

*Synopsis*

## DA wants Scopa probe into alleged Mkhize kickback

2018-06-10 Jan Bornman

news24

Zweli Mkhize (Leon Sadiki, Gallo Images, City Press, file)

The DA wants the Scopa to probe allegations that Co-operative Governance and Traditional Affairs Minister Dr Zweli Mkhize received a R4,5m 'kickback' in return for facilitating a R210m loan. The DA's shadow minister of finance David Maynier was responding for an article in the Sunday Times alleging the former ANC treasurer general had facilitated the loan for Afric Oil from the PIC.

Maynier said the committee was prohibited from cross examining senior executives and never received straight answers to straight questions put to the PIC. "I will, therefore, as a last resort write to the Chairperson of SCoPA, Themba Godi, requesting him to schedule a hearing probing allegations surrounding irregular payments and questionable investments at the PIC" he said.

"The hearing should probe the allegation that the Minister of Co-operative Government and Traditional Affairs, Dr Zweli Mkhize, received a R4,5m 'kickback' for facilitating a R210m loan from the PIC" Maynier said.

Further, Maynier said Scopa should also probe allegations of irregular payments made to Dr Dan Matjila, the CEO of the PIC, as well as question investments and loans including to Ayo Technology Solutions Limited, Sagarmatha Technologies Limited, Steinhoff International Holdings N.V. and VBS Mutual Bank.

Mkhize on Sunday categorically denied the Sunday Times report. He took exception to the story, labelling it "sensational" and an attempt to "tarnish" his name.

## POLITICS

# Sunday Times report on Afric Oil misleading - PIC

Deon Botha 11 June 2018

The PIC rejects allegations in a front page article in the *Sunday Times* yesterday, 10 June 2018, (*'Lawyers demand PIC loan kickback for Zweli')* as malicious and patently false.

The PIC's investment in Afric Oil originated in September 2014 with a direct equity stake of 29% worth R97 million. In January 2017, the PIC approved a further R210 million loan for an expansion plan for the company that included growing its logistics division, the acquisition of storage facilities and the provision of working capital.

The PIC regards Afric Oil as an important emerging fuel supplier – the first black empowered entity in the petroleum industry - with the potential to create jobs and advance entrepreneurship. The transaction resides in the PIC's unlisted portfolio – known as the Isibiya Fund – the details of which have publicly been available for some time.

The *Sunday Times* asserts that it, presumably through diligent investigative journalism, had "*established that Africa Oil received a R210 million loan from the PIC in February last year*" as if this fact had not been previously disclosed. The newspaper further alleges that "*A month later, the company sold its 71% interest to SacOil, a listed independent oil and gas company whose CEO, Dr Thabo Kgogo, is a close ally of the PIC CEO Dan Matjila.*"

The newspaper fails to provide any evidence to show that Kgogo is "*a close ally"* of the PIC CEO. The PIC emphatically rejects this allegation. In written responses to questions received late afternoon, on Friday 8 June 2018, from the *Sunday Times* journalist, the PIC explained that:
- Prior to approving the R210 million loan to Afric Oil, the PIC was fully informed of the intention of Pembani Oil to exit Afric Oil through the sale of its 71% shareholding to SacOil.
- The PIC had no problem with the intended exit as it did not change the fundamentals of the investment decision. SacOil is an operator in the same industry.
- SacOil and Afric Oil are both companies in which the PIC is invested; the relationship

between the PIC and these companies is that of a client-shareholder relationship.

- This is no different from the PIC's relationship with Tiso Blackstar, publishers of *the Sunday Times*, its CEO or any of its senior executives. There are no "*close ally"* relationships with anyone.

The newspaper failed to publish these explanations but instead chose to place more reliance on allegations from anonymous "*sources with intimate knowledge"* that Minister Zweli Mkhize "*twisted Matjila's arm to approve Afric Oil's loan application."*

This is patently false. The PIC has no knowledge of any "facilitation fees" that was required to be paid to any parties as part of the transaction. The Afric Oil transaction was approved by a fund investment panel that is chaired by and comprises of independent non-executive directors of the PIC board. The panel is a sub-committee of the PIC Board's Investment Committee.

The PIC's investment processes are such that no one person – in particular the PIC CEO - is vested with all the powers to unilaterally make investment decisions. The PIC manages the funds of all its clients within strictly prescribed investment mandates determined by its clients, is regulated by the FSCA, is subject to provisions the PFMA and is audited by the Auditor General.

By today, Minister Mkhize and Afric Oil in separate public statements have dismissed the allegations by the *Sunday Times*. The newspaper had previously committed that it would review its news-gathering and production processes to strengthen quality assurance and editorial testing for more accurate news reporting. Regrettably, in this instance, it appears there remain some concerning flaws in its editorial processes.

*Issued by Deon Botha, Head: Corporate Affairs, PIC, 11 June 2018*

***Update:***

**Afric Oil has released the following statement:**

Afric Oil notes the article in the Sunday Times with regards to our financing arrangement with the PIC in 2017. We can confirm receiving letters from a law firm claiming to represent Zonkizizwe Investments and The Noble Company, with respect to fund-raising fees. Afric Oil has rejected the claims on the basis that we are not aware of such arrangements and that we could not find any evidence of the legitimacy of any claims for fund-raising fees. We can thus categorically state that Minister Zweli Mkhize, nor any of the parties mentioned, was ever contracted by Afric Oil to facilitate a loan transaction with the PIC.

ENDS

*Comment*

*Interesting that a law firm is claiming fees and that for Zonkizizwe Investments and the Noble Company. Who are they? Pity we don't know yet. Would I be wrong in saying no smoke without fire*?

*Synopsis*

**SA INVESTING**

## JSE-rival ZAR X seeks fixing BEE logjam in SA after receiving PIC investment

*JOHANNESBURG After launching last year, Bryanston-headquartered ZAR X looks like it's had slow take up with just three listings under its belt. But the rival exchange has big plans after receiving an investment from the PIC. Among those plans is shifting towards a greater focus on boosting BEE in the economy. As respected money manager Wayne McCurrie, says in this article, ZAR X's BEE focus is a good move but it will need more to take on the gorilla in the room, the Johannesburg Stock Exchange. Gareth van Zyl*

**By Thembisile Dzonzi**

(Bloomberg) – A 16-month-old South African exchange said it can be a platform to ease one of the deepest challenges confronting major listed companies since white minority rule ended: increasing BEE.

ZAR X's goal is to be the specialised home of investment vehicles intended to spread wealth among black South Africans and help address economic lingering inequalities. That objective was boosted in January, when the PIC bought a 25% stake.

An employee works in an office at the ZAR X, South Africa's second stock exchange, in Johannesburg on April 11, 2017.
Photographer: Waldo Swiegers/Bloomberg

"With our shareholding from the PIC we are looking to get quite a few entities from their holdings," head of listings Graeme Wellsted said in an interview at Bloomberg's Johannesburg offices. A looming landmark is the pending listing of Bayhill Capital Transformational Investment Portfolio, a majority black-owned fund with holdings in JSE-listed companies acquired at a discount through their empowerment programs.

The conundrum for major South African companies has been to ensure they continue to be recognized as supporting BEE once disadvantaged groups that received stock sell-on their holdings. Wellsted said the exchange has an opportunity to provide impetus to BEE efforts by being a platform for long-term listings of empowerment entities set up by companies whose stock trades on the country's main exchange.

"The listing empowerment vehicle gets a life of its own, with its own board and, although it looks to the share listed on the JSE for value, they can do capital raisings in their own right," he said. "It gives the primary listed company the comfort of perpetual empowerment, because as long as it is listed, it will ensure they retain their empowerment credentials."

Trading in the stocks will be restricted to investors that meet the empowerment definitions and requirements.

ZAR X, which started operating in February 2017, is among fledgling exchanges seeking to compete with the country's main bourse. "The listing of black economic vehicles is on the increase – I think it's a good idea to try specialise in that," McCurrie said. "Still, investors will go where there is liquidity, and that remains with the JSE at the moment. Having the PIC on your side as a shareholder is a major advantage, but the PIC itself will still have to transact where there is liquidity."

ZAR X is dwarfed by the 131-year-old JSE, which ranks among the 20 largest in the world. The newcomer intends to add as many as three more listings in the next year, including discussions with a short-term insurer, while investment products developed by banks may start trading on ZAR X, Wellsted said.


**Gareth van Zyl** June 14, 2018

*Comment*
*Boosting BEE in the economy is a noble goal; however, if it is done with our Fund's money we want adequate return on our investment. The ROI isn't going to be visible in the short term, hopefully it will be there in the medium to long term.*

*Synopsis*

**SA INVESTING** **14** JUNE, 2018

## Juggernaut Naspers expects earnings surge on Tencent, e-commerce bonanza

*JOHANNESBURG In about a week from now Naspers will release its full earnings report. Already the results are shaping up to be stellar. According to a trading statement, Naspers said it expects its core headline earnings per share to rise by 70-75%. In order to close the discount gap that Naspers' shares have on its Tencent stake, there's been talk of a separate spin-out. I posited this question and more to van Dijk in an interview earlier this year – but he was mum on the issue. Gareth van Zyl*

**By John Bowker and Janice Kew**

(Bloomberg) Naspers Ltd. expects to report an increase in earnings for its most recent financial year, bolstered by Chinese internet giant Tencent Holdings Ltd. and various e-commerce businesses.

Core headline earnings per share rose 70% to 75% in the year through March Naspers said in a statement Wednesday. The company didn't provide details on the trading performance of individual units, which also include Africa's biggest pay-TV provider, but will do so in a full earnings report on June 22.


Ma Huateng, chairman and chief executive officer of Tencent Holdings Ltd., attends a news conference in Hong Kong on March 21, 2018. Photographer: Anthony Kwan/Bloomberg

Africa's largest company by market value has long piggy-backed on fast-growing WeChat-creator Tencent, in which it owns a 31% stake. Meanwhile, Naspers is investing in other media and technology businesses around the world, with a particular focus on online retail such as food delivery.

The fiscal 2018 financials incorporate a change in accounting policy, which also required a restatement of core headline earnings in the previous year to produce comparable figures. Naspers didn't historically include amortisation of intangible assets in the calculation, but will now take account of the amortisation of Tencent's digital content costs, according to Meloy Horn, Naspers's head of investor relations.

**'Strong Numbers'**

"Those are pretty strong numbers given the valuation of Naspers," said Michele Santangelo, a money manager at Independent Securities in Johannesburg.

NASPERS

The shares rose 1.2% to R3 393 at the close in Johannesburg, valuing the company at R1.5 trillion ($113 billion).

In March, Naspers raised HK$76,9 billion ($9,8 billion) by selling a 2% stake in Tencent and plans to use the money to invest in classifieds, online food delivery and financial technology businesses. The company then netted a $1,6 billion profit from the sale of a stake in Indian e-commerce startup Flipkart in a deal with Wal-Mart Inc.

Naspers's 31% stake in Tencent is worth more than the company as a whole, and Chief Executive Officer Bob Van Dijk has pledged to narrow the valuation gap.

**Gareth van Zyl** 14 june 2018

*Comment*
*Good news for our Fund. Let's hope this continues for a long time. I'm afraid it is going to take more than a pledge to narrow the valuation gap.*

*Synopsis*

## SAPS called for PIC corruption evidence

13/05/2018 Dewald Van Rensburg

Deputy Finance Minister Mondli Gungubele has been subpoenaed to provide evidence in a case of corruption against the leadership of the PIC.

Lufuno Nemagovhani, the PIC's executive head of internal auditors, has also been subpoenaed to provide evidence to the Pretoria Magistrate's Court, including minutes of PIC board meetings, two years' worth of PIC CEO Daniel Matjila and chief financial officer Matshepo More's emails, as well as investigative reports the state-owned asset manager was supposed to have commissioned last year to exonerate Matjila from allegations that he channelled money to an alleged romantic partner.

Like all previous deputy finance ministers, Gungubele is automatically the chair of the PIC and he has been asked for evidence in this capacity. The evidence requested relates to the allegations around that time to the effect that Matjila had caused the PIC to fund a company to benefit his alleged lover Pretty Louw.

Matjila had suggested in media interviews that factually incorrect rumours about this deal were part of an attempt by the forces of state capture to get rid of him and seize the PIC's unrivalled financial muscle – R2 trillion invested on behalf of state civil servants and other state entities.

At the time, Louw told journalists that she received no money from the PIC and that she was not Matjila's romantic partner.

However, the allegation that is being investigated is not that she directly received money from the PIC, the subpoenas call for the "full investigation report or internal report, including working papers, conducted by an internal audit" on two parts of the alleged hand-out.

**The R21 million**

First, there is an alleged loan of R21 million made to a company called Mobile Satellite Technologies, which manufactures and deploys buses that are fitted out as mobile clinics or schools. Founder Fernando Acafrao did not respond to City Press' request for comment.

The second part of the allegation is that a sum of R300 000 was paid to Louw by a different company, Ascendis, which is represented by businessman Lawrence Mulaudzi. This payment was supposedly made on instruction from Matjila. Attempts to get comment from Mulaudzi by phone and SMS were also unsuccessful.

Mulaudzi is a director of Kefolile Health Investments, a BEE consortium that received R1,8 billion from the PIC to buy shares in Ascendis Health in 2016. Ascendis manufactures and distributes a variety of healthcare and pharmaceutical products, including the Solal and Vitaforce brands.

Following the allegations about Matjila and Louw, the PIC board in September held a special meeting, during which Matjila had to present his version of events. In a subsequent media statement, the PIC said that Matjila provided "detailed documentary evidence of the decisions made by the PIC". It accepted Matjila's presentations, but also mandated the PIC's internal audit division to independently corroborate Matjila's story.

This independent review is part of what is being demanded in the subpoena. Gungubele is also being tasked to provide the minutes of the PIC board's meetings in which Matjila reportedly exonerated himself.

**State capture revisited**

The chair of the PIC board at the time of the allegations against Matjila was Sifiso Buthelezi, who was deputy finance minister under Malusi Gigaba, who was controversially appointed by former president Jacob Zuma.

A few weeks after Matjila survived his grilling by the board, Gigaba doubled down on the PIC and instructed Buthelezi to conduct a massive forensic audit of all PIC investments going back to 2014. This mammoth task was to be outsourced and the terms of reference for the audit were supposed to be given to Gigaba by October 23.

This was interpreted by some commentators as a state capture tactic to seize control of the PIC. It is unclear what happened to the audit Gigaba ordered. In the letter, Gigaba also tasked Buthelezi with making wide-ranging disclosures of the PIC's business. This included disclosing the full extent of the PIC's unlisted investments and deals with "prominent influential persons".

The PIC first revealed its unlisted portfolio in October, shortly after Gigaba's letter was sent.

**Internal battles**

The saga around Matjila's alleged efforts to direct money to Louw has already seemingly led to suspensions and at least one dismissal among senior PIC staff. City Press revealed two weeks ago how the PIC had suspended company secretary Bongani Mathebula and executive head for IT Vuyokazi Menye. Executive head of risk and compliance Paul Magula was fired last month.

All three of these executives had been subject to an investigation conducted by Matjila following the board meeting during which Matjila was cleared of wrongdoing. The board mandated Matjila to find the source of the allegations made against him. For this purpose, he wrote to email management company Mimecast's Cape Town office to make available the email servers of six executives, including the three suspended and dismissed ones.

The most likely purpose of this search was to find the source of the emails in which the allegation about Louw that had been sent to PIC's board members had been made.

**The PIC Responds**

The PIC eventually responded, saying that even though Matjila “emphatically denies the allegations”, it will co-operate with the investigation.“ The PIC contends that the charges its CEO is accused of are eminently contestable. Dr Matjila will seek appropriate legal advice about what his rights are and he is committed to fully co-operate with any bona fide investigation by any law enforcement agency,” said the PIC’s head of corporate affairs Deon Botha.

According to the PIC, Gigaba’s call for an extensive forensic audit of the corporation’s investments never came to anything. “The Board requested an engagement with the former Minister of Finance, Malusi Gigaba, to clarify pertinent aspects of his request for such a review. This meeting, however, was postponed several times by the previous minister and he was subsequently replaced before the meeting could take place,” said Botha in an emailed statement.

*Comment*
*Let’s keep following this fascinating failed state of PIC. I look forward to more titillating bits being revealed by the press and Police as the various investigations continue.*

*Synopsis*
## It’s time for an investigation into the PIC
Business Day12 Jun 2018 John Dludlu
Dludlu is a former Sowetan editor.

Week in, week out, SA is waking up to new allegations of scandal at the PIC, the largest asset management company in the country. It is about time the government appointed a credible inquiry to investigate the potential rot at the PIC as part of wresting it from politicians.

This past weekend the Sunday Times reported that senior ANC politicians — including former treasurer-general Zweli Mkhize and former National Intelligence Agency head Billy Masetlha — might be owed millions in “commissions” (read: kickbacks) for arranging a R200m loan for energy company Afric Oil. Mkhize, who denies the allegations, has threatened to sue. Curiously, Masetlha, who until last December was a member of the ANC’s national executive committee, wants his “commission”, as does Joseph Nkadimeng, a member of the ANC’s alleged black ops machinery, which cost Ignatius Jacobs his job at Luthuli House a year ago.

Bantu Holomisa, the leader of the opposition United Democratic Movement, has a dossier of alleged governance malfeasance implicating PIC head Dan Matjila in suspicious investment decisions. He has written to President Cyril Ramaphosa asking him to expand the terms of reference of the Zondo commission of inquiry into state capture to include the goings-on at the PIC.

The DA has asked Themba Godi, chairman of SCOPA, to subpoena the PIC to account for the transactions mentioned by Holomisa and other whistle-blowers.

The allegations in the Holomisa dossier include corruption, overlooking due diligence reports, misrepresentations, money laundering and purging of staff. The charge of purging of staff, which directly implicates Matjila, relates to the dismissal and suspensions of various executives, including the heads of IT and risk as well as the company secretary.

The transactions relate to entities including Steinhoff, Sagarmatha Technologies, S&S Oil Refinery, Erin Energy and Ayo Technologies.

GOVERNANCE

The latest allegations come almost a year after another set, including a suggestion that the PIC funded a deal of a company belonging to the CEO’s close friend.

There are several problems facing the PIC. The main ones include governance, leadership, operations, transparency and funding criteria.

The PIC is chaired by the deputy minister of finance. This is the first part of the problem because it in effect politicises the PIC. There’s no clear case why a politician makes a better chairman than a business person with a solid track record of good corporate governance and leadership. Having a politician chairing the board opens it to undue lobbying by politically connected individuals. This practice has created a new industry around the PIC, peopled by politicians who peddle their proximity to political power.

In other words, ticking all the boxes becomes the first step for a transaction to secure funding. Passing a due diligence is no guarantee for funding. Having the right political sponsor — not only from the governing party, it should be said — is a guarantee that even a transaction with a weak business case can pass muster. Thus it is no surprise that politicians of all persuasions have been circling the PIC.

For years MPs have been calling for more transparency in the PIC portfolio, especially the unlisted entities. Half-hearted efforts are under way to improve this. But they don't go far enough. Parliament should force the finance ministry, as custodian of the PIC, to open the corporation to more scrutiny.

The PIC has always courted controversy, especially in relation to the transactions it rejects. But lately the controversy has been swirling around the CEO — notably his leadership style and integrity. His two immediate predecessors never faced such allegations; at least not with such intensity and frequency. This is concerning given the importance of the role played by the institution in the economy. The board and the government have hitherto done little or nothing about this issue.

Holomisa has asked for a probe into the PIC to be added to the Zondo commission's mandate. This is tempting, because the commission is well resourced. But it is an inappropriate forum and will set a bad precedent. Burdening the commission with everything will make its work so unwieldy that it may as well probe state capture from 1652 or from 1910.

What's needed is an urgent, specific and multifaceted inquiry with clear terms of reference. The first part of the inquiry, which should have powers to subpoena witnesses, should focus on the internal operations of the PIC, including the organisational culture and all the allegations surrounding the CEO. The second part should look into all transactions over the past decade and the role of all politicians (not only ANC politicians and their hangers-on) in influencing decisions at the PIC.

For his own sake Matjila, who has protested his innocence, should take a leave of absence while this inquiry is sitting.

The PIC is too important to be mired in such controversy. This would be the first step towards restoring good governance and integrity at the PIC, and shielding it from political interference.

This practice has created a new industry around the pic, peopled by politicians who peddle their proximity to political power

*Comment*
*It is striking how many different institutions are suddenly focusing on the PIC and its activities. They all seem to be surfing the same wave – political interference and gratification with the subsequent misuse, poor governance, corruption, etc. I am looking forward to the next step – going from asking to demanding.*

*Nog 'n brief van die AMAGP*

Geagte Vriende, AvD

My gedagtes mbt Matjila se treurmare.

1. Die groter prentjie wat manifesteer as ons so 'n klagte lees is natuurlik dat ons strategie na Junie 2017 uitstekend werk; AMAGP het uitstekend gedoen, omdat hul nie ons vrae wou antwoord nie. Die OBK/GEPF voel nou die pyn!

2. Hulle sal nog vir lank hul onderduimse optrede Jun 2017 berou --- ons nuwe strategie werk en niks daaroor is toevallig nie. AMAGP het sedertdien baie hard gewerk om die strategir te implimenteer, tot voordeel van ons Fonds.

3. AP en sy span het berge versit met die mediaplanne en sodoende vele ander belanghebbendes tot optrede geinspireer en aangespoor. Die skakeling met parlementariërs is ook n reuse sukses.

4. Ons finansiële kundiges (Christo, Roedolf en Kobus) het uitstekende ontledings gedoen wat ons gehelp het om die "korrels v/d kaf" te skei.

5. Ons regsgeleerdes het deurgaans verseker dat sekere perke nie oorskry word nie (onder leiding van Koot).

6. AMAGP het ook groot sukses behaal met "samewerkingsooreenkomste" met invloedryke organisasies te smee, ten einde die Missie en Mylpale in ons Sakeplan te bevorder!

7. Verder is ons gelukkig om Bertie Loots se dienste as n raadgewer aan te wend; ons beskik ook oor die wyse raad van aktiewe voormalige kollegas met jare se ondervinding in senior bestuursposte.

8. Ons voorsitter, Antonie het reeds n formele versoek aan die Minister van Finansies gerig met n gemotiveerde versoek vir n Ministeriële ondersoek na die GEPF en hul bestuur van ons Pensioenfonds.

9. Die OB se personeel het reeds bevestig dat hul met die OBK ondersoek wil vootgaan. As sodanig het hul reeds dokumentasie (opgedateerd) ontvang. Die ondersoekers het ons genooi om op 3 Juliel met hulle in gesprek te tree.

10. Mens moet onwillekeurig tot die gevolgtrekking kom dat AMAGP inderdaad tande het (ten spyte van min fondse), asook dat "we are fighting above our weight" !! (diegene wat dit wil betwis, moet dit asb deeglik motiveer!!)

**POLITICS**

## GEPF: Focus should be on pensions not politics – Solidarity

Morné Malan 18 June 2018
Union says it is outrageous that SOE make up 30% of PIC's portfolio

Trade union Solidarity today expressed concern over the concentrated investment policy the PIC is following when it comes to managing the funds in the GEPF.

Morné Malan, a researcher at the Solidarity Research Institute, explains that the PIC's increasing focus on development at the expense of capital growth could have dangerous consequences for members in the future. "It is outrageous that the PIC considers it appropriate to keep Eskom as its second largest investment, and that other ailing state-owned enterprises constitute 30% of its portfolio, while there are so many other potential investments that can offer a higher return with a much lower risk," Malan said.

Unlike other pension funds, the GEPF is not subject to Regulation 28 of the Pension Funds Act and the PIC therefore has the freedom to diversify much more offshore than other pension funds can. It nevertheless appears as if only 5% of the PIC's funds are invested abroad, while a further 5% is invested in the rest of Africa. "Given that South Africa is currently growing at a much slower rate than most other countries in the world, especially in comparison with other emerging economies, one can hardly justify such an allocation purely on investment criteria.

So far, the PIC has opted to stay well below the allowed limits set for its international allocation. Yet, they are exceeding the limits when it comes to issuing debentures to ailing state enterprises," Malan pointed out.

Solidarity urges the PIC to regard their members' retirement, rather than funding government's development projects, as its primary objective. "Sound investment in solid companies per se offer the best vehicle for development. These matters need not be treated as being in opposition to each other. Yet, it would appear as if the PIC, be it because of pressure, ideology or other obscure motivations, believe they must invest in accordance with an explicit development mandate instead of investing only according to what would yield the most sustainable returns," Malan said.

The trade union encourages the PIC to respond to market pressures rather than to political pressures in future.
*Issued by Morné Malan, Researcher: Solidarity Research Institute, 18 June 2018*

*Comment*
*Labour unions are increasingly paying attention to the warning signs about the GEPF, as it has a direct influence on their members. We are going to see more and directed involvement as the realisation starts to spread among union management.*

*Synopsis*
**OP-ED**

# Why the PIC's Private Equity arm cannot be private

By Dirk De Vos• 19 June 2018

Parliament is considering a bill which would require far greater levels of disclosure in the PIC's unlisted investments. While there are those who argue that the PIC should be shielded from greater scrutiny, these arguments are plainly wrong.

The legal suit filed by Bantu Holomisa's United Democratic Movement demanding that Finance Minister Nhlanhla Nene suspend the PIC's CEO, Dan Matjila, could be an important step to recovering some level of accountability but government employees and taxpayers should not let this distract us from the changes that need to be made.

At present, Parliament is considering a bill which would require far greater levels of disclosure, particularly in the PIC unlisted investments. Progress on this bill suffered a setback at the beginning of the month when Treasury sent a letter to the finance committee objecting to the disclosure requirements for unlisted investments for reasons that are not convincing.

At a hearing before the SCOF in which amaBhungane motivated for greater disclosure, committee chair Yunus Carrim argued that disclosures such as minutes of investment decisions can't be made public in a market economy. At the same hearing, Matjila argued that the PIC could not be put at a disadvantage to the private sector and the PIC would need the permission of the private companies in which it invests in any event.

Matjila's argument was one which called for a level playing field between the PIC and private sector competitors. The push-back on greater disclosure had the support of the ANC and the EFF. The EFF's Floyd Shivambu claimed that it is the PIC that makes it possible for black South Africans to participate in the economy, presumably by accessing funding, and that it is being unfairly targeted.

The arguments that would shield the PIC from greater scrutiny are plainly wrong because the premise of that argument is fundamentally flawed.

Most of the controversial or dud investments such as Independent Media, AYO Technologies, Erin Energy, VBS Mutual Bank, S&S Oil Refineries and the company that Holomisa's suit claims allegedly paid off Matjila's alleged girlfriend's loan are housed in the Isibaya Fund. This fund, according to the PIC's website, provides finance for projects that generate financial returns while also supporting positive, long-term economic, social, and environmental outcomes for South Africa. The emphasis on investments with a developmental focus demonstrates the PIC's commitment to the country's growth and development aspirations. As an asset class, it would be in the nature of private equity (venture capital is a special subsection of private equity).

Private equity is a class of investments which, as the name suggests, is private. In the investment world, start-up companies, high potential growth companies or companies that need to be turned around can operate better if there are not the same reporting/disclosure requirements. One of the attractive aspects of private equity is exactly being able to do what is necessary without constant public scrutiny. Private equity type investments tend to be less liquid (can't buy and sell the shares that easily) and therefore are held for longer periods of time. An investor in a private equity fund typically commits capital for a decade.

Private equity funds, like any other investment fund, set out to raise capital with a strategy to buy operating companies which is partially funded by the capital raised but also by raising additional debt, then investing in new capacity, reducing tax and cutting costs. The companies acquired and then restructured in this way are then sold before the fund's termination date, hopefully at a profit and these profits are then distributed to the original investors in the fund.

There are two main components in private equity. The investors in the fund (also called limited partners) who commit capital for 10 years (these cannot easily be withdrawn) and the managers who first raise the investment (usually with a prospectus-like document and presentations setting out their general investment approach, experience and past performance) and then actively manage the fund and the underlying companies that the fund acquires.

The managers (or general partners) are typically remunerated on a "two-and-twenty" basis. They get 2% of the value of the capital raised annually as fees in much the same way as other investment managers and a 20% carry above a hurdle rate. The hurdle rate is agreed upfront which is the minimum return that limited partners will receive. Above that hurdle rate, the managers get 20% of the returns. In general terms, the managers are also expected to put in their own money into the fund along with the limited partners to secure some skin-in-the-game.

There are several variations to the above standard model. Some well-established private equity firms manage several funds simultaneously. Of course, there are real concerns about how the model works and favours the general partners, notably very favourable tax treatment, but this is the way private equity works.

A large source of investors (to become limited partners) are the pension and provident funds. However, this is strictly regulated in terms of the Pension Funds Act. Regulation 28 sets out what pension fund trustees' prudential requirements are for making and remaining in any investment. Regulation 28 sets limits on the maximum exposure that a pension fund can have in different asset classes including private equity. At present, provided other conditions relating to skill and experience are met, a pension fund cannot have a greater than 10% exposure to private equity as an asset class and exposure to any one fund (as a limited partner) cannot be greater than 2.5% of total assets under management. In addition, there are numerous reporting requirements including quarterly reports setting out the private equity fund's performance, its investment related activities, the value of the fund's investments and other information.

The PIC's main funder is the GEPF representing 90% of all funds under management. The GEPF is not regulated by the Pension Funds Act but under a different (and less adequate) regime https://www.dailymaverick.co.za/article/2017-09-22-analysis-south-africans-must-defend-pic-till-the-bitter-end-failure-could-cost-us-the-country/ . The GEPF doesn't have a regulation 28 but within the PIC there is something similar. Investments in unlisted companies though the Isibaya fund cannot be more than 5% of total assets that the PIC manages.

On the face of it, Isibaya might be seen as just another private equity fund trying to compete in the market with its private sector peers and therefore should not be at a disclosure disadvantage. But that would be wrong.

With around R1,9 trillion under management, the PIC is by far the biggest investor in the country and 5%, although a small share of the total, still represents a fund size of R95 billion. By way of comparison, Ethos Capital's Fund VI, a very large fund for private equity in South Africa, raised R8,6 billion in 2011 before it closed and commenced investing http://www.ethos.co.za/our-firm/businesses/private-equity/large-buyouts/ethos-fund-vi/ . The problem is that if IsiBaya is used as some sort of slush fund for the politically connected and makes investments without proper due diligence, the losses can be washed out by the performance of the traditional investments that represent 95 % of the PIC's funds under management. The PIC simply reports at an aggregate level and the performance of IsiBaya cannot be assessed on its own terms.

While private sector pension fund members are in a somewhat similar position in relation to exposure to private equity, the private pension funds definitely hold private equity general partners to account. Private equity professionals generally have specific skills that are deployed in the companies in which they invest. They are a breed apart from regular asset managers who focus their efforts on listed shares or even listed debt instruments. Private equity managers are supposed to be very involved in the actual operations of the companies in which they have invested.

If a private equity fund invests in a series of duds or is otherwise unlucky, everyone gets to see the extent of the wreckage at worst when the fund period terminates in the tenth year and, in these instances, the managers also lose their own investments in the fund and certainly their "carry'. If a private equity fund blows up (as they regularly do), the general partners' reputation takes a big knock. One consequence is that they would struggle to raise any additional funds, even if some good lessons were learned. These managers then have to dust themselves off and get a regular job or do something else with their professional lives.

It is not clear what the situation is at Isibaya. Unlike private equity funds, it is an open-ended fund. It does not have the discipline of a ten-year period within which to produce its investment returns. There are several questions that one could ask: Who are the Isibaya fund managers? What are their skills and experience? Do they have a track record? How these investment managers remunerated? Do they have to invest their personal funds alongside the GEPF funds? Is there a set period, say every ten years, over which performance is assessed?

Perhaps the most important question is this: If the investments made by the Isibaya fund perform poorly so that the value of the assets under management falls below the 5% permitted threshold, do they get additional funds to get it back up to the 5% level? If they do, the 5% limit means little as losses get to be replenished with transfusions of additional funds properly belonging to the GEPF members.

In short, the GEPF is different due to its size and the fact that it is regulated differently. Current regulation allows failure to occur at IsiBaya, potentially forever. The deflection of greater accountability for IsiBaya investments being the performance of the PIC as a whole is wrong. In important respects, the PIC which holds around 12% of the total market capitalisation of the Johannesburg Stock Exchange for the GEPF and other funds it manages, is the market. The correct measure therefore for the PIC is not how it performed against the rest of the market but how it could have performed without the IsiBaya fund.

Elsewhere in the world, private equity is coming under greater scrutiny which is seeing greater regulatory oversight and disclosure requirements. There are arguments both for and against this trend. As an asset class, private equity works because regulation of the sector is lighter. But fewer disclosure requirements does not mean a lack of accountability. If the PIC, supported by National Treasury and politicians, want to make the case for a level playing field with the private sector for disclosure, then the PIC's IsiBaya fund must account for its performance as a stand-alone entity. If that is not possible, then the only way that GEPF members and taxpayers (who would have to foot the bill if the PIC ever underperformed) can be sure that it cannot be repurposed into a slush fund for the politically connected is far greater disclosure about the investments it makes, how it came to the decision to make them and the consequences flowing from losing investment funds. **DM**

*Comment*
*What an awesome explanation! Well worth the read.*

## The GEPF AMAGP: Invitation

GEPF members, either still working or pensioned, are cordially invited to join the GEPF Monitoring Group/AMAGP. We always need members and co-workers, all contributing to the cause and in their own interest.

Soos meeste staatsdienspensioenarisse is u waarskynlik afhanklik van u maandelikse pensioen vir die gehalte van u lewe. Agv die swak toestand van regering in die RSA, die aanloklikheid en omvang van ons Fonds asook staatskaping, ontstaan die vraag hoe volhoubaar die pensioen is en gaan bly, dws hoe lank gaan ons nog die volle pensioen bly kry. Ons by die AMAGP se oorwoë mening is dat daar wel gevare is en dat ons, die aandeelhouers van die pensioenfonds, dringend hieraan aandag moet gee. Verontagsaming hiervan kan lei tot 'n soortgelyke situasie as dit waarin Spoorweg pensioenarisse hulle steeds bevind. Om die rede versoek ons dat u ons ondersteun. Sluit aan by die AMAGP, 'n vrywillge organisasie, bestaande uit staatsdienswerknemers en -pensioenarisse, met die doel om ons Fonds te beskerm.

Contact any one of the following:

Hennie Roux
hennie@nostalgie.co.za

At Fourie
atfourieee15@gmail.com

Alan Luck
armyrenewal@vodamail.co.za

Errol Massey-Hicks
errolhicks@gmail.com

## FACEBOOK GROUP

**[**Association for Monitoring and Advocacy of Government Pensions**]**

If you are interested in becoming a member of the organisation, please complete a membership application to be found on the FB page or on the website.

**Semper Vigilans!**

***CONCLUSION***

***To ponder on…***

Dear Reader,

1. The AMAGP endeavours to ensure the sustainability of the GEPF to the benefit of current and future members of the GEPF. We want many more members for logical reasons – to ensure the GEPF Trustees carry out their assigned roles.

2. The MG was established in 2016 as a voluntary organisation and, as the AMAGP, will remain so for the foreseeable future. The AMAGP maintains good relations with the GEPF Trustees as well as the PIC. The AMAGP is also in continuous communication with other stakeholders and interested parties to ensure the widest possible concern for our current and future pensioners.

3. Although until recently [about 2013] the GEPF performed satisfactory in its endeavour to provide sustainable pension benefits to pensioners and future beneficiaries, SC and its resultant tentacles started reaching out to the GEPF and PIC and created alarm. The blatant SC leading inevitably to degrading our democracy and the resultant downgrade in international financial grading still threatens our GEPF's sustained viability, including those very same politicians who eventually want to retire on their state pension. As SC recedes other dangers threaten our Fund, such as the non-performing SOE and bankrupt municipalities.

4. The financial woes of ESKOM, SAA and other SOE [PETROSA, PRASA, Transnet, etc] feature largely, making looting the GEPF very attractive.

5. In conclusion dear reader, decide if you want to risk the retirement you are excited about, to be similar to other departed and failed pension funds, or are you prepared to become a paid up member of the AMAGP? Litigation and court interdicts are expensive.

**Comments, articles and recommendations about and for the newsletter are welcome. No anonymous submissions will be accepted; however, names may be withheld on request.**
Please submit to: editorgepfmg@gmail.co.za