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 14 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

It has come to my attention why parliamentarians aren't really concerned about out pensions. They have their own pension scheme: their individual contribution is paid directly to the state and in return their own pension is then paid directly from the fiscus, no fund that the money rests in at all.

Don't make the mistake of thinking the "extreme incompetence of employees at many state enterprises" includes all of the employees; there are indeed many very competent employees in these institutions that manage to keep them going in spite of what the management does.

If the total SA pension fund pool is R 4 trillion, combining it into one pension fund for all in SA is fraught with such risk and temptation that it needs more than serious consideration. However, if it works in other countries it can work here.

Editor

NEWS NEWS NEWS

Synopsis
MyMoney

Can Pension Fund Money do More?

Do we need to question our assumptions about investing?

Patrick Cairns 10 August 2018

A powerful investment scenario – using part of the country's massive pension fund pool to address the shortage of long term care facilities, helping to alleviate unemployment in the process, and having a multiplier effect in communities. Picture: Supplied

South Africa has a pension fund pool of around R4 trillion. This is a significant collection of assets. However, speaking at the Alexander Forbes Hot Topics Summit in Cape Town last week, the head of the Alexander Forbes Research Institute, Anne Cabot-Alletzhauser, questioned whether this money is currently being used in the most optimal way. “Our savings are the biggest potential driver of economic growth,” said Cabot-Alletzhauser. “How can you take that power and transform it into something even more significant?”

Currently, pension funds are invested predominantly in listed markets. There are two well-accepted reasons for this. “From the individual’s perspective, my reason for investing in stock markets is that I’m hoping to be able to get growth out of those assets that exceeds inflation,” Cabot-Alletzhauser said. “Secondly, from the point of view of the government and also basic economic thinking, the notion is that I can use this money to fuel economic growth and create employment.”

However, she suggested that it may be time to question those assumptions.

Who is making a difference?

Significantly, there is little in the markets that you can control. At the same time, particularly in the local context, one has to question how much investing in the JSE really supports this country’s economy. “We know that 65% of revenue generation on the JSE comes from abroad,” Cabot-Alletzhauser pointed out. “So when I put money on the JSE, am I creating South African jobs?”

In addition, it is widely accepted that large listed companies are not the primary vehicles for job creation in any economy. In fact, they are more likely to shed jobs in the search for greater efficiencies. “Where job creation is taking place is in smaller, emerging, disruptive companies,” said Cabot-Alletzhauser. “These are mostly unlisted companies.”

A question is, therefore, whether pension funds are currently investing in a way that is most impactful for their members. Is it enough to just build their retirement capital, or should they not be contributing to the development of the country so that the society their members retire into is better than it is now?

Addressing the reality

This is a particularly relevant question in a country like South Africa, which has significant social and economic challenges. For example, Cabot-Alletzhauser pointed out that South Africa has a severe shortage of facilities offering long term care. The country has 4.4 million people over the age of 60 and a further 1.5 million with mental health problems, but only 44 000 subsidised long-term beds.

“What if I told you that we could use retirement savings to solve that problem?” Cabot-Alletzhauser argued. “If I can use retirement funds to create community-based solutions to take care of people, not in some retirement village, not somewhere that is culturally unacceptable, but in their own communities, am I not doing something incredibly powerful?”

She added that the additional value of this kind of solution is that it not only uses pension fund assets in a way that is directly relevant to members, but that it has a wider benefit to the country. These centres would have to be staffed by trained individuals, and that has an impact on building skills and reducing unemployment.

“So I don’t just solve for the aged,” said Cabot-Alletzhauser. “I solve for the health of that community, for unemployment in that community, and I create a multiplier effect. That is a very powerful investment.”

The opportunity for a re-think

In addition, these kinds of investments offer an opportunity for asset managers. “In a world where you really can’t tell whether a manager has skill or not, we need a new type of asset manager,” Cabot-Alletzhauser argued. “We have asset managers sitting in the wings trying to get a place at the table, so what if those asset managers focused on adding value, impact investing, and in so doing creating real value over time?”
Patrick Cairns

Comment

How can savings drive economic growth you ask? What do you think the bank, trust fund, *RA, life insurance, does with your money? Yes, they invest it in the economy in the form of shares and stocks, bonds, other loans, etc. This finances many aspects of any economy.*

If the GEPF has R 1,9 trillion invested, who is investing the other R 2,1 trillion? Well the Unemployment Insurance Fund for one, and then of course all the other funds to do with retirement, annuities, etc. On face value the UIF's finances seem to be better invested and managed than the GEPPF, but then it doesn't have the liability to pay out a pension for decades; one payment usually finalises a claim.

Synopsis

GEPF's Pareto eyes JSE listing

Ray Mahlaka / 10 August 2018 Moneyweb

Pareto Limited, 76% owned by the GEPF, is set to list on the JSE's main board in 2019. Picture: Supplied.

The GEPF plans to list a property portfolio of shopping malls on the JSE, bringing real estate investors more exposure to SA's retail sector. Pareto Limited, 76% owned by the GEPF, is set to list on the JSE's main board in 2019 – first mooted by management in 2016.

Kevin Roman, CEO of Mowana Properties, confirmed Pareto's market debut for 2019 at the South African Institute for Black Property Practitioners Convention on Wednesday. Mowana Properties is 100% owned by Pareto. Roman and Pareto CEO Malose Kekana were not available to comment at the time of publishing.

A successful listing means that Pareto would bring a predominantly retail portfolio worth more than R30 billion – including shareholdings in malls such as Sandton City in Johannesburg, Menlyn Park Shopping Centre in Pretoria and Tyger Valley Shopping Centre in Cape Town – to the market.

Kekana previously told Moneyweb that Pareto would only list on the JSE when economic and retail conditions had improved and once its capital expenditure programme was spent upgrading its shopping malls.

A real estate investment trust structure (Reit) has been mulled by Pareto, and would see it joining the ranks of Reits that enjoy tax incentives under the structure. And the GEPF would remain a large shareholder in Pareto post the JSE-listing.

The listing boom in the sector that has gained momentum since 2012 with at least five new listings a year, has slowed. The only listing so far this year has been Exemplar Reit, a R5.5 billion rural retail portfolio brought to the market by property developer McCormick.

One real estate analyst said Pareto might struggle to get institutional investor support given lower sentiment towards shopping malls. The retail real-estate sector is buckling under the weight of lower consumer spending, rising vacancies in shopping malls across SA and retailers that are limiting their store expansion plans.

The FTSE/JSE SA listed property index (Sapi), which makes up the JSE's 20 largest real estate stocks, has lost 21.9% in total returns for the year to August 7, latest figures from Anchor Stockbrokers show. The index was largely weighed down by the sell-off of shares in the Resilient group of companies, which made up about 40% of the index until December 2017.

Meanwhile, equities posted a negative total return of 1.5%, while bonds and cash posted returns of 5.7% and 4.3% respectively.

AUTHOR PROFILE

Ray Mahlaka. Ray is a financial journalist passionate about public policy and property.

Comment

The GEPF has a huge property portfolio that has to be managed on a day-to-day basis, of which Pareto is one of the managers.

Synopsis

Massive government bailouts planned for SABC, Post Office, SAA

Staff Writer 12 August 2018

The SA government plans to spend R59 billion on bailouts for the SABC, Post Office, SAA, and Sanral, according to a report in the Sunday Times. Sources told the newspaper that the rescue plan was recently discussed by cabinet, with President Cyril Ramaphosa present. If the organisations are not given the funds, they may collapse or default on current outstanding loans.

The report further stated that:

- Sanral needs cash as it cannot borrow any more money.
- The SABC is in a financial mess and needs a government guarantee.
- SAA also needs a guarantee to borrow more.
- The Post Office will get cash and guarantees.

Besides the looting, corruption, financial mismanagement, and extreme incompetence of employees at many state enterprises, the civil disobedience by motorists and their non-payment of e-tolls was highlighted as placing Sanral under pressure. "Sanral last year wrote off e-toll debts amounting to R3.6 billion, as Gauteng motorists simply refused to pay to use the roads," stated the report. This comes after the organisation spent billions upgrading Gauteng's freeways and installing the e-toll system.

Denel

In a separate report by the City Press, Public Enterprises Minister Pravin Gordhan has asked Johannesburg Mayor Herman Mashaba not to liquidate state-owned arms company Denel. Denel failed to repay a R290-million loan from the city, which was borrowed in 2012. Gordhan reportedly told Mashaba that Finance Minister Nhlanhla Nene is "considering a lifeline for the embattled state-owned company". An application for a government guarantee has already been considered by the minister of finance, Gordhan told Mashaba.

Big SABC problems

The latest report follows news that the SABC was on its deathbed, from a financial perspective. The SABC reportedly owes over R100 million to 64 companies and is operating on a hand-to-mouth basis.

Comment

Every time you read a report like this the question arises, where is the government going to get the money? Of course taxes provide most of the financing of government, but it is clear there is still a large deficit. Not only SANRAL and Denel, but also the SABC, SAA, Post Office are in the hand-out queue.

Synopsis

Ayo Deal Stalls Mysteriously

Aug 12 2018 Dewald Van Rensburg

The transaction that was the justification for the PIC's controversial R4.3 billion investment into Ayo Technology Solutions has seemingly run into a brick wall.

The main use of this money was supposed to be Ayo paying its parent company African Equity Empowerment Investments (AEEI) R1 billion to take over its 30% stake in British Telecoms SA (BTSA). A subscription agreement between AEEI and Ayo for the transfer of the BTSA stake, however, "lapsed" this week, according to an announcement by Ayo on the JSE Stock Exchange News Service. Both AEEI and Ayo are ultimately controlled by media mogul Iqbal Survé's Sekunjalo Investment Holdings.

When the subscription agreement was announced in May, there were three suspensive conditions that had to be met within 60 days.

The first was that the board of the company through which AEEI owns the 30% in BTSA, Kilomax, had to approve the deal. That is unlikely to have been a hiccup as the board of

Kilomax consists of AEEI chief executive Khalid Abdulla and Survé.

The second condition was that BTSA also agree to the deal. The five-member board of BTSA once again includes Abdulla and Survé as well as another AEEI director Chantelle Ah Sing. This approval nonetheless seems to have caused the agreement to lapse.

Ayo CEO Kevin Hardy confirmed by email that they could not sort out these two conditions in time. Hardy said that Ayo's JSE sponsor, PSG, had already gone to the JSE to request an extension before this week's announcement. This was granted, he said. "That will now allow all parties concerned the appropriate period in which to consider all aspects of the proposed transaction," said Hardy.

The BTSA deal has been in the works since at least December, making it unclear why the parties involved, who are all related parties, still require time to consider it.

The last suspensive condition is that other shareholders of Ayo, excluding AEEI, have to approve the deal. This is due to section 10.4 of the JSE Listings Requirements dealing with related party transactions.

The rule is that a "simple majority" of shareholders who are not related parties have to approve a related party transaction deal. In Ayo's case this means that only the PIC has to agree. That seems like a foregone conclusion as the BTSA deal was the whole reason the PIC invested in Ayo to begin with.

Hardy said "all parties to the agreement have acknowledged that the proposed 60-day period was perhaps a little ambitious to have all the required components in place". "The simple truth of the matter is that ensuring that all governance processes and conditions are met has taken longer than foreseen. We are dealing with a number of boards and people in different countries," said Hardy.

When Ayo went to the PIC for money last year, the sales pitch largely revolved around the BTSA stake. An internal PIC memo in City Press' possession details the business case laid out for the PIC's portfolio management committee for listed investments in December. Ayo came to the PIC "in order to acquire BT and aggressively grow its business", reads the memo.

Apart from the R1 billion that would go to AEEI for the BTSA stake, the PIC money would be used to "fund the roll-out of the BT strategic relationship".

The PIC paid R43 per share for 29% of Ayo. Those shares are now worth R25 each on the JSE after losing 42% of their value. That's a R1.8 billion loss for public sector pensioners.

The PIC had initially approved its investment in Ayo with the caveat that it needed insurance in the form of a put option – a contract allowing it to sell back its shares at a pre-agreed price. This demand was seemingly waived, which has cost the PIC dearly.

Comment
Dear reader, do you remember the Ayo debacle beginning of the year? It seems nothing has improved since then. What has happened to the money in the meanwhile?

Synopsis
POLITICS

SOE bailouts: No clarity on where R100bn needed will come from

Alf Lees 13 August 2018
DA MP says ANC must accept that we cannot borrow our way to prosperity.

The estimated R102 billion needed for President Ramaphosa's proposed R43 billion stimulus package and R59 billion bailout package for SOE begs the question of how this will be financed. This on top of the public-sector wage bill, now estimated to be R30 billion more than budgeted for in the Main Budget over the medium term.

This points to ongoing erosion of credibility of the National Budget and the fiscal framework, a notion recently highlighted by the IMF. It seems that once again Parliament is going to being used as a rubber stamp, a notion fiercely denied by Minister Nene during the National Treasury budget vote debates on 22 May 2018.

Every year since the 2008/9 financial crises, unsustainable expenditure has been justified to allow for boosting the ailing economy. This very same approach was followed last year under the then ceremonial Minister of Finance, Malusi Gigaba, which has not yielded economic growth or increased employment.

What this persistent unnecessary expenditure did achieve was downgrade to junk status. To avoid any further downgrade, which would be disastrous for our economy, any additional spending must remain within the current budget. The ANC must accept that we cannot borrow our way to prosperity.

In all of this, the Finance Minister, Nhlanhla Nene has been uncharacteristically absent in the public domain. It seems that vital economic decisions are now made in the corridors of Luthuli House.

President Ramaphosa should not saddle South Africans with more debt as this will only worsen the country's perilous economic situation. Minister Nene must reign in expenditure and refuse to be forced into making decisions that the country simply cannot afford by an ANC seemingly bent on economic implosion. The 10 million jobless South Africans deserve better than what the ANC continues to offer them.

Issued by Alf Lees, DA Shadow Deputy Minister of Finance, 13 August 2018

Comment

I don't think anything needs to be added, except to emphasize that the government can't and won't be able to borrow the country into prosperity.

Synopsis

Ramaphosa Appoints Commission of Inquiry to Probe PIC

Aug 16 2018 Jan Cronje and Carin Smith

President Cyril Ramaphosa has appointed a commission of inquiry into the alleged improprieties at the PIC.

"The commission's terms of reference will include a review of the PIC's governance and operating model, possible changes to the PIC's founding legislation and its Memorandum of Incorporation and investment decision-making framework," National Treasury said in a media statement on Thursday afternoon. "The names of the chair of the commission and the supporting team, as well as the detailed terms of reference of the commission, will be announced in due course."

The announcement comes three weeks after Minister of Finance Nhlanhla Nene informed the PIC's Board of an independent inquiry into the PIC's "governance issues".

UDM leader Bantu Holomisa told Fin24 on Thursday that he welcomes the decision by Ramaphosa to approve the commission of inquiry. For him it is just important that the board of the PIC and its CEO should not be given the task of appointing the forensic company to investigate the matter for the commission. He would prefer to see National Treasury or the commission itself appoint such a forensic company.

Comment

It would be nice if everybody knew the details. How do you announce the appointment without saying who has been appointed or what they are going to inquire? Delicate manoeuvring going on behind the scenes to finalise the terms of reference – from what date to investigate, what to investigate, who, etc? This inquiry could take a long time to produce results and could block any other investigation because 'it is part of … and we have to wait for the final report', etc.

Synopsis

CITIZEN **18.8.2018**

Ditch the PIC, says Expert

Simnikiwe Hlatshaneni

The analyst says outsourcing the management of state pension funds and the other portfolios at the PIC's desk to private fund managers would result in a net saving for government**.** Amid growing calls to privatise several ailing government entities, an economist says South Africa's government pension fund members could do better without the PIC.

Dawie Roodt, who specialises in fiscal and monetary policy, said that taking into account the risks and costs of running the PIC as an entity, outsourcing the management of government pension funds and the other portfolios at the PIC's desk to private fund managers would result in a net saving for government.

This week government announced the commission of inquiry into allegations of corruption at the PIC would begin work “in due course”, a message that did not satisfy the United Democratic Movement. The party’s leader Bantu Holomisa complained that the names of the chair of the commission and the supporting team, as well as the detailed terms of reference, were yet to be announced.

The PIC, which Roodt explained was created by the apartheid government, partially as a means to access funds to close the gap in budget deficits, did initially improve the fiscal health of the country. “There is a conflict simply because government cannot be the borrower and the manager of a fund. We can live without [the PIC] because a lot of the work that goes into managing the funds controlled by them is outsourced to private entities in any case,” said Roodt.

He added that taking into account the cost of running the PIC as an entity, dissolving the entity made financial sense. Roodt also lamented the lack of control pension fund members had over the management of their funds. He said that, while in theory workers did have a say in the handling of their monies in the fund, in practice this was not the case.

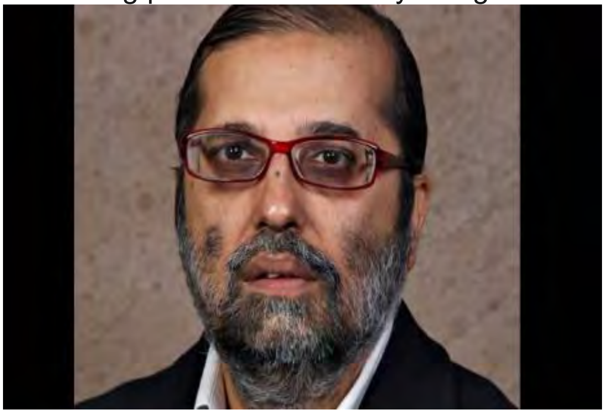
“The PIC has been treating the government pension fund poorly. The message we get from the PIC is that they treat this money like it’s their money, like it’s government’s money. That money belongs to the members of the pension fund and it should be controlled by them.”

Comment
I doubt that privatising all the brokering will be the right solution, but it will certainly help to spread the risk. The control over such brokers already exists in the PIC, and could rest in the BOT if they were selected and appointed appropriately.

Synopsis

PARLY COMMITTEE FORGES AHEAD WITH DRAFT PIC LEGISLATION

While the inquiry’s detailed terms of reference have yet to be announced, it will look at whether the PIC Act needs to be changed – something parliament’s already doing.



FILE: Chairperson of Parliament’s Portfolio Committee on Finance Yunus Carrim. Picture: GCIS

Gaye Davis 20 August 2018
CAPE TOWN - Parliament’s SCF will press ahead with draft legislation aimed at tightening accountability and greater transparency at the PIC.

The committee is currently sitting with a Committee Bill and a Private Member’s Bill from the DA, that both that seek to amend the PIC Act of 2004. Chairperson Yunus Carrim says work on the bills will continue in spite of last week’s announcement of a commission of inquiry into governance issues at the PIC but it could be a race against time.

While the inquiry’s terms of reference have yet to be announced, it will look at whether the PIC Act needs to be changed – something Parliament’s already doing. Carrim said: “We’ll continue with our bills, both the Private Member’s Bill and the Committee Bill, but not vote on them and we’ll then look at what the commission proposes.”

The question is whether this can be done before next year’s elections. The DA’s Alf Lees says it’s critical the PIC Act is strengthened before this Parliament’s term ends. “There’s a heavy cloud hanging over the PIC – and has been for some time.”

Cosatu is also urging Parliament to push ahead, saying the commission of inquiry could take years.
Edited by Winnie Theletsane

Comment
I love it when it all comes together: the Act is being discussed, a commission of inquiry is being established, and the Public Protector’s investigation has started. The seemingly

insignificant Monitoring Group of a scant two years ago has managed change the mind-set of many large organisations and politically important personages to realise the threat to the GEPF. I believe there is more to come as more and more realise their peace and happiness after retiring from working for the government are at stake.

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 vrywillige organisasie, bestaande uit staatsdienswerknemers en -pensioenarisse, met die doel om ons Fonds te beskerm.

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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 provide the 'voting power' 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. This ever increasingly includes members of parliament on all sides of the political spectrum, as soon as they realise their pension is also endangered.

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 that the government wants to use our Fund to fund.

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

VRYWARING

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