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 Watchdog - Waghond

GEPF
your investment, your future

NEWSLETTER NO 16 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

Our national social security fund to replace and amalgamate all pension funds seems to be alive but maintaining an absolute quietness that has to be researched to believe. Detail on the Treasury's website mentions initial implementation of about 12 months [no dates] with phased full implementation about 10 years. Mention is made of 12% contribution by workers.

The PSA high court judgement still hasn't been delivered.

The size of the Fund, according to news reports, has increased up to 2,1 trillion without any financial statements being released. That is what appears in the news these days, so it must be true?

The AMAGP has been warning for many years about the overconcentration of our Fund in investments inside SA. We have recommended many times exposure of about 30% to investments outside SA as only being prudent for risk management of our Fund. It appears at last to have realised at the PIC. Let's see if and how soon it happens.

Recently, labour federation Cosatu took a stance on retrenchments by calling on the government to use workers' pension funds administered by Public Investment Corporation (PIC) to take over some of the struggling mining shafts instead of closing them down. [After Implats announcement of retrenching 13 000 workers by 2021]
SABPP Fact Sheet no 8 September 2018

The apologist article by the PIC makes amusing reading, one journalist attacking others [*PIC Irrational for PIC to collapse VBS*].

Editor

NEWS NEWS NEWS

Extract from the 2018 Budget Review p103

Government Employees Pension Fund

The GEPF provides retirement security to 1.3 million employees and more than 437 000 beneficiaries. Total contributions in 2016/17 increased by R5 billion to R65.4 billion. Active membership growth was flat, reflecting government's efforts to stabilise headcounts, while the number of pensioners and beneficiaries drawing a benefit from the fund grew by 3.3%.

The GEPF paid out R88.3 billion in benefits during 2016/17. Since 2011/12, the fund's benefits have grown faster than contributions. The GEPF is fully funded and has been able to pay the difference between contributions and benefits through its investment returns. Of benefits paid out in 2016/17, 34% were to members resigning from the fund, down from 44% in the prior year. Excluding resignations, benefit payments grew by 20%. The GEPF's next actuarial valuation, due in 2018, will be reported in the 2019 Budget Review.

Public Investment Corporation

The Public Investment Corporation (PIC) invests the funds of the GEPF and the social security funds. By the end of March 2017, the PIC had R1.9 trillion in assets under management. Of these funds, 88% belonged to public employees and 10% was managed on behalf of the social security funds. These investments must generate sufficient returns to pay pensions and social security obligations.

Comment

Bland to read, but also terrifying. No growth in membership good, fewer that need pension; bad - contributions remain unchanged except for salary increases, which barely keep up with inflation in any case. Contributions R 65 billion, paid out R 88 billion, benefits grew 20% – see why our investments are so crucial? Thus we are right to be concerned although "The GEPF is fully funded"; whatever that means.

The 10% social security funds in the PIC are the UIF, RAF and Compensation Fund. The remaining 2%? I would also like to know.

Synopsis

CAPITAL-RAISING PLAN

PIC lifts investment in Efora Energy

18 July 2018 Lisa Steyn

Picture: THINKSTOCK

The PIC will invest a further R360m in Efora Energy as part of the company's R600m capital-raising effort in order to repay a loan and fund operations and expansion. When raised, the total capital would be three times the size of the company's current market value of R200m.

Efora Energy's (formerly SacOil) share price fell as much as 22% — from R0,52 to R0,41 — on the news. The stock has declined almost 65% over the past six months and 80% over the past five years.

A spokesman for Efora, Ben Romney, said the funds would be used to repay the loan for the AfricOil transaction, provide working capital for existing operations, and consider new opportunities in line with Efora's growth strategy. Romney said the rights issue had been well flagged to shareholders. "Share prices tend to drop on rights issues due to dilution. Also, fund raisers of that nature are normally done at a discount to existing price," Romney said.

Efora announced on Tuesday it would take a proposed rights offer to its shareholders and said the PIC, with a 60,72% shareholding, had committed to follow its rights. The company said it would offer 1,2-billion ordinary shares to shareholders at R0,50 per share. In line with its shareholding, the PIC would have rights to more than 720-million shares with an implicit cost of more than R360m.

The PIC's original investment in Efora, then SacOil, was R75m and the subject of the corporation's own independent forensic investigation.

For the year ended February, Efora made a loss of R176m, against R2.6bn in revenue. The company only has one operation that produces oil, currently at a loss, in Egypt.

steynl@businesslive.co.za

Comment

Those who know about such offerings would be able to determine if the price is right, but the ROI seems to be negative. Seeing the PIC owns 60,72% of the company, would it be too much to expect the PIC has competent directors on the board?

Synopsis

CAPE TIMES

Irrational for PIC to collapse VBS

Opinion 7 July 2018, Sekgoela Sekgoela

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

The PIC performs an important function in society, that of investing and managing the assets on behalf of the GEPF, as well as various other funds of huge societal importance, including the UIF and the Compensation Fund. Collectively, these funds have grown over the years to just over R2.1 trillion, which is equivalent to approximately 40% of South Africa's gross domestic product.

The PIC operates in an environment where its clients, the shareholder (government, through the minister of finance) and various other stakeholders expect it to carry out its duties with the highest level of integrity. Sensational headlines, poor news analysis and impaired logic by some journalists have the potential to cause unnecessary panic among pensioners, beneficiaries and pension contributors about the security of their money.

In a news analysis on Sunday "What happened at VBS Bank?" the City Press newspaper made a number of startling allegations, including that:

The PIC "refused to lend VBS the R1,5 billion to force its collapse "

- "VBS's crash could have been engineered by the PIC and its proxies"
- "A hostile takeover bid" that was ostensibly "launched" by the PIC and "its proxies" to acquire the companies of Bophelo Insurance Group (BIG), which companies the newspaper describes as "worthless and debt-ridden".
- "Lebashe and its directors stand to make millions" from the PIC's investment in the BIG.

This is a continuation of a persistent trend of similar, questionable reporting by the same newspaper - "PIC's R4,3bn 'risky' investment" (March 21), "PIC executives purged as more deals questioned" (April 29) and "PIC hit with more claims" (July 1).

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

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

Through its environmental, social and governance (ESG) policies, the PIC takes an active position to advance good corporate governance in the companies in which it invests. As an asset manager, the PIC does not attempt to conduct a 'policing function' on the daily operations of investee companies.

Where companies are laggards on ESG principles, the PIC engages their management and boards to propose strategies to deal with their shortcomings, in particular on empowerment and transformation.

The PIC is an asset manager. It has no business, and indeed no investment mandate to bail out poorly run banks and, in particular, one that has been placed under curatorship by the SA Reserve Bank. The allegation that the PIC could have engineered the collapse of VBS is absurd. It is insidious and irrational to argue that the biggest asset manager in this country would allow a bank, one in which it itself is invested, to collapse.

The BIG is an independent company with its own board of directors. It is regulated by

Financial Services Conduct Authority and the company is capable of executing its own transactions. The decision to be exposed to VBS was the BIG's own. Currently, the PIC is not selling its own stake in the BIG, nor is the PIC funding the purchase of BIG shares by Lebashe Investments.

Due to the non-recoverability of its funds that were deposited with VBS, the BIG board of directors approached its two shareholders to recapitalise the business. Vele, the majority shareholder with 70% ownership in BIG, did not respond to the BIG board's request for capital.

The PIC, with a 30% shareholding in BIG, was committed to support the business pending the finalisation of the PIC's own internal processes. BIG was approached by a number of other potential buyers but these interests dissipated when they were informed that the BIG subsidiaries - Bophelo Life Insurance Ltd and Nzalo Insurance Ltd - were about to be placed under curatorship.

City Press further argued that "buried on page nine of the PIC's 2016 annual report", the investment rationale for the BIG transaction is explained. The newspaper then concludes its own master plan: Lebashe and its directors - "the band of super-wealthy black elite close to the PIC (who) stand to make millions" - are further being enabled by the PIC's allowing for VBS to collapse.

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

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

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

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

Hartith was established in 2006 to raise domestic financial resources to invest in infrastructure, which is critical for economic development. The PIC provided seed capital of R25 million which was repaid within 24 months. In return, the PIC received equity in the business.

From that point onwards, the Harith team went around the continent to raise funds through the Pan African infrastructure Development Fund (PAIDF) I and II. It is important to point out that the GEPF made capital commitments directly to the PAIDF I and II, and not through the PIC.

The PIC has co-invested with Harith in two successful projects - Lanseria Airport and Kelvin Power station. These transactions, including those involving Lebashe (previously Petratouch), have gone through PIC's thorough investment process and there is nothing untoward in the commercial relationship between the PIC and Harith.

The PIC's listed equity portfolio has consistently outperformed the JSE SWIX All Share Index and, more importantly, the PIC's clients are happy with the returns generated. The Compounded Annual Growth Rate for the PIC's listed portfolio over the past 10 and five years has been 10,6% and 18,4% respectively, consistently outperforming the benchmarks of its clients.

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

Journalists may disagree with the PIC's investment decisions, but they are not investment specialists. They cannot prescribe how the PIC conducts its affairs.

The PIC is committed to drive socio-economic transformation while generating good returns for its clients. The PIC has started its programme to develop black industrialist across different industries, which will be aligned to similar support for black asset managers, black private equity managers and black managers in real estate.

Sekgoela is PIC senior specialist: Investor Relations (Public)

Comment
Dear reader, the author of this article paints an awesome picture of the PIC as a wholesome, progressive, well-run institution, with only its clients' and the country's interests at heart. The author also reports selectively and widely, conveniently only using certain colours to paint and ignoring all the other colours that should be used, such as the ungrowth in unlisted investments.
You will remember the newspaper battle with Survé's Sagarmatha fiasco? Using the newspaper to self-justify what happened without any accountability, emphasising the lack of understanding by everyone?
It is what he didn't say that needs attention, eg PIC Corporate, an internal operations fund?
The last two paragraphs indicate the PIC's focus, which isn't ROI for its clients.

Synopsis
PIC invests $100m in Afreximbank
20 September 2018
PIC media statement

The PIC has made an equity investment of $100 million to acquire Class B shares in the African Export-Import Bank (Afreximbank). The investment was made on behalf of the GEPF and has been approved by the relevant South African regulatory authorities. Afreximbank is a leading pan-African multilateral financial institution devoted to financing and promoting intra and extra African trade. The investment in Afreximbank is in line with the PIC's mandate to invest 5% of its assets under management in the rest of the African continent.

Commenting on the investment the PIC CEO said: "We deliver on the rest of Africa mandate through a number of channels. One of the key means by which we achieve this is through partnerships. We are, therefore, pleased with the investment in Afreximbank, as it would enable and aid our investment programme in the rest of the continent. We are impressed with Afreximbank's mission of stimulating a consistent expansion, diversification and development of African trade while operating as a first class, profit-oriented, socially responsible financial institution and a centre of excellence in African trade matters. We have no doubt that the GEPF stand to derive a great benefit from this investment."

Prof. Benedict Oramah, President of Afreximbank, welcomed PIC's investment and said that opportunities for collaboration between Afreximbank and PIC existed in various areas. "We are particularly looking forward to collaborating with the PIC in advancing Africa's industrialisation, intra-regional investment and expanded access to services across the continent", said Prof. Oramah.

Comment
I trust ROI is the driver for this investment. I mistrust any words to do with promoting, advancing, expanding, etc as the ROI is usually not visible.

Synopsis
State pension fund's offshore foray nothing to do with patriotism
14 September 2018


Picture: ISTOCK

Very few people would dispute that maintaining a diversified portfolio is crucial to the success of any long-term investment strategy. In simple language, it's about reducing the risk that your overall performance can be wiped out by unwise choices. While there's been more than a fair bit of liberalisation since the advent of democracy, most South Africans probably think about asset classes rather than geography when they talk about diversification.

Start talking about moving your savings out of SA and there is a big chance the discussion soon turns to unrelated matters of patriotism and an imaginary conflict with promoting development here at home and the need to mobilise resources for social and economic goals, such as funding infrastructure. Not surprising in a country with a disconnect between those with the means to save and the rest.

So, when investing overseas comes up, it's often in the context of capital flight and a lack of faith in SA's future among the wealthy. Even more so today, with the country in the midst of a recession and the airwaves full of state capture tales and detailed accounts of the depravity of the Zuma presidency.

The concentrated nature of SA's market poses extra risk for investors. There's of course an argument that South Africans already get plenty of diversification and offshore exposure through mining, banking and other stocks that earn a substantial portion of their earnings from outside the country, some of which have overseas listings. But the fact remains that a fund tracking the JSE will have lost about 3.6% including reinvested dividends so far in 2018, while the MSCI global index has delivered a return of just over 4%. The difference in performance is even starker over a two-year period, with the JSE earning 13% compared with 32% for the MSCI index.

The GEPF's desire to put more of the money that it oversees for state workers in offshore markets should be seen in that context. It's not about capital flight or patriotism, or a lack of it. As the custodian of R2-trillion on behalf of government workers, it has a fiduciary duty to ensure the best outcome for them and for taxpayers — who, after all, would fund pensions in the event of the investment returns falling short.

Comment

The GEPF is planning to increase overseas exposure does not mean all the other Clients of the PIC will do so automatically. One of our members commented:
"I would classify AMAGP's position as '*unrelated to patriotism and* ***certainly not treasonous****, but focused on the stewardship of the fund to the benefit of the members'*."
David Blyth, Pr Eng*

Synopsis

Public Servants Association wants no political intervention in the PIC

15 August 2018 Linda Ensor


Finance Minister Nhlanhla Nene. REUTERS

No politician should chair the board of the PIC, the PSA told parliament on Wednesday. Such a move would ensure there was no political intervention in the affairs of the Fund, PSA assistant GM of collective bargaining, Leon Gilbert, told parliament's finance committee on the PIC Amendment Bill.

The PIC Act says the finance minister must appoint the chair of the PIC board. Gilbert, however, said the chair of the PIC should be appointed from the board of directors. The bill provides that the Finance Minister, or if designated by him, the Deputy Minister, should chair the board. It also provides for trade union representation on the board.

To improve transparency, the bill will require the PIC to publish and submit a report to the minister on all its investments for tabling in parliament. Ministerial directives regarding the management of the PIC will also have to be made public.

The bill will also require the PIC to consider certain matters when exercising its powers, namely securing the financial sustainability and security of the fund and creating and protecting local jobs, among others.

Gilbert strongly opposed this provision, which would mean the proposed law would supersede the investment mandate depositors gave the PIC. "There should be nothing in the statute which permits the PIC to ignore or overrule or depart from the investment objectives of its clients," he said.

The PSA also objected to a clause that would allow the PIC to assist with financing the purchase of property by GEPF members, saying this should not be embodied in law. He said the PSA fully supported housing assistance to PSA members through the GEPF but believed the provision was misplaced in the PIC bill.

Cosatu strongly supported the bill, especially the provision for two or three trade union representatives on the PIC board, entrenching the accountability and transparency of the PIC, and making the Deputy Minister or Minister the chair of the board.

The amaBhungane Centre for Investigative Journalism's Karabo Rajuili urged the public to participate in the appointment of the PIC board directors.
ensorl@businesslive.co.za

Comment
The trade unions have come alive for the workers still to retire, but who has the pensioners' interests at heart? Trade unions are concerned with those in work right now, not when they retire. Pensioners don't have any trade union power except if they return to the workforce.

STATEMENT ISSUED BY AMAGP CAPE TOWN

20 September 2018

The 2018 annual report (AR) of GEPF is due at the end of September 2018. The Minister of Finance has 30 days to consider the AR and the Board of Trustees' (BoT) comments on the auditor's report. The AR is then submitted to the Standing Committee on Finance (SCOF) for further scrutiny and oversight hearings.

The 2018 AR is important as it actually will reveal the successes over the 4 year term of the BoT under the leadership of Dr Mokate as chairperson. AR's are backward focussed documents that need to be balanced, ie apart from successes it needs to reveal shortcomings. A critical analysis on whether this BoT have left the GEPF in better shape than they found it in 2014/5 will hopefully be part of the SCOF deliberations during the upcoming oversight hearings.

Another reason why we are looking forward to the 2018 AR is the following significant undertaking the Chairperson of the Board made regarding the improvement of Corporate Governance in the 2017 Annual report:

"During the period under review, the GEPF continued to recognise the importance of promoting best-practice governance within the Board, the Government Pensions Administration Agency and all the Fund's investment managers. The Board has received training on King IV. **We intend to align with the King IV principles voluntarily and will report on our progress during the next financial reporting period**. We do not view governance as a tick box to compliance but as a pinnacle guide to ensuring we deliver in terms of the policies, structures and procedures we have established. The Board will continue to uphold the values of the Fund through its governance and ethics practices. "

A review of the oversight in prior years revealed that the GEPFs approach was to overemphasise successes whilst being evasive to difficult questions. Furthermore, there appeared to be a reluctance to provide additional information and in a number of cases it was observed that questions are simply ignored. A good example of this can be found in the statement by AMAGP on 8 December 2017 which is appended for easy reference.

In view of the Chairperson's undertaking mentioned above, we are really looking forward to the improved disclosures in the AR in support of making the information more clear and understandable.

Furthermore, we do not expect to see the GEPF being evasive and secretive about the performance of the asset manager (the PIC) and the unmitigated risk this represents to the Fund and GEPF members and beneficiaries. We don't expect to see a repeat of the avoidance of the question of state capture during the SCOF session in October 2017 and the subsequent negative publicity the Fund received.

Following the 2017 process the SCOF has been approached to ensure improved participation by GEPF members and pensioners in the oversight process. This step was required because the GEPF does not have an AGM where questions on the AR can be asked and answered by the Trustees themselves. It is hoped that the SCOF will facilitate such engagement in pursuit of a vastly improved accountability arrangement for the biggest pension fund in South Africa.

It is noted that a "new" Board of Trustees was appointed in May 2018 for the next 4 years. As the majority of Trustees were re-appointed, we are ideally placed to deal with the following critical issues raised during the course of 2017 and 2018:
1) the academic qualifications, experience in investing or other related matters of the BoT members.
2) management of concentration risk,
3) deteriorating cash flows,
4) non-compliance with laws, which remain unreported,
5) the adherence to the UNPRI principles for responsible investment

The AMGP intends to raise more matters of importance in the coming weeks that are absolutely begging to be elucidated.

We sincerely hope the SCOF will allow GEPF members and pensioners enough time to analyse the 2018 AR and to put forward questions, which the TRUSTEES can answer.

A P Stemmet
Spokesman: AMAGP

Synopsis

ANC top 6 plan shady deal to rescue embattled VBS bank

2018-08-12 Sipho Masondo and Setumo Stone

City Press

The ANC's top six officials have launched a last-ditch political attempt to rescue VBS Mutual Bank from liquidation – a move that is set to pit the party against the SA Reserve Bank. A meeting was held on Monday between the ANC's top six officials and the party's Limpopo leadership to discuss possible ways to save the troubled bank.

Sources with intimate knowledge of the meeting, held at the ANC's Luthuli House headquarters, said the party's Limpopo leadership recommended that the failed bank be converted into a Limpopo provincial government bank, run and operated by the Limpopo Economic Development Agency (Leda).

After the meeting, the ANC appointed a team to investigate ways to save the bank, including the possibility of incorporating VBS into Leda. Another senior ANC official who attended the meeting told City Press that the province was looking at an array of options, including styling VBS like KwaZulu-Natal's Ithala Development Finance Corporation. Ithala does not have a banking licence, but the Reserve Bank has granted the developmental finance institution an exemption to run a limited bouquet of banking services, including taking deposits.

A Limpopo ANC insider said that during the meeting, "the province recommended the hiring of a firm of actuaries to investigate how the incorporation of VBS into Leda could happen". "The company will have to conduct research about the economic impact of incorporating VBS into Leda," the insider said.

He said it made sense to incorporate VBS into Leda as Leda was already offering home loans and development finance to Limpopo's residents through one of its many subsidiaries. Leda and VBS, said a businessman close to senior Limpopo ANC officials, could make a good combination because VBS had a R1bn home, vehicle and small, medium and micro enterprise loan book.

But another senior ANC official who attended the meeting said: "There was no conclusive decision taken at the meeting. It is all work in progress. But our position is that it (VBS) can never be closed, it can never be liquidated. We will consult all the main shareholders."

However, a key VBS stakeholder rubbished the plan conceived by the ANC in Limpopo, saying he was determined to resist it. He said it was a "desperate and hasty political football" aimed at "shielding and protecting certain individuals who were involved in gross corruption" at the scandal-plagued bank.

Although the decision to liquidate VBS was not a foregone conclusion, three months ago the Reserve Bank's deputy governor, Kuben Naidoo, told Parliament that while the central bank was working to save VBS, the chances of that happening were fading with each passing day.

But curator Anoosh Rooplal dismissed suggestions that a predetermined decision to liquidate VBS had been made. "We are in the process of restating the financial statements following the fraud and misrepresentations. "Once the financial statements are restated, we will then know the true financial position in order to make a decision regarding the future of the bank," he said.

NATIONAL

'Absolutely no', says Reserve Bank about VBS bank takeover

Speaking in parliament, the Reserve Bank governor is unequivocal about the Limpopo government taking over VBS Mutual Bank, which is under curatorship.

15 August 2018 Linda Ensor

Lesetja Kganyago. Picture: Trevor Samson

"Absolutely no," was the response on Wednesday of Reserve Bank governor Lesetja Kganyago to the proposal that VBS Mutual Bank be taken over by the Limpopo government through its economic development agency.

Answering questions from members of parliament's finance committee following his briefing on the state of the economy, Kganyago noted that the one bank owned by a provincial government [Ithala Bank, owned by the KwaZulu-Natal provincial government] was a legacy issue and should not be replicated.

On the other hand, Kganyago fully supported the idea that VBS remain in black hands should it eventually be sold. However, he said prospective buyers should wait until its accounts had been finalised because, as yet, there was no indication of the extent of the "hole" and people needed to know what they were buying.

Deputy Reserve Bank governor Kuben Naidoo said one of the salient lessons the Bank had learnt from the VBS collapse was that it had overly relied on the audited financial statements submitted by VBS. These have been found to have been false. The Bank needed to find alternative ways of verifying the financial statements of banks, Naidoo said.

Comment
Let's wait and see who wins, politics or ROI.

Synopsis
South Africa

Why Moody's is now upbeat about SA's SOE commitment to fixing governance issues lauded, but simply making new board appointments won't be enough.

Moneyweb
Ray Mahlaka 17 September 2018

Photographer: Ramin Talaie/Bloomberg.

A year ago, SA's credit rating downgrade to non-investment grade or junk status by rating agency Moody's Investor Services hinged largely on the fortunes of state-owned enterprises (SOE). Top of Moody's concerns in February 2017 was whether cash-strapped SOE would be able to service debts running into hundreds of billions, considering their reliance on government bailouts. The stakes are high, as the country's economic growth is heavily tied to the health and performance of its SOE.

A year later, Moody's seems to have a more upbeat view regarding SOE, so much so that Moody's signalled that SA might escape a ratings downgrade in the near future. "We think things look fairly stable and the worst is probably behind us," says the firm's lead analyst for SA, Lucie Villa. This assessment is partly influenced by SA's macroeconomic policy framework being "relatively effective" in dealing with headwinds, and the government's renewed focus on fixing governance issues at SOE.

Eskom Debt

Helen Francis, Moody's senior credit officer for infrastructure finance, says Moody's is still concerned about Eskom's "very weak credit profile" and its "extreme liquidity crisis." "Given the support that the government has provided in the past through government guarantees, we think there is a strong probability that the government would provide more support to Eskom to avoid a payment default," says Francis.

Because of this, Moody's expects a fiscal deficit (where government's total expenditure exceeds its revenue generated) of around 4% of gross domestic product in 2018/19 – higher than the 3.6% forecast by National Treasury.

New board appointments at Eskom are not enough to restore good governance, says Olga Constantatos, Futuregrowth Asset Management's credit, and equity process manager. Futuregrowth stopped lending to Eskom in 2016 over concerns about poor governance and financial mismanagement.

Ray Mahlaka

Comment
A general indication of optimism?

Synopsis

PIC moves to discipline another executive

16 Sep 2018 News24 Dewald van Rensburg

Bongani Mathebula, the suspended company secretary of the embattled PIC since about April, was summoned to a disciplinary hearing this week for allegedly leaking information. Mathebula was one of six senior officials at the PIC personally investigated by the company's CEO last year.

"It is alleged that you breached your duty of good faith and confidentiality as an employee and in your position as company secretary of the Public Investment Corporation ... in that you caused the distribution and/or copying of confidential PIC information," reads a letter sent to Mathebula last month.

The disciplinary hearing was set down for two days this week and will resume next month. When City Press contacted Mathebula, she replied with a message saying "no comment".

City Press understands that Mathebula is being disciplined for allegedly sharing the unadulterated minutes of a PIC board meeting held on 29 September last year, but the PIC would not confirm this.

Documents now in the public domain because of UDM leader Bantu Holomisa's July court application to have Matjila suspended, show how these minutes were edited to remove criticisms of Matjila. Among the paragraphs removed were ones that declared Matjila's conduct had endangered the PIC's reputation and could not be condoned.

The real minutes cropped up in previous disciplinary hearings related to the Matjila saga. Mathebula was one of the senior PIC executives targeted by Matjila in his attempt to track down the source of a now-infamous whistle-blower email sent to the entire PIC board 5 last year.

Apart from Mathebula, three of the six executives Matjila looked into are now gone:

- Vuyokazi Menye, the head of IT, was suspended and subjected to a disciplinary hearing. She was ultimately given a R7 million golden handshake to leave the PIC. However, her subordinate Simphiwe Mayisela, was fired outright and is challenging his dismissal at the CCMA.
- Paul Magula, head of risk, was fired for "incompetence", but a City Press investigation has subsequently uncovered compelling evidence that he was also the recipient of bribes from the failed VBS Mutual Bank, where he represented the PIC.
- Ernest Nesane, the PIC's head of legal, was also implicated in wrongdoing at VBS, where he, like Magula, had represented the PIC.

Pamela Phala, in the PIC's legal department, and Lufuno Nemagovhani, the PIC's head of internal audit, were also on Matjila's list, but nothing seems to have happened to them.

Comment

Some good, some not so good. On the one hand a golden handshake, on the other hand bribes and incompetence. The PIC management is accountable for both, not so?

Synopsis

GLOBAL INVESTING **19** September 2018

Biznews

Naspers' Tencent has transformed into a very poor investment

EDINBURGH — Tencent, the company underpinning South African JSE behemoth Naspers, has been labelled the world's most disappointing stock. Tencent has plummeted in value on concerns that it can no longer keep scaling its revenues. Jackie Cameron

By Kana Nishizawa

(Bloomberg) – For the most disappointing stock trade in the world this year, step forward Tencent Holdings Ltd. Of the 10 companies worth more than $100 billion that analysts predominantly rate as buy, Tencent has by some distance had the worst 2018, data compiled by Bloomberg show. The Internet giant tumbled 22% in Hong Kong on Tuesday, wiping out $108 billion in value, as the company failed to maintain earnings momentum and a government clampdown clouded the outlook for the games industry.

The reversal has been swift. It was only in January that Tencent reached a record high of HK$474.60, following a 64 000% climb from its 2004 trading debut. Analysts have been reluctant to give up their bullish calls on the stock, which is the biggest on the MSCI Emerging Markets Index with an almost 5% weighting. Their average price target is HK$451.10, implying a 40% rebound over the next 12 months. The stock rose 1.1% to HK$321.60 in Hong Kong on Wednesday.

Comment

Typical of investment ups and downs; one moment sunshine the next doom and gloom. The ROI should be focus and for the GEPF the medium to long term returns is important. Tencent is part of the ROI from Naspers and must be viewed against that basis.

Synopsis

ECONOMY

Cyril Ramaphosa delivers his economic recovery plan

21 September 2018 Bekezela Phakathi and Claudi Mailovich

President Cyril Ramaphosa addresses the media on the economic stimulus package on September 21 2018. Picture: Thapelo Morebudi

The government will reprioritise about R50bn within its existing budget to reignite economic growth and create jobs, President Cyril Ramaphosa said on Friday. The stimulus package is seen as critical ahead of the 2019 national elections, as the plan moves him away from the economic objectives of his predecessor. The plan is doubly significant for Ramaphosa and the ANC after the shock second-quarter GDP data that showed that SA had entered a technical recession.

Presenting the government's much-anticipated grand plan to kick-start SA's economy, Ramaphosa also announced the establishment of an infrastructure fund that is a core part of the package. He said R400bn will be leveraged from various development finance institutions, pension funds and ordinary investors, among others over the medium term to drive the infrastructure fund.

"We are establishing a dedicated infrastructure team in the presidency that has project management and engineering skills which will identify shovel-ready public sector projects such as roads and dams," Ramaphosa said during a briefing at the Union Buildings.

"We have limited fiscal space to increase spending or increase borrowing … we do not have fiscal space to pour money in the economy ... we have to resort to re-prioritising our spending and budget within the current fiscal frame work," the president said.
President Cyril Ramaphosa

The package also includes the new Mining Charter, major changes to visa requirements to boost the tourism sector, the development of industrial parks and township businesses, and reforms in the telecommunications industry, particularly the release of spectrum to create competition and drive down the cost of data.

"The stimulus package consists of a range of measures, financial and non-financial, to ignite economic activity and restore investor confidence, and prevent further job losses, and create new jobs," Ramaphosa said. The measures give priority to those sectors that can revive the economy, including agriculture.

Ramaphosa said more details on how the budget will be reprioritised will be provided when finance minister Nhlanhla Nene presents the medium-term budget policy statement. Nene said most of the funds for the stimulus package would be moved from under-performing departments.

Unisa political analyst Somadoda Fikeni said as the initial budget was tabled by Gigaba, who was Zuma's pick for finance minister, the statement made by Ramaphosa was important. However, he said the key would be how the plan was implemented, as government had shown "very little ability" to implement anything. "If he could implement one quarter of what is being promised, it would go a long way to boost his standing in the next election," Fikeni said.

With Andries Mahlangu

Comment
Doesn't the reference to pension funds as one of the providers of infrastructure funding make you anxious? Let's see what Nene says in the medium term budget policy.

Synopsis

Worse than the Guptas! Look who's captured your retirement funds

EDINBURGH — Don't blame the Guptas if your retirement fund has been captured, says respected investment industry entrepreneur Steven Nathan. Nathan paints a picture that shows up the financial services sector as conveniently hiding behind scary headlines about state capture. The fact of the matter is that many retirement fund providers are greedy and rake in fees at such a high rate that your investments can't work hard enough to keep up with this outlay. Jackie Cameron
BizNews 21 September 2018
By Steven Nathan

You shouldn't blame the ANC, or the Guptas for that matter, if your pension fund has done badly over the last 10 years, no matter what you read in the media.


Steven Nathan

We know that South Africa is not currently in a great place, economically or politically. We know there is a recession, a weak currency, emerging market contagion, corporate scandals and state capture. That is nothing new, but it is being amplified in the media.

The so-called investment experts – fund managers and advisers – are latching on to this bad news to advise that this is a good time to get your money offshore. They are saying that SA might be a good place to retire, but not to invest in.

We have a different view and message. Don't look at these scary headlines and say, 'Oh this is why my pension fund has not done well in the past, and probably why I won't do well in the future.'

It is just not true

We are hearing a lot of talk about recession since we are in a recession for the first time since 2009. 'They' are saying if you are in a recession you are not going to get good returns from your retirement savings investments. We are saying rather look at the facts, not the emotions.

For example, there is no direct link between GDP growth and investment returns. Over the last 10 years, GDP growth in South Africa has been terrible, a measly 1.8% per year, barely ahead of population growth. So there has been very little real economic growth in South Africa. Yet a well-balanced high equity portfolio, as represented by the 10X High Equity fund, has given double digit returns over this period.

A South African retirement fund portfolio is a very well globally diversified portfolio. More than 50% is invested in rand-hedge and international stocks that are not exposed to the South African economy. Your actual exposure to corporate South Africa is very small, less than 25% of your overall portfolio. Even if you are quite negative about South Africa going forward, your overall exposure is quite limited.

It is important to know that when you retire in South Africa you are going to be spending Rands. The important thing is to ensure that your portfolio beats Rand inflation, and over the last 10 years a high equity fund has beaten inflation handsomely.

The question is: Why have some portfolios not done as well as they should have?

The answer is: Because of the industry, not because of the ANC, or the Guptas.

South Africans pay very high fees. They generally pay 3%, versus maximum 1% charged by 10X. The 2% extra that they lose every year, and the return thereon, is substantial over time.

Research shows that more than 90% of fund managers have underperformed the index over the last five years. That is another reason why many investors have fared poorly.

Research also shows that many investors lose out because they switch portfolios, usually at the worst time, because they are chasing past performance. They tend to buy things that have done well and sell things that have done badly and by so doing they erode returns further. The combination of high fees, underperforming fund managers and switching can more than half your retirement capital.

We don't know if the JSE will beat the S&P500 over the next 10 years. No one does. Here is what we do know: Over the last 10, 20 years or longer, if you had invested in a well-diversified portfolio, paid low fees, didn't try to beat the market and stayed invested, you would have done very well invested in a high equity balanced portfolio in SA. You would have handsomely beaten inflation and, together with a good savings programme, should be well on track to a good retirement.

Investors can still achieve very good retirement capital by investing in a well-diversified portfolio in South Africa. But they must take charge. If people don't take charge, it doesn't matter what the economy does, or what the Guptas do, or what happens with state capture. Those who continue to have their retirement funds captured by the industry are going to underperform significantly, in good and bad times.
There is no need to take all your money offshore, unless you are leaving South Africa, in which case it would not make sense to have your liabilities in a foreign currency, say pounds or Aussie dollars, and your assets in a SA-domiciled portfolio.

Steven Nathan is founder and chief executive of 10X Investments.

Comment
I totally disagree with the first sentence: South Africa is the best country in the world to live in!
This is a very balanced view of investing and investments. Important to realise that investment growth is indeed dependant on many things, of which politics and the economy are but two and often not the most important. However, as soon as politics direct investment it is a matter of time before the investments aren't any more. Where does the ANC and labour unions invest their money? That will be an interesting eye opener.

The PIC receives billions in commission and fees from the GEPF if what I read is correct, who are the recipients of these billions?

Comment by one of AMAGP's very active members.

PENSION FUND BOLD MOVE ON CARDS

News coverage around this subject has primarily focussed on the planned increase in offshore investments by the GEPF via their external investment agent the PIC. This initiative and response is overdue by at least 5 years. However, better late than never.

However, with this good news, the bad news is sort of slipped in via the back door. The GEPF is looking at increasing its exposure to unlisted investments. These are "those" investments for which the GEPF and PIC reluctantly released the details a while back. And for good reason too because included in these "investments" were a number of lemons. Exit strategies apparently have been made, but the "in due course" investigations at the PIC have placed a hold on these being actioned.

The need to increase holdings based on the performance and expectations of these unlisted investments actually is a case study where social responsibility outweighs pure financial gain with investments. Make no mistake, investment in unlisted investments and for development purposes has a place.

GEPF members should be worried about this planned new development. Just ask yourself, if the GEPF could not exercise proper control to prevent the "loss" of a listed investment such as Steinhoff, what chance is there with an unlisted investment. Think Independant Media/Sagamartha/Ayo/VBS bank.

Perhaps the rationale is that unlisted investments, once the volumes are pumped up, may result in a higher success rate. Alternatively, if the increased offshore investments do in fact outperform the JSE, this provides more leeway to offset the underperforming unlisted investments ie. some cross subsidisation.

One step forward, two steps back.

Will such a strategy get the GEPF's Longterm Funding Level back to its 2006 level where it was? A prudent approach would be to wait for the outcomes of the various investigations at the PIC, as it is highly likely that a number of unmitigated and uncontrolled risks would be found related to these unlisted investments. To go ahead and increase exposure to these type of investments, however noble the intentions, at this time is very speculative at least.

Then the President announced a "stimulus package". Let's hope this initiative by the President does not pour cold water over the idea of increasing foreign exposure by the GEPF. Apparently the stimulus package earmarks pension funds, ie they will be leveraged into the SA economy.

If ever there was a RED FLAG of how bad things are, this is it. Any household that starts to use Grandpa's pension fund to start a new business is really looking for trouble.

But let's also be fair. Such a move makes perfect sense if your name is Cyril, the cupboards have been left empty by your predecessor, you had to hike VAT, and you have to feed an ever increasing number of unemployed people AND try to grow an economy at the same time.

However, as a GEPF pensioner, I know that our FUND has over a protracted period remained directly invested in the SA Government (+R400bn at the end of FY2017 ie 25% of investments). On top of that, the Fund has kept its offshore investments to a minimum and remained 90%+ invested in the SA economy even in the midst of the State capture era.

With the benefit of hindsight, when JZ and friends started their funny business, our Trustees should have pulled the plug on further investments in the SA Government and parastatals, not least to manage the concentration risk downwards. They should at least have acted as active and hands-on landlords and not watched the malfeasance develop from the comfort of their boardroom. In fact, as a corporate citizen of Goliath proportions, the GEPF, by timely action, and by standing up and speaking out loud, could have, NO should have, done ALL South Africans a favour.

But they didn't and history (and future GEPF pensioners) will judge them unkindly. This no doubt will come as another shock to the

Trustees, who seem to be extremely hurt by any criticism about the Fund.

Perhaps when the dust settles on the Zondo commission into State Capture, the implied question(s) iny the prior paragraph will be answered.

Christo van Dyk

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, of course, it is 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 [nog nie heeltemal weg nie], 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.

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

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 increasingly includes members of parliament on all sides of the political spectrum, as soon as they realise their voter's pension is 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 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, although we haven't gone that far yet.

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

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