



**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](http://www.amagp.co.za)



## NEWSLETTER NO 6 of 2018

**AMAGP – Association for Monitoring and Advocacy of Government Pensions**  
**BOT – Board of Trustees [of the GEPF]**  
**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 might seem from the doom and gloom of the newsletters that nothing about the GEPF is right or good except the pension payments. The AMAGP is a monitoring group and we

would love to report on the GEPF/PIC doing good and well. They probably are, but the lack of response to questions, letters, queries, etc does not promote a warm feeling about the sustainability of the GEPF or the due diligence that the BOT is there for. Their lack of transparency, secretiveness, evident non-adherence to their own and international policies creates perceptions of the management and oversight at the GEPF that no amount of spin is going to make go away. Involuntarily we think of the audit scandals, state capture, misuse of state funds, fraud, etc that are so much and continuously in the news. It all these cases legal repercussions for individuals are inevitable.

The PIC is a government body, focused on achieving government goals. In contrast the role of the GEPF is to ensure sustained pension benefits for its contributors and beneficiaries. The BOT will be neglecting its mandate by allowing non-performing investments and, even worse, to continue allowing this. The BOT must, therefore, be held accountable for such, not the PIC, who is only the main broker of choice for investing our Funds. Their oversight in the Sagarmatha/AYO matter handled by the PIC, especially after the publicity it received, hardly seems insufficient.

The Helen Suzman Foundation brief on the GEPF and PIC [below], states the PIC's loan to Independent Media in 2013 has delivered no ROI yet. This time period is also when the positive balance between inflow and outflow in the Fund started to change. Just before that the Milnerton acquisition with no ROI took place. I don't believe in such co-incidences. I wonder what/who changed in the GEPF/PIC in that time?

The AMAGP communication to the Public Protector in February 2016 is still not finalised. The Protector's wheels turn slowly, the

communication was lost/misplaced, found, their work load, administrative inertia and the Monitoring Group's much smaller influence at that stage. It might now be the right time for the Protector to process it. I believe the wheels might be turning a bit faster there.

The asset managers managing the trillions of our Fund are paid about R 1,4bn annually, probably normal for the size of the Fund and the responsibility they have, I wouldn't know but it bears thinking. Shouldn't we expect better performance for that amount of our money?

The AMAGP letters of 22 March and 11 April to the GEFP still beg replies. The bland pabulum of pap [stole that term from an American military magazine] the GEFP supplies after ruminating over it for a couple of weeks only fuels and increases concern.

Resilient. There are questions about Resilient providing interest bearing loans to its staff to buy shares in Resilient. A Business Day article of 23 April discusses the relevance of the National Credit Act to these loans, and raises concern that the size of the loans might be higher than the value of the shares. This of course is dependent on share price, which isn't good right now. Questions to the GEFP about its investment there will probably not ease concerns.

The articles about Survé and the PIC's investments by now make amusing but still concerning reading. Claims, rebuttal, sore losers, accusations, more claims and the standard PIC nothing in reply to questions. What should concern all of us to the extreme is the way the PIC executes its mandate from the GEFP to invest our funds; the whole Survé, Sagarmatha and AYO matter is a good example.

Steinhoff 1. The recent AGM returned the board but not without much debate and acrimony. Deloitte as the auditor has much to explain and correct. The group still survives and business carries on. Dividends will probably still be paid but much less than previously. Don't expect the share price to return to 2017 levels soon, if ever. The GEFP/PIC lack of due diligence is still a matter of concern. For peace of mind see the many pages of notes on the AGM in **fin24** under the heading and date:

## **"STEINHOFF AGM WRAP: PwC probe confirms retailer overstated income and assets**

2018-04-20 12:51

Jan Cronje"

Steinhoff 2. Interesting matter, that of Lancaster 101, Steinhoff's BEE partner since 2016. Another about R 9,3bn held jointly in a special purpose vehicle by PIC and Lancaster, to add to the more than R 25bn PIC investment in Steinhoff, making the loss to the GEFP/PIC that much larger than originally reported. An internet search yields more questions than answers.

Quis custodiet ipsos custodes? Who audits the auditors? PWC is auditing KPMG's audit of Steinhoff, which isn't going to be quick given the size of the group, hundreds of thousands of documents and the number of years the auditor should audit. In addition PWC is also in the news. Let's see how that unfolds. The lack of trust in audit generated by the last years' news about fraud and corruption isn't good for the country or economy and is even worse for the GEFP/PIC.

How does the GEFP monitor the PIC? Did the GEFP delegate its investment to the PIC or did it abdicate?

Editor

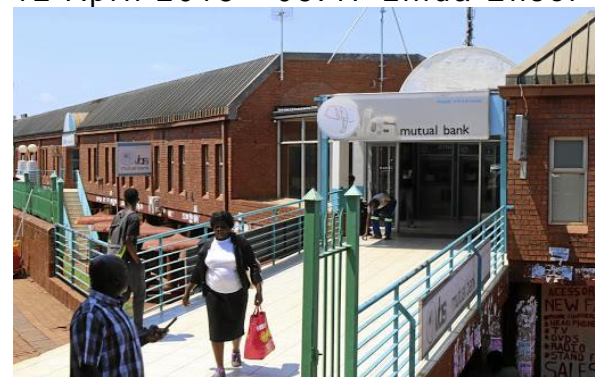
## **NEWS NEWS NEWS**

*Synopsis*

### **Curator's report reveals can of worms at VBS**

Business Day

12 April 2018 - 05:47 Linda Ensor



A branch of VBS Mutual Bank in Thohoyandou, Limpopo. Picture: Antonio Muchave

The curator of VBS Mutual Bank believes there may have been fraudulent reporting and transactions to extract money from the bank in

order to further the personal interests of certain key individuals and companies related to the bank, Registrar of Banks Kuben Naidoo said. He made the claims in an affidavit opposing the application by the parent company of VBS, Vele Investments, to have the curatorship set aside on the grounds that it was irregular.

Naidoo referred to the initial findings by the curator, Sizwe Ntsaluba Gobodo Advisory Services' representative Anoosh Rooplal. These indicated that VBS had been "severely mismanaged". In Rooplal's initial assessment there were suggestions of fraudulent transactions. In addition, there were a significant number of large transactions between the bank, related companies and staff. Corporate governance at the bank was particularly weak.

Rooplal was concerned that large balances, about R1.8bn, in suspense accounts "may be a fictitious creation of deposits on the banking system". The assets were reflected as a suspense account entry, which Naidoo said was highly unusual. Rooplal had not been able to corroborate this entry and/or confirm that it represented a real and tangible asset of the bank.

Among Rooplal's initial findings were that as at 12 March the liquid cash position of the bank amounted to R24.7m compared with total deposits that were "ostensibly" in the region of R2.9bn, although Rooplal had not been able to confirm the veracity of a large portion of the corporate deposits of R900m. "It is uncertain as to whether all of these corporate deposits represent 'true' deposits and Mr Rooplal has to date been unable to confirm that ... these deposits were actually received by VBS Mutual Bank.," Naidoo said. The bank apparently paid brokerage commissions to attract deposits, mainly from municipalities. Naidoo said this was "highly unusual" for banks.

He said the integrity of the financial information of the bank was "highly compromised" with "significant deficiencies" in the administration and management of the bank. Significantly, nine of the bank's 20 largest loans were non-performing. There was also an advance to an entity of about R150m, which was also non-performing, where Rooplal had been unable to obtain any meaningful information.

## Synopsis

# Regulator reveals KPMG waved no red flags over Guptas and VBS

Disgraced KPMG failed to file any 'reportable irregularities' despite R900m in untraced funds and curator's warning of fraudulent transactions

13 April 2018 - 05:37 Hanna Ziady



- Picture: REUTERS

KPMG raised no red flags with the audit regulator over VBS Mutual Bank and it did not report any unlawful practices during its decade-long audit of Gupta-family companies. Auditors are required by law to blow the whistle on "reportable irregularities", which are unlawful acts committed by management that could cause material financial loss to an entity, are fraudulent or represent a breach of fiduciary duties. They do this by filing a report with the Independent Regulatory Board for Auditors (Irba).

Despite VBS's curator being unable to confirm the existence of R900m in deposits and flagging related-party fraudulent transactions, KPMG, which signed off on VBS's accounts for the year to March 2017, had not filed any "reportable irregularities" with Irba, the regulator confirmed on Thursday. The partner on the VBS audit, Siphon Malaba, had been suspended pending the outcome of an investigation, said KPMG. "KPMG SA was investigating the matter in full co-operation with the curator of VBS Mutual Bank," it said.

## Latest blow

This was the latest blow to hit the big four audit firm, which is the subject of Irba-initiated investigations into its work for Gupta family companies and the South African Revenue Service. While KPMG ditched Gupta companies in April 2016 over reputational risks, leaked e-mails show these firms unduly

benefited from government funds and contracts for years.

KPMG did not respond to a question on whether it had raised concern with regulators or VBS management over the bank's practice of accepting deposits from municipalities. The law prohibits municipalities from placing deposits with mutual banks, as they are not subject to the same regulatory standards as commercial banks.

The curator, SizweNtsalubaGobodo's Anoosh Rooplal, had identified a considerable number of large, related-party transactions between the bank, related companies and staff, Naidoo said. Rooplal said there might have been "fraudulent transactions conducted to extract money from the bank to further the personal interests of certain key individuals and companies related to the bank".

Meanwhile, VBS's internal auditor, PwC, said it was "considering the internal audit engagement and work performed". No PwC employee had been suspended, said chief operating officer Fulvo Tonelli.

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#### Comment

*KPMG was the external auditor and PWC the internal one. Both seemed to miss the legislative requirements essential to banking right from the start. I wonder. Auditing starts with compliance with legislative, procedural and company requirements, not so? It might be a good idea to read the article by Dr McKinley in Monitor 5 of 2018 again.*

*In the meanwhile the 2017 financial statements have been withdrawn and amended statements will be available 'soon'. Further investigation revealed mortgages to individuals that may be linked to large deposits by the institutions these individuals worked for. KPMG has terminated the services of several of its members who seem to have been advantaged by such mortgages. See the link below for the detail of the mortgages.*

<https://www.news24.com/SouthAfrica/News/vbs-loans-bonanza-20180428>

#### Synopsis



## INTRODUCTION

Much has happened within South Africa, the PIC, and the GEPF (the Fund) since the HSF released its last briefs on these intertwined subjects. Most relevant to the topic at hand, the country has managed for the time-being to stave off junk status and the former tainted Deputy Minister of Finance Sifiso Buthelezi has been replaced by Mondli Gungubene – the latter therefore becomes the new PIC board chairman in place of Buthelezi. Gungubene holds a B Com Law, was mayor of Ekurhuleni from 2010 until 2016 and was an outspoken Zuma critic. Journalists dubbed him 'the lord of corporate governance' because of his hardy questioning style during the Communications and Public Enterprise Committee Hearings. [1] While this change at the top is of course a very welcome, the risks and challenges facing the PIC, GEPF and its members have not yet begun to subside.

## ESKOM

The difficult situation in which the GEPF finds itself from the PIC's R95bn investment in Eskom came to fruition in February this year when the PIC was forced to extend a R5bn one month loan to the parastatal. In a letter sent by the PIC CEO Dan Matjila to Parliament's standing committee on finance, Matjila revealed that without the PIC's R5bn loan, Eskom's going-concern status would have been jeopardised. [2] This makes clear the massive risk that has resulted from the PIC being Eskom's lender of last resort since 2014 when the PIC began buying Eskom debt in private placements after demand from other buyers dried up. Through the PIC, the GEPF's Eskom long term bond holdings increased from R74bn in 2016 to R84bn in 2017 alone. It would not only be prudent but necessary to highlight the challenges Eskom faces in order to protect GEPF investments and hold the new leadership to account.

The following is taken from a presentation by Anton van Dalsen [legal counsel to the HSF] in response to Eskom's 2018 RCA Applications: Eskom's attitude towards revenue generation and cost management in the past can effectively be summarised as "we are selling less than forecast, but our expenses continue to rise and it is unfortunately the consumer's duty to fill the gap." Furthermore, Eskom's problem has not been confined to cashflow as there is a much

more important issue at stake in Eskom's out-of-date business model. Briefly put, Eskom is faced by a combination of the following:

- an overly aggressive capital expenditure programme, coupled with an inability to avoid major cost overruns and multi-year delays;
- surplus generating capacity increasing each year;
- renewable energy which has by now become much cheaper than the alternatives - and instead of taking a longer term view and studying how renewables can be integrated in an efficient way, Eskom prefers a dismissive attitude;
- a massive increase in borrowing (to finance capital expenditure), together with an interest bill which is certainly higher than originally foreseen, due to Eskom's repeated credit downgrades;
- consumer behaviour, trying to limit electricity usage, but moving away from Eskom altogether, as a result of unpredictable supply over the years, expected further out-of-the-ordinary tariff increases and easily installed alternative energy sources, such as solar panels.

#### THE GEPF'S IRRECONCILABLE REASSURANCE TO MEMBERS AND PENSIONERS

According to GEPLaw a member or pensioner has the right to communicate directly with the GEPF regards any matter that affects him or her personally. Therefore, given the concerns expressed by pensioners, members and others to the HSF around the risks facing the GEPF, and ultimately the security of the pensioner's payouts, we urged pensioners to indeed contact the GEPF directly. But when these and other pensioners approached the Fund and its Trustees with their concerns, no matter how detailed their questions, they were consistently stonewalled with generalised answers. The overriding response from the GEPF has been that members and pensioners need not worry because the pension fund is a defined benefit plan, and as such their pension payments are guaranteed by the employer i.e. the government. So should the Fund become underfunded, the government would step in to fill in the gap. And this is where the paradox lies. If the Fund were to become underfunded, it could well be from defaults on its massive SOE debt holdings – around R165bn according to the latest annual report. So not only will the government be liable to bring the

Fund back to fully-funded status in order to provide pension payouts, it will at the same time be burdened with failing parastatals. Whether Treasury will be able to manage both is a legitimate concern.

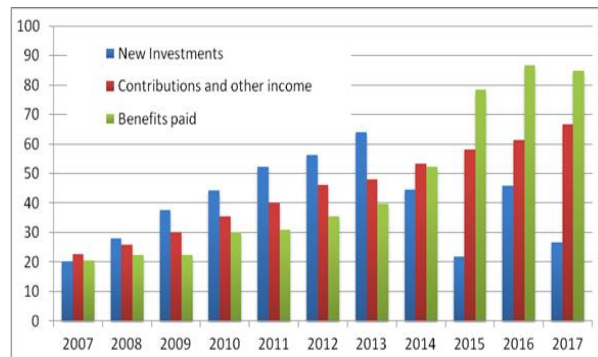
#### TRANSPARENCY AND ACCOUNTABILITY

The major issues around transparency and accountability at the PIC and GEPF were discussed in two HSF briefs published in July and August last year entitled *The Public Investment Corporation and The Government Employees Pension Fund – An Overview and Addressing the Concerns of Government Employee Pension Fund Members and Pensioners*. Here we will sum up developments since then.

In response to the PIC's R5bn one month loan to Eskom in February, major concern was expressed by numerous GEPF stakeholders, most notably the Public Servants Association (PSA). When asked about these concerns, Matjila said "The PIC is accountable to the GEPF directly in terms of the investment mandate signed between the two organisations. The PIC is under no obligation to consult or inform any trade union when it implements the mandate of the GEPF." [3] Subsequently however, according to PSA deputy GM Tahir Maepa, Matjila told the PSA that the PIC was under the impression the GEPF had discussed the issue with the union. Deon Botha as head of corporate affairs for the PIC followed this up with "The PIC apologised to the PSA and committed to improving communication with all stakeholders and clients in future, together with GEPF." [4] These occurrences should come as a surprise given that one of the GEPF board's strategic objectives for the 2017/18 financial year is to improve stakeholder relations. This does not bode well for the other strategic objectives aimed at addressing pitfalls within the GEPF in urgent need of attention, namely improving investment monitoring, better risk management and to make the financial statements more transparent. [5]

In an attempt to strengthen good governance at the PIC, the DA with the backing of Cosatu and other trade unions, submitted a Private Members Bill to parliament in January this year. The Bill proposes six amendments to the Public Investment Corporation Act, most notably:

- Instead of being appointed unilaterally by the Minister of Finance, the chairperson of the PIC is to be appointed by the Minister on the recommendation of the National Assembly and must have the necessary expertise, qualifications and good character as required by the Financial Advisory and Intermediary Services Act;
- The Board of the PIC is to include a representative of registered trade unions whose members form the majority of the members of the GEFP.



[9]

This Bill also calls for an annual report reflecting all investments, whether listed or unlisted.

We submit however that a simple list does not provide the details required to hold the PIC as well as GEFP to account. For example, while GEFP does list its investments in this manner it has still not provided enough information on investments such as the controversial multibillion rand loan made to Iqbal Surve's Independent Media as far back as 2013. And despite this investment having made no returns since, in March this year the PIC made a further R4.3bn investment in Ayo Technology Solutions, a subsidiary of the Sekunjalo Group also headed by Surve. [6] Along the same vein, the PIC too refuses to provide details on the R9.3bn it provided to Lancaster 101 in 2016 as the BEE partner at Steinhoff International. This on top of the R25bn exposure the PIC already had to Steinhoff before the share price capitulated. [7] These unfortunately are only a few of many failed attempts to gain clarity within the GEFP's R86bn portfolio of unlisted equities and direct loans investments.

#### WORRYING GEFP FINANCIAL INDICATORS

Over the last four financial years and for the first time in the Fund's history, three of the Fund's important financial indicators have decoupled; cash flow out of the Fund in the form of benefits paid has exceeded cash inflows from contributions, and new investments made have decreased. [8]

Within the Fund's 2017 Annual Report it was noted that "[T]he fund was making contributions at rates lower than recommended by the [Fund] actuaries" and "The shortfall has an impact in the funding level of the Fund." And while the actuaries did conclude that the Fund currently stands at a minimum funding level of 121.5%, the long-term funding level was at 79.3%, which is below the 100% target. Regards the drop in new investments, nowhere with the 2014/15 or 2016/17 reports was an explanation given. While there may well be legitimate reasons for this, it does beg the question whether this will translate into a decrease in investment returns that'll apply greater pressure to the funded status of the Fund.

#### CONCLUSION

There are hefty challenges that remain within the PIC and GEFP despite the new leadership at the helm of the former. Firstly, given that the PIC and GEFP are the largest investors in many of the SOEs, including Eskom, it is expected that the PIC should apply pressure on the parastatals regards governance and strategy, which in fact it should have been doing years ago. Secondly, both the PIC and GEFP have major room for improvement regards transparency in the investment portfolios as well as improvements in stakeholder communications. Lastly and all importantly, these factors feed into the GEFP's funded status and the security of pensions, with warning signs in the financial indicators of the last four financial years highlighting a need to greater responsibility and vigilance from the Board.

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[8] GEFP Monitoring Group, GEFP Cash Flow Analysis: 2008 to 2017.

### Comment

The HSF is internationally known, well respected and credible. I have removed the notes to shorten the article but left the last note, to indicate the value such an organisation places on the AMAGP. Find it at <https://hsf.org.za/publications/hsf-briefs/the-pic-and-gepf-an-update>

Also the previous two GEPF briefs by the HSF will make interesting reading. The conclusion that the GEPF/PIC should have greater positive influence on the governance of parastatals is worth while remembering.

### Synopsis



Reacting to a report that smeared senior journalists and which was published on the front page of newspapers owned by Independent Newspapers on Friday, the SA National Editors' Forum released a statement.

Sanef, the South African National Editors' Forum, has issued a statement saying that it is "deeply concerned and disgusted" by the labelling of certain prominent South African journalists and editors as "Stratcom" agents in a front-page article published by major Independent Media-owned newspapers on Friday.

The front-page smears of journalists who reported on the attempted listing of Sagarmatha Technologies on the JSE by the owners of Independent Media were accompanied by photographs of them alongside those of masterminds of the apartheid-era vehicle used to spread lies about struggle activists.

The statement said:  
"The South African National Editors' Forum is deeply concerned and disgusted by the labelling of certain prominent South African journalists and editors as 'Stratcom' agents in a front-page article published by all major Independent Media-owned newspapers on Friday. This is the second time in as many weeks that prominent journalists have been called 'Stratcom' agents without any proof being provided by those making the accusations. At issue this time is the unsuccessful listing of Sagarmatha

Technologies on the JSE by the owners of Independent Media," said Sanef.

"Sanef believes to equate this unlawful and corrupt institution with the work of critical journalists, playing their watchdog role in investigating private sector irregularities, is not only defamatory, but disgusting. This is a sad day for South African journalism. The Independent Media group has been a critical part of the media landscape for decades. Some of the finest journalism to come out of this country has been produced by journalists working on titles like The Star, Cape Times and The Mercury."

"The orchestrated way in which all the group's newspapers published this defamatory piece today shows something else at play, which purpose cannot be to serve the public. Sanef will urgently engage our members at Independent Media to convey our deep concern about this unfair episode and gain a better understanding of the issues at play that are seemingly not serving journalism," the statement said.

"Sanef will further write to the Public Investment Corporation, a main shareholder in Independent Media (to the tune of R1-billion in equity stakes, loans and converted debt), to urgently express our deep concerns about the lapse of journalistic principles and standards at this important voice in the media landscape. The PIC invests money on behalf of government employees in projects to grow and strengthen democracy. We believe that labelling *bona fide* journalists 'Stratcom' agents for investigating a private sector transaction fundamentally undermines this purpose.

"Sanef stands in solidarity with editors and journalists within the Independent Group who value editorial independence but are seemingly powerless to stop these stories."

### DM

This Sanef statement was issued by Sanef chairperson Mahlatse Mahlase and Sanef deputy chairperson Katy Katopodis, among other executive members, on Friday 20 April 2018

### Synopsis

## The PIC - Separating fact from fiction

Opinion / 23 April 2018, 09:07am / Adri Senekal De Wet

CAPE TOWN.

<https://www.iol.co.za/business-report/opinion/the-pic-separating-fact-from-fiction-14591866>

Well here I am again, except this time more disgusted and more concerned than ever, at some of my journalist colleagues who work for our competitors, who have thrown all objectivity out the window in their attempts to discredit Dr Iqbal Survé, Independent Media and Sekunjalo. Their target is the PIC, and therefore, I now unpack for readers the reality of the PIC investments and separate fact from fiction.

The PIC has come under scrutiny for its investment, or potential investment, in Independent Media, technology and platform companies Sagarmatha Technologies and AYO Technology Solutions, alongside companies in which Sekunjalo and Dr Survé, as a black entrepreneur, have invested significant risk capital over the last few years.

Let me give credit where credit is due. The PIC has grown its investment portfolio from R600 billion over the last decade, to approximately R2 trillion, putting it among the top asset managers globally. This is phenomenal growth and has resulted in a high return for its investors, including the GEPIF.

The PIC has had some notable successes, for example SAB Miller, Aspen and Naspers but it has also suffered some setbacks such as Steinhoff. The PIC is the largest investor on the JSE with 12,5% (R1.6 trillion) of the market capitalisation of all the companies listed on the JSE (R12 trillion) and one would argue, is the only investor that is capable of investing on a large scale for companies that have ambitious plans to grow on the African continent. Some of those companies that require a capital injection are black-owned.

The PIC has tried to assist black business largely through the private equity unlisted portfolios, but has not really had the opportunity to invest in many listed companies started by black entrepreneurs.

During the 2008 financial crisis, when the JSE stocks tumbled, in many cases it was the PIC that came to the rescue of many of these companies. Recently, with the resources slump, it is again the PIC that came to the rescue. Today, it is vindicated in this approach, in that most of these companies

have recovered the values completely or partially, providing value to shareholders. Why then would the PIC's decision to invest in two black-owned and managed companies instil such hostility and vindictive attitudes? What are the real issues at play here?

It is a fact that the PIC has provided the capital base for many of these companies that are listed on the JSE in the last few decades – pre and post-apartheid. Furthermore, the PIC continues to support many of these companies today, since the PIC with its R1.6trln makes up the bulk of the investments on the JSE and is the single largest investor on the local bourse.

Who has benefited from all of this? Well, in the first instance the PIC and its pension funds. But in the second, it is also an array of individuals, corporate entities, family trusts, and consortia.

I am compelled to ask why it is that when the PIC invests in companies on the JSE that are controlled by white families, individuals, entrepreneurs or corporates, it is okay to talk about the organisation, but when the PIC invests in companies where black entrepreneurs are in the driving seat, or that have black control, ownership and management, the PIC is interrogated and the personalities themselves are targeted and their motives questioned?

This is a fact – the evidence is clear and incontrovertible, played out in the mainstream media many times over, and particularly in the past three weeks.

## - BUSINESS REPORT

### *Comment*

*This is a much shortened version of the article that mainly informs that whites own the businesses in South Africa, were assisted by the PIC to own that, and that it is time the PIC invests in black business, such as Survé's recent attempt at a billion Rand listing on the JSE. The article also discusses at length how journalism in South Africa is still rooted firmly in 25 years ago discrimination, is biased and discriminates against Independent Media and Survé, who, according to Adri Senekal De Wet, is such an awesome person. A lot of talk about white, black, general irrelevant information, anything except the topic, which should be Sagarmatha and AYO. "Separate fact from fiction" she says ... Dear reader,*



accesses the article using the link above, you decide.

## Synopsis



## Survé's listing ship

The intended listing of Sagarmatha Technologies was a mirror image of a deal in which the PIC was used to massively underwrite the Survé fortune.

21 Apr 2018 - Sam Sole and Craig McKune

Friday's extraordinary attack by Independent Media on critics of its executive chair, Dr Iqbal Survé, follows questions amaBhungane sent to Survé on Wednesday about the listing of another company he controls, Ayo Technology Solutions. AmaBhungane raised concerns ahead of the planned listing, principally about the possibility that GEFP money, which is managed by the PIC, would be used to artificially boost the value of Sagarmatha. Now information has emerged suggesting those fears were well founded – including details of an earlier Survé deal involving Ayo Technology, which was propped up with R4.3-billion of government pension fund cash.

### Private placement

Central to both deals was a process known as a private placement, in which an offer of shares is made to selected private investors. Private placements are more risky for investors – they are asked to buy shares without a broad marketplace assessment of how much the shares are really worth – so companies will usually need to offer an attractive discount to private investors.

That's where these two deals were so remarkable – and troubling. Both Sagarmatha and Ayo offered the private placement at what were arguably inflated prices.

### The captive investor

They could do this, seemingly, only because they had a 'captive' investor: the PIC. Ayo had requested the PIC to invest approximately R4.3-billion for 99.8 million shares at R43 per share, which amounted to 29.9% of Ayo, and

all – 100% – of Ayo's planned private placement. No one else but the PIC bought these shares at this price prior to the listing.

### Who owns whom?

Both Ayo and Sagarmatha were effectively controlled by Sekunjalo Investment Holdings, a vehicle for the Survé family trust. For Ayo, the cascade of ownership was as follows.

At the time of the pre-listing private placement offer, 80% of Ayo was held by a company called African Equity Empowerment Investments (AEEI). AEEI also owns Premier Fishing and is listed on the JSE. AEEI also already owned 30% of BT Communications Services SA, the South African arm of British Telecommunications. Take note of that.

Sekunjalo, whose ultimate ownership and control vests in Survé, through his family trust, held 61% of AEEI.

To recap: before the private placement, Sekunjalo held 61% of AEEI, which in turn held 80% of Ayo, which, combining the percentages, gave the Survé family an effective 48.8% interest in Ayo.

### Value for money?

Private placements and listings both usually mean issuing new shares, meaning that existing share ownership is diluted. According to the pre-listing statement for Ayo, the net asset value prior to the restructuring was 15 cents per share, as of August 2017.

In December 2017, the PIC agreed to inject R4.3-billion of GEFP money at R43 per share (for 29% of Ayo). Ayo then also issued 31.96-million shares to a BEE consortium for R1.50 per share, raising another R48-million. The injection of all that cash raised the net asset value from 15 cents per share to R12.47 – an increase of more than 8 000%.

### Iqbal's windfall

Most of that benefit went to the Survé family. Given the issue of new shares to the GEFP and to the BEE consortium, the effective interest of the Survé family in Ayo dropped from 48.8% to 29.9%, however the net asset value of their interest in Ayo rose from about R16-million to R1.3-billion. Yes, that is R1.3-billion.

We put it to both Survé and the PIC that this appeared to be a massive and unjustifiable

enrichment of one family at the expense of government employee pensions. Survé did not respond to questions at all, except through his publications.

The PIC didn't answer specific questions either but noted: "Ayo Technology Solutions is a listed entity and the PIC wishes not to make comments or put into the public domain information that may affect the stock. It is, however, sufficient to point out that the investment in Ayo Technology Solutions, as with all the investments, followed the necessary internal investment approval processes."

### **Unrealistic valuation**

The value to Survé from the PIC investment does not even take into account the unrealistic valuation of R43 per share that the stock trades at – or doesn't, seeing as the share hardly trades at all. The only major movement of the share price since the JSE listing on 8 January 2018 shows how thin the trade in Ayo is. On 26 February, a sale of just 1 139 shares (out of a listed total of 343-million shares) led to a price drop in one day of 43%.

We put it to PIC and Survé that this demonstrated how unrealistic the valuation of R43 per share was. They did not respond.

### **Extracting cash?**

The main rationalisation for the private placement was for Ayo to acquire the 30% stake in the South African arm of British Telecommunications for approximately R1-billion. But, as we have seen, that was already owned by another Survé family-controlled company, AEEI. In effect R1-billion in GEPF cash was used to transfer an asset from one company controlled by the Survé family, AEEI, to another, Ayo.

We put it to the PIC: "We are struggling to understand the benefit to the GEPF of the way in which transaction was structured, given that AEEI itself was listed and the PIC could have accessed these same assets on a significantly cheaper basis via an investment directly in AEEI." This was because AEEI, which owned the 30% of BT and 80% of Ayo, was already trading on the JSE at a much lower price than R43 per share. For example, on 13 December 2017, shortly before the PIC made its decision, AEEI was trading at R5.30 per share.

The PIC did not respond.

We put it to Survé: "We are given to understand that much or all of this R1-billion windfall for AEEI shareholders is likely to be distributed in the form of dividends to AEEI shareholders, of which the Survé family trust, via Sekunjalo Investment Holdings, holds a 61% majority. Please comment."

He did not respond.

### **The PIC's role**

The rest of the GEPF cash is to be used to build the relationship with the British multinational, to buy up other companies and to leverage Ayo's BEE credentials to gain a bigger slice of the South African technology market.

The PIC has given Ayo a massive boost in relation to competitors, such as EOH – so the basis on which the state-owned investor creates winners and losers in the market demands scrutiny. Information emerging from the PIC is not reassuring.

The investment proposal for Ayo was tabled at the last moment: on December 20, the day before the due listing date, creating a risk of undue pressure on the investment committee – although the listing eventually happened only on January 8. Some of the PIC's top brass were on holiday, though the influential PIC chief executive, Dr Dan Matjila, is said to have returned from leave specially to preside over the meeting.

### **Concerns**

Documents from the investment committee meeting, seen by amaBhungane, disclose several concerns about the Ayo deal. The comprehensive due diligence approval process was waived. Assessment team members were concerned that a number of Ayo's board members were closely linked to AEEI and were not truly independent, possibly leading to a conflict of interest.

The tight timeframes to raise R4.3-billion might have forced the PIC to sell shares in other companies to raise the necessary cash, which might have meant getting weaker prices for the shares, especially in low liquidity markets during the holiday period. Nevertheless the investment was approved, subject to the assessment teams performing a complete due diligence and providing feedback to the committee.

Further, the committee clearly had some concern about the validity of the R43 price per share, because it placed another condition, namely that the PIC and Ayo enter into a put option to protect PIC's clients against a share price decline. A put option is a kind of insurance, which, at a cost, ensures that shares can be sold at a fixed price, should the share price drop.

We asked the PIC if these conditions were met. They did not respond.

### **Sagarmatha Technologies**

AmaBhungane has confirmed that the same pressured timetable was followed and the PIC investment committee met on Wednesday 11 April 2018 to decide whether to fund Sagarmatha – just two days before the revised listing date of Friday 13 April. The bid ultimately failed, but once again there are questions about the procedures followed by the PIC.

Sources with knowledge of the 11th hour meeting said that one of the loudest voices lobbying for the PIC to buy an undisclosed stake in Sagarmatha was chief executive Matjila. It is alleged that Matjila went so far as to deliver letters of support from trade unions who stood to benefit from the investment.

### **The PIC's response**

PIC head of corporate affairs Deon Botha told amaBhungane: “The Public Investment Corporation was requested to participate in the private placement of shares in anticipation of the public listing of Sagarmatha Technologies... “Following the deliberations by the Investment Committee, it was decided that the PIC will not participate or invest in Sagarmatha’s private placement...”

“The PIC processes are such that no one individual takes investment decisions. All investments are taken by specific investment committees in line with the approved delegation of authority and due diligence is a key component of the investment process.

### **Indicative commitments**

Sagarmatha was required to secure R3-billion through the private placement of shares by the close of business that Wednesday if it wished to proceed with the listing. In a written statement Sagarmatha said it received “indicative commitments” of more than R4-

billion, “therefore comfortably meeting the minimum listing requirements of the JSE”.

Although Sagarmatha was informed of the JSE’s decision on Tuesday 10 April, it waited a full 24 hours – until after the PIC rejected the investment – in order to make the announcement to the market. Sagarmatha explained the delay, saying it “was hopeful it could resolve this issue with the regulator” and that only when its request was denied did it make the news public.

### **Attack**

On Friday, Independent Media launched an unprecedented co-ordinated attack on fellow journalists in which it complained: “The PIC was unduly pressured by journalists from Tiso Blackstar, *Daily Maverick*, and amaBhungane. The PIC eventually caved in to pressure and declined to invest in Sagarmatha Technologies”.

It claimed to have evidence, without disclosing it, which “pointed to a dirty tricks campaign similar to those employed by Stratcom during the apartheid era to demonise struggle activists like Winnie Madikizela-Mandela – but in this instance, the campaign was aimed at Independent Media and its executive chairman, Dr Iqbal Survé”.

While these unsupported allegations have been condemned by the South African National Editors Forum (Sanef), they are atmospheric and serve to create a platform for Survé to drum up support among any friends he may still have at the PIC.

Whether Sagarmatha will make another run at getting GEPA money, or whether other deals are at stake, is an open question. Watch this space.

-Additional reporting by Susan Comrie  
The amaBhungane Centre for Investigative Journalism produced this story.

### *Synopsis*



## **A response to amaBhungane - AYO Technology Solutions**

23 April 2018

Company says Sam Sole's article contained defamatory, false and inaccurate information

**AYO TECHNOLOGY SOLUTIONS LTD  
VOLUNTARY ANNOUNCEMENT**

AYO Technology Solutions Limited has noted with dismay and serious concern, the media articles that have been published about our company over the past weekend. In particular, we are deeply troubled by the defamatory, false and inaccurate information that was published by amaBhungane in “Surve’s Listing Ship” on 21 April 2018 (the “article”) and then republished by several other media houses, including Business Day – without any opportunity for AYO to respond. In order to inform all stakeholders of the correct factual situation simultaneously, AYO has decided to publish this announcement on SENS as we are on a closed period and this information has significantly impacted our share price. This announcement serves to correct the inaccuracies contained in the article and to reassure all our stakeholders (especially shareholders and customers) that AYO is a proudly black-owned South African ICT company and our dealings with the market have at all times been, and will continue to be, transparent and driven with the highest level of sincerity and integrity.

The following points are critical in correcting the misleading tone of the article:

- 2) AYO’s private placement was oversubscribed by R1 billion. The company elected not to take the rest of the commitments as our acquisition strategy did not require these funds. The suggestion that “no one else but the PIC bought these shares” is therefore grossly misleading.
- 3) The share allocations took cognisance of the need to enhance or at least maintain, AYO’s black empowerment credentials, which is crucial in terms of AYO’s market positioning against its competitors.
- 5) AYO has had no relationship with Sagarmatha Technologies.
- 6) AYO did not need to be “propped up with R4.3 billion”. It is a substantive and profitable business, with significant contracts and market share. It is a credible company with a track record of nearly 20 years in the market place.
- 7) To limit AYO’s “main rationalization for the private placement” as being the British Telecoms SA (“BTSA”) transaction is factually incorrect. AYO had detailed a list of acquisitions that it intends on concluding,

including the BTSA transaction. Details of all transactions will be announced in accordance with the JSE Listings Requirements.

8) AYO has been fully and consistently transparent in all its dealings, including the contents of our PLS with regards to our plans post listing. Our dealings with the PIC have been equally transparent. We have followed all PIC processes to attract its investment in our company.

9) With regards the trading of our shares, the article alleges that the “only major movement” of our share price since the listing led to a price drop of 43% from 1 139 shares on 26 February 2018. Firstly, the drop on that day was 39%. Secondly, the share price recovered by 39% on the very next day. Thirdly, a nature of this drop is quite obviously due to a lack of liquidity in the share and any suggestion that a one-day drop is evidence of an “unrealistic valuation” would be factually contradicted by the fact that in excess of 97 065 shares have traded post 26th of February 2018, with an average closing price of approximately R40 per share.

AYO remains committed to transforming an industry that is in dire need of transformation and is determined to make a real difference in the sector and to meet the objectives as set out in our PLS. Unfortunately, the recent media inaccuracies only delay these plans.

We call upon the media to be fair in their reporting with regards to AYO, our listing and our value proposition to the market. This factually incorrect article has already been incredibly damaging for our shareholders, customers and the many men and women who work at AYO and our subsidiaries.

On behalf of the board. Cape Town  
23 April 2018

*Issued through the JSE SENS Service, 23 April 2018*

*Comment*

*AYO is going to transform the industry? What does that mean? Let’s hope so.*

*Track record? It is a bit convoluted to follow.*

*The trades totalling about 100 000 shares out of an issued 1,32 million seem impressive.*

*That much share movement should have a significant influence on share price; makes you wonder who were involved.*

*It might be worth your time to do an internet search of AYO and see what you really can find for peace of mind. [The Ayo release has been shortened, thus the points aren’t in number order.]*



Last Monday, Ayo Technology Solutions issued a Stock Exchange News Service (SENS) announcement in response to amaBhungane's article published over the weekend, Survé's listing ship. The company complained about "defamatory, false and inaccurate information". It listed 14 points of complaint.

Ayo stated, among other things, that its private placement of shares ahead of listing on the Johannesburg Stock Exchange (JSE) was oversubscribed by R1-billion. It had sought to raise R4.3-billion, but claims to have received commitments of R5.3-billion. Ayo noted: "The company elected not to take the rest of the commitments as our acquisition strategy did not require these funds. The suggestion [by amaBhungane] that 'no one else but the PIC bought these shares' is therefore grossly misleading."

The PIC subscribed to the entire parcel of shares on offer at R43 per share (totalling R4.3-billion) – a decision and a price that amaBhungane questioned in the original article. But Ayo's complaints alerted amaBhungane to contradictions around the timing of the private placement. Now further scrutiny suggests Ayo told investors it had the PIC investment in the bag even before the PIC had taken such a decision.

AmaBhungane has had sight of a range of documents confirming that the PIC held a "special portfolio management committee" meeting on Wednesday, 20 December 2017, at 13:30. According to the minutes this meeting was to request the committee to

"approve the waiving of the due diligence approval process" and "approve for the PIC to participate in Ayo's private share placement ahead of its planned listing on the JSE on 21 December 2017".

But two days before the PIC meeting, on 18 December 2017, Ayo issued a SENS announcement boasting: "Ayo Technology received irrevocable commitments from invited investors to subscribe for shares in Ayo Technology to the value of R5.3-billion, well in excess of the R4.3-billion sought to be raised in terms of the private placement. The amount sought to be raised in the private placement will not be increased and successful invited investors will be advised of their allocations today, 18 December 2017."

So while the PIC had not yet made a decision to invest, Ayo claimed "irrevocable commitments" of R5.3-billion.

We put it to Ayo chief executive Kevin Hardy that if the amount claimed on 18 December included the R4.3-billion requested from the PIC, it may amount to a serious misrepresentation as on the face of it the PIC had not yet decided to invest. The other interpretation, equally serious, was that someone at the PIC had already delivered an "irrevocable commitment" to Ayo before the PIC committee had even considered the matter.

We asked both Ayo and the PIC to explain which of these two possibilities was correct, or to provide an alternative explanation.

The PIC did not respond.

Ayo's Hardy responded: "I again refer you to our SENS announcement which addresses the fact that we have followed and complied with all JSE regulatory processes which have informed all of our announcements." We replied to Hardy, saying: "With due respect, you have not answered the question. Did you have an irrevocable commitment from the PIC on December 18? Yes or no?"

He did not respond.

We asked the JSE whether this was something they would investigate. Andre Visser, the JSE's manager for issuer regulation, replied: "The JSE has taken note of this and will engage the company and its

sponsor to get the facts before deciding what action is required.”

Our statement that “no one else but the PIC bought these shares” appears to be factually correct, but was it misleading? That depends on whether there was ever a serious intention to attract other investors. According to the Ayo prelisting statement, the private placement opened on 13 December and closed on 15 December. In an internal PIC memo seen by amaBhungane, dated 14 December, the PIC was clearly under the impression that it had been asked to commit to taking up the entire private placement.

Often when share issues are oversubscribed, they will be issued in pro-rata proportion to all subscribers meaning everyone gets slightly less than they asked for. But Ayo said in its recent SENS release: “The share allocations took cognisance of the need to enhance or at least maintain, AYO’s black empowerment credentials, which is crucial in terms of AYO’s market positioning against its competitors.”

It is not clear how they could assess this on 18 December, when the PIC, which qualifies as an empowerment investor, had not made a formal decision. It also suggests there were no black investors among the R1-billion worth of claimed extra subscription. Ayo also pointed out that it had listed on 21 December 2017 and not on 8 January 2018 as we reported.

We apologise for the error. Our date was erroneously based on an online article from *Business Report*. But the fact that the listing actually went ahead on 21 December makes the situation worse, because the PIC investment committee only sat on the afternoon of 20 December, the day before the listing, meaning it evidently made its decision under great pressure.

This also means that it is extremely unlikely that any of the conditions set by the committee were met before the PIC acquired the shares. These included that:

- The PIC and Ayo enter into a put option, a kind of insurance, to protect the PIC’s clients, South African state pensioners, against a share price decline;
- The PIC teams perform a complete due diligence and provide feedback to the investment committee;

- Ayo implement a conflict of interest policy; and
- The appointment of independent non-executive directors to the board of Ayo.

Neither the PIC nor Ayo answered questions about whether these conditions had been implemented since the listing.

But the PIC too was alert to the possible conflicts of the common indirect shareholder – the Survé family trust via Sekunjalo Investment Holdings. A report prepared for the Ayo deal by the PIC risk team highlighted the influence of Sekunjalo in both Independent and African Equity Empowerment Investments (AEEI), which held 80% of Ayo prior to the private placement. “AEEI and Independent News Media South Africa (INMSA) had a common major shareholder, namely Sekunjalo Investment Holdings (Sekunjalo). Sekunjalo is an investment company to which the PIC has exposure through INMSA (Project Iris). There should be no linkage between the proceeds from the IPO [the private placement] and Project Iris.”



The amaBhungane Centre for Investigative Journalism produced this story. Like it? Be an amaB supporter and help us do more. Know more? Send us a tip-off.

#### *Comment*

*There you have it, the two sides of how our Fund’s funds are being used for investment, in this case rebuttal, followed by further exposé, followed by rebuttal, followed by rebuttal, etc. Silence from the PIC and Survé/AYO to most questions, which of course causes even more suspicion and concern. Irrespective what you believe or think, there are consequences looming for the Fund.*

*On the other hand, private placements, IPO, listing on the JSE and related matters are not that simple and independent experts might have a different view. My layman’s knowledge questions the massive difference between the actual cost of the listing and*

*actual value of the "to be listed" company. And the process the PIC followed to take up the AYO listing.*

*Interesting the PIC documents amaBhungane has seen; it would seem the PIC is under pressure internally too.*

## **The GEPF AMAGP: Invitation**

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

Soos meeste van ons staatsdiens pensioenarisse, ontvang u, u pensioen gereeld maandeliks en is en is waarskynlik baie afhanklik daarvan. Agv die swak toestand van regering in die RSA, die aantreklikheid en omvang van ons Fonds en algemene staatskaping, ontstaan die vraag egter hoe volhoubaar dit is. Gebaseer op informasie tot ons beskikking, is ons by die AMAGP van mening dat daar wel gevare is en dat ons, die aandeelhouders van die pensioenfonds, dringend hieraan aandag moet gee. Ignorering hiervan kan lei tot 'n soortgelyke situasie as dit waarin Spoorweg pensioenarisse hulle tans bevind. Om die rede versoek ons dat u ons ondersteun. Sluit aan by die AMAGP, 'n vrywillige organisasie, bestaande uit staatsdiens werknemers en pensioenarisse, met die doel om ons Fonds te beskerm.

Contact any one of the following:

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## **FACEBOOK GROUP**

[GEPF Moniteringsgroep]

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

## **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 the GEPF funding progressed 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.
4. The financial woes of ESKOM, SAA and other SOE [PETROSA, PRASA, Transnet, etc] feature largely, making looting the GEPF very attractive. Think of the billions required for the nuclear power dreams the [doomed to overruns and massive losses].
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](mailto:editorgepfmg@gmail.co.za)