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

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

www.amagp.co.za

GEPF
your investment, your future

NEWSLETTER NO 9 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

There are a few small pieces in this newsletter, such as Gordhan's progress with the SOE, a court challenge to trustees of funds, and African Bank. The rest are all about the PIC. Some positive but the rest looks like horror stories come true.

PIC. Ever in the news about what it did and didn't do, and then undelightfully very vague about why it did or didn't. Some new information to really make your fears come alive. The wheeling and dealing that did take place, is still taking place and was/is intended to take place to bleed Fund money into private pockets are incredible in scope.

Surprise, no news about Survé but don't despair, I'm sure we will see him in the news again this year.

Good news, African Bank seems to be making a credible comeback.

See the last two pages for an advertisement for amaBhungane discussion forum. I know it has come and gone but it is worthwhile for you to see what you too can be involved in and with.

Editor

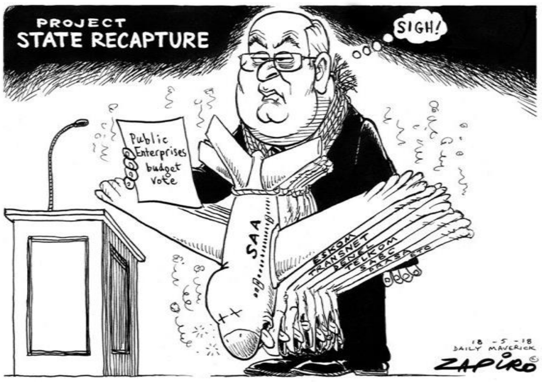
NEWS NEWS NEWS

Synopsis

A return to ethical governance – Gordhan cleans out three more SOEs.

CAPE TOWN — What Pravin Gordhan is doing to State-Owned-Enterprises is not merely a clean out; it's a wholesale purge, giving us some inkling of just what Judge Raymond Zondo's State Capture enquiry will eventually reveal. Chris Bateman

Statement by the Minister of Public Enterprises, Minister Pravin Gordhan, on the Appointment of Eskom Group Chief Executive, Transnet Board, SA Express Board and Denel Board



Pravin's Project. More of Zapiro's brilliant work available at www.zapiro.com.

Opening remarks

When he came into office, President Ramaphosa was very clear that we need to clean up SOE and reposition them to serve South Africa. As important public institutions, SOE that are effectively managed, efficiently performing and well-governed can play a role as an extension of the capacity of the state:

- Delivering important public services that enable economic activity and improve the quality of the lives of our people including the provision of reliable and affordable electricity; increases transport logistics connectivity that ensures cost effective and reliable movement of goods;
- Investing in infrastructure to reduce the cost-structure in the economy so that other economic players become more efficient and competitive;
- Supporting and growing small and medium size businesses;
- Transforming the patterns of ownership in the economy by directing their procurement spend to black-owned businesses; and
- Providing jobs, training and skills development.

Currently, a number of the SOE are experiencing financial, operational and governance challenges. This has negative spillover implications for the economy, as it means these important companies are unable to contribute to advancing development.

The poor performance of these companies was a result of deep and widespread corruption and maladministration within the SOE. This continued unabated at these companies until a few months ago. We are intent on reversing this situation.

The President has outlined the key steps to be taken to address the problems at the SOE. The steps include:

- Rebuilding and strengthening governance;
- Rooting out corruption;
- Restoring their financial position; and
- Ensuring that state owned enterprises fulfil their economic and developmental mandates**.**

As the Minister of Public Enterprises I have been doing just that. Today is day 97 of the President's term in office and my 86th day in office. Even in this short time significant progress has been made. We have begun to implement the steps that will start to restore good governance to our SOE.

Today I would like to announce further steps that have been taken to ensure that there are capable and ethical boards and competent management with high levels of integrity at the State Owned enterprises. This is a key foundation for turning around the fortunes of these companies.


Chris Bateman 24 may 2018

Comment
The rest of the statement details the changes in management in these SOE and isn't included. The information is freely available if you wish to be really up to date. However, his opening remarks are sufficient to show where he is heading. Improvement seems to have started already.
Also, we probably are going to see court cases where those who have been replaced/fired/redeployed/etc will do their utmost to keep their mismanaged positions.

Synopsis

ALLAN GREENBLO: Can former trustees be held liable?

When personal liability kicks in, the consequences for trustees of retirement funds can be dire.

24 May 2018 Allan Greenblo

Picture: 123RF/FLYNT

In a trial that goes before the south Gauteng high court next week, four erstwhile trustees of the IF pension and provident funds will be hoping for relief from a determination by the pension funds adjudicator that they be held personally liable for R17m in expenses which the funds had incurred. The adjudicator is not party to the litigation.

Should judgment go against the former trustees, each of them would be exposed to pay more than R4m from their own pockets. Plus costs of the litigation. Plus legal expenses in the protracted run-up. Whichever way the court decides, the warnings for existing and aspirant trustees are stark.

The two IF funds are umbrella arrangements for a few dozen participating employers and several hundred employees. The former trustees — Gail le Grellier, Renier Botha, David Lepar and Carel Smith (the "IF Four") — seek an order to set aside the adjudicator's 2013 determination.

Her declaration was that the IF Four had managed the funds improperly, causing them financial loss, and directed that they personally pay the funds for the database rebuild they'd commissioned. The IF Four want the complaint to the adjudicator — by various employers who contend that the rebuild should not have been paid from deductions in the members' share of funds — to be reheard afresh.

The cost of the rebuild was R18.2m. This is what the IF Four would have to pay, jointly and severally, minus R1m that had been paid in settlement (without admission of liability) by Tony Kamionsky of Dynamique (the predecessor to Aon as the fund's administrator).

According to the IF Four's heads of argument, they had been advised by Aon (appointed in 2008 to take over from Dynamique) that the funds' membership data was inaccurate. Having received two quotes, they appointed accountancy firm Deloitte to rebuild the records.

The trustees resolved that the costs of the rebuild be paid by a levy of roughly 2.5% against the funds' assets. Participating employers proceeded to complain to the adjudicator against the levy's imposition.

The IF Four were not accused of themselves having maladministered the funds. Rather, the complaint was that they, as trustees, were responsible for the actions of then administrator Dynamique. To the extent that Dynamique had maladministered the funds, the IF Four were responsible either vicariously or because they had failed to exercise proper oversight.

However, it's argued in their heads, the IF Four were appointed long after the funds' inception in 2004. It was only during their later tenure that they became aware of the funds' financials not having been audited. And only once Dynamique had been replaced by Aon did it become clear that the funds' data "lacked integrity" and was "unreliable".

The IF Four cannot be held accountable for the unreliability as if they were its cause, they say. The unreliability did not arise when they became trustees but had its origins when the funds were incorporated. At the time, none of the IF Four was a trustee.

The complaint does not suggest how or when the IF Four should have acted: "If the end result is the same, then the complainants cannot be said to complain about having suffered any prejudice as a result of (the IF Four's) alleged failure properly to oversee Dynamique's administration of the IF funds."

For example, Le Grellier took office in November 2006. Ought she immediately to have discovered the maladministration by Dynamique? If so, what should she have done? Should she immediately have terminated Dynamique's administration in

2007 and, if so, what would the new administrator do on its appointment? Would it have immediately drawn her attention to its inability to finalise the financial statements, because of the membership data's unreliability, or would this have taken some time to discover?

Irrespective of whether the discovery was immediate or later, it's argued that the rebuild exercise was "necessary, prudent and inevitable". The issues that the IF Four want decided are whether:

• They ought to be held personally liable for the maladministration by Dynamique and Kamionsky;

• Their decision to treat the costs of the rebuild as a special expense to the funds was a proper exercise of their powers as trustees; and

• The costs of the rebuild ought to have been recovered from the professional indemnity (PI) insurance cover held in respect of the trustees and the funds.

When the rebuild was done, it's suggested in the heads, there was no claim and no loss suffered by the funds. Further, the PI policies excluded liability relating to "any claim/loss arising in any way from the issues raised by the auditors following their audit for the year ended February 28 2006".

These issues concerned the data's unreliability and the material weaknesses in the funds' records. They stemmed from a time prior to the appointments of the IF Four and ultimately led to the necessity for a rebuild. Moreover, the argument runs, Aon had failed to pay the PI premiums for the year to end-July 2011. But even if the premiums were paid, the insurers had advised that they would have elected to void the policy due to Kamionsky's misrepresentation and nondisclosure.

Clearly, the principles awaiting decision are not confined to a single dispute. They have wide application to the proper exercise of trustees' fiduciary duties.

• *Allan Greenblo is editorial director of Today's Trustee (www.totrust.co.za), a quarterly magazine mainly for the principal officers and trustees of retirement funds.*

Comment

It is eminently worthwhile to read Allen Greenblo's periodical. There is much applicable to our present situation with the Fund, more than we think.

This case has been reported in the newsletter and has taken some time in reaching the courts. The case emphasises the due diligence and accountability of trustees, together with the remuneration for being a trustee. Whatever the decision, the Fund's trustees should each be presented with a copy of the eventual court judgement to remind them of their accountability.

Synopsis

LEGAL ACTION

Sygnia backs Deminor Recovery Services suit against Steinhoff

28 May 2018 Hanna Ziady

Picture: FINANCIAL MAIL

Sygnia plans to join the class action to be instituted by Deminor Recovery Services against Steinhoff, after it lost R316m on the stock's collapse. Sygnia is the third South African-based asset manager to announce legal action against Steinhoff. The PIC and Coronation, which lost about R17bn and R14bn respectively on the retailer's collapse will also pursue lawsuits against the group.

Deminor's lawsuit is not mentioned in the "litigation and claims update" contained in Steinhoff's most recent presentation to lenders. Class actions that are mentioned include those being brought by the Dutch Investors' Association (VEB) and German law firm TILP. VEB has told Business Day that "a significant group of South African parties have already joined our class action and we are in talks with many more".

A representative of TILP told CNBC Africa in April that about 800 investors, including retail and institutional investors from SA and

abroad, had joined its class action. It had calculated R7.3bn in claims at the time.
ziadyh@bdlive.co.za

Comment
The losses are real just as the fall in share price is real. However, keep in mind that such investment is usually medium to long term, and as/if the share price improves the losses also become smaller. By the time the court proceedings start only the lawyers will have made money.
Sygnia is a listed South African company.
Deminor is a European company, ia specialising in recovery of losses resulting from misconduct.

Synopsis

Situation at VBS Bank much worse than we thought, says SARB's Kuben Naidoo

May 29 2018 **Sibongile Khumalo**

Kuben Naidoo, Reserve Bank deputy governor, told a media briefing on Tuesday the financial situation of VBS was "much worse than we thought". He said at the briefing on the release of the Bank Supervision Department annual report that the SARB had put in place very tough measures to protect the depositors' interests. "We have applied a forensic investigation to assess whether there are cases of fraud in the bank. That investigation is still underway."

He said this was likely to take two or three months more. "It is our intention to continue with the curatorship." According to Naidoo, there was still a probability that the bank could be saved, but that probability was slightly lower.

"We are working towards trying to save the bank, whether we are able to save the bank will depend on whether we are able to recover sufficient funds to pay back depositors, and where the bank is a viable business model, with systems in place to sustain the bank."

"[For] now we are trying to investigate whether there was fraud in the bank, whether there were factitious deposits and loans to related parties that were not disclosed to the regulator," Naidoo added.

Comment
Interesting the efforts to 'save' the bank. This probably has more to do with saving municipalities' funds so unwisely invested. Unwisely? Would it be amiss to expect due diligence from the municipalities in investing millions? Or is there truth in the allegations of soft loans, commission, etc being part of the VBS investment strategy?

VALUATION QUESTIONED

PIC board plans to examine controversial Ayo investment

The public controversy and possible reputational risk of the Ayo transaction caused considerable consternation among the PIC board.

29 May 2018 Carol Paton

Picture: ISTOCK

The PIC paid R4,3bn to take up the full initial public offering of Ayo Technology in December 2017. The PIC says its board plans to examine the transaction in the light of the controversy it has stirred. The decision to fund Ayo did not come before the board at the time of the decision as it was within the delegated authority of management to deliberate on the matter.

"Negative media reports" had caused some members of the board to request that the board investment committee examine the transaction at its next meeting, PIC spokesman Deon Botha said on Monday. "The investment committee wants to ensure that all investment processes were followed and also ensure that the delegation of authority deals with matters like these in the correct way, in line with best practice."

Particularly controversial has been the PIC's valuation of Ayo. At the end of August 2017, financial statements show that it had total assets of R292m and a book value of R67m. For its R4,3bn (a valuation of R43 a share) the PIC got 29% of Ayo, implying a valuation of R14,8bn.

The PIC management committees have substantial delegated authority and can approve transactions in listed companies up to R10bn and investments of up to R2bn in unlisted companies. All initial private offerings are dealt with as listed investments.

The public controversy and possible reputational risk of the Ayo transaction caused considerable consternation among the PIC board. As a result, it is also revisiting management's delegated authority, in particular in the case of politically sensitive or controversial investments.

The PIC has also been on the unfavourable end of press coverage after it emerged that the police were probing allegations of corruption by its CEO, Dan Matjila. The board dismissed the allegations on the strength of Matjila's explanation and an internal audit report. However, as the matter was reported to the police at the time, the police have continued to investigate.

On Monday, United Democratic Movement leader Bantu Holomisa entered the fray, writing to Finance Minister Nhlanhla Nene to demand that he investigate the claims and place Matjila on suspension. Nene has requested PIC chairman Mondli Gungubele to furnish him with a report on the 2017 allegations and deliberations.

Holomisa's lawyer, Eric Mabuza, said that should Nene not comply, Holomisa would approach the courts.
patonc@businesslive.co.za

Comment
Bit late for the PIC to start following internal procedures isn't it? Glad to see the PIC board is consternated and will undoubtedly play a more direct role in future large investments.

Synopsis
BOARDROOM TAILS
by Ann Crotty
The PIC is providing funds to well-connected individuals who fritter them away on dismal investments
@ anncrotty

How PIC funds are squandered.

The corporation has been a terrible disappointment. In hindsight Barloworld's 2007 AGM may have been the high point of the PIC's relatively new role as an active investor. A fiery Brian Molefe let it be known before that dramatic meeting that he would be going head to head with one of the grand old institutions of SA business. Since his transfer from national treasury in 2003 Molefe had shown determination to use the PIC's considerable financial muscle to transform the business community.

While transformation was probably the single most compelling of the PIC's missions, corporate governance was also high on its list. Perhaps because it was willing to take a public stand on transformation and executive remuneration and drive initiatives such as the code for responsible investing in SA, the PIC escaped close interrogation of questionable deals.

Funding the politically connected Elephant Consortium's acquisition of a valuable stake in Telkom in 2004 should have sparked greater outrage.

A year after the Barloworld drama, the PIC launched one of the most significant corporate governance initiatives SA has seen, publishing on a quarterly basis details of its voting at shareholder meetings. Other major institutional investors were cowed into providing the same disclosure.

For almost 100 years, state employee pension funds had been excluded from investing in equities. After little more than a decade, the PIC looked set to be a force for positive change in this multibillion-rand market.

What a disappointment it has proven to be. That the most recent voting results available are for the quarter to March 2017 is symptomatic of part of what went wrong. On corporate governance there appears no capacity or even willingness to follow through on the early promise.

Of much greater concern is that instead of the substantive transformation SA needs, the PIC has succumbed to the politically pragmatic strategy of providing funds to well-connected individuals who invariably fritter them away on dismal investments.

Sadly the inflation of financial asset prices and the growth in government employees has sheltered the PIC from the full consequences of its value destroying investment decisions. With an investment kitty of nearly R2 trillion, it has been able to distort the effective functioning of the market for the benefit of a few cronies.

Not unlike the previous regime.

Comment
I look forward to Ann Crotty's next instalment when she hopefully will inform us about the "well-connected individuals". Somehow I doubt there will be many surprises.

New amendments to ensure transparency of PIC investments

29 May 2018 Lameez Omarjee

Cape Town – The National Assembly has passed a legislative proposal for amendments to the Public Investment Corporation Act to promote transparency and good governance at the investment manager.

The bill was brought before the National Assembly by the SCOF on Tuesday. SCOF member and ANC MP Thandi Tobias explained that the amendments ensure that no "conspicuous" investments can be hidden, as the PIC will be required to table before Parliament the listed and unlisted investments through its annual report.

The bill also provides for labour unions to have a say in the investment of workers' money by having three labour representatives on the PIC board.

Tobias also took aim at another version of the bill proposed by DA MP David Maynier in January 2018 as a private member's bill. She called it a "smokescreen" to represent the interests of business at the expense of the working class.

Maynier objected to the bill, calling it a "carbon copy" of his private member's bill. He said the bill proposed by the ANC was aimed at neutralising his bill to fend off any political advantage that may flow from the private member's bill. "What a pity when a good idea is neutralised when it comes from an opposition party in South Africa," he remarked.

EFF MP Nazier Paulsen pledged his party's support for the amendment bill. "The issue of transparency at the PIC is non-negotiable," he said. He also said those on the board should be "fit and proper" and have an understanding of the investment space to perform the duties of the PIC.

IFP MP Mkhuleko Hlengwa jumped in on the debate about the "author" of the bill. He said it is more important to get a qualitative bill as an end result, and that Maynier's ideas should be considered. "Ultimately it is important to have transparency at the PIC and good governance at end of day. The PIC is a strategic vehicle for the SA economy."

Comment
It is a well-known political tactic to take the opposition's activities and make it your own, thereby taking away the oppositions standpoint. Let's see what the amendment looks like when it eventually reaches the statute books, and implemented even later. Before the end of next year hopefully?

Synopsis

amaBhungane proposal for full disclosure of PIC investments not feasible, say MPs

31/05/2018 Lameez Omarjee

Cape Town – A "radical" proposal for the disclosure of minutes of meetings relating to investment decisions taken by the PIC to strengthen the asset manager's transparency was not well received by MPs. The proposal by non-profit company amaBhungane was made at a public hearing on amendments for the Public Investment Corporation Act of 2004 on Thursday.

Stefaans Brümmer appeared before the SCOF on behalf of amaBhungane. He highlighted significant public interest in the PIC, the biggest single investor in the economy which oversees investments of the GEPF. “We want to make a radical proposal to extend disclosure – not just the actual investments that should be disclosed, but the process by which investment decisions are taken."

Brümmer called for a provision similar to the Promotion of Access to Information Act process to have access to investment decision minutes. Brümmer said in the case of commercial confidentiality the PIC could redact (withhold) information, but if there is an overriding public interest it should be disclosed. If records are already publicly available, the information cannot be refused either.

Concerning market sensitivity, Brümmer said a prescribed period should pass after an investment has been made so that markets cannot be “distorted”.

Market economy

SCOF chair Yunus Carrim argued that this won't work in a market economy. “I do not believe that what you are asking for is doable in the current context of a market economy. You are asking for minutes of investment decisions - on that you do not have a case,” said Carrim. However, he said that this does not mean the PIC should not be accountable, adding that matters relating to questionable investments are to be discussed next Tuesday

EFF MP Floyd Shivambu argued that the PIC makes it possible for black South Africans to participate in the economy, and that it is being unfairly targeted. To this Brümmer responded that more transparency would not take away power from executives, competent managers or prevent BEE. It will simply ensure that members of the public, who are the ultimate stakeholders, have access to the process. “Transparency is not an antidote to empowerment. Transparency is an antidote to corruption and abuse of power,” said Brümmer.

PIC in competition

CEO Dan Matjila also put forward the PIC’s position on disclosure. He explained that like any other asset manager, the PIC is regulated by the FSB. The difference is that private asset managers are privately owned, while the PIC is owned by the state. “We are regulated by the FAIS Act,” he said. This means the PIC cannot simply disclose client portfolios. The client has to give the PIC permission to do that, once they are satisfied with valuations and once the financial reports are prepared. “We can’t publish at random,” he said.

He added that the PIC is prepared to publish information, but because of the nature of this information, it must be managed in a way that won't create anxiety. Matjila said that the JSE also has a register with shareholdings of different entities in stocks listed on the exchange.

Comment
A lot of talk with no result yet. However, the intention is for the decision-making process to be transparent as well as instituting accountability for the decision. This recommendation seems to be too close to making MPs accountable for them to easily accept the recommendation.
Regulated by the FSB?
The amaBhungane submission should be available from amaBhungane directly, and no, I‘m not going to condense its 41 pages without their permission. In any case it is way too interesting just to read a condensed version.

Synopsis

UDM ultimatum to Nene: Suspend PIC CEO Dan Matjila or else

May 29 2018 12:51
Tehillah Niselow

Nhlanhla Nene is the minister of finance. (Picture: Gallo Getty Images

The United Democratic Movement (UDM) has given Finance Minister Nhlanhla Nene until Thursday to suspend PIC CEO Dan Matjila pending an investigation, or face legal action. "Come Thursday, if he doesn't suspend him, we will meet in court…he must go and defend Matjila in court," UDM leader Bantu Holomisa told Fin24 by phone.

The UDM in a letter to Nene on Monday said he should be removed from the organisation as his presence at the helm of the public pensions giant could intimidate witnesses and prejudice the investigation.

Nene wrote to the PIC Chairperson and Deputy Minister of Finance Mondli Gungubele last week, requesting information relating to allegations in September 2017 that Matjila channelled funds to his girlfriend. At the time, the PIC's internal audit division and the board concluded that the allegations were baseless and Matjila was cleared of wrongdoing.

It remains unclear why Nene wants the probe to be re-opened and the UDM believes the board should not be part of the new request for information as members have previously expressed their full confidence in him. Holomisa said the UDM is acting on this issue as part of its anti-corruption stance.

However, public sector unions disagree with the UDM's demand for Matjila's immediate suspension. The PSA General Manager, Ivan Fredericks said prima facie evidence of wrongdoing should first be found, before placing anyone on special leave and asked why the investigation into Matjila is being renewed.

Mugwena Maluleke on behalf of the seven public sector affiliates within Cosatu also questioned why Matjila is being investigated again after he was cleared by the board. "We find it very strange that they want to politicise it," said Maluleke.

The fresh interest in Matjila's actions come as the R2trn asset manager is under increased scrutiny for its investments.

Deon Botha, Head of Corporate Affairs at PIC, said in an emailed response to Fin24 that the allegations contained in the UDM letter to Nene were dealt with by the PIC Board in September 2017. "The Board fully applied its mind to the report presented by Internal Audit and confirms its satisfaction with the report. The Board has concluded that the allegations were baseless, and that Dr Matjila is cleared of any wrongdoing.

"Dr Daniel Matjila emphatically denies the allegations made against him. As CEO for the PIC, Dr Matjila carries out his fiduciary responsibilities with great diligence and care," said Botha. Botha also said the Board is co-operating with Nene and all the reports and other documentation requested have been submitted to him by Gungubele.

Comment
It seems some people are doomed to have their history repeated. Let's see if the PIC board's acceptance of its CEO's explanation will be supported by independent investigation. The same board that approved the Ayo transaction.

PIC executives purged as more deals questioned

Apr 29 2018 **Dewald van Rensburg**

City Press

The PIC has fired its executive head of risk for "incompetence" and suspended other senior officials, seemingly in relation to media leaks and allegations against CEO Dan Matjila. At the same time, more apparently ill-conceived PIC deals are coming to light – costing the corporation's clients billions of rands.

City Press has learnt that the PIC's head of risk was fired last week, after having been placed on suspension in March. The charge against him was incompetence, a senior source in the PIC told City Press. According to the source, he had, among other things, produced sub-par paperwork and did not foresee the implosion of VBS Mutual Bank, in which the PIC is a shareholder.

City Press has been reliably informed that PIC company secretary Bongani Mathebula, executive head for IT Vuyokazi Menye, and one other senior person in the IT department have also been suspended. None of the executives were willing to speak to City Press. The heads of risk and IT and Mathebula were all targets of an internal "information security" investigation, personally led by Matjila, last year.

At least three more top PIC executives were also targeted in the investigation that seemingly relates to a breach in the corporation's email system.

City Press has seen a letter, signed by Matjila in October last year, asking email management company Mimecast's Cape Town office to make available the email of the six executives. "PIC is in the process of conducting an information security forensic investigation as commissioned by our board of directors," Matjila wrote. He asks for the email servers of the six executives for the period July 1 to October 20 2017.

The timing of this investigation seems related to a widely reported story at the time about the PIC providing R21 million in funding to a company linked to a woman said to be Matjila's girlfriend. In September last year, the PIC board accepted Matjila's explanations about the deal and then tasked him with investigating the source of the allegations against himself.

DRAMA

The senior PIC source told City Press that the email of top executives were retrieved to find the source of the alleged hoax emails containing allegations against Matjila and PIC chief financial officer Matshepo More. Apparently, someone with access to the PIC's address list was circulating these allegations through the organisation from a "kiosk in Joburg".

There have been dramatic internal ructions at the corporation with allegations of corruption and counter-allegations of state capture. Depending on who you ask, the PIC is either under siege from the forces of state capture who want to get rid of Matjila, or Matjila has become a dictator running the corporation like his personal fiefdom and unduly favouring a particular network of borrowers.

Matjila is both the CEO and chief investment officer of the PIC, which makes him an incredibly powerful figure, not only in the corporation, but in the South African capital market. The source in the PIC claimed that talk about getting rid of Matjila started in government circles immediately after Zuma appointed Malusi Gigaba as finance minister in a Cabinet reshuffle last year.

HOW TO BLOW R1.8 BILLION

The PIC has already lost R1.8 billion of the R4.3 billion it ploughed into Ayo Technology Solutions in December. Had the deal been carried out with additional protections that PIC officials suggested at the time, this loss could have been significantly limited.

City Press revealed in March how the PIC fully underwrote a private placement by Ayo, despite warnings from PIC staff that Ayo had "very optimistic" ideas about its own prospects. City Press reported how members of the PIC's own investment committee believed the Ayo shares were overpriced and demanded that the corporation get protection against a possible collapse in the share price.

This was meant to take the form of a put option – a contract that would guarantee that the PIC could sell its Ayo shares at a predetermined price. That price would not be the full R43 it paid for each Ayo share, but it would set a floor that limits how much money can be lost.

Despite this being part of the conditions of the deal, the PIC told City Press at the end of March that the put option was not yet in place. PIC spokesperson Deon Botha, however, told City Press at the time that the put option would be concluded and was imminent. The PIC has not answered subsequent requests for clarity on the matter.

Ayo shares this week crashed 40% to R25 each, meaning the PIC has lost R1.8 billion on the deal, unless the share price recovers. Ayo shares have been very illiquid, meaning they only trade in small volumes and very infrequently. Only about R12 million in trades have taken place since December, on a company allegedly worth almost R15 billion.

Comment
The PIC doesn't seem to comply with normal due diligence although it professes to do so. Six months for the put option that was part of the original sale in December 2017? I wonder if the PIC is dragging its feet in an effort to try and find a way out of the dilemma?

Synopsis

PIC acquires power plant

Apr 13 2018 **Ntaoleng Lechela**

Johannesburg - The Competition Tribunal has given the PIC the green light to acquire control of a solar energy supplier on behalf of the GEPF.

Solar panel. (Duncan Alfreds, News24)

The PIC said it has "non-controlling interests in a number of independent power producers (IPPs) supplying solar power to the Eskom national grid". The solar energy supplier CPV Power Plant No 1 Bond SPV (RF) Limited is a special purpose vehicle owned by German company Solitec Solar. This announcement comes after Minister of Energy Jeff Radebe signed a R56bn contract with 27 independent renewable energy power producers.

The PIC said Equity SPV is "a special purpose vehicle established for the purpose of designing, developing, constructing and operating a solar energy plant in Touwsrivier, Western Cape".

PIC said Touwsrivier Solar was established as a result of the Department of Energy's renewable energy independent power procurement programme. "Touwsrivier Solar uses third generation concentrated photovoltaic technology and it is the only one of its kind in Africa," PIC said.

Comment
Seems a good investment but who from the PIC/GEPF is going to exercise the control? Where does Touwsrivier Solar/Equity SPV/Solitec Solar fit in? Just after the Minister of Energy signed a multibillion energy contract? Or am I being overly suspicious?

Synopsis
SA INVESTING
With spanking new, solid financial base, African Bank's challenge shifts to rebuilding trust.

By Alec Hogg

In an investment world which pays too much attention to "quarteritis", it's unusual to come across a business which requests its financial progress be judged on a Five Year Plan.

Given African Bank's history, few would deny it such leniency. And on that basis, results for the half year end March 2018 released today will delight those who bailed out an organisation which less than four years ago was on the brink of disaster.

The solid base being built at the SA financial sector's phoenix should also encourage sceptical retail savers to take another look at highly attractive interest rates (up to 10.5%pa) available from a name most will remember for its existential crisis.

On a broader scale, while it's still very early days, today's African Bank looks to be progressing rather smoothly towards its goal of returning to its position as a leading player in the country's buoyant secured lending sector. As African Bank only emerged from curatorship in April 2016, this set of financials is the very first where numbers can be directly compared on a like-for-like basis.

Bottom line growth is strong at over 40% in all the main profit measures in the bank. Although off a low base, scale-wise there's also nothing shabby about group operating profit of over R700m for the six months, the bulk of which comes from insurance operation Guardrisk and a successful partnership with MMI.

It's notable, too, that after significant pruning, the active client base is now 1.1m. More importantly, over 13 000 retail depositors have entrusted R680m at an average of R52 000 per deposit – growth of 90% on end September 2017.

While profitability is critical, the focus is on executing a strategy which will make African bank sustainable.

Progress on this front is sure to please international bondholders who are owed billions in debt. And delight the SA Reserve Bank (50%), the PIC (25%) and SA's top six banks (25%) which own the company after injecting R10bn in equity required to bail out a lender whose collapse threatened South Africa's banking system.

Strategy scorecard

		TARGET 2021	H1 2017	FY	H1 2018	TREND	COMMENT
FINANCIAL TARGETS	Return on equity (RoE)	>15%	6.7%	9.0%	9.6%	Up	Improved as a result of higher Net interest income (NII) and insurance earnings, lower impairment charge, offset by higher foreign exchange (FX) and equity capital
	Credit loss ratio	< 13%	13.2%	12.7%	11.1%	Down	Lower credit risk appetite resulting in better quality business
	Non-interest revenue	> R300 million	< R1 million	R19 million	R14 million	Up	Increasing volumes of funeral insurance policies
	Funding diversification	> 25%	<1%	2%	3%	Up	Gaining traction on retail deposits. Transactional banking will assist
CUSTOMER TARGETS	Grow our customer base	> 2.5 million	1.25 million	1.16 million	1.10 million	Down	Further risk pull back and decreasing customer credit appetite has reduced customer numbers by 60 000 (relative to that at 30 September 2017)
	Net Promoter Score	>40	15	35	36	Up	Customer centricity programme introduced
PEOPLE TARGETS	People engagement survey score	>40%	43%	48%	48%		Maintained high engagement score

This is the first set of figures presented by the new CEO and former COO Basani Maluleke, a lawyer with an MBA (Kellogg) who was previously at RMB. Maluleke was groomed for the top job since joining African Bank in 2015 and recently took over from interim CEO Brian Riley (ex MD of Wesbank). Top retail banker Louis von Zeuner (ex Absa) is now the chairman.

Maluleke says her focus is to take African Bank back to "relevance" by 2021.

Partly because of a conservative lending policy (loans granted rose a modest 9% in the half year), bad debt write-offs, at 11.1%, are already below the 2021 target of a maximum of 13%.

On a line through these numbers, the other two big challenges for Maluleke and her team are to diversify both the revenue and funding base.

Non-interest revenue of R14m for the six months is a long way from the targeted R300m a year by FY2021. And with only 3% of the funding base from retail depositors, the goal of 25% three years hence looks even further away.

The new CEO is confident it's not too great a stretch.

Its MyWorld digital platform is in the practical test phase having been launched to African Bank staffers. A pleasing 53% of the staff are active customers (1 862 accounts). Maluleke says their usage shows there is "significant appetite" for the phone/web/call-centre product. This augurs well for future takeup from its million plus clients. African Bank expects the downsizing and revamping of its branch network will help. But its big bet, much like that by UK challenger banks, is on driving transactional revenue through the new digital initiative.

Growing the funding provided by retail deposits is perhaps a greater challenge. Market-topping interest rates do help. But the bigger task is to convince a sceptical public the new African Bank is a very different animal to the old. Because in banking, trust is the most valuable commodity by far.

These results will send a message that the phoenix is now in rude financial health. Successfully executing on its Five Year Plan, though, will require an equally successful approach to the softer stuff. Thus far, the portents are good.

Alec Hogg 29 May 2018

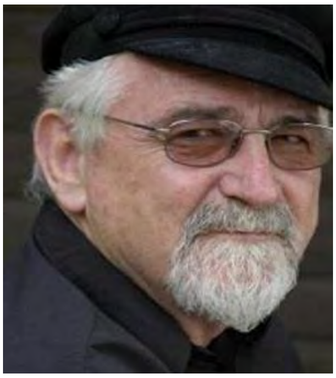
Comment
Not all doom is indeed gloom. African Bank seems set on regaining its status and should be a good investment once more. It still has to maintain its present growth and reconfirm its credibility but the Fund's 'loss' might just not be such a big loss stil.
Goes to show that appointing competent qualified people and not redeploying cadre can turn losses around.

Synopsis

OPINION: Too much murk in dealings by the PIC

27 May 2018

City Press



Terry Bell

Are Cosatu-affiliated trade union investment companies, under the umbrella of Cosatu Investments, in line to be helped by the PIC to a R15 billion debt-funded share deal? Or is this merely wishful thinking on the part of the unions? Or perhaps an elaborate hoax?

These are all valid questions in the light of documents I have seen that relate to the formation of a Rothe Consortium set up to purchase Vodacom shares. Internet searches unearthed no reference to such a consortium, but a 16-slide PowerPoint presentation, apparently produced by Cosatu Investments, does exist. I have a copy.

It says the debt-funded deal "has been prearranged between the PIC, which manages the Government Employees' Pension Fund of nearly R2 trillion, and Vodacom". Details of a possible "BEE discount" would be agreed "by the incumbent seller and the incoming consortium".

The JSE and other authorities are likely to take a rather jaundiced view if such collusion is shown to exist. And they would regard the claim that the transaction is "in line with the strategic projects that Vodacom wants to implement with a specific BEE shareholder profile" in much the same light. Although neither the PIC nor Cosatu responded to emailed requests for clarification, Vodacom replied promptly, noting that share dealings between buyers and sellers did not involve Vodacom. The company had also not heard of the Rothe Consortium.

The Rothe slides show the consortium comprises five partners, headed by Cosatu Investments with a 60% share. Private company Phatsima Afrika Holdings has 26%, followed by union-based Workers Health with 20%, Architects of Democracy 10% with the remaining 4% going to the Rothe Youth Development Trust.

Workers Health, controlled through the Tshedza Trust, is the majority-owned investment vehicle for the National Education, Health and Allied Workers' Union. As with Cosatu Investments, also controlled via a trust, it lists a variety of investments ranging from financial services to infrastructure and housing. Significantly, given allegations about too cosy a relationship between Cosatu unions and government, Workers Health admits on the slides to employing "conventional investment principles but align (sic) to government policy and directive".

Phatsima Afrika Holding, first registered as a private company in 2002, seems to have begun a deregistering process which was stopped in 2011. It is described as a "100% black-owned and managed investment holding company" that is "driven by professionals with diverse skill sets".

Although Architects of Democracy is listed in the Rothe slides as (Pty) Ltd, it does not seem to be a registered company. The slides show Architects is the "investment vehicle for former pre-independence presidents of the ANC (from president Dube to president Tambo)". Beneficiaries are "foundations and family trusts of these stalwarts ... established to restore and uphold the legacy of these leaders".

The Rothe Youth Development Trust is described as a nonprofit "trust for public benefit" aimed at "black young people up to age 25". Income would be channelled into education and training "aligned with the country's NDP [National Development Plan]".

The PowerPoint presentation seems to have been prepared to show the advantages of such a consortium linking a Cosatu-based "labour investment company" to the GEPF and the PIC. Word of this should increase fears already expressed by public sector workers about their pension money.

Some explanation is necessary. As the PSA has already noted, there is too much murk surrounding dealings by the PIC. The union has now given the PIC until month end to come clean or face court action.

Comment
The PIC decision-making process clearly isn't; it seems to be there for the show and all real decisions are made elsewhere.

Denel stands naked on the battleground – PIC battalion called up

CAPE TOWN — Denel was once a thriving, proud producer of world-class weapons and munitions, with combative and/or threatened countries beating down its door to get their hands on long range artillery pieces or cleverly designed armoured patrol and mine-resistant vehicles. Today, thanks to sustained jiggery-pokery during the Zuptoid years and mismanagement before and after, Denel, together with Armscor, SafAir, Eskom, the SABC and several other SOEs are being bailed out to the tune of billions – just to keep going. The IMF estimates that the total debt of the SOEs would add 13.5% to our overall national debt. Mismanagement and corruption at Denel required a government guarantee of R850 million this last December, simply to pay salaries and suppliers. Since then it's got worse. Yet again the PIC comes to the rescue, risking the retirement savings of an estimated 2.1 million civil servants. We're a nation of burgeoning pen-pushing bureaucrats funding still-dodgy state enterprises. Nice work if you can get it – just a pity about the long-term financial security of civil servants. – Chris Bateman

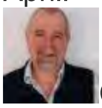
By Colleen Goko
(Bloomberg) South Africa's state-owned arms manufacturer Denel SOC Ltd. has a multi-billion rand debt problem and no plan as yet on how to tackle it. Denel has R2.34 billion ($186 million) of bonds maturing in September, a tough ask for a company in the midst of a liquidity crisis. The Pretoria-based company, beset by allegations of mismanagement and corruption, required a government guarantee of R850 million in December to raise money to pay salaries and its suppliers.

The company said it's talking with the National Treasury and hoped to have a plan in place by the end of June to deal with its debt obligations. They would also "attempt to develop long-term solutions to the current liquidity challenges," Vuyelwa Qinga, group executive for communication and public affairs, said in an emailed response to questions.

Denel paid about R30 million in coupons due on two of the bonds on Monday and would meet other interest payments still outstanding, Qinga said.

The majority of Denel's debt is held by the PIC, which oversees about R2 trillion of state employees' retirement savings. Those benefits are guaranteed by the government and in the case of lower-than-projected investment returns, taxpayers ultimately have to fund the shortfall.

Public Enterprises Minister Pravin Gordhan appointed a new board for Denel in April.


Chris Bateman 5 june 2018

Comment
How much of the 13.5% national debt is held by our Fund do you think? In the form of loans, bridging capital, investment, bonds, shareholding, etc?

Opinion
PIC has an obligation to SA's taxpayers to act responsibly
6 June 2018 Magda Wierzycka

PIC - TIME TO BLOW THE COBWEBS AWAY

I loved a recent article I read that referred to the PIC as South Africa's piggy bank. And a piggy bank it has been (for some). It is the largest investor on the JSE and hence most companies tremble when faced with the financial might of R2 trillion in deployable assets. So do asset managers dependent on mandates allocated by the PIC. However, rumours of unsound deals have circulated for years. First, there were the billion-rand loans made to then politically-connected individuals to purchase stakes in companies. Then came loans granted to private companies to prop them up, even when they were insolvent. The PIC was also one of the largest shareholders in Steinhoff. Apart from direct investments, they lent Lancaster 101 Pty Ltd over R8 billion to invest in the company. There is also the questionable investment in the Bophelo Insurance Group, where its associated Bophelo Benefit Services and Beneficiary Fund were placed under curatorship over R255 million in missing assets and in the VBS Mutual Bank which operated illegally. More recently came the support for dubious listings, where the stakes made no valuation sense and where billions have already been lost. There are also appointments which do not benefit South Africa, such as the use of a foreign bank for all of the PIC's scrip lending activities, and an offshore passive manager where domestic alternatives are available and, if used, would result in tax on management fees accruing to the South African fiscus.

And then there are the rumours; rumours of a certain individual based in London who acts as a rent-seeker when companies want to raise money from the PIC on listing, and specific nominated stockbrokers who must be used. Perhaps those are just rumours, but each rumour and each unsound investment deserves proper review.

The PIC is not an ordinary asset manager. It is an asset manager appointed by the trustees of the GEPF. The issues at stake affect both public servants and each and every taxpayer. The GEPF is one of the last remaining defined benefit pension funds in the country. Everyone who retires from the public sector does so with a guaranteed pension. That guarantee is provided by the government, and hence, by definition, by you and me. Given that each taxpayer is affected and that SARS is desperately scrambling to fill its coffers, the time has come to start asking more questions.

I disagree with the GEPF's argument regarding confidentiality - we the taxpayers have the right to know how the money is invested as we stand behind those investments. The money at stake amount to billions, billions we badly need for solid investments with a proper risk and return profile such as infrastructure spend, renewable energy programmes, viable job creation schemes and many more "unlisted" investments which could make a dent in the poverty trap of South Africa. Instead the money is frittered away on ridiculous listings and loans that benefit a chosen few at the expense of the many. By the way, for those arguing for confidentiality, the PIC's shareholdings in listed companies are already publicly available via Computershare.

Now is the time for the honourable people working at the PIC to come forward and disclose what they know. I, unfortunately, place little reliance on the companies that have benefitted, to act with honour. The winds of change are blowing the cobwebs away. The Minister of Finance has taken a personal interest in the PIC. So too have other political parties. In the absence of the required tax revenues, all taps of financial leakage have to be closed off. One cannot help but get a sense that the PIC tap is pouring, rather than dripping, money.

https://www.businesslive.co.za/bd/opinion/columnists/2018-06-06-magda-wierzycka-pic-has-an-obligation-to-sas-taxpayers-to-act-responsibly/

Comment
New and interesting information such as the use of a foreign bank, an off shore passive manager with the understated income tax implications for PIC managers... I like the rumours bit; allows me to expect further revelations in due course. It will be exciting to see the reaction to this opinion article; I hope for demands for proof, leading to more revelations, but expect fearful silence to prevent any such proof being produced.

The GEPF AMAGP: Invitation

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

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

Contact any one of the following:

Hennie Roux
hennie@nostalgie.co.za

At Fourie
atfourieee15@gmail.com

Alan Luck
armyrenewal@vodamail.co.za

Errol Massey-Hicks
errolhicks@gmail.com

FACEBOOK GROUP

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

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

Semper Vigilans!

CONCLUSION

To ponder on…

Dear Reader,

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

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

3. Although until recently [about 2013] the GEPF 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. As SC recedes other dangers threaten our Fund, such as the non-performing SOE and bankrupt municipalities.

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

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

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

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Centre for Investigative Journalism

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SA has an accountability gap.
The journalists at amaBhungane dig the dirt to hold power to account.
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#amaBTownHall highlights

Building vigilance in a new era

Moderator: Sithembile Mbete

Panelists: Ismail Momoniat, DDG of National Treasury | Deputy Editor of Business Day, Carol Paton | Dr. Mbongiseni Buthelezi from the Public Affairs Research Institute | amaBhungane managing partner Sam Sole |

If you want to watch the #amaBTownHall discussion click here.

Sam Sole

Right now we have a second chance, but the situation we are in — and I think it hasn't been conveyed by politicians, by the government, by people from treasury or by the media — is as bad as it was in the 90s. We are as vulnerable as we were then. Zuma and the Guptas took us to the brink and they are still pushing us towards the edge. We were on the way to becoming Venezuela …

What we need now is triage: We need to save what can be saved. We have to prevent further damage and we have kill the virus with whatever we've got and those are the emergency measures.

We don't seem to understand how close to the brink we got ... if David Mabuza hadn't switched sides, Cyril (Ramaphosa) would have lost the (ANC) election. This is a guy (Mabuza) who saved the day, a very fraught hero with a lot of baggage.

Until December it was impossible to get anyone from inside the system to say 'Mr Zuma was a terrible president'. We need to become bolder at all levels.

An example is the Vrede Dairy Project. We did Vrede years ago and we knew there was a treasury investigation as a result of the first stories we did with the *Mail & Guardian*. We approached treasury to say talk to us. They refused to talk to us. What did they do? They produced a report and sent it to Ace (Magashule). What did they think was going to happen?

Carol Paton

Cyril Ramaphosa has to practically rebuild every single area of government. Some of the hard decisions will include job cuts ... re-balancing public finances. Getting them back on track is critical. The challenge now is to (deal with) the economic issues.

Ismail Momoniat

You can see how divided our society is. There is a helluva lot more to do. We need to look at it and understand why things got so bad on the one hand. We do have a second chance, but we somehow need to rebuild the state which has vanished.

We do need to think about the role of the state, and SOEs which are among our biggest fiscal risks. We are moving away from the brink, but we need fiscal space. We have lost that fiscal buffer we might have had. One needs to go into this entity by entity, not take an ideological view of SOEs.

The current State Capture commission of inquiry actually has a very narrow mandate. It is only looking at issues that the Public Protector brought out. It isn't going to look at municipal corruption, or even Transnet unless they are covered in Thuli Madonsela's report. How do we actually find the mechanisms and the resources to deal with it? This is something we do need to apply ourselves to.

But whilst we're taking our time in figuring this out there is a strong fightback campaign taking place. The president very narrowly won as you know, and there is a fightback taking place… There is real resistance to change. It is important just to understand what a tight spot we're in, it is going to be a challenge which is why it requires all hands on deck.

Sithembile Mbete

The media needs to probe the private sector and civil society cannot relax or demobilise.

Sam Sole

In terms of role of the media, I am incredibly proud of what my colleagues and Carol and people have achieved over the last few years. What I don't think that people out there realise is that thin line of ink, those people holding the line, how few there are (of us). And again there are structural problems: The advertising model for funding journalism is broken. We need to re-engage ... the user-pay model is not going to pay for accountability — for us to address the deep inequalities.

Dr Mbongiseni Buthelezi

Let me start with the private sector. In the 12 to 18 months leading up to the ANC conference in December, one of the things we saw was various organisations bringing people out onto the streets to say enough is enough. Those were in most cases civil society actions but in some cases they partnered with sections of the private sector. What we saw a lot of was the BLSA (Black Leadership SA) making a lot of noise about how business had failed to be vigilant which is partly why we ended up in the mess we are in.

Behind the scenes there were conversations about the private sector raising funding, releasing that funding to fund civil society to do its work. Not that business would dictate how civil society should do its work. There were huge pledges made. But when December happened ... all of those pledges simply vanished and of the millions and millions of rand that had been pledged only R5-milion was ultimately donated. One of the questions needs to be, what is the role of business in society and what is the role of business particularly to funding civil society to remain vigilant?

We must not allow 'Ramaphoria' to demobilise civil society.