



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 GEFP and sustainability of its return on investments.

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

f GEFP Watchdog - Waghond



## NEWSLETTER NO 2 of 2019

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

*"The GEFP now has R1,8 trillion assets under management, up 8,3% (R1,7 trillion) from 2017. There are 1 273 125 active members, and 450 322 pensioners and beneficiaries."* Moneyweb, 10 December 2018

### The Editor's Word

The GEFP Annual Report is part of the news below, with the media sitting up and taking note of what the AMAGP is doing and saying. It goes together with the start of the Mpati inquiry; already the uncomfortable revelations are multiplying.

Some news of Surve's time running out. The heat is on and the clock is ticking. I'm afraid the ROI on the investments in Surve's empire may eventually only be visible to Surve. Creative bookkeeping can stave off the creditors only so long.

There are some odd and ends: what happened to Japan's pension fund, what is a pension fund, the ANC's manifesto scare.

Editor

## NEWS NEWS NEWS

*Synopsis*

### Latest victim of 2018's stock rout is Japan's Government Pension Fund

Keiko Ujikane and Shigeki Nozawa  
Bloomberg 1 February 2019



Representative Image (Photo courtesy: Wikipedia)

The world's largest pension fund may have incurred a record loss after a global equity rout last quarter pummeled an asset class that made up about half of its investments.

Total assets at Japan's Government Pension Investment Fund may have dropped to \$1.43 trillion as at the end of December, according to calculations by Yohei Iwao of the institutional equities division at Morgan

Stanley MUFG Securities Co. in Tokyo. That would be a record decline of about 14 trillion yen from the end of September.

While stocks helped the GPIF generate returns for the previous two fiscal years, December's global rout underscored the risks facing the fund since it revamped strategy in 2014 to accumulate stocks and pare domestic bonds. The GPIF may have little choice, but to invest in equities as fixed-income yields, especially those of Japanese government debt, are too low, said Naoki Fujiwara, chief fund manager at Shinkin Asset Management Co. in Tokyo.

"It makes a sense for the GPIF to hold some risk assets in this environment because yields are low globally and bond investments don't give good returns," Fujiwara said. "Yet from a pensioner's point of view, it takes too much risk on its investments."

More than \$10 trillion in equity value was wiped out from the global markets last quarter as an ongoing trade spat between the US and China raised concern over a slowdown in growth.

The GPIF probably had a loss of 7.7 trillion yen in domestic stocks and a decline of 6.6 trillion yen in overseas shares in the period, the Nikkei newspaper reported on 16 Jan, citing an analyst estimate by Nomura Securities Co.

Shingo Ide at NLI Research Institute in Tokyo points out that the GPIF's long-term performance is more important than quarterly moves. Stock investments helped the fund generate returns for eight of the past nine quarters, pushing assets to record highs.

"There's no need to be pessimistic just because the GPIF would incur losses on its investments on a quarterly basis," Ide said. "For pension funds, it's more important to focus on how they secure long-term returns rather than their quarterly performance."

Still, with about half of its assets in domestic and foreign equities, the GPIF's performance may be in danger of declining as concerns about the US-China trade war and the U.K.'s departure from the European Union increase the risk of a global economic slowdown.

*Comment*

*It isn't just the GEPF that has financial challenges, other pension funds are much larger and have more to lose. But such investment must be valued over the longer term, this scare is short term, their basis still seems sound.*

*Synopsis*

## **ANC prescription talk makes fund managers, public service unions nervous**

Jan 19 2019

Khulekani Magubane, Fin24

**fin24**



ANC leader Cyril Ramaphosa addresses delegates during the closing of the party's elective conference in Johannesburg. (Themba Hadebe, AP)

The ANC election manifesto commitment to investigating prescription on pension funds has financial institutions and public service unions nervous that the party is looking to use pension funds to feed Eskom and other troubled entities.

The Public Servants Association has been locked in a stare-down with Eskom and other state institutions over the idea of bailing Eskom out of its financial troubles by using pension funds for the better part of a year.

PSA general manager Ivan Fredericks said the union's management would soon have a meeting with the Federation of Unions of South Africa where the matter of public servants' pensions would be on the agenda.

"The ANC is mentioning that they will approach the GEPF to use public service money from the pension to assist the country's economy. We do not want to make assumptions of what they want to do before these bodies are approached formally," said Fredericks.

Fredericks said the PSA had not backed off from its demand that a public servants representative seat be created in the board of the PIC to ensure that public servants and their pensions are protected.

Ashburton Investment's head of fixed income portfolio management Albert Botha told the 702 Money Show's host Bruce Whitfield on Monday that giving financial access to troubled entities despite their plight would only serve to delay the inevitable rather than solve the problem.

"If you give mis-priced money to the SOE that are struggling, you reduce the policing function and capital function of the financial markets. The market signs that they are unhappy with the management of these entities doesn't occur. So, the interest rate on Eskom bond never rises because it has excess funds available to it at all times," said Botha.

Botha said prescribed assets interfered with the capital allocation function of markets, distorting asset prices and allocating capital to organisations that may not necessarily deserve the amount of capital that prescription give them access to.

#### *Comment*

*We love large organisations participating in ensuring the sustainability of the GEPP. The lone voice has slowly morphed into the beginning of a choir, commissions of inquiry, and ever more decision makers participating, especially if they are Fund members or have family who are.*

#### *Synopsis*

### **BUSINESS**

## **Not on to use pensions to bail out state**

Lynley Donnelly 18 Jan 2019

### **M&G**



Raiding pension coffers will do little to save embattled SOE or public projects experts say, after plans were announced in the ANC's election manifesto to investigate the introduction of prescribed assets on financial institutions' funds "for investments in social and economic development".

But according to the head of the ANC's economic transformation committee, Enoch Godongwana, it is "incorrect to link this debate to the SOE at the moment. The ANC is having serious discussion on restructuring the SOE."

The proposal of prescribed assets is related to funding infrastructure, he says. "The decision is to investigate whether they can be useful in the current environment."

According to Leon Campher, Association for Savings and Investment South Africa (Asisa) chief executive, prescribed assets refers to the state forcing the savings industry to buy bonds issued by the government and SOEs, as was the case during apartheid. "It did not work when introduced by the apartheid government and Asisa and its members maintain that it would have negative effects on the country should it be introduced now."

Asisa represents, among others, the country's asset managers, collective investment scheme management companies and life insurance companies. The industry together manages R7.8-trillion of the country's savings.

The debate about prescribed assets comes at a time when the state-owned asset manager, the PIC faces a commission of inquiry because of a series of recent investments.

The GEPP refused to comment on the ANC's manifesto proposal because it has not been approached about the matter.

Public sector trade unions such as the Public Servants' Association, which is affiliated to the Federation of Unions of South Africa, have in the past threatened to take to the streets if their pension funds are used to prop up ailing parastatals. The ANC's tripartite alliance partner Cosatu is "walking a fine line" on the matter, its parliamentary co-ordinator, Matthew Parks, says.

Prescribed assets would be pension funds, whether private or the GEPP, he says, and



Cosatu's number one mandate is to get a healthy, above-inflation return for its members, the workers. "It's not petty cash," he says, adding that Cosatu has locked horns with the government in the past because of the government's belief that it can use the PIC to bail out SOEs bankrupted by corruption.

But, he says, Cosatu supports developmental investments to grow the country's infrastructure and economy, although Eskom's problems have complicated this. If the utility was to collapse, it would hit not only Eskom workers but others too, and particularly if it brought down the economy, he says.

#### *Comment*

*Locked horns he says? We would like to see some evidence of this please.*

#### *Synopsis*

### **RETIREMENT PENSIONS**

Pension Plan

Reviewed By [Julia Kagan](#)

## **What is a Pension Plan**

A pension plan is a retirement plan that requires an employer to make contributions into a pool of funds set aside for a worker's future benefit. The pool of funds is invested on the employee's behalf, and the earnings on the investments generate income to the worker upon retirement.

In addition to an employer's required contributions, some pension plans have a voluntary investment component. A pension plan may allow a worker to contribute part of his current income from wages into an investment plan to help fund retirement. The employer may also match a portion of the worker's annual contributions, up to a specific percentage or monetary amount.

### **Breaking Down a Pension Plan**

There are two main types of pension plans.

In a **defined-benefit** plan, the employer guarantees that the employee receives a definite amount of benefit upon retirement, regardless of the performance of the underlying investment pool. The employer is liable for a specific flow of pension payments to the retiree (the amount is determined by a formula, usually based on earnings and years

of service), and if the assets in the pension plan are not sufficient to pay the benefits, the company is liable for the remainder of the payment.

In a **defined-contribution** plan, the employer makes specific plan contributions for the worker, usually matching to varying degrees the contributions made by the employees. The final benefit received by the employee depends on the plan's investment performance: The company's liability to pay a specific benefit ends when the contributions are made. Because this is much less expensive than the traditional pension, when the company is on the hook for whatever the fund can't generate, a growing number of private companies are moving to this type of plan and ending defined-benefit plans.

In common parlance, "pension plan" often means the more traditional defined-benefit plan, with a set payout, funded and controlled entirely by the employer.

Some companies offer both types of plans.

There is another variation, the pay-as-you-go pension plan. Set up by the employer, these tend to be wholly funded by the employee, who can opt for salary deductions or lump sum contributions.

<https://www.investopedia.com/terms/p/pensionplan.asp>

#### *Comment*

*General information. It should be easy to understand the difference between pension plans from this explanation.*

#### *Synopsis*

### **BUSINESS**

#### **M&G**

## **PIC inquiry gets underway with nuts and bolts of investment decisions**

**[Tebogo Tshwane](#) 21 Jan 2019**



David Harrison/M&G

The commission of inquiry into allegations of impropriety regarding the PIC began on Monday as senior staffers took the inquiry through the structure and investment processes of the corporation.

The Commission is headed by former Supreme Court of Appeal president, Justice Lex Mpati, with assistance from the former Reserve Bank governor Gill Marcus and expert investment and asset manager Emmanuel Lediga. They were appointed by the President to investigate allegations of improper conduct in the investment of the state pension funds, as well as the potential flouting of governance rules.

First on the stand was Wilma Louw, the PIC's acting secretary who explained to Justice Mpati the different structures and reporting lines within the PIC, the legislation under which it falls and the rules regarding governance at the corporation.

Key aspects of her testimony which chief evidence leader advocate Jannie Lubbe said would be returned to at a later stage, include policies concerning conflicts of interest of key representatives; stalled changes to the PIC's memorandum of incorporation by former finance minister Malusi Gigaba and questions regarding the production of the minutes of Board meetings.

Louw said the PIC had stringent measures for dealing with actual, potential and perceived conflicts of interests. These required members to provide frequent and comprehensive disclosures of potential conflicts. Where a conflict of interest had been identified relating to directors, full disclosure must be made timeously through the company secretary to the Board, she said.

At the beginning of every financial year, directors are also required to provide a duly completed conflict of interest form. "In

addition to the annual declarations where there is a chance within their position in the PIC or their personal circumstances directors are required to disclose in writing any relevant, new or additional information about those interests as soon as possible," said Louw.

The disclosure of declarations of interests also took place at every Board meeting. Where a conflict came up the relevant Board director or attendee would have to recuse himself.

The executive head of impact investment, Roy Rajdhar, outlined the different levels of commercial, technical, financial and legal due diligence that the PIC underwent before investing in projects. Impact investments are investments that are not measured solely on profits, but have social or environmental benefits or goals. Rajdhar said the process would take from three months to one year, depending on the nature of the project.

Typically in a year, Radjhar said only 10% of the applications were approved. "In terms of the number of transactions we would do in a year I think between the private equity and impact investments there would be between 10 and 20 transactions concluded" he explained.

Rajdhar said that although he did not have the figures, he estimated the impairment rate on the investments to be about 10%.

Asked by Lubbe if he was aware of any impropriety by directors or employees of the PIC who had leveraged their positions in the asset manager for their own benefit, Rajdhar said: "No, I am not aware of any such impropriety".

## **INQUIRY: DAY TWO PIC announces 'blatant' violations in R4.3-billion investment in Survé-controlled Ayo Technology**

By Greg Nicolson 22 January 2019  
Fidelis Madavo at the PIC Commission of Inquiry

The PIC announced on Tuesday — day 2 of the inquiry — that it had found major flaws in

its controversial R4,3-billion investment in Iqbal Survé-controlled Ayo Technology Solutions, leading to the suspension of two employees after a preliminary investigation revealed its processes had been violated.

The second day of the Commission of Inquiry into the PIC began in Pretoria on Tuesday with an announcement that executive head of listed investments Fidelis Madavo had been suspended on Monday evening. Madavo was due to testify at the inquiry on Tuesday.

In a statement, the PIC said its Board decided on Monday to suspend Madavo and assistant portfolio manager Victor Seanie after receiving its preliminary report into the Ayo investment. "The preliminary report clearly reflects a blatant flouting of governance and approval processes of the PIC. Employees of the PIC have also been implicated in these irregularities," read the PIC statement.

Inquiry evidence leader Advocate Jannie Lubbe SC slammed the PIC, which manages over R2-trillion in assets, mostly on behalf of the GEPF. "I put on record that I find it strange and alarming that the PIC Board is running a parallel investigation into matters covered in particular by the terms of reference of this commission," Lubbe told the inquiry.

He called the PIC's investigation "totally improper" and said the inquiry may need to call its Board chairperson, Deputy Finance Minister Mondli Gungubele, to explain.

The PIC invested R4.3-billion in Ayo Technology, controlled by controversial media owner Iqbal Survé, in December 2017, which led to widespread criticism that it had vastly overpaid for shares in the IT company.

The board decided to examine the transaction following questions in the media but officials continued to defend the investment. "The bottom line was that we felt and the team felt that we could invest and we did invest," Modavo, the suspended PIC executive head of listed investments, told the inquiry Tuesday on the decision to back Ayo.

He said the PIC CEO would normally approve such a decision to invest but according to minutes he was not present at the committee meeting and the Ayo deal was approved by the PIC CFO, Matshepo More,

who also serves as acting CEO after Dan Matjila resigned in November.

Commissioners at the PIC inquiry wanted to question Modavo further on the Ayo investment but he had not prepared to be quizzed on the matter. Lubbe said the inquiry's forensics team had completed 80% of its investigation into the deal and would discuss it at a later stage.

The inquiry's public hearings will continue in Pretoria until Wednesday before opening again between 28 and 30 January. **DM**

#### *Comment*

*Agreed with the evidence leader, suspend a leading witness the evening before he is due to testify? Makes a suspicious situation even more so.*

#### *Synopsis*

### **Night sweats in the dysfunctional dream of Sekunjalo**

[21st January 2019](#) by [Chris Bateman](#)

*CAPE TOWN — As if more evidence were needed that the Sekunjalo media empire is premised on a "cash gifts-for-political allegiance" ANC/PIC deal, veteran journalist Ed Herbst brings together a convincing amalgam of recent reports and high-level findings to question why nobody's yet been held to account. Perhaps the Mpati Commission of Inquiry into the PIC will do just that – if it doesn't, then somebody's been smoking their shoes – highly unlikely given the records of Herbst and those of the stellar fellow journalists he cites in this analysis. The list of questionable investments by the PIC points not only towards its blatant ANC support, but to extremely poor management. Former PIC CEO Dan Matjila's failure to mention the billion-rand "investment" (make that political, not financial), in Independent Media is extremely telling says Herbst. But this analysis goes further than making a potent call for consequence – it spells out the societally destructive and divisive role an ANC-biased/supported Independent Media is playing, not to mention the harm it's done and continues to do to the Fourth Estate. This existential battle for truth is being played out on every terrain imaginable. – Chris Bateman*

By Ed Herbst\*

*The annual report also revealed that the pension fund had written off a total of R1,06bn in loans and investments in Surve's company Sekunjalo and in Independent News and Media SA due to their failure to honour their payment obligations. The PIC provided finance to Sekunjalo for it to purchase Independent News and Media SA in 2013 and also acquired a direct 25% equity stake in the media group. – Linda Ensor Business Day 3/12/2018*

*Over the years the PIC's unlisted portfolio has become an important source of funding for black entrepreneurs, fuelling allegations that deal-making is influenced by political connections and considerations. There has also been wide speculation that deal-making has been used to channel funds to the ANC. Carol Paton Business Day 16/1/2019*

The President has been criticised for 'ruling by commission' but those critics will have been silenced by the astonishing testimony before the Zondo Commission of Angelo Agrizzi, formerly a senior executive at Bosasa.

This morning, another commission of inquiry will begin proceedings. At the heart of the Lex Mpati Commission of Inquiry into potentially untoward practices at the PIC is the role of its former CEO, Dr Dan Matjila.

As the public debate around him grew more contentious, Matjila issued a media statement in October last year in the form of an open letter in which he defended himself, his record at the PIC and questioned the merit of the concerns raised about him by his critics such as UDM leader, Bantu Holomisa.

What I found highly significant about this letter was not so much what he mentioned, but what he left out. He mentions the PIC investment in Steinhoff and VBS Mutual Bank but makes no mention of the billion rand investment in the Independent Media company – the largest group of English and Zulu newspapers in the country – which caused immense reputational harm, both locally and abroad, to the Fourth Estate in this country.

One has to question why Matjila failed to mention this continuing and sordid scandal in his open letter defending himself because the

R1bn PIC investment in Sekunjalo Independent Media was inexplicable and hugely contentious from the start and debate about the unethical stewardship of these newspapers has continued without respite for the past four years.

In his open letter Matjila eloquently and aptly defined his role – or what his role should have been – in the PIC:

*The only masters I serve are the 1 273 125 active members of the GEPPF and the 450 322 pensioners and beneficiaries who, after a lifetime of toil, deserve a secure, prosperous and dignified retirement for the rest of their lives.*

There was utter bewilderment when it became known that the PIC was investing supposedly sacrosanct civil servant pension funds in an already financially-troubled newspaper company – but the investment made perfect sense in political terms as Anton Harber has pointed out.

Whereas the National Party tapped into a Defence Force slush fund to bankroll the founding of one English-language newspaper, *The Citizen*, the ANC has benefited from the effective acquisition of more than a dozen in English and Zulu which are distributed in all the major cities and in small towns like Kimberley.

*Synopsis*

## **'I have never seen anything like this before' - PIC exec on AYO funding**

Jan 23 2019 14:26 Sibongile Khumalo  
**Fin24**

The head of internal audits at the PIC, Lufuno Nemagovhani, on Wednesday detailed how the state-run asset manager's R4.3bn acquisition of shares in AYO Technology Solutions was approved without following due process, describing the process as an anomaly.

Nemagovhani testified before the commission of inquiry that the AYO transaction was signed off before it could be presented to the PIC's portfolio management committees. "The subscription form was signed off on 14 December and confirmed with the listing agent before the approval of the transaction by the PMC on 20 December,

2017," he said. "I have never anything like this before," he added. "It was signed off before the delegated committee could approve," he added.

Evidence leader Advocate Jannie Lubbe asked Nemagovhani if this was in breach of due process. He responded "yes it is".

On Tuesday, the PIC said a preliminary forensic report into the AYO deal "clearly reflects a blatant flouting of governance and approval processes of the PIC". Based on the findings of the report, the PIC board suspended its Executive Head of Listed Investments Fidelis Madavo and Assistant Portfolio Manager Victor Seanie with immediate effect.

AYO did not reply to a request for comment sent via its website on Tuesday. The group does not have an up-to-date contact number on its website.

*Synopsis*

## **PIC hotshot in hot water as inquiry digs up fresh Ayo dirt**

23rd January 2019 by Jackie Cameron

EDINBURGH

As the PIC has more than R2trn under management, it is perhaps inevitable that those with an eye on raiding state offers have targeted the entity. Former PIC boss Brian Molefe was groomed by the Gupta family and it's no secret that controversial businessman Iqbal Survé has made full use of his PIC friends in an attempt to bolster the finances of his troubled Independent Media group.

Survé is in the spotlight again in connection with a probe into a massive PIC investment in his Ayo Technologies group. While Survé sits tight, his PIC pals are starting to take the heat. The Daily Maverick sets out the details of the latest developments in the PIC inquiry, with their report published with permission here on BizNews. – Jackie Cameron

By Greg Nicolson

The PIC announced on Tuesday, day 2 of the inquiry, that it had found major flaws in its controversial R4.3bn investment Ayo Technology Solutions, leading to the suspension of two employees after a

preliminary investigation revealed its processes had been violated.

*Synopsis*

## **EDITORIAL M&G**

### **Editorial: PIC wakes up at last**

25 Jan 2019

The PIC executive for listed investments, Fidelis Madavo, was suspended just before he was to appear at the commission investigating the PIC and its investments. He still testified.

When we and other media, as well as media watchdog groups, questioned the PIC investment in Survé's Independent purchase, we were vilified by the touchy Survé. And he carried on vilifying as his great project slowly crumbled. The PIC should have known from the Independent deal that further investment in a Survé enterprise was probably a bad idea.

Sorry, but we'd like to say to the PIC: "We told you so."

STATEMENT NO 3

BY A P Stemmet. Spokesman: Association for the Monitoring and Advocacy of the Govt Employees Pension Fund (AMAGP)

Cape Town

24 January, 2019

GOVERNMENT EMPLOYEES PENSION FUND: EMPOWERMENT THROUGH COMMUNICATION

A PERTINENT QUESTION IS WHETHER THE PENSION FUND LIVES UP TO THEIR OWN VALUE OF TRANSPARENCY?

The third instalment of the analysis by our retired auditor member, Christo van Dyk, provides a number of examples where the GEPF should and could improve.

Specifically, Section 195(1)(g) of the Constitution of the Republic of South Africa requires the GEPF to foster transparency by providing the members and public with timely, accessible and accurate information.



Furthermore the Mission of the GEPF is to empower the beneficiaries of the pension fund through effective communication.

Readers should consider the conclusions in the enclosed analysis and decide for themselves whether the GEPF can be said to live up to the standard of transparency which is expected of it in accordance with the above requirements.

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VERKLARING NO 3

DEUR. A P Stemmet

KAAPSTAD

24 Januarie 2019

SPREEKBUIS: Vereniging vir die Monitering en Bevordering van die Staatsdienswerknemerspensioenfonds (AMAGP)

DIE REGERINGSPENSIOENFONDS: BEMAGTIGING DEUR KOMMUNIKASIE

DIE TER SAKE VRAAG IS OF DIE PENSIOENFONDS GESTAND DOEN AAN SY EIE WAARDE VAN DEURSIGTIGHEID?

Die derde aflewering van die analise wat ons afgetrede ouditeurlid, Christo van Dyk gedoen het, gee 'n aantal voorbeelde waar die GEPF kan en behoort te verbeter.

Meer spesifiek, Artikel 195(1)(g) van die Grondwet van die Republiek van Suid-Afrika bepaal dat die GEPF deursigtigheid moet bevorder deur die lede van die pensioenfonds en die publiek van toeganklike en korrekte inligting te voorsien.

Die Missie van die GEPF meld verder dat die begunstigdes van die Pensioenfonds behoorlik deur effektiewe kommunikasie bedien moet word.

Lesers moet maar die aangehegte analise oorweeg en vir hulself besluit of die GEPF voldoen aan die verlangde standaard soos in bostaande vereistes gestel.

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Comment



Gepf ar 2018  
empower thru comms

*Look for the other statements and its colleagues on the AMAGP website. Christo van Dyk really analyses the annual report to horrifying conclusions. Then read the statements please, all of them.*

Synopsis

## BUSINESS

### Warning: State pension woes to come

Lynley Donnelly 25 Jan 2019  
John McCann/M&G

A detailed analysis has called into question the performance of the GEPF and has highlighted what it deems to be persistent trouble at Africa's largest pension fund.

In research done for the AMAGP, Christo van Dyk, a retired senior manager at the auditor general, warns of emerging problems at the fund, which could have major long-term consequences for its sustainability. His analysis builds on similar work done early last year on the fund's financials, which the GEPF rejected outright.

But the AMAGP, which consists of former and active civil servants and was set up in 2016, maintains that the problems remain. In a statement earlier this month, it questioned the fund's sustainability given its declining yield on investments and an "astronomical rise" in costs.

In his analysis, Van Dyk highlights growing beneficiary liabilities alongside a widening contributions gap; the rising costs being paid by the fund under the current Board of Trustees; and the poor performance of the fund's investments, particularly under the management of the PIC.

These factors are contributing to a decline in the cash being generated by the fund, which should be used to pay out benefits. Instead, Van Dyk says, member contributions are being used to pay beneficiaries rather than being invested to generate returns.

According to him, from 2015 to 2018, under the current board, R257 billion was collected in contributions but only 59%, or R150 billion, was channelled into new investments. "In essence, the GEPF used R107 billion over the four years to defray current expenses or benefits," says Van Dyk, adding that this money should have been invested.

In terms of costs, his analysis suggests a sharp spike in recent years. He compared the costs incurred by the GEPF to manage its assets under previous boards against those of the current one. He calculated that they had increased 28 times since the time of the board chaired by Martin Kuscus, whose term ended in 2010.

In relation to net cash flow, expenses have grown disproportionately, from a low of 0.58% to 25.23%. A key factor in these increased costs is the fees for external asset managers, argues Van Dyk. Although the PIC primarily manages the GEPF's assets, it may appoint external fund managers to handle part of the portfolio. According to the GEPF's most recent report, about 30 external managers were used by the PIC.

Van Dyk also questions the returns made on the GEPF's assets. Although the GEPF reported growth of more than 8% last year, he argues that this is not all actual year-on-year capital growth but includes R56 billion in contributions received from members that are invested. The actual growth rate is 4,6%, according to Van Dyk.

His research also draws attention to a growing shortfall in contributions required from the employer, in this case the government. This issue was highlighted in the last actuarial valuation report done for the GEPF in 2016. It noted the shortfall between the required employer's contribution rate — an average of 15,6% of pensionable salaries — and the actual contribution rate of 13,5%, which amounted to R6-billion a year.

The actuarial report also noted that the lower than expected investment returns had become a substantial strain on the fund.

The AMAGP has questioned the delay in the release of a new, updated actuarial valuation report, which was due in 2018.

The GEPF's 2018 financials noted that its minimum funding level, as in the 2016

actuarial report, was 115,8%, meaning that it has enough money to meet its liabilities in the immediate future. However, its long-term funding level has declined in recent years, reaching 79,3%, below the Board's target of 100%. It includes making provisions for unforeseen events, such as a major market collapse, the fund's principal executive officer, Abel Sithole, said in December last year.

But to protect the fund "absolutely", there would be concomitant cost because far more money would have to be set aside and could not be actively invested. "Right now, it's not a concern for the fund at all," he said at the time.

This week, the fund said it would not answer the Mail & Guardian's questions because it had "previously ... received similar questions from AMAGP, which we responded to".

In a statement in April last year, published by Biznews, the fund rejected the Association's allegations. It attributed the cash-flow problems to "increases in resignation whilst the membership has not been increasing over the past five years". The resignations were by members who had been with the GEPF for a long time and whose payouts were substantial.

It described the AMAGP's arguments as "irresponsible" because they created "unnecessary anxiety amongst our members and pensioners, which often leads to members and pensioners resigning".

It stressed that the GEPF was a defined benefit fund, which meant its members would receive their benefits irrespective of the investment performance of the fund. The fund is underwritten by the government, so if the GEPF cannot meet its obligations, the state has to step in.

But Van Dyk says this may not assure complete protection. The GEPF is included as a contingent liability in the state's budget but no allocation is provided for it.

The treasury, however, says the GEPF's assets are more than sufficient to cover the best estimate of its liabilities and therefore there is no liability to the government.

No specific amount is provided for under contingent liabilities, the treasury says, because, with "the proper governance

arrangements in place and a healthy funding level, it is unlikely that the contingent liability will materialise in the foreseeable future”.

The actuary’s recommendations that the state’s contribution be increased is being considered by the treasury, it says, and the report’s recommendations are “being discussed with the GEPF on an ongoing basis”.

Niel Fourie, the public policy actuary of the Actuarial Society of South Africa, says several things could affect the funding levels of a defined benefit scheme such as the GEPF, including the performance of the market, which has been relatively poor in South Africa recently. Above-inflation salary increases for government employees would also have an effect on the fund’s liabilities, although the GEPF is very well funded compared with similar schemes internationally, Fourie says.

The Public Servants’ Association says in a statement released last week that it is disturbed by reports of the GEPF’s cash flow problems at a time when “the GEPF has written off billions in investment losses”. It cautions the PIC and GEPF to exercise due diligence when dealing with public servants’ pension investments.

Van Dyk says he hopes the inquiry will shed light on these investments and the effect they have on the fund’s performance. “Any investment that is not productive places the other good investments under pressure,” he says.

#### *Comment*

*The M&G has always been in the forefront of reporting on actual issues, not backing off just because politicians and other don’t like it. Taking up the AMAGP reporting says a lot of the value of the AMAGP has in the eyes of the main line press. We see ever more reports quoting or referring to the AMAGP press releases and statements.*

## **The GEPF AMAGP: Invitation**

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

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

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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 reflect about...**

Dear Reader,

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

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

pensioners. This increasingly includes members of parliament on all sides of the political spectrum, as soon as they realise their voter's pension is endangered.

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

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

5. In conclusion dear reader, decide if you want to risk the retirement you are excited about, to be similar to other departed and failed pension funds, or are you prepared to become a paid up member of the AMAGP? Litigation and court interdicts are expensive, although we haven't gone that far yet.

**Comments, articles and recommendations about and for the newsletter are welcome. No anonymous submissions will be accepted; however, names may be withheld on request.**

Please submit to: [editorgepfmg@gmail.co.za](mailto:editorgepfmg@gmail.co.za)

#### VRYWARING

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