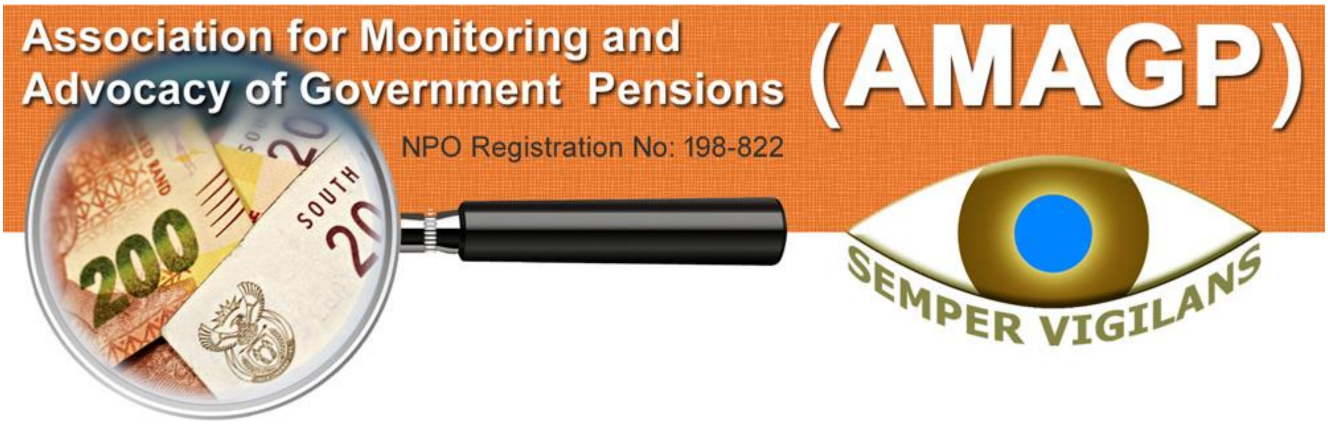

The Association for Monitoring and Advocacy of Government Pensions: An independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.AMAGP.co.za

GEPF Watchdog - Waghond

GEPF your investment, your future

NEWSLETTER NO 15 of 2020

AMAGP – Association for Monitoring and Advocacy of Government Pensions
BOT – Board of Trustees [of the GEPF]
DFI – Development finance institution
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOE – state owned entities

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1,2 million active members, in excess of 450 000 pensioners and beneficiaries, and assets worth more than R1,8 trillion. https://www.GEPF.gov.za/

Honderde in staat se diens vra: waar is ons pensioen?

The Editor's Word

The newsletters usually paint a grim picture of our Fund and the SA economy in general, unfortunately, reality. I will certainly include any positive news along with the rest whenever I find it.

Below is some feedback on our shareholdings:

The following companies, in which we have shares, have warned of low returns for their financial year thus far, or reported low returns, due to COVID:

ABSA
City Lodge Hotels
Peregrine Holdings
Adcock Ingram
Murray and Roberts
Resilient Property
Distell
Massmart
Grindrod
PSG Group
Lewis
Italtile
KAP
FirstRand
Discovery
RCL Foods
SASOL
Cashbuild

Good news, the following have indicated normal returns:

Aspen Pharmacare
Sibanye-Stillwater

All our working GEPF members now have the opportunity to spread the word about the threat to our pension fund at work. If only 5 GEPF members in each of the 46 government departments put in a serious effort to spread the message within their departments, we will double our membership within one week**.**

Most of your colleagues won't believe you because 'it won't happen', 'we will have time to resign and take our pension', etc. When this happens it will be overnight with no options left.

Well done Gladys Stompie Maroane with your super effort to invite nearly 200 new members to the GEPF Watchdog Fb page!

Norman Van Merch with your super effort to invite more than 600 GEPF members!!!!

A snippet about Ayo. The JSE fined IT group Ayo R6,5mn over non-compliance [errors in the 2018 unaudited interim results]. The PIC loan of our funds to Survé's Ayo still hasn't been repaid, and now our money is going to be used to pay the fine. Of course, we will have to wait for the inevitable appeal and re-appeal before the fine will be paid, lawyer costs will, of course, be paid from our Fund's loan to Ayo.

Our nearly 1 million GEPF Cosatu members: take note of your union's leaders' support to give away your pension savings [but not the Rmn in union funds]!!

The PSA has reported that the petition on 'Stop Looting the GEPF' has terminated but petitions are still being received. The PSA intention to picket the GEPF offices, unfortunately, didn't realise due to COVID. Litigation is still an option but will have to wait for GEPF actions. In the meantime, the PSA will submit the petitions to the Minister, stating the sentiments of the members expressed in the petitions.

Now for the news…

The AMAGP has at last received the Public Protector's report on the GEPF. It is in detail, almost 1 000 pages, with appendices, annexures, etc. The AMAGP has rejected the report and will, in due course, respond appropriately. See below for the press release.

Eskom related trade unions and three 'international energy research organisations' collaborated in a four part report on Eskom and its future. Only the last part is relevant as it focuses on how they propose the GEPF must change so as to pay Eskom's debt in perpetuity.

The IRR discusses the motivation behind the ANC prescribed assets policy and the very real threat to all pension funds in SA. The discussion provides surprising clarity about ANC intentions.

In a surprising about turn, Cosatu has categorically stated that pension funds may only be used when the government ends corruption. This after Cosatu proposed the GEPF be used for Eskom's debt!

Two articles about our debtor, Survé. Independent Media, belonging to Survé, gathered a select group of 'academics' to extol the virtue of Survé, condemn the 'racist' JSE and all who are against him. Followed by Daily Maverick explaining how Survé is moving our millions around in his companies and paying dividends form the interest gained from our investment in Ayo.

Brian Butchart again explains how next year's taxation will influence private capital in the government's rush to restrict outflow of our hard-earned pensions.

NEWSNUUSNEWS

Synopsis

MEDIA STATEMENT AMAGP
Issued on behalf of the Chairman, Antonie Visser, and the Management Committee of the Association for the Monitoring and Advocacy of the Government Pensions Fund (AMAGP)
Cape Town, 30 August 2020

AMAGP REACTS TO THE PUBLIC PROTECTOR'S REPORT ON AN INVESTIGATION INTO ALLEGATIONS OF MALADMINISTRATION AND MISMANAGEMENT OF FUNDS BY THE GOVERNMENT EMPLOYEES PENSION FUND

[FILE NR 021139/16: REPORT DATED 21 MAY 2020]

AMAGP has finally, four years and six months later, received the report from the Office of the Public protector (PP) and can now react appropriately on that office's findings.

Although we have been disappointed with the extremely slow progress made by the PP's office with this complaint, also the lack of regular feedback and the eventual conclusion by the PP, we remain grateful to now have a report from which our members and AMAGP Management can further engage on.

Suffice to say at this stage that we completely reject the report in its totality, as well as the conclusions reached by the PP. We will, therefore, obtain legal advice on how to proceed further with the matter.

AMAGP will now fully study the report and we will, after consultation with our legal advisors and network partners, comment further on the deviations from service standards, serious other matters, as well as the completeness of the investigation and the contents of the final report.

AMAGP members, as well as any member of the Government Employees Pension Fund (GEPF) with an interest in the pension fund, can now study the report, compare it with other information available in the public domain. Their attention is especially drawn to the report of the Mpati Commission, its recommendations and even more so, the Commission's remarks about the GEPF. They can then reach their own conclusions. It also allows them the freedom to take any action they deem appropriate under the circumstances.

The Mpati report can be found here: http://www.thepresidency.gov.za/download/file/fid/1811
Afrikaans version follows.

VERKLARING
Uitgereik namens die Voorsitter, Antonie Visser, en die Bestuurskomitee van die Vereniging vir die Monitering en Voortsetting van die Staatsdienspensioenfonds (AMAGP)

AMAGP REAGEER OP DIE OPENBARE BESERMER SE VERSLAG RAKENDE DIE ONDERSOEK NA DIE GEPF

AMAGP se lede en ondersteuners is besonder dankbaar dat hulle na 'n wagtyd van vier jaar en ses maande uiteindelik die getiteld THE REPORT ON AN INVESTIGATION INTO ALLEGATIONS OF MALADMINISTRATION AND MISMANAGEMENT OF FUNDS BY THE GOVERNMENT EMPLOYEES PENSION FUND (FILE NR 021139/16 : REPORT DATED 21 MAY 2020) ontvang het.

In hierdie stadium ag ons dit voldoende om kategories te verklaar dat ons hierdie verslag, sowel as die gevolgtrekkinge deur die OB, in sy totaliteit verwerp en daarom regsadvies inwin oor verdere optrede.

Alhoewel ons teleurgesteld was met die uiterse stadige pas van die OB se kantoor, die afwesigheid van gereelde terugvoer en die uiteindelike bevinding van die OB, bly ons nietemin dankbaar dat ons lede en die bestuur van AMAGP nou uiteindelik 'n verslag het waarmee ons lede en die bestuur kan optree, na oorlegpleging met ons regsadviseurs en vennote. Ons optrede sal heel moontlik verband hou met die afwyking van standaardprosedures, sekere ander ernstige aangeleenthede sowel as die inhoud van die verslag, en ook die toereikendheid van die ondersoek.

AMAGP se lede, sowel as ander lede van die Staatsdienswerknemerspensioenfonds (GEPF) met 'n belang in die pensioenfonds, kan nou die verslag self bestudeer en vergelyk met ander inligting wat in die openbare domein beskikbaar is. Hulle aandag word veral gevestig op die verslag van die Mpatikommissie, die bevindings daarvan, en veral let op daardie gedeeltes waar die Kommissie spesifiek na die GEPF verwys. Daarna kan hulle hul eie gevolgtrekkings maak en na hul eie goeddunke optree.

Die verslag van die Mpatikommissie is hier beskikbaar:
http:www.thepresidency.gov.za/download/file/fid/1811

Adamus P Stemmet
Segsman/Spokesperson: AMAGP

Comment

To even try to comment on the report would take weeks of intensive study. The executive summary is 182 pages and the total report 995 pages. There is a huge amount of information and many recommendations. AMAG will respond in due course.

Synopsis

Unleashing the power of pension funds and debt cancellation to finance a just energy transition (Part 4)

Daily Maverick
By Dominic Brown 24 August 2020

Illustrative image: sources Pixabay / Flickr

Three international energy research organisations have worked with Eskom trade unions to compile a report 'Eskom Transformed: Achieving a Just Energy Transition for South Africa', released on 23 July. This is the final piece of a four-part series on the analysis contained in the report.

"Debt cannot be repaid, first because if we don't repay, the lenders won't die. That is for sure. But if we repay, we are going to die. That is also for sure." Those were the words of the revolutionary former president of Burkina Faso, Thomas Sankara. Taken from his speech to the OAU in 1987, months before his assassination, his words are as true now as they were then.

The issue of debt must also be situated within the overarching context of the need to finance a transition from a fossil-fuel economy to a low-carbon economy. Repaying government debts, especially debts incurred against the interest of the majority of the population, leaves less money to invest in the rollout of renewable energy and the genuine, just transition that South Africa needs.

The issue of South Africa's debt permeates throughout. The situation at SOE and the government's increasing debt-to-GDP ratio is of serious concern. Despite prioritising debt payments, South Africa's debt-to-GDP ratio has continued to grow and is likely to exceed 80% by the end of the year, rising from the February 2020 Budget estimate of 65,6%.

Most reports link Eskom's rising debt to the increased prevalence of corruption. This is an important factor, but not the only one. Other considerations include the increasing commercialisation and corporatisation of Eskom; the original high costs of the renewable energy independent power producer procurement programme (REIPPPP) contracts, and the related 20-year power-purchase agreements; as well as the rapid increase in the cost of coal.

An insider estimates that the cost of corruption in relation to Eskom's contracts could potentially be as high as R500bn. Given the scale of corruption, a publicly disclosed forensic audit of all SOE and government debt is necessary. This is in line with the demands made by Sankara more than three decades ago, and the more recent calls by more than 200 global organisations for debt cancellation following the outbreak of Covid-19.

Such an agreed debt cancellation would immediately create much needed fiscal room for enhanced social spending and public investment.

Notwithstanding the need for debt cancellation, it is important to recognise that a high government debt-to-GDP ratio is not inherently a problem. For instance, the UK (80,7%), France (98,1%), Belgium (98,6%), USA (107%), Singapore (126%) and Japan (237%), all maintain rather high government debt-to-GDP ratios.

The bigger question relates to a country's ability to service those debts.

Break the chains of dependency

South Africa's dependence on financial inflows to boost the financial account, and in so doing offsetting the current account deficit in the balance-of-payments, is a significant contributor to the country's growing gross external debt. Introducing more stringent capital controls could both reduce the level of outflows and alleviate the pressure on the current account by limiting the amount (and delaying the time) of dividends and interests paid to non-resident bondholders.

While a small share (10%) of government debt is foreign-denominated debt as a percentage of its total debt, approximately 50% of SOE debt is held by foreign creditors. A good debt policy for both SOE and government would be to prioritise borrowing from domestic creditors over foreign creditors. This brings us to the second major potential financial resource – pension funds.

Addiction to equity and the shackles of finance capital

South African pensions have amassed more than R4trn in accumulated reserves, making it one of the largest pension systems in the world. Much of this is invested in the JSE. More than half of all the PIC under management is invested in the JSE. The GEPF has approximately R1trn invested in the JSE.

The GEPFs overinvestment in the JSE as a result of the PIC's addiction to equity has come at a huge price due to the lack of investment in an industrialising, job-creating strategy. A shift in investment strategy to a greater share of investment in bonds rather than in equity is what is needed.

Back to a pay-as-you-go scheme

The size of the resources available is dependent on whether there is a continuation of the GEPF as a fully funded scheme, or if it shifts back to a pay-as-you-go scheme. The growth of the fund is partly due to the transition in the fund from a pay-as-you-go scheme to a fully funded scheme. This transformation resulted from the amalgamation of various public pension funds with the GEPF's establishment in 1996.

The GEPF was estimated to be 108% funded, and probably remains at approximately these levels despite the initial fall in the JSE. Under the GEPLaw the fund can be 90% funded. There is also a view that credit rating agencies consider public pension funds finances to be healthy if they have more than 80% of their liabilities covered.

Reducing the GEPF's funding level to 90% would liberate more than R300bn for investment, while remaining within the confines of the GEPLaw. It is possible to go further and liberate an additional R200bn by reducing the level of funding to 80% of its total liabilities.

If the fund is transformed back into a pay-as-you-go scheme, more than R1trn in resources can be made available for investing in sustainable low-carbon, labour-intensive industries in driving a low-carbon reindustrialisation programme.

This is a major advantage for the GEPF in the medium to long term, and a necessity if it shifts back to a pay-as-you-go scheme. This potential pool of finance that pension funds present to governments strikes fear into financiers and private investors (*Banking on death, or investing in life*, p74).

This may explain why some investors are dead set against utilising the GEPF in this way, as it may set a precedent that soon would require private pension funds to invest in domestic bonds as well. Cosatu has already indicated that it would be in favour of reviving similar policy measures.

DM

See also PART 1: Eskom unbundled: Contradictions in the plan will exacerbate the energy crisis, PART 2: Renewable energy must become a public good and PART 3: Only a public pathway for electricity supply can meet the climate crisis challenge.

Dominic Brown is economic justice programme manager at the Alternative Information & Development Centre (AIDC).

Comment

The article is very academic in nature, mainly focusing on energy with side-tracks to pension, so much of the energy aspects weren't included. Much of the pension discussion covers aspects that pension funds already are already invested in, thus nothing new. The new premise is: changing the basis of the Fund to pay-as-you-go, something unknown to most of us. Needs some thought but doesn't remove the threat to the Fund.

Synopsis

Prescribed assets policy is just pension fund theft; SA must fight – IRR

1 September 2020
by Claire Badenhorst

According to the IRR, the total value of South Africa's retirement savings was over R4 trillion in 2017, nearly the same size as the GDP that year. Since then, GDP has been shrinking, with StatsSA noting that the economy declined by 2% in the first quarter of 2020. In dollar terms, our pension system was the largest in Africa in 2014, with assets of about $322bn. Of the world's major economies, only the United Kingdom, Australia, and Switzerland have pension assets of this size, says the IRR. It's an attractive little nest egg, especially for a government that had to put its tail between its legs and borrow funds from an international finance institution. In this piece, Duwayne Esau pleads with his fellow South Africans to stop the government from implementing a prescribed assets policy – 'laying its hands' on the savings and pensions of hard-working citizens. Claire Badenhorst

Protect your pension
By Duwayne Esau

The South African government has implemented a number of reckless and nonsensical policies and has the intention to implement a prescribed assets policy. In essence, this would mean a mandatory investment of pensions and savings into government 'assets'. This must not be allowed to happen. Every South African should oppose this plan and prevent the ANC from stealing their nest egg.

It is no secret that the government has run out of money and, quite frankly, out of options. South Africa's debt is currently at 60,6% of our GDP. We owe R70 315 of debt for every citizen in the country. South Africa pays over R200bn in interest alone per year.

The ANC has become so desperate that it broke one of its long-held convictions, to avoid approaching international finance institutions such as the IMF for financial assistance. The reason for this was said to be retaining financial sovereignty, but the real reason is ideological. Receiving financing from an institution like the IMF or World Bank would mean agreeing to certain conditions, such as the adoption and implementation of liberal labour, economic, and social policies. This is, of course, in sharp contrast to the ANC and SACP ideological belief in socialism.

The fact that the ANC has now accepted funding from the IMF means that it has exhausted all other alternatives and was forced to swallow its pride and stick out the begging bowl.

It now has its sights firmly set on the savings and pensions of hard-working South Africans to bail out failing SOE, increase public wages, create a state bank, and fund the planned National Health Insurance (NHI) among other things.

As far as track records go, the ANC/SACP government has one of the worst. The government's multiple failures speak for themselves, and for anyone to hand over our hard-earned savings to it would be like trusting a bankrupt person with their credit card.

The government has denied that savings and pensions will be used to bail out struggling SOE. It is the government that has got us into our present financial predicament, and we should not expect a solution from it. As former United States president Ronald Reagan once remarked: 'The nine most terrifying words in the English language are: "I'm from the Government, and I'm here to help".'

We go to work every day, we pay some of the highest taxes in the world, and now our government wants us to give even more. This is unacceptable. We have arrived at this juncture due to more than a decade's mismanagement, maladministration, and corruption.

Money meant for state funerals ends up in the pockets of cadres, money intended for the procurement of Personal Protective Equipment (PPE) ends up in the pockets of cadres, even food parcels meant for the most vulnerable members of our communities end up in the hands of cadres.

No one is ever punished for this. All we ever get is empty rhetoric and investigations by the ANC's own integrity committee. The irony of this committee is laughable. We have spent millions of Rands on commissions of inquiry, but they seem to provide little more than an opportunity for confession and forgiveness.

South Africans, individuals and institutions alike, must fight the prescribed assets policy.

Corporate South Africa cannot remain silent on this issue. It is corporate institutions that will be charged with helping the government to implement this policy, and they need to declare whether they will stand with us, who trust them with our money, or sell us out.

Duwayne Esau is a politics student at the University of Cape Town (UCT), with a strong interest in Public Policy. He is serving as a Strategic Communications intern at the Institute of Race Relations.

Comment

The IRR is rightly critical of 'government' and its intentions with the GEPF. The article explains certain aspects of ANC policy and how it intends to fund it. Not good news.

Synopsis

END CORRUPTION BEFORE USING WORKERS' PENSIONS FOR INVESTMENT, COSATU TELLS GOVT

By Theto Mahlakoana

Cosatu general secretary Bheki Ntshalintshali. Picture: Sethembiso Zulu/EWN

Cosatu has once again dashed the government's hopes of leaning on workers' retirement funds to invest in, among others, infrastructural development in the country. At a briefing on Wednesday, the federation stood its ground, saying that such an alternative would only be considered when government put an end to corruption.

Government has been slowly moving on the ANC 2019 manifesto, which sought to investigate the introduction of prescribed assets, while Treasury has formally stated that while prescribed assets would be introduced, retirement funds would not be forced to invest in failing state-owned enterprises. However, Cosatu has cautioned government about this proposal, which was first raised by the labour caucus at Nedlac.

General Secretary Bheki Ntshalintshali: "Pensions remain workers' preferred wages and should be invested in ways that benefit workers and should not be used to deal with government policy failures. If government wants to even consider its ideas and proposal, we need to first seriously fight corruption."

Some economists have endorsed the idea that pension funds can be useful for the country's failing economy.

Meanwhile, Cosatu also wants government to ensure that workers who are affected by COVID-19 can access their retirement savings as the unemployment insurance fund payments drag on

Comment

Not sure where the 'once again' comes from, as Cosatu was one of the proponents of using the GEPF to pay Eskom debts and for infrastructure projects. This is confirming the ANC's Godongwana statement about not using pension funds to bail out SOE 'at the moment'. Let's wait and see when, not if, Cosatu and the ANC change their views, probably this year still. Will probably be done quietly.

Synopsis

Academics speak out: JSE racist towards Dr Iqbal Survé and his companies

IOL.co.za
Staff reporter 30 August 2020

The JSE has been slammed for the way it has imposed a heavy fine on AYO Technology Solutions for alleged accounting irregularities. JSE listed AYO Technology is a subsidiary of Sekunjalo Group which is chaired by Dr Iqbal Survé, a South African business guru based in Cape Town.

The R6,5 million fine was a discussion point on Saturday on Galaxy Universal Network where Independent Media's political editor was hosting three academics, Dr Sihle Sibiya, Professor Boitumelo Senokoane from UNISA and Siphesile Jele, a former investment banker who is now working on a paper to expose the JSE and its racial policies.

The issue the academics had with the fine was that two white-owned companies, Tongaat Hulett and EOH, with a bigger market share than AYO and facing similar allegations, were handed lesser fines.

Both companies were fined R7,5 million but their fines were lower as R2,5 million was suspended for a few years, lowering their fines to R5 million. AYO Technology was summarily fined R6,5 million and its fine was not partly suspended.

Speaking about the fine, Jele said it was bizarre that the JSE rushed to fine AYO for offences allegedly committed two years ago when the Steinhoff matter remains untouched despite the listed company blowing billions in pensioners' money and allegedly hid its malpractices through accounting fraud.

"Here we are talking about an organisation (JSE) that only spoke once, released a single statement in November 2017 about Steinhoff. There has never been any communication since then to the South Africans. They have since penalised AYO Technology for doings they deemed to have been corrupt or ought to have hidden certain finances and have not paid enough tax in 2018. So what was the urgency if they could not deal with Steinhoff which was a serious heist… we are talking about billions to trillions," Jele said.

Jele added during the same show that the system was piling pressure on people like Dr Iqbal Survé in a bid to force them to submit. If they refuse, they unfairly get the rough end of the stick. Senokoane said the system which was inherited from the apartheid years has not changed and it always punishes those who challenge it. He was emphatic that AYO is being badly treated by the system.

"If you make noise to the status quo there is always a price to pay and if you are in business you know what has happened before with certain individuals who were seen as troublesome to the system. The reality of the matter is that black business will never thrive in a white system.

"The white system has gatekeepers who determine the rule of the game and it even goes as far as determining treatment and punishment will give to those who are anti the system. So where we are sitting now is a reaction of the system based on his particular contribution in disturbing the system,' he said. He later said the old guard is still pulling the strings from behind the scenes and is not ready to accept challenges from black-owned businesses.

Dr Sibiya said institutions like the JSE should account to the people and if they cannot do that, there "is no need for them to exist in this country."

Comment

Dear reader, you will note the Survé-owned Independent Media hosted the 'academics'. You will further note the Survé biased sycophantic rhetoric of the 'academics'. Also that the system seems to be unchanged from the 'apartheid years'! Really? And the racist remarks of the 'white system'. I haven't checked the 'white' ownership of Hulett and EOH, but I doubt it.
Guess who Galaxy Universal Network belongs to?

Synopsis

DAILY MAVERICK

AMABHUNGANE

Iqbal Survé takes another bite at the PIC apple

By Dewald van Rensburg for amaBhungane
25 August 2020

Photo: Gallo Images / Wessel Oosthuizen

The controversial Cape businessman seems set to extract millions more from the R4,3bn his company irregularly scored from the PIC, but JSE rules are complicating his latest attempt.

Ever since the PIC made its disastrous and highly irregular R4,3bn investment in Iqbal Survé's Ayo Technology Solutions in December 2017, that money has been steadily pumped out into the wider network of Survé companies and associates. Often the ultimate beneficiary is Survé's family holding company, Sekunjalo Investment Holdings, which owns 62% of his main listed entity, African Equity Empowerment Investments (AEEI). AEEI in turn owns 49% of Ayo, but effectively controls it.

PIC money has funded acquisitions from related parties, loans for related parties, and fees paid to related parties tied to Sekunjalo or AEEI. That is on top of generous dividends paid largely to the benefit of AEEI, using the PIC cash even while Ayo's actual operations lose money. This has continued even after the PIC went to court in May 2019 to try to reverse the investment.

A new deal in the pipeline will see this pattern of self-dealing take a particularly flagrant turn, where Survé effectively buys something from himself with Ayo money.

The trick involves a company called SGT Solutions which is 60% owned by AEEI and 40% by Ayo – but which Ayo legally controls thanks to a shareholder agreement. AEEI's majority shareholding in this company was itself apparently funded by Ayo last year in a particularly convoluted transaction where Ayo paid an initial R60mn, and then another contingent sum of R33,5mn, but AEEI ended up owning most of the company.

The latest deal sees SGT paying R48mn for shares in something called Bowwood Mainstreet 180. The problem is that Bowwood is itself already 60% owned by AEEI. That means a company 60% owned by AEEI (SGT) is buying shares in another company 60% owned by AEEI (Bowwood).

More importantly, SGT is 40% owned (and funded with inter-group loans of at least R33mn) by Ayo while Bowwood is 40% owned by Sekunjalo, Survé's family holding company. The net effect of this transaction is that R48mn cash provided by Ayo leaves SGT to the benefit of AEEI (R28,8mn) and Survé (R19,2mn).

While AEEI and Sekunjalo's respective direct shareholdings in Bowwood get diluted, new shareholder SGT is controlled by AEEI and by extension Sekunjalo as well, so that no actual change in control takes place.

If you look at Survé's Sekunjalo group of companies as a whole, you just see money moving from Ayo towards the exit.

In its original announcement of the transaction on the JSE's news service on 1 June, AEEI made no bones about the transaction serving only one purpose – to let it "realise cash and utilise the proceeds from the transaction to reduce its [AEEI's] current external debt levels".

The transaction is, however, also a continuation of a number of other Ayo-related deals. Bowwood is just a shelf company housing 25% of SAAB Grintek Defence. AEEI has already used Ayo cash to buy a subsidiary of SAAB, Global Command and Control Technologies. As with SGT, this deal saw Ayo cough up the purchase price, but AEEI ended up with 74% of the shares. Ayo has subsequently, according to interim financial results published in May this year, given Global Command loans of over R100mn.

But there may be a hiccup with the new SGT deal. It seems someone at AEEI had misunderstood the JSE's rules around tangled related-party deals like this one. Either that or they thought the bourse would not notice. In the original June announcement mentioned above, AEEI told shareholders the transaction was not subject to the approval of AEEI shareholders.

On 11 August, AEEI published an update: "Shareholders are… advised that the Transaction has subsequently been classified as a… related party transaction requiring approval from Shareholders prior to the implementation."

AEEI said it was preparing a circular for shareholders and would be engaging with the JSE in respect of the timing of its issue.

If AEEI powers ahead and puts the transaction to a vote, the related party in the deal, Sekunjalo, will not be able to vote. That takes Survé's 62% out of the equation, leaving a body of shareholders owning 38%. It remains to be seen if this latest Ayo exploit succeeds.

The PIC has a pending application in the Western Cape High Court to claw back the money it invested in Ayo. According to a summons lodged on 29 May last year, the state pension fund manager was persuaded to invest the R4,3bn in Ayo based on misrepresentations of its prospects. Ayo is defending the matter.

The PIC cited the court case when declining to comment for this story. It is understood that the PIC had also considered making an urgent application for an anti-dissipation order to freeze Ayo's assets, but felt it lacked the necessary evidence which was, at the time, largely confined to journalistic investigations like those of *amaBhungane*.

While the legal process grinds on, Ayo continues to use the PIC money for acquisitions that often benefit related parties as well as the payment of dividends.

According to Ayo's financial results for the six months to the end of February this year, interest earned on the PIC cash amounting to R108,76mn was still the source of virtually all Ayo's profit. The cash is, however, dwindling. By 29 February this year, only R3,3bn of the initial R4,3bn remained.

A dividend of 35 cents per share was declared nonetheless, depleting the coffers by another R120mn.

The results reveal some other apparent liberties taken with the PIC funds.

AmaBhungane previously reported how Ayo invested R75mn in a company tied to Survé's personal assistant, Tricia Apollis. That investment was revalued by external auditors and impaired down to R5mn in Ayo's subsequent accounts.

But the latest results show the crash in value did not stop Ayo from investing another R113mn in the Apollis company. This revelation is made in unaudited interim results, making it possible that another severe impairment may occur when auditors have a look.

In the same story, *amaBhungane* reported evidence that Ayo was being used to pay off Survé's private property investments, specifically a set of expensive apartments in the exclusive Silo development in Cape Town's V&A Waterfront district. This has evidently continued, with Ayo paying R1,4mn "rental" to Prodirect Investments 112, the company that owns Survé's apartments.

Ayo and AEEI declined to respond to questions. Survé did not respond to questions.

The PIC's original investment in Ayo was subject to scathing criticism in the report of the Mpati Commission of Inquiry into allegations of impropriety at the PIC. There was a litany of adverse findings against Survê and his companies, with the report stating, "The Ayo transaction demonstrates the malfeasance of the Sekunjalo Group, the impropriety of the process and practice of the PIC as well as the gross negligence of both the CEO and CFO [of the PIC]."

The report reserved its most severe recommendation against any implicated company for Sekunjalo, calling for further forensic reviews, the recovery of the Ayo money, and legal steps regarding potential criminal conduct by Sekunjalo. Survé was found to have engaged in "outright manipulation" of Ayo's value before the PIC invested, as well as faking market demand for the shares.

The multi Rbn deal was rammed through by former PIC chief executive Dan Matjila, with whom Survé was friendly, riding roughshod over the formal processes meant to govern PIC investments. Among the things that fell by the wayside was a downside protection agreement that the PIC wanted to shield it from a collapse in the Ayo share price. The investment is now nearly worthless after Ayo's share price did collapse – from R43 when the PIC invested, to R5,75 currently.

The FSCA is also investigating a case of share price manipulation against AEEI, Ayo and sister company Premier Fishing. **DM**

amaB

Comment

Absolutely astounding! The movement of these huge amounts between companies seem to be normal business if it weren't that it was our misinvested money? It also seems that our funds are being moved in many different directions so they can't be recovered easily, if at all.

Synopsis

Capital controls, emigration, and the biggest threat to your retirement

BizNews
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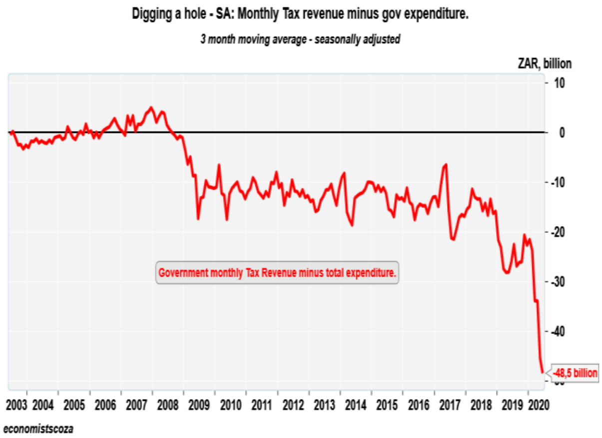
*This content is brought to you by Brenthurst Wealth
By Brian Butchart*

Government is looking to plug massive debt levels at a time when the tax base is shrinking, tax collection is at its lowest and debt levels at its highest. The state is spending far more than it is collecting and recent tax amendments and proposals are capital controls aimed to restrict capital and squeeze SA tax residents, especially those working abroad and circumvent those who intend emigrating and the capital flows which will move with them.

According to Mike Schüssler from Economists.co.za, "SA government is spending nearly R50bn a month more than it collects in taxes. This is a very, very deep hole. It will NOT be over soon and probably get deeper." See the graph below, indicating tax revenue against government expenditure.



These are frightening numbers.

South Africa is seeing a spike in emigration for many reasons, but more recently this is being driven by changes to the tax administration act which affect expat South African tax residents. The latest proposed changes to the Tax Law Amendment Bill (TLAB) imposes restrictions on access to retirement funds for a period of at least three years if the emigration process has not been finalised by March 2021.

It is clear, government is tightening capital controls because of a spike in emigration and the mass exodus of capital. These recent changes and proposals will drive emigration further with a flight of capital to alternative destinations, but with limited time left to do so.

Some of the recent tax amendments and proposals are:

1. **Taxation of expat South Africans working abroad**

Previously expat tax rules allowed South Africans to work offshore without paying tax to SARS, as long as you were out of the country for 183 days of which at least 60 days were consecutive in a particular tax year.

As from March 2020, new expat tax amendments apply. Only the first R1,25m earned abroad is exempt from tax liability to SARS. Any income earned over this level is taxable according to the SA tax tables, for as long as the individual remains a SA tax resident. This has driven a spike in enquiries by expat tax residents working abroad to consider their options with regards to formal emigration.

In the UAE for example, where personal income tax is 0%, South Africans working abroad in this jurisdiction will be liable to SARS on any income over R1,25 million, according to the SA tax tables.

In Mauritius, where the individual tax rates are 15%, any amount over R1,25m will be taxed according to the SA tax tables less the 15% paid in Mauritius, in terms of double taxation agreements.

In the UK, where tax rates are similar to SA, the impact is far less because of double taxation agreements. Therefore, SA registered taxpayers who reside in jurisdictions with substantially lower individual income tax rates will be most affected, as expats in those countries will be most exposed to tax liabilities in SA.

The consequences of this tax amendment have led to a spike in financial emigration where expats working abroad want to change their tax residency status to non-resident, to circumvent any tax liability to SARS.

As a result of the spike in emigration, government is proposing further amendments to the Tax Law Amendment Bill (TLAB).

2. **Proposed 3 year restrictions on access to retirement benefits**

Current legislation allows for non-resident tax-payers to withdraw their retirement funds subject to the retirement withdrawal tax tables and transfer these proceeds to their new residence of choice. However, the proposed TLAB will restrict access to retirement funds until a three-year period of unbroken non-residency can be proven. This new test is proposed to come into effect in March 2021.

This is another way government intends controlling the flow of capital. As a result, it is expected that emigration applications will spike further between now and March 2021. Emigration applications which do not meet the March 2021 deadline provides government access to these retirement funds for at least another three years for prescription purposes. Another capital control measure expected to be implemented shortly.

3. **Prescription of assets**

SA is spending almost R50bn more monthly than it collects in taxes, which puts into perspective the massive funding hole government needs to plug.

The easiest way to fund governments infrastructure and capital expenditure projects is to prescribe allocation to retirement trustees via regulation 28. The proposed amendments to regulation 28 are expected to be ready as early as September 2020.

The retirement investments at risk are pre-retirement assets such as retirement annuities, pension funds, provident funds and preservation funds all governed by the pension funds act and restricted by regulation 28.

The biggest concern is the impact government managed projects and state owned entities may have on retirement benefits, and if I had to guess, government is potentially looking at implementing changes to regulation 28 to include prescribed assets in the February 2021 budget. Effective March 2021, the same cut-off date for financial emigration.

Exchange controls

The other potential risk is an amendment to exchange controls to mitigate the risk of continued flows of capital out of SA. This has not been reported on and we hope this is not the case but could be a very real possibility.

Possible solutions and considerations

1. If you are considering financial emigration, time is running out and I suggest finalising this as soon as possible, as the process takes a few months for approval. Effectively, formal emigration will no longer exist, post March 2021 if the proposals to the TLAB are approved.

2. For individuals who have no direct offshore allocation in US Dollars or other hard currencies, I suggest seeking financial advice to determine if this is a suitable investment option.

3. Individuals over the age of 55 may want to consider retiring from retirement annuities, preservation, provident or pension funds where appropriate, in order to alleviate the limitations of regulation 28, the risk of prescribed assets and improve performance.

Converting retirement benefits to a living annuity provides asset class flexibility with no restrictions on offshore allocation and removes the potential risk of prescribed assets. Living annuities are not governed by the pension funds act and therefore regulation 28 does not apply.

It is most unlikely that investors will get this kind of recommendation from asset management companies. As independent investment advisors we have our client's welfare at heart and consider this to be the best advice, considering the potential implications to your financial well-being.

There are, however, other considerations and everyone's personal financial circumstances differ. Therefore, before making any decisions, as with all issues related to a personal financial plan and investment strategy, it is recommended to consult with tax and advisory specialists for appropriate advice according to your specific needs and requirements.

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Comment

Makes a lot of sense, especially if you were considering emigrating or working outside SA for some time. Be very sure of good financial advice if you are one of those working outside or considering emigrating.
A good overview of the probable threat to our pensions, and the Fund.

IMPORTANT NOTICE. PLEASE READ OR READ AGAIN IF YOU HAVE ALREADY

Please take a while again to really consider what the all-volunteer AMAGP is all about and is actually and continuously achieving. We need you to inform and motivate all the Fund members you know to join the AMAGP, to strengthen our voice when promoting the sustainability of your pension. We need many many more AMAGP members, not just on the Fb page. Keep in mind the Fund has just less than 2 million members, of which about 460 000 are pensioners and the other about 1 380 000 are still working but contributing members.

THE GEPF WATCHDOG/WAGHOND FACEBOOK PAGE

This Facebook page is the social media platform of the non-profit organisation "The Association for the Monitoring and Advocacy of Government Pensions" (AMAGP). The AMAGP has only one agenda point – safeguarding the GEPF against looting and mismanagement.

Most of our GEPF members are content with the fact that pensioners still get their monthly pension (and some increases annually), and they are convinced by GEPF newsletters and ambitious briefings by the GEPF Board of Trustees that our Pension Fund is in a superb condition. There is, however, another side to the coin! The AMAGP newsletters tell a different story.

Our Facebook page has more than 38 000 members and continually growing, but not enough. This confirms the ever growing concern pension fund members and pensioners have about the future of their pensions.

As a member of the GEPF (working or retired), this Facebook page will keep you updated about any developments affecting the health of YOUR Pension Fund. It also provides you with the opportunity to participate in the debate and raise issues of concern. Although it is not part of the core business of this page, you may also raise matters regarding the day to day management of your pension administration, which we will gladly refer to the Government Pensions Administration Agency (GPAA). Please read the articles that are posted on the wall, BUT also read items saved under "Announcements" and "Files". You can get further information on our website – there is no reason to be in the dark regarding our Pension Fund, and what you must do as a member.

This page will only have any value for you if you join the AMAGP. Note there are no membership fees. You don't have to do any work for the AMAGP if you do not wish to do so – BUT your membership will add one more voice to AMAGP convince the government our pensions remain ours, not theirs to misuse. You can complete the online registration form under "Announcements" (English and Afrikaans) at the top of the Facebook page, or you can visit our website at www.AMAGP.co.za, and complete the online application form that you will find under "Membership". There are also registration forms in English and Afrikaans that you can print, complete and return to us under "Files" on the Facebook page.

The AMAGP does not want any GEPF member to leave the Fund, because it still is the best pension fund in the RSA – BUT, we as members and owners of the Fund have to protect it against abuse.

Welcome to our page – please help us to get thousands more GEPF members to join this page and the AMAGP, so that we will have the required bargaining power. **We are the owners of the GEPF**, and we have the right and the power to force the GEPF Board of Trustees, and the PIC, to manage and invest OUR money in a responsible and profitable way.

VRYWARING

Die AMAGP maak die Nuusbrief beskikbaar as ‘n diens aan beide die publiek en AMAGP lede.

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