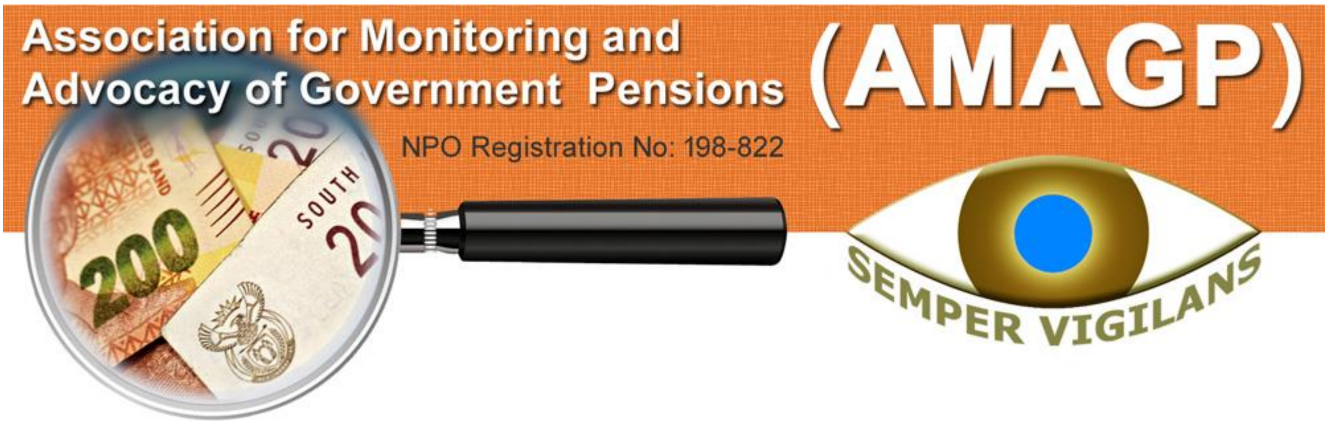

The Association for Monitoring and Advocacy of Government Pensions: An independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.AMAGP.co.za

GEPF Watchdog - Waghond

NEWSLETTER NO 16 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 Mpati Commission of Inquiry submitted its final report August last year. The report clearly found that fiduciary oversight and monitoring by GEPF (as principal) had been inadequate over a lengthy period.

The following has happened up to now:

- The PIC Board was replaced.
- Two high court cases against Survé companies Sekunjala and Ayo to recover funds from imprudent investments continued.
- Retired Judge Ivonne Mokgoro appointed to implement the Mpati recommendations and further investigate improprieties. No results at all up to now.

Thus little to really show of the recommendations being implemented.

The AMAGP has sent letters to the Minister of Finance and the pensioners' Trustee to remind them of the target dates set in the Commission's recommendations.

The PIC's Isibaya unlisted investments haven't been reported on since 2016 [the actual figures are really for 2015]. GEPF funds are locked up in Isibaya also. The Isisbaya investments were reported at that time [2016] to be at least 30% underperforming. And the PIC hasn't appeared before the SCOF since 2017 [three years] to answer parliamentarian's questions and to explain its activities. One is entitled to speculate on the reason.

No further news about the Palmietfontein saga. As quiet as when you tiptoe around not to wake your baby.

I believe SARS should have a standing instruction to investigate any politician appealing a court ruling, especially if appealing to the Constitutional Court. Why? I am sure many will agree with my curiosity, if the funds to afford the Rmn in legal costs are properly reflected in their income tax returns?

Unconfirmed but it seems our Fund's R1,8trn in assets is worth only about R1,5trn at the most after COVID, the poor performance of the JSE, Steinhoff, Ayo, under-performing hidden PIC investments for the Fund, our loans/bonds to/in bankrupt SOE, etc. This can only be substantiated in actuarial valuation and the GEPF AR, both of which are based on data about a year behind actual value, and which we won't see in 2020.

Take note

"COMING SOON! GEPF Self-Service and App. Read our post and to register, download the Self-Service Registration Form from this link, https://gepf.co.za/forms/self-service-registration/… #YourInvestmentYourFuture".

A matter for action. GEPF pensioners consist about 25% of the GEPF but have only one [1!] vote/Trustee out of 16. Eight Trustees are appointed by 'government' and 8 nominated by 'employees', meaning labour unions, only one of which is the pensioner's nomination, although we aren't employees.

Note, you have to be a worker to belong to a trade union, thus pensioners aren't represented by employer or employee organisations, we really have no say in BOT meetings although being about 25% of the GEPF and growing…

The Post Office also has financial challenges. Although the GEPF, according to its annual report, doesn't have funds invested/bonds/loans there, it merits attention, so our Fund's funds aren't wasted in another SOE bail out.

Foschini's [14% R5,38bn shareholding] lost 15 000 trading hours so far this year due to 'load shedding'. This loss in trading hours and COVID, at this stage, equates to about 30% loss in revenue for this financial year; excluding its businesses in Australia, Africa, UK, which are similar in loss. Foschini recently obtained approval to buy Jet stores from Edcon.

Now to news

Magnus Heystek is a respected commentator on financial and economic matters in SA. He explains the 'train smash' we are facing ini South Africa in terms a regular reader will assimilate easily. To follow up, Sygnia provides a well balanced review of the implications of the ANC's prescribed assets policy, pledging its wholehearted support to prevent it happening.

The PSA's court case about the unilateral decision by the GEPF/BOT to change the actuarial interest on resignation is nearing judgement in the High Court of Appeal.

Judgement has been reserved but we should be receiving it still this year.

A short notice about two of our shareholdings in gold. One of our shareholdings is buying some gold mines from another one of our shareholders. Read the article below.

There is correspondence between one of our active members and the GEPF, and an AMAGP press release to go with the correspondence. Keeping the pressure on the GEPF and Trustees.

The SAA business rescue saga is ongoing, with the funding still very vague. Our Fund doesn't have any investment in SAA [yet] according to the 2019 annual report but we need to be aware of developments, so our Fund's funds aren't wasted in another perpetually bankrupt SOE. A case study in how to institutionalise a loss-making entity through 'government' intervention as a 'vanity' project. See the DA's Alf Lees statement, one by BusinessDay, one by Moneyweb, and one by Bloomberg.

Bloomberg lets us know about 'government' steps to rehabilitate Eskom. There are some new titbits in the report, but the next article by the Friend provides substance that you can relate to.

The Friend proposes a new acronym we need to be aware of - PCP. Read the article for a good bittersweet laugh!

The ongoing AYO saga. Spin is the public relations jargon for making you believe you can pick up a turd by the clean end and still smell nice. One of Survé's news arms has published an awesome exculpatory spin of AYO! A must read for any PR expert of how to say pages of self-serving nothing to prove you are right! I can't wait for reaction from other non-Survé news agencies.

NEWSNUUSNEWS

Synopsis

There's a pensions train smash coming

BusinessTech
Magnus Heystek
Staff Writer 9 September 2020

South Africa is facing a 'pensions train smash', says Magnus Heystek, director of Brenthurst Wealth Management, as a number of factors including the poor JSE, a weak economy and new regulations are set to collide.

Heystek said in a webinar on 9 September that this collision course is the result of a number of problems in the wider pensions industry, which have been building for years.

He added that ordinary South Africans are starting to see the problems for themselves when looking at the return on their money. "You can only hide bad news for so long and we have now had five to seven years of very poor return for most South African pension funds. So people are starting to wake up and are asking questions to their trustees and advisors, saying 'what's going on here? I am not making money'."

Prescribed assets

Heystek said that the issue of prescribed assets forms part of the bigger discussion around the pension industry, particularly the controls that government already has over pension funds in terms of regulation 28 of the Pensions Act.

Heystek said that many South Africans are only just beginning to realise how badly the JSE has done over the last seven to 10 years. "They are now starting to see that the rest of the world has had a tremendous bull market and (that) we are not part of it and have been left behind."

While he noted that some stakeholders have started to pressure government to increase offshore investment, it was unlikely that this will happen. What is more likely is government's increased interest in prescribed assets and pensions funds, he said.

Heystek said that in recent weeks the government has been 'obfuscating' how it plans to use prescribed assets and that it was only having discussions with pension funds. "I don't care what you call it, they have earmarked pension funds as a way to raise cheap capital to raise government-sponsored projects," he said.

"They have quite clearly said that it is in order to get cheaper finance and cheaper finance means lower returns for investors, so it's part of a broader discussion on regulation 28, offshore investing, prescribed assets against the background of a stock market that has not grown very much."

Money leaving

Heystek said that if you take out three or four shares, namely Naspers, Prosus, BAT and BHP Billiton, the JSE is actually down 30% over five years. "It is an astounding reflection of how bad the economy and the stock market is doing," he said.

Citing his own data, he estimates that since President Ramaphosa took over in 2017, around R307 billion has left the JSE through foreign investment. He added that money has been pulled from the stock market by these foreign investors for 23 of the last 24 months, at an average of about R10–R12 billion a month. Heystek said that, compared to developed markets, South Africa no longer competes as an investment destination.

Comment

Heystek is just confirming what we have seen since the beginning of the year.
Our BOT decided unilaterally to voluntarily comply with Regulation 28 of pension fund legislation, which doesn't apply to the GEPF. Including not investing freely in offshore assets.

Synopsis

Sygnia's stance on prescribed assets within retirement funds

14 September 2020

Sygnia

The current Covid-19 crisis has brought the ANC's prescribed assets issue into the spotlight again, simply because we all know that the government has two priorities: to deal with a major tax revenue shortfall and to mobilise investment in domestic infrastructure projects as a job creation scheme and as a mechanism to fund debt-ridden SOE.

Not surprisingly, investors have started to panic about the reintroduction of the so-called "prescribed assets" and the security of their savings. While some of this alarm may be justified in time, we do not believe there is currently a cause for panic.

The previous prescribed assets regime was abolished in 1989 and much else has changed since then. In particular, the wide-sweeping transition from defined-benefit to defined-contribution arrangements means that investment risk is now carried by retirement fund members and not by the sponsoring employers. Maximising risk-adjusted investment returns to optimise their retirement outcome has become the only objective for members, and the introduction of prescribed assets would infringe on that objective and encounter much resistance, even court challenges, from members, trade unions and boards of trustees, who have a duty to protect members' interests.

As retirement funds enjoy tax breaks, government might counter that it should have a say in how the money is invested – in which case, funds might well demand a "grandfathering" of existing investment strategies. While members could then choose to reduce their contributions to the lowest possible levels, some might well resign to access their savings. Hence the concept is actually a very blunt instrument.

Those employers still sponsoring defined benefit funds will also resist prescription as the prospect of lower investment returns would lead to higher employer contribution levels. Lower returns will likely also give rise to lower pension increases.

To be clear, the government is not currently considering a prescribed assets regime.

Furthermore, the tax advantages of saving through retirement funds remain substantial, and it would be foolish to give those up just yet.

Given that so many listed companies have opted to delist, a genuine investment issue worthy of concern is the dire lack of diversification within the domestic equity sector. Another issue is the stringent 30% limit on foreign investments – without access to a diversified range of "growth" asset classes, investment returns are likely to remain in single digits.

Sygnia's position on prescribed assets is clear: we would oppose them through whatever means are available to us – as, we suspect, would the rest of the financial services industry, including boards of trustees of retirement funds and trade unions.

If no other options are available for South Africa, a form of "negotiated" solution might become necessary, but that would only be acceptable if carried out in consultation with investors (e.g. being allowed to invest 40% to 50% of assets offshore in exchange for a commitment to invest, say, 20% of assets in government-guaranteed debt). Either way, you have our ongoing commitment to always act in the best interests of South African savers.

Comment

A reminder about the 'government's' intention to introduce prescribed assets for pension funds. It might be the ANC found the resistance to prescribed assets too strong right now. Take note, it won't go away, it will appear incrementally in the next five years under different guises.

Synopsis

GEPF Change in actuarial interest factors upon resignation

Members were previously informed that the PSA approached the High Court in Pretoria to set aside the unilateral decision by the GEPF to change the actuarial factors affecting the resignation benefit of some 1,3 million public servants.

The GEPLaw and GEPF Rules make various references to instances where negotiation or consultation is required with the Minister and/or labour representatives in the PSCBC or employee organisations representing the Public Service, prior to any amendment being made to, amongst others, the benefit structure of the Fund. As an example, the following is mentioned:

> Rule 14.4.2 defines the F(Z) and A(X) factors utilised in the calculation of the actuarial interest (that is a member's accrued benefit paid by the Fund in specific instances such as at resignation) the impact of this decision resulted in a reduction of approximately 7% in the resignation benefit to members.

The GEPF reduced the actuarial interest factors without following the consultation process as contemplated in the Pension Fund Act and Rules. Despite efforts by the PSA to have the GEPF reverse its decision and consult before amending the actuarial factors, the GEPF remained adamant and proceeded with the implementation and payout of the benefits in line with the amended actuarial factors.

The appeal was heard on 7 September 2020 at the Supreme Court of Appeal. The PSA is confident that the Court will set aside the High Court's Judgement and grant the PSA the relief sought as set out below:

- Consult with the PSA, Minister and employee organisations.
- Apply the interest factors determined in March 2012, pending a proper consultation process.
- Recalculate the actuarial interest of members whose memberships terminated after April 2015.
- Pay such members the difference between the resultant amount and the amount initially paid.

The Supreme Court of Appeal has reserved judgement in the matter. Members will be informed of the outcome.
GENERAL MANAGER

Comment

We trust the court will find for our members.

Synopsis

Harmony gets green light for AngloGold mines

inceConnect

15 September 2020

By Stephen Gunnion

The Department of Mineral Resources and Energy approved the transfer of the West Wits mineral rights to Harmony with no conditions.

Harmony Gold says it will take effective control of the Mponeng gold mine from AngloGold Ashanti on 1 October after all conditions for the deal were met. The deal consolidates Harmony's position as one of SA's leading gold producers - and marks AngloGold's exit from mining in the country.

Harmony said the assets, bought in February for $300 million, would improve its portfolio mix between surface and underground operations and had the potential to improve its overall recovered grade and cash flow margins. It would only be able to estimate the full benefits of the integration once it had taken ownership of the assets. When it announced the deal it said it would boost annual gold production by about 350 000 ounces and increase its SA reserves by 8,27mn ounces.

The deal also includes the mothballed Tau Tona and Savuka mines and mine waste recycling operation Mine Waste Solutions. Harmony will pay $200 million for the Mponeng, as well as deferred compensation of $260 per ounce on any underground gold production from the West Wits mines - Mponeng, Savuka and TauTona - that exceeds 250 000 ounces a year for six years starting from January 2021. On current production forecasts, that's worth an additional $100 million. It will also get deferred compensation of $20 per ounce if Harmony develops the mines below existing mining infrastructure.

AngloGold said the deal was in line with its aim to continually improve its portfolio and supported its disciplined approach to the allocation of capital and other resources to ensure maximum value generation for all shareholders. Gross cash proceeds from the transaction would be used to reduce debt.

Comment

Our [the Fund's] shareholding in both companies will benefit from this transaction. [Harmony 4% R642mn, AngloGold 8% R6 641mn]

Synopsis

From: Stehle Theo [mailto:stehletheo@gmail.com]
Sent: 13 August 2020 10:12 AM
To: 'enquiries@gepf.co.za'
Cc: Adamus Stemmet

Subject: FW: Newsletter: FundNews First Edition 2020/21

Good morning

I have received the GEPF Fund News First Edition. I am shocked by the way the newsletter misrepresents the true financial situation of the Fund. You (the GEPF) are deceiving your readers/the members, but fortunately due to our watchdog organisation's repeated efforts to give the members a correct picture of the Fund, not all people are fooled all the time.

The fact that you found it necessary to prominently feature the article on the safety of pensions, is evidence that you are trying to hide the truth from the members.

The GEPF as well as the Public Protector are hiding behind the premise that pension payments are guaranteed by government.

Why don't you inform the members (those that don't yet know) that the government is close to bankruptcy due to years of looting of state assets and mismanagement, and that an assurance of this nature is meaningless? Why don't you inform the members that the government has lagged behind in increasing the state's contributions to the Fund to make up for deficits in pension payments, that now have to come from contributions instead of these being invested to ensure the growth of the Fund and keep it solvent?

The Fund News is nothing but a propaganda medium which seeks to paint a bright picture of how well things are until the day of reckoning is coming where pensioners are facing the reality, just like the Transnet pensioners had to contend with.

I would request you to please forward this e-mail to the PEO of the GEPF, from whom I would kindly request an appropriate response.

Yours
Theo Stehle

From: Musa Mabesa [mailto:Musa.Mabesa@gepf.co.za]
Sent: 15 September 2020 11:13 AM
To: stehletheo@gmail.com
Cc: Frans Le Roux; Babs Naidoo
Subject: RE: Newsletter: FundNews First Edition 2020/21

Dear Mr Stehle

Thank you for your correspondence below.

It is unfortunate that you perceive the GEPF Fund News publication as a "propaganda medium". Your misgivings about the financial soundness and information published by the GEPF is unfortunate and regrettable.

I would however like to remind you that since 1996, when the fund was formed, the GEPF has grown from R127 billion to approximately R 1.8 trillion currently. It is also easy to overlook the fact that in 1996, the GEPF was only 72% funded compared to 108.3% in the last actuarial valuation in 2018.

Please note the GEPF cannot and does not respond on behalf of government or the Public Protector. Your comments on the on both organisations should be directed to them.

Kind regards
Mr. Musa Mabesa
Acting Principal Executive Officer

I once again wish to emphasise the importance of having an open door policy regarding the members of the Fund, who are the, and the ONLY, stakeholders to the Fund's benefits, and thereby eliminate the mistrust that arises from conducting your business behind closed doors. The ONLY *raison d'etre* for your and the BoT existence to manage and guard the GEPF, is its members.

The Fund is not a bank for the wider society, it was created purely for the retirement of civil servants, and remember the GEPF inherited a stable and trustworthy state of finances form its predecessor, albeit that it wasn't as highly funded as, say, in 2014. That does not mean that the Fund should not invest in the country's development, but investments need to be prudent and responsible, never losing sight of its primary objective. This was not always adhered to in the past couple of years.

You will also have to concede that the Fund declined since about 2014 till today, and is on a downward spiral, and that is unfortunately what matters, when comparing figures of the past with those of today.

Thank you again for being able to voice my genuine and justified concern about the Fund, and you having responded to it, in spite of my rather straight way of confronting the message you tried to carry across to the members.

Yours sincerely
Theo Stehle

On Tue, 15 Sep 2020 13:59 Stehle Theo, <stehletheo@gmail.com> wrote:

Dear Mr. Mabesa

Thank you for responding to my communication. I really appreciate it, for of late (unlike about eight years ago when I also wrote to the then PEO, Mr. Oliphant, and received a very comprehensive response), the GEPF has been totally uncommunicative regarding its members' enquiries, for whose benefit after all, the Fund is held in trust by the BoT.

I would, of course, have preferred the chairperson of the BoT to also respond in her capacity as a Trustee. If possible, please pass this to her also for comment.

However, I must mention that your facts regarding the fiduciary health are, although not incorrect, not quite in the proper perspective. You know as well as I that the comparison you make with the state of affairs in 1996 does not necessarily reflect the true financial state of the Fund today. There is much more to it than meets the eye. Also I need to remind you that the Fund value has in recent months, owing to various factors (one of which is the further economic decline of the country since the lockdown started) declined to about R1,5 trillion on paper, which needs to be discounted when the financial state of the Fund is examined. I have already mentioned in my previous communication the reasons for making the "unfortunate and regrettable" statements about the Fund newsletter. I will not repeat them here.

For your and the BoT's benefit I attach below the most recent media statement by the GEPF watchdog AMAGP, which represents at least about 50 000 members of the Fund, and which avails over the services of an actuarial expert very familiar with the dynamics of the Fund's finances, and which is self-explanatory. **I would like you to comment on these findings as opposed to your official stance on behalf of the GEPF, and answer the question whether you think this might reflect a more accurate perspective (NOT "perception" as seen by you re my e-mail)**. This would prove that the GEPF doesn't close itself off from its members.

<u>HERE IS THE STATEMENT</u>:

STATEMENT
Issued on behalf of the Association for the Monitoring and Advocacy of Government Pensions (AMAGP)

Cape Town
14 September 2020

THE GEPF CAN NOT AFFORD FUNDING SOE AND OTHER ENTITIES WITHOUT ULTIMATELY HARMING WORKERS AND PENSIONERS

Hardly a week now goes by without the Government Employees Pension Fund (GEPF), and/or the Public Investment Corporation (PIC), receiving news coverage about proposals for investments, and often even demands for utilising its funds to bail out other failing entities and SOE.

It appears as if some individuals, political leaders, institutions and even sometimes union leaders, see the GEPF's funds as being the solution to all of South Africa's financial problems, even to kickstart the economy post Covid-19, up to individual investments in failed State Owned Enterprises (SOE) such as the SAA, Eskom and Landbank and even private enterprises with the excuse that it should save jobs.

If we exclude the comments and proposals from the take "it all crowd", the amounts mentioned range from R10 billion to R250 billion.

At the end of March 2019, the GEPF had R1,8trillion in investments. The GEPF is a long-term investor. This means that the investments, once made, will remain on the books for a considerable period, 10 years, 20 years even perhaps longer. Sure, there is turnover, but this is very limited.

The amount bandied about to rescue ESKOM from its debt trap is at present about R250 billion.

We need to put the GEPF's capabilities in some context.

The total new investments made by the GEPF over the past six years (since 2014 to 2019) amounts to R248 billion.

New investments primarily come to the Fund from member contributions. This R248 billion in investment is primarily the result of 1,2 million GEPF members who had to diligently work and contribute towards their pension for a total of 72 pay days (6 years x 12 months).

It took the GEPF six full years to make up this amount of new investments spread out over ALL asset classes. Even if the GEPF could magically convert this amount (*) into ONE asset, it would surely be ignoring the threat of over concentration and be an extremely high risk move.

It seems as though every SOE that requires a bailout or recapitalisation, is thinking of an amount of R10 billion.

Some context of the GEPF's capabilities in this regard:

The average new investments that the GEPF made since 2014 was R41 billion per annum, spread out over all asset classes. The highest amount in a single year was R56 billion (in 2018) and the lowest R22 billion (in 2015).

So, to entertain any investment in any SOE the GEPF would likely have to liquidate existing investments. On face value (and in theory) this is not a problem considering the R1,8 trillion of investments held.

So what will the GEPF do? Liquidate the high growth high performing assets?

The GEPF is sitting on an investment portfolio that is a ticking time bomb when we consider that the below expected investment income amounting to R225 billion resulted in substantial strain to the Fund between the actuarial valuations of 2016 and 2018. The current portfolio is already overtaxing the good performing assets. To now sell those good performing assets to invest in known under-performing entities is on face value not a wise defensible strategy,

Liquidate the poor performing assets?

The GEPF has been keeping on its books a lot of dead weight (under performing assets). This we see from the substantial strain caused by the below expected investment income and the growing list of impaired investments.

The GEPF claims this is because they are primarily investing long-term. This may be so, BUT we also know that by keeping these dead dogs on the books, the GEPF is postponing the inevitable day of reckoning i.e. when they not only have to sell these investments at a loss, but then to also disclose this loss with the sale of assets in the annual financial statements.

To generate enough cash to reinvest R10bn, the sell off of poor performing investments is indeed bound to have an impact on the markets, and then of course the current disclosure of these individual losses in the Financial Statements are anything but fully transparent.

But there are moves to rectify this so that a proper determination can be made i.r.o. the ethical principles adopted by the GEPF....

"*Responsibility: Trustees are responsible for the Fund's assets and actions and must be willing to take corrective actions to keep the Fund on a strategic path that is ethical and sustainable.*

Accountability: Trustees are collectively and individually accountable and should be able to justify their decisions and actions to members, beneficiaries and other stakeholders of the Fund. Trustees may be liable for any breach of governance that results in any loss to the Fund and to its members, pensioners and beneficiaries."

The strategic path mentioned above ...

The above scenarios do not even cater for the increased foreign exposure which should have started in 2014 already.

EVERYBODY IS STILL WAITING ON THE FINANCE MINISTER TO FINALLY APPROVE THE REVISED ASSET ALLOCATIONS. IT IS GATHERING DUST ON HIS TABLE SINCE 2014!

We have pointed out before, and now again confirm our conclusion, that the GEPF can not afford the suggested adventures or demands by so many instances/people with nothing to lose, seeing that their views affect money not belonging to them. In coming to this conclusion, we again also had regard to the independent actuary's reports of 2017 and 2019 in which he clearly recommended that the government's contribution to the pension fund be drastically increased. We accept that due to financial constraints the government could not comply.

Issued by
Adamus P Stemmet
Spokesman AMAGP.
Enquiries:
Christo van Dyk

Comment

The above AMAGP statement is preceded by correspondence between one of our active

members, Theo Stehle, and the GEPF. The emails are clear and to the point, including the meaningless and noncommittal GEPF answer by the Acting PEO, actually only an acknowledgement of receipt.
If the current value of our Fund has decreased to R1,5trn and we add all the impairments, actual and latent, the funding percentage is reason for concern.

Synopsis

Wednesday, 16 September 2020

POLITICS

SAA BRP's latest 'blackmail notice' should be rejected outright

PoliticsWeb

By Alf Lees |
13 September 2020

The DA notes the latest 'notice to affected persons' by SAA's BRP stating that the continuation of the business rescue proceedings will depend on the provision of timeous short term funding from government during the course of next week.

We want to make it clear that this attempt by SAA's BRP to hold the proverbial knife to South African taxpayer's throats and demand a bailout should not be accepted. The ANC government is still under legal notice from the DA on the use of taxpayer funds to finance another SAA bailout. We will not hesitate to go back to court if the Ministers of Public Enterprises and Finance dare to cross this line.

The latest notice by the BRP only serves to confirm that the recent claims that SAA was receiving unsolicited investment bids from private players were not serious and were designed to placate South African taxpayers who will likely land up paying out R10,4 billion to save the ANC's SAA vanity project.

With a month to go before the announcement of the Medium Term Budget Policy Statement (MTBPS) the Minister of Finance, the DA will remain vigilant and ensure that South Africans are not 'ambushed' by a shock announcement for another SAA bailout.

StatsSA just announced the worst GDP contraction in SA's history and the DA will oppose the ANC government's predilection with financing their SAA vanity project at the expense of South Africans who have lost their jobs and seen their small businesses collapse during the Covid-19 period.

Issued by Alf Lees, DA Member of the Standing Committee on Public Accounts, 11 September 2020

Comment

We must pay attention to the ANC's SAA vanity project, to prevent our Fund being milked for the continued existence of this loss-making SOE.

Synopsis

SAA's future again hangs in the balance amid scant details of rescue funding

BusinessDay
21 September 2020
By Genevieve Quinta

The future of SAA once again hangs in the balance as BRP wait for the government to provide details of funding for their plan to rescue the ailing state-owned airline. A creditors' meeting was called for Friday to review the SAA business rescue plan after the required money to fund the plan was not secured.

Practitioner Siviwe Dongwana told the meeting that a communication from the government, with the support of the Treasury, stated that there was a "very clear Cabinet commitment" to provide R10,5bn.

Dongwana said the letter was only received on Friday morning, and the practitioners had to engage with the government in detail to get a clear understandings of the timelines. He said only in the next week would they be able to come back to all affected parties with information on the timelines and the flow of funds into the company.

The creditors' meeting concluded after less than an hour, due to the letter received from the government.

The Department of Public Enterprises confirmed that the government was reprioritising funds to finalise the restructuring of SAA. It said an announcement to this effect would be announced in the Adjustments Appropriation Bill, which will be introduced in parliament soon. It said that at the same time, the department would continue to assess the 20 "unsolicited" expressions of interests from private-sector funders, private equity investors and partners for a future restructured SAA.

The Department was emphatic that the national carrier would not be liquidated.

Unions in the meantime have written to the government threatening to take legal action if SAA and SA Express (SAX), are liquidated.

Most urgent of this is short-term funding of R2,8bn, required to restore solvency, and to enable the practitioners to hand back the company to its management and board. Employees are also anxious about receiving retrenchment packages.

The Department has tried to attract an equity partner and arrange finance from other quarters, engaging Rand Merchant Bank as transaction advisers. It is understood domestic banks that have lent to SAA previously declined to do so.
quintalg@businesslive.co.za

Comment

The 'government' intention not to liquidate SAA seems to me like its insistence on liquor and tobacco lockdown in the face of all facts.

Synopsis

Gordhan's budget commitment for SAA questioned

By Moneyweb
21 Sep 2020

Gordhan's department seems to have given itself until late October to find the funding and is hoping lending institutions will provide the 'money in the bank' that SAA needs now. Government will in the coming week sort out where to find the more than R10 billion needed for the restructuring of SAA and start of the 'new' SAA, according to Minister Gordhan.

Gordhan told Bloomberg that government's commitment is clear, and that meetings in the coming week will resolve "the money issue". This comes after his department said in a statement on Friday that money will be reprioritised in Finance Minister's adjustment budget next month and the hole will in the meantime be plugged with loans.

Treasury remains silent

National Treasury did not respond to questions and several commentators are convinced the public commitment was made without approval from Treasury. Mboweni has in the past expressed his view that SAA should be closed.

A lack of support from Mboweni could result in a repeat of the events in February, when the SAA BRP had to go back to the drawing board after Mboweni failed to allocate the expected funds in his main budget. As a result, they were considering the winding down of SAA, but Gordhan started a parallel process with unions.

Rescue plan adopted in July

At a creditors' meeting on Friday, BRP Siviwe Dongwana and Les Matuson said the airline has no money left and they are considering winding it down or applying for liquidation. Dongwana told creditors they had received a letter from the Department of Public Enterprises right before the meeting repeating its commitment to provide the necessary funding.

The BRPs refused to make the letter public. Moneyweb has however learnt that it was co-signed by Gordhan and Mboweni, but does not go as far as making commitments regarding the Medium-Term Budget Policy Statement (MTBPS) in late October.

Creditors to be advised 'this week'

The Department in its statement on Friday stated emphatically that SAA will not be liquidated. According to Bloomberg it is trying to get short-term loans from the DBSA and the PIC. The Department has so far had no success in securing further loans for SAA's rescue plan, and any bridging finance it succeeds in obtaining now could be extremely expensive.

Intellidex head of capital market research Peter Attard Montalto, says the situation undermines investor confidence in government. "Games continue but it is likely to have the increasing fallout of damaging sovereign credibility in the minds of investors, with one minister sending highly tactical press releases making commitments that National Treasury has not agreed to on the one hand and is silent on the other".

Interested parties, and politics

Gordhan seems to be pinning his further hopes of money flowing into SAA on the 20 parties that have allegedly submitted unsolicited bids for participation in SAA. According to his department, these include "private sector funders, private equity investors and partners for a future restructured SAA", but no further detail has been provided.

Bloomberg reported earlier this month that Ethiopian airlines is in talks with government about support for SAA, including the possibility of taking a stake in the restructured airline.

Political commentator Theo Venter says Gordhan's apparent obsession with saving SAA stems from his communist belief in central control by the state. Mboweni on the other side is more free-market orientated. Venter says Ramaphosa came to power in the ANC with the support of the Communist Party and needs it again in the upcoming municipal elections and for his own campaign for a second term at the helm of the ANC.

Comment

Note the comment about the role of the communist party members in the ANC. Interesting that the dyed in the wool communists still have such power within the ANC and, by implication, Cosatu.

Also note the lack of detail about the "20 unsolicited bids", except for vague Ethiopia Airlines.

I suspect the lack of financing is going to keep the process going and BRP richer until funds are provided or SAA, hopefully, liquidated.

Synopsis

South Africa Seeks SAA Rescue Funds From its Own Agencies

Bloomberg
By Antony Sguazzin,Loni Prinsloo, and Paul Vecchiatto, with assistance from Michael Cohen, Roxanne Henderson, Prinesha Naidoo, and Simon Marks
18 September 2020

South Africa's government is in talks with two state agencies to try and secure the R10,5bn needed to restart its insolvent national airline, people familiar with the situation said.

Money is being sought from the DBSA and the PIC the people said, asking not to be identified because an agreement has yet to be reached. The two firms didn't immediately respond to requests for comment.

SAA was placed in administration in December, hasn't made a profit since 2011 and is relying on state handouts. Keeping it afloat is seen by opposition parties and some analysts as a distraction for the government at a time when it needs to rescue the more crucial state power utility and reinvigorate growth in an economy.

Mobilising Money

Mboweni has previously indicated the government doesn't have the money available to rescue SAA and said he would help "mobilise" funds from other sources.

While the DBSA, which has previously funded SAA, may provide more money, the PIC is resisting efforts to tap it for cash, citing its already significant exposure to struggling state entities, one of the people said.

Ethiopian Airlines Group is in talks with SAA over providing assistance, people familiar with the situation have said previously. The Addis

Ababa-based carrier is seeking control, possibly in the form of a management contract, and that may be a sticking point, the people said. Ethiopian Airlines said in an emailed response to a request for comment that it has "no recent update" on the matter.

Comment

We must prevent the PIC being involved with SAA. If our Fund's funds are used for this business rescue, we can write it off immediately as an impairment.

Synopsis

South Africa to rehabilitate Eskom and 'address blackouts'

17 September 2020
by Jarryd Neves

It's off to rehab for Eskom, the drunken SOE that stumbles across the country, dropping blackouts as it aggravates and annoys tax-paying citizens that fund its colander-aping pockets. Along with various business groups and labour unions, the South African government have decided to intervene and have "agreed on a pact" to reverse the sorry state of the debt-riddled energy supplier and "address rolling blackouts" by increasing electricity output. Hopefully, this isn't just another bailout. The company is required to "adopt a zero-tolerance approach to corruption", while law enforcement should be "given the capacity" to prosecute anyone who decides to turn their hand at embezzlement. – Jarryd Neves

South Africa agrees pact to fix indebted state power utility

By Mike Cohen and Antony Sguazzin
Bloomberg

The government, business groups and labour unions said they have agreed on a pact to turn the country's debt-stricken state-owned power utility around and increase electricity output to address rolling blackouts.

The accord, a copy of which was seen by Bloomberg, calls for Eskom's R488-billion ($30 billion) debt to be reduced and for adequate resources to be "mobilised" to ensure it becomes financially sustainable, but is scant on detail on how this will be done. "Finance mobilised will provide investors with appropriate long term, stable and reliable social and financial returns," NEDLAC said in the plan, which was agreed Tuesday.

The plan makes no mention of a previous proposal for the PIC to take over part of Eskom's debt. Institutions that make funds available must do so within the mandates and risk-mitigation processes can't be compromised, it says.

Greatest Threat

Eskom, which provides about 95% of the nation's power, isn't selling enough to cover its costs – a legacy of years of mismanagement, inadequate maintenance and overruns at its two newest plants. The utility's inability to supply sufficient electricity has curbed economic growth.

The plan, now that it has been agreed, will enable the work of raising the funds to reduce the debt to begin, said Martin Kingston, deputy president of Business Unity South Africa, a business group that took part in the negotiations. "Eskom still presents the biggest single threat to the economic system of south Africa," he said in an interview.

Regulatory Obstacles

The pact commits the government to removing all regulatory obstacles that hinder companies from generating their own electricity, while businesses agreed to implement projects to add 2 500MW within two years. The government also agreed to buy an additional 2 500MW emergency power, 500MW more than previously announced.

Eskom was given the green light to renegotiate overly onerous contracts with coal suppliers and independent producers of green power that supply the national grid as soon as possible.

Other highlights

- Eskom needs to review all its material contracts to ensure that they aren't corrupt and ensure it isn't overpaying for goods and services.
- Power prices must be cost-reflective and simultaneously be affordable for businesses and households.
- Eskom must adopt a zero-tolerance approach toward corruption and law-enforcement agencies should be given the capacity to prosecute anyone found to have misappropriated its funds.
- Eskom's operating model will be reviewed with a view to addressing its bloated management structure and associated costs.

Comment

I like the words "Institutions that make funds available must do so within the mandates and risk-mitigation processes can't be compromised".
Review the material contracts? Ja, well, no, fine. I would like to see it happening, there are too many entrenched looters in those contracts, starting right at the top. Coal and diesel are two prime examples.
Review power prices? Start with all the massive below cost supply to major industries and neighbours, that will make a huge difference immediately.
Bloated management? Don't hold your breath yet, too many occupying sinecure posts at all levels.

Synopsis

Filling ANC election kitty the only real 'emergency'

Daily Friend
By Mike Coleman
19 September 2020

One simple factor explains ninety percent of ANC government decisions – it is PCP, or Positive Corruption Potential. Power generation is a good example.

The President announced an 'emergency' electricity procurement initiative in December 2019. Nine months later, the Department of Energy announced an urgent Request for Proposals for 2 000 MW of emergency power to be available within two years. It cost R25 000 just to put in a bid.

There is no 'emergency', only an ongoing ten-year-old crisis called Eskom. It produces less electricity now than in 2007; charges 500% more for it, with 15 000 more staff (it is 66% overstaffed, according to the World Bank); has only 60% of its 42 000 MW capacity available vs 92% 20 years ago, and has a debt of R488 billion. It spends R1 billion a month on diesel-fuelled turbines to reduce power cuts.

Yet some 10 000MW capacity has been available for the last five years, requiring only the minister's signature: 5 000MW generated by industry and farmers; over 4 000MW in renewable wind and solar projects from Bid Windows 4 and 5 by 2015; and 500MW in excess renewable electricity which producers are prevented from supplying. All could have been up and running by now, preventing any power cuts. So where is the emergency?

Answer is simple

What is the difference between the readily available renewables and the government's 'emergency' requirements? The answer is simple: Positive Corruption Potential (PCP). The 10 000MW is in the hands of the private sector, with foreign capital funding of over R200bn, and has very little PCP. On the other hand, Turkish powerships or Russian nuclear or Chinese-backed coal power stations with truck-by-road coal delivery have very high PCP.

Soon after the arms deal convinced the ANC of PCP's importance, its investment wing, Chancellor House, pulled off a stunning deal which put Ponzi schemes in the shade: on a R1,25 million deposit they got a 5 000% return. A French firm, which perhaps had too little grasp of PCP, won the contract to design and supply the boilers for Medupi at R20bn, and later at R40bn with Kusile. Then, in 2007, it emerged that the contract belonged to Hitachi, B-BEEE partners with Chancellor House.

$6mn in kickbacks, $1mn in success fees, dividends of $5mn, and buyout in 2014 at $4,5mn demonstrated then Eskom board chair Valli Moosa's effectiveness in his other role as a member of the ANC fundraising committee.

Hitachi meanwhile discovered that 'ANC' welding skills on boilers could not be relied on, so had to re-do 9 000 welds; then the nasty Americans relieved them of $19mn for bribing the ANC, and they had to pay a massive settlement to big brother firm Mitsubishi. And now, in 2020, the brand new boilers need re-designing. PCP works for the ANC, not necessarily for their partners.

Twice the price

Eskom's low-cost electricity used to be based on power stations supplied by conveyor belt or railway from large neighbouring coal mines. Under Brian Molefe that policy was abandoned in favour of trucking coal by road from small BBEEE-owned mines at twice the price. Rational? No. PCP? Yes. And we have not even mentioned the Guptas, Tegeta, and the rest.

There are signs that Eskom may now be viewing PCP differently; in July it cancelled a R14bn contract for oil supplied by a small black female-owned company.

So, there is no 'emergency' power supply needed: there is only a shortage of ANC funds before the 2021 local government elections. In this context, the PCP of R40bn 'emergency' power would be really useful.

Apply PCP to any ANC government decision you have had difficulty understanding in the past decade, and all will be clear.

Comment

Politically Correct Pricing might be a better understanding.
This article is included for us to remain aware of ANC intentions with any decision involving the GEPF and PIC.

Synopsis

IOL
By Opinion

AYO Technology Solutions chairman, advocate Dr Wallace Mgoqi, writes an open letter addressing rumours that allege that the company is corrupt and requests that the company be allowed to breathe so that it can continue its business of transforming the ICT sector to include all South Africans in the conversation.

DEAR South Africa

What is corrupt about AYO? Nothing. As proven by numerous inquiries, audits and investigations the company has endured over the past 12 months.

AYO is an established company employing several thousand good, honest people. It is the single largest black-owned and managed ICT company on the JSE, and one of only a handful of black-based listed entities. Until AYO listed, the company went about its business undisturbed, delivering profits and value for its stakeholders.

Of late, however, there has been a mire of misleading, factually incorrect and unsubstantiated media reports, which have created noise in the market. Starting with a single accusation carried in one paper, AYO has been subjected to a barrage of negativity that has morphed into claims of corruption and wrongdoing across much of the media landscape, resulting in being tried by public opinion.

Although three separate audits have cleared AYO and proven that all is above board, the company has continued to be tarred with the same brush as the acknowledged fraudulent and criminal behaviour of the likes of EOH, Tongaat Hulett and Steinhoff.

This, therefore, is my open letter to once and for all set the record straight.

AYO listed on the Johannesburg Stock Exchange (JSE) in December 2017. It was born out of African Equity Empowerment Investments (AEEI), a diversified investment group, itself a listed entity.

With the rising dependency of the world on technology and the opportunities this presents, it made complete sense to float a company that would house all AEEI's ICT-focused entities under one umbrella - Ayo Technology Solutions (AYO).

Ahead of listing, the company underwent months of planning and a thorough valuation process - conducted by independent parties and advisers. The timeline for the listing - all above board, open and transparent, with many opportunities for questions and challenges, and those that were raised were addressed prior to listing.

With the stated aim of creating the country's largest black-owned ICT organisation, AYO went in search of the appropriate investors and potential shareholders who would fulfil this business goal.

Consequently, AYO's shareholding is representative of this with hundreds of different shareholders, including a grouping of unions and black women's groups, along with other large and small entities.

Why the PIC as a shareholder?

A number of asset managers were approached. However, the PIC is the biggest asset manager in the country and has a mandate to invest in businesses and sectors with growth potential. Together with its imperative to support the development of black businesses, this made them a good fit for a sector till then largely untransformed. From the outset, the PIC supported the listing, as it created the largest black ICT company in the country.

As a result, the PIC is a significant shareholder in AYO - investing R4,3billion and owning 29% of the company with representation on the board, which also has independent directors to support it.

By comparison, Sekunjalo Investment Holdings owns an indirect 29%, through its stake in AEEI, but has no seat on the board nor is it involved in any of the day-to-day operations of our organisation.

To list on the JSE, a company also needs to adhere to clear-cut rules, regulations and requirements set by the exchange.

This, AYO did. To infer, therefore, that AYO is corrupt, is to say the same of the JSE, how could the JSE have listed a company that was, if subsequent media reports are to be believed, crooked, fraudulent and unethical?
The simple answer - AYO is ethical, honest and has a good business proposition, echoing the values held by the JSE. It continues to do so.

Despite being cleared by several investigations, it has not stopped media from rolling out reams of factually incorrect and misleading copy about AYO, which armchair crusaders have seized and relayed to their peers. One cannot help but question the motives for such a strategy.

It should also be noted that any "findings" from the PIC commission have been based on hearsay and not on any evidence that would stand up to scrutiny in a court of law.

In fact, to date, not one critic has come forward with clear-cut evidence or demonstrable proof of any form of crooked behaviour by this company to back these claims. That's because these claims are fictional. I challenge anyone to prove differently.

Shade has been cast over this company for reasons we will probably never truly fathom, which has made our operating environment severely challenging. Despite this, we have managed to grow our asset base (now sitting at R6bn) and invest in a future that will be essential to how technology will impact every facet of how we live, do business and the economics that will govern us all.

We might not be creating the next big thing, but the technology that will drive it is where we will have an integral and necessary part to play.

With a dearth of adequately qualified technology-adept personnel in the country, AYO has also launched an academy that focuses on building capacity for the jobs that have yet to be created, as well as for today's needs.

No one truly knows what the future holds, but one thing is for certain, AYO will be a part of it - an active participant in connecting the unconnected and driving the African digital ecosystem. To get us all there, we need you to help us by giving us the space to breathe so we can continue to work on digitally transforming the economy - for the better, for everyone.

Comment

IOL is Independent Online, which belongs to Survé. It is awesome to have your own news company to extoll your business's innocence, delicately and selectively stating the facts [!] and skirting others, while the same news company only continues to exist with borrowed money. A masterpiece of obfuscation and rhetoric!

It seems EOH is the biggest black IT company on the JSE, not AYO; it is doubtful if it really is 'one of a handful of black-based listed entities'. Making all the statements and allegations in the 'open letter' questionable.

Some comment from the AMAGP below.

1. Most of Surve's coy pre-listing statements, including AEEI, carried elements of false information, due to Surve's flight of fantasies eg "the Galactic Highway".
2. The Mpati Commission found fraud had taken place at AYO board level, and that funds invested by the PIC should be recovered.
3. AYO was fined about R6mn by JSE for breaching its rules, which it paid without questioning or appeal.
4. Although AYO is operating at a loss, they are still riding the wave of GEPF's R4,3 Bn investment, by declaring dividends for its investors, who are mainly beneficiaries of Survé-related companies.
5. Even the High Court case got stuck in its efforts to reclaim the GEPF-funds, due to Survé establishing a myriad of related companies to which our Fund monies are being siphoned.
6. The Mpati Commission has clearly identified both Independent Media and AYO investments highly irregular.

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.