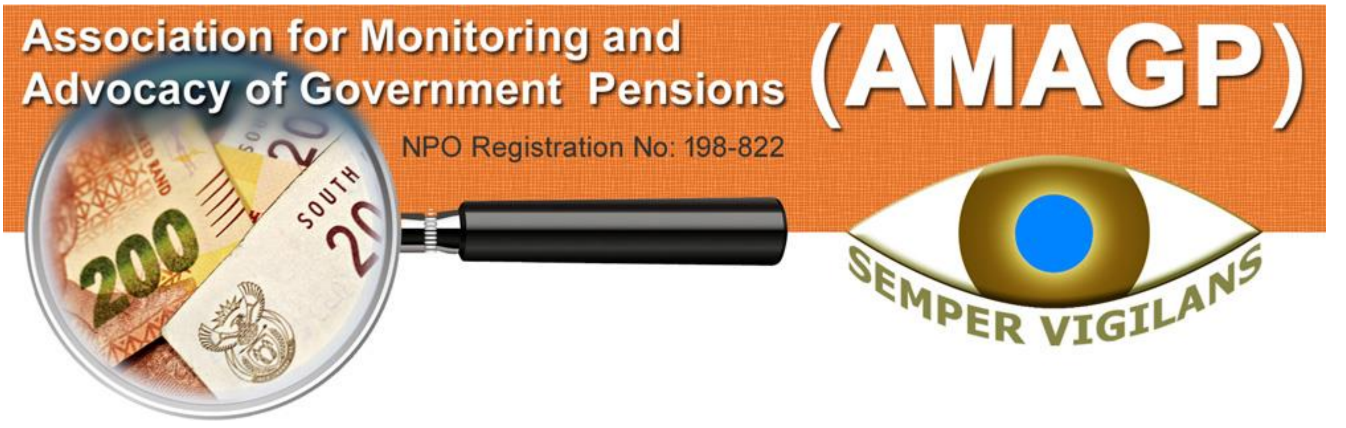


The Association for Monitoring and Advocacy of Government Pensions: An independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.AMAGP.co.za

GEPF Watchdog - Waghond

GEPF
your investment, your future

NEWSLETTER NO 17 of 2020

AMAGP – Association for Monitoring and Advocacy of Government Pensions
BOT – Board of Trustees [of the GEPF]
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
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 mn active members, in excess of 450 000 pensioners and beneficiaries, and assets worth more than R1,8 trillion. https://www.GEPF.gov.za/

The Editor's Word

Always keep in mind that the <u>owners of the GEPF are the members of the GEPF</u>, not the Trustees, not the PIC, not the 'government', not the 'GEPF'; nobody and nothing else than the members of the GEPF are the owners of the GEPF. The beneficiaries of the GEPF, of course, are those very same members and their applicable dependants, when they retire or withdraw from the Fund.

As a member of the GEPF (working or retired), the AMAGP Facebook page will keep you updated about 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 not part of the core business of the Fb page, you may also raise matters regarding the day to day management of your pension administration, which AMAGP will gladly refer to the Government Pensions Administration Agency (GPAA). However, this Fb page does not in any way replace the GPAA and does not intend to.

The AMAGP created a second page - GEPF FORUM - where GEPF members can get advice on administrative matters, from a number of specialists. This also doesn't replace [or intend to] the GPAA.

The AMAGP is grateful for all and any donations. We are still driven by concerned pensioners, none of whom are remunerated in any way by AMAGP or you, our readers. Donations received are of varying amounts, some once-off, some more often, some directly and other via the Back-a-Buddy. Donations are retained and intended for use in litigation, whenever it should be necessary. We wouldn't want to invade the privacy of those who donated so won't mention names, but from the AMAGP management:

A heartfelt
THANK YOU!
for all the donations.

A pension matter, mentioned briefly on Kyknet on 13 October, had to do with an Oudtshoorn soldier that disappeared in the sea 4 years ago, whose widow still hasn't received pension! AMAGP isn't involved in solving individual pension problems but does assist pensioners where possible. In this case our very capable Susan Voges, who assists in pension queries where she can, already had knowledge of this matter and was busy with it. I'm sure this challenge will be resolved soon.

The poor performance of the stock market over the past few years was discussed in the previous newsletter, which remarkable lack of performance has had a negative effect on GEPF funds. Please don't allow the poor performance that is going to be reported in many 2019 annual reports soon to be tabled, including the GEPF and PIC, to be brushed away as the result of COVID in 2020. Because COVID only influenced everything after March 2020, when most annual reports close of the financial year, including the GEPF and PIC. If we're lucky enough we'll see the annual reports still in 2020, but probably we'll only see the 2019 GEPF and PIC reports by about March 2021.

Now for the news…

In a victory for government employees, the GEPF now has to consult them, its members, before changing the formulas that determine the benefits members and pensioners get from the Fund. The Supreme Court of Appeal did not mince its words about the GEPF's attempts to downplay the importance of consultation with employee organisations in determining issues that directly affect their finances.

The SA Federation of Trade Unions, representing the trade unions not represented by Cosatu, is disappointed by the Guptas evading justice, see the media release below.

VBS. Two articles to update you on what happened to many millions of our Fund. The first court case has happened, more to follow. Alas, it is unlikely the money will be recovered, the greedy hands have already spent or hidden it.

The DA is proposing a Bill that will allow fund members to access their pension funds. Read the article for more disclarity on the advantages and disadvantages.

Any pension fund has unclaimed benefits, for many good reasons, often because the member just didn't know or forgot, or passed away and the family didn't realise it. Including the GEPF. I believe the GEPF manages to manage the unclaimed funds quite well. But note, the unclaimed funds are just that, these funds don't go anywhere as they have to remain for when the beneficiary arrives to claim it. It isn't intended to be used anywhere as 'surplus' funds for any reason, no matter how good it sounds. The funds belong to the member who paid it into the fund and must remain in that fund.
There is a massive amount of unclaimed pension funds in private pensions and much less in the GEPF. However, the Bill the 'government' wants to introduce to amalgamate all these unclaimed amounts into one fund creates huge warning signs.

The 'government's' infrastructure plans and announcements proceed, with little to show. No facts except huge amounts of funding mentioned. Note. It is often stated as fact that investment on 'government' infrastructure projects will happen if there is trust in 'government'. I believe this to be true. Read ASISA's views.

Prescribed assets remain in the news. There are two good articles about this contentious issue. Read them to refresh your thoughts and add some new understanding.

The Industrial Development Corporation has reported poor results for the previous financial year. We have a large amount in bonds in the IDC which makes our returns on these bonds that much less. Take a look at the excuses offered.

NEWSNUUSNEWS

Synopsis

GEPF actuarial interest factors: Supreme Court of Appeal rules in PSA's favour

12 October 2020

The PSA, in the wake of a Supreme Court of Appeal judgement, calls on the GEPF to urgently start with consultations to rectify the losses incurred by affected members of the Fund.

After the High Court handed down a judgement against the PSA on the actuarial interest factors affecting the resignation benefit of some 1,2 million public servants, the PSA approached the Supreme Court of Appeal for relief. The GEP Law and Rules make various references to instances where negotiation or consultation is required by the Minister and/or labour representatives in the Public Service Sectoral Bargaining Council with employee organisations representing the Public Service, prior to any amendment being made to, amongst others, the benefit structure of the Fund.

Rule 14.4.2 defines the F(Z) and A(X) factors used in the calculation of actuarial interest (i.e. member's accrued benefit paid by the Fund in specific instances such as at resignation). The GEPF reduced the actuarial interest factors without following the consultation process as contemplated in the Pension Fund Act and Rules. This resulted in a reduction of some 7% on the benefit being paid on resignation to Fund members. Despite the PSA's efforts for the GEPF to reverse its decision and consult before amending the actuarial factors, the GEPF proceeded with the implementation and payment of benefits according to the reduced actuarial factors.

The matter was heard at the Supreme Court of Appeal on 7 September 2020 after which the Court set aside the Hight Court judgement and substituted, amongst others, as follows:

> The GEPF decision to amend, with effect of 1 April 2015, the F(Z) and A(X) factors utilised in the calculation of the actuarial interest under rule 14.4.2 of the GEPF Rules is reviewed and set aside .The GEPF is ordered to consult with the first applicant (PSA), the second respondent, the fourth to nineteenth respondents and all other employee organisations as defined in the GEPF Rules on the calculation of the actuarial interest referred to in respect of those affected thereby. The GEPF was also ordered to pay the costs of the application, including the cost of two counsel

This matter is another example of a frivolous litigation process by government and wasting taxpayers' and pensioners' money while knowingly it should have abided by the rule of law. This judgement reaffirms the PSA's confidence in the judicial system. For this reason, that the PSA has also approached the Courts to adjudicate over the current Public Service wage dispute.

Comment

A step forward for those who intend resigning from the civil service and the GEPF, and possibly have resigned. However, the costs of this litigation come from our very own Fund's funds as the GEPF opposed the PSA's case. Reflecting poorly on the due diligence of our Trustees for allowing the poor decision and then allowing the litigation and its accompanying costs.

Synopsis

Gupta evasion of justice disappointing SAFTU

SAFTU
13 September 2020

Federation says it cannot remain silent when promises of imminent action are made and broken

It is by now obvious the government of South Africa has failed to exert sufficient pressure on the countries that harbour the fugitive Gupta brothers to extradite them to face justice. The extradition treaty, long signed by South Africa, is still unratified by the UAE.

Given that Dubai judges have set a 5-year time limit for extradition, the chances of them ever being sent back to answer for state capture and pay back the money is next to nothing. That 5 year time limit lapsed in August.

This failure is crushing, as our economy plummets. The people of South Africa have been robbed of an estimated R1 trillion. This money would have provided critical relief during COVID-19. People have literally died because this money was stolen.

On 15 December 2019, the Sunday Times reported that Ministers Ronald Lamola and Senzo Mchunu led a delegation in talks with the government of the UAE over the repatriation of the Guptas. They were joined by the head of the National Prosecuting Authority, Shamila Batohi.

Nothing has happened since then.

The Guptas still squander SOE monies and enjoy lavish lifestyles in Dubai while workers in many SOE face retrenchments and are not being paid their full salaries. They apparently travel freely to India, Uzbekistan and Switzerland. Ironically more has been done by the United States Treasury department, through the Magnitsky Act, to punish the Guptas than our own government representing the real victims of their looting spree.

Evidence about Gupta crimes abounds and has for years.

On 4 October 2017 already, SAFTU laid criminal charges against the Guptas, the Directors of Trillian and other implicated persons for the crimes of fraud, theft, corruption and money-laundering arising from their dealings at Eskom and Transnet. The charges were laid at the Specialised Commercial Crimes Unit in Johannesburg (under CAS 117/10/2017 (Hillbrow)). SAFTU sent a copy of its complaint to the Directorate of Priority Crimes Investigation at the SAPS and to the NDPP.

Until today, nearly three years later, not a single implicated person is before the courts. Investigations drag on and on. Yet our affidavit contained detailed allegations and evidence of wrong doing. To rub salt to injury, the Specialised Commercial Crimes Unit has not given SAFTU any feedback since 2017.

We note that President Ramaphosa believes history will absolve him of blame in how poorly the corruption fight back is going so far. History did not elect him, nor will history be able to do much should his promises fail.

SAFTU supports the NPA in its holding state capturers to account. But we cannot remain silent when promises of imminent action are made and broken. The Guptas have got away. The government should hang our heads in shame. So should UAE authorities who have dragged the matter. We note statements by the NPA that September 2020 will see arrests and prosecutions finally start. There are three weeks to go. Workers are impatiently watching.

Issued by SAFTU, 10 September 2020

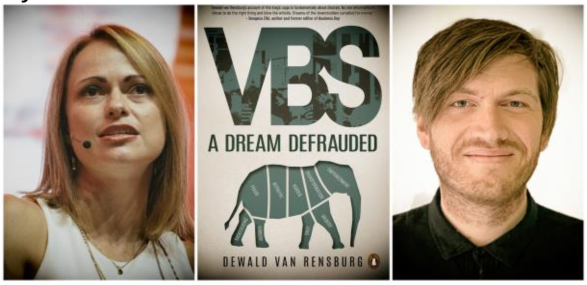
Comment

There may be many reasons for no, or, and little action taken against the Guptas: how many of them will you believe? Needs little thought, I think.

Synopsis

VBS Mutual Bank: The tragedy of the 'dream defrauded'

By Rebecca Davis 8 October 2020



Investigative journalists Pauli Van Wyk, left, and Dewald van Rensburg. (Photos: supplied)

Investigative journalist Dewald van Rensburg's new book details the massive fraud that led to the collapse of VBS Mutual Bank. In a Daily Maverick webinar on Thursday, he explained how the heist was constructed and why ANC arrests are likely to come long before EFF arrests.

The individuals at the top of the bank Van Rensburg describes as "an impressive group of people" who could have enjoyed stellar careers had they not gone down a criminal path. "It's interesting for me what they could have done with VBS had they not committed the fraud," Van Rensburg mused.

The author was speaking in a week which has seen the first guilty plea in the VBS matter, with former bank chief financial officer Philip Truter accepting an effective seven-year jail term in exchange for co-operating with the State. Truter pleaded guilty to six counts of racketeering, fraud, corruption, and money laundering.

Van Rensburg described Truter as central to the VBS fraud: the "mechanic in the background". Truter will be used by the State to build an airtight case against his seven co-accused. On Thursday it was announced that the trial of the seven will be postponed until 2021, most probably because further arrests are pending.

One of the points Van Rensburg makes in his book is that many of the fraud's kingpins were university friends, becoming close during their time at the former Rand Afrikaans University. For this reason and others, he believes it is possible to draw parallels with the Stellenbosch old boys' network which gave rise to the Steinhoff fraud.

Asked by moderator Pauli van Wyk for his interpretation of why criminal proceedings appear to be moving so much faster in the VBS saga than in the Steinhoff matter, Van Rensburg said it was his understanding that the Steinhoff fraud was "infinitely more complicated, perpetrated over 20 years", and for that reason might take longer to be brought to trial.

Another question frequently posed around the VBS story is why the government chose to save African Bank when it collapsed in 2014, but not VBS. Van Rensburg explained that African Bank was a microlender rather than a bank: it didn't take deposits but sold bonds to other banks. The government's 2014 intervention was, therefore, aimed at controlling the fallout for the rest of the financial sector.

Although it is unlikely that bank regulators will face any criminal consequences for the VBS collapse, Van Rensburg described what happened as a "very clear regulatory failure" on behalf of the Reserve Bank.

The journalist explained the evolution of the VBS fraud to a Ponzi scheme that ended up stealing state money. He said what initially caught his eye about VBS was the number of huge overdrafts and loans that the bank's executive had awarded themselves, which, if nothing else, seemed "reckless".

In reality, it was the first stage of the fraud. The kingpins would pay off their own debt by creating new overdrafts for front companies – and from there, proceeded to simply pay off overdrafts fictitiously, and make fake deposits of cash. “That became the thing that auditors had to hide,” said Van Rensburg.

Problems began to mount when “people started withdrawing a great deal of money in cash and paying it to other banks to buy stuff”, he said. The only way to replenish all this cash was through new clients: the point at which the fraud started operating like a Ponzi scheme.

Initially, all the fraudsters had to work with were deposits from individual clients, stokvels and other small-scale customers. They needed bigger fish, and one of their first big scores was the PIC. Van Rensburg recounted how the PIC was persuaded to give the bank a R350mn facility, ostensibly to fund small black enterprises used for fuel trading. “Nobody knows where that money actually went,” said Van Rensburg.

But even that cash infusion was not enough – prompting the bank’s key players to start approaching municipalities and convincing them to deposit money. In this, VBS was greatly aided by its decision to lend money to former president Jacob Zuma for his Nkandla property, which catapulted the bank into the national spotlight.

“A lot of political people wanted to support this bank,” said Van Rensburg, noting that some municipal officers were probably genuinely sold on the idea of helping the black-owned company – in addition to the sweeteners they were paid.

The bank’s “last great gambit” was to target state-owned enterprises. Its first approach was to the state rail company Prasa for a R1bn deposit. “If that had succeeded, it would have paved the way to other parastatals,” said Van Rensburg. “But towards the end, for some reason, this [Prasa] deposit became contingent on the outcome of the ANC leadership race [at Nasrec in 2017].” When Ramaphosa won the presidency of the ANC, the Prasa deal “was suddenly off”.

In terms of what can be expected when it comes to forthcoming arrests, Van Rensburg says many will be municipal functionaries: those who allocated the budget but had relatively little political power. “I don’t think the EFF will be targeted for arrests before the ANC politicians involved in this thing,” said Van Rensburg, adding: “I think that’s fair, because the ANC involvement is infinitely larger.” **DM**

Comment

If the PIC’s ‘facility’ was done after the corruption started, personal liability at the PIC comes to mind. Also, what were the results of its quarterly monitoring? The PIC also had a 25% stake in VBS as part of the Venda Pension Fund investments, which was one of the large VBS investors.
Thought: why did the deal with Prasa fall through, hopefully it wasn’t related to the ANC leadership?
The dust cover of Van Rensburg’s book is between the two photos, if you missed it.

Synopsis

‘Haunted’ VBS executive Truter sentenced to seven years

Mail&Guardian
Khaya Koko
7 October 2020

The former chief financial officer of VBS, who received R5mn of the R2,5bn allegedly looted from the mutual bank, will spend seven years in prison.

On Wednesday, Phillip Truter pleaded guilty to fraud, corruption, racketeering, theft, and money laundering in the specialised commercial crimes court sitting in Palmridge. He also agreed to assist the state with how the funds from the defunct bank were plundered.

Truter was sentenced to 10 years, three of which were suspended. He is the first senior executive to be sentenced in the VBS matter. The other seven accused, who have indicated they will plead not guilty, are expected to make their second appearance on Thursday.

They are: former VBS chairperson Tshifhiwa Matodzi, former chief executive Andile Ramavhunga, former treasurer Phophi Mukhodobwane, former KPMG auditor Sipho Malaba, former VBS non-executive director Lieutenant General Avhashoni Ramikosi, and Ernest Nesane and Paul Magula, who represented the PIC as non-executive directors on the board.

Sipho Ngwema, the spokesman for the National Prosecuting Authority (NPA), welcomed Truter's sentence and said the convicted fraudster would work closely with the state.

At a bail hearing in June the other seven accused pleaded poverty were released on R100 000 bail, having asked for amounts to be set from R10 000 to R50 000.

Comment

Poverty? Unbelievable! What happened to the millions they defrauded? The judicial system seems to be working. Let's see how many will follow into prison.

Synopsis

Private sector: Ready to get behind government's multi-trillion-rand infrastructure programme

By Futuregrowth Asset Management 28 September 2020

In a world in which the government and central bank have several means available to stimulate the economy, infrastructure spend is a powerful anti-recessionary fiscal policy tool.

However, in South Africa economic growth has been constrained by lower levels of investment in infrastructure than in other developing economies, exacerbated by issues such ageing infrastructure and infrastructure bottlenecks. COVID and the fiscal support needed to alleviate the damage done to businesses and the most vulnerable citizens also puts the government's future infrastructure ambitions at risk.

The extent of infrastructure spending in an economy is reflected in the level of gross fixed capital formation (GFCF) as a percentage of Gross Domestic Product (GDP). The measure captures how much money as a proportion of total economic activity is being invested in capital goods, such as equipment, tools, transportation assets and electricity and various measurable outputs of these.

South Africa is investing too little to matter

South Africa's reported GFCF has been historically low, with the exception of the build-up to the FIFA World Cup in 2010. Latest statistics show GFCF as a percentage of GDP was 18% in 2019, which is considered far too low for a developing economy. Several studies consider an acceptable norm to be in the region of 30% to 35% of GDP.

South Africa's GFCF ratio also has some way to go before it will achieve the target in the government's National Development Plan of 30% by 2030.

Government debt overhang constrains funding capacity

While assessing this, it is important to note that a country's current debt level does have a bearing on its ability to fund infrastructure initiatives and South Africa's government debt burden doesn't bode well for the country's infrastructure funding capacity.

South Africa's gross loan debt to GDP ratio is expected to exceed 90% over the next three years.

When you include guarantees to SOE, the government's debt-to-GDP ratio is expected to rise to well above 100% compared to the average emerging market level of around 45%. A debt-to-GDP level of more than twice as large as the average emerging market means that the South African government will have very little scope to fund large scale infrastructure and developmental initiatives and thus the burden will fall elsewhere.

If the environment is right, private investors are ready

Banks, as well institutional investors, are no strangers to fulfilling a funding role but have become more apprehensive about doing so, given the government's governance, financial and operational SOE failures.

While the various developmental finance institutions need to fulfil a specific role when it comes to industrial policy, economic development and providing credit-enhancing capital, capital market players need to have confidence that the policy environment will remain stable and that potential investments will offer sufficiently attractive risk-related returns.

To a great extent, the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) met these criteria, enabling the private sector to play an important role; committing about R200 bn to the programme to date. REIPPPP is seen as an important success story, particularly in respect of the impressive implementation role that the Independent Power Producers Office played in that programme.

Unfortunately, the success of this programme has not been emulated in other sectors and there hasn't been a co-ordinated approach to address the other necessary infrastructure investments until now.

Government tests the water for funding support

That may change with the Investment and Infrastructure Office set up by the President. The government gauged private sector investment appetite recently when it presented various project pitches for various sectors deemed a priority to the broader market, as a precursor to the inaugural Sustainable Infrastructure Development Symposium of South Africa (SIDSSA). Sectors the government has identified as in need of infrastructure investment include energy, digital infrastructure, water and sanitation, human settlement, agriculture and transport.

The government's latest engagement with the private sector is a step in the right direction. It crowds in potential private sector investors in a much more co-ordinated manner and includes them in assessing how these various initiatives can be funded.

It is encouraging that the government is engaging with capital market participants during the conceptual stage of some of these projects because it will allow concerns to be addressed earlier and thereby potentially ensure a much higher success rate.

Breaking out of SA's low-growth trap

Although the range of projects is wide, there are several significant ones that could change the South African landscape to the benefit of all. From a digital perspective, infrastructure investment in broadband fibre connectivity could provide peri-urban (townships) and rural communities, which have been traditionally underserviced, with affordable access to broadband connectivity. Government facilities, such as schools, clinics and police stations would also benefit. More traditional investment in, for instance, transport infrastructure would facilitate trade and the transport of goods and services. The government's focus will be on upgrading existing toll roads, bulk rail transport lines and harbours.

The infrastructure initiatives under consideration could be important contributors to getting South Africa out of its current low-growth trap. Although the estimated R1,5 trillion needed to fund the projects over the next decade is a tall task, the private sector is ready to fund them as long as they are well structured and managed, investors are compensated for the risks they are taking and they ultimately have policy certainty. **BM**

Comment

"ageing infrastructure and infrastructure bottlenecks" What happened to the money, our tax money, that was supposed to be used for infrastructure? That is what the Commission on State Capture must determine! Interesting to speculate on when state capture started and the decline in GEPF funding started.

Synopsis

Pensions quandary offers no easy way out

INCE Community 21 October 2020
by Allan Greenblo
Editorial Director of Today's Trustee

For many individuals in this Covid-afflicted environment, retirement funds have come to serve as the provider of last resort. This was never their purpose.

But when people lose their source of income, so cannot put food on the table at age 45, they can hardly be told to wait for retirement at age 65 before they can access their accumulated savings. More often than not, their sole savings vehicle is the retirement funds they'd been obligated by employers to join.

That's just as well because, in all probability, multiples of cash-strapped individuals would now have nothing on which to fall back. On the other hand, the greater their immediate pre-retirement withdrawals the less awaits them on retirement. Either way, the paramount question for policymakers is whether fund members will be permitted to confront the crisis of affordability sooner than later.

It gets worse. The dire economy has forced numerous employers to reduce group risk and contributions to their occupational funds, or to abandon them entirely. On the employee side, the more tragic when unemployment surges, the escape hatches into retirement savings are retrenchment or resignation.

On the former, few people have much choice. On the latter, desperation dictates its own course of events. Paradoxically, it's better to lose or leave a job to access the retirement cash than to starve. However, that's to prioritise the short term over the long. It's also to allow the cashing-in at the lowest point in the investment cycle, and to jettison the tax incentives designed to keep fund members in their retirement savings.

Is there a way to minimise the depletion of retirement funds and yet at the same time to release a lifeline? At present there's a loose proposal to allow the withdrawal of say 10-15% from a member's fund value without adverse tax consequences.

Given the smallish amounts in workers' individual accounts, such a proportion might simply be insufficient for a reasonable time period. Conversely, run it through large numbers of members and the liquidation of investments could provoke a self-defeating crack in already-depressed markets.

A tighter proposal is from Dion George, a DA member of parliament who’s apparently trying to put his Unisa doctorate on retirement funds to good use. Knowing enough to know that there cannot be a complete answer, he's put out for public comment the draft of an enabling bill that will permit fund members to borrow against their fund values in the same way as they can for home loans.

In this way, George argues, the money remains in the fund while the loan is repaid over extended periods as market conditions presumably improve. In this way could tax penalties be avoided, asset sales during a market low be averted, while the possibility of loan repayments from dividends and capital appreciation is facilitated.

The draft bill proposes that a registered pension fund offers a guarantee to pension fund members at a maximum 75% share of their value in the fund. As George explains: "By enabling a member to access a pension-backed loan, that member will be able to leverage his or her pension fund investment prior to retirement date, without eroding provision for eventual retirement."

Given that the loan is fully guaranteed, he envisages that lending institutions will be able to offer loans to pension fund members at competitive interest rates over extended or deferred repayment periods.

In theory, George's proposal appears an extension of the Pension Funds Act principle that allows use of fund values to back housing loans. In practice, it's more convoluted.

Application of the concept is limited to those who can afford repayments. If loans aren't or can't be repaid, constraints on affordability being what they are, widespread defaults can seriously impact on funds generally. Loans for consumption are consumed, unlike loans for houses that are investments.

Also, the Act and rules of respective funds will need to be amended. Fund trustees will then be hard-pressed to decide which loan applications are genuinely for life crises and which are for discretionary spend. Adding to trustees' pressure is that loans for avert life crises require much more urgent processing than loans for housing.

Under such circumstances, it could be that banks are much better placed to administer loans than pension funds. An executive at a large umbrella sponsor argues: "The role of funds should be purely to provide surety to the banks for these loans, as they are for pension-backed housing loans. Another reason to work via the banks is that they're better equipped to prevent mass abuse, even fraud."

An unnecessary complication is in the suggestion that the employer repays the loans by deductions from the employee's salary. As long as there is a bank to provide the loan, and a fund to provide the surety (not to settle any exit benefits until the bank gives clearance), it might be more efficient for the bank to work directly with individuals.

Much as regulators and institutions could be inclined to pooh-pooh a proposal that wasn't initiated by them, and least of all from within the DA, they cannot be seen as insensitive. There's real hardship on the part of those desperate for money due to them later when they need it sooner.

The draft bill probably won't be before parliament until early next year. There's reasonable time to refine it but not much time to delay it.

Interestingly, according to the 2020 Sanlam benchmark research undertaken before Covid, there was little support for a measure "to enable fund credits not only for housing loans". The finding was back then, in a different world.

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

Comment

There is merit in this draft bill. However. It poses short term survivability against long term security. Difficult choice when your family is under serious threat.
If money is withdrawn from pension funds, these funds must sell assets to provide the cash. Depressing the stock market still further.
I trust the intention is for the pension funds to be used as surety for a bank loan.

Synopsis

Millions in SA are owed R42bn in unclaimed pensions. How to confirm if you're one of them

Garth Theunissen Business Insider SA
13 October 2020

Almost R43bn in unclaimed pension benefits are held in the name of 4,77 million untraced beneficiaries in South Africa, according to the latest available data from the FSCA.

This is causing major headaches, because unscrupulous so-called independent tracing agents are costing South Africans thousands. They advertise their services to assist in accessing these unclaimed pension benefits in exchange for a fee.

The FSCA strongly advises against using these services. "South Africans shouldn't use tracing agents that are not affiliated to a specific fund, particularly if they don't have any knowledge of ever having saved with the particular fund the agent claims to represent," says Olano Makhubela, divisional executive of retirement funds at the FSCA. "Rather use the FSCA database, which you can search for free by simply visiting our website. Alternatively, you can contact our call centre telephonically, by SMS, or even physically for assistance."

"There are scams going on where people get approached by someone claiming to be an agent who can help them access money allegedly owed to them in the form of an unpaid benefit," says Makhubela. "However, upon investigation we often find that they never belonged to the fund in the first place yet ended up paying the agent R1 000 to help them access unclaimed funds.

The Pension Funds Act defines an unclaimed benefit is any fund benefit not paid to a beneficiary within 24 months of the date it becomes legally payable, typically defined as when the member left employment. The FSCA says more than R22,93bn in previously unclaimed benefits was paid out to 647 528 beneficiaries between 2014 and 2018.

By 2018, there was still more than R42,83bn in unclaimed pension benefits. That number will probably increase when pension funds add 2019 data. The GEPF, which is not overseen by the FSCA, has an R1,73bn in unclaimed pension benefits, according to its 2019 annual report.

Makhubela says that anyone who believes they have an unclaimed benefit owing to them should first ascertain whether or not they were indeed a member of a fund. This can be determined by checking to see if any salary deductions were made for fund contributions as well as any records of possible employer contributions.

At present all private retirement funds in South Africa are required to disclose the amounts they hold in unclaimed benefits to the FSCA as well as the details of the beneficiaries. These details are then captured in the FSCA's unclaimed benefits database which can be accessed here: https://www.fsca.co.za/Customers/Pages/Unclaimed-Benefits.aspx

"The biggest problem is the lack of accurate historical or personal information," says Makhubela. "We also have a lot of situations where the current administrators took over from previous funds that no longer exist and are sitting with incomplete information." Makhubela says the problem is exacerbated by the fact that prior to 1994 many South Africans simply did not have identity numbers or fixed places of abode with traceable addresses.

The issue has prompted non-profit organisation Open Secrets and a group of claimants to establish the Unclaimed Benefits Committee to lobby parliament about alleged tardiness by fund administrators in tracing beneficiaries of unclaimed benefits.

The National Treasury announced in the 2020 Budget that legislation will be prepared to consolidate unclaimed benefits in the retirement industry and establish a single registry. Makhubela says the new Conduct of Financial Institutions Bill (COFI) seeks to establish a single, centralised fund for all unclaimed pension funds. While this centralised fund will initially only require regulated pension funds that fall under the jurisdiction of the FSCA to pay over all unclaimed funds, it may in time be expanded to include unclaimed funds from the GEPF as well as insurance companies.

"This should manage any perceived or actual conflicts of interest in the industry and provide for controlled tracing," says Makhubela, adding that he is hopeful that the centralised fund should be up and running before the end of 2022. "The problem of unclaimed retirement benefits should not be a major issue in the future given the common use of cell phones across all demographics and better record keeping by the industry."

Comment

You will remember the single pension fund envisaged by 'government' that we noted more than a year ago? See where it is quietly going?
The unclaimed benefits belong to the members of that fund, never to the

'government'. Such funds must be managed and administered according to the relative legislation for that fund. Combining them is inevitably going to lead to 'lost' funds.
As soon as our Fund's unclaimed benefits are combined with other pension funds our funds will disappear. We will have to closely monitor this Bill so it doesn't include the GEPF, and doesn't slip into the single pension fund on the sly.

Synopsis

Government unlikely to target South Africa's retirement funds

Staff Writer 6 October 2020

The Association for Savings and Investment South Africa (ASISA) says that government is unlikely to force retirement funds to invest in specific projects through prescribed assets.

Leon Campher, chief executive of ASISA, said that in recent months the various Nedlac partners, namely government, labour, business and community, tabled their economic recovery plans and none mentioned the prescription of assets as a possible solution.

"It needs to be noted that not even the ANC discussion document on economic recovery mentioned prescription of assets as an option that should be considered," said Campher.

The association, which represents the collective interests of the country's asset managers, said that it has repeatedly made it clear that its members are opposed to the prescription of assets, it does not believe that there is an imminent threat of this happening.

ASISA addressed some of the main concerns. It noted that asset managers are not the owners of the assets that could be prescribed. These assets are owned by the retirement funds on behalf of their members. "It also needs to be noted that roughly half of these assets are held by the GEPF. These assets would therefore need to be carefully managed to ensure that there are sufficient funds to cover liabilities, namely the benefits payable to public servants on retirement," the Association said.

All retirement funds have a board of trustees (50% of the trustees are elected by members). Retirement fund trustees are tasked with making asset allocation decisions that are in the best interest of the members, ASISA said. The trustees in turn consult with asset consultants before appointing asset managers to invest in line with a mandate from the retirement fund.

"ASISA has always maintained that the problem in South Africa is not the lack of willingness of capital markets to invest, but rather the absence of viable infrastructure projects. Where there have been viable projects, funding has been made available by the private sector." A good example is the Independent Power Producer (IPP) Project, which attracted funding in excess of R200bn from the private sector, it said.

Regulation 28

ASISA said that since 2011, Regulation 28 has permitted retirement funds to invest up to 35% of their portfolios in unlisted assets within the following limitations:

- Up to 10% in unlisted equity;
- Up to 25% of debt instruments listed on an exchange by a company without listed equity and 15% if the debt instrument is not listed;
- Up to 10% in private equity; and
- Up to 2,5% in "other" assets.

Campher said that ASISA is of the view that the above limits do not prevent increased investment in infrastructure. He said that the following considerations have been raised with National Treasury for further discussion:

- Since investable retirement fund assets belong to members, infrastructure projects must offer a competitive risk adjusted return;
- Since provident funds by their contractual design have a need for more liquid investments, listed and liquid project bonds would make it easier for them to invest in infrastructure;
- Infrastructure projects tend to be unlisted. Direct infrastructure investing is best suited to large defined benefit funds. However, the largest defined benefit retirement funds namely the GEPF, Transnet Pension and Provident Funds, and the Telkom Pension Fund, are not regulated by the Pensions Funds Act and so are not subject to Regulation 28;

- A pipeline of viable infrastructure projects with contractually reliable sources of income must be available, which is currently not the case.

Campher said that retirement funds are not the only investors in infrastructure projects. He said that seed funding for infrastructure projects is generally provided by the banks and development finance institutions (DFI), who take their return and exit once a project is up and running. If the project is viable and attractive, life insurers and other investors come in by buying equity and providing additional loan capital to replace the money provided by the banks.

Comment

*I have my doubt about ASISA's spokesman in his statement about prescribed assets. The ANC's economic policy [initially in 1983 and confirmed repeatedly since 2017] hasn't changed but has evolved. The ANC policies that aren't implemented by 'government' immediately have the way of quietly sneaking in by various channels in due course. Also his statement that "*These assets are owned by the retirement funds on behalf of their members." *This is blatantly untrue, as the assets are owned by the members, and the retirement fund only manages these assets for the members of the fund.*
Important to note is the repeated statements that private funds will invest in infrastructure provided that returns are reasonable, and corruption is prevented.

Synopsis

The prescribed asset debate: Why is the topic on the table?

By INN8 28 September 2020

South Africa has a debt problem. A serious one. Magnus Heystek, director at Brenthurst Wealth Management, has, for some time, warned of a "financial tsunami" that is going to hit South Africa. He has stated recently that this tsunami is no longer approaching; it is here.

According to Kevin Lings, chief economist at STANLIB, government is currently effectively borrowing R1bn a day. Of course, it does not really borrow daily, rather in tranches, but spread over the amount of days and total amount borrowed, it equates to R1bn per day over and above tax revenue. "Saturday and Sundays included," says Lings.

This would not be problematic if you could see the R1bn at work when you stick your nose out the door: roads being built, dams constructed… infrastructure projects blooming everywhere. "The fact that you are not seeing this, shows that the R1bn per day is being borrowed to pay ongoing expenses," says Lings, like salaries and social grants. "This is not sustainable," he says.

In his speech at the inaugural Sustainable Infrastructure Development Symposium South Africa held on 23 June, the President confirmed that infrastructure will be placed at the centre of the stimulus that the economy needs for a sustainable recovery, post Covid-19.

At the symposium, the government confirmed that it is currently evaluating 276 projects with an investment value of R2,3tn. The possible job creation is estimated at R1,8mn, but a funding gap of R502bn needs to be bridged.

In policy documents and discussions over the last year or so, the ANC and the government, have been mentioning possibly introducing a mechanism that would allow a greater portion of retirement savings to flow directly into infrastructure. Clarity is still not contained in actual regulations or policy documents, with one side fearing it is the first step to taking control over private-sector funds for government use, and other side indicating the positive opportunities by allowing funds to diversify into infrastructure investment.

Victoria Reuvers, MD of Morningstar Investment Management, says the country finds itself in a situation that is a function of its low growth environment. The country's debt and its interest rate have steadily been increasing in parallel. Finding the funds on the international market is too expensive for a country that has had several rating downgrades over the last couple of years. "If we can borrow money more cheaply, we can potentially grow ourselves out of this debt problem," Reuvers says.

Lings is of the opinion that the money for these projects is available, not only in the approximately R4tn that is locked up in pension fund savings locally. It is also locked up within discretionary funds held in the private sector, where there are investors who would be willing to fund well-scoped and appropriately managed infrastructure projects.

"In order for that money to be unlocked, there needs to be a high level of confidence that the projects that government intends to undertake are appropriate, scoped correctly, financed correctly in terms of who does the contract and in the oversight of the project. Steps need to be taken to ensure that the project is not mired in corruption. If those factors were to be put in place, then I think there would be more than enough money to fund this," says Lings.

"So, what you have is a government that is desperate to grow the economy but has no money. You have a private sector that has money but is lacking confidence. That is what you have if you break it all down," says Lings.

The bandying about of prescribed assets as a possible avenue to gain funding is doing even more harm to the confidence levels, says Heystek. In an opinion piece published on his company's website, he says that ANC policies such as Expropriation Without Compensation (EWC) and the suggestion of prescribed assets on pension funds has "shattered whatever confidence was left".

Where will the money come from?

There seems to be general consensus that the correct infrastructure projects could be the way out of the recession it's facing. Slow, albeit steady, train back to growth.

Piet Mouton, CEO of PSG, interviewed by the Sunday Times, stated that prescribed assets are an interesting place to look for the money to fill the massive hole that exists in tax collections. "Because I don't know where else you can go," Mouton was quoted as saying. "If we can invest somehow directly into some of these huge infrastructure projects, it would be good for the pension funds, it would be good for the economy, it would be good for stability," Du Preez says.

Reuvers agrees. "If government can raise funding at a lower cost and use that funding correctly through infrastructure projects, what that does is it creates jobs, it decreases unemployment, it increases tax revenues and decreases debt. Emphasis must be placed on whether the funding is used correctly. If this can be achieved, the net effect is positive for the economy and positive socially. Then it can be to the benefit of South Africa," she says.

Can it work?

In any economy, the government has to consider multiple sources of finance. South Africa's finances are currently under enormous pressure. For a government that ideologically wants to remain at the centre of steering growth, which Lings believes the South African government is leaning towards, the options are somewhat limited.

They can increase taxes, but it is at a point where it would be counterproductive as it would hurt the economy more than it would benefit it and could also lead to tax avoidance. The second option is to approach organisations such as the International Monetary Fund (IMF) and the World Bank. The third option, says Lings, is to see if they could move money from the private sector to where it can be utilised for government projects.

This third option is where prescribed assets, direct investment into infrastructure by pension funds and a possible change to Regulation 28 of the Pension Fund Act, become debated options. "On the face of it, there is merit in the argument," says Lings. "It is conceivable that pension money could be used more effectively to create broader impact for the economy."

Unintended consequences

The DA's Shadow Minister of Finance, Geordin Hill-Lewis, says that his party is worried that the government could make the channelling of funds towards government control "mandatory by stealth", where the regulation is formed in such a way that it does not leave much scope or choice for alternatives.

"If government makes this voluntary, but it is perceived by the market as forced, then investors will behave as if it is a forced investment," says Lings. The funds would therefore not flow towards infrastructure to the extent that the government had hoped for. Eventually, this could lead to a situation where the government then has to take the next step and make it mandatory.

Swaying the sceptics might prove difficult. What can the government put in place to reassure the public that its intentions are good? "One of the biggest problems is the lack of trust in the government," says Max du Preez.

Reuvers states that the institutions in control of the financial sector (Treasury and the Reserve Bank) have proven to be very strong against political influence. "At this moment people can feel safe with their investments in retirement products. The Pension Fund Act has been carefully considered and the financial institutions in our country are incredibly robust, headed by people of gravitas," she says. Still, Reuvers admits, what the public needs is evidence of government acting appropriately. "I don't think they want to see a plan. They want to see evidence of government showing good practice and solid management of public-private partnerships. That would create confidence that if prescription was indeed put in place, at least the money will be spent well."

Evidence for the public could also come in the form of legislation. "The question would be to what extent government would consider making it abundantly clear that this will remain voluntary, for example by legislating this voluntary status. If they don't, a high degree of scepticism will remain and thus have the danger of these unintended consequences attached to it," says Lings. **DM**

Comment

Prescribed assets will remain contentious, irrespective of our views and thoughts. The viability of our Fund remains under serious threat. The ANC's insistence on centralised control is a barrier to trust.

Synopsis

Why asset allocation is the most important contributor to long-term returns

By Prescient Investment Management 21 October 2020

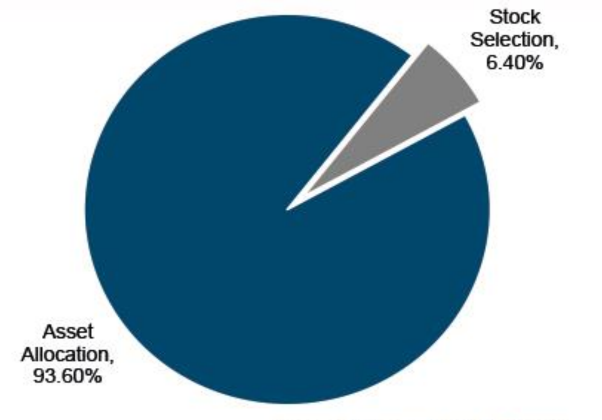
Stories are often enthusiastically shared around the dinner table about who has picked a winning stock or how much value a share offers, but it's very rare to hear mention of how an investor picked a winning asset class, or more to the point avoided a losing one.

In reality, however, for the majority of investors it is predominantly the choice of the asset classes in an investment portfolio that shapes the long-run return profile, rather than the underlying stocks.

When considering what *asset allocation* means for investors, it's important to understand the two primary tools used in the process. The first is *strategic asset allocation (SAA),* which is the portfolio mix of one type of asset over another in the long-run. The second is *tactical asset allocation,* which is where the portfolio tilts away from those long-term asset allocations to take advantage of shorter-term opportunities. Both of these processes add value, but in general, it's the foundation of the portfolio, namely strategic asset allocation, that is responsible for generating the lion's share of multi-asset portfolio performance.

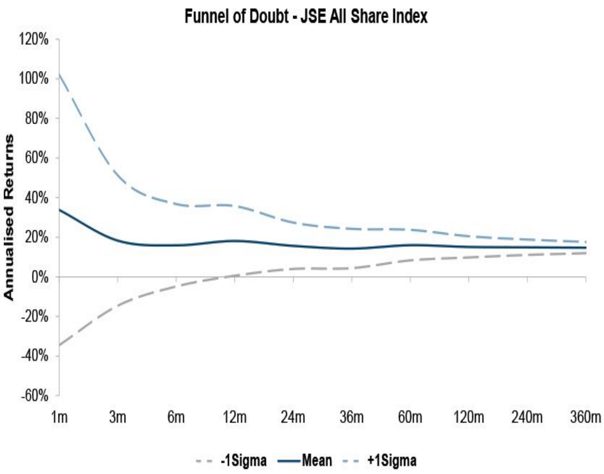
The most efficient and effective way of combining the two challenges (putting vindication into long-term decisions while at the same time reducing risk) is to diversify across a broad index (at the same time minimising fees) and to concentrate on the asset class weights and ignore the single stock noise.

So what evidence do we have that the long-term strategic asset allocation of a portfolio is the most important to get right? Perhaps the most clear-cut evidence comes from a series of research papers from different authors who have statistically decomposed returns for portfolios into asset allocation and securities selection. The resounding winner in a balanced multi-asset portfolio – explaining around 90% of the variance – is asset allocation.



Source: Brinson, Hood, Beebower

How does that level of explanatory power from asset classes come about? We can take an expanding window of randomised monthly returns on the JSE All Share Index since 1995 and work our way from year one all the way out to 30 years to form a so-called funnel of doubt that shows the range of returns you could have earned as an investor (per year). The trend as the timeline expands is quite clear – the longer you invest the more certain you can be of your intended path.



Source: Bloomberg and Prescient Investment Management

For a multi-asset portfolio manager, the most important step is to combine assets in a portfolio to align with the investors' risk profiles, and to do so by exposing the portfolio to the least amount of risk. By relying on assets at the high-level to deliver the long-term returns and diversifying away single stock risks, the path towards that long-term return target can be relatively smooth sailing, while at the same time equipping the portfolio to weather whatever storms may come. **DM/BM**

Comment

The article is a bit involved and much shortened, but provides an indication of how our Fund should invest to provide optimum ROI. Our Fund must keep its asset allocation dynamic for the sustainability of our Fund's funds. Now note:

The GEPF, notwithstanding having a revised Strategic Asset Allocation on file since 2014, has NOT implemented it. The result is clearly visible in the deteriorating funding rates and depleted contingency reserves ie. the FUND's sustainability is increasingly under threat. This article provides another opportunity to remind the Trustees of the consequences of their failure to act timely to safeguard the Fund.

Synopsis

The Industrial Development Corp to diversify equities investment after sharp losses – CEO

By Tanisha Heiberg, Reuters 27 Oct 2020

Image: Bloomberg

South Africa's state-owned Industrial Development Corporation (IDC) said it would diversify its equity investments after reporting on Monday a sharp decline in the value of its top three holdings in listed companies.

The IDC is South Africa's biggest financing institution and provides loans to projects that help develop the country's industrial capacity. It also invests in shares listed on the JSE.

For the financial year that ended in March 2020, the IDC said its stakes in Sasol, Kumba Iron Ore and BHP saw losses amounting to a combined R30bn. "We are already looking at better diversification of this portfolio plus a much more active asset management approach towards these assets," said IDC Chief Executive Tshokolo Nchocho.

The IDC said its shares in petrochemical firm Sasol, in which it owns an 8,5% stake, were hit by a drop in the oil price and challenges at the Lake Charles project in the United States. The stake was worth just R2bn at the end of the 2020 financial year, down from R24bn a year earlier, it said.

Global stock markets, including the JSE, plunged in March as countries went into lockdown to curb the spread of the coronavirus although the JSE's main index has rebounded since then.

The IDC's results were also hit by a depressed South African economy due to the impact of the Covid-19 pandemic and significant losses at subsidiaries, which led to a rise in non-performing loans. Group revenue fell 9% to R16,3bn while its asset value fell 24% to R109,6bn in the 2020 financial year.

As part of its risk management approach, it said it would invest in smaller portions of projects, co-fund some investments and narrow the regions in which it invests across the continent whilst supporting economic recovery.

Comment

We hold about R517bn worth of parastatal bonds in the IDC, making the underperformance a matter of concern. It mentions the loss in SASOL [down by 92%] at the end of the 2020 financial year, which couldn't have ended yet surely?

You will also note the IDC is reporting on the parlous state of its finances before COVID [end of March] and is blaming subsequent poor performance COVID to excuse the poor performance of the pre-COVID year. Ingenious spin isn't it!

The general drop in share value is incredible and will reflect in much later GEPF/PIC reports whenever they appear. The big losses took place in 2020, the report of which will only be available at the end of 2021 at the soonest.

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 mn 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

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