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

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

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GEPF Watchdog - Waghond

GEPF your investment, your future

NEWSLETTER NO 1 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
PEO – Primary Executive Officer
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SC – state capture
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOC – state owned company
SOE – state owned entities

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

The Editor's Word

The statistics above is a year old. Probably all of them have changed, but they totals seem unchanged. If we can believe the GEPF Annual Report, the statistics look good, if we believe our eyes, auditors' findings, and common sense, the AMAGP is doing a sterling job of keeping the sustainability or lack thereof in the public and hopefully, parliamentary eyes.

Much of the awareness about our pensions come from 'letters to the editor'. You will be surprised how widely and diligently these are read and considered, as these letters reflect concerns from citizens experiencing them right now. The more letters you write the greater the urgency of the media to investigate and insist on action. Yes, you, us, we. Every letter adds to the scrutiny the GEPF management will have to undergo. The ripple effect takes some time to appear but the waves keep coming for a long time.

The single national pension scheme and national health insurance took a nap in each other's arms over the silly season. I expect them both to start waking up when the holiday feeling has departed from parliament. All who can please keep an eye on the legislative implications of the funding of both on developments, so we can ensure our Fund isn't the main source of funds for these two schemes. We must endeavour to ensure that any such single national pension scheme includes the parliamentarian's pension fund so they feel the same pain. The same for the NHI.

The PIC seems to have grown some willingness to act if the court action about Steinhoff is an indication. Let's see if the willingness will grow and include more aspects.

It seems the GEPF is quietly not reinvesting some of its investments in SOE, thus decreasing our exposure to the perpetual fund drains. A little it is true, but every bit helps.

There is an excellent article by Tim Cohen about SOE and why they won't work. He is clear on it that the SOE remain a sinecure for ANC cadres.

There are three press releases by our very own AMAGP, each one addressing a specific topic. Lack of parliament oversight, the Mpati Commission's report and a question to the GEPF Trustees about the solvency of the Fund. Keeping the pressure on and the media up to date.

COSATU has come to life and wants the PIC to give more money to Eskom. This has been discussed previously but it is tragic that the union wants to use its members' savings in this way. Read the article, and no, I couldn't get the grey background to go away. See Blade Nzimande's quote after the article for some real unease…

The government wants its fingers in petroleum exploration and production, a sure way for it not to happen. The draft bill is discussed, hopefully with lots of changes before it is passed.

Anthony Turton tells us why BEE doesn't work and what the consequences are in easy to understand language. It rivals Tim Cohan in clarity and implications.

Finally, Barbara Curson give us the first analysis of the GEPF Annual Report. Sobering reading as soon as you understand the meaning of the statistics.

NEWS NEWS NEWS

Synopsis

NATIONAL

PIC to take legal action to force Steinhoff to release PwC report

The PIC is adamant that it needs access to the PwC report to identify who was responsible for the malfeasance and who should be pursued in a delinquency process

BL PREMIUM

3 December 2019 Linda Ensor

Reuel Khoza. Picture: Sunday Times/James Oatway

The PIC is filing a court application to force Steinhoff to release the PwC forensic report the company has withheld on the grounds of confidentiality. The PIC is in the process of instituting legal proceedings to declare directors implicated in the financial irregularities in Steinhoff as delinquent.

PIC head of legal services, Lindiwe Dlamini, told parliament's Finance Committee on Tuesday that the PIC believes access to the PwC report is critical for it to understand what happened at Steinhoff and who was responsible.

PwC investigated the financial irregularities at Steinhoff over a period of 18 months. Steinhoff has refused access to the 7 000-page forensic report (3 000 pages report, 4 000 pages annexures) on the grounds that confidentiality is essential in view of the litigation it intends to take. It argues that the report is protected by legal professional privilege because the report was commissioned by Werksmans Attorneys on instruction of Steinhoff.

Media house Arena Holdings (previously Tiso Blackstar) and the amaBhungane Centre for Investigative Journalism have also embarked on court action in the Western Cape high court to force Steinhoff to make the PwC report public, arguing that exposure is in the public interest and will reveal the extent and detail of the unlawful conduct in what is "arguably SA's biggest corporate fraud ever".

Dlamini said the PIC received an offer from Steinhoff last week but would not disclose details. She stressed that the PIC will reactivate the litigation it had launched with other creditors in a Dutch court if Steinhoff failed to come up with a palatable offer.

Finance Committee chair Joe Maswangani said the reason for calling the PIC and GEPF to report on recent developments is because it wants to know what is being done to recover the money lost at Steinhoff. “There seems to be no movement by law enforcement authorities to recover the money of pensioners. They are moving at a slow pace.”

PIC chair Reuel Khoza said there is no reluctance to pursue what needs to be pursued on behalf of pensioners, widows, widowers, and orphans. “There is no sluggishness on our part. We have been active. We take our responsibilities extremely seriously.”
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Comment
We will possibly see some resolution this year, but getting any money back in 2020 is unlikely. However, the shareholding in Steinhoff is still worth many millions and is likely to provide some ROI whenever the legal battles have run their course and the lawyers sit back with millions in fees.

Synopsis
GEPF retreats from basket case SOE

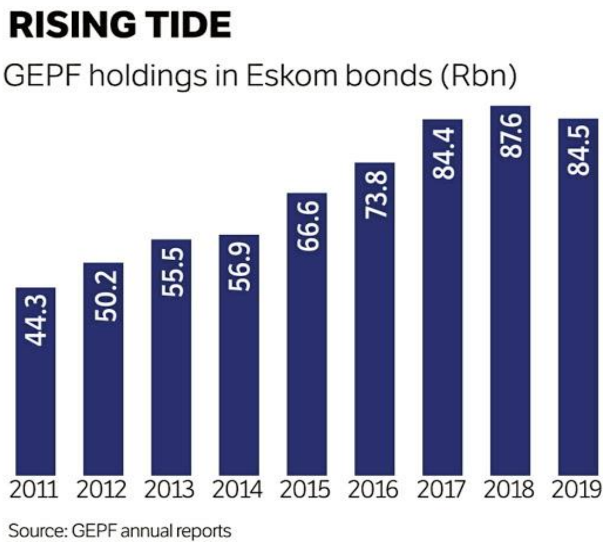
The GEPF has quietly reduced its exposure to the debt of SA’s broken state-owned enterprises.

BL PREMIUM
12 December 2019 Warren Thompson

The GEPF is slowly withdrawing support for basket cases such as Eskom. The surprising detail flows from the publication of the GEPF Annual Report for the year ending March 2019, which showed that its exposure to SOE fell by nearly 8% to R151,84bn while its overall portfolio remained flat at R1,8-trillion.

For years, the GEPF has been the single largest buyer of Eskom’s debt. However, the Fund’s exposure to Eskom fell by 3,5% to R84,4bn. While hardly seismic. the development is significant given the GEPF’s historical relationship with Eskom.

GEPF principal executive officer Abel Sithole was cagey when asked to explain this. He told FM at the release of the Annual Report that the Fund was not actively selling down its holdings. "We are letting the debt mature and simply not reinvesting," he said.



Until this year, the GEPF was a substantial net buyer of the utility’s debt. Between 2011 and 2018 the GEPF essentially doubled its exposure to Eskom debt. The GEPF lending was done through discreet "private placements" involving calls between friends at Eskom and the PIC. This led to the GEPF owning outright a number of bond issues.

While the GEPF is the largest investor in Eskom debt, at one point holding 28% of every rand owed by the company, the exposure of Eskom in the public servants’ portfolio has been well contained, effectively rising in line with the growth of the Fund’s assets. Over the past few years, this has meant Eskom accounted for 5%-6% of its total portfolio.

The Public Servants Association threatened to take the GEPF to court if it continued to increase its exposure. "We are pleased that our threats have been heard. No guarantor can stand behind the bonds when the guarantor is broke, and we know the government is broke. So we would like the GEPF to sell off the bonds it owns in SOE. They will never be fixed as long as they have this piggy bank they can rely on," says Tahir Maepa, deputy general manager of the PSA.

Cosatu parliamentary co-ordinator Matthew Parks agrees, saying no further support of SOE should be forthcoming until the government comes with clear plans to stop looting.

As the numbers show, the GEPF's intent to reduce its exposure to SOE is not restricted to Eskom. Other utilities with better credit ratings saw sharper downscaling.

Its exposure to the Trans-Caledon Tunnel Authority, which has an AA+ credit rating, fell by almost half to R6,9bn, while the GEPF no longer has exposure to debt of the Airports Company SA, despite its stellar AA+ rating.

The trimming of exposure to state-owned debt was in part replaced by an increase of about R8,5bn in investments into foreign bonds in 2019. This is one reason the GEPF is slowly withdrawing exposure to not just SOE but SA Inc as a whole — the portfolio is overly concentrated on the local economy, with over 90% invested in local assets.

Sithole has been lobbying hard for the Fund's strategic asset allocation to be adjusted to allow greater diversification into foreign assets, given the weakness in the local economy and poor domestic investment returns. The decision requires the approval of the Finance Minister.

Regardless, the implications for capital-hungry SOE could not be clearer — they need to grow up fast and wean themselves off a source of capital that was once plentiful and unlimited.

Comment
Welcome news that both our exposure to Eskom and SOE in general, are decreasing while alternative income streams outside South Africa are being added. However, don't expect miracles this year, despite it being 2020.

Synopsis
BUSINESS MAVERICK: ANALYSIS

Why Ramaphosa is wrong about SOE

By Tim Cohen 10 December 2019

In his weekly letter, the President made a case for the state retaining ownership of 700-plus state-owned enterprises, saying they enable the government to 'perform crucial economic and developmental functions that the market would not on its own be able to perform'. He is wrong, but the reasons he is wrong are not, or at least not only, the ones most often cited.

Talk about bad timing. The President chose Monday to profess awe at the new Medupi power station and use its prowess to found an argument for government retaining its icy grip on SA's enormous fleet of state-owned enterprises. Later in the day, Medupi power station failed in its entirety, sending the country into Stage 6 power cuts, and very possibly into a formal recession.

Ramaphosa's arguments are ones we have heard many times over the years from the ANC: they are the notional vindication of the "developmental state". These ideas have declining support from theorists and economists around the world, but enormous support from South African academics and a broad cross-spectrum of SA's politicians, even from the extreme right.

And yet they are profoundly outdated. The arguments are rooted in the philosophy of a bygone era and in that sense, they are not arguments from a point in the political spectrum but from a point in the ontological spectrum. And yet, they have enduring appeal, and it's worth asking and knowing why that is the case.

Ramaphosa's views are somewhat different from the ideas propounded by the SA Communist Party ideologues who were so prominent in the Zuma era. This is now developmental state-ism with caveats. It's the developmental state with a small "d". Ramaphosa writes that a vital part of the turnaround effort is to reduce the dependence of SOE on bailouts and guarantees from the government.

It is absolutely amazing how long it has taken for someone in government to reach a conclusion so completely obvious. And as for it coming to an end, we will see, but I am willing to bet my left testicle that this promise will not be kept.

Ramaphosa's reasons why state-owned enterprises have failed tallies with what I suspect is the common view in SA why "our" state-owned enterprises have failed. And of course, there are some reasons why they would be right. The ANC has embarked on a policy for years now of something called "cadre deployment", as we all know, and it has been a disaster. As Carol Paton points out in *Business Day*, while management of some SOE has changed, "they remain with the wrong people in the wrong jobs with the wrong skills at multiple levels. This is a fundamental efficiency issue that has not been sorted out, at SAA in particular".

And of course, there is corruption. According to documents released by forensic consultant Paul O'Sullivan, Dudu Myeni, not in her capacity as SAA chairwoman, but in her capacity as head of the National Water Board, told her unfortunate CEO that he had lost his job "because unlike the others we appoint you did not 'feed me' ". It's as blatant as that, and she got away with it. Amazing.

Obviously, the issues that loom so large in the minds of South Africans are crucial. Yet, oddly enough, they are only the starting point. And the reason why this is obvious is that the kinds of problems SA is having with its state-owned enterprises are endemic to similar institutions all over the world.

The problem vests in the incentive systems that underlie institutions. Just acknowledging that organisations are underpinned by an incentive system structure, as crude a conceptual tool as they might be, takes you a long way down the road of understanding why they work so badly.

In a sense, private companies are internally a contest between three groups: employees, management and shareholders. They battle one another but their interests are aligned in one important and powerful respect: they want the company to make money. The simplicity of this organisational structure is an important reason why the private company has been the most powerful force in modern history. The crucial thing is the clarity of that goal. Running a company is enormously complicated; it's a huge boon to have an aim that is easily understood, relatively easy to measure, and one whose benefits are immediate and tangible.

Compare that incentive structure to a state-owned enterprise. What is the actual goal? Often, its obscured in a blithering array of verbiage. They are there to "develop the economy", it is often said. But how much? How? What constitutes success in this scenario? No-one knows, and worse than that, no-one can know.

Worse, the incentive systems not only of the shareholder but of the staff and government are confused too. For management, the goal is no longer satisfying customers but satisfying, or at least appearing to satisfy, the government. It's not an accident that MPs get free flights for life on SAA; the organisation is acting according to its in-built incentive system.

The same applies to employees. In-country like SA with such high unemployment, increasing employment rates seems transparently a good idea. So SOE are burdened with this doubtless desirable social function. But without a clear definition of what constitutes a "developmental business" where does it end? The short answer is in bankruptcy. According to an extensive analysis produced by Sharenet from Bloomberg's World Airlines Index, SAA (including Mango, Technical and Airchefs) has 214 employees per plane. The industry average is about 100; no major airline is even close, even Lufthansa, which also has a big technical division. Ryanair does it with 34! Of course, there are other metrics; turnover per employee, etc. But still, the general trend is obvious; SOE are hugely overstaffed, not necessarily even because they want to be but because they are required to be. It's the incentive system at work.

Faced with these very obvious truths, proponents of state-owned enterprises hit back with an array of dubious claims. SAA is not just an airline, they argue, it's a "flag carrier"; it represents that ephemeral thing, the nation. And so on.

The other counter-argument is that this particular industry is "foundational", in the sense that it sits at the base of industrialisation, like, for example, providing steel or indeed electricity. There is some merit to this argument; many countries have primed the pumps of industrialisation by supporting foundational industries. But the problem here is one of timing. These efforts tend to work until they don't work at all, but the institution endures even then.

A good example is the nationalisation of the mining industry. Nationalisation almost always becomes popular when the commodity in question is at the peak of its value. Governments look at gobs of cash mining companies are making and want that for themselves because minerals "belong to the people". But historically, because they nationalise at peak value, the organisation quickly goes south and the income dries up. All of a sudden, governments are sitting not with an asset but with a drain.

Global examples are often cited; what about Norway or China, or some other place? It's true, huge numbers of Chinese companies are state-owned. But look closer and you discover, Chinese state-owned enterprises are these days often only partly state-owned, and they are being decimated in the marketplace by the new tech companies. Their huge debts are obscured and their business practices are often dubious. The Chinese government is trying hard to get these companies off the state balance sheet for, even though nobody admits it, exactly the same reason SA has just removed SAA from the state's balance sheet. Communist China has just listed its Post Office bank on the Shanghai Stock Exchange in the largest offering on the mainland Chinese stock exchanges in history.

The most poignant counter-argument is also the most ideological: that it's precisely the profit motive that distorts the values of the state-owned enterprise. Freed from this greed-based incentive, the SOE can prioritise the social and national goals. Wonderful.

But this, too, misunderstands institutional dynamics. The value of the profit motive vests in the discipline it instils. Freed from that discipline, the driving force of the institution becomes distorted and corrupted. Decisions are made more slowly, for the wrong reasons, customers are neglected and the lines of accountability become frayed. And this is why governments on the right, and as it happens more recently on the left, have decided the government should be the referee, but not a player.

The political danger in South Africa now is that Ramaphosa believes this is a problem that can be quickly and easily fixed with a few board appointments and some better and more honest managers.

Alas, it's not going to be that easy. **BM**

Comment
What an awesome piece of journalism!
Makes perfect sense sentence by sentence.
Well worth reading it twice.
This is why our Fund must withdraw gradually from SOE and turn to much better ROI elsewhere.
I wonder how much the free MP flights contribute to SAA's problems?

STATEMENT

BY THE ASSOCIATION FOR THE MONITORING AND ADVOCACY OF GOVERNMENT EMPLOYEES PENSION FUND (AMAGP)

CAPE TOWN

10 December 2019

What happened to the oversight role of Parliament?

The members of the GEPF can quite rightly feel that parliament failed them.

The last time the Board of Trustees reported to the Standing Committee on Finance pertaining to their Annual Report was on 17 October 2017 when the 2015/16 annual report was submitted.

The appearance of the PIC and the GEPF shortly before the adjournment of parliament for 2019 satisfied nobody. It was merely an ad hoc appearance regarding only one investment and not a report concerning an annual report. The chairman of the temporary PIC Board, Dr Reuel Khoza, impressed with his strong utterances and indications of strong action by the PIC, which is encouraging. However, this was merely an ad hoc appearance regarding only one investment albeit large, namely Steinhoff. What about all the others?

By the way, was the GEPF present? Were they questioned about investments of R28 billion in Steinhoff? And the R9 billion which was smuggled in via Lancaster as a BBBEE investment? Did the GEPF report on its monitoring of these large investments? Were they questioned or did the emphasis again fall on the investment agent and not the principal? Are the monitoring reports available?

Events since October 2017 and particularly at the Mpati Commission, proved without doubt that there are great problems at the Fund. AMAGP did not unnecessarily warn about this since 2012. Eventually the government paid heed and appointed a commission of inquiry. Despite warnings, regardless that the problems at the GEPF is the result of poor control and that the PIC is merely an agent, it was decided to investigate the symptoms and consequences and not the cause. A law was even passed to regulate the PIC, but the Board of Trustees, which in terms of the1996 Pension Act is in control of the Fund, escapes scot free and let God's water run over God's acre for the PIC to mess with workers' and pensioners' money at will.

We are grateful for the Mpati Commission's inquiry and look forward to its report but are concerned that matters at the Board of Trustees are not in order. If matters were in order and the Board of Trustees did not, as in the case of parliament, neglect their supervisory role, the Commission of Inquiry may not have been necessary.

AMAGP, on many occasions, expressed its concern pertaining to previous annual reports and in analyses and particularly the 2017/18 Annual Report, pointing out dangerous tendencies that had to be stopped. Our parliamentary representatives apparently ignored these and took no note of the red flags we pointed out.

From what we have learnt, the 2018/19 annual report was already with parliament in September 2019. Can someone please explain to us why the CEO of the GEPF only announced this the day before parliament adjourned? We will now have the latest annual report analysed and we fear from experience what will be revealed: that our Fund is without brakes on the way to a precipice.

We are not arrogant enough to ask why parliament for two years now could not find the time to fulfil its supervisory role. We are simply wondering.

Adamus P Stemmet
Spokesman Amagp

Comment
Let's see how the media picks this up. The annual report was sneaked in just before parliament closed and the silly season started, meaning the report on what the GEPF did in 2018 will only be really be known and reported in 2020! Analysis takes time and the report's implications will only be really clear in the middle of the year, meaning any action can only be taken about two years after the reporting period! Are our Trustees really our Trustees?

Synopsis
BUSINESS

Cosatu suggests an Eskom solution

Kevin Davie 13 Dec 2019

Delayed reaction: Kusile and Medupi power stations have run over timeframes and budget and are still not contributing to the national energy grid. (Paul Botes/M&G)

We all know that Eskom needs a Big Fix before it drags the whole economy down with it, but we also know that there is a strong narrative saying government is constrained by organised labour. So it will come as something of a surprise to learn that Cosatu has tabled an ambitious and bold rescue plan to keep the country creditworthy and out of the hands of the International Monetary Fund (IMF).

The plan calls for the PIC to invest R200-billion in Eskom as part of a R250-billion equity injection to reduce its runaway interest bill and to return it to fiscal sustainability.

Under the Cosatu plan the PIC debt would be converted to equity plus require a further investment of about R100-billion to reach the R200-billion mark.

A document dated 11/12 November and titled Cosatu Key Economic Intervention Proposals, calls for an urgent turnaround plan for Eskom as part of a social compact where there will be no privatisation and no retrenchments.

It is envisaged is that workers who lose their jobs as Eskom is restructured will be offered jobs after a skills audit in the public sector where there is currently a shortage of some 128 000 workers.

Cosatu’s proposal is in part based on the social compact used to rescue retail group Edcon where UIF funds were invested on the basis that the loss of Edcon jobs would cause the UIF to have to fund more unemployment claims.

“Labour’s key tool are workers’ funds, namely the PIC and UIF. If used strategically, then can play a decisive role in workers’ favour,” Cosatu’s document says.

Some will undoubtedly see Cosatu pressuring the GEPF/PIC to invest in Eskom as an unacceptable intervention by a powerful labour federation in its investment decisions, but they could well ask if this route is not taken, what would be the value of the PIC’s investments if Eskom takes the rest of the economy down with it?

PIC board chair Reuel Khoza is cautious about using GEPF funds to rescue Eskom. “Throwing money to the Eskom problem without addressing the key challenges and understanding whence its problems come from would not be good. Certain things keep being done wrong at Eskom. Public servants would be very cautious and ask many questions if we throw good money after bad into Eskom,” Khoza told *Business Maverick*.

Kevin Davie

Kevin Davie is M&G's business editor. A journalist for more than 30 years.

Comment by Albert van Driel
It is very revealing of how irresponsible a Labour Union could be. From whom did they get that mandate, and do they realise what the long term consequences could be for the GEPF?
What they also do not realise is that roughly one-third of monthly contributions to the GEPF represent the individual LONG TERM (LT) savings of all government workers, past and present.
AMAGP has incidentally made a submission on about the same date to Dr Reuel Khosa that all investments from GEPF funding should be terminated until such time that new responsible council/management would be appointed at SOE, whence corporate management is restored and after wrong-doers have been prosecuted (including the recovery of large amounts of IMPAIRMENTS).

My Comment
I trust Cosatu will include the parliamentarian pension fund in this. Also, Edcon and Eskom are dramatically different, one a profit-making company and the other a major loss-making SOE.

Quote
Bloemfontein Courant 12 January 2020.

Speaking at the ANC’s 108th annual 8 January anniversary celebrations in Kimberley in the Northern Cape, SACP General Secretary Blade Nzimande:

Quote
“We need a radical change to our economy so it can serve our economy. Like Cosatu [Congress of South African Trade Unions] is saying, we want expropriation of land without compensation. We want workers’ pensions and provident funds to be used to build the manufacturing base of our country so as to create jobs and not to fund vanity projects that serve the private interests of a few. We want prescribed assets,” Nzimande said.
Unquote

Comment
This quote leads me to the question: who is planning and heading the assault on our Fund? Note the words used: pensions, provident funds, and prescribed assets; the only real resources still left for the government to exploit.

STATEMENT

ON BEHALF OF THE ASSOCIATION FOR THE MONITORING AND ADVOCACY OF THE GOVERNMENT EMPLOYEES PENSION FUND (AMAGP)

CAPE TOWN

20 December 2019

Release of the report of the Mpati Commission

The AMAGP learned from reports in the media that the report of the Mpati Commission of Inquiry into matters relating to the Public Investment Corporation has been handed to the President. According to unconfirmed reports the president will release the report and his decisions on the recommendations during January 2020.

As could have been expected the knowledge that the report was in the hands of the president caused rumours and speculations about leakages, findings and possible steps emanating from the report. Alleged findings about and the names of people and instances investigated are published openly. Statements to the effect that the report was leaked to one of the instances that was investigated is causing concern and is damaging the high regard people have for the Commission.

It **would have been better had the full report been published immediately.**

The evidence regarding their Fund when presented to the Commission and the alleged serious discrepancies and perhaps even criminal activities it revealed, caused anxiety to pensioners. They really do not need the rumours now flying about.

AMAGP strongly supports the views expressed by the Public Servants Association for the immediate release of the report. It is, however, emphasised that the full report should be released, as a summary or any other form will undoubtedly cause more gossip.

The President must obviously be allowed time to study and consider the report and its recommendations before deciding on his future steps. No pressure should be put on him.

AMAGP is, therefore, of the view that there can be no reason now for the President to keep the report secret any longer. To do so can eventually only cause harm to the integrity. and good work done by the Commission.

Adamus P Stemmet

Synopsis
24 December 2019

The state and Black participants to have minimum stakes in oil and gas projects

In terms of the draft bill, every exploration or production right must have a minimum of 10% participating interest by Black people.

by Linda Ensor

Mineral Resources and Energy Minister Gwede Mantashe. Picture: Puxley Makgatho

The state is to have a 20%, cost-free interest and black participants a minimum 10% stake in all petroleum projects in terms of a draft bill gazetted by the Department of Mineral Resources and Energy on Tuesday.

The draft Upstream Petroleum Resources Development Bill has been published with Cabinet consent for public comment. It has its origins in the Mineral and Petroleum Resources Development Amendment Bill, which was withdrawn partly so that petroleum resources could be dealt with in separate legislation.

The draft bill has been keenly awaited by the petroleum resources sector.

The bill also provides for the establishment of the Petroleum Agency of SA as the national regulatory authority for the upstream petroleum sector. The agency will deal with the applications for production, exploration and other rights and make recommendations to the Minister, who will be responsible for granting them. The bill also designates state-owned oil firm PetroSA as a national oil company.

The state, through PetroSA, will have a right to a 20% "carried interest" in exploration and production rights. The costs of the carried interest will not be borne by the state. PetroSA will have to appoint two or more representatives to the joint operating committee of the exploration or production operation to represent the state.

PetroSA will be entitled to full participation, including a corresponding percentage of voting rights to the interest held in the joint operating agreement.

Participating interest

In terms of the draft bill, every exploration or production right must have a minimum of 10% participating interest by Black people, which must include the economic interest plus the corresponding percentage of voting rights, per exploration or production right.

In addition, the Minister may, by notice in the gazette, reserve one or more blocks in an open area for 100% black-owned companies. This will be subject to a Black person's participation in such a company not being diluted to less than 51% for purposes of raising capital; and any dilution to below that triggering the state carried participation of up to a minimum of 10%.

When the need arises, the Minister may also, through a gazette notice, require a production-right holder to avail certain volumes of oil or gas to provide for the country's strategic stock, paying fair market value for the acquisition.

The bill stipulates that an exploration or production right or an interest in any such right in an unlisted company or a controlling interest in a listed company may not be relinquished in any form without the prior written consent of the Minister. Neither can a part of a production right be partitioned without prior written consent of the Minister.

The Finance Minister will determine the royalties, production bonus and the petroleum resource rent tax in respect of the development of petroleum resources in terms of an act of parliament.

"The proposed bill aims to strike a balance between the need to attract investment into this key sector of the economy, and ensuring the potential of the upstream petroleum industry benefits all South Africans," the Department said in a statement announcing the publication of the bill.

The preamble to the bill states that it recognises the internationally accepted right of the state to exercise sovereignty over all the petroleum resources within SA.
ensorl@businesslive.co.za

Comment
If I understand correctly, the bill wants to legislate 20% of all petroleum project ownership to the state, with the state not contributing anything, but with full voting rights and PetroSA overseeing this. Really? And who is going to select the cadres to represent the state?
Also legislating a right to exercise sovereignty over all SA petroleum resources, which right doesn't, actually, exist internationally, and in any case it isn't in our Bill of Rights as we, the citizens and people of SA, have the right to property, including petroleum.
I understand the 10% BEE, which may be a problem to achieve – which BEE really has the funding, so we are looking at the GEPF/PIC cash cow being the source of funding again?

[(State Owned = disaster) + (BEE = risky) = Reckless {kommentaar deur AP}]

Synopsis
How BEE changed the rules of the game

By **Anthony Turton**
Daily Friend
2 January 2020

In the closing weeks of 2019, South Africa reached Stage 6 load-shedding. This is uncharted territory, so let's unpack it a little.

Some years ago I wrote about a startling fact that few were interested in at that time. That simple fact was that Eskom, our national energy utility company, was running on standby generators.

Nobody responded, so I shut up and moved on, but I never stopped thinking about this simple startling fact. Why is our national power utility running on standby generators?

The answer is complex, but one element of that answer is diesel fuel. You see, a lucrative contract was given to a politically connected person to supply diesel. That diesel wasn't the cheapest, because the supplier wasn't the manufacturer of the diesel, but bought it from a real diesel supplier that wasn't allowed to enter the game because of the rules of that game.

That game is called BEE and it has de-industrialised a country that once produced 40% of all the gold ever mined in all of recorded history, from the Incas to modernity. That country once pioneered the production of oil from coal. That country once pioneered the first human heart transplant and gave us the first base-bleed artillery capable of firing a tactical nuclear weapon. That country pioneered water treatment technologies that recovered safe drinking water from sewage and it produced sophisticated steels used in highly specialised engineering processes. The list goes on, but you get the point.

South Africa used to punch above its weight and was a genuine participant in the global economy. We produced things of value. Sophisticated things. Technologically advanced things.

Then came BEE, and it changed the rules of the game by skewing the playing field in favour of those whose only attribute was that they were politically connected. It actively discriminated against anyone who was creative and nimble in the field of science, engineering and technology.

It incentivised the out-migration of those people merely because the rules of the game deliberately discriminated against excellence, and rewarded those whose sole attribute was their ability to extract money without creating value. This is called rent-seeking behaviour.

The sale of diesel to run the standby generators in the national energy utility enables the extraction of money, but it creates no enduring value, so it is inherently parasitic. It is a textbook example of rent-seeking behaviour.

Any organism infested with parasites slowly succumbs to their voracious presence and eventually that organism becomes so sick that it dies a miserable, lingering death.

The collapse of Eskom is imminent for all the reasons noted above. It is deeply infested with parasites extracting money without creating value. It is unsustainable for the same reasons that SAA collapsed. It too had the game being played about the supply of fuel at inflated cost. But it also had the other games – supplying toothpicks, serviettes, cookies, butter and buns, all at inflated cost. It too has separated the right of remuneration from the responsibility of productivity.

South Africa no longer produces anything of value to the world. The mining industry has collapsed, leaving a toxic landscape of hazardous waste that will poison society for the next century. Denel, which once played at global level in the field of sophisticated weapons systems, is collapsing after the theft of the intellectual property that used to fuel its engine.

We have become a society that creates, rewards and protects thieves, parasitic, ambitious and greedy thieves with an insatiable lust for money, and an aversion to honest work and creativity.

South Africa is that poor animal infested by parasites which is now emaciated and sick, not yet dead, but feeble and suffering. It will die, for that is inevitable, but, before that, a predictable series of things will happen. Those things are inevitable, logical and therefore predictable.

I have seen them before first-hand when other parasite-infested countries died. I saw it in the Romanian revolution that overthrew the tyranny of Nicolae Ceausescu. I saw it in the Leipzig Option that created rolling mass action to depose Erich Honecker in East Germany. I saw it in the Velvet Revolution of Czechoslovakia. In all these cases, revolution deposed the parasitic class that had been extracting money, earned by the sweat of the people, without creating value for the nation.

I also saw it in the lingering demise of Robert Mugabe, who destroyed a proud nation because of his ruthless control over the extraction of money without the creation of value.

This is what I believe the inevitable implosion of Eskom, SAA, PRASA and other state-owned enterprises is all about. We are witnessing the death of a destructive system – BEE – that has sucked the life blood from a once vibrant economy, and replaced it with a new breed of oppressor, that preys on the poor and vulnerable in society whom they once claimed to have liberated.

The oppressed has become the oppressor, and technological advancement is no longer possible as we enter the New Sanitation Dark Age, where raw sewage flows freely in many towns and cities of South Africa, and where pumps have ground to a halt because electricity production has been compromised by a class of parasite that is encouraged to supply diesel at inflated value, but is protected because of patronage.

This article was originally published on Dr. Turton's FaceBook page on 10 December 2019

Comment
What a profound concatenation of truths, which lays the blame squarely on the ruling political party, where it belongs. Our Pension Fund has invested in many BEE entities and has thus plays a role, unfortunately with many investments being hidden so the losses aren't apparent. And the unrelenting pressure of the AMAGP for accountability for our Fund and pensions is part of the solution.

MEDIA STATEMENT

Issued on behalf of the Association for the Monitoring and Advocacy of the Government Employees Pension Fund (AMAGP)

Cape Town

8 January 2020

GEPF TRUSTEES: IS THE PENSION FUND TRULY STILL SOLVENT TODAY?

Following the release of the GEPF's 2018 Actuarial Report in Feb/March 2019, AMAGP issued a statement on 17 March 2019. In that statement it was inter alia stated:

1. "It is abundantly clear that the pension fund is on a steep down road spiral and if the trend continues, the strain on the fund to honour its long term responsibilities will continue to increase ...;

2. The actuary now recommends increases by the government ...;

3. The income on investments is not sufficient ...; and

4. Only 59% of the contributions by serving members ... for their pensions when they retire, have been channelled to the PIC to be invested for that purpose ..."

The full statement and annexure are available at this link:

https://www.amagp.co.za/media/amagpstatementGEPFactuarialreport17mar19complete.pdf

Our retired auditor colleague then came to the following conclusion:

"**As can be seen, at this time, because of the last 4 years, any hope of progressing towards achieving the long term funding level has been abandoned.**"

The following basic, yet important question directed to the TRUSTEES of the GEPF, is a follow up of that review by him:

"**Is the fund still truly solvent today?**"

The Actuary in his 2018 valuation report of the GEPF stated the following:

> "*In order to determine the level of solvency of the fund, it is necessary to compare the total assets of the fund with the total liabilities. **The fund is solvent when the value of the assets is equal to or greater than the value of the liabilities**, i.e. a funding level of 100% or greater. The funding level is the ratio of the value of the assets to the value of the liabilities of the fund **at the valuation date.**"*

R million	2019	2018	2017
Financial assets	1 786	1 669	1 458
Financial instruments	522	575	394
	2 308	**2 244**	**1 852**

±For information to be relevant it needs to be timely.

A persistent problem with information about the Fund, is that by the time that the

information is released by the GEPF to members, it is indeed already outdated.

The GEPF released its 2018/9 Annual report (AR), dated September 2019, only in December, basically when we are already more than midway through the 2019/20 financial year.

The funding rate of 108,3% was calculated **as at the end of March 2018** by the Actuary in November 2018 already.

The report released three months later in February 2019, confirmed the assets exceeds pension liabilities. Unfortunately, this funding ratio is already 21 months old and, based on the trends since 2014, may indeed not be valid today.

The GEPF's pension liabilities, on average, increase by +- R125 billion per year.

The 2018/9 AR reveals that assets ONLY increased by R17 billion since the prior year. The fact that the annual increase in assets cannot match or exceed the increase in pension liabilities, indicates and ensures the funding ratio is decreasing by ±5% per annum, all things being equal.

Over the aforementioned 21 months, the rate of deterioration of the minimum funding ratio then equates to ±8,75% and as a result, reduces the buffer (the reserves) the Fund had at the end of March 2018, effectively to zero.

With due consideration that it has been more than 21 months since **March 2018**, we may very well have reached the point where assets equals or are less than pension liabilities **and, IF SO, we have the unfortunate situation where the Fund is not solvent anymore.**

The solvency (or not) of the FUND is a material fact which should be urgently fully disclosed to members without delay, especially those members contemplating early retirement. It is the duty and responsibility of the GEPF Trustees to communicate fully and transparently at all times with its internal and external clients and members. The Trustees must come clean and talk to their members and other clients MUCH MORE regularly. "

We are keenly waiting for the report by the Mpati Commission as well as the government's decisions and recommendations on the report.

It should, however, be kept in mind that the GEPF as such was not investigated. Yet, it is very clear that the situation at that body should also receive serious attention from the authorities. Failing to scrutinise the doings of the GEPF and its Trustees on a regular basis is failing the taxpayers, pensioners and still active members of the Fund in a huge way.

Enquiries

Adamus P Stemmet. Christo van Dyk

Spokesman AMAGP

Comment
Please note how the GEPF, by implication approved by the Trustees, release data and then a year or more in arrears. The Trustee remuneration is indicated in the first table below. Surely this kind of remuneration must be linked to performance?

Synopsis

The sitting duck in the corruption fallout

Barbara Curson 10 January 2020

Image: Moneyweb

The GEPF 2019 annual report attempts to paint a rosy picture, but the cracks are widening. With funds of some R1,8 trillion can its Board of Trustees really claim to have protected these investments from illicit dealings such as insider trading, fronting run orders, or taking large positions to boost share prices?

Many questions remain on the questionable investments the PIC made on its behalf. Nonetheless, GEPF chair Dr Renosi Mokate asserts that the investment activities “remain firmly within our oversight”. And further that “we are overall satisfied with the performance of the GEPF portfolio in totality, noting the poor economic environment in which we operate".

External audit report

The external auditors, Deloitte&Touche and Nexia SAB&T, issued an unqualified audit opinion on the 2019 annual financial statements and confirmed that: "There are no instances of non-compliance with laws and regulations that came to our attention during the course of our audit of the financial statements."

This statement appears to be at cross-purposes with one of the findings of the Office of the Auditor-General in the PIC's 2019 external audit report (paraphrased):

- Investment deals entered into did not always comply with governance processes;
- Due diligences performed were not always sufficient and appropriate;
- One particular legal deal countersigned with a counterparty was not aligned to the structured deal;
- Conditions precedent were not always incorporated into legal contracts; and
- Policies and procedures were not always complied with.

Considering that the GEPF is primarily managed by the PIC, surely this comment should have been followed up on in the GEPF external audit report?

How carefully did Deloitte&Touche and Nexia SAB&T look at the massive portfolio of investments? For example, in regard to the valuation of unlisted investments, they state that "the valuation of these investments involves the use of various complex valuation models, subjective valuation inputs as well as significant levels of judgement". Is that so? Is unpaid interest not added to the "value" of the investment?

Actuarial valuation

The latest actuarial valuation performed by Alexander Forbes Financial Services as at 31 March 2018, indicates declining short and long-term funding levels.

The minimum funding level of 108,3% comes in at 18,3% above the minimum funding level target of 90%, but the long-term funding level of 75,5% falls far below the minimum funding level target level of 100%.

The contingency reserve of R137 428 million represents only 19,1% of the recommended contingency reserve of R720 893 million.

Financial results

Net investment income plummeted from R153,4 billion in 2018 to R46,8 billion in 2019, as did net income after transfers and benefits, diving from R127,4 billion in 2018 to R12,6 billion in 2019. This is mainly due to the negative adjustment in fair value of R40,5 billion (2018: positive adjustment of R69 billion).

Nevertheless, the investments yielded an average return of 2,6% (2018: 8,5%).

Impairment of investments in 2019 amounted to a conservative R8,8 billion (2018: R7,4 billion).

Impairments include:

- AfriSam Group. R2,4 billion (2018: R0,3 billion)
- Lancaster Group (Steinhoff). R1 billion (2018: R4,3 billion), and
- Independent News and Media. R0,3 billion (2018: R1,1 billion).

No mention is made of the R4,3 billion investment in Ayo.

Note that the GEPF has not disclosed its investments in 'Other' primary listings on the JSE for R297,4 billion, nor has it disclosed its investments in 'Other' secondary listings on the JSE for R33,4 billion.

The cost of management (R'000)		
	2019	**2018**
Executive officers' remuneration and bonuses (4)	10 324	7 566
Principal officer's remuneration and bonus	5 882	4 957
Board of trustees' remuneration and expenses (49)	13 870	11 561
	30 076	24 084

Management fees		
	2019	**2018**
Externally managed	1 729 469	1 600 933
Internally managed	470 429	179 845
	2 199 898	1 780 778

Management of investments

The assets of the GEPF are managed primarily by the PIC. However, 32 external asset managers have also been appointed. No details are provided in regard to the size of the portfolio managed by each asset manager, nor the return on investment.

Assets under management (R'000)		
	2019	**2018**
Money market instruments [1]	42 323 368	30 228 303
Direct loans [2]	41 886 273	44 244 370
Bills and bonds [3]	575 542 873	576 690 673
Investment properties	14 650 804	14 296 588
Equities, primary listing on JSE	763 107 297	781 484 673
Equities, secondary listing on JSE	199 890 771	188 601 729
Equities, unlisted equities	68 063 248	62 993 130
Preference shares	5 044 182	4 379 389
Collective investment schemes	108 330 465	98 898 446
	1 818 839 281	1 801 817 301

Notes

1. The investment in money market instruments of R42,3 billion (2018: R30,2 billion) includes promissory notes issued by the Land and Agricultural Development Bank of SA (Land Bank) for R6,2 billion (2018: R6,1 billion) and the SA National Roads Agency (Sanral) Ltd for R69,7 million (2018: R0). **Do the increases in the amounts due from the Land Bank and Sanral represent new advances, or unpaid interest?**

2. Direct loans include loans granted to special purpose vehicles [SPV] that have been set up to make investments in established businesses, or investments in shares. Does this mean the GEPF is funding an aspirant class of rent-seekers? The GEPF should disclose a schedule of all loans, including the interest payable, unpaid interest, and unpaid capital instalments.

3. Bonds include R23,1 billion (2018: R26 billion) with Sanral, and R84,5 billion (2018: R87,6 billion) with Eskom.

The GEPF has some R173,2 billion tied up in state-owned entities (SOE). Many of these entities are propped up by interconnected loans. If one large SOE folds, this will result in a ripple effect of imploding loans.

And the GEPF will be the sitting duck.

AUTHOR PROFILE

Barbara Curson

Barbara is a CA(SA) with post graduate qualifications in tax and international tax. Her experience includes working for auditors, large corporates, and SARS Economics, financial corruption and tax policy are among her interests.

Synopsis

The first of many analyses of the annual report. Paints a dismal picture and casts doubt on the auditors as they didn't note the Auditor-General's comments on the PIC 2019 external audit. Deloitte&Touche have been wrong before, if I remember correctly. Note, Ms Curson is an CA, so she knows what she is writing about.

Note the massive increase in cost of management in 2019!

IMPORTANT NOTICE. PLEASE READ

Now that you have reached the end of this newsletter, take a while or two to consider what the all-volunteer AMAGP is all about and is actually achieving. Our Facebook page has more than 14 000 members as of the minute I'm typing this, we must be doing something right. We need you to inform and motivate all the civil servants, policemen, soldiers, correctional services members, etc, you know to join the AMAGP to strengthen our voice when promoting the sustainability of your pension. We need many more AMAGP members too. Of which there are already over 3 000, we need many more though.

ROLE OF THE FACEBOOK PAGE - GEPF WATCHDOG/WAGHOND

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 super condition. There is, however, another side to the coin!

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. Kindly take note that you do not have to pay membership fees, or do any work for the AMAGP if you do not wish to do so – BUT your membership will add one more brick to the wall that the AMAGP is building to protect our money. 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 Public Investment Corporation (PIC), to manage and invest OUR money in a responsible and profitable way.