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.

www.AMAGP.co.za

GEPF Watchdog - Waghond

GEPF your investment, your future

NEWSLETTER NO 20 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 million active members, in excess of 450 000 pensioners and beneficiaries, and assets worth more than R1,61 trillion. https://www.GEPF.gov.za/

The Editor's Word

International ratings agencies downgraded the RSA further into deeper junk status. The mandate of the GEPF does not allow investment with downgraded entities like our SOE. Keep this in mind.

One further notes that the downgrade was a reflection of the opinion that the agencies considered the governments' guarantees of repayment to be compromised. A matter that our Trustees should perhaps note. Hopefully.

The GEPF Annual Report merits some attention, mainly because of what it doesn't say. We have the delightfully vague and image polishing report on the GEPF website, then a few court cases food for thought, and our Christo van Dyk with his to the point and factual comments. Together they provide a balanced view of the concerns we keep voicing.

SCOPA met to consider DBSA maladministration and corruption allegations by the UDM, including the unsuitability of its chairperson. It seems the ANC excels at redeploying members of doubtful integrity to positions where their doubtfulness excels.

The PIC's suspended CFO has now received full pay for 21 months while the PIC is wending its slow and tortuous way to some kind of action to determine her continued employment at the PIC. If she had been suspended without pay she would have litigated to a conclusion quite quickly I believe. Does this look like correct use of our remuneration of the PIC for asset management?

The demise of African Bank, where we had a major loss, was preceded by a clean audit from Deloitte. The disciplinary process for Deloitte has now almost reached its final step with, it seems, a slap on the wrist for those involved. A short article to acquaint you of the essentials.

Moneyweb informs us that Mboweni is still considering using the PIC to fund Eskom. AMAGP replied to Moneyweb with a concise reason to mistrust the readiness to misuse our Fund's funds.

Business Day has an editorial about the futility of the ANC's prescribed assets plan, which futility we wholeheartedly agree with. But. We know that once the 'government' airs its intentions it is extremely difficult for it to see its follies.

Some discussion about the civil servants' being offered a cash bonus in lieu of their remuneration agreement. And it being funded out of the 'government' contribution to the GEPF. This desperate idea shouldn't survive, ever.

Barbara Curson again provides a lucid and clear view of the challenges facing the GEPF, stemming from the GEPF AR. Good reading as usual. To supplement the first three articles.

We finish off with a gripping piece by Alan Greenblo. He, ia, ascribes the success of the 2019 Springbok victory, the successful Independent Power Producer Procurement Programme, and the incredible success of the Solidarity Fund, to total absence of 'government'. Good idea.

Now for the news expanded somewhat . . .

NEWSNUUSNEWS NUUSNEWSNUUS

Synopsis

GEPF ANNUAL RESULTS AS AT FINANCIAL YEAR-END MARCH 2020

GEPF NAVIGATES STRONG HEADWINDS
16 November 2020, Pretoria

Main Points

GEPF asset market value declined by 11,4% from R1,8tn in 2019 to R1,64tn in 2020. This decrease in the investment value is mainly attributable to the losses incurred in March 2020 as a result of the impact of Covid-19, the downgrade in credit ratings, and a persisting low growth environment.

Income received during the financial year included:
✓ Dividend income – R34,1bn
✓ Interest income – R52,3bn

✓ Property income – R1,8bn
✓ Contributions received – R 80,2bn

Benefits paid upon member's resignation, retirement, or death was R111bn which was an increase of R 8,4bn against 2018/19 financial year payments. This was mainly due to an increase in pension payments which accounted for 62% of the total benefits paid, which was driven by the 5,2% monthly increase granted to pensions and a 3,1% increase in the number of pensioners.

As at 31 March 2020, the end of the financial year 2019/2020, the GEPF reported a decline in its investment portfolio of R243bn largely impacted by the turmoil in the South African and global economy in the last quarter of the 2019/2020 financial year.

However, due to the resilience of the GEPF investment strategy, the Fund has recovered the losses incurred and its unaudited value is currently R1,9 trillion. This recouping of losses clearly indicates that the GEPF remains financially sound despite the tough economic conditions that the Fund operated in, in the 2019/2020 financial year.

The financial results, however, continue to highlight the performance of the Fund is not isolated from the country's economic and development constraints. The poor state of the South African economy had a significant impact on the Fund, as the economic climate in the three months leading to 31 March was extremely turbulent and coincided with the end of the Funds 2019/2020 financial year.

Much of the decline in the Fund's market value was due to the performance of local equities, capital markets and listed property. The decline in international asset classes was offset by a significant decline in the value of the Rand against the Dollar. The value of the assets reflects depressed market values as at 31 March 2020.

In the context of a uniquely challenging economic environment, the GEPF did sustain an acceptable overall investment performance with income of R168,4bn as a result of investment income of R88,2bn and contributions of R80,2bn. The fund outperformed its benchmark by 0,22%.

The adverse economic climate in South Africa led to the sharp rise in the bond yields in March 2020 resulting in the value of the Fund's liabilities reducing considerably as at 31 March 2020. This reduction in liabilities would have resulted in the funding level of the GEPF increasing but the unintended consequence would have been a marked decrease in member exit benefit values (calculated using the Actuarial Interest Factors derived from the actuarial valuation) for the upcoming years, until the results of the next statutory valuation is approved.

Given the abnormal economic shocks and the impact on member benefits, the Board of Trustees resolved to carry out an interim valuation as at 31 March 2020 that will be followed by a statutory valuation as at 31 March 2021. The postponement of the statutory valuation to March 2021 is still within the timeframe prescribed for actuarial valuations by the GEPLaw.

Benefit payments to members will continue to be made in accordance with the approved Actuarial Interest Factors, which came into effect on 1 July 2019, until the statutory valuation as at 31 March 2021 is completed.

These safeguards members from the adverse effect that would have resulted from adopting the Actuarial Interest Factors based on abnormal circumstances as at 31 March 2020. In line with the Fund's commitment to ensure all benefits due are paid, the total benefits paid during the year under review increased by R8,4bn, mainly due to the increase in pension payments, which accounted for 49% of the total increase. The increase in the pension payments were driven by the 5,2% monthly increase granted to pensioners from 1 April 2019 and a 3,1% increase in the number of pensioners.

Whilst the number of pensioners increased, the Fund also experienced a slight increase in active members by 0,3% to 1 269 161 members (2019: 1 265 421).

The GEPF expects the difficult economic climate in South Africa to persist as the economy continues to contract. Following the conclusion of its consultation with the Minister of Finance on its asset-liability modelling, the GEPF will begin to align its strategic asset allocation to match its liability profile. The strategic asset allocation determines how the GEPF allocates funds to asset classes locally and offshore.

The GEPF is keenly aware of the important role it plays in the South African economy, and that its members, pensioners and beneficiaries are impacted by economic, social and environmental challenges, in recognition of which the GEPF continues to direct funds towards the development of the country, inclusive of infrastructure, transformation, sustainability, priority sectors and small–medium enterprises. Such investments, however, must ensure beneficial returns to the GEPF.

The GEPF expresses its appreciation to its implementing agencies, PIC and GPAA for the work they do to ensure that the GEPF fulfils its mandate.

The Audited Financial statement can viewed on the GEPF website on www.gepf.co.za

Issued by Government Employees Pension Fund

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Comment

The above is a summary taken from the GEPF website. I am concerned:
There are too many vague statements and rationalisations about external factors, little about what the GEPF should have done internally.
Only starting the alignment of the strategic asset allocation years after it was finalised.
The dividend and interest income equals the contributions from members, which isn't much. And no mention of contributions from the employer.
The dividend and interest income from R1,9tn is a measly R86,4bn – really?
And the economy and COVID is presented as the reason – why are we paying the billions to the many asset managers then?
The AMAGP analysis further below will acquaint you with the real implications of the Annual Report.

Synopsis

Extract P122

"23.3 PENDING LITIGATION
The following contingent liabilities exist in respect of legal claims against the GEPF on the date on which the financial statements were approved:

• TRANSKEI CIVIL SERVANTS V GEPF; The matter was in court and application for leave to appeal was heard on 7th November 2019. The judgment was reserved and delivered on 15th November 2019. The appeal was dismissed with costs accordingly.

• SOLIDARITY V GEPF Application for the review of Actuarial Factors. There was an appearance in court and Solidarity's application for class action was dismissed with costs and solidarity served the appeal application in December 2017 and its still pending. The GEPF is proceeding with the claim for legal costs

• PSA V GEPF Application for the review of Actuarial Factors. There was an appearance in court and the case was dismissed with costs. PSA proceeding with an application for leave to appeal and the judge granted the application but only on the concept of "consultation" as provided for the GEP Law.

• SOLIDARITY V GEPF Application by Solidarity to obtain certain information from GEPF relating to investment matters. The matter is still at the pleading stages.

• PSA V GEPF Application by PSA to obtain certain information from GEPF relating to investment matters. The matter is still at the pleading stages."

Considering that the 2019/20 Annual Report was submitted in recently and in other cases reflects post balance sheet information, these disclosures do not seem to be updated and correct.

Christo van Dyk

Comment

To add to the brief information on the AR from the GEPF website above, this extract from the AR shows the litigation the GEPF was involved in at 31 March 2020. The PSA

actuarial case has since been finalised to pensioners' advantage.
The lack of transparency of our GEPF is the subject of two different court cases!!

Synopsis

HOW PRODUCTIVE ARE THE ASSETS?

By Christo van Dyk
A very simple question – not so?

When you are done reading the 100+ pages of the Annual Report, can you answer this simple question? Below is an attempt to cut through all the words and public relations speak in the Annual Report.

Pension Fund assets are invested to cover benefit payments today, tomorrow and twenty years down the line. The annual report informs us what happened in 2019/20 and the years prior - so it gives us the history.

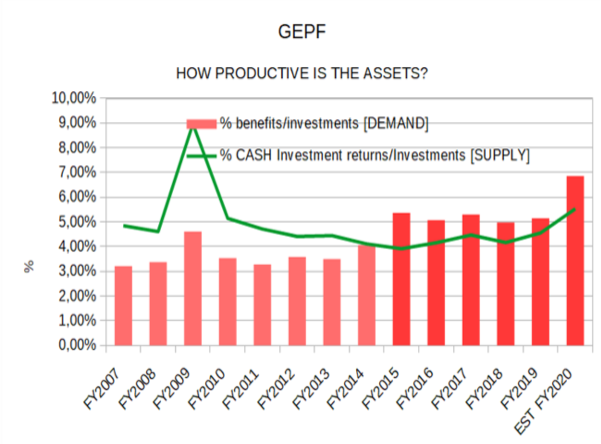
Benefits paid in 2019/20 was R106bn (2019: R93bn).
Cash received from interest and dividends was R89bn (2019: R82bn).
So R17bn (2019: R11bn) shortfall.
[Source: GEPF 2020 ANNUAL REPORT p84]

This shortfall trend has now been going on for 6 years, since 2015. The combined shortfall is already R87bn.

It's clear that the assets are not producing cash to the level required by benefit payments. It has not done so for 6 years already. And the shortfall is increasing.

So what about the next 6 years?

A picture is worth a thousand words. Look at this graph. Will you be able to confidently state GOING FORWARD that the assets will produce the cash required by the increased benefit payments?



The Graph indicates:

- CASH SUPPLY (the green trendline) averages between 4% and 5% over time
- DEMAND (the Red bars) started off at 3% but is increasing over time up to 6%

All the above is history. What about current changes and initiatives?

We know that Cash from Dividends will reduce because of the SARB call on SA companies to retain profits to deal with Covid19 impacts. We also know the GEPF has eventually revised their Strategic Asset Allocations. The changes are minimal AND, because of the time delay between plan and implementation, will in all likelihood only have a visible impact in two years' time.

And truth be told, the changes may very well not have the positive impact to eradicate the shortfall once and for all.

So in conclusion:

What are the chances that the cash SUPPLY as a result of investments will exceed DEMAND, because of benefit payments

- in 2020/21?
- In 2022 onwards?

Albert Einstein said the following:

"Insanity is doing the same thing over and over again, but expecting different results."

Comment
Christo van Dyk excels in making the vague and murky water of the GEPF AR clear. Take note of the downward spiral our Fund has been in for decades.

Synopsis

DBSA maladministration and corruption allegations

[Public Accounts (SCOPA)](https://pmg.org.za/committee-meeting/31517/?utm_campaign)
https://pmg.org.za/committee-meeting/31517/?utm_campaign
18 November 2020

Chairperson: Mr M Hlengwa (IFP)

Meeting Summary

Video: Standing Committee on Public Accounts, 18 November 2020

On 23 October the United Democratic Movement (UDM) President posted an open letter to SCOPA on the UDM website alleging maladministration and corruption at the DBSA and the victimisation of Board members.

His concern centred on
- the appointment of the DBSA Board Chairperson, Mr Enoch Godongwana, by the Minister of Finance;
- about suspect loans made by DBSA;
- the appointment process of the new DBSA Board; and
- victimisation of two former Board members.
- A central concern was Cranbrook Properties and the alleged desire of the DBSA Board Chairperson not to have the matter explored by Board members, seemingly leading to the refusal to reappoint two Board members.
- The management and follow up of the repayment of certain loans were negligent.

DBSA loans that were suspect were included those granted to

- Blue Horizon Investments 11 Pty Ltd (BH11);
- Moeparutsi Properties, which is not a registered company; and
- Proline Trading Sixty (PT60);

all of which allegedly form part of Cranbrook Properties, with Mr Godongwana and his wife as shareholders. The Irene Charnley case was raised in respect to deals which may suggest the siphoning off of money to Saudi Arabia.

The Committee committed to a hearing on the matter and would be advised by Parliamentary Legal Services to pave the way forward for a hearing involving all parties. It would use its powers of subpoena if need be. The Chairperson said that the Directorate for Priority Crime Investigation (DPCI) and Minister of Finance should also appear before it to account. The Committee did not deliberate on the matter in this meeting as it needed time to consider the matter and hear all parties involved.

The Director General of National Treasury clarified the organisational structure of the Ministry of Finance, so that the Committee would have a better understanding of where DBSA was placed within the structure and who the accounting officer was.

The Special Investigating Unit (SIU) and the DPCI attended this briefing. DPCI undertook to check the status of investigations mentioned in the briefing. SIU confirmed that there was no active case being investigated on this matter.

Comment

Genl Holomisa again raised matters of concern to we members and pensioners.
Enoch Godongwana, an ex Deputy Minister of Economic Development, was redeployed by the ANC and became chair of the DBSA after he resigned as Deputy Minister, being involved in R100mn SACTWU pension funds unrepaid loan to Canyon Springs Investment Company, of which he owned 50%. We also know him as the spokesman on economic affairs for the ANC with a strong appetite for our pension monies.
The GEPF holds more than R12bn in DBSA parastatal bonds. We are entitled to question how a man with his credentials be appointed to the important position as Chairman of the DBSA. I'm very sure the PIC was aware of the recent problems at the DBSA.
And the GEPF too, whose monitor system should surely have become aware of its problems?

Synopsis

Suspended on full pay 20 months ago, a PIC exec has now earned R11m for no work

Business Insider SA
20 November 2020

PIC CFO Matshepo More

The PIC's CFO Matshepo More remains suspended on full pay, the PIC confirmed in a media briefing on Friday. Netwerk24 reports PIC CEO Abel Sithole confirmed that More was still the organisation's financial head, although still suspended.

More was suspended in March last year and charged for signing a memo approving a R4,3bn transaction involving Iqbal Survé's AYO Technology in 2017, before the PIC's Management Committee could approve it.

The deal formed part of the Mpati Commission of Inquiry's investigation into wrongdoing at the PIC. But a PIC disciplinary inquiry earlier this year found that More was not guilty of two charges related to the investment. Still, Fin24 reported that the PIC considered it "ill-advised" to reinstate her to her position as CFO, and the Board decided to extend More's suspension on full pay as the Corporation awaits final recommendations on her fate.

The report from the Mpati commission of inquiry recommended action be taken against several individuals, including More, who was also acting CEO, Fin24 reported. The PIC appointed the retired Constitutional Court Judge Yvonne Mokgoro and a panel of experts to guide its disciplinary process and the implementation of the Mpati commission report's findings.

Meanwhile More is still earning her full salary, which according to Netwerk24, was R6,895bn in 2019, which comes to around R575 000 a month. This excluded short and long-term incentives and other payments. For the past 20 months, Netwerk24 calculated she earned R11bn while doing no work.

Comment

21 Months by now.
To we members and pensioners, it is unthinkable that suspension on full pay can continue at this cost. Keep in mind the Commission first had to conclude its deliberations, then the findings had to be approved and then implemented, then the disciplinary process, then, then, then …
In the meantime, she still fills the CFO post and is paid handsomely for doing nothing. I'm sure if she was suspended with no pay she would have finalised the court case by now. How can the GEPF continue the PIC's monopoly on investing our money, if the money is wasted like this?

Synopsis

Business Day

IRBA clears Deloitte partners on most serious charge over African Bank

Auditors' watchdog clears Danie Crowther while Mgcinisihlalo Jordan still faces sanction on five charges

BL Premium
19 November 2020
Garth Theunissen

Deloitte CEO Lwazi Bam. Picture: Freddy Mavunda

The auditors' watchdog has finally made a finding after its marathon investigation of two Deloitte partners charged with a host of wrongdoings related to the collapse of the old

African Bank, clearing them on arguably the most serious charge that they faced.

In a ruling published on its website, the Independent Regulatory Board for Auditors (Irba) cleared Mgcinisihlalo Jordan and Danie Crowther of the 10th charge, the only common one they faced, which related to dishonest conduct and failures of independence. Crowther was completely exonerated, while Jordan was found guilty of five out of the 10 charges he faced.

The two had been accused of dishonestly suppressing audit evidence and trying to dissuade Gustav Raubenheimer, who was then African Bank's head of credit, from communicating his concerns about the bank's impairments to them in writing.

Irba said it found "serious internal contradictions" and improbabilities in Raubenheimer's version of events. African Bank was placed under curatorship in 2014 after it collapsed due to bad debts following years of reckless lending.

Irba commenced its misconduct hearing against Jordan and Crowther in March 2018 in relation to Deloitte's audit of African Bank and holding company African Bank Investments Ltd. Jordan, who was Deloitte's audit engagement partner, faced 10 charges related to his conduct of the 2013 audit and one charge related to the audits between 2009 and 2012. Crowther, who assisted Jordan with his duties in 2013, faced a charge of improper conduct related to that audit.

Oral evidence on the African Bank matter was presented to Irba's disciplinary committee between March 2018 June 2020 before delivering its written decision on 5 October 2020. Jordan was found guilty of charges 1, 2, 3, 6 and 9. The common charge levelled at both parties was charge 10, which related to dishonesty, failures of independence, objectivity and professional scepticism.

"We feel there are lessons that we need to take away," said Bam. "It must be noted that, over the years, the firm has already processed a lot of changes to improve audit quality. We will, however, ensure we close any gaps that may be highlighted by the judgment that we have not already addressed. We are committed to learning from this."

While Jordan had been removed by Deloitte from doing any audit work since the charges were levelled against him, he has remained a senior partner. Bam said Jordan's future will be determined once Irba decides on the pending sanctions against him.

Crowther, who was similarly removed by Deloitte from audit work, took early retirement. Bam said the charges had effectively made it impossible for him to practise as an auditor.

Irba's disciplinary committee is scheduled to hold its sanction hearing on the five charges for which Jordan was found guilty between November 21 and 23, during which he is expected to provide mitigating arguments.

theunisseng@businesslive.co.za

Comment

The Trustees reassured the concerns about African Bank when they were first raised years before the crash, and that the GEPF's investment was safe. Then the crash. The concerns didn't die off because of the reassurances but kept being raised. Eventually the Reserve Bank appointed Adv Myburgh to investigate, notifying the concerned ones that the committee would answer all the questions.

Of course, this did not happen and many of the questions and concerns remain unanswered.

The Myburgh committee confirmed reckless investments were made, and the auditors Deloitte had issued a clean report three months before the crash. AMAGP had been established by this time and followed up, reporting the matter to SAICA. This hearing is the result of AMAGP's reporting the matter appropriately.

There hasn't been any evidence of the GEPF or PIC recovering our R4bn from African Bank. Yet.

Synopsis

Mboweni says PIC willing to help Eskom resolve debt

Moneyweb

By Manus Cranny and Gemma Gatticchi, Bloomberg 24 November 2020

The PIC is willing to help power utility Eskom resolve its debt crisis, the Finance Minister said at the Bloomberg Capital Markets Focus virtual event on Tuesday.

"Most of the bonds actually are held by the PIC and the banks and so on," Mboweni said. "Eskom treasury is working on this matter together with National Treasury of South Africa, to make sure we smooth out the bonds as they mature."

"The key issue in South Africa is that Eskom must manage their business, they must manage their income stream and their borrowing programme because all of us need Eskom to be successful," he said.

With assistance from Mike Cohen.

Comment

The GEPF has about R84bn in Eskom parastatal bonds. Which Eskom must repay on maturity…

See the AMAGP letter to MoneyWeb below, in reply to the article.

Editor Moneyweb,

Your report, that the PIC is willing to help Eskom, created panic and confusion amongst pensioners as it was reported only a few days ago that, according to the 2020 Annual Report of the GEPF, the GEPF is actually reducing investments in State Owned Enterprises.

If we are to believe the Minister of Finance that the PIC is willing to help Eskom to resolve its debt problems, it means that the PIC is willing to act illegally by pouring workers' and pensioners' money into a bottomless pit. We have warned time and time again that money belonging to the GEPF can only be invested with a view to grow or sustain the pension fund and that investments for any other purpose would be illegal.

Nobody will convince us that sustainability and growth will be possible by investing in badly managed, bankrupt SOE. We can understand the problems the government is experiencing, but really, to loot the pension fund in this manner will not only be illegal but also immoral.

Like the GEPF, we firmly believe that investments should be done at arms' length between unrelated parties. Clearly in this case, the parties involved are so closely related that the illusion exists that the GEPF investments are at the disposal of the Finance Minister.

This is the same Minister who in February 2019 held the firm belief that pouring money into Eskom is like pouring money into a sieve. And now, he has no qualms to endorse the use of workers investments to solve one of his headaches. Make up your mind, Mr Minister!

When we ask the Board and PEO, what their views are in matters of this nature, the usual answer is that they have not been approached in the matter. Considering that the Finance Minister has the power to hire and fire half the Board of Trustees, it's perhaps no surprise that the Trustees are keeping a low profile and alternate between a vow of silence and deflecting direct questions in the manner as indicated above. After all, a Board of Trustee seat on the biggest pension fund in Africa has *a certain prestige and comes with a nice compensation package.*

An assurance by the GEPF Board is, therefore, now really required. Also, it is high time for the GEPF to indicate whether illegal investments of this nature are provided for in the mandate to the PIC.

Adamus P Stemmet (AP)
Spokesman AMAGP

Synopsis

Business Day

EDITORIAL: Time for the ANC to openly dump its nonstarter prescribed assets plan

Even loyalist Cosatu has seen the light, realising workers would lose out from funding ailing SOE from their pensions

1 December 2020

Leon Campher, CEO of the Association for Savings and Investment SA. Picture: Hetty Zantman

It is becoming clear that pension funds will not be forced to put a certain amount of your savings into government-approved financial instruments, such as bonds issued by SOE. And that's a good thing.

Last week, Leon Campher, CEO of the Association for Savings and Investment in SA, a fund management industry lobby group, said at meetings the government and labour are singing the tune that the prescribed assets policy is a bad idea. Instead, they plan to fund the President's proposed R1tn infrastructure investment through a variety of financial instruments that include listed project bonds.

"Everyone agreed, that in the context of SA, our need to attract foreign capital, our need to de-stress the state's balance sheet and prescribed assets wasn't the solution," Campher told us this week. We could not agree more.

With government finances backed into a corner and the industry flaunting huge sums in private investors' money, it was easy for ANC politicians embarrassed by growing inequality to train their sights on the R4tn pensions, already subject to regulations of how much a pension fund can invest in which assets.

But the idea that found its way in the ANC 2019 election manifesto was a nonstarter. For one, pensioners are justifiable in their scepticism that their money would ultimately flow back to corrupt politicians who had laid waste to SOE under the despicable state capture.

And now the ANC wants to use regulations under the Pension Fund Act to direct money from fund managers to revive SOE? It is not hard to imagine that, had the idea gone forward, investors would have withdrawn their pensions en masse and left many companies in the industry scrambling for survival.

Perhaps the most important grouping to join the growing consensus that the prescribed assets idea is ill-thought is Cosatu. Labour leaders have woken up to the reality that it is the workers who would be left picking up the pieces at retirement.

Workers will pay for bad investment decisions via lower pension payouts and longer working lives.

It's true that the ANC has never tabled prescribed assets as a policy since it emerged in its 2019 election manifesto, and there was no mention of it in its latest economic revival plan. It would give investors much-needed clarity for the party to come out explicitly saying that it has stopped exploring the possibility of prescribing which assets pension funds must hold.

Comment

The 'government' keeps circling around prescribed assets, clearly indicating it is going to implement it at some stage. However, by keeping it in the public eye, implementing prescribed assets is slowly but surely *becoming a very contentious issue. The ANC won't give up on this one.*

Synopsis

Business Maverick

Government dangles once-off cash bonuses to settle wage dispute with public servants

By Ray Mahlaka• 2 December 2020

The Minister of Public Service and Administration Senzo Mchunu. Photo: Gallo Images / The Times / Jackie Clause.

To settle a long-standing dispute over salary increases that will push SA towards a fiscal cliff, the government has proposed a settlement offer to 1,2 million public servants, that includes once-off cash bonuses.

The Minister of Public Service and Administration, Senzo Mchunu, who oversees public sector employment, met trade unions representing public servants on Monday 29 November via a virtual meeting, where the settlement offer was tabled. Up until now, Mchunu has not revealed details of the settlement offer. Mchunu's office was not available to comment on the offer.

The offer is a major U-turn by the government because, since February 2020, it has refused to implement the last leg of a three-year wage agreement which guarantees public servants' inflation-beating salary increases. The government has repeatedly argued that it cannot afford salary increases of between 4,4% and 5,4% for public servants.

The government's plan to cut spending by R300bn over the next three years to bring state debt under control depends on implementing wage freezes for public servants including teachers, nurses, police officers and others.

Cost of the settlement offer

To implement the wage agreement, National Treasury previously said it would cost the fiscus an extra R37,8bn and that would result in the total wage bill taking 60% of tax revenue. But the PSA, which attended the Monday meeting with Mchunu, said paying once-off cash bonuses to public servants will cost it R27bn.

To fund the once-off cash bonus, the PSA said the government had proposed using the monthly contributions that it makes to the pension savings of public servants, which are managed by the GEPF.

The PSA said the once-off bonus would be calculated on the Consumer Price Index of 3% as determined in September 2020, which "converts to the lowest-level employee receiving R4 000 and the highest-level employee receiving about R52 000 once-off taxable amount".

Paying the once-off cash bonus by using the government's contributions to the pension saving of public servants might have a detrimental impact on the GEPF, the PSA has warned. That once-off cash bonuses have been costed at R27bn means that there might be a hole in the pension contributions of public servants on the GEPF's books. As a defined benefit fund, any shortfall or hole in the GEPF will ultimately be paid by the fiscus, or the SA taxpayer.

Mugwena Maluleke, the chief negotiator for the majority of Cosatu unions, has described the once-off cash bonus offer as "disappointing", telling *Business Maverick* that it has the effect of public servants funding the bonuses themselves from pension benefits.

The PSA and other trade unions affiliated to Cosatu have rejected the settlement offer, opting to forge ahead with suing the government at the Labour Appeal Court to enforce the wage agreement. The government wants the court case to be postponed to after February 2021, which would buy it more time to negotiate with trade unions about the settlement offer.

But the case went ahead on Wednesday 2 December, and judgment was reserved. Some trade unions, including the National Education, Health and Allied Workers' Union, told the court that although the first prize would be to enforce the wage agreement, it is willing to keep engaging with the government on a "remedy" for the dispute**. DM/BM**

Comment

Our bloated public service sucks up 60% of each rand of our tax! We are in effect paying the public servants directly, and any tax money left over goes to education, health, roads, etc. However, the 'government' is already defaulting on its contribution to the Fund, and if this is approved there will be an even larger gap in our Fund's funds. In effect, a whole year's contribution will be gone.

Synopsis

MONEYWEB

The GEPF faces five red flags. The difficult part will be clawing back the loss – through the PIC.

By Barbara Curson 4 December 2020

The GEPF recently released its annual report for the financial year ended 31 March 2020, showing a marked decrease in investment values.

The GEPF made losses of R214,4bn for the year and the market value of investments dropped 11,47% to R1,61tn. The investments were knocked by the downturn in the economy, the devastating Covid-19 pandemic, as well as the cost of malfeasance perpetrated by a few officials at the PIC.

The GEPF, through the PIC, now has to try to claw back what has been lost or impaired. This article considers five red warning flags.

Red flag 1: Actuarial valuation

A statutory actuarial valuation is carried out at least once every three years. The last one was done by Alexander Forbes Financial Services as at 31 March 2018. The next one will be carried out on the fund for the financial year ended March 2021, but will only be completed in December 2021.

Whereas the minimum funding level is above the 90% stipulated in the funding policy, the long term funding level in 2018 falls short of the required 100%. Since 2018, investments have plummeted. The 2021 long term funding level rate will be negatively impacted if the investments do not fully recover by then.

In a discussion after the press briefing, GEPF principal executive officer Musa Mabesa assured Moneyweb that the long-term funding rate is being continuously monitored.

Red flag 2: The investments carry further risk of deterioration

The reasons for the risk of deterioration are provided in the notes below.

Investments (Rm)	2020	2019	2018
Money market instruments, Note 1	29 171	42 323	30 228
Direct loans, Note 2	42 344	41 887	44 245
Bills and bonds, Note 3	568 766	575 542	576 691
Investment properties	14 989	14 651	14 296
Equities – primary listing on JSE, Note 4	557 489	763 107	781 485
Equities – secondary listing on JSE, Note 4	205 528	199 891	188 601
Equities – unlisted equities, Note 5	70 412	68 063	62 993
Preference shares	2 951	5 044	4 379
Collective investment schemes	118 460	108 331	98 899
Total investments	**1 610 110**	**1 818 839**	**1 801 817**

Note 1: The money market instruments include promissory notes with the Land Bank of R4,4bn. The Land Bank is experiencing liquidity problems and defaulted on its obligations post balance sheet. At the press briefing, Mabusa said the Land Bank made its outstanding interest payments in September 2020.

Note 2: The direct loans were impaired by R11,9bn. Further impairments are a possibility.

Note 3: Bills and bonds include bonds with: Eskom (R78,2bn), Sanral (R20,9bn), Transnet (R20,3bn) and Trans Caledon Tunnel Authority (R6,9bn). In this worsening economic climate, bonds and money market instruments held with state-owned entities may be at risk of defaulting.

Note 4: The loss on fair value is R297,2bn.

Note 5: The Mpati commission reported that "41% of the R123bn of unlisted investments are on watch, underperforming or not servicing loans [non-performing loans]".

Post balance sheet event: The GEPF had to take up the direct exposure of R250mn to GroCapital in July 2020 through a put option agreement with Nedbank, and was also required to lay out R126mn to purchase Drive-In Trading from Bank of America and Merrill Lynch through a CRO (contingent repurchase obligation) agreement.

At the press briefing, Mabesa was asked about the risk of further guarantees that the GEPF had been committed to. He said a moratorium has been placed on all such structured investments.

Red flag 3: Impairments on direct loans

Many of these investments should not have been made at all. For example, Erin Energy Corporation was technically insolvent and did not own any oil leases. The PIC (on behalf of the GEPF) lost the whole investment.

Some investments do, however, recover. Mabesa gave as an example Daybreak Farms, previously impaired, which recovered after the PIC had intervened and improved governance processes.

R'000	2020	2019	2018
Afrisam Group	527 593	2 354 506	252 815
Lancaster Group	3 361 426	959 277	4 275 782
Erin Energy Corporation		646 054	269 782
Allied Mobile Communications	415 573	867 764	
Smile Telecoms Holdings	322 857	542 057	
Firefly Investments 326	401 289	480 633	
Independent News and Media SA	112 531	338 510	1 058 320
Belelani Capital	2 334 171		
Kilimanjaro Sakhumnotho Consortium	1 038 464		
Kuseni Group	809 412	307 067	
Other	2 627 195	2 271 103	1 533 912
	11 950 511	**8 766 971**	**7 390 611**

There is a view that the direct loans represent a small percentage of the overall portfolio. The Mpati commission pointed out that "when evaluating materiality and prudence, it is important to note that the use of percentages obfuscates the numerical size of the funds in question."

Red flag 4: Overall net investment earnings

R million	2020	2019	2018
Dividends	34 051	34 825	30 557
Interest	52 275	47 916	44 620
Other income	596	393	429
Foreign exchange gain	5 942	2 934	
Reversal of impairment	259	454	625
Property income	1 822	1 742	1 742
Income from investments	94 945	88 264	77 973
Net profit on sale of investments	38 031	11 376	18 716
Adjustment to fair value	-297 168	-40 455	69 034
Impairment of investments	-11 951	-8 767	-7 391
Total investment loss/income	-176 143	50 418	158 332
Less: expenses incurred in managing investments	-3 518	-3 641	-4 923
	-179 661	**46 777**	**153 409**

By September 2020 many investments had recovered. The real test, however, will be the audited annual report as at 31 March 2021.

Red flag 5: The current Investment Management Agreement (IMA)

Certain investments made by the PIC, such as the investment in Ayo Technologies, were queried by GEPF principal executive officer Abel Sithole (now CEO of the PIC). However, he had no power to stop the investment.

According to the Mpati Report (page 621): "… the PIC did not involve or inform the GEPF when it considered and made the investment in Ayo."

"The PIC contended that they considered the Ayo investment fell under the listed investment delegation of authority [per the IMA], a view that Mr Sithole strongly disagreed with and said that while he could not pronounce on the legality of the action, it was certainly a breach of faith and trust."

The IMA is now under review, and the GEPF is expected to have more power to intervene in any proposed investment. Consequence management will also be strengthened. Until then, the current IMA remains as a red flag.

Briefing to parliament

The National Treasury and the PIC briefed the SCOF on the Mpati Report on 2 December.

Finance Minister Tito Mboweni made it clear that they are going to get to the bottom of what happened, they will deal with all the issues, and they will deal with the malfeasance.

The NPA and the Hawks have already been engaged. The PIC has already implemented many of the recommendations of the Mpati Report. The difficult part will be clawing back the loss.

Comment

Further comment on the understatement and lack of clarity in the AR. The same concerns keep surfacing despite all efforts to gloss over them or to just hide them behind 'confidentiality' and lack of detail.

Synopsis

Prescription: Getting the shoe on the right foot

Pension funds must specify to government precisely their terms and conditions for participation in infrastructure investment.

Moneyweb
By Allan Greenblo 4 Dec 2020

Image: Shutterstock

In a state of disaster, as it's forlornly styled, a few good-news stories can relieve the protracted obsession with Magashule, Zuma and Zondo. There are some such items to provide a bit of balance.

For one, lest we forget, recently the M-Net television channel screened a documentary series entitled 'Chasing the Sun'. It's ostensibly about the Springboks' rise from underdogs to winners of the 2019 rugby world cup, but it's really about so much more.

There're several points it makes without having to spell them out: how fickle, comparing the elation of then with the despondency of now, is the SA national mood; how united the people of this country can actually be, when compared with the vitriol on talk radio and twitter feeds, in celebratory pursuit; how inspired leadership and team cohesion, which smash stereotypical barriers of ethnicity and experience, lead to triumph in reaching a desired goal.

It went without saying that the Springboks' achievement was not the result of government planning.

For another, a shining example of people coming together in common cause is success of the Solidarity Fund. Billions of rand were voluntarily raised, and efficiently spent on distribution of food and allocation of personal protective equipment, to alleviate plights occasioned by the Covid-19 pandemic.

Glaring, in the case of the Solidarity Fund as distinct from government, was the absence of corruption.

Then, as the supreme instance of private-sector support for infrastructure investment, there's the R200bn raised for the Independent Power Producer Procurement Programme. From it has come not only the generation of renewable energy but also multiplier spin-offs for economic activity without stressing the fiscus. The more that "bankable" projects are on offer, the more the private sector will come to the party.

What's come most recently, in the Government Gazette of July 24 to be precise, is a list of several dozen "strategic integrated projects" that the Presidential Infrastructure Coordinating Council has "designated". Potentially, with the emphasis on 'potentially', pulling it off will be the supreme good news story as government battles on the one hand to reduce its spending (economic contraction) and on the other to promote job creation (economic expansion).

The President hopes to "unlock R1tn in infrastructure investment over the next four years", he says, adding that the newly operationalised Infrastructure Fund "would be an important vehicle for de-risking projects and making them attractive for private-sector participation".

Government has committed R100bn to the fund for the coming 10 years, of which R18bn will be released over the coming three years. He considers it "significant, and most welcome, that the multilateral development banks, pension funds and commercial banks have agreed to participate in the governance structures of the Infrastructure Fund".

Having digested this mouthful, it might have been expected, that in the weeks subsequent to July 24, there'd be elaboration of the projects prioritised as well as their estimated costs and timelines for completion. But no such luck. It isn't as though the "designated" projects are sudden revelations.

Most have been mooted for months and longer. Yet still, the envisaged financing packages remain obscure except for general intimations that Regulation 28, which governs retirement funds, will be amended to facilitate their investment into infrastructure as an "asset class".

Kgosientsho Ramokgopa, head of investment and infrastructure in the Office of the Presidency, wants to access the "big pool of liquidity" in SA pension funds. Late in the day, industry spokespeople are the table.

Speculation is that the government will increase the Reg 28 prudential limit for unlisted equity from 10% to 20%. That's a big number but perhaps academic for pension funds, considering that at present few of their portfolios are anywhere near the 10% ceiling anyway.

It's clear that government will be looking to include a gamut of savings vehicles, particularly pension funds.

This is logical because they — not the government which sits as some sort of sleeping partner to "facilitate" or "enable" with minimal resources – have the money.

It follows that the funds prescribe to government, not the other way around, on their terms and conditions to shovel cash. It means that the "bankable" projects will have to offer risk-reward returns commensurate with competitive opportunities. It also means the exclusion of decrepit state-owned entities from consideration.

However, it doesn't necessarily mean that a government guarantee will provide sufficient comfort for the investment return, given the parlous state of the fiscus, should say a toll road not produce the predicted revenues or a residential project fall short on income streams. An advantage of having representatives of pension funds negotiate from the front, project by project, is that they'll need to ratify the security, usually a prerequisite for "bankability".

There are other advantages. As stewards of pension funds (see First Word), they have duties of transparency and accountability with clear lines of sight into what and why they've invested under distinct mandates. They're also attuned to ESG (environmental, social and governance) criteria which refine those mandates, and are perfectly capable of initiating projects themselves.

Thus does impact investment join with social responsibility and the numerous other non-financial aims, such as clean energy, these days considered integral to decision-making. Moreover, their managers often have considerable experience and resource for evaluation.

In particular, such managers as Futuregrowth and Old Mutual Alternative Investments have led the field with projects of their own. Other large managers are increasingly focused on the unlisted space as an area of opportunity in that it broadens the investment universe, and several smaller players such as Mergence and Third Way have similarly developed specialist capabilities.

The generality is that long-term infrastructure projects eminently complement the long-term nature of pension-fund investment. There's the added dimension of social value such as development of schools and hospitals too.

That said, however, the investment capacity of pension funds should not be overestimated.

Janina Slawski of Alexander Forbes, for one, cautions that the illiquid nature of infrastructure constrains liquidity requirements for funds to pay out on the liabilities side of their balance sheets. This is all the more piquant in periods marked by widescale retrenchments.

It's also a period of government walking barefoot on hot coals. There's perpetual ambiguity, even obscurity, in presentations of intent. It cannot proclaim a social compact between itself, business and labour when the three parties are themselves internally fragmented. Neither can it continue to speak in two voices, one for the ANC national executive committee and another for targeted investors.

To do so negates the policy certainty required for confidence. The politicisation of investment hampers it. Kept tactfully but deceptively low-key are such terms as privatisation, labour flexibility, skills deployment, transformation quotas, property security and even a market economy.

Upfront for admiration, and hopefully implementation, are impressive intentions.

Did pension funds have a say in their compilation?

If the list is already too late to amend, then where and how to get started? So ambitious is the programme that it might be preferable to begin with a handful of pilots, to garner proficiency, like eating an elephant bite by bite.

Because of the heavy reliance of the infrastructure programme on pension funds, the occasion is opportune for them to force the pace and the policy. The uppermost driver is the funds' primary function to produce optimal pension benefits that derive from optimal investment returns, joined at the hip to economic recovery.

A modest suggestion to accelerate the speed and promote simplicity: contemplate a committee of 10, one delegate from each of the five largest umbrella-fund sponsors and one from each of the largest standalones to refine the participation details.

If there are more authoritative groupings to speak not only for pension funds but also for their millions of members and dependents, creating the broadest compact imaginable, let them do it. One way or another, urgency for implementation dictates that it be done.

Once the army of unemployed extends faster than the state's capacity to extend social grants, choices will have run out.

Allan Greenblo is the editorial director of Today's Trustee.

Comment

I love the committee of 10, mainly because it excludes 'government' totally. The lack of corruption and maladministration seems to correlate directly with the lack of 'government' in the Springbok 2019 and IPPPP success, and Solidarity Fund.

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

Please take a while again to really consider what the all-volunteer AMAGP is all about and is actually and continuously achieving. We need you to inform and motivate all the Fund members you know to join the AMAGP, to strengthen our voice when promoting the sustainability of your pension. We need many many more AMAGP members, not just on the Fb page. Keep in mind the Fund has just less than 2mn members, of which about 460 000 are pensioners and the other about 1 380 000 are still working and 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 41 000 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/your 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.