



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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f GEPF Watchdog - Wagbond



NEWSLETTER NO 3 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

It is interesting that the third member of the tripartite alliance is now actively entering the

SOE debacle, albeit to risk other workers' pension funds and not their own massive compounded funds. What caused this sudden change of heart? Of course, Cosatu must have many members of member unions working in these SOE, and their pensions are also at risk with 'prescribed assets'. There are quite a few press releases, articles and statements below about Cosatu's plans to 'save' Eskom.

As one of the press releases below hints, union members and leaders must have known about the corruption, leading to the question: did those union members report such corruption, if not why not?

Note Jay Naidoo's open letter of 2017 to union trustees and SCOF below. He should know, being the founding and first general secretary of Cosatu, re-elected twice. Hard to argue with such a committed labour union member!

Business [BUSA] welcomes Cosatu's plans, probably because they won't be responsible for funding Eskom's deficit immediately. However, this will return later inconveniently, when business and taxpayers will have to fund the deficits in pensions. See Squazzin's two reports promoting this.

The AMAGP press releases have a wide distribution, not just to the media but to parliamentarians and influential institutions also. General press releases and articles in the media about the GEPF make interesting reading, but are often based on prior AMAGP data and statements. Because the AMAGP can prove what it releases in its statements.

Adamus, our well-known AMAGP spokesperson, has been very busy this February and produced so many good media statements, below. If one man can do this,

what more can the thousands of us achieve by writing.

The spectre of prescribed assets isn't going to fade away. It wasn't raised at the SONA that I could read, let's see what the ANC reveals later this year.

Neither is NHI, the system that will probably provide most of Southern Africa [including the RSA] with 'free' medical [understand it is our taxes] soon after it is introduced.

See the two statements by Naptosa to the end of the newsletter, one about SAA and other about Cosatu's plan. Thankfully, more unions and similar bodies are going public firmly, with concerns about their member's pensions.

Barbara Curson and Stuart Theobald both have severe warnings in their two discussions after Naptosa's statements. Confirming the facts and what the future can be if the Fund is misused.

The SONA stated "does not put workers pensions at risk" but don't be fooled. My understanding is that the Fund will still be the target to cut Eskom's debt, as the SONA just confirms the words that are going to be used when the point is reached where the money is going to be given away.

The assault on our Fund continues unabated, but probably not so blatant. It is imperative that we, and the PSA, Solidarity, SAOU, Naptosa, etc, don't relax our indignation and demands about the threat to our/their members' retirement and our Fund. AMAGP definitely isn't going to relax.

NEWS NEWS NEWS

STATEMENT

ON BEHALF OF THE ASSOCIATION FOR THE MONITORING AND ADVOCACY OF THE GOVT EMPLOYEES PENSION FUND

CAPE TOWN

1 February 2020

COSATU's PROPOSED RAPE OF THE GEPF

Cosatu's so-called rescue plan for Eskom is foolish and uncalled for. It should be

rejected with the same contempt and in the same strong terms as the Public Servants Association (PSA) and Solidarity have already done. We at AMAGP strongly support them. It is about high time that other unions and staff organisations stand together against this type of onslaught by a fellow union.

Does Cosatu know that the GEPF already owns approximately 25% of Eskom's bonds with only a 67% worthless government guarantee? It is not clear whether Cosatu included the R87bn already invested by the GEPF in Eskom in their R254bn rescue plan, or whether it should still be added to it.

There is nothing new in their rescue plan. We have heard this monotonous song so many times: "Get it from the PIC". The tunes Cosatu added to the song are false. False, because they have no say in money belonging to members of the GEPF. It is disrespectful to even remotely suggest that the GEPF should help with the bail-out. **The GEPF's money does not belong to Cosatu, the government or PIC. The members of the Fund are the sole owners.**

More than 80% of the funds managed by the PIC belongs to the GEPF. So, what is Cosatu actually means in its proposed plan is that the funds should come from the GEPF, where Cosatu surely has only a few members. Not even close to the number represented by the PSA. Why does Cosatu not say how many civil servants it as a union represents? How many of the 400 000 GEPF pensioners are truly members of Cosatu?

Cosatu must be aware of the fact that the pension fund of Eskom invested only 1,7% of their assets in Eskom. They surely have good reasons for doing so.

If Cosatu is so concerned about the economy of the country and job losses, why did they as an alliance partner of the ANC allow Eskom and other SOE to degenerate into the bankrupt state of affairs that they find themselves in? Where were they when the corruption Mr De Ruyter is now talking about took place and which caused the bankrupt state of affairs in Eskom? Did they know about the corruption? And if they had known, did they do the right thing to report it as required by law?

How much of their accumulated billions did Cosatu themselves make available to

Eskom and other SOE in order to save the jobs of workers? Where do Cosatu and other unions invest their money? How much did they invest in SOE?

Cosatu's plan can be regarded as plain arrogance in view of the report of the Mpati Commission, which is expected to be released any day now. It came as a shocking wake-up call to most government workers, who will obviously see Cosatu's proposal as a huge gamble with their pension money.

So Cosatu says that it is ready for a fight. Perhaps more like in a violent armed robbery? It must be understood very clearly that the PIC has no mandate for this risky venture. Should the GEPF's Board of Trustees dare to agree to this so-called rescue plan they must also know and understand that they could each be held personally accountable for the huge expected losses.

It would be interesting to learn the views of the Board of Trustees of the GEPF on Cosatu's proposed "rescue plan". However, whatever it is, it will be kept secret as usual.

Adamus P Stemmet
Spokesman AMAGP

Comment

Confirming the good questions that keep jumping up and down for attention: did union members know of the corruption; where are Cosatu's millions in funds invested, at a guess little or none in SOE; why doesn't Cosatu offer those millions to Eskom?!

Synopsis

A letter to union trustees and the parliamentary committee on finance: GEPF and PIC are not to be touched

Jay Naidoo 17 Oct 2017

In the light of an epidemic of corruption sweeping our country, workers have a right to demand the renegotiation of the terms of the law and operations governing the GEPF and the PIC, should their savings be used to fund risky investments.

I write to you as a private citizen, who has served the union movement since 1979 and was the founding General Secretary of Cosatu in 1985, serving three successive terms in that capacity.

Alongside millions of fellow citizens, I am deeply disturbed by the detailed revelations of "state capture" that are now public record. Trust in government has plummeted. Its policies and institutions are in disarray. This is aggravated by actions that are perceived as irregular and unethical in relation to attempts to raid the contributions that millions of workers have made to the GEPF.

In the light of an epidemic of corruption sweeping our country, workers have a right to demand the renegotiation of the terms of the law and operations governing the GEPF and the PIC, should their savings be used to fund risky investments.

The GEPF or Fund established in 1996 has over 1,2-million active members, over 400 000 pensioners and beneficiaries, and assets worth more than R1,857-trillion. This is the deferred wages of millions of workers. The Board of Trustees governs the Fund and is accountable for administrative and investment performance. What are the union trustees doing on this Board? How have they carried out their fiduciary duties?

The main investment objective of the PIC is to "achieve strong long-term capital returns above clients' benchmarks, supported by robust risk management while contributing to the broader social and economic development of South Africa and the rest of Africa". The PIC website further states that "(beyond) these parliamentary acts, the PIC is accountable to the millions of South Africans on whose behalf we invest".

What we are now seeing is a total abrogation of this commitment. Workers' pension funds are being used to bail out state-owned corporations whose financial crises have been the result of bad governance, corrupt behaviour and the "extraction machines" of oligarchic families who have captured them.

The assets that the PIC manages on behalf of the GEPF actually belongs to the GEPF. It's not government, it's not the PIC, it's actually the assets that the GEPF owns on behalf of its members or the pensioners.

The GEPF, as the owner of the bulk of the assets (88%), has a major responsibility and interest in the governance processes within the PIC because if the PIC is not governed properly, and managed badly, the assets of the GEPF are not managed properly.

The time has come for the union federations and their members to demand action. As a former member of National Parliament, I ask you as the guardians of our Constitution, to ensure that you exercise your oversight over the institutions and public resources that ensure the rights of citizens are paramount. In this respect, I call for:

1. The review of the mandate of the GEPF in relation to the PIC
2. In terms of the GEPF law and the Fund's rules, an actuarial valuation be carried out at least every three years. This should be commissioned immediately to ensure that funds under management have not been compromised.
3. In terms of the Public Finance Management Act, the Auditor-General may investigate any public entity or audit the financial statements of any public entity considered to be in the public interest or upon the receipt of a complaint. This should be done immediately.
4. Parliament's SCOF should call for a public hearing on the investment decisions and criteria especially in its Isibaya Fund investments, semi annually. It is important for the PIC and GEPF to be completely transparent. While GEPF does disclose its investments, the value of PIC investments is not regularly disclosed.
5. In terms of GEPF rules, any member or pensioner has "the right to communicate directly with the Fund in regard to any matter which affects him or her personally". Unions must ensure that members of the pension funds are empowered to demand detailed information on investments.
6. GEPF union trustees must demand transparency and competent, skilled and fit and proper candidates are appointed to the board, investment, audit and risk committees.
7. Whereas there has been a convention to have the Deputy Minister of Finance to

chair the Board of the PIC, there is neither a legal basis nor any basis for the qualifications requirement to be a member of the Board. The current Deputy Minister has a compromised history, potentially unfit to be a Board member, never mind being appointed to chair the PIC.

8. More importantly, and legally, whereas in the past, GEPF nominated the Deputy Minister Finance to the Board of the PIC, to the best of my knowledge, the current Deputy Minister was never been nominated by the GEPF. As such, his appointment to the Board of the PIC is illegal, and procedurally flawed. Likewise, a number of other Board members, both old and new, have not the requisite skills and experience, may not even pass the fit and proper test.
9. In terms of the new Companies Act, the Audit Committee of the Board needs to be appointed by the shareholders and not by the Board. To the best of my knowledge this is not the case at the PIC currently.
10. The investment mandate of the PIC, given by the GEPF, needs public scrutiny. It is here that dodgy investments such as lending to Eskom, SAA, the possibility of funding a flawed nuclear deal as well as investing in private investments for politically connected individuals take place.

It is said that: "Power corrupts, and absolute power corrupts absolutely." The time has come for us to draw a line in the sand. Fifty-five-million South Africans have had enough.

Find courage.

We must demand better from our leaders.

DM

Comment

This letter by the first general secretary of Cosatu with Ramaphosa its first president, makes for riveting reading. Almost every concern raised by the AMAGP is included, the situation has only worsened since this open letter was directed at unions and SCOF.

His comments on the PIC Board is shocking! Ans already written in 2017!

Synopsis

Pension fund R200bn 'investment' for Eskom draws the ire of PSA

Politics 30 January 2020 Ana Reporter



File PICture: Henk Kruger/African News Agency (ANA)

The PSA said on Thursday it was "shocked and angered" by Cosatu's public support for a R200 billion investment in Eskom using workers' money, including pension funds.

"The PSA is on record that no additional investment in struggling SOE should be made involving public service pensioners' money unless proper corporate governance has been implemented and market related returns on investment can be guaranteed," said the organisation.

The PSA has a membership of over 237 000 public-sector employees. More than 87% of its members belong to the GEFPF, with 1,2 million active members and more than 400 000 pensioners and beneficiaries. "In addition, many of the GEFPF pensioners are former members of the PSA and still look to the PSA for support in various matters, including their dealings with the GEFPF," said the organisation.

"Should Eskom not be able to fulfil its financial obligations of the loan, it will place a further financial burden on government to ensure that GEFPF members' pension benefits remain intact. In the current economic environment that South Africa is faced with, this will have disastrous effects."

The PSA has in the past called on the Minister of Public Enterprises to explain the financial state of Eskom and what this entails for the country. It also called for a forensic audit to assess the scale and depth of Eskom's problems, to lay a foundation for a possible financial rescue that would be recovered and generate a return on investment.

"The PSA will continue to oppose the abuse of the GEFPF to ensure that good governance principles are adhered to," it said.

African News Agency (ANA)

Comment

The PSA makes it clear: Hands off! However, the only other union to decidedly reject this proposal is Solidarity, even though the Cosatu proposal directly and negatively influences workers' future well-being.

Synopsis

Busa welcomes union proposals on Eskom

Antony Sguazzin, Bloomberg 3 February 2020



Cosatu's plan, which was presented to the government on Monday, would leave Eskom with R200bn of debt, an amount the utility has previously said it could manage. Image: Waldo Swiegers, Bloomberg

South Africa's main business lobby group welcomed proposals by the nation's biggest labour union federation to rescue debt-stricken power utility Eskom.

Cosatu on Monday presented its plan to the so-called President's Working Council, which includes government, business and labour leaders. The labour federation has suggested that state-owned institutions take over R254bn of Eskom's debt.

"We welcome the constructive approach," Martin Kingston, vice president of BUSA, said by phone Monday. He said that the business community is in alignment with Cosatu on many of Eskom's problems that the labour federation identified.

Cosatu's plan would leave Eskom, which provides 95% of South Africa's electricity, with

R200 billion of debt, an amount the utility has previously said it could manage.

Cosatu garnered support for its proposals from the rival Fedusa and National Clothing and Textile and Allied Workers Union, along with community groups, said Matthew Parks, Cosatu's parliamentary co-ordinator. He described Monday's meeting as "very positive," with participants agreeing to hold a second meeting under the auspices of the National Economic Development & Labour Council on 5 February.

Participants at Monday's meeting agreed that Eskom must reduce its debt Kingston said. With banks and other financiers becoming increasingly reluctant to fund the utility, there is a willingness to consider development-finance institutions and other bodies like the state pension fund manager, the PIC, as sources of finance, he said.

"The pool of capital is shrinking rapidly," Kingston, who is executive chairman of Rothschild & Co's South African unit, said. Any lending should not breach the mandates or affect the fiduciaries of the organisations involved, he added.

"Within those constraints, we are more than happy, very happy and keen to work with Cosatu and other social partners" to resolve Eskom's debt problems, Kingston said.

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Comment

Cosatu evidently proposed several actions to solve the Eskom problem, one of which is the GEPF money. Cosatu evidently also suggested the malfunctioning and mismanaged SOE take over about half of Eskom's debt.

The PSA strongly objected to Cosatu's plans, and informed Fedusa in no uncertain terms that the PSA will not compromise its members' private money or put it at risk. It is also clear that Cosatu didn't consult its member unions, neither did Fedusa, bringing us back to the question of the role the tripartite alliance is suddenly playing in this matter.

One of our active AMAGP members has the following comment:

"Note what Martin Kingston, vice president of BUSA and executive chair of Rothschild & Co's SA unit, has to say – it is easily overlooked: Any lending should not breach

the mandates or affect the fiduciaries of the organisations involved. However, will this warning be heeded at all?

"This proposed lending is certainly going to breach the mandate and affect the fiduciaries of the GEPF, should consent be given, yielding to pressure from the Tripartite Alliance and govt.

Efforts and means should be pooled among the trade unions not in Cosatu's stable, and civilian organisations, to resist this proposal even if it means getting a court interdict. The GEPF is at a crossroads and every effort must now be made to resist these intentions. This would open the way for more sacrifices by the Fund, for it is not only Eskom, but other SOE that are in dire straits.

Remember how the Transnet pensioners were cheated out of their pensions by a government owned entity Transnet? This is about to be repeated.

Die probleem is dat wat Cosatu voorstel so aanneemlik en logies klink, oppervlakkig beskou, en almal val daarvoor lyk dit my, behalwe AMAGP en Solidariteit. Wat my veral bekommer is dat nie een van hierdie vakbonde en veral Cosatu met hul miljarde in die bank, hulle lede enigsins geraadpleeg het nie.

Voor enige so 'n besluit in elk geval deur die GEPF RvT geneem word behoort sy lede almal geraadpleeg te word. Lede het inspraak in hul Fonds, maar wie is die mense (trustees) wat eenvoudig namens ander optree sonder dat hul lede hul 'n mandaat gee?

Synopsis

Eskom: Gordhan open to pension bailout as a way to prevent job losses

Patrick Cairns 5 February 2020 Moneyweb



Image: Moneyweb

The Minister of Public Enterprises has given a clear indication that Cosatu's proposal to use money managed by the PIC to support Eskom is being taken seriously.

Speaking at a lunch hosted by law firm ENSafrica on Tuesday, he commended the trade union federation for the proposal. "Cosatu has come up with its own innovation to protect jobs within the Eskom environment," Gordhan said. "That is 16 000 people."

Although not explicitly stated, the problem is that retrenching people from the power utility would be extremely difficult politically. The Minister therefore appears prepared to consider the Cosatu proposal, which suggests that the PIC together with the IDC and the DBSA should take over Eskom's debt.

"Cosatu is saying: use the worker's pension money to mitigate the debt burden that Eskom has," said Gordhan. "That is a great move on the part of labour to say we are part of the solution, not just antagonists to any change that is happening," he added.

"Over the next month or two we are going to see fascinating exchanges, helping to get all the resources available in the country to save an important institution like Eskom and get it back to the levels of effectiveness and efficiency required."

The rotters

Gordhan began his comments about the power utility by emphasising the extent to which Eskom has been hollowed-out by state capture. "Eskom was one of the institutions what was severely damaged by corruption," he said. "What we've learnt in the last 18 months is the systemic effect of corruption is huge," said Gordhan. "In the case of Eskom, it breaks down the engineering disciplines and gets the operations to decline to a point where basic disciplines are not followed any longer and need to be reintroduced.

"And in the process of corruption, the good people either leave or the good people are marginalised, and the rotters rise to the top."

Prepare for long-term load shedding

Gordhan also indicated that part of the plan for turning Eskom around will likely involve ongoing load shedding. "We need a clearer idea of rigorous maintenance that is both sustainable and lasting," the Minister said.

"What we've had in the recent past is lots of money spent, but a decline in Eskom's effective output." "So who is making money out of all this maintenance work, and what kind of quality of maintenance are we actually getting?"

AUTHOR PROFILE



Patrick Cairns is one of South Africa's most respected commentators on the investment industry. He also covers economics issues and business news.

Comment

The Minister at least should know better. And the unions. The probable job loss is real, but the political threat there is only to the ruling political party.

Interesting the question Gordhan poses "So who is making money out of all this maintenance work". Doesn't look like he is seriously looking for an answer to the question, but it is one that should be foremost in the mind.

Let's start with your pension, Minister Gordhan

by **Geordin Hill Lewis MP** - DA Shadow Minister of Finance
5 February 2020

Minister Pravin Gordhan has confirmed that he supports using pensioners' savings to bail out Eskom. This is a deeply irresponsible policy proposal that should be resisted by government employees and pensioners alike.

We call on the GEPF, which gives an investment mandate to the PIC on behalf of pensioners, to reject this proposal unequivocally. Their highest responsibility is to their members, the millions of hard-working South Africans that contribute to that fund every month. They have no responsibility to the ANC, and no responsibility for bailing out

failed state companies.

The GEFP and PIC should also appear before the SCOF in parliament as soon as possible to make their position clear on this proposal. I have written to the Committee Chairperson today to request such a meeting be called as soon as possible.

It is easy to use other people's money to solve problems. But if Pravin Gordhan is happy to risk the pension savings of millions of government employees to bail out Eskom's debt, he should start by offering his own pension first.

He knows that when Eskom cannot repay the pensioners, it is the public who will have to pay eventually, through crippling higher prices and higher taxes.

The DA has objected to Cosatu's proposal to use over R250 billion of the money managed by the PIC to finance half of Eskom's debt. Gordhan's support for this proposal shows that this government really has no idea how to deal with the Eskom crisis, and is now clutching at straws.

If the GEFP approves this Cosatu proposed bailout for Eskom, state employee pensioners will never see their money again. They should not in any way rely on the supposed guarantee of their "defined benefit" pensions when this government cannot pay its bills. That is why we will resist this proposal and call on the GEFP to do the same.

Comment

The demand for MPs to offer their pension to solve the debt crisis is enticing, but MP pensions are paid out of the fiscus, ie out of taxes as they are received. There isn't a fund for members of parliament as we have. So MPs have no concern whatsoever about their pensions not being paid.

Synopsis

ENOUGH IS NOW ENOUGH! STOP SINGING THE SAME OLD BORING SONG!

GEFP members own the Fund, nobody else!

By Adamus Stemmet 31 January 2020

The AMAGP wants the truth to be told and heard. The facts must be put on the table. Enough is now truly enough.

Something else that is so often repeated relates to the ownership of the GEFP and who manages the Fund. One would have thought that journalists and financial experts worth their salt should know by now that the Fund belongs to its members and nobody else.

Treasury has no legal right to change the GEFP's investment policy, nor does it have the large amounts belonging to the GEFP at its disposal to use at will.

The members (owners) of the GEFP clearly have a say in such matters. This legal right should and must at all times be protected by the GEFP Board of Trustees. That is their mandated responsibility as Trustees.

Suggesting the ownership of the GEFP belongs to the PIC is horribly misplaced and wrong. The PIC is NOT the owner or manager of the GEFP!! The PIC only acts as an investment agent for the GEFP.

It is now high time that the GEFP's Board of Trustees stand up and publicly object. The members of the GEFP and AMAGP strongly object against any dissemination of false and/or incorrect information to the public, investors and potential investors and taxpayers about the true status of the GEFP.

Dick Forslund's article "SAA: Tito Mboweni's R2bn Game of Financial Chicken" in Daily Maverick of 21 January 2020 again contained the same old song as we find in his article "The Government Employee Pension Fund Budget Austerity and the Eskom Crisis" in Daily Maverick dated 29 August 2019.

One can also quickly see that the words of the song were just changed slightly, inter alia replacing ESCOM with SAA. As we know the old song very well, let us concentrate on the false notes by examples in the article:

"...the single shareholder in the Government Employee Pension Fund doesn't change the investment policy to be more supportive of the public sector ..." and "The Treasury has large funds at its disposal outside the budget. ..."

Three false notes in one line! As a senior economist, Mr Forslund should know that the members of the Fund are the owners of the fund and nobody else. Apparently, Mr Forslund forgot about the huge investments made by the GEPF's investment agent, the PIC, in loans to SOE. He conveniently also forgot the R87 billion in Eskom. Of course, he will know that only 67% of this "investment" is guaranteed by the state.

"But tax money is what should fund the annual costs for health, education, water supply repairs etc. etc. ...

And as Mr Forslund should then also know is that the money of a pension fund is meant to fund the pensions of its members and NOT to bail out badly managed empty stolen SOE.

". .both Cosatu and Saftu are today open to using the more than R2 trillion in state pensions that are managed by the Public Investment Corporation"

What say these unions have in the matter we do not know. Does Mr Forslund not know that there is only one union, the Public Servants Association (PSA), which caters for pensioners?

Over the years when AMAGP pointed out reckless investments made on behalf of the GEPF, pointed out possible unholy goings on about the funds belonging to the GEPF, asking questions about the sustainability of the GEPF, not a single word was heard from any union or staff organisation.

The first union to show interest in the matter only did so in May 2017. The others only jumped on the wagon on 17 October 2017 when they, at a meeting of the SCOF in parliament, claimed and got the right to be represented on the board of the PIC.

Where were the unions and staff organisations when AMAGP pleaded with the government to appoint a commission of enquiry to investigate the obvious wrong-doings?

Why do Mr Forslund and other choir singers not suggest that trade unions with their billions of accumulated funds make available some of their funds to support struggling SOE like Eskom, Denel, SAA, etc.? The reported R20bn at their disposal in 2015 (Mail and Guardian, 9 July 2015) already should

have grown substantially by this time. Why do those unions not grasp this opportunity to save jobs for their members at these and other enterprises?

"... Using the more than R2-trillion in state pensions and unemployment insurance surpluses that are managed by the Public Investment Corporation..."

Surplus funds? No, it's a deficit which Mr Forslund should know all about. He should then also know that the GEPF investments, do not even provide sufficient income to pay monthly pensions and cover the administration costs of the fund?

Now, confining ourselves to the "state pensions". Mr Forslund apparently is not aware that the GEPF is on a declining route? Here we will only refer to our most recent press statement of 8 January 2020, which we enclose for his benefit.

The need for such a structural reform of the GEPF . . . can be illustrated by the 2019 GEPF annual report. It informs that, during 2018,"net income" dropped by R146 billion to R 47- billion in 2019. Now how is that possible if the cash income from bonds was R48,3-billion and from dividends R34,5 billion? Doesn't that come to R82,8-billion?

We referred this statement to our auditor member and he explains as follows: "Mr Forslund's question indicates that the information in the Annual Report, specifically disclosed in Note 15 to the Financial Statements, is not clear and understandable to him. If he works through Note 15 on a line item by line item basis, he will find the answers. He will also notice that the positive fair value adjustment in 2018 turned into a negative in 2019. This line item on its own, accounts for a negative year on year movement of R109bn.

If Mr Forslund still does not understand, he is free to contact our colleague.

For the purpose of paying increasing pension and benefits to state employees every year, the . . GEPF, is about double its size it needs to be, especially with adopting a sane investment policy

Plain nonsense, except that we agree that a more sane investment policy be adopted.

Something in the line of using independent asset managers appointed on tender and with a total prohibition on any investment in ailing SOE, as well as unlisted Isibaya Investments where a 30% under performance is regarded as normal. **All this should be done under the sole strict control of the Board of Trustees of the GEPP.**

Adamus P Stemmet

Comment

One of our pensioners [not Adamus] comments:

“One of the problems is that the public believe civil servants to be overpaid, therefore, it is acceptable to loot their pension fund”. I have often come across this attitude. Yes, there are issues of mismanagement, poor leadership and discipline and corruption but these originate from the top for the most part. Before I retired I had planned to go back to university on my retirement and study for a PhD on the anthropology of corruption (a very generic term covering a multitude of sins) based on my observations in the departments I had worked under, but other opportunities intervened. Most people are honest, decent and hardworking and do not deserve to have their pensions messed with.”

Synopsis

Consensus is being reached over Eskom debt, Cosatu says

6 February 2020

Antony Sguazzin

Bloomberg via fin24

Cosatu says significant progress was made on Wednesday in its talks with government and business over its proposed plan to cut Eskom's debt.

“There were broad in-principle agreements” said Matthew Parks, Cosatu's parliamentary co-ordinator, in an interview. There was agreement “there needs to be a big bang intervention,” he said, adding that that applied to other areas of the economy as well.

Cosatu has proposed that Eskom's debt be cut to R200bn from its current level of about R454bn by using funds from state-development institutions and the PIC, which

oversees R2,13trn of mainly government worker pensions.

The discussions are ongoing and it is hoped that there will be sufficient agreement for the President to make an announcement in his State of the Nation Address on 13 February, Parks said.

Members of cabinet including Finance Minister Tito Mboweni, Trade and Industry Minister Ebrahim Patel, Public Enterprises Minister Pravin Gordhan and Labour Minister Thulas Nxesi also attended the talks in Johannesburg, Parks said.

Cosatu has also proposed that a discussion begin on the use of money from private pension funds to fund state infrastructure. The main business lobby group has said that any such development must ensure that fund mandates are not compromised and the same applies to the fiduciary duty of trustees.

The discussion over so-called prescribed assets had “become an ugly, polarising debate and that's so unnecessary,” Parks said.

Comment

This article was probably picked up by Bloomberg and is a summary of Squazzin above. It keeps the spectre of prescribed assets alive and in the discussions. The reporting indicates Parks probably does not comprehend the extent that private pension funds have already invested in SOE.

Synopsis

INDEPENDENT CAUCUS OPEN LETTER TO GOVERNMENT EMPLOYEES' PENSION FUND

From Naptosa

[National Professional Teachers' Organisation of South Africa]

Dear:

Members of the GEPP Board of Trustees
Chairperson of the GEPP Board of Trustees –
Dr Renosi Mokate,
GEPP Principal Executive Officer – Mr Abele Sithole,
Minister of Finance- M Gigaba,
Deputy Minister of Finance – S Buthelezi

The Independent Labour Caucus (ILC) comprising 12 unions and representing more than 420 000 members in the Public Service Co-ordinating Bargaining Council (PSCBC), has noted with apprehension reports that the GEPF, through its investment entity, the PIC, may make an investment in the South African Airways (SAA). Such an investment would undoubtedly not comply with the strict principles that should underpin an independent and bona fide investment.

The repeated statements by the GEPF that members of the Fund need not panic "because the Fund has not received any proposal to help fund the SAA" does little to allay the fears of members. The GEPF should, unequivocally, pronounce that should it receive such a request, it would be turned down, based on the fact that it is common knowledge that the SAA has an extremely poor business record.

It is an undeniable fact that the Trustees should always act independently and in the best interest of the Fund and its members. Investments should always be based on objective investment considerations that will generate the best possible returns on investment. The granting of a loan to, or investment in, the SAA will definitely not be in the best interest of the Fund or its members. The ILC is convinced that any considerations to enter into such a transaction would not be based on independent and sound investment principles but could be conceived to be politically influenced.

It is trite that in those cases where Trustees do not comply with their primary fiduciary duties, allow conflicts of interest to influence their decisions, or deliberately subject themselves to external influences, they can be held personally liable for possible losses. Be assured that the ILC, in protecting the interests of its members, will not hesitate to take legal action should it transpire that GEPF funding has been utilised for SAA bail out purposes.

Trustees should also act in a transparent manner and, therefore, it is in the public interest but more so in the interest of members of the GEPF, to divulge the investment mandate of the PIC.

The ILC believes that the time has never been more appropriate for the Trustees of the

GEPF to record their absolute independence, state unequivocally that they will act in the best interest of the Fund at all times, and also divulge the investment mandate of the PIC. It is in the public interest that this matter be addressed in a manner that befits a responsible Board of Trustees. The ILC trusts that the Board of Trustees of the GEPF will take the content of this letter to heart and respond in a responsible and transparent manner.

Yours sincerely
B. L. Manuel
CHAIRPERSON

Comment

Found on the website of the National Professional Teachers' Organisation of South Africa [Naptosa]. Date uncertain but certainly last year, as SAA, Sithole and Gigaba feature prominently.

It is accepted there was no reply from any of the addressees as it would have been placed on the website.

Synopsis

NAPTOSA STATEMENT ON UTILISATION OF PENSION MONEYS FOR ESKOM ASSISTANCE

NAPTOSA has noted media reports that COSATU is proposing the utilisation of pension fund moneys, including those of the GEPF, to reduce the debt burden on ESKOM. It is understood that the proposal is subject to several conditions of which NAPTOSA has not had sight, although it is doubtful that it would change our position on the matter.

Members will be aware that it was reported in previous communication that GEPF funds have in the past, when ESKOM was a strong and stable organisation, been invested in ESKOM bonds. Also that in the recent past (i.e. three/four years ago), NAPTOSA was not opposed to the granting of a bridging loan of R5b of GEPF money to ESKOM, based on the fact that it would be of a short term nature, with a clear repayment time frame. The repayment was honoured.

These conditions clearly do not apply in the proposed scenario. This is not a bridging loan,

but money to repay some of ESKOM's enormous debt.

It has always been NAPTOSA's position that the investment of GEPF funds in SOE could, under certain circumstances, be supported, linked to a single proviso that there must be clear evidence that such investment will yield substantial returns.

Unfortunately, that ship has sailed. Government, the sole shareholder of ESKOM, is clearly not confident of its prospects. Furthermore, Government's most recent reaction to the decisions of the business rescue practitioners at SAA does not instil any confidence that the ESKOM situation can be improved. It appears that Government wishes everything to remain as they are at SOE, whilst at the same time expecting different outcomes. Putting pension funds into any of these organisations in this climate, makes no sense.

NAPTOSA is therefore emphatically opposed to any further of its members' pension money in the GEPF being channelled to ESKOM.

Our position is that if there are organisations or trade unions who wish to commit the interests of their members in the GEPF to the funding of ESKOM, let them do so. This may, however, not jeopardise the funding level of the GEPF. With this in mind, we propose that before such action is embarked upon, the actuaries of the GEPF should develop a provision similar to that of the "clean break principle" applicable to cases of divorce of members of the Fund. In other words, based on the amount that each member of such organisations/trade unions will be contributing towards ESKOM, his/her years of pensionable service must be reduced pro rata. Should, by some miracle, the pension money so utilised, be returned to the GEPF (with yields/interest lost over the period in question) the position of those members involved, could be re-calculated.

**B.L. MANUEL
EXECUTIVE**

Comment

Naptosa clearly has its members' interest seriously at heart. This is the second such statement issued by Naptosa.

Synopsis

Can the state employee pension fund survive a R254bn knock?

Proposed Eskom bailout amounts to a massive 14% haircut.

Barbara Curson 7 February 2020



Image: Moneyweb

The crux of this article is to consider the financial impact of the proposed action to divert R254 billion from the GEPF to Eskom. It does not discuss whether the government has the legal right to expropriate R254 billion from the assets of the fund. After all, the assets belong to the members of the fund.

Adamus Stemmet, spokesperson for the AMAGP, recently asserted that: "Treasury has no legal right to change the GEPF's investment policy, nor does it have the large amounts belonging to the GEPF at its disposal to use at will to bail out SOE, other organisations and entities.

"The members [owners] of the GEPF clearly have a say in such matters."

"This legal right should and must at all times be protected by the GEPF board of trustees. That is their mandated responsibility as trustees. They must protect the fund's members, the financial stability of the fund and also that any other assets of the GEPF are properly and professionally managed."

Brief background

The PIC manages 83% of GEPF assets in the form of equity, bonds, money market instruments, and property portfolios. The remaining 17% is managed by 32 asset managers appointed by the GEPF.

The relationship between the PIC and the GEPF is opaque, and it appears that the PIC takes the lead in making investment decisions.

Current value of the fund?

Unfortunately, no one has any idea of the current value of the fund. Neither the PIC nor the GEPF provide interim financial statements. The PIC integrated annual report is only published some seven months after its March 31 year-end, and the GEPF 2019 integrated annual report was only released in December 2019.

By the time the 31 March 2020 integrated annual reports are published, many new investments will have been made, investments will have been compromised, and investees may have hit the wall.

Neither the PIC nor the GEPF deserve any praise for their financial reporting. Not all investments are disclosed, and some of the accounting practices are questionable, for example, adding unpaid interest to the cost of a loan, giving the incorrect impression that the investment is growing.

In my view, a closer look should be taken at the investment valuations. For want of a more accurate figure, it is necessary to use the fund's market value of R1,8 trillion as at 31 March 2019.

An actuarial valuation of the GEPF is carried out every three years. The most recent, performed by Alexander Forbes Financial Services as at 31 March 2018, indicated declining short and long term funding levels.

Factors to consider

Injecting R254 billion into Eskom is in my view neither a loan nor an investment – it is an unwarranted gift granted through gritted teeth. As Eskom is clearly insolvent, it will be unable to pay interest, nor make loan repayments. Further, the GEPF/PIC will receive no rights – no right to appoint directors, no say in business decisions.

As at 31 March 2019 the GEPF had already invested R85 billion in Eskom. It also holds R23 billion in the South African National Roads Agency, R21 billion in Transnet, R12,6 billion in the Development Bank of SA, and R6,9 billion in the Trans-Caledon Tunnel

Authority. How can the government provide assurance to the GEPF that these bonds are guaranteed? Will the GEPF eventually lose this money as well?

Taking R254 billion out of R1,8 trillion amounts to a massive 14,1% haircut.

As at 31 March 2019 the GEPF had R29 billion “cash and cash equivalents”. It will thus have to sell assets to provide the cash and will immediately deplete the assets in the fund.

Working on the basis of an asset value of R1,8 trillion, my rough non-actuarial calculation indicates that the R254 billion haircut will cause the fund's long-term funding level to drop to 64,9% (minimum funding level target level is 100%). The short-term funding level will only be 1,6% above the minimum 90% level.

This latest threatened action is a red flag to the rating agencies. It is a clear indication that the government has no money, and will take, divert, expropriate when needed.

And we have been warned. The first port of call is the sitting duck of the corruption fallout, the GEPF.



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.

Comment

Short and to the point. Don't.

The lack of full and regular reporting on the GEPF/PIC finances leads to speculation on the credibility of those responsible for wisely caring for our future financial needs.

The size of the Fund does not prevent regular financial information on the status of the Fund being available, as many large businesses are much larger than the Fund and still able to provide intimate management information to their boards and shareholders. Leaving us with the suspicion the BOT doesn't want the

members of the Fund to have access to up to date management information...

BusinessDay

STUART THEOBALD: Cosatu's Eskom bailout proposal is unworkable and dangerous

BI Premium

9 February 2020 Stuart Theobald



A man walks past electricity pylons in Soweto. Picture: REUTERS/SIPHIWE SIBEKO

Contagion from SA's state-owned enterprises crisis is heading for its development finance institutions.

It started with a plan tabled by Cosatu two weeks ago that has inexplicably gained some level of support from business to government. It is, however, totally unworkable. It proposes to shift R250bn-worth of Eskom's R450bn of debt into a special purpose vehicle funded by the DBSA, the IDC and the GEPF.

But no-one seems to have considered that this is mathematically impossible.

While Cosatu has suggested that using the GEPF represents the workers coming to the party, it is nothing of the sort.

Let's think for a moment about what the balance sheets of the DBSA, IDC and GEPF can accommodate.

The DBSA, which has a mandate to fund development infrastructure, has a balance sheet of R89,5bn in assets. Like any bank, it has risk management policies that include the concentration risk it can take to any one entity.

According to its most recent annual report, it has a limit of R500m of exposure to a single government entity. Its board recently allowed

an exception to that to lend R3,5bn to SAA with a sovereign guarantee.

While the DBSA is not subject to the Banks Act, the concentration risk guidelines set by Basel 3 would be a line it can't cross without risking a run on its own funding. Basel 3 limits the maximum exposure a bank can take to 25% of its capital, which works out to R9,2bn for the DBSA. Given that the DBSA already holds Eskom debt, some of this exposure is already deployed.

Moving on, the IDC has a mandate of funding industrial development. It has total assets of R144,6bn. Its own risk framework is in line with Basel 3. That works out to R24bn. But given that the IDC has been a major funder of power projects, it is already heavily exposed to energy generation, so less than half this limit is likely to be available for further exposure to Eskom.

The GEPF seems to have serious firepower with over R2-trillion in assets. But it also has to apply prudent risk management.

According to its latest annual report, at end March 2019, it already holds R84,5bn worth of Eskom bonds, which represents half of the public sector debt it holds, and 15% of the entire debt asset allocation of its portfolio. This is already a substantial concentration. The GEPF cannot absorb more exposure without stepping far from acceptable investment risk management practice.

While Cosatu has suggested that using the GEPF represents the workers coming to the party, it is nothing of the sort. It merely transfers additional risk onto the government balance sheet. One suggestion has been to convert the R84,5bn of debt the GEPF holds into equity. But the resulting equity would have to be valued at zero, representing a claim on a company that has been losing billions, so the government would face an immediate contingent liability of an equivalent amount to make good GEPF's funded status.

But even if the GEPF doubled its Eskom debt exposure, taking it into unacceptable risk territory, the three institutions between them would not be able to absorb even R100bn of Eskom debt. That is not even half what Cosatu imagines.

It is astounding that the plan has gone as far as it has, despite the obvious maths.

Cosatu has also suggested that prescribed assets could be used to compel the private sector to take on exposure. Prescription is required when the normal risk and return features of an asset do not justify investment by institutional investors. Prescription is a stealth tax on savers.

Given the damage prescription will have to normal financial market incentives and to the savings of pension members, alternatives should be considered.

Cosatu should be concerned about the existential threat to the state's solvency. The one sure way that pension members will lose is if the government tips into bankruptcy. There would be a dramatic curtailment of worker's benefits.

Cosatu has clear motive to bring ideas to the table, but they need to focus on what matters: government solvency. A good suggestion would be, for example, to accept a wage freeze in the public sector for three years. That is the kind of move that would contribute to avoiding total calamity and eventual collapse into the arms of the IMF.

So what should be done about Eskom's finances? The one option the government seems to be ignoring is to reschedule the Eskom debt. That means forcing Eskom's debt holders into more favourable terms. It could do that by switching Eskom bonds into sovereign bonds with different terms, removing debt from the Eskom balance sheet onto the national balance sheet.

At least such an approach would avoid adding the development finance institutions to the list of financial disaster areas in the public sector.

Comment

A voice of reason. There is no short term solution.

Interesting that the rescheduling of debt hasn't received more serious attention.

Interesting the GEPF statement of 7 February. No mention of what it is going to do when such a request is received.

COSATU'S RESCUE PLAN

Cosatu's effort to save Eskom was as non-starter right from the beginning. They and those who took part in the discussions about their abortive plan have wasted their time. This became clear when the GEPF at long last reacted to this circus conducted by Cosatu. The statement they issued on 7 February 2020 made it very clear:

"The GEPF would like to inform its members, pensioners and beneficiaries that the Fund has not received such a proposal, nor has it been consulted on the COSATU proposals or any other proposals to reduce Eskom debt."

Cosatu, a union which does not even cater for pensioners has no right to make any proposals about this pension fund. As a tripartite alliance partner in govt, Cosatu should rather explain why they assisted the govt to govern the SOE, such as Eskom, into bankruptcy. Why did they allow the corruption to take place at Eskom to go on for many years without lifting a finger? Surely some of their members should have been aware of the corruption? Did they report it to the police as required by the law?

How much has Cosatu invested in SOE? 25% of the GEPF's investments are already in SOE and it will be interesting to hear what the amounts invested by unions in SOE are.

Over the years labour unions took no interest in the sustainability of the GEPF. Some of them even opposed AMAGP when we started asking questions years ago about suspect and obvious reckless investments and accused us of crying wolf and sowing panic. They did not attend the annual meetings of SCOF until 17 October 2017 when they descended like vultures on SCOF's meeting where suggestions for the PIC amendment Bill were received and discussed. They then inter alia insisted on having three union members on the board of the PIC. Why? To be closer to the funds of the GEPF? Running the Board of Trustees of the GEPF was apparently not close enough for some unions! They also demanded and got more privileges for their members.

It was clear what the motives of some unions were. Even the founding secretary of Cosatu, Mr Jay Naidoo, realised that things were getting out of hand and on the same day (17 October 2017) he wrote a letter to " union

trustees and SCOF" with the heading GEPF AND PIC ARE NOT TO BE TOUCHED.

It will be interesting receive the suggestions from the unions, Busa, Mr Gordhan and everybody else supporting Cosatu's plan as to where the R254bn now required from the GEPF must come from. From converting investments providing an income for the pension fund into cash to save the bankrupt Eskom? Do they want to take money from a pension fund which on 31 March 2018 already had a deficit of R583 bn? A fund with an investment income which already is too low to cover the payment of pensioners to cover present administration costs and in respect of which the independent actuaries in 2017 already recommended higher government contributions?

We now wait for the government to reject this ill-fated plan. Will the President do so in his state of the nation address when he will presumably also release the report of the Mpati Commission which surely can no longer be kept secret?

Adamus P Stemmet

Comment

I wonder how many civil servants the union representatives on the GEPF Board actually represent, or is their presence there a sinecure?

We must differentiate between civil servants working towards pension [about 1¼ million], and ex civil servants already on pension [about 450 000]. AMAGP is working for the secure retired financial future both. Pensioners can't really be union members as you must be employed to belong to a union. See Jay Naidoo's letter above for detail.

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 17 000 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.

VRYWARING

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

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