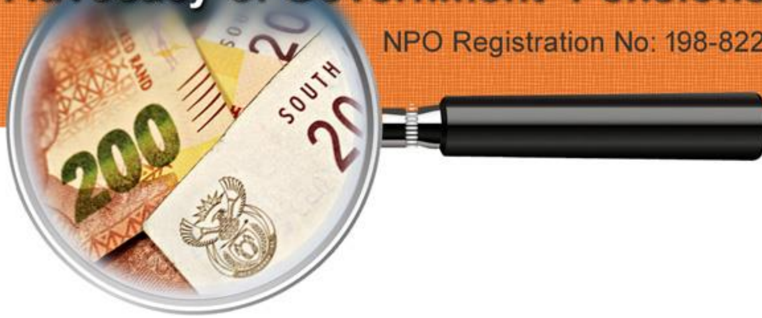


The Association for Monitoring and Advocacy of Government Pensions: A volunteer independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.AMAGP.co.za

GEPF Watchdog - Waghond

GEPF Forum

NEWSLETTER NO 20 of 2021

AMAGP – Association for Monitoring and Advocacy of Government Pensions
AR – annual report
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 entity

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1,2mn active members, in excess of 450 000 pensioners and beneficiaries, and assets worth more than R1,61trn. GEPF is a defined benefit pension fund that was established in May 1996 when various public sector funds were consolidated. Our core business, which is governed by the Government Employees Pension Law (or GEP Law), as amended, is to manage and administer pensions and other benefits for government employees in South Africa. https://www.GEPF.gov.za/ dd 7 October 2021

IMPORTANT TO GEPF MEMBERS AND PENSIONERS

FIRSTLY, REMEMBER TO VOTE ON MONDAY 1 NOVEMBER!

THEN
Read this again please!
Its value increases with reading.

MANY GEPF MEMBERS AND PENSIONERS HAVE SPENT THEIR ENTIRE ADULT LIFE IN A CAREER IN ONE OF THE MANY STATE DEPARTMENTS OR WILL STILL DO SO. PENSIONERS DESERVE TO BE ABLE TO RELAX WITH THE EXPECTATION THAT THEIR PENSION WILL GROW AND KEEP UP WITH THE INCREASE IN THE COST OF LIVING.

THERE IS A GROUP OF PENSIONERS GIVING FREELY OF THEIR TIME AND ENERGY TO KEEP TRACK OF THE WAY OUR PENSION FUND IS BEING MANAGED. THIS GROUP ESTABLISHED A NON-PROFIT ORGANISATION, THE ASSOCIATION FOR THE MONITORING AND ADVOCACY OF GOVERNMENT PENSIONS, KNOWN BY THE ACRONYM AMAGP

AMAGP RESEARCHES AND MONITORS THE PERFORMANCE OF OUR PENSION FUND TO MAKE SURE THAT OUR PENSIONERS RECEIVE THEIR RIGHTFUL PENSION AND THAT THE FUND STAYS SUSTAINABLE. ALSO, TO EXPOSE ANY ATTEMPT AT USING THE FUND FOR ANY OTHER REASON THAN FOR THE BENEFIT OF ITS MEMBERS AND PENSIONERS. THE AMAGP ALSO COMMUNICATED WITH AND RECEIVES CO-OPERATION FROM OTHER INSTITUTIONS THAT HAVE AN INTEREST IN THE GEPF, FOR THE PURPOSE OF PROTECTING AND PROMOTING THE INTEREST OF ALL THE GEPF MEMBERS AND PENSIONERS.

WHEN AMAGP NEGOTIATES ON BEHALF OF MEMBERS AND PENSIONERS OF THE GEPF, IT NEEDS A LARGE MEMBERSHIP, TO LEND CREDIBILITY TO ITS NEGOTIATIONS AND TO PROVE REPRESENTATION.

GEPF MEMBERS AND PENSIONERS ARE KINDLY REQUESTED TO JOIN THE AMAGP BY COMPLETING AN APPLICATION FORM THAT IS AVAILABLE ON THE WEBSITE www.amagp.co.za, OR THE FACEBOOK PAGE GEPF WATCHDOG. THE APPLICATION FORM CAN BE COMPLETED ONLINE OR PRINTED. APPLICATION FORMS WILL BE SENT BY E-MAIL TO ANY PERSON THAT SUPPLIES AN E-MAIL ADDRESS.

ENQUIRIES CAN BE ADDRESSED TO AS KLEYNHANS AT as.kleynhans@outlook.com

The Editor's Word

Note. The Fund's investment values used in the newsletters are from the 2019 GEPF Annual Report, said values probably in 2018 terms as the figures in the Fund's AR are usually a year or more old.

!! VOTE ON 1 NOVEMBER !!

Reminding all Fund members and pensioners to vote on 1 November. Keep in mind if you don't vote you can't complain about what the 'government' does, as you didn't vote! This is an opportunity that doesn't come that often.

Vote for the party [DA, Freedom Front, EFF, ACDP, Inkatha, UDM, Good, etc] or movement [ANC is still a movement and not a party] that you think will ensure your Fund remains viable for you to retire comfortably.

If you didn't vote you can't complain about the 'government'! If you do vote, you can complain because then the 'government' isn't doing what you voted for it to do.

Now for news from the media

The AMAGP statement about the PIC investigations after the Mpati Commission's findings highlights the meandering pace of these investigations. And the ostensible reasons for the meandering. However, since this AMAGP press release the investigation into the CFO has been completed and Ms More has been 'requested to leave". I doubt this is the end of this saga, expect a court case so she doesn't have to leave, with appeals later on. Think on losing R6,9mn a year…

There is a good discussion on retirement expectations in SA, which should make you think about yours.

Moneyweb has a good article on pension reform and how to keep the 'government's' fingers out of and off our pensions. It is worth while reading and thinking about.

Women in SA earn less in retirement than men. That is interesting but not surprising but not for the usual reasons. There is more to it than that.

The JSE is shrinking, read about it to note the reasons and possibly how it will influence our Fund.

Another article about pension reform and why it is necessary. Some distance from the first article to give you time to assimilate the first one.

MTN has released some good news, hopefully making a difference in our Fund's funds.

Sibanye Stillwater has bought two mines in Brazil with excellent prospects. More good news for the Fund's investments.

Old Mutual is disposing of its investment in Nedbank. We have interest in both companies, so this is a win for us. It looks good.

Then lastly the news of the PIC's CFO being fired. Let's see where this goes.

Synopsis

STATEMENT F15/2021
ISSUED ON BEHALF OF THE ASSOCIATION FOR THE MONITORING AND ADVOCACY OF GOVERNMENT PENSIONS (AMAGP)

Cape Town
13 October 2021

DO THE PUBLIC INVESTMENT CORPORATION (PIC) AND THE GOVERNMENT EMPLOYEES PENSION FUND (GEPF) INTEND TO IMPLEMENT THE INSTRUCTIONS OF THE MPATI COMMISSION?

The 50,000 members of the AMAGP, along with some two million government employees and current civil service pensioners have been waiting for more than 18 months for any

sign of the recommendations of the Mpati Commission being implemented.

The only information provided so far has been vague and evasive.

A new dimension has now been introduced by the PIC: Excuses for doing nothing.

AMAGP notes with concern, but with no surprise, newspaper reports quoting the CEO of the PIC on a decision to halt the investigation into the conduct of its former CEO, Dan Matjila, as instructed by the Mpati Commission. It cites as its reason for so doing the fact that Matjila is challenging the findings of the Mpati Commission through the courts.

The PIC is also delaying investigations regarding other staff members. One staff member, CFO Matshepo More, was suspended in March 2019 with full pay with an annual salary of R6,9mn. Another suspended employee, Chris Pholwane, is still receiving a salary of R3,76mn per year. Roy Rajdhar, a suspended executive who resigned, received a salary of R4,8mn while suspended.

We are talking about real money here, money belonging to the country's civil servants - not Monopoly money!

Why investigations into Matjila's disturbing conduct should be delayed is not clear. Why not finalise the investigations and then wait for the result of court actions by Matjila? In the case of More the delay is ascribed to her having been asked to respond to several issues. If it is remembered that More was suspended in March 2019, the reason provided for this delay is really laughable. An employee being allowed to dictate to the employer? Really?

What the PIC does not do, once again, is announce particulars of what progress, if any, is being made in complying with other Mpati recommendations.

To mention just a few:

- 72 In the light of the above, the Commission recommends that the PIC must conduct a forensic review of all the processes involved in all transactions entered into with the Sekunjalo Group and to ensure that the PIC obtains company registration numbers of every entity in the Sekunjalo Group to be able to conduct a forensic investigation as to the flow of monies out of the group.
- 74 Steps must be taken to recover all monies with interest due to the PIC, especially where personal or other sureties was a precondition to approval of the investment.
- 75 The PIC must also determine the future role, if any, of the PIC in all of the transactions with the Sekunjalo Group, to protect the interests of the PIC and its client; and review all aspects of the transactions entered into with the Sekunjalo Group to determine whether any laws or regulations have been broken.
- 76 It is also recommended that the PIC reviews its internal processes, including its standard operating procedures, together with the DoA, to determine responsibility and culpability, and to consider whether there are grounds for disciplinary, criminal and/or civil legal action against any PIC employees or Board members, current or previous.

Nothing is said about progress on the above and also about progress in liquidating Sekunjalo Independent Media, which is steadfastly refusing to repay the original 2013 loan to buy the Independent Media newspaper chain as Iqbal Survé is contractually obliged to do.

Similarly, not a word is said about the AYO matter where funds are being drained by paying the salaries of staff members of the insolvent Independent Media company.

We trust that the PIC board has noted, as we have, the investigative journalism of the amaBhungane team which revealed that Iqbal Survé and Dan Matjila allegedly collaborated to structure the AYO contract in such way that it would be legally impossible to recoup the money invested in that company. Money belonging to pensioners and workers. Is this not a matter for the Hawks and perhaps also the National Prosecuting Authority?

What is the response of the Board of Trustees and the PIC to this? It is not as though the board was not forewarned. More than five years ago, James Myburgh of Politicsweb revealed that Iqbal Survé was making no effort to repay the PIC loan with which he had

gained control of the Independent Media newspapers. Five years ago and still no effort to recover the money!

Has the PIC Board also noticed that nothing has come of Survé's claim more than three years ago that he would list Sagarmatha Technologies, the so-called 'African Unicorn', on the stock exchange in New York and Hong Kong?

By seeking reasons to delay the finalisation of the Commission's recommendations the PIC apparently does not understand that the Stalingrad strategy is usually used by the respondent and not the complainant.

The PIC should find reasons to comply with the Mpati recommendations instead of seeking to evade its instructions.

And the arrogant, well-paid and government-controlled Board of Trustees of the GEPF? From them its silence as usual on matters of the utmost importance to the people whose interests they are supposed to protect.

Adamus P Stemmet
Spokesman: AMAGP.

Comment

The murky status of the progress with the Mpati Commission's recommendations is unchanged since the Mpati Commission's report was released. It leaves us with the option to believe the PIC hasn't, really, implemented any of the recommendations. It seems cosmetic-only changes have been instituted, staff are on paid suspension for years costing about R10mn a year.
Who is really running the PIC?

Synopsis

Retirement expectations in South Africa vs reality

BusinessTech
Staff Writer
11 October 2021

A significant number of South Africans believe they will continue working for the remainder of their lives, with no plan to retire at all.

This is according to 10X Investments' latest retirements report, based on the 2021 Brand Atlas Survey findings. Brand Atlas tracks and measures the lifestyles of 15 million economically active South Africans living in households with a monthly income of more than R8 000, through online completion surveys.

Of the survey respondents who had retired, 70% said they retired when they wanted to, while 29% were forced to retire ahead of time. Just 2% said they had to work for longer than planned.

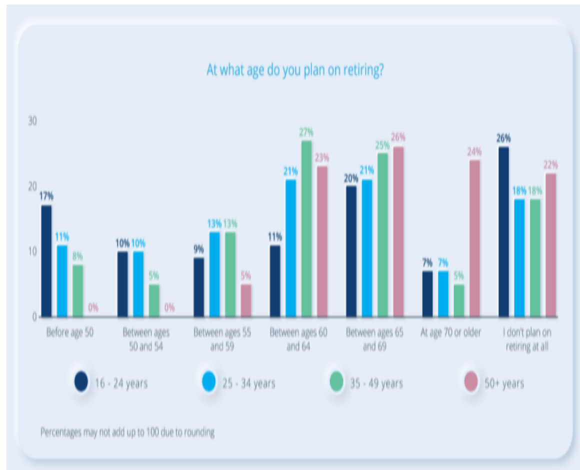
"Owing to a relatively small percentage of respondents in the survey who have retired (around 3%), the numbers tend to vary from year to year," 10X Investments said.

"However, the trend over the years suggests that roughly one-third of retirees are forced to retire sooner than expected, more retirement years must be funded by fewer years of contributions and compound returns. For those in formal employment who don't plan to retire, some may find their employer has other plans."

The data, which focuses on when South Africans plan to retire, paints an even bleaker picture, with younger South Africans only having a nebulous idea of when they plan to retire, while older South Africans indicate they plan to work beyond 70 years or not retire at all.

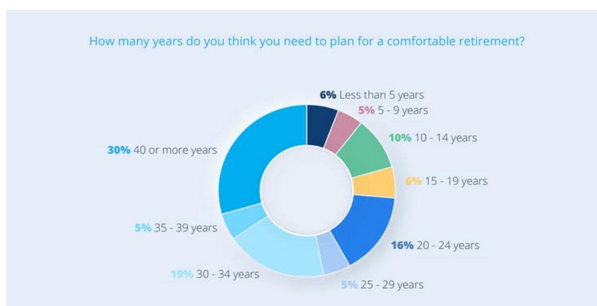
"It is striking that whereas some 35% of respondents under 35 believe that retiring below age 60 is achievable, only 4% of over 50s consider this realistic," 10X Investments said.

"In the same vein, whereas among the younger cohort (between ages 25 and 49), on average, only 46% expect to work past the age of 64, among those 50 years and older, many more (71%) have wised up to their retirement reality and expect to retire beyond age 64, or not at all. Both sets of expectations seem unrealistic in a country like ours."



Almost half the people surveyed think they can save for retirement in less than 30 years. The fact that most people think they can leave it late (ie to the final 20 or 30 years of work) is a fundamental problem, stated 10X.

What is the difference between saving for 30 or 40 years? In the context of a consistent savings plan, earning a net real return of 5% (after fees and inflation), saving for 40 rather than 30 years will deliver a retirement income that is 83% higher. Or to put it another way, people who save for only 30 years instead of 40, will have to make do with an almost 50% lower retirement income, the financial services group said.



Most survey respondents (74%, compared with 77% last year) believe they will have to generate some income after they retire. Another 19% are not very sure, leaving just 7% of respondents feeling confident that they are on course for what is increasingly becoming an outdated notion of retirement, based on full financial independence.

Nothing to put away

Increasingly, the data shows that for the majority, the issue is not one of hubris or ignorance, but of economic hardship: 64% of people surveyed said they simply could not afford to save because there is nothing left at the end of the month.

According to Stats SA's Quarterly Labour Force Survey for the second quarter of 2021, South Africa's unemployment rate was 34,4%. Young people (aged 15-24 years and 25-34 years) recorded the highest unemployment rates of 64,4% and 42,9%, respectively.

In a new economic update on South Africa published in July 2021, the World Bank found that the coronavirus pandemic had "exposed structural weaknesses in the job market with young people, particularly facing acute unemployment rates, with incidence twice as high as among older age groups.

The World Bank report found that among 15 to 24-year-olds, 63% are unemployed and looking for work, whereas among 25 to 34-year-olds, this rate is 41%. When discouraged workers are included, unemployment rates are as high as 74% for 15 to 24-year-olds and 51% for 25 to 34-year-olds.

"This means many thousands of people are pushing into the job market as more and more retirement-age people are trying to hold on to work because they just cannot afford to retire," 10X Investments said.

"This personal misery for many, of course, adds fuel to simmering social conflict. The number of people indicating that retirement saving was just "not a priority at this stage of their life" is still high but in decline: 22% of respondents, down from 29% last year and 36% the year before that, chose this rather dismissive answer."

That could mean they have lost the "luxury" of choosing to allocate their discretionary spending because they now lack that discretionary spending, 10X Investments said. It could also mean a shift in attitudes towards retirement saving, based on their own recent experience.

"Either way, it is a stark reality check. Hopefully, when the economy recovers and people find themselves having to choose again, they will remember what it was like to have no money and limited choice and take steps to avoid a repeat of that in future."

Comment

Another gloomy 'retire on pension' article. These statistics keep telling you, dear reader, to start your pension savings as early as possible and not touch it until you indeed retire on pension. Of course, this doesn't help if you don't have the funds to save anything, the GEPF is still an excellent pension fund. As long as we can keep the 'government's' hands of it.

Synopsis

National pension reform: Protecting the funds from state capture

Moneyweb
By James Stent, GroundUp
11 Oct 2021

When the Department of Social Development proposed a national contributory pension fund, the outcry was immediate: the state cannot be trusted with our money.

But would the state be able to capture the funds in the proposed National Social Security Fund (NSSF), described in the Green Paper on Comprehensive Social Security and Retirement Reforms?

Not easily. The Green Paper proposes a governance structure that makes capture difficult. This type of structure might be more common in the years to come, following the likely recommendations of the Zondo Commission..

The money in the fund, to which everyone with a job would contribute, would be protected by the 'arm's-length' principle.

The board of the NSSF would be drawn from a wide variety of sectors that have an interest in the fund. There would be members from government, labour, employers, and civil society. The minister would appoint members to the board following nominations from the different groups themselves. Directors would be expected to be dedicated servants of the fund and would have to be well-qualified.

The Green Paper proposes that the fund be protected from the influence of national government by limiting how government can interact with the fund: "Policymakers can raise policy discussions and propose policy changes, but they cannot interfere in the day-to-day operation of individual social security funds other than through change of law."

So, while the board would be appointed by the minister, according to the rules of the fund, the CEO of the fund would be appointed by the board and would answer directly to the board.

Regulation of the fund would be done by two distinct bodies. The South African Reserve Bank (SARB) would take charge of prudential matters while the FSCA would ensure fair treatment of fund contributors.

The administration of the contributions to the fund would be done by SARS. SARS systems would make the administration of contributions and benefits effectively automatic.

Would this be enough to allay concerns over capture?

Pulling it all together

The Green Paper would consolidate social security functions currently in different departments. This is in line with present thinking in the National Treasury on "consolidation", bringing together functions of government that are similar, but located in different departments.

The NSSF would absorb other existing social protection agencies. These would include the Road Accident Fund (RAF, located in the Transport ministry), the Unemployment Insurance Fund and Compensation Fund (UIF and CF in Labour), and Compensation for Occupational Diseases (in Health).

The Green Paper proposes that all these be integrated into a new ministry solely concerned with social security.

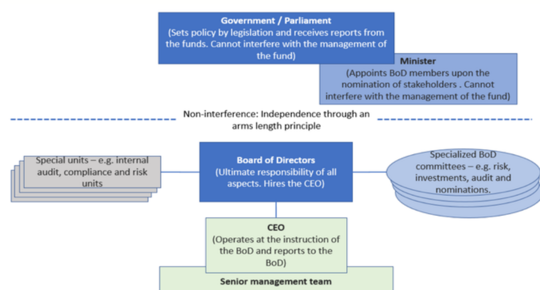
One immediate effect of this consolidation would be to reduce the vast and ineffectual bureaucracies. Costs would be shared under one roof.

At present, as described in the Green Paper, social security policy is "implemented in five different government departments through multiple institutions reporting to different governance structures, which leads to incoherence in both policymaking and implementation."

In the Green Paper's proposal there would be one system for all these.

The Green Paper proposes the creation of a Master Social Security Registry (MSSR), which would hold all information on everyone's contributions and benefits.

And there would be a Consolidated Public Interface for Social Security (CPISS). CPISS would offer online and telephonic services, and also have offices where the public could bring questions and complaints. These offices would absorb the functions and premises of labour offices and South African Social Security Agency (SASSA) branches and would help grant beneficiaries look for work – a novel idea in South Africa.



The proposed 'arms-length' governance structure of the NSSF. Source: DSD, Green Paper on Comprehensive Social Security and Retirement Reforms

Comment

The appointment of the board seems too much like the GEPF BOT, where those most affected, the pensioners, have the least say. There are too many vague 'appointed by', implying sinecure, for my liking.

The consolidation of departmental functions would be wonderful, if it wasn't for the certain belief that the bloated and ineffective current civil service would only expand and not contract. Keep in mind our taxes are keeping hundreds of thousands of the population from penury by government employment, called 'hidden unemployment'.

Synopsis

SA women 'earn' less than men even in retirement

Moneyweb
By Akhona Matshoba
13 Oct 2021

Image: Shutterstock

South African women can't seem to catch a break as the effects of the gender wage gap threaten to follow them into retirement. An Alexander Forbes study based on member analysis and released on Tuesday has shown that women are likely to get about 10% less income from their retirement funds than men.

The reasons for the gender gap include the consequences of decades of inequality and breaks in careers to raise a family, according to the report. "It is also a result of lower contributions being made to retirement funds by females, in general, as well as the fact that after retirement females live longer than males on average."

Having a longer lifespan, on average, means women's retirement income diminishes because it needs to stretch over a longer period.

Replacement ratio

The survey analysed almost one million of the insurer's retirement fund members and found that in 2020 the replacement ratio for working females was 26,56%, while that of their male counterparts was 35,3%. The ratio for women even came in about 5% lower than the overall average of 31,47%, the company stated in a presentation.

The country's largest (private) pension fund administrator projected that the average replacement ratio will increase to 40%, which is still significantly lower than the ideal ratio of 75%.

"According to Member Insights, only about 6% of retirement fund members can expect an income in retirement above 75% of their pensionable salaries," the company found.

While the gender pay gap for the bottom 10% has "equalised" over the years, it remains relatively high across major sectors.

"If we look at the top 10% of the highest salaries, the gender wage gap is 7%, meaning for every R1 a male member earns, the female member earns 93 cents," says Ntsheki Molefe, regional executive for retirements at Alexander Forbes.

Reform to improve preservation

The Covid-19 pandemic saw growing appetite among South Africans to cash out retirement savings to make ends meet. However, the company advises against people cashing out their savings before maturity.

Instead, Alexander Forbes supported the "two-bucket pension reforms" proposed by National Treasury as an alternative that will protect long-term preservation and satisfy immediate financial needs.

Projections by the group show that future generations, who stand to benefit from the proposed policy reform, could see their retirement outcomes double, at the least.

"People's savings [could] be anywhere between two and two-and-a-half times better over a 35-40 year period because of this, even if they were to take their short-term bucket," says John Anderson, Alexander Forbes's executive for investments, products and enablement.

Anderson added that their modelling of the two-bucket system revealed that if people were to preserve both their long and short-term investments over the 40-year period, they would receive the desired 75% replacement ratio at retirement.

Impact on millennials

The group's research also revealed that early millennials below the age of 24 suffered greater financial stress due to the pandemic, which resulted in significant job losses and left young people at a higher risk of defaulting on their loans.

"The analysis found that at least 14,11% of loans taken by Early Millennials were in default, followed by Late Millennials at 4,79%, Generation X at 2,27% and Baby Boomers at just 0,94%," the company said.

"This [unemployment] is going to continue being a huge challenge in the industry because it's these years when people contribute towards their retirement that makes a huge difference," Anderson said.

Comment

The implication on retirement for women needs close attention. The difference is an acknowledged fact that must be managed for retirement peace of mind. The challenges of family life and longer life span often leave women worse off for retirement, which they have to be prepared to correct themselves. Requires some hard decisions to ensure women aren't robbed of a comfortable retirement by culture, custom, institutionalised discrimination, etc.

Synopsis

TITBITS

InceConnect
14 October 2021
The Finance Ghost

Ascendis jumped more than 15% yesterday in response to a SENS announcement that the company has commenced the process to dispose of its Ascendis Pharma business segment. The share price has been on a wild

ride this year, up only 1,3% year-to-date but with a trough to peak climb of around 85%!
We have about R163mn in Ascendis

Standard Bank's proposed buyout and delisting of **Liberty** is one step closer to completion, after Liberty shareholders voted almost unanimously in favour of the scheme resolutions required for the transaction. There are still other conditions to be met in such a high-profile deal in the financial services sector, but at least shareholders have sent a clear message of approval.
We have about R50bn in Standard Bank, about R1,48bn in Liberty.

Comment

Mergers, acquisitions, delisting, takeovers, consolidations, all make interesting reading but the influence on our Fund's funds is vague. However, makes you wonder when a snippet catches your eye that the Fund has an interest in that company!

Synopsis

South Africa's shrinking JSE – investors explain what's going on

Businesstech
Staff Writer
14 October 2021

The Johannesburg Stock Exchange continues to face questions around its shrinking size, with a further two delistings, CSG Holdings and Alaris, announced on 11 October.

The number of companies listed on the JSE has decreased from 776 to just over 330 in the past 30 years, with over 14 companies delisting every year on a net average basis. Data published by Bloomberg shows that 21 companies had already delisted in 2021 to September.

This has spurred market commentators to discuss the JSE's 'slow death' in the context of a struggling local economy, with many arguing that investors should take their money and run.

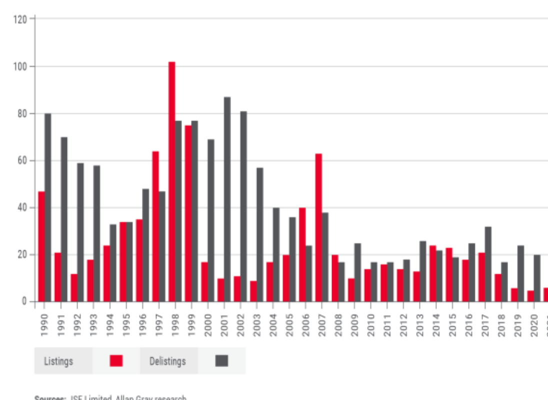
"There is cause for concern when a net delistings trend emerges over time. This could be symptomatic of a faltering economy and persistent negative business sentiment. Still, there are several other factors at play," said Nadia Van der Merwe, senior manager at Allan Gray.

Considering the total number of listings on the JSE, much of the decline over the last 20 years occurred during the early 2000s, driven by a high number of delistings, combined with few new companies coming to market.

The number of listings subsequently stabilised and remained broadly constant from 2004 to 2016. Since then, fewer new companies have come to market, while delistings remain at broadly similar levels, said Stephan Bernard, manager at Allan Gray.

"Over the past 30 years, we have experienced three major cycles of new listings, each driven by a specific sector. While elevated markets should generally boost listings across sectors, there are often specific sectors characterised by conspicuous optimism," Bernard said.

"It is unsurprising that in the late 1990s, at the height of the tech boom, technology companies comprised a significant portion of new listings. During 2006 and 2007, in the build-up to South Africa hosting the 2010 FIFA World Cup, it was the construction sector. For most of the 2010s, the glory days of listed property, real estate listings were plentiful."



Consolidation of companies into larger listed corporations

In line with what is happening with the JSE, a global trend is the consolidation of companies into larger listed corporations. "The number of listings may have declined, but the average listed company is significantly larger today than it was 10, 20 or 30 years ago, even after adjusting for inflation.

"The total market capitalisation has increased significantly over time, and it is fair to say that the decreasing number of listings does not necessarily signify a weaker market," said Bernard.

Van der Merwe illustrates this by explaining that in 1982, there were 93 companies listed in the mining sector, 45 of which were individually listed gold mines. "Today, only seven locally listed gold miners exist, all owners of a portfolio of mines."

Smaller companies delisting

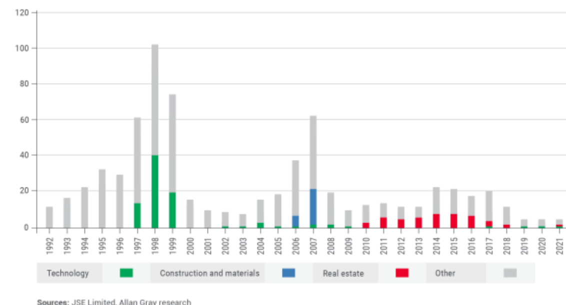
Bernard said that the downward trend in the number of company listings over the past decade is primarily a result of delistings among small businesses that fall outside the average asset manager's acceptable size and liquidity range.

"The market capitalisation of new listings has exceeded that of delistings every year since as far back as 2008," says Bernard, adding that the number of companies with market capitalisations above R5 billion in 2021 rand value, has increased over time – from 83 in 2000 to 113 in 2010, and 121 in 2021.

"This suggests that the investment universe for larger investors has actually expanded over time. Drilling down one further layer, many of the more prominent delistings of recent years have been for reasons that suggest value and confidence in future returns, rather than because of businesses failing."

Major delistings include Clover, Pioneer Foods, Assore and Comair.

"All but Comair were takeovers or management buyouts, indicative of the attractive levels at which many of the shares on our market trade. News that Heineken is considering the acquisition of Distell and Standard Bank's intent to buy out Liberty are further supporting examples," said Van der Merwe.



Global phenomenon

JSE chief executive Leila Fourie has acknowledged some of the criticisms about delistings but also noted that South Africans are 'congenitally negative'. In an interview with the Mail and Guardian in June, Fourie said that the delisting spate is also a global phenomenon and is not uniquely local.

The economic downturn triggered by Covid-19 caused several companies, particularly ones with smaller market capitalisation, to lose investor support and, ultimately, have to delist, she said. "You will always have smaller companies wanting to cash out on an exchange. And you will always have large entities wanting to raise capital for large capital investment."

However, Fourie has raised concerns about the capital outflows from South Africa, which have steadily increased over the last few years.

In a written submission to parliament on Treasury's new tax bills in August, the JSE said South Africa's macro environment has deteriorated over the past five years. All three global rating agencies lowered their ratings of South Africa's sovereign credit standing in 2020.

Fourie told BusinessDay that South Africa needs to do more to make an investment case for the country. "I sleep very well normally, but if something were to steal my sleep from me, it would be foreign flows," she said.

"I am concerned about the disinvestment from South Africa, and I think as a country we need

to do more to put out a positive narrative and to start to create a coalition of the willing between the public and private sector to try and crowd in more financial support and more inbound investment."

Comment

Symptoms of a poor economy indeed. However, consider the whole article. It is a global phenomenon, the capitalisation is relatively constant, etc. Most important is the poor state of the economy that the 'government' isn't really interested in improving.
An active stock exchange is good for our investments.

Synopsis

National pension reform: could it be done?

Moneyweb
By James Stent,
GroundUp
14 Oct 2021

Image: Shutterstock

"Furious pushback"; "disastrous for SA economy"; "threat of tax revolt"; "scepticism"; "state capture 2.0"; "outrage"; "would wreak havoc"; "ludicrous plan"; "set up to fail" : when the Department of Social Development released its Green Paper on Comprehensive Social Security Reform, there was a strong response from economists and some politicians. .

But how well-founded are these arguments? In this article we try to unpack some of the main criticisms of the paper, which proposed a National Social Security Fund to which all workers earning over R1 667 a month would contribute. Employers and employees would initially contribute 8 - 12% of earnings up to a ceiling of R23 000 a month.

This is a 'left socialist idea'

In a TimesLive article chief economist of Efficient Group Dawie Roodt says "Clearly what this [green paper] has in mind is the increase in taxes and for the state to force us to save more and for politicians to get more power over our savings. This is just a left, socialist kind of idea which in practice is not going to work."

But the National Social Security Fund proposed in the Green Paper is a direct descendant of Germany's 132-year-old Public Retirement Insurance System, or *Gesetzliche Rentenversicherung*. This is the oldest public pensions scheme and was itself based on reforms put forward by Napoleon III. This *Gesetzliche Rentenversicherung* was introduced in 1889 by German nation-maker Chancellor Otto von Bismarck.

Bismarck's motivation for introducing the *Gesetzliche Rentenversicherung* was to quell any "perceived threat of social unrest" in the recently unified German state. His reasoning was not that the elderly should not suffer on retirement, but that it was essential to introduce the system so that the state did not collapse.

The state will mess it up or steal our money

Reuben Maleka, of the Public Servants Association (PSA), said that the PSA "regards this proposal as another attempt by the government to get its hands on overtaxed workers' hard-earned money".

In an article for the Cape Argus, Roodt says: "The Green Paper is all well and good, but we can't afford it … The downside is that it proposes a substantial increase in taxes and this is not going to happen as the South African taxpayer is already overburdened. As these things go, it will probably be under the **control of some politician and most likely be mismanaged**."

Economist Daniel Silke said: "The big problem is that the expectations of delivery from the state are so poor and its credibility and management capacity are so poor that asking South Africans to contribute in this way is fraught with great risk from the point of view of

those South African salary earners who will be expected to contribute.

“It really is a case where the state cannot mandate this kind of contribution into this kind of setup unless it really has proven itself to be an effective and efficient manager of large scale state assets and not a waster of resources through inefficiencies and graft and corruption.”

But as we have outlined, the Green Paper puts forward a public rather than state-run scheme, which keeps political control at ‘arms-length’, in line with international norms and standards. The Green Paper proposes a system that would minimise political interference in the governance of the fund.

And most inflows would be immediately sent out to pensioners, because contributions from those currently working would be used to pay those who have retired.

This is just another tax

Economist Mike Schussler said “We want to be like Europe when we don’t have the income or tax base. It’s not possible.”

Schussler’s comment implies that mandatory pension schemes are only operational in Europe or developed countries. But Colombia, which is a country very similar to South Africa, has a mandatory pensions scheme. Colombia has 51 million people compared to South Africa’s 60 million, a Gross Domestic Product of $295 billion compared to South Africa’s $329 billion, and roughly the same geographical area.

Columbia has a national pensions scheme augmented by private supplementary offerings, almost exactly the set-up described in the Green Paper. And average retirement income as a proportion of income earned before retirement (the replacement rate) in Columbia is 74%. In South Africa it lies between 17%-20%, according to the Organisation for Economic Co-operation and Development.

The DA’s Geordin Hill-Lewis, shadow finance minister and mayoral candidate for Cape Town, argues: “The proposal is essentially to tax low-income workers and the struggling middle class much more.”

Mandatory contributions are not the same thing as taxes and would replace contributions that a person would otherwise be making to a privately managed fund. Further, workers’ contributions would have a direct impact on their retirement income. This is not a tax by any usual definition.

The proposal would mean that people who currently have no or insufficient retirement benefits, about half the people in formal employment, would have benefits, while people who currently pay for retirement plans would probably pay no more than they do at present.

The Green Paper came as a surprise

This paper came as a surprise to the constituencies at Nedlac, Treasury Deputy Director-general Ismail Momoniat told BusinessDay in August.

But a national mandatory retirement fund has been part of thinking across government departments for close to two decades, since the 2002 publication of the Taylor Committee of Inquiry into a Comprehensive System of Social Security for South Africa. It has been a constant feature of discussion papers since then.

For instance, in a 2010 paper on bargaining council retirement funds compiled by Jacques Malan and Associates for the Department of Labour, lessons for designers of a national social security fund are offered. And these are based on even earlier proposals put forward by a 2007 National Treasury Second Discussion Paper and a 2009 document, called ‘Reform of Retirement Funding’. In 2012, the Interdepartmental Task Team on Social Security and Retirement Reform produced its first discussion document, developing the idea of the NSSF.

In a Nedlac paper, the business representatives even complain that the Green Paper that they saw in early 2021, before the public caught sight of it, is largely unchanged from drafts from five years before.

The business lobby would prefer the government to prove it can manage a more modern set-up before implementing the NSSF. “Demonstrated progress in the

modernisation and governance of existing social security funds is a precondition for further expansion of the social insurance framework," they say in the Nedlac submission.

Specific issues raised by business in the Nedlac discussion document include that the contribution ceiling of R276 000 per year is too high, which would erode the customer base of the retirement industry.

In fact, the Green Paper ceiling is not far from the UIF benefit ceiling of R212 544 annually. Further, there would still be a market for supplementary pensions for people earning above the contribution threshold. There are 2,4 million people who currently contribute to retirement funds earning a gross income more than R353 000 per year, and most of those would probably top up their retirement funds using private schemes. Currently about 90% of people in these income bands contribute to retirement funds.

We CAN afford it, says former Treasury official

One of the main criticisms of the proposed national pension plan is that the country cannot afford it.

Old Mutual Investment Group chief economist Johann Els has said the plan is not at all viable. And in an article first published in the City Press, Alexander Forbes executive John Anderson was quoted as saying that the contributions of 7,5 million workers in the formal sector, plus those of 4,7 million farm, domestic and informal sector workers would have to be subsidised. Alexander Forbes estimated that "this would require between R15bn and R30bn a year from the National Budget depending on the level of subsidies required."

In a paper in a series published in Econ3x3, economist and former National Treasury official Andrew Donaldson estimates that the subsidy needed to cover the contributions of people who could not afford to pay into the fund, is R23,8bn.

But in a third paper, Donaldson shows how this could be funded. Donaldson takes the current retirement system as his starting point, using SARS and Treasury data that assesses about 85% of revenue collected in 2017.

At present retirement contributions up to a limit are exempt from tax. Retirement contributions can be deducted for 27,5% of taxable income, or R360 000, whichever is smaller.

Only when funds are drawn down in retirement is tax applied and even then, pensioners are able to apply for very generous rebates on these drawdowns.

This means that people who can afford to contribute to pension funds, a minority of working people, are afforded the single largest tax credit in South Africa, approaching R100 billion per year, according to Donaldson's own calculations and the National Treasury's budget review. This credit disproportionately accrues to the very wealthy.

For the very highest income band, gross incomes over R1,975mn per year, the average retirement contribution is R255 230 and the average tax benefit to these people on these contributions is R114 854 per person. The total benefit on this income band alone is R10bn per year. The lower income bands also accrue high benefits, net incomes between R917 000 and R1,975mn get R23bn in benefits per year, with the average tax benefit of R56 757 per person.

Donaldson proposes a model through which more than R22bn in revenue could be collected, by reducing, not removing, these benefits.

He suggests retirement contributions should still be liable for tax benefits, but at a lower rate as income rises. At present, gross incomes between R494 000 and R917 000 per year get the highest tax benefit as a share of gross income of 4,9%. Under Donaldson's proposal, the highest benefit would be 4,1% for middle-incomes at R353 000 to R494 000 per year, with incomes higher than this band receiving relatively smaller benefits. The highest income bands would therefore move from receiving an average of R114 854 per year in tax benefits, to R51 213 per year – still the highest net benefit.

The extra R22bn collected this way would very nearly cover the shortfall of R23bn which

would be needed to ensure that all South Africans, not just the wealthy, could retire in some comfort.

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Comment

Makes sense, doesn't it? The pension reform has been around for about 20 years, it is going to happen sometime. The greatest challenge is to keep the 'government's' hands off the money and out of the control of it.
Any reform must include those at the lowest level of income to make sense.
I state again: I don't believe the 'government' was so unaware of the Green Paper as it made out. Watch for the next iteration or parts of it.

Synopsis

MTN scores another win

26 October 2021
INCE|Community
By The Finance Ghost

Politicians aren't fans of rating agencies. These agencies do annoying things like punish bad behaviour or poor fiscal choices, downgrading countries and inflicting pain in the form of a higher cost of borrowing.

Unfortunately for politicians, investors use credit rating agencies extensively. The agencies do the detailed work on countries and corporates, giving them a credit score that helps investors understand how "investable" that entity is from a credit perspective.

This has a direct impact not just on the cost of borrowing, but on their ability to borrow in the market as well.

A debt analysis is different to how equity investors view the world. Credit agencies are looking at metrics related to solvency and the ability to repay debt. Beyond that level, they don't really care whether the company's equity might grow at 20% or 25%. Equity investors need to make that assessment.

MTN has had a magnificent year, up around 123% year-to-date. It's now on the radar of all momentum investors, but a longer-term chart (say, 5 years) will show that the price is up just 18% over that period.

MTN destroyed a lot of value by venturing into frontier markets where it got burnt. Whether through regulatory penalties or lack of availability of foreign currency, MTN took one body shot after the next.

That was then and this is now. As the commodity cycle has turned, so too has MTN's business. African economies that depend on oil are important to MTN, so the recovery in energy has helped MTN get back on track.

S&P has added another log to the MTN momentum fire, revising the company's stand-alone credit profile from bb+ to bbb- (yes, that odd-looking description is an upgrade on this ratings system). Notably, this excludes S&P's view of government influence and sovereign risk, so this is purely a reflection of MTN's operations.

This is a reward for MTN's efforts in reducing debt and generating strong operating cash flows. The agency also expects "robust top-line" growth in the forecast period. Importantly, the expectation behind this rating is that MTN will not revert to higher leverage levels.

S&P has also affirmed MTN's BB- long-term issuer credit rating, with a stable outlook for the telecoms giant. This is based on a stable outlook for South Africa and Nigeria (at their existing credit ratings).

The announcement only came out at 5pm when the market closed. MTN wanted everyone to absorb this information overnight, so it will be interesting to see the bump in the share price today off the back of this good news.

Comment

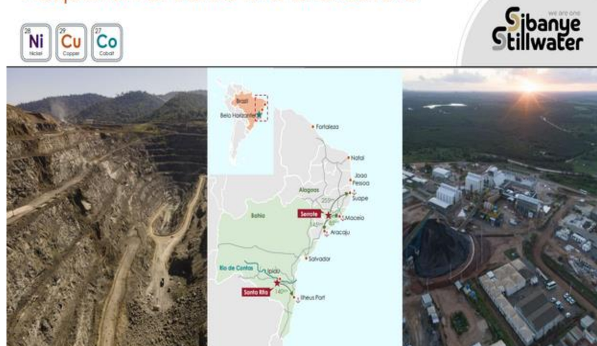
We have about R43,7bn in MTN. Good news indeed.

Synopsis

Sibanye and the Brazilian battery metal carnival

27 October 2021

INCE|Community
By The Finance Ghost



Just one day after putting out a cautionary announcement, Sibanye-Stillwater has announced details of the transaction to acquire the Santa Rita nickel and Serrote copper mines in Brazil. That's not because the deal took one day to complete of course, but rather because the company would've been worried yesterday about material inside information reaching the market without a cautionary announcement in place.

The up-front cash value of the deal is $1bn, which is a meaty transaction of around 1% of Sibanye's market cap. This will be funded from internal cash resources.

There's also a net smelter royalty of 5%, which only kicks in after the cumulative production of 252 million pounds of nickel equivalent metal. This is only expected to occur once production from the underground mine at Santa Rita commences, which is a potential development project to be evaluated over the next 18 months or so.

The royalty has been valued at $218mn, so technically the deal value is $1,218bn, of which $1bn is in cash up-front.

There are two schools of thought on this. The first is that investors should feel scared whenever cyclical companies start doing deals, as this can be an indication of the top of the cycle. The second is that CEO Neal Froneman knows what he's doing and has a track record to prove it.

The best part about this deal is that the asset is pre-developed and pre-capitalised. This is a producing asset, so there are cash flows from day one. The announcement notes that the transaction will be immediately accretive to cash flow and earnings.

The existing management teams in the mines have committed to joining Sibanye, which is critical when acquiring mines on the other side of the world.

The 2020 financial results of these mines aren't helpful, reflecting outdated losses. The investor presentation for the deal shows that the EV/EBITDA multiple is 4,3x and the price to net asset value is 0,87x. In both cases, these benchmark favourably against the peer group.

Comment

Good news. We have about R3bn in Sibanye.

Synopsis

Old Mutual's unbundling of Nedbank is imminent

27 October 2021
INCE|Community
The Finance Ghost

In the same way that markets go through cycles, so too does sentiment. At one stage on the JSE, it was all the rage to build investment holding companies with several underlying investments. The reverse is now true, with investors applauding decisions to unlock value and simplify corporate structures.

Old Mutual has been through a lot in recent years. As part of its managed separation in 2018, the group decided to hang on to its stake in Nedbank. This was done to appease the regulators and give support to the capital structure of OMLACSA (Old Mutual Life Assurance Company South Africa).

Old Mutual is now unbundling a stake of 12,2% in Nedbank, which means it will hang

on to around 7,2% in Nedbank. Old Mutual shareholders will receive shares in Nedbank that they used to own indirectly via Old Mutual.

All regulatory approvals have been obtained and the unbundling ratio has been announced: for every 100 Old Mutual shares, an Old Mutual shareholder will receive 1,31954 Nedbank shares.

This will take place on the morning of 8 November, so the market cap of Old Mutual will drop significantly on that day as the group will effectively become smaller. Old Mutual shareholders will see Nedbank shares appearing in their portfolios which will make up for the gap.

Year-to-date, Old Mutual is up nearly 35% and Nedbank is up around 25%.

Comment
We have about R603mn in Old Mutual and R11,2bn in Nedbank. It seems only the value of our shareholding in each company will change.

Synopsis

The PIC has fired its CFO, just as the current board's tenure is about to end

fin24
Londiwe Buthelezi
29 October 2021

The PIC says it has finally parted ways with its CFO, Matshepo More, who has been receiving a full salary from the company for two years since being suspended in March 2019.

The outgoing chairperson of the PIC board, Reuel Khoza, told journalists at a media briefing on Thursday that two weeks ago, the PIC board received a report from the chairperson of the inquiry into misconduct and misdemeanours that More was accused of. The report found her guilty of neglect of her duties.

"The board, upon very serious reflection and review, felt that in fact, the misconduct and the dereliction of duty were severe enough to warrant her being requested to leave the position," said Khoza.

He said while it took "very long" to complete More's disciplinary process, and the PIC lost a lot of money paying her salary over that time, it had to follow due process.

Earlier in October, the PIC faced scrutiny for paying salaries of several of its suspended employees who were fingered for wrongdoing in the Mpati Commission report. The PIC specifically charged More for signing a memo approving a R4,3-billion transaction involving Iqbal Survé's AYO Technology in 2017 before the PIC's management committee could approve it.

Ndaba said the asset manager has referred several transactions that she's implicated on to the Hawks.

Board instability and the revolving door

The disciplinary processes of other current and former PIC executives such as Dan Matjila and Pholwane are still not complete. Khoza said the board admits that it didn't complete its work as far as implementing the recommendations of the Mpati Commission is concerned.

However, he said it has compiled a 58-page report that covers in detail what it was able to deliver. This will be handed over to the new board. The current board's tenure will come to an end on 30 October.

Although this was supposed to be an interim board, it stayed in place for 27 months. The PIC essentially faced a leadership vacuum at the board level for over two years, operating with an interim board after all the old PIC board members resigned in February 2019.

The new board will have 10 members. It will be chaired by the deputy minister of finance or anybody from the economic cluster. It will have three members from organised labour, three from the Government Employees' Pension Fund, one from finance and Treasury.

"But luckily for continuity, two will be appointed from the current board. We want to believe essentially people from the private sector," said Khoza. He said the current

board members can voice their inclinations to stay but cannot know for sure who the remaining two will be.

Comment

The new Board has still not been announced, leaving the PIC without one from 1 November. This won't stop work at the PIC but places the oversight and guidance at risk.
The lack of transparency at the PIC allows me to conclude the 58-page report will remain unknown entity.

THE GEPF WATCHDOG/WAGHOND FACEBOOK PAGE

The GEPF Watchdog/Waghond 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 and press releases tell a different story.

Our Facebook and AMAGP are together more than 57 000 members and continually growing, but this isn't enough. However, this continued growth confirms the ever increasing 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 "re" 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".

We remain in dire need of dedicated persons to share in the burden of AMAGP. People who aren't afraid to work for the common good of members and beneficiaries of the Fund.

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. To the advantages of members and pensioners, not looters and mismanagers!

VRYWARING

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