Association for Monitoring and Advocacy of Government Pensions (AMAGP)

NPO Registration No: 198-822

SEMPER VIGILANS

The Association for Monitoring and Advocacy of Government Pensions: 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

GEPF your investment. your future

NEWSLETTER NO 23 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

We are the owners of the GEPF, and we have the right to expect 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.

The AMAGP remains 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 Editor's Word

Note. The Fund's investment values used in the newsletter are from the 2021 GEPF Annual Report.

The GEPF regularly publishes a newsletter. www.GEPF/media/publications/newsletter will allow you to download Fundnews and Fundletter. Worthwhile reading. Visit the website once a month just to check for any news.

The GEPF AR has been released; to read it go to https://www.gepf.co.za/annual-reports/, click on the 2020/21 report. More information about AMAGP's understanding of the AR will follow in due course.

The AR isn't clear what the GEPF did about the impairments and bad loans written off. Also, no detail about recovering our money from the defaulters or provision for legal action to do so.

The 'government' has been quiet on GEPF related matters. The quiet will probably last until next year, with the silly season on us and the aftermath of the municipal elections helping the quiet to remain quiet. No news seems like good news.

In general, it seems as if the economy is on its way to recovery, if the 'government' can keep its hands off it for long enough.

Now for news from the media

An introductory article about retirement and your parents. Good reading both for the retiring parents and the children. Followed up by another good article on retirement decisions. Both should be filed for rereading when doing your annual financial planning.

A few short thoughts on changing retirement legislation without going into what the legislation actually is. It helps to keep our retirement thinking up to date.

Tongaat's balance sheet evidently has holes, which may mean control moving to Mauritius. Interesting that a South African company might be controlled from Mauritius.

The transaction between Standard Bank and Liberty should be completed early in 2022. Liberty branding might fade away over time, let's see where it goes. And there is some news about Liberty's performance.

There are three articles by Daily Maverick. The first one is their summary of the GEPF AR, the next two are old-ish articles from Daily Maverick, which we haven't read before, providing thought provoking discussion of the PIC in its pre-PIC Commission glory. The third article by Daily Maverick makes telling sense about the Isibaya fund and unlisted investments.

I'm sure we will see Daily Maverick's more detailed opinion of the GEPF AR in the next month or so.

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Synopsis

Questions to ask your parents about their retirement plan

Moneyweb
15 November 2021
By Craig Torr - Crue Invest (Pty) Ltd

Image: Shutterstock

As your parents age, it is inevitable that you will need to become more involved in their affairs. Given that very few South Africans are in a financial position to retire, your parent's retirement plan may be a concern for you, especially if it may be likely you will need to provide them with financial support.

Communication with your parents about their retirement plan may avoid unpleasant surprises later. In doing so, consider the following questions:

How long will your money last at your current rate of spending?

Related questions:

If you carry on spending at this rate, at what point will your invested capital be depleted?
Are you appropriately invested, have you taken on an appropriate amount of risk?
Are you drawing income as tax-efficiently as possible without running the risk of a liquidity shortfall later in life?
Have you accounted for the possibility that you could live until 100?
Have you taken into consideration that medical inflation outstrips CPI by around 4% per year?
What will happen if you run out of money?

Running out of money is one of the top retirement stresses, and it is likely that this plays heavily on your parents' minds. The increasing costs of living means that your parents may be eating through their capital quicker than anticipated. While many retirees hope for the best, this strategy will not solve the potential capital shortfall.

Retirees who fear that they have insufficient retirement capital very often fall prey to unrealistic promises that can further compromise their position. Further, focussing only on tax efficiency may lead your parents to run into liquidity problems later in their retirement. This can happen where retirees use up their discretionary savings in early retirement to fund their living costs, leaving them only the funds in their annuity structures to cover their costs later in retirement. This could place them in a position where they have invested capital but are unable to access it.

Do you have a post-retirement budget in place?

Related questions:
Are you living within your means?
Do you have an emergency fund in place?
Are you keeping track of your expenditure?
Are you taking advantage of pensioner discounts?
Is your internet banking set up correctly and secured?

It's important to know whether your parents have a post-retirement budget in place and whether they are sticking to it. If they're not living within their means, this can result in cashflow problems. If necessary, help your parents draft a realistic budget, and set up a system for them to record and track their expenditure.

One way of reducing costs is to make use of pensioner discounts, so you may need to help your parents sign up for these online. The massive move away from personal banking to online banking has left many elderly feeling confused and helpless when it comes to understanding how the new world of banking works, so help your parents set up their online banking, OTP facilities, passwords, and back-ups.

What are your sources of retirement income?

Related questions:
Do you have an independent financial advisor?
Have you had cashflow modelling and future liquidity calculations done?
Is there a chance you will run out of money? If so, when?
Are you appropriately invested?
Are you drawing down at a sustainable level?

The retirement planning profession is relatively new and it is quite possible that your parents have never sought advice from an independent advisor. If not, it is likely that they've never had any cashflow modelling or projections prepared for them, and that they have no real insight into how long their money will last.

If they're invested in a living annuity, it is important to ensure that they are adequately invested to ensure that their chosen strategy is fully aligned with their risk profile and the returns required. It's also important to ensure that they are not drawing too much from their capital. They should determine their various sources of retirement income and understand how their money is invested. Ideally, encourage them to have a retirement plan prepared for them by an independent professional.

Do you have adequate medical aid and gap cover in place?

Related questions:
Which healthcare plan are you on?
Have you budgeted for above-inflationary medical aid increases?
Do you have a living will?
Are you claiming correctly from your chronic condition benefit?

In an attempt to cut costs, many retirees downscale their medical aid or cancel it altogether. Take time to understand exactly what medical aid and gap cover benefits your parents have and ensure that they are using their benefits and the various chronic condition programmes correctly.

Medical aids have changed dramatically from the traditional medical aid plans your parents enjoyed a few decades ago, and are now much more complex. Gap cover, which is a short-term insurance product, is still fairly affordable and many providers have no age limit for joining, so if your parents don't have a gap cover policy in place, consider helping them obtain membership.

Determine whether your parents have a living will in place, and where it is located. This document can prove to be invaluable, especially where a parent is left in a vegetative medical state with no chance of survival in the absence of medical intervention.

Do you have any debt?

Related questions:
Do you have assets that can be realised to settle your debt?
How are you servicing this debt?
Are you incurring more debt?

Having debt in retirement is never good. Determine whether your parents have any debt and to what extent. If necessary, set up a debt reduction plan for them so that they can commit to paying off their debt as quickly as possible. If they are going into further debt to cover their living expenses, urgent intervention is necessary as this is simply not sustainable. In such circumstances, you will need to help them cut costs and possibly look at ways to generate some form of additional income.

What long-term insurance cover do you have in place?

Related questions:
Are your beneficiaries correctly nominated?
Have you calculated the liquidity in your estate to ensure that your estate is solvent and liquid in the event of your death?
Are you over-insured?

If your parents have long-term insurance in place, encourage them to review their benefits and make sure that their beneficiary nominations are still relevant. Determine whether they have any dread disease cover in place as this may be useful cover to have if either of them is diagnosed with a severe illness.

If their life cover is geared to provide liquidity in their estates, ensure that the cover is correctly structured to achieve this purpose.

Importantly, ensure that they are not paying for life cover they no longer need.

Do you have a documented estate plan in place?

Related questions:
When last was your estate plan updated?
Where is your will?
Where do you keep your important estate planning documents?
Do you know who the executor of your estate is, and are you still comfortable with that appointment?

While you do not necessarily need to know the contents of your parents' will, it is a good idea to get assurance that they have a will in place and to know its whereabouts. If your parents haven't updated or reviewed their will for some time, encourage them to read through it to check that it still reflects their wishes. Determine whether they are still comfortable with the person (or people) that they've nominated as executor, and that the document accounts for all their assets.

Remember, if your parents begin to lose mental acuity, they will be unable to update their will, so this is something that should be encouraged while they have full mental capacity.

What would happen if one of you died?

Related questions:
What would the impact on your retirement income be?

How would this affect your budget?
Would you be able to live alone?

If your parents are fortunate enough to still have each other, it's important to have conversations about what would happen in the event of one of them passing. Depending on the nature of their retirement income, the death of the first spouse may impact their retirement income and it is important to understand what the surviving spouse would receive in terms of income going forward. It's also important to understand what living arrangements have been made for the surviving spouse, especially if living alone is not an option.

What happens if you become physically or mentally incapacitated?

Related questions:
Do you have a long-term healthcare plan?
Where would you live?
Have you put your name down at a frail care facility?
Can you afford home nursing?
Who would you grant a power of attorney to?
Have you drafted an Advance Healthcare Directive?
Have you appointed a medical proxy?

Your parents need to think realistically about the possibility that one or both of them may become physically or mentally incapacitated and unable to care for themselves. Frail care assisted living and/or home nursing can be prohibitively expensive, and very often the burden of caring for elderly parents falls on the adult children. Ideally, your parents should take responsibility for putting their names down at a number of frail care facilities or homes to ensure that there is availability if or when the time arises.

If your parents are becoming increasing physically incapable of attending to their affairs, talk to them about a power of attorney. If a parent is diagnosed with a terminal illness, such as cancer or dementia, talk to them about drafting an Advance Healthcare Directive which is an extremely useful document for expressing one's end-of-life wishes and providing loved ones with guidance on how their parent would like to be cared for medically. This document also allows terminally ill parents to appoint a medical representative to make medical decisions on their behalf if they are in a position where they are unable to.

Ageing is stressful and it is important that these conversations are held in a dignified and respectful manner. Allow your parents to express their fears and concerns, while at the same time giving them assurance that you will be there to guide and care for them. Your parent's retirement plan directly impacts yours, so make time to have these important conversations and gain deeper insight into their affairs.

Comment

A very good to excellent article that all of us should read regularly. Especially the frail care planning, testament planning, loss of mental capacity, are important.

Synopsis

Key decisions to be made at retirement

Moneyweb
16 November 2021
By Eric Jordaan - Crue Invest (Pty) Ltd

Image: Shutterstock

The stress that inevitably comes with formal retirement is often exacerbated by the sheer number and complexity of critical decisions that need to be made at the start of this life stage. Importantly, none of the decisions can be made in isolation as they are all inter-connected and form part of a broader decision-making process, which is important to get right the first time.

In this article, we explore a number of important decisions and what to consider in the evaluation process.

Whether to take a cash portion

Being wholly invested in an annuity structure, such as a living or life annuity, can lead to liquidity and cashflow problems later in retirement. This makes assessing your need for discretionary funding an important part of the decision-making process, specifically when it comes to budgeting for larger capital outlays or expenditure. While you may be confident that your annuity income is sufficient to cover your post-retirement living expenses, it's important to prepare a realistic retirement budget that caters for large one-off expenses such as overseas travel, a vehicle purchase, the cost of a wedding, or a grandchild's education.

Through the retirement fund harmonisation process, provident, pension and retirement annuity funds are now subject to the same rules on retirement. While the first R500 000 is free from tax, bear in mind that this is wholly dependent on whether any previous withdrawals have been made from one's retirement funds. It is, therefore, always advisable to request a tax simulation before making a withdrawal to ensure that you fully understand the financial implications of doing so.

Having an appropriately sized and easily accessible emergency fund in retirement is critical. If you don't have access to such a fund, making a cash withdrawal can be critical to your future financial security. Ideally, sit with your advisor so that you can make informed decisions regarding any commutation of benefits and the purpose they will serve in your overall portfolio.

Purchasing an annuity income

As a retiree, potentially the two greatest risks that you face are
(a) outliving your capital and
(b) the value of your capital in real terms being eroded by inflation.
As such, choosing an annuity that is best structured to mitigate these risks is a retirement planning fundamental.

Generally speaking, retirees have the option of purchasing a living annuity, a guaranteed life annuity, or a combination of both, depending on their particular needs and circumstances. It is important to differentiate between the distinctive characteristics of each type of structure.

A life annuity is an insurance contract between the insurer and the retiree, which promises to pay a guaranteed income for life, often inflation-linked. When the insured dies, the policy terminates and there is no remaining benefit available for the deceased's heirs or beneficiaries. As it is an insurance policy, the insurer assumes the investment and longevity risks, while on the downside the insured is left with no financial assets to bequeath in the event of his death.

On the other hand, a living annuity, often referred to as a policy, is actually an investment held in the name of the annuitant, and the annuitant has full investment flexibility when it comes to constructing their investment strategy. As such, the annuitant assumes all investment risks as well as the risk of outliving their capital. In the event of their passing, the capital remaining in the living annuity structure can be bequeathed to their nominated beneficiaries.

As the owner of a living annuity, the annuitant is required to draw down from their investment at a rate of between 2,5% and 17,5% of the fund value per year, and careful cashflow planning and forecasting are critical to ensure that longevity risk is adequately mitigated. A living annuity can play an important estate planning role because the funds held in such a structure are paid directly to the nominated beneficiaries and, therefore, do not attract estate duty. As such, choosing between a life and living annuity, or a hybrid structure, should be considered from both a retirement planning and an estate planning perspective.

Retiring from a retirement annuity

While the retirement age in respect of pension and provident funds is determined by the fund rules, this is not the case when it comes to retirement annuities. Generally speaking, a retirement annuity investor can retire from age 55 onwards, although there is no age limit at which retirement should take place. As such, deciding when to retire from a retirement annuity is a critical part of one's overall retirement and estate planning. Remember, while your funds remain in a retirement annuity structure, the manner in which they are invested is subject to Regulation 28 of the Pension Funds Act, which limits the offshore and equity exposure of your investment. If you retire from your retirement annuity, you have the freedom to invest your funds in a living annuity structure where you can expose your investment to as much risk as you like.

That said, while your funds remain in your retirement annuity, you can continue adding to your investment pot on a tax-deductible basis, subject to certain limits, while your investment enjoys the effects of compounding investment returns. Once you move your funds to a living annuity structure, legislation requires that you begin drawing down from your investment at a minimum of 2,5% per year, and this income is taxed at your marginal rate. As such, it is important to carefully analyse the impact of retiring from your retirement annuity will have on your overall plan to ensure that the timing is appropriate in terms of the broader plan.

Realising your primary residence

Appropriately timing the sale of your primary residence is imperative, not least of all because the decision can be a hugely emotional one which can become more overwhelming with age. Further, if your retirement plan is dependent on some or all of the equity held in your property, getting the timing of the sale right in order to maximise the realised value is essential.

In our experience, many retirees tend to hold onto the family home for much longer than is necessary as they become increasingly reluctant to give up the memories and familiarity of the home they've grown accustomed to living in. The maintenance and upkeep of a family home and garden often become unmanageable for the elderly, which, in turn, affects the market value of the property when they eventually do decide to sell. From a psychological, physical and logistical perspective, realising the family home sooner rather than later is likely to have more favourable outcomes than holding onto a property that has out served its purpose.

Choosing retirement accommodation

Having said that, selecting appropriate retirement accommodation should come hand-in-hand with the decision to sell the family home and, with suitable retirement accommodation in short supply, this is a process that should begin at least five years leading up to retirement. Options for retirement living include downscaling to a smaller freestanding property or townhouse, buying into a life rights retirement village, renting in a traditional retirement home, or communal living with other retirees. There are a number of factors that should be taken into account before making a final decision.

For instance, if your health or future health is of concern to you, a retirement village with frail care or assisted living facilities might be an attractive option. On the other hand, if estate living does not appeal to you, downscaling to a smaller lock-up-and-go retirement home might be more appealing, although you will then need to give careful thought with regard to caring options should your health fail at a later stage.

Either way, choosing retirement accommodation should not be a rushed decision. Our advice is to spend the years leading up to retirement doing due diligence on the options available to you, including the longer-term implications of your choice.

Deciding when to travel

When it comes to retirement planning, travel is something that many retirees aspire to and budget for. Further, more and more retirees have adult children living and working abroad, making overseas travel a retirement goal. However, what many retirees fail to consider is that particularly international travel becomes more and more difficult with age.

The onset of illness, compromised physical mobility and/or mental impairment can happen quickly and, as such, it's advisable for retirees to take advantage of their good health to enjoy travel in the earlier years of retirement. As a result, when it comes to developing your retirement plan, it is important to ensure that the costs of travel are built into your post-retirement budget on a realistic timeline so that you can enjoy travel while you are physically still able to do so.

Comment

Another good article to reread regularly. Note the diminished mental capacity, frail care and testaments.

Synopsis

How new legislation affects your retirement

Moneyweb
17 November 2021
By Willem Basson - Efficient Wealth

Image: Shutterstock

Changes to retirement fund legislation are placing more and more demands on the trustees of these funds but at the same time, creating benefits that members can use to their advantage. Willem Basson from Efficient Wealth speaks to Kobus Sadie regarding these changes and how it affects your retirement.

How have retirement legislation changes affected trustees of retirement funds?

Sections 7C and 7D of the Pension Funds Act (Act 24 of 1956) deal with the fiduciary duty of retirement fund trustees. In recent years, the emphasis has been increasingly on what exactly these duties are and how they are performed. Not only is the FSCA concentrating more on the duties and skills of trustees, but members' knowledge and expectations of trustees have also increased significantly.

New legislation is being announced regularly, which is putting increasing pressure on trustees. One example of this is the default regulations that came into effect on 1 March 2019.

These regulations stipulate that each retirement fund must have a default investment option, as well as an option to preserve the fund's value when an employee leaves the employment of their employer. The regulations further require members to be given investment options at retirement.

What are the possible options that members have when they retire?

Many retirement funds have decided to offer only one option to their members at retirement, namely a life annuity (lifelong pension), which is purchased from a registered insurer. In most cases, the cost of the pension is the only difference for the pensioner to consider: to buy the annuity themself or to use the trustee-approved option.

With a life annuity, you waive your capital in exchange for a lifelong income. The disadvantage of this is that you will not be able to bequeath anything to your heirs. In some cases, depending on a member's personal circumstances, this may be the best option.

What about a living annuity within the retirement fund?

The advantage of a living annuity within the retirement fund is that trustees can monitor the investment costs and can provide retiring members with continuity, by allowing them to retire in the same fund options in which they were invested while in the employment of the employer.

This option also has its shortcomings:

Firstly, the investment options are restricted by Regulation 28.

Secondly, Section 37C of the Pension Funds Act applies, which means that the trustees of the retirement fund have the final say about how your death benefits will be distributed.

Thirdly, your withdrawal rate in this living annuity is much more limited than with a living annuity outside of the fund. If you are currently withdrawing the maximum amount suggested by the FSCA and you suddenly have a large, unexpected expense, there is no way to gain access to more money.

What other options do members have?

Fortunately, there is a solution that can avoid most of the shortcomings of the various in fund retirement options. A living annuity outside of the retirement fund has many advantages, including that Regulation 28 and Section 37C do not apply. As a member, you can withdraw 2,5% to 17,5% of your capital on the anniversary of a living annuity. With an unexpected expense, you can withdraw up to the maximum (17,5%) on the anniversary date for the year in advance. It is also possible to readjust the withdrawal percentage downwards in the following year.

That being said, it is important to seek financial advice first because if your withdrawal rate is too high, your capital will not be able to finance your retirement in the long run. The establishment of a living annuity can be negotiated with an approved financial services provider (FSP). The FSP will table proposals regarding the best administration platform and asset managers and will also negotiate the rates on behalf of the trustees. A complete solution will then be submitted to the trustees for consideration and approval.

Although the default regulations placed extra obligations on trustees, they have also led to many innovative and low-cost products that trustees could make available to their members.

Comment

Some information to consider. The value of a professional advisor is often overlooked and should be part of your financial planning.

Synopsis

Tongaat's bitter capital raise

18 November 2021
INCE|Community
by The Finance Ghost

Due to social unrest in KZN earlier this year and other operational challenges, Tongaat's R450mn in proceeds from the disposal of the starch business to Barloworld has been used for liquidity purposes and not to reduce debt as was originally hoped.

This leaves the group with a balance sheet that has a hole in it. As it turns out, a R4bn hole that will be partially plugged by a Mauritian investment holding company called Magister Investments. The market cap of Tongaat is only worth R1bn, so to call this rights offer "dilutive" would be the understatement of the year.

This is just a clever way for the Mauritian company to take control of Tongaat without having to make an offer to all shareholders. By partially underwriting the rights offer (up to R2bn in exchange for a 1,5% fee) and with a condition that Magister's stake cannot exceed 60% after the rights offer, the Mauritian entity is likely to move from a stake of 0,15% to a controlling position.

Shareholders representing 38,6% of Tongaat's issued shares have either provided irrevocable commitments or letters of support for the transaction. This gives an idea of the state of the balance sheet.

There's a harsh lesson here for punters on the market. Tongaat's share price mysteriously started running on 8 November. A cautionary announcement only came out on 10 November, two days before the share peaked at R9,84, up a whopping 32% in the space of a week.

After closing yesterday at R7,38, 25% down from that peak, some people have learnt the hard way that chasing rumours and positive momentum doesn't always work. I wrote back in July in InceConnect that a capital raise could be on the horizon, so the risks were clear to those willing to take a proper look at the company.

Comment

We have about R453,6mn in Tongaat. The actual control of Tongaat should be interesting to follow. As to ROI and similar stuff if the Mauritius company takes over control? We'll have to wait and see.

Synopsis

Photo: Leon Nicholas.

IOL
18 November 2021
By Edward West

Liberty Holdings said yesterday that it anticipated the deal for Standard Bank (SBG) to buy 100% of the insurance and investment group to be finalised in the first quarter of 2022.

SBG and Liberty had enjoyed a "special relationship" since 1974, Liberty said in an operational update for the nine months to 30 September. "The proposed transaction represents a natural progression in this special relationship, increasing the integration and ability to collaborate to provide the best financial service offerings to clients through the most efficient means."

Liberty said positive sales trends seen in the first half of 2021 continued into the third quarter. Its Covid-19 pandemic reserve was being reassessed due to the 2020 and 2021 reserve being deleted from high mortality claims.

Group long-term insurance indexed new business sales for the nine months of R6,8bn increased 30,9% over comparative period, due mainly to R5,97bn of SA Retail indexed new business sales having increased by 29%, underpinned by good growth in recurring embedded banking, risk and investment product sales and growth in single premium conventional annuity and Evolve investment plan sales.

The mix of new business sales and margin remained a challenge.

Liberty Corporate indexed new business of R567mn, which was 57,5% above the comparative period, with good recurring and single premium growth. Liberty Africa Insurance indexed new business of R266m, was 27,9% above the comparative period - group life assurance, funeral and pension business in the Kenya and Botswana operations increased.

Group mortality claims increased significantly in the third quarter due to the severity of the third wave of the Covid-19 pandemic in South Africa and subsequent waves in other African territories where the group operates.

The pandemic reserve set aside in 2020 and 2021 had been utilised to absorb the relevant risk experiences across SA Retail, Liberty Corporate and Liberty Africa, and qualifying pandemic-related expenditure.

The risk component of the pandemic reserve was depleted by 30 September 2021. In addition, risk claims that were not covered through the pandemic reserve and not anticipated in the pricing of these books of business had been incurred.

Reassessment of the prospective pandemic reserve was under way, taking account of the possibility of further waves, progress with vaccination roll-outs and other developments relating to the pandemic.

The group remained well capitalised.

Comment

We have about R50bn in Standard and about R1,5bn in Liberty. This deal should increase our holding in the 'new' Standard to about R51,5bn.

Synopsis

South Africa's state pension fund reluctant to use new powers to boost offshore investments

GEPF CEO Musa Mabesa. (Photo: Supplied) (Photo: Simon Dawson / Bloomberg via Getty Images)

Daily Maverick
By Ray Mahlaka
18 Nov 2021

The GEPF can increase a portion of its assets in offshore-based asset classes such as company shares and bonds. It refuses to do so, saying it is backing SA's economy. But not all its investments in the domestic economy have worked out.

Africa's largest pension fund firmly believes in SA's economy and investment opportunities, saying it still generates decent returns from the country and any moves to offshore markets would have to be carefully considered.

The GEPF has revived a long-standing plan to reduce its dependency on the SA economy and the JSE for financial returns by reviewing its asset allocation strategy, which mandates the way it invests its assets.

The GEPF is the biggest investor on the JSE and if it shifts more investments into offshore markets [even by 2%] it would spark a major outflow of funds from the local exchange, given the pension fund's enormous scale. It would cause more disruptions at the JSE at a time when it faces a smaller universe of companies that have the appetite to list on the exchange.

Musa Mabesa, the GEPF's CEO, said the pension fund had concluded discussions with the National Treasury about making changes to its investment mandate, the first step in making more investments into offshore markets possible. But the GEPF Board is still in talks with the PIC about whether this is necessary and how to effect more allocations into foreign-asset classes.

There are already changes in the GEPF's investment mandate as its allowable exposure to investments outside SA has been increased from 10% to 15%. This increased threshold is relatively small compared with the allocations of other private-sector pension funds, which can invest up to 30% of their portfolios into offshore markets.

But the GEPF is still conservative in its offshore investment approach as it is not even taking advantage of the 15% allowable threshold. The GEPF's offshore investment portfolio (mainly foreign, rest-of-Africa shares, and bonds) made up about 8% of its total assets, according to the pension fund's 2020/21 annual report.

GEPF's local and foreign asset classes, and allowable threshold into the asset classes

Asset classes	Guideline %	Actual % At 31 March 2021
Cash and money markets	0-8	2
Domestic bonds	26 - 36	33
Domestic property	3 - 7	3
Domestic equity	40-55	54
Africa (ex SA) equity	0-5	1
Foreign bonds	0-4	1
Foreign equity	**1-5**	**6**
Total	**100**	**100**

Source: GEPF 2020/21 annual report.

Since it was founded in 1996, the GEPF has largely invested in SA's economy, opting to invest a large portion of its assets (54% — see graphic above) into JSE shares including Naspers, MTN, Vodacom, FirstRand, Sasol, and many others.

"The extent of the GEPF's influence on the SA economy is huge. If we were to move the bulk of investments out of SA, it would have a devastating impact on the economy because of the sheer size of the GEPF. We are sensitively managing how we go about this transition," Mabesa said in a briefing with journalists about the pension fund's annual report.

"The bias towards SA [in terms of its investments in the country] has worked well for us. Our results are a testament to this."

The local equity (or shares) market, as measured by the JSE all-share index, generated annual returns of 48,4% for the GEPF's investment portfolio during its financial year ending 31 March 2021. Although it has generated positive returns in SA, not all companies that the GEPF is invested in through loans extended worked in its favour.

Entities associated with politically connected individuals, including Iqbal Survé and others, were again responsible for impairments in the GEPF's investment portfolio, resulting in billions of rands being written off. Investments into these entities have soured because they are financially distressed and cannot pay back loans extended by the PIC on behalf of the GEPF.

The GEPF wrote off bad loans to more than 30 entities totalling R7,4bn during its 2021 financial year, down from R11,9bn in 2020. The GEPF's impairments made up 15% of its total loan book of R49,7bn.

The biggest write-off is a loan linked to the Land Bank (a state-owned lender that has defaulted on debt payments), with the GEPF writing off R3,5bn. Other big loan write-offs include Independent News and Media SA (linked to Survé), amounting to a further R187,8mn (R112,5m in 2020); Belelani Capital (write-off of R1,2bn); S&S Refinery (R133,7mn); and Smile Telecoms (R122mn).

Asked how the GEPF plans to reduce the level of "concerning" impairments, Mabesa said: "We have urged the PIC to get involved in the investee companies themselves and try and understand the root cause of challenges that lead to impairments and see how they can be assisted with a turnaround plan."

Comment

The GEPF suddenly disinvesting from the JSE would cause the JSE to disintegrate, however, selling off over time wouldn't as there always be a willing buyer. And the 'bulk' of the investments wouldn't be moved, only a maximum of 15%, which would be double what it is now.
As long as SA investments provide adequate ROI there is no real reason to invest outside SA. Good investment practice means following where the ROI is good, meaning outside SA when necessary. Needs clear thinking and planning.
I'm uncertain about the 48,4% annual return figure, this is in the realm of fantastic and should have investors slavering to follow the GEPF/PIC investments to make the same ROI. It should have increased our total Fund value to over R3trn before impairments, write-offs, etc, not so?
15% of the loans being impaired relates directly to a lack of due diligence undertaken before approving such loans?
There is a lack of detail in the AR about the legal action taken to recover the 'bad' loans.
Note the reference to Survé in impairments and continued loan write-offs [Independent News and Media SA (linked to Survé)] *in 2020 and 2021.*

Synopsis

Analysis: South Africans must defend PIC till the bitter end – failure could cost us the country

Daily Maverick
By Dirk De Vos
22 Sep 2017

Various reports have emerged that the CEO of the PIC has been targeted for removal from his post. That has been denied but, like Pavlov's Dog, we are conditioned to the same tedious rigmarole of removal/suspension of those in the way of President Jacob Zuma's looting. It starts, as always, with the emergence of some "report" of malfeasance and the mechanics then play out with the same result at the end. The hurdle is removed and Zuma puts the Gupta-selected crony in his/her place. By DIRK DE VOS.

Cracking open the GEPF requires a sequence of such processes. Replacing the former Finance Minister and his deputy with the equally compromised Malusi Gigaba and Sifiso Buthelezi was the first step.

Fund members and employers (various government departments) are equally represented on the Board of Trustees. At present, two independent specialists serve as trustees, supported by two independent specialist substitute trustees. A key position is the Principal Executive Officer who guides the board in meeting its fiduciary and oversight obligations. This position is now held by Abel Sithole, who replaced John Oliphant in 2013 after Oliphant was dismissed in 2013 for reasons that are not yet clear.

The Principal Executive Officer also represents the fund on policy issues, has the overall responsibility for financial reporting and disclosure, consolidating and amending the fund's rules and valuating liabilities and assets. Unlike private pension funds, which invest savings only in the interests of their members, the GEPF Law provides that the fund's board, "acting in consultation" with the Minister of Finance, shall determine the Fund's investment policy.

The actual investing is done by the PIC, operating as an asset manager..

The only executive members of the Board are the CEO, currently Dan Matjila, and the CFO, Matshepo More. Like any other SoE the opportunities for political meddling in the composition of the Board are obvious.

At present, the PIC manages four distinct funds:

- **A fixed-income fund made up of largely government and SoE debt;**
- **An equity fund, making it the largest investor on the JSE;**
- **A property fund;**
- **And something called the Isibaya fund which** provides finance for projects supposedly for long-term economic, social, and environmental outcomes.

The PIC discloses very little about Isibaya and it is here where the PIC's more controversial investments have been made.

The ability of the GEPF to remain fully funded requires a continued prudential and largely passive investing strategy.

To take account of these various swing factors, the cautious thing to do is to provide for them by building in reserves. How large these reserves should be is a matter of debate, but for a fund like the GEPF, it could be as much as half of the value of current assets under management. On this measure, the GEPF is still underfunded. To put it in non-financial terms, the GEPF looks okay provided nothing goes wrong.

It is hard to overestimate the importance of the GEPF in the South African economy and indeed its financial system. The funds managed by the PIC represent over 12% of the total market capitalisation of all shares on the JSE. Given that around 40% of JSE-listed shares are held by foreigners, the PIC's share is as much as 20% of all locally held JSE-listed shares.

On behalf of its clients, the GEPF holds three-quarters of all listed bonds issued by various SoE, mostly those issued by Eskom. In addition, the GEPF holds direct SoE debt. In general terms, these too have been great performers. As the creditworthiness of the SoE and especially Eskom has declined, the interest rate or the yield of its debt has gone up, pushing up returns, but big risks remain.

Now suppose for some reason (choose any) the JSE all-share index fell by 15% (some analysts would call that a correction) and some SoE debt held by the GEPF, whether guaranteed or not, became unpayable. Almost instantly, the government would have to raise contingent liabilities by over R100bn just for the GEPF. The same circumstances giving rise to this scenario might well mean that what are represented as contingent liabilities become directly payable and have to be financed by raising more debt from willing borrowers at terms they might impose.

Suppose further that domestic economic conditions deteriorate even more, with no sign of recovery, forcing the government to retrench a large number of public servants into an economy that itself is shedding jobs. Under these circumstances, the unfortunate retrenched workers will be looking to draw on their pensions just to get by. What then?

Although the government has a legal obligation to the GEPF to fill in the shortfalls, pensioners will discover they represent just one of a range of competing demands for limited public resources. One scenario played out in several countries like Argentina and Greece after the 2009 financial crisis.

The GEPF could potentially try to liquidate some of its investments to meet current claims, but that could send the whole market tumbling down as the biggest shareholder on the JSE tries to dump its shares. That strategy would also harm currently contributing members. It could also seek default on pension promises by delaying pension payments and couple that with failing to index benefits to inflation. What actually happens depends on whether the government is able to rely on external debt financing from a lender of last resort, essentially the IMF. Outcomes are also politically determined by the power of the pension fund members themselves.

None of the above remotely touches upon the human and political toll that would almost certainly accompany an unravelling. South Africa can't even deal with the violence, destruction and chaos of regular public servant wage strikes. A proper unravelling would be brutal and almost certainly bloody. Could we even emerge from it as a constitutional state?

The message here is that we should recognise the essential fragility of the government pension fund system; that its fragility holds direct risks not just for its members but for the country as a whole, and that its outperformance over the past few years under the PIC was significantly due to external factors of stock market appreciation driven by low interest rates and SoE that can either pay their debts as they fall due or refinance them.

The advice to the political class is simple:
Don't mess with it.
Don't even think about it.

It's not a piggy bank to be broken open. To the members of the GEPF, directly or through the unions: make sure your representatives on the board are watching the PIC's every single move and that there will be no diverting of funds into projects that are not in the interests of the members.

One could take the advice of *Financial Times* journalist, John Gapper when he wrote: "Here is a simple guide to South African due diligence: avoid the Guptas, the Zuma family and state-owned enterprises over which they exert any influence."

Longer term, let's amend the legislation governing the GEPF, granting it full independence that might include the full freedom to select its own manager and to change it if it chooses. The PIC for its part needs to be far more independent from potential political interference. Perhaps its board needs to be selected like other Chapter 9 institutions who in turn appoint management against criteria focusing on proven skills. It's not a fail-safe process, as we have seen, but it is better than serving at the pleasure of the Finance Minister, whoever he or she might be.

Comment

Note the date. So very applicable right now.

Synopsis

Why the PIC's Private Equity arm cannot be private

Daily Maverick
By REUTERS/Siphiwe Sibeko
By Dirk De Vos
19 June 2018

The legal suit filed by Bantu Holomisa's UDM demanding that Finance Minister Nhlanhla Nene suspend the PIC CEO, Dan Matjila, could be an important step to recovering some level of accountability but government employees and taxpayers should not let this distract us from the changes that need to be made.

At present, parliament is considering a bill which would require far greater levels of disclosure, particularly in the PIC unlisted investments. Progress on this bill suffered a setback at the beginning of the month when Treasury sent a letter to the Finance Committee considering the bill. It objects to the disclosure requirements for unlisted investments for reasons that are not convincing.

At a hearing before SCOF in which investigative journalism unit amaBhungane motivated for greater disclosure, committee chair Yunus Carrim argued that disclosures such as minutes of investment decisions can't be made public in a market economy. At the same hearing, Matjila argued that the PIC could not be put at a disadvantage to the private sector and the PIC would need the permission of the private companies in which it invests in any event.

Matjila's argument was one which called for a level playing field between the PIC and private sector competitors. The push-back on greater disclosure had the support of the ANC and the EFF. The EFF's Floyd Shivambu claimed that it is the PIC that makes it possible for black South Africans to participate in the economy, presumably by accessing funding, and that it is being unfairly targeted.

The arguments that would shield the PIC from greater scrutiny are plainly wrong because the premise of that argument is fundamentally flawed.

Most of the controversial or dud investments such as Independent Media, AYO Technologies, Erin Energy, VBS Mutual Bank, S&S Oil Refineries and the company that Holomisa's suit claims allegedly paid off Matjila's alleged girlfriend's loan, are housed in the Isibaya Fund. This fund, according to the PIC's website, provides finance for projects that generate financial returns while also supporting positive, long-term economic, social, and environmental outcomes for South Africa. The emphasis on investments with a developmental focus demonstrates the PIC's commitment to the country's growth and development aspirations. As an asset class, it would be in the nature of private equity (venture capital is a special subsection of private equity).

A large source of investors (to become limited partners) are the pension and provident funds, strictly regulated in terms of the Pension Funds Act.

The PIC's main fund is the GEPF, representing 90% of all funds under management. The GEPF is not regulated by the Pension Funds Act but under a different and less adequate regime. The GEPF doesn't have a regulation 28 but within the PIC there is something similar. Investments in unlisted companies though the Isibaya fund cannot be more than 5% of total assets that the PIC manages.

On the face of it, Isibaya might be seen a just another private equity fund trying to compete in the market with its private sector peers and therefore should not be at a disclosure disadvantage. But that would be wrong.

With around R1,9trn under management, the PIC is by far the biggest investor in the country and 5% still represents a fund size of R95bn. By way of comparison, Ethos Capital's Fund VI, a very large fund for private equity in South Africa, raised R8,6bn in 2011 before it closed and commenced investing. The problem is that if IsiBaya is used as some sort of slush fund for the politically connected and makes investments without proper due diligence, the losses can be washed out by the performance of the traditional investments that represent 95% of the PIC's funds under management. The PIC simply reports at an aggregate level and the performance of IsiBaya cannot be assessed on its own terms.

While private sector pension fund members are in a somewhat similar position in relation to exposure to private equity, the private pension funds definitely hold private equity general partners to account. Private equity professionals generally have specific skills that are deployed in the companies in which they invest. They are a breed apart from regular asset managers who focus their efforts on listed shares or even listed debt instruments. Private equity managers are supposed to be very involved in the actual operations of the companies in which they have invested.

If a private equity fund invests in a series of duds or is otherwise unlucky, everyone gets to see the extent of the wreckage at worst when the fund period terminates. In these instances the managers also lose their own investments in the fund. If a private equity fund blows up (as they regularly do), the general partners' reputation takes a big knock. One consequence is that would struggle to raise any additional funds, even if some good lessons were learned. These managers then have to dust themselves off and get a regular job or do something else with their professional lives.

It is not clear what the situation is at Isibaya. Unlike private equity funds, it is an open-ended fund. It does not have the discipline of a ten-year period within which to produce its investment returns. There are several questions that one could ask:

Who are the Isibaya fund managers?
What are their skills and experience?
Do they have a track record?
How these investment managers remunerated?
Do they have to invest their personal funds alongside the GEPF funds?
Is there a set period, say every ten years, over which performance is assessed?

Perhaps the most important question is this: If the investments made by the Isibaya fund perform poorly so that the value of the assets under management falls below the 5% permitted threshold, do they get additional funds to get it back up to the 5% level? If they do, the 5% limit means little as losses get to be replenished with transfusions of additional funds properly belonging to the GEPF members.

In short, the GEPF is different due to its size and the fact that it is regulated differently. Current regulation allows failure to occur at IsiBaya, potentially forever. The deflection of greater accountability for IsiBaya investments being the performance of the PIC as a whole is wrong. The correct measure, therefore, for the PIC is not how it performed against the rest of the market but how it could have performed without the IsiBaya fund.

Elsewhere in the world, private equity is coming under greater scrutiny which is seeing greater regulatory oversight and disclosure requirements. There are arguments both for and against this trend.

As an asset class, private equity works because regulation of the sector is lighter. But fewer disclosure requirements do not mean a lack of accountability. If the PIC, supported by National Treasury and politicians, want to make the case for a level playing field with the private sector for disclosure, then the PIC's IsiBaya fund must account for its performance as a stand-alone entity. If that is not possible, then the only way that GEPF members and taxpayers (who would have to foot the bill if the PIC ever underperformed) can be sure that it cannot be repurposed into a slush fund for the politically connected, is far greater disclosure about the investments it makes, how it came to the decision to make them and the consequences flowing from losing investment funds.

Comment

As clear today as when it was originally published, note the date.
Our Fund's investments must always be to the advantage of its members and beneficiaries first and foremost, with any other considerations subordinate.

THE GEPF WATCHDOG/WAGHOND FACEBOOK PAGE

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 to expect 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!

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 GEPF Annual Reports 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 58 000 members and continually growing, but this isn't enough. However, the 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".

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.

VRYWARING

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