Association for Monitoring and Advocacy of Government Pensions (AMAGP)

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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 your investment, your future

NEWSLETTER NO 7 of 2021

AMAGP – Association for Monitoring and Advocacy of Government Pensions
BOT – Board of Trustees [of the GEPF]
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOE – state owned entities

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1,2 million active members, around 406 395 pensioners and beneficiaries, and assets worth more than R1,6 trillion. https://www.GEPF.gov.za/

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

Please take a while again to really consider what the all-volunteer AMAGP is all about and is actually and continuously achieving. We need you to inform and motivate all the Fund members you know to join the AMAGP, to strengthen our voice when promoting the sustainability of your pension. We need many many more AMAGP members, not just on the Facebook page. Keep in mind the Fund has about 1 600 000 members, of which about 400 000 are pensioners and the other about 1 200 000 are still working and contributing members. No, AMAGP isn't a trade union and has no membership fees: read the very first sentence at the top of this page please.

The Editor's Word

I am a voracious reader, especially of science fiction. I found this gem in one of L.E. Modesit's books, Adiamante [p150]; very appropriate to the challenges we face with the 'government' and our Fund:

> *"Power attracts those who are corrupt. … power attracts and creates equally great corruption. No society has ever lasted in the form that exercised such power, because that much power is far more attractive to its members than the moral restraint necessary to maintain a functioning society. That's because no society can contribute when every member insists on receiving back more then he or she contributed. The exercise of power requires that those in power receive more than they contribute, and that means all too many others feel cheated, and fewer and fewer will abide by society's rules."*

Fits in well with the De Klerk Foundation's article below.

African Equity Empowerment Investments has been advised by UK telecommunications firm BT Group, that it intends to exercise its option to repurchase a 30% stake in BT Communications Services South Africa. The option is being exercised following the decision to terminate its relationship with the Sekunjalo Group. Sekunjalo is really under siege!

The Fund's investments are extremely wide and diverse, in so far as it is made known in its annual report. It is extremely difficult to make sense of all as the scope of the investments is so wide. It also implies a dauntingly wide span of control to manage and monitor the multitude of investments. It isn't a one person job, it takes a large and competent staff. In this respect I sincerely respect the staffs at both the Fund and the PIC to keep all this together.

It is again newsworthy: the ANC owes SARS about R80mn in taxes and is employees' provident fund aboutR140mn. According to the ANC's employees, the tax and provident [pension] fund was indeed deducted from their salaries but not paid over. Makes you wonder what the money was used for … The employees also haven't been paid their most recent salaries yet. In a cost saving process those approaching retirement are probably going to be let go, leaving the question of how their pension is going to be paid. Take note, those civil servants who aren't concerned about their pensions, of the example the governing party is setting for its employees and, by implication, Fund members.

The beauty of using "investments" by pension funds is that poor ROI can be carried for 10 years and longer, because pension funds invest for the long term. Thus poor investments can 'hidden' just about forever. This has been visible as well as avoidance of accountability with the Isibaya and other investments.

Now as to the newsletter contents below …

The Business Day editorial summarises the lack of news and urgency from the PIC about implementing the Mpati Commission's recommendations. Remember it is our Fund's investments we are concerned about.

The FW de Klerk Foundation has a gloomy assessment of the ANC, Ramaphosa and 'government'. Very real issues I believe, pointing to low ROI on our Fund's investments for the foreseeable future.

The Financial and Fiscal Commission, in a Business Tech article, explains how the 'government' decision to depend on personal income tax as a main source of revenue while pandering to corporates, has resulted in decreasing revenue. This decrease caused by a decreasing tax base due to low economic growth, COVID increasing unemployed sharply, of course massive 'government' overspending and state capture. End result is no money to balance even a modest budget. Again causing doubt on the ROI for our investments

Todays Trustee once more informs us of progress with the draft for changes to Regulation 28 of the pension funds legislation, which the GEPF BOT voluntarily ascribes to. It seems legislation is the preferred answer to a 'government' problem, instead of solving the root causes of the problem.

We have Harith in the media explaining how it is going to expand Lanseria airport to offer more. In the same media release it brags about its investments in Africa and intentions to add $billions more, which will have to be funded by lending [from …]. One of the Fund's investments about which little is known of its ROI.

The rest of the newsletter is taken up by various versions of the 'government's' vanity project, the SAA. It seems if a consortium is being gifted 51% of SAA, said consortium consisting of Harith and Global Airways. Said vanity project subtly hinting at about R3,5bn/year still to be raised, source of the contribution not mentioned but we can think and speculate, can't we.

We start with Gordhan's press release giving us the good news of the vanity project's progress and new existence.
Takatso owns 51%, 'government' 49%, and 'government', it seems an additional 'golden share' of 33%. Meaning the 'government', in reality, retains control of SAA.
Takatso consists of: Global Airways, a reputable aircraft leasing company; and Harith, which seems to be a large player in Africa using other people's money, such as PIC/GEPF and the Pan African Infrastructure Development Fund [which Harith established for itself with a loan from the PIC].
The CEO of Takatso, Gidon Novick, was co-CEO of Comair, founder of Kulula, and the new Lift airline.
Some of the Takatso directors seem to have obvious links to the ANC cadre deployment.
The PIC confirmed its 30% shareholding in Harith, the same media release containing self-excusing statements by Harith of high fees in managing our Fund's funds.
There are many unanswered questions all of them about the money. Who is going to fund the new! SAA!
Just to get and keep SAA going is costing us, the taxpayer, about R21,4bn over the next 3 years, excluding Takatso.
To be continued in the next newsletter.

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Synopsis

EDITORIAL: PIC must come out of hiding

Business Day
25 May 2021

The PIC seems to have receded into its shell when it comes to providing an update on the numerous developments it has undertaken to improve its image and restore faith in the organisation.

To be sure, there is a lot going on at the PIC. Besides the small task of overseeing nearly R2tn of state workers' pensions through a global pandemic, the investment manager also has a lengthy "to-do" list provided to it through the nearly thousand page report produced by the Mpati COI. The report opined on everything from the organisation's structure and internal processes to a forensic review of questionable transactions.

Work began reviewing the structure while the Commission was still busy with hearings in 2019. Very little is known about whether changes have been made to overhaul and modernise the structure that would enable the PIC to become a more effective custodian of the vast resources it manages.

A topic of disharmony revealed in the inquiry, was the remuneration of employees, both base salaries as well as the performance bonuses. The Commission tasked the PIC with drafting a clear policy on how employees should be compensated.

Heading the list of issues in which there is obvious public interest, is an update on the litigation the PIC has initiated to recover money it believes was owed. Most notably in the case of the R4,3bn investment for a 29% stake in Ayo Technology Solutions. Almost all of that has been lost, with the whole company now valued at just R1,9bn.

There are other instances where the public ought to be updated on progress the company is making to recover what is essentially public money. This includes the hundreds of millions the PIC is owed by Sekunjalo Independent Media (SIM), a company controlled by Iqbal Survé, for whose liquidation it applied as far back as November 2019. Has this been successful?

But these were by no means the only questionable and controversial loans.

The other legacy concerns people. Several people named directly at the Commission in relation to the mismanagement at the PIC have not been accounted for. This includes the CFO, Matshepo More, who was suspended on full pay two years ago. What is the status of her employment? What, if any, charges is she facing?

The fates of a number of executives at the PIC, who were not directly implicated in wrongdoing but seemed to oversee divisions and units in which numerous questionable transactions were entered into, also are yet to be determined.

If these executives were coerced or overruled by Matjila or others to advance or approve questionable transactions, then it should be publicly stated. Other serious investigations were to be undertaken, including to assess whether employees' conduct had transgressed the fit and proper guidelines established by the FAIS Act, including for Matjila.

A transaction that never even made it to the Mpati Commission involved how the PIC blew about R1bn funding Musa Group, a private equity company founded by two Americans. When it emerged that an inquiry into the 2015 transaction had been quietly dropped, the PIC showed no inclination to be open with the public. It's the opposite of what the PIC needs as it seeks to restore its reputation.

Without greater transparency, it'll be hard to convince the public that the era of Abel Sithole, who was appointed CEO just less than a year ago, marked a genuine step forward.

Comment

Clearly it isn't public money as Business Day wants us to believe, it is our – the Fund's members and beneficiaries – money. However, it doesn't make the comment invalid.
The matter of the suspended CFO, for two years at what cost?

Further comment by Christo van Dyk:

The saying comes to mind ... What you allow is what will continue. The GEPF, when the Mpati report came out, immediately

- *claimed they (the GEPF) did nothing wrong;*
- *emphasised Mpati focussed on the PIC.*

Notwithstanding Mpati's focus, the judge had an unflattering finding about the GEPF i.e. the LACK OF URGENCY displayed in normalising their IMA with the PIC (paragraph 48 on page 678 of the Mpati report). In view that the IMA has still not been tightened up and finalised indicates that its business as usual at the GEPF.

Remember the interim report following a review of the IMA was already due in June 2020. We don't even know if this deadline was actually achieved! Where is this interim report?

To add insult to injury, the GEPF does not feel obligated to keep their members informed of the next steps as per Mpati.

Synopsis

ANC CORRUPTION, FACTIONALISM AND RADICAL POLICIES LIKELY TO CONTINUE

FW de Klerk Foundation
By Stef Terblanche
27 May 2021

It was the 15th century master interpreter of political cunning and deception, Niccolò Machiavelli, who wrote: "Men will not look at things as they really are, but as they wish them to be - and are ruined".

He may as well have written that as a warning to exasperated South Africans hoping for or believing we are at the start of a post-Zuma and Magashule era of new hope and prosperity that will be without corruption, minus the paralysis caused by factional fighting in the ANC, and rid of the spectre of radical populist policies.

Think again, and don't read too much into what you think you are seeing happening. I hate to be the bearer of bad tidings, but even if Jacob Zuma and Ace Magashule may be on their way to political oblivion or worse, nothing else is likely to change much for the better. Many commentators, mostly without any proof in my opinion, have, for instance, interpreted the fates of Zuma and Magashule as a major blow for the faction supposedly advancing radical economic transformation (RET).

What happens to RET?

It may be a setback for the concerned faction, yes, but not necessarily for RET. The truth is, the fight between the governing ANC factions aligned with either Cyril Ramaphosa or Zuma/Magashule had little to do with reform or renewal and taking South Africa to a better space. It had much more to do with who gets to hold the steering wheel on the drive down the road to ruin - but for different reasons.

With the demise of Zuma and Magashule, RET will not miraculously be off the table. In fact, as the central element of the second phase of the ANC's national democratic revolution - official ANC policy and strategy courtesy of the SACP - RET will rather be intensified and expanded. That much we have already seen, coming from President Ramaphosa himself. And lest we forget, major elements of RET were adopted at the 2017 national conference as official ANC policy, with Ramaphosa bound to its implementation.

To have called one faction the RET faction is a misnomer. To both factions the official ANC policy of RET was/is simply a means to an end in the dynamics of the battle between them. For the Zuma/Magashule faction it was a populist, rhetorical slogan and thus a mobilising tool to regain power and the keys to the state's piggy bank and goody cupboards. For Ramaphosa and company it is a political and ideological strategy with which to strengthen the undisputed ruling, as opposed to governing, grip of the ANC for generations to come, and something in which his key backers, the SACP and COSATU, are heavily invested.

Can Ramaphosa redeem the ANC and himself?

There is still an outside chance that Ramaphosa may redeem himself (and the ANC) and wriggle his way out of this ideological straitjacket. But don't hold your breath as there's no concrete evidence of that at this stage.

He made all the right noises, promising to end corruption and factionalism, implement economic reform, and return the economy onto an inclusive growth path. It was also Ramaphosa who displayed "strategic patience" to apparently slowly bring on board the factions and Alliance partners that were seen blocking any perceived moves towards a more dynamic, liberal economic strategy.

And it was Ramaphosa who always appeared to attach the sober moderating qualifier to the ANC's wilder statements around expropriation without compensation (EWC) and other RET policies adopted in 2017. As a shrewd politician who keeps his cards close to his chest, Ramaphosa is something of a political artful dodger or chameleon. He has managed to put different spins on a wide range of issues, tailoring them for different audiences. The issues included RET, structural economic reforms, EWC, nationalising the Reserve Bank, and a new economic policy/strategy.

None ever seemed overly disappointed with Ramaphosa or his message… because it was tailored to their expectations.

Economic blueprint for the future

RET is the ANC's economic blueprint for the future. Nothing came of Ramaphosa's promised structural reforms or new economic strategy. Finance Minister Tito Mboweni's effort in this regard was quickly squashed and replaced with a gobbledygook strategy concocted by members of the NEC and advanced by Ace Magashule, only for it too to be replaced by the current economic reconstruction and recovery plan, containing rehashed old ideas.

However, Ramaphosa himself set the precondition that a capable state, with an efficient and professional civil service, is an important enabling factor without which this plan will not succeed. And it was Ramaphosa himself who then placed that very obstacle in its way and contradicted himself when he later told the Zondo Commission of inquiry into state capture that the ANC would not end its destructive policy of 'cadre deployment' - the key facilitator of inefficiency, non-delivery, patronage, and corruption.

Radicalisation

A number of factors support that the ANC and Ramaphosa have since last year adopted an ever more radical stance fashioned around the implementation of RET central to the second phase of the national democratic revolution (NDR). For one, Ramaphosa's own rhetoric has leaned that way with his statements increasingly couched in 'transformation' language designed to advance a more radical agenda with strong redistributive content. In turn this must strengthen and advance the NDR. The looming spectre of an upcoming National General Council (NGC), municipal elections and next year's elective National Conference, may have played some part in this - but there's more to it.

And in order to secure majority support on the NEC in his battle to be rid of Magashule, Ramaphosa is rumoured to have promised NEC sceptics (erstwhile opponents) increased radicalisation, specifically around expanding the terms of EWC, in return for their support.

In addition, a number of radical new legislative and other measures have recently been introduced by the ANC with Ramaphosa's support. These include various draft legislative and constitutional amendments pertaining to allowing for and widening the scope of EWC; the establishment of a race-based tourism equity fund while throwing established tourism businesses under the Covid bus; the setting of new binding racial quotas via employment equity legislation that could even affect things like attorney-client privilege; wide and ambiguous amendments to the Promotion of Equality and Prevention of Unfair Discrimination Act; and the new centralised control and development model for municipalities, among others.

Meanwhile Ramaphosa also remains beholden to the SACP and COSATU who helped him come to power and with whom he historically has very close ties. He will again need their assistance to stave off any potential attacks at the pending NGC and at next year's elective conference. There's also no sign that the dictatorial reign of Nkosazana Dlamini-Zuma and her National Coronavirus Command Council - set up in terms of very weak state-of-disaster legislation that lacks proper checks and balances and time limits - will end soon.

Can the ANC reform itself post-Zuma/Magashule?

Factionalism and corruption will not be stamped out until the ANC acts like a real political party (it still refers to itself as a movement and views itself as the only legitimate representative of the people); rids itself of its liberation movement broad-church approach that facilitates competing groups and agendas; ends the ideological suffocation of its alliance with the SACP and COSATU; replaces cadre deployment with a professional and independent public service; and tackles all corruption even-handedly across the board without fear or favour.

And with municipal elections coming up, a whole new generation of ANC cadres with local and regional business/tenderpreneur/career ambitions are waiting in the wings.

By Stef Terblanche, independent political risk analyst and member of the FW de Klerk Foundation Panel of Contributors

Comment

The RET is another term, I believe, to describe total control of the economy, which might be intended to institutionalise the ANC's patronage and cadre deployment. The ANC's political reason for existence actually fell away in 1994, but the NDR is very much alive and will be influencing our Fund for decades still. Against the background of this article and its implications, we might be in for low economic growth and low ROI for a long time. Keeping our Fund well-funded against this background will be a continuing battle against 'government' intentions of misuse. We will need to prepare the next generation of AMAGP to continue the battle.

Synopsis

Warning for taxpayers in South Africa

Business Tech

Staff Writer
2 June 2021

The Financial and Fiscal Commission (FFC) has published its submission on the 2022 budget, with the Commission warning that South Africa is facing a growing tax problem because of the Covid-19 pandemic.

In its analysis of tax payments in South Africa, the FFC said that government has become increasingly dependent on personal income tax (PIT) and VAT for public revenue generation, which has made revenue incredibly vulnerable to disruptive events like Covid-19. The Commission said that generation is especially vulnerable due to the impact that the pandemic has had on household income and consumption behaviour.

Over the past decade, South Africa's fiscus has become more dependent on labour and household income, as well as activities in consumption, it said. However, the Covid-19-induced lockdown left millions of people unemployed, unable to pay income tax and unable to spend.

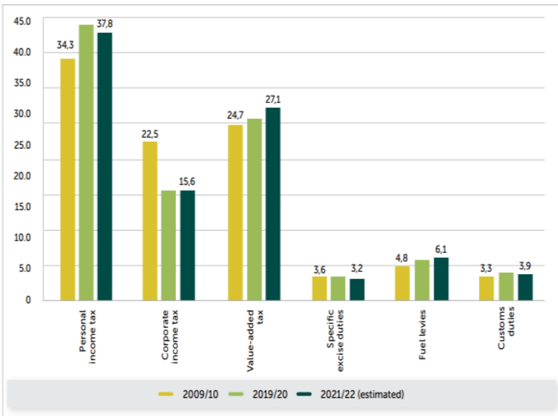
This lost revenue is not being made up elsewhere, especially not in corporate tax, which has receded over the last decade to 15,6% of revenue generated.

In effect, this means that **revenue generation is becoming increasingly dependent on a shrinking tax base,** and that the **PIT-concentrated tax base will absorb the full impact of the lost income**, the FFC said. The Commission said that government should also take cognisance of its fiscal sustainability when overspending to smooth over people's consumption pattern.

To avoid adding pressure on the economy suffering under Covid-19, the government has withdrawn its initial proposal to increase taxes in the 2021 budget. Instead, tax relief was issued through the higher-than inflation adjustment in the tax brackets for PIT at 5%.

> "It is anticipated that the tax relief created will encourage spending and stimulate economic growth with some returns on VAT so that government can meet its expenditure needs," the FFC said.

Figure 2.11: Share of total tax revenue (top 90%, in percentage)



Source: National Treasury (2021a) and Commission's calculations

Burden

The annual change between the tax proposals is generally implemented by adjusting the income tax brackets to account for inflation.

> "This provides valuable insight into whether the tax policy is consistent and progressive in structure," the FFC said.
>
> "The data shows three interesting facts about the revenue proposal of 2021 relative to the 2020 proposal, notwithstanding Covid-19."

- Taxpayers in the older age have a higher tax threshold than those below the age of 65 and only start paying taxes on an income over R120,000 per annum.
- Older taxpayers receive more tax relief for the same income relative to taxpayers under the age of 65, although this difference narrows as income rises.
- As a general trend, tax relief decreases as income rises.

This suggests that the new tax proposal is progressive, as higher-income earners receive less tax relief and pay more taxes. However, the lack of uniformity and consistency of tax relief could be a matter of concern, the FFC said.

Comment

The FFC is one of the multitude of SOE, albeit a constitutional body, that advises parliament and 'government' on state fiscal matters. Interesting that corporate tax declined in favour of personal tax. In general, a high PIT rate demotivates economic growth, as the more you earn the less you keep. Fact is, the low economic growth will keep revenue low, especially if corporate tax is kept low. And low ROI on our Fund's investments. It also leaves an uncomfortable feeling when we talk pensions and the 'state' guarantee.

Synopsis

REGULATION 28
Opportunity knocks, loudly and desperately

Today's Trustee
Jun-Aug 2021

Don't breathe too easily just yet that the threat of prescribed assets is forever off the table. Rather assume that it will loom, depending on how institutional investors respond to the revised Regulation 28, still in draft, purportedly intended to facilitate investment in infrastructure.

There's an element of duplicity in the new Reg 28 being welcomed by pension funds. It's as if their investment in alternatives had been cramped by the old Reg 28. Yet few ever approached its ceilings. Perhaps their enthusiasm stems partly from relief that prescribeds remain the great unmentionable.

That's notwithstanding the reality. SA desperately needs infrastructure developments on a scale unaffordable by a depleted fiscus. It's depleted by having perpetually to top up for squander. Also, many existing state-owned infrastructure projects are in decay. They require massive refurbishment at taxpayer expense.

Retirement funds must take the lead. If they had to wait for government they could wait forever. This is one level of the infrastructure challenge. Over and above it are demands for new infrastructure projects, which must necessarily rely for finance on retirement funds.

Proposed amendments to Reg 28, which set out prudential guidelines under the Pension Funds Act for funds' investments, are intended to allow for the "infrastructure gap" to be bridged. This is done through a series of redefinitions and revised ceilings; for instance, a 45% maximum exposure to domestic infrastructure across all asset classes.

Importantly, and sensibly, the decision to invest in any asset class remains the decision of retirement funds' trustees. But they can only make decisions based on the projects they create or are created for them. In the face of urgency, their wait for offerings from the state runs indefinitely from one year to the next.

At present, the pockets of people's savings under management of retirement funds are overconcentrated on listed equities and government bonds. Their need for prudential diversification should theoretically lay the basis for an ideal marriage, between the public sector on the one hand and private-sector funds on the other, to live happily ever after in an infrastructure bliss.

But only theoretically. So long as the principle of trustees' fiduciary duty endures, private sector confidence in the public sector is too low for the partnership to be uncritically embraced. Suffice the testimony by ANC chairperson Gwede Mantashe to the Zondo Commission on the overlaps of state and party, and the tolerance of maladministration.

Such is the state's record of governance failure and operational lethargy that President Ramaphosa's whole "kickstart" ambition smacks of fantasy. Instead of advancing a focused clutch of projects for see-through to yield and impact, government has identified a myriad wish list impossible to assess. Instead of clarity on whether Reg 28 accommodates only public infrastructure, to the exclusion of private, there's obscurity. Instead of boldness in the unlisted space, which has greater potential than listed for local content and job creation, caution is the watchword.

In an Intellidex report commissioned by Business Leadership SA, strong recommendations are made for infrastructure investment to be stimulated. The only surprise in them, long enunciated, would be acceptance and implementation by the ruling party in an ideological innovative product time warp. It shows in that, when public-private co-operation might have been expected to flourish through the Covid crisis, it failed.

For its part, the private sector bristles with infrastructure initiatives. Asset managers Old Mutual Alternative Investments and Futuregrowth, to name two, are shining participants (TT March-May 2020).

In May last year Stanlib launched its Khanyisa Impact Investment Fund, managed by Stanlib Credit Alternatives, targeting a return of 4,5% over rolling 12-month periods. More recently, in September, Novare started to build a R2bn impact fund with a targeted return of cpi+12%, mainly from agriculture, manufacturing and infrastructure.

Most recently, RisCura launched SA's first Impact Fund of Funds investment series. It focuses on unlisted debt, unlisted property an unlisted equity. The fund of funds structure enables "a pooling mechanism for long-term impact capital that can provide a stable source of funding for commercially competitive impact and development projects", points out MD Malcolm Fair, while also helping to mitigate risk and liquidity concerns.

Seemingly off the top of his head, David Moore of Alexander Forbes Investments rattles off a sample list of available opportunities within the private equity and infrastructure classes. None are "public infrastructure", but he believes that all can provide pension funds "with attractive inflation beating returns that complement traditional asset heavy portfolios".

Pension funds had better grasp the nettle. Or else. Imagine a government raid on their assets to support vanity projects managed by cadres. Not too hard to imagine, unfortunately.

Comment

As usual, Alan Greeblo from Today's Trustee cuts through the murkiness of 'government' speak to update our thinking on the same 'government's' intentions with our pension money. The 'government's' so-called list of investment-ready infrastructure projects still hasn't materialised, but probably will as soon as the Reg 28 amendment has been approved and gazetted. Our Fund and other pension funds already invests/ed in many such infrastructure projects with varying ROI. It is again a matter of legislating a solution to a non-existing problem.

Synopsis

Lanseria lifts off to next level

City Press
24 November 2021

Harith chief executive Tshepo Mahloele believes that Africa is on the cusp of an infrastructure explosion and sees the airport playing a pivotal role. Harith is of the owners of Lanseria Airport just outside Joburg. Mahloele says: "There is a need for airports in Africa because of urbanisation. The growth on the continent is driving growth in the aviation sector."

Harith acquired ownership of the airport along with its other consortium partners, a black female-owned firm called Nozala Investments and the GEPF, which is managed by the PIC.

According to Mahloele, the previous owners "had owned the asset for 20 years and they wanted to sell it to people who can take it to the next level". This will require that the new investors seek new airlines to use the airport while also upgrading the runways, parking facilities and main terminal.

Mohloele says they are in "discussion with an airline that wants to fly out of Lanseria to Gaborone", and there are "also airlines that are looking to fly from Lanseria to regional and neighbouring countries". He further says: "The truth of the matter is it is cheaper to fly out of Lanseria than from OR Tambo International Airport."

Airline operators have blamed high fuel prices and airport tax hikes imposed by the Airports Company SA (Acsa) for triggering the downfall of budget airlines, beginning with the collapse of Nationwide in 2008. Aviation experts argue that Lanseria, which caters for private jet owners, and budget airlines Kulula and its rival Mango, is not much of a competitor to ACSA, the state-owned operator of nine airports across South Africa.

Aviation expert Linden Birns says that despite this, Lanseria is still an attractive alternative for budget airlines thanks to its lower tariffs compared to those at airports controlled by Acsa. According to Birns, in Europe, “alternative airports played a role in the growth of low-cost airlines”.

Prospects for budget airlines, according to him, are bright owing to an increase in intra-African trade and tourism, but new entrants into this market needed to come in with well-considered business plans and fuel-efficient fleets. “Air travel is the cheapest mode to get people around, because Africa has no good roads or navigable rivers. It is cheaper to build a 5km-runway than to build a 5 000km road. An airport can take you to the rest of the world,” he says.

But others have questioned whether Lanseria will be able to keep its tariffs low, given that it will have to recover the costs incurred on upgrades to the airport.

Harith appears to have a taste for acquiring airports. It has used some of the cash from the $630mn (R5,6bn) Pan African Infrastructure Development Fund it manages to buy two airports in Tunisia in partnership with the TAV Group, a Turkish firm that operates 12 airports in north Africa, Europe and the Middle East.

Mahloele says Harith had invested about 75% of the $630mn and was aiming to raise another $1,2bn to invest in other infrastructure opportunities in Africa.

Harith has also invested in a power plant in Kenya, a west African broadband undersea cable, a toll bridge in Ivory Coast, a cellphone company in Kenya, an oil-rig company in Nigeria and a firm that manages the headquarters of the Southern African Development Community in Gaborone, Botswana.

Comment

The GEPF has 38% shareholding in Lanseria airport as part of the ownership consortium, since 2013.

Harith is one of those PIC/GEPF investments [30% shareholding] that little is made known about and even less about the ROI. Its vague relationship with the PIC and GEPF forces us to speculate on the PIC’s involvement with the $1,2bn it wants to raise, and the $11,5bn deals’ funding requirements [about R200bn]. Harith has an extremely diversified portfolio and wants to borrow more to add to its portfolio. Harith is based on borrowing money in various forms; of course all has to be repaid at some stage, including to the PIC/GEPF.

Synopsis

Takatso Consortium to take 51% stake in SAA - Pravin Gordhan

11 Jun 2021
Pravin Gordhan

The Ministry of Public Enterprises (DPE) announced today that the Takatso Consortium, comprising Harith General Partners, a leading investor in African infrastructure and airports, and airline management firm Global Airways, has been selected as the preferred Strategic Equity Partner (SEP) for SAA.

This follows a rigorous, year-long process undertaken by DPE to identify a suitable SEP for SAA. The Consortium will undertake a normal due diligence exercise before the transaction is finalised.

Public Enterprises Minister Pravin Gordhan said, "The partnership brings together South African public and private sector capabilities to reposition SAA. We have looked long and hard at the proposals submitted, and our clear choice of a preferred partner is the Takatso Consortium. The objective of bringing in an equity partner to SAA is to augment it with the required technical, financial and operational expertise to ensure a sustainable, agile and viable South African airline.”

"With this partnership, we believe we are closer to achieving the important objective of having a sustainable national airline. The new SAA will not be dependent on the fiscus. It will be agile enough to cope with the current uncertainty, and improvement, in global travel. He also said "Government will retain a 'golden share' in SAA which will ensure that the flag is retained, that it remains domiciled in the country and issues such as transformation goals remain uppermost."

Tshepo Mahloele and Gidon Novick, of the Takatso Consortium, said "They did not doubt that SAA could be built into an efficient airline that catalyses growth in the South African economy especially tourism. The consortium brings a unique combination of skills and infrastructure funding (including airports) and aviation operator experience. This will ensure the development of SAA into a viable and agile commercial airline." "With SAA, we believe we can leverage, with appropriate partnerships, the potential of the aviation sector in Africa, which is being fuelled by urbanisation, intra-African and inter-city trade." they said.

Key elements of partnership

The Takatso Consortium will own 51% of the airline and government 49%. The intention is to list the airline in the future to address future funding requirements and enable all South Africans to take part in its success.

The Consortium provides the required capital. There will be no further burden on the fiscus.

The Government will have a 'golden share' of 33% of the entity's voting rights and certain areas of national interest.

All historical liabilities will be the responsibility of Government within the amount allocated. As part of the due diligence process, the DPE and the Consortium will carry out a joint assessment on the future of the subsidiaries.

Transformation an Imperative

The partnership is fully committed to an inclusive and diverse team representative of our demography at all levels in the airline.

Once the due diligence exercise is completed and the definitive sale and purchase agreement is concluded, a further release will be issued.

Minister Gordhan said "Government is pleased that all the elements have been brought together for a leading and sustainable Pan-African airline to emerge and that this will be done without any future reliance on the fiscus."

Issued by Department of Public Enterprises, 11 June 2021

Comment

The first news of the new! SAA!
There is a clear link between one of the 'government's' vanity SOE, the SAA, a bottomless pit, and Harith, one of the PIC and GEPF's little known ROI investments [30% shareholding].
There is no clarity on payment for the 51%, or the source of the R3,5bn funding still required. Mahloele is a shareholder in BizNews, also the executive chairman of Arena, with titles like the Sunday Times, Business Day and Financial Mail. The news might not be the news anymore, but selectively reported.

Synopsis

PIC confirms it owns 30% of new SAA consortium partner

Fin24
Compiled by Ahmed Areff

- While still the head of corporate finance at the PIC, Tshepo Mahloele, spearheaded the creation of Harith - which was founded with PIC investments. He later left the PIC to run Harith.

The PIC has confirmed that it owns 30% of Harith General Partners, an infrastructure investment group that is part of consortium which will now own the majority stake in SAA.

The PIC said in a statement on Monday that it "owns 30% of Harith General Partners and some of the individuals involved in Takatso

Consortium may previously have been associated with the PIC".

Harith Fund Managers was set up in 2006 to manage the Pan African Infrastructure Development Fund (PAIDF), which eventually raised $630 million, including funding from the PIC. Harith General Partners was established a few years later for the Pan African Infrastructure Development Fund 2, which raised $435 million.

Tshepo Mahloele, then PIC head of corporate finance, spearheaded the creation of Harith. He subsequently resigned from the PIC but continued to run the fund.

"Nonetheless, Harith General Partners and the Takatso Consortium did not involve the PIC in any way in this acquisition," the PIC said of its 30% stake in Harith. "Whilst it is a fact that the PIC has shares in Harith General Partners, it must be stated that the PIC is not a member of Takatso consortium, which we understand is a special vehicle established by Harith General Partners and Global Airways."

Harith and the relationship of its executives with the PIC has been the subject of intense scrutiny at the Mpati inquiry. The inquiry recommended in its report that the PIC and the GEPF should together appoint an independent investigator into Harith "as soon as possible", with a mandate to examine the PAIDF. It found that Harith's conduct "was driven by financial reward to its employees and management, and not by returns to the GEPF".

It also found that Harith charged "significantly high fees", which came to more than 8% per year. Also, if the PIC terminated its contract with Harith Fund Managers, it had to pay 12 months' management fee plus 13% of the market value of all investments. "It is the commission's view that there is no question that the approach taken provided easy access to PIC funds, influence and including an enhanced ability to secure additional investment, including from the GEPF," the Mpati inquiry found.

Mahloele told Fin24 that the Mpati report made "wild references" about Harith's fees, but they were "standard in the industry". "There was nothing untoward … We appointed an independent body of lawyers to do a check on Harith and see if anything untoward was done regarding our fees etc. Also, a forensic investigation by an accounting firm confirmed the same. All was above board," he said.

Comment

Some of the individuals certainly were previously associated with the PIC. Added to that are the high fees, extremely advantageous contract with the PIC, the lack of information on its ROI, and unsubstantiated self excusement of high fees. It would be interesting to know more about the 'independent body of lawyers' and the 'forensic investigation' so glibly provided. Makes one wonder on the ROI to the Fund.

Synopsis

The SAA Deal: Smoke and Mirrors

Daily Friend
By Jonathan Katzenellenbogen
16 June 2021

At first glance it all looked too good to be true. Under the deal, a private equity firm and an airline entrepreneur will take control of SAA from the state. With that, there were promises of no more bailouts, and it all seemed to show a government change of heart on privatisation.

It was all too good to be true. The proposed deal leaves so much unanswered that it looks like an underhanded way to further bail out a failing airline, enrich a few, maintain state control, and make the exercise look like a privatisation.

The state will have a minority stake of 49 percent in the airline, yet has a "golden share" giving it an extra 33% in voting rights. And a big question remains over how the private equity firm will source the R3,5bn it needs to invest in the new entity. Will it be from state-connected institutions?

Under the deal the Takatso Consortium, made up of Harith General Partners, a Johannesburg based empowerment private equity fund, and Global Airways will have a 51% stake. Harith is close to government and the initial alarm sounded over whether the PIC would fund the deal. This has been denied. Global Airways, a local aircraft leasing and charter company, is run by Gidon Novick, who recently launched Lift, co-founded Kulula, and served as chief executive of Comair.

Certain things appear certain about the deal. It is a give-away, that comes with SAA's government guaranteed debt wiped off the balance sheet courtesy of the National Treasury which will repay the R16,4 billion over three years. And prior to the give-away, the airline will receive a R10 billion bailout when a Special Appropriations Bill is passed by Parliament.

According to the statement issued by the Takatso Consortium, they will invest R3,5 billion in the new entity. It is not clear if this is their only obligation.

In the absence of key information, we cannot judge what would be a fair valuation for SAA. There has been endless obfuscation by government over SAA for some time. Without financial statements and a detailed schedule of assets, any valuation that is put before us lacks credibility.

Importantly, we do not yet know if the SAA subsidiaries, Mango, Air Chefs, and SAA Technical are part of the deal. Under an additional special allocation passed by Parliament last week, R2,7 billion is being used to bail out the subsidiaries. Mango will receive R819 million, and the remainder will go to SAA Technical and Air Chefs.

One issue is whether Novick wants Mango in the package as it could be a potential rival to his own Lift airline. It could be up to the Competition Commission to resolve this issue.

It does seem that even with Takatso having to come up with R3,5 billion, there is little downside risk and much potential upside gain for the consortium. We still don't know how the deal will be funded.

With the adverse publicity since the deal was announced, the PIC has had to come clean and said earlier this week said that it owns 30% of Harith General Partners. It has insisted that its money will not be used to fund the R3,5 billion. Harith's Group Executive Director, Tshepo Mahloele, was a head of corporate finance at the PIC and other officers have also worked for the state investment manager.

The question remains as to how the consortium will raise R3,5 billion, an amount which would far outstrip the funding Harith has been able to raise so far. Mahloele told *Business Day* the R3,5 billion will be raised from private sources and pension funds. But with the government as a large partner in the new airline, the question arises as to whether there is much market appetite to invest in the new entity. Government interference equates with lower returns and airlines often battle to succeed.

Might Takatso have to resort to seeking funds from a government-owned development finance facility like the Development Bank or the Industrial Development Corporation?

Far greater transparency would be needed if these funds were to be raised through a listing on the Johannesburg Stock Exchange. The close connection with the government does raise serious questions about whether the SAA deal is an arms-length transaction and the valuation fair. One way of resolving this would be to hire an accounting or law firm to look into whether this is an arms-length and fair transaction.

It is questionable whether government adhered to the PFMA, which requires a Request for a Proposal and a proper bidding procedure. Instead Minister of Public Enterprises Pravin Gordhan has said the government has chosen its "Strategic Equity Partners".

UDM President Bantu Holomisa wants an inquiry by Parliament's SCOPA. Alf Lees, a DA MP who sits on SCOPA, says it is vital that there is a clear understanding of how the R3,5 billion in funding will be raised, and if any state resources will be used. But Lees says that with Parliament in recess, the deal might sail through without adequate time for deep scrutiny.

First prize would have been to sell to an international airline like Emirates, Turkish Airlines, or a US or European carrier with a sizeable route network into which SAA could feed. A merger with Ethiopian Airlines could create the basis for an African continental super-carrier. There were talks with Ethiopian Airlines, but these went nowhere. The basis of the success of Ethiopian Airlines, which is state-owned yet widely regarded as well managed, has been its operational independence. It is highly likely that these airlines turned away from a deal because they did not like the idea of the South African government as a partner.

Although board representation will reflect the shareholding split, the government's "golden share" will permit it an extra 33% of the voting rights. That means effective control.

If this deal goes ahead the government may be emboldened to make this the model when dealing with failing state enterprises. The model is to back empowerment groups to take assets off the hands of the state, yet maintain behind-the-scenes control through "golden shares". The greater the degree of state control, the less the chance of turnarounds and any likelihood that these deals will fly in the markets.

Comment

Comment from a reader of the above article:

The Passing Show

Some simple arithmetic throws up a few questions...

Harith and General Aviation own the Takatso venture which owns 51% of SAA. The P.I.C. owns 30% of Harith but denies flatly it will put any loan funds into SAA. In what proportions do Harith and General Aviation own Takatso?

My suspicion is that General Aviation has nothing like the R3,5bn required and also does not have the balance sheet heft to be able to raise that sort of money on its own. So, Harith then is the more likely candidate to be the collateral provider behind any loan finance raised by Takatso.

Does Takatso have any assets that can be used as collateral? Can Takatso go to the market and ask investors for the cash? Yes, it could but would probably be given the raspberry.

So who does that leave? My guess is the P.I.C., yet we have already been given the honeyed phrases from worthies within that organisation that the deal has nothing to do with them.

One can usually tell when politicians and their cronies (let´s face it the P.I.C wallahs are deep, deep cronies of the ANC) are giving us the smooth BS and my BS antenna is quivering very strongly.

But let´s forget all the political shenanigans; ¨why has absolutely nothing been actually said about creating, organizing, and running a good airline in a competitive market for the benefit of discerning customers?

I'll tell you why.

The ANC has a visceral dependance upon the outward symbols of competence while white-anting them from the inside. And this Takatso construction will allow them to run up a few more tens of billions of trouserable loot before the whole thing collapses again.

There are enough cadres sitting on the pension fund boards of trustees and investment committees to ensure a healthy stream of investments. Off course, the GEPF will be touched up first. Funds may also be channeled via Isibaya or PAIDF.

Don't be surprised if the government announces another Strategic Investment Project that will "help" investments to flow towards the consortium.

Synopsis

SAA deal flies into a storm amid doubt over funding

Gordhan overstated Takatso balance sheet

BL Premium

16 June 2021

Carol Paton

Harith General Partners has not yet determined the vehicle it will use to invest in the airline or the source of the capital, the company said in response to questions on Tuesday.

Harith will not be using its existing private equity infrastructure funds for the airline, which are already fully committed. While it could invest using Harith as the vehicle or a nominee of Harith, the fund management company does not have a substantial balance sheet. Investing through Harith would also necessitate consultation with the PIC, which owns 30% of Harith.

This means that Takatso will have to raise new capital for the venture. Though Harith has 15 years of experience in raising finance in capital markets for large capital projects, market participants have expressed some scepticism since the deal was announced about whether Takatso will be able to raise 3-5 year debt for SAA.

It is unlikely that the Treasury will assist and guarantee working capital loans raised by SAA in the future. It also means that Gordhan's announcement last Friday that Takatso's "substantial balance sheet will be leveraged" to invest in SAA overstated the case in favour of the transaction and the extent to which it has been concluded.

While Harith's two private equity funds — the Pan African Infrastructure Development Funds (PAIDF) I and II — are fully committed, the company recently topped up Fund II with a capital raising of $250m. However, this fund has a committed pipeline of projects and is not available for the SAA opportunity either, the company said.

Takatso said on Friday that it had committed to put R3bn into SAA over the next two to three years. This was not "the price" for the 51% as due diligence was still under way, but the amount that Takatso has assured the government it would contribute.

Harith spokesman Buthelezi said that while the PAIDF funds were fully committed "some of these processes run concurrently and feed off each other. We have a proven track record over the past 15 years of being able to deploy capital for the right projects with the right partners and this will be the same for this opportunity".

Mandate

"The SAA opportunity could be undertaken by Harith and/or its nominees, which has not been finalised as it is subject to the outcome of the due diligence" he said.

Harith was founded with seed capital from the PIC in 2005. In 2006, a management buyout saw the PIC's stake reduced to 30%.

Harith cofounder and Takatso chair Tshepo Mahloele is chair and founder of Lebashe, the owner of Business Day.
patonc@businesslive.co.za

Comment

The hype over SAA's continued, and now 'new', existence is highlighting many concerns, all to do with money. There are no answers yet, and there will probably be few clear answers. The special purpose vehicle raises immediate thoughts of how it is going to be incorporated in Mauritius. Meanwhile, lurking in the background, pension funding is most likely being pursued.

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 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 read items saved under "Announcements" and "Files". You can get further information on our website – there is no reason to be in the dark regarding our/your Pension Fund, and what you must do as a member.

This page will only have any value for you if you join the AMAGP. Note there are no membership fees. You don't have to do any work for the AMAGP if you do not wish to do so – BUT your membership will add one more voice to AMAGP convince the government our pensions remain ours, not theirs to misuse. You can complete the online registration form under "Announcements" (English and Afrikaans) at the top of the Facebook page, or you can visit our website at www.AMAGP.co.za, and complete the online application form that you will find under "Membership". There are also registration forms in English and Afrikaans that you can print, complete and return to us under "Files" on the Facebook page.

The AMAGP does not want any GEPF member to leave the Fund, because it still is the best pension fund in the RSA – BUT, we as members and owners of the Fund have to protect it against abuse.

Welcome to our page – please help us to get thousands more GEPF members to join this page and the AMAGP, so that we will have the required bargaining power. **We are the owners of the GEPF**, and we have the right and the power to force the GEPF Board of Trustees, and the PIC, to manage and invest OUR money in a responsible and profitable way. To the advantages of members and pensioners, not looters and mismanagers!