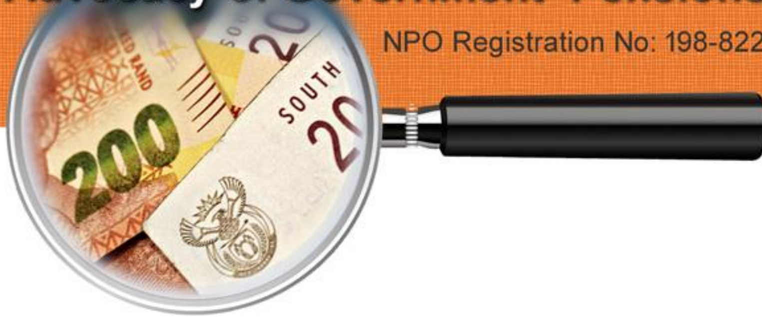

The Association for Monitoring and Advocacy of Government Pensions: A volunteer independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.AMAGP.co.za

NEWSLETTER NO 2 of 2022

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 1.265 million active members, in excess of 473 312 pensioners and beneficiaries, and assets worth more than R2.09 trillion. 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 3 January 2022.

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. **YOU**

The Editor's Word

Note. The Fund's investment values used in the newsletter are from the 2021 GEPF Annual Report. Such values are probably from about December 2020.

The 2021 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. Keep in mind the statistics will be about a year old, reflecting estimated actual value at about January 2021.

Some information from the 2021 GEPF AR:

The investments reported in the 2020 AR aren't identical to the previous report's. Investments don't remain static for ever and are disposed of when they don't provide ROI anymore, or for whatever reason. The AR always spreads the investments over many pages and annexures and headings, to make sense to the accountants but not necessarily us, so I always group them all alphabetically under 'fair value', stated to be March 2021 but probably only fair up to about December 2020.

Comparing the reports reveal many new investments and many 'old' ones gone. The values also changed.

The list of impairments totals about 46 instances with a value of about R7,5bn, down from R11,9bn. Twelve of the 46 impairments are now zero, reason not stated. Another list of impairments [23] indicates reversal, meaning that the impairments are impairments no more.

It would be nice to know what the ROI of each of our investments were. That would tell us if they are worth keeping. On the other hand, investments seen in isolation for a restricted time period, such as a year, often don't reveal the true long term potential of the investment. Take Steinhoff as an example, we lost 'billions' with the crash but now, years later, it seems there is a substantial recovery with the prospects of reasonable ROI. Judging an investment without considering all the relevant information and the investment strategy can be very risky.

There is considerable value in a credible and dependable financial advisor. Be aware that such advisors receive an income from policies, investments and such that they manage for you, which they are entitled to. Most financial advisors want to have a long term professional relationship for a long term income. Then there are the few who want to sell the most for what they can get, whether it is right for you or not. The onus is on you to ensure that what you get is what you really need. So make sure you check whatever your financial advisor advises you; if they are good they won't take offence.

Now for news from the media

Novus, a large printing company, seems to be the target of a take over by A2 Investment Partners. Our investment in Novus is small.

The mining company South32 is expanding further into other companies. We trust the ROI will reward the expansion.

Texton Property Fund is acquiring a 0,2% stake in Starwood REIT. The reason for this is vague and speculative.

There are two articles on retirement annuities and what they may mean for retirement. As most of the GEPF members rely on their salaries to survive, this may be of academic interest only, but still, there may be a way to add to retirement peace of mind by an RA.

EPP, a Poland focused property fund, reported good prospects for the property market in Poland. We look forward to good results this year too.

Companies are delisting from the JSE, many reasons such as onerous regulations, poor economy, take overs, lack of interest in smaller companies, etc. Makes one think about the future of the JSE.

Then Eskom's intended huge increase in tariff is the subject of much business resistance, resulting in court challenges. The disparity in the cost of electricity and the tariff charged by Eskom and the municipalities is the main bone of contention, closely chased by poor maintenance, corruption, fraud.

The value of compound interest in your retirement planning is always worth serious consideration. It may be referred to as deferred gratification.

Lastly, good advice on what to consider when determining your retirement income.

Synopsis

A2 Partners moves above 50% in Novus

6 January 2022
INCE|Community
The Finance Ghost

Under Takeover Law, a mandatory offer is required when a shareholder moves through the 35% threshold in terms of control over voting rights. It gets more complicated than this of course.

This was the case in respect of A2 Investments Partners' stake in Novus. As a result of a scrip dividend election, the choice to receive shares instead of a cash dividend, A2 Investment Partners' controlled voting power moved through the 35% threshold and this triggered a mandatory offer.

Before the offer but after the scrip dividend, nearly 73% of Novus shares in issue were held by just five parties (A2 37,55%, Value Capital Partners 11,19%, Caxton & CTP 10,06%, Absa Capital 8,28% and RMB Morgan Stanley 5,59%).

At this stage we don't know who accepted the offer. It may have been one of the major shareholders, in which case overall liquidity for Novus won't be impacted. If the acceptances came from the retail shareholder base, this will hurt liquidity.

Notably, the circular for the mandatory offer includes a response circular by the independent board of Novus. In that response, the independent board opines the offer is unfair but reasonable under the circumstances. This is the case when an offer looks reasonable vs. the traded price but is still believed by the board to undervalue the company.

The independent board specifically recommended that shareholders do not accept the offer.

This recommendation is informed by a valuation prepared by BDO Corporate Finance, which is important, as BDO is given access to management forecasts, etc. as part of doing the work. This is information that the broad market certainly doesn't have. BDO valued Novus at between R4,84 and R5,18 per share, with a "most likely" value of R5,00 per share.

The offer price was R2,35 per share, so one can clearly see why the independent board made the recommendation. There seem to be many shareholders who don't have patience for the full Novus story to play out, allowing A2 to mop up a larger stake.

Those interested in Novus could invest directly in the company or via Caxton & CTP, provided Caxton isn't the seller of shares to A2 under the mandatory offer. Waiting for the end of the offer period would confirm that.

Comment

We have about R3,7mn in Novus Holdings, a large printing company. The shares were trading at R2,36 on 6 January; the offer compares with the current share price, but not necessarily with the estimated or projected value of the shares.
Scrip dividends: giving investors the option to receive additional shares instead of a cash dividend,

Synopsis

South32 pushes further into aluminium

7 January 2022
INCE|Community
The Finance Ghost

South32 operates across Africa, Australia and South America. The group mines and produces bauxite, alumina, aluminium, metallurgical coal, manganese, nickel, silver, lead and zinc.

Recent transactions include the proposed acquisition of 45% in the Sierra Gorda copper mine in Chile and the acquisition of a further 25% in Mozal Aluminium in Mozambique, taking the stake in that operation to 72%.

The company has announced that it will participate in a restart of the Alumar aluminium smelter in Brazil, which has been on care and maintenance since 2015. This will be done with joint venture partner Alcoa Corporation. South32 holds a 40% stake in the operation and expects to invest $70mn in the project across two financial years, of which $10mn will be capital expenditure.

It only takes a few months to get to initial production, with production expected in the June 2022 quarter and with full capacity expected to be achieved in the March 2023 quarter. At full capacity, this will boost aluminium production by 16% in the group, measured based on South32's equity share of production.

The operation will be powered entirely by cost-efficient renewable energy, which puts the smelter in the second quartile of the global aluminium site cost curve.

The supply of alumina (the aluminium containing compound) will be sourced from the co-located Brazil Alumina refinery in which South32 holds a 36% stake.

South32 is investing in aluminium as part of a broader transition to a low carbon future. Aluminium is a lightweight and recyclable metal, which positions it well for use in electric vehicles etc. It is unfortunately an energy-intensive metal to produce, so it is critical that new projects are powered by renewable sources of energy.

In December, South32 announced a sustainability-linked revolving credit facility. This $1,4bn facility has measures linked to emission reductions and energy and water efficiencies. You can clearly see how financial incentives are creating a world where mining houses are pushing for cleaner operations.

South32 is up over 58% in the past year and over 66% in the past five years - the joys of investing in cyclicals.

Comment

We have about R329,5mn in South32. Looks like a good investment.

Synopsis

TITBITS

Ince/Connect
The Finance Ghost

6 January 2022

Sanlam is in the process of implementing a couple of deals with Alexander Forbes. Sanlam is acquiring 100% of the Alexander Forbes Individual Client Administration business and is selling the stand-alone retirement fund administration business to Alexander Forbes.
As these are small related party transactions under JSE rules, Sanlam needed to appoint an independent expert to opine on whether the terms are fair to Sanlam shareholders. Deloitte has confirmed that the terms are fair, so that's a major condition precedent out of the way for this deal.
We have about R165bn in SANLAM.

European wholesale gas prices rose more than 400% in 2021 and they aren't slowing

down yet. Natural gas is hugely important to UK businesses and households, which means businesses like UK restaurant chains are extremely worried about their margins. The words "national crisis" are finding their way into UK news headlines. If you have any exposure to European (and especially UK) companies, be sure to consider the impact of higher energy prices.
We don't have any interest in European gas, but the drastic increase in price will have a knock on effect. We will probably see mention in the 2022 GEPF AR.

7 January

Locally, **Rebosis A** is already rewarding speculative punters with the kind of payoff profile that they dream of. The JSE-listed property company's share price has approximately doubled since Christmas!
We have about R2mn in Rebosis Property Fund A.

Moving on, **Glencore** has closed the sale of the Ernest Henry Mining copper-gold mine in Australia to Evolution Mining Limited. This puts AUD800mn in Glencore's bank account immediately and adds another AUD200mn in a year's time. Evolution has assumed all rehabilitation obligations and liabilities as part of the deal. Glencore will offtake 100% of the copper concentrate produced at the mine.
We have about R7,5bn in Glencore Plc.

11 January

There was more good news from **Steinhoff** yesterday, with the narrative getting better with each passing week. As I've mentioned many times before, I'm long Steinhoff as part of my speculative basket. I'm up more than 135% and counting, which is a nice outcome!

The latest development is that Steinhoff subsidiary Mattress Firm Group has filed with the SEC in the United States for a proposed IPO i.e. listing of the company. The market generally likes this type of thing for a couple of reasons. Firstly, it enables "price discovery" as there will now be a traded market for Mattress Firm, so people no longer need to guess what the market might believe the company is worth. Secondly, it shows that the subsidiaries can stand on their own feet and are capable of having retail shareholders involved. This is especially true for a US listing, where the regulations are extensive and thus the company needs to stack up.
We have about R811mn in Steinhoff. This much less than the original investment but… I trust, it is still recovering. We probably won't ever regain what was lost in value, but as long as the ROI is good…

Anheuser-Busch InBev is busy rejigging the balance sheet. The company has announced a redemption of $3,1bn in notes, which are debt instruments issued by the company. There are two tranches paying 3,65% and 4,915% respectively. This has the effect of reducing debt on the balance sheet.
We have about R4,9bn Anheuser-Busch InBev.

NEPI Rockcastle is considering a €4bn guaranteed Euro medium term note programme. This debt would be used to refinance a portfolio of green projects, so the senior bonds issued under this programme would naturally be targeting investors with ESG mandates. For qualifying portfolios, this can be an attractive source of funding. The company has mandated several investment banks to bring potential investors to the table. If this issuance goes ahead, then NEPI will also try repurchase its May 2023 notes (2,625%). The deadline for holders of the notes to offer them to NEPI for repurchase is 17 January. Long story short: the company is trying to bring down its cost of funding (as it should).
We have about R5,2bn in Nepi Rockcastle.

27 January

There's potential trouble at **Telkom**, with the share price down over 5% in the past 5 days. A Government Gazette has given the Special Investigative Unit authority to investigate the disposals of certain businesses dating back to 2006. This is a legacy issue but will still distract management at a time when the company is in a battle against its bigger competitors.
We have about R3,3bn in Telkom.

Comment

Some titbits to keep you informed about happenings to our investments.

Synopsis

Texton: is this the right use of capital?

11 January 2022
INCE|Community
The Finance Ghost

Texton Property Fund is a REIT that has had a tough time. Things were rough as the fund's UK strategy took significant pain from Brexit and related uncertainties. The latest news from the company is that it will be investing further in Starwood Real Estate Income Trust Offshore Fund, taking its stake from $3,5mn to $7mn. Texton will only hold a tiny stake of just 0,21% of the fund's shares.

Starwood is a non-traded REIT focused on real estate in the United States, focused on stabilised, income-oriented commercial real estate. The fund also acquires debt secured by properties. There is some exposure to Europe, where the company invests in both properties and in property-related debt.

Starwood's total assets under management is $18,2bn, consisting of 334 properties and with an occupancy rate of 96%.

I can't help but feel that Texton would be better served by just buying back its own shares with excess capital (essentially investing in itself) rather than deploying capital into a tiny stake in a US fund. If that isn't an option, then it would make more sense to buy specific properties rather than diversified stakes.

Investors rarely react with joy to news of capital allocation decisions like this, preferring management teams to focus on core competencies and return any capital that can't be deployed within that strategy. The JSE has had many examples of companies trading at significant discounts to NAV because they hold a portfolio that isn't coherent.

Comment

We have about R169,9mn in Texton Property Fund. The heading says it all.

Synopsis

Retirement annuities: Everything you need to know

Moneyweb
12 January 2022
By Eric Jordaan - Crue Invest (Pty) Ltd

Image: Shutterstock

With just a couple of weeks left until the end of the 2021/2022 tax year, now is an opportune time to maximise your tax-deductible RA contributions and take a closer look at how this highly tax-efficient retirement funding vehicle works.

While the long-term benefits of investing through an RA cannot be overstated, there's a lot more to this impressive retirement funding structure than meets the eye. Here's what to know.

Governed by the Pension Funds Act, an RA is an individual retirement fund available to anyone who wants to save for their retirement in a tax-efficient manner. While pension and provident funds are employer-linked funds, an RA has no association with one's employer group or employment status. As such, employees who contribute towards a company provident or pension fund can use an RA to boost their retirement funding, while those who don't have access to group retirement benefits can use an RA as their primary retirement funding vehicle.

As an RA investor, you are able to invest up to 27,5% of your taxable income on a tax-

deductible basis up to an annual maximum of R350 000, meaning that at the end of the tax year you can claim back the tax in respect of the contributions made towards your RA. In addition to being able to invest with tax-free money, RA are exempt from tax on dividends and interest, and no capital gains tax is payable on the growth earned in the investment.

Setting up an RA is relatively easy and there are few barriers to entry, with the minimum monthly premium for a unit trust-based RA being in the region of R500 to R1 000. RA investors are free to structure a portfolio that is wholly aligned with their objectives, investment horizon, risk tolerance and requisite returns, and in doing so can select underlying funds and asset allocation that are fully customised to their needs.

In addition, if a unit trust-based RA is used, investors can completely customise the way in which they contribute towards their RA which is especially beneficial for commission earners, those who are self-employed, and/or those who earn irregular incomes. Premiums can be set up to run monthly, quarterly, bi-annually, or annually, and can be stopped and/or started as per the investor's wishes with no penalties or administration charges being levied.

The uncertainty created by the Covid-19 pandemic over the past 22 months or so has demonstrated the mettle of unit trust RAs as many investors effortlessly put their contributions on hold for indefinite periods of time or until times of greater financial certainty.

With the earliest retirement age being 55, investors are not able to access their retirement funds prematurely, exception being in the case of ill-health and emigration, there is no age limit when it comes to retiring from an RA. As such, an RA should form part of a carefully constructed retirement plan that takes into account the tax implications of withdrawing from your RA, your future cashflow requirements, and any other retirement funding vehicles that you have in place.

If you leave formal employment, transferring your pension or provident fund benefits into an RA is one of the options available to you, keeping in mind that such a transfer will be tax neutral. Another option is to transfer the funds into a preservation fund with the unique advantage to this option being that you can make one full or partial withdrawal from the fund prior to the age of 55.

If you opt to transfer your pension or provident fund benefits to an RA, while you cannot make any withdrawals before age 55, you do have the ability to make additional contributions towards your investment. As such, choosing between a preservation or RA fund structure to house your retirement benefits should be a carefully considered exercise that takes into account your specific circumstances.

RA certainly have a role to play when it comes to estate planning, although it is important to understand that there are limitations. Remember, RA are government-incentivised funding structures, are designed to encourage individuals to save for retirement and, in doing so, alleviate the burden of the state.

The funds in your RA will not form part of your deceased estate and are not estate dutiable, to the extent that the contributions were tax-deductible. While the funds in your RA are protected from creditors, this protection does not extend to tax owed to SARS and/or maintenance claims.

The funds held in your RA can form part of your divorce settlement, although this will largely depend on the nature of your marital regime. When calculating the pension interest of an RA for the purposes of a divorce settlement, the total amount of your contributions to the fund up to the date of divorce, plus simple interest at the prescribed rate, will be calculated.

If you're invested in a unit trust-based RA, you are free to transfer your investment to another investment house or platform for whatever reason without incurring any costs or penalties. While legislation permits you to have as many RA as you like, there is very little purpose in owning multiple RAs.

Unlike the old, insurance-based RAs, new generation RA are flexible, transparent, highly customisable, and cost-effective, and remain one of the most attractive options for long-term retirement investing.

Comment

Of course, you have to have the funds to invest in RA. Keep in mind that you will be taxed when you receive an income from your RA. Discuss with your financial advisor.

Synopsis

Poland is looking good. EPP's balance sheet isn't.

13 January 2022
INCE|Community
The Finance Ghost

EPP, the Poland-focused property fund listed on the JSE, has released an operational, trading and financial update.

Predictably, it starts off with an update on Covid. As was the case in South Africa, Poland managed to get through the festive season without any lockdowns on the retail industry. This is obviously great news for the properties in the region as well. Poland seems to be adequately dealing with the Omicron variant at this stage.

This is critical, as the Polish government has implemented legislation that is highly punitive on landlords in the event of further lockdowns. 80% of a tenant's rental liability falls away during a lockdown and 50% of the liability fall away for three months after each lockdown.

My view is that governments worldwide have lost most of their support for draconian lockdowns on the entire population. The tension of different rules for vaccinated and unvaccinated citizens is now the focus. Economically at least, that's far less severe than the entire economy shutting down and everyone's livelihoods being threatened.

The country is expected to achieve strong GDP growth and is one of the fastest developing countries in the EU. These are some of the reasons why South African property investors spotted it as an opportunity to diversify from South Africa.

Like many other countries, Poland is currently grappling with inflation. Unlike many other countries, Poland has acted decisively by hiking rates and putting specific initiatives in place to help shield citizens from the effect of rising prices.

From July to December, Poland's shopping malls saw a trend that has also played out here: footfall hasn't returned to pre-pandemic levels, but turnover has. In other words, people are going to the malls less frequently and are spending more per trip than before. This is called the "basket size" in retail terms.

e-Commerce penetration (the percentage of total spend that is executed online) has dropped from above 10% to around 8%. This is good news for the malls.

Despite the promising news across the board, EPP believes that investment demand for malls will take another 2 - 3 years to recover to pre-pandemic levels.

EPP's portfolio is running at an occupancy rate of 95,8% and the weighted average lease term is around 5,2 years. Collection rates reached 95% in November 2021.

The fund faces headwinds from higher carbon emission taxes (added to the electricity cost and unrecoverable from tenants) and a decision by the Polish government to increase the minimum wage by 34%.

The company expects to report a loan-to-value of 56% at 31 December 2021, up slightly from June 2021. This is very high for a property fund and is part of the reason why Redefine is looking to take the company private and absorb its balance sheet.

The net asset value per share is expected to be around €1,02. Distributable earnings for the year ended December 2021 should be at least €0,75 per share. Due to the pressure on

the balance sheet and the looming debt repayments in 2022, the board does not expect to declare a dividend for 2021.

Comment

We have about R540mn in EPP NV. From the Finance Ghost seems to think EPP isn't doing so well while Poland is, but it does seem like it in the article.

Synopsis

Nine things you may not know about retirement annuities

A look at some lesser-known details and benefits about RAs that all investors should know about.

Moneyweb
17 January 2022
By Craig Torr - Crue Invest (Pty) Ltd

Image: Shutterstock

We're all familiar with the term 'RA' and the significant tax benefits associated with this type of investment vehicle, but there are some lesser-known details and benefits about RA that all investors should know about.

1. You can transfer your insurance RA to a unit trust platform

If you're sitting with an old school, insurance-based RA, you can transfer your investment to a unit trust platform, although there are a number of factors to consider. The process of transferring your RA from one service provider to another is governed by Section 14 of the Pension Funds Act and can take a number of months to complete. However, the decision to transfer should not be made as a knee-jerk reaction to high fees, poor investment performance, or poor administration, rather as part of a holistic investment strategy.

Insurance-based RA are effectively insurance policies and it is important to fully understand the policy fine print before making any final decisions. Being an insurance policy, there may be guarantees linked to the policy, or other benefits such as life and disability cover. There may also be penalties and/or fees involved for the early termination of the contract which your current insurer should be able to provide a breakdown of. These penalties are designed to recover the upfront commission and other costs when the policy was implemented.

Once you have a full understanding of the costs and penalties involved in the transfer, your advisor should be able to prepare a cost-benefit analysis to determine whether the costs involved outweigh the long-term benefit of transferring to a new RA.

Also important is that the money invested in your RA is effectively housed in a tax wrapper which means that it will not attract tax when transferring from one approved retirement fund to another.

2. You can use an RA to preserve your retirement benefits

When leaving an employer, it is advisable to preserve your group retirement benefits rather than cash them in. While a preservation fund is an excellent vehicle in which to house such benefits, keep in mind that it is not the only option available to you. Transferring your group retirement benefits into an RA structure has some significant advantages which should be weighed up against the unique features of a preservation fund.

If you transfer your funds to a preservation fund, you will not be able to make any additional contributions towards the investment. The only time you can add funds to a preservation fund is where they originate from another approved retirement fund. On the other hand, if you transfer your funds into an RA, you can continue contributing towards it on a regular basis and can make additional ad hoc contributions as and when circumstances allow.

Preservation funds provide investors with a significant advantage in that they are permitted to make one full or partial withdrawal from their investment before the

age of 55. RA, however, do not allow investors access to their funds prior to age 55 so it is important to be sure that you will not need access to your capital before this age.

Either way, no tax is payable on the transfer of retirement benefits into a preservation fund or RA.

3. You can have as many RAs as you like

You can open as many RA as you like, although you need to be clear on the reasons for doing so. You are permitted to invest up to 27,5% of your taxable income on a tax-deductible basis towards an RA, with this limit being applicable to the aggregate of all your contributions towards an approved retirement fund. There is therefore no tax advantage to having more than one RA.

4. RAs are more tax-efficient than TFSAs

When it comes to tax on investment returns, RA and tax-free savings accounts (TFSA) present the same tax efficiency for investors. No tax is paid on any dividends or interest earned in either an RA or a TFSA, and there are no CGT consequences. The big difference between the two investment structures is that your contributions towards an RA are tax-deductible, whereas your contributions towards a TFSA are made with after-tax money. As such, TFSAs become attractive investment vehicles once you have maximised your tax-deductible contributions towards an RA.

5. The funds in your RA are protected from creditors

If you are declared insolvent, Section 37B of the Pension Funds Act provides that the funds in your RA are protected from your creditors, although this does not mean that your RA funds enjoy complete protection from creditors. In terms of the Act, certain monies can be deducted from your pension fund money, including money owed to SARS, and amounts due and payable under the Divorce Act and Maintenance Act.

6. Your over-contribution will rollover

While your tax-deductible premiums are limited to R350 000 of your taxable income per year, this does not mean that you cannot invest more than this in a tax year. This is because any over contributions are rolled over to the following year and can be used for tax deduction purposes in that year. The advantage of this is that the over-contribution will still enjoy investment growth, even though the tax benefit will only be gained in the following year.

7. The funds in your RA are not subject to estate duty

The money invested in your RA does not form part of your deceased estate and will therefore not be taken into account for estate duty purposes. This is because the distribution of your retirement fund benefits in the event of your death is the responsibility of the fund trustees who are required to follow the procedure set out in Section 37C of the Pension Funds Act. In terms of this legislation, the trustees are required to determine who your financial dependants are at the time of death, and to distribute the funds in line with their determination. As a result, the executor of your deceased estate does not administer your retirement fund benefits which fall outside of the estate.

8. You can use your RA to reinvest your tax returns

An effective way to use your RA is to reinvest the tax returns you receive from SARS. At the end of the tax year, you will need to submit your IT3 certificate to SARS as part of your e-filing providing proof of the contributions you've made towards your RA in that tax year, following which SARS will refund you the tax on those contributions. You can then use your SARS refund to top up your RA in the subsequent tax year.

9. You can stop contributing to your RA without being charged penalties

Unit trust-based RA are transparent, flexible investments which, unlike insurance-based RAs, allow investors to completely customise their contributions. This means you can set a contribution that is fully aligned with your affordability, and you can adjust the level of contribution upwards or downwards as and when your circumstances change. You can choose to contribute monthly, quarterly, bi-annually or annually, with the added advantage that you can make ad hoc lump-

sum contributions whenever your like. This makes RAs very attractive for those who earn an irregular income, or who earn intermittent commissions or bonuses.

Comment

A good step by step explanation of RA, which should be considered as part of your retirement planning. RA are very much an individual's decision of what to do with surplus funds, not that we are over supplied with that, I believe. Point no 8 bears thinking, as you have already borne the pain of the tax paid and forgotten it, you might as well invest it wisely.

Synopsis

Why South African companies are fleeing the JSE

Mybroadband
Staff Writer
15 January 2022

Several factors are contributing to an exodus of companies from the JSE, including onerous regulations and the discouragement of foreign investors. This is according to Counterpoint fund manager Piet Viljoen and Austin Lawrence Gidon CEO Marius Strydom.

A November 2020 BizNews analysis found that the number of stocks available on the JSE roughly halved since the year 2000. Since the analysis was published, over 20 other companies have delisted from the JSE.

One of the most recent was Adapt IT, which delisted after being acquired by Canadian software company Volaris Group.

Speaking to BizNews in separate interviews this week, Viljoen and Strydom agreed that money flowing into index funds was a major factor discouraging local companies from remaining on the JSE.

Piet Viljoen, portfolio manager at Counterpoint
"All those funds do is buy the large companies, so smaller companies get completely neglected," Viljoen stated. "If you do a small-cap listing, you get no traction because the index funds are just not interested in buying small companies."

Money has also been flowing to the large fund managers, and Viljoen said they don't care about small companies either. Viljoen also highlighted onerous regulatory requirements as a reason companies delist or choose not to list. However, this is a global phenomenon.

"In terms of compliance and accounting standards — it has become burdensome to be listed anywhere in the world, not only South Africa," he said. "The rules and regulations have become very onerous. The accounting standards have become almost ridiculous if you look at what they make you do these days with regard to fair value accounting and all those sorts of things."

As a result, Viljoen said delistings are increasing globally.

Strydom said lack of analyst coverage for small and mid-cap stocks is an issue. "They are not seeing the benefits of being listed if they are not being talked about," he said.

Marius Strydom, Austin Lawrence Gidon CEO
Another important factor is foreign shareholding on the JSE, said Strydom, who said too-strict exchange control regulations keep them out. "They are, most of the time, the marginal buyers who push demand for South African companies up or down," he stated.

"If they have more demand for our companies, the JSE's rating increases. But if they are selling out of the JSE, then the rating decreases."

Strydom suggested that the JSE find different ways of promoting research in its stocks to solve these issues. "Many international bourses — the [German one] is a good

example — partner with research providers to provide coverage on undiscovered segments of the market. That certainly is one way of doing it," stated Strydom.

"You also need to find a way of getting the more interesting, exciting companies on your platform. But you have to offer them more than simply a place to trade the shares," he said. "These companies must find improved access to capital and improved visibility through the listing. We have got many alternative bourses now as well in South Africa, and I think there is going to be a push for these alternative bourses."

Comment

The delisting will have an influence on how our Fund's funds are invested. Cursory inspection of the GEPF 2021 AR show that we are probably the largest single investor in the JSE. This won't have an immediate influence on the investments but the effect will be cumulative. Wait and see.

Synopsis

Business chambers head to court as electricity showdown looms

Tariff differentials between municipal distributors in South Africa can be as high as 60%, creating unacceptable regional distortions in electricity costs across the country, say business chambers. (Photo: factor.am / Wikipedia)

Business Maverick
By Des Erasmus
16 January 2022

Business chambers are setting the stage for a showdown with the energy complex just as NERSA is expected to begin public hearings this week on Eskom's proposed and deeply unpopular 20,5% tariff hike.

The business chambers in Nelson Mandela Bay Metro and Pietermaritzburg filed papers last week against the NERSA municipal tariff methodology which is used to determine and approve electricity tariffs charged by municipalities. The chambers called the system "unlawful" as it gives municipalities carte blanche in determining mark-ups with no oversight on how the mark-ups are spent.

Just days earlier, Sakeliga, a non-profit business group that has found itself increasingly involved in disputes related to local government, instructed its attorneys to apply for the group to be admitted as a friend of the court in the matter, where SALGA has applied for a declaratory order to grant municipalities exclusive rights to distribute electricity within their jurisdictions.

Both these challenges could have serious financial consequences for local governments across the country, where the sale of bulk services, in particular electricity, accounts for most of the self-generated income.

As an example, in the City of Johannesburg 2020/21 budget, the biggest income generator was electricity, accounting for R16,9bn (or about 28%) of the metro's total locally generated revenue of R60,7bn.

This pattern is repeated in smaller cities, but electricity revenue plays a much more dominant role.

In Msunduzi Municipality (Pietermaritzburg) electricity revenue for the 2020/21 financial year was set at R2,6bn (43%) of a total revenue of R6bn.

In Nelson Mandela Bay Metro, electricity revenue accounts for 36,1% of total revenue. In a joint statement released on Thursday, the Nelson Mandela Bay Business Chamber (NMBBC) and the Pietermaritzburg and Midlands Chamber (PMCB) said they have "jointly filed papers to legally challenge [NERSA's] municipal tariff methodology".

This action, according to the chambers, is a last resort, claiming NERSA has told them that it will not review its methodologies without a legal challenge.

In their statement, wherein the chambers called the current methodology "unlawful",

they said the methodology enables municipalities to "implement excessive tariffs and then to utilise this to fund escalating electricity losses which are the result of their own inefficiencies". This resulted in "tariff differentials between distributors in South Africa being as high as 60%, creating unacceptable regional distortions in electricity costs across the country".

The chambers said the inefficiencies include a lack of infrastructure maintenance and cable theft.

Melanie Veness, CEO of the PMCB, who was outspoken about police and municipal leadership inaction during the widespread looting and destruction in July, said the legal challenge was to "halt the implementation of unlawfully high tariffs, which will result in industry paying for inherent inefficiencies in the system". "Our challenge seeks for the methodology for municipal customers to be based on the efficient cost of distributing electricity, excluding mark-ups which are not permitted for municipal customers."

"We believe that the guideline and benchmarking methodology is inconsistent with electricity legislation and therefore unlawful, and as such licensees should only be permitted to recover efficiently incurred cost of supply plus a reasonable margin."

Msunduzi's strained manufacturing and business sectors have been at loggerheads with the municipality for several years and are often victims of unscheduled electricity outages, incorrect billing, random disconnections and a near non-existent customer service centre to log faults and complaints. Veness points out that electricity income accounts for a substantial portion of the total revenue of municipalities.

"The reality is that electricity income is not spent exclusively on electricity and is utilised to cross-subsidise other municipal functions. If tariffs are approved without the efficiency of the costs being interrogated, there is no real incentive for municipalities to spend electricity income on infrastructure or to address theft, waste, fraud and corruption in the electricity system."

Veness said the general view appeared to be that the private sector should carry the costs of the losses and inefficiencies. "With Eskom's tariffs having increased by around 180% in real terms over the last 15 years, municipal tariffs have to be limited to efficiently incurred costs. Our joint action on behalf of our members will hopefully achieve this."

According to Denise van Huyssteen, CEO of the NMBBC, the present regulatory environment places the pressure on business, not the municipality. "We are very concerned about the current dysfunctionality of the external operating environment and the associated unacceptable escalating costs of doing business and in particular the sustainability of electricity supply."

"Furthermore, business is under tremendous pressure in relation to electricity pricing as Eskom is applying for increases exceeding 20%. In such an environment, continued excessive mark-ups from municipalities will exacerbate pressure on municipal consumers and in particular on businesses who are dependent on electricity for the continuity of their operations. This is clearly an unsustainable situation for businesses who are reeling from the economic repercussions of the pandemic and the July civil unrest."

Van Huyssteen said if the chambers are successful, the court order will benefit all South African consumers. She said this is the second time the chamber has taken a matter related to electricity to court. "In 2017 we were successful in getting the North Gauteng High Court to set aside the 9,4% tariff hike granted to Eskom, thus restricting Eskom's 2017 electricity increases to 2,2% and providing savings to businesses and consumers across the country."

In another matter that could have far-reaching consequences for how municipalities fund themselves, Sakeliga has said it wants to oppose SALGA's attempt to make sure municipalities should "enjoy exclusive rights to be the middleman without exception" in the supply and distribution of electricity.

If SALGA is successful, Eskom would be required to obtain a service delivery agreement with each municipality in which it directly supplies customers. Eskom and a number of private companies with distribution

licences are listed as respondents. Eskom has indicated it will defend itself.

Sakeliga has said via a statement that SALGA's challenge seeks to create a "monopoly on electricity supply" and could be "severely detrimental to end-users in decayed municipalities where the municipalities currently simply are not paying Eskom". **DM**

Comment

It should be abundantly clear that business is protesting the envisaged increase because of inefficiencies in the distribution of electricity. Aimed at perceived lack of maintenance; lack of attention to theft, fraud, corruption in the distribution; lack of oversight; cross subsidisation; etc. In effect, the envisaged increase seems not to a quick solution to solving the supply challenges.

Synopsis

Compound interest is why you must preserve your retirement savings

IOL
25 January 2022
By Vickie Lange

Millions of employees rely solely on the money saved in their employers' retirement fund to earn an income in retirement. However, for most, this money is insufficient to sustain them.

Alexander Forbes Member Insights 2021 reveals trends and statistics on close to one million members and their saving for retirement. Published in October, it highlights that only 6% of members can expect to replace the generally accepted target of 75% or more of their final salary (known as your "replacement ratio") when they retire. This means that the majority of individuals are not expected to achieve an income in retirement needed to sustain their standard of living.

Low replacement ratios at retirement

Low preservation rates of savings on changing jobs and low contribution rates are two of the main reasons for members not achieving being able to sustain their standard of living in retirement.

The minimum rate members need to contribute over a 40-year period to achieve a 75% replacement ratio is 17%. However, only 6% of our total membership can expect to achieve this. Members aged 60 and above have the worst projected replacement ratio outcomes: only 2% of these members have a projected replacement ratio of above 75%.

A total of 65% of members aged between 20 and 30 are expected to have a replacement ratio below 60% of pensionable income. The average member's shortfall in rands between the required fund credit as a multiple of salary and the actual fund credit was R833 179.

Why preservation rates are so low

Only 9% of members preserved their retirement savings when changing jobs. Financial distress is one of the reasons, with almost 20% of millennials having loans in default.

However, a common reason given by members for not preserving their retirement savings is that they are too low to warrant the trouble and expense of a preservation fund. A total of 58% of those who chose not to preserve had retirement savings of between R0 and R25 000. People need to be aware of the longer-term impact of not preserving even relatively modest amounts when they are younger because of the power of compounding.

The reality is that the amounts contributed in the early years of accumulation add the most to your benefit at retirement. Thanks to the impact of compound interest, the first 10 years of your savings can contribute as much as half of your savings at retirement.

What can be done to improve retirement outcomes?

Regulations have been put in place to improve low preservation rates. Default preservation rules automatically allow retirement savings to be made paid up in the fund when a member leaves his or her employer and doesn't make a payment election. Our experience is that members have benefited from the default rules being implemented. The number of members preserving increased from 8,8% in 2019 to

9,6% in 2020. The proportion of assets preserved has remained almost unaffected at 48%, despite the challenges in 2020 in relation to the Covid-19 pandemic.

Members should review their retirement savings to see if they are on track by seeking retirement benefit counselling or meeting with a qualified financial adviser and making additional contributions if required. In addition, they should preserve their savings when changing jobs to increase their probability of meeting their retirement goals.

Comment

It is never too early to start saving for your retirement. It is often late. The value of compound interest is hugely undervalued.

Synopsis

What to consider when determining your retirement income

Moneyweb
27 January 2022
By Craig Torr - Crue Invest (Pty) Ltd

Image: Shutterstock

A retirement plan is only as robust as the accuracy of the underlying assumptions, and one of the most important assumptions to get right is the determination of post-retirement income.

While there are many rules of thumb regarding the calculation of post-retirement income, the reality is that every retiree has a unique set of personal circumstances and objectives for retirement. It is these specifics rather than general that should be used in reaching a realistic post-retirement budget.

Accommodation

Many retirees plan to downscale their residence at retirement with a view to both freeing up some capital and securing more manageable accommodation that meets their retirement needs. But, a smaller home or retirement unit does not necessarily translate into reduced monthly expenditure. Rather than assume that your accommodation costs are going to reduce, be sure to do your research and read the fine print.

Living in a sectional title unit means that you will need to budget for monthly levies and for their year-on-year increases. Levies, which are set annually by the body corporate, are designed to cover all expenses that the body corporate encounters throughout a financial year, and can include maintenance of roads, gardens and swimming pools in the complex, cleaning, security, personnel, insurance, rates, and taxes. It goes without saying, therefore, that complexes with higher-end facilities such as jacuzzis, tennis courts, gyms, libraries, and club houses, will have more costs to cover and could therefore have higher monthly levies.

On the other hand, keep in mind that the monthly levies and administration costs of life rights schemes generally tend to be lower than those of sectional title units, and developers are required to provide a two-year cost estimate in respect of levies. As a results, life rights owners can expect to enjoy lower month levies which are easier to budget for into the future.

If you intend downscaling to a freestanding property, keep in mind that your rates, taxes, water, and electricity will remain standard budget items, and the escalating energy costs need to be accounted for.

Security is another important expense to budget for, especially if you intend living in a freehold property, so be sure to build the cost of ongoing security as well as security upgrades into your costing. As you age and become less physically mobile, expect to spend more when it comes to assistance around the home. This may take the form of additional domestic help to assist with housework, ironing, and general cleaning, garden services, pet grooming, bin cleaning, or pool maintenance.

Entertainment, exercise and local travel

With more time on your hands, expect to increase your line-item expenditure for entertainment, local travel, subscriptions, and membership fees. In the years leading up to retirement, you will no doubt have a feel for the activities and hobbies you would like to enjoy more fully in your retirement years, so start investigating these costs and creating a realistic budgetary framework.

Costs may include gym membership, sports clubs, hobby groups, book clubs, and hiking/walking organisations, so be realistic about what it would cost to enjoy these activities after retirement. You may also want to budget for lessons, courses, and tuition costs if you intend enrolling in computer, photography and/or language classes.

To remain active and engaged during retirement, expect to spend more time enjoying local travel, taking scenic drives, or enjoying short getaways, so make sure that you budget for a reliable vehicle, together with fuel, maintenance, and insurance costs.

Capital outlays

In the process of determining your retirement income, don't neglect to consider the capital outlays you might face during the course of your retirement. If you have adult children living abroad, budgeting for overseas travel – specifically during the early part of your retirement when you are likely to be more physically able to handle long distance travel – is important. That said, keep in mind that the costs of overseas travel have a tendency to exceed budget, so it's advisable to build fat into your travel budget.

In a global village, remaining digitally connected – especially for the elderly who often attest to feeling digitally isolated and overwhelmed – is particularly important.

Given the high cost of technology and hardware, it is important to ensure that you budget for these costs, both in terms of capital outlay and in respect of ongoing monthly costs such as Wifi, digital subscriptions, and licensing. Other capital outlays may include wedding costs, graduation gifts, assisting with your grandchildren's education costs, or helping your adult children purchase their first home. To ensure that you have sufficient discretionary capital earmarked for these purposes, consider making a list of the large capital expenses you could realistically face in retirement, and then build them into your retirement plan.

Healthcare costs

We all know that healthcare expenditure outstrips consumer inflation by around 4% per year, with the result being that your medical aid premiums as a proportion of your monthly expenditure will continue to grow over time. In addition to this, keep in mind that as you age and face more healthcare challenges, you may need to move onto a more comprehensive plan option which will naturally come at a higher premium.

As such, when estimating your medical aid costs in retirement, it is advisable as a minimum to budget for annual premium increases inflation plus 4%.

That said, keep in mind that you are always likely to face healthcare costs that will not be covered by your medical aid and, while these may be difficult to budget for in advance, it is not difficult to research the typical healthcare costs of the elderly. Medical appliances, hearing aids, spectacle and visual aids, wheelchairs, walkers, and prosthetics are all high-costs items that can create financial challenges for retirees and realistically as you age you can reasonably expect to be faced with some of these costs.

Other costs worth considering include the costs of home alterations and vehicle adaptations that may be necessary as you become less mobile.

Elderly care

Some of the most difficult costs to budget and prepare for are the costs of assisted living, frail care and/or home nursing. The longer you live, the greater your risk of requiring elderly care in some form or another becomes and when this happens you can expect a massive increase in your monthly healthcare expenditure. As such, it is important that your retirement plan is structured to accommodate this eventuality, keeping in mind that your monthly annuity income may not be sufficient to absorb these additional expenses and you

may need to access your discretionary funding to finance these costs.

Finding the optimal balancing between structuring your compulsory and discretionary portfolios, and the extent and timing of your withdrawals, is critical to developing a robust retirement plan.

While anticipating the costs you may be faced with in retirement can be overwhelming, keep in mind that there are a number of costs that are likely to fall away when you retire.

In the first instance, it is likely that your home loan will be fully paid up either before or at retirement which means that your bond repayments will no longer be a line item. Similarly, you will no longer be contributing towards your investments nor your life insurance, so these costs will also fall away.

That said, don't lose sight of the fact that retirement can be a long life stage and your budget going into retirement can look entirely different to your budget fifteen years into retirement, and planning for these changed circumstances and costs is an imperative.

Comment

Good advice and easy to understand. We all need to keep planning our retirement even when we are retired. The cost of living doesn't go away when we retire!

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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