

GEPF: INVESTMENT EXPENSES - AN UPDATE ON TRANSACTION COSTS

Declaration of interest: I am a GEPF member since December 1977 and a pensioner since 2015. As such I have a direct and vested interest in the performance and well being of the Fund. I fully agree with the Vision of the GEPF. My comments and views are focussed on speeding up actions to attain this VISION which is for the GEPF to actually BE a GLOBAL LEADING and REPUTABLE PENSION FUND.

TRANSACTION COSTS AND OTHER EXPENSES

Dealing with this issue under the subheading of "PIC and Transaction Fee Framework" the Mpati commissions final report made the following recommendation on page 765...
 "Recommendations : 171. A detailed investigation should be initiated by PIC management (potentially with the support of appropriate governmental prosecuting bodies) to create an exhaustive list of all fees paid over R5 million since 2014. This list must then be interrogated to aggressively initiate legal processes of recovery where appropriate. "
 (MPATI report see here.. <http://www.thepresidency.gov.za/download/file/fid/1811>)

BACKGROUND

The issue of escalating investment expenses were raised since 2017. For instance a more complete summary of comparisons and analysis was done in December 2018 and released under the Title of GEPF AND ITS BLUEPRINT: INVESTMENT EXPENSE.

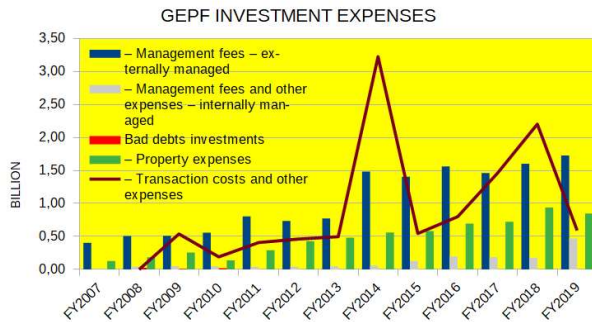
The payment of transaction advisor's fees are done by the PIC where after these costs are passed on to the GEPF as the investment owner. The GEPF reflects these costs in note 17 to its own audited financial statements as part of INVESTMENT EXPENSES.

Consider this graph – does it look like the Transaction costs and other expenses since 2014 was properly controlled?

Up to 2013 there was a close correlation to the property expenses. And since 2014?

Responding to a query on the 2017 Annual report, the GEPF stated the following:

"These costs are incurred by the managers and recovered from the Fund. Full accounting and disclosure is made and reconciliation's are reviewed monthly by the Fund. These costs are reported monthly to the master custodian as the master record keeper and accounted for accordingly. The GEPF external auditors review our financial records directly from the source including asset manager as well as the master custodian annually. These costs are audited as a result."



So if the PIC, who initially did not properly follow their own policy in the payment of these transaction advisors, is now going to relook at these cases into the Mpati recommendations, **is this not like re-appointing wolf to be sheep-herder after we lost half the flock?**

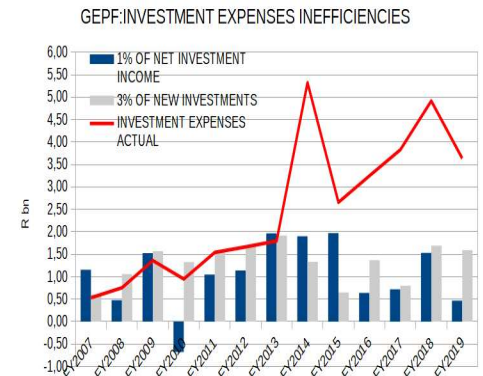
Where exactly does the GEPF, as the principal in the asset manager relationship, feature in this matter? Remember, every year the Trustees signed off on their statement of responsibility certifying that they:

- Ensured that proper internal control systems were implemented by or on behalf of the Fund;
- Ensured that investments of the Fund were made and maintained in accordance with the Fund's investment strategy.

Its quite clear from the Mpati report that the internal controls over the investments, and specifically regarding transaction advisors, were seriously lacking.

So the above-mentioned corporate governance outcomes were in fact NOT ACHIEVED. The certification by the Trustees created the illusion of control. Users of the Financial Statements, including GEPF members and pensioners, relied on these representations, which for all intent and purposes, based on the Mpati report, can surely not be regarded as credit or trustworthy.

BUT now we know different and the question at this time is,.. which practices implemented by the GEPF itself were found wanting? Which officials were tasked to exercise these controls, but did not do so effectively? Where was the GEPF's internal auditor in all of this? And the Trustees? Effective trustees have the knowledge and understanding to critically review and verify the performance of the scheme's investment managers. The trustees also need to ensure that the pension scheme has in place proper monitoring and control procedures for investment managers.



This includes closely monitoring and controlling investment expenses. Using the internal efficiency ratios of 1% of Net investment income and 3% of new investments as gauge, the following graph shows where inefficiencies are in evidence. From 2014 onwards the actual investment expenses is not even close to the historical averages. The inefficiencies amounts added together suggests an amount of 14billion may be involved.

It does not appear as though the GEPF is actually willing to publicly acknowledge that there were various control lapses **by their own hand that needs urgent attention**. At the conclusion of the Mpati hearings for instance, the GEPF claimed that they did nothing wrong. The GEPF's media statement following the release of the Mpati report basically only applauds the efforts of the PIC. AGAIN – where are the GEPF's Internal auditors – have they acted on the suspected illegal, unethical, financial irregularities? Have they reported these into PRECCA?

But accountability is a patient task master and sunlight is the best disinfectant.