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GOVERNMENT EMPLOYEE PENSION FUND

ANNUAL REPORT ANALYSIS 2018/19

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1. INTRODUCTION

The Government Employee Pension Fund (GEPF) is Africa's largest defined pension fund established in 1996, to provide pensions and other related benefits as determined in the Government Employee Pension (GEP) Law to members, pensioners and their beneficiaries. The Board of Trustees is the Executive Authority Members and employers have equal representation on the Board. The GEPF outsources investment and administration functions to the Public Investment Corporation (PIC) and Government Pension Administration Agency (GPAA)

The aim of this paper is to provide a summary and raise issues for consideration on the Government Employee Pension Fund for the financial year ending on 31 March 2019.

This brief focuses on the following selected issues:

- A brief overview of the performance outcomes.
- Auditors report
- Valuators report
- Human resources

Highlights of the 2018/19 Annual Report

- GEPF's accumulated funds and reserves amounted to R1.8 trillion as at 31 March 2019



- GEPF investment portfolio grew by R17 billion in 2019 compared to 2018 , however it performed below par under listed equities and domestic bonds and bills.
- GEPF investments yielded an average return of 2.6% compared to 8.5% in 2018. This has been the worst return on investment since 2009.
- Contributions received increased from R70.4 billion in 2018 to R75.1 billion in 2019. Benefits paid increased to R103 billion. Benefits paid are significantly more than the contributions received in a financial year.

2. AUDITORS REPORT

The GEPF received an unqualified audit opinion. The emphasis of matters raised is in respect to financial reporting framework.

Several matters addressed in the context of the audit of financial statements and in the auditors (Deloitte & Touche and Nexia SAB&T) forming an opinion. These matters related to:

- PIC Governance: The integrity of information produced by the PIC on behalf of the Fund for the financial reporting purposes;
- Valuation of unlisted investments;
- Valuation of benefit payable provision; and
- The impact of contributions rates on the funding level of the Fund.

Issues for consideration:

The Auditors (Deloitte & Touche and Nexia SAB&T) found no instances of non-compliance with laws and regulations during the course of the audit of the financial statement. It may be useful however, to obtain clarity on the following from GEPF:

1. The AGSA in their report to Standing Committee on Finance (SCOF) on state entities found that Public Investment Corporation were non-compliant with investment policies, guidelines and procedures in Asset under Management (AuM).

Below is a summary of material non-compliance findings identified for AuM:

- Non-compliance with governance process,
- Due diligences not sufficient and appropriate prior to approval of investment deals,
- Loan contracts not aligned to the approved structured deal as approved,
- Conditions precedent placed on the deal by Portfolio Management Committee (PMC) 2 not incorporated into the legal contract, and
- Limitation of scope where audit evidence was not provided to perform work in areas such as deal origination, disbursements and monitoring of investments.

Question:

What is the GEPF doing to ensure that the investment mandates, policies and procedures are adhered to by PIC who manages their investment portfolio. What has been done to date – measures put in place. Have they been effective?

2. The Valuation of Unlisted Investments are a responsibility of the Board of Trustees which have been discharged this function to the PIC. What controls and measures around valuation of unlisted investments, governance and related approval process of new investments have been put in place. Please provide a detailed account of the measures.



3. VALUATORS REPORT

Issues for consideration:

The valuation report states as at 31 March 2018, only 19.1% (R137 million is affordable level by Fund) of the recommended reserves could be held.

The valuator states that the full value of the recommended contingency reserve accounts, including solvency reserve, on a conservative basis and if affordable, the Fund would ideally set up a contingency reserve of R730,9 million.

a. Given the significant changes in the liability and asset values over the past few years, isn't it prudent to try to increase their contingency reserve even though the actuarial valuation shows that 75.5% of liabilities and reserves are afforded as at 31 March 2018.

4. PERFORMANCE PLAN / STRATEGIC TARGETS

The National Treasury's Guideline for Legislative Oversight through Annual Reports states that annual reports "must deal with every aspect of performance to which an entity has committed itself in its strategic plan."

During the 2018/19 financial year, the GEPP made the following performance targets based on strategic objectives (Page 6 of the Annual Report):

- Improving benefit administration;
- Improving member and beneficiary communication and education;
- Improving investment monitoring and evaluation;
- Reviewing the governance and operating model;
- Enhancing risk architecture; and
- Improving shareholder relations.

Issues for consideration:

There is a general problem in using the annual report of the GEPP to evaluate performance over time. In their annual report, it's stated that Exco drives the Board strategy and ensures that all divisions are adept in meeting the strategic targets set by board.

While the GEPP complies with the letter of the law in its formal reporting, it does not provide Parliament with information that allows a clear understanding of what the set strategic targets and achievements were for 2018/19. This makes it impossible for Parliament to judge whether investment portfolio and performance information were favourable to the targets set by GEPP.

1. Members may want to ask the GEPP to provide a report on the targets and achievements it has set itself – and which have been approved by the Board, Minister (and Parliament) each year, unless there is Pension legislation preventing the submission of such information.



5. HUMAN RESOURCES

Issues for consideration:

1. What is the total number of staff at GEPP (number of employees)
2. How many posts are vacant?
3. Categorise the positions according to occupation (example: senior management, skilled technical, semi-skilled, professional and unskilled).

6. REFERENCES

Government Employee Pension Fund (2019), Annual Report (2018/19)

Public Investment Corporation (2019), Annual Report (2018/19)

Auditor General of South Africa (2019) PFMA – BRRR Finance Portfolio Presentation to the Standing Committee on Finance (SCOF)