



## 2018 ANNUAL REPORT



ENSURING YOUR FUTURE

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## VISION

To be a global leading and reputable pension fund that delivers quality service to beneficiaries.

## MISSION

As the Government Employees Pension Fund is the custodian of a significant portion of the wealth of public servants, our mission is to:

- ensure the sustainability of the Fund;
- provide for efficient delivery of benefits; and
- empower our beneficiaries through effective communication.

## VALUES

We value **integrity**, **transparency**, **client centricity**, **accountability**, and **innovation**.

### Integrity

- Being ethical and truthful
- Maintaining good governance practices
- Not misrepresenting or withholding information to which our stakeholders are entitled

### Transparency

- Communicating openly and frequently with our stakeholders
- Setting out information in a format that is clear and understandable
- Being open to scrutiny and oversight

### Client centricity

- Working collectively and cooperatively with our stakeholders
- Caring
- Maintaining customer focus

### Accountability

- Acting with due diligence, competence, confidentiality, and reliability

### Innovation

- Championing research and development in the retirement industry worldwide

# MINISTER'S NOTE TO PARLIAMENT



To the Speaker of Parliament

I have the honour, in terms of section 9(6) of the Government Employees Pension Law, 1996 (Proclamation 21 of 1996), as amended, to submit the annual report of the Government Employees Pension Fund for the period 1 April 2017 to 31 March 2018.

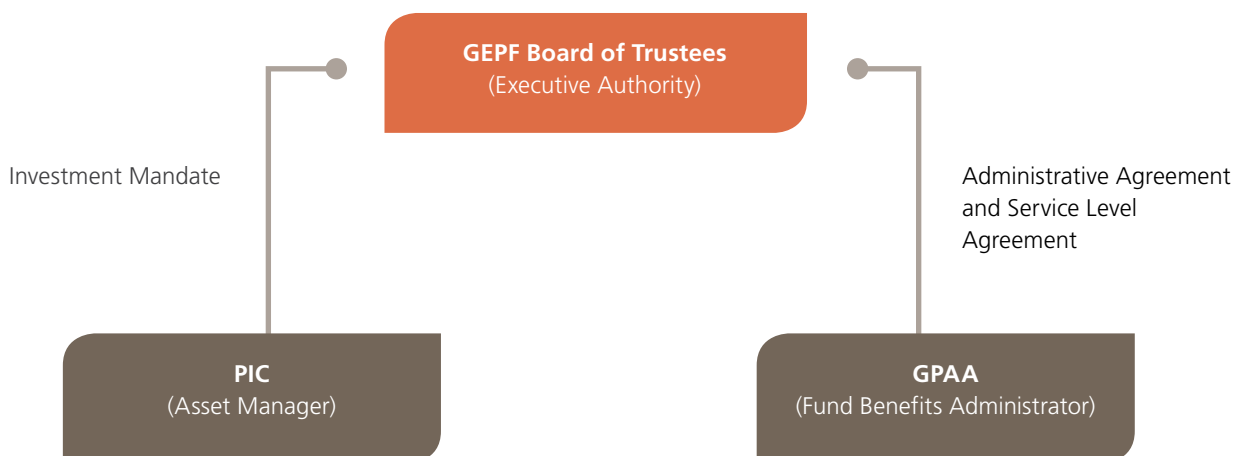
**TT Mboweni**  
Minister of Finance

November 2018

## OPERATING MODEL

The Government Employees Pension Fund (GEPF) is a leading pension fund that manages pensions and related benefits on behalf of government employees in South Africa. Established in 1996, it is one of the largest pension funds in Africa and in the world.

The roles and responsibilities of the Government Employees Pension Fund (GEPF) and its implementing agencies, the Government Pensions Administrative Agency (GPAA) and the Public Investment Corporation (PIC) are clearly defined as depicted below. The GPAA carries out day-to-day administration while the PIC invests funds on behalf of the GEPF.



### GOVERNMENT EMPLOYEES PENSION FUND

The GEPF core business, which is to manage and administer pensions and related benefits for government employees in South Africa, is governed by the Government Employees Pension (GEP) Law (1996). The executive authority of the GEPF is the Board of Trustees. The duties and powers of the GEPF Board are prescribed by the GEP Law and Rules and require that:

- proper registers, books and records of the pension fund are kept, inclusive of proper minutes of all resolutions passed by the Board;
- proper internal control systems are implemented by or on behalf of the pension fund;
- adequate and appropriate information is communicated to the members of the pension fund, informing them of their rights, benefits, and duties in terms of the Rules of the Fund;
- all reasonable steps are taken to ensure that contributions to the pension fund are paid in a timely manner;
- the Board of Trustees obtain expert advice on matters where it requires additional expertise;
- the rules, operation and administration of the pension fund comply with the applicable laws; and
- investments are made and maintained in accordance with the pension fund's investment strategy.

The GEPF endeavours to give members, pensioners and beneficiaries peace of mind regarding their financial security after retirement. We do this by ensuring that all funds under GEPF custody are invested responsibly and are accounted for, and that benefits are paid out efficiently, accurately and on time.

## GOVERNMENT PENSIONS ADMINISTRATION AGENCY

The Government Pensions Administration Agency (GPAA) is a government agency, established in terms of section 7A(4) of the Public Service Act (1994) with effect from 1 April 2010.

The GPAA administer benefits on behalf of the GEPF and of National Treasury. The relationship between GPAA and GEPF is managed through an administration agreement as well as a service level agreement.

## PUBLIC INVESTMENT CORPORATION

The Public Investment Corporation (PIC) is a South African state-owned entity, with the Minister of Finance as shareholder representative. Established in 1911, PIC is one of the largest asset managers in Africa.

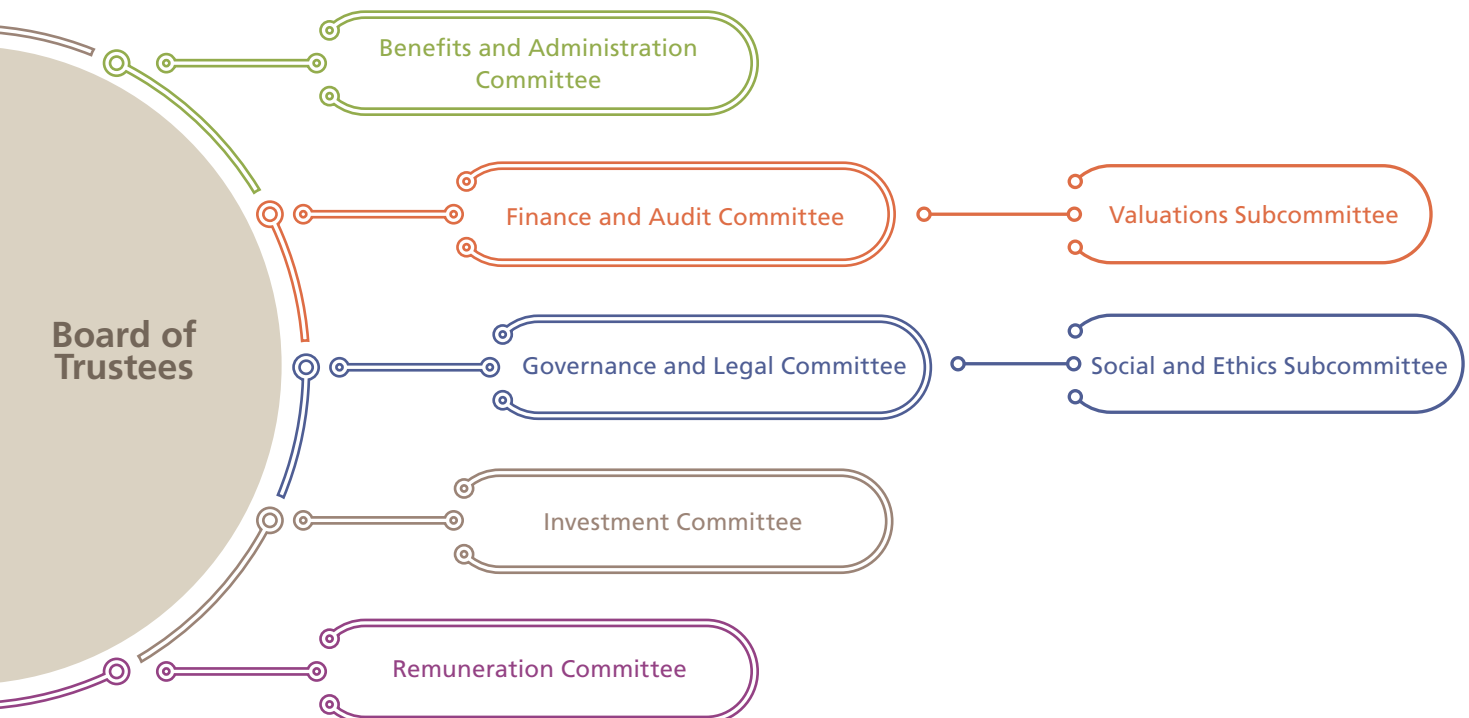
The PIC invest funds on behalf of public sector entities, including the GEPF. The investment arrangements between the GEPF and the PIC are set out in an investment mandate

(the Mandate Agreement) agreed to by both parties. The mandate includes the investment policy of the GEPF, as well as the investment portfolio structure, risk parameters, benchmarks and fees, the proxy voting policy, ESG policy and the derivatives policy of the GEPF.

The PIC manages 87% of the GEPF's investment portfolio directly and the remainder through local and international external managers.

## GEPF GOVERNANCE STRUCTURE

The GEPF Board of Trustees governs the pension fund and is accountable for its investment and administrative performance. According to the Government Employees Pension (GEP) Law, fiduciary responsibility for the pension fund rests with the Board of Trustees. The Board has constituted five permanent committees and two subcommittees to give effect to its strategic direction.



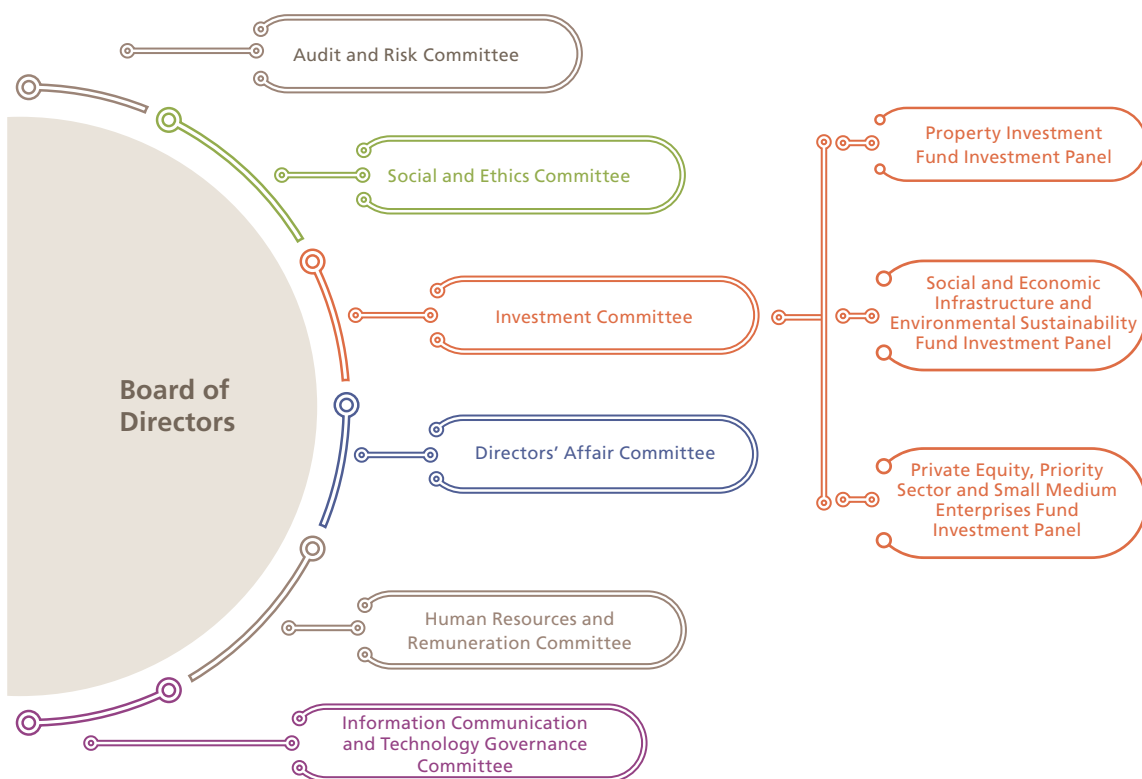
## PIC GOVERNANCE STRUCTURE

The Public Investment Corporation is a state owned entity and a financial services provider registered with the Financial Sector Conduct Authority (FSCA).

In terms of financial management and accountability, the PIC is regulated by the PIC Act, the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA), the Companies Act, 2008

(Act 71 of 2008) and the Prevention of Organised Crime Act, 1998 (Act 121 of 1998) and adheres to the provisions of the Financial Intelligence Centre Act, 2001 (Act 38 of 2001) (FICA).

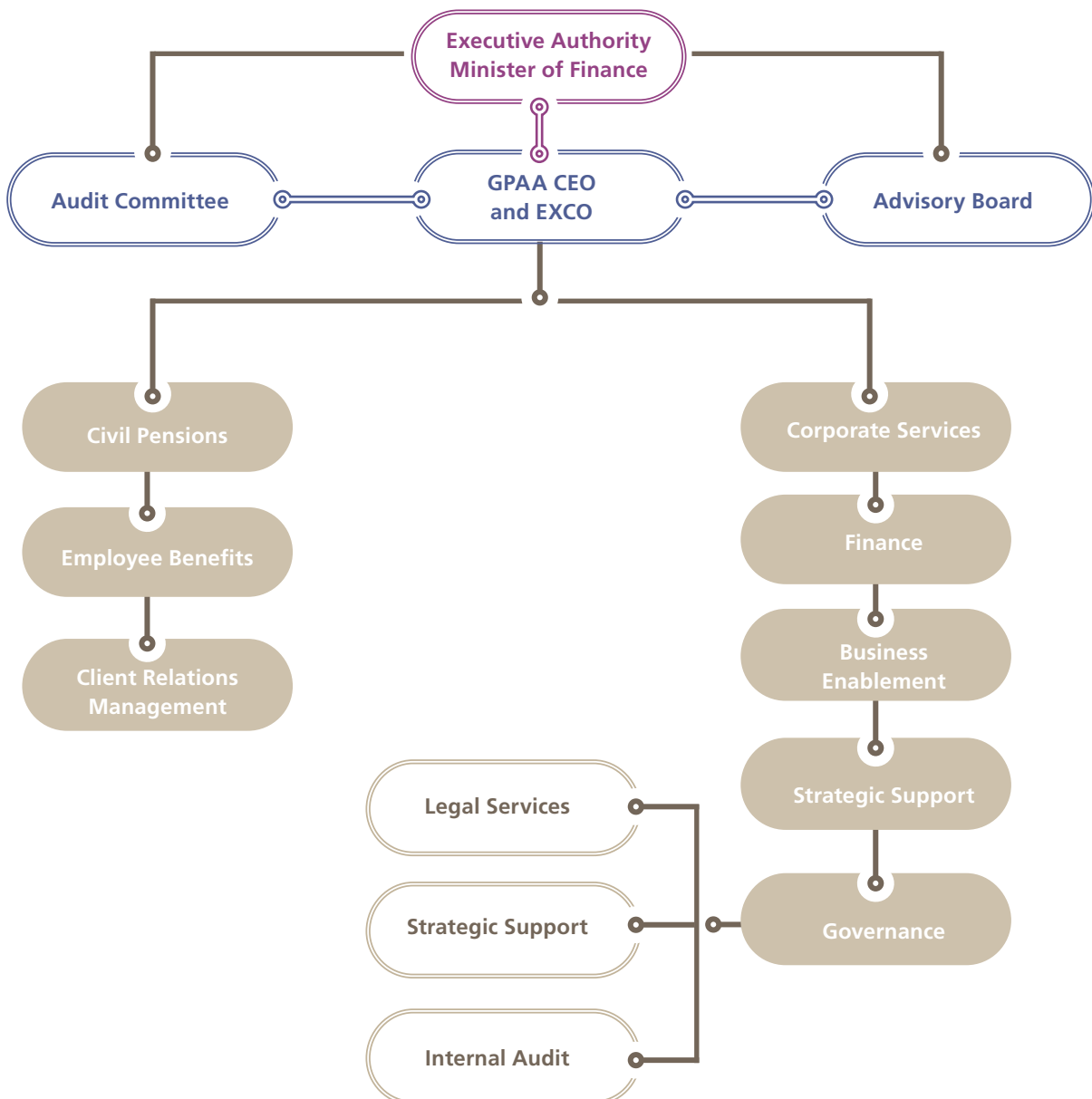
The PIC Board of Directors is responsible for setting the strategic direction of the company and has six permanent committees to assist in this regard, as depicted below.



## GPAA GOVERNANCE STRUCTURE

The Government Pensions Administration Agency (GPAA) is headed by a Chief Executive Officer who is assisted by an executive management committee (EXCO). Various internal committees, including risk management and internal audit, report to the EXCO.

The administration agency reports to an independent audit committee. The Minister of Finance appointed an Advisory Board to strengthen the governance and oversight of the work of the GPAA. The GPAA reports to the Minister of Finance, who serves as its executive authority.





## OVERSIGHT AND MONITORING OF INVESTMENTS

The GEPF has policies and processes in place to govern its investment function. The GEPF Board established the GEPF Investment Committee that monitors the pension fund's investments and oversees the implementation of the GEPF investment policy and strategy.

The Investment Committee considers factors such as changes in the GEPF liabilities, changes in the expected return on assets, the likely volatility of the value of the pension fund's assets, and the implications that such changes may have on the funding level, contribution requirements, or benefits of the GEPF.

The Investment Committee's duties include, but are not limited to:

- setting the pension fund's investment policy, with approval from the Board of Trustees;
- determining the pension fund's strategic asset allocation to align with the fund's future liabilities;
- monitoring and reviewing the implementation of the pension fund's investment strategy through its investment manager(s) to ensure compliance with policy, and procedure;
- monitoring investment performance – the investment committee ensures that an independent review and evaluation of the investment returns, and risk of the investment portfolio is conducted at least quarterly; and
- reviewing quarterly investment reports and reporting where appropriate to the Board on issues that are considered important or relevant for Board deliberation.

The Valuations Subcommittee is a subcommittee of the Finance and Audit Committee and reports to the Finance and Audit Committee of the Board and the Investment Committee. The Valuations Subcommittee was established to advise the Fund on the relatively complex matter of the valuation of GEPF unlisted investments managed by its asset managers.

Monitoring and oversight of GEPF investments takes place primarily at management level. The GEPF Investment Management division bridges the gap between the asset managers and GEPF investment committees by overseeing the implementation of the investment strategy as set out in the investment mandate. The Investment Management division also facilitates investment processes and eases the flow of information and communication between the GEPF and asset managers. There are meetings that take place monthly and are augmented whenever necessary.

There are also quarterly meetings between the executive committees of the PIC and GEPF to oversee the execution of the GEPF's Investment Management Agreement by the PIC.

## OVERSIGHT AND MONITORING OF BENEFITS ADMINISTRATION

The GEPF Board of Trustees has a Benefits and Administration Committee which oversees and monitors the performance of the GPAA with regards to the administration of benefits. The committee meets quarterly and the GPAA submits the following reports to the committee:

- Compliance to the service level agreement
- Resignations from the pension fund
- Unclaimed benefits
- Modernisation update

The executive committees of the GEPF and the GPAA meet on a quarterly basis to assess GPAA performance according to the service level agreement, as well as to discuss other strategic matters.

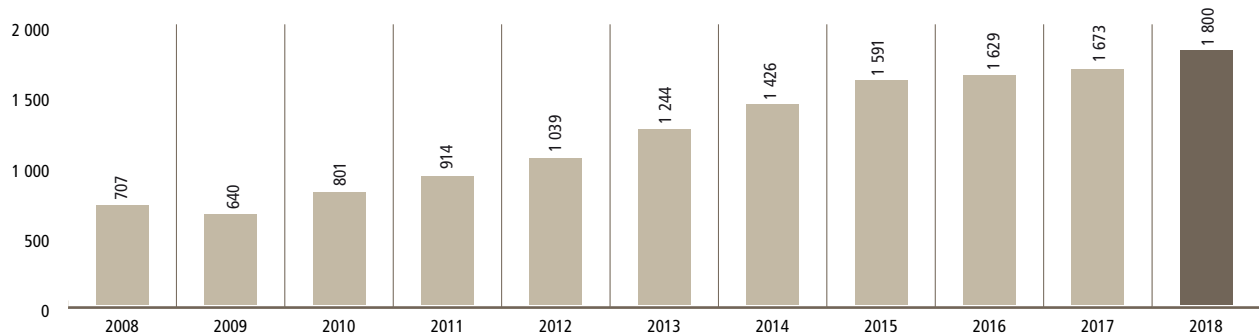
To ensure effective and efficient operations, the executive committees also hold ad hoc meetings whenever necessary. The GPAA submits its annual operating budget to the GEPF Finance and Audit Committee, and thereafter the budget is submitted to the GEPF Board of Trustees for approval. Oversight and monitoring of the expenses of the GPAA is the responsibility of the GEPF Finance and Audit Committee.

# GEPF AT A GLANCE

## ACCUMULATED FUNDS AND RESERVES AS AT 31 MARCH 2018

The Government Employees Pension Fund accumulated funds and reserves amounted to R1.8 trillion on 31 March 2018. The reserves represent the actuarial reserve that was set aside to address past discriminatory practices in terms of a collective agreement negotiated and agreed to in the PSCBC. An amount of R8.9 billion is currently held in the reserve account. Accumulated funds and reserves grew at an average rate of 10.2% during the 2008 – 2018 period.

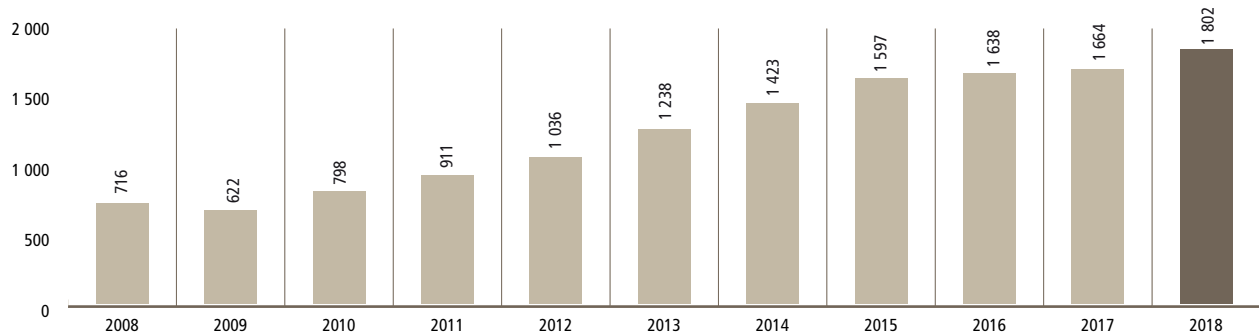
### GROWTH OF ACCUMULATED FUNDS AND RESERVES



### GROWTH IN INVESTMENT PORTFOLIO

The GEPF investment portfolio grew by 8.3% from R1.7 trillion in 2017 to R1.8 trillion in 2018. The increase in the investment value is mainly due to the performance of domestic assets over the past year, particularly bonds and equities.

### GROWTH IN INVESTMENT PORTFOLIO



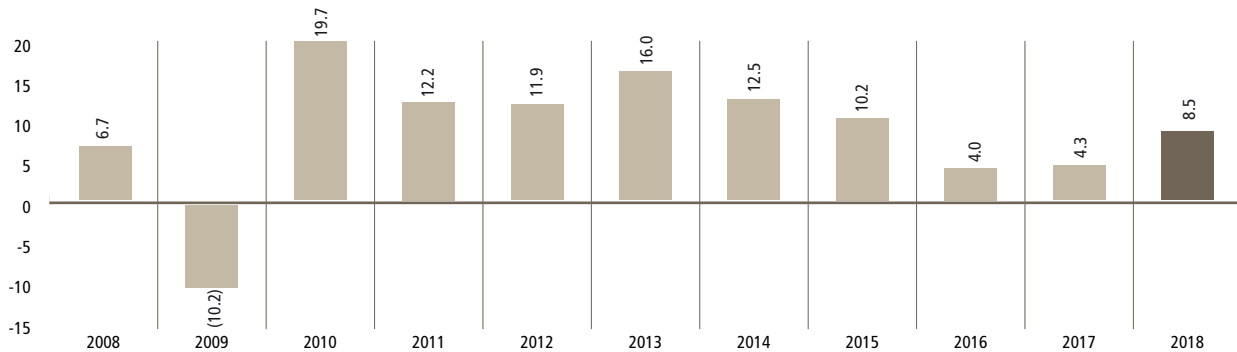
Description	2018 R'000	2017 R'000	Movement R'000	% change
Listed equities	R970 086 402	R882 929 188	R87 157 214	10
Domestic bills and bonds	R563 088 813	R530 284 820	R32 803 993	6
Unlisted equities (domestic)	R50 683 420	R36 905 227	R13 778 193	37
Collective Investments Scheme (foreign)	R98 238 637	R92 150 804	R6 087 833	7

- Listed equity increased by 10% as a result of a positive fair value adjustment and additions.
- Domestic bills and bonds increased by 6% as a result of a positive fair value adjustment and additions.
- Domestic unlisted equities increased by 37% as a result of a positive fair value adjustment and additions.
- Foreign collective investments schemes increased by 7% as a result of new investments.

## RETURN ON INVESTMENTS

During the reporting period, the GEPF investments yielded an average return of 8.5% compared to 4.3% in 2017, based on net investment income of R153 billion (2017: R72 billion).

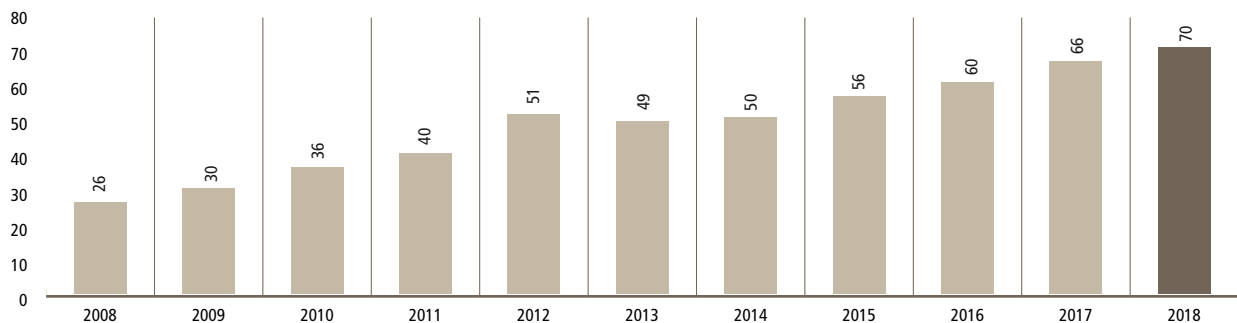
### AVERAGE RETURN PERCENTAGES



## CONTRIBUTIONS RECEIVED AND ACCRUED

The GEPF receives a percentage of members' pensionable salaries as contributions. Contributions received increased with 7.3% during the reporting period, going from R65.6 billion in 2017 to R70.4 billion in 2018. This increase is mainly due to salary increases given to members during the year.

### INCREASE IN CONTRIBUTIONS RECEIVED

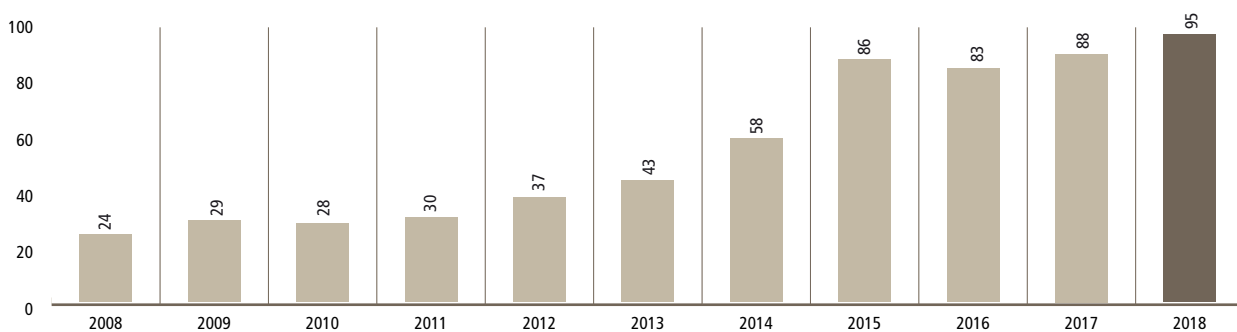


## BENEFITS AWARDED

The GEPF awards benefits upon a member's resignation, retirement or death. The pension fund also pays funeral benefits where applicable.

The amount of total benefits paid during the year under review increased by R6.6 billion.

### INCREASE IN BENEFITS PAID



# GEPF BENEFITS

The GEPF is a defined benefit fund. This means that the benefits defined in the Rules of the Fund are guaranteed; they don't depend on how much the member and employer have contributed.

The GEPF provided benefits to 1 273 125 active members and 450 322 pensioners and beneficiaries as at 31 March 2018. The pension fund provides:

- Benefits for normal, early, late retirement and ill health retirement
- Benefits for members affected by retrenchment/restructuring
- Funeral benefits
- Death benefits

## RETIREMENT BENEFITS

The pension fund provides benefits for normal, early and late retirement, as well as retirement for medical reasons. Members whose employment has been affected by restructuring or reorganisation are able to claim severance benefits.

### NORMAL RETIREMENT

The normal retirement age for GEPF members is 60, according to Fund Rules. The benefits payable depend on whether a member has fewer than 10 years of pensionable service, or 10 or more years of pensionable service. Members with fewer than 10 years of service receive a gratuity (a once-off cash lump sum) equal to their actuarial interest in the fund. Members with 10 or more years of service receive a gratuity and a monthly pension (or annuity). Members who retire with more than 10 years of service can increase their spouse's annuity entitlement from 50% to 75% by reducing either the gratuity or the annuity.

The GPAA processed and finalised 35 571 cases of members retiring during the period under review. The total value of gratuities paid was R14.5 billion and annuities amounted to R40.6 billion.

### EARLY RETIREMENT

Under certain circumstances, members may retire before reaching the retirement age of 60. The years of pensionable service determine the benefits payable. Members with 10 or more years of service receive annuities and gratuities, calculated in the same way as for normal retirement, but with a reduction of a third of one percent for each month between the dates of early retirement and normal retirement.

### ILL-HEALTH RETIREMENT

Enhanced benefits are paid when members retire for medical reasons or are injured on duty. In these cases, members are eligible to receive both annuities and gratuities. For members with fewer than 10 years of pensionable service, the benefits are based on an increased period of service and are calculated as a percentage of the member's final salary. If a member has at least 10 years of pensionable service and is discharged on account of sickness that is not of his/her own doing, an annual supplementary amount is paid to him or her.

### LATE RETIREMENT

Although the normal retirement age for GEPF members is 60, in certain instances the employment contract of the member may allow for the member to retire after 60. The benefits of such a member is calculated using the same formula as for normal retirement.

## RESIGNATION BENEFITS

These benefits apply to members who resign or are discharged due to misconduct, or an illness or injury caused by the member's own doing. These members can elect to be paid a gratuity (a once-off cash lump sum) or have their benefits transferred into an approved retirement fund. If the member elects for benefits to be transferred, the GEPF pays the member's actuarial interest to the new approved fund.

An amount of R27.2 billion was paid in resignation benefits to 26 690 beneficiaries during the year under review.

## DEATH BENEFITS

Death benefits are paid when a member dies while in service, or within five years of becoming a pensioner. The GEPF pays annuities to the surviving spouse(s) or orphan(s) of members who die while in service or within five years of retiring.

### DEATH WHILE IN SERVICE

The benefit payable is based on the member's period of pensionable service. It is payable to the surviving spouse(s) or to the beneficiaries or, if there are no beneficiaries, to the member's estate.

### DEATH AFTER BECOMING A PENSIONER

Retirement or discharge annuities are guaranteed for five years after a member goes on pension. If the member dies within this period, his or her beneficiaries receive the balance of the five-year annuity payments (excluding the annual supplement) as a once-off cash lump sum.

The GEPF paid an amount of R5.4 billion in death benefits during the reporting period.

### SPOUSE'S ANNUITY

A spouse or eligible life partner is entitled to a percentage of the annuity paid to the member at date of death. The same applies if the member dies while in service and had a full potential service period of at least 10 years (meaning pensionable service years plus unexpired years for normal retirement). If a member retired before 1 December 2002, the spouse's annuity is 50% of the annuity the pensioner was receiving at the date of death, but a member who retired on or after 1 December 2002, had the option of increasing the spouse's annuity benefit from 50% to 75%.

This arrangement applied to all members because the GEPF Board resolved in September 2012 that all current pensioners of the fund be allowed to reduce their pension for an increased spouse's pension from 50% to 75%. This option was only available to pensioners for a limited period. The reduction was calculated based on the member or pensioner's age and gender, spouse's actual age and the remaining guarantee period.

A total of 9 906 claims for increased spouse pensions were processed during the reporting period.

### ORPHANS' ANNUITY

The GEPF pays annuities to the orphans of members who became pensioners on or after 1 December 2002. An orphan's annuity is also payable when a member dies in service with a potential service period of 10 years or more. These annuities are paid when a member's spouse dies, leaving eligible orphans.

The number of orphan's receiving a benefit from the GEPF is 180. A total of 767 new applications were processed and 753 of the current orphans receiving a benefit from the GEPF reached the termination age for this benefit. The GEPF paid R39 million in orphans' annuities during the reporting period.

The orphans' annuity was replaced by a child pension benefit on 1 July 2018.

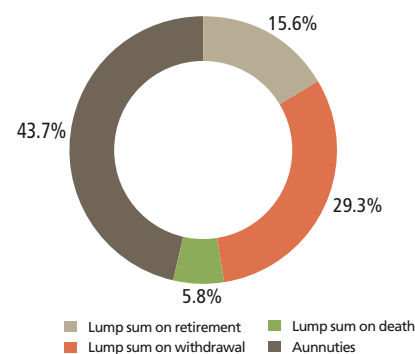
### FUNERAL BENEFITS

Previously, the GEPF provided funeral benefits on the death of members and pensioners whose pension commenced only on or after 1 December 2002 as well as on the death of spouses and eligible children of members and pensioners whose pension commenced after 1 December 2002. However, the GEPF Board approved that this benefit be extended to all pensioners whose pension commenced before 1 December 2002 and who were alive at the effective date of the rule amendment. The rule amendment was gazetted and effected on 1 April 2012.

The GEPF processed and paid 24 789 funeral benefit claims. Of the 11 297 claims paid in respect of members, 53.99% (6 099) were claims for members, 32.91% were claims for members' spouses and 13.1% were for eligible children.

Of the 13 492 claims paid in respect of pensioners, 78.5% (10 587) were claims for pensioners and 21.5% were claims for pensioners' spouses. An amount of R234 million was paid to beneficiaries during the reporting period.

### BENEFITS PAID DURING 2017/18 FINANCIAL YEAR (AS PERCENTAGE OF TOTAL BENEFITS PAID)



## CHAIRPERSON'S REVIEW



The GEPF's investment strategy uses a liability-driven approach, based on asset liability modelling

It is with great pleasure that I present the 2017/18 Annual Report on behalf of the Board of Trustees of the Government Employees Pension Fund (GEPF).

### ECONOMIC ENVIRONMENT

The GEPF, one of the largest pension funds in Africa, has remained robust and stable in the context of the developments that took place at both international and local level during the period 1 April 2017 and 31 March 2018.

The changes to the political and economic landscape in developed and developing countries certainly impacted the markets within which the GEPF invests. The South African market, in particular, where we invest 92.5% of our funds, had to contend with unhealthy levels of uncertainty and volatility. Pertinent issues include the poor economic growth, increased unemployment, state capture revelations, the dire straits in which state-owned enterprises find themselves, uncertainty around land expropriation, and leadership issues within the governing party all contributed to the volatility and uncertainty.

The resignation of President Jacob Zuma and subsequent election of President Cyril Ramaphosa led to a new wave of optimism, aptly dubbed by the press as 'Ramaphoria'. President Ramaphosa's promise to clean up the state and

his re-appointment of the Mr Nhlanhla Nene as Minister of Finance had a tangible stabilising effect on home markets as was the appointment of former Minister of Labour and South African Reserve Bank Governor, Mr Tito Mboweni, after Mr Nene's resignation – we saw the rand soar to almost a three-year high against the dollar and we managed to avert junk status by the rating agencies.

Fortunately, rand volatility during the period under review had very limited impact on our portfolio. This is because GEPF's foreign investments benefit from a weaker exchange rate and can balance out or bolster underperforming investments on the JSE that have been affected by the currency's volatility.

The rand, however, continues to be under pressure and the lack of economic growth continues to be a major concern. The country's new leadership is visibly focused on stimulating the economy, tackling unemployment, promoting good governance and flushing out corruption, but these are not achievable overnight. The local and international investor communities have so far remained rather reticent about investing in South Africa.

One of the most concerning developments in the global arena that can potentially impact the pension fund's

performance is the international trade dispute that has recently escalated into a full-blown trade war between the world's largest economies. Given our vast portfolio investments, the GEPF is not immune to the resulting uncertainty and low investor confidence currently affecting world markets and, in particular, emerging markets.

The BRICS summit held in Johannesburg in June 2018 is a significant development that may yield tangible, positive, returns for JSE-listed companies that choose to take advantage of the new opportunities made possible by our emerging trading partners, and in turn for the GEPF, which invests in many of these companies through the PIC.

The GEPF continues to take into account the impact of these developments as it strives to create maximum value for its members, pensioners and beneficiaries.

## INVESTMENTS

The GEPF's investment strategy uses a liability-driven approach, based on asset liability modelling, that takes into consideration expected future benefit payments, the actuarial position, and other long-term objectives, as well as the risk to the overall solvency of the Fund.

The Fund's assets grew by 8.3% during the 2017/18 financial year, going from R1.7 trillion in 2016/17 to R1.8 trillion. This growth is extremely pleasing and is a vote of confidence in how the pension fund is managed.

The Board has continued to monitor and guide the Fund's investment team to ensure optimum performance. In this regard, the Board approved a resolution that new investments in the GEPF-managed Africa private equity fund of funds portfolio be ceased temporarily until adequate inhouse capacity has been built. This position will be reconsidered in the 2018/19 financial year. In the interim, if any compelling investment opportunities are identified, the GEPF could request approval from the Board of Trustees to make those specific investments.

## CHALLENGES

Despite our investment portfolio's impressive 8.3% growth (considering that the South African economy grew only by 0.8% during 2017/18), we cannot ignore the proverbial elephants in the room: the Steinhoff affair and to a lesser extent the case of VBS Mutual Bank, on which it is too early to comment. VBS bank was placed under curatorship with effect from 17:00 on Sunday, 11 March 2018, due to liquidity problems.

The alleged accounting irregularities at Steinhoff International Holdings N.V. are most disappointing as GEPF

expects the highest standards of corporate governance from all investee companies. As at 31 March 2017 the GEPF, through PIC, owned about R28 billion in Steinhoff International Holdings which is about 10% of the shares of the company and 1% of the total assets of the GEPF.

Notwithstanding the collapse in the Steinhoff share, the GEPF portfolio remains financially healthy, because of its diversified nature. It is also important to note that GEPF members' benefits will not be affected by these developments, given that the GEPF is a defined benefit pension fund.

The investment loss recorded was 0.6% of the total GEPF portfolio on 6 December 2017. It's important to note that the total GEPF equity portfolio created a value of approximately R140 billion over the preceding 12-month period and performed better than the equity benchmark.

The GEPF continues monitoring the developments in the Steinhoff case and will report once the investigations and hearings have been finalised.

It was never an elephant, but it's best mentioned that the PIC, as GEPF's asset manager, advanced a R5 billion bridging facility to Eskom for one month, February to March 2018. Eskom repaid the loan, with interest, as agreed.

We believe that the investment was in the best interest of the Fund, and South Africa and its economy seeing that failure of Eskom to service its debt would have resulted in a cross-default, with catastrophic consequences. While the GEPF pursues good risk-adjusted investment returns for the benefit of its members and pensioners, it also recognises its role in the economic development of South Africa, Africa and the world.

## IMPAIRMENTS

### LANCASTER 101

The impairment in Lancaster 101 is directly linked to the collapse of Steinhoff's share price. The PIC has engaged Steinhoff to amongst others, request a reconfiguration of the Steinhoff Board; representation on the committee investigating the state of affairs at Steinhoff; and it is collaborating with other investors, regulators, including the JSE to find a solution to Steinhoff's challenges for the benefit of affected parties.



## INDEPENDENT NEWS MEDIA

As a result of declining traditional print and advertising revenue, the Sekunjalo term loan, INMSA shareholder loan and Preference Shares were impaired as INMSA and Sekunjalo did not honor their payment obligations under the transaction agreements. Cost containment strategies are being implemented and the investment continues to be closely monitored.

## AFGRI POULTRY (DAYBREAK)

The decrease in the recoverability of these instruments was as a result of industry and operational challenges. As a result of financial restructuring there was a decrease in the value of the Debenture Debt instrument, which resulted in the instruments being converted to B preference shares. The cost containment strategies implemented have yielded an increase in EBITDA by more than 300% year-on-year, driven by a decrease in feed prices, operational interventions and the increase in net sales values (NSVs).

## BENEFITS AND ADMINISTRATION

The goal of the GEPF is to pay benefits accurately and on time with the assistance of our benefits administrator, the Government Pensions Administration Agency (GPAA).

Our relationship with the GPAA is governed through a contract and service level agreement, which was revised during the 2017/18 financial year. The Board of Trustees approved several resolutions consistent with the strategy of streamlining operations and facilitating the evolution of the relationship between the GEPF and the GPAA.

The Board of Trustees also approved six rule changes, which we believe to be in the best interest of the fund and its members, pensioners and beneficiaries. Details of these changes can be found in subsequent sections of this report.

## GOVERNANCE

The GEPF Board exercised the highest standards of corporate governance and ensured the Fund's best performance in the context of its operations.

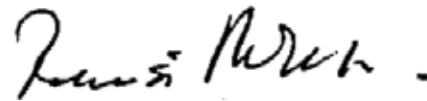
Highlights of the year under review include the election of two trustees, revision of the Board Charter, adoption of the GEPF Investment Beliefs, and the move towards voluntarily adopting the principles of the King IV report in our endeavour to meet the primary responsibility of safeguarding the benefits of members, pensioners and beneficiaries while contributing meaningfully to the development of our country, our continent and the planet.

## APPRECIATION

I would like to thank the Board of Trustees for their dedicated service and commitment. I would also like to extend my gratitude to the PEO, Abel Sithole, his executive team and all the GEPF employees for the long journey that we have walked together.

A warm welcome to the new trustees and incumbent Board. The Board was formally inaugurated by the Minister of Finance on 21 May 2018. Our members, pensioners and beneficiaries can rest assured that their financial future is secure with the GEPF.

Finally, I would like to thank Minister Nene for his steadfast leadership and unwavering support.



**Dr Renosi Mokate**

*Chairperson: GEPF Board of Trustees*



# PRINCIPAL EXECUTIVE OFFICER'S REPORT



The pension fund's investment portfolio grew by 8.3%



I am pleased to report that although the year under review was characterised by change and uncertainty, for the Government Employees Pension Fund, it held good prospects and delivered highlights worth mentioning.

## PERFORMANCE AGAINST STRATEGY

I am happy to report that during 2017/18, the GEPF met 90% of its targets in terms of its performance against strategic objectives, namely:

- Improve benefits administration;
- Improve member and beneficiary communication and education;
- Improve investment monitoring and evaluation;
- Review of the governance and operating model;
- Enhanced risk management architecture; and
- Improve stakeholder relations.

These strategic objectives and their results were reviewed at the annual strategic planning session.

## FINANCIAL HIGHLIGHTS

The GEPF recorded several financial highlights during the period under review. Despite the tough economic conditions and low rates of growth in South Africa and in most of the world, the pension fund's investment portfolio grew by 8.3% from R1.7 trillion in the previously financial year (2016/17) to R1.8 trillion in the 2017/18 financial year.

The increase in the investment values is mainly due to the performance of domestic assets over the past year, particularly bonds and equities.

The pension fund achieved an overall investment performance return of 8.5%, underperforming its strategic benchmark return of 11.3%. This resulted in the Board deciding to grant a pension increase of 5.5% which was above the Consumer Price Index (CPI) as at 31 December 2018, and higher than the 75% increase recommended by the Rules of the Fund.

The GEPF incurred R3.2 billion in expenditure for the year ended 31 March 2018 against a budget of R3.4 billion, which represents a total expenditure of 94% of the budget. The expenditure excludes other direct expenditure that was incurred directly by asset managers to the value of R2.7 billion.

Contributions received increased with 7.3%, from R66 billion in 2016/17 to R70 billion in 2017/18.

## RESPONSIBLE INVESTING

The GEPF Responsible Investment policy provides the overarching strategy for responsible investment and details how this is translated into investment activities.

During the year under review, we revised the responsible investment policy to ensure that it reflects the global

best practice standards for management of Economic Social and Governance (ESG) issues as well as the unique developmental context of South Africa.

The responsible investment policy is aligned to the Code for Responsible Investing (CRISA) and other global responsible investing and development principles, such as the United Nations Principles for Responsible Investment (UN PRI).

The GEPF, as the asset owner, and the PIC, as its asset manager, are both signatories to the UN PRI and support the United Nations' Sustainable Development Goals (SDGs), which are aimed at ending poverty, fighting inequality and injustice, and tackling climate change by 2030.

## DEVELOPMENTAL INVESTMENT

GEPF has a Developmental Investment Policy (DI) and sets aside 5% of the total portfolio for developmental investments. Through developmental investments, we are able to play a role in addressing many of the pressing economic, social and environmental challenges such as growth, unemployment and inequality.

During the year under review, funds were allocated to the PIC to invest in the following developmental areas:

- Economic infrastructure;
- Economic transformation;
- Environmental sustainability;
- Social infrastructure;
- Priority sectors; and
- Small and medium enterprises.

## ENSURING MEMBERS' AND PENSIONERS' BEST INTERESTS

The GEPF is fully funded and financially sound. Members' and pensioners' benefits are protected and the pension fund is able to pay benefits to all its beneficiaries.

During the period under review, the GEPF's member and pensioner management, including contribution management and the payment of benefits, continued to be managed by the GPAA.

The GPAA received 73 957 pension claims in 2017/18 (compared to 74 869 in 2016/17) and paid 73 336 (compared to 73 764 in 2016/17), reflecting a decrease of 0.58% in payments. The benefits awarded in respect of these claims amounted to R94.8 billion, compared with R88.2 billion in 2016/17.

The number of active members decreased slightly from 1 273 784 in 2016/17 to 1 273 125 in 2017/18. The number of pensioners and beneficiaries increased from 437 051 in 2016/17 to 450 322 in the year under review.

In terms of benefits, the Board of Trustees approved the proposed revised SLA in respect of death benefits claims and the extension of the duration and validity of the existing SLA for a period of one year, subject to the proposed revision on 31 March 2019.

The GEPF secured resolutions by the Public Service Co-ordinating Bargaining Council (PSCBC) on various rule changes and is in the process of implementing them.

During 2016/17, the GPAA started implementing a number of initiatives to improve service delivery to our members, pensioners, beneficiaries and employer departments. These continued being rolled out throughout 2018 with good results.

## STAKEHOLDER RELATIONS

During the reporting period, we began implementing the new GEPF Integrated Communication Strategy which was approved by the Board during the previous financial year.

The primary objective of this strategy is to protect and enhance the reputation of the GEPF among all its stakeholders and inform and educate members and pensioners.

Stakeholders with whom the GEPF engaged during the year include members of the fund, pensioners, beneficiaries, the Board of Trustees, government departments, the media, PSBC, Parliament, trade unions, stakeholder associations/organisations and the investment industry.

During the various engagements, we informed stakeholders about the GEPF benefits and processes and built beneficial relationships. We also encouraged members and pensioners to provide feedback on services rendered.

GEPF's national outreach campaign during 2017/18 entailed hosting member roadshows, HR forums, retirement member forums, workshops and exhibitions, as well as having mobile offices roving throughout the country. The mobile offices – which are equipped with latest ICT and satellite receivers – provided on-site, real-time assistance to members, pensioners and beneficiaries in the nine province, mostly in remote rural areas.

In addition to direct engagement initiatives, the GEPF also communicated with stakeholders via advertising on radio, print, television and outdoor platforms; quarterly newsletters and editorials; print media communication, radio interviews and social media interventions.

## GOVERNANCE

During this financial year, the Board of Trustees revised the Board Charter of the GEPF. The charter regulates the parameters within which the Board operates and ensures the application of the principles of good corporate governance, in respect and on behalf of the GEPF in all dealings. It also sets out the roles and responsibilities of the Board and individual trustees.

Furthermore, the Board of Trustees is also governed by a governance charter, which is reviewed annually in order to ensure that it is up to date with corporate governance best practice locally and internationally, such as the relevant King Code of Corporate Governance.

## HUMAN RESOURCES

At the GEPF we recognise that our people are our greatest asset. The staff complement for the financial year totalled 27 people. Five new appointments were made while two members of staff resigned during 2017/18. The new appointments were Head: Stakeholder Relations and Communications, Head: Corporate Services, Communications Manager, Senior Internal Auditor and Investment Analyst.

There are strategies in place to attract, retain and develop employees. Career development and succession policies are also in place. The GEPF is fully committed to the spirit and objectives of the Employment Equity Act and achieved its 2017/18 demographic targets, with the exception of targets regarding the employment of people with disabilities.

## ETHICS

The GEPF's Board established a voluntary Social and Ethics Subcommittee, reporting through the Governance and Legal Committee, even though, by law, the GEPF is not required to do so. This decision was based on the fact that, as a pension fund, the GEPF invests in a large number of listed and unlisted companies, and thus has a substantial social and ethical footprint. This decision also reflected the Board's commitment to the GEPF being an ethical leader and good corporate citizen.

An ethics officer supports the subcommittee and is responsible for the implementation of an ethics programme. A number of ethics initiatives were implemented during the year, such as an ethics box for confidential disclosures, the GEPF Ethics Hotline and workshops on various related topics. As part of its ethics programme, a project to align the ethical codes of the GPAA, the PIC and the GEPF will be implemented going forward.

## FUTURE OUTLOOK

As the largest pension fund and domestic institutional investor the GEPF will continue evaluating its investment allocations with the utmost care in order to achieve the most

growth for its members, pensioners and beneficiaries. With this in mind, we will be considering various options with respect to diversification of investments. This is imperative to ensure that there's lower correlation between the economic growth of the country and the growth of our investment portfolio.

The GEPF plans to strengthen stakeholder relations and expand engagements with key stakeholders. Being a leading pension fund in South Africa, the continent and the world, the GEPF will increase its focus on taking a leadership role in the pension industry – this includes, among others, hosting strategic dialogues such as thought leadership events.

Increased emphasis will also be placed on making information available to our members, pensioners and beneficiaries by augmenting our use of direct and indirect communications platforms.

In terms of HR, the GEPF will continue looking after its employees and endeavour to keep staff morale and staff numbers at optimal level. Plans are underway for us to launch an internship programme in 2019. The GEPF Future Internship Programme will be guided by the business priorities of the GEPF. We're looking forward to give young people much needed exposure to the corporate working environment and impart skills that will enable them to build meaningful careers.

The Board agreed in principle that the GEPF should in future only use office accommodation within its own property portfolio. The Board subsequently approved the move of the GEPF head office to Kasteelpark Office Park, Erasmuskloof, Pretoria. This relocation is scheduled to take place during the 2018/19 financial period.

## APPRECIATION

I would like to express my gratitude and appreciation to the Chairperson of the GEPF Board, Dr Renosi Mokate, the Board of Trustees and its committees for their support during the tenure of the outgoing Board. I look forward to working with the incumbent Board that will serve until May 2022.

Fittingly, I thank each and every member of my management team and staff for their excellent work, dedication and continued support during the 2017/18 financial year.



**Abel Sithole**  
Principal Executive Officer

# BOARD OF TRUSTEES

The following trustees served on the Board during the reporting period from 1 April 2017 to 31 March 2018.



## Dr Renosi Mokate

*Former Executive Director and CEO – Unisa Graduate School of Business Leadership*

### GEPF positions

- Employer-nominated trustee
- Chairperson of the Board of Trustees
- Chairperson of the Investment Committee

### Qualifications

- PhD – University of Delaware
- Master of Arts – University of Delaware
- Bachelor of Arts – Lincoln University

Meeting attendance	
Board meetings	6/6
Board training and strategic planning session	5/5
Investment Committee	5/6
Finance and Audit Committee	1*

\* Attended on invitation



## Major-General Dries de Wit

*Former General Officer Commanding – South African National Defence Force (SANDF) Training Command*

### GEPF positions

- Forces-elected trustee
- Vice-Chairperson of the Board of Trustees
- Chairperson of the Benefits and Administration Committee
- Member of the Investment Committee
- Member of the Remuneration Committee

### Qualifications

- Tertiary qualification in Human Resources Management

Meeting attendance	
Board meetings	6/6
Board training and strategic planning session	5/5
Benefits and Administration Committee	5/5
Investment Committee	6/6
Remuneration Committee	6/6



## Mr Themba Gamedze

*Non-executive Director on various boards*

### GEPF positions

- Employer-nominated trustee
- Member of Investment Committee
- Member of Valuations Subcommittee

### Qualifications

- BA (Honours) – University of Warwick
- MSc – University of Warwick
- Fellow of the Actuarial Society of South Africa (FASA)

Meeting attendance	
Board meetings	5/6
Board training and strategic planning session	4/5
Investment Committee	5/6
Valuations Subcommittee	2/3



### Mr Edward Kekana

*Provincial Chairperson – South African Democratic Teachers Union (SADTU) Gauteng*

#### GEPF positions

- Employee-nominated trustee
- Member of the Governance and Legal Committee
- Member of the Finance and Audit Committee
- Member of the Investment Committee

#### Qualifications

- Secondary Teachers Diploma
- Advanced Certificate in Education
- Higher Certificate in Economic Development

Meeting attendance	
Board meetings	5/6
Board training and strategic planning session	5/5
Governance and Legal Committee	4/4
Investment Committee	6/6
Finance and Audit Committee	6/6



### Dr Barry Kistnasamy

*Compensation Commissioner for Occupational Diseases – National Department of Health*

#### GEPF positions

- Employer-nominated trustee
- Member of the Investment Committee
- Member of the Benefits and Administration Committee

#### Qualifications

- MBChB – University of Natal
- MMed (Community Health) – University of Natal

Meeting attendance	
Board meetings	5/6
Board training and strategic planning session	4/5
Benefits and Administration Committee	3/5
Investment Committee	5/6



### Mr Mpho Kwinika

*President: South African Police Union*

#### GEPF positions

- Employee-nominated trustee
- Member of the Governance and Legal Committee
- Member of the Investment Committee

#### Qualifications

- National Diploma (Policing)

Meeting attendance	
Board meetings	5/6
Board training and strategic planning session	3/5
Governance and Legal Committee	1/4
Investment Committee	4/6

# BOARD OF TRUSTEES



## Dr Frans le Roux

*Former Deputy Director-General – Financial Management, National Treasury*

### GEPF positions

- Pensioner-elected trustee
- Member of the Benefits and Administration Committee
- Member of the Investment Committee
- Member of the Valuations Subcommittee
- Member of the Social and Ethics Subcommittee

### Qualifications

- DCom (Economics) – University of Stellenbosch

Meeting attendance	
Board meetings	6/6
Board training and strategic planning session	5/5
Benefits and Administration Committee	5/5
Investment Committee	6/6
Valuations Subcommittee	4/4
Social and Ethics Subcommittee	3/3



## Mr Seth Makhani

*Chief Director – Department of Defence*

### GEPF positions

- Employer-nominated trustee
- Chairperson of the Finance and Audit Committee
- Member of the Governance and Legal Committee
- Standing invitee to the Valuations Subcommittee

### Qualifications

- BCom (Honours) Cost and Management Accounting – University of Venda
- BCom (Accounting) – University of Venda

Meeting attendance	
Board meetings	6/6
Board training and strategic planning session	3/5
Finance and Audit Committee	6/6
Governance and Legal Committee	3/4
Valuations Subcommittee	2/3*

\* Attended on invitation



## Ms Kgomotso Makhupola

*National Treasurer – National Health, Education and Allied Workers' Union (NEHAWU)*

### GEPF positions

- Employee-nominated trustee
- Member of the Governance and Legal Committee
- Member of the Finance and Audit Committee

### Qualifications

- Diploma in Public Relations – Allenby College

Meeting attendance	
Board meetings	5/6
Board training and strategic planning session	4/5
Governance and Legal Committee	4/4
Finance and Audit Committee	6/6





### Mr Stadi Mngomezulu

*Deputy Director-General: National Treasury*

#### GEPF positions

- Employer-nominated trustee
- Member of the Finance and Audit Committee
- Member of the Governance and Legal Committee

#### Qualifications

- Master of Business Leadership
- BCom (Accounting)
- Executive Development Programme – Gestalt International Study Centre, Massachusetts, USA

Meeting attendance	
Board meetings	4/6
Board training and strategic planning session	2/5
Governance and Legal Committee	3/4
Finance and Audit Committee	3/6



### Ms Gladys Modise

*Director – Department of Education*

#### GEPF positions

- Employer-nominated trustee
- Member of the Finance and Audit Committee
- Member of the Investment Committee

#### Qualifications

- BCom (Honours) Financial Management – University of North West
- BCom – University of North West

Meeting attendance	
Board meetings	4/6
Board training and strategic planning session	3/5
Finance and Audit Committee	3/6
Investment Committee	4/6



### Ms Edith Mogotsi

*National negotiator: Police and Prisons Civil Rights Union (POPCRU)*

#### GEPF positions

- Employee-nominated trustee
- Chairperson of the Social and Ethics Subcommittee
- Member of the Benefits and Administration Committee
- Member of the Investment Committee

#### Qualifications

- Advanced Diploma in Public Administration – University of the Western Cape

Meeting attendance	
Board meetings	6/6
Board training and strategic planning session	5/5
Social and Ethics Subcommittee	4/4
Benefits and Administration Committee	5/5
Investment Committee	5/6

# BOARD OF TRUSTEES



## Ms Moira Moses

*Non-executive director on various boards*

### GEPF positions

- Employer-nominated trustee
- Member of the Governance and Legal Committee
- Member of the Finance and Audit Committee
- Member of the Investment Committee
- Member of the Remuneration Committee
- Member of the Valuations Subcommittee

### Qualifications

- BA – University of the Witwatersrand
- Management Advancement Programme – Wits Business School

Meeting attendance	
Board meetings	5/6
Board training and strategic planning session	3/5
Governance and Legal Committee	3/4
Investment Committee	4/6
Finance and Audit Committee	5/6
Remuneration Committee	5/6
Valuations Subcommittee	3/3



## Ms Dorothy Ndlovu

*National Treasurer – Health and Other Service Personnel Trade Union (Hospersa)*

### GEPF positions

- Employee-nominated trustee
- Member of the Benefits and Administration Committee
- Member of the Finance and Audit Committee

### Qualifications

- Diploma in Political Economy – University of the Western Cape

Meeting attendance	
Board meetings	6/6
Board training and strategic planning session	5/5
Benefits and Administration Committee	4/5
Finance and Audit Committee	5/6



## Mr Pierre Snyman

*Chairperson – Public Servants Association of South Africa (PSA)*

### GEPF positions

- Employee-nominated trustee
- Member of the Benefits and Administration Committee
- Member of the Governance and Legal Committee
- Member of the Investment Committee

### Qualifications

- Advance Labour Law Programme – UNISA

Meeting attendance	
Board meetings	6/6
Board training and strategic planning session	5/5
Governance and Legal Committee	4/4
Benefits and Administration Committee	5/5
Investment Committee	6/6





### Ms Barbara Watson

*Former Chief Director – Department of Public Service and Administration (DPSA)*

#### GEPF positions

- Employer-nominated trustee
- Chairperson of the GEPF Governance and Legal Committee
- Member of the Investment Committee

#### Qualifications

- BSocSc – University of the Western Cape

#### Meeting attendance

Board meetings	6/6
Board training and strategic planning session	4/5
Governance and Legal Committee	4/4
Investment Committee	6/6
Benefits and Administration Committee	1*

\* Attended on invitation

## FUND GOVERNANCE

The Board of Trustees governs the pension fund and is accountable for its administrative and investment performance. According to the Government Employees Pension (GEP) Law, fiduciary responsibility for the pension fund rests with the Board of Trustees.

### OVERVIEW OF THE BOARD OF TRUSTEES

The GEP Law requires that the Board be appointed for a four-year term, after which a new board is appointed. Having been appointed in 2014, the term of the Board responsible for the 2017/18 financial year came to a close on 20 May 2018.

In line with the GEP Law, the Board consists of 16 trustees, led by an elected chairperson and vice-chairperson. The trustees elect the chairperson and vice-chairperson from its own ranks at the first meeting of the newly-appointed board. Each trustee has an elected or appointed substitute in order to ensure full and proper representation at all times.

The Board has a formal meeting schedule and meets at least four times a year, with additional meetings being scheduled when required. Two-thirds of the trustees must be present at a meeting to ensure a quorum. Trustees are provided with detailed documentation at least a week before a meeting in order to ensure that they are prepared and can make informed decisions. Issues are debated openly at meetings and decisions are usually taken by consensus. The majority of trustees present at a meeting may request that voting take place using secret ballots, when the need arises.

The Board, supported by the Principal Executive Officer and the executive management team, meets annually to discuss and agree on the pension fund's long term strategies.

The Board has constituted five permanent committees and two subcommittees to give effect to its strategic direction. Both trustees and substitute trustees serve on these committees. All the committees have formal terms of reference that clearly set out the mandate and duties of the committee. The committees are as follows:

- Benefits and Administration Committee
- Finance and Audit Committee
  - Valuations Subcommittee
- Governance and Legal Committee
  - Social and Ethics Subcommittee
- Investment Committee
- Remuneration Committee

The table below reflects the committee memberships, as well as attendance of the substitute trustees to Board committees:

#### **Ms Lindy Bodewig**

Board training and strategic planning session	1/5
Governance and Legal Committee	1/4
Finance and Audit Committee	4/6
Valuations Subcommittee	3/3

#### **Mr Corn Booyens**

Board training and strategic planning session	4/5
Governance and Legal Committee	3/4
Finance and Audit Committee	5/6

#### **Colonel Johan Coetzer**

Board training and strategic planning session	5/5
Governance and Legal Committee	4/4
Benefits and Administration Committee	4/5

#### **Mr Vuyo Dyantyi**

Board training and strategic planning session	5/5
Governance and Legal Committee	4/4
Investment Committee	6/6

#### **Brigadier Johan Griesel**

Board training and strategic planning session	2/5
Investment Committee	4/6
Benefits and Administration Committee	1/5

#### **Mr James Maboja**

Board meeting on behalf of Trustee	1
Board training and strategic planning session	4/5
Governance and Legal Committee	4/4
Finance and Audit Committee	6/6

#### **Mr Mugwena Maluleka**

Board meeting on behalf of Trustee	1
Board training and strategic planning session	2/5
Benefits and Administration Committee	4/5
Investment Committee	3/6

**Mr Success Mataitsane**

Board training and strategic planning session	2/5
Governance and Legal Committee	4/4
Finance and Audit Committee	4/6
Social and Ethics Subcommittee	3/4

**Dr Alex Mahapa**

Board training and strategic planning session	1/5
Governance and Legal Committee	3/4
Finance and Audit Committee	4/6
Social and Ethics Subcommittee	0/4

**Advocate Makhubalo Ndaba**

Board training and strategic planning session	4/5
Governance and Legal Committee	4/4
Benefits and Administration Committee	5/5

**Mr Peter Ntsime**

Board meeting on behalf of Trustee	1
Board training and strategic planning session	3/5
Governance and Legal Committee	2/4
Benefits and Administration Committee	4/5

**Dr Morgan Pillay**

Board meeting on behalf of Trustee	2
Board training and strategic planning session	4/5
Governance and Legal Committee	3/4
Benefits and Administration Committee	4/5

**Dr Anban Pillay**

Board training and strategic planning session	0/5
Benefits and Administration Committee	2/5
Investment Committee	1/6

**Advocate Lindiwe Nkosi-Thomas**

Board training and strategic planning session	0/5
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The Board of Trustees has also appointed three independent remuneration specialists to serve on its Remuneration Committee (REMCO), as well as two specialists to serve on the Finance and Audit Committee. The table below depicts their membership of committees, as well as their attendance:

**Ms Jenny Jeftha**

Board meetings to present REMCO matters	3
Board training and strategic planning session	4/5
REMCO	6/6

**Ms Mantuka Maisela**

Board meetings to present REMCO matters	1
Social and Ethics Subcommittee	4/4
REMCO	6/6

**Dr Les Matlhape**

Board Training Session	1
REMCO	6/6

**Mr Richard Morris**

Board training and strategic planning session	4/5
Valuations Subcommittee	3/3
Finance and Audit Committee	5/6

**Mr John Raphela**

Board Training Session	2
Finance and Audit Committee	6/6

## BOARD COMPOSITION

Trustees are appointed in accordance with section 6 of the GEP Law and Rules. The Board consists of eight employer nominees, six employee nominees, one pensioner representative and one representative from the SANDF and intelligence community. The pensioner representative and the SANDF and intelligence community representative are elected through postal ballots.

### EMPLOYER NOMINEES – 2014 TO 2018

Department	Trustee Name	Department	Substitute trustee Name
National Treasury	Mr Stadi Mngomezulu	National Treasury	Ms Lindy Bodewig
Department of Public Service and Administration	Ms Barbara Watson	Department of Public Service and Administration	Dr Alex Mahapa
Department of Health	Dr Barry Kistnasamy	Department of Health	Dr Anban Pillay
Department of Basic Education	Ms Gladys Modise	Department of Basic Education	Dr Morgan Pillay
Department of Defence	Mr Seth Makhani	South African Police Service	Brigadier Johan Griesel
Public Investment Corporation	Ms Moira Moses	Public Investment Corporation	Vacant
Specialist trustee	Dr Renosi Mokate	Specialist trustee	Vacant
Specialist trustee	Mr Themba Gamedze	Specialist trustee	Advocate Lindiwe Nkosi-Thomas

### EMPLOYEE NOMINEES

Department	Trustee Name	Department	Substitute trustee Name
National Education, Health and Allied Workers' Union (NEHAWU)	Ms Kgomotso Makhupola	National Education, Health and Allied Workers' Union (NEHAWU)	Mr James Maboja
South African Democratic Teachers' Union (SADTU)	Mr Edward Kekana	South African Democratic Teachers' Union (SADTU)	Mr Mugwena Maluleke
Health and Other Service Personnel Trade Union (Hospersa)	Ms Dorothy Ndhlovu	National Union of Public Service and Allied Workers (NUPSAW)	Mr Success Mataitsane
South African National Defence Force and Intelligence Community	Major-General Dries de Wit	South African National Defence Force and Intelligence Community	Colonel Johan Coetzer
Public Servants Association (PSA)	Mr Pierre Snyman	Public Servants Association (PSA)	Dr Vuyo Dyantyi
South African Policing Union (SAPU)	Mr Mpho Kwinika	South African Policing Union (SAPU)	Mr Peter Ntsime
Police and Prisons Civil Rights Union (POPCRU)	Ms Edith Mogotsi	Police and Prisons Civil Rights Union (POPCRU)	Advocate Makhubalo Ndaba
Pensioner	Dr Frans le Roux	Pensioner	Mr Cornelius Booyens

The Board's tenure ended on 20 May 2018 and the new GEPP Board of Trustees was inaugurated on 21 May 2018. The new Board consists of the following members:

## EMPLOYER NOMINEES – 21 MAY 2018

Department	Trustee Name	Department	Substitute trustee Name
National Treasury	Mr Stadi Mngomezulu	National Treasury	Ms Lindy Bodewig
Department of Defence	Major General Mulungisa Sitshongaye	Department of Defence	Rear Admiral Gladys Mbulaheni
State Security Agency	Ms Jennita Kandailal	State Security Agency	Ms Suveena Pillay
Department of Basic Education	Dr Morgan Pillay	Department of Basic Education	Ms Thandi Khoza
South African Police Service	Lieutenant General Lineo Ntshiea	South African Police Service	Brigadier Johan Griesel
Department of Public Service and Administration	Mr Thabo Mokoena	Department of Public Service and Administration	Mr Kenny Govender
Specialist trustee	Mr Themba Gamedze	Specialist trustee	Advocate Nonku Tshombe
Specialist trustee	Dr Renosi Mokate	Specialist trustee	Mr Terrence Chauke

## EMPLOYEE NOMINEES

Department	Trustee Name	Department	Substitute trustee Name
National Education, Health and Allied Workers' Union (NEHAWU)	Ms Kgomotso Makhupola	National Education, Health and Allied Workers' Union (NEHAWU)	Mr Sidney Kgara
South African Democratic Teachers' Union (SADTU)	Mr Edward Kekana	South African Democratic Teachers' Union (SADTU)	Mr Mugwena Maluleke
National Teachers Union (NATU)	Mr Alan Thompson	National Union of Public Service and Allied Workers (NUPSAW)	Mr Success Mataitsane
South African National Defence Force and Intelligence Community	Colonel Johan Coetzer	South African National Defence Force and Intelligence Community	Corporal Thobile Maqhubela
Public Servants Association (PSA)	Mr Pierre Snyman	Public Servants Association (PSA)	Dr Vuyo Dyantyi
Democratic Nursing Organisation of South Africa (DENOSA)	Mr Sibonelo Cele	Democratic Nursing Organisation of South Africa (DENOSA)	Mr Khaya Sodidi
Police and Prisons Civil Rights Union (POPCRU)	Advocate Makhubalo Ndaba	POPCRU	Advocate Sibusiso Mtshweni
Pensioner	Dr Frans le Roux	Pensioner	Major General Dries de Wit

## INDEPENDENCE OF TRUSTEES

GEPF Trustees are not involved in the day-to-day running of the pension fund's business and are therefore regarded as non-executive directors. Trustees are consistently reminded of their fiduciary duty to act independently and in the best interest of members, pensioners and beneficiaries.

## SKILLS, KNOWLEDGE AND EXPERIENCE OF TRUSTEES

According to section 4.1.2 of the GEP Rules, at least one of the eight employer-nominated trustees must have expertise in financial management and investments, or the management and organisation of pension funds. Two specialists currently serve as trustees, supported by two specialist substitute trustees. The other employer and employee trustees and their substitutes have a range of skills, knowledge and experience necessary to effectively manage and govern the Fund. The profiles of the 16 trustees are reflected on pages 18 to 23.

## THE BOARD CHARTER

The purpose of the charter is to regulate the parameters within which the Board operates and to ensure the application of the principles of good corporate governance in all dealings by, in respect of, and on behalf of the GEPF. The charter also sets out the roles and responsibilities of the Board and individual trustees, including the composition and relevant procedures of the Board.

## THE GOVERNANCE CHARTER

The Board is governed by the GEPF Governance Charter derived from sources that include the GEP Law and Rules and aligns with the Good Governance on Retirement Funds (Circular PF130, issued by the Financial Services Board) and King IV Report on Corporate Governance in South Africa, 2016. The Governance Charter is reviewed annually to ensure that it is up to date with corporate governance best practice locally and internationally.

The Governance Charter includes:

- Trustee Code of Conduct and Ethics
- Trustee Fit and Proper guidelines
- Trustee Responsibilities
- Trustee Development and Training
- Board and Trustee Performance Assessments
- Board Remuneration and Expenses
- Media Policy
- Confidentiality Policy
- Conflict of Interest Policy
- Compliance Policy
- Risk Policy and Framework

- Committee Terms of Reference
- Rules on the Delegation of Authority

## TRUSTEE EDUCATION AND TRAINING

The Trustee Education and Training Policy prescribes that newly appointed trustees (including substitute trustees) receive induction training within six months after their appointment. Training focuses on governance issues, benefits and rules, investment policies, actuarial valuations, and the main service providers of the pension fund.

GEPF Trustees must also attend an accredited directors' or trustee development programme within six months of being appointed. Three compulsory training events were organised during their term of office.

The Board furthermore underwent one-day training sessions on the following:

- Environmental Social and Governance (ESG)
- King IV Report on Corporate Governance in South Africa, 2016
- Financial Management

Trustees also attended local and international retirement fund, governance and investment-related conferences, and training sessions during the year under review.

## TRUSTEE REMUNERATION

According to the GEP Law, GEPF Trustees are compensated for their services and expenses as determined by the Board. Trustees receive payment for meetings attended and an annual retainer fee.

The Trustee Remuneration Policy clearly sets out the principles upon which remuneration is paid to trustees. The details of the remuneration paid can be found in the Remuneration report section of the annual report. The GEPF conducted an independent review of its trustee remuneration levels and aligned the remuneration levels to that of trustees/directors at similar organisations.

## BOARD PERFORMANCE ASSESSMENT

No formal performance assessments were conducted on the Board and its committees during the 2017/18 financial year. However, trustees received training in areas that needed updating and strengthening, such as ESG and corporate governance mentioned above. Participation at board and committee level was robust and insightful during the year under review. There are plans to conduct a formal assessment of the new GEPF Board of Trustees during the 2018/19 period.

## ETHICS AND THE MANAGEMENT OF THE GEPF'S ETHICAL RISKS

The Board established a Social and Ethics Subcommittee even though, in terms of the law, the GEPF is not required to do so. This decision reflects the Board's resolve that the GEPF should be an ethical leader and good corporate citizen.

An ethics officer was selected from the staff complement and appointed. The officer is responsible for the implementation of an ethics programme in the GEPF. Quarterly reports are submitted to the Social and Ethics Subcommittee and the Governance and Legal Committee in respect of gift disclosures, annual financial disclosures and any other matters that impact on ethics deliverables.

## LEGAL AND COMPLIANCE

In discharging its responsibility to establish an effective compliance framework and processes, the GEPF has a Fund Compliance Policy (FCP) that serves as a cornerstone in the development of a compliance culture within the pension fund.

The policy ensures that the pension fund complies with applicable legislative, regulatory and supervisory requirements. The FCP makes provision for compliance reporting, which is done on a quarterly basis to the Governance and Legal Committee.

No material or repeated instances of non-compliance with regulatory requirements by either the GEPF or its trustees in their capacity as members of the Board were found in the financial year under review.

## FINANCIAL CONTROL

The oversight role of the Finance and Audit Committee (FA-C) holds management and key service providers accountable for effective internal financial controls. During 2017/18, the Finance and Audit Committee, Internal Audit, and Corporate Services conducted a high-level review of the internal financial controls as part of an ongoing project to improve this oversight.

The pension fund's business plan and budget is prepared annually and approved by the Board. Regular reviews and monitoring of capital and operational expenditure, as well as cash flow projections, take place throughout the financial year to ensure sound financial control.

To assess the effectiveness of the internal financial controls going forward, it is envisaged to have ongoing engagements with the management team as well as the independent external auditors and Internal Audit on the results of their audits into the financial affairs of the GEPF.

## FINANCIAL REPORTING

The GEPF Annual Financial Statements are prepared in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa (RRR) as prescribed by the Financial Sector Conduct Authority (FSCA).

Key aspects of the RRR are based on International Financial Reporting Standards (IFRS) and are tailored to cover the accounting aspects that are relevant to the retirement fund industry. However, the RRR are not currently designed to cover all of the extensive requirements of IFRS. Retirement funds industry and financial reporting stakeholders such as the Financial Sector Conduct Authority (FSCA), South African Institute of Chartered Accountants (SAICA) and Independent Regulatory Board for Auditors (IRBA) are involved in ongoing projects to align the RRR more fully with the IFRS.

The Board of Trustees is responsible for the financial statements and is satisfied that they fairly present the financial position, performance and cash flows of the GEPF as at 31 March 2018. It is the responsibility of the external auditors to audit the financial statements independently.

## INTERNAL AUDIT

In line with the requirements of the King IV Report on Corporate Governance, GEPF's Internal Audit unit provides management and the Board – through the Finance and Audit Committee – with assurances that internal controls are adequate and effective.

To promote strengthened independence, the Internal Audit unit reports functionally to the Finance and Audit Committee, and administratively to the Principal Executive Officer. During the year under review, Internal Audit discharged its responsibilities in line with the charter approved by the Finance and Audit Committee.

The Finance and Audit Committee approved the internal audit coverage plan for the 2017/18 financial year. This risk-based audit coverage plan caters for the evaluation of governance, risk management and controls through the identification of process control gaps and/or weaknesses for corrective action and improvement. A tracking register of issues raised is kept. Record is kept of how they were resolved and of the agreed corrective actions that were duly implemented.

# THE OFFICE OF THE PRINCIPAL EXECUTIVE OFFICER

The Office of the Principal Executive Officer comprises a Principal Executive Officer (PEO) and an executive management team. It supports the Board of Trustees, ensuring that the GEPF acts in the best interests of its members, pensioners and beneficiaries. The office is also responsible for day-to-day operations.

## ROLES AND RESPONSIBILITIES

The management structure consists of the Principal Executive Officer, the Head of Corporate Services, the Head of Investments and Actuarial, the Head of Stakeholder Management and Communications, and the Company Secretary.

The Principal Executive Officer assists the Board in meeting its fiduciary and oversight obligations in line with the GEP Law, and other laws and regulations. The Principal Executive Officer also represents the Board at different forums (strategic and operational), and has the overall responsibility for financial reporting and disclosure, consolidating and amending Fund Rules, and valuating liabilities and assets.

The Principal Executive Officer implements all Board decisions and gives effect to the Board's strategy. The PEO is supported in this role by executive managers.

The Head of Investments and Actuarial monitors and manages the assets and liabilities of the GEPF, and is responsible for ensuring that regular actuarial valuations are duly conducted by the pension fund's actuary; asset liability modelling is done so that the investment strategy can be aligned to meet the profile of its liabilities; for advising the Board on investment strategy and execution; and overseeing the implementation of the Responsible Investment Policy (RI) and Developmental Investment Policy (DI).

The Company Secretary ensures that the Board practises good governance at all times; provides guidance to the Board on the duties of the trustees; ensures that the trustees are adequately inducted and trained; and provides an executive secretariat function to the Board and its committees.

The Head of Corporate Services manages and oversees the internal operations and corporate services within the Office of the Principal Executive Officer. This includes the management of legal and compliance, finance and facilities management.

The Head of Stakeholder Management and Communications is responsible for developing and implementing a comprehensive stakeholder management policy, as well as a communication and education policy. The creation of this position was approved by the Board during the period under review and Mr Babs Naidoo was duly appointed on 1 January 2018.



## EXECUTIVE MANAGEMENT

**Mr Abel Sithole***Principal Executive Officer*

- MA (International Relations) – University of Stellenbosch
- MPhil (Futures Studies) – University of Stellenbosch
- MBA – University of the Witwatersrand
- BA – Lawrence University, USA
- Fellow: Institute of Life and Pension Advisors
- Chartered Financial Planner
- Member of the IoDSA

**Ms Linda Mateza***Head: Investments and Actuarial*

- Master of Management (Finance and Investments) – Wits Business School
- BCom Honours – Unisa
- BCom – University of Natal (now the University of KwaZulu-Natal)
- BA – Rhodes University
- Fellow of the Africa Leadership Initiative (South Africa)
- Member of the Aspen Global Leadership Network (AGLN)
- Member of the IoDSA

**Ms Adri van Niekerk***Company Secretary*

- BAdmin (Honours) Public Management – University of Pretoria
- BAdmin Public Management – University of Pretoria
- Member of the International Corporate Governance Network (ICGN)
- Fellow of the Institute of Directors in Southern Africa (IoDSA)

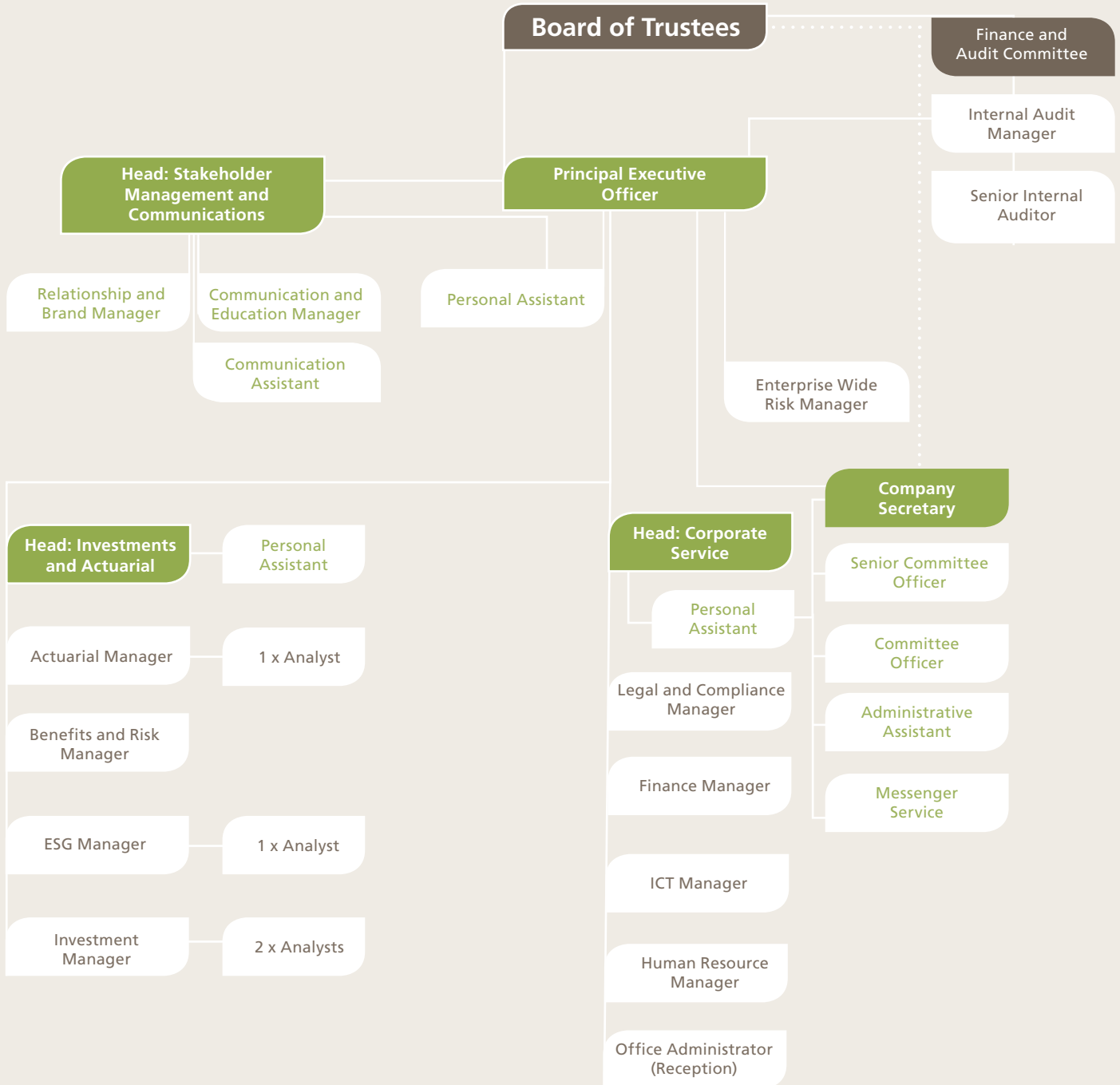
**Mr Babs Naidoo***Head: Stakeholder Management and Communications*

- BA – University of Durban-Westville
- BA Honours – University of Durban-Westville
- Member of the IoDSA
- Member of the International Association of Business Communicators (IABC)
- Chartered Public Relations Practitioner with the Public Relations Institute of South Africa (PRISA)
- Member of the IoDSA

**Mr Musa Mabesa***Head: Corporate Services*

- Bachelor of Accounting Sciences (BCompt) – University of South Africa
- ACCA Affiliate
- Leadership – University of Stellenbosch Business School
- Member of the IoDSA

## ORGANISATIONAL STRUCTURE



## INTERNAL GOVERNANCE STRUCTURES

The GEPF has an established Executive Committee, which is responsible for ensuring that all matters are tabled, through committees, to the Board for approval. The Executive Committee drives the Board strategy and ensures that all divisions are adept at meeting the strategic targets set by the Board.

A Bid Adjudication Committee deliberates on all tenders above R500 000 and ensures that the necessary compliance and procedures have been followed by GEPF staff. The Board approved the following tenders during the reporting period:

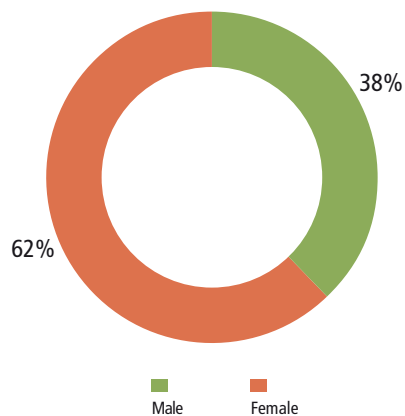
- Service provider to independently manage the trustee election process
- Service provider to provide internal audit services to the GEPF

## EMPLOYMENT EQUITY

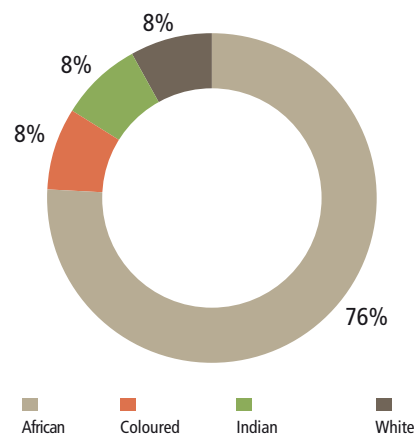
The GEPF is committed to the spirit and objectives of the Employment Equity Act and is endeavours to:

- transform the demographic profile of the GEPF workforce to adequately reflect the local and national demographics profile while embracing diversity in the workplace in respect of race, gender and culture;
- remove all identified barriers to equity for designated groups; and
- ensure fair, non-discriminatory practices that respect the rights and dignity of all GEPF employees, irrespective of colour, race, gender or disability.

EMPLOYMENT EQUITY BY GENDER



EMPLOYMENT EQUITY BY RACE



# REMUNERATION REPORT

The Government Employees Pension Fund provides an engaging and fulfilling work environment that encourages personal and professional growth. The environment enables the pension fund's team to give their best.

## REMUNERATION PHILOSOPHY

The GEPF's remuneration philosophy is to provide a framework of total rewards that attracts talent, motivates and rewards performance, and retains talent so that the pension fund is able to achieve its strategy.

The GEPF aims to pay employees at the median of the South African national market, thereby ensuring that remuneration neither leads nor lags behind the selected market. When performance targets are exceeded and the pension fund performs well, the pension fund rewards employees through a short-term incentive scheme.

## REMUNERATION POLICY

The Remuneration Policy of the GEPF aims to crystallise the spirit of a total rewards plan and seeks to ensure that the remuneration and rewards framework meets the GEPF's strategic needs. Our total rewards strategy is compelling, flexible and compliant.

## PAY BENCHMARKING

The GEPF subscribed to and participated in two reputable South African remuneration surveys in the final quarter of the year under review. The information is being used to

assess the pension fund's position in the market and to inform the remuneration philosophy, policies and practices in terms of fixed and variable remuneration. The outcome of the pay benchmarking was approved and implemented during the year under review.

## REMUNERATION PACKAGE

The Remuneration Committee is committed to ensuring that the GEPF remuneration and people practices are reviewed regularly so that the pension fund can continue to attract talented employees who are able to work towards the attainment of its vision and strategic goals.

## EXECUTIVE REMUNERATION AND PERFORMANCE MANAGEMENT

The GEPF endeavours to ensure a meaningful link between the performance of its employees and their remuneration so that remuneration and rewards are structured to promote and sustain high levels of performance.

Performance bonuses are allocated for above-average performance and beyond, and are effected at the end of the financial year. The GEPF Board approved the payment of performance bonuses to qualifying employees during the year under review. No ex-gratia payments were made during this period.

## EXECUTIVE REMUNERATION 2017/18

Name	Title	Cost to Company	Short-term incentive	Total
Abel Sithole	Principal Executive Officer	R3 780 331	R1 177 290	R4 957 621
Musa Mabesa	Head: Corporate Service	R1 353 805	R492 800	R1 846 605
Linda Mateza	Head: Investments and Actuarial	R2 378 525	R705 372	R3 083 897
Babs Naidoo (Appointed 1 January 2018)	Head: Stakeholder Management and Communications	R435 934	–	R435 934
Adri van Niekerk	Company Secretary	R1 692 434	R506 297	R2 198 731

## TRUSTEE REMUNERATION 2017/18

Name	Meeting attendance fee	Retainer fee	Subsistence and travel	Total paid
Ms Lindy Bodewig	–	–	R6 286	R6 286
Mr Corn Booyens	R145 403	R45 322	R16 771	R207 496
Colonel Johan Coetzer	R245 107	R44 599	R19 101	R308 806
Major General Dries de Wit	R561 668	R206 803	R16 624	R785 095
Dr Vuyo Dyantyi	R207 718	R45 322	R24 247	R277 287
Mr Themba Gamedze	R236 805	R79 839	R10 131	R326 775
Brigadier Johan Griesel	–	–	R11 403	R11 403
Ms Jenny Jeftha	R400 114	R65 863	R22 922	R488 899
Mr Edward Kekana	R386 361	R102 500	R1 377	R490 238
Dr Barry Kistnasamy	–	–	R24 066	R24 066
Mr Mpho Kwinika	R211 879	R80 339	R850	R293 068
Dr Frans Le Roux	R419 597	R125 161	R11 912	R556 670
Mr James Maboja	R209 261	R45 322	R8 240	R262 823
Dr Alex Mahapa	R87 241	R65 866	R15 201	R168 308
Ms Mantuka Maisela	R300 395	R24 247	R68 664	R393 306
Mr Seth Makhani	R376 153	R147 819	R8 465	R532 437
Ms Kgomotso Makhupola	R361 435	R79 839	R17 291	R458 565
Mr Mugwena Maluleke	R120 477	R45 322	R9 232	R175 031
Mr Success Mataitsane	R182 792	R67 483	R17 968	R268 243
Dr Lese Matlhape	R160 771	R22 661	R17 998	R201 430
Mr Stadi Mngomezulu	–	–	R36 053	R36 053
Ms Gladys Modise	R257 574	R79 839	R10 649	R348 062
Ms Edith Mogotsi	R402 152	R147 819	R16 122	R566 093
Dr Renosi Mokate	R519 591	R206 991	R45 269	R771 851
Mr Richard Morris	R294 726	R90 641	R15 290	R400 657
Ms Moira Moses	R444 190	R169 087	R14 482	R627 760
Adv Makhubalo Ndaba	R351 204	R45 322	R25 208	R421 734
Ms Dorothy Ndhlovu	R307 430	R79 839	R52 842	R440 111
Mr Peter Ntsime	R153 713	R44 822	R7 483	R206 018
Dr Morgan Pillay	R186 949	R45 322	R1 416	R233 687
Dr Anban Pillay	–	–	–	–
Mr John Raphela	R173 234	R20 544	R18 524	R212 302
Mr Pierre Snyman	R382 208	R102 500	R8 391	R493 099
Adv Lindiwe Thomas	–	–	–	–
Ms Barbara Watson	R442 073	R125 158	R300	R567 531
<b>Total</b>	<b>R8 528 222</b>	<b>R2 452 191</b>	<b>R580 777</b>	<b>R11 561 190</b>

# INVESTMENT REPORT

The Government Employees Pension Fund holds a diversified portfolio of assets and its investment strategy takes into account long-term objectives, the size of the pension fund and its future obligations.

## INVESTMENT OVERVIEW

The pension fund's investments are allocated to various asset classes, in proportions determined through asset-liability modelling and in consultation with the Minister of Finance.

With a set of prudent investment beliefs that outline the pension fund's investment approach, the GEPF is able to undertake appropriate levels of investment risk that allow it to earn investment returns above inflation and thereby grow its assets for the benefit of its members, pensioners and beneficiaries.

Guided by this robust investment strategy, the pension fund makes long-term investments through its asset manager, the Public Investment Corporation (PIC), in accordance with its strategic asset allocation and investment mandate.

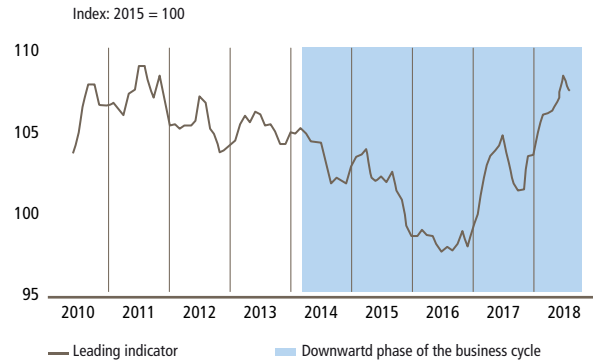
GEPF investment grew by 8.3% during the 2017/18 financial year. Much of this growth was driven by its allocation into domestic assets, particularly domestic bonds and equities. At 31 March 2018, about half of the pension fund was invested in local equities (51%) and a significant portion in local bonds (32%).

## ECONOMIC ENVIRONMENT

The health of the South African economy is vital to the success of the GEPF as 90% of our funds is invested in South Africa. During the financial year ending March 2018, the economy grew by 0.8%, which was an improvement relative to -0.3% achieved over the same period last year. Most of the GDP growth came from finance, real estate and business services sectors.

Business confidence levels improved significantly from the third quarter of 2017, as reflected in the graph that follows, suggesting better growth in 2018. However, the subsequent significant weakening of emerging market currencies, including the rand, against the US dollar has tended to erode business confidence in the short term.

## COMPOSITE LEADING BUSINESS CYCLE INDICATOR FOR SOUTH AFRICA



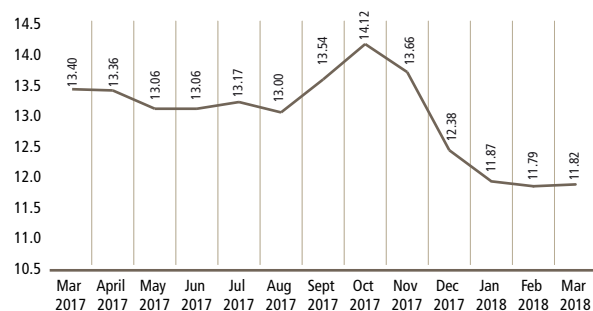
Source: South African Reserve Bank

During the year under review, the inflation rate as reflected by the Consumer Price Index (CPI) dropped to 3.81% (2017: 6.12%). CPI remained at the lower end of the South African Reserve Bank's (SARB) target range of 3% to 6%. The SARB cut the repo rate by 25 basis points in July 2017 and a further 25 basis points in March 2018, leaving the repo rate at 6.5%.

The rand strengthened by 13.4% relative to the US dollar during the year under review. This is reflected in the downward trend of the blue line in the graph below. However, there was volatility from August to October 2017, when the rand weakened against the US dollar by 4.5%. The pension fund benefited from this spike at the time, as some of its assets are invested in offshore markets.

Albeit a relatively small offshore allocation, rand returns from the GEPF's investments in international assets are impacted by movements in exchange rates and generally benefit from Rand weakness against the dollar.

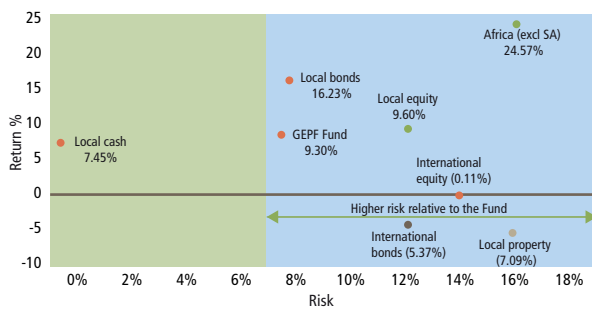
## COMPARISON OF RAND TO US DOLLAR



## ASSET CLASS PERFORMANCE

It is crucial that the GEPF's asset allocation delivers the desired investment return without exposing the fund to excessive risk. The pension fund has achieved this objective through its diversified asset allocation. The chart below shows the risk return profile of different asset classes in which the pension fund invests.

### RISK VERSUS RETURN OF ASSET CLASSES



The one-year return from SA listed property was -7.09%, compared to 1.68% in 2017. The largest contributor to the negative return was the decline in the Resilient Group of companies' share price in the first quarter of 2018. Resilient made up over 40% of the SA listed property index and its decline therefore had a large impact on the performance of the sector. The stronger rand in the first quarter of 2018 and weak economic fundamentals added to the losses.

For international bonds, the Barclays Global Bond Index produced a return of 5.41% in US dollar terms compared to last year's return of -1.40%. The performance has improved significantly compared to last year, due to the steady increase in interest rates by the US Federal Reserve. The return was a negative 6.85% in rand terms due to the strengthening of the rand over this period.

Real interest rates in emerging markets are still attractive relative to developed markets. As a consequence, emerging markets including South Africa, are still experiencing inflows from international investors looking for yield. This situation may change as the US Federal Reserve continues to increase its interest rates into 2018 on the back of improved economic environment. Such increases would enhance the performance of international bonds.

In terms of international equity, the MSCI World equity benchmark produced a return of 13.52% in US dollar terms for the one-year period ending March 2018, slightly underperforming last year's US dollar return of 14.77%. The rand return was 0.31% over the same period in 2018.

The local equity index (Share Weighted Index excluding gambling stocks) produced a double digit return of 10.94%, compared to 1.68% over the same period in 2017. This return was 7.13% above inflation. Shares in the financial sector contributed greatly to this investment return. The GEPF therefore benefited from allocating approximately 50% of its portfolio into local equity.

The local bond index produced a return of 16.18% over this period, compared to last year's return of 11.02%. Government bonds were a leading contributor to this investment performance. The pension fund gained from its exposure in the local bond market as a large investor.

In the past financial year, the local bond sector, especially government bonds, experienced much volatility with South Africa narrowly escaping a downgrade to non-investment grade status by the three rating agencies, Moody's, Standard & Poor's (S&P) and Fitch Ratings. There was some improvement in the first quarter of 2018 following a positive assessment of South Africa by Moody's, which upgraded the country's outlook from negative to stable.

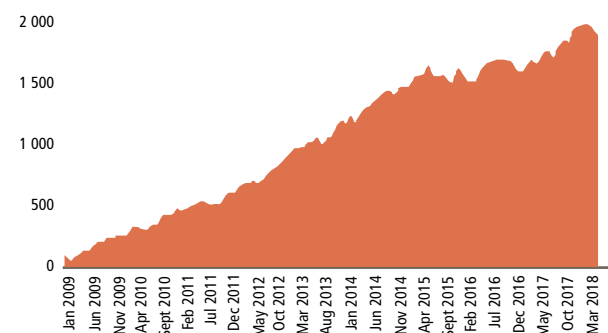
The local cash index (SteFi) returned 7.41%, a slight decline from 7.59% in 2017. Cash outperformed inflation by 3.6%.

For the one-year period ending March 2018, the FTSE Africa Top 30 (excluding South Africa) benchmark produced an unusually high return of 44.92% in dollar terms compared to -5.92% in 2017. The return was supported by improved economic fundamentals in Nigeria, Kenya, Ghana and Egypt. The increase in the oil price in the first quarter of 2018 also boosted the performance of oil rich countries such as Nigeria and Angola. The index returned 28.06% in rand terms.

## FUND SIZE AND POSITION

GEPF assets have grown significantly over the years. The pension fund's value was just over R640 billion in January 2009, growing to R1.800 trillion as at 31 March 2018.

### GEPF MARKET VALUE 2009 – 2018



## ASSET ALLOCATION

Assets class	Actual AA	Strategic AA	AA range
Local equity	51.16%	50.00%	45% – 55%
Local bonds	32.42%	31%	10% – 36%
Local property	5.23%	5.00%	3% – 7%
Local cash	2.37%	4%	0% – 8%
Africa	1.73%	5%	0% – 5%
International equity	4.75%	3.00%	1% – 5%
International bonds	1.06%	2%	0% – 4%

## FUND PERFORMANCE

Financial market performance in the short-term tends to be volatile and, therefore, the long-term nature of the pension fund's investments should be considered. The pension fund has delivered good annualised returns over one, three- and five-year periods, beating inflation over all periods and cash over one- and five-year periods.

	One year	Three-year	Five-year
GEPF Fund	9.30%	5.71%	9.21%
GEPF benchmark	11.26%	6.32%	6.69%
Inflation	3.81%	5.39%	5.23%
Local cash	7.45%	7.21%	6.60%

## SIGNIFICANT DEVELOPMENTS RELEVANT TO THE GEPF PORTFOLIO

### DOWNGRADE OF SOUTH AFRICAN BONDS BY RATING AGENCIES

There were concerns that South Africa would be downgraded to non-investment grade status by the three rating agencies during the course of the financial year. This caused much volatility in the financial markets and had an impact on the GEPF. The downgrade was averted in the first quarter of 2018 when Moody's changed its rating from negative outlook to stable.

### COMPLETION OF THE ASSET LIABILITY MODELLING EXERCISE

The pension fund completed an asset-liability modelling exercise, which has produced a strategic asset allocation that is optimal for the fund. We are currently liaising with the National Treasury in this regard.

### INCLUSION OF AFRICAN BONDS INTO THE MANDATE

GEPF has included investments in bonds issued by institutional borrowers in the rest of Africa (primarily governments) into its mandate in order to improve the portfolio's diversification.

## ADOPTION OF INVESTMENT BELIEFS

The GEPF Investment Beliefs were adopted during the year under review. The pension fund is in the process of implementing the investment beliefs across its policies and communicating them to relevant stakeholders.

### OUR INVESTMENT BELIEFS

- The GEPF's investment strategy considers the Fund's risk profile, assets and liabilities. Risk is considered at the asset class, portfolio, and investment levels.
- Taking well-considered risks is necessary to earn the returns required to meet the Fund's pension obligations, provided that appropriate risk management processes are followed.
- The Fund's strategic asset allocation is the key determinant of portfolio risk and return, and it may be implemented through a combination of active and passive management.
- The GEPF integrates Environmental, Social and Governance factors into its investment policies as they are material to the long-term sustainability of the Fund.
- The Fund's investments should play a developmental role in the South African and broader African economy, and investment decisions may reflect wider stakeholder views.
- The Fund's reputation must be supported by robust and rational investment decisions, executed by appropriately skilled and competent investment professionals.
- Minimising the costs of investing is vital for long term investment success, and management fees should promote an alignment of interests between the Fund and its managers.
- The Fund's trustees, administrators and investment managers are accountable for their decisions, and must perform their duties to the highest professional ethical standards.
- The Fund's trustees commit to high standards of openness, transparency and appropriate disclosure in line with best practice standards.



## RESPONSIBLE INVESTING

The United Nations Principles for Responsible Investment (UN PRI) defines responsible investment as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. There is an increasing expectation globally for pension funds to commit to investing in a transparent, accountable and sustainable manner.

The GEPF demonstrates its commitment to responsible investment through active ownership activities, monitoring and reporting, and making developmental investments.

Civil society, media and the general public have shown a growing interest in the way that the Government Employees Pension Fund invests. It is therefore imperative to address these needs, while seeking positive and sustainable risk-adjusted returns.

The GEPF approaches responsible investing by incorporating ESG issues into investment decisions. Responsible investing policies including guidance on proxy voting and engagement, external frameworks and principles such as the UN PRI, South Africa's National Development Plan (NDP) and the UN Sustainable Development Goals (SDGs) provide guidance to the pension fund.

Both the GEPF as asset owner and the PIC as its asset manager are signatories to the UN PRI that serves as the overarching framework for responsible investment.

We have a team dedicated to the management and execution of responsible investment activities, with the Board of Trustees being ultimately accountable for responsible investment. The Board executes this accountability through engagement on ESG matters at the Board subcommittees, the Investment Committee, and the Social and Ethics Committee.

## RESPONSIBLE INVESTING POLICY

The GEPF adopted its revised Responsible Investment policy during the year under review. The policy provides the overarching strategy for responsible investment and details how this is translated into the fund's investment activities. The highlights of the policy changes include the following updates:

- Improved focus on environmental and social factors by creating ESG guidelines for addressing issues such as climate change and transformation.
- Review of the pension fund's active ownership practices and engagement guidelines.

- Integration of the Investment Beliefs into the Responsible Investment policy.
- Understanding the issues of importance through engagement with the pension fund's key stakeholders.

The policy is reviewed periodically to ensure that it reflects both the global best practice standards for management of ESG issues and the unique developmental context of South Africa.

## GEPF AND ACTIVE OWNERSHIP ACTIVITIES

The GEPF Investment Beliefs relay the importance of long-term value investment and the need to consider not only financial benefits, but also to deliver value of a broader nature, including ESG considerations, when investing.

This approach takes cognisance of both the risks and benefits of ESG matters in its investments. By understanding ESG risks better, the Fund is able to better assess the extent of value at risk in both the listed and unlisted portfolio and take action to mitigate these risks.

Good corporate governance, an understanding of the social context of business in South Africa and sound environmental management are prerequisites in an era where anti-fraud and anti-corruption measures, labour issues such as transformation, the issue of climate change, and transparency feature prominently.

The GEPF uses its ownership rights and privileges to encourage investee companies to manage and account for ESG issues appropriately. The pension fund aims to use its influence and size to signal change and to be a conduit for development in South Africa through its voting rights and engagement strategies. The fund monitors the progress of these activities by:

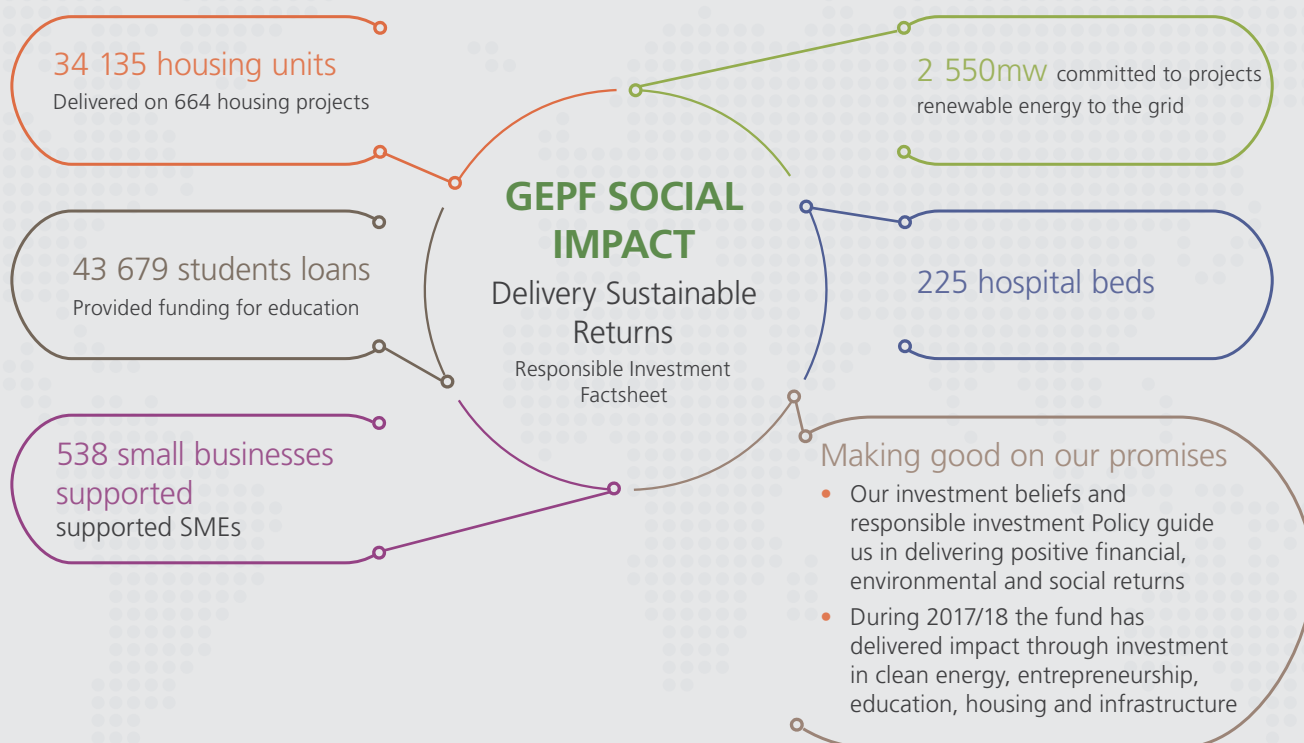
- reporting quarterly on ESG matters related to listed and unlisted investments;
- setting the standards and requirements for ESG criteria and reporting for its asset managers;
- reviewing quarterly proxy voting records from its asset managers;
- conducting specialist research and monitoring of responsible investment controversies and ESG ratings;
- forming liaison committees between the PIC and the GEPF on ESG matters; and
- participating in industry forums on responsible investment.

The GEPF's asset manager, PIC, applies a responsible investment policy that is in line with the GEPF's mandate and guidelines for monitoring and reporting responsible investing. These activities assist analysts and portfolio managers in assessing issues such as executive remuneration, transformation, supply chain environmental stewardship, board independence and transparency as part of the evaluation of an investment's attractiveness.

The PIC ESG team ensures that thorough due diligence reviews of these investee companies occur, confirming that ESG considerations are taken into account in investment decisions.

## INVESTING FOR IMPACT

While the GEPF pursues good risk-adjusted investment returns, it also recognises its role in economic development. The pension fund contributes to the development of the South African economy through investments in key areas including renewable energy, small and medium enterprise development, education, housing and healthcare.



## RENEWABLE ENERGY

The GEPF believes that renewable energy provides an opportunity to assist communities by reducing the load on the national power grid. South Africa's energy demand is expected to double from the current levels by 2030, and with constraints in power infrastructure, electricity demand is rising significantly.

The Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is the bidding programme designed to stimulate the renewable industry in South Africa. The GEPF's investments in renewable energy grew to R10,5 billion since inception. The Fund has invested in different renewable and sustainable energy projects directly and indirectly:

- R313 million invested in wind energy projects which contribute 140 MW,
- R4 925 million in 1048 MW solar energy projects, and
- R142 million in 44 MW of gas projects in various regions in Limpopo, Eastern Cape, Western Cape, Northern Cape, North West and the Free State.

## INVESTING IN THE ALTERNATIVE ENERGY SECTOR

Alternative and clean energy sources continue to dominate the dialogue regarding the link between global warming, carbon emissions and the heavy reliance on burning fossil fuels such as coal as a main source of energy in South Africa. Investments into alternative sources of energy that emit lower greenhouse gases are therefore increasing.

Cheaper alternative energy can be used to alleviate the demand on the national power grid. The GEPF, through its investment manager, the Public Investment Corporation (PIC), continues to search for opportunities to invest in the alternative energy sector.

Cognisant of the need to play a developmental role in the South African economy, the GEPF invested in two new energy projects in the last financial year, namely, the Sunrise Energy project and Xina Solar One project.

### Xina Energy project

The PIC on behalf of the GEPF and together with partners Abengoa Group, IDC and the Xina Community Trust, has invested into a multi-billion rand solar power project called Xina Solar One near Pofadder in the Northern Cape.

The 300 hectare solar energy plant has a capacity of 100 megawatts and is to provide clean and sustainable energy to 95 000 South African households during peak hours. This is another project in which the GEPF participates to address South Africa's renewable energy needs, contributing to the reduction of greenhouse gas emissions and creating jobs while seeking good investment returns. The GEPF holds a 20% stake in the Xina Solar One project.

### Sunrise Energy project

Sunrise Energy has a 30-year concession from Transnet National Port Authority (TNPA) to build and operate a Liquefied Petroleum GAS (LPG) Import Terminal in Saldanha Bay.

The total cost of the project is R1 billion, of which 50% will be funded by shareholders' equity and the 50% balance (R500 million) through loan financing.

The PIC, on behalf of the GEPF, has extended debt finance amounting to R150 million towards the project. This represents 30% of the R500 million debt, and the balance of is financed by the Development Bank of Southern Africa (DBSA) and The Industrial Development Corporation (IDC).

This project presents an attractive investment for the GEPF, while also enabling the pension fund to play a role in job creation.



## SMALL AND MEDIUM ENTERPRISES

SMEs are widely regarded as the cornerstone of innovation and growth, and a key factor in reducing unemployment in South Africa. During the reporting period, the pension fund's investments supported 538 SMEs in sectors such as housing, energy, health, tourism and agriculture. Through investments in renewable energy and other investment facilities, the GEPF has initiated 14 employee share option schemes and emerging farmers trust schemes.

## EDUCATION

The National Development Plan states that it is key to increase the level of education of South Africans in order to lower the unemployment rate and stimulate economic development, especially for the youth of the country.

The GEPF has supported this priority by investing in the education sector over the years. A total of 43 679 student loans were facilitated through investments in Fundi Capital (Eduloan) and other entities between 1996 and 2018.

While no direct bursaries were provided by the pension fund and its asset manager, the PIC, a total of 21 578 students were supported through investments in basic education. Through GEPF's Education Focus Fund, investments in 33 schools were made.

Furthermore, the GEPF has invested in companies that specialise in students accommodation and through such investments, has helped to provide close to 12 000 student beds. This should alleviate the acute shortage of student lodging to a certain extent.

## HOUSING

The GEPF invests in affordable housing infrastructure, to contribute to the realisation of the goals of the National Development Plan while ensuring sustainable financial returns from its investments.

Through its investments, the pension fund has facilitated 664 housing projects which in turn provided 34 135 housing units. The fund's investee companies have extended 55 886 home loans, enabling access to finance for affordable housing.

Of particular importance is the fact that SA Home Loans adjusted the requirements for home loans to enable more GEPF members to qualify, while ensuring that every approved loan is affordable. The funding provided by the GEPF to SA Home Loans has already resulted in more than 8 000 government employee households having benefited

from this home finance facility – 26% of these households have income below R22 000 per month; 52% are female beneficiaries and 34% are youth under the age of 35.

## HEALTHCARE

The GEPF supported improved healthcare by investing in the construction of hospitals in Gauteng and Mpumalanga during 2018. Once completed, these hospitals will add 225 hospital beds to the healthcare system of the country.

## THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

The United Nations has developed 17 SDGs that will impact on the role and responsibilities of public and private sector institutions, including:

- poverty reduction;
- access to food, water and sanitation;
- health;
- education;
- economic growth;
- gender equality,
- development of cities and human settlements;
- access to affordable and clean energy, and
- resilience to climate change.

The GEPF has linked the SDGs to the pension fund's key developmental indicators in order to monitor the progress of investments towards the SDGs. The GEPF's Isibaya Fund has identified the following areas of investment, which are aligned to the achievement of the SDGs:

- Africa Developmental Investment Fund
- Economic infrastructure Fund
- Energy Infrastructure Fund
- Environmental Infrastructure Funds
- Priority Sector Fund
- Small Medium Enterprise Fund

## UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

The United Nations Principles for Responsible Investment (UN PRI), to which the Fund is a founding signatory, has helped GEPF integrate ESG matters into our investment policies and research practices. The GEPF supports the UN PRI in the following ways:

**Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.



ESG issues are integrated into our investment beliefs and through the pension fund's responsible investment policy. This policy provides guidance to GEPF's asset managers on engagement and proxy voting.

**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

The GEPF has clear principles on engagement and other active ownership activities. The Board and its subcommittees receive quarterly reporting on all proxy voting and engagements undertaken through the pension fund's asset manager. For listed companies, the fund engages through proxy voting at AGMs and other meetings. For its unlisted portfolio, the pension fund has set developmental targets that are tied to its asset managers' incentive structures.

**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

For the GEPF's listed and unlisted portfolios, there are a variety of mechanisms used for seeking disclosure on ESG issues. We require sustainability reporting from all investments and have key developmental indicators that measure, monitor and evaluate progress on improving the ESG risk profile of the portfolios.

**Principle 4:** We will promote acceptance and implementation of the principles within the investment industry.

The GEPF supports wider acceptance of the UN PRI and the Principles within the industry and actively promotes integration of responsible investment into investment strategy and processes.

**Principle 5:** We will work together to enhance our effectiveness in implementing the principles.

The GEPF collaborates on initiatives with the UN PRI. This includes engaging at the annual PRI in Person conference and other responsible investment initiatives locally and internationally, to promote responsible investment and improve the social impact of the pension fund.

**Principle 6:** We will each report on our activities and progress towards implementing the principles.

The GEPF reports on its activities to stakeholders on an annual basis through its annual report.

## LOOKING AHEAD

The GEPF has identified the following focus areas for 2018/19:

- Strengthen the identification and monitoring of ESG matters across the portfolio;
- Increase targeted monitoring and evaluation of engagement with portfolio companies by our asset managers, and improve processes for collating ESG data;
- Review the pension fund's investment due diligence processes, with an emphasis on ESG risks and opportunities;
- Improve alignment of the pension fund's investments to the SDGs and the NDP; and
- Improve measurement of the pension fund's social impact.



# COMMUNICATIONS AND STAKEHOLDER ENGAGEMENT

During the year under review, the GEPF began implementing the new GEPF Integrated Communication Strategy, which was approved by the Board during the previous financial year.

The primary objective of the strategy is to protect and enhance the reputation of the GEPF among all its stakeholders and inform and educate members and pensioners.

The strategy will assist in:

- educating beneficiaries about their benefits and how to access them;
- educating members on the importance of updating personal data affecting their benefits;
- raising employee awareness of communication issues;
- communicating consistent messages in a clear and balanced way;
- ensuring buy-in from key stakeholders; and
- profiling the GEPF as an industry thought leader.

Stakeholder engagement forms an important part of the Integrated Communications Strategy. GEPF stakeholders with whom we engaged during the year included members of the fund, pensioners, beneficiaries, the Board of Trustees, government departments, the media, Public Service Coordinating Bargaining Council (PSBC), Parliament, trade unions, stakeholder associations/organisations and the investment industry.

The GEPF's national outreach campaign during 2017/18 entailed hosting member roadshows, HR forums, retirement member forums, workshops and exhibitions, as well as having mobile offices roving throughout the country. The mobile offices provided on-site, real-time assistance to members, pensioners and beneficiaries nationwide.

During the various engagements, we not only aimed to inform stakeholders about the GEPF benefits and processes, and to build beneficial relationships, but also encouraged members and pensioners to provide feedback on services rendered. Engagements with stakeholders also allowed the GEPF to disseminate printed material such as booklets, leaflets and guides that further enhanced stakeholder understanding of the GEPF.

## MEMBER ROADSHOWS

Member roadshows form part of the GEPF direct communications approach. A total of nine roadshows were held across the country reaching over 5 000 members, pensioners and beneficiaries. These engagements took the form of presentations by officials, question and answer sessions, as well as one-on-one sessions to resolve specific queries. The fund also used the roadshows as an opportunity to engage with local media platforms in order to ensure that a wider audience was reached.

As part of the GEPF Fiscal Education Programme, the Government Employees Medical Scheme (GEMS), South African Revenue Service (SARS) and the FSB (now FSCA) were invited to participate in the roadshows and provided valuable information to those that were present.

## ROADSHOW VENUES AND ATTENDANCE 2017/18

Province	Town	Attendance
North West	Ganyesa	370
Northern Cape	Upington	554
Limpopo	Mankweng	190
Western Cape	Khayelitsha	566
Gauteng	Khutsong	281
Free State	Kroonstad	1394
Eastern Cape	Queenstown	1216
Mpumalanga	Tonga	286
Gauteng	Sharpeville	636

## RETIREMENT MEMBER ROADSHOWS

In an effort to ensure that those members that are nearing retirement have a smooth retirement process, the GEPF hosts retirement member roadshows on a regular basis. During these roadshows the discussions and interactions focus on the requirements and responsibilities of members and departments when retirement is applied for. These information sessions are crucial in ensuring that members are well prepared when they retire. Five roadshows were held during the reporting period, with over 1 500 members attending.

## HR FORUMS

To empower human resources practitioners with the latest information and processes, the GEPF hosts HR forums in which human resources practitioners interact with pension fund officials to address any challenges being experienced. These forums have been extremely useful in addressing bottlenecks in the pension process, whether it be registration, retirement or resignations. During the period under review, there were engagements with over 600 human resources practitioners and directors.

## MOBILE OFFICES

The GEPF has vehicles that serve as mobile offices. These mobile offices enable the GEPF to execute its rural outreach initiatives. They are equipped with the latest IT and satellite communication technologies that make it possible to link with the main information system and provide on-site, real-time assistance to members, pensioners and beneficiaries in the nine province, mostly in remote rural areas.

During 2017/18, a total of 767 mobile sites were visited in the nine provinces, reaching over 90 000 individuals. The mobile offices are a significant step towards achieving improved service levels for members, pensioners and beneficiaries.

## PUBLIC DISPLAYS AND EXHIBITIONS

To enhance visibility, we showcased the GEPF offerings and distributed printed material in the public domain, for example at the Rand Show where an estimated total of 1 000 members were assisted with their queries.

During the financial year, mall activations were introduced as a pilot at four malls in Gauteng and Limpopo. A further expansion of exhibitions at key conferences and events is envisaged for the 2018/19 financial year.

## INDIRECT COMMUNICATION ACTIVITIES

In addition to direct engagement initiatives, GEPF also communicated with stakeholders via advertising on radio, print, television and outdoor platforms; quarterly newsletters and editorials; media liaison activities, regular radio interviews and social media interventions.

Major activities for the year under review included:

- Radio campaigns raising awareness of the GEPF and its processes in an effort to educate members of their benefits and the processes associated with claiming or registering for such benefits.
- Television campaign aimed at tracing beneficiaries who have not claimed benefits. This campaign involved story line insertions in two popular TV series, these being Skeem Saam and Khumbul' ekhaya.
- Digital campaigns took the form of advertising via Taxi-Television and digital screens at popular PSL soccer games.

These activities formed a crucial element of the sustained and enhanced communications during the financial year.

## MEMBER SERVICES

Member Services, which include member and pensioner management, contribution management and the payments of benefits, are managed by the Government Pensions Administration Agency (GPAA). The relationship between the GEPF and the GPAA is governed through a service level agreement.

## SERVICE HIGHLIGHTS

Over the period under review, the GPAA received 73 957 pension claims (compared with 74 689 in 2016/17) and paid 73 336 of these claims (compared with 73 764 in 2016/17). The benefits in respect of these claims were R95 billion (compared with R88 billion in 2016).

In addition, the administration agency collected R70.4 billion in contributions (compared with R65 billion in 2016/17). Member and pensioner communication and documentation of 218 862 were received and processed (compared with 181 383 in 2016/17). The communication and information included, among other things, nomination forms, change of address information and updates of personal details.

Service interactions with beneficiaries:

- Visitors at all GEPF Offices: 474 779
- Telephone calls attended to: 764 794
- Visitors received at mobile offices: 90 634



**94% satisfaction rating** was received through the variety of channels (regional offices, call centres, emails, mobile offices and outreach activities)

## SERVICE IMPROVEMENT PROGRAMMES

In order to improve service delivery to its members, pensioners, beneficiaries and employer departments, the GPAA implemented the following initiatives:

- **Pension Case Management (PCM)**

This system enables the employer departments to capture exit claims electronically. During the financial year under review, 77% of all submitted exit claims were submitted through the Pension Case Management system.

- **Self-service**

This system allows members to view their benefit statements online. During the period under review, the self-service system was piloted within GPAA and three other employer departments, namely, SARS, National Treasury and the Department of Sport, Arts, Culture and Recreation. Lessons learnt from the pilot phase are being implemented in the finalisation of the system.

Strategies that remain high on the agenda to ensure the fast tracking of benefit payments include:

- The testing and implementation of Benefit Payment Automation for retirement and discharge benefits;
- The testing and implementation of front-end engines which will assist in obtaining accurate member and contribution data prior to the exit of the member;
- A focused approach in dealing with claims older than 60 days;
- Assistance from member departments with respect to improving the integrity of member data through a collaborative approach; and
- Further improving client experiences through the roll out of Queue Management Systems to the mobile offices as well as the roll out of the self-service functionality to employer departments and members.





## GEP LAW AND RULE CHANGES

The GEPF Board of Trustees approved, during the reporting period, the following changes to Rule 14.7.3 to allow for the reinstatement of the service enhancement for demilitarised financial officials. These changes are subject to the Department of Defence reimbursing the pension fund for the additional liability resulting from these changes. The rule was gazetted and became effective after the reporting period.

Rule 14.7.3: For the purposes of the calculation of the benefits mentioned in Rule 14.2.1 of a member:

- (a) who was a member of the SANDF and who has been subjected to voluntary demilitarisation:
  - (i) Rules 14.2.3 and 14.2.4(a) shall be applied for the period up to the date of demilitarisation; and
  - (ii) the provisions applicable to non-military members shall apply in respect of the period after the date of demilitarisation.
- (b) who was a member of the SANDF and who has been subjected to compulsory demilitarisation:
  - (i) Rules 14.2.3 and 14.2.4(a) shall remain applicable for such members for the period up to the date of service termination from the Department of Defence, irrespective of the date that such member ceased to be a member of the Fund, but not beyond the age of 60 years; and
  - (ii) the provisions applicable to non-military members shall apply in respect of the period after the age of 60 years.

### PSCBC AGREEMENTS

A number of rule changes that had been approved by the Board during previous reporting periods were approved by the PSCBC in July 2017. The rule changes are as follows:

- **Additional Voluntary Scheme**

This will allow GEPF members with an option to increase their retirement provision while in active employment, as well as to allow those members who have 36-month or more fixed term contracts and who are currently not members of the GEPF, the option to make provision for retirement. The establishment of this scheme is a long-term project and the GEPF is working closely with the GPAA to finalise the implementation.

- **Preservation Fund**

GEPF members do not have the option to preserve their pension proceeds within the GEPF upon exit. The establishment of the Preservation Fund will enable

members to preserve their benefits within the GEPF until their retirement. This implementation of the Preservation Fund is a long-term project.

- **Increased Funeral Benefit**

The payment of funeral benefits were increased from R7 000 to R15 000 for members, pensioners and spouses and from R3 000 to R6 000 for eligible children and stillborn children. The rule change was gazetted and implemented.

- **Child's Pension**

The GEPF has amended its rules to change orphan's pension to child's pension. The pension will be payable to all children of a members on death regardless of whether or not there is a surviving spouse. The benefit will be payable until the age of 22 and the level of the child pension has been increased to a maximum of 25% per child. However it will be reduced proportionately if there are more than four children (where a spouse's pension is not payable) or more than two children (where a spouse's pension is payable). The minimum pension per child will be kept at 10% per child. This was gazetted and implemented after the reporting period.

- **Market Value Adjustment**

This change will ensure that a member who transfers his/her benefit to another retirement fund will not be lower than his/her resignation benefit. This was gazetted and implemented after the reporting period.

- **Benefit Discharge Anomaly**

This change will ensure that a member who is discharged from his/her employer with less than 10 years of service will receive the same benefit as if he/she had resigned. This was gazetted and implemented after the reporting period.

- **Clean Break Principle**

The clean-break principle allows for the spouse of a member to claim a portion of the member's interest in the pension fund, in terms of a valid divorce order. The GEPF is in the process of amending the Law and Rules to do away with the concept of creating a debt in the apportionment of pension benefits on divorce and instead adjusting the member's years of service. Members who currently have such a divorce debt registered against their benefits will be afforded the choice to move to the service adjustment principle once the GEP Law and Rule changes have been effected. The GEPF is in the process of finalising this.

# ACTUARIAL VALUATION

## FUNDING OF LIABILITIES

In terms of the GEP Law and the Rules of the Fund, an actuarial valuation must be carried out at least once every three years. Twelve statutory actuarial valuations have been undertaken since the establishment of the pension fund in May 1996.

The most recent valuation was undertaken on 31 March 2016. This valuation was performed based on the Funding Policy that was adopted by the GEPF Board of Trustees in consultation with the Minister of Finance. The policy provides for the comparison of the assets held by the pension fund with the valuation of the liabilities on a long-term best-estimate basis.

The actuarial results of the March 2016 valuation show that the Government Employees Pension Fund is 115.8% funded. There are sufficient assets to cover the actuarial liabilities in full.

Funding level of liabilities		
Date	Funding level	Valuator
1 May 1996	72.3	Ginsberg, Malan, Carson
31 March 1998	96.5	NBC Employee Benefits
31 March 2000	96.1	NBC Employee Benefits
31 March 2001	98.1	NBC Employee Benefits
31 March 2003	89.4	Alexander Forbes Financial Services
31 March 2004	103.9	Alexander Forbes Financial Services
31 March 2006	128.2	Alexander Forbes Financial Services
31 March 2008	115.2	Alexander Forbes Financial Services
31 March 2010	108.7	Alexander Forbes Financial Services
31 March 2012	102.7	Towers Watson
31 March 2014	121.5	Towers Watson
31 March 2016	115.8	Willis Towers Watson

## FUNDING OF LIABILITIES AND RESERVES

The Funding Policy also provides for the establishment of reserves to protect against mortality and investment risk in the future and to increase the target for future pension increases from 75% to 100% of headline inflation.

The valuation reports since 31 March 2004 have reported on the comparison of the assets held by the pension fund to the valuation of the liabilities on a long-term, best-estimate basis together with the additional contingency reserves recommended by the valuator.

The actuarial results of the March 2016 valuation show that 79.3% of the liabilities and the recommended reserves could be afforded at that date.

Funding level of liabilities and recommended reserves		
Date	Funding level*	Valuator
31 March 2004	96.5	Alexander Forbes Financial Services
31 March 2006	101.7	Alexander Forbes Financial Services
31 March 2008	85.3	Alexander Forbes Financial Services
31 March 2010	74.1	Alexander Forbes Financial Services
31 March 2012	70.4	Towers Watson
31 March 2014	83.1	Towers Watson
31 March 2016	79.3	Willis Towers Watson

\* The funding level has been determined with reference to the full reserves as recommended by the valuator at that time.

## MEMBERSHIP PROFILE

	Male	Female	Total 2016	Total 2014
<b>Contributing members</b>				
'Other' members	377 334	684 984	1 062 318	1 060 832
'Services' members	161 275	61 833	223 108	226 528
<b>Total</b>	<b>538 609</b>	<b>746 817</b>	<b>1 285 426</b>	<b>1 287 360</b>
<b>Pensioners</b>				
Retired members	112 375	154 105	266 480	233 565
Spouses	17 090	129 534	146 624	133 784
<b>Total</b>	<b>129 465</b>	<b>283 639</b>	<b>413 104</b>	<b>367 349</b>

## VALUATION ASSUMPTIONS AS AT 31 MARCH 2016

The economic assumptions were updated to take into account the market conditions as at 31 March 2016. The demographic assumptions have been updated following an investigation into the pension fund's experience over the period 1 April 2008 to 31 March 2012. The full details of the investigation are set out in a report prepared by Willis Towers Watson, which was finalised in October 2013.

Mortality improvements are being observed internationally and South Africa is expected to follow suit. The actuaries therefore believe that it is appropriate to include an explicit allowance for future mortality improvements in the 2016 valuation, as was the case in the previous valuation.

## VALUATION RESULTS AS AT 31 MARCH 2016

The results of the GEPF actuarial valuation as at 31 March 2016 are shown in the table that follows.

	31 March 2016	31 March 2014
<b>Financial position</b>		
Contributing member liability	1 029 889	878 721
S-case and exits in progress	12 063	18 155
Pensioner and deferred pensioner liability	349 805	263 558
Data and past discriminatory practice reserves	15 419	13 082
<b>Total best-estimate liabilities</b>	<b>1 407 176</b>	<b>1 173 516</b>
<b>Net assets</b>	<b>1 629 923</b>	<b>1 425 719</b>
Excess of assets over liabilities	222 747	252 203
Funding level of liabilities	115.8%	121.5%
Recommended reserves*	647 049	541 375
<b>Total best-estimate liabilities and reserves</b>	<b>2 054 225</b>	<b>1 714 891</b>
<b>Net assets</b>	<b>1 629 923</b>	<b>1 425 719</b>
Excess of assets over liabilities and reserves	(424 302)	(289 172)
Funding level of liabilities and reserves	79.3%	83.1%

\* This consists of a solvency reserve (R301 581 million), 100% CPI pension increase reserve (R304 128 million) and a mortality improvement reserve (R41 340 million).

The 2016 actuarial valuation results show that the funding level has deteriorated when compared with the 2014 actuarial valuation.

In terms of the policies adopted by the GEPF Board of Trustees, the reserves established as at 31 March 2016 are limited to the amount affordable by the pension fund, namely R222 747 million. On this basis, 34.4% of the recommended reserves could be held. As at 31 March 2014, a reserve of R252 203 million (or some 46.6% of the recommended reserves) was affordable.

### **EMPLOYER CONTRIBUTION RATE FOR 1 APRIL 2017 – 31 MARCH 2018 FINANCIAL YEAR**

Based on the best-estimate actuarial valuation, and ignoring the excess of the assets over the best-estimate liabilities, the required employer contribution rate is 19.6% of pensionable salary in respect of 'services' category members and 14.8% of pensionable salary in respect of 'other' category members, reflecting the differences in the benefit structure of these two categories of members.

The employer currently contributes at a rate of 16% of pensionable salary in respect of 'services' members and 13% in respect of 'other' members. All members of the Government Employees Pension Fund contribute at a rate of 7.5% of pensionable salary.

The shortfall in the required contribution rate is estimated to amount to R6 000 million over the next year and can be afforded from the excess of the assets over the best-estimate liabilities.

### **VALUATION AS AT 31 MARCH 2018**

The valuation of the fund effective 31 March 2018 is currently in progress, the results of which are expected to be available in December 2018.



**Anton Ronald Pienaar**  
*Valuator to the Fund*

October 2018



# ANNUAL FINANCIAL STATEMENTS

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# STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 March 2018

## RESPONSIBILITIES

The Board of Trustees (the Board) believes that, during the year under review, in the execution of its duties it:

- ensured that proper registers, books and records of the fund were kept, inclusive of proper minutes of all resolutions passed by the Board;
- ensured that proper internal control systems were implemented by or on behalf of the fund;
- ensured that adequate and appropriate information was communicated to the members of the fund, informing them of their rights, benefits and duties in terms of the rules of the fund;
- took all reasonable steps to ensure that contributions, where applicable, were paid in a timely manner to the fund;
- obtained expert advice on matters where it required additional expertise;
- ensured that the rules, operation and administration of the fund complied with the applicable laws;
- was not aware of non-compliance with any applicable legislation; and
- ensured that investments of the fund were made and maintained in accordance with the fund's investment strategy.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of the Government Employees Pension Fund (GEPF) are the responsibility of the Board. The Board fulfils this responsibility by ensuring the implementation and maintenance of accounting systems and practices adequately supported by internal financial controls. These controls, which were implemented and executed by the fund, provide reasonable assurance that:

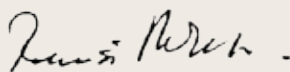
- The fund's assets are safeguarded;
- Transactions are properly authorised and executed; and
- The financial records are reliable.

The annual financial statements set out on pages 66 to 106 were prepared in accordance with:

- The basis of accounting applicable to retirement funds in South Africa as indicated in the principal accounting policies contained in the notes to the financial statements;
- The provisions of the Government Employees Pension Law (GEPF Law); and
- The rules of the GEPF.

The independent auditors, Deloitte & Touche and Nexia SAB&T, have reported on these financial statements. During their audit, the auditors were given unrestricted access to all financial records and related data, including minutes of all relevant meetings. The Board believes that all representations made to the independent auditors during their audit were valid and appropriate. The annual financial statements have been audited by the independent auditors and the report of the independent auditors is presented on pages 55 to 59.

These audited annual financial statements were approved by the Board of Trustees on 21 September 2018 and were signed on its behalf by:



**Dr Renosi Mokate**  
Chairperson

17 October 2018



**Mr Edward Kekana**  
Vice Chairperson

17 October 2018

# THE FINANCE AND AUDIT COMMITTEE REPORT

for the year ended 31 March 2018

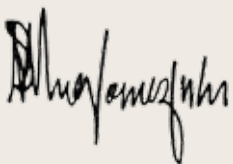
The Finance and Audit Committee (FA-C) acts in accordance with applicable legislation and regulations. It adopted appropriate formal terms of reference as its charter, and has regulated its affairs in compliance with this charter. The FA-C has discharged its responsibilities as contained in the charter, which is updated regularly to ensure its relevance. The FA-C's responsibilities are summarised below:

- Examine and review the quality (adequacy, reliability and accuracy) of the GEPF's annual financial statements and unaudited interim financial statements.
- Make recommendations to the Board regarding the approval of the annual financial statements, as well as the adoption of the unaudited interim financial statements.
- Review of the effectiveness of the internal control systems.
- Ensure that executive management implemented effective and cost-effective corrective measures to address accounting and auditing concerns identified in internal and external audits.
- Oversee the functioning of the internal audit unit of the fund through the revised internal audit charter, methodology and the internal audit three-year rolling plan.
- Oversee the co-ordination of activities between the GPAA and GEPF internal audit to ensure there is no duplication of activities. Also oversee co-ordination with the external auditors, and receiving the reports of significant findings of the GPAA internal audit and ensuring that management of the GPAA implement agreed management actions.
- Ensure that an external audit firm is appointed to conduct the annual external audit for the 2017/18 financial year and ensure their independence and objectivity.
- Oversee the risk management function of the fund and ensuring the separation of this function from internal audit to ensure the independence of internal audit.

Based on the information and explanations given by management and the internal audit department, and discussions with the independent external auditors on the result of their audits, the FA-C is confident that the internal financial controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained. Nothing significant has come to the attention of the FA-C to indicate any material breakdown in the functioning of these controls, procedures and systems during the period under review.

The FA-C has evaluated the financial statements of the GEPF for the year ended 31 March 2018. Based on the information provided, they comply in all material respects with the fund's stated accounting policies, the provisions of the GEP Law (21 of 1996), the GEPF Rules and the regulatory framework, which the Board adopted based on the FA-C's recommendation.

The FA-C agrees that the adoption of the going concern premise in the preparation of these financial statements is appropriate. The FA-C recommended the adoption of the financial statements by the Board of Trustees and the Board has approved the financial statements.



**Mr Stadi Mngomezulu**

*Chairperson: Finance and Audit Committee*

17 October 2018

# RISK MANAGEMENT STATEMENT

for the year ended 31 March 2018

## INTRODUCTION

The GEPF is committed to establishing a sound system of risk oversight; management and internal control to identify, assess, monitor and manage material risks related to the conduct of the fund's activities. The risk management process assists the Board to execute its fiduciary duty to actively manage risks that would otherwise affect or prevent the GEPF from achieving its strategic objectives and to ensure the long-term sustainability of fund. The Board, through the FA-C, ensures that effective risk management processes and procedures are in place to actively manage risks that affect the fund's performance.

## MANDATE

The Board has committed the GEPF to a process of risk management that is aligned to:

- The requirements of sections 6 and 7 of the GEP Law and Rules;
- The Pension Funds Guideline for Good Governance, known as the PF130, issued by the Financial Sector Conduct Authority (FSCA); Codes of good corporate governance, including the King IV Code and the code issued by the Committee of Sponsoring Organisations (COSO) – an internationally accepted framework for good governance;
- ISO 31000:2009, Risk management – Principles and guidelines; and
- Other relevant legislation.

The GEPF Enterprise Risk Management Policy and Framework is in line with ISO 31000:2009, Risk management – Principles and guidelines.

## RESPONSIBILITY

The role and responsibility for risk management within the GEPF is clearly defined in the risk management policy and framework. The Board is ultimately responsible to ensure that the fund manages risk effectively. The GEPF Board of Trustees has formally delegated – as defined in the terms of reference of the Finance and Audit Committee (FA-C) and the Risk Management Policy and Framework – its oversight role to the FA-C. In accordance with the Risk Management Policy and Framework, specific risks are allocated to the Board subcommittees in line with their respective mandates and the specific areas of specialisation and they report on such risks to the FA-C.

The Board approved a Combined Assurance Framework through which assurance will be obtained from GEPF, Government Pensions Administration Agency (GPAA) and Public Investment Corporation (PIC) on critical risks identified and approved by the Board.

The Principal Executive Officer is the fund's nominated Chief Risk Officer, and is accountable to the FA-C to co-ordinate, embed and report on risk management performance in terms of the Risk Management Policy and Framework.

Management is responsible for the day-to-day management of risks and assisting the Chief Risk Officer, as well as the Board committees with their risk management responsibilities and ensuring that employees are aware of risk management procedures in their operational areas.

## MONITORING

Progress on risk management actions and controls was reported to the Executive Management Committee and to the FA-C. Independent monitoring of the risk management function and progress is performed by internal audit through a risk-based audit approach. Assurance was provided that the controls are adequate and effective in mitigating risks.

## CONCLUSION

The integrity of the GEPF's financial reporting relies upon a sound system of internal control and effective risk management processes. The Board implemented adequate and effective policies and procedures covering the risk exposures prioritised by the Board. The various policies implemented by the Board include mechanisms to ensure compliance and continuous improvement. The Board is of the opinion that it has maintained sound risk management processes, policies and procedures, and that these have kept the fund's exposure to risk at acceptable levels and within the GEPF's appetite.



# INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF TRUSTEES OF THE GOVERNMENT EMPLOYEES PENSION FUND

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

We have audited the financial statements of the Government Employees Pension Fund ("GEPF" or "the Fund"), set out on pages 66 to 106, which comprise the statement of net assets and funds as at 31 March 2018 and the statement of changes in net assets and funds, the statement of cash flows for the year ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements of the Government Employees Pension Fund for the year ended 31 March 2018 have been prepared, in all material respects, in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa, the provisions of the Government Employees Pensions Law ("GEP Law"), 21 of 1996 as amended and the rules of the Fund.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the GEPF in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in South Africa. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the year ended. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF TRUSTEES OF THE GOVERNMENT EMPLOYEES PENSION FUND

## (continued)

Key audit matter	How the matter was addressed in the audit
<p><b>Valuation of unlisted investments</b></p> <p>In accordance with the investment strategy, the Fund holds investments in unlisted instruments. These investments include unlisted equities, loans, properties and derivatives as disclosed in notes 3 of the financial statements of the Fund.</p> <p>The Board of Trustees conducts investment valuations of the unlisted investments on an annual basis to assess the appropriateness of the values reported. The valuation of these investments involves the use of various complex valuation models and sensitive inputs as well as significant Board of Trustees' judgements.</p> <p>Accordingly, the valuation of the unlisted investments is considered a key audit matter.</p> <p>The Board of Trustees has engaged various external investment valuation experts to perform the valuations of unlisted investments held by the Fund as at year-end.</p> <p>The Board of Trustees has also delegated powers the Valuations Committee as a subcommittee of the board to perform a function that focuses on critically reviewing evaluating valuation results including approach, selection of models, inputs used and significant judgements made in performing these valuations.</p>	<p>We focused our testing of the unlisted investments on the methodologies and key assumptions made by the Board of Trustees' experts. Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the competence and independence of the external investment valuation experts engaged by the Fund,</li> <li>• Attending the Valuation Committee's meeting wherein the results of the valuations performed by external valuation experts were presented and discussed,</li> <li>• Assessing the design and implementation of controls around the valuation of unlisted investments,</li> <li>• Reviewing the disclosure of unlisted investments in the financial statements, and</li> <li>• For a sample of unlisted investments including loans, equities, properties and derivatives, we engaged our internal investment valuation specialists to assist with: <ul style="list-style-type: none"> <li>– Critically analysing the appropriateness of the valuation models and sensitive inputs used by Board of Trustees' specialists in calculating the unlisted investments' values,</li> <li>– Independently performing valuations for selected unlisted investments, and</li> <li>– Comparing the independently calculated values to those performed by the Fund's external valutors.</li> </ul> </li> </ul> <p>We found that the methodologies and assumptions applied by the Fund's external investment valutors were reasonable and appropriate in the circumstances.</p> <p>We consider the disclosure of the unlisted investments in the financial statements to be relevant and appropriate.</p>
<p><b>Valuation of the benefit payable provision</b></p> <p>In accordance with the rules of the Fund, a benefit becomes due when a member ceases to be a member of the Fund. These results in the Fund having a constructive obligation to pay the benefit. Consequently, the Fund is required to recognise the liability related to such benefits.</p> <p>The benefits payable to members are calculated in terms of section 14 of the rules of the Fund. There are a number of key actuarial assumptions made and complex methodologies applied in the calculation of the benefits payable to members as disclosed in note 10 of the financial statements which include:</p> <ul style="list-style-type: none"> <li>• type of exit,</li> <li>• member's age,</li> <li>• years of service, and</li> <li>• earnings.</li> </ul> <p>Therefore, valuation of the benefits payable provision is considered a key audit matter.</p> <p>The Board of Trustees has involved actuarial specialists to assist in calculating the benefit payable provisions as at year-end.</p>	<p>We focused our testing of the benefit payable provision on the methodologies and key actuarial assumptions made by the Board of Trustees. Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the competence and independence of the actuarial specialists,</li> <li>• Testing the integrity of the information used in the calculation of the benefit payable provision by performing detailed substantive procedures on such information,</li> <li>• Assessing the design and implementation of controls around the valuation of the benefit payable provision,</li> <li>• Assessing the appropriateness of the disclosure on the financial statements of the benefit payable provision,</li> <li>• Reviewing the disclosure of benefit payable provisions in the financial statements, and</li> <li>• Involving our internal actuarial specialists to assist us with: <ul style="list-style-type: none"> <li>– Benchmarking the methodologies used in calculating the outstanding benefit provision against similar schemes in the industry, and</li> <li>– Verifying that the methodologies and assumptions used by actuarial specialists appointed by the Board of Trustees are reasonable.</li> </ul> </li> </ul> <p>We found that the methodologies and assumptions applied by the Fund's external actuarial specialists were reasonable and appropriate in the circumstances.</p> <p>We consider the disclosure of the benefit payable provision in the financial statements to be relevant and appropriate.</p>

**Key audit matter****How the matter was addressed in the audit****The impact of contributions rates on the funding level of the Fund**

The Government Employees Pension Fund is a defined benefit Fund. In a defined benefit arrangement, the employers' contribution rate(s) is not specified in the rules of the Fund. The Board of Trustees agree on the employers' contribution rate in consultation with the actuary of the Fund.

The GEP Law requires that the Fund shall have its financial condition investigated and reported upon by the valuator at least once every three years. However, due to significant changes in the liability and asset values seen over the past few years, it is the practice of the Fund to perform biennial actuarial valuations to determine the values of:

- the fund's liabilities, and
- the required contribution rate by the employers.

If a defined benefit fund is not in a sound financial position, this may affect its ability to meet its future obligations to members. Accordingly, the impact of contributions on the funding level of the Fund is considered a key audit matter.

The latest actuarial valuation of the Fund was performed as at 31 March 2016.

**Note: definitions.**

- **Minimum funding level:** The fair value of assets divided by the liabilities, excluding solvency and contingency reserves.
- **Long-term funding level:** The fair value of assets divided by the liabilities and the recommended solvency and contingency reserves, including the future service element of the pension increase reserve.

We obtained the actuarial valuation report of the Fund as at 31 March 2016 performed by the Fund's Actuaries and focused our procedures on:

- Assessing the competence and independence of the actuarial specialists,
- Reviewing the actuaries' conclusion on the financial soundness of the Fund,
- Comparing the minimum contribution rates recommended by the Fund's actuaries to the actual contribution rates applied,
- Comparing the funding level contained in the last two actuarial valuations,
- Recalculating the employer contribution rates applied by Fund for the reporting period,
- Assessing the design and implementation of controls around the contributions processing, and
- Assessing the appropriateness of the disclosure of contributions on the financial statements.

We further found that the fund was making contributions at rates lower than recommended by the actuaries as indicated in the table below:

Details	Categories of contributions	
	Services	Other
Required contribution rates	19.6%	14.8%
Current contribution rates	16.0%	13.0%
Shortfall	(3.6%)	(1.8%)

The shortfall in the contributions has an impact in the funding level of the Fund.

The Fund actuaries concluded that the Fund was in a sound financial position on the minimum funding level at 115.8%. On the long-term funding level, the Fund was at 79.3%, which is below the Board of Trustees' targets of 100%.

We found that the funding level compared between the last two actuarial valuation shows a decrease on both the minimum and long-term funding levels as indicated in the table below:

Dates	Minimum funding level	Long-term funding level
31 March 2014	121.50%	83.10%
31 March 2016	115.80%	79.30%

We found that the disclosure of the contributions, fund's assets and liabilities in the financial statements was relevant and appropriate.

**OTHER INFORMATION**

The Board of Trustees is responsible for the other information. The other information comprises the Annual Report and other schedules but does not include the statement of net assets and funds, the statement of changes in net assets and funds, the statement of cash flows, notes to the financial statements and the auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

# INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF TRUSTEES OF THE GOVERNMENT EMPLOYEES PENSION FUND (continued)

## SECTION 13(2) AND 13(4) OF THE GEP LAW

The transactions of the GEPF, which we audited in terms of International Standards of Auditing during the course of our audit, were in accordance with applicable laws and rules in terms of the GEP Law 21 of 1996, as amended and in all material respects, in accordance with the mandatory functions of the entity, as determined by law or otherwise.

We have read the Annual Report as required by section 13(2) of the GEP Law 21 of 1996, as amended, and the information furnished in terms of section 9 and 10 of the GEP Law, is presented in accordance with the requirements of the GEP Law 21 of 1996, as amended.

With reference to section 13(14) of the GEP Law, 21 of 1996, as amended, we concur with the matters highlighted by the Board of Trustees in the Annual Report.

We do not express an opinion on the financial condition of the GEPF from an actuarial point of view.

## RESPONSIBILITIES OF THE BOARD OF TRUSTEES FOR THE FINANCIAL STATEMENTS

The Board of Trustees is responsible for the preparation and presentation of the financial statements in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa, the provisions of the Government Employees Pensions Law, 21 of 1996 as amended and the rules of the Fund, and for such internal control as the Board of Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Trustees is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Trustees either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Trustees.
- Conclude on the appropriateness of the Board of Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events of the Fund.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the gr audit. We remain solely responsible for our audit opinion.

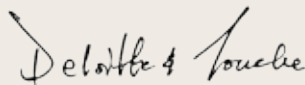
We communicate with the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Trustees with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We are not aware of instances of material non-compliance with laws and regulations that came to our attention during the course of our audit of the financial statements.




### **Deloitte & Touche**

Registered Auditors  
Per T Magare  
Partner

Johannesburg

23 October 2018



### **Nexia SAB&T**

Registered Auditors  
Per A Darmalingam  
Partner

Centurion

23 October 2018

# REPORT OF THE VALUATOR

for the year ended 31 March 2018

## PARTICULARS OF FINANCIAL CONDITION OF THE GEPF BASED ON THE ACTUARIAL VALUATION EFFECTIVE 31 MARCH 2016

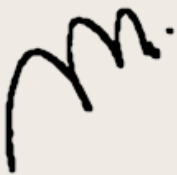
1. Net assets available for benefits amounted to R1 629 923 million as at 31 March 2016.
2. The actuarial value of the net assets available for benefits, for the purposes of comparison with the actuarial present value of promised retirement and other benefits, amounted to R1 629 923 million as at 31 March 2016.
3. The actuarial present value of promised retirement and other benefits in respect of contributing members amounted to R1 029 889 million as at 31 March 2016.
4. The actuarial present value of promised retirement and other benefits in respect of S-case members and exits in progress amounted to R12 063 million as at 31 March 2016.
5. The actuarial present value of retirement benefits in respect of pensioners and deferred pensioners amounted to R349 805 million as at 31 March 2016.
6. The data and past discriminatory practices reserves were considered as "liabilities" for the purposes of the valuation and were fully funded.

The full value of the recommended contingency reserve accounts, including the solvency reserve, amounted to R647 049 million as at 31 March 2016. The affordable level of these contingency reserves amounted to R222 747 million as at 31 March 2016.

In summary, the assets of the fund therefore exceed the best-estimate liabilities in respect of benefits for members and pensioners, i.e. the fund is solvent. In addition, the fund is able to set up contingency reserves to meet both known and unknown contingencies of R222 747 million. On a conservative basis and if affordable, the fund would have ideally set up contingency reserves of R647 049 million.

7. Details of the valuation method adopted (including that in respect of contingency reserves) and details of any changes since the previous summary of report:
  - As for the previous valuation, the Projected Unit Method was used to determine past service liabilities and the future service contribution rate.
  - Under the Projected Unit Method, the present value of benefits that have accrued to members in respect of service prior to the valuation date is compared with the value of the fund's assets. Allowance is made in the valuation of the accrued benefits for estimated future salary increases, ill-health retirements and deaths.
  - A liability of R12 063 million was set aside in respect of S-case members and exits in progress. This liability is in respect of members who have left the fund and the benefit due to them is yet to be paid and is not yet provided for in the financial statements of the fund.
  - A reserve of R7 695 million was set aside in respect of previous discriminatory practices. This reserve was obtained from the financial statements, being the accumulated value of one per cent (1%) of the funding level in 1998, less amounts already utilised to fund discriminatory practices.
  - A reserve of R7 724 million was set aside in respect of errors or omissions in the valuation data. This reserve was set at a level of 0.75% of the contributing member liability.
  - A reserve was held to provide for mortality improvements for all members:
    - For pensioners, current mortality rates have been set equal to the mortality rates calculated in the experience investigation dated 31 March 2012, with an allowance for mortality improvements determined using the mortality assumption rated down one and a half years.
    - For active members, current mortality rates have been set equal to the mortality rates calculated in the same experience investigation, with an allowance for mortality improvements determined using the mortality assumption rated down two and a half years.

- The solvency reserve has been set based on modelling by asset consultants. This model is broadly based on a 90% probability of the fund remaining solvent over the three-year period following the valuation date.
  - A reserve was also determined at the valuation date to fund the increase in the active member and pensioner liabilities and increase in the required contribution rate as a result of the trustees seeking to exercise greater discretion in granting pension increases equal to 100% of CPI.
8. When the above contingency reserves (excluding the data and past discriminatory practice reserves) were set up, it was not the intention of the trustees to hold such reserves if they will place the fund into a deficit funding level position. As at 31 March 2016, the fund could only afford to hold a total of R222 747 million as contingency reserves. On this basis 34.4% of the desired level of contingency reserves could be held.
9. Details of the actuarial basis adopted (including that in respect of any contingency reserve) and details of any changes since the previous summary of report.
- Net pre-retirement discount rate: 2.93% per annum (previously 3.24% per annum).
  - Post-retirement net discount rate: 5.53% per annum for actives and current pensioners (previously 5.59% per annum).
  - Post-retirement mortality: Rates based on experience of GEPP mortality over 1 April 2008 to 31 March 2012. These rates are the same as those used for the 2014 statutory valuation.
  - Salary increases: 9.30% per annum (previously 7.90% per annum). It is assumed that salaries will increase at an average rate of 1% in excess of the long-term inflation assumption of 8.30% per annum (previously 6.90% per annum). In addition, an allowance is made for merit salary increments.
  - Proportion married: Assumptions have been made regarding proportions of members who are married at each age. The age difference between males and females is assumed to be four years, with males older than their female counterparts.
  - Expenses: An allowance for future administration expenses of 0.3% of annual pensionable salary was made.
10. Any other particulars deemed necessary by the valuator for the purposes of this summary: None.
11. The fund does not fall under the ambit of the Pension Funds Act, 1956 since it is governed by its own statute. However, in terms of the fund's own Funding Level Policy, the fund was considered to be financially sound in that assets were equal to accrued liabilities and contingency reserves (at 34.4% of the desired level) on a best-estimate basis.



**Andre Pienaar**

Fellow of the Actuarial Society of South Africa

For the purposes of professional regulation, my primary regulator is the Actuarial Society of South Africa

In my capacity as valuator to the fund

October 2018

# REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 March 2018

## 1. DESCRIPTION OF THE FUND

### 1.1 TYPE OF FUND

The GEPF is a defined benefit fund established in terms of the GEP Law, No 21 of 1996, as amended. In terms of section 1 of the Income Tax Act, No 56 of 1962, the GEPF is classified as a pension fund established by law.

### 1.2 BENEFITS

Benefits are determined in terms of the rules of the GEP Law and are classified as follows:

- Normal retirement benefits;
- Early retirement benefits;
- Ill health and other retirement (discharge) benefits;
- Late retirement benefits;
- Resignation benefits;
- Death while in service benefits;
- Death after becoming a pensioner benefits;
- Spouses' annuity benefits;
- Orphans' annuity benefits; and
- Funeral benefits.

All reasonable steps are taken to trace members, whose benefits were not claimed, to effect payment to the correct member or beneficiary.

### 1.3 CONTRIBUTIONS

Members (employees of participating employers) contribute 7,5% of their pensionable emoluments to the GEPF. Employers contribute 13% for civil servants and 16% for service employees, respectively, of a member's pensionable emolument to the GEPF.

### 1.4 RESERVES

In terms of a collective agreement negotiated and agreed to in the Public Service Co-ordinating Bargaining Council (PSCBC) an actuarial reserve equal to 1% of the funding level of the GEPF, based on the result of the actuarial valuation as at 31 March 2001, was set aside to address past discriminatory practices. The GEP Law and Rules thereto were amended to increase the pensionable service for members of former non-statutory forces (NSF), employees that participated in strikes in the former Ciskei, and other employees that were previously discriminated against. The actuarial reserve set aside to address past discriminatory practices, is allocated to account for the recognition of periods of pensionable service based on agreements concluded in the PSCBC.

The accounting provision for the reserves set aside to address past discriminatory practices, is summarised as follows (refer to note 8 to the annual financial statements).

	2018 R'000	2017 R'000
<b>Reserve account balance</b>		
Ciskei strikers	160 831	159 900
General assistants	123 580	114 990
Other past discriminatory practices	8 639 065	7 899 950
<b>Total balance at end of year</b>	<b>8 923 476</b>	<b>8 174 840</b>



## 1.5 RULE AMENDMENTS

The Government Gazette, dated 29 September 2017 amended the following rules:

- Rule 14.1.2: Gratuity paid in terms of rule 14.1.1 and 14.1.2 to be subject to a minimum of the benefit calculated in terms of rule 14.4.1.
- Rule 14.9.1: Funeral benefits payable in relation to the member, pensioners, eligible child or stillborn are stipulated.
- Rule 21.1: Allow employers to cease participation in the fund subject to provisions of the law, particularly section 32.
- Rule 4.1.4 and 4.1.8: Should the duly elected chairperson/vice-chairperson vacate the position, a replacement is elected from among the trustee ranks at the next duly called meeting of the Board.

The above rules came into operation on 1 October 2017.

## 1.6 BOARD OF TRUSTEES

The Minister of Finance inaugurated the current Board on 21 May 2018 for a period of four years. The Board consists of 16 members, with equal employer and member representation, and each with a substitute. Member representatives include a pensioner and a service representative, as well as their substitutes, who were elected through a postal ballot. Only trustees participate in Board meetings, while trustees and substitutes participate in Board Committee meetings. The current Board's tenure will end on 20 May 2022.

## 2. INVESTMENTS

### 2.1 MANAGEMENT OF INVESTMENTS

The assets of the GEPF are managed primarily by the PIC. In terms of their mandate, the PIC appointed the following external asset managers to manage part of the portfolio:

- Aeon Investment Management (Pty) Ltd.
- Afena Capital (Pty) Ltd.
- Aluwani Capital Partners (Pty) Ltd.
- Argon Asset Management (Pty) Ltd.
- Benguela Global Fund Managers (Pty) Ltd.
- Black Rock Advisors UK Ltd.
- Coronation Asset Management (Pty) Ltd.
- Enko Capital Management LLP.
- First Avenue Investment Management (Pty) Ltd.
- Gemcorp Capital LLP.
- All Weather Capital (Pty) Ltd.
- International Bank for Reconstruction and Development.
- Investec Asset Management (Pty) Ltd.
- Kagiso Asset Management (Pty) Ltd.
- Legacy Africa Fund Managers (Pty) Ltd.
- Mazi Capital (Pty) Ltd.
- Meago (Pty) Ltd.
- Mergence Investment Managers (Pty) Ltd.

# REPORT OF THE BOARD OF TRUSTEES (continued)

for the year ended 31 March 2018

## 2. INVESTMENTS (continued)

### 2.1 MANAGEMENT OF INVESTMENTS (continued)

- Mianzo Asset Management (Pty) Ltd.
- Oasis Asset Management (Pty) Ltd.
- Perpetua Investment Managers (Pty) Ltd.
- Prowess Investment Managers (Pty) Ltd.
- Prudential Investment Managers South Africa (Pty) Ltd.
- Robeco Institutional Asset Management B.V.
- Sanlam Investment Management (Pty) Ltd.
- Sentio Capital Management (Pty) Ltd.
- Umthombo Wealth (Pty) Ltd.
- Vele Asset Managers (Pty) Ltd.
- Vunani Fund Managers (Pty) Ltd.
- Cheyne Capital LLP.

The balance of the assets of the GEPF is invested in African Development Partners II LP (ADP II) which is managed by Development Partners International, Pan African Infrastructure Development Fund (PAIDF) which is managed by Harith Fund Managers, South Suez African Fund II LP (South Suez) which is managed by South Suez Capital Limited, Verod Capital Growth Fund II LP (Verod) which is managed by Verod Capital Management and Capital Alliance Private Equity IV (Cape IV) which is managed by Capital Alliance Private Equity IV Limited on behalf of the fund.

During the current year, Standard Bank of South Africa Limited performed the custody and investment accounting function on behalf of the fund.

### 2.2 ASSETS ARE INVESTED IN A RANGE OF ASSET CLASSES CONSISTING OF:

- Equities (shares in listed and unlisted companies);
- Fixed interest instruments;
- Money market instruments;
- Property; and
- Other investment instruments.

Guidelines have been set for the various asset classes and funds are invested accordingly to allow for a balanced portfolio. The approved guidelines and actual asset allocation for the financial year under review are as follows:

Asset classes	Guideline %	Actual % At 31 March 2018
Cash and money markets	0 – 8	3
Domestic bonds	26 – 36	33
Domestic property	3 – 7	5
Domestic equity	40 – 55	51
Africa (ex SA) equity	0 – 5	2
Foreign bonds	0 – 4	1
Foreign equity	1 – 5	5
<b>Total</b>	100	<b>100</b>

### 2.3 OTHER INVESTMENTS NOT IN THE NAME OF THE GEPF

In the current year, all investments were registered in the name of the GEPF, except for a directly held property, Palm Grove, which was registered in the name of CBS Property Portfolio (Pty) Ltd, N3 Toll Concession RF (Pty) Ltd shares and South African Toll Road Company shares that were held in an Escrow structure in the name of the PIC on behalf of the GEPF.

## 3. MEMBERSHIP

The GEPF membership as at 31 March 2018 consisted of 1 273 125 (2017: 1 273 784) government and parastatal employees from participating employees, as well as 450 322 (2017: 437 051) pensioners receiving monthly annuity benefits.

## 4. ACTUARIAL VALUATION

An actuarial valuation of the GEPF is conducted at least once every three years as prescribed in section 17(3) of the GEP Law. The latest actuarial valuation was performed by Willis Towers Watson as at 31 March 2016, based on the funding level policy adopted by the Board in consultation with the Minister of Finance. This funding level policy provides for evaluation of the liabilities on a long-term best estimate basis and the establishment of a solvency reserve to allow for funding, investment risks and uncertainty relating to future public service remuneration and employment. The required level of solvency was calculated independently by RisCura (Pty) Ltd based on a detailed asset-liability study. In terms of the fund's own funding level policy, the fund was considered to be financially sound as at 31 March 2016, in that assets were equal to accrued liabilities and 34.4% of the desired level of solvency and contingency reserves.

## 5. SIGNIFICANT MATTERS

In May 2016, the GEPF was involved in a litigation in respect of changes made by the fund on actuarial factors for the payment of benefits. At this point in time, we could not calculate the financial impact this litigation could have. The changes on actuarial factor are related to the normal running of the business and it has happened before and will also happen in future with each actuarial valuation. To date the matter has not been concluded.

## 6. SUBSEQUENT EVENTS

No significant or material subsequent events were identified during the current year.

# STATEMENT OF NET ASSETS AND FUNDS

as at 31 March 2018

	Notes	2018 R'000	2017 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>1 801 819 134</b>	1 664 025 199
Equipment	2	1 833	2 009
Investments	3	1 801 817 301	1 664 023 190
<b>Current assets</b>		<b>33 445 785</b>	41 454 333
Funding loan	4	6 716	6 716
Accounts receivable	5	7 530 124	7 377 122
Transfers receivable	11.2	1 397	1 304
Contributions receivable	6.1	3 710 854	3 884 689
Cash and cash equivalents	7	22 196 694	30 184 502
<b>Total assets</b>		<b>1 835 264 919</b>	1 705 479 532
<b>FUNDS AND LIABILITIES</b>			
<b>Total funds and reserves</b>		<b>1 800 068 265</b>	1 672 689 117
Accumulated funds		1 791 144 789	1 664 514 277
Reserve accounts	8	8 923 476	8 174 840
<b>Non-current liabilities</b>		<b>667 902</b>	491 782
Unclaimed benefits	9	667 902	491 782
<b>Current liabilities</b>		<b>34 528 752</b>	32 298 633
Benefits payable	10	30 870 653	28 357 257
Transfers payable	11.1	860	12 421
Accounts payable	12	3 649 570	2 521 574
Financial liabilities	13.1	–	1 401 476
Provisions	13.2	7 669	5 905
<b>Total funds and liabilities</b>		<b>1 835 264 919</b>	1 705 479 532

# STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

for the year ended 31 March 2018

	Notes	Accumulated funds R'000	Reserve accounts R'000	<b>Total 2018 R'000</b>	Total 2017 R'000
<b>Net income before transfers and benefits</b>		224 018 416	–	<b>224 018 416</b>	137 850 650
Contributions received and accrued	6.2	70 396 742	–	<b>70 396 742</b>	65 591 472
Purchase of periods of service	14	773 299	–	<b>773 299</b>	611 479
Net investment income	15	153 409 209	–	<b>153 409 209</b>	72 103 641
Other income	16	475 700	–	<b>475 700</b>	520 613
Less: Administrative expenses	17	(1 036 534)	–	<b>(1 036 534)</b>	(976 555)
<b>Transfers and benefits</b>		(96 628 254)	(11 014)	<b>(96 639 268)</b>	(90 669 562)
Benefits	10 & 8	(94 878 650)	(11 014)	<b>(94 889 664)</b>	(88 267 431)
Transfers to other funds	11.1	(253 269)	–	<b>(253 269)</b>	(129 067)
Transfers from other funds	11.2	790 800	–	<b>790 800</b>	7 188
Interest paid	18	(2 287 135)	–	<b>(2 287 135)</b>	(2 280 252)
<b>Net income after transfers and benefits</b>		127 390 162	(11 014)	<b>127 379 148</b>	47 181 088
<b>Funds and reserves</b>					
Balance at beginning of the year		1 664 514 277	8 174 840	<b>1 672 689 117</b>	1 629 923 371
Prior year adjustment – divorce benefits		–	–	–	(4 415 342)
Transfer of net investment return to reserves	8	(759 650)	759 650	–	–
<b>Balance at end of the year</b>		1 791 144 789	8 923 476	<b>1 800 068 265</b>	1 672 689 117

# CASH FLOW STATEMENT

for the year ended 31 March 2018

	Notes	2018 R'000	2017 R'000
<b>Cash flow from operating activities</b>			
Cash utilised in operations	20	(21 812 625)	(21 371 692)
Contributions and other income received		71 046 277	66 563 497
Benefits paid during the year		(89 699 883)	(84 872 480)
Other expenses paid		(3 159 019)	(3 062 709)
Interest received		45 150 015	43 261 671
Interest paid		(1 961 373)	(1 894 538)
Dividends received		29 939 603	31 140 650
Transfers and bought services received/(paid)	20.1	564 845	(66 594)
Divorce claims paid		(2 092 459)	(2 141 090)
<b>Net cash inflow from operating activities</b>		<b>49 788 006</b>	<b>48 928 407</b>
<b>Net cash outflow from financing activities</b>			
Net repayment to Bank of America Merrill Lynch		(1 297 227)	(2 342 764)
<b>Net cash outflow from investing activities</b>		<b>(56 478 587)</b>	<b>(26 664 763)</b>
Additions to equipment		(1 215)	(19)
Additions to investments		(56 477 372)	(26 664 744)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(7 987 808)</b>	<b>19 920 880</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>30 184 502</b>	<b>10 263 622</b>
<b>Cash and cash equivalents at end of the year</b>	7	<b>22 196 694</b>	<b>30 184 502</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and are consistent with those of the previous year, unless otherwise stated.

### 1.1 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The annual financial statements are prepared in accordance with the GEP Law's requirements. The retirement fund industry best practice principles are applied as the basis, as well as the rules of the fund. This comprises adherence to Regulatory Reporting Requirements (RRR) for Retirement Funds in South Africa as issued by the Financial Sector Conduct Authority (FSCA), formerly known as the Financial Services Board (FSB).

The financial statements are prepared on the historical-cost and going-concern basis, modified by the valuation of financial instruments and investment properties to fair value, and incorporate the following principal accounting policies, which, unless otherwise indicated, have been consistently applied.

### 1.2 EQUIPMENT

Historical cost includes costs that are directly attributable to the acquisition of the asset. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset.

Equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the historical cost using the straight-line method over the estimated useful life. Residual values and useful lives are assessed annually. Depreciation rates are as follows:

<b>Asset classes</b>	<b>Annual depreciation rate</b>
	%
Computer equipment	25
Computer software	33
Furniture and fittings	15
Office equipment	15
Motor vehicles	20
Leasehold improvements	20

The recorded values of these depreciated assets are periodically compared to the anticipated recoverable amounts if the assets were to be sold. Where an asset's recorded value has declined below the recoverable amount and the decline is expected to be of a permanent nature, the impairment loss is recognised as an expense.

### 1.3 FINANCIAL INSTRUMENTS

Financial instruments include all financial assets and liabilities, including derivative instruments, and investment properties.

#### 1.3.1 Classification

1.3.1.1 The GEPF classifies its financial assets into the following categories:

- At fair value through the statement of changes in net assets and funds.
- Loans and receivables.

1.3.1.1.1 Financial assets classified at fair value through the statement of changes in net assets and funds

The classification depends on the purpose for which the financial assets were acquired, and is determined by management at the initial recognition of the financial assets.

Financial assets classified at fair value through the statement of changes in net assets and funds comprise equities, bills and bonds, debentures, investment properties, unlisted preference shares, collective investment schemes and special investment products.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.3 FINANCIAL INSTRUMENTS (continued)

#### 1.3.1 Classification (continued)

##### 1.3.1.1.2 Loans and receivables

Financial assets classified as loans comprise direct loans to companies.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those intended to be sold in the short term, or those that are designated at fair value through the statement of changes in assets and funds.

##### 1.3.1.2 Financial liabilities

Financial liabilities are classified at amortised cost.

#### 1.3.2 Recognition

The GEPF recognises financial assets and financial liabilities on the date when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value as at trade date, including, for instruments not at fair value, through the statement of changes in assets and funds, any directly attributable transaction costs.

Financial instruments carried at fair value through the statement of changes in net assets and funds are initially recognised at fair value, and transaction costs are expensed in the statement of changes in net assets and funds.

Financial instruments classified as loans and receivables are recognised as assets when the entity becomes a party to the contract and as a consequence has a legal right to receive cash.

#### 1.3.3 Measurement

Subsequent to initial recognition, all financial assets classified at fair value through the statement of changes in net assets and funds are measured at fair value with changes in their fair value recognised in the statement of changes in net assets and funds.

Financial liabilities are measured at amortised cost using the effective interest rate method.

##### 1.3.3.1 Equities

Equity instruments consist of equities with a primary listing on the Johannesburg Stock Exchange Limited (JSE), equities with a secondary listing on the JSE, foreign-listed equities and unlisted equities.

Equity instruments designated at fair value through the statement of changes in net assets and funds are initially recognised at fair value on trade date.

##### Listed equities

Listed equity instruments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of net changes in assets and funds.

The fair value of listed equity instruments with standard terms and conditions, traded on active liquid markets, is based on regulated exchange quoted closing prices at the close of business on the last trading day on or before the statement of net assets and funds date.



### Unlisted equities

Unlisted equity instruments are subsequently measured at fair value, using the pricing models determined by the GEPF, or by applying valuation techniques such as the discounted cash flow model, at-arm's-length market transactions in respect of the unlisted equities, net asset values and price earnings multiples.

For recently made investments, the price of recent acquisition is generally used for a limited period to equate fair value. At reporting date during the limited period, an assessment is made as to whether any subsequent events have occurred that impacts the fair value.

When discounted cash flow techniques are used, discounted cash flows are based on management's best estimates and the discount rates used are market rates at the statement of net assets and funds date applicable for an instrument with similar terms and conditions.

Where other methods are used, inputs are based on the market data at the date of the statement of net assets and funds.

#### 1.3.3.2 Preference shares

The fair value of preference shares classified as fair value through the statement of changes in net assets and funds is measured as indicated below:

##### Listed preference shares

The fair value of preference shares traded on active liquid markets is based on regulated exchange quoted closing prices at the close of business on the last trading day on or before the statement of net assets and funds date.

##### Unlisted preference shares

The fair value of unlisted preference shares is determined by applying appropriate valuation techniques such as the discounted cash flow model, recent arm's-length market transactions in respect of preference shares, net asset values and price earnings multiple.

The market yield is determined by using the appropriate yields of existing listed preference shares that best fit the profile of the instruments being measured, and a discounted cash flow model is then applied using the determined yield, in order to calculate the fair value.

#### 1.3.3.3 Debentures

Debentures comprise unlisted debentures.

Debentures are financial assets with fixed or determinable payment and fixed maturity date. The fair value is estimated using the pricing models or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's-length market transactions in respect of unlisted debentures.

#### 1.3.3.4 Bills and bonds

Bills and bonds comprise investments in government, national or provincial administration, local authorities, participating employers, subsidiaries or holding companies and corporate bonds.

##### Listed bonds

The fair value of listed bonds traded on active liquid markets is based on regulated exchange quoted closing prices at close of business on the last trading day on or before the statement of net assets and funds date.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.3 FINANCIAL INSTRUMENTS (continued)

#### 1.3.3 Measurement (continued)

##### 1.3.3.4 Bills and bonds (continued)

###### Unlisted bills

The market yield is determined by using the appropriate yields of existing listed bills that best fit the profile of the instruments being measured, and based on the terms to maturity of the instrument, adjusted for credit risk, where appropriate, a discounted cash flow model is then applied using the determined yield, in order to calculate the fair value.

##### 1.3.3.5 Investment properties

Properties held for a long-term rental yield or for capital appreciation and not occupied by the fund are classified as investment property. Investment properties comprise investment in commercial properties, residential properties, industrial properties and hospitals. Investment properties are carried at fair value.

Investment properties reflected at fair value are based on open market fair values at the statement of net assets and funds date. If the open market fair values cannot be reliably determined, alternative valuation methods, such as discounted cash flow projections or recent prices on active markets for transactions of a similar nature are used.

The fair values are the estimated amounts for which a property could be exchanged for on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction.

The open market fair value is determined once every three years by independent professional valuers. Interim desktop valuations are performed annually by the same independent professional valuers. Changes in fair value are recorded in the statement of net assets and funds.

##### 1.3.3.6 Collective investment schemes

Investments in collective investment schemes are initially recognised at fair value, net of transaction costs that are directly attributable to the investment.

These investments are subsequently measured at fair value, which are the quoted unit values for listed schemes. Unlisted schemes' fair values are derived from the investment scheme administrator with reference to the rules of each particular collective investment scheme, multiplied by the number of units held.

##### 1.3.3.7 Special investment products

Special investment products are valued at gross total fair value of all underlying instruments, included in the structured products and/or arrangements.

Where there are instruments within the structured products, which require a different treatment, these are measured separately in accordance with the measurement criteria set out in a class they belong to.

##### 1.3.3.8 Direct loans

Direct loans are measured at amortised cost using the effective interest rate method, less impairment losses, where applicable.

##### 1.3.3.9 Money market instruments

Money market instruments are measured at amortised cost using the effective interest rate method.

#### 1.3.4 Derecognition

The GEPP derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset.

The GEPF uses the weighted average method to determine realised gains and losses on derecognition. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

### 1.3.5 Impairments

#### 1.3.5.1 Financial assets carried at amortised cost

The fund assesses at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that a loss event has an impact on the estimated future cash flow of the financial asset or a group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or a group of assets is impaired includes observable data that come to the attention of the fund about the following:

- Significant financial difficulty experienced by the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- A likelihood that the issuer or the debtors will enter into a bankruptcy or other financial reorganisation;
- The disappearance of an active market for a particular financial asset as a result of financial difficulties; or
- Observable data indicating a measurable decrease on the estimated future cash flows from a group of financial assets since the initial recognition, though the decrease cannot be identified with the individual financial assets in a group, including:
  - adverse changes on the payment status of the issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults in the assets in a group.

The fund assesses whether the objective evidence of impairment exists individually for financial assets that are significant first, and, if no evidence of impairment exists for individually assessed assets, a group of financial assets with similar credit risk characteristics are collectively assessed for impairment (refer to note 15 for additional information).

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of changes in net assets and funds. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The fund may measure the impairment loss on the basis of the instrument's fair value using an observable market price.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics relevant to the estimation of future cash flows for groups of such assets, by being indicative of the issuer's ability to pay all amounts due under the contract terms of the debt instrument being evaluated.

If, in subsequent periods, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in the statement of changes in net assets and funds.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.3 FINANCIAL INSTRUMENTS (continued)

#### 1.3.5 Impairments (continued)

##### 1.3.5.2 Impairment of other non-financial assets

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances that the carrying amount may not be recoverable, occur.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For purposes of impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

##### 1.3.5.3 Impairment of loans and receivables

A provision for impairment of loans and receivables is established when there is objective evidence that the fund will not be able to collect all amounts due, according to the original terms.

### 1.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash deposited with financial institutions and other short-term liquid investments with original maturities of three months or less. Cash and cash deposits are measured at fair value.

### 1.5 ACCOUNTS RECEIVABLE

Accounts receivable are measured at fair value at initial recognition if normal credit terms are exceeded, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of changes in net assets and funds when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### Purchased service

Purchased service receivables are recognised upon acceptance by the member of the quote issued by the GEPF for the recognition of the purchase of a period as pensionable service. No provision is made for potential doubtful purchase of service debtors, as only the period paid for vests in favour of the member.

### 1.6 UNCLAIMED BENEFITS

Unclaimed benefits are not currently written back to income as per the Prescription Act but will remain in the fund as unclaimed until the member has been traced. Legitimate claims received subsequent to write-offs are paid as the records are maintained.

### 1.7 ACCOUNTS PAYABLE

Accounts payable are measured at fair value at initial recognition if normal credit terms are exceeded, and are subsequently measured at amortised cost using the effective interest rate method.

### 1.8 PROVISIONS

Provisions are recognised when the GEPF has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

## 1.9 CONTRIBUTIONS

Contributions are accounted for on the accrual basis, except for additional voluntary contributions, which are recorded in the year in which they are received.

## 1.10 PURCHASE OF SERVICE

Income from purchase of service is accounted for when it has been approved and processed.

## 1.11 DIVIDEND, INTEREST, RENTALS AND GAINS AND LOSSES ON SUBSEQUENT MEASUREMENT

### 1.11.1 Dividend income

Dividend income is recognised in the statement of changes in net assets and funds, when the right to receive payment is established, which is the last date to trade for equity securities.

### 1.11.2 Interest income

Interest income is recognised in the statement of changes in net assets and funds as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium or any other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

### 1.11.3 Rental income

Rental income from investment properties is recognised in the statement of changes in net assets and funds as it accrues on a straight-line basis over the period of lease agreements, unless another systematic basis is more representative of the time pattern in which a use benefit derived from the leased assets is diminished.

Property expenses are recognised in the statement of changes in net assets and funds as the services are rendered.

### 1.11.4 Collective investment schemes distributions

Distributions from collective investment schemes are recognised when the right to receive payment is established.

### 1.11.5 Gains and losses on subsequent measurement to fair value

Gains and losses on subsequent measurement to fair value of investments and of all other financial instruments are recognised as net investment (loss)/income during the period in which the change arises.

## 1.12 TRANSFERS TO AND FROM THE GEPF

Transfers to/(from) the GEPF are recognised on the earlier of receipt/(payment) of the actual transfer value or the written notice of transfer (recognition of transfer).

## 1.13 INTEREST PAYABLE TO MEMBERS EXITED FROM THE GEPF

Interest payable to members in respect of the late payment of benefits is accounted for on the accrual basis on any part of a member's benefit not paid within 60 days from the last day of service.

## 1.14 INTEREST PAYABLE TO DORMANT MEMBERS

In terms of the GEPF rules, interest is accrued to a dormant member's benefit until the effective date on which such benefit becomes payable.

## 1.15 FOREIGN EXCHANGE GAINS OR LOSSES

Foreign monetary assets and liabilities are translated into rand at rates ruling at year-end. Unrealised differences on foreign monetary assets and liabilities are recognised in the statement of changes in net assets and funds in the period in which they occur.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.16 OPERATING LEASES

Operating leases include rental on properties and office equipment. Rental expenses are recognised on a straight-line basis over the lease term.

### 1.17 INTEREST ON LATE PAYMENTS OF CONTRIBUTIONS AND/OR LOANS AND RECEIVABLES

Interest on late payments of contributions, surplus improperly utilised and/or loans and receivables is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

### 1.18 EXPENSES INCURRED IN MANAGING INVESTMENTS

Expenses in respect of management of investments are recognised as the services are rendered.

### 1.19 JUDGEMENTS AND ESTIMATES

#### Critical judgements in applying the entity's accounting policies

In the process of applying the GEPF's accounting policies, the Board has made the following judgements relating to amounts recognised in the financial statements (apart from those involving estimations, which are dealt with separately below).

- **Residual values and useful lives**

Residual values and useful lives of equipment are assessed annually.

- **Provision for impairment of receivables**

The provision for impairment of receivables is raised on all receivable amounts aged 730 days and older, amounts due from individuals who have attained the age of 70 years and older, as well as all fraud case receivables.

- **Accumulated leave pay provision**

The leave pay provision accounts for vested leave pay to which employees may become entitled upon exit from the service of the GEPF.

- **Performance bonus provision**

This provision accounts for performance bonuses payable, based on the outcome of the performance evaluation of employees and the relevant approval.

- **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the statement of net assets and funds date. The quoted market price used for financial assets held by the fund is the closing price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

The fund uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of net assets and funds date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discount cash flows, are used to determine fair value for the remaining instruments.

### Key assumptions of estimations with uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of net assets and funds date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are the following:

- **Accrual for benefits payable**

The accrual for benefits payable is based on a calculation performed by the GEPF's actuaries and contains actuarial assumptions and key estimates. These estimates pertain to member profiles, among others. The actuarial assumptions applied are in line with those applied for statutory valuation purposes.

- **Accruals and contingent liabilities for legal costs**

Liabilities may exist for lawsuits by and against the GEPF. The amounts accrued for/included in contingent liabilities, include the GEPF's independent attorneys' best estimates of the probable/possible legal liabilities which the GEPF may incur.

- **Investments**

The net present value of certain unlisted investments has been calculated using estimated future cash flows at discounted rates.

Further information about the key assumptions concerning the future and other key sources of estimation uncertainties are set out in the relevant notes to the financial statements.

## 1.20 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Retirement funds apply adjustments arising from changes in accounting policies and errors prospectively; the adjustment relating to changes in accounting policies and errors is therefore recognised in the current and future periods affected by the change.

### 1.21 RESERVES

Reserves accounts comprise particular amounts of designated income and expenses and are recognised in the period in which such income and expenses accrue to the fund.

### 1.22 BENEFITS

Benefits expenses are recognised through the statement of changes in net assets and funds on an accrual basis.

Liability is raised for all benefits accruing at the end of the financial year, which have not been paid through the statement of net assets and funds.

### 1.23 ADMINISTRATION EXPENSES AND OTHER EXPENSES

Administration expenses incurred are recognised through the statement of changes in net assets and funds on an accrual basis.

### 1.24 CONTINGENT ASSETS AND LIABILITIES

Contingent assets are disclosed when there is a possible asset, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the GEPF.

Contingent liabilities are disclosed when there is a possible obligation that arises from the past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the GEPF, or it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.25 RELATED PARTIES

In considering each possible related-party relationship, attention is directed to the substance of the relationship and not merely the legal form.

If there have been transactions between related parties, the fund will disclose the nature of the related-party relationship, as well as the following information for each related-party relationship:

- The name of the government department and the nature of its relationship with the fund;
- The nature and amount of each individually significant transaction; and
- For other transactions that are collectively, but not individually significant, a qualitative or quantitative indication of their extent.



## 2. EQUIPMENT

	Computer equipment R'000	Computer software R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Leasehold improvements R'000	Total R'000
<b>2.1 CURRENT YEAR, 2018</b>							
<b>Gross carrying amount</b>	2 624	817	2 909	2 992	656	3 333	13 331
At beginning of the year	1 459	805	2 909	2 954	656	3 333	12 116
Additions	1 165	12	–	38	–	–	1 215
<b>Accumulated depreciation and impairments</b>	(1 650)	(795)	(2 682)	(2 603)	(656)	(3 112)	(11 498)
At beginning of the year	(1 403)	(647)	(2 568)	(2 427)	(617)	(2 445)	(10 107)
Depreciation	(247)	(148)	(114)	(176)	(39)	(667)	(1 391)
<b>Net carrying amount at end of the year</b>	974	22	227	389	–	221	1 833
<b>2.2 PRIOR YEAR, 2017</b>							
<b>Gross carrying amount</b>	1 459	805	2 909	2 954	656	3 333	12 116
At beginning of the year	1 455	805	2 909	2 939	656	3 333	12 097
Additions	4	–	–	15	–	–	19
<b>Accumulated depreciation</b>	(1 403)	(647)	(2 568)	(2 427)	(617)	(2 445)	(10 107)
At beginning of the year	(1 254)	(475)	(2 445)	(2 236)	(517)	(1 778)	(8 705)
Depreciation	(149)	(172)	(123)	(191)	(100)	(667)	(1 402)
<b>Net carrying amount at end of the year</b>	56	158	341	527	39	888	2 009

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 3. INVESTMENTS

### 3.1 INVESTMENT SUMMARY

	Notes	Fair value 2018 R'000	Amortised cost 2018 R'000	Total 2018 R'000	Total 2017 R'000
Money market instruments*	3.1.1	–	30 228 303	30 228 303	36 517 174
Direct loans*	3.1.2	–	44 244 370	44 244 370	40 032 840
Bills and bonds**	3.1.3	576 690 673	–	576 690 673	548 680 414
Local		563 088 813	–	563 088 813	530 284 820
Foreign		13 601 860	–	13 601 860	18 395 594
Investment properties**	3.1.4	14 296 588	–	14 296 588	13 502 658
Equities**	3.1.5	1 033 079 532	–	1 033 079 532	928 936 204
Listed equities		970 086 402	–	970 086 402	882 929 188
Primary listings		781 484 673	–	781 484 673	684 100 250
Secondary listings		188 601 729	–	188 601 729	198 828 938
Unlisted equities		62 993 130	–	62 993 130	46 007 016
Local equities		50 683 420	–	50 683 420	36 905 227
Foreign equities		12 309 710	–	12 309 710	9 101 789
Preference shares**	3.1.6	4 379 389	–	4 379 389	3 972 193
Collective investment schemes**	3.1.7	98 898 446	–	98 898 446	92 381 707
Local instruments		659 809	–	659 809	230 903
Foreign instruments		98 238 637	–	98 238 637	92 150 804
		<b>1 727 344 628</b>	<b>74 472 673</b>	<b>1 801 817 301</b>	<b>1 664 023 190</b>

\* Classified as loans and receivables.

\*\* Classified as fair value through statement of changes in net assets and funds.

#### EXPLANATORY NOTES:

- Included in the unlisted foreign equities above are internally managed investments by the GEPF to the value of R5.2 billion (2017: R4.3 billion). These investments include ADPI II, PAIDF, South Suez, Verod and Cape IV.
- Money market instruments with original maturities of three months or less are classified as cash and cash equivalents.
- The details of the top 10 investments per investment category have been provided in the detailed schedules below and the balance is included in 'other', where practicable. Investments which meet the top 10 criteria in one year and do not meet the criteria in another year, will be disclosed as zero and included in 'other' in the year in which they do not meet the criteria. Details of the top 10 investments are disclosed per entity level not per instrument level.

### 3.1.1 Money market instruments

	Amortised cost 2018 R'000	Amortised cost 2017 R'000
<b>Certificate of deposits</b>	<b>1 079 466</b>	981 567
Development Bank of SA Ltd	1 079 466	981 567
<b>Fixed deposits</b>	<b>23 088 246</b>	29 715 566
Nedbank Ltd	5 300 230	6 682 504
ABSA Group Ltd	5 240 198	6 883 556
FirstRand Ltd	5 030 073	6 144 658
Investec Bank Ltd	3 903 918	3 217 162
Standard Bank Group Ltd	3 573 534	6 782 496
State Bank of India	40 293	–
China Construction Bank Ltd	–	5 190
<b>Promissory notes</b>	<b>6 060 591</b>	5 820 041
Land and Agricultural Development Bank of SA	6 060 591	5 820 041
<b>Total money market instruments</b>	<b>30 228 303</b>	36 517 174

### 3.1.2 Direct loans

	Amortised cost 2018 R'000	Amortised cost 2017 R'000
	<b>Secured by</b>	
Lancaster 101 (RF) (Pty) Ltd	Secured by collar options, primary cession over Steinhoff Africa shares, primary cession over dividends received from Steinhoff Africa shares, reversionary cession over proceeds from put option, reversionary cession over Steinhoff International shares	9 350 000
	<b>6 020 000</b>	
SAHL Investments Holding (Pty) Ltd	Shareholder guarantees	2 394 979
	<b>5 906 274</b>	
Industrial Development Corporation SOC Limited	Not secured*	5 093 478
	<b>5 085 780</b>	
Kilimanjaro Sakhumnotho Consortium (Pty) Ltd	First ranking pledge and cession in security of pledged shares, pledged share distributions and disposal proceeds; and pledge (and not an out and out cession and transfer) of the ceded rights and accordingly, cedentes shall be and remain the owner of such rights until the cessionary exercises its rights	2 586 153
	<b>2 699 376</b>	
Firefly Investments 326 (RF) (Pty) Ltd	Corporate guarantees from Bayport Financial Services (BFS) and Bayport Management Ltd (BML), cession in securitatum debiti of all positive bank accounts, pledge and cession of shares in BML, BFS and Firefly Investments 326	–
	<b>2 584 600</b>	

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 3. INVESTMENTS (continued)

### 3.1 INVESTMENT SUMMARY (continued)

#### 3.1.2 Direct loans (continued)

Secured by		Amortised cost 2018 R'000	Amortised cost 2017 R'000
Petratouch (Pty) Ltd	Pledges, cedes and transfers and makes over in securitatem debit its rights, title and interest in and to the ceded rights (pledged shares and claims) to the cessionary, which pledge and cession the cessionary hereby accepts. With the exception of 460 000 of the pledged shares which will be utilised as security in respect of a R155 million debt facility with Sanlam Limited	2 228 588	2 187 683
Afrisam Group (Pty) Ltd, formerly known as Opiconsivia Investments 239 (Pty) Ltd	Second ranking security over all Afrisam assets	1 940 552	1 824 888
Honsha Property (Pty) Ltd	<ul style="list-style-type: none"> <li>• Pledge and Cession of shares by HEA Trading 1</li> <li>• Pledge and Cession of share from Honsha properties Proprietary Limited</li> <li>• Security on personal assets (properties)</li> <li>• Personal surety (limited guarantee)</li> </ul>	1 924 510	–
Kuseni Group 2 (RF) (Pty) Ltd	Cession and pledge of shares, shareholders' guarantee and cession of bank accounts	1 528 380	1 072 367
Tanga Cement Company Ltd	Cession and pledge of debenture and mortgage registered under Tanga Cement Company Ltd	1 194 296	1 263 883
Independent News & Media (South Africa) (Pty) Ltd	Borrower cession and pledge in security, guarantee from Sekunjalo, pledge and cession of shares	–	1 049 584
Allied Mobile Communications (Pty) Ltd	Guarantee and indemnity, cession and pledge of shares, cession and pledge of related security (debtors, receivables, inventory, physical assets, management fees, bank account proceeds, insurance proceeds, excess cash reserve account)	–	946 359
Other		13 132 014	12 263 466
<b>Total loans</b>		<b>44 244 370</b>	<b>40 032 840</b>

\* This loan consists of uncertified notes which are held by the Central Securities Depository.

## 3.1.3 Bills and bonds

	Issuer rating long-term	Fair value 2018 R'000	Fair value 2017 R'000
<b>Bills</b>		<b>830 645</b>	1 524 218
Eskom Holdings Ltd	B	830 645	1 524 218
<b>Commercial paper</b>		<b>1 093 962</b>	1 362 480
The Thekwini Warehousing Conduit (RF) Ltd	AA+	924 750	1 012 356
Transnet SOC Ltd	AA+	98 657	–
Premium Properties Ltd	*	70 555	–
Development Bank of SA Ltd	AA+	–	201 551
Macquarie Group SA Ltd	BBB+	–	148 573
<b>Government bonds</b>		<b>360 831 626</b>	327 028 762
Republic of SA	AA+	358 786 115	324 678 045
Republic of Angola	B+	1 434 641	1 771 595
Republic of Namibia	AA+	610 870	579 122
<b>Corporate bonds</b>		<b>35 650 594</b>	36 683 389
Standard Bank Group Ltd	AA+	8 110 709	7 383 973
FirstRand Ltd	AA+	6 272 315	6 358 714
Nedbank Ltd	AA-	3 203 423	2 912 285
ABSA Group Ltd	AA-	2 350 804	2 393 264
Pareto Ltd	AA	7 186 770	8 581 899
The Thekwini Fund Ltd	AAA	1 503 790	1 379 813
Barclays Africa Group Ltd	AA-	1 458 008	1 302 095
Investec Group Ltd	AA-	1 334 763	986 143
African Bank Ltd	BBB	804 371	687 160
Old Mutual Plc	AAA**	602 925	–
Mercedes-Benz SA (Pty) Ltd	A	–	891 002
Other	–	2 822 716	3 807 041
<b>Parastatal bonds</b>		<b>164 681 986</b>	163 685 971
Eskom Holdings Ltd	B	87 564 144	84 362 318
South African National Road Agency Ltd	AA-	25 959 615	25 152 684
Transnet Ltd	AA+	21 732 153	25 016 823
Development Bank of SA Ltd	AA+	12 834 108	12 517 732
Trans-Caledon Tunnel Authority	A+	12 477 597	12 740 484
City of Johannesburg	AA+	787 303	746 504
City of Cape Town	AA+	750 168	712 963
Airports Company SA	AA+	665 188	648 529
Rand Water Board	AA+	544 480	529 733
Industrial Development Corporation SOC Ltd	AAA	509 154	–
Ekurhuleni Metropolitan Municipality	AA+	–	420 279
Other	–	858 076	837 922
<b>Foreign bonds</b>		<b>13 601 860</b>	18 395 594
Black Rock Advisors (UK)	AAA***	9 125 407	13 496 702
International Bank for Reconstruction and Development	AAA***	4 476 453	4 898 892
<b>Total bills and bonds</b>		<b>576 690 673</b>	548 680 414

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 3. INVESTMENTS (continued)

### 3.1 INVESTMENT SUMMARY (continued)

#### 3.1.3 Bills and bonds (continued)

The National Credit ratings are used as investment grade ratings, unless otherwise mentioned. The rating categories are as follows:

National Long-term Rating Definition	National Scale Rating Symbol
Highest grade quality	AAA
Very high credit quality	AA+, AA, AA-
High credit quality	A+, A, A-
Adequate protection factors	BBB+, BBB, BBB-
Capacity for timely repayment	BB+, BB, BB-
Possessing risk that obligations will not be met when due	B+, B, B-
Defaulted	D

\* *Premium Properties Ltd as an issuer is not rated, however the instrument is guaranteed by Octodec Investment Ltd, which has a B+ Credit Rating on a global scale. Thus converting Octodec Global Credit Rating to a S&P National Scale Rating, the rating will be A-.*

\*\* *Old Mutual Plc has a Baa2 rating on a Moody's Global Rating Scale which is higher than South Africa's Global Credit Rating. Thus, converting Old Mutual Plc's Global Credit Rating to a S&P equivalent National Scale Rating, the rating will be AAA.*

\*\*\* *Foreign bonds are held in bond portfolios. These bond portfolios invest in a range of bonds with different credit ratings.*

Included in the bond value on the previous page are the following scrip lending transactions:

Transaction date	Bonds on lent	Security in place 2018 R'000	Nominal value 2018 R'000	Fair value 2018 R'000	Name of counterparty	Scrip custodian
31 March 2018	R186	*	4 827 149	5 722 240	Standard Bank	Standard Bank
31 March 2018	R2 023	*	1 000 000	1 023 076	Standard Bank	Standard Bank
31 March 2018	R2 048	*	864 500	861 395	Standard Bank	Standard Bank
31 March 2018	R209	*	913 336	710 437	Standard Bank	Standard Bank
31 March 2018	R213	*	1 000 000	893 408	Standard Bank	Standard Bank
31 March 2018	R214	*	1 000 000	778 051	Standard Bank	Standard Bank
Total			9 604 985	9 988 607		

\* *Collateral is not done on an individual bond level basis. The security in place for the above bonds on lent is the equity, certificate of deposits and bond collateral which equals to 112% of the daily market value of the listed bonds. This collateral amount is verified daily against the previous day's closing value of the listed bond shares. The collateral amount changes in accordance to the changes in the listed bond and equity share prices to ensure that the collateral is at any stage equal to 112% of the daily closing value of the listed bonds.*

#### 3.1.4 Investment properties

	Fair value 2018 R'000	Fair value 2017 R'000
Residential properties	180 175	106 215
Industrial properties	1 486 400	1 610 650
Office properties	8 022 075	7 892 900
Retail properties	4 251 085	3 725 073
Specialised properties	216 625	80 819
Vacant land	408 120	306 523
Lease income accrual	(267 892)	(219 522)
<b>Total properties</b>	<b>14 296 588</b>	<b>13 502 658</b>

Name of property	Address	Valuation method	Date of last valuation	Pledged as guarantee	Fair value 2018 R'000	Fair value 2017 R'000
Centre Square Development	Cnr of Dallas Road and Aramist Road, Menlyn Maine, Pretoria	DCF	31/03/2018	No	785 000	764 400
Vangate Shopping	Vanguard Drive, Athlone, Cape Town	DCF	31/03/2018	No	655 000	596 100
Central City Shopping Centre	Stand 426, Unit E, Central Road, Mabopane	DCF	31/03/2018	No	628 700	618 000
Riverwalk Office Park	41 Matroosberg Street, Ashlea Gardens, Pretoria	DCF	31/03/2018	No	606 200	551 000
Trevenna	70 Meintjies Street, Trevenna, Pretoria	DCF	31/03/2018	No	564 900	617 000
Business Connexion	1037 Lenchen Avenue, Zwartkop	DCF	31/03/2018	No	516 000	362 000
Tshwane Regional Mall	Denneboom Station Mamelodi City of Tshwane	DCF	31/03/2018	No	446 000	–
Joggie Vermooten	57 Joyner Road, Prospection, Isipingo Ext. 12, Durban	DCF	31/03/2018	No	292 900	299 000
Thembisa	Cnr Andrew Mapheto Drive and Umzimvubu Street, Esangweni, Ekurhuleni	DCF	31/03/2018	No	284 800	280 000
The Wedge	255 Rivonia Road Morningside City of Johannesburg	DCF	31/03/2018	No	283 000	–
Discovery Health	3 Alice Lane, Sandown, Sandton	DCF	31/03/2018	No	–	316 100
Gijima Ast Holdings	47 Landmarks Avenue, Kosmosdal	DCF	31/03/2018	No	–	263 000
Other					9 501 980	9 055 580
Lease income accrual					(267 892)	(219 522)
<b>Total properties</b>					<b>14 296 588</b>	<b>13 502 658</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 3. INVESTMENTS (continued)

### 3.1 INVESTMENT SUMMARY (continued)

#### 3.1.4 Investment properties (continued)

##### 3.1.4.1 Investment properties

	2018 R'000	2017 R'000
Balance at beginning of the year	13 722 180	10 756 344
Additions	32 161	1 249 893
– Capital expenditure	776 583	1 093 190
Disposals	–	–
Fair value adjustment*	33 556	622 753
<b>Closing fair value</b>	<b>14 564 480</b>	<b>13 722 180</b>
Operating lease income accrual	(267 892)	(219 522)
<b>Balance at end of year</b>	<b>14 296 588</b>	<b>13 502 658</b>

An independent valuation of the investment properties was performed as at 31 March 2018. The properties were valued at fair value on the basis of the discounted cash flow method, using a risk-free rate adjusted for property risk. Additional adjustments were included for tenant risk, building factors, vacancies, rental reversions to market, property costs, tenant installations and capital expenditure. The key assumptions used by the valuers include the capitalisation rate and the discount rate. The discount rates reflect the risks inherent in the net cash flows and are constantly monitored by reference to comparable market transactions.

The independent valuation was performed by professional valuers from Knight Frank, Broll Valuations, De Leeuw Valuers and Quadrant Properties & Strata Properties who are registered valuers in terms of section 19 of the Valuers Professional Act, No 47 of 2000, and have recent experience in valuing similar properties at similar locations.

\* Included in the March 2017 fair value adjustment, is a prior year correction of fair value amounting to R525.6 million relating to the Centre Square Development and Business Connexion properties.

#### 3.1.5 Equities

	Fair value 2018 R'000	Fair value 2017 R'000
Primary listing on the JSE	781 484 673	684 100 250
Secondary listing on the JSE	188 601 729	198 828 938
Unlisted equities	62 993 130	46 007 016
<b>Total equities</b>	<b>1 033 079 532</b>	<b>928 936 204</b>



	Total issued shares (number)	GEFP's shareholding (number)	GEFP's shareholding %	Fair value 2018 R'000	Fair value 2017 R'000
<b>1. Primary listing on the JSE</b>				<b>781 484 673</b>	684 100 250
Naspers Ltd	438 656 059	69 899 310	16	<b>202 137 621</b>	161 991 474
Standard Bank Group Ltd	1 620 029 580	198 527 421	12	<b>43 413 976</b>	27 651 283
Vodacom Group Ltd	1 721 413 781	238 370 004	14	<b>36 487 297</b>	34 791 003
Sasol Ltd	644 348 773	84 881 365	13	<b>34 226 713</b>	33 264 632
MTN Group Ltd	1 884 269 758	280 963 305	15	<b>33 440 253</b>	33 918 143
FirstRand Ltd	5 609 488 001	497 895 246	9	<b>33 309 192</b>	22 942 503
Sanlam Ltd	2 166 471 806	253 751 430	12	<b>21 644 997</b>	17 848 208
Remgro Ltd	529 217 007	78 047 953	15	<b>17 326 646</b>	17 273 895
Shoprite Holdings Ltd	591 338 502	68 379 222	12	<b>17 271 224</b>	–
Aspen Pharmacare Holdings Ltd	456 451 541	54 940 847	12	<b>14 254 952</b>	14 941 397
Bidvest Group Ltd	–	–	–	–	13 918 969
Other				<b>327 971 802</b>	305 558 743
<b>2. Secondary listing on the JSE</b>				<b>188 601 729</b>	198 828 938
Anglo American Plc	1 405 467 840	185 130 042	13	<b>51 147 728</b>	37 846 759
British American Tobacco Plc	2 456 278 414	42 918 236	2	<b>29 894 697</b>	39 401 775
Old Mutual Plc	4 932 413 280	505 617 626	10	<b>20 442 121</b>	16 630 242
BHP Billiton Plc	2 112 071 796	58 141 196	3	<b>13 697 484</b>	12 764 783
Richmond Securities AG	5 220 000 000	126 073 467	2	<b>13 454 560</b>	15 664 054
Dangote Cement Plc	17 040 507 405	805 582 668	5	<b>6 880 099</b>	–
Mediclinic International Plc	737 243 810	56 188 514	8	<b>5 627 280</b>	6 419 809
Glencore Plc	14 586 200 066	94 012 338	1	<b>5 569 291</b>	4 712 691
Mondi Ltd	367 240 805	16 767 721	5	<b>5 415 974</b>	6 384 435
Reinet Investments S.C.A	195 941 286	23 126 707	12	<b>5 319 143</b>	6 879 694
Steinhoff International Holdings	–	–	–	–	27 658 937
Other				<b>31 153 352</b>	24 465 759
<b>3. Unlisted equities</b>				<b>62 993 130</b>	46 007 016
Barclays Africa Group Ltd	**	**	**	<b>11 256 219</b>	–
V&A Waterfront Holdings (Pty) Ltd	1 000 000	500 000	50	<b>10 214 169</b>	8 884 227
Pareto Ltd	4 551 646 134	3 459 251 062	76	<b>8 175 000</b>	10 591 000
Pan African Infrastructure Development Fund*	*	*	40/98	<b>4 519 109</b>	3 901 649
ADR International Airports SA (Pty) Ltd	166 000	166 000	100	<b>3 999 000</b>	2 204 000
African Bank Ltd	500 000 000	125 000 000	25	<b>2 551 000</b>	2 240 000
ETG Inputs Holdco Ltd	500	245	49	<b>2 284 626</b>	–
Arch Property Fund (Pty) Ltd	25 000 000	5 000 000	20	<b>2 000 000</b>	–
Bayport Management Ltd	30 741 360	6 377 550	21	<b>1 903 616</b>	2 091 499
Afrisam Group (Pty) Ltd, formerly known as Opiconsivia Investments 239 (Pty) Ltd	100	66	66	<b>1 625 000</b>	1 854 000
Libstar Holdings (Pty) Ltd	–	–	–	–	1 390 000
MTN Nigeria Communications Ltd**	–	–	–	–	996 000
Other				<b>14 465 391</b>	11 060 054

\* Information relating to the total shares issued and the GEFP's holding number and percentage is not disclosed, as the nature of these instruments is not pure equity.

\*\* This instrument is an option and therefore GEFP shareholding percentage is not applicable.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 3. INVESTMENTS (continued)

### 3.1 INVESTMENT SUMMARY (continued)

#### 3.1.5 Equities (continued)

Included in the equity value on the previous page are the following scrip lending transactions:

Transaction date	Scrip on lent	Security	Fair value	Number of shares on lent	Name of counterparty	Scrip custodian
		in place 2018 R'000	2018 R'000			
31 March 2018	Arrowhead Properties Ltd	*	4 137	569 853	Deutsche Bank	Standard Bank
31 March 2018	Attacq Ltd	*	60 008	3 039 933	Deutsche Bank	Standard Bank
31 March 2018	AVI Ltd	*	83 911	757 186	Deutsche Bank	Standard Bank
31 March 2018	Brait S E Ltd	*	100 540	2 785 040	Deutsche Bank	Standard Bank
31 March 2018	Barloworld Ltd	*	1 011	6 091	Deutsche Bank	Standard Bank
31 March 2018	British American Plc	*	420 681	603 949	Deutsche Bank	Standard Bank
31 March 2018	Compagnie Financiere Richmont	*	99 635	933 616	Deutsche Bank	Standard Bank
31 March 2018	Clicks Group Ltd	*	96 118	527 801	Deutsche Bank	Standard Bank
31 March 2018	Curro Holdings Ltd	*	21 833	684 628	Deutsche Bank	Standard Bank
31 March 2018	Delta Property Fund Ltd	*	102	16 257	Deutsche Bank	Standard Bank
31 March 2018	Echo Polska Properties Ltd	*	505	25 763	Deutsche Bank	Standard Bank
31 March 2018	EOH Holdings Ltd	*	17 910	416 501	Deutsche Bank	Standard Bank
31 March 2018	Fortess Income Fund	*	5 016	421 521	Deutsche Bank	Standard Bank
31 March 2018	Glencore Plc	*	68 298	1 152 907	Deutsche Bank	Standard Bank
31 March 2018	Greenbay Properties Ltd	*	76	76 185	Deutsche Bank	Standard Bank
31 March 2018	Harmony Gold Mining Ltd	*	91 381	3 248 528	Deutsche Bank	Standard Bank
31 March 2018	Impala Platinum Holdings Ltd	*	130 607	5 548 318	Deutsche Bank	Standard Bank
31 March 2018	Investec Plc	*	56 810	614 831	Deutsche Bank	Standard Bank
31 March 2018	Imperial Holdings Ltd	*	18 698	80 161	Deutsche Bank	Standard Bank
31 March 2018	Intu Properties Plc	*	67 335	1 924 946	Deutsche Bank	Standard Bank
31 March 2018	Kumba Iron Ore Ltd	*	411 295	1 453 083	Deutsche Bank	Standard Bank
31 March 2018	Life Healthcare Group Ltd	*	91 742	3 322 797	Deutsche Bank	Standard Bank
31 March 2018	Mediclinic Ltd	*	66 484	663 849	Deutsche Bank	Standard Bank
31 March 2018	MMI Holdings Ltd	*	36 489	1 660 099	Deutsche Bank	Standard Bank
31 March 2018	MTN Group Ltd	*	1 245	10 464	Deutsche Bank	Standard Bank
31 March 2018	Northam Platinum Ltd	*	56 338	1 550 304	Deutsche Bank	Standard Bank
31 March 2018	Nampak Ltd	*	32 361	2 128 998	Deutsche Bank	Standard Bank
31 March 2018	Netcare Ltd	*	126 128	4 504 569	Deutsche Bank	Standard Bank
31 March 2018	Oceana Group Ltd	*	3 597	43 599	Deutsche Bank	Standard Bank
31 March 2018	Old Mutual Plc	*	70 564	1 745 338	Deutsche Bank	Standard Bank
31 March 2018	Omnia Holdings Ltd	*	12 483	83 777	Deutsche Bank	Standard Bank
31 March 2018	Pick n Pay Stores Ltd	*	101 486	1 480 689	Deutsche Bank	Standard Bank
31 March 2018	Royal Bafokeng Plat	*	4 178	161 502	Deutsche Bank	Standard Bank
31 March 2018	Resilient Prop Inc Fund	*	46 974	939 485	Deutsche Bank	Standard Bank
31 March 2018	Rhodes Food Group Ltd	*	10 301	546 496	Deutsche Bank	Standard Bank
31 March 2018	RMB Holdings Ltd	*	379 788	4 922 726	Deutsche Bank	Standard Bank
31 March 2018	Sibanye Gold Ltd	*	116 113	9 865 177	Deutsche Bank	Standard Bank
31 March 2018	South32 Ltd	*	90 012	3 082 606	Deutsche Bank	Standard Bank
31 March 2018	Spar Group Ltd	*	17 650	87 133	Deutsche Bank	Standard Bank
31 March 2018	Steinhoff International Holdings N.V.	*	76 273	23 112 920	Deutsche Bank	Standard Bank
31 March 2018	The Foschini Ltd	*	179 127	800 568	Deutsche Bank	Standard Bank
31 March 2018	Truworths International Ltd	*	97 218	904 102	Deutsche Bank	Standard Bank
31 March 2018	Zambezi Platinum Ltd	*	2 686	44 765	Deutsche Bank	Standard Bank
31 March 2018	Total		3 375 144	86 549 061		

\* Collateral is not done on an individual stock basis level. The security in place for the above shares lent is the equity and bond collateral which equals to 113% of the daily market value of the listed equity shares. This collateral amount is verified daily against the previous day's closing value of the listed equity shares. The collateral amount changes in accordance to the changes in the listed bond and equity share prices to ensure that the collateral is at any stage equal to 113% of the daily closing value of the listed equity shares.

### 3.1.6 Preference shares

	Total issued shares (number)	GEPP's shareholding (number)	GEPP's shareholding %	Fair value 2018 R'000	Fair value 2017 R'000
BK One Ltd	24 492 823	1 200 000	5	120	120
MTN Nigeria Communications Ltd	402 590 263	7 105 633	2	**	**
Zambezi Platinum (RF) Ltd	159 905 453	72 882 077	46	4 379 269	3 972 073
<b>Total preference shares</b>				<b>4 379 389</b>	<b>3 972 193</b>

\*\* The GEPP has a shareholding of 7 105 633 preference shares and 7 105 633 ordinary shares in MTN Nigeria Communications Ltd.

The preference shares and ordinary shares are linked. The ordinary and preference shares have not been valued separately in the prior year. The total market value of both the preference and ordinary shares has been valued at R1.0 billion (2017: R1.0 billion) and is included in the market value of unlisted equity.

### 3.1.7 Collective investment schemes

Description	Fair value 2018 R'000	Fair value 2017 R'000
Black Rock Advisors (UK)	68 871 750	86 595 153
Robeco Institutional Asset Management B.V.	17 520 286	–
Gemcorp Capital LLP	3 819 164	2 091 000
Cheyne Capital Management (UK) LLP	3 774 668	–
Enko Capital Management LLP	2 077 897	2 084 775
Mazi Africa Capital (Pty) Ltd	1 152 006	480 416
Coronation African Frontiers Unit Trust	940 027	732 307
All Weather Capital (Pty) Ltd	506 642	–
Sanlam Ltd	152 779	145 495
Investec Africa Unit Trust	82 839	167 153
Mazi Capital (Pty) Ltd	388	85 408
<b>Total</b>	<b>98 898 446</b>	<b>92 381 707</b>

The GEPP owns units in all above listed collective investment schemes.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 3. INVESTMENTS (continued)

### 3.1 INVESTMENT SUMMARY (continued)

#### 3.1.8 Risk management

##### Credit/counterparty risk

Counterparty	Direct investment in counterparty R'000	Deposit/liquid asset with counterparty	Guarantees	Any other instrument R'000	Total per counterparty R'000	Exposure to counterparty (% of the fair value of assets)
<b>Banks</b>						
ABSA Group Ltd	–	669 895	No	7 591 002	8 260 897	–
African Bank Ltd	2 633 867	–	No	804 371	3 438 238	–
Bank of America Merrill Lynch	596 409	–	No	–	596 409	–
Barclays Africa Group Ltd	11 866 266	–	No	1 458 008	13 324 274	1
Capitec Holdings Ltd	7 236 178	–	No	51 135	7 287 313	–
City Bank	–	–	No	4 824 055	4 824 055	–
Deutsche Bank	–	–	No	4 247 835	4 247 835	–
Development Bank SA Ltd	–	–	No	14 014 121	14 014 121	1
Ecobank Transnational Inc	1 353 577	1 194 041	Yes	–	2 547 618	–
FirstRand Ltd	33 309 192	502 750	No	11 302 388	45 114 330	2
International Bank for Reconstruction and Development	–	–	No	4 476 453	4 476 453	–
Investec Ltd	8 383 074	540 670	No	5 238 680	14 162 424	1
Land and Agricultural Development Bank	–	–	No	6 454 977	6 454 977	–
Nedbank Ltd	9 090 327	543 102	No	8 503 653	18 137 082	1
Rand Merchant Bank	12 329 286	–	No	–	12 329 286	1
South African Reserve Bank	11	108 774	No	57 479	166 264	–
Standard Bank Group Ltd	43 413 976	17 641 596	No	11 684 242	72 739 815	4
State Bank of India	–	–	No	40 293	40 293	–
Venda Building Society Ltd	–	–	No	–	–	*
<b>Asset managers</b>						
All Weather Capital	–	–	No	506 642	506 642	–
Black Rock Advisors (UK)	–	–	No	77 997 157	77 997 157	4
Coronation Asset Management (Pty) Ltd	3 107 574	–	No	940 027	4 047 601	–
Investec Africa Unit Trust	–	–	No	82 839	82 839	–
Novare Africa Property Fund	1 223 645	–	No	–	1 223 645	–
Robeco Equity Fund	–	–	No	17 520 286	17 520 286	1
<b>Insurance companies</b>						
Alexander Forbes Ltd	588 061	–	No	–	588 061	–
Discovery Holdings Ltd	8 858 034	–	No	–	8 858 034	–
Liberty Group Ltd	3 031 145	–	No	56 082	3 087 227	–
MMI Holdings Ltd	2 736 003	–	No	317 568	3 053 571	–
Old Mutual Ltd	20 442 121	–	No	602 924	21 045 045	1
Sanlam Ltd	21 644 997	–	No	360 614	22 005 611	1
Santam Ltd	1 946 378	–	No	269 784	2 216 162	–

\* In the current year, all investments in Venda Building Society Ltd have been written down to zero.

### 3.1.9 Market risk

#### Equity holdings

##### Ten largest rand-value equity holdings

	Total fair value holdings and open instruments R'000	Market movement by 5% R'000
Naspers Ltd	202 137 621	10 106 881
Anglo American Plc	51 147 728	2 557 386
Standard Bank Group Ltd	43 413 976	2 170 699
Vodacom Group Ltd	36 487 297	1 824 365
Sasol Ltd	34 226 713	1 711 336
MTN Group Ltd	33 440 253	1 672 013
FirstRand Ltd	33 309 192	1 665 460
British American Tobacco Plc	29 894 697	1 494 735
Sanlam Ltd	21 644 997	1 082 250
Old Mutual Plc	20 442 121	1 022 106
<b>Total value of 10 largest equity holdings</b>	<b>506 144 595</b>	<b>25 307 231</b>
<b>As a percentage of total investments plus bank balances</b>	<b>28</b>	<b>1</b>

### 3.1.10 Other financial instruments

##### Ten largest rand-value other financial instruments

	Total fair value holdings and open instruments R'000	Market movement by 5% R'000
RSA 197	52 288 872	2 614 444
Black Rock Global Equity Fund	51 326 682	2 566 334
RSA 210	28 706 808	1 435 340
RSA 202	28 180 638	1 409 032
RSA 2037	23 995 211	1 199 761
RSA 2030	23 370 500	1 168 525
RSA 2048	22 233 320	1 111 666
RSA 212	20 070 780	1 003 539
RSA I2025	18 624 334	931 217
RSA I2050	18 345 029	917 251
<b>Total value of 10 largest other instruments</b>	<b>287 142 174</b>	<b>14 357 109</b>
<b>As a percentage of total investments plus bank balances</b>	<b>16</b>	<b>1</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 3. INVESTMENTS (continued)

### 3.1 INVESTMENT SUMMARY (continued)

#### 3.1.11 Foreign currency exposure

Description	Fair value 31 March 2018 USD'000	Fair value 31 March 2018 R'000	Market movement by 5% R'000
Black Rock Advisors UK Ltd	6 596 679	77 997 157	3 899 858
Robeco Institutional Asset Management B.V.	1 481 794	17 520 286	876 014
Barclays Africa Group Ltd	952 005	11 256 219	562 811
Dangote Cement Plc	581 891	6 880 099	344 005
Pan African Infrastructure Development Fund	382 208	4 519 109	225 955
International Bank for Reconstruction and Development	378 600	4 476 453	223 823
Gemcorp Capital LLP	323 009	3 819 164	190 958
Cheyne Capital Management (UK) LLP	319 246	3 774 668	188 733
ETG Inputs Holdco Ltd	193 224	2 284 626	114 231
Ecobank Transnational Inc	215 467	2 547 618	127 381
Enko Capital Management LLP	175 740	2 077 897	103 895
Bayport Management Ltd	161 000	1 903 616	95 181
Republic of Angola	121 336	1 434 641	71 732
Novare Africa Property Fund	103 491	1 223 645	61 182
Mazi Africa Fund	97 432	1 152 006	57 600
Tanga Cement Company Ltd	95 267	1 126 410	56 321
Smile Telecoms Holdings Ltd	83 216	983 917	49 196
Coronation Africa Frontiers Unit Trust	79 504	940 027	47 001
MTN Nigeria Communications Ltd	74 000	874 954	43 748
Abraaj Africa Fund III	62 600	740 164	37 008
Vodacom Tanzania Ltd	61 898	731 866	36 593
S&S Refinery Holdings Ltd	55 175	652 369	32 618
Kenya Electricity Generating Company Ltd	44 140	521 897	26 095
African Development Partners II LP	25 296	299 095	14 955
West Africa Emerging Fund	25 254	298 597	14 930
Convergence Partners Communications Infrastructure Fund	16 084	190 170	9 509
Kuramo Africa Opportunity II (Mauritius) LLC	15 340	181 374	9 069
South Suez African Fund II LP	15 142	179 035	8 952
Kuvenco 1 Ltd	13 777	162 895	8 145
Verod Capital Growth Fund II LP	8 087	95 613	4 781
Capital Alliance Private Equity IV Ltd	7 642	90 359	4 518
Investec Africa Unit Trust	7 006	82 839	4 142
<b>Total value of foreign instruments</b>	<b>12 772 550</b>	<b>151 018 785</b>	<b>7 550 940</b>
<b>As a percentage of total investments plus bank balances</b>		<b>8</b>	<b>–</b>

#### 4. FUNDING LOAN

	2018 R'000	2017 R'000
Sefalana Employee Benefits Organisation (SEBO)	6 716	6 716

This is an unsecured, interest-free loan utilised to fund SEBO's property, plant and equipment. Recovery is dependent on the fair value of SEBO's assets upon liquidation.

Liquidators were appointed to liquidate SEBO during the 2005 financial year. The liquidation was dependent upon the registration of all the title deeds in respect of investment properties. Subsequent to the registration of all the title deeds in respect of investment properties in the name of the GEPF, the liquidators would then finalise the liquidation of SEBO. The liquidators have used three different scenarios to estimate the amount which will be due to the GEPF on the final liquidation of SEBO. The GEPF has followed a conservative approach by adopting the lowest estimate provided by the liquidators.

#### 5. ACCOUNTS RECEIVABLE

	2018 R'000	2017 R'000
Accrued interest	75 395	129 451
Accrued dividend	3 806 902	3 189 561
Estates debt	35 725	33 165
Total estates debt	91 177	83 692
Less: provision for doubtful debts	(55 452)	(50 527)
Fraud cases debt	–	–
Total fraud cases debt	58 884	57 781
Less: provision for doubtful debts	(58 884)	(57 781)
Investment debtors	2 198 268	2 674 387
Lease debtor	267 892	219 522
Purchased service	64 420	63 533
Purchased service not recovered at retirement or death	711	835
South African Post Office	12 201	1 426
Sundry debtors	3 417	5 952
Associated Institutions Pension Fund	–	868
National Treasury	6 158	5 777
Temporary Employees Pension Fund	185	–
Prepayments	1 019 783	1 018 541
Overpayments	39 067	34 104
Total overpayments	54 789	48 639
Less: provision for doubtful debts	(15 722)	(14 535)
	7 530 124	7 377 122

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 6. CONTRIBUTIONS

	2018 R'000	2017 R'000
<b>6.1 CONTRIBUTIONS RECEIVABLE</b>		
Participating employers	141 411	114 279
Additional employer contributions*	1 913 737	1 607 101
Additional NSF employer contributions**	1 653 992	2 162 544
Interest on outstanding contributions	1 714	765
<b>Statement of net assets and funds</b>	<b>3 710 854</b>	<b>3 884 689</b>

\* This is an amount owing to the GEPF in respect of additional liabilities placed on the GEPF resultant from decisions by the employers to afford exiting members' enhanced benefits as per section 17.4 of the GEP Law (e.g. voluntary severance packages/early retirement without downscaling).

\*\* This is an amount owing to the GEPF in respect of additional liabilities arising out of the revised NSF pension dispensation. The additional cost will have to be met by each individual employer.

	Contributions accrued 2018 R'000	Contributions received 2018 R'000	Contributions receivable 2018 R'000	Contributions receivable 2017 R'000
<b>6.2 RECONCILIATION OF CONTRIBUTIONS RECEIVABLE</b>				
Member contributions	25 052 004	(25 052 004)	–	–
Employer contributions	45 343 627	(45 518 411)	3 709 140	3 883 924
Interest on outstanding contributions	1 111	(162)	1 714	765
	<b>70 396 742</b>	<b>(70 570 577)</b>	<b>3 710 854</b>	<b>3 884 689</b>
<b>Statement of changes in net assets and funds</b>				<b>70 396 742</b>

## 7. CASH AND CASH EQUIVALENTS

	2018 R'000	2017 R'000
Cash resources	2 683 056	2 524 973
Short-term investments	19 513 638	27 659 529
	<b>22 196 694</b>	<b>30 184 502</b>

The money market instruments with original maturities of three months or less are classified as cash and cash equivalents.



## 8. RESERVES

In terms of a collective agreement negotiated and agreed to in the PSCBC, an actuarial reserve was set aside to address past discriminatory practices.

This note illustrates the detailed split of that reserve balance between Ciskei strikers, general assistants and other past discriminatory practices.

	Ciskei strikers' reserve 2018 R'000	General assistants' reserve 2018 R'000	Other past discriminatory practices' reserve 2018 R'000	Total reserve accounts 2018 R'000
<b>Balance at the beginning of the year</b>	159 900	114 990	7 899 950	8 174 840
<b>Transfers and benefits</b>	(11 014)	–	–	(11 014)
Benefits paid	(11 014)	–	–	(11 014)
<b>Net loss after transfers and benefits</b>	(11 014)	–	–	(11 014)
Transfer from net investment return to reserves	11 945	8 590	739 115	759 650
<b>Balance at the end of the year</b>	160 831	123 580	8 639 065	8 923 476

## 9. UNCLAIMED BENEFITS

	2018 R'000	2017 R'000
<b>Balance at the beginning of the year</b>	491 782	653 063
Transferred from benefits*	1 626 536	1 147 365
Benefits paid	(1 623 522)	(1 428 678)
Interest provision*	173 106	120 032
<b>Balance at the end of the year*</b>	667 902	491 782

\* The prior year unclaimed benefits of R230 million have been reclassified to benefits payable as they do not meet the definition of unclaimed benefits per the GEPP policy.

## RECONCILIATION OF NUMBER OF CASES

	2018		2017	
	Cases	Amount R'000	Cases	Amount R'000
Payments rejected by the banks	3 583	94 825	2 861	60 992
Cases available for internal tracing	2 279	143 904	2 348	137 876
Unclaimed funeral benefits	43	385	94	786
Tax directives declined	735	38 546	826	30 891
Family dispute cases	190	135 349	182	22 237
Cases available for external tracing	9 350	254 893	9 101	239 000
<b>Balance at the end of the year</b>	16 180	667 902	15 412	491 782

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 10. BENEFITS

	Benefits payable 2017 R'000	Benefits accrued current year 2018 R'000	Benefits paid during year 2018 R'000	Benefits transferred to unclaimed benefits 2018 R'000	Benefits payable 2018 R'000
Net benefit payments	24 602 530	94 878 650	(91 071 319)	(1 619 697)	26 790 164
Gratuities	3 374 419	15 111 592	(14 518 659)	–	3 967 352
Withdrawal benefits	13 599 827	27 922 605	(27 217 243)	(772 050)	13 533 139
Monthly pensions	1 420 451	40 790 176	(40 664 837)	(25 285)	1 520 505
Retrenchment benefits	15 006	301 065	(184 519)	–	131 552
Death benefits	6 141 795	7 611 766	(5 427 159)	(766 580)	7 559 822
Funeral benefits	32 050	252 256	(233 582)	(3 100)	47 624
Orphan benefits**	9 045	61 540	(38 665)	(1 750)	30 170
Divorce benefits	9 937	2 826 027	(2 785 032)	(50 932)	–
Unclaimed benefits***	–	1 623	(1 623)	–	–
Interest to members	3 754 727	2 287 092	(1 954 491)	(6 839)	4 080 489
Benefits payable****	28 357 257	97 165 742	(93 025 810)	(1 626 536)	30 870 653
<b>Statement of changes in net assets and funds</b>					<b>94 878 650</b>

\*\* Orphans' benefits are payable in terms of the provisions of Rule 14.6.3 of the GEP Law, which was introduced during the 2003 financial year. The benefit offered was reviewed as a result of difficulties experienced with the implementation thereof and referred back to the PSCBC to be renegotiated.

\*\*\* Unclaimed benefits are not currently written back to income as per the Prescription Act, but will remain in the fund as unclaimed until the member has been traced. These are claims which were written off and paid in the current year due to policy changes.

\*\*\*\* Benefits payable as at 31 March 2018 and benefits accrued during the year includes an amount of R6.3 billion (2017: R6.8 billion) representing exit cases that were not fully processed at year-end.

The prior year unclaimed benefits of R230 million have been reclassified to benefits payable as they do not meet the definition of unclaimed benefits per the GEPP policy.

Benefits payable age analysis is summarised as follows:

	Cases	2018 R'000	Cases	2017 R'000
<b>Current</b>				
<2 years	28 564	19 316 330	34 168	17 770 313
<b>Unpaid benefits</b>				
2 – 5 years	25 690	1 850 801	26 530	2 389 241
>5 years	69 464	8 203 551	73 627	6 834 827
<b>Contingency provision</b>	–	1 446 423	–	1 332 545
<b>Orphans' benefits</b>	319	30 170	103	8 491
<b>Interest on NSF benefits</b>	195	23 378	321	21 840
<b>Total</b>	<b>124 232</b>	<b>30 870 653</b>	<b>134 749</b>	<b>28 357 257</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 12. ACCOUNTS PAYABLE

	2018 R'000	2017 R'000
Administrative creditors	1 557	3 763
Operating lease accrual	195	868
Child maintenance (court orders)	549	974
Contributions (employers)	5 594	3 567
Dormant members	469	519
Associated Institutions Pension Fund	1 511	–
Temporary Employees Pension Fund	–	418
Government Pensions Administration Agency	59 896	67 411
Investment creditors	3 066 393	1 885 803
Income received in advance	–	10 000
National Treasury	366	–
Outstanding SA Post Office vouchers	10 917	921
Portfolio management fees payable	157 349	124 296
Sundry creditors	344 774	423 034
	<b>3 649 570</b>	<b>2 521 574</b>

## 13. FINANCIAL LIABILITIES AND PROVISIONS

### 13.1 FINANCIAL LIABILITIES

	2018 R'000	2017 R'000
Bank of America Merrill Lynch (BAML)*	–	1 401 476

\* The GEPP entered into funded equity collar finance with Bank of America Merrill Lynch on 13 July 2015 (the Collar) with a notional size of R5.0 billion. The initial financing amount, after prepaid interest and a premium of R347.5 million, amounted to R4.2 billion. The underlying share is Vodacom Group Limited (VOD) and the number of VOD shares pledged to BAML is 37 391 561. The put strike/floor price per share is R120.95 and the call strike /cap per share is R153.78. All funded collar transactions unwinds in tranches with weekly expiries commencing on 15 January 2016 and ending on 22 December 2017. Each expiry consists of 366 583 shares with a repayment amount of R44.3 million. The liability was fully settled as at 31 March 2018.

### 13.2 PROVISIONS

	2018 R'000	2017 R'000
Provision for accumulated leave pay	769	728
Balance at beginning of year	728	665
Provided	1 500	1 204
Utilised	(1 459)	(1 141)
Provision for bonuses	6 900	5 177
Balance at beginning of year	5 177	3 922
Provided	7 628	5 336
Utilised	(5 905)	(4 081)
<b>Balance at end of year</b>	<b>7 669</b>	<b>5 905</b>
<b>Financial liabilities and provisions</b>	<b>7 669</b>	<b>1 407 381</b>

## 14. PURCHASE OF PERIODS OF SERVICE

	2018 R'000	2017 R'000
GEPF members	26 621	27 453
Divorce benefits	733 568	564 379
Past discriminatory members	13 110	19 647
	<b>773 299</b>	<b>611 479</b>

## 15. NET INVESTMENT INCOME

Income from investments	77 973 012	74 091 635
Dividends	30 556 944	28 875 954
Interest	44 620 259	42 841 614
Other income	428 716	507 090
Reversal of impairment <sup>3</sup>	624 785	285 197
Property income	1 742 308	1 581 780
Net profit on sale of investments <sup>1</sup>	18 716 127	63 775 415
Adjustment to fair value	69 033 759	(60 935 352)
Impairment of investments <sup>2</sup>	(7 390 611)	(994 977)
<b>Total investment income</b>	<b>158 332 287</b>	<b>75 936 721</b>
Less: expenses incurred in managing investments		
– Management fees – externally managed	(1 600 933)	(1 462 566)
– Management fees and other expenses – internally managed	(179 845)	(188 385)
– Property expenses	(938 680)	(722 128)
– Transaction costs and other expenses	(2 203 620)	(1 460 001)
<b>Total investment expenses</b>	<b>(4 923 078)</b>	<b>(3 833 080)</b>
<b>Net investment income</b>	<b>153 409 209</b>	<b>72 103 641</b>
<sup>1</sup> Profit on sale of investments	20 468 037	64 754 508
Loss on sale of investments	(1 751 910)	(979 093)
Net profit on sale of investments	18 716 127	63 775 415

<sup>2</sup> Some of the loans entered into by the PIC on behalf of the GEPF in their capacity as the fund's asset manager have been impaired based on the independent valuation as stated on the following page.

<sup>3</sup> In the current year, reversals of impairment were recognised for companies listed in the schedule of reversals of impairment below.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 15. NET INVESTMENT INCOME (continued)

### SCHEDULE OF IMPAIRMENTS

	2018 R'000	2017 R'000
Lancaster Group	4 275 782	353 152
Independent News and Media SA (Pty) Ltd	1 058 320	86 377
Afgri Poultry (Pty) Ltd	491 567	–
Venda Building Society	374 700	–
Afrisam Group (Pty) Ltd, formerly known as Opiconsivia Investments 239 (Pty) Ltd	252 815	228 383
Allied Mobile Communications (Pty) Ltd	269 782	–
Firefly Investments 230 (RF) (Pty) Ltd	123 548	–
Dikgosi Tailings Processing (Pty) Ltd	117 577	–
Sub Saharan Investment Holdings (Pty) Ltd	110 101	–
Kuseni Group (Pty) Ltd	89 456	–
Kuvenco 1 Ltd	63 465	–
La Crushers (Pty) Ltd	50 351	–
Zamalwandle Transport Logistics (Pty) Ltd	44 146	–
Kiaat Private Hospital (Pty) Ltd	22 859	10 044
Kiaat Bridge Facility	19 754	719
Just Veggies (Pty) Ltd	15 500	33 641
Kiaat Nozala Health Partners (Pty) Ltd	5 840	43 823
Botshilu Private Hospital (Pty) Ltd	2 437	10 690
Multisource (Pty) Ltd	1 866	150
Kiaat Ndabezitha Trust	484	3 224
Hot Dog Café (Pty) Ltd	140	–
Kiaat Lehakwe Trust	121	806
Friedshelf 1511 (Pty) Ltd	–	164 670
Mucet Investments (Pty) Ltd	–	31 984
Projectprop (Pty) Ltd	–	26 143
Ngwenyama Trading 58 (Pty) Ltd	–	1 171
<b>Total</b>	<b>7 390 611</b>	<b>994 977</b>

In arriving at the impairment figures, the GEPF took the following impairment triggers into account which were considered on all of its impaired investments:

- Uncertainties on the going concern on audited financial statements of its investees.
- Actual breaches of any original funding agreements, that resulted in renegotiation of those agreements.
- Where cash flow projections have been revised downwards, it resulted in a decrease in enterprise values of investees.
- Anticipated pressure on investees in servicing their debt obligations.

## SCHEDULE OF REVERSALS OF IMPAIRMENT

	2018 R'000	2017 R'000
Afgri Poultry (Pty) Ltd	297 441	240 265
Friedshelf 1511 (Pty) Ltd	235 732	–
Friedshelf 1518 (Pty) Ltd	33 849	–
Projectprop (Pty) Ltd	26 143	–
Zamalwandle Transport Logistics (Pty) Ltd	11 623	44 932
Kiaat Private Hospital (Pty) Ltd	10 426	–
Entanbeni Holdings (Pty) Ltd	8 400	–
Ngwenyama Trading 58 (Pty) Ltd	1 171	–
<b>Total</b>	<b>624 785</b>	<b>285 197</b>

## 16. OTHER INCOME

	2018 R'000	2017 R'000
<b>Interest received</b>		
Arrear contributions	7 065	3 237
Purchase of service	4 894	3 797
Additional employer contributions – early retirement	154 674	147 900
Additional employer contributions – NSF	228 748	288 479
Operating bank account	80 182	76 940
Other	137	260
	<b>475 700</b>	<b>520 613</b>

## 17. ADMINISTRATIVE EXPENDITURE

### 17.1 TOTAL ADMINISTRATIVE EXPENDITURE

	2018 R'000	2017 R'000
Administration expenses	911 138	873 550
Actuarial fees	1 681	3 035
Investment accounting fees	3 112	2 297
Investment performance analysis	4 249	6 516
Audit fees	3 530	3 331
Depreciation	1 391	1 402
Foreign currency loss	140	75
Legal costs	13 192	4 944
Bad debts	6 737	9 060
Operating expenses	38 272	26 226
Operating lease payments	6 159	6 330
Operating lease smoothing adjustment	(674)	(262)
Personnel expenses	40 392	35 291
Personnel expenditure (refer to note 17.2)	16 309	16 903
Executive officer expenditure (refer to note 17.3)	7 565	4 997
Principal officer expenditure (refer to note 17.4)	4 957	4 600
Trustee expenditure (refer to note 17.5)	11 561	8 791
Increase in provision for doubtful debt	7 215	4 760
	<b>1 036 534</b>	<b>976 555</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 17. ADMINISTRATIVE EXPENDITURE

### 17.2 PERSONNEL REMUNERATION AND EXPENSES

	2018 R'000	2017 R'000
Remuneration to permanent and contract employees	14 520	15 177
Retirement fund contributions	1 166	1 180
Training expenses	385	296
Other benefits (housing, medical, etc.)	238	250
	<b>16 309</b>	<b>16 903</b>

### 17.3 EXECUTIVE OFFICERS' REMUNERATION AND EXPENSES

Remuneration and allowances	5 861	3 878
Bonuses	1 704	1 119
	<b>7 565</b>	<b>4 997</b>

### 17.4 PRINCIPAL OFFICER'S REMUNERATION AND EXPENSES

Remuneration and allowances	3 780	3 555
Bonuses	1 177	1 045
	<b>4 957</b>	<b>4 600</b>

### 17.5 BOARD OF TRUSTEES' REMUNERATION AND EXPENSES

Meeting allowances	10 980	8 732
Expenses	581	59
	<b>11 561</b>	<b>8 791</b>

## 18. INTEREST PAID

Interest paid to members	2 287 092	2 273 631
Interest paid to members exited from the GEPF	2 070 626	2 034 260
Interest paid to external funds in respect of members exited from the GEPF	167 659	184 451
Interest paid to NSF members	48 807	54 920
Other interest	–	6 621
Interest paid to dormant members	43	–
	<b>2 287 135</b>	<b>2 280 252</b>



## 19. OPERATING LEASE

	2018 R'000	2017 R'000
<b>INCOME</b>		
Future minimum lease payments receivable under non-cancellable operating leases:		
Receivable within one year	1 075 139	1 036 236
Receivable between two and five years	2 421 606	2 060 460
Receivable after five years	1 253 406	511 193
	<b>4 750 151</b>	<b>3 607 889</b>
<b>EXPENSES</b>		
Future minimum lease payments under non-cancellable operating leases:		
Payable within one year	1 415	5 554
Payable between two and five years	–	1 412
	<b>1 415</b>	<b>6 966</b>

## 20. CASH GENERATED FROM OPERATIONS

<b>Net income after transfers and benefits</b>	<b>127 379 148</b>	<b>47 181 088</b>
Adjusted for:	<b>(149 267 665)</b>	<b>(68 132 444)</b>
Interest received	<b>(45 095 959)</b>	<b>(43 362 227)</b>
Interest paid	<b>2 287 135</b>	<b>2 280 252</b>
Divorce benefits paid	<b>2 826 027</b>	<b>2 705 469</b>
Dividends received	<b>(30 556 944)</b>	<b>(28 875 954)</b>
Adjustment to fair values of investments	<b>(69 033 759)</b>	<b>60 935 352</b>
Profit on sale of investments and property	<b>(18 716 127)</b>	<b>(63 775 415)</b>
Impairment of investments	<b>7 390 611</b>	<b>994 977</b>
Reversal of impairment	<b>(624 785)</b>	<b>(285 197)</b>
Foreign currency loss	<b>1 186 779</b>	<b>1 034 139</b>
Depreciation	<b>1 391</b>	<b>1 402</b>
Lease smoothing	<b>(674)</b>	<b>(262)</b>
Bad debt written off	<b>6 737</b>	<b>9 060</b>
Increase in doubtful debt provision	<b>7 215</b>	<b>4 760</b>
Movement in provisions	<b>2 365 518</b>	<b>690 800</b>
Net transfers in	<b>(1 310 830)</b>	<b>(489 600)</b>
<b>Adjusted net income after transfers and benefits</b>	<b>(21 888 517)</b>	<b>(20 951 356)</b>
<b>Changes in working capital</b>	<b>75 892</b>	<b>(420 336)</b>
Decrease/(increase) in accounts receivable	<b>150 866</b>	<b>(579 093)</b>
(Decrease)/increase in accounts payable	<b>(74 974)</b>	<b>158 757</b>
<b>Cash utilised in operations</b>	<b>(21 812 625)</b>	<b>(21 371 692)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 21. FINANCIAL MANAGEMENT AND ASSOCIATED RISKS

Investment activities expose the GEPF to various types of risks that are associated with the financial instruments and the asset classes in which the portfolio is invested. Market, Credit, Liquidity and Solvency risk exposures are on the account of the GEPFs strategic asset allocation percentages for the various asset classes, which are set to counter inflation risk that affects the GEPFs liabilities and assets. The nature and extent of financial instruments as at financial year-end and the risk management policies employed by the GEPF and its investment administrator are discussed below.

### 21.1 MARKET RISK AND INTEREST RATE RISK

Market risk is the risk that the value of a financial instrument or investment will fluctuate due to adverse movements in market factors, irrespective of whether these fluctuations are caused by circumstances particular to the investment(s) or general market dynamics.

Investment managers are required to diversify investments of the GEPF and make investments within the specified asset allocation such that the performance of the asset classes are similar to the performance of the corresponding sectors of the market as a whole and that exposure to a single investment is within an acceptable tolerance level.

Equities are the most volatile asset class and therefore the biggest source of short-term risk for the portfolio. The Investment Committee, on behalf of the Board, monitors this risk against predetermined benchmarks. The fair value of the equity portfolio at 31 March 2018 was R1 033.1 billion (2017: R928.9 billion).

Furthermore, market risk exposure is managed through adherence to investment mandate requirements, such as tracking error and duration limits relative to the respective benchmarks.

Interest rate risk is the risk that the value of a financial instrument or the income received from such instruments will fluctuate due to adverse movements in interest rates. Interest rate risk is managed and evaluated through scenario analysis and stress tests, which measures the sensitivity of the company's investment interest income and market value of the portfolio to extreme interest rate movements.

### 21.2 CREDIT RISK

Credit risk is the risk that a counterparty to a financial instrument or investment will default on its obligation, in part or in total, thereby causing financial loss to the GEPF.

Credit risk is managed by utilising internal models, as well as ratings from external credit rating agencies. Credit-related limits are approved by the relevant committees, in accordance with the Board-approved Delegation of Authority. Risk reports are submitted to the Portfolio Management Committee, Investment Committee, Audit and Risk Committee and the Board.

The credit risk pertaining to loans and advances is managed partially through a combination of derivative structures and guarantees for the credit exposure, as appropriate. Loans and advances are approved by the relevant governance structures within the investment manager and in accordance with investment mandates.

### 21.3 LIQUIDITY RISK

Liquidity risk is the risk that the investments will not readily convert into cash should the need for funds arise.

Liquidity risk is managed by investing in liquid assets such as money market instruments, bonds, fixed deposits and promissory notes as well as liquid debt issues from Government, municipalities and other approved issuers. In addition to this, a substantial amount is kept in cash to further mitigate this risk.

### 21.4 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument denominated in a currency other than the reporting currency may fluctuate due to changes in foreign currency exchange rates, between the reporting currency and the currency in which the instrument is denominated.

The fund's exposure to currency risk is mainly in respect of the foreign investment mandates which are denominated in US dollars. Currency risk is managed primarily by setting limits to strategic asset allocation percentages for foreign asset classes and hedging in other instances.

### 21.5 SOLVENCY RISK

Solvency risk is the risk that the investment returns on assets will not be sufficient to meet the GEPF's contractual obligations to members. An undertaking by the government, as employer, to ensure that the funding level remains above 90% and the setting of strategic asset allocation percentages following an asset-liability modelling exercise, mitigates this risk. Such an exercise will be repeated regularly to ensure that the employer contribution rate, solvency reserve and strategic asset allocation percentages are managed to maintain the solvency risk within levels acceptable to the stakeholders.

### 21.6 CONCENTRATION RISK

Concentration risk is the risk of losses arising due to poor diversification within funds. This relates to both credit and market risk as excessive concentrations in a particular or correlated sector, issuer, asset class, term structure or financial instrument type can result in undesirable risk exposures. This risk is managed in accordance with investment mandates and approved policies, which dictate the level of concentration.

## 22. RELATED PARTIES

With regards to the fund, the majority of the participating employers relate to the entire government and the predominant numbers of GEPF transactions are with related government entities. This would result in an exorbitant amount of related party disclosure, which in the opinion of the trustees would not necessarily add value to the users of the financial statements.

- Contributions received of R45.5 billion (2017: R42.5 billion) and contributions receivable of R405 million (2017: R225 million) are from the employer which is the government of the Republic of South Africa.
- Trustees of the Fund who are also members of the fund contribute to the fund and may receive benefits upon exit from the fund in terms of the Fund Rules.
- Remuneration and expenses of key management personnel is disclosed in note 17 to the annual financial statements.
- The PIC is wholly-owned by the government of the Republic of South Africa. Management fees amounting to R1.1 billion (2017: R996.6 million) was paid from the fund to the PIC for investment management services in terms of the approved investment mandate.
- An amount of R911 million (2017: R873 million) was paid to the GPAA as remuneration for administration services provided to the fund.

## 23. CONTINGENT LIABILITIES

### 23.1 BENEFITS

A contingent liability exists for members that exited from the GEPF prior to 31 March 2018, for whom no duly completed exit documentation has been received. The GEPF cannot estimate the exact benefits payable to such members, because the quantum of the liability depends on:

- the reason for exit from service;
- the final salary of the respective members upon exit; and
- the period of pensionable service, which period may be altered by means of added service, dependent on the exit reason, e.g. ill-health.

A provision has been made in the financial statements for the actuarial estimate of the above liability, but the benefits owing cannot be calculated exactly.

### 23.2 PENDING LIABILITY

No contingent liability exists in respect of a legal claim against the GEPF on the date on which the financial statements were approved.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2018

## 24. CAPITAL COMMITMENTS

### 24.1 CAPITAL COMMITMENTS CURRENT YEAR

Name of fund	Total commitment 2018	Drawn commitment 2018	Undrawn commitment 2018	Total commitment 2018	Drawn commitment 2018	Undrawn commitment 2018	Estimated repayable period
	USD'000	USD'000	USD'000	R'000	R'000	R'000	
ADPI II	30 000	19 938	10 062	354 711	235 741	118 970	2 years
Cape IV	20 000	8 967	11 033	236 474	106 023	130 451	6 years
PAIDF I	250 000	247 680	2 320	2 955 925	2 928 494	27 431	1 year
PAIDF II	350 000	87 504	262 496	4 138 295	1 034 621	3 103 674	3 years
South Suez	25 000	13 865	11 135	295 592	163 936	131 656	8 years
Verod	10 000	7 855	2 145	118 237	92 875	25 362	3 years
<b>Total</b>	<b>685 000</b>	<b>385 809</b>	<b>299 191</b>	<b>8 099 234</b>	<b>4 561 690</b>	<b>3 537 544</b>	

### 24.2 CAPITAL COMMITMENTS PREVIOUS YEAR

Name of fund	Total commitment 2017	Drawn commitment 2017	Undrawn commitment 2017	Total commitment 2017	Drawn commitment 2017	Undrawn commitment 2017	Estimated repayable period
	USD'000	USD'000	USD'000	R'000	R'000	R'000	
ADPI II	30 000	12 864	17 136	402 312	172 506	229 806	2 years
Cape IV	20 000	6 678	13 322	268 208	89 555	178 653	6 years
PAIDF I	250 000	232 726	17 274	3 352 600	3 120 949	231 651	1 year
PAIDF II	350 000	59 798	290 202	4 693 640	801 921	3 891 719	3 years
South Suez	25 000	7 761	17 239	335 260	104 082	231 178	8 years
Verod	10 000	4 843	5 157	134 104	64 947	69 157	3 years
<b>Total</b>	<b>685 000</b>	<b>324 670</b>	<b>360 330</b>	<b>9 186 124</b>	<b>4 353 960</b>	<b>4 832 164</b>	



