

Government Employees Pension Fund

ANNUAL REPORT 2007/2008



Integrity • Openness • Interdependence • Caring • Client focus

GEPF profile

Over the past three years our best practice administration initiatives have culminated in a comprehensive administration business case and long-term strategy which are guiding the operational improvement process of the GEPF.

The GEPF is the largest pension fund in Africa, with approximately 1,16 million contributing members and 311 345 pensioners and beneficiaries. The GEPF is acknowledged as amongst the 10 largest pension funds in the world, with more than R707 billion of assets under management.

Established on 1 May 1996 through the amalgamation of a number of pension funds serving government employees and therefore in existence for 11 years, the GEPF is a juristic entity managed by a Board of Trustees. It is committed to effectively and efficiently provide benefits to members, pensioners and beneficiaries.

Core functions include member admissions, contribution collections, members, roll maintenance, withdrawals (exits) and benefit payments, and the oversight of the investment of the Fund's assets to match future liabilities. The administration of the GEPF also administers benefits on behalf of the National Treasury, including medical subsidies, special pensions, military pensions and other sundry benefits.

The government-owned Public Investment Corporation (PIC) manages the investment of GEPF funds, which comprise 91,7% of the total investments under its administration.

The Fund is committed to creating a business environment for its 705 employees that is conducive to their well-being and productivity, with efficient and fair human resource practices. Its Employment Equity Forum consists of employee, management and trade union representatives and identifies and addresses issues as needed on an ongoing basis.

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Vision

We strive to be the best-in-class pensions' administrator providing financial security, peace of mind and exceptional service to government employees, pensioners and other stakeholders.

Mission

The GEPF is entrusted as the custodian of a significant portion of the wealth of public servants. Our mission is to effectively and efficiently manage and administer the pensions and related benefits on behalf of our members, pensioners and their beneficiaries through:

- efficiently administering and providing benefits and related services; and
- effectively managing and investing government pension funds.

Values

The interaction between stakeholders and the GEPF is guided by the following values:

Integrity

- Doing the right thing, even when you are not watched.

Openness

- Allowing access to information to the right person at the right level.

Interdependence

- The achievement of our goals is based on the inter-relationship of the different components of the service delivery chain.

Caring

- Placing ourselves in the shoes of those we serve by addressing their needs in a humane manner.

Client focus

- Our actions are derived from client needs.

Minister's note to Parliament



Mr Trevor Manuel
Minister of Finance

Speaker of Parliament

Madam Speaker

Annual report of the Government Employees Pension Fund (GEPF) for the period ended 31 March 2008

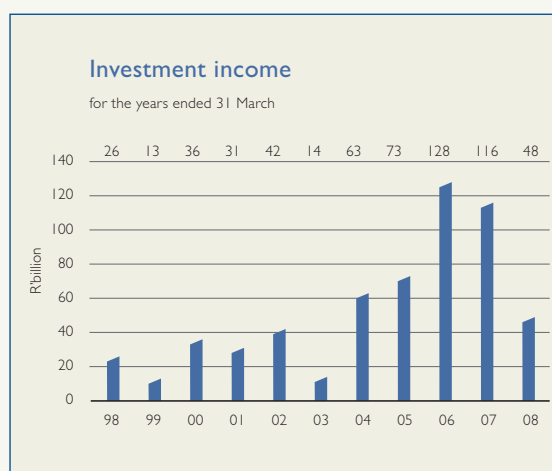
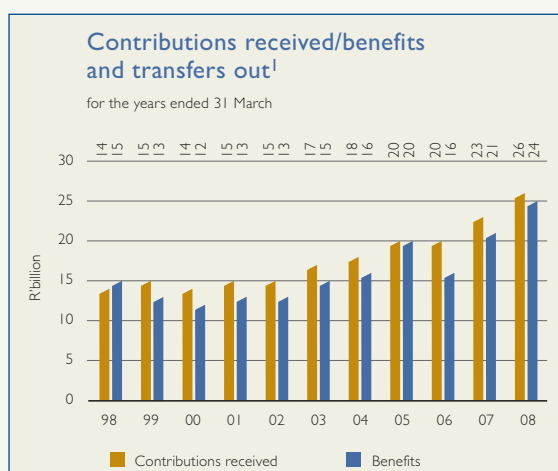
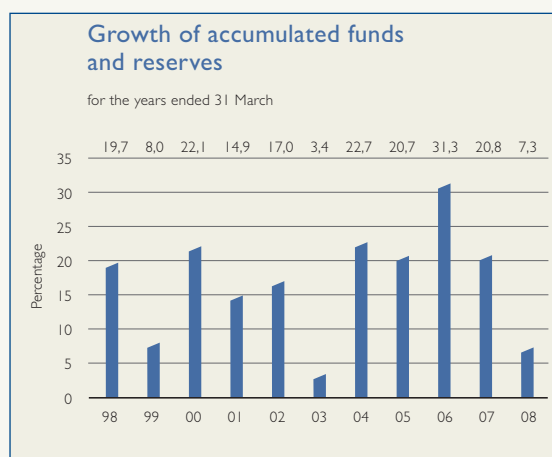
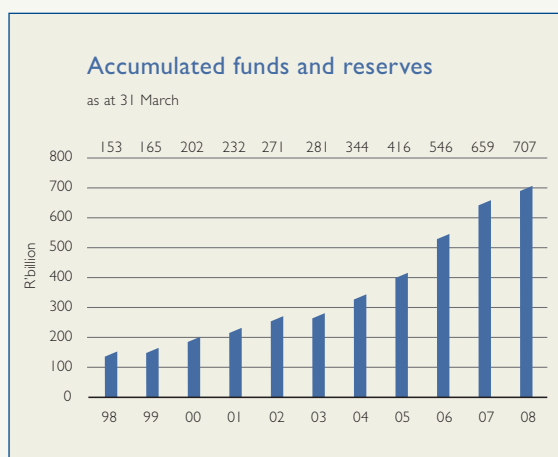
I have the honour, in terms of Section 9 (6) of the Government Employees Pension Law, 1996 (Proclamation 21 of 1996) as amended, to present the annual report of the Government Employees Pension Fund for the period 1 April 2007 to 31 March 2008.

TA Manuel
Minister of Finance

October 2008

Highlights and 11-year review

- The **accumulated funds and reserves** of the GEPF amounted to **R707,0 billion** as at 31 March 2008.
- **Fund and reserves have grown** by **31,3%, 20,8% and 7,3%** over the last three financial years.
- **Contributions received** for the year ended 31 March 2008 amounted to **R25,9 billion** (2007: R22,7 billion) and **net benefits** paid amounted to **R24,1 billion** (2007: R21,3 billion).
- **Net investment income** for the year ended 31 March 2008 amounted to **R48,0 billion** (2007: R116,0 billion). This is the total of interest, dividends, rentals, net profit on sale of investments, adjustments to fair value and impairments.



¹ The increases in benefit payments from 2004 to 2008 are due to changes in accounting policy that relate to accounting for accruals of benefits.

Members of the Board

The GEPF is a juristic entity managed by a Board of Trustees, with an equal number of employer and member representatives, accountable for its administrative and investment performance and responsible for its annual financial statements and submitting its annual report to the Minister of Finance.



- 1 Mr Martin Kuscus (Chairperson)
- 2 Mr Dave Balt (Vice Chairperson)
- 3 Mr Jeremy Andrew
- 4 Mr Prabir Badal
- 5 Vice Admiral Bert Bekker
- 6 Mr Dalindyabo Bout
- 7 Brigadier General Dries de Wit
- 8 Mr Mash Diphofa

- 9 Mr Andrew Donaldson
- 10 Mr Leon Ely
- 11 Mr Kenny Govender
- 12 Mr Johan Griesel
- 13 Mr Fikile Hugo
- 14 Prof Hennie Kock
- 15 Mr Hennie Koekemoer

Members include a representative for pensioners and a representative for the services, elected from the South African National Defence Force, National Intelligence Agency and the South African Secret Service – each with an appointed substitute.



- 16 Mr Thobile Maqhubela
- 17 Mr Manie Maritz
- 18 Mr Bukuta Mashawana
- 19 Mr Patrick Mngconkola
- 20 Mr Gavin Moultrie
- 21 Mr Hans Murray
- 22 Adv Koot Myburgh

- 23 Mr Freeman Nomvalo
- 24 Mr Paddy Padayachee
- 25 Mr Vernie Petersen
- 26 Mr Manfred Rothballer
- 27 Mr Paul Sello
- 28 Mr Sello Tshabalala
- 29 Mr Logan Wort

Chairperson's Review



Mr Martin Kuscus
Chairperson

It is my pleasure to report on the successes of the 2007/2008 financial year in my third year as Chairman of the Board of Trustees of the Government Employees Pension Fund (GEPF).

"The Board of Trustees is very mindful of the fact that continued market growth at the rate that we have seen is not likely going forward". This is an extract from my last year's report, following two consecutive years of impressive increases in the value of the Fund's assets (21% and 31% for the 2006/2007 and 2005/2006 financial years respectively). As anticipated, the charge of the proverbial bulls subsided, and in its place came an increase in market volatility, inflationary pressures and interest rates. In the year under review, the Fund yielded 7% growth in assets from R659 billion last year to R707 billion as at 31 March 2008.

Fortunately, during the period under review, the Trustees of the Fund were able to lock in some of the gains of the previous few years, and consequently set aside reserves for the inevitable market slow down. Specifically, following the conclusion of a detailed asset liability study based on the 2006 actuarial valuation, the Fund has set aside a healthy solvency reserve of R42 billion to counter market volatility between valuations, as well as a pension increase reserve of R57 billion to allow the Trustees greater discretion in targeting real pension increases each year. This latter reserve will hopefully allow the Fund to maintain all pensions in payment at a level equal to the pension at retirement of each pensioner, adjusted

fully for the effect of inflation, a feat we first accomplished after the 2007 pension increase, and were able to maintain in 2008 by granting an annual increase of 7%, with additional adjustments where necessary to maintain real values.

In our determination to drive forward our position as responsible investors and founder signatories to the United Nations Principles of Responsible Investment, the Investment Committee under the stewardship of the Board has compiled comprehensive responsible investment policy and strategy discussion papers to drive forward initiatives in this regard. We expect to finalise our work in the new financial year and consult with our major stakeholders over the policy content.

The period under review has seen remarkable strides towards operational efficiency of the GEPF administration. The CEO continued with the filling of key positions in the approved organisational structure, with a mindful eye on employment equity and improved representation. Also, many of the research initiatives on best practice administration that were started in the previous financial year were brought to fruition.

These and related projects have culminated in a comprehensive administration business case and a long-term strategy that will guide the operational improvement process going forward. These and other initiatives are expanded upon in the CEO's overview and the rest of this report, including the

“We have seen remarkable strides towards operational efficiency of the GEPF’s administration. Most importantly, the improvement in the turnaround time from the exit of a member to the payment of the first pension must be commended. Further service delivery and operational improvement is expected, based on the commitments contained in the operational strategy.”

centralisation of client services, the expansion of the client communication capabilities, regional representation and employer interaction. Most importantly, the administration must be commended for the improvement in the turnaround time from the exit of a member to the payment of the first pension. Further service delivery and operational improvement is expected in the next couple of years, based on the commitments contained in the operational strategy.

The Board also approved a change in the governance structure of the Fund during the financial year that will result in a split between the fiduciary and operational functions in line with private sector retirement fund structures. The new financial year will see the development of a fiduciary structure separate from the administration functions, including the appointment of an independent Principal Officer, Head of Investments and Actuarial, and Head of Legal and Compliance, with an executive secretarial function for the Board and Board committees.

I would like to thank the Board of Trustees and the various Board committees for their continued commitment to the Fund. I would also like to thank the CEO, management and employees of the GEPF for boldly committing to improvement targets and diligently pursuing them. The Board will undertake a comprehensive review of our first three years in office in the early part of the new financial year, but all indications are that the Fund has taken large strides towards the

ambitions that we set for the Fund, and that all parties involved can be very proud of the achievements made thus far.

The Board would like to thank all other stakeholders involved with the GEPF, the Minister of Finance, participating employer departments and government agencies, and our service providers for their continued support and service to the GEPF.

This report sets out the unqualified audited financial statements in respect of the GEPF for the 2007/2008 financial year. It is the opinion of the Board of Trustees that these financial statements fairly reflect the net assets of the GEPF and the results of its activities as at the end of March 2008 in accordance with generally accepted accounting practice applicable to retirement funds in South Africa. In this regard we are grateful for the work of all parties involved in compiling and finalising the annual financial statements.



Mr Martin Kuscus
Chairperson

15 September 2008

Report by the Chief Executive Officer



Mr Phenias Tjie
Chief Executive Officer

Amidst the turbulence of an economic downturn in global financial markets and a tightening of monetary policy within a sound fiscal framework at home, the GEPF has made robust progress in its trajectory towards improved performance and becoming the standard bearer for pension administration in Africa.

During our 11th year as a consolidated pension fund, our total assets amounted to R707 billion, some 7% over the previous financial year. Contributions received amounted to R26 billion and benefits paid to R24,1 billion.

The GEPF Board, as authorised by the Government Employees Pension Law, 21 of 1996, as amended, approved a pension increase of 7% that came into effect on 1 April 2008. This followed a catch-up increase implemented in the previous financial year to protect pensioners against the full effect of inflation. These increases were made possible by the strong investment performance of the Fund, under the management of the Public Investment Corporation (PIC).

We remain committed to continuously improving our ability to deliver against the ambitious goal set by our Board to become a leader among peers as Africa's largest pension fund.

Operational efficiency

In response to the need to effectively attend to the business of our members, we redesigned the GEPF's operating model. The implementation of the revised model requires the alignment of

internal processes and a review of our technology infrastructure. To this end we embarked on a comparative study to find a pension benefit administration system appropriate for the size of the Fund. Once identified and implemented, this system will assist us to simplify and accelerate the processing of benefit payments.

Communication with our members was given high priority during the past year, with a focus on conveying the importance of updating their personal records. This will assist us to improve our service delivery and member communication will remain a priority in the period ahead.

Improved employer liaison and education is another key challenge that we believe will accelerate the reduction in the backlog of pension benefit payments. Increasing the GEPF's access points in the provinces will also improve our interaction with employers, members and pensioners throughout the country. In this regard we will be appointing client liaison officers as the link between regional offices and districts, and in the medium term, we plan to increase the number of regional offices. This endeavour will help to reduce the number of error documents submitted to the GEPF and result in the timely payment of benefits.

Last year, I commented on a number of factors within the local business landscape and the pension administration sector that impacted on the business of the GEPF. Primary among these – specifically given our emphasis on filling critical

The “Batho Pele” principles of effectively and efficiently serving our members have been taken to heart by the GEPF and we have seen a number of significant improvements in service delivery over the past year.

posts within a revised organisational structure – continued to be competition from the private sector for scarce human resources.

I am pleased to report that our efforts to find effective ways to recruit competent staff were rewarded with the appointment of 70% of the incumbents needed to fill critical management positions. Good progress was also made with filling other vacancies and these efforts will be vigorously carried forward in the forthcoming period.

Key achievements

Our turnaround times for benefit claims improved during the period under discussion. Almost two-thirds (63%) of benefit claims were paid within 60 days. Our reports indicated an improvement in the average number of days between receipt of the completed notification form (Z102) and the payment of benefits to 98 days (2007: 122 days). Funeral benefits were paid within 72 hours.

In addition, the Board's approval of a new organisational model and structure has significantly enhanced our capability to meet the increasing service delivery challenges. We completed the job profiling process for all current positions and have begun a process of job evaluations to guide and align our salary structure with the rest of the public service.

A medium-term service delivery strategy was developed and approved by the Board. It is envisaged that the plan will increase our operational efficiency and customer responsiveness.

Our employment equity policy is in place and implementation will be a priority going forward. This will address any imbalances in employment practices within the GEPF and we remain committed to persistently pursue our objectives in this regard.

Way forward

The GEPF will continue to invest its assets in a responsible and well-governed manner to ensure a sustained investment performance, thereby protecting the retirement wealth of our members and purchasing power of our pensioners.

Our leadership team has grown, but there are still critical challenges ahead. Going forward, we will continue to improve our collaboration with employer departments and develop a self-management tool for members to assist with data integrity and improving overall service levels. We are confident that the hard work and commitment of our people will deliver the successes we strive for in the years ahead.



Mr Phenias Tjje
Chief Executive Officer

15 September 2008

Management

The GEPF's management is committed to protecting the retirement wealth of our members and the purchasing power of our pensioners. The team is actively involved in the achievement of the Fund's reported results and entrenching the Batho Pele service delivery principles.



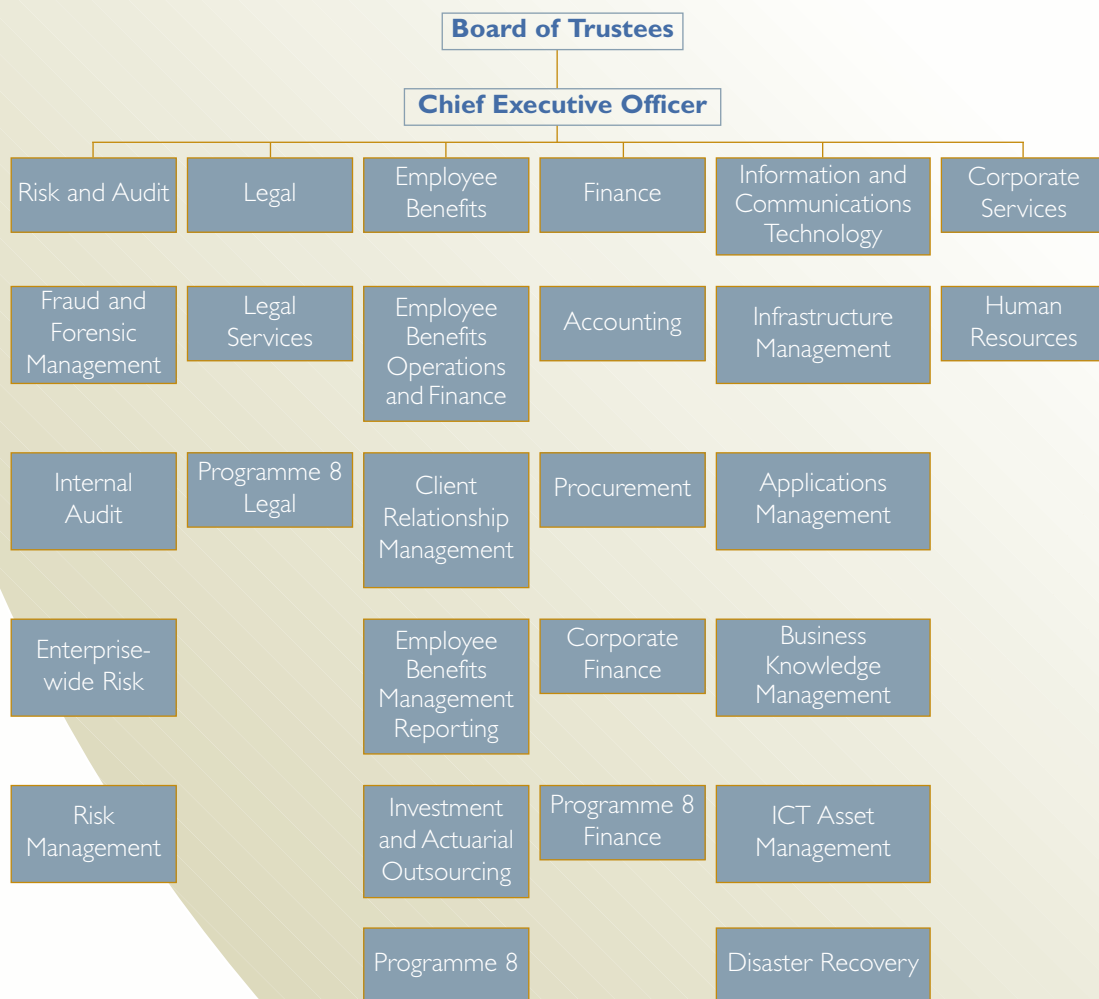
Standing from left to right: **Morontshi Matsobane:** Head Corporate Services; **Lazarus Mafolo:** Acting Chief Information Officer; **Kagisho Dikgetsi:** Head Project Management; **Mamare Moiloa:** General Manager Customer Relationship Management; **Mongezi Mngqibisa:** General Manager Programme 8; **Jay Morar:** General Manager Operations; and **Effort Kgosiemang:** Acting Head Risk Management and Audit.

Seated from left to right: **Dimi Ntshingila:** Acting Chief Financial Officer; **Mantiti Kola:** Chief Operating Officer; **Pearl Seopela:** Head Corporate Communication; and **Esti de Witt:** Head Legal Services.

Mongezi Mngqibisa and Jay Morar joined the GEPF management team after the 2007/2008 financial year.

GEPF structure

The Chief Executive Officer of the GEPF and the Executive and operational management teams, reflected in the organisational structure below, are responsible for the day-to-day operation of the Fund and for ensuring the implementation of Board strategies and decisions.





Business review

This section of the annual report covers the operational and administrative activities of the GEPF and its business units for the financial year 1 April 2007 to 31 March 2008.

Introduction

Traditionally, the GEPF's annual business strategy guided its planning, budgeting and actions for the related period. During the year under review it became evident that the dynamic nature of the Fund's business environment and potentially substantive changes to South Africa's pension legislation required a longer-term view.

As a result, a medium-term strategy was developed that takes cognisance of the GEPF's opportunities and reflects its goals and objectives, and related key performance indicators, for the next three years. This will ensure a sustainable direction and the efficient utilisation of resources.

The implementation of the strategy started during the reporting period. Our quest to leverage limited resources to achieve efficiency, effectiveness and quality service will, however, continue in the years ahead. It is only through innovation, leadership and disciplined action that the goals and objectives will be achieved.

Mandate

Our mandate, established by the Government Employees Pension (GEP) Law, Proclamation 21 of 1996, is to administer and manage pensions and related benefits on behalf of government

employees. This includes managing relationships with members, pensioners, dependants and employer departments, administering pensions and benefits, managing the investment of assets, creating and managing the infrastructure needed to give effect to our mandate and managing risk.

The core activities that drive these processes are benefits payments, member interaction and data maintenance.

Strategic context

External influences shape the strategic context within which we operate. Globally, economic, social and technological turbulence had an impact locally on rising inflation, a consequent tightening of monetary policy by increasing interest rates and a slow-down in economic growth.

In identifying our strategic priorities, we took cognisance of other external influences that will affect our business environment, such as the local legislative environment and potential changes to pension fund legislation, the need to protect data and information integrity against theft, abuse and viruses and the impact investor and shareholder activity could have on the South African economy. In collaboration with the PIC, the GEPF will address this last challenge strategically, with wisdom and foresight.

The high levels of personnel turnover in employer departments resulted in an increase in the requirement for training, to ensure that we receive accurate data with which to service our members.



The GEPF has made robust progress in its trajectory towards improved performance and becoming the standard bearer for pensions administration in South Africa.

Internally, the need for competent staff to deal with the increasing complexity of benefits administration emphasised the need to prioritise staff recruitment and training.

We also focused on finalising an effective organisational design and creating greater efficiency in business processes and systems, as well as improving stakeholder and client relationships to deliver against desired outcomes.

Strategic priorities and business objectives

Within this context, the GEPF's strategic priorities for the period under review were to:

- Recruit and retain competent, ethical people.
- Raise the competency level of all employees.
- Manage the investment and cash flow of surplus funds.
- Design and implement a governance framework.
- Develop an intelligent information and communication technology (ICT) architecture.

Our resultant business objectives were aligned with giving effect to addressing the following strategic priorities:

Financial management

- Achieve targeted returns on investment.

Stakeholder management

- Pay benefits accurately and timeously.
- Develop and implement an integrated client services strategy.

Internal process management

- Design and implement a governance framework for the GEPF.
- Implement initiatives focused on improved productivity.

Employee learning and growth

- Develop and communicate an overall transformation strategy for the GEPF.
- Appoint, develop and retain a skilled, principled workforce.
- Design and implement a strategy to raise the competency level of all employees.

Significant attention was given to addressing these challenges in the year under review. Our business units and corporate services were tasked to initiate projects and align activities in their areas of specialisation with these objectives to ensure optimum performance.

Some of the initiatives undertaken to improve our operational excellence included:

- Simplification of the pension fund rules.
- Asset liability modelling.
- Pension administration business model.
- Organisational design and structure.
- Exit payments process improvement.
- Data cleansing initiatives.
- Call centre upgrade.
- ICT infrastructure upgrade.

Business review (continued)

Table I reflects the Fund's performance against its business objectives, which was given impetus by our commitment to improve service delivery.

Table I: Performance against business objectives as at 31 March 2008

Business objective	Performance 2007/2008	Future action
Financial management <ul style="list-style-type: none"> Achieve targeted returns on investment. 	<ul style="list-style-type: none"> Strengthened capabilities in investment oversight and risk management. Implemented new asset-liability model. Introduced solvency reserve. Arranged competence training for Trustees. Introduced independent reporting of investment performance. Actively participated in the management of the Pan African Infrastructure Fund to which the Fund committed USD250 million. 	<ul style="list-style-type: none"> Improve the alignment of investment policies and communication between the PIC and all the investment managers.
Stakeholder management <ul style="list-style-type: none"> Pay benefits accurately and timeously. Develop and implement an integrated client service strategy. 	<ul style="list-style-type: none"> Paid 63% of benefit claims within the 60-day period. The external audit report sample indicated an improvement on the average number of days between receipt of duly completed notification form Z102 and the payment of benefits from approximately 122 days in 2006/2007 to 98 days. Funeral benefits paid within 72 hours. A service delivery improvement plan encompassing initiatives to address operational gaps was developed and approved by the Board of Trustees in November 2007. Developed a client relationship strategy aligned with the approved organisational model. <p>The following achievements were attained:</p> <ul style="list-style-type: none"> Personnel recruited for new client relationship management (CRM) structure. Regional offices remodelled and empowered to offer additional services. Identified additional regional offices in the provinces where GEPF is not represented. 	<ul style="list-style-type: none"> Zero tolerance to benefit payment backlogs. Measure and monitor throughput and accuracy across the benefit payment value chain. Functional training ongoing. Document and redesign business processes in line with pension administration best practice. Improve client data quality. Commence with plans to source an integrated administration system. Increase GEPF accessibility by rolling out new regional offices in Cape Town, Pietermaritzburg, Bloemfontein and Nelspruit. Improve employer liaison through the deployment of customer liaison officers at employer departments. Increase member and stakeholder outreach programmes. Conduct stakeholder surveys. Acquisition of CRM technology to assist the call centre to offer an integrated service.

Business review (continued)

Table 1: Performance against business objectives as at 31 March 2008 (continued)

Business objective	Performance 2007/2008	Future action
Stakeholder management (continued)	<ul style="list-style-type: none"> Commenced with plans to increase the GEPF's footprint through regional offices. Upgraded call centre to comply with minimum industry standards. Improved employer interface and training. Maximised member interaction. Instituted mechanisms to monitor customer satisfaction. 	<ul style="list-style-type: none"> Develop service level agreements with employer departments.
Internal process management <ul style="list-style-type: none"> Design and implement a governance framework. Implement initiatives to improve productivity. 	<ul style="list-style-type: none"> Improved business support services. Contracted service providers to provide long-term ICT solutions and management processes. Formalised policies, regulations and guidelines. 	<ul style="list-style-type: none"> Processes under way to create a corporate identity for the Fund and entrench a service-driven, outcomes-based organisational culture. Fully implement newly developed policies, guidelines and regulations. Draft a formal risk management policy.
Employee learning and growth <ul style="list-style-type: none"> Develop and communicate an overall transformation strategy for the GEPF. Appoint, develop and retain a skilled, principled workforce. Design and implement a strategy to raise the competency level of all employees. 	<ul style="list-style-type: none"> Organisational structure developed and approved by the GEPF Board. Recruited executive and senior management teams. Targeted functional training to improve productivity. Applied diversity management principles. Presented Women in Leadership skills training. 	<ul style="list-style-type: none"> Ongoing recruitment drive aligned with approved structure and budget. Absorption of contract workers on a permanent basis. Implement middle and junior management and soft skills training. Commence skills audit project.

Our performance in giving effect to our core functions of benefit payments, member interaction and data maintenance as profiled in the Table above are reflected in some detail in the following sections.

Benefit payments

Timeous and accurate benefit payments remains the GEPF's primary business objective. We pay benefits to members, civil pensioners, surviving spouses and dependants or beneficiaries on retirement, resignation, ill health, discharge due to misconduct, death and others.

During the reporting period the Fund paid 64 425 withdrawals to members who terminated services and 18 715 funeral benefits. In addition,

9 140 spouses received benefits and 382 165 pensioner life certificates were reactivated.

A special projects unit administers the benefits relating to past discriminatory practices, such as for the Ciskei strikers, ex-Cape teachers and non-statutory forces (NSF) members. Service records were updated and maintained, previous benefit payments recalculated and 90% of the quotations in respect of NSF contributing members were successfully issued.

Approximately 81 000 exit cases (2007: 80 000) for which the Fund had received no notification were investigated, data sourced and the liabilities to members determined as reflected in the financial statements on page 54 of this report.

Business review (continued)

During the period under review we introduced the following measures to improve the processing time for benefit payments and our operational efficiency:

- Developed a system to measure throughput and accuracy across the benefit payment value chain.
- Aligned job key result areas with strategic goals and appropriate key success measures.
- Instituted appropriate training programmes to address staff skills gaps.

Almost two-thirds (63%) of benefit claims were paid within the legislated 60-day period. The external audit report sample indicated an improvement in the average number of days between receipt of completed notification form Z102 and the payment of benefits to 98 days (2007: 122 days). Funeral benefits were paid within 72 hours. Further improving the benefits payment backlog remains a priority.

Considerable emphasis was placed on addressing operational priorities. This included implementing the business process improvement outcomes from the exit payments process improvement project.

A medium-term service delivery improvement strategy was also developed to meet administrative obligations with speed and ease. The plan will be implemented over five years and addresses root cause problems. The value propositions comprise:

- A review and redesign of the GEPF business processes to ensure that they are in line with world-class and modern pension administration practices.
- An investment in an excellent administrative system that will automate processes and calculations.
- Improved client information (quality of data).

Client relationship management

A customer relationship management (CRM) strategy was developed in line with the approved organisational model. The strategy is underpinned by the GEPF's objective of creating accessible service delivery channels and building effective relationships with contributing members, employer departments, pensioners, beneficiaries and other stakeholders.

The CRM's core operations entail the following:

- Service channel operations.
- Call centre.
- Regional walk-in centres.

- Employer education and training.
- Maximising member relationships.
- Soliciting feedback.
- Monitoring customer satisfaction.
- Customer segmentation.

Considerable effort was devoted to filling vacancies in the new CRM structure, remodelling the existing regional offices to offer the services proposed by the new model and upgrading the call centre. Notable achievements in the call centre included answering 90% of all calls as indicated in the service level agreement and reducing the abandoned call rate from 23% to 13%.

A feasibility study was also conducted to determine the future locations of additional offices in the provinces where the GEPF is not represented. This culminated in the roll-out of the regional offices project. The CRM team also conducted roadshows for employers and unions to foster sound stakeholder relations and provide training on the law and rules of the Fund. Proactive employer liaison resulted in a reduction of 28% in the receipt of error-rated documents from employers.

During the reporting period the Fund admitted 62 312 new members (2007: 65 335), while 51 410 members (2007: 48 471) exited the Fund, with a resultant net intake of 10 902 members (2007: 16 864).

Corporate services

We depend on the contributions of our employees and the optimum use of their knowledge, skills and experience to effectively provide a service to our members.

As such, the Fund is committed to creating a business environment that is conducive to the well-being of employees, with efficient and fair human resource practices aligned with the Labour Relations, Skills Development and Employment Equity Acts, as well as the Public Service Act and Regulations.

Human resources – investing in our people

During the reporting period, our drive towards improving operational efficiency included the recruitment of skilled and experienced employees to fill vacancies created by the GEPF's new organisational structure.

In addition, employment equity policies and procedures to manage and enhance employee

Business review (continued)

performance, skills training and leadership development were amongst our key focus areas.

Key focus areas

Providing human resource management, employee development and logistics services through:

- Effective recruitment and reporting structure.
- Skills training and personal and professional development of employees.
- A reward and recognition system.
- Transfers, appointments and termination of service.
- Policies, procedures and practices aligned with GEPF rules and policies.
- Basic conditions of employment.
- A work environment conducive to optimised work output.

Our activities in response to these key success factors are reflected in Table 2 on page 18.

At the end of the 2008 financial year the GEPF's total staff complement of 705 employees consisted of 473 permanent (2007: 375) and 232 contract (2007: 345) workers as reflected in Table 7. The Board approved the permanent employment of all contract workers, while 41 permanent employees (2007: 29) and 51 contract workers (2007: 64) left the GEPF, mainly due to resignations, transfers to permanent employment and the expiry of contracts.

Equity, representivity, diversity and performance excellence

Achieving an equitable, representative and diverse work environment for our employees is an ongoing focus. Our Employment Equity Forum consists of employee, management and trade union representatives and identifies and addresses issues on an ongoing basis. At the end of the reporting period, female employees comprised 66% (2007: 66%) of the total employee complement, which included 11 (2007: 12) disabled persons (refer to Tables 3 and 8 and Figure 1).

Our drive towards performance excellence was given significant impetus with the appointment of senior managers in critical positions within the Board-approved new organisational structure. Subsequently, these positions were benchmarked and work on a competency framework, which started in the previous financial year and is aligned with the new organisation structure, continued.

Training and development

A workplace skills plan was submitted to the Insurance Sector Education and Training Authority (INSETA) and the Public Service Sector Education and Training Authority (PSETA). Bursaries in the amount of R112 588 were awarded to 32 employees in the areas of accountancy, financial management, public management and human resource management (refer to Tables 4 to 6).

Tender documentation was prepared for the appointment of a service provider to provide management and leadership training, which will be implemented in the forthcoming year.

Employee wellness, labour relations and change management

GEPF employees have ongoing access to professional counselling and continuous education programmes on HIV/AIDS, personal financial fitness and general health and wellness. During the year under review all wellness programmes were integrated into a single employee health and wellness unit. This function will be outsourced to give employees access to a primary healthcare clinic.

A health and wellness week was held and representatives from Fitness Corp and the Government Employees Medical Scheme were invited to provide information on nutrition, AIDS and improving the general health and wellness of employees to increase productivity and enhance service delivery for the organisation.

A recruitment process was started to permanently employ labour relations specialists to deal with disciplinary matters and employee grievances and to advise employees and management on labour-related matters.

In the year ahead the transformation process will be accelerated and management will play a critical role in this regard. The outcome of the transformation process is to ensure that employees understand, accept and support the need to change towards greater efficiency and effectiveness. We will also start a capacity-building programme for senior managers to assist with discipline, and implement grievance procedure training for employees.

The GEPF's employee demographics, training, statistics, learning programmes and bursaries are reflected in Tables 3 to 6.

Business review (continued)

Table 2: Performance against human resource key success factors as at 31 March 2008

Success factors	Performance 2007/2008
Transfer public service staff to the GEPF.	The transfer of permanent National Treasury staff to the GEPF was put on hold pending the proposed separation of the Fund and the administration. The Board approved offers of permanent employment to all GEPF contract workers and 105 were permanently employed. All newly appointed and promoted employees are vetted to minimise the risk of employing high-risk staff.
Establish employment equity in the GEPF.	The employment equity policy was approved by the Board and the employment equity report submitted to the Department of Labour. The employment equity plan will be finalised in the new financial year (see Tables 3 and 8 and Figure 1 for employee demographics, diversity breakdown and race and gender profiles).
Developed and implement new GEPF organisation structure and fill vacancies in new structure.	An outside service provider was appointed to assist with the development and implementation of a new organisational structure for the GEPF. The Board of Trustees approved the high-level organisational structure and identified high-level critical positions that needed to be filled. The recruitment and selection processes were completed for almost all the critical positions. These senior managers will be involved in developing a structure for their respective business units. The process of profiling jobs, evaluating positions and developing a competency framework was initiated and will continue in the next reporting period (see Tables 9, 10 and 11 for positions breakdown, recruitment and staff turnover statistics).
Develop human resource policies.	The Board decided to adopt all National Treasury human resource policies pending a decision regarding the transfer of staff.
Investigate a new performance management system for the GEPF.	The GEPF uses the National Treasury performance management framework.
Develop skills and competencies within the GEPF.	Training needs were identified and addressed. A workplace skills plan was compiled and submitted to PSETA and INSETA (see Tables 4 to 6 for training statistics, learning programmes and bursaries).
Introduce and facilitate a certified functional training programme for employees and a certified leadership training programme for management.	The development of a certified functional training programme for the GEPF is dependent on the finalisation of its business model and the development and implementation of a new organisational structure. Training material was developed on the legal requirements and systems. The certified leadership training programme will be outsourced and conducted in the new financial year.

Business review (continued)

Table 3: GEPF employee demographics as at 31 March 2008

Employees	1 April 2003		1 April 2004		1 April 2005		1 April 2006		1 April 2007		1 April 2008	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
African	212	50,8	204	52,2	206	51,5	414	62,6	451	62,6	457	64,8
Indian	17	4,1	15	3,8	15	3,7	20	3,0	23	3,2	26	3,7
Coloured	41	9,8	38	9,6	38	9,1	56	8,5	68	9,4	61	8,7
White	147	35,3	135	34,4	136	35,7	172	25,9	178	24,8	161	22,8

Table 4: Training statistics as at 31 March 2008

Date 2007/2008	Training intervention	White		Black		Coloured		Indian		Total
		M	F	M	F	M	F	M	F	
19 – 20 Feb 07	Speed typing using Easy scripting	–	2	–	3	–	–	–	–	5
19 – 20 Mar 07	Power speaking course	–	–	1	1	–	–	1	–	3
26 – 29 Mar 07	Business writing skills	–	3	5	8	1	–	1	1	19
25 Jun 07	Fire fighting – Level I (Africon)	–	4	4	1	–	–	1	–	10
28 Jun 07	Fire fighting – Level I (Africon)	–	4	6	3	–	–	–	–	13
13 – 15 Aug 07	First aid training	2	1	6	–	–	–	–	–	9
29 – 31 Aug 07	First aid training	2	4	6	4	–	–	1	–	19
29 Nov 07	Government employee medical scheme presentation	–	–	10	16	–	–	–	–	26
Mar 2008	Government employee medical scheme presentation	8	2	29	50	7	–	2	2	100

Table 5: Learning programmes as at 31 March 2008

Learning area	Learning programme	NQF level	Staff trained
Orientation course	Orientation course		16
Processes and systems training	Resignation authorising pilot		7
Wellness and policy training	Financial fitness		468
	Security and fraud awareness		564
Leadership training	Leadership skills for women in business		10
Writing skills	Speedwriting using easy script		5
Management skills	Transport and fleet management	NQF 5	2
Project management skills	Project management collaboration workshop		11
Functional training	Resignations pilot and web portal training		25
Computer training	MS Word, Excel, PowerPoint, Access Introduction	NQF 1	97
	MS Word, Excel, PowerPoint, Access Intermediate	NQF 2	78
Computer training	MS Excel, PowerPoint, Access Advanced	NQF 3	67
Computer training	MS Outlook	NQF 3	5
Occupational health and safety (OHS) representative training	First Aid and fire fighting		26
Total training interventions			1 381

Business review (continued)

Table 6: Bursaries granted by race, gender and disability as at 31 March 2008

Employees	Permanent employees	2007 Bursaries awarded	Cost	Number of employees	2008 Number of beneficiaries	Cost
African						
Male	73	5	11 850	174	8	22 930
Female	133	7	25 080	283	11	43 570
Asian						
Male	6	–	–	12	1	4 800
Female	9	–	–	14	1	2 840
Coloured						
Male	8	1	2 620	15	1	2 795
Female	27	3	7 600	46	3	8 510
White						
Male	20	–	–	37	2	14 483
Female	99	2	5 560	124	5	12 660
Total	375	18	52 570	705	32	112 588

Tables 7 to 11 and Figure 1 reflect staff sick leave and temporary incapacity, diversity and positions breakdown, race and gender profiles and recruitment and staff turnover as at 31 March 2008.

Table 7: Sick leave and temporary incapacity as at 31 March 2008

Type of absence from workplace	Number of employees that took leave		Total days*		Average number of days per employee		Total cost for permanent and contract employees	
	2007	2008	2007	2008	2007	2008	2007	2008
Sick leave								
Permanent employees	392	400	2 823	3 790	7	9,5	1 039 759	1 375 553
Contract employees	42	25	299	212	7	8,5		
Temporary incapacity								
Permanent employees	42	11	434	142	10	12,9	133 830	49 570
Contract employees	1	1	1	2	1	2		

* One employee can take more than one day's leave.

Table 8: Diversity breakdown as at 31 March 2008

Employees' race and gender	Total 2007	% 2007	Total 2008	% 2008
African male	179	24,8	174	24,7
African female	272	37,8	283	40,1
Asian male	8	1,1	12	1,7
Asian female	15	2,1	14	2,0
Coloured male	20	2,8	15	2,1
Coloured female	48	6,7	46	6,5
White male	38	5,3	37	5,3
White female	140	19,4	124	17,6
Total	720	100	705	100

Business review (continued)

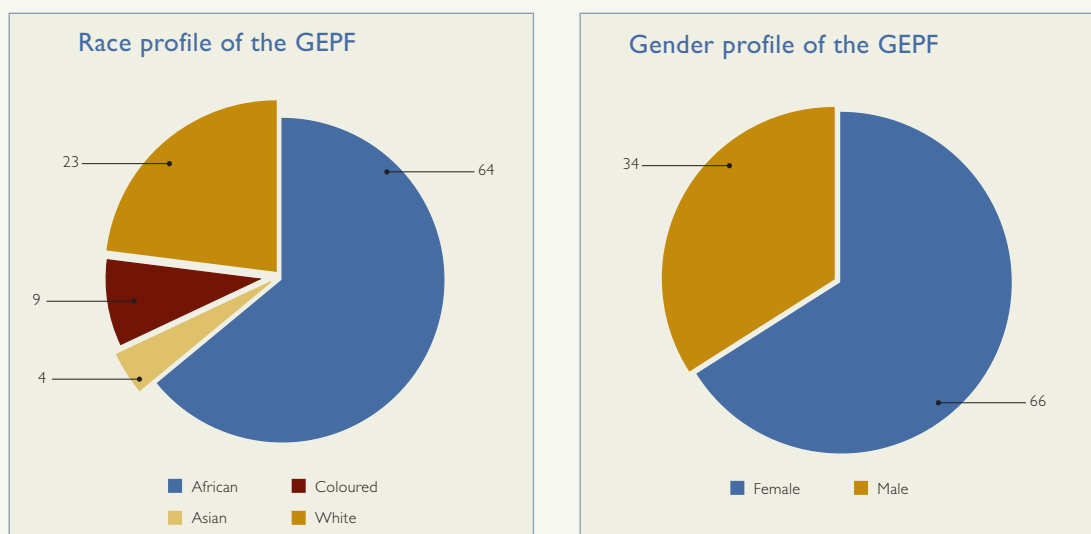


Figure 1: GEPF race and gender profiles

Table 9: Positions breakdown as at 31 March 2008

Job level	2007			2008		
	Filled	Contract	Total	Filled	Contract	Total
1	3	–	3	2	–	2
2	45	2	47	30	1	31
3	21	70	91	103	6	109
4	66	78	144	64	13	77
5	32	123	155	46	47	93
6	65	24	89	61	130	191
7	63	13	76	62	11	73
8	54	15	69	66	5	71
9	3	5	8	3	4	7
10	15	3	18	16	1	17
11	2	1	3	1	2	3
12	5	–	5	4	1	5
13	1	6	7	12	2	14
14	–	2	2	2	1	3
15	–	1	1	1	–	1
16	–	2	2	–	2	2
Casuals	–	–	–	–	6	6
Total	375	345	720	473	232	705

Table 10: Recruitment as at 31 March 2008

	2007	2008
Positions advertised	69	147
Applications received	7 997	11 798
Candidates interviewed	211	362
Positions filled	86	53
• Promotions	30	30
• New appointments	56	23

Business review (continued)

Table 11: Staff turnover as at 31 March 2008

	2007		2008	
	Permanent	Contract	Permanent	Contract
Resignations	18	51	21	35
Ill-health retirements	1	–	–	–
Retirements	2	–	8	–
Retrenchments	–	–	–	–
Deceased	2	1	4	1
Transfers	5	–	4	–
Dismissals	1	11	4	1
Contract to permanent	–	–	–	6
Contract expiry	–	–	–	8
Total	29	63	41	51

In the year ahead, the transfer of staff and the development of human resource policies will be informed by the decision regarding the status of GEPF employees. We will also continue with our recruitment drive and the implementation of the new organisational structure. The implementation of an internship programme and the development of skills and competencies, specifically in the areas of leadership and functional training, will be prioritised.

Security

The GEPF is responsible for securing its assets and creating a safe environment for employees and visitors within which to conduct their business. This includes access control and the vetting and screening of personnel, contractors and private companies that enter our premises.

During the reporting period a physical internal security policy was implemented, communicated to employees and compliance monitored. Instances of non-compliance were corrected. Activities also included safety contingency and emergency evacuation plans, investigating security breaches, recommending improvements to security procedures and managing the contracted security services.

A security engineer was appointed to assess security at the GEPF head office. Recommendations are being phased in, including the installation of additional CCTV cameras and a password-protected intellectual property (IP) system. Tenders received for security guarding services at the GEPF regional offices are being adjudicated.

In the forthcoming period, procedures to activate the safety contingency and emergency evacuation plans will be put in place and security at the regional offices improved. Permanent security personnel will be trained to take over contracted services at head office.

We will also enter into a service level agreement with the National Intelligence Agency to conduct our own security vetting and expedite employee security clearance processes.

Information security

As the custodian of a significant portion of the wealth of South Africa's public servants, the GEPF's information security is integral to managing the pensions and related benefits on behalf of members and pensioners.

The Fund's business imperative is to create a well-structured information security framework with efficient work processes to protect the information central to its administrative duties.

Compliance with GEPF business continuity and disaster recovery plans

- Documents older than the GEPF's retention period of seven years after the last payment are destroyed. Enquires received after the specified period, and after the document has been destroyed, place the onus on the person enquiring to provide the relevant original documentation as proof.
- Documents within the retention period are scanned and originals stored off-site.

Business review (continued)

During the reporting year, the newly established information security team identified security challenges and areas of vulnerability for the Fund, and established a sound basis for our information security framework.

The cornerstone information security and document classification and retention policies were approved and implemented, while document back-scanning and turnaround time processes were improved and employees sensitised to the importance of security awareness.

These initiatives resulted in a significant decrease in identified threats and risks to the Fund's information security and identified new areas of involvement for the forthcoming period.

In the year ahead, security activities will include the early detection and mitigation of information security threats and risks, and closer involvement in data cleansing and information availability processes. A facilities manager will be appointed to undertake a space planning feasibility study to determine the suitability of the head office building to meet staffing and parking requirements.

Financial management

Managing the financial resources and the availability of funds, as well as investing at optimum levels and maintaining sufficient cash flow levels are central to the Fund's financial administration of pension benefits.

Key processes

- Collecting contributions.
- Administering benefit payments.
- Financial accounting and reporting.
- Statutory audits.
- Payroll and procurement.
- Annual budgets.

The cash flow required to fund benefit payments is determined on an ongoing basis by matching contributions received with the annuity and gratuity payments processed. Surplus contributions, after providing for operating expenses and taxes are transferred to the PIC for investment on behalf of the GEPPF.

Accumulated reserves/net assets

The accumulated reserves/net assets of the Fund at financial year-end amounted to R707,042 billion (2007: R658,768 billion).

Contributions accrued amounted to R25,919 billion (2007: R22,698 billion) and benefits accrued and transfers to and from the Fund as well as interest paid amounted to R25,670 billion (2007: R24,127 billion).

Net cash flow from operating activities increased to R35,751 billion (2007: R32,946 billion) and net cash utilised in investing activities increased to R35,412 billion (2007: R20,151 billion).

Investments increased to R715,502 billion (2007: R662,319 billion). The 8% growth in investments can mainly be attributed to the 9% growth in the value of equity investments to R408,745 billion (2007: R375,132 billion) and the 5% increase in bills, bonds and securities to R235,402 billion (2007: R224,166 billion) at financial year-end.

Collecting contributions for the Fund

Membership of the GEPPF at the end of March 2008 consisted of 1,16 million (2007: 1,14 million) contributing government and parastatal employees.

Contributions are received and reconciled to 155 Persal Financial Institutions by means of interfaces to the transversal systems of government (Persal and Persol) and 175 manual contributing employers (parastatals, municipalities, schools and colleges).

Contributions payable by participating employers whose employees are not remunerated through the transversal systems (so-called manual contributors) are reconciled manually.

The receipt and reconciliation of contributions paid to the GEPPF by manual contributors is facilitated by an online web-enabled contribution interface, piloted in the 2007 financial year and rolled out to 47 contributing employers during the past year.

Business review (continued)

The tables below reflect the age breakdown of both contributing members and pensioners.

Table 12: Age profile of contributing members of the GEPF as at 31 March 2008

Age category of contributing members

Bureau	16 – 20	21 – 25	26 – 30	31 – 35	36 – 40	41 – 45	46 – 50	51 – 55	56 – 60	61 – 65	65+	Grand total	%
Services*													
Female	214	6 171	11 980	15 538	11 141	7 176	4 836	2 943	1 718	574	1	62 292	5,5
Male	231	10 757	19 780	27 885	37 603	30 732	17 312	7 605	2 942	593	1	155 441	13,7
Services total	445	16 928	31 760	43 423	48 744	37 908	22 148	10 548	4 660	1 167	2	217 733	19,2
Other													
Female	1 226	21 561	47 598	77 784	102 944	105 685	92 355	68 115	38 033	10 606	61	565 968	49,9
Male	479	11 585	28 617	49 578	66 719	67 867	53 087	38 737	24 327	8 713	68	349 777	30,9
Other total	1 705	33 146	76 215	127 362	169 663	173 552	145 442	106 852	62 360	19 319	129	915 745	80,8
Total													
Female	1 440	27 732	59 578	93 322	114 085	112 861	97 191	71 058	39 751	11 180	62	628 260	55,4
Male	710	22 342	48 397	77 463	104 322	98 599	70 399	46 342	27 269	9 306	69	505 218	44,6
Grand total	2 150	50 074	107 975	170 785	218 407	211 460	167 590	117 400	67 020	20 486	131	1 133 478	100
%	0,19	4,4	9,5	15,1	19,3	18,6	14,8	10,4	5,9	1,8	0,01	100	

* The Services Bureau represents SA Police Services and SA Defence Force. National Intelligence Agency (NIA) and Correctional Services were excluded from the services total because no unique bureau exists for the two employers. A split will be made according to employer codes.

Table 13: Age profile of pensioners and dependants of the GEPF as at 31 March 2008

Age distribution of pensioners and dependants

Category	<40	41 – 45	46 – 50	51 – 55	56 – 60	61 – 65	66 – 70	71 – 75	76 – 80	81 – 85	86 – 90	90+	Grand total	%
Pensioner	2 170	4 706	8 880	12 648	19 870	36 610	43 205	28 943	20 155	10 506	4 522	1 393	193 608	63,9
Dependant	12 017	9 100	9 518	10 171	10 450	11 037	12 138	11 752	10 656	7 120	3 774	1 453	109 186	36,1
Unknown	–	4	–	–	–	–	–	2	2	1	1	4	14	0,0
Grand total														
	14 187	13 810	18 398	22 819	30 320	47 647	55 343	40 697	30 813	17 627	8 297	2 850	302 808	100
%	4,7	4,6	6,1	7,5	10,0	15,7	18,3	13,4	10,2	5,8	2,7	1,0	100	

Administering benefit payments from the Fund

Monthly annuity payments to 311 345 pensioners (2007: 303 977) and spouses were maintained at a 100% success rate throughout the year, and an annual pension increase of 7% was processed during April 2007. Total benefits accrued and transfers to and from the Fund as well as interest paid during the 2008 financial year amounted to R25,670 billion (2007: R24,127 billion).

Communication and stakeholder relations

Communication is integral to giving effect to the GEPF's strategic priorities and plays a key role in

communicating, building and protecting the reputation and image of the Fund.

During the year under review, member needs were tested through feedback forms given out during our member roadshows. The results informed the Fund's strategic approach to communication management and identified key focus areas for the forthcoming financial year and beyond. A media policy was drafted for Board approval and constructive relationships entrenched with media representatives.

Business review (continued)

Stakeholder relations

Members, pensioners and stakeholders were kept informed about the Fund's activities through a quarterly newsletter; regular updates to the GEPF website, letters and electronic mail messages about benefit payments and service enhancements, as well as the distribution of a member guideline. The external newsletter is available upon request in six official languages and this service will be extended to include more languages in the year ahead. Employer representatives attended information sharing sessions during the GEPF roadshows. This formed part of an ongoing initiative to improve the integrity of documents submitted to the Fund and increase knowledge about the Government Employees Pension Law, 21 of 1996, as amended, and the Fund's policies and procedures.

The GEPF's annual golf day was again conducted to enhance stakeholder relations.

Corporate social responsibility

Social responsibility initiatives included participation in the annual Cancer Shavathon and Casual Day events, as well as the donation of computers to charitable organisations.

Employee communication

Employee communication channels were enhanced with the utilisation of a newly initiated weekly e-Newsletter; global email, CEO information sessions, regular updates on the GEPF Intranet and easy access to the information centre. Employee events were well attended and included the annual Women's Day celebration and an employee year-end event. Informal feedback indicated growing staff satisfaction with internal communication and a perceived value-addition to the work environment.

During the year ahead we will fill existing vacancies to increase our capacity to further improve our internal and external communication. Our focus will be on brand recognition and positioning, managing the GEPF's reputation and supporting our service delivery improvement project.

Board-approved communication policies and procedures will be implemented and a targeted media campaign launched to create awareness about the GEPF's activities. The emphasis will also be on supporting partnering initiatives, such as with employer groups, and engaging with our strategic stakeholders.

Information and communications technology

Key processes

- Hardware infrastructure management.
- Applications infrastructure management.
- Procurement and asset management.
- Knowledge management.

Our ICT infrastructure forms the backbone of our ability to deliver against strategic priorities and achieve greater operational efficiency. During the year under review, we made significant progress in consolidating initiatives launched in the previous reporting period. We concluded the ICT outsourcing tender process and appointed three service providers to provide an ICT infrastructure, network services and a strategy, including risk architecture and application development services.

The implementation of the first phases of the infrastructure and strategy projects to consolidate the server and upgrade the network, started during the reporting period. This included the procurement and installation of a range of state-of-the-art ICT server and network technologies. The implementation, which will be concluded during the next reporting period, includes the review and update of an ICT disaster recovery procedure. This procedure will be tested twice annually to ensure that the ICT recovery capability can be implemented with minimal business disruption.

Two operational applications (Workflow and Accpac) were reviewed and the adequacy and effectiveness of the controls embedded in the applications assessed. This ran concurrent with the development of the ICT strategy and an assessment of the risks inherent in consolidating the ICT infrastructure.

New managerial and administrative support positions were created to improve the effectiveness of the Fund's ICT services. A recruitment process has been initiated and these positions will be filled during the next reporting period.

In the year ahead, the server consolidation and network upgrade will be completed, most of the currently hosted ICT services migrated to the GEPF head office, and the strategy finalised.

Business review (continued)

This will provide a sound platform for performance improvement, which includes an enterprise architecture framework to guide integration and the alignment of ICT services with business and management needs.

We will assess our ICT capability and maturity to improve performance and expand our services portfolio to meet the growing technology demands. A performance audit of key ICT projects will be undertaken and governance model developed to direct, coordinate and oversee all ICT services to reduce our overdependence on outsourced services.

Legal services

Key processes

- Legal administration.
- Legal interpretation, research and analysis.
- Management of litigation.
- Preparation of contracts, policies and legal documentation.

Legal advice and related services from the GEPF's legal team limits risk to the business activities of the Fund and supports the achievement of its strategic objectives.

Key focus areas include practical advice and legal opinions on governance, administration, compliance and benefit payments, drafting of rules and policies, dispute resolution and general advice on all aspects of pension law.

The legal administration process focuses on the management of endorsements against the Fund pertaining to divorce matters and the execution of maintenance orders.

During the reporting year four new policies were developed, namely for the admission of new participating employers to the GEPF, debt collection, additional financial obligations as per Section 17(4) of the Government Employees Pension Law, 21 of 1996, as amended, and the distribution of benefits upon the death of a member or pensioner. These were approved by the Board and are being used by our business units to guide the implementation of operational activities.

No rule or other legislative amendments were required or effected during the reporting year. A project to simplify the GEPF Rules was initiated and will be completed in the year ahead.

As a training intervention, an ongoing programme was initiated to train Board members and employees on the Government Employees Pension Law, 21 of 1996, as amended, and the Rules of the Fund.

In the year ahead focus will be given to enhance the implementation of an enterprise-wide compliance plan that relates to regulatory requirements and the implementation of a corporate governance structure based on best practice.

Management information services

Key process

Efficient management information systems to identify trends and provide the Fund with quality data, analysis, reports and recommendations to inform decision-making and enhances performance.

Ensuring data quality is one of our acknowledged challenges. During the period under review, the MIS unit initiated a pilot data cleansing project, which confirmed the need for a full-scale data cleansing project. This will be attended to in the next financial year.

We also launched a management information grid project to identify and compile data tables for management purposes and to ensure that a data set is available for management and stakeholders. These tables contain valuable GEPF business information and can be used by our stakeholders for research purposes.

Project management

The GEPF's achievement of business objectives is project-driven and therefore dependent on efficient project management. An auxiliary project was launched at the beginning of the reporting period to create a project management business culture and provide managers with the requisite skills to do so. Consultants were contracted to set up a project management office and develop the management technology methodology. This included identifying inefficiencies in the execution of strategic projects and documenting existing project management practices.

The Project Management Steering Committee communicated the project purpose and processes to GEPF managers. A formal training programme to monitor progress and a portal to share knowledge and best practice were developed.

In the year ahead, supervisors will receive on-the-job training and project champions will assist managers to implement projects. Permanent staff will be recruited for the project management office and to implement all strategic projects. This will allow business unit managers to focus on implementing activities in areas of specialisation and provide input to strategic projects when needed.

Business review (continued)

Risk management

Key processes

- Implementation of a risk coverage plan.
- Maintenance of a risk register.
- Reviewing risk assessment processes.

The Fund's Risk Management Unit specialises in assessing risk and recommending ways to mitigate identified and foreseen risks.

The unit is responsible for informing and updating the GEPF Board and management on the vulnerability of the Fund's control environment. It also provides information about any adverse exposure or risk in its business processes and systems or from employees (resources) in the daily execution of their duties and/or business operation.

Key focus areas include the implementation of a risk coverage plan, maintenance of a risk register and reviewing the Fund's risk assessment processes. The aim is to mitigate risk and create an environment that is free from fraud, corruption and theft. The unit supports the Board in its fiduciary responsibility to secure pensions and contributions, as aligned with best practice models and in accordance with the King II Report on Corporate Governance.

The Board facilitated a risk workshop where enterprise-wide risks were identified and mapped. GEPF management and the Board committees have put in place measures to address the identified risks.

Notwithstanding, the following challenges were identified and prioritised:

- Approval and implementation of a formal risk management policy.
- Maintenance of a risk register.
- Appointment of a fraud hotline service provider.

In the year ahead, skilled and competent staff, and an external service provider will be appointed to facilitate the comprehensive management of risks to the Fund.

The design and implementation of a risk management framework and the appointment of a Chief Risk Manager will also be given priority in the next financial year.

Forensic and fraud prevention management

Key processes

- Investigates and reports alleged incidences of fraud and corruption.
- Investigates and reports actual or potential breaches in systems, controls and processes.

The Fund's forensic and fraud prevention management unit investigates and reports on alleged and actual incidences of fraud and corruption to protect the Fund from any actual or potential loss.

Key activities during the period under review included the drafting of a fraud prevention strategy, implementing a fraud hotline, adopting a multidisciplinary approach with prosecution-led investigations to deal with cases of fraud, as well as maintaining a fraud register and building the capacity within the unit to give effect to these imperatives.

Extensive liaison with relevant stakeholders have also enhanced the GEPF's cooperation with law enforcement agencies and relevant constitutional bodies, including the Directorate for Special Operations (Scorpions), South African Police Services (SAPS), the National Prosecuting Authority (NPA), Special Investigations Unit (SIU) and the Fund's auditors. This approach underscores the Fund's "zero tolerance" stance on fraud.

We completed an investigation (jointly conducted with SAPS and PricewaterhouseCoopers) into fraudulent cases reported during the 2000 to 2005 financial years with a potential loss of R10,1 million. Sixty (60) case dockets valued at R3 million were registered and finalised, and resulted in the conviction and sentencing of perpetrators in approximately 48 (80%) of the cases.

Business review (continued)

Common trends identified from these cases indicate that the fraud was mainly perpetrated by external syndicates in collusion with officials from employer departments and GEPF employees. Among others, benefit payments from fraudulent exits from the Fund to the value of R5,5 million were directed to fraudulent bank accounts. A recovery of loss valued at R3,7 million is in progress, while some GEPF employees involved in these cases are undergoing disciplinary procedures and some were dismissed.

During the year under review, R39,0 million (accumulated) accounts receivable included loss due to fraud, with an actual loss of R2,5 million for the 2007/2008 financial year. This is an average decrease of 12,3% of cases registered and investigated, and loss recovered.

Capacity constraints will be addressed by filling vacancies with skilled specialists and competent personnel in the coming year. Fraud prevention and awareness programmes for employees will be a primary focus in the period ahead, as well as the implementation of applicable strategies and plans aligned with industry best practice and resourcefulness.

Internal audit

Key processes

- Reviews and assesses the internal control environment.
- Expresses opinions to prevent adverse effects on operations.

The internal audit function assists management in reviewing and assessing the GEPF's internal control environment, including processes, systems and human resources, and expresses an opinion where probable adverse effects on the operations of any of the business units are identified.

The unit had a challenging year without adequate human resources to carry out its responsibilities. As a result, the audit coverage plan, compiled during the 2004/2005 financial year, could not be reviewed. Only ad hoc audit assignments were carried out, mainly on debt write-offs and benefit payment procedures. The external auditors could, therefore, not rely on work done by the internal audit unit.

Going forward, a Head for internal audit and an audit team will be appointed and the internal audit work partially outsourced.

Corporate governance

The GEPF Board ensures that the Fund's corporate governance systems are relevant to its business and consistent with world-class standards.

The GEPF complies with the requirements of the Government Employees Pension Law, 21 of 1996, as amended, and is committed to transparency, integrity and accountability according to accepted corporate governance practices.

Board of Trustees

The Fund is a juristic entity managed by a Board of Trustees with ultimate accountability for its administrative and investment performance and responsible for compiling and approving its annual financial statements. The Board submits the annual report to the Minister of Finance to present to Parliament.

Trustees are appointed in accordance with Section 6 of the Government Employees Pension Law, 21 of 1996, as amended. Fund members and employers are equally represented on the Board to protect the interests of all stakeholders of the Fund. Member representatives include a pensioner and a services representative elected through a postal ballot.

Six Board meetings and two special Board meetings were held during the 2007/2008 financial year.

Board committees

Five permanent Board committees ensure the fiduciary effectiveness of the GEPF through the active involvement of Board members in the Fund's strategic agenda.

The committees respectively deal with benefits and administration, finance and audit, governance and legal, human resources, and investment matters.

An ICT Bid Selection Committee of five Trustees was constituted to deal with the appointment of various ICT service providers following the issuing of a comprehensive tender for the provision of various ICT services to the GEPF.

The committee concluded its business and a decision was taken that it should also oversee the implementation of the new ICT infrastructure in the forthcoming reporting period.

An administrative arrangements task team was constituted by the Board and mandated to oversee the possible separation of the Fund and Administration.

All remuneration matters were deferred to the Governance and Legal Committee and the Board concluded that the level of Trustee remuneration should remain the same for the 2007/2008 financial year. An increase of 6,5% was granted to independent trustees.

The GEPF Board of Trustees and the Board Committees are constituted as reflected in the Tables on pages 30 to 32.

Corporate governance (continued)

GEPF Board of Trustees

Employer nominee Department	Trustees Name	Employer nominee Department	Trustee substitutes Name
National Treasury	Mr Freeman Nomvalo	National Treasury	Vacant
National Treasury	Mr Andrew Donaldson	National Treasury	Mr Logan Wort
DPSA	Mr Kenny Govender	DPSA	Vacant
PSC	Mr Mash Diphofa	PSC	Vacant
Education	Mr Leon Ely	Education	Mr Paddy Padayachee
Correctional Services	Mr Vernie Petersen (resigned 5 March 2008)	SAPS	Mr Johan Griesel
Independent specialist	Mr Martin Kuscus	Independent specialist	Vacant
Independent specialist	Mr Jeremy Andrew	Independent specialist	Vacant
PSA	Mr Manie Maritz (resigned 31 October 2007) Adv Koot Myburgh (appointed 24 January 2008)	PSA	Mr Paul Sello (appointed 24 January 2008)
HOSPERSA	Mr Gavin Moultrie	HOSPERSA	Mr Manfred Rothballer (resigned 5 December 2007) Mr Hans Murray (appointed 6 December 2007) Mr Sello Tshabalala
SADTU	Mr Fikile Hugo (resigned 31 December 2007)	SADTU	
NAPTOSA	Mr Dave Balt	NAPTOSA	Prof Hennie Kock
POPCRU	Mr Pat Mngconkola	POPCRU	Mr Dalindybo Bout
NEHAWU	Mr Prabir Badal	NEHAWU	Mr Bukutu Mashawana
Pensioners	Vice Admiral Bert Bekker	Pensioners	Mr Hennie Koekemoer
Uniformed Services	Brigadier General Dries de Wit	Uniformed Services	Mr Thobile Maqhubela

Board Committee members and responsibilities

Board Committee	Committee members	Responsibilities
Benefits and Administration Committee	Brigadier General Dries de Wit (Chairperson) Mr Jeremy Andrew Vice Admiral Bert Bekker Mr Andrew Donaldson Mr Johan Griesel Mr Manie Maritz* Mr Patrick Mngconkola Mr Gavin Moultrie	<ul style="list-style-type: none"> Reviews all aspects of the GEPF's administrative activities. Advises and makes recommendations about the GEPF's benefits, administration of its affairs, administration policies, strategy, procedures and management.
Finance and Audit Committee	Mr Prabir Badal (Chairperson) Mr Hennie Koekemoer Mr Freeman Nomvalo Mr Paddy Padayachee Mr Manfred Rothballer*	<ul style="list-style-type: none"> Gives effect to the GEPF's audit and financial policies and audit strategies. Reviews all aspects of the GEPF's audit and financial activities. Advises and makes recommendations about the financial reporting, appointment of auditors, internal auditing, risk policies and procedures and annual financial statements.

Corporate governance (continued)

Board Committee members and responsibilities (continued)

Board Committee	Committee members	Responsibilities
Governance and Legal Committee	Mr Dave Balt (Chairperson) Mr Mash Diphofa Mr Manie Maritz* Mr Vernie Petersen* Mr Logan Wort Adv Koot Myburgh	<ul style="list-style-type: none"> • Gives effect to the GEPF's governance and legal policies and strategies. • Reviews all aspects of the GEPF's governance, risk and legal activities. • Advises and makes recommendations about the GEPF's Code of Conduct, Board committees and terms of reference, induction, remuneration, evaluation, corporate governance matters, risk management, legal function, dispute resolution, legislation and amendments to the Government Employees Pension Law, 21 of 1996, as amended.
Human Resources Committee	Mr Kenny Govender (Chairperson) Vice Admiral Bert Bekker Mr Fikile Hugo Prof Hennie Kock Mr Manie Maritz* Mr Thobile Maqhubela Mr Bukuta Mashawana Adv Koot Myburgh	<ul style="list-style-type: none"> • Reviews all aspects of the GEPF's human resource matters. • Advises and makes recommendations about the Fund's human resource policy, strategy, procedures and administrative structure, including its organisation structure, change management and communication.
Investment Committee	Mr Leon Ely (Chairperson) Mr Jeremy Andrew Mr Dave Balt Mr Dalindyabo Bout Mr Sello Tshabalala Mr Logan Wort	<ul style="list-style-type: none"> • Gives effect to the investment policies and strategies. • Reviews all aspects of the GEPF's investment activities. • Implements and gives oversight to the Fund's policy and commitment to the United Nations Principles of Responsible Investment. • Monitors the investment mandate. • Advises and makes recommendations about asset management, investment policies and strategy.
Bid Selection Committee	Mr Dave Balt (Chairperson) Brigadier General Dries de Wit Mr Mash Diphofa Mr Hennie Koekemoer Mr Vernie Petersen*	<ul style="list-style-type: none"> • Oversees the Fund's ICT transition. • Appoints ICT service providers.

Corporate governance (continued)

Board Committee members and responsibilities (continued)

Board Committee	Committee members	Responsibilities
Task Team on Administrative Arrangements	Mr Dave Balt (Chairperson) Mr Mash Diphofa Mr Manie Maritz* Mr Vernie Petersen* Mr Logan Wort Mr Andrew Donaldson Brigadier General Dries de Wit Mr Jeremy Andrew Mr Kenny Govender Vice Admiral Bert Bekker	<ul style="list-style-type: none"> Oversees the possible separation of the Fund and Administration.

*** Resignations**

Mr Fikile Hugo resigned 31 December 2007.
Mr Manie Maritz resigned 31 October 2007.
Mr Manfred Rothballer resigned 5 December 2007.
Mr Vernie Petersen resigned 5 March 2008.

During the reporting period the Board committees realised a number of achievements in giving effect to their responsibilities. Some of these key achievements are reflected in the following table.

Board Committee highlights during the 2007/2008 financial year

Board Committee	Highlights
Finance and Audit	<ul style="list-style-type: none"> Facilitated the achievement of an unqualified audit opinion. Successfully appointed new external auditors for the Fund. Approved a debt collection policy.
Benefits and Administration	<ul style="list-style-type: none"> Implemented Phase I of the project to simplify the GEP Rules. Launched a project to replace the use of life certificates with an improved process/confirmation from Department of Home Affairs. Designed and approved an Asset and Liability Model. Finalised the actuarial valuation as at March 2006.
Human Resources	<ul style="list-style-type: none"> Finalised the Employment Equity Policy. Finalised the organisational structure of the GEPPF. Finalised the Fund's Internship Policy.
Investment	<ul style="list-style-type: none"> Finalised the investment mandate with the PIC. Committed to the Pan African Infrastructure Development Fund. Pioneered the policies of responsible investment pursuant to our signing of the United Nations Principle of Responsible Investment (PRI).
Government and Legal	<ul style="list-style-type: none"> Finalised the Media Policy for the Fund. Successfully concluded the annual Trustee Assessment. Organised various formal training sessions for the Board.
Bid selection	<ul style="list-style-type: none"> Successfully finalised the Information and Communications Technology (ICT) infrastructure tender.

Governance Charter and Code of Conduct

The Trustees are required to comply with a comprehensive Governance Charter and a formal Code of Conduct. The charter includes the terms of reference for all Board committees and provides for the declaration of interests and financial disclosure by Board members and annual Board performance assessments. The following tables reflect the attendance of Trustees at Board and Board Committee meetings and Board training sessions and the remuneration paid to Trustees and Substitutes for the reporting period.

Corporate governance (continued)

Meetings attended during the 2007/2008 financial year

Board of Trustees	Board and Special Board meetings	Benefits and Administration Committee	Finance and Audit Committee	Governance and Legal Committee	Human Resources Committee	Investment Committee	Board Training
Meetings/training sessions held	8	6	8	6	7	8	3
Mr M Kuscus (Chairperson)	7						1
Mr D Balt (Vice Chairperson)	8			6		8	2
Mr J Andrew	8	5				7	2
Mr P Badal	6		8				1
Vice Admiral B Bekker	7	6			5		3
Mr D Bout	1 [#]					5	2
Brigadier General AL de Wit	8	6					3
Mr M Diphofa	2			3			
Mr A Donaldson	6	4					1
Mr L Ely	7					8	3
Mr K Govender	4				6		
Mr J Griesel	2 [#]	4					3
Mr F Hugo ¹	6				4		2
Prof H Kock					7		3
Mr H Koekemoer			8				2
Mr T Maqhubela					7		3
Mr M Maritz ²	2	1		4	2		1
Mr B Mashawana	2 [#]				7		3
Mr P Mngconkola	8	4					3
Mr G Moultrie	6	5					2
Mr H Murray ³							1
Adv K Myburgh	1			1			1
Mr F Nomvalo	1			3			
Mr P Padayachee	1 [#]			7			2
Mr V Petersen ⁴	4			1			
Mr M Rothballer ⁵	2 [#]		5				1
Mr P Sello ⁶							0
Mr S Tshabalala	1 [#]					7	2
Mr L Wort	1 [#]			4		2	0

1 Resigned 31 December 2007.

2 Resigned 31 October 2007.

3 Appointed 6 December 2007.

4 Resigned 5 March 2008.

5 Resigned 5 December 2007.

6 Appointed 24 January 2008.

[#] Substitute Trustee – attendance only in the absence of the Trustee.

Corporate governance (continued)

Remuneration paid to Trustees and substitutes as at 31 March 2008

Trustee/Substitute	Remuneration (R)	Paid to
Mr J Andrew	423 305,63	Individual
Mr P Badal	0,00	No remuneration
Mr D Balt	278 520,00	Naptosa
Vice Admiral B Bekker	166 400,00	Individual
Mr D Bout	44 800,00	Individual
Brigadier General AL de Wit	261 215,00	Individual
Mr M Diphofa	0,00	No remuneration
Mr A Donaldson	0,00	No remuneration
Mr L Ely	0,00	No remuneration
Mr K Govender	0,00	No remuneration
Mr J Griesel	0,00	No remuneration
Mr F Hugo	76 800,00	Individual
Mr H Kock	56 000,00	Individual
Mr H Koekemoer	84 800,00	Individual
Mr M Kuscus	120 741,25	Individual
Mr M Maritz	68 800,00	Individual
Mr T Maqhubela	52 800,00	Individual
Mr M Mashawana	62 400,00	Individual
Mr P Mngconkola	107 200,00	Individual
Mr G Moultrie	81 600,00	Hospersa
Mr H Murray	4 800,00	Hospersa
Advocate K Myburgh	17 600,00	Individual
Mr F Nomvalo	0,00	No remuneration
Mr P Padayachee	0,00	No remuneration
Mr V Petersen	0,00	No remuneration
Mr M Rothballer	52 800,00	Hospersa
Mr P Sello	0,00	Individual
Mr S Tshabalala	67 200,00	Individual
Mr L Wort	65 600,00	Individual
Total	2 093 381,88*	

* The total amount of R2 093 382 million includes an amount of R0,073 million in respect of the 2006/2007 financial year payments.

Financial control

Business plans and budgets are prepared annually and submitted to the Board for approval. Operational capital requirements, working capital levels, and cash flow projections are reviewed and monitored regularly.

Ethics

The values of the GEPF form the cornerstone of its interaction with staff, clients, and stakeholders. Employees are expected to maintain the highest ethical standards to ensure that business practices are conducted in a manner that is beyond reproach. The GEPF executive team is responsible for monitoring and taking corrective action on transgressions of ethical practices.

Risk management and internal controls

Risk management and internal audit are an integral part of the Fund's governance framework and are critical for mitigating risk. The GEPF's risk management is informed by its Internal Audit Charter as aligned with the guidelines of the Institute of Internal Auditors. Fraud prevention is managed according to its fraud management guide.

Due to a staff shortage, which became apparent during the appointment process of a service provider for internal audit and risk management, the appointment has been deferred to the next financial year. The monitoring of the effectiveness of internal controls and systems was not fully

Corporate governance (continued)

realised during the reporting period due to a lack of internal capacity to carry out a fully-fledged internal audit function.

In the absence of a formal governance framework, the GEPF can only provide reasonable and not adequate assurance against misstatements or losses. In addition, the effectiveness of risk management and internal control was not monitored or measured in relation to best practice.

The Internal Audit Coverage Plan will be reviewed, aligned with best practice guidelines and based on the risk profile resulting from the assessment to be conducted in the next financial year. We will also recruit staff to fill 85% of the vacant positions in risk management, internal audit and fraud prevention.

Legal compliance

The GEPF ensures effective compliance with the relevant statutory, regulatory and supervisory requirements and interprets the impact of these requirements on its operations, rules, and procedures.

Employment equity

The GEPF's human resources strategy focuses on human capital development, while its Employment Equity policy guides the way in which equity is embraced. An Employment Equity Forum monitors progress and ensures that legislative provisions are upheld. An employment equity plan was prepared and will fully be reported on in the next reporting period.

Communication and stakeholder relationships

The GEPF's internal and external communication is aimed at providing meaningful, transparent, timely and accurate information to its stakeholders.

Newsletters are distributed to staff, members and stakeholders, and benefits and related information is updated regularly on the GEPF's website. Communication will continue to play a key role in promoting the corporate image of the GEPF and improving stakeholder relations.

Occupational health and safety

The GEPF strives to conform to occupational health and safety (OHS) laws and standards that add value to the quality of life of its employees. Health and safety committees exist to monitor compliance to regulations and health and safety representatives receive regular training to remain effective in the execution of their duties.

Annual financial statements

The annual financial statements are compiled in accordance with the stated accounting policies, the Government Employees Pension Law, 21 of 1996, as amended, and Rules of the Fund.

The Board is responsible for preparing the financial statements in a manner that fairly reflects the state of affairs of the Fund's operations.

The transactions of the GEPF are performed in accordance with the provisions of the Government Employees Pension Law, 21 of 1996, as amended, and Rules of the Fund. In all material respects the GEPF adheres to the mandatory functions of the entity, as determined by law or otherwise.

Independent auditors are responsible for examining the financial statements in accordance with International Standards on Auditing (ISA) as issued by the International Auditing and Assurance Board of the International Federation of Accountants (IFAC) and adopted by the Audit and Assurance Board of the Independent Regulatory Board of Auditors.

Promotion of access to information

The GEPF is committed to keeping its members and pensioners informed and responding to requests for information in line with the spirit and objectives of the Promotion of Access to Information Act 2, of 2000. The Information Officer reports to the Communication Director in terms of Section 17(3) of the Act.

In the year under review a report was submitted to the Human Rights Commission to inform them about activities surrounding requests of information from different stakeholders.

Fund benefits

All government employees are required to become members of the GEPF, except where membership is excluded according to the provisions of the Government Employees Pension (GEP) Law, 21 of 1996, as amended, and Rules of the Fund.

All Fund members are eligible for benefits provided for in the rules. Amongst others, benefits are paid on retirement, resignation, ill-health, death or discharge.

Retirement benefits

Normal retirement

The normal retirement age for members of the Fund is 60, unless the member's employment contract or law governing the employment stipulates otherwise. Normal retirees with less than 10 years pensionable service receive a gratuity (lump sum cash payment) equal to the member's actuarial interest in the Fund. Actuarial interest represents the value of accrued benefits in the Fund. For retirees with 10 or more years of pensionable service, a gratuity and a monthly pension (annuity) are payable.

Early retirement

Under certain circumstances members may retire early, before their normal retirement age. An early retiree with less than 10 years pensionable service receives a gratuity equal to the retiree's actuarial interest in the Fund. For early retirees with 10 years or more pensionable service, annuities and gratuities are calculated according to the same formula used for normal retirement, with a reduction of a third of one percent for each month between the dates of early retirement and normal retirement.

Ill-health and other retirements (discharges)

Members may be discharged at any age in the event of the following:

- Medical reasons.
- The abolition, reduction, reorganisation or restructuring of the member's post.
- To promote the efficiency of the department.
- Appointment to another post by the President/Premier.
- Injury on duty (in which case compensation may be payable by the government).

Enhanced benefits are payable as a result of discharge due to any of the above reasons. Members with less than 10 years pensionable service are paid an increased gratuity only. Members with more than 10 years of pensionable service are paid a gratuity and annuity calculated as a percentage of the member's final salary and any increased period of pensionable service. Members with more than 10 years of pensionable service are also paid an annual supplementary amount.

Late retirement

A member may retire after the normal retirement age with the approval of the employer, as governed by the conditions of employment of the respective member.

Payment of gratuity to beneficiaries

The Fund provides that a member may, on the prescribed form and subject to the prescribed conditions, notify the Board of his or her wish that the gratuity accrued on the death of a member be divided among such beneficiaries in the proportion mentioned in that form.

Fund benefits (continued)

Death benefits

Death while in service

On the death of a member a benefit, calculated in accordance with the Rules and based on the period of service of the member, becomes payable to the surviving spouse, the beneficiaries of the member or to the estate if there are no beneficiaries.

Death after becoming a pensioner

Retirement or discharge annuities are guaranteed for five years after a member's exit. If death occurs within this period, the member's beneficiaries receive the balance of the five-year annuity payments, excluding the annual supplement, in a cash lump sum. The gratuity is paid to beneficiaries or to the estate if there is no beneficiary.

A spouse is entitled to a percentage of the annuity paid to the member at date of death. A spouse will receive an annuity equal to 50% or 75% of the annuity paid to the pensioner before date of death, depending on the option chosen at the time of a member's retirement.

This option is only available to pensioners who retired on or after 1 December 2002 and who are entitled to an annuity.

Spouse's annuity

A spouse's annuity is payable to an eligible spouse as defined, including an eligible life partner. The annuity is paid if a pensioner (retiree) dies, or a member dies while in service and the full potential service period – pensionable service years plus unexpired years for normal retirement (known as an unexpired period of service) – is at least 10 years.

Since 1 December 2002 retirees have had the option of increasing their spouses' annuity entitlement from 50% to 75% by reducing their own gratuity or annuity.

The benefit payable applies only to a spouse as defined and not to other beneficiaries that may have been nominated on the member's nomination of beneficiaries form. In the case of

members with more than one eligible spouse, the spouse's annuity is shared equally among the surviving spouses. A spouse's annuity is not affected by remarriage.

Orphans' annuity

The GEPF provides annuities for eligible orphans of members who became pensioners on or after 1 December 2002 and for members in service at their time of death whose full potential service period – unexpired period of service – is at least 10 years. Should such members or pensioners pre-decease their spouses, orphans' annuities will be payable on the death of spouses leaving eligible orphans.

Resignation benefits

A gratuity (lump sum), determined by a prescribed formula, is payable if a member resigns or is discharged due to misconduct or an illness or injury caused by the member's own doing.

Alternatively, upon resignation or discharge, members may choose to transfer their benefits to an approved retirement fund. In this case, the GEPF transfers the actuarial interest to the approved retirement fund.

Funeral benefits

The Fund provides for funeral benefits on the death of members and pensioners whose pension commenced on or after 1 December 2002, and on the death of spouses and eligible children of members and pensioners whose pension commenced after 1 December 2002.

Unclaimed benefits

There are instances when benefits due for payment are not claimed by the beneficiaries. If unclaimed for a period of three years, such benefits are written back to revenue, but, if the beneficiaries subsequently claim these benefits, the benefits are paid to members on request as per approved policy.

Additional benefits

The Fund provides severance package benefits to members whose services are terminated as a result of a severance package.

Fund benefits (continued)

Contribution rates

Member contributions

Members contribute 7,5% of their monthly pensionable remuneration to the Fund.

Employer contributions

Since 1 April 2005, employers contribute at a rate of 13% for civil servants and 16% for uniformed service employees, respectively, of a member's pensionable remuneration to the Fund.

The uniformed service departments include the South African National Defence Force, the Department of Correctional Services, South African Police Service, National Intelligence Agency and the South African Secret Service.

The employer contribution rate should enable the Fund to meet its obligations at all times and may be changed over time. It is determined in consultation with the Fund's actuary, the Board and the Minister of Finance, and is set at a level to ensure that with member contributions and the level of investment returns, the above-mentioned obligations are met over time. The rates are determined with due regard to the funding level of the Fund, and reflect the differentiation between benefits of civil service members and members of the uniformed service departments, who enjoy enhanced benefits upon retirement.

Pension increases

Annuities are usually increased annually on 1 April. The Rules require that a basic minimum

annual increase equal to 75% of the average Consumer Price Index (CPIX) over a period of 12 months be granted, if considered affordable after consultation with the Fund's actuary.

The first annuity increase is a pro rata increase based on the number of months between the retirement date of the member and the 1 April increase date.

An additional "catch-up" increase is granted if an individual's annuity is less than the minimum level. This minimum level is equal to 75% of the member's pension at retirement increased by 100% of the inflation rate, as measured by the Consumer Price Index (CPIX) from the date of retirement until the date of increase.

Supplementary increases can be granted in addition to the required increases, as indicated above, at the discretion of the Board.

The Board of Trustees has developed a Pension Increase Policy to guide them, in consultation with the Minister of Finance, in their determination of pension increases each year.

The policy is designed to protect pensioners against the effect of inflation subject to affordability by the Fund, ensure consistency in pension increases granted from year-to-year, and facilitate communication with active members, pensioners and employers concerning the Board's intention with regard to pension increases.

Investments

The GEPF is the largest client of the Public Investment Corporation (PIC), which acts as its investment manager. The investments held on behalf of the Fund represent over 90% of the total investments under its administration.

Accumulated funds and reserves

The accumulated funds and reserves of the Fund increased by R48,3 billion (2007: R113,2 billion) during the reporting period from R658,76 billion to R707 billion. Over the past 10 years, the accumulated funds and reserves have grown by R541,8 billion.

Investment income

The Fund's investment portfolio at year-end amounted to R715,5 billion (2007: R662,3 billion) (refer to note 3 of the annual financial statements for full details).

Table 14: Accumulated funds and reserves

	2008 R'billion	2007 R'billion
Accumulated funds and reserves – beginning of year	658,77	545,56
Contributions received	25,92	22,70
Purchases of service, unclaimed benefits and other income	0,28	0,22
Transfer to and from other funds	(0,01)	(1,27)
Investment income	48,54	116,05
Interest income	0,02	(0,01)
Benefits awarded	(24,11)	(21,25)
Interest paid to members	(1,56)	(1,60)
Portfolio management fee	(0,51)	(0,41)
Administration expenses	(0,28)	(0,25)
Retirement fund taxation	(0,02)	(0,97)
Accumulated funds and reserves as at 31 March	707,04	658,77

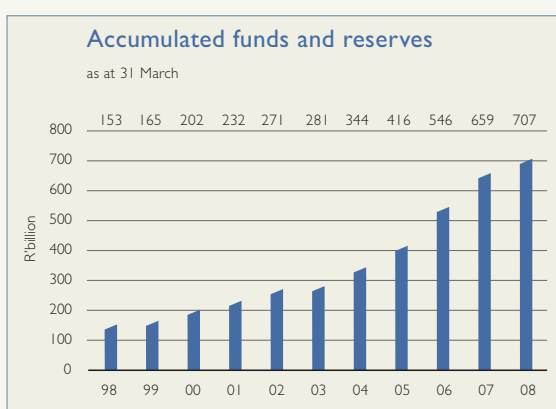


Figure 2: Accumulated funds and reserves

Investments at fair value increased to R715,5 billion (2007: R662,3 billion). The 8% growth in these investments can mainly be attributed to equities.

Total investment income and net investment income (net of portfolio management fees) amounted to R49,0 billion and R48,0 billion respectively (2007: R116,2 billion and R115,6 billion respectively) (refer to note 17 of the annual financial statements for full details).

Net interest received on investments was R21,8 billion (2007: R22,5 billion) of total investment income, dividends R11,7 billion (2007: R10,0 billion), rental, insurance and sundry income from property R0,4 billion (2007: R0,3 billion), net profit on sale of investments R38,6 billion (2007: R9,4 billion), adjustment to fair value of minus R23,3 billion (2007: R73,9 billion) and impairment of investments R0,3 billion (2007: R0,1 billion).

Controls relating to the investment mandate of the Fund are being enhanced to incorporate strict credit risk management procedures, which

Investments (continued)

include communication procedures in the event of impairments. In addition, write-offs between the PIC, Nedbank and the GEPF will be fully and formally communicated.

- equities (shares in listed companies);
- money market (such as short-term interest-earning deposits);
- property (commercial and residential); and
- other investment instruments.

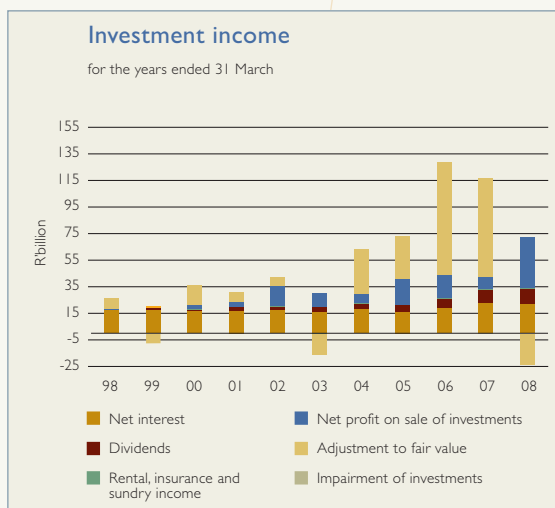


Figure 3: Investment income

Since the establishment of the GEPF the annual investment income has increased steadily from R17,4 billion in 1997 to R48,0 billion in 2008 (refer to Figure 3).

Investment process

The GEPF is the largest client of the Public Investment Corporation (PIC), which acts as its investment manager. The investments held on behalf of the Fund represent over 90% of the total investments under its administration.

The PIC invests in a range of five asset classes consisting of:

- fixed interest instruments (such as long-term government bonds);

The PIC manages equity, capital, money market and property portfolios internally. A large component of its equities portfolio and certain other investment classes have been outsourced to external investment portfolio managers, monitored by the PIC.

The external equity managers are Old Mutual Asset Managers (OMAM), Sanlam Investment Managers (SIM), Stanlib Asset Management (SAM), Future Growth Asset Management (FGAM) and Rand Merchant Bank Asset Management (RMBAM). Various other asset managers are involved with special investments and related investment products.

An amount of USD250 million has been committed to the Pan African Infrastructure Development Fund (PAIDF) separately from the investments placed through the PIC. The PAIDF was initiated by the PIC, but is now separately managed under a Board of Trustees. The Fund appoints two members of the Board of Trustees of the PAIDF and two members of the investment committee of the PAIDF.

The Board, in consultation with the Minister of Finance, approved a revised strategic asset allocation in the 2006/2007 financial year. The approved guidelines for various asset classes, which allow for a balanced portfolio for the financial year under review, are indicated in Table 15.

Table 15: Strategic asset allocation percentages

	Proposed lower limit %	Proposed strategic %	Proposed upper limit %
Equities			
• Domestic listed	40	51	55
• Private equity aimed at infrastructure, socially desirable investments and BEE financing (Isibaya Fund, Pan African Infrastructure Development Fund, etc)	3	6 ¹	9
Bonds	25	31	45
Property	–	5	7
Cash/money market instruments	–	5	10
Structured investment products	–	2	3
Total		100	

¹ In terms of the Financial Sector Charter, 5% should be invested in local targeted investment.

Actuarial valuation

In terms of the Government Employees Pension Law, 21 of 1996, as amended, and Rules of the Fund, an actuarial valuation must be conducted at least every three years. Seven actuarial valuations have been undertaken since the establishment of the Fund in May 1996.

The seventh and most recent actuarial valuation, undertaken as at 31 March 2006, was performed based on the funding policy adopted by the Board of Trustees in consultation with the Minister of Finance during the period under review. This policy provides for the evaluation of the liabilities on a long-term best-estimate basis, and the establishment of a solvency reserve, to allow for funding and investment risk and uncertainty relating to future public service remuneration and employment.

The actuaries subsequently advised that the GEPF is fully funded at 101,7% as at 31 March 2006, as

the value of assets exceeds the best estimate of liabilities, including the solvency reserve of R42 billion, which the actuaries deemed prudent.

In addition, the actuaries have put aside a reserve of R57 billion to allow Trustees greater discretion in targeting real pension increases.

The results reflected in Table 16 indicate the actuarial funding level of the Fund for each valuation. The assumptions underlying these valuations vary, and they are therefore not strictly comparable.

Table 16: Results of the GEPF actuarial valuations from May 1996 to March 2008

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	96,5	Alexander Forbes Financial Services
31 March 2006	101,7	Alexander Forbes Financial Services

A summary of the GEPF membership profiles is provided in the following tables:

Table 17: GEPF membership profile – contributing members

Member category	Male	Female	Total 2006	Total 2004
“Other” members	363 539	538 060	901 599	875 980
“Services” members	145 861	53 092	198 953	196 043
Total	509 400	591 152	1 100 552	1 072 023

Table 18: GEPF membership profile – pensioners

Pensioner category	Male	Female	Total 2006	Total 2004
Former member	102 363	101 137	203 000	197 190
Spouse	7 758	97 209	104 967	92 752
Total	110 121	198 346	308 467	289 942

Actuarial valuation (continued)

A progressive lengthening of life expectancy is being experienced internationally, and the actuaries considered it appropriate to include an explicit allowance for mortality improvement in the 31 March 2006 valuation. The valuation allows for reductions in age-specific mortality rates of 1% per year for both contributing members and pensioners.

A comprehensive experience analysis was undertaken prior to carrying out the actuarial valuation of the Fund's liabilities. The purpose of this analysis was to review the appropriateness of the demographic assumptions used in the actuarial valuation in relation to the observed experience.

The investigation covered the demographic assumptions relating to retirements, ill-health retirements, death before and after retirement, and cash resignations. Assumptions were changed where it was deemed necessary.

The GEPF valuation results as at 31 March 2006 are shown in Table 19.

The 2006 actuarial valuation report showed an improvement in the Fund's financial position from 96,5% funded in 2004 to 101,7% funded in 2006. The primary reason for the improvement was the higher-than-assumed investment returns for the three consecutive years ended March 2006.

An additional reserve has been established to allow Trustees greater discretion in times where pension increases of 100% of the increase in price inflation (CPI) may not be afforded from the current investment performance of the Fund.

In 2008, a 7% increase was granted for pensioners, maintaining the real value of pensions at 100%, at least, of the annuity at retirement adjusted for inflation (achieved in 2007).

The employer currently contributes at a rate of 16% of pensionable salary in respect of 'Services' members and 13% in respect of 'Other' members, reflecting the differences in the benefit structure of these two categories of members. Members of the Fund contribute at a rate of 7,5% of pensionable salary.

Table 19: GEPF valuation results as at 31 March 2006

Financial position	Revised assumptions	31 March 2004
	31 March 2006	31 March 2004
	R'million	R'million
Contributing member liability	308 425	227 607
Pensioner liability	120 744	105 765
Solvency reserve	42 470	17 613
Pension increase reserve	57 354	–
Mortality improvement reserve	11 387	8 461
Data and contingency reserves	6 918	5 598
Total liabilities	536 523	365 044
Net assets	545 563	352 269
Surplus/(deficit)	9 040	(12 775)

Government Employees Pension Fund Annual financial statements

for the year ended 31 March 2008

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Statement of responsibility by the Board of Trustees

for the year ended 31 March 2008

Responsibilities

The Board of Trustees hereby certifies to the best of its knowledge and 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 of Trustees;
- 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 timely 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 implemented 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 of Trustees.

The Board of Trustees fulfils this responsibility by ensuring that the implementation and maintenance of accounting systems and practices are 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 50 to 75 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 rules of the Government Employees Pension Fund; and
- the provisions of the Government Employees Pension Law, 21 of 1996, as amended.

The independent auditors Deloitte & Touche, PricewaterhouseCoopers Inc, Gobodo Incorporated and Xabiso Chartered Accountants 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 of Trustees believes that all representations made to the independent auditors during their audit were valid and appropriate. The report of the independent auditors is presented on page 46.

Statement of responsibility by the Board of Trustees *(continued)*

for the year ended 31 March 2008

These audited annual financial statements:

- were approved by the Board of Trustees on 27 August 2008;
- are certified by them to the best of their knowledge and belief to be correct;
- fairly represent the net assets of the Fund as at 31 March 2008, as well as the results of its activities for the year then ended; and
- are signed on behalf of the Board of Trustees by:



Mr Martin Kuscus
Chairperson

15 September 2008



Mr Dave Balt
Vice-Chairperson

15 September 2008

Report of the independent auditors to the Board of Trustees

for the year ended 31 March 2008

We have audited the annual financial statements of the Government Employees Pension Fund (GEPF), which comprise the report of the Board of Trustees, the statement of net assets and funds as at 31 March 2008, the cash flow statement, the statement of changes in net assets and funds for the year then ended and the notes to the financial statements, which include the principal accounting policies and other explanatory notes, as set out on pages 50 to 75.

Trustees' responsibility for the annual financial statements

The Trustees are responsible for the preparation and presentation of these financial statements for regulatory purposes, in accordance with the basis of preparation applicable to the Government Employees Pension Law, 21 of 1996, as amended, and the Rules of the GEPF, as set out in the notes to the financial statements. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of accounting

The Fund's policy is to prepare its financial statements in accordance with the accounting policies as described in note 1 to the annual financial statements and in the manner required by the provisions of the Government Employees Pension Law, 21 of 1996, as amended, and Rules of the Fund.

Audit opinion

In our opinion the annual financial statements of the Government Employees Pension Fund (GEPF) for the year ended 31 March 2008 are prepared, in all material respects, in accordance with the GEPF's stated accounting policies, the provisions of the Government Employees Pension Law, 21 of 1996, as amended, and the Rules of the GEPF.

Other matters

The financial statements are prepared for regulatory purposes in accordance with the basis of preparation indicated above. Consequently, the financial statements and related auditors' report may not be suitable for another purpose.

Report of the independent auditors to the Board of Trustees

for the year ended 31 March 2008

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

We have reviewed the annual report as required by Section 13(2) of the Government Employees Pension Law, 21 of 1996, as amended, and in our opinion the information furnished in terms of Section 9 and 10 of the Government Employees Pension Law is presented fairly in all material respects.

With reference to Section 13(4) of the Government Employees Pension Law, 21 of 1996, as amended, we draw your attention to the matters of non-compliance and internal control deficiencies highlighted in the annual report.

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

<i>Deloitte & Touche</i>	<i>PricewaterhouseCoopers Inc</i>	<i>Gobodo Inc.</i>	<i>Xabiso CA Inc</i>
Deloitte & Touche Registered Auditors	PricewaterhouseCoopers Incorporated Registered Auditors	Gobodo Incorporated Registered Auditors	Xabiso Chartered Accountants Incorporated Registered Auditors
Per E Bosch Partner	Per S Masuku Director	Per D Simpson Director	Per L Dhlamini Director
Pretoria	Johannesburg	Pretoria	Johannesburg
15 September 2008	15 September 2008	15 September 2008	15 September 2008

Report of the valuator

for the year ended 31 March 2008

Particulars of financial condition of the Fund

1. Net assets available for benefits amounted to R545 563 million as at 31 March 2006.
2. The actuarial value of the net assets available for benefits, for the purposes of comparison with the actuarial present value of promised retirement benefits, amounted to R545 563 million as at 31 March 2006.
3. The actuarial present value of promised retirement benefits in respect of active members amounted to R297 990 million as at 31 March 2006.
4. The actuarial present value of retirement benefits in respect of pensioners amounted to R120 744 million as at 31 March 2006.
5. The data and contingency reserve accounts amounted to R117 789 million as at 31 March 2006. This includes the solvency reserve as at 31 March 2006.
6. Details of the valuation method adopted (including that in respect of contingency reserves) and details of any changes since the previous summary of report:

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, withdrawals, ill-health retirements and deaths.

Allowance was made for mortality improvements for all members of 1% per annum.

An active member contingency reserve of 0,85% of the active member liabilities was held.

A pensioner contingency reserve was calculated to allow for suspended pensioners who may be reinstated. Only future pension payments were taken into account, as back-payments are allowed for in our 'S'-Case provision.

A reserve was also held in respect of previous discriminatory practices, being the accumulated value of 1% of the funding level in 1998.

A solvency reserve was set up such that there is a probability of 90% that the funding level after a three-year period is at least equal to 100%. The solvency reserve was calculated by investment consultants to the GEPF.

An additional reserve was 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.

7. 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: 8,94% (previously 9,11%).

Post-retirement net discount rate: 4,96% per annum for active and 4,97% per annum for current pensioners (previously 5,38% for both active members and pensioners).

Post-retirement mortality: Rates based on observed the GEPF mortality.

Report of the valuator (continued)

for the year ended 31 March 2008

Salary increases: 5,74% (previously 6,43%).

It is assumed that salaries will increase at an average rate of 1% in excess of the long-term inflation assumption of 4,74% for active members (previously 5,43%). In addition, an allowance is made for merit salary increments.

Proportion married: Various assumptions have been made regarding proportions of members who are married at each age. Age difference between males and females is assumed to be four years.

Expenses: Allowance for future administration expenses was 0,4% per annum of payroll.

8. Any other particulars deemed necessary by the valuator for the purposes of this summary:

None.

9. 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 greater than or equal to accrued liabilities and contingency reserves on a best estimate basis.

Prepared by:



Garth Barnard (FFA)

Actuary

Fellow of the Faculty of Actuaries

Fellow of the Actuarial Society of South Africa

In my capacity as an actuary to the Fund and as an employee of Alexander Forbes Financial Services (Pty) Limited.

15 September 2008

REMARKS

For the purposes of this summary of report:

- (a) Net assets available for benefits are the fair value of the assets of the Fund less liabilities other than the actuarial present value of promised retirement benefits.
- (b) The actuarial present value of promised retirement benefits means:
 - i. the actuarial liabilities in respect of past service benefits (including accrued bonus service) of active members, with due allowance for future salary increases where these affect the benefits in respect of past service, and with due allowance for increases in pension and deferred pensions at rates consistent with the pension increase policy of the Fund;
 - ii. the actuarial liabilities in respect of pensions in course of payment and deferred pensions, including any contingent annuity payable on the death of a pensioner, with due allowance for increases at rates consistent with the pension increase policy of the Fund; and
 - iii. any other accrued liability.
- (c) Vested benefits are benefits, the right to which under the conditions of the Fund, are not conditional upon continued employment.

Report of the Board of Trustees

for the year ended 31 March 2008

I. Description of the Fund

I.1 Type of the Fund

The Government Employees Pension Fund (GEPF) is a defined benefit fund established in terms of the Government Employees Pension Law, 21 of 1996, as amended. In terms of Section 1 of the Income Tax Act, Act 56 of 1962, the GEPF is classified as a pension fund established by law. Additional benefits are administered on behalf of National Treasury, including military and special pensions, medical subsidies and other sundry benefits.

I.2 Benefits

Benefits are determined in terms of the rules of the Government Employees Pension Law, 21 of 1996, as amended, and are classified as follows:

- Normal retirement benefits.
- Early retirement benefits.
- Ill-health and other retirement (discharge) benefits.
- Late retirement benefits.
- Resignation benefits.
- Death benefits.
- Spouses and dependant benefits.
- Funeral benefits.

The benefits of the GEPF are described in detail on pages 36 to 38 of the annual report.

Unclaimed benefits are, in line with the Prescription Act, released to income if unclaimed for a period exceeding three years. All reasonable steps are taken to trace members, whose benefits were not claimed, to effect payment to the correct member or beneficiary.

Complete records are maintained for all benefits not claimed.

I.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 uniformed employees, respectively, of a member's pensionable emoluments to the GEPF.

I.4 Reserves

In terms of a collective agreement negotiated and agreed to in the Public Service Coordinating Bargaining Council (PSCBC) an actuarial reserve equal to one percent of 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 Government Employees Pension Law, 21 of 1996, as amended, and Rules thereto were amended to increase the pensionable service for members of former non-statutory forces, 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 note 9 to the annual financial statements):

Report of the Board of Trustees (continued)

for the year ended 31 March 2008

1. Description of Fund (continued)

1.4 Reserves (continued)

	31 March 2008 R'000	31 March 2007 R'000
Reserve account balance		
Non-statutory forces	954 180	1 001 580
Ciskei strikers	119 144	112 536
General assistants	399 314	–
Other past-discriminatory practices	3 344 872	3 496 414
Total balance at year-end	4 817 510	4 610 530

1.5 Rule amendments

There have been no rule amendments in the current financial year.

1.6 Board of Trustees

A Board of Trustees was appointed in May 2005 to manage the GEPP. This Board consists of 16 members, with equal employer and employee 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.

2. Investments

2.1 Management of investments

The Public Investment Corporation (PIC), which acts as the investment portfolio manager to the GEPP, appointed the following asset managers to invest some of the GEPP funds on its behalf:

- Old Mutual Asset Managers (OMAM);
- Sanlam Investment Managers (SIM);
- Stanlib Asset Management (SAM);
- Future Growth Asset Management (FGAM); and
- Rand Merchant Bank Asset Management (RMBAM).

Nedbank Investor Services performs the investment accounting function on behalf of the Fund.

In addition, an investment agreement was entered into in the current year in the Pan African Infrastructure Development Fund (PAIDF), which is managed by Harith Fund Managers.

2.2 Investment strategy

Assets are invested in a range of asset classes consisting of:

- equities (shares in listed companies);
- fixed interest instruments (eg long-term Government bonds);
- money market instruments (eg short-term interest-bearing instruments);
- property (commercial and residential); and
- other investment instruments.

Report of the Board of Trustees (continued)

for the year ended 31 March 2008

2. Investments (continued)

2.2 Investment strategy (continued)

Guidelines have been set for 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 %	31 March 2008
		Actual %
Equity		
– Domestic listed	40 – 55	52,7
– Private equity aimed at infrastructure, socially desirable investments and BEE financing (Isibaya Fund, Pan African Infrastructure Development Fund, etc)	3 – 9	4,4
Bonds (fixed interest and capital markets)	25 – 45	33,8
Cash/money market instruments	0 – 10	7,9
Property	0 – 7	0,4
Structured investment products	0 – 3	0,8
Total	100	100,0

Equities have now replaced fixed interest instruments as the dominant instrument. The strategic asset allocation is to be reviewed during the forthcoming financial year as part of an interactive asset liability modelling exercise as well as the revised investment mandate sent to the Public Investment Corporation (PIC).

2.3 Investment properties (title deeds not yet registered in the name of the GEPF)

As at 31 March 2008, title deeds of certain investment properties were not registered in the name of the GEPF are R1,201 billion (2007: R1,162 billion). Of the total amount, R568 million (2007: R765 million) relates to investment properties, which were constructed in Thlabane, Rustenburg, by Sefalana Employee Benefits Organisation (SEBO), to whom the GEPF is a successor in title. These properties were constructed on state land without proper title to the land being given to SEBO.

In terms of the Government Employees Pension Law, 21 of 1996, as amended, the ownership or the vesting of any other right in terms of relevant title deeds should pass to the GEPF. The process of transferring these properties into the name of the GEPF is in an advanced stage and should be concluded during the forthcoming financial year. The PIC deals with this matter on behalf of the GEPF.

2.4 Other investments not in the name of the GEPF

Other securities managed by the PIC are registered in the nominee name of Standard Bank of South Africa Limited and Nedbank Limited, and the Scrip accounts are in the name of the PIC on behalf of the GEPF.

Report of the Board of Trustees (continued)

for the year ended 31 March 2008

3. Membership

The GEPF membership as at 31 March 2008 consisted out of 1,16 million (2007: 1,14 million) government and parastatal employees, as well as 311 345 (2007: 303 977) pensioners receiving monthly annuity benefits.

4. Actuarial valuation

An actuarial valuation of the GEPF is conducted at least every three years as prescribed in Section 17(3) of the Government Employees Pension Law, 21 of 1996, as amended. The latest actuarial valuation was performed as at 31 March 2006 based on the funding policy adopted by the Board of Trustees in consultation with the Minister of Finance. This funding 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 and investment risks and uncertainty relating to future public service remuneration and employment. The required level of solvency was calculated independently based on a detailed asset-liability study.

The actuaries have subsequently advised that the GEPF is fully funded (101,7%) as at 31 March 2006, as the value of assets exceeds the best estimate of liabilities, including the solvency reserve, which the actuaries deemed to be prudent.

5. Subsequent events

There do not appear to be any events arising after financial year-end to the date of approval of the annual financial statements, which require adjustments to or disclosure in the annual financial statements of the GEPF.

Statement of net assets and funds

as at 31 March 2008

	Notes	2008 R'000	2007 R'000
Assets			
Non-current assets			
Property, plant and equipment	2	14 527	11 426
Investments	3	715 502 024	662 319 399
Current assets			
Funding loan	4	3 538	3 538
Inventory	5	940	1 302
Accounts receivable	6	7 931 471	9 978 706
Transfers receivable	12.2	1 830	–
Contributions receivable	7	318 689	159 617
Cash and cash equivalents	8	1 273 115	933 974
Total assets		725 046 134	673 407 962
Funds and liabilities			
Funds and surplus account			
Accumulated funds	9	702 224 871	654 157 676
Reserves			
Reserve account	9	4 817 510	4 610 530
Total funds and reserves		707 042 381	658 768 206
Non-current liabilities			
Unclaimed benefits	10	132 887	97 320
Current liabilities			
Benefits payable	11	13 652 000	10 626 406
Transfers payable	12.1	1 103 627	1 262 623
Accounts payable	13	3 109 687	2 581 886
Retirement fund taxation	14	–	67 887
Provisions	15	5 552	3 634
Total funds and liabilities		725 046 134	673 407 962

Statement of changes in net assets and funds

for the year ended 31 March 2008

	Notes	Accumulated funds R'000	Reserve accounts R'000	Total 2008 R'000	Total 2007 R'000
Net income before transfers and benefits		73 945 570	(1 353)	73 944 217	137 332 739
Contributions received and accrued	7	25 919 037	–	25 919 037	22 698 131
Purchase of periods of service	16	267 949	–	267 949	180 230
Unclaimed benefits forfeited	10	12 432	–	12 432	25 654
Net investment income	17	48 029 017	–	48 029 017	115 641 140
Other income	18	17 774	–	17 774	13 912
Less: Administrative expenses	19	(278 435)	(1 353)	(279 788)	(254 640)
Retirement fund taxation	14	(22 204)	–	(22 204)	(971 688)
Transfers and benefits		(25 518 567)	(151 475)	(25 670 042)	(24 127 397)
Benefits	11	(23 954 314)	(151 475)	(24 105 789)	(21 254 777)
Transfers to other funds	12.1	(13 606)	–	(13 606)	(1 270 539)
Transfers from other funds	12.2	6 969	–	6 969	1 651
Interest paid	20	(1 557 616)	–	(1 557 616)	(1 603 732)
Net income after transfers and benefits		48 427 003	(152 828)	48 274 175	113 205 342
Funds and reserves					
Balance at beginning of period	9	654 157 676	4 610 530	658 768 206	545 562 864
Transfer to reserves					
Net investment return on reserve	9	(359 808)	359 808	–	–
Balance at end of period		702 224 871	4 817 510	707 042 381	658 768 206

Cash flow statement

for the year ended 31 March 2008

	Notes	2008 R'000	2007 R'000
Cash flow from operating activities			
Cash flow generated from operations	21	3 191 248	1 964 740
Contributions and other income received		25 759 965	22 752 804
Benefit paid during the year	11	(22 397 547)	(20 368 016)
Other expenses paid		(171 170)	(420 048)
Interest received		21 257 188	22 166 254
Interest paid		(430 616)	(244 730)
Dividends received		11 723 190	9 969 553
Retirement fund taxation paid	14	(90 091)	(1 083 652)
Transfers and bought services received		100 486	173 965
Net cash inflow from operating activities		35 751 405	32 946 130
Net cash outflow from investing activities			
Proceeds on sale of property, plant and equipment		569	153
Additions to property, plant and equipment		(8 449)	(6 480)
Additions to investments		(35 404 384)	(20 144 570)
Net increase in cash and cash equivalents		339 141	(137 144)
Cash and cash equivalents at beginning of the year		933 974	1 071 118
Cash and cash equivalents at end of the year	8	1 273 115	933 974

Notes to the annual financial statements

for the year ended 31 March 2008

I. Principal accounting policies

I.1 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.

I.2 Basis of presentation of financial statements

The annual financial statements are prepared in accordance with the GEP Act requirements, in terms of which the retirement fund industry best practice principles are applied as the basis. This comprises general adherence to the Financial Services Board (FSB) regulations as applied to retirement funds in South Africa, except for, but not only, the requirements applicable to the:

- disclosure of prior year adjustments;
- presentation of consolidated financial statements in which investments in subsidiaries are consolidated in accordance with the statement on consolidated and separate financial statements; and
- related party disclosure.

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.

I.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

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.

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.

I.4 Financial instruments

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

I.4.1 Classification

- Financial assets classified at fair value through the statement of changes in net assets and funds comprise equities, capital market instruments, options and interest rate swaps, structured investment products and all derivatives in a net receivable position (positive fair value), as well as options purchased, where there is a negative fair value, it is included into liabilities.
- Financial assets classified as loans and receivables include mainly loans to universities, cash and deposits.
- Financial liabilities that are not classified at fair value through the statement of changes in net assets and funds include balances due to brokers and other accounts payable.

I.4.2 Recognition

The GEPPF 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, which includes transaction costs.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

1.4 Financial instruments (continued)

1.4.2 Recognition (continued)

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 legal right to receive cash.

1.4.3 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 assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities, other than those classified at fair value through the statement of changes in net assets and funds, are measured at amortised cost using the effective interest rate.

1.4.4 Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the "statement of assets and funds" date without any deduction for estimated future selling costs. The fair value of listed trading stocks is determined by reference to quoted closing bid prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including the use of recent arm's length-market transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the "statement of assets and funds" date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the "statement of assets and funds" date.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the GEPF would receive or pay to terminate the contract at the "statement of assets and funds" date taking into account current market conditions (volatility/appropriate yield curve) and the current creditworthiness of the counterparties.

Investments in other unlisted open-ended investment funds are recorded at the net asset value per share as reported by the managers of such funds.

1.4.5 Derecognition

The GEPF derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AC 133.

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

1.5 Investment properties

Properties held to earn rental income and/or for capital appreciation, are classified as investment properties. Investment properties are treated as long-term investments and are revalued on an open market-basis and stated at their revalued amounts. Property valuations are performed every three years and the valuations of the investment administrator are used during those years when external valuations are not performed. Surpluses and losses arising from the revaluation of the investment properties are recognised as net investment income in the year in which they arise. Investment property also includes investments in property companies.

1.6 Inventory

Inventory is valued at the lower of cost or net realisable value. Cost is calculated using the weighted average method.

1.7 Accounts receivable

Trade receivables

Trade receivables 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 into 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.

Purchase of service receivables

Purchase of 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.

1.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash deposited with financial institutions and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and this excludes money market instruments which are classified as investments.

1.9 Unclaimed benefits

Unclaimed benefits are, in line with the Prescription Act, released to income if unclaimed for a period exceeding three years.

1.10 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.

1.11 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.

1.12 Contributions

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

1.13 Purchase of service

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

1.14 Dividend, interest, rentals and gains and losses on subsequent measurement

1.14.1 Dividend income

Income distributions from private equity investments and other investment funds are recognised in the statement of changes in assets and funds as dividend income when entitlement to revenue is established.

1.14.2 Interest income

Interest income and expense 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.

1.14.3 Rental income

Rental income from investment property is recognised in the statement of changes in net assets and funds as it accrues on a straight-line basis.

1.14.4 Gains and losses on subsequent measurement to fair value

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

1.15 Transfers to and from the GEPF

Transfers to and from the GEPF, including individual transfers, are recognised on the accrual basis.

1.16 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.

1.17 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.

1.18 Foreign exchange gains or losses

Foreign monetary assets and liabilities are translated into South African 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.

1.19 Operating leases

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

1.20 Judgements and estimates

Critical judgements in applying the entity's accounting policies

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

1.20 Judgements and estimates (continued)

- *Residual values and useful lives*
Residual values and useful lives of property, plant and equipment are assessed annually. Property, plant and equipment are assessed for impairment annually, or more frequently when there is an indication that an asset may be impaired and the related impairment losses recognised in the statement of changes in net assets and funds in the period in which the impairment occurred.
- *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 balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid 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 balance sheet 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 balance sheet 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 as follows:

- *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/may not incur.
- *Investments*
The net present value of certain unlisted investments has been calculated using estimated future cash flows at discounted rates.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	Computer equipment R'000	Computer software R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Tools R'000	Total R'000
2. Property, plant and equipment							
2.1 Current year, 2008							
Gross carrying amount	25 266	1 271	8 566	6 671	1 862	13	43 649
At beginning of year	21 717	712	7 571	6 326	1 862	13	38 201
Additions	6 486	559	1 059	345	–	–	8 449
Disposals	(2 937)	–	(64)	–	–	–	(3 001)
Accumulated depreciation and impairment	(16 563)	(713)	(5 602)	(5 028)	(1 208)	(8)	(29 122)
At beginning of year	(16 331)	(711)	(4 566)	(4 186)	(975)	(6)	(26 775)
Depreciation	(2 603)	(2)	(1 090)	(842)	(233)	(2)	(4 772)
Accumulated depreciation on disposals	2 371	–	54	–	–	–	2 425
Net carrying amount at end of year	8 703	558	2 964	1 643	654	5	14 527
2.2 Prior year, 2007							
Gross carrying amount	21 717	712	7 571	6 326	1 862	13	38 201
At beginning of year	17 572	712	6 593	5 931	1 188	13	32 009
Additions	4 191	–	1 048	396	845	–	6 480
Disposals	(46)	–	(70)	(1)	(171)	–	(288)
Accumulated depreciation and impairment	(16 331)	(711)	(4 566)	(4 186)	(975)	(6)	(26 775)
At beginning of year	(13 909)	(702)	(3 613)	(3 323)	(932)	(4)	(22 483)
Depreciation	(2 425)	(9)	(1 004)	(864)	(214)	(2)	(4 518)
Accumulated depreciation on disposals	3	–	51	1	171	–	226
Net carrying amount at end of year	5 386	1	3 005	2 140	887	7	11 426

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	Fair value 2008 R'000	Amortised cost 2008 R'000	Total (all local) 2008 R'000	Total 2007 R'000	Category AC 133 (IAS 39)
3. Investments					
3.1 Investment summary					
Money market instruments	–	56 519 584	56 519 584	54 899 231	*
Loans (other than housing loans)	–	6 615 607	6 615 607	2 012 600	**
Debentures	93 075	–	93 075	43 726	**
Bills, bonds and securities	235 402 106	–	235 402 106	224 165 818	**
Investment properties	3 059 037	–	3 059 037	1 961 167	**
Equities	408 745 452	–	408 745 452	375 132 431	
Listed equities	377 010 012	–	377 010 012	350 457 296	
Unlisted equities	31 735 440	–	31 735 440	24 675 135	**
Special investment products and policies	4 422 782	–	4 422 782	3 494 151	**
Collective market instruments	521 626	–	521 626	482 467	**
Derivative market instruments	122 755	–	122 755	127 808	
	652 366 833	63 135 191	715 502 024	662 319 399	*

* Classified as loans, receivables and cash.

** Classified at fair value through the statement of changes in net assets and funds.

Included in listed equities are 27 851 591 ordinary shares in Telkom SA Limited valued at R3 654 128 738 (2007: R4 706 918 879) of which the "B" rights belong to Black Ginger 33 (Pty) Limited. The "B" rights entitle Black Ginger 33 (Pty) Limited to register ownership and voting rights attached to Telkom shares, but specifically excludes the "A" rights. The price payable for the "B" rights shall be R1 and shall be payable to Black Ginger 33 (Pty) Limited on final date, which is March 2011.

Unlisted investments included on the note above amounting to R477 034 773 have a net assets value of R339 316 040. The value determined has been based on management's best estimate of future cash flows and anticipated growth in these investments.

	2008 R'000	2007 R'000
3.2 Investment properties		
Balance at beginning of year	1 961 167	1 393 580
Additions	844 559	310 439
Capital expenditure	38 245	–
Properties inherited from SEBO	1 400	–
Disposals	(5 500)	–
Fair value adjustment	219 166	257 148
Balance at end of year	3 059 037	1 961 167

An external valuation of the investment properties was performed on 31 March 2008. All relevant factors in determining a reasonable value as it would be determined between reasonable and informed purchasers and sellers in an open-market situation are taken into account in the revaluation of the investment properties. The valuations were performed by professional valuers from CB Richard Ellis (Pty) Limited, who are familiar with valuation of such properties and hold recognised and relevant property valuation qualifications.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

3. Investments (continued)

3.3 Title deeds of investment properties (not registered in the name of the GEPF)

The title deeds of certain investment properties are not registered in the name of the GEPF, but in the names of the entities that previously amalgamated into the GEPF. In terms of the Government Employees Pension Law, 21 of 1996, as amended, the ownership or the vesting of any other right indicated on the relevant title deeds in respect of the assets, should pass to the GEPF. The necessary steps are being taken to achieve this.

As at 31 March 2008 title deeds of certain investment properties not registered in the name of the GEPF was R1,201 billion (2007: R1,162 billion). Of the total amount, R568 million (2007: R765 million) relates to investment properties, which were constructed in Thlabane, Rustenburg, by Sefalana Employee Benefits Organisation (SEBO), to which the GEPF is a successor in title. These properties were constructed on state land without proper title to the land being given to SEBO.

3.4 Other investments not in the name of the GEPF

Other securities managed by the PIC are registered in the nominee name of Standard Bank of South Africa Limited and Nedbank Limited, and the Scrip accounts are in the name of the PIC on behalf of GEPF.

	2008 R'000	2007 R'000
4. Funding loan		
Sefalana Employee Benefits Organisation (SEBO)	3 538	3 538
<p>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. The fair value of the GEPF's equitable share of the distribution account of SEBO cannot be determined yet.</p> <p>Liquidators were appointed to liquidate SEBO during the 2005 financial year. The liquidation is dependent on the registration of the title deeds in respect of investment properties (not registered in the name of the GEPF) to which the GEPF became the successor in title (refer note 3.3).</p>		
5. Inventory		
Inventory consists of consumables	940	1 302

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	2008 R'000	2007 R'000
6. Accountable receivable		
Accrued interest	4 514 172	3 929 553
Associated Institutions Pension Fund	1 450	–
Estates debt	32 514	30 607
Total estates debt	51 467	45 825
Less: Provision for impairment of receivables	(18 953)	(15 218)
Fraud cases debt	–	–
Total fraud cases debt	39 258	36 056
Less: Provision for impairment of receivables	(39 258)	(36 056)
Investment debtors*	3 336 649	5 976 281
National Treasury	3 750	4 962
Purchased service	18 283	14 886
Purchased service not recovered at retirement or death	477	424
South African Post Office	1 900	2 112
South African Revenue Service	247	215
Staff debtors	307	346
Sundry debtors	191	1 431
Temporary Employees Pension Fund	1 235	464
Overpayments debt	20 296	17 425
Total overpayments debt	24 800	22 296
Less: Provision for impairment of receivables	(4 504)	(4 871)
	7 931 471	9 978 706

* Investment debtors include a loan to Black Ginger 33 (Pty) Limited, for the purchases of 18 753 405 Telkom shares at a current market value of R2 460 446 736 (2007: R3 169 274 576). The amount to be repaid will be determined as and when the shares are sold by Black Ginger 33 (Pty) Limited. This investment debtor has no fixed repayment terms.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	2008 R'000	2007 R'000
7. Contributions		
7.1 Contributions receivable		
Participating employers	11 696	14 584
Arrear contributions*	649	570
Additional liabilities**	303 614	144 463
Interest on outstanding contributions	2 730	–
Statement of net assets and funds	318 689	159 617

* Arrear contribution on late admissions.

** 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 Government Employees Pension Law, 21 of 1996, as amended (eg voluntary severance packages/early retirement without downscaling).

	Contributions accrued 2008 R'000	Contributions received 2008 R'000	Contributions receivable 2008 R'000	Contributions receivable 2007 R'000
7.2 Reconciliation of contributions receivable				
Member contributions	9 129 224	(9 130 252)	4 517	5 545
Employer contributions	16 787 083	(16 629 713)	311 442	154 072
Interest on outstanding contributions	2 730	–	2 730	–
	25 919 037	(25 759 965)	318 689	159 617
Statement of changes in net assets and funds			25 919 037	

	2008 R'000	2007 R'000
8. Cash and cash equivalents		
Cash resources	1 273 115	933 974

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

9. Accumulated funds and reserves

In terms of a collective agreement negotiated and agreed to in the Public Service Coordinating Bargaining Council an actuarial reserve was set aside to address past discriminatory practices.

This note illustrates the detailed split of the reserve balance between non-statutory forces, Ciskei strikers, general assistants and other past discriminatory practices. The general assistants reserve is a reserve set aside in the current year based on a collective agreement signed in the current year.

	Non- statutory forces reserve 2008 R'000	Ciskei strikers reserve 2008 R'000	General assistants reserve 2008 R'000	Other past discriminatory practices reserve 2008 R'000	Total reserve accounts 2008 R'000	Accumulated funds (excluding reserves) 2008 R'000
Balance at beginning of year	1 001 580	1 12 536	–	3 496 414	4 610 530	654 157 676
Net income before transfers and benefits	(1 293)	(38)	(22)	–	(1 353)	73 945 570
Contributions received and accrued	–	–	–	–	–	25 919 037
Purchase of periods of service	–	–	–	–	–	267 949
Net investment income	–	–	–	–	–	48 029 017
Allocated from unclaimed benefits	–	–	–	–	–	12 432
Other income	–	–	–	–	–	17 774
Less: Administrative expenditure	(1 293)	(38)	(22)	–	(1 353)	(278 435)
Retirement fund taxation	–	–	–	–	–	(22 204)
Transfers and benefits	(146 132)	(5 343)	360 883	(360 883)	(151 475)	(25 518 567)
Benefits	(146 132)	(5 343)	–	–	(151 475)	(23 954 314)
Transfers to other funds	–	–	–	(360 883)	(360 883)	(13 606)
Transfers from other funds	–	–	360 883	–	360 883	6 969
Interest paid	–	–	–	–	–	(1 557 616)
Net income after transfers and benefits	(147 425)	(5 381)	360 861	(360 883)	(152 828)	48 427 003
Transfer to reserves						
Net investment return on reserve amount	100 025	11 989	38 453	209 341	359 808	(359 808)
At end of year	954 180	119 144	399 314	3 344 872	4 817 510	702 224 871

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	2008 R'000	2007 R'000
10. Unclaimed benefits		
Balance at beginning of year	97 320	86 336
Transferred from benefits paid	324 985	251 242
Less: Benefits paid	(276 986)	(214 604)
Benefits forfeited	(12 432)	(25 654)
Balance at end of year	132 887	97 320

	Benefits accrued current year 2008 R'000	Benefits paid during year 2008 R'000	Benefits payable 2008 R'000	Benefits payable 2007 R'000
11. Benefits				
Net benefit payments	23 954 314	(22 055 720)	11 050 000	9 151 406
Gratuities	1 767 538	(1 851 502)	1 127 814	1 211 778
Withdrawal benefits	3 939 437	(3 745 828)	4 754 092	4 560 483
Monthly pensions	13 959 599	(13 431 737)	1 208 862	681 000
Retrenchment benefits	794 259	(707 850)	168 776	82 367
Death benefits	3 319 934	(2 194 256)	3 434 456	2 308 778
Funeral benefits	169 879	(120 879)	216 000	167 000
Orphan benefits*	864	(864)	140 000	140 000
Unclaimed benefits**	2 804	(2 804)	–	–
Interest to members	1 468 827	(341 827)	2 602 000	1 475 000
Benefits payable***	25 423 141	(22 397 547)	13 652 000	10 626 406

Statement of changes in net assets and funds

23 954 314

* Orphans benefits are payable in terms of the provisions of Rule 14.6.3 to the Government Employees Pension Law, 21 of 1996, as amended, which was introduced during the 2003 financial year. The benefit offered was reviewed as a result of problems experienced with the implementation thereof and referred back to the PSBC to be renegotiated.

** Unclaimed benefits that have prescribed and written back to revenue, and are subsequently claimed by the former member; are reissued to the member from revenue according to the GEPP's approved policy on the reissue of benefits.

*** Benefits payable as at 31 March 2008 and benefits accrued during the year includes an amount of R2 577 million (2007: R1 981 million), representing exit cases that were work in progress at year-end.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	Effective date	Number of members	Transfers approved 2008 R'000	Return on transfers 2008 R'000	Transfers paid 2008 R'000	Transfers payable 2008 R'000	At beginning of period 2007 R'000
12. Transfers							
12.1 Transfers to other funds							
Bulk transfers in terms of Rule 12 of the Fund							
		75	4 047	–	(14 968)	–	10 921
		7 905	–	–	(148 075)	1 103 627	1 251 702
	2007/2008	16	6 388	–	(6 388)	–	–
		2	1 143	–	(1 143)	–	–
	2007/2008	5	1 728	300	(2 028)	–	–
		8 003	13 306	300	(172 602)	1 103 627	1 262 623
Transfers approved						13 306	
Return on transfers						300	
Statement of changes in net assets and funds						13 606	
12.2 Transfers from other funds							
Transfers in terms of Rule 12 of the Fund							
	2007/2008	1	638	–	(638)	–	–
		15	4 408	1 923	(4 501)	1 830	–
		16	5 046	1 923	(5 139)	1 830	–
Transfer approved						5 046	
Return on transfers						1 923	
Statement of changes in net assets and funds						6 969	

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	2008 R'000	2007 R'000
13. Accounts payable		
Administrative creditors	49 652	30 456
Child maintenance (court orders)	233	134
Contributions (employers)	656	6 548
Dormant members	866	787
Investment creditors	2 293 971	1 848 865
National Treasury	1 860	–
Non-statutory forces contribution*	710 281	659 014
Outstanding SA Post Office vouchers	999	2 458
Portfolio management fees payable	41 800	31 526
Public Investment Commissioner (VAT refund)	8 653	–
Sundry creditors	716	2 098
	3 109 687	2 581 886

* Amounts received in advance in respect of the recognition of periods of service to recognise pensionable service for members of former non-statutory forces (rules 1, 10, 11 and 14 to the Fund).

14. Retirement fund taxation

Taxable income	–	17 137 760
Less: Formula deduction	–	(5 885 789)
Retirement fund taxable amount	–	11 251 971
Retirement fund taxation at relevant rate	22 204	1 012 677
Less: Over provision of tax	–	(40 989)
Retirement fund taxation expense	22 204	971 688
Balance at beginning of year	67 887	179 851
Retirement fund taxation paid during the year	(90 091)	(1 083 652)
Balance at end of year	–	67 887

Due to the fact that Retirement Fund Tax (RFT) was abolished prior to the commencement of the current year, no RFT calculation was performed for the current year. The amount included in the statement of changes in net assets and funds relates to an underprovision of tax of the prior year as assessed by SARS in the current year. The full amount outstanding was paid in the current year.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	2008 R'000	2007 R'000
15. Provisions		
Provision for accumulated leave pay	2 059	2 454
Balance at beginning of year	2 454	1 665
Provided	361	1 134
Utilised	(756)	(345)
Provision for bonuses	3 493	1 180
Balance at beginning of year	1 180	1 404
Provided	5 740	1 274
Utilised	(3 427)	(1 498)
Balance at end of year	5 552	3 634
Bonuses are calculated based on 3,5% of the budgeted labour costs and the leave pay provision based on the current leave entitlement pro rata plus the cap leave of staff members over 55 years of age.		
16. Purchase of periods of service		
GEPF members	24 506	12 698
Non-statutory forces members	243 443	167 532
	267 949	180 230
17. Net investment income		
Income from investments	33 897 862	32 822 470
Interest	21 824 033	22 508 919
Dividends	11 723 190	9 969 553
Rentals	350 639	343 998
Net profit on sale of investments	38 560 003	9 460 569
Adjustment to fair value*	(23 341 918)	73 946 601
Impairment of investments*	(330 655)	(54 576)
Total investment income	48 785 292	116 175 064
Less: Expenses incurred in managing investments		
– Management fees	(506 974)	(405 653)
– Organisational and management fees (PAIDF)	(39 679)	–
– Bad debts investments	(24 481)	–
– Rental expense	(185 141)	(128 271)
Total investment expenses	(756 275)	(533 924)
Net investment income	48 029 017	115 641 140
Profit on sale of investments	47 549 030	25 142 425
Loss on sale of investments*	(8 989 027)	(15 681 856)
Net profit on sale of investments	38 560 003	9 460 569

* All assets were affected to some extent by the difficult economic conditions that prevailed, notably the deteriorating inflation outlook, increases in interest rates and by the weakening of emerging market assets prices in the wake of the subprime losses in the United States. In addition, some of the loans entered into the PIC on behalf of the GEPF in their capacity as the Fund's asset managers have subsequently been impaired.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	2008 R'000	2007 R'000
18. Other income		
Interest received		
Arrear contributions	13 637	12 360
Purchase of service	915	1 385
Additional liabilities	3 222	–
Other	–	167
	17 774	13 912
19. Administrative expenditure		
19.1 Total administrative expenditure		
Actuarial fees	2 228	4 007
Administrative expenses related to reserve accounts	1 353	2 444
Audit fees – current year	4 093	3 705
Audit fees – prior years under provision	–	2 882
Bad debts written off	4 172	3 908
Depreciation	4 772	4 292
Foreign currency loss	16	9
Legal costs	1 180	362
Loss/(profit) on sale of property, plant and equipment	7	(91)
Operating expenses	151 574	113 966
Operating lease payments	2 393	1 937
Personnel expenses	101 430	82 282
Personnel expenditure (refer note 19.2)	93 014	74 828
Senior management expenditure (refer note 19.3)	6 176	5 963
Trustee expenditure (refer note 19.4)	2 240	1 491
Increase in provision for doubtful debt	6 570	14 597
Regional Services Council levies	–	20 340
	279 788	254 640
19.2 Personnel remuneration and expenses		
Remuneration to permanent and contract employees	54 241	47 700
Contributions to the GEPF	5 368	3 917
In-sourced contractors	25 279	20 224
Training expenses	2 366	1 733
Other benefits (housing, medical, etc)	5 760	1 254
	93 014	74 828
19.3 Senior management remuneration and expenses		
Remuneration to permanent and contract employees	4 035	3 916
Contributions to the GEPF	272	284
Allowances	1 692	1 497
Bonuses	177	266
	6 176	5 963

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

	2008 R'000	2007 R'000
19. Administrative expenditure (continued)		
19.4 Board of Trustees remuneration and expenses		
Meeting allowances	2 056	1 455
Expenses	184	36
	2 240	1 491
20. Interest paid		
Interest paid to members	1 468 827	1 555 476
Interest paid to members exited from the GEPF	1 399 903	1 509 109
Interest paid to external funds in respect of members exited from the GEPF	42 782	20 214
Interest paid to non-statutory forces members	26 142	26 153
Interest paid to employers (non-statutory forces)**	69 397	48 184
Interest paid to dormant members	79	72
Interest paid on retirement funding tax	19 313	–
	1 557 616	1 603 732
<small>** Interest paid to employers on monies received in advance for the recognition of periods of service in non-statutory forces as pensionable periods in the Fund (Rule 1, 10, 11 and 14 to the Fund).</small>		
21. Cash flow generated from operations		
Net income after transfers and benefits	48 274 175	113 205 342
Adjusted for:	(44 608 769)	(110 884 513)
Interest received	(21 257 188)	(22 166 254)
Interest paid	430 616	244 730
Dividends received	(11 723 190)	(9 969 553)
Retirement fund taxation	22 204	971 688
Adjustment to fair values of investments	23 341 918	(73 946 601)
Profit on sale of investments and property	(47 549 030)	(25 142 425)
Loss on sale of investments and property	8 989 027	15 681 856
Impairment of investments	355 136	54 576
Loss/(profit) on sale of fixed assets	7	(91)
Foreign currency loss	16	9
Depreciation	4 772	4 518
Debts written-off	4 172	3 907
Increase in doubtful debt provision	6 570	14 597
Movement in provisions	3 027 513	2 275 873
Net transfers (out)/in	(261 312)	1 088 657
Adjusted net income after transfers and benefits	3 665 406	2 320 829
Changes in working capital	(474 158)	(356 089)
Increase in accounts receivable	(582 491)	(461 792)
Decrease in inventory	362	896
Increase in accounts payable	107 971	104 807
Cash flow generated from operations	3 191 248	1 964 740

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

22. Financial management and associated risks

Investment activities expose the GEPF to various types of risks that are associated with the financial instruments and markets in which they are invested. 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.

22.1 Market risk and interest rate risk

Market risk is the risk that the value of a financial instrument or investment will fluctuate due to changes in market prices, irrespective of whether those changes are caused by circumstances particular to the investment or to the investment market in general. Financial instruments are recognised at fair value and all changes in market conditions directly affect net investment income. Exposure to market and interest risk is for the account of the GEPF due to it being a defined benefit arrangement, and is managed primarily by setting strategic asset allocation percentages for the various asset classes, which are designed to match the inflation risk that impacts the liabilities and assets, as well as market and interest risk.

The investment managers are required to diversify the investments of the GEPF and disperse investments within classes of assets such that exposure to any single investment is limited and the performance of the asset classes are similar to the performance of the corresponding sections of the market as a whole.

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 of Trustees, monitors this risk against predetermined benchmarks. The investment manager outsources the management of approximately 25% of the equity portfolio to other external fund managers who possess both the resources and expertise to adequately address any potential equity market risk. The fair value of the equity portfolio at 31 March 2008 was R408,7 billion (2007: R375,1 billion).

Interest rate risk is the risk that the value of a financial instrument or the income received from such instruments will fluctuate due to movements in market interest rates.

22.2 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.

This risk is managed by the investment manager through models developed in-house and by external credit rating agencies. Money is placed with A-rated obligors (excluding loans and advances) within limits set by the investment manager on behalf of the Board of Trustees.

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.

22.3 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 the majority of assets in government stocks and equities within an active market, enabling the investments to be efficiently liquidated if necessary to satisfy cash flow requirements. In addition, substantial cash holdings mitigate this risk.

Notes to the annual financial statements (continued)

for the year ended 31 March 2008

22. Financial management and associated risks (continued)

22.4 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, and the establishment of a solvency reserve, 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 constrain the solvency risk within levels acceptable to the stakeholders.

23. Related parties

Related party disclosure was not applied, due to the majority of the participating employers being the entire Government and the predominant number of GEPF transactions being 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.

24. Contingent liabilities

24.1 Benefits

A contingent liability exists for members that retired, died or withdrew from the GEPF prior to 31 March 2008, for whom no duly completed exit documentation have been received. The GEPF cannot estimate the benefits payable to such members exactly, because the quantum of the liability is dependent 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, eg 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.

24.2 Investments

A loan was provided to Black Ginger 33 (Pty) Limited relating to an initial purchase of a 15,1% interest in Telkom. The remaining portion of the loan has been included in accounts receivable (note 6), and relates to a remaining 3,37% holding in Telkom. The loan has been included at a market value approximating the market value of the underlying Telkom shares. As these shares were initially acquired at a discount, they will possibly be disposed of at a discount equivalent to that at which they were initially acquired. An equivalent discount that would possibly be allowed on the remaining shares approximates R422 927 353.

24.3 Pending liability

A contingent liability exists in respect of various legal matters brought against the GEPF. The estimated liability to the GEPF is between R418 540 and R802 349. This amount includes legal costs and was obtained from the GEPF's independent attorneys.

25. Capital commitments

During the current year, the GEPF decided to commit an investment of USD250 000 (R2 048 500 000) to the Pan African Infrastructure Development Fund (PAIDF). The total capital commitment is payable approximately within the next eight years. The PAIDF investment is being managed by Harith Fund Managers.

26. Subsequent events

There do not appear to be any events arising after financial year-end to the date of approval of the annual financial statements, which require adjustments to, or disclosure in, the annual financial statements of the GEPF.

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