



TOWARDS OUR **INVESTMENT BELIEFS**

# 2017 ANNUAL REPORT

# VISION

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

# MISSION

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

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

# VALUES

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

## **Integrity**

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

## **Transparency**

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

## **Client centricity**

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

## **Accountability**

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

## **Innovation**

- Championing research and development in the retirement industry worldwide



# CONTENTS

Minister's Note to Parliament	2
Financial Highlights and Overview of the Fund	3
Chairperson's Review	6
Principal Executive Officer's Report	8
Board of Trustees	12
Fund Governance	18
Remuneration Report	27
Investment Report	28
Communication	36
Stakeholder Engagement	37
Member Services	39
GEP Law and Rule Changes	41
Actuarial Valuation	42
Trustee Remuneration	45



# MINISTER'S NOTE TO PARLIAMENT



**MKN Gigaba, MP**  
Minister of Finance

October 2017

## **To the Speaker of Parliament**

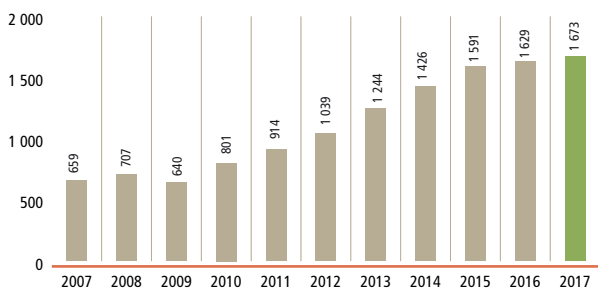
I have the honour, in terms of section 9(6) of the Government Employees Pension Law, 1996 (Proclamation 21 of 1996), as amended, to submit the Annual Report of the Government Employees Pension Fund for the period 1 April 2016 to 31 March 2017.

# FINANCIAL HIGHLIGHTS AND OVERVIEW OF THE FUND

## Accumulated funds and reserves as at 31 March 2017

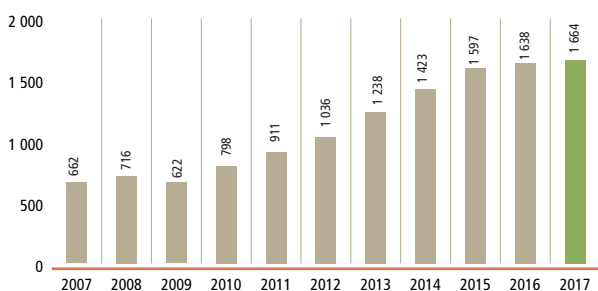
The Fund's accumulated funds and reserves amount to R1.67 trillion as at 31 March 2017. The reserves represent the actuarial reserve that was set aside to address past discriminatory practices in terms of a collective agreement negotiated and agreed to in the PSCBC.

Accumulated funds and reserves have grown at an average rate of 10.2% over the past 10 years.



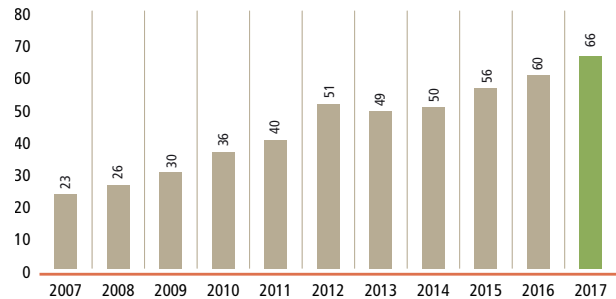
## Investment portfolio

The Fund's investment portfolio grew by 1.6% from R1.64 trillion in 2016 to R1.67 trillion in 2017. The increase in the investment values is mainly due to additional investments made in the current year.



## Contributions received and accrued

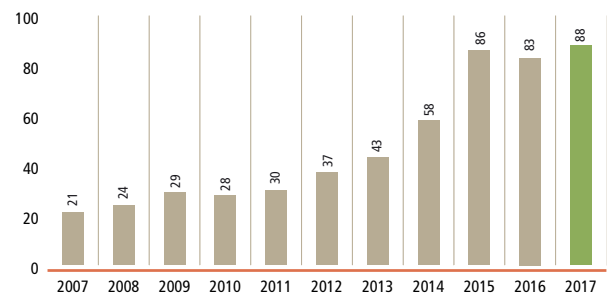
The Fund receives a percentage of members' pensionable salaries as contributions. Contributions received increased by R6 billion in the current year. This increase is mainly due to the general cost of living annual salary increases, as well as increases in salary due to promotions and notch increase given to members.



## Benefits awarded

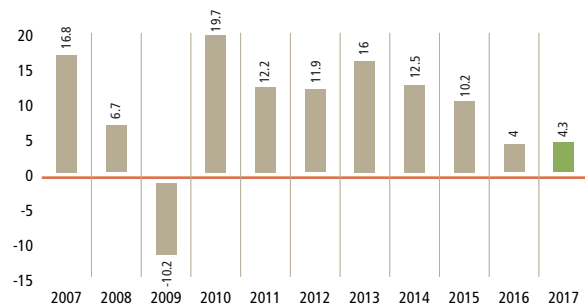
The Fund awards benefits upon a member's resignation, retirement or death. The Fund also pays funeral benefits.

Benefits paid increased by R5 billion in the current year, mainly due to a slight increase in resignations from the Fund.



## Fund's investment returns

During the reporting period, the Fund's investments yielded an average return of 4.3% compared to 4.0% in 2016 based on net investment income of R72 billion (2016: R64 billion).





## Overview of the GEPF

The GEPF is a defined benefit pension fund that was established by the Government Employees Pension Law and Rules.

The GEPF provided benefits to 1 273 784 active members and 437 051 pensioners and beneficiaries as at 31 March 2017. The benefits are described below, along with examples of how it is applied in practice.

## Retirement benefits

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

### Normal retirement

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

### Early retirement

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

### Ill-health retirement

Enhanced benefits are paid when members retire for medical reasons or are injured on duty. In these

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

### Late retirement

According to the Fund's rules, the normal retirement age for members is 60. However, in certain instances the employment contract of the member may allow for the member to retire after 60. The benefits of such a member will be calculated using the same formula as for normal retirement.

### Resignation benefits

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

### Death benefits

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

### Death while in service

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

## Death after becoming a pensioner

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

## Spouse's annuity

A spouse or eligible life partner is entitled to a percentage of the annuity paid to the member at date of death. The same applies if the member dies while in service and had a full potential service period of at least 10 years (meaning pensionable service years plus unexpired years for normal retirement). If a member retired before 1 December 2002, the spouse's annuity is 50% of the annuity the pensioner was receiving at the date of death, but a member who retired on or after 1 December 2002, had the option of increasing the spouse's annuity benefit from 50% to 75%. This arrangement applied to all members because the Board resolved in September 2012 that all current pensioners of the Fund be allowed to reduce their pension for an increased spouse's pension from 50% to 75%. This option was only available to pensioners for a limited period. The reduction was calculated based on the member or pensioner's age and gender, spouse's actual age and the remaining guarantee period.

## Orphans' annuity

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

## Funeral benefits

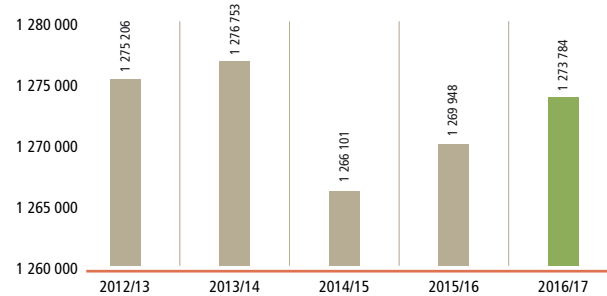
Previously, the Fund provided funeral benefits on the death of members and pensioners whose pension commenced only on or after 1 December 2002 and on the death of spouses and eligible children of members and pensioners whose pension commenced

after 1 December 2002. However, the Board approved that this benefit be extended to all pensioners whose pension commenced before 1 December 2002 and who were alive at the effective date of the rule amendment. The rule amendment was gazetted and effected on 1 April 2012.

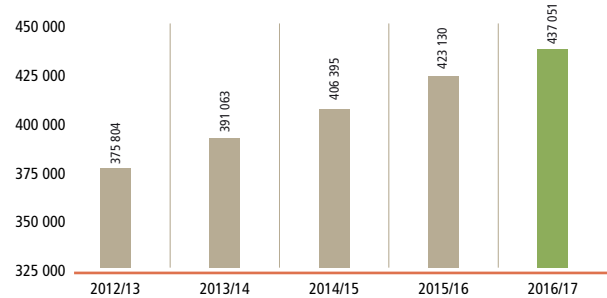
## GEPF member and beneficiary data

The demographics of the Fund are depicted below:

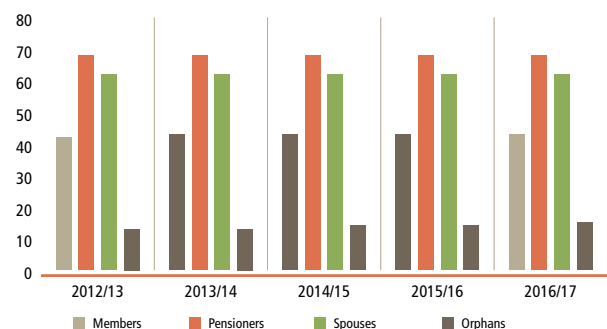
### Number of active members



### Number of pensioners and beneficiaries



### Average age of members, pensioner spouses and orphans



# CHAIRPERSON'S REVIEW



## Outlook

It is with great pleasure that I present the 2016/2017 Annual Report on behalf of the Board of Trustees of the Government Employees Pension Fund (GEPF).

The year 2017 ended with severe volatility in the local markets. In South Africa, the Rand weakened to its lowest level in December and recovered marginally amidst expectations of a credit rating downgrade. South Africa's unsecured foreign-currency and local-currency bonds, representing a proportionally small part of the country's overall borrowings, were subsequently downgraded to sub-investment grade in April of 2017. Despite the initial volatility immediately after the downgrades, they have so far had minimal effect on the GEPF as South Africa has benefited from the search for yield despite the credit rating downgrade as foreign ownership of local bonds rose to historical highs.

Global economic growth recovered as growth in the US strengthened fuelled in part by high expectations based on promised pro-business policy changes by the incoming new President of the US, Donald Trump. In Europe growth was steady as policy conditions remained largely benign despite political challenges associated with the UK's decision to leave the European Union (Brexit) and the wave of migrants from West Africa and the Middle East, especially from war torn Syria.

UK growth remained steady but is affected by uncertainty associated with Brexit with its negative impacts expected to be more gradual than initially anticipated.

Growth in China remained steady boosted by strong industrial production and growing domestic household consumption.

Despite the marginally improved global economic prospects, South Africa continues to experience weak economic growth. This has resulted in subdued investment performance and returns, which if they persist, may negatively impact the GEPF's funding level.

## Investments

The GEPF's investment strategy uses a liability-driven approach, based on asset liability modelling, that takes into consideration expected future benefit payments, the actuarial position, and other long-term objectives, as well as the risk to the overall solvency of the Fund. The GEPF conducted an asset liability modelling exercise during the reporting period to ensure that the Fund's investment strategy is still relevant to meet future liabilities. The GEP Law and Rules require that the Board in consultation with the Minister of Finance shall determine the investment policy of the Fund. The GEPF has therefore started the consultation process with the Minister to effect the recommendations of the current asset liability modelling exercise.

The Fund's investment portfolio grew by 1.6% from R1.64 trillion in 2016 to R1.67 trillion in 2017. The increase in the investment values is mainly due to additional investments made in the current year. During the reported period, the assets of the Fund totalled R1.71 trillion. The GEPF achieved an overall investment performance return of 4.3%. This enabled the Board to grant a pension increase of 5.6% which was equal to the Consumer Price Index (CPI) of 6.6% as at November 2016. This is higher than the 75% increase recommended by the Rules of the Fund.

The GEPF supports responsible investing and is a founding signatory of United Nations Principles for Responsible Investment (UNPRI) and the



Code for Responsible Investing in South Africa (CRISA). As a long-term investor, the GEPF understands that its success cannot be isolated from the fortunes of the country. Any constraints on South Africa's economic growth will have a similar impact on the Fund. Pension Funds are the biggest investor group in South Africa and, along with other institutional investors, are fully aware that investment values are impacted by the seriousness with which companies regard environmental, social and governance (ESG) issues.

The GEPF has reviewed, developed and implemented various policies and procedures to ensure that the Fund's investment manager/s integrate ESG issues into their investment decision making processes. Some of these are:

- Responsible investment policy
- Investment beliefs
- Key development indicators with regards to ESG issues with respect to the Fund's unlisted investments

Given its size, the GEPF realises that it can leverage its administration and investments to meet its primary responsibility of safeguarding the benefits of its members and pensioners while contributing meaningfully to the development of our country, our continent and the planet. To this end, *the GEPF allocated an additional R70 billion to developmental, infrastructure, renewable energy, economic transformation and other unlisted investments*. These are investment opportunities that signify steps towards investing in a sustainable future.

### Benefits and administration

The goal of the GEPF is to pay benefits accurately and on time with the assistance of its administrator, the Government Pensions Administration Agency (GPAA). A number of the projects to modernise the administrative processes have come to fruition during the year. We are confident that this will enhance the overall client experience and satisfaction levels of all our stakeholders. The process to enhance several benefits is well underway and will now be implemented after the required consultation process and resolution

by the Public Service Co-ordinating Bargaining Council (PSCBC) were concluded.

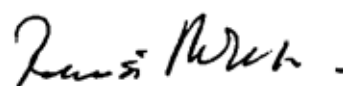
We have seen a decrease in the number of members resigning from the Fund during the period under review. One of the reasons for this decrease is due to the Funds targeted and structured communication campaign with its members to highlight the impact of resigning from the Fund on their financial well-being. Benefits paid did increase during the reporting period. However, the reason for this increase in benefits paid was not due to an increase in the number of exits but an increase in benefits paid due to higher average salaries at exit due to in part to salary increases.

### Governance

During the period under review, the GEPF continued to recognise the importance of promoting best-practice governance within the Board, the Government Pensions Administration Agency and all the Fund's investment managers. The Board has received training on King IV. We intend to align with the King IV principles voluntarily and will report on our progress during the next financial reporting period. We do not view governance as a tick box to compliance but as a pinnacle guide to ensuring we deliver in terms of the policies, structures and procedures we have established. The Board will continue to uphold the values of the Fund through its governance and ethics practices.

### Conclusion

I thank the Board of Trustees for their assistance and extend my gratitude to the CEO, Abel Sithole, his executive team and all the GEPF employees for ensuring that we fulfill our mandate to our stakeholders effectively. Our pensioners and members can rest assured that your financial future is secure with the GEPF and we are honoured for the trust you have placed in us.



**Dr Renosi Mokate**

Chairperson: GEPF Board of Trustees

# PRINCIPAL EXECUTIVE OFFICER'S REPORT



During the period under review, the Office of the Principal Executive Officer (PEO) continued to support the Board of Trustees, ensuring that the Government Employees Pension Fund (GEPF) acted in the best interests of its members, pensioners and beneficiaries. It also endeavoured to ensure that the Fund's strategy and specific deliverables were implemented in conjunction with the Government Pensions Administration Agency (GPAA) and the Public Investment Corporation (PIC).

## Performance against strategy

During the period under review, the Board agreed to certain additions to the 20 strategic outcomes that it had approved in the previous financial year. These approved additions would be incorporated into the GEPF's budget and business plan for the 2017/18 financial year.

At its annual strategic planning session, the Board agreed that the GEPF should focus its activities on the following five strategic objectives:

- Improve benefits administration;
- Improve member and beneficiary; communication and education;
- Improve investment monitoring;
- Risk management architecture; and
- Improve stakeholder relations.

The GEPF commenced with the implementation of its balanced scorecard on 1 April 2016 based on the Board's strategy, incorporating outstanding items from the previous year and recorded a significant improvement on its performance.

## Financial highlights

At the end of the period under review, the market value of the Fund reached R1.67 trillion, which is an increase of 2.6% on the value at 31 March 2016. During this period, the Fund produced a return of 4.3%, outperforming its strategic benchmark return of 3.7%. This investment performance was achieved in a period of low economic growth, volatile financial markets, and with inflation (at 6.3% year-on-year) slightly higher than the South African Reserve Bank's Consumer Price Index (CPI) target range of 3% to 6%. Investment returns below the inflation rate could impact negatively on the Fund's objective of granting full inflationary increases to pensioners.

The Fund recorded several financial highlights during the period under review. Its accumulated funds increased from R1.63 trillion in 2016 to R1.67 trillion in 2017. Its investment portfolio increased from R1.64 trillion in 2016 to R1.67 trillion in 2017. Contributions received and accrued increased from R60 billion in 2016 to R66 billion in 2017. The Fund incurred R2.9 billion in expenditure for the year ended 31 March 2017 against a budget of R3.6 billion, which represents a total expenditure of 80% of the budget. This expenditure excludes other direct expenditure that was incurred directly by asset managers to the value of R1.9 billion.

## Responsible investment

The GEPF believes that integrating environmental, social and governance (ESG) factors that play a role in investment decisions promote the long-term value of the Fund's investments. These are also in the interest of its members and beneficiaries. According to the Fund's responsible investment policy, ESG considerations are applied across its entire investment portfolio.

Its responsible investment policy is aligned to the Code for Responsible Investing (CRISA) and other global responsible investing and development principles, such as the United Nations Principles for Responsible Investment (UN PRI). As a signatory to the UN PRI, the GEPF also supports the United Nations' Sustainable Development Goals (SDGs), which are aimed at ending poverty, fighting inequality and injustice, and tackling climate change by 2030.

### **Developmental investment**

The GEPF allocated R70 billion to the PIC for developmental investments in specific mandates in the following broad areas:

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

### **Ensuring members' and pensioners' best interests**

During the period under review, the GEPF's member and pensioner management, including contribution management and the payment of benefits, continued to be managed by the GPAA. Its relationship with the GPAA is governed through a contract and service level agreement, which was revised during the period under review. Benefit claims received in 2016/17 amounted to 74 689 (compared with 81 090 in 2015/16).

Of these claims, 73 764 were paid (compared with 79 783 in 2015/16). The benefits awarded in respect of these claims amounted to R90.55 billion (compared with R85.60 billion in 2015/16). Furthermore, the GPAA collected R66 billion in contributions (compared with R60 billion in 2015/16).

The number of active members increased from 1 269 948 in 2015/16 to 1 273 784 in 2016/17. The number of pensioners and beneficiaries also increased, from 423 130 in 2015/16 to 437 051 in 2016/17.

In order to improve service delivery to its members, pensioners, beneficiaries and employer departments, the GPAA implemented a number of initiatives that helped improve the customer experience as part of the modernisation project. A queue management system was installed at its branches to reduce waiting time. A Pensioner Case Management system was implemented, where employer departments could submit claims electronically. This system improved the submission of claim information, as well as turnaround times in respect of the payment of benefits. The processing of claim information was also automated through the Benefit Payment Automation mobile application, which reduced human intervention through automated rules and systems control, thereby improving turnaround times in the payment of benefits.

In a move towards ensuring that members and pensioners manage their personal affairs, the GPAA piloted a self-service function. This application allowed members and pensioners to retrieve benefit statements, payment advice documents and tax certificates in the comfort of their own homes and offices, thereby reducing the need to call the contact centres or visit the Fund's offices. This service will be rolled out to all the Fund's branches and mobile offices in the following financial year. It will also be available on the Fund's website.

### **Stakeholder interaction**

In line with the GEPF's mission, the Board approved its new integrated communication strategy. The primary objective of this strategy is to engender a better appreciation by members, pensioners and beneficiaries' of the Fund's benefits structures, and processes and to build and maintain relationships with stakeholders, while building a stronger GEPF brand. Among other things, this strategy would assist in educating beneficiaries on how to access their benefits, communicate consistent messages in a clear and balanced way, and ensure buy-in from stakeholders.

Stakeholder engagement formed an important part of this strategy. This involved engagement with members, pensioners, beneficiaries, the

Board of Trustees, government departments, the media, Parliament, trade unions and the investment industry. The aim of these initiatives is to educate members about the Fund's various pension benefits. They also provide a platform for members and pensioners to give feedback on the services rendered by the GEPF.

In this regard, during the period under review, the GEPF held a number of successful stakeholder engagements. These included national outreach campaigns, such as roadshows, mobile offices, human resource forums, retirement member campaigns, workshops and exhibitions, as well as print media, radio and television campaigns. In its efforts to make the most of its interactions with stakeholders, the GEPF distributed a member's guide booklet containing information on the GEPF's benefits. It continues to publish regular newsletters, which provided appropriate information to the different stakeholders.

The GEPF uses mobile offices in the form of vehicles equipped with the latest information and communication technology, including satellite receivers. These receivers enable the mobile offices to link with the main information systems in Pretoria and provide on-site, real-time assistance to members, pensioners and beneficiaries in all nine provinces, particularly those in remote rural areas.

## Governance

In this financial year, the GEPF's Board revised its Board Charter. The Charter regulates the parameters within which the Board operates and ensures the application of the principles of good corporate governance, in respect and on behalf of the GEPF in all dealings, as well as setting out the roles and responsibilities of the Board and individual trustees. The Board is also governed by a Governance Charter, which is reviewed annually to ensure that it is up to date with corporate governance best practice locally and internationally, such as the relevant King Code of Corporate Governance.

## Human resources

The GEPF's remuneration philosophy is to provide a framework of total rewards, which attracts talent, motivates and rewards performance, and retains such talent in order for it to achieve its strategy. During the period under review, the GEPF subscribed to and participated in two reputable South African remuneration surveys to obtain information to establish the Organisation's position in the external market. The information serves to guide the organisation in respect of its internal remuneration considerations in line with its remuneration philosophy and policies and practices in terms of both fixed and variable remuneration. The outcome of the annual benchmarking exercise resulted in a review of both the internal pay scales and the variable component of remuneration thereby ensuring that the GEPF's remuneration strategy remains aligned with strategy and is structured to promote high levels of performance.

## Ethics

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

An Ethics Officer supports the subcommittee and is responsible for the implementation of an ethics programme within the organisation. A number of ethics initiatives were implemented, such as an ethics box for confidential disclosures, the GEPF Ethics Hotline and workshops on various related topics. The Ethics Officer reports quarterly through the Social and Ethics Subcommittee to the Governance and Legal Committee in respect of gift disclosures, annual financial disclosures and any other matters that impact on ethics deliverables. As part of its ethics programme, a project to align the ethical codes of the GPAA, the PIC and the GEPF will be implemented.

## Highlights

The GEPF recorded a number of highlights during the period under review. These included the following:

- Granting of inflation related pension increases
- The launch of a housing scheme for government employees in partnership with the PIC, the Department of Public Service and Administration and SA Homeloans.
- The conducting of an ethics risk assessment and hosting of a joint ethics workshop with the GEPF, GPAA and the PIC.
- The finalisation of the Asset Liability Model: the Board agreed that the proposed strategic asset allocation could be consulted with the Minister of Finance.
- The finalisation of the statutory actuarial evaluation.
- The review and approval of a number of governance-related policies

## Appreciation

I would like to express my gratitude and appreciation to the Chairperson of the GEPF's Board, Dr Renosi Mokate, as well as the Board of Trustees and its committees for their support during the past year. I also thank my dedicated management team and staff for their hard work and continued support during the 2016/17 financial year.



**Abel Sithole**

*Principal Executive Officer*



# BOARD OF TRUSTEES



**Dr Renosi Mokate**  
Executive Director and  
CEO – Unisa Graduate  
School of Business  
Leadership

#### GEPF positions

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

#### Qualifications

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

#### Meeting attendance

Board meetings	4/4
Board training and strategic planning session	3/4
Finance and Audit Committee <i>* Attended on invitation</i>	1
Investment Committee	6/6

**Major General Dries de Wit**  
Former General Officer  
Commanding, South  
African National Defence  
Force (SANDF) – Training  
Command

#### GEPF positions

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

#### Qualifications

- Tertiary qualification (Human Resource Management)

#### Meeting attendance

Board meetings	4/4
Board training and strategic planning session	3/4
Benefits and Administration Committee	4/4
Investment Committee	6/6
Remuneration Committee	7/7

**Mr Themba Gamedze**  
Non-executive Director  
on various boards

#### GEPF positions

- Employer-nominated trustee
- Investment Committee
- Benefits and Administration Committee
- Valuations Subcommittee

#### Qualifications

- BA (Honours) – University of Warwick
- MSc – University of Warwick

#### Meeting attendance

Board meetings	4/4
Board training and strategic planning session	2/4
Benefits and Administration Committee <i>* Resigned from BA-C in December 2016</i>	1/4
Investment Committee	2/6
Valuations Subcommittee	1/4



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

**GEPF positions**

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

**Qualifications**

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

Meeting attendance	
Board meetings	4/4
Board training and strategic planning session	4/4
Governance and Legal Committee	7/7
Investment Committee	5/6
Finance and Audit Committee	4/5



**Dr Barry Kistnasamy**  
*Compensation  
 Commissioner for  
 Occupational Diseases –  
 National Department of  
 Health*

**GEPF positions**

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

**Qualifications**

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

Meeting attendance	
Board meetings	2/4
Board training and strategic planning session	2/4
Benefits and Administration Committee	3/4
Investment Committee	2/6



**Mr Mpho Kwinika**  
*President: South African  
 Police Union*

**GEPF positions**

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

**Qualifications**

- National Diploma (Policing)

Meeting attendance	
Board meetings	4/4
Board training and strategic planning session	2/4
Governance and Legal Committee	6/7
Investment Committee	4/6



**Dr Frans le Roux**  
*Former Deputy Director-General: Financial Management, National Treasury*

**GEPF positions**

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

**Qualifications**

- DCom (Economics) – University of Stellenbosch

**Mr Seth Makhani**  
*Chief Director: Department of Defence*

**GEPF positions**

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

**Qualifications**

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

**Ms Kgomotso Makhupola**  
*National Treasurer – National Health, Education and Allied Workers Union (NEHAWU)*

**GEPF positions**

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

**Qualifications**

- Diploma in Public Relations – Allenby College

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

Meeting attendance	
Board meetings	4/4
Board training and strategic planning session	4/4
Finance and Audit Committee	5/5
Governance and Legal Committee	7/7
Valuations Subcommittee	
* Attended as an invitee	1

Meeting attendance	
Board meetings	2/4
Board training and strategic planning session	4/4
Governance and Legal Committee	6/7
Finance and Audit Committee	3/5



**Mr Stadi Mngomezulu**  
Deputy Director-General:  
National Treasury

**GEPF positions**

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

**Qualifications**

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

Meeting attendance	
Board meetings	3/4
Board training and strategic planning session	3/4
Finance and Audit Committee	1/5
Governance and Legal Committee	5/7



**Ms Gladys Modise**  
Director: Department of  
Education

**GEPF positions**

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

**Qualifications**

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

Meeting attendance	
Board meetings	4/4
Board training and strategic planning session	2/4
Finance and Audit Committee	3/5
Investment Committee	1/6



**Ms Edith Mogotsi**  
National Negotiator: Police  
and Prisons Civil Rights  
Union (POPCRU)

**GEPF positions**

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

**Qualifications**

- Advanced Diploma, Public Administration – University of the Western Cape
- Executive Development Programme (EDP) – Unisa
- Certificate Course: Economic Development – University of the Western Cape

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



**Ms Moira Moses**  
*Non-executive Director on various boards*

**GEPF positions**

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

**Qualifications**

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

**Meeting attendance**

Board meetings	4/4
Board training and strategic planning session	4/4
Governance and Legal Committee	5/7
Investment Committee	5/6
Finance and Audit Committee	5/5
Remuneration Committee	6/7
Valuations Subcommittee	3/4



**Ms Dorothy Ndhlovu**  
*National Treasurer of the Health and Other Service Personnel Trade Union (Hospersa)*

**GEPF positions**

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

**Qualifications**

- Diploma in Political Economy – University of the Western Cape

**Meeting attendance**

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



**Mr Pierré Snyman**  
*Chairperson: Public Servants Association of South Africa (PSA)*

**GEPF positions**

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

**Qualifications**

- Senior Certificate
- Advance Labour Law Programme – UNISA

**Meeting attendance**

Board meetings	4/4
Board training and strategic planning session	3/4
Governance and Legal Committee	5/7
Benefits and Administration Committee	4/4
Investment Committee	
* Appointed to the Committee in December 2016	0/1





**Ms Barbara Watson**  
*Former Chief Director:  
Department of Public  
Service and  
Administration*

**GEPF positions**

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

**Qualifications**

- BSocSc – University of the Western Cape

**Meeting attendance**

Board meetings	3/4
Board training and strategic planning session	4/4
Governance and Legal	7/7
Investment Committee	6/6

# FUND GOVERNANCE

## Overview of the Board of Trustees

The Board governs the Fund and is accountable for its administrative and investment performance. According to the Government Employees Pension (GEP) Law, fiduciary responsibility for the Fund rests with the Board of Trustees. The Law requires that the Board be appointed for a four-year term, after which it must make way for a new Board. The Minister of Finance inaugurated the current Board on 17 April 2014 for a period of four years.

In line with the GEP Law and Rules, the Board consists of 16 trustees, led by an elected Chairperson and Vice-Chairperson. The trustees elect the Chairperson and Vice-Chairperson from its own ranks at the first meeting of the newly appointed Board. Each trustee has an elected or appointed substitute, ensuring full and proper representation at all times.

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

The Board, supported by the Principal Executive Officer and the executive management team, meets annually to discuss and agree on the Fund's long-term strategies. The Board held four meetings during the financial year.

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

- Benefits and Administration Committee
- Finance and Audit Committee
  - Valuations Subcommittee

- Governance and Legal Committee
  - Social and Ethics Subcommittee
- Investment Committee
- Remuneration Committee

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

### Ms Lindy Bodewig

Board meeting on behalf of Trustee	1/4
Board training and strategic planning session	1/4
Governance and Legal Committee	2/7
Finance and Audit Committee	0/5
Valuations Subcommittee	2/4

### Mr Cornelius Booyens

Board training and strategic planning session	1/4
Governance and Legal Committee	4/7
Finance and Audit Committee	5/5

### Colonel Johan Coetzer

Board training and strategic planning session	4/4
Governance and Legal Committee	7/7
Benefits and Administration Committee	4/4

### Dr Vuyo Dyantyi

\* Appointed to serve on Board Committees after the reporting period

### Brigadier Johan Griesel

Board training and strategic planning session	1/4
Investment Committee	4/6
Benefits and Administration Committee	3/4



#### Mr James Maboja

Board meeting on behalf of Trustee	2/4
Board training and strategic planning session	2/4
Governance and Legal Committee	5/7
Finance and Audit Committee	3/5

#### Dr Alex Mahapa

Board meeting on behalf of Trustee	1/4
Board training and strategic planning session	0/4
Governance and Legal Committee	4/7
Finance and Audit Committee	2/5
Social and Ethics Subcommittee	2/4

#### Mr Mugwena Maluleka

Board training and strategic planning session	0/4
Benefits and Administration Committee	2/4
Investment Committee	
* Appointed to Board committees in June 2016	1/6

#### Mr Success Mataitsane

Board training and strategic planning session	4/4
Governance and Legal Committee	7/7
Finance and Audit Committee	4/5
Social and Ethics Subcommittee	
* Appointed to the Subcommittee in September 2016	2/4

#### Advocate Makhubalo Ndaba

Board training and strategic planning session	3/4
Governance and Legal Committee	7/7
Benefits and Administration Committee	3/4

#### Mr Peter Ntsime

Board training and strategic planning session	4/4
Governance and Legal Committee	6/7
Benefits and Administration Committee	4/4

#### Dr Morgan Pillay

Board training and strategic planning session	3/4
Governance and Legal Committee	5/7
Benefits and Administration Committee	4/4

#### Dr Anban Pillay

Board training and strategic planning session	0/4
Benefits and Administration Committee	0/4
Investment Committee	0/6

#### Advocate Lindiwe Nkosi-Thomas

Board training and strategic planning session	0/4
---	-----

**Mr Ashley McAnda**

\* Served on the Board as a Substitute Trustee from 31 May 2016 – 19 September 2016

Board training and strategic planning session	1
Investment Committee	1
Benefits and Administration Committee	1

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

**Ms Jenny Jeftha**

Board meetings to present REMCO matters	4/4
Board strategic planning session	1/1
Remuneration Committee	7/7

**Ms Mantuka Maisela**

Social and Ethics Subcommittee	4/4
Remuneration Committee	7/7

**Dr Les Mathape**

Remuneration Committee	7/7
------------------------	-----

**Mr Richard Morris**

Board strategic planning session	1/1
Valuations Subcommittee	4/4
Finance and Audit Committee	5/5

**Mr John Raphela**

Finance and Audit Committee	5/5
-----------------------------	-----

**Board composition**

Trustees are appointed in accordance with section 6 of the GEP Law and Rules. Eight employer and six employee nominees are represented on the Board. Member representatives also include a pensioner and a representative of the SANDF and Intelligence community, elected through postal ballots.

**Employer nominees**

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

## Employee nominees

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

### Independence of trustees

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

### Skills, knowledge and experience of trustees

According to section 4.1.2 of the GEP Rules, at least one of the eight employer-nominated trustees must have expertise in financial management and investments, or the management and organisation of pension funds in general. Two specialists currently serve as trustees, supported by two specialist substitute trustees. The other trustees and their substitutes have a range of skills, knowledge and experience necessary to

effectively manage and govern the Fund. The profiles of the 16 trustees are reflected on pages 12 to 17.

### The Board Charter

The Board formally adopted a charter during the year under review. Previously, the Board utilised the GEP Law and Rules to regulate the parameters within which it operates and to set out the role and responsibilities of the Board and individual trustees. The purpose of the charter is to regulate the parameters within which the Board will operate and to ensure the application of the principles of good corporate governance in all dealings by, in respect and on behalf of the GEPF and, furthermore, to set out the roles and responsibilities of the Board and individual trustees, including the composition and relevant procedures of the Board.



## The Governance Charter

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

The Governance Charter includes a Trustee Code of Conduct and Ethics, Trustee Fit and Proper guidelines, Trustee Responsibilities, Trustee Development and Training, Board and Trustee Performance Assessments, Board Remuneration and Expenses, Media Policy, Confidentiality Policy, Conflict of Interest Policy, Compliance Policy, Risk Policy and Framework, Committee Terms of Reference, and Rules on the Delegation of Authority.

## Trustee education and training

The Trustee Education and Training Policy prescribes that all newly appointed trustees (including substitute trustees) must receive induction training within six months after their appointment. This is done over two days and focuses on governance issues, benefits and rules, investment policies, actuarial valuations, and the main service providers of the Fund.

All trustees must also attend an accredited Directors' or Trustee Development Programme within six months of being appointed. At least four compulsory training events are organised annually and trustees are also invited to attend various retirement fund, governance or investment-related conferences, and training sessions.

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

- Board effectiveness
- Investment and investment beliefs
- Protection of Personal Information (POPI) Act and insider trading

Trustees attended various other courses and attended various local and international conferences in respect of ongoing training and development.

## Trustee remuneration

According to the GEP Law, Trustees are compensated for their services and expenses as determined by the Board. Trustees receive payment for meetings attended and an annual retainer fee. The Trustee Remuneration Policy clearly sets out the principles upon which remuneration is paid to trustees. The details of the remuneration paid can be found on page 45. The GEPF conducted an independent review of its trustee remuneration levels and accordingly aligned the remuneration levels to that of trustees/directors at similar organisations.

## Board performance assessment

The Board did not have a formal performance assessment for the Board and its committees during the 2016 financial year. However, various areas in respect of the ongoing training and development of Board members were identified and trustees received training. Participation at Board and Committee level has also been robust and at its maximum. A formal assessment is anticipated during the 2017/18 period.

## Ethics and the management of the GEPF's ethical risks

The Board decided to establish a Social and Ethics Subcommittee even though, by law, the GEPF is not required to do so. This decision reflected the Board's commitment that the GEPF should be an ethical leader and good corporate citizen.

An Ethics Officer is responsible for the implementation of an ethics programme within the organisation. Quarterly reports are submitted to the Social and Ethics Subcommittee and the Governance and Legal Committee in respect of gift disclosures, annual financial disclosures and any other matters that impact on ethics deliverables.



### Legal and compliance

In discharging its responsibility to establish an effective compliance framework and processes, the Fund has an established Fund Compliance Policy (FCP) to serve as a cornerstone in the development of a compliance culture within the GEPF. It also ensures that the Fund complies with all applicable legislative, regulatory and supervisory requirements. The FCP makes provision for compliance reporting, which currently occurs on a quarterly basis to the Governance and Legal Committee.

The Fund is able to report that, in the financial year under review, there was no material or repeated instances of non-compliance with regulatory requirements by either the Fund or trustees in their capacity as members of the Board.

### Financial control

The oversight role of the Finance and Audit Committee (FA-C) holds management accountable for effective internal financial controls. The FA-C and Internal Audit and Corporate Services conducted a high-level review of the internal financial controls in an ongoing project to improve this oversight. The Fund's business plan and budget is prepared annually and approved by the Board. Regular reviews and monitoring of capital and operational expenditure, as well as cash flow projections, take place throughout the financial year to ensure sound financial control.

Ongoing engagement with the independent external auditors and Internal Audit on the results of their audits into the financial affairs of the Fund,

as well as input from management, will provide an opportunity to assess the effectiveness of the internal financial controls going forward.

### Financial reporting

The Fund's annual financial statements are prepared in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa (RRR) as prescribed by the Financial Services Board (FSB). Key aspects of the RRR are based on International Financial Reporting Standards (IFRS) and are tailored to cover the accounting aspects that are relevant to the retirement fund industry. However, the RRR are not currently designed to cover all of the extensive requirements of IFRS. Retirement industry and financial reporting stakeholders, such as the FSB, South African Institute of Chartered Accountants (SAICA) and Independent Regulatory Board for Auditors (IRBA), are involved in ongoing projects to align the RRR more fully with the IFRS.

The Board of Trustees is responsible for the financial statements of the Fund and is satisfied that they fairly present the financial position, performance and cash flows of the Fund as at 31 March 2017. It is the responsibility of the external auditors to independently audit the financial statements.

### Internal audit

In line with the King III Report on Corporate Governance requirements, Internal Audit provides management and the Board, through the Finance and Audit Committee, with assurances that internal controls are adequate and effective.

This is achieved by means of a risk-based audit coverage plan that caters for the evaluation of governance, risk management and controls through the identification of process control gaps and/or weaknesses for corrective action and improvement.

The Fund's Internal Audit Unit reports to the Finance and Audit Committee, with administrative reporting lines to the Fund's Principal Executive Officer, to promote strengthened independence. These reporting lines were maintained throughout the financial year and Internal Audit was able to discharge its responsibilities in line with the charter approved by the Finance and Audit Committee.

The Finance and Audit Committee approved the Internal Audit Annual Plan for the 2016/17 financial year. A tracking register tracks the progress of previously agreed-upon management corrective actions, and a register is kept of all reviews until these are resolved.

### **The Office of the Principal Executive Officer**

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

The management structure consists of the PEO, the Head of Corporate Services, the Head of Investments and Actuarial, the Head of Stakeholder Management and the Company Secretary.

The PEO assists the Board in meeting its fiduciary and oversight obligations in line with the GEP Law, and other laws and regulations. The PEO also represents the Board at different forums (strategic and operational), and has the overall responsibility for financial reporting and disclosure, consolidating and amending the Fund's rules, and valuating liabilities and assets. The PEO implements all Board decisions and gives effect to the Board's strategy. The PEO is supported in this role by the different executive managers.

The Head of Investments and Actuarial monitors and manages the GEPF's assets and liabilities, and is responsible for conducting actuarial valuations, asset liability modelling, advising the Board on investment strategy and execution, and overseeing the implementation of the Responsible Investment Policy (RI) and Developmental Investment Policy (DI).

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

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

The Head of Stakeholder Management is responsible for developing and implementing a comprehensive Stakeholder Management Policy, as well as a Communication and Education Policy. The creation of this position was approved by the Board during the period under review and is currently vacant.

## Executive management



**Mr Abel Sithole**

*Principal Executive Officer*

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



**Ms Adri van Niekerk**

*Company Secretary*

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



**Ms Linda Mateza**

*Head: Investments and Actuarial*

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

## Internal governance structures

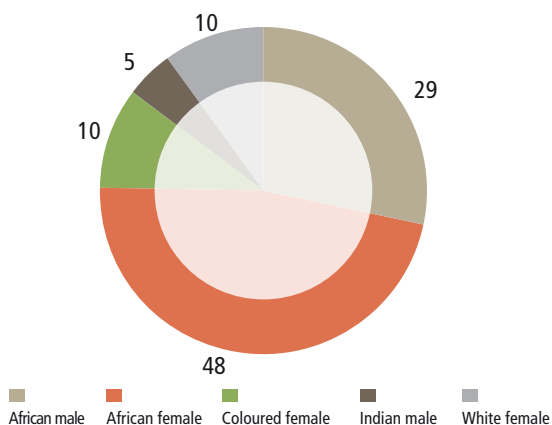
The GEPP has an established Executive Committee, which is responsible for ensuring that all matters are tabled, through committees, to the Board for approval. The Executive Committee drives the Board strategy and ensures that all divisions are adept at meeting the strategic targets set by the Board. An established Bid Adjudication Committee deliberates on all tenders above R500 000 and ensures that the necessary compliance and procedures have been followed by Fund staff. No tenders were approved by the Board during the 2016/17 period under review.

### Employment equity

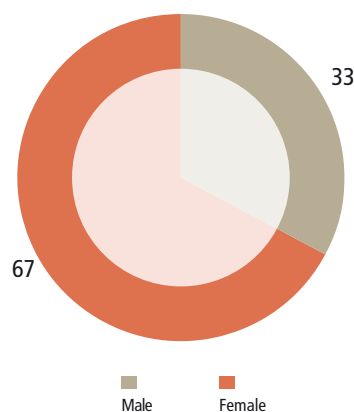
Level	African		Coloured		Indian		White		Total		Total filled	Vacant
	M	F	M	F	M	F	M	F	M	F		
Top management	1								1		1	
Senior management		1						1		2	2	2
Professional – middle management	4	3		1	1				5	4	9	4
Skilled		3								3	3	4
Semi-skilled		3		1				1		5	5	1
Unskilled	1								1		1	
<b>Total</b>	6	10	–	2	1	–	–	2	7	14	21	11
<b>Percentage</b>	<b>29</b>	<b>48</b>	<b>–</b>	<b>10</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>10</b>	<b>33</b>	<b>67</b>		

### Employment equity by race and gender

EMPLOYMENT EQUITY BY RACE



EMPLOYMENT EQUITY BY GENDER



The GEPF is fully committed to the spirit and objectives of the Employment Equity Act and is committed to the following in this regard:

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



# REMUNERATION REPORT

## Remuneration philosophy

The GEPF's remuneration philosophy is to provide a framework of total rewards, which attracts talent, motivates and rewards performance, and retains such talent in order for it to achieve its strategy. In order to support and enable its people to give their best to the organisation, the GEPF provides a work environment that is both engaging and fulfilling, and encourages opportunities for personal and professional growth.

The GEPF aims to pay employees at the median of the South African national market, and thereby ensures that remuneration neither leads nor lags behind the selected market. Where the Fund has performed well and performance targets are exceeded, it rewards employees through a short-term incentive scheme.

## Remuneration policy

The GEPF's Remuneration Policy aims to crystallise the spirit of a total rewards plan and seeks to ensure that the remuneration and rewards framework meets the GEPF's strategic needs. A total rewards strategy that is compelling, flexible and compliant with legislation has been developed in line with its philosophy.

## Pay benchmarking

During 2017, the GEPF subscribed to and participated in two reputable South African remuneration surveys to obtain information, which would identify the Fund's position in the market, and inform the remuneration philosophy, and policies and practices in terms of fixed and variable remuneration.

## Remuneration package

The Remuneration Committee is committed to ensuring that the GEPF's remuneration and people practices are reviewed regularly so that the organisation can continue to attract desirable talent who are able to work towards the attainment of its vision and the Fund's strategic goals.

## Executive remuneration and performance management

The GEPF endeavours to ensure a meaningful link between the performance of its employees and their remuneration so that remuneration and rewards are structured to promote and sustain high levels of performance. Performance bonuses are allocated for above-average performance and beyond and is effected at the end of the financial year.

*Ex-gratia* payments were not made during the financial year.

Executive remuneration is reflected in the annual financial statements.

# INVESTMENT REPORT



## Investment beliefs

In line with international best practice, the GEPF has adopted a set of investment belief statements, which reflect the Fund's investment philosophy and approach. Investment beliefs are guiding principles, which pension funds and asset managers apply in their investment decision making. The GEPF's Board of Trustees recognised the need to formulate clear views on the functioning of investment markets, and how the application of these views can ultimately add value to the Fund's members. The investment beliefs also express the Fund's role in society and its responsibility to its stakeholders.

The GEPF's investment beliefs are stated as follows:

- The GEPF's investment strategy considers the Fund's risk profile, assets and liabilities. Risk is considered at the asset class, portfolio and investment levels.

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

The GEPF intends to align all its investment policies and processes to reflect the investment beliefs. This will be done through a review of the Fund's investment policies and an identification of any existing gaps. The Fund's investment managers will be an integral part of the implementation of these investment beliefs.

## Investment policy statement

The GEPF's Investment Policy document is a formal statement of the main principles underlying the Investment Strategy of the GEPF. It provides a framework within which the Fund's

management, Investment Committee and Board of Trustees make investment decisions. It is designed to do the following:

- Communicate the investment philosophy to stakeholders and investment managers; and
- Describe the overall investment objectives, risk philosophy, design of the portfolios and different mandates, as well the benchmarks against which performance will be reviewed, and the risk parameters associated with the various portfolios.

The principal long-term objectives of the Fund are as follows:

- Provide members and their dependants with the benefits promised in the Fund Rules;
- Grant inflationary increases to pensioners subject to affordability and sustainability of the Fund, and establish contingency reserves at a level designed to facilitate such targeting; and
- Keep the employer contribution rate as steady as possible with any changes to the employer contribution rate being introduced gradually.

As a very substantial fund within the South African market and in accordance with its responsibility as a signatory to the United Nations Principles for Responsible Investment and the Code for Responsible Investing in South Africa, the GEPF aims to invest responsibly for the long term and, therefore, where compatible with its other objectives, to take account of the wider impact on the broader South African society when making investments.

The investment strategy of the Fund has been designed using a liability-driven approach that takes the expected future benefit payments, the actuarial position and other long-term objectives, as well as the risk to the overall solvency of the Fund, into consideration. The investment strategy is designed to ensure that members and their dependants receive their promised benefits on time and with the highest degree of certainty.

The Fund's strategic asset allocation is determined through modelling the Fund's assets and liabilities into the future, and establishing the asset class structure that offers the highest probability of meeting the Fund's current and future liabilities.

The allocation of the Fund between the different asset classes is set out in the table below.

<b>Asset class</b>	<b>Strategic asset allocation (%)</b>	<b>Asset allocation range (%)</b>
<b>South African assets</b>		
Cash and money markets	4	0–8
Domestic bonds	31	26–36
Domestic property	5	3–7
Domestic equity	50	45–55
<b>Rest of Africa (excluding South Africa)</b>		
Africa equity	2.5	0–3
Africa bonds	1.5	0–2
Africa property	1	0–2
<b>Global assets</b>		
Global bonds	2	0–4
Global equity	3	1–5

Previously, the Fund's allocation to the rest of Africa consisted only of equity investments comprising up to 5% of the portfolio. Taking cognisance of advances in the financial markets and growing investment opportunities, the allocation to the rest of Africa has been diversified to include bonds and property.

### Investment decision-making process

Governance processes are contained in the Terms of Reference of the Investment Committee or the relevant Board Charters. The PIC is mandated to make investments in both listed and unlisted assets according to its investment and governance processes, within the parameters of the GEPF mandate. The PIC's Annual Report describes the investment decision-making process in detail. A copy of their Annual Report can be obtained on its website at [www.pic.gov.za](http://www.pic.gov.za).

### Investment strategy

The Fund invests in a combination of investments that seek growth – such as equities and property – and those that are designed to reduce risk, such as bonds and cash. The GEPF also makes unlisted investments across different asset classes. The reason for making these investments is twofold. First, as a large institutional investor, investment in unlisted entities provides a degree of diversification to the GEPF's portfolio. Second, it increases the opportunity set and allows the GEPF to make investments that fit within the Fund's developmental investment policy.

In the year under review, the GEPF made an allocation of R70 billion to the PIC for developmental investments under the following portfolios:

- Private Equity South Africa Fund II
- Private Equity Rest of Africa Fund II
- Priority Sectors Investments Fund II
- Economic Infrastructure Fund II
- Environmental Infrastructure Fund II (excluding energy)
- Social Infrastructure Fund I
- Energy Infrastructure Fund I
- Small Medium Enterprise Fund I
- Africa Developmental Investments Fund I

Each of these funds has a specified investment return objective, as well as key developmental indicators to be achieved over the investment term. The key development indicators will be monitored continuously to ensure that the funds meet the financial return objectives and deliver economic and social returns.

### Investment performance

At 31 March 2017, the market value of the Fund was R1.67 trillion, 2.6% higher than the market value of R1.63 trillion at 31 March 2016. For the one-year period ending 31 March 2017, the Fund produced a return of 4.3%, outperforming its strategic benchmark return of 3.7%.

This investment performance was achieved in a period of low economic growth, volatile financial markets, and with inflation (at 6.3% year-on-year) slightly higher than the South African Reserve Bank's Consumer Price Index (CPI) target range of 3% to 6%.

Investment returns below the inflation rate impact negatively on the Fund's objective of granting full inflationary increases to pensioners.

### Responsible investing

The GEPF believes that integrating environmental, social and governance (ESG) factors that play a role in investment decisions promote the long-term value of the Fund's investments and are in the interest of its members and beneficiaries. The GEPF's commitment to ESG factors is reflected in the Fund's responsible investment policy.

The GEPF's investments are exposed, to varying degrees, to ESG risks across specific investments, sectors and asset classes. According to the responsible investment policy, ESG considerations are applied across the Fund's entire investment portfolio.

The GEPF's responsible investment policy is aligned to the Code for Responsible Investing in South Africa (CRISA) and other global responsible investing and development principles, such as the United Nations Principles for Responsible Investment (UN PRI). As a signatory to the UN PRI, a leading proponent for responsible investment, the GEPF is also supportive of the United Nations' Sustainable Development Goals (SDGs), a set of 17 goals aimed at ending poverty, fighting inequality and injustice, and tackling climate change by 2030.

The GEPF is an active UN PRI signatory. This is given effect through its representation on the UN PRI's governance structures. The chairperson of the GEPF serves on the board of the UN PRI and GEPF's Head of Actuarial and Investment serves on the UN PRI Asset Owner Advisory Committee.

### Key engagements and outcomes

During 2016/17 the GEPF participated in the following responsible investment initiatives:

#### UN PRI consultation

The GEPF participated in a UN PRI-led consultation process. The aim of this consultation was to understand the key issues of risks to the financial system. The link between the SDGs and an understanding of how the entire financial system can be exposed to risk of failure, undermining the ability of fiduciaries and other institutional investors to fulfill their purpose, was explored.

#### Development Finance Forum

The World Bank hosted a Development Finance Forum (DFF) in 2017, which the GEPF attended. The forum promotes, develops and stimulates development finance in Africa by bringing together multiple sectors to explore the constraints to, and opportunities for, the scaling up of private sector investment in low-income countries, notably those affected by fragility and conflict. These multi-sector discussions, assisted in understanding ESG investment risks and their mitigation with the intention to increase market confidence and accelerate progress towards the 2030 Agenda for Sustainable Development.

### Understanding key risks

From these engagements and the GEPF's own ESG research, the following key environmental and social risks were identified as being integral to effective responsible investment management: water scarcity, climate change, food security and healthcare.

The following common risks were identified across all sectors:

- An increasingly strict regulatory environment
- Water security
- Energy security and rising electricity prices
- Labour unrest
- Difficulty in procuring sustainably sourced input materials
- Occupational health and safety
- Localisation
- Crime
- Cyber risk
- Reputational risk

The Fund has therefore embarked on a process to better understand the critical ESG risks to which GEPF's holdings are exposed, and how best to apply risk mitigation strategies.

### Proxy voting and engagement

During the period under review, the GEPF voted at 174 meetings through its asset managers, voting on 2 692 shareholder resolution items. The votes were in favour of 2 449 resolutions (91% of total votes) and against 240 (8.9% of total votes). The GEPF abstained from three votes.

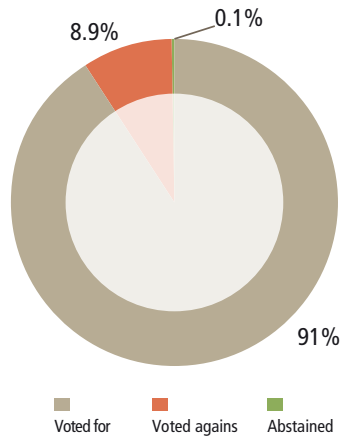


The GEPF's proxy voting activities, executed through the Fund's asset managers per sector, are illustrated in the table below.

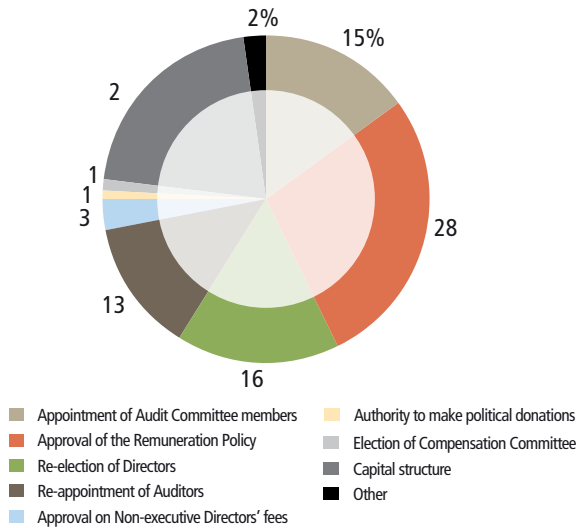
Sector	Resolutions	For	Against	Abstain
Property	481	452	28	1
Investment services	289	259	30	0
Consumer	655	575	78	2
Industrial	372	341	31	0
Insurance	133	125	8	0
Banks	146	139	7	0
Resources	412	376	36	0
Telecoms	65	59	6	0
Construction and engineering	37	32	5	0
Health care	102	91	11	0
<b>Total</b>	<b>2692</b>	<b>2449</b>	<b>240</b>	<b>3</b>

Total voting summary per sector year to date: 1 April 2016 to 31 March 2017

PROXY VOTING RESULTS



AGGREGATE PERCENTAGE OF AGAINST VOTES



Proxy voting results: 1 April 2016 to 31 March 2017

Proxy voting: Against Votes: 1 April 2016 to 31 March 2017

The Fund's asset manager conducts company engagement in two ways: through responsive engagement and through proactive engagement:

Responsive engagement is where the asset manager engages with a company after a specific problem has been identified. After collecting and analysing the relevant information, the asset manager engages investee companies with the objective of achieving long-term policy changes to minimise the risk of any similar incidents occurring in the future. Furthermore, the asset manager strategically expresses the GEPF's interests by voting at annual general meetings or general meetings. Hence, some of the engagements arise from the resolutions tabled at investee company meetings.

In the case of proactive engagement, the asset manager engages investee companies before problems arise. These are engagements based on the ESG Rating Matrix that has been developed by the asset manager to assess all listed investee companies.

- Environmental criteria assess how a company is performing regarding natural environment preservation in terms of energy, water, biodiversity and waste management.
- Social criteria assess the company's performance regarding its social impact both internally and externally in terms of health and safety, corporate responsibility, labour practices, supply chain management and transformation.
- Governance deals with the company's leadership regarding its Board and Executive Committee, as well as its policies governing remuneration, risk management, capital structure, corporate culture, strategy and information technology.

The listed investment engagements held for the 2016/17 financial year are illustrated in the table below:

Quarter	Number of engagements
Quarter 1	11
Quarter 2	6
Quarter 3	10
Quarter 4	14
<b>Total</b>	<b>41</b>

The ESG teams of the GEPF and the PIC participated in various meetings held with the management teams of investee companies. Engagement with investee companies related to the following matters:

- Remuneration policy issues
- The re-election of non-executive directors
- The appointment of independent Audit Committee members
- Succession planning
- Transformation
- Sustainability matters

### Unlisted investments and social impact

The GEPF makes its investments with the objective of earning financial returns, as well as social returns for the benefit of its members. To achieve this objective, the Fund has set aside 5% of the total portfolio for developmental investments, which are investments in South Africa and the rest of Africa that deliver both a financial and a social return. Through these investments, the GEPF plays an important role in addressing many of the pressing social and environmental challenges of our time, given the growing appetite among investors to effect positive social and environmental change through responsible investments.

The GEPF seeks investment opportunities that enhance economic growth and aim to alleviate social challenges, such as unemployment and inequality.

During the year under review, the GEPF's investments facilitated in excess of 83 523 direct jobs, of which 76 110 were permanent and 7 413 temporary jobs. These included employment opportunities for more than 14 830 youth and 182 disabled individuals. Most of the temporary jobs were created in infrastructure development and investment in the agricultural sector, which relies largely on seasonal workers.

### Small and medium enterprises

During the financial year, the GEPF's investments facilitated the support of 543 small and medium enterprises (SMEs) in different sectors, resulting in the creation of more than 15 000 jobs. Although the majority of the businesses supported were in Gauteng, some businesses in Mpumalanga, Limpopo, Western Cape and KwaZulu-Natal were also supported. Of the total number of SMEs supported, 39% were in housing development in Gauteng and the Western Cape. The remainder covered all other economic sectors, including healthcare, hospitality, tourism and agriculture.

### Agriculture

The GEPF has mandated the PIC to invest in agriculture, which includes supporting and promoting agricultural, forestry and fisheries resources. So far, the PIC has concluded five investments in agricultural companies involved in farming activities.

### Energy

The Fund has shown commitment to renewable energy by investing directly and indirectly through other investors into the market. Through the PIC, the GEPF has facilitated 14 direct investments in renewable energy projects, creating a total of 904.29 MW. The GEPF's investments include projects for solar- and wind-powered electricity generation.

The construction of renewable energy projects requires new skills that are not readily available in South Africa, and the young professionals involved in these projects are acquiring these skills. Approximately 3 112 employees have been taught

new skills in the construction and maintenance of solar energy stations.

In 2016, the GEPF joined the PIC on a site visit of two solar energy plants in the Northern Cape to assess the developmental impact that the GEPF's investments have made.

### Bokpoort

Bokpoort is a 50 MW concentrated solar power (CSP) plant in the !Kheis Municipality. This plant converts solar energy into electrical energy using a solar field of parabolic trough collectors by concentrating thermal energy into a storage system using molten salts. Bokpoort can store energy for over eight hours, providing a means of energy delivery long after the sun has set.





## Solar Capital

Solar Capital is a 175 MW photovoltaic (PV) plant located in Phillipstown in the Karoo District Municipality, Northern Cape. It uses solar panels to absorb and convert sunlight into electricity. The electricity is then fed directly into Eskom's electricity grid. Unlike the CSP, PV plants can only produce electricity when the sun is shining.

There is enormous pressure in the country and around the world to generate power through renewable energy, as carbon based fuels are expected to become unaffordable or unsustainable. Therefore, the GEPF believes in setting an example for other institutional investors, particularly pension funds, to follow suit in a new approach to invest in renewable energy, including ESG factors, when making investment decisions.

The establishment of community trusts promotes a sense of ownership and added value to the development of the community. These investments have contributed to social development through education and public health, and help meet the basic human need for food and shelter. The projects are required to allocate 1.5% of the revenue to the socio-economic development (SED) and 0.6% to the enterprise development (ED) of the community. The majority of the projects reported that they invested their SED toward bursary programmes, childhood development, electrifying the community where there is no electricity, and supporting other community initiatives. During the year under review, the GEPF's direct investment has contributed over R30 million to SED and ED projects in the surrounding communities.

## Housing

The GEPF's investments in the housing sector are aimed at providing affordable housing and finance to the gap market. The GEPF has participated in the development of 646 housing projects, which has facilitated access to 44 625 housing units in Gauteng, Western Cape, Limpopo and Northern Cape. The houses are available for either rental or purchase, of which the developers are able to facilitate finance. To date, 7 875 loans have been facilitated, of which 3 147 were loans to GEPF members.

## Education and healthcare

The GEPF has invested in a fund that provides and supports affordable quality education for parents whose combined household income is below R426 000 per annum. During the year, the programme supported 24 schools (12 primary and 12 secondary schools). A total of 15 590 children were enrolled in 2016.

It also invested in student accommodation, providing 11 964 student beds in Johannesburg, Cape Town, Pretoria and Durban.

The Fund has invested in Fundi (formerly known as Eduloan), which facilitated access to education to 48 663 university students.

It has also invested in two hospitals with a total of 225 beds in Gauteng and Mpumalanga. The hospitals are located in Soshanguve (outside Tshwane) and on the outskirts of Nelspruit in Mpumalanga.



## COMMUNICATION



In line with the mission of the GEPF, the Board of Trustees approved and implemented the Fund's new Integrated Communication Strategy. The primary objective of this strategy is to build and maintain relationships with stakeholders while building a stronger GEPF brand.

The strategy will assist in:

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

Stakeholder engagement forms an important part of the Integrated Communications Strategy.



# STAKEHOLDER ENGAGEMENT



Stakeholder engagement involves engagement with members, pensioners, beneficiaries, the Board of Trustees, government departments, the media, Parliament, trade unions (including the Public Service Coordinating Bargaining Council (PSCBC)) and the investment industry.

The aim of these initiatives is to educate members about the Fund's various pension benefits. They also provide a platform for members and pensioners to give feedback on the services rendered by the GEPF.

During the 2016/17 financial year, the GEPF held a number of successful stakeholder engagements. These included national outreach campaigns, such as roadshows, mobile offices, human resource (HR) forums, retirement member campaigns, workshops and exhibitions.

## Roadshows

The Fund hosted seven roadshows in the period under review. The campaign made use of the SABC and community radio stations, as well as selected print media to promote the events. In addition, partners such as the Government Employees Medical Scheme (GEMS) and the FSB were part of the roadshows, and provided information to the attendees. The attendees were supplied with pamphlets, posters and other relevant information. Questionnaires were also distributed to solicit the views of members.

The table below illustrates the overall information for the roadshow venues and attendance.

Province	Town	Attendance
North West	Rustenburg	917
Northern Cape	Kuruman	768
Limpopo	Giyani	1 514
Western Cape	Worcester	526
Gauteng	Springs	812
Free State	Welkom	1185
KwaZulu-Natal	Kokstad	1 197

### Retirement member campaign

The retirement member campaign is aimed at interacting with members nearing retirement age to encourage them to submit their documents in advance to ensure a seamless retirement process. The retirement member campaign has a number of objectives, which includes empowering members by providing them with the necessary information and processes to prepare them for retirement.

### Public displays and exhibitions

Exhibitions form the basis of the GEPF's interaction with its members, pensioners and beneficiaries. More than 1 410 members and pensioners attended the exhibition at the Rand Easter Show in Gauteng. During the exhibition, the Fund showcased its products and services, and interacted with its members, pensioners and beneficiaries. Its participation in public shows is informed by the need to utilise cost-effective mechanisms and platforms to promote the core services and offerings of the Fund, creating public awareness on how the services can be accessed.

In addition to the above direct engagement initiatives, the Fund also communicated with its stakeholders (including the unions) via quarterly newsletters, quarterly editorials, print media communication, regular radio interviews and social media interventions.

### Member's guide

In its efforts to make the most of its interactions with stakeholders, the GEPF disseminated a member's guide booklet containing information on the GEPF's benefits. The guide shares important information about stakeholder membership and benefits. The GEPF also finalised a compressed version of the member's guide as a Z-folder.

### Newsletters

As in previous years, the GEPF continued to disseminate regular newsletters, which were aimed at providing pensioners and members with pertinent information. The GEPF has two newsletters, a member and a pensioner newsletter, which provide appropriate information to the different stakeholders.

### HR forums

HR forums are interactions in which HR practitioners from various employer departments discuss issues of mutual interest pertaining to the payment of benefits. The GEPF also imparts information on benefits to the HR practitioners.

### Mobile offices

The GEPF has mobile vehicles that serve as mobile offices. The vehicles enable the GEPF to execute its rural outreach initiatives and are equipped with the latest IT and communication technology, including satellite receivers. These receivers enable the mobile offices to link with the main information systems in Pretoria and provide on-site, real-time assistance to members, pensioners and beneficiaries in all nine provinces. The mobile offices are a significant step towards achieving improved service levels for members, pensioners and beneficiaries. The GEPF's call centre agents and regional offices are also at hand to assist with both telephonic and face-to-face interaction.

## MEMBER SERVICES

Member Services, which includes member and pensioner management, contribution management and the payments of benefits, is managed by the GPAA. The relationship between the GEPF and the GPAA is governed through the Administration and a service level agreement.

### Service highlights

Over the period under review, the GPAA received 74 689 pension claims (compared with 81 090 in 2016) and paid 73 764 of these claims (compared with 79 783 in 2016). The benefits accrued in respect of these claims were R90.55 billion (compared with R85.60 billion in 2016).

### Service interactions with beneficiaries



In addition, the Administration collected R66 billion in contributions (compared with R60 billion in 2016). Member and pensioner communication and documentation of 181 383 were received and processed (compared with 110 640 in 2016). The communication and information included, amongst other things, nomination forms, change of address information and updates of personal details.

Visitors to all GEPF Offices:

**482 908**

Telephone calls attended to:

**814 348**

Visitors to mobile offices:

**115 825**

## Member satisfaction for visits to walk-in centres



### Service improvement programmes

In order to improve service delivery to its members, pensioners, beneficiaries and employer departments, the Administration implemented a number of initiatives that helped improve the customer experience.

- Queue management at offices: A queue management system was installed at its branches to improve customer experience and reduce waiting times. The system allowed the Administration to improve service delivery at the Fund's branch offices.
- Electronic submission of claims by employer departments through the Pensioner Case Management (PCM) system to improve the submission of claim information and turnaround times in respect of the payment of benefits. Linked to the PCM system, the processing of claim information was automated through the Benefit Payment Automation (BPA) application, which reduces human intervention through automated rules and systems controls, thereby improving turnaround times of benefit payments.
- In a move towards ensuring that members and pensioners serve themselves, the Administration piloted a self-service function. This application will allow members and pensioners to retrieve benefit statements, payment advice documents and tax certificates in the comfort of their own homes and offices, thereby reducing the need to call the contact centers or visit the Fund's offices. This service will be rolled out to all the Fund's branches and mobile offices in the following financial year. It will also be available on the web.

## GEP LAW AND RULE CHANGES

The Board approved the following changes to Rule 14.7.3 to allow for the reinstatement of the service enhancement for demilitarised financial officials. These changes are subject to the Department of Defence reimbursing the Fund for the additional liability resulting from these changes:

Rule 14.7.3:

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

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

The implementation of the above Rule change is still a matter to be resolved between the Department of Defence and the Department of Public Service and Administration in conjunction with organised labour in the PSCBC.

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

- Additional Voluntary Scheme
- Preservation Fund
- Increased Funeral Benefit
- Child's Pension
- Market Value Adjustment
- Benefit Discharge Anomaly
- Clean Break – Substitute Service Adjustment for Debt Approach



# ACTUARIAL VALUATION

## Funding of liabilities

In terms of the GEP Law and the Rules of the Fund, an actuarial valuation must be carried out at least once every three years. Twelve statutory actuarial valuations have been undertaken since the establishment of the Fund in May 1996, with the most recent having been undertaken as at 31 March 2016.

This valuation was performed based on the Funding Policy that was adopted by the Board

of Trustees in consultation with the Minister of Finance. The policy provides for the comparison of the assets held by the Fund with the valuation of the liabilities on a long-term best-estimate basis.

The actuarial results of the March 2016 valuation show that the Fund is 115.8% funded, i.e. there are sufficient assets to cover the actuarial liabilities in full.

## Funding level of liabilities

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

## Funding of liabilities and reserves

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

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

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

## Funding level of liabilities and recommended reserves

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

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

## Membership profile

Contributing members	Male	Female	Total 2016	Total 2014
"Other" members	377 334	684 984	1 062 318	1 060 832
"Services" members	161 275	61 833	223 108	226 528
<b>Total</b>	<b>538 609</b>	<b>746 817</b>	<b>1 285 426</b>	<b>1 287 360</b>

Pensioners	Male	Female	Total 2016	Total 2014
Retired members	112 375	154 105	266 480	233 565
Spouses	17 090	129 534	146 624	133 784
<b>Total</b>	<b>129 465</b>	<b>283 639</b>	<b>413 104</b>	<b>367 349</b>

## Valuation assumptions as at 31 March 2016

The economic assumptions were updated to take into account the market conditions as at 31 March 2016. The demographic assumptions were based on the investigation into the Fund's experience over the period 1 April 2008 to 31 March 2012. The full details of the investigation are set out in a report prepared by the Fund's actuaries, which was finalised in October 2013.

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

## Valuation results as at 31 March 2016

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

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

\* For the 31 March 2016 valuation, this consists of a solvency reserve (R301 581 million), 100% CPI pension increase reserve (R304 128 million) and a mortality improvement reserve (R41 340 million).

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

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

### Employer contribution rate for the year from 1 April 2016 to 31 March 2017

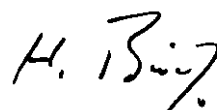
Based on the best-estimate actuarial valuation basis, and ignoring the excess of the assets over the best-estimate liabilities, the required employer contribution rate is 19.6% of pensionable salary in respect of "services" members and 14.8% of pensionable salary in respect of "other" members, reflecting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

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

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

### Valuation as at 31 March 2018

The next valuation of the Fund will be undertaken effective 31 March 2018.



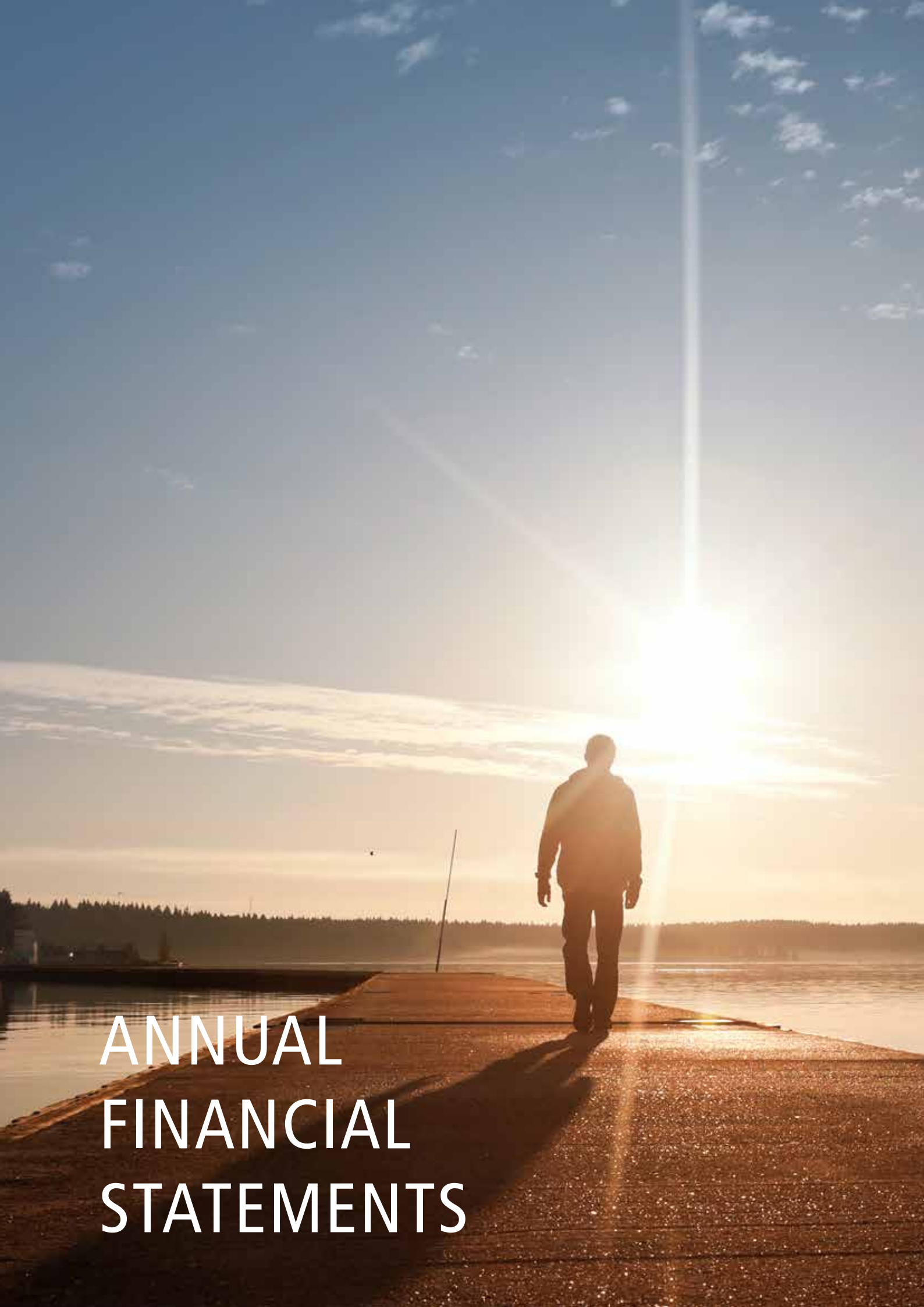
**Howard Buck**

*Valuator to the Fund*

16 October 2017

# TRUSTEE REMUNERATION REPORT

Name	Meeting attendance and retainer fee	Subsistence and travel
Dr Renosi Mokate (Chairperson)	R471 991	R63 150
Major General Dries de Wit (Vice-Chairperson)	R595 610	R15 604
Ms Lindy Bodewig	–	–
Mr Cornelius Booyens	R168 175	R14 465
Colonel Johan Coetzer	R226 965	R4 770
Dr Vuyo Dyantyi	–	–
Mr Themba Gamedze	R237 750	R300
Brigadier Johan Griesel	–	–
Ms Jennifer Jeftha	R479 806	R38 246
Mr Edward Kekana	R418 556	R11 392
Dr Barry Kistnasamy	–	R11 708
Mr Mpho Kwinika	R303 114	R300
Dr Frans le Roux	R451 692	R300
Mr James Maboa	R216 633	R4 199
Dr Alex Mahapa	R177 795	R21 130
Ms Mantuka Maisela	R299 465	R28 925
Mr Seth Makhani	R444 138	R51 475
Ms Kgomotso Makhupola	R287 436	R25 931
Mr Mugwena Maluleke	R90 857	–
Mr Success Mataitsane	R261 170	R13 770
Dr Lese Matlhape	R184 611	R15 569
Mr Ashley McAnda	R46 321	R25 041
Mr Stadi Mngomezulu	–	–
Ms Gladys Modise	R232 566	R16 273
Ms Edith Mogotsi	R472 571	R14 075
Mr Richard Morris	R332 160	R1 338
Ms Moira Moses	R550 032	R57 236
Advocate Makhubalo Ndaba	R415 192	R57 274
Ms Dorothy Ndhlovu	R307 681	R23 815
Mr Peter Ntsime	R215 207	R24 690
Dr Morgan Pillay	R191 691	R16 360
Dr Anban Pillay	–	–
Mr John Raphela	R137 973	R3 769
Mr Pierre Snyman	R300 820	R11 516
Advocate Lindiwe Nkosi-Thomas	–	–
Ms Barbara Watson	R453 621	R21 896
<b>Total</b>	<b>R8 732 000</b>	<b>R594 516</b>



# ANNUAL FINANCIAL STATEMENTS



# CONTENTS

Statement of Responsibility by the Board of Trustees	48
The Finance and Audit Committee Report	49
Risk Management Statement	50
Independent Auditors' Report to the Board of Trustees of the GEPF	51
Report of the Valuator	58
Report of the Board of Trustees	60
Statement of Net Assets and Funds	64
Statement of Changes in Net Assets and Funds	65
Cash Flow Statement	66
Notes to the Annual Financial Statements	67

# STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 March 2017

## Responsibilities

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

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

## Approval of the annual financial statements

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

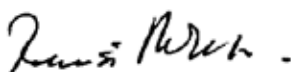
- The Fund's assets are safeguarded;
- Transactions are properly authorised and executed; and
- The financial records are reliable.

The annual financial statements set out on pages 60 to 110 were prepared in accordance with:

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

The independent auditors, Deloitte & Touche and Nexia SAB&T, have reported on these financial statements. During their audit, the auditors were given unrestricted access to all financial records and related data, including minutes of all relevant meetings. The Board believes that all representations made to the independent auditors during their audit were valid and appropriate. The annual financial statements have been audited by the independent auditors and the report of the independent auditors is presented on pages 51 to 57.

These audited annual financial statements were approved by the Board of Trustees on 21 September 2017 and were signed on its behalf by:



**Dr Renosi Mokate**  
Chairperson

16 October 2017



**Major General Dries de Wit**  
Vice-Chairperson

16 October 2017

# THE FINANCE AND AUDIT COMMITTEE REPORT

for the year ended 31 March 2017

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

The FA-C's responsibilities are summarised below:

- Examine and review the quality (adequacy, reliability and accuracy) of the GEPF's annual financial statements and interim financial statements.
- Make recommendations to the Board regarding the approval of the annual financial statements, as well as the adoption of the interim financial statements.
- Review of the effectiveness of the internal control systems.
- Ensure that executive management implemented effective and cost-effective corrective measures to address accounting and auditing concerns identified in internal and external audits.
- Oversee the functioning of the internal audit unit of the Fund through the revised internal audit charter, methodology and the internal audit three-year rolling plan.
- Oversee the co-ordination of activities between the GPAA and GEPF internal audit to ensure there is no duplication of activities. Also oversee co-ordination with the external auditors, and receiving the reports of significant findings of the GPAA internal audit and ensuring that management of the GPAA implement agreed management actions.
- Ensure that an external audit firm is appointed to conduct the annual external audit for the 2016/17 financial year and ensure their independence and objectivity.
- Oversee the risk management function of the Fund and ensuring the separation of this function from internal audit to ensure the independence of internal audit.

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

The FA-C has evaluated the financial statements of the GEPF for the year ended 31 March 2017. Based on the information provided, they comply, in all material respects, with the Fund's stated accounting policies, the provisions of the GEP Law (21 of 1996), the GEPF Rules and the regulatory framework, which the Board adopted based on the FA-C's recommendation.

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



**Mr Seth Makhani**  
*Chairperson: FA-C*

16 October 2017

# RISK MANAGEMENT STATEMENT

for the year ended 31 March 2017

## Introduction

The risk management process assists the Board to execute its fiduciary duty to actively manage risk that would otherwise affect or prevent the GEPF from achieving its strategic objectives and to ensure the long-term sustainability of Fund. The Board, through the FA-C ensures that effective risk management processes and procedures are in place to actively manage risk that affect the Fund's performance.

## Mandate

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

- The requirements of sections 6 and 7 of the GEP Law and Rules;
- The Pension Fund's guideline for good governance, known as the PF130, issued by the Financial Services Board (FSB);
- Codes of good corporate governance, including the King III Code and the code issued by the Committee of Sponsoring Organisations (COSO) – an internationally accepted framework for good governance;
- ISO 31000:2009, Risk management – Principles and guidelines; and
- Other relevant legislation.

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

## Responsibility

The role and responsibility for risk management within the GEPF is clearly defined in the risk management policy and framework. The Board is ultimately responsible to ensure that the Fund effectively manages risk. To this end, the Board has formally delegated as defined in the terms of reference of the FA-C and the Risk Management Policy and Framework, its oversight role to the FA-C. The Risk Management Policy and Framework allows for specific risks to be allocated to the Board subcommittees in line with their mandate and the specific areas of specialisation of each committee and to report on such risks to the FA-C.

The FA-C has established the Risk Management Liaison Committee to co-ordinate risk management between the GEPF, the Public Investment Corporation (PIC) and the GPAA, who both manage risk on behalf of the Fund.

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

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

## Monitoring

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

## Conclusion

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

# INDEPENDENT AUDITORS' REPORT TO THE BOARD OF TRUSTEES OF THE GEPF

---

for the year ended 31 March 2017

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of the Government Employees Pension Fund (“GEPF” or “the Fund”), set out on pages 64 to 110, which comprise the statement of net assets and funds as at 31 March 2017 and the statement of changes in net assets and funds, the cash flow statement for the year ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements of the Government Employees Pension Fund for the year ended 31 March 2017 have been prepared, in all material respects, in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa, the provisions of the Government Employees Pensions Law (“GEP Law”), 21 of 1996 as amended and the rules of the GEPF.

### Basis for opinion

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



## Key audit matters

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

Key audit matter	How the matter was addressed in the audit
<p><b>Valuation of unlisted investments</b></p> <p>In accordance with the investment strategy, the Fund holds investments in unlisted instruments. These investments include unlisted equities, loans, properties and derivatives as disclosed in note 3 of the financial statements of the Fund.</p> <p>The Board of Trustees conducts investment valuations of the unlisted investments yearly to assess the appropriateness of the values at which they are disclosed. The valuation of these investments involves the use of various complex valuation models and sensitive inputs as well as significant Board of Trustees' judgements.</p> <p>Accordingly, the valuation of the unlisted investments is considered a key audit matter.</p> <p>The Board of Trustees has engaged various external investment valuation specialists to perform the valuations of all unlisted investments held by the Fund as at year end.</p> <p>The Board of Trustees further gives a mandate to the internal Valuation Committee to perform a function that focuses on critically reviewing valuation models; inputs used and significant judgements made in performing these valuations.</p>	<p>We focused our testing of the unlisted investments on the methodologies and key assumptions made by the Board of Trustees' specialists. Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the competence and independence of the external investment valuation specialists engaged by the Fund;</li> <li>• Attending the Valuation Committee's meeting wherein the valuations performed by external valuation specialists were analysed and challenged;</li> <li>• Assessing the design and implementation of controls around the valuation of unlisted investments;</li> <li>• Reviewing the disclosure of unlisted investments in the financial statements; and</li> <li>• For a sample of unlisted investments including loans, equities, properties and derivatives, we engaged our internal investment valuation specialists to assist with:                         <ul style="list-style-type: none"> <li>– Critically analysing the appropriateness of the valuation models and sensitive inputs used by Board of Trustees' specialists in calculating the unlisted investments' values;</li> <li>– Independently performing valuations for selected unlisted investments; and</li> <li>– Comparing the independently calculated values to those performed by the Fund's external valuers.</li> </ul> </li> </ul> <p>We found that the methodologies and assumptions applied by the Fund's external investment valuers were reasonable and appropriate in the circumstances.</p> <p>We consider the disclosure of the unlisted investments in the financial statements to be relevant and appropriate.</p>

Key audit matter	How the matter was addressed in the audit
<p><b>Valuation of the benefit payable provision</b></p> <p>In accordance with the rules of the Fund, a benefit becomes due when a member ceases to be a member of the Fund. These results in the Fund having a constructive obligation to pay the benefit. Consequently, the Fund is required to recognise the liability related to such benefits.</p> <p>The benefits payable to members are calculated in terms of section 14 of the rules of the Fund. There are a number of key actuarial assumptions made and complex methodologies applied in the calculation of the benefits payable to members as disclosed in note 10 of the financial statements which include:</p> <ul style="list-style-type: none"> <li>• type of exit;</li> <li>• member’s age;</li> <li>• years of service; and</li> <li>• earnings.</li> </ul> <p>Therefore, valuation of the benefits payable provision is considered a key audit matter.</p> <p>The Board of Trustees has involved actuarial specialists to assist in calculating the benefit payable provisions as at year-end.</p>	<p>We focused our testing of the benefit payable provision on the methodologies and key actuarial assumptions made by the Board of Trustees. Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the competence and independence of the actuarial specialists;</li> <li>• Testing the integrity of the information used in the calculation of the benefit payable provision by performing detailed substantive procedures on such information;</li> <li>• Assessing the design and implementation of controls around the valuation of the benefit payable provision;</li> <li>• Assessing the appropriateness of the disclosure on the financial statements of the benefit payable provision;</li> <li>• Reviewing the disclosure of benefit payable provisions in the financial statements; and</li> <li>• Involving our internal actuarial specialists to assist us with: <ul style="list-style-type: none"> <li>– Benchmarking the methodologies used in calculating the outstanding benefit provision against similar schemes in the industry; and</li> <li>– Verifying that the methodologies and assumptions used by actuarial specialists appointed by the Board of Trustees are reasonable.</li> </ul> </li> </ul> <p>We found that the methodologies and assumptions applied by the Fund’s external actuarial specialists were reasonable and appropriate in the circumstances.</p> <p>We consider the disclosure of the benefit payable provision in the financial statements to be relevant and appropriate.</p>

Key audit matter	How the matter was addressed in the audit														
<p><b>The impact of contributions rates on the funding level of the Fund</b></p>															
<p>The Government Employees Pension Fund is a defined benefit fund. In a defined benefit arrangement, the employers' contribution rate(s) is not specified in the rules of the fund. The Board of Trustees agree on the employers' contribution rate in consultation with the actuary of the fund.</p>	<p>We obtained the actuarial valuation report of the Fund as at 31 March 2016 performed by the Fund's Actuaries and focused our procedures on:</p>														
<p>The GEP Law requires that the Fund shall have its financial condition investigated and reported upon by the valuator at least once every three years. However, due to significant changes in the liability and asset values seen over the past few years, it is the practice of the Fund to perform bi-annual actuarial valuations to determine the values of:</p>	<ul style="list-style-type: none"> <li>• Assessing the competence and independence of the actuarial specialists;</li> <li>• Reviewing the actuaries' conclusion on the financial soundness of the Fund;</li> <li>• Comparing the minimum contribution rates recommended by the Fund's actuaries to the actual contribution rates applied;</li> <li>• Comparing the funding level contained in the last two actuarial valuations;</li> <li>• Recalculating the employer contribution rates applied by Fund for the reporting period;</li> <li>• Assessing the design and implementation of controls around the contributions processing; and</li> <li>• Assessing the appropriateness of the disclosure of contributions on the financial statements.</li> </ul>														
<ul style="list-style-type: none"> <li>• the fund's liabilities; and</li> <li>• the required contribution rate by the employers.</li> </ul>	<p>We further found that the Fund was making contributions at rates lower than recommended by the actuaries as indicated in the table below:</p>														
<p>If a defined benefit fund is not in a sound financial position, this may affect its ability to meet its future obligations to members. Accordingly, the impact of contributions on the funding level of the Fund is considered a key audit matter.</p>	<table border="1"> <thead> <tr> <th data-bbox="743 1391 839 1424" rowspan="2">Details</th> <th colspan="2" data-bbox="1174 1312 1430 1379">Categories of contributions (%)</th> </tr> <tr> <th data-bbox="1174 1391 1294 1424">Services</th> <th data-bbox="1342 1391 1430 1424">Other</th> </tr> </thead> <tbody> <tr> <td data-bbox="743 1435 1086 1469">Required contribution rates</td> <td data-bbox="1238 1435 1294 1469">19.6</td> <td data-bbox="1374 1435 1430 1469">14.8</td> </tr> <tr> <td data-bbox="743 1480 1070 1514">Current contribution rates</td> <td data-bbox="1238 1480 1294 1514">16.0</td> <td data-bbox="1374 1480 1430 1514">13.0</td> </tr> <tr> <td data-bbox="743 1525 847 1559">Shortfall</td> <td data-bbox="1238 1525 1294 1559">(3.6)</td> <td data-bbox="1374 1525 1430 1559">(1.8)</td> </tr> </tbody> </table>	Details	Categories of contributions (%)		Services	Other	Required contribution rates	19.6	14.8	Current contribution rates	16.0	13.0	Shortfall	(3.6)	(1.8)
Details	Categories of contributions (%)														
	Services	Other													
Required contribution rates	19.6	14.8													
Current contribution rates	16.0	13.0													
Shortfall	(3.6)	(1.8)													
<p>The latest actuarial valuation of the Fund was performed as at 31 March 2016.</p>	<p>The shortfall in the contributions has an impact in the funding level of the Fund.</p>														
	<p>The Fund actuaries concluded that the Fund was in a sound financial position on the minimum funding level at 121.5%. On the long-term funding level, the Fund was at 79.3%, which is below the Board of Trustees' target of 100%.</p>														

Key audit matter	How the matter was addressed in the audit									
<b>The impact of contributions rates on the funding level of the Fund</b>										
<p><b>Note: definitions.</b></p> <ul style="list-style-type: none"> <li>• Minimum funding level: The fair value of assets divided by the liabilities, excluding solvency and contingency reserves.</li> <li>• Long-term funding level: The fair value of assets divided by the liabilities and the recommended solvency and contingency reserves, including the future service element of the pension increase reserve.</li> </ul>	<p>We found that the funding level compared between the last two actuarial valuation shows a decrease on both the minimum and long-term funding levels as indicated in the table below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Dates</th> <th style="text-align: center;">Minimum funding level (%)</th> <th style="text-align: center;">Long-term funding level (%)</th> </tr> </thead> <tbody> <tr> <td>31 March 2014</td> <td style="text-align: center;">121.50</td> <td style="text-align: center;">83.10</td> </tr> <tr> <td>31 March 2016</td> <td style="text-align: center;">115.80</td> <td style="text-align: center;">79.30</td> </tr> </tbody> </table> <p>We found that the disclosure of the contributions, fund's assets and liabilities in the financial statements was relevant and appropriate.</p>	Dates	Minimum funding level (%)	Long-term funding level (%)	31 March 2014	121.50	83.10	31 March 2016	115.80	79.30
Dates	Minimum funding level (%)	Long-term funding level (%)								
31 March 2014	121.50	83.10								
31 March 2016	115.80	79.30								

### Other information

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

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

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

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

### Section 13(2) and 13(4) of the GEP Law

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

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

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

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

### Responsibilities of the Board of Trustees for the financial statements

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

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




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

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

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

### Report on other legal and regulatory requirements

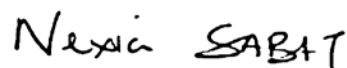
We are not aware of instances of material non-compliance with laws and regulations that came to our attention during the course of our audit of the financial statements.



**Deloitte & Touche**  
*Registered Auditor*

**Per:** T Magare  
Partner

16 October 2017



**Nexia SAB&T**  
*Registered Auditor*

**Per:** A Darmalingam  
Partner

16 October 2017

## Particulars of financial condition of the Fund based on the actuarial valuation effective 31 March 2016

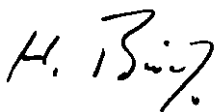
1. Net assets available for benefits amounted to R1 629 923 million as at 31 March 2016.
2. The actuarial value of the net assets available for benefits, for the purposes of comparison with the actuarial present value of promised retirement and other benefits, amounted to R1 629 923 million as at 31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

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

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

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

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



**Howard Buck**

*Fellow of the Actuarial Society of South Africa*

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

In my capacity as valuator to the Fund

16 October 2017

# REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 March 2017

## 1. DESCRIPTION OF THE FUND

### 1.1 Type of fund

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

### 1.2 Benefits

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

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

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

### 1.3 Contributions

Members (employees of participating employers) contribute 7.5% of their pensionable emoluments to the GEPF. Employers contribute 13% for civil servants and 16% for uniformed employees, respectively, of a member's pensionable emolument to the GEPF.

### 1.4 Reserves

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

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

	<b>2017</b>	2016
	<b>R'000</b>	R'000
Reserve account balance		
Ciskei strikes	<b>159 900</b>	157 214
General assistants	<b>114 990</b>	106 885
Other past discriminatory practices	<b>7 899 950</b>	7 587 652
Total balance at end of year	<b>8 174 840</b>	7 851 751

## 1.5 Rule amendments

No rule amendments were effected during the year under review.

## 1.6 Board of Trustees

The Minister of Finance inaugurated the current Board on 17 April 2014 for a period of four years. The Board consists of 16 members, with equal employer and member representation, and each with a substitute. Member representatives include a pensioner and a service representative, as well as their substitutes, who were elected through a postal ballot. Only Trustees participate in Board meetings, while Trustees and substitutes participate in Board Committee meetings. The current Board's tenure will end on 16 April 2018.

# 2. INVESTMENTS

## 2.1 Management of investments

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

- Aeon Investment Management (Pty) Ltd.
- Argon Asset Management (Pty) Ltd.
- Black Rock Advisors UK Ltd.
- Coronation Asset Management (Pty) Ltd.
- Enko Capital Management LLP.
- First Avenue Investment Management (Pty) Ltd.
- Gemcorp Capital LLP.
- International Bank for Reconstruction and Development.
- Investec Asset Management (Pty) Ltd.
- JM Busha Asset Managers (Pty) Ltd.
- Kagiso Asset Management (Pty) Ltd.
- Legacy Africa Fund Managers (Pty) Ltd.
- Mazi Capital (Pty) Ltd.
- Meago (Pty) Ltd.
- Mergence Investment Managers (Pty) Ltd.
- Mianzo Asset Management (Pty) Ltd.
- Mvunonala Asset Managers (Pty) Ltd.
- Novare Holdings (Pty) Ltd.
- Perpetua Investment Managers (Pty) Ltd.
- Prudential Investment Managers South Africa (Pty) Ltd.
- Sanlam Investment Management (Pty) Ltd.
- Sentio Capital Management (Pty) Ltd.
- Vunani Fund Managers (Pty) Ltd.



## 2. INVESTMENTS (continued)

### 2.1 Management of investments (continued)

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

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

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

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

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

<b>Asset classes</b>	<b>Guideline %</b>	<b>Actual % At 31 March 2017</b>
Cash and	0 – 8	4
Domestic bonds	26 – 36	34
Domestic property	3 – 7	6
Domestic equity	40 – 55	49
Africa (ex SA) equity	0 – 5	1
Foreign bonds	0 – 4	1
Foreign equity	1 – 5	5
<b>Total</b>		<b>100</b>

### 2.3 Other investments not in the name of the GEPF

In the current year, all investments were registered in the name of the GEPF, except for a directly held property, Palm Grove, which was registered in the name of CBS Property Portfolio (Pty) Ltd.

### 3. MEMBERSHIP

The GEPF membership as at 31 March 2017 consisted of 1 273 784 (2016: 1 269 948) government and parastatal employees, as well as 437 051 (2016: 423 130) pensioners receiving monthly annuity benefits.

### 4. ACTUARIAL VALUATION

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

### 5. SIGNIFICANT MATTERS

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

The GEPF is also defending two cases brought against it regarding the validity of the implementation of the Clean Break Principle. Both cases are currently before the court and are pending.

### 6. SUBSEQUENT EVENTS

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

- Additional Voluntary Contribution Scheme
- Preservation Fund
- Increased Funeral Benefit
- Child's Pension
- Market Value Adjustment
- Benefit Discharge Anomaly
- Review of the reduction factors in favour of an increased Spouse's Pension
- Review of the Clean-Break Principle

# STATEMENT OF NET ASSETS AND FUNDS

as at 31 March 2017

	Notes	2017 R'000	2016 R'000
<b>Assets</b>			
<b>Non-current assets</b>			
		<b>1 664 025 199</b>	1 637 594 613
Equipment	2	2 009	3 392
Investments	3	<b>1 664 023 190</b>	1 637 591 221
<b>Current assets</b>			
		<b>41 454 333</b>	26 233 503
Funding loan	4	6 716	6 716
Accounts receivable	5	7 377 122	11 625 084
Transfers receivable	11.2	1 304	1 980
Contributions receivable	6.1	3 884 689	4 336 101
Cash and cash equivalents	7	<b>30 184 502</b>	10 263 622
<b>Total assets</b>		<b>1 705 479 532</b>	1 663 828 116
<b>Funds and liabilities</b>			
<b>Total funds and reserves</b>			
		<b>1 672 689 117</b>	1 629 923 371
Accumulated funds		<b>1 664 514 277</b>	1 622 071 620
Reserve accounts	8	<b>8 174 840</b>	7 851 751
<b>Non-current liabilities</b>			
		<b>722 303</b>	653 063
Unclaimed benefits	9	<b>722 303</b>	653 063
<b>Current liabilities</b>			
		<b>32 068 112</b>	33 251 682
Benefits payable	10	<b>28 126 736</b>	27 120 780
Transfers payable	11.1	12 421	1 006
Accounts payable	12	2 521 574	1 926 841
Financial liabilities	13.1	1 401 476	4 198 468
Provisions	13.2	5 905	4 587
<b>Total funds and liabilities</b>		<b>1 705 479 532</b>	1 663 828 116

# STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

for the year ended 31 March 2017

	Notes	Accumulated funds R'000	Reserve accounts R'000	<b>Total 2017 R'000</b>	Total 2016 R'000
<b>Net income before transfers and benefits</b>		137 850 650	–	<b>137 850 650</b>	124 441 455
Contributions received and accrued	6.2	65 591 472	–	<b>65 591 472</b>	60 383 335
Purchase of periods of service	14	611 479	–	<b>611 479</b>	45 172
Net investment income	15	72 103 641	–	<b>72 103 641</b>	64 236 010
Other income	16	520 613	–	<b>520 613</b>	770 388
Less:					
Administrative expenses	17	(976 555)	–	<b>(976 555)</b>	(993 450)
<b>Transfers and benefits</b>		(90 660 327)	(9 235)	<b>(90 669 562)</b>	(85 860 013)
Benefits	10 & 8	(88 258 196)	(9 235)	<b>(88 267 431)</b>	(83 096 174)
Transfers to other funds	11.1	(129 067)	–	<b>(129 067)</b>	(267 269)
Transfers from other funds	11.2	7 188	–	<b>7 188</b>	4 981
Interest paid	18	(2 280 252)	–	<b>(2 280 252)</b>	(2 501 551)
<b>Net income after transfers and benefits</b>		47 190 323	(9 235)	<b>47 181 088</b>	38 581 442
<b>Funds and reserves</b>					
Balance at beginning of the year		1 622 071 620	7 851 751	<b>1 629 923 371</b>	1 591 341 929
Prior year adjustment – divorce benefits	10.1	(4 415 342)	–	<b>(4 415 342)</b>	–
Transfer of net investment return to reserves	8	(332 324)	332 324	–	–
<b>Balance at end of the year</b>		1 664 514 277	8 174 840	<b>1 672 689 117</b>	1 629 923 371

# CASH FLOW STATEMENT

for the year ended 31 March 2017

	Notes	2017 R'000	2016 R'000
<b>Cash flow from operating activities</b>			
Cash generated from operations	20	(21 371 692)	(29 994 151)
Contributions and other income received		66 563 497	61 269 249
Benefits paid during the year		(84 872 480)	(86 769 533)
Other expenses paid		(3 062 709)	(4 493 867)
Interest received		43 261 671	40 602 310
Interest paid		(1 894 538)	(1 851 873)
Dividends received		31 140 650	27 516 948
Transfers and bought services paid		(66 594)	(224 208)
Divorce claims paid		(2 141 090)	–
<b>Net cash inflow from operating activities</b>		<b>48 928 407</b>	<b>36 049 026</b>
<b>Net cash (outflow)/inflow from financing activities</b>			
		<b>(2 342 764)</b>	<b>3 639 991</b>
Net proceeds from/(repayment) to Bank of America Merrill Lynch		(2 342 764)	3 639 991
<b>Net cash outflow from investing activities</b>			
		<b>(26 664 763)</b>	<b>(45 734 570)</b>
Additions to equipment		(19)	(9)
Additions to investments		(26 664 744)	(45 734 561)
<b>Net (decrease)/increase in cash and cash equivalents</b>			
		<b>19 920 880</b>	<b>(6 045 553)</b>
<b>Cash and cash equivalents at beginning of the year</b>			
		<b>10 263 622</b>	<b>16 309 175</b>
<b>Cash and cash equivalents at end of the year</b>			
	7	<b>30 184 502</b>	<b>10 263 622</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 1. PRINCIPAL ACCOUNTING POLICIES

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

### 1.1 Basis of presentation of financial statements

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

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

### 1.2 Equipment

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

Equipment is stated at historical cost less accumulated depreciation.

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

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

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.3 Financial instruments

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

#### 1.3.1 Classification

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

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

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

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

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

1.3.1.1.2 Loans and receivables

Financial assets classified as loans comprise direct loans to individuals and companies.

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

1.3.1.2 Financial liabilities

Financial liabilities are classified at amortised cost. Financial liabilities that are not classified at fair value through the statement of changes in net assets and funds comprise accounts payable.

#### 1.3.2 Recognition

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

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

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

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

### 1.3.3 Measurement

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

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

#### 1.3.3.1 Equities

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

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

##### Listed equities

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

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

##### Unlisted equities

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

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

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

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.3 Financial instruments (continued)

#### 1.3.3 Measurement (continued)

##### 1.3.3.2 Preference shares

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

##### **Listed preference shares**

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

##### **Unlisted preference shares**

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

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

##### 1.3.3.3 Debentures

##### **Debentures comprise unlisted debentures**

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

##### 1.3.3.4 Bills and bonds

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

##### **Listed bonds**

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

##### **Unlisted bills**

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

#### 1.3.3.5 Investment properties

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

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

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

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

#### 1.3.3.6 Collective investment schemes

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

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

#### 1.3.3.7 Special investment products

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

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

#### 1.3.3.8 Direct loans

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

#### 1.3.3.9 Money market instruments

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



## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.3 Financial instruments (continued)

#### 1.3.4 Derecognition

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

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

#### 1.3.5 Impairments

##### 1.3.5.1 Financial assets carried at amortised cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **1.3.5.3 Impairment of loans and receivables**

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

### **1.4 Cash and cash equivalents**

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.5 Accounts receivable

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

#### Purchased service

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

### 1.6 Unclaimed benefits

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

### 1.7 Accounts payable

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

### 1.8 Provisions

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

### 1.9 Contributions

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

### 1.10 Purchase of service

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

## **1.11 Dividend, interest, rentals and gains and losses on subsequent measurement**

### **1.11.1 Dividend income**

Dividend income is recognised in the statement of changes in net assets and funds, when the right to receive payment is established, which is the last date to trade for equity securities. For financial assets designated at fair value through the statement of changes in net assets and funds, dividend income forms part of fair value adjustments.

### **1.11.2 Interest income**

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

### **1.11.3 Rental income**

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

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

### **1.11.4 Collective investment schemes distribution**

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

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

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

## **1.12 Transfers to and from the GEPF**

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

## **1.13 Interest payable to members exited from the GEPF**

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

## **1.14 Interest payable to dormant members**

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.15 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.

### 1.16 Operating leases

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

### 1.17 Interest on late payments of contributions and/or loans and receivables

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

### 1.18 Expenses incurred in managing investments

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

### 1.19 Judgements and estimates

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

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

#### Residual values and useful lives

Residual values and useful lives of equipment are assessed annually. Equipment is 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 statement of net assets and funds date. The quoted market price used for financial assets held by the Fund is the closing price.



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

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

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

### **Key assumptions of estimations with uncertainty**

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

#### **Accrual for benefits payable**

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

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

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

#### **Investments**

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

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

### **1.20 Accounting policies, changes in accounting estimates and errors**

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

### **1.21 Reserves**

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

### **1.22 Benefits**

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

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

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### 1.23 Administration expenses and other expenses

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

### 1.24 Contingent assets and liabilities

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

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

### 1.25 Related parties

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

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

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

## 2. EQUIPMENT

	Computer equipment R'000	Computer software R'000	Furniture and fittings R'000	Office equipment R'000	Motor vehicles R'000	Leasehold R'000	Total R'000
<b>2.1 Current year, 2017</b>							
<b>Gross carrying amount</b>	1 459	805	2 909	2 954	656	3 333	12 116
At beginning of the year	1 455	805	2 909	2 939	656	3 333	12 097
Additions	4	–	–	15	–	–	19
<b>Accumulated depreciation and impairments</b>	(1 403)	(647)	(2 568)	(2 427)	(617)	(2 445)	(10 107)
At beginning of the year	(1 254)	(475)	(2 445)	(2 236)	(517)	(1 778)	(8 705)
Depreciation	(149)	(172)	(123)	(191)	(100)	(667)	(1 402)
<b>Net carrying amount at end of the year</b>	56	158	341	527	39	888	2 009
<b>2.2 Prior year, 2016</b>							
Gross carrying amount	1 455	805	2 909	2 939	656	3 333	12 097
At beginning of the year	1 455	805	2 909	2 930	656	3 333	12 088
Additions	–	–	–	9	–	–	9
Accumulated depreciation	(1 254)	(475)	(2 445)	(2 236)	(517)	(1 778)	(8 705)
At beginning of the year	(1 019)	(302)	(2 247)	(1 991)	(417)	(1 110)	(7 086)
Depreciation	(235)	(173)	(198)	(245)	(100)	(668)	(1 619)
Net carrying amount at end of the year	201	330	464	703	139	1 555	3 392

### 3. INVESTMENTS

#### 3.1 Investment summary

	Notes	Fair value 2017 R'000	Amortised cost 2017 R'000	Total 2017 R'000	Total 2016 R'000
Money market instruments*	3.1.1	–	36 517 174	36 517 174	9 793 504
Direct loans*	3.1.2	–	40 032 840	40 032 840	22 162 371
Bills and bonds**	3.1.3	548 680 414	–	548 680 414	551 891 552
Local		530 284 820	–	530 284 820	526 393 124
Foreign		18 395 594	–	18 395 594	25 498 428
Investment properties**	3.1.4	13 502 658	–	13 502 658	10 524 312
Equities**	3.1.5	928 936 204	–	928 936 204	956 637 410
Listed equities		882 929 188	–	882 929 188	915 519 277
Primary listings		684 100 250	–	684 100 250	659 843 355
Secondary listings		198 828 938	–	198 828 938	255 675 922
Unlisted equities		46 007 016	–	46 007 016	41 118 133
Local equities		36 905 227	–	36 905 227	31 985 379
Foreign equities		9 101 789	–	9 101 789	9 132 754
Preference shares**	3.1.6	3 972 193	–	3 972 193	3 024 727
Collective investment schemes**	3.1.7	92 381 707	–	92 381 707	83 557 345
Local instruments		230 903	–	230 903	213 262
Foreign instruments		92 150 804	–	92 150 804	83 344 083
		<b>1 587 473 176</b>	<b>76 550 014</b>	<b>1 664 023 190</b>	<b>1 637 591 221</b>

\* Classified as loans and receivables.

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

#### Explanatory notes:

- Based on the revised strategic asset allocation which was approved by the Minister in the 2011 financial year, the Fund invested in foreign collective instruments and foreign bonds to the value of R110.5 billion (2016: R108.8 billion).
- Included in the unlisted foreign equities above are internally managed investments by the GEPF to the value of R4.3 billion (2016: R3.6 billion). These investments include ADPI II, PAIDF, South Suez, Verod and Cape IV.
- Money market instruments with original maturities of three months or less are classified as cash and cash equivalents.
- The details of the top 10 investments per investment category have been provided in the detailed schedules below and the balance is included in 'other', where practicable. Investments which meet the top 10 criteria in one year and do not meet the criteria in another year, will be disclosed as zero and included in 'other' in the year in which they do not meet the criteria. Details of the top 10 investments are disclosed per entity level not per instrument level.

### 3.1.1 Money market instruments

	Amortised 2017 R'000	Amortised 2016 R'000
<b>Certificate of deposits</b>	<b>981 567</b>	101 592
Development Bank of SA Ltd	981 567	101 592
<b>Fixed deposits</b>	<b>29 715 566</b>	4 278 895
ABSA Group Ltd	6 883 556	935 342
Standard Bank Group Ltd	6 782 496	627 857
Nedbank Ltd	6 682 504	938 414
FirstRand	6 144 658	1 041 200
Investec Bank Ltd	3 217 162	732 099
China Construction Bank Ltd	5 190	–
Venda Building	–	3 983
<b>Promissory notes</b>	<b>5 820 041</b>	5 413 017
Land and Agricultural Development Bank of SA	5 820 041	5 413 017
<b>Total money market instruments</b>	<b>36 517 174</b>	9 793 504

### 3.1.2 Direct loans

	Amortised 2017 R'000	Amortised 2016 R'000
	Secured by	
Lancaster 101 (RF) (Pty) Ltd	Secured by collar options	9 350 000
Industrial Development Corporation SOC Limited	Not secured*	5 093 478
Kilimanjaro Sakhumnotho Consortium (Pty) Ltd	First ranking pledge and cession in security of pledged shares, pledged share distributions and disposal proceeds; and pledge (and not an out and out cession and transfer) of the ceded rights and accordingly, cedentes shall be and remain the owner of such rights until the cessionary exercises its rights	2 586 153
SAHL Investments Holding (Pty) Ltd	Shareholder guarantees	2 394 979
Petratouch (Pty) Ltd	Pledges, cedes and transfers and makes over in securitatem debit its rights, title and interest in and to the ceded rights (pledged shares and claims) to the cessionary, which pledge and cession the cessionary hereby accepts. With the exception of 460 000 of the pledged shares which will be utilised as security in respect of a R155 million debt facility with Sanlam Limited	2 187 683
Opiconsivia Investments 239 (Pty) Ltd	Second ranking security over all Afrisam assets	1 824 888



**3. INVESTMENTS (continued)****3.1 Investment summary (continued)****3.1.2 Direct loans (continued)**

	Secured by	Amortised 2017 R'000	Amortised 2016 R'000
Tanga Cement Company Ltd	Cession and pledge of debenture and mortgage registered under Tanga Cement Company Ltd	1 263 883	1 362 383
Kuseni Group 2 (RF) (Pty) Ltd	Cession and pledge of shares, shareholders' guarantee and cession of bank accounts	1 072 367	–
Independent News & Media (South Africa) (Pty) Ltd	Borrower cession and pledge in security, guarantee from Sekunjalo, pledge and cession of shares	1 049 584	1 004 550
Allied Mobile Communications (Pty) Ltd	Guarantee and indemnity, cession and pledge of shares, cession and pledge of related security (debtors, receivables, inventory, physical assets, management fees, bank account proceeds, insurance proceeds, excess cash reserve account)	946 359	808 922
Bafepi Agri (Pty) Ltd	Borrower cedes and pledges its right, title and interest in and to the AgriGroupe shares, borrower shareholder loans and any claim against AgriGroupe to the lender	–	662 741
Solar Capital De Aar (RF) (Pty) Ltd	Reversionary pledge and cession of shares in the project company, as well as the bank account	–	631 028
Africell Holdings Ltd	Political risk insurance, pledge of share, pledge of bank accounts, security over the beneficial interest in relevant companies, first ranking security over the material assets (including mortgage over real property, share pledges, bank accounts and receivables), assignment of insurance policy, security over IP rights and the rights under material agreements (the Material Agreement) of the borrower/obligators (including all telecom licences in the country of operation)	–	623 169
Other		12 263 466	9 588 825
<b>Total loans</b>		<b>40 032 840</b>	<b>22 162 371</b>

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

### 3.1.3 Bills and bonds

	Issuer rating long term	Fair value 2017 R'000	Fair value 2016 R'000
<b>Bills</b>		<b>1 524 218</b>	2 718 968
Eskom Holdings Ltd	BBB	1 524 218	2 718 968
<b>Commercial paper</b>		<b>1 362 480</b>	303 550
The Thekwini Warehousing Conduit (RF) Ltd	AAA	1 012 356	303 550
Development Bank of SA Ltd	AAA	201 551	–
Macquarie Group SA Ltd	AAA	148 573	–
<b>Government bonds</b>		<b>327 028 762</b>	335 543 141
Republic of SA	AAA	324 678 045	333 170 207
Republic of Angola	B	1 771 595	1 808 535
Republic of Namibia	AA-	579 122	564 399
<b>Corporate bonds</b>		<b>36 683 389</b>	36 795 548
Standard Bank Group Ltd	AA	7 383 973	9 914 619
FirstRand Ltd	AA	6 358 714	5 345 137
Pareto Ltd	AA	8 581 899	7 928 878
Nedbank Ltd	AA	2 912 285	2 319 724
ABSA Group Ltd	AA	2 393 264	2 115 528
The Thekwini Fund Ltd	AAA	1 379 813	925 396
Barclays Africa Group Ltd	AA	1 302 095	1 261 327
Investec Group Ltd	AA	986 143	966 391
Mercedes-Benz SA (Pty) Ltd	A	891 002	1 035 981
African Bank Ltd	BBB	687 160	854 293
Other	–	3 807 041	4 128 274
<b>Parastatal bonds</b>		<b>163 685 971</b>	151 031 917
Eskom Holdings Ltd	BBB	84 362 318	73 787 518
South African National Road Agency Ltd	AA	25 152 684	24 829 193
Transnet Ltd	AAA	25 016 823	23 832 648
Trans-Caledon Tunnel Authority	A	12 740 484	12 250 760
Development Bank of SA Ltd	AAA	12 517 732	12 790 951
City of Johannesburg	AAA	746 504	728 093
City of Cape Town	AAA	712 963	702 536
Airports Company SA	AAA	648 529	634 343
Rand Water Board	AA	529 733	–
Ekurhuleni Metropolitan Municipality	AAA	420 279	411 586
Land and Agricultural Development Bank of SA	AAA	–	332 577
Other	–	837 922	731 712
<b>Foreign bonds</b>		<b>18 395 594</b>	25 498 428
Black Rock Advisors (UK)	AA	13 496 702	20 101 997
International Bank for Reconstruction and Development	AAA	4 898 892	5 396 431
<b>Total bills and bonds</b>		<b>548 680 414</b>	551 891 552

### 3. INVESTMENTS (continued)

#### 3.1 Investment summary (continued)

##### 3.1.3 Bills and bonds (continued)

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

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

\* Foreign bonds are held in bond portfolios. These bond portfolios invest in a range of bonds with different credit ratings. The Credit Risk Department of the PIC applied an AA- Foreign Currency rating to Black Rock Advisors (UK) bond portfolio and a rating of BBB Global Scale Foreign Currency rating to the International Bank for Reconstruction and Development bond portfolio.

\*\* These bonds were not rated on the national rating. The Credit Risk Department of the PIC applied an AA+ for Trans-Caledon Tunnel Authority and a rating of AA for EThekweni Fund Ltd and Pareto Ltd.

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

Transaction date	Bonds on lent	Security in place 2017 R'000	Nominal value 2017 R'000	Fair value 2017 R'000	Name of counterparty	Scrip custodian
31 March 2017	R186	* 4 791 118	5 560 412		Standard Bank Ltd	Standard Bank Ltd
31 March 2017	R2 023	* 978 039	973 128		Standard Bank Ltd	Standard Bank Ltd
31 March 2017	R2 048	* 976 000	925 060		Standard Bank Ltd	Standard Bank Ltd
31 March 2017	R209	* 854 590	629 282		Standard Bank Ltd	Standard Bank Ltd
31 March 2017	R213	* 1 000 000	854 555		Standard Bank Ltd	Standard Bank Ltd
31 March 2017	R214	* 723 822	535 366		Standard Bank Ltd	Standard Bank Ltd
<b>Total</b>		<b>11 898 703</b>	<b>9 323 569</b>	<b>9 477 803</b>		

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

### 3.1.4 Investment properties

	Fair 2017 R'000	Fair 2016 R'000
Residential properties	106 215	55 121
Industrial properties	1 610 650	1 565 301
Office properties	7 892 900	6 893 965
Retail properties	3 725 073	1 863 707
Specialised properties	80 819	78 050
Vacant land	306 523	300 200
Lease income accrual	(219 522)	(232 032)
<b>Total properties</b>	<b>13 502 658</b>	<b>10 524 312</b>

Name of property	Address	Valuation method	Date of last valuation	Pledged as guarantee	Fair value 2017 R'000	Fair value 2016 R'000
Centre Square Development	Cnr of Dallas Road and Aramist Road, Menlyn Maine, Pretoria	Cost	n/a	No	764 400	–
Central City Shopping Centre	Stand 426, Unit E, Central Road, Mabopane	DCF	2017/03/31	No	618 000	–
Trevenna	70 Meintjies Street, Trevenna, Pretoria	DCF	2017/03/31	No	617 000	634 500
Vangate Shopping	Vanguard Drive, Athlone, Cape Town	DCF	2017/03/31	No	596 100	540 000
Riverwalk Office Park	41 Matroosberg Street, Ashlea Gardens, Pretoria	DCF	2017/03/31	No	551 000	585 300
Business Connexion	1037 Lenchen Avenue, Zwartkop	Cost	2017/03/31	No	362 000	–
Discovery Health	3 Alice Lane, Sandown, Sandton	DCF	2017/03/31	No	316 100	314 000
Joggie Vermooten	57 Joyner Road, Prospection, Isipingo Ext. 12, Durban	DCF	2017/03/31	No	299 000	285 000
Thembisa	Cnr Andrew Mapheto Drive & Umzimvubu Street, Esangweni, Ekurhuleni	DCF	2017/03/31	No	280 000	–
GijimaAst Holdings	47 Landmarks Avenue, Kosmosdal	DCF	2017/03/31	No	263 000	260 500
Kingsley	481 Church Street, Arcadia, Pretoria	DCF	2017/03/31	No	–	415 000
Iparioli Office Park	1166 Park Street, Hatfield	DCF	2017/03/31	No	–	236 000
Webber Wentzel	10 Fricker Road, Illovo, Johannesburg	DCF	2017/03/31	No	–	219 000
Town Square	61 Adderley Street, Cape Town	DCF	2017/03/31	No	–	188 000
Other					9 055 580	7 079 044
Lease income accrual					(219 522)	(232 032)
<b>Total properties</b>					<b>13 502 658</b>	<b>10 524 312</b>

**3. INVESTMENTS (continued)****3.1 Investment summary (continued)****3.1.4 Investment properties (continued)****3.1.4.1 Investment properties**

	<b>2017</b>	2016
	<b>R'000</b>	R'000
Balance at beginning of the year	<b>10 756 344</b>	10 010 831
Additions		
– Direct acquisition	<b>1 249 893</b>	58 710
– Capital expenditure	<b>1 093 190</b>	498 141
Disposals	–	(36 000)
Fair value adjustment*	<b>622 753</b>	224 662
<b>Closing fair value</b>	<b>13 722 180</b>	10 756 344
Operating lease income accrual	<b>(219 522)</b>	(232 032)
<b>Balance at end of year</b>	<b>13 502 658</b>	10 524 312

An independent valuation of the investment properties was performed as at 31 March 2017. The properties were valued at fair value on the basis of the discounted cash flow method, using a risk-free rate adjusted for property risk. Additional adjustments were included for tenant risk, building factors, vacancies, rental reversions to market, property costs, tenant installations and capital expenditure. The key assumptions used by the valuers include the capitalisation rate and the discount rate. The discount rates reflect the risks inherent in the net cash flows and are constantly monitored by reference to comparable market transactions.

The independent valuation was performed by professional valuers from DDP Valuers who are registered valuers in terms of section 19 of the Valuers Professional Act, No 47 of 2000, and have recent experience in valuing similar properties at similar locations.

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

**3.1.5 Equities**

	<b>Fair</b>	Fair
	<b>2017</b>	2016
	<b>R'000</b>	R'000
Primary listing on the JSE	<b>684 100 250</b>	659 843 355
Secondary listing on the JSE	<b>198 828 938</b>	255 675 922
Unlisted equities	<b>46 007 016</b>	41 118 133
<b>Total equities</b>	<b>928 936 204</b>	956 637 410

	Total issued shares (number)	GEPP's shareholding (number)	GEPP's shareholding %	Fair value 2017 R'000	Fair value 2016 R'000
<b>1. Primary listing on the JSE</b>				<b>684 100 250</b>	659 843 355
Naspers Ltd	438 265 253	69 974 719	16	<b>161 991 474</b>	140 916 592
Vodacom Group Ltd	1 487 954 000	228 888 178	15	<b>34 791 003</b>	36 300 139
MTN Group Ltd	1 884 269 758	278 017 564	15	<b>33 918 143</b>	38 856 448
Sasol Ltd	651 389 516	85 165 089	13	<b>33 264 632</b>	38 306 970
Standard Bank Group Ltd	1 618 018 412	192 356 750	12	<b>27 651 283</b>	26 329 580
FirstRand Ltd	5 609 488 001	494 877 122	9	<b>22 942 503</b>	24 671 630
Sanlam Ltd	2 166 471 806	264 928 123	12	<b>17 848 208</b>	18 277 152
Remgro Ltd	529 217 007	83 817 238	16	<b>17 273 895</b>	19 491 275
Aspen Pharmacare Holdings Ltd	456 435 185	54 387 731	12	<b>14 941 397</b>	16 327 726
Bidvest Group Ltd	335 404 212	53 596 337	16	<b>13 918 969</b>	17 956 691
Other				<b>305 558 743</b>	282 409 152
<b>2. Secondary listing on the JSE</b>				<b>198 828 938</b>	255 675 922
British American Tobacco Plc	2 027 019 508	44 701 596	2	<b>39 401 775</b>	44 196 980
Anglo American Plc	1 405 467 840	185 477 868	13	<b>37 846 759</b>	17 768 168
Steinhoff International Holdings	4 322 903 037	431 025 976	10	<b>27 658 937</b>	41 511 565
Old Mutual Plc	4 929 894 751	493 772 035	10	<b>16 630 242</b>	20 738 199
Richmont Securities AG	5 220 000 000	147 746 219	3	<b>15 664 054</b>	17 918 396
BHP Billiton Plc	2 112 071 796	61 609 067	3	<b>12 764 783</b>	9 052 532
Reinet Investments S.C.A.	1 959 412 860	235 929 136	12	<b>6 879 694</b>	7 424 569
Mediclinic International Plc	737 243 810	53 866 494	7	<b>6 419 809</b>	10 165 161
Mondi Ltd	367 240 805	19 830 517	5	<b>6 384 435</b>	–
Glencore Plc	14 586 200 066	89 697 196	1	<b>4 712 691</b>	–
Brait SA Ltd				–	8 337 394
SAB Miller Plc				–	42 042 291
Other				<b>24 465 759</b>	36 520 667
<b>3. Unlisted equities</b>				<b>46 007 016</b>	41 118 133
Pareto Ltd	3 459 251 062	2 629 030 807	76	<b>10 591 000</b>	7 639 000
Lexshell 44 General Trading (Pty) Ltd	1 000 000	500 000	50	<b>8 884 227</b>	7 105 006
Pan African Infrastructure Development Fund*	–	–	40/98	<b>3 901 649</b>	3 360 356
African Bank Ltd	487 500 000	121 875 000	25	<b>2 240 000</b>	2 500 000
ADR International Airports SA (Pty) Ltd	166 000	166 000	100	<b>2 204 000</b>	2 090 000
Bayport Management Ltd	30 720 108	6 377 550	21	<b>2 091 499</b>	2 183 372
Opiconsivia Investments 230 (Pty) Ltd	100	66	66	<b>1 854 000</b>	1 898 000
Libstar Holdings (Pty) Ltd	3 707 200	736 044	20	<b>1 390 000</b>	866 165
MTN Nigeria Communications Ltd**	402 590 263	7 105 633	2	<b>996 000</b>	1 978 325
Housing Impact Fund of South Africa*			10.93	<b>794 587</b>	–
Community Property Fund*	–	–	13/100	–	1 428 600
Other				<b>11 060 054</b>	10 069 309

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

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



### 3. INVESTMENTS (continued)

#### 3.1 Investment summary (continued)

##### 3.1.5 Equities (continued)

The preference shares and ordinary shares are linked. The ordinary and preference shares have not been valued separately. The total market value of both the preference and ordinary shares has been valued at R1.0 billion (2016: R1.9 billion) and is disclosed in the market value of unlisted equity.

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

Name of lender	Description	% of total assets	Fair value 2017 R'000
PIC on behalf of the GEPF	Anglo American Platinum Ltd	–	35 039
PIC on behalf of the GEPF	Anglogold Ashanti Ltd	–	213 724
PIC on behalf of the GEPF	Aspen Pharmacare Holdings Ltd	–	334 833
PIC on behalf of the GEPF	Astral Foods Ltd	–	44 598
PIC on behalf of the GEPF	Assore Ltd	–	8 938
PIC on behalf of the GEPF	Attacq Ltd	–	54 167
PIC on behalf of the GEPF	AVI Ltd	–	64 672
PIC on behalf of the GEPF	Brait S E Ltd	–	117 162
PIC on behalf of the GEPF	Barloworld Ltd	–	94 484
PIC on behalf of the GEPF	BHP Billiton Plc	–	137 359
PIC on behalf of the GEPF	British American Plc	–	394 058
PIC on behalf of the GEPF	Capital & Countries Properties Plc	–	62 701
PIC on behalf of the GEPF	Compagnie Financiere Richmont	–	697 717
PIC on behalf of the GEPF	Clicks Group Ltd	–	320 250
PIC on behalf of the GEPF	Coronation Fund Managers Ltd	–	117 014
PIC on behalf of the GEPF	Delta Property Fund Ltd	–	7 834
PIC on behalf of the GEPF	Discovery Ltd	–	304 472
PIC on behalf of the GEPF	Datatec Ltd	–	66 490
PIC on behalf of the GEPF	EOH Holdings Ltd	–	76 162
PIC on behalf of the GEPF	Fortess Income Fund	–	11 143
PIC on behalf of the GEPF	Gold Fields Ltd	–	9 354
PIC on behalf of the GEPF	Glencore Plc	–	73 789
PIC on behalf of the GEPF	Growthpoint Properties Ltd	–	21 846
PIC on behalf of the GEPF	Harmony Gold Mining Ltd	–	131 416
PIC on behalf of the GEPF	Impala Platinum Holdings Ltd	–	206 711
PIC on behalf of the GEPF	Investec Ltd	–	36 541
PIC on behalf of the GEPF	Investec Plc	–	117 612
PIC on behalf of the GEPF	Imperial Holdings Ltd	–	84 416
PIC on behalf of the GEPF	Intu Properties Plc	–	106 480
PIC on behalf of the GEPF	Invicta Holdings Ltd	–	8 774
PIC on behalf of the GEPF	Kumba Iron Ore Ltd	–	443 066
PIC on behalf of the GEPF	Liberty Holdings Ltd	–	40 628
PIC on behalf of the GEPF	Lewis Group Ltd	–	31 939
PIC on behalf of the GEPF	Life Healthcare Ltd	–	224 675

## Scrip lending

Name of lender	Description	% of total assets	Fair value 2017 R'000
PIC on behalf of the GEPF	MMI Holdings Ltd	–	68 204
PIC on behalf of the GEPF	Mr Price Group Ltd	–	319 800
PIC on behalf of the GEPF	Massmart Holdings Ltd	–	117 225
PIC on behalf of the GEPF	Metair Investments Ltd	–	835
PIC on behalf of the GEPF	Murray & Roberts Holdings Ltd	–	46 660
PIC on behalf of the GEPF	Northam Platinum Ltd	–	56 172
PIC on behalf of the GEPF	Nampak Ltd	–	125 219
PIC on behalf of the GEPF	Oceana Group Ltd	–	1 189
PIC on behalf of the GEPF	Old Mutual Plc	–	86 735
PIC on behalf of the GEPF	Omnia Holdings Ltd	–	8 240
PIC on behalf of the GEPF	Pick 'n Pay Stores Ltd	–	98 510
PIC on behalf of the GEPF	Royal Bafokeng Plat	–	9 967
PIC on behalf of the GEPF	Redefine Properties Ltd	–	12 806
PIC on behalf of the GEPF	Reinet Investment Ltd	–	137 581
PIC on behalf of the GEPF	Rengro Ltd	–	92 393
PIC on behalf of the GEPF	Resilient Prop Inc Fund	–	18 928
PIC on behalf of the GEPF	Rhodes Food Group Ltd	–	272
PIC on behalf of the GEPF	South32 Ltd	–	1 588
PIC on behalf of the GEPF	Steinhoff International Holdings N.V.	–	101 035
PIC on behalf of the GEPF	Santam Ltd	–	12 729
PIC on behalf of the GEPF	Foschini Ltd	–	114 048
PIC on behalf of the GEPF	Trencor Ltd	–	3 030
PIC on behalf of the GEPF	Truworths International Ltd	–	145 725
PIC on behalf of the GEPF	Woolworths Holdings Ltd	–	124 768
PIC on behalf of the GEPF	Zeder Investment Ltd	–	6 229
PIC on behalf of the GEPF	Zambezi Platinum Ltd	–	2 440
<b>Total</b>			<b>6 412 392</b>

### 3. INVESTMENTS (continued)

#### 3.1 Investment summary (continued)

##### 3.1.5 Equities (continued)

##### Scrip lending

Transaction date	Scrip on lent	Security in place 2017 R'000	Fair value 2017 R'000	Number of shares on lent	Name of counterparty	Scrip custodian
31 March 2017	Anglo American Platinum Ltd	*	35 039	114 477	Deutsche Bank	Standard Bank Ltd
31 March 2017	Anglogold Ashanti Ltd	*	213 724	1 491 967	Deutsche Bank	Standard Bank Ltd
31 March 2017	Aspen Pharmacare Holdings Ltd	*	334 833	1 218 817	Deutsche Bank	Standard Bank Ltd
31 March 2017	Astral Foods Ltd	*	44 598	284 242	Deutsche Bank	Standard Bank Ltd
31 March 2017	Assore Ltd	*	8 938	36 567	Deutsche Bank	Standard Bank Ltd
31 March 2017	Attacq Ltd	*	54 167	3 178 807	Deutsche Bank	Standard Bank Ltd
31 March 2017	AVI Ltd	*	64 672	653 257	Deutsche Bank	Standard Bank Ltd
31 March 2017	Brait S E	*	117 162	1 498 229	Deutsche Bank	Standard Bank Ltd
31 March 2017	Barloworld Ltd	*	94 484	791 984	Deutsche Bank	Standard Bank Ltd
31 March 2017	BHP Billiton Plc	*	137 359	662 963	Deutsche Bank	Standard Bank Ltd
31 March 2017	British American Plc	*	394 058	447 062	Deutsche Bank	Standard Bank Ltd
31 March 2017	Capital & Countries Properties Plc	*	62 701	1 303 555	Deutsche Bank	Standard Bank Ltd
31 March 2017	Compagnie Financiere Richmont	*	697 717	6 580 992	Deutsche Bank	Standard Bank Ltd
31 March 2017	Clicks Group Ltd	*	320 250	2 500 000	Deutsche Bank	Standard Bank Ltd
31 March 2017	Coronation Fund Managers Ltd	*	117 014	1 850 319	Deutsche Bank	Standard Bank Ltd
31 March 2017	Delta Property Fund Ltd	*	7 834	882 215	Deutsche Bank	Standard Bank Ltd
31 March 2017	Discovery Ltd	*	304 472	2 365 564	Deutsche Bank	Standard Bank Ltd
31 March 2017	Datatec Ltd	*	66 490	1 288 313	Deutsche Bank	Standard Bank Ltd
31 March 2017	EOH Holdings Ltd	*	76 162	549 352	Deutsche Bank	Standard Bank Ltd
31 March 2017	Fortess Income Fund	*	11 143	335 220	Deutsche Bank	Standard Bank Ltd
31 March 2017	Gold Fields Ltd	*	9 354	200 000	Deutsche Bank	Standard Bank Ltd
31 March 2017	Glencore Plc	*	73 789	1 404 433	Deutsche Bank	Standard Bank Ltd
31 March 2017	Growthpoint Properties Ltd	*	21 846	843 465	Deutsche Bank	Standard Bank Ltd
31 March 2017	Harmony Gold Mining Ltd	*	131 416	4 000 484	Deutsche Bank	Standard Bank Ltd
31 March 2017	Impala Platinum Holdings Ltd	*	206 711	4 571 236	Deutsche Bank	Standard Bank Ltd
31 March 2017	Investec Ltd	*	36 541	399 535	Deutsche Bank	Standard Bank Ltd
31 March 2017	Investec Plc	*	117 612	1 283 974	Deutsche Bank	Standard Bank Ltd
31 March 2017	Imperial Holdings Ltd	*	84 416	511 613	Deutsche Bank	Standard Bank Ltd
31 March 2017	Intu Properties Plc	*	106 480	2 286 450	Deutsche Bank	Standard Bank Ltd
31 March 2017	Invicta Holdings Ltd	*	8 774	149 423	Deutsche Bank	Standard Bank Ltd
31 March 2017	Kumba Iron Ore Ltd	*	443 066	2 183 561	Deutsche Bank	Standard Bank Ltd
31 March 2017	Liberty Holdings Ltd	*	40 628	375 320	Deutsche Bank	Standard Bank Ltd
31 March 2017	Lewis Group Ltd	*	31 939	769 621	Deutsche Bank	Standard Bank Ltd
31 March 2017	Life Healthcare Grod Ltd	*	224 675	7 750 071	Deutsche Bank	Standard Bank Ltd
31 March 2017	MMI Holdings Ltd	*	68 204	2 979 622	Deutsche Bank	Standard Bank Ltd
31 March 2017	Mr Price Group Ltd	*	319 800	2 000 000	Deutsche Bank	Standard Bank Ltd
31 March 2017	Massmart Holdings Ltd	*	117 225	860 869	Deutsche Bank	Standard Bank Ltd
31 March 2017	Metair Investments Ltd	*	835	32 933	Deutsche Bank	Standard Bank Ltd
31 March 2017	Murray & Roberts Holdings Ltd	*	46 660	3 029 879	Deutsche Bank	Standard Bank Ltd
31 March 2017	Northam Platinum Ltd	*	56 172	1 093 045	Deutsche Bank	Standard Bank Ltd
31 March 2017	Nampak Ltd	*	125 219	7 357 170	Deutsche Bank	Standard Bank Ltd
31 March 2017	Oceana Group Ltd	*	1 189	11 427	Deutsche Bank	Standard Bank Ltd
31 March 2017	Old Mutual Plc	*	86 735	2 575 276	Deutsche Bank	Standard Bank Ltd

## Scrip lending

Transaction date	Scrip on lent	Security in place 2017 R'000	Fair value 2017 R'000	Number of shares on lent	Name of counterparty	Scrip custodian
31 March 2017	Omnia Holdings Ltd	*	8 240	50 770	Deutsche Bank	Standard Bank Ltd
31 March 2017	Pick'n Pay Stores Ltd	*	98 510	1 480 689	Deutsche Bank	Standard Bank Ltd
31 March 2017	Royal Bafokeng Plat	*	9 967	293 156	Deutsche Bank	Standard Bank Ltd
31 March 2017	Redefine Properties	*	12 806	1 163 143	Deutsche Bank	Standard Bank Ltd
31 March 2017	Reinet Investment	*	137 581	4 718 155	Deutsche Bank	Standard Bank Ltd
31 March 2017	Remgro Ltd	*	92 393	448 315	Deutsche Bank	Standard Bank Ltd
31 March 2017	Resilient Prop Inc Fund	*	18 928	162 420	Deutsche Bank	Standard Bank Ltd
31 March 2017	Rhodes Food Group	*	272	11 414	Deutsche Bank	Standard Bank Ltd
31 March 2017	South32 Ltd	*	1 588	56 862	Deutsche Bank	Standard Bank Ltd
31 March 2017	Stein NV	*	101 035	1 574 492	Deutsche Bank	Standard Bank Ltd
31 March 2017	Santam Ltd	*	12 729	50 000	Deutsche Bank	Standard Bank Ltd
31 March 2017	Foschini Ltd	*	114 048	738 220	Deutsche Bank	Standard Bank Ltd
31 March 2017	Trencor Ltd	*	3 030	76 136	Deutsche Bank	Standard Bank Ltd
31 March 2017	Truworths International	*	145 725	1 682 538	Deutsche Bank	Standard Bank Ltd
31 March 2017	Woolworths Holdings	*	124 768	1 784 699	Deutsche Bank	Standard Bank Ltd
31 March 2017	Zeder Investment	*	6 229	803 774	Deutsche Bank	Standard Bank Ltd
31 March 2017	Zambezi Plat Rf Ltd Pref	*	2 440	44 765	Deutsche Bank	Standard Bank Ltd
<b>Total</b>		7 411 829*	<b>6 412 392</b>			

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

### 3.1.6 Preference shares

	Total issued shares (number)	GEPF's shareholding (number)	GEPF's shareholding %	Fair value 2017 R'000	Fair value 2016 R'000
BK One Ltd	24 492 823	1 200 000	5	120	120
MTN Nigeria Communications Ltd	402 590 263	7 105 633	2	**	**
Zambezi Platinum (RF) Ltd	159 905 453	72 882 077	46	3 972 073	3 024 607
<b>Total preference shares</b>				<b>3 972 193</b>	3 024 727

\*\* The GEPF has a shareholding of 7 105 633 preference shares and 7 105 633 ordinary shares in MTN Nigeria Communications Ltd. The preference shares and ordinary shares are linked. The ordinary and preference shares have not been valued separately in the prior year. The total market value of both the preference and ordinary shares has been valued at R1.0 billion (2016:1.9 billion) and is disclosed in the market value of unlisted equity.

### 3. INVESTMENTS (continued)

#### 3.1 Investment summary (continued)

##### 3.1.7 Collective investment schemes

Description	GEPF's shareholding (number)	Fair value 2017 R'000	Fair value 2016 R'000
Black Rock Advisors (UK)	*	86 595 153	81 787 947
Enko Capital Management LLP	*	2 084 775	–
Gemcorp Capital LLP	*	2 091 000	–
Coronation African Frontiers Unit Trust	4 006 531	732 307	795 399
Mazi Africa Capital (Pty) Ltd	*	480 416	–
Investec Africa Unit Trust	*	167 153	760 736
Sanlam Ltd	*	145 495	134 147
Mazi Capital (Pty) Ltd	85 407 515	85 408	79 116
<b>Total</b>		<b>92 381 707</b>	<b>83 557 345</b>

\* The GEPF has a shareholding in the underlying investments. The shareholding in the underlying investments varies per investment.

##### 3.1.8 Risk management

###### Credit/counterparty risk

Counterparty	Direct investment in counterparty R'000	Deposit/liquid asset with counterparty R'000	Guarantees	Any other instrument R'000	Total per counterparty R'000	Exposure to counterparty (% of the fair value of assets)
<b>Banks</b>						
ABSA Group Ltd	17 390	792 483	No	9 529 496	10 339 369	1
African Bank Ltd	2 500 000	–	No	687 160	3 187 160	–
Bank of America Merrill Lynch	–	–	No	(158 012)	(158 012)	–
Barclays Africa Group Ltd	8 452 840	–	No	1 302 095	9 754 935	1
Capitec Holdings Ltd	6 231 230	–	No	144 010	6 375 240	–
China Construction Bank	–	71	No	116 391	116 462	–
Development Bank SA Ltd	–	–	No	13 700 851	13 700 851	1
Deutsche Bank	–	–	No	(438 997)	(438 997)	–
Ecobank Transnational Inc	658 534	1 355 831	No	–	2 014 365	–
FirstRand Ltd	22 942 503	–	No	12 806 479	35 748 982	2
HSBC Bank	–	1 006	No	–	1 006	–
International Bank for Reconstruction and Development	–	–	No	4 898 892	4 898 892	–
Investec Ltd	7 722 613	754 533	No	4 304 555	12 781 701	1
Land and Agricultural Development Bank	–	–	No	6 097 578	6 097 578	–
Nedbank Ltd	7 406 244	786 935	No	9 948 617	18 141 796	1
Rand Merchant Bank	10 642 684	704 013	No	–	11 346 697	1
Societe General	–	3 645	No	–	3 645	–
South African Reserve Bank	11	101 109	No	198 398	299 518	–
Standard Bank Group Ltd	27 651 283	24 212 706	No	14 265 751	66 129 740	4
Venda Building Society Ltd	19 627	–	No	257 753	277 380	–

Counterparty	Direct investment in counterparty R'000	Deposit/liquid asset with counterparty R'000	Guarantees	Any other instrument R'000	Total per counterparty R'000	Exposure to counterparty (% of the fair value of assets)
<b>Asset managers</b>						
Black Rock Advisors (UK)	–	–	No	100 091 855	100 091 855	6
Coronation Asset Management (Pty) Ltd	2 442 665	–	No	732 307	3 174 972	–
Investec Africa Unit Trust	480 416	–	No	–	480 416	–
<b>Insurance companies</b>						
Alexander Forbes Ltd	534 530	–	No	–	534 530	–
Discovery Holdings Ltd	6 436 478	–	No	–	6 436 478	–
Liberty Group Ltd	1 243 508	–	No	–	1 243 508	–
MMI Holdings Ltd	2 969 162	–	No	–	2 969 162	–
Old Mutual Ltd	16 630 242	–	No	545 855	17 176 097	1
Sanlam Ltd	17 848 208	–	No	327 025	18 175 233	1
Santam Ltd	1 538 043	–	No	379 766	1 917 809	–

### 3.1.9 Market risk

#### Equity holdings

##### Ten largest Rand-value equity holdings

	Total fair value holdings and open instruments R'000	Market movement by 5% R'000
Naspers Ltd	161 991 474	8 099 574
British American Tobacco Plc	39 401 775	1 970 089
Anglo American Plc	37 846 759	1 892 338
Vodacom Group Ltd	34 791 003	1 739 550
MTN Group Ltd	33 918 143	1 695 907
Sasol Ltd	33 264 632	1 663 232
Steinhoff International Holdings Ltd	27 658 937	1 382 947
Standard Bank Group Ltd	27 651 283	1 382 564
FirstRand Ltd	22 942 503	1 147 125
Sanlam Ltd	17 848 208	892 410
<b>Total value of 10 largest equity holdings</b>	<b>437 314 717</b>	<b>21 865 736</b>
<b>As a percentage of total investment plus bank balances</b>	<b>26</b>	<b>1</b>



### 3. INVESTMENTS (continued)

#### 3.1 Investment summary (continued)

##### 3.1.10 Other financial instruments

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

	Total fair value holdings and open instruments R'000	Market movement by 5% R'000
Black Rock Global Equity Fund	69 570 919	3 478 546
RSA 197	49 486 178	2 474 309
RSA 210	27 094 655	1 354 733
RSA 202	26 546 951	1 327 348
RSA 2037	22 405 988	1 120 299
RSA 2030	21 618 417	1 080 921
RSA 212	18 676 503	933 825
RSA 2048	18 503 380	925 169
RSA 186	17 783 043	889 152
Black Rock Global Emerging Market Fund	17 024 234	851 212
<b>Total value of 10 largest other instruments</b>	<b>288 710 268</b>	<b>14 435 514</b>
<b>As a percentage of total investments plus bank balances</b>	17	1

##### 3.1.11 Foreign currency exposure

Description	Fair value 31 March 2017 USD'000	Fair value 31 March 2017 R'000	Market movement by 5% R'000
Black Rock Advisors UK Ltd	7 463 749	100 091 855	5 004 593
International Bank for Reconstruction and Development	365 305	4 898 892	244 945
Pan African Infrastructure Development Fund	290 942	3 901 649	195 082
Bayport Management Ltd	155 961	2 091 499	104 575
Ecobank Transnational Inc	197 587	2 649 722	132 486
Gemcorp Capital LLP	155 924	2 091 000	104 550
Enko Capital Management LLP	155 460	2 084 775	104 239
Dangote Cement Plc	137 805	1 848 022	92 401
Republic of Angola	132 106	1 771 595	88 580
Tanga Cement Company Ltd	94 246	1 263 883	63 194
Smile Telecoms Holdings Ltd	80 980	1 085 975	54 299
MTN Nigeria Communications Ltd	74 271	996 000	49 800
Coronation Africa Trust	54 607	732 307	36 615
S&S Refinery Holdings Ltd	51 948	696 637	34 832
Africell Holdings Ltd	39 885	534 876	26 744
Mazi Africa Fund	35 824	480 416	24 021
Abraaj Africa Fund III	29 820	399 898	19 995
West Africa Emerging Fund	16 813	225 464	11 273
Convergence Partners Communications Infrastructure Fund	15 777	211 573	10 579
Kuvenco 1 Ltd	12 824	171 977	8 599
Investec Africa Unit Trust	12 464	167 153	8 358

Description	Fair value 31 March 2017 USD'000	Fair value 31 March 2017 R'000	Market movement by 5% R'000
African Development Partners II LP	12 358	165 732	8 287
Kuramo Africa Opportunity II (Mauritius) LLC	6 529	87 562	4 378
South Suez African Fund II LP	6 847	91 826	4 591
Verod Capital Growth Fund II LP	5 224	70 050	3 503
Capital Alliance Private Equity IV Ltd	5 201	69 748	3 487
<b>Total value of foreign instruments</b>	<b>9 610 457</b>	<b>128 880 086</b>	6 444 006
<b>As a percentage of total investments plus bank balances</b>		<b>8</b>	–

#### 4. FUNDING LOAN

Sefalana Employee Benefits Organisation (SEBO)

**2017**  
**R'000**

2016  
R'000

**6 716**

6 716

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

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

	2017 R'000	2016 R'000
<b>5. ACCOUNTS RECEIVABLE</b>		
Accrued interest	129 451	28 895
Accrued dividend	3 189 561	5 454 257
Estates debt	33 165	31 728
Total estates debt	<b>83 692</b>	81 132
Less: provision for doubtful debts	<b>(50 527)</b>	(49 404)
Fraud cases debt	–	–
Total fraud cases debt	<b>57 781</b>	55 165
Less: provision for doubtful debts	<b>(57 781)</b>	(55 165)
Investment debtors	<b>2 674 387</b>	1 360 726
Lease debtor	<b>219 522</b>	232 032
Purchased service	<b>63 533</b>	59 591
Purchased service not recovered at retirement or death	<b>835</b>	871
Divorce debt	–	4 415 342
South African Post Office	<b>1 426</b>	2 924
Sundry debtors	<b>5 952</b>	3 034
Associated Institutions Pension Fund	<b>868</b>	–
National Treasury	<b>5 777</b>	–
Prepayments	<b>1 018 541</b>	878
Overpayments	<b>34 104</b>	34 806
Total overpayments	<b>48 639</b>	48 321
Less: provision for doubtful debts	<b>(14 535)</b>	(13 515)
	<b>7 377 122</b>	11 625 084

	2017 R'000	2016 R'000
<b>6. CONTRIBUTIONS</b>		
<b>6.1 Contributions receivable</b>		
Participating employers	<b>114 279</b>	114 632
Additional employer contributions*	<b>1 607 101</b>	1 447 756
Additional NSF employer contributions**	<b>2 162 544</b>	2 773 665
Interest on outstanding contributions	<b>765</b>	48
Statement of net assets and funds	<b>3 884 689</b>	4 336 101

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

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

	Contributions accrued 2017 R'000	Contributions received 2017 R'000	Contributions receivable 2017 R'000	Contributions receivable 2016 R'000
<b>6.2 Reconciliation of contributions receivable</b>				
Member contributions	23 498 290	(23 498 290)	–	–
Employer contributions	42 092 428	(42 544 557)	3 883 924	4 336 053
Interest on outstanding contributions	754	(37)	765	48
	<b>65 591 472</b>	<b>(66 042 884)</b>	<b>3 884 689</b>	4 336 101
Statement of changes in net assets and funds				65 591 472

	2017 R'000	2016 R'000
<b>7. CASH AND CASH EQUIVALENTS</b>		
Cash resources	<b>2 524 973</b>	2 823 251
Short-term investments	<b>27 659 529</b>	7 440 371
	<b>30 184 502</b>	10 263 622

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

## 8. RESERVES

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

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

	Ciskei strikers' reserve 2017 R'000	General assistants reserve 2017 R'000	Other past discriminatory practices reserve 2017 R'000	Total reserve accounts 2017 R'000
<b>Balance at beginning of the year</b>	157 214	106 885	7 587 652	7 851 751
<b>Transfers and benefits</b>	(9 235)	–	–	(9 235)
Benefits paid	(9 235)	–	–	(9 235)
<b>Net loss after transfers and benefits</b>	(9 235)	–	–	(9 235)
Transfer from net investment return to reserves	11 921	8 105	312 298	332 324
<b>Balance at end of year</b>	<b>159 900</b>	<b>114 990</b>	<b>7 899 950</b>	<b>8 174 840</b>

**9. UNCLAIMED BENEFITS**

	2017 R'000	2016 R'000
Balance at the beginning of the year	653 063	546 236
Transferred from benefits	1 352 076	1 677 988
Benefits paid	(1 428 678)	(1 726 763)
Interest provision	145 842	155 602
<b>Balance at the end of the period</b>	<b>722 303</b>	653 063

**Reconciliation of number of cases**

	2017 R'000		2016 R'000	
	Cases	Amount	Cases	Amount
Bank rejections	4 129	185 411	6 243	180 822
Benefits directly transferred to unclaimed upon exit	2 468	197 215	4 952	245 640
Unclaimed funeral benefits	185	1 255	383	2 446
Benefits transferred to unclaimed without complete documents	358	13 253	366	14 178
Benefits payments with a tax directive declined	104	4 595	121	6 525
Dispute cases	182	22 237	216	34 344
Untraced transfer to external service provider	9 834	256 005	4 667	151 401
Unpaid untraceable cases	210	16 036	234	17 707
Unpaid tax directive declined	722	26 296	–	–
<b>Balance at the end of the period</b>	<b>18 192</b>	<b>722 303</b>	17 182	653 063

## 10. BENEFITS

	Benefits payable 2016 R'000	Benefits accrued current year 2017 R'000	Benefits paid during year 2017 R'000	Benefits transferred to unclaimed benefits 2017 R'000	Benefits payable 2017 R'000
Net benefit payments	23 751 767	88 258 196	(86 290 613)	(1 347 341)	24 372 009
Gratuities	2 607 485	13 526 558	(12 722 397)	(168 679)	3 242 967
Withdrawal benefits	14 158 224	30 089 328	(30 059 821)	(635 934)	13 551 797
Monthly pensions	1 430 224	35 770 291	(35 783 782)	(16 504)	1 400 229
Retrenchment benefits	28 639	116 354	(129 987)	-	15 006
Death benefits	5 481 917	5 829 915	(4 667 790)	(521 725)	6 122 317
Funeral benefits	28 000	183 071	(176 495)	(3 374)	31 202
Orphan benefits**	17 278	33 784	(41 446)	(1 125)	8 491
Divorce benefits	-	2 705 469	(2 705 469)	-	-
Unclaimed benefits***	-	3 426	(3 426)	-	-
Interest to members	3 369 013	2 273 631	(1 883 182)	(4 735)	3 754 727
Benefits payable****	27 120 780	90 531 827	(88 173 795)	(1 352 076)	28 126 736
<b>Statement of changes in net assets and funds</b>					<b>88 258 196</b>

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

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

\*\*\*\* Benefits payable as at 31 March 2017 and benefits accrued during the year includes an amount of R6.8 billion (2016: R8.4 billion) representing exit cases that were not fully processed at year-end.

Benefits payable age analysis is summarised as follows:

	Cases	2017 R'000	Cases	2016 R'000
<b>Current</b>				
<2 years	31 388	17 539 792	32 702	17 265 169
<b>Unpaid benefits</b>				
2 – 5 years	26 530	2 389 241	28 268	2 587 586
>5 years	73 627	6 834 827	74 216	5 951 831
<b>Contingency provision</b>	-	1 332 545	-	1 283 645
<b>Orphans' benefits</b>	103	8 491	239	17 278
<b>Interest on NSF benefits</b>	321	21 840	142	15 271
<b>Total</b>	<b>131 969</b>	<b>28 126 736</b>	<b>135 567</b>	<b>27 120 780</b>



## 10. BENEFITS (continued)

### 10.1 Prior year adjustment

	2017 R'000	2016 R'000
Opening balance divorce debt	4 415 342	–

In the prior year, a divorce benefit was presented and disclosed as a divorce debt on the balance sheet as under accounts receivables in the statement of net asset and funds.

This prior error has been rectified during the current financial year and adjusted in terms of the RRR as a divorce benefits in the statement of changes in nets assets.

## 11. TRANSFERS

### 11.1 Transfers to other funds

	Effective date	Number of members	Transfers payable 2016 R'000	Transfers approved 2017 R'000	Return on transfer 2017 R'000	Transfers paid 2017 R'000	Transfers payable 2017 R'000
Bulk transfers in terms of Rule 12 of the GEP Law							
Municipal transfers	2016/2017	238	1 006	115 582	13 485	(117 652)	12 421
		238	1 006	115 582	13 485	(117 652)	12 421
Transfers approved							115 582
Return on transfers							13 485
<b>Statement of changes in net assets and funds</b>							129 067

### 11.2 Transfers from other funds

	Effective date	Number of members	Transfers receivable 2016 R'000	Transfers approved 2017 R'000	Return on transfers 2017 R'000	Transfer received 2017 R'000	Transfers receivable 2017 R'000
Transfers in terms of Rule 12 of the GEP Law							
Individual transfers	2016/2017	17	1 980	4 941	2 247	(7 864)	1 304
		17	1 980	4 941	2 247	(7 864)	1 304
Transfer approved							4 941
Return on transfers							2 247
<b>Statement of changes in net assets and funds</b>							7 188

	2017 R'000	2016 R'000
<b>12. ACCOUNTS PAYABLE</b>		
Administrative creditors	3 763	6 126
Operating lease accrual	868	1 131
Child maintenance (court orders)	974	1 398
Contributions (employers)	3 567	3 072
Dormant members	519	1 360
Associated Institutions Pension Fund	–	3 032
Temporary Employees Pension Fund	418	196
Government Pensions Administration Agency	67 411	106 310
Investment creditors	1 885 803	1 355 624
Income received in advance	10 000	10 000
National Treasury	–	292
Outstanding SA Post Office vouchers	921	2 550
Portfolio management fees payable	124 296	218 236
Sundry creditors	423 034	217 514
	<b>2 521 574</b>	<b>1 926 841</b>
<b>13. FINANCIAL LIABILITIES AND PROVISIONS</b>		
<b>13.1 Financial liabilities</b>		
Bank of America Merrill Lynch (BAML)*	1 401 476	4 198 468
<p>* The GEPF entered into funded equity collar finance with Bank of America Merrill Lynch on 13 July 2015 (the Collar) with a notional size of R5.0 billion. The initial financing amount, after prepaid interest and a premium of R347.5 million, amounted to R4.2 billion. The underlying share is Vodacom Group Limited (VOD) and the number of VOD shares pledged to BAML is 37 391 561. The put strike/floor price per share is R120.95 and the call strike /cap per share is R153.78. All funded collar transactions unwinds in tranches with weekly expiries commencing on 15 January 2016 and ending on 22 December 2017. Each expiry consists of 366 583 shares with a repayment amount of R44.3 million.</p>		
<b>13.2 Provisions</b>		
Provision for accumulated leave pay	728	665
Balance at beginning of year	665	203
Provided	1 204	1 684
Utilised	(1 141)	(1 222)
Provision for bonuses	5 177	3 922
Balance at beginning of year	3 922	2 900
Provided	5 336	4 995
Utilised	(4 081)	(3 973)
Balance at end of year	5 905	4 587
<b>Financial liabilities and provisions</b>	<b>1 407 381</b>	<b>4 203 055</b>

	2017 R'000	2016 R'000
<b>14. PURCHASE OF PERIODS OF SERVICE</b>		
GEPF members	27 453	37 221
Divorce benefits	564 379	–
Past discriminatory members	19 647	7 951
	<b>611 479</b>	45 172
<b>15. NET INVESTMENT INCOME</b>		
Income from investments	74 091 635	73 471 096
Dividend received	28 875 954	30 817 781
Interest received	42 841 614	39 824 602
Other income	507 090	1 393 417
Reversal of impairment <sup>3</sup>	285 197	–
Property income	1 581 780	1 435 296
Net profit on sale of investments <sup>1</sup>	63 775 415	34 272 641
Adjustment to fair value	(60 935 352)	(39 556 586)
Impairment of investments <sup>2</sup>	(994 977)	(699 171)
Total investment income	75 936 721	67 487 980
Less: expenses incurred in managing investments		
– Management fees – externally managed	(1 462 566)	(1 560 569)
– Management fees and other expenses – internally managed	(188 385)	(197 862)
– Property expenses	(722 128)	(693 544)
– Transaction costs and other expenses	(1 460 001)	(799 995)
Total investment expenses	(3 833 080)	(3 251 970)
Net investment income	72 103 641	64 236 010
<i>1 Profit on sale of investments</i>	64 754 508	36 570 740
<i>Loss on sale of investments</i>	(979 093)	(2 298 099)
<i>Net profit on sale of investments</i>	63 775 415	34 272 641

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

## Reconciliation of impairment

	2017 R'000	2016 R'000
Lancaster Group	353 152	
Opiconsivia Investments 239 (Pty) Ltd	228 383	
Friedshelf 1511 (Pty) Ltd	164 670	71 061
Independent News and Media SA (Pty) Ltd	86 377	
Kiaat Nozala Health Partners (Pty) Ltd	43 823	
Just Veggies (Pty) Ltd	33 641	
Mucet Investments (Pty) Ltd	31 984	
Projectprop (Pty) Ltd	26 143	
Botshilu Private Hospital (Pty) Ltd	10 690	
Kiaat Private Hospital (Pty) Ltd	10 044	
Kiaat Ndabezitha Trust	3 224	
Ngwenyama Trading 58 (Pty) Ltd	1 171	
Kiaat Lehakwe Trust	806	
Kiaat Bridge Facility	719	
Multisource (Pty) Ltd	150	
Afgri Poultry (Pty) Ltd	–	537 706
Friedshelf 1518 (Pty) Ltd	–	33 849
Zamalwandle Transport Logistics (Pty) Ltd	–	56 555
<b>Total</b>	<b>994 977</b>	<b>699 171</b>

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

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

<sup>3</sup> In the current year, a reversal of impairment was recognised for Afgri Poultry (Pty) Ltd and Zamalwandle Transport Logistics (Pty) Ltd, as both these companies experienced a turnaround due to improvements in the business sectors and the acquisition of new customers. The reversal of impairment is noted below:

## Reconciliation of reversal of impairment

	2017 R'000	2016 R'000
Afgri Poultry (Pty) Ltd	240 265	–
Zamalwandle Transport Logistics (Pty) Ltd	44 932	–
<b>Total</b>	<b>285 197</b>	<b>–</b>

**16. OTHER INCOME**

	2017 R'000	2016 R'000
<b>Interest received</b>		
Arrear contributions	3 237	5 453
Purchase of service	3 797	3 491
Additional employer contributions – early retirement	147 900	119 971
Additional employer contributions – NSF	288 479	322 519
Divorce debt	–	290 929
Operating bank account	76 940	27 647
Other	260	378
	<b>520 613</b>	770 388

**17. ADMINISTRATIVE EXPENDITURE**

	2017 R'000	2016 R'000
<b>17.1 Total administrative expenditure</b>		
Administration expenses	873 550	885 442
Actuarial fees	3 035	2 614
Investment accounting fees	2 297	11 686
Investment performance analysis	6 516	4 984
Audit fees	3 331	2 996
Depreciation	1 402	1 619
Foreign currency loss	75	43
Legal costs	4 944	3 416
Bad debts	9 060	5 085
Operating expenses	26 226	26 995
Operating lease payments	6 330	5 839
Operating lease smoothing adjustment	(262)	119
Personnel expenses	35 291	29 289
Personnel expenditure (refer to note 17.2)	16 903	15 785
Executive officer expenditure (refer to note 17.3)	4 997	3 686
Principal officer expenditure (refer to note 17.4)	4 600	3 773
Trustee expenditure (refer to note 17.5)	8 791	6 045
Increase in provision for doubtful debt	4 760	13 323
	<b>976 555</b>	993 450
<b>17.2 Personnel remuneration and expenses</b>		
Remuneration to permanent and contract employees	15 177	12 526
Retirement fund contributions	1 180	1 745
Training expenses	296	516
Other benefits (housing, medical, etc.)	250	998
	<b>16 903</b>	15 785

	2017 R'000	2016 R'000
<b>17.3 Executive officers' remuneration and expenses</b>		
Remuneration and allowances	3 878	3 092
Bonuses	1 119	594
	<b>4 997</b>	3 686
<b>17.4 Principal officer's remuneration and expenses</b>		
Remuneration and allowances	3 555	3 224
Acting allowance	–	63
Bonuses	1 045	486
	<b>4 600</b>	3 773
<b>17.5 Board of Trustees' remuneration and expenses</b>		
Meeting allowances	8 732	5 631
Expenses	59	414
	<b>8 791</b>	6 045

## 18. INTEREST PAID

	2017 R'000	2016 R'000
Interest paid to members	2 273 631	2 501 427
Interest paid to members exited from the GEPF	2 034 260	2 253 719
Interest paid to external funds in respect of members exited from the GEPF	184 451	195 726
Interest paid to NSF members	54 920	51 982
Other interest	6 621	–
Interest paid to dormant members	–	124
	<b>2 280 252</b>	2 501 551



## 19. OPERATING LEASE

### Income

Future minimum lease payments receivable under non-cancellable operating leases:

	2017 R'000	2016 R'000
Receivable within one year	1 036 236	928 379
Receivable between two and five years	2 060 460	1 765 647
Receivable after five years	511 193	346 816
	<b>3 607 889</b>	3 040 842

### Expenses

Future minimum lease payments under non-cancellable operating leases:

Payable within one year	5 554	5 143
Payable between two and five years	1 412	6 969
	<b>6 966</b>	12 112

## 20. CASH GENERATED FROM OPERATIONS

### Net income after transfers and benefits

Adjusted for:

	2017 R'000	2016 R'000
Net income after transfers and benefits	47 181 088	38 581 442
Adjusted for:	<b>(68 132 444)</b>	(67 367 171)
Interest received	<b>(43 362 227)</b>	(40 594 990)
Interest paid	2 280 252	2 501 551
Divorce benefits paid	2 705 469	–
Dividends received	<b>(28 875 954)</b>	(30 817 781)
Adjustment to fair values of investments	60 935 352	39 556 586
Profit on sale of investments and property	<b>(63 775 415)</b>	(34 272 641)
Impairment of investments	994 977	699 171
Reversal of impairment	<b>(285 197)</b>	–
Foreign currency loss/(income)	1 034 139	(1 004 454)
Depreciation	1 402	1 619
Lease smoothing	<b>(262)</b>	119
Bad debt written off	9 060	5 085
Increase in doubtful debt provision	4 760	13 323
Movement in provisions	690 800	(3 671 875)
Net transfers (in)/out	<b>(489 600)</b>	217 116

### Adjusted net income after transfers and benefits

### Changes in working capital

Adjusted net income after transfers and benefits	<b>(20 951 356)</b>	(28 785 729)
Changes in working capital	<b>(420 336)</b>	(1 208 422)
Decrease in accounts receivable	<b>(579 093)</b>	(1 466 946)
Increase in accounts payable	158 757	258 524

### Cash flow generated from operations

Cash flow generated from operations	<b>(21 371 692)</b>	(29 994 151)
-------------------------------------	---------------------	--------------

## 21. FINANCIAL MANAGEMENT AND ASSOCIATED RISKS

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

### 21.1 Market risk and interest rate risk

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

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

Macroeconomic variables such as gross domestic product (GDP), unemployment rate and inflation rate have an impact on interest rates and foreign exchange rates fluctuations which affect the value of financial instruments and the value of the portfolio investments.

Equities are the most volatile asset class and therefore the biggest source of short-term risk for the portfolio. The Investment Committee, on behalf of the Board, monitors this risk against predetermined benchmarks. The 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 2017 was R928.9 billion (2016: R956.6 billion).

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

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

### 21.2 Credit risk

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

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

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

## 21. FINANCIAL MANAGEMENT AND ASSOCIATED RISKS (continued)

### 21.3 Liquidity risk

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

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

### 21.4 Currency risk

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

The Fund's exposure to currency risk is mainly in respect of the foreign investment mandates and investments in the Pan African Infrastructure Development Fund, International Bank for Reconstruction and Development and Black Rock Advisors UK Limited which are denominated in US Dollars. Currency risk is managed primarily by setting limits to strategic asset allocation percentages for foreign asset classes and hedging in other instances.

### 21.5 Solvency risk

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

### 21.6 Concentration risk

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

## 22. RELATED PARTIES

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

- Contributions received of R42.5 billion (2016: R38.8 billion) and contributions receivable of R225 million (2016: R208 million) are from the employer which is the government of the Republic of South Africa.
- Trustees of the Fund who are also members of the Fund contribute to the Fund and may receive benefits upon exit from the Fund in terms of the Fund rules.
- Remuneration and expenses of key management personnel is disclosed in note 17 to the annual financial statements.
- The PIC is wholly-owned by the government of the Republic of South Africa. Management fees amounting to R996.6 million (2016: R906.8 million) was paid from the Fund to the PIC for investment management services in terms of the approved investment mandate.

## 23. CONTINGENT LIABILITIES

### 23.1 Benefits

A contingent liability exists for members that exited from the GEPF prior to 31 March 2017, 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, e.g. ill health.

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

### 23.2 Pending liability

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

## 24. CAPITAL COMMITMENTS

### 24.1 Capital commitments current year

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

### 24.2 Capital commitments previous year

Name of fund	Total commitment 2016	Drawn commitment 2016	Undrawn commitment 2016	Total commitment 2016	Drawn commitment 2016	Undrawn commitment 2016	Estimated repayable period
	USD'000	USD'000	USD'000	R'000	R'000	R'000	
ADPI II	30 000	8 381	21 619	439 605	122 810	316 795	3 years
Cape IV	20 000	–	20 000	293 070	–	293 070	7 years
PAIDF I	250 000	223 759	26 241	3 663 375	3 278 853	384 522	1 year
PAIDF II	350 000	50 400	299 600	5 128 725	738 533	4 390 192	4 years
South Suez	25 000	6 897	18 103	366 338	101 067	265 271	9 years
Verod	10 000	3 619	6 381	146 535	53 035	93 500	4 years
<b>Total</b>	<b>685 000</b>	<b>293 056</b>	<b>391 944</b>	<b>10 037 648</b>	<b>4 294 298</b>	<b>5 743 350</b>	











**GEPF Board of Trustees Office**

Riverwalk Office Park  
Block A, 3rd Floor  
41 Matroosberg Road  
Ashlea Gardens  
Pretoria

**GPAA Office**

34 Hamilton Street  
Arcadia, Pretoria  
Toll free: 0800 117 669  
Fax: 012 326 2507  
Email: [enquiries@gepf.gov.za](mailto:enquiries@gepf.gov.za)

[www.gepf.gov.za](http://www.gepf.gov.za)