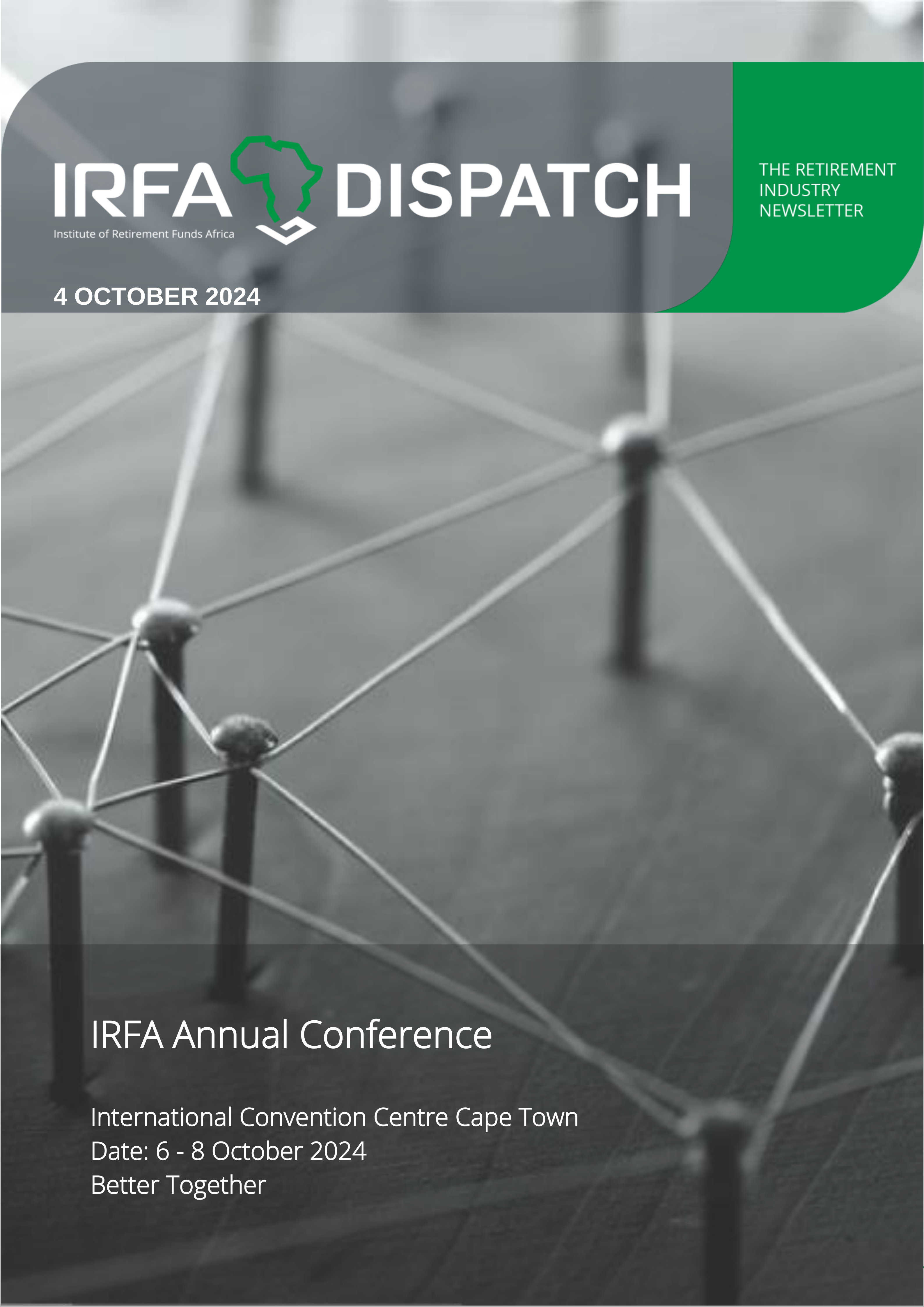

# IRFA DISPATCH

Institute of Retirement Funds Africa

THE RETIREMENT INDUSTRY NEWSLETTER

**4 OCTOBER 2024**

## IRFA Annual Conference

International Convention Centre Cape Town
Date: 6 - 8 October 2024
Better Together

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## The Two-Pot Retirement System: A Financial Pitfall or a Step Forward? An Alternative Perspective from GTC

As we navigate the complexities of retirement planning in today's financial landscape, the now fully-fledged Two-pot System has sparked significant debate. While the concept may initially seem appealing - offering increased access to retirement savings - it is essential to consider the long-term implications of this newfound flexibility. Here at GTC, based on members' responses to our communications, we have observed a growing inclination among retirement fund members to tap into their retirement savings for everyday expenses rather than considering these withdrawals as a last resort. Our thorough approach at GTC involves comprehensive counselling with clients applying for withdrawals under the new system. We believe this initiative is not just a service but a necessary (and regulated) educational effort that helps safeguard financial futures. During these engagements, we found that many individuals are not sufficiently examining their monthly budgets, opting rather to utilise their retirement savings for everyday costs - school fees, streaming services, gourmet coffee - expenses that belong in a household's monthly budgeting and which should not be mixed in with long-term savings.

While there are indeed legitimate circumstances that may require - or justify - an early withdrawal, such as unexpected medical expenses or the death of a primary breadwinner, or indeed the ability to purchase one's own home for the first time, relying on retirement funds for routine costs undermines the principles of compound interest and long-term investment growth. The allure of immediate gratification can be tempting, but it is hardly a strategy for prudent retirement planning. GTC's counselling efforts have yielded positive results, encouraging and educating members to appropriately consider their financial strategies. Even when the need for a Two-pot withdrawal was valid, members concluded their counselling better informed about the consequences of their decisions. Though early days, GTC is optimistic that its Two-pot claims ratio will be lower than the industry average attributable largely to this counselling engagement. The Two-pot system marks a significant shift in the Government's attitude to retirement fund preservation.

Since the early '80's when the Government aborted the Preservation of Pensions Bill, there have been no regulatory changes as regards retirement fund preservation. Consequently, many South Africans have used the only alternate mechanism of accessing their retirement funds before retirement by resigning, opting to have their retirement fund paid out after tax, in cash. In complete contrast with the previous desire to ensure retirement fund preservation, Government first mooted the idea that members could access their retirement savings during their working career, following the economic fallout of the Covid-19 pandemic. Globally, governments faced pressure from members of retirement funds seeking access to their money. In this context, the concept of "emergency" access was first used. The idea of referencing an emergency was quickly dropped as it was too difficult to singularly define. This latitude allowed members to broaden their own definitions and interpretations as to what constitutes a savings pot withdrawal requirement. Government clearly used the accessing of a portion of one's retirement fund as a negotiating tool in exchange for preserving the balance. Overall Government will regard Two-pot as a successful exercise, ensuring that most of a member's retirement fund is now preserved. Allowing access to a portion of one's retirement fund (the savings pot) represents an important shift away from a member's resignation as being the only option to access their retirement funds before retirement. The risk of prematurely tapping into these long-term assets remains. Each withdrawal diminishes the compound growth effect that retirement savings inherently possess, regardless of how "justified" that withdrawal may be in the moment. Other considerations include appropriate asset classes and liquidity.

At GTC, we have largely addressed the initial surge in demand for Two-pot savings withdrawals. In a recent GTC survey of impacted members, aimed at determining GTC's Net Promoter Score, we gathered valuable insights. A notable trend that emerged was that a large number of members articulated an intention to utilise this option again (some noting that it would be repeated) in the future. It is critical for every retirement fund member to grasp fundamental investment principles and embrace the discipline required for long-term investing. Achieving financial stability involves hard work and commitment, and it's GTC's mission to help South Africans recognise the importance of informed financial decisions. A Two-pot withdrawal compromises retirement savings, no matter the quantum or the time to retirement. Or the reason. GTC believes that it is not enough to just be a retirement fund administrator. It is our fiduciary responsibility to educate and support retirement fund members. It is only by doing this that we can ensure that they are equipped to make decisions that protect their long-term financial well-being, ultimately resulting in a healthier financial future for all South Africans.

**FA News | 2 October 2024**

## Cosatu continues to push for more pension fund reforms to protect workers' savings

PENSION and provident funds are workers' hard-earned savings and must be geared to support them during their careers and in retirement.

For too long, pension funds have been treated as a feeding trough for fund managers, corrupt politicians and opportunist businessmen to feast from.

The voice of workers for many years has often been ignored.
Cosatu has campaigned for comprehensive reforms of our pension laws to ensure the needs of workers are placed first and their savings are protected from abuse. The Public Investment Corporation (PIC) is the largest investment fund in Africa with R2.3 trillion in assets; 87% of its funds come from the Government Employees' Pension Fund with the balance from the Unemployment and Workplace Injuries and Diseases Funds. For years the PIC occupied headlines for all the wrong reasons with politicians and businessmen involved in corrupt shenanigans. During the decade of state capture and corruption, some politicians demanded the PIC be used to fund all sorts of adventures without the consent of workers which would have bled the PIC. Cosatu intervened with the support of the ANC in Parliament to overhaul legislation governing the PIC which was shockingly thin and had given ministers of finance a blank cheque to appoint PIC boards and to issue any instruction to them. The act did not require the PIC to disclose its investments to the public or even Parliament. This had seen previous and outrightly notorious PIC executives refusing to disclose investments, in particular unlisted ones. PIC CEOs previously had signing powers of billions of rand without having to get the permission from the board.

These gaping legislative omissions helped create an environment for the corrupt to loot.
In response to the litany of scandals engulfing the PIC, a judicial commission of inquiry was appointed by President Cyril Ramaphosa to place a spotlight on the corrupt activities that were taking place and make recommendations on reforms that were needed. Cosatu with key ANC leaders in Parliament simultaneously overhauled the PIC Act to immediately address key gaps. These were processed through extensive parliamentary hearings and faced massive resistance, overtly and covertly, from powerful individuals who did not want to see the doors of looting closed. Key changes made to the act that came into effect in 2019 include clear criteria and qualifications for appointing board members, which is now no longer simply the sole prerogative of the minister. Critical for workers is the inclusion of three worker representatives selected by labour itself in the Public Service Central Bargaining Council. This helps ensure that workers have a say in how their monies are spent and equally to enable them to keep an eye out for dubious investments. The PIC is now guided by a clear set of progressive criteria requiring investments to grow the pension and insurance funds and thus protect and cover workers, and also to support South Africa's economic growth, job creation, infrastructure, jobs-rich economic sectors and sustainable development.

All PIC investments must be made available for public and parliamentary scrutiny. These are critical as aggrieved parties can then take the PIC to court or Parliament where investments do not meet such criteria. Workers' funds are protected as the PIC is legally obliged to ensure their sustainability, and the days of the PIC wanting to hide dubious self-enrichment schemes are over with reports required to be made available on their website for all to scrutinise. On September 1 this year, Cosatu's campaign for the first stage of the Two Pot pension reforms commenced. These enable workers to access a limited portion of their savings immediately with up to R30 000 once-off and then a third of future savings once a tax year. This is to give struggling workers an alternative to resigning to access relief from their savings. This helps keep workers employed, avoids depleting their pensions, boosts long-term savings while simultaneously providing workers with badly needed immediate relief.

Cosatu has now made further pension fund reform proposals to Treasury. These include ensuring workers who lose their jobs retain full access to their savings, allowing workers greater access to savings accumulated by September 1, helping workers settle suffocating debt, seeing how taxes can be made less painful on low-income workers, allowing pension funds to be used to support education costs and setting caps on administrative fees charged by fund administrators. Given the very real challenges faced by millions of workers and their families, it is critical that these engagements be expedited to ensure that they come into effect over the next two tax years. The third major victory Cosatu has been able to achieve on this front for workers in recent years with the support of our ally, the ANC in government, has been the introduction of the Social Relief of Distress (SRD) grant, and its retention when some wanted to end it.

With all of its limitations, it has provided an invaluable lifeline to 8 million unemployed persons, enabling them to buy a loaf of bread a day. It provides the foundation for the long-sought Basic Income Grant. What is needed now is to recover value lost to inflation, raise it to the Food Poverty Line and to link its recipients to skills and employment opportunities to help them enter the labour market and find permanent decent work. Cosatu is pushing the Department of Employment and Labour at Nedlac for an urgent roadmap to overhaul the UIF and Compensation Fund to ensure businesses can register employees with ease and workers can access their monies timeously. We are also having engagements to ensure all workers are covered by these important insurance funds. Engagements on a path towards comprehensive social security need to be revived. Equally, we must expedite interventions to unlock the economy and drastically reduce unemployment. While at times the period it takes to achieve consensus on various reforms is frustratingly long, we are pleased that our efforts have achieved important victories benefiting millions of workers with more still to come.

**Business Report | 30 September 2024**

## Two-pot retirement system: Billions paid out, but some get R0 after tax

A closer look at who made up the stream of two-pot retirement system withdrawals shows how low-income consumers struggle.

A month after the two-pot retirement system was implemented on 1 September, billions of rands have been paid out. However, in some cases, people who claimed did not receive a cent, because their total withdrawals went to the taxman. If someone applied for a withdrawal under the two-pot retirement system and the fund requested a tax directive from Sars, the tax authority can take the withdrawal to cover the amount that the person still owed. Discovery's Corporate and Employee Benefits team says 22% of the total eligible retirement fund member base opted to make a withdrawal during September under the two-pot retirement system. People in the age group between 35 and 45 made up the highest total number of withdrawals from their accumulated retirement savings (27% of those eligible).

"This figure emphasises the pressure South Africa's 'sandwich generation' faces. They battle to support young children while they are potentially also responsible for their older parents. This is worsened by the recent high-inflation cycle, increased debt and electricity costs and other cost-of-living pressures which have devastated household finances, especially for families," Guy Chennells, chief commercial officer at Discovery Corporate and Employee Benefits, says.

**Two-pot retirement system withdrawals determined by income**

The withdrawals range from over 40% for middle-aged people with a low- to medium-income to less than 1% for people older than 55 who also have very high income of over R1 million per year. A low income is up to R125 000 per year, while a medium income is between R125 000 and R500 000 per year "By age alone, withdrawal rates were similar for the young and middle-aged (around 25%), but about half of that for the over 55 group (13%). Income was a much stronger driver of withdrawal rates with low-income claimants at 38%, middle-income at 29%, high income at 12% and very high-income claimants at just 4%." However, Chennells cautions that withdrawal rates during September should be understood within the context that many people did not qualify for a withdrawal for two key reasons:

- They had less than R2 000 in their saving pots from the seeding; or
- They were older than 55 and did not physically opt in to the two-pot retirement system for their seeding to occur.

By age, 45% of members younger than 35 qualified in September, 71% of between 35 and 55 and 61% of members older than 55 were eligible. For those over 55, a further 20% would have enough savings to qualify if they opted in, which they can do until September 2025. "By age alone, withdrawal rates were similar for the young and middle-aged (around 25%), but about half of that for the over 55 group (13%). Income was a much stronger driver of withdrawal rates with low-income claimants at 38%, middle-income at 29%, high income at 12% and very high-income claimants at just 4%."

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**Most of low-income group could not withdraw**

Only 34% of people earning less than R125 000 were eligible to withdraw. “As this is the group with the highest claiming rate, withdrawals overall would have been much higher without the R2 000 minimum requirement. It also means that withdrawals are expected to increase by the end of the year as savings components grow with contributions and investment returns.” Chennells says 67% of the middle-income group could withdraw from their saving pots, while 83% of the high-income group and 90% of the very high-income group qualified. “So far, withdrawals under the two-pot retirement system were lower than our team expected and we hope that some of this is due to people changing their minds about dipping into their retirement savings. “Understanding other options for short term capital, or how much more you will have to contribute to your fund later if you withdraw, or how much you will lose to tax, has proved critical in helping people make the right decisions.” He says there might be another spike in withdrawals in November for Black Friday, possibly another at Christmas and a third early next year, as the new school year starts.

**Billions paid out but Sars takes its share**

Anneke Hanekom, head of reputation management and group CEO projects at Momentum, says so far the company received 147 226 withdrawal claims with a monetary value of R2.5 billion, with R326 million paid to Sars. The biggest amount paid to a single individual was R30 000, which included the tax paid to Sars. The smallest amount paid out to an individual was R2 000, the minimum amount that pension fund members can claim. Sanlam received 81 473 claims for a monetary value of R1 567 billion. The average amount claimed was R19 238 and 74 420 tax requests were submitted to Sars, with 1 610 rejected and 7 896 Sars IT88 requests, which means that people who claimed owed Sars money already. There were 971 claims that were not paid out at all because the whole amount went to Sars for taxes in arrears. The average for these claims was R17 842. Sanlam claimants had total tax arrears of R34.3 million. Sanlam processed 79 967 electronic transfer payments to the value of R980 million after tax so far, with a gross value of R1 351 billion. The biggest amount paid to a single individual was R30 043 before fees and taxes and the smallest amount R2 005 before fees and taxes.

**Alexforbes pays out R3.4 billion and NMG Benefits R378 million**

Vickie Lange, head for best practice at Alexforbes, says three weeks after the introduction of the two-pot retirement system, the company received more than 185 000 claims, valued at more than R3.4 billion. More than 58% of these claims have been paid out so far. Siphamandla Buthelezi, head of platforms at NMG

Benefits, says the company received close to 19 000 claims and processed 12 237 successfully so far. “This means that in the first two weeks and a half of the two-pot retirement system, NMG processed more claims than our annual claims in volume.” About 10 000 of the 19 000 claims were from members who visited one of the NMG offices to submit a withdrawal. So far, the total amount requested is R378 million, resulting in an average of R19 800 per claim. NMG already paid 1 100 claims totalling R11 million, with R3.6 million in personal income tax paid to Sars. “We expect to double the number of payments by the end of next week now that our system is more stable and all processes have been thoroughly ironed out. The claims amount paid out so far is in line with what we expected.” The company had no rejected claims but does have pending claims due to missing requirements such as incorrect bank accounts, tax numbers and other static data.

**Old Mutual pays out R1.9 million**

Michelle Acton, retirement reform executive at Old Mutual, says the company received 145 000 withdrawal claims by 26 September, with a total value of R1.9 million. Old Mutual only started accepting claims on 18 September when phase 2 started because it adopted a phased approach to help ensure the system could handle the expected 600 000 withdrawal applications. Phase 1 enabled customers to check their personal details and savings balances via the Old Mutual channel on WhatsApp. It also gave them the time and opportunity to get their tax affairs in order before submitting a withdrawal application, Acton says.

**The Citizen | 30 September 2024**

## ESG Barometer reveals major focus areas for SA, Kenyan firms

Green technology, renewable energy, resource management and social development are core environmental, social and governance (ESG) focuses among South Africa’s listed firms. This fact emerged from the 2024 Sanlam ESG Barometer which surveyed 69 large, listed firms on the South African (50 firms) and Kenyan (19 firms) stock exchanges.

**From governance to impact**

Teboho Makhabane, Head of ESG and Impact at Sanlam Investments, commented at the report launch that the conversation was shifting from risk-focused governance matters towards social and environmental impact, as exemplified by the United Nations Sustainable Development Goals (UN-SDGs). Over 90% of respondents admitted that the 2030 UN-SDGs were ‘in focus’ as part of their ESG strategies. In South Africa, the top five included SDG 8, decent work and economic growth; SDG 1, no poverty; SDG 13, climate action; SDG 12, responsible consumption and production; and SDG 10, reduced inequalities. You may be excused, dear reader, for thinking that ESG has taken a backseat given local and global media’s current obsession with elections, social upheaval and war. Nowadays, diving into the online news, you are more likely to encounter stories about Harris vs Trump; Hamas vs Israel; South Africa’s GNU or two-tier policing in the United Kingdom than stories covering environmental or social issues. But climate change remains an issue; and Sanlam’s report places ESG strategy firmly back in the spotlight, raising awareness around the main issues facing allocators of capital in this field. The ESG Benchmark is full of the flowery language one has come to expect from such initiatives. Under the headline 'future ESG investment priorities' the survey reveals: "a strong focus on social development, resource management and renewable energy and green technology; these areas offer immediate social and environmental benefits and are also crucial to creating shared value, where market potential is interwoven with societal needs and policy actions, driving sustainable and inclusive economic growth and wellbeing." Ugh.

**Concerns over climate adaptation, resilience**

Your writer's whining over the report's style aside, the survey does raise real concerns over a lack of corporate imagination in addressing climate adaptation and resilience. These areas "have received limited attention despite escalating climate risks and vulnerabilities in both Kenya and South Africa that pose significant threats not only to society but also the financial and operational sustainability of companies," Sanlam wrote. In his foreword to the survey, Group CEO Paul Hanratty said that modern approaches to ESG must be deliberate, shared and sustainable. "Balancing capital attraction with ESG; shifting to low-carbon technologies while looking after vulnerable communities; and engaging rather than simply excluding are some of the tough questions we must explore," he wrote.

Your writer pored over the 94-page benchmark in an attempt to extract the key challenges that listed firms face when designing and implementing 'measurable and impactful' ESG strategies and allocating capital to same. Data and measurement were singled out as the most significant obstacles, with respondents highlighting issues related to the availability, accuracy and consistency of ESG data and metrics. The 'measurement of impact' task is compounded by wide variances in African versus European markets as to what constitutes an ESG investment, let alone the arguments that play out under the heading 'just transition versus transition'. "ESG strategies are often tailored within the limits of what is quantifiable, potentially side-lining more ambitious or long-term initiatives such as those focusing on adaptation and resilience," the report conceded.

**Top ESG strategy implementation constraints**

South African respondents mentioned technology and infrastructure; external factors; supply chain and external partnerships; and operational constraints as top ESG strategy implementation challenges. According to the report, "operational constraints include budgetary issues that limit ESG initiatives, such as the cost of new technologies, training programmes or sustainability certifications." Firms plying their trade out of South Africa remain concerned about "the complexities involved in managing sustainable supply chains, particularly in sectors such as transportation and construction which are difficult to decarbonise." In keeping with the recent trend of creating catch-phrases to drive home a point, Sanlam has conjured up the phrase 'ESG additionality' which is loosely described as the outcomes from actively redirecting capital towards fostering a more sustainable future. "This approach moves beyond merely avoiding investments in firms with poor ESG profiles or where ESG initiatives entail significant costs; instead, ESG additionality evaluates firms based on their potential for enhanced sustainability through strategic investments," Santam writes. The approach seems to be bearing fruit.

When asked 'Does your company actively look for new projects that have positive outcomes on society or the environment?' 95% of South African and 94% of Kenyan listed firms answered in the affirmative. This approach was reinforced by respondents' commitment to social and environmental impact, with the majority of projects expected to deliver developmental additionality. In the South African context, the focus was strongly on something called financial additionality, described as providing capital for sustainability-focused projects that would not otherwise have been available.

**Investors still worried about return erosion**

The big question that bugs investors and shareholders centres on how ESG strategies, and the redirection of capital to sustainability and impact, affects returns. "ESG is often conflated with corporate social responsibility (CSR) which focuses on activities like charitable donations, community engagement, and volunteering aimed at societal goals and enhancing company reputation," wrote Sanlam. "This is evinced in this year's survey, where 22% of South African and 20% of Kenyan companies expected no financial returns on their ESG projects, and 5% of South African companies expected returns below their cost of capital." The above revelation is somewhat misleading because genuine ESG investments are meant to yield financial returns in addition to delivering impact. Restated in this way, most respondents expected returns from ESG investments in line with their cost of capital, with around a third of respondents from both countries anticipating financial returns exceeding their cost of capital. The survey concluded that the low percentage of respondents expecting returns below their cost of capital indicates that ESG projects are increasingly viewed through a lens of profitability, not just corporate philanthropy.

**Doing ESG the African way**

"We are making progress as a business community in Africa; most companies now seek projects with positive societal and environmental outcomes," concluded Hanratty. "The idea of additionality is deeply embedded in Africans' way of doing business ... as corporate Africa Inc we have the influence, resources and capability to move the needle and make change happen."

**FA News | 1 October 2024**

## Japan’s biggest pension fund faces more pressure to deliver

Changes to GPIF’s investment policies to take on more risk have been lauded — but the country’s system is under strain

Every five years, Japan’s Government Pension Investment Fund sends a frisson of excitement through the investment community. This is one such year: when the country’s largest fund conducts a quinquennial review of its investment assumptions — encompassing everything from inflation to expected returns for various asset classes. These decisions determine the ¥246tn ($1.6tn) fund’s policy portfolio and how much money goes to which asset classes. It may also have an impact on how much will go to each of its 39 outside fund managers and whether that list may expand. Established in 2006, GPIF was set up to manage part of Japan’s national public pension and its reserves, and to create enough investment growth to meet the needs of the country’s rapidly ageing population. Since 2014, the fund has held roughly half its assets in equities and half in fixed income instruments, both split between domestic and overseas holdings.

However, the notion that most of us can retire from work as we enter our mid-60s is becoming outdated. As an example, Japan has the largest proportion of workers over the age of 65: at 13.6 per cent, according to OECD data. This group may want to keep busy, or perhaps needs the added income to forestall years of living off savings and any pension income. The country needs these workers, too. Japan’s overall population is just over 124mn people, but falling: the country lost an annual average of about 550,000 citizens between 2021 and 2023, according to data from the Ministry of Internal Affairs and Communications. That meant that, in the year to October 2023, the working population fell by 256,000. Japan’s retirement system is thus vital. It comprises a flat-rate basic pension, an earnings-based employee pension, and voluntary private pension plans. The first two are both defined-benefit plans and the last one is defined contribution.

The first, and largest, provides a basic income to all Japanese citizens, employed or not. “Combining these factors reveals an estimated breakdown of 48 per cent [of retiree income] from the national pension, 33 per cent from the employee pension, and 19 per cent from the corporate pension,” explains Katsutoshi Inadome, senior strategist at Sumitomo Mitsui Trust Asset Management, one of the largest asset managers in Asia. During 1999-2000, Japan undertook very contentious reforms to these pensions systems, designed to prepare the country for the result of a rapidly ageing population and a low fertility rate of just 1.2 children per woman. Basic pension benefits were reduced, and retirement ages for men were lifted from 60 to 65. An effort was made to fund the national pension’s reserves — the GPIF — using riskier assets, mostly equities. That has helped. Investment performance at GPIF in calendar year 2023 was up 22.7 per cent, its second best year ever. Partly, that improvement stems from a weakening yen as well as GPIF’s shift to outside managers who use active strategies. As of the end of 2023, the fund had ¥17tn ($121bn) with this group and the rest with passive managers. There could be even more shifts towards active management over time. Indeed, alternative asset managers — those investing in assets including infrastructure, private equity and real estate — hope that GPIF eventually increases its weighting in this area. In March 2024, it was just under 1.5 per cent. Any increase depends on the path of interest rates worldwide. “We believe that high interest rates may reduce the benefits of leverage in alternative asset investments,” says to GPIF chief investment officer Eiji Ueda. However, in spite of the reforms, Japan’s system does not score highly when compared with its global peers. An annual ranking of 47 country’s systems by pension consultants Mercer, along with the CFA Institute, gave Japan a score of 56.3 out of 100.

That’s enough for only a C grade — in line with Italy, China, and South Korea. The sustainability of Japan’s pension system worries David Knox at Mercer, the report’s author. Can the existing pension systems continue to deliver, notwithstanding the demographic and financial challenges, asks the report. Its basic pension for the aged “only meets about 18 per cent of the national average wage,” points out Knox. “Better systems pay at least 25 per cent and, in some cases, over 30 per cent in the OECD. Australia’s pas is at 28 per cent and Denmark at 36 per cent.” Japan’s pension system therefore faces a daunting task, even after its reforms. Changing the GPIF’s investment policies to take on more risk, has been lauded. “Yet it’s not about the investment but about the overall reform,” says Akiko Nomura at the Nomura Capital Markets Institute. “We should look at the overall system rather than just the investment side.”

**Financial Times | 30 September 2024**

## Taxpayers urged to monitor PIC's R2.7 trillion assets

As the Public Investment Corporation (PIC) – South Africa's largest asset manager – approaches the R2.7 trillion benchmark in assets under management, taxpayers should be vigilant, cautioned prominent Chartered Accountant (CA) Khaya Sithole yesterday. Highlighting the crucial link between the PIC and government employees' pensions, Sithole warned that any shortfall in the PIC's assets relative to its liabilities could pose a significant financial burden on the public. Founded 113 years ago, the PIC manages a diversified portfolio for clients such as the Government Employee Pension Fund (GEPF), which has almost 1.3 million active members from across the government, including those who serve as policemen, nurses, and teachers, among other entities.

The GEPF's diversified portfolio accounts for 87.97% of PIC's assets under management. Sithole noted that some 95% of the GEPF's funds were invested by the PIC. He told Business Report that the PIC's importance was not something that can be overemphasised due to its size, the amount of people it caters for, and the fact that these civil servants were guaranteed a certain rand value upon retirement because it was a defined benefit fund – the last of this type in South Africa. Should the PIC's liabilities exceed its assets, it will need bailing out, Sithole said. "It's a very important public institution. It is remarkably important for us to keep track of what the PIC does and to keep track of what the GEPF does," Sithole said.

The PIC's largest clients are the GEPF, the Unemployment Insurance Fund, the Compensation Commissioner Fund, the Compensation Commissioner Pension Fund and the Associated Institutions Pension Fund.In its recent financial year, the PIC saw a 3.6% growth in assets and declared a R141 million dividend to the government. However, it reported R635 million in liabilities as of March last year, with Book One of its Annual Report providing no update on this figure. An elusive Book Two is yet to offer further clarity. Writing in the recent annual report, CEO Abel Sithole stated that, "by the close of the financial year, the PIC had implemented 242 of the 243 recommendations of the Mpati Commission of Inquiry that are within its control – a process diligently monitored by the PIC board". The Commission's adverse findings on numerous transactions and on actions of various individuals in investment decisions led to the PIC establishing a Risk Committee in 2019. In Book One of the PIC's Annual Report, Chairman David Masondo said there is a growing focus on sustainable investing, with Environmental, Social, and Governance (ESG) considerations.
"Sustainable investing aligns with South Africa's development goals of job creation, social equity, environmental protection and the mitigation of climate change. The PIC systematically integrates ESG factors into its investment analysis and decision-making, across all asset classes," he said.

Simultaneously, PIC chairman and deputy finance minister, David Masondo, has been vocal about a growing focus on sustainable investing. “Sustainable investing aligns with South Africa’s development goals of job creation, social equity, environmental protection, and climate change mitigation," Masondo stated, indicating that the PIC integrates Environmental, Social, and Governance (ESG) factors across all its investments. Despite its operational successes and a sixth consecutive unqualified opinion from the Auditor-General on its financial statements, the PIC's reputation is not without controversy. Masondo himself faced scrutiny for allegedly abusing his position in a personal matter in 2019, which led to calls for him to step aside from his roles by the ANC's internal Integrity Commission. Given the magnitude of the PIC’s responsibilities and the scope of its impact, Sithole’s call for vigilance underscores a critical need for public oversight. The stability and prosperity of countless civil servants depend heavily on the PIC’s ongoing fiscal health, making it imperative for all stakeholders to remain informed and engaged with its performance.

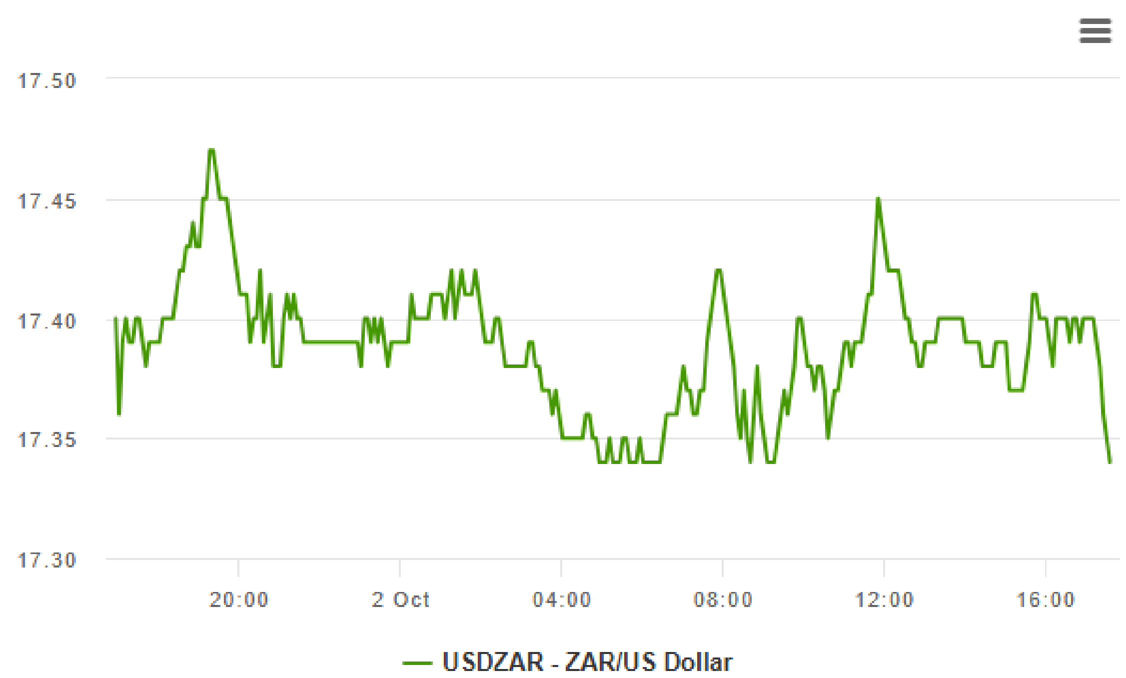
**Business Report | 2 October 2024**

## Rand could break through R15 to US dollar

The biggest driver behind the current rally is an interest rate cutting cycle in the United States, but with confidence on the home front also a factor.

For the past week, the rand has been at a 20-month high against the dollar. The question is how much further it will strengthen – and how long the rally will last. Johann Els, group chief economist at Old Mutual, believes the rand could break through the R15-to-the-dollar ceiling in the next three to six months.

On Thursday evening, the rand traded at R17.16 against the dollar – up 0.42% from the previous day.



“The biggest driver of a firmer rand at present is an interest rate cutting cycle from the United States (US), which favours a stronger rand,” Els says, adding that rate cuts in the US will be deeper than the cuts in South Africa. On Wednesday 18 September, the US Federal Reserve cut the fed funds rate by 50 basis points, while the South African Reserve Bank (Sarb) lowered interest rates by 25 basis points a day later. Johan Gouws from PPS Wealth Advisory tells Moneyweb the difference between South Africa’s interest rate and that of the US is currently 3.17%, up from 2.92%. “Depending on the timing, that difference may increase, which will give the rand further room to strengthen against the dollar,” says Gouws.

Els views the current rand strength as mainly because of the dollar, which is on the back foot. “A weaker dollar could mean that the rand, which is currently undervalued, recovers to its fundamental value,” Els adds. Casey Sprake, investment analyst of Anchor, points out that the recently announced stimulus in China also bodes well for emerging markets. “China is an important export nation for South Africa, so we see any turnaround in economic activity there as positive. The rand has taken gains from that.” Els cautions that it is unlikely that the rand will stay at levels below R15 to the dollar, but for the time being, a stronger local currency means more fuel price reductions and inflation firmly under control.

**Green shoots in SA**

Gouws says besides further likely interest rate cuts in the US, contributing to a weaker dollar, there is also negative sentiment in America due to uncertainty around the upcoming presidential election and the country’s rising debt levels, which also weigh on the dollar. However, positive sentiment about South Africa’s growth prospects also plays a role, although to a lesser extent. “I don’t think the current wave of optimism is misplaced. If we do a few things right, it could have a significant impact on confidence levels and eventually growth,” says Gouws.

According to Sprake, there is reassurance that the government of national unity (GNU) has “passed the test of durability”. “Although there was some noise with the signing of the Bela [Basic Education Laws Amendment] Bill, it was one of the GNU’s key tests and they passed it.” On 13 September, President Cyril Ramaphosa signed the Bela Bill into law, but announced he would be suspending the implementation of two specific clauses in the bill for a three-month consultation period. The DA is vehemently opposed to the two clauses relating to language policy and school admissions.

**3% growth is possible**

Els believes the private sector’s involvement in addressing crises in the economy, such as electricity and, more recently, logistics, could see GDP increase from 1% to 2.5% over the shorter term. “There are structural problems, which will hinder the 5% to 6% growth we experienced around 2004 to 2007 – the kind of growth rate we should be seeing. But the greater private sector involvement could help us get back to an average of 3% over the next three to seven years.” Nolan Wapenaar, co-chief investment officer and head of fixed income at Anchor, says in a company note that domestic factors such as an uptick in confidence thanks to the disappearance of load shedding “for now” will continue to favour a stronger rand. “Perhaps our only worry is that China’s economy does not appear to be able to escape its current quagmire. From time to time, we may also see negative market sentiment toward the emerging market (EM) complex. “That said, the path of least resistance for the rand is a slow grind stronger from current levels, albeit with bouts of volatility,” he notes.

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