



South Africa fund: Pride of the continent

The South African Government Employees Pension Fund is building on its position as the largest pension fund in Africa and setting an example on ESG for the rest of the African continent.

South Africa's Government Employees Pension Fund recently held its third 'community road show' in Polokwane, the capital of the Limpopo province in the north-east of the country. GEPP directors

presented the fund's services to a crowd of more than 2,000 people gathered in a local community centre, with entertainment provided by gospel groups. The event received extensive coverage in the local and national radio and television networks. GEPP said in a statement that such events "enable GEPP to get closer to its clients and, at the same time, gather accurate information about them."

The drive for more members is a strategy of building on its strength. GEPP, a self-administered, defined benefit pension fund, is the largest pension fund administrator in Africa. A recent survey conducted by P&I/Watson Wyatt shows GEPP as the 10th largest sovereign fund in the world,

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MAEMILI RAMATABOE, GEPP

with \$74 billion in assets (as of February 2009). Established in May 1996 through the amalgamation of a number of pension funds serving government employees, the fund has more than 1.3 million contributing members and 320,000 pension recipients, excluding members of other funds administered by GEPP as an agent.

As with most pension funds, GEPP's performance suffered over the past year, thanks to the global slowdown, but outperformed local benchmarks. Maemili

Ramataboe, principal officer of the fund, said: "Our performance was slightly better compared to other pension funds locally and globally. On a year-to-year basis (Mar '08 to Mar '09), the fund was only down about 10% compared to the total return on the JSE All Share Index of -28.54% for the same period, and -15% return on average for other pension funds in our market."

She adds that the fund's liability driven investment strategy includes some investment risk, "as the portfolio is geared to outperform the liabilities as opposed to matching them." In fact, the strategy has weathered the crisis and won't be changed. Ramataboe says: "The fund is already showing strong signs of recovery, and our investment strategy is still considered appropriate."

Almost the entire GEPP asset portfolio, about 95%, is under the management of the Public Investment Corporation (PIC), an investment manager wholly owned by the South African government. PIC, which has the Minister of Finance on the

Board as a shareholder representative, was established as a corporation in April 2005 by statute.

According to PIC, its funds under management grew from R599,5 billion at 31 March 2006 to R739.7 billion (\$94.9 billion) at 31 March 2009, making them one of the largest investment managers on the African continent. The total return on investment over that period was 18.7%. PIC is unusual among asset managers in that all its 35 clients are public sector entities, whether pension, provident, social security or development funds.

For PIC, the GEPF account represents almost 90% of its business. Other funds that make up the remainder of PIC's client base include the Unemployment Insurance Fund, the Associated Institutions Pension Fund, the Compensation Commissioners funds and the Guardian funds. PIC's allocation strategy is determined by investment mandates set by each client and approved by the FSB.

The capital, money market and property portfolios are managed internally by PIC.

About 25% of the equities portfolio are outsourced to external investment portfolio managers, selected and monitored by the PIC. In January, a new external manager line up for the equities portfolio was announced. As well as some of the largest names in South Africa's fund management industry, such as Investec, Stanlib, Prudential and Sanlam, mandates have been handed to other local firms such as ABSA, Afena, Argon, Cadiz, Coronation, Fraters, Kagiso Omigsa and Taquanta. The bulk of the fund's investments are in South African companies, with the remainder from elsewhere in Africa.

The remaining 75% of the equities portfolio is managed in-house on an enhanced index or passive basis. PIC says: "Passive management allows the GEPF to benefit from the significant saving in management fees, without sacrificing performance. The external managers handling the remaining 25% of equities are able to focus their skill on active asset management." PIC also manages the fixed-income portfolio, and executes all transactions generated in the market by both the equities division and the fixed income division. Performance is assessed against the All Bond Index and the STeFI (short-term fixed interest, or cash and money markets) index benchmarks.

The fund's health can be judged from the fact that the Board of Trustees in April this year approved a pension increase of 9%. The increase did not fully cover the increase in the CPI inflation growth, but was agreed at a time when many other 'super funds' were reviewing their pension

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increases, in response to the plunging asset values. Last year, total assets of the world's largest 300 pension funds fell by 13%, according to data from Watson Wyatt.

Martin Kuscus, chairman of the GEPF Board of Trustees, said: "The current global environment has made it difficult for the fund to afford an increase of 100% of average CPI. However, it is good reserves that were set aside during the good times that had made it possible for the Fund to afford 9.0%, which is equivalent to 75% of average CPI. This level of increase is in line with the commitment expressed in rules of the fund."

Relations between GEPF and PIC have been under review. Ramataboe confirmed "the Board's commitment to upholding the important role played by PIC in the management of the GEPF assets," but last June GEPF assets were transferred from PIC into the name of GEPF. Ramataboe said the transfer was one of a series of governance measures designed to ensure robust governance procedures and enhance the fund's fiduciary role. Part of the governance remit is a policy of shareholder activism designed to promote ethical corporate behaviour in portfolio companies.

GEPF has also acquired a new head of investments. John Oliphant, who was formerly the head of quants at Stanlib, effectively becomes an internal actuarial consultant, strengthening the hand of the GEPF in its relations with PIC. The appointment also means GEPF has the option of doing more asset management in-house.

Ethical investing

At end of April, investors were hailing a 'potential landmark moment' for responsible investment in South Africa, when GEPF led a group of South African investors and service providers worth R1,625 billion in launching an ambitious investor-led network as part of their commitment to the UN-backed Principles for Responsible Investment. Ramataboe says: "GEPF is a founder signatory to the UN-backed Principles of Responsible Investing, and we have developed policies in line with

this commitment. We strongly believe that environmental, social and corporate governance (ESG) issues can have material impact on long-term returns." She says this launch makes South Africa the third country to host such a network, after Brazil and South Korea.

The network has three aims: the first is to raise awareness about the business case for responsible investment, in order to persuade more South African pension funds and other asset owners to consider ESG. The second aim is to capture best practice on how to factor ESG issues into investments processes and to implement the principles in the South African context. Lastly, the network aims to examine any regulatory and other barriers that might prevent an increase in the ability of South African investors to engage with companies, so as to improve corporate performance on environmental, social and corporate governance matters. This will include discussing the potential for future collaborative engagements by investors.

The largest pension funds around the world, in particular the top sovereign funds, have been prioritising governance to build long-term investment frameworks, and GEPF is part of this trend. Oliphant said: "The new network has come together to help investors put the Principles for Responsible Investment into practice here in South Africa. As investors, we recognise that ESG issues such as transformation, human rights and climate change can have a financial impact on our investments if they are not successfully managed, and we are therefore committed to helping build South African capital markets that are sustainable over the long term."

But few other pension funds in South Africa have followed GEPF's lead. In fact, only one other pension fund in South Africa has signed up to the UN's Principles of Responsible Investing. He added: "No financial institution can do this alone, and this network will help responsible investors in South Africa to combine our knowledge, influence and reach wherever possible. It's a potential landmark moment for responsible investment in South Africa."

Oliphant has called for a reform of the role of pension fund trustees and of pension fund consultants to ensure that they make their presence felt in the pension funds' asset allocation strategies. In this way, trustees would be better equipped to promote long-term investment practices such as ESG. ■

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