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SET 6H2 - DAY 2

**COMMISSION OF INQUIRY INTO
HIGHER EDUCATION AND TRAINING**

PARTIES PRESENT:

The Chairperson
Commissioners
Head of Evidence Leaders
Evidence Leaders
Experts
Secretariat

WITNESSES:

Mr. W. Masekesa – Public Investment Corporation
Mr. Roy Rajdhar
Mr. Ernest Nesane
Ms. Lusanda Kali
Ms. Seipati Moichela
Mr. Sholto Dolamo
Ms. Ellen Dube
Mr. A. Sithole – Government Employee Pension Fund

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SESSION 1 – 21 FEBRUARY 2017

JUDGE: Good morning Miss Pillay and the other evidence leaders and to the representative of the PIC, welcome to the commission.

ADV. K. PILLAY SC: Good morning Chair. Chair the next witness, next
5 lot of witness are representatives of the Public Investment Corporation, the PIC is key to set 6 of the hearings Chair where we look at alternative forms of funding.

JUDGE: Yes.

ADV. K. PILLAY SC: I know that the PIC has prepared quite a detailed
10 presentation which sets out its investment strategy generally and specifically in relation to education and I would ask that the PIC members introduce themselves firstly, take the oath and then proceed with the presentation.

JUDGE: Good morning to all of you, we have a practice of submitting
15 our witness to giving evidence under oath, are you all going to be speaking or is there a spokesman?

Mr. W. Masekesa: Alright Chair I think we are going to speak collectively as the PIC.

JUDGE: Well then let me swear you all in if you do not mind. I have
20 your names, Mr Rajdhar, Mr Masekesa, Mr Nesane, Mr Kali, Mr Moichela, Mr Dolamo and Miss Dube, I think I have got a couple of ladies, perhaps you will just tell me who you are stating from the left please.

MS. L. KALI: Lusanda Kali.

JUDGE: Lusanda Kali, yes thank you Miss Kali.

MS. E. DUBE: Ellen Dube.

JUDGE: Yes Miss Dube thank you.

MS. S. MOICHELA: Seipati Moichela.

5 JUDGE: Seipati Moichela, yes thank you Miss Moichela.

MR. R. RAJDHAR: Roy Rajdhar.

JUDGE: Yes thank you.

MR. W. MASEKESA: Wellington Masekesa.

JUDGE: Yes sir.

10 MR. E. NESANE: Ernest Nesane.

JUDGE: Yes sir.

MR. S. DOLAMO: Sholto Dolamo.

JUDGE: You I do not have on my list, oh yes Sholto Dolamo yes thank
you, Dolamo. Thank you very much, do you swear that the evidence that
15 you are going to give will be the truth the whole truth and nothing but the
truth, if you do raise your right hand and say so help me God.

PARTIES: [d.s.s.]

JUDGE: Thank you very much. Mr Masekesa are you going to start or?

MR. W. MASEKESA: Yes.

20 JUDGE: You are thank you.

MR. W. MASEKESA: Yes sir.

JUDGE: I just want to ask one question first which I put to my co-
evidence leaders and we thought we knew the answer but maybe we do

not and that is does the PIC have funds of its own or is its business entirely the management of other peoples funds?

MR. W. MASEKESA: Thank you Chair, the PIC invests on behalf of the clients.

5 JUDGE: It does not have funds of its own.

MR. W. MASEKESA: We do not have funds, we do not invest funds on behalf of our balance sheet.

JUDGE: Thank you. Yes sir would you like to go ahead. We ask only one thing that when a witness changes from one to another you please
10 put your name on record otherwise the transcriber has no clue as to who is speaking and the whole thing becomes very mixed up.

MR. W. MASEKESA: Okay.

JUDGE: So Mr Masekesa sir if you are going to start then being at your leisure please.

15 MR. W. MASEKESA: Okay thank you Chair, my name is Wellington Masekesa and I work from the CEO's office of the Public Investment Corporation, before I proceed with the presentation I would like to also apologise, give an apology for our CEO who was supposed to be here, Dr Daniel Matjila. I just get straight into the presentation, Chair when we
20 did this presentation we did not have much context to which what we were required to give to the commission but what we have done is we have prepared a high level presentation on who are the PIC, how we invest in various sectors then we drew down into our investment into higher education.

JUDGE: Well now bear with me for one moment, Miss Pillay there may be material in that event that you do not require and material that is more pertinent.

ADV. K. PILLAY SC: Yes Chair we have literally just received the
5 presentation now so we have not gone through it with that level of detail so but we have, it looks mostly relevant as we just glance through Chair.

JUDGE: Mostly relevant.

ADV. K. PILLAY SC: That is right yes.

JUDGE: Alright well thank you sir.

10 MR. W. MASEKESA: Okay thank you Chair. Okay so we have designed the presentation to give you an overview of PIC investment where we invest and how we invest and then we drew down to most relevant areas of our investment as a class which is the development investments and we highlight where education and training and skills development as well
15 as student accommodation where it lies within our investment mandate and then we will go down to discuss the student accommodation investment strategy within the PIC and we are also going to discuss how our thoughts around the student education loans strategy.

Just going straight to slide 3 so the PIC as you know Chair we
20 corporatised in 2005 and we, our mandate was to invest on behalf of various official sector funds and these official sector funds the main one which is the government employee pension fund which accounts to close to about 88 percent of asset classes management and then we have UIF, the CC and the CP Fund as well as the IPF which is, and many other
25 small clients but the major clients are GPF, UIF, CC and CP. And so

what happened Chair is this clients they gave us mandates which ranges from various asset classes which I have listed in the presentation so this includes listed investments and under listed investments we invest in listed equities, listed bonds, cash and money markets which actually carries the majority or the biggest part of our asset management and then we have asset class that we call unlisted investments and within that unlisted investments we are invested, we invest in private equity as an asset class, development on investments and as well as real estate or property. So I will expand mainly on the unlisted side because that is where the mandate for us to invest in higher education training and development lies in so I will zoom in mainly on development or investments.

ADV. K. PILLAY SC: Mr Masekesa before you do perhaps you could explain to us we for example had a presentation by the UIF before us and we are due to have one from the GEPF of today but we just want to understand when you invest assets on behalf of the UIF, when you invest funds on behalf of the UIF how do you put together the investment strategy, how do you decide where to invest the money in?

MR. W. MASEKESA: Okay thank you, so the likes of the UIF, GEPF and from our side we see them as clients so the clients they do what they normally do, what they say the asset liability model studies and what comes from there is what we call strategic asset allocation and then that strategic asset allocation will prescribe how the PIC should invest in what sectors and it is just broadly and give us ranges whether it is listed investments, they will tell you that you have invest into listed

investments, say 50 percent of their assets should be invested in listed assets maybe for in the case of the UIF they will give us in developmental investments or SRI [?] investments they will say in the unlisted we want you to invest say 5 percent to 20 percent of their assets
5 under management and then they will write a mandate to us which is actually calculated in the investment management agreement and our work as the PIC now is to develop how are we going execute the strategy in-house and then we execute that strategy and give them the required returns as well as the required developmental impacts that they
10 require.

JUDGE: So they will tell you that we have so much money to invest and we think that it should be invested in these asset classes and you presumably would advise them will you and say we think you have got too much in this class it is too risky and you should be investing more in
15 fixed assets or whatever it may be, property or whatever it happens to be, is that right?

MR. R. RAJDHAR: Thank you Chair my name is Roy Rajdhar just to explain, in the mandate they would specify all that you are covering at the moment it will set the benchmarks what type of return they would
20 expect but in deciding on how much is allocated per asset class they would have their own consultants who will advise them how much to invest in each asset class but that does not prohibit us from commenting on the proposed strategic asset allocation but so for example if you take the GEPF which is defined benefit fund they would have actuaries who
25 would advise them on that particular aspect but when they set the

benchmarks in terms of returns or how much per counter party or how much per asset class that is incorporated in the mandate but the detail in terms of the selection of the investments that would reside with the PIC.

ADV. K. PILLAY SC: Now Mr Rajdhar can we just understand how that works in practice and if I can give you a specific example, we know for that some of the funds of the UIF is invested in Eduloan as an example, now the choice of Eduloan as the vehicle, does that choice rest with PIC or does it rest with the UIF?

MR. R. RAJDHAR: Thank you, the mandate is a discretionary mandate which basically means that aspect of the investment who we invest through, what type of structure of the investment whether it is in equities, whether it is debt, what is the terms of those investments that resides exclusively with the PIC, what we would do on a quarterly basis we would report to the client in terms of the investments and the extent to which we have complied with the mandate but those details are fully within the discretion of the PIC.

ADV. K. PILLAY SC: And when the PIC exercises its discretion what kind of factors does it take into account?

MR. R. RAJDHAR: Yes there is numerous factors that they would take into account, they would take into account obviously we will have to take into account the mandate, we would have to take into account, so sometimes what would happen the client would have a policy that supplements the mandate so if we take again on the UIF's case they have a social responsible investment mandate where they expand in terms of the areas of investment they want to do, investing so we will

take those factors into account. Usually what we have to take into account, we have got to take into account that there is a financial return, that there is a benchmark what return must be met, we would take into account the social impact so for example they might, the emphasis might
5 be on job creation if you take UIF and job preservation so in each investment we will have to motivate in addition to the financial return.

To what extent are they getting more impact for that rand of investment we would have to take that into account. We will have to take into account the risk management so that you do not end up with all your
10 eggs in one basket, you have to take into account how much do you expose to any particular client or borrower, so if you take Eduloan for example we would, for example we know that we would not say we will put in R10 billion with Eduloan because it is a significant chunk of the allocation so we will have criteria like that. We will have criteria in terms
15 of the stage of the investment, is it early stage or is it an expansion, we have to have a portfolio that is balanced but in, when we drill down to the actual investments because it is in the unlisted space where the information is not publicly available so we will have to go through a comprehensive due diligence process. Now that would entail us doing a
20 financial due diligence, commercial due diligence, legal and regulatory technical due diligence and what we call ESG, environmental, social and governance.

So there is a whole multitude of factors we would take into account. We have got to take into account sector exposure so that we
25 have again towards balancing our portfolio so we make sure we are

exposed to different sectors so it is quite comprehensive.

JUDGE: So you are an asset manager whose management depends upon the terms of the mandate in relation to each client, would that be correct?

5 MR. R. RAJDHAR: Yes that would be correct.

COMMISSIONER KHUMALO: But other than what the terms, what the mandates from client is do you have your own set of rules on what can be done and what can be done or is it entirely up to clients?

MR. R. RAJDHAR: The clients would normally specify as I mentioned, it
10 will be as I mentioned a higher level in terms of asset classes, benchmarks in terms of returns, sometimes they would specify, if it is issuance of bonds what is the maximum per counter party but where matters reside with the PIC is in terms of things like the investment process for that matter, let us say sector limits in terms of different
15 industries because we want to make sure that we achieve the return the client seeks so we want a balanced portfolio so they will set the broad parameters but underneath those broad parameters there is a lot of other things that need to be done, that would be within the discretion of the PIC.

20 JUDGE: Now speaking as a private individual I have an investment advisor and he invests my particular portfolio but I assume that he has links with particular financial institutions which favour him or he favours them and they have ways of working so for example he seems to invest most of his money with Stanlib but now I take it that as a public
25 investment corporation you do not have those links and obligations and

you have a freer reign in your investment options, would that be correct or do you too have obligations and connections?

MR. E. NESANE: Thank you Chair Ernest Nesane I am the head of legal council at the PIC. I guess over and above the mandate we have our own rules and requirements that we have to abide by as any asset manager and financial advisor or investment asset management advisor. We have got a license from the FSP and we have got to comply with all FSP requirements, whatever decisions we take must follow governance, proper governance proc so that we are not found to be wanting in terms of what we eventually choose to do within the clients mandate. So there is asset allocation, there is listed where we will have liaison with people like other asset managers, banks and then there is listed where we will go and do direct investment like for example the Eduloan or Southpoint, this is where our discretion works and we follow that process of due diligence within the mandate to ensure that the end result is the result that they return to our client because we in other words we will be liable to our client if we do not deliver the results that our client have dictated in the mandate. So that optionality it is limited (1) to the asset allocation and (2) to the returns that the client seeks to achieve but generally we do have an optionality within ourselves as the PIC, thank you Chair.

JUDGE: Thank you.

COMMISSIONER KHUMALO: So if maybe a client or a private individual is, the Chairman is suggesting were to change maybe its mandate and maybe requires a release of fund, is that within your discretion or is it as per negotiation or there needs to be a change of the

terms of investment?

MR. W. MASEKESA: Chair I do not understand the question, are you saying is this an example if you are a private individual or it is a client?

COMMISSIONER KHUMALO: Let me just make an example, if UIF
5 maybe a decision is made that they need to make available certain funds but they are sitting with PIC which is the evidence that has been led in this commission, is it up to UIF or is it up to PIC, how soon can those funds be available if a decision is made that they are needed?

MR. R. RAJDHAR: Through you Chair it is Roy Rajdhar, if we take the
10 instance an example that UIF requiring the funds so if you look in the asset classes we would have a fair amount sitting in cash and money markets so if they require those funds they would give us the instruction and we would have to provide those funds to them, the same case would happen let us say in the case of GEPF where you have members
15 withdrawing from the fund so their pension benefit needs to be paid to them so we would give them the cash for that, obviously what would, what could happen is that you have that the amount of cash that or funds we have in money market and cash has fallen below the threshold then it is for us as the investment manager to rebalance the portfolio and
20 maybe look at liquidating for example equities so that we bring the, what we call the strategic asset allocation, we bring it back in line so that is what we would have to do.

JUDGE: And I assume that in every case whether there is, whether the funds can be made readily available depends upon the nature of the
25 contract that you have with the particular investment.

MR. R. RAJDHAR: Yes that is correct.

JUDGE: Maybe that in some cases there would be a penalty paid I take it if you want to release funds immediately.

MR. R. RAJDHAR: Thank you Chair, that is true and that for example
5 we would make investments let us take again on the unlisted side and if we have to the extent that clients prepay per those investments obviously it has an impact on our portfolio so we would impose penalties in that regard.

JUDGE: Yes.

10 COMMISSIONER ALLY: Just wait now, you see the way I understand you, you are a public investment vehicle investing public monies on a mandate given to you by public entities which you call the clients. Now you were indicating that where the client there is a withdrawal, let us assume at a particular public entity you have a mass resignation and
15 people want to remove, want their pension whether to reinvest it or to have it for themselves, I just want to understand your statement to the effect that you would impose penalties is how does that work that you yourself are imposing penalties on the public entity, I can understand the public entity penalising the individual who wants to withdraw their
20 pension but you penalising the public entity such as the UIF or whichever other vehicle there is, just explain that to me and clarify.

MR. R. RAJDHAR: Just to clarify it is not, the penalty that I was referring to is where we make an investment in a particular company, now we would have predetermined what that period of investment should have
25 been and we plan accordingly in terms of the returns that we will achieve

for the client to the extent that that particular client or let us call it
borrower decides to prepay that loan it has an impact in terms of our
portfolio so in that particular case we will charge the borrower a
prepayment penalty but insofar as it relates to our client there is no
5 penalty that we charged to the client.

COMMISSIONER ALLY: Thank you, I thought as much so I had to get
some clarity with regards to that.

JUDGE: Well might it not be the case that supposing just for example
that some assets have to be cashed in order to supplement the cash
10 reserve, does the client who requires the cash not have to not pay a
penalty, at least take a reduced benefit?

MR. W. MASEKESA: Wellington Masekesa here so Chair what happens
is the clients they do not have to pay any penalty it is actually embedded
in their mandate in asset allocation so if you see, I will take you again to
15 this slide, you see the asset allocation you see there is cash in Money
Market so what normally happens is we have what we call the service
level agreements in which the client who let us know of their prospective
with the draws that they want to do within a specified time so what we do
within the PIC then we have to prepare and make sure that we have
20 enough liquidity within our portfolio and then when the day for the
payment comes in we have enough money within our cash and Money
Market portfolio to repay that amount.

JUDGE: Thank you I understand.

COMMISSIONER KHUMALO: But there is no circumstance whether that
25 is you guys being faced with where a client is unable to access their

investment at any given time?

MR. E. NESANE: Thank you Chair Ernest Nesane. It hardly happens because if that were to be the case we would have an issue internally of how we are managing our portfolio, at any given point in time we must
5 have liquidity ready or if we do not have it we must liquidate some of the hard assets to make sure that by the time that is indicating the SLA, the client it is able to draw down or to withdraw but I think we do that with a recognition that the withdrawal it is for specific requirements of the client and it is within their operational requirements which members of the
10 GEPF are withdrawing they need that money they must get it, if it is UIF people are, they have been retrenched they need to get their benefits that must be done but I think the one point that we should clarify is that we do not believe that the UIF or the CC and to a large extent the GEPF themselves can withdraw the monies that we are managing for them to
15 then go and reinvest them somewhere else, I do not think they have got that ability, I think that is a mandate that they have granted exclusively to the PIC and it then becomes impossible and difficult for them to then take monies from the PIC and go and invest them somewhere in other investments, I think the withdrawals are mainly to deal with their
20 requirements in terms of the beneficiaries that they need to serve, thank you Chair.

MR. R. RAJDHAR: Roy Rajdhar, I think perhaps I realise we may not be answering the members question completely, I think you are talking about the withdrawal by a member of let us say the pension fund so what
25 would happen in that we do not deal directly with the members of that

pension fund, we would deal with our client which in this case is let us say Government Employee Pension Fund so we would rely on them providing us with the correct number then what they would do is what they call Japar which deals with the administration of those payouts so that would be done by them but we would never have a situation where we would engage with the member of a pension fund, however if we take UIF or the unemployed worker we would not engage at that level, thank you.

COMMISSIONER KHUMALO: I completely understand that, I think what I am trying to establish is you guys are saying maybe some investments are on the Money Market cash which ensures liquidity but we are not sure what the percentage of an investment that is but maybe if the large sum because you are set managers you have it tied up somewhere for investment for returns after a particular time, so I am saying in that period where that cannot be realised and what is, I mean maybe it is a question of cross-subsidisation with other investments or but can we say if a certain amount of cash is needed and it is under investment somewhere and the cash reserves are not enough, is there a possibility for that or do you guys have a contingency for that?

MR. W. MASEKESA: Maybe let me clarify that, when we say it is in cash and Money Market it will be ...[intervenes]

ADV. K. PILLAY SC: Mr Masekesa.

MR. W. MASEKESA: It is Wellington Masekesa again sorry about that, so when we say it is in cash and Money Markets it can be the money that is demanded today so it is like your real cash that you can actually put

ATM card and get it and actually that I will go back again the mandate, it is prescribed in the mandate so they will tell you that you have to keep cash of close to about 4 percent of asset management so every time when we rebalance our portfolio we have to make sure that we are
5 always within the mandate that if today they want their cash we actually just call it because normally it would be very liquid asset classes and it will be very rare that we will be, if you asking to put money into cash that we put into bonds which may take up to a year to liquidate but the cash and Money Market portfolio we cater for that.

10 JUDGE: Thank you, can we move on please.

MR. W. MASEKESA: Okay thank you Chair. I think on slide 3 we have exhausted a lot of discussion then on slide 4 that is the very important slide I think we have touched a lot of points around that but it gives you a picture of what we call developmental investment focus area or what we
15 call SRIs, some clients they call it socio responsibility investment area. As you can see as I can link it to the slide 3 the developmental investment focus area is very broad but within that developmental focus area as we have some key areas that we focus on, we have what we call economic infrastructure where we look at things like energy, commuter
20 transport, broadband, water, liquid fuels and so forth and then we have another pillar that we call socio infrastructure by then within the socio infrastructure we focus on affordable housing, healthcare then education and skills development, student accommodation, rural development so you see now I have highlighted that where we fit in the mandate, where
25 we fit in the mandate or where education and skills development from

the clients mandate it fits it fits within our socio infrastructure pillar where we have the focus of education and skills development and we have student accommodation mandate.

Then other areas that we focus on, on the SRI / developmental investment areas is what we call sustainability investments where we normally focus on green energy, green technology, recycling and so forth and we also private sector where we focus mainly on high job creation in tencit sectors such as the SME's, agriculture, agro processing, mining beneficiation, tourism, construction as well as transport and logistics so what I wanted to highlight in this slide Chair is not all our clients have the mandate for SRI or developmental investments we only have three clients which have given us a mandate to do developmental investments and this is GEPF, UIF and as well as the CC Fund.

And what we normally, you will find that the allocation that have been given towards the developmental investments is not as big as compared to other mandates so you find that it normally ranges from up to 5 percent for UIF and CC and up to 20 percent but between with the strategy asset location of 20 percent for UIF and they can go up to 30 percent of their assets under management but you can see that of that allocation they have brought areas of what they should focus on and education is part of it.

ADV. K. PILLAY SC: Mr Masekesa can we just understand how that works, so the UIF for example comes to you and says 5 percent of our assets has to go into a developmental investment, does the PIC then within this structure that you have presented now does the PIC then

decide which area or focus area it will invest in?

MR. W. MASEKESA: It is Wellington Masekesa again, so what we do Chair is this broad allocation is, we have categorised within the PIC but within the mandate as well so the UIF for example they over and above
5 the mandate that they have to SRI investments or developmental investments they have what you call the SRI investment policy which actually stipulates which area should we invest, we should focus on and which also stipulates the developmental impact that they want to achieve from that mandate so if you find out the cutting across mandate that they
10 have from the UIF it is mainly job creation so you will find that what we do in-house where there has been a lot of job creation that are created within the priority sectors so you will find that you focus mainly on the priority sectors but we also know that within education or social infrastructure there are a lot of jobs that are also created and sustained
15 so we also put that focus area within the SRI investments so they do not restrict us which sectors should we just put money into as long we meet their developmental impact which mainly job creation preservation as well as other supporting sectors that actually contribute to job creation.

So you will find that skills development and education will
20 actually to sustainable job creation, once we have skilled workforce we can actually create permanent and skilled jobs so there is inter-linkages within the SRI that we have within the mandate.

JUDGE: May I just ask, does your investment take multiplicity of forms or does your investment purely consist of lending money to the entity?

25 MR. R. RAJDHAR: Thank you Judge it is Roy Rajdhar. The investment

will be a combination, it could be equity, it could be debt funding.

JUDGE: So you could buy shares in a company which is promoting education.

MR. R. RAJDHAR: Yes.

5 JUDGE: Or you could simply lend the money at a return?

MR. R. RAJDHAR: Yes it could be purely an equity transaction, it will be purely debt, it could be a mix, it will depend on the individual circumstances.

JUDGE: Okay thank you. Does it depend upon the opportunities that
10 are available at any given time?

MR. R. RAJDHAR: Yes it would depend on the opportunities but having said that you may have opportunities in transactions but once we find that our exposure to a particular sector is becoming too much then it might be that we would pass that opportunity because we want to have a
15 balanced portfolio in terms of exposure across the industries.

JUDGE: Yes.

ADV. K. PILLAY SC: Mr Rajdhar what broader social objectives would you take into account, for example if in the current climate there is crisis in higher education would the PIC consider that as a driver in terms of
20 where to invest the money?

MR. R. RAJDHAR: Yes thank you, yes we would take it into account that, I becomes a question of balancing so I think if I can link to the previous question of for example are we only in loans and equity, you might find that because we would have a limitation in terms of funding

we might have a limitation in terms of investing in a single counterpart, it might be a limitation in terms of sector then we might say for example why do we not take an equity position which will ensure that company on the strength of that equity is able to borrow more in the market so it feeds into our client mandates you find whether the client mandate is with any of the three clients we have the primary thing is about being a catalyst because we realised that the magnitude of the problem is so huge that even the amount of funds that we have allocated to that is not sufficient so the idea is can we put in money but that is a stimulant for other to come into play so it could also involve us providing a guarantee so that they can access loan funding.

JUDGE: Must we assume that because you are acting as the asset manager or the investment vehicle for other clients that in every case you require a return, the return may vary but in every case you require a return, nothing is done for nothing?

MR. R. RAJDHAR: Yes that is correct so for us there would not be any grant making activities it is purely commercial so it will come back to those asset classes of equity, bonds, Money Market and the like.

JUDGE: And might there be cases where your clients, whether it be the UIF or some other organisation requires a non or is satisfied with a non market related return?

MR. R. RAJDHAR: It will depend on the client so if we take the UIF for that matter and I think my colleague Wellington mentioned earlier that they have published a social responsible investment policy so if you look in that particular policy it makes it explicit that there is a trade off

between financial return and social impact so for example you could have a situation where the number of jobs in a particular project is so huge but the returns are not that great it is an investment that we would consider making then you would take again with UIF there would be, 5 they are looking at sectors that have been hard hit where there is massive amount of job losses so there in that particular instance they requested us for us to consider a relaxation in terms of the return requirement so that we could preserve those jobs so that would be, it would not be in the mandate but when that situation arises and there will 10 be a formal letter that confirms that the instruction from their side for the relaxation in that regard.

JUDGE: Now in the case of the Government Employee Pension Fund is there ever an investment that is not a market related investment?

MR. R. RAJDHAR: In terms of the Government Employee Pension Fund 15 there the tilt is mainly towards the financial return, their investment philosophy or what they call the developmental investment policy statement under their policy they believe that we could do investments such that you can achieve the financial returns that they set out whilst at the same time meeting the social impact so we have not had the 20 situation like for example with UIF where it was conscious that sectors that are in problems and we need to have a below market return to save the jobs that has not apply in the case of the GEPF.

JUDGE: Thank you.

MR. W. MASEKESA: Wellington Masekesa. I will take you to slide 5, so 25 slide 5 now gives you our thinking around how we invest in education so

we are breaking down our allocation that we have within the development or SRI Investment mandate now we are focusing and zooming into how we think and how we have been investing into higher education so the mandate that we have it actually covers all broad areas
5 of education from skills development, maths teacher, development from primary education going right up to higher education so you find that the focus areas that you are looking within education ranges from primary education up to the higher and tertiary education even including the technical vocational training so it covers whole range of education.

10 And then where we invest and how we invest you will find out that we actually invest maybe directly into the education infrastructure and what it means is it might be including like building up a University, contributing into the infrastructure of a University or a college or it might be a Tvet training centre and so forth so the real infrastructure we can
15 actually invest into through our real estate or our property division that we have and another focus areas is actually student accommodation because we know this actually forms part of the biggest fee issue and as well as investing directly into see loans. And how do we do that within the PIC, we have what we call strategic platforms or partnerships so
20 maybe to explain what our strategic platforms or partnerships is in this case we do not want to reinvent the wheel there are some strategic partnerships that they have already set up the platforms or that have already s everything up the brand and also that also knows the game, they have the operations which are set and run.

25 So what will happen is the PIC we go and buy controlling stakes

into those platforms and then we drive strategy around it or we actually expand the strategy within that platform. You see when we discuss for example our investment is to accommodation in Southpoint, that was a platform, we are far ahead in the private sector so the only thing we
5 could do was to buy the platform and then we build in from that platform.

JUDGE: Sorry just stop a moment if you will, please explain to me what your particular relationship with Southpoint is, do you own the company or how does it work?

MR. W. MASEKESA: I will take you on higher level but my colleague
10 Seipati will explain in deeper detail how we have structured this transaction. So Southpoint they were by far ahead in the private sector owning all the student accommodation over 10 000 beds, I think the second competitor there was around 2000 beds?

JUDGE: Who is Southpoint?

15 MR. W. MASEKESA: Okay Southpoint is, they are involved in student accommodation.

JUDGE: But are they a private company?

MR. W. MASEKESA: Yes it is a private company which is now owned by PIC on behalf of our clients and also there are some strategic BEE
20 partners that are also involved in the transaction.

JUDGE: Was Southpoint set up by the PIC?

MR. W. MASEKESA: No Southpoint was set up by a private equity firm which is called Lereko Metia.

JUDGE: Sorry I did not catch that?

MR. W. MASEKESA: The Southpoint idea and the company was formed by a private equity firm and its name is, it was called Lereko Metia so Lereko Metia their fun term came to an end and they were selling this company into the market but now we also had this mandate to do
5 student accommodation so instead of us starting afresh for us to catch up to 10 000 beds from day 1 to, it will take you about three to 10 years, actually it took them close to 8 years for them to build up to 10 000 beds so we found this Southpoint as a strategic platform for us to leverage because (1) they already had a branch which is in the market which is
10 well known (2) they had strong management which was already, which already knew the game for close to 8 years then (3) they already have the operational expertise to run the student accommodation in all these Universities so if we find out they are big with UJ they are big with likes of Wits, they are well known in Pretoria, they are well known in the
15 Western Cape so the brand was there, management was there, it was a well oiled machine that was there so the only, so we thought here was an appropriate time to buy this platform, we own it, we sit on the board then we use that platform and drive the strategy and scale up student accommodation in other Universities.

20 So that is how, that was our thinking when we bought Southpoint otherwise we should have probably just remained in the private sector and the private guys rather the student accommodation by themselves so that that was the thinking.

JUDGE: So does Southpoint work well now under your management?

25 MR. W. MASEKESA: I beg your pardon?

JUDGE: Does Southpoint work well under your management?

MR. W. MASEKESA: Yes that I can confirm, actually we have two representative on the board and we are recommended from the PIC, they are driving governance there, they are driving strategy there, we
5 have good interaction with Southpoint they actually on track with our strategy and I am sure Seipati will also explain to you what our thoughts around Southpoint was, we think we can actually do more with them so this is where we are now but we are working well with them.

JUDGE: How many institutions does Southpoint provide accommodation
10 for?

COMMISSIONER ALLY: Miss Moichela before you get there I suppose I have seen in your, in the presentation that you deal with the specifics of Southpoint and so forth, I just wanted to perhaps ask the issue of the loans and at what interest you indicate or you have any say because
15 according to UIF and I have not heard you mention Seta, maybe it will come up but be that as it may, there is an issue that these entities would tell you that you cannot request a higher interest on the loan than which they are providing, is that the issue in regards to these loans, for instance they would say well for students the bank would want perhaps
20 say 10 percent interest or more at 20 percent for that matter but your client would tell you that you cannot ask more than so much, is that the situation or will you be dealing with that because I thought it was under the mandate and the broad issues that you were talking about, if you are not able to deal with it now perhaps we can provide you with the
25 question and advise us afterwards.

ADV. K. PILLAY SC: Commissioner Ally may I just indicate, I think having looked at the presentation that they will be dealing specifically with student education loan financing a little bit further so perhaps we should deal with the accommodation first and then move onto loan
5 financing.

COMMISSIONER ALLY: That is fine thank you.

MR. W. MASEKESA: Thank you Chair it is Wellington Masekesa again. So I was just discussing the investment delivery how we invest and how we do it so (1) ...[intervenes]

10 COMMISSIONER KHUMALO: Sorry to interrupt you, just on that Southpoint the first question the Judge asked was do we have our own PIC money or is it all clients money so Southpoint whose money is it?

MR. R. RAJDHAR: Thank you it is Roy Rajdhar, the money is clients money, as we indicated earlier the PIC does not invest any of its own
15 money into these it is always clients money that we invest.

COMMISSIONER KHUMALO: So when you report back to clients you account that no this one has gone there this one has gone there and they take the social responsibility for themselves?

MR. R. RAJDHAR: Yes.

20 COMMISSIONER KHUMALO: Okay.

JUDGE: Just tell me again because I do not find the answer here although it may be, how many institutions is Southpoint involved in, in the making available of student accommodation?

MS. L. KALI: It is Lusanda Kali, currently Southpoint services 12

institutions of higher learning across the country.

JUDGE: Is there any reason why it is only limited to 12?

MS. L. KALI: It is not limited to 12 but in terms of the capacity that they have now and the number of beds that they have rolled out in the various
5 cities it comes out to 12, when we talk more about student accommodation we will elaborate more on the plans going forward.

JUDGE: Yes thank you.

MR. E. NESANE: Ernest Nesane again, just to add, I am incidentally sitting on the board of Southpoint and we have taken a view that we
10 need to expand our service areas, I think before the PIC came on board we were mainly concentrated on your urban or your Western Cape, Gauteng Universities, we are taking a strategy now to start to invest into student accommodation in your northern regions, your Limpopo, your rural areas so that we can increase the capacity of this Universities, that
15 is the deliberate decision that has been taken by Southpoint.

JUDGE: Now where does the, I realise there is a social return but where does the financial return come from on all this, does Southpoint show a dividend in other words?

MR. E. NESANE: This is rental, the student pay rental and so we are
20 providing accommodation, affordable accommodation and there is also rental that comes with the provisions. We provide better accommodation for students, it is safe and secured and I think it is a good environment for students to stay in and still be productive with their University work.

JUDGE: Thank you I understand that and do you then get money from
25 NSFAS funds for example?

MR. E. NESANE: So most of the students that we take or some of the students that we take are funded by NSFAS and we have got various agreements with institutions, Universities, we have got liaison committees with various institutions because we recognise that most of
5 the students we are taking are not self funded, some have got bursaries but many of them have got NSFAS funding and that is where they get the funding to pay our rentals.

JUDGE: So do you look to the students for payment or do you look to their backers for payment?

10 MR. E. NESANE: The agreement it is signed with the students backed by their parents but we recognise that there is a funding that comes with it, I think there is an allocation that NSFAS makes and we then get our budget or our rental from the funding.

JUDGE: Well no I am trying to understand if somebody defaults is it the
15 student who defaults or is it NSFAS who defaults?

MR. E. NESANE: It will be the student Chair.

JUDGE: The student.

MR. E. NESANE: Yes.

JUDGE: Thank you.

20 ADV. K. PILLAY SC: Mr Masekesa I think you are at slide 7 dealing with the context to student accommodation.

MR. W. MASEKESA: Right so Miss Lusanda Kali will take us the context of student accommodation and then she would drill down on what we have done so far including some discussion around Southpoint, thank

you.

MS. L. KALI: Lusanda Kali, so student accommodation as we have mentioned forms part of our social infrastructure under developmental investments. As you may note this is a fairly new asset class when it comes to the institutional investors like pension funds. You might have seen in the earlier slides that the bulk of our funds are in the listed space where it is much more understood and there is more liquidity. This falls more in the unlisted space where it is fairly new you have to do a lot of due diligence and understanding about how do you invest and how do you still meet all the clients mandate in terms of financial return and also social return.

So our focus of student accommodation is backed by the core from the Minister of higher education about the shortages that are currently in place, it is estimated that over 400 000 beds are, there is shortage of about 400 000 beds in our current Universities and colleges around the country and if you look at where the Universities are looking to go in terms of enrolments that may increase to over 600 000 by, if we meet our NDP targets so all of this leads to a shortage of about 100 billion of which government has indicated that on its own it cannot meet the requirement so we come on board and we as mentioned before seek to be a catalyst where we invest but allow or stimulate other, invested in other stakeholders to join in so that together we can form a solution to this problem.

As indicated in currently the Universities they can only house about 20 percent of students the rest they stay off campus, they stay in

various forms of accommodation that is available and most of them they are unsuitable for the students and this affects the percentages of even students who pass and leave Universities with actual certifications. Can you please go to the next slide, okay so if we look at PIC today about
5 what have we done in this space, our first investment into this space was through Southpoint so Southpoint is the largest provider of student accommodation in South Africa outside the Universities themselves. We have been an investor into the fund that started Southpoint and when the opportunity came up to take a more strategic investment in Southpoint
10 we took it up.

Our intention was to invest into an existing vehicle that would enable us to roll out further infrastructure into the student accommodation space with an experienced player that understands the market. Currently Southpoint is managing around 10 000 beds and
15 these beds are spread out all over the country primarily in the natural areas and right now the strategy for Southpoint is to open up the platform to go now more into the urban and semi rural areas where the need is also growing.

COMMISSIONER ALLY: Miss Moichela in respect of or Kali sorry, in
20 respect of the accommodation itself do you have input into the type of accommodation you will now know that there is a policy, a minimum standards policy for accommodation of students so were you through your vehicle of Southpoint do you make sure that that is up to standard or how does it work?

25 MS. L. KALI: It is Lusanda Kali, so historically as we look at this

investment similar to any other investment we look at how well it is able to cater for the market in which it serves because if the standard of the accommodation that we offer does not meet what is required by the students and also the Universities then we would also short changing
5 ourselves in terms of business so the Universities themselves they have departments where they go vet student accommodations that are out of campus to see if they meet their minimum requirements and if they do then they allow them to be on their list that they refer students and hence Southpoint is on the list of various Universities around the country, they
10 refer students to them. But then going forward as you have mentioned there has been now the policy around the minimum norms and standards around student accommodation and we look to see that our investments going forward will also now be more in line with those norms.

JUDGE: Forgive me for enquiring but they are not words that I use in my
15 everyday life, I think I know what Greenfield opportunities are, I take it that is building from the ground up on a new site as it were. What is a Brownfield opportunity?

MS. L. KALI: Okay yes sir you are correct Greenfield is when you are starting a development and Brownfield is where there is some form of
20 structure in place and either you renovate or you change it or you make it more suitable for your need.

JUDGE: Thank you.

MS. L. KALI: This might be an opportune time to speak also about why Southpoint is where they are in terms of geographically so student
25 accommodation as other social investments there is always this mix

between social return and financial return so when this team started they saw an opportunity in focusing on the inner cities where there were tax incentives and there was buildings that could be converted into student accommodation it was close enough to the Universities so this allowed
5 them a competitive advantage to take buildings that were almost left to be stranded and convert them into a useful enterprise, student accommodation and it was very close to the Universities. So a lot of the development of Southpoint had been on the Brownfield opportunities which is revamping those buildings and making them appropriate for
10 student accommodation.

JUDGE: Thank you.

MS. L. KALI: Okay then we, a second investment that we have made within the student accommodation space is into a manager called Adowa, there were have committed funds to also look into Greenfield
15 and Brownfield development to be deployed over the next plus minus five years, also the mandate here would be to focus on accommodation throughout the country so without a focus only on the metropolitan areas where there is much more student accommodation that has been provided but also to go out into the peri-urban areas.

20 JUDGE: What is the distinction between Southpoint and Adowa as far as practical considerations are concerned?

MS. L. KALI: So we look, one of our drivers within social development is to create entrepreneurship, is to support entrepreneurship and to create various skills within the industries that we look at so for example within
25 the student accommodation space while we support the students

themselves in passing through school we also facilitate broad base principles in various company's so that there is market and there is competition in the market and there is not sole control in any one particular investment.

5 JUDGE: Is that where Adowa comes in?

MS. L. KALI: So Adowa similar to other transactions that we are looking at for example number 3 says pipeline, there are other transactions that we are looking at also which will be entities that will be rolling up students accommodation in different areas within the country.

10 JUDGE: What does Adowa do?

MS. L. KALI: So Adowa is specifically focussing on student accommodation, they are building student accommodation in different institutions of learning around the country so their mandate is to roll out 10 000 beds within the next five years that is solely what they are
15 focusing on so it would have been a business that has the requisite experience and skills that we assessed and invested in them.

JUDGE: Alright.

ADV. K. PILLAY SC: Miss Kali does the PIC have any interventions aimed at the Tvet section, that is student accommodation in the Tvet
20 sector?

MS. L. KALI: So our focus is within the whole, all the institutions of higher learning and as mentioned as well before, our initial investment focus in the Metropol which is more the Universities the broader strategy is to go broadly into the former technicons and to the Tvet's, into all the
25 institutions of higher learning and to provide for student accommodation

in all of them, so all our investments take that into consideration. The third one is the pipeline, as we say that we are looking also at other proposals that are also looking at rolling out various numbers of beds across the country.

5 JUDGE: What is pipeline?

MS. L. KALI: Pipeline, so pipeline it is our list of transactions that we are looking at so typically as an asset manager will have proposals that come to us, we will assess them and see if they fit what we want to do so those number of or list of transactions that are waiting that is our
10 pipeline.

JUDGE: Yes.

COMMISSIONER ALLY: So pipeline is not the same as Southpoint which is a private company, Adowa which is a business, I have not heard you say whether it is a company or not, so pipeline is a name given to
15 certain transactions that are still in the pipeline?

MS. L. KALI: Yes you are correct, pipeline is a stage of where the transactions are and typically all the transactions that we look at they are in the forms of private company's that we invest in or invest with. Then the last one we ...[intervenes]

20 COMMISSIONER KHUMALO: Sorry so pipeline the 20 000 is it included in what you envisage for Southpoint so if you are saying pipeline you saying it is part of the or is it a different from the private sector you saying?

MS. L. KALI: A pipeline is a list of new transactions that we are looking
25 at so it excludes what we are looking at with Southpoint.

COMMISSIONER KHUMALO: Thanks.

MS. L. KALI: Then we are also looking at strategic partnerships with various stakeholders based, so including the department, Universities, Department of Public Works in how we can all partner together to roll out
5 additional number of beds and that is a working progress which we continue to consult to form a solution on how we can make a more impactful investment in this space.

JUDGE: So it may be that the strategic partnership usually lies as Southpoint or Adowa?

10 MS. L. KALI: It may happen that the strategic partnership may use one of our existing vehicles.

JUDGE: Okay.

MS. L. KALI: Okay then I think maybe to wrap up on this slide is just to communicate where we are now in terms of the existing number of beds
15 that are under management from our investee company's into where we are looking to go into the medium and long term and we believe that with partnerships with the department of higher education and training and also public works we may be able to find solutions that can assist us to achieving the goal of providing sustainable student accommodation in
20 the affordable price.

COMMISSIONER KHUMALO: Sorry with public works because they manage government property so you saying that it would be on what basis, is there a change of legislation that you anticipate or a change of strategy that government land can be used for student accommodation?

25 MS. L. KALI: So this is an area that we see as an ongoing partnership

with various departments where we all come together to find a solution. One of the key considerations we need to think about in student accommodation again is balancing the financial and the social so we will try to find means where we can reduce the amount of investment
5 required to put up a bed so that it is more affordable for the student when they actually have to pay for the rent so for example the current conversations with the Department of Works and Municipalities and other organs of state that may have land available that may be used for student accommodation together with private sector, so maybe for
10 example the department will provide the land and private sector would provide the top structure and that together would be the student accommodation. We are trying to find ways in which we can work together within all the various loops of regulation and legislation that we need to work through.

15 JUDGE: Would you explain the last line on the slide, that government must be custodian of student accommodation in the long run for the Bop, what is Bop?

MS. L. KALI: So that refers to our intention that the Universities or the government becomes a custodian of the actual infrastructure that in the
20 long term that government has a strong handle on student accommodation so you would have a relationship where private sector comes to build and then government brings the land but over time once the financial return has been paid to the private sector that then transfers to government.

25 JUDGE: What is Bop?

MS. L. KALI: Okay sorry that is a slight error it is BOT so we Build Own and Transfer.

JUDGE: Oh I see I thought it was a new kind of dance.

MS. L. KALI: Alright thank you Chair so I will move on to the next slide,
5 this slide speaks more to the Southpoint platform which is our biggest
platform in student accommodation currently. So as mentioned this is a
platform that is already overseeing 10 000 beds across the country, it is
market leading in terms of management and the brand, typically students
know about Southpoint, they know about the brand, they refer each
10 other, in fact one of the key marketing ways that we get students into our
buildings is through peer referrals so students go around referring other
students to come stay. Currently we are servicing around 12 Universities
across the country primarily in Gauteng which is Pretoria and
Johannesburg and also in Port Elizabeth and Cape Town so historically it
15 has been more in the metropolis areas.

We are looking to use this vehicle as a platform to increase our
impact into the student accommodation platform and we are looking as
we said to act as a facilitator or as a catalyst where we invite other
parties to crowd fund into this platform so that we can increase the
20 number of beds from the current 10 000 to go up to a number of 50 000.
We understand that the financial requirement but that is why we say we
act as a catalyst, we anticipate that as we come in and provide equity
that there will be other parties that will be interested to come in. Also it
attracts other parties because now this is a, this has a solid track record
25 so traditional providers of finance like banks can look at it on a business

case and see where their returns will come from and in this new dispensation, if I can call it, of Southpoint we are looking to service the broader institutions of learning across the country going into the more peri-urban or semi-rural institutions of higher learning including the
5 Tvet's.

I will now go over to slide 12, slide 10 sorry, so one of the strategies that we are looking at in terms of funding student accommodation is displayed on the screen there and if we were to look at how it comes about it goes again to the principle of balancing the
10 social and the financial return so student accommodation especially as you go out of the city and go into the more urban you have a big challenge around affordability so on the one hand you have to build durable structures that can last and structures that accommodate and are in compliance with the minimum norms and standards and they must
15 be within close proximity to the institutions of higher learning.

So there is a particular Capex that is required to get the student accommodation to what we need it to be but on the other end you have got the ultimate user of the student accommodation being the student and as you go more into the peri-urban areas you have more and more
20 reliance on NSFAS or bursaries because the affordability of the parents to pay for the student accommodation goes lower and lower so this strategy is one of the strategies that looks to bridge the two where it says how do we crowd in various stakeholders to make this work so if you look from a financial point of view you would have the likes of the PIC
25 ,either developmental funding institutions, the banks, other institutional

investors like pension funds coming in crowding resources to invest in a vehicle but that vehicle and sorry that vehicle would be responsible for developing student accommodation so building the actual buildings and also running them so getting the students in and doing facilities
5 management.

But for that to work you would need support from various stakeholders so you need the students who are going to stay there and who would like to put in some responsibility with them and make them accountable for their stay there so you could make sure that some of the
10 costs of them staying there that they are accountable for but then you would also need the department of higher education either directly or through NSFAS to support this initiative through providing the bulk of the rent that is required so that the buildings can be paid for. And then you will also require the National Treasury to provide some form of support or
15 guarantee that should there be any problems they would now take over and be able to pay for their rent that is required to run this student accommodation.

And so over time you would get rent from the students and from the department, it would service the costs of running these facilities, it
20 would pay back the cost of building up the student accommodation facilities and the various funders would get their return but then at the end there would be an intention that such facilities could transfer back to government or to the Universities through a sale or some negotiated form. So this one of the strategies that we are still working on and
25 working with the various stakeholders on how we could make it work.

JUDGE: Well now something strikes me in relation to all this, if you are able to fund student accommodation in this way why are you not able to fund student tuition in a similar way?

MR. R. RAJDHAR: Thank you Chair sorry it is Roy Rajdhar, for the student loans we are exploring a model that is similar but just to say that this is something that it is in the project development stage we are trying to, it is a model that we have conceptualised but there is a lot of work that still needs to go into this, I do not know whether it is in the latest slide but the mode is similar for student financing you are quite correct.

JUDGE: It just seems to me that you have access to funds that the government as such does not have access to, institutional funds and rather than the government simply pouring money out of the public purse into this there might be a lot of sense in developing a model in which the investment comes through a manager like you, who is developing the idea from your side?

MR. R. RAJDHAR: Look the idea is being developed between we have a project development and research unit under Mr Dolamo here that in conjunction with the developmental investment and properties team so we are developing and you are quite correct in that there is pockets of funding and we saying how we can unlock that and I think there have been amendments to regulation 28 in the pension fund like that allows for more investment in the unlisted space but I think at the moment hardly any of those funds have been utilised so we are looking at what kind of incentive structure or mechanism that we can put in place that will allow for those funds to be invested, it might be that the pension

funds do not, are fearful in terms of treading into that area so hence if you look at, and the diagram we have got various credit enhancement facilities to try and give them at least some protection because the funds are there and the challenge is how can we access it so that, and it comes back to the point of being a catalyst but it is something we have conceptualised, it is in the early stages.

JUDGE: How actively is it being pursued?

MR. S. DOLAMO: Thank you Chair it is Sholto Dolamo from the PIC. I mean we are quite actively pursuing this strategy and I mean just to talk broadly in terms of you know the potential fund sources right, we are looking at, I mean as a colleague earlier on has mentioned that we are looking at a crowding in type effect or what some people call a blended finance wherein the risk is shared across a different you know sources of funding so that we are able to you know for those that require slightly higher return than others within this crowded mechanism that you are able to cater for, you know for everyone I think it is probably you know the best mechanism we can think of right now to address issues like this as well as student tuition.

JUDGE: A phrase was dropped a moment ago, the money is there, what does that mean?

MR. R. RAJDHAR: Chair it is Roy Rajdhar, what I was mentioning there is that if we take the regulation 28 on the pension fund there has been amendments to that to diversify where they invest and one of it is being on the unlisted investment side more as, what I am saying is that the scope for investment from private pension funds to invest in this phase

which is not being done at the moment so it is a question of how do we unlock the funding so that investments can be made in this space. I just want to give an example of, in some way some similar model but not on the education side that we conceptualised it about two years ago and
5 which has actually been implemented.

You know that there is a fund that is called SME fund that has been launched and we did the similar kind of model where the PIC had committed an amount of R500 million to that SME fund and on the strength of that R500 million, R1.6 billion has been provided by the
10 private sector and that is linked to the BBBEE in terms of employer, enterprise and supplier development so it is something that was conceptualised it is being implemented so if we follow the similar kind of approach we think we can do it in other areas a student loan side and the student accommodation side.

15 JUDGE: May I ask while we are at this point, were you involved in or were you drawn into the ministerial task team investigation into the funding of education for the poor?

MR. R. RAJDHAR: No Chair.

COMMISSIONER ALLY: You do know of that particular project led by
20 Sizwe Nxasana?

MR. W. MASEKESA: No we have not been invited at the moment.

COMMISSIONER ALLY: Thank you.

ADV. K. PILLAY SC: Chair I see that it is almost 11:40 and before we move onto students finance because the PIC has got a very structured
25 proposal that it is going to make, a model it is going to present on

student financing, may I suggest that we take the tea adjournment now.

JUDGE: Thank you.

ADV. K. PILLAY SC: For 10 minutes.

JUDGE: Thank you, we will adjourn for a quarter of an hour.

5 **MEETING ADJOURNS**

MEETING RESUMES

ADV. K. PILLAY SC: Thank you Chair. Mr Masekesa I believe we are on slide 12 of the presentation now and I am not sure who will be dealing with student education loan financing.

MR. W. MASEKESA: It is Wellington Masekesa again thank you Chair.

10 Miss Seipati Moichela should take us from slide 12 to discuss the, ja, yes to discuss to the financing through student loans.

MS. S. MOICHELA: It is Seipati Moichela thank you Chair, we seem to be stuck with ...[intervenes]

15 COMMISSIONER ALLY: Well for now perhaps you van proceed with what you have in front of you and we will follow on the, and when they get it right we can revert.

20 MS. S. MOICHELA: Okay Chair thanks. As I said it is Seipati Moichela I will take the committee through the last part of our presentation which is student financing or student financing sector or section of the presentation. So Chair as the PIC and the manager of GEPF funds in the main we are cognisant of the challenges faced by the students I accessing funding for their studies, be it that you know it is due to their poor backgrounds or that they can part finance but not fully as we understand now that section of the market is called the missing middle

and as the managers we in dialogue with our clients it became apparent that a solution should be sought in assisting GEPF members and members of our other clients to help them and their families to raise funding for their students, as such that led us to do an investment in
5 Eduloan.

I would like to point you to the very last slide which is slide 17 that deals with the Eduloan investment that we made by the PIC, that is made by the PIC. So PIC finance injected 244 million through compensation commission, UIF, GEPF into Eduloan in a form of equity
10 as well as debt. The strategy or the strategic intent of this investment was primarily ...[intervenes]

COMMISSIONER KHUMALO: Sorry just to, did you say competition commission?

MS. S. MOICHELA: No compensation.

15 COMMISSIONER KHUMALO: Compensation oh okay.

MS. S. MOICHELA: So the strategic intention of this investment was primarily to really assist GEPF members and some of the members but also the public, the broader public with financing for the studies at higher level, at higher education level. The Eduloan as it stands it comprises
20 mainly, 90 percent of it, it is GEPF members and that of their children, we in investing in that you know endeavour we looked at a pricing mechanic that will make the loans more affordable and we looked at a criteria that would not be too onerous for the qualifying members to access the funds. We further went on to really classify the target market
25 which we would want Eduloan to save as being the missing middle and

the lower income group of the population of South Africa.

The loans that are offered by Eduloan starts from as little as R1000 and then go up to over R30 000, the bulk of the funding sits between the R5000 and the R30 000 mark. We also have embedded in
5 that investment favourable repayment terms taking into account that most of the students are financed by their parents who are not earning that much so if you extend the period of repayment it helps with the actual amount of payments, the servicing amounts that they can afford. So that is the intervention so far by the PIC in as far as students
10 financing is concerned.

JUDGE: ...[microphone not on]

MS. S. MOICHELA: Yes Chair that was as at the end of September 2016 we do believe that this number would go up as the academic year starts, usually in January and February you have again an increased
15 number of application that Eduloan assesses so that number could go right above 50 000.

COMMISSIONER ALLY: Just to clarify in my head, in terms of Eduloan you indicate that 90 percent is to do with employees so that would be government employees who have children or themselves that they want
20 to educate so it does not cater for those people outside or are you saying a 10 percent amount varies between people outside as well as people inside can you just clarify those different members or different categories within the Eduloan book loan structure.

MS. S. MOICHELA: Chair historically it transpired that the government
25 employees who required to develop themselves further and did not study

they would not qualify for loans with the banks so the second stop for them was Eduloan which is why you have a greater percentage of the Eduloan book being advanced to the GEPF members or other members that are in the public sector but that is not to say the scheme is closed or
5 limited to those kind of employees, any member of the public who meets the criteria can be assisted through Eduloan.

JUDGE: ...[microphone not on]

MS. S. MOICHELA: It is a mixed back of students, those that are in Universities and those that are in Tvet's where if they do not qualify for
10 the automatic assistance that the Tvet's give to their students then they do qualify, it can come to Eduloan for assistance, so it is a mixed back.

JUDGE: ...[microphone not on]

MS. S. MOICHELA: It depends on individual students, some students it is for part financing where the government has already advanced some
15 form of funding to them but they need to top up then they could come to Eduloan. Some of them they do not qualify at all for NSFAS or they do not qualify for a loan with a bank then they would come took Eduloan for funding so it depends on the individual students and student circumstances. Let me also Chair explain that the advantage with
20 students, with GEPF members having had you know an added advantage with Eduloan was that Eduloan could run a persel or could run a debit order directly from their salaries so that de-risked the recovery or the debt collection so in essence that really increased the book towards ...[break in recording]

25 COMMISSIONER KHUMALO: Can I just ask one question before you

proceed, we had from the presentation at UIF they were talking about an investment they making to Eduloan and Eduloan themselves they were also talking about how, so is this different from what they are talking about, is it a separate investment?

5 MR. R. RAJDHAR: It is Roy Rajdhar, it is the same investment they are talking about. The UIF holds an investment in Eduloan. Chair I think there was a question that was raised very early on in the presentation which we said we will hold on to this part and that related to whether our clients impose what the maximum interest rate is, the answer is no that
10 would be at the discretion of the PIC when doing is appraisal of the investment.

COMMISSIONER ALLY: Well Mr Rajdhar perhaps you can explain because you see unfortunately we sit with that situation where we have received evidence, we will probably have to clarify and I hope I have it
15 on my system that if that was said then it conflicts with what you are saying because we were asking how is it different from going to a bank and getting a loan, they indicated the interest that is charged by Eduloan would be much less because we would indicate to the lender that you can only charge so much interest, now whether that is PIC or Eduloan
20 because you are two different entities wearing two different caps, you say you own so whether it is a subsidiary of PIC I do not know how that holding situation takes place but perhaps you can explain more your mandate agreement or service level agreement that you have with your clients and the parameters of those agreements.

25 MR. R. RAJDHAR: Thank you it is Roy Rajdhar, the mandate that we

have with the clients are set at a broad levels, if confined the discussion to pricing of loans or pricing of any investment what the client would give us would be what is the return they expect to receive on a portfolio basis not on an individual investment so what it would allow is for the PIC to
5 price certain investments lower than that benchmark and certainly investments higher than that benchmark provided on a portfolio basis on a consolidated basis it would exceed the benchmark that the client would propose. Having said that, if we take it in the case, if we come back to that case of Eduloan, the Eduloan investment we had made recently and
10 again I think if we refer to my colleague Wellington's presentation earlier and he spoke about a platform, we had acquired that as a first step, as a platform.

Now Eduloan will service a whole host of clients however where we get involved with say the GEPF wants us to provide funding
15 specifically to their members, it just happens that it is coincidental that Eduloan before that had a large proportion of civil servants and their dependents as clients but here there is a conscious level to scale that up. Now in this particular instance that is where it could be the case where the client would come and say because this is our beneficiaries
20 then I want to specify the price and an example would be on the home loan side, similarly we acquired a major stake in a home loan company called SA Home Loans and one of the intentions of it was to use that as a vehicle for delivering benefits to the GEPF.

In that particular instance GEPF had a say of what is the cost of
25 funding we provide so that when it is lent on to the members that it is at

a competitive rate. Now that is only talking in terms of the pricing. Then there would be other considerations in terms of that riskiness of that loan it will end up being a situation that on a risk adjusted basis that it would end up being competitive in relation to the banks. Miss Moichela spoke
5 about the missing middle so that is catering for those who would be excluded already by the traditional banks and so that is also the gap that we are filling in the place. I do not know Ernest whether you want to add.

COMMISSIONER ALLY: I think that clarifies it more or less thank you.

10 MS. S. MOICHELA: If I may proceed Chair I will take you back to slide 13 so as it stands Chair the main players in the funding or financing market for students is NSFAS which assists your poor students who do not qualify for loans at a bank and do not have the means to finance their own education while banks would come in at the higher end for
15 those students that can really afford the loans or they can afford the loans at the prices that they specify. Then we have Eduloan which we have specified that deals with the missing middle in the main while also not closing down on the poor sector of the students.

So having invested in Eduloan and as it has been explained by
20 Roy Rajdhar that the platform is meant to just initiate or facilitate the start of a bigger facility as we envisage it in the PIC in the long run. We have a student model which we have conceptualised that is at slide 14, we have a student loan model which we have conceptualised and which we are work shopping with other stakeholders to pull funds onto an SPV that
25 we have named Ikwezi but it could take any name really it is just an SPV

that would crowd in a number of for stakeholders interest in investing in the sector and in helping students with financing.

We see PIC also playing a role as a facilitator but also as an investor and the pension funds, SRI funds are also coming in as a donor, those funds that are grants and that could be used to facilitate for meritorious incentives. Once we have those funds how we see them ...[intervenes]

COMMISSIONER ALLY: Sorry Miss Moichela, SPV?

MS. S. MOICHELA: It is special purpose vehicle, what sits in the middle of that model. So for this model to work we would require a manager and a manager could be Eduloan or any company that has got the experience and a system, firstly it is the system because it needs to be able to administrate the book, it needs to be able to vet the applications that come through, it has to be able to and understand the credit facility or credit vetting of those applications so we would look at the company that has the system and the experience in ruling out or in deploying capital for this market sect but also has an ability to collect the debt so that it is able to repay the loans.

So we see the various stakeholders including PIC issuing bonds or advancing senior loans to the SPV that would be managed by whoever it is that we choose strategically as a manager for the facility. We also do think that there is an imperative role that the Department of Higher Education and Training could play through also NSFAS by also advancing a facility that would absorb the first losses in the structure but also help that we are able to extend the reach of the instruments to the

poorest of the poor. We also think that if we have a good manager managing that book and we have the correct processes and the procedures in vetting who we advanced the loan in we will be able to build a book that can be traded in the secondary market to also refinance
5 the loans because when you go to the secondary market we could securitise it for a funding that comes back also to continue financing the student.

This model is essentially the same as what has been explained under the student accommodation, it is basically to crowd in financiers
10 and other stakeholders like government to make sure that we have a bigger pool of funds to reach a broader range of students. Chair that is how far we go with the student financing.

JUDGE: Well you have not seen the ministerial task team report on financing of education for the poor and missing middle?

15 MS. S. MOICHELA: No Chair that we have not seen.

JUDGE: Well you see, I do not know whether it can live with what you have put here because they envisage a restructured NSFAS which is not in the same form as it is today, they have a public private partnership which is operating with NSFAS as an administrative agency, they have a
20 management company and they have loans coming in one would seem, it seems likely from the banks and they have developed a model and they have also provided for Seta participation. Now I ought to tell you that the banks, the Seta's cooperated in preparing this model and so they have bought in as it were, it has been piloted this year and the idea
25 is to roll it out next year.

Given that and I must tell you that if it comes as a surprise to you it came as a surprise to us too because we were simply presented with this as a company as it were. Given that it may be that your whole model is just of historical interest, so I think it would be highly advisable
5 for you to look at their report of the ministerial task team to see whether your model fits into it and if it cannot whether it can be accommodated in any way or whether your time has been wasted because I do not think your time would have been the only time that was wasted, we have had other people who made presentations who are in exactly the same
10 position as you and have not seen this task team report and it has come as a surprise to them.

So may I suggest that you should have a look at it and that when you have had a look at it and assessed its effect on your structure you perhaps let us have a brief written notice to what you think the
15 interaction is between this task team report and its proposal and your report. Would that be a fair request?

ADV. K. PILLAY SC: I believe it is a fair request Chair, it would be useful to have the PIC's view on the model that is encapsulated in the Nxasana report.

20 JUDGE: Yes.

COMMISSIONER ALLY: Can we also Chair perhaps just develop the question, now Mr Dolamo says the project when the Chair asked about this student model about tuition I was under the impression that Mr Dolamo was talking about this model and whether when he said we have
25 the project has gone down the line whether you have actually consulted

with all these people that you indicate there, for instance with DHET, NSFAS, with the Seta's, UIF and all the rest of these people.

JUDGE: Because DHET is also part of the ministerial task team and have cooperated with it, without making it clear to us that that was the
5 case.

MR. S. DOLAMO: It is Sholto Dolamo again Chair, perhaps if I may clarify, the division that it had is called research and projects development, now this particular model that you see here is still at conceptual level so we have not really you know interacted extensively
10 you know with the various parties mentioned on there.

MR. R. RAJDHAR: Sorry Chair it is Roy Rajdhar hair we take note of that, we will engage with the task team or the committee, we will also coruscate with our partners because in Eduloan it happens that Standard Bank is our banking partner so it is to also understand that there are, you
15 are looking at that side but Standard Bank actually I think owns a bigger share than us even and the bigger funder than Eduloan so it is a bit of a ...[intervenes]

JUDGE: Well the Banking Association has bought into, seems to have bought into the ministerial task team proposal, again without telling us
20 that that was what was going to happen.

MS. S. MOICHELA: Yes Chair that is why I think we will need to engage because as I mentioned also Standard Bank is on the one side with us in Eduloan so and exploring a paril model so I think we need to engage with all the stakeholders and we will certainly do that.

25 COMMISSIONER ALLY: Look the report has been gazetted for public

comment and it is within your interest to have a look at it, why we are interested in it is that you are presenting to us a model which is somewhat different to that of which they call Isfap, their model, which is a pilot and whose future will depend on what comes out of that particular
5 pilot. Now we are interested because we would like to know what models are there and which are feasible and which not.

JUDGE: They have a proposal which provides for part grants part loans that the very poor will get grants and as the income level moves up a larger proportion of what is required from funding will come from loans
10 until you get to the R500 000 level of income where it will be entirely loans if not before that. Well unless there is something further you want to add at this stage I think we can read your proposal and understand it in the light of what you have said but we would welcome your input on the ministerial task team report, you may say this is a great idea and it
15 goes further than ours and we are in favour of it and we think we can also buy into it and make a contribution or you may have criticism of it which we would welcome as well.

COMMISSIONER KHUMALO: Can I just respond Judge, Miss Moichela I wanted to check with this model, do you think the country would satisfy
20 the obligations in terms of our constitution, the right to education, do you think this will progressively realise the right?

MS. S. MOICHELA: That is a big question Chair, Seipati Moichela, I think this will provide a start and as like all other concepts or model as you role them out you learn your lessons, you identify what works and
25 what does not work and also you build a profile for other financiers to

come in so while you know the early stages there may be sceptics who do not commit to whatever imitative it is, as it takes on and it proves to be working you may have other financiers coming in and even international players also coming in so the bigger the scheme would be I think the wider the reach and it would help dent significantly the backlog with all the challenges we are faced with.

COMMISSIONER ALLY: One of the vehicles that the task team report talks about considering as with all other vehicles is what they call social impact bonds, now you as the PIC would know what vehicles there are out there and which ones are riskier than others and how they work, do you have any comment on the concept of social impact bonds at this stage unless you rather, you would rather have a look at that report and be able to comment, your comment would be more thorough if you had a look at what they were saying and how it would affect what you say?

MR. R. RAJDHAR: Roy Rajdhar, from in terms of our model the bonds that we are referring to there is a mix of the social impact bonds as well as traditional so for example if you see on your left hand side the corporate SRI there we were envisaging company corporates pursuing the skills development leg of the BBEE scorecard from a social impact bond perspective so that is the extent to which conceptually we looked at it, we looked at it that it will be a mix between social impact and conventional bonds.

JUDGE: Also what the task team envisages is using a proportion of BBEE funds, the contributions diverted into education, had you considered that?

MR. R. RAJDHAR: Yes Chair, just to indicate the reason why we thought that we could actually pull off this model if you want to say so, is that we are the largest investor on the JSE so we could influence that so now let us bring it to a practical level where we had a model because so far on

5 both the student loans and the student accommodation, we are talking conceptually, so let us talk about one that moved beyond concept and that would be the SME fund, so that was an initiative where we partnered with the private sector, again under the BBEE scorecard or enterprise and supplier development so what that, the last time we had seen on the

10 strength of our R500 million commitment into that vehicle, R1.6 billion was raised from all the top 40 and beyond on the JSE so what we are saying is that that was done on the strength of the BBEE scorecard, let us replicate that but now moving to another element of the BBEE scorecard and hence because we have that relationship and just to

15 explain in terms of the key thing that we drive in PIC is what we call ESG, it is on all investments, environmental, social and governance and so with the list of company's and the unlisted company's that we work on so we are called, we have a separate department that focuses on that so it is lobbying these institutions. So just to give an idea, on that SME

20 fund, the commitments that we have got of R1.6 billion would have been done in under three months it was not a long period so we think that is why the model we thought let us extend it to other areas.

JUDGE: You seem to have started off from a basis that we can make progressive contributions to providing for education, what the ministerial

25 task team has done is to look it would seem at a long term solution which

takes into account how much is going to be required for the National Development Plan and how they can provide everything that is required for the National Development Plan, if you understand?

MR. R. RAJDHAR: Yes thank you Chair.

5 JUDGE: They seem to have started from the larger whereas you seem to have started from the smaller and you are working up whereas they have a more comprehensive approach.

MR. R. RAJDHAR: Ja Chair that is why we on this particular one we will engage with that ministerial task team report because it might mean that
10 they have got a much bigger base to work from, we can just help to take it to another level rather than us reinventing the wheel, so if we find that that is the case we will do that, like we said like on the student accommodation we did not want to start it from scratch we saw an opportunity and if this presents an opportunity we will definitely pursue
15 that because we do not want to create too many panel structures and all whereas you can gain efficiency from one super structure.

JUDGE: Right.

COMMISSIONER ALLY: I must say *prima facie* or initially our impression is that you have got a proliferation of ideas coming from
20 various areas and here is another example of you coming up with a concept not knowing that somebody else within the sector itself is designing something else also but be that as it may we would welcome your comments.

JUDGE: Because what you have said about working together with such
25 a proposal or they working together with your proposal seems to me to

be a much better idea than working separately however thank you very much. Is there anything else that you want to ask or add.

ADV. K. PILLAY SC: Thank you Chair nothing more from our side.

JUDGE: Yes thank you. Thank you very much, thank you for the depth
5 of your presentation.

NO FURTHER QUESTIONS

JUDGE: Miss Pillay where do we go now?

ADV. K. PILLAY SC: Chairperson may I propose that we take the lunch
adjournment now and as soon as the next witness comes in we will let
10 you know and reconvene.

JUDGE: Thank you.

MEETING ADJOURNS

MEETING RESUMES

ADV. K. PILLAY SC: Thank you Chair. The next witness we have Chair
is the principle officer of the Government Employee Pension Fund Mr
15 Abel Sithole.

JUDGE: ...[microphone not on]

MR. A. SITHOLE: Thank you Chair.

JUDGE: Mr Sithole do you have any objection to taking the oath?

MR. A. SITHOLE: None Chair.

20 JUDGE: Do you swear that the evidence that you are about to give will
be the truth the whole truth and nothing but the truth, if you do raise your
right hand and say so help me God.

MR. A. SITHOLE: So help me God.

MR. A. SITHOLE [d.s.s.]

JUDGE: Thank you.

ADV. K. PILLAY SC: Thank you Chair. Mr Sithole one of the reasons why we needed the GEPF to appear before the commission was to deal with the notion of unclaimed benefits that is sitting in the GEPF and the
5 constraints on the use of the money and how this money is to be dealt with by the GEPF, so perhaps a good place to start with would be for you to explain to the commission what unclaimed benefits are.

MR. A. SITHOLE: Okay, thank you very much Chair. Unclaimed benefits are, I am going to speak specifically about unclaimed benefits within the
10 GEPF but unclaimed benefits within the GEPF are in a way not any different from unclaimed benefits in other pension funds in the country so there is some similarity although of course the GEPF has certain peculiarities given its origins. Just to remind the commission is that the GEPF was formed as an amalgamation of pension funds that existed
15 prior to the creation of South Africa in its current form so the GEPF came into being in 1996 when the funds from the previous state South Africa and of course the TVBC were amalgamated into a single fund to create what is today the GEPF.

The important aspect and why I am mentioning that is that part
20 of the reason that one has this benefit is that it might have its origins from the fact that members ship from all these different funds were transferred in a GEPF, some might not actually have been properly transferred in the sense that we now no longer know whether they have benefits from the GEPF or not and we are no longer able to find them to
25 be able to pay the benefits that they have.

JUDGE: Sorry can I ask you, does unclaimed benefits mean benefits that have accrued?

MR. A. SITHOLE: It is benefits for people who have in effect exited the fund so they are no longer members of the fund anymore.

5 JUDGE: Whether through death or resignation.

MR. A. SITHOLE: Or resignation or ja, it is the situation where a member leaves the employment of their current employer which gives rise to their membership in the fund on whatever condition but we cannot actually find them so in most instances we probably will know that this
10 person has resigned but we cannot trace him he has died or she has died and we cannot trace them that is how the unclaimed benefit arises.

JUDGE: Thank you.

MR. A. SITHOLE: That I think it is quite important to understand and then the other important thing of course is to appreciate that I think the
15 point that I was making earlier on, there are different reasons why a benefit will be unclaimed. In essence a member leaves the fund, the fund cannot find the member to pay the member and therefore we sit with this benefit which ultimately is actually a benefit that a member must have. In most instances it is because members either are not aware of
20 the benefits that they enjoy under the fund so they work and when they leave and they have paid whatever benefits they might have had, long service leave or whatever the case might be, they take that and they forget that there is this money that has been contributed not their behalf in the fund.

25 What gives rise to that, some members ignorance, they do not

now or sometimes deliberately some members will not tell their families especially in the cases of death so I am married but I do not tell my wife that I have this benefit that they are entitled to in the GEPF so when I die the family sits there and they do not know that this benefits is available
5 to them and it just sits under while the fund is waiting for somebody to come and claim. The other one I think has to do with I think the structure of South African society, I think most of us we have a situation where people have almost like separate lives, they will come and work in an urban environment, belong to a pension fund the urban environment, the
10 GEPF in this instance but come from somewhere else where I think it is home, my ancestral place so when I resign or retire or whatever the case might be, my life moves from being where I had been employed to another area and unless at that time I take all what is mine including my benefit in the pension fund unless it has been arranged that I can
15 actually receive this money when I am no longer in the environment where I was working that money never gets claimed and it just sits within the GEPF in instance or any other pension fund for that matter.

JUDGE: So if I had resigned in 2010 from the GEPF and I had not taken my fund would that today be regarded as an unclaimed fund then?

20 MR. A. SITHOLE: Yes it will be.

JUDGE: It would be.

MR. A. SITHOLE: Ja.

JUDGE: And if I had resigned in 1970 and not taken my benefit would it today still be regarded as an unclaimed?

25 MR. A. SITHOLE: If you remember it would still be regarded as an

unclaimed benefit.

JUDGE: Now does this just go on *ad infinitum*?

MR. A. SITHOLE: Currently the answer is strictly speaking yes, it actually continues in the pension funds in general there was an amendment, in the past what used to happen is that funds could almost
5 after a period of time kind of take the assets of unclaimed benefits and put them back into the fund and they become the general assets of the fund. In the industry in general there was a rule, I think there was something called PF126 that the FSB issued in I think around December
10 2008 if I am not mistaken but sometime towards the end of 2008 where the circular specifically made it very clear that any unclaimed benefit would not revert into the fund it will be ring fenced and remain as unclaimed benefits until such time that a member is able to claim.

Now that might sound odd but in some instances for instance if
15 you have somebody who retired in 1970, a father or a mother or a grandparent it might very well be that if a grandchild of the child of that person after all those years suddenly says but hey I remember that my father used to work for, so in our case in the public service, and when my father or my mother left there was no benefit paid that that person could
20 still actually come to the fund and say but did my father not have a benefit with you, so you might think of but this person has been, has left a long time ago but why are you keeping this benefits but in theory it is possible that as people become aware somebody could come forward and say but hey but that is theory but it is possible.

25 JUDGE: Well of course the shorter the period the more likely it is to

happen.

MR. A. SITHOLE: Ja, ja.

JUDGE: And conversing.

MR. A. SITHOLE: Yes Chair.

5 JUDGE: What about the position of the benefits which accrue to that pension fund contribution, so let us suppose then I retired in 2010 and I did not take my benefits, what happens to the interest?

MR. A. SITHOLE: In the GEPF the interest it is accruing, my colleague is coming will show you what the numbers for the GEPF look like and
10 they are actually part of our annual financial statement so they are actually audited and they are very public.

JUDGE: But in the light of what you said just now about ring fencing, that suggests to me that interest accrues to that benefit and not to the general fund?

15 MR. A. SITHOLE: No it actually accrues to the benefits so if a members benefit stays behind in the fund that benefit continues to accrue interest until such time that it is claimed and if you look at for instance in our case, if you look at the total number of unclaimed benefits most of it actually is not the original unclaimed benefit, most of it is the accrued
20 interest on the original unclaimed benefits because the benefit is accruing the interest as we wait for that member to claim.

JUDGE: I understand.

COMMISSIONER ALLY: just around this ring fencing and monies that have accrued, is there not a dispute at the moment in the FSB or a court

action where one of the members of the FSB is accusing the executive of doing something, how is that related to what you said about the ring fencing and so forth?

MR. A. SITHOLE: Okay, Chair ...[intervenes]

5 JUDGE: Do not assume that I know because I do not.

MR. A. SITHOLE: No, no, no I will answer that question, no, no it is in the public domain so there is no secrets here about the issue so I am more than happy to answer the question, what I wanted to do is that I am wearing current, I came here wearing my GEPF hat but I do wear
10 another hat in that I am also the Chairperson of the Financial Services Board so I just need to put that on the table to say I can answer that question both generally but I can actually answer it more specifically.

COMMISSIONER ALLY: But what we do not want you to do is get into ...[intervenes]

15 MR. A. SITHOLE: The details.

COMMISSIONER ALLY: Which might prejudice the case you have, just broadly.

MR. A. SITHOLE: There has been a judgment, commissioner there actually has been a judgment already issued although there might be a
20 potential appeal on the matter. The matter that has been brought by Miss Rosemary Hunter against the Financial Service Board does touch partly to unclaimed benefit but it is not really unclaimed benefit it is about something else, it is about the fact that if you go back say to about 2006, 2005 the pension funds industry in South Africa had in the books of the
25 FSB close to something like 13 000 funds in total and at that time the

FSB realised that of those 13 000 funds the majority there was nothing happening in those funds, close to about 8000 were what we call dormant so they were in the books but nothing was happening with those funds and then what the FSB then did was to start a process to look and
5 say why are these funds dormant and can we rationalise the funds.

And what Miss Hunter was questioning was the process of the rationalisation of those funds and there might be a couple of them that would be classified as funds that had unclaimed benefits and that is where there might be a link between the two but it was not really about
10 unclaimed benefits it was a fact that there were these 13 000 funds and then about 8400 of those funds were rationalised because they had just been sitting in the books but nothing was happening either because, and what gave rise to that is either because one company was bought out and in the transfer they were not properly kind of liquidated or in some
15 cases that some funds lost membership to the point where there was no remaining membership so that is really the question.

COMMISSIONER ALLY: So basically whilst some of them might have unclaimed benefits the court case more had to do with some proc rather than the actual content.

20 MR. A. SITHOLE: Ja it is more the process and just to give you what has happened is that it went to court and on 14 December a judgment was given against Miss Hunter however it does not preclude, it does not kind of remove the obligation of the FSB to still investigate to ensure that nobody was prejudiced in the process, I think that process continues.

25 ADV. K. PILLAY SC: Mr Sithole may we come back to unclaimed

benefits, now you mentioned that the circular, I think it is circumstances.

MR. A. SITHOLE: PF126.

ADV. K. PILLAY SC: 126 provides that if any rule in the fund which provides for reversion to the fund of unclaimed benefits must be removed and the reason for that rule is to protect the right to claim unclaimed benefits.

MR. A. SITHOLE: Just repeat the question?

ADV. K. PILLAY SC: I am saying the purpose behind the circular is to protect the right to claim unclaimed benefits.

10 MR. A. SITHOLE: Yes, ja, ja.

ADV. K. PILLAY SC: Can you tell us what is the policy reason behind protecting the right to claim?

MR. A. SITHOLE: I think the best probably is to use, my colleague has arrived and the slides have come so I might use that just to give a sense to the commission what the issue is. To understand unclaimed benefits one has to start with what are pension funds for and in this instance we speak about the GEPF and I presume that most pension funds will have a similar kind of provision, is that most pension funds of course exist to provide benefits to beneficiaries, that is really the real reason why they exist and in most instances that the benefits are only payable to beneficiaries under specified circumstances, the biggest one of course being to provide pensions but also acknowledging that not everybody who is a member of pension fund would necessarily get a pension because they might resign and seek employment elsewhere and belong to another fund before the resignation, must be paid. They might be

retrenched, the same of kind of applies or they might die in service and again you cannot hold them to get a pension when they are dead so you have to pay benefits.

But in the main pension funds in law exist to provide pensions
5 and that is quite important so the first objective of the fund is to pay beneficiaries and the biggest task of managers of funds like ourselves is just that (1) to ensure that the benefits are looked after before benefits are paid and at the time of payment that we actually do pay benefits to beneficiaries that is the real reasons why pension funds exist so when
10 we think about unclaimed benefits the first thing that we need to focus on is the fact that the money belongs to beneficiaries and we need to do whatever is necessary to ensure that the rightful beneficiaries are the first people that get are those funds and I think that to me is the most obvious thing so the first thing that we need to focus on is to say okay so
15 how do these unclaimed benefit arise, how can we ensure that what gives rise to these unclaimed benefit does not make more unclaimed benefits so in a sense you almost want to have a situation where there is a past historical situation where there is an unclaimed benefit that you are trying to work yourself out of and then you need to ensure that going
20 into the future no unclaimed benefit arise because there is no logical reason why funds should be having unclaimed benefits, funds should be making sure that beneficiaries get their benefits, that is what I think people like myself and my colleagues are tasked to do, accumulate the benefits pay the benefit when it becomes due.

25 There should be no unclaimed benefits but of course historically

there has been and even today some people might still not be aware or not communicating the existence of the benefit so unclaimed benefits might arise but our focus in the first instance must be to make sure that beneficiaries get the benefit. Then on the historical side is to make sure
5 that we can try as much as possible to trace those members whose benefits are still left in the fund, for the GEPF it is very easy we derive no benefit whatsoever in members who leave their benefit in the fund, none, we do not derive any benefit whatsoever so it is our duty it is what we should be focusing on to ensure that whatever is currently accumulated
10 is paid out into the beneficiaries which is kind of a difficult process and we are looking at all kinds of different initiatives to ensure that we can pay those benefits as a fund and of course together with the industry as a whole to find mechanisms to pay those benefits to beneficiaries.

But in theory there might be, there might be, there might come a
15 time and I do not know how you will arrive at it where we could say of this unclaimed benefit there is no way you are going to find the beneficiary.

JUDGE: Well now I am not interested in what is to be I am interested in what is at the moment.

20 MR. A. SITHOLE: Ja.

JUDGE: And I really would like your answer to two questions, the first is what is the present total of unclaimed benefits in the fund?

MR. A. SITHOLE: For, again I can answer for the GEPF not for the industry, that is the total for the GEPF, that is the number.

25 JUDGE: Is that 653.

MR. A. SITHOLE: Million.

JUDGE: Million.

MR. A. SITHOLE: Ja 653 million.

JUDGE: Alright what is, have you got, the second question is do you
5 have an age analysis?

MR. A. SITHOLE: We could do an age analysis, we have not brought
one but we could do an age analysis, we do have an age analysis that
we could do.

JUDGE: Now the third question is, can you show us the extent to which
10 there is a reduction year by year in the unclaimed benefits, in other
words can you show us how say from 2000 until 2016 claims have been
made against the unclaimed benefits?

MR. A. SITHOLE: We can do that, I do not have the answers but we can
provide that later Chair.

15 JUDGE: What I am interested in is the trend of claims, to what extent
they are pursued and pursued successfully?

MR. A. SITHOLE: Ja no we can provide that, we will provide the
commission.

JUDGE: Because I am imagining and I may be totally wrong that there
20 are unclaimed benefits which have been in the fund for 50 years.

MR. A. SITHOLE: Ja.

JUDGE: Upon which no claim has been made in those 50 years and
about which one can say quite fairly that it is unlikely, to put it no higher
than that, it is unlikely that a claim will ever be made.

MR. A. SITHOLE: In theory the answer is yes, yes.

JUDGE: Now I will tell you quite simply why I am asking the questions because I am very interested to know whether there is not a sensible approach which would allow the government to take the money which is
5 in the unclaimed benefit or some of them depending on the age analysis and to guarantee the payment of any claim that was made.

MR. A. SITHOLE: Subsequent.

JUDGE: In other words the money is put to use, if it is never claimed then it does not have to be repaid by the government.

10 MR. A. SITHOLE: That is possible.

JUDGE: If it is repaid it must be repaid with benefit naturally.

MR. A. SITHOLE: That I think should be possible Chair.

JUDGE: Ja well I am really interested in, if this can be done what benefit can accrue, if we are only talking about R150 000 then it is ...[intervenes]

15 MR. A. SITHOLE: No we will provide the commission with that, I think the important thing is that the numbers actually change but as I said they might very well be an element of those that just you know the probability of tracing is almost non existent and there are some reasons why some of that can arise and I always say again one needs to understand our
20 history as a country to appreciate some of the reasons why it could arise. I will just give you an example of a situation where if Abel Sithole comes and works in, came to, not comes but came to work in Pretoria but he came from a faraway place, in the past of course Abel Sithole was not allowed to work in Pretoria so (1) he would have to give a sense that

for him to be employed within Pretoria he will give an address in Pretoria so the address that we have in Pretoria is factually probably not Abel Sithole's address.

JUDGE: Now I understand that sort of thing but in a pre 1994 context
5 there must have been some sort of similar sort of experience in relation to the white section of the population which dominated the Government Employees Pension Fund.

MR. A. SITHOLE: Could well be, we will provide two things, I think your first request is the age analysis and to give some indication of what
10 probably, and again it is going to be difficult because you have to almost identify a beneficiary but to say okay of, which beneficiaries have been having this benefit that is sitting in the GEPF for too long that you almost have to conclude that the likelihood of finding them is very small.

JUDGE: well as each one is in a separate account so if for example my
15 father-in-law who was a government employee had not taken his pension it would say with some certainty that he is not going to take it.

MR. A. SITHOLE: But his children can.

JUDGE: Aah yes he can but if they have not in the last 20 years since he died it is gravely unlikely.

20 MR. A. SITHOLE: No, no I am talking about, I am just focusing on, if you actually know that your brother-in-law was a GEPF benefit there probably is still a benefit for that person.

JUDGE: Sure that is why I am interested to know what percentage of claims are actually repaid, to see some sort of likelihood.

MR. A. SITHOLE: Ja.

JUDGE: Then I assume that there is an actuarial calculation done to protect these people, to say you have to maintain a certain amount in the fund, would that not be so?

5 MR. A. SITHOLE: There is a valuation with, the GEPF does an evaluation of its total benefits every two years and the benefits of the unclaimed is also reviewed in that process at the same time.

JUDGE: Yes alright but at the same time I can hardly think that the actuary could complain against a government guarantee for the payment
10 of the benefit.

MR. A. SITHOLE: Well if there is a guarantee, again I think that should not be a problem, I think there is probably a number of things have to happen, first I think the government would have to, for the GEPF and I presume for the industry as a whole, make the appropriate legal
15 provision for that to happen.

JUDGE: Oh yes, no take that for granted yes.

MR. A. SITHOLE: Ja and then of course to (1) enable the monies to be transferred from pension funds into this other use.

JUDGE: Yes, yes, no of course, all the legal provisions have
20 ...[intervenes]

MR. A. SITHOLE: Yes, yes if all that is done and I think the guarantee that should in theory some claim arise in the future the government will stand good for that, in theory I think that should be possible.

COMMISSIONER KHUMALO: On tracing the beneficiaries is it not a

possibility, something similar to a detailed citation and if there is no response and then that unclaimed benefit is up for any other use, is that a possibility?

MR. A. SITHOLE: With current law the answer is not but I think as the
5 Chair indicated, if the appropriate law were to be changed and the provisions made in pension funds for other use that will be possible but I think as the law currently stands that is not in place so it is more than just, I think you first have to make sure that legislative environment allows for that to happen.

10 COMMISSIONER KHUMALO: Okay and these unclaimed benefits they are not part of the compensation, I know there are class actions with examiners and all of those?

MR. A. SITHOLE: I presume a benefit in general would be, would have different sources, I think in this instance we are talking about the
15 unclaimed benefits for instance for the GEPF but you can speak about unclaimed benefits for pension funds as being one potential area where you find unclaimed benefits but there might be other areas in the financial services sector where there are unclaimed benefits, insurance might be one area where there is unclaimed benefits. I mean I am sure
20 that if you were to look at UIF there might be a lot of people who are not claiming UIF but that money just becomes used so there might be a lot of areas where people potentially have benefits which they do not access and therefore one could consider those to be unclaimed but then you need to identify each one separately.

25 JUDGE: Right now may I ask you about the funds under management,

what is the total of your funds under management at the present time?

MR. A. SITHOLE: Our asset manager is the PIC who were speaking earlier on so we have the GEPF which is the owner of the assets and the PIC exists only the investment manager, we currently have just over one
5 point, I think again it is a moving target pending on the day, close to about 1.7 trillion in assets.

JUDGE: Yes and do all benefits recovered go to the members or is there anything that goes into administrative costs or anything that goes into the fund that does not go to members?

10 MR. A. SITHOLE: There is hardly nay money that goes anywhere other than to pay fees for services so me and my team we have a budget for which is paid, the asset manager gets a fee which is a normal fee and beyond that there is no other ways to access the money within the GEPF.

15 JUDGE: And to what extent are the funds under management allowed to be invested upon a return which is not market related?

MR. A. SITHOLE: That is a very tricky question, strictly speaking the answer is we do not kind of consciously seek to invest in investments that are not market related however the fund is conscious of, generally
20 because of its size it is the biggest investor in South Africa, and we are aware that there is a very strong link between how assets perform in general per market related and how the economy of the country performs therefore there are mandate, specific portions of the asset that are carved out to be invested in sectors where people might not
25 necessarily think that the driver is market return so there is a market

return, for instance we invested, just to give an example, in a company that provides housing and we want that housing some of it to be directed at the GEPF and we try to make sure that we invest with the understanding that we want a very good market related in our return but
5 we also make sure that there is housing provided to the members of the GEPF so there is, while we are looking at a market related return which do take into account that there is a need to be playing a role in other areas that are quite key for instances areas of development so.

JUDGE: Education for example.

10 MR. A. SITHOLE: Education might be an area that we look at.

JUDGE: Have you considered specifically the question of investing in education?

MR. A. SITHOLE: We have via the PIC.

JUDGE: And do you regard it as an underperforming section so to say,
15 that will not produce returns for our members?

MR. A. SITHOLE: Well it all depends on how one structures, I think for instance to the current conversation with PIC is about the investment in a specific provider of education loans and we are expecting a very good return but we understand the challenges that come with the investment
20 in that area. We would not as a pension fund of course invest not expecting a return and not expecting a market return because otherwise we will not be actually doing our duty to our members and our pensioners a service but we do seek and try to seek mechanisms where we can actually invest in things like education for a good return but
25 understanding that it is targeted for the purpose so you can have a

market related return but also wanting to actually make sure you are doing social good in a way. I think the other one to answer Chair something that is also not appreciated is that the GEPF and I presume other funds to varying degrees, we are the biggest purchasers of
5 government bonds so if government actually believed that education is important and were to issue an education bond there would be no reason why we would not consider it so sometimes we think that funds have only one mechanism of doing things but you need to also think that we are the biggest funder of government and also state owned enterprises
10 to a large degree so whether it is education, whether it is roads, whether it is electricity we buy the bonds of those entities on commercial terms so one opportunity would be for government if funding education is important to issue a government bond in commercial terms and there is no reason why we would not consider that because we already are
15 investor in that environment so it is not only how we are investing but government could simply use mechanisms that they already have to actually provide an avenue for funds like ourselves to invest in which would not be any different from what we currently do.

COMMISSIONER ALLY: Mr Sithole the Chairperson was speaking about
20 the age analysis, if you turn to page 98 and following of your annual, 2016 annual report.

MR. A. SITHOLE: Just Chair.

COMMISSIONER ALLY: It seems you gave us and not yourself. Perhaps that will assist.

25 MR. A. SITHOLE: Which page commissioner?

COMMISSIONER ALLY: From page 98 and following, page 99 seems to have an age analysis is that what you are alluding to when you said you would provide the commission?

MR. A. SITHOLE: No, this does not speak necessarily to unclaimed
5 benefits but commissioner do I understand your question, I think maybe I should clarify what you want?

COMMISSIONER ALLY: Ja. It seems to indicate benefit payable, age analysis is summarised as follows and then it says unclaimed benefits two to five years, the number of cases you have and the amounts
10 involved more than 5 years of unpaid benefits. Now are you indicating or is the situation that unclaimed and unpaid are two separate issues and therefore cannot be classed in the same way.

MR. A. SITHOLE: Ja unpaid normally it means for instance that we should know for instance in some cases is that the member actually
15 knows, I am going to give you an example, a member resigns and claims the benefit but there are issues with SARS as an example, so that member basically knows he, he or she knows they have got the benefit but because they have not resolved their issues with the Receiver of Revenue we hold the benefit until such time that matter is being resolved
20 so it is not really unclaimed it is just that we have not paid it because the member has not fulfilled some of, some requirement.

JUDGE: Well according to this, if I read this rightly then the unclaimed benefits are less than, are greater than 5 years. In 2016 amounted to just under R6 billion, would that be right?

25 MR. A. SITHOLE: Yes.

JUDGE: Whereas in 2015 the unpaid benefits of an excessive five years was only R3.466 billion.

MR. A. SITHOLE: Yes.

JUDGE: Yes sorry, thank you.

5 COMMISSIONER KHUMALO: Yes I was also looking at that and I wanted to check, do your members get the holiday, the contributions holiday whether if there is enough ...[intervenes]

COMMISSIONER ALLY: Is that the leave commissioner?

COMMISSIONER KHUMALO: The what?

10 COMMISSIONER ALLY: Leave pay.

JUDGE: No people do get their leave pay but I think the commission is asking, normally employees, members do not get, do not in pension funds get contribution holidays, for instance the GEPF members contribute 7.5 percent of their pensionable salary not the GEPF and the
15 employer has a contribution rate which works out to on an every two years currently it is about 13 percent for the employer or 16 depending on the nature of the employee. In our kind of fund members do not get contribution holiday and I also know that maybe the question that the commissioner is asking is that employers in some funds do get
20 contribution holiday's in our case there has not been such a thing.

COMMISSIONER KHUMALO: So what accounts for the difference as the Chairperson was asking, 2015 and 2016?

MR. A. SITHOLE: That unpaid is moving target so if a members benefit is unpaid today, if for instance in the example I gave, if they sort out their

tax affairs then in the following year the benefit will be paid so that number is constantly moving, it is constantly changing as new members either come with the same difficulties or those difficulties get resolved.

JUDGE: Yes what does interest me is the difference between the
5 unclaimed benefits and the unpaid benefits is enormous it is close to R5.5 billion.

MR. A. SITHOLE: No that is an operational matter, it is not unclaimed, your unclaimed it is ...[intervenes]

JUDGE: So the unclaimed benefit we find on the other page.

10 MR. A. SITHOLE: On the other page yes.

JUDGE: Where was it now?

MR. A. SITHOLE: Just across, just on the same the page on the.

JUDGE: Yes, yes I beg your pardon the balance at the end of 2016 R653 million which is more or less what you said to us a bit earlier, but at
15 the same time 2016 the unpaid benefits was phew, the unpaid benefits were something like R8.5 billion.

MR. A. SITHOLE: The unpaid benefit is because the member actually knows there is a benefit, there is some reason why the benefit has not been paid so it is almost like a delay.

20 JUDGE: Yes I see that but it surprises me that there are unpaid benefits for two to five years of R2.5 billion.

MR. A. SITHOLE: Ja, yes.

JUDGE: One would expect surely that some, that people would claim them within two and a half years.

MR. A. SITHOLE: I have people who call me and then for some reason, for one reason or another they still have not get their benefit paid five, six years after the fact.

COMMISSIONER KHUMALO: What happens when it is being
5 interdicted maybe for divorce purposes?

MR. A. SITHOLE: No I think the Chair wants to understand why there is a big difference between unclaimed and unpaid and there are very, the cause of those are very different, an unpaid benefit means that the claimant knows so it is not that we do not know the claimant.

10 JUDGE: That I understand but then it surprises me as I said that you have unpaid benefits at two to five years at R2.5 billion.

MR. A. SITHOLE: Ja.

JUDGE: So people who know that they are owed money do not claim R5 billion, nearly R6 billion worth, sorry I beg your pardon nearly R2.5
15 billion worth within five years.

MR. A. SITHOLE: Yes.

JUDGE: And after five years this money increases to nearly R6 billion and I find it a little bit strange and inexplicable that people should be so dilatory in claiming their benefits.

20 MR. A. SITHOLE: Two things, well I think the answer is yes they are but you also must think of that in relation to the GEPF size and the amount of benefits that are involved.

JUDGE: Certainly but at the same time the GEPF size may be very big but the number of people who retire in one year is not all that big.

MR. A. SITHOLE: Not just retiring but claiming it is quite big.

JUDGE: Alright.

ADV. K. PILLAY SC: Mr Sithole can we look briefly at the reconciliation of the number of cases of unclaimed benefits and perhaps you could just
5 explain to us the various components of unclaimed benefits as they appear in that table, for example the first line is 6243 cases of bank rejections, now can you just explain to us what that means?

MR. A. SITHOLE: A bank, and again that is probably partly answers the Chairs question, a bank rejection ...[intervenes]

10 JUDGE: I am lost for the moment just tell me where you are?

ADV. K. PILLAY SC: We are on page 98 Chair.

JUDGE: I see thank you very much yes, thank you sir.

MR. A. SITHOLE: A bank rejection is where a member, we have a members data so when they claim they give us a bank account or when
15 they left the employer they had a particular bank account where their salary was being deposited and then when we pay the benefit we pay that amount into that bank account and then the money goes in and for some reason gets kicked back either because the account has been closed in most instances, that is the bank rejection.

20 ADV. K. PILLAY SC: But what triggers the transfer to the bank, is that a claim by the member?

MR. A. SITHOLE: Yes, yes.

ADV. K. PILLAY SC: So in other words there is a claim it is just that there is a problem with the actual bank account.

MR. A. SITHOLE: Yes.

ADV. K. PILLAY SC: Alright.

COMMISSIONER ALLY: Well Mr Sithole you seem to be providing a simple answer to a complicated question.

5 MR. A. SITHOLE: No it is.

COMMISSIONER ALLY: And let me put it to you this way, you see you have got as defined the benefit unclaimed and you have got unpaid so what Miss Pillay was putting to you was if it is a bank rejection there was a claim but it is unpaid so why is it sitting under unclaimed, you see the
10 phraseology somewhat loses me there because it should not be unclaimed it should be unpaid and the unpaid as you said as part of what the Chair was putting to you as to why you having 2.5 billion in unpaid or is your answer to my question that the two should be seen as the same which I do not think it is.

15 MR. A. SITHOLE: No, no they are not the same.

COMMISSIONER ALLY: So again then why would you have bank rejections under unclaimed because it would only be rejected if it was claimed. It is unclaimed because once there is a bank rejection and we do not be able to trace the member that then that is the problem and it
20 has been sitting there we cannot really find out who the member actually is so the issue is well wait, wait Mr Sithole perhaps we are running away, here you have a claim, if there is a claim there is a person otherwise there would not have been a claim so you know the person.

MR. A. SITHOLE: Ja.

COMMISSIONER ALLY: What you do not have is a recent bank account number or bank account so that is where we are so I am still saying to you it cannot be on what you indicated that the bank rejection can be unclaimed when it has been claimed, you have the persons name, it
5 should be that you also have the persons ID but that you do not have a bank relevant bank account number so we are just asking in your explanation it just does not make sense that the explanation is that the bank rejection falls under unclaimed because it is unclaimed and should it rather not be the explanation response you gave to the Chairperson
10 that part of the R2.5 billion is part of the bank rejections and should be under 10, you see where I am going to?

MR. A. SITHOLE: Yes I can ja.

COMMISSIONER ALLY: So where should that bank rejection be?

MR. A. SITHOLE: Okay I think what you are saying is some of your,
15 probably we are classifying some of the unpaid as unclaimed which is true.

ADV. K. PILLAY SC: And the second line Mr Sithole the benefits directly transferred to unclaimed upon exit, can you just explain what that means, does it mean that as soon as the member exits the fund the
20 members benefits is transferred to unclaimed?

MR. A. SITHOLE: It means we try to find the member and we do not and then after a while we then transfer it.

ADV. K. PILLAY SC: And how long is after a while?

MR. A. SITHOLE: Where we do not have any contact details that
25 normally will take about 12 months to 24 months.

JUDGE: Ja I think the circular 126 says that 24 months later.

MR. A. SITHOLE: Yes.

ADV. K. PILLAY SC: It has to be transferred then to unclaimed, so this would mean after 24 months?

5 MR. A. SITHOLE: Yes.

JUDGE: Can I just understand the annotation in your financial students, under number 9 unclaimed benefits you have balance at the beginning of the year and then you have transferred from benefits, what does that mean, do you see what I am referring to?

10 MR. A. SITHOLE: Ja I can see, the second line?

JUDGE: Yes.

MR. A. SITHOLE: It means we move it to unpaid until such time that we are comfortable that we are not actually tracing the member and then we transfer it to unclaimed so those are new entrants so you start up with a
15 figure and then you look at the unpaid that you now cannot find any claimants and then you move it to unclaimed.

JUDGE: Alright, yes Miss Pillay I have asked the questions that really interest me, now I will ask you whether you would like to lead the witness in respect of matters that you understand but I do not and perhaps put
20 important things before us.

ADV. K. PILLAY SC: The only remaining question Chair is really a legal question and it relates to if you change the statutory environment so that you can access the unclaimed benefits what it is that you need to do because we know that the circular 126 specifically says that all

unclaimed benefits must remain in the fund and that they cannot be moved out so obviously that would need to be addressed and what is the procedure for addressing that Mr Sithole?

MR. A. SITHOLE: I think probably two things as the Chair indicated, I think the government first would have to make provision for something where this money must go to, to be dealt with, well I think in this instance potentially to fund education, could be to fund other things depending on what, so you need to have a repository of these benefits. Then you need to make it the law general to allow pension funds to do that, so a general kind of provision that makes it possible for benefits that have not been claimed for some specified time, I do not know after 10 years or 20 years whatever the case might be, can be moved into that fund subject to what the Chair said, the government will make good if as and when people come to claim. And then the funds themselves would have to change the rules to in a sense make it possible for transfers to take place to other entities around the beneficiaries which funds currently only have beneficiaries.

JUDGE: Why should it not simply be affected by means of the statutory amendment?

20 MR. A. SITHOLE: I am not ...[intervenes]

JUDGE: Making provision for the disposition of unclaimed funds.

ADV. K. PILLAY SC: I think the point alluded to by Mr Sithole Chair is that the funds still need the power to move the money out and that they get from the rules.

25 JUDGE: Oh no fair enough but it would require a statutory amendment

first I would imagine.

MR. A. SITHOLE: Ja that is what I am saying, that is what I am saying
Chair.

ADV. K. PILLAY SC: Now Mr Sithole may I ask you just your view on
5 what are the down, what is the downside of empowering government to
access unclaimed funds, for whatever purpose, whether it be education
or other purpose?

MR. A. SITHOLE: Well I think the first thing I think, well I mean most
things are possible probably depends on what you do, for instance as
10 the Chair has indicated if the government says I am going to replace the
fund as the one that has the obligation to pay well almost everything,
because the important thing is that the benefit must always be available
to the beneficiary.

JUDGE: Well yes the first thing to do is to identify benefits which are
15 unlikely.

MR. A. SITHOLE: To be claimed ja.

JUDGE: Yes.

MR. A. SITHOLE: Ja so the first, in the first instance you have to make
sure that you identify the benefits themselves which is probably not quite
20 easy and the way you remedy the not easy is that you say if we move
this benefits from the fund to be used for another purpose should a claim
arise the government will make good I think then nothing should actually
be an issue but that I think is the issue so the consideration has to be
under what conditions would such transfer take place that I think will be
25 key.

JUDGE: I would have thought you must keep a separate account for each pension fund held or a separate entry in the reserve account for each pension fund holder who has not claimed.

MR. A. SITHOLE: Yes.

5 JUDGE: And so it must be fairly easy to determine the age of each potential claim.

MR. A. SITHOLE: Yes.

JUDGE: Yes some of them would have been there perhaps for decades and others would have been there for only for days.

10 MR. A. SITHOLE: Ja.

JUDGE: Yes.

MR. A. SITHOLE: Yes Chair.

COMMISSIONER KHUMALO: Under unclaimed benefits the dispute cases what becomes of them, do they remain unclaimed or unpaid like
15 the example I was trying to make earlier of where there is an interdict maybe in a divorce case or there is families?

MR. A. SITHOLE: Those are normally unpaid because you know who the beneficiaries are and until such time that the resolution of the matter that the dispute is about, when that is resolved then you pay in terms of
20 whatever the resolution of the dispute has been so those are normally just unpaid it is not that they are not unclaimed.

COMMISSIONER KHUMALO: So they are listed under unclaimed here, is it deliberate?

MR. A. SITHOLE: Unpaid.

COMMISSIONER KHUMALO: Because they are listed under 9 so I was not sure if maybe it gets paid and then it sits somewhere.

MR. A. SITHOLE: Ja it is probably a few cases where the dispute has been coming too long, I think there is only about 216 of those cases so
5 those are minor, so those are probably specific instances with various particulars that we do not know.

JUDGE: Mr Sithole my recollection of the government gazette and I may be thinking of some other aspect of the law, is that every so often there is a publication in the gazette of amounts unclaimed in the government
10 pension fund, is that not right?

MR. A. SITHOLE: Not quite, I think that is what we are working towards, I think the government is currently I think through the office of the deputy, there is an initiative to create a database for all unclaimed benefits.

JUDGE: Well I must be thinking of something else.

15 MR. A. SITHOLE: It must be something else.

JUDGE: Some other benefit, maybe it is unemployment, I am not sure. Anyway so you say there is not a regulation.

MR. A. SITHOLE: Not at this stage.

JUDGE: I see alright.

20 COMMISSIONER ALLY: There is in regards to other pensions, the building industry for instance where they declare a surplus and people who worked for instance 1972, 1973 and belong to a certain pension fund and it was taken over by somebody else you would then apply, there is an application form so that too has been gazetted or publicised

in the newspapers is that not one of the instances that the Chairperson is referring to?

MR. A. SITHOLE: Could be, ja it could be I think in terms of surpluses I am not sure it was gazetted but what pension funds do, do to find
5 situations where claimants have left the fund, were paid their benefits but subsequent benefits arose due to or the surplus members then publicised to get those members to come back to claim the portion that stayed behind but in those instances the beneficiaries are known they have been paid it is just that after the calculation of the surplus there was
10 extra money.

COMMISSIONER ALLY: So just to get the history, from what you know historical information indicates that the government whether GEPF or its predecessors have never published the fact of unclaimed benefits in terms of the names of people who were entitled, the names of people
15 that or the surnames of the persons that were entitled to and therefore their families so historical information indicates that that has never occurred.

MR. A. SITHOLE: No we have not been and that is why I think the initiative that is being run by government to create a common base will
20 assist with that because all the names will have a depository, there will be no disclosure of what the benefit is and then members can come they can say well I was entitled to this benefit and I see my name is there and then the process would start.

JUDGE: Well then how at the moment do you intend to follow up
25 beneficiaries?

MR. A. SITHOLE: Currently we, first I think it is the efforts of the fund itself to find beneficiaries and is normally we go back to the particular departments where they used to work to see if it is known where they might have gone to or if somebody should help us to find that person and
5 if that fails we then employ special tracing agencies whose specific job is to go out and actually we give them the names and we give n them an indication where the member might have been employed, where they might have come from and see if they can go and find that person. And I think again the interesting thing about the initiative that I mentioned is
10 that in a sense if it comes to be it becomes a repository of all the names of the people who have benefits that have never claimed and the member can go and look there and once they have identified themselves and they have been verified they can then be directed to wherever the benefit might be lying.

15 ADV. K. PILLAY SC: Thank you Chair we have no further questions.

JUDGE: Thank you very much Mr Sithole we appreciate it and your colleagues time as well.

MR. A. SITHOLE: Thank you Chair and thanks to commissioners.

JUDGE: Thank you. Bear in mind we are not trying to raid the pension
20 fund that is not the intention we are looking for money that is simply not being used for any purpose, yes thank you.

ADV. K. PILLAY SC: Thank you Chair the commission will not be sitting tomorrow Chair and will resume on Thursday at the Centurion venue.

JUDGE: Thank you.

MEETING ADJOURNS

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SET 6H2 - DAY 2

**COMMISSION OF INQUIRY INTO
HIGHER EDUCATION AND TRAINING**

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