Capital Raising

Investment Memorandum

Gauteng Partnership Fund
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1 Important Notice

This information memorandum is being issued by the Gauteng Partnership Fund ("GPF") to a limited number of parties in connection with the possible raising of a concessionary debt facility in the amount of R250 million (two hundred and fifty million Rand) (hereinafter referred to as "the capital requirement").

This information memorandum is being made available on behalf of GPF and only to parties, who have signed and returned the confidentiality agreement issued by the GPF (the "Confidentiality Agreement") and recipients are therefore bound by the Confidentiality Agreement in respect of all information contained in this information memorandum.

The purpose of this information memorandum is to assist the recipient in deciding whether it wishes to proceed with a further investigation of the opportunity to advance all or a portion of the capital requirement to GPF, and in determining the level of any indicative offer and associated terms.

This information memorandum does not constitute an offer or invitation for the sale or purchase of securities or any of the businesses or assets described in it.

The information contained in this information memorandum, which does not purport to be comprehensive, has been provided by GPF and has not been independently verified. While this information has been prepared in good faith, no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by GPF or by any of their respective officers, employees or agents in relation to the accuracy or completeness of this information memorandum (including, without limitation, any forward looking statements) or any other written or oral information made available to any interested party or its advisers and any such liability is expressly disclaimed.

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The GPF can be contacted directly in relation to any aspect of this information memorandum. All enquiries relating to this information memorandum or to a possible transaction involving the Capital Raising should be directed to the GPF representatives:

<table>
<thead>
<tr>
<th>Attention</th>
<th>Capacity</th>
<th>Telephone</th>
<th>Mobile</th>
<th>Electronic Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boni Muvevi</td>
<td>Acting CEO</td>
<td>+27 11 685 6600</td>
<td>+27 82 602 7213</td>
<td><a href="mailto:bonim@gpf.org.za">bonim@gpf.org.za</a></td>
</tr>
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<td>Komathie Govender</td>
<td>CFO</td>
<td>+27 11 685 6600</td>
<td>+27 82 213 2901</td>
<td><a href="mailto:komathieg@gpf.org.za">komathieg@gpf.org.za</a></td>
</tr>
<tr>
<td>Vinolia Mashiane</td>
<td>Acting CIO</td>
<td>+27 11 685 6624</td>
<td>+27 71 364 6878</td>
<td><a href="mailto:vinoliam@gpf.org.za">vinoliam@gpf.org.za</a></td>
</tr>
</tbody>
</table>

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If you have not received this document directly from the GPF, your receipt is unauthorised. Please return this document to the GPF immediately.

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The release of this information could harm the competitive position of GPF and all recipients are required to treat it with the utmost confidence. This information shall not be duplicated, used or disclosed in whole or in part for any purposes other than to evaluate the proposal. However, if any institution will act as an investor as a result of this solicitation, or in connection with the submission of such information, such investor shall have the right to duplicate, use or disclose this information for programmatic reasons, to the extent provided in the contract.
No investor shall, under any circumstances, copy or disclose any of the GPF’s financial information submitted as part of this proposal. This restriction does not limit any investor’s right to use such information if it is obtained from another source.

3 Statutory Information

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Gauteng Partnership Trust</th>
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<tr>
<td>Trading Name</td>
<td>Gauteng Partnership Fund</td>
</tr>
<tr>
<td>Registration number</td>
<td>IT2422/02</td>
</tr>
<tr>
<td>Nature of business</td>
<td>Facilitation of the provision of social and affordable housing</td>
</tr>
<tr>
<td>NPO number</td>
<td>030-671-NPO</td>
</tr>
<tr>
<td>Registered office</td>
<td>82 Grayston Drive, Sandton, Johannesburg, 2196</td>
</tr>
<tr>
<td>Bankers</td>
<td>Absa Bank Limited</td>
</tr>
<tr>
<td>Auditors</td>
<td>Auditor General of South Africa</td>
</tr>
<tr>
<td>Attorneys</td>
<td>Mojela Hlazo Practice</td>
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<tr>
<td></td>
<td>Eversheds</td>
</tr>
<tr>
<td></td>
<td>Anthony Wilton Thinane Inc.</td>
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<tr>
<td></td>
<td>Cliffe Dekker Hofmeyer</td>
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<td></td>
<td>Wilsenach Van Wyk</td>
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<tr>
<td>Trustees</td>
<td></td>
</tr>
<tr>
<td>Chairman</td>
<td>P Mphahlele</td>
</tr>
<tr>
<td></td>
<td>1 June 2012</td>
</tr>
<tr>
<td>Acting Chief Executive Officer</td>
<td>B Muvevi</td>
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<tr>
<td></td>
<td>1 September 2013</td>
</tr>
<tr>
<td>Independent Trustee</td>
<td>L Makibinyane</td>
</tr>
<tr>
<td></td>
<td>30 August 2011</td>
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<tr>
<td>Independent Trustee</td>
<td>D Maphatiane</td>
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<td>30 August 2011</td>
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<td>Independent Trustee</td>
<td>Z Fihlani</td>
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<td>30 August 2011</td>
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<td>Independent Trustee</td>
<td>J Mnguni</td>
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<td>1 April 2013</td>
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<tr>
<td>Non-Independent Trustee</td>
<td>L Khangala</td>
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<td>1 April 2013</td>
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<tr>
<td>Independent Trustee</td>
<td>M Leshabane</td>
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<td>1 April 2013</td>
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<tr>
<td>Independent Trustee</td>
<td>S Mbanjwa</td>
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<td></td>
<td>1 April 2013</td>
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4 Executive Summary

An opportunity exists for an established financial institution to provide senior debt funding for affordable residential rental housing with the Gauteng Partnership Fund ("GPF"). The GPF is an established development finance institution and local leader in the provision of affordable housing in the Gauteng Province, Republic of South Africa. It is envisaged that the GPF will take a subordinated security position on the projects to be co-funded and the senior funder/co-funder will become a preferred creditor and rank ahead of GPF.

The GPF’s operations boast the following key investment attributes:

- Consolidated compound annual revenue growth rate in core revenue of 12%;
- Consolidated compound annual advances growth rate of 24%; and
- Loan loss ratio of less than 1% over a 6-year period.

4.1 Transaction Rationale

The rationale for the proposed Capital Raising includes, inter alia, the following:

- to assist government in the provision of affordable housing in the Gauteng Province in light of ever increasing population demographics;
- to further position the GPF as a leading DFI in the provision of affordable housing in the Gauteng Province;
- to position the GPF as the model for delivery of affordable housing across the whole of Southern Africa;
- to ensure that the GPF remains compliant with the BBBEE ownership requirements of the Property Sector Charter and to afford Historically Disadvantaged South Africans ("HDSA"), as defined in the Property Sector Charter, the opportunity to participate in the economic growth of the Business; and
- to ensure that the GPF maintains its market leadership position.

4.2 Key Investment Considerations

We list below the key investment considerations for the Business:

- Gauteng is the economic powerhouse of the country and the most populous region with above average per capita incomes;
- Reputable and established business with a strong local brand name, reputation and transaction execution capability. The GPF is a local leader in its field with world class systems and processes to manage its loan book;
• Access to GPF’s systems, processes and best practices;
• Strong and well developed (contractual) blue chip client relationships with other DFIs, private sector banks and government departments both nationally and provincially;
• Reasonable cash flow conversion, fixed operating profit margin and low capital investment requirements;
• The perception of commercial lenders that this is a high risk market creates high barriers to entry thus limiting intense competition in the local market;
• Strong and well experienced management team, in both housing development and development finance; and
• The GPF has established a mentoring infrastructure to support some of the recipients of its loan facilities to manage their property investments. In doing so, the GPF places trained professionals into the industry and increases the prominence and reputation of the GPF brand in the market. The GPF Mentoring Programme is a key market differentiator and a contributing factor to GPF’s continued increase in market share and a negligible loan loss ratio.

5 South African Low-Cost Housing Market

Housing was recognised as a key delivery aspect by the State almost 60 years ago. The Freedom Charter of 1955 states that

There Shall be Houses, Security and Comfort!

  • All people shall have the right to live where they choose, be decently housed, and to bring up their families in comfort and security;
  • Unused housing space to be made available to the people;
  • Rent and prices shall be lowered, food plentiful and no-one shall go hungry;
  • Slums shall be demolished, and new suburbs built where all have transport, roads, lighting, playing fields, crèches and social centres;
  • Rest, leisure and recreation shall be the right of all;
  • Fenced locations and ghettos shall be abolished, and laws, which break up families, shall be repealed.

The advent of the democratic dispensation in South Africa in 1994 presented the new government with many challenges of meeting the needs and expectations of ordinary South Africans. The founding principles of the Freedom Charter were incorporated into the Constitution of 1996.

Housing, being one of those pressing needs, is a constitutionally enshrined principle. Section 26 of the Constitution of 1996 provides that “every citizen has the right to have access to adequate housing”. In terms of the Constitution, the State is the dedicated delivery instrument
“obliged to take reasonable legislative and other measures within its available resources to achieve the progressive realisation of this right.”

Through a myriad of legislation and regulations, starting with the White Paper of 1995, government, through the Department of Human Settlements (and its provincial departments), recognised the housing and introduced a number of programmes to benefit various target groups differentiated by income and tenure form.

These programmes range from subsidy schemes (individual and project linked) to social housing and affordable housing schemes. Investment into the affordable housing market has increased exponentially since 1994 with the Department of Human Settlements spending billions to provide decent accommodation.

Lack of co-ordination has created a number of challenges in the provision of low cost housing. Subsidised housing has been made available to qualifying individuals and families in the form of rental stock. In other instances, government departments have made land available to developers at below market rates to facilitate the development of rental housing units.

The public sector remains the largest driver of the provision of social and affordable housing in South Africa. In addition, such provision is geographically skewed with Gauteng accounting for 40% to 50% of all low cost residential market investment. This is mainly on the back of inward migration into the province in pursuit of economic opportunities.

Some of the other problems that have affected the market initially included:

- Slow delivery of housing projects resulting in the mushrooming of informal settlements close to economic centres and employment opportunities;
- Prevalence of incomplete or poor quality projects;
- Land availability at affordable prices;
- Lack of complementary public services to any residential development – schools, clinics, commercial centres, public offices etc.;

It is in this context that the Breaking New Ground Policy introduced in 2004 sought to transform the low-income housing market and address compounding backlogs in delivery. The main focus areas of the Breaking New Ground Strategy were:

- Unblocking delivery constraints;
- Fast tracking delivery and address informal settlement upgrading;
- Creation of integrated non-racial society by providing a variety of housing options closely located to economic opportunities and social amenities;
- Widening housing tenure options; and
• Harnessing private sector resources to fast track delivery and increase scale.

It is in the context of the latter objective that institutions like the National Housing Finance Corporation, the Gauteng Partnership Fund, the Social Housing Regulatory Agency, Ithala Development Corporation and many others became delivery and facilitatory instruments for government.

6 Background to GPF

The Gauteng Department of Local Government and Housing (GDLGH), now known as Gauteng Human Settlements (GHS) with the sole mandate to provide social/rental housing to the citizens of Gauteng, established the GPF in 2002 as a housing trust. This mandate was later extended to include affordable housing. The GPF operates as a schedule 3 public entity under the Public Finance Management Act.

Establishment of the GPF was a considered response to unlocking private sector capital across the entire low-cost housing value chain. Government's strategy encapsulated in the Sustainable Human Settlements Policy served as the foundation for conceptualisation of the GPF, with its primary focus being the provision of integrated housing developments.

The Social Housing Policy for South Africa published in 2005 defines social housing as:

“A rental or co-operative housing option for low income persons at a level of scale and built form which requires institutionalised management and which is provided by accredited social housing projects in designated restructuring zones”.

Since inception, the GPF has made great strides to deliver on its developmental mandate – normalisation of the social and affordable housing market in Gauteng.

The contribution to the correction of housing market failures and to the effective functioning of local government across the province is immeasurable. The contribution to the development of sustainable communities, social and economic growth and development is stellar.

The specific mandate of the GPF is to:

• Form partnerships to address funding blockages and bottlenecks within the sustainable human settlements sector;
• Facilitate investment capital flows into integrated developments as per the sustainable human settlements policy framework;
- Facilitate equitable risk sharing project financing; and
- Participate in Social Housing Projects through innovative funding interventions with Social Housing Institutions (as a mechanism to entice capital market investment into this market).

The Gauteng Partnership Fund can therefore be characterised as a Development Finance Institution ("DFI"). South Africa's New Growth Path highlights the crucial role played by state-owned development finance institutions (DFIs) in creating jobs, raising shared economic growth and enabling pro-poor expansion of infrastructure.

A development finance institution is an alternative financial institution, which includes microfinance institutions, community development financial institutions and revolving loan funds. The major contribution DFIs make in any economy is the correction of market failures. DFIs provide de-risking financial instruments to facilitate private sector investments that promote development. Additionally, they help private companies invest, especially in countries with various restrictions on the market.

DFIs play a crucial role in providing credit in the form of higher risk loans, equity contributions and risk guarantee instruments to private sector investments in developing countries. DFIs are usually backed by the state, and the GPF is no exception.

In all the economically strong and socially equitable states, DFIs have acted as catalysts for accelerated industrialisation, economic growth and human resources development. South Africa urgently needs to accelerate its development and economic growth rates, and to expand its human resources capabilities. This is necessary, not only to address the crippling economic and human development inequalities left by apartheid, but also to match the country's rapidly growing new BRICS partners – Brazil, Russia, India and China.

DFIs also help position South Africa as an attractive destination for foreign direct investment especially where established industrial powers are concerned.

The contribution that DFIs make has been under the spotlight due to the recent global financial crisis and the subsequent stunted economic growth, heavy job losses and market failures. There has also been renewed public pressure for increased public service delivery, as well as the constant urgent imperative to accelerate equitable economic development.

Flowing from its mandate, the GPF has articulated its vision, statement of purpose and mission and organisational values as follows:
| **Vision** | To be the partner of choice in the mobilisation and optimisation of funding and a leading catalyst in the development of integrated human settlements in Gauteng |
| **Statement of Purpose** | In partnership with stakeholders, to proactively catalyse and facilitate innovative financing solutions for the development of affordable housing within the framework of sustainable human settlements in Gauteng |
| **Mission Statement** | As a public housing delivery vehicle, we proactively leverage sustainable human settlements by:  
  - Facilitating dynamic collaboration with a network of public and private sector partners;  
  - Mobilising new and innovative funding streams for projects;  
  - Gearing private sector financing to ensure better bankability of projects;  
  - Ensuring accountability, monitoring, efficiency and implementation of projects; thereby ensuring coordinated effort by both the public and private sector in human settlements delivery. |
| **Values** | **Proactive** – activism, interventionist, involved  
**Innovative** – cutting edge, best in class, outside the box  
**Excellence** – pride, passion, discipline, customer orientation  
**Integrity** – trust, honesty, ethics, follow through  
**Accountability** – professionalism, transparency, value for money |
7 Purpose of Investment Memorandum

The GPF is looking to attract compatible partners as co-funders in the affordable housing rental market. It is envisaged that the Co-funder will play the role of a senior funder for various projects. The funding structure will typically be syndicated funding with the GPF as a junior funder and ranking behind the Co-Funder/Senior Funder. The senior funder will register a first mortgage bond over the properties as security for the loan granted to the developer or investor.

The funding is aimed at:

- Improving the scale of housing delivery in the Gauteng Province;
- Reducing the level of uncertainty of repayment. By assuming the “first-loss” position, the GPF provides much needed equity impetus;
- Acquiring geo-physically appropriate land to facilitate housing delivery; and
- Promoting inner-city rejuvenation.

8 Gauteng Low Cost Housing Demand

Gauteng is recognised as the economic powerhouse of South Africa contributing approximately 35% to GDP. According to Census 2011, the province is the most populous with 11,2 million residents accounting for approximately 23% of the entire South African population. The province remains the smallest in geographic size with an estimated land area of 16 500 square kilometres or 1,5% of South Africa’s land mass.

Local and foreign immigrants continue to migrate to Gauteng in ever-increasing numbers in pursuit of economic opportunities. Inward migration accounts for about 26 000 households per annum. Gauteng’s organic population growth accounts for a further 28 000 households per annum.

Increasing population figures directly influence infrastructure provision as well as general service delivery. Consequently, housing demand will continue to exceed supply with land prices increasing at above inflationary rates.

The Gauteng Department of Local Government and Housing estimates that the province has a housing shortfall of approximately 700 000 units. This is spread over a number of municipalities in the province as indicated below:
The province and all its agencies need to respond to this backlog as well as attend to the eradication and/or upgrading of informal settlements that have sprawled across the province. This is given more urgency by the fact that commercial banking institutions have significantly reduced their exposure to the lower end of the market since the global financial crisis of 2008/2009. The high unemployment rate and significant consumer financial pressure has led to negative perceptions of the low cost housing market.

Gauteng, though ahead of the national average in terms of rental housing stock delivery, needs to accelerate its effort to meet targets set by the Breaking New Ground Policy. As at the third quarter of 2012, actual versus target, delivery is depicted below:

<table>
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<th>Province</th>
<th>2014 Target</th>
<th>Actual (Q3/2012)</th>
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<tr>
<td>Eastern Cape</td>
<td>11 888</td>
<td>1 397</td>
<td>11,8%</td>
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<tr>
<td>Free State</td>
<td>5 280</td>
<td>1 017</td>
<td>19,3%</td>
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<tr>
<td>Gauteng</td>
<td>19 352</td>
<td>6 989</td>
<td>36,3%</td>
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<tr>
<td>Kwazulu-Natal</td>
<td>15 240</td>
<td>4 487</td>
<td>29,4%</td>
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<td>Limpopo</td>
<td>6 240</td>
<td>136</td>
<td>2,2%</td>
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<tr>
<td>Mpumalanga</td>
<td>5 296</td>
<td>675</td>
<td>12,7%</td>
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<tr>
<td>Northern Cape</td>
<td>1 864</td>
<td>5</td>
<td>0,3%</td>
</tr>
<tr>
<td>North West</td>
<td>5 768</td>
<td>468</td>
<td>8,1%</td>
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<tr>
<td>Western Cape</td>
<td>9 072</td>
<td>5 883</td>
<td>64,8%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>80 000</strong></td>
<td><strong>21 057</strong></td>
<td><strong>26,4%</strong></td>
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This presents an opportunity for the Gauteng Partnership Fund to contribute extensively towards the attainment of national and provincial housing priorities and undertake more
housing developments. With its model of financial risk sharing, the GPF can leverage huge private sector financial and non-financial resources to help address the backlog.

9 Business Overview

The GPF was established in 2002 with a singular mandate to normalise the social housing market in Gauteng. A later extension saw the GPF entering the Affordable Housing space primarily driven by changing residential housing market dynamics.

Social Housing is a form of housing that requires institutional management and is usually associated with medium density housing developments. It normally assumes the rental option although other forms of tenure have been associated with it – instalment sale, co-operative ownership and rent-to-buy. Beneficiaries are normally households with a combined income not exceeding R7 500.

Affordable Housing is targeted at the ‘gap market’. These are households with combined income of between R7 500 and R15 000. Earnings are sufficient to disqualify them forgive away housing and simultaneously disqualify them for mortgage finance even though they may demonstrate an ability and willingness to service mortgage debt.

Market normalisation has been achieved through application of innovative funding mechanisms, which provide an attractive menu of funding instruments (mostly equity and subordinated debt) to the private sector to fund housing projects in this market. Equity commitments of over R400 million have helped unlock over R2,5 billion in commercial bank funding into the affordable housing sector, delivering over 22 000 housing units.

The GPF has four major interventions, all aimed at providing innovative funding instruments that facilitate the rapid delivery of decent, affordable housing to deserving citizens of Gauteng. These are:

9.1 Rental Housing Fund

The Rental Housing Fund aims to enhance the debt/equity ratio to projects. The GPF will typically inject equity into development projects to de-gear them thus ensuring that the project is not overly burdened by interest payments. This is intended to improve debt service coverage and interest coverage ratios.
9.2 Social Housing Fund

The Social Housing Fund reduces the cost of capital for projects, thereby enhancing the cash flows for housing institutions that are not for profit and who undertake mixed income projects. This is a product aimed to assist Social Housing Institutions in Gauteng. The Social Housing projects also have access to Social Housing Regulatory Authority (“SHRA”) grant funding as well as institutional subsidies.

9.3 Management of the Institutional Subsidy Program

Since April 2007 the Gauteng Department of Local Government & Housing (“GDLGH”) now known as Gauteng Human Settlements (GHS) with the management, evaluation and facilitation of the institutional subsidy program tasked the GPF. The aim of the institutional subsidy is to reduce the cost of capital for projects linked to institutional subsidies.

Institutional Housing is defined as a housing option for low income persons (from R2 500 to R7 500) at a level of scale and built form which requires institutionalized management and which is provided by accredited Social Housing Institutions (SHI). Schedule 1 non-profit companies mainly undertake institutional housing projects. The tenure offered in an Institutional housing project is rental, co-operative ownership, instalment sale and rent-to-own. Institutional housing projects are funded through a mixture of government grants and private sector funding. The government grants consist of the institutional subsidy.

9.4 Special Partnerships Projects

These are partnerships with commercial institutions in order to leverage resources or share financing risk for affordable housing developments. The following Funds/sub-programmes of the Special Projects performed as follows:

9.4.1 Risk Participation Facility

The aim of the facility is to enable sustainable entry of commercial banks through sharing project financing risk for housing developments. It allows for an interest rate blending resulting in a reduced weighted average cost of capital for housing project finance.

9.4.2 Development Finance Facility

The aim of the facility is to share financial and developmental risk with developers for affordable housing projects. This is short-term loans or bridging finance for projects aimed at
increasing the supply of new affordable housing stock in the market. This facility offers development finance for integrated residential developments to residential property developers for the acquisition of land, installation of services and/or top structures for sale, rental, instalment sale or other tenure options in Gauteng.

9.4.3 Intuthuko Fund

This programme is offered through the Trust for Urban Housing Finance (TUHF). The purpose of the fund is to provide concessionary funding to emerging black entrepreneurs providing small-scale housing in the inner cities.

9.4.4 Bridging Facility

The purpose of the facility is to assist TUHF in leveraging commercial funding for on-lending to inner-city investors contributing to urban regeneration and entrepreneurship development. The fund was initially capitalised at R30 million in the 2006 financial year.

9.4.5 Entrepreneur Empowerment Fund

The EEPF is an incubator programme designed to promote participation of Black owned companies in the rental market. The programme is limited to prospective participants invited on a public tender annually.

The aim of the fund is to assist emerging black owned companies to enter the affordable housing rental market. The GPF has allocated R100 million funding for the programme.

The GPF has appointed Mentors to support participants on the programme. Mentor support as well as GPF proactive approach and response to the EEPF challenges are essential in ensuring sustainable business and the realisation of the objective to create black property entrepreneurs.

The programme has attracted senior debt funders like the National Housing Finance Corporation.

10 Legal Capacity

The GPF was established as a trust in February 2006, known as Gauteng Partnership Trust. Its objects and powers of Trustees are specified in the Deed of Trust. The original Deed of Trust was subsequently amended in December 2011.

Clause 3 of the Deed of Trust defines the objects of the Trust as
• The objective of the trust is to contribute directly or indirectly to the development, construction, upgrading, conversion or procurement of housing units for the benefit of persons who have been nominated, or will be nominated in future, as beneficiaries of the trust.

• The scope of the objective of the trust as about above shall be limited to that of a public benefit activity as determined by the Minister of Finance in accordance with section 30 (2)(a) of the Income Tax Act.

• The objective of the trust will be achieved in the following ways:
  
  o By the provision of equity capital by the trust to any DFI or any accredited financial institution which advances credit facilities or to accredited housing associations that specifically provide housing to the class of persons nominated as beneficiaries;
  
  o By the provision of capital for the second layer financial guarantees backing any DFI or any financial institution guarantee in instances where these entities would place their balance sheet for underwriting capital loans by developers and housing associations and in so doing would incentivise increased participation in the trust’s objective by developers and financial institutions;
  
  o Where necessary by entering into joint venture projects with third parties, either within or outside the Republic of South Africa, to promote the objective of the trust and to obtain additional investment funds either by way of donations and/or loans.

The Powers of Trustees are defined in terms of clause 10. In terms of sub-clauses 10.2.5 and 10.2.6 respectively, the trustees have powers to:

• Negotiate loans in favour of the trust, with or without interest, with or without security; and

• Actively seek additional funds for investment in the trust, with or without interest, with or without security, and on such conditions as are contained in the trust deed, within or outside the Republic of South Africa.

It is in the context of the objects and powers of trustees that trustees and management are seeking third party funding to enable the GPF to pursue its mandate.
11 Governance Structures

11.1 Board of Trustees

The GPF is governed in terms of its Trust Deed. The Trust Deed provides for the appointment of independent trustees to provide guidance and leadership. The institution currently has seven (7) independent trustees and one (1) non-independent trustee including an independent Chairman. The Board of Trustees boasts highly skilled individuals who possess a breadth of skills necessary to execute on the GPF’s mandate.

The Board of trustees has the authority to lead, control, and manage the business of the GPF. The Board has developed a governance structure of board committees and has delegated through a comprehensive delegation-of-authority framework some of its authority to the Chief Executive Officer to manage the day-to-day business affairs of the GPF. This delegation of authority assists decision-making and delivery of strategic objectives without exonerating the Board of its accountability and responsibility for the GPF.

The Board of Trustees is responsible for the strategic direction and control of the company.

11.2 Board Committees

The majority of the Board's activities are undertaken in dedicated committees that constantly engage with management in pursuit of the GPF’s mandate. Three board sub-committees have been established, being:

11.2.1 Audit Committee

The Audit Committee is constituted in terms of the Audit Committee Charter established in line with the requirements of Section 51 (1)(a) of the PFMA and Treasury Regulation 27.1. The Charter is annually reviewed and updated as needed and complies with principles of good governance and with the requirements of the PFMA. The Audit Committee is accountable to the Board of Trustees and has an oversight function with regard to Financial Management, Risk Management and Internal Audit, Compliance with relevant laws, regulations and good ethics, and Internationally Recognised Reporting Practices.

The Audit Committee members are Messrs Z Fihlani (Chairperson), D Maphatiane and L Khangala.
11.2.2 Remuneration Committee

The Remuneration Committee is constituted in terms of the REMCO Charter and is responsible for all human capital related matters of the board including the performance contract of the Chief Executive and senior executives. The REMCO Committee is also responsible for developing appropriate retention strategies to ensure that the organisation is appropriately and adequately staffed.

Members of the Remuneration Committee comprise Messrs D Maphatiane (Chairperson), L Khangala and L Makibinyane.

11.2.3 Investment Committee

The Investment Committee is responsible for the assessment of all investment decisions and the associated risks, setting risk parameters for the organisation and constantly monitoring adherence to organisational mandate. The Investment Committee is also responsible for managing all counter-party risk and ensuring that the GPF risks are mitigated at all times.

Members of the Investment Committee are Messrs L Makibinyane (Chairperson), S Mbanjwa, Z Fihlani and M Leshabane.

11.2.4 Management

The day-to-day management of the organisation and responsibility for implementation of the GPF strategy is delegated to The Chief Executive Officer (CEO). The CEO, Chief Financial Officer (CFO) and Chief Investment Officer (CIO) also attend Board meetings on an ex-officio basis.

12 Strategic Objectives

The GPF's overall strategic goal is to leverage third party financing for purposes of affordable housing stock delivery thus contributing measurably to the development of sustainable human settlements and improving the quality of household lives.

The key strategic objectives adopted by the GPF are derived from a thorough analysis of opportunities that the low-cost housing market presents and an assessment of key risks associated with delivery to this market. These are summarised in the SWOT analysis below;
<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tangible track record of sector delivery</td>
<td>• Concentration risk (Johannesburg)</td>
</tr>
<tr>
<td>• Reputable partner considered market leader</td>
<td>• Independent project assessments</td>
</tr>
<tr>
<td>• Negligible loan loss ratio</td>
<td>• Dependence on senior debt funders for project delivery</td>
</tr>
<tr>
<td>• Shareholder support</td>
<td>• Institutional limitations – inability to leverage balance sheet</td>
</tr>
<tr>
<td>• Sound governance structures</td>
<td>• Monitoring and Evaluation capacity deficiency</td>
</tr>
<tr>
<td>• Stable management structure</td>
<td>• Stakeholder Engagement</td>
</tr>
<tr>
<td>• Consistent and successive clean audits</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Attract alternative funding institutions into sector</td>
<td>• Concentration risk (Johannesburg)</td>
</tr>
<tr>
<td>• Improve and expand product offering to achieve greater leverage</td>
<td>• Independent project assessments</td>
</tr>
<tr>
<td>• Expand partner organisations thus diversifying away from commercial banks</td>
<td>• Dependence on senior debt funders for project delivery</td>
</tr>
<tr>
<td>• Land acquisitions to facilitate housing developments</td>
<td>• Institutional limitations – inability to leverage balance sheet</td>
</tr>
<tr>
<td>• Diversify away from Johannesburg, Tshwane and Ekurhuleni and expand across entire Gauteng province</td>
<td>• Monitoring and Evaluation capacity deficiency</td>
</tr>
<tr>
<td>• Piggy-back on National Infrastructure Development Program</td>
<td>• Stakeholder Engagement</td>
</tr>
<tr>
<td>• Robust growth of Gauteng economy</td>
<td></td>
</tr>
</tbody>
</table>

13 Financial Overview

The GPF has continued to perform within its mandate and delivered consistent profits on the back of interest earnings on financial resources held primarily on behalf of the Gauteng Department of Local Government and Housing.

Interest earnings are an important component of any DFIs operating model as they subsidise core operations. The income statement for financial year 2008 – 2013 is included below to highlight this point.
13.1 Capital Structure

The GPF, like most other DFI's, was initially capitalised through a once-off capital grant to be utilised towards lending and operating activities. The Gauteng Government has further mandated the GPF to manage grant funds in the region of R600m to subsidise social housing developments around the province.

These funds are interest bearing and invested primarily with the South African Reserve Bank. Interest earned on these funds is used to subsidise operations.

13.2 Income Statement

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Grants</td>
<td>94 063</td>
<td>100 516</td>
<td>92 627</td>
<td>65 600</td>
<td>96 964</td>
<td>83 946</td>
</tr>
<tr>
<td>Own Cash Resources</td>
<td>43 154</td>
<td>31 936</td>
<td>44 568</td>
<td>19 212</td>
<td>55 585</td>
<td>26 253</td>
</tr>
<tr>
<td>Interest Received from Investments</td>
<td>43 689</td>
<td>58 610</td>
<td>36 800</td>
<td>30 660</td>
<td>29 473</td>
<td>13 998</td>
</tr>
<tr>
<td>Other Income</td>
<td>14</td>
<td>37</td>
<td>33</td>
<td>6</td>
<td>1 476</td>
<td>2 215</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>94 077</td>
<td>100 552</td>
<td>92 661</td>
<td>65 606</td>
<td>98 440</td>
<td>86 161</td>
</tr>
<tr>
<td><strong>Operating expenditure</strong></td>
<td>13 334</td>
<td>23 668</td>
<td>22 373</td>
<td>21 026</td>
<td>33 016</td>
<td>44 789</td>
</tr>
<tr>
<td><strong>Operating surplus</strong></td>
<td>80 743</td>
<td>76 884</td>
<td>70 287</td>
<td>44 580</td>
<td>65 424</td>
<td>41 372</td>
</tr>
<tr>
<td>Fair value adjustment of loans and receivables</td>
<td>3 135</td>
<td>-7 240</td>
<td>-17 088</td>
<td>-3 770</td>
<td>-3 721</td>
<td>-11 781</td>
</tr>
<tr>
<td>Impairment (loss)/reversal on loans</td>
<td>-293</td>
<td>4 596</td>
<td>-7 584</td>
<td>1 400</td>
<td>755</td>
<td>4 200</td>
</tr>
<tr>
<td>Finance costs</td>
<td>-6</td>
<td>-17</td>
<td>-8</td>
<td>-7</td>
<td>-20</td>
<td>-46</td>
</tr>
<tr>
<td><strong>Surplus for the year</strong></td>
<td>83 579</td>
<td>74 224</td>
<td>45 608</td>
<td>42 203</td>
<td>62 430</td>
<td>33 745</td>
</tr>
</tbody>
</table>

Whilst the GPF has been profitable over the years, interest earned from core lending activities is insufficient to cover normal operating expenditure. Interest subsidisation from the DHoS is critical for overall sustainability of the institution. This model is not unique to the GPF but typical of most DFI's, especially those undertaking highly developmental social interventions.

13.3 Loan Book

The true measure of the effectiveness of DFI's is not profitability but the extent of delivery on mandate. The GPF has achieved a CAGR (compound annual growth rate) in advances averaging 24% per annum for the period 2008 – 2013. This is indicative of the huge demand in the market and the decline of private sector lending into the sector.

The loan book has performed admirably with the Loan Loss Ratio at a negligible 1% over the same period. This illustrates the robustness of the lower end of the market, the prudent nature of loan facility assessments and the effectiveness of the GPF’s loan management systems.
Whilst FY10 saw a LLR of 9%, these losses have since been recovered. These were mainly attributable to advances made to municipal entities who subsequently repaid their facilities in the ensuing years.

### 13.4 Cash Flow

The GPF has become a victim of its own success. The growth in advances has had a negative impact on available unencumbered cash resources as depicted in the following graph.

In the period under review (2010 – 2013), commitments to new projects have increased by a CAGR of 17%. The FY12/13 period alone posted a record increase of 78% in commitments. This significant level of commitments has had a negative, though desirable, effect on cash resources available for further project delivery. Unencumbered cash has reduced by an annualised 18% over the same period.
The strategic response from the GPF management is twofold:
   a) Seek recapitalisation from Gauteng Human Settlements; and
   b) Attract third party funding into a jointly capitalised fund.

This proposal deals with the latter strategic response.

14 Proposed Funding Structure

14.1 Proposal Outline
   a) Establish funding parameters by both parties and entering into syndication agreements or similar agreements;
   b) Concessionary debt funding committed by partner organisation(s) in the amount of R250 million;
   c) Term funding:
      Minimum 15 years;
   d) Pricing:
      JIBAR linked funding;
   e) Minimum Security requirements:
      i.  First Mortgage Bond;
      ii. Suretyship of Borrowers;
      iii. Cession of shareholders loan accounts
      iv.  Security parri-passu
   f) Capital Raising Fee Payable:
      Maximum 1,50% (one comma five percent) exclusive of VAT.
   g) All facilities to be on a draw-down basis;
   h) Conclusion of Fund Management Agreement in terms of which the GPF will
      i.  originate new transactions;
      ii.  source land for developments;
      iii. manage all loan facilities from the joint fund; and
      iv.  report to joint venture partners on a quarterly basis.
   i) Establishment of governance structures of the Fund including
      i.  Steering Committee
      ii.  Joint Investment Committee
**14.2 Funding Structure**

- **Gauteng Partnership Fund**
- **Funding Partner(s)**
- **Syndication Agreement For Affordable Housing Funding**
- **Core Business**
- **Development Company**

**14.3 Benefits of Investing in the Fund**

a) The GPF has the opportunity to scale up its activities in light of pending restrictions to be imposed on the banking sector by the Basle III Accord;

b) An appropriate risk sharing fund with a 70/30 debt equity profile where the GPF assumes the “first loss” position;

c) The GPF team has unparalleled experience and credentials in delivering affordable housing within both the public and private sector space. The combined institutional knowledge and experience of The GPF provides the Funding Partner with a project partner with the following impeccable credentials:

d) Significant knowledge and experience in affordable housing and strategic planning and implementation within the public and private sectors. Previous clients include Johannesburg Housing Company, Yeast City, Johannesburg Social Housing Company, Madulammoho, AFHCO, Jozi Housing etc;

e) Extensive experience in designing and implementing various housing transactions valued over R3 billion with the property sector;
f) Mitigating hyper-inflationary land price escalations thus making housing projects unviable;
g) Dedicated project team of professionals that form the core of the GPF Project Team;
h) Significant internal operational, financial and management capacity to deliver significant turnkey solutions;
i) Exposure of Institutional investors in this market remains negligible;
j) This will facilitate BBBEE and transformation within the South African Property Industry;
k) The development of residential accommodation that will address social imperatives;
l) The creation of both temporary and permanent jobs during and post construction;
m) The GPF has a pipeline of projects /deals ready for executions which will result in the following:
   i. Accelerated delivery of housing opportunities;
   ii. More efficient land utilisation;
   iii. To ensure the facilitation of funding for housing developments;
   iv. Improved property market;
   v. Revitalisation of initiatives by the Cities i.e. COJ, Tshwane, Sedibeng etc;
   vi. Rehabilitation of otherwise uninhabitable buildings;
   vii. Inner city densification;
   viii. Alleviate chronic housing shortage; and
   ix. Eradicating urban decay.