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PUBLIC INVESTMENT CORPORATION

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# Introduction

The principal purpose of the Public Investment Corporation (PIC) is to invest certain monies received or held by, for or on behalf of the Government of the Republic of South Africa and certain bodies, councils, funds and accounts. As custodian of substantial assets generated by the labour of generations of South Africa’s public sector employees, the PIC has a responsibility to conduct its affairs with integrity, transparency and in an accountable way. As a public entity, the PIC is listed in Schedule 3B of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) and thus has to comply with the requirements of the Act.

The deliverables of the PIC remains important within the South African investment management sector, particularly because of the developmental investment role it plays in the economy as an investor, a catalyst for private sector investment and an advocate for social impact investing. The PIC has adopted its Vision 2030, premised on thematic investing for economic growth. The approach supports South Africa’s key developmental objectives and priorities that foster economic growth and drive socio-economic transformation.

# Overview of the 2015/16 financial year

The 2015/16 financial year presented yet another successful year for PIC. The portfolio of investment represented over 12.5% of the Johannesburg Stock Exchange equities market capitalisation. At a corporate level, PIC strengthened business processes and continued to invest in technology, infrastructure and people critical to the future of the business. PIC also implemented a revised organisational structure. Among the changes, the position of the Chief Investment Officer was split into four positions namely: Heads of Listed Investments, Property Investments, Developmental Investments and Private Equity and Structured Investments. This was done to ensure alignment with appropriate technical skills and expertise to bring specific skills to each asset class. Splitting the CIO position will continue to assist in the PIC investment strategy and continuity planning, mitigating against key main risks that were previously prevalent

There was high number of unlisted investment approvals, and PIC continued to make strides towards the implementation in the rest of Africa through the unlisted investment portfolio. There was also improvement in transformation through both investment and corporate activities. Approximately, 85% of the PIC corporate procurement went to BBBEE companies with level 4 status or better.

**Comments/Questions**

With reference to the decision taken to split the position of Chief Investment Officer into four positions, what is the impact on employee costs? Can they provide more detail on the cost-benefit derived from this strategic decision taken?

Who are agreed strategic partners involved with PIC ensuring regional integration and penetration into the rest of the African continent? What benefits will this partnership bring to PIC?

# budget Analysis

## Performance Information

## Table 1: High Level Performance Dashboard: Corporate Scorecard

| **Programme** | **Achievements** | **Challenges** | **Comments** |
| --- | --- | --- | --- |
| **1. Financial** | * Cost containment measures were implemented and actual costs remain within the budgeted amounts (Cost to income ratio amount to 56.61%). * Net income target achieved due to increased revenue which was triggered by an increase in assets and cost saving due to cost containment measures put in place. |  | Targets may be too low, PIC might have to consider adjusting their targets in the coming years. |
| **2. Internal Business Process / Operational Efficiency** | * Inherent risk level was maintained at 100% and the residual risk level by 20% for the financial year under review and at acceptable levels. |  |  |
| * PIC Corporate Entity showed areas of improvement as assessed against PIC Corporate matrix |  |  |
| **4.Customers/ Stakeholders** | * PIC delivered investment performance for the Compensation Commissioner Fund which exceeded the benchmark of 5.7% (Target 5.36%). All asset classes positively outperformed the Fund.- money market was the biggest contributor. * Guardian Fund exceeded its benchmark of 6.89% (Actual return 7.02%) | The Unlisted property market and bond assets are the main contributors to the underperformance of individual top 5 funds. Market conditions were not favourable but equities added positively to the relative return as they recovered in the last quarter of the financial year.  Government Employee Pension Fund was underweight in unlisted properties and Global Bonds were also underweight and underperformed contributing negatively to asset allocation and stock selection and detraction in overall fund performance.  The PIC delivered investment performance for Unemployment Insurance Fund (UIF) which did not exceed the target. The conventional bonds, money market and listed equities contributed negatively to the fund performance compared to benchmark of 7.61%.  PIC did not exceed the target on the Compensation Commissioner Pension Fund (CCPF). These funds were invested in inflation linked bond and equity asset which contributed to the underperformance.  The Associated Institutions Pension Fund (AIPF) did not exceed the benchmark. The AIFP fund was underweight in the Money Market compared to the benchmark | Why were most of the Pension funds (GEPF, AIFP and CCPF) in this programme under performed compared to the other funds? What has been the overall impact on all the pension funds in the last financial year? |
|  | * A strong deal pipeline contributed to the achievement of the target of growing the economy through Developmental Investments. Approvals of R33 billion with R1.9 billion approved through SA Developmental Private Equity and Structured Investments. These investments exceeded the target by 239% |  |  |
|  |  | * A good deal pipeline contributed to the partial achievement of this target of growing the economy through investments in Africa (non-domestic) listed and unlisted investments). The target is depended on approval from clients as it related to unlisted investments. These approvals were not obtained in time for further investment. | What is the latest [what – word missing] in obtaining approvals? Have the investments been made? |
|  | Transformation of the Asset Management industry- PIC facilitated a total of R11.5 billion allocated to BEE managers who graduated from development programme  Strong pipeline and continued focus on transformation led to outperformance of this objective for previously disadvantaged individuals. | Private Equity funds committed for black ownership (Isibaya fund) were not achieved because the approval of mandate allocation from funds was not obtained. | What is the actual number of BEE asset managers who will be the recipients of the R11.5 billion funds? |
| 1. **Human Capital and Knowledge Management** | PIC staff defined as black in terms of the Employment Equity Act amounted to 88.2% which exceeded the target of 86%. |  |  |

## Financial Analysis

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## Table 2: Summary of key figures

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2016** | **2015** |  |  |  |  |  |
| **Income Statement** |  |  |  |  |  |
| Total Revenue (R' thousand) | 1 010 733 | 955 232 |  |  |  |  |  |
| Operating expenses | (564 970) | (583 492) |  |  |  |  |  |
| Net Profit/Loss (R’ thousand) | 424 179 | 334 616 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Total Assets | 2 074 950 | 1 640 940 |  |  |  |  |  |
| Current Assets | 1 913 552 | 1 526 546 |  |  |  |  |  |
| Non-Current Assets | 161 398 | 114 394 |  |  |  |  |  |
| Total Liabilities | 368 014 | 358 183 |  |  |  |  |  |
| Current Liabilities | 244 893 | 228 901 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Net Cash Flow From Operating Activities | 430 379 | 349 757 |  |  |  |  |  |
| Cash flows from financing activities | 605 521 | 829 443 |  |  |  |  |  |
| Net cash from investing activities | (654 301) | 27 936 |  |  |  |  |  |
|  |  |  |

**Source: PIC Annual Report, 2016**

The financial analysis of PIC is based on the audited consolidated annual financial statements for the year ended 31 March 2016. Revenue increased to R1.0 billion (FYE15:R955 million) mainly attributed to management fees earned. Public Investment Corporation is an asset manager which manages funds based on mandates prescribed by clients for which it is paid a fee and therefore PIC does not own these investments. PICs financial results demonstrate positive growth mainly due to a resilient net interest income and operating expenses managed within budgeted levels. The company ceased providing property management services in order to concentrate on their core business of asset management services. There was a decrease in staff costs of R26 million which is approximately 6% decrease in employee costs.

Cash available from operating activities increased to R430 million (FYE15:R349 million).This increase is attributed to interest received during the year. Total assets recorded at R2 074 million, R434 million more than in the previous year. There was a positive fair value of financial instruments traded in the active market in the financial year. Cash and cash equivalents declined to R605 million (FYE07:R829 million). PIC has no long-term interest bearing debt on its balance sheet. Net gearing position is cash flush as they have sufficient cash to cover their liabilities. The entity has raised provision against leave entitlements accrued to the employees for the financial period. The long term incentive relates to the scheme by the company to attract, retain and reward high performing management at PIC. Short term provision is linked to performance contracts payable annually after the board approves the annual results.

## Auditor General’s Report

The Auditor-General expressed an unqualified audit opinion. However the Auditor drew attention to the following matters:

1. **Outsourcing of property management**

To gain higher efficiency, PIC resolved to concentrate on their core business of asset management services. This decision resulted in the outsourcing of the property management services to Mowana Pty Limited, which is in turn wholly owned by subsidiary of Pareto Limited- GEPF is 100 % owned by Pareto Limited. The financial impact as a result of outsourcing:

* Property management fees will no longer be earned
* Decrease in staff costs of R26 million

1. **Internal Control**

The AG notes that there is lack of oversight by management in addressing the deficiencies noted regarding financial reporting, compliance and related internal controls. This resulted in misstatement identified and non-compliance with the financial reporting framework.

**Comments/Questions**

What measures are being put in place to address the issues raised by AG?

1. **Audit related services and special audits**

An audit was performed on the review on compliance with Financial Advisory and Intermediary Services Act (FAIS Act). The report covered the period April 2015 to March 2016 and was issued to management in July 2016.

**Comments/Questions**

What are the key issues coming of the report?

# Key Issues for Consideration by Parliament

Given that the Government is the sole shareholder, PIC enjoys strong support from the South African government and management expects this to continue in light of the significant development objectives that must take place in South Africa. Furthermore, despite the entity’s success on its own, it remains a key strategic enterprise for Government to advance the objectives as mandated by the shareholder.

The evaluation of the overall strategic risk, investment risk, operational risk, reputational risk and market risk appears to be well managed with risk management policies in place with which PIC has complied with.

The financial performance of the PIC reflects its ability to manage and leverage its strong asset management services to the public in order to fund targeted initiatives that generate development impact, while also maintaining sound financial health.

Support to ailing SOEs continues. Given the challenges that exist within some SOEs including the Land Bank, PIC provided a loan facility of R5 billion to the Land Bank to accelerate the development of black emerging farmers. This is expected to create more than 5 000 jobs over time and facilitate further rural development. The Committee would need to determine what is the term of this debt facility and are the returns in line with the mandates of PIC clients? It will be of benefit if the PIC was to provide a list of priority sectors that it is targeting to grow the economy through developmental investments?

The Committee should engage PIC and find out while their investments are well documented, but a lot of investment decisions seem questionable. The Committee should know how deeply involved and active in those investments.

In terms of alignment with local government employees as part of a sphere of government , it is important that the committee highlights that there are far too many different pension funds at local government and believes PIC should engage with South African Local Government Association to consider how these could be brought in if not already.

The Committee should engage PIC regarding performance of their investments made on behalf of GEPF which is about 89% of the funds. Are there measures in pace to secure the pay pensions and social security obligations given the low economic forecast.

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# References

Public Investment Corporation (2016) Annual Report 2016

Public Investment Corporation (2015) Corporate Plan 2015/16