STATEMENT R14/21

STATEMENT ISSUED ON BEHALF OF THE ASSOCIATION FOR THE MONITORING AND ADVOCACY OF GOVERNMENT PENSIONS. (AMAGP)

CAPE TOWN

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SHOULD THE PUBLIC INVESTMENT CORPORATION STILL BE TRUSTED WITH WORKERS' AND PENSIONERS' MONEY?

After all the revelations of serious problems at the Public Investment Corporation (PIC) by the Mpati Commission, it was hoped that remedial steps would be taken speedily. However, according to its Annual Report for the year 2020/21 this did not happen. The statement by the PIC that "substantial progress" has been made about findings and recommendations is far too vague and wide to satisfy anybody.

The PIC's annual reports and those of some other government institutions have a historic tendency to be skewed towards polishing their reputations. The PIC, in its own view, is phenomenal, it has control over more resources than the SA Government and it wants everyone to know it. They promote this reputation via their flagship production, their Integrated Annual Report. (AR)

The 2021 AR of the PIC continues this tendency. Of course, if asset values increase it is because the PIC is a phenomenal asset manager – if investments fail, it is because of unavoidable external factors!

Unfortunately, the biggest dent in the PIC reputation came via the Mpati Commission's findings and recommendations. The public relations team at the PIC must have worked overtime to turn this weakness and threat to its reputation into a strong point and an image polishing opportunity – an old trick which fools nobody.

The following excerpt illustrates this attempt at softening and sidestepping the messages from Judge Mpati:

On page 16 of the PIC AR 2021 the CEO commented as follows:

"***Implementing the Mpati Commission Recommendations***

“The Mpati Commission made about 308 findings and recommendations.

“Substantial progress has been made to implement these findings and recommendations.

“The predominant concerns the Commission raised relate to past investments made in the PIC unlisted Isibaya portfolio.

“This constitutes about 4% of total AuM or about R70 billion that came into the Commission’s focus. Importantly, this implies that most of the PIC’s investments – 96% – were and are not the subject of allegations of impropriety."

Should it not rather read: **Can the Public Investment Corporation still be trusted with workers' and pensioners' money?**

It would be interesting to elicit a comment from Judge Mpati or Commissioner Jill Marcus about the above interpretation (misrepresentation?) by the PIC of the Commission's work.

What we know is that the Commission had already dealt with and rejected this creative use of percentages when Dr. Matjila testified. Ms Jill Marcus dealt with it at the time and the matter is properly recorded in the report. (see page 677 of the Mpati Report):

"*45. The **cavalier attitude** of Dr. Matjila to the above investment performance demonstrates **an insufficient commitment to the prudence requirement**. An example of this is noted when during his testimony, he stated:*

‘The Commission is here dealing with almost 2% of the portfolio (in unlisted investments) … You can add them all… you are not going to exceed probably R30bn at best … the total figure could be R40bn’.

*"46. At this point, when evaluating materiality and prudence, it is important to note that **the use of percentages obfuscates the numerical size of the funds in question.** R40 billion exceeds a full year’s state contribution by National Treasury to the pension fund which has averaged R37.7 billion a year and comes in around 64% of total contributions.*

“All of this makes the ability to absorb write-offs and losses precarious, which, by definition, is the opposite of prudence. Any 2% capital loss, when the fund is potentially not fully solvent (in terms of the actuarial valuation reflecting the funding level of long-term liabilities), is a significant loss to what should be capital reserves or a buffer."

As nothing has changed since the Commission's report, it surely looks as if the PIC management team believes that they can continue with –

- the use of percentages to obfuscate

- generalising where details are needed.

For PIC management to basically repeat Dr Matjila's testimony of 2019 in this annual report, are we to deduce that the PIC is, two years later, continuing with the cavalier attitude of the past and demonstrating an insufficient commitment to the prudence requirement, by using percentages to obfuscate the numerical size of the funds in question, as pointed out by Judge Mpati? What is more, the AMAGP has warned many times in the past against this misleading practice. A loss of R40 bn may be a small percentage of the trillions invested by the PIC. To workers and pensioners; however, this is a huge amount affecting their pension fund's long term fiduciary health.

So what has really changed?

We have new names on the office doors, but the underlying skewed and flawed attitudes and practices are still alive. It is obvious from this AR that the current report pretending to be the "clean-up" effort at the PIC should not be believed.

If the PIC's strategic focus is aligned to its conclusion that 96% of its portfolio is above reproach (i.e. not the subject of allegations of impropriety) we have a classic example of placing the ladder against the wrong wall.

By stating that 96% of their investment portfolio is above reproach, notwithstanding the Mpati report, the PIC is again in denial.

Unfortunately for the PIC, there are people who are closely monitoring the implementation of the undiluted recommendations of the Mpati report. Not all people are fooled by window dressing.

To prevent a repetition of the improprieties which led to the appointment of the Mpati Commission, it is sincerely hoped that the oversight exercised by the relevant parliamentary standing committees can be raised to a level to do justice to the efforts of the Commission.

Lest we forget, the annual reports of the PIC relating to the period 1 January 2015 to 31 August 2018 (the period Mpati covered) during which the malfeasances were committed, passed through the parliamentary oversight committees without being detected. Or were they glossed over?

The need to look past the glossy publications and slick presentations and drill down to the root causes and actual verifiable progress of correcting defective controls, was actually advocated by Auditor-General Kimi Makwetu.

The attempts by the PIC to polish their image, and without apparently heeding the findings of the Mpati Commission at the expense of pensioners and other depositors via their annual report, should be rejected with contempt.

Pensioners are well aware that 89% of the huge amounts entrusted to the PIC for investment, originates from their pension fund, the Government Employees Pension Fund. Their concern about having more than R2 trillion in the hands of one asset manager, a government institution with a monopoly, viz. the PIC, should be respected. Being flooded almost daily by reports about corruption in government-related institutions like the Department of Health recently, surely is of huge concern. When will it be our turn again?

The answer to our question posed above is an emphatic NEVER! The time has arrived to end the monopoly of the government-controlled PIC through the appointment of independent asset managers.

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