

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 1383

DATE OF PUBLICATION: 13 OCTOBER 2006

DUE TO PARLIAMENT: 27 OCTOBER 2006

MR I O DAVIDSON (DA) TO ASK THE MINISTER OF FINANCE:

- (1) What are the names of the third party funds managed by the Public Investment Corporation, the value of which was R598,9 billion as at 31 March 2006;
- (2) (a) how is the (i) investment strategy of each of the funds determined in respect of the assets in each fund and (ii) split derived between capital and money markets, equity markets, property and other investment options and (b) what has been the total return achieved in respect of each of the said funds?

N1826E

REPLY:

(1) LIST OF CLIENTS

	PORTFOLIO NAME
1	GOVERNMENT EMPLOYEES PENSION FUND
2	UNEMPLOYMENT INSURANCE FUND
3	ASSOCIATED INSTITUTION PENSION FUND
4	COMPENSATION COMMISSIONER PENSION FUND
5	COMPENSATION COMMISSIONER ACCOUNT
6	GUARDIAN FUNDS
7	DEPARTMENT OF LABOUR
8	RDP FUND
9	UNIVERSITY LOAN INVESTMENTS
10	TEMPORARY EMPLOYEES PENSION FUND
11	TRANSKEI DEVELOPMENT FUND
12	POLITICAL OFFICE BEARERS PENSION FUND
13	OFFICE OF THE AUDITOR GENERAL
14	PIC OPERATING FUND
15	PROVINCE OF THE NORTH WEST
16	SCHOOL BUILDING FUND
17	TRANSKEI OCCUPATIONAL DISEASES

18	LEBOWA GOVERNMENT LOAN ACCOUNT
19	KWAZULU GOVERNMENT SERVICE
20	BRITS FUND
21	DISASTER RELIEF FUND
22	KING GEORGE V SILVER JUBILEE FUND
23	BRUHNS RESEARCH FUND
24	REFUGEES RELIEF FUND
25	TRANSKEI TRIBAL LEVIES
26	JL BISSET TRUST FUND
27	GAZANKULU GOVERNMENT PRIVATE TRUST ACCOUNT
28	NATIONAL TREASURY GOLF DAY MMK
29	ASSUPOL STAFF RETIREMENT FUND
30	THOMAS ROBERTSON FUND
31	HARRY ESCOMBE SCHOLARSHIP
32	TALBOT BEQUEST FUND
33	FL JONSSON SCHOLARSHIP
34	GRAHAM CIVIL SERVICES FUND
35	LUKIN SCHOLARSHIP FUND
36	ROYAL RECEPTION FUND
37	JAMES ROBERTSON BURSARY FUND
38	PO BENEVOLENT FUND
39	SIR DAVID HARRIS FUND
40	ROBERT ACUTT SCHOLARSHIP
41	LAYALL TAYLOR FUND
42	TRANSKEI TRUST ACCOUNT

The Top 10 clients account for 99.88% of asset under management, with GEPF accounting for 92%.

(2) (a) (i) **Investment Strategy**

GEPF has a long term Strategic Asset Allocation approved by the Minister of Finance. Limits are assigned to every asset class to ensure that the fund is well diversified. The PIC's investment objective is to ensure that:

- the fund meets its short term liquidity requirements
- the fund meets future liabilities when they are due
- assets are protected against inflation (assets grow at a rate in excess of inflation)
- the portfolio is adequately diversified to reduce risk
- the fund invest in socially responsible investments to the benefit of members of the fund and the wider public

Political Office Bearers fund, Unemployment Insurance Fund, and Compensation Commissioners funds all have comprehensive investment mandates, compliant with Financial Services Board requirements. The PIC manages these funds in accordance with the investment strategy as stipulated in the mandates.

The other Funds are in the process of developing their investment strategies. The PIC board has approved interim mandates for each of these funds. The investment strategy and objective are to ensure that

- the capital of the funds is preserved
- the buying power of the assets is preserved (assets grow at a rate in excess of inflation)
- the funds meet their liquidity requirements
- the funds meet their future liabilities when they are due
- the funds have low risk

- (ii) The split among asset classes is determined by the long term Strategic Asset Allocation (SAA) of each Fund. SAA takes into account liability growth and liability profile of the members of the fund. GEPF, UIF, COMPENSATION FUNDS all have SAA.

UIF even though it's SAA has an equity allocation, have chosen to stay out of equities and continue to be invested only in fixed income securities.

COMPENSATION FUNDS also has equity exposure. The exposure risk is managed through derivatives to ensure that the losses are kept to a maximum of 5% by giving away a bit of upside. This structured product has to outperform cash in the long term.

ALL the other Funds are invested in low risk assets, mainly money markets instruments and only Associated Institutions Pension Fund has a mixture of bonds and money market due to longer duration of liabilities.

- (b) As shown in the table below all the funds have achieved a positive real rate in excess of 3%.

Return as at 31-Mar-06

Fund	Return	Inflation	Real Rates
Performance of Top 10 Funds	27.62%	3.39%	24.23%
GOVERNMENT EMPLOYEES PENSION FUND	29.28%	3.39%	25.89%
UNEMPLOYMENT INSURANCE FUND	9.52%	3.39%	6.13%
COMPENSATION ACCOUNT	10.12%	3.39%	6.73%
COMPENSATION PENSION FUND	10.68%	3.39%	7.29%
ASSOCIATED INSTITUTIONS PENSION FUND	10.82%	3.39%	7.43%
TEMPORARY EMPLOYEES PENSION FUND	7.39%	3.39%	4.00%
DEPARTMENT OF LABOUR: NATIONAL SKILLS FUND	8.47%	3.39%	5.08%
RDP FUNDS	6.38%	3.39%	2.99%
POLITICAL OFFICE BEARERS FUND	6.85%	3.39%	3.46%
GURADIAN FUNDS	7.75%	3.39%	4.37%

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MR I O DAVIDSON (DA) TO ASK THE MINISTER OF FINANCE:

In respect of the equity investments managed by the Public Investment Corporation, (a) what is the rationale for managing a portion of the funds internally and another portion by five external managers, (b) who decides on the investment strategy of investments managed by the external managers and (c) what has been the performance measured by return on the portfolio managed by each of the five external managers as well as that portion managed internally over the past five years? ***N1827E***

REPLY:

- (a) In 1994 an Asset & Liability study was conducted the result which pointed towards a need for diversification into equities. The four biggest Life Insurance houses with Asset Management operations were awarded the equity mandates in 1995. These were Liberty Life (Liberty Asset Management which changed to STANLIB with the merger of LIBAM and Standard Bank Asset Management), Sanlam (Sanlam Investment Management), Old Mutual (Old Mutual Asset Managers), Southern Life which changed to Momentum Life, a member of First Rand Group (Rand Merchant Bank Asset Management). Future Growth Specialist Asset Management was formed as a Black Empowerment initiative within the First Rand Group and given the portion of equity to manage.

These five managers are still managing the active component of the equity allocation.

GEPF Equity Allocation

The GEPF equity portfolio is split between passive and active components. The Active component is managed externally by Five External Managers viz. OMAM, RMBAM, SIM, STANLIB and Future Growth asset managers and accounts for more than 70% of the total equity Portfolio. The allocation as at 31 March 2006 is shown in Table 1 below. SIM holds the smallest at R 27.5 billion, and the rest manage more than R 35.4 billion worth of equities.

Table 1: GEPF Equity Allocation

31-MARCH 2006		
MANAGER	MARKET VALUE	% TOTAL
SANLAM	27,512,708,751	10.26%
STANLIB	43,145,615,422	16.09%
FUTUREGROWTH	35,389,444,427	13.20%
RMBAM	47,357,391,983	17.66%
OLD MUTUAL	38,135,405,348	14.22%
TOTAL EXTERNAL	191,540,565,930	71.42%
TOTAL INTERNAL	76,660,669,000	28.58%
TOTAL GEPF EQUITY	268,201,234,930	100.00%

Source: PIC data

Internally Managed Funds

The internal fund started in 1999 through bonds for equities swap with SASRIA and Transnet Pension Fund. The internal fund was only allowed to buy (no selling) Top 40 stocks by the PIC Board. This was due to lack of sufficient skills to do a proper portfolio management within the PIC at that time. With the change of management in 2003, the PIC Board gave management approval to manage a passive equity portfolio.

Core & Satellite

The GEPF equity portfolio accounts for 10% of JSE All Share market capitalisation. This is a huge exposure and thus opportunities to outperform the benchmark are few.

The equities are divided into Core and Satellite.

The Core is managed internally on a passive basis. The objective is to obtain benchmark returns.

The Satellites are managed externally by the five managers. The objective is to outperform the benchmark. This requires a good team of analysts, portfolio managers and IT systems. The PIC does not have this infrastructure.

In March 2005 R22 billion worth of equities was withdrawn from managers to reduce the exposure to manager risk. The sizes funds under management by external manager are large and affect their performance and the portfolio performance negatively. A sizable proportion of their portfolios are managed passively while they are paid active management fees.

(b) The external managers are provided with an Investment Management mandate that includes benchmarks and risk parameters within which the portfolio should be managed. The managers are expected to apply their own investment strategy and philosophy to outperform the benchmark within the set parameters.

(c) **Performance**

5 Years Annualised Returns to 31 March 2006

	RETURN	EXCESS RETURN
Benchmark	21.24%	
STANLIB	23.40%	2.16%
FUTURE GROWTH	21.90%	0.66%
OLD MUTUAL (OMAM)	22.05%	0.81%
SANLAM (SIM)	20.42%	-0.82%
RMB	23.49%	2.25%

There is no five year history for the Internally Managed Fund.