Opinion

RESPONSIBLE INVESTMENT

PIC has become a gravy-pouring zombie for cadres on the graft train

Kganyago's promise means taxpayers will foot the bill if there were a meltdown at state-owned enterprises

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The Public Investment Corporation (PIC) was like a breath of fresh air when it launched a high-profile battle in late 2006 to transform the very heartland of white capital. In Barloworld it chose a powerful establishment pillar to push its demand for a change to the old way of doing things.

Although some, particularly among the untransformed ranks of corporate leaders, cringed at the brash full-frontal assault led by the then-admired Brian Molefe, many believed it was about time capital was shaken up and more focus placed on transformation and responsible investment. Who better to do it than the largest fund manager in the country with a mandate extending beyond investment returns to include growth and development?

The Raith Foundation would have welcomed this at the time, since it believes the only sustainable form of investment is responsible investment that promotes the long-term success of companies in such a way that the ultimate providers of capital also prosper. The foundation believes the key element of responsible investment is stewardship: this entails monitoring, engaging and intervening — when appropriate — on matters that may affect long-term value as well as in companies' activities in social, environmental and other governance areas.

In 2006, the PIC seemed headed in this direction. But 11 years later, it seems as if it has abandoned all pretense of using its huge financial muscle to transform corporate SA. Instead, it has gone for the politically easier option of being the provider of gravy for the seemingly unending demands of cadres aboard the corruption train. Whether it is a captured state-owned entity (SOE) or an environment-destroying coal mine, the PIC appears happy to provide the funds if the beneficiaries are the "right" people.

In doing so, it has revealed its commitment to responsible investing to be hollow and become something of a zombie operation: there's no sign of life on its website; its history has not been updated since 2011 and December 2016 was the last time a news release was issued. Requests for comment are generally left unanswered. And its engagement with the corporate community is barely visible and generally erratic.

So worryingly zombie-like has the PIC become that the Government Employees Pension Fund (GEPF, the actual source of the PIC's R1.8-trillion worth of gravy) has taken to issuing comfort statements such as the recent one in which it assured its members it was not (for now) funding South African Airways (SAA).

That was released shortly after the one about Eskom's governance issues. According to the GEPF, the PIC is concerned with the governance practices of certain SOEs and "has engaged the Treasury in this regard". It is also talking to legal experts. And so, says the GEPF, Eskom understands its views on governance.

Given that the PIC is the single-largest holder of Eskom debt, one would have thought this was enough to bring the energy parastatal smartly into line. But the management at Eskom evidently realised they could ignore criticism from this front and knew the PIC would do nothing to rattle the Eskom gravy train. And so it was left to the Southern African Development Bank to force the issue.

In a further bid at providing comfort, the GEPF also tells its members: "A significant portion of the PIC's bond holdings in SOEs is government-guaranteed … and SOEs have never defaulted on any of the PIC's bond investments." There's nothing quite like telling people not to worry about defaults to remind them it's a possibility and the GEPF is suggesting that if anything happens to Eskom, Transnet or the South African National Roads Agency (the beneficiaries of the bulk of the PIC's R190bn in SOE bonds) the 1.2-million active GEPF members and the 400,000 pensioners and beneficiaries will be all right. Why the GEPF had to remind its members of this is hard to imagine given that as members of a defined-benefit fund, they would have known they would be all right even without the government guarantee.

The people who should be really worried are the taxpayers. They're the ones who will be called on to foot the bill if there were a meltdown at any of the SOEs. Reserve Bank governor Lesetja Kganyago told the GEPF in 2010 that the government's pension promise to civil servants was a promise made on behalf of taxpayers. (Ironically, Kganyago also referred to the GEPF being Eskom's single-largest investor and the need to forge a national consensus about energy investment "consistent with our global carbon reduction commitments".)

Perhaps it is the taxpayer's promise that allows the PIC to behave with such abandon. Why would it behave responsibly when there are no consequences? Why would it not become an equity partner to the bottomless pit that is SAA, as the Treasury recently suggested in the National Assembly?

On that January 2007 morning in Sandton, most people felt that however brash he was, Molefe was on the right track. Change is difficult and the beneficiaries of an entrenched system often need a vigorous push. Thirteen years after the ANC had been voted into power, the corporate community looked too much like it had back in 1994. The single-largest investor in SA was demanding change.

It also drove a major change in how the opaque and powerful fund management industry operated. In a bid to curry favour with the PIC (in the hope of getting a slice of its very valuable business) fund managers rushed to sign up to the United National Principles of Responsible Investment. This committed them, in theory at least, to taking more responsibility for the actions of their investee companies and promoting good environmental, social and governance behaviour.

The PIC's decision to disclose the details of how it voted on every resolution at every annual general meeting of every company in which it was invested represented major progress for a generally opaque industry. For a long time, it seemed the PIC was notching up enough progress that we were able to overlook the worrying signs. In 2005, we were told its multibillion-rand support for the Elephant Consortium's acquisition of a stake in Telkom had generated good returns for the PIC, and so what if some well-placed black business people did very well out of the deal?

But over the years, as the corporate engagement strategy became more erratic and the selection of entities and individuals to back more controversial, it has become increasingly difficult not to believe the PIC is a piggy bank for punters with political access. The release of details of its unlisted investments in 2016 confirmed the troubling extent of the largesse.

Ironically, its ill-considered efforts to promote transformation are destroying transformation. It provided money but no expertise for individuals to take controlling stakes in companies they had little prospect of making profitable. In cement: Afrisam; in chickens: Daybreak; in media: the Independent; and the list goes on. In the R3bn funding of Camac Energy, there wasn't even the pretense of promoting transformation.

If the PIC continues to pump money into SOEs that are strangling the economy, the GEPF members should know there will not be enough taxpayers to meet their pension promises. That would be the very apex of irresponsibility.

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