



State Comptroller of Israel | Annual Report 72a – Part Two | 2021

Systemic Issues

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# **Investments Management at Mifal HaPayis**





## Investments Management at Mifal HaPayis

### Background

Mifal Hapayis (the Israeli lottery) holds lotteries according to a State license given for gambling. Mifal Hapayis designates its profits to assist local authorities in funding health, educational, welfare, cultural and arts projects.

Mifal Hapayis accumulates, on a regular basis, profits that are assigned to projects approved for local authorities and the Ministry of Finance, but the execution of those projects have not yet begun or have not yet completed, taking several years according to project progression. The amounts, which are essentially the commitments of Mifal Hapayis to those projects, are managed by Mifal Hapayis and are invested according to its approved policy.

The total amounts managed by Mifal Hapayis range between NIS 3–4 billion and originate from Mifal Hapayis's gambling profits. These amounts and their annual returns support financing of the aforesaid projects.



## Key figures

**NIS 3–4  
billion**

The total investment funds of Mifal Hapayis from 2017 to 2020.

**-1.18%–  
7.73%**

The range of return on the Mifal Hapayis investments portfolio for the years 2017–2020 (The return derives from the investments policy and the rate of shares in portfolio).

**-2.46%–  
15.54%**

The range of return on the advanced study funds and provident funds in 2017–2020. (The return derives from the investments policy and the portfolio rate of shares – which is higher than the rate of shares in the Mifal Hapayis investments portfolio).

**47%–56%  
of the  
investments  
portfolio**

The scale of investment in government bonds and deposits – a channel that yields low returns on the investments portfolio.

**11%–15%  
of the  
investments  
portfolio**

The scope of investment in shares – a channel that yields high returns from the investments portfolio.

## Audit actions






From December 2020 to April 2021 the State Comptroller has examined the way Mifal Hapayis manages its investments portfolio, and the activity of the entities responsible for outlining the policy and its actual execution; in addition, the supervision and control practices regarding Mifal Hapayis management of investments were examined.

## Key findings

-  **Reference to investments management in the permit given to Mifal Hapayis by the Ministry of Finance** – The Ministry of Finance did not include in the permit any reference to rules of managing the investments, to examination of the method by which the investments portfolio is managed and to implementation of the Board of Directors and Investments Committee directives, to monitoring the portfolio management, to separate accounting presentation of the investments portfolio and to the method by which risks of the investments portfolio are managed.
-  **The Investments Committee** – It was found that despite the fact that Mifal Hapayis investments portfolio totaling NIS 3–4 billion, there is no designated investments committee within Mifal Hapayis and the Finance Committee serves as the investments committee, as allowed in the permit. Whereas the majority of the Finance Committee's activity and resources are not addressed to the investments issue, the matter of managing the investments portfolio – which, as aforesaid, totals approximately NIS 3–4 billion – is an additional subject on the Finance Committee's agenda and not a major issue. The audit also found that, although the Investments committee includes members with financial skills and professional experience from among the board of directors, the Mifal Hapayis Board of Directors procedure determines that most of the Finance Committee members must be able to read and understand financial statements but does not demand financial skills and specific professional experience in the field of investments.
-  **The investments mix and portfolio yields** – The Mifal Hapayis investments portfolio features traditional tools and it has hardly changed over the years. The portfolio yields indicate that during difficult times in the financial markets large losses were caused compared to yields of the benchmark portfolios examined in the audit – which were positive for most bodies (a loss of 1.18% for Mifal Hapayis compared to a range of -2.46% to profits of 2.57% at higher education institutions, provident funds and advanced study funds), and during prolific periods on the markets it showed low results compared with returns achieved in said benchmark portfolios (a profit of up to 7.73% compared to positive returns of up to 15% in the comparative bodies). It should be stated that these returns derive from the Mifal Hapayis policy concerning the investments portfolio compilation that is based on a minimum appetite for risk, particularly regarding the share investment percentage, compared to the policy adopted by the reviewed universities, advanced study funds and provident funds.



-  **Responsible investments (ESG)** – Mifal Hapayis did not hold discussions on the subject of adopting responsible investment rules (ESG). Moreover, the permit given by the Minister of Finance to Mifal Hapayis did not include a reference to this issue.
-  **Risks management** – The semi-annual reports submitted by the risks manager to the Mifal Hapayis management do not include reference to risk derived from investments management.
-  **Investments portfolio management during the Covid-19 pandemic** – The subject of investments was discussed at six out of nine committee meetings held during 2020. During the first half of 2020, a year with many fluctuations in the portfolio yields, the committee discussed the issue of investments at two of the four meetings held. In March 2020, at the time of a large drop in the portfolio yields at a rate of 5%, the Finance Committee did not convene.



**The 2017 internal audit report regarding the investments management of Mifal Hapayis** – This report examined the adherence to procedures and the supervision and control of ongoing investment activities (self-managed activities and those managed by external portfolio managers). The recommendations of the internal audit report were accepted by Mifal Hapayis and implemented in an investments procedure that was approved by the Procedures Committee on January 1, 2018.

**A directive not to invest in bonds of a control owner that did not repay debts to loaners** – Mifal Hapayis decided not to invest in bonds of a control owner that did not repay debts to lenders ("haircut").

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## Key recommendations

-  It is recommended that the Ministry of Finance examine the investments management issue and set principles for the Board of Directors investments committee procedures; the considerations for allocating investments to various channels; the method of selecting investments managers; the handling of policy deviations; public transparency concerning amounts in the investments portfolio, investment channels, yields and risk levels.
-  In face of the amount being managed in the Mifal Hapayis investments portfolio, it is recommended that Mifal Hapayis consider establishing a designated Investments Committee, separate from the Finance Committee, that will manage the investment policy, determine the level of exposure to risks and the financial security of the investments portfolio, review investment alternatives and initiate processes; and that the Mifal Hapayis Board of Directors will review updating its procedures to include designated

financial skills and professional experience required from the investments committee members. It is further recommended that the Ministry of Finance appoint, according to its authority, a committee representative with professional training who is not a member of the Board of Directors in order to diversify the committee composition, the opinions heard therein and the decisions it makes.



It is recommended that those determining the Mifal Hapayis investment policy consider adopting benchmarks for the Mifal Hapayis investments portfolio, and continue to review, from time to time, the investments portfolio composition and entry to additional investment channels available on the market, as a tool for disbursing the portfolio risks and increasing its potential, and as a tool to create security for periods of market fluctuations.



It is recommended that Mifal Hapayis consider adopting ESG rules ("responsible investments") and integrating them into its investment policy, in view of the extent of the managed portfolio and the positive effects it will have on Mifal Hapayis's public image. It is further recommended that the Ministry of Finance consider including directives concerning adoption of responsible investments rules (ESG) by Mifal Hapayis.



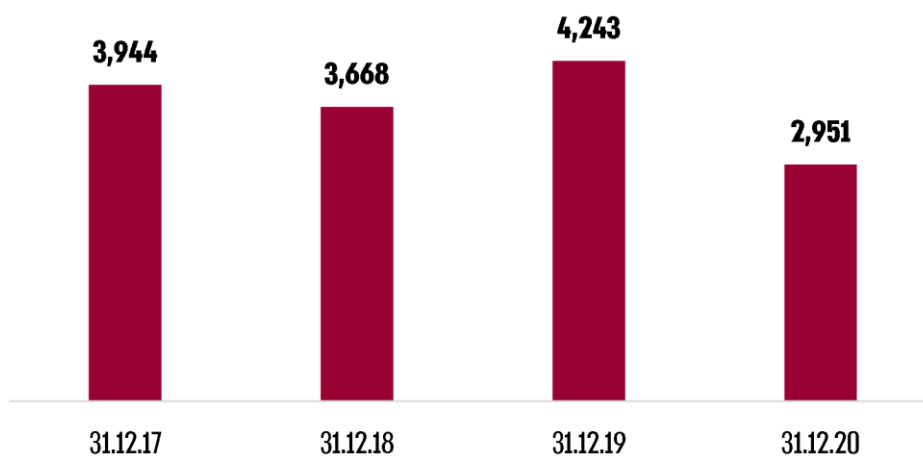
It is recommended that further to the internal auditor report from 2017 on the subject of investments management, Mifal Hapayis consider formulating for the Investments Committee members a more specific declaration on absence of conflict of interests than the declaration signed by all the Mifal Hapayis directors. Mifal Hapayis should also pay attention to potential affinities between the management of personal investment portfolios and the portfolio managers Mifal Hapayis works with.



Mifal Hapayis should perform effective risks management of the investments portfolio, submit an annual risks management report to the Mifal Hapayis Finance Committee and Board of Directors and include therein aspects relating to the investments portfolio and management.



### The extent of the Mifal Hapayis investments portfolio, 2017–2020 (in millions of NIS)



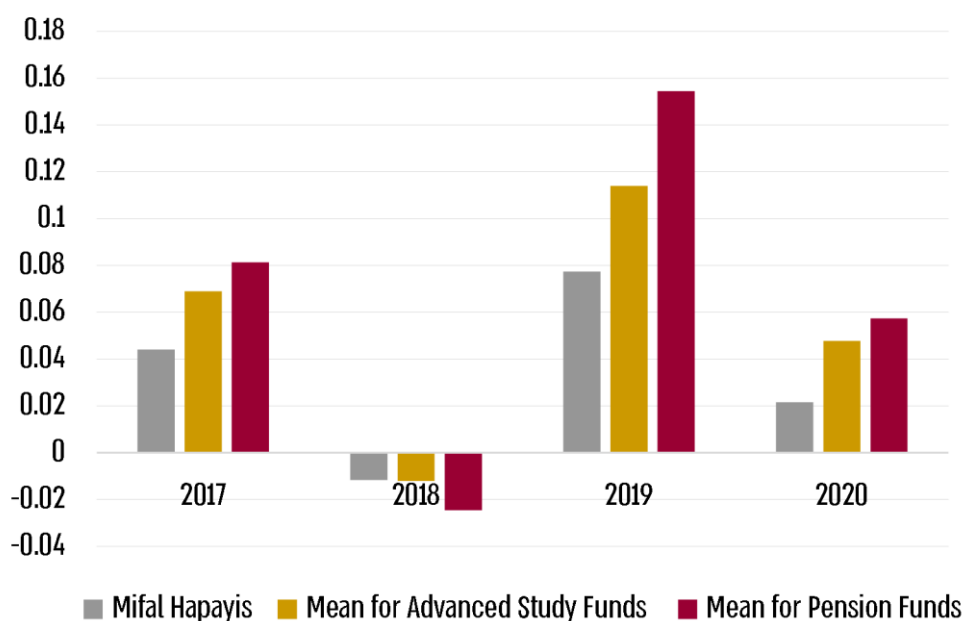
■ Scope of the investment portfolio in millions of NIS.

According to Mifal Hapayis data, processed by the State Comptroller's office.





### The Mifal Hapayis investments portfolio yields compared to the yields of provident funds and advanced study funds, 2017-2020



According to data from Gemel-Net, the Ministry of Finance and Mifal Hapayis, processed by the State Comptroller's office.

## Summary

Mifal Hapayis manages an investments portfolio in a total sum of NIS 3–4 billion (according to 2019–2020 data). These amounts and the annual profits from their yields assist local authorities in financing health, education, welfare, culture and arts projects. Dealing with investments requires professional understanding as well as organized and structured work based on proper control, risk analysis, and transparency between the various factors involved in managing the Mifal Hapayis investments portfolio. Mifal Hapayis should rectify the deficiencies and examine the recommendations raised in this report in order to optimally manage the investments of the funds at its disposal.

