

## **The Public Investment Corporation (PIC) – Statement of continued support for the United Nations Global Compact**

1 February 2012

The Public Investment Corporation (PIC) is a proud signatory of the United Nations Global Compact (the Global Compact). The PIC has embraced sustainability in all its facets by placing social, governance and ethical matters at the heart of its business. The PIC's values and business processes underpin its strategic approach to sustainability and reflect the desire to preserve the future for all its stakeholders. The PIC aims to be a responsible citizen at all levels. The PIC continues to support the Global Compact and its principles on human rights, labour issues, the environment and anti-corruption. We understand that long-term value creation is not achievable through short-term solutions or at the expense of future generations or through moral decay. Therefore, the PIC remains committed to these principles and will continue on its sustainability journey with conviction and commitment, believing that its continued success depends on its ability to share its successes with other stakeholders, enhancing their lives and their own ability to be successful. We will remain an active participant of the UN Global Compact and will endeavour to learn from others and to improve on the implementation of the 10 principles.

During the year under review a new Companies Act came into effect in South Africa. The year 2011 also saw South Africa becoming only the second country in the World to adopt a code for institutional investors. The Code for Responsible Investing in South Africa (CRISA) will take effect on 1 February 2012. The PIC was one of the driving forces behind this Code and was also represented on the core drafting committee as well as the bigger discussion forum. During 2011 there were also fundamental changes to pension fund legislation in South Africa with the amendment of Regulation 28 of the Pensions Fund Act. This Regulation was amended forcing pension fund trustees to take into account environmental, social and governance issues during the investment process. The PIC firmly believes that CRISA, like Regulation 28, will further enhance responsible investing in South Africa. These key initiatives indicate that South Africans regard environmental, social and governance matters as mainstream issues, not peripheral, investment considerations. This place a huge obligation on both asset managers as well as asset owners to manage assets in such a way that it is to the benefit of all stakeholders and not only the investee companies

and its employees. The general public, pensioners and workers, more and more want to see that asset owners and managers focus on the long-term, the mandate is to generate value on a sustainable basis and not on short term profits. It is no longer about short term portfolio performance to the detriment of stakeholders or the environment. A company's ability to create value over the longer term is materially affected by its relationships and impact on all stakeholder groups, including the environment.

In this regard CRISA specifically takes an approach of responsibility and sustainability in dealing with investments and by requiring transparency from asset managers and asset owners, all stakeholders, including the members of pension funds who are the ultimate beneficiaries, can now also keep these role-players accountable in terms of their commitments towards sustainable investments.

Although CRISA is on an "apply or explain" basis, the PIC has already aligned itself to ensure full compliance and it will also ensure that all its service providers adheres to the principles contained therein.

CEO: Public Investment Corporation

## Practical actions

This section provides more detailed information on a few key initiatives that demonstrate the PIC's comprehensive commitment to the principles of the Global Compact.

### United Nations Principles for Responsible Investment

The PIC not only is a signatory of the United Nations Global Compact but also a signatory of the United Nations Principles for Responsible Investment (UNPRI), an initiative that developed out of the Global Compact. By way of example, in terms of the first three principles of the UNPRI the PIC is committed to:

1. Incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes;
2. Be active owners and incorporate ESG issues into ownership policies and practices; and
3. Seek appropriate disclosure on ESG issues by the entities in which we invest.

Based on this commitment, the PIC has developed its own ESG policy and embedded ESG issues into some of its core investment vehicles. The PIC and GEPF has also established an ESG Working Committee working together on engaging companies on ESG matters. This is an important step to take the ESG agenda forward in South Africa. For too long it was more the asset managers that focussed on sustainability issues with asset owners lagging behind.

### Code for Responsible Investing by in South Africa (CRISA)

The PIC was represented on the Core Drafting Committee of CRISA and is still represented on the broader CRISA discussion committee that will look at possible practice notes for CRISA and will assist with the monitoring of the implementation of the Code. Principle 1 of the Code states that "An institutional investor should incorporate ESG considerations into its investment analysis and activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries". The adoption of this Code made South Africa the second Country after the United Kingdom which has an institutional investors' code.

### Regulation 28 of the Pensions Fund Act

The PIC, through the Association of Savings and Investments in South Africa (ASISA) and the National Treasury, played a vital role in the amendment of Regulation 28 to ensure that pension fund trustees take environmental, social and governance issues into account in investment decision making. Regulation 28 states that a pension fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and

categories of assets and should promote the interests of a fund in a stable and transparent environment. The PIC is also represented on a forum for Principle Officers of pension funds. The aim of this forum is, inter alia, to educate pension fund trustees on sustainability matters and to share information on sustainability issues in investee companies.

### The PIC Governance Rating Matrix

The Matrix is a joint venture between the PIC and the Centre for Corporate Governance in Africa at the University of Stellenbosch Business School. The main aspirations of the Matrix are to:

- Help shape corporate behaviour;
- Encourage transparency;
- Encourage a paradigm shift to focus on the creation of long term value and the role of business *in* society; and to
- Create a body of knowledge against which to evaluate South African companies.

Ultimately, the Matrix is viewed as a developmental tool, aimed at assisting companies to improve their corporate governance performance and reporting.

The Matrix incorporates existing PIC Governance Principles, South African corporate governance standards and reflects on key debates in terms of international best practice and standards, e.g. the UN Global Compact and UN Principles for Responsible Investment. It recognises that governance is structural, systemic and relational, and that sound governance practices require a commitment to all stakeholders. It further highlights the interaction between disclosure, compliance and performance, with an emphasis on performance. To encourage transparency there is an explicit focus on disclosure – the Matrix only makes use of publicly available information with the result that no indicator can be scored without public disclosure.

During 2011 the Matrix was significantly updated taking into account the new South African Companies Act and its Regulations as well as the King III Report on Corporate Governance. The table below lists all the main categories that were researched and scored during the 2011 assessment cycle. The PIC continually monitors local and international debates and changes will be made as and when required. Certain elements, specifically on the environmental side, were only scored if they were deemed to be applicable to a particular industry. Each indicator is backed up by detailed guidance for assessors, and in all cases each company was assessed by two assessors to ensure consistency and to deal with issues around subjectivity. During the years 2009 and 2010 only the Top 40 listed companies on the Johannesburg Stock Exchange (JSE) were assessed but in 2011 it was extended to the JSE Top 100 companies.



**Figure 1: Categories of the PIC Governance Rating Matrix**

The PIC uses this information to discuss the sustainability / ESG performance of all companies in which it is invested. In its engagements with companies on sustainability performance the PIC works closely with the Government Employees Pension Fund (GEPP). The GEPP is the PIC's largest client and the biggest pension fund on the African Continent.

The PIC during 2011 also had various meetings with asset managers in the United Kingdom and Europe and agreements to work together on ESG matters were concluded with Hermes, F&C and Tomorrow's Company in London as well as APG in the Netherlands. The PIC also started with research into American retailer Wal-Mart that has taken control of the South African listed company Massmart. Wal-Mart will be scrutinised especially around its adherence to the United Nations Global Compact and discussions will take place with Massmart in this regard.

### **The PIC and the Environment**

The PIC is specifically committed to principles 8 and 9 of the Global Compact, which require signatories to "undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies". The PIC actively participated in the Conference of the Parties (CoP 17) that took place in Durban, South Africa, during November and December 2011. The PIC in the year under review also became a signatory to the Investor Statement on Climate Change. The PIC is currently in the process of reviewing the final report of CoP and in the process of drafting a position paper on how it can enhance its efforts towards curbing climate change and contribute more towards renewable energy. The PIC's awareness of environmental matters also inspired the design of the PIC's new corporate headquarters. Some of the features of this building include:

- Lights are operated by movement sensors to reduce electricity consumption;
- Many features to maximise the use of natural light;
- Lights get brighter or dim depending on the natural lighting in the building;

- The use of timers to ensure that all lights are turned off at night;
- Automatic sun screens provide additional shade to reduce reliance on air conditioners; and
- Use of grey water to water gardens.

The PIC's former headquarters were also not accessible for disabled persons a matter which received all the necessary attention in the new building. Various other initiatives were also launched during 2011 which includes a project that will see all globes being replaced by energy efficient globes. All printers and photocopiers have been set to only allow double sided printing in order to reduce paper usage. Electricity consumption and water consumption are monitored to build a database against which future usage will be measured and managed to lower levels. The PIC has also started preparatory work to register and participate fully in the Carbon Disclosure Project.

## The Isibaya Fund

The PIC's Isibaya Fund provides finance for projects which are able to generate good financial returns while also supporting positive, long-term, economic, social and environmental outcomes for South Africa. The focus on developmental investments demonstrates the PIC's commitment to their obligations as signatories of both the Global Compact and the UNPRI.

The PIC recognises that climate change is as much an economic and social issue as it is an environmental issue. Should climate change go unchecked, it is anticipated that the world will become increasingly unstable. This will lead to an increase in political and territorial conflict and the economy will become more volatile which will lead to a decline in social well-being and thus further increasing tensions in already unequal societies.

The GEPF is the PIC's largest client with assets under management of ZAR914 billion (as at financial year-end – 31 March 2011). During 2011 the GEPF launched its Developmental Investment Policy. Developmental investments can be defined as return seeking, positive (as opposed to negatively screened) targeted investments in firms, projects and financial instruments that earns a reasonable return for the GEPF and that, in addition, have very good social, economic or environmental benefits for the country. These developmental investments are based on four pillars and can be categorised as follows:

- ***Investments in economic infrastructure*** – return-seeking capital investment in the construction, improvement or replacement of the economic infrastructural framework of South Africa, i.e. the hard backbone that allows the economy to run, to grow and to become more competitive. This includes investment in energy infrastructure, the logistics network, water infrastructure, commuter transport infrastructure, the provision of liquid fuels and broadband infrastructure.
- ***Investments in social infrastructure*** – return-seeking capital investment in the construction, improvement or replacement of the social infrastructural framework, i.e. the physical infrastructure that helps to improve the lives and prospects of South African citizens. This includes investment in affordable housing, healthcare and education.

- ***Investments in sustainability projects***– return-seeking investment in firms, funds and projects that seek to improve environmental sustainability, to mitigate climate change and to foster renewable energy, green buildings, energy efficiency, recycling and clean technologies.
- ***Investments in enterprise development and BBBEE and job creation*** – return-seeking investment in small and medium enterprises especially those that seek to have high positive social or environmental impact, in sectors in which enterprise growth and the creation of new jobs is possible, (including agriculture and agro-processing, construction and housing, tourism, business process outsourcing and the green economy) and in broad based black economic empowerment transactions.

The GEPP has amended its mandate with the PIC to accommodate these developmental investments and the PIC is in the process to revise its governance structures to ensure that investment opportunities in the above fields are fully optimised. Despite the ongoing process of revising the governance structure and the restructuring of the Isibaya division, the Isibaya Division responded well to the GEPP Developmental Investment Policy and investments in the four pillars for the 2011 calendar year are as follows:

- Investment approvals amounted to ZAR2.5billion;
- Significant strategic relationships have been developed with Independent Development Corporation of South Africa (IDC) and the Development Bank of Southern Africa (DBSA) with regards to co-financing of projects which have a strong developmental impact. PIC has committed ZAR5billion to IDC for the financing of renewable energy projects, including the funding of communities' participation in these projects. Isibaya Fund is in advanced discussions with DBSA with regards to the joint funding of renewable energy projects from Phase 1 and Phase 2 of the South African Government's renewable energy programme.

## Measurement of outcomes

In addition to the major activities described in the previous section, the table below outlines some of the more general actions, obligations and measurements that are related to the Global Compact categories.

Category	Actions	Measurement
Human Rights	<p>As a Public Entity, the PIC must comply with all South African legislation. Human rights are enshrined in the Constitution of the Republic of South Africa.</p> <p>South Africa is a member of the International Labour Organisation (ILO) and has ratified the ILO instruments. These requirements have been included in South African labour legislation which is applicable to the PIC.</p> <p>Human rights are central to PIC's legitimacy and are principally addressed in the PIC's Code of Conduct and Ethics which includes: Acting according to the law; acting fairly; properly exercising powers; explaining the reasons for decisions; being honest, truthful and conscientious. Each employee of the PIC has a copy of the Code of Conduct and Ethics and new employees are issued with copies when they join the Corporation.</p> <p>A highlight for the year 2011 was the successful incorporation of CBS Properties into the PIC. The PIC bought a listed property company CBS Properties and delisted it from the JSE. All employees of CBS properties became employees of the PIC and for the first time almost 150 employees started to enjoy the benefits of a medical aid and pension fund. The former CBS employees now also enjoy the benefits of the PIC Employee Assistance Programme.</p> <p>Employee health (physically as well as mentally) is an important component of creating value for employees and for this purpose the PIC has contracted an external service provider to provide the PIC staff and their immediate family members with an Employee Wellness Program, free of charge. All PIC employees are subscribed to the program. During the period under review the PIC also had a PIC health day where all employees had their cholesterol, blood sugar levels, blood pressure etc. tested on site. Dieticians were also available to give advice to staff members.</p> <p>The PIC has an HIV/Aids policy and through its Employee Wellness Programme, also provides assistance to employees living with this disease.</p>	<p>Legal compliance is monitored by the compliance department and internal reporting is coordinated by the appropriate department. The Human Resources Department also held various training sessions on Diversity Training.</p>



Category	Actions	Measurement
	<p>Programmes which cover education and prevention are also frequently run. Employees are continually encouraged to know their status and to look after themselves and others accordingly. Condoms are available on site, free of charge. Each year on the 1st of December the PIC celebrates International Aids Day and free testing as well as counselling is provided to PIC employees. For the period under review qualified nurses were available for this purpose.</p> <p>All PIC employees enjoy the benefits of a medical aid scheme and pension fund.</p> <p>Internal policies, procedures and practices prohibit any violation of human rights.</p> <p>Any breach of these is treated seriously and will result in disciplinary action.</p> <p>Broad-based black economic empowerment (BBBEE) is very important in the South African context and is embedded in the PIC's recruitment and procurement policies. The PIC's policy is to promote employment equity at all levels of the organisation, including its Board. On the Board, 83% of the Members are historically disadvantaged individuals and black employees (Africans, Coloureds and Indians) accounts for 76% of the workforce. Females represent 55%.</p>	
Labour Standards	<p>Employees may use established grievance procedures which prohibit victimisation. The PIC is committed to eliminating any form of discrimination in respect of employment and occupation.</p> <p>The PIC practices freedom of association which enables employees to join trade unions.</p> <p>The PIC maintains transparency and worker consultation in decision-making through staff meetings and other forums.</p> <p>Employment equity policies have been implemented that are inclusive of race, gender and people with disabilities to ensure that the PIC is an organisation that is representative of all the people of South-Africa. The PIC complies fully with the Employment Equity Act. The PIC has set a target of 2 for disabled persons for the 2011 year and currently has exceeded that target which now stand at 4 persons with disabilities. The PIC Human Resources Division has prioritised its drive for the recruitment of disabled persons.</p> <p>The PIC continues to be a leader in driving</p>	<p>Legal compliance is monitored by the compliance department as well as the human resources department and internal reporting is coordinated by the appropriate department.</p>

Category	Actions	Measurement
	<p>employment equity which has enabled it to achieve a staff complement and Board that reflect South-Africa's diverse cultures.</p> <p>Alignment of the PIC business plan with its skills requirements is critical. Demand and supply of required skills and competencies within all business units are assessed, skills levels defined and timeframes set for the filling of vacancies. A combination of internal development (talent management), internal promotions and external recruitment forms part of the recruitment strategy of the PIC. The PIC also has a graduate programme in place, recruiting graduates from various South African Universities and assisting them with practical training within different divisions in the PIC. During the period under review another 17 candidates were taken on board.</p> <p>There is no child or forced or compulsory labour at the PIC or any of its subsidiaries. Such employment is illegal and against the PIC's internal values, standards, policies and procedures. Established recruitment practices are followed in all of the appointments made at the PIC for the period under review and no instances of child labour have been found. Current screening practices will highlight any under-age applicants.</p> <p>Surveys are conducted amongst employees to determine their levels of job satisfaction. These surveys are anonymous to ensure there is no victimisation.</p> <p>The new CEO of the PIC also held various staff meetings to inform staff of developments and to discuss any grievances that staff members may have. The PIC Internal Newsletter which is published monthly also keeps staff abreast of developments.</p>	
Environmental standards	<p>The PIC complies with all relevant environmental legislation. It has introduced innovative environmentally friendly technologies with the building of its new corporate headquarters. The PIC in the 2011 drafted the terms of Reference for Social and Ethics Committee that will look at all stakeholders relations as well as sustainability. A specific corporate responsibility policy is being drafted as well as an environmental policy.</p>	<p>Legal compliance is monitored by the compliance department as well as the corporate governance division and internal reporting is coordinated by the appropriate department.</p>

Category	Actions	Measurement
	<p>The PIC has signed the Investor Statement on Climate Change and it actively participated in CoP 17. Preliminary work was done to start and measure and report on water consumption, electricity usage and business travel. Energy and electricity consumption will also be measured at office parks and shopping centres which are in the PIC's property investment portfolio. A database is in the process of being developed for this information and targets are set. Preliminary work is underway to register for the Carbon Disclosure Project and this will happen within the next financial year.</p> <p>The last PIC investments division to have detailed ESG policies in place, the Properties Division, had its Sustainability Policies Approved by the Divisional Board and implementation of initiatives has started.</p>	
Anti-Corruption	<p>The PIC is governed by the Constitution of the Republic of South Africa, the Public Investment Corporation Act, the Public Finance Management Act, the Companies Act as well as the King Codes on Corporate Governance and its own Corporate Governance Policy. In addition to the prevailing legislative environment, internal policies and procedures at the PIC prohibit any corrupt behaviour. Criminal behaviour is not tolerated and formal charges will be laid against any perpetrator. Integrity is a core PIC value and the organisation is committed to the highest standards of ethical behaviour in all its actions and decisions. This ethical awareness also influences the PIC's engagement with suppliers and other stakeholders, as well as its investment decisions.</p> <p>The PIC has a whistle blowing hotline which is in operation 24 hours a day, every day of the week. This hotline ensures the anonymity of any person reporting a complaint. All fraud and corruption allegations are investigated and reported to the Audit and Risk Committee of the Board.</p> <p>Where possible and practical, the PIC will pursue full recovery of all losses resulting from acts of fraud and corruption.</p> <p>The PIC has various policies in place aimed at the prevention of fraud and corruption, and dealing with the declaration of interests, ethics and acceptance of gifts, among others. Facilitated by the human resources, compliance and legal divisions of the PIC,</p>	<p>Legal compliance is monitored by the compliance department and internal reporting is coordinated by the appropriate department. The finance division also carefully monitors all payments and screening of all suppliers is done by the procurement division.</p> <p>Training sessions on fraud and corruption were held at all PIC Offices during 2011 as well as at a board meeting of the PIC. The training was conducted by , inter alia, a convicted fraudster who after his jail sentence and rehabilitation became a motivational speaker.</p> <p>During the year under review five cases of fraud were reported</p>

Category	Actions	Measurement
	<p>structured sessions take place with all employees and Board members emphasising proper conduct to ensure compliance with legislation and internal values, standards, policies and procedures.</p> <p>The PIC has an internal audit function which reports functionally to the ARC. The staff compliment of the internal audit division grew from four to six people during the period under review.</p>	<p>and investigated. In three cases fraudulent activities were found. It was junior officials involved at the PIC's satellite offices. After investigations and disciplinary action the employees were dismissed.</p>

## Contact us

The PIC would appreciate comments or suggestions on the contents of this report. Please forward all comments to [deon.botha@pic.gov.za](mailto:deon.botha@pic.gov.za)