

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

1 February 2013

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.

The year 2012 was a very exciting one for the PIC:

- Our Chief Executive Officer was appointed as Board Member of the Board of the United Nations Global Compact; and
- The Code for Responsible Investing in South Africa (CRISA) took 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. The PIC firmly believes that CRISA, like Regulation 28 of the Pension Funds Act, 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 adhere to the principles contained therein.

The CEO of the PIC also contributed largely to the deliberations at the Rio + 20 conference in Brazil, highlighting the PIC's sustainable as well as developmental investment approaches. As part of this Communication on Progress we have attached extracts from his inputs as an annexure.

We commit that in 2013, the PIC will strive to play an even bigger role in the field of sustainable investing and with the CEO as Chairman of the United Nations Global Compact Local Network the PIC will lead other signatories on its sustainability path and we will also endeavour to grow the South African signatory base.

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 its largest client the Government Employees Pension Fund (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. The PIC-GEPF ESG Working Committee is in the process of drafting a new corporate governance and sustainability policy which will be published around the end of June 2013.

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 issue 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.

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 2012 the Matrix was significantly updated especially on the social and environmental metrics. The table below lists all the main categories that were researched and scored during the 2012 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 and 2012 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 GEPP. The GEPP is the PIC's largest client and the biggest pension fund on the African Continent.

The PIC during 2012 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 Tomorrows' Company in London as well as APG and MN Services in the Netherlands.

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 Rio + 20 conference in Brazil. The PIC in the year under review also became a signatory to the Carbon Disclosure Project (CDP). As part of our CDP initiatives 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. At our corporate headquarters alone we have during the year replaced more than 200 globes with energy efficient globes and we have also started to use eco-friendly cleaning material and soaps. A lot of other initiatives will be implemented in 2013.

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 PIC have finalised a restructuring process to give effect to the GEPP's Developmental Investment Policy. 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.

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>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>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>The PIC has an HIV/Aids policy and through its Employee Wellness Programme, also provides assistance to employees living with this disease. 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. 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 80% year of the workforce up 4% from the previous. Females represent 53%.</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</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>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 2012 year and currently has exceeded that target which now stands at 3 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 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.</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. During 2012 a thorough climate survey was conducted and issues will be</p>	

Category	Actions	Measurement
	<p>addressed. The response rate to this survey was 85%.</p> <p>The 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 quarterly 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 2012 established a Social and Ethics Committee that will look at all stakeholders relations as well as sustainability. A specific corporate responsibility policy was approved.</p> <p>The PIC During the 2012/13 financial year budgeted R867 000 for social responsible initiatives and as at 31 December R586 000 was disbursed.</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>
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</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 2012 as well as at a board meeting of the PIC.</p>

Category	Actions	Measurement
	<p>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, 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.</p> <p>Through the local UNGC network the PIC also got involved with the National Treasury to get Integrity Pacts included in large public procurement projects in order to eradicate corruption with public tenders.</p>	<p>During the year under review no employees were found guilty of fraud.</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

Annexure

SELECT INTERVENTIONS AND GUIDING VIEWS FOR THE

RIO +20 UNGC

By

ELIAS MASILELA

CEO, Public investment Corporation and Board Member of UNGC

15-22 June 2012

1. PLENARY SESSION:

This event is quite significant for the institution which I represent, the Public Investment Corporation, given the circumstances created by the global economic conditions we are faced with today which are indicative of the way we manage ourselves. The way in which we run our corporates and the way in which we run our economies, which to a large extent has been short-termist. We have a very short-term focus in the way in which we run these institutions. We are in this financial meltdown today not because the financial meltdown was going to happen – no we are in this situation because of the manner in which we have been managing our institutions and our economies. If we have been much more focussed on the long term we wouldn't be facing the issues we are facing today.

This for me defines the environment in which we are gathering here, to deliberate on issues of sustainability. What I would like to see to come out of the next couple of days is a fundamental shift in the way in which we conduct business, the way in which we manage the institutions for which we were given the responsibility to manage. We need a change in attitudes. Our attitudes need to be informed by a need to be much more long-term focussed in the way in which we set our goals and the way in which we implement our plans and activities.

We need to avoid an attitudinal position of being predominantly compliant given the rules that are forced onto us. We should see those only as underlying objectives or fundamentals given to us to run sustainable institutions and economies going forward. There are a number of things that I would like to see being dealt with particularly from institutions and countries that have been on this road much longer than we have. One of these objectives has to do with the issue of incentives that we should be looking at to bring about the necessary attitude changes in the world. I am not a believer in regulation. I am a believer in

entities and individuals that take it upon themselves, in a voluntary fashion, to do the right things, to do things for the good of economy. To a large extent corporate leaders across the world tend to be driven only by the financial objectives of their enterprises and they entirely ignore the economic objectives of the environments in which they operate their businesses, and what this leads to is that it drives greed, it drives short-termism and it causes those entities to operate in an unsustainable fashion. This is another theme we need to deal with going forward. We as the corporates of the world cannot wait for governments to regulate our behaviour. We need to take it upon ourselves to change the way in which we are doing business.

Another objective that I would like to see coming out of these discussions is an understanding and a stepping-up of the roles of the different players in our economic environment. One of which is the owners of capital. To what extent do they make the right decisions, to what extent do they send the right signals to the people who manage this capital on their behalf to ensure that they manage it in a sustainable manner. We need to think about the role of asset managers who have a double-edged sword in the manner in which they make investment decisions. One such asset manager is the Public Investment Corporation. The PIC has made a conscientious decision to take a long-term view on every decision and every investment that it makes. Our outlook is a minimum of ten years and we are looking at an investment horizon of 20-25 years.

Another issue is the role of the consumer. Can the consumers of the world vote with their feet? When corporates are behaving badly, can the consumer be able to withdraw their demand from those commodities such that the suppliers of these goods and services would change their behaviour and act in a much more responsible and sustainable fashion? I think it is important that they do.

Lastly, what is the role of analysts? To what extent are we going to get analysis from the financial markets that will incorporate sustainability and will not only be driven by just the bottom-line which is purely financial. In the South African context we have gone to extensive lengths to try and change behaviour. There are a number of interventions that are put in place which we can share, some of which can be considered by all going forward. However, even with this in place, we still believe that it is inappropriate for corporates in South Africa to behave in a particular way purely because of these interventions and not because of a belief in doing the right thing in the long-term. Laws and regulations are meant to inform a particular behaviour, but if people behave in an expected fashion,

regulation and laws are not necessary. Some of the examples of what we are doing in South Africa are:

- Black Economic Empowerment – where sustainability tends to start at the level of society;
- The King Codes on Corporate Governance which are globally accepted;
- CRISA, the Code for Responsible Investing In South Africa, which code guides the behaviour of the institutional investor that includes both asset owners and asset managers;
- The Johannesburg Stock Exchange Social Responsibility Index; and
- Within the PIC we have set up a Rating Matrix which we use to measure environmental, social and governance issues of the companies in which we are investing. This Matrix we use to guide investee companies to behave in a certain fashion.

Despite all of this, the bottom-line, however remains that we would like to see corporates in South Africa and across the world, to behave in an expected fashion and to take long-term sustainability into account.

SUSTAINABLE STOCK EXCHANGES

My first two interventions form the basis for this intervention. Unfortunately the basis for this intervention takes us back to pre 2009, before this forum was set up. In doing this I would like to build on two key concepts raised, namely

- Shifting attitudes and
- Instrumentalist approach in dealing with our problems.

The question that immediately arises is why do we do this? Are we just doing it for the sake of doing it? From our part of the world, the African continent, the relationship with stock exchanges have been slightly different from what you see in the north, the US Europe and far east.

What we have picked up is that the objective of facilitating transparency cannot be the only objective. We need much more than that – the underlying objective of the financial sector is intermediation – intermediating in the real economy. We have picked up that this intermediation has not been optimal. It has not been optimal even in areas where there are stock exchanges. You find that in the greater part of the African continent there are no financial markets let alone stock exchanges. That means we still have some way to go to try and develop those institutions and deepen them for the betterment of the people. Until we are able to do that, the issues of transparency and the issues of accountability become secondary to the objectives of the interests of the societies we are serving.

There is an increasing debate in some parts of the African context today - and that debate is whether we really do need stock exchanges. This question is posed from the context of relative urgency to deal with poverty and unemployment. When you look at some of the booming economies of the African continent, the majority of them do not have robust stock exchanges. We see the growth arriving out of private equity. This raises the question, who are the key players on the African continent today. China is one of them and China is not investing through stock exchanges. China is going directly to the ground, investing in private equity and investing in developmental projects, in real economy, building infrastructure etc. Others are the World Bank and the IFC. The PIC is joining that band wagon and the question is how you reconcile the growth of the public equity space with increased transparency and accountability. This has cast a very interesting dynamic that we are faced with today.

Today there are a few companies in South Africa which are setting a trend in terms of how to deal with private equity going forward.

Our view is a very simple one. Whilst we are thinking of issues of accountability and transparency we need to make sure that we are able to link the behaviour of the corporate and its performance back to the economy. If we cannot link whatever we are doing today back to the economy it will seem rather meaningless to the majority of the society we are trying to serve.

Having said that, as the PIC, we do fully appreciate the importance of transparency, accountability and sustainability. On the back of that condition we put out a sustainability matrix, an exercise which we have been running for the past four years. The matrix is a very important part of our assessment of the companies in which we are invested. The PIC accounts for about 11% of the Johannesburg stock exchange. It is the largest asset manager on the African continent and probably the sixth or the seventh largest asset manager in the world. What we do is, we assess and evaluate in detail the behaviour of the companies we are invested, in whether on or off the stock exchange. That does not matter it is important for us that the companies we are investing in behave in a particular fashion. Why it is important for us, is because we see the concept of sustainability as being at the heart of what we do. We manage funds, predominantly pension funds, which have a life of 30 to 40 years and that means we cannot be short term in the way in which we think. It also means that those companies we invest in, the partners that we identify, are partners that we need to ensure that they are managing those companies very well, in a sustainable manner and those companies are going to be in business in at least the next generation. If we do not see the good behaviour, unlike a lot of other investors, we do not have the luxury of voting with our feet. We do not pull our resources, instead we entrench ourselves deeper in the operations and ensure that we change these from within, particularly with regards to their South African operations.

What I would like to do at this point, is to give you a sense of how this matrix is structured because it is a very important instrument for us and our role in corporate governance. This

matrix broadly has three categories, namely governance, social and environmental. Within the governance area we have ten sub categories that look at how each company behaves from a governance perspective. Under social it has six and under environmental it has another six, in total we have 86 indices for every company that we are invested in.

We have intensified our analysis on the top 100 companies on the Johannesburg Stock Exchange. We are just about to release our results for 2012 and I will just give you an interesting summary of what the results look like. The first observation is that in terms of the top three performers we have mining, forestry and banking. The worst three performers are in property and in finance. That gives an indication of how the spread actually goes.

I have deliberately not given you the names of the companies that are in the top three or the bottom three, but I will give you where our stock exchange resides simply because we are in a stock exchange forum. You will see that I am wearing the number 43 on my lapel and the reason I am wearing number 43 is that I am associated with our stock exchange and the stock exchange in SA on our matrix ranks number 43.

As we go about undertaking this analysis we do it with a long term objective in mind. The view and message we would like to leave this forum with is, as we advance the initiatives that we are pursuing, it is important that we make these intermediations work sustainably for our people because if they do not work they may be viewed as meaningless.

A final word of advice, what will be the message for investors and CEO's:

Message will be one of integrity and the way I am defining integrity, in this respect, is ensuring that whatever institution you run is an institution that matches its objectives or what it does with the interests of its shareholders and other stakeholders. I think a story is very important here. In my previous life, which is not long ago, I sat around a table with a dozen CEO's of the top 100 companies listed on the Johannesburg Stock Exchange. We were trying to introduce the concept of long term planning and sustainability and why it is important for a business and for a CEO to concern themselves with the economic case before they worry about the business case. The response that I got from all the people around the table was frightening. They said to me, Elias don't bother us with a ten or twenty year outlook, we are on three or five year contracts and that is all that we are interested in. What happens beyond the five years is none of our business. That was quite a telling response and it was very concerning. This was at a time where the Government of SA was moving to a multi-year budgeting system which set a stage for a 10-20 year national development plan. That said to me there was no consistency in thinking between the people that ran our businesses and the stakeholders in the country. Needless to say, this is in the past.

When I talk about integrity that is exactly what I am talking about. What I would like to leave the investors in the house with is, to try and avoid doing business with entities that

have no integrity. Where you are already involved in such, intervene in a very activist fashion, to change that attitude.

2. INVESTING FOR DEVELOPMENT

Today I would like to start with a slightly different angle, which I think is very important in dealing with the challenges facing us in the different parts of the world we come from, and that is an instrumentalist approach in dealing with our problems. This is about making sure that we understand the problems that we are trying to resolve. I was quite encouraged having read some of the literature on the work that has been done by the Global Compact, part of it which emphasised the need to define and redefine what we mean by sustainability – defining it in the context from which you are looking at the problem.

For us in South Africa, the context is not of an academic complexion. For us it is a practical context and it is something that we mean. It is something that we not only find in the South African context but it is found elsewhere in the rest of African society. The premise from which we start defining this concept of sustainability is asking ourselves the question – do we have a choice? As a country we do not have a choice. Sustainability is presented to us as a given... it is not a luxury.

Here is a country with an unemployment rate of 25%, youth unemployment in excess of 40%, a country, pre-1994, that had a structural growth rate of about 1% and a structural inflation rate in high double digits. Post-1994 that has changed significantly. The structural growth rate is in excess of 3% and the structural level of inflation is anything between 4% and 6%. This is a significant improvement, but not enough. Not enough because the great majority of the society is impatient they are looking for a better life, looking for better welfare and the question is how do we respond to that. The only way to give that welfare is in investing differently. It is about investing for growth, investing for job absorption, investing for competitiveness, not only in South Africa but competitiveness across the world.

You may ask how relevant are those statistics which I have given you? If you compare what you see in South Africa today and what you see in Europe, it is worlds apart. Europe is almost on the brink of a social catastrophe with an unemployment rate less than half of what we are experiencing in South Africa. I would say that we are fortunate in South Africa in that we have a much more patient society. If you would superimpose 25% unemployment on Europe today, you will experience a totally different outcome. But it does not mean that we are enjoying poverty, it does not mean that we are comfortable in the circumstances that we are in.

This is a function of our past, it is a function of our history and the way in which we take that responsibility on our shoulders as the PIC and in particular looking at the government employee pension fund, which is the major contributor to the assets that we are managing, is that we take it upon ourselves to resolve the problems that are on the ground. We do not wait for the policy makers to tell us how to invest. We did not wait for the policy makers to tell us what sustainability actually means for the South African context. We took it upon

ourselves and said there are a number of variables that define how we should operate. One of those variables is who are the owners of these assets that we are managing? It is the ordinary South African worker. Then we asked the question, what would the ordinary South African worker want to see to be done with his or her money? It is investing in areas which will benefit them. Investing only in the centres, the urban centres of South Africa, is inconsistent with the expectations of the owners of the capital. That has meant we needed to invest in the outlying areas of South Africa, not only in the urban centres.

People will ask the question what has been the performance, what has been the return in investing in those outlying areas. The answer is that empirical evidence shows that the returns that we have enjoyed in the urban centres and the outlying areas are closely comparable. In certain instances, what we have recorded as social investments in the outlying areas, have generated a much better return than the urban centres. We invested in areas such as low income housing, which the traditional investor in South Africa or the traditional asset manager had never wanted to touch. Today low income housing is one of the booming industries of the economy. We are attracting investments and we are attracting capital not only from the South African economy but from off-shore such as the United States and Europe. That indicates that investing for and in the poor and investing in socially responsible areas do not compromise returns - it is not a waste of money.

These are the experiences that we have gone through and for us when we started taking this position it was about preventing the worst possible occurrence in the economy and that is social instability. People will ask questions about the sources of social unrest. The answer is that research after research shows that it was caused by bad investment. Not investing in the right things that meet the needs of the society on the ground.

Given our strategic size where we are the largest asset manager in the country, the largest asset manager on the African continent and the seventh if not the sixth largest asset manager in the world, we have a strategic responsibility to change the circumstances under which we live. We cannot leave it to fate. We need to determine that fate for ourselves. We do not wait for the stock markets to determine our fate. The financial crisis has been a very good lesson for all of us. Bad macroeconomic management is bad for asset management and bad asset management is very bad for good retirement and managing retirement funding gives a mandate to us that define a long term consideration in the way in which we invest. We invest for the long term. We do not invest for short term returns.

Unlike other asset managers in South Africa and the world over, we are one of the very few asset managers that has an explicitly defined dual mandate. We have the responsibility to meet a certain benchmark but at the same time we have a mandate to making sure that we contribute to economic growth and development. Over the past two and a half years that mandate has been extended further. It is not about only influencing growth and development in South Africa it is also about carrying that mandate across the continent of Africa.

We are going to be putting out an additional amount of R50 billion rand, unfortunately I cannot think in US dollars, (if you want to translate you have to divide that by eight), into the African market and that is a very significant entry on the rest of the African continent. Our view, unlike other asset managers, is not about seizing the pricing power opportunity on the rest of the African continent. Yes a lot of South African companies that operate on the rest of the African continent have realised huge pricing power, they enjoy huge margins on rest of the continent but for us that is not the only motive. For us it is about making sure that we enter the African continent to change the structure of the continental economy – improving its productivity, improving its competitiveness, and also contributing in the deepening of the financial markets on the entire African continent.

We are going to ensure that we rely on our own capital in the long term and we need to rely on our own savings to invest for the long term. For a very long time, Africa has relied on the north for its investment capital. Unfortunately with the financial crisis that capital has dried out. We only have ourselves to look up to and the way in which we invest and the way in which we mobilise resources becomes a very important part of how we invest and grow these economies going forward.

To drive our philosophy around the way in which we invest, we have a four pillar strategy and this strategy originates from the solutions we have identified given the structural problems identified in South Africa. That is the original concept I started with, “the instrumentalist approach in dealing with our problems”.

The first pillar is to deal with issues of economic infrastructure, where there is a huge backlog in Africa with respect to economic infrastructure such as road networks, telecommunication networks etc. Social infrastructure is the second pillar and the third pillar is greening the economies in which we operate. It is much easier to do it in the African context simply because we do not enjoy the same level of industrialisation that you see in Europe and the rest of the developed world, which means that the unit rand that we are putting into the ground is likely to have a much better return than the unit rand that is being invested in Europe and we think that we are going to be one of the leaders in terms of greening our economies. Lastly, given the levels of unemployment and given the poor levels of competitiveness and productivity of our economies, we are looking at a fourth pillar which is going to look at the development of SMME's, not only in South Africa but across the African economy. With that pillar been rolled-out adequately across the continent and collaborating with other pension funds and similar asset managers on the rest of the continent, we would like to believe that in the next ten to twenty years, the African economy is going to be a different animal to watch than what we are dealing with today.

More importantly, is that we cannot wait for our policy makers to take the lead. We as the private sector, we as the people managing the assets of our societies, need to take the leadership responsibility. In South Africa the PIC and GEPI have pioneered in many non-traditional investment avenues, which the private sector has historically found too risky to

contemplate. As a result of the successes that we have recorded over the years we were able to crowd-in the private sector into what we are doing and that is the call we would like to make to the rest of the world. We need leaders, we need pioneers and we need very confident people who are bold enough to take those difficult decisions. Our principals have.