

PUBLIC INVESTMENT CORPORATION

Communication on Progress

United Nations Global Compact

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CORPORATION

This document is submitted by the Public Investment Corporation in fulfillment of its obligations as a committed signatory of the United Nations Global Compact

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Statement of continued support

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 the implementation of the 10 principles.

This is our second Communication of Progress – in this report we recommit our organisation to all the Principles of the Global Compact, and we provide more detailed information on practical actions in support of social development, as well as the environmental and anti-corruption principles. Although not required, we provide information on all four components of the Global Compact – many of our activities have managed to integrate these effectively. We will continue to improve our performance, measurement and reporting. It is the intention of the PIC to issue an integrated report, as per the guidelines of the South African Integrated Reporting Committee, from 2012 onwards. In future the integrated report will also serve as the PIC Communication on Progress.

We welcome any comments and suggestions on how we can improve our participation in the Global Compact.

CEO: Public Investment Corporation

31 January 2011

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 (see information on Isibaya Fund below).

Code for Responsible Investing by Institutional Investors in South Africa

The PIC is represented on the Core Drafting Committee on Responsible Investing by Institutional Investors by Deon Botha, corporate governance specialist at the PIC. This committee released its draft code on responsible investment on 1 September 2010. 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 Code is to be finalised within the next couple of months after it was published for general comment. The adoption of this Code will make South Africa the second Country after the United Kingdom who has an institutional investors code.

The PIC Governance Rating Matrix

The Matrix is a joint venture between the PIC and the Unit for Corporate Governance in Africa at the University of Stellenbosch Business School, who jointly owned the intellectual property, including the scoring methodology. 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.

The table below lists all the main categories that were included in the 2010 assessment cycle. Some of these indicators were only measured and not scored, due to the complexity of the issue, e.g. remuneration. The Unit and the PIC continually monitor 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 are deemed to be applicable to a particular industry. Each indicator is backed up by more detailed guidance for assessors, and in all cases each company was assessed by two assessors to ensure consistency.



Figure 1: Categories of the PIC Governance Rating Matrix

This project is now in its third year – in 2011 the top 100 companies listed on the Johannesburg Stock Exchange (JSE) will be assessed and the PIC will use this information to discuss the sustainability / ESG performance of all companies in which it is invested.

The PIC's Green Building

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”. Although there is much room for improvement in this area, these principles 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;
- Automatic sun screens provide additional shade to reduce reliance on air conditioners;
- Use of grey water

The PIC's former headquarters were also not accessible for disabled persons a matter which received all the necessary attention in the new building.

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 investments with developmental focus demonstrates the PIC's commitment to their obligations as signatories of both the Global Compact and the UNPRI.

The Isibaya Fund has evolved from having a mainly private equity focus to one which will predominantly focus on the following priority areas:

- **Economic infrastructure** (comprising energy, logistics, water, broadband, liquid fuels and commuter transport);
- **Environmental Sustainability** projects such as renewable energy, energy efficiency, clean technology, recycling and green firms, environmentally friendly construction, green buildings and conservation;
- **Social infrastructure**, focusing on health, education and housing;
- **New Enterprise, Job Creation and BBBEE** focusing of SMME development, support for fund managers espousing principles of BBBEE and investments in sectors that foster growth, job creation and BBBEE particularly in those priority sectors identified by Government's Industrial Policy Action Plan (IPAP) (including agriculture, agro-processing, green and renewable energy technology, tourism and business process outsourcing).

"For all four themes, the Isibaya Fund will maintain a balance between socially responsible investment impact and financial returns. The most notable highlight for the Isibaya Fund's portfolio performance for 2009/10 financial year, is the fact that it has returned an Internal Rate of Return (IRR) of 25%, which means it has outperformed its benchmark return (10- year bond plus 500bp) by more than 11 % per annum," says Dr Dan Matjila, Chief Investment Officer.

Going forward the Isibaya Fund has committed to R575 million to support six start-up BEE fund managers, which have in turn collectively invested R353 million and their underlying investments at year-end were worth R485 million.

In terms of the new development mandate, Isibaya Fund has committed R2.3 billion over a twelve month period to projects covering affordable housing, toll roads, SMEs and micro-enterprise finance.

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 advise 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. 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 counseling is provided to PIC employees. For the period under review four qualified nurses were available for this purpose. All PIC employees enjoy the benefits of a medical aid</p>	<p>Legal compliance is monitored by the compliance department and internal reporting is coordinated by the appropriate department. Where appropriate, key indicators are included in the annual report.</p>

Category	Actions	Measurement
	<p>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, 84% of the Members are historically disadvantaged individuals and black employees (Africans, Coloureds and Indians) accounts for 72% of PIC employees and women for 56%. At executive management level, Africans accounted for 100% of the executives and woman for 33%</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 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 1% for disabled persons for the next financial year as the PIC currently has no disabled employees. The PIC Human Resources Manager has approached a recruitment company which specialises in 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</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. Where appropriate, key indicators are included in the annual report.</p>

Category	Actions	Measurement
	<p>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. In the previous financial year the PIC recruited 2 graduates and this figure was grown to 14 in the current year.</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 100% 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. These surveys are conducted twice a year.</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 (see previous section), and has started to measure and report on water consumption, electricity usage and business travel. Energy and electricity consumption are also measured at office parks and shopping centres which is in the PIC's property investment portfolio. A database is developed for this information and targets are set.</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. Where appropriate, key indicators are included in the annual report.</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</p>	<p>Legal compliance is monitored by the compliance department and internal reporting is coordinated by the appropriate department. Where appropriate, key indicators are included</p>

Category	Actions	Measurement
	<p>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. During the period under review only one instance of possible fraud was reported on the whistle blowing hotline and after a thorough investigation which was overseen by the chairman of the Audit and Risk Committee (ARC) it was found that there was no fraud committed and the case was closed.</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. The staff compliment of the internal audit division grew from one to four people during the period under review.</p>	<p>in the annual report.</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