

## **THE PUBLIC INVESTMENT CORPORATION (PIC) – STATEMENT OF CONTINUED SUPPORT FOR THE UNITED NATIONS GLOBAL COMPACT**

2 February 2015

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.

There can be no doubt that ESG elements can no longer be ignored to ensure a sustainable future. It should be included as fundamental considerations not only in the investment decision-making process but also in the way in which the PIC conducts its operations. While the PIC is committed to addressing Environmental, Social and Governance (ESG) concerns through the UNPRI and UN Global Compact, it is equally, if not more important, that it has elected to adopt these principles regardless of the obligation this imposes on the Corporation. The PIC recognises that it is amongst the market leaders when it comes to integrating ESG elements into investment decisions but it also acknowledges that there is still some way to go before the PIC as an operational entity will be amongst the leaders. In this regard we will embark on an active process of establishing a sustainability committee and re-looking the way in which we are conducting our business. This process will include

working together with other role players in the financial sector to ensure a sustainable future. 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.

We commit that in 2015 we will play an even bigger role in promoting sustainable investing and the inclusion of ESG considerations in our investment processes. We will also embark on a journey to ensure that as an operating entity the PIC reduces its carbon footprint.

**CEO: PUBLIC INVESTMENT CORPORATION**

## **COMMUNICATION ON PROGRESS**

### **INTRODUCTION**

The PIC is a long-term investor who understands 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 the implementation of sustainable practices from both an operational as well as an investment perspective. The PIC is a unique asset manager in that it has a dual mandate – the PIC has the responsibility to meet a certain benchmark but at the same time it has a mandate to making sure that we contribute to economic growth and development. The PIC's values and business processes underpin its strategic direction for sustainability and reflect its desire to preserve the future for all its stakeholders. The PIC will continue on its pathway for a sustainable world and it realises that this pathway will require fundamental changes in governance structures, economic frameworks, business and human behaviour.

The PIC is a proud signatory to both the United Nations Global Compact as well as the United Nations Principles for Responsible Investments. The PIC, together with the Government Employees Pension Fund (GEPF), spearheaded the drafting of the Code for Responsible Investing in South Africa (CRISA). The PIC is conducting its business in such a way as to live up to the principles of the Global Compact 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.

### **THE UNITED NATIONS 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 operations. 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.

The year under review focussed a lot on strengthening the UNGC South African Local Network. Under the leadership of the former CEO of the PIC, Mr Elias Masilela, who is also a Board member of the UNGC, the local network hosted three round table discussions with business leaders whose companies are UNGC signatories. One of the initiatives was to develop a South African specific set of principles that will enhance the implementation of the principles contained in the UNGC. This document focuses on the following:

- Millennium Development Goals – 2015
- UNGC LEAD Companies Recommendations with regards to Goals and Targets
- Development Outcomes for Africa – Post 2015
- The South African National Development Plan

This key initiative indicates that South African business leaders regard environmental, social and governance matters as central and not peripheral in investment considerations. This places a huge obligation on asset managers and asset owners to manage assets for 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. Increasingly, all stakeholders expect asset managers and owners to have a long term view in their investment decision making and to resist the temptation of settling for short term gains. The mandate is focussed on generating value on a sustainable basis. It is no longer about short term portfolio performance to the detriment of stakeholders or the environment. It also places a huge responsibility on business leaders to ensure that their companies focus on the company's ability to create value over the longer term through a focus on its relationships and impact on all stakeholder groups, including the environment and the broader society in which the company operates.

The PIC, according to its client mandates, has also aligned its unlisted investment processes to focus on developmental investments to give effect to the South African Government's developmental agenda and more specifically the National Development Plan. The PIC's unlisted investments are divided into three categories, namely:

- Developmental Investments;

- Private Equity; and
- Properties.

### **DEVELOPMENTAL INVESTMENT PORTFOLIO**

The objective of this portfolio is to earn good financial returns, whilst also supporting positive long-term economic, social and environmental outcomes. The investments are geared towards responding to Government initiatives such as the National Development Plan, job creation, Broad Based Black Economic Empowerment (BBBEE), ensuring that rural communities are part of the economy, community participation, drive towards a green economy and various other social responsible initiatives. The GEPPF has committed approximately R20 million in the last financial year for developmental investments, not only in South Africa but also on the African Continent, as illustrated in the table below:

Fund	Fund Purpose	Sector Focus	Current Commitment
Economic Infrastructure	To invest in large scale and long-term infrastructure projects that achieve good capital returns, while simultaneously acting as a catalyst to unlock South African economic potential and to attract foreign direct investment.	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Commuter Transport</li> <li>• Broadband</li> <li>• Water</li> <li>• Liquid Fuel</li> <li>• Logistics Network</li> </ul>	R5 billion
Environment Sustainability	To invest in projects that offer solutions for sustainable, diverse energy sources and reduce the environmental impact, while delivering a real financial return.	<ul style="list-style-type: none"> <li>• Renewable Energy</li> <li>• Energy Efficiency</li> <li>• Energy Storage</li> <li>• Clean Technology</li> <li>• Green Firms</li> <li>• Conservations</li> </ul>	R5 billion

Fund	Fund Purpose	Sector Focus	Current Commitment
		<ul style="list-style-type: none"> <li>Recycling</li> </ul>	
Priority Sector	To invest in projects that contribute to the growth of the South African economy through job creation, skill transfer, poverty alleviation and rural development.	<ul style="list-style-type: none"> <li>Agriculture and agro-processing</li> <li>Tourism</li> <li>Beneficiation</li> <li>Manufacturing</li> </ul>	R3 billion
Small, Micro & Medium Enterprise (Dinamane)	The purpose is to invest in and support Small, Micro & Medium Enterprises in a manner which yield satisfactory financial return for the investors while contributing positive to the South African Economy, particularly in terms of entrepreneurship, new enterprise development and job creation.	<ul style="list-style-type: none"> <li>Across all sectors, except gambling, arms, ammunition and sin industries.</li> </ul>	R1.5 billion
Africa Developmental Investment	To invest in large-scale and long-term infrastructure projects that generate good capital returns, while acting as catalysts to unlock the rest of Africa's economic potential and attract foreign direct investments.	<ul style="list-style-type: none"> <li>Energy</li> <li>Transport and Logistics</li> <li>Social Infrastructure and other related sectors</li> <li>Water</li> <li>Information</li> </ul>	R5.2 billion (US\$500 million)

Fund	Fund Purpose	Sector Focus	Current Commitment
		Communication Technology (ICT)	

The Developmental Investment Strategy was adopted, following the publishing by the GEPP of its Developmental Investment Policy in August 2010. The policy is underpinned by the following principles:

- Investments should be made in partnership with other asset managers and financial institutions in order to inculcate developmental investment practices and maximise capital investment in the focus sectors;
- Investments must be made in projects which will yield satisfactory financial returns in the long term; and
- The investments must contribute positively towards the development of the South African economy and improvement of the livelihoods of South African citizens. Of particular significance, is the creation of jobs, poverty alleviation and reduction of inequality.

As a signatory to the United Nations Global Compact as well as the United Nations Principles for Responsible Investment' (PRI) the PIC has thus committed itself to integrate environmental, social and governance issues into its investment decision-making processes. In this way, the PIC will ensure that it lives by the above. This is also part of a growing drive to relate Environmental, Social and Governance matters to the financial performance and growth of both the investee and investor.

### **The Portfolio**

The portfolio increased by 49% to R6.7 billion during the year under review, representing 9.37% of the GEPP's strategic asset allocation to developmental investments. Current

financial year disbursements amounted to R2.3 billion, with renewable energy projects accounting for 39% of the total disbursements. In addition, investments in developmental projects, amounting to R6.91 billion were approved. Our focus in the year ahead will be on deploying to R13.2 billion of the R20 billion committed by the GEPP on developmental investments.

#### **Impact on Social Returns:**

- In excess of 4 376 jobs (directly and indirectly) were created and 34 683 jobs were sustained during the year under review;
- 309 SMMEs have been funded and underwent entrepreneurship training; and
- Emerging as a leader in the development of green industries by directly and indirectly funding of renewable energy projects that will generate in excess of 1 558 megawatts of electricity.

#### **Overview of Approvals during the Year under Review**

The investments approved within the developmental portfolio have the potential to create in excess of 35 000 jobs over a period of time. In addition, the PIC will incorporate the Government transformation agenda through various avenues, i.e. funding of community trusts, employee trusts and the emerging BBBEE companies to acquire equity stakes in these projects. These investments will further contribute to the implementation of the National Development Plan through access to affordable housing, food security and the green economy.

Below are some of the projects, within various sectors, approved during the year under review:

##### **(1) Renewable Energy Sector**

The PIC, through its Environmental Sustainability Fund, continues to invest in the South African energy market, through funding of renewable energy projects. These projects will increase electricity generation capacity by 344 megawatts and potentially create 2 350 jobs during construction of the power plants and 155 permanent jobs



after construction. Furthermore, the PIC continues to ensure that the local communities benefit by funding community trusts within a 50 km radius where power plants are being constructed.

Since the start of the Department of Energy's ("DoE") Independent power Producer Procurement Programme (IPPPP), the PIC has committed in excess of R8.4 billion to renewable energy projects with capacity to generate approximately 800 megawatts of electricity. Furthermore, the PIC has committed in excess of R400 million to fund community trusts to acquire equity stakes in these projects.

**(2) Telecommunication, Mining and Energy Sectors**

Through the Africa Developmental Investments Fund and the Economic Infrastructure Fund, the PIC approved investments in excess of the USD388 million within ICT, mining and energy sectors. These projects entail acquisition and leasing of network towers, mining, as well as development of a gas power plant. The investments are located in Mozambique, Ghana, Tanzania, Democratic Republic of the Congo, Nigeria and Namibia.

These investments will contribute to the growth and development of these African countries.

**(3) Agricultural Sector**

As part of its mandate of contributing to the growth of the South African economy through job creation, skills transfer, poverty alleviation and rural development, the Priority Sector Investments Fund has committed R252 million to a table grape farm business in the Northern Cape for expansion of its operations and diversification into dates. As part of driving transformation, the PIC funded the farm workers through a Workers Trust to acquire an equity stake in the business.

### Developmental Investment Social Impact

The Developmental Investment focus is intended to address the rate of unemployment in the country by encouraging job creation. The table below outlines the number of jobs created through various DI funds:

Investment	Capacity (Volume)	Jobs created since inception up to 31 March 2013	Jobs created and sustained during 2013/14		
<b>Environmental Sustainability</b>			<b>Total jobs</b>	<b>Sustained</b>	<b>Created</b>
Direct	318 MW		10 453	9 122	1 331
Fund of funds	1 240 MW		13 730	13 730	
<b>Social Infrastructure</b>			<b>Total jobs</b>	<b>Sustained</b>	<b>Created</b>
Health	216 beds		630	257	373
Housing	68 457 units	9 289	5 466	5 466	
Education	8 schools with 19 200 learners 19 000 tertiary students accessing financial aid	252	1 192	1 192	
<b>Economic Infrastructure</b>			<b>Total jobs</b>	<b>Sustained</b>	<b>Created</b>
Road	1 394km	15	1 674	1674	
<b>Priority Sector</b>			<b>Total jobs</b>	<b>Sustained</b>	<b>Created</b>
Agriculture		1 075	4 107	3 242	865

Dinamane			Total jobs	Sustained	Created
Enterprise Development	309 SMME	34 840	1 807	-	1807
<b>Total Jobs</b>		<b>45 471</b>	<b>39 059</b>	<b>34 683</b>	<b>4 376</b>

In total, 30 059 new jobs were created/sustained of which the majority are temporarily created as a result of the construction of the renewable energy power plants. Investments in the agricultural sector continue to fulfil our mandate of job creation and skills transfer to the farmworkers. Although these are mainly seasonal jobs, 865 jobs were created. In addition, the project has a five-year plan to develop the local communities to gain skills in farming and management of farms through training, mentoring and support. Rural communities continue to benefit as evidenced by one of the projects which the PIC is invested in, where communities where the project is located, will hold a 15% equity stake in this project.

The PIC investments in Small and Medium Enterprises has contributed to job creation and poverty alleviation through the support of emerging entrepreneurs across the country. In excess of 309 SMMEs have been funded through Dinamane and furthermore offered entrepreneurship support.

- 40% of the investments were approved for 129 female-owned SMMEs;
- 27% of the investments approved were for 100 black-owned SMMEs and 8% for black empowered SMMEs'
- 7% of the investments approved were for youth; and
- 21 467 loans were awarded to small-scale entrepreneurs in Limpopo, Eastern Cape and Mpumalanga.

### **Skills Development**

The training and capacity building of the local communities, employees of the investee companies and SMMEs have remained a key priority to a number of investments funded by the PIC. The skills development elements ensure long-term sustainability of projects and promotes ownership and accountability. Some of the skills development initiatives undertaken through projects funded by the PIC are:

- Through investments within the Economic Infrastructure Fund, 11 503 entrepreneurs were trained in business management skills;
- 194 small-scale farm workers within the agricultural sector have received formal accredited training on Adult Basic Education and Training (ABET) and subsistence farming; and
- Local service providers within the communities, where the renewable energy power plants are built, have been trained to provide maintenance services of the plant during its operational phase.

### **Socio-Economic Development**

As part of the BBEE Code of Good Practice, companies are required to invest an average of 1% Net Profit after Tax (NPAT) towards Socio-Economic Development (SED) initiatives where community infrastructures are developed across all portfolios. A majority of the communities have benefited from these initiatives where the investments were done across different sectors, such as:

- Agricultural livelihoods;
- Children;
- Youth Development;
- Primary Health Care;
- Education;
- Bursaries, and;
- Other projects that uplift the community.

### **Environmental**

In the past decade, natural resources, environmental risks and ecological scarcities have come to the centre of international attention, as it has become increasingly clear that these issues are of fundamental importance for achieving inclusive growth and enhancing social equity. The environmental crises that occur in different regions of the world, represent not only a significant and historic challenge to our generation but, also an opportunity for change.

The PIC remains committed to the management of environmental risk and impact that improves the environment's performance and yields positive returns on the investments. There are a number of international and national standards that aim to ensure environmental compliance in South Africa, which are prerequisites for the investee companies so as to ensure that they meet the minimum environmental requirements set specifically for their sector. There has been a satisfactory level of compliance, and beyond, within the investee companies. Most have now complied with the South African Environmental Management Act (Act 107 of 1998) and the National Environmental Laws Amendment Act (Act 14 of 2009) and have become affiliated with various environment compliance instruments such as the International Organization for Standardisation (ISO), Global Gap and others.

In managing the environmental impact, the different investments have environmental management plans that focus on analysing, addressing and mitigating the environmental risks. The progress on mitigating these risks is reported as part of the investee companies' ESG report. The plans endeavour to address matters such as:

- Water conservation;
- Reducing particulate emission of gasses and odours that contribute to climate change;
- Waste management;
- Ensuring compatibility of agricultural activities with biodiversity;
- Noise monitoring;
- Promoting clean technology through the support of the renewable energy projects; and
- Management of natural resources.

### **Governance**

The PIC believes that sustainable performance can only be achieved if good corporate governance principles, underpinned by the Companies Act (Act 71 of 2008) and the King III Report, are embraced. This has been achieved through:

- Advancing policies that protects minority shareholders such as community trusts, employees and BBBEE partners; and

- Nominating PIC representatives to the Boards of investee companies to ensure good governance.

## **PRIVATE EQUITY PORTFOLIO**

### **Overview of Approvals during the Year under Review**

The Private Equity investments aim to drive transformation through initiatives which include, but are not limited to:

- Investee companies that achieve a minimum of Level 3 BBBEE contributor status, mainly focusing on ownership, employment equity and management from Historically Disadvantaged Individuals (HDIs); and
- Supporting the emerging and existing black fund managers to promote and facilitate BEE within the private equity industry.

This portfolio seeks to invest in equity or equity-related investments, focusing on all classes of private equity, namely venture, small, medium and large capital companies with the objective of generating income and capital appreciation by making investments across all sizes of entities, as well as to drive transformation.

Historically, private equity transactions were mainly focused on Black Economic Empowerment (BEE), where black partners enter into equity deals without participating meaningfully in the operations of the company. The introduction of Broad-Based Black Economic Empowerment (BBBEE) changed this. Now the preference is to invest in companies that join with black partners in productive operational tie-ups, where the transactions consider board and executive representation, employment equity, skills development, preferential procurement, enterprise development and social responsible investments.

The GEPPF has committed R10.2 billion, during the period under review, for private equity investments in South Africa and the rest of Africa, as illustrated in the table below:

Fund	Purpose	Sector Focus	Commitment
South Africa Private Equity	To generate income and capital appreciation by making investments across all sizes of entities: early stage venture capital, small, medium and large-sized unlisted companies located in South Africa and the rest of the African continent.	<ul style="list-style-type: none"> <li>Across all sectors, mainly consumer-related, except gambling, arms, ammunition and sin sectors.</li> </ul>	R5 billion
The rest of Africa private equity			USD500 million (R5,2 billion)

### **Key Achievements for the Year under Review**

#### **Levels of Funding Activity:**

- R4.4 billion (2013: R3.5 billion) worth of investments were approved during the year under review; and
- R2.5 billion (2013: R10 billion) disbursed during the year under review, representing 57% of the current year's approvals.

#### **Increasing impact on Social Returns:**

- All transactions incorporated BBBEE, which included operational involvement by sponsors;
- BEE transactions continue to perform well;
- In excess of 3 429 jobs (directly and indirectly) were created during the year under review and 43 953 jobs were sustained during the year under review; and
- Committed in excess of R1 billion to support developmental black fund managers.

### **The Portfolio**

The portfolio is valued at R11.8 billion, representing 16% of the GEPP's strategic asset allocation to the private equity class. During the year, R2.5 billion was disbursed with direct investments representing 95% of the total disbursements and the remainder disbursed through third-party-managed funds owned and controlled by BBBEE fund managers. In addition, the PIC approved investments to the value of R4.4 billion. Our focus in the year ahead will be on deploying the R6.2 billion of the R10.2 billion committed by the GEPP in private equity investments.

As part of driving transformation within the agricultural sectors, the PIC has funded a BBBEE Consortium to acquire a 100% equity stake in a South African company involved in diversified agricultural services and industrial food processing. The investment fits well with our Private Equity Investment Strategy in that agriculture and agro-processing are key sectors that the PIC aims to target. The barriers to raising agriculture production in Africa, include lack of advanced seeds and other input suited to the continent's ecological conditions, inadequate infrastructure to bring crops to market and lack of technical assistance and finance for farmers.

The Company's product suite comprises grain management, to animal feeds, to financial services, thus placing the PIC in a strong position to provide a much needed service across the rest of Africa and benefit from the growth and profitability that will result in increased efficiencies.

Further to the above, the PIC also addressed the ten principles of the United Nations Global Compact in the following ways:

### **Human Rights**

*Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and*

*Principle 2: make sure that they are not complicit in human rights abuses.*



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. 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.

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. Internal policies, procedures and practices prohibit any violation of human rights. Any breach of these is treated seriously and will result in disciplinary action.

Holistic 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 Programme, free of charge. All PIC employees are subscribed to the programme. Each year the PIC has a PIC health day where all employees can have their cholesterol, blood sugar levels, blood pressure etc. tested on site. Dieticians are also available to give advice to staff members.

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. The PIC celebrates International Aids Day.

All PIC employees enjoy the benefits of a medical aid scheme and a pension fund.

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.

The PIC realises that it does not exist in isolation and that it should also reach out to the communities in which it operates.

### **Labour**

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

The PIC is committed to eliminating any form of discrimination in respect of employment and occupation. The PIC practices freedom of association which enables employees to join trade unions. Employees may use established grievance procedures which prohibit victimisation.

The PIC maintains transparency and worker consultation in decision-making through meetings and other forums.

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.

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.

There is no child or forced or compulsory labour at the PIC or any of its subsidiaries. Such employment is not only illegal but it goes against the PIC's internal values, standards, policies and procedures. Established recruitment practices are followed in all 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.

### **Environment**

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility;
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Given the increasing impact of climate change the PIC has a renewed focus on environmental standards. The PIC is in the process of re-looking its environmental footprint and there will be a much bigger focus on environmental matters, not only from an investment perspective but also for the PIC as operational entity.

### **Anti-Corruption**

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

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.

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. Where possible and practical, the PIC will pursue full recovery of all losses resulting from acts of fraud and corruption.

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.

The PIC has an internal audit function which reports functionally to the Audit and Risk Committee. The terms of appointment of the Internal Audit Manager as well as her performance assessment are conducted by the Audit and Risk Committee.

### **The Social and Ethics Committee**

The PIC has established, in line with the Companies, Act, a Social and Ethics Committee (SEC). The SEC operates within a Terms of Reference (ToR) that complies with the Companies Act and King III requirements and is approved by the Board of Directors. The ToR is subject to an annual review by the Board.

The main objective of the SEC is to assist the Board to address social and ethics matters and to assist the Board and the Executive Committee in the fulfilment of their duties and

responsibilities to ensure that the PIC remains a good corporate citizen. This is done by monitoring the sustainable development practices of the PIC, thereby assisting the Board in achieving one of its values of doing business ethically.

The SEC's monitoring role includes the monitoring of any relevant legislation, other legal requirements or prevailing codes of best practice, specifically with regard to matters relating to social and economic development, good corporate citizenship, the environment, health and safety, as well as labour and employment.

During the period under review, in the execution of its duties, the SEC has reviewed PIC's progress in addressing the principles of the UN Global Compact Principles and the OECD Guidelines; as well as PIC's performance and strategy in terms of sustainable development as it relates to:

- Socio and Economic Development;
- Corporate Social Investment;
- Broad Based Black Economic Empowerment;
- Stakeholder Relations;
- Health and Safety;
- Labour Relations, including Employment Equity; and
- Management of the PIC's environmental impacts.

During the period under review, the SEC has either put in place or reviewed PIC's:

- Gifts Policy;
- Safety, Health and Environmental Policy;
- Procurement Policy, as it relates to environmentally friendly purchasing;
- Politically Connected Persons Policy; and
- Corporate Social Investment Policy.

Several remuneration policy matters were discussed with investee companies. PIC voted against a number of remuneration policies and Companies were engaged on these matters. In particular, Companies were requested to disclose the ratio between highest and lowest

paid employees. Of these, some Companies indicated that they would consider the disclosure of this information.

The original ESG Matrix for Listed Investments has evolved over the years and there was a specific drive to add more social and environmental metrics. In the past the Matrix had only been populated with publicly available information. With the current inclusion of the new additional metrics, certain information that is not publicly available will be included, such information will be sourced directly from the company. This will enable us to make more informed decisions with regards to ESG issues. Particular care will be taken to ensure that no price sensitive information is disclosed to the PIC.

The metrics and questionnaires of the International Finance Corporate and the CDC Group plc, a Development Finance Institution, were used as benchmarks during the development of the ESG Matrix for Unlisted Investments. The Matrix was based on the same underlying principles as the Matrix for Listed Investments to ensure consistency across the metrics applied.

The PIC's Code of Conduct's compliance is monitored through a whistle-blowing facility, the details of calls and follow-up actions are presented to this Committee for consideration.

#### **UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENTS:**

The PIC has adopted a belief system that incorporates economic, social and institutional considerations into investment decisions. This approach to investment management is consistent with increasing global concern and awareness around sustainability issues. The United Nations-backed Principles for Responsible Investment Initiative (UNPRI) is a network of international investors working together to put the six Principles for Responsible Investments into practice.

The Principles were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if

they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large. The PIC lived-up to these principles in the following ways:

**Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.**

The PIC's commitment to ESG matters in the investment process is informed by the believe that:

- Sound environmental management forms an essential part of sustainable economic growth and social development which lead to sustainable businesses;
- Social matters need to be addressed especially in a society such as South Africa with its discriminatory past. For any business to be sustainable it has to take broader society (all stakeholders and not only shareholders) into account in its decision making processes.
- Good governance practices mitigate the risk of corporate failure and that ultimately will lead to enhanced long term returns.

There is currently ESG policies in place in all the investment divisions.

**Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.**

Given the PIC and GEPIF's active role in addressing matters of governance and ethics within corporate South Africa and as the largest institutional investor and pension fund on the African Continent it was fundamental for the two entities to ensure that its investment decisions moved beyond the mere financial performance of companies. The challenge was to delve into the core of a company's controls, its sustainability strategy, its social responsibility intent and ultimately its commitment to all stakeholders. The PIC uses a corporate governance rating matrix to measure the ESG compliance of investee companies

and through the PIC-GEPF ESG Working Committee various engagements with companies on ESG performance took place.

The PIC, especially through its Isibaya Fund, invests significantly in socio economic development including skills development. The Isibaya Fund has evolved from having a mainly private equity focus to one which predominantly focuses 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).

**Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

The PIC was one of the key role-players involved in initiating the drafting of the Code for Responsible Investing in South Africa (CRISA). 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 requires both asset owners and institutional investors to incorporate ESG issues in investment processes. It also requires these institutions to have policies dealing with ESG matters publicly available and to disclose voting records. The adoption of this Code will make South Africa the second Country after the United Kingdom who has an institutional investors' code.



The PIC is one of only a few asset managers that has its Corporate Governance Code as well as proxy voting records available on its website.

**Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.**

The PIC works closely with its external managers to promote the implementation of the UNPRI. The ESG Working Committee had discussions on various ESG issues with the external managers and there are frequent discussions between the PIC and the external managers on company specific issues.

**Principle 5: We will work together to enhance our effectiveness in implementing the Principles.**

The PIC is an active member of the UNGC and UNPRI South African Network. It is also a member of the Association for Savings and Investments in South Africa (ASISA).

ASISA is empowered by a mandate from an industry that manages assets of more than R5.5 trillion and is therefore considered a formidable partner around Government's negotiation table where we proactively engage on policy, regulatory and issues of common concern.

As part of its mission ASISA aims to:

- Actively promote a transformed, vibrant, and globally competitive financial sector that reflects the South African demographics.
- Develop and actively participate in education, transformation and social development projects.
- Continue to build a strong national economy by encouraging and incentivising South Africans to save.
- Promote transparency and disclosure.
- Create an environment enabling of more holistic regulation.
- To always have a consumer focus.

- Endeavour to ensure ethical and equitable behaviour by members by applying a code of ethics and standards.
- Help create a simple and efficient regulatory framework that promotes savings and investment.
- Engage with Government to ensure the creation of level playing fields for all members while at the same time promoting healthy competition.
- Collectively engage with Government on policy issues and actively partner with Government on promoting South Africa as a financial centre.

The PIC now has representatives on key ASISA Standing Committees such as:

- Employment Equity and Education
- Empowerment Financing Working Group
- Responsible Investing Standing Committee

The PIC will, via this platform, further ensure that the UNGC principles are implemented throughout the South African investment and asset management industries.

The PIC is also represented on the Centre for Corporate Governance in Africa at the University of Stellenbosch. The PIC is a frequent participant at both UNPRI and UN Global Compact events and conferences.

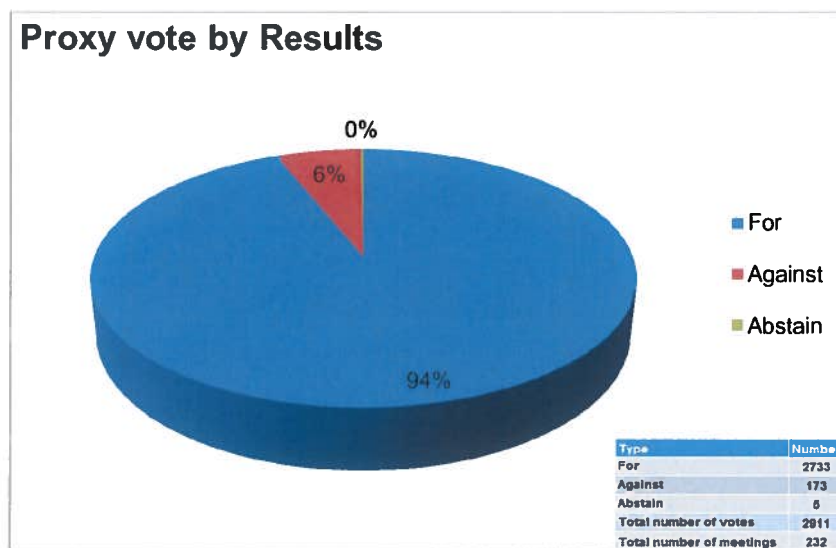
**Principle 6: We will each report on our activities and progress towards implementing the Principles.**

The PIC is one of a few asset managers that publicly disclose its voting records. The Corporate Governance Policy of the PIC is also a public document.

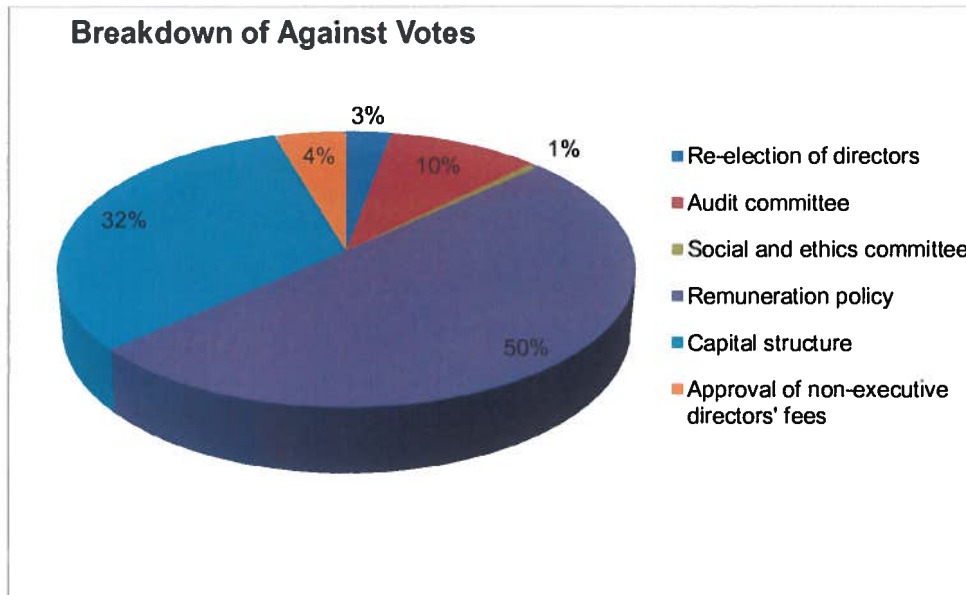
#### **VOTING AT COMPANY MEETINGS AND COMPANY ENGAGEMENTS:**

As a responsible investor, the PIC casted votes at all the company meetings where the PIC had shares on behalf of its clients. Below is a breakdown of the voting for the period under review.

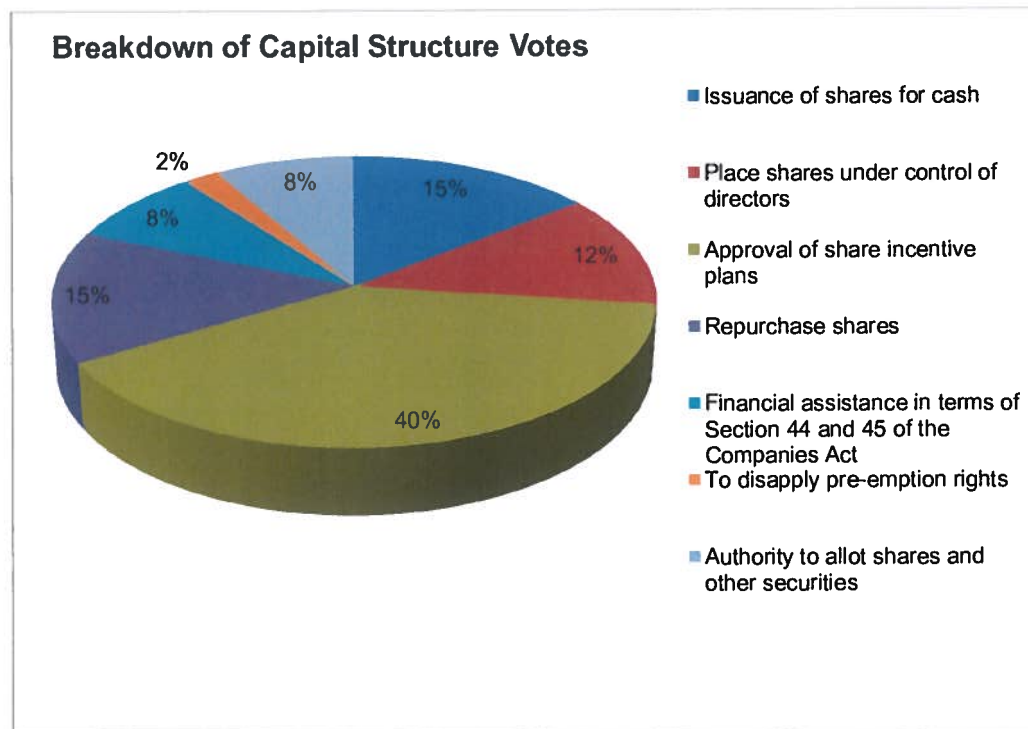
In the 2013/14 financial year the PIC voted at 232 shareholder meetings (224 in 2012/13 financial year). The PIC Proxy Voting Policy and the detailed voting records are available on the website of the PIC.



The number of against votes cast numbered 173 that formed 6 per cent of the total resolutions. The bulk of the resolutions we voted against included remuneration policy (50 per cent), capital structure (32 per cent), and re-election of directors to the audit committee (10 per cent) and non-executive director fees (4 per cent).



The PIC voted against the approval of share incentive plans in most instances relating to companies' capital structure (40 per cent). Other capital structure-related resolutions dealt with issuance of shares for cash (15 per cent) and for the repurchase of shares (15 per cent).



### **Company Engagements**

The primary objective of ongoing engagements with companies is to protect and enhance investment value over the long term and to improve a company's level of governance and behaviour across a range of issues including governance structures, remuneration policy, accountability and transparency. The PIC believes engagement is a tool to manage the risks and opportunities presented by ESG issues. It can drive change, pushing companies to behave more responsibly, generating better long-term financial rewards for investors, more sustainable prospects for the business, and positive impacts for the labour force, communities and environments affected by corporate activity.

For the period under review, companies were mostly engaged on the following issues:

- Competition Commission matters
- Corporate governance
- Remuneration policies
- Director remuneration especially executive director remuneration

- Share plans
- Mergers and acquisitions
- Company strategy
- Social issues
- Transformation
- Environmental sustainability
- Fraud and corruption
- Ethics

### **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)