

THE PUBLIC INVESTMENT CORPORATION:–

COMMUNICATION OF PROGRESS REPORT ON THE UNITED NATIONS GLOBAL COMPACT'S 10 PRINCIPLES

FEBRUARY 2018

PUBLIC INVESTMENT CORPORATION'S STATEMENT OF CONTINUED SUPPORT FOR THE UNITED NATIONS GLOBAL COMPACT

The PIC's investment thesis is underpinned by an unwavering and resounding commitment to responsible Environmental, Social and Governance (ESG) practises demonstrated by remaining a signatory to the United Nations Principles of Responsible Investing (PRI), the United Nations Global Compact (UNGC), the Code for Responsible Investing South Africa (CRISA), and the Sustainable Development Goals (SDGs 2030).

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. Therefore, the PIC remains fully committed to the sustainability principles and will continue on its sustainability journey with unwavering commitment and aims to be a responsible citizen at all levels. The PIC commits to remain an active participant of the UNGC and proponent of its principles on human rights, labour issues, the environment and anti-corruption.

The PIC understands that long-term value creation is not achievable through short - term solutions nor at the expense of future generations nor through moral decay. There can be no doubt that environmental, social and governance factors cannot be ignored if we are to ensure a sustainable future. We believe that integrating ESG factors culminates in enhanced and informed decision making, it will enhance long term value creation and the risk return profile of our portfolio of investments. In line with best practice to relate ESG management to the financial performance and growth of investee companies, the PIC continues to embed and further entrench ESG in its investment processes, as well as monitor, assess and report on the impact of ESG activities within our investee companies.

The PIC further supports South Africa's developmental agenda by embracing transformation as an investment driver. As a result, the PIC requires that investments fulfil this mandate to drive the transformational strategy through the Broad Based Black Economic Amendment Act no. 46 of 2013.

Reflecting on 2017, the PIC was recognised in the Bretton Woods II (BW II) Leaders List as one of the 25 Most Responsible Asset Allocators. The PIC also won three European Magazine Awards in the following categories: Asset Management Firm of the Year - South Africa; Best Corporate Governance - South Africa; and Best State Owned Enterprise - Africa. The PIC continues to uphold principles of transparency and disclosure and continued to publish the proxy voting results for all our listed investee companies and for the first time, we publicly disclosed the ESG scores of our unlisted investment portfolio. The PIC also affirmed its commitment to environmental sustainability by relocating our offices into a five star rated green building, with further plans afoot to reduce our carbon footprint. We commit that in 2018 we will play an even bigger role in promoting sustainable investing, encouraging the inclusion of ESG considerations in our investee companies processes and advancing the UNGC principles wherever possible within our sphere of influence.

We recognise that a key requirement for the UN Global Compact participation is the annual submission of the Communication on Progress (COP) report detailing our efforts to encourage, aid and implement the ten principles. We continue to support transparency and public accountability and commit to reporting on our progress in accordance with the UNGC COP policy.

Yours sincerely

Dr Daniel Matjila
Chief Executive Officer

COMMUNICATION ON PROGRESS

1. INTRODUCTION

The PIC's Vision 2030 exploits the PIC's unique strengths, which includes our ability to take a long-term investment perspective, a global presence, and capabilities to invest in multi-asset class opportunities, a skilled and experienced team, and a strong corporate governance structure. This enables the PIC to continue to play a significant role in growing the South African economy through our "DIRECT" investment approach – Developmental Investing for socio-economic transformation in key priority sectors and inclusive growth. The DIRECT approach is informed by statistical evidence that shows a positive correlation between South Africa's gross domestic product and the growth of PIC's assets under management, which equates to almost a third of SA's GDP. The PIC's DIRECT approach is congruent with key governmental priorities of economic development such as the National

Development Plan (NDP), the Industrial Policy Action Plan (IPAP) and the New Growth Path.

Therefore, the PIC remains committed to the implementation of sustainable practices and good corporate governance. Through our mandates, the PIC has to meet a certain financial, social and environmental benchmark while contributing to the economic growth and socio-economic development impact needs of the African society. 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 continue to demand fundamental changes in governance structures, economic frameworks, business and human behaviour.

2. THE PIC APPROACH TO DEVELOPMENTAL INVESTMENT

Our investments focus on sustainable returns over the longer term, whilst stimulating economic growth and sustainability. This approach is underpinned by robust risk management and ensures that the PIC remains a beacon for responsible investing by driving good corporate governance in every investee company. As a corporate entity, the PIC is aware of the need to adhere to corporate governance best practice and it also ensures that these are embedded in investee companies. We strive for good corporate citizenship and recognize the need for social transformation, prompting investments in impact investing. The key objectives for impact investing is in line with the developmental investment agenda that ensures that in addition to earning good financial returns, investments support positive, long-term economic, social and environmental outcomes that yield a good social return in South Africa and the rest of the African Continent. The PIC continues to work to identify companies with the potential for commercial and social improvement with the aim of investing in these companies and generating both economic and social returns over a pre-

defined investment period, without sacrificing commercial returns.

These investments are geared towards responding to the government initiatives such as the National Development Plan (NDP) 2030; New Growth Path, Broad Based Black Economic Empowerment (BBBEE) and Sustainable Development Goals (SDG) 2030. The NDP outlines what South Africa should look like in 2030 and what needs to be done to get there. The plan outlines a path to achieve meaningful development in South Africa and a rise in per capita income. Acknowledging the variety of challenges South Africa faces the NDP places at its nexus the elimination of poverty and reduction of inequality by 2030. To ensure broader impact, the PIC remains committed to its commitment in implementing the SDG 2030 agenda which is a plan of action for people, planet and prosperity. It also seeks to strengthen universal peace. It recognises that eradicating poverty in all its forms and dimensions, including extreme poverty, is the greatest global challenge and an indispensable requirement for sustainable development.

Through impact investing the PIC strives to achieve the following:

- Ensure that ESG is integrated into the PIC investment processes, that ESG risks within investee companies are mitigated and ESG opportunities are capitalised to ensure long term sustainability and enhanced investment value;
- Grow the economy and reduce poverty through job creation, skill development and promote entrepreneurs;
- Promote transformation by applying B-BBEE principles across all investments;
- Encourage a service-oriented approach to optimise use of public and private resources; and
- Encourage local private provision of services and development of local industries for infrastructure development and maintenance of facilities.

3. PIC CORPORATE SUSTAINABILITY UPDATES

(a) 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 IV Report, are embraced and implemented. This has been achieved through:

- The PIC board ensured that all relevant and required board committees are established, appropriately constituted and adequately resourced with the best skills mix and relevant experienced members.
- Terms of Reference for all committees exist and are revised to ensure relevance.
- Advancing policies that protect minority shareholders such as community trusts, employees and BBBEE partners; and
- Nominating PIC representatives to the Boards of investee companies to drive and ensure implementation of good governance in line with best practise.

In addition hereto the PIC addressed the ten principles of the United Nations Global Compact in the following ways:

(b) 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 the 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 PIC employee has a copy of the Code of Conduct and Ethics and new employees are issued with copies upon

joining 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 (physical as well as mental) is an important component of creating value for employees, for this purpose the PIC has contracted an external service provider to provide the PIC staff as well as their immediate family members with an Employee Wellness Programme, free of charge. All PIC employees are subscribed to the programme. Annually 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.

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. To this end various corporate social responsible programmes aimed at enriching and improving the lives of others are undertaken and supported.

(c) 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 remains strongly 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.

Within our workforce, we engage, develop, and retain a high-performance culture. Our performance management culture is robust, agile and rewards excellence. Through performance consulting and regular reviews, we track and monitor individual contribution and provide development coaching and opportunities for our staff. This is to ensure that our staff remains abreast of the latest and most effective best practice and innovative ideas in their field of expertise. Our culture of open and

honest dialogue promotes immediate and direct performance feedback between the manager, employee, and team to help individuals identify performance gaps and address development needs more accurately and effectively.

We invest significantly in a number of opportunities for development and training of our employees. The graduate programme runs for two years and has a retention rate of more than 80%. The PIC strives to be an active participant in youth employment and skills development.

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 ever been found. Current screening practices will highlight any under-age applicants.

(d) 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 remains conscious of its environmental footprint, with constant effort and focus on enhanced environmental management, not only through its investee companies but also for the PIC as an operational

entity. The PIC moved its business premises to a new head office which is a 5 star green rated building. The new building will contribute significantly in ensuring that the PIC meet its obligations related to environmental sustainability and resource efficiencies through the following initiatives:

WATER AND ELECTRICITY USAGE

In line with its commitment to ESG principles, the PIC implemented initiatives to monitor and reduce water and electricity usage, as well as its carbon footprint. Water infrastructure is maintained and leakages are monitored and repaired immediately. The building

management strategy now includes proactive monitoring and maintenance to avoid any wastage through leakages. The building has rain water harvest facilities which collect, store and distribute rainwater.

CARBON FOOTPRINT

The PIC is sensitive to its impact on the environment and implemented measures to monitor and reduce its carbon footprint.

PAPER RECYCLING

The PIC collaborated with Mpac Recycling to recycle an average of 9.14

tons of paper annually. Service providers used for collections were all empowered

small and medium sized entrepreneurs benefiting from an enterprise development initiative, and proceeds from paper collected went to the Society for the

Prevention of Cruelty to Animals (SPCA). The business also prints documentation double-sided and uses a board pack application to reduce paper usage.

(e) 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 his performance assessment are conducted by the Audit and Risk Committee.

(f) 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 IV 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 reviewed the PIC's progress in addressing the principles of the UN Global Compact Principles and the OECD Guidelines; as well as the PIC's performance and strategy in terms of sustainable development as it relates to the following:

- 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 either put in place or reviewed PIC's:

- No-Gifts Policy – the Gift Policy was amended that employees may no longer receive any gifts;
- Safety, Health and Environmental Policy;
- Procurement Policy, as it relates to environmentally friendly purchasing;
- Politically Connected Persons Policy;
- ESG Policy for Listed Equities;
- ESG Policy for Unlisted Investments;
- ESG Policy for State Owned Entities;
- ESG Policy for Fixed Income; and
- Corporate Social Investment Policy.
- B-BBEE Guidelines Policy

Several remuneration policy matters were discussed with investee companies. The 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 initial ESG Matrix for Listed Investments has evolved over the years and there was a specific drive to include additional 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 ESG Unlisted investment 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.

(g) PRINCIPLES FOR RESPONSIBLE INVESTMENTS:

The PIC 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's active role in addressing matters of governance and ethics within corporate South Africa and as the largest institutional investor on the African Continent it was fundamental 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 an ESG rating matrix to measure the ESG compliance of investee companies and various engagements with companies on ESG performance occurred to drive desired behaviour and outcomes.

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 affordable 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 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. Quarterly reports detailing all voting are also submitted to clients.

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 team undertook numerous 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.

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.

CONTACT US

The PIC would appreciate comments or suggestions on the contents of this report. Further details can be found at the PIC annual financial statement (AFS) for the year ending 31 March 2017 published at www.PIC.gov.za. Please forward all comments to esgeveryone@pic.gov.za