

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

February 2016

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 GEPF have pioneered in many non-traditional investment avenues, which the private sector has historically found too risky to contemplate.

We commit that in 2016 we will play an even bigger role in promoting sustainable investing and the inclusion of ESG considerations in our investment processes. During the year the PIC will also reduce its carbon footprint as operating entity, as it is moving its head office into a five star rated green building.

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 has a huge role to play in the South African economy as its assets under management are more than one third of the South African GDP. 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 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. During 2015 the PIC adopted a new strategy called Vision 2030 that focus a lot on developmental investments such as renewable energy, also ensuring that the PIC contributes towards job creation. During 2015, the PIC reviewed its corporate and investment framework and strategy. Vision 2030 is our renewed investment strategy which is aligned to the Government's policies and key priority sectors that foster economic growth and drive socio-economic transformation. This alignment is informed by our observation that there is a direct correlation between the growth of assets under management and the growth of the economy. Over the years, we have noted that the AuM has been growing relatively in line with the South African Gross Domestic Product (GDP).

This observation reaffirms our conviction that, by taking investment opportunities aligned with key governmental objectives and priority sectors, we will contribute to economic growth from which our portfolio will benefit. While our investments are aligned to the broader developmental agenda, we remain an active investor and shape our portfolios from time to time to adjust for changes in the macro environment in line with client mandates. We will be accelerating investments in the rest of the African continent and other frontier markets as well as in BRICS. The key investment themes during this period will be "integration, partnerships and scaling".

The PIC Vision 2030 exploits the PIC's unique strengths, which include our ability to take a long-term investment perspective, a global presence, capabilities to invest in multi-asset class opportunities, a skilled and experienced team, and a strong corporate governance structure. The PIC also did an organisational restructuring during 2015 and as part of this process initiatives such as the UN Global Compact and the UN Principles for Responsible Investments (UNPRI) and all related ESG matters have been given more prominence in the company. The ESG Division had a significant increase in the number of employees and there are now ESG departments for listed investments, fixed income, unlisted investments and properties. These divisions' heads report to the General Manager of Investment Support. The board of the PIC has also approved ESG policies for listed equity, fixed income, unlisted investments (including property) and state owned entities. The board also approved a redeveloped ESG scoring matrix that are used to measure ESG compliance in all investee companies, listed and unlisted as well as state owned entities. The results of the matrix are being used to engage with investee companies and it also informs our approach to voting at company meetings. However, the PIC is always aware that it should 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.

During 2015 we also adopted new values:

We CARE:

Committed	We are committed to delivering on our clients' mandates. Commitment means doing everything in our power and going the extra mile to create value for our stakeholders.
Accountable	We are accountable to our stakeholders in everything we do as well as for every decision we make.
Respect	We treat each stakeholder with respect and listen to their different views. We listen to the views of our stakeholders, and never disregard their opinions, no matter how different they are from ours.
Empathy	We have empathy towards all stakeholders. We have compassion for our stakeholders, and we understand their unique circumstances.

We DELIVER:

Diligence	Any work we do, will be done with diligence. We put our minds and full attention to everything we do.
Excellence	We value excellence above everything. Whatever we do, we go beyond the ordinary, we exceed our stakeholders' expectations.
Leadership	We aim to lead in corporate governance. Our investment decisions are rooted in good corporate governance, consideration for the environment as well as social issues. We aim to outperform our benchmarks and play a leading role in terms of developmental investments and operational excellence.
Innovate/ Integrity	We encourage and appreciate innovation and creativity. We are consistently looking for new ways of improving what we do. We, therefore, put emphasis on research and development. We believe that everything we do is glued together by integrity; without integrity our relationship with our stakeholders can never stand.
Value	We believe in value creation for our stakeholders. We enable our clients to realise their investment objectives and deliver beyond stakeholder expectations.
Efficient	We do our work with precision and timeously. We are capable of doing more with little and within reasonable time. We do things right the first time.
Responsible/ Reliable	We invest in a socially responsible manner. We anticipate and appreciate the possible consequences of our actions. We are a reliable partner for delivering the right result. Reliability means that our clients can rely on us to deliver on their investment mandates and exceed their financial objectives.

DEVELOPMENTAL INVESTMENT PORTFOLIO

The Developmental Investment Strategy was adopted, following the publishing by the GEPF 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.

Over and above active shareholder engagements, during the past ten years, the PIC also broadened the developmental investments mandate. These are investments that seek to generate returns for the clients while simultaneously contributing to the development of the communities in which we invest, particularly through job facilitation. The unlisted developmental investments encompass the following broad areas:

- Social Infrastructure;
- Economic Infrastructure;
- Environmental Sustainability;
- Priority Sectors; and

- Small and Medium Enterprises.

There has been an increased appetite amongst PIC clients for the unlisted developmental investments asset class.

As a signatory to the United Nations Global Compact as well as the United Nation's 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.

Impact of Developmental Investing: Social Impacts

Jobs Facilitated	
Total number of permanent job opportunities sustained	38 376
Total number of temporary employment opportunities created	13 186
Total number of jobs created and sustained during construction phase	28 477
Total	80 039
Community Upliftment	
Number of community groups supported (small loans)	25 463
Number of SMMEs funded through Isibaya investments	349
Number of Community Trusts and Employee Share Schemes funded	14
Education	
Number of student loans disbursed	15 000
Number of student accommodation for rental	11 318
Total number of hospital projects	3
Number of hospital projects in operation (Gauteng and Mpumalanga)	2
Number of hospital projects under construction (Gauteng)	1
Total number of beds available in hospital projects	445
Number of affordable houses built	28 194
Number of affordable houses sold	21 093
Number of affordable houses available for rental	4 189
Environmental	
Direct: Total number of megawatts connected to the grid	304
Total number of megawatts to be connected to the national electricity grid	465
Total number of megawatts	769
Indirect: Total number of megawatts connected to the national electricity grid	185
Total number of megawatts to be connected to the national electricity grid	1 062
Total number of megawatts – Fund of Funds	1 247
Total (direct and indirect)	2 016

PIC as Operating Entity

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.

The PIC during 2016 will move to a green building which are 5 star rated.

Social

The PIC's Corporate Social Investment (CSI) programme focuses on four areas, as outlined in the table below.

No	Focus area	Initiatives considered
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1	Education and training	<ul style="list-style-type: none"> • Support of community education facilities, bursaries for the underprivileged without any employment obligations and contributions towards community education infrastructure; • Community training and community skills development; and • ABET training for the underprivileged.
2	Socio-economic development	<ul style="list-style-type: none"> • Support of community crèches, orphanages and old age homes; • Support of community clinics, health programmes, etc., in disadvantaged communities and HIV/Aids awareness programmes in communities; • Job facilitation for communities outside PIC investment activities, aimed at creating self-sustainability; and • Assistance to GEFP members or other community members who are dependent on social grants.
3	Arts, culture, sport and recreation	<ul style="list-style-type: none"> • Support of development programmes and assistance to underprivileged individuals unable to afford to participate in events or who are talented, but in need of the necessary kit.
4	Agriculture, conservation and the environment	<ul style="list-style-type: none"> • Support that focuses on conservation awareness and education, as well as waste management; • Self-sustainability agricultural programmes; and • Disaster relief programmes.
5	Broad-Based Black Economic Empowerment	<ul style="list-style-type: none"> • Development of black entrepreneurs.

During the year under review, the PIC embarked on the following CSI projects, which sought to make a difference in the lives of fellow South Africans.

The PIC donated two container libraries to Sedibeng School in Kuruman, Northern Cape, and Beisang Mabewana Primary School in the Free State. A total of 402 pupils from Sedibeng and 759 from Beisang Mabewana Primary school will benefit from this donation. The donations are part of the Nelson Mandela Day celebrations. Over and above these donations, the PIC has donated two libraries to schools in Limpopo and the North-West Provinces.

The PIC continued its commitment to impart mathematical skills to pupils. In this regard, the PIC continued to offer lessons to students from Phateng Comprehensive School in Mamelodi, Pretoria. This programme has been successfully running for the past three years. The programme will continue to run in the 2015/16 financial year.

As part of entrepreneurial development, the PIC funded the training of 30 emerging farmers in Mpumalanga. The training was done in partnership with Mobile Agri Skills Development and Training (MASDT), a not-for-profit organisation involved in training of emerging farmers. The training covered such aspects as financial management and customer care; agricultural laboratory technology; as well as water and soil analysis for emerging farmers. In addition to this, another 23 individuals aligned with Refilwe Orphanage were trained on vegetable gardening. The Refilwe Orphanage was previously supplied with a 20m x 20m steel structure garden, covered with nets, to enable proper gardening.

The Little Stars on Earth is a programme aimed at benefiting less privileged children. During the year under review, the PIC supported 72 children as part of Nelson Mandela Day celebrations in July, through the donation of scarves, beanies and gloves to the children at Danville After-School Care.

The programme also ran during Christmas where the PIC donated Christmas gifts, which included stationery and toys, to 70 children from Thando Westford Community Crèche.

The PIC ran a programme in which staff members were requested to donate plastic bags to be used to weave strong school bags. A total of fifty school bags were produced for pupils from Motsatsi Primary School in Madikwe.

These bags are equipped with solar lights. The bags were handed to children from low-income households who travel long distances every day from school to home. This initiative, not only enabled learners to protect their books, but also provided them with light to study at night.

The PIC funded the construction of a vegetable production tunnel for Mmabatho Pre-School in Bushbuckridge. The tunnel was fitted with a drip-irrigation system for proper irrigation to assist with the production of quality vegetables. Mmabatho caters for needy children, including orphans in the community.

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:

- The PIC board also had a thorough relook at all board committees as well as the committee structure and membership. Terms of Reference for all committees has been revised.
- 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.

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

At the end of the financial year, we had 405 employees. During the year, we recruited 79 employees, 57 employees resigned and 2 employees were dismissed due to disciplinary outcomes. Regrettably 9 employees were retrenched in the property business due to restructuring. We have 370 permanent employees and 35 contracted staff members.

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. PICeeds, our flagship graduate programme, has had 100% pass rate for all its South African Institute for Chartered Accountants (SAICA) graduates. The graduate programme runs for two years and has a retention rate of 98%. We currently have 12 graduates, with the intention of increasing the graduate intake for the year ahead. The PIC strives to be an active participant in youth employment and skills development. For that reason, we aim to have a minimum of 30 PICeeds graduates.

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. The PIC is finalising building our new head office which is a 5 star green building.

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:

- 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.

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 GEPF'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 BBEEE 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 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.

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:

The PIC Investment thesis is underpinned by a commitment to ESG, demonstrated by PIC signing up to the Code for Responsible Investing in South Africa (CRISA), United Nations Principles of Responsible Investing (UNPRI) and the United Nations Global Compact (UNGC).

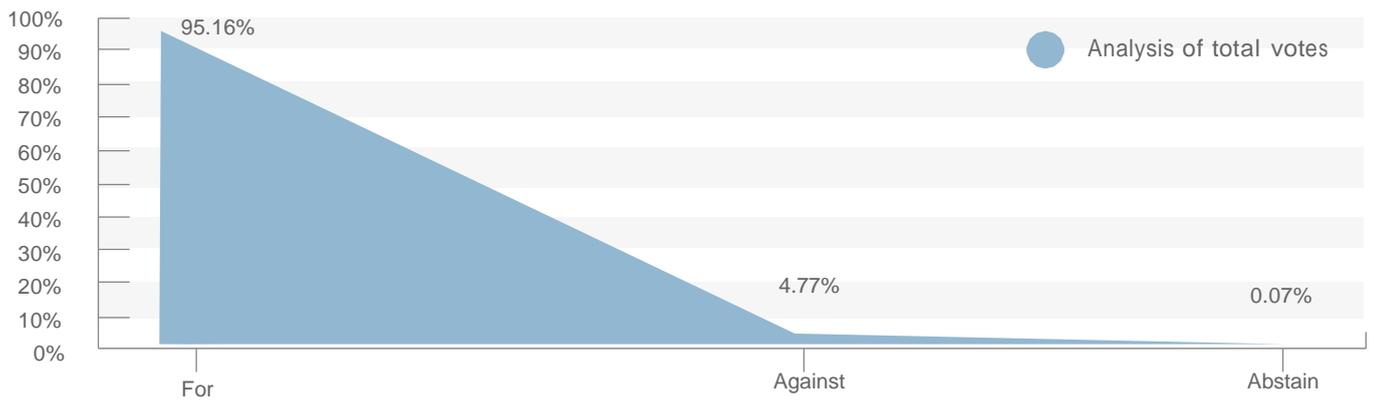
The PIC further supports the country's developmental agenda by embracing transformation as an investment driver. As a result the PIC requires that investments fulfil this mandate to drive the transformational strategy through the Broad-Based Black Economic Amendment Act No. 46 of 2013.

The PIC seeks to support and enhance its investment rationale for companies through appropriate levels of engagement, activism and through the subsequent exercise of voting rights. Investee Company Engagement issues included, amongst other matters:

- Non-executive directors' independence,
- Board and executive management diversity,
- Company's transformation plans with a focus on BBBEE and employment equity, and
- Environmental sustainability.

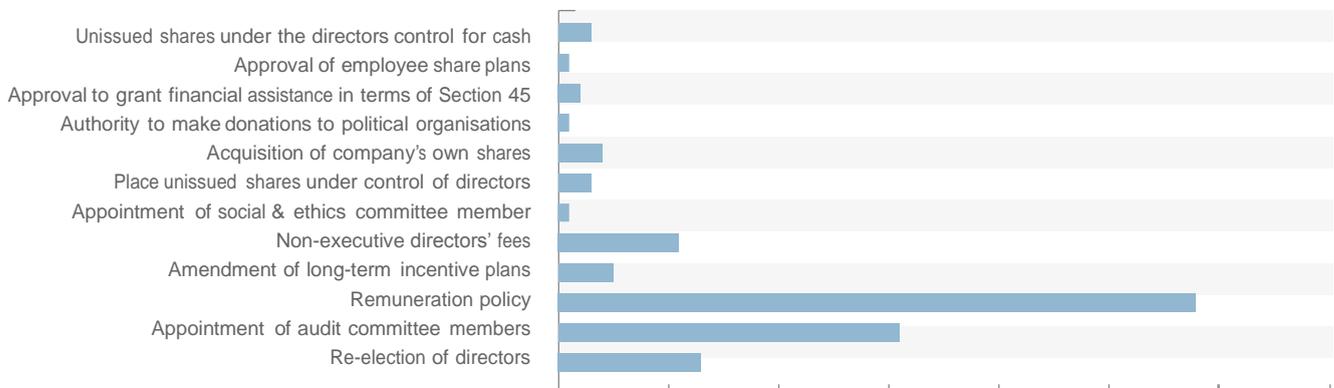
The following graphical illustrations provide a summary of the voting results for the reporting period.

Analysis of total votes



Source: PIC Voting Records

Analysis of total votes



For	2 656
Against	133
Abstain	2
Total	2 791

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 Matseko.Mohlaba@pic.gov.za