# Celebrating 20 years of democracy

PUBLIC INVESTMENT CORPORATION®
Est. 1911

Integrated Annual Report 2014

PUBLIC INVESTMENT CORPORATION®
Est. 1911

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*"No one is born hating another person because of the colour of his skin, or his background, or his religion. People must learn to hate, and if they can learn to hate, they can be taught to love, for love comes more naturally to the human heart than its opposite."*

- Nelson Mandela

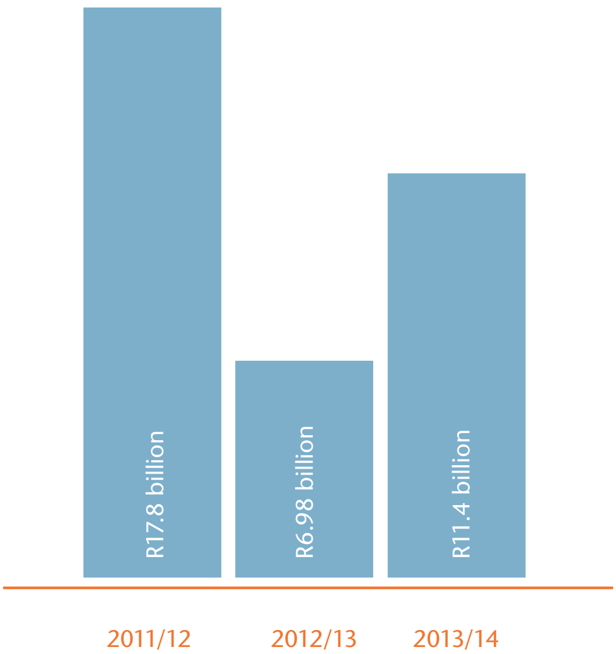
# Key Indicators

## AuM

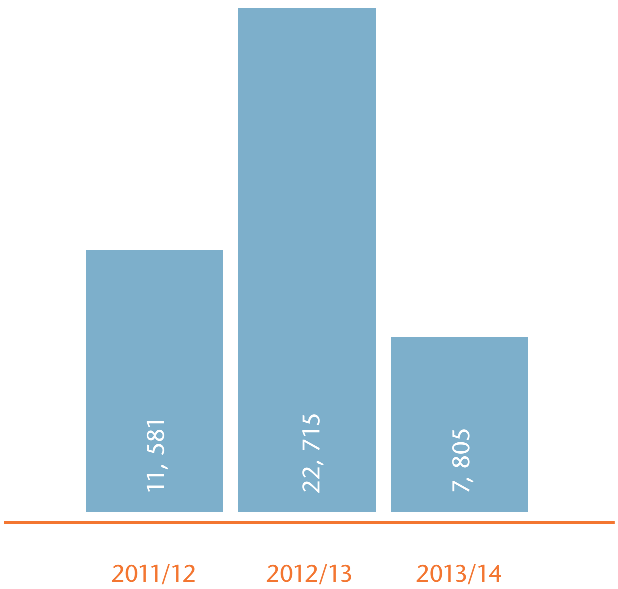
Growth in Assets under Management (AuM)

| R1.17 trillion | R1.40 trillion | R1.60 trillion |
|---|---|---|
| 2011/12 | 2012/13 | 2013/14 |

Value of new investments approved




Estimated jobs created




## Corporate

Profit

| R94.3 million | R130 million | R209 million |
|---|---|---|
| 2011/12 | 2012/13 | 2013/14 |

Number of employees

| 333 | 329 | 385 |
|---|---|---|
| 2011/12 | 2012/13 | 2013/14 |

# Minister's Note To Parliament

Mr Nhlanhla Musa Nene, MP
*Minister of Finance*

## Speaker of Parliament

I have the honour, in terms of Section 65 of the Public Finance Management Act (Act 1 of 1999), to present the Integrated Annual Report of the Public Investment Corporation SOC Limited, for the period 1 April 2013 to 31 March 2014.

Mr Nhlanhla Musa Nene, MP
*Minister of Finance*
*September 2014*

# The PIC's Strategic Intent

## Vision Statement

To meet or exceed our clients' investment objectives and commitments to stakeholders.

## Mission Statement

The PIC, having been established by an Act of Parliament, the Public Investment Corporation Act (Act 23 of 2004), will, in terms of its mission:

- Deliver investment returns in line with client mandates;
- Create a working environment that will ensure that the best skills are attracted and retained;
- Be a beacon of good corporate governance; and
- Contribute positively to South Africa's development.

## Values

The PIC entrenches the following values in the way in which it conducts its affairs:

### Integrity

As a business that invests public sector funds, the PIC unequivocally and steadfastly follows an ethical and professional code that:

- Values openness, honesty, consistency and fairness;
- Strives to be fair in all its dealings and to act in good faith;
- Takes action against unethical and fraudulent behaviour;
- Endeavours to employ people with integrity;
- Expects its employees to be good ambassadors for the PIC in all things and at all times;
- Embraces its role and responsibilities with humility; and
- Undertakes to make a positive difference to society.

## The PIC's Strategic Intent

### Results driven

The PIC accepts that its clients and other stakeholders expect results and is committed to doing everything possible to achieve the required deliverables. The PIC:

- Commits to serving its customers;
- Defines and communicates expectations;
- Advocates an attitude of "doing it right the first time!";
- Keeps to its commitments and promises;
- Learns from experience;
- Strives for continuous improvement;
- Encourages and fosters innovation and creativity; and
- Promotes, encourages and celebrates success.

### Caring for the PIC people

In order to consistently deliver in line with its mandate and to the satisfaction of its clients and the shareholder, the PIC has to maintain an employee pool that is motivated, competent and committed. It is people that make the PIC what it is and it cannot function without them.

Thus the PIC values its people collectively and individually. The PIC:

- Embraces diversity;
- Treats people with integrity and empathy;
- Expects people to treat each other with respect;
- Creates a learning environment and encourages the development and growth of people;
- Encourages teamwork and inter-departmental support;
- Shares its experience and knowledge to develop skills and talents;
- Fosters and supports career development;
- Values each individual's time and input; and
- Encourages the effective communication of relevant information.

### Accountability

The PIC believes that its success rests on the preparedness of employees to take responsibility for both the successes and failures of the organisation. The PIC expects its people to:

- Be prepared to take responsibility and face the consequences of their actions;
- Stand as one when collective decisions are made;
- Recognise that the PIC is a collegiate and take each other to task in a supportive environment;
- Commit to owning up to performance failures as and when necessary and to dealing with the causal factors appropriately and effectively;
- Collaborate with each other in achieving ever-improving organisational results; and
- Be driven by principle at all times – "Play the ball, not the person".

### Financial sustainability

Since the PIC relies on the management fees it levies for the continuation of the services it provides, it prioritises financial sustainability. In this respect, all involved must ensure and remember that:

- Excellent customer service is everybody's business and is paramount;
- All personnel must strive to build the PIC as the public sector asset manager of choice;
- Cost consciousness is key in all PIC activities;
- The clear focus is on the bottom line; and
- Communication of annual financial expectations and progress, throughout the year, to the relevant parties, is essential.

## Our Clients

We care for our clients because they are the cornerstone of our business. At the PIC, we have dedicated skills and resources to continue to deliver on our clients' goals and objectives as outlined in their mandates. The PIC continues to strengthen existing client relations through structured interactions. These interactions empower our business to reach a high level of service by being nimble, flexible and innovative.

| Clients | % of Assets under Management (AuM) |
|---|---|
| Government Employees Pension Fund (GEPF) | 89.34 |
| Unemployment Insurance Fund (UIF) | 5.84 |
| Compensation Commissioner Fund (CC) | 1.63 |
| Compensation Commissioner Pension Fund (CP) | 0.95 |
| Associated Institutions Pension Fund (AIPF) | 0.87 |
| Other* | 1.37 |
| TOTAL | 100.00 |

**Constitutes various clients with smaller portfolios*

### Treating Customers Fairly

In 2010, the Financial Services Board (FSB) implemented the Treating Customers Fairly (TCF) programme, a regulatory and supervisory approach designed to ensure that specific, clearly articulated fairness outcomes for financial services consumers are delivered by regulated financial firms. The FSB has been given an unequivocal mandate by the National Treasury to introduce TCF as a key mechanism to drive the policy priority of ensuring consumer protection through strengthened market conduct regulation.

The PIC is committed to embedding the principles set out by the FSB into our business culture, by continuing to place our clients and stakeholders at the heart of our business and also improving customer confidence.

### Client Mandates

Client mandates, together with the investment strategy, regulate the relationship between the PIC and our clients. Investment objectives for each client are expressed in detailed investment mandates. Each mandate prescribes the desired asset allocation, benchmarks, risk parameters, expected returns, reporting requirements and management fees.

The PIC is committed to ensuring that all investment decisions are in line with the agreed mandates and that we deliver returns that meet, but preferably exceed client objectives.

### Assets under Management

The Assets under Management totalled R1.6 trillion as at 31 March 2014. The table below shows the different asset class allocations during the year under review.

| Asset Class | % |
|---|---|
| Local Equity | 49.11 |
| Local Bonds | 32.42 |
| Cash & Money Market | 7.12 |
| Properties | 4.39 |
| Offshore Equity | 3.64 |
| Offshore Bonds | 1.72 |
| Africa Equity (Ex SA) | 0.5 |
| Isibaya | 1.1 |

# Report by the Chairman

*I am proud to present the PIC's Integrated Annual Report for the 2013/14 financial year. This report coincides with nation-wide activities to mark 20 years of democracy.*

Mr Nhlanhla Musa Nene, MP
*Minister of Finance*

As we pause to reflect on the past 20 years, we realise that impressive progress has been made to make South Africa a better place to live in. However, much still needs to be done. The President has made this point during his state of the nation address, following national elections. "The triple challenges of poverty, inequality and unemployment continue to affect the lives of many people. As we enter the second phase of our transition from apartheid to a national democratic society, we have to embark on radical socio-economic transformation to push back the triple challenges. Change will not come about without some far-reaching interventions."

Acting on behalf of its clients, the PIC continues to effect positive change through far-reaching interventions by aligning with the key economic reforms, policies and priorities of Government such as the New Growth Path and the National Development Plan.

This is also in line with the Developmental Investment (DI) Policy of the Government Employees Pension Fund (GEPF), which has identified the following priority areas: infrastructure development, job creation and provision of social amenities to all South Africans.

During the year under review, the PIC established three Fund Investment Panels (FIPs), as subcommittees of the Board's Investment Committee, to prioritise and fast-track developmental investments. These are investments in economic infrastructure, environmental sustainability, social infrastructure, priority sector (high labour intensive sectors), Small, Micro and Medium Enterprises (SMMEs). It is worth noting that during the year under review, the PIC made financial commitments to give impetus to developmental and private equity investments. During the 2013/14 financial year, R11.4 billion worth of unlisted investments were approved, of which R4.8 billion have already been disbursed.

The impact on social returns was significant:

- In excess of 7 805 jobs (directly and indirectly) were created and 78 636 jobs were sustained;
- 309 SMMEs have been funded and underwent entrepreneurship training; and
- The PIC is emerging as a leader in the development of green industries by directly and indirectly funding renewable energy projects that will generate in excess of 1 558 megawatts of electricity.

As far as the transformation in the asset management industry is concerned, the PIC currently has black asset managers who were supported through the PIC's emerging manager programme and approximately R50 billion of assets are entrusted to them.

True to the GEPF mandate which requires that we commit 5% of Assets under Management (AuM) on the African continent, the PIC acted accordingly in the past year. That commitment stands. We have established two funds, namely: Africa Developmental Investments and Private Equity Africa, which will assist us to discharge our client-given mandate to invest on the rest of the continent. The commitment to invest in the rest of the continent is born out of a realisation that our collective success is premised on economic integration.

More importantly, the African economic narration has been positively changing. Over the last decade, the continent's economic output has tripled, while it is projected that Sub-Saharan Africa will grow at an average of 5% in the coming decade. This growth means that the continent will be the second fastest growing region in the world after Asia. For this reason, the PIC will, in the new financial year, also focus on developmental investments in Africa with a minimum commitment of USD500 million for developmental investments in Africa and a further USD500 million towards private equity in Africa. The African story presents the PIC with unique investment opportunities and we are fully aware that part of this strategy should be to grab opportunities in Africa and reap rewards in a manner that promotes inclusive growth and creates decent work for the people of Africa.

The 2013/14 financial year saw some changes to the Board of the PIC. Two of our Board members retired from the PIC Board after serving first as Commissioners of the Public Service Commissioners, and later as Directors of the PIC for a period of 16 years. I would like to take this opportunity to express the Board's sincere appreciation for the roles Messrs Jan Strydom and Ignatius Sehoole have played during their tenure at the PIC. At the same time, I would like to welcome on board three new directors, Mr Trueman Goba, Ms Dudu Hlatshwayo and Ms Sibusisiwe Zulu and trust that they will contribute meaningfully to the advancement of the PIC's objectives.

Let me take this opportunity to thank the former Minister of Finance, as the shareholder representative, for his wisdom and guidance. Lastly, I would also like, on behalf of the Board, to acknowledge management and staff of the PIC for their unmatched commitment and loyalty to the Corporation and for ensuring that we continue to deliver as per our clients' mandate. Your unwavering commitment has seen assets under PIC's management increase to a historic R1.6 trillion mark.

Mr Nhlanhla Musa Nene, MP
Chairman

# Report by the Acting Chief Executive Officer

*As we celebrate 20 years of democracy, it is befitting to reflect on the words of the late President Nelson Mandela who said, "The task at hand will not be easy, but you have mandated us to change South Africa from a land in which the majority lived with little hope, to one in which they can live and work with dignity, with a sense of self-esteem and confidence in the future".*

Ms Matshepo More
*Acting Chief Executive Officer*

We understood that the task would not be easy and have over the years adjusted our investment philosophies to address the great task of making a difference to ordinary South Africans. The PIC has aligned its corporate plan and investment activities with the key economic reforms, policies and priorities of Government, such as the New Growth Path and the National Development Plan. The current investment mandates are geared towards economic growth, job creation, infrastructure development, food security, education, housing, healthcare and energy.

During the 2013/14 financial year, the PIC approved almost R6.91 billion in developmental unlisted investments.

In the 2014/15 financial year, the PIC will continue with its developmental objective by investing at least another R2 billion in social and economic infrastructure.

The year 2013/14, however, proved challenging. The domestic economy was marred by a weaker global and domestic demand environment, less than favourable investment conditions and industrial action that continued to hit key production-led sectors of mining and manufacturing. GDP growth slipped to just 1.9%, its lowest average annual growth rate since 2009.

Domestic demand conditions remained trying. Consumer confidence levels slipped to decade lows by the middle of the year, while household consumption spending slowed on the back of higher domestic inflation and softer real wage growth, as well as waning consumer appetite for credit. The domestic banking sector, meanwhile, seemed more cautious about opening the taps on lending due to the rising trend in non-performing consumer loans and already high consumer debt levels. SA's debt to disposable income ratio averaged around 75% in 2013.

On the positive side, positive 'wealth effects' helped to prop up growth on the consumption side of the economy, with domestic house prices having risen around 10% last year and the local equity market up by over 20% in 2013. Domestic employment trends also improved, with the economy having recovered the million jobs lost since the 2008/9 recession. However, it is worth pointing out that around 50% of these labour market gains have been driven by the public sector, with private-sector employment, particularly in some key industrial sectors, such as manufacturing, continuing to shed jobs. A still weak domestic-demand environment and wage growth, generally well in excess of inflation, are the main inhibitors to more broad-based labour growth.

The domestic economy had an influence on investment performance with especially fixed interest rate investments that felt the squeeze from the less positive business environment.

Despite less than favourable economic conditions, the PIC was able to exceed all its top six clients' benchmarks over a three-year rolling period. The portfolio of the PIC's largest client, the Government Employee's Pension Fund (GEPF), exceeded CPI +3% on a three-year rolling basis with 6.61%. This was mainly driven by a strong listed equity performance. The other clients, which are only invested in fixed income securities, also outperformed the cash and money market benchmarks.

During the year under review, we made investments, which are in line with our mandate to invest in the rest of the African continent. Our largest transaction during the 2013/14 financial year was securing a 1.5% stake in a Nigerian listed cement company, Dangote Cement for USD289 million. For the next financial year the PIC plans to invest at least a further R2.5 billion in the rest of the continent.

The PIC has also set aside 1% of the profit after tax from the 2013 financial year for corporate social investment. The list of corporate social investment initiatives is discussed on page 101.

The PIC is in good financial health with its profitability at R209 million as at 31 March 2014, up from R130 million at the end of the 2013 financial year.

Let me take this opportunity to express my gratitude to the Board and the Chairman for their guidance. I would further like to acknowledge the management and employees of the PIC for their hard work and dedication. I must also thank the PIC clients for their support towards investing in long-term developmental projects, which are aimed at creating a better life for all.

Whilst we humbly embrace our achievements during the year under review, we also realise the truth embedded in Nelson Mandela's words:

"I have discovered the secret that after climbing a great hill, one only finds that there are many more hills to climb."

We are ready as ever to climb the many hills that lie ahead of us in order to ensure a better life for all.

Ms Matshepo More
Acting Chief Executive Officer

## Performance Against Key Performance Indicators (KPIs) for the financial year ending 31 March 2014

| Goals/ objectives | Performance indicator | 2013/14 target | Actual performance for the period to date ended 31 March 2014 | Variance explanation/ comments |
|---|---|---|---|---|
| **Investment Activities** | | | | |
| Contribution to education, health, housing, infrastructure and environmental sustainability | % increase in AuM (direct and indirect assets committed for investment) | Between 1.0% and 1.5% of AuM (project commitments) | 1.44% of AuM | Achieved<br><br>The achievement was closer to the upper range of 1.5% due to the new unlisted investments operating model, which improved turnaround times of approval of investments. |
| Increase investments in Africa (non-domestic) | % increase in the African and off-shore portfolios | Between 0.5% and 1.0% of AuM (project commitments) | 0.81% of AuM | Achieved<br><br>The achievement was closer to the upper range of 1.0% due to the new unlisted investments operating model, which improved turnaround times of approval of investments. |
| Deliver investment performance which meets or exceeds client benchmarks | % of client portfolios with returns meeting or exceeding the benchmarks; all measurements on a 3-year rolling basis | GEPF: Meet and/ or exceed CPI + 300bps on a total fund level | 15.28% | Achieved<br><br>The Fund exceeded CPI + 3% of 8.67% on a 3-year rolling basis. |
| | | UIF: Meet and/ or exceed CPI + 300bps on a total fund level | 10.60% | Achieved<br><br>The Fund exceeded CPI + 3% of 8.67% on a 3-year rolling basis. |
| | | CC: Meet and/ or exceed CPI + 300bps on a total fund level | CC = 8.79%<br><br>CP = 11.57% | Achieved<br><br>CC Fund exceeded CPI + 3% of 8.67% on a 3-year rolling basis<br><br>CP Fund exceeded CPI + 3% of 8.67% on a 3-year rolling basis. |
| | | Others: Meet and/or exceed CPI + 300bps on a total fund level | AIPF = 8.33% | Not Achieved<br><br>However, a benchmark of CPI +300bps does not apply to these clients as they are only invested in Fixed Income Securities. These clients, however, have all outperformed the Cash and Money Market benchmarks.<br><br>AIPF excess returns over benchmark of 5bps.<br>TEPF excess returns over benchmark of 31bps.<br>Guardian Fund excess returns over benchmark of 17bps.<br>PICOF excess returns over benchmark of 31bps.<br>President's Fund excess returns over benchmark of 38bps. |

## Performance Against Key Performance Indicators (KPIs) for the financial year ending 31 March 2014

| Goals/ objectives | Performance indicator | 2013/14 target | Actual performance for the period to date ended 31 March 2014 | Variance explanation/ comments |
|---|---|---|---|---|
| **Investment Activities** | | | | |
| BEE: Contribute to enterprise development in the asset management sector | Minimum number of enterprise development managers (including those who graduate) | Minimum 5 managers | The number of BEE managers, including those who graduated, are 13 | Achieved<br><br>During the year, we terminated the services of one enterprise development manager and subsequently appointed four new enterprise development managers. In addition, two BEE managers were approved for inclusion in the enterprise development programme with effect from 1 April 2014. |
| BEE: Contribute to enterprise development in the broker sector | % of BEE broker firms used | Minimum 40% with at least a Level 4 BEE rating | 26 out of 34 brokers used for the period were Level 4 or better (77%)<br><br>Brokerage paid to the 26 brokers constituted 86% of total brokerage paid for the financial year | Achieved<br><br>The 2013/14 financial year saw a substantial increase in the rebalancing of the constituents of the index and for purposes of rebalancing the equity portfolio accordingly, BEE brokers were used as they are mainly discount brokers who charge less. |
| BEE: Contribute to enterprise development in the PE sector and SMME | Funds committed through BEE private equity firms and SMMEs as percentage of total private equity investments | Revise the SMME strategy and implement<br><br>Allocate at least 0.25% to 0.5% of AuM to BEE asset managers, PE and SMME firms | The SMME (Dinamane) strategy was revised, presented and approved by PMC and tabled to the client for final approval<br><br>Current commitments to SMMEs and PE firms are 0.26% of AuM | Achieved<br><br>The client mandates which regulate these investments, were only approved towards the end of the financial year and some of the funds for the BEE asset managers within the private equity investment pillar, were deferred to the new financial year. This led to the performance being closer to the lower range. |

## Performance Against Key Performance Indicators (KPIs) for the financial year ending 31 March 2014

| Goals/ objectives | Performance indicator | 2013/14 target | Actual performance for the period to date ended 31 March 2014 | Variance explanation/ comments |
|---|---|---|---|---|
| **Investment Activities** | | | | |
| BEE: Contribute to enterprise development in the property sector | Development property investments (new developments, refurbishments, upgrades and rural developmental investments) | Commit between R500 million to R1 billion | Approximately R45,7 million spent on Capex repairs and maintenance and minor redevelopments | Not Achieved<br><br>No new developments were done in the financial year ending 31 March 2014. Only minor refurbishments, normal repairs and maintenance procurement were done. A property strategy was developed and approved during the financial year.<br><br>We are formulating the Property BBBEE strategy in order to meet the targets. |
| | Allocation of funds to BEE funds and property managers | Commit at least R1 billion to R1.5 billion to BEE property asset managers and procurement of facilities management | BEE property manager, MEAGO, invested approximately R2.3 billion, as at 31 March 2014 | Achieved<br><br>Funds to the total of R2.3 billion is invested with a BEE property manager (MEAGO). |
| **Operational Activities** | | | | |
| Conduct sustainable and efficient PIC operations | Net profit per annum as a minimum percentage of sustainable revenue | Net profit = minimum 10% of net profit/ management fees | 26% | Achieved<br><br>Higher management fees due to the unlisted investment mandate. |
| BEE: The PIC staff demographics reflective of South Africa | % of staff defined as black, according to legislation; this will be aligned with the economically active population | Minimum % of black staff, as defined in legislation, to be aligned with South African demographics (in terms of economically active population) | Target of 85% achieved and exceeded; 87% of staff defined as black as at 31 March 2014 | Achieved<br><br>2% variance due to organisational restructuring. |

BEE: Black Economic Empowerment
BBBEE: Broad-Based Black Economic Empowerment
bps: Basis Points
CPI: Consumer Price Index
PE: Private Equity
PMC: Portfolio Management Committee
SMME: Small, Medium and Micro Enterprises

# Celebrating 20 years of Democracy and investing for the Public Sector

27 April 2014 marked 20 years since South Africa's political transition to democracy. It is without doubt that the past 20 years of our freedom have been characterised by different challenges and opportunities as well as different milestones, which the country needed to go through. Below is an account of the PIC's achievements, on behalf of its clients, for the past 20 years.

## 1994 to 1999

- The PIC diversifies its portfolio into property investments, consisting of directly and indirectly held properties; and
- Isibaya Fund is born. This fund is used to support developmental type investments, providing finance to commercially viable projects based in South Africa that have a strong impact on the micro and macro level of the economy, in particular with deep social impact.

## 2000 to 2004

- The Public Investment Corporation Act of 2004 is enacted to provide for the corporatisation of the PIC.
- The fair value of Assets under Management grows to R377 billion due to strong performance of the equity and bond markets.

## 2005 to 2009

- The PIC is corporatised, positioning it to become a modern asset management company. Assets under Management amounts to R786.8 billion.
- The PIC registers with the Financial Services Board (FSB) as an approved financial services provider.
- Acquisition of 20% shareholding in Airports Company of South Africa (ACSA) for R1.67 billion.
- Establishment of the Pan African Infrastructure Development Fund (PAIDF) to focus on infrastructure investment on the African continent with a targeted fund size of USD1 billion. The fund raised USD625 million from investors in its first year.

- The PIC establishes a management company, Harith Fund Managers, to oversee PAIDF investments and officially launches PAIDF in Ghana.
- The PIC intensifies shareholder activism by publishing the Corporate Governance and Proxy Voting Policy and also becomes a signatory to the United Nations Global Compact and United Nations Principles for Responsible Investing.
- The Corporation is named Institutional Investor of the Year at the Africa Investor Awards held in Durban.
- Equity fund mandates are awarded to 16 external fund managers who would manage approximately 25% of the equities held by the PIC on behalf of clients.
- Launch of the Training Outside Public Practice (TOPP) programme for trainees in chartered accounting.

## 2010 to 2014

- The PIC adopts the GEPF's Developmental Investment (DI) policy, which seeks to invest in investments that contribute positively towards the development of the South African economy and improvement of the livelihood of South African citizens through job creation, poverty alleviation and reduction of inequality.
- The PIC takes a long-term view of its role in the society and adopts a ten-year strategy.
- Investment of R740 million in KwaMashu's Bridge City shopping mall helps to create jobs for the local community and brings economic activity and vibrancy in the township of KwaMashu in KwaZulu-Natal.
- The PIC celebrates its centenary and Assets under Management surpass the significant R1 trillion mark.
- An amount of R45 billion is set aside for developmental investment which focuses on social and economic infrastructure development, environmental sustainability, job creation, enterprise development and broad-based black economic empowerment.
- The PIC, together with Growth Point Properties, acquires the V&A Waterfront, placing it back in South African hands.
- Acquisition of CBS Property Management business and its amalgamation with Advent Asset Management to create a property business.
- Finalisation of plans to invest 10% of GEPF's Assets under Management outside the borders of South Africa, with 5% set aside for the rest of Africa.
- The PIC implements the Africa strategy and increases investments in the unlisted space.
- The restructuring of the AfriSam investment is completed.
- Investment in two private hospitals, namely Kiaat Private Hospital and Botshilu Private Hospital which would enable low-income earners access to quality health care at an affordable rate.
- The PIC closes its first African investment, through acquisition of a stake in Ecobank Transnational Incorporated Ltd, providing the PIC access to over 30 countries.
- The PIC acquires a stake in Lanseria International Airport.
- The PIC participates in the construction of renewable energy projects, approving projects that would contribute 1558 megawatts to the national power grid.
- The PIC facilitates the acquisition of a major newspaper

Mr Nhlanhla Musa Nene, MP

Positions

- Deputy Minister of Finance
- Non-executive Director
- Chairman of the PIC Board
- Chairman of the Directors' Affairs Committee

Qualifications

- Bachelor of Commerce (Hons) in Economics
- Advanced Diploma in Economic Policy
- Diploma in Marketing Management
- Certificate in Economics

Mr Vuyo Jack

Positions

- Independent non-executive Director
- Chairman of the Audit and Risk Committee
- Chairman of the Private Equity and Africa Fund Investment Panel

Qualifications

- CA (SA)
- Bachelor of Commerce (Hons) (Taxation)
- Bachelor of Commerce (Accounting)

Memberships

- Member of the PIC Directors' Affairs Committee
- Member of the PIC Social and Ethics Committee
- Member of the PIC Human Resources and Remuneration Committee
- Member of the PIC Investment Committee
- Member of the PIC Property Committee
- Chairman of Bonngoe Holdings, the holding company of Empowerdex and Bonngoe Capital
- Chairman of the Audit Committee for National Treasury
- Co-founder and Executive Chairman of Empowerdex (Pty) Ltd
- Visiting Professor at the University of the Free State School of Management
- Lecturer at Wits University (Financial Accounting III)
- Advisor to the Minister of Agriculture and Land Affairs on AgriBEE issues

## Mr Patrick Mngconkola

### Positions

- Independent non-executive Director
- Chairman of the Human Resources and Remuneration Committee
- Chairman of the Social and Economic Infrastructure and Environmental Sustainability Fund Investment Panel

### Qualifications

- B.Tech in Business Administration
- Bachelor's Degree in Human Resources Management
- National Diploma in Police Administration
- Diploma in Personnel and Training Management
- Course in Project Management
- Executive Mentorship Programme
- Programme in Forensic and Investigative Auditing

### Memberships

- Member of the PIC Directors' Affairs Committee
- Member of the PIC Audit and Risk Committee
- Member of the PIC Investment Committee
- Member of the Board of V&A Waterfront
- Member of the Board of GrowthPoint Properties Limited

## Mr Roshan Morar

### Positions

- Independent non-executive Director
- Chairman of the Investment Committee
- Chairman of the Priority Sector and Small Medium Enterprises Fund Investment Panel

### Qualifications

- CA (SA)
- Bachelor of Commerce (Accounting)
- Diploma in Accounting
- Certified Fraud Examiner

### Memberships

- Member of the PIC Directors' Affairs Committee
- Member of the PIC Property Committee
- Member of the Board of Airports Company South Africa
- Member of the Board of Adcock Ingram Holdings Limited
- Member of the Board of the South African National Roads Agency

## Ms Moira Moses

### Positions

- Independent non-executive Director
- Chairman of the Property Committee

### Qualifications

- BA
- Management Advancement Programme

### Memberships

- Member of the PIC Directors' Affairs Committee
- Member of the PIC Audit and Risk Committee
- Member of the PIC Human Resources and Remuneration Committee
- Member of the PIC Investment Committee
- Member of the GEPF Board of Trustees
- Member of the Thusanang Trust, a non-profit organisation focused on Development Phase Education

## Mr Ignatius Sehoole

### Positions

- Independent non-executive Director
- Chairman of the Audit and Risk Committee
- Chairman of the Property Committee
- Chairman of the Social and Ethics Committee
- Chairman of the Private Equity and Africa Fund Investment Panel

### Qualifications

- CA (SA)
- B.Compt (Hons) (Accounting)
- Bachelor of Commerce (Accounting)
- Certificate in Theory of Accountancy

### Memberships

- Member of the PIC Directors' Affairs Committee
- Member of the PIC Human Resources and Remuneration Committee
- Member of the Specialist Committee on Company Law
- Member of the Board of SacOil Limited
- Member of the Board of Harith Fund Managers
- Member of the Board of Mascom
- Member of the Board of MTN Rwanda
- Member of the Board of MTN Swaziland

*Retired by rotation: 30 November 2013*

## Mr Jan Strydom

### Positions

- Independent non-executive Director
- Chairman of the Investment Committee

### Qualifications

- CA (SA)
- Master of Commerce (Accounting)
- Bachelor of Commerce (Accounting)

### Memberships

- Member of the PIC Directors' Affairs Committee
- Member of the PIC Human Resources and Remuneration Committee
- Member of the Board, Audit Committee, Risk Management Committee, Remuneration Committee and the Nomination Committee of MTN Group Limited
- Member of the Board, Audit Committee and Chairman of the Risk Management Committee of GrowthPoint Properties Limited
- Senior Member of the Special Income Tax Court for Taxation Appeals
- Member of the Board of AfriSam

*Retired by rotation: 30 November 2013*

## Ms Rejane Woodroffe

### Positions

- Independent non-executive Director
- Chairman of the Social and Ethics Committee

### Qualifications

- Chartered Financial Analyst (CFA) – AIMR
- B. Business Sc (Economics Honours)
- MA Development Economics

### Memberships

- Member of the PIC Directors' Affairs Committee
- Member of the PIC Audit and Risk Committee
- Member of the PIC Investment Committee
- Member of the PIC Property Committee
- Co-founder and Director of Bulungula Incubator, a not-for-profit association based in Nqileni Village, Eastern Cape

## Mr Trueman Goba

### Position

- Independent non-executive Director

### Qualifications

- Master in Engineering (Civil)
- Pr Engineering (Civil)
- B.Sc (Engineering)
- Survey Technician's Diploma
- Strategic Leadership Programme

### Memberships

- Member of the PIC Investment Committee
- Chairman's Programme
- Chairman of Hatch Goba (Pty) Ltd
- Director of Goba (Pty) Ltd
- Director of Jones and Wagener (Pty) Ltd
- Fellow, SA Institute of Civil Engineering
- Fellow, SA Academy of Engineers
- Vice President of SAAE
- Member of the Professional Advisory Committee (Civil), ECSA
- Member of various university councils and committees
- Member of the National Planning Commission

*Appointed to the PIC Board: 1 December 2013*

## Ms Dudu Hlatshwayo

### Position

- Independent non-executive Director

### Qualifications

- MBA
- B.Soc.Sc (Hons)
- Senior Executive Leadership Development Programme
- Diploma in Marketing Management
- Certificate in Product Strategy and Brand Management
- Diploma for Successful Participation in the Owner Value Programme

### Memberships

- Member of the PIC Human Resources and Remuneration Committee
- Executive Chairman of Change EQ
- Member and Chairman of the KZN Growth Fund
- Member and Chairman of AFMETCO
- Member of the Eurosteel Audit and Risk Committee
- Member of the Eurosteel Human Resources and Remuneration Committee
- Member of the SAB Miller Caddies Foundation
- Member of the Catholic Rivonia Parish Finance Committee
- Member of the Institute of Business Advisors of Southern Africa
- Member of the Institute of Directors

*Appointed to the PIC Board: 1 December 2013*

### Ms Sibusisiwe Zulu

**Position**
- Independent non-executive Director

**Qualifications**
- LLB
- Certificate in Business Rescue (Companies Act, 2008)
- Advanced Diploma in Corporate Law
- Certificate in Practical Legal Training
- Admitted Attorney

**Memberships**
- Member of the PIC Audit and Risk Committee
- Member of the PIC Social and Ethics Committee
- Director of Ngubane Wills Incorporated
- Chairperson of the Municipal Bid Appeals Tribunal
- Chairperson of the KZN Gambling and Betting Board
- Member of the Umngeni Municipality Audit Committee

*Appointed to the PIC Board: 1 December 2013*

### Mr Elias Masilela

**Positions**
- Chief Executive Officer
- Executive Director

**Qualifications**
- M.Sc Economic Policy and Analysis (Money & Banking and International Economics)
- B.A. Social Sciences (Economics and Statistics)

**Memberships**
- Member of the PIC Directors' Affairs Committee
- Member of the PIC Investment Committee
- Member of the PIC Property Committee
- Member of the PIC Fund Investment Panels
- Chairman of Ingagaru Property Investments
- Member of the Board, United Nations Global Compact

*Resigned on 31 May 2014*

Dr Daniel Matjila

### Positions

- Chief Investment Officer
- Executive Director

### Qualifications

- Ph.D. in Mathematics
- M.Sc. Applied Mathematics
- B.Sc. (Hons) in Applied Mathematics
- Postgraduate Diploma in Mathematical Finance
- Advanced Management Programme
- Senior Management Programme

### Memberships

- Member of the PIC Investment Committee
- Member of the PIC Property Committee
- Member of the PIC Fund Investment Panels
- Member of the PIC Social and Ethics Committee
- Member of the Board of Community Property Company (Pty) Ltd
- Member of the Board of Ecobank Transnational Incorporated

Ms Matshepo More

### Positions

- Chief Financial Officer
- Executive Director

### Qualifications

- CA (SA)
- Certificate in the Theory of Accounting (CTA)
- Bachelor of Business Science (Finance)

### Memberships

- Member of the PIC Fund Investment Panels
- Member of the Board of CBS Property Management (Pty) Ltd
- Member of the Board of Pareto Limited
- Member of the Board of ADR International Airports Company South Africa (Adriasa (Pty) Ltd)
- Member of the Board of Association of Black Accountants of South Africa
- Member of the Board of Community Property Company (Pty) Ltd

## Dr Daniel Matjila

### Positions
- Chief Investment Officer
- Executive Director

### Qualifications
- Ph.D. in Mathematics
- M.Sc. Applied Mathematics
- B.Sc. (Hons) in Applied Mathematics
- Postgraduate Diploma in Mathematical Finance
- Advanced Management Programme
- Senior Management Programme

### Memberships
- Member of the PIC Investment Committee
- Member of the PIC Property Committee
- Member of the PIC Fund Investment Panels
- Member of the PIC Social and Ethics Committee
- Member of the Board of Community Property Company (Pty) Ltd
- Member of the Board of Ecobank Transnational Incorporated

## Ms Matshepo More

### Positions
- Chief Financial Officer
- Executive Director

### Qualifications
- CA (SA)
- Certificate in the Theory of Accounting (CTA)
- Bachelor of Business Science (Finance)

### Memberships
- Member of the PIC Fund Investment Panels
- Member of the Board of CBS Property Management (Pty) Ltd
- Member of the Board of Pareto Limited
- Member of the Board of ADR International Airports Company South Africa (Adriasa (Pty) Ltd)
- Member of the Board of Association of Black Accountants of South Africa
- Member of the Board of Community Property Company (Pty) Ltd

## Ms Petro Dekker

### Position
- Chief Operating Officer

### Qualifications
- B.Com (Hons) Business Management
- B.Com Accounting
- Programme in Investment Analysis and Portfolio Management

### Memberships
- Chairperson of the Board of CBS Property Management (Pty) Ltd
- Member of the Board of Simons Town Quayside Hotel
- Member of the Institute of Directors

## Mr Luyanda Ntuane

### Position
- Chief Technology Officer

### Qualifications
- B.Com (Business Information Systems and Economics)
- Postgraduate Diploma in Management (Distributed Commercial Information Systems)
- Advanced Diploma in Project Management
- Certificate in IT Project Management
- Professional Certificate in CIO Practice
- IT Certification: ITIL, PRINCE 2: COBIT 5

## Dr Zulu Xaba

### Position
- Chief Risk Officer

### Qualifications
- Ph.D. Applied Mathematics
- M.Sc. Applied Mathematics (cum laude)
- B.Sc. (Hons.) Applied Mathematics
- Executive Development Programme

Mr Roy Rajdhar

Position

- Senior Fund Principal: Priority Sector and SMME

Qualifications

- CA (SA)
- B. Accounting Sciences
- Post Graduate Diploma in Accounting
- Higher Diploma in Tax Law

Memberships

- Member of Fund Investment Panel Priority Sector and SMME
- Member of the Board of Makalani Investment Holdings Limited

Mr Leon Smit

Position

- General Manager: Fixed Income and Dealing

Qualifications

- B.Com
- Certificate in Treasury Management
- RPE Qualification

Ms Rubeena Solomon

Position

General Manager: Unlisted Operations

Qualifications

- MBA
- B.Com (Hons)
- B.Com
- Certificate in Corporate Governance

Mr Koketso Mabe

Position

- Senior Fund Principal: Private Equity

Qualifications

- Bachelor Actuarial Science

Membership

- Member of Fund Investment Panel: Private Equity and African Fund
- Student member of the Institute and Faculty of Actuaries
- Member of the Board of Ethos Advisory
- Member of the Board of Harith Fund Managers
- Member of the Board of Medu Advisory
- Member of the Board of Afgri (Pty) Ltd
- Member of the Board of Menlyn Maine Investment Holdings
- Alternate member of the Board of Independent News and Media South Africa

Ms Nana-Araba Quagraine

Position

- Senior Fund Principal: Infrastructure and Africa Investments

Qualifications

- Master in Business Administration
- Master in Engineering (Metallurgical)
- Bachelor in Engineering (Metallurgical)

Membership

- Member of Fund Investment Panel: Social and Economic Infrastructure and Environmental Sustainability Fund
- Member of the Boards of Lanseria International Airport and Lanseria Holdings

Vacant Positions:

* General Manager: Listed Equities (Mr Maqhawe Dlamini resigned on 26 July 2013)
* General Manager: Properties (Mr Lesiba Maloba resigned on 5 September 2013)
* General Manager: Human Resources

# Corporate Governance

The PIC Board is committed to the highest standards of business integrity, ethical values and governance. The Board ensures that the PIC conducts its affairs with accountability, transparency, fairness and prudence.

Corporate governance includes the structures, processes and practices that the Board of Directors and Management use to direct and manage operations of the PIC. The corporate governance structure therefore specifies the distribution of rights and responsibilities amongst different role players in the PIC, such as the Board of Directors, Executive Management, employees, the PIC clients and all other stakeholders. It also spells out the rules and procedures for making decisions on the PIC's affairs.

The PIC Board promotes and supports high standards of corporate governance, thereby endorsing compliance with the provisions of the Code of Corporate Governance contained in the King III Report. King III also provides the structure through which the PIC's objectives are set, as well as the means of attaining those objectives and monitoring performance. Issues such as transparency, accountability and business ethics, are key to achieving these objectives.

The PIC is a unique asset manager with an explicit dual accountability, reporting to the Minister of Finance, as shareholder, and the clients whose monies we invest. The Board is accountable to the shareholder and other stakeholders. It is also ultimately responsible for the implementation of sound corporate governance practices. This responsibility is also in line with, and is premised on our mission statement, which states, *inter alia*, that the PIC is the beacon of good corporate governance in South Africa. True to this mission, the Board is committed to ensure that the PIC adheres to high standards of corporate governance in conducting its business.

## Composition of the Board

The PIC is led by a unitary Board of Directors, which comprises a majority of independent, non-executive directors.

The composition of the Board ensures that there is a proper distribution and balance of power and authority in decision-making processes. Both executive and non-executive directors are appointed by the Minister of Finance, in consultation with Cabinet. Non-executive directors are selected on the basis of their skills, business experience, investment knowledge and qualifications. Non-executive directors collectively bring a wealth of skills, knowledge and experience from their respective fields of business to the Board, ensuring that the Board's consideration of matters of strategy, investments, risk, policy and performance are always robust, informed and constructive.

The Deputy Minister of Finance is the Chairman of the Board and is regarded as a non-executive director. The PIC is aware that, in terms of King III, the Board Chairmanship should preferably be held by independent directors. However, the appointment of the Deputy Minister as Chairman is based on the premise that the Government Employees Pension Fund (GEPF) is a defined benefit fund which is underwritten by Government and that the PIC is a public entity owned by the state. In line with best practice, the role of the Chairman is separate from that of the Chief Executive Officer. In instances where there is a real or perceived conflict of interest for the Chairman of the Board, such interests are declared and the Chairman recuses himself from the meeting and that part of the business is then chaired by an independent non-executive director. None of the non-executive directors are involved in the day-to-day running of the Corporation.

The Board comprises 12 directors, of whom three are executive directors, namely the Chief Executive Officer, Chief Investment Officer and Chief Financial Officer. Except for the Chairman, the remainder of the non-executive directors are considered to be independent.

During the year under review, the Minister of Finance, as shareholder, did a thorough evaluation of the Board, with a specific focus on Board members who have been serving on the Board for a period in excess of nine years, as stipulated in King III. Based on this review and taking into account the need to refresh the Board, two independent non-executive directors, namely Messrs Strydom and Sehoole, retired from the Board at the end of November 2013. Following consultations with Cabinet, three new Board members were appointed, namely Mr Trueman Goba, Ms Dudu Hlatshwayo and Ms Sibusisiwe Zulu, with effect from 1 December 2013.

The independent nature of the non-executive directors, in relation to the executive responsibilities, enables them to make, *inter alia*, two particularly important contributions to the governance process. These are: (i) the ability to review the performance of both the Board and of the executives and (ii) taking the lead where potential conflicts of interest in the boardroom arise.

The Board recognises that the specific interests of the executives and the wider interests of the PIC may at times diverge. On such occasions, the independent non-executive directors are well placed to help resolve such conflict situations. The Board is fully committed to upholding the highest standards of corporate governance.

## Responsibilities of the Board

The Board is responsible for overall strategy, acquisition and investment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the Corporation. As part of this process, executive management members annually present their strategic plans to the Board for review and approval and submission thereof to the shareholder.

Furthermore, the Board considers employee-related matters as well as key appointments and ensures that, as part of succession planning, members familiarise themselves with the management team. Considerable attention is given to leadership development throughout the Corporation in order to nurture and retain a pool of talented individuals. All directors receive appropriate training upon appointment as well as continuous training on investments and other related matters.

In addition to providing orientation in the PIC's operations, directors are also guided in their fiduciary duties and provided with information relating to the relevant statutory and regulatory frameworks.

The fees of the non-executive directors are independent of the PIC's financial performance, to ensure independent decision-making. In line with the recommendations of King III and the provisions of the Companies Act, 2008, the fees payable to non-executive directors are approved by a Special Resolution of the shareholder.

## Board Charter

A formally documented and approved Board Charter sets out the framework of accountability, responsibility and duty of the Board to the Corporation. The elements of the Board Charter are derived from various sources, including the Companies Act, 2008, the Public Investment Corporation Act, 2004, the Public Finance Management Act, 1999, the Financial Advisory and Intermediary Services (FAIS) Act, 2002, and the King III Code on Corporate Governance. A corporate governance review of the Board Charter and the Terms of Reference of the different Board committees, is conducted annually. The purpose of reviewing the Board Charter is to ensure that it remains relevant, appropriate and in line with governance best practice.

The key responsibilities of the Board include:

- Setting appropriate policies and confirming that necessary processes are implemented to ensure the integrity of the internal controls and risk management of the PIC;
- Approving the PIC's objectives and strategies and ensuring that procedures are in place for monitoring and evaluating the implementation of these strategies, policies and business plans, for achieving those objectives;
- Annually reviewing and assessing achievements against set objectives;
- Reviewing and monitoring the performance of the Chief Executive Officer and the executive team;
- Establishing the values of the PIC in support of its mission, and establishing principles and standards of ethical business practice in support of such values;
- Ensuring that an adequate budget and planning process exists, that performance is measured against budgets and that the annual budget is approved;
- Reviewing, approving and reporting on the PIC's annual financial statements;
- Considering and approving the annual financial statements, dividend announcements and notices to the shareholder, and considering and agreeing on the basis for assessing the going concern status of the PIC;
- Reviewing, monitoring and reporting on the PIC's integrated sustainability management; and
- Reviewing the Board and committee mandates at least annually and approving recommended changes.

## Delegation of authority and effective control

The Board retains effective control over the operations of the PIC through a well-developed governance structure that comprises various Board committees. These committees regularly report to the Board in terms of their agreed mandates. Management performance is monitored through effective and regular reporting against Board-approved strategies, budgets and balance scorecards.

A comprehensive Delegation of Authority (DoA) is in place to ensure timeous and effective implementation of the Board's strategy. The DoA does not divest the Board of its responsibilities. During the 2013/14 financial year, a comprehensive revision of the DoA was done to ensure proper alignment with the PIC's changing investment environment. The Board retains the prerogative to withdraw any given delegation at any time.

## Access to information

The Board considers transparency and access to information as the cornerstone of good corporate governance and therefore, has unrestricted access – collectively and individually – to all PIC information, records, documents, facilities and property to enable it to discharge its responsibilities.

Non-executive directors have access to members of management and, where appropriate, are entitled to meet separately with management in the absence of executive directors. They also meet with both internal and external auditors to access information. This provision applies to the Board and committees of the Board.

All Board and committee mandates specify that members are entitled to take independent expert advice at the Corporation's expense. This ensures that both the Board and committees make informed decisions which take into consideration all possible aspects of issues at hand.

## Board meetings

The Board has a formal reserved schedule of matters and meets at least once a quarter to consider these matters. Additional meetings may be convened to discuss specific issues which arise between scheduled Board meetings. In instances where directors are unable to attend a meeting personally, video and teleconference facilities are made available to include them in the proceedings and enable their participation in discussions.

Board meetings are convened by formal notice to the directors. Directors are afforded the opportunity to provide input into the agenda. Comprehensive documentation, which contains detailed proposals and management reports, is distributed at least seven working days prior to each of the scheduled meetings. This affords directors ample opportunity to study the documents. The directors can also request additional information from management, where necessary, to enable the Board to reach objective and well-informed decisions.

In instances where resolutions need to be taken between Board meetings and it is not possible for directors to meet, a written proposal is circulated, which requires valid signatures of all directors. A resolution passed in this manner, is effective as at the date of signature of the last signing of the directors and is formally noted at the next Board meeting.

The Board meets with management annually for two full days to discuss proposed strategies.

The Company Secretary attends all the Board meetings and ensures that accurate and adequate records of the proceedings and decisions are taken.

The Board met six times during the financial year ended 31 March 2014. Four of these meetings were scheduled meetings, including the Strategic Board Breakaway, and two were special meetings. The Annual General Meeting was held on 1 November 2013.

## Attendance at Board Meetings

The Board held six meetings during the financial year ended 31 March 2014, of which four were scheduled meetings. Directors' attendance of these meetings is shown in the table below.

| Date | N Nene | I Sehoole | J Strydom | M Moses | R Morar | P Mngconkola | V Jack | R Woodroffe | T Goba | S Zulu | D Hlatshwayo | E Masilela | D Matjila | M More |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 24 May | X | X | X | X | X | X | X | X | | | | X | X | X |
| 26 July | X | X | X | X | X | X | X | X | | | | X | X | X |
| 1 Nov | X | X | X | X | X | X | X | X | | | | X | X | X |
| 21 Nov | | X | | X | X | X | X | X | | | | X | X | X |
| 29 Nov | X | X | | X | X | | X | X | | | | X | X | X |
| 21 Feb | | | | X | X | X | X | X | X | X | X | X | X | X |

- Messrs Sehoole and Strydom retired by rotation on 30 November 2013
- Mr Goba, Ms Zulu and Ms Hlatshwayo were appointed as independent non-executive directors to the PIC, effective 1 December 2013

## Board subcommittees

The Board has established and mandated a number of committees to which certain of its functions have been delegated. All these committees comprise a majority of independent, non-executive directors and are all chaired by an independent non-executive director.

The permanent committees of the Board are the:

- Directors' Affairs Committee;
- Investment Committee; and
- Human Resources and Remuneration Committee.

The Board has further established and mandated the following two Statutory Committees, as per the provisions of the Companies Act, 2008:

- Audit and Risk Committee; and
- Social and Ethics Committee.

The Board has established and mandated the Property Committee and the following Fund Investment Panels (FIPs), as subcommittees of the IC to assist the Board and Investment Committee in discharging their statutory duties and responsibilities in relation to unlisted investments in South Africa and the rest of Africa:

- Private Equity and Africa FIP;
- Social and Economic Infrastructure and Environmental Sustainability FIP; and
- Priority Sector and Small and Medium Enterprises FIP.

Each committee and FIP operates under approved Terms of Reference. These mandates describe:

- The extent of the committee's powers;
- The responsibilities and duties delegated to it;
- Its membership;
- Its role and function;
- Procedures for reporting to the Board; and
- Its authority to act.

The minutes of the committees are submitted to the Board meetings on a quarterly basis. The Chairman of each committee also includes a summary of decisions of that committee in the Board documentation. The Chairmen of the committees also report on all significant activities that took place during the quarter, to the Board.

## Directors' Affairs Committee

The Board has delegated its roles and responsibilities in respect of the composition of the Board and Board committees to the Directors' Affairs Committee (DAC). The purpose of the DAC is to provide a focus on corporate governance that will enhance corporate performance and ensure, on behalf of the Board, that the PIC's corporate governance system is effective. The DAC comprises the Chairman of the Board and the Chairmen of the other Board committees. Should one of the Chairmen of the Board committees be unable to attend the DAC meetings, that Chairman may nominate one committee member for representation at the DAC meeting.

The DAC's key terms of reference include the following:

- Setting criteria for the nomination of directors and members of the Board Committees and subsidiaries;
- Identifying, evaluating and recommending nominees for appointments;
- Identifying, evaluating and nominating directors and the PIC employees to be appointed as the PIC's representatives on the Boards of investee companies;
- Considering corporate governance best practice;
- Conducting an annual assessment of the performance of the Board and reviewing the effectiveness of all Board committees; and
- Periodically reviewing the format and content of the Board and committee structures and mandates.

The DAC has a formal and transparent procedure in place for the recommendation of remuneration for non-executive directors. Non-executive directors are paid attendance fees for Board and Board committee meetings that they attend, as well as a retainer fee. Directors' fees are approved by Special Resolution by the shareholder in line with the requirements of the Companies Act. The remuneration of each director for the financial year ended 31 March 2014, is disclosed on page 165 of this report.

## DAC Meeting Attendance

The DAC held nine meetings during the financial year ended 31 March 2014, of which four were scheduled meetings. Directors' attendance of these meetings is shown in the table below.

| Date | N Nene | I Sehoole | J Strydom | P Mngconkola | R Morar | M Moses | R Woodroffe | V Jack | E Masilela |
|---|---|---|---|---|---|---|---|---|---|
| 3 May | X | X | X | | | | | | X |
| 24 May | X | X | X | X | | | | | X |
| 5 July | X | X | X | X | | | | | X |
| 8 Aug | X | X | X | X | | | | | X |
| 14 Aug | X | x | X | X | | | | | X |
| 4 Oct | X | X | X | X | | | | | X |
| 18 Oct | X | X | X | | | | | | X |
| 29 Nov | X | X | | | | | | X | X |
| 24 Jan | X | | | X | X | X | X | X | X |

- Mr Jack was appointed as a member of the DAC effective 1 November 2013
- Messrs Sehoole and Strydom retired by rotation on 30 November 2013
- Mr Morar, Ms Moses and Mr Woodroffe were appointed as members of the DAC effective 1 January 2014

## Audit and Risk Committee (ARC)

The PIC's financial reporting, the adequacy and effectiveness of its systems of internal control, as well as risk management, are overseen by the ARC. The ARC comprises five independent non-executive directors. The PIC's risk management processes are detailed in the risk management framework. The risk framework endorsed by the Board is fundamental to the management of the risks within the corporation and across its operations and investments.

Section 94(2) of the Companies Act, 2008, requires that at each Annual General Meeting, a State-Owned Company elects an Audit Committee, which comprises at least three members. The rest of Section 94 elaborates on the appointment of the members of an Audit Committee and its duties and responsibilities.

All members of the ARC are independent. They all have requisite financial competence and none of the members have any personal financial interest, non-manageable conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the PIC. The executive directors, Chief Risk Officer, external and internal auditors, as well as relevant members of management are required to attend the ARC meetings.

The ARC specifically oversees:

- The integrity of the financial statements;
- The appointment, qualifications, independence and performance of the external auditors and the integrity of the audit process as a whole;
- The performance and leadership of the internal audit function;
- The effectiveness of the system of internal controls and risk management;
- Compliance with applicable legal and regulatory requirements;
- Reviews of accounting policies and proposed changes thereto;
- Reviews of reports on material defalcations; and
- Compliance by management with constraints imposed by the Board.

The ARC has access to all sources of information that it may require within the PIC. In addition, the committee or its individual members may, if they deem it necessary in the course of discharging their responsibilities, seek guidance and counsel from external experts at the PIC's cost. The ARC has authority to invite any person that it deems necessary in the discharge of its duties, including the PIC employees/officers and external advisors, to attend the meetings.

## Statement of material breakdowns

During the period under review, nothing came to the attention of the ARC to suggest that any material breakdown had occurred in the functioning of the PIC systems, procedures and controls which could lead to material losses, contingencies or uncertainties that would require disclosure in the financial statements.

## Meetings

The ARC meets at least on a quarterly basis and additional meetings are held as and when required. Each ARC meeting is held before the Board meeting to ensure that all critical issues highlighted, are timeously brought to the attention of the Board.

## ARC Meeting Attendance

The committee held six meetings during the year under review, of which four were scheduled meetings. The committee membership and meeting attendance were as follows:

| Date | I Sehoole | V Jack | P Mngconkola | M Moses | R Woodroffe | S Zulu |
|---|---|---|---|---|---|---|
| 13 May | X | X | | X | | |
| 15 July | X | X | X | X | | |
| 4 Oct | X | X | X | X | | |
| 29 Nov | X | X | X | X | | |
| 16 Jan | | X | X | X | X | |
| 22 Jan | | X | | X | X | |

- Mr Sehoole retired by rotation on 30 November 2013
- Mr Jack was appointed as Chairman of the ARC, effective 1 November 2013
- Ms Woodroffe was appointed as a member of the ARC, effective 1 January 2014
- ARC held an investment workshop with the Chairmen of the Fund Investment Panels on 16 January 2014
- Ms Zulu was appointed as a member of the ARC, effective 21 February 2014

## Investment Committee (IC)

The purpose of the Investment Committee (IC) is to assist the Board to discharge its statutory duties and its oversight responsibilities in relation to investment activities. This is achieved by monitoring the investment mandates, policy, strategy and strategy implementation of all investments managed by the PIC, as well as delegated investment decisions. The IC consists of eight members, of whom six are independent non-executive directors and two are executive directors.

The Property Committee and three Fund Investment Panels (FIP) were established as subcommittees of the IC. These are:

- Private Equity and Africa FIP;
- Social and Economic Infrastructure and Environmental Sustainability FIP; and
- Priority Sector and Small and Medium Enterprises FIP.

## Meetings

The Terms of Reference of the IC provide that the committee meets at least four times during the year with additional meetings at the discretion of the Chairman of the Investment Committee. During the period under review, the Investment Committee held seven meetings, four of which were scheduled meetings in accordance with the Terms of Reference. The Private Equity and Africa FIP had six meetings during the financial year. The Priority Sector and Small and Medium Enterprises FIP held three meetings and the Social and Economic Infrastructure and Environmental Sustainability FIP held five meetings during the year under review.

## IC Meeting Attendance

The Investment Committee held seven meetings during the financial year ended 31 March 2014, of which four were scheduled meetings. Attendance at Investment Committee meetings is shown on the following table:

| Date | J Strydom | R Morar | P Mngconkola | R Woodroffe | V Jack | M Moses | T Goba | E Masilela | D Matjila |
|---|---|---|---|---|---|---|---|---|---|
| 7 May | X | X | X | X | | | | | X |
| 13 June | X | X | X | | | | | | X |
| 25 June | X | X | X | X | | | | X | X |
| 10 Sept | X | X | X | X | | | | X | X |
| 5 Nov | X | X | | X | | | | X | X |
| 15 Jan | | X | X | X | X | | | X | X |
| 4 Feb | | X | | X | X | X | X | X | |

- Mr Strydom retired by rotation on 30 November 2013
- Mr Morar was appointed as Chairman of the IC, effective 1 December 2013
- Messrs Jack and Goba and Ms Moses were appointed as members of the IC, effective 21 February 2014
- The IC held an investments workshop with the Chairmen of the Fund Investment Panels on 15 January 2014

## Property Committee

The Board established the Property Committee and is responsible for the operational and investment administration of the Property Asset Management Business, including providing property asset management services to the PIC's clients in terms of mandates concluded, or to be concluded between these clients and the PIC Property Division.

The Property Committee comprises:

- Four non-executive directors of which one must be a member of the Investment Committee and one a member of the Audit and Risk Committee;
- The Chief Executive Officer (CEO); and
- The Chief Investment Officer (CIO).

The management team of the properties division are standing invitees to the Property Committee meetings.

The Property Committee takes ultimate responsibility for all property-related asset management as well as property investment matters.

## Property Committee Meeting Attendance

The Property Committee held ten meetings during the financial year ended 31 March 2014, of which four meetings were scheduled meetings, with attendance as follows:

| Date | I Sehoole | M Moses | V Jack | R Morar | R Woodroffe | E Masilela | D Matjila |
|---|---|---|---|---|---|---|---|
| 14 June | X | | X | X | X | | |
| 9 July | X | | X | X | X | X | X |
| 26 July | X | | X | | X | X | X |
| 12 Sept | X | | X | X | X | X | |
| 4 Oct | X | | X | | X | X | X |
| 8 Nov | X | | X | X | X | X | X |
| 23 Jan | | X | X | X | X | X | X |
| 4 Feb | | X | X | X | X | X | |
| 18 Feb | | X | X | | X | X | X |
| 18 Mar | | X | X | X | X | X | X |

- Mr Sehoole retired by rotation on 30 November 2013
- Ms Moses was appointed Chairman of the Property Committee, effective 1 December 2013

## FIP Meeting Attendance

### Private Equity and Africa Fund Investment Panel

A total of six meetings were held by the Private Equity and Africa Fund Investment Panel during the year under review. Attendance of these meetings is shown on the following table:

| Date | I Sehoole | V Jack | E Masilela | D Matjila | M More | K Mabe |
|---|---|---|---|---|---|---|
| 17 Sept | X | | X | X | X | X |
| 8 Nov | X | | X | X | X | X |
| 6 Dec | | X | X | | | X |
| 30 Jan | | X | | X | | X |
| 28 Feb | | X | X | | | |
| 24 Mar | | X | | X | X | X |

- Mr Sehoole retired by rotation on 30 November 2013
- Mr Jack was appointed Chairman, effective 1 December 2013

## Priority Sector and Small and Medium Enterprises Fund Investment Panel

The Priority Sector and Small and Medium Enterprises Fund Investment Panel held three meetings during the year under review. Attendance of these meetings is shown on the following table:

| Date | R Morar | E Masilela | D Matjila | M More | R Rajdhar |
|---|---|---|---|---|---|
| 18 Sept | X | | X | | X |
| 24 Jan | X | X | X | | |
| 27 Mar | X | X | X | | X |

## Social and Economic Infrastructure and Environmental Sustainability Fund Investment Panel

During the year under review, the Social and Economic Infrastructure and Environmental Sustainability Fund Investment Panel held four meetings. Attendance of these meetings is shown on the following table:

| Date | P Mngconkola | E Masilela | D Matjila | M More | N Quagraine |
|---|---|---|---|---|---|
| 10 Oct | X | | X | X | X |
| 7 Nov | X | X | X | X | X |
| 7 Feb | X | | X | X | |
| 25 Mar | X | X | X | X | X |

## Human Resources and Remuneration Committee (HR and Remco)

The HR and Remco comprises four independent non-executive directors.

The purpose of the HR and Remco is to:

- Ensure a formal and transparent procedure for developing policies on executive remuneration and performance, as well as recommending remuneration packages for executive directors;
- Consider policies regarding the conditions of employment, remuneration and benefits of the PIC employees and all related aspects;
- Approve the policies and principles of the performance bonus scheme and criteria to be applied within the PIC, which is based on corporate and individual performance; and
- Ensure compliance with all relevant laws and regulations.

The executive directors are invited to HR and Remco meetings, but do not participate in discussions about their own remuneration packages.

## HR and Remco Meeting Attendance

HR and Remco held four scheduled meetings during the year ended 31 March 2014, with attendance as follows:

| Date | P Mngconkola | I Sehoole | J Strydom | M Moses | V Jack | D Hlatshwayo |
|---|---|---|---|---|---|---|
| 8 May | X | X | | X | | |
| 10 July | X | X | | X | X | |
| 16 Oct | X | X | | | X | |
| 31 Jan | X | X | | X | X | |

- Mr Strydom resigned as a member of the HR and Remco, effective 30 June 2013
- Mr Jack was appointed as a member of the HR and Remco, effective 1 July 2013
- Mr Sehoole retired by rotation on 30 November 2013
- Ms Hlatshwayo was appointed as a member of HR and Remco, effective 21 February 2014

## Social and Ethics Committee (SEC)

The SEC is a statutory committee, required in terms of the Companies Act, 2008.

The membership of the SEC comprises:

- Two independent non-executive Directors;
- Chief Investment Officer;
- Chief Operating Officer;
- Chief Risk Officer;
- Senior Corporate Governance Specialist;
- Senior Manager: Stakeholder Relations;
- General Manager: Human Resources;
- Manager: Safety, Health and Environment; and
- Company Secretary.

The SEC performs the following functions:

To monitor the PIC's activities with reference to any relevant legislation, other legal requirements and prevailing codes of best practice, relating to:

- Social and economic development, including the PIC'S standing in terms of its goals and purpose;
- The ten principles set out in the United Nations Global Compact (UNGC);
- The Organisation for Economic Co-operation and Development's (OECD) recommendations regarding corruption;
- The Employment Equity Act, 1998; and
- The Broad-Based Black Economic Empowerment Act, 2003.

Good corporate citizenship, including the PIC's:

- Promotion of equality, prevention of unfair discrimination and the eradication of corruption;
- Contribution to development of the communities in which its activities are predominantly conducted or within which it provides investment services;
- Record of sponsorships, donations and charitable giving;
- The environment, health and public safety, including the impact of the PIC's activities and its investment services; and
- Customer relationships, including the PIC's advertising, public relations and compliance with consumer protection laws.

Labour and employment, including:

- The PIC's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
- The PIC's employment relationships and the contribution towards the educational development of its employees.

In addition to the above-stated statutory duties, the SEC shall ensure compliance with:

- The requirements set out in the Companies Act, 2008;
- The principles set out in the third King Report on Corporate Governance (King III);
- The principles set out in the Code for Responsible Investment in South Africa (CRISA);
- The principles set out in the United Nations Global Compact (UNGC);
- The principles set out in the United Nations Principles for Responsible Investments (UNPRI);
- The PIC's Sustainability Policy; and
- The approved sustainability report of the PIC for inclusion in its integrated report.

## SEC Meeting Attendance

The SEC held five meetings during the year under review, of which four were scheduled meetings. Attendance of these meetings is shown on the following table:

| Date | I Sehoole | R Woodroffe | V Jack | D Matjila | P Dekker | Z Xaba | W Louw | D Botha | S Sekgoela | M Mahlangu | C Strydom | M Malatsi |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 24 Apr | X | | X | X | | X | X | X | X | X | | X |
| 3 Jul | X | | X | | X | X | X | | X | | X | |
| 18 Oct | X | | X | | | X | X | X | X | | X | |
| 23 Jan | | X | X | X | X | X | X | X | X | | X | |
| 20 Feb | | X | X | X | X | X | X | X | X | | | X |

- Ms Mahlangu resigned on 16 August 2013
- Mr Sehoole retired by rotation on 30 November 2013
- Ms Woodroffe was appointed Chairman of SEC, effective 1 December 2013
- Ms Strydom was appointed as Acting General Manager: Human Resources, effective 1 September 2013

## Company Secretary

The Company Secretary is accountable to the Board to ensure that Board procedures are complied with and advises the Board on governance matters. All Directors have access to the Company Secretary for advice and services. The Board appoints and removes the Company Secretary in terms of Section 86 of the Companies Act, 2008. To enable her to fulfil her duties, the Company Secretary has been fully empowered by the Board and has complete access to people and resources to facilitate this. The Company Secretary attends all Board and committee meetings, including non-executive meetings.

## Going Concern

The Board considers the going concern concept in the context of its deliberations on the annual financial statements. The facts and assumptions underlying the Board's assessment are documented. In accordance with the requirements of the Companies Act, 2008, the Board records its approval of the annual financial statements and its opinion on going concern aspects on page 112 to 115 of this annual report.

## Code of Ethics

The Board has adopted a Code of Ethics to promote proper standards of conduct and sound and prudent practices for the PIC employees in dealing with stakeholders, including clients, suppliers as well as customers. The PIC's employees are committed to managing its affairs in an ethical and disciplined manner.

## Fraud Prevention Policy

The PIC has a formalised Fraud Prevention Policy to help in the prevention and detection of fraudulent activities and to protect assets under the Corporation's management from any form of dishonest or unethical conduct. The Fraud Prevention Policy declares that the PIC management and all employees should adopt the highest standards of honesty, propriety, personal integrity and accountability, and be fully attentive to guard against misappropriations, irregular transactions and other unlawful conduct affecting the PIC. The Fraud Prevention Policy also sets out the fraud discovery reporting procedures and warns employees of the disciplinary action taken against fraudulent conduct.

Management has contracted with a "whistleblowing" company, to promote the achievement of this. This ensures an anonymous process and one that does not raise fear of victimisation of the whistleblower.

## Anti-Money-Laundering Policy

Anti-money-laundering is about legal controls that financial institutions and other regulated entities must observe to prevent or report money laundering activities.

The Board has approved and adopted an Anti-Money-Laundering Policy to ensure that the Corporation is not compromised by unlawful activities associated with money laundering and financing of transactions. PIC employees are given regular updates on the latest changes in procedures and developments on money-laundering. Specific training is offered to promote the understanding of employees' fundamental responsibility in adhering to the procedures for verifying customers and reporting suspicious transactions.

## Compliance

The PIC considers compliance with applicable laws, industry regulations, industry codes and its own internal policies and ethical standards, to be an integral part of the way in which we are doing business. The PIC's Compliance Officer oversees the adoption of governance and other best practices by the PIC's business units to ensure that the Corporation complies with all financial services and other relevant legislation. Whilst the PIC Board remains ultimately responsible for compliance with legislation, the Compliance Officer is responsible for the implementation processes. During the reporting period, the PIC Compliance Manual and compliance risk management plans were updated. A number of internal compliance reviews were also conducted, with a view to assessing general compliance as well as FAIS and PFMA compliance.

The Compliance unit is responsible for:

- Drafting compliance policies;
- Facilitating the implementation of compliance processes using the compliance risk management methodology in line with international best practice;
- Monitoring and reviewing implemented compliance processes;
- Providing a central point of reference for advice and consultation on compliance-related issues;
- Compliance-related reporting requirements;
- Facilitating compliance education and awareness programmes; and
- Establishing and enhancing a compliance culture throughout the PIC.

The Board and the ARC, as well as the SEC oversee the PIC's compliance with statutory and regulatory requirements throughout the year.

## Conclusion

The PIC Board is alert to the changing nature of the governance landscape in the financial services sector and the fact that new governance requirements will come into effect in the coming financial year. The Board has familiarised itself with the implications of the amendments to the Companies Act and the King III Report, as well as other latest developments. During the 2013/14 financial year, the shareholder also approved the Memorandum of Incorporation (MoI) for the PIC in terms of the Companies Act, 2008.

The Board remains committed to being well informed and attentive in respect of all existing and future governance obligations.

## Declaration by the Company Secretary

In terms of section 88(1)(e) of the Companies Act, 2008, I hereby declare that, to the best of my knowledge and belief, the Public Investment Corporation SOC Limited has lodged with the Registrar of Companies, for the financial year ended 31 March 2014, all such returns and notices as are required of a State-Owned Company in terms of the Companies Act, and that all such returns and notices appear to be true, correct and up to date.

Ms Wilhelmina JF Louw
Company Secretary

# Report of the Audit and Risk Committee

## Internal Audit

Internal Audit uses a risk-based approach to determine the annual audit plan, which focuses on investments and operational risks and Information Technology (IT) risks. For both functions, the main focus is on risk management, governance and controls. The ARC approved the internal audit plan for 2013/14 at the beginning of the financial year. The ARC further approved the annual revision of the Internal Audit Charter, which governs the internal audit function and especially its independence, objectivity and access to records. The internal audit department reports functionally to the ARC and administratively to the Chief Executive Officer, ensuring greater independence from the operations of the PIC, which is in line with best internal auditing practice. A Quality Assurance Review (QAR) is done every five years. The last review was done during 2011/12 and members of the ARC expressed their satisfaction with the results of the QAR.

## Integrated Report

As a corporate governance activist and in line with recommendations contained in the King III Report on Corporate Governance, the PIC has prepared an integrated report which includes sustainability and financial reports.

## ISAE 3402 (International Standard on Assurance Engagements)

During the year under review, the PIC embarked on an exercise to determine the effectiveness of its controls. Following this exercise, an assurance report on the description of controls, their design and operating effectiveness, was produced. It focused on both manual and automated controls in relation to assets under the PIC management.

Issued by Deloitte, the report concluded, *inter alia*, that after giving consideration to the effect of these matters on other control objectives, in all material respects:

- The description fairly presents the controls as designed and implemented throughout the period from 1 April 2013 to 31 March 2014;
- The controls related to the control objectives stated in the description, were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period from 1 April 2013 to 31 March 2014; and

- The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period 1 April 2013 to 31 March 2014.

## Risk

An Enterprise Risk Management (ERM) methodology is applied by the PIC in identifying and responding to the spectrum of risks that the organisation is confronted with in its drive to meet its strategic objectives. This methodology is encapsulated in a framework and policy that is based on aspects of the Committee of Sponsoring Organisations of the Treadway Commission ERM standard as well as ISO 31000 Risk Management – Principles and Guidelines. The ERM Framework and Policy further defines the risk appetite of the PIC and is approved by the ARC and the Board.

The risk registers were populated early in the financial year through risk identification and assessment workshops that the Operational Risk Management (ORM) department facilitated with the management of each division. A five-point likelihood matrix and a five-point impact matrix are used to assess these risks. The evaluation of the inherent risk is accomplished by taking the product of the likelihood and the impact scores. Risks are then ranked according to their inherent risk scores. ORM, in collaboration with management, developed appropriate responses to each risk evaluated. The risk responses were also evaluated for effectiveness against a five-point risk control matrix. The results of the risk response evaluation were applied to the inherent risk evaluation in order to arrive at the residual risk attached to each identified risk. The residual risk is the risk remaining after the treatment measures have been applied. The risk registers, together with the risk responses, were approved by the ARC and subsequently the Board. ORM has regularly monitored the implementation of risk action plans as well as assisted management in scanning the risk horizon for emerging risks. Through the presentation of a dynamic top ten risk register, ORM has reported to the ARC and the Board on the state of the internal risk control environment over the course of the year.

## Compliance

The PIC considers compliance with applicable laws, industry regulations, industry codes and its own internal policies and ethical standards, to be an integral part of the way in which it conducts its business. The PIC's Compliance Officer oversees the adoption of governance and other best practices by the PIC's business units to ensure that the corporation complies with all legislation governing financial services providers and other relevant legislation in general. Whilst the Board remains ultimately responsible for compliance with legislation, the Compliance Officer is responsible for the monitoring processes. During the reporting period, the PIC Compliance Manual and compliance risk management plans were updated. A number of internal compliance reviews were also conducted, with a view to assessing compliance with legislation, in general, and the PFMA, in particular. All compliance officers are required to perform their duties with the level of due skill, care and diligence expected of a responsible and competent person operating within the compliance framework. The Compliance Unit is responsible for:

- Drafting compliance policies;
- Facilitating the implementation of compliance processes, using the compliance risk management methodology, in line with international best practice;
- Monitoring and reviewing implemented compliance processes;
- Providing a central point of reference for advice and consultation on compliance-related issues;
- Facilitating compliance education and awareness programmes; and
- Establishing and enhancing a compliance culture throughout the PIC.

The Board and the ARC oversee the PIC's compliance with statutory and regulatory requirements throughout the year. The PIC Board is alert to the changing nature of the governance landscape in the financial services sector and the fact that new governance requirements came into effect during the reporting period. The Board has familiarised itself with the implications of the Companies Act, 2008, the Financial Markets Act, 2012, FAIS Act, 2002, and the King III Report. The Board, as the body charged with overall responsibility for the PIC's governance, is anxious to ensure that the Corporation is fully prepared for these developments. The Board remains committed to being well informed and attentive, in respect of all existing and future governance obligations.

## Public Finance Management Act Responsibilities

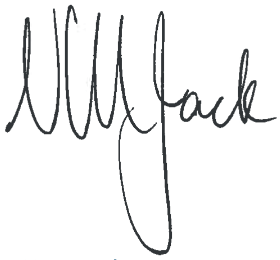
The ARC has fully complied with the provisions of Paragraph 3.1 of the National Treasury Regulations and Section 77 of the Public Finance Management Act, 1999. Moreover, the committee has discharged its responsibilities in line with its mandate and formal terms of reference. The ARC is further satisfied with the content and quality of the reports of the Chief Executive Officer prepared and issued during the year under review.

## Evaluation of Financial Statements

The annual financial statements of the PIC for the 2013/14 financial year have been audited and, in reviewing these, the ARC has:

- Discussed the financial statements with the Auditor-General and the Accounting Authority;
- Reviewed the Auditor-General's management letter and management's response;
- Confirmed that there were no changes in accounting policies and practices; and
- Confirmed that no adjustments resulted from the audit.

The ARC acknowledges the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the statements be accepted and read together with the report of the Auditor-General. Having evaluated the Integrated Report for the year ended 31 March 2014, the ARC is of the opinion that the report complies, in all material respects, with the requirements of the Public Finance Management Act, 1999, and the Companies Act, 2008. The ARC concurs with the adoption of the going concern premise in framing the annual financial statements. At its meeting on 15 July 2014, the ARC recommended the adoption of the annual financial statements by the Board.



Mr Vuyo Jack
Chairman: Audit and Risk Committee

# Sustainability Report

## 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 and to 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 sustainability trajectory and realises that this will require fundamental changes in corporate 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 GEPF, spearheaded drafting of the Code for Responsible Investing in South Africa (CRISA). The PIC CEO sits on the Board of the United Nations Global Compact and also chairs the SA Global Compact Network. The Corporation conducts its business in such a way that it lives 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 Corporation aims to be a responsible citizen at all levels and continues to support the Global Compact and its principles on human rights, labour issues, the environment and anti-corruption.

The year 2013/14 focused a lot on strengthening the United Nations Global Compact South African Local Network. Under the leadership of the CEO of the PIC, Mr Elias Masilela, who is also a Board member of the United Nations Global Compact, the local network hosted three round-table discussions with business leaders whose companies are United Nations Global Compact 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 United Nations Global Compact.

These key initiatives indicate 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 owners to manage assets for the benefit of all stakeholders. Increasingly, all stakeholders expect asset managers and owners to have a long-term view in their investment decision and resist the temptation of settling for short-term gains.

The CEO, Corporate Governance Specialist and the Chairman of the PIC's Social and Ethics Committee also contributed largely to the deliberations at the United Nations Global Compact Leader Summit in New York during September 2013.

During the financial year, the PIC addressed the ten principles, contained in 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, specifically Chapter 2. South Africa is a member of the International Labour Organisation (ILO) and has ratified the ILO instruments. These requirements have been included in the 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; and being honest, truthful and conscientious. Each employee of the PIC has access to the Code of Conduct and Ethics. 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 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 and their immediate family members with an Employee Wellness Programme, at no cost. Each year, the PIC has a health day where all employees can have their cholesterol, blood sugar levels, blood pressure, etcetera, 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. Each year the PIC celebrates International Aids Day and free testing, as well as counselling, is provided to PIC employees.

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.

### 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.

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, 1998.

The one concern with regards to employment equity, which the PIC is addressing, is the employment of people with disabilities.

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, form part of the PIC's recruitment strategy. 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, forced or compulsory labour at the PIC or any of its subsidiaries. Such employment is illegal and against the PIC's internal values, standards, policies and procedures. The PIC followed established recruitment practices in all appointments 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; and |
| 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 relooking at its environmental footprint and in the new financial year, there will be a much bigger focus on the carbon footprint.

### 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 Code 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 are 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 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 (ARC) 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 ARC. The ARC provides the terms of appointment of the Internal Audit Manager and conducts her performance assessment.

## United Nations Principles for Responsible Investments

The PIC has adopted a belief system that incorporates Environmental, Social and Governance (ESG) 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 entrench the six Principles for Responsible Investments.

The Principles were devised by the investment community. They reiterate the view that 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 belief that:

- Sound environmental management forms an essential part of sustainable economic growth and social development, which leads 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; and
- Good governance practices mitigate the risk of corporate failure and that, ultimately, will lead to enhanced long-term returns.

There are 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 the 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 their investment decisions moved beyond the mere financial performance of companies. The challenge was to delve into the core of investee companies' controls, sustainability strategy, social responsibility intent and, ultimately, 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 Isibaya, invests significantly in socio-economic development, including skills development.

Isibaya 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; and
- 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 adheres to 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. During the year under review, the PIC-GEPF ESG Working Committee had frequent discussions with external managers on various ESG issues.

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

The PIC is an active member of the UNPRI South African Network.

During 2013, the PIC formally joined the Association for Saving and Investment South Africa (ASISA). ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service

Providers Association (LISPA) and the Life Offices' Association (LOA). These associations disbanded and their staff, assets and activities were transferred to ASISA.

This coming-together of the four associations marked the beginning of a new chapter for the savings and investment industry.

ASISA is empowered by a mandate from an industry that collectively manages assets of more than R5.5 trillion and is well positioned to proactively engage with Government 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; and
- Collectively engage with Government on policy issues and actively partner with Government on promoting South Africa as a financial centre.

The PIC is represented on key ASISA Standing Committees, such as:

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

The PIC will, by way of this platform, further ensure that the United Nations Global Compact (UNGC) principles are implemented throughout the South African investment and asset management industries.

The PIC is also represented at 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.

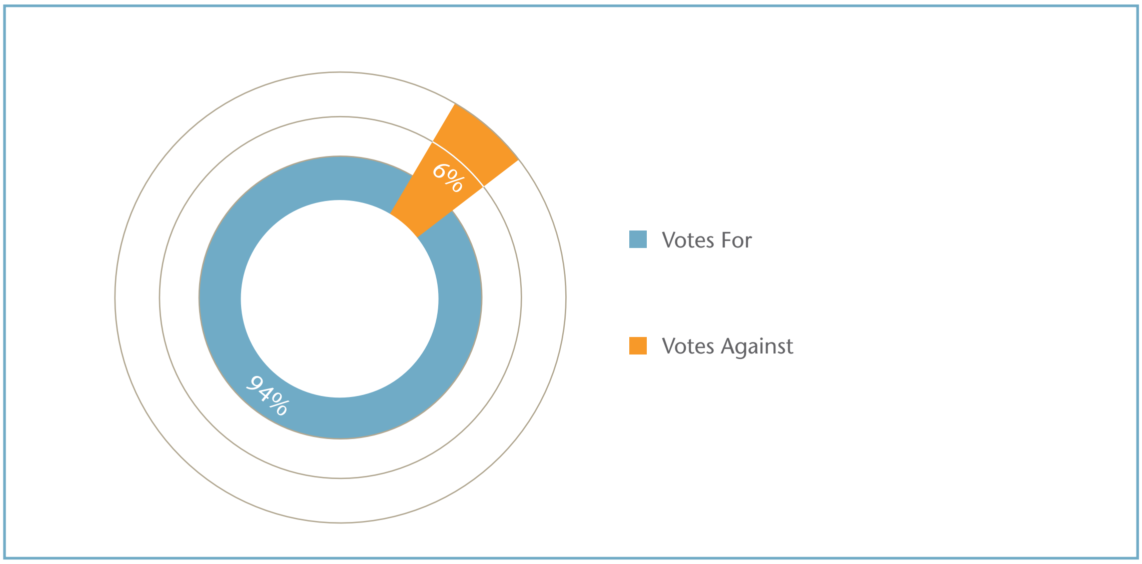
The PIC is one of a few asset managers that publicly disclose their voting records. This is done by publishing the quarterly proxy voting records on the website. The Corporate Governance Policy of the PIC is also a public document.

## Code For Responsible Investing In South Africa (CRISA)

### Proxy Voting

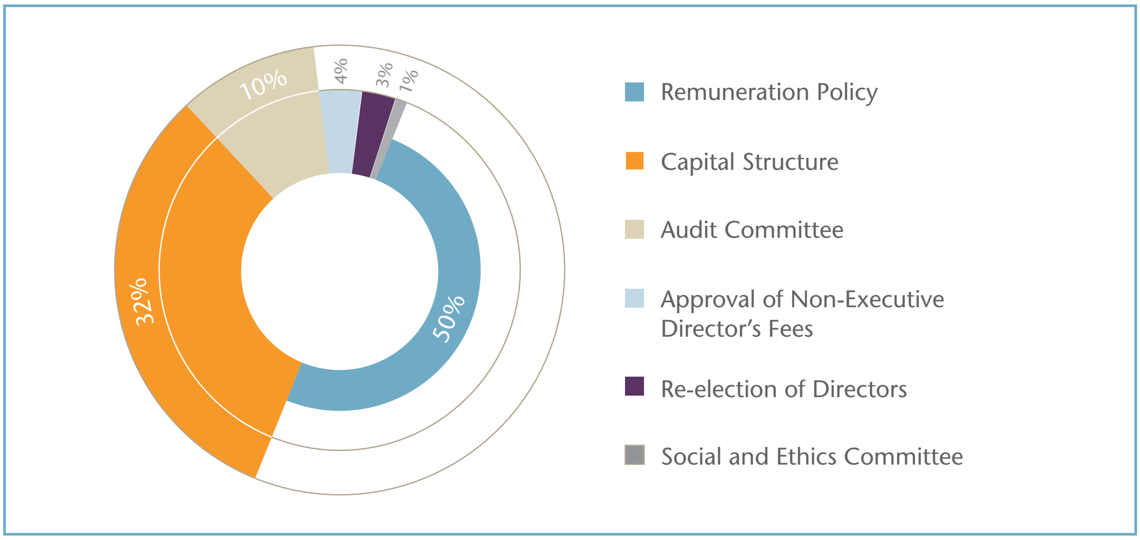
In the 2013/14 financial year, the PIC voted at 232 shareholder meetings (224 in the 2012/13 financial year). The PIC Proxy Voting Policy and the detailed voting records are available on the PIC website.

*Proxy Vote by result*



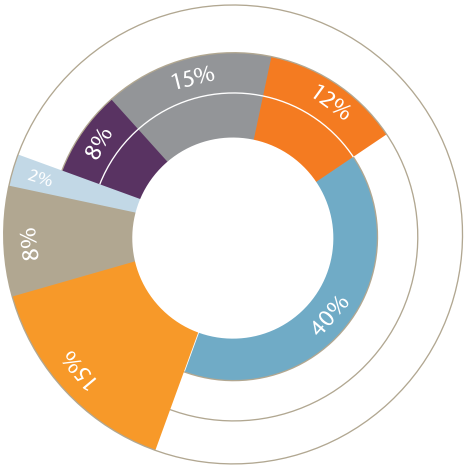

The number of against votes cast, which formed 6% of the total resolutions, were 173. The bulk of the resolutions voted against, included remuneration policy (50%), capital structure (32%), and re-election of directors to the audit committee (10%) and non-executive director fees (4%).

*Breakdown of Against Votes*




The PIC voted against the approval of share-incentive plans, which mostly related to companies' capital structure (40%). Other capital structure-related resolutions dealt with issuance of shares for cash (15%) and for the repurchase of shares (15%).

*Breakdown of Capital Structure Votes*




## Company Engagements

The primary objective of ongoing engagements with companies is to protect and enhance investment value over the long term. It is also 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 associated with ESG issues. It can drive change, push companies to behave more responsibly and generate better long-term financial rewards for investors. When ESG issues are addressed, there will be more sustainable prospects for business positive impact for the labour force, communities and the environment.

During the 2013/14 financial year, 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; and
- Ethics.

## Financial Sustainability

The Corporation's business strategy is supported by its financial strategy. The long-term goal for all at the PIC is to continue to strike a suitable balance between high-grade profitability and excellent service-delivery to clients. Sustainability is key, and maintaining this fine balance between service delivery and profitability is critical.

The PIC is at the fulcrum and balance is maintained by:

- Allocating budgetary resources to grow the organisation over a period of time; and
- Directly linking and aligning the budget allocation of each business unit to business initiatives.

## Conclusion

Increasingly, ESG elements are becoming the DNA of investment decision-making processes. 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 much still needs to be done in this industry.

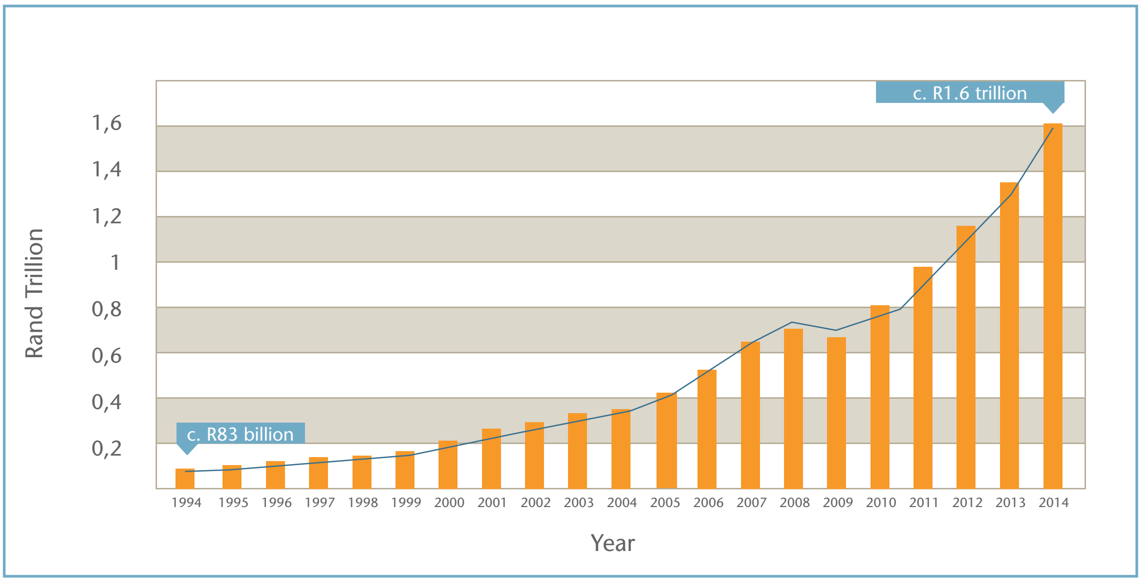
# Report by the Chief Investment Officer

*The past twenty years saw the PIC deliver good and sustainable performance to its clients. Most importantly, the PIC contributed to the socio-economic development of ordinary South Africans. The year under review improved on, and cemented this trend.*

Dr Daniel Matjila
*Chief Investment Officer*

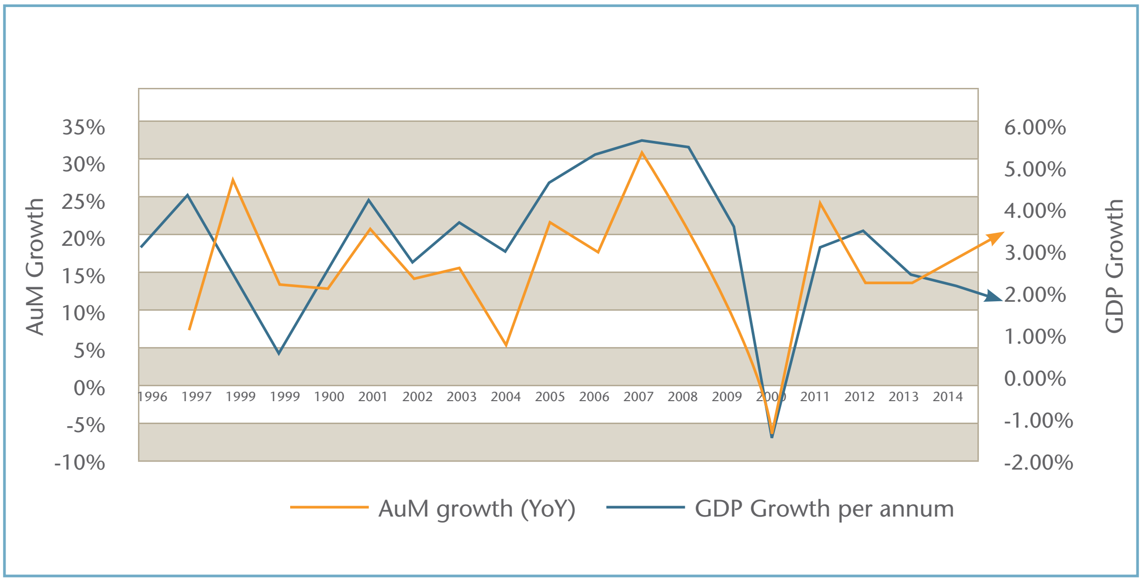
PIC's Assets under Management (AuM) grew by c.16% (CARC) over 20 years and AuM growth correlates with the South Africa Economic GDP growth.

*AuM Growth Since 1994*




Source: PIC calculations

*PIC AuM Growth and the South African Economy*




Source: PIC calculations

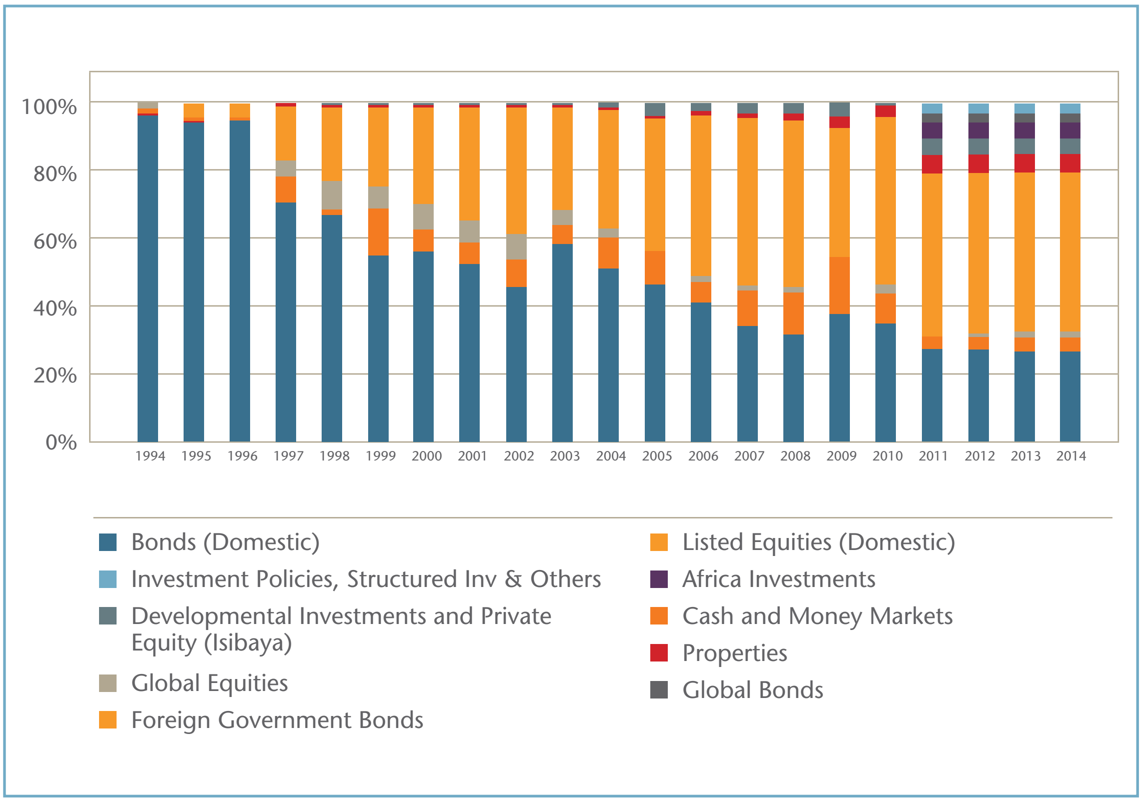
## Client mandates

The revision of some client mandates have enabled the PIC to expand its geographical focus beyond South Africa.

## Asset classes

The PIC's asset classes have evolved over the past 20 years. This evolution saw the introduction of developmental investments and private equity as new asset classes that the PIC invested in.

*Historical Asset Allocation Since 1994*




Source: PIC calculations

## Developmental Investment Policy and its areas of focus

The PIC has endeavoured to align its investment activities with key economic reforms, policies and priorities of Government over the past 20 years. These priorities include infrastructure development, job creation and provision of social amenities to ordinary South Africans. On the following page is a comprehensive list of Government priorities as reflected in the National Development Plan (NDP) and how the PIC's investments are aligned to them.

| NDP chapter | Objectives and actions | How the PIC is aligned to NDP priorities | Social impact |
|---|---|---|---|
| **Economy and employment:**<br><br>Focus on sectors and clusters that have high potential for growth stimulation | 1. Decrease unemployment through investment in agriculture and agro-processing. (Increase youth and rural employment).<br>2. Mineral cluster: Improve growth and income distribution.<br>3. Manufacturing: Promote localisation and diversification.<br>4. Finance Sector: Partnerships to provide project finance.<br>5. Broaden ownership of assets to historically disadvantaged groups. | • **Priority sectors:** R3 billion committed through the current mandate.<br>• Since 1995 R967 million was invested in the following sectors: agriculture, agro-processing industries, mining beneficiation and tourism.<br>• **Private equity:** R5 billion committed through the current mandate.<br>• Since 1995, R22,8 billion was invested accross various sectors facilitating transformation.<br>• **Rest of Africa private equity:** USD500 million (R5,2 billion) committed through the current mandate.<br>• **Dinamane:** R1.5 billion committed through the current mandate. | Since inception of Isibaya Fund, in excess of 53 270 jobs have been created. Some of the key contributors are:<br>• The construction of renewable energy projects, currently with a labour force of 24 183 of which 13 303 are from local communities.<br>• Dinamane has created in excess of 10 000 jobs through SMMEs funding.<br>• Priority sector has created a total of 4 107 jobs (permanent and seasonal) in the agricultural sector. Majority of the seasonal workers were employed for a period longer than six months.<br>• In 2013/14 financial year, in excess of 309 SMMEs were created and financed and 21 467 loans were distributed to the small-scale entrepreneurs in rural communities.<br>• Over ten Community and Employee Trusts have been formed and financed as a way of broadening asset ownership by historically disadvantaged groups. |

**Committed:** Amount committed by GEPF
**Invested:** Amount invested by PIC on behalf of GEPF

| NDP chapter | Objectives and actions | How the PIC is aligned to NDP priorities | Social impact |
|---|---|---|---|
| | | • Since 1995, R697 million was invested across all sectors with a focus on SMMEs – high job creation impact.<br>• **Environmental infrastructure:** R5 billion committed through current mandate.<br>• To date R8,6 billion was invested in renewable energy, shale gas, green economy, recycling focus.<br>• **Economic infrastructure:** R5 billion committed through current investment. Since 1995, R3.8 billion was invested in transport and logistics, ports, rail, telecommunication, water, ICT and broadband, energy, resources infrastructure and shale gas sectors. | • In addition, the PIC provides enabling opportunities for BBBEE partners to participate in the broader economic market through an investment agreement that will afford them an equity stake in investee companies, with a plan to exit to BBBEE parties in future. |
| **Economic infrastructure** | 1. Increase electricity capacity and access, including investing in renewables.<br>2. Increase access to clean water.<br>3. Improve public transport, ports and rail.<br>4. Competitively-priced and widely available broadband.<br>5. Optimise coal, shale gas and fuel resources. | | • PIC invested in road and airport companies.<br>• Direct investment in nine (9) renewable energy projects in South Africa of which one is currently operational. |
| **Environmental sustainability and resilience** | 1. Protect ocean resources.<br>2. Decrease greenhouse gas emissions.<br>3. Reduce volume of waste.<br>4. Better agricultural technologies and agro-processing. | | • The PIC invested in the construction of 318 megawatts of solar energy in Limpopo and the Northern Cape, as well as in the development of a fuel bio-ethanol plant in the Free State. |
| **Inclusive rural economy** | 1. Improve infrastructure and service delivery in rural economies.<br>2. High agricultural potential land.<br>3. Improving small-scale and commercial agriculture and link to the markets. | | |

| NDP chapter | Objectives and actions | How the PIC is aligned to NDP priorities | Social impact |
|---|---|---|---|
| **South Africa in the region and the world** | 1. Boost intra-regional trade and implement a regional integration strategy.<br>2. Build partnerships across the African continent. | • **Social infrastructure:** R5 billion committed through current investment. Since 1995, R4,5 billion was invested in affordable housing, education and health care sectors. | • Memoranda of Understanding signed with various African strategic partners. |
| **Transforming human settlements** | 1. Better spatial planning.<br>2. Upgrade all informal settlements. | • **Africa Development Investment (DI):** USD500 million (R5,2 billion) committed through our current mandate. To date, R2 billion was invested in energy, transport and logistics, social infrastructure and other related sectors, water and ICT sectors. | • Investments that provide affordable housing to over 70 000 housing units have been developed to date. |
| **Improving education, training and innovation** | 1. Improve the quality of education.<br>2. Focus on early childhood development.<br>3. Eradicate school infrastructure backlog.<br>4. Expand higher education system.<br>5. Further vocational training (non-university). | | • 19 200 learners have received quality education through an investment with School and Education Investment Fund. |
| **Health care for all** | 1. Improve life expectancy.<br>2. Improve primary healthcare.<br>3. Prevent and reduce the disease burden.<br>4. Implement national health insurance.<br>5. Build human resources in the health sector. | | • Construction of two private hospitals, one of which is envisaged to open during the 2014/15 financial year. |
| **Social protection** | 1. All children should enjoy access to nutrition, health care, education, social care and safety.<br>2. Create opportunities for the unemployed.<br>3. Address the skills deficit in the social welfare sector.<br>4. Mandate retirement savings for all workers and maintain the Government social assistance net. | | |

## Engagement with Investee Companies on ESG issues

The PIC is an active shareholder in all its investee companies to ensure corporate governance issues are strictly followed. To that end, the PIC has engaged with various Boards of companies and management on ESG issues, transformation and skills transfer. This is informed by the fact that the PIC's investment objectives are long-term and are geared towards long-term sustainability and growth.

## Transformation of the asset management industry in South Africa

In an effort to contribute towards transformation of the asset management industry in South Africa, the PIC supported empowerment of Historically Disadvantaged Individuals (HDIs) within asset management and brokerage firms. The PIC has also provided funds for management to developmental asset managers.

## Off-shore and Africa investments

In 2011, the GEPF approved a new mandate that allows the PIC to invest 5% of Assets under Management in the rest of the African continent and another 5% to global bonds and equities. This mandate is now being implemented. A USD250 million investment in Ecobank, a Pan African Bank with exposure to over 30 countries in central Africa, was the PIC's first African investment. A USD289 million investment in Dangote Cement in Nigeria, was its second transaction and marked its first investment in the infrastructure sector in the rest of Africa. In the global sector, the PIC is implementing an enhanced core/satellite investment strategy to improve diversification.

## Key Investment highlights of the year under review

### Listed investments

- Active management of both the listed portfolios (bonds and equities);
- Engagement with management on ESG and job creation and preservation issues;
- Continuation of the development fund management programme;
- Offshore portfolio and Africa listed investments;
- Continuous support of Government's infrastructure programmes; and
- Strong sustainable returns to the PIC's clients. Overall equity portfolio outperformed the benchmark by returning 26.37% against the benchmark return of 24.48%. Similarly, the fixed income portfolio outperformed by returning 0.73% against the benchmark return of 0.56%.

### Unlisted investments

- Focused on aligning investment activities with Government priorities;
- Additional PPMs approved (Africa DI and Dinamane);
- New allocation to Developmental Investment, Social Responsible Investments (SRI) by the UIF and CC;
- Focused on building and retaining a well-experienced and motivated team;
- Transactions to the value of R11.4 billion were approved during the year under review; and
- In excess of 7 805 jobs (directly and indirectly) were created and 78 636 jobs were sustained during the year under review.

## Investment Strategy and Philosophy

The PIC's main investment objectives are to achieve strong capital returns above clients' benchmarks, supported by robust risk management, while contributing to the broader social and economic development of South Africa and the rest of Africa. Our strategy includes building a portfolio around our clients' requirements diversified by sector, geography, duration and size.

The PIC follows a robust investment strategy which stems from its investment philosophy across all asset classes. The diagram on the next page summarises our investment philosophy which is predicated upon seven pillars, namely market efficiency, ESG and sustainable investing, risk management, diversification, time horizon, cost, and valuation and analysis.

## Investment Philosophy

| | |
|---|---|
| *Market Efficiency* | Markets differ in degree of efficiency at macro sector and asset level and are thus providing opportunities to generate excess returns over the related benchmarks through asset allocation. |
| *ESG and Sustainable Investing* | The PIC believes that incorporation of environmental, social and governance issues produces sustainable returns in the long-term and ensures sustainability of the investment universe. |
| *Risk Management* | The PIC believes that efficient use of risk budget through the prudent management of risks, produces stable asset and portfolio returns. |
| *Diversification* | Well-diversified portfolios produce stable distribution of returns. Downside risk is minimised through the construction of a well-diversified portfolio. |
| *Time Horizon* | The PIC's clients are long-term investors and we believe that in the long term, markets revert to their mean. Investment strategies will generally be long-term in nature and will avoid ad hoc decision-making based upon short-term market factors. |
| *Cost* | The PIC believes that managing the costs of investing, adds significant value to the production of excess returns. Investment strategies will utilise cost-effective approaches. |
| *Valuation and Analysis* | Valuation and analysis, based upon fundamentals, generally produce superior return/risk results. Investment strategies will focus on fundamentally-based processes. |

The PIC invests in various asset classes, both in the local and offshore markets.

Approximately 90% of the AuM is invested in the domestic market. The GEPF is the only client with a mandate to invest approximately 10% of its assets outside South Africa, with half of this allocation meant for investing in the rest of the African continent.

The table below shows high level investment strategies.

| Strategy | Investment approaches |
|---|---|
| **Alpha strategies** | • **Listed equities (domestic)**<br>Outsourced to external managers<br>Developmental manager programme<br>• **Global equities (non-domestic)**<br>Diversified across various regions/geographies, asset classes; managed through third-party managers<br>• **Africa listed Portfolio (internally managed)**<br>Building of the concentrated diversified portfolio which presents key African economy fundamentals<br>• **Africa listed Portfolio**<br>Externally managed by third-party managers |
| **Beta strategies** | • **Listed equities (domestic)**<br>Core quantitatively managed, with tactical tilts over a period of time<br>• **Listed equities (offshore)**<br>Core managed, with allocation calls managed in-house<br>• **Fixed income core strategies**<br>• **Properties strategies (listed and unlisted)** |
| **Unlisted investment strategies** | • **Unlisted DI** (investment approaches through direct, co-investments and indirect (fund of funds))<br>• **Unlisted** – Private equity (investment approaches through direct, co-investments and indirect (fund of funds)) |
| **Properties investments strategies** | • **Property investments** (unlisted investments)<br>Co-investments, indirectly held, directly held, Joint ventures, asset and portfolio management<br>• **Properties management**<br>(leasing, facilities management, properties operations) |

**PIC Investments Asset Classes**

| Listed Investments (Domestic) | Unlisted Investments (Domestic) | Offshore Investments (Non-Domestic) |
|---|---|---|
| Listed equities (in-house managed) | Private equity | Global equities |
| Listed equities (externally managed) | Developmental investments | Global bonds |
| Bonds | Properties | Africa - listed investments |
| Cash and money market | Dinamane | Africa - unlisted investments |
| SAA: Approximately 70% | SAA: Approximately 20% | SAA: Approximately 10% |

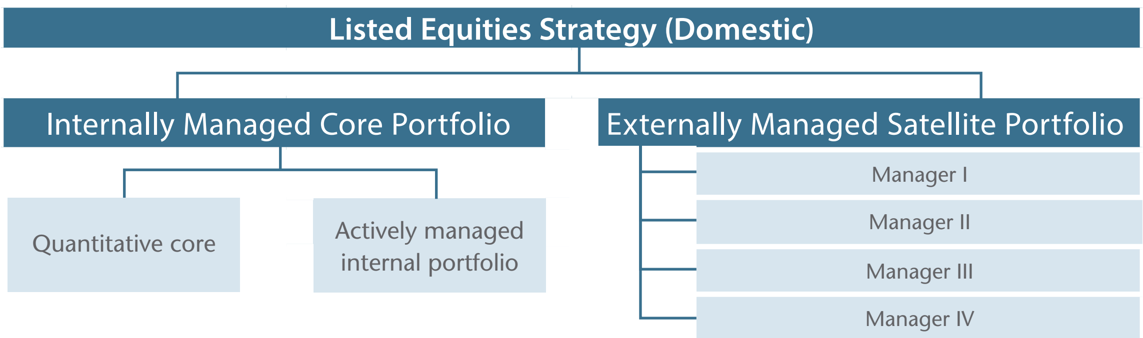
*SAA: Strategic Asset Allocation

## Listed Investments Approaches

### Domestic Listed Equities

The PIC's domestic listed equities investment approach follows a core and satellite investment strategy.

The core portfolio is managed in-house, while external managers manage the satellite portfolio. The externally-managed portfolio seeks to generate alpha (outperformance), while the core portfolio is indexed to follow benchmarked returns. The diagram below shows the broad domestic equities investment strategy structure.




### Domestic Fixed Income

The fixed income portfolio which consists of bonds and money market instruments, is managed in-house. The team's responsibility is to ensure that the portfolio is managed in line with benchmark expectations and a very low tracking error.

## Unlisted Investments

Unlisted investments are split into three broad categories, namely Developmental Investments, Private Equity and Properties. The diagram below illustrates  the unlisted investments structure.

**Unlisted Investments**

| Developmental Investments | | | | | | Private Equity | | Properties | |
|---|---|---|---|---|---|---|---|---|---|
| Africa DI | Economic Infrastructure | Social Infrastructure | Priority Sector Investments | Dinamane | Environmental & Sustainability | South Africa Private Equity | Africa Private Equity | South Africa Properties | Africa Properties |
| Sector Focus:<br>• Energy<br>• Transport and logistics<br>• Social and infrastructure and other related sectors<br>• Water<br>• ICT | Sector Focus:<br>• Roads<br>• Rail, transport and logistics<br>• Energy<br>• Ports (air, sea, rail) | Sector Focus:<br>• Affordable housing<br>• Health<br>• Education | Sector Focus:<br>• Agriculture, agro-processing<br>• Manufacturing and beneficiation<br>• Tourism | Sector Focus:<br>• SMMEs across all sectors | Sector Focus:<br>• Renewable energy<br>• Clean technology<br>• Green buildings<br>• Sustainable environments | Sector Focus:<br>• Across all sectors with a focus on transformation | Sector Focus:<br>• Consumer-driven sectors, other sectors will be viewed opportunistically | Sector Focus:<br>• Retail<br>• Industrial<br>• Offices | Sector Focus:<br>• Retail<br>• Industrial<br>• Offices |

The PIC uses different approaches when executing unlisted investment mandates. The main investment approaches used, are:

1. Direct investments;
2. Co-investments and partnerships; and
3. Indirect investment through third-party fund managers.

## Global Offshore Investments

The diagram below shows high level investment approaches for the offshore portfolio:

**Global Listed Equities - SAA* 3% (range 0-5%)**

| | |
|---|---|
| The actively indexed core portfolio | Externally managed (satellite) |
| Customised equity benchmark - managed by Blackrock | Active - managed by multiple managers |

**Global Bonds - SAA 2% (range 0-4%)**

| | |
|---|---|
| Core portfolio | Externally managed (satellite) |
| Actively indexed portfolio | Active |

*SAA: Strategic Asset Allocation

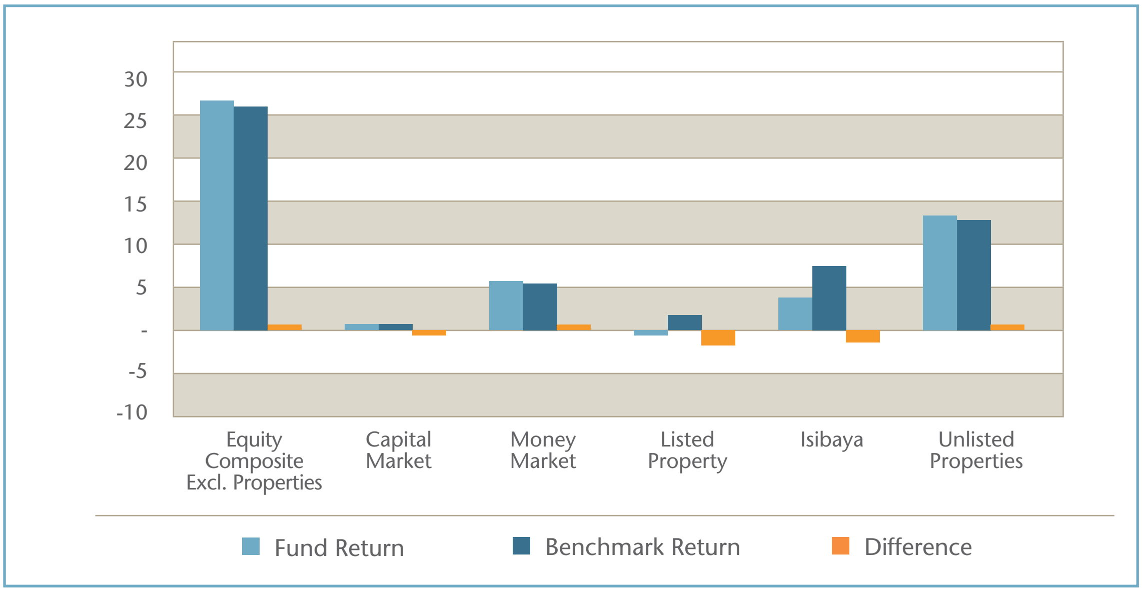
The current investment approach for global equities and bonds is to track an index. The management of the offshore global portfolio was outsourced to Blackrock and to the World Bank Treasury. The investment strategy to diversify the offshore portfolio, has been approved and the investment team is in the process of implementing the strategy.

## Clients' Portfolio Performance

### Government Employees Pension Fund

The Government Employees Pension Fund [1] is the biggest fund which the PIC manages. This fund comprises of a hybrid of asset classes, which include listed equities, capital market, money market, listed and unlisted property and unlisted investments (Isibaya). The Fund's overall return was 14.77% (excluding off-shore), relative to the benchmark of 14.56%, representing an outperformance of 0.18%. The graph below depicts the performance per asset class, relative to the benchmark for the listed portfolio.

*Government Employees Pension Fund*




Source: PIC calculations

### Listed portfolio performance

The Fund's listed portfolio returned 15.09% against the benchmark return of 14.51%, representing positive performance of 0.51% above the benchmark.

### Unlisted portfolio performance

Unlisted investments (Isibaya) returned 3.38% against the benchmark return of 6.90%, representing an underpeformance of 3.30%.

Unlisted properties, on the other hand, returned 13.10% against the benchmark return of 12.60%, representing an outperformance of 0.50%.

### International portfolio performance

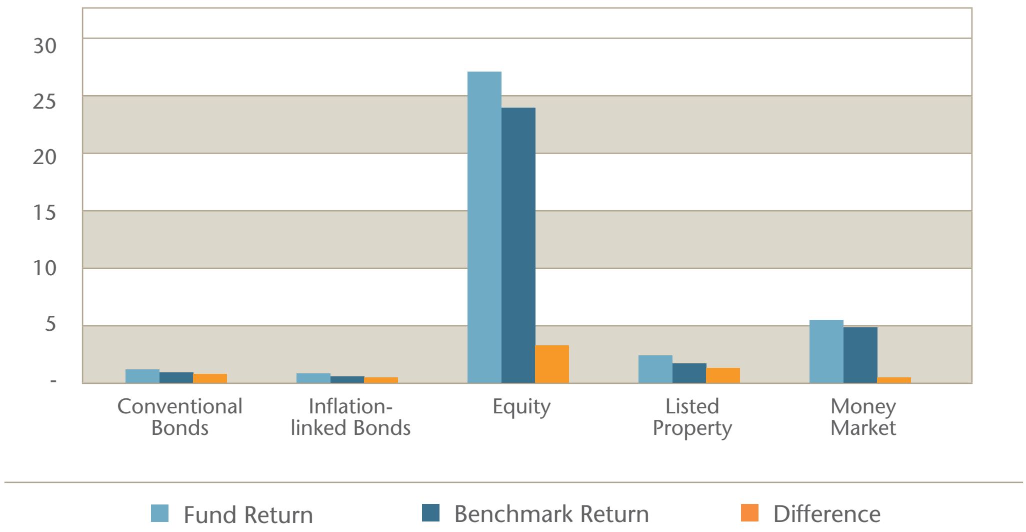
The international portfolio comprises equities and bonds asset classes. The equities asset returned 31.84% against the benchmark return of 30.27%, representing an outperformance of 1.21% against the benchmark. The bonds asset class returned 16.10% against the benchmark return of 16.16%, representing a slight underperformance of 0.05% against the benchmark.

1 The GEPF's relative return calculations are based on a geometric method as specified in the mandate

## Unemployment Insurance Fund

The Unemployment Insurance Fund also comprises multiple asset classes. These include listed equities, conventional bonds, inflation-linked bonds, listed property and money market.

*Unemployment Insurance Fund*




Source: PIC calculations

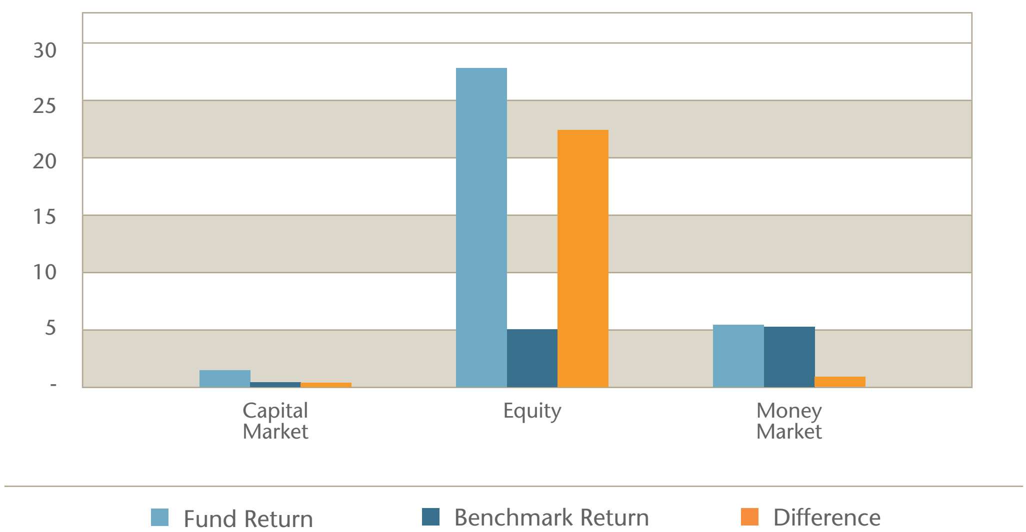
## Compensation Commissioner

The PIC manages two funds of the Compensation Commissioner. These are the Compensation Commissioner Fund and the Compensation Commissioner Pension Fund.

## Compensation Commissioner Fund

Asset classes for the Compensation Commissioner Fund include listed equities, bonds and money market. The fund returned 3.69% against the benchmark return of 2.23%. This performance represents outperformance of 1.46% above the benchmark.

*Compensation Commissioner Fund*

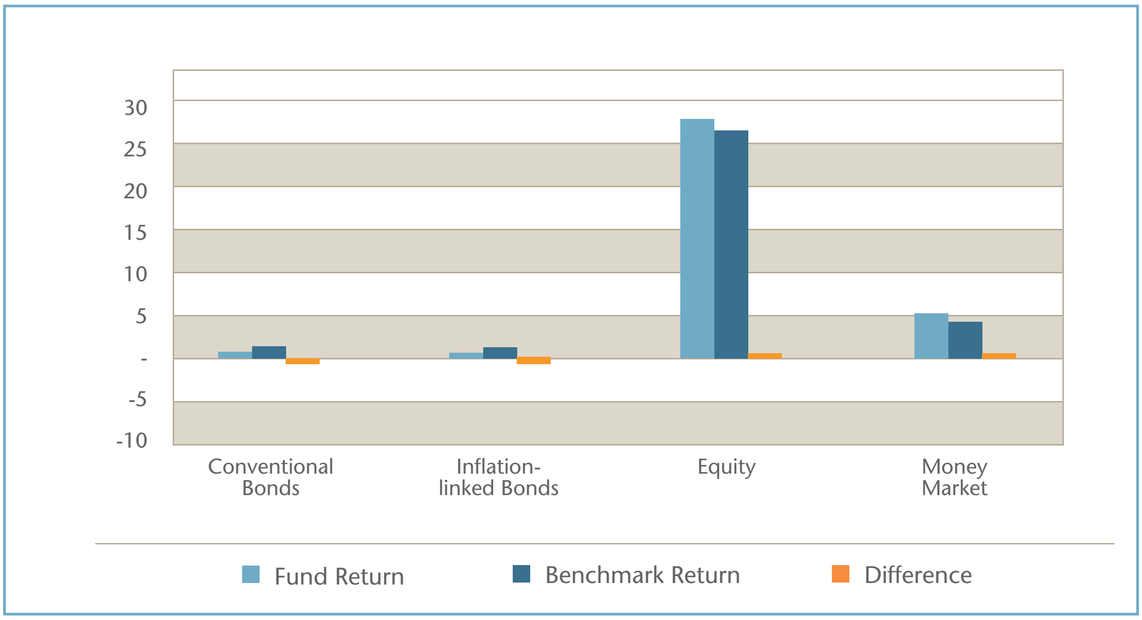



Source: PIC calculations

## Compensation Commissioner Pension Fund

The Compensation Commissioner Pension Fund's asset class mix includes conventional bonds, inflation-linked bonds, listed equities and money market. The fund returned 5.80% against the benchmark return of 5.62%. This represents an outperformance of 0.18% above the benchmark.

*Compensation Commissioner Pension Fund*

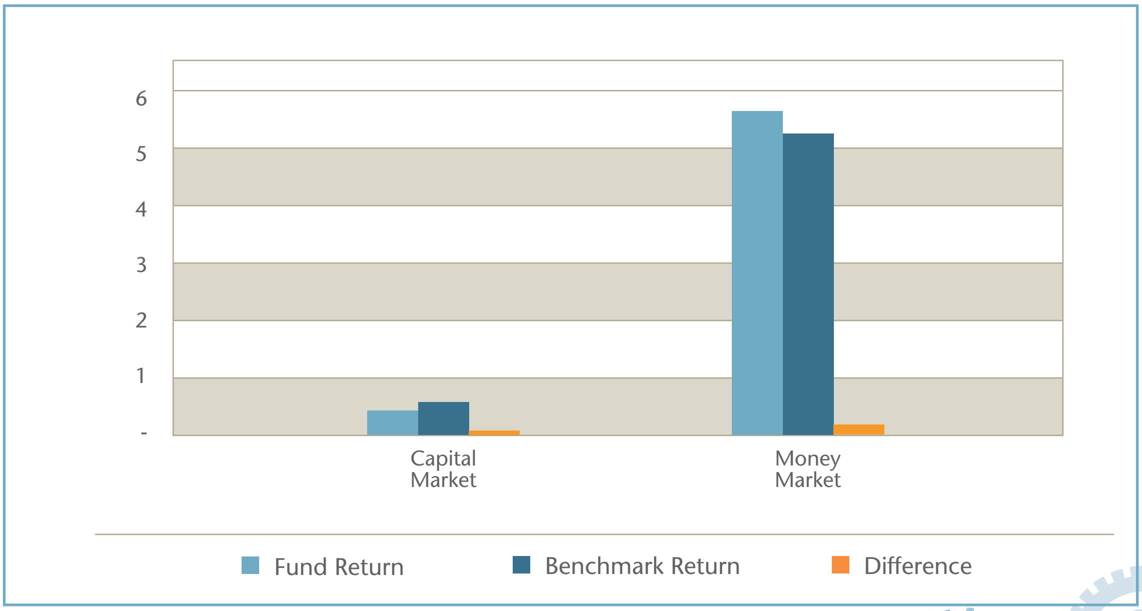



Source: PIC calculations

## Associated Institutions Pension Fund

The Associated Institutions Pension Fund invests solely in capital and money market instruments. The fund has returned 1.66% against the benchmark of 1.77%, representing an underperformance of 0.11% below the benchmark.

*Associated Institutions Pension Fund*




Source: PIC calculations

# Economic Review 2013

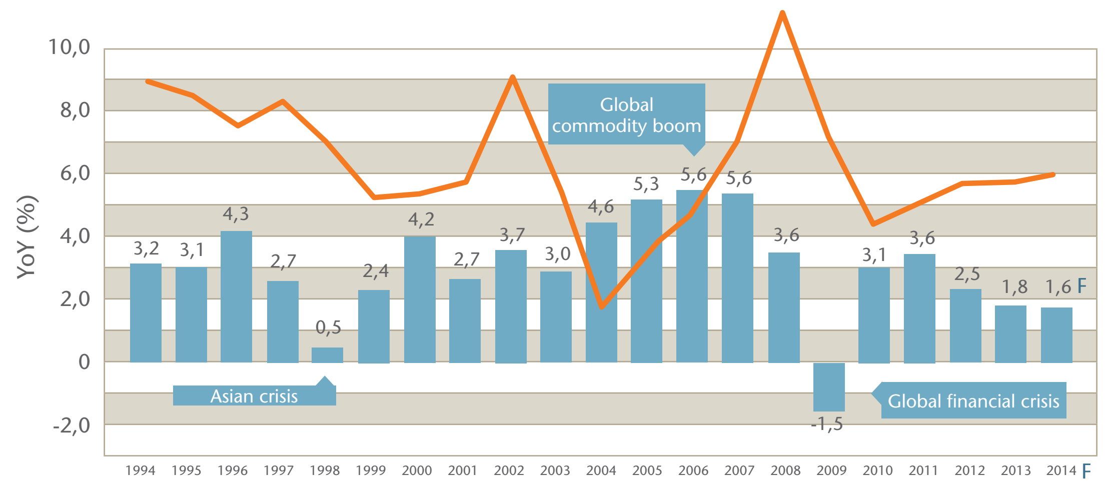
## South Africa's economy 20 years into democracy

Since 1994, the main economic objectives of the South African Government have been job creation, the elimination of poverty and the reduction of inequality.

The SA Government has implemented a number of macro-economic policy instruments in order to address these issues. These came in the form of Growth, Employment and Redistribution (GEAR) in the late 90's; the Accelerated and Shared Growth Initiative (ASGISA) (2006); the New Growth Path (NGP) (2010) and most recently, the National Development Plan (NDP) (2012). These policy instruments underpin the economic growth on which the present and future well-being of the country hinges.

South Africa's economic growth has improved since the dawn of democracy and has been reasonably robust and stable for the past 20 years. The South African economy grew at 3.2% per year on average, from 1994 to the first quarter of 2014. The Consumer Price Index (CPI) reduced to 5.9% over the same period. This has resulted in the transformation of the South African economy from a Gross Domestic Product (GDP) of R505 billion in 1994, to a GDP of R3.56 trillion in the first quarter of 2014.

*SA GDP and CPI for the last 20 years*




| Nominal GDP (R'bn) | 505 | 568 | 644 | 710 | 762 | 848 | 967 | 1061 | 1228 | 1312 | 1479 | 1646 | 1869 | 2131 | 2502 | 2799 | 3042 | 3231 | 3492 | 3562 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

Real GDP    CPI (Yr Av)    F = Forecast

Source: Statistics South Africa

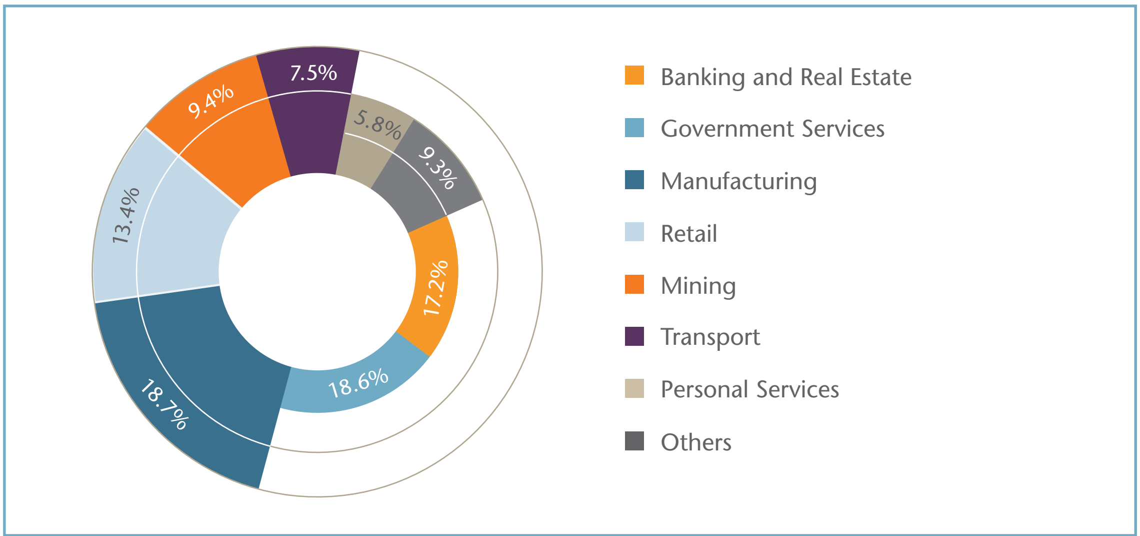
In 1998, the East Asian financial crisis led to a significant slowdown in the world economy, while the international financial crisis that began in 2007, led to a global recession. A variety of factors, such as a shortage in electricity supply and subsequent rising costs from late 2007 onwards, and the increases in other administration costs and the uncertain global environment, amongst others, contributed to a slower economic growth.

In breaking down GDP by sector, the fastest-growing activity has been financial and real estate (17% to 21%) services, followed by telecommunications.

The retail sector has also grown faster than the rest of the GDP through this period (13% to 17%). The decline in the mining and manufacturing sectors' contribution (28% to 21%) to gross value add, has been the most disappointing over the past 20 years.

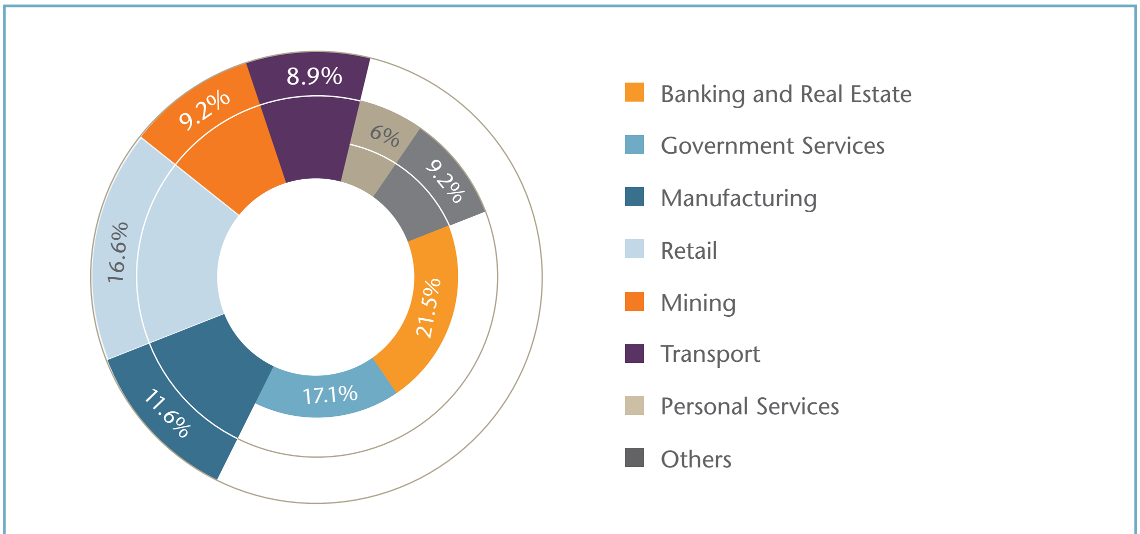
This is despite strong growth in global commodity prices throughout this period and lack of global competitiveness within the country's manufacturing sector. The mining and manufacturing multiplier effect on jobs and their contribution to exports, brings into focus the need to revitalise these sectors as they are critical to the overall economy.

*Composition of SA economy 1994*




Source: Statistics South Africa

*Composition of SA economy 2013*

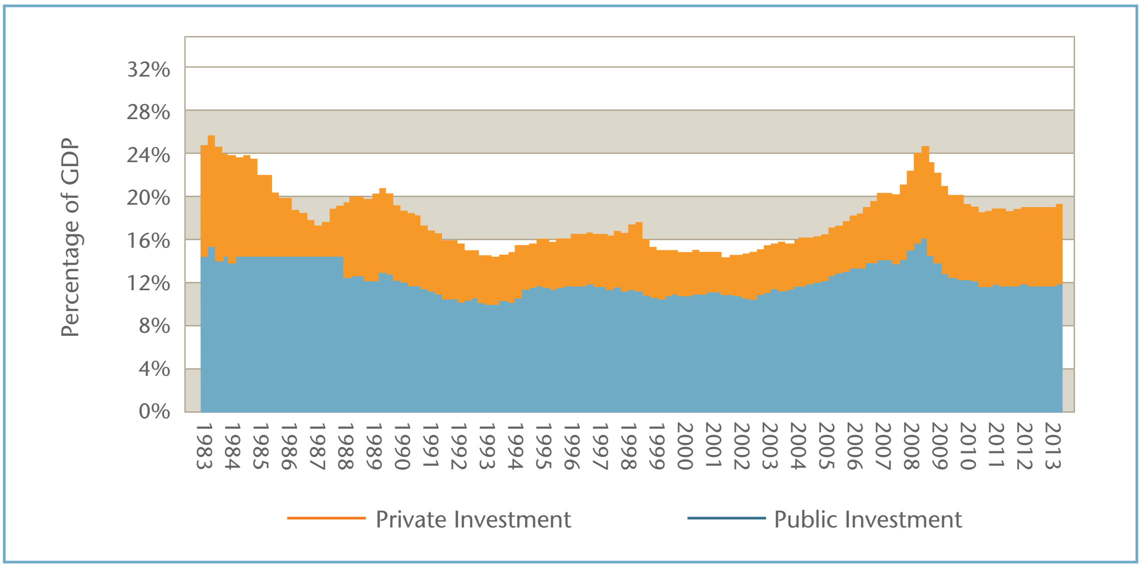



Source: Goldman Sachs

Investment has improved significantly over the past 20 years, following public investment playing a growing role after the 2008/09 recession, as the Government embarked on a broad-based, multi-billion rand infrastructure development drive.

Pre-1994, investments in SA had dropped to below 15% of the GDP, but steadily climbed since 1994 to just under 25% of the GDP before the 2008/09 global recession. Investment currently stands at around 19% of the GDP and is underpinned by the public sector infrastructure programmes. The share of public sector investment to overall investment, has risen from under 30% in 1994, to just under 40% currently.

*SA GDP for the past 20 years*




Source: Goldman Sachs

## The Global Economic Environment

Global growth remained soft in 2013 with less progress than many had expected. The International Monetary Fund (IMF), in its January 2014 update of its World Economic Outlook Report, shows that global economic growth of 3.0% was achieved in 2013, down marginally from the 3.1% achieved in 2012.

Global financial market conditions remained volatile throughout most of 2013, particularly May 2013, when speculation began to mount about the timing and magnitude of the US Federal Reserve's end to its Quantitative Easing (QE) programme. The decision by the US Fed in December last year to begin 'tapering off' its QE measures, seems to have provided more stability to financial conditions in advanced economies, but somewhat tighter and more volatile conditions for Emerging Markets (EM).

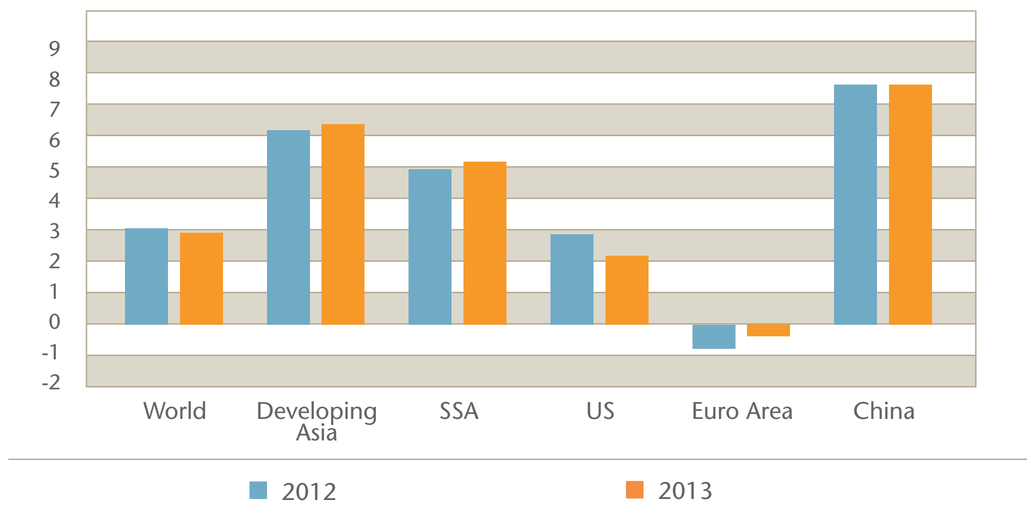
The crisis in the Eurozone has been subdued, largely due to the European Central Bank (ECB) and its promise of an Outright Monetary Transaction (OMT) bond-buying programme, announced in 2012. Challenges persisted, however, and the recovery in this region remained uneven in 2013. Consistent weak growth in the Eurozone in 2013 also caused challenges to inflation. Annual Eurozone inflation sank to just 0.7% towards the end of last year, well below the ECB's definition of price stability of "below, but close to 2%".

The year 2013 was challenging for emerging and developing economies. The impact of the scaling-back of the US bond-buying programme late last year, resulted in increased asset price volatility. This, combined with weaker domestic activity in many of these economies, capital outflows, equity price declines, rising local yields and currency depreciation, saw growth rates in EMs come under pressure last year. The IMF forecasted EM growth at 4.7% in 2013, down from the achieved 4.9% growth recorded in 2012.

While China remained the primary engine for growth in EMs in 2013 (2012: 7.7%), the slowdown in activity in this economy throughout last year, suggested that structural factors began to weigh on growth and activity. The main policy approach to raise growth in this economy, was expected to come from structural reforms, especially within its credit and property markets.

Notwithstanding the downside risks to Chinese growth and the headwinds the global economy continues to face, the IMF remained relatively upbeat on Sub-Saharan Africa (SSA) in 2013. Growth was estimated at 5.1% for SSA in 2013, up marginally from the 4.8% growth achieved in 2012.

*Real GDP growth (%)*




Source: IMF WEO database, January 2014

*Real GDP and inflation of selected economies*

| | Real GDP growth (%) | | | Inflation (%) | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
| Emerging economies | 6.2 | 4.9 | 4.7 | 6.8 | 6.0 | 6.1 |
| Advanced economies | 1.7 | 1.4 | 1.3 | 2.7 | 2.0 | 1.4 |
| Brazil | 2.7 | 1.0 | 2.3 | 6.6 | 5.4 | 6.4 |
| Russia | 4.3 | 3.4 | 1.5 | 8.4 | 5.1 | 6.7 |
| India | 6.3 | 3.2 | 4.4 | 8.4 | 5.1 | 6.7 |
| China | 9.3 | 7.7 | 7.7 | 5.4 | 2.7 | 2.7 |
| South Africa | 3.5 | 2.5 | 1.9 | 5.0 | 5.7 | 5.8 |

Source: IMF WEO database

*Currencies and commodity prices*

| | 2012Q4 | 2013Q1 | 2013Q2 | 2013Q3 | 2013Q4 |
|---|---|---|---|---|---|
| Rand/USD | 8.69 | 8.95 | 9.50 | 9.99 | 10.16 |
| Euro/USD | 1.30 | 1.32 | 1.31 | 1.32 | 1.36 |
| Pound/USD | 1.61 | 1.55 | 1.54 | 1.55 | 1.62 |
| Yen/USD | 81.1 | 92.3 | 98.8 | 98.9 | 100.4 |
| Gold (USD/oz) | 1718 | 1632 | 1417 | 1330 | 1272 |
| Platinum (USD/oz) | 1599 | 1632 | 1467 | 1453 | 1397 |
| Brent crude oil (USD/barrel) | 110.1 | 112.7 | 103.2 | 109.8 | 109.3 |

Source: IMF WEO database

### The Domestic Economic Environment

The year 2013 was a challenging year for the domestic economy, marred by a weaker global and domestic demand environment. Less-than-favourable investment conditions and industrial action, continued to hit key production-led sectors. In 2013, GDP growth slipped to 1.9%, its lowest growth rate since 2009.

Domestic demand conditions remained trying. Consumer confidence levels slipped to an all-time low by the middle of the year, while household consumption spending slowed on the back of a higher domestic inflation and a softer real wage growth and waning consumer appetite for credit.

On the positive side, 'wealth effects' helped build growth on the consumption side of the economy. Domestic house prices rose by approximately 10% last year (according to the Absa house price index) and the local equity market by over 20.0% in 2013. Domestic employment trends also improved, with the economy having recovered the 1 million jobs lost since the 2008/9 recession. It is important to point out, however, that around 50% of these labour market gains have been driven by the public sector, with the private sector continuing to shed jobs. A still weak demand environment and wage growth well in excess of inflation, inhibit broad-based labour growth.

Fixed investment has also felt the squeeze from the less positive business environment. This slack remains in many key production-led sectors and a lackluster business confidence continues to keep private-sector investment at bay. Encouragingly, however, Government's multi-billion rand infrastructure drive seems to be slowly taking shape, with a number of key projects in rail, ports and energy gaining traction.

The year 2013 saw the emergence of a less comfortable domestic environment, largely due to a sharply weaker currency throughout the year, which pushed food and fuel prices higher. After peaking at 6.4% in Q3, favourable base effects in fuel prices and more subdued global food price trends helped push CPI inflation back below the 6% upper boundary of the SA Reserve Bank's target range in the last quarter of 2013.

The currency continued to suffer from SA's persistently weak fundamentals, in particular the country's high twin deficits. The current account deficit stands out here, having hit a six-year high of 6.4% of GDP in Q3 of 2013 (averaging 5.8% of GDP in 2013). Admittedly, a lot of this deterioration in the country's external accounts in the middle of 2012/13, was driven by widespread industrial action in many key export sectors (mining and manufacturing).

*Currencies and commodity prices*

| | 2012 | Q1 | Q2 | Q3 | Q4 | 2013 |
|---|---|---|---|---|---|---|
| **Final consumption expenditure** | | | | | | |
| Households (% YoY) | 3.5 | 2.7 | 2.8 | 2.6 | 2.1 | 2.6 |
| General Government | 4.0 | 3.5 | 2.8 | 1.2 | 2.1 | 2.4 |
| **Gross fixed capital formation** | **4.4** | **4.0** | **4.4** | **5.6** | **4.8** | **4.7** |
| General Government (% YoY) | 6.3 | 3.5 | 2.1 | 4.4 | 3.9 | 3.5 |
| Public corporations | 4.9 | 5.1 | 5.3 | 2.3 | -0.3 | 3.1 |
| Private business enterprises | 3.9 | 3.7 | 4.6 | 7.0 | 6.7 | 5.5 |
| **Change in inventories (Rbn)** | **9.9** | **-3.7** | **12.2** | **3.5** | **-10.8** | **1.3** |
| **Gross domestic expenditure (% YoY)** | **4.0** | **2.9** | **3.2** | **2.3** | **0.5** | **2.2** |
| Exports of goods & services (% YoY) | 0.4 | -2.2 | 4.8 | 5.6 | 8.4 | 4.2 |
| Imports of goods & services | 6.0 | 3.1 | 7.2 | 6.6 | 1.9 | 4.7 |
| **GDP at market prices (% QoQ)** | **2.5** | **0.8** | **3.2** | **0.7** | **3.8** | **1.9** |
| **GDP at market prices (% YoY)** | **2.5** | **1.6** | **2.3** | **1.7** | **2.0** | **1.9** |
| **Current account balance (% GDP)** | **-5.2** | **-5.7** | **-6.2** | **-6.4** | **-5.1** | **-5.8** |
| **Repo rate (%)** | **5.00** | **5.00** | **5.00** | **5.00** | **5.00** | **5.00** |
| **10y bond yield (%)** | **6.79** | **6.80** | **7.50** | **7.60** | **8.24** | **8.24** |

Source: SARB, Bloomberg

## Domestic Investment Returns

The year 2013 was another strong year for the local equity market which outperformed other domestic asset classes, registering an annual return of 21.4% after returns of nearly 27% in 2012. Another strong performance from industrials (37%) and financials (20%), underpinned this robust performance. Consistent with softer global commodity prices and a still struggling domestic mining sector, the resources sector recorded a negative annual growth return (-2.0%).

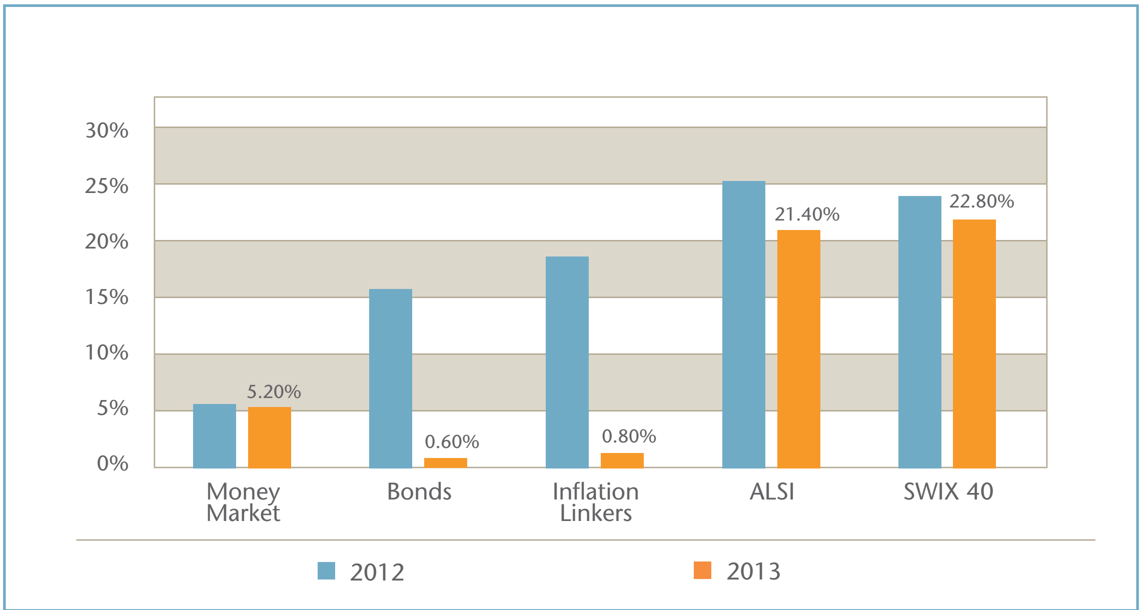
Following its strong performance in 2012, the local bond market also saw a significant deterioration in its returns in 2013, yielding a return of just 0.6%. In spite of a higher projected inflation environment, inflation linkers also yielded a relatively uninspiring return of 0.8%. The poor performance of both nominal and inflation-linked bonds in 2013, can be largely attributed to a more uncertain global rates outlook, given the announcement in May 2012 that the US Federal Reserve was considering tapering its monthly bond buying programme. Consistent with a relatively flat domestic interest rate environment, domestic money market returns were largely unchanged at 5.2% last year.

An improved developed economy outlook in 2014 should bode well for domestic equity market performance. A higher domestic inflation environment is unlikely to bode well for nominal bonds, but could prompt more demand for inflation-linkers throughout the year.

Once again, however, the likelihood that the US Federal Reserve continues with its Quantitative Easing programme throughout the year (ending by Q1 of 2015) and markets also speculating when policy rates in the US are likely to rise, could mean another tough year for the local bond market.

A rising domestic interest rate environment should see slightly higher returns yielded from local money market funds; though the more modest pace and magnitude of interest rate hikes expected this year, suggests these increases are likely to be quite small.

*Domestic Benchmark Returns*




Source: I-Net Bridge and PIC

## The Global Economic Outlook

A rebalancing of growth from developing to developed economies seems to be underway at present with the outlook for developed economies, remaining at steady growth. The IMF expects an acceleration in global economic growth to 3.7% in 2014, from 3.0% last year in its January 2014 World Economic Outlook. This is led by an improvement in advanced economic growth to 2.2% this year, from 1.3% in 2013.

In the US, data in the early parts of 2014, points to a progressive recovery. Part of the weakness in the economy, is due to unusual bad weather earlier in the year and should therefore unwind. Taking out this volatility, growth in the US economy is still at 2% at present. This level of growth is sufficient for the Fed to continue its policy normalisation process by 'tapering off' its asset purchases, but not strong enough to create any immediate inflationary pressures and increase the need for monetary tightening.

In the Eurozone, recent growth and activity data have been encouraging and it looks more likely that the recovery in this region will be sustained. Still, inflation is set to remain exceptionally low, broadly around current levels, for at least the rest of the year. Crucially, the longer inflation remains low, the higher the probability of inflation expectations becoming unanchored to the downside, threatening the ECB's ability to deliver on its price stability mandate. Should the Eurozone inflation continue to surprise to the downside, the Quantitative Easing (QE) policy to be adopted by the ECB later in the year, seems unlikely. The ECB is also likely to lower policy rates by the middle of this year, in tandem with further downward revisions to its staff inflation projections, with QE then likely to follow during the second half of the year.

China poses the largest risk to the global economic outlook at present. Chinese authorities are walking a fine line between the need to reign in credit growth and implement structural reform, as well as to maintain growth at high levels. Chinese growth is likely to slow progressively over the next two years, with the IMF estimating growth of 7.5% and 7.3% for 2014 and 2015, respectively.

## The Domestic Economic Outlook

It is likely to be yet another year of challenges for the South African economy with more below-trend growth on the horizon, due to lackluster domestic demand conditions and on-going labour unrest. The South African economy is estimated to grow around 2.0% in 2014, up only marginally from 2013's 1.9% achieved growth rate.

Although local exporters should slowly begin to benefit from a slightly improved growth and activity outlook in the developed world, the downside risks to growth in China, coupled with still significant labour unrest, means that there are more downside risks than upside risks to domestic growth in 2014. This is likely to keep key production-led sectors of the economy unable to contribute meaningfully to the GDP growth in 2014.

Low capacity utilisation levels in many sectors, coupled with depressed levels of business confidence, also suggest a less than optimal outlook for fixed investment this year. The Government's multi-billion rand infrastructure programme in road, rail, ports and energy, will provide a helpful buffer to GDFI. However, inefficient public sector implementation of large infrastructure projects (and still volatile labour relations), are likely to affect the economy from benefitting fully (or as timely) as it should, from these projects.

The domestic inflation outlook remains tilted to the upside in 2014. Consumer price inflation (CPI) climbed to 5.9% YoY in February, from 5.8% in January, and looks likely to breach the SA Reserve Bank's (SARB) upper 6% inflation target band by early Q2. The domestic consumption climate is likely to remain unattractive, given rising inflation which eats away at consumer real income levels and a still weak outlook for the private sector labour market.

While the SARB clearly remains concerned about the upside risks to inflation stemming from a weaker rand, it remains highly cognisant of the downside risks to growth and the outlook for the real economy. The SARB has acknowledged that South Africa is in the middle of a hiking cycle, therefore further hikes are likely to happen this year as a result of an increasingly uncomfortable inflation trajectory. The timing and magnitude of these hikes will remain highly 'data dependent' and will most certainly be shallower than in previous cycles, owing to the weakness in domestic growth conditions.

For the currency, the rand is likely to remain vulnerable, due to a less certain outlook for EMs, together with a continuation of its weak fundamentals (high current account deficit).

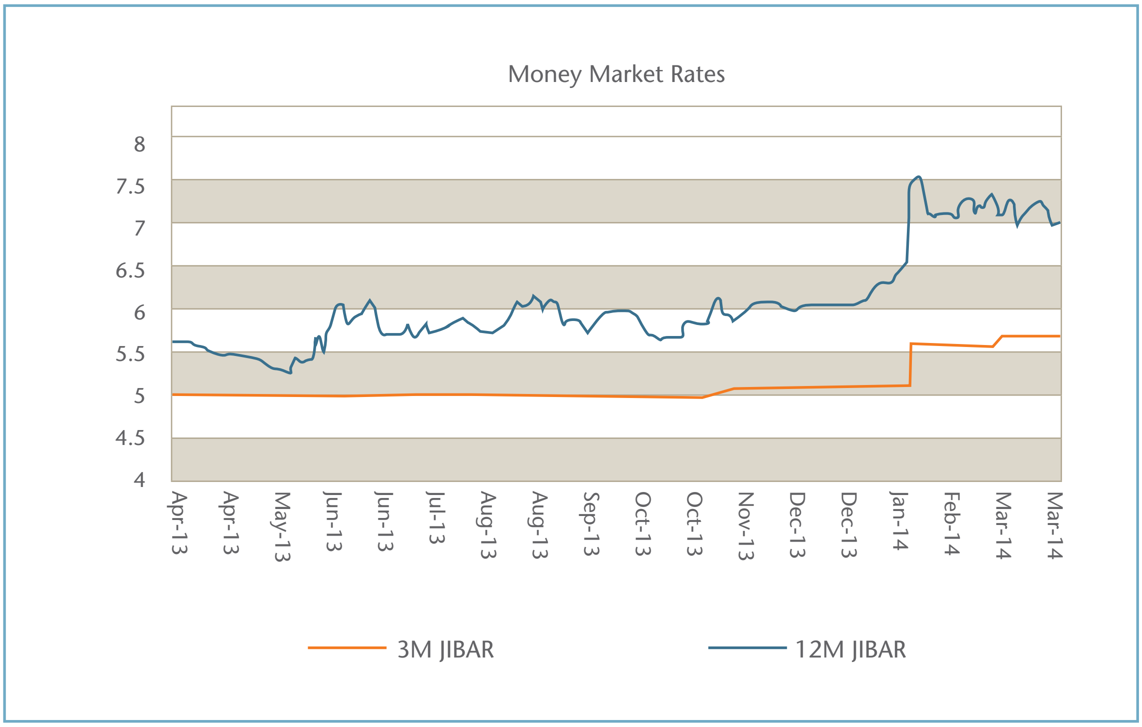
## Fixed Income Market Overview

### Money Market

Money market rates remained relatively stable since July 2012 until the MPC of the SARB unexpectedly increased its benchmark interest rate to 5.50% from 5.00% on 29 January 2014. The SARB's decision followed that of central banks in emerging markets from Turkey to Brazil that tightened monetary policy to bolster their currencies.

Rates were widely predicted to remain unchanged as the central bank's focus has been supporting an economy that has been buffeted by slower global demand and mining strikes. The repo rate was left unchanged at the bank's March 2014 meeting. Money market rates followed the repo rate higher, with the 12 months Johannesburg Interbank Agreed Rate (JIBAR) moving higher by a bigger margin, reflecting more repo rate hike expectations by the market.

*Money Market Chart*




Source: Bloomberg

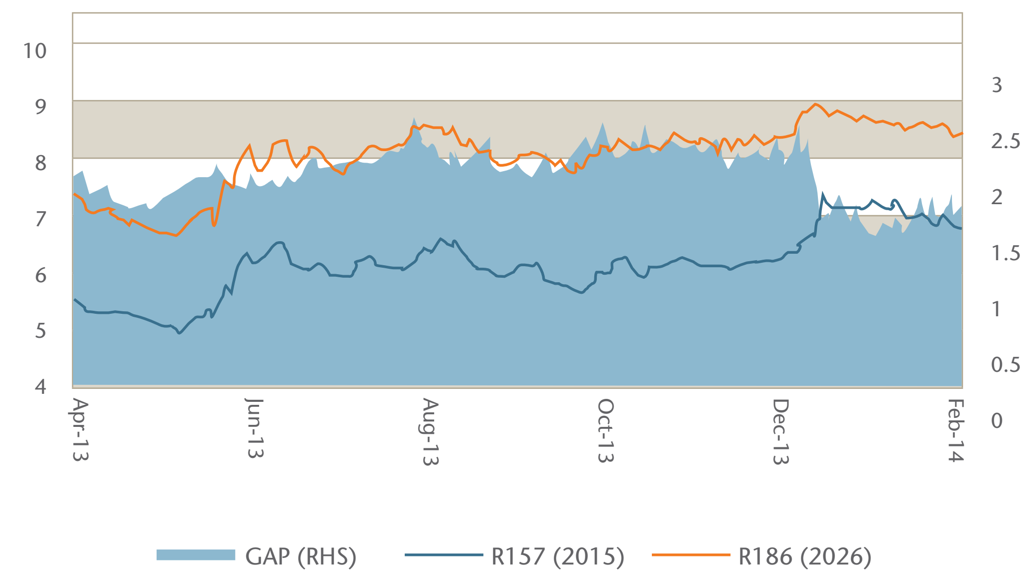
The spread between the 3-months and 12-months JIBAR rates widened to a high of 172bps in January 2014, as a result of the surprise rate hike by the SARB. The spread started the financial year in April 2013 at about 53bps, reaching a low of 22bps in May 2013 and ending at 125bps on 31 March 2014.

### Bond Market

South Africa, as well as other emerging markets, saw bonds selling off during the financial year, mainly due to the decline in investment flows into emerging markets on the back of concerns that the US Fed would resume 'tapering' its bond purchases. When the Fed did eventually announce the date for the resumption of its stimulus reduction programme, market reaction was a little muted as this had already been discounted in the market. The Fed began its 'tapering' in December 2013, with expectations that it would continue with its measured pace of USD10 billion at every Fed meeting until the fourth quarter of 2014.

Locally, the surprise repo rate hike by the SARB in January 2014, coupled with the weakening of Emerging Market currencies emanating mainly from Turkey and other Latin American economies, managed to exacerbate the upward shift in yields. Improved investor risk appetite towards the end of the financial year managed to lend some support to the South African bond market as yields grinded lower on the back of stronger portfolio flows.

*SA Bond Market Yields*




Source: Bloomberg

The spread between the R186 and R157 bonds, maturing in 2026 and 2015 respectively, started the financial year at 187bps, traded as low as 131bps in March 2014, and ending the financial year trading at 160bps after reaching a record high of 239bps in August 2013.

### Asset Class Returns

South African Bonds managed to return 0.61% for the financial year versus Equities which managed to outperform all the asset classes, with the All Share Index (ALSI) returning 23.57% for the same period. Cash was able to outperform bonds, with the Short-Term Fixed Interest (Stefi) benchmark returning 5.29% for the financial year. The following table outlines South African asset class returns for different periods, ending 31 March 2014.

*Currencies and commodity prices*

| Asset class | Month to date (March 2014) | Quarter to date (Jan 2014 – Mar 2014) | Financial year to date |
|---|---|---|---|
| Cash | 0.46% | 1.31% | 5.29% |
| Inflation-linked bonds | 2.64% | 1.62% | 0.55% |
| Equities | 1.83% | 4.29% | 23.57% |
| Bonds | 1.79% | 0.89% | 0.61% |

Source: I-Net Bridge

### Fixed Income Outlook

The bond portfolios were slightly short on the benchmark duration for the financial year, mainly as a strategy to cushion the portfolios from higher yields as the bond market environment changed tone to focus more on 'tapering' by the Federal Reserve Bank, sending yields higher during the financial year. Going forward, the fixed income team expects the bond market to be under pressure as the SARB has started what many market participants call an "interest rate hiking cycle". This might, however, present some buying opportunities at higher yields. Money market portfolios were mainly overweight on the longer end of the money market curve, as compared to the benchmark, to benefit from the higher rates in the long end. Money market rates are expected to shift higher, following the repo rate, as the SARB is expected to hike rates in the near future.

The World Bank offshore fixed income portfolio remains at neutral benchmark duration with the benchmark, Merrill Lynch 1 – 3 year G-7, excluding Italy Government Index, fully invested in Sovereign Government bonds of the G7 countries. The portfolio strategy to capture some excess returns over and above the benchmark, is mainly focused on investments in sovereign government-guaranteed and high quality agency bonds.

The Blackrock offshore fixed income portfolio also remains at neutral benchmark duration – Barclays Capital Global Agg Ex Securitized 1 – 3 year index as this fund is mainly a tracking fund.

## Listed Equities

### Equity Portfolio Structure

Outperformance of the benchmark through active management of the portfolio, remains the key objective of the fund. The fund is split into a core portfolio that is passively managed and a satellite portfolio that is actively traded.

The core portfolio is internally managed to deliver beta at a very low tracking error, while the satellite portfolio is managed with a much higher tracking error to deliver alpha and is outsourced to external fund managers.

The overall portfolio remained underweight resources for the greater part of the year, which led to outperformance.

At 31 March 2014 equities represented 58% of Assets under Management (of which 0.56% was rest of Africa and 4.09% was rest of the world).

## Equity Portfolio Review

Listed equities grew from R618 billion in March 2013 to R775 billion as at 31 March 2014.

The overall equity portfolio returned 26.21% for the period, versus a benchmark return of 25.73%, which represented an outperformance of 48bps.

The underweight position in resources and industrial consumer sector, combined with an overweight in select rand hedges, led to the outperformance of the portfolio.

In order to tap the fast growth of Sub-Sahara African economies, we have been investing in opportunities in this region, where possible, and this portfolio is currently valued at R7.9 billion. Our largest transaction during this financial year was securing a 1.5% stake in Nigerian Listed Cement Company, Dangote Cement, for USD289 million.

Our exposure to the MSCI World Index via an Exchange-Traded Funds (ETF) product, was valued at R58.7 billion as at 31 March 2014.

We are a signatory to the United Nations for Responsible Investments (UNPRI) initiative and take cognisance of ESG matters when investing in companies. Our Corporate Governance and Investments team continually engage companies on matters of sustainable investing. A notable example was blocking the takeover of listed pharmaceutical company Adcock Ingram by Chilean company CFR, to unlock value using local talent and also to preserve jobs.

## Transformation in the Asset Management Sector

Five years ago, the PIC, together with the GEPF, started the BEE Incubator programme to address the lack of transformation in the asset management sector.

We have made it our priority to contribute to the transformation of this very important industry in our country. The programme started in its first year with the appointment of five black-owned firms. Two more managers were appointed in 2010, with another one receiving a mandate in 2011. Four additional managers were appointed in 2013.

Over the observation period, a total of twelve emerging managers have been invested in. Of these, nine have migrated to what we call established managers.

It is also pleasing to note that these developmental managers have created a large number of jobs in the sector, after the PIC awarded them their first mandates.

In addition to the growth over the years, we have also experienced a deepening of quality, experience and greater economic participation by previously disadvantaged individuals. The BEE programme is still continuing and the PIC is of the view that there is further scope for growth.

In the first year of the programme, the PIC allocated close to R3 billion in assets. This has now grown to over R34.5 billion, due to additional allocations and investment returns, as at 31 March 2014.

## The rationale for allocating funds

The fee structure for all the managers in the composite portfolio is symmetrical. The asset managers that outperform, are rewarded, while those that underperform, are penalised.

The PIC supports the BEE managers to grow into successful businesses in the long run that will be able to compete successfully with the established asset managers, business acumen and managerial ability which are important considerations when selecting developmental managers.

### BEE managers are required to perform well

The PIC's selection process is rigorous and ensure the appointment of suitably-qualified external managers with a good track-record. To date, the PIC has lived up to its high standards of such appointments. These are outfits which are manned by black investment professionals that have demonstrated and proven their abilities.

### The PIC's aspirations – Developmental Asset Manager

To that end, the PIC encourages black-owned investment houses to build their brand names and reputations as credible institutions with talented people that outperform their benchmarks.

Further, the PIC encourages all established managers in the composite portfolio to have similar programmes that train black investment professionals. This will eventually result in an investment profession that reflects the demographics of the country.

The PIC is also involved in the transformation of the stock broking industry of South Africa. Over the last twelve months we have paid out 86% of our brokerage to Level 4 or better BEE brokers, as per the Department of Trade and Industry classification. Our goal for the new financial year is to pay at least 50% of all brokerage to Level 2 or better.

### Equity Market Outlook

We expect developed markets to continue their leadership role into this year as US and European economies continue to recover. This should see a rotation out of defensive sectors into cyclical ones.

Emerging markets should underperform against developed markets, due to their lofty valuations and continuation of the Fed's tapering plan.

In South Africa, we expect the ALSI to return slightly below its long-term average annual return of 12%. The direction that the rand takes, will play a leading role on the relative sector performances.

The weakness of the local currency during the March 2014 quarter has proven to be overdone, and some strength has returned to it. Resources should outperform, due to its cyclical nature and reasonable valuations, whilst consumer stocks should underperform, given the depressed state of the South African consumer and expectation of interest rates to rise.

We view the markets to be on the expensive side and will take profits when opportune and also put on protection strategies to limit the downside, should markets exhibit a mean reversion pattern.

On the international side, we will be tilting the portfolio from being fully passive to being more of an enhanced indexation fund. We remain open to further investment opportunities in the rest of Africa and hope to unlock value for investors.

## Unlisted Investment

The PIC's unlisted investments are divided into three categories:

- Developmental Investments (DI);
- Private Equity (PE); 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 the Government initiatives such as the National Development Plan (NDP); 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 initiatives. The Government Employees Pension Fund (GEPF) has committed approximately R20 billion as at 31 March 2014, for developmental investments in South Africa and the rest of the African continent, through various funds, 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 | • Energy<br>• Commuter transport<br>• Broadband<br>• Water<br>• Liquid fuel<br>• Logistics network | 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 | • Renewable energy<br>• Energy efficiency<br>• Energy storage<br>• Clean technology<br>• Green firms<br>• Conservations<br>• Recycling | R5 billion |
| 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 | • Agriculture and agro-processing<br>• Tourism<br>• Beneficiation<br>• Manufacturing | R3 billion |
| Small, Micro and Medium Enterprise (Dinamane) | The purpose is to invest in and support Small, Micro and Medium Enterprises in a manner which will yield satisfactory financial return for the investors while contributing positively to the South African Economy, particularly in terms of entrepreneurship, new enterprise development and job creation | • Across all sectors, except gambling, arms, ammunition and sin industries | 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 | • Energy<br>• Transport and logistics<br>• Social infrastructure and other related sectors<br>• Water<br>• Information Communication Technology (ICT) | R5.2 billion (USD500 million) |

The Developmental Investment strategy was adopted, following the publishing by the GEPF of its DI 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 '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 ESG management to the financial performance and growth of both the investee and investor. Over the years, PIC has adopted the six principles from PRI to enhance the ESG components within its investment processes.

The principles are as follows:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG into our ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which we invest;
- Promote acceptance and implementation of the principles within the investment industry;
- Work together to enhance our effectiveness in implementing the principles; and
- Report our activities and progress towards implementing the principles.

## Key achievements for the year under review

### Levels of funding activity:

- R6.91 billion (2013: R3.4 billion) worth of investments were approved during the year under review;
- R2.3 billion (2013: R1.8 billion) disbursed during the year under review, representing 33% of the current year approvals; and
- 49% increase in value of portfolio to R6.7 billion.

### 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 renewable energy projects that will generate in excess of 1 558 megawatts of electricity.

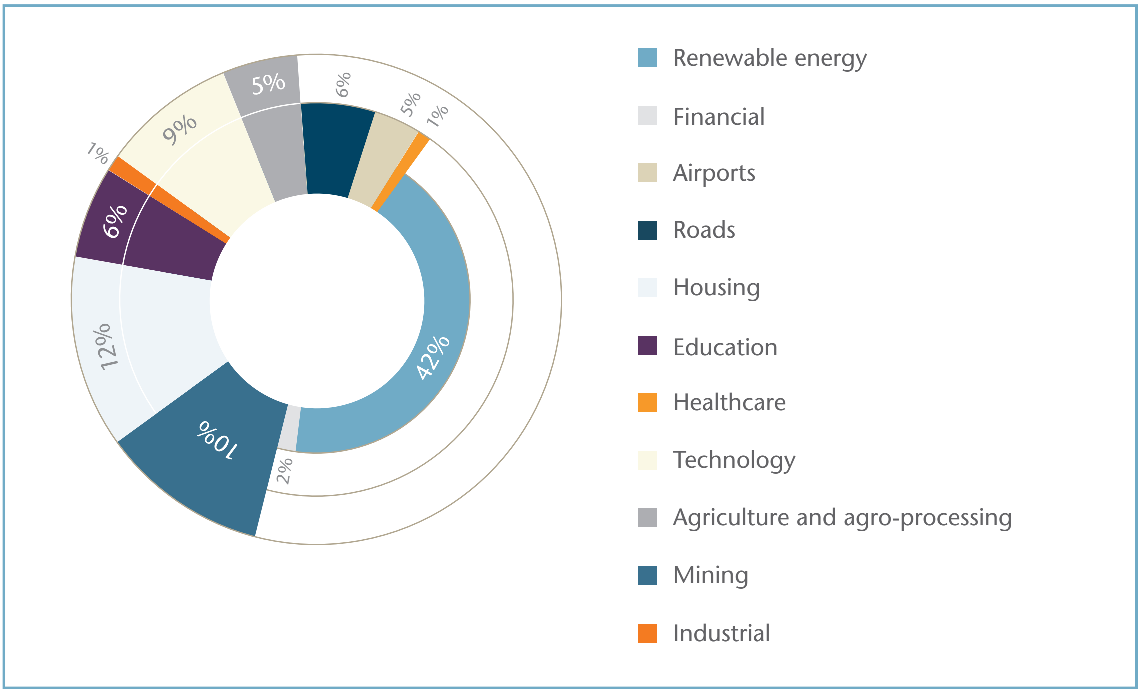
### Key Strategic Partnerships

The strategic partnerships entered into with various Development Finance Institutions (DFIs), both in South Africa and the rest of Africa, continue to bear fruit as evidenced by continued strengthening of our deal pipeline, accelerating the deployment of funds to key developmental areas, through expertise and capacities of these partners. These partnerships cover vast areas of co-operation which include, amongst others, sharing of research, project development and co-investments.

## The Portfolio

The portfolio increased by 49% to R6.7 billion during the year under review, representing 9.37% of the GEPF'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, in excess of 100% increase when compared to 2012/13 approvals. Our focus in the year ahead will be on deploying the R13.2 billion of the R20 billion committed by the GEPF on developmental investments.

*Portfolio Sectoral Exposure (Invested and Committed)*




## 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, worth noting:

### 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 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.

### Telecommunication, Mining and Energy sectors

Through the Africa Developmental Investments Fund and the Economic Infrastructure Fund, the PIC approved investments in excess of 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.

### 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 | | |
|---|---|---|---|---|---|
| **1. Environmental sustainability** | | | **Total jobs** | **Sustained** | **Created** |
| Direct | 318 MW | | 10 453 | 9 122 | 1 331 |
| Fund of funds | 1 240 MW | - | 13 730 | 13 730 | |
| **2. Social infrastructure** | | | **Total jobs** | **Sustained** | **Created** |
| 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 | |

| Investment | Capacity (volume) | Jobs created since inception up to 31 March 2013 | Jobs created and sustained during 2013/14 | | |
|---|---|---|---|---|---|
| **3. Economic infrastructure** | | | **Total jobs** | **Sustained** | **Created** |
| Road | 1 394km | 15 | 1 674 | 1 674 | - |
| **Priority sector** | | | **Total jobs** | **Sustained** | **Created** |
| Agriculture | | 1 075 | 4 107 | 3 242 | 865 |
| **Dinamane** | | | **Total jobs** | **Sustained** | **Created** |
| Enterprise development | 309 SMME | 34 840 | 1 807 | - | 1 807 |
| **Total jobs** | | **45 471** | **39 059** | **34 683** | **4 376** |

In total, 39 059 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 the 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 BBBEE 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" [2].

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 Organisation for Standardisation (ISO), Global Gap and others.

In managing the environmental impact, the different investments have environment management plans that focus on analysing, addressing and mitigating the environmental risks. The progress on mitigating these risks are 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.

2 UNEP. 2013. Green Economy modelling report of South Africa, Focus on Natural Resources Management, Agriculture, Transport and Energy Sector.

### 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 the 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 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 GEPF has committed R10.2 billion as at 31 March 2014, for private equity investments in South Africa and the rest of Africa, as illustrated in the table below:

<table>
<tr><th>FUND</th><th>PURPOSE</th><th>SECTOR FOCUS</th><th>COMMITMENT</th></tr>
<tr><td>South Africa private equity</td><td rowspan="2">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</td><td rowspan="2">• Across all sectors, mainly consumer-related, except gambling, arms, ammunition and sin sectors</td><td>R5 billion</td></tr>
<tr><td>The rest of Africa private equity</td><td>USD500 million (R5,2 billion )</td></tr>
</table>

## 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: R1.0 billion) disbursed during the year under review, representing 57% of the current year's approvals.

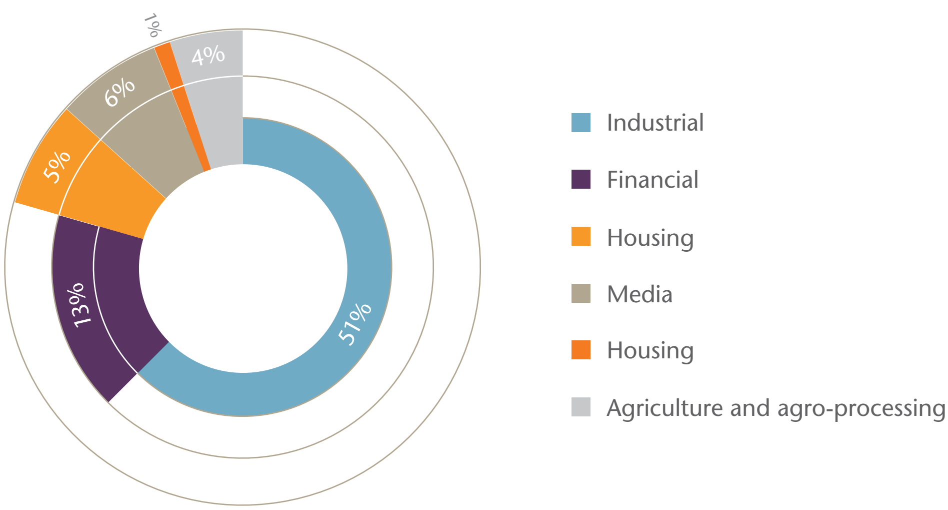
### Increasing impact on social returns:

- 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, as at March 2014, is valued at R11.8 billion, representing 16% of the GEPF's strategic asset allocation to private equity asset 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, an increase of 18%, when compared to prior years' approvals. Our focus in the year ahead will be on deploying the R6.2 billion of the R10.2 billion committed by the GEPF in private equity investments.

*Portfolio Sectoral Exposure (Invested and Committed)*



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

### Agricultural sector

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.

### Media Sector

Furthermore, the PIC participated in the financing of the acquisition of 100% of the largest English language newspaper publisher in South Africa, owning 18 major newspaper titles across three key geographic regions, namely Gauteng, Western Cape and KwaZulu-Natal. The company's primary business is the publication of newspapers, and also provides printing and distribution services to third parties, publishes magazines and utilises its digital platform to provide news content, as well as a platform for classified advertising. The business was a Level 5 BEE contributor prior to investment by the PIC in 2013 and as a result of the investment, it is now a Level 2 BEE contributor, making it the first majority black-owned media house in South Africa.

### Financial Services Sector

The PIC edged forward with its BBBEE agenda by participating in the acquisition of an equity stake in a South African company which provides mortgage finance and ancillary products to borrowers, including advances, credit life insurance policies, short-term home owner's insurance policies and partial fixed interest rate loans. The provision of end-user finance will stimulate the development of housing units, which, in turn, will contribute to the development of skills and absorption of semi-skilled and unskilled labour and ensure access to affordable housing finance.

### Support of developmental Black Fund Managers

As part of driving transformation through the funds of funds investment strategy, the fund managers had a target to drive transformation by ensuring that 50% of the underlying portfolio companies achieve a minimum of Level 3 BEE contributor status. At present, 40% of the underlying portfolio companies have achieved a status of Level 4 and above. Although there is still time to implement the individual transformation plans, the new BBBEE codes might have some negative impact on the achievements of those targets. The PIC and fund managers are in discussion to minimise the impact of the new codes on the achievement of the transformation targets.

## Properties Portfolio

The PIC Properties portfolio under management comprises of an unlisted portfolio of R37 billion (mandates from the GEPF and the Community Property Fund) and a listed portfolio, currently valued at R29 billion. The combined portfolio is currently R66 billion, equating to 4.13% of the PIC's total Assets under Management.

The year saw a reversal in the listed property sector after record returns in the previous financial year, with the listed property sector returning 1.12% per annum.

The unlisted commercial property market remained solid with a 15.2% per annum return, despite headwinds from macro-economic fundamentals and bond yields.

By comparison, the listed property portfolio, after having outperformed in the previous year, delivered an annual return of -0.15% (underperforming the benchmark by -1.25%) and the unlisted portfolio returned 13.1% (outperforming the weighted benchmark of 12.6% by 0.5%).

The combined total return for both listed and unlisted properties was 7.35% for the year (outperforming the weighted benchmark of 7.08% by 0.27%).

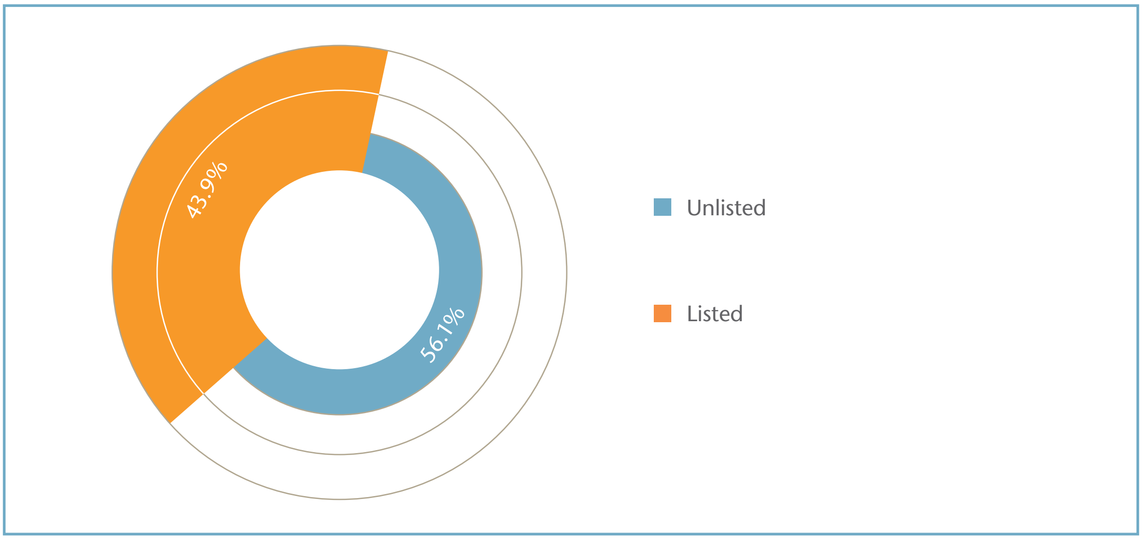
### Asset Allocation

Property asset allocation for listed property represents 2.16% of total GEPF AuM, which is 0.66% above the targeted 1.5%, but within the 1% to 3% range. The unlisted property target asset allocation is 3.5% of GEPF Assets under Management and the actual allocation is 2.77%. This is 0.73% below target and within the 0% to 7% range of asset allocation.

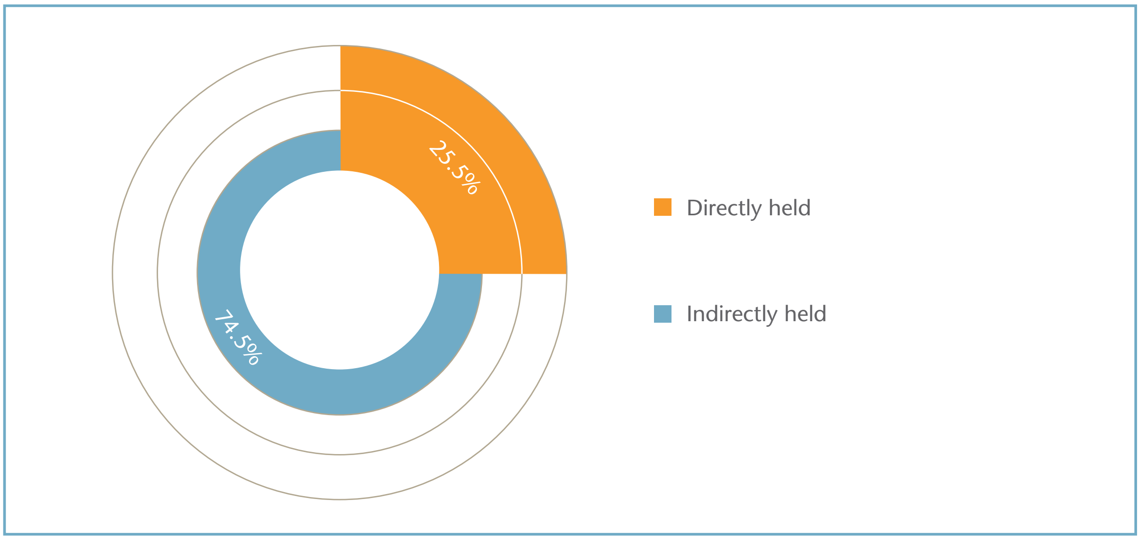
The total targeted allocation for listed and unlisted property is 5% and the combined asset allocation for listed and unlisted property, reflects a 4.93% asset allocation, which is 0.07% below target.

The following are the attributes of the property portfolio:

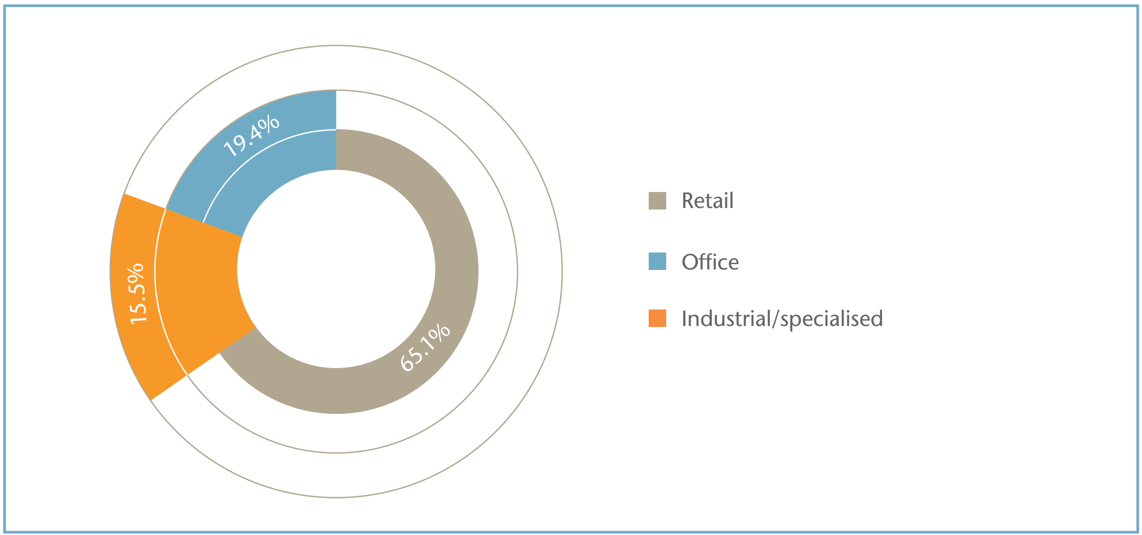
*Asset Allocation: Unlisted and Listed*



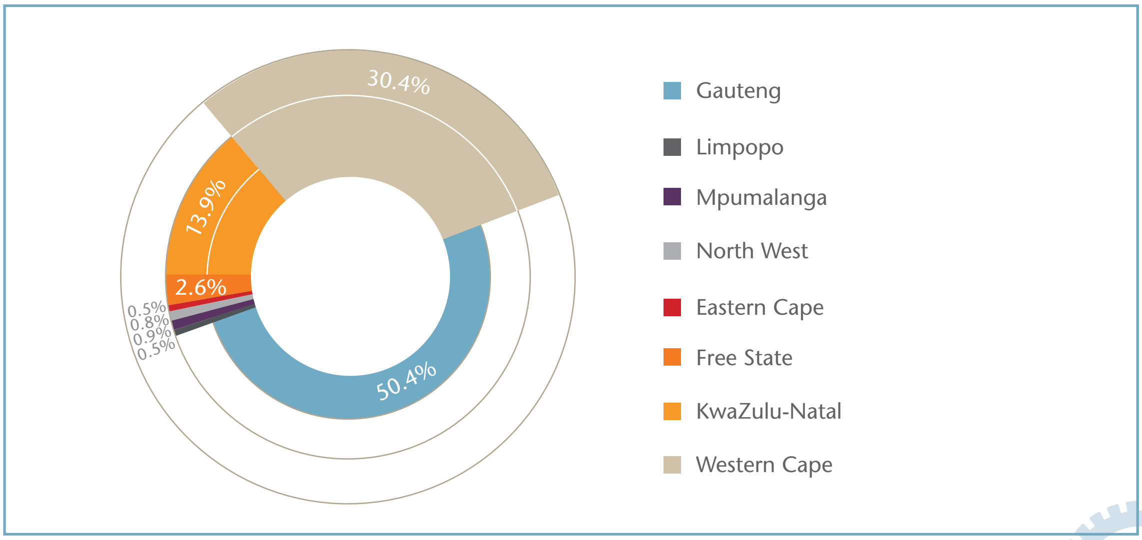
*Asset Allocation: Directly and Indirectly Held*




*Unlisted Asset Allocation: Property Sector*




*Unlisted Asset Allocation: Geographical Split*



## Listed Properties Portfolio

The listed portfolio returned -0.15% for the period, versus a benchmark return of 1.12%. The underperformance was due to the overweight position in certain stocks and we remain positive for the medium term.

The listed property index returned 8.8% and underperformed the All Share Index in 2013 by 13%, due to the widening of bond yields. The increased number of property listings continued, including a record-breaking capital raising of R25 billion. The regulation governing Real Estate Investment Trust SA (REITs), became effective in April 2013 with most companies converting to REITs or obtaining approval for conversion. REITs structure will standardise the listed South African property index to international benchmarks and attract foreign shareholders, thus improving liquidity.

*GEPF Listed Properties Total Returns*

GEPF Listed Property Annual Total Returns
2013 to 2014

| | Listed property return 2013 to 2014 | Benchmark return 2013 to 2014 | Relative return |
|---|---|---|---|
| Listed properties | -0.15% | 1.12% | -1.27% |

Source: PIC calculations

## Unlisted Portfolio

SA's property market continues to respond to a macro-economic environment characterised by vacancy rates in both retail and industrial sectors, which suggest that the market is moving up the property cycle.

In 2013, commercial property in SA recorded a 15.3% total return, a slight improvement over the 15.1% returned the previous year. This reflects the sectors' successes in controlling operating cost increases through effective property management interventions. With a total return of 17.1% in 2013, the industrial property market outperformed the retail and office sectors, which posted 16.8% and 13.6% respectively. Industrial property experienced relatively low vacancy rates combined with robust demand – especially for high-tech, modern premises. The retail sector, in contrast, displayed mixed results, depending on the location and type of property. Investors targeted opportunities linked to higher urban densities as well as retail opportunities in the growing middle-class. Offices, on the other hand, experienced relatively high vacancy rates which will likely be exacerbated by new developments coming on-stream in the short to medium term. The office market is still a two-tier market with new green offices with ample parking in prime nodes, outperforming older B and C grade buildings.

*IPD Index Total Annualised Property Returns to December 2013*

| Sector | 2013 |
|---|---|
| Retail | 16.8% |
| Office | 13.6% |
| Industrial | 17.1% |
| All property | 15.3% |

Source: IPD Index 2013 (standing investments only)

PIC Properties manages super-regional shopping centres for the GEPF in three indirectly-held property investment companies namely, Pareto (100%); Business Venture Investments (BVI 100%); and the V&A Waterfront (50%).

Regional, community and neighbourhood shopping centres are managed within the Community Property Fund and the Directly-Held Portfolio. The Community Property Fund focuses on rural and township retail and the Directly-Held Portfolio has less than 20% retail property (focused on metropolitan retail). The Directly-Held Portfolio is primarily composed of offices in core office nodes.

The returns for Pareto, BVI and the V&A Waterfront therefore correlate closely to the IPD returns for super-regional centres; the Community Property Fund correlates closely to community and neighbourhood centres; and the Directly-Held Portfolio, is heavily weighted for offices.

| Portfolio | Total Annual Returns 2013 /2014 | Benchmark | Benchmark Reference | Relative Performance |
|---|---|---|---|---|
| Pareto | 16.5% | 11.6%* | CPI + 500bps | 4.90% |
| BVI | 20.4% | 11.6% | CPI + 500bps | 8.78% |
| V&A Waterfront | 13.3% | 11.6% | CPI + 500bps | 1.65% |
| Community Property Fund | 11.1% | 11.6% | CPI + 500bps | -0.5% |
| Directly-Held | 9.8% | 15,3% | IPD Index | -5.47% |
| Adriasa | 8.2% | 11.6% | CPI + 500bps | -3.50% |
| Total | 13.1% | 12.6% | Weighted | 0.50% |

* Indirectly held portfolios are benchmarked to CPI + 500bps

## Indirectly Held Portfolio

- **Pareto**

  Pareto comprises R13.0 billion of super-regional and regional shopping centres located in primary metropolitan areas. Some of the properties in the portfolio include Sandton City, the Pavilion, Cresta, Westgate Shopping Centre, the Sandton Sun and Towers and Sandton Holiday Inn hotels. The GEPF owns 100% of Pareto.

- **Business Ventures Investments (Pty) Ltd (BVI)**

  BVI is a special purpose vehicle wholly owned by the GEPF that owns a 50% undivided share in Menlyn Shopping Centre and Cavendish Square Shopping Centre. The current value of the 50% share is R2.3 billion. BVI is managed by Pareto.

- **Community Property Company (CPC)**

  The CPC Fund was created in 1996 as a unitised, pooled fund that would allow investors to invest in retail shopping centres in historically deprived areas. The total value of the properties is currently R3.1 billion.

  The GEPF is one of the clients in this pooled structure and it owns 59.5% units in the fund. CPC has 27 shopping centres in outlying towns, townships and rural areas.

### Directly-Held Properties Portfolio

The current value of the portfolio is R9.9 billion. Directly-Held Portfolio's investment focus is predominantly on the office market which is weighted heavily at 64.3%. The retail component of the portfolio consists of various neighbourhood, community and regional shopping centres.

The lower performance of the Directly-Held Portfolio, relative to the portfolios holding retail assets, can be attributed to the office sectors' continued softness due to slow economic growth and decreased business confidence over the period.

This caused smaller- and medium-sized businesses to experience stress, and even large businesses were seen reducing their accommodation requirements as they downsized. Other factors driving the office sector, were the themes of 'green' building technology in new developments and larger corporate tenants consolidating their space in order to become efficient.

B and C grade offices have been the worst affected, while P and A grade offices have performed better. Demand for new space has most often been at the expense of older space, as occupiers seek to upgrade their accommodation during this period.

### Key Initiatives and Milestones

The following are highlights for the year for the property portfolio:

- Portfolio annual growth of 7.3% or R4.8 billion; and
- R1 billion allocation to HDI controlled and managed fund managers in the listed property sector.

### GEPF Direct: R1 billion of net investment in the property portfolio:

- Comprised of land investments into the Menlyn Maine green precinct in Menlyn, Pretoria, and land purchases in Sandton as part of a site consolidation exercise on Katherine Street; and
- The follow-on investment into the Trevenna office campus (adjacent to the DTI Campus) in Trevenna, Pretoria, where the remaining 49% undivided share was acquired as part of the ongoing strategy to provide quality accommodation to Government tenants.

### Outlook

The focus for the Properties division in the 2014 to 2015 financial year, will include the following:

- Optimising the management of the existing portfolio to ensure sustainable returns;
- Improving the geographic distribution of the portfolio domestically to penetrate underserviced markets;
- Growing of funds under management, including implementing an investment strategy for the Unemployment Insurance Fund (UIF);
- Enhancing and full implementation of a Responsible Property Investment (RPI) strategy that focuses on improving building efficiencies throughout the portfolio, which is part of our environmental sustainability objective;
- The listed properties portfolio shall focus primarily on optimising the portfolio to sector portfolio

benchmark levels. Optimising the portfolio shall also include pursuing counters with sound underlying assets and good management, that are trading at attractive yields relative to Net Asset Value (NAV). There will be continued support for new and existing funds that feature significant levels of transformation;

- Fully implementing the PIC Properties' BBBEE policy to meaningfully contribute to transformation in the property sector;
- Continue to integrate the National Development Plan (NDP) into the investment and operational strategies of the division. Primarily focus on contributing to the transformation of human settlements and spatial development. This will create more humane and environmentally-sustainable living, as well as working environments;
- Positioning the GEPF as the preferred provider of office space accommodation for Government and related entities. Initial focus has been on finding proper accommodation for entities related to the National Treasury; and
- Focusing on improving operational efficiencies by developing more effective business operations systems that will serve as a cornerstone for operational excellence.

Dr Daniel Matjila
Chief Investment Officer

# Risk Management Statement

The PIC considers risk management as a core competency that forms an integral component of its processes. The PIC's clients, including the PIC Operations Fund (PICOF), dictate specific risk parameters in accordance with their risk appetite, expressed in formal investment mandates. The PIC Board determines the overall risk policy and relies on management to operate within the established control structures and approved frameworks. The PIC Board has accordingly delegated responsibility for implementation of the PIC risk framework to management, thereby promoting a culture of ownership and accountability.

## Risk Governance Structures

The following Board committees have been delegated to deal with risk-related responsibilities in the PIC:

- The Investment Committee (IC) is responsible for the implementation of the investment strategy;
- The Fund Investment Panels (FIPs) assist the Board and Investment Committee to discharge their statutory duties and oversight responsibilities by monitoring the investment mandates, policy, strategy and strategy implementation in respect of all unlisted investments managed by the PIC;
- The Audit and Risk Committee (ARC) is responsible for the integrity of the financial reporting, safeguarding of assets, the operation of adequate systems and controls, effective risk management and audit processes, ensuring good corporate governance and compliance with all statutory and regulatory requirements;
- The Property Committee is responsible for the implementation of the investment strategy for the property portfolio;
- The Social and Ethics Committee (SEC) is responsible for monitoring the company's activities, having regard to all applicable legislation, prevailing codes of best practice, social, economic and environmental impact; and
- The Directors' Affairs Committee (DAC) and the Human Resources and Remuneration Committee (HRRC) are responsible for succession planning at Board level as well as at management level within the PIC.

The PIC management assumes operational responsibility across all business areas, with risks managed by the following management committees:

- The Executive Committee (EXCO) is responsible for the day-to-day operations of the PIC;
- The Portfolio Management Committee (PMC-Listed) is responsible for all listed investment management activities, including management of risks that arise in investments in capital markets, money markets, equities and externally-managed funds;
- The Portfolio Management Committee (PMC-Unlisted) is responsible for all unlisted investment management activities (Isibaya and Properties), including management of risks associated thereto;
- The Valuations Committee (VC) is responsible for the valuations of investments and making recommendations to the Investment Committee for approval;
- The Information Management Steering Committee (IM Steerco) is responsible for information technology and information management-related risks; it also manages the PIC disaster recovery plan and business continuity risk from an information technology perspective; and
- The Executive Risk Committee (ERC) assists EXCO in discharging its duties by ensuring that an appropriate enterprise risk management framework and policy is in place and operates effectively.

### Risk Function

The Risk department is represented on the Board and all the PIC committees and reports to the Chief Executive Officer. The department is responsible for the following risk management objectives:

- Instilling a culture of risk management and ownership within the PIC;
- Promoting an awareness and understanding of risks across all levels of the organisation; and
- Managing risks within the approved risk appetite of the PIC and that of its clients.

### Key Risks

The key risks are managed in accordance with the respective investment mandate and within established and approved risk management frameworks and policies. Below is a summary of major risks that are of particular significance to the PIC Operation Fund (PICOF).

### The PIC Operations Fund

As at 31 March 2014, the PICOF was invested in cash and short-term money market instruments only.

### Interest rate risk

Interest rate risk is defined as the potential financial loss as a result of adverse movements in interest rates that affect the value of bonds, money market instruments and other interest rate sensitive assets. Interest rate risk is managed through the use of effective duration measure.

PICOF has exposure to interest rate sensitive instruments, as stated above. The investment mandate prescribes how the assets should be managed in line with liquidity needs and the liability profile.

### Credit risk

This refers to the risk that a borrower or counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing the holder of the claim to suffer a loss in cash-flow or market value.

Credit risk is managed according to the mandate parameters and the PIC's internal credit risk policy. Credit mitigation techniques are transaction dependent, but may include, where appropriate, the right to be furnished with collateral or an equity injection by counterparties, particularly in unlisted investments. No collateral was held on PICOF for the period under review which is consistent with previous periods.

The PIC also utilises various models to guide limit-setting, as well as credit ratings from external rating agencies. Limits are approved by the relevant committees, in accordance with the Board-approved delegation of authority. Risk reports on these exposures are regularly submitted to the Portfolio Management Committees, Investment Committee, Audit and Risk Committee and Board. Impairment tests are undertaken according to the PIC approved guidelines, and are approved in accordance with the delegation of authority.

### Concentration risk

Concentration risk is the risk of losses which arises due to poor diversification within funds. This relates to both credit and market risk as excessive concentration in a particular or correlated asset class, sector, issuer, term structure or financial instrument type which can result in undesirable risk exposures. The PIC manages this risk in accordance with the investment mandates and approved policies which dictate the level of concentration.

### Operational risk

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, systems or people error, or from external events.

Risks of this nature are managed through systems of internal control and annual external audits as well as continual internal audits, that review the effectiveness of the control environment, risk management programmes and external insurance policies.

### Effective asset allocation

| | FY 2013 | | FY 2014 | |
|---|---|---|---|---|
| | 31 March 2013 | | 31 March 2013 | |
| Asset class | R | % | R | % |
| Money market | 424,309,345 | 92.44 | 522,188,772 | 95.09 |
| Cash | 34,692,873 | 7.56 | 26,960,142 | 4.91 |
| Total | 459,002,219 | 100 | 549,148,914 | 100 |

### The credit rating distribution on interest-bearing exposures for PICOF

| | 31 March 2013 | | 31 March 2014 | |
|---|---|---|---|---|
| | R | % | R | % |
| AAA/Aaa | 19,346,101 | 4 | 102,273,140 | 19 |
| AA+/Aa1 | 86,101,387 | 19 | 24,140,236 | 4 |
| AA/Aa2 | 211,611,011 | 46 | 346,210,010 | 63 |
| AA-/Aa3 | 65,772,757 | 14 | 0 | 0 |
| A+/A1 | 76,170,963 | 17 | 66,427,068 | 12 |
| A | 0 | 0 | 10,098,459 | 2 |
| | 459,002,219 | 100 | 549,148,914 | 100 |

PICOF interest rate sensitivity analysis of the money market portfolio

| Spread movement in basis points | FY 2013 profit/loss | % change | FY 2014 profit/loss | % change |
|---|---|---|---|---|
| | R | | R | |
| -200 | 2,464,493 | 0.58 | 3,545,087 | 0.68 |
| -150 | 1,844,426 | 0.43 | 2,652,045 | 0.51 |
| -100 | 1,227,002 | 0.29 | 1,763,543 | 0.34 |
| -50 | 612,201 | 0.14 | 879,541 | 0.17 |
| 0 | - | - | - | - |
| 50 | -609,622 | -0.14 | -875,120 | -0.17 |
| 100 | -1,216,687 | -0.29 | -1,745,858 | -0.34 |
| 150 | -1,821,216 | -0.43 | -2,612,252 | -0.50 |
| 200 | -2,423,230 | -0.57 | -3,474,340 | -0.67 |

The maturity analysis for interest bearing assets

*Including cash:*

| | FY 2013 31 March 2013 | | FY 2014 31 March 2014 | |
|---|---|---|---|---|
| | **R** | % | **R** | % |
| < 6 | 383,314,961 | 84 | 413,464,205 | 75 |
| ≥ 6 | 75,687,258 | 16 | 135,684,709 | 25 |
| | 459,002,219 | 100 | 549,148,914 | 100 |

*Excluding cash:*

| | FY 2013 31 March 2013 | | FY 2014 31 March 2014 | |
|---|---|---|---|---|
| | **R** | % | **R** | % |
| < 6 | 348,622,087 | 82 | 386,504,063 | 74 |
| ≥ 6 | 75,687,258 | 18 | 135,684,709 | 26 |
| | 424,309,345 | 100 | 522,188,772 | 100 |

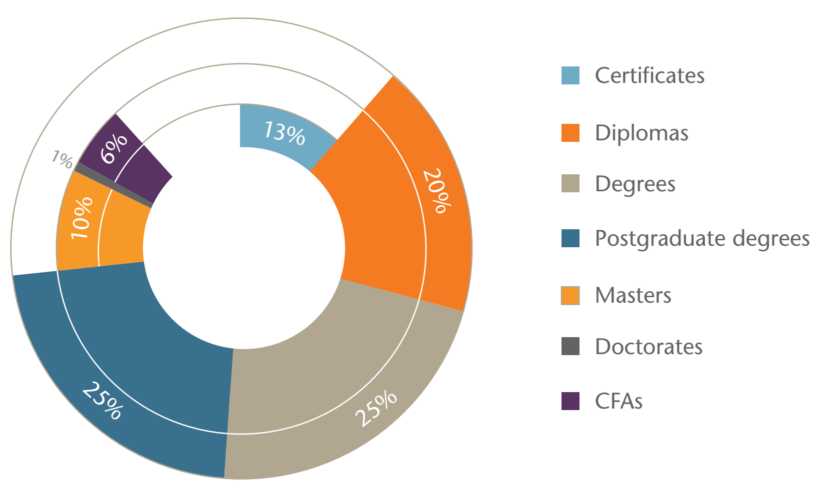
# Operational Overview

Following the alignment of the organisational structure with the demands of the new investment mandates in 2012/13, the PIC prioritised recruitment during 2013/14, to ensure that critical vacancies are filled with competent, skilled employees. The recruitment process has resulted in an increase in the number of employees from 329 as at 31 March 2013, to 385 employees as at 31 March 2014.

Twenty-eight positions were filled in the Isibaya department and forty-six positions were filled in the Properties department to enable the PIC to efficiently roll out the new unlisted investment mandates. Support departments were also strengthened in terms of human resources to ensure sufficient support and the maintenance of a proper control environment.

The PIC continues to focus on the development of employees and aligns the personal development plans with the organisational requirements. During the year under review, the PIC awarded an average annual amount of R1 272 255 (2012/13: R574 945) to bursaries for staff. The PIC spent an amount of R4 355 181 (2012/13: R3 330 635) on staff training.

*Qualifications within the PIC*



The PIC actively drove its employment equity strategy, ensuring that its employment equity targets aligned with the economically-active population figures released by the Department of Labour.

*Staff Demographics*

| Race | Female | | Male | | Total per category | | Percentage of total employees | | Target percentage |
|---|---|---|---|---|---|---|---|---|---|
| | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2013/14 |
| African | 109 | 141 | 100 | 124 | 209 | 265 | 64% | 69% | 66% |
| Coloured | 19 | 22 | 11 | 13 | 30 | 35 | 9% | 9% | 11% |
| Indian | 18 | 19 | 16 | 15 | 34 | 34 | 10% | 9% | 8% |
| White | 29 | 26 | 27 | 25 | 56 | 51 | 17% | 13% | 15% |
| Total | 175 | 208 | 154 | 177 | 329 | 385 | 100% | 100% | 100% |
| Percentage of total employees | 53% | 54% | 47% | 46% | 100% | | | | |

Of the PIC staff, 0,78% is currently classified as people living with physical disabilities. The PIC remains committed to the employment equity targets in all areas. For this reason, the PIC conducted a review of all its corporate offices to ensure that these offices are conducive for people living with physical disabilities. Further to this, the PIC is still engaging with agencies specialising in this area of recruitment.

The PIC continues to contribute to the national skills pool through the PICeeds programme. Established in 2006/07, the programme has to date produced 31 graduates, of which 90% have been employed permanently within the PIC. During the financial year, following a fresh recruitment drive, 12 new PICeeds were recruited and joined the PIC on 3 February 2014.

### Enterprise-wide stakeholder management framework

During the year under review, the PIC approved an enterprise-wide stakeholder management framework. The objectives of the framework are to:

- Provide for a co-ordinated stakeholder engagement within the PIC;
- Provide stakeholders with a platform to engage with the PIC;
- Provide for a process by which the PIC could be sensitised to the issues and concerns of multiple stakeholders; and
- Build relationships with the public and stakeholders that lead to mutual support and confidence.

# Corporate Social Investment

## Policy foundation

The PIC's Corporate Social Investment (CSI) is governed by a policy and principles which focus on five broad areas, as outlined in the table below. The allocation for the CSI initiatives is 1% of profit after tax. Over and above this, the staff contributes in different ways, such as through donations and offering their time.

| No | Focus area | Initiatives to consider |
|---|---|---|
| 1 | Education and training | • Support of community education facilities, bursaries for the underprivileged without any employment obligations, and contributions towards community education infrastructure<br>• Community training and community skills development<br>• ABET Training for the underprivileged |
| 2 | Socio-economic development | • Support of community crèches, orphanages and old age homes<br>• Support of community clinics, health programmes, etc., in disadvantaged communities, HIV/Aids awareness programmes in communities<br>• Job creation for communities outside the PIC investment activities, aimed at creating self-sustainability<br>• Assistance to GEPF members or other community members who are dependent on social grants |
| 3 | Arts, culture, sport and recreation | • 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 | • Support that focuses on conservation awareness and education, as well as waste management<br>• Self-sustainability agricultural programmes<br>• Disaster relief programmes |
| 5 | Broad-Based Black Economic Empowerment | • Development of black entrepreneurs |

During the 2013/14 financial year the PIC's corporate social investment included the following:

## Container Library Project

A container library was donated to Seroopatha Primary School in the Majakaneng village, near Rustenburg in the North West Province. A total number of 1 421 pupils will benefit from this donation, with the number cumulatively increasing in the coming years. The container library project, which started in 2012, has been running for over two years now. The first donation was made to Lulekani Primary School in the mining town of Phalaborwa in Limpopo. The PIC intends extending similar donations to other provinces in the coming financial years. The container library project is done in support of the Nelson Mandela Day Library Project, which is run in conjunction with the Nelson Mandela Centre of Memory and Breadlife Africa.

## Collect-A-Book Initiative

This was an initiative through which the PIC employees donated over 400 books to Seroophatha Primary School. This initiative was meant to augment the books that had already been donated together with the container library.

## Mathematics Intervention Programme

The Mathematics Intervention Programme aims to assist grade 11 and 12 learners in their mathematics lessons. This programme started in 2012 at Tsako Thabo Secondary School in Mamelodi, but was later moved to Phateng Comprehensive School. The programme continues to address the insatiable need for mathematics skills in the country. During the 2013/14 financial year, the school produced two distinctions and several B symbols, an improvement compared to the 2012/13 results which produced one distinction and a few B symbols. We are continuing with the programme during the 2014/15 financial year.

## Festive Season Campaign

This initiative involves collecting food and clothing for the neediest children. During the year under review, the Danville Afterschool Care Programme benefitted from this initiative. Employees were requested to sponsor each child with a hamper of goodies. The campaign started in 2011 with various projects undertaken.

## Food Security Initiative

The food security initiative is a project aimed at empowering people, particularly the needy, to grow their own food. It further seeks to entrench a sense of independence and reduce reliance on donations. During the 2013/14 financial year, a 20 m X 20 m steel structure garden covered with nets to enable proper gardening, was erected for the Refilwe Orphanage in Cullinan. This structure will ensure that there is harvest throughout the year.

## Skills Development

The PIC continued its contribution to national skills development by contributing to the PoPUP Skills training programme. Ten people were trained in plumbing and welding skills during the year under review.


## FabGalz

Another initiative that focused on girls, was the funding of 15 girls from Sofasonke Township on the outskirts of Klipgat, in Pretoria, to attend training and motivation sessions to bolster their self-esteem and inculcate a sense of worth in them.  This initiative was done in conjunction with a not-for-profit organisation, FabGalz Foundation, which conducts women-empowering workshops across the country.

## School Uniforms

The PIC provided school uniforms for 30 needy pupils from PS Tsosane School in Tembisa, Ekurhuleni Metropolitan Municipality. Whilst uniforms could be considered basic, some learners cannot afford it, which consequently compromises their dignity.

## Take-A-Girl-Child-To-Work

The PIC has been participating in the Cell C's Take-A-Girl-Child-to-Work campaign for the past few years. The aim of this campaign is to expose girls to the work environment and to different careers. During the 2013/14 financial year, the PIC hosted 20 learners from Reitumetse High School in Soshanguve. The PIC plans to continue taking part in this initiative, as we believe it provides pupils with the necessary exposure, which could assist them in their future career choices.

## Men In The Making Initiative

Similar to Cell C's Take-A-Girl-Child-To-Work, the Men In The Making initiative aims to expose male children to the work environment. This is Tracker's brainchild and is supported by Metro FM and the Gauteng Department of Education, amongst others. The PIC hosted 19 boys from Phateng Comprehensive School in Mamelodi. The aim was to expose them to the work environment, including the different careers and options they could choose from.

# Remuneration Philosophy

The PIC's remuneration philosophy aims to attract and retain highly competent employees. This policy reinforces and rewards excellent performance that supports the values, vision, mission and objectives of the PIC.

The remuneration policy for non-executive directors is aligned to the State-Owned Enterprises Remuneration Guidelines for Chairpersons and Non-Executive Directors. The Shareholder approves the annual remuneration of non-executive directors at each Annual General Meeting.

Non-executive directors receive a fee per meeting and a retainer for attending at least four meetings per annum. The retainer fees are also approved by the Shareholder at the Annual General Meeting.

The reward system utilised for the PIC employees include three elements, namely Cost-to-Company, a Short-term Incentive Scheme and a Long-term Incentive Scheme.

## Cost-to-Company

Cost-to-Company is the annual cash value equivalent of all benefits, excluding short-term and long-term incentives, payable to employees. This component of remuneration is reviewed on an annual basis and all adjustments are linked to staff performance.

Cost-to-Company packages for support staff are aligned and benchmarked to the 65th percentile of the Financial Services Market. Cost-to-Company packages for investment professionals are aligned and benchmarked to the 50th percentile of the Asset Management Market.

## Short-term Incentive Scheme

Once approved by the PIC Board, the Short-term Incentive Scheme bonuses are recognised and paid on an annual basis in terms of the remuneration policy. This scheme aims to reward performance and is based on a Balanced Scorecard performance appraisal process.

From 2013/14, these bonuses are provided for in the annual financial statements to align the incentive payments with the year of performance.

The decision to pay is elective and reviewed annually by the Board, taking into consideration the financial sustainability and going concern of the PIC. During the 2013/14 financial year, the Board included a proviso in the remuneration policy that no incentive scheme payments will be awarded, if the net profit financial sustainability ratio is below 10%, as an average, over a rolling three-year period.

### Long-term Incentive Scheme

The Long-term Incentive Scheme aims to attract, retain and reward high performing investment professionals and management of the PIC. These employees are only eligible to participate in the Long-term Incentive Scheme if the company receives an overall performance rating of 3.5 or above and if the individual achieves a minimum individual rating of 3.5.

The long-term incentive allocation vests over a period of three years, if the individual meets the performance criteria over the three-year period and is still employed by the PIC on the date of vesting.

The 2013/14 long-term incentive allocations are also provided for in the annual financial statements to align the incentive accruals with the year of performance.

# Annual Financial Statements for the year ended 31 March 2014

The reports and statements set out below, comprise the PIC's annual financial statements presented to the Shareholder:

Contents



The PIC's Annual Financial Statements have been prepared under the supervision of the CFO, Ms. Matshepo More. These financial statements, for the year ended 31 March 2014, are the first the company has prepared in accordance with the IFRS, hence comparative figures have been restated accordingly.

# Report of the Auditor-General to Parliament on the Public Investment Corporation (SOC) Limited

## Report on the Financial Statements

### Introduction

1. I have audited the financial statements of the Public Investment Corporation SOC Limited set out on pages 116 to 164, which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, statement of changes in equity and statement of cash-flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Board of Director's responsibility for the financial statements

2. The Board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa (Act 1 of 1999) (PFMA) and Companies Act of South Africa (Act 71 of 2008), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements, based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa (Act 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Investment Corporation SOC Limited as at 31 March 2014 and its financial performance and cash-flows for the year then ended, in accordance with IFRS and the requirements of the PFMA and Companies Act.

### Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Financial reporting framework

8. The entity has adopted IFRS in the current financial year as disclosed under Note 1 to the Annual Financial Statements. An exemption from National Treasury was obtained by the entity from preparing financial statements on the basis of Generally Recognised Accounting Practices (GRAP) as required by the PFMA.

### Restatement of corresponding figures

9. As disclosed in Note 1 to the Annual Financial Statements, the corresponding figures for 2012/2013 have been restated, as a result of the first-time adoption of IFRS.

### Additional matter

10. I draw attention to the matter below.
    My opinion is not modified in respect of this matter and other reports required by the Companies Act.

11. As part of our audit of the financial statements for the year ended 31 March 2014, I have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

## Report on other Legal and Regulatory Requirements

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation, as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Public Investment Corporation SOC Limited, for the year ended 31 March 2014.
    - Objective 1: Contribution to education, health, housing, infrastructure and environmental on page 9.
    - Objective 2: Increase investments in Africa (non-domestic) on page 9.
    - Objective 3: Deliver investment performance which meets or exceeds client benchmarks on page 9.
    - Objective 4: BEE: Contribute to enterprise development in the asset management sector on page 10.
    - Objective 5: BEE: Contribute to enterprise development in the private equity sector and SMME on page 10.
    - Objective 6: Conduct sustainable and efficient PIC operations on page 11.

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework

for Managing Programme Performance Information (FMPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. The material findings in respect of the selected objectives, are as follows:

## Contribution to education, health, housing, infrastructure and environmental

### Usefulness of reported performance information-measurability

18. Performance targets must be specific in clearly identifying the nature and required level of performance. All the targets were not specific.

19. Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. All the indicators were not well defined.

## Increase investments in Africa (non-domestic)

### Usefulness of reported performance information measurability

20. Performance targets must be specific in clearly identifying the nature and required level of performance. All the targets were not specific.

21. Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. All the indicators were not well defined.

## BEE: Contribute to enterprise development in the private equity sector and SMME

### Usefulness of reported performance information measurability

22. Performance targets must be specific in clearly identifying the nature and required level of performance. All the targets were not specific.

23. Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. All the indicators were not well defined.

### Reliability of reported performance information

24. I did not raise any material findings on the reliability of the reported performance information for the selected objectives.

### Additional matters

25. I draw attention to the following matters:

### Achievement of planned targets

26. Refer to the annual performance report on page(s) 9 to 11 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected objectives reported in paragraph(s) 18 to 23 of this report.

### Compliance with legislation

27. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

### Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report included in this report.

### Financial and performance management

29. The new indicators and targets, added as a result of the changes in the unlisted mandate, were not adequately reviewed to ensure that all stakeholders will understand the technical terms utilised.

## Other Reports

### Limited assurance engagement

30. As requested by the entity, a limited assurance engagement was conducted during the year under review on compliance with Financial Advisory and Intermediary Services Act (Act 37 of 2002). The report covered the period 1 April 2013 to 31 March 2014 and was issued on 31 July 2014.

Auditor General

Pretoria
31 July 2014

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

## Director's Responsibilities and Approval

The Directors are required in terms of the Companies Act, No. 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Company as at the end of the financial year and the results of its operations and cash-flows for the period then ended, in conformity with International Financial Reporting Standards and in terms of Treasury Regulation 28.1.1 of the Public Finance Management Act (Act 1 of 1999, as amended). The external auditors are engaged to express an independent opinion on the annual financial statements. The prescribed disclosure of emoluments in terms of Treasury Regulation 28.1.1, is reflected under the "disclosure of remuneration section".

The annual financial statements are prepared, for the first time this financial year, in accordance with International Financial Reporting Standards and in terms of Treasury Regulation 28.1.1 of the Public Finance Management Act (Act 1 of 1999, as amended) and are based upon appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board of Directors sets standards for internal control, aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

The annual financial statements have been audited by the Auditor-General, who was given unrestricted access to all financial records and related data, including minutes of all meetings of Shareholders, the Board of Directors and Committee of the Board. The Directors believe that all representations made to the independent auditors during their audit, are valid and appropriate.

The external auditors are responsible for independently reviewing and reporting on the Company's annual financial statements. The annual financial statements have been examined by the Company's external auditors and their report is presented on pages 108 to 111.

The Company's annual financial statements set out on page 116 to 164, which have been prepared on the going concern basis, were approved by the Board of Directors on 31 July 2014 and were signed on its behalf by:

Mr Nene, Nhlanhla
Chairman

Ms More, Matshepo
Acting Chief Executive Officer

## Directors' Report

The Directors have the pleasure of presenting their report for the year ended 31 March 2014.

### 1. Nature of Business (Main business and Operations)

The Public Investment Corporation SOC Limited is incorporated and domiciled in the Republic of South Africa. It is a Schedule 3B state-owned entity as defined in the Public Finance Management Act, 1999 (PFMA). The Company provides asset management services primarily to public sector entities. It operates principally in South Africa and in the previous year it was given a mandate to invest offshore and within the rest of the African continent. The Company's financial statements for the year ended 31 March 2014 were authorised for issue in accordance with a resolution of the Directors on 31 July 2014.

### 2. Going concern

The Directors have reviewed the financial budgets with their underlying business plans for the period to 31 March 2015. On the basis of the review performed and in light of the current financial position, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the forseeable future and going concern. They consider it appropriate that the annual financial statements be prepared on a going-concern-basis.

### 3. Financial results

The Company's business model was designed and developed to focus on sustainability. The financial strategy is directly aligned to the three-year corporate plan, hence there is monthly monitoring of financial targets, as well as cost containment implemented throughout the year.

Profit attributable to shareholders for the year is R209 million (2013: R130 million). This is 61% higher than the prior year. Revenue, year on year, has increased by 68% (2013: 18%). Revenue is primarily made up of management fees, which are calculated based on the market value of Assets under Management, with the exception of management fees from the new Isibaya Portfolio, which are based on committed funds.

Full details of the financial results of the Company are set out on pages 116 to 164 of these annual financial statements and accompanying notes for the year ended 31 March 2014.

### 4. Subsequent events

Subsequent to the end of the financial year, the Chief Executive Officer, Elias Masilela, has terminated his contract with effect from 30 June 2014.

### 5. Accounting policies

In the current year, this is the first time that the Company's accounting policies will contain an explicit and unreserved statement of compliance with IFRSs; in prior years the financial statements were prepared in accordance with SA GAAP.

### 6. Share capital

There were no changes in the authorised or issued share capital of the Company during the year under review. There are no shares held in reserve. The Company does not operate a share incentive scheme, except for Harith. The PIC operates a long-term incentive scheme which is a cash-based scheme that has no correlation or relationship with the PIC shares.

## Director's Report (continued)

### 7. Associates

The PIC has a 46% (2013: 46%) shareholding in Harith Fund Managers and has a 30% (2013: 0%) shareholding in Harith General Partners.

Both associates have a year-end consistent with that of the Company. The details of associates in which the Company has an indirect interest, are disclosed in note 5 of the annual financial statements.

### 8. Related-Party Transactions

Details of related-party transactions are disclosed in note 29 of the annual financial statements.

### 9. Code of Corporate Practices and Conduct

The Company complies with the recommendations of the Code of Corporate Practices and Conduct included in the King III Report on Corporate Governance, including the Companies Act requirements.

### 10. Dividends

No dividends were declared or paid to shareholders during the year.

### 11. Accounting Practices

The Company's annual financial statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB) and comply with the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee, financial pronouncements, as issued by the Financial Reporting Standards Council (FRSC), the Public Finance Management Act and the requirements of the South African Companies Act.

### 12. Directorate

The composition and profiles of the Board of Directors for the Company, are set out on pages 14 to 20 of the integrated report and the information on the Board and Board committees, its activities, meetings, attendance and any other information, are set out in the corporate governance statement on pages 25 to 40.

Details of directors' remuneration are set out in note 30 of the annual financial statements. The Directors are all of South African nationality. In terms of Section 6(1) of the Public Investment Corporation Act, the following Directors have been appointed to and retired from the PIC Board:

- Mr Trueman Goba
  appointed on 1 December 2013
- Ms Dudu Hlatshwayo
  appointed on 1 December 2013
- Ms Sibusisiwe Zulu
  appointed on 1 December 2013
- Mr Jan Strydom
  retired on 30 November 2013
- Mr Ignatius Sehoole
  retired on 30 November 2013

There were no retirements and appointments other than those mentioned above.

### 13. Secretary

The Secretary of the company is Wilhelmina JF Louw.

### 14. Ultimate holding company

The Company's ultimate holding company is the National Government of the Republic of South Africa. The shareholder representative is the Minister of Finance. PIC's oversight department is the National Treasury.

## Directors' Report (continued)

### 15. Special resolutions

There were two special resolutions:

- Memorandum of Incorporation in April 2013
- Remuneration of non-executive Directors in November 2013.

There were no other material resolutions passed by the Company during the year under review.

### 16. Auditors

The Auditor-General of South Africa is the registered auditor of the PIC Company. The auditors of Harith Fund Managers and Harith General Partners are KPMG Inc.

### 17. Internal Financial Controls

During the year under review, the Board, through the audit committee, assessed the results of the formal documented review of the Company's system of internal controls and risk management: these included the design, implementation and effectiveness of the internal financial controls conducted by internal audit and considered information and explanations given by management and discussions with the external auditors on the results of the audit.

Based on the results obtained, nothing has come to the attention of the Board that caused it to believe that the Company's system of internal controls does not form a sound basis for the preparation of reliable financial statements. The Board's opinion is supported by the audit committee.

### 18. Disclosure of Information

According to the Treasury Regulations, paragraph 28, and the PFMA, Section 55, the annual financial statements must include a report by the Accounting Authority which must include the disclosure of remuneration in respect of all members of the Accounting Authority, which is the PIC non-executive and executive Directors and the senior management.

Per Companies Act 71 of 2008, paragraph 30(5), the annual financial statements must show the amount of any remuneration or benefits paid or receivable by all members of the Accounting Authority, which are the PIC non-executive Directors and senior management. The detail of the disclosure is included in the disclosure of remuneration on page 165.

### 19. Litigation

There were no legal or arbitration proceedings (including any such proceedings that are pending or threatening) which the Company is aware of, that may have or have had a material effect on the Company's financial position over the last 12 months, except for the legal action instituted by a former employee, Kagiso Bodigelo, which has been concluded in the Constitutional Court in favour of the PIC with a cost order in PIC's favour.

## Statement of Financial Position for the year ended 31 March 2014

| Figures in Rand thousand | Notes | 2014 R'000 | 2013 Restated R'000 | As at 1 April 2012 R'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-Current Assets** | | | | |
| Property, plant and equipment | 3 | 16,336 | 11,048 | 16,133 |
| Goodwill | 38 | - | - | 3,576 |
| Intangible assets | 4 | 2,875 | 4,855 | 8,264 |
| Investments in associates | 5 | 7,936 | 4,134 | 19,155 |
| Deferred tax | 8 | 64,155 | 15,649 | 12,405 |
| | | **91,302** | **35,686** | **59,533** |
| **Current Assets** | | | | |
| Financial assets at fair value through profit or loss | 6 | 118,068 | 88,315 | 57,706 |
| Current tax receivables | 16 | 3,608 | 4,782 | 4,582 |
| Trade and other receivables | 11 | 81,431 | 63,115 | 56,985 |
| Other financial assets | 10 | 460,817 | 254,409 | 208,106 |
| Cash and cash equivalents | 12 | 451,750 | 370,101 | 294,832 |
| | | **1,115,674** | **780,722** | **622,211** |
| **Total Assets** | | **1,206,976** | **816,408** | **681,744** |
| **Equity and Liabilities** | | | | |
| **Equity** | | | | |
| Share capital | 13 | 1 | 1 | 1 |
| Capital and other reserves | 15 | 279,821 | 278,000 | 278,000 |
| Retained income | | 668,319 | 459,442 | 329,492 |
| | | **948,141** | **737,443** | **607,493** |
| **Liabilities** | | | | |
| **Non-Current Liabilities** | | | | |
| Operating lease liability | 9 | 1,726 | 325 | 931 |
| Provisions | 14 | 90,714 | 29,665 | 24,638 |
| | | **92,440** | **29,990** | **25,569** |
| **Current Liabilities** | | | | |
| Operating lease liability | 9 | 356 | 704 | 106 |
| Trade and other payables | 17 | 27,034 | 20,546 | 26,345 |
| Provisions | 14 | 139,005 | 27,725 | 22,231 |
| | | **166,395** | **48,975** | **48,682** |
| **Total Liabilities** | | **258,835** | **78,965** | **74,251** |
| **Total Equity and Liabilities** | | **1,206,976** | **816,408** | **681,744** |

## Statement of Comprehensive Income for the year ended 31 March 2014

| Figures in Rand thousand | Notes | 2014 R'000 | 2013 Restated R'000 |
|---|---|---|---|
| Revenue | 18 | 808,880 | 482,402 |
| Other income | 19 | 7,003 | 7,201 |
| **Operating expenses** | | (574,231) | (342,891) |
| **Operating profit** | 20 | **241,652** | **146,712** |
| Investment income | 21 | 44,769 | 33,060 |
| Fair value adjustments | 22 | (426) | (8) |
| Income from equity accounted investments | | 2,867 | 1,078 |
| Finance costs | 23 | (15) | (5) |
| **Profit before taxation** | | **288,847** | **180,837** |
| Taxation | 24 | (79,970) | (50,887) |
| **Profit for the year** | | **208,877** | **129,950** |
| **Other comprehensive income** | | | |
| Share of comprehensive income of associates | | 1,821 | - |
| **Total comprehensive income for the year** | | **210,698** | **129,950** |

## Statement of Changes in Equity for the year ended 31 March 2014

| Figures in Rand thousand | Share capital R'000 | Foreign currency translation reserve R'000 | Capital reserve R'000 | Total Reserves | Retained income R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| **Balance on 1 April 2012** | **1** | - | **278,000** | **278,000** | **329,492** | **607,493** |
| Profit for the year | - | - | - | - | 129,950 | 129,950 |
| Other comprehensive income | - | - | - | - | - | - |
| **Total comprehensive income for the year** | - | - | - | - | **129,950** | **129,950** |
| **Balance on 1 April 2013** | **1** | - | **278,000** | **278,000** | **459,442** | **737,443** |
| Profit for the year | - | - | - | - | 208,877 | 208,877 |
| Other comprehensive income | - | 1,821 | - | 1,821 | - | 1,821 |
| **Total comprehensive income for the year** | - | **1,821** | - | **1,821** | **208,877** | **210,698** |
| **Balance on 31 March 2014** | 1 | 1,821 | 278,000 | 279,821 | 668,319 | 948,141 |
| Note(s) | 13 | | | | | |

## Statement of Cash-Flows for the year ended 31 March 2014

| Figures in Rand thousand | Notes | 2014 R'000 | 2013 Restated R'000 |
|---|---|---|---|
| **Cash-flows from operating activities** | | | |
| Cash generated from operations | 26 | 415,021 | 156,697 |
| Interest income | | 41,982 | 33,060 |
| Finance costs | | (15) | (5) |
| Tax paid | 27 | (130,710) | (57,385) |
| **Net cash from operating activities** | | **326,278** | **132,367** |
| **Cash-flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3 | (10,832) | (2,564) |
| Proceeds from disposal of property, plant and equipment | 3 | - | 7,370 |
| Purchase of other intangible assets | 4 | (887) | (1,082) |
| Other financial asset additions | | (974,966) | (319,069) |
| Other financial asset disposals | | 770,001 | 272,765 |
| Financial asset at fair value through profit and loss additions | | (158,878) | (62,635) |
| Financial asset at fair value through profit and loss disposals | | 130,045 | 32,017 |
| Dividends received | | 886 | 16,100 |
| **Net cash from investing activities** | | **(244,629)** | **(57,098)** |
| **Cash-flows from financing activities** | | | |
| **Total cash movement for the year** | | **81,649** | **75,269** |
| Cash at the beginning of the year | | 370,101 | 294,832 |
| **Total cash at end of the year** | 12 | **451,750** | **370,101** |

# Accounting Policies

## 1. Basis of Preparation

The PIC annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council (FRSC), the Public Finance Management Act (Act 1 of 1999) and the requirements of the South African Companies Act (Act 71 of 2008).

The PIC's annual financial statements have been prepared on the historical cost basis, except for the certain financial instruments that have been measured at fair value. The preparation of financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Information about significant areas of estimates, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements, have been disclosed.

### First Time Adoption of IFRS

The PIC's annual financial statements, for the period ended 31 March 2014, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended 31 March 2013, the Company prepared its financial statements in accordance with local generally accepted accounting principle (SA GAAP).

Accordingly, the Company has prepared financial statements which comply with IFRS applicable for the periods ending on or after 31 March 2014, together with the comparative period data as at and for the year ended 31 March 2014. In preparation of these financial statements, the Company's opening statements of financial position was prepared as at 1 April 2012, the Company's date of transition to IFRS. This note explains the key principle applied by the Company in restating its SA GAAP financial statements, including the statement of financial position as at 1 April 2012 and the financial statements as at, and for the year ended 31 March 2014.

Although there were no significant adjustments made by the Company in restating its SA GAAP financial statements, but in order to comply with IFRS 1 disclosure requirements, the Company has disclosed the following statements:

- Three (3) statements of financial position;
- Two (2) statements of profit or loss and other comprehensive income;
- Two (2) statements of cash-flows;
- Two (2) statements of changes in equity; and
- Related notes, including comparative information.

The Company did not apply any exemptions allowed for first-time adopter from the retrospective application of certain requirements under IFRS.

### Going Concern

The Company's forecasts and projections, taking account of reasonably possible changes in performance, show that the Company should be able to operate within the current operational mandate or funding level.

## Accounting Policies (continued)

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going-concern-basis in preparing the annual financial statements.

### 1.1 Critical Accounting Judgements, Estimates and Assumptions

The Company makes judgements, estimates and assumptions concerning the future when preparing the annual financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### Trade receivables

The Company determines impairment of trade and other non-current receivables when objective evidence indicates that one or more events have had a negative effect on the estimated future cash-flows of the receivables. Management exercises significant judgement in assessing the impact of adverse indicators and events on the recoverability of receivables using the indicators disclosed in the accounting policy.

The impairment loss is determined as the difference between the carrying amount of the receivables and the present value of their estimated future cash-flows (excluding future credit losses that have not been incurred), discounted at the receivables' original effective interest rate.

#### Impairment of Goodwill

The Company tests goodwill for impairment on an annual basis, in accordance with the accounting policy disclosed. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are performed internally by the Company and require the use of estimates and assumptions.

The input factors most sensitive to change, are management estimates of future cash-flows based on budgets and forecasts, growth rates and discount rates. Further details on these assumptions have been disclosed. The Company has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the changes in input factors result in any of the goodwill allocated to appropriate cash-generating units being impaired. Goodwill impairment in the current year amounted to R nil (2013: R3,5 million), refer to Note 38.

#### Fair value of financial instruments

The fair value of financial instruments traded in active markets, is based on quoted market prices at the financial year-end date. The quoted market price used for financial assets held by the Company, is the current bid price.

The fair value of financial instruments that are not traded in an active market (unlisted securities), is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially

## Accounting Policies (continued)

the same, discounted cash-flow analysis, and option pricing models, making maximum use of market input and relying as little as possible on entity-specific input. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each financial year-end date.

### Provisions

The Company exercises judgement in determining the expected cash outflows related to its provisions. Judgement is necessary in determining the timing of cash outflows as well as quantifying the possible range of the financial settlements that may occur.

The present value of the Company's provisions is based on management's best estimate of the future cash outflows expected to be required to settle the obligations, discounted using appropriate pre-tax discount rates that reflect current market assessment of the time value of money and the risks specific to each provision.

### Deferred Tax Asset

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deferred tax assets can be utilised. When recognising deferred tax assets, the Company exercises judgement in determining whether sufficient taxable profits will be available; this is done by assessing the future financial performance of the underlying to which the deferred tax assets relate. The Company's deferred tax assets for the current year amounted to R65,1 million (2013: R15,6 million), refer to Note 8.

### Taxation

The Company is subject to income tax in South Africa. As a result, significant judgement is required in determining the Company's provision for income taxes. There are numerous calculations and transactions for which the ultimate tax position is uncertain during the ordinary course of business. The Company recognises tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be payable. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax in the period in which such determination is made.

### Estimates of residual values and useful lives of property, plant and equipment

Property, plant and equipment represent a significant proportion of the Company's asset base, therefore the judgements made in determining their estimated useful lives and residual values, are critical to the Company's financial position and performance. Useful lives and residual values are reviewed on an annual basis with the effects of any changes in estimates accounted for on a prospective basis. In determining residual values, the Company uses historical sales and management's best estimate based on market prices of similar items. Useful lives of property, plant and equipment are based on management estimates and take into account historical experience with similar assets, the expected usage of the asset, physical wear and tear, technical or commercial.

## Accounting Policies (continued)

### Contingent liabilities

Management applies its judgement to the facts and the advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable, possible, or remote. This judgement application is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability. Contingent liabilities considered to be remote, are not disclosed.

### Intangible Assets, Software and Other Intangibles Assets

The relative size of the Company's intangible assets with finite useful lives makes the judgements surrounding the estimated useful lives and residual values critical to the Company's financial position and performance. Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for, on a prospective basis. The residual values of intangible assets are assumed to be one rand. The useful life is determined with reference to the licence term of the computer software. For unique software products controlled by the Company, the useful life is based on historical experience with similar assets as well as anticipation of future events, such as technological changes, which may impact the useful life.

Useful lives of other intangible assets are based on management's estimates and take into account historical experience as well as future events which may impact the useful lives.

### 1.2 Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the supply of services, or for administrative purposes and are expected to be used for more than one period.

The cost of an item of property, plant and equipment is only recognised when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Costs include expenditure that is directly attributable to the acquisition or construction of the assets; any other costs directly attributable to bringing the assets to the location; and condition for their intended use and the present value of estimated decommissioning costs. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, are also included in the cost of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment, is capitalised as part of the equipment. Property, plant and equipment under construction, are measured at initial cost and depreciated from the date the assets are available for use in the manner intended by management over their estimated useful lives. Assets are transferred from capital work-in-progress to an appropriate category of property, plant and equipment when commissioned and ready for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, are also included in the cost of property, plant and equipment.

## Accounting Policies (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses. Useful lives have been determined to be as follows:

| | Average in years |
|---|---|
| Furniture and fixtures | 5 to 10 |
| Motor vehicles | 5 |
| Office equipment | 5 to 8 |
| IT equipment | 3 to 5 |
| Leasehold improvements | 5 |

Depreciation is charged to profit and loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis.

The carrying values of property and equipment are written down to their estimated recoverable amounts, where the estimated recoverable amount is lower than the carrying value. The recoverable amount of property and equipment is determined as the higher of the assets' fair value, less costs to sell, and the value in use.

All gains or losses arising on the disposal or scrapping of property and equipment, are recognised in profit or loss in the period of disposal or scrapping. Repairs and maintenance are charged to profit and loss when the expenditure is incurred.

### 1.3 Goodwill

Goodwill arising on the acquisition of assets and liabilities of a business, represents the excess of the cost of acquisition over the company interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the business and this is recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is reviewed annually, or more frequently, if events or changes in circumstances indicate that the carrying value may not be recoverable.

A gain on bargain purchase represents the excess of the Company's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition, and this is recognised immediately in profit and loss.

### 1.4 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. No intangible asset is recognised arising from research. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project), is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project), is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;

## Accounting Policies (continued)

- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Subsequent expenditure relating to intangible assets is capitalised when it is probable that future economic benefits from the use of the assets will be increased and will be realised. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

Surpluses and deficits on the disposals of intangible assets are recognised in profit or loss. The surplus or deficit is the difference between the net disposal proceeds and the carrying value of the asset at the date of sale.

The amortisation period and the amortisation method for intangible assets are reviewed at the end of every period. Amortisation is charged to profit or loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis. Useful lives have been determined to be as follows:

| | **Average in years** |
|---|---|
| Computer software | 3 to 5 |
| Other intangible assets | 5 to 8 |

### 1.5 Investments in associates

Associates are entities in which the Company has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. Investments in associates acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less costs to sell in terms of the requirements of IFRS 5.

On initial recognition, the investment in the associates is recognised at cost and the carrying amount is equity accounted. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss, and the carrying amount of loans to associates that are substantially part of the investment, as settlement is neither planned, nor likely to occur in the foreseeable future.

The company assesses, at each reporting period, whether there is objective evidence in terms of IAS 39, that an investment in an associate or joint venture, is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36. Equity accounting is discontinued from the date that the Company ceases to have significant influence over the associate or joint control over the joint venture. The Company measures at fair value any investment it has retained in the entity

## Accounting Policies (continued)

when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence or joint control is lost.

After discontinuing equity accounting, the Company accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

### 1.6 Financial instruments

#### Initial recognition and measurement

**Financial assets**

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash-flow characteristics of the financial assets.

As required by IFRS 9, debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash-flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash-flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the debt instruments are classified as at fair value through profit or loss (FVTPL).

However, the Company may choose, at initial recognition, to designate a debt instrument that meets the amortised cost criteria as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch. In the current financial year, the Company has not elected to designate any debt instruments that meet the amortised cost criteria as at FVTPL.

Debt instruments that are subsequently measured at amortised cost, are subject to impairment.

Investments in equity instruments are classified and measured as at FVTPL, except when the equity investment is not held for trading and is designated by the Company as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income that is generally recognised in profit or loss in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

As at 31 March 2014, the Directors have reviewed and assessed the Company's existing financial assets. Based on the assessment, it was determined that the impact of initial application of IFRS 9 will be immaterial because the Company's financial assets are carried at fair value through profit or loss under IAS 39, which will be the same classification if applying IFRS 9.

The application of IFRS 9 only affects the Company's financial assets, hence the financial liabilities will continue to be accounted for in terms of IAS 39.

## Accounting Policies (continued)

**IAS 39 Financial Instrument: Recognition and Measurement**

IAS 39 Financial Instruments: Recognition and Measurement has been retained, to the extent that it applies to financial assets, as it is still applicable to the comparative figures. A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities, derivative instruments and equity instruments held for investment, trading, hedging or liquidity purposes, but exclude investments in subsidiaries, associates, employee benefit plans, property and equipment, deferred taxation, taxation payable, intangible assets and goodwill.

Financial instruments are accounted for under the following standards:

- presented under IAS 32;
- recognised and measured under IAS 39 and IFRS 9; and
- disclosed under IFRS 7.

Financial assets are classified into the following specified categories:

- financial assets at fair value through profit or loss;
- held to maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

Financial liabilities are classified as either

- financial liabilities at fair value through profit or loss; or
- other financial liabilities.

The Company classifies financial instruments, or their component parts, on initial recognition.

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument.

All financial assets are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately through the statement of comprehensive income.

All financial liabilities are initially recognised at fair value minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification.

**Derecognition**

Financial assets are derecognised when the rights to receive cash-flows from the investments have

## Accounting Policies (continued)

expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

**Fair value determination**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash-flow analysis, and option pricing models making maximum use of market input and relying as little as possible on entity-specific input.

**Financial instruments designated as at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or Company investment strategy.

Financial assets and financial liabilities at fair value through profit or loss, are measured at fair value. Net gains and losses arising from financial instruments categorised as at fair value through profit or loss are determined inclusive of interest or dividend income. Transaction costs are recognised in profit or loss as an expense. Dividend income is recognised in profit or loss as part of investment income when the Company's right to receive payment is established.

An investment is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

An investment other than a financial asset held for trading, may be designated as at fair value through profit or loss upon initial recognition if:

- the investment forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

**Financial instruments designated as available-for-sale**

These financial assets are non-derivatives that are either designated in this category or not classified elsewhere. Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract

## Accounting Policies (continued)

which terms require delivery of the investment within the timeframe established by the market concerned.

These investments are measured initially and subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income, is included in the net profit or loss for the period.

The Company assesses, at each financial year-end date, whether there is objective evidence that a financial asset or a Company of financial assets, is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, is considered as an indicator that the securities may be impaired. If any such evidence exists for financial assets available-for-sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income – is removed from other comprehensive income and recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale, are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale, are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale, are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in other comprehensive income.

Interest on securities available-for-sale, is calculated using the effective interest method and is recognised in the statement of comprehensive income as part of 'other income'. Dividends on available-for-sale equity instruments, are recognised in the statement of comprehensive income as part of 'other income' when the Company's right to receive payments is established.

Equity investments for which a fair value is not determinable, are held at cost. Impairments on such investments are not reversed.

**Held to maturity**

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has both the positive intent and ability to hold to maturity, other than those that meet the definition of loans and receivables, or those that were designated as fair value through profit or loss, or designated as available-for-sale.

Held to maturity financial assets are measured at amortised cost, using the effective interest method, less any provisions for impairment, with the interest income recognised in profit or loss.

## Accounting Policies (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees receivable that form an integral part of the effective interest rate) through the expected life of the financial asset/liability or, where appropriate, a shorter period.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss, recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash-flows, discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment, at the date the impairment is reversed, shall not exceed what the carrying value would have been had the impairment not been recognised.

Financial assets that the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity.

The Company derecognises a financial asset (or company of financial assets) or a part of a financial asset (or part of a company of financial assets) when, and only when:

- the contractual rights to the cash-flows arising from the financial asset have expired; or
- it transfers the contractual rights to receive the cash-flows from the financial asset; or
- it retains the contractual rights to receive the cash-flows of the financial asset, but assumes a contractual obligation to pay the cash-flows to one or more recipients.

A financial liability (or group of financial liabilities) or a part of a financial liability (or part of a group of financial liabilities) is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

**Trade and other receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those designated by the Company as fair value through profit or loss or designated as available-for-sale.

Trade receivables and other receivables that are not held for trading purposes and have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts, are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue), are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's

## Accounting Policies (continued)

carrying amount and the present value of estimated future cash-flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit and loss within operating expenses. When a trade receivable is unelectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off, are credited against operating expenses in profit and loss.

Trade and other receivables are classified as loans and receivables.

**Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, bank balances and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Short-term highly liquid investments are initially and subsequently recorded at amortised cost. All other cash and cash equivalents are initially and subsequently recorded at fair value through profit and loss.

### 1.7 Tax

#### Current tax assets and liabilities

Direct taxation in the statement of comprehensive income of South African and foreign jurisdiction corporate income tax, is inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred) and foreign jurisdiction withholding taxes (currently payable and deferred).

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax is the expected taxation payable, based on the taxable income, inclusive of capital gains for the year, using taxation rates enacted or substantially enacted at the balance sheet date, and any adjustment to the taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to the statement of comprehensive income, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

#### Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction

## Accounting Policies (continued)

which, at the time of the transaction, affects neither accounting profit, nor taxable profit (tax loss). Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base.

Deferred tax is charged or credited in the statement of comprehensive income, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred tax is also dealt with in equity. The effect of deferred taxation of any changes in taxation rates, is recognised in the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly in equity.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, and affects neither accounting profit, nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments, is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and a reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts is recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

## Accounting Policies (continued)

### 1.9 Impairment of assets

The Company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs, is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value, less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost, less any accumulated depreciation or amortisation, is recognised immediately in profit or loss. Any impairment loss of a revalued asset, is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill, may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss, does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill, is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset, is treated as a revaluation increase.

### 1.10 Share capital and equity

Ordinary shares are classified as equity. Share capital issued by the company is recorded as the value of the proceeds received, less the external costs directly attributable to the issue of the shares.

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for in the statement of changes in equity. Dividends declared after the financial year-end date, are disclosed in the dividends note.

### 1.11 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses, and non-monetary benefits such as medical care), is recognised in the period in which the service is rendered and is not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the

## Accounting Policies (continued)

case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and when the amount can reliably be estimated at year-end.

Payments (employer contributions) to both the defined contribution retirement plans and defined benefit retirement plans, are charged as an expense as they fall due.

### Defined contribution plans

Under defined contribution plans:

(a) the Company's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by both the employer and employee to a post-employment benefit plan, together with investment returns arising from the contributions; and

(b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits), fall on the employee.

### Defined benefit plans

Under defined benefit plans:

(a) the Company's legal or constructive obligation is not limited to the amount that it agrees to contribute to the fund; and

(b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits), fall on the PIC.

### 1.12 Provisions and contingencies

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligations. Provisions are recognised when:

- the Company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

The present obligations arising under any onerous contracts, are recognised and measured as a provision. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits that are expected to be received by the Company under such contract.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

## Accounting Policies (continued)

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

### Contingent liabilities

The Company discloses a contingent liability when:

- It has a possible obligation arising from past events, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
- It has a present obligation that arises from past events, but is not recognised because:
  - it is not probable that an outflow of resources will be required to settle an obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

### Contingent assets

The Company discloses a contingent asset when it has a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

### 1.13 Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction, can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Revenue comprises management fees and letting commission charged to parties on whose behalf the assets are managed and rental income collected.

## Accounting Policies (continued)

### Fee income

The fee income is recognised as the services are provided by the Company, i.e.:

- providing asset management service (listed instrument) is charged at an agreed percentage of the market value;
- providing alternative asset management services where a portion is charged at an agreed percentage of the value of clients' funds committed to the alternative investments, which, after the term of the funds commitment period, the fee is based on invested capital;
- providing property asset management services is charged at an agreed percentage of the market value of the portfolio;
- providing property management services is charged at an agreed percentage of the gross rental income collected.

### 1.14 Investment income

Interest is recognised, as part of investment income, using the effective interest rate method. Dividends are recognised, as part of investment income, when the company's right to receive payment has been established.

### 1.15 Borrowing costs

The Company capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed in the period incurred.

### 1.16 Subsequent events

This is an event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue. The Company adjusts its financial statements for events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period, including events that indicate that the going concern assumption, in relation to the whole or part of the enterprise, is not appropriate.

The Company does not adjust its financial statements for events or conditions that arose after the end of the reporting period. These events will be disclosed if material. If the Company declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. If the Company receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

### 1.17 Comparatives

The Company discloses comparative information in respect of the previous period for all amounts reported in the financial statements, both on the face of the financial statements and in the notes, unless another Standard requires otherwise.

## Accounting Policies (continued)

### 1.18 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

The Company does not offset any assets and liabilities, and income and expenses, unless it is required or permitted by an IFRS.

### 1.19 Foreign currency translations

The Company recognises foreign currency transactions, initially at the rate of exchange at the date of the transaction.

At each subsequent balance sheet date:

- foreign currency monetary balances are reported using the closing rate;
- non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction;
- non-monetary items carried at fair value, are reported at the rate that existed when the fair values were determined.

Foreign exchange differences arising on translation are recognised in profit and loss.

## 2. New standards and interpretations not yet effective

### 2.1 Accounting standards issued and effective

Of the standards and interpretations effective and adopted in the current year, none have a material impact on the Company's annual financial statements.

### 2.2 Standards and interpretations not yet effective

Of the standards and interpretations not yet effective or relevant in the current year, none have material impact on the Company's annual financial statements.

## Accounting Policies (continued)

## 2. New standards and interpretations not yet effective

| Standard/interpretation: | Effective date: Annual beginning on or after | Expected impact: |
|---|---|---|
| IFRS 1 First-time adoption of International Financial Reporting Standards | 1 July 2014 | **Annual improvements 2011 to 2013 cycle:** Amendments to the Basis of Conclusion clarify the meaning of "effective IFRSs". Not expected to have impact on the Company's financial statements. |
| IFRS 2 Shared-based payments | 1 July 2014 | No expected impact on the Company's financial statements. The Company has no share-based payments scheme. |
| IFRS 3 Business combinations | 1 July 2014 | **Annual improvements 2010 to 2013 cycle:** No expected impact on the Company's financial statements. The Company has no business combination activities. |
| IFRS 8 Operating segments disclosure | 1 July 2014 | **Annual improvements 2010 to 2012 cycle:** No expected impact on the Company's financial statements. The Company does not report on operating segments. |
| IFRS 9 Financial instruments | 1 July 2014 | **Annual improvements 2010 to 2012 cycle:** No expected impact on the Company's financial statements as the Company does not apply hedge accounting. |
| IFRS 10 Consolidated financial statements | 1 January 2014 | Exception to the principles that all subsidiaries must be consolidated. No expected impact on the Company's financial statements as the Company currently does not have any subsidiaries. |
| IFRS 12 Disclosure of interests in other entities | 1 January 2014 | **New disclosure requirements:** No expected impact on the Company's financial statements, as the Company has no investment entities as defined. |
| IFRS 13 Fair value measurement | 1 July 2014 | **Annual improvements 2010 to 2012 and 2013 cycles:** IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirement for use across. Analysis will be performed to determine the expected impact in the coming financial year. |
| IAS 16 Property, plant and equipment | 1 July 2014 | **Annual improvements 2010 to 2012 cycles:** Amendments to the Revaluation Method proportionate restatements of accumulated depreciation. No expected impact on the Company's financial statements as the Company applies Cost Model, as opposed to the Revaluation Method. |
| IAS 19 Employee benefits revised | 1 July 2014 | **Amendments to defined benefits plans:** No expected impact on the Company's financial statements. |

## Accounting Policies (continued)

### 2. New standards and interpretations not yet effective (continued)

| Standard/interpretation: | Effective date: Annual beginning on or after | Expected impact: |
|---|---|---|
| IAS 24 Related party disclosures | 1 July 2014 | Amendments to the definitions and disclosure requirements for key management personnel. Analysis will be performed in order to determine the impact on the Company's financial statements. |
| IAS 27 Seperate financial statements | 1 January 2014 | Requirements to account for interest in "Investments Entities" at fair value. No expected impact on the Company's financial statements as the Company has no investment in entities as defined. |
| IAS 38 Intangible assets | 1 July 2014 | **Annual improvements 2010 to 2012 cycle:** Amendments to the Revaluation Methods. No expected impact on the Company's financial statements as the Company applies Cost Model as opposed to the Revaluation Method. |
| IAS 40 Investment property | 1 July 2014 | **Annual improvements 2011 to 2013 cycles:** Amendments to clarify the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. No expected impact on the Company's financial statements as the Company has no investment property. |
| IFRIC 21 Levies | 1 January 2014 | No expected impact on the Company's financial statements as the Company has not previously been imposed any levies by the Government. |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 3. Property, plant and equipment

| Figures in Rand thousand | 2014 Cost/ Valuation R'000 | 2014 Accumulated depreciation R'000 | 2014 Carrying value R'000 | 2013 Cost/ Valuation R'000 | 2013 Accumulated depreciation R'000 | 2013 Carrying value R'000 | 2012 Cost/ Valuation R'000 | 2012 Accumulated depreciation R'000 | 2012 Carrying value R'000 |
|---|---|---|---|---|---|---|---|---|---|
| Furniture and fixtures | 4,294 | (1,387) | 2,907 | 3,495 | (2,050) | 1,445 | 7,345 | (5,114) | 2,231 |
| Motor vehicles | 885 | (393) | 492 | 885 | (216) | 669 | 838 | (200) | 638 |
| Office equipment | 7,762 | (4,669) | 3,093 | 6,227 | (3,253) | 2,974 | 8,655 | (5,005) | 3,650 |
| IT equipment | 15,386 | (9,271) | 6,115 | 10,258 | (5,891) | 4,367 | 18,098 | (11,127) | 6,971 |
| Leasehold improvements | 4,766 | (1,037) | 3,729 | 3,614 | (2,021) | 1,593 | 4,020 | (1,377) | 2,643 |
| Finance leases - IT equipment | - | - | - | - | - | - | 2,423 | (2,423) | - |
| **Total** | 33,093 | (16,757) | 16,336 | 24,479 | (13,431) | 11,048 | 41,379 | (25,246) | 16,133 |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

| | Opening balance R'000 | Additions R'000 | Depreciation R'000 | Write off R'000 | Total R'000 |
|---|---|---|---|---|---|
| Furniture and fixtures | 1,445 | 2,322 | (857) | (3) | 2,907 |
| Motor vehicles | 669 | - | (177) | - | 492 |
| Office equipment | 2,974 | 1,579 | (1,460) | - | 3,093 |
| IT equipment | 4,367 | 5,128 | (3,380) | - | 6,115 |
| Leasehold improvements | 1,593 | 3,302 | (1,166) | - | 3,729 |
| | **11,048** | **12,331** | **(7,040)** | **(3)** | **16,336** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

| | Opening balance R'000 | Additions R'000 | Transfers R'000 | Adjustments R'000 | Depreciation R'000 | Impairment loss R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| Furniture and fixtures | 2,231 | 80 | 15 | - | (881) | - | 1,445 |
| Motor vehicles | 638 | 199 | - | - | (168) | - | 669 |
| Office equipment | 3,650 | 719 | (15) | - | (1,379) | (1) | 2,974 |
| IT equipment | 6,971 | 1,485 | - | (6) | (4,045) | (38) | 4,367 |
| Leasehold improvements | 2,643 | 81 | - | - | (1,131) | - | 1,593 |
| | **16,133** | **2,564** | - | **(6)** | **(7,604)** | **(39)** | **11,048** |

Reconciliation of property, plant and equipment - 2012

| | Opening balance R'000 | Additions R'000 | Additions through business combinations R'000 | Disposals R'000 | Adjustments R'000 | Depreciation R'000 | Impairment loss R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| Buildings | 7,335 | - | - | (7,335) | - | - | - | - |
| Furniture and fixtures | 1,488 | 1,721 | - | - | (67) | (911) | - | 2,231 |
| Motor vehicles | 105 | 686 | - | (53) | - | (100) | - | 638 |
| Office equipment | 2,660 | 1,415 | 807 | - | 23 | (1,255) | - | 3,650 |
| IT equipment | 7,451 | 3,265 | 516 | - | 30 | (4,270) | (21) | 6,971 |
| Leasehold improvements | 753 | 3,097 | - | - | 34 | (813) | (428) | 2,643 |
| Finance leases | 738 | - | - | - | - | (738) | - | - |
| | **20,530** | **10,184** | **1,323** | **(7,388)** | **20** | **(8,087)** | **(449)** | **16,133** |

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2014, is available for inspection at the registered office of the company.

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 4. Intangible assets

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Cost/ Valuation R'000 | Accumulated amortisation R'000 | Carrying value R'000 | Cost/ Valuation R'000 | Accumulated amortisation R'000 | Carrying value R'000 |
| Computer software | 27,909 | (25,317) | 2,592 | 26,810 | (22,817) | 3,993 |
| Other intangible assets | 2,869 | (2,586) | 283 | 2,869 | (2,007) | 862 |
| **Total** | **30,778** | **(27,903)** | **2,875** | **29,679** | **(24,824)** | **4,855** |

| | 2012 | | |
|---|---|---|---|
| | Cost/ Valuation R'000 | Accumulated amortisation R'000 | Carrying value R'000 |
| Computer software | 30,060 | (23,237) | 6,823 |
| Other intangible assets | 3,279 | (1,838) | 1,441 |
| **Total** | **33,339** | **(25,075)** | **8,264** |

Reconciliation of intangible assets – 2014

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|
| Computer software | 3,993 | 1,098 | (2,499) | 2,592 |
| Other intangible assets | 862 | - | (579) | 283 |
| | **4,855** | **1,098** | **(3,078)** | **2,875** |

Reconciliation of intangible assets – 2013

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|
| Computer software | 6,823 | 1,082 | (3,912) | 3,993 |
| Other intangible assets | 1,441 | - | (579) | 862 |
| | **8,264** | **1,082** | **(4,491)** | **4,855** |

Reconciliation of intangible assets – 2012

| | Opening balance R'000 | Additions R'000 | Additions through business combinations R'000 | Adjustments R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Computer software | 7,753 | 3,835 | 32 | (144) | (4,653) | 6,823 |
| Other intangible assets | 2,001 | 18 | - | 62 | (640) | 1,441 |
| | **9,754** | **3,853** | **32** | **(82)** | **(5,293)** | **8,264** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 5. Investments accounted for using the equity method

Investments in associates are investments in which PIC has significant influence, but no control over the financial and operating policies. Investment in associates are accounted for using the equity method in terms of IAS 28. PIC has two associates, namely Harith Fund Managers and Harith General Partners. Harith General Partners was purchased on 1 April 2013.

| Investment in Associates | Holding % | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|---|
| Harith Fund Managers (Pty) Limited | 46.00 % | 3,956 | 4,134 | 19,155 |
| Harith General Partners (Pty) Limited | 30.00 % | 3,980 | - | - |
| | | **7,936** | **4,134** | **19,155** |

Harith Fund Managers is a private company. The nature of the business is the management of the Pan African Infrastructure Development Fund (PAIDF) funds. Harith Fund Managers is also responsible, on behalf of the PAIDF, for the provision of specified administrative services relating to the operations of the PAIDF. Harith General Partners is a company established in South Africa which invests and manages investments in infrastucture and project development throughout Africa, as a fund manager on behalf of Pan African Infrastructure Development Fund and other future funds.

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **Harith Fund Managers (Pty) Limited** | | | |
| Balance at the beginning of the year | 4,134 | 19,155 | 16,294 |
| Earnings from Associate | 708 | 1,079 | 2,861 |
| Dividend income | (886) | (16,100) | - |
| | **3,956** | **4,134** | **19,155** |
| **Harith General Partners (Pty) Limited** | | | |
| Balance at the beginning of the year | - | - | - |
| Earnings from Associate | 2,159 | - | - |
| Earnings from Associate: Exchange difference on translation of foreign operation | 1,821 | - | - |
| | **3,980** | - | - |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

## 5. Investments accounted for using the equity method (continued)

**Harith Fund Managers (Pty) Limited**

Summarised financial information of financial position and financial performance:

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| Assets | 20,306 | 19,670 | 83,123 |
| Liabilities | - | 902 | 32,218 |
| Revenue | 114,660 | 101,180 | 85,120 |
| Profit/loss | 1,539 | 2,344 | 6,220 |
| Profit attributable to the Company | 708 | 1,078 | 2,861 |
| Dividend received | 886 | 16,100 | - |

**Harith General Partners (Pty) Limited**

Summarised financial information of financial position and financial performance:

| | | | |
|---|---|---|---|
| Assets | 180,835 | - | - |
| Liabilities | 161,349 | - | - |
| Revenue | 181,803 | - | - |
| Profit/loss | 7,196 | - | - |
| Profit attributable to the Company | 2,158 | - | - |
| Other comprehensive income | 6,071 | - | - |
| Other comprehensive income attributable exchange differences on translation of foreign operation | 1,821 | - | - |

## 6. Financial assets at fair value through profit or loss

**At fair value through profit or loss – designated**

| | | | |
|---|---|---|---|
| Bonds | 15,277 | - | - |
| Promissory notes | 68,910 | 68,969 | 19,212 |
| Bills | 33,881 | 19,346 | 38,494 |
| | **118,068** | **88,315** | **57,706** |
| **Current assets** | | | |
| Designated at fair value through profit or loss | **118,068** | **88,315** | **57,706** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 6. Financial assets at fair value through profit or loss (continued)

The fair values of the financial assets were determined as follows:

- The fair values of listed or quoted investments are based on the quoted market price; and
- The fair values on investments not listed or quoted, are estimated using the yield curve valuation technique, utilising the nominal rate of interest compounded continuously. The method is consistent with the prior year.

For debt securities classified as at fair value through profit or loss, the maximum exposure to credit risk at the reporting date, is the carrying amount.

The company has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

The maximum exposure to credit risk at the reporting date, is the fair value of each class of financial instruments mentioned above and the fair value of the trade and other receivables disclosed in note 11. The Company has not pledged any collateral as security.

Financial instruments measured at fair value shall be classified into a hierarchy that reflects the significance of the input used in making the measurements. The hierarchy of all the financial instruments is level 1. Level 1 input are quoted prices in active markets for identical assets, which are observable for the assets, either directly or indirectly.

#### Credit quality of other financial assets

The credit quality of financial assets that are neither past due, nor impaired, can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

**Designated at fair value through profit/loss**

**Credit rating**

| | 2014<br>R'000 | 2013<br>R'000 | 2012<br>R'000 |
|---|---|---|---|
| AAA | - | 19,346 | 38,494 |
| AA+ | 41,986 | - | - |
| AA | 76,082 | 68,969 | 19,212 |
| | **118,068** | **88,315** | **57,706** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 7. Financial instruments by category

The carrying value of the financial instruments approximates the fair value. All financial liabilities are carried at amortised cost. The accounting policies for financial instruments have been applied to the line items below:

| | Carried at amortised cost R'000 | Fair value through profit or loss - designated R'000 | Total R'000 |
|---|---|---|---|
| **2014** | | | |
| Bills, promissory notes, bonds | - | 118,068 | 118,068 |
| Other financial assets | 460,817 | - | 460,817 |
| Trade and other receivables | 81,370 | - | 81,370 |
| Cash and cash equivalents | 451,750 | - | 451,750 |
| | **993,937** | **118,068** | **1,112,005** |
| **2013** | | | |
| Bills, promissory notes | - | 88,315 | 88,315 |
| Other financial assets | 254,409 | - | 254,409 |
| Trade and other receivables | 63,095 | - | 63,095 |
| Cash and cash equivalents | 370,101 | - | 370,101 |
| | **687,605** | **88,315** | **775,920** |
| **2012** | | | |
| Bills, promissory notes | - | 57,706 | 57,706 |
| Other financial assets | 208,106 | - | 208,106 |
| Trade and other receivables | 56,985 | - | 56,985 |
| Cash and cash equivalents | 294,832 | - | 294,832 |
| | **559,923** | **57,706** | **617,629** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 8. Deferred tax

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **Deferred tax asset** | | | |
| Leave pay | 2,393 | 1,957 | 1,631 |
| Prepayments | (569) | (313) | (691) |
| Fixed assets | (457) | (556) | (457) |
| Unrealised (profit)/loss | 263 | 144 | 141 |
| Leases | 583 | 288 | 290 |
| Short-term incentive provision | 29,210 | - | - |
| Other provision | 32,732 | 14,129 | 11,491 |
| | **64,155** | **15,649** | **12,405** |
| **Reconciliation of deferred tax asset (liability)** | | | |
| At beginning of the year | 15,649 | 12,405 | 11,230 |
| Leave pay | 436 | 325 | 328 |
| Prepayments | (257) | 379 | (449) |
| Fixed assets | 98 | (98) | (8) |
| Unrealised (profit)/loss | 120 | 2 | 17 |
| Leases | 294 | (2) | 247 |
| Other provision | 18,605 | 2,638 | 4,171 |
| Short-term incentive provision | 29,210 | - | - |
| STC credit movements | - | - | (3,131) |
| | **64,155** | **15,649** | **12,405** |

### 9. Operating lease asset (accrual)

| | | | |
|---|---|---|---|
| Non-current liabilities | (1,726) | (325) | (931) |
| Current liabilities | (356) | (704) | (106) |
| | **(2,082)** | **(1,029)** | **(1,037)** |
| Amount expensed | (12,702) | (11,306) | (11,639) |
| Amount paid | 13,143 | 11,316 | 10,758 |
| | **441** | **10** | **(881)** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 10. Other financial assets

Other financial assets consist of interest-bearing fixed deposits.

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| Current asset | 460,817 | 254,409 | 208,106 |

### 11. Trade and other receivables

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| Trade receivables | 75,499 | 58,773 | 43,618 |
| Prepayments | 3,204 | 2,575 | 5,045 |
| Other receivables | 2,728 | 1,767 | 8,322 |
| | **81,431** | **63,115** | **56,985** |

**Trade and other receivables past due, but not impaired**

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| 60 to 90 days | 5,003 | 1,995 | 214 |
| 90 days plus | 2,245 | 412 | 2,407 |

**Reconciliation of the allowance for doubtful debts (trade and other receivables)**

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| Opening balance | 76 | - | 80 |
| Amounts written off as uncollectible | (76) | - | (80) |
| Allowance for doubtful debts | 76 | 76 | - |
| | **76** | **76** | **-** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

## 12. Cash and cash equivalents

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **Cash and cash equivalents consist of:** | | | |
| Cash on hand | 18 | 15 | 15 |
| Bank balances | 157,647 | 96,702 | 42,234 |
| Short-term deposits | 294,085 | 273,384 | 252,583 |
| | **451,750** | **370,101** | **294,832** |

**Credit quality of cash at bank and short-term deposits**

The credit quality of cash at bank and short-term deposits that are neither past due, nor impaired, can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

| | | | |
|---|---|---|---|
| **Credit rating** | | | |
| AAA | 57,075 | - | 10,209 |
| AA+ | - | 85,906 | 187,179 |
| AA | 348,186 | 182,800 | - |
| AA- | - | 45,476 | 82,228 |
| A1/A+ | 41,391 | 55,904 | 15,201 |
| A | 5,080 | - | - |
| Other | 18 | 15 | 15 |
| | **451,750** | **370,101** | **294,832** |

## 13. Share capital

**Authorised**

| | | | |
|---|---|---|---|
| 100 Ordinary shares of R10 each | 1 | 1 | 1 |

**Issued**

| | | | |
|---|---|---|---|
| 100 Ordinary shares of R10 each | 1 | 1 | 1 |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 14. Provisions

**Reconciliation of provisions - 2014**

| | Opening balance R'000 | Raised R'000 | Utilised during the year R'000 | Reversed during the year R'000 | Total R'000 |
|---|---|---|---|---|---|
| Legal proceedings | 3,000 | - | - | (3,000) | - |
| Other employee-related provision | - | 3,188 | - | - | 3,188 |
| Leave pay | 6,988 | 15,654 | (14,096) | - | 8,546 |
| Long-term incentive | 47,094 | 93,259 | (26,689) | - | 113,664 |
| Short-term incentive | - | 104,321 | - | - | 104,321 |
| Defined benefit provision | 308 | 302 | (610) | - | - |
| | **57,390** | **216,724** | **(41,395)** | **(3,000)** | **229,719** |

#### Legal proceeding provision:

The provision relates to a former employee of the PIC, who instituted action against the company in respect of Board fees and bonuses he claims were due to him by virtue of sitting on Boards of four investee companies as representative of the PIC. As at 31 March 2014, provision was reversed based on the ruling by the Supreme Court of Appeal in favour of the PIC, with a costs order against the former employee and further a dismissal by the Constitutional Court of the employee's referral thereto with cost.

#### Other employee-related provision

This is a post balance sheet event relating to a provision for an ex-gratia payment pursuant to the resignation of the CEO.

#### Provision for leave:

The provision represents annual leave entitlements accrued to the employees for the financial period.

#### Provision for incentives:

The provision for long-term incentives relates to the scheme by the Company to attract, retain and reward high performing management of the PIC. The scheme vests over a period of three years and payment has a lag time of three years. The bonus provision consists of a performance-based bonus, which is determined by reference to the overall company performance with regards to set predetermined key performances measures. Bonuses are payable annually after the Company's annual results have been approved.

#### Defined Benefit Provision:

The provision relates to the liability resulting from enhanced benefits received as a result of lapsed benefit. The liability was settled during the financial period.

## Notes to the Annual Financial Statements for the year ended 31 March 2014

**Reconciliation of provisions – 2013**

| | Opening balance R'000 | Raised R'000 | Utilised during the year R'000 | Reversed during the year R'000 | Total R'000 |
|---|---|---|---|---|---|
| Restructuring | 1,484 | - | (770) | (714) | - |
| Legal proceedings | 3,000 | - | - | - | 3,000 |
| Leave pay | 5,828 | 8,245 | (7,085) | - | 6,988 |
| Long-term incentive | 33,231 | 27,099 | (13,236) | - | 47,094 |
| Defined benefit provision | 3,326 | - | (2,235) | (783) | 308 |
| | **46,869** | **35,344** | **(23,326)** | **(1,497)** | **57,390** |

**Reconciliation of provisions – 2012**

| | Opening balance R'000 | Raised R'000 | Utilised during the year R'000 | Reversed during the year R'000 | Total R'000 |
|---|---|---|---|---|---|
| Restructuring | 6,200 | - | (4,716) | - | 1,484 |
| Legal proceedings | 3,000 | - | - | - | 3,000 |
| Provision for leave | 4,657 | 10,597 | (9,930) | 504 | 5,828 |
| Long-term incentive | 13,428 | 27,611 | (7,808) | - | 33,231 |
| Defined benefit provision | 3,454 | - | (128) | - | 3,326 |
| | **30,739** | **38,208** | **(22,582)** | **504** | **46,869** |

| | | | |
|---|---|---|---|
| Non-current liabilities | 90,714 | 29,665 | 24,638 |
| Current liabilities | 139,005 | 27,725 | 22,231 |
| | **229,719** | **57,390** | **46,869** |

## 15. Capital Reserves

The Capital Reserve was raised for the purchase of land and development of an office building which was approved by the Board on 13 March 2009. Foreign currency translation reserve was raised due to the exchange differences on translation of foreign operation.

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| Capital reserve | 278,000 | 278,000 | 278,000 |
| Foreign currency translation reserve | 1,821 | - | - |
| | **279,821** | **278,000** | **278,000** |

## 16. Current tax payable (receivable)

| | | | |
|---|---|---|---|
| Opening balance | (4,782) | (4,582) | (1,625) |
| Raised during the year | 128,476 | 54,130 | 41,460 |
| Tax refundable/(tax refund) | 3,408 | 3,055 | (175) |
| Tax paid during the year | (130,710) | (57,385) | (44,242) |
| | **(3,608)** | **(4,782)** | **(4,582)** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 17. Trade and other payables

| | | | |
|---|---|---|---|
| Trade payables | 1,323 | 1,798 | 11,013 |
| VAT | 5,098 | 5,880 | 3,067 |
| CBS loan account | 513 | 649 | 1,379 |
| Accrued expenses | 20,079 | 12,188 | 9,007 |
| Other payables | 21 | 31 | 1,879 |
| | **27,034** | **20,546** | **26,345** |

### 18. Revenue

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Rendering of services | 808,880 | 482,402 |

### 19. Other income

**Other income consists of:**

| | | |
|---|---|---|
| Board fees | 3,217 | 2,701 |
| Discount received | 2 | - |
| Fees for back-office services | 1,113 | 4,042 |
| Recovery of legal cost | 1,918 | - |
| Other | 753 | 458 |
| | 7,003 | 7,201 |

### 20. Operating profit

Operating profit for the year is stated after accounting for the following:

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| **Operating lease charges** | | |
| Premises | | |
| • Contractual amounts | 14,582 | 13,145 |
| Equipment | | |
| • Contractual amounts | 2,818 | 2,706 |
| | **17,400** | **15,851** |
| Loss/(profit) on sale of property, plant and equipment | - | (35) |
| Loss/(profit) on exchange differences | 482 | 95 |
| Amortisation on intangible assets | 3,078 | 4,491 |
| Depreciation on property, plant and equipment | 7,040 | 7,603 |
| Employee costs | 441,196 | 229,850 |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 21. Investment income

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| **Interest income** | | |
| Financial assets at fair value through profit/(loss) | 42,731 | 31,119 |
| Bank | 2,038 | 1,941 |
| | 44,769 | 33,060 |

### 22. Fair value adjustments

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Financial assets at fair value through profit/(loss) | (426) | (8) |
| **Fair value through profit or loss** | | |
| Unrealised profit or loss on financial assets | (426) | (8) |

### 23. Finance costs

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Other interest | 15 | 5 |

### 24. Taxation

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| **Major components of the tax expense** | | |
| **Current** | | |
| Local income tax - current period | 128,477 | 54,131 |
| **Deferred** | | |
| Temporary differences | (48,507) | (3,244) |
| | **79,970** | **50,887** |
| **Reconciliation of the tax expense** | | |
| Reconciliation between accounting profit and tax expense | | |
| Accounting profit | 288,847 | 180,837 |
| Tax at the applicable tax rate of 28% (2013: 28%) | 80,877 | 50,634 |
| **Tax effect of adjustments on taxable income** | | |
| **Permanent differences** | (907) | 253 |
| | **79,970** | **50,887** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 25. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 2,034 | 1,669 |
| Other services | - | 63 |
| | **2,034** | **1,732** |

### 26. Cash generated from operations

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Profit before taxation | 288,847 | 180,837 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 10,118 | 12,095 |
| Loss/(profit) on sale of assets | - | (35) |
| Income from equity accounted investments | (2,867) | (1,078) |
| Interest received | (44,769) | (33,060) |
| Finance costs | 15 | 5 |
| Fair value adjustments | 426 | 8 |
| Impairment loss | - | 3,576 |
| Movements in operating lease assets and accruals | 1,053 | (8) |
| Movements in provisions | 172,329 | 10,521 |
| Fixed assets write off | 3 | 39 |
| **Changes in working capital:** | | |
| Trade and other receivables | (18,316) | (13,463) |
| Trade and other payables | 4,774 | (5,795) |
| Tax Refund | 3,408 | 3,055 |
| | **415,021** | **156,697** |

### 27. Tax paid

| | | |
|---|---|---|
| Balance at beginning of the year | 4,782 | 4,582 |
| Current tax for the year recognised in profit or loss | (128,476) | (54,130) |
| Tax refundable/(refund) | (3,408) | (3,055) |
| Balance at end of the year | (3,608) | (4,782) |
| | **(130,710)** | **(57,385)** |

### 28. Commitments

**Operating leases – as lessee (expense)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 15,986 | 9,897 |
| - in second to fifth year inclusive | 70,725 | 2,255 |
| | **86,711** | **12,152** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

Operating lease payments represent rentals payable by the Company for certain of its office premises and printing equipment. Leases are negotiated for terms ranging from two to five years for the Company.

## 29. Related parties

**Relationships**

| | |
|---|---|
| Associates | Refer to note 5 |
| Members of key management | Refer to the disclosure of remuneration on page 165 |

The Company's ultimate holding company is the National Government of the Republic of South Africa. The shareholder representative is the Minister of Finance. PIC's oversight department is the National Treasury.

### Related party balances

| | 2014<br>R'000 | 2013<br>R'000 |
|---|---|---|
| **Amounts included in trade receivable (trade payable) regarding related parties** | | |
| CBS Property Management (Proprietary) Limited – loan | (513) | (649) |
| **Services delivered** | | |
| State controlled entities and national departments | 44,728 | 56,471 |
| *Related-party transactions* | | |
| **Services delivered** | | |
| State entities and national departments | 808,880 | 482,402 |
| **Purchased services** | | |
| FSB Levy | (1,387) | (1,284) |
| Telkom | (783) | - |
| GEPF | (15,869) | - |
| SABC | (1) | - |
| Compensation Commissioner | (83) | - |
| **Compensation to executive directors and senior management** | | |
| Short-term employee benefits | 60,516 | 29,725 |
| Benefits – pension | 1,410 | 1,292 |
| Long-term incentive scheme | 23,823 | 3,359 |
| | **85,749** | **34,376** |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 30. Directors' fees

#### Executive

| 2014 | Emoluments R'000 | Pension paid or receivable R'000 | Total R'000 |
|---|---|---|---|
| For services as employees | 30,899 | 533 | 31,432 |

| 2013 | Emoluments R'000 | Pension paid or receivable R'000 | Total R'000 |
|---|---|---|---|
| For services as employees | 13,675 | 475 | 14,150 |

#### Non-executive

| 2014 | Directors' fees R'000 | Total R'000 |
|---|---|---|
| For services as Directors | 3,670 | 3,670 |

| 2013 | Directors' fees R'000 | Total R'000 |
|---|---|---|
| For services as Directors | 3,645 | 3,645 |

### 31. Risk management

#### Market risk

Definition: The risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by a move in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates, credit spreads, recovery rates, correlations and volatilities involving these variables.

Public Investment Corporation Operating Fund (PICOF) has exposure to interest rate sensitive instruments. Market risk is managed through adherence to mandate requirements, such as a tracking error limit relative to a chosen benchmark and liquidity needs (see liquidity definition below).

#### Interest rate risk

The table overleaf shows the sensitivity analysis of the PICOF Portfolio. The unrealised profit/loss is obtained by changing the market interest rates of the fixed income instruments in the portfolio by the specified amounts, revalue the portfolio of fixed income instruments, and then take the difference between the new portfolio value and the old portfolio value, which was determined using the unperturbed market interest rates.

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 31. Risk management (continued)

**Basis points**

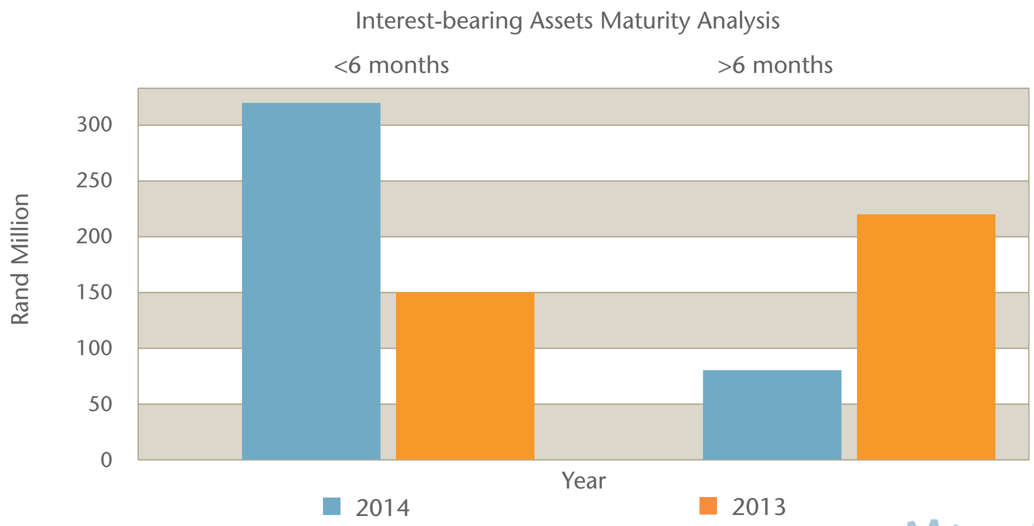
| | 2014 '000 | 2013 '000 | 2012 '000 |
|---|---|---|---|
| -200 | 3,545 | 2,464 | 3,088 |
| -150 | 2,652 | 1,844 | 2,269 |
| -100 | 1,763 | 1,227 | 1,535 |
| -50 | 879 | 612 | 765 |
| 50 | (875) | (610) | (761) |
| 100 | (1,746) | (1,217) | (1,535) |
| 150 | (2,612) | (1,821) | (2,270) |
| 200 | (3,474) | (2,423) | (3,018) |

Asset liquidity risk

Definition: The risk of being unable to conduct transactions at quoted prices due to the size of the required trade, relative to normal trading lots. The asset liquidity is managed by setting limits on the financial instrument types. The PIC Operations Fund's strategic asset allocation stipulates a range of 60% to 100% of the total holdings that must comprise liquid assets.

Funding liquidity risk

Definition: The risk of being unable to meet payment obligations when they fall due. The funding liquidity is managed by proper planning of cash-flow needs. The maturity bucket analysis for interest-bearing assets at year-end, was as follows:



## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 31. Risk management (continued)

#### Capital Adequacy Requirements

Over the period under review, PIC has satisfied the capital adequacy requirements, namely that PIC has, at all times, maintained:

- liquid assets equal to or greater than 8/52 weeks of annual expenditure;
- assets that exceed liabilities; and
- current assets which were at least sufficient to meet current liabilities.

#### Credit risk

Definition: The risk that a borrower or counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing the holder of the claim to suffer a loss in cash-flow or market value.

Factors that influence PIC's credit decisions, include credit rating, assessments of the general operating environment, the competitive market position of a counterparty or issuer, reputation, deal tenure, the level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

Credit risk is managed according to the mandate parameters and PIC's internal credit risk policy. Credit mitigation techniques are transaction dependent, but may include, where appropriate, the right to be furnished with collateral or an equity injection by counterparties, particularly in unlisted investments. No collateral was held on PICOF for the period under review.

PIC also utilises various models to guide limit-setting as well as credit ratings from external rating agencies. Limits are approved by the relevant committees, in accordance with the Board-approved delegation of authority. Risk reports on these exposures are regularly submitted to the Portfolio Committee, Investment Committee, Audit and Risk Committee and Board. Impairment tests are undertaken according to PIC-approved guidelines, and are approved in accordance with the delegation of authority.

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 31. Risk management (continued)

Financial assets exposed to credit risk at year-end were as follows:

| Financial instrument | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| Bonds | 15,277 | - | 127,784 |
| Cash and cash equivalents | 451,750 | 370,101 | 294,832 |
| Trade and other receivables | 81,274 | 63,115 | 56,985 |
| Bills | 33,881 | 19,346 | 38,494 |
| Other financial assets | 460,817 | 254,409 | 208,106 |
| Promissory notes | 68,910 | 68,969 | 19,212 |

Other risk

#### Concentration risk

Concentration risk is the risk of losses arising due to poor diversification within funds. This relates to both credit and market risk as excessive concentrations in a particular or correlated asset class, sector, issuer, term structure or financial instrument type and can result in undesirable risk exposures. The PIC manages this risk in accordance with the investment mandates and approved policies, which dictate the level of concentration.

The fixed income portfolio was mainly invested in cash and money market instruments, which are spread across local banks with required minimum credit quality to reduce and diversify the risk.

#### Operational risk

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, people and systems from external events.

Risk of this nature is managed through systems of internal control, annual external audits and continual internal audits to review the effectiveness of the control environment, risk management programmes and adequacy of insurance policies.

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 32. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 33. Capital management

The PIC is licensed as a financial services provider in terms of Section 8 of the Financial Advisory and Intermediary Services Act (Act 37 of 2002). The Financial Services Board (FSB) requirements are monitored and adhered to. There are no regulatory capital management ratios imposed on the PIC.

### 34. Capital commitments

Capital commitments include all items of capital expenditure for which specific Board approval has been obtained up to the reporting date.

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Authorised capital expenditure | 333,187 | 290,770 |
| Increase/(decrease) | (223,231) | 42,417 |
| | **109,956** | **333,187** |

| | | |
|---|---|---|
| Within 1 year | 62,338 | 78,280 |
| 2 to 5 year | 47,618 | 254,907 |
| **Capital commitments** | **109,956** | **333,187** |

### 35. Fruitless and Wasteful Expenditure

| | | |
|---|---|---|
| **Opening Balance** | - | - |
| Fruitless and wasteful expenditure – relating to prior year | - | - |
| **Fruitless and wasteful expenditure – relating to current year** | **76** | **460** |
| Less: Amount transferred to receivables for recovery | - | - |
| **Fruitless and wasteful expenditure** | **76** | **460** |

The fruitless and wasteful expenditure relates to a penalty or costs to be recovered by a landlord as a result of a lease cancellation, interest on credit cards, as well as interest charges incurred due to late payment of suppliers.

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 36. Irregular expenditure

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Reconciliation of irregular expenditure | | |
| **Opening Balance** | - | - |
| Add: Irregular expenditure – current year | 1,333 | 1,274 |
| **Less: Amount condoned** | **(1,333)** | **(1,274)** |
| Current expenditure | (1,333) | (1,274) |
| **Irregular Expenditure Awaiting Condonement** | - | - |

The irregular expenditure identified in the current year, relates to expenditure incurred from service providers between the date of expiry of contracts concluded previously and the reappointment of such service providers in terms of the PIC's procurement policy. Eleven incidents were recorded.

### 37. Employee Benefits

#### Provident fund

The provident fund has 386 active members as at 31 March 2014. During the current year 85 employees joined and 26 employees withdrew from the provident fund and one employee retired from the Group.

The contributions for the year amount to R11,8 million.

The provident fund is a defined contribution plan. The result is that the risk of any decline in fair value lies with the employee and not the employer.

#### Defined benefit plan

There are 11 employees on the Government Employee Pension Fund (GEPF).

#### Short-term employee benefits

Short-term incentives (STI) scheme of R104 million has been recognised as provision.

The STI bonus is recognised and accrued in the year the service was rendered, but paid only after financial statements are approved by the Board. The trigger for the payment of the STI, is if the corporation has made at least 10% of the net income over management fees.

## Notes to the Annual Financial Statements for the year ended 31 March 2014

## 37. Employee Benefits (continued)

### Long-term employee benefits

Long-term Incentive (LTI) Scheme is R114 million (2013: R47,1 million).

The scheme is to attract, retain and reward high performing management of the PIC. The PIC management is only eligible to participate in the LTI if the company achieves an overall performance rating of 3 and if a manager achieves a minimum individual performance rating of 3.5.

The LTI Scheme vests over a period of three years and payment has a lag time of three years. Out of the total long-term incentive of R114 million, R23 million will be paid in the 2015 financial year. The R35,5 million of the total long-term incentive of R93 million will be paid in the 2016 financial year and the balance of R55.5 million will be paid in 2017.

## 38. Goodwill

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 | Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 |
| Goodwill | - | - | - | - | - | - |

| | 2012 | | |
|---|---|---|---|
| | Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 |
| Goodwill | 3,576 | - | 3,576 |

Reconciliation of goodwill

| | 2013 | | |
|---|---|---|---|
| | Opening balance R'000 | Impairment loss R'000 | Total R'000 |
| Goodwill | 3,576 | (3,576) | - |

Reconciliation of goodwill

| | 2012 | | |
|---|---|---|---|
| | Opening balance R'000 | Additions through business combinations R'000 | Total R'000 |
| Goodwill | - | 3,576 | 3,576 |

## Notes to the Annual Financial Statements for the year ended 31 March 2014

### 39. Business combinations

| | 2014 R'000 | 2013 R'000 | 2012 R'000 |
|---|---|---|---|
| **Aggregated business combinations** | | | |
| Property, plant and equipment | - | - | 1,323 |
| Intangible assets | - | - | 32 |
| Provisions | - | - | (504) |
| Total identifiable net assets | - | - | 851 |
| Goodwill | - | - | 3,576 |
| | - | - | **4,427** |
| **Consideration paid** | | | |
| Cash | - | - | (4,427) |
| **Net cash outflow on acquisition** | | | |
| Cash consideration paid | - | - | (4,427) |

CBS

On 1 April 2011, the Public Investment Corporation purchased the fixed assets and staff-related liabilities of CBS.

Goodwill of R3.6 million, arising from the acquisition, consists largely of the synergies and economies of scale expected from combining the operations of the entities, as well as from intangible assets which did not qualify for separate recognition. Goodwill is not deductible for income tax purposes.

Fair value of assets acquired and liabilities assumed

| | | | |
|---|---|---|---|
| Property, plant and equipment | - | - | 1,323 |
| Intangible assets | - | - | 32 |
| Provisions | - | - | (504) |
| Total identifiable net assets | - | - | 851 |
| Goodwill | - | - | 3,576 |
| | - | - | **4,427** |

# Disclosure of remuneration

## 1. Non-executive Directors

| Names | Meeting attendance | Retainer (1) | Other Services | Total |
|---|---|---|---|---|
| Goba, T* | 56,119 | - | - | 56,119 |
| Hlatshwayo, D* | 45,779 | - | - | 45,779 |
| Jack, V | 414,935 | 120,000 | 188,176 | 723,111 |
| Mngconkola, SP | 282,690 | 120,000 | - | 402,690 |
| Morar, R | 290,433 | 120,000 | - | 410,433 |
| Moses, MA | 319,068 | 120,000 | 103,745 | 542,813 |
| Sehoole, I** | 341,243 | 120,000 | 86,718 | 547,961 |
| Strydom, J** | 163,723 | 120,000 | 171,035 | 454,758 |
| Woodroffe, R @ | 321,187 | 120,000 | - | 441,187 |
| Zulu, S* | 44,843 | - | - | 44,843 |
| | **2,280,020** | **840,000** | **549,674** | **3,669,694** |

(1) Retainers are paid for the attendance of four Board meetings and approved at the Annual General Meeting
* Appointed on 1 December 2013
** Retired on 30 November 2013
@ Fees earned by Ms Woodroffe are paid to the Bulungula Incubator

## 2. Executive Directors

| Names | Cost to Company | Short-term Incentive Allocation | Long-term Incentive Allocations | Other^^^ | Total | Short-term Incentive Paid^ | Long-term Incentive Paid^^ |
|---|---|---|---|---|---|---|---|
| Masilela, E (CEO) | 2,930,171 | - | - | 3,188,014 | 6,118,185 | 2,355,525 | - |
| Matjila, D (CIO) | 2,888,681 | 3,520,908 | 3,232,428 | - | 9,642,017 | 2,757,880 | 2,324,473 |
| More, M (CFO) | 1,960,785 | 2,047,209 | 2,225,241 | - | 6,233,235 | 1,600,212 | 399,750 |
| | **7,779,637** | **5,568,117** | **5,457,669** | **3,188,014** | **21,993,437** | **6,713,617** | **2,724,223** |

^ This represents the short-term incentive that was paid in June 2013 for the performance for the year ended 31 March 2013
^^ This represents the long-term incentive that was paid in March 2014 for the performance for the year ended 31 March 2011. Management is only eligible to participate in the LTI if the company achieves an overall performance of 3 and the individual achieves a minimum of 3.5. The scheme then only vests after three (3) years, provided certain performance requirements have been met.
^^^ Ex-gratia payment pursuant to the resignation of the CEO

## Disclosure of remuneration (continued)

### 3. Senior Management

| Names | Cost to Company | Short-term Incentive Allocations | Long-term Incentive Allocations | Total | Short-term Incentive Paid^ | Long-term Incentive Paid^^ |
|---|---|---|---|---|---|---|
| Dekker, P (COO) | 2,166,200 | 2,106,892 | 2,063,268 | 6,336,360 | 1,656,000 | 910,351 |
| Mabe, K | 1,727,328 | 2,125,943 | 1,630, 293 | 5,483,564 | 1,322,416 | 412,543 |
| Ntuane, L (CTO) | 1,564,231 | 1,403,504 | 1,256,244 | 4,223,979 | - | - |
| Rajdhar, R | 2,171,507 | 2,356,256 | 1,789,784 | 6,317,547 | 1,843,256 | 799,370 |
| Smit, L | 1,917,082 | 2,139,374 | 1,580,610 | 5,637,066 | 1,735,707 | 1,098,776 |
| Solomon, R | 1,389,662 | 1,618,166 | 1,042,286 | 4,696,807 | 740,472 | 401,239 |
| Quagraine, N | 1,772,793 | 2,229,600 | 1,688,979 | 5,044,679 | - | - |
| Xaba, EZ (CRO) | 2,034,422 | 1,316,367 | - | 3,350,789 | 1,339,983 | 967,176 |
| | **14,743,225** | **15,296.102** | **11,051,464** | **41,090,791** | **8,637,835** | **4,589,455** |

^ This represents the short-term incentive that was paid in June 2013 for the performance for the year ended 31 March 2013

^^ This represents the long-term incentive that was paid in March 2014 for the performance for the year ended 31 March 2011. Management is only eligible to participate in the LTI if the company achieves an overall performance of 3 and the individual achieves a minimum of 3.5. The scheme then only vests after three (3) years provided that certain performance requirements have been met.

The supplementary information presented, does not form part of the financial statements and is unaudited.

# General Information

| | |
|---|---|
| Country of incorporation and domicile | South Africa |
| Nature of business and principal activities | Investment Management |
| Directors | Mr Jonas, Mcebisi (Deputy Minister of Finance) (Chairman) (Non-executive)<br>Ms More, Matshepo (Executive) (Acting CEO, and CFO)<br>Dr Matjila, Daniel (Executive) (CIO)<br>Mr Goba, Trueman (Non-executive)<br>Ms Hlatshwayo, Dudu (Non-executive)<br>Mr Jack, Vuyo (Non-executive)<br>Mr Mngconkola, Patrick (Non-executive)<br>Mr Morar, Roshan (Non-executive) (Deputy Chairperson)<br>Ms Moses, Moira (Non-executive)<br>Ms Woodroffe, Rejane (Non-executive)<br>Ms Zulu, Sibusisiwe (Non-executive) |
| Registered office and business address | Block C, Riverwalk Office Park<br>41 Matroosberg Road, Ashlea Gardens, Extension 6,<br>Menlo Park, Pretoria, 0081 |
| Postal address | Private Bag X187, Pretoria, South Africa, 0001 |
| Auditors | Office of the Auditor-General of South Africa<br>Registered Auditors |
| Secretary | Wilhelmina JF Louw |
| Company registration number | 2005/009094/06 |

## Public Investment Corporation SOC Limited Disclaimer

Public Investment Corporation SOC Limited (PIC), Registration number 2005/009094/06, is a licensed financial services provider, FSP 19777, approved by the Registrar of Financial Services Board (www.fsb.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act (Act 37 of 2002). The PIC is wholly owned by the South African Government, with the Minister of Finance as a shareholder representative. Products offered by the PIC do not provide any guarantees against capital losses. Market fluctuations and changes in rates of exchange or taxation, may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full invested amount. Past performance is not necessarily a guide to future investment performance. Personal trading by staff is restricted to ensure that there is no conflict of interest. All directors and employees who are likely to have access to price-sensitive and unpublished information in relation to the Public Investment Corporation, are further restricted in their dealings. All employees are remunerated with salaries and standard short-term and long-term incentives. No commission or incentives are paid by the PIC to any persons and all inter-group transactions are done on an arm's length basis. The PIC has comprehensive crime and professional indemnity insurance.

For more details, as well as for information on how to contact us and how to access information, please visit www.pic.gov.za.

*We are a people at work.*
*We work to create plenty.*

*Our work brings us ever closer to our dreams.*

*Work grounds our dreams, even the more fantastic they are.*

*The reality of work connects us to our dreams.*

- National Planning Commission:
  National Development Plan Booklet

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