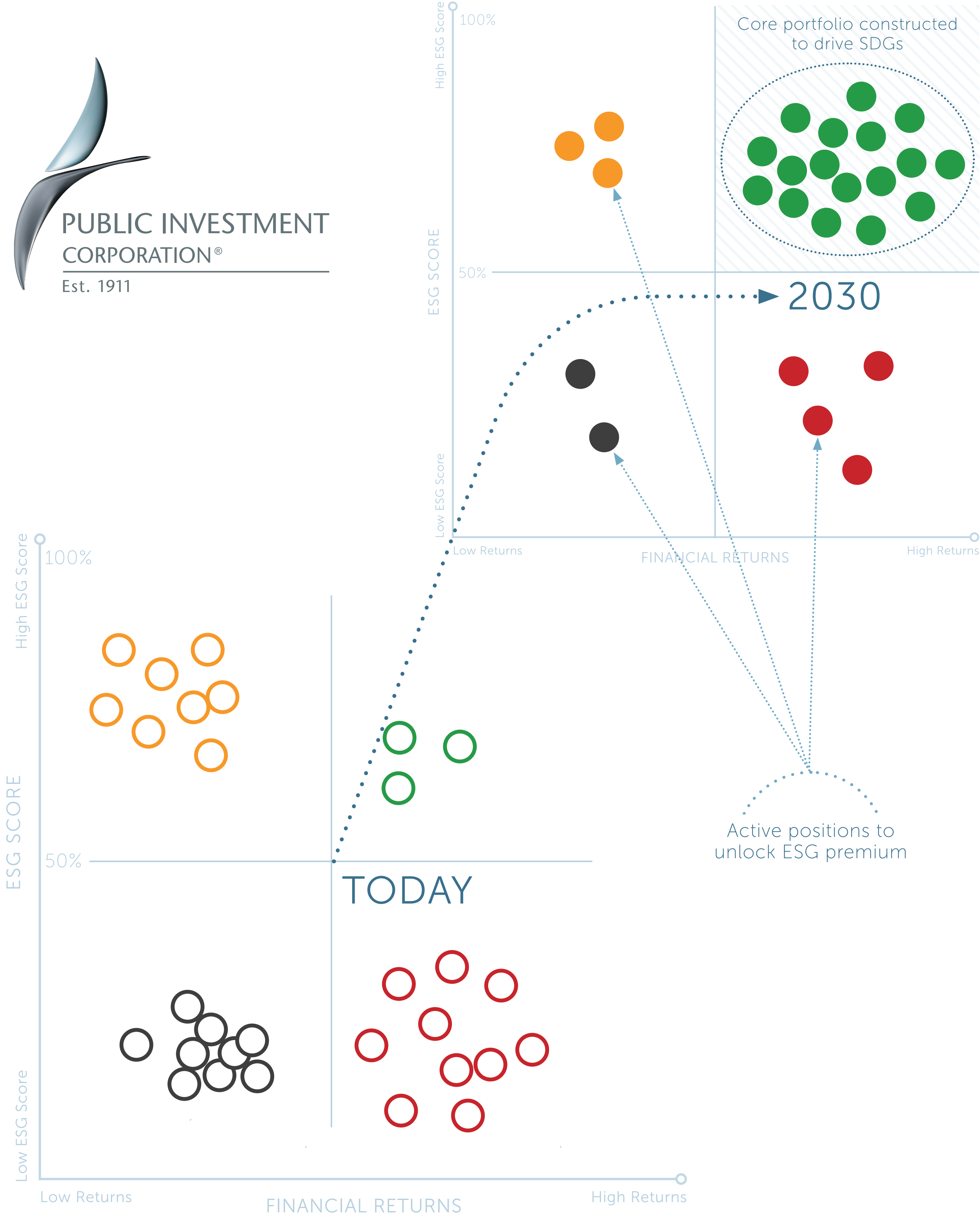
PUBLIC INVESTMENT CORPORATION®
Est. 1911



DRIVING THE ACHIEVEMENT OF SDGs
BY UNLOCKING THE ESG RISK PREMIUM

INTEGRATED ANNUAL REPORT 2018

HIGHLIGHTS

AuM Growth

Rand Billion

March 2018
2,083

March 2017
1,928

March 2016
1,857

PIC Corporate Profit

Rand Million

March 2018
417

March 2017
532

March 2016
423

PIC Recognition

2016

CEM, a global benchmarking company, rated the PIC ***one of the best asset managers*** that has given the GEPF positive returns at a very low cost

ABSIP Special Recognition Award

ABSIP CEO of the Decade Award and ***Presidential Award***

Africa Investor magazine: African Institutional Investment ***Personality of the Year***

The University of Limpopo: ***Onkgopotse Tiro Excellence Award***, November 2016

'Solar Deal of the Year' in the Middle East and Africa category awarded to PIC's co-investment, Ilanga1

2018

Responsible Investor (RI) : *Commended for the Best Responsible Investing Report by an Asset Manager of Large Funds*

2017

The Office of the Auditor General: ***Clean Audit Award*** for achieving a clean audit opinion (PFMA 2016/17)

CEM, a global benchmarking company, rated the PIC ***one of the best asset managers*** that has given the GEPF positive returns at a very low cost

European Magazine Awards: ***Asset Management Firm of the Year - South Africa***

European Magazine Awards: ***Best SOE - Africa***

European Magazine Awards: ***Best Corporate Governance - South Africa***

African Business Leadership Awards: ***Africa Industry Personality Of The Year***

The PIC was recognised as the global Top 25 Most Responsible Asset Allocators for incorporating ESG in investment decision-making process in the ***Bretton Woods II*** survey

Social Impact on Education

EDUCATION

Number of student loans disbursed	Number of GEPF member received loans	Total number of student beds	Number of schools supported	Number of students (basic education)
43,679	**24,555**	**11,964**	**33**	**21,578**

ESG Engagements with Investee Companies

Total Engagements

Listed ESG
212

Unlisted ESG
81

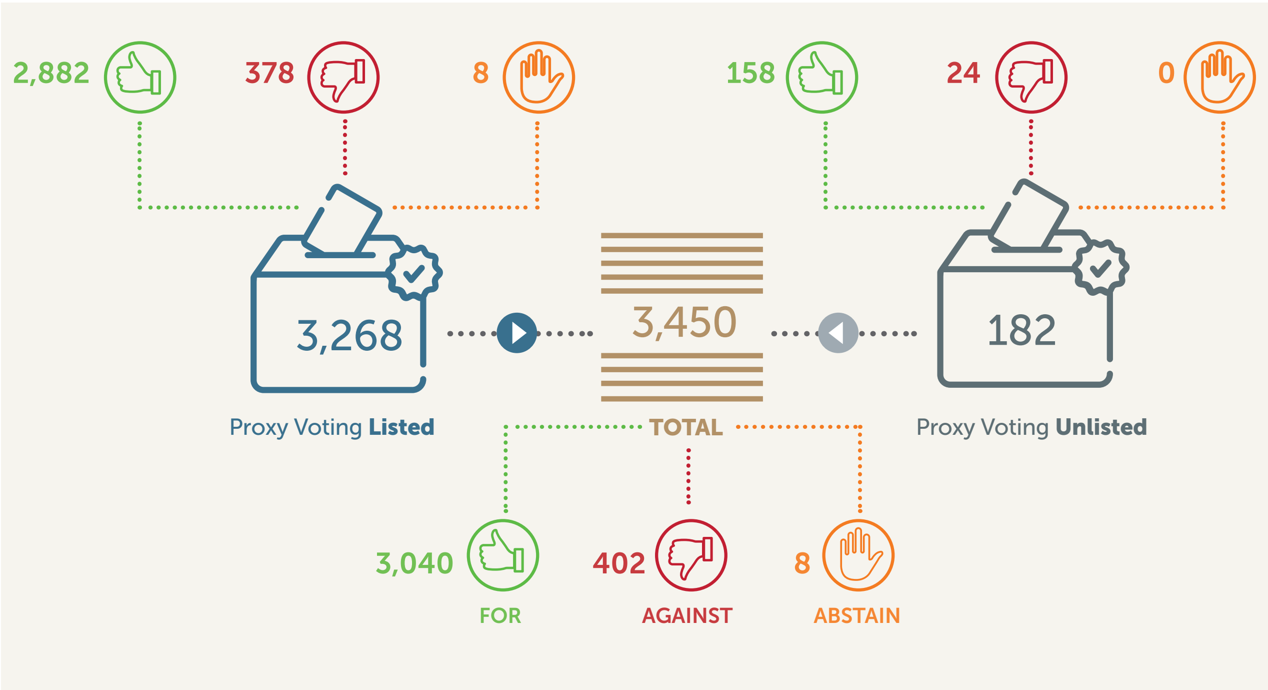
Proxy Voting

Total Resolutions Voted on

Listed ESG
3,268

Unlisted ESG
182

Proxy Voting Pattern for the Year



Social Impact on Employment

Total number of permanent employment opportunities sustained
120,895

Undisclosed*
18,667

Total number of temporary employment opportunities created
12,664

Total number of new jobs
10,961

Number of youth
23,470

Number of people living with disabilities
400

Employment
Total Job Numbers
152,226

* Not all companies disclosed terms of employment

Contents

PART ONE

INTRODUCTION

Mr Nhlanhla Musa Nene
Minister of Finance

Speaker of Parliament

In terms of Section 65 of the Public Finance Management Act, 1999 (Act 1 of 1999), I have the honour of presenting the Integrated Annual Report of the Public Investment Corporation SOC Limited (PIC) for the period 1 April 2017 to 31 March 2018.

Mr Nhlanhla Musa Nene, MP
Minister of Finance
September 2018

Corporate Profile

Overview

The Public Investment Corporation (PIC) is a South African state-owned asset management company that manages assets for clients, all of which are public sector entities.

Established in 1911 as Public Debt Commissioners, the PIC became corporatised on 1 April 2005, following the promulgation of the Public Investment Corporation Act, 2004 (Act 23 of 2004) (PIC Act).

As a financial services provider, registered with the Financial Sector Conduct Authority (FSCA), our investment activities are governed by the Financial Advisory and Intermediary Services Act, 2002 (Act 37 of 2002) (FAIS Act).

In terms of financial management and accountability, the PIC is regulated by the PIC Act, the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA), the Companies Act, 2008 (Act 71 of 2008) and the Prevention of Organised Crime Act, 1998 (Act 121 of 1998) and also adheres to the provisions of the Financial Intelligence Centre Act, 2001 (Act 38 of 2001) (FICA).

The Government Employees Pension Fund (GEPF) makes up 87.12% of the funds that the PIC manages. Other clients include Unemployment Insurance Fund (UIF), Compensation Commissioner Fund (CC), Compensation Commissioner Pension Fund (CP) and Associated Institutions Pension Fund (AIPF). The PIC's role is to invest funds on behalf of its clients, based on the investment mandates set by each client and approved by the FSCA.

The PIC is one of the largest asset managers on the African continent, in terms of assets under management (AuM). Since corporatisation, AuM grew from R461 billion in 2005 to R2,083 trillion as at 31 March 2018.

Our Clients

*Constitutes various clients with smaller portfolios

Asset Class Composition

The asset class composition, as at 31 March 2018, is depicted in the table below.

*ASSET CLASSES

LISTED INVESTMENTS (DOMESTIC)	UNLISTED INVESTMENTS (DOMESTIC)	OFFSHORE AND REST OF AFRICA INVESTMENTS
Listed Equities *(Managed in-house)* 37.01%	Private Equity 1.02%	Global Listed Equities 4.38%
Listed Equities *(Externally Managed)* 9.32%	Impact Investing 2.35%	Global Listed Bonds 0.99%
Bonds 33.20%	Properties 2.26%	Africa - Listed Investments 0.92%
Cash and Money Markets 5.38%; Properties 2.93%		Africa - Unlisted Investments 0.24%

**Asset class as a percentage of AuM*

Our Values

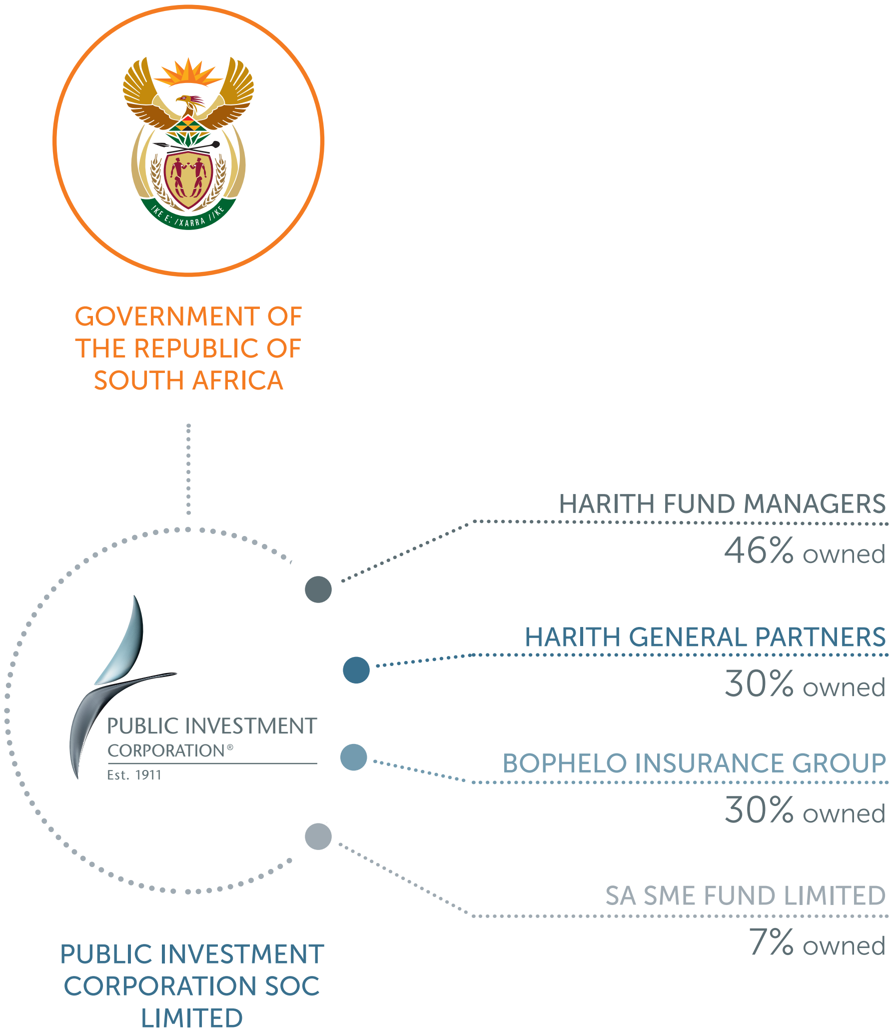
We Care	C – Committed	A – Accountable	R – Respect	E – Empathy
We Deliver	D – Diligence	E – Excellence	L – Leadership	I – Innovate/ Integrity

Our Mission and Vision

The PIC is an organisation with values that the Corporation's leadership, management and employees have agreed to and strive to live by to achieve the vision, mission, goals and objectives of the company.

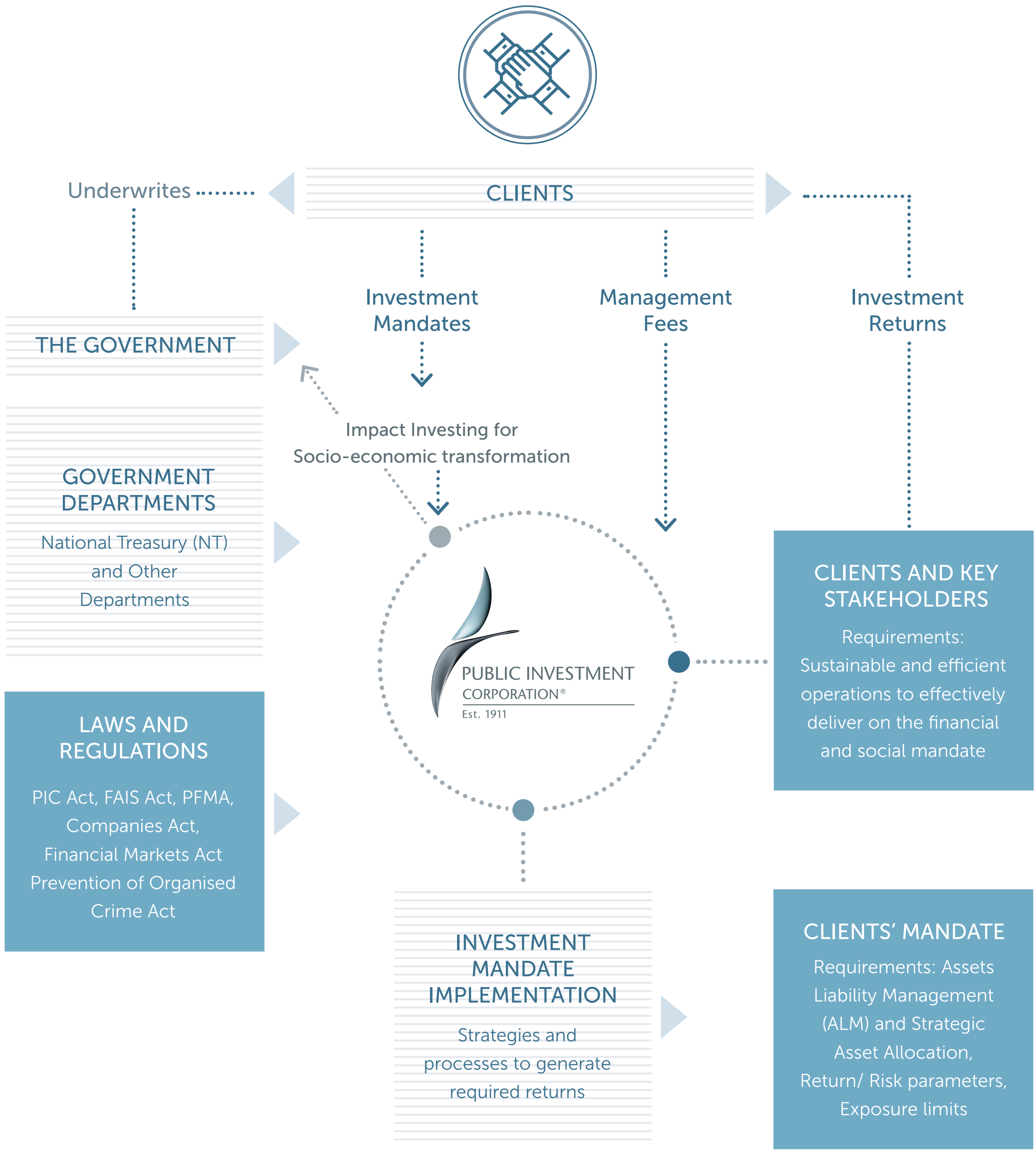
Group Structure

The group structure of the PIC is outlined in the diagram below:



Our Business Model

The interaction of the PIC, its stakeholders and the regulatory environment is depicted below.



Mr Mondli Gungubele
Chairman

Report by the Chairman

I am pleased to present to stakeholders the integrated annual report of the Public Investment Corporation SOC Limited for the financial year ending 31 March 2018. This report is presented at a time when the world is going through various economic and geopolitical challenges. Locally, the economy has not been doing very well to achieve inclusive growth that is necessary to maintain social stability.

The PIC is a significant player in the South African economy and everything that happens matters to it. I joined the PIC a few months before the end of the financial year under review. I have studied the strategic objectives that had been set and agreed between the Board and management. I am pleased to state that the PIC has achieved over 90% of these objectives, notwithstanding the tough economic environment within which the PIC operates. PIC's performance – at both corporate and assets under management (AuM) levels is discussed in detail in the Report of the Chief Executive Officer and subsequent sections of the integrated annual report.

Governance is extremely important for the PIC. The PIC is aligned with King IV and follows best practice codes and guidelines. The current governance structures empower and regulate how both the Board and management exercise control over the affairs of the PIC and AuM. Extended discussion on the composition of the Board, the different committees and sub-committees of the Board, their duties, powers and responsibilities are discussed in the Corporate Governance section of this report. During the year under review, the PIC Board was well constituted; it was made up of individuals with the right skills and well equipped to play an oversight function as well as carry out its fiduciary responsibilities. The PIC Board is gender balanced. However, two Board members tendered their resignations subsequent to the financial year-end. This has not affected the Board's ability to discharge its responsibilities. The Minister of Finance has started the process of appointing their replacements.

During the year under review, the government began a process to amend the Public Investment Corporation Act of 2004. The Public Investment Amendment Bill is at a discussion stage, but early indications are that, amongst others, it seeks to make provisions on how members to the PIC Board are appointed and afford clients seats on the PIC Board. The Board welcomes any intervention that would strengthen governance at the PIC. The Minister has also announced that the President of South Africa has agreed to institute a commission of inquiry that will, *inter alia*, focus on a review of the PIC's governance and operating model as well as its' memorandum of incorporation. These interventions aim to strengthen the PIC, so that it becomes more agile, competitive and capacitated to deliver on its increasingly complex investment mandate.

The PIC operates in a highly regulated environment, where compliance is essential and trust necessary. During the financial year, the PIC complied with all laws and regulations that affect it and are relevant to its existence. Risk and compliance matters are discussed fully in the succeeding pages of this report. The PIC has continued on its trajectory of being compliant with the provisions of the Public Finance Management Act of 1997 and has achieved another clean audit – a sign that the company has implemented robust systems and processes and that the PIC management team is committed to proper governance. Much has been written about the various challenges that the State-Owned Entities (SOE) face, with many struggling financially. The PIC remains one of the few SOEs that are self-sufficient. The PIC corporate remains financially healthy and profitable. The PIC remains committed to supporting South Africa's commitments to realisation of the Sustainable Development Goals (SDGs). These goals are in many ways aligned with and similar to the PIC's environmental, social and governance (ESG) principles. As it would appear in this report, the PIC incorporates ESG principles and by extension SDGs in its investment processes.

Outlook

President Cyril Ramaphosa has made a commitment to turn the South African economy around for the benefit of all. He has already announced a number of measures, including the appointment of four investment envoys whose responsibility shall be to attract investments to boost South Africa's economy and the hosting of an investment summit, which aims to obtain ideas on how to move the South African economy forward. The President has also announced a stimulus package which aims to re-ignite the economy for the benefit of all. We trust that these initiatives will achieve the expected outcomes, particularly economic growth. These interventions provide the PIC with an opportunity to co-invest directly into the economy, in sectors that can create much-needed jobs. The PIC is mostly interested in the economic growth of South Africa, as the growth of its AuM is directly linked to that of the economy.

Acknowledgement

I would like to thank the PIC's clients: Government Employees Pension Fund (GEPF), Unemployment Insurance Fund (UIF) and Compensation Commissioner Fund (CC), amongst others for entrusting us with the responsibility to invest their funds. I would also like to thank the government, as the shareholder, for its sustained support. The PIC management team deserves recognition for continuously delivering on and exceeding clients' investment mandates and objectives. My fellow Board members have played a significant oversight role to ensure that the PIC is committed to its mandates. Lastly, I would like to appreciate the rest of the stakeholders for assisting the PIC in realising its investment objectives.

Mondli Gungubele
Chairman

The PIC remains committed to supporting South Africa's commitments to realisation of the Sustainable Development Goals (SDGs)

Dr Daniel Matjila
Chief Executive Officer

Report by the Chief Executive Officer

I am pleased to present the PIC Chief Executive Officer's report for the financial year ending 31 March 2018. This report covers performance of assets under management (AuM) and corporate operations. It details the solid performance of the PIC, amid a challenging business environment, compounded by low domestic economic growth. Through rigorous governance and investment processes, the PIC performance was in line with our long-term strategic objectives and vision.

We are resolute in realising our objectives of becoming a global leader in impactful investing as our focus remains firmly on delivering sustainable long-term returns for our clients. Through the lens of the South African National Development Plan (NDP), our investment strategies align strongly to the United Nations' Sustainable Development Goals (SDGs).

Through strategic partnerships, which enable us to crowd-in capital, we want to make sure our clients' hard earned money has maximum impact, that it generates financial returns, drives developmental investments and economic inclusivity in South Africa, whilst advancing economic integration in the rest of Africa.

Despite our achievements during the financial year under review, the leadership of the PIC faced unprecedented challenges. Decisive action was taken to ensure the integrity of the institution was upheld while meeting our clients' investment objectives and expectations. Our strong and robust governance and investment processes are rigorous, ensure accountability and transparency, whilst yielding consistent strong performance for our clients and benefits for all South Africans.

Much more was achieved during the financial year under review. Key highlights and achievements includes:

- **Record AuM milestone, underpinned by growth in investments into real economy**

  - Despite a challenging investment environment, AuM grew 0.75% to R2.08 trillion in 2018, representing a compound annual growth rate (CAGR) of 8.6%;
  - Continued investment in sectors with socio-economic impact linked to NDP and SDGs through Unlisted Investments – a total of R18.55 billion was approved for Private Equity (PE), Impact Investing (II) and Unlisted Properties. Underpinned by fundamental in-house research, most of these investments were in healthcare, manufacturing and energy projects among others; and
  - Investment in the rest of Africa continued to grow, with USD 876 million approved for investments in the rest of the continent.

- **Consistent investment performance for clients, underpinned by strengthened investment management and partnerships**

  - Achieved on average outperformance of benchmark returns for clients;
  - The PIC listed equity assets, our largest single asset class, has consistently outperformed SWIX ALSI over an extended period. The GEPF listed portfolio (combined) achieved an overall outperformance of 0.09% over a 24 month rolling period and 0.18% over a 36 month rolling period;
  - Enterprise-wide risk framework, policies and tools were enhanced during the financial year;
  - Enhanced investment process, with the introduction of quarterly Asset Allocation Committee meetings, to ensure optimised portfolio construction;
  - The PIC has grown strategic partnerships across Africa with various local Developmental Finance Institutions (DFIs), regional DFIs, international banks and other strategic private sector business to crowd-in funding towards developmental projects across the continent; and
  - The PIC was recognised for the manner in which it discloses information relating to investments and work in the environmental, social and governance (ESG) spheres by Responsible Investor (Ri). The PIC came second in a survey that included over 2,500 global asset owners and managers, which sought to showcase excellence in responsible investing and ESG reporting. The CEM, a global benchmarking company, rated the PIC as one of the best Asset Managers in the world for having generated positive returns for the GEPF at a very low cost. The European Magazine recognised the PIC for Best SOE in Africa, Asset Management Firm of the Year in South Africa and for Best Corporate Governance in South Africa.

- **Exceptional financial results, with clean audit report**

  - Strong financial results, resulting in declaration of a dividend to the shareholder. This makes the PIC one of the few SOEs to declare a dividend at a time when most are struggling financially and with poor governance; and
  - The PIC continued to achieve another clean audit, a testimony of the robustness of our internal systems and controls.

- **Driving inclusive transformation across the economy internally and externally**

  - The PIC is a transformed company, with a level 2 BEE rating and with 97% of its staff being black professionals. We remain committed to becoming an employer of choice that encourages open and constructive dialogue and innovation;
  - The PIC graduate programme, known internally as the PICeeds, turned 10 this year. The programme has reached a significant milestone, having benefitted 130 students, 73% of whom have been retained by the PIC;
  - All graduates in the PIC's Chartered Accountants (CA) programme, which has been accredited by the South African Institute of Chartered Accountants, were successful accredited;
  - The PIC has a strong track record of investing in black-owned businesses through both investment activities and corporate procurement. At the corporate level, we continued our efforts to drive transformation and enterprise development support through procurement spend. Over 85% of procurement spent was directed towards level 4 or better BEE companies, whilst approximately 98% of brokerage business (trading on the stock exchanges) was directed towards transformed stockbrokers who are 51% and above owned by black people;
  - At March 2018, the PIC had over R100 billion allocated towards BEE asset managers; and
  - The PIC has made huge strides in developing financial products that directly benefit members of our clients. We have already developed and are currently refining a housing product for the GEPF members and beneficiaries. The PIC is also looking at other innovative products that will benefit directly UIF and CC members.

Performance against Strategic objectives

I am happy to report that the PIC achieved over 90% of the strategic objectives targets as set out in the 2017/18 FY Corporate Plan.

	Strategic Intent Objective	Measure	Target 2017/18 FY	
		FINANCIAL – 20%		
1	Grow revenue and control costs to run a financially sustainable investment management operation	Staff costs ratio (CTC excl PICeeds/ management fees)	$x \leq 40\%$	
		Net income[1] percentage	$x > 10\%$	
		INTERNAL BUSINESS PROCESSES / OPERATIONAL EFFICIENCY - 20%		
2	Robust Enterprise Risk Management practices	Unqualified audit opinion	Unqualified audit opinion	
3	PIC Corporate to maintain a rating of good on the corporate governance matrix as at 31 March 2018	Assessment against PIC's Corporate matrix	Achieve an overall rating of 75%	
		CUSTOMERS / STAKEHOLDERS – 32%		
4a	Generate excess returns over benchmark and compliance with Client Risk Parameters (36 months rolling) *[Returns (α, IRR and Property Return) will be measured on a 36 month rolling basis] Subject to approval of client mandates*	**Listed investments** α = Total Individual Fund Return for the Top 5 Funds – Individual Fund Benchmark Return α = Total Fund Return for other Funds – other Funds Benchmark Return	• Individual Top 5 Funds $\alpha \geq 0$ bps	
			• Other Individual Funds $\alpha \geq 0$ bps	
4b	Generate excess returns over benchmark	**Social Responsible Investments** Investments (Unlisted Investment excluding Properties) Investments < 5 years Hurdle Rate (IRR) = 8% (X)	X + (0 to 50 bps)	
		Investments > 5 years Hurdle Rate (IRR) = 8% (X)	X + (151 bps to 200 bps)	
4c	Generate excess returns over benchmark	**Private Equity and SIPs** Investments < 5 years Hurdle Rate (IRR) = 10% (X)	X + (0 to 50 bps)	
		Investments > 5 years Hurdle Rate (IRR) = 10% (X)	X + (151 bps to 200 bps)	

[1] The profit for the year as reflected in the Annual Financial Statements, after taxation

** The Unlisted numbers are as at the latest approved financial year-end valuations by the PIC's Investment Committee

Actual Performance 31 March 2018	Performance Commentary
FINANCIAL – 20%	
• 30%	Achieved. The PIC maintains strong cost containment measures. As a result of this, actual costs remain within the budgeted amounts
• 34%	Achieved. The main contributor to the achievement of the net income percentage target, is an increase in revenue, which was triggered by an increase in AuM, implementation of Fund II PPMs, and cost containment measures put in place by management
INTERNAL BUSINESS PROCESSES / OPERATIONAL EFFICIENCY - 20%	
• The approved AFS were not qualified by External Auditors	Achieved. The recent Board approved Annual Financial Statements (AFS) for 2017/18 FY were not qualified by External Auditors
• The PIC Corporate achieved an ESG rating score of 78.19%	Achieved. The PIC Corporate achieved an overall good rating across all the three dimension of the ESG matrix assessment
CUSTOMERS / STAKEHOLDERS – 32%	
• Top 5 Funds average α = 19 bps	Achieved: The top 5 clients have on average outperformed their benchmarks
• Other individual Funds average α = 53 bps	Achieved: The other funds are predominantly invested in Money Market instruments, and on average, outperformed their benchmark returns
• IRR = 11.52%**	Achieved: The main contributor to robust returns is a change in asset mix with a tilt towards equity and equity-like investments. The investee companies in the renewable energy and consumer products sector performed particularly well
• IRR = 8.37%**	Not achieved: Portfolio companies in construction, mining and agriculture sectors did not perform well. These sectors faced a difficult period due to poor macro-economic performance and outlook. Portfolio companies' performance was affected negatively
• IRR = 2.86%**	Not achieved. The lower return on investments was attributable to the infancy stage of the portfolio with low but growing revenues and profits. This is called the j-curve effect during the early stages of the unlisted investments portfolio
• IRR = 7.45%**	Not Achieved. The PE legacy portfolio was negatively hit hard with impairments experienced during the 2008/9 financial crisis, e.g Afrisam. Continuous portfolio management and engagement with investee companies to add value will be the main focus in the next financial year

	Strategic Intent Objective	Measure	Target 2017/18 FY	
		CUSTOMERS / STAKEHOLDERS – 32%		
4d	Generate excess returns over benchmark and compliance with Client Risk Parameters (36 months rolling) *[Returns (α, IRR and Property Return) will be measured on a 36 months rolling basis]* *Subject to approval of client mandates*	**Property investments** Total Return (Capital and Income) = Meet IPD adjusted by weighting the portfolio returns as customised[2] for the PIC's clients' portfolio structure	Total return higher or equal to the PIC customised IPD	
5a	Contribute towards the growth and transformation of the economy through Developmental Investments *Subject to approval of client mandates*	**Social Responsible Investments** In various sectors, such as: • Economic infrastructure; • Social infrastructure; • Priority sectors; • Renewable energy and green technology; and • Enterprise development and SMMEs *Investments made with effect from 2017/18*	Annual approved transactions = R4 billion - R5 billion	
5b	Contribute towards the growth and transformation of the economy through Private Equity Investments and Special Investment Products	**Private Equity and SIPs** Contribution to transforming the economy through private equity investments in various sectors	Annual approved transactions: • Private Equity = R2.5 billion to R3 billion; and • SIPs = R2.5 billion to R3 billion	
5c	Contribute towards the growth and transformation of the economy through Unlisted Property Investments *Subject to approval of client mandates*	**Property Investments** Contribution to transforming the economy through property investments in various sectors *Properties – redevelopments/new acquisitions/new developments/funding*	Annual total approved transactions equal to R3 billion for Property Investments	
6	Facilitate African regional integration through investments in the rest of the African continent *Subject to approval of client mandates*	**All asset classes** Increase investments in Africa (Non-domestic) *Across all asset classes (cumulative)*	Annual approved transactions (cumulative) of USD 0 million to USD 250 million For investment in the Rest of Africa across all asset classes	

[2] The weighted Investment Property Databank (IPD) benchmark returns are measured according to the PIC Clients' Directly Held Portfolio specific exposure

	Actual Performance 31 March 2018	Performance Commentary
	CUSTOMERS / STAKEHOLDERS – 32%	
	• All Property Total Return: 10.52% vs IPD Return of 10.56%. Relative return= - 0.04%	Not achieved (slightly below target). The Unlisted Property Portfolio performance is tracking very well on the back of good asset management and close monitoring of vacancies and efficient use of budgets. The slightly below benchmark return observed was a result of some investments which were concluded close to the end of the Financial Year and their valuations were kept at cost
	• Investments with total value of R9.5 billion were approved	Achieved. The annual target was achieved on the back of follow-on investments and active deal origination in sectors with strong developmental impact such as in healthcare, energy, student accommodation and agriculture, among others
	Investments approved: • Private Equity= R805 million; and • SIPs = R2.45 billion	Not Achieved. Deal origination of quality Private Equity investments opportunities was challenging during the Financial Year. The challenging economic environment experienced during the Financial Year has also contributed to this underperformance in approvals. Most of the transactions originated during the Financial Year are still in the due diligence and approval stage of the investment process
	• Investments with total value of R5.83 billion were approved for the 2017/18 FY	Achieved. The achievement was as a result of active deal origination in collaboration with the Impact Investing and Private Equity Investment team
	• Investments with total value of US$876 million were approved for 2017/18 FY	Achieved. Target achieved on the back of active deal origination and follow on investments in the rest of Africa portfolio

	Strategic Intent Objective	Measure	Target 2017/18 FY	
CUSTOMERS / STAKEHOLDERS – 32%				
7a	**Facilitate Broad-Based** Economic Empowerment and Skills Development through Investment activities *Subject to approval of client mandates*	**Listed Investments** Allocation to Broad-Based Black Economic Empowerment Service providers • **Listed Equities** (Multi Management) – Allocation of funds to enterprise development managers, including those who graduate	• At least 60% of all new funds awarded to Listed Equity External Managers, must be awarded to Developmental and Established BEE Managers; • 10% of funds must be allocated to Developmental and Established BEE Managers owned by female asset managers or people living with physical disabilities; or Developmental and Established BEE Managers with a 20% female representation or people living with physical disabilities at the Management level	
		• **Dealing** (Listed Equity) – Percentage of brokerage paid to designated BEE broker firms used as a percentage of total brokerage paid • In terms of the PIC definition for BEE Level 1 – 4, the following criteria must be met as a minimum: ✓ BEE Level 1 – 4 Certification by an independent rating agency; ✓ At least 51% Black Ownership; and ✓ At least 30% Management Control by previously disadvantaged individuals • Focus to also be placed on: ✓ Skills development; ✓ Enterprise and supplier development; and ✓ Socio-economic development	• 90% of brokerage spend shall be to brokers on level 1-4 BEE rating; and • 60% of total brokerage shall be paid to brokers with 51% ownership by HDIs and 30% management control by HDIs	
7b	Facilitate BBBEE and skills development through investment activities. *Subject to approval of client mandates*	**Social Responsible Investments and Private Equity and SIPs** (Fund of Funds) – Funds approved through BEE firms (Qualifying Small Enterprises) as a percentage of total Social Responsible Investments and Private Equity and SIPs investment approvals	• At least 60% of all new funds awarded to PE and SRI External Managers, must be awarded to Developmental and Established BEE Managers *(To qualify as a BEE Asset Manager, the service provider must at least have 51% Black ownership and 30% Management control by HDIs)*	

Actual Performance 31 March 2018	Performance Commentary
CUSTOMERS / STAKEHOLDERS – 32%	
• 100% of approved transactions in the 2017/18 FY were allocated to Established BEE Managers • 50% of the Funds approved for allocation to Established BEE Managers were allocated to Established BEE Managers with female ownership of 20%	Achieved. The PIC will continue to focus on advancing transformation in the Listed Investments Asset Management Industry Achieved. The PIC will continue to focus on advancing transformation in the Listed Investments Asset Management Industry and support BEE Managers with female ownership, female management representation and people living with disabilities
• 95.72% of brokerage spend went to brokers on level 1-4 BEE rating; and • 72.56% of total brokerage were paid to brokers with 51% ownership by HDIs and 30% management control by HDIs	Achieved. Focus will be on continuing to allocate more brokerage spend to transformed brokers Achieved. Focus will be on continuing to allocate more brokerage spend to transformed brokers, with 51% ownership and above by HDIs, and 30% Management control by black professionals
• 100% of the funds awarded were to Developmental and/or Established BEE Managers who are more than 51% black owned and has 30% Management control by HDIs	Achieved. The annual target was achieved. The PIC will continue to support transformed Fund Managers and advancing transformation in the Private Equity Asset Management Industry

	Strategic Intent Objective	Measure	Target 2017/18 FY	
CUSTOMERS / STAKEHOLDERS – 32%				
7c	Facilitate Broad-Based Black Economic Empowerment and Skills Development through Investment activities *Subject to approval of client mandates*	**Unlisted Property Investments** New developments/acquisitions of property investments	At least R1 billion of all new developments/acquisitions must be allocated to BBBEE	
LEARNING AND DEVELOPMENT – 8%				
8	The PIC staff demographics are reflective of the skilled segment of South Africa's economically active population	Percentage of staff defined as black, according to the Employment Equity Act, aligned with the skilled segment of the economically active population	Staff demographics to be reflective of the skilled segment of the economically active population At least 30% of vacancies on job levels D and E, based on the Paterson grading scales, will be filled with female employees and or people living with physical disabilities	
PROCUREMENT (NATIONAL TREASURY DIRECTIVE) – 20%				
9a	Irregular, fruitless and wasteful expenditure	No irregular, fruitless and wasteful expenditure	0% of total expenditure disclosed as irregular, fruitless and wasteful with medium risk findings on procurement	
9b	Clean Audit Report	Maintain an unqualified audit opinion for Financial Year 2017/18 with no material findings on performance information and compliance	Unqualified audit opinion with no findings affecting the auditor's report	
9c	Unauthorised expenditure	No unauthorised expenditure	0% of total expenditure disclosed as unauthorised expenditure with medium risk findings on procurement	

	Actual Performance 31 March 2018	Performance Commentary
	CUSTOMERS / STAKEHOLDERS – 32%	
	• R5.83 billion of investments were approved for the 2017/18 FY	Achieved. The annual target was achieved. This was on the back of active deal origination and strategic partnership with other players in the property industry
	LEARNING AND DEVELOPMENT – 8%	
	• Actual percentage of staff defined as Black 94 % as at 31 March 2018, against the latest National Economically Active Population (EAP) of 90.9%. The PIC is 3.1% ahead	Achieved. The PIC will continue to maintain staff demographics to be reflective of the skilled segment of the economic active population
	• 27.7% of vacancies at D&E levels were filled by females as at 31 March 2018. Variance (2.3%)	Not Achieved: The target was slightly missed. This was as a result of the PIC implementing a recruitment moratorium during the Financial Year, which impacted the achievement of the target
	PROCUREMENT (NATIONAL TREASURY DIRECTIVE) – 20%	
	• 0% of total expenditure was disclosed as irregular, fruitless and wasteful	Achieved
	• The PIC achieved an unqualified audit opinion for Financial Year 2017/18 with no material findings on performance information and compliance	Achieved
	• 0% of total expenditure was disclosed as unauthorised expenditure	Achieved

The Investment Environment Overview

Through prudent investment decision-making, underpinned by diversification, robust investment process and application of world-class ESG practices, the PIC portfolio performed brilliantly in the midst of domestic and global economic and political challenges.

Global economic activity expanded at its fastest rate since 2011, growing by 3.8% in 2017 up from 3.2% in 2016. The International Monetary Fund (IMF) expects this growth to continue and reach 3.9% in both 2018 and 2019. This growth was due to the improvement in global investment and trade. It was further supported by a pick-up in emerging market economies (EMEs) together with growth prospects in advanced economies (AEs). Notwithstanding the positive economic outlook, there are risks to growth over the medium-term, including an aggressive tightening of monetary policy in the United States (US), growing trade tensions, a shift towards protectionist policies and geopolitical tensions.

The year under review has been particularly challenging for South Africa and was characterised by slow economic growth of 1.3% (0.6% in 2016), with increased unemployment at 27.7%. This was made worse by the downgrade of the South Africa sovereign debt rating, low business and consumer confidences as well as deepening levels of poverty and inequality increasing the risk of social instability. While recent economic data continues to exhibit some downside risks to National Treasury's growth forecasts of 1.5% in 2018, there are signs of a possible cyclical turn around in the business cycle. As such, it is conceivable that growth should rise to around 2% by 2020.

In December 2017, the local financial markets experienced one of the worst financial shocks when Steinhoff, a global discount retailer with more than 11,000 stores in over 30 countries, suffered a share price collapse. Steinhoff was one of the largest listed companies on the Johannesburg Stock Exchange (JSE), with its fall affecting the performance of almost all asset management companies and the economy at large.

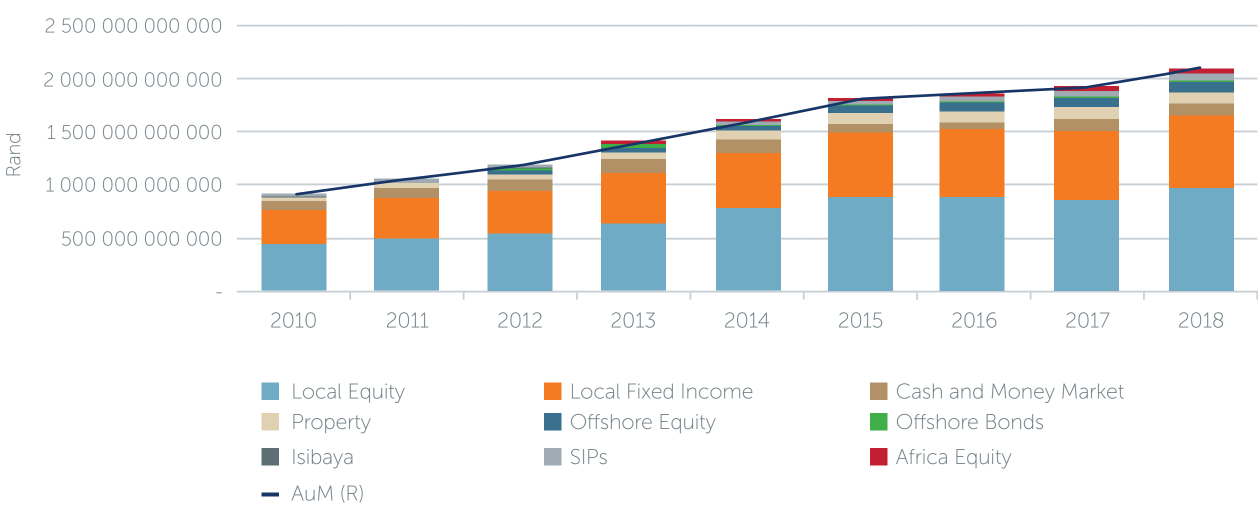
Assets under Management

The growth of the local economy correlates to growth in the PIC's AuM. The PIC is a long-term investor and its investment strategy seeks to invest in sectors that catalyse inclusive economic growth over the medium and long-terms. The PIC's research team has done extensive work of identifying these sectors and some investments have already been made. The plan is to accelerate investments in these sectors in the succeeding financial years.

The PIC invests funds on behalf of clients, with the following amongst the top five: GEPF, UIF, two funds under CC and AIPF. Mandates from these clients allow the PIC to invest in various broad asset classes categorised as listed and unlisted investments. Listed investments constitute a huge portion of the portfolio and unlisted investments a small portion. R2.013 trillion (96.7%) was invested in Listed Investments, Properties and including cash and money markets and approximately R70.1 billion (3.3%) was invested in unlisted investments (PE and Impact Investing).

The PIC AuM grew from R1.91 trillion (2016/17 FY) to R2.08 trillion (2017/18 FY), representing a compound annual growth rate of 8.6%. The growth is a continuation of a positive trend that goes many years back and the graph below illustrates this point.

AuM Growth



Client's portfolio performance

The PIC has consistently outperformed the benchmark and has done exceptionally well compared to other private sector Asset Managers. The table below demonstrates investment performance of the top five clients over various measurement periods.

Period	10 Years (Annualised)			5 Years (Annualised)			3 Years (Annualised)			2 Years (Annualised)		
Account Name	Absolute Fund Return	Benchmark Return	Excess Return**	Absolute Fund Return	Benchmark Return	Excess Return**	Absolute Fund Return	Benchmark Return	Excess Return**	Absolute Fund Return	Benchmark Return	Excess Return
Government Employees Pension Fund Listed*	10.25	10.63	-0.34	9.40	9.32	0.07	6.07	5.88	0.18	6.97	6.88	0.09
Unemployment Insurance Fund Listed	9.23	8.30	0.94	7.43	7.34	0.10	6.09	6.00	0.09	7.62	7.54	0.08
Compensation Commissioner Fund Listed	8.94	8.18	0.76	7.36	6.47	0.89	7.26	6.66	0.61	10.88	9.76	1.02
Compensation Commissioner Pension Fund	9.46	9.20	0.25	7.23	7.29	-0.06	6.47	6.44	0.03	8.31	8.28	0.04
Associated Institutions Pension Fund	9.19	9.04	0.15	7.48	7.51	-0.03	8.34	8.37	-0.04	12.12	12.12	0.01

The PIC's managed portfolios have grown significantly, with clients' portfolios growing by an average CAGR of over CPI+300bps in a 10 year period. All the clients are fully-funded to meet their liabilities. In fact, the GEPF is one of the few fully-funded defined benefit pension funds globally at 116%. This has little to do with luck, but is a function of excellent investment strategy implementation by the PIC team.

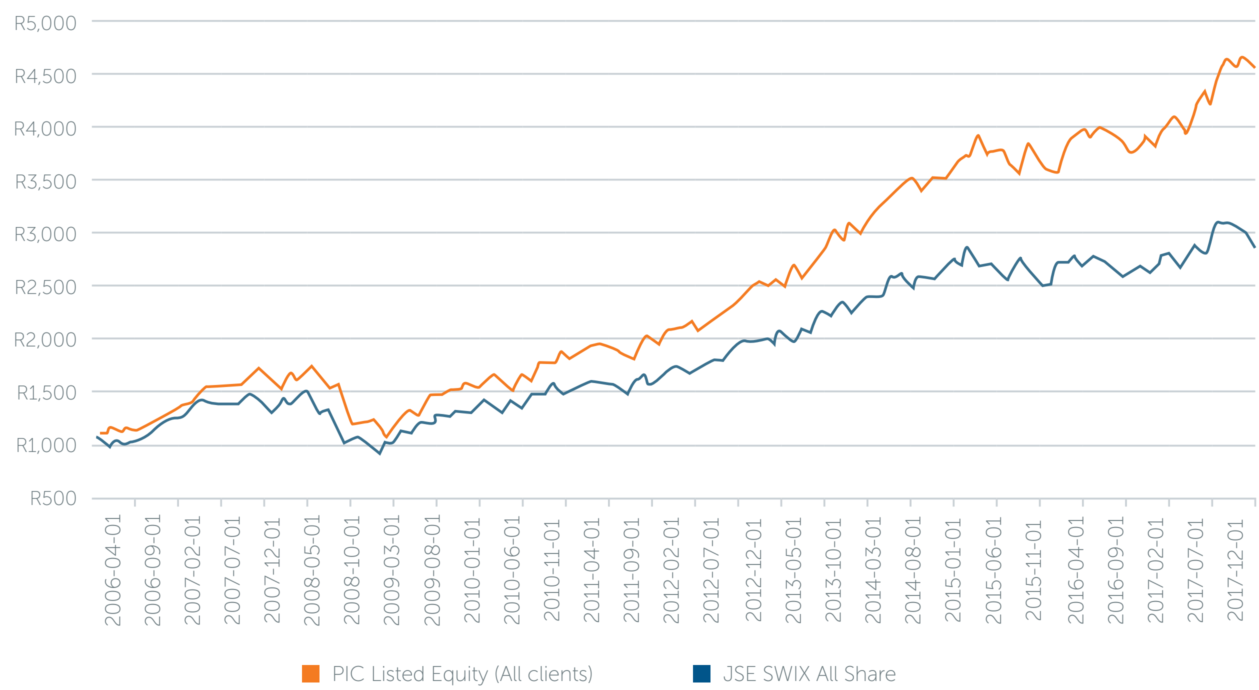
Client	10 Year AuM CAGR Growth	Type of Fund
Government Employees Pension Fund	CPI + 5%	DB Pension Fund, Guaranteed by Government
Unemployment Insurance Fund	CPI + 16%	Short-term Unemployment Insurance. Guaranteed by Government
Compensation Commissioner Fund	CPI + 13%	Short-term Insurance to injured workers
Compensation Commissioner Pension Fund	CPI + 4%	Pension Fund guaranteed by Government
Associated Institutions Pension Fund	3.2 % (Winding)	Pension Fund
Various other Clients with smaller portfolios	Cash Returns	Various Small Clients

* GEPF excess return is calculated using geometric method as per the mandate.

** Excess returns may be affected by rounding.

Whilst the PIC's investments are spread across various asset classes, approximately 80% of the portfolio is invested in listed asset classes. Our listed investment strategy of taking a long-term view when selecting stocks is bearing fruit. The graph below illustrates how R1,000 in PIC's managed listed portfolio would have performed against the SWIX All Share (SWIX ALSI) benchmark over an 11-year period.

PIC vs JSE SWIX All Share



Source: Factset

It is clear from the above graph that we have consistently outperformed the SWIX ALSI over an extended period.

During the financial year under review, we continued through unlisted investments to invest in sectors with huge developmental and high job-creating impact. These sectors include energy, healthcare, affordable housing and student accommodation. The overarching theme for unlisted investments is transformation and inclusive growth.

During the year, a total of R3.25 billion was approved for investing in Private Equity and Structured Investment Products (SIPs), R9.5 billion for Impact Investments and over R5.8 billion for Unlisted Properties. These approvals were obtained in a sluggish economic environment where it is becoming increasingly challenging to compete for quality direct private equity investments and where the private sector participation is also shrinking. Amongst others, investments in the private equity market are done directly, indirectly (through fund of funds) and co-investing, working with other fund managers. We anticipate that the unlisted investment portfolio will continue on a positive growth trajectory.

Contributing towards Sustainable Development Goals (SDGs), building on strong ESG practices

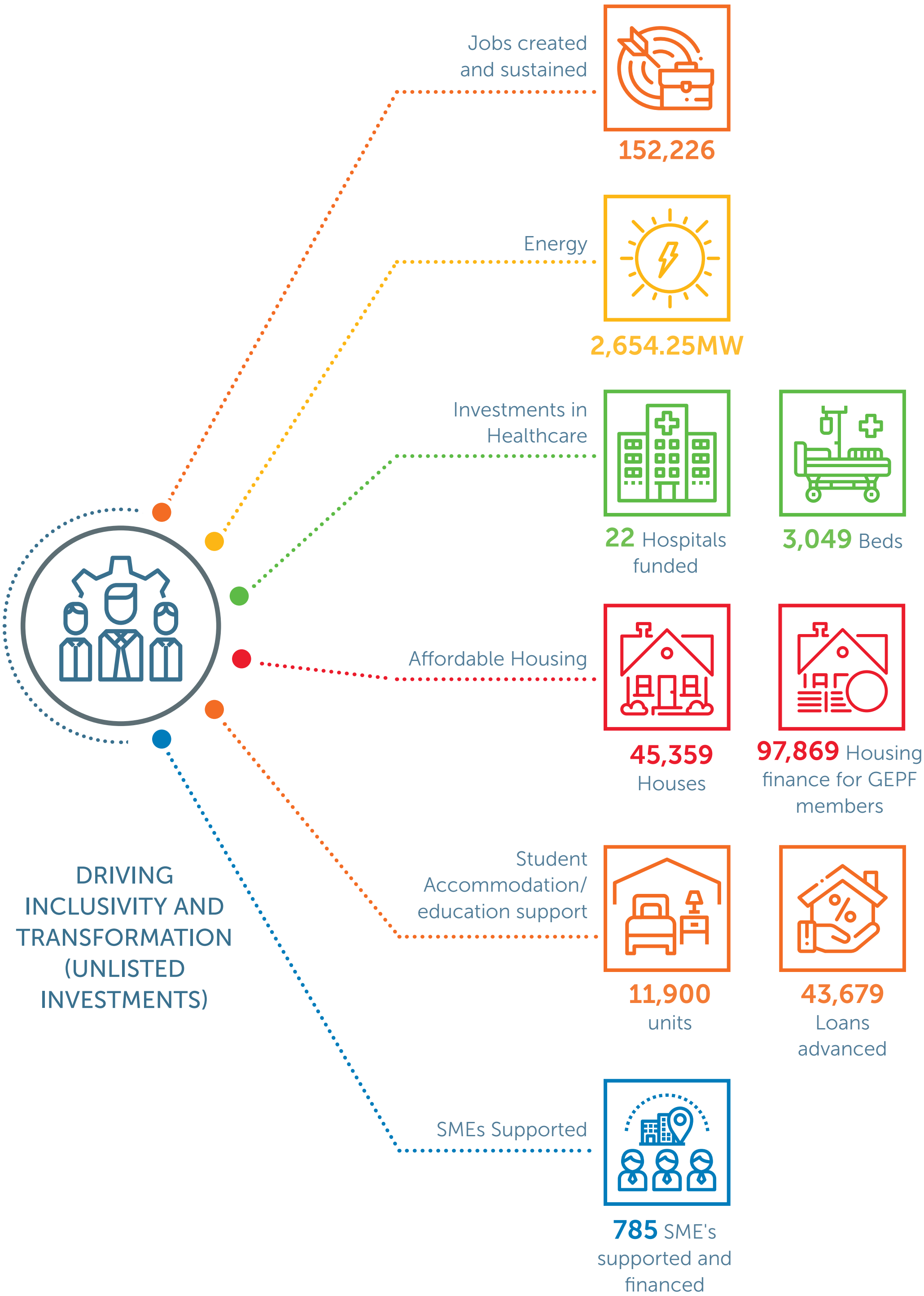
The PIC's investment strategy, supported by robust risk management and focus on ESG, has enabled the PIC to deliver stellar returns for our clients over an extended rolling period.

The PIC's investment philosophy is underpinned by two broad objectives, namely generating financial returns and sustainable ESG investing. Together, these objectives are called FRESG approach. The FRESG approach is a smart way of making investment decision yielding "a green alpha".

As our investment philosophy is underpinned by the dual mandate of financial returns with ESG, generating green alpha means building on our existing world-class ESG principles to become a global impactful investor.

ESG analysis is central to our investment selection decisions. The PIC has developed a special tool to do ESG analysis. This involves analysing performance of each investee company in line with an established ESG scoring matrix. The ESG score for each investment is plotted against potential financial returns. In terms of the matrix, companies' or investment opportunities with low financial returns and low ESG scores may pose significant risk to the portfolio. Conversely, those with very good financial returns but with a poor ESG score pose potential danger to the portfolio. Our experience shows that companies with low ESG scores are not sustainable in the long run, something that goes against the PIC's long-term view.

As a long-term investor, the PIC firmly supports the UN's 17 SDGs through our investment activities. Below are some of our investments key highlights, which are aligned to the SDGs.



Corporate Operational Performance

Corporate operations covers Human Resources (people), Finance, Information Technology (IT), Risk Management, governance and business processes. During the year under review, I am happy to report PIC operations continue to be strong and robust.

Our People

All our people are critical to our success. The PIC owes its performance and growth in AuM to a team of dedicated individuals who work tirelessly to ensure that clients' mandates are delivered on. While emphasis is on teamwork, employees are assessed individually to ascertain their performance and individual contribution to their team's and hence corporate performance. The challenge, however, is that the PIC competes with other asset management companies for talented professionals from a small pool. We remain committed to becoming an employer of choice that encourages open and constructive dialogue and foster innovation.

The PIC's operating model supports the skills and capacity development of black asset management professionals in the country which necessitated the increase in workforce resulting in a staff growth of 25% since 2016. The skills profile of the PIC has a bias towards revenue generating functions in line with global asset management practices. Employees within investment clusters (professionals and support) constituted 51% in 2016 and increased by 6% in 2017. In 2018, this category constituted 60% as compared to operational staff. The PIC has a current staff complement of 372, of which 188 are investment professionals. During the year under review, the PIC's investment towards skills development for staff increased to R25 million from R17 million the prior financial year. The funds were for bursaries and training. In practical terms, this translates into funding training for 336 employees and bursary awards for 61 employees.

Information and Technology

The PIC Information Technology ensures innovative, responsive and comprehensive support for the investment decisions which drives the performance of the PIC. Leveraging the power of integrated technology and automation of data analytics is critical to achieve ongoing operational improvement and efficiency. During the year under review, the PIC successfully completed its data management and automation programme. In the same period, the organisation undertook a review of its IT systems, after which a decision was made to increase investment in asset management platforms to unlock more functionality and enable its internal capabilities for global impact investing. As a result, various systems were upgraded to the latest versions, with other upgrades planned for the next two financial years. Further focus will be on developing integrated technology systems for reporting and analytics, modernisation of IT platforms, infrastructure and security.

Risk Management and Processes

The investments environment is dynamic and the pace of change is accelerating. The PIC's activities expose us to a broad range of risks. These changes may impact our risk profile, the development of our risk management practices and our ability to achieve our investment objectives. All risks are managed within an Enterprise-Wide Risk Management Framework, which aims to ensure that the risks we take are commensurate with and rewarded by long-term benefits.

At the PIC, a key component of good governance is ensuring the organisation pays attention to new and emerging risks. During the year, we reviewed our Enterprise-Wide Risk Management Framework and policies and tools to monitor risks. This includes compliance, monitoring and risk management practices. During the year under review, we improved our risk monitoring processes and updated the risk framework for our Business Continuity Management program. As a result, the PIC has adopted a comprehensive business continuity management framework, which expands on its previous methodology of managing business continuity risks. Annual business impact analysis is conducted and informs the design of the business continuity plans (BCPs) and IT Disaster Recovery Plan. These plans are tested periodically in alignment with best practice.

All our people are critical to our success. The PIC owes its performance and growth in assets under management to a team of dedicated individuals who work tirelessly to ensure that clients' mandates are delivered on

Looking Forward

Our focus for the 2018/19 FY is to continue to improve our investment strategy, so that we realise our objective of becoming a global leading impactful investor, taking into consideration the ever-changing investment environment. Green alpha generation will continue to be at the centre of our investment decisions, driving the SDGs and NDP objectives. We also aim to continue to develop innovative investment products for our clients, their members and beneficiaries. Despite the uncertainties in the investment environment, we plan to continue origination of good deals in the unlisted space, whilst at the same time supporting SDGs initiatives through our investment activities. Furthermore, we intend to review our operating model and if necessary redesign it to ensure efficiency and agility for the benefit of all stakeholders. We will continue our efforts to strengthen our investment process and governance, including selection of PIC representatives on Boards of investee companies.

The PIC team and I have devoted the past 12 months to ensuring that we endeavour to meet our vision and mission. The PIC is a performance-based and results-driven organisation. Our focus is on ensuring that we deliver best investment performance and service to our clients. I would like to sincerely thank the PIC Board, my fellow executive committee members, senior managers and other team members for their unwavering support and for ensuring that the PIC delivers on its mandate. Special thanks to our Shareholder representative, the Honourable Minister of Finance, for continuously believing in our ability to carry out the PIC mandate.

Dr Daniel Matjila
Chief Executive Officer

PIC Recognition

2016

- CEM, a global benchmarking company, rated the PIC ***one of the best asset managers*** that has given the GEPF positive returns at a very low cost
- ***ABSIP Special Recognition Award***
- ***ABSIP CEO of the Decade Award*** and ***Presidential Award***
- Africa Investor magazine: African Institutional Investment ***Personality of the Year***
- The University of Limpopo: ***Onkgopotse Tiro Excellence Award***, November 2016
- ***'Solar Deal of the Year'*** in the Middle East and Africa category awarded to PIC's co-investment, Ilanga1

2018

- Responsible Investor (RI) : *Commended for the Best Responsible Investing Report by an Asset Manager of Large Funds*

2017

- The Office of the Auditor General: ***Clean Audit Award*** for achieving a clean audit opinion (PFMA 2016/17)
- CEM, a global benchmarking company, rated the PIC ***one of the best asset managers*** that has given the GEPF positive returns at a very low cost
- European Magazine Awards: ***Asset Management Firm of the Year - South Africa***
- European Magazine Awards: ***Best SOE - Africa***
- European Magazine Awards: ***Best Corporate Governance - South Africa***
- African Business Leadership Awards: ***Africa Industry Personality Of The Year***
- The PIC was recognised as the global Top 25 Most Responsible Asset Allocators for incorporating ESG in investment decision-making process in the ***Bretton Woods II*** survey

PART TWO

DELIVERING ON CLIENT EXPECTATIONS

Client Expectations

Client Mandate

Each client's specific investment objectives are expressed in a detailed client investment mandate based on actuarial asset and liability studies, and approved by the FSCA. The complexities of managing these mandates differ and is a function of a number of factors, such as the size of the portfolios, risk parameters and the asset allocation.

The PIC invests in assets such as:

Listed Investments

- Listed Equities
- Listed Bonds
- Listed Properties
- Money Markets
- Offshore (Global)
- Rest of Africa
- Structured Investment Products (SIPs)

Unlisted Investments

- Private Equity
- Unlisted Properties
- Impact Investing
- Rest of Africa

Investments in these assets assist the clients to realise their financial goals, as well as social returns, and contribute towards inclusive growth. Social returns include, inter alia, job creation, empowerment, transformation, education and healthcare.

The table below represents each of the top five clients' listed asset allocation.

Listed Investment Asset Classes

Clients	Listed Equities	Listed Bonds	Money Markets	SIPs	Listed Properties	Offshore (Global)	Rest of Africa
GEPF							
UIF							
CC							
CP							
AIPF							

The table below represents each of the top five clients' unlisted asset allocation.

Unlisted Investment Asset Classes

Clients	Private Equity	Unlisted Properties	Impact Investing	Offshore (Global)	Rest of Africa
GEPF					
UIF					
CC					
CP					
AIPF					

Investment Process

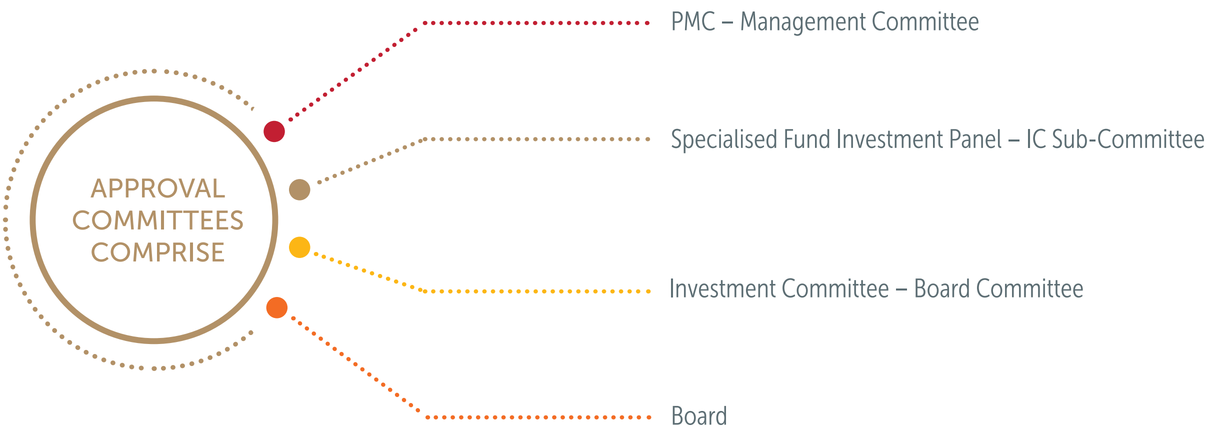
Policies and Frameworks

All transactions are subject to various (Board-approved) policies, as well as ESG frameworks and policies, all of which are based on international best practice and are aligned with applicable legislation and regulations. The PIC also has an approved Delegation of Authority (DoA) Framework in place, delegating responsibilities for different transactions to a variety of role-players in the investment divisions (i.e. Listed, Unlisted and Property Investments), as well as to employees in Risk Management, Legal, Compliance, Corporate Affairs and Investment Management. The DoA also outlines the powers of the Board, as well as the committees of the Board and those of the Executive Directors.

Governance

Rigorous interventions at various stages of the investment process.

This includes independent investment reviews and reports, which are considered alongside the investment appraisal report from:



INVESTMENT PROCESS

Pipeline and origination

- Proactive deal origination and development of projects
- Deal sourcing and exploring existing contacts
- Walk-in opportunities
- Co-investments

Screening and initial deal structuring

- Mandate checks
- High-level risk analysis and preliminary ESG assessment
- First PMC presentation
- High level structure of the deal (preliminary)

Due diligence

- Understanding development outcomes
- Determining feasibility and potential value creation plan and returns
- Assessing technical viability and competitiveness, financial viability, management ability, legal and risk issues, environmental, social and governance issues, potential development impact and sustainability

Deal structuring and decision

- Credit risk analysis
- Pricing and structuring
- Stress testing of the structure
- Deal presentation to relevant committees and approvals
- Full ESG report and corrective action plan
- Full legal report
- Full credit risk report

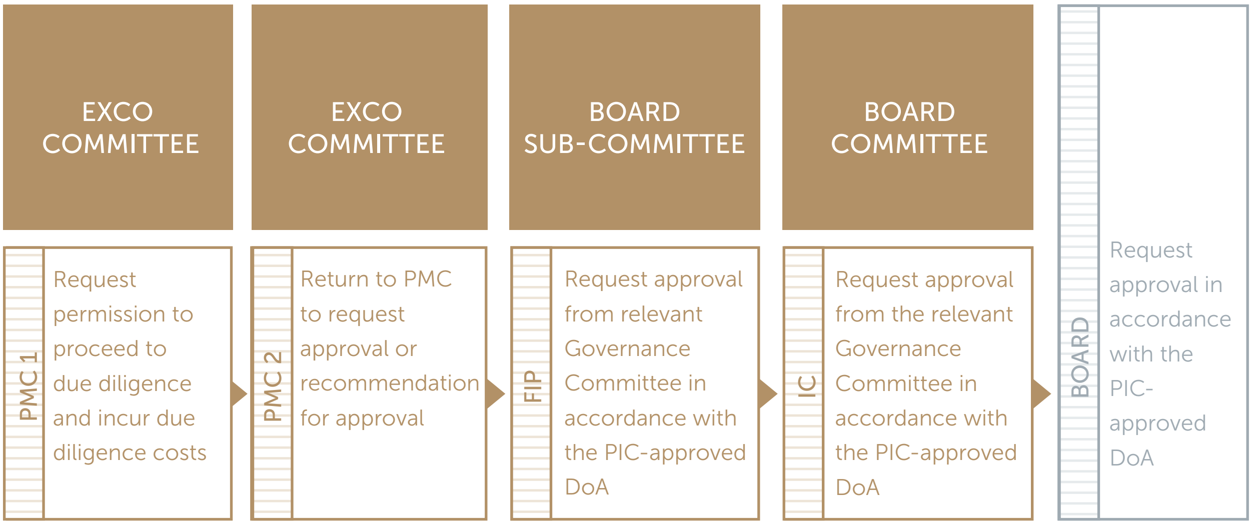
Implementation and monitoring

- Compiling legal agreements and meeting conditions
- Meeting all Regulatory approvals
- Disbursement of capital
- Ongoing monitoring of performance
- Continued interventions and support
- Board representation
- Engagements

Value add

- Enhance ESG business practices to enable sustainable business practices
- Identification an exploitation of synergies between investee companies
- Board representation
- Exit

The Investment Committee Approval Process



Investment Committee Mandate

The Board has established various committees to assist it in discharging its duties and responsibilities. The Investment Committee (IC) was established to provide oversight and decision-making in respect of investment activities. The primary purpose of the IC is to assist the Board to discharge its statutory duties and its oversight responsibilities in relation to listed and unlisted (including properties) investment activities. The IC is comprised of a majority of Independent Non-Executive Directors.

The IC operates in line with approved Terms of Reference (ToR), DoA Framework and policies which are reviewed on an annual basis.

The responsibilities and duties of the IC are to:

- Ensure that investments, disposals and acquisitions (listed, unlisted and properties) are in line with the PIC's overall investment strategy;
- Ensure that appropriate due diligence procedures are followed when acquiring or disposing of investments;
- Ensure that investments/divestments are in the best interest of clients, increase Shareholder value and meet the PIC's financial and ESG criteria;
- Make recommendations to the Board concerning further action about investment/divestment opportunities;
- Give due consideration to the relevant provisions of the Companies Act, read in conjunction with the Companies Act Regulations, the PIC Act, the approved DoA Framework, King IV, competition laws and any other legislation and regulations;
- Monitor performance of the investments, at least on a quarterly basis;
- Review and evaluate policies and procedures that PIC Management has implemented to monitor compliance with client mandates;
- Oversee the implementation of client mandates by reviewing PIC Management's quarterly reports, including but not limited to, the regulatory requirements under the FAIS Act, the PFMA and the Financial Markets Act, 2012 (Act 19 of 2012);
- Report quarterly to the Board on issues relating to the investment of funds under management;
- Consider and approve investments, acquisitions and divestments in line with the approved DoA Framework;
- Review the deal approval process, policies and criteria on an annual basis;
- Ensure that risk management is incorporated in all investment recommendations and decisions;
- Approve the criteria and process for the selection of external investment managers and notify the Board of approvals;
- Approve the process for establishing the mandates of external investment managers;
- Approve the process for monitoring external investment managers;
- Evaluate performance of external investment managers;
- Make recommendations to the Board, which it deems appropriate, on any area within its authority where action or improvement is needed; and
- Perform such other investment-related functions as may be determined by the Board from time to time.

Risk Management

Risks Associated with the PIC Operating Environment

Through Vision 2030, our strategic intent is to ensure growth of AuM and long-term sustainability. Effective risk management is a critical lever in delivering on the strategy.

Risk management involves the identification, assessment, prioritisation and response to risks that may impact on achieving strategic and operational objectives. The management, monitoring and reporting of these risks ensure that we minimise the probability and impact of negative events, and maximise the potential of credible opportunities. The PIC has identified risks associated with its role and its interaction with various stakeholders, including its clients, employees, the shareholder, government, regulators, investee companies and the public. Through risk identification, appropriate responses are developed and continuously updated as the environmental landscape shifts.

The objectives of the Risk Management function are to:

- Integrate risk management across the Corporation;
- Identify and manage risks within risk appetite and risk tolerance parameters, which coincide with the Board-approved strategy and objectives;
- Improve the Corporation's ability to prevent, detect, correct, escalate and respond to critical risk issues by adopting risk management systems and tools, executing risk management plans and recommendations, and monitoring these effectively;
- Comply with appropriate risk management practices in terms of corporate governance guidelines and the King Code; and
- Create risk awareness to ensure that a risk-based approach is embedded in decision-making at operational and strategic levels of the Corporation.

Enterprise-Wide Risk Management

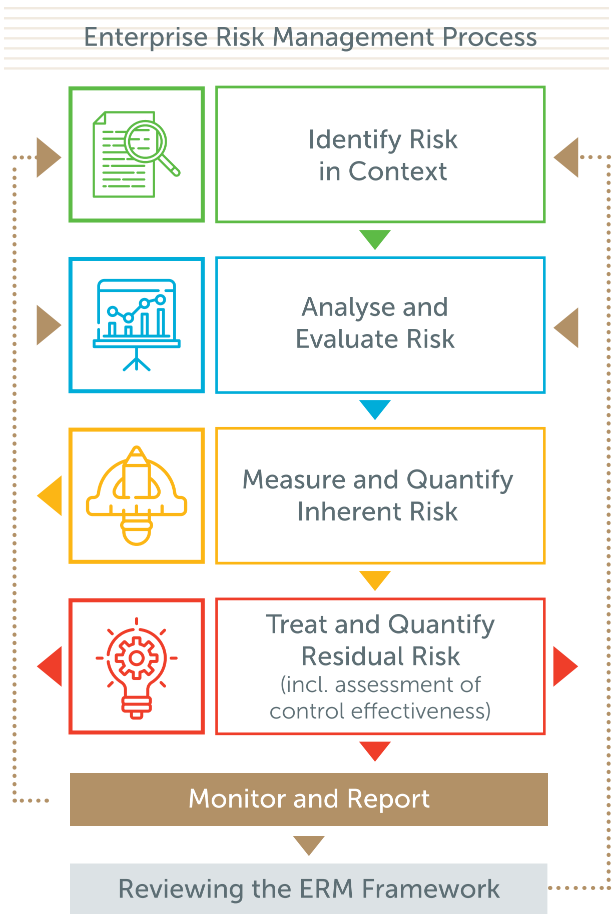
The PIC recognises that, in a complex financial services environment, risk management processes and strategies are evolutionary and are subject to ongoing review and modification. The PIC has adopted an enterprise-wide approach to managing risk, which is defined in its Enterprise Risk Management Framework (ERMF). The ERMF codifies the approach to identifying, measuring, monitoring, reporting and managing risks throughout the institution.

The principles of the ERMF are embodied in the King Code, the ISO 31000 and COSO frameworks, and is based on a strong governance structure. The ERMF guides the Corporation in defining risk appetite and risk tolerance levels, inculcating a risk-aware culture, developing and implementing risk-related policies and processes to identify, assess, mitigate, monitor and report all key existing and emerging risks.

In executing the ERMF, the PIC uses both top-down and bottom-up approaches to risk identification, assessment and mitigation. The top-down approach entails risk workshops with the Executive Committee (EXCO), Audit and Risk Committee (ARC) and the Board. The focus of these workshops is to identify the key risks that may preclude the Corporation from achieving its strategic objectives and establish appropriate control measures to mitigate the identified risks.

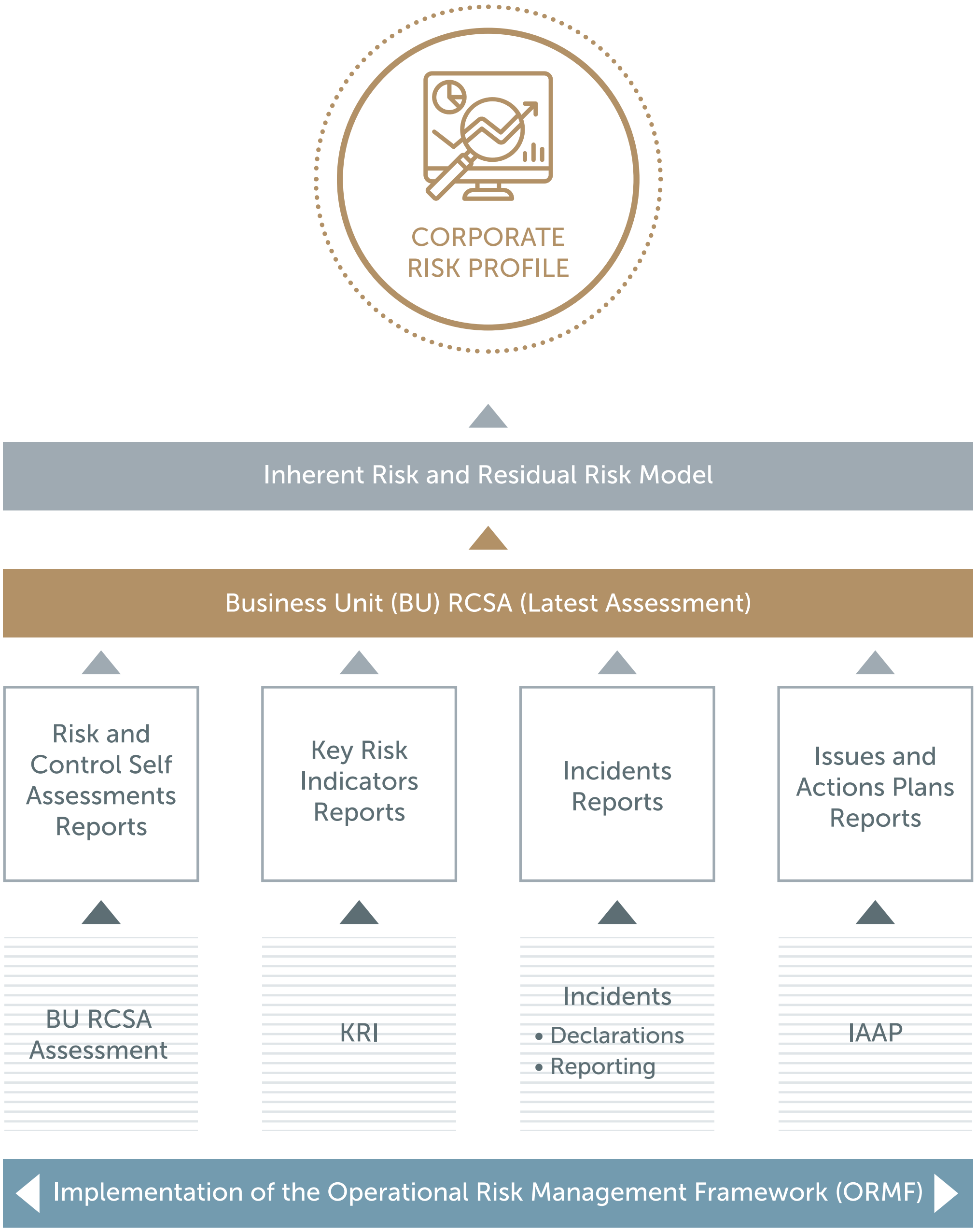
The process adopted under the ERMF follows that of the ISO 31000 standard.

The PIC's Risk Management Process



Defining the PIC's Corporate Risk Profile

The Operational Risk Management Framework (ORMF) follows from the ERMF and manages day-to-day operational risks within the Corporation. The pillars of the ORMF are integrated to provide a holistic view of risks. This approach enables determination of the Corporate risk profile, which is periodically reviewed by the Risk department and reported to EXCO, the ARC and, at least annually, to the Board.



Principal Risks

The PIC has identified principal risk categories that are significant to the Corporation: strategic, investment, legal and regulatory, operational and reputational. Throughout the Corporation, controls to manage the principal risks are embedded within the various business unit functions to ensure that the strategic objectives are met.

Strategic Risk

The risk that we will make inappropriate strategic choices or be unable to successfully execute selected strategies or adapt to changes in the external business, political or socioeconomic environment

Investment Risk

The risk of loss due to participation in investment markets. It includes the market risk and credit risk in both internally and externally managed portfolios

Operational Risk

The risk of loss resulting from inadequate or failed processes, people and systems or from external events

Legal and Regulatory Risk

The risk of loss due to actual or proposed changes to and/or non-compliance with applicable laws, regulations, rules, mandatory industry practices and internal policies and procedures

Reputational Risk

The risk of loss of credibility due to internal or external factors and is often related to, or results from, other categories of risk

Principal Risk Mitigations

Strategic Risk

- Board-approved strategic plan
- Shareholder compact and corporate plan aligned to national priorities
- Strong governance to monitor implementation and reporting
- Delegation of authority to ensure decisions are carried out responsibly
- Quarterly reporting to the Board, National Treasury and all other stakeholders

Investment Risk

- PIC governance, mandate, risk management and regulatory compliance frameworks
- Robust investment process
- In-depth research capacity
- Strong post-investment management process
- Performance management systems for monitoring
- Environmental, social and governance (ESG) embedded in the investment process

Legal and Regulatory Risk

- Automated daily alerts of changes to legislation to inform policy reviews and compliance
- Regulatory universe in place and reviewed annually
- Annual internal and external training provided to staff in key pieces of legislation
- Regular compliance audits of business units to assess compliance levels

Operational Risk

- Robust ORMF
- Ongoing monitoring of operational risks (People, processes and systems)
- Business continuity (BC) management framework and BC plans
- Disaster recovery planning and testing (business and information technology)
- Data management reviews and enhancements
- Fraud and corruption prevention plan and policy

Reputational Risk

- Clean audits
- Transparency in reporting
- Reputational key risk indicator monitoring
- Strong Governance
- Stakeholder Management Framework

Top Risks Evaluated

The PIC's corporate risk profile is a function of the inherent and residual risks of all the process-level business risks identified and assessed in the various business units. The corporate risk profile gives a panoramic view of the performance and rating of the PIC's principal risks as well as the Corporation's risk landscape.

The identified risks are evaluated using the approved risk measurement methodology defined in the ERMF. Risk tolerance levels have been determined both internally and by the PIC Clients, where applicable. Risks outside of their tolerance levels are addressed immediately. Risk evaluation determines the strategy of responding to and managing the identified risk, ranking and determining whether the risk should be terminated, tolerated, transferred or mitigated.

For the period under review, the PIC's top risks, which are aligned to the principal risks, are as follows:

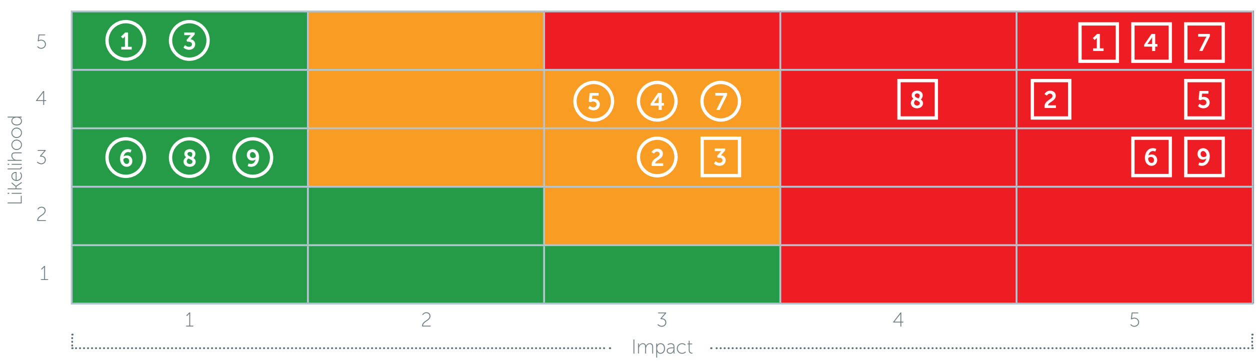
1 . Alpha Generation
2. Corporate Financial Sustainability
3. Human Capital
4. Technology Risk
5. Operational Risk
6. Inclusive Growth Risk
7. Reputational Risk
8. PIC Corporate ESG
9. Regulatory Risk

Inherent risk

HIGH
MEDIUM
LOW

Residual risk

Principal Risks Heat Map - Inherent risks and residual risks



Risk Grade and Scoring Rating Low: 1 – 5 Medium: 6 – 14 High: 15 – 25

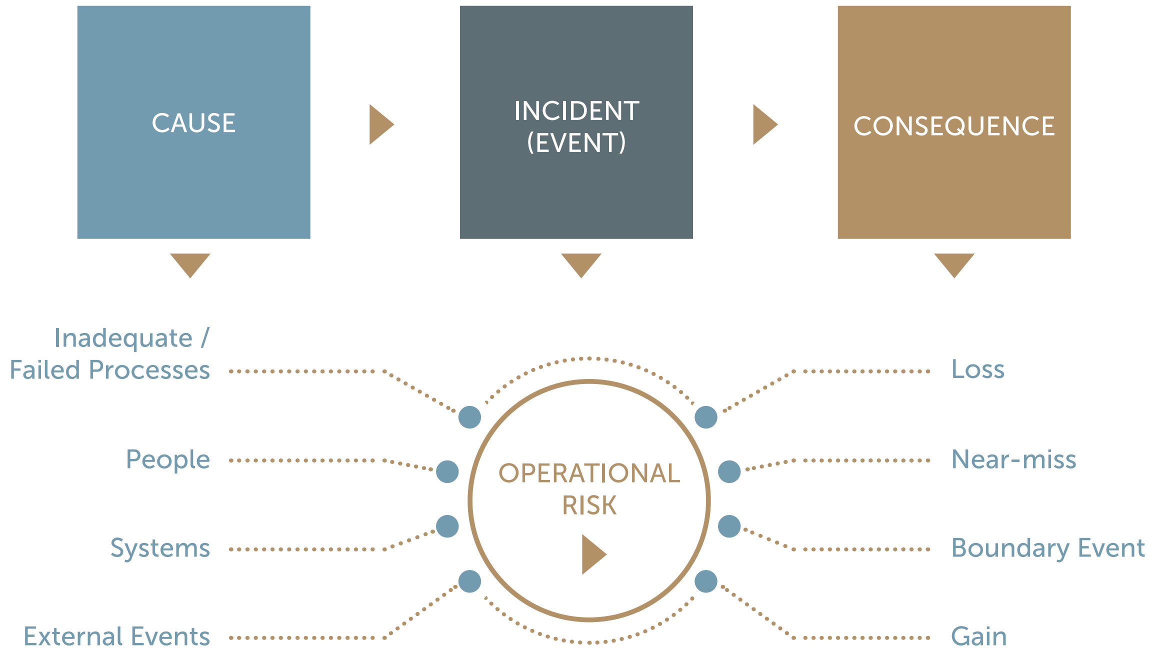
The heat map above reflects the inherent risk ( ) and the residual risk ( ) of the top risks.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risks.

The below diagram demonstrates the activities involved when an operational risk crystallises. These activities allow the PIC to fully establish the root-cause of operational risks and to adopt the appropriate controls and prevent similar risks from recurring.

Cause-Incident/Event-Consequence Relationship



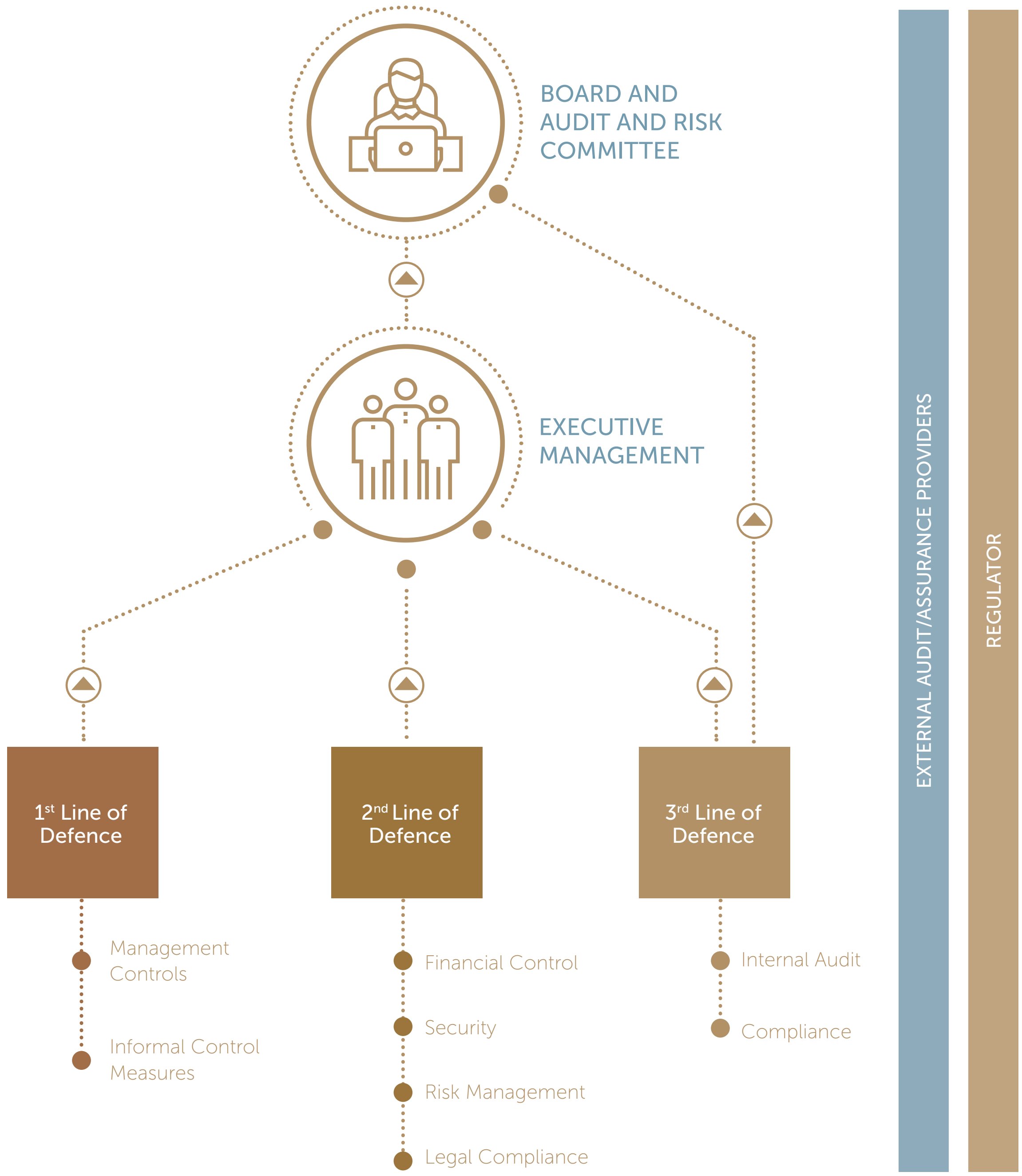
Operational risk management is a separate function of the PIC's Risk department, which carries out its activities in accordance with the ERMF and ORMF.

Governance, Risk and Combined Assurance

The PIC continues to adopt a combined assurance approach to risk management. Within the defined internal governance processes, the Board is ultimately responsible for the governance of risk. The Board delegates its responsibilities to the various Board committees, which, in turn, delegate these to the PIC EXCO and Management. Day-to-day risk management activities are undertaken at the business unit level. These risks, and responses to risk, are reported on and communicated to the PIC Management, EXCO and the Board periodically.

In line with the King Code, the 'three lines of defence' methodology is applied through a collaboration of functions by the Risk Management, Compliance, Legal and Internal Audit departments. These internal assurance providers participate in the annual review of the ERMF and in the development and assessment of the single risk universe of the Corporation. In addition, the combined assurance providers also review reports and recommendations by external assurance providers as part of the control effectiveness assessment. Over and above the assurance provided by the 'three lines of defence', oversight is provided by EXCO, the Board, the external auditors and the regulators.

The Three Lines of Defence Model

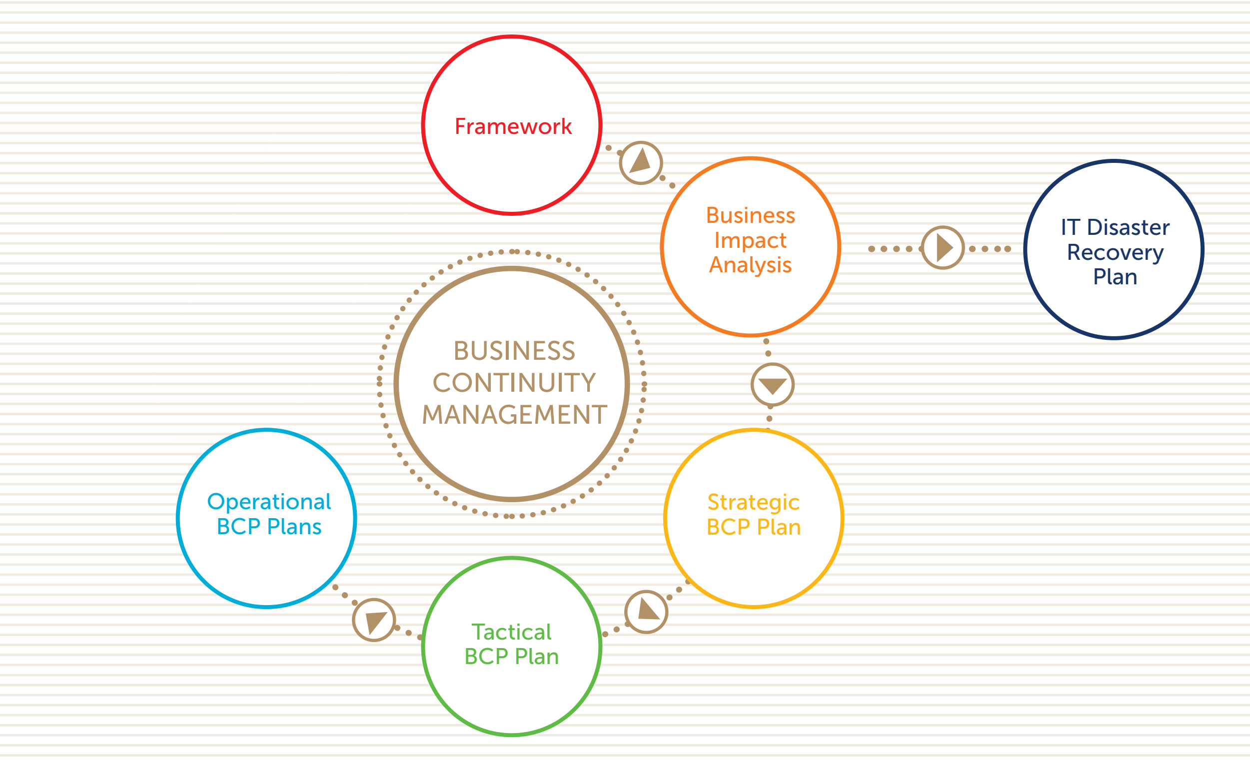


To further enhance its processes, the PIC is reviewing its current combined assurance methodology against the revised King Code (King IV) to ensure alignment with best practice.

Business Continuity Risk Management

Business continuity risk can be defined as adverse events that impact the Corporation's ability to operate or resume operations following a major business disruption.

The PIC has adopted a comprehensive business continuity management framework, which expands on its previous methodology of managing business continuity risks. The framework design took account of best practice and alignment with the ISO22301 standard. Annual business impact analysis is conducted and informs the design of the business continuity plans (BCPs) and IT Disaster Recovery Plan. These plans are tested periodically in alignment with best practice. Robustness of the PIC's BCM is being enhanced to obtain certification on the ISO standard.



Compliance

The PIC considers compliance with applicable laws, industry regulations, industry codes and its internal policies and ethical standards to be an integral part of business operations. The PIC's Compliance department 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 any other relevant legislation.

While the PIC Board remains ultimately accountable for compliance with legislation, the Compliance department is responsible for oversight and implementation of processes to ensure compliance.

Key Legislation/laws	PIC
FAIS Act	✓
Financial Markets Act	✓
FICA Act	✓
Pension Fund Act (Reg 28)	✓
Companies Act	✓
PFMA (National Treasury)	✓
PIC Act	✓
Collective Investment Schemes Control Act	✓
JSE Listing Requirements	✓
Banks Act	✓
UK's Financial Services and Markets Act	✓
IFRS	✓

PART THREE

GENERATING LONG-TERM SUSTAINABLE RETURNS

Creation of Financial Returns

Economic Review 2017/18

Global Conditions and Economic Outlook

Global economic activity expanded at its fastest rate since 2011, growing by 3.8% in 2017 (compared to 3.2% in 2016), on the back of an improvement in global investment and trade. Global growth remains resilient and synchronised, with the International Monetary Fund (IMF) expecting growth to firm further to 3.9% in both 2018 and 2019, driven by a pick-up in emerging market economies (EMs) and resilient growth prospects in advanced economies (AEs).

Accommodative monetary policy and relatively easy financial conditions are supportive of growth in the near-term and offer an opportunity to advance reforms that raise medium-term growth prospects. As their output gaps narrow, most AEs are poised to return to potential growth rates well below pre-crisis averages, held back by ageing populations and lacklustre productivity.

*Global economic activity grew by **3.8%** in 2017*

As always, the caveat remains that the gains made in the global economy remain susceptible to a variety of downside risks. These include a possible sharp tightening of financial conditions, waning popular support for global economic integration, growing trade tensions, a shift towards protectionist policies and geopolitical tensions. At the time of writing, these risks are exceedingly manifesting themselves, resulting in a desynchronisation of global growth momentum and risks to capital flows to emerging markets.

Economic growth in selected countries

	Pre-Crisis	Post-Crisis	Average GDP forecast		
	2000-2008	2010-2017	2018	2019	2020
World	4.3	3.8	3.9	3.9	3.8
Advanced Economies	2.4	2.0	2.5	2.2	1.7
United States	2.3	2.2	2.9	2.7	1.9
Eurozone	2.0	1.3	2.4	2.0	1.7
United Kingdom	2.4	2.0	1.6	1.5	1.5
Japan	1.2	1.5	1.2	0.9	0.3
Emerging and developing economies	6.5	5.3	4.9	5.1	5.1
China	10.4	7.9	6.6	6.4	6.3
Brazil	3.8	1.4	2.3	2.5	2.2
Russia	7.0	1.8	1.7	1.5	1.5
India	6.8	7.3	7.4	7.8	7.9
Sub-Saharan Africa	6.0	4.3	3.4	3.7	3.8

Source: IMF World Economic Outlook, April 2018

Advanced Economies

Growth in the **United States** came out stronger than expected in 2017, expanding by 2.3% from 1.5% in 2016. Tax reforms, fiscal stimulus and higher external demand have bolstered the US economic outlook. According to the IMF World Economic Outlook (WEO), growth is expected to rise to 2.9% in 2018, before moderating slightly to 2.7% in 2019 (0.2 percentage points stronger than projected for both 2018 and 2019 in the January WEO update). The upward revision reflects stronger-than-expected activity in 2017, firmer external demand, and the expected macroeconomic impact of the December 2017 tax policy reforms, in particular, lower corporate tax rates and the temporary allowance for full expensing of investment, which is anticipated to stimulate short-term activity. Given the increased US fiscal deficit, which will require adjustment in the future and the temporary nature of some provisions, growth is expected to moderate from 2022 onwards. We assess the US economic expansion to be mature and, as such, the risks of a cyclical slowdown in the coming 18 to 24 months to be quite high.

The US Federal Reserve (Fed) has responded to strengthening growth, labour market conditions and emerging inflationary pressures by raising short-term interest rates twice by 25 basis points in March and June, as was widely expected. The Fed has indicated it will maintain a gradual tightening path on the back of the strength of the economy and firming inflation.

US-China trade tensions will remain high as the US administration has gone ahead with imposing tariffs on Chinese imports. Trade talks are still currently underway but the risks of an escalation in trade tensions and a commensurate destabilisation to global growth and capital markets remain non-trivial and cannot be understated.

The **Eurozone** grew by 2.3% in 2017 (2016: 1.8%), reflecting strong momentum in domestic demand and higher external demand. The recovery in the Eurozone is projected to pick up slightly to 2.4% in 2018, with improved growth outcomes for Germany, France and Italy reflecting stronger domestic demand. The forecast for 2018 is slightly higher than in the January WEO update, reflecting stronger than expected domestic demand across the currency area, supportive monetary policy and improved external demand prospects. The European Central Bank (ECB) is expected to end its asset purchase programme later in 2018 and possibly hike interest rates in 2019. Risks emanating from the US initiated trade tensions will also impact the region, with indications at the time of writing of reciprocal measures from the Eurozone.

Growth in the **UK** slowed from 1.9% in 2016 to 1.8% in 2017. The IMF expects growth to slow to 1.6% and 1.5% in 2018 and 2019, respectively, with business investment expected to remain weak in the light of heightened uncertainty about post-Brexit arrangements. The medium-term growth forecast is also broadly unchanged at 1.6%, reflecting the anticipated higher barriers to trade and lower foreign direct investment following Brexit. Assumptions regarding the Brexit outcome remain broadly unchanged - the UK is assumed to exit the customs union and the single market, but tariffs on goods trade with the European Union are predicted to remain at zero, and non-tariff costs are expected to increase only moderately. As expectations of a Brexit deal rose, the Bank of England (BOE) raised interest rates for the first time since 2007 in November 2017. After keeping rates on hold thus far, the BOE recently became a little more hawkish and delivered a hike of 25 basis points in August.

Economic activity in **Japan** accelerated to 1.7% in 2017 (2016: 0.9%), with the IMF projecting growth to moderate to 1.2% in 2018 before slowing further to 0.9% in 2019. Japan's medium-term prospects remain weak, owing largely to a shrinking labour force. Given that inflation remains below the Bank of Japan's (BoJ) 2% target, expectations are for no change in monetary policy for the foreseeable future.

Emerging Markets

Growth in EMs is expected to be supported by external demand and strong commodity prices, while balance sheet vulnerabilities do pose some downside risk to medium-term growth prospects. Monetary policy eased during the year in Brazil and Russia. Pressure appears to be mounting on Brazil's central bank to raise interest rates, currently at an all-time low of 6.5%, while price pressures may see Russia's central bank pause. Meanwhile, India's central bank raised its benchmark interest rate for the first time since 2014 owing to an improvement in economic activity and increased price pressures, with expectations that the central bank will gradually tighten monetary policy in the coming months. Monetary policy is on diverging pathways in other emerging markets. Chile has reduced its policy rate, while Mexico, Malaysia and Indonesia have been in tightening cycles. Turkey has been an outlier, with the central bank simplifying its monetary policy and adopting the one-week repo rate as the policy rate, effective 1 June 2018. The policy rate has been raised to 17.75% to stem the depreciation of the lira.

In **China**, real output growth of 6.9% in 2017 marked the fastest annual pace of expansion in two years and the first acceleration since 2010 as the economy continues to rebalance investment-led growth to consumption-led growth. The IMF forecasts growth in China to moderate to 6.6% in 2018 and 6.4% in 2019. Over the medium term, growth is expected to slow gradually to 5.5%, with continued rebalancing from investment to consumption. Chinese authorities appear cognisant of the risks posed by financial imbalances (and other factors) in the domestic economy and are actively implementing structural reforms to address these issues. For as long as Chinese growth remains supported, spillover benefits to other EMs that form part of China's value chain will persist. China's 'Belt and Road' initiative remains a key strategic thrust over the longer term, while the aforementioned trade war risks remain a central focus. In response to trade war concerns, Chinese authorities have loosened both monetary and fiscal policy.

Following a deep recession in 2015/16, **Brazil**'s economy returned to growth of 1.0% in 2017 (2016: -3.5%) and is expected to improve to 2.3% in 2018 and 2.5% in 2019 on the back of stronger private consumption and investment. **Russia**'s economy also returned to growth in 2017, expanding by 1.5% after contracting by 0.2% in the previous year, supported by improved oil export revenue, stronger business confidence and looser monetary policy. The IMF expects the Russian economy to grow by 1.7% in 2018, before softening to 1.5% over the medium term as structural headwinds and sanctions weigh on activity.

Growth in **India** is projected to increase from 6.7% in 2017 to 7.4% in 2018 and 7.8% in 2019, lifted by strong private consumption and fading transitory effects of the currency exchange initiative and implementation of the national goods and services tax. Over the medium term, growth is expected to rise gradually, with continued implementation of structural reforms that raise productivity and incentivise private investment.

Growth in **sub-Saharan Africa** rose from 1.4% in 2016 to 2.8% in 2017 and is projected to rise gradually in 2018 and 2019 to 3.4% and 3.7%, respectively, as the challenging outlook in commodity-exporting countries such as Nigeria and Angola gradually improves.

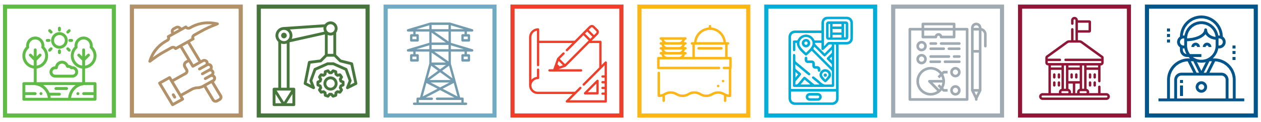
Synopsis

The global economy displayed some signs of slowing momentum during the beginning of 2018. However, the outlook for advanced economies remains broadly positive, albeit with concerning signs of de-synchronisation. The outlook for emerging markets hinges on structural reforms and will remain heterogeneous and highly susceptible to a constructive global risk backdrop. Tightening monetary policy from the major central banks will increase over the coming year and will present a headwind to capital flows into emerging markets. As such, emerging markets, as recipients of substantial amounts of capital flows, should take care to utilise periods of relative calm to repair balance sheets and decrease external vulnerabilities. While this has been the main policy thrust in emerging markets, delivery thus far has been patchy.

South Africa economic review and outlook

Economic growth, which has steadily weakened in the five years to 2016, increased moderately in 2017. The South African economy grew by 1.3% in 2017 from 0.6% in 2016, marking its first expansion since the start of the current downward phase of the business cycle. Revisions to historical quarterly data resulted in a reversal of the technical recession that occurred between 2016 Q4 and 2017 Q1, based on two successive quarters of negative growth.

Sector growth trends



Sector growth trends

	2016	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2017	2018 Q1	2018 Q2
Agriculture, forestry and fishing	-10.2	25.6	36.9	41.7	39.0	17.7	-33.6	-29.2
Mining and quarrying	-4.2	12.6	7.8	6.2	-4.4	4.6	-10.3	4.9
Manufacturing	0.9	-4.1	2.9	3.7	4.3	-0.2	-6.7	-0.3
Electricity, gas and water	-2.3	-5.6	8.1	-6.1	3.3	0.2	0.2	2.1
Construction	1.1	-1.2	-0.7	-1.2	-1.4	-0.3	-1.9	2.3
Trade, catering and accommodation	1.7	-5.6	0.9	-0.1	4.8	-0.6	-3.1	-1.9
Transport, storage and communication	0.8	-1.3	2.6	0.8	2.8	1.5	0.9	-4.9
Finance, real estate and business services	2.3	-0.5	3.1	1.9	2.5	1.9	1.1	1.9
General government services	1.4	-0.5	-1.9	1.1	1.4	0.3	1.9	-0.5
Personal services	1.5	0.3	1.7	1.2	1.0	1.2	1.2	0.8
GDP	**0.6**	**-0.5**	**2.9**	**2.3**	**3.1**	**1.3**	**-2.6**	**-0.7**

Source: Stats SA

For the year, growth was led by the primary sector, where output grew by 7.5% (compared to -5.6% in 2016), while output in the secondary sector contracted by 0.1% (compared to +0.6% in 2016). Activity in the tertiary sector moderated to 0.8% from 1.7% in the previous year.

Following two consecutive annual contractions, real value added in the **agricultural sector** expanded by a firm 17.7% in 2017 – the highest rate since 2008. Good summer rainfall saw a broad-based recovery in production following a prolonged drought in the northern parts of the country, leading to a bumper maize crop. Growth is expected to moderate in 2018. According to the latest production estimate by the Department of Agriculture, Forestry and Fisheries' Crop Estimates Committee, the commercial maize crop for the 2017/18 season is expected to be 12.8 million tons -27.2% less than the final 2016/17 crop. **Mining output** recovered in 2017, increasing by 4.6% in 2017 after contracting by 4.2% in 2016. During the year, the sector benefited from higher global economic growth and the simultaneous recovery in international commodity prices, despite domestic challenges such as low confidence, safety concerns and persistent regulatory uncertainty. Improved demand boosted the production of iron ore, manganese ore, diamonds and other non-metallic minerals. South Africa is currently finalising the much-awaited Mining Charter, but indications from industry at the time of writing point to much work still to be done. Looking ahead, policy uncertainty is expected to continue, weighing on investment in the sector, while support from commodity prices is expected to dissipate.

Real GDP growth – South Africa

Source: Stats SA and SARB

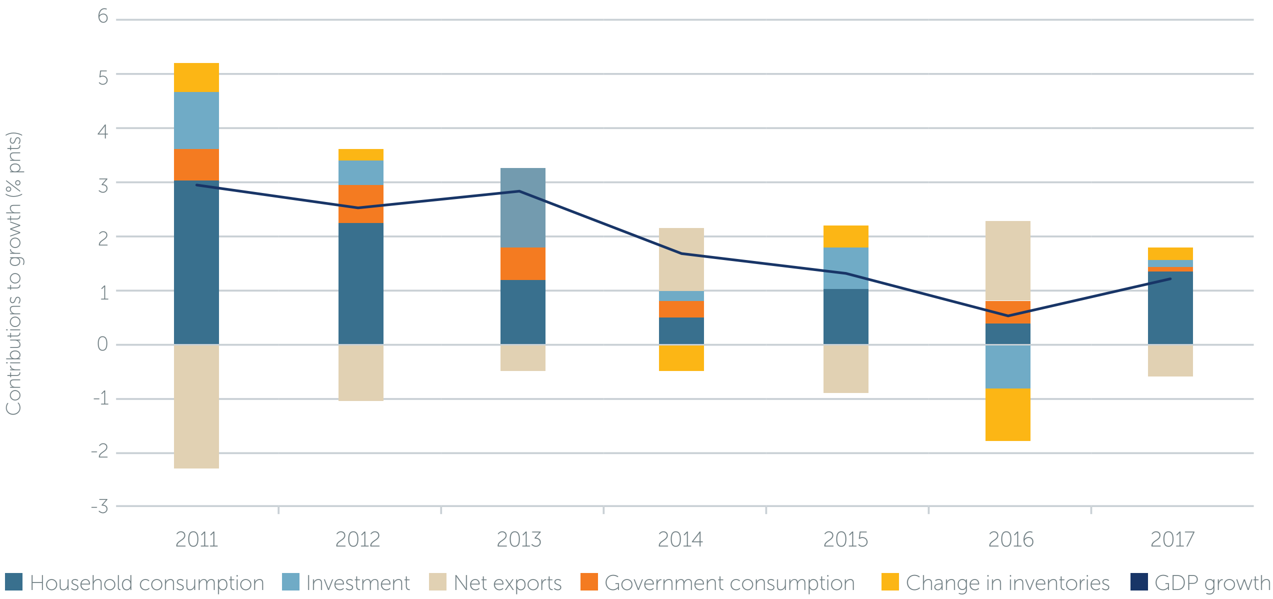
The secondary sector, which accounts for just under a fifth of total GDP, disappointed during 2017. Despite real **manufacturing output** expanding for three consecutive quarters, output still contracted by 0.2% in 2017, compared to a moderate expansion of 0.9% in 2016. Poor performance was mainly the result of weak domestic demand and low levels of business confidence. An improvement in sentiment and synchronised growth in South Africa's main trading partners are expected to be supportive of the sector in 2018, with some downside risk emanating from geopolitical risks. Following five consecutive annual contractions, output in the **electricity, gas and water** sector increased by a modest 0.2% driven by Eskom's enhanced plant performance and increased production capacity over the year. Supply constraints have improved following the commissioning of the Medupi, Kusile and Ingula power stations, while the anticipated additional capacity both from Eskom and independent power producers is set to bolster the electricity sector. The water sector may be hampered by the ongoing drought in parts of the country. The **construction** sector performed poorly during the year, contracting by 0.3% (compared to +1.1% in 2016). This is the first contraction in 18 years as building and civil confidence remained depressed. The sector requires an improvement in business confidence to spur investment.

Growth in the real value added by the **finance, real estate and business services** moderated from 2.3% in 2016 to 1.9% in 2017, as activity in the banking sector slowed. Despite this, it was the best performing subsector in the tertiary sector.

The **trade, catering and accommodation** sector shrank by 0.6% in 2017, from 1.7% in the previous year. However, this sector displayed the fastest annualised growth during the final quarter of 2017, as consumers took advantage of 'Black Friday' sales in November. High-frequency data prints indicate that this sector may come under pressure in 2018 despite the improvement in consumer confidence, probably owing to the increase in the VAT rate and weak employment growth. The real value added by the **transport, storage and communication** sector increased by 1.5%, up from 0.8% in 2016. Activity in **general government** moderated to 0.3% in 2017 from 1.4% the previous year, in line with stated expenditure containment efforts by the government.

From the expenditure side of the economy, domestic demand was supportive of overall growth, with gross domestic expenditure (GDE) increasing by 1.7% following a contraction of 0.9% in 2016. **Household consumption expenditure**, which accounts for almost two-thirds of GDE, grew by 2.2% from 0.7% in 2016. After contracting in each of the previous three years, durable goods rebounded strongly growing by 6.0%. Growth in semi-durable goods improved from 2.9% in 2016 to 3.1% in 2017. Consumer spending in 2017 was underpinned by growth in households' real disposable income, supported by lower consumer price inflation in an environment of low-interest rates. The FNB/BER Consumer Confidence Index (CCI) reached an all-time high of +26 points in the first quarter of 2018 (before declining to 22 in quarter two of 2018) indicating that consumers are now slightly optimistic about the outlook for

Demand-side contribution to GDP growth



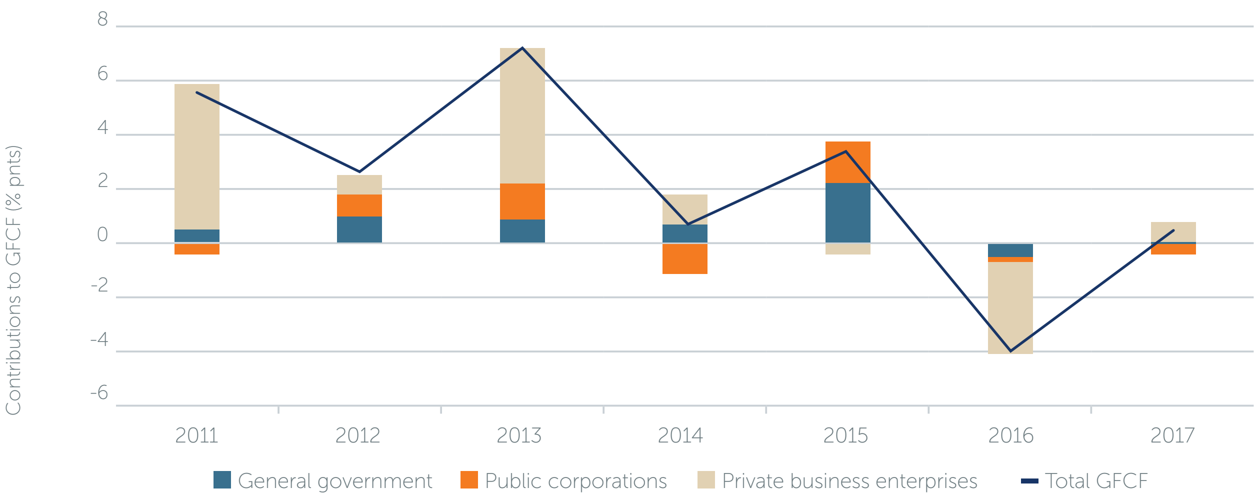
Source: Stats SA and PIC research

the South African economy and their household finances. This, together with marginally lower borrowing costs, is likely to positively impact consumption expenditure. However, the recent VAT increase and weak employment growth are downside risks to the outlook.

Growth in real final consumption **expenditure by general government** decelerated notably, from 1.9% in 2016 to 0.6% in 2017. This reflects a moderation in real spending on both non-wage goods and services, and compensation of employees.

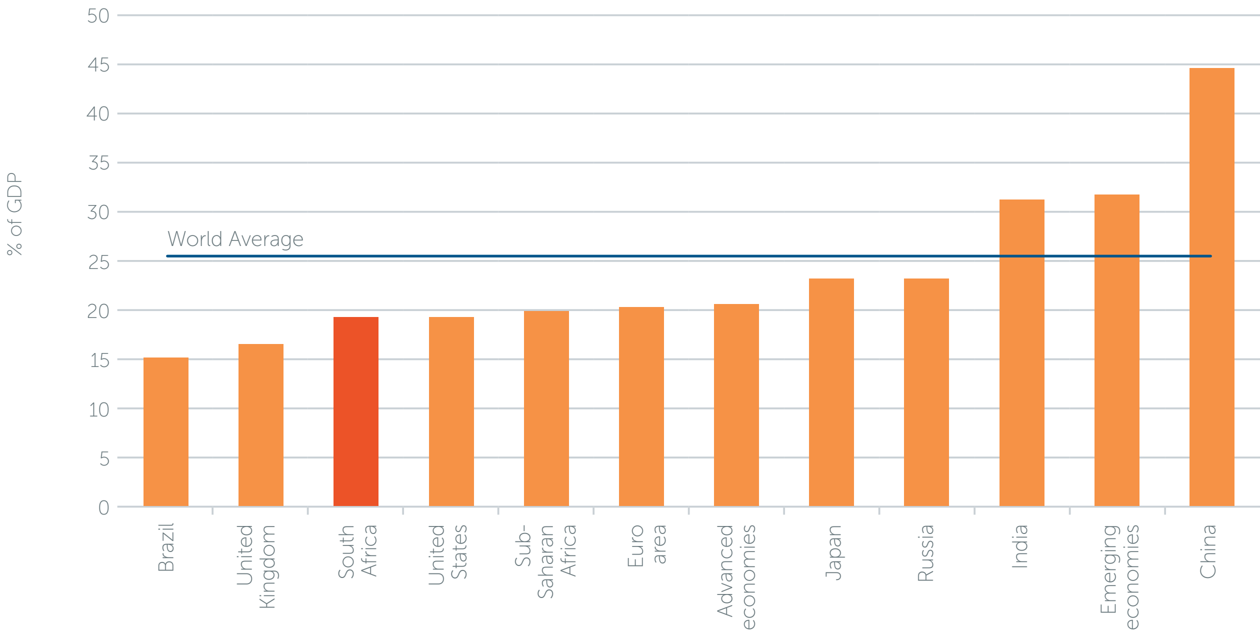
Gross fixed capital formation grew by 0.4% in 2017 after contracting by 4.1% in 2016. Both the general government and public corporations investments contracted over the year (0.7% and 1.3% respectively) while private business enterprises expanded theirs by 1.2%, after contracting by 5.3% in the previous year. A sustained improvement in confidence is required to see a recovery in private investment. Investment by public corporations is unlikely to achieve the growth rates of previous years due to difficult operating environments.

Contributions to GFCF



Source: Stats SA and PIC research

Global investment as share of GDP, 2017



Source: IMF World Economic Outlook April 2018, Stats SA and PIC research

The ratio of investment to GDP was 19.7% in 2017. This is well below the 25% threshold that characterises high-growth emerging markets. This is also generally regarded as the target ratio that ought to be maintained to ensure the required expansion of infrastructure and production capacity, and to provide for the replacement of obsolete capital equipment.

In this context, boosting gross fixed capital formation is critical to raise the economy's potential growth rate and has become a core focal area as evidenced by initiatives such as President Cyril Ramaphosa's US$100 billion investment drive. Greater policy certainty and coherent policy implementation, coupled with the bolstering of South Africa's institutional strengths, are conducive to higher confidence and commensurate investment, thus complementary features to boosting gross fixed capital formation in the long term.

South Africa recorded a **trade surplus** of R69 billion in 2017 - its second consecutive annual surplus following four successive deficits – underpinned by synchronised global growth in key trading partners and higher prices of several locally produced commodities. Exports rose by 4.8%, with mining and manufacturing exports increasing. This also reflected higher shipment of goods to Europe, Asia and America. The value of imports grew by 1.4%, depicting subdued domestic demand through the year, picking up toward the end of the year. The improvement in the trade account outweighed the slight widening in the deficit of the services, income and current transfer account, resulting in the **current account deficit** reducing further to 2.5% of GDP in 2017 (2016: -2.8%).

Looking ahead to 2018 and 2019, we anticipate export growth to continue to be supported by strong growth from increased demand among our key trading partners, and from firm commodity prices, although the slowing pace of global growth and an increasingly mature global cycle remain longer-term concerns. The downside risk to export growth stems from the implementation of protectionist policies in the US and other economies responding similarly. Imports will be exogenously impacted by rising global inflation, significantly higher energy prices and a weaker rand. Endogenously, imports will be bolstered to the extent that household demand remains supportive of import demand and where an uptick in investment may result in higher imports of capital equipment. Overall, we expect the current account to widen through 2018 and 2019.

The acceleration in domestic economic growth in 2017 was not sufficient to support meaningful job creation. The **unemployment rate** came in at 26.7% in the last quarter of 2017, a sideways movement from the 26.5% report at the end of 2016 and slightly lower than the record high of 27.7% in the third quarter of 2017. Youth unemployment remains stubbornly high above 50%. Private-sector job creation remains the only sustainable way to reduce unemployment and address the socio-economic challenges that come with it. Labour relations have improved, but employment outcomes depend on a prolonged rise in confidence and investment.

Overall, we **expect growth to reach potential growth levels** of around 2% by 2020. The South African Reserve Bank (SARB) leading indicator continues to suggest a strengthening of the business cycle.

Growth dynamics need to be viewed through two lenses, one cyclical and the other structural. Cyclical growth remains dependent on a sustained improvement in sentiment as well as short-run policy certainty on pressing issues such as the Mining Charter and the land debate. However, a cyclical uplift in growth will be insufficient to propel South Africa to the growth rates envisaged in the National Development Plan. Hence, a focus on the longer-term strategic imperatives of structural reform is required to meaningfully change the lives of South Africans.

In his maiden State Of The Nation Address in February 2018, President Cyril Ramaphosa stated the following list of priorities, which were well received by markets, and if implemented effectively, may result in a higher potential growth for South Africa:

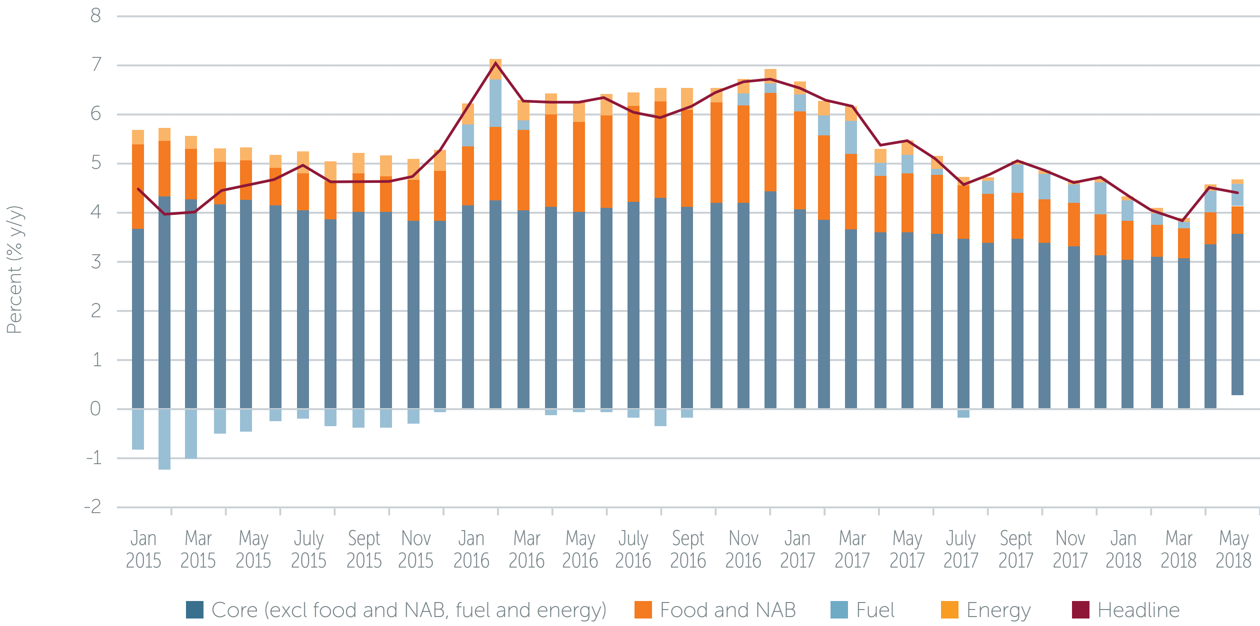
- Restoring the health of state-owned enterprises;
- Addressing the policy impasse in the mining industry, to reignite investment in the industry while addressing the need to empower workers;
- Improving job creation, especially addressing youth unemployment;
- Reviving the manufacturing sector;
- Promoting small business development;
- Growing the tourism sector; and
- Exploring digital industrial revolution opportunities.

These initiatives, when looked into at a more granular level, should address structural issues such as a more efficient state, the skills deficit and mismatch problem, spatial divides and inequality, infrastructure constraints, competitive dynamics in the product and labour markets, and refocusing where South Africa fits into regional and global value chains. This is not an exhaustive list but highlights the challenges of raising the potential growth bar to a level that is conducive to meeting our longer-term socio-economic objectives.

Global risks such as increasing trade protectionism and risks to global capital flows are significant for a small, open, emerging market economy such as South Africa, which remains heavily dependent on such flows to fund its growth. Domestically, labour unrest and societal tensions in the build-up to the election next year may pose some disruptive risk, albeit more cyclical.

Headline consumer inflation moderated significantly throughout most of 2017, as a reduction in supply-side cost pressures was accompanied by subdued domestic demand. In particular, food price inflation (with the notable exception of meat prices) decelerated significantly. The end of the drought in the northern parts of the country and a bumper 2017 maize harvest, moderate electricity price inflation and the appreciation in the rand, have all been supportive factors. Average consumer price inflation for the year slowed from 6.4% in 2016 to 5.3% in 2017, with headline consumer inflation falling below the upper limit of the inflation target range in April 2017 and remaining below 6% to reach 3.8% year-on-year in March 2018, the lowest headline CPI print in seven years. Core inflation (CPI, excluding volatile items such as food, non-alcoholic beverages, fuel and energy) eased to 4.8% in 2017 (2016: 5.6%). On the back of the improved inflation outlook, the Monetary Policy Committee of SARB reduced the repurchase rate by 25 basis points to 6.5% with effect from 29 March 2018. We expect the rand volatility and fuel price increases on the back of rising oil prices to exert upward pressure on inflation going forward, which will diminish the probability of further interest rate cuts. Given these upside risks the SARB may well begin to consider a moderate hiking cycle as we go into 2019. This is further bolstered by communication from SARB, which illustrates that over the longer term, it would prefer to anchor inflation expectations around 4.5%, corresponding with the mid-point of the targeted 3% to 6% inflation band.

Headline inflation and selected components



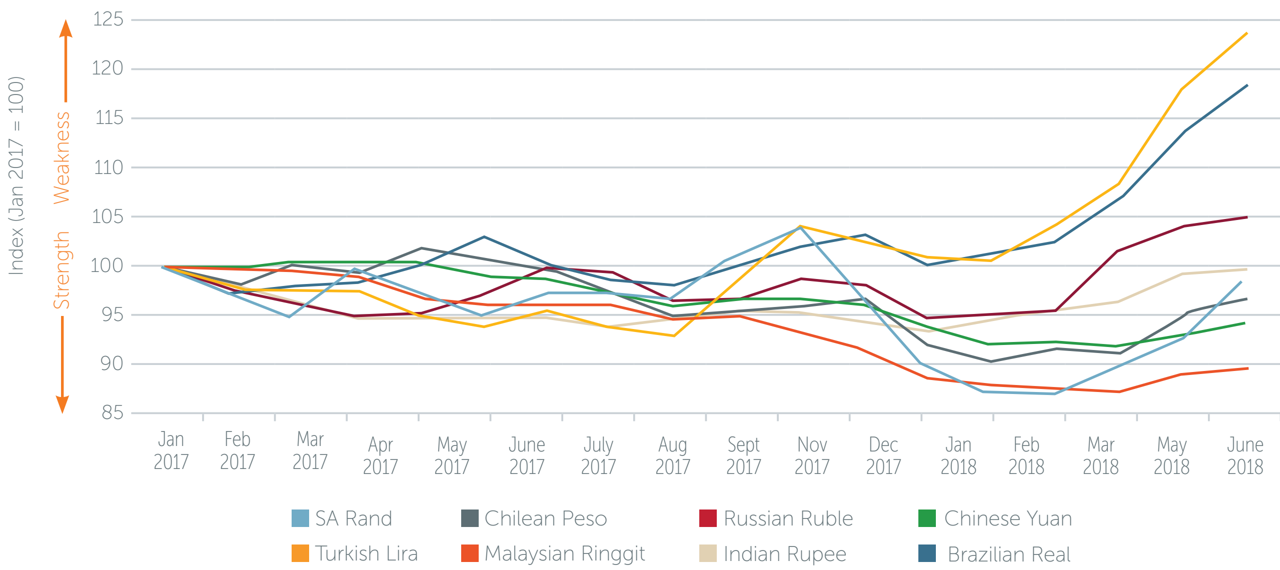
Source: Stats SA

The rand was relatively range-bound for most of 2017. Following the outcome of the ANC's elective conference, which was viewed as positive for the economy, the rand appreciated strongly all the way through Q1 2018, before pausing amid diminished global risk appetite and heightened geopolitical risks. Annually, the rand exchange rate averaged R13.31/$ in 2017 (compared to 2016's average of R14.47/$), the first year in which the rand exchange rate appreciated on an annual average basis, after five years of consecutive double-digit depreciation. The rand has been volatile in 2018 thus far, trading in a range of R11.55/$–R15.69/$ with pressure from dollar strength, general weakness in emerging markets currencies and lingering domestic policy uncertainty.

The February 2018 Budget Review presented better fiscal matrices than did the October 2017 MTBPS, on the back of an improvement in the economic outlook, and a combination of higher taxes and expenditure cuts. The 2018 Budget showed narrower budget deficits of 3.6% of GDP in 2018/19 (from -4.3% in 2017 MTBPS), stabilising at -3.5% of GDP in 2020/21. Gross government debt is projected to stabilise at 56% of GDP in 2020/21, from 55.1% in 2018/19, compared to 60.8% in 2020/21, which was communicated at the time of the 2017 MTBPS. The national government gross borrowing requirement remains high and is estimated at R224.2 billion (MTBPS: R270.7 billion), consisting of R191.1 billion for financing the budget deficit and R33.2 billion for debt repayments.

During 2017, **rating agencies** S&P, Fitch and Moody's all downgraded South Africa's sovereign credit ratings, in two of the three cases to sub-investment grade. S&P was the first mover among the international rating agencies to lower South Africa's long-term local currency rating to 'BBB-' from 'BBB' on 3 April 2017, following the late-night cabinet reshuffle in which former President Jacob Zuma replaced Pravin Gordhan as Minister of Finance. At the same time, Moody's placed South Africa under review for a ratings downgrade, later moving the sovereign currency rating from 'Baa2' to 'Baa3' in June. Moody's still perceived South African local and foreign currency debt to be investment grade, although it was only one notch away from sub-investment grade, and the negative outlook assigned signalled a potential for further downgrades. Later on in the year, following the difficult

EM currencies



Source: Bloomberg and PIC Research

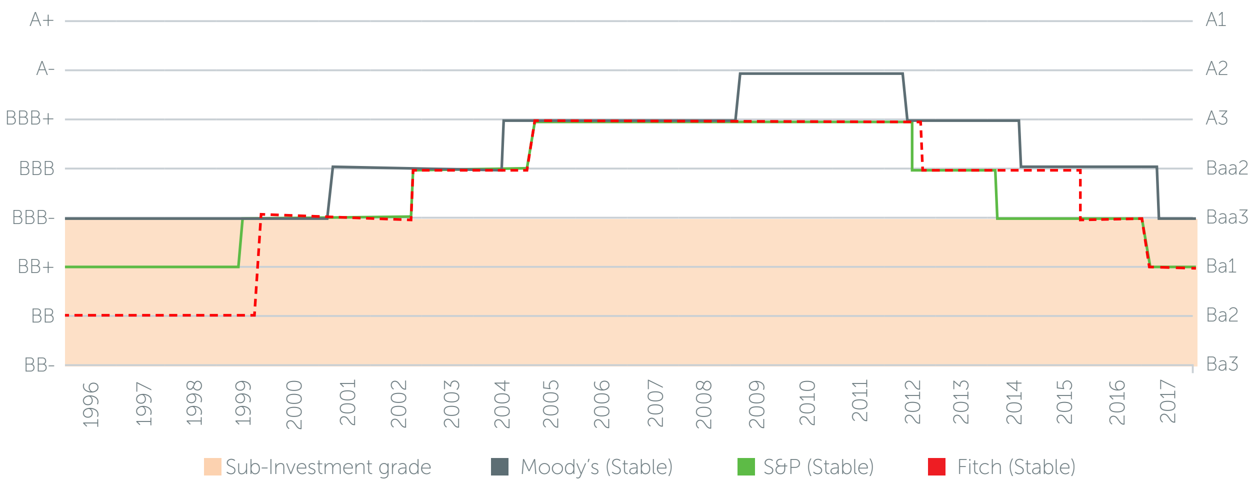
MTBPS presented in October, S&P downgraded South Africa to 'BB+' - one level below investment grade. In its statement, S&P indicated that the downgrade reflects its opinion of a further deterioration of South Africa's economic outlook and its public finances. At the same time, Fitch affirmed South Africa's local currency rating at 'BB+' after having downgraded its ratings from 'BBB-' in April, while South Africa was once again placed under review by Moody's.

Following downgrades by S&P and Fitch, South African debt was dropped from the widely used JPMorgan Emerging Market Bond Index Global. A downgrade by Moody's would see South Africa removed from Citi's influential World Government Bond Index (WGBI), which would trigger large capital outflows from the country. In its review published in March 2018, Moody's consequently affirmed the 'Baa3' rating and changed the outlook from negative to stable. The statement noted that the confirmation of South Africa's ratings reflects Moody's view that the previous weakening of South Africa's institutions will gradually reverse under a more transparent and predictable policy framework. The recovery of the country's institutions will, if sustained, gradually support a corresponding recovery in its economy, along with a stabilisation of fiscal strength'.

The outlook for rating agencies remains neutral. Rating agencies remain concerned about the weak pace of economic growth and our large fiscal debt burden. The extent of contingent liabilities on the fiscus emanating from state-owned enterprises remains a key concern for all the rating agencies and is likely to remain a key feature for some time.

More recently, Moody's has expressed concern that the land debate may deter investment. South Africa is not out of the woods yet. The fiscal situation remains fragile and any further fiscal deterioration could result in further downgrades. Stronger growth outcomes following successful and timely implementation of structural reforms could result in upgrades and, as such, South Africa remains finely balanced on the last cusp of investment grade rating.

Local currency ratings



Source: S&P, Fitch and Moody's

Synopsis

The outlook for the domestic economy remains challenging. While South Africa has turned the corner cyclically, it has done so within an increasingly less constructive global backdrop. The maturity of the global business cycle may well limit the extent and duration of the cyclical recovery. South Africa's vulnerability to global sentiment and commensurate capital flows remains larger than ever, with foreign ownership of government bonds around 50%, almost six percentage points higher than a year ago.

Domestic idiosyncratic risks have abated. Confidence appears to have returned, but remains tentative in some quarters, premised on higher tax burdens and continued social pressures. We expect growth to recover to around 2% over the next two years. The fiscal backdrop remains fragile and more work is needed to enhance the efficiency of the state and incentivise greater private sector participation.

Inflation remains contained, but the impetus from an easy monetary policy cycle will dissipate as global monetary policy starts to normalise, spilling over to emerging markets such as South Africa. For now, monetary policy remains finely balanced and well communicated, with the SARB recognised as an institution of international renown.

South Africa's market-focused macro-economic policies and independent institutions are vital to maintaining a stable platform for investment and providing a buffer against global volatility. Deep and liquid financial markets also support both public- and private-sector borrowing. However, these criteria are necessary, but insufficient, in and of themselves, in driving sustainably higher growth.

These fundamentals, in combination with the timely implementation of deep structural reforms across the economy, should lift potential growth, but this is a long-term commitment. In addressing the quick wins of a cyclical turnaround, South Africa would do well to not lose sight of the long-term objectives that may be painful at first but that are necessary to ensure a sustainable and prosperous future.

Listed Investment Portfolio

The contribution of Listed Investments towards the PIC's vision, 'To be a global leader in impactful investing is made through the following:

- Aligning the focus of the PIC investments with the objectives of the NDP, focusing specifically on SOE infrastructure projects;
- Integrating ESG principles across investment processes (direct engagement and active proxy voting);
- External Manager Programme for growing sustainable black-owned asset management businesses; and
- Adoption of broad-based black economic empowerment (B-BBEE) in all aspects of our business.

Internal listed property portfolio had an exceptional three year performance

0.84%** compared to the benchmark (SAPY) performance of **-0.47%

Highlights for the 2017/18 Financial Year

- Delivering superior returns for our clients;
- Strategic investments in companies listed on the JSE that advance the transformation of the South African economy;
- Continued support for black stockbroking businesses through internal trading processes and by mandating external managers to allocate 40% of their brokerage to black stockbrokers;
- Enhancing the quality research portal on the Top 60 companies listed on the JSE; and
- Significant investments on the African continent through direct investments.

Key Achievements

Notable transactions concluded during the 2017/18 financial year:

R400 million invested in RH Bophelo Limited to transform the private hospital sector and provide healthcare services to the broader population

R1.2 billion invested in African Rainbow Capital Investments Limited to transform the financial services sector of the JSE

Strategic investment in Vodacom Tanzania worth **R1.1 billion**, which will stimulate economic growth in the region through the provision of quality communication and data services

US$350 million invested in Dangote Cement PLC, the leader in cement production and corporate profitability on the continent, with a presence across sub-Saharan Africa. This investment affords our clients exposure to broader infrastructure projects and a rapidly expanding consumer market in fast-growing economies on the continent

Divisional Performance against the PIC Corporate Plan

The performance of the Listed division was measured against the following key strategic objectives:

- Delivering returns in excess of our client benchmarks while complying with clients' risk parameters. This goal was achieved for the 2017/2018 financial year;
- Contributing to economic growth through listed investments in Africa (non-domestic). This was achieved through allocations directly into the market;
- Facilitating B-BBEE and skills development through our investment activities. This was achieved by allocating a minimum of 55% of total brokerage to brokers certified at least on a level 1 - 4 BEE rating, based on the new B-BBEE Codes, and with 51% ownership by historically disadvantaged individuals (HDIs) and 30% management control by HDIs; and
- Generating quality investment research that supports our investment decisions. This was achieved by the coverage of the Top 60 companies through the new research portal.

Portfolio Performance

The Listed Investments portfolio outperformed the composite index over the three-year period to 31 March 2018. The listed equities portfolio outperformed the benchmark over the period. Performance has improved significantly on a risk-adjusted basis, due to portfolio positioning in key sectors.

The internal listed property portfolio had an exceptional performance over this period (0.84% annualised over the three years to 31 March 2018, compared to the benchmark (SAPY) performance of -0.47%, resulting in an outperformance of 1.32%).

Global and domestic geo-political uncertainty, and the possibility of a downgrade to our investment grade posed challenges in making investment decisions during the period under review.

Weak GDP performance, combined with political uncertainty, reduced the ratings of listed companies that have a large exposure to the South African economy. This placed pressure on the share prices of local retailers, banks and industrial companies, despite trading at discounts to their intrinsic values. A relief rally was observed following the change of leadership in the South African Government during the last quarter of 2017/18. However, much of the positive market sentiment softened on release of economic data that indicates that South Africa's GDP growth is currently below potential.

On the other hand, companies with a large exposure to the global economy, such as resource companies and Naspers, delivered strong returns.

Our goal remains to deliver sustainable equity returns for our clients over the medium-to long-term. The PIC recognises that events beyond its control occur periodically and if these fundamentally change the outlook for its investments, it makes appropriate interventions. Our approach to unexpected 'negative events' is to look for opportunities to buy more of certain stocks if prices become cheaper.

Divisional Contribution to B-BBEE and Transformation

The PIC shares the general concerns about the slow pace of transformation in the financial services sector and has, therefore, stipulated that at least 55% of the equities brokerage allocation be channelled to brokers whose BEE credentials are in line with the PIC's requirements.

Over the last three financial years, we have increased the percentage of brokerage spend to BEE brokers from 40.9% in the 2014/15 financial year to 72.56% during 2017/18, with the intention of improving this over the medium term.

Our participation in the initial public offerings of special purpose acquisition companies (SPAC) and other BEE transactions on the JSE continues to transform the economic landscape of South Africa.

Contributing to Job Creation

The PIC's continuous participation in rights issues and initial public offerings to support the expansion of businesses contributes to job creation across different sectors of the economy.

The Listed Equities team invested in numerous SPAC listings that have community and business development initiatives to facilitate employment in the respective industries.

By increasing the brokerage paid to BEE brokers, the PIC contributes to the creation of stronger BEE brokers, where more jobs in equity trading and research are created.

Outlook

The PIC team believes that the slowdown in the macro-economic environment, with the contagion resulting from a trade war between the US and its trading partners, notably China, will have a knock-on effect on emerging markets and investment returns on the JSE. However, we expect this to be resolved over the coming months. This could result in a total return of approximately 8% over the next 12 months.

Local macro-economic fundamentals remain at relatively poor levels, which has put a strain on landlords across the board in the listed properties portfolio. This has affected local listed property counters, as lease negotiations in this environment are resulting in lower rentals being achieved and the duration of leases shortening, given the uncertainties in the economy. Higher global interest rates have also put a strain on the asset class, as a fair amount of the shares have foreign currency exposure. The asset class appears to present some value relative to its historic performance, but investors will have to be more discerning in the choice of companies to invest in over the medium term.

The JSE is trading at a 15% premium to its ten-year average P/E ratio and, therefore, stock selection will be key to excess returns.

The Listed Investment team will continue to focus on adding value by outperforming client benchmarks in terms of their risk and return objectives. The Listed Equity Research team aims to enhance the coverage of Top 60 companies while making selective investments into the rest of Africa and laying the foundations for building our capability to invest in global equity markets.

Fixed-Income Market Overview

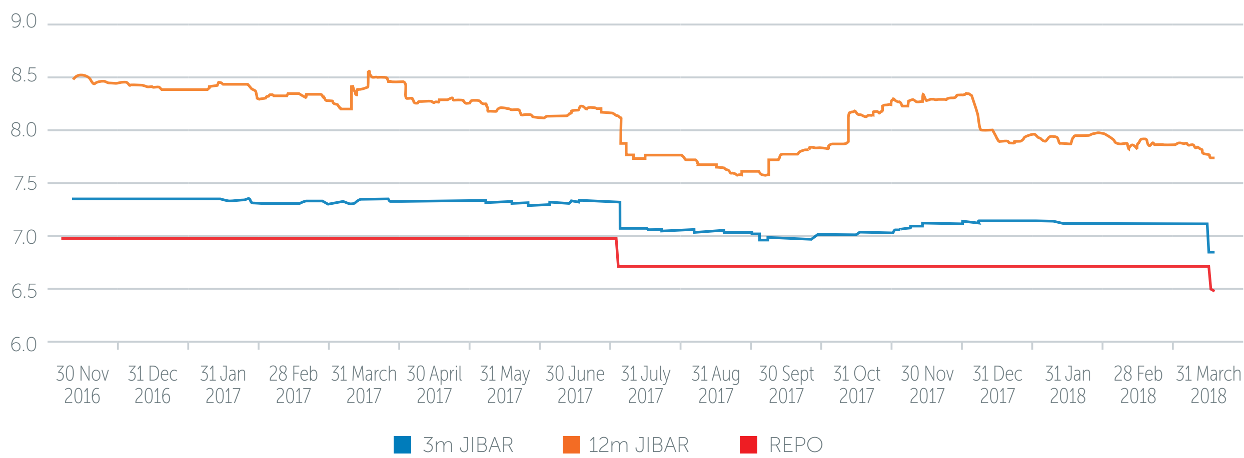
Money Market

In July 2017, SARB's MPC decided to reduce the repurchase (repo) rate by 25 basis points (bps), from 7.00% to 6.75%, citing an improved inflationary outlook, subdued domestic demand pressures and a decline in international oil prices. However, in the second sitting on 21 September 2017, the committee, much to the surprise of the market, left the policy rate unchanged.

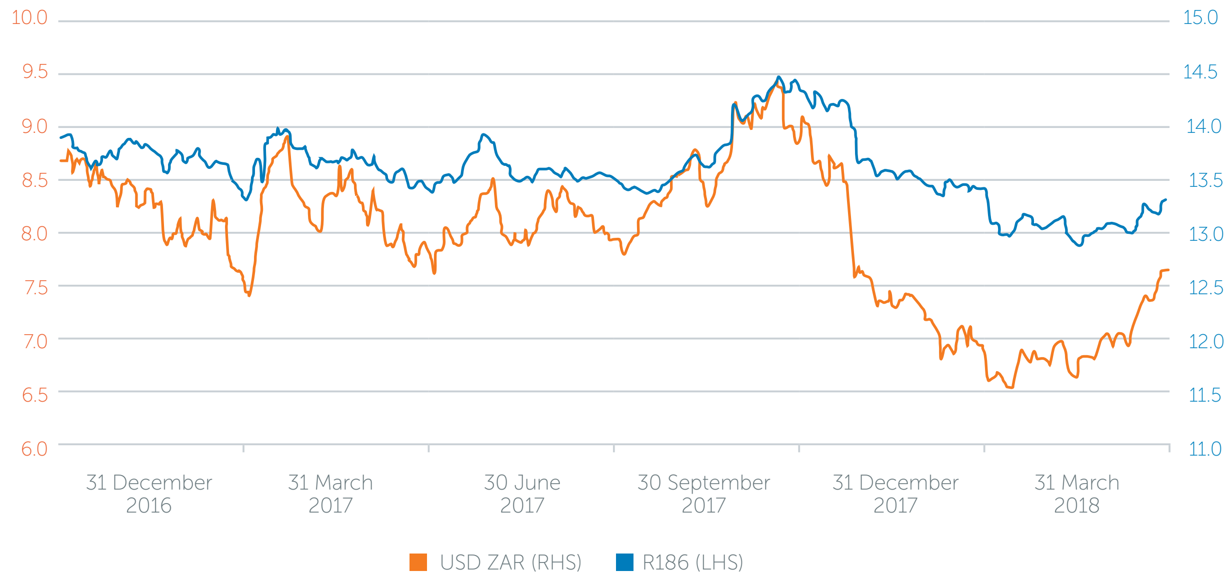
Despite the repo rate being unchanged throughout Q4 2017, money market rates were volatile, especially at the long end of the money market curve, where the market was expecting higher rates going forward, as implied by the weakening rand exchange rate in November 2017.

The MPC then cut its policy repo rate again in March 2018, by 25 bps to 6.50%, in line with consensus expectations, and gave no indication that further interest rate cuts would ensue. The Governor of SARB made it clear that the March 2018 repo rate cut could not be viewed to imply the beginning of a monetary easing cycle and that future interest rate decisions would be economic data-dependent and be sensitive to the assessment of the balance of risks to the economic outlook.

Money Market Rates



R186 Bond Yield and US$ZAR



Bond Market

The South African bond market was very volatile in 2017. Political events in Q4 2017, and the accompanying policy uncertainty left local bond yields extremely vulnerable, given that foreigners remain the largest holder of domestic bonds. The benchmark R186 bond (maturing 2026) traded at a high of 9.50% during November 2017.

Event risks unfolded over the final quarter of 2017, in particular, the MTBPS in October 2017. The MTBPS was viewed as bond negative, relative to what was anticipated by the market, as the chances of credit downgrades increased substantially. Following the MTBPS, the rand weakened sharply to break above R14 to the US dollar, with bonds following suit. See Chart above.

The December 2017 ANC elective conference took place when the bond market was trading thinly over the festive season, thereby providing further event risks. Both the currency and bond markets reacted very well to the outcome of the elective conference, with R186 trading close to 8.5% from a previous high of 9.5% during Q4 2017.

Sentiment towards South African bonds was justifiably more positive at the beginning of 2018, where we saw continued foreign investor buying interest, presumably on the back of the carry-trade and improved domestic fundamentals, which were positive for local bond yields. Foreign buying was, however, the biggest contributor to the downward shift seen across the yield curve. The year 2017 saw foreigners buying a net of R53.5 billion worth of South African bonds. Foreigners now own 48.9% and 5.6% of conventional and inflation-linked bonds respectively.

National Treasury (NT) announced after the February 2018 Budget that it would reduce the size of weekly nominal bond issuance from R3.3 billion to R2.4 billion, and the size of weekly inflation-linked bond issuance from R900 million to R600 million. Although NT signalled at the 2018 Budget that it would reduce the pace of issuance, the market was not expecting such a substantial moderation in bond supply.

The Moody's rating review on 23 March 2018 came with a positive surprise, as the agency not only affirmed SA's investment-grade Baa3 rating but also upgraded its outlook to stable from a downgrade warning. We believe that credit ratings have bottomed, but do not expect rating upgrades soon.

Brokerage

The PIC Fixed Income team channelled 99% of brokerage to counterparties with level 3 or better BEE rating. This reflects a significant jump from the reported 87% brokerage during the previous financial year, 2016/17. The Fixed Income team remains committed to appropriately rewarding counterparties that promote economic and social transformation.

Impact Investing

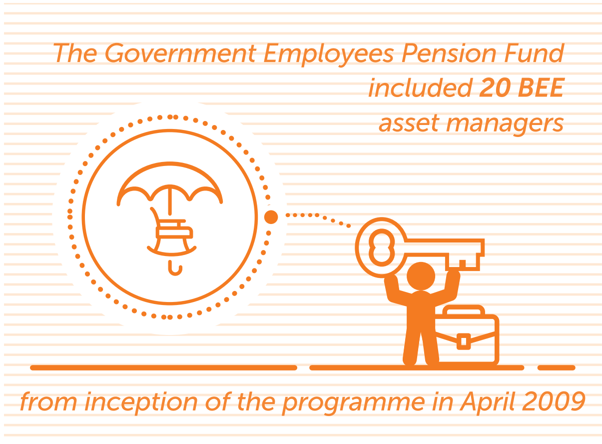
The Fixed Income team continues to look for opportunities that provide positive economic, social and governance attributes. Therefore, Social Responsible Investment (SRI) is a theme across the PIC fixed income portfolios. This impact investing has been achieved mainly by investments in SOEs, which are a key driver of economic development in South Africa. Unfortunately, SOEs have been facing problems such as poor corporate governance, corruption and state capture, which have constrained them in raising funds through public bond auctions. The PIC did not make significant SOE investments during the period under review, as there were a few placements with SOEs on a short-term government guaranteed basis.

Performance

Money market portfolios outperformed the Short-term Fixed Interest (STEFI) benchmark, while bond portfolios under-performed against the ALBI benchmark during the period under review. However, on a 24 and 36-month rolling basis, the PIC client bond portfolios outperformed the benchmark.

Externally Managed Funds – The B-BBEE Developmental Manager Programme

The PIC started the B-BBEE Developmental Manager Programme in 2009 to transform the asset management industry by increasing black participation and the number of black investment professionals (particularly black women) in the industry. This was given effect through increased allocations to black asset managers and holding the traditional, large, established firms accountable to transformation targets within their businesses.



At inception, R64 billion was allocated across 18 mandates in the domestic listed equity and listed property asset classes - seven of these mandates were managed by black-owned firms. Over 80% of the assets were allocated to established firms.

By the end of the 2017/18 financial year, externalised assets had increased to R171.2 billion through market movement and additional flows. At 31 March 2018, R103.4 billion (i.e. 60%) of externalised assets were managed by black-owned firms across domestic asset classes.

At 31 March 2018, the Government Employees Pension Fund (GEPF) composite of external asset managers included 20 BEE asset managers, who were appointed between April 2009 and June 2017.

The programme's success is evident in the contribution these managers have made to the performance of our client portfolios, as well as in their ability to run growing, sustainable businesses that have managed to gather additional assets. At inception on average, 55% of these managers' assets were allocated by the PIC. By March 2018, this number has reduced to an average of 32%, as these managers acquired new clients and assets.

The BEE Developmental Manager Programme plays an integral role in providing managers with the opportunity to build a track record, which provides an opportunity for further asset growth by asset consultants and multi-managers.

Nine of the managers listed here have graduated from the Developmental Manager Programme into our established composite, having demonstrated the necessary skills in the investment process, proving that achieving transformation objectives and alpha-generation objectives are not mutually exclusive.

During the 2017/18 financial year, the Externally Managed Funds team approved an additional R6 billion to black-owned firms, after the successful implementation and allocation of the Request for Proposal (RFP).

The newly appointed fixed income managers, at inception on 1 June 2017, have had a good first year as they deliver positive alpha to client portfolios.

The conclusion of the global fixed income selection process was another highlight for the Externally Managed Funds team over the financial year.

BEE asset managers appointed: April 2014

For confidentiality, the names of the external asset managers are not disclosed.

BEE External Asset Managers	Portfolio Inception Date	Total AuM at Inception (Rbn)	PIC Allocation as a % of AuM at Inception	Total AuM (Incl PIC) as at 31 Mar '18 (Rbn)	PIC Allocation as a % of AuM 31 Mar '18
Manager 1	09-Apr	4.9	20.00%	27.2	33.09%
Manager 2	09-Apr	11.9	24.00%	38.75	16.26%
Manager 3	09-Apr	0.3	67.00%	13	30.77%
Manager 4	09-Aug	2.2	59.00%	49	37.76%
Manager 5	09-Aug	4.6	28.00%	28.6	27.27%
Manager 6	10-Apr	0.6	81.00%	6.49	67.80%
Manager 7	10-Apr	0.6	83.00%	18	44.44%
Manager 8	11-Apr	1.6	63.00%	13	33.08%
Manager 9	13-Apr	13.9	18.00%	21.37	23.40%
Manager 10	13-Apr	0.7	71.00%	11.5	32.17%
Manager 11	13-Apr	1.4	71.00%	5.8	65.52%
Manager 12	14-Apr	0.5	100.00%	3.1	48.39%
Manager 13	14-Apr	1.3	40.00%	4.46	13.45%
			Average: 55.80%		**Average: 36.40%**

Growth in Staff complement since PIC allocation

Environmental, Social and Governance - Listed Portfolio

The PIC believes in the highest standards of business practices and ethics. The PIC is committed to delivering positive, sustainable returns to its clients through integrating Environmental, Social and Governance (ESG) considerations as the fundamental principles of its investment processes. The PIC has maintained its memberships with the United Nations Principles for Responsible Investment (UNPRI) and the United Nations Global Compact (UNGC) and subscribes to the Code for Responsible Investment in South Africa (CRISA). The PIC remains an active investor in all investee companies and has embedded ESG factors in all investment decisions.

The PIC believes that a strong commitment to the highest standards of business ethics and sound corporate governance is essential to creating long-term value for clients.

The PIC ESG investment practices are guided by the following:

- ESG policy for listed equities;
- ESG policy for fixed income;
- ESG policy for public entities/SOEs; and
- ESG policy for unlisted investments.

These policies are supplemented by bespoke ESG metrics that inform analysis and decision-making and are specific to each of the following sectors:

- Financials;
- Industrials;
- Property;
- Retailers;
- Resources; and
- SOEs.

The PIC's responsible investing activities, which have been integrated with its investment process, include –

- Conducting ESG quality reviews:

  The ESG team delves into the core of an investee company's controls, its sustainability strategy, its social responsibility intent and, ultimately, its commitment to all stakeholders. Reviews are based on publicly available information, which includes the investee company's annual financial statements, sustainability reports, and information displayed on its website. Reliance is placed on the audit and risk reports. The company assessment includes thorough interrogation of the investee company's business model, its practices and risks, as well as its regulatory compliance. Best practice dictates disclosure on ESG issues by investee companies as well as timeous reporting on activities and progress towards implementing responsible practices. This informs the ESG rating, calculated using the PIC's ESG rating metrics, to measure investee companies' ESG compliance and identify areas for engagement.

- Exercising voting rights (proxy voting):

  The PIC makes its listed equities proxy-voting reports publicly available on its website, in adherence of best practice and CRISA principles. Proxy voting reports are updated quarterly. Should the PIC not support a particular resolution and vote against it, and the motion carries with other shareholders voting differently, the matter against which the PIC votes then becomes an engagement item with the investee company.

- Liaison with investee companies:

  The ESG team participates in various meetings with the management teams of investee companies to address concerns.

- Influencing the ESG landscape through shareholder activism.

ESG Policy for Public Entities/SOEs

SOEs are central to economic growth, job creation, building capability and technical capacity of the State. The role of SOEs and Development Finance Institutions (DFIs) is crucial to advance the National Development Plan (NDP) goals. The PIC is currently one of the largest holders of domestic bonds issued under the issuers' Domestic Medium-term Note (DMTN) Programme and those listed on the Johannesburg Stock Exchange (JSE).

The PIC governance framework includes the ESG policy for public entities/SOEs (supplemented by bespoke SOE ESG metrics), which outlines the ESG principles and practices expected of public entities in which it invests. The PIC applies these principles and the investment performance of SOEs in its decision-making processes when it participates in SOEs funding programmes. SOE financial instruments are unique types of investments that do not afford investors the active ownership, engagement and investor collaboration opportunities of, for example, investments in listed equities. However, this does not relieve the PIC from its duty to address ESG matters in these entities.

Metrics are used to screen ESG practices of SOEs across all three ESG categories, which, in turn, comprise 15 subcategories and indicators. They highlight the interaction of disclosure, compliance and performance, with the emphasis on performance. Scoring is done annually or when the PIC is alerted to concerns. The PIC will not immediately disinvest from SOEs due to a poor ESG score but will use the score to inform its engagement with the entity.

The metric results inform an SOEs ESG base score before investment and post-investment engagements. The PIC may request an SOE to comply with certain requirements. ESG ratings are conducted using publicly available information such as annual reports, sustainability reports and websites.

The PIC's view is that governance is a crucial component in ESG/responsible investing. Good governance ensures that the required environmental and social standards of the entity are met. The PIC expects SOE Boards to have strong independent Non-Executive Directors, and display an appropriate balance of power and authority, with Board members preferably electing the chairperson. Board members are expected to discharge their fiduciary duties to the SOE, to act independently with unfettered discretion, to exercise independent judgment and not to succumb to political interference (with clear distinction on the roles of the executive authority, the Board and the Executive Management). The PIC expects at least 75% attendance record by each Director at all meetings.

The PIC remains committed to entrenching sound responsible investments in corporate and investee companies and continues to expand and strengthen its team to conduct detailed research and ESG reporting of investee companies.

ESG at the Core of Stocks Selection

The PIC's belief is that good governance creates sustainable returns. Being a long-term investor, consideration of both financial and non-financial factors in company analysis offers an opportunity to better understand the risk profile of a company and the possible impact on investment returns. The integration and analysis of ESG factors are important in the investment process. With the assistance of an internally developed risk-based ESG tool, the PIC is able to identify risks and opportunities that may impact on investee companies. Those issues then serve as engagement matters with portfolio investee companies.

PIC influencing the Regulatory Landscape

The PIC has been an advocate of Mandatory Audit Firm Rotation (MAFR) since 2016. Voting records dating back to May 2016 indicate how long the PIC has been concerned about the risks that long-term auditor-client relationships pose to the auditor's independence. The PIC supports the MAFR ten years interval to uphold the principle of independence.

Sustainable Development Goals and ESG Factors

The UNPRI advocates that long-term investors invest responsibly and integrate ESG principles in investment processes. Investee companies are, in turn, required to consider ESG factors in business operations. The PIC has long been involved in exercising its social responsibility in society. Thus, the integration of ESG in its investment decision-making processes has helped to entrench a firm alignment to the global Sustainable Development Goals (SDGs) 2030 for the way it invests in companies.

ESG engagements provide the PIC with an opportunity to monitor this alignment with SDGs in the business. The PIC has adopted a view that the SDGs provide a practical framework for the institution's engagement activities.

Engagement Themes

The PIC is an active investor and regularly engages investee companies. This enables it to develop an integrated view of the investee companies' affairs, both financial and non-financial.

The PIC has chosen an activist engagement model. Whilst such interactions with investee companies are continuous, the materiality of an issue/s guides the frequency of engagement/s with investee companies. Engagements can take the form of one-on-one meetings with companies, written communications and telephone calls.

Investee companies have continued to respond positively to the call for greater transparency and accountability. This is evidenced by the growing number of companies responding to the PIC's call to engage on myriad issues to promote better corporate governance.

Engagements with Partner Companies

During the reporting period, the principles for engagement and for building partnerships were given effect through:

- Site visits, which provided the opportunity to periodically review investee companies' ESG practices, to ensure that they comply with regulations and that they align these with best practice principles. These visits tend to be targeted towards high- and medium-rated risk investments;
- Numerous post-investment monitoring meetings with investee companies during the year; and
- Collaboration with other South African-based asset managers on the Steinhoff International Holdings corporate governance failure.

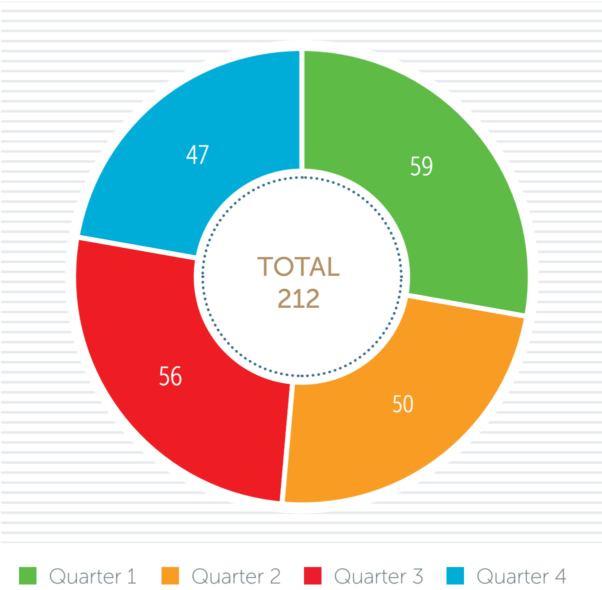
Recurring Engagements Themes

The recurring themes across the dominant economic sectors in which the PIC engaged on at company level during the period under review were:

		Financials	Industrials	Properties	Resources	Retailers
1.	Board composition and succession planning					
2.	Transformation					
3.	Remuneration policy					
4.	Efficiencies, biodiversity					
5.	Labour practice disclosures					
6.	Supply chain practices					
7.	Capital structure					
8.	Health and safety					

The increased number of engagements below validates the impact that the PIC is having, with an increasing number of investee companies showing willingness to engage on ESG matters.

ESG Listed - Total Engagements For The Year



Proxy Voting

The PIC seeks to support and enhance its investment rationale in investee companies through appropriate engagement and the subsequent exercise of voting rights. The PIC votes at all investee company meetings and on all resolutions. To ensure transparency, the PIC publishes its voting records on its website every quarter. The PIC ESG team is responsible for performing analyses on all resolutions brought to shareholders for a vote.

Before finalisation of the votes, the PIC engages proactively both internally and with the investee companies to express its rationale for voting on a particular matter. Investee companies will then receive written notification on how the PIC will vote and the reasons will be recorded when the PIC votes against a resolution. The votes are then submitted to the PIC's custodians for processing. There will be instances when the PIC will be represented at a meeting through a delegated official to cast a vote in person.

The following figures illustrate all the listed company meetings held during the 2017/18 financial year, where the PIC exercised voting rights on behalf of all its clients. The PIC has increasingly voted against the following resolutions:

Appointment of Audit Committee Members

The PIC values the role of audit committees in investee companies as they safeguard the interests of all shareholders. It supports the principle encapsulated in King IV that the audit committee should comprise independent Non-Executive Directors.

Approval of Remuneration Policy

The PIC supports the principle that companies should remunerate fairly and responsibly. Companies should adopt remuneration policies that create sustainable value for shareholders over the long-term. Short- and long-term incentive schemes should be tied to performance conditions that are within Management's control and that are consistent with long-term value creation for shareholders. Non-financial indicators should form part of the company's key performance indicators (KPIs) to ensure sustainable future financial performance. For example, transformation in all investee companies and workplace safety requirements for mining companies are indicators that ought to be implemented diligently. Adherence to these will improve financial returns as a result of bringing diversity into the business and fewer work stoppages, as a result of workplace accidents.

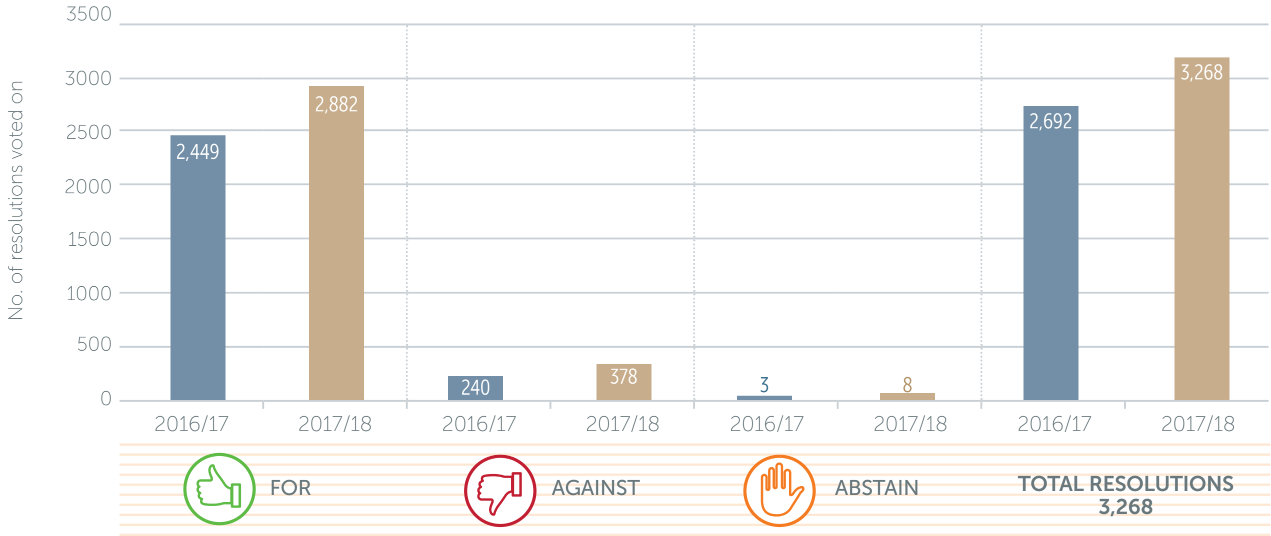
Reappointment of External Auditors

The PIC continues to support mandatory audit firm rotation to ensure independence. It is certainly telling that the spotlight has shone brighter on some of the most prominent external audit firms over the past few months, with allegations of misconduct and misrepresentation.

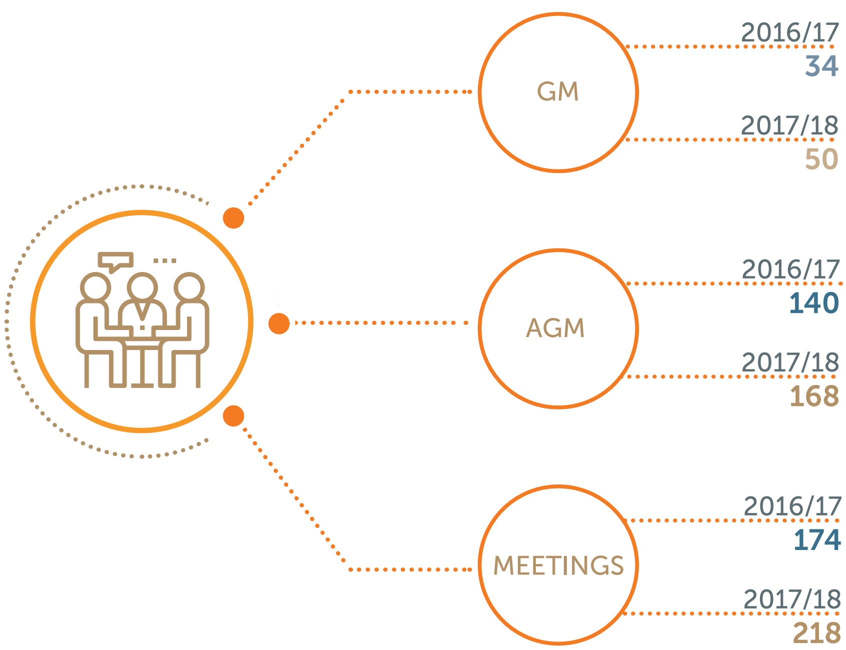
Capital Structure

The PIC prefers a fully motivated resolution on placing shares under the control of Directors; and issuing shares for cash and other related share capital resolutions, which are above a 5% limit, as stipulated by the PIC ESG Policy, to avoid the potential risks of diluting shareholder value or the poor implementation of an acquisitive strategy.

Analysis of Total Voting Summary for the Year



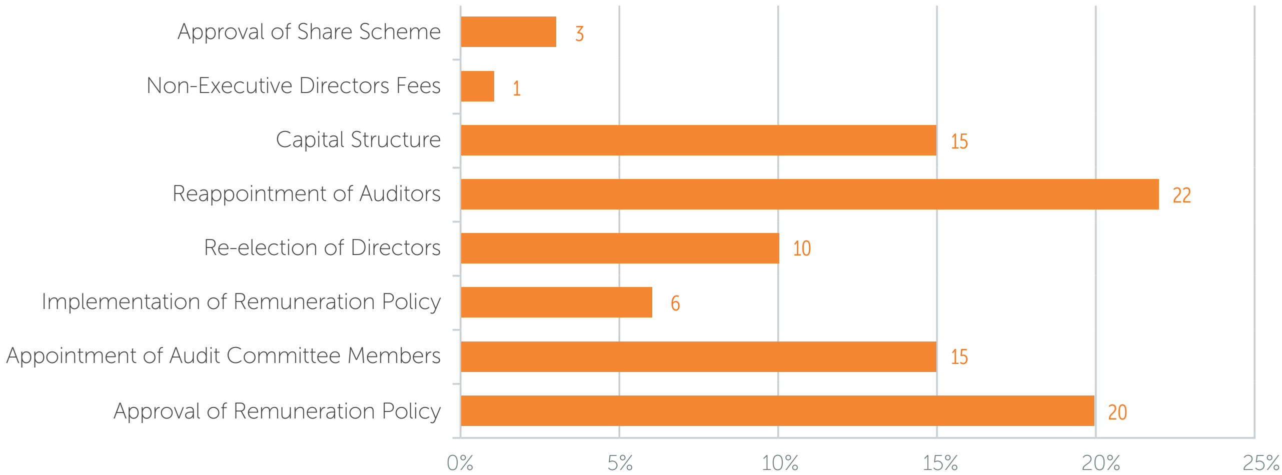
Analysis of Meetings per type



Total voting summary – 1 April 2017 to 31 March 2018

	Meetings	AGM	GM	Resolutions	For	Against	Abstain
Property	52	35	17	702	629	73	0
Investment Services	27	21	6	364	300	61	3
Consumer	42	32	10	627	534	91	2
Industrial	24	22	2	430	372	56	2
Insurance	7	7	0	162	151	11	0
Banks	5	5	0	121	112	9	0
Resources	40	31	9	593	545	47	1
Telecoms	8	5	3	77	71	6	0
Construction and Engineering	5	3	2	55	45	10	0
Healthcare	8	7	1	137	123	14	0
Totals	**218**	**168**	**50**	**3,268**	**2,882**	**378**	**8**

Breakdown against votes



Navigare

CASE STUDY

In 2016, Navigare started on a journey to build a legacy of sustainable transformation and empowerment in the stockbroking industry, by seeking opportunities to partner with the PIC to advance black professionalism in the financial services sector.

The South African financial markets structure are sophisticated and complex. The regulatory environment evolves constantly, with new obligations for financial services providers. Its position as an emerging black-owned enterprise with limited resources (financial, technological and human capital) constrains its ability to compete effectively with peers.

In the stockbroking business, consistent business flow is important for growth. Order flows from the PIC equity-dealing desk provided Navigare with revenue growth through commissions earned, provided regular business flow to take to market and engage with other institutional clients, and assisted in building capacity on three fronts - execution, settlements and compliance.

The firm has successfully launched a pioneering research offering in NavigareLabs, a portal developed for the PIC that has a single entry point to access company information that can meaningfully inform investment decisions. The product draws on information from third-party data providers, coders/developers and quantitative analysts.

The institutional investor market has matured and compels smaller brokers such as Navigare to look to other revenue streams. It has been successful in launching a securities lending and borrowing business and secured a mandate to manage an equity book of R1.8 billion for securities lending, which has since been extended to a bond portfolio. Through a joint venture with Computershare, it provides a lending and borrowing service to the smaller broker community, especially emerging black-owned stockbrokers. This is an important contribution to transformation and there are now four lenders on its book and 23 active borrowers.

Navigare is positioning itself to become a world-class financial services provider that better understands its customers through focused engagement. The expansion of NavigareLabs to the broader business community will be critical for further development.

Navigare is thankful to the PIC for choosing it as a partner of its B-BBEE broker programme and a companion on the transformation journey.

CASE STUDY

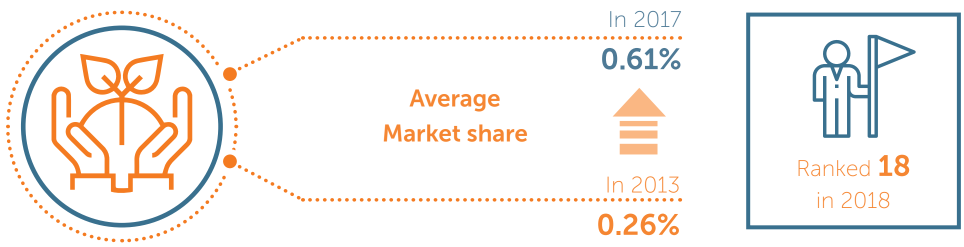
The PIC contributes meaningfully to **Legae**'s growth

Legae Securities has experienced substantial growth as a result of continued support from the PIC through the BEE Developmental Management Programme.

Legae Securities was established in 1996 as the first black-owned and managed stockbroking firm registered as a member of the JSE. It provides equity brokerage services and boutique research to institutional, corporate and private clients.

The industry has gone through many changes since Legae's market entry. BEE brokers have suffered as a result of rising costs, lack of balance sheet backing and decreased commissions. It is proud to be celebrating 22 years of operations in September 2018, having endured and grown the business during turbulent times.

Legae's average market share, according to JSE statistics, increased from 0.26% of the market in 2013 to 0.61% in 2017. It's ranking by value traded went from 32 in 2013 to 21 in 2017 and to date in 2018, it is 18.



The increased flow and business Legae has received have enabled it to introduce additional products and expand its offering. Its research team has grown from two analysts covering a more generalised sector to a team of seven. Focus is on providing sustainability research in the domestic market, dovetailing the firm's founding principles and its commitment to responsible and sustainable investment. Legae was the first black stockbroking firm to become a signatory of the United Nations Principles for Responsible Investment (UNPRI). Its ESG coverage started in 2015, and it has been ranked second in the industry by the Financial Mail's Ranking of the Analysts Awards since 2015.

In addition, Legae initiated coverage of the healthcare sector this year. Junior analyst Dr Anuja Joshi has been under the guidance and mentorship of a senior analyst in the industry, who assisted her in producing an initiation report. Anuja has since continued to provide coverage of the sector.

Legae is incredibly proud of one of its junior analysts, Mbongeni Mtimkulu, who recently graduated from the two-year Legae ST^2 Graduate Programme and was offered a permanent position in the team. Mbongeni placed second in the 2018 Financial Mail Young Analyst Awards.

Legae traditionally provided trading in local equities and now offers trading in 23 international markets. The firm has upgraded its algorithm capability and is migrating to a new, enhanced trading platform later this year. It recently participated in two accelerated book builds, in excess of R2.4 billion.

With the increase in the volume of trades and allocations, there was a need to improve the efficiency, speed and accuracy of the allocation process. A new system was designed to upload 200 trades at a time, which has decreased allocation time and reduced the number of errors incurred during manual uploading. From inception, Legae has been actively involved in transforming the financial services landscape, supporting underprivileged communities and facilitating skills transfer through the Legae ST^2 Graduate Programme. It is strongly focused on what really matters: the promotion and development of its people.

In 2015, the South African Institute of Stockbrokers introduced a new accredited learnership, the Financial Markets Practitioner Learnership. Legae was proud to be the first company to register learners on the learnership and become an approved workplace skills provider. It has remained committed to the provision of the learnership and, to date, has trained 12 learners.

Legae is proud to be known in the industry for its passion for transformation and development. Some of the initiatives include a one-day stockbroking programme for students, courses for newcomers and graduates entering the financial industry, and active mentoring and promotion of growth within the team.

Retention of scarce-skilled professionals is challenging, but Legae has a loyal and dedicated workforce, which it recognises as one of its most valuable assets.

Legae has been at the forefront of exciting business opportunities and recently bought a stake in the newly launched Equity Express, a trading platform that seeks to bridge the gap between the over-the-counter market and the listed environment.

Following the Competition Commission approval, the management of Legae Securities, Peregrine Securities and others have formed a black economic empowerment consortium that has made a firm offer to acquire a 65% stake in Peregrine Securities. The consortium will merge to form Legae Persec, a globally competitive, black-owned and -managed financial services firm, able to meet the changing needs of South African clients. The firm's growth and development reflect the meaningful impact of the PIC's BEE Developmental Management Programme on empowerment and transformation, and Legae remains confident that it is well positioned to meet the challenges of a tough environment and remain focused on the delivery of its strategy.

Legae Securities is the first black-owned and -managed stockbroking firm registered as a member of the JSE

CASE STUDY

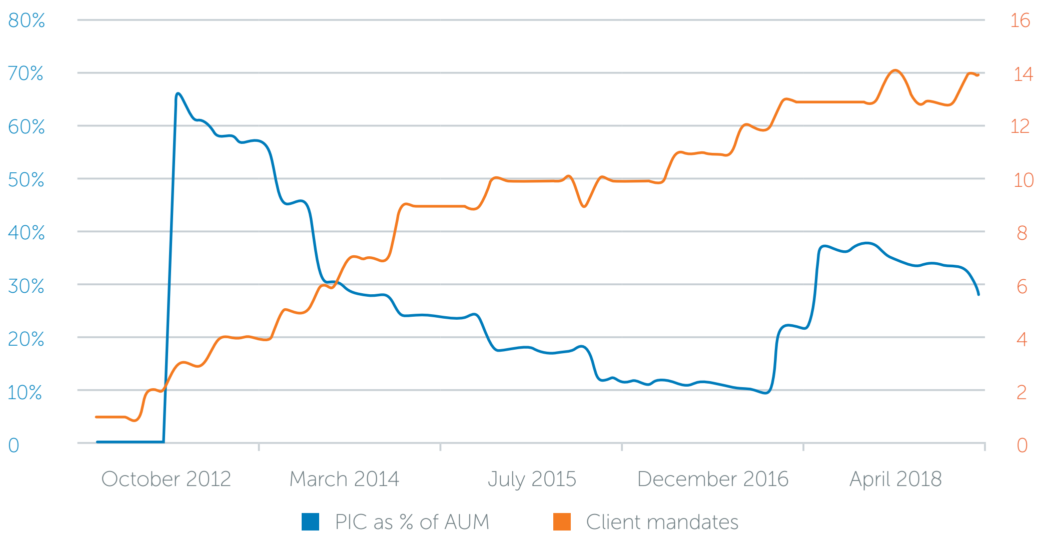
Perpetua Investment Managers (Pty) Ltd

Perpetua was started in 2012 with the vision of being a leading scaled boutique investment firm in South Africa. The firm received its first client mandate in October 2012 from an incubation allocation. In February 2013, it received the second mandate from another incubation allocation.

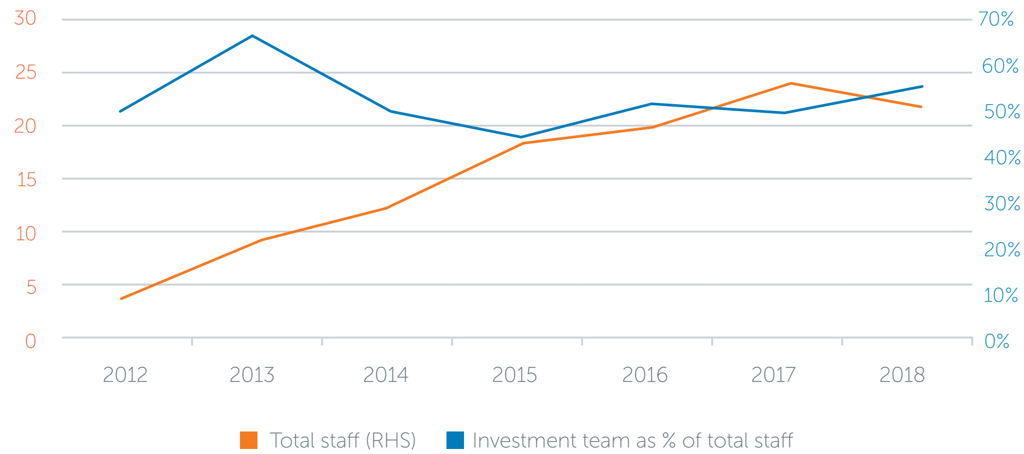
With this second allocation, total AuM grew to R250 million. Whilst sufficient for a start-up, this level of AuM would clearly not enable the firm to take the next steps in its development into a credible competitor in investment management.

Following a comprehensive due diligence by the PIC in October 2012, Perpetua was included at an early stage in its life into the PIC's BEE Developmental Manager Programme, having demonstrated a firm values-based mindset, a combined investment pedigree among its team, a diverse leadership structure and a disciplined investment approach. On 1 April 2013, seven months after launching - Perpetua was allocated R500 million by the PIC, two-thirds of its AuM at the time, as shown in Chart below.

PIC as a percentage of AuM versus client mandates



Perpetua investment staff versus total staff



Whilst single client concentration is considered a risk to the sustainability of an investment manager, support from large clients is also an important psychological boost for a start-up. It allows emerging businesses to focus on managing clients' assets (rather than being solely in an asset-gathering mindset) and importantly, it contributes to the resources required to invest in the business, in terms of both people and systems. This positive momentum assisted Perpetua to attract additional clients, who took comfort in the fact that the firm had more than one client and a client who was prepared to commit a large mandate. The firm has continued to demonstrate traction and has been fortunate to receive two further allocations from the PIC. The PIC currently represents just under 30% of Perpetua's AuM.

With the additional assets and clients, Perpetua has grown determinedly, expanding both its investment team and the business. Greater specialisation and focus have entrenched a sustainable value proposition for clients and have allowed the firm to develop and expand its investment offering at a measured, but consistent pace. Perpetua has been able to remain investment focused, concentrating on long-term client deliverables. The investment team generally represents more than 50% of the growing staff complement (See chart titled, Perpetua investment staff versus total staff).

Perpetua has grown its team in a measured and systematic manner, which has allowed for a strong corporate culture. The senior team has become more adept at hiring new recruits based on values, principles and work ethic to ensure that there is a more complete cultural fit, rather than hiring solely on experience or qualifications. Perpetua now employs 22 people, with many recent appointees seeking out the firm for its values, principles and a mutual belief in striving for exceptionally high standards.

The PIC has supported Perpetua from an early stage of its lifecycle to its current status as a proudly and unequivocally South African emerging black asset manager with exceptional prospects for growth.

CASE STUDY

Sentio Capital Management (Pty) Ltd

Sentio Capital Management (Pty) Ltd was established in July 2007, shortly before the start of the global financial crisis. Its only backing was the vision of its founders to establish a South African champion in the asset management industry. Each had around ten years' experience in a global firm and each was passionate about South Africa.

Together, they shared a mission to proactively promote and transform the South African corporate business landscape and to develop and reflect the excellence of black professionals. In an environment of severe economic stress, the newly established firm initially struggled to gain clients and managed to raise only R25 million in AuM. For the first two years, the firm had no money to pay employees or remunerate the founding partners who had to use their mortgages to sustain the start-up.

The first three years were difficult: most potential clients insisted on requirements that lowered operational and client risk, which, in effect, created unrealistic barriers to entry in a market dominated by traditional asset managers, who were, by and large, untransformed. In 2010, the PIC expressed an interest in Sentio and so the journey into the mainstream asset management industry began.

The most difficult aspect of starting up a new asset manager is to have a first seed investor, a position not favoured by institutional investors. The PIC provided the seed investment for the firm's equity fund and offered advice in operations, business feedback and general guidance on attribution.

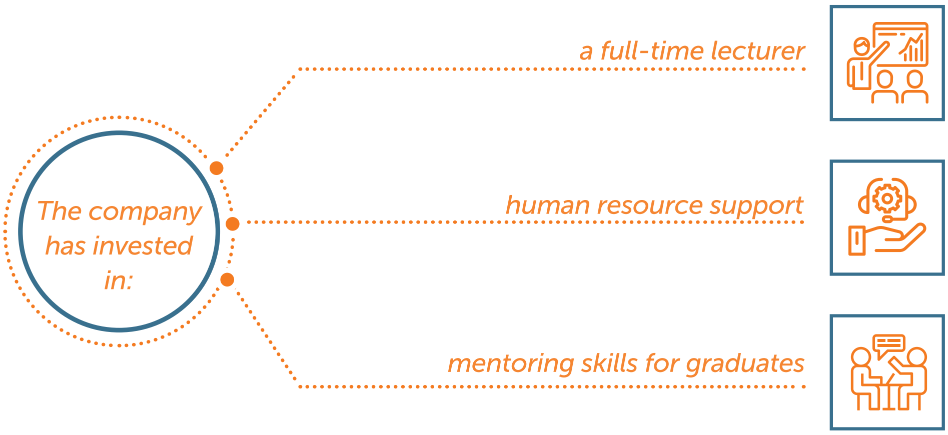
Other investors saw the PIC investment as a sign of confidence in Sentio and, as the business grew, profits and cash were reinvested into the business and into developing own 'best-of-breed' systems. Sentio also invested in incorporating young talent in its investment team and business operations. The initial employment focus was to give opportunities to young black individuals who would normally not work in the investment industry. From store cashiers to gardeners, these individuals have progressed into the firm's finance, marketing and operations departments.

Young black individuals have progressed from store cashiers and gardeners into the firm's finance, marketing and operations departments

Sentio also started an academy for young black graduates (specifically African) from universities the industry tends to overlook, such as Venda and Fort Hare. Through this programme, young graduates who were finding it hard to obtain employment due to their lack of experience and exposure to the industry found meaningful work opportunities. To date, nine graduates have been through a two-year graduate programme and the company has invested in a full-time lecturer, human resource support and mentoring skills for the graduates. The course curriculum is being approved by the Department of Higher Education and Training as a National Qualifications Framework (NQF) level 6 qualification. The company has registered a training academy and intends to partner with others in the industry to widen access to training and development.

9
graduates

Sentio also started an academy for young black graduates and nine graduates have been through a two-year graduate programme



Sentio Capital has become an established player in the asset management industry, outperforming the product benchmark since inception, and with the skill and ability to compete with the large competitors in the market. It now employs 20 full-time staff members and has assisted in developing small black-owned service providers in IT and in training and development.

Younger employees who joined in the early years are now shareholders and Sentio, despite being relatively small, is focused on hiring many more young talented black South Africans and developing their potential for excellence.

The firm's progress would have been far more difficult without the support of the BEE Developmental Manager programme.

CASE STUDY

Mazi Asset Management

Mazi Asset Capital was established 12 years ago by Malungelo Zilimbola. Zilimbola was born in Jouberton Township, Klerksdorp, and was educated in Mafikeng, North West. He graduated from the University of Cape Town with a Bachelor of Science in Quantity Surveying and a Bachelor of Commerce (Honours) in Finance.

Malungelo joined the industry in 1999 as a research analyst at Investec Asset Management where he cut his investment professional teeth.

Mazi Capital grew from the young man's desire to see the financial services industry become truly transformed.

Black fund managers currently manage between 5% and 8% of industry assets. As dismal as this statistic is, empowerment and transformation were on a zero base little more than a decade ago.

Since the 1990s, the PIC has consistently supported Mazi and most black South African asset management businesses. 'Unapologetically, the Corporation started to demand that its established fund managers recognise, nurture and promote talented black investment professionals,' Malungelo remembers.

He had been handpicked by Investec Asset Management straight out of university and was then recruited by RMB Asset Management. The PIC's intervention in the industry was one of the reasons graduates such as he were recruited by RMB and given an opportunity to manage PIC funds.

'I was soon afforded the opportunity to manage funds for other RMB Asset Management third-party client funds, he says. 'I eventually managed more than R60 billion and was among the best-performing portfolio managers for the PIC. I had built up one of the strongest equity track records in the South African equity market,' Malungelo recalls.

'In 2006, I had built up a track record, a personal brand and a strong network that positioned me well to advance my career. However, I wanted to build something permanent that would benefit the broader society. This was the birth of Mazi.'

Initially, he encountered questions he could not answer:

How much money do you currently manage?

How big is your team?

How sustainable is your business?

'I could not give the answers prospective clients wanted from a potential portfolio manager, 'he explains. 'I had no assets, nor big team. What I did have was resilience and a strong desire to succeed'.

'I recall the feeling when one of our first clients, Legae Securities and Sentinel Retirement Fund, appointed us to manage its assets. Whilst these were humble beginnings, I am reminded of the chance these clients took on me and Mazi, thus advancing the empowerment cause. I have endeavoured to live this philosophy and pay it forward by positioning Mazi as a place where talented black investment professionals can thrive.'

The PIC's Inaugural Manager Incubation Programme was a game changer for businesses such as Mazi. The PIC had recognised the need to move beyond simply having black investment professionals inside established businesses. At that point, only a few black investment professionals had established their own firms and were struggling to make a breakthrough.

The programme was aimed at supporting fledgling black businesses, run by seasoned investment professionals who could reach critical mass. Mazi was selected for the programme and began managing assets from August 2009.

Before long, the company could afford to appoint a black actuary at a time when the number of South African black actuaries could be counted on one hand.

Mazi now manages money for more than 65 institutional clients and enjoys the support of some of the biggest retirement funds in South Africa and on the continent. It employs 31 full-time staff members and boasts of one of the most transformed, qualified and experienced investment teams in the country. Among its number is Ghanaian Seth Boakye–Dankwah, who joined Mazi in 2013/4 from Japan, having worked for Capital International Investors, one of the oldest and largest global investment management organisations in the world, with more than $1.7 trillion AuM.

'My journey is not done,' Malungelo concludes. 'Mazi and I look forward to a continued partnership with the PIC as we journey towards our shared goal of establishing a truly transformed financial services industry in South Africa.'

CASE STUDY

Mergence Investment Managers

Mergence Investment Managers is an independent majority black-owned and managed boutique asset management company. Its core focus is to provide investment management services to institutional clients in southern Africa.

Their capabilities include both listed investments (equities and multi-asset class mandates) and unlisted investments (debt, mezzanine and private equity). Their client base includes some of the SADC region's largest multi-managers, parastatals, unions, agencies and pension funds.

Mergence Investment Managers forms part of the diversified financial services Mergence Africa Holdings group, founded in 2004, that offers asset management, derivatives broking, listed real estate investment trusts (REITs) and commodity/trade finance services.

The company employs 41 people across offices in Cape Town, Johannesburg, Windhoek and Maseru. The core management and investment teams have worked together since 2006 and are based in Cape Town. Since 2010, the team has expanded substantially as a result of the company's organic growth, enhanced investment capacity and expanded product offering of unlisted investments.

Prior to 2014, Mergence did not have a structured corporate mentoring programme for graduates in the financial, commercial, mathematical and engineering faculties with a keen interest in investment management.

Following Mergence's proposal, the PIC supported the establishment of a programme to develop previously disadvantaged graduates in the investment industry through a structured and measurable mentor-based process.

Five graduates started the Mergence graduate training programme in June 2015. After initial orientation and rotation, each graduate settled into a specific area within the investment team.

Three years on and two members of the original intake are still with Mergence (now fully employed) and have evolved and grown into junior analysts in the listed and unlisted investment teams respectively. After about two years with Mergence, another two of the graduates returned to full-time studies (Master's degrees in Investments sponsored by University of Cape Town), whilst the last one chose to return to Johannesburg and accepted a job offer at a competing asset manager.

Another two graduates were taken in during 2017 and there are currently two shortlisted candidates to fill the remaining slots to maintain five graduates on the skills development programme.

Recognising the alarmingly low transformation and diversity statistics in the asset management industry, Mergence is committed to making a difference through mentoring, supporting, encouraging and motivating young graduates to become skilled investment professionals. The PIC's support for this commitment is crucial.

Project Development Partnership Fund

The Research and Project Development team of the PIC in partnership with its client, the UIF has established the Project Development Partnership (PDP) Fund to bridge the funding gap between research, project development and private equity markets.

The Fund will be housed under Alternative Investments, a subset within the PIC's broader strategic asset allocation, a strategy for which the PIC's Impact Investment and Private Equity division is responsible.

The PDP Fund is expected to complement the venture capital available for the commercialisation of technology in South Africa, which is seen as a key developmental driver for the economy. Analysis shows that the country is lagging behind its international peers, with venture capital as a percentage of the total market at approximately only 1.8%, compared to 8% in India, 13% in Australia and 44% in Israel*.

The PDP Fund will be aligned to NDP objectives, and it is hoped that it will act as an accelerator of government initiatives (such as Operation Phakisa, the Department of Trade and Industry's Black Industrialist Programme, etc.).

It will fund early-stage investable projects, opportunities or innovations, facilitating their conversion into mature businesses, with the aim of:

- Closing the funding gap that currently exists for project development funding in South Africa;
- Stimulating economic growth in the country;
- Driving job creation and skills diversification in the labour force; and
- Enhancing the PIC's investment pipeline across the other mandates.

Overall, the Fund will allow for the implementation of the PIC's economic sector strategies, including innovation and technology. It will seek, specifically, to drive investments in key growth areas. An initial investment pipeline (across the economic sector strategies) will also be provided to the appointed managers, to fast-track the deployment of capital.

Within each of these sectors, there will be an allocation for the rest-of-Africa investment strategy (up to a maximum of 30%) as well as a keen focus on youth innovation, which will target its support of black youth businesses in a way that is complementary to the strategic focus areas outlined on the next page.

The ultimate goal of the Fund is multipronged and it is hoped that it, in some small way, will assist South Africa to reach its economic growth potential and employment goals.

Funds will be aligned to the following terms:

Proposed fund size	Proposed cheque size	Proposed focus area	Expected number of companies established	Expected number of jobs created	Number of transformed fund managers created
R2 billion	R30 million on average, although range from R5 million to R100 million	South Africa (with a 30% maximum allocation to the rest of Africa)	40	10,000	6

* SAVCA 2017 estimates

The key economic sector strategies include:

Agribusiness and bioscience

which will drive investments in themes such as agritech, food security, high potential land, and biosciences, etc.

Mining, beneficiation, energy

and related sectors, which will drive investments in themes such as mechanisation, steel-making materials, fuel cells, commodities, off-grid energy supply, gas-related generation, renewable energy, etc.

Manufacturing and information and communications technology (ICT)

which will drive investments in themes such as the Fourth Industrial Revolution, additive manufacturing, fuel cells, commodities and fibre rollouts, etc.

Social infrastructure

which will drive investments in themes such as education and healthcare.

Water, waste and related services

which will drive investments in projects providing solutions related to water access and quality, waste management and recycling.

Financial and other services

which will drive investments in themes such as tourism, digitisation, financial technologies (fintechs), microfinance, financial inclusion and access-driven solutions.

Unlisted Investment Portfolio

Isibaya Division

The PIC's Isibaya Division executes the unlisted investment asset class of clients' mandates. This comprises Impact Investing and Private Equity (PE). These mandates require the PIC to invest in enterprises with potential to generate good financial returns, whilst supporting positive, long-term economic, social and environmental outcomes and transformation in South Africa and the rest of the African continent.

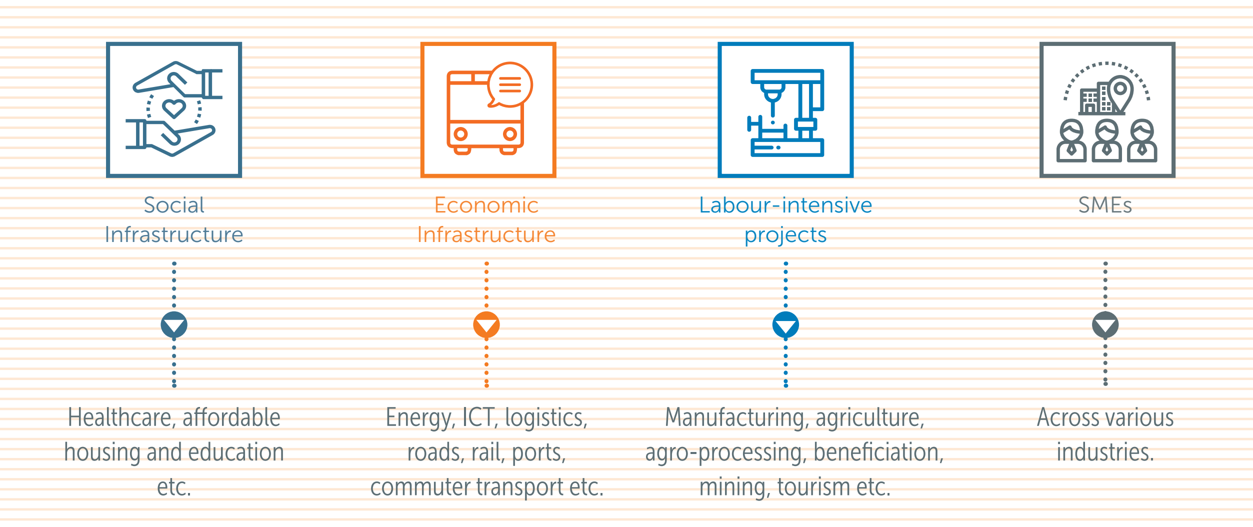
Investments may be made at various stages of development. The Impact Investing operations comprise investments in new enterprises and expansion of existing enterprises, whilst Private Equity investments comprise mainly supporting whole or partial buy-outs by BEE groups. Investments may comprise senior loans, mezzanine funding and equity.

Below are some of the key principles adopted when making investments:

- ESG principles must be incorporated in the investment decision-making process;
- Targeted investment returns and social returns are not mutually exclusive. No compromise is made for economic returns over social returns;
- B-BBEE principles must be applied in all investments, including operational involvement of BEE-funded parties; and
- The PIC must be represented on Boards of companies in which it has significant shareholding.

Impact Investing Business Unit

The PIC has Impact Investing mandates from three clients, namely GEPF, UIF and CP. These clients require that the PIC invest in enterprises that earn a satisfactory financial return, whilst making significant social impact. The key pillars of investing include:



The PIC invests directly in new and existing enterprises as well as through the use of intermediaries such as third-party fund managers and retail intermediaries. Central to the PIC investment philosophy is to invest in a manner that acts as a catalyst in attracting other investors in directing funds towards impact investing.

Private Equity Business Unit

The PE portfolio has two key objectives: To invest in financially viable companies that demonstrate sustainable returns and to promote the transformation of key sectors such as Financial Services, Fast Moving Consumer Goods (FMCG) and Manufacturing.

To achieve its desired investment returns, the PE team follows a thematic investment strategy, whereby key macro-economic themes are identified and followed to identify long-term structural trends. Sectors and geographies are selected on their ability to benefit from these trends, with companies that fall within those selected sectors and geographies being preferred.

Performance of the Isibaya Division

The Impact Investing and Private Equity portfolio continues to grow as approved projects are implemented. There is a lag mainly in the Impact Investing portfolio between approvals and investments due to the long implementation periods inherent in infrastructure projects. During the year under review, construction started at several private hospitals, which will become operational in the next two financial years. Renewable energy projects implemented in the prior financial year have started yielding strong financial returns, whilst contributing to increased energy output, albeit modestly.

Financial performance: During the year under review, the portfolio increased by 11% to R75.2 billion (2017: R67.9 billion), which is considered modest considering the challenges with some of the investments in certain sectors. Disbursements amounted to R18.2 billion (2017: R23.9 billion), a drop of 24% compared with the previous year. Approvals during the financial year amounted to R12.7 billion (2017: R27.9 billion), a decrease of 54% compared to the prior.

Notable Transactions in Isibaya Division

Project Blaze

The PIC, acting on behalf of its client GEPF, is currently a shareholder in Bayport Management Limited (BML) and Bayport Financial Services SA (Pty) Ltd (BFSSA). Recently the two parties completed a B-BBEE transaction in which the PIC acquired 51% of BFSSA. The objective of the transaction was to implement a transformation strategy in BFSSA with a view to transforming the financial services sector in South Africa.

Project Life

Yalu Financial Services (Pty) Ltd) (Yalu) is a 100% black-owned and -managed financial services company focused on digital enablement of the customer. Yalu is a new life insurance provider aiming to provide the most affordable, transparent and rewarding solutions to the South African consumer. In 2018, GEPF acquired a 30% stake in Yalu. The founders and employees own the remainder of the equity.

Project Capsule

Dischem Pharmacies Limited's primary business is the retailing of pharmaceutical products, including dispensary products and over-the-counter remedies. The PIC approved the funding to a BEE consortium made up of Bothomed Limited and Randvest Capital Investments (Pty) Ltd. The consortium approached the PIC unlisted (Structured Investment Products) to fund its acquisition of 10 million Dischem shares.

Project Augusta

This is a transaction involving the acquisition of a 40% shareholding in Arch Property Fund alongside a BEE SPV (which also includes Honsha (Pty) Ltd, Rock Jumper (Pty) Ltd and Women in Infrastructure Development and Energy Group). The funding was used for a 20% PIC equity acquisition of Arch Property Fund as well as debt funding to the BEE consortium to acquire 20% of Arch Property Fund. Arch was established in 2013 to create a capital growth property fund that will house premium, high-quality assets.

Portfolio Performance

The portfolio's return on investment was lower than expected this year, with the Private Equity Fund II lower investment performance attributable to the portfolio being in its infancy. However, we supported (primarily through shareholder equity funding) our investee companies as they raised funds for growth, either organically or through acquisitions.

Focusing Ahead

The PE team will focus on the active management of the portfolio. This will include identifying synergies within its investee companies.

Bayport Management Limited

CASE STUDY

Bayport Management Limited provides financial solutions for a broad customer base through embracing technology, product leadership and innovation.

As a leader in emerging markets, Bayport has operations in Botswana, Colombia, Ghana, Mexico, Mozambique, South Africa, Tanzania, Uganda and Zambia, with assets in excess of US$1 billion.

It offers tailored savings, transacting, insurance and credit solutions to its customers across these countries.

The PIC has held a minority stake in Bayport since 2014, and, in 2017, acquired a majority stake in Bayport Financial Services (Pty) Ltd (BFSA), the South African entity, to advance transformation.

Through its investments in Bayport and BFSA, the PIC aims to change the landscape of the South African financial services sector by assisting Bayport to reach more customers who traditionally were unable to access loans due to low earnings or credit profiles. These investments also seek to increase black ownership in Bayport and BFSA.

In South Africa, Bayport is one of the largest non-banking providers of unsecured credit and allied products and is developing the ability to reach the unbanked population in South Africa. Through its nationwide multifaceted distribution, it services the needs of customers no matter how remote their location. A combination of far-reaching branch infrastructure, mobile consultants and call centres enables Bayport to touch many lives.

The group has issued more than 2.7 million loans to the unbanked population in emerging markets and provides employment to more than 6,500 employees across eight regions. In addition, it provides:

In-house learnerships

Study assistance

Management Development Programmes

Internships

Through its partnership with the PIC, Bayport is positioned to change the landscape of the financial services sector. In return, it provides healthy returns on the PIC's investment.

CASE STUDY

Yalu Financial Services (Pty) Ltd

Yalu Financial Services (Pty) Ltd (Yalu) is a 100% black-owned and -managed financial services company that is focused on digital enablement of the customer. Yalu is short for the Zulu term 'isiyalu' – the source of a river.

The company was born of a passion to nourish and bring life to the world of credit life insurance (CLI). Yalu is a new life insurance provider aiming to provide South Africans with the most affordable, transparent and rewarding solutions.

In 2018, the GEPF acquired a significant minority stake in Yalu. Founders and employees own the majority of the equity.

CLI is insurance that covers consumer debt in the event of death, disability or loss of income. It is a growing industry in South Africa, with annual revenue of some R16 billion. This debt protection market is structured around two primary product constructs, for which Yalu caters:

Compulsory credit life:

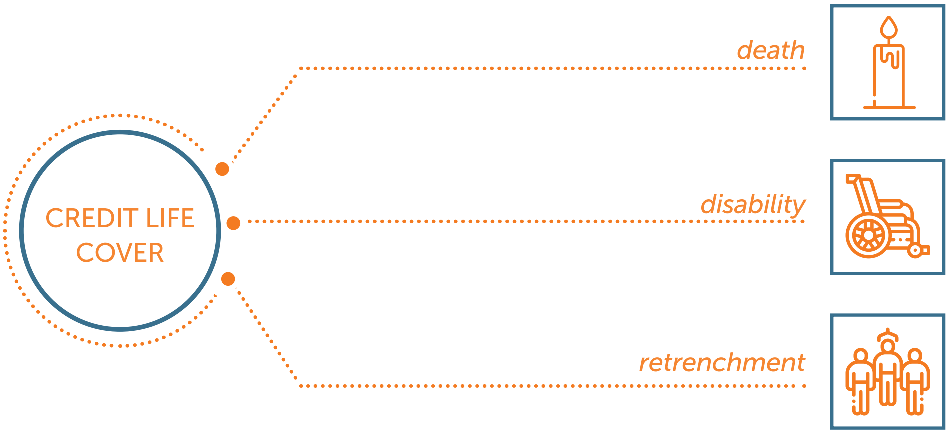
Protection that is required by the loan provider, as a prerequisite to providing the loan. This is done particularly with unsecured personal loans, developmental loans (student loans and developmental housing) and home loans (which are partially compulsory and partially voluntary).

Voluntary credit life:

Where a consumer selects credit life protection where this is not required for the credit facility. This is done with secured loans, credit cards, overdrafts and home loans, in particular.

A lack of competition has resulted in South Africans paying excessive premiums on life insurance, which protects their borrowings. A lack of transparency from credit providers and a lack of consumer awareness have deprived South Africans of the right to choose their credit life insurers and in some cases, of claiming when the need arises.

Yalu offers credit life cover (death, disability, retrenchment) that is affordable and delivered via a simple, efficient and transparent digital customer experience, ultimately allowing for the fastest policy take-up process of any insurance player in the market. Yalu is also the first insurer to reward customers when they have settled their debt and to actively support customers and the general public on their financial freedom journey.



The PIC's investment in Yalu has allowed the business to bolster its technology and governance capability, develop its technology platform and launch the product to the market.

The investment is premised on favourable changes in regulation, which provide consumers with more flexibility in choosing among credit life insurers, a scalable technology platform that allows customers to switch seamlessly in five minutes, and a capable management team with deep banking, insurance and technology experience that can successfully execute their strategy.

CASE STUDY

SA Home Loans

Through the investment in SA Home Loans, the PIC continues to pursue the targeted investment areas for pragmatic social returns, which ensures that the government employees whose capital we invest continue to benefit from their contributions even before they retire.

During the 2014 financial year, the PIC, with a broad-based black economically empowered grouping, Bolatja Hlogo Consortium, acquired 50% equity interest in SA Home Loans. SA Home Loans is the pre-eminent domestic non-bank mortgage finance lender.

During the 2016/17 year, the PIC committed R10.5 billion to SA Home Loans, to advance mortgage finance to (i) government employees; (ii) the affordable housing market; (iii) the traditional home loan market; and (iv) to capitalise an Affordable Housing Development Fund. The funding sought to address, among others, the low take-up of home loan facilities from commercial banks by government employees and those in the affordable housing market in general. In addition, the Affordable Housing Development Fund seeks to address the shortage of affordable housing stock by creating a dedicated fund to finance affordable housing developers to ensure a steady supply of affordable housing stock.

Since committing the funding lines, we are encouraged with the progress made by SA Home Loans, with both the government employees and affordable housing funding lines currently fully committed and creating more than 6,249 and 4,113 loans respectively. Whilst some loans are switches from other financial institutions, the vast majority are new home loans, thus increasing the home ownership rate in the country. The loan origination continues to be strong across both the government employee and affordable housing loan books.

The Affordable Housing Development Fund has also started its lending activities and has committed development funding to various affordable housing developers across the country. The Fund also has a healthy pipeline of projects and expects that the Fund will start delivering affordable housing units in the ensuing year.

For Generation Student Accommodation

Clinix Health Group (Pty) Ltd (CHG)

World Marine Energy (Pty) Ltd (World Marine)

Razorite Healthcare and Rehabilitation Fund II

For Generation Student Accommodation

The PIC approved an investment of R2 billion for the creation of a PIC-owned SPV that will hold student accommodation assets in urban and peri-urban areas. The properties will be acquired in two ways, namely construction and development of new building and purchase of existing buildings for refurbishment. The SPV will use the services of South Point Management Services (SPMS) for the asset management, development management and property management. In 2015, the PIC acquired SPMS, the largest provider and manager of student accommodation in South Africa, which has been operational for 15 years and has a total of 11,482 beds.

Clinix Health Group (Pty) Ltd (CHG)

The PIC approved a total investment of R500 million in CHG, which comprises R218 million for an effective c.32% in CHG and R282 million in preference shares to facilitate expansion and refurbishments within CHG's hospital portfolio. CHG is a hospital group founded in 1992 by Dr Peter Matseke. The company operates in peri-urban areas mainly in Gauteng and North West provinces, providing quality healthcare to previously underserved and low-income communities at affordable rates. CHG currently has a portfolio of seven hospitals and a total of 1,432 beds. Furthermore, the transaction will facilitate the creation of c.350 jobs through the construction and operational phases of the new and refurbished hospitals.

World Marine Energy (Pty) Ltd (World Marine)

The PIC approved a total investment of R400 million in World Marine Energy (Pty) Ltd (World Marine). World Marine is a 51% black-owned and 100% South African-owned company specialising in the trading, reselling and distribution of fuel and fuel-related products in the Western and Northern Cape provinces of South Africa. The business clientele includes leading entities in government, mining, transport and construction. The transaction was in support of transformation within the petroleum sector of South Africa as well as upskilling black entrepreneurship within the sector. It is envisaged that the company will create c.120 jobs over the next years.

Razorite Healthcare and Rehabilitation Fund II

Razorite is a follow-on investment from Fund I, which was launched in August 2014 to focus on development of acute and sub-acute healthcare facilities primarily located in peri-urban areas with strong BEE ownership and management. The PIC has approved a capital commitment of R1.25 billion into Fund II, with an expanded mandate for the fund manager to pursue investments across the healthcare value-chain. Fund II remains a South African-focused, Rand-denominated fund that strategically augments Fund I to build a scaled-up group that can compete effectively in the healthcare sector against larger groups. Fund II targets capital commitment of R3 billion, which it intends to raise from other investors over the coming two years into 2020. Fund II targets to create 2,000 jobs by the end of its investment period, increase the number of beds under its management, while putting at its core ESG principles. The PIC support follows from successful fundraising and deployment of Fund I with six investors.

Unlisted Properties Overview

The Unlisted Property Investments portfolio includes both directly and indirectly held properties.

The definition for the different portfolios per the GEPF mandate is as follows:

Directly held portfolio: Properties directly owned and held on the balance sheet of the GEPF. Title deed reflects the GEPF as the registered owner.

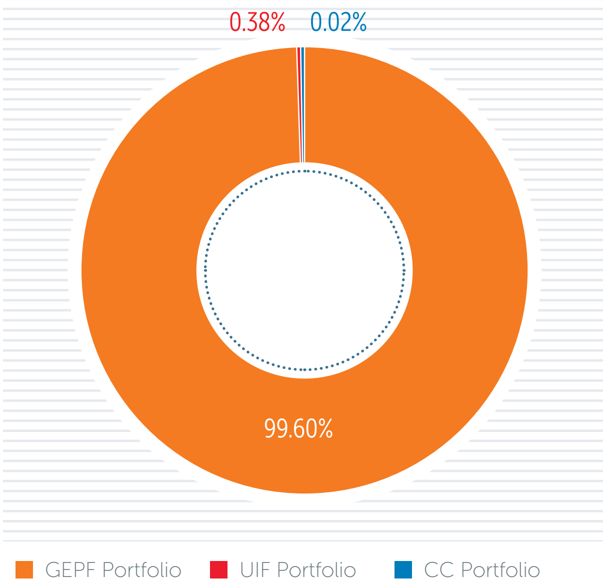
Indirectly held portfolio: Where the GEPF is a shareholder in an unlisted property company. The properties are held by the company. The GEPF holds the shares/ units in these companies.

The total value of the properties held within the GEPF portfolio is R44.86 billion, representing assets that measure a total Gross Lettable Area (GLA) of approximately 1,260,000 m^2. For the period under review, the GEPF had its first exposure to investments on other parts of the continent. Through the indirectly held portfolio, an investment in Gateway Delta Development Holdings Limited was realised in December 2017, which forms part of the PIC's rest of Africa investment strategy. The UIF portfolio has a total GLA measuring 23,825 m^2, with a value of approximately R170 million. The CC portfolio currently has one property with a GLA measuring 1,255m^2 and valued at R7.6 million.

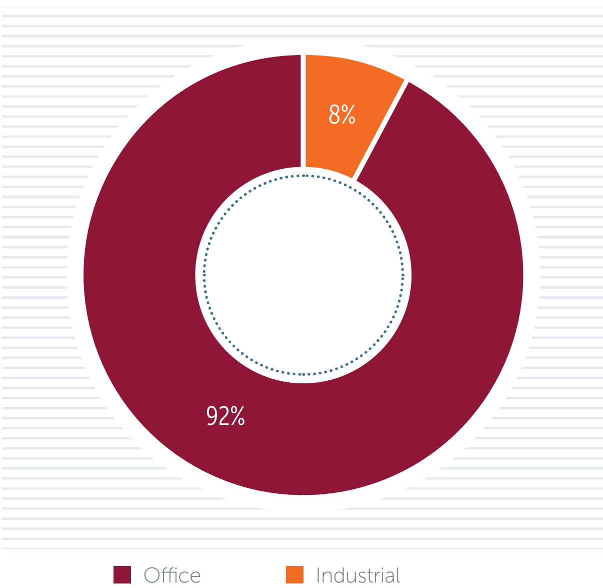
In terms of the mandate fit, the strategic asset allocation for the GEPF unlisted property portfolio is 3.5% of AuM and 1% of AuM for the rest of Africa. The UIF and the CC's strategic asset allocations are 5% and 2.5% of AuM respectively. At the end of the 2017/18 financial year, the actual asset allocation under the GEPF mandate was 2.47%. The actual asset allocations for the GEPF, the UIF and the CC are within their mandate prescripts: that is 0% to 7% of the strategic allocation for the GEPF, 0% to 5% for the unlisted property target asset allocation under the UIF mandate, and 2.5% of the CC mandate.

The graphs below illustrate the key characteristics of the property portfolio:

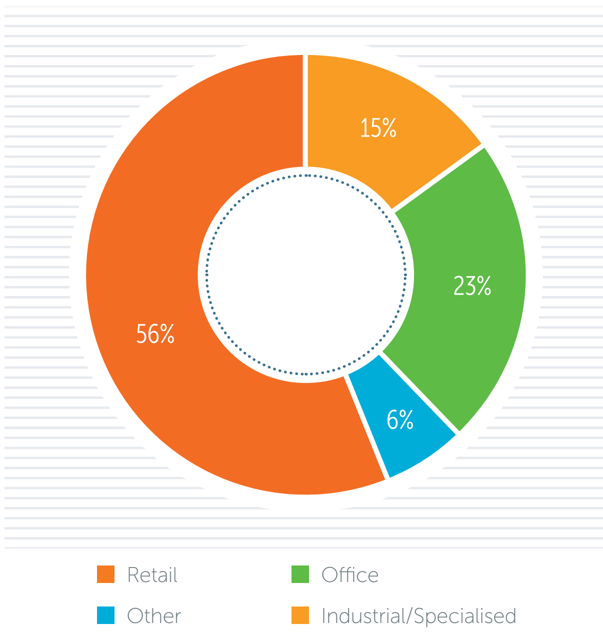
Asset allocation property portfolio



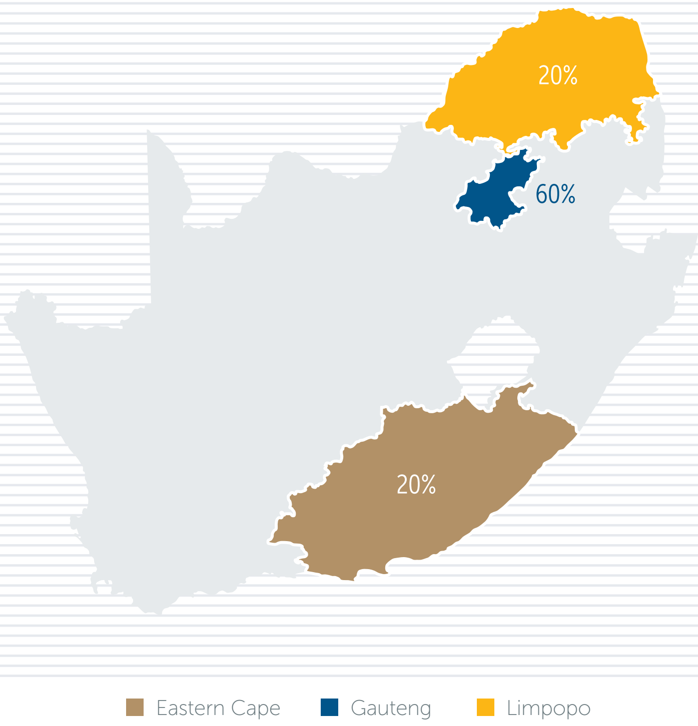
Property Sector Split by market value (MV) - UIF



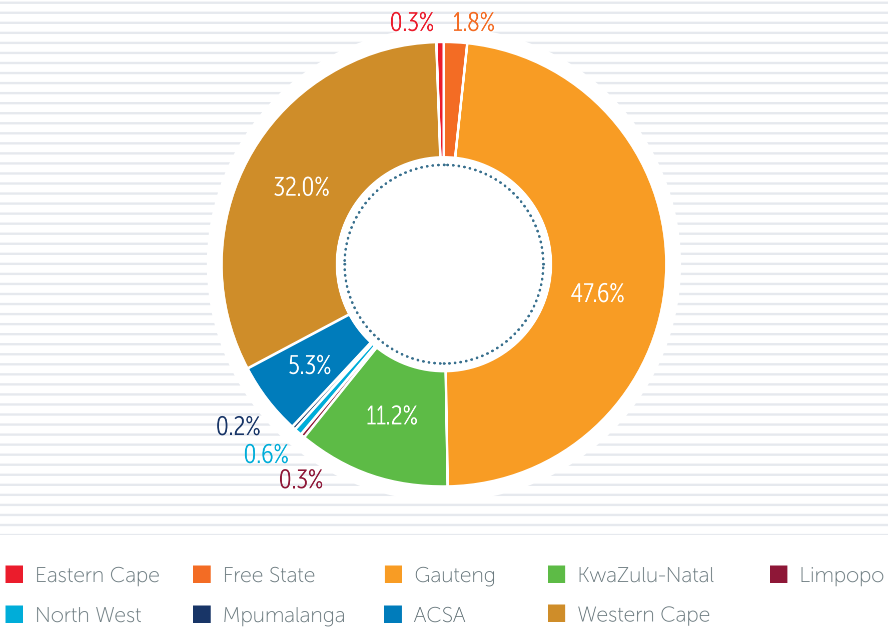
Property Sector Split by MV - GEPF



Geographical split by MV - UIF



Geographical split by MV - GEPF



Portfolio Performance

The property business prioritises the performance of all property investments across all portfolios to ensure that the business meets the client's expected returns as per the strategy and mandate. The year 2017 was a tough trading year for the commercial property sector, due to the low levels of business and consumer confidence, and a lacklustre domestic macro-economic environment, characterised by low growth. The difficult economic climate, prolonged policy uncertainty and the challenges of SOEs, have all contributed to structural hurdles that prevented the economy from achieving higher growth in 2017, in line with its true potential. This negatively affected the property market, as investors in the sector held off on deploying capital into the market or making expansionary decisions. Most investors took a cautionary stance that arose from public concerns that further investment could affect them financially if the prospects for political and policy certainty and good governance did not improve. As a result, 2017 proved to be a much more difficult operating environment in which to achieve the expected returns.

The PIC manages super-regional shopping centres for the GEPF in three indirectly held property investment companies, namely Pareto (76%), Business Venture Investments – BVI (76%) and the V&A Waterfront (50%). It also manages retail, office and industrial property assets under the directly held portfolio. According to the weighted Investment Property Databank (IPD) benchmark for 2017, the industrial property sector was the top-performing sector during the year, with a return of 12.24%, followed closely by the retail sector with a return of 11.91% and the office sector with a return of 10.27%. Despite the tough environment, the weighted total return for the property sector was 11.17%, which showed the resilience of property as an investment class. The relative performance of the Fund to the benchmark is discussed below.

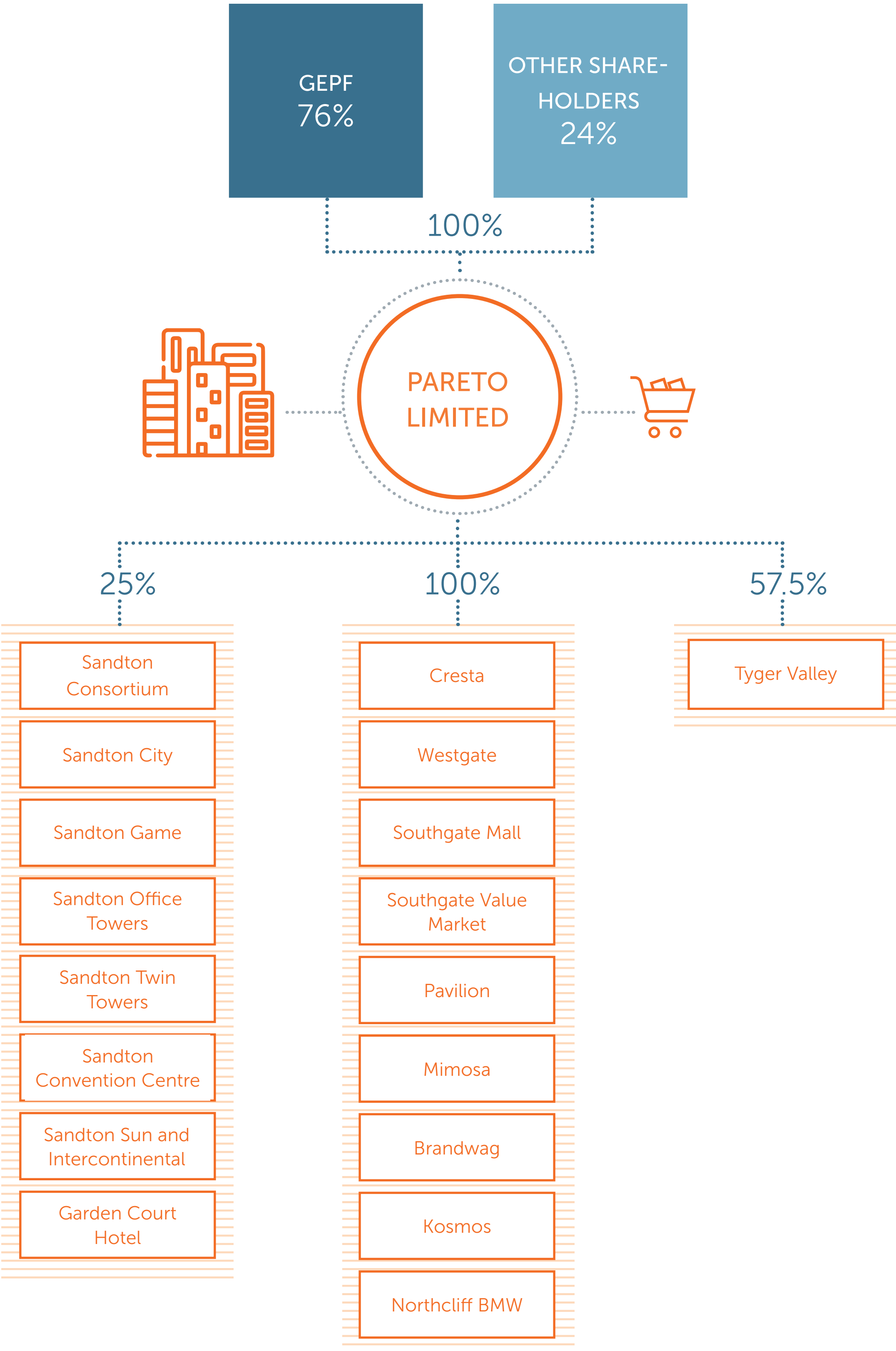
Indirectly Held Portfolio Highlights

- The GEPF invested in Arch Property Fund in March 2017, through a 20% equity subscription and a BEE special purpose vehicle (SPV) debt funding to acquire **19% equity** in Arch
- The acquisition of a **48.52% equity stake** in Gateway Delta Development Holdings Limited
- Pareto and BVI remained profitable throughout the financial year despite a tough economic environment and provided dividend distributions to GEPF
- The V&A completed the Silo District, the Zeitz Museum of Contemporary Art Africa (MOCAA) and the Radisson Red hotel both opened in September 2017
- The Airports Company South Africa (ACSA) won numerous industry awards in recognition of its excellent facilities and service offering

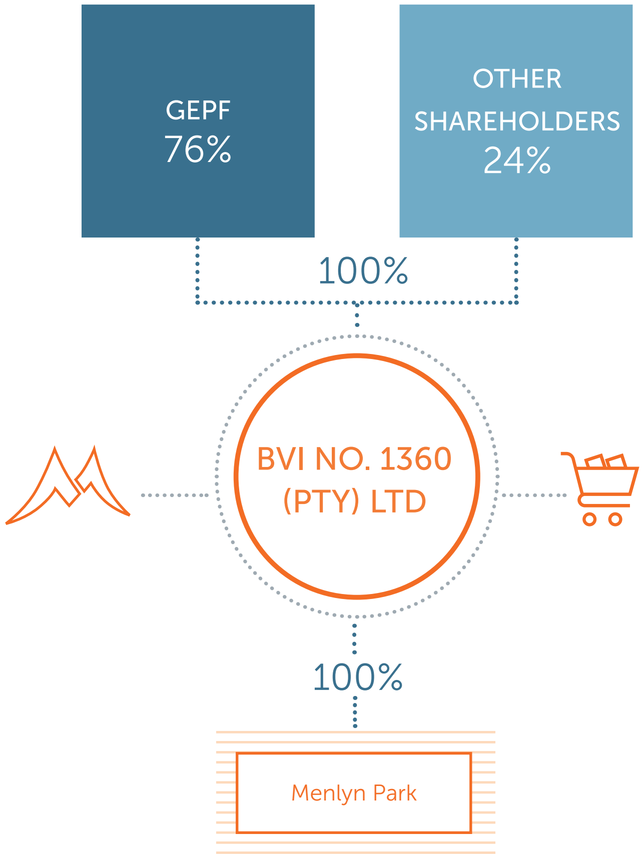
The PIC's new home at 1 Central Square, Menlyn Maine – a rapidly growing business precinct in Pretoria

Pareto and Business Ventures Investments (Pty) Ltd (BVI)

Investment Structure: Pareto



Investment Structure: BVI



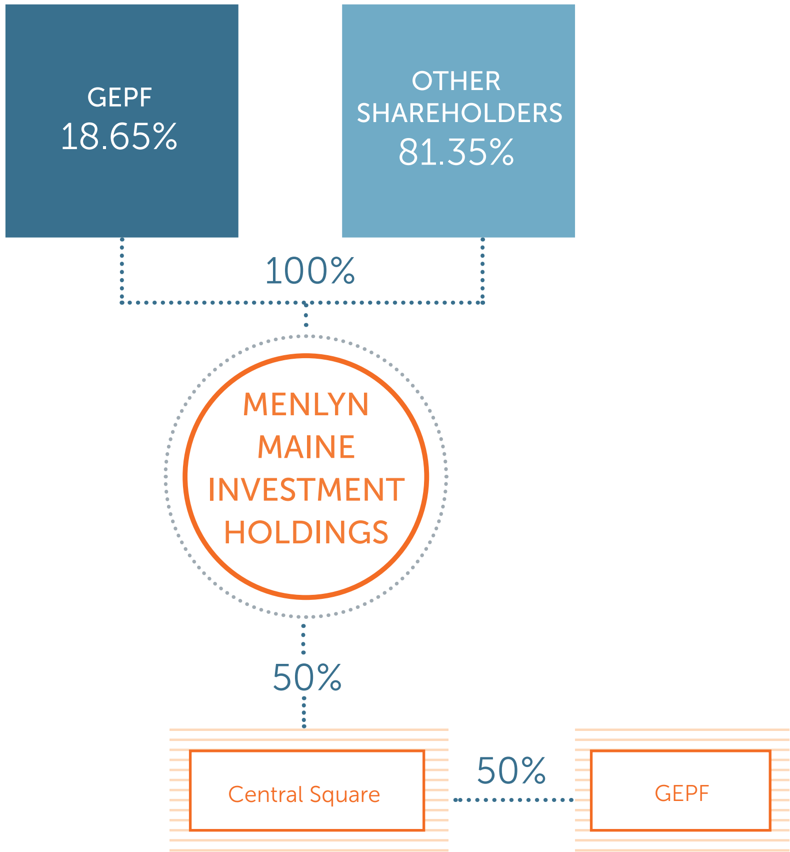
The GEPF acquired Pareto and BVI in August and May 2001, respectively. This was followed by an equity raise that saw the Belelani Group acquiring a 24% shareholding in both Pareto and BVI, to become the largest black-owned unlisted property asset in the country. Pareto has an extensive property portfolio consisting primarily of retail assets, with a broad national footprint in some of South Africa's prime locations. Properties in the portfolio include Sandton City, Pavilion, Cresta and Westgate, the Sandton Sun and Towers and the Sandton Holiday Inn hotels. In addition, Pareto manages (on behalf the shareholders) Menlyn Park, a super-regional shopping centre in the east of Pretoria, which has concluded its landmark redevelopment to become one of the largest retail and entertainment centres in the Southern Hemisphere.

Following the conclusion of arguably the largest BEE transaction in the unlisted property space, the new management team, supported by the PIC, began furthering the growth trajectory that Pareto enjoyed as an investee company of the GEPF. Several initiatives have been concluded to ensure that Pareto becomes more efficient in delivering returns and improving its performance.

While a tough economic conditions remains an obstacle, Pareto and BVI have remained profitable throughout the financial year and provided the GEPF with dividend distributions. In future, assets will continue to be repositioned through redevelopments and refurbishments to ensure they retain their value and maintain their status as blue-chip real estate assets.

Pareto employs ***391***
employees, more than ***50%***
of whom are black females

Menlyn Maine Investments Holdings



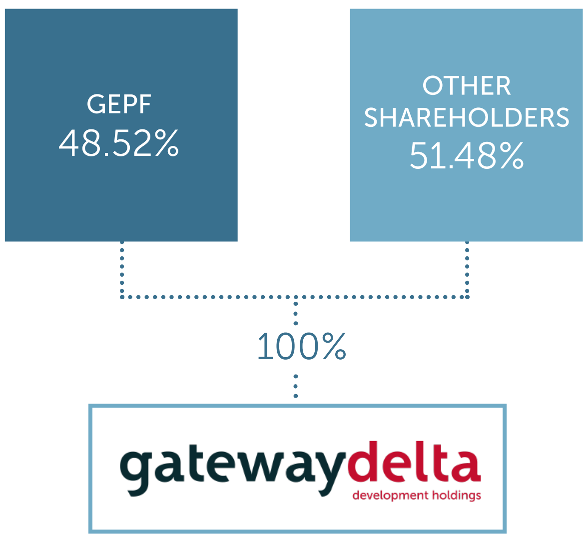
Menlyn Maine Investment Holdings (Pty) Ltd (MMIH) houses Menlyn Maine, the company's flagship asset also referred to as the first 'Green City' in the country. Menlyn Maine was developed in keeping with the new urbanist ideals of creating walkable, livable, mixed-use environments.

The company also prides itself on its award-winning shopping centres, Ballito Junction and Central Square, which opened their doors in 2017. Central Square, co-owned with GEPF, continues to gain traction and has witnessed increased trading densities. Ballito Junction has maintained 100% occupancy since the shopping centre's opening. The company still has a substantial amount of bulk around the precinct for future development needs.

Highlights for Menlyn Maine Investment Holdings (Pty) Ltd for 2017/18 were:

- Ballito Junction won the prestigious South African Council of Shopping Centres' Retail Design and Development Award (RDDA) 2017 for a new retail property development;
- Old Town Italy restaurant in Central Square was awarded the best restaurant design in RDDA 2017 for a new retail property development;
- Construction of the upmarket residential apartments, Trilogy, is expected to be fully completed in 2019; and
- Construction of a new office building in the Menlyn Maine precinct has begun.

Gateway Delta Development Holdings Limited

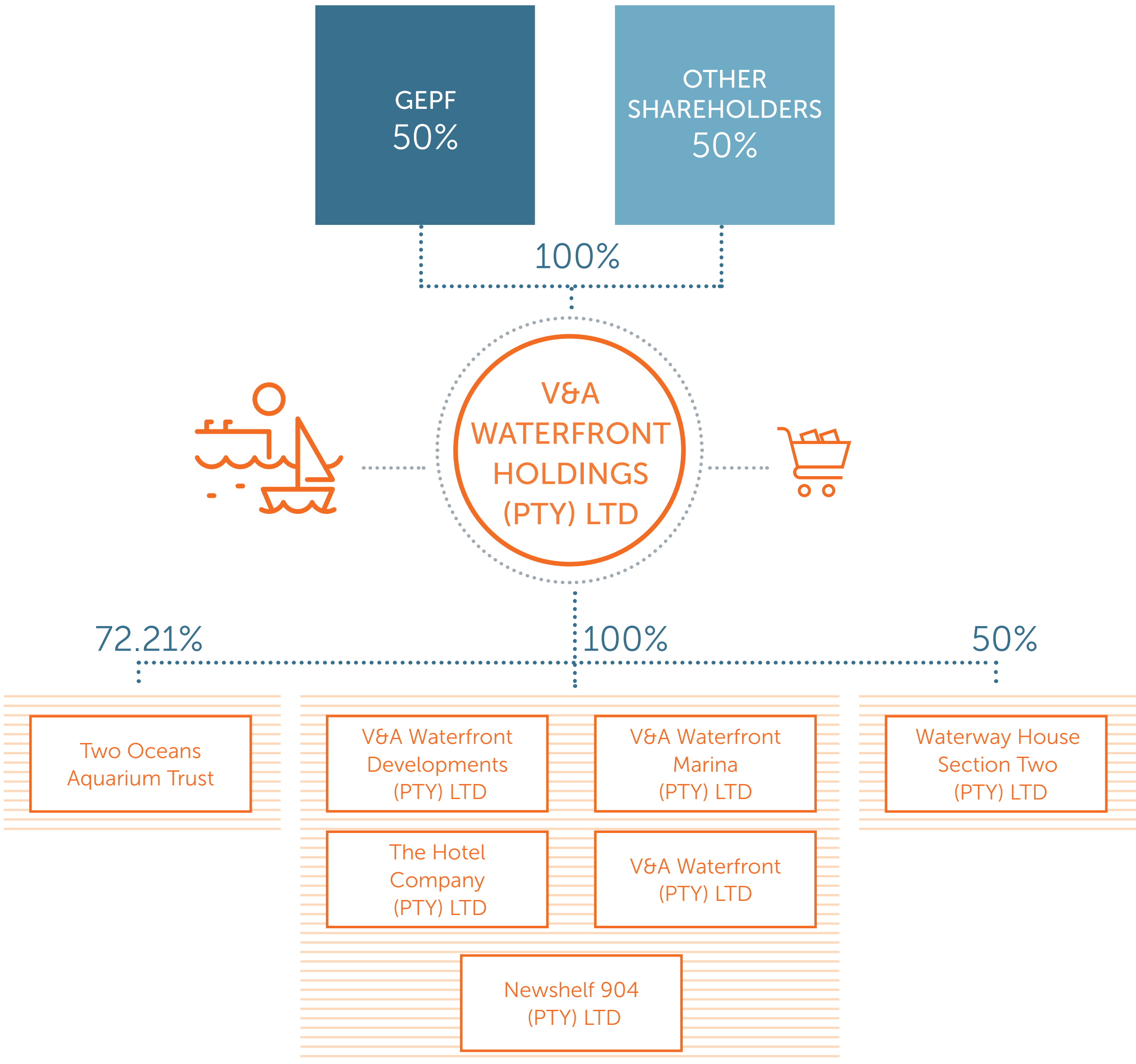


The PIC, on behalf of the GEPF, acquired a shareholding of 48.52% in Gateway Delta Development Holdings Limited (GDDH) in December 2017. Gateway Delta Development Holdings Limited is a real estate development and investment company that was incorporated in Mauritius on 11 July 2016. Its principal activity is to develop and invest in real estate assets such as retail, commercial, education, healthcare, specialised residential and industrial assets across the African continent, with the specific exclusion of South Africa. As at 31 March 2018, the company had a project pipeline in target of jurisdictions across several African regions.

V&A Waterfront Holdings (Pty) Ltd

The Victoria & Alfred Waterfront (V&A), situated in the oldest working harbour in the Southern Hemisphere, is one of Africa's most visited destinations, with about 24 million visitors annually. The V&A is a mixed-use development spanning 123 hectares, comprising retail, residential, commercial and industrial property. Along with heritage sites and tourism landmarks, the precinct houses hotels, retail, markets, dining, leisure and entertainment facilities for both local and international visitors. The Zeitz MOCAA that opened recently further contributes to the precincts offering.

The V&A is jointly owned by the GEPF and Growthpoint Properties Limited, with each holding a 50% stake.

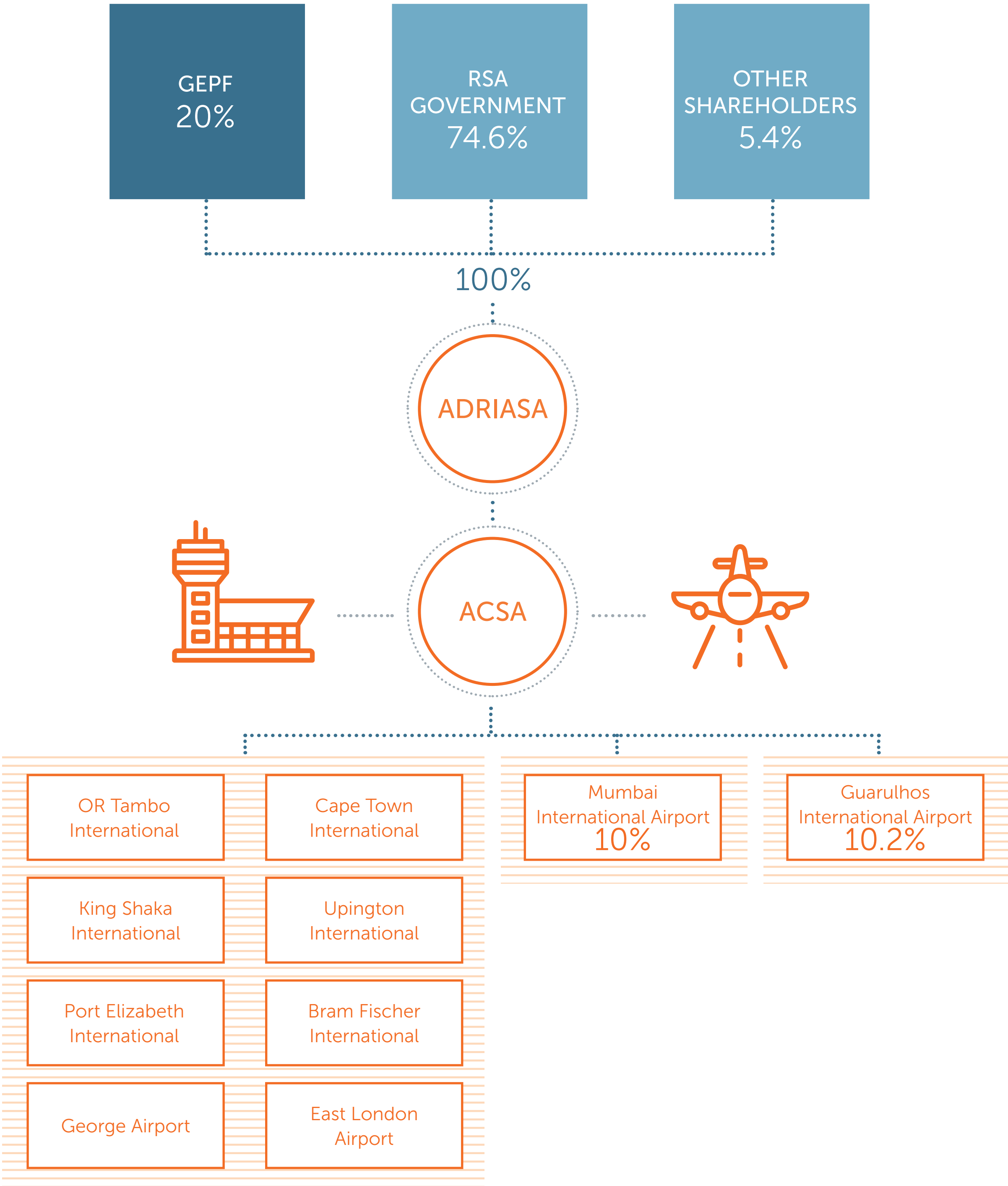


Highlights for the company for 2017/18 were:

- The completion of the Silo District, with the opening of the MOCAA in September 2017;
- The opening of the Radisson Red hotel within the Silo District, the first hotel business for the company; and
- The continuing operation of the Cape Town Cruise Terminal, including the start of Phase 2 of the cruise terminal redevelopment project.

The V&A remains committed to environmental and social responsibility. Since 2008, it has invested in energy efficiency, water saving and waste recycling across the 123-hectare property, and has implemented a number of other greening initiatives. The corporate social investment (CSI) strategy aligns the company's internal values and strategy with key issues affecting social, economic and environmental development, both locally and globally. Emphasis is further placed on entrepreneurship and social innovation to allow for the creation of small-scale businesses producing sustainable economic growth and meaningful job creation.

ADR International Airports South Africa (ADRIASA)



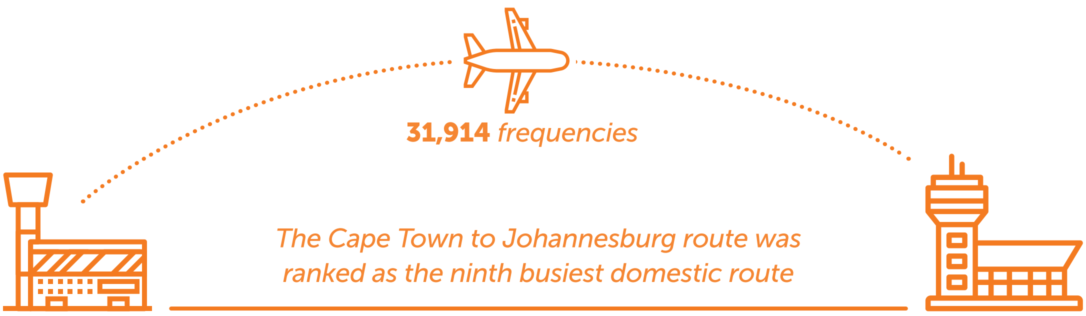
In line with the Airports Company Act No. 44 of 1993, as amended, ACSA is mandated to undertake the acquisition, establishment, development, provision, maintenance, management, operation and control of any airport, any part of any airport, or any facility or service at any airport normally related to an airport function. ACSA owns and manages nine airports in South Africa, six international airports and three regional airports. The company is further involved in equity investments abroad, i.e. in India and Brazil, and provides technical advisory and consultancy services to other airports worldwide. ACSA is majority-owned by the Department of Transport (74.6%), with the GEPF currently holding 20%.

Highlights for the company for 2017/18 were:

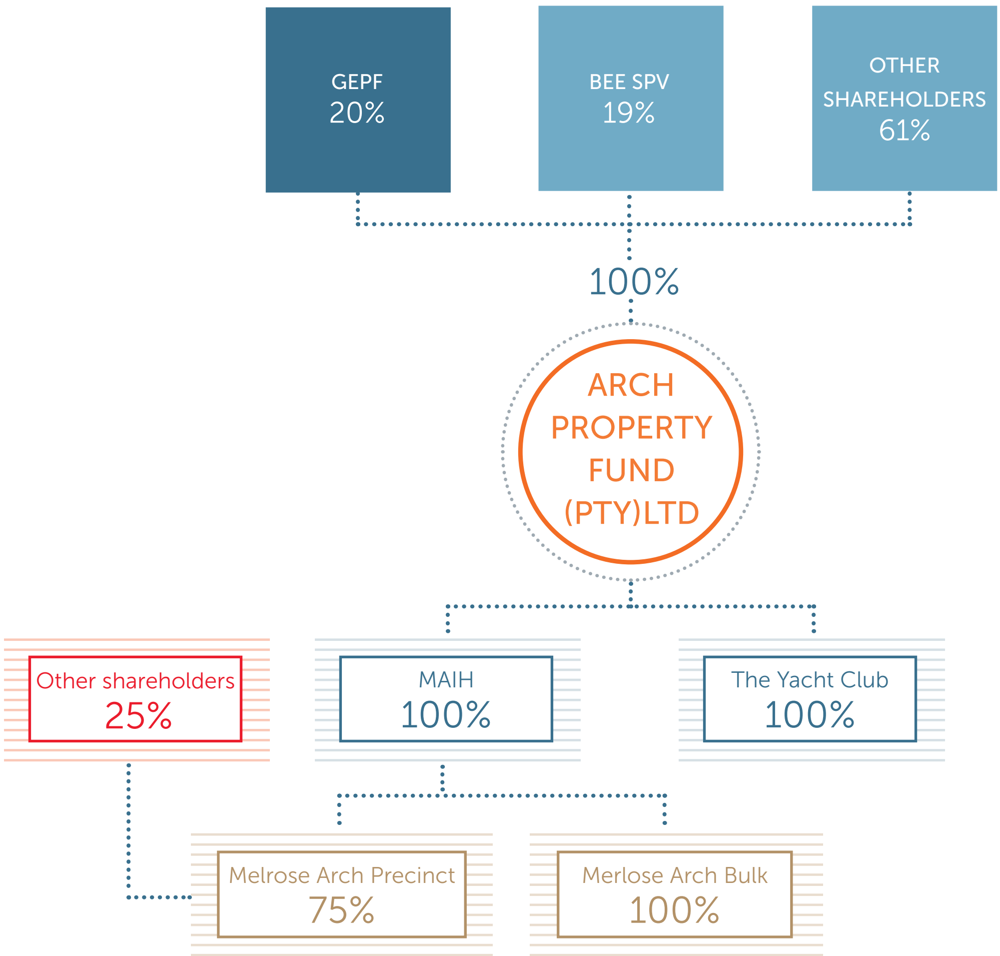
- At the 2018 World Travel Awards, Cape Town International Airport won the World Travel Award for Africa's leading airport;
- In the 2018 Skytrax ranking of 550 airports, the three major ACSA airports were ranked:

21	26	32
Cape Town International Airport (2017 ranking – 19)	**King Shaka** International Airport (2017 ranking – 35)	**OR Tambo** International Airport (2017 ranking – 37)

- At the 2018 Airports Council International (ACI) Awards, ACSA received a number of performance recognitions for service excellence in airport service quality:
  - Best Airport in Africa awarded to Cape Town International Airport, with more than 20,000 air traffic movements;
  - Best Airport by Region awarded to King Shaka International Airport (second) and Cape Town International Airport (third);
  - Best Airport by Region in the under-2 million passengers category and Most Improved Airport awarded to Bram Fischer International Airport (Bloemfontein); and
  - Directors' Roll of Excellence, awarded to Upington International Airport, which joined the Directors' Roll of Excellence for being ranked in the top five airports for this category, size and region from 2006 to 2015.
- King Shaka International ranked fifth for on-time performance, at 86.65%. The Cape Town to Johannesburg route was ranked as the ninth busiest domestic route, with 31,914 frequencies and an average on-time performance of 86.83%.



Arch Property Fund



Arch Property Fund is a public company established in 2013 to create a capital growth property fund to house premium, high-quality assets. It is a sector-diverse fund of premium mixed-use precincts, encompassing retail, residential, commercial, and leisure properties.

The key underlying assets in Arch include the upmarket, mixed-use Johannesburg precinct of Melrose Arch, with Melrose Piazza and Melrose Square, and the Yacht Club in Cape Town. The Melrose precinct has undeveloped bulk space of approximately 426 000m^2, with 121 000m^2 already being developed for prestigious One-on-Whitely luxury apartments.

The GEPF invested in Arch property fund in March 2017, through a 20% equity subscription and a BEE SPV debt funding, to acquire a 19% equity stake. The investment was underpinned by the sustainable growth of Arch's underlying assets and the transformation of the company through the integrated empowerment consortium, forming the BEE SPV.

Highlights for 2017/18 were:

- The R2 billion One-on-Whitely residential development, scheduled for completion in 2019, is 85% sold;
- The R1.2 billion Yacht Club residential development scheduled for completion in November 2018 is sold out; and
- The flagship of the Arch property fund, Melrose Arch, was voted 'The best place to see and be seen' for eight consecutive years, in the leisure options Best of Johannesburg Readers' Choice Awards.

Directly Held Portfolio Highlights

- The industrial portfolio of the GEPF directly held portfolio is fully let nationwide
- PIC management has maintained strong relationships with clients by providing solid levels of service and continuously improving the quality of properties
- The refurbishment work at The Wedge Shopping Centre is **98% complete** and the majority of the centre is open for trade
- **New tenant secured for 15 500m^2** of 3 Alice Lane on a ten-year lease starting 1 October 2018. Refurbishment of the building and tenant installation work is planned to meet the tenant's requirements
- The **6 761m^2** Riverside Office Park development in Mpumalanga is complete, having **saved R4 million** against the initial budget. The property was developed in partnership with a **100% black-owned** company funded by the PIC on behalf of GEPF and is **100%** let to the provincial Department of Roads and Transport
- **Seven-year lease on 9 635m^2** at Tygerberg Industrial Building in Cape Town with Medipost, a PIC investee company
- **Five-year lease on 18 000m^2** at JV Park Industrial, Durban
- Completion of a **29 keys 4-star** hotel refurbishment at Simon's Town Quayside Hotel, Cape Town
- Location of Pick n Pay at Ga-Rankuwa City, with a **gross lettable area of 3 064m^2**. This added a second anchor to the small regional centre and increased the space in the centre **occupied by black retailers from 5% to 13%**, as Pick n Pay is a franchise to a black-owned and -managed company. This created an opportunity for both local businesses and job seekers
- Fulfillment of the approved pre-let conditions for Tlhabane City Centre redevelopment
- Approval for the refurbishment of the UIF buildings in Bisho and Thohoyandou, with construction at an advanced stage

Directly Held Portfolio Overview

At 31 March 2018, the PIC managed assets of R14.7 billion in the directly held portfolio on behalf of the GEPF, the UIF and the CC. The portfolio investment focus is still heavily on the office market, which makes up 50% of the portfolio, followed by the retail portfolio at 34% and the industrial portfolio at 11%. The remainder of the portfolio consists of vacant land at 2%, specialised property at 2% and residential property at 1%. The portfolio is well diversified within each sector in terms of property type, location and tenant type.

GEPF Retail Portfolio

GEPF's retail assets constitutes 34% of the directly held portfolio by market value. The portfolio consists mainly of small segment centres with neighbourhood centres, followed by convenience, community and small regional centres. The previous financial year saw the portfolio adding new, small regional centres, namely Central Square and Tshwane Regional Mall, which is to be completed in 2019.

The GEPF's retail portfolio continues to deliver sustainable performance notwithstanding the prevailing economic conditions. With retail as one of the best-performing sectors in the market, the portfolio performance is expected to be in line with dominant market trends and to improve as the outlook for domestic economy improves. Redevelopments of existing centres remains a priority to ensure the highest and best use of all retail properties, with the value of ongoing developments currently sitting at R932 million.

GEPF Office Portfolio

The GEPF's office portfolio constitutes 50% of the GEPF's directly held portfolio by market value. The portfolio is further differentiated by grades, with A-grade office buildings continuing to lead by market value at 59% of the total office portfolio. The completion of the Business Connexion office premises has introduced a new segment to the portfolio, namely P-grade offices that diluted the A-Grade segment's GLA composition.

The portfolio is exposed to six of the nine provinces of South Africa, with the bulk of the portfolio (87.1%) in Gauteng. There is little to no representation in other provinces, but efforts have been made to extend the exposure to other provinces, such as the recently developed Riverside Office Park in Mpumalanga.

Although there have been quarterly improvements on income returns for the portfolio, these have remained below the industry benchmark. The portfolio continues to be under pressure on vacancies and rental growth due to oversupply of office space in the market, in particular in the Sandton node.

GEPF Industrial Portfolio

The GEPF's industrial portfolio makes up 11% of the GEPF directly held portfolio by market value. The portfolio is further diversified into warehousing, standard units, light manufacturing and high-tech industrial segments.

The majority of the GEPF's industrial portfolio is in the warehousing segment, with the portfolio represented in three of the nine provinces, namely Gauteng (40%), KwaZulu-Natal (33%) and Western Cape (26%).

GEPF's industrial portfolio income performances continue to measure relatively below conditions in the market. However, portfolio arrears are minimal, with a very high occupancy rate. Thus, it is envisaged that the disposal of underperforming assets and the acquisition of new, quality assets will greatly assist in the income performance of this portfolio.

GEPF Specialised Portfolio

The GEPF's specialised portfolio constitutes 5% of the directly held portfolio and is represented in four of the nine provinces in South Africa, with assets in Gauteng (55.36%), North West (25.17%), Western Cape (11.71%) and KwaZulu-Natal (7.76%). Specialised properties makeup 77% and residential properties 23% of the GLA, excluding the 20 vacant land parcels that are undeveloped and therefore have no GLA.

The total return for the portfolio was below the benchmark for the year under review, due to the high number of vacant land properties and disputed leases, with some occupiers refusing to pay rental. The long-term strategy is to develop on the vacant land parcels, to refurbish the existing structures, to dispose some of the underperforming assets and to resolve all leasing disputes to improve future returns.

Outlook

In ensuring that the Properties Portfolio outperforms the relevant benchmarks, the Properties division continues to look at innovative options to grow and improve existing assets under management. In so doing, the following objectives are central to ensure that the PIC meets the mandates of its clients.

Growth

- To maintain the PIC's leading position by focusing on quality new developments and redevelopment of non-performing assets; and
- Positioning the PIC clients as the preferred provider of office space accommodation for government and related entities while developing effective rental collection mechanisms.

Transformation

- Leading the transformation of the property sector through strategic investments that ensure skills transfer and wealth creation to previously disadvantaged groups.

Quality and Service

- Developing and acquiring assets that have world class facilities in preferred locations to ensure that the tenants associate the PIC with first class service and superior quality; and
- Pioneer the development of quality infrastructure coupled with excellent services for previously neglected markets such as townships and rural areas.

Environmental and Sustainability

- Upholding the principles of the United Nations Principles of Responsible Investing (UNPRI) as one of the founding signatories and implementing industry accredited practices and standards in managing the portfolio which include Green Building initiatives and Leadership in Energy and Environmental Design (LEED) certifications; and
- Emphasis on sustainability and positive performance over the long term, to ensure significant impact that is aligned to our Clients' mandate.

Social Impact

- The creation of employment opportunities in communities through the development of infrastructure whilst ensuring progressive spatial planning and integration;
- Ensuring practices of spatial integration according to industry standards by the creation of trade areas and the establishment of ties with the core areas and surrounding communities;
- Serving as a catalyst for local economic development in communities by promoting trade facilitation SMME growth; and
- Partnering and engaging with communities to build a sense of pride and ownership of assets that are located in their geographical location.

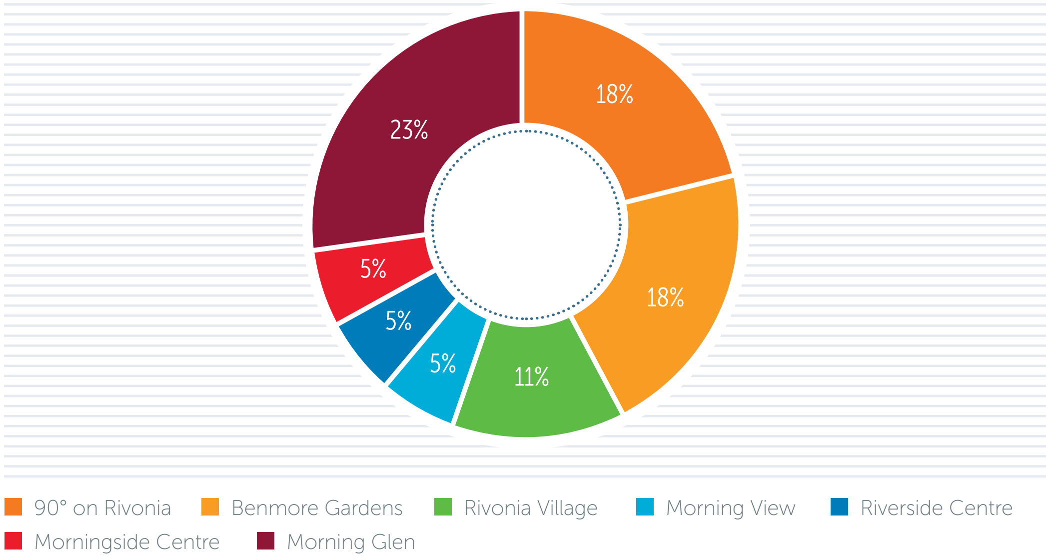
CASE STUDY

Investing to redevelop existing properties

The Wedge Shopping Centre – Rivonia, Johannesburg

The PIC, on behalf of GEPF, acquired the Wedge Shopping Centre as part of a portfolio of properties under the CBS Property Fund in 2007. Over time the shopping centre's physical condition deteriorated and its management experienced certain tenant's failures, in particular, the cancellation of leases by Fruit & Veg City and Mr Price Home. The centre was also severely under-parked, which made it non-compliant with council requirements for parking. A market study conducted by Urban Studies reiterated some of these issues and noted that traditional customers of the Wedge had been lost to other competing centres in the catchment area. Some major concerns raised by those surveyed were the high number of vacant shops, the physical appearance of the centre and lack of, or the limited variety of restaurants.

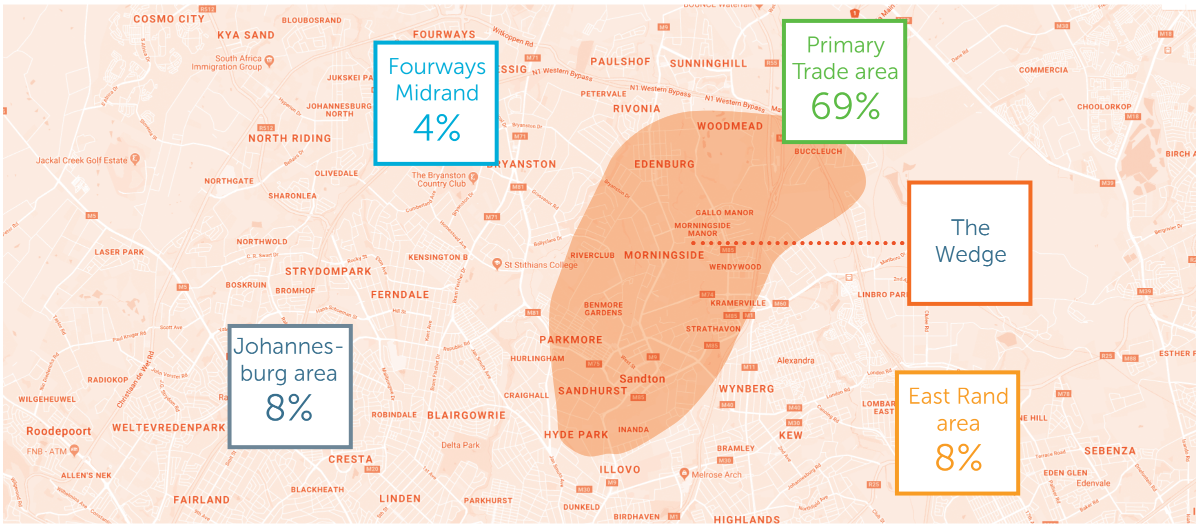
Community centres supported



Source: Urban Studies - Market research -The Wedge

The Wedge Shopping Centre March 2016

Primary trade area of the Wedge



Source: Urban Studies - Market research - The Wedge

The PIC assembled a team of professionals from its Asset Management and Development teams to develop a concept to re-develop the centre into a new modern convenient destination offering a lifestyle experience. The new vision was to create a vibrant, well-integrated, mixed-use precinct that offered retail options, offices, medical suites and a fitness centre to complement the existing offerings on-site. The scope of work concentrated on building a new parkade as well as shops that focused on community and neighbourhood convenience, health and quality lifestyle.

The PIC Project team led a professional team of largely B-BBEE consulting firms. The project cost was approved at approximately R230 million. The main contractor tender was awarded to a 100% black-owned construction company, further demonstrating the PIC's commitment to transformation and empowerment in the built environment.

Tenants at the centre now include an expanded Woolworths, a new Spar Supermarket and Tops at Spar bottle store, an expanded Morningside pharmacy dispensary, Clicks, a new Planet Fitness Gym and a variety of new restaurants.

Construction on the project was completed in 16 months and by the end of March 2018, all tenants were trading in the new revamped and developed shopping centre.

The Wedge Shopping Centre March 2018

CASE STUDY

Investing to redevelop existing properties

Centre Point Shopping Centre – Milnerton, Cape Town

The PIC, on behalf of the GEPF, acquired Centre Point in 2007 as part of a portfolio of properties under the CBS Property Fund. Due to new retail developments on Koeberg Road, the centre needed a facelift to retain certain national tenants.

Centre Point Shopping Centre is 10,958 m^2 and offers two levels of world-class shopping, with most of the dominant commercial brands and three levels of basement parking offering a safe and convenient environment for visitors. Three levels of residential apartments were designed to further enhance the development.

Milnerton is being revitalised, capitalising on its strategic advantages of location, variety, easy access and convenience, including a My-Citi bus station directly opposite Centre Point Shopping Centre. The centre, which caters for LSM 3 to LSM 8 consumers, has welcomed back historic tenants such as Pick n Pay, Clicks and Nedbank. Pick n Pay presented its latest specifications and introduced a specialised Kosher butcher to cater for a niche market in the area. In addition, there is a new Ignite Fitness gym and a variety of restaurants and coffee shops.

The residential portion of the development will be managed through a head lease with Jawitz Properties, a seasoned residential property management company. The 49 apartments comprise of one and two bedroom units with amazing views of the city of Cape Town.

The PIC project team managed a team of professional B-BBEE consulting firms working on the R413 million project. The main contractor tender was awarded to a 51% black-owned construction company, which demonstrated the PIC's commitment to transformation and empowerment in the construction sector. The project team's brief was to improve the tenant mix, enhance the shopping experience, attract shoppers and, ultimately, complement the existing components of the Milnerton central business district. The work concentrated on a complete redevelopment of the centre to attract retail outlets focusing on community and neighbourhood convenience, health and quality of lifestyle.

Centre Point was voted the safest construction site in the Western Cape for 2016/17 and was rated second, nationally. The development uses solar PV panels to offset electricity costs, with a view to progressively move off the grid. It also used groundwater harvested in the construction phase to assist in water savings. The centre has implemented best practice across its construction and design processes and intends to introduce smart metering through technology products such as VOX.

*The project has created more than **229 jobs** to date and will be officially opened by the end of September 2018*

Centre Point, Milnerton March 2011

Centre Point, Milnerton March 2018

The GEPF investment in Menlyn Maine – the first green city in Africa

Client Portfolio Performance

Government Employees Pension Fund (GEPF)

Asset allocation

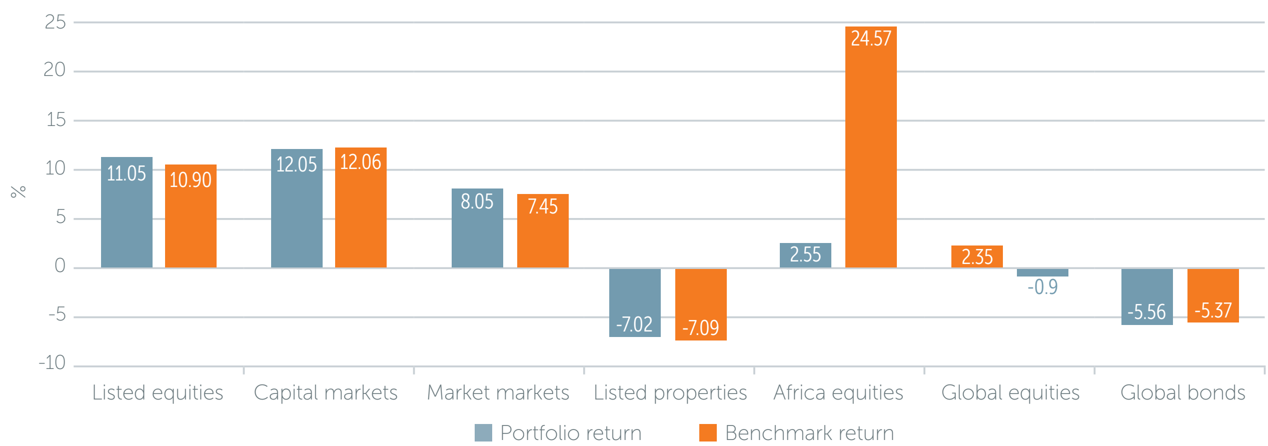
During the year under review, the GEPF's asset allocation consisted of 57.80% equities, which included local listed, local unlisted, international and Africa (excluding South Africa) equities; 33.69% bonds, including exposure to local listed, local unlisted and international capital markets; 5.52% listed and unlisted properties and 2.99% cash and money market portfolios.

GEPF asset allocation

Performance

The GEPF's listed performance over a three-year rolling period has been positive, returning 6.07% against the benchmark return of 5.88%. During the year under review, its total listed portfolio returned 9.74% against a benchmark return of 10.72%. The local listed equities returned 11.05% against the benchmark return of 10.90%, outperforming the set benchmark by 0.13%. Capital market bonds returned 12.05% against a 12.06% benchmark return. Money markets returned 8.05% compared to a benchmark return of 7.45%, outperforming the STeFI (short-term fixed interest) index by 0.56%. In general, the properties market has not done well, as reflected in the performance of the listed property portfolio. Although listed property returns have been low, the GEPF's listed property outperformed the benchmark by 0.07%, after returning -7.02% against the benchmark return of -7.09%. The graph below shows the performance of each class against the benchmark.

GEPF performance*



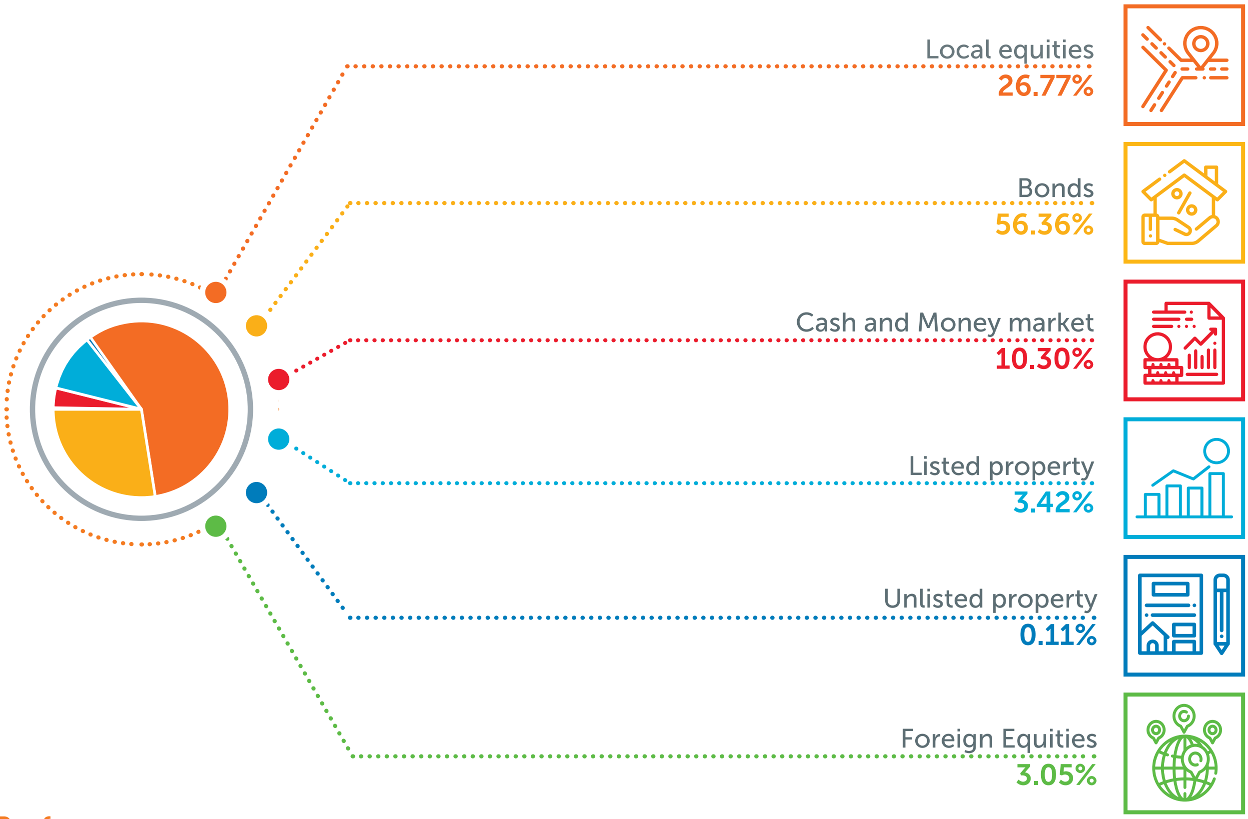
* Relative return for GEPF is calculated using geometric method as per the mandate.

Unemployment Insurance Fund (UIF)

The UIF's asset allocation consisted of 26.77% local equities, 56.36% bonds, 3.42% listed property, 10.30% cash and money market, 3.05% foreign equities and 0.11% unlisted property.

Asset Allocation

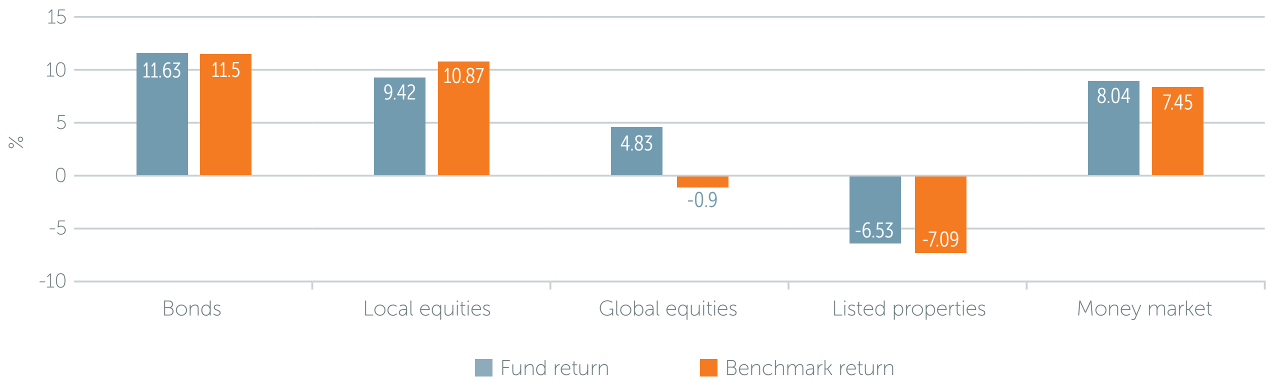
UIF asset allocation



Performance

The Fund has performed well over a three-year rolling period, returning 6.09% against the benchmark performance of 6%. During the year under review, it returned 9.84% against the benchmark return of 10.22%. The listed properties portfolio outperformed benchmark by 0.55%, after returning -6.53% relative to the benchmark return of -7.09%. The total bond portfolio returned 11.63% against the benchmark return of 11.50%. The equities portfolio underperformed, returning 9.42% against the benchmark return of 10.87%. Money market returned 8.04%, outperforming the benchmark return of 7.45%. Global equities outperformed the benchmark by returning 4.83% against the benchmark return of 0.90%.

UIF performance

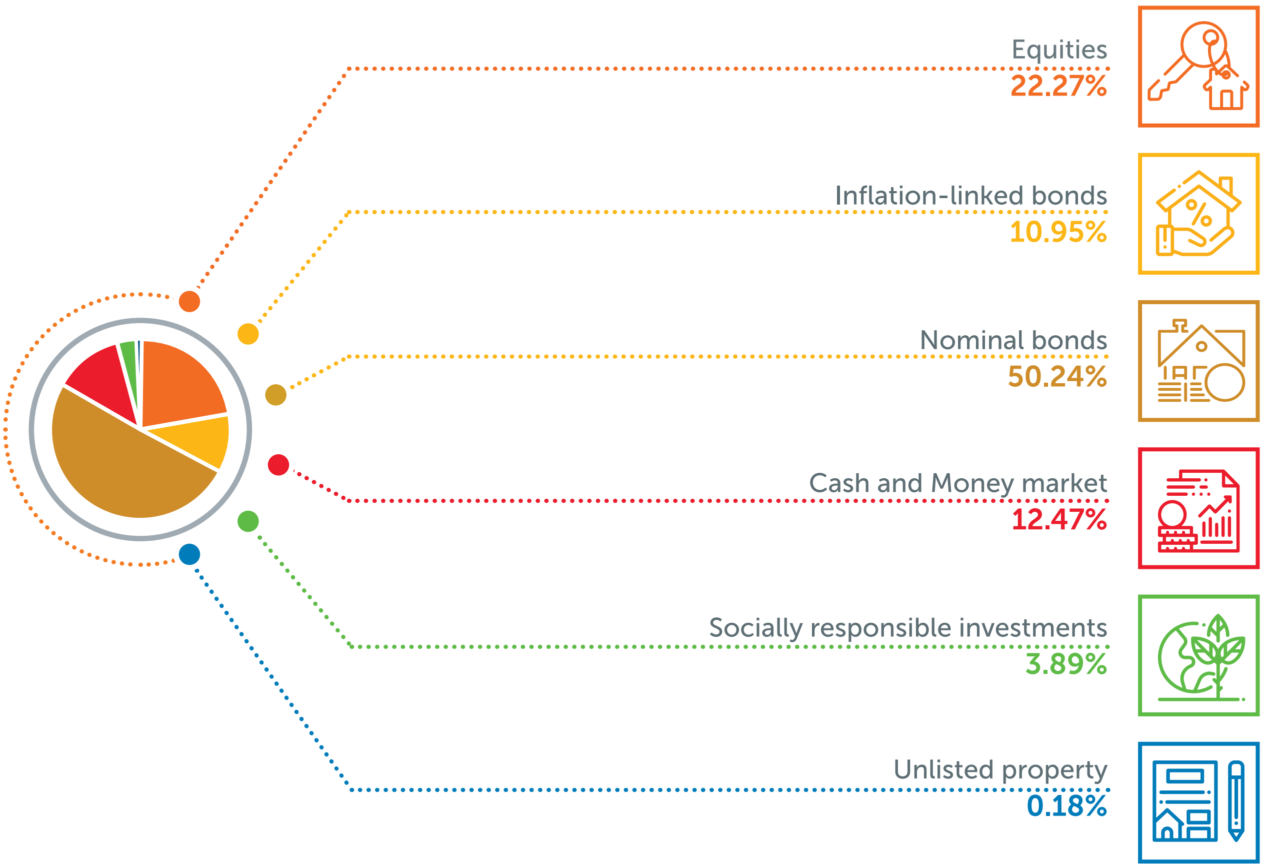


Compensation Commissioner Fund (CC)

The CC portfolio consists of 50.24% nominal bonds, 22.27% equities, 12.47% cash and money market, 10.95% inflation-linked bonds, 3.89% socially responsible investments and 0.18% unlisted properties.

Asset Allocation

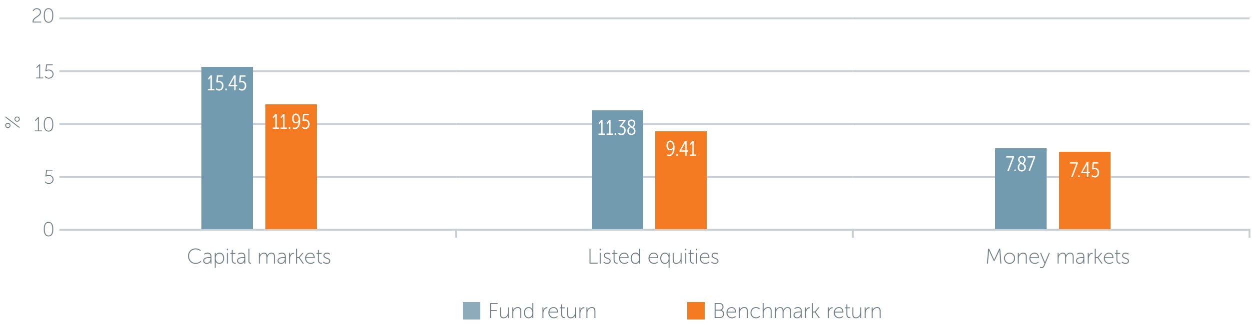
CC asset allocation



Performance

The Fund returned 7.26% over a three-year rolling period, outperforming the benchmark return of 6.66%. The financial year under review saw the Fund outperforming the benchmark, returning 13.77% against the benchmark return of 11.20%. The capital market, which is made up of conventional and inflation-linked bonds, returned 15.45% against the benchmark return of 11.95%. Listed equities, on the other hand, returned 11.38% against the benchmark return of 9.41%.

CC performance

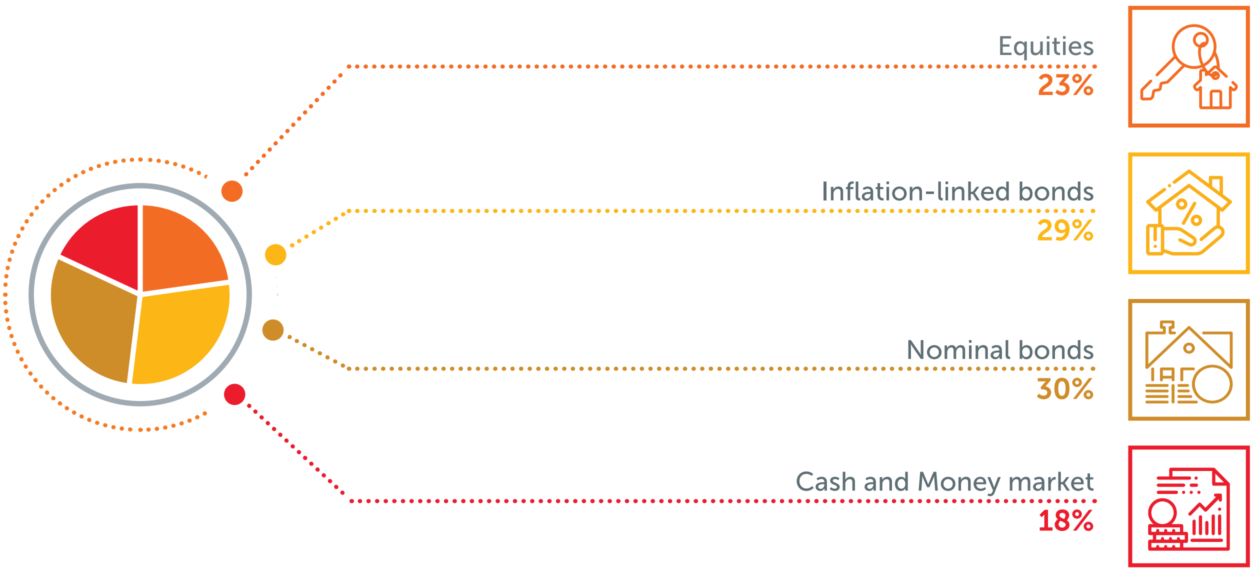


Compensation Pension Fund (CP)

The CP asset allocation consists 30% nominal bonds, 29% inflation-linked bonds, 23% equities and 18% cash and money market portfolios.

Asset Allocation

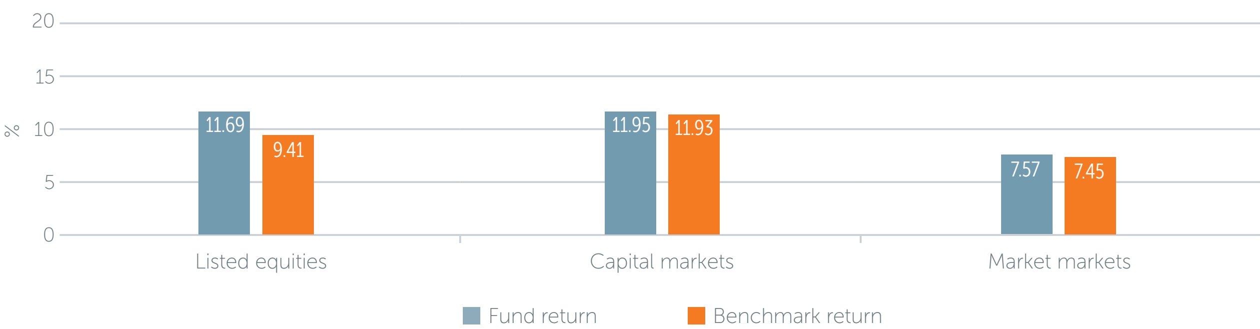
CP asset allocation



Performance

The CP portfolio has outperformed the benchmark over a three-year rolling period, returning 6.47% against the benchmark return of 6.44%. In the financial year under review, it returned 11.59% against the benchmark of 11.28%. Total bonds made up of conventional and inflation-linked bonds outperformed the benchmark, returning 11.95% against the benchmark of 11.93%. The money market returned 7.57%, outperforming the benchmark of 7.45%. Listed equities also outperformed benchmark, with 11.69% against the benchmark of 9.41%.

CP performance

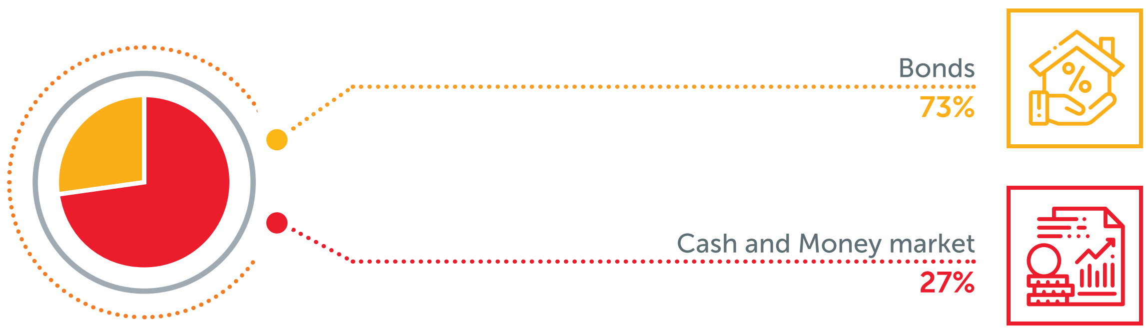


Associated Institutions Pension Fund (AIPF)

Asset Allocation

The AIPF portfolio is made up of two types of assets, namely capital market or bonds at 73% and cash and money market at 27%.

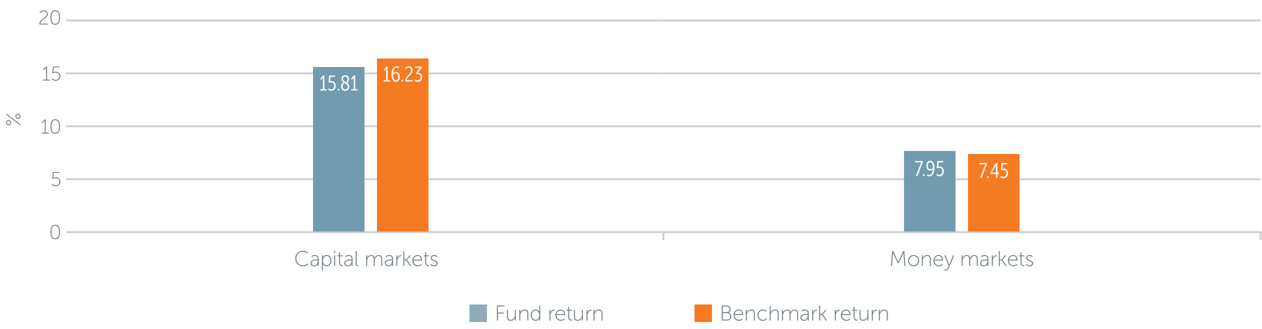
AIPF asset allocation



Performance

The AIPF underperformed the benchmark, returning 8.34% against the benchmark of 8.37% over a three-year rolling period. During the year under review, it returned 13.64% against the benchmark of 14.03%. The capital market or bonds returned 15.81% compared to the benchmark of 16.23%. Money market outperformed the benchmark return of 7.45%, returning 7.95%.

AIPF performance



Creation of Social Returns: Social Impact of Unlisted Investments

The PIC Investment thesis is underpinned by an unwavering commitment to ESG considerations. This commitment is demonstrated by the institution signing up to the United Nations Principles of Responsible Investing (PRI), the United Nations Global Compact (UNGC), the Code for Responsible Investing SA (CRISA), and Sustainable Development Goals (SDGs).

The PIC believes it is necessary to link the financial performance and the growth outlook for investor and investee companies to how they manage and implement ESG principles in their business operations. The PIC has embedded ESG in its investment processes as the tool with which to monitor, measure and report on the impact of its ESG activities among investee companies.

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

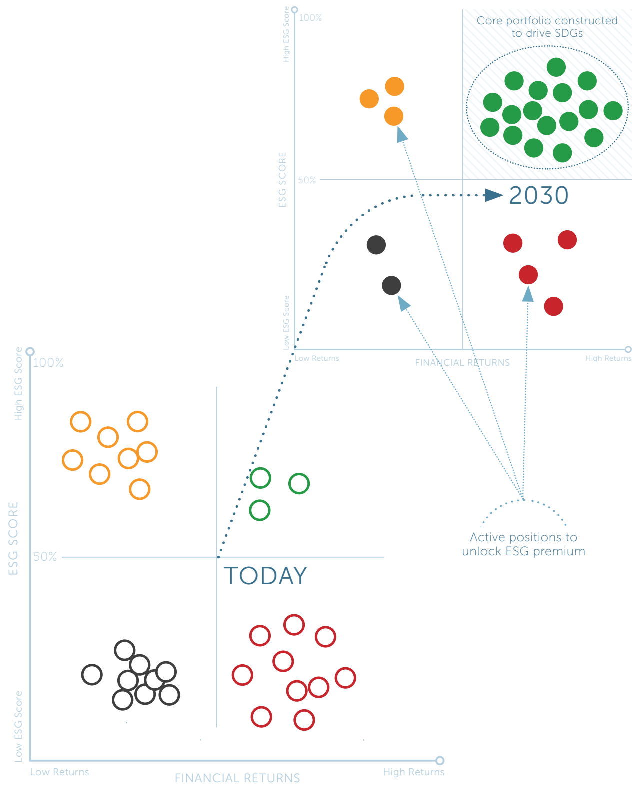
The PIC strongly encourages investments to incorporate SDG performance monitoring into their day-to-day activities. It is the PIC's belief that sustainable financial returns can be realised only through the enforcement of ESG and by aligning investments with the principles of SDGs. This report highlights and communicates SDG opportunities within investments and within specific sectors.

Through the terms of the UN's Principles for Responsible Investing – Principles 2 and 6 – the PIC is entrusted with the duty to 'be active owners and incorporate ESG issues into our ownership policies and practices' and to 'report on our activities and progress towards implementing the principles'. This report discloses the PIC's active ownership activities through engagements held with investee companies.

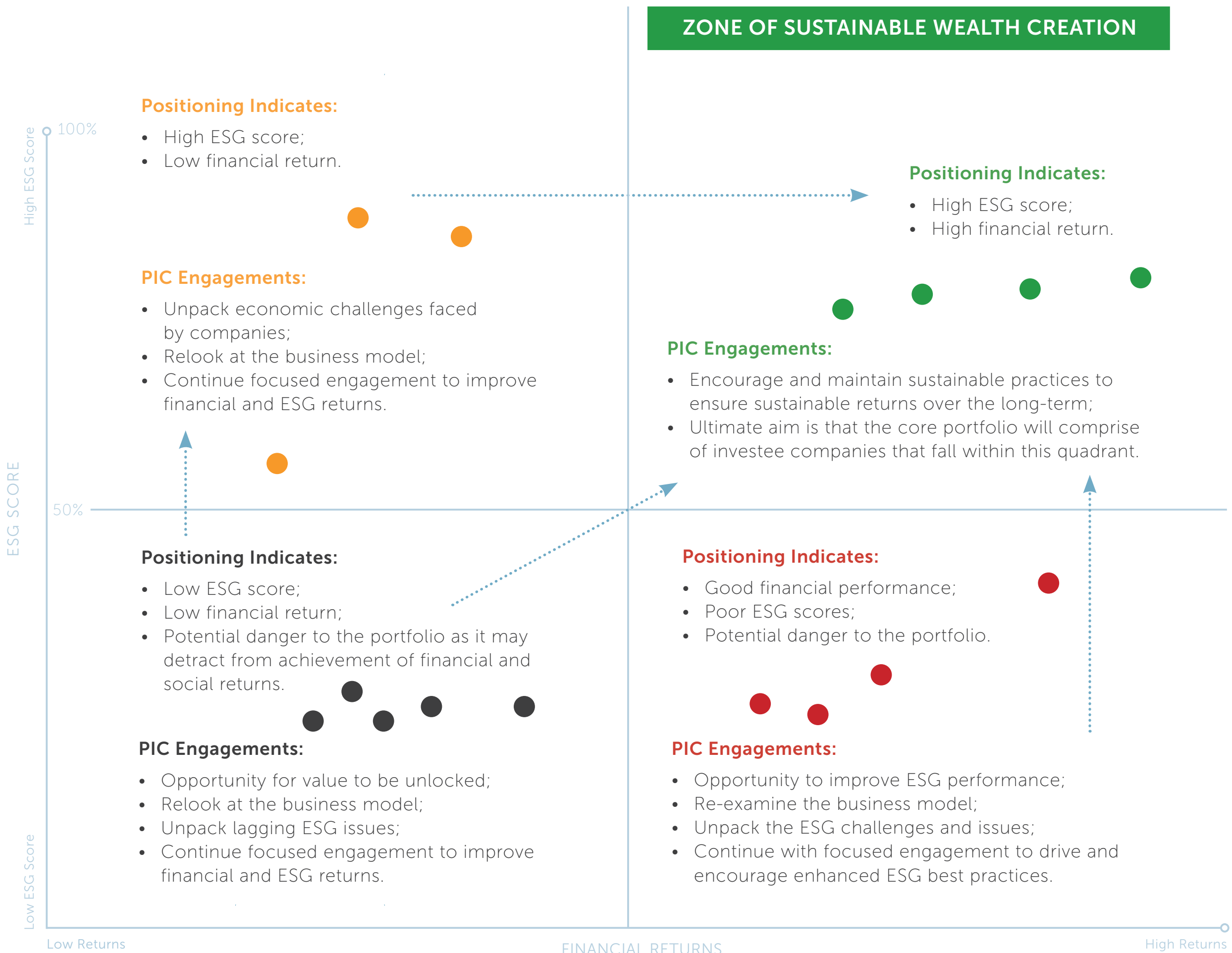
ESG and SDG Frontier 2030 Investment Approach

Driving the achievement of SDGs by unlocking the ESG premium in investee companies.

The PIC believes that through focused ESG engagements, it can encourage investee companies to unlock the investee company's ESG premium and in so doing aid in driving an investee company's performance and positioning to the PIC's preferred quartile, the zone of sustainable wealth creation (top right-hand quartile). This will result in a core portfolio constructed to align and drive SDGs.



ESG Investment Matrix

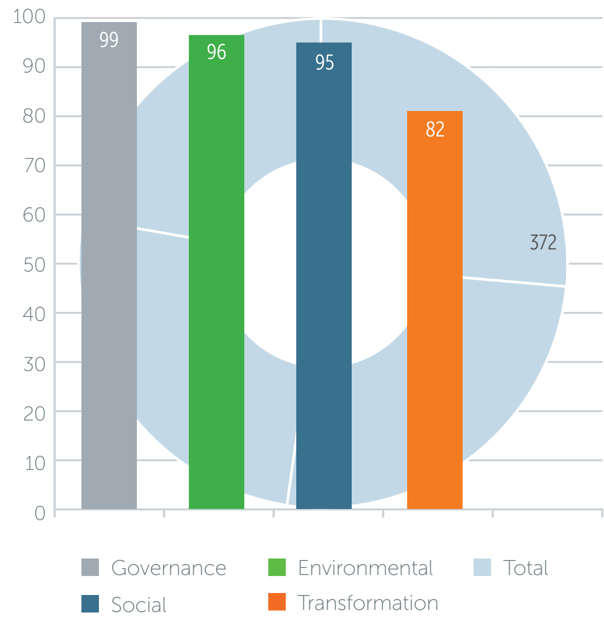


SDG ESG Engagement Themes

The PIC continuously engages with investee companies on its ESG targets and objectives that are set out in project-specific corrective action plans. Engagement themes are guided by specific industry requirements, PIC requirements and contractual obligations.

For the year under review, the team engaged on 372 ESG matters with investee companies. The majority of these engagements related to governance, which accounted for 27% of total engagements, followed by environmental and social concerns at 26% and discussions on required transformation at 22%.

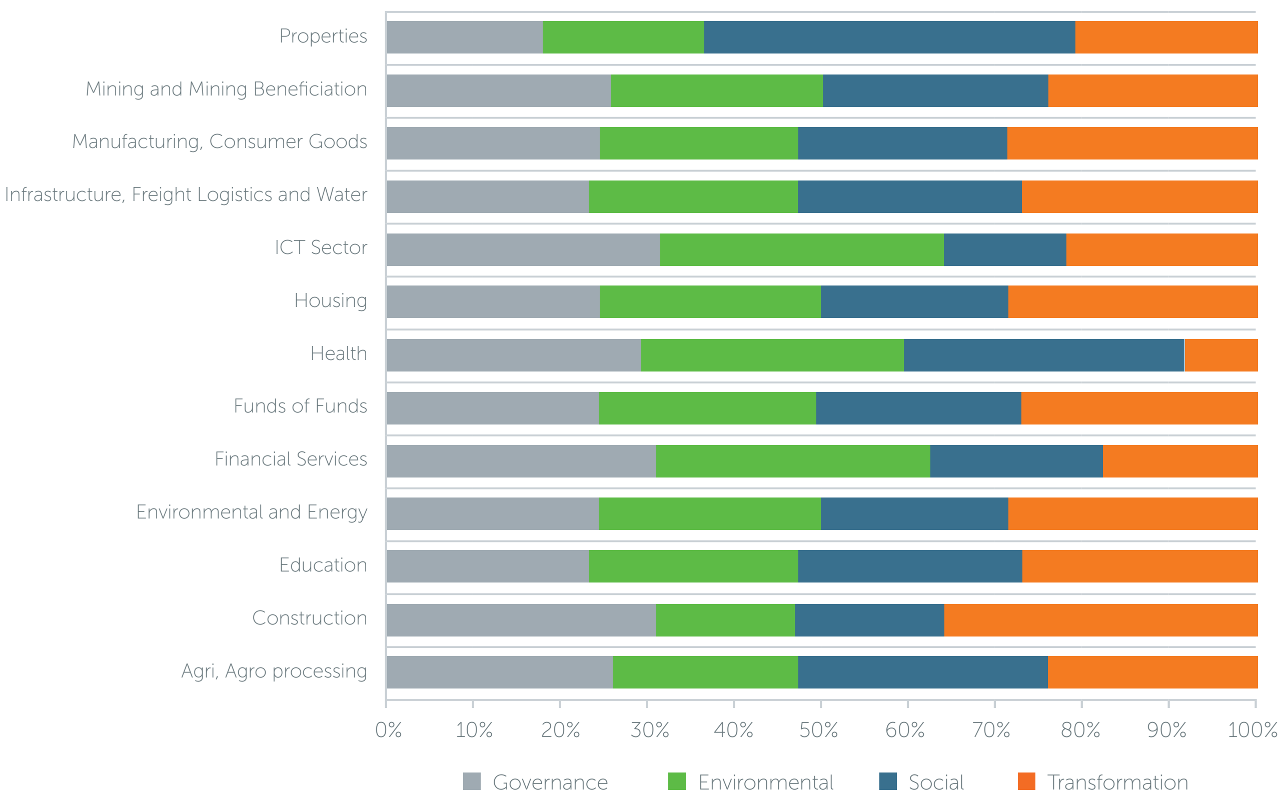
ESG engagement matters with investee companies



Engagements by Sector

Engagements occurred with all investee companies across all sectors wherein the PIC invested to encourage and foster responsible business practices to ensure sustainability of businesses and investments. The graph below provides a summary of the engagement composition across all four dimensions with investee companies per sector.

Engagements by Sector

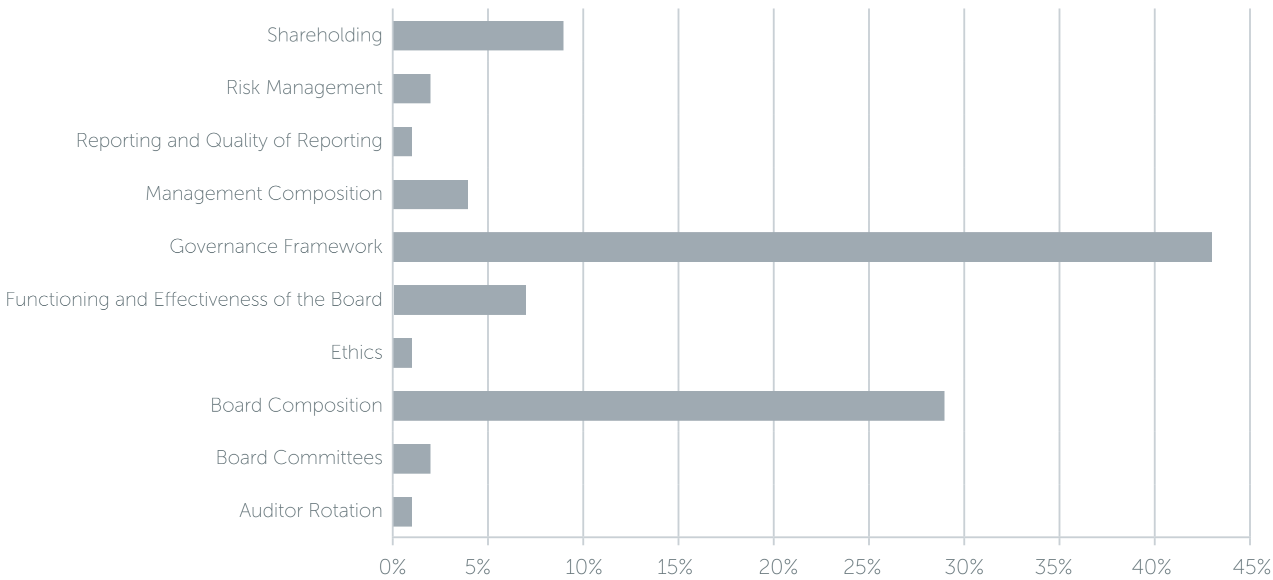


Issues of Engagement

Governance Engagements

The PIC encourages a culture of good corporate governance within all its investments. This is driven from inception of an investment to exit. ESG assessments incorporates analyses of the company's constitution and provide recommendations to eliminate gaps that are identified. Good corporate governance is enforced by adopting best practice as well as the King Codes. The ESG team undertook numerous engagements with management teams in the portfolio of investee companies. The most common governance engagement themes for the year to date encompassed the following:

Governance engagements



Governance engagement matters included:

Board Composition

- Restructuring of investee company Boards due to structure changes;
- Greater gender and racial diversity on Boards;
- Establishment of Board sub-committees; and
- Greater Board independence.

Board Functioning and Effectiveness

- Revision of Board and committee charters; and
- Over-boarding – too many directorships for different entities and irregular meeting attendance.

Governance Framework

- Workshops with investee companies on developing governance frameworks that align to the Companies Act and King IV.

Management Composition

- Encourage greater gender and racial diversity; and
- Succession planning.

Auditor Rotation

- Discussions with investee companies on the need to rotate auditors in line with PIC policy advocating a maximum of 10 years; and
- Recommendations to increase the appointment of black audit firms when an opportunity arises, i.e. when rotation is imminent and when audit partners are selected.

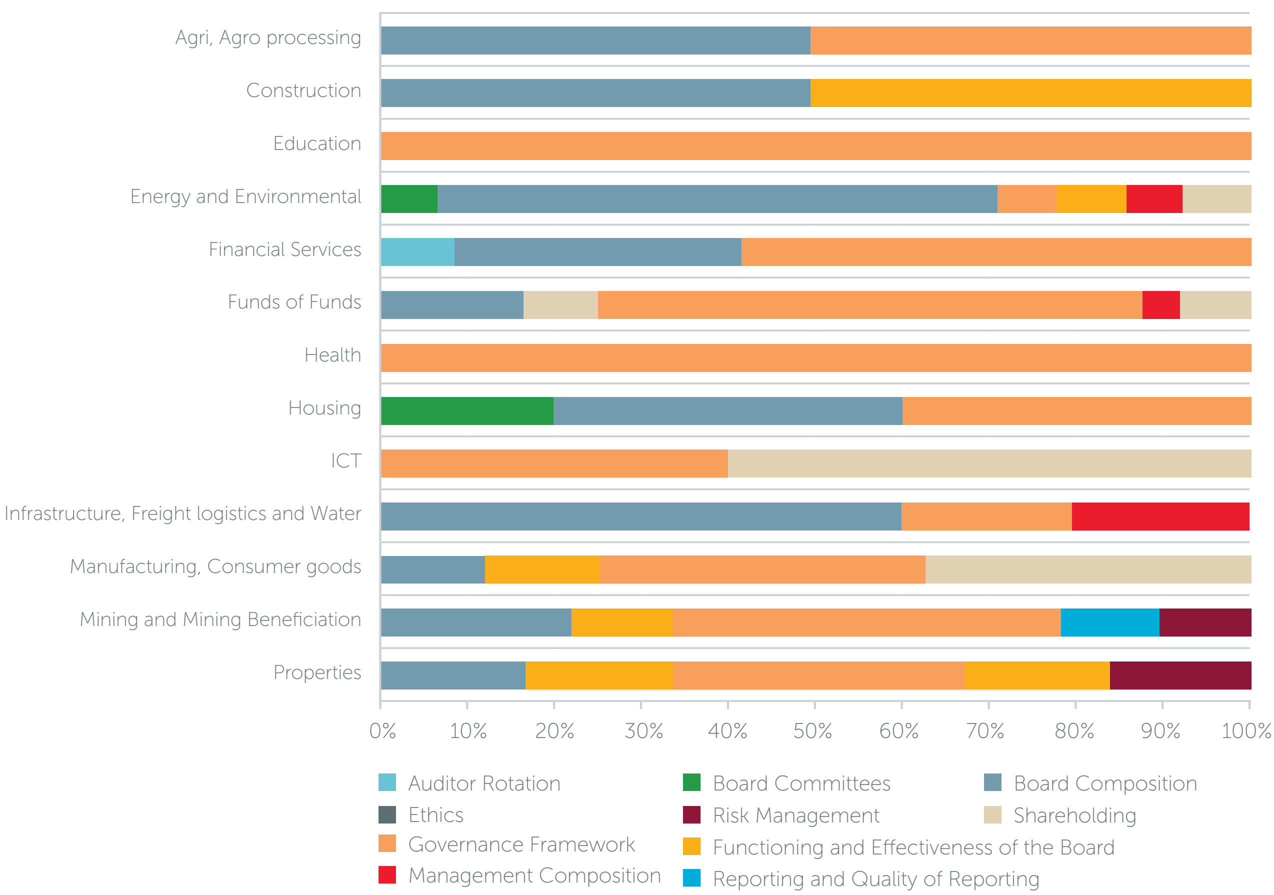
Risk Management

- The Board is expected to play an oversight role to ensure that risks anticipated by the company are identified and monitored regularly; and
- Investee companies are expected to demonstrate their understanding and develop mitigation strategies for inherent and residual risks within the business.

Governance Engagements per Sector

The graph below reflects the main governance issues during the period under review with portfolio investee companies across the various sectors.

Governance engagements by sector year to date



Environmental Engagements

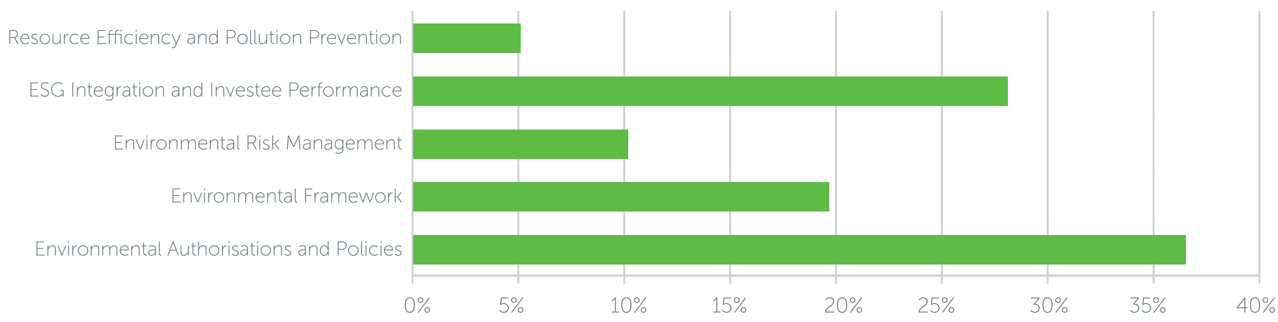
Environmental protection and rehabilitation are primary drivers and important requirements for the PIC when considering any investment application. Investee companies need to demonstrate a high level of compliance to environmental legal requirements. Environmental legal compliance emanates from the existing laws of the country, such as the National Environmental Management Act 107 of 1998, the National Water Act 36 of 1998 and the National Environmental Management: Air Quality Act 39 of 2004.

The figure below illustrates the environmental topics engaged on across the various sectors, environmental authorisations and policies comprised 37% of total environmental engagements. The PIC fully supports the drive for clean energy SDG 7 and 'green' investments, which support SDG 13 on climate change.

Natural capital is viewed by the PIC as the fundamental basis from which businesses are established and is dependent on being able to drive the desired levels of economic growth (SDG 8).

The most common environmental engagement topics are illustrated in the figure below:

Environmental engagements by topic



Environmental engagement matters included the following:

Environmental Authorisation and Policies

- Investee companies are required to comply with regulatory permits issued by the authorities. Environmental audits conducted by companies are discussed to ensure audit findings are addressed accordingly; and
- Environmental policy development and implementation are monitored to ensure efficient management of resource, biodiversity and pollution.

Environmental Framework

- Investee companies whose operations have a significant impact on the environment are encouraged to have an adequate environmental management framework. The framework is to be aligned with the requirements of the National Environmental Management Act (NEMA, Act No. 107 of 1998) and other relevant legislation.

ESG Integration

- Not all investee companies have a material impact on the environment due to the size or nature of their business operations, for example financial services; and
- The PIC, however, encourages investee companies to consider the impact of ESG considerations in their business model and to promote sustainable business practices, i.e. responsible lending, supply chain vetting to eradicate child labour, improvement of financial products to enhance financial inclusion, as per and alignment where possible to the SDGs.

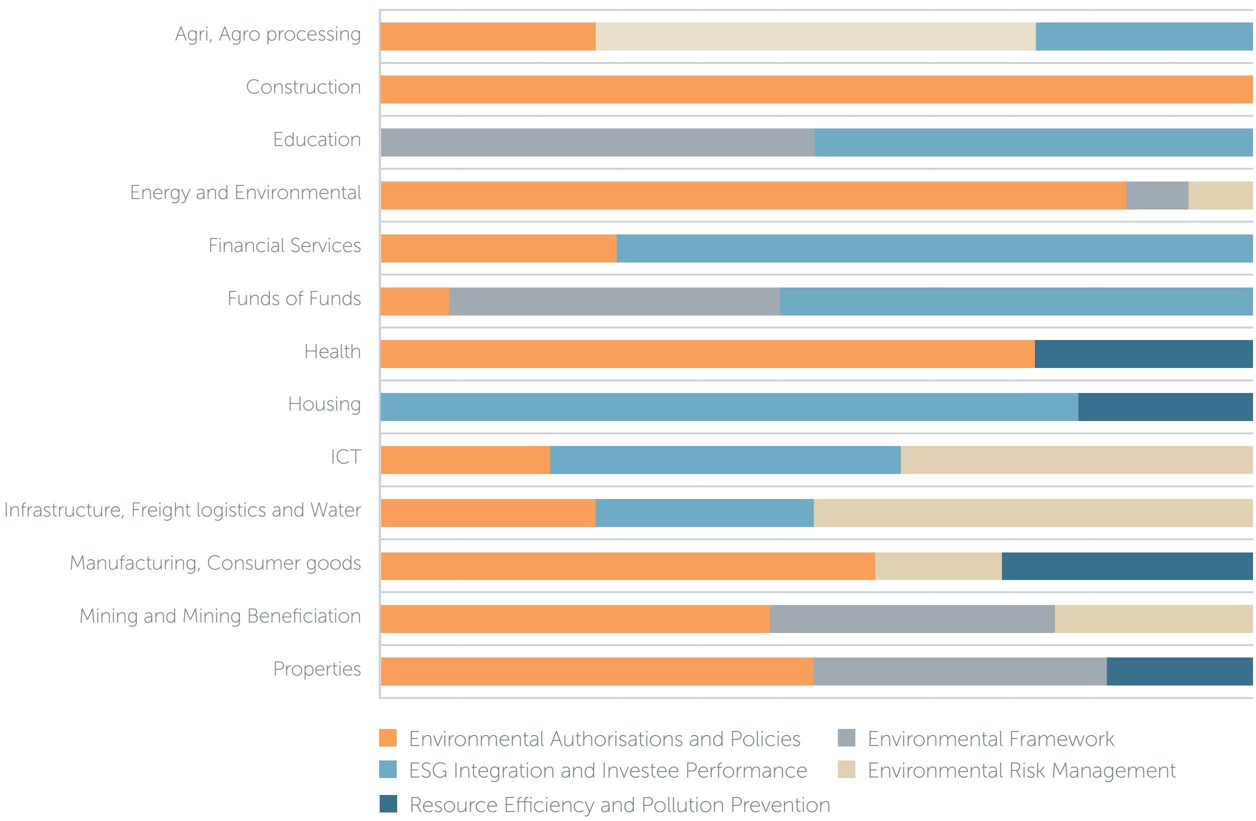
Environmental Risk Management

- Environmental risk management is encouraged within all investee companies, particularly those whose operations are more vulnerable to natural disasters (agriculture) or those that have a material and negative impact on the environment; and
- Investee companies are, therefore, encouraged to develop robust risk registers and risk mitigation strategies.

Environmental Engagements per Sector

The graph below reflects the main environmental topics engaged on during the period under review with portfolio investee companies across the various sectors.

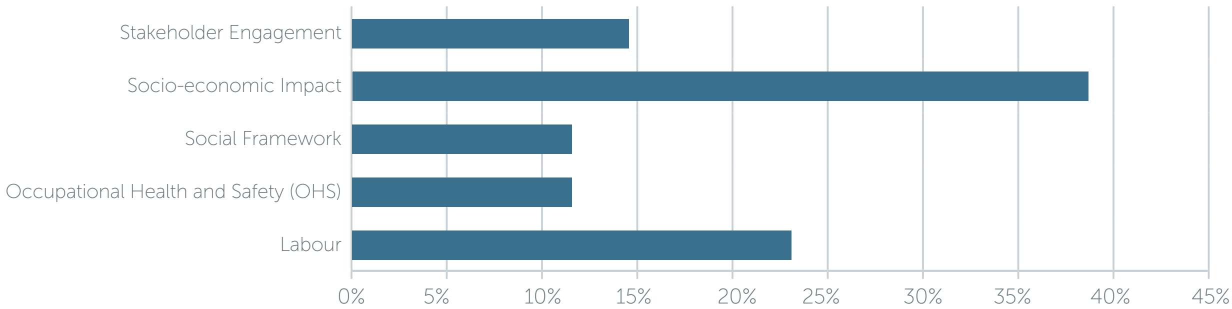
Environmental engagements by sector year to date



Social Engagements

The PIC has an obligation to ensure that its investments yield a positive social impact. Thus, it always monitors social impact performance through various parameters specific to the relevant sector and business model. Such parameters, coupled with sectorial challenges, form the basis of social engagement topics. The most common social engagements are illustrated in the figure below.

Social engagements by topic



Social engagement matters included the following:

Labour

- Engagements in this area includes the requirement for basic conditions of employment to be adequately explained to employees within investee companies; and
- Issues of fair remuneration (minimum wages) and non-discrimination were workshopped, particularly in areas where weaknesses were identified.

Occupational Health and Safety

- The health and wellness of employees are linked to workplace performance. Investee companies are occasionally engaged on the need to provide safe working environments for employees and the communities within which they operate.

Socio-economic Impact

- Critical areas of engagement included job creation, corporate social initiatives and enterprise development; and
- Issues of transformation are also continuously emphasised to ensure alignment with the B-BBEE codes and the NDP.

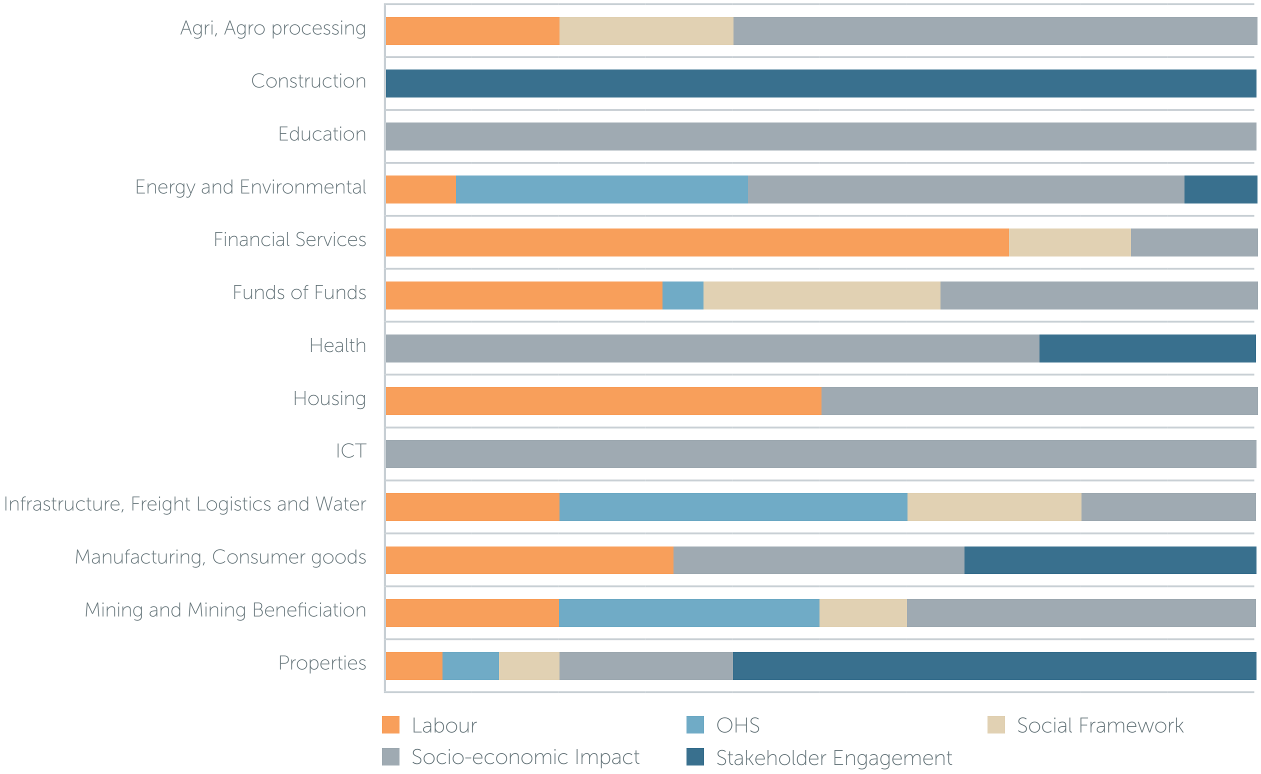
Stakeholder Engagement

- Companies that have grasped the importance of actively developing and sustaining relationships with affected communities and other stakeholders throughout the life of their projects, and not simply during the initial feasibility and assessment phases, are reaping the benefits of improved risk management and better outcomes;
- The PIC advocates and recommends that investee companies take a holistic stakeholder approach; and
- To achieve the best results, the PIC encourages companies to have formally documented policies in place to identify and manage all stakeholders, thus ensuring business health.

Social Engagements per Sector

The graph below reflects the social topics engaged on during the period under review with portfolio investee companies across the various sectors.

Social engagements by sector year to date



The PIC advocates and recommends that investee companies take a holistic stakeholder approach

Transformation Engagements

South Africa continuously strives to correct the ills of the past through regulation and policy initiatives and, specifically, to empower Historically Disadvantaged Individuals (HDI). The B-BBEE Act provides the guidelines and thresholds for advancing transformation and empowerment. Albeit that true transformation, as intended, remains a challenge for some investee companies, the amended B-BBEE Codes have had an adverse impact on the BEE scores of most portfolio investee companies in meeting the required targets. The PIC, thus, continuously engages and advises investee companies on where and how to improve their B-BBEE status.

B-BBEE aims to address the imbalances of how the domestic economy is structured and to promote transformation that can enable meaningful participation for the majority of citizens in economic activities. The PIC believes that an appropriately transformed company - specifically a transformed ownership structure, management and workforce - creates a more cohesive operating environment that ultimately improves the operational efficiency for companies, adding to the bottom line, thus improving client investment returns. Based on our clients' mandates, the PIC is well positioned to drive transformation in a manner that ensures there are diverse and equitable distribution of economic benefits and decision making in our economy.

The objective of transformation within PIC investee companies is to give effect to the country's transformation agenda and the PIC's transformation objectives are to, among others:

- Promote and incubate the growth of broad-based empowerment;
- Achieve wide-reaching social transformation;
- Stimulate economic growth and transformation in South African investee companies; and
- Integrate all the B-BBEE elements into business processes.

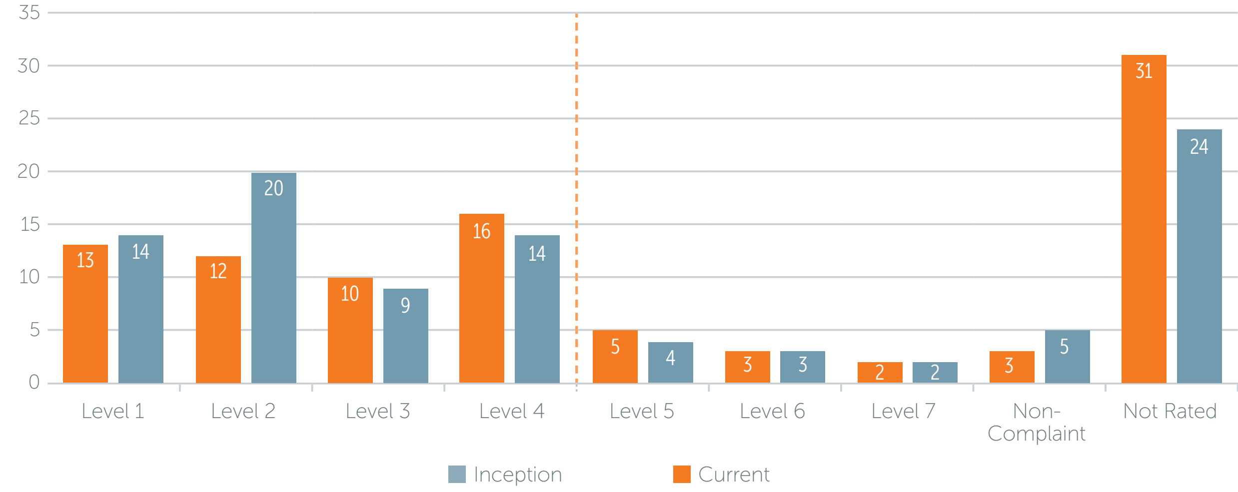
The ultimate goal for the Unlisted Investment division is to exit a PIC investment knowing that the company is commercially sustainable, empowered and profitable. With the B-BBEE facilitator status and broader empowerment objectives, the Unlisted Investment division believes that it will be able to transform companies to a level where its commercial success is contingent on it being appropriately transformed and socially responsible. If this is the case, the PIC is comfortable to exit a company knowing that the interests of the next investor are aligned with all company stakeholders as well as the broader South African economy.

The ultimate goal for the Unlisted Investment division is to exit a PIC investment knowing that the company is commercially sustainable, empowered and profitable

B-BBEE Level Contributor

The PIC transformation policy requires companies to achieve level 4 and higher. The discussion below demonstrates how investee companies performed against their transformation targets.

BEE black contributor level



The figure above reflects the performance of 91 portfolio investee companies since inception, with majority meeting the PIC's minimum required BEE rating level. Although the overall performance has improved, there has also been an increase in the number of companies that fall within the PIC B-BBEE non-compliant levels (levels 5, 6, 7, non-compliant and not rated). Reasons for the increase have been companies that have been adversely affected by the change in B-BBEE legislation. The revised BEE Codes have seen the government taking a more interventionist approach in transformation, with increased emphasis on black ownership. The new legislation is stricter, especially in its manner of scoring and calculating B-BBEE compliance levels, or status.

Secondly, the majority of the companies that fall under level 5 to non-compliant categories are in the renewable energy sector, as conducting B-BBEE verification in environmental infrastructure is optional, as a result of the Department of Energy (DoE) developing a different method of measuring transformation. The DoE's matrix focuses mainly on local content and the benefits that flow to local communities. It is worth noting that all our investee companies comply with the DoE's transformation mandate.

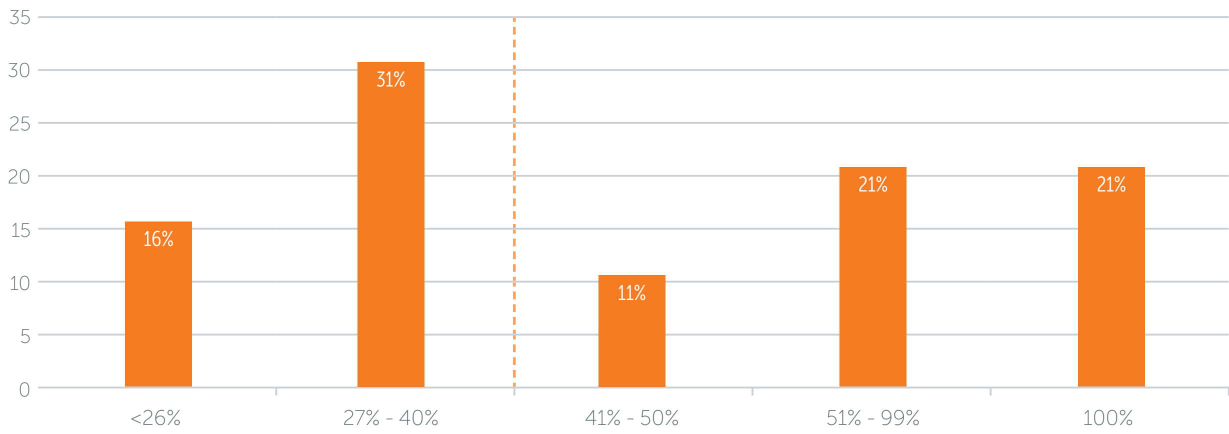
The PIC is well positioned to drive transformation that ensures there are diverse and equitable distribution of economic benefits and decision making in our economy

B-BBEE Ownership

B-BBEE ownership is seen as integral to the transformation mandate as it ensures that there is equitable distribution of economic benefits and power within a company. As part of the PIC's mandate to drive transformation, it is understood that true transformation occurs when black people (as defined in the B-BBEE Codes) participate in the economic interest and control of investee companies. It is anticipated and negotiated that, over time, investee companies should achieve the following PIC targets:

- HDI ownership should ideally be, at least 40% of the most senior class of shares. This target includes broad-based groupings such as Non-Governmental Organisations, Community Based Organisations, Employee Schemes, with minimum holdings of 10%;
- Minimum 15% to 20% black women ownership;
- HDI representation shall be equitable, including black youth, women and people with disabilities;
- When funding HDIs to acquire shares in an investee company, the PIC shall strive to secure step-in rights, pledge and cession of shares at a minimum; and
- Funding employee scheme acquisitions shall require representation by an unrelated or inter-related trustee(s) to the investee company.

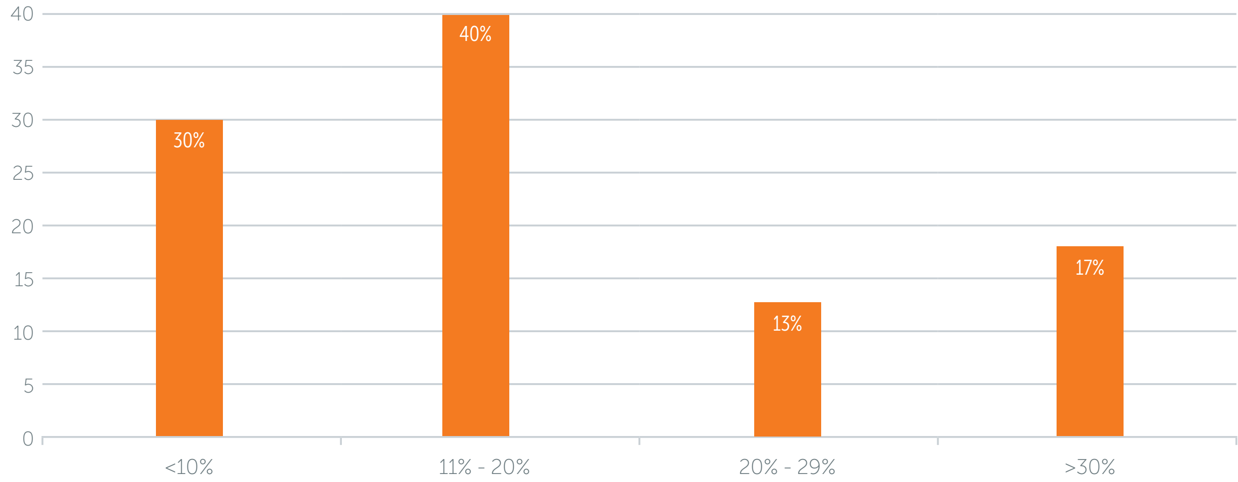
BEE ownership



Although 47% of the investee companies are below the PIC B-BBEE Policy threshold of >40% black ownership, only 16% of companies have performed below the B-BBEE Codes 26% threshold. All the companies that are below the PIC B-BBEE Policy threshold have developed corrective action plans and undertakings have been provided to the PIC, to ensure that when opportunities arise, they will ensure they increase their black ownership and also that black people, including employees, shall reap financial benefits.

It should be noted that 49% of investee companies have incorporated women as part of their shareholding structures and 17.7% broad-based organisations, through employee share ownership plans, community trusts and/or organised groups of HDIs such as doctors and farmers.

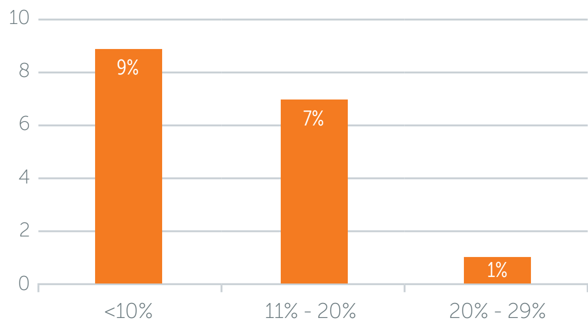
BEE Women ownership of portfolio investee companies



***49%** Of investee companies have incorporated women as part of their shareholding structures*

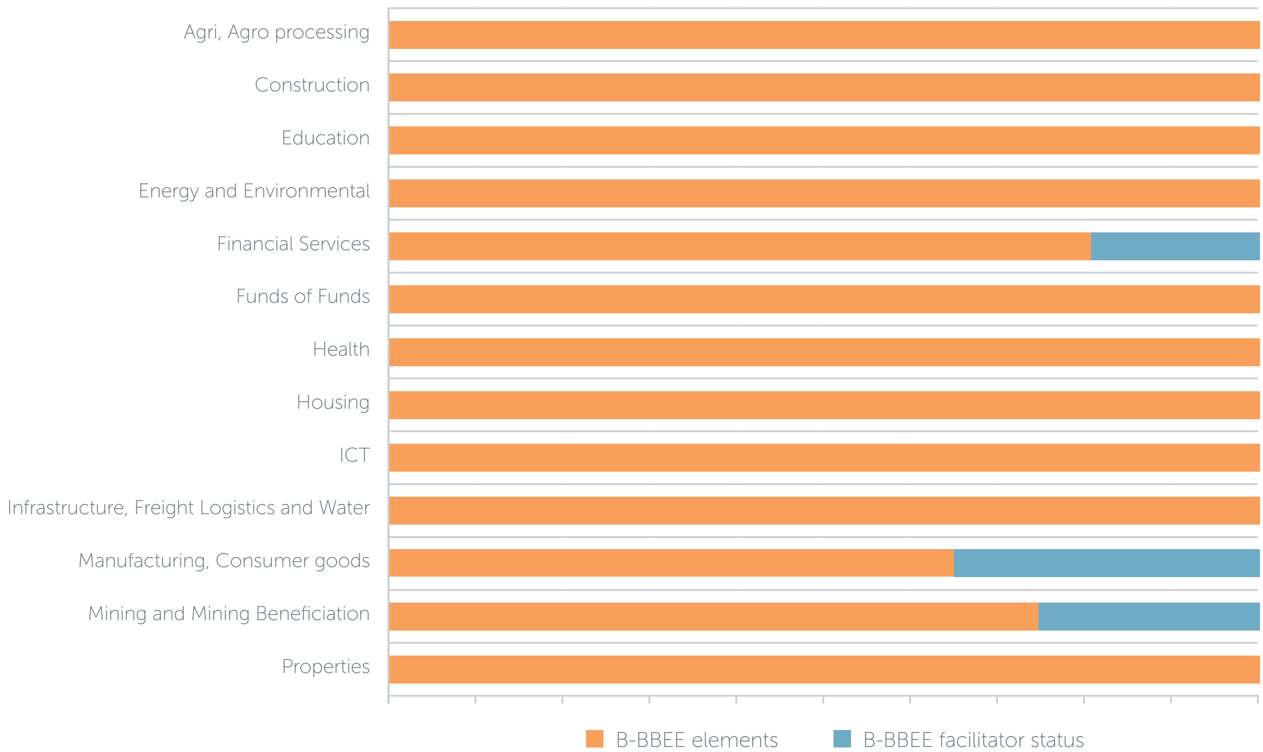
Although in all instances, both women and broad-based group ownership are in the minority, as part of the PIC's active engagement and negotiation, the PIC ensures that both groups are afforded an opportunity to form part of the decision-making. Minority protection provisions are included in legal documents to ensure that as minorities, the status of such groups isn't deliberately diluted.

BEE Broad-Based ownership across portfolio investee companies



Transformation engagements by sector

Transformation engagements by sector year to date



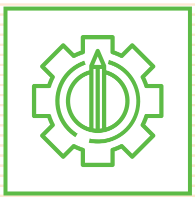
Unlisted Investments Proxy Voting

The PIC has a well-established approach to responsible investing, which is integrated with its investment processes. Responsible investing activities at the PIC include:

- Exercising voting rights;
- Engaging with investee companies;
- Conducting ESG quality reviews; and
- Influencing the ESG landscape through shareholder activism.

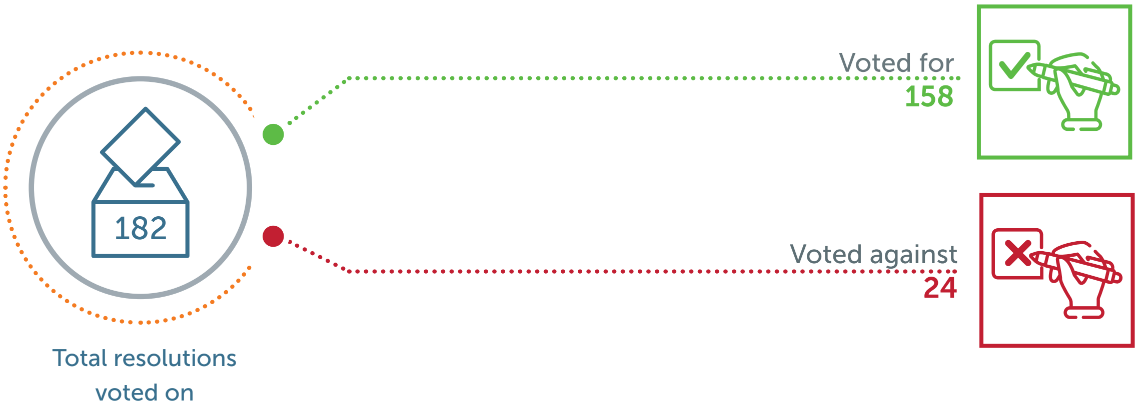
The PIC seeks to support and enhance its investment rationale for a company through appropriate levels of engagement and through the subsequent exercise of voting rights. The PIC votes at all company meetings.

29
Company meetings voted at



182
Total resolutions voted on

Analysis of voting pattern year to date



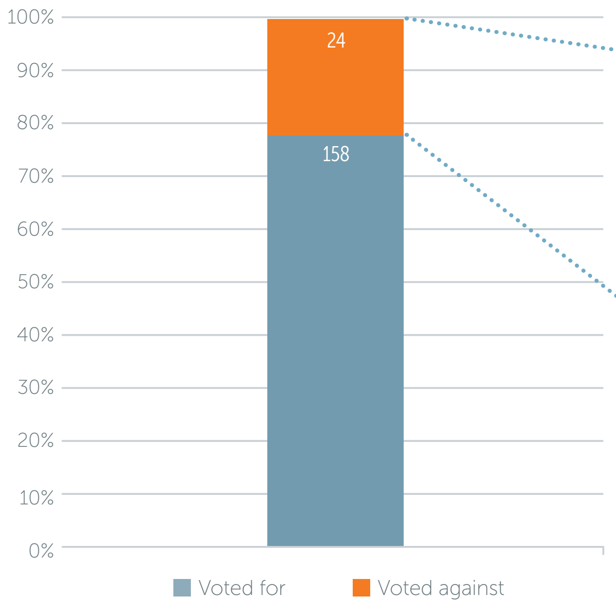
For the year ending 31 March 2018, 182 resolutions were voted on, 24 of which were voted against, comprising 13% of total resolutions whilst 87% supported.

The graph below provides a detailed illustration of the voting patterns for the reporting period by analysing votes by sector, company and type.

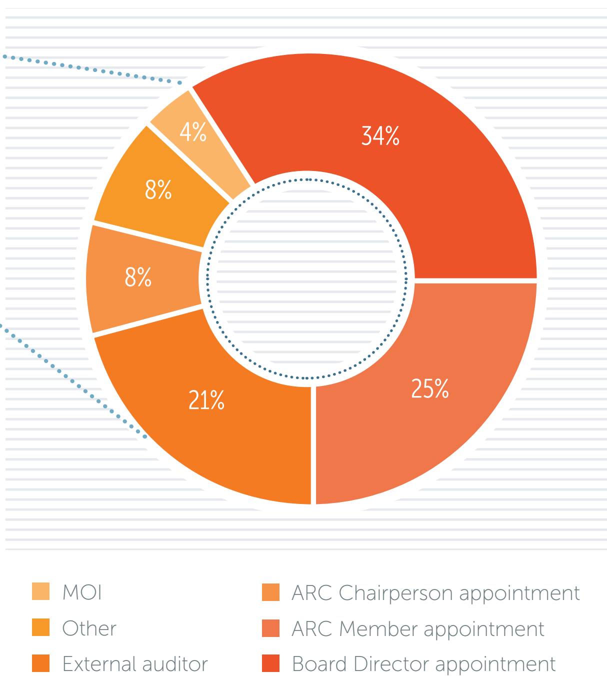
Against votes decomposition

The figures below demonstrate that the bulk of the shareholder resolutions voted against encompassed key topical governance aspects, with the leading three voted against categories being: Board Director appointments (34%), audit and risk committee member appointments (25%) and external auditors appointments and rotation (21%).

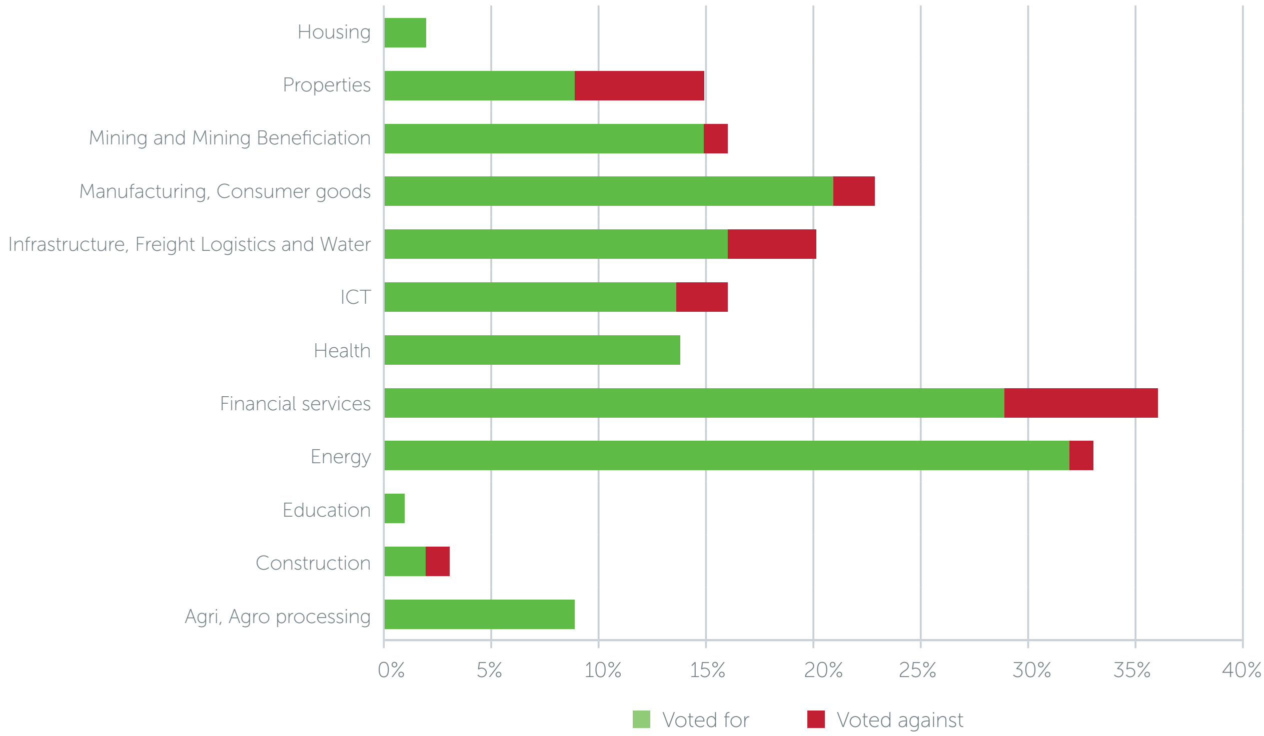
Voting pattern



Against votes composition YTD:



Voting summary per sector year to date



Social Impact

Driving Inclusivity and Transformation

The PIC along with its clients seeks total return, consisting of income and capital appreciation, through investments that support and fund socially beneficial activities and developments, primarily in South Africa and the rest of Africa. The PIC's Unlisted Investments play an important role in addressing many of the pressing social and environmental challenges of our time, given the growing appetite among investors to effect positive social change through their investments.

These investments respond to government initiatives such as the NDP job creation and B-BBEE by ensuring that rural communities are part of the mainstream economy, encouraging community participation, helping the drive towards a green economy and various other initiatives. The NDP outlines what South Africa should look like in 2030 and what needs to be done to get there. The plan outlines a path to achieve meaningful development in South Africa and a rise in per capita income. Acknowledging the variety of challenges South Africa faces, the NDP places at its nexus the aim to eliminate poverty and reduce inequality by 2030.

Climate Change

Global energy-related CO_2 emissions grew by 1.4% in 2017, reaching a historic high of 32.5 gigatonnes (Gt), a resumption of growth after 3 years of global emissions remaining flat. The increase in CO_2 emissions, however, was not universal. Most major economies saw a rise, others experienced declines, including the USA, UK, Mexico and Japan. South Africa has committed to reducing its greenhouse gas (GHG) emissions by 34% by 2020 and 42% by 2025 below business as usual. The GHG reduction will be achieved through a mix of policy instruments, which includes a Carbon Tax policy. Companies that outperform a carbon emissions intensity sector benchmark qualify for a higher than default tax-free threshold. The PIC aligns its portfolio exposure profile to sectorial threshold benchmarks. As part of the PIC environmental engagements with portfolio investee companies, the PIC continues to encourage investee companies to understand their carbon emission and to reduce their carbon footprint where possible.

SOCIAL IMPACT STATISTICS

SOCIAL IMPACT
Green Alpha

AGRICULTURE

- Number of farms
  37
- Access to healthcare
  2,494
- Access to staff accommodation
  1,431
- Numbers of farm workers trained
  - Agriculture-related training
    1,436
  - ABET
    98
  - Management training
    9
- Inclusive broad-based organisations
  - Emerging farmers trust
    1
  - Community trusts
    3

NUMBER OF ENGAGEMENTS
17

EMPLOYMENT

Total Job Numbers
152,226

- Total number of permanent employment opportunities sustained
  120,895
- Total number of temporary employment opportunities created
  12,664
- Undisclosed*
  18,667
- Total number of new jobs (included under total)
  10,961
- Number of youth
  23,470
- Number of people living with disabilities
  400

* Not all companies disclosed terms of employment

COMMUNITY UPLIFTMENT AND ECONOMIC BENEFIT

Number of SMEs supported
785

SMEs supported in excess of
16,000 jobs

EDUCATION

Number of student loans disbursed
43,679

Number of GEPF member received loans
24,555

Total number of student beds
11,964

Number of schools supported
33

Number of students (basic education)
21,578

NUMBER OF ENGAGEMENTS
08

HEALTHCARE

Total number of hospital projects
22

Total number of beds
3,049

NUMBER OF ENGAGEMENTS
14

AFFORDABLE HOUSING

Number of housing projects
667

Housing units
45,359

Number of housing finance
55,886

Housing finance for GEPF
7,869

NUMBER OF ENGAGEMENTS
22

ENVIRONMENTAL

2,654.25MW (Direct and Indirect)

Total number of projects
41 (Direct and Indirect)

Total number of MW that reached commercial operation date (COD)
804

NUMBER OF ENGAGEMENTS
60

Employment opportunities

Job creation is among the most fundamental objectives of the South African authorities since democracy. Creating an economy that creates enough job opportunities to respond to a large number of work seekers has remained on the developmental agenda for over two decades. South Africa has a population of 56.52 million with a labour force participation rate of 59.3%. During the last quarter of 2018 16,377,524 were employed in South Africa, (Statistics South Africa). The NDP foresaw the need to create 11 million new jobs between 2012 and 2030, to bring down the unemployment rate to 6% and reap the potential economic benefits provided by the ongoing demographic transition. This goal means creating approximately 600,000 new jobs every year.

The unemployment rate in South Africa had increased to 26.7% in the first quarter of 2018, from 27.7% in the first quarter of 2017. The number of unemployed increased by 100,000 to 5.98 million and the number of employed rose by 207,000 to 16.38 million. The unemployment rate in South Africa averaged 25.54% from 2000 until 2018, reaching an all-time high of 31.20% in the first quarter of 2003 and a record low of 21.50% in the fourth quarter of 2008. The youth unemployment remains high at 52.4%. President Cyril Ramaphosa recently launched the Youth Employment Services (YES) hubs initiative as part of the SMME Development Strategy. The hub is an infrastructure solution targeted at addressing unemployment challenges in South Africa. The goal is to establish 100 community hubs across the country, which will give rural areas and business communities business infrastructure.

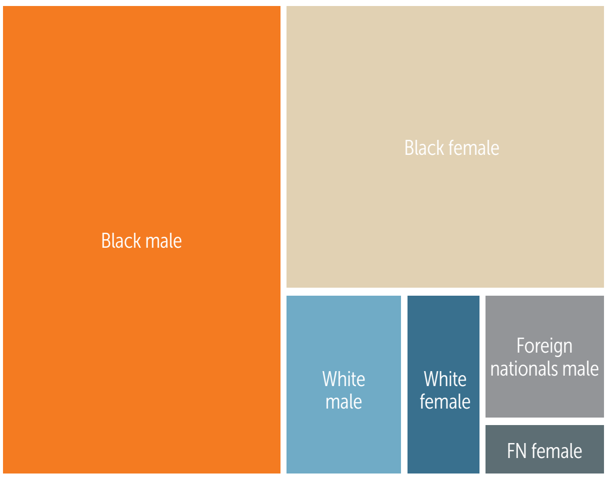
As a result, job creation and poverty alleviation continue to remain a key priority of NDP initiatives and the SDGs focused on creating opportunities for economic growth. Employment is considered the main source of income for most South African citizens, and raising labour remuneration for the poorest segments of society is the most effective instrument to reduce poverty and inequality.

In line with the country's priority, the PIC, through unlisted investments, adopted a responsible investment philosophy for it and its clients, which ensures that the Corporation funds companies with the intention and capability to generate a measurable, beneficial social and/or environmental impact alongside a financial return. Over the years, the PIC has facilitated jobs in the market either through creation of new jobs and/or sustaining current jobs in investee companies. Additional spinoffs includes indirect job creation, transformation opportunities of supply chains, community upliftment, be it through skills enhancement and transfer, all emanating from the PIC investment on behalf of its clients.

During the year under review, PIC Unlisted Investments facilitated 152,226 direct jobs, 120,895 of which are permanent and 12,664 temporary (18,667 disclosure not disaggregated). The majority of the temporary jobs are due to infrastructure development and investment in the agricultural sector, which relies largely on seasonal workers during the harvesting period. In addition, PIC unlisted investments created 10,961 new jobs across all sectors, more than 6,000 of which were created in local communities within 50km of the company. On the other hand, 14,000 jobs have been lost across the portfolio of investee companies through retrenchments, retirements and termination of short-term contracts. PIC unlisted investments have contributed 1.4% to the total workforce of South Africa, which is 0.4% higher than in 2016/17. The PIC has facilitated employment opportunities for more than 23,400 youth and 400 disabled individuals. The PIC's ESG engagement has resulted in improved effort by investee companies to create employment opportunities for youth and people living with disabilities, thus aligning with the transformation agenda of South Africa, which promotes equal opportunity for all.

The graph below reflects the gender and racial diversity composition of employment across the portfolio as reported by our investee companies.

Job demographics



Not all investee companies disclosed gender and racial disaggregated statistics

Employment per Sector

Through its investments, the PIC, on behalf of its clients, has contributed meaningfully to the facilitation of jobs. It is believed that through continued appropriate investments by the PIC, industrial development can expand production in targeted sectors where comparative advantage already exists and/or create new opportunities that will contribute to economic growth. The table below outlines how PIC-funded companies performed in line with specific sectors.

Sectors	Total	Male	Female	Permanent	Temporary
General fund	60,255	13,265	8,517	51,613	2,370
Health	7,413	2,343	3,564	7,286	127
Mining	9,015	7,948	1,067	8,635	380
Transport infrastructure	1,087	542	545	1,066	21
Housing	2,828	2,109	374	1,763	1,065
Renewable energy	6,091	2,597	507	5,996	95
Properties	752	350	402	713	39
Financial	21,714	3,846	5,473	8,751	568
Oil and gas	336	240	96	326	10
Logistics	1,314	952	362	1,233	81
Manufacturing	8,871	6,467	1,462	8,062	809
Education	1,410	453	957	1,377	33
Tourism	1,94	112	82	164	30
Agriculture	15,264	6,630	4,663	10,009	5,255
Consumer goods	8,190	4,266	3,924	7,136	1,054
Student Accommodation	445	285	160	432	13
ICT	2,824	1,825	999	2,824	0
Construction	3,942	3,280	662	3,228	714
Energy (coal)	281	263	18	281	0
Total	**152,226**	**57,773**	**33,834**	**120,895**	**12,664**

The table below outline how jobs facilitated by South African companies have contributed to the economic growth in different sectors.

SA jobs per sector

Sector	Jobs/sector	PIC contribution	Contribution to the sector
Agriculture, forestry and fishing	846,610	13,351	1.58%
Mining and quarrying	397,006	10,236	2.58%
Manufacturing	1,849,017	12,860	0.70%
Energy	143,147	6,757	4.72%
Construction/ housing	1,430,517	5,414	0.38%
Transport and communication	960,396	5,366	0.56%
Health and education (social services)	3,785,363	5,536	0.15%
Financial services	2,402,413	68,296	2.84%

Source: Stats SA, Quarterly Labour Force Survey 2018 Q1

The South African working-age population increased by 153 000 or 0.4% in the first quarter of 2018 compared to the fourth quarter of 2017. The rise in both employment (up by 206 000) and unemployment (up by 100,000) over the quarter led to a rise in labour force participation rate (from 58.8% to 59.3%). The quarterly employment increase of 206 000 in Q1: 2018 was driven by six of the ten industries. The contributors to the increase were community and social services (95,000), manufacturing (58,000), construction (40,000), trade (36,000) and finance and other business services (30,000) industries. Employment declines were recorded in transport (41,000), mining (14,000), utilities (6,000) and agriculture (3,000) (Statistics SA).

Training and skills development

To enhance sustainable employment opportunities, the PIC encourages companies to continue advancing training opportunities to all employees, especially those with low education levels. The skills development element ensures long-term sustainability of projects and promotes ownership and accountability in the project as it instils a sense of recognition and value. The Skills Development Act and B-BBEE Codes play a crucial role in addressing the skills development shortage and has helped to increase productivity in the workforce. Skills development has become a crucial aspect of economic development in South Africa, with most investee companies striving to achieve the skill development targets set by different legislation.

The agricultural sector plays a leading role in providing Adult Basic Education Training (ABET) due to the nature of its employees, who are mainly women from previously disadvantaged communities. During the year under review, more than 7,400 received ABET and technical skills training. Infrastructure development plays a role in skills development in local communities – 6,312 local, unskilled employees have been exposed to new skills through their employment in different sectors. In addition, infrastructure development promotes and can achieve skills development in the market, as there is a great focus on unskilled labour and empowerment of women. In addition, the PIC's investments have supported 1,086 learnership programmes across various sectors.

Small and medium enterprises

SMEs are regarded as key drivers for economic growth, innovation and job creation. In South Africa, government recognises the importance of this segment of business activity, so much so that the new Ministry of Small Business Development was established in early 2014. The aim of the Ministry is to facilitate the promotion and development of small businesses. These enterprises contribute significantly to national GDP and have proved to be major contributors to job creation. The NDP proposes that for South Africa to overcome poverty, and to reduce the proportion of people who are dependent on welfare payments from the state, the SME sector would have to grow significantly. The government has set ambitious unemployment reduction targets of reducing the rate from 25%, currently, to 14% by 2020 and to 6% by 2030. Furthermore, the NDP expects that, by 2030, 90% of new jobs will be created by the SME sector. The NDP anticipates that 90% of the proposed 11 million jobs will be created by SMEs. Research conducted by the South African Institute of Chartered Accountants (SAICA) shows an increase in the number of people employed by SMEs depending on the size and the age. The PIC mandate is in line with the NDP chapter on economy and employment. Among the key focus areas have been sectors and clusters, which provide decent employment opportunities resulting in a skilled and capable workforce to support an inclusive growth path.

The PIC has directly invested in businesses that support SMEs through financial support and capacity building. During the reporting period, the PIC facilitated the support of 785 SMEs in different sectors through direct investment and contracting. It is anticipated that the number of people employed in SMEs will grow rapidly, with increased turnover and with the length of time a SME survives. SMEs supported have created more than 16,000 jobs.

It is anticipated that through the PIC client investments in infrastructure developments and projects, the PIC is playing a critical role to advance enterprise development in the country through sub-contracting. Although the majority of the businesses supported are in Gauteng, there has been a reasonable split to provinces including Mpumalanga, North West, Western Cape and KwaZulu-Natal.

SDG Analysis per sector

The PIC unlisted investment strategies span across various sectors, with the current portfolio alignment mapped against the 17 SDGs in the table below. Although there may be intuitive alignment, not all investments will perform the same in advancing progress towards a particular SDG, as investments have a direct and/or indirect impact towards the SDGs.

The intuitive relationship between the PIC unlisted investment portfolio impact and the SDGs both directly and indirectly

	Social							Environment					Governance		Economics		
	1	2	3	4	5	9	10	6	7	13	14	15	16	17	8	11	12
Agriculture	Indirect	Direct	Indirect	Indirect	Indirect		Indirect								Indirect		
Property					Indirect	Direct			Indirect						Indirect	Direct	
Education	Indirect			Direct	Direct										Indirect		
Energy and Environment	Indirect				Indirect				Direct	Indirect					Indirect	Indirect	
Financial Services					Indirect	Direct	Indirect						Direct		Direct		Indirect
Health	Indirect		Direct		Indirect										Indirect		
Affordable Housing	Indirect				Indirect	Direct	Direct								Indirect	Direct	
ICT Sector					Indirect	Direct									Indirect		
Manufacturing					Indirect	Direct		Indirect				Indirect			Direct		Direct
Mining	Indirect				Indirect										Direct		
Construction	Indirect					Direct		Indirect		Indirect		Indirect			Direct	Direct	
Student Accommodation					Direct	Direct	Indirect								Indirect		
Transport, Infrastructure & Logistics					Indirect	Direct								Direct	Indirect	Indirect	

Direct Impact

Indirect Impact

Agriculture

To date, the PIC has approved R9.1 billion of investments in the agriculture sector, which includes investments in six agricultural enterprises, including indirect investments in three agricultural funds, all of which have had a direct impact on SDG 2. These enterprises have more than 37 agricultural projects across South Africa, contributing to economic growth and job creation (SDG 8). The total number of jobs facilitated through the PIC food security investment strategy was 15,264, of which 10,009 were permanent and 5,255 temporary. Excluding the indirect funds, 6,630 of these jobs were occupied by males and 4,663 were occupied by females (SDG 5). The sourcing of local labour from the surrounding communities contributes to economic and inclusive upliftment and contributes indirectly to SDG 8 and SDG 11. The seasonal nature of farming results in significant cyclical fluctuations in labour requirements during a year, impacting jobs accordingly. This, combined with the drought that prevailed during 2016/17, resulted in 3,869 job losses for the financial year.

The PIC requires that investee companies support the empowerment of a broad base of entrepreneurs, typically micro, small and medium emerging farmers, through the provision of business joint ventures, mentorship and advisory support services. To this end, the PIC facilitated three trusts through investee companies, namely Southern Farms (Pty) Ltd, Just Veggies (Pty) Ltd and Lona Citrus Group (Pty) Ltd; Lona Citrus has supported 17 emerging farmers through its emerging farmer's trust, directly contributing to SDG 1, SDG 2, SDG 8 and SDG 10.

In response to the lack of skills and employment opportunities among South Africa's HDIs, the agricultural sector can be seen as well-placed to provide short-term vocational and technical training. Collectively, the PIC agricultural portfolio offered 14 Agriseta accredited learnerships, 1,436 staff agricultural training, 98 ABET participants, nine management training courses and one bursary opportunity for staff through transformation plans, contributing indirectly to SDG 4 and SDG 10. The seasonal nature of fruit and crop farming means that labour requirements tend to fluctuate significantly during the year, with a resulting impact on job creation. The permanent workforce is maintained and grown where possible, and the needs of employees and the surrounding community are integrated where applicable. Local community members and the surrounding communities are given first option to work on the farms.

The PIC has also been working to promote a culture of social inclusion, equity and occupational health and safety by introducing corrective action plans for investee companies to implement. Some 2,494 employees have access to prepaid primary healthcare (SDG 3), 2,314 employees have access to HIV/Aids services (SDG 3), staff accommodation is provided to more than 1,431 employees (SDG 11) and most of the farmers provide early childhood development facilities for the children of their staff, with a minimum of two meals a day (SDG 1) and a set curriculum provided (SDG 4).

The agricultural sector is one of the main contributors of greenhouse gases, through its management of agricultural soils, which include the application of synthetic and organic fertilisers, and irrigation practices that are energy intensive depending on the crop and farming requirements. Livestock, on the other hand, produce methane (CH4) as part of their normal digestive processes. This leads to greenhouse gas emissions, contributing negatively to SDG 13. As such, reducing carbon emissions is critical to the PIC, and companies within the sector are encouraged to recognise the importance of environmental protection and the mitigation of the effects of climate change, and thereby contribute positively instead to SDG 13.

The PIC recently invested in an agricultural company that uses biogas technology. A manure management tool was developed that promotes the recovery and use of biogas as energy by adapting manure management practices to collect biogas. It is envisaged that the biogas will be used as a fuel source to generate electricity for on-farm use, for sale to the electrical grid and for heating needs. This is a renewable energy initiative that will reduce greenhouse emissions to help preserve the environment.

Other companies are encouraged to recognise and adopt methods to increase resource efficiency, which include introducing variable speed pumps, solar panels and meters. The farms under the Agri-Fund have joined the initiative *Confronting Climate Change (CCC)*. This initiative provides an online carbon emission calculator and technical training support. to provide a more accurate calculation of a farming operation's carbon footprint and enable management to seek methods to reduce energy use and emissions footprint.

The figure on the next page illustrates the alignment of the PIC's food security investment strategy and its resultant impact and alignment with SDGs in the agricultural sector.

SDG Impact

The PIC food security investment strategy, SDG alignment and impact

DIRECT

2 ZERO HUNGER

INDIRECT

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

5 GENDER EQUALITY

1 NO POVERTY

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

Agriculture - Jobs and gender statistics

AGRICULTURE

15,264 Jobs Facilitated

Male **6,630**

Female **4,663**

Jobs: Permanent **10, 009**

Jobs: Temporary **5, 255**

Not all investee companies disclosed gender disaggregated statistics

Number of farms **37**

Number of Agri-SETA accredited learnerships **14**

Access to healthcare **2,494**

Access to staff accommodation **1,431**

Numbers of farm workers trained

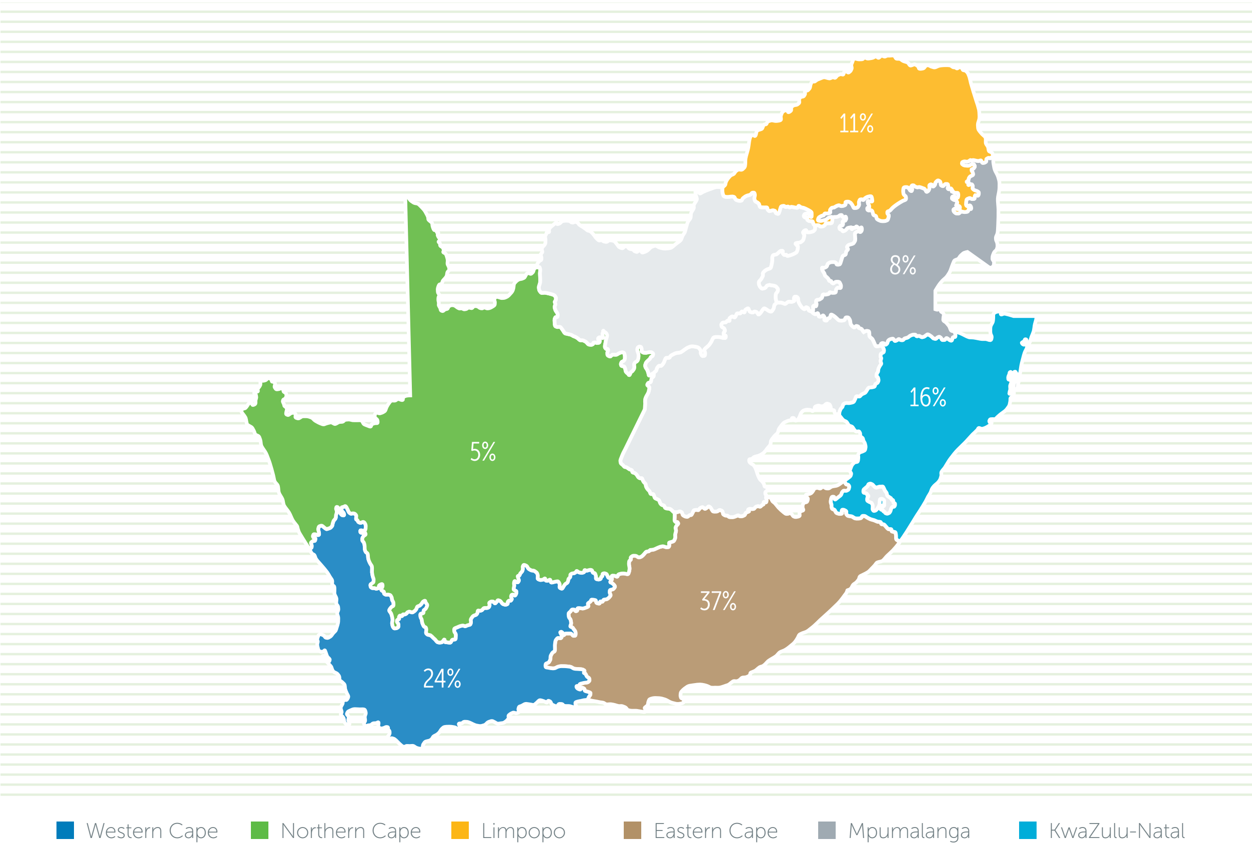
- Agriculture-related training **1,436**
- ABET **98**
- Management training **9**

Inclusive broad-based organisations

- Emerging farmers trust **1**
- Community trusts **3**

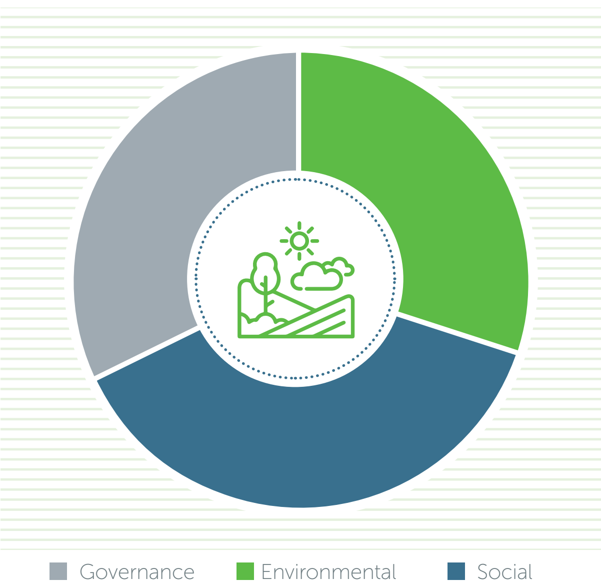
The figure below illustrates the geographical spread of farming projects in South Africa.

Geographical spread of farming projects

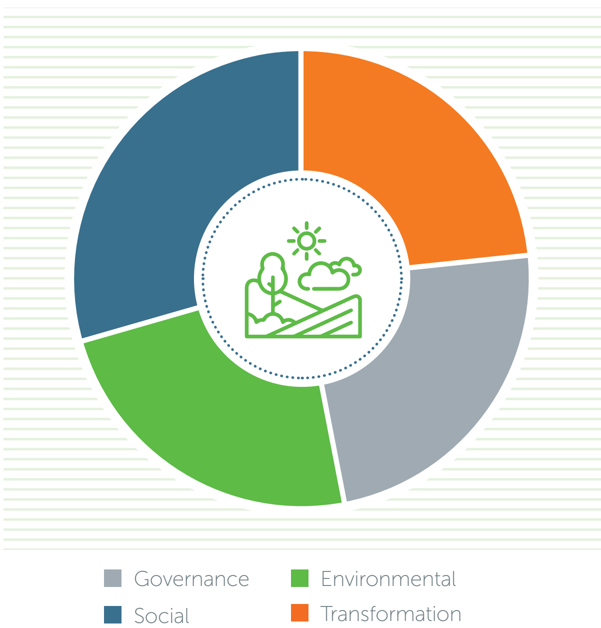


The PIC remains committed to the principles of good governance and responsible investment, with investee companies continuously engaged to encourage required behaviour. The graph illustrates the overall ESG performance in the sector:

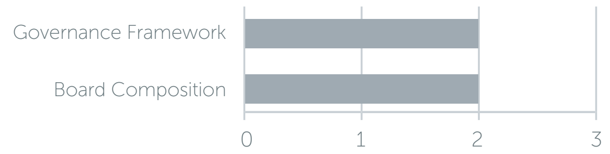
ESG sector performance: Agriculture



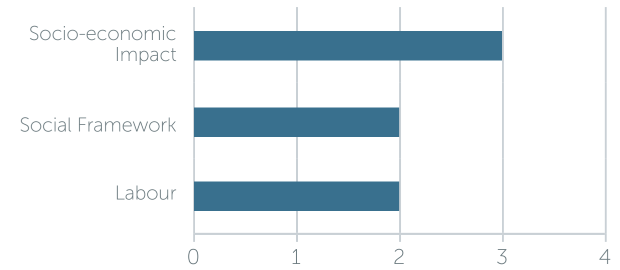
Agriculture engagements



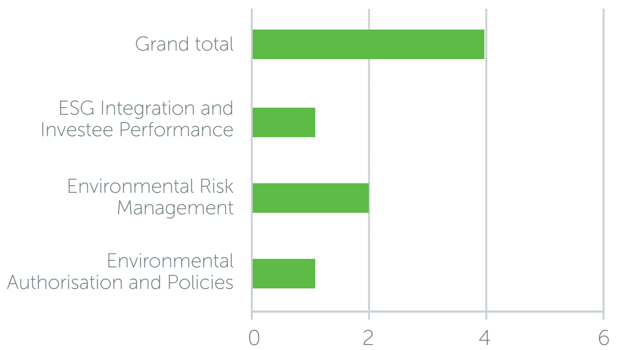
Governance engagements



Social engagements



Environmental engagements



Properties

To date, the PIC has approved more than R26 billion in indirectly held properties, which includes flagship shopping malls such as the V&A Waterfront, Sandton City, Melrose Arch and Menlyn Park. Most of these developments are mixed-use developments comprising residential and commercial property, hotels, retail stores, dining and leisure and entertainment facilities. The PIC property investment portfolio not only contributes to South Africa's infrastructure development but is a major job creator. For instance, the PIC investment of more than R4.9 billion in the V&A Waterfront, the most visited destination in South Africa, has over time facilitated more than 21, 000 indirect employment opportunities. Of these, 205 are directly employed by V&A Waterfront Holdings (Pty) Ltd, which is a property management company of Cape Town's waterfront. Direct jobs are created through ongoing operations and capital expenditure, while indirect jobs result from multiplier effects of capital- and operating expenditure, and turnover generated by tenants. The number of indirect jobs increased from 9,687 in 2002 to 17,516 in 2017. This increase highlights an important trend in sustainable job creation.

SDG Impact

The PIC properties investment strategy, SDG alignment and impact

DIRECT

11 SUSTAINABLE CITIES AND COMMUNITIES

INDIRECT

8 DECENT WORK AND ECONOMIC GROWTH

5 GENDER EQUALITY

7 AFFORDABLE AND CLEAN ENERGY

Property - Jobs and gender statistics

752 Jobs Facilitated

INDIRECTLY HELD PROPERTIES

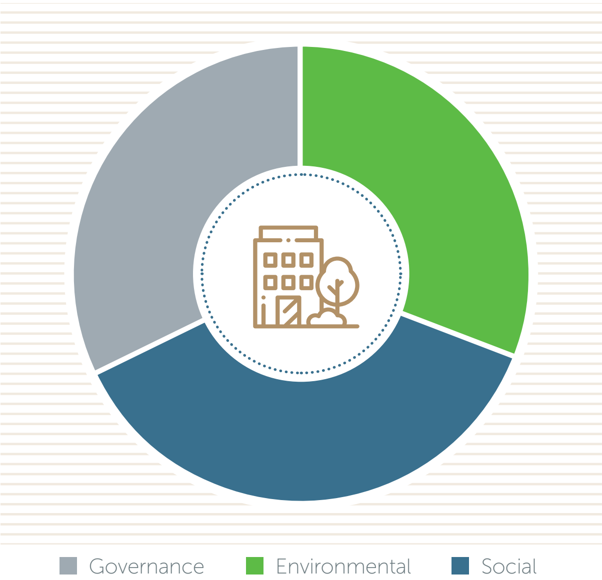
Male 350

Female 402

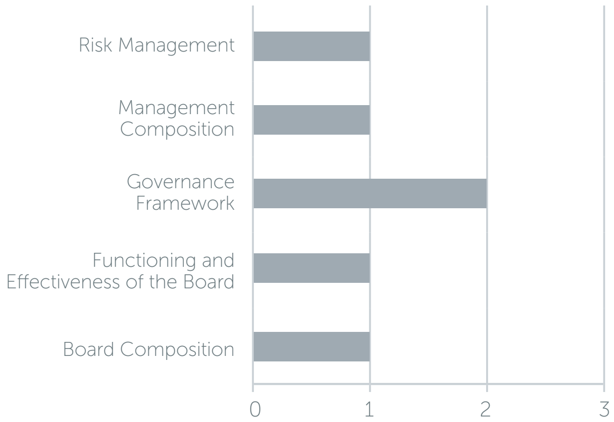
Jobs: Permanent 713

Jobs: Temporary 39

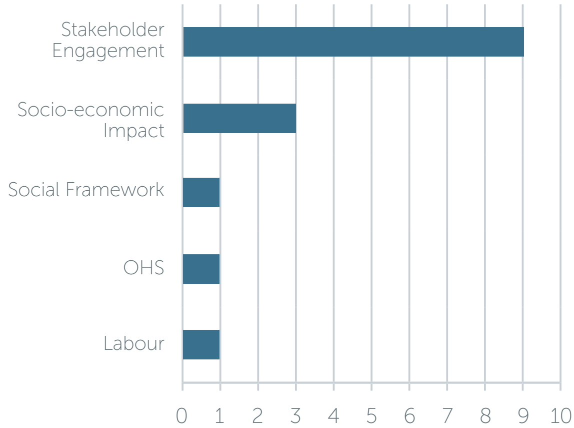
ESG Score: Property Sector



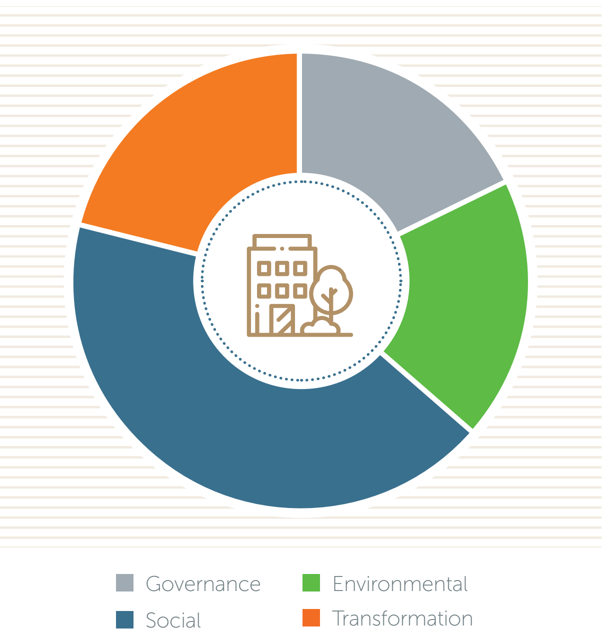
Governance engagements



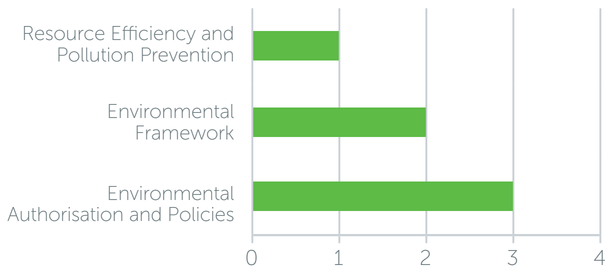
Social engagements



Property engagements



Environmental engagements



Energy and the Environment

The figure below illustrates the alignment of the PIC's energy investment strategy and its resultant impact and alignment with the SDGs in the sector.

SDG Impact

The PIC energy and environment investment strategy, SDG alignment and impact

DIRECT

INDIRECT

Energy access weaves together economic growth (SDG 8), human development and environmental sustainability (SDG 15). The provision of secure, affordable and modern energy for all citizens (SDG 7) is an essential contributor to poverty reduction (SDG 1) and economic growth. South Africa is a signatory to climate change actions, undertaken in Copenhagen (2009). These commitments enjoin South Africa to reduce its carbon emissions by 34% by 2020, progressing to 42% by 2025. The efforts to meet these commitments are captured in the NDP and the Integrated Resources Plan (2010). There is a collaborative and focused drive by the PIC and all its clients to contribute to the SDGs through sustainable energy supply via bespoke energy investment strategies (SDG 7) as this will boost economic growth and development (SDG 8).

To date, the PIC has approved investments of more than R14.1 billion in the energy sector, with more than R13.9 billion of these approved for investment in renewable energy. Through direct investment, the PIC invested R5.9 billion in 16 renewable projects generating 1,119MW. Some R5.1 billion was approved for two indirect investments that has achieved a total of 1,785.25MW (250MW is already accounted for in direct investments). In total, the investments have contributed 2,654.25MW to the South African energy grid, in direct support of SDG 7. The PIC's investment in renewable energy constitutes 35.3% of the total projects awarded by the South African Government to date.

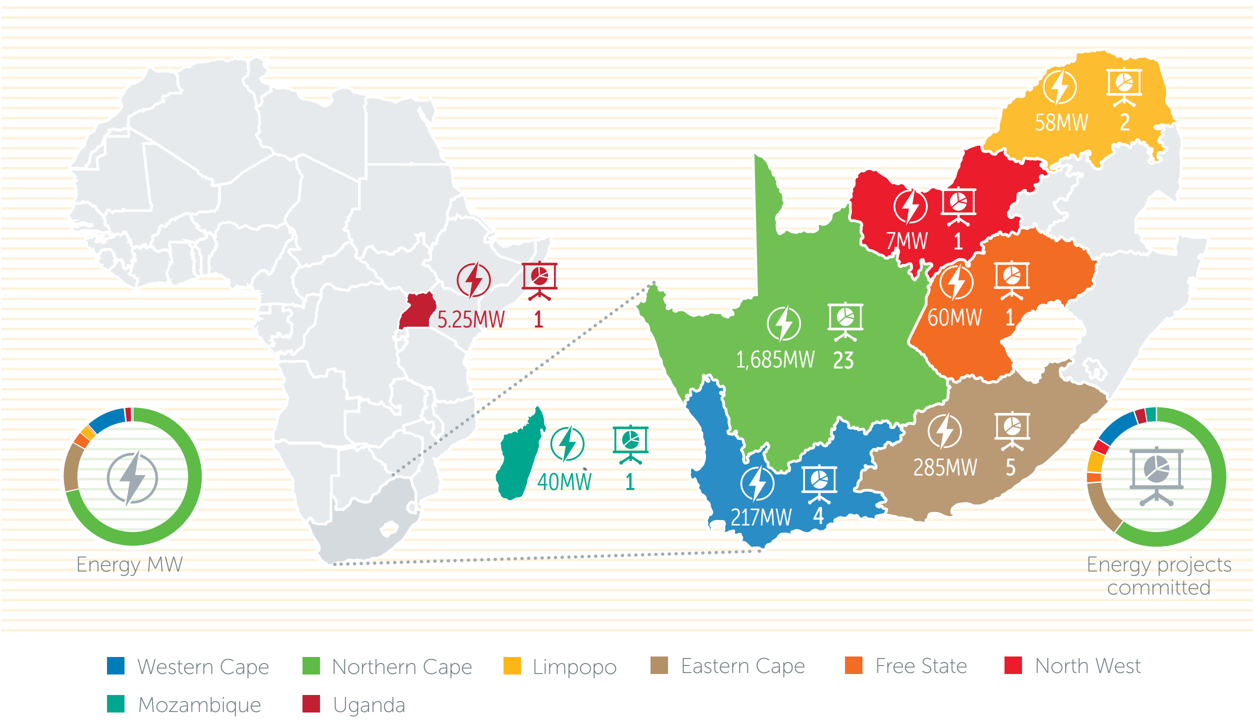
Project sites are spread across the African continent, mainly in South Africa, Mozambique and Uganda, as can be seen in the graph on the next page.

The PIC's investment in the renewable sector directly impacts on SDG 7 and SDG 1 through the production and commercialisation of energy efficient resources. An expanding renewable energy sector has created jobs and small business opportunities (SDG 8), leading to income generation for both men and women (SDG 5) living close to projects funded. A total of 6, 091 jobs have been created in this sector. Access to energy services is a prerequisite for economic development and makes possible entrepreneurial activities extending beyond daylight hours.

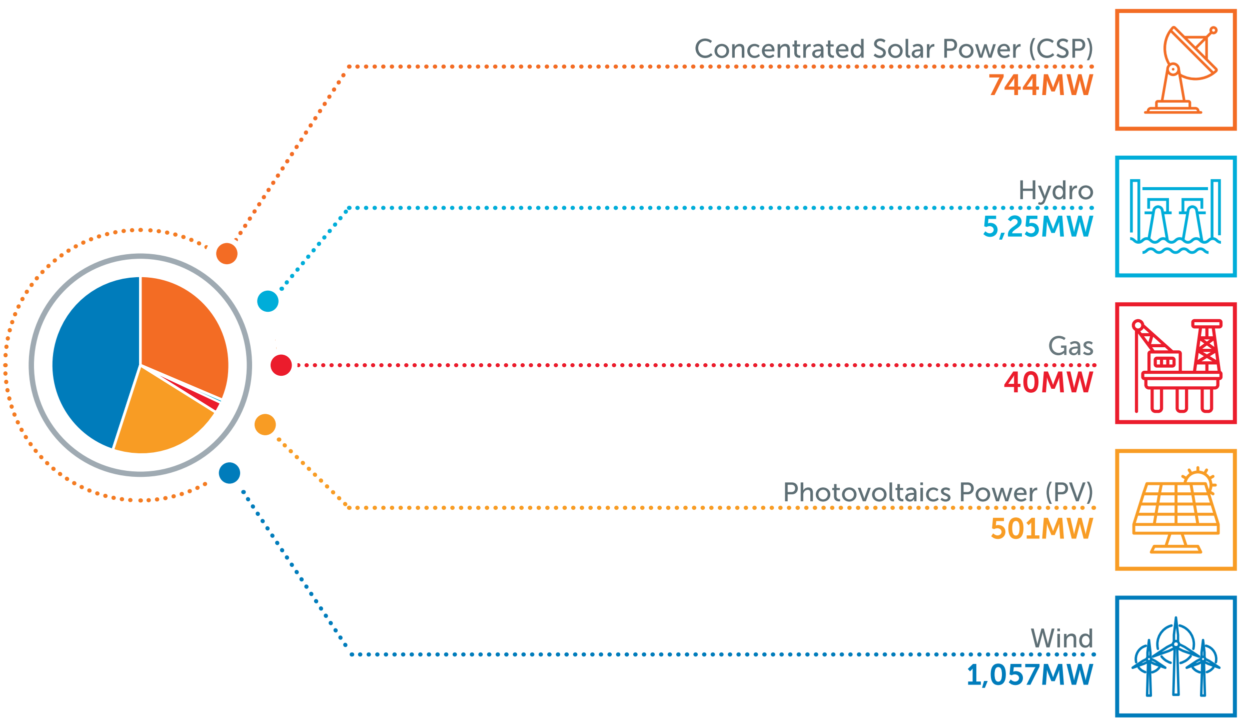
During the year under review, direct investments by the PIC contributed more than R18 million in supplier enterprise development and enterprise development projects in communities surrounding renewable energy sites. The majority of these investee companies reported that investments through their supplier enterprise development programmes have assisted in improving the lives of people in surrounding communities through initiatives such as bursary programmes (SDG 4), childhood development (SDG 4) and electrifying communities where there was no electricity previously (SDG 7). The investment portfolio has further aided in reducing land degradation by eradicating the need to burn dung (fertiliser) and wood for cooking, which contributes to SDG 15.

The use of fossil fuels is the primary source of carbon dioxide (CO2) emissions, which accounts for two thirds of all global greenhouse gas emissions. The PIC's renewable energy portfolio helps to mitigate the effect of harmful emission by contributing to a mix of energy sources, thus contributing to SDG 11 and SDG 13.

Geographical dispersion of energy projects in MW

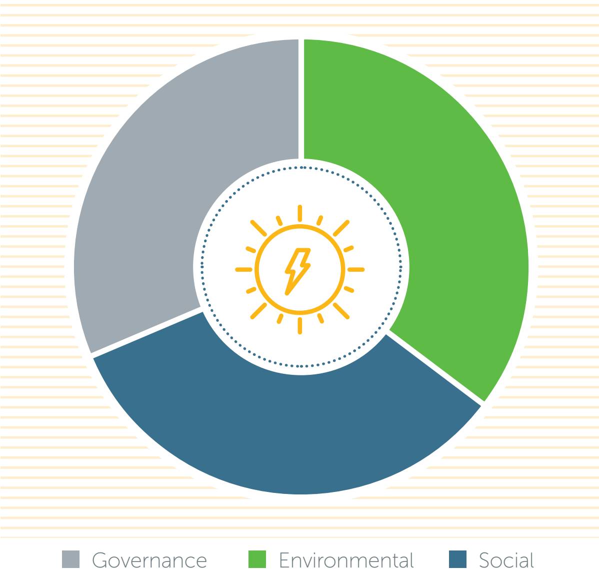


Energy mix - sum of MW by technology

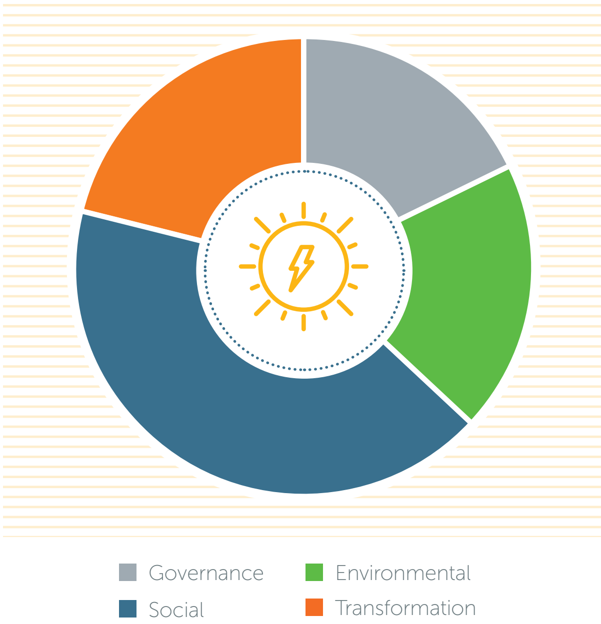


During the year under review, the ESG team conducted 60 engagements across various ESG themes within the portfolio of investee companies in this sector to drive sustainable responsible business practices in line with best practice and the PIC's unlisted ESG policy. The graphs below reflect the engagements by pillar as well as the main engagements themes per pillar undertaken during the financial period.

ESG Score: Renewable Energy Sector



Energy and environment engagements



Energy and environment - Jobs and gender statistics

6,296 Jobs

ENERGY AND ENVIRONMENT

Male
2,796

Female
513

Jobs: Permanent
6,221

Jobs: Temporary
95

Not all investee companies disclosed gender disaggregated statistics

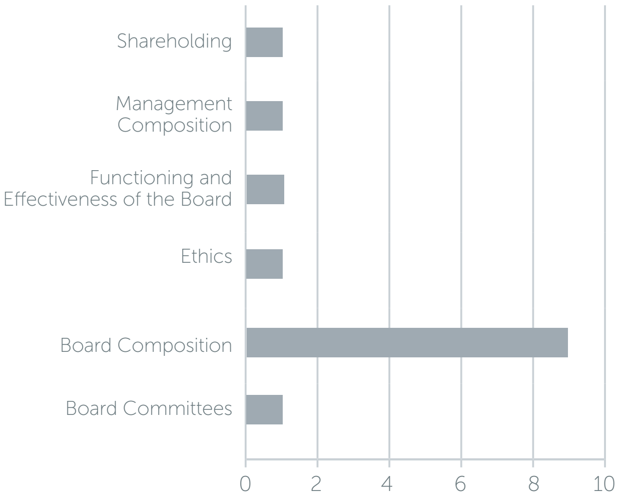
Local employment opportunities
1,104

Number of community trusts
7

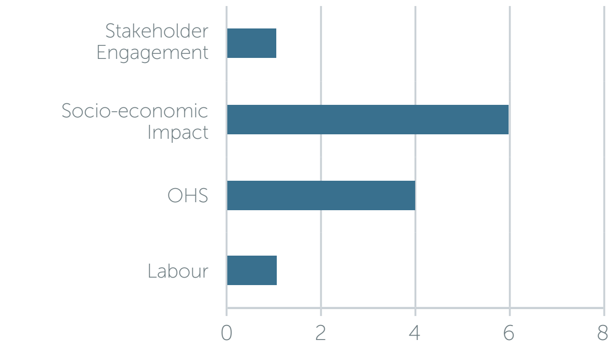
Number of projects
41

Total megawatts
2,654MW
(Direct and Indirect)

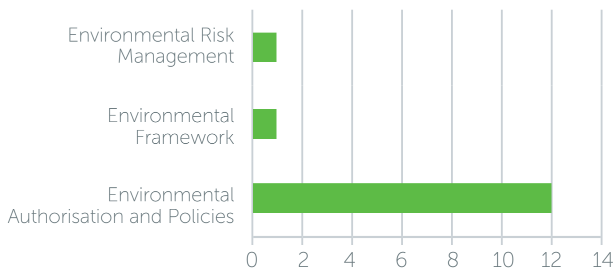
Governance engagements



Social engagements



Environmental engagements



CASE STUDY

Boshoff CSP

- Boshoff supported emerging and communal farmers and communal agricultural initiatives. A community cooperative, Ya Rona Ke Temo (Ours is Agriculture), was launched successfully;
- Hangwi Cooperative members attending the Batho Pele training for 20 days were taught about greenfield management that improves planting and harvesting techniques; and
- Other support - training and business management courses for small businesses and entrepreneurs are provided to improve business acumen (Basadi Tsogang Bakery, Relethabetsi sewing initiative, brickmaking initiative and Tirisano IT initiative).

CASE STUDY

Solar Cap De Aar 3 - Skills development and education

- Solar Capital De Aar 3 continues to fund a highly successful community initiative to improve the reading skills of local children in Emthanjeni Municipality. Solar panels are donated to the school for electricity generation, thereby improving the conditions for learning and teaching;
- The programme Do and Learn supports 220 disadvantaged primary school children and has been implemented by a local non-profit organisation, Karoo Eisteddfod Trust; and
- The programme recruits local volunteers from De Aar who are trained as reading coaches.

CASE STUDY

Jasper Power Company (social housing project)

- The 2011 national census showed that 86.4% of households in Postmasburg, Tsantsabane, Danielskuil and Kgatelopele had access to electricity, but there is still a significant percentage that uses alternative forms of energy for lighting, especially in the agricultural holdings of Tsantsabane and Kgatelopele;
- Jasper introduced its solar housing programme;
- This project started with purchasing PV modules in 2015 so that installation costs could be reduced; and
- To date, installations have been completed in 271 houses in Danielskuil and Postmasburg.

Transport and Logistics Infrastructure

SDG Impact

The transport and logistics industry has the potential to unlock substantial economic growth on the African continent through creating business opportunities to promote growth and job creation. Although South Africa continues to show strong infrastructure capability, it had the lowest projected annual growth - at 3% - for the period 2012 to 2017 of the ten economies surveyed, according to the International Monetary Fund (IMF). Nigeria and Kenya have the highest future projected growth rates, at 6.8% and 6.2%, respectively.* The transport sector has been identified by the government as a key contributor to South Africa's competitiveness in global markets. It is regarded as a crucial engine for economic growth and social development, and the government has unveiled plans to spend billions of Rands to improve the country's roads, railways and ports. According to the South African Road Federation (SARF), South Africa has the second highest quality roads in Africa. Namibia holds the top spot in Africa, rated 23rd globally, with South Africa at 29.

To date, the PIC has approved investments in this sector of R4.1 billion, directly impacting SDG 9. The unlisted investments portfolio comprises six investee companies operating in the transport and logistics sector.

Companies in the sector continue to build innovative infrastructure, which will promote economic growth in South Africa. The construction of roads stimulates the economy and encourages trade with neighbouring countries. Traffic accidents remain a major concern in the transport and logistics sector in South Africa and the country currently has some way to go in fulfilling SDG 3 target 3.6 of halving injuries on roads through accidents. SDG target 3.9 aims to reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution.

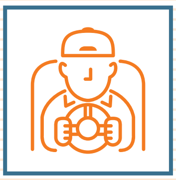
PIC investee companies in the sector are required to provide proper health and safety measures to align with domestic regulations and the requirements of SDG 3. Furthermore, investee companies should continuously strive to ensure decent working conditions and implement required workplace safety measures to protect their employees.

South Africa is regarded as the best performer in Africa in trade facilitation logistics and among the best emerging market economies in transport infrastructure, which aligns the country to SDG 9. The construction of roads through involvement and localised job creation positively supports local economic, social and environmental links between urban, peri-urban and rural areas. Some investee companies in the sector are directly involved in the construction of roads between urban and rural areas. This contributes to better urban-rural integration and economic inclusivity of people living rural communities, in line with SDG 11.

The transport sector is set to be the third largest contributor to greenhouse gas emissions globally, leading the energy and forestry sectors, thus detracting from the aims of SDG 13. The PIC continues to engage all investee companies to disclose their levels of harmful emissions and to implement measures to reduce their carbon footprint.

Most PIC investments in the transport sector promote inclusivity of partnerships with the neighbouring countries, aligning well with SDG 17. Currently, only about 11% of Africa's trade is with other African trading partners because of poor infrastructure. In Asia, half of the continental trade is among the countries in that region. Prevalent in Africa are infrastructure barriers to trade. It takes substantial time and money to cross borders because of poor logistics and transport infrastructure. Trade agreements are imperative. African free trade zones and the removal of tariff barriers are important policy considerations.

The PIC's investment strategy in transport and logistics directly influences national and regional growth, and indirectly influences poverty reduction and improvements in healthcare, education, agricultural production and promoting the well-being of vulnerable groups. Transport infrastructure and services facilitate participation of rural and urban communities in economic opportunities and provide access to essential services such as education and health. As with most other sectors, transport and logistics is a strong driver of economic growth and poverty reduction. To date, the PIC's investment in the sector has facilitated the creation of more than 2,400 jobs.



To date, the PIC's investment in the sector has facilitated the creation of more than ***2,400 jobs***

* https://www.pwc.co.za/en/press-room/transport-logistics.html

SDG Impact

The figure below illustrates the alignment of the PIC's transport and logistics infrastructure investment strategy and its resultant impact and alignment with the SDGs in the sector.

The PIC transport and logistics infrastructure investment strategy, SDG alignment and impact

DIRECT

INDIRECT

Transport - Jobs and gender statistics

TRANSPORT: 1,087 Jobs

Male 542

Female 545

Jobs: Permanent 1,066

Jobs: Temporary 21

Not all investee companies disclosed gender disaggregated statistics

Transport Jobs and gender statistics

LOGISTICS: 1,314 Jobs

Male 952

Female 362

Jobs: Permanent 1,233

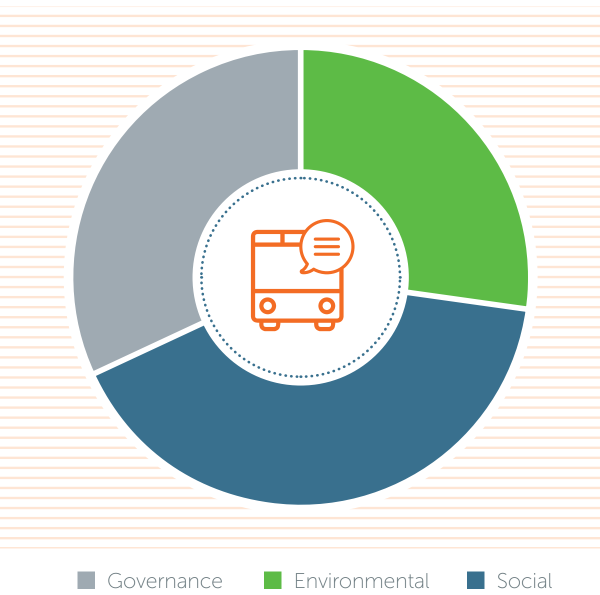
Jobs: Temporary 81

Not all investee companies disclosed gender disaggregated statistics

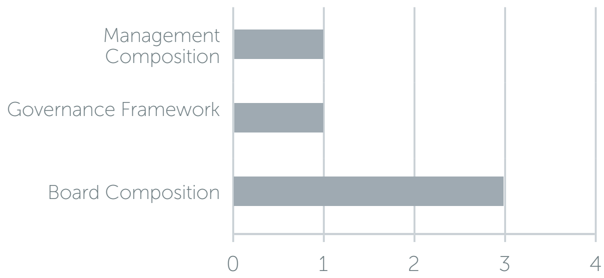
The PIC remains committed to the principles of good governance and responsible investment, with investee companies continuously engaged to encourage required behaviour. The graph illustrates the overall ESG performance in the sector.

The figure below illustrates the overall ESG performance in the transport and logistics sector.

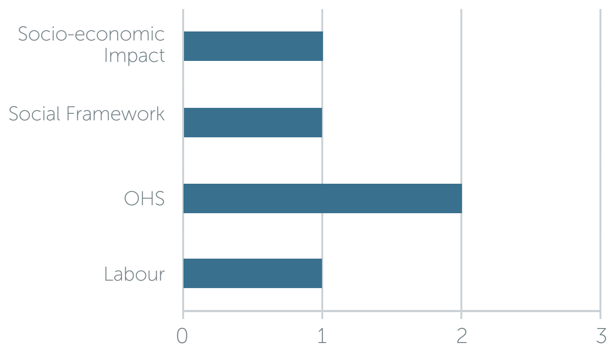
ESG Score: Transport and Logistics Infrastructure



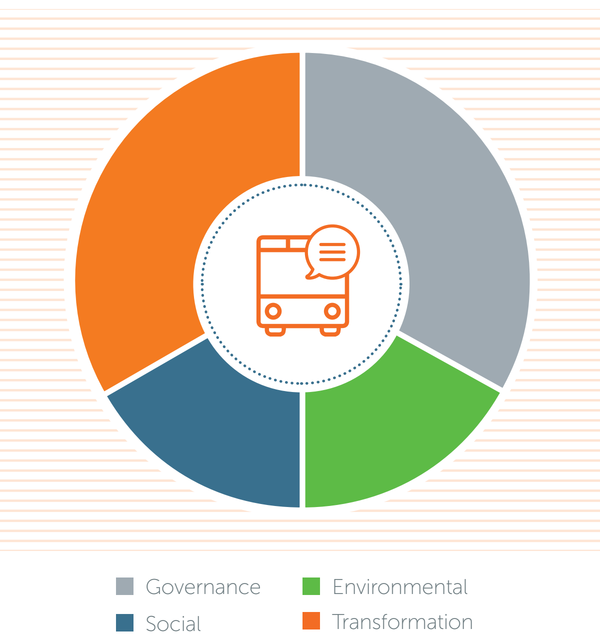
Governance engagements



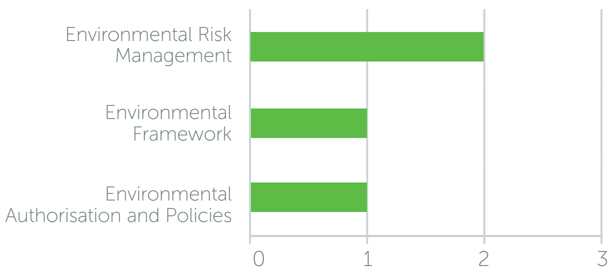
Social engagements



Transport and logistics sector engagements



Environmental engagements



Mining

Mining a global industry, often located in remote, ecologically sensitive and underdeveloped areas that include many indigenous settlements and territories. When managed appropriately, it can create jobs, spur innovation and bring investment and infrastructure at scale over long time horizons. If managed poorly, mining can also lead to environmental degradation, displaced populations, inequality and increased conflict, among other challenges.

The economic value of these resources is mostly unlocked through mining operations. Minerals include coal, platinum, manganese and iron-ore. The PIC has invested in mining operations with a total R4.6 billion approved from inception to date.

Mining can generate new economic opportunities for citizens and members of local communities, including jobs, training and business development relating to mining operations, associated service providers, or local economies linked to the mine. Collectively, these dynamics relate to SDG 8. Investments made by the PIC in mining have facilitated the following jobs:

SDG Impact

The PIC mining sector investment strategy, SDG alignment and impact

DIRECT

8 DECENT WORK AND ECONOMIC GROWTH

INDIRECT

1 NO POVERTY

5 GENDER EQUALITY

Mining - Jobs and gender statistics

9,015 Jobs

MINING

Male 7,948

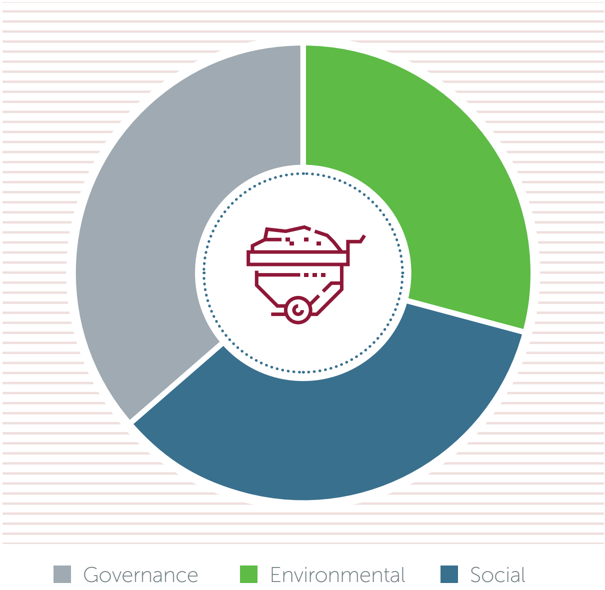
Female 1,067

Jobs: Permanent 8,635

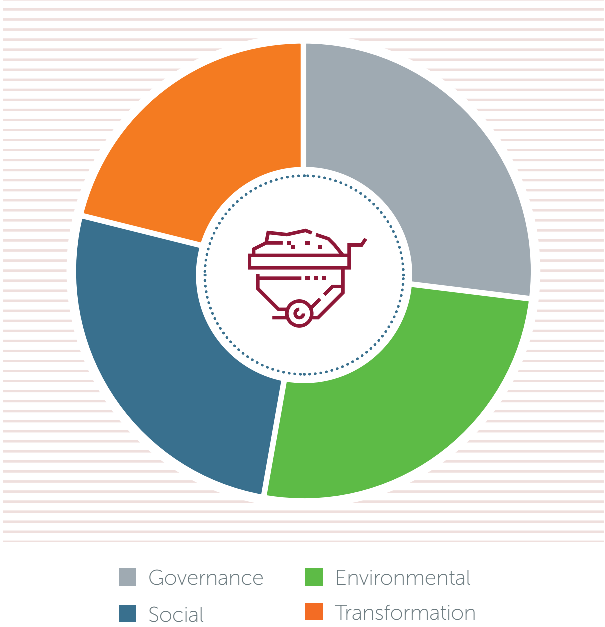
Not all investee companies disclosed gender disaggregated statistics

The figure below illustrates the overall ESG performance in the mining sector.

ESG sector performance: Mining



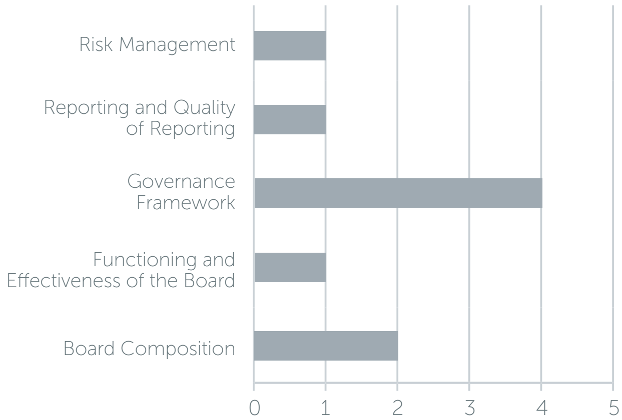
Mining engagements



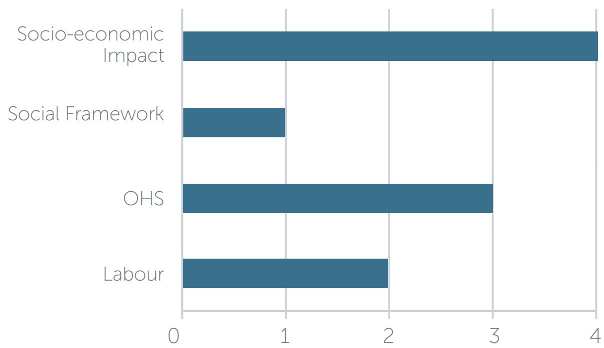
The PIC remains committed to the principles of good governance and responsible investment, with investee companies continuously engaged to encourage the required behaviour.

The main engagement highlights for the year under review included:

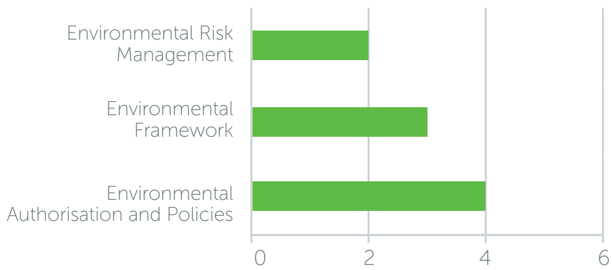
Governance engagements



Social engagements



Environmental engagements



Healthcare

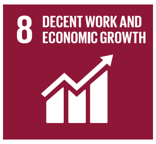
South Africa's healthcare sector is plagued by multiple problems, ranging from ageing infrastructure to ill-equipped healthcare facilities and insufficient budgets. Public healthcare is also over-burdened by a growing population and the influx of immigrants for geopolitical reasons, causing an unprecedented demand for healthcare services both locally and in neighbouring countries. The PIC and its clients are committed to improving healthcare through specific investment strategies that impact directly on SDG 3. The PIC investment in the health sector has a ripple effect on other SDGs, including 1, 2 and 5.

SDG Impact

The PIC healthcare investment strategy, SDG alignment and impact

DIRECT

INDIRECT

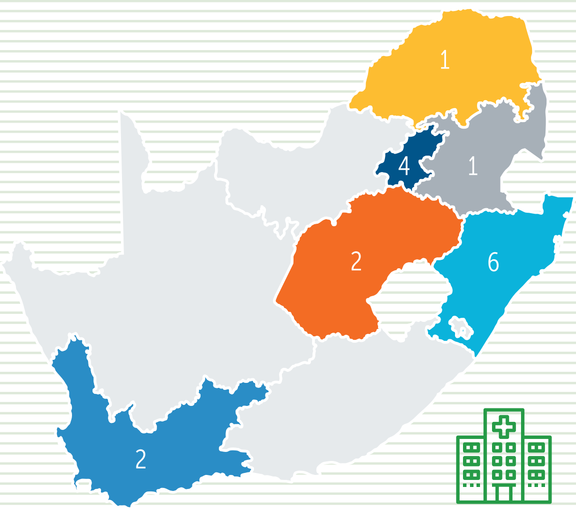


Since inception, the PIC has approved total investments of R5.3 billion in the healthcare sector through both direct and indirect investments. It has directly invested in nine healthcare companies that are focusing on hospital infrastructure, hospital management and pharmaceuticals and in five healthcare providers that jointly own nine hospitals with 1,253 beds. These are located in Mpumalanga, Gauteng, North West and KwaZulu-Natal.

Through the fund managers, the PIC has supported a B-BBEE fund to advance healthcare in South Africa. Through its indirect investment in RH Fund Managers, the Corporation has invested in 16 hospitals with 2,211 beds and a hospital management company.

The hospitals are located in the following provinces:

Hospitals per Province



KwaZulu-Natal | Gauteng | Western Cape | Free State | Limpopo | Mpumalanga

Pharmaceutical Services

Medipost dispenses approximately 660,000 prescriptions per month. Medipost also prides itself on its ability to implement sound chronic medicine supply and management systems, ensuring adherence to good pharmacy practices and convenience for patients. In addition, Medipost has a specialised facility for oncology-, renal- and HIV-medication management.

Radiological Services

The PIC has invested in radiological services by funding the acquisition of costly X-ray machines. It would otherwise be impossible for micro and emerging enterprises funded by the PIC to afford such equipment. In so doing, the PIC has ensured that even the smallest entrepreneur competes with the best within established private hospitals. Northern Radiologists and Inland Radiological Services may be small, but they stand shoulder-to-shoulder with their peers in the industry due to highly qualified doctors who own and run these services. Such investments enable black professional entrepreneurs such as these radiologists to ply their skills not as employees, but as employers and entrepreneurs.

Private Hospitals

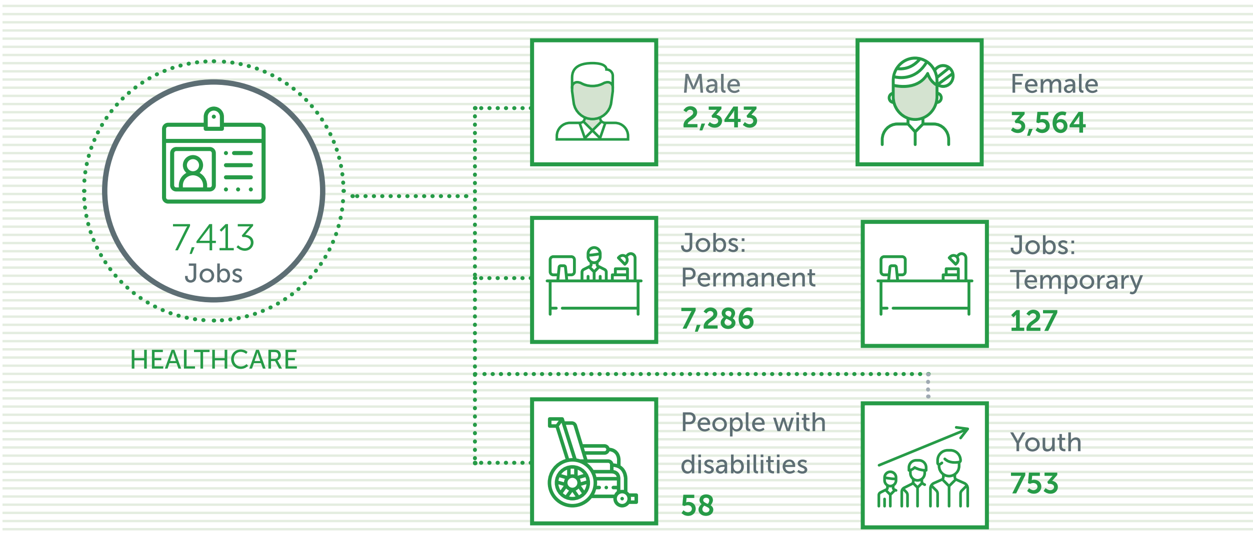
Botshilu Private Hospital (BPH) is a newly completed medical facility in Soshanguve, north of Pretoria. The PIC invested in this healthcare facility, which provides integrated healthcare services to people who previously found it difficult to access such services due to travel costs.

BPH provides a rare opportunity to Soshanguve not only to access to quality healthcare 24/7 but it reduces the mortality rate of that community and stimulates the township economy by creating much-needed jobs.

The company boasts a team of medical practitioners and experienced business partners staffing a 100-bed hospital facility, three operating theatres, six intensive care unit (ICU) beds, four neo-natal ICU beds, 30 medical beds, 10 paediatric beds, 35 surgical beds and 15 maternity beds. In addition, there are doctors' consultation rooms, a pharmacy and coffee shop on the premises.

These investments have facilitated employment, contributing directly to SDG 8. Jointly, the healthcare sector has created approximately 7, 413 jobs.

Healthcare - Jobs and gender statistics



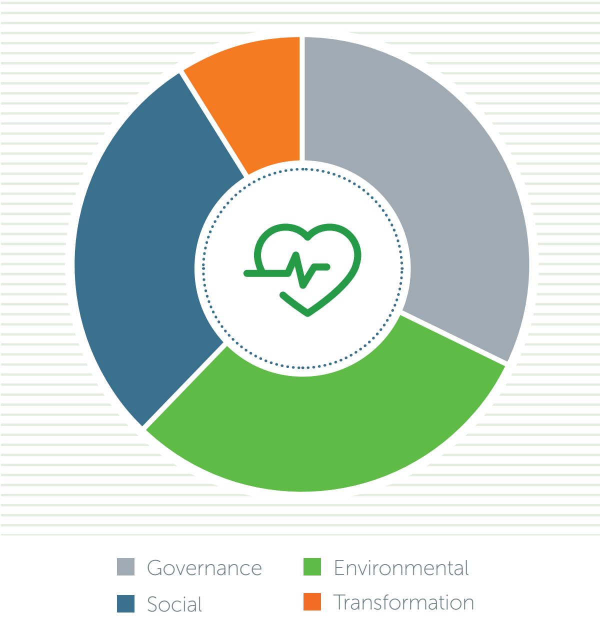
Not all investee companies disclosed gender disaggregated statistics

Number of hospitals – direct and indirect
22

Total number of hospital beds
3,049

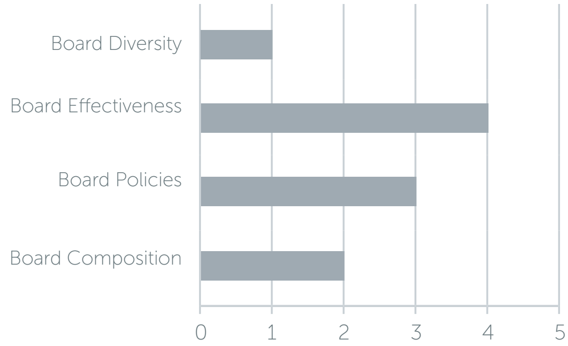
The PIC remains committed to the principles of good governance and responsible investment, with investee companies continuously engaged to encourage required behaviour. The graph illustrates the overall ESG performance in the sector:

ESG sector performance: Healthcare

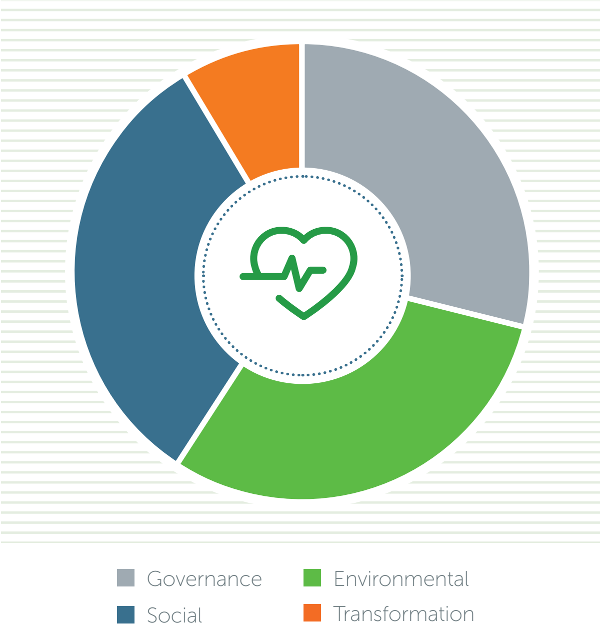


Main engagement highlights for the year under review include:

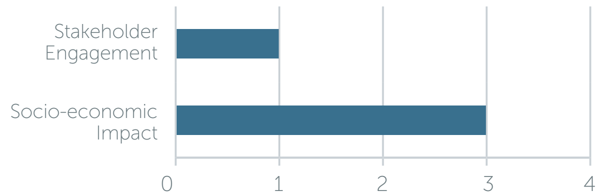
Governance engagements



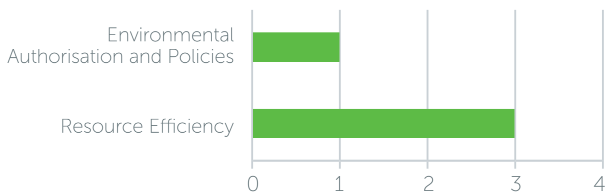
Healthcare engagements



Social engagements



Environmental engagements



Education

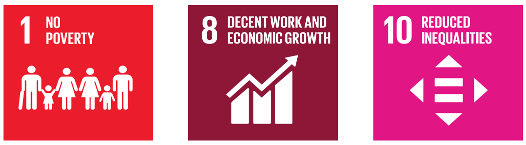
South Africa comes from a painful past based on discrimination and unequal treatment of its citizens, which included policies to prevent black people accessing quality education. The PIC's education investment strategy is, thus, fully aligned with SDG 4, whilst simultaneously attempting to correct the inequalities of the past by affording equal opportunities to education for all citizens (SDG 10). The investment strategy further indirectly contributes to gender equality (SDG 5) as both genders are given equal opportunities.

SDG Impact

The PIC education investment strategy, SDG alignment and impact

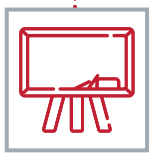
DIRECT

INDIRECT



Since inception, the PIC has approved investments of R6.4 billion in the education sector. The PIC education investment strategy is a two-pronged approach:

Educational infrastructure



An investment of R1 billion was approved in the Schools and Education Investment Impact Fund of South Africa (SEIIFSA) - a development impact fund that seeks to provide a commercially acceptable return on investments and quality education. The fund finances infrastructure requirements for upgrading existing, or building new affordable, independent schools and to provide finance for education-related needs such as early childhood development, skills training and education materials and services.

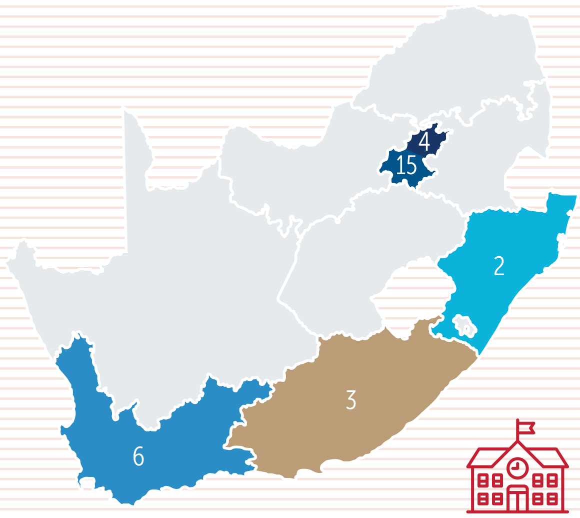
Student accommodation

The PIC has committed R4.5 billion to three student accommodation enterprises, including an indirect investment in two housing funds that also invest in student accommodation. All of these have had a direct impact on SDG 11 and an indirect impact on SDG 4. With the exception of the two funds, the total number of jobs facilitated through the student accommodation sector was 445. Permanent jobs comprise of 432 and 13 temporary, indirectly having an impact on SDGs 8, 1 and 2.

Further, in response to the increased demand for tertiary education, resulting in the increased number of students seeking campus residence, the PIC has contributed to more than 11,000 student beds through its investments in South Point Student Accommodation, and indirectly through the SAWHF and HIFSA funds, impacting SDG 11 and indirectly, SDG 4. To date, three investments have been approved, which will contribute to an additional 25,000 student beds across the country.

The figure below illustrates the geographical spread of the student accommodation projects in South Africa:

Schools per Province



KwaZulu-Natal Durban | Gauteng Johannesburg | Gauteng Pretoria | Eastern Cape Port Elizabeth | Western Cape Cape Town

Education - Jobs and gender statistics

1,855 Jobs

EDUCATION

Male **738**

Female **1,117**

Jobs: Permanent **1,809**

Jobs: Temporary **46**

Not all investee companies disclosed gender disaggregated statistics

Education – Key development indicators

Number of student loans **43,679**

Number of student accommodation **11,964**

Number of infrastructure for institutions of higher learning **35**

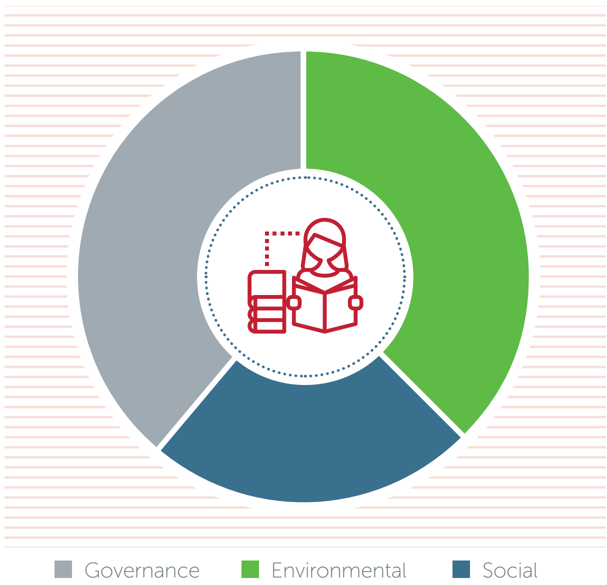
Number of learners: basic education **21, 578**

Number of learners: higher learning **104,234**

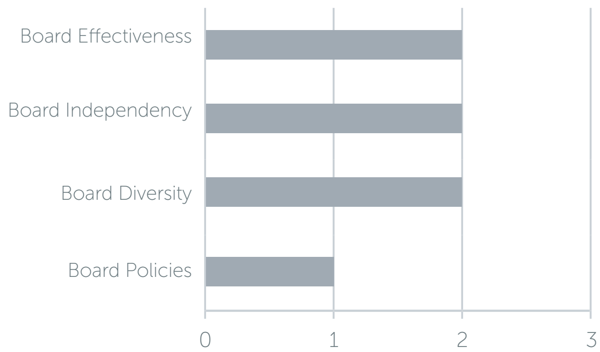
Committed funding for student accommodation for a further **25,000** beds

The PIC remains committed to driving responsible and sustainable business practices. During the year under review, the PIC held engagements with investee companies to highlight the following:

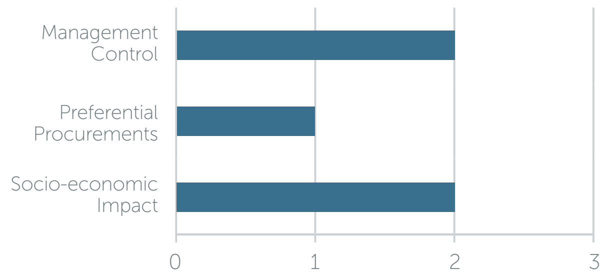
ESG sector performance: Education



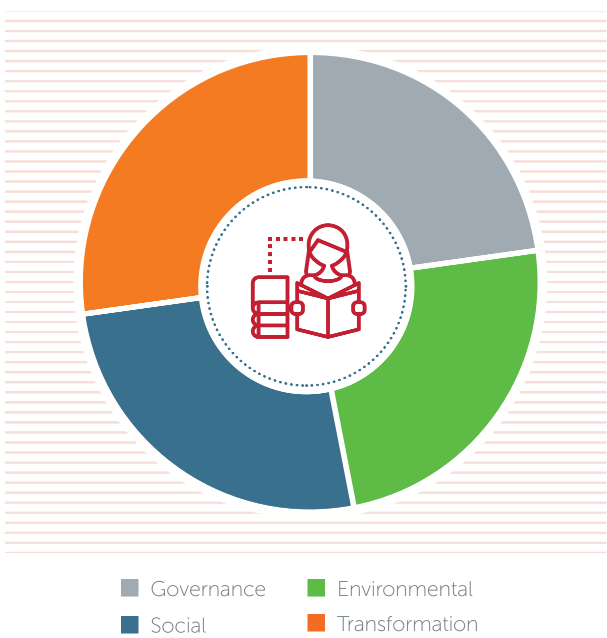
Governance engagements



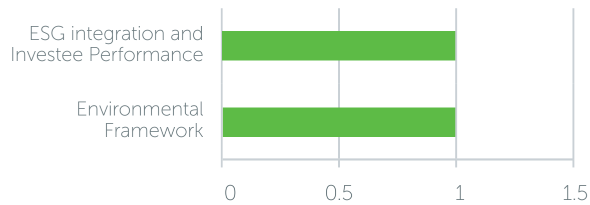
Social engagements



Education engagements



Environmental engagements



CASE STUDY

Access to Education

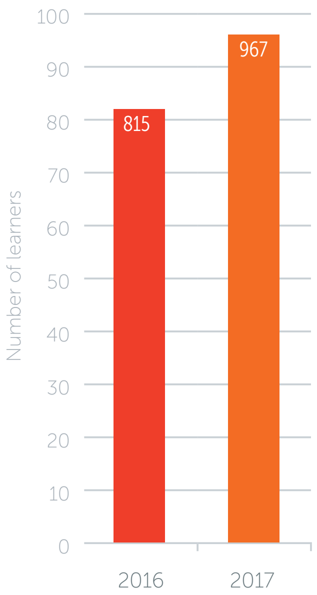
1. Quality education - (SEIIFSA)

The average bachelor degree pass rate among beneficiaries of the schools fund was 42.8% (2016: 44.3%), exceeding the national average of 28.7% (2016: 36.7%). Thus, it is evident that PIC investee companies are performing above national average. Below is a comparison of the performance of the South Africa's matric class of 2016 and the class of 2017 at SEIIFSA:

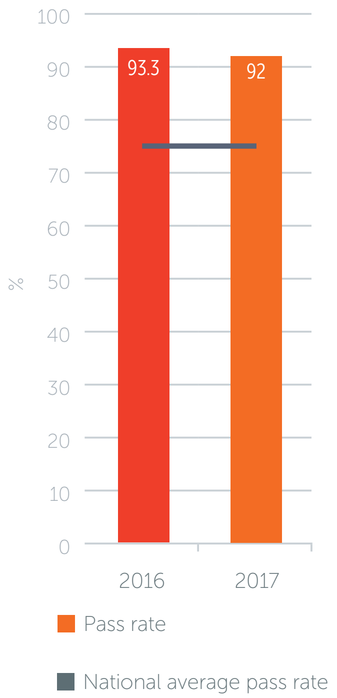
Students receiving education	Number of schools	Number of classrooms	Teacher/learner ratio average per class
21,578	**33**	**867**	**25 to 34 students**

- Ten SEIIFSA funded schools enrolled Grade 12 students in 2017 and 967 learners wrote the 2017 NSC examinations, an increase from 815 in 2016; and
- The schools fund institutions achieved an average pass rate of 92% (2016: 93.3%), far exceeding the national average of 75.1%.

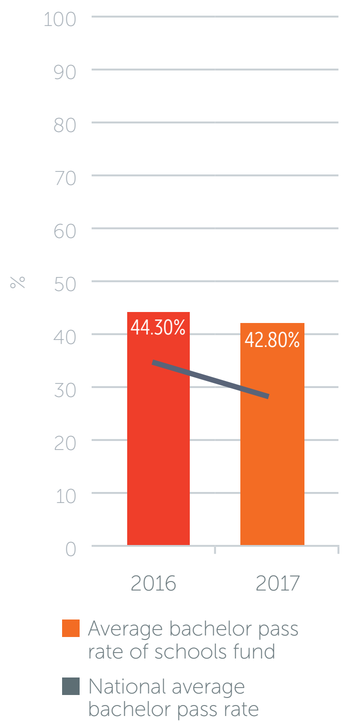
Number of learners wrote NSC



Pass rate



Average bachelor pass rate



Educor Holdings – quality education tertiary

The PIC approved investments of R755 million in Educor Holdings (EH), the largest provider of private education in southern Africa. It provides higher, further and vocational education via face-to-face classes, distance learning and online learning for both full-time and part-time studies.

Number of students
104,234

Number of institutions of higher learning
35

2. Access to education finance

EDU-LOAN/FUNDI

Edu-Loan/Fundi is a leading education finance and education fund management solution specialist, operating in southern Africa. The company is the only credit provider that focuses on providing funding for education. Through various public and private partnerships, the company has allowed customers to enjoy affordable and accessible education funding solutions.

Through its investment in Eduloan/Fundi, the PIC facilitated loans to students, thus ensuring that they have access to finance to fund their tertiary education. During the year under review, the PIC investment with Fundi facilitated access to education to 43,232 students in institutions of higher learning.

Number of students with access to higher learning
43,323

SEIIFSA has adopted a green building schools initiative

Ensure access to affordable, reliable, sustainable and modern energy for all.

SEIIFSA has adopted a green building schools initiative to ensure that it contributes to the green economy and further to SDG 6 and SDG 7.

Manufacturing

This sector provides a locus for stimulating the growth of economic activities (SDG 8) and promotes inclusive and sustainable industrialisation (SDG 9). Such economic activity further assists in facilitating employment creation and economic empowerment (SDG 8).

SDG Impact

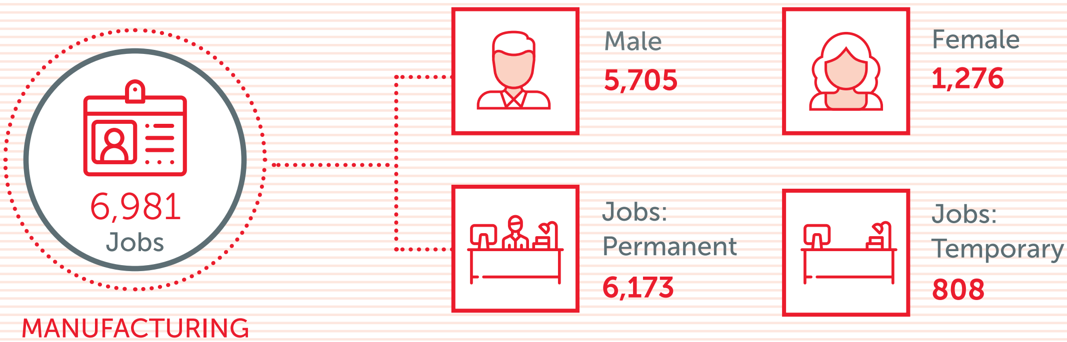
The PIC manufacturing investment strategy, SDG alignment and impact

DIRECT

INDIRECT

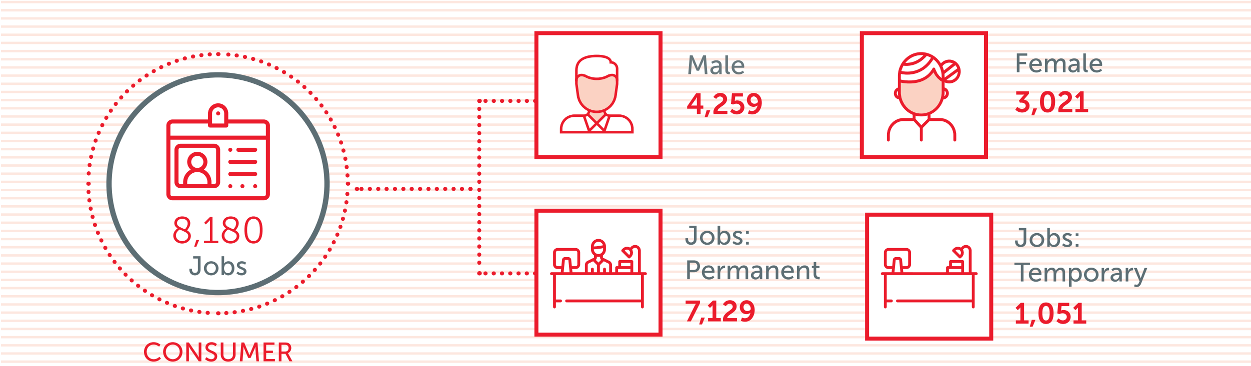
Since inception, the PIC has approved investments in ten manufacturing and six consumer goods businesses, with a combined value of R32.5 billion. In turn, this has facilitated a combined total of 17,061 jobs, 8,190 in the consumer goods sector and 8,871 in manufacturing. This contributed directly to SDG 8. To promote inclusive economic growth (SDG 10), the PIC has also facilitated job opportunities for marginalised groups by actively ensuring that employment opportunities are afforded to women (SGD 5) and those living with disabilities and are unskilled (SDG 10).

Manufacturing - Jobs and gender statistics



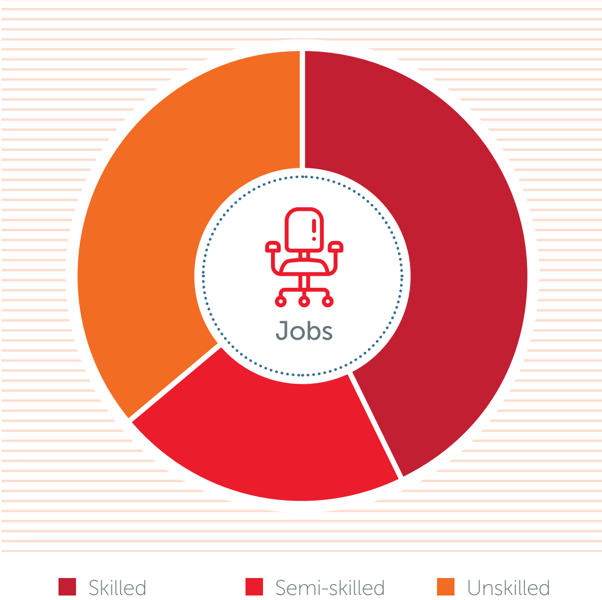
Not all investee companies disclosed gender disaggregated statistics

Consumer - Jobs and gender statistics

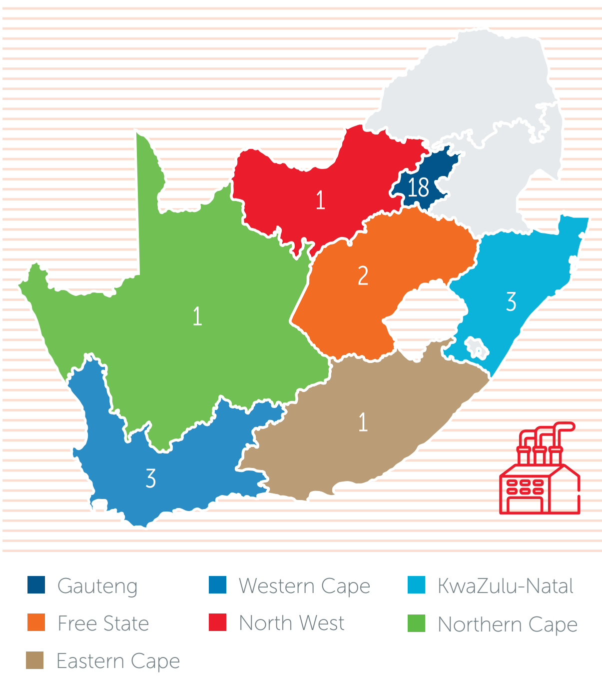


Not all investee companies disclosed gender disaggregated statistics

Jobs per skills level



Geographic dispersion of manufacturing plants in South Africa



Occupational health and safety within the PIC's manufacturing portfolio is highly prioritised, due to the punitive working conditions in the sector. The PIC encourages all companies to prioritise health and safety workplace standards in line with legislation and best practice. Investee firms such as Consol, Kansai and Libstar are ISO certified, and as such, have systems in place to ensure that the safety and wellbeing of all stakeholders are considered (SDG 3).

Consistent learning and development is necessary in the manufacturing sector to ensure that employees stay abreast of technological changes. Investee companies encourage learning initiatives by placing employees on internships and skill development programmes. In total, 2,169 employees received training during the period under review in both manufacturing and the consumer goods sectors.

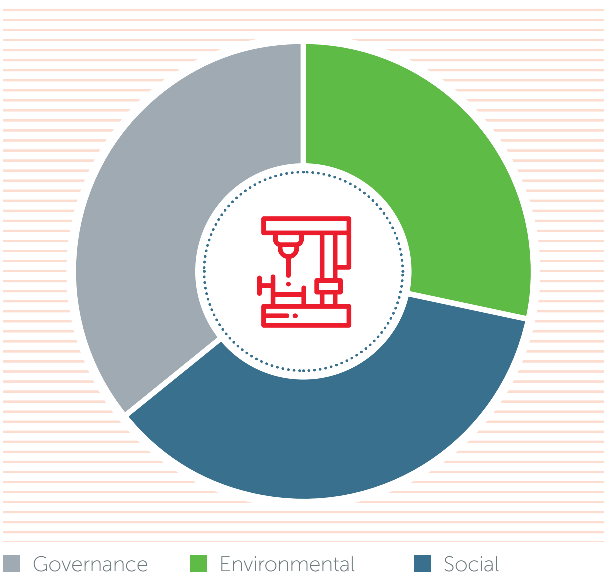
The PIC encourages investee companies to reduce the effects of climate change. The adoption of sustainable environmental practices and resource efficiency measures contributes directly to the attainment of SDG 6, 12 and 13. The PIC's contribution to these SDGs can be attributed to investments made in companies such as Amalooloo, which encourages water efficiency and dry sanitation.

The PIC remains committed to the principles of good governance and responsible investment and engages investee companies to encourage the required behaviour. The figure below illustrates overall ESG performance in the manufacturing and consumer goods sector.

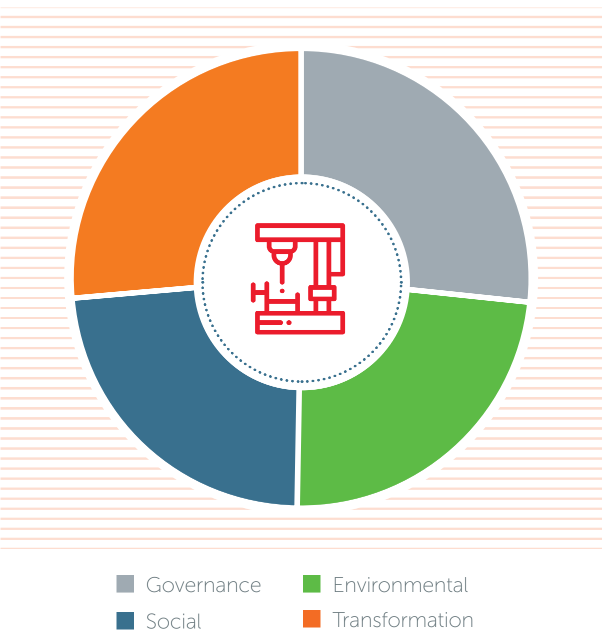
Engagements

During the year under review, 30 engagements across ESG themes were conducted with investee companies. The graphs below reflect the engagements by pillar as well as the main engagement themes per pillar:

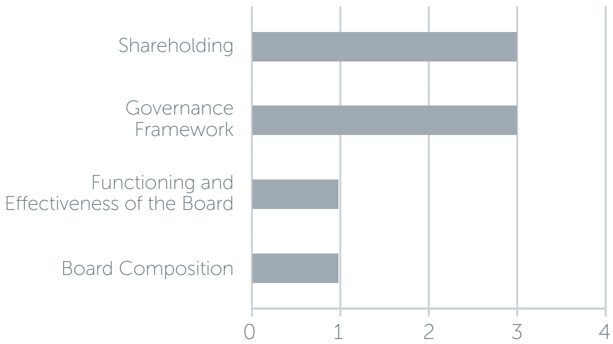
ESG sector performance: Manufacturing



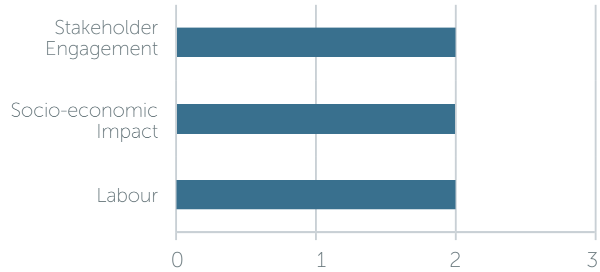
Manufacturing engagements



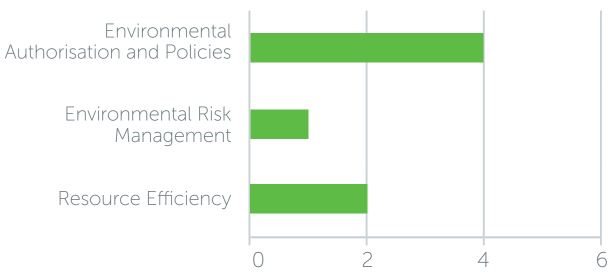
Governance engagements



Social engagements



Environmental engagements



Amalooloo

CASE STUDY

The PIC has invested R187 million in Amalooloo, which has been successful in the implementation of school sanitation solutions. The process involves layout, method of positioning, control, education, management and vegetable gardening. The company continues to provide training and support programmes for its contractors on an ongoing basis. Through the operations and maintenance programme, Amalooloo has built more than 42,000 toilets in rural communities in Limpopo.

Through the operations and maintenance programme Amalooloo has built more than **42,000** toilets in rural communities in Limpopo

The Consol Solar Jar™

CASE STUDY

The PIC has invested R221 million in Consol. Part of Consol's R6.45 million spend towards CSI initiatives included the distribution of the Consol Solar Jar™ to provide a safe light alternative to homes in poverty-stricken areas that do not have electricity (SDG 7). The jar is an eco-friendly solar light that provides bottled sunshine, which saves energy and is environment-friendly. The Consol Solar Jar contains four solar-powered LEDs, which are charged by solar cells in its lid. When placed in direct sunlight, the batteries charge and provide many hours of soft, yet bright lighting without glare.

Key features of the four solar-powered LED lights technology are:

- Handmade to a high standard
- Preserve jar - 100% recyclable
- Made with 70% local materials
- Creates consistent job opportunities
- Winner of five design awards

Financial Services Sector

The PIC approved a total of R24.4 billion through its investments in the financial services sector. The financial services industry is a vital enabler for real growth in the South African economy. It supports improved economic wellbeing (SDG 8), which then increases the ability of families and the government to improve social outcomes. To address social and environmental challenges, opportunities can be identified in terms of shared value, where companies can create value for both business and society in general.

To date, the PIC has approved investments totalling R12 billion to enable the following product offerings: loans, investments, credit and insurance, financial transacting, trade finance, financing for innovative asset rental solutions, value-added services for SMEs and stock exchange developments. In addition, R9 billion was approved for property development and finance.

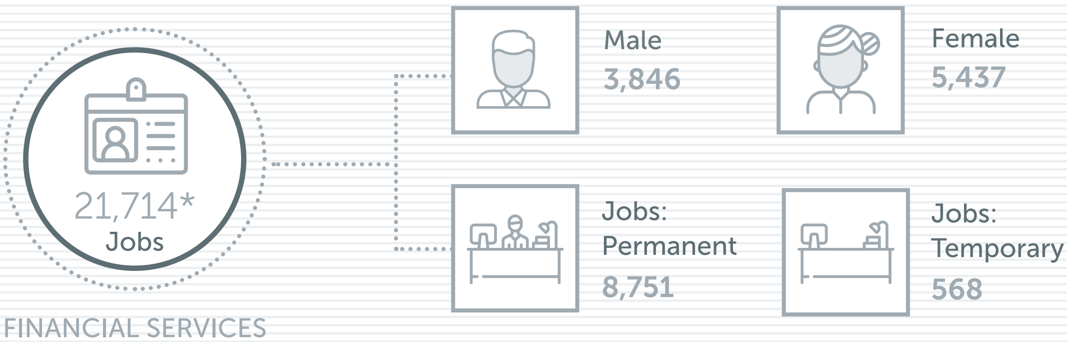
SDG Impact

The PIC financial services investment strategy, SDG alignment and impact

DIRECT

INDIRECT

Financial Services - Jobs and gender statistics

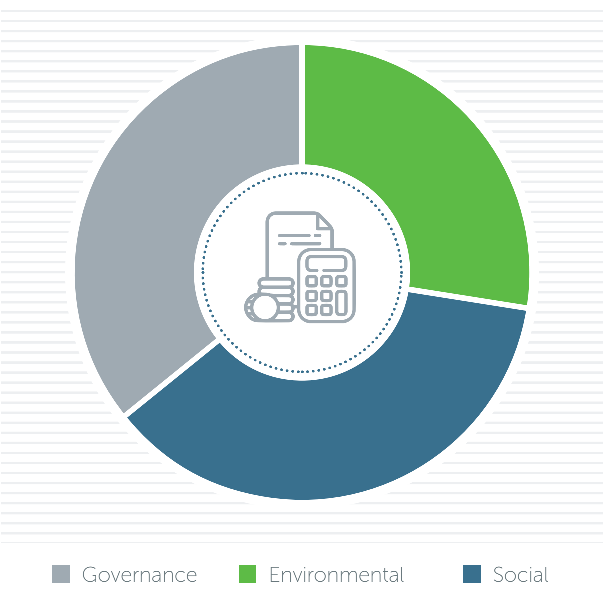


Not all investee companies disclosed gender disaggregated statistics

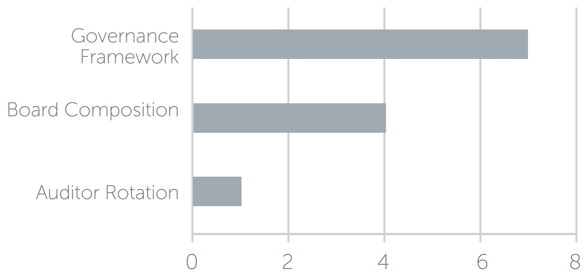
**The figure for the total number for jobs created includes 12, 395 jobs facilitated through SMEs that are funded by one of the PIC's investments in Business Partners Limited.*

The PIC remains committed to the principles of good governance and responsible investment. Investee companies are continuously engaged to encourage the required corporate behaviour. The graphs below illustrate the overall ESG performance in the financial services sector.

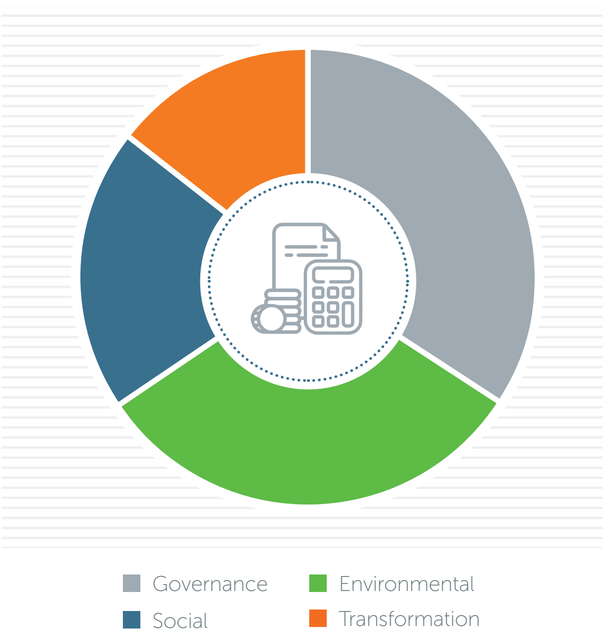
ESG sector performance: Financial services



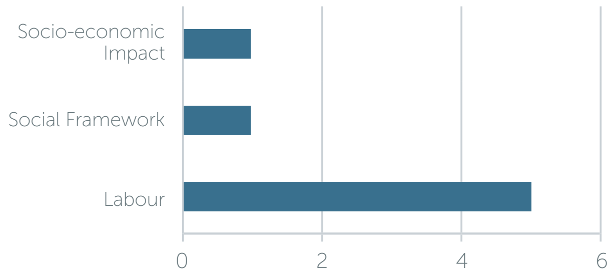
Governance engagements



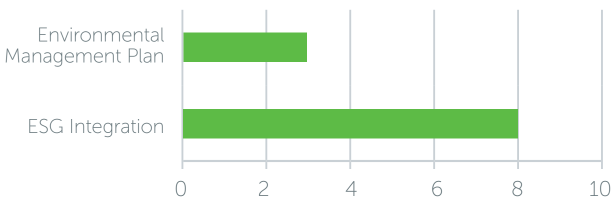
Financial services sector engagements



Social engagements



Environmental engagements

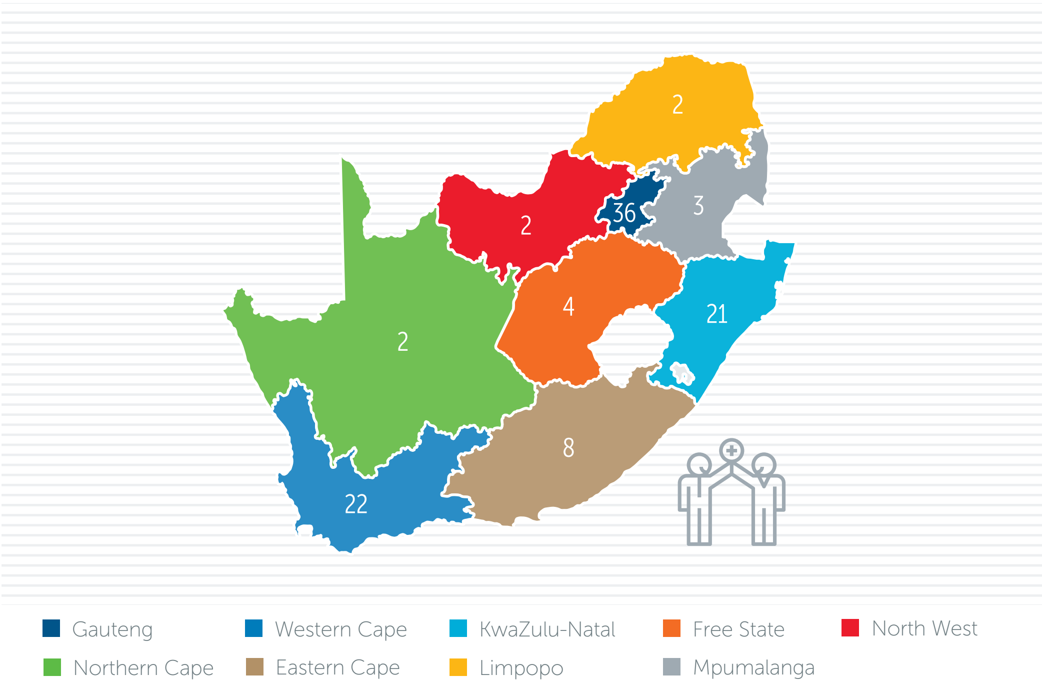


CASE STUDY

Business Partners Limited

Business Partners Limited is a specialist risk finance company that provides customised financial solutions, sectoral knowledge, mentorship, business premises and other value-added services for formal SMEs in South Africa and African countries such as Kenya, Malawi, Namibia, Rwanda, Uganda and Zambia. The geographic locations of the entities financed by Business Partners Limited in South Africa are summarised in the chart below:

Business partners - Geographic locations



Business partners - Number of Investments made/approved to SMEs

AFRICAN BANK - Social Impact and Investment Geographic Focus

CASE STUDY

Successes include the socio-economic impact made through the PIC's investment in African Bank Holdings Limited.

African Bank invites companies to partner with it in a variety of projects, e.g. African Bank's CSI Trust. These projects are aimed at changing the lives of people through the following programmes:

- Education, including English literacy, computer training and mathematics;
- Sports development; and
- Entrepreneurship - creating jobs.

The bank promises the following to its CSI sponsors: for every cent invested it will get the best value for money, will monitor the implementation of all projects and report back on what has been achieved. African Bank believes that an effective way to address social and economic needs of South Africa is by empowering people through education. The bank increased the number of children who benefited from its investment from 147,006 in 2016 to 168,200 in 2017, whilst maintaining the same budget. Its budget for CSI sponsors the following programmes:

Early childhood development

A programme that works with crèches in historically disadvantaged communities and rural areas

Promoting English literacy

A programme the bank funds to target disadvantaged schools with extremely low literacy rates

Advancing maths learning

Through this programme, after-school maths tuition is provided for learners in schools where maths aggregate is mostly below 20%

Developing entrepreneurial skills

The programme teaches business administration skills to high school learners through the practical simulation of managing a business such as running a food garden for profit or refurbishing old computers for resale

Providing internet connectivity and computer literacy

Through this programme, internet connectivity is provided to schools for three years

Sports development

The programme incorporates life skills training with cricket, football and netball coaching after school

Volunteers at work

Employee and executive team from the Midrand office participate in community-based projects

Affordable Housing

The PIC has committed R5.9 billion in six affordable housing enterprises, including an indirect investment in two affordable housing funds, all of which had a direct impact on SDG 11. The total number of jobs facilitated through the PIC's affordable housing investments was 2,828. Permanent jobs comprised of 1,763 and 1,065 were temporary, indirectly having an impact on SDG 1 and 2 for the period under review.

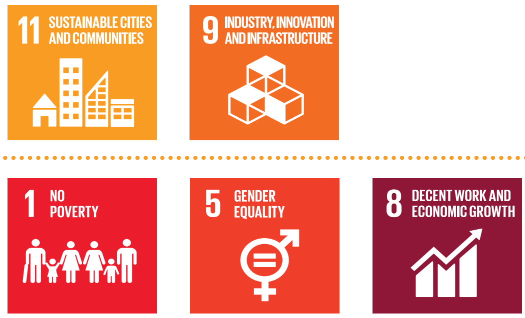
The PIC's affordable housing investment strategy is aligned to SDGs 10 and 11 - to empower HDIs by contributing meaningfully towards the government's objective of social inclusion through home ownership. The PIC investments within this portfolio entail financing for the acquisition and construction of affordable houses. The fund also contributes to rental units as well as the provision of end-user finance. Funding is approved for either greenfield sites, namely the development of land for the construction of affordable housing, or for the refurbishment or conversion of existing buildings into rental accommodation in the inner cities. These houses and rental units are usually pitched at affordable cost to the lower- and middle-income market segments throughout the country. The PIC's investment in the portfolio has facilitated the construction of 9,927 units, while 5,829 units were under construction and 476 RDP houses were constructed and transferred to their new owners during the financial year under review. The portfolio has also successfully transferred 1,165 units, 39,428 rental residences and 4,320 social housing units. The PIC also contributed to 5,142 end-user finance loans in the affordable housing sector, having an impact on SDG 9.

SDG Impact

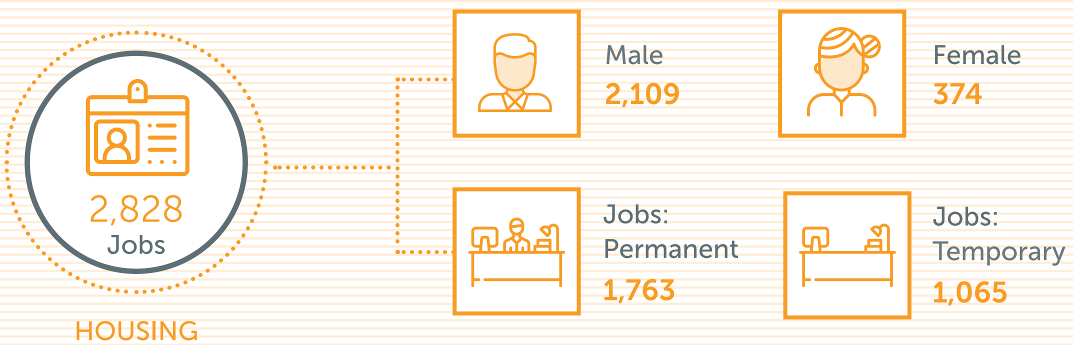
The PIC affordable housing sector investment strategy, SDG alignment and impact

DIRECT

INDIRECT



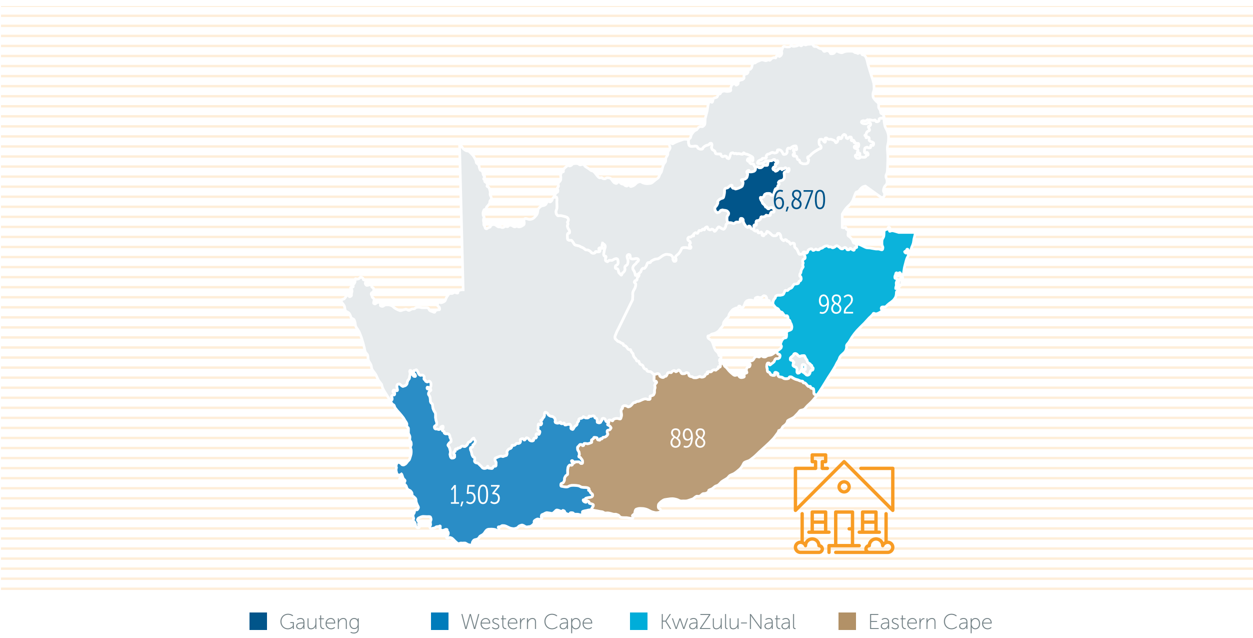
Housing - Jobs and gender statistics



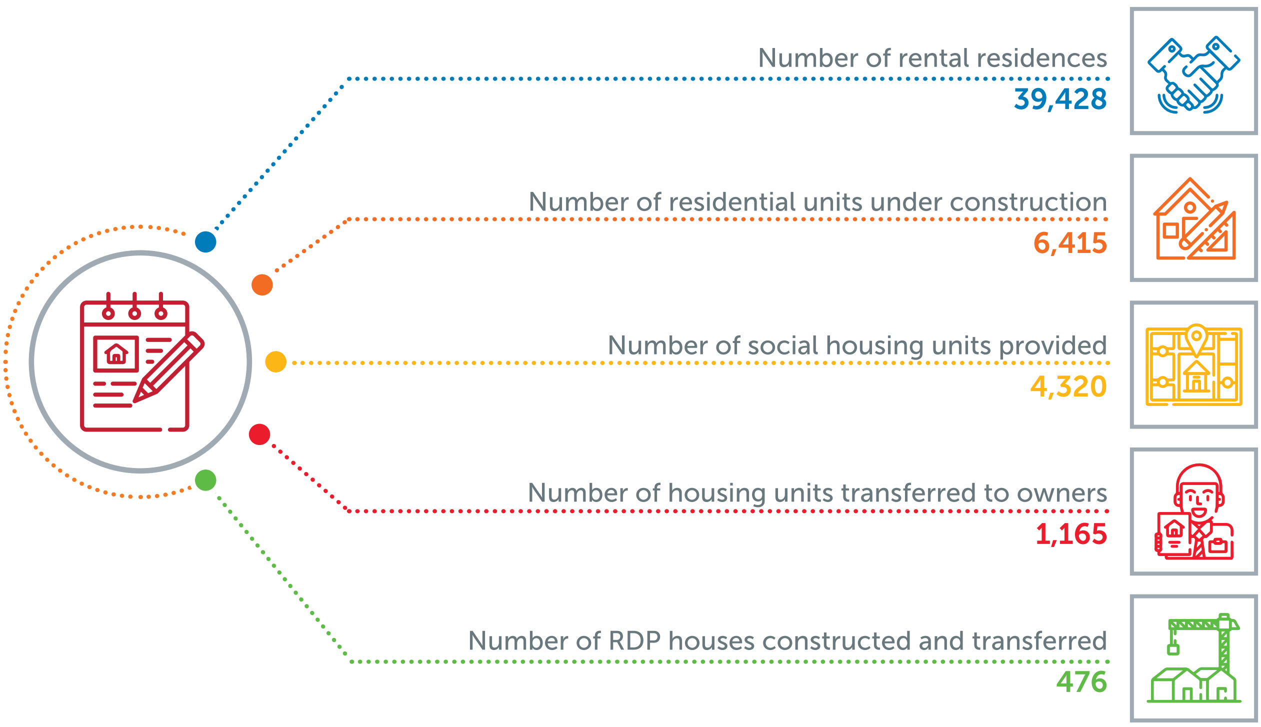
Not all investee companies disclosed gender disaggregated statistics

The figure below illustrates the geographical spread of the housing projects in South Africa.

Geographical spread of the housing projects in South Africa



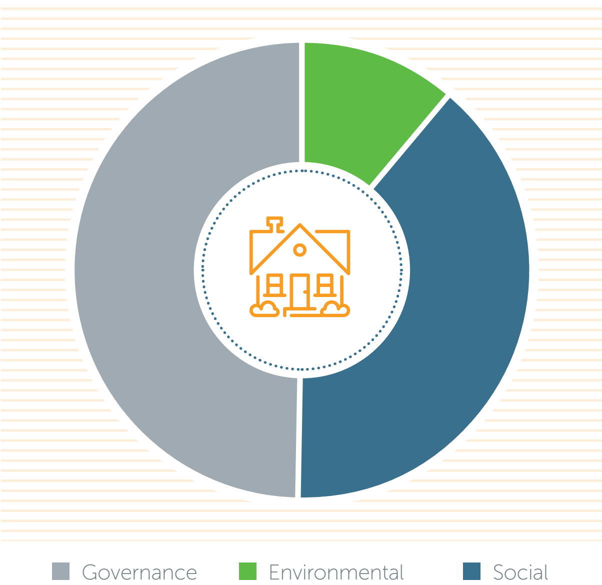
Housing - Statistics



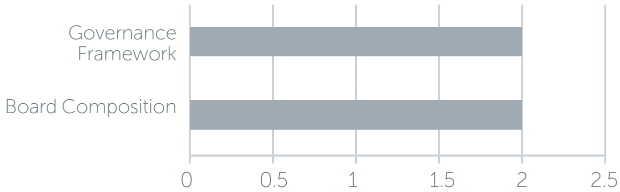
The PIC remains committed to the principles of good governance and responsible investment, with investee companies continuously engaged to encourage the required behaviour.

The graph illustrates the overall ESG performance in the sector:

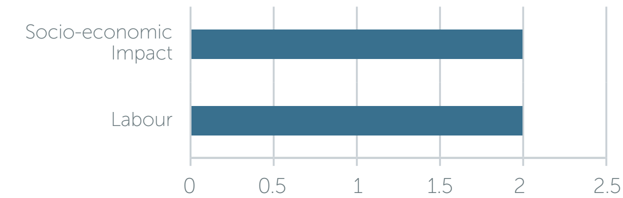
ESG sector performance: Affordable Housing



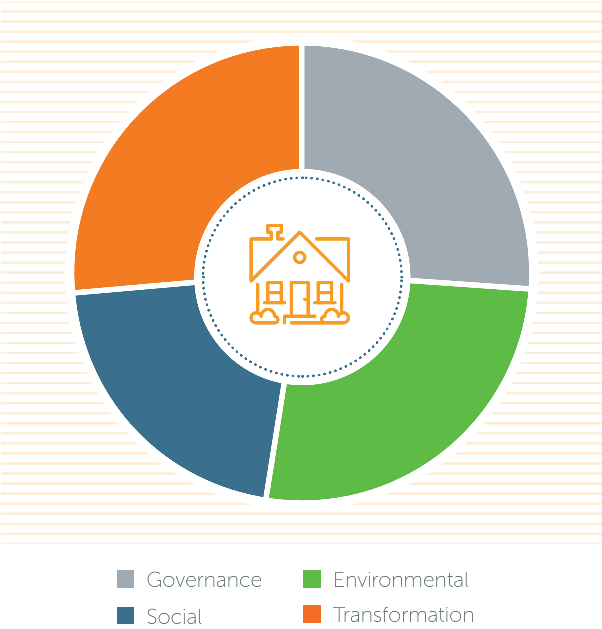
Governance engagements



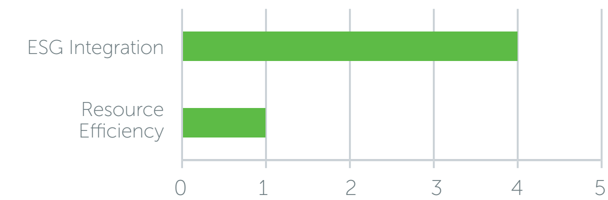
Social engagements



Affordable Housing sector engagements



Environmental engagements



Construction

To date, the PIC approved investments of R509 million in two construction companies, which had a direct impact on SDG 8. The total number of jobs facilitated was 3,942. Permanent jobs comprised of 3,228 and 714 temporary, which indirectly had an impact on SDG 1 and 2.

The figure below illustrates the direct and indirect SDG impact within the construction sector.

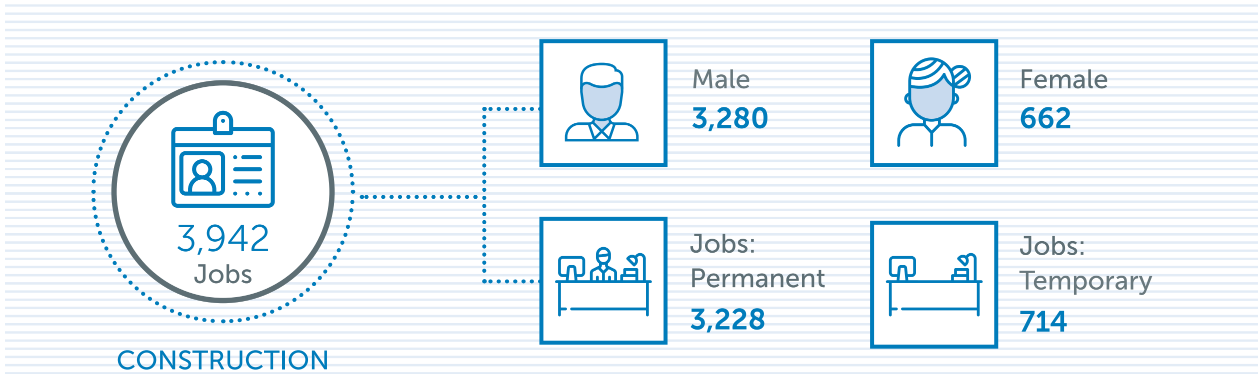
SDG Impact

The PIC construction sector investment strategy, SDG alignment and impact

The investee companies in the sector continue to empower HDIs by implementing initiatives that support enterprise and supplier development and skills development. The nature of the construction industry means that companies are in constant interaction with locals and, as such, community liaison officers are hired to provide support and to assist the community to participate in the project to encourage community development and employment. This had an impact on SGD 8 and indirectly, SDG 10. The companies identify and establish relationships with key stakeholders, undertake needs assessments and partner with local suppliers and service providers to address community needs where possible, indirectly impacting on SDG 1, 2, 8 and 10.

The portfolio construction companies are encouraged to aspire towards effecting zero harm on the natural environment in all aspects of their business operations. They have established practices to prevent and mitigate pollution emanating from their industrial processes and to ensure environmental performance by adhering to international best standards, impacting on SDG 13 and 15. Various strategies are implemented to manage water and energy consumption, waste management and preventing water and air pollution. Client environmental management plans are embedded in daily operations to ensure adherence to legal requirements and best practice and these are assessed monthly.

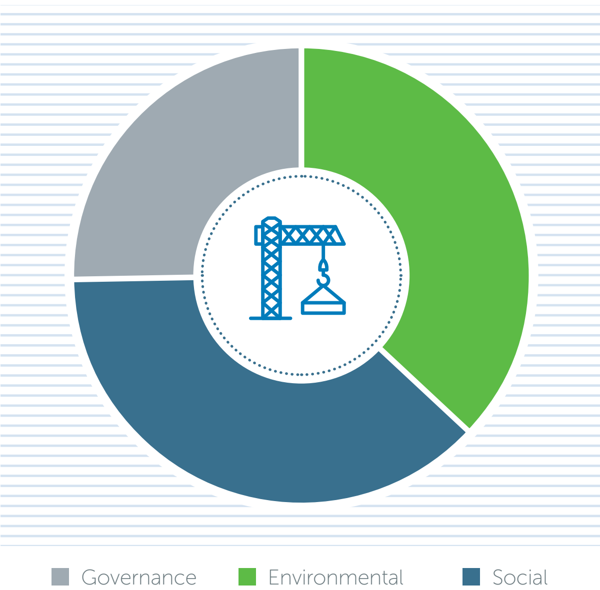
Construction - Jobs and gender statistics



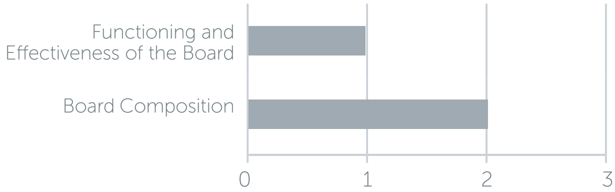
Not all investee companies disclosed gender disaggregated statistics

The graphs below reflect the main ESG engagement themes in the construction sector.

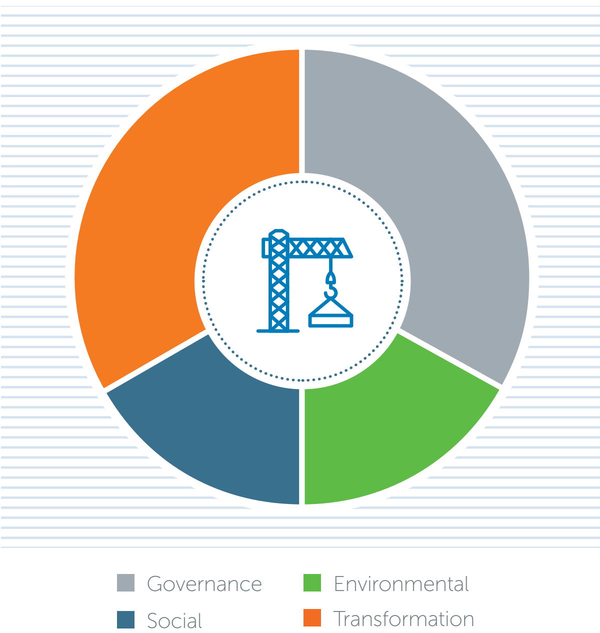
ESG sector performance: Construction



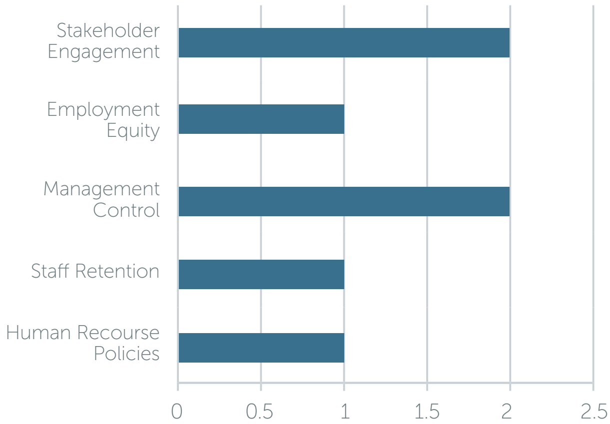
Governance engagements



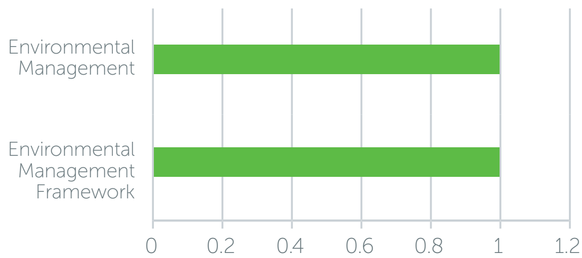
Construction sector engagements



Social engagements



Environmental engagements



The PIC's Unlisted Investments: Externally Managed Funds

Economic growth is often accompanied by rising inequality in the distribution of resources among individuals and the South African economic landscape has widening inequalities whose roots go deep into the country's history. The requirement for inclusive economic growth set out in SDG 8 imposes a responsibility on the South African Government to ensure that inequality arising from economic development does not result in individuals, particularly those who are most vulnerable, being excluded from the material benefits to the extent that they become incapable of observing the social norms and participating in the common lifestyle standards of their country.

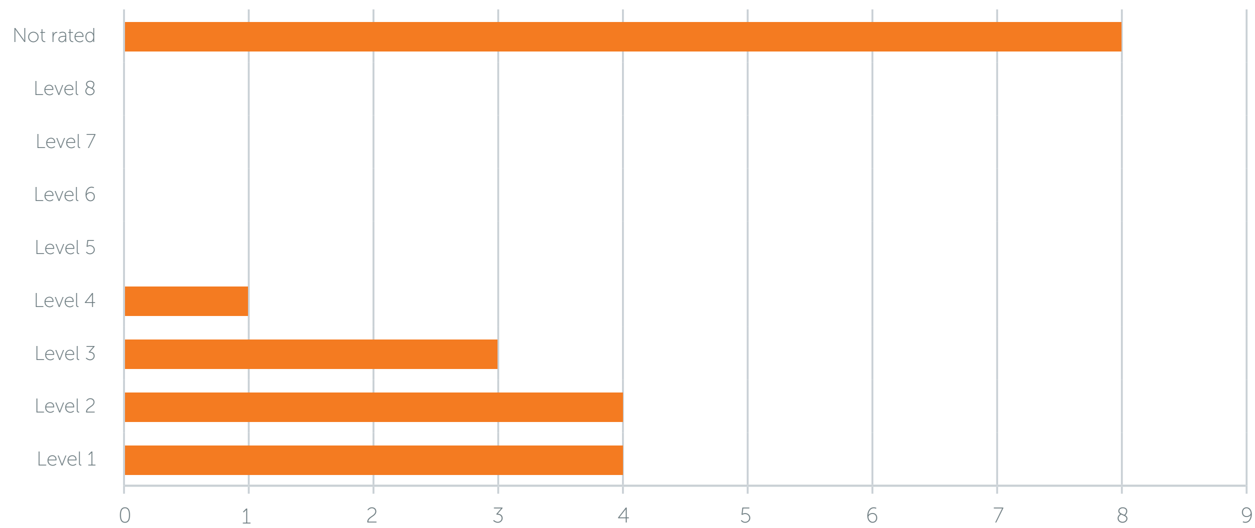
Although the South African Government has, over the past two decades, prioritised inclusive economic growth (SDG 8), to reduce poverty (SDG 1), unemployment and inequality (SDG 8 and 9), it has become apparent that South Africa's asset management industry has been slow to transform. According to a survey by BEE.conomics, assets under management by black-owned asset management firms represent only 9% of the total R4.6 trillion of assets under management (out of a total savings pool of R7.9 trillion).* While the 2017 survey indicated that the number of black asset managers increased from 41 to 45 during the reporting period, the sector is still largely untransformed and lacks diversity. Despite the importance of diversifying the sector, it still remains particularly difficult for new asset managers to get a foothold in the market, with the real opportunity loss being meaningful transformation of the industry.

The PIC has successfully aligned its externally managed funds strategy to the SDGs to promote responsible, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG 10). In executing the PIC's client transformation mandate, the PIC has done an incredible amount of work in transforming the sector to ensure meaningful participation by black asset managers in the market. To date, the PIC has invested R12.5 billion with external fund managers with the mandate to support emerging black fund managers and drive transformation.

Of the 20 asset managers in which the PIC has invested, six (30%) managers are not rated, as they are not domiciled nor invested in South Africa and a further two (10%) are not rated by virtue of being government initiatives. For instance, the KZN Growth Fund is mandated to support sustainable growth by financing private sector projects that drive economic development, stimulate job creation, promote B-BBEE and reduce inequality.

The graph below shows the B-BBEE ratings of empowered asset managers in which the PIC is invested:

B-BBEE ratings of empowered asset managers in which the PIC is invested

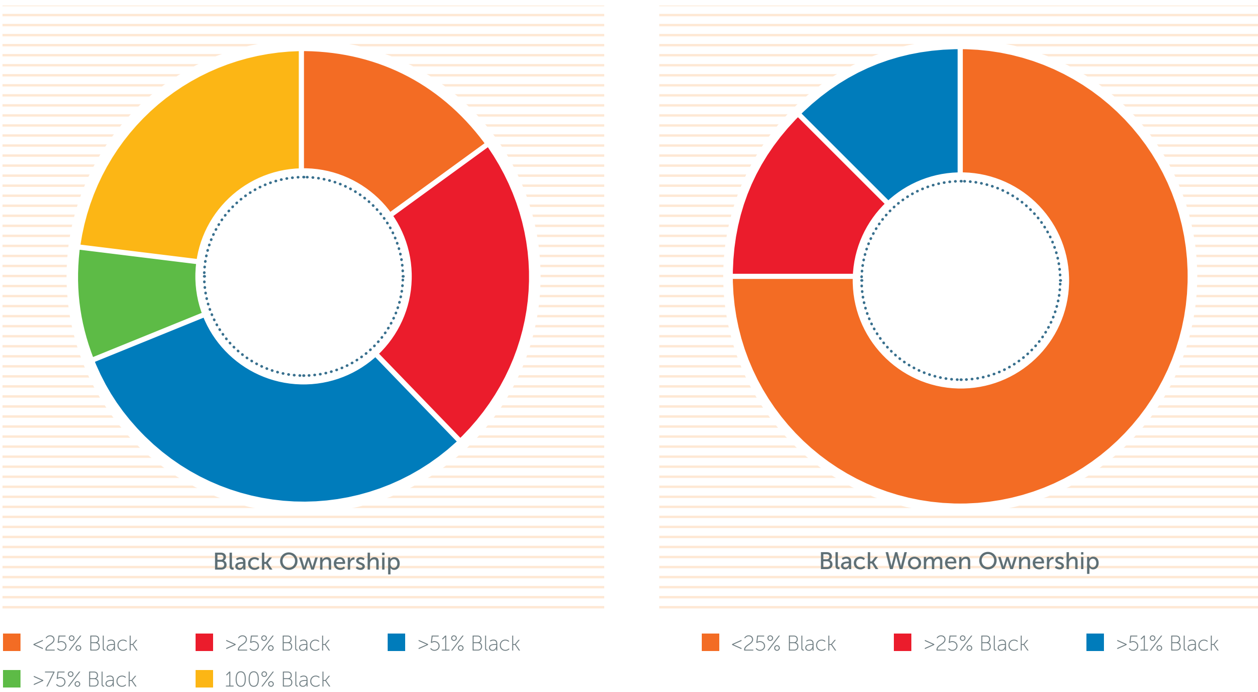


* http://bee-conomics.com/wp-ontent/uploads/2017/09/BEEconomics_2017_Electronic_2mb.pdf

Role of the PIC in Advancing Black Ownership

In line with the SDGs to promote sustained and inclusive growth, transformation is a key strategic imperative for the PIC. The PIC's value-add offering is supported by its ability to transform the sector and empower black asset managers to allow access and opportunities to previously marginalised groups. The PIC continues to extend its transformation agenda through policy, through financing previously marginalised groups to increase black ownership and by continuing to put pressure on managers to transform senior management teams through skills development.

Majority PIC-funded asset managers are majority owned by previously marginalised groups



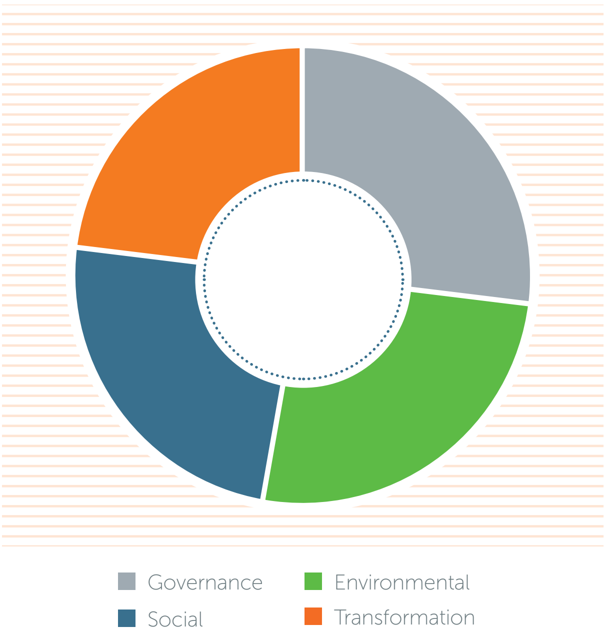
Although progress has been made in increasing black ownership at asset manager level, the PIC continues to ensure that transformation in relation to black female ownership is achieved. This is done through continuous engagements with managers, through effecting policy and by contracting on transformation plans. Through various initiatives, the PIC continues to advance SDG 5 by actively promoting women ownership.

The Role of the PIC in ensuring Sustainable Economic Growth at Asset Manager Level

The SDGs require that economic growth be sustainable (SDG 8). The PIC's externally managed funds portfolio derives value from successfully embedding investment principles that address environmental and social issues, including values-aligned investing, and ESG integration approaches and impact investing, and from instilling best practice principles in ESG, transformation and corporate governance (SDG 16). To achieve this, the PIC appoints investment professionals who represent the interests of the PIC and its clients onto the advisory boards of asset managers, who not only monitor the ongoing performance of the managers but provide support and advice when necessary, especially to developmental managers.

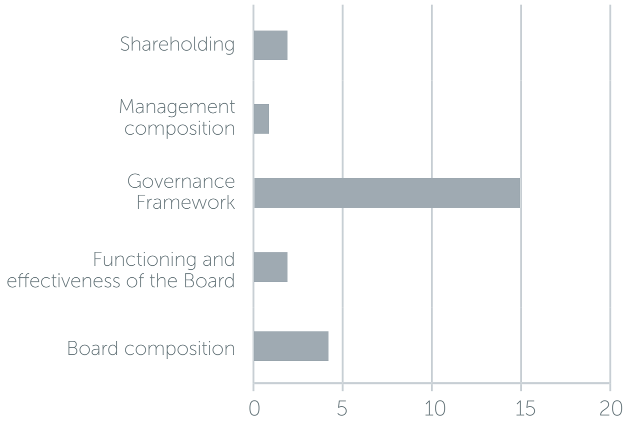
The PIC ensures that external managers are motivated to create value in an investee company, while addressing the PIC's key developmental agenda: encouraging alignment to the PIC's transformation agenda and the PIC's ESG integration policy and processes. During this reporting period, 91 engagements were conducted with asset managers, in addition to limited partners and investment committee meetings. These engagements were in a form of investor conferences, quarterly meetings, teleconferences and e-mail correspondence. The graph on the next page is a representation of key engagement topics with the managers.

Externally managed funds engagements

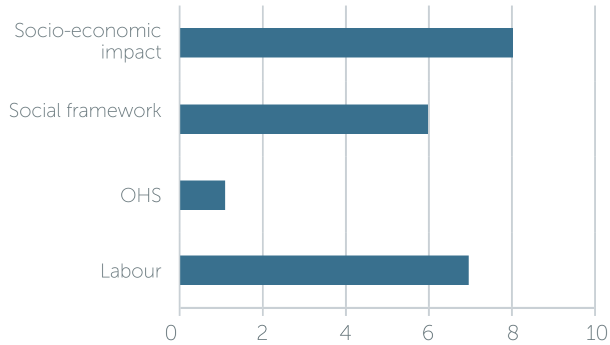


Through these engagements, the PIC, in partnership with the asset managers, has integrated investment and management frameworks to encourage transformation and equality. To that effect, asset managers were engaged and encouraged to integrate responsible investment principles and align their investment principles with the PIC's policies. Such initiatives have resulted in underlying investee companies improving their B-BBEE ratings, diversifying Boards of directors and management teams, increasing black-female ownership and creating a more diversified workforce in terms of racial and gender composition. Notwithstanding the impact that new sector codes have had on companies, asset managers such as Sphere continue to strive to advance transformation and diversity within portfolio companies.

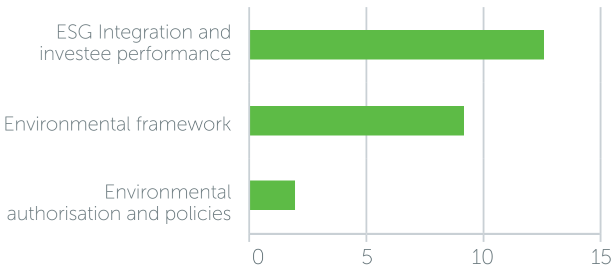
Governance engagements



Social engagements



Environmental engagements



CASE STUDY

SPHERE HOLDINGS

5 GENDER EQUALITY
10 REDUCED INEQUALITIES

Transformation is a key strategic imperative for Sphere. As a black-owned investment holding company, Sphere's strategic value-add offering is supported by its ability to deliver black-ownership credentials to its portfolio companies.

Sphere has consistently supported its portfolio companies with transformational initiatives over time, including:

1. Pressing management and fellow shareholders on the need to speed up transformation to improve the competitiveness of their businesses
2. Assisting management teams to address black access to skills (e.g. BBD – WeThinkCode)
3. Topping up Sphere's shareholding to boost the black ownership in BBD and Pandrol
4. The company is doing relatively well in driving transformation even with the amended codes, as a rating under the old codes is equivalent to two levels below a rating under the new codes.
5. Below is a summary of B-BBEE ratings for its portfolio companies under the New Codes (NC) and the Old Codes (OC).

Company	BEE Rating		
	At investment	Current	Target
Babcock Plant Services	Level 3 (OC)* (Target Cranes before merger in 2012)	Level 4 (NC)	Level 3 (NC)
Babcock Ntuthuko Engineering	N/A	Level 4 (NC)	Level 3 (NC)
BBD	Level 4 (OC) (2010)	Level 3 (NC)	Level 3 (NC)
Consol	Level 3 (OC)		
Level 5 (NC)	Level 3 (NC)	Level 3 (NC)	
Honeywell	Non-compliant	Level 4 (NC)	Level 4 (NC)
Pandrol	N/A	Level 4 (OC)	Level 4 (NC)
Pearson	Level 5 (OC)	Level 3 (NC)	Level 2 (NC)
Waco - to be concluded	Level 4	Level 4	Level 2(NC)

NC: New Codes **OC**: Old Codes

8 DECENT WORK AND ECONOMIC GROWTH

MOUKA LTD

CASE STUDY

ESG Integration

Mouka Ltd is a leading Nigerian-branded manufacturer and distributor of polyurethane (PU) core mattresses.

PU production and conversion to branded mattresses are undertaken in three in-house manufacturing facilities - in Lagos, Benin City and Kaduna. Nationwide product distribution is achieved via a network of more than 250 distributors who service both sub-distributors and mattress retailers.

The company reported that the key drivers for the company's performance were attributed to ESG integration into the business operations. Below were the main drivers for the improved performance, in addition to greater staff awareness, management support, the corrective action plan and external safety audit recommendations:

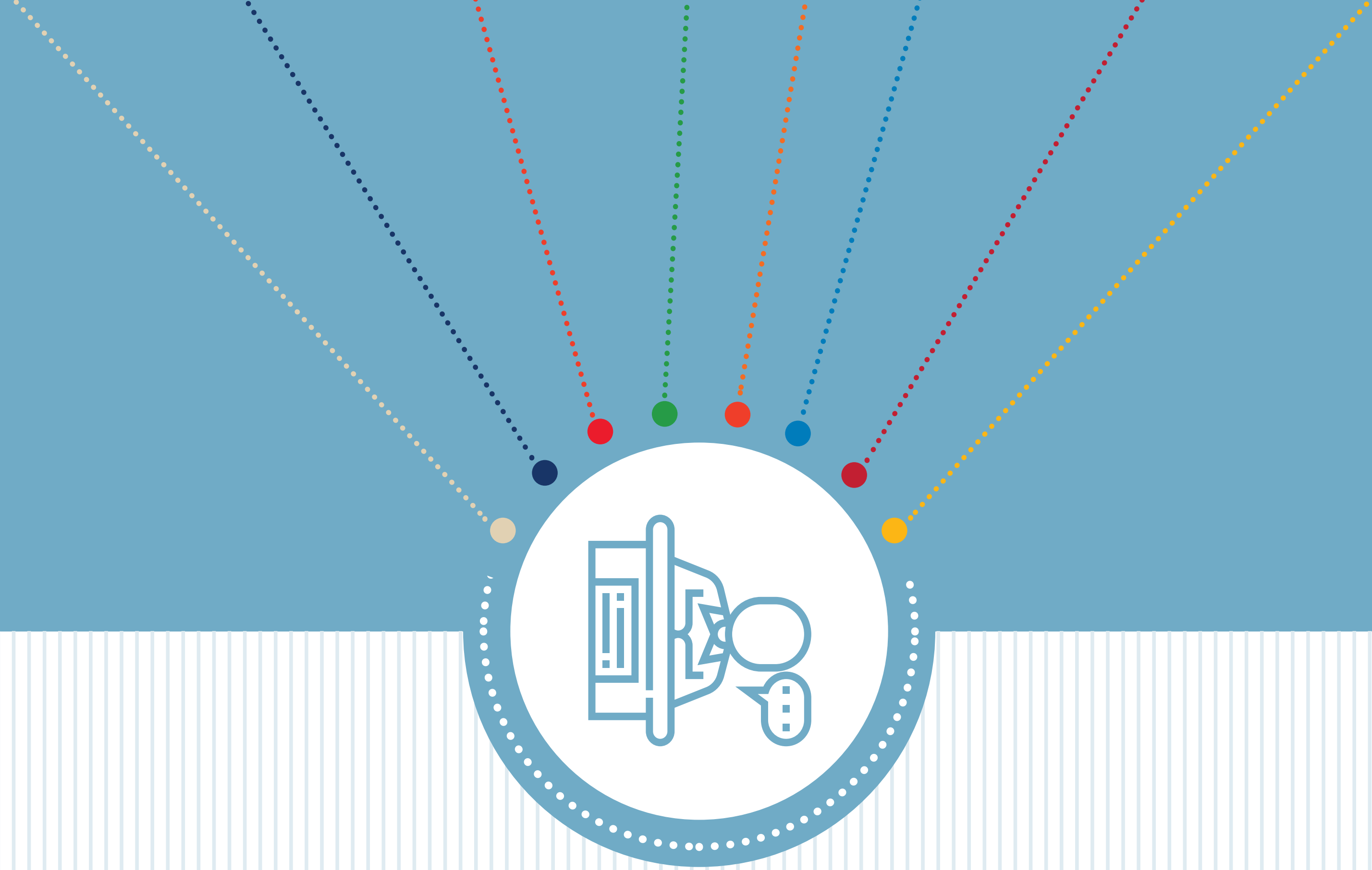
1. Guidance by the investment and ESG team;
2. International certifications; and
3. Local and international regulatory best practices.

- Generally, single-minded commitment to ESG compliance and sustained staff awareness to ESG policies were key;
- No major regulatory changes to standards during the year;
- The improved performance was due to commitment of the existing team; and
- The Board has prioritised ESG performance as a key KPI for the company and all employees.

Full and productive employment and decent work are defined as important objectives of the SDGs. Full and productive employment necessitates a demand for and a corresponding supply of labour. Consequently, the PIC has facilitated the creation of more than 71,000 jobs by investing in externally managed funds.

71,000
jobs

*PIC has facilitated the creation of more than **71,000** jobs by investing in externally managed funds*



PART FOUR

ENABLERS OF SUSTAINABLE RETURNS

Human Resources and Remuneration Report

Developing Our People: Managing, Growing and Empowering Human Capital

The successful implementation of the PIC's Vision 2030 depends on the institution's ability to develop a capable pool of human capital to attract and retain the best talent. In essence, Vision 2030 provides the strategic direction to build an institution that drives developmental investing to enable inclusive growth and transform key sectors of the economy.

A changing workplace challenges any large employer to rethink its strategic focus, particularly in relation to how it manages and deploys its human resources. The PIC recognises the role of committed employees who contribute positively to the ability of the institution to fulfil the mandates of its clients. As an employer, the PIC continuously strives to create an environment that supports employee engagement and development, encourages high performance by investing in personal employee growth and training, and rewards exceptional performance. The employee value proposition attends to key strategic skills and talent segments seeking to attract these in a competitive market, develop individual potential and retain key skills.

During the year under review, human capital strategic initiatives and measurable objectives were developed to support our strategy. These initiatives are supported by a robust human capital operating model, articulating the alignment of stakeholder relationships, service interface, corporate strategy and bespoke HR practices, to achieve strategic objectives.

2018 Remuneration Policy and Practices

At the core of the PIC's remuneration philosophy is the need to reinforce and reward excellent performance that supports the values, vision and mission as well as strategic objectives of the PIC. The remuneration policy guides and provides the framework for reward practices that enhance the employee value proposition, with a view to turning them into PIC brand ambassadors. In this regard the PIC:

The recruitment and retention of high-performing employees are critical to achieving its institutional objectives

- Attracts, develops and retains top talent in the asset management industry who thrive in a high performance value-driven culture;
- Provides an environment that is inclusive while offering opportunities for the growth and development of our people to realise their full potential;
- Contributes to the skills and capacity development of black asset management professionals in the country; and
- Provides an employee value proposition that is competitive and ensures that PIC through its people delivers on its mandate that creates value for all its stakeholders.

The PIC uses accredited service providers to conduct salary benchmarking so that it remains relevant in the labour market. As a state-owned institution, the interests of the Shareholder are of utmost importance and all aspects that relate to the governance procedures for the remuneration of the senior management team are carefully considered.

Remuneration Structures

The PIC remuneration structures consist of both guaranteed and variable pay. The PIC subscribes to the total-cost-to-company remuneration structure, which consists of total guaranteed pay, inclusive of employee benefits that are subsidised, such as medical aid and funeral cover.

The total guaranteed pay structure includes:

Element	Objective	Detail
Basic salary/cash	To attract and retain employees in line with the scope, nature and skills requirements of the role.	The PIC standard is to benchmark to the 75th percentile of the asset management market. Salary increases are scheduled annually, effective from 1 April, and reflect a market-related adjustment based on inflation, market-, asset management and financial sector trends. At an individual level, the employee's performance and market comparison per job grade inform the increase.
Compulsory benefits	Enable employees to have appropriate savings for their retirement and to maintain a healthy lifestyle.	Membership of the PIC defined contribution fund is compulsory for all new employees. All staff funds include life and disability cover. All permanent and fixed-term contract staff are contractually obliged to belong to a company-chosen medical scheme or be a member of their spouse's medical scheme.
Other allowances	To enhance the package available to employees and assist with retention and productivity.	These benefits and allowances include funeral cover, car allowances, spouse's life cover, medical aid subsidy.

Variable remuneration consists of the short-term incentive and long-term incentive schemes.

Performance Incentives

Short-term Incentive Scheme

The objective of the short-term incentive scheme is to align employee and company interests to achieve a set of stated objectives in a specific year. The incentive is awarded annually to employees who meet the minimum performance criteria and applies to all qualifying employees. The PIC performance level is a trigger for incentives to be paid, thus the PIC corporate performance targets have to be met or exceeded. The PIC Board and the Shareholder observe all governance requirements for remuneration.

Long-term Incentive Scheme

The long-term incentive scheme is designed to reward participants who demonstrate superior and sustained performance and to help attract and retain high-calibre employees and there with critical skills. The scheme mechanism allocates monetary awards over a three-year period and is paid out when the minimum performance requirements are satisfied.

Senior Management Remuneration

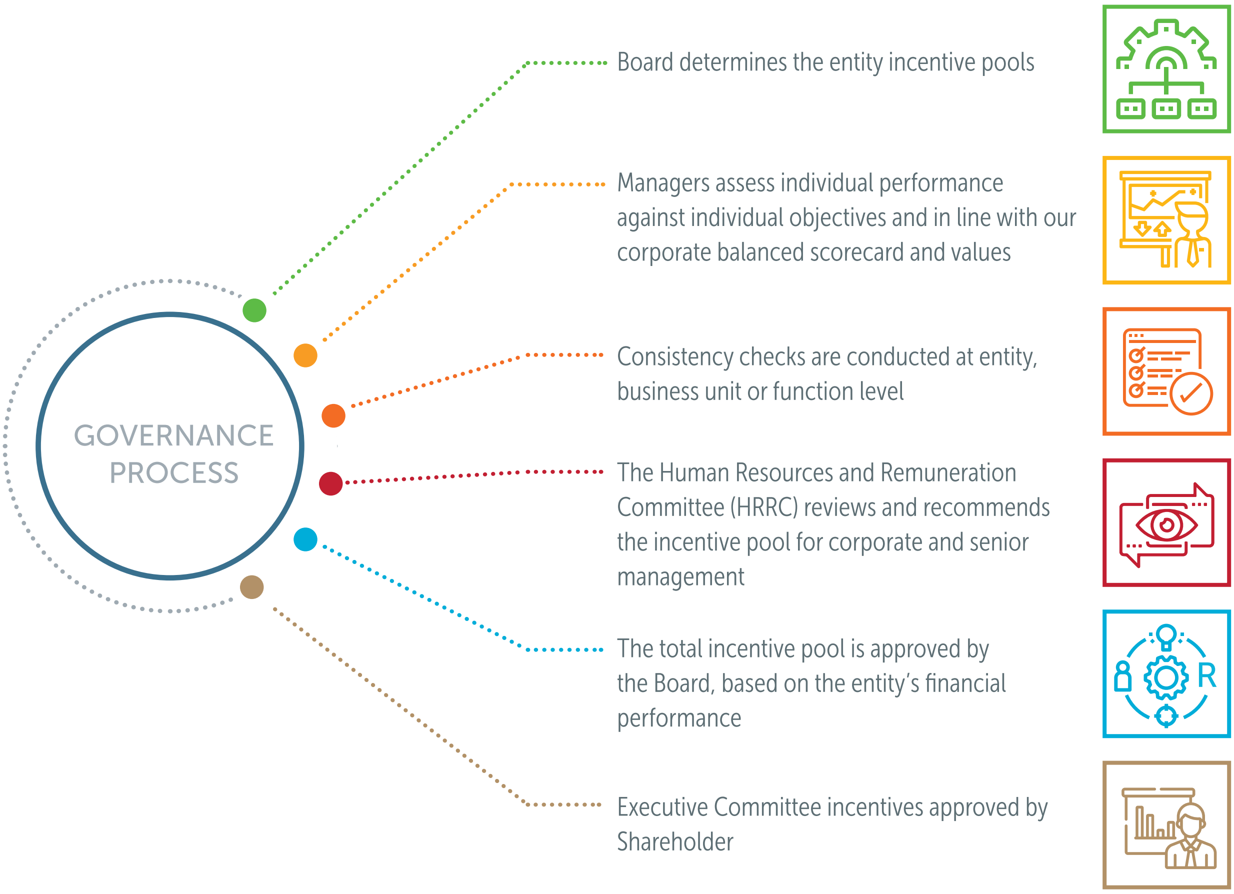
Senior management remuneration and incentives are aligned with State-owned Remuneration Guidelines to the extent that they remain relevant to the skills market in which the PIC operates. The PIC ensures that salary reviews and benchmarks are conducted annually and makes use of accredited consultants in financial services, the public sector and the asset management industry.

Determination of 2018 Incentives

Incentive pool funding and individual allocations.

Governance Process

Once the Board sets the overall entity incentive pool, the PIC goes through a structured process to ensure that individual allocations are appropriate, as described below:



Employee Satisfaction

Workplace climate engagement sessions were held across the organisation during the period under review.

Employees were engaged on the four key messages of the climate survey to obtain input and share progress on the rollout and implementation of proposed initiatives.

Employees were provided with an opportunity to contribute to the enhancement of morale within the PIC.

Commitment to Employees' Skills Development

The PIC's training and development commitment and its investment in staff development have had the intended impact, with the organisation investing R34.4 million in skills development initiatives, compared to R17 million for the 2016/17 financial year. The investment was for employee learning and development (R8.7 million), employee bursaries (R2.6 million), graduate development (R11 million) and bursaries for youth (R12 million). A total of 336 PIC employees and 228 unemployed youth, benefited from this investment.

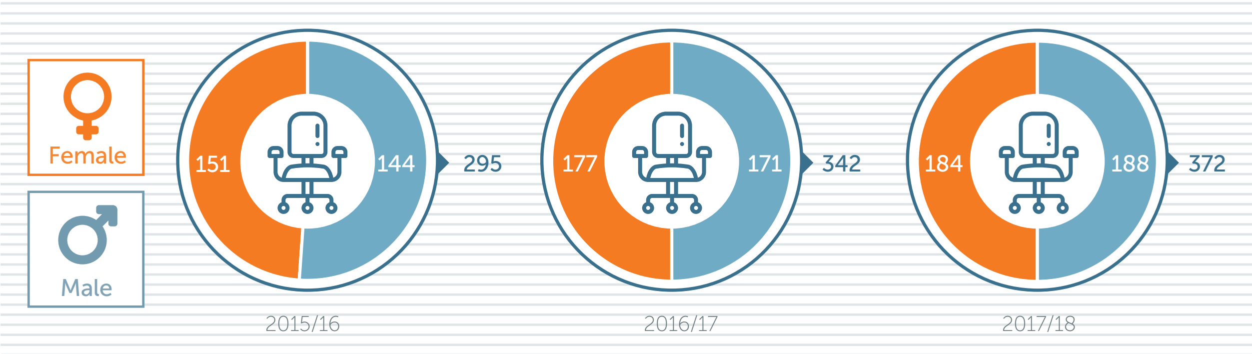
For the period under review, the PIC's commitment to staff skills development saw the investment increase to R25 million for developing employee talent through training and bursaries. This is an increase of R8 million over the previous financial year. The investment in staff development translates into 336 employees attending various training interventions and 61 employees awarded with bursaries.

Workforce Profile: Workforce Gender and Race Profile

The number of PIC employees, including 53 PICeeds (new graduates) and ten fixed-term contractors, increased by 8.7%, from 342 in 2016/17 to 372 during the period under review.

At 31 March 2018, female employees represented 49.5% of the total workforce, with male employees at 50.5%. Demographically, African employees constituted 84% of the workforce, Indians 6%, whites 6%, and coloureds 4%.

Number of Employees



The table below indicates employment equity profile over a three-year period.

	African	Coloured	Indian	White
Male				
2015/16	115	4	10	15
2016/17	142	5	11	13
2017/18	159	5	12	12
Female				
2015/16	119	8	12	13
2016/17	137	11	11	12
2017/18	153	10	10	11

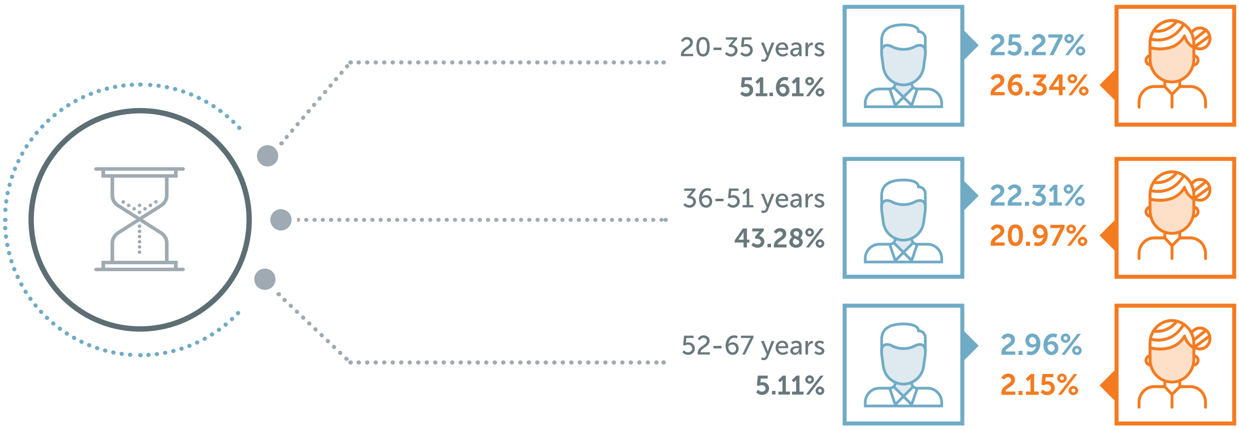
The staff composition in relation to our employment equity targets for race, gender and occupation level at the end of March 2018 is reflected in the table below.

Occupational Levels	Females					Males					Grand Total
	African	Coloured	Indian	White	Total	African	Coloured	Indian	White	Total	
Top Management	2	0	1	0	**3**	7	0	1	1	9	**12**
Senior Management	32	3	2	4	**41**	44	3	5	6	58	**99**
Prof Qualified/ Middle Management	56	5	4	4	**69**	60	2	6	5	73	**142**
Skilled Technically and Academically Qualified	24	2	1	3	**30**	18	0	0	0	18	**48**
Semi-skilled	39	0	2	0	**41**	30	0	0	0	30	**71**
Grand Total	153	10	10	11	184	159	5	12	12	188	372

Age Analysis

The diagram below indicates that more than 50% of the PIC employees fall within the category of youth (20-35). The number of PIC graduates more than doubled from 25 in the previous financial year to 53. This highlights the PIC's increased focus on youth employment, empowerment and development.

Age Analysis



Employee Relations

Staff movement for the year under review is outlined in the table below.

Staff Actuals	2017/18
Number of employees dismissed	0
Number of disciplinary matters pending	3
Number of disciplinary cases on appeal	0
Total number of jobs created by category	**70** 23: Permanent 47: Fixed-term contractors and PICeeds (graduates)
Number of employees lost through resignation	22
Number of employee deaths	1
Lost through retirement	1
Lost through ill health	0

Impact of the **PIC's Youth Employment** and Support Initiatives

CASE STUDY

In line with the PIC's Corporate and Human Resource plan, the bursary scheme is yielding positive results as a talent feeder and pipeline for the PIC.

The bursary funded 200 students nationally, that achieved a 88% pass rate. Of the total students funded, 27 completed their under-graduate studies and two of the students, Ayanda Bolani (Bachelor of Commerce in Investment Management) at the University of Pretoria, and Edwin Mahanci (Bachelor of Science in Computer Science) at the University of Venda, have since joined the PIC, as graduates.

Ayanda Bolani

Ayanda completed her studies with six distinctions out of seven modules. She is currently completing her Bachelor of Commerce Honours in Investment Management at the University of Pretoria.

"The PIC awarded me a bursary in 2017, whilst I was in my final year of studying towards a Bachelor of Commerce in Investment Management. I felt extremely blessed to receive a bursary that covered my tuition in full. This allowed me to focus all my energies on studying and less on the financial burdens that come with studying, resulting in me attaining multiple distinctions. I received nominations from Allan Gray and for the 2018 Russell Loubser Merit award for outstanding academic achievement. Being the youngest employee at the PIC can at times be intimidating, however, I have chosen to accept the challenge and recognize the wealth of experience surrounding me. Being selected for the program only affirms my efforts and encourages me to improve and build a skill set while adding value to the Listed Investment: Fixed Income division I have been assigned to. I am grateful for the opportunity to learn and develop myself as well as add value as I navigate my journey as a professional."

Edwin Mahanci

Edward completed his Bachelor of Computer Science degree, through the University of Venda. He intends to pursue postgraduate studies, with a strong focus on Financial Engineering, to widen his knowledge of Asset and Investment Management.

"I was a PIC bursary holder in the year 2017, pursuing a qualification in Computer Science at the University of Venda, Limpopo. The PIC bursary enabled me to focus on and complete my studies without worrying about how I would make ends meet. As a PIC bursary recipient, I had a rare opportunity of participating in the PIC Vacation Work programme during January 2018 and also had a mentor assigned to me and a team that supported me. During the vacation work period, I was exposed to the workings of the investment industry. Moreover, this exposure gave me an opportunity to showcase my computer programming skills and it is there that the PIC saw potential in me. After completing my studies, I joined the PICeed Graduate Programme within the PIC Research and Projects Development division.

The PIC bursary programme has not only changed my life but also enabled me to change life for my family. I am eternally grateful to the PIC for affording me the bursary."

The two graduates joined the new graduate intake in July 2018, as part of the PIC Graduate Development Programme (PICeeds), and were placed in Listed Investments (Ayanda), and Research and Projects Development (Edwin) divisions.

Their success thus far bears testimony to the impact that the PIC's investment is making in developing young potential and shows our commitment to the youth agenda. It further shows the organisation's commitment to creating a work environment that is attractive to the youth, and positions the PIC as an employer of choice among its bursary holders.

Disclosure of Remuneration as at 31 March 2018

Non-Executive Directors

Figures in Rand thousand	Meeting	Retainer (1)	Total
NAMES			
Beswick, S	499,742	142,142	641,884
Goba, T	558,371	142,142	700,513
Hlatshwayo, D	659,890	142,142	802,032
Manning, C	639,335	142,142	781,477
Mkhwanazi, X *	533,244	142,142	675,386
Moloto, P	510,909	142,142	653,051
Mokoka, M *	382,484	142,142	524,626
Fubu, T	284,768	142,142	426,910
Toyi, L	628,167	142,142	770,309
Zulu, S	424,361	142,142	566,503
	5,121,271	**1,421,420**	**6,542,691**

(1) Retainers are paid for the attendance of four Board meetings and approved at the Annual General Meeting.
(*) Dr Xolani Mkhwanazi and Ms Mathukana Mokoka were appointed on 1 August 2017.

Executive Directors

Figures in Rand thousand	Emoluments	Pensionable allowance	#Long-term incentive paid	Short-term incentive provision~	Other^	Total
NAMES						
Matjila, D (CEO)	5,287,049	1,212,951	5,996,996	3,250,000	12,000	15,758,996
More, M (CFO)	3,904,809	1,198,215	2,970,494	2,551,512	12,000	10,637,030
	9,191,858	**2,411,166**	**8,967,490**	**5,801,512**	**24,000**	**26,396,026**

^ Other includes medical subsidy and other fringe benefits.

Long-term incentive (LTI) paid in the current year relates to service that was rendered in 2014/15 but was only earned by the employee upon achievement of an average performance rating of 3.5 over a period of 3 years i.e. 31 March 2017 and being an employee of PIC at date of payment. The amount paid as LTI is based on the employees cost to company in the year the service is rendered and not date of payment i.e. the allocation does not accrue interest over the 3 years vesting period. If an employee does not achieve an average performance rating of 3.5 over 3 years or is no longer an employee of the PIC at date of payment, this amount will not be paid to the employee, therefore, all the risks and rewards associated with entitlement of the LTI transfer to the employee only at date of payment.

~ Short-term incentive provision is subject to approval by the Shareholder.

Executive Committee

Figures in Rand thousand	Emoluments	Pensionable allowance	#Long-term incentive paid	Short-term incentive provision~	Other^	Total
NAMES						
Dolamo, S	2,314,073	1,385,927	593,277	1,850,000	12,000	6,155,277
Hako, V	2,830,358	869,642	561,600	1,850,000	12,000	6,123,600
Madavo, F	2,873,348	826,652	1,926,164	1,850,000	12,000	7,488,164
Magula, P **	2,615,295	684,705	728,926	-	12,000	4,040,926
Menye, V **	929,218	2,070,782	-	-	12,000	3,012,000
Muller, M	2,576,036	1,123,964	1,619,549	1,850,000	12,000	7,181,549
Nesane, E **	2,398,691	901,309	669,176	-	12,000	3,981,176
Pholwane, C	2,249,182	750,818	441,600	1,500,000	12,000	4,953,600
Rajdhar, R	2,877,922	822,078	1,980,339	1,850,000	12,000	7,542,339
Solomon, R*	2,141,154	1,158,846	2,022,472	1,650,000	12,000	6,984,472
	23,805,277	**10,594,723**	**10,543,103**	**12,400,000**	**120,000**	**57,463,103**

* Ms R Solomon was appointed Executive Head: Investment Management from 1 September 2017.

** As at 11 April 2018 Ms V Menye was not employed by the PIC, as at 19 April 2018 Mr P Magula was not employed by the PIC and as at 13 July 2018 Mr E Nesane was not employed by the PIC.

Long-term incentive (LTI) paid in the current year relates to service that was rendered in 2014/15 but was only earned by the employee upon achievement of an average performance rating of 3.5 over a period of 3 years i.e. 31 March 2017 and being an employee of PIC at date of payment. The amount paid as LTI is based on the employees cost to company in the year the service is rendered and not date of payment i.e. the allocation does not accrue interest over the 3 years vesting period. If an employee does not achieve an average performance rating of 3.5 over 3 years or is no longer an employee of the PIC at date of payment, this amount will not be paid to the employee, therefore, all the risks and rewards associated with entitlement of the LTI transfer to the employee only at date of payment.

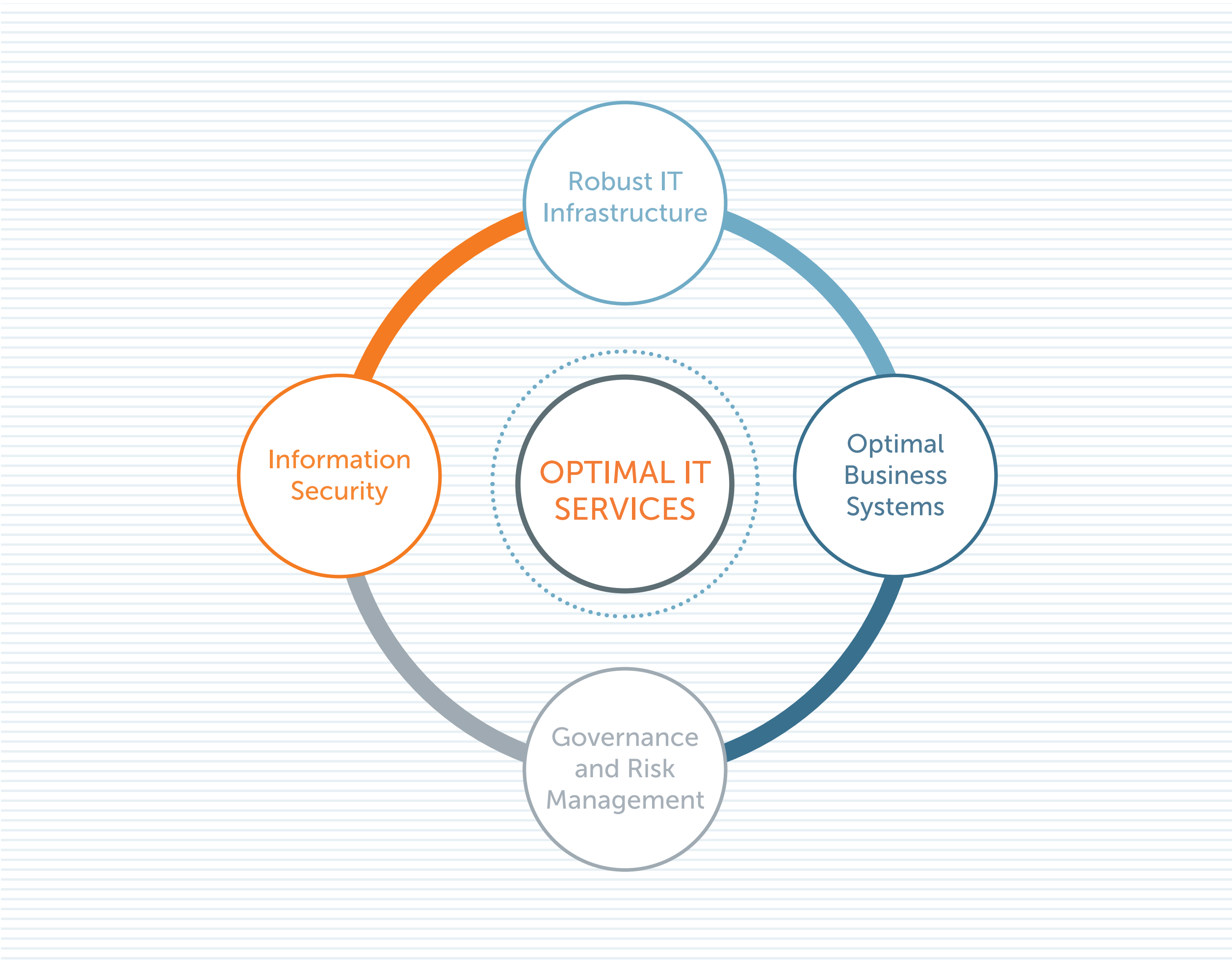
~ Short-term incentive provision is subject to approval by the Shareholder.

Information Technology Report

The PIC's vision is to be a global leader in impactful investing and to provide sustainable financial prosperity to its clients and stakeholders through institutional proficiency and professionalism. The Information Technology (IT) division is a partner that enables the PIC to successfully pursue its vision and objectives.

During the 2017/18 financial year, the PIC increased its funding into targeted areas to develop and maintain IT systems to improve the stakeholder experience and operational efficiency. In the year under review, the PIC Board approved key strategic IT initiatives as illustrated below.

IT Strategic Objectives



A Robust IT Infrastructure

The PIC continuously assesses its technologies to ensure relevance and alignment with emerging IT trends to support the organisation's ability to lead and to remain adept.

The PIC moved from its previous offices at Riverwalk Office Park to 1 Central Square, Menlyn Maine, Pretoria. It used the office relocation as an opportunity to upgrade most of its IT infrastructure. The organisation's mobile employees were migrated to portable devices to maintain productivity while out of office.

Optimal Business Systems

The PIC prides itself on using some of the leading business systems in the asset management industry. The PIC benchmarked itself with Robeco, an international player in the asset management industry, and confirmed that most of the technologies required to enable internal global strategy capabilities are already in the environment. The PIC increased its investment in technology by 100%, to fund the investments in technology that have been prioritised for the next three years.

Governance and Risk Management

The PIC's IT governance measures must comply with international standards and frameworks to ensure that the organisation derives value from IT investments and to ensure integrity in its governance, security and risk system. For the year under review, high technology-related risks were mitigated by specific investments to prevent threats to data, systems and information security. Comprehensive disaster recovery plans are tested annually to ensure that data can be recovered within defined periods and to enable business continuity.

Information Security

Information security remains a fundamental priority for the organisation. The risk of cyber threats, which evolve continuously, creates a global challenge and organisations must maintain acceptable levels of protection. PIC has increased both human and financial resources to respond to the risk of cyber threats and malicious invasions.

Independent service providers were appointed to assess the security of the PIC's IT environment and to develop an IT security roadmap. Managing potential vulnerabilities is performed on an ongoing basis, and remediation measures are implemented.

New technologies constantly advance and their development will continue to provide opportunities for the PIC to improve its services to stakeholders and clients. The IT strategy will consistently be reviewed and adapted to leverage such opportunities.

Data Management Programme

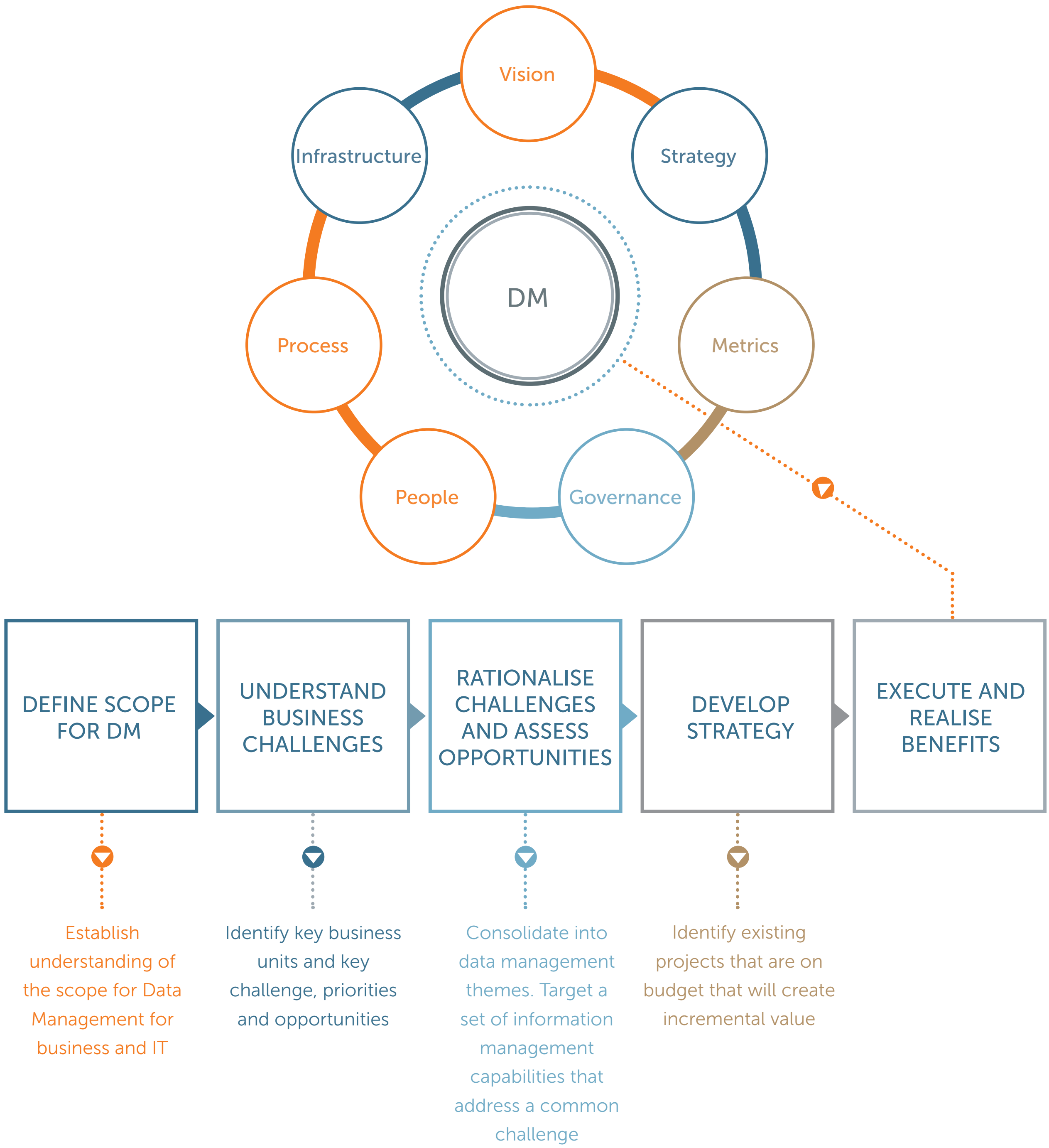
Data remains a strategic asset for the PIC. For asset managers, the processes and resource devoted to data management have evolved over the last decade to the extent that effective data management is essential for any aspiring asset manager. It is imperative that accurate information is delivered on time to decision-makers in the business. After years of increased regulatory and investor demands for heightened transparency, asset management back-office technology and data have become very important as asset management firms can ill-afford inefficiencies and inaccuracies. Technology trends and regulation have also driven asset managers to collect volumes of data about their business and investment strategy.

The PIC has introduced a proficient data management programme, whose vision is to establish a reliable source of records to guide the institution's decision-making. The main goals of the programme are:

To create an efficient data management model	To break the silos in data consumption	Consolidate initiatives	Eliminate duplicate records	Maintain a central data repository
that provides for agile accessibility to data by relevant stakeholders, while maintaining confidentiality as required by the client mandates	across the organisation and improve organisational insight and analytics that can assist with innovative investment decisions	that focus on data consolidation projects to eliminate risks associated with data fragmentation	through data governance and standards to improve efficiency	as the PIC migrates its applications to other environments

The diagram below shows the PIC's approach to implementing the programme.

Data Management Implementation Methodology

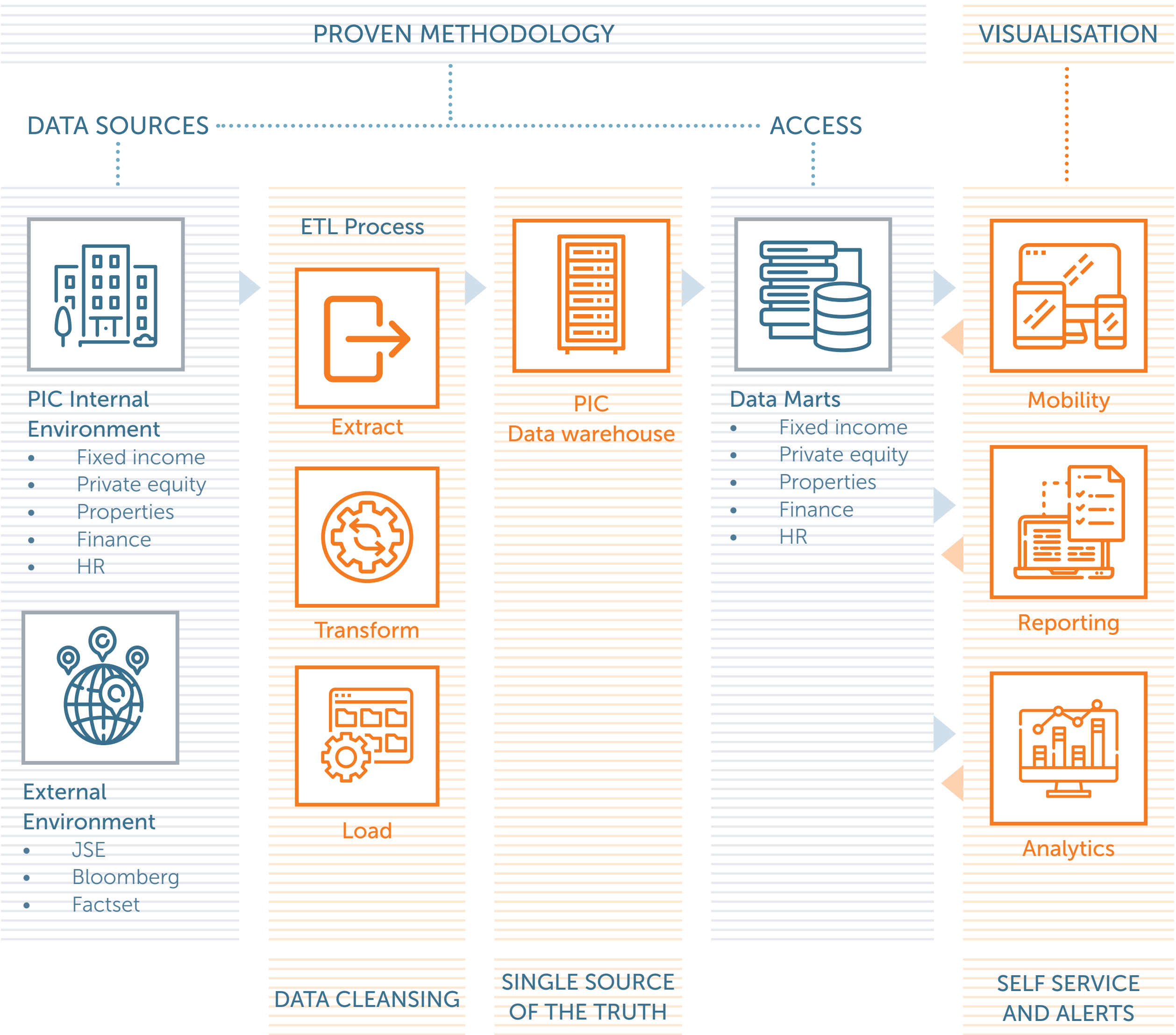


- Inconsistent definition of common terms
- Siloed or conflicting data sources
- Multiple data touch points
- Duplicate records
- Changes to source systems

One of the initiatives in the data management programme is the acquisition and implementation of the data warehouse, business intelligence and analytics solutions. The solutions must allow for the storing, reporting, analytics of business, technical data and metadata, including modernising traditional reports, dashboards, ad hoc queries and alerts. The project will produce a solution that will assist the PIC to benchmark, assess trends and perform various types of analysis, as well as supporting descriptive, prescriptive, predictive modelling, interactive analyses, forecasting and simulation.

The diagram below provides context to the expected data management deliverables.

Data Warehouse, Business Intelligence and Analytics



The data management project will establish an invaluable source of records that will support the PIC's decision-making. This will be aided by a data governance model aligned with the PIC's corporate governance model, statutory and regulatory requirements, and client mandates. The completion of projects under the Data Management Programme improves the PIC's ability to meet and exceed its operational and investment reporting and analytics.

While most of the projects are technology-oriented, the right skills and competencies remain a critical pillar to the success of this programme. The PIC CEO appointed internal 'champions' to lead the PIC on this initiative.

Task team members

Standing: Khaya Zonke, Tonderai Manyumwa, Katleho Lebata, Stuart Hardman, Thapelo Tshenye, Selaelo Mabapa, Shelton Bloem, Thendo Sidogi.

Seated: Sello Nkoane, Nozipho Mazibuko, Dr Daniel Matjila, Precious Nyamugama, Khathu Nedzamba.

Corporate Social Investment and Corporate Affairs Report

Corporate Social Investment Report

Improving the lives of disadvantaged people is the motivation for the PIC's Corporate Social Investment (CSI) programme. The PIC is committed to being a responsible corporate citizen into whose corporate culture clear institutional values and integrity are embedded. The PIC recognises that the interests of its clients, the South African economy and a broad range of communities and stakeholders are affected by its business decisions.

The PIC's CSI programme identifies initiatives that support the most marginalised members of society. Collaboration and partnerships are important principles in this interventions, as they enable CSI interventions to leverage resources and maximise economic impact on disadvantaged people and communities. The CSI strategy is aligned to the company's strategy and contributes to its mission, vision and values.

The table below outlines the PIC's focus areas and CSI initiatives during the year under review:

No.	Focus Area	PIC CSI Initiatives
1.	Education and training	The PIC in partnership with GiveITback, designed, built and delivered IT solutions for Johnson Nqonqoza Senior Secondary School in Mnandi Location, Eastern Cape, and Poelano Secondary School in North West. The PIC has prioritised teacher training and secondary school literacy at these schools. BrITebox is another IT solution in the form of a compact and portable trolley consisting of a laptops, android tablets and offline content server that delivers educational content. The tablets offer instructional videos on mathematics, science, English, history, economics, finance, computer programming, African storybooks and many other secondary school subjects. The ultimate goal is to enable students to fully use education opportunities and to become useful citizens in societiy. The PIC celebrated Mandela Day 2017 at Cosmo City, where PIC volunteers helped unemployed members of the community to create professional CVs and to identify key skills necessary for the workplace. The Inspire A Child To Greatness programme is an annual PIC initiative aimed at students in grades 10 to 12. Inspired by the theme 'Making good choices for a better world', the PIC hosted 20 learners from Ga-Rankuwa's Rantailane Secondary School for a day. This programme is designed to assist the youth to absorb valuable lessons from a corporate environment, equipping them with tools to support them in their future endeavours and decision-making. It also provides participants with career guidance, mentoring and support and with the development of life skills.

No.	Focus Area	PIC CSI Initiatives
1.	Education and training (continued)	To demonstrate its commitment to providing quality education and training, the PIC leased a mobile classroom from Mobile Student Futures (MSF) in 2017 and 2018 for mathematics and science teacher training. Some 165 maths and physical science educators in Gauteng and Mpumalanga received training on a uniquely equipped PIC bus, indirectly reaching approximately 7,425 students who will hopefully benefit through better teaching from the training received by their educators. The mobile unit operated for six months in Gauteng and another six months at rural schools in Mpumalanga. In addition, the PIC continued its commitment to provide visually impaired learners with educational support that can promote their independence in a sighted world. Following the sponsorship in 2017, Setotolwane School in Limpopo also received additional braille notes in 2018 for grades 11 and 12 learners. Sign-language curriculum material was also donated for learners at Bosele Primary School, in Limpopo, for visually impaired learners. The Department of Basic Education approved South African Sign Language (SASL) as a subject from grades 1 to 12 in 2015 for students with hearing impairments. While most deaf pupils are fluent in SASL, very few have the opportunity to study the language in terms of literature, grammar and all other aspects of the language. Learners from Bosele Primary School will naturally progress to Setotolwane Elsen School, another school for learners with special needs, where the PIC has sponsored educational supportive devices and has provided opportunities for bursaries, graduate programmes and learnerships. Through such progression, learners with hearing impairments have the opportunity to move to high school with a good academic foundation. The PIC collaborates with rural communities that require social and economic solutions to overcome poverty and reduce inequality. To this effect, there is a strong focus on job creation for those living in rural communities, and on ensuring access to basic services, health care, education and food security.

No.	Focus Area	PIC CSI Initiatives
2.	Socio-economic development	The United Nations (UN) defines violence against women as 'any act of gender-based violence that results in, or is likely to result in, physical, sexual or mental harm or suffering to women, including threats of such acts, coercion or arbitrary deprivation of liberty, whether occurring in public or in private life'. As part of the 16 Days of Activism for No Violence Against Women and Children, the PIC collaborated with the following three shelters for women and children: • The Frida Hartley Shelter for destitute women and children in Yeoville, Gauteng; • The Grace Centre in Mooinooi, North West; and • The Greater Rape Intervention Project (GRIP) in Nelspruit, Mpumalanga. This initiative aimed to empower women, by providing accommodation, counselling, employment, life skills training, job skills training, referrals for employment and psycho-social support. It also enables mothers to regain their dignity by becoming independent of the shelter, to adequately support themselves and their children. In another Mandela Month initiative in July 2017, the PIC hosted a fun day at Ndivoyo Centre, an Early Childhood Development programme (ECD) centre in Alexandra. The children were treated to party packs, a jumping castle, birthday cake and a face painter. The PIC volunteers assisted with painting the facility, repairing the ceiling and fixing the windows. The volunteers also presented the centre with donations in the form of educational toys, books, plastic chairs, desks and blankets. Established in 2011, the Little Stars on Earth initiative, the PIC seeks ways to make a difference in the lives of underprivileged children aged five to 12 years. The PIC supported two ECD centres: Sunrise Community Crèche and Kromdraai ECD. The centres were established as care facilities for disadvantaged children in Melutsi, west of Pretoria and Hammanskraal respectively. The PIC volunteers solely run this initiative. Employees from each department have an opportunity to adopt a child. The children received a shoebox-size gift filled with stationery, necessities, toys and treats. These socio-economic initiatives provide support that builds on and uses the capabilities of individuals, households, communities and non-governmental organisations (NGOs) to promote self-reliant, sustainable development.

No.	Focus Area	PIC CSI Initiatives
3.	Agriculture, conservation and the environment	The PIC, as a signatory to the Carbon Disclosure Project, is aware that conservation and environmental management are pivotal in conducting sustainable business. It therefore supported conservation and waste management awareness and education programmes during the year under review. The drought in 2017 nearly crippled parts of our country and threatened food security. Farmers and those who depend on rainfall for the success of their crops and their survival were left destitute, with many unable to feed their families. In celebration of Arbor Month, the PIC paid for sinking a borehole in Siphikelelekhona, a cooperative in the small rural community of Umbumbulu, KwaZulu-Natal. The cooperative has access to approximately five hectares of land, tendered by six farmers who grows green beans, peas, beetroot, cabbage and spinach. The installation of a borehole at Siphikelelekhona has enhanced food security and economic sustainability. With a reliable source of water, the harvesting sites were extended, which, in turn, created employment and has been most impactful on the youth who have joined the cooperative. The PIC facilitated the planting of 750 trees in Ga-Rankuwa, north of Pretoria. Households in this township received two trees each, one fruit tree and one indigenous tree. This programme is registered under the international Verified Carbon Standard (VCS) and aims to transform township biodiversity. In July 2017, Mandela Month celebrations continued at Realogile Primary School in Tembisa and Lofofa Primary School in Temba, where the PIC built two community gardens. This initiative provided intensive training to community members on soil management, water management, planting techniques, seed saving, integrated pest management, business management solution, contouring of the land and soil erosion techniques. The PIC believes the development of environmentally sustainable green products and services, including renewable energy technologies, will contribute to job creation in niche markets where South Africa has or can develop a competitive advantage. The PIC will continue to invest in such initiatives.
4.	B-BBEE/enterprise development	**Solar bags for 400 learners** During 2016, the PIC came across an innovative project that manufactured schoolbags out of recycled plastic shopping bags. The schoolbags are donated to children who walk long distances to school and are from low- to no-income families. Once collected, the plastics bags are woven into a weather-resilient schoolbag that is fitted with a solar panel that is charged when children walk to and from school. The solar panel and its accompanying jar become a lamp at night that provides families with much-needed light and enables the children to study, minimising the need for unsafe candles and costly paraffin.

CASE STUDY

Maths and Science Teacher Training

'Without education, children can never really meet the challenges they will face.' - Nelson Mandela

In a changing world, with new technology developing daily, the importance of mathematics and science education cannot be overstated.

In June 2017, South Africa was ranked 47th for maths and science literacy in three digital competitiveness indices published by the International Institute for Management Development (IMD).*

Overall, the 2017 IMD World Digital Competitiveness report ranked South Africa a lowly **47** out of the 63 countries surveyed. This was an improvement from 53 in 2016*

According to the researchers, the country's low ranking has to do with inefficiencies in regulation and low capital allocation to technological development.

This ranking amplifies the systemic inadequacies within the national education system that has either neglected or does not continuously seek to improve the quality of maths and science teaching or the skills levels of educators.

The PIC recognises the critical role that education plays in transforming South Africa and the quality of its labour force, especially as the country competes with other emerging market economies globally. Through its CSI policy, the PIC has prioritised teacher training and secondary school maths and science literacy, with the ultimate goal of enabling students through quality teachers, to become contributing citizens towards improving their academic abilities in these fields of study, and the advancement of society and the South African economy.

In the year under review, the PIC Mobile Educational Project, aimed at maths and science high-school teachers, was implemented in two provinces, Gauteng and Mpumalanga.

The programme uses Curriculum and Assessment Policy Statements (CAPS) aligned software provided by technology service provider Modlin. Teachers at participating schools are allocated long-term access to worksheets and relevant learning material to continue after the training period has ended. The long-term access enables the teachers to pass on the learning and teaching methods to their colleagues at different schools.

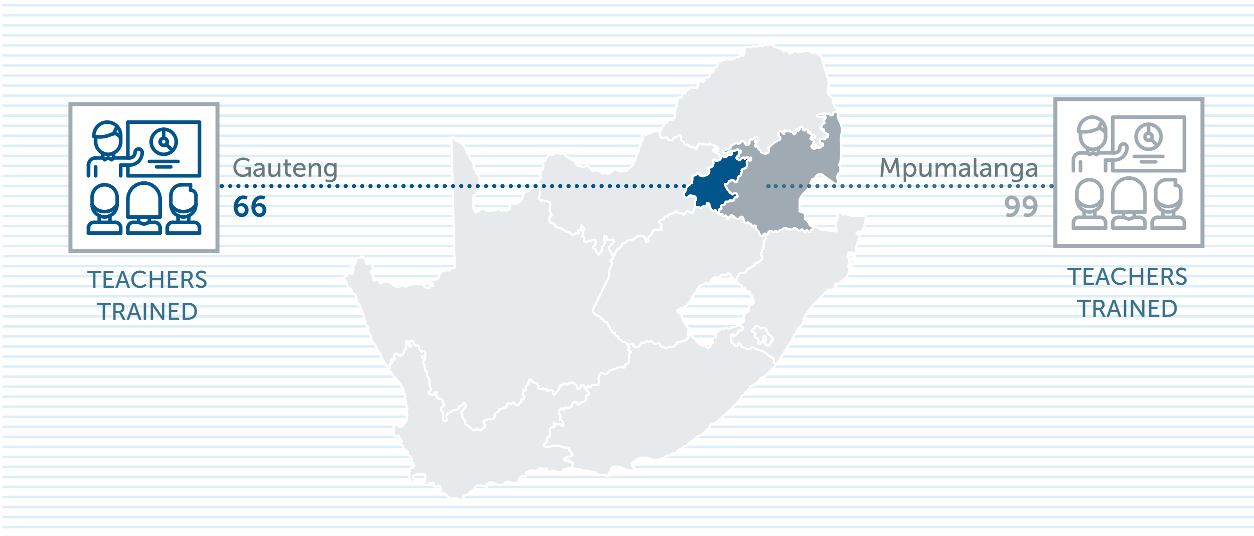
* https://www.fin24.com/Tech/News/sa-scores-high-ranking-in-digital-competitiveness-20170601

The *Adaptive Learning Application* software performs assessment, diagnosis and remedial functions, while Question Banks is a software tool designed for teachers to quickly compile practical work exercises, tests, worksheets, assignments or exams, with memorandums and step-by-step solutions. *Question Banks* contains a variety of question types (including from past examination and test papers) and are relevant to specific grades. They are also fully aligned with the National Curriculum and Assessment Policy Statement (CAPS), the National Curriculum Statement (NCS) and Bloom's Taxonomy.

QUESTION BANKS is a software tool designed for teachers to quickly compile practical work exercises, tests, worksheets, assignments or exams, with memorandums and step-by-step solutions

The objectives of the project are:

- To empower teachers in the preparation of assessments, the moderation process and the preparation of memorandums;
- To bridge gaps in the knowledge and skills of teachers and to promote effective teaching to learners;
- To improve teacher training and ICT skills among educators;
- To increase maths and science literacy and numeracy standards among students;
- To deliver educational materials to remote villages; and
- To support learners in preparing for final year examinations.



Gauteng Project Reach

School	Province	District	Teachers trained
Alexandra High School	Gauteng	Alexandra	12
Minerva Secondary School	Gauteng	Alexandra	10
J. B. Matabane Secondary School	Gauteng	Tembisa	8
Ivory Park Secondary School	Gauteng	Tembisa	14
Eldorado Park Secondary School	Gauteng	Soweto	7
Eldomain Secondary School	Gauteng	Soweto	5
Diepsloot Leap 3 and 4	Gauteng	Diepsloot	10
Total			66

Mpumalanga Project Reach

School	Province	District	Teachers trained
Mafemani Nxumalo Secondary School	Mpumalanga	Bohlabela	11
Bushbuckridge Secondary School	Mpumalanga	Bohlabela	12
Zenzenele Secondary School	Mpumalanga	Ehlanzeni	5
IM Manchu Secondary School	Mpumalanga	Gert Sibande	16
Mmametlhake Secondary School	Mpumalanga	Nkangala	14
Mathipe High School	Mpumalanga	Bohlabela	4
Driekoppies Secondary School	Mpumalanga	Mpumalanga	8
Chief S.W. Nhlapo Secondary School	Mpumalanga	Gert Sibande	19
Khumane Secondary School	Mpumalanga	Nkangala	10
TOTAL			99

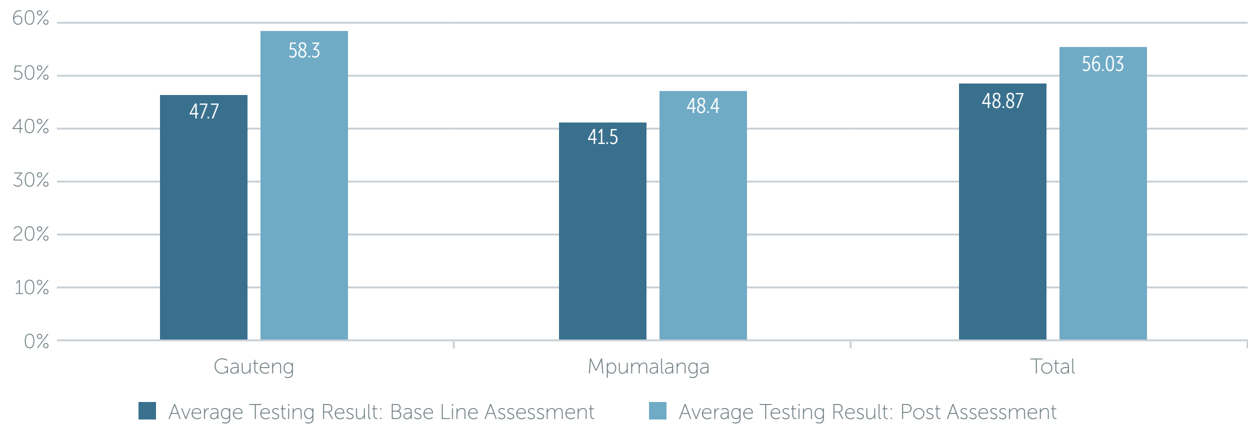
Overall Project Reach 2018

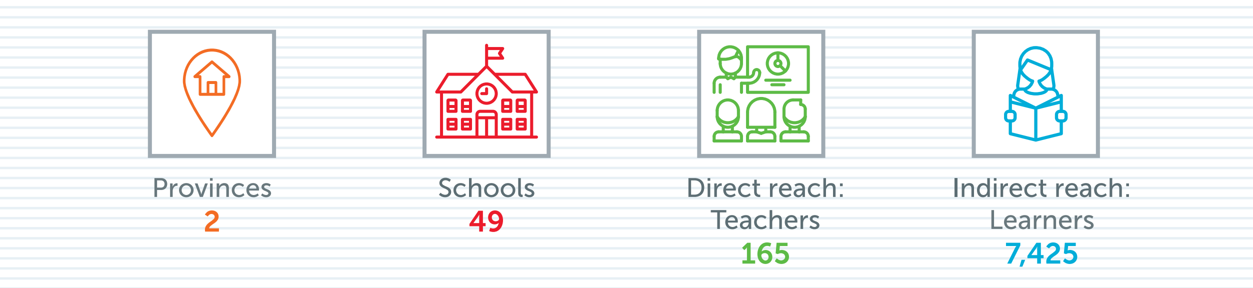
Some 165 mathematics and physical science educators in Gauteng and Mpumalanga took part in the programme, indirectly reaching approximately 7,425 students who will benefit from the training received.

Comparative Results on Baseline and Post-intervention Assessment of Educators

Province	Average Testing Result: Base Line Assessment	Average Testing Result: Post Assessment	Average Increase in Results
Gauteng	47.7%	58.3%	10.6%
Mpumalanga	41.5%	48.4%	6.9%
Total	48.87%	56.03%	7.16%

PIC Results Adaptive Application





Feedback Received from Educators

'Question Banks is very valuable as it provides teachers with standardised questions. The mobile bus adds great value to the project and we would like it to visit the school more often.' - *Grade 12 physical science teacher, Mpumalanga.*

'Being able to compile questions based on particular concepts and the provision of a memorandum is what I valued most from this project. The mobile bus helped to make it easy to set assessments and print them out. It made my life quite easy.' - *Grade 12 physical science teacher, Mpumalanga.*

'Training was excellent and made the setting of questions easy. The training and bus exposed us to different kinds of questions.' - *Grade 12 mathematics teacher, Gauteng.*

'Since our school is not electrified, the training gave me access to technology and information. Mathematics would be easier if learners also had access to technology. This has given educators more skills and it would be good to have training during the holidays. The bus was valuable, as now I know I can use my laptop in the classroom. I need to practice what I have learnt.' - *Grade 12 mathematics teacher, Mpumalanga.*

'This provides a great variety of questions covering the whole syllabus. This bus was a great value-add.' - *Grade 12 physical science teacher, Mpumalanga.*

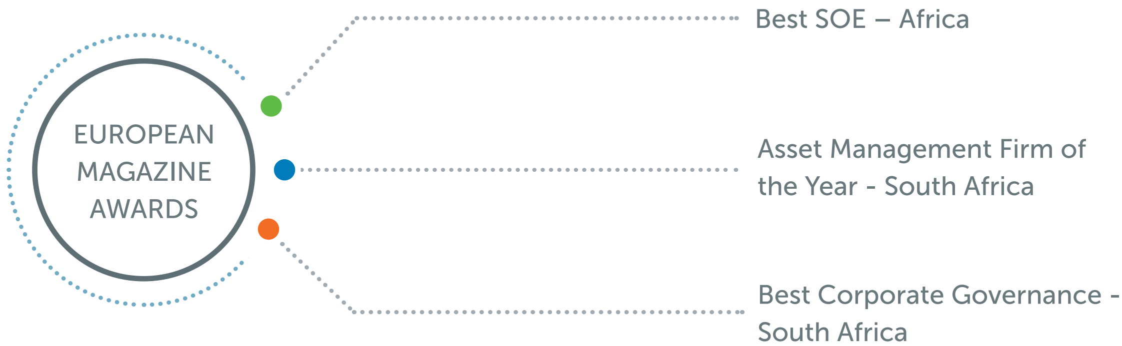
Corporate Affairs Report

Recognition

During the year under review, the PIC received recognition from a number of external stakeholders that commended the institution's work, not only as an asset manager but as a responsible corporate citizen advancing transformation and empowerment

European Magazine Awards

The PIC was awarded three European Magazine Awards. The European Magazine Awards recognise organisations and individuals that stand out from the crowd and are, consequently, moving their industries forward. Good governance, innovation and quality of service are all major considerations for the awards. The PIC was presented with:



CEM Benchmarking

The CEM, a global benchmarking company, rated the PIC one of the best asset managers in the world for having generated positive returns for GEPF at very low cost.

Bretton Woods II

The PIC was recognised as the global Top 25 Most Responsible Asset Allocators for incorporating ESG in investment decision-making process in the Bretton Woods II survey.

Responsible Investor Award

The PIC came second in the Responsible Investor (Ri): Best Responsible Investing Report by an Asset Manager of Large Funds Awards. This is an evaluation conducted annually by Ri, an international news service that assesses responsible investment practices, ESG and sustainable finance for institutional investors globally. The winners were chosen on the basis of research conducted on more than 2,500 global asset owners and managers. The awards recognise companies that showcase excellence in responsible investment and ESG reporting. More specifically, they acknowledge the highest standards in disclosure of responsible investment activities by global investors.

Stakeholder Site Visitations

The nature of the PIC's business, and its relationships with clients and with investee companies are such that it interacts regularly with stakeholders of all types. The financial year 2017/18 was no different. This summary will not list all the engagements with stakeholders during the period under review, but will highlight some of the projects site visits undertaken by PIC and clients. These projects cut across several sectors and are based across the country.

Project

1 DeAar Farm 3

Sector: **Renewable energy**

Location: **Northern Cape**

Based in De Aar, a rural town in the Northern Cape, the project entailed the development, design, construction and operation of a 75MW photovoltaic solar energy plant.

2 Royal Bafokeng Housing Project

Sector: **Housing**

Location: **North West**

The Royal Bafokeng housing project aims to develop and deliver standalone houses for Royal Bafokeng Platinum mining employees. The first phase saw the development and delivery of 422 80m^2 houses. Delivery of another 2,677 is expected by the end of 2019.

3 Daybreak Farms

Sector: **Agriculture**

Location: **Mpumalanga**

Daybreak is an integrated poultry operation. It supplies its own broiler farms, where day-old chicks are produced by its own parent stock. Daybreak grows and processes broilers into fresh and frozen whole birds and individually quick-frozen portions. It uses feed supplied by its own feed mill, Kinross Feed Mill. The company currently owns approximately 6 in-house broiler farms in the Sundra area of Mpumalanga.

4 La Crushers

Sector: **Mining**

Location: **Limpopo**

LA Crushers provides mining load and haul, materials handling, civils and earthworks services. The company is also involved in rehabilitating, crushing and screening, and supply of concrete to mines and businesses in the Phalaborwa area.

Project

5

Sector
Construction

Fountain Civil Engineering (FCE)

Location
KwaZulu-Natal

FCE is a civil engineering construction company specialising in bulk earthwork and roadworks. It also provides services in mining rehabilitation, material handling, township infrastructure, bulk pipelines and sewer, and water reticulation.

6

Sector
Petroleum energy

Royale Energy

Location
Gauteng

Royale Energy (Pty) Ltd is a medium-sized, independently owned, non-refining South African wholesaler and marketer of petroleum products. The company currently distributes more than 300 million litres a year to specifically semi-urban areas and townships in South Africa. The PIC, on behalf of its clients, funded Royale Energy to acquire Laanglagte Fuel Depot in Johannesburg and Klerksdorp Fuel Depot in North West, from British Petroleum South Africa. The company will receive bulk fuel from Transnet Pipelines soon.

7

Sector
Renewable energy

Metrowind

Location
Eastern Cape

Metrowind is a world-class 27MW wind energy facility situated within Nelson Mandela Bay Metro just outside the coastal village of Blue Horizon Bay. The wind farm is one of the successful projects awarded through window 1 of the Department of Energy's Renewable Energy programme.

8

Sector
Technology

MST Mobile Specialised Technology

Location
Western Cape

MST comprises seven subsidiaries, each with a specialised function and focus industry. These include Mobile Schools Health, which provides mobile healthcare services to schoolchildren, mainly in the rural communities, through state-of-the-art, specialised mobile clinics. Student Mobile Future provides vital mobile education and training services to rural communities through purpose-built mobile technology labs.

9

Sector
Agriculture

UIF AgriFund 1

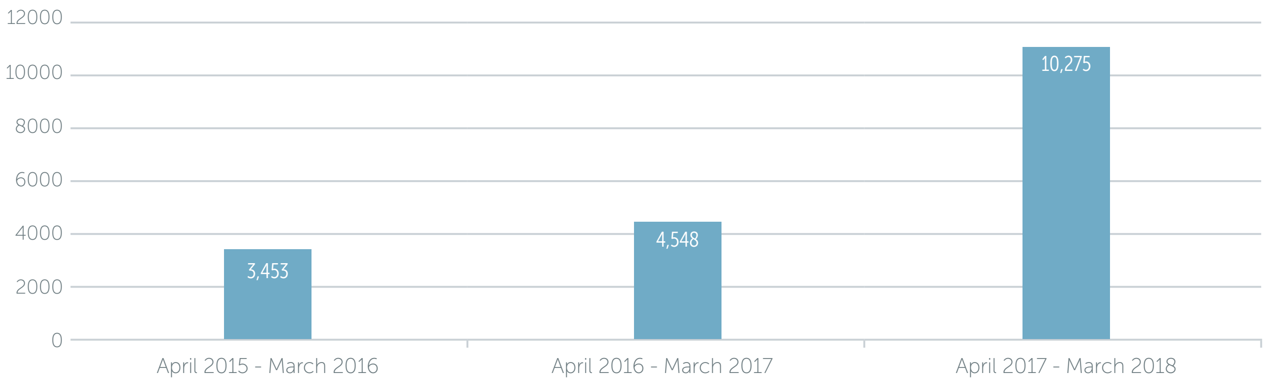
Location
Western Cape

Bonathaba and Zwartfontein farms in the Western Cape fall within the UIF AgriFund 1. These farms produce grapes for export. AgriFund has a specific mandate to invest in agricultural land and farming infrastructure in South Africa. Its investments are in actual farmlands and infrastructure, which are leased to approved operators to run the farm. The farmlands are developed and managed in partnership with these large-scale agricultural operators to further enhance their value.

Media Interest in the PIC

Media coverage over the past three years reached unprecedented levels, with coverage for the year under review increasing by more than 100% compared to the previous year. The coverage emanates from both proactive and reactive media engagements and includes stories in which attributions are made to the PIC and where the PIC is mentioned in relation to an issue covered in the story.

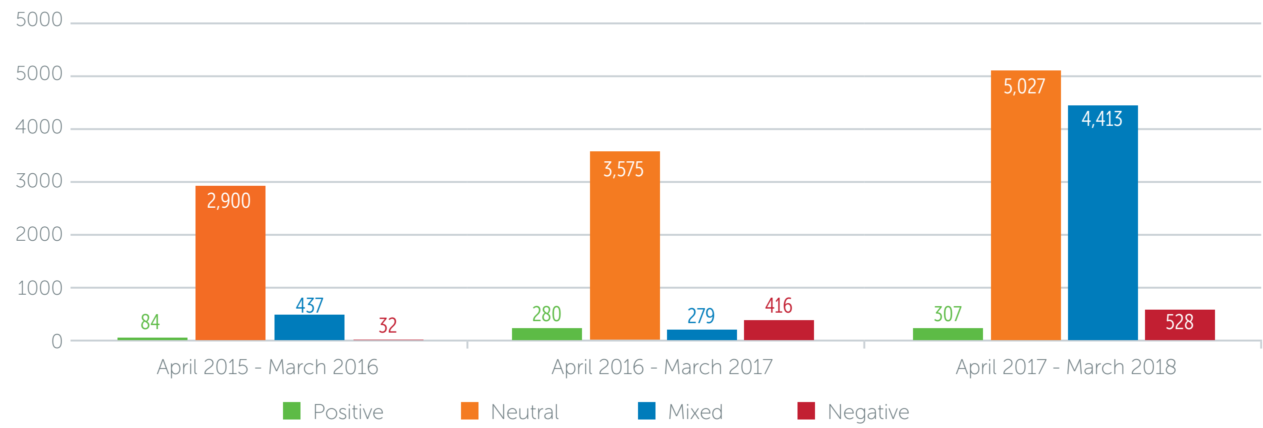
Media coverage over three-year period



Source: Newsclip/PIC

The graph below indicates that for the past three years, much of the coverage relating to the PIC was neutral.

Coverage sentiments



Source: Newsclip/PIC

Dominant stories in the media included the following broad topics:

STEINHOFF INTERNATIONAL

The collapse of **Steinhoff International** in December 2017, following alleged accounting irregularities and the resignation of its CEO

ESKOM

The PIC's advancement of a R5 billion short-term loan facility to **Eskom** in February 2018 to avert a possible liquidity crisis at the power utility

TELKOM

Speculation of the PIC buying government's stake in **Telkom**, the proceeds of which would have been used to fund South African Airways (SAA)

BARCLAYS

The possibility of the PIC increasing its shareholding in **Barclays**, following the announcement by the company that it was reducing its exposure in Africa

VBS MUTUAL BANK

The collapse of **VBS Mutual Bank** and its subsequent placement under curatorship

LONMIN AND SIBANYE STILLWATER

The PIC's insistence for representation on the **Lonmin Board** and **Sibanye-Stillwater's** intention to buy Lonmin

SAA

Reports, based on speculation, that the PIC would possibly be an equity partner for **SAA**

GROUP FIVE

Governance crisis at **Group Five**, which saw Board members replaced because of stark divisions within the Board

STANDING COMMITTEE OF FINANCE

The PIC's appearance before the **Standing Committee on Finance** (SCOF) to brief the committee on developments at the corporation and allegations in the public domain

The Social and Ethics Committee Report

This report outlines how the Social and Ethics Committee (SEC) discharged its duties for the period under review, as set out in Section 72(4) and Regulation 43 of the Companies Act (Act 71 of 2008) (Companies Act) as amended.

The PIC is committed to conducting its business based on a strong ethical culture that is embedded throughout the organisation, with the tone set right at the top. The PIC faced huge reputational issues during the period under review, which prompted a multipronged approach to strengthening its social and ethical compliance and protecting the organisation, whilst maintaining focus on client and stakeholder expectations.

Composition

The SEC comprises a majority of independent Non-Executive Directors and Executive Directors. The Board, in appointing the SEC, ensured that all the members have the requisite skills, expertise and competence. Their names and qualifications are detailed in the Board of Directors section of this Integrated Annual Report on pages 211 to 214. A summary of attendance, standing invitees and key focus areas of the Committee for the period under review is included on page 223 of this Integrated Annual Report.

Roles and Associated Responsibilities

The primary purpose and role of the SEC are to assist the Board in monitoring the PIC's activities in line with relevant legislation and highlighted in Regulation 43(5) of the Companies Act Regulations and matters relating to:

- Social and economic development, including the company's standing in terms of goals and purposes of:
  - Monitoring the PIC's compliance with the ten principles of the United Nations Global Compact (UNGC);
  - Monitoring the PIC's compliance with the Organisation for Economic Development Cooperation and Development (OECD) recommendations on corruption;
  - Monitoring the PIC's compliance with the Employment Equity Act (Act 55 of 1998); and
  - Monitoring the PIC's compliance with the B-BBEE Act.
- Ensuring that the PIC is a good corporate citizen;
- Monitoring the PIC's compliance with the Environmental Health and Public Safety Act;
- Monitoring consumer relationships;
- Monitoring Competition Law issues;
- Monitoring labour and employment issues;
- Bringing matters relating to the above to the attention of the Board, as the occasion may require;
- Discharging other duties as mandated by the Board from time to time; and
- Reporting through the Chairman to the Shareholder at the Company's Annual General Meeting (AGM) on matters within its mandate.

SEC Terms of Reference

The SEC operates within Board-approved Terms of Reference (ToR) that comply with the Companies Act and King IV Report on Corporate Governance.

Discharge of duties for the year under review

Social and Economic Development

The committee received and considered quarterly Human Resource reports, which dealt with matters such as the PIC's compliance status on employment equity and staff retention. The committee further received and considered a quarterly summary of whistleblowing reports. The Audit and Risk Committee considered the substantive elements of matters referred to the anonymous whistleblower's hotline, whereas the SEC dealt only with the effectiveness of the hotline (i.e. statistical information).

Organisational Ethics

The committee reviewed the Code of Conduct and Ethics Policy as they apply to both Directors and staff. Results of an ethics risk assessment will be used (during the next reporting period) to identify gaps in the ethical culture of the organisation and pave the way for an ethics assurance audit subsequently.

The committee also deliberated and made recommendations on transactions that could pose high reputational risks to the PIC as referred by the various PIC Investment Committees the Fund Investment Panels and the Portfolio Management Committees.

Good Corporate Citizenship

The committee reviewed the ESG reports and deliberated on leading indicators that could provide early warning signals for distressed investments. The committee also received and considered quarterly reports that detailed progress on the CSI strategy that focuses on areas such as youth and educational development.

Environmental Health and Public Safety

The committee received and deliberated on a report detailing initiatives taken by IT to adopt environmentally friendly technologies. The committee considered a report on the PIC head office building's compliance with the environmental health and public safety requirements, with concomitant remedial actions to be implemented.

Consumer Relations

The committee received quarterly reports from the Legal department to ensure the corporation complies with relevant legislation such as the revised B-BBEE codes and amendments to the FICA. The PIC continues to engage its stakeholders with the aim of implementing its responsibilities in a way that assures alignment of desired outcomes.

Labour and Employment

The committee conducted a review of the Employment Equity Plan and noted with keen interest an increase in the number of people living with disabilities in the PIC workforce.

Events post-31 March 2018

Forensic or Public Prosecutor Investigation:

Various investigations are ongoing and the PIC continues to liaise with the relevant authorities.

Conclusion

The committee is grateful for the assistance provided by management and staff in pursuit of social impact and ethical excellence. I am satisfied that, in all material respects, the SEC fulfilled all its duties in line with the approved terms of reference during the period under review. No items were reported that would indicate non-compliance with the requirements of the Companies Act and other applicable legislation.

On behalf of the Social and Ethics Committee

Lindiwe Toyi
Chairman: Social and Ethics Committee

Governance at the PIC

The PIC is a Schedule 3B entity and reports to the Minister of the Finance (the Executive Authority) in terms of the Public Finance Management Act.

The Minister of Finance, in consultation with Cabinet, appoints the Board members of the PIC, in terms of Section 6(1) of the PIC Act. Section 7 of the PIC Act empowers the Board to establish such committees, as it considers necessary. The Act further requires of the Minister to appoint PIC Board members in consultation with its major depositors. All appointments are made such that, collectively, Board members possess a diverse range of skills, knowledge and expertise, and have the requisite independence and appropriate professional and industry knowledge to meet the PIC's strategic objectives. The prospective Directors undergo an integrity test conducted by the Shareholder, on whose behalf the Minister of Finance acts, to ensure that they are qualified for appointment as Directors in terms of the Companies Act.

The Board views sound corporate governance as a critical tool in ensuring the effective and prudent management of the institution to deliver stakeholder value and for the long-term success of the PIC. The nature of the PIC requires of the Board to be alive to the socio-economic issues in the community within which it operates, and to ensure that it grows and supports its clients in protecting the funds of their members.

The Board retains full and effective control over the PIC, gives strategic direction to management, and governs the business and affairs of the PIC in a way that supports the establishment of an ethical culture, to ensure that the PIC conducts its affairs with integrity, competence, responsibility, accountability, fairness and transparency.

The Board of Directors of the PIC promotes and supports high standards of corporate governance, business integrity and ethical values that contribute to the ongoing sustainability of the PIC. The Board of Directors also facilitates long-term shareholder value and enhances the benefits that all stakeholders derive from the PIC's continued success.

The Board views sound corporate governance as a critical tool in ensuring the effective and prudent management of the institution to deliver stakeholder value and for the long-term success of the PIC

Board Profile

Mr Mondli Gungubele

Positions
- Deputy Minister of Finance
- Non-Executive Director
- Chairman of the PIC Board

Qualifications
- Bachelor of Commerce Law
- National Diploma Nursing

Appointed
26 February 2018

Dr Xolani Mkhwanazi

Positions
- Independent Non-Executive Director
- Deputy Chairperson of the PIC Board
- Chairperson of the PIC Investment Committee since 01 October 2017

Qualifications
- Doctor of Philosophy (PhD) in Applied Physics
- Master of Science in Applied Physics
- Bachelor of Science (Maths and Physics)

Directorships
- Member of the Board of Gibela Train Transportation
- Member of the Board of Odgers Berndston South Africa
- Member of the Board of the Private Label Promotion
- Member of the Board of South32 Limited
- Member of the Board of Murray & Roberts Holdings

Appointed
1 Aug 2017

Board Meetings attended
13/13

Ms Sandra Beswick

Positions
- Independent Non-Executive Director

Qualifications
- Bachelor of Commerce (Honours)

Directorships
- Member of the Board of Sandra Beswick and Associates (Pty) Ltd
- Member of the Board of Let It Grow Foundation

Appointed
1 Dec 2015

Board Meetings attended
13/15

Board Profile

Ms Tantaswa Fubu, CA (SA) **

Positions

- Independent Non-Executive Director
- Chairman of the PIC Audit and Risk Committee

Qualifications

- Chartered Accountant (SA)
- Higher Diploma in Banking Law
- Post-Graduate Diploma in Accounting (CTA)
- Bachelor of Administration (Honours)

Directorships

- Member of the Board of Ithala SOC Ltd
- Member of the Board of Cerebral Cross Consultants
- Member of the Board of Santam

Appointed

1 Oct 2013

Board Meetings attended

10/15

Dr Trueman Goba

Positions

- Independent Non-Executive Director
- Chairman of the PIC Property Fund Investment Panel

Qualifications

- Registered Professional Engineer (SA)
- Doctor of Engineering (SA)
- Master of Engineering (SA)
- Bachelor of Science (Eng)
- Survey Technician Diploma
- Diploma in Management (Public Policy and Development Administration)

Directorships

- Member of the Board of Hatch Africa (Pty) Ltd
- Member of the Board of Goba Pty) Ltd
- Member of the Board of Independent News Media
- Member of the Board of Gobida (Pty) Ltd
- President: SA Academy of Engineering
- Chairman: SA Youth into Engineering

Appointed

1 Oct 2013

Board Meetings attended

14/15

Ms Dudu Hlatshwayo

Positions

- Independent Non-Executive Director
- Chairman of the PIC Private Equity, Priority Sector and Small Medium Enterprise Fund Investment Panel

Qualifications

- Master of Business Administration
- Bachelor of Social Science (Honours)
- Senior Executive Leadership Development Programme
- Diploma in Marketing Management
- Diploma for successful participation in the Owner Value Program
- Certificate in Product Strategy and Brand Management

Directorships

- Member of the Board of Land Bank
- Member of the Board of Afmetco
- Member of the Board of KZN Growth Fund
- Member of the Board of Profibre Siyaphambile
- Member of the Board of Hulisani Energy
- Member of the Board of Pareto
- Member of the Board of ETG

Appointed

1 Oct 2013

Board Meetings attended

15/15

Board Profile

Dr Claudia Manning ***

Positions
- Independent Non-Executive Director
- Chairman of the PIC Information, Communication and Technology Governance Committee

Qualifications
- Doctor of Philosophy
- Master of Philosophy
- Bachelor of Arts (Honours) (Economic History)

Directorships
- Member of the Board of Adcock Ingram Holdings
- Member of the Board of Basil Read Holdings (Pty) Ltd
- Member of the Board of Mondi Zimele (Pty) Ltd
- Member of the Board of Sangena Investments (Pty) Ltd

Appointed
1 Dec 2015

Board Meetings attended
15/15

Mr Pitsi Paul Moloto

Positions
- Independent Non-Executive Director

Qualifications
- Masters in Business Administration
- Masters in City Planning

Directorships
- Member of the Board of Strategic Pathways
- Member of the Board of Pitsi Moloto Advisory Services

Appointed
1 Dec 2015

Board Meetings attended
14/15

Ms Mathukana Mokoka CA (SA)

Positions
- Independent Non-Executive Director

Qualifications
- Chartered Accountant (SA)
- Bachelor of Commerce (Accounting)
- Post Graduate Diploma in Management (Financial Accounting)
- Post Graduate Diploma in Accounting
- Post Graduate Diploma in Auditing

Directorships
- Member of the Board of Autopax Passenger Services SOC (Ltd)
- Member of the Board of Contract Services Group Holdings
- Member of the Board of Palabora Mining Company (Pty) Ltd
- Member of the Board of Rolfes Holdings
- Member of the Board of Limpopo Tourism Agency

Appointed
1 Aug 2017

Board Meetings attended
11/13

* Mr Sfiso Buthelezi was appointed Chairman of the PIC Board on 1 April 2017 until 26 February 2018 and had attended 12/15 Board meetings.

** Ms Tantaswa Fubu resigned from the Board on 30 July 2018 (after the reporting period).

*** Dr Claudia Manning resigned from the Board on 22 July 2018 (after the reporting period).

Board Profile

Ms Lindiwe Toyi

Positions
- Independent Non-Executive Director
- Chairman of the PIC Social and Ethics Committee

Qualifications
- Masters of Business Administration
- B Social Science (Electrical Engineering)
- National Higher Grade Diploma in Electrical

Directorships
- Member of the Board of AfriSam (SA)
- Member of the Board of Columbus Stainless

Appointed
1 Dec 2015

Board Meetings attended
15/15

Ms Sibusisiwe Zulu

Positions
- Independent Non-Executive Director
- Chairman of the PIC Social & Economic Infrastructure and Environmental Sustainability Fund Investment Panel

Qualifications
- Admitted Attorney
- Bachelor of Laws (LLB)
- Advanced Diploma in Corporate Law
- Certificate in Business Rescue
- Certificate in Practical Legal Training

Appointed
1 Oct 2013

Board Meetings attended
13/15

Dr Daniel Matjila

Positions
- Chief Executive Officer
- Executive Director

Qualifications
- Doctor of Philosophy (PhD) in Mathematics
- Master of Science in Applied Mathematics
- Postgraduate Diploma in Mathematical Finance
- Bachelor of Science (Honours) in Applied Mathematics
- Advanced Management Programme
- Senior Management Programme

Directorships
- Member of the Board of Ecobank Transnational Incorporated
- Member of the Board of Capital Appreciation
- Member of the Board of Afgri Poultry (Daybreak)
- Member of the Board of SA SME Fund
- Member of the Board of Asteroid Financial Services
- Member of the Board of BVI (Pareto)
- Member of the Board of GEPF Moz

Board Meetings attended
15/15

Ms Matshepo More

Positions
- Chief Financial Officer
- Executive Director

Qualifications
- Chartered Accountant (SA)
- Certificate in the Theory of Accounting
- Bachelor of Business Science (Finance)
- Accredited SAICA Assessor

Directorships
- Member of the Board of Pareto Limited
- Member of the Board of BVI (Pareto) Limited
- Member of the Board of CBS Property Management (Pty) Ltd
- Member of the Board of ADR International Airport South Africa
- Member of the Board of Association of Black Accountants of South Africa
- Member of the Board of Industrial Development Corporation South Africa
- Member of the Board of Independent Regulatory Board of Auditors
- Member of the Board of GEPF Moz
- Member of the Board of JordiFlo

Board Meetings attended
15/15

Board and Governance Framework

Board Charter

The Board derives its rights and duties from the Board Charter. In addition, the duties of individual Directors of the PIC, both Executive and Non-Executive Directors, are governed by the PIC Act and the PIC's Memorandum of Incorporation (MoI), as well as the Companies Act, the PFMA and common law.

The Board revised its Charter during the period under review for compliance with King IV principles and for alignment with other best practices identified.

The Board's Responsibilities

The Board exercises its leadership role by:

- Steering the PIC and setting its strategic direction;
- Approving policy and planning that give effect to the direction provided;
- Overseeing and monitoring implementation and execution by management; and
- Ensuring accountability for the PIC's performance by means of, among others, reporting and disclosures.

The responsibilities of the Board are separate and distinct from those of management. The Board exercises sound leadership, integrity and independent judgment in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity, while always remaining cognisant of the best interests of all stakeholders. The Board is accountable for the overall performance and affairs of the PIC. It leads ethically and provides leadership within a framework of prudent and effective control, thereby ensuring that the PIC's ethics are managed effectively and that the PIC is a responsible corporate citizen.

As much as the Board plays a key role in the strategic direction of the company, it also considers employee-related matters and key appointments, ensures that there is proper succession planning, and provides continuous oversight on material matters. It acts as an independent check and balance to the EXCO team, whose main responsibility remains to manage the operations of the PIC.

Board Committees

The Board should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with the balance of power and effective discharge of its duties in line with King IV. The PIC Board has delegated particular roles and responsibilities to Board committees based on legal requirements, and what is appropriate for the PIC to achieve the objectives of delegation. The Board recognises that duties and responsibilities can be delegated, but that accountability cannot be abdicated and that the Board, therefore, remains ultimately accountable.

To discharge its responsibilities, the Board is assisted by six Board committees, namely the Audit and Risk Committee (ARC), the Social and Ethics Committee (SEC), the Investment Committee (IC), the Human Resources and Remuneration Committee (HRRC), the Directors' Affairs Committee (DAC), and the Information, Communication and Technology Governance Committee (ICTGC). The Board has also established three Fund Investment Panels (FIPs) as sub-committees of the Investment Committee, to assist the Board in discharging its statutory duties and responsibilities in relation to investments in South Africa, offshore and in the rest of the African continent.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Acting in the best interest of the company (including managing conflicts and dealing in securities) subject to Section 75 of the Companies Act, No 71 of 2008	**Governance**	
	Full disclosure of the nature of a Director's interest on any matter before the PIC Board is required	Achieved
	Submit declaration of interest form at the beginning of each financial year	Achieved
	Receive report-backs on committee functions, decisions and recommendations	Achieved
	Review CEO's report	Achieved
	Review and update the PIC Board reserved powers and Delegation of Authority (DoA)	Achieved
	Summary of terms of reference of all Board committees to be disclosed in the annual report	Achieved
Reviewing the Board and committee mandates at least annually and approving recommended changes	**Meetings**	
	Minimum of four meetings per annum	Achieved
	Board Committees	
	Assignment of Directors to various committee	Achieved
	Review Board committee compositions	Achieved
	Review terms of reference for each Board committee annually	Achieved
	Review Board Charter annually	Achieved
	Review of Board composition and succession planning	Achieved
Ensuring that each Director adheres to his/her duties	**Performance Review**	
	The board effectiveness assessment is conducted every two years.	
Reviewing and monitoring the performance of the CEO	**Executive Performance**	
	Formal evaluation of the CEO and CFO	Achieved
	Determine a succession plan for the CEO and for Executive Management	Achieved
	Approve goals and performance expectations for the CEO	Achieved
	Review and set Executive Management's remuneration	Achieved
Ensuring that the company complies with laws and considers rules, codes and standards	**Risk Management and Internal Control**	
	Review of effectiveness of risk management process	Achieved
	Review risk management reports and management actions	Achieved
	Obtain assurance on the adequacy and effectiveness of internal control	Achieved
Reviewing, monitoring and reporting on the PIC's integrated sustainability management	**Integrated Sustainability Issues**	
	The Board should identify, monitor and report at least annually, on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Establishing the values of the PIC in support of its mission, and establishing principles and standards for ethical business practices in support of such values	**Vision, Mission and Values**	
	Code of Ethics and disciplinary actions	Achieved
	HR and human capital, including transformation	Achieved
	Health and safety, including HIV/AIDS	Achieved
	Communication policy and programme	Achieved
	Environmental management	Achieved
Strategically directs, controls, sets the values, aligns management to the latter and promotes the stakeholder-inclusive approach of governance	**Strategy**	
	Monitoring and evaluating the implementation of its strategies, policies and business plan, as a measure of operational performance and PIC management performance	Achieved
	Review, challenge and approve strategic and business plans for the year	Achieved
Ensuring that an adequate budget and planning process exists, that performance is measured against budgets and that the annual budget is approved	**Operational and Financial**	
	Review and approval of financial budgets and plans	Achieved
	Approve annual financial operating results	Achieved
	Approve annual financial report content and format	Achieved
	Review progress against budgets and plans and monitor financial performance	Achieved
Considering and approving the annual financial statements (AFS), dividend announcement and notices to the Shareholder, and considering and agreeing on the basis for assessing the going concern status of the PIC	Assessing going-concern assumptions	Achieved
Annually review and assess achievements against set objectives	**Shareholders Compact and Corporate Plan**	
	Annually enters into a Shareholder's compact with the government	Achieved
	Submit a three-year corporate plan to the National Treasury, in line with the PFMA	Achieved
	Consider performance against key performance indicators	Achieved

Chairman

The Chairman, who is also the Deputy Minister of Finance, is appointed by the Minister of Finance in consultation with Cabinet. King IV prescribes that the Board Chairmanship should preferably be held by an Independent Non-Executive Director. However, the appointment of the Deputy Minister as Chairman of the PIC Board is based on the fact that the GEPF, which constitutes approximately 90% of the PIC managed funds, is a defined benefit fund underwritten by government, with the Minister of Finance as Shareholder representative.

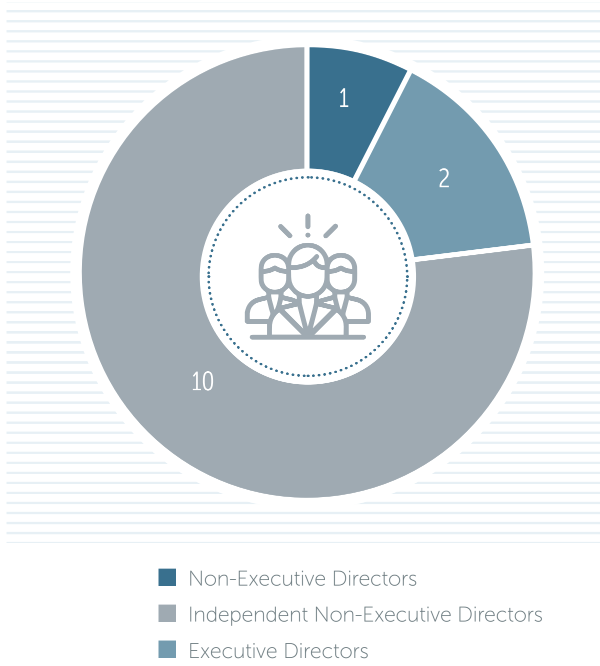
Dr Xolani Mkhwanazi has been appointed as the Lead Independent Non-Executive Director since 1 August 2017 to ensure that there is a proper balance of power, to strengthen independence of the Board and to lead in the absence of the Chairman.

The Chairman, by virtue of being the Deputy Minister of Finance, and to perform the duties of the office of the Chairman, together with the Board, may not hold any other directorships.

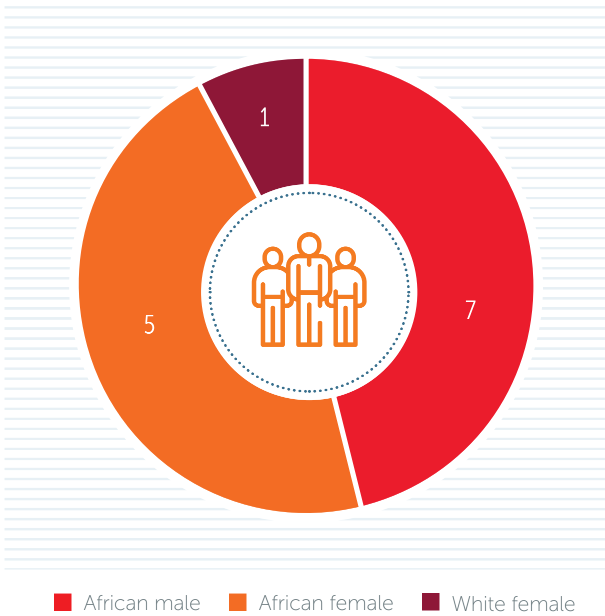
Board Appointment (Diversity and Integrity Testing)

As provided in the PIC MoI, Board members are appointed by the Minister of Finance, in consultation with Cabinet. All appointments are made such that, collectively, Board members possess a diverse range of skills, knowledge and expertise and have the requisite independence, and appropriate professional and industry knowledge to meet the PIC's strategic objectives. The prospective Directors undergo an integrity test that is conducted by the Shareholder to ensure that they are qualified for appointment as Directors in terms of the Companies Act. The Non-Executive Directors are selected on the basis of their skills, business experience, investment knowledge and qualifications.

The Board is satisfied that it is properly constituted with a complementary set of skills, balance of power, experience and personal characteristics. The Board prides itself on having a dynamic boardroom culture anchored on high ethics standards. The level of diversity in the Board guarantees robust engagement on matters, given the various professional and personal backgrounds of the members.

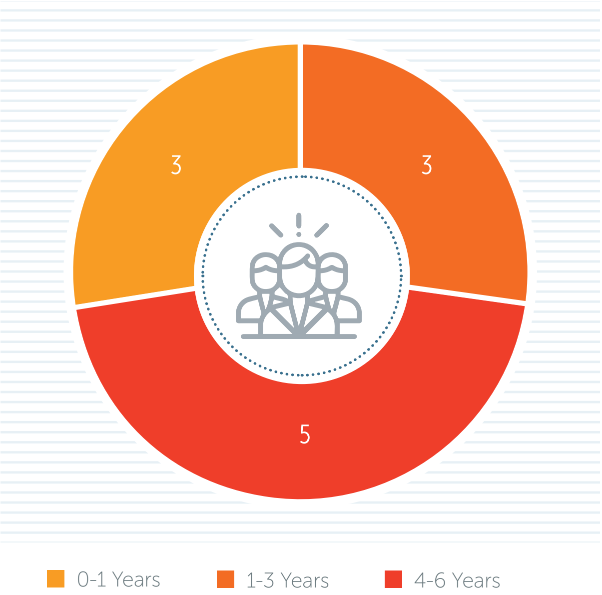


The graph above shows the balance of power between Non-Executive Directors, Independent Non-Executive Directors, and Executive Directors.

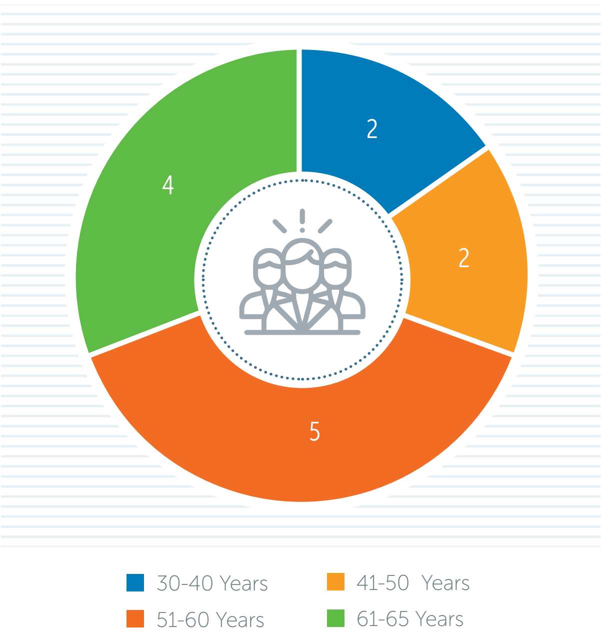


The graph above shows the equity within the Board in terms of both race and gender.

Tenure (Non-Executive Director Succession)



Age of Board Members



Rotation of Directors

In terms of the PIC MoI, a Non-Executive Director, who has been in office for three years since his/her last appointment, shall retire during the AGM. One-third of the Non-Executive Directors for the time being, or if their number is not a multiple of three, then the number nearest but not less than one-third, shall retire from office. The Non-Executive Directors retiring shall be those who have been longest in office since their last appointment.

Delegation of Authority

The Board retains effective control over the operations of the PIC through well-developed governance structures, comprising various Board committees and a comprehensive DoA. The DoA ensures timeous and effective implementation of the Board's strategy, but does not divest the Board of its responsibilities. The committees regularly report to the Board in terms of their agreed mandates, which are reviewed annually to ensure relevance and alignment with governance best practice.

Non-Executive Directors' Fees

In terms of Section 66(9) of the Companies Act, remuneration paid to Non-Executive Directors for their services as Directors may be paid only in accordance with a special resolution approved by the Shareholder in the previous two years. The Shareholder considered and signed a new special resolution in line with the provisions of Section 66(9) of the Companies Act, at the AGM for financial year 2016/17. Details regarding the Non-Executive Directors' remuneration are contained in the remuneration report on page 186.

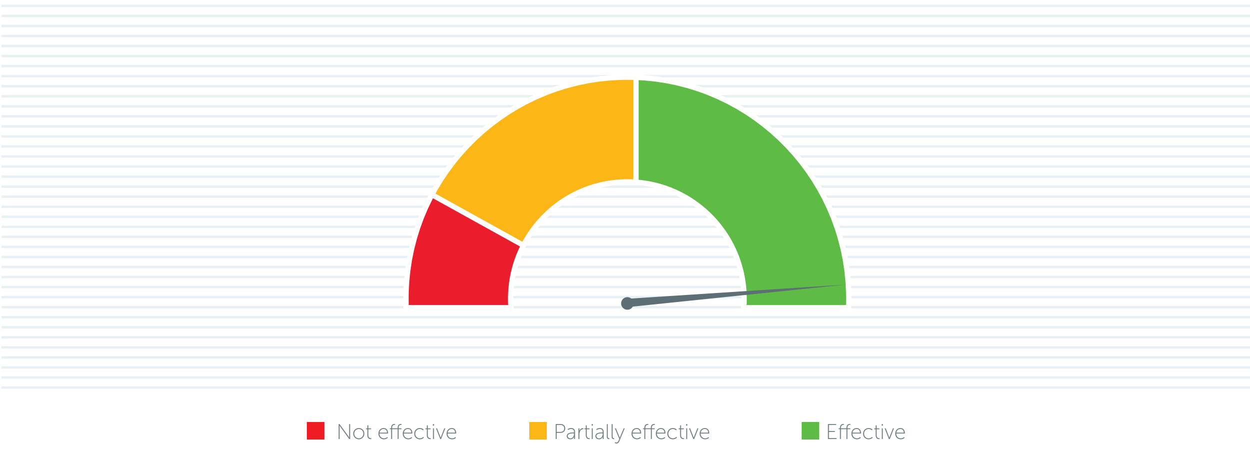
Board and Committee Effectiveness

The PIC's last Board evaluation process was conducted in November 2016 for the 2016/17 financial year and the results thereof were considered in 2018. This evaluation covered the size and composition of the Board, Directors' induction and development effectiveness, Board meetings, the relationship between the Board and management, flow of information, skills needed by the Board and its committees, and stakeholder relations.

The Board adopted the principles of King IV and agreed to conduct its assessment on a two-year cycle to allow enough time to implement the remedial action plan.

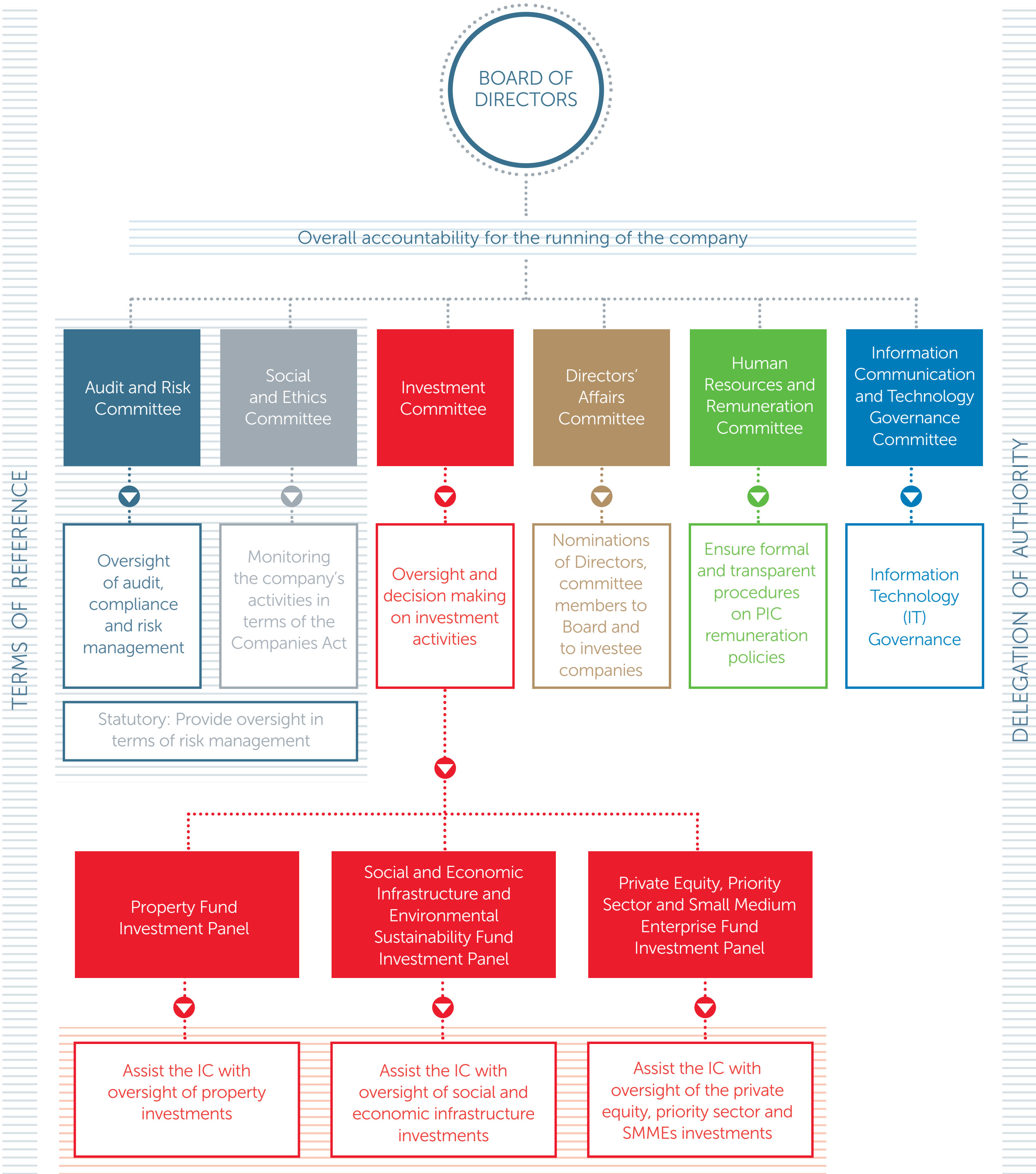
The results of the 2016/17 evaluation highlighted that the Board was effective and identified the following areas for improvement: Succession plan and stakeholder relations, including media management.

Effective pointer



Governance Structure

The Board of the PIC is satisfied that it operates in terms of a governance framework, which enables it to ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties:



	ARC	DAC	HRRC
Focus Area	Integrated reporting Financial reporting Internal audit and external audit matters Risk management	Board evaluations Nomination matters (PIC Board and PIC Investee Companies Boards)	Remuneration strategy and policy Succession planning Human capital management
ATTENDANCE SUMMARY			
	100%	**80%**	**94%**
Meeting Schedule	The Committee met four times during the period under review	The committee met four times during the period under review	The committee met four times during the period under review
Composition	Ms Tantaswa Fubu (Chairman) Ms Sibusisiwe Zulu Ms Sandra Beswick Ms Lindiwe Toyi Ms Mathukana Mokoka	Mr Sfiso Buthelezi (Chairman) Ms Dudu Hlatshwayo Ms Lindiwe Toyi Mr Trueman Goba Ms Tantaswa Fubu Dr Claudia Manning Dr Xolani Mkhwanazi Dr Daniel Matjila	Mr Trueman Goba (Chairman) Ms Dudu Hlatshwayo Ms Sandra Beswick Ms Mathukana Mokoka Mr Pitsi Moloto
Invitees	Chief Executive Officer; Chief Financial Officer; Executive: Risk; Executive: Information Technology; Executive: Legal Counsel, Governance and Compliance; Head: Internal Audit; Company Secretary; External Auditors	Company Secretary	Chief Executive Officer; Chief Financial Officer; Executive: Human Resources; Company Security

IC	ICTGC	SEC
Oversight and decision-making on investment activities Monitoring of investment mandates	Information technology governance Information and cyber security	Good Corporate Citizenship Ethical Leadership and Conduct Social and Economic Development Stakeholder Relationships Reputation Management
ATTENDANCE SUMMARY		
89%	**81%**	**81%**
The committee met nine times during the period under review	The committee met three times during the period under review	The committee met five times during the period under review
Dr Xolani Mkhwanazi (Chairman) Ms Dudu Hlatshwayo Mr Trueman Goba Ms Lindiwe Toyi Dr Claudia Manning Ms Sibusiso Zulu Dr Daniel Matjila Ms Matshepo More	Ms Claudia Manning (Chairman) Mr Trueman Goba Mr Pitsi Moloto Ms Sandra Beswick Ms Dudu Hlathswayo Dr Daniel Matjila Ms Matshepo More	Ms Lindiwe Toyi (Chairman) Dr Claudia Manning Mr Pitsi Moloto Ms Tantaswa Fubu Ms Mathukana Mokoka Dr Xolani Mkhwanazi Dr Daniel Matjila Ms Matshepo More
Company Secretary; Listed and Unlisted Transaction Teams; Executive: Risk; Executive: Legal Counsel, Governance and Compliance; Executive: Investment Management; Head: Internal Audit	Executive: Listed Investments; Executive: IT; Executive: Risk; Executive Head: Legal Counsel, Governance and Compliance; Corporate Services; Executive: Investment Management; General Manager: Finance: Company Secretary; Internal Audit	Head: Corporate Affairs; Executive: Risk; Executive: Human Resources; Executive: Legal Counsel Governance and Compliance; Executive: Investment Management; Head: Internal Audit; Company Secretary; Manager: Safety, Health and Environment

	PEPSS FIP	PROP FIP	SEIES FIP
Focus Area	Oversight and decision-making on investment activities Monitoring of investment mandates	Oversight and decision-making on investment activities Monitoring of investment mandates	Oversight and decision-making on investment activities Monitoring of investment mandates
ATTENDANCE SUMMARY			
	84%	79%	73%
Meeting Schedule	The committee met six times during the period under review	The committee met six times during the period under review	The committee met four times during the period under review
Composition	Ms Dudu Hlatshwayo (Chairman) Dr Claudia Manning Ms Sandra Beswick Dr Xolani Mkhwanazi Ms Mathukana Mokoka Dr Daniel Matjila Ms Matshepo More	Mr Trueman Goba (Chairman) Ms Sibusisiwe Zulu Mr Pitsi Moloto Ms Mathukana Mokoka Dr Daniel Matjila Ms Matshepo More	Ms Sibusisiwe Zulu (Chairman) Ms Lindiwe Toyi Mr Pitsi Moloto Ms Sandra Beswick Dr Xolani Mkhwanazi Dr Daniel Matjila Ms Matshepo More
Invitees	Executive Head: Private Equity and SIPs Executive Head: Developmental Investments Executive Head: Legal Counsel, Governance and Compliance Executive Head: Investment Management; Executive Head: Risk Executive Head: Research and Project Development Head: Internal Audit	Executive Head: Property Investments Executive Head: Private Equity and SIPs Executive Head: Developmental Investments Executive Head: Research and Project Development Executive Head: Legal Counsel, Governance and Compliance Executive Head: Risk Executive Head: Investment Management	Executive Head: Property Investments Executive Head: Private Equity and SIPs Executive Head: Developmental Investments Executive Head: Research and Project Development Executive Head: Legal Counsel, Governance and Compliance Executive Head: Risk Executive Head: Investment Management

Board Committees

The PIC Board has established the following committees to which it has delegated certain responsibilities:

ARC Matrix

The Matrix below depicts ARC performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Reviewing the mandates at least annually and approving recommended changes	**Governance**	
	Meet at least four times during financial year	Achieved
	Annually review ARC terms of reference	Achieved
	Overseeing the appointment, replacement, reassignment or dismissal of head of internal audit	Achieved
	Effectiveness of the external audit process	Achieved
	Liaise with internal and external auditors	Achieved
Monitor compliance with applicable legal and regulatory requirements	**Compliance**	
	Legal requirements (Companies Act, PIC Act, PFMA, FICA, FAIS)	Achieved
	Monitor and exercise oversight role on risk management	Achieved
	Taking due regard of the principles and codes of best practice in corporate governance when carrying out risk management duties	Achieved
	Forming own opinion on the effectiveness of the risk management and internal control process in the PIC	Achieved
	Risk management disclosure in the annual report	Achieved
Oversee the appointment of the external auditors and monitor the qualifications, independence and performance of the external auditors, and the integrity of the audit process as a whole	**Audit**	
	Approve audit fees and audit fee overruns, as determined by the Office of the Auditor-General	Achieved
	Nature and scope of the audit	Achieved
	Audit fees	Achieved
	Ensure that management has responded appropriately to the findings raised by the external audit	Achieved
	Consider the effectiveness of the audit process at the end of the audit cycle	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Ensure the integrity of the financial statements Review accounting policies and proposed changes Review reports on material defalcations	**Review AFS before submission to the PIC Board, particularly:**	
	Completeness, quality and transparency of financial information	Achieved
	Changes in accounting policies and significant changes in numbers from the previous year	Achieved
	Judgmental areas and estimates that have a significant impact on the financial statements	Achieved
	Significant adjustments resulting from the audit	Achieved
	Significant or unusual transactions that are not part of the PIC's normal business	Achieved
	Appropriateness of major adjustments processed at year end	Achieved
	Outstanding litigation, contingencies and other claims and how these matters are reflected in the financial statements	Achieved
	All significant proposed changes to the financial statements and annual report and any concerns regarding the adequacy of disclosure of any items with specific reference to International Financial Reporting Standards (IFRS)	Achieved
	The extent to which the financial information accompanying the AFS has been audited	Achieved
	Compliance with accounting standards	Achieved
	Compliance with statutory requirements, specifically the disclosure requirements of the Companies Act and best practice corporate governance guidelines	Achieved
	Discuss problems, reservations and significant disagreements between management and the auditors, both internal and external	Achieved
	Internal and external audit management letter and management's response	Achieved
	Qualifications and emphases of matter noted on draft financial statements, irrespective of their nature, materiality or subsequent clearance, and ensure that the circumstances giving rise to the qualifications are fully explained	Achieved
	With specific reference to the safeguarding of assets and the prevention and detection of fraud	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Assess and monitor the performance and leadership of the internal audit function	Review continuously the operations and effectiveness of the internal audit function by:	
	Considering and approving the internal audit charter, the annual internal audit plan and ensure that the critical risk areas of the PIC's activities are addressed in line with the Institute of Internal Auditors' Standards for Professional Practice	Achieved
	Confirming and ensuring the independence of the internal audit function and ensuring that the internal audit plan is not restricted in any way	Achieved
	Considering at least quarterly reports from the internal audit function on the internal audit control structure and ensuring that significant findings during the year have been satisfactorily addressed by management	Achieved
	Ensuring that the internal audit function is adequately resourced and has appropriate standing in the organisation	Achieved
	Considering the internal audit function's annual report on the scope of reviews of corporate governance within the PIC and any significant findings, and ensuring that these have been addressed by management	Achieved
	Considering the major findings of internal investigations and management's response and expressing an opinion on the appropriateness and adequacy of action taken	Achieved
	Reviewing the annual report and the accounts taken as a whole to ensure that they present a balanced and understandable position and performance of the PIC	Achieved
	Reviewing the findings of any examinations by regulating agencies	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Assess and monitor the effectiveness of the system of internal controls and risk management	**Perform specific risk management duties:**	
	Reviewing and assessing the integrity of the risk control systems and ensuring that the risk policies and strategies are effectively managed	Achieved
	Setting out the nature, role, responsibility and authority of the risk management function within the PIC and outlining the scope of risk management work	Achieved
	Monitoring external developments relating to risk management and the reporting of specifically associated risk, including emerging risks and their potential impacts	Achieved
	Reviewing EXCO reports detailing the adequacy and overall effectiveness of the PIC's risk management process, and its implementation by management	Achieved
	Reviewing the risk philosophy, strategy and policies recommended by EXCO and considering reports by EXCO	Achieved
	Reviewing at a high-level the risk identification and measurement methodologies applied	Achieved
	Reviewing the risk management framework, advising on the risk tolerance or level of acceptable risk for PIC	Achieved
	Ensuring that management maintains a focus on 'upside risk'	Achieved
	Monitoring the reporting of risk by management, with particular emphasis on significant risks or exposures and the appropriateness of the steps management has taken to reduce the risk to an acceptable level	Achieved
	Monitoring progress on action plans developed as part of the risk management process	Achieved
	Reviewing any findings and recommendations of the external auditors, internal auditors or other parties on significant risks and ensuring that follow-up action has been taken	Achieved
	Reviewing the impact of any changes in the business on the risk management process and the responding to these changes, including the update of the risk register/profile	Achieved
	Reviewing legal and regulatory matters that may have a significant impact on risk, including compliance policies, programmes and reports received from regulators, together with PIC's legal adviser	Achieved
	Developing and subsequently reviewing the policy on fraud prevention, detection and investigation, and ensuring that an effective fraud prevention process exists	Achieved
	Reviewing reports of significant incidents and fraud, including the evaluation of the effectiveness of the response in investigating any loss and preventing future occurrences	Achieved
	Reviewing insurance arrangements and the appropriateness and adequacy of insurance cover	Achieved
	Considering other risk management issues referred to it by the PIC Board	Achieved
	Considering any other matter requested by the PIC Board	Achieved
	Ensuring (Chairman) that all ARC members perform self-assessments annually	Achieved
	Submitting formal reports on its activities to the PIC Board	Achieved
	Preparing a submission for inclusion in the annual report, according to the relevant statutory requirements and best practice corporate governance guidelines	Achieved
	Reporting on internal audit quality assurance	Achieved

Social and Ethics Committee

The Matrix below depicts SEC performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Transformation	Monitoring compliance with the Broad-Based Black Economic Empowerment Act, 2003	Achieved
	Monitoring compliance with the Employment Equity Act, 1998	Achieved
	Monitoring the company's promotion of equality, prevention of unfair discrimination and reduction of corruption	Achieved
Social and economic development	Monitoring the company's contribution to the development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed	Achieved
Corporate social responsibility	Monitoring the company's record of sponsorship, donations and charitable giving	Achieved
Ethical conduct	Ensuring that a code of conduct and code of ethics are implemented for both Non-Executive Directors and PIC employees	Achieved
Good corporate citizenship	Ensuring that the company is committed to and upholds good corporate citizenship	Achieved
Implementation of governance and responsible investment codes and best practice	Receiving ESG reports on investee companies (including business rescue, insolvency, compliance by investee companies on SEC issues). The nominee Directors of the company on the investee company's Boards may be requested to report to the committee to the extent possible	Achieved
Reputational risk management	Monitoring compliance with the following OECD recommendations regarding corruption: - OECD Guidelines for Managing Conflict of Interest in the Public Service (2003) - OECD Principles for Managing Ethics in the Public Service (1998) OECD Principles for Transparency and Integrity in Lobbying (2010) OECD Principles for Enhancing Integrity in Public Procurement (2008) - OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions - OECD Recommendation for Further Combatting Bribery of Foreign Public Officials in International Business Transactions	Achieved
	Considering reputational issues applicable to the company and develop plans to ensure minimal impact of negative reputational issues	Achieved
	Monitoring and advising on Competition Law issues, i.e. price fixing, collusion, etc. to consider material national and international regulatory and technical developments on issues falling within the mandate of the committee	Achieved
Sustainability	Monitoring compliance with the PIC's sustainability goals	Achieved
Safety and security	Monitoring environmental, health and public safety, including the impact of the company's activities and of its products or services	Achieved
Stakeholder management	Monitoring the PIC's activities against legislation, other legal requirements and prevailing codes of best practice, on matters relating to: - Customer relationships, including the PIC's advertising, public relations and compliance with consumer protection laws - The PIC's employment relationships, and contribution towards the educational development of its employees	Achieved Achieved Achieved

Directors' Affairs Committee

The matrix below depicts DAC performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Periodically review the format and composition of the Board and Board committees	Developing a long-term plan for the composition of the Board that takes into consideration the current strengths, personalities, skills, experience and demographic representation on the Board, retirement dates and the strategic direction of the PIC	Achieved
	Recommending to the Board the members of any Board committee and the rotation of Directors and candidates to fill any Board and Board committee vacancies	Achieved
	Propose to the Board the responsibilities of Non-Executive Directors, including membership and chairmanship of Board committees	Achieved
Set criteria for the nomination of Directors and committee members of the Board	Developing recommendations on the essential and desired criteria, experiences and skills for potential new Directors, taking into consideration the Board's short-term needs and long-term succession plans	Achieved
	Identifying and proposing suitable candidates to the Board, whether for consideration as Executive or Non-Executive Directors, considering candidates from a wide range of backgrounds	Achieved
	Reviewing the nominations received from Board members and the public who wish to be appointed to the Board, taking into consideration the current strengths, skills, experience and demographic representation on the Board and Board committee vacancies	Achieved
Conduct an assessment of the performance of the Board and review the effectiveness of the Board committees	The Board effectiveness assessment is conducted every two years	Not applicable
Oversee the formal induction programme for new Directors	Developing and ensuring the implementation of orientation processes to assist new Directors to fully understand the role of the Board and Board committees, the contribution individual Directors are expected to make and the nature and operation of the PIC's business	Achieved
	Developing and ensuring the implementation of ongoing programmes to assist existing Directors to maintain or to enhance their skills and abilities as Directors of the PIC, and their knowledge and understanding of the PIC's business	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Identify, evaluate and nominate Directors and PIC employees to be appointed as the PIC's representatives on the Boards of investee companies	Identifying and nominating suitable candidates as PIC's representatives to the Boards of investee companies	Achieved
	Applying and monitoring the Policy on the nomination or appointment by the PIC of its employees, Non-Executive Directors and other persons to Boards of Directors of companies in which the PIC is invested or to the shareholders of which it has made finance available for any PIC appointee	Achieved
Board remuneration	Reviewing the adequacy and form of compensation of Non-Executive Directors, including fees payable to Non-Executive Directors for their membership of the Board and any Board committee and reimbursement of expenses, and making compensation recommendations to the Board	Achieved
Consider corporate governance best practice	Developing for the PIC Board's approval, and reviewing from time to time, the PIC's approach to corporate governance, including developing a set of governance principles and guidelines that are specifically applicable to the PIC	Achieved
	Reviewing and recommending to the Board, periodically, the disclosure and communications policy of the PIC, including annual disclosure of the PIC's approach to corporate governance	Achieved
	Receiving from management periodic reports on corporate governance developments relevant to the PIC and reporting to the Board	Achieved
	Monitoring legislation affecting the duties, responsibilities and potential liability of Directors	Achieved
	Evaluating, annually, the adequacy of the terms of reference and recommending any proposed changes to the Board	Achieved
	Ensuring full disclosure in the annual report of individual Non-Executive Director remuneration, including earnings, share and incentive schemes, restraint payments and all other benefits	Achieved

Human Resources and Remuneration Committee

The matrix below depicts the HRRC performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Ensure a formal and transparent procedure for developing policies on Executive remuneration and performance, and recommend remuneration packages for Executive Directors	Evaluating and approving the organisation's remuneration strategy and philosophy	Achieved
	Ensuring alignment of the remuneration strategy and policy with the PIC's business strategy, desired culture, stakeholder interests and commercial wellbeing	Achieved
	Determining remuneration packages needed to attract, retain and motivate high-performing Directors and Executive Management, while avoiding paying more than is necessary for this purpose	Achieved
	Approving remuneration levels and specific packages for Executive Directors, including all benefits, and, as appropriate, for other senior management	Achieved
	Coordinating its activities with the Chairman of the PIC Board and the CEO, as well as consulting them on formulating the organisation's remuneration policy and specific remuneration packages	Achieved
	Ensuring that remuneration levels of comparable organisations are taken into account, and including a balance between guaranteed and performance-based remuneration	Achieved
	Being sensitive to the wider HR environment, including pay and employment conditions elsewhere in the organisation, so that decisions may, as far as possible, be consistent and fair, and be seen as such (ensure that internal equity exists between remuneration of Executive Directors and senior management)	Achieved
Consider policies on conditions of employment, remuneration and benefits of PIC employees and all related aspects	Ensuring that retirement and healthcare funding are in place for all employees	Achieved
	Reviewing and recommending the annual maximum percentage increase for the PIC as a whole	Achieved
	Reviewing and approving HR policies for the PIC	Achieved
	Approving and monitoring the implementation of employment equity policy and compliance with applicable legislation	Achieved
	Ensuring compliance with applicable labour laws and regulations	Achieved
	Reviewing skills development, career path and succession planning, policies and procedures	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Approve the policies and principles of the performance bonus scheme and criteria to be applied at the PIC based on corporate and individual performance	Reviewing and approving performance-related incentive schemes, performance criteria and measurements	Achieved
	Determining criteria necessary to measure the performance of Executive Directors and senior management in discharging their duties and responsibilities	Achieved
	Communicating the remuneration philosophy, policies, strategic goals and objectives of the PIC to all stakeholders	Achieved
Good corporate governance	Reviewing the terms of reference annually	Achieved
	Preparing and submitting formal reports on its activities to the Board at the next Board meeting, with recommendations deemed appropriate by the committee	Achieved
	Preparing, for inclusion in the integrated annual report, and detailing, in brief, the PIC's remuneration philosophy, and the HRRC terms of reference and responsibilities, including how these responsibilities have been discharged, members' names, number of meetings held and any additional information	Achieved
	Ensuring full disclosure in the integrated annual report of individual Director remuneration, including details of earnings, share and incentive schemes, restraint payments and all other benefits	Achieved
	Meet at least once a quarter	Achieved

Investment Committee

The matrix below depicts the IC performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
	Depositors' funds and funds under management	
Oversee and make decisions about investment activities Monitor investment mandates	Reviewing and recommending to the Board investment policy and strategy for depositors' funds	Achieved
	Overseeing the implementation of investment decisions	Achieved
	Monitoring performance of investments at least quarterly	Achieved
	Reporting on the activities of the IC to the Board on issues relating to the investment of depositors' funds	Achieved
	Reviewing and evaluating policies and procedures that PIC management has implemented to monitor compliance with client mandates	Achieved
	Overseeing the implementation of client mandates by receiving PIC management's quarterly reports including the regulatory requirements under the Financial Advisory and Intermediary Services (FAIS) Act, PFMA and Financial Markets Act, 2012 (Act No 19 of 2012)	Achieved
	Reporting quarterly to the Board on the investment of funds under management	Achieved
	Approving deals in line with the approved DoA	Achieved
	Reviewing and evaluating deals on receipt of recommendations tabled by PIC management supported by deal approvals in conformance with deal processes and strategies	Achieved
	Reviewing the deal approval process, policies and criteria annually	Achieved
	Risk management	
	Reviewing and recommending annually to the ARC the risk management framework and policies for investment management	Achieved
	Considering the establishment, adjustment or deletion of limits and counterparty approvals, and the scope of financial instruments to be used in the management of the PIC's investments	Achieved
	Reviewing credit limits with banks in line with client mandates	Achieved
	External managers	
	Approving the criteria and process for the selection of external investment managers, and submitting notification of approval to the Board	Achieved
	Approving the process for establishing the mandates of external investment managers	Achieved
	Approving the process for monitoring external investment managers	Achieved
	Evaluating performance of external investment managers	Achieved

Investment Committee Sub-committees

The Fund Investment Panels (FIPs) have the authority to deliberate and make investment decisions on Unlisted Investments (including Properties) in accordance with the approved Unlisted Investment DoA Property Investment DoA and the approved Private Placement Memorandums (PPMs) and shall further act in accordance with, and subject to, the authority, directives and requirements that may be laid down by the Board and IC.

Property Fund Investment Panel

The matrix below depicts the PROP FIP performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Powers and authority	Deliberating and making decisions on the operational and investment administration of the property business	Achieved
	Investigating and/or researching any activities within the scope of responsibilities set out in the terms of reference	Achieved
	Seeking outside legal or other independent professional advice to assist it with the execution of its duties, at the PIC's expense	Achieved
	Seeking any information it requires from any PIC employee, PIC management, statutory committees or Board committees, or the Company Secretary all of whom will be required to cooperate with any reasonable requests	Achieved
Strategic matters	Advising on, developing and implementing operational and strategic plans for the property department	Achieved
	Recommending to the IC the conclusion of any outsourcing contract by the PIC with persons who will assist the PROP FIP in performing any of its duties	Achieved
Property investments	Approving all property investments, acquisitions and/or disposals, developments and refurbishments on behalf of the PIC	Achieved
	Monitoring performance of property investments quarterly	Achieved
Property asset management	Reviewing and evaluating policies and procedures that PIC management has implemented to monitor compliance with client mandates	Achieved
Property budget	Approving annual budgets for all property expenditure of the Properties department	Achieved
	Considering and recommending to the ARC, through the IC, all operational write-offs (book values), all property investment write-offs (book values, tenant arrears, etc.), and all property asset write-offs	Achieved
	Recommending to the Board through the IC, the annual property investment strategy	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Risk	Reviewing and assessing the integrity of the risk-control systems used by the Properties department and ensuring that the department's risk policies and strategies are effectively managed	Achieved
	Monitoring the reporting of risk management, including identification of significant risks or exposure and steps to be taken to reduce risks	Achieved
	Monitoring progress on any action plans developed as part of the Properties department's risk management process	Achieved
	Reviewing findings and recommendations of the external auditors, internal auditors or other parties reviewing significant risks relating to the Properties department and ensuring that remedial steps are taken	Not achieved
	Reviewing the impact of any changes in the property business on the Properties department's risk management process and the responses to these changes, including an update of the Properties department's risk/ profile	Achieved

Private Equity, Priority Sector and Small Medium Enterprise Fund Investment Panel

The matrix below depicts the PEPSS FIP performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Consider and approve policies and unlisted investments proposed by management and make recommendations to the IC in line with the DoA framework	Monitoring the investment mandates, policy, strategy and implementation of listed investments managed by the PIC	Achieved
	Investigating and/or researching any activities within the scope of responsibilities set out in the terms and reference	Achieved
Make investment decisions (approvals) for unlisted investments in accordance with approved PPMs	Making investment decisions in line with PIC client's mandates and the approved DoA for Unlisted Investments	Achieved
	Monitoring performance of Unlisted Investments quarterly	Achieved
	Overseeing the implementation of the PPMs by receiving PIC management's quarterly reports, including the regulatory requirements under the FAIS Act, the PFMA and the Financial Markets Act, 2012 (Act No 19 of 2012)	Achieved
	Reporting quarterly through the IC and the Board on issues relating to investments of the funds under management	Achieved
	Performing annually a compliance review of the PEPSS FIP, which shall evaluate, annually, the adequacy of the terms of reference and recommend any proposed changes to the Board	Achieved
Reporting to the IC	The PEPSS FIP shall report at each Investment Committee meeting on its resolutions and recommendations and the PEPSS FIP minutes shall be made available to the Investment Committee	Achieved

Social and Economic Infrastructure and Environmental Sustainability Fund Investment Panel

The matrix below depicts the SEIES FIP performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Consider and approve policies and Unlisted Investments proposed by management and make recommendations to the IC in line with the DoA framework	Monitoring the investment mandates, policy, strategy and implementation of listed investments managed by the PIC	Achieved
	Investigating and/or researching any activities within the scope of responsibilities set out in the terms and reference	Achieved
Make investment decisions (approvals) for unlisted investments in accordance with approved PPMs	Making investment decisions in line with PIC clients' mandates and the approved DoA for Unlisted Investments	Achieved
	Monitoring performance of the Unlisted Investments quarterly	Achieved
	Overseeing the implementation of the PPMs by receiving PIC management's quarterly reports, including the regulatory requirements under the FAIS Act, the PFMA and the Financial Markets Act, 2012 (Act No 19 of 2012)	Achieved
	Reporting quarterly through the IC and the Board on investments of funds under management	Achieved
	Performing annually a compliance review of the SEIES FIP, which shall evaluate, annually, the adequacy of the terms of reference and recommend any proposed changes to the Board	Achieved
Reporting to the IC	Reporting at each IC meeting on its resolutions and recommendations and making its minutes available to the IC	Achieved

Information, Communication and Technology Governance Committee

The matrix below depicts the ICTGC performance during the financial year.

Key Responsibilities	Matrix	Achieved/ Not Achieved
Governance, risk and compliance	Continuously assessing the effectiveness of IT governance processes	Achieved
	Ensuring the implementation of an IT controls framework on an ongoing basis	Achieved
	Obtaining independent assurance of the effectiveness of the IT controls framework	Achieved
	Ensuring that IT principles, policies, procedures and standards are defined, approved and implemented in line with the delegated authority	Achieved
	Ensuring the implementation of an IT risk management process based on the Board's risk appetite	Achieved
	Ensuring that appropriate processes are followed for the identification, assessment and management of IT risks as part of the enterprise-wide risk management framework	Achieved
	Monitoring the IT risk management plan	Achieved

Key Responsibilities	Matrix	Achieved/ Not Achieved
Governance, risk and compliance	Ensuring compliance with IT laws and related rules, codes and standards	Achieved
	Ensuring the development and implementation of an IT disaster recovery plan	Achieved
	Ensuring the implementation of an information security strategy	Achieved
	Reviewing the terms of reference and their adequacy annually	Achieved
	Recommending to the Board that it approves the terms of reference	Achieved
	Meeting at least twice a year	Achieved
	Disclosing (members) conflicts of interest at each meeting and any personal financial interest	Achieved
Strategy	Implementing a strategic IT planning process that is integrated with the business strategy development process	Achieved
IT investments	Ensuring that IT financial governance (e.g. sign-off levels, budget principles such as depreciation rules) is adhered to within IT	Achieved
	Ensuring that all parties in the value chain, from supply to disposal of IT services and goods, apply good governance principles	Achieved
	Monitoring and enforcing good governance across all suppliers	Achieved
	Measuring and managing IT performance	Achieved
Performance management	Overseeing the portfolio of IT projects and monitoring investment outcomes and realisation of benefits	Achieved

Cross-functional responsibilities

The Board acknowledges the cross-functional responsibilities that exist between the SEC and the ARC. Each committee has developed a framework for monitoring its activities and responsibilities. This is done through sharing of information about matters discussed at each committee meeting.

Company Secretary

Ms Bongani Mathebula was the Company Secretary of the PIC during the year under review, appointed by the Board in terms of the relevant legislative requirements. In addition to her statutory duties, the Company Secretary plays a key role in managing governance, secretariat and key stakeholder relationships affecting the Board. She also provides guidance and advice to the Board and its committees to ensure compliance with legislation, rules and regulations in conducting the affairs of the Board and ensures that all matters associated with its efficient operation are maintained.

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 PIC has lodged with the Registrar of Companies, for the financial year ended 31 March 2018, all such returns and notices as are required of a SOC in terms of the Companies Act, and that all such returns and notices appear to be true, correct and up to date.

Mr Deon Botha
Acting Company Secretary

Executive Committee

The CEO, who is also an Executive Director, is responsible for the day-to-day management of the PIC in line with the Board approved DoA framework and the strategic direction set by the Board. The CEO is assisted by an EXCO, whose function is to assist the CEO to effectively discharge his statutory duties in managing the PIC. The EXCO is governed by all applicable laws as well as approved terms of reference.

During the past financial year, the PIC organogram was restructured and, among other changes, the position of Chief Investment Officer was split into four positions, namely: Executive Heads for Listed Investments, Property Investments, Developmental Investments and Private Equity. This was done to ensure alignment with the technical skills and expertise appropriate to each asset class, as the PIC mandate, when compared to the private sector, comprises five different asset managers. This will also assist with the effective implementation of the investment strategy. This structure also enhances succession and continuity planning and mitigates key-man risks that were previously prevalent.

EXCO has established structured committees in line with the investment strategy to instil a culture of compliance and good governance and to ensure that the PIC's governance processes and affairs are conducted with accountability, transparency, fairness and prudence. This ensures effective implementation of the PIC's mandate, collective robust decision-making and management of the affairs of the PIC. The committees that support the investment strategy of the PIC are Portfolio Management Committee (PMC) Unlisted Investments (for all unlisted and Property Investments), PMC Listed Investments (for all listed investments) and PMC Properties (for all property investments).

Each EXCO Committee operates in accordance with the EXCO approved terms of reference and DoA, which are reviewed annually and approved policies.

EXCO has established structured committees in line with the investment strategy to instil a culture of compliance and good governance and to ensure that the PIC's governance processes and affairs are conducted with accountability, transparency, fairness and prudence

The Executive Committee and its sub-committees' structure are depicted below:

Executive committee profile



Dr Daniel Matjila

Positions
- Chief Executive Officer
- Executive Director

Qualifications
- Doctor of Philosophy (PhD) in Mathematics
- Master of Science in Applied Mathematics
- Post-graduate Diploma in Mathematical Finance
- Bachelor of Science (Honours) in Applied Mathematics
- Advanced Management Programme
- Senior Management Programme

Directorships
- Member of the Board of Ecobank Transnational Incorporated
- Member of the Board of Capital Appreciation
- Member of the Board of Afgri Poultry (Daybreak)
- Member of the Board of SA SME Fund
- Member of the Board of Asteroid Financial Services
- Member of the Board of BVI (Pareto)
- Member of the Board of GEPF Moz

Ms Matshepo More

Positions
- Chief Financial Officer
- Executive Director

Qualifications
- Chartered Accountant (SA)
- Certificate in the Theory of Accounting
- Bachelor of Business Science (Finance)
- Accredited SAICA Assessor

Directorships
- Member of the Board of Pareto Limited
- Member of the Board of BVI (Pareto) Limited
- Member of the Board of CBS Property Management (Pty) Ltd
- Member of the Board of ADR International Airport South Africa
- Member of the Board of Association of Black Accountants of South Africa
- Member of the Board of Industrial Development Corporation South Africa
- Member of the Board of Independent Regulatory Board of Auditors
- Member of the Board of GEPF Moz
- Member of the Board of JordiFlo

Mr Sholto Dolamo

Position
- Executive Head: Research and Projects Development

Qualifications
- Master of Business Administration
- Master of Science (Engineering)
- Bachelor of Science (Chemistry)

Directorships
- Member of the Board of Bauba Platinum
- Member of the Board of Sphere Holdings (Pty) Ltd

Mr Vuyani Hako

Position
- Executive Head: Properties

Qualifications
- Master of Business Management and Administration
- Business Management and Administration (Honours)
- Bachelor of Science in Town and Regional Planning
- Property Development Programme
- Executive Leadership Programme

Directorships
- Member of the Board of V&A Waterfront
- Member of the Board of Gateway Delta

Mr Fidelis Madavo

Position
- Executive Head: Listed Investments

Qualifications
- Master of Social Science in Industrial and Administrative Sciences
- Bachelor of Science (Honours) in Chemical Engineering
- International Executive Development Programme

Directorship
- Member of the Board of Dangote Cement PLC, Nigeria

Mr Mervin Muller

Position
- Executive Head: Private Equity and Structured Investment Products

Qualifications
- Chartered Accountant (SA)
- LLB Degree
- Bachelor of Accounting Sciences (Honours)
- Certificate in the Theory of Accounting
- Accredited SAICA Assessor

Directorships
- Member of the Board of Afgri Limited
- Member of the Board of Bayport Management Limited
- Member of the Board of Libstar Consumer Holdings (Pty) Ltd
- Member of the Board of Menlyn Maine Investment Holdings (Pty) Ltd

Mr Chris Pholwane

Position

- Executive Head: Human Resources

Qualifications

- Bachelor of Administration
- Secondary Teachers Diploma
- International Executive Development Programme
- Certified Talent Economist

Mr Roy Rajdhar

Position

- Executive Head: Developmental Investments

Qualifications

- Chartered Accountant (SA)
- Bachelor of Accounting Sciences
- Post-graduate Diploma in Accounting (CTA)
- Higher Diploma in Tax Law
- Certificate in Advanced Company Law

Directorships

- Member of the Board of SA Homeloans (Pty) Ltd
- Member of the Board of S&S Refineries De Oloeos LDA (Mozambique)
- Member of the Board of Just Veggies (Proprietary) Limited

Ms Rubeena Solomon

Position

- Executive Head: Investment Management

Qualifications

- Master of Business Administration
- Bachelor Of Commerce (Honours)
- Bachelor Of Commerce
- Certificate in Corporate Governance
- Higher Certificate in Islamic Banking and Finance Law

Directorships

- Member of the Board of AfriOil
- Member of the Board of Trust for Urban Housing Fund (TUHF)

** The services of Mr P Magula were terminated due to disciplinary outcome of dismissal on 19 April 2018 and Mr E Nesane resigned on 13 July 2018.

*** The services of Ms V Menye were terminated through a mutual agreement on 11 April 2018.

Report of the Audit and Risk Committee

The Audit and Risk Committee (ARC) is pleased to present its report for the financial year ended 31 March 2018 in terms of the requirements of Public Finance Management Act 1 of 1999 (PFMA), the Companies Act 71 of 2008 and in accordance with the King Code on Corporate Governance (King IV).

The ARC operates in terms of Board-approved terms of reference, which sets out both its statutory and Board-delegated duties.

Role and Responsibilities

The ARC is mandated in terms of its approved terms of reference to perform, among others, the following duties:

- Promote and report on the overall effectiveness of the company's internal controls;
- Oversee the mandates of, and ensure coordination between the activities of the internal and external audit;
- Satisfy the Board that material financial and other risks have been identified and are being effectively managed and monitored;
- Assess the impact of the general control environment on the statutory audit, and report any areas of perceived control weaknesses;
- Review legal and regulatory matters that could have a significant impact on the company's financial statements;
- Monitor the integrity of the company's integrated reporting processes;
- Annually review the expertise, appropriateness and experience of the finance function and the Chief Financial Officer;
- Annually review the committee's terms of reference and make recommendations to the Board to ensure its continued effectiveness;
- Monitor compliance with the PIC's code of conduct and consider any significant breaches of the code; review the code from time to time and advise on any amendments; and
- Review systems, including the whistleblower programme, that enables employees and other stakeholders to raise concerns about possible improprieties, including fraud.

Composition

The PIC ARC comprises five independent Non-Executive Directors, all of whom are members of the Board. The ARC has an appropriate mix of relevant knowledge and experience in terms of Regulation 42 of the Companies Act. Members' names and qualifications are detailed in the Board of Directors section of the integrated annual report on pages 211 to 214.

Attendees at Committee Meetings

In additions to the committee members, the Chief Executive Officer; Chief Financial Officer; Executive Head: Risk; Executive Head: Information Technology; Executive Head: Legal Counsel, Governance and Compliance; Head: Internal Audit; the Company Secretary; and external auditors attend meetings of the committee by invitation.

The Chairman of the committee, periodically, meets separately with management, and internal and external auditors prior to committee meetings. The committee meets separately with internal and external auditors at least once a year.

Frequency and Attendance of Committee Members

The terms of reference provide for the ARC to hold a minimum of four meetings per year and the details of the attendance to these meetings by the committee members are provided on page 222 of the integrated annual report.

Discharge of Duties for the Year under Review

Financial Statement, Accounting Practices and Going-Concern Assessment

The committee underwent training on the amendment and changes to International Financial Reporting Standards (IFRS) and the implications thereof for the PIC prior to recommending the annual financial statements (AFS) to the Board and satisfied itself that reporting and the PIC's accounting policies were aligned thereto.

The committee reviewed the accounting policies and the AFS of the company for the year ended 31 March 2018 and ensured that these were compliant with the provisions of the PFMA, the Companies Act, IFRS and best practice. The committee also reviewed the processes in place for dealing with concerns or complaints about accounting policies, internal audit, the auditing or content of the AFS and internal financial controls. The committee can hereby confirm that there were no complaints of substance during the year under review.

The ARC concurs with management concerning the appropriateness of adopting the AFS on a going-concern basis. The committee, at its meeting held on 25 May 2018, recommended the adoption of the AFS by the Board in terms of Section 30(3) of the Companies Act and Section 55 of the PFMA.

External Auditors

The PIC is a Schedule 3B PFMA entity and as such, the ARC is not involved in appointing external auditors. The PIC is audited by the Auditor-General in terms of the PFMA and the Public Audit Act 25 of 2004.

In terms of Section 94(7) (b) of the Companies Act, the committee approved the audit fees pertaining to the audit of the financial statements for the period ended 31 March 2018. The committee further approved the engagement letter setting out the terms of the audit, taking into account the resources allocated and the timelines within which the process needs to be completed.

Internal Audit

The ARC reviewed the effectiveness of the internal audit function, taking into account responsibilities and resourcing. The ARC approved the internal audit charter and the internal audit plan. Continuous monitoring was performed on adherence to the charter and plan.

Both the internal and external auditors have unrestricted access to the ARC and the ARC Chairman, ensuring that auditors are able to maintain their independence.

Internal Controls

The ARC reviewed the reports of both the internal and external auditors on audits conducted on the internal control environment.

The ARC also took note of any concerns arising from these audits and considered the appropriateness of management responses. Based on the extent of the audit work carried out by both the internal and external auditors, nothing was brought to the ARC's attention that would suggest a material breakdown of any internal control system. The ARC was, therefore, satisfied that the internal financial control environment continued to function effectively.

The improvements, which were proposed during the 2016/17 Independent Internal Audit Assessment, were implemented in the year under review. The Committee is satisfied that the Internal Audit function is discharged in terms of prevailing internal audit standards.

Combined Assurance and Risk Management Oversight

The ARC assisted the Board with the discharge of its duties on the integrated risk management process, as the committee has, as an integral component of its responsibilities, risk management, because of its oversight responsibility for the oversight of internal controls. The committee satisfied itself that the level of unmitigated risks, both individually and in totality, is within the risk appetite of the company and that there is sufficient assurance provided to manage risks and the control environment through both internal and external assurance providers.

As part of its combined assurance, the PIC adopts the three-lines of defence model, which comprises business, as the first line of defence, risk management as the second line of defence and internal audit as the third line of defence. In addition to this, the Board, regulators and external auditors carry out oversight. Throughout the period, these three lines regularly report to the ARC on risk and risk mitigation. Annually, the Board engages with management to understand and articulate the PIC's risk universe through a risk workshop.

The Board was unable to hold a formal risk workshop with management during the period under review. However, periodic reporting of risk, through business unit and the corporate-level risk registers, were tabled to the ARC and relevant committees for the oversight of risk and risk management. The periodic reviews consist of assessing the risk environment at the date of reporting, as well as comparing the trends in risk levels against those of prior reporting periods. These are also complemented by the internal audit review process to provide the ARC with satisfactory assurance on the effectiveness of the control environment and the extent to which risk management is embedded within the company.

Annual Integrated Reporting

The ARC, in conjunction with SEC, evaluated the integrated annual report for the year under review and assessed its consistency with operational and other information known to the committee. The report conforms to the prevailing governance standards.

Solvency and Liquidity Review

The ARC is satisfied that the Board has adequately performed solvency and liquidity tests on the company in terms of Section 4 of the Companies Act prior and has concluded that the company will satisfy the test after payment of the dividend in line with Section 46 of the Companies Act.

Finance Director and Finance Function

The Committee reviewed the performance of the Chief Financial Officer, Ms M More, and was satisfied that she has the necessary expertise and experience to fulfil the role and that she had performed appropriately during the year under review. Further, the committee considered, and has satisfied itself of the appropriateness of, the expertise and experience of the finance function and the adequacy of resources employed in this function.

Legal and Regulatory Matters

Updates on legal matters are provided to the ARC at each meeting. The committee considers the implications of these matters on fair presentation of the PIC's financial statements.

Business Integrity and Ethics

The ARC has oversight of the company's ethics function in support of SEC, including adherence to the company's code of ethics and other procedures established by the company for ethical behaviour, avoidance of conflicts of interest and related matters.

The committee had oversight of the Policy on Fraud Prevention, detection and investigation. All reported fraud incidents reported through independently managed Hotline were brought to the Committee's attention during the 2017/18 financial year and these were addressed in terms of Policy and prevailing legislation.

Ms Tantaswa Fubu
Chairperson: Audit and Risk Committee

PART FIVE

ACCOUNTABILITY

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Public Investment Corporation SOC Limited (PIC) set out on pages 258 to 303, which comprise statement of financial position as at 31 March 2018, 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 to financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the PIC as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No.71 of 2008) (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the PIC in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Bophelo Insurance Group (BIG)

7. As disclosed in note 21 to the financial statements, impairment loss of R82 296 000 was incurred as a result of a revaluation of the investment in BIG to a net realisable value of Rnil.

Other matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedule

9. The supplementary information set out on pages 186 to 187 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on them.

Responsibilities of accounting authority for the financial statements

10. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS and the requirements of the PFMA and Companies Act, 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.
11. In preparing the financial statements, the accounting authority is responsible for assessing the PIC's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the PIC or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

12. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud

or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the PIC. I have not evaluated the completeness and appropriateness of the performance measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the PIC for the year ended 31 March 2018:

Objectives	Pages in annual performance report	Opinion	Mov.
Objective 1 - grow revenue and control costs to run a financially sustainable investment management operation	16 – 17	Unqualified	•›
Objective 4 - generate excess returns over benchmark	16 – 19	Unqualified	•›
Objective 5 - contribute towards the growth and transformation of the economy through developmental investments, private equity investments and special investment products and unlisted property investments	18 – 19	Unqualified	•›
Objective 6 - facilitate African regional integration through investments in the rest of the African continent	18 – 19	Unqualified	•›
Objective 7 - facilitate broad-based economic empowerment and skills development through investment activities	20 – 23	Unqualified	•›

17. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- **Objective 1** - grow revenue and control costs to run a financially sustainable investment management operation
- **Objective 4** - generate excess returns over benchmark
- **Objective 5** - contribute towards the growth and transformation of the economy through developmental investments, private equity investments and special investment products and unlisted property investments
- **Objective 6** - facilitate African regional integration through investments in the rest of the African continent
- **Objective 7** - facilitate broad-based economic empowerment and skills development through investment activities

Other matter

19. I draw attention to the matter below.

Achievement of planned targets

20. Refer to the annual performance report on page(s) 16 to 23 for information on the achievement of planned targets for the year and explanations provided for the over-achievement of a significant number of targets.

Report on the audit of compliance with legislation

Introduction and scope

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the PIC with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
22. I did not identify any instances of material non-compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

Other information

23. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
24. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
25. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

26. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Other reports

27. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the PIC's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Limited Assurance Engagement

28. At the request of the PIC, a limited assurance engagement was conducted on review of the Financial Advisory and Intermediary Services Act. The report covered the period 1 April 2017 to 31 March 2018 and will be issued on 31 July 2018.

Other engagement

29. An engagement was conducted in terms of ISAE 3402 in terms of the asset under management (AuM) by private auditing firm. The report was only finalised after financial year end and the report was communicated to management accordingly.

Auditor - General

Pretoria
31 July 2018

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit 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 public entity's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the public entity and its subsidiary's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

Accounting Officer's Statement of Responsibility for Annual Financial Statements

The statement of responsibility for the Annual Financial Statements for the year ended 31 March 2018 of the Chief Executive Officer who constitutes the Accounting Officer.

Integrated Report for the 2018 Financial Year-End

I hereby acknowledge that the Integrated Report of the Public Investment Corporation SOC Limited (the Company) has been submitted to the Auditor General of South Africa (AGSA) for auditing in terms section 55(1)(c) of the Public Finance Management Act (PFMA).

I acknowledge my responsibility together with my team, for the accuracy of the accounting records, preparation and the fair presentation of the financial statements and confirm that of, to the best of my knowledge the following:

Annual Financial Statements

The Board of Directors who constitute the Accounting Authority are responsible for the preparation of, fair presentation, and for the judgement made in the Company's Annual Financial Statements.

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts and information appearing in the Integrated Report are consistent with the Annual Financial Statements submitted to the auditors for audit purposes.

Performance information

The performance information fairly reflects the operations and actual output against planned targets for performance indicators as per the Corporate Plan of the Company for the financial year ended 31 March 2018 and has been reported on in accordance with the requirements of the guidelines on annual reports as issued by the National Treasury. A system of internal control has been designed to provide reasonable assurance as to the integrity and reliability of performance information.

The external auditors

The external auditors are engaged to express an independent audit opinion on the Annual Financial Statements of the Company. There were no scope limitations placed on the auditors and they had unrestricted access to persons within the Company from whom to obtain the necessary audit evidence in order to express an audit opinion.

The Annual Financial Statements of the Company set out on pages 258 to 303 have been approved by the Board of Directors.

Dr Matjila, Daniel
Chief Executive Officer

Responsibilities of our Board of Directors

The Board of Directors is required in terms of the Companies Act and the PFMA to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the Board's responsibility to ensure that the Annual Financial Statements fairly present the state of affairs of the Public Investment Corporation SOC Ltd (the Company) financial position as at 31 March 2018 and the profit or loss and cash flows of the Company for the financial year ended 31 March 2018.

In preparing and in ensuring that these Annual Financial Statements are fairly presented, the Directors are required to:

- Consistently apply accounting policies as defined in the Annual Financial Statements;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Ensure that the Annual Financial Statements are prepared on a going concern basis unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

The Audit and Risk Committee (ARC) has reviewed the Company Annual Financial Statements and has recommended their approval to the Board of Directors. In preparing the Company Annual Financial Statements, the Company has complied with IFRS and the Companies Act. In addition, the Company has complied with the reporting requirements of the PFMA.

The Company used appropriate accounting policies supported by reasonable and prudent judgements and estimates. Judgements and estimates that are made in accordance with IFRS, which have a significant impact on the Annual Financial Statements, are disclosed in the notes to the Annual Financial Statements.

The Board of Directors has every reason to believe that the Company has adequate resources and facilities in place to be able to continue in operation for the foreseeable future. Therefore, the Board of Directors is satisfied that the Company is a going concern and has continued to adopt the going concern basis in preparing the Annual Financial Statements.

The internal audit activities are in accordance with the pre-approved internal audit plan. The internal audit plan is reviewed and approved by the ARC annually. The Company's Internal Audit department has executed the internal audit plan during the year and has provided assurance to the Board of Directors as to the state of the internal controls of the Company. Their assessment of the internal controls of the Company is included in the ARC report. The ARC has reviewed the effectiveness of the Company's internal controls and considers the systems appropriate for the effective operation of the Company.

The external auditor, the AGSA, is responsible for independently auditing and reporting on the Annual Financial Statements in conformity with International Standards on Auditing (ISAs). Their unmodified audit report on the Annual Financial Statements, prepared in terms of the ISA, appears on pages 248 to 251.

The Board of Directors is of the opinion that the Company complied with applicable laws and regulations. The Board of Directors is of the opinion that these Annual Financial Statements fairly represent the financial position of the Company as at 31 March 2018 and the results of its operations and cash flow information for the year then ended.

Gungubele, Mondli
Chairman

Company Secretary's certificate

Declaration of Acting Company Secretary for the year ended 31 March 2018.

In my capacity as Company Secretary, I hereby confirm, to the best of my knowledge and belief, that in terms of Section 88(2)(e) of the Companies Act, 2008 (Act 71 of 2008) of South Africa, for the year ended 31 March 2018, the Public Investment Corporation SOC Limited (the Company) has lodged with the Registrar of Companies, all such returns as are required in terms of this Act and that all such returns are true, correct and up to date.

Mr Botha, Deon
Acting Company Secretary

Report from our Board of Directors

The Board of Directors is pleased to present the Annual Financial Statements of the Public Investment Corporation SOC Limited for the financial year ended 31 March 2018.

1. Nature of business

The Public Investment Corporation SOC Limited (the Company) 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, but also invests offshore and within the rest of the African continent.

The Company's Annual Financial Statements for the financial year ended 31 March 2018, were authorised for issue in accordance with a resolution passed by the Board of Directors on 27 July 2018.

There have been no material changes to the nature of the Company's business from the prior financial year.

2. Financial Results

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

In the current financial year, the net operating profit decreased when compared to the previous financial year. This was mainly due to costs increasing at a higher rate than revenue, and the impairment recognised in the current financial year.

Full details of the financial position, comprehensive income and cash flows of the company are set out in these Annual Financial Statements on pages 258 to 303.

3. Equity Reserves

There have been no changes to the authorised or issued share capital during the financial year under review. There were no shares held in reserve. In the current financial year, there were earnings which were transferred to Non-Distributable Reserves (Refer to note 16).

4. Dividends

The Company's dividend policy is to consider an interim and a final dividend in respect of each financial year. At its discretion, the Board of Directors may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for operating purposes, the Board of Directors may pass on the payment of dividends.

R60 million was declared and paid in the current financial year. The Board of Directors declared a final dividend of R80 million, which will be paid during the 2018/19 financial year.

5. Directorate

The composition and profiles of the Board of Directors for the Company are set out on page 211 to 214 of the Integrated Report. The information of the Board of Directors and Board committees, its activities, meetings, attendance and any other information, is set out in the Corporate Governance Statement on page 210 to 238. Details of the Directors' remuneration are set out in note 29 and disclosure of remuneration information on page 186.

Appointments

Dr Xolani Mkhwanazi and Ms Mathukana Mokoka were appointed on 1 August 2017.

Re-appointments

Ms Dudu Hlatshwayo, Ms Sibusisiwe Zulu and Dr Trueman Goba were re-appointed on 1 August 2017.

Resignations

Mr Sfiso Buthelezi resigned on 26 February 2018.

6. Associates

The Company has a 46% (2017: 46%) shareholding in Harith Fund Managers (Pty) Limited, 30% (2017: 30%) shareholding in Harith General Partners (Pty) Limited, 30% (2017: 30%) in

Bophelo Insurance Group (BIG) and 7% in the SA SME Fund Limited (SA SME). Harith Fund Managers (Pty) Limited and Harith General Partners (Pty) Limited both have a financial year-end consistent with that of the Company. BIG and SA SME have a February financial year-end.

Harith Fund Managers (Pty) Limited's nature of business is the management of the funds of the Pan African Infrastructure Development Fund (PAIDF). Harith Fund Managers (Pty) Limited is also responsible, on behalf of the PAIDF, for the provision of specified administrative services relating to the operations of the PAIDF. Harith Fund Managers (Pty) Limited assists the Company in carrying out its mandate as it relates to infrastructure both in South Africa and the rest of the continent.

Harith General Partners (Pty) Limited is a company established in South Africa, specialising in investments in infrastructure projects in energy, transport, rail, port and airports, information and communication technology, water and sanitation, energy and many others mainly on the African continent. Harith General Partners (Pty) Limited provides fund management and advisory services to the PAIDF.

Bophelo Life is a wholly owned subsidiary of BIG and is an authorised financial services provider as prescribed by the FAIS Act, and a registered life insurer in terms of the Long-Term Insurance Act, No 52 of 1998. BIG holds two subsidiaries in the life and short-term insurance sector, namely Bophelo Life Insurance Limited (Bophelo Life) and Nzalo Insurance Service Limited (NIS). NIS is a short-term insurer licensed by the FSCA to underwrite all classes of business as defined in the Short-Term Insurance Act of 1998. Refer to note 5.

The details of all the transactions into which the Company has entered with the associates are disclosed in note 5 of the Annual Financial Statements.

Enterprise Development Investments

The Company invested R10 million for 7% shareholding in the SA SME Fund Limited with effect from 20 November 2017.

The SA SME Fund was established as part of the CEO Initiative in conjunction with National Treasury and Corporate South Africa. The Company's objective is to equity invest in high-potential entrepreneurial enterprises in the small and medium enterprises (SME) Sector and to build a high quality mentorship cohort to provide business and other forms of support to SMEs and entrepreneurs funded by the Company.

7. Related-party transactions

Details of related-party transactions are disclosed in note 28 of the Annual Financial Statements.

8. Internal Financial Controls

During the year under review, the Board of Directors, through the ARC, assessed the results of the formal documented review of the Company's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by Internal Audit, and considered the 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 of Directors that has caused it to believe that the Company's system of internal controls do not form a sound basis for the preparation of reliable financial statements.

According to Treasury Regulations, (paragraph 28), and the PFMA (section 55), the Annual Financial Statements must include a report by the Accounting Authority, who must include the disclosure of remuneration of all members of the Accounting Authority, who are the Company's Non-Executive and Executive Directors and the Senior Management. As per the Companies Act No. 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. The details of the disclosure are included in the disclosure of remuneration on pages 186 to 187.

9. Corporate Governance

On 1 April 2017, King IV became effective and the Company has adopted the report effectively.

10. Special resolutions

There was one special resolution: Amendment to the Company's memorandum of incorporation dated 19 April 2017.

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

11. Subsequent Events

The Board of Directors is not aware of any material event that occurred after the reporting date and up to the date of this report.

12. Going-Concern

The Board of Directors have reviewed the financial budgets with their underlying business plans for the period up to 31 March 2019. When assessing the Company's ability to continue as a going-concern, both quantitative and qualitative factors were taken into account. The two critical quantitative factors were liquidity and solvency requirements. Qualitative factors that may cast significant doubt about the going-concern assumption, such as financial trends, external and internal matters, were assessed.

On the basis of the review performed and in light of the current financial position, the Board of Directors is satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. The Board of Directors, therefore, considers it appropriate that the Annual Financial Statements be prepared on a going-concern basis.

13. Judicial Proceedings

The Company is not party to a litigation either as a plaintiff or defendant at the time of finalising the Annual Financial Statements. The Company does not have any contingent liabilities relating to litigations.

14. Auditors

The AGSA is the registered auditor of the Company. The auditors of Harith Fund Managers (Pty) Limited and Harith General Partners (Pty) Limited is BDO Inc. The auditor of BIG is Ernst and Young. The auditor of SA SME Fund Limited is Deloitte and Touche.

The AGSA was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. The Board of Directors believes that all representations made to the external auditors during their audit are valid and appropriate.

15. 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. The Company's oversight department is the National Treasury.

The Annual Financial Statements set out on pages 258 to 303, which have been prepared on the going-concern basis, were approved by the Board of Directors on 27 July 2018, and were signed on its behalf by:

Gungubele, Mondli
Chairman

Statement of Financial Position

at 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	95,814	68,070
Intangible assets	4	2,999	1,061
Investments in associates	5	106,683	101,729
Deferred tax assets	8	87,919	98,464
Financial assets at amortised cost	6	-	53,100
		293,415	**322,424**
CURRENT ASSETS			
Trade and other receivables	11	95,574	79,493
Financial assets at fair value through profit or loss	6	1,668,850	1,457,564
Current tax receivable	17	12,291	9,414
Other financial assets	10	574,969	393,633
Cash and cash equivalents	12	299,824	403,189
		2,651,508	**2,343,293**
TOTAL ASSETS		**2,944,923**	**2,665,717**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	1	1
Non-distributable and other reserves	16	680,797	553,675
Retained income		1,890,414	1,666,267
		2,571,212	**2,219,943**
LIABILITIES			
NON-CURRENT LIABILITIES			
Operating lease liabilities	9	15,682	1,233
Provisions	15	116,623	131,306
		132,305	**132,539**
CURRENT LIABILITIES			
Trade and other payables	18	26,077	104,192
Operating lease liabilities	9	1,249	744
Provisions	15	214,080	208,299
		241,406	**313,235**
TOTAL LIABILITIES		**373,711**	**445,774**
TOTAL EQUITY AND LIABILITIES		**2,944,923**	**2,665,717**

Statement of Comprehensive Income

for the year ended 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017
Revenue	19	1,224,467	1,112,864
Other operating income	20	8,768	9,547
Unrealised gain or (loss)		42,420	(5,033)
Impairment of assets at amortised cost	21	(59,088)	-
Impairment of associate	21	(23,208)	-
Other operating expenses		(805,447)	(606,852)
OPERATING PROFIT	21	**387,912**	**510,526**
Investment income	22	182,659	160,643
Finance costs	23	(4)	(6)
Share of profit/(loss) of associates	5	24,034	48,680
PROFIT BEFORE TAXATION		**594,601**	**719,843**
Taxation	24	(177,460)	(187,382)
PROFIT FOR THE YEAR		**417,141**	**532,461**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:			
Share of comprehensive income of associates	16	(5,872)	546
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAXATION		(5,872)	546
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**411,269**	**533,007**

Statement of changes in Equity

for the year ended 31 March 2018

Figures in Rand thousand	Share capital	Foreign currency translation reserve	Non-distributable reserves	Total reserves	Retained income	Total equity
BALANCE AT 1 APRIL 2016	**1**	**7,163**	**390,187**	**397,350**	**1,309,585**	**1,706,936**
Profit for the year	-	-	-	-	532,461	532,461
Other comprehensive income	-	546	-	546	-	546
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**-**	**546**	**-**	**546**	**532,461**	**533,007**
Transfer between reserves	-	-	155,779	155,779	(155,779)	-
Dividends	-	-	-	-	(20,000)	(20,000)
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS OF COMPANY RECOGNISED DIRECTLY IN EQUITY	-	-	**155,779**	**155,779**	**(175,779)**	**(20,000)**
BALANCE AT 1 APRIL 2017	**1**	**7,709**	**545,966**	**553,675**	**1,666,267**	**2,219,943**
Profit for the year	-	-	-	-	417,141	417,141
Other comprehensive income:	-	(5,872)	-	(5,872)	-	(5,872)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	**(5,872)**	**-**	**(5,872)**	**417,141**	**411,269**
Transfer between reserves	-	-	132,994	132,994	(132,994)	-
Dividends to shareholder	-	-	-	-	(60,000)	(60,000)
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS OF COMPANY RECOGNISED DIRECTLY IN EQUITY	-	-	**132,994**	**132,994**	**(192,994)**	**(60,000)**
BALANCE AT 31 MARCH 2018	1	**1,837**	**678,960**	**680,797**	**1,890,414**	**2,571,212**
Note(s)	13					

Statement of Cash Flows
for the year ended 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	25	416,045	596,394
Interest income		115,100	120,697
Dividends paid to shareholder		(60,000)	(20,000)
Finance costs		(4)	(6)
Tax paid	26	(169,792)	(210,027)
NET CASH FROM OPERATING ACTIVITIES		**301,349**	**487,058**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(101,466)	(6,405)
Purchase of intangible assets	4	(2,679)	-
Other financial assets additions		(846,020)	(613,664)
Other financial assets disposals		671,868	630,000
Financial asset at fair value through profit and loss additions		(251,821)	(829,232)
Financial asset at fair value through profit and loss disposals		107,347	169,194
Investment in associates		(10,000)	-
Investment in preference shares		-	(50,000)
Dividend received from listed investments		26,175	10,717
Preference dividends received from associate		1,882	-
NET CASH FROM INVESTING ACTIVITIES		**(404,714)**	**(689,390)**
TOTAL CASH MOVEMENT FOR THE YEAR		**(103,365)**	**(202,332)**
Cash at the beginning of the year		403,189	605,521
TOTAL CASH AT END OF THE YEAR	12	**299,824**	**403,189**

Accounting Policies

for the year ended 31 March 2018

1. Basis of Preparation

The Public Investment Corporation SOC Limited's Annual Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), and comply with the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee's (APC) financial pronouncements as issued by the Financial Reporting Standards Council, the PFMA and the requirements of the Companies Act.

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

Information about significant areas of estimates, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Annual Financial Statements, have been disclosed.

An analysis of IFRS compliance has been performed and disclosed as part of note 34. Significant new standards and interpretations issued and not yet effective are disclosed under general information, paragraph 2.1.

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 and other receivables

The Company determines impairment of trade and other 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 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.

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

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 assets

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 R88 million (2017: R98 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. 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 on the current and deferred tax in the period in which such determination is made.

Estimates of useful lives of property, plant and equipment

Property, plant and equipment 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 or acquisitions 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 and physical wear and tear.

Intangible assets, software and other intangible assets

The Company's intangible assets with finite useful lives make 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 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.

Long-term employee benefits

Long-term employee benefits obligations are measured on a discounted basis when the effect of the time value of money is material, and are expensed when the service that gives rise to the obligation is rendered. Where the effect is not material, the obligation is measured on an undiscounted basis. The changes in the carrying value shall be recognised in profit or loss.

1.2 Property, plant and equipment

Property, plant and equipment are defined as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. The cost of an item of property, plant and equipment is recognised only 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.

Items of property, plant and equipment are initially recognised at cost if it is probable that future economic benefits associated with the items will flow to the Company and they have a cost that can be measured reliably.

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Subsequent costs are included in the assets' carrying amount only when it is probable that future economic benefits associated with the line item will flow to the Company and the cost of the item can be reliably measured.

	Average
Furniture and fixtures	5 – 10 years
Motor vehicles	5 – 8 years
Office equipment	5 – 8 years
IT equipment	3 – 5 years
Leasehold improvements	2 – 10 years or lease term

The assets' residual value and useful lives are reviewed, and adjusted, if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

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

All gains or losses arising on the disposal or scrapping of property, plant 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 Intangible assets

Intangible assets are defined as identifiable, non-monetary assets without physical substance. No intangible asset is recognised when 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.

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.
- 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.
- 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 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 every financial year. 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
Computer software	3 – 5 years
Other intangible assets	5 – 8 years

1.4 Basis of Consolidation

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at fair value as available-for-sale financial assets.

The Company considers whether it has control over another entity if all the following requirements are met:

- Power over the relevant activities of the investee;
- Exposure to, or rights to, variable returns from its involvement with the investee; and
- The ability to affect those returns through its power over the investee.

The assessment of controls is based on the consideration of all facts and circumstances. The Company performs an assessment to determine whether it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control.

1.5 Investments in associates

An associate is an entity over which the Company has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the entity. This is generally demonstrated by the Company holding in excess of 20%, but no more than 50%, of the voting rights. The existence of significant influence by the Company is usually evidenced in one or more of the following:

- representation on the board of directors or equivalent governing body of the investee;
- participation in the policy-making process, including participation in decisions about dividends or other distributions;
- material transactions between the entity and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

On initial recognition, the investment in associates is recognised at cost and the carrying amount is equity accounted. The Company's share of post-acquisition profit or loss and post acquisition movements in other comprehensive income is recognised in the Statement of Comprehensive Income and Other Comprehensive Income (OCI), respectively. The Company applies the equity method of accounting from the date significant influence commences until the date significant influence ceases (or the associate is classified as held for sale), i.e. when the Company's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil, inclusive of any long-term debt outstanding. The recognition of further losses is discontinued, except to the extent that the Company has incurred legal or constructive obligations, or guaranteed obligations, in respect of the associate. If the associates report profits, the Company resumes recognising its share of those profits only after its share of the profit equals the share of losses not recognised.

When the Company transacts with an associate, unrealised profits and losses are eliminated to the extent that there is no evidence of impairment. When the Company transacts with an associate, any instrument that contains potential voting rights is accounted for in accordance with IAS 39. Then, in the event the instrument is classified as held for sale, it is accounted for in accordance with IFRS 5.

In applying the equity method, the Company should use the financial statements of the associate as of the same date as the financial statements of the Company unless it is impracticable to do so. If it is impracticable, the most recent available financial statements of the associate or joint venture should be used, with adjustments made for the effects of any significant transactions or events occurring between the end of the two accounting periods. However, the difference between the reporting date of the associate and that of the investor cannot be longer than three months.

At each reporting date, the Company determines whether there is objective evidence that the investments in associates are impaired. Objective evidence of impairment for an associate investment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the associate investment may not be recovered. A significant or prolonged decline in the fair value of an associate investment below its cost is also considered objective evidence of impairment. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology.

The 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 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.

1.6 Financial instruments

Initial recognition and measurement

Financial assets

Financial instruments, as recognised in the Statement of Financial Position, include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, associate companies and joint arrangements and employee benefit plans and leases. Financial instruments are accounted for under

IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair value Measurement.

Initial recognition and measurement

Financial instruments are recognised in the Statement of Financial Position when the Company becomes a party to the contractual provisions of a financial instrument. Financial instruments that are categorised and designated at initial recognition as being at fair value through profit or loss are recognised at fair value. Transaction costs, which are directly attributable to the acquisition or on issue of these financial instruments, are recognised immediately in profit and loss.

Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Categories of financial instrument

Subsequent to initial recognition, financial instruments are measured at fair value or amortised cost, depending on their classification and whether fair value can be measured reliably:

Financial instruments at fair value through profit and loss

Financial instruments at fair value through profit or loss consist of instruments that are held for trading and instruments that the Company has designated, at the initial recognition date, as at fair value through profit or loss.

The Company classifies instruments as held for trading if they have been acquired or incurred principally for the purpose of sale or repurchase in the near term, if they are part of a portfolio of identified financial instruments for which there is evidence of a recent actual pattern of short-term profit taking or if they are derivatives.

Financial instruments that the Company has elected, at the initial recognition date, to designate as fair value through profit or loss are those that meet any one of the following conditions:

- The designation of fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on assets and liabilities on different bases;
- The instrument forms part of a group of financial instruments that is managed and its performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to key management personnel, using a fair value basis; or
- A contract contains one or more embedded derivatives that require separation from the host contract.

Gains or losses on financial instruments at fair value through profit or loss (excluding interest income and interest expense calculated on the amortised cost basis relating to interest-bearing instruments that have been designated as at fair value through profit or loss) are reported in fair value through profit and loss in the period in which they arise. Interest income and interest expense calculated in accordance with the effective interest rate method are reported in interest income and expense, except for interest income and interest expense on instruments held for trading, which are recognised in non-interest revenue.

Non-trading financial liabilities

All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortised cost.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables or those that were designated at fair value through profit or loss or available for sale. Held-to-maturity financial assets are measured at amortised cost, with interest income recognised in interest and similar income.

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 financial assets classified by the Company on initial recognition at fair value through profit or loss, available for sale or loans and receivables that are held for trading. Financial assets that are classified as loans and receivables are carried at amortised cost, with interest income recognised in interest and similar income. Gains or losses arising on disposal are recognised in non-interest revenue.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that the Company has designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets as at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value, with fair value gains or losses recognised in other comprehensive income, unless the asset has been designated as a hedged item in a fair-value hedging relationship, subject to hedge accounting. In a fair-value hedging relationship, the portion of the fair value gain or loss of the asset attributable to the hedged risk is recorded in profit and loss to offset changes in the fair value of the hedging instrument. Any other changes in the fair value of the asset attributable to aspects other than the hedged risk is recognised in other comprehensive income. Foreign currency translation gains or losses on monetary items, impairment losses and interest income calculated using the effective interest rate method, are reported in profit or loss.

Trade and other payables

Trade payables are initially measured at fair value.

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. Carrying values of cash and cash equivalents are considered a reasonable approximation of their fair values.

Measurement basis of financial instruments

Amortised cost

The amortised cost of a financial instrument is the amount at which the financial instrument is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial contractual amount and the maturity amount, less any cumulative impairment losses.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income and expense over the relevant period. It is a rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial instrument. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument, however, future credit losses are not considered. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, i.e transaction costs, and all other premiums or discounts.

Fair value

The fair value of a financial instrument is the amount that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of instruments that are quoted in an active market is determined using quoted prices where they represent those at which regularly occurring transactions take place. The Company uses valuation techniques to establish the fair value of instruments, where quoted prices in active markets are not available.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has (or events have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the group about the following loss events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in respect of interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a

group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including: adverse changes in the payment status of borrowers in the Company; or national or local economic conditions that correlate with defaults on the assets in the Company.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. 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 or loss.

The Company first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that there is no objective evidence of impairment for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal may not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date on which the impairment is reversed. The amount of the reversal is recognised in profit or loss for the period.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity, in the Statement of Comprehensive Income, and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity, in the Statement of Comprehensive Income, is removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss for the period.

Derecognition

The Company derecognises a financial asset when, and only when:

- The contractual rights to the cash flows arising from the financial asset have expired; or
- It transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retaining control of the asset.

A financial liability (or part of a financial liability) 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. The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non cash assets transferred or liabilities assumed, is recognised in non-interest revenue for the period.

Offsetting financial instruments and related income

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when the Company has a legally enforceable right to set off the financial asset and financial liability and the Company has an intention of settling the asset and liability on a net basis or realising the asset and settling 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.

1.7 Tax

Current tax assets and liabilities

Current taxation is the expected tax payable on the taxable income for the year, using taxation rates enacted or substantively enacted at the reporting date, and any adjustment to taxation payable in respect of previous years (prior period tax paid).

Deferred tax assets and liabilities

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective taxation bases. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is measured at the taxation rates (enacted or substantively enacted at the reporting date) that are expected to be applied to the temporary differences when they reverse.

Deferred tax is recognised in profit or loss for the period, except to the extent that it relates to a transaction that is recognised directly in equity or in other comprehensive income, or a business combination that is accounted for as an acquisition. The effect on deferred tax of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax liabilities are recognised for all taxable temporary differences, and deferred taxation assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

Deferred tax is not recognised for the following temporary differences:

- The initial recognition of goodwill;
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit; and
- Differences relating to investments in subsidiaries, associates and jointly controlled entities to the extent that the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxation entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- A transaction or event which is recognised, in the same or a different period, to other comprehensive income or
- A business combination.

Current and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.8 Leases

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

Finance leases – lessee

Leases in respect of which the Company bears substantially all risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the lease property and the present value of the minimum lease payments. Directly attributable costs, such as commission paid and incurred by the Company are added to the carrying amount of the asset. Each lease payment is allocated between the liability and finance charges to achieve a constant periodic rate of interest on the balance outstanding. Contingent rentals are expensed in the period they are incurred. The depreciation policy for leased assets is consistent with that of depreciable assets owned. If the Company does not have reasonable certainty that it will obtain ownership of the leased asset by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Operating leases – lessee

Leases that are not classified as finance leases are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

1.9 Impairment of assets

The Company assesses at the 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. This 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, cannot 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.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the year in which they are declared.

1.11 Employee benefits

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, bonus and any non-monetary benefits such as medical aid contributions.

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under the short-term benefits if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term incentives

On an annual basis, the long-term incentive (LTI) provision will be re-measured taking into account the probability of payout at the end of the vesting period. The best estimate of the amount that will be paid will be determined by using the historical analysis of the payout made and also taking into consideration any special events that could have resulted in a significant event that could impact on the carrying amount. The changes in the carrying value shall be recognised in profit or loss.

Termination benefits

Termination benefits are recognised as an expense when the Company is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of those accepting can be estimated reliably.

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 Company.

1.12 Provisions and contingencies

Provisions represent liabilities of uncertain timing or amount.

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 amount recognised as a provision is the reasonable estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of discounting is material, the provision is discounted. The discount rate reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Gains from the expected disposal of assets are not taken into account in measuring provisions. Provisions are reviewed at each reporting date and adjusted to reflect the current reasonable estimate. If it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

Onerous contracts

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.

Reimbursements

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.

Provisions are not recognised for future operating losses.

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.

Management fee income

The management fee income is recognised as revenue for the following services by the Company:

- For providing asset management services for listed investments, which is charged at an agreed percentage of the market value.
- For providing asset management services for alternative investments, a portion which is charged at an agreed percentage of the value of clients funds committed, which after the term of the funds commitment period, the fee is based on invested capital.
- For providing property asset management services, which is charged at an agreed percentage of the market value of the portfolio.

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 Subsequent Events

Events after the reporting period

It 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 arise after the end of the reporting period. If the events are material, they will be disclosed in the Annual Financial Statements. 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 light of the new information.

.

1.16 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.

1.17 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 Company 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.

1.18 Non-distributable reserves and other reserves

Foreign currency reserve

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.

Non-distributable reserves

The Company will make a transfer of profits to the Non-Distributable Reserve (NDR) on an annual basis.

The Directors may use the NDR funds to fund future capital expenditure of the Company, therefore ensuring the financial sustainability of the Company.

1.19 Operating expenses

Operating expenses reflect costs incurred during the reporting period and relate to operating activities of an entity. Expenses are recognised on the basis of the accrual and comparability principles in the reporting period during which the related income is earned, regardless of the time of spending the cash. Only that portion of costs of the previous reporting periods that is related to the income earned during the reporting period, is recognised as expenses.

Costs that are not related to income earned during the reporting period, but are expected to generate future economic benefits, are recorded in accounting and presented in the financial statements as assets. The portion of assets which are intended for earning income in future periods shall be recognised as expenses when the associated income is earned. When the use of certain assets will generate income over several future reporting periods and due to that, the association between income and expenses can be determined only approximately, expenses are recognised using indirect recognition methods, for example depreciation and the amortisation of non-current assets.

General Information

for the year ended 31 March 2018

2. New Standards and Interpretations

2.1 Standards and Interpretations not early adopted.

IFRS 9 (AC 146) Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement, are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal, are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 1, 2018.

Amendments to IAS 28: Annual Improvements to IFRS 2014 – 2016 cycle

An entity such as a venture capital organisation, mutual fund or similar institution may elect to measure investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9 rather than by applying the equity method. The amendment to IAS 28 Investments in Associates and Joint Ventures now specifies that the election must be made separately per associate or joint venture and at the time of initial recognition of such investment.

Furthermore, if an entity is not an investment entity, but has interests in an associate or joint venture which is an investment entity, then the entity may retain the fair-value measurement of the associate or joint venture. The amendment now provides that such election must be made separately for each investment entity, associate or joint venture.

The effective date of the amendment is for financial years beginning on or after January 1, 2018.

Amendments to IFRS 1: Annual Improvements to IFRS 2014 – 2016 cycle

The amendment to IFRS 1 First Time Adoption of International Financial Reporting Standards deleted certain short-term exemptions concerning disclosures of financial assets, employee benefits and investment entities from IFRS 1.

The effective date of the amendment is for financial years beginning on or after January 1, 2018.

Transfers of Investment Property: Amendments to IAS 40

The amendment deals specifically with circumstances under which property must be transferred to or from investment property. The amendment now requires that a change in use of property occurs only when the property first meets, or ceases to meet, the definition of investment property and that there is evidence of a change in use. The amendment specifies that a change in management's intentions for use of the property, do not, in isolation, provide evidence of a change in use.

The effective date of the amendment is for financial years beginning on or after January 1, 2018.

Foreign Currency Transactions and Advance Consideration

The interpretation applies to circumstances when an entity has either paid or received an amount of consideration in advance and in a foreign currency, resulting in a non-monetary asset or liability being recognised. The specific issue addressed by the interpretation is how to determine the date of the transaction for the purposes of determining the exchange rate to use on the initial recognition of the related asset, expense or income when the non-monetary asset or liability is derecognised. The interpretation specifies that the date of the transaction, for purposes of determining the exchange rate to apply, is the date on which the entity initially recognises the non-monetary asset or liability.

The effective date of the interpretation is for financial years beginning on or after January 1, 2018.

Amendments to IFRS 4: Insurance Contracts

The amendment provides a temporary exemption that permits, but does not require, insurers, under specified criteria, to apply IAS 39 Financial Instruments: Recognition and Measurement, rather than IFRS 9 Financial Instruments for annual periods beginning before 1 January 2021. The exemption is available only provided the insurer has not previously applied any version of IFRS 9 (with some exceptions) and that the activities are predominantly connected with insurance.

A further exemption has been provided from IAS 28 Investments in Associates and Joint Ventures. In terms of the exemption, an insurer is exempt from applying uniform accounting policies when applying the equity method, insofar as the IAS 39/IFRS 9 exemption is applied. Thus, the relevant accounting policies of the associate or joint venture are retained if the entity applies the IFRS 9/IAS 39 exemption and the associate or joint venture does not apply the exemption, or visa versa.

The amendment further permits, but does not require, insurers to apply the 'overlay approach' to designated financial assets when they first apply IFRS 9. The overlay approach requires the entity to reclassify between profit or loss and other comprehensive income, an amount which results in the profit or loss of the designated financial assets at the end of the reporting period being equal to what it would have been had IAS 39 been applied to the designated financial assets.

Additional disclosures are required as a result of the amendment.

The effective date of the amendment is for financial years beginning on or after January 1, 2018.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendment to IFRS 4 provides a temporary exemption, allowing insurers to apply IAS 39 rather than IFRS 9. The exemption applies only in certain circumstances and only for annual periods beginning before 1 January 2021.

The exemption also introduces an 'overlay approach' in specific circumstances. This approach requires the insurer to reclassify an amount between other comprehensive income and profit or loss. This results in the profit or loss for designated financial assets being the same as if the insurer had applied IAS 39 rather than IFRS 9.

The effective date of the amendment is for financial years beginning on or after January 1, 2018.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendment now specifies the treatment of vesting and non-vesting conditions with regards to cash settled, share based payment transactions. The treatment is essentially similar to the treatment of such conditions for equity settled, share-based payment transactions. That is, non-market vesting conditions are taken into consideration when estimating the number of awards which are expected to vest (and which ultimately vest), while market conditions and other non vesting conditions are taken into consideration when determining the fair value of the share based payment liability, both initially and subsequently.

The amendment also provides for share-based payment transactions with a net settlement feature for withholding tax obligations. Essentially, where the entity is required to withhold part of the equity instruments equal to the tax obligation, the entity is required to account for the payment to tax authorities as a reduction in equity, except to the extent that the payment exceeds the fair value of the equity instruments withheld at net settlement date. The entity should also disclose the amount that it expects to transfer to tax authorities in terms of such transactions.

The amendment further provides guidance in terms of modifications which convert cash settled, share-based payment transactions to equity settled, share-based payment transactions. For such modifications, the equity settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at modification date, to the extent to which goods or services have been received. The liability for cash settled, share-based payment transactions is derecognised on the modification date. Any difference between the two is recognised immediately in profit or loss.

The effective date of the amendment is for financial years beginning on or after January 1, 2018.

Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licences and royalties.

The effective date of the amendment is for financial years beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements. The effective date of the standard is for financial years beginning on or after January 1, 2018.

2.2 Standards and interpretations not yet effective

The following standards and interpretations have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2019 or later periods but are not relevant to its operations:

Amendment to IFRS 9 Prepayment Features with Negative Compensation

The narrow scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met. The effective date of the standard is for financial years beginning on or after 1 January 2019.

IFRS 16 Leases

IFRS 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemption for lessees namely (i) leases of 'low value' (e.g. personal computers) and (ii) short-term leases i.e. leases with lease term of 12 months or less. At the commencement date of a lease, a lessee will recognise a liability to make lease payment and an asset representing the right to use the underlying asset during the lease term.

As a consequence, a lessee recognises depreciation of the right of use asset and interest on the lease liability separately, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the Statement of Cash Flows applying IAS 7 Statement of Cash Flows.

Lessor accounting is substantially unchanged from accounting under IAS 17. Lessor will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases i.e operating and finance leases.

IFRS 16 supersedes the following Standards and Interpretations:

(a) IAS 17 Leases;
(b) IFRIC 4 Determining whether an Arrangement contains a Lease;
(c) SIC 15 Operating Leases—Incentives; and
(d) SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The effective date of the standard is for financial years beginning on or after 1 January 2019.

IFRS 16 replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation charge for the lease asset (included within operating costs) and an interest expense on the lease liability (included within finance costs). Although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made. This results in a reducing total expense as an individual lease matures.

IFRS 17 Insurance Contracts

IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts.

Insurance contracts are required to be measured based only on the obligations created by the contracts. The financial statements will reflect the time value of money in estimated payments required to settle incurred claims.

The scope of IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

IFRS 17 replaces IFRS 4 Insurance Contracts.

Effective for annual periods beginning on or after 1 January 2021.

IFRS 3 Business Combinations

Annual Improvements 2015 – 2017 Cycle: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.

Effective for annual periods beginning on or after 1 January 2019.

Amendment to IAS 12 Income Taxes

Annual Improvements 2015 - 2017 Cycle: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless of how the tax arises.

Effective for annual periods beginning on or after 1 January 2019.

IAS 23 Borrowing Costs

Annual Improvements 2015 – 2017 Cycle: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Effective for annual periods beginning on or after 1 January 2019.

Amendment to IAS 28 Investments in Associates and Joint Ventures

Long-term interest in Associates and Joint Ventures: Clarification provided that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Effective for annual periods beginning on or after 1 January 2019.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation sets out how to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over their treatment under IAS 12 Income Taxes.

Effective for annual periods beginning on or after 1 January 2019.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

3. Property, plant and equipment

Figures in Rand thousand	2018 Cost / revaluation	2018 Accumulated depreciation	2018 Carrying value	2017 Cost / re-evaluation	2017 Accumulated depreciation	2017 Carrying value
Furniture and fixtures	20,364	(5,391)	14,973	8,820	(2,087)	6,733
Motor vehicles	885	(885)	-	885	(875)	10
Office equipment	18,507	(3,254)	15,253	19,448	(3,392)	16,056
IT equipment	29,616	(13,848)	15,768	27,622	(15,734)	11,888
Leasehold improvements	58,780	(8,960)	49,820	38,369	(4,986)	33,383
TOTAL	**128,152**	**(32,338)**	**95,814**	**95,144**	**(27,074)**	**68,070**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT – 2018	Opening balance	Additions	Write-off	Depreciation	Total
Furniture and fixtures	6,733	11,694	(1)	(3,453)	14,973
Motor vehicles	10	-	-	(10)	-
Office equipment	16,056	2,380	(322)	(2,861)	15,253
IT equipment	11,888	11,364	(202)	(7,282)	15,768
Leasehold improvements	33,383	21,837	(19)	(5,381)	49,820
	68,070	**47,275**	**(544)**	**(18,987)**	**95,814**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT – 2017	Opening balance	Additions	Write-off	Depreciation	Total
Furniture and fixtures	2,964	4,691	(18)	(904)	6,733
Motor vehicles	139	-	-	(129)	10
Office equipment	1,434	15,272	(9)	(641)	16,056
IT equipment	7,712	9,608	(59)	(5,373)	11,888
Leasehold improvements	4,887	31,025	-	(2,529)	33,383
	17,136	**60,596**	**(86)**	**(9,576)**	**68,070**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

4. Intangible assets

	2018			2017		
Figures in Rand thousand	Cost / valuation	Accumulated amortisation	Carrying value	Cost / valuation	Accumulated amortisation	Carrying value
Computer software	25,843	(22,844)	2,999	23,164	(22,103)	1,061
Other intangible assets	2,717	(2,717)	-	2,717	(2,717)	-
TOTAL	**28,560**	**(25,561)**	**2,999**	**25,881**	**(24,820)**	**1,061**

RECONCILIATION OF INTANGIBLE ASSETS - 2018	Opening balance	Additions	Amortisation	Total
Computer software	**1,061**	**2,679**	**(741)**	**2,999**

RECONCILIATION OF INTANGIBLE ASSETS - 2017	Opening balance	Amortisation	Total
Computer software	1,936	(875)	1,061
Other intangible assets	2	(2)	-
	1,938	**(877)**	**1,061**

5. Investments accounted for using the equity method

Investments in associates are investments in which the Company has significant influence, but not control over the financial and operating policies. Investments in associates are accounted for using the equity method in terms of IAS 28. The Company has four associates, namely: Harith Fund Managers (Pty) Limited, Harith General Partners (Pty) Limited, Bophelo Insurance Group (BIG) and South African SME Fund Limited.

Associates

Harith Fund Managers (Pty) Limited's nature of business is the management of the funds of the Pan African Infrastructure Development Fund (PAIDF). Harith Fund Managers (Pty) Limited is also responsible, on behalf of the PAIDF, for the provision of specified administrative services relating to the operations of the PAIDF. Harith Fund Managers (Pty) Limited assists the Company in carrying out its mandate as it relates to infrastructure both in South Africa and the rest of the continent.

Harith General Partners (Pty) Limited is a company established in South Africa, specialising in investments in infrastructure projects in energy, transport, rail, port and airports, information and communication technology, water and sanitation, energy and many others mainly on the African continent. Harith General Partners (Pty) Limited provides fund management and advisory services to the PAIDF.

BIG is a majority black-owned insurance group. BIG holds two subsidiaries in the life and short-term insurance sector, namely Bophelo Life Insurance Limited (Bophelo Life) and Nzalo Insurance Service Limited (NIS). Bophelo Life is a wholly owned subsidiary of BIG and is an authorised financial services provider as prescribed by the FAIS Act, and a registered life insurer in terms of the Long Term Insurance Act, No 52 of 1998. NIS is a short-term insurer licensed by the FSB to underwrite all classes of business as defined in the Short Term Insurance Act of 1998.

The SA SME Fund was established as part of the CEO Initiative in conjunction with National Treasury and Corporate South Africa. The Company's objective is to equity invest in high potential entrepreneurial enterprises in the small and medium enterprises (SME) Sector and to build a high-quality mentorship cohort to provide business and other forms of support to SMEs and entrepreneurs funded by the Company.

			2018	2017
	Country of incorporation	Method	% Ownership interest	
Harith Fund Managers (Pty) Limited	South Africa	Equity	46%	46%
Harith General Partners (Pty) Limited	South Africa	Equity	30%	30%
Bophelo Insurance Group	South Africa	Equity	30%	30%
South African SME Fund Limited	South Africa	Equity	7%	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

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

Summarised financial information of associates

2018

Summarised statement of profit or loss and other comprehensive income	Revenue	Profit (loss)	OCI	Total comprehensive income	Profit (loss) attributable to the Company	Dividend received from associate
Harith Fund Managers (Pty) Limited	107,186	1,783	-	1,783	820	-
Harith General Partners (Pty) Limited	200,853	47,102	(19,574)	27,528	14,131	-
Bophelo Insurance Group	107,570	31,756	-	31,756	9,527	(7,870)
South African SME Fund Limited	-	(6,201)	-	(6,201)	(444)	-
	415,609	**74,440**	**(19,574)**	**54,866**	**24,034**	**(7,870)**

Summarised statement of financial position	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Total net assets
Harith Fund Managers (Pty) Limited	3,356	7,931	-	4	11,283
Harith General Partners (Pty) Limited	123,556	311,424	38,456	80,262	316,262
Bophelo Insurance Group	12,208	355,932	58,188	239,020	70,932
South African SME Fund Limited	570	125,050	63	10,700	114,857
	139,690	**800,337**	**96,707**	**329,986**	**513,334**

Reconciliation of movement in investments in associates	Investment at beginning of 2018	Investment	Share of profit	Share of OCI	Impairment of associates*	Investment at end of 2018
Harith Fund Managers (Pty) Limited	(1,016)	-	820	-	-	(196)
Harith General Partners (Pty) Limited	89,064	-	14,131	(5,872)	-	97,323
Bophelo Insurance Group	13,681	-	9,527	-	(23,208)	-
South African SME Fund Limited	-	10,000	(444)	-	-	9,556
	101,729	**10,000**	**24,034**	**(5,872)**	**(23,208)**	**106,683**

* Refer to note 21

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

Summarised financial information of associates (continued)

2017

Summarised statement of profit or loss and other comprehensive income	Revenue	Profit (loss)	OCI	Total comprehensive income	Profit (loss) attributable to the Company	Dividend received from associate
Harith Fund Managers (Pty) Limited	109,375	1,453	-	1,453	668	-
Harith General Partners (Pty) Limited	236,625	163,526	2,438	165,964	49,058	-
Bophelo Insurance Group	118,361	(3,488)	-	(3,488)	(1,046)	2,530
	464,361	**161,491**	**2,438**	**163,929**	**48,680**	**2,530**

Summarised statement of financial position	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Total net assets
Harith Fund Managers (Pty) Limited	4,050	5,791	-	341	9,500
Harith General Partners (Pty) Limited	114,248	291,093	60,789	57,506	287,046
Bophelo Insurance Group	11,498	92,476	50,570	14,750	38,654
	129,796	**389,360**	**111,359**	**72,597**	**335,200**

Reconciliation of movement in investments in associates	Investment at beginning of 2017	Share of profit	Share of OCI	Investment at end of 2017
Harith Fund Managers (Pty) Limited	(1,684)	668	-	(1,016)
Harith General Partners (Pty) Limited	39,460	49,058	546	89,064
Bophelo Insurance Group	14,727	(1,046)	-	13,681
	52,503	**48,680**	**546**	**101,729**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

6. Financial assets at fair value through profit or loss and amortised cost

Figures in Rand thousand	2018	2017
CURRENT ASSETS		
At fair value through profit or loss		
Listed shares	470,370	431,809
Bonds	1,178,868	1,006,118
Promissory notes	19,612	19,637
	1,668,850	**1,457,564**
NON-CURRENT ASSETS		
At amortised cost		
Preference shares	-	53,100
TOTAL FINANCIAL ASSETS	**1,668,850**	**1,510,664**

The Company has invested in 12,500,000 cumulative redeemable preference shares with BIG at an issued price of R50 million, as these preference shares contain potential voting rights and they are accounted for in accordance with IAS 39 not equity accounted.

PREFERENCE SHARES AT AMORTISED COST		
Opening balance	53,100	-
Additions – current year	-	50,000
Accrued preference dividend	7,870	2,530
Capitalised finance fee	-	570
Repayments of interest	(1,882)	-
Impairment of assets at amortised cost (Refer to note 21)	(59,088)	-
	-	**53,100**

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 at reporting date; and
- The fair values on investments not listed or quoted are estimated using the yield curve valuation technique using the nominal rate of interest compounded continuously. The method is consistent with the prior year.

For debt securities classified at fair value through profit or loss, the maximum exposure to credit risk at the reporting date is the carrying amount.

6. Financial assets at fair value through profit or loss and amortised cost (continued)

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 instrument mentioned above and the fair value of the trade and other receivable, is 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 inputs used in making the measurements. The hierarchy of all the financial instruments is level 1. Level 1 inputs 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.

Financial assets at fair value through profit/loss

Figures in Rand thousand	2018	2017
CREDIT RATING		
AAA	-	747,174
AA+	1,019,580	-
AA	2,238	19,642
AA-	25,359	-
BBB	500	83,927
BBB-	-	24,244
BB+	-	150,768
B	150,803	-
Other	470,370	431,809
	1,668,850	**1,457,564**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

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:

2018

Figures in Rand thousand	Carried at amortised cost	Fair value through profit or loss – designated	Total
Bills, promissory notes, bonds	-	1,198,480	1,198,480
Listed shares	-	470,370	470,370
Other financial assets	574,969	-	574,969
Trade and other receivables	95,574	-	95,574
Cash and cash equivalents	299,824	-	299,824
	970,367	**1,668,850**	**2,639,217**

2017

Figures in Rand thousand	Carried at amortised cost	Fair value through profit or loss – designated	Total
Bills, promissory notes, bonds	-	1,025,755	1,025,755
Listed shares	-	431,809	431,809
Other financial assets	393,633	-	393,633
Trade and other receivables	79,493	-	79,493
Cash and cash equivalents	403,189		403,189
Preference shares	53,100	-	53,100
	929,415	**1,457,564**	**2,386,979**

8. Deferred tax

Figures in Rand thousand	2018	2017
DEFERRED TAX ASSETS		
Leave pay	4,756	3,223
Pre-payments	(1,369)	(1,003)
Provision for doubtful debts	4	-
Unrealised (profit)/loss	(8,054)	3,824
Leases	4,661	13
Short-term incentive provision	39,497	44,815
Long-term incentive provision	48,344	47,052
Other provision	80	540
TOTAL DEFERRED TAX ASSETS	**87,919**	**98,464**
RECONCILIATION OF DEFERRED TAX ASSETS / (LIABILITIES)		
At beginning of year	98,464	89,821
Leave pay	1,533	810
Prepayments	(366)	(780)
Provision for doubtful debts	4	-
Unrealised (profit)/loss	(11,878)	1,409
Leases	4,648	3
Short-term incentive provision	(5,318)	8,590
Long-term incentive provision	1,292	(1,562)
Other provision	(460)	173
	87,919	**98,464**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

9. Operating lease asset (accrual)

Figures in Rand thousand	2018	2017
Non-current liabilities	(15,682)	(1,233)
Current liabilities	(1,249)	(744)
	(16,931)	**(1,977)**
Amount expensed	(61,260)	(18,309)
Amount paid	46,306	16,934
	(14,954)	**(1,375)**

10. Other financial assets

Other financial assets consist of interest-bearing fixed deposits

Current asset	574,969	393,633

11. Trade and other receivables

Trade receivables	80,630	68,266
Prepayments	12,134	7,437
VAT	-	2,483
Accrued Interest	542	1,136
Sundry debtors	2,268	171
	95,574	79,493

Trade and other receivables impaired

As of March 31, 2018, trade and other receivables of R17,220 were provided for.

The reconciliation of the provision for impairment is as follows:

Opening balance	-	-
Raised	17	-
Closing balance	17	-

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Figures in Rand thousand	2018	2017
Cash on hand	2	-
Bank balances	28,938	201,573
Short-term deposits	270,884	201,616
	299,824	**403,189**

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		
AA	97,555	253,165
AA-	198,157	-
A	-	93,458
BBB-	-	56,566
BBB	4,112	-
	299,824	**403,189**

13. Share capital

AUTHORISED		
100 Ordinary shares of R10 each	1	1

ISSUED		
100 Ordinary shares of R10 each	1	1

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

14. Dividends

Figures in Rand thousand	2018	2017
ORDINARY SHARES		
Final declaration	60,000	-
Interim dividend declared	-	20,000
TOTAL ORDINARY DIVIDENDS DECLARED	**60,000**	**20,000**

15. Provisions

Reconciliation of provisions 2018

Figures in Rand thousand	Opening balance	Raised	Utilised during the year	Reversed during the year	Leave forfeited	Total
Leave pay	11,511	36,212	(26,926)	(1,086)	(2,725)	16,986
Long-term incentives	168,043	61,095	(43,082)	(13,398)	-	172,658
Short-term incentives	160,051	145,873	(133,016)	(31,849)	-	141,059
	339,605	**243,180**	**(203,024)**	**(46,333)**	**(2,725)**	**330,703**

Reconciliation of provisions 2017

Figures in Rand thousand	Opening balance	Raised	Utilised during the year	Reversed during the year	Leave forfeited	Total
Leave pay	8,619	21,341	(15,543)	(1,028)	(1,878)	11,511
Long-term incentives	173,623	57,691	(57,449)	(5,822)	-	168,043
Short-term incentives	129,374	128,202	(84,587)	(12,938)	-	160,051
	311,616	**207,234**	**(157,579)**	**(19,788)**	**(1,878)**	**339,605**

Figures in Rand thousand	2018	2017
Non-current liabilities	116,623	131,306
Current liabilities	214,080	208,299
	330,703	**339,605**

16. Non-Distributable Reserves and other reserves

The Company makes a transfer of profits to the Non-Distributable Reserve (NDR) on an annual basis.

Foreign currency translation reserve was raised due to the exchange differences on translation of foreign operations.

Figures in Rand thousand	2018	2017
Opening balance	553,675	397,350
Foreign currency translation reserves	(5,872)	546
Transfer to NDR	132,994	155,779
	680,797	**553,675**

17. Current tax payable (receivable)

Opening balance	(9,414)	4,590
Raised during the year	166,915	196,023
Tax paid during the year	(169,792)	(210,027)
	(12,291)	**(9,414)**

18. Trade and other payables

Trade payables	524	40,086
VAT	9,061	-
Loan account	-	1,673
Accrued expenses	16,490	56,282
Employee-related control account	2	6,151
	26,077	**104,192**

19. Revenue

Management fees	1,224,467	1,112,864

20. Other operating income

Board fees	5,333	7,063
Profit on forex	1,824	775
Other income	1,611	1,709
	8,768	**9,547**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

21. Operating profit (loss)

Operating profit for the year is stated after charging the following, among others:

Figures in Rand thousand	2018	2017
AUDIT FEES – EXTERNAL		
Audit fees	2,436	2,588
CONSULTING		
Consulting and professional services	20,500	14,936
EMPLOYEE COSTS		
Salaries, wages, bonuses and other benefits	476,992	369,640
Retirement benefit plans: defined contribution expense	24,217	17,595
Long-term incentive scheme	47,698	53,069
TOTAL EMPLOYEE COSTS	**548,907**	**440,304**
LEASES		
OPERATING LEASE CHARGES		
Premises	59,139	16,266
Equipment	2,121	2,044
	61,260	**18,310**
DEPRECIATION AND AMORTISATION		
Depreciation of property, plant and equipment	18,987	9,576
Amortisation of intangible assets	741	877
TOTAL DEPRECIATION AND AMORTISATION	**19,728**	**10,453**
IMPAIRMENT LOSSES		
Impairment of assets at amortised cost	59,088	-
Impairment of associate	23,208	-
	82,296	**-**

21. Operating profit (loss) (continued)

During the current financial year VBS Bank was placed under curatorship by the South African Reserve Bank (SARB). Due to the fact that BIG held material deposit in VBS Bank, the Financial Service Board (FSB) now called Financial Sector Conduct Authority (FSCA) prohibited BIG to issue new insurance business as there was concerns of financial soundness and the entity not meeting the capital adequacy requirements (CAR). Independent valuators were appointed to value the investment in preference shares and the equity subscription. The valuators used the discounted cash flow methodology to value the investment. The value of the equity subscription and preference shares have been impaired to nil due to high business risk, capital injection requirements and operating stabilisation of the entity in the future. Refer to note 5 and 6 for impairment of associate and impairment of assets at amortised cost, respectively.

Figures in Rand thousand	2018	2017
OTHER		
Unrealised gain or (loss)	42,420	(5,033)
EXPENSES BY NATURE		
Employee costs	548,907	440,304
Operating lease charges	61,260	18,310
Depreciation, amortisation and impairment	102,024	10,453
Other expenses	93,256	137,785
	805,447	**606,852**

22. Investment income

DIVIDEND INCOME		
FROM INVESTMENTS IN FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS:		
Listed investments-Local	28,112	10,717
INTEREST INCOME		
FROM INVESTMENTS IN FINANCIAL ASSETS:		
Bank and other cash	146,677	147,396
Loans and receivables at amortised cost	7,870	2,530
TOTAL INTEREST INCOME	**154,547**	**149,926**
TOTAL INVESTMENT INCOME	**182,659**	**160,643**

23. Finance costs

Other interest	4	6

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

24. Taxation

Figures in Rand thousand	2018	2017
MAJOR COMPONENTS OF THE TAX EXPENSE		
CURRENT		
Local income tax-current period	166,915	196,023
DEFERRED		
Deferred tax movement for the year	10,545	(8,641)
	177,460	**187,382**
RECONCILIATION OF THE TAX EXPENSE		
Reconciliation between accounting profit and tax expense		
Accounting profit	594,601	719,843
Tax at the applicable tax rate of 28% (2017: 28%)	166,488	201,556
TAX EFFECT OF ADJUSTMENTS ON TAXABLE INCOME		
Permanent differences	10,972	(14,174)
	177,460	**187,382**

25. Cash generated from operations

Profit before taxation	594,601	719,843
ADJUSTMENTS FOR:		
Depreciation and amortisation	19,728	10,453
Write-off of property, plant and equipment and intangible assets	544	86
Income from equity accounted investments	(24,034)	(48,680)
Dividend income	(28,112)	(10,717)
Interest income	(154,547)	(149,926)
Finance costs	4	6
Fair value (gains) losses	(42,420)	5,033
Transaction fee adjustment	-	(570)
Movements in operating lease assets and accruals	14,954	1,382
Movement in provisions	(8,902)	27,989
Impairment of assets at amortised cost	59,088	-
Impairment of associate	23,208	-
CHANGES IN WORKING CAPITAL:		
Trade and other receivables	(14,144)	42,706
Trade and other payables	(23,923)	(1,211)
	416,045	**596,394**

26. Tax paid

Figures in Rand thousand	2018	2017
Balance at beginning of the year	9,414	(4,590)
Current tax for the year recognised in profit or loss	(166,915)	(196,023)
Balance at end of the year	(12,291)	(9,414)
	(169,792)	**(210,027)**

27. Commitments

OPERATING LEASES – AS LESSEE (EXPENSE)		
MINIMUM LEASE PAYMENTS DUE		
– Within one year	46,779	43,838
– In second to fifth year inclusive	185,650	178,427
– Six to ten years	237,071	297,968
	469,500	**520,233**

Operating lease payments represent rentals payable by the Company for office premises and printing equipment. Leases are negotiated for an average term of one to ten years for the Company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2018

28. Related parties

RELATIONSHIPS

Associates	Refer to note 5
Members of key management	Refer to the Human Resources and Remuneration Report

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

Figures in Rand thousand	2018	2017
RELATED-PARTY BALANCES		
AMOUNTS INCLUDED IN TRADE RECEIVABLE (TRADE PAYABLE) REGARDING RELATED PARTIES		
Airport Company of South Africa	55	-
Associated Institute Pension Fund	385	-
Compensation Commissioner Pension Fund	1,155	-
Compensation Commissioner Fund	1,215	-
Government Employees Pension Fund	62,061	-
Government Employees Pension Fund	(78)	(15)
Mowana (Proprietary) Limited	-	(1,673)
National Skill Fund	150	-
National Lotteries Commission	3	-
RDP	643	-
South African Revenue Service	12,291	9,414
Temporary Employees Pension Fund	10	-
Unemployment Pension Fund	4,837	-
SERVICES DELIVERED		
State-controlled entities and national departments	168,355	58,125
RELATED-PARTY TRANSACTIONS		
SERVICES DELIVERED		
State-controlled entities and national departments	1,224,467	1,112,864

28. Related parties (Continued)

Figures in Rand thousand	2018	2017
PURCHASED SERVICES		
Financial Services Board	(1,670)	(1,659)
Telkom	(1,299)	(822)
Government Employees Pension Fund	(2,429)	(13,293)
South African Broadcasting Corporation	(6)	(2)
Compensation Commissioner	(191)	(190)
SITA Government Technology	(53)	-
Auditor-General South Africa	(2,436)	(2,588)
South African Revenue Service	(169,792)	(210,027)
COMPENSATION TO EXECUTIVE DIRECTORS AND EXECUTIVE COMMITTEE		
Short-term employee benefits^	61,056	53,655
Benefits – Pension	3,292	2,439
Long-term incentive scheme*	19,511	16,714
	83,859	72,808

^ Excludes incentives paid which were disclosed in the 2017 Annual Financial Statements.

* Long-term incentive paid.

29. Directors' fees

Figures in Rand thousand	Emoluments	Pension paid or receivable	Total
EXECUTIVE			
For services as employees			
2018	25,554	842	26,396
2017	23,392	371	23,763

Figures in Rand thousand	Directors' fees	Total
NON-EXECUTIVE		
For services as Directors		
2018	6,543	6,543
2017	6,654	6,654

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

30. Risk management

Market risk

Market risk is the risk that the Company's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Company is to protect the Company's net earnings against adverse market movements through containing the innate interest rate and foreign currency risks within acceptable parameters.

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

Interest rate risk refers to the susceptibility of the Company's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Company through their net effect on interest rate sensitive assets. At the same time movements in interest rates impact on the Company's capital through their net effect on the market value of assets. Interest rate risk in the Company arises naturally as a result of investments made in the PICOF account, which are investments on traded instruments and are impacted by interest rate fluctuations.

The Company's primary interest rate risk management objective is to protect its investment income from adverse fluctuations in market interest rates. The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Company's investment interest income and market value of the portfolio to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks, both up and down, of at least 50 and 100 basis points.

The table below 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 the fixed-income instruments and then take the difference between the new portfolio value and the old portfolio value which was determined using unperturbed market interest rates.

Figures in Rand thousand	2018	2017
BASIS POINTS		
-100	117,223	119,193
-50	56,418	56,985
50	(52,462)	(52,319)
100	(101,348)	(100,461)

30. Risk management (continued)

Liquidity risk

Asset liquidity risk

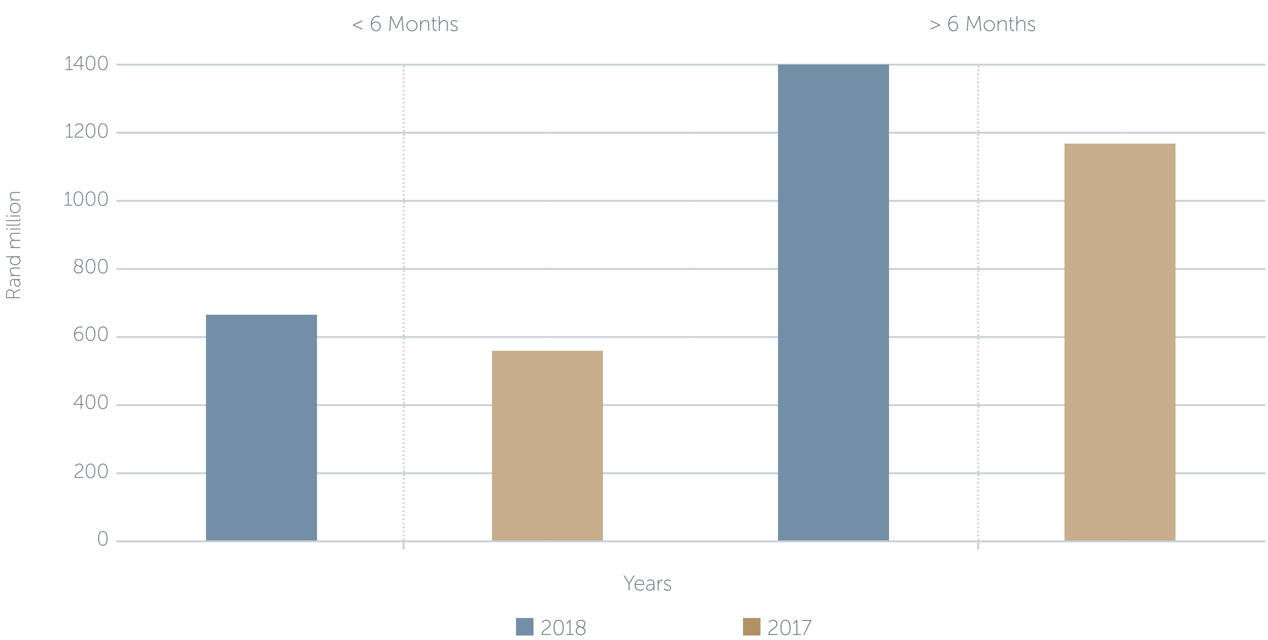
Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis, when due, and in the currency due without incurring above normal costs. In the case of the Company, this risk specifically arises from the inability to honour obligations with respect to commitments to borrowers, lenders, investors and operational expenditure

Liquidity is held primarily in the form of money market instruments such as bonds, fixed deposits, listed shares and promissory notes, as well as liquid debt issues from government, municipalities and other approved issuers.

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents, the Company uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels.

The funding liquidity is managed by proper planning of cash flow needs. The maturity bucket analysis for interest-bearing assets as at year-end was as follows:

Interest-bearing assets maturity analysis



NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 March 2018

30. Risk management (continued)

Capital adequacy requirements

Over the period under review the Company has satisfied the capital adequacy requirements, namely that the Company 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

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 the Company'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 the Company'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.

The Company 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 the Company approved guidelines, and are approved in accordance with the delegation of authority.

30. Risk management (continued)

Financial assets exposed to credit risk at year-end were as follows:

Figures in Rand thousand	2018	2017
FINANCIAL INSTRUMENT		
Bonds	1,178,868	1,006,118
Cash and cash equivalents	299,824	403,189
Trade and other receivables	95,574	79,493
Listed shares	470,370	431,809
Other financial assets	574,969	393,633
Promissory notes	19,612	19,637

31. Capital management

The Company is licensed as a financial services provider under The Financial Sector Conduct Authority (FSCA), formerly known as The Financial Services Board (FSB). FSCA requirements are monitored and adhered to. There are no regulatory capital management ratios imposed on the Company.

32. Commitments

Commitments include all items of capital expenditure, information technology costs and investments for which specific Board approval has been obtained up to the reporting date.

Authorised capital expenditure	121,253	286,357
Committed: Operation	5,614	103,601
Committed: Investments	490,000	500,000
Increase/ (Decrease)	-	(127,679)
	616,867	**762,279**
Within one year	588,784	673,011
Two to five years	28,083	89,268
	616,867	**762,279**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

33. Employee Benefits

Provident Fund

The Provident Fund has 362 active members as at 31 March 2018. During the current year, 71 employees joined, 26 employees withdrew from the Provident Fund, 1 employee retired from the provident fund, 1 death, there were no transfers from the Company.

The contribution for the year amounted to R39 million. The Provident Fund is a defined contribution plan. The results is that the risk of any decline in fair value lies with the employee and not the employer.

Defined benefit plan

There are 9 employees on the GEPF. During the current year, 1 employee retired and there were no withdrawals from the Provident Fund.

Short-term employee benefits

Short-term incentives (STI) scheme of R141 million (2017: R160 million) has been recognised as a provision.

The STI is recognised and accrued in the year the service was rendered, but paid only after the 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.

Long-term employee benefits

LTI scheme is R173 million (2017: R168 million).

The scheme is to attract, retain and reward high-performing management of the Company. The Company management is only eligible to participate in the LTI scheme 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 payments have a lag time of three years. Out of the total LTI of R173 million, R56 million will be paid in the 2019 financial year, R56 million will be paid in the 2020 financial year and the balance of R61 million will be paid in 2021.

34. Compliance with IFRS Financial Statement and Notes

• Principal Accounting Policies	IAS 1
• Standards and Interpretations	IAS 1 and IAS 8
• Critical Accounting Judgements, Estimates and Assumptions	IAS 1
• Investment Income	IAS 18, IAS 32, IAS39, IFRS 7and IFRS 13
• Revenue	IAS 18
• Operating Expenses	IAS 1 and IAS 19
• Indirect Taxation	IAS12
• Dividends	IAS 1 and IAS 10
• Cash and Cash Equivalents	IAS 1, IAS 7 and IFRS 7
• Other Financial Assets	IAS 1, IAS 39, IFRS 7, IFRS 8 and IFRS 13
• Financial Assets at Fair Value through Profit and Loss	IAS 32, IAS 39, IFRS 7 and IFRS 13
• Impairment of Loans and Advances	IAS 32, IAS 39 and IFRS 7
• Investments in Associates	IAS 28, IFRS 12 and IFRS 13
• Deferred Taxation	IAS 12
• Property and Equipment	IAS 16, IAS 36 and IFRS 13
• Employee Benefits	IAS 19 and IFRIC 14
• Intangible Assets	IAS 38 and IAS 36
• Share Capital	IAS 1
• Provisions and other Liabilities	IAS 37, IAS 32, IAS 39, IFRS 7 and IFRS 13
• Cash Flow Information	IAS 7
• Offsetting Financial Assets and Financial Liabilities	IFRS 7 and IAS 32
• Credit Analysis of Other Short-Term Deposits	IFRS 7
• Liquidity Risk	IFRS 7
• Contractual Maturity Analysis for Financial Liabilities	IFRS 7
• Foreign Exchange	IAS 21
• Commitments	IAS 37, IAS 10, IAS 17
• Related Parties	IAS 24

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Asset Management
Directors	Mondli Gungubele (Chairman) (Non-executive director) Dr Mkhwanazi, Xolani (Deputy Chairman) (Non-executive director) Dr Matjila, Daniel (CEO) (Executive) Ms More, Matshepo (CFO) (Executive) Ms Beswick, Sandra (Non-executive) Mr Goba, Trueman (Non-executive) Ms Hlatshwayo, Dudu (Non-executive) Ms Mokoka, Mathukana (Non-executive) Mr Moloto, Pitsi (Non-executive) Ms Toyi, Lindiwe (Non-executive) Ms Zulu, Sibusisiwe (Non-executive)
Registered office and business address	Menlyn Maine Central Square Corner Aramist Avenue and Corobay Avenue Waterkloof Glen Extension 2 Pretoria 0181
Postal address	Private Bag X187 Pretoria South Africa 0001
Auditors	Office of the Auditor General of South Africa Registered Auditors
Acting Company Secretary	Mr Deon Botha
Company registration number	2005/009094/30
Company Annual Financial Statements	The Company Annual Financial Statements have been prepared under the supervision of the Company CFO, Ms Matshepo More
Address of Secretary	Menlyn Maine Central Square Corner Aramist Avenue and Corobay Avenue Waterkloof Glen Extension 2 Pretoria 0181

Public Investment corporation SOC Limited Disclaimer

For more details, as well as for information on how to contact us and how to access information, please visit www.pic.gov.za.

ABBREVIATIONS

ABET	Adult Basic Education Training
Abraaj	Abraaj Investment Management Limited
ACSA	Airports Company South Africa
ADRIASA	ADR International Airports South Africa
AEs	Advanced Economies
AFS	Annual Financial Statements
AGM	Annual General Meeting
Agrigroupe	Agrigroupe Holdings (Pty) Ltd.
Ai	Africa investors
AIPF	Associated Institutions Pension Fund
AuM	Assets under Management
ARC	Audit and Risk Committee
Bafepi	Bafepi Agri (Pty) Ltd
B-BBEE	Broad-Based Black Economic Empowerment
BCM	Business Continuity Management
BEE	Black Economic Empowerment
BIP	Black Industrialist Programme
BOE	Bank of England
BVI	Business Ventures Investments (Pty) Ltd
CBOs	Community-based Organisations
CC	Compensation Commissioner Fund
C2C	Coast to Coast Proprietary Limited
CD	Childhood Development
CEO	Chief Executive Officer
CIPC	Companies and Intellectual Properties Commission
CM	Contract Manufacturing
CP	Compensation Commissioner Pension Fund
CSR	Corporate Social Responsibility
CTC	Community Training Centre
DAC	Directors' Affairs Committee
DBE	Department of Basic Education
Dti	Department of Trade and Industry
DOA	Delegation of Authority
DOI	Declaration of Interest
DPSA	Department of Public Service and Administration
EAP	Economically Active Population
EBIDTA	Earnings before interest, tax, depreciation and amortisation
ECB	European Central Bank
ED	Enterprise Development
EEA	Employment Equity Act
EIHL	ETG Input Holdings
Ems	Emerging Markets
ERMF	Enterprise Management Framework
ESG	Environmental, Social and Governance
ETG	Export Trading Group
EXCO	Executive Committee
FAIS Act	Financial Advisory and Intermediary Services Act, 2002
FDI	Foreign Direct Investment
Fed	Federal Reserve
FIPs	Fund Investment Panels
FMCG	Fast Moving Consumer Goods
FSCA	Financial Sector Conduct Board
GEHS	Government Employees Housing Scheme
GEPF	Government Employees Pension Fund
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
HEIs	Higher Education Institutions
HDIs	Historically Disadvantaged Individuals
HRRC	Human Resources and Remuneration Committee
I&B	Infrastructure and Building
IC	Investment Committee
ICTGC	Information Communication and Technology Governance Committee
IMF	International Monetary Fund
IMSS	International Maths and Science Study
IoDSA	Institute of Directors of Southern Africa
IRR	Internal Rate of Return
IT	Information Technology
ITRC	Information Technology Risk Committee
JIBAR	Johannesburg Interbank Average Rate
JSE	Johannesburg Stock Exchange
KENGEN	Kenya Electricity Generating Company

KRIs	Key Risk Indicators
LIA	Lanseria International Airport
Libstar	Liberty Star Consumer Holdings
M&A	Merger and Acquisition
MMIH	Menlyn Maine Investment Holdings (Pty) Ltd
MPRDA	Mineral and Petroleum Resources Development Act
MOCAA	Museum of Contemporary Art Africa
MOI	Memorandum of Incorporation
MST	Mobile Specialised Technologies
NGOs	Non-governmental Organisations
NSFAS	National Student Financial Aid Scheme
NDP	National Development Plan
NT	National Treasury
OECD	Organisation for Economic Cooperation and Development
OLG	Open Learning Group
ORMF	Operational Risk Management Framework
PAA	Public Audit Act of South Africa
PAIDF	Pan Africa Infrastructure Development Fund
PE	Private Equity
PE SA II	Private Equity South Africa Fund II
PE RoA II	Private Equity Rest of Africa Fund II
PFMA	Public Finance Management Act, 1999
PIC	Public Investment Corporation SOC Limited
PIC Act	Public Investment Corporation Act, 2004
PL	Private Label
PMC	Portfolio Management Committee
POPI	Protection of Personal Information Act, 2013
PPAs	Power Purchase Agreements
PPMs	Private Placement Memorandums
QSRs	Quick Service Restaurants
QAR	Quality Assessment Review
Resultant	Resultant Finance (Pty) Limited
RFPs	Request for Proposals
SAA	Strategic Asset Allocation
SAICA	South African Institute of Chartered Accountants
SDGs	Sustainable Development Goals
SEC	Social and Ethics Committee
SED	Socio-economic Development
SIPs	Structured Investment Products
SOEs	State-Owned Entities
SMEs	Small and Medium Enterprises
SNG	Sizwe Ntsaluba Gobodo
SPAC	Special Purpose Acquisition Company
Sphere	Sphere Holdings (Pty) Limited
SPMS	South Point Management Services
SRI	Socially Responsible Investment
S&P	Standard and Poor's
ToR	Terms of Reference
UIF	Unemployment Insurance Fund
US	United States
WHO	World Health Organisation

NOTES

NOTES

NOTES

PUBLIC INVESTMENT
CORPORATION®
Est. 1911

Inspired by its presence in the National Coat of Arms, the PIC has adopted a highly stylised icon of the Secretary Bird as our logo.

On the Coat of Arms, the Secretary Bird represents vigilance, as well as the rise and pride of modern South Africa. As committed investors in the future of South Africa, we admire and aim to uphold this symbol in all of our dealings.

Unique to Africa, the Secretary Bird is widely recognised as a symbol of freedom, strength and courage, values that exemplify the PIC, our mission and our investment philosophy.

PUBLIC INVESTMENT CORPORATION®

Est. 1911

INTEGRATED ANNUAL REPORT 2018

RP289/2018 • ISBN: 978-0-621-46532-7

www.pic.gov.za