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MEMO

DRIVING DEVELOPMENTAL INVESTMENT FOR GROWTH

Presentation at the Occasion of the ABSIP Annual Conference

by

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Introduction

The setting of this conference could not have been more timely. The topic I was asked to present on impeccably relevant. However, given the combination of these two observations, I have decided to extend the theme slightly.

"Driving developmental investment for growth - It is within our control".

At no time in our short yet dear democracy have we been better prepared for determining our destiny than today. At no time have we been as intellectually and financially independent as we are today - whether deliberately or imposed.

We are in a new era of setting our future and that of generations to come.

But it also important to envision what state of the economy we will experience in future and how we are likely to feel about what we do today, when we look back at that point in time.

We may look back at the financial crisis of 2007/08 in years to come, as possibly a watershed moment in the economic history of the World. This is a bold statement to make, but the financial crises and its effects are still being grappled with today. Five years down the line, it can still be said that there is no clear path out of the woods yet for developed countries. The obvious question is: Where is the next engine of growth for the World? We can and probably will not in years to come look to the developed world for exciting growth.

The dependency on the west, has suddenly come to an end. Reliance on ourselves and our own resources, characterises the global order. Protectionism from amongst the west, is subtle yet debilitating amongst the developing countries. It is how we take on this challenge that will make us proud when we look back, to what we have done.

The developing world accounts for about 80% of the World's land and by 2030, 85% of its people.[1] Though still largely dependent on the developed world to aid growth currently. World growth, if it is going to be anything to write home about in future, must come from the developing world / emerging markets.

China's emerging consumer and the state of urbanisation still has a long way to go.[2] Most South American economies are growing stronger on the back of resource growth as well as political and economic stability. Most East and South East Asian economies continue to perform relatively well, and the African Continent is slowly awakening to realize the vast amount of investment and hence return potential that the continent can offer to the World.[3] If there is to be good World growth in decades to come, it will have to come from these markets. The need for further infrastructure is still massive and in some countries daunting, the possibility of an emerging consumer with greater disposable income is a promise of what still can be.

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[1] UN Centre for Human Settlements (Habitat).

[2] In 1990, 25% of the Chinese population was "urban", and in 2011, 51%. The CIA predicts an increase of at least 2,3% per year to 2015 (which implies about 135 million more urban consumers by 2015).

[3] The African continent is the continent with the fastest rate of urbanization.

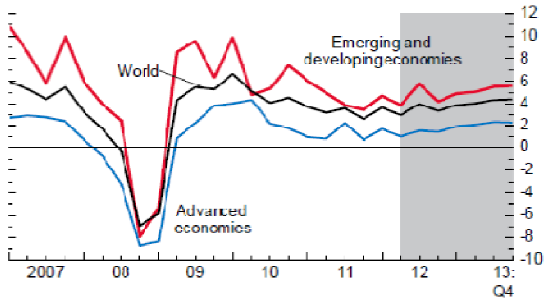
The following table summarises the economic outlook (year on year percentage growth) for some of the advanced economies versus some emerging market economies, highlighting the potential for better growth of the latter (albeit obviously from a lower base):[4]

	Actual	**Actual**	**Projected**	**Projected**
	2010	**2011**	**2012**	**2013**
WORLD	5.3	3.9	3.5	3.9
All Advanced Economies	**3.2**	**1.6**	**1.4**	**1.9**
United States	*3.0*	*1.7*	*2.0*	*2.3*
EURO area	*1.9*	*1.5*	*-0.3*	*0.7*
Japan	*4.4*	*-0.7*	*2.4*	*1.5*
UK	*2.1*	*0.7*	*0.2*	*1.4*
All emerging & developing countries	**7.5**	**6.2**	**5.6**	**5.9**
Developing Asia	9.7	7.8	7.1	7.5
China	*10.4*	*9.2*	*8.0*	*8.5*
India	*10.8*	*7.1*	*6.1*	*6.5*
Latin America & Caribbean	6.2	4.5	3.4	4.2
Brazil	*7.5*	*2.7*	*2.5*	*4.6*
Middle East & North Africa	5.0	3.5	5.5	3.7
Russia	*4.3*	*4.3*	*4.0*	*3.9*
Sub-Saharan Africa	**5.3**	**5.2**	**5.4**	**5.3**
South Africa	*2.9*	*3.1*	*2.6*	*3.3*

[4] IMF World Economic Outlook. July 2012.

Graphically, the growth picture can since 2007 can be represented as follows:

Figure 1. Global GDP Growth
(Percent; quarter over quarter, annualized)



Source: IMF staff estimates.

To realise a country's full potential in the above sense takes a number of factors, not least of which is a committed Government and civil society. Another crucial factor is developmental investment. Investing in areas that are seen to offer huge growth potential as well as aiding country and economic development simultaneously. Developmental investing has the potential to create a virtuous cycle of employment, consumer growth and further business opportunity as consumer disposable income grows.

This is precisely the table-setting we have proposed for South Africa and the rest of the African continent, with developmental investment policy. This policy is premised on four pillars, which are a direct response to the socio-economic imbalances we have observed here and the rest of the continent.

The pillars are:
- Social infrastructure
- Economic infrastructure
- Greening our economy
- Small and medium business development

Who are the Role-players?

Some may take a narrow view that it is the role of Government to drive developmental investing. This is only partially true as Government is ultimately, only one of the providers of capital. The others are businesses, institutions and individuals through their savings. The role of savings, in particular domestic savings, remains a critical part of resolving our structural imbalances.

In the case of individual investors, developmental investing often seems far removed. This is the case since for most formally employed South Africans, pension funds still serve as their primary vehicle for savings, and once most individuals hand over their contributions to their pension fund, they may view themselves as disempowered to influence where their capital is actually invested. Through this same vehicles, most average workers in South Africa found themselves the most exposed to financial markets, owing to the latest financial crisis.

However, that is where institutions, such as asset managers, trustee boards, agencies, retirement fund consultants and the like, come in as essential allocators of capital. However, ultimately accountable to the members who granted them the money to manage in the first place.

Considering developmental investing, trustees of retirement funds should be challenged, if they have not done so already, to start considering investing as broader than buying listed equities and bonds. The 450 or so companies listed on the JSE account only for a fraction of the true market value of all business entities operational in the South African economy today. Trustees and the consultants who so often advise them, have to start thinking about investing for the long-term and investing for development and concomitant growth. Developmental investing by nature holds inherent a longer term view and pension funds are well suited to invest in projects with longer time horizons.

Without trying to defend the industry we come from, the decision on how and where to invest, is first and foremost that of the owners of capital. Asset managers, cannot make these decisions. However, once made, asset managers are the last line of defense for the worker, as they prepare for their retirement. We cannot fail them.

As the PIC, we are fortunate that our principals deeply understand the long term relationship of the economy and the assets that they control.

More importantly, we also need to get rid of the misplaced notion that developmental investing offers poor or sub-par returns. Here I would include saying the idea that investing in a way that considers ESG issues, offers poor returns. Engaging market participants will show you that in many cases investing for development or in SRI-focused products has yielded or promises to yield good returns, comparable with returns of other traditional asset classes. The PIC has also found that in the unlisted space there are good opportunities which can be taken advantage of, given proper due diligence and a sound investment process. Very recent studies find that globally, private equity, particularly in non-traditional areas, has provided the much needed counterbalance to the volatility observed in the financial markets.

So this is a very worthwhile lesson for the investment advisory space.

The PIC ten year plan

Alongside other role-players, the PIC as the largest asset manager on the African continent has an important role to play in developmental investing. The PIC sees longer term developmental investing as one of the cornerstones to the sustainability of good returns for our clients and importantly the development of the South African and other African economies. Over the past year and a half, we have extended our outlook from 3 to 10 years. In the same vein, the GEPF has shifted its assessment from an annual basis to a 3 year rolling basis.

This sets the stage for a totally different way of considering and engaging with investments.

The PIC already invests in a vast array of entities, both listed and unlisted and continues to seek out investments that satisfy client return expectations within risk parameters, and that aid the developmental and transformational effort. Thorough due diligence and on-going monitoring of our investments is key to our success on the investment front.

Within the 4 pillar framework, we prioritise high productivity and labour absorbing investments, that are expected to aid development. In the same context, are expected to increase growth, employment and reduce poverty. They are summarised by the table below:

Economic Infrastructure	Social Infrastructure	Environmental Sustainability	Job Creation & New Enterprise
▪ Energy ▪ Logistics Network ▪ Water ▪ Commuter Transport ▪ Liquid Fuels ▪ Broadband	▪ Affordable Housing ▪ Healthcare ▪ Education	▪ Renewable energy ▪ Green buildings ▪ Energy Efficiency ▪ Recycling ▪ Clean Technology	▪ SMMEs ▪ Small cap stock Exchanges ▪ High Job Creation Section ▪ BBBEE

To deliver in all these areas as well as the listed space required thorough initial introspection as well as on-going progress assessment. The PIC accordingly has mapped out a 10 year vision underpinned by the following priorities:

- Investment performance for clients
- Socio-economic development impact
- Financial sustainability as an entity
- Good corporate governance
- Enterprise-wide risk management; and
- Customer service and collaboration

Obviously, this bold vision entails stretch from the PIC as an organisation and for its employees. Everyone is committed to the challenge of fulfilling this vision. Naturally there are pre-requisites for achieving our vision.

Some of these include:

- Building the correct organisational structure and culture (since buy-in and belief that we are doing the right thing is crucial);
- Being innovative and at the forefront of thought-leadership;
- Maintaining a motivated and skilled workforce;
- Effectively managing risk;
- Maintaining correct data, systems and efficient operations.

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As organisation, the PIC has adopted a 3-phase approach to fulfilling these aims: (1) get the basics right and keep getting them right; (2) re-build the organisation where we believe its needs to be strengthened; and (3) improve operations (in other words become as efficient as possible at what we do). We have set milestones for our journey, and demand a lot of each staff member to deliver. Accountability is central to us in achieving these goals. Ultimately, we aim to maintain world class asset manager status.

Ten years down the line, what will be the measure of our success? The Board of the PIC has set very steep measurable targets, which if delivered up optimally, we will all be proud of what we would have achieved. Not only that, we will be able to effectively deal with the issue of self-dependency and sustained performance. As part of these targets, is how we contribute to empowerment in the South African economy. This includes:

1. Be a leader in social transformation
2. Facilitate for the biggest empowered asset manager to be amongst the Top 3
3. Facilitate private equity firm to be amongst the Top 3
4. The same will apply to property investors, property service providers, broker firms.

Whilst these are noble objectives, they are a very tough call. On our own, we can never achieve or realise them. Herein comes the relevance of entities such as ABSIP…

ABSIP professionals

1. How can ABSIP professionals play a role in developmental investing?
2. How can you ensure that the environment created and opportunities made available are capitalized on?
3. How do we ensure that we develop the requisite entrepreneurial skills to be able to take beyond the humble 10 year targets?
4. How do we secure a future characterised by high growth, low unemployment an zero poverty

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These are the questions, as professionals we need to jointly find answers to. Necessarily, this becomes a challenge to be thrown out to the membership of ABSIP, for all to realise that they are not commentators or spectators. But they are part of the South African developmental journey.

The degree of our success and that of futures generations ultimately depends on how well South Africa and our region develops.