

DR DAN MATJILA
RAGING BULL: KEYNOTE SPEECH
31 JANUARY 2018

SALUTATION

Former Minister of Finance, Mr Nhlanhla Nene

Fellow speakers and participants

Colleagues in the investment industry

Members of the media

Organisers of the Raging Bull Investment Summit and Awards, in particular, Dr. Iqbal Surve and Adri Senekal de Wet.

Ladies and Gentlemen

As they say, "All protocols observed"

Let me pause to express my appreciation to Dr Iqbal and Ms Senekal de Wet for the invitation to speak at the Raging Bull Awards 2018. It is both an honour and privilege, which I do not take lightly. I realise it has been 21 years since the first Raging Bull Awards were held. Congratulations are in order to the organisers for successfully rearing the raging bull this far!

This occasion is to recognize and honor the top performers in the asset management industry, the Alpha-generators who are the top performers in their respective categories. The Raging Bull Investment Summit and Awards come at a peculiar time in South Africa. The Summit comes at a time when South Africa is at crossroads with regards to corporate governance. I need not mention the developments at Steinhoff, which have resulted in the destruction in shareholder value. Neither do I need to repeat the body of evidence that points to failed corporate governance at public institutions. Stakeholders – both in the public and private sectors are enraged at lapses in corporate governance. They are equally demanding high levels of corporate governance from those in

positions of leadership and authority. Through their collective actions, these stakeholders are asking a recurring question: “how long shall we put up with failed governance?”

I am going to talk about “**Creating Sustainable Alphas for Clients**”. In the process, I hope to share my thoughts about key ingredients of creating what we, at the PIC, call **Green-Alpha**. In our view, Green-Alpha is:

“Excess returns over the benchmark that is generated in a portfolio that is growing by more than Inflation (meeting and exceeding Clients minimum target returns) or consistently delivering a positive real growth for the portfolio over a reasonable measurement period (i.e. Business cycle). As they say alpha alone will provide comfortable retirement but a combination of alpha and steady portfolio growth will.”

The combination for creating Green- Alpha is simple! It is Consideration of Environmental issues, plus Social issues, plus Governance. If we look after the environment, address critical social issues (including transformation) and uphold Good Governance across all assets in the portfolio, we can generate sustainable returns for all stakeholders. I need not elaborate on Good Governance! King has provided us with a great framework. Implementation of this framework is what will make a difference.

Good Governance is an important component that differentiates a good, long-term investment (sustainable investments) from bad investments. The right Board of Directors will put together appropriate management to implement the strategy; assist in managing risks the company is faced with, drive key social issues, including transformation and take care of the environment. Not only will this create sustainable wealth for all stakeholders, but it will also ensure the realisation of inclusive growth.

History is replete with examples of failed corporate governance at companies across private and public sectors. Locally, Saambou, Fidentia and African Bank are just some of the known examples. The most recent one concerns Steinhoff International.

The scandal that continues to beset Steinhoff is testimony to that ancient truth: “**The only thing we learn from history is that people do not learn from history**”. There is always something to be learnt from setbacks. These are some of the lessons, albeit very costly:

- **Characteristics of the board are important.** Steinhoff, following the primary listing on the Frankfurt Stock exchange opted for the two-tier board structure to ensure that the supervisory

board is independent of the management board. The problem with this structure is that the management board may withhold information from the supervisory board.

- **The structure of the company.** The company had a very complex group structure and operates in various constituencies. Complex structures and various constituencies for operations and offices may be the ideal smoke screen for accounting irregularities and tax evasion.
- **The role of regulators and the auditors.** The company's auditors seem not to have picked up on the accounting irregularities prior to investigations by the German authorities. This raises serious concerns and bolsters a call for rotation of auditors.
- **The role of asset managers and asset owners.** It is as if the collapse of the Steinhoff share-price suddenly brought new life to the term shareholder activism. Trade unions, as owners of the capital, suddenly raised their voices about good corporate governance in listed companies. The questions should also be asked, whether asset managers are too much focused on short-term alpha generation rather than long-term sustainable returns.

Ladies and Gentlemen, the PUBLIC SECTOR is as guilty!

Poor governance at SEO's has negatively affected the economy quite significantly. They have subtracted a significant amount from the economy. We have experienced low economic growth because some SOEs have not contributed their share in the economy and they have failed to deliver on their mandate. Most if not all asset managers have invested in SEO debt that is guaranteed by Government. Because of these guarantees, the asset management industry seems to have taken a back seat where it concerns governance at SOEs. After all, why would they be involved if their returns are guaranteed? Hopefully, guidelines and regulations dealing with SOE governance reform will soon be developed to better manage ESG in these entities and to ensure their long-term sustainability.

Ladies and gentlemen, it is through our collective actions that we can restore corporate governance in both private and public institutions. We hold the purse! Have we forgotten that: "he that pays the piper calls the tune?" Why are we allowing the piper to call the tune?

Ladies and gentlemen, I would like to take this opportunity to congratulate the recipients of tonight's Raging Bull Awards. It is my sincere hope that you will continue to rage for the right reasons and that you will rage in pursuit of returns for the clients on whose behalf you invest.

This is my plea: Let us be active investors. Let us not assume the position of a retreating bullock.

Thank you.