

MEDIA STATEMENT BY THE INTERIM PIC BOARD ON THE CONCLUSION OF ITS TERM

28 October 2021

PRETORIA – The Interim Board of the Public Investment Corporation (PIC) today concluded its last meeting to mark the end of its tenure.

In terms of the PIC Amendment Act (14 of 2019), the Minister of Finance as shareholder representative, will appoint a new Board in due course.

The Interim Board was appointed in July 2019, at a time when the reputation and credibility of the PIC were beset by allegations of impropriety, negative public exposure and deteriorating relations with clients and stakeholders, some of which became the focus of the PIC Commission of Inquiry led by Judge Lex Mpati.

“The PIC was viewed with suspicion, with weak governance processes and open to serve only a few who were politically connected,” said Dr. Reuel Khoza, the PIC Chairman.

Over the past two years, the Interim Board had a formidable task to restore ethical conduct, review governance structures, delegations of authority, policies and investment processes, review questionable investments, institute legal recovery steps and disciplinary actions. The Board was guided in its work by the recommendations of the Mpati Commission of Inquiry and its interventions, which are discussed below, sought to directly address improprieties, lapses in governance and deficiencies in the PIC’s operational structure, as identified by the Commission.

The Board revised the PIC’s Memorandum of Incorporation (Mol) with the shareholder and introduced changes to the PIC Operating Model to remediate weaknesses caused by an overconcentration of executive power in the position of CEO. The positions of Chief Investment Officer (CIO), Chief Operating Officer (COO), Chief Risk Officer (CRO) and Chief Technology Officer (CTO) were re-introduced to the executive structure, in terms of the revised operating model. All C-Suites positions have been filled except for the CIO position. The changes to the PIC Operating Model are in line with reviewed client mandates.

“Assets under Management (AuM) by the PIC grew by almost R440 billion to R2.339 trillion by 31 March 2021, in line with the recovery in the global economy and financial markets. Importantly though, the PIC’s relationship with its clients and stakeholders, especially regulators, has improved considerably which is attributable to constant open communication on strategic matters and standardized biannual meetings with all major clients at governance level above the regular operational engagements,” reflected Dr. Khoza.

For the Interim Board, the following key performance areas attest to the degree of progress made over the past two years in respect of governance, improving the investment decision process and internal controls:

Strengthening Governance

From 2019 the PIC conducted a review of Policies and Standard Operating Procedures across the organization to strengthen governance and compliance. It included Investment and Corporate activities. Some 80 internal policies and procedures are being reviewed with 90% of proposed changes having been approved.

The separation of duties in management was introduced (demarcation and alignment of C-suite responsibilities and that of executive heads) to avoid the concentration of executive power and improve levels of accountability.

The Social and Ethics Committee's (SEC) function was enhanced to include monitoring the implementation of enterprise-wide transformation in 2019. The SEC was renamed as SETCO (Social, Ethics and Transformation Committee) and the Terms of Reference of the Committee were reviewed to include the monitoring of transformation.

The PIC established a working relationship with the Ethics Institute and developed an ethics strategy and ethics management plan. Both were approved, together with a Code of Ethics for the PIC. The Board established an Ethics Office in 2020 to build on this foundation.

A new investigation model was approved, in terms of which Internal Audit ensures that all whistle blower reports are investigated independently.

Strengthening Investment Processes

Investment processes are now overseen and implemented by the (acting) CIO whilst investment operations are overseen and implemented by the COO. Overall operations are overseen and implemented by the CEO.

The anomalous reporting structure between the Portfolio Management Committee (PMC) and Executive Committee (Exco) on investment decisions has been eradicated to ensure independent oversight, risk-evaluation, and accountability.

The PMC now reports to the Investment Committee (IC), a sub-committee of the Board. The IC now comprise of two committees – for listed and unlisted investments – to specifically address long delays in the unlisted investment selection process. Independent experts have been appointed to the IC to assist it on technical matters and to strengthen dialogue around the incorporation of ESG (Environmental, Social and Governance principles) into investment processes.

The inefficient substructure of different Fund Investment Panels (FIPs) has been collapsed into a single, separate Investment Committee for all unlisted investments. A Turnaround Business Unit was established for all unlisted investments to provide strategic focus on distressed investments.

“A perception existed previously that no investment proposal would be accepted unless it came through specific ‘gatekeepers’ within the PIC. Any investment proposal can be submitted via the PIC website and all investment proposals follow approved processes and are decided by established governance structures. No single individual in the PIC has powers to approve investments,” Dr Khoza stated.

Critical aspects of the investment process still outstanding:

- Recruitment of a permanent CIO;
- Addressing a corporate culture and ethics that occasionally led to the disregard of client mandates.
- Automating key aspects of the investment process.

These deliverables require the leadership of a CIO to ensure full implementation.

Improvement of Risk Management, Governance and Internal Control

Progress was made to improve Risk Management, Governance and the Internal Control environment. The Audit and Risk functions were separated to enhance efficiency. There are now two committees: An Audit Committee and a Risk Committee. The Terms of Reference of both Committees were approved and a new CRO appointed.

An external service provider was appointed to assist the PIC with a Risk Management Improvement Framework (RMIP). Improving risk management processes to assess investment risks, and implementation of the recommendations by the service provider is ongoing. The Board added the following risks to the risk matrix that must be monitored:

- Bribery and corruption;
- ESG (Environmental, Social and Governance), including climate change; and
- Ethics

The policy on Politically Exposed Persons (PEP) was reviewed and amended. The PIC has adopted a more stringent and rigorous approach than what is prescribed by the Financial Intelligence Centre Act. No distinction is made between the treatment of foreign and domestic PEP's and investments that are likely to expose the PIC to reputational risk are referred by the Investment Committee to the SETCO (the Social, Ethics and Transformation Committee), and/or the Board for further scrutiny.

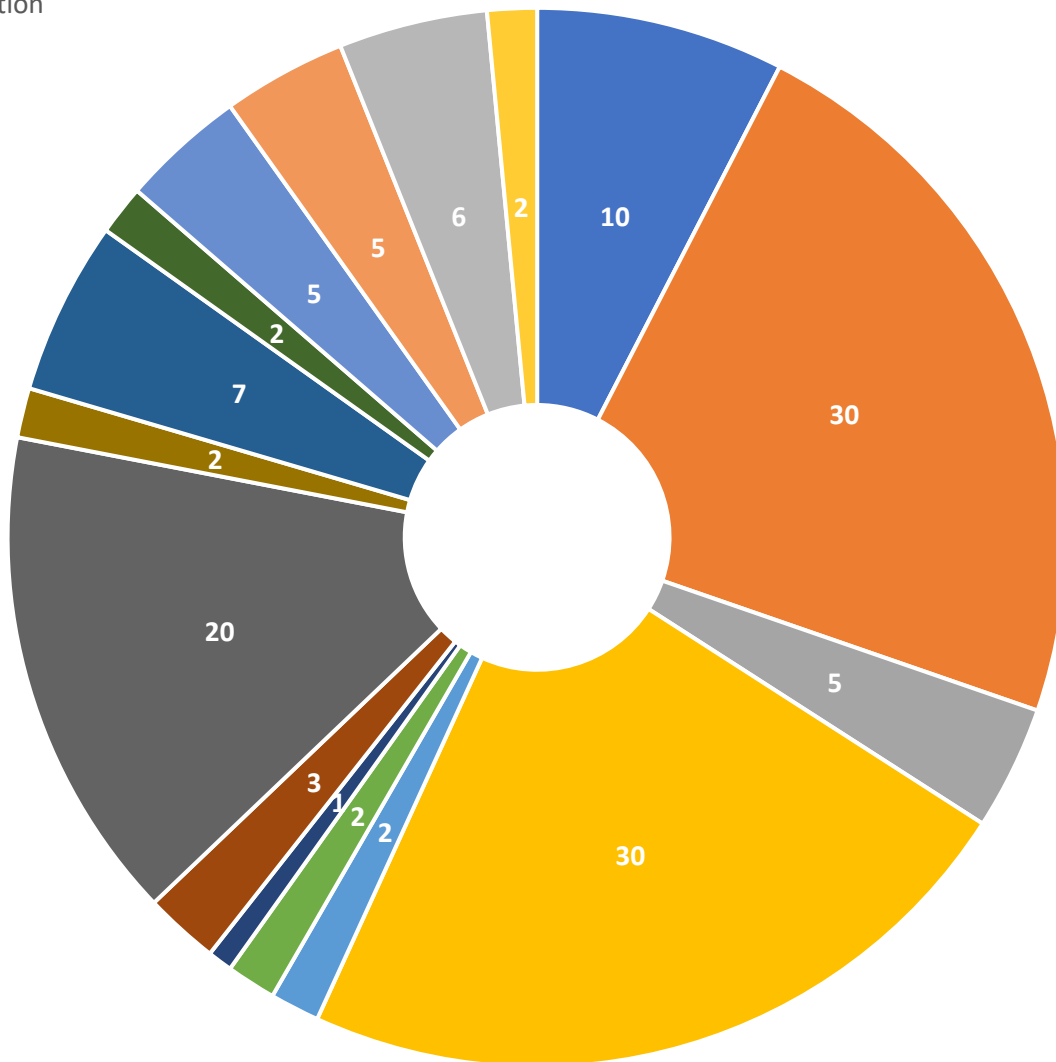
The Annual Valuations of unlisted investments, which were previously submitted by external evaluators to management are now presented by external evaluators directly to the Audit Committee to ensure independent review outside of management. The Audit Committee then recommends external valuations to the PIC's clients. The Finance and Valuations Committee that previously reported to Exco, now reports to the Audit Committee.

Recommendations of by the Mpati Commission of Inquiry

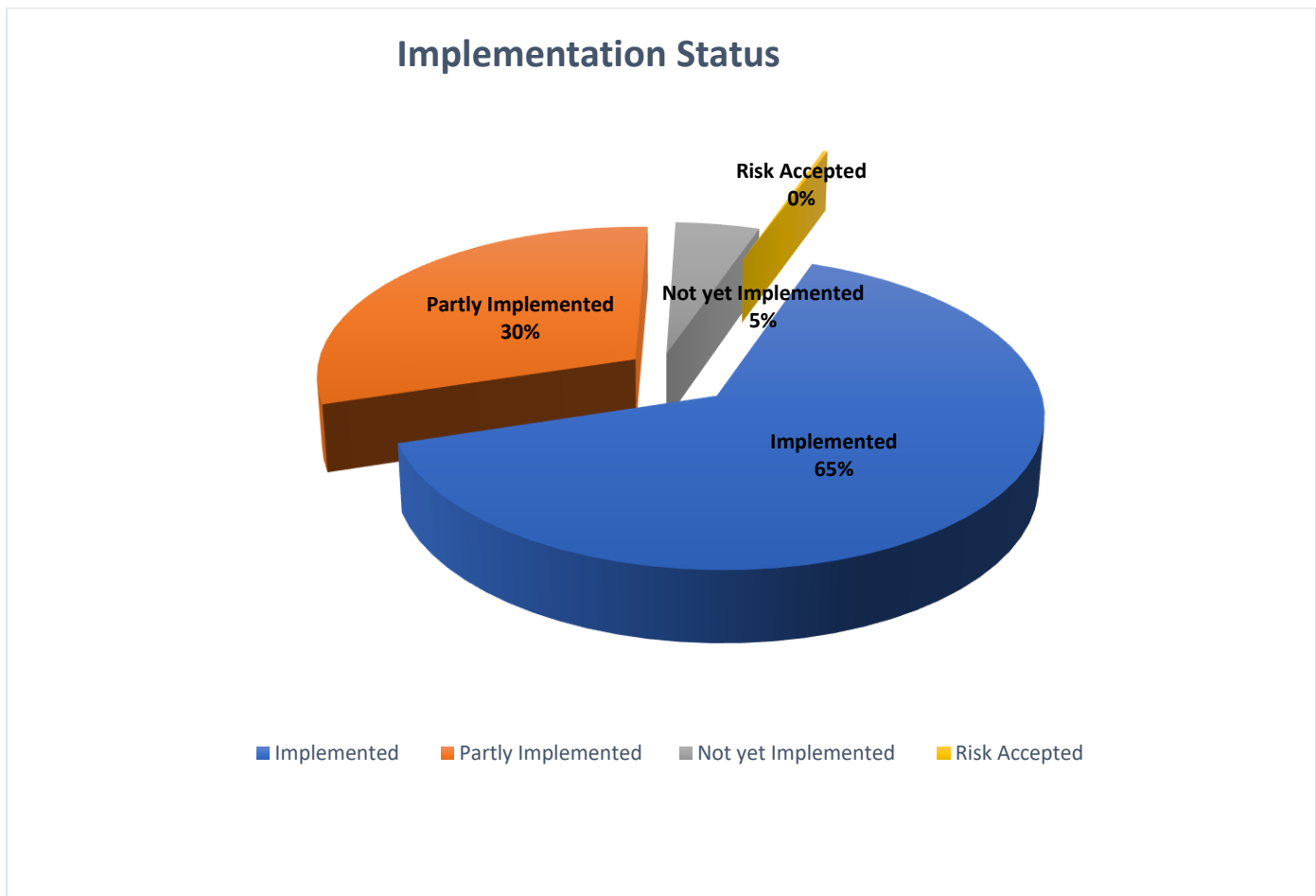
The Board has been resolute in implementing the Commission's recommendations and to act decisively against parties identified in the report. Remedial steps included disciplinary procedures against implicated officials, full cooperation with law enforcement agencies in respect of criminal

investigations, and civil actions that were instituted to recover funds from investments that contravened PIC policies and governance processes. Given the scale, complexity and magnitude of the Commission's work, the Board segregated the report's content along the following themes:

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| ■ Develop clear policies | ■ Further Investigation | ■ Post Investment Monitoring |
| ■ Review Policies and Procedure | ■ Implement new model | ■ Law and regulations |
| ■ Revise DOA | ■ Review structure | ■ Review Process |
| ■ Governance process | ■ Recover monies | ■ Obtain legal opinion |
| ■ IT Infrastructure | ■ Disciplinary Action | ■ Review contract and transaction |
| ■ Legislation | | |



The implementation status is illustrated as follows:



The Advisory Panel chaired by Justice Yvonne Mokgoro will continue to provide legal guidance and independent oversight to the PIC and will monitor the implementation of the Commission's report.

The Board believes a strong foundation has been established since 2019 to ensure that ethical principles, sound corporate governance and accountability to guide the future work of the PIC.

ENDS.

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