

**NATIONAL ASSEMBLY**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 2215 [NW2383E]**  
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**2215. Adv A de W Alberts (FF Plus) to ask the Minister of Finance:**

- (1) With reference to his reply to question 1578 on 4 July 2018 regarding the Public Investment Corporation (PIC) and the Government Employees Pension Fund's approval of a loan of R50 billion to Eskom, what are the due diligence criteria for PIC when a short-term loan is considered;
- (2) (a) is the specified due diligence criteria an accepted process which has been approved by the PIC board and (b) does the process correspond with industry acceptable investment criteria;
- (3) was a proper due diligence conducted in terms of the specified criteria on the R5 billion loan to Eskom; if not, what is the position in this regard; if so,
- (4) whether he can provide supporting documentation of this?

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**REPLY:**

- (1) At the outset it should be noted that the loan amount was R5 billion and not R50 billion and the loan was paid back on 1 March 2018 with interest of approximately R30 million which accrued to the Government Employees Pension Fund (GEPF).  
Similar to all other investments the loan to Eskom was subjected to the PIC's investment processes, which is set out below:

**Mandates and Mandate Fit**

The PIC's investment decisions are informed by the provisions of mandates entered into between the PIC and its clients. These mandates are approved by the FSB and, amongst

others, they prescribe strategic asset allocations and the asset classes in which the PIC can invest, the risk parameters as well as portfolio limits, with the ultimate objective of generating sustainable returns for the clients on whose behalf the PIC invests.

It is a requirement that any transaction funded by the PIC should fit the mandate and any investment that is misaligned with the mandate cannot be funded. If a transaction fits the mandate, then it is subjected to a thorough due diligence process before an investment decision is taken.

### **Policies and Frameworks**

All transactions are subject to various (Board-approved) PIC investment, compliance, risk and legal policies, as well as ESG frameworks, all of which are based on international best practice and are aligned with applicable legislation and regulations. The PIC also has an approved 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 Support. The DOA also outlines the powers of the Board, as well as the committees of the Board and those of the Executive Directors.

### **Transaction Approval Process and Due Diligence**

Once a transaction is presented to the PIC, it goes through an initial screening process to establish that it fits the mandate, is commercially viable and falls within acceptable risk parameters. If it meets these requirements, it is tabled at a Portfolio Management Committee (PMC) to seek authorisation to conduct due diligence. This committee is chaired by an Executive Director, and its members include a mix of Executive Heads of Divisions as well as other members of Senior Management.

The PMCs comprise of PMC Unlisted (for all transactions not listed on the stock exchange); PMC Listed (for all transactions listed on the stock exchange); and PMC Property Investments (that deal with real estate investments). Once the initial due diligence process has been concluded, the outcomes thereof are presented and discussed at a subsequent meeting of the respective PMC. Should the PMC at the meeting resolve that a transaction is worth pursuing, the PMC will recommend that a detailed due diligence be undertaken.

A comprehensive due diligence (financial, commercial, operational, legal, technical, legal and regulatory, and ESG) is undertaken and terms and conditions of the proposed investment are negotiated with the counterparty. The due diligence is conducted by the PIC and where appropriate, external service providers.

Based on the outcomes of the due diligence, the PMC may either approve the transaction if it is within its approval limits in terms of the PIC's DOA, or reject the transaction. Where the value of the transaction is beyond the PMC's approval authority, the PMC recommends it to the next level of approval. Depending on the type of investment (listed, unlisted or properties), the next level of approval could be any of the following committees: Fund Investment Panels (FIPs) (sub-committees of the Investment Committee), the Investment Committee, and the Board.

Transactions which present any risks of an ESG or reputational nature are also scrutinised by the Social and Ethics Committee of the Board, focusing on the ethical aspects thereof, as well as sustainability matters. These Board committees are comprised of a majority of Independent Non-Executive Directors and are also chaired by Independent Non-Executive Directors.

- (2)(a) All PIC policies, due diligence criteria and delegations of authority are reviewed on an annual basis and approved by the PIC Board.
- (2)(b) The PIC's investment process, policies, due diligence criteria and delegations of authority correspond with industry acceptable investment criteria, both locally as well as internationally.
- (3) A due diligence was conducted on the R5 billion loan to Eskom. Further to this it is also important to note that this loan was backed by a Guarantee from National Treasury.
- (4) The PIC's reports on investment decisions are confidential and cannot be made public.