

STATEMENT BY ROYITH RAJDHAR 

TO

**JUDICIAL COMMISSION OF ENQUIRY INTO ALLEGATIONS OF
IMPROPRIETY REGARDING THE PUBLIC INVESTMENT
CORPORATION (PIC)**

16 JANUARY 2019



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Information on Person Making Statement

1. I, Royith Rajdhar, an adult male aged 52 with identity number [REDACTED] and a South African national confirm that I reside at [REDACTED] and further confirm that the contents contained in this statement are true and accurate.
2. I was employed by the Public Investment Corporation SOC Ltd (PIC) on 01 October 2009 and have been in its employ since then with uninterrupted service holding various titles entailing certain responsibilities aligned to those roles. I am currently employed as the Executive Head: Impact Investing and report directly to the Chief Executive Officer of the PIC.
3. I have obtained the following qualifications, Bachelor of Accounting Science (B.Compt), Post Graduate Diploma in Accounting (CTA), Higher Diploma in Tax Law and Certificate in Advanced Company Law. I am a qualified Chartered Accountant (South Africa).

Background Information

4. I have been requested by the Evidence Leader of the Judicial Commission of Enquiry into Allegations of Impropriety regarding the PIC to submit a statement which details the investment process adopted and implemented by PIC relating to transactions concluded in its unlisted investment portfolio.
5. The unlisted investment portfolio comprises the following divisions: Private Equity, Impact Investing and Unlisted Properties. I understand that the Unlisted Properties Division will submit a separate statement confirming the investment process related to it. Therefore, this statement relates to the investment process insofar as the Private Equity and Impact Investing divisions are concerned.

Context to Private Equity and Impact Investing Divisions

6. The PIC has entered into investment mandate agreements with its clients and accordingly invests funds on behalf of its clients across various sectors. Broadly the mandate covers listed equities, listed fixed income securities, cash and money markets, unlisted property, unlisted equity and unlisted debt. The Private Equity and Impact Investing divisions cover the unlisted debt and unlisted equities portion of the mandate from the clients.



7. In respect of Private Equity and Impact Investing mandates have been provided by the Government Employees Pension Fund (GEPF), Unemployment Insurance Fund (UIF) and Compensation Commissioner (CC).
8. The broad distinction between Private Equity Division and Impact Investing Division is that Private Equity will typically invest in transactions where shares change hands between parties whilst the Impact Investing Division typically invests in projects which are either start-up ventures or expansion of existing enterprises (i.e. the funds flow into the company) rather than into shareholder hands.
9. The Private Equity and Impact Investing Divisions follow similar investment processes and are guided by the provisions of the relevant client mandates.
10. Transactions concluded by the Private Equity Division and Impact Investing would be dealt with through the following committees:
 - a. Asset Allocation Committee ("AAC"), including the Deal Screening Task Team ("DSTT")
 - b. Portfolio Management Committee (Unlisted Investments) ("PMC-UI");
 - c. Fund Investment Panel ("FIP"): Social and Economic Infrastructure and Environmental Sustainability;
 - d. Fund Investment Panel: Private Equity, Priority Sector and Small and Medium Enterprises;
 - e. Investment Committee ("IC").
 - f. Social and Ethics Committee ("SEC")
11. The members of the AAC includes the following:
 - a. Executive Head: Research and Project Development (Chairperson)
 - b. Executive Head: Risk
 - c. Chief Executive Officer (CEO)
 - d. Chief Financial Officer (CFO)
 - e. All Executive Heads, General Managers and Fund Principals of investment divisions
 - f. Head of Economic Research
 - g. Head of Investment Projects
 - h. Senior Manager Enterprise Wide and Operational Risk
12. The members of the PMC-UI includes the following:
 - a. CEO (Chairperson)
 - b. CFO



- c. All Executive Heads of Investment divisions (except Listed Investments)
- d. Executive Heads: Risk, Legal, Research and Project Development and Investment Management

13. The members of the FIP, the majority of which are non-executive directors, includes the following:

- a. A PIC non-executive director as chairperson
- b. Other PIC non-executive directors
- c. CEO
- d. CFO

14. The members of the IC, the majority of which are non-executive directors, includes the following:

- a. A PIC non-executive director as chairperson (Deputy Chairperson)
- b. Other PIC non-executive directors
- c. CEO
- d. CFO

Note: the Chairpersons of the FIP are members of the Investment Committee.

15. The members of the SEC includes the following:

- a. 3 non-executive directors, one of which is chairperson
- b. CEO
- c. CFO

16. These committees reflect the current status and the composition thereof has changed over a number of years.

17. There may be circumstances where proposals will be referred to the PIC Board, SEC and/or the client.

18. There are various instruments in place which provide a framework for undertaking unlisted investments. These include the client mandate, policies, processes and guidelines, delegations of authority and governance structures.

Investment Process

19. Below is a description of the investment process as it relates to the Private Equity and Impact Investing Divisions of PIC. It will make reference to certain committees in certain instances. It is suggested that the investment process be read in conjunction with the Terms of Reference applicable to the relevant committees of PIC as well as the Delegation of Authority ("DoA") in so far as it relates to Unlisted Investments.

20. It must be highlighted that this investment process has been tabled at different instruments of government such as the Standing Committee on Finance, the Standing Committee on Public Accounts, the Public Protector, and the Auditor General of South Africa. It may have taken different forms such as presentation or full text document.

Funding Application

21. PIC receives applications for funding through various means which could include the following:

- a. Unsolicited applications from clients or their advisors;
- b. Deal origination by PIC investment professionals;
- c. Referrals by other funding institutions;
- d. From strategic partners with whom PIC has concluded Memorandum of Understandings such as Industrial Development Corporation (IDC) and Development Bank of Southern Africa (DBSA);
- e. Delisting from PIC listed investment portfolio;
- f. Referrals from other divisions of PIC.

22. Upon receipt of an application by the respective team, an application acknowledgment letter will be prepared and sent to the potential client.

23. An initial desktop review of the application is conducted by the investment team. It is tested primarily to ascertain compliance with PIC investment mandate requirements particularly in relation to meeting financial return requirements and the level of developmental impact (e.g. job creation, housing provision, education etc.) and nature of project;

24. If the application fails to meet the mandate, it is declined and the applicant is informed accordingly.

25. If the application, based on desktop evaluation, meets the mandate requirements, the investment team will prepare a Deal Screening Report for submission to the Executive Head (EH) for review and approval to submit to Deal Screening Task Team (DSTT), a structure within the Asset Allocation Committee. Once approved by the EH the deal screening report will be submitted to the DSTT¹ via the Company Secretariat of the PIC.

Deal Screening

26. The investment team will make a presentation to the DSTT requesting approval to submit a Scoping Report to the PMC-UI. The purpose of this Scoping Report is to obtain approval to proceed to due diligence and, where necessary, incur costs in appointing consultants to assist in certain parts of the due diligence.

27. The DSTT will consider the submission and either approve, decline or refer the submission back to the investment team for further work. If the submission by the investment team is declined, a decline letter with reasons will be prepared by the investment team and signed in line with the Delegation of Authority (DoA) as it applies to Assets under Management and accordingly sent to the applicant. If the submission is approved, the investment team, in consultation with other relevant PIC divisions, prepare the Scoping Report for the submission to PMC-UI.

28. Staff assigned to work on the transaction will be required to indicate whether any of them has a conflict of interest by completing a document entitled Declaration of Conflict of Interest.

Deal Scoping

29. The investment team will prepare (with inputs from other PIC divisions, namely Portfolio Management and Valuation (PMV), Environmental, Social and Governance (ESG), Legal and Risk) the Scoping Report requesting approval to proceed to due diligence. The Scoping Report is submitted to the EH for review and approval to submit to PMC: UI² via PIC's Company Secretariat.

30. PMC:UI will consider the submission and either approve or decline or request to go to due diligence or refer the submission back to the investment team for rework. If declined the investment team will prepared a decline letter to be signed in line with the DoA. If referred for

¹ DSTT was established by the Asset Allocation Committee to consider all funding applications.

² A Management committee chaired by the CEO or his duly appointed delegate and is governed by the approved Terms of Reference



rework, the investment team will revise its initial submission and resubmit an amended document to the PMC:UI. If approved the application will move to due diligence stage.

31. Upon receiving approval to proceed to due diligence from PMC:UI, the investment team will request from the various EH's from Risk, Legal and ESG divisions for resources to assist in the due diligence of the proposed transaction.
32. The investment team will prepare the engagement letter and indicative term sheet which is reviewed by the Legal team before forwarding it to the potential client for review and sign-off in line with the DoA.
33. The engagement letter will include, *inter alia*, the scope of the due diligence to be covered by the various teams (Investment team, Risk, Legal and ESG) and information required for Know-Your Client ("KYC") and FICA processes.

Due Diligence

34. Depending on whether the investment team or ESG, Legal and Risk has internal capacity to conduct due diligence on the transaction, a decision will be made by the respective teams as to which section of due diligence scope will be outsourced to third party advisors and which section will be done using internal resources.
35. If the decision is to outsource, procurement process will be undertaken to appoint the relevant service providers to conduct due diligence on the transaction on behalf of the respective teams as per the unlisted investment procurement policy and process.
36. The respective investment teams with the Investment Management Operations team will prepare a Request for Proposal (RFP) which will include the scope of the due diligence and furthermore agree on which service providers to be approached from the approved service provider database. This process will be done in conjunction with the respective teams. If there are no sufficient and/or experienced service providers on the approved database a request for approval to approach service providers outside the database will be prepared and such request will be approved in line with the DoA.
37. Once the RFP is completed and the required number of service providers have been agreed upon, the RFP will be issued by the Investment Management Operations team to the selected

service providers. The RFP will be accompanied by the Declaration of Interest (DoI) and Non-Disclosure Agreement (NDA).

38. Depending on the requirements of the RFP, service providers will submit proposals in electronic form and/or hard copies to Investment Management Operations Team within the required timelines as stated in the RFP. Once received, the Investment Management Operations Team will convene an Evaluation Task Team, which will include a representative from the PIC Supply Chain Management Unit (SCM). The proposals will be evaluated in line with the AuM procurement policy and the service provider with the highest score will be recommended for appointment.
39. The approval of a service provider will be done in line with the DoA. Once the approval is obtained, engagement letter will be concluded between PIC and service provider. The engagement must be reviewed by Legal and signed in line with the DoA;
40. Once an engagement letter is signed, a kick-off meeting is scheduled and held with the appointed service provider for a briefing on the proposed transaction and the scope of the due diligence.
41. Once the appointed service provider has completed the scope of work as outlined in the RFP, the service provider will prepare a due diligence report for submission to the relevant team. The investment team will engage with the service provider until the final report is submitted.
42. Once the kick-off meeting is done the investment team will share all information received from the potential client as per the due diligence checklist with the approved service provider. After this there is a site visit and meetings are held with potential client.
43. The scope of the due diligence will broadly cover the following areas:
 - a. Commercial due diligence
 - b. Financial due diligence
 - c. Technical and operational due diligence
 - d. Legal and regulatory due diligence
 - e. Environmental, social and governance due diligence.
44. From the outcome of the due diligence the transaction structure will be agreed and the Risk division will conduct an independent risk review assessment.

Deal Approval or Recommendation

45. Following the above, investment team will prepare an Appraisal Report for submission to the PMC: UI for consideration. The appraisal document will be reviewed and signed off by the EH of the relevant investment division prior to submission to PMC:UI.
46. The Appraisal Report will be accompanied by independent reports from ESG, Risk, and Legal divisions and these reports will incorporate the due diligence findings and the controls to be implemented to mitigate any risks identified during the respective due diligence investigations. These reports are reviewed and signed off by the EH of those respective divisions prior to submission to PMC:UI via the Company Secretariat.
47. PMC:UI will consider the submission and either approve or decline or refer the submission back to the investment team for rework. If the submission is declined by the PMC:UI, the investment team will prepare a decline letter to be signed in line with the DoA. If it does not fall within the PMC:UI DoA, the transaction will be referred for onward submission to the relevant governance committee as per the DoA for consideration. The relevant committee would typically be the IC or its sub-committees, namely the relevant FIPs.
48. If the proposed transaction falls within PMC: UI DoA, and is approved by the PMC:UI the investment team will accordingly prepare an approval letter which will be signed in line with the DoA. This letter will be submitted to the potential client. Company Secretary will prepare a resolution which is signed by the approving committee chairperson. If referred back for rework, the investment team will rework and resubmit to PMC:UI.

Higher Governance Committees³

49. After PMC:UI recommends the proposed transaction to a higher committee for approval, the same reports, modified to the extent necessary based on comments from PMC-UI, are signed by PIC's CEO and submitted, via Company Secretariat, to the IC or relevant FIP.
50. The IC or FIP will consider the submission and either approve or decline or refer the submission back to the investment team for rework. If declined the investment team will prepare a decline letter to be signed in line with the DoA. If referred for rework, the investment team will rework and resubmit their submission to IC or FIP for further consideration.

³ The Higher Governance Committees refers to FIPs which are sub-committees of IC and/or IC which is a sub-committee of the PIC Board and/or the Board. These HC are chaired by PIC Non-Executive Director and are governed by the approved Terms of Reference.

51. If approved, the investment team will prepare an approval letter which will be signed in line with the DoA. This letter will be submitted to the potential client. The Company Secretary will prepare a resolution which is signed by the approving committee chairperson.
52. Once the transaction has been approved it will move to the negotiation and drafting of legal agreements process.

Legal Agreement Process

53. Once approval is obtained from the relevant governance committee, the Legal division will commence with drafting of legal agreements (with inputs from Investment team, PMV, Risk, ESG and Investment Finance). The drafting of legal agreements can be either outsourced or drafted using internal resources. If outsourced the Legal team will appoint a law firm following the same procurement process outlined above under due diligence section. The legal agreements will be drafted in line with the terms and conditions of the approving committee.
54. Once drafted the legal agreements will be signed by the client and CEO of the PIC or his delegate and the transaction will move to disbursement process.

Conditions Precedent Fulfilment ("CPs")

55. Once both parties have signed the legal agreements, the respective transaction teams, led by the Investment team, Legal team, Risk and ESG teams oversee the fulfilment of all the conditions precedent both of a legal and non-legal nature including condition(s) for disbursement.
56. The legal team will prepare and issue a legal conditions precedent satisfaction letter to the client confirming that all CPs have been met and that the agreements are now unconditional. The CP satisfaction letter will be signed in line with the DoA.
57. The Legal and investment team will complete and sign-off the checklist. Once all the CPs have been met the transaction will move to the hand-over process lead by the Investment Management Operations Team.

Hand Over Meeting Process

58. Once all the CPs have been met a hand-over meeting will be convened by Investment Management Operations team and all relevant stakeholders (Investment Finance, PMV, ESG, Risk, Investment team, Investment Management Operation) will be invited to the handover

meeting. The purpose of this meeting is to appraise all the relevant PIC divisions about the transaction. The Investment team will prepare a presentation focusing on key aspects of the transaction.

59. The Investment team presents the details of the transaction to the appropriate PIC divisions, to ensure a common understanding.

60. Attendance register will be circulated and signed by all in attendance and shall be filed in the disbursement file. Once the hand-over process is completed, the transaction will move to the disbursement process.

Disbursement Process

61. Post the hand-over meeting the investment team assisted by Investment Management Operations team will prepare the disbursement file. The disbursement file will be prepared in line with the disbursement checklist referred to above.

62. Accompanying the disbursement file will be a disbursement memo requesting approval to disburse funds. The disbursement memo will be signed in line with the DoA.

63. Once approved, the memo and the disbursement file will be submitted to Investment Finance for payment of funds in line with the memo. Once payment is made, the Investment Finance team will forward proof of payment to the Investment Management Operations team for filing in the disbursement file.

64. Once disbursed the transaction will move to post investment monitoring and valuation.

Monitoring and Valuation

65. Post disbursement the transaction will now move to monitoring and reporting by ESG, PMV and Investment teams.

Follow-On (Repeat funding to the same company)

66. Follow-on investments follows the same investment process as outlined above.

Exit

67. The PMV and investment team shall facilitate an exit, and jointly they shall prepare a submission to the appropriate governance committee in line with the DoA for approval of the

exit. Investment exits are governed according to the investment thesis as approved by the relevant governance committee at the time of the initial approval and undertaken in line with the PIC's asset disposal guidelines and legal agreements.

Investment Process

68. The investment processes outlined above represents the current prevailing investment process, which processes have evolved over a period of time as a result of continual improvements and enhancements over a number of years. These improvements and enhancements include, but is not limited to:

- a. Establishment of the Sector focused Investment Committees (FIP);
- b. Implementation of enhanced due diligence on funding application where Politically Exposed Persons (PEPS) are involved;
- c. Referral of funding application where PEPs are involved to SEC;
- d. Completion of Declaration of Interest forms prior to commencing due diligence;
- e. Incorporation of the ESG considerations into investment process;
- f. Issuing funding application acknowledgement letter to potential clients;



ROYITH RAJDHAR

17/01/2019

DATE