COMMISSION OF INQUIRY OF THE PUBLIC INVESTMENT CORPORATION

HELD AT

TSHWANE, PRETORIA

25 MARCH 2019

DAY 19

PROCEEDINGS HELD ON 25 MARCH 2019

CHAIRPERSON: Morning everybody.

ADV JANNIE LUBBE SC: Good morning Mr Commissioners, members of the Commission.

CHAIRPERSON: Yes.

ADV JANNIE LUBBE SC: My apology for starting late and also an apology on behalf of our admin team it was just one of those things that the new machine didn't come to the party and it led to this delay and I'm very sorry about that, I hope it's the last time.

CHAIRPERSON: That's fine.

ADV JANNIE LUBBE SC: We have a witness ready and my colleague Adv Khooe will present the evidence.

ADV NKAISENG KHOOE: Good morning Commissioner, members, my apologies as well for starting late. Mr Royith Rajdhar is ready to take the oath.

CHAIRPERSON: There's something missing. Morning Mr Raja.

MR ROYITH RAJDHAR: Good morning Mr Commissioner.

CHAIRPERSON: You have been here before haven't you?

MR ROYITH RAJDHAR: Yes I have.

CHAIRPERSON: And so you don't have any objection, nothing happened between then and now that would cause you to object to taking the oath?

MR ROYITH RAJDHAR: No.

CHAIRPERSON: Alright do you swear the evidence you're about to give will be the truth, the whole truth, nothing but the truth, say so help me God.

MR ROYITH RAJDHAR: So help me God.

CHAIRPERSON: Thank you. You may be seated.

ADV NKAISENG KHOOE: Thank you Commissioner. Mr Rajdhar am I correct that you have prepared a statement for the Commission?

MR ROYITH RAJDHAR: Yes.

ADV NKAISENG KHOOE: Am I correct that you have not been forced to make this statement, you did it on your own accord?

MR ROYITH RAJDHAR: Yes I have not been forced.

ADV NKAISENG KHOOE: And are you satisfied that the statement is a true reflection of your belief as far as the S & S Refineries deal is concerned and the evidence leader has not put anything in the statement that you do not agree with?

MR ROYITH RAJDHAR: Yes it's totally my statement.

ADV NKAISENG KHOOE: Okay thank you. You can start at paragraph 1.

MR ROYITH RAJDHAR: Good morning Commissioner and members. My name is Royith Rajdhar I'm a 52 year old adult male. I've been employed by the Public Investment Corporation since 1 October 2009. Currently I am the Executive Head of Impact Investing.

On 16th March 2019 I received a request by Mr Marthinus Rheeder and Adv Nkaiseng Khooe from the team of the Commission of Inquiry to make this statement covering in particular the following issues relating to PIC's investment in and loan to S & S Refineries in Mozambique. These issues are the origination of the deal; overview and nature of the deal; my role in the deal; role of Indiafrec and Zaid International; the payment of referral fees in particular the basis, the calculation methodology, the conditions and the timing thereof; conditions precedent and fulfilment thereof; order of disbursement of funds; disbursement of the loan through a special purpose vehicle; proposed property transaction; possible legal action by the sponsor or any other third party; PIC's involvement in the dispute between Mr Mirza and Mr Rasul and the presence status of this investment.

As mentioned earlier the facts I describe below fall within my personal knowledge and recollection unless otherwise stated or the context suggests otherwise. If I deal with the issue relating to the overview of the impact investing division and roles and responsibilities I just wanted to set some context before I go into the deal itself.

CHAIRPERSON: Ms Khooe can I just ask there's somebody sitting next to Mr Radjhar who is that, is that your legal representative?

ADV NKAISENG KHOOE: Sorry Commissioner, this is Mr Silo he's from the financial department at the PIC.

MR ROYITH RAJDHAR: Mr Commissioner may I proceed?

ADV SECHABA MOHAPI: Yes.

MR ROYITH RAJDHAR: Before I proceed with giving the information in respect of PIC's investment in and loan to S & S Refineries I would like to give the Commission an understanding of the composition of the impact investing division and the role and responsibilities of various team members at the time of making this investment. The staff in the division comprises the following in order of seniority, this is as at the time of the making of the investment; the senior fund principal, a fund principal an associate principal, an investment associate and an investment analyst.

My role as the senior fund principal … (intervention)

MR EMMANUEL LEDIGA: A question, yes I just wanted to check something, the PIC has got an unlisted division, maybe you can refresh our minds by telling us the various types because it looks like there's private equity, there's SIPS and there's developmental, the impact investments, just give us again that clarification and maybe within your division the amounts involved you know there?

MR ROYITH RAJDHAR: Okay on the unlisted investments the unlisted investments is made up of three different divisions. One would be the unlisted properties division, the other one would be private equity and structured investment products and the one which I am currently the head of impact investment, I think formerly the name was development investments so I think up until about a year ago it was called developmental investments it's since been renamed impact investing. So that is in terms of the unlisted investments. If we look at the amounts involved so on the private equity side you would find that the only mandate that the private equity is with the GEPF and there we had an allocation of R15 billion to invest both directly and through fund of funds.

MR EMMANUEL LEDIGA: One five?

MR ROYITH RAJDHAR: One five yes. On the properties side it is an open mandate so they are not given a committed amount, it will be in terms of the strategic asset allocation contained in the client mandate. Then on the impact investing side from GEPF we've been given an allocation of R55 billion over a period of five years and then in addition to that we have mandates from the Compensation Fund and from the Unemployment Insurance Fund. So that is the allocation amongst the three different divisions of unlisted.

MR EMMANUEL LEDIGA: Do you have a sense of how big the property side by any chance?

MR ROYITH RAJDHAR: I speak under correct Mr Commissioner but I think the properties, I think it's about 7 ½% I think is the total allocation to properties. Okay I'm no paragraph 5. My role as the senior fund principal is focussed on matters such as strategy formulation and implementation at a business unit level. PIC client management, performance management, participation in various governance structures, human resource management, interdepartmental relationship management, budget management those are the keys areas. As a senior fund principal I was responsible for the SME priority sector and social infrastructure portfolio in the impact investing or formerly developmental investment area.

MR EMMANUEL LEDIGA: Which means that this is the main part of your sort of responsibilities in a sense that this is the actual department, this is the full department the impact investing?

MR ROYITH RAJDHAR: Through you Commissioner, just to give some context the divisions that I've described just now it's the present situation, at a point in time before there was executive heads we didn't have a distinct, we had three senior fund principals so we had the senior fund principal on private equity then if we took the impact investing side that was split between two fund principals. Essentially the economic infrastructure was handled by another fund principal and I had covered the priorities sector SME and social infrastructure portfolio. Today all of those portfolios are consolidated in one of which I'm the head of impact investing, private equity continues as a standalone.

MR EMMANUEL LEDIGA: I've got it ja, thanks.

MR ROYITH RAJDHAR: The fund principal would be responsible for a strategy formulation and implementation at fund level guided by the senior fund principal will also be involved in portfolio construction and management of the investment of the fund that he/she manages. At transaction level the fund principal will work closely with the rest of the investment team, provide guidance, play a lead role in the transaction structure and negotiation of the principal terms of the investment with the client and review the work of the team. The due diligence fieldwork is primarily led and executed by the associate principal under the guidance of the fund principal in conjunction with his/her team comprising the investment associates and investment analysts and where necessary contracted in third party service providers.

The associate principal also works closely with third party service providers contracted in to assist with the assessment of specific parts of the transaction. The associate principal is a key person in ensuring the execution of the fieldwork internally, he would liaise with insurance providers in the legal, risk and ESG units including discussions relating to their reports. At transaction level my responsibilities include providing the impact investing team with guidance, review, reviewing investment reports compiled by them and recommending investment reports to the relevant approval committees. If the transaction does not have prospects of meeting financial and social returns as senior fund principal I do not recommend them to any approval committee.

It is important to note the recommendation of investments to committees made by myself as senior fund principal is only in respect of transactions within my division so I would not recommend transactions to committees in respect of private equity or the property space and I can add even the structure investments products space. As a fund principal position was vacant at the time of doing the S & S transaction I oversaw the process of putting together a team with varying skills mix to assess the transaction, these included an associate principal Mr Paul Magula, an investment analyst Mr Imraan Mea ,the chief economist Elikana Maroge and the executive assistant from the CEO's office Mr Wellington Masekesa who was exponentially involved at the time in the coordinating of the development of PIC's Africa Investment Strategy.

This expertise was augmented by the third-party contracted service providers namely Ernst & Young which dealt with the financial aspects, Mott MacDonald that dealt with technical and commercial, Cliffe Dekker Hofmeyr who was the local legal firm and SAL Caldeira which was Cliffe Dekker's correspondent attorneys in Mozambique so that was the team that looked at the, who had contributed to the assessment of the S & S Refineries transaction.

MR EMMANUEL LEDIGA: Just a quick separate matter for due diligences, do you use BEE companies sometimes in terms of transactions?

MR ROYITH RAJDHAR: Yes in most cases we use BEE service providers. Sometimes what would happen to the extent that a transaction is very complex and requires multidisciplinary skills and which we cannot find amongst BEE services providers, what we would tend to do is allow for the, let's say if we took a big audit firm, then we'd allow for there to be a partnership where I think up to 30% of the work must go to the BEE service provider. But if we look, this has evolved over time because our procurement policy had also changed so a lot of focus as well is paid to exempt micro enterprises and qualifying small enterprises in terms of the BBBEE codes.

Then if I can move through to the origination of the S & S Refineries transaction, sometime in February 2014 PIC's then Chief Investment Officer gave me an investment proposal prepared by BDO in Mozambique. It had no contact details so I asked the CIO for the contact persons and he provided me with the contact details of Mr Siyabonga Nene.

ADV NKAISENG KHOOE: Can I stop you there. Did the CIO tell you how the proposal to his…

MR ROYITH RAJDHAR: No he did not mention to me nor did I enquire.

ADV NKAISENG KHOOE: But normally how would proposals get into their hands, are they e-mailed, what happens, how do they end up in the CIO's office?

MR ROYITH RAJDHAR: Okay the investment proposals that would come it would come from many sources which I had articulated in my first statement on the investment process but it would up, the majority comes as unsolicited so it just comes from the public. You would have proposals that would come from strategic partners so we have MOU's signed with different institutions and if we look in South Africa with the

IDC and DBSA you'd have proposals, okay the unsolicited is a walk-in as well. And then we'd have proposals that would come from the CEO's office, from the Chief Investment Officer's office and then you'd have proposals that would be originated from the team I referred to earlier in my statement. But you'd have quite a few people who would want to meet with the senior people in the PIC so the CEO, the Chief Investment Officer so in this particular case it came from the Chief Investment Officer and it was not electronic, it was a hardcopy.

ADV NKAISENG KHOOE: Another question, what does the relationship between Mr Siyabonga Nene and BDO?

MR ROYITH RAJDHAR: Okay as far as I could ascertain there was no relationship between BDO and Mr Siyabonga Nene at the time.

MS GILL MARCUS: Sorry can you just explain what BDO is as you understood it at the time because when you look at it, it says an investment proposal prepared by them it doesn't mean that they were the – they might have prepared the investment proposal but were not necessarily the owners of the idea. The question is what was BDO's role at this time when you saw them because I thought that was, from reading the documents that was a different function altogether?

MR ROYITH RAJDHAR: Thank you. Through you Commissioner BDO had prepared the document, the investment proposal on behalf of S & S Refinery it was not their idea, they were contracted in. BDO is an international audit firm, if we say it's the second tier of audit firms so you have the big four and then it's part of the second tier of audit firms.

MS GILL MARCUS: Ja that's exactly, that's why I didn't understand your question which said that you saw BDO as the originator because they weren't they prepared the document on behalf of S & S and how did you understand Mr Nene's role at that point in time in relation to the proposal?

MR ROYITH RAJDHAR: Okay thank you. When I had received the proposal from the Chief Investment Officer and he had given me the contact details of Siyabonga Nene so I had automatically understood that he was interested in the transaction so, but upon having the meeting with him when he had come, he had come in with another gentleman by the name of Amir Mirza. So in that conversation, and I must say that from that point onwards until the conclusion of the transaction, Mr Nene did not play much of a role as far as I could see in terms of my interactions it was Mr Mirza who always took the lead in terms of explaining anything or if we needed any information or needed to meet with any people.

MS GILL MARCUS: Would it be correct then to say that the essence of Mr Nene's, given our previous testimony and what you've said here, the essence of Mr Nene's role was to open the door?

MR ROYITH RAJDHAR: Look in retrospect I would think that's probably probable that it was to open the door, I would think so and when I reflect back at the time I didn't see it as such but when I look with the passage of time and the conclusion of the transaction and the fact that Mr Nene did not play much of a role throughout the transaction I could only understand it to be that, though on the other hand at some point I felt that the relationship between Mr Nene and Mr Mirza seemed to be more of friends rather than business partners.

MS GILL MARCUS: Would it, it may be speculation but would it be that if the proposal had come to Dr Matjila without a person who he would have responded to that the project would have been considered by the PIC?

MR ROYITH RAJDHAR: Look I think that we would have considered the project because it was not often that you would get in a project where there's such substantial investment by the sponsor so it's something that we look at when we assess projects.

If somebody has invested such a significant amount of money in the project there must be something good in the project so we would probably have looked at it regardless. Just to complete paragraph 10, I had asked him if he was related to Mr Nhlanhla Nene who was PIC's Chairperson and the Deputy Finance Minister at the time and he confirmed that it was the son of Mr Nhlanhla Nene. Shortly thereafter I contacted … (intervention)

MS GILL MARCUS: And there you're referring to Mr Matjila?

MR ROYITH RAJDHAR: The CIO at the time Dr Matjila.

MS GILL MARCUS: Ja.

MR ROYITH RAJDHAR: Shortly thereafter I contacted Mr Siyabonga Nene and arranged to meet with him. Immediately prior to the scheduled meeting I requested Mr Wellington Masekesa who was the executive assistant in the office of the CIO to join me at this meeting which was scheduled to take place at PIC office. At the meeting Mr Nene introduced himself and a gentleman called Mr Amir Mirza. Mr Mirza indicated that he and Mr Nene owned a company called Indiafrec Trade and Investment Pty Limited, which I will refer to as Indiafrec going forward, and wished to jointly participate with PIC in acquiring 50% of the ownership in S & S Refinery. They requested PIC to fund their portion of the transaction. The meeting concluded with PIC agreeing to visit the plant in Mozambique.

I will now deal with the overview of the S & S Refinery transaction in chronological order. Before I start with how this transaction evolved from the time we received the application for finance I would like to highlight that at no stage was Mr Mirza nor Mr Nene nor Indiafrec whether directly or indirectly ever shareholders in the S & S Refineries transaction. At conclusion of the transaction the only shareholders were PIC and the sponsors who I will refer to as the Rassul family. PIC did not advance any funds to the abovementioned for the purposes of owning a share in the company. Following the … (intervention)

MR EMMANUEL LEDIGA: Just a question, I just need to go back to understand something quickly there, when the CIO was taking, you know was telling you about this transaction, did the CIO then, I think it probably was Mr Masilela, did he participate in investment decisions?

MR ROYITH RAJDHAR: Through you Chair, yes Mr Masilela was the CEO at the time. Mr Masilela was represented on the different committees so it was portfolio management committee, he was represented on the fund investment panel, the board investment committee, he was represented at all these committees. In essence I would say wherever the CIO was present in a committee the CEO was also a member or a standing invitee to that committee.

MR EMMANUEL LEDIGA: And ja just another question then, in these types of transactions would you typically include Mr Masekesa in this type of a transaction?

MR ROYITH RAJDHAR: At the time it was in my portfolio, it was the first transaction being done on the continent hence I'd drawn in Mr Masekesa even Mr Elikana Maroge normally I would not bring him into the transaction but in my engagements with Mr Maroge I found he had extensive knowledge on the continent and therefore I had brought him to be part of the team. Can I proceed Mr Commissioner?

Then if I move to paragraph 17, following the resolution as outlined in paragraph 16, oh sorry it should be the proposal, during February 2014 or early March 2014 Mr Masekesa, Mr Magula and I visited the plant in Nacala for preliminary discussions with the sponsors and a site visit. Thereafter the associate principal compiled a scoping report which he tabled at PMC unlisted investments on 18 March 2014. The committee approved for the deal to be subjected to due diligence an indicative or rough cut financial structure was scoped whereby PIC and Indiafrec would own 25% each and equity for approximately 29 million with PIC looking at funding Indiafrec's portion. At this stage, and remember we're at scoping stage not verification of the numbers, the capital cost of the project was $100 million plus an estimated working capital of $5 million. The initial structure was based on equity funding totalling $60 million and senior bank loans of $40 million.

When we had tabled the proposal at the PMC and I'll call it PMC1 being the first time we went to the PMC, the key issue raised by PMC1 related to Mr Nene's participation in the transaction given that his father was the Chairperson of the Board of PIC at the time and was also the Deputy Minister of Finance. At that point in time PIC did not have a policy that dealt with the provision of finance to interrelated parties. The PMC requested the deal and legal team to investigate the legal framework on financial assistance to interrelated parties and report back to the committee and should Mr Nene's involvement jeopardise the success of the transaction he should not be involved in the transaction.

The team reported back to subsequent PMC meeting that there was nothing preventing PIC from funding an interrelated party. I wish to point out that a politically exposed person's policy was not in existence at the time of approving the initial transaction. The policy was approved later in the year in December 2014. Following completion of the due diligence … (intervention)

MS GILL MARCUS: Sorry just on that, I mean just to get a point of clarity while there may be nothing preventing because you didn't have a policy were you comfortable with proceeding, there's a difference between policy not preventing and feeling comfortable with proceeding given the close relationships that you were aware of?

MR ROYITH RAJDHAR: Look, I think we were comfortable at that time, given that we did not had any pressure on us and we thought as long as we deal with this project where there is full disclosure and there is no interference in the investment process, that we could proceed. As we would find later, Mr Nene had dropped out of the transaction very early on.

ADV NKAISENG KHOOE: Just to follow up on that one. Prior to this S & S Refinery's transaction, were there other transactions where there were politically exposed persons that you went ahead and invested in?

MR ROYITH RAJDHAR: Through your Commissioner. Yes, there have been transactions with politically exposed persons that we went ahead with transactions and there are also transactions with politically exposed persons involved where we have not proceeded with them. Following the completion of the due diligence and the negotiations ...[intervenes].

MS GILL MARCUS: Sorry, just before you do. Just perhaps to the legal team. Can we get a list of the transactions that have involved PEPS prior to the policy and whether, once the policy has been adopted, there have been transactions involving PEPS?

ADV NKAISENG KHOOE: We will do that, Commissioner. Thank you.

MR ROYITH RAJDHAR: Following the completion of the due diligence and the negotiations of the capital structure of S & S Refinery, the investment team presented its appraisal report to the PMC. To PMC2 on 7 August 2014. The PMC recommended the transaction for approval to the Fund Investment Panel which happened on 11th August 2014.

At this stage, the project costs including working capital had increased from 105 million dollars to 115.1 million dollars. The increase in the project costs was mainly attributable to capitalised interest cost during the construction period of 7.8 million dollars and the inclusion of certain movable items of approximately 1.5 million dollars.

The shareholding was split. PIC, 33 percent and the Rassul Mirza SPV, 67 percent. It was my understanding, after I sought clarity from Mr Mirza, that Mr Rassul was agreeable to vendor financing him but not Mr Nene. This was confirmed by Mr Rassul. At this point it was... [intervenes].

MS GILL MARCUS: Were any reasons given for that?

MR ROYITH RAJDHAR: The reason given was that Mr Rassul had always engaged with Mr Mirza. He had no engagements with Mr Nene and he felt comfortable in working together with Mr Mirza. So, hence, he was agreeable to vendor financing him on the transaction, but not Mr Mirza.

ADV NKAISENG KHOOE: I just want to find out. You just said that Mr Rassul was used to dealing with Mr Mirza. Under what circumstances? Was he using the Indiafrec company or how?

MR ROYITH RAJDHAR: Look, the… As the… What our understanding is that… Well, Indiafrec had the involvement of Mr Nene in there. So, that would not be the vehicle that would have been used to ultimately conclude the transaction.

ADV NKAISENG KHOOE: Sorry. If I understand you correctly. You say that Indiafrec would then be the one getting shares in S & S Refineries if he was financed by Mr Rassul?

MR ROYITH RAJDHAR: Look, at that point in time, if I can say, is that the idea was that in substance it had to Mr Mirza. So, if Indiafrec was eventually going to be used as a vehicle then all the necessary company secretarial work would have to be attended to, in order to remove Mr Nene from there, but eventually the transaction did not happen. But when we proceeded, it was always on the basis that Mr Mirza would be the shareholder and he will be in the consortium of the Rassul group, coming in through one vehicle. That was the intention.

CHAIRPERSON: A question. In terms of the project cost and the project progression, around that time, where was that project? I mean, and how much had been spent so far and in which form? Was it dead funded or equity funded? Just give us some colour there.

MR ROYITH RAJDHAR: Through your Commissioner. I cannot remember the exact figures, but it was not far off from the 105 million dollars. But in terms of the funding of it, we had needed to be funded by Mr Rassul and a group of Mozambique banks.

At the time we had thought that the Mozambique banks were part of the lend to S & S Refinery. Subsequently, we found out that it was partly to the refinery and partly alone, directly through Mr Rassul who had put in the money into the company.

So, it would have been a mix of shareholder loan and bank funding, but I will explain later, that eventually we managed to convince the bank that all the monies must be in the company and not private loans.

CHAIRPERSON: Yes, and how far was the project by then, you know? By the time the PMC approved the funding, how was it? Like 50 percent down or 60...[intervenes].

MR ROYITH RAJDHAR: Well, in terms of the...[intervenes].

CHAIRPERSON: Yes, 60 percent down or what?

MR ROYITH RAJDHAR: No, I think the completion of it was about 90 percent at that time. It was about 90 percent when we had visited it the first time.

ADV NKAISENG KHOOE: You can continue.

MR ROYITH RAJDHAR: Okay. So, paragraph 23. At this point it was our understanding as the PICU Team that Mr Nene was no longer part of the transaction. Also, our legal diligence established that some of the loans from Mozambique banks of 24.5 million dollars were actually lent to Mr Rassul and not… That should not have read as Indiafrec. It should have read S & S Refinery.

Through those security, was taken over the company assets. This, together with the revision of the updated project cost affected the capital structure. PIC's exposure was then 62.5 million dollars, comprising equity of 18.5 million dollars and senior loan 44 million dollars.

At its meeting on the 11th August, the Fund Investment Panel improved the senior loan of 44 million dollars and 18.5 million dollars equity funding. Equating to 33 percent shareholding in S & S Refinery by PIC.

Ideally, PIC would have wanted all the Mozambique banks exposure to be an S & S Refinery, rather than partially to Mr Rassul and partially to the company. We had engaged in discussions with the banks and eventually we convinced them that it would be in the best interest of all parties if all the debts resided in the company and this would streamline security sharing arrangements through a common terms agreement.

At the time we negotiated to increase PIC's shareholding from 33 percent to 45 percent and this was achieved as a result of Mr Mirza withdrawing from the transaction…."

MS GILL MARCUS: Was there any financial implications or costs to the PIC in Mr Mirza withdrawing?

MR ROYITH RAJDHAR: Through your Commissioner. No, there were no costs as a results of Mr Mirza withdrawing, but I must say that at some point I had a conversation with him and he said that he would look at selling his share, but it would not make any… It would still to zero, because you are selling a share against which you would have had full borrowings. So, the net effect of it zero. So, there was no proceeds that he could expect.

MS GILL MARCUS: So, just for my understanding. Is that, at this point in time then the two people who originally brought the deal to the PIC were no longer involved?

MR ROYITH RAJDHAR: Yes, they were no longer involved in the shareholding. But as you will come, I will point out later. There was a financial consideration to Mr Mirza. So, as a result of mainly the bank exposure coming on balance sheet, PIC exposure decreased from 62 million dollars to 53 million dollars.

This change necessarily impacted on the capital structure and shareholding in S & S Refinery. This revised structure was approved by the Funding Investment Panel on 23rd October 2014. The approved amount was 53 million dollars, comprised 80 million dollars in equity funding to funding of 45 percent of the issued share capital of the company and a term loan facility of 35 million dollars.

Thereafter, the legal agreements were concluded on the 14th November 2014. After fulfilment of the conditions president or waivers or deferral of certain conditions, the equity of 18 million dollars was disbursed. Loan funding of 5 million dollars and 30 million dollars was disbursed on 28th May 2015 and 17th July 2015, respectively.

ADV NKAISENG KHOOE: Can I stop you there? The waivers, are they attached to your statement or not?

MR ROYITH RAJDHAR: The waivers are not attached but I can provide them. Just to clarify on the 18 million dollars. There were no waivers. So, all conditions on the 18 million dollars were fulfilled. With regards to the 5 million dollars there was deferral of some conditions.

CHAIRPERSON: Can I just to follow the…? If you can explain, can you explain how the money was used, you know, by the company? The equity cheque of the 80 million dollars and the funding facilities. Were they put in to replace shareholders or whatever? Can you just explain how the money that the PIC used, you know, expenditure was used by the company?

MR ROYITH RAJDHAR: Through your Commissioner. All the monies were put into the company, but then the monies from the company paid out to Mr Rassul, it is just, my understanding in terms of Mozambique law, there could not be a direct payment. So, they had to come via the company.

So, if we look at PIC's investment, except for the 5 million dollars which went in as a working capital, we had bought out 45 percent shareholding of Mr Rassul and shareholder claims at the time.

ADV NKAISENG KHOOE: Sorry. I just want to find out. Did PIC pay all the amounts into S & S Refinery's bank account or were there monies that were paid into Mr Rassul's personal bank account?

MR ROYITH RAJDHAR: The effect of it is, that ultimately, except for 5 million dollars would have went into Mr Rassul's bank account, but it went via the company. Because as I understand, in terms of Mozambique law, it had to go into the company and then out. But the effect of it is, except for 5 million dollars, 48 million dollars would have been paid to Mr Rassul.

CHAIRPERSON: *Ja*, just…. Okay, so Mr Rassul got for the 45 percent, you paid him 18 million dollars, is it not?

MR ROYITH RAJDHAR: Yes, that is right.

CHAIRPERSON: For the stake and then he had some loan within the business. So, how much was he paid to repay those loans?

MR ROYITH RAJDHAR: Through your Commissioner. I can come back with that information through the…

CHAIRPERSON: So, in total you said he got something like 48 million dollars. Is that out of the company?

MR ROYITH RAJDHAR: Look, it would have been 48 million dollars, ultimately.

CHAIRPERSON: *Ja*, meaning… Is the 18 million dollars to buy the 45 percent shares?

MR ROYITH RAJDHAR: Yes.

CHAIRPERSON: And then probably then another 30 million dollars to repay loans. Is that…?

MR ROYITH RAJDHAR: Yes, it would have been his shareholder loans.

CHAIRPERSON: Shareholder loans?

MR ROYITH RAJDHAR: Yes.

CHAIRPERSON: So, he got back 48 million dollars?

MR ROYITH RAJDHAR: Yes, and then to add – and then later on there was a transaction for an additional 10 million dollars for the purchase of 25 percent shares.

CHAIRPERSON: For the 25 percent. Which took your stake to what then?

MR ROYITH RAJDHAR: To 70 percent.

CHAIRPERSON: 70 percent. So, he got roughly about 60 million dollars out like the 58 million dollars.

MR ROYITH RAJDHAR: Yes.

CHAIRPERSON: Okay. All right.

MR ROYITH RAJDHAR: And if we move to paragraph 29. The commissioning of the plant happening in the last quarter of 2015. This was followed by test marketing of the product with procurement of just under 300 tons of crude palm oil, which produced over 2 million litres of palm oil and over 30 000 kg of laundry soap.

Subsequently, in order to increase the volumes, PIC facilitated a 10 million dollar facility for S & S Refinery from Eco Bank, secured by assets at Eco Bank, Nigeria. The details relating to this facility is contained in Annexure E to the statement.

On 21 January 2016, PIC Fund Investment Panel approved 10 million dollars to acquire an additional 25 percent shareholding in the company. It was envisaged that a strategic equity partner will be brought in to operate the plan, will also injecting working capital into the business with PIC diluting in the process.

And when I conclude, I will give more details of that strategic equity partner. **ADV NKAISENG KHOOE:** Sorry. At this point in time, 21 January 2016 when the 10 million dollars was approved, was the refinery operational and were it getting returns or, at that point in time, was Rassul servicing the loan?

MR ROYITH RAJDHAR: Okay, the dry commissioning and the red commission of the plant had occurred and it had – as I contained in paragraph 29 – there was operational… It was operating. In terms of the servicing of the loan, if I recall correctly, at that point in time, it was in the monetarism period. So, the repayment would not have occurred, but I speak under correction on that one.

ADV NKAISENG KHOOE: And were there any…? Do we have any production figures for that period?

MR ROYITH RAJDHAR: The production figures contained in paragraph 29, where we talk about 3000 tons of crude palm oil, which produced over 2 million litres of palm oil and 30 000 kg of laundry soap.

ADV NKAISENG KHOOE: Financially?

MR ROYITH RAJDHAR: We can provide the figures to the commission.

CHAIRPERSON: A question, before you go to the next session. So, out of the 30 million dollars, roughly, which you have mentioned about the loan. I am not talking about the working capital and all that. Was this used to repay the Mozambique banks or were they still part of the lenders within the balance sheet?

MR ROYITH RAJDHAR: So, the Mozambique banks – through your Commissioner – the Mozambique banks that was initially 15.5 million dollars that was direct on the balance of sheet of S & S Refinery and the 24.5 million dollars, we had later got them to bring in that funds into the balance sheet of S & S Refinery.

So, together with the combined debt package, we entered into a common terms agreement, so that the governance contained therein would mirror each other and we had appointed Millennium Bim in Mozambique as the facility agent to manage the debt exposure.

CHAIRPERSON: So, meaning by your numbers, then the 15.5 million dollars plus the 24.5 million dollars, there was debt of 41 million dollars, around there?

MR ROYITH RAJDHAR: Yes, so the total package in that transaction would have been made up of 75 million dollars of debt, comprised of 40 million dollars by the Mozambique banks. 35 million dollars by PIC. That would have made up 75 million dollars.

Then the balance was equity of 40 million dollars, which was initially 22 million dollars by Mr Rassul and 18 million dollars by the PIC. So, that how – when the first… When the transaction with the first transaction(?), that is how the capital structure would have looked at the time.

CHAIRPERSON: Yes. So, meaning that there was still roughly 40 million dollars by Mozambique banks?

MR ROYITH RAJDHAR: Yes, Mozambique banks. The 40 million dollars.

CHAIRPERSON: *Ja*. okay. All right.

MR ROYITH RAJDHAR: Insofar as my role in the transaction. I was part of the team who visited the plant in Nacala to get an understanding of the deal and the opportunities that was available for investment by PIC. At the transaction level, my involvement was primarily in putting together the team of internal staff and external service providers, negotiations of the capital structure with the sponsors, which includes his advisor and Mozambique banks.

MS GILL MARCUS: At this point. What role did risk evaluation play in your decision?

Because one of the things that stands out is, this is not a factory working with material that originates in Mozambique. The questions is, that this has to purchased from, for instance, Indonesia and shipped.

So, you have the whole question of imports as the raw materials for the factory. Would there not have been a risk question that looks at what it would mean in terms of prices, dollar imports and all of those kinds of areas, supply chain.

And your statement subsequent goes to the question of insuring supplies, but for the PIC to be investing in Africa, that depends on importing raw materials, rather than beneficiating raw materials. Would that not have been something that the risk elements and the decision making would have considered?

MR ROYITH RAJDHAR: Through your commissioner. Yes, the risk would have worked parallel with the Investment Team, but independently. That was risk was highlighted in terms of the currency risk, but when we looked at, you know, and we had the inputs from the various people who were involved in the assessment in the transaction.

One of them was from the chief economist and we had certain projections in terms of what the outlook would be in terms of the currency. But when we looked at subsequent events, in Mozambique, the current, there was a significant devaluation which we had not – which was not factored in our projection and which we did not anticipate.

Where the currency was moving and we had modelled the case. It was 30 metical's to the dollar. That subsequently moved to 70 metical and there was times at which it was at the mid-eighties.

So, it was something that, really, we had not anticipated and that became the source of a lot of the problems after that, because it became uneconomical. We were unable to import oil at that cost and pass it on to the consumer.

MS GILL MARCUS: I understand that and I understand and I understand the question or – or appreciate the question of modelling and what that means. But I am asking a question pre the modelling. If your investment decision is about: How do we expand the economies of…? That is my understanding of the rational of the PIC investing in the rest of Africa, in the first instance.

It is good returns plus developmental questions. Why would you invest in something or take a decision that is not about beneficiation in real terms but it is about a reliance on an imported raw material into the African continent.

Surely, irrespective of the modelling that you do on the cost of the impact of depreciations or whatever. Surely, that would have been a factor to either be considered at the outset, whether you invest in that or you do not. Irrespective of the modelling.

MR ROYITH RAJDHAR: Through your Commissioner. We had thought that, I mean, the importing the finished product from outside would be unaffordable for the consumers. So, we would thought where you could import oil, you see, where you have the raw palm crude oil. Then you have where there is value added, but it is done outside. Say, in Indonesia. It is called a palm oil lean(?). Then it means you pay more.

So, we thought we would bring it at the cheapest cost and we manufacture, not only the oil, but then the soap and there were plans to have other – add it on products to that. That, you know, in that way it would assist in terms of import substitution. So, that was the rational on which we built the case.

ADV NKAISENG KHOOE: Sorry, while you are still there. Am I correct that the Risk Department had one of their CP's as saying that there should be a currency hedge?

MR ROYITH RAJDHAR: That may be the case, but if we are looking in terms of the… It is a short term facility and that was the main… If we take the cost of hedging it would be exorbitant. Chair, if… Commissioner, if I can...[intervenes].

CHAIRPERSON: A further questions. In terms of the equity stake that the PIC bought. Was there an evaluation? I mean, I do not think we have seen the evaluation report on that company. Was it done and dusted?

MR ROYITH RAJDHAR: Okay, through your Chair. Yes, there was an evaluation done. We had used different methods. One of them was the discounted free cash loan which came in at 129, but we felt that for this project which was more or less, if we can call it a brown field's project, we should try as far as possible to work on what was the cost but including the holding cost.

So, for example, we have taken into account the interest during construction as the holding cost. However, in terms of the… Because you also got a significant amount of property in there. So, there we had worked on the basis on what we think would market rentals in that area and applying a capitalisation rate to that.

So, essentially we tried to stick to what would be our cost, rather than to pay on discounting future cash flows. We just used that as a test of reasonableness of the cost.

CHAIRPERSON: All right. So, the value was based mainly the project done already done, any future cash flows?

MR ROYITH RAJDHAR: Mainly the project cost. Although, in terms of the property had, we had try to do a evaluation based on rentals and a cap rate.

MR ROYITH RAJDHAR: And then the next question. In terms of the shareholders' loans that Mr Rassul had, were they market value or – and did they bear the interest like the other banking loans?

MR ROYITH RAJDHAR: The shareholder loans did not pay interest.

CHAIRPERSON: So, the capitalised interest rate… Sorry, the 7.8 million dollars capitalised interest cost, what was that? For the banks or what?

MR ROYITH RAJDHAR: Sorry, if I can just correct. Technically, the shareholder loan would not have been interest bearing, but what we did, is that we have looked at it on a see through basis, because the fact that the loan was in a personal name was – I would say, it was just a technicality. We had to look what were those funds, what were due and what were the funds used for.

The funds were used in the refinery. So, when we looked at the statements from the banks, we took into account the interest cost on the 40 million, regardless of whether it was in the company or on a personal balance sheet.

CHAIRPERSON: To meaning that Mr Rassul did get some interest portion when his loans were bought out?

MR ROYITH RAJDHAR: Well, he would have received the interest. We would have recorded the interest as the interest on the loan of the banks. That is what we would have done. So, he would not have received physical cash. It would have been a journal entry that would have come into the books.

CHAIRPERSON: And his loans were just paid out as they were in the balance sheet. I mean, there was no market value type of a loan?

MR ROYITH RAJDHAR: No, we did not value the loan. It was at face value.

CHAIRPERSON: Okay. *Ja*, thanks.

MR ROYITH RAJDHAR: Chair, if you look at the… If I can move onto the role of Indiafrec and Zaid International in S & S Refineries. I understand Indiafrec to be a company owned by Mr Mirza and India National, were at the time residing in South Africa and Mr Siyabonga Nene, who was described as the son of PIC Chairman, Mr Nhlanhla Nene.

In the effect, I approached PIC to invest in S & S Refinery as well as to fund their equity participation in the company. PIC did not agree to fund Indiafrec because when we had gone to the PMC… Because the PIC BBB guidelines or policy at that time did not apply to investments outside of South Africa.

And therefore, we said they could look at funding from alternative sources or vendor financing. Mr Mohammed Rassul was willing to consider a vendor financing from Mr Mirza because he had been the person he had dealt with all the time and the one he had a relationship with.

At the time when PIC was approached to invest in the transaction, we were unaware of the existence of a company called Zaid International. We only became aware of the existence of this company at the time nearing payment of referral fees which I will now proceed to discussed.

MS GILL MARCUS: Now, before you do, can we just stay with Zaid International. When was it established and where is its domicile?

MR ROYITH RAJDHAR: Through you Chair. I think it's later in my report, I think it was established on the 7th August 2014 and the company is domiciled in Dubai.

MS GILL MARCUS: And therefore by the looks of that it was setup at the time of approaching PIC for this deal because that's when everything started and for that purpose. Would you with hindsight indicate – appreciate or indicate whether you think that that was the purpose of establishing that company?

MR ROYITH RAJDHAR: Through you Chair. We had met them I think in February 2014 – Mr Mirza. At that point in time Zaid International was not established. It was established later but I think that the purpose of its establishment would have related to the referral fees. Chair if I may proceed to deal with referral fees which is paragraph 38.

"During the due diligence fairs Mr Mirza had indicated that he had done a lot of work on the transaction and could even secure other opportunities like cement, clinker and hotel projects if PIC could pay him a fee. It is worth noting that at some earlier stage we had taken a tour of the premises for cement and clinker plant, had shown the lime stone reserves and a hotel that which was under construction. He asked for a fee of 2,5% of the project cost. I indicated to him that I was not even sure whether PIC would pay a fee let alone 2,5% but I felt that in any event 1,5% seemed more reasonable. He tried to justify that he is losing his shareholding and value but I indicated that his shareholding had no value because it was offset or let me rather say his intended shareholding had no value because it was offset by a vendor loan liability of an equal amount. I said the best I could do was to table his proposal to the relevant committees at PIC. I understand that any fee ought to be based on the PIC investment amount and not the total project cost. However I had already been aware of estimated costs on the clinker and cement plant and there was an expectation that the request will be for PIC to participate to the extent of at least half of the project cost.

On a sum of parts basis the aggregate fee would be more that the 1,7 to $5 million and hence did not contest the calculation on project costs as I viewed this merely as a reference point."

ADV NKAISENG KHOOE: Thank you, can I stop you here?

MR ROYITH RAJDHAR: Yes.

ADV NKAISENG KHOOE: Can you just explain what you mean when say you'd already been aware of an estimated cost on the clinker and cement that was an expectation that the request would, can you just explain what you we talking about here?

MR ROYITH RAJDHAR: Through you Commissioner. Yes in the discussions Mr Rassul had given us rough costs of what a clinker and cement plant would cost. What the hotel would cost. So we were aware of the project cost at least even though it was an estimate. Then I know in discussions with him he had already spoken about PIC participating to the extent of 50% and he would get funding from other parties for 50%. Chair if I can move to paragraph 40.... [intervenes].

MR EMANNUEL LEDIGA: Some questions there – two questions, in terms of referral costs. The 1,5% wouldn't that seem quite high in the sense that you know the 1% seems to cover – typically would cover valuations and all the other stuff and this one was just a referral fee. As a frst question.

The second question is that the PIC seems to have put in about $58 million, would the 1,75% – 1,5% would not be $1,7 million. If you could explain those two please?

MR ROYITH RAJDHAR: Through you Commissioner. Yes in the next paragraph I concede to that so I will come to that. But if I can deal with the referral fee in terms of it being high, I must indicate at this point. This was the first time at least in – as a senior ...[indistinct] principal with the portfolios I mentioned that I had been involved in a referral fee. It was the first time we had done it.

So but in subsequent times and even as late as last Wednesday we had an IC meeting. We are relooking at this in terms of what should be the quantum, what do we think that should be fair. We agree that it should be a sliding scale. The bigger the transaction amount, the smaller the percentage. So that is work in progress now where we would have to develop a comprehensive guideline or policy on this to further refine it. But in terms where I move to paragraph 40 where I'll explain... [intervenes].

MS GILL MARCUS: Just stay on that point for a minute. It's a bit concerning, this occurred in 2014 and you looking at a policy to evaluate what you should be doing five years later?

MR ROYITH RAJDHAR: Through you Commissioner if I may. It has been refined over a period so you'd find that subsequently you'd find in most cases costs capitalised rather than bond for the client. That particular part has been changed. We pay only upon payout. That has also changed but we felt that there should be other guidelines.

So for example, we can't be funding and this decision has already been taken – we cannot provide a fee to somebody who we are also funding – who is benefiting in the shareholding. But last week when we had a discussion we felt that, look somebody might be in the shareholding to the extent of 5%.

They could still qualify but definitely not more than 5% in the shareholding that we would consider that. But we thought let's deal with it more exhaustively so to narrow it down so that there is no uncertainty in terms of payment, to get granular in terms of the rules. But on the substantive parts we had over a period subsequent to that made significant changes to the way we dealt with the referral fees.

MS GILL MARCUS: Can I ask again from the evidence team. If we could get at least in the major entities that you looking at whether there were referral fees or fees paid in whatever amounts in relation to the whole and on what conditions and percentage. So we would know what it was paid on and the amounts paid to people whether they brought the deals or were a part of a referral or whatever the circumstances was.

I don't want it to be sort of unlimited. So I would look at it as a number of the key areas taking the points that Mr Rajdhar has just made. To say in what circumstances would fees have been paid for five examples for instance out of various sized deals and different types of deals.

ADV NKAISENG KHOOE: I'll do that Commissioner.

MR EMANNUEL LEDIGA: Just as a double check, this referral fee. I mean typically wouldn't that be a rand amount not based on a sliding scale or a percentage of a transaction given that it's just a referral?

MR ROYITH RAJDHAR: Through you Commissioner. As far as I know in market practice is that it is based on the amount of funding. It's not a...[indistinct]. If I move to paragraph 40.

> "In retrospect I concede that perhaps payment should have been done as and when the deals have been disbursed and based on the amount of PIC's investment. This may have been one of the first referral fees paid by PI – rather I must be specific – by my portfolio for deal referral. Since then any fees payable on a contingent basis has been based on PIC investment demand and have been capitalised to the loan amount.
>
> In addition at the IC meeting held last week – a week ago on 19 March this matter was again debated and it was agreed that a comprehensive guideline for payment of fees be developed. The fund investment... [intervenes]."

MR EMANNUEL LEDIGA: Ja the question again then. If the fee was just based on what was done, not on other things. What would have been the amount or can you roughly give us that?

MR ROYITH RAJDHAR: I think it probably would have been about half of it – half that amount.

> "At the fund investment panel the request was presented and the committee agreed that an amount of $1 726 500,00 be paid to Mr Mirza. However this was subject to securing co-investment rights in the cement, clinker and hotel opportunities."

ADV NKAISENG KHOOE: Can I stop you there? Have these rights been secured and does the PIC have a stake in cement plant somewhere or a clinker plant or hotel opportunity or what does this mean, subject to securing co-investment rights?

MR ROYITH RAJDHAR: Yes the rights have been secured. However with the cement and clinker plant we had taken it up to PMC1. But the sponsor had later decided to put that project on hold and focus on the refinery but those rights still exist.

ADV NKAISENG KHOOE: Can you just explain what was meant by securing?

MR ROYITH RAJDHAR: It would mean that we have got the first right of refusal to participate in these projects.

MS GILL MARCUS: Can I just pursue that a little bit? In essence this S&S was your first venture into Africa you had said, is that correct?

MR ROYITH RAJDHAR: Through you Commissioner. In terms within my portfolio it would have been the first.

MS GILL MARCUS: In your portfolio?

MR ROYITH RAJDHAR: Yes it was the first.

MS GILL MARCUS: Would you – I mean taking risk issues into account would you not have thought let's find out how Mozambique works, how the issues are? What occurs before you secure even more investments and spend money on that?

MR ROYITH RAJDHAR: Yes we had merely secured it as a right of first refusal. In terms of the timing typically even if we had engaged on this project it probably would have taken us more than two years to conclude a transaction. But eventually we had stopped and we didn't pursue the investment.

MS GILL MARCUS: So this has been running from 2014 to now without progressing the other investments, is that correct?

MR ROYITH RAJDHAR: Yes as far as I am aware those projects – except for the hotel continues with its construction but the rest have put on hold.

COMMISSIONER: When you say put on hold. You mean put on hold, it may proceed in due course?

MR ROYITH RAJDHAR: I do think it will proceed because Mr Rassul had already invested significant on the – at that point in time I remember he had invested about $9 million already in the cement plant. So I think that it would proceed at some point.

MR EMANNUEL LEDIGA: I just have to follow up on paragraph 40. Again in terms of the payment, are you saying – I just want to check because we need to make findings on some of these issues. Are you saying in terms of the PIC the team was wrong or it should not have paid the full amount? What are you saying ultimately on that point?

MR ROYITH RAJDHAR: Through you Commissioner. What I am saying is that perhaps it could have been better done in terms of pay the amount when the investment is concluded – the co-investments. So I am saying in that regard in retrospect maybe that would have been the better way of doing it. Chair in terms of – may proceed?

COMMISSIONER: Ja.

MR ROYITH RAJDHAR: Paragraph 42 as I say Mr Mirza secured.. .[intervenes].

COMMISSIONER: Sorry can I just enquire from counsel. What time do you intend to adjourn?

ADV NKAISENG KHOOE: Because we started late I was aiming at 11:45?

COMMISSIONER: You may proceed.

ADV NKAISENG KHOOE: Okay thank you.

MR ROYITH RAJDHAR: Chair paragraph 43.

"PIC issued a letter to Zaid confirming the PIC would pay a fee of $1,7 million on the basis of securing the co-investment rights in the hotel, cement and clinker. This was following the approval at the committee. At the time Mr Mirza started requesting payment he had given instructions for the amount to be paid to a company domiciled in Dubai called Zaid International. As part of the background checks which are standard process the PIC obtained registration documents which indicated that it was established on 7th August 2014 and was owned by Mr Mohamed Amir Ismail Mirza.

The fee of approximately $1,725 million was subsequently paid to Zaid International on the 8th September 2014."

ADV NKAISENG KHOOE: May I ask you just there. Do you know when Zaid International opened its bank account?

MR ROYITH RAJDHAR: I think we have the information on the Annexure. I just will provide it but it's in the pack.

ADV NKAISENG KHOOE: You don't have it here?

MR ROYITH RAJDHAR: No.

MR EMANNUEL LEDIGA: The other thing is I think I am battling to find Annexure I. you are on paragraph 43 also, you are mentioning Annexure I, letter to Zaid International. But I see minutes, I'm not seeing a letter.

MR ROYITH RAJDHAR: I think in that pack it is just before the company registration documents.

ADV NKAISENG KHOOE: Commissioner if I may, may I request a tea break at this point in time so that I can follow up why the Annexure aren't there?

MR EMANNUEL LEDIGA: Are not sort of in line with the statement.

ADV NKAISENG KHOOE: Yes my apologies for that Commissioner.

COMMISSIONER: Yes we'll take the adjournment until 12:00.

ADV NKAISENG KHOOE: Thank you Commissioner.

INQUIRY ADJOURNS

INQUIRY RESUMES

ADV NKAISENG KHOOE: Commissioner, before the adjournment I had asked Mr Rajdhar whether he was aware on when Zaid International opened its bank account and he was trying to show the commission to the right document as far as that is concerned.

CHAIRPERSON: I am still looking for the statement that Mr Rajdhar is reading from, that you're testifying from.

MS GILL MARCUS: This one here.

CHAIRPERSON: Alright, I've got it.

ADV NKAISENG KHOOE: Thank you, Commissioner.

MR ROYITH RAJDHAR: I just wanted ... (intervention)

CHAIRPERSON: So with document are you referring us to now?

MR ROYITH RAJDHAR: Commissioner, it's under a label under I. I think it's the last page, where there is a banking account from Emirates MBD. (Indistinct)

ADV NKAISENG KHOOE: And what's the date there?

MR ROYITH RAJDHAR: The date that the bank account was opened, on the 25th of August 2014.

ADV NKAISENG KHOOE: So does this confirm your suspicion that Zaid was actually established for the purpose of disbursement?

MR ROYITH RAJDHAR: Look, I can't find any… I can only see that the reason for the establishment was the receipt of the fees. I can't find any other explanation for – to the best of my knowledge, for the existence of the company.

CHAIRPERSON: Can I, just for my own edification, what is the document following the tag J, United Arab Emirates?

MR ROYITH RAJDHAR: Commissioner, that would be the founding documents of the company.

CHAIRPERSON: Of the company?

MR ROYITH RAJDHAR: Yes.

CHAIRPERSON: Okay. Yes, you may continue.

MR ROYITH RAJDHAR: Thank you, Commissioner. Before I proceed to satisfaction of conditions precedent I would just like to correct on paragraph 43 where it says 'PIC issued a letter to Zaid International'. It should have read 'PIC had issued a letter to Amir Mirza', and so too would be the annexure. It should be 'letter to Mirza and minutes of approval of fees'.

CHAIRPERSON: Not to Zaid International?

MR ROYITH RAJDHAR: Yes, Chair. ' Zaid' should be replaced with 'Amir Mirza'.

MR EMMANUEL LEDIGA: Did…? Ja. Just a question. Wasn't it odd that, you know, you had to pay the amount to a company sort of registered somewhere else, Dubai and all that?

MR ROYITH RAJDHAR: Through you, Commissioner. Amir Mirza is an Indian national. I think he may have opened up an account for the payment of fees in Dubai probably because of its tax-free status. That's what I could assume.

MR EMMANUEL LEDIGA: Alright.

ADV NKAISENG KHOOE: Another question. Was the contract with Indiafrec properly terminated in writing?

MR ROYITH RAJDHAR: Look, with Indiafrec we didn't have a contract in the first place, so I don't – so the way we saw it, there was no need to terminate a contract. We didn't have one with them.

ADV NKAISENG KHOOE: But was it communicated to both Mr Mirza and Mr Nene, as a partner in Indiafrec, that the mandate and Zaid would be the one getting the referral fees?

MR ROYITH RAJDHAR: Commissioner, we never had agreed that there would be referral fees paid to Indiafrec. The referral fees are to Mr Mirza. But that's what I can say.

MR EMMANUEL LEDIGA: Is it correct that Indiafrec was going to be – initially going to be a co-investor with PIC?

MR ROYITH RAJDHAR: Yes. The purpose of Indiafrec was for the purchase of shareholding. May I proceed, Commissioner?

CHAIRPERSON: (Indistinct)

MR ROYITH RAJDHAR: So if you we go to paragraph 46:

> "Insofar as the discharge of conditions precedent are concerned, this is handled by the legal division in PIC. The signing of the disbursement memorandum by the legal unit confirms that all conditions have been met and fulfilled and funds can flow."

That is what would happen. In this… In the particular case, as I mentioned earlier, in terms of the $18-million equity, the conditions had been fulfilled. In terms of the $5-million there were deferrals of conditions.

> "As the Executive Head…"

Or, in this particular case, the Fund – Senior Fund Principal.

> "…we placed reliance on the signature of the legal unit as it relate to confirmation that all conditions precedent have been met. In respect of all the drawdowns outlined in paragraph 48 below,

confirmation has been received from the legal unit that disbursements could be made."

I will now deal with the order of the disbursements.

"Below is the order of disbursement of funds in relation to the initial transaction and follow-on investments. The payment of the referral fee was 8 September 2014. The equity was 26 November 2014. The mezzanine, or the working capital loan, 28th of May 2015. The senior loan, 17 July 2015 and the follow-on equity investment, 17th of May 2016."

ADV NKAISENG KHOOE: Can I just ask you one question? Who was the Legal Head of Legal at that point in time?

MR ROYITH RAJDHAR: It would have been Mr Ernest Nesani, who is no longer with the company.

ADV NKAISENG KHOOE: Okay, thank you.

MR ROYITH RAJDHAR: Chair, I'll deal with the reason for the formation of the GEPF Mozambique SPV. PIC's investment of the initial $53-million was implemented by GEPF, being the shareholder of record in S&S Refinery. However, the loan was advanced through a company that was formed called GEPF MOS (?) SPV Ltd.

"The reason for the formation of GEPF MOS SPV Ltd was a result of the following: If GEPF was going to participate directly as lender and equity in S&S Refineries the GEPF would have had a conflict of interest. For example, it would have not been allowed to participate in any possible enforcement actions against S&S Refinery. As the shareholders of S&S Refinery were required to provide security to the lender, in this case to GEPF, it was not going to be possible for GEPF, in its capacity as shareholder in S&S Refinery, to provide security to itself in its capacity as lender."

And the final was:

"The other lenders were also in favour of having two separate entities representing different interests, i.e. the equity interest and the debt funder interest."

In term… If I may point out that the – when we had hired both our local legal firms, Cliffe Dekker Hofmeyr and SAL Caldeira in Mozambique, that was the advice that they had provided to us.

"The directors that was nominated to this SPV was Dr Daniel Matjila and Ms Matsepo More. Their appointment was in line with the PIC governance policy and approved by PIC Directors Affairs Committee."

MS GILL MARCUS: Thanks. On how… If you could perhaps, on how many investments would you have both this C…? Was he CIO at the time? He wasn't the CEO at this time? And your CFO both serving on the board? I mean, would it be common to have both serving on a board on investments that's made?

MR ROYITH RAJDHAR: Yes. It's not… Through you, Commissioner. It's not common. Sometime you would have just one of them serving, especially where it's an SPV that is just for administrative purposes, but in this particular case we had two of them. In terms of how frequently, when we… In terms of when we do investments, particularly outside the continent, and there's a debt inequity we would do it via an SPV. So I think in Mozambique we had another investment which we had done the similar structure to.

MS GILL MARCUS: And would both your CIO and your CFO serve on that SPV?

MR ROYITH RAJDHAR: No. There are cases where, for example, I know, one of the

SPVs I served as the director, so it's not necessarily the CIO and CEO.

MS GILL MARCUS: What was the motivation for both of them on this? Do you know? Why it went to the Directors Affairs Committee?

MR ROYITH RAJDHAR: Commissioner, I don't know, but maybe we can go into the minutes of – or ask the Company Secretary to communicate the discussions at the DAC. And in SPVs, to the extent that the company has a bank account, there would also be signatories to the account. I can confirm in this particular case there was no bank account.

> "The SPV is not an operating entity and the only material cost incurred is audit and secretarial fees."

Commissioner, I will now move to the proposed property transaction. Just in terms of this particular – some background to it: At a point in time we had considered, because S&S Refinery had a significant property asset, was basically to create what we'll call a 'propco' and an 'opco', an opco dealing with the operating ... (indistinct). So:

> "This transaction did not fall within the impact investing division. Instead it falls within the unlisted properties division of PIC. It was noted that at the time the property's exposure was underweight on industrials. There was a discussion at one of the PIC committee meetings about whether it would make sense for S&S Refinery properties to be spun out of the business in the form of a sale-and-lease pack. The idea was to partner with local Mozambican banks or outright buy these properties with Mozambican banks exiting but with a significant haircut. The proposal was discussed of the fund investment panel of properties, but it was felt that Vamara,

the S&S Refinery operator who we now have on board, should be allowed to settle in and demonstrate sustainable operating cash flows against which one could ascertain the operating company ability to meet the lease obligations. Given that the process of appointing Vamara has been a protracted one it is still too early to establish a pattern of sustainable cash flows. This matter will be considered at a later date."

Then if I may move to the PIC involvement in the dispute between Mr Amir Mirza and Mr Momade Rassul?

"At a point in time the PIC's CEO,…"

Who was then CEO.

"…called me and asked me to join him in a meeting with representatives of S&S Refinery at the Fire and Ice Hotel in Menlyn. When I arrived at the hotel the following people were there: Mr Momade Rassul; his wife, Ms Saidata Rassul, Mr Abdul Satar, a Senior Partner at BDO Mozambique, who had advised the sponsors in the transaction. Later Mr Mirza and Mr Nene arrived, followed by Dr Daniel Matjila."

ADV NKAISENG KHOOE: Can you…? Sorry. Can you just give a timeline on when this was?

MR ROYITH RAJDHAR: Mr Commissioner, I don't have that timeline. I can provide the date of the meeting.

"The purpose of the meeting was for Mr Rassul and Mr Mirza to amicably resolve a dispute relating to monies Mr Rassul is alleged to have agreed to pay Mr Mirza for work done in bringing PIC as an investor in S&S Refinery. The PIC became aware of the deteriorating relationship between Mr Mirza and Mr Rassul to the point where it was counterproductive and distracted S&S's CEO..."

If I may just correct that. That's part of his name, Mr Abdul Rahim Momade Rassul.

"…from successfully commencing operations. Mr Mirza also became very disruptive as he was intent on drawing PIC into a matter which PIC was not party to. In order to have the dispute resolved amicably between the parties the PIC, in its capacity as shareholder in S&S Refinery, was requested by the project sponsors to facilitate a meeting between the parties. It must be noted that the non-resolution of the dispute would have had a negative impact on PIC's investment as PIC could have been diluted as a result of a potential third party that would have become a shareholder in the project. This would also have affected the securities held by the consortium of lenders in the project as additional securities would have been required for the project facilities extended to S&S Refinery by the lenders. It is therefore PIC's view that the intervention was duly warranted to protect its investment in S&S Refinery."

MS GILL MARCUS: How does this relate to the finder's fee or the referral fee of US1.75-million? And the date the obviously matters because Mr Nene is back on the scene and Mr Matjila is involved. So the dates really do matter. And what is the amount that the dispute was about between Mr Rassul and Mr Mirza, as referred to in paragraph 58?

MR ROYITH RAJDHAR: Through you, Commissioner. The amount, according to Mr Mirza, that Mr Rassul had undertaken to pay him, he said that it was $10-million, though Mr Rassul disputes the amount. And as far as I'm aware the ... (intervention)

MS GILL MARCUS: Does Mr Rassul only dispute the amount? Or does he dispute the fact that there was any agreement? And then what would Mr Rassul's amount be that he said he agreed to pay?

MR ROYITH RAJDHAR: Through you, Commissioner. The amount… Mr Rassul didn't dispute that he owes an amount to Mr Mirza, but when we had went to this Fire and Ice Hotel and I asked him what is the amount, if I remember correctly he mentioned to me $1.8-million. That was the amount that he had mentioned that he was prepared to pay Mr Mirza and I'm not sure whether that would have been an agreed amount or whether that was what he was willing to offer and they had agreed that he will say something, but I'm not aware of an agreement.

MS GILL MARCUS: And was the assumption that because Mr Nene was there with Mr Mirza that he would have been party to whatever – or a recipient of whatever fee was eventually paid or that he was also part of the expectation that a fee would be paid and had been promised?

MR ROYITH RAJDHAR: I would not be able to say that though because, as I mentioned earlier, that also had viewed – when I – throughout my observations I had viewed them to be also to be friends, but I'm not saying that that's not within possibility, but as far as I'm aware that the payment of the fees was between Mr Rassul and Mr Mirza.

MS GILL MARCUS: So why would he have been there?

MR ROYITH RAJDHAR: As I mentioned, through you, Commissioner, that they were friends but when it became eventually to the settlement then, Mr Nene subsequently concluding the actual settlement agreement, Mr Nene was not involved. That was the last time I had ever seen him, but as I'm saying, I don't understand why he was there. Throughout the observations he did not play any role, but he was there. He was there with ... (intervention)

MS GILL MARCUS: Are you aware of any amount that was actually settled or paid in this? Because one would assume that in end you would need to know how this was resolved and what amount was actually paid to Mr Mirza or whoever.

MR ROYITH RAJDHAR: Through you, Commissioner. The amount that was agreed to be settled between the parties was $3.3-million and a settlement agreement was concluded in that regard. However, from my understanding, I think there was partial payment of that amount and – because we kept being drawn in in trying to get payment of the amount, but… So as far as I am aware the full amount has not been settled.

MR EMMANUEL LEDIGA: Just to clear something which I'm not sure of, Mr Mirza was paid by the PIC for the work he did?

MR ROYITH RAJDHAR: Yes.

MR EMMANUEL LEDIGA: What…? Ja. And then BDO Mozambique was helping Mr Rassul in terms of the transaction. I mean, what was the basis for Mr Mirza to be paid by Rassul, by Mr Rassul?

MR ROYITH RAJDHAR: Yes, from my understanding it's because it is him who had done a lot of, as well as preparatory work, but more so in terms of bringing PIC as an investor to the project. In terms of BDO, BDO's involvement was the preparation of the feasibility study.

MR EMMANUEL LEDIGA: H'm?

MR ROYITH RAJDHAR: And where they became particularly involved after that was in the negotiation of the capital structure as well as the negotiation with the

Mozambican banks.

MS GILL MARCUS: So just to follow on that, if we took the total settlement for the introduction it would have been around $5-million?

MR ROYITH RAJDHAR: Right.

MS GILL MARCUS: That they would have received to just introduce you and say ‘hi, Mr Matjila. Would you take a look at this?’ and then disappear?

MR ROYITH RAJDHAR: Through you, Commissioner. That would be correct. It would be 1.7 from ourselves, 3.3 from Mr Rassul.

MR EMMANUEL LEDIGA: Just to follow up: So meaning that Mr Mirza got the 1.7, which was, in many ways, you know, as you said, it was a double payment because he was supposed to get around half of the amount, and then he got another 3.3-million from the other party for almost the same kind of work?

MR ROYITH RAJDHAR: Through you, Commissioner. I wouldn’t say it was a double payment, the first one. It would have been a payment on the actual transaction and plus for securing the co-investment rights. But with regards to the second $3.3-million, from what I could gather and the last interactions that I had, I don’t think more than half of the $3.3-million was paid.

MR EMMANUEL LEDIGA: And this $3.3-million was paid from Mr Rassul’s personal bank account? It wasn’t paid by the company?

MR ROYITH RAJDHAR: Yes, paid by Mr Rassul in his personal capacity.

MR EMMANUEL LEDIGA: Okay.

ADV NKAISENG KHOOE: Sorry, do you have proof of that?

MR ROYITH RAJDHAR: I don’t have proof of the actual payment, but if needs be we can request that. Because the thing that we tried to avoid in here was to get involved. We kept on getting drawn into this thing, so we tried to stay away as well from it because it was a dispute between the two. Chair, if I can proceed to the possible legal action by the sponsor or any other third party?

> "Following conclusion of the settlement agreement between Mr Rassul and Mr Mirza Mr Rassul, from what we understand, did not honour his obligation. From this point onwards Mr Amir Mirza would regularly insist on drawing PIC into this matter and asking us to ensure settlement, intimating that we were the ones who facilitated the settlement and we should ensure that it was carried through. He would demand explanations from PIC on the status of the transaction and additional funding to be made available which should be used to pay him. I indicated that from PIC's perspective we do not have a duty or a contractual obligation to disclose anything to him because he or his company is neither a director nor a shareholder in S&S Refinery. Thereafter Mr Mirza instructed a lawyer, Barry Aaron & Associates, to make payment demands from the PIC with various unsubstantiated allegations, the main one being that PIC undertook the withhold of payment of certain funds due to Mr Rassul and PIC were to pay this over to him. This is factually incorrect. There is no such agreement. In order for such an agree – for such a situation to take place there would need to be a cession-of-payment agreement. We neither had discussions regarding a cession-of-payment agreement nor was one concluded. PIC lawyers have communicated to Barry Aaron & Associates that PIC is not party to the settlement agreement and therefore there can be no demand put on us. They were advised

that if they felt they had a strong case they should have summons issued. However, since…”

I think it’s under a year.

“…now we have not heard any and received any further communication on this matter.”

Can I proceed, Chair? Finally, I will deal with the present status of the investment.

“Mr Masekesa, who had come in last week and testified, have highlighted to the commissioner on the current status of the refinery, which I concur with. However, I would like to point out, in addition, the following: Instructions have been given to lawyers to initiate the process for PIC to exercise its rights in terms of the ... (indistinct) of shares of Mr Rassul. Discussions will be opened at PI – between PIC and Vamara and the Mozambican banks with regards to Vamara moving from an operator to a strategic equity partner and operator in the business and at the same time we would relook at the capital structure to the extent that it is still relevant or make modifications thereto.”

Thank you, Commissioner.

MS GILL MARCUS: Can I ask you, just for clarity, because there’s been a lot of different numbers quoted at different times, can you just indicated the total dollar investment into S&S?

MR ROYITH RAJDHAR: Okay. PIC total dollar investment would now be at $63-million. It would be made up of $28-million of equity and $35-million of the senior debt.

MS GILL MARCUS: Senior debt?

MR ROYITH RAJDHAR: Ja.

MS GILL MARCUS: And then what…? And that is for an equity stake of 70%?

MR ROYITH RAJDHAR: 70%, yes.

MS GILL MARCUS: Right. And what is the valuation as at the end of 2017 and then the valuation at the end of 2018?

MR ROYITH RAJDHAR: Chair, I don't have that figure, but if I can recollect, I think on equity the valuation we have impaired… I would… Given the discussions, Chair, with the – with Vamara, I can provide the details outside of the media. I wouldn't want it to be on public record, if I may, because they ... (intervention)

MS GILL MARCUS: Perhaps just refer to the KPMG report, which I think has it there, but I would like it in the record, the summary valuations.

MR ROYITH RAJDHAR: Yes, Commissioner, I'm asking if it's possible I don't mention the amount on record, but I agree to what's in the KPMG report. Because we are in negotiations with a party to come into the business and I don't want them to be aware of what the valuation is in our…

MS GILL MARCUS: Okay. Okay, that's fair enough.

MR EMMANUEL LEDIGA: Just to check has the loan, the $35 million been serviced?

MR ROYITH RAJDHAR: No it hasn't been serviced

MR EMMANUEL LEDIGA: And the working capital loan was that, is it being serviced too?

MR ROYITH RAJDHAR: Look the loans are not being serviced, monies have been re-ploughed. Though the, as far as I know the letter of credit has been serviced.

MR EMMANUEL LEDIGA: And then in terms of you are saying that you need to exercise the pledge of shares, 66D just explain that, what do you mean there?

MR ROYITH RAJDHAR: So there they were given that Mr Rassul had signed certain sureties to us and there's default, we want to exercise a pledge on his shares.

MR EMMANUEL LEDIGA: So meaning that you might actually take over 100% of the business?

MR ROYITH RAJDHAR: Well yes temporarily pending because concurrently we'll be working with this strategic equity partner in terms of but we expect the strategic equity partner to be in control, to take the majority of the shares.

MR EMMANUEL LEDIGA: Okay alright. Just to be clear on that point you know I've just asked, so you extended loans to the business and he pledged shares, I mean can you explain how he pledged shares and what will happen, why are you trying to exercise these rights on the pledged shares?

MR ROYITH RAJDHAR: Through you Commissioner we had entered into a common terms agreement between the PIC and Mozambican banks so there is default in terms of the loan agreement. In terms of that we are entitled to exercise the pledge and that's what we intend to do.

MR EMMANUEL LEDIGA: I think I'm done.

CHAIRPERSON: Ms Khooe is it possible to do the next witness on S & S and then we can go into MST?

MR ROYITH RAJDHAR: That's fine with me Commissioner.

ADV NKAISENG KHOOE: Commissioner … (intervention)

MR ROYITH RAJDHAR: Sorry.

ADV NKAISENG KHOOE: Commissioner I would have to ask for an adjournment because we have the same problem with the annexures in her statement as well. So I would really push for some time to just make sure her that we get her in time before Mr Rajdhar starts with MST.

CHAIRPERSON: How long do you want? We could take an early lunch if necessary?

ADV NKAISENG KHOOE: Please can we take an early lunch Commissioner?

MS GILL MARCUS: So we would come back to the next witness on the same subject matter?

ADV NKAISENG KHOOE: Indeed.

MS GILL MARCUS: Ja and then we would come back to MST from both witnesses?

ADV NKAISENG KHOOE: Indeed.

CHAIRPERSON: Let's then adjourn until 13:30. We'll adjourn until 13:30.

INQUIRY ADJOURNS

INQUIRY RESUMES

CHAIRPERSON: Yes, Ms Khooe.

ADV NKAISENG KHOOE: Thank you, Commissioner. Good afternoon, Commissioner and members. The next witness to take the stand is Ms Constance Madzikanda. She is from the portfolio, Management and Valuations Department and she is ready to take her oath.

CHAIRPERSON: Your full names, again?

MS CONSTANCE MADZIKANDA: Constance Sharon Madzikanda.

CHAIRPERSON: Sheryl?

MS CONSTANCE MADZIKANDA: Yes.

CHAIRPERSON: How is that spelt? S-h-e-r-y-l.

MS CONSTANCE MADZIKANDA: S-h-a-r-o-n.

CHAIRPERSON: Sharon. Madzikanda?

MS CONSTANCE MADZIKANDA: Yes, sir.

CHAIRPERSON: Do you have any objection to taking the oath?

MS CONSTANCE MADZIKANDA: No.

CHAIRPERSON: Do you swear the evidence you are about to give, will be the truth, the whole truth and nothing but the truth? Raise your right hand say, so help me God.

CONSTANCE SHARON MADZIKANDA: (d.s.s.)

CHAIRPERSON: Thank you. You may sit down.

ADV NKAISENG KHOOE: Commissioner, I would like to bring it to your attention...[intervenes].

CHAIRPERSON: Just give us a moment. Yes?

ADV NKAISENG KHOOE: Bring it to your attention that she will be starting with S & S Refinery, but prior to that, she will speak to the process that goes on into the PMV. What they actually do and that was contained in MST. So, she will start there and then she will continue with the actual transaction of S & S Refineries.

CHAIRPERSON: David, can you just call the lady? We need the file. Yes, you may proceed.

ADV NKAISENG KHOOE: Ms Madzikanda, is it correct that you have prepared a statement for the commission?

MS CONSTANCE MADZIKANDA: Correct.

ADV NKAISENG KHOOE: Am I also correct that you were no coerced into making the statement?

MS CONSTANCE MADZIKANDA: That is correct.

ADV NKAISENG KHOOE: Am I also correct that everything contained in the statement is what lies within your personal knowledge and the evidence leader did not add anything into the statement that you do not agree with?

MS CONSTANCE MADZIKANDA: That is also correct.

ADV NKAISENG KHOOE: Okay, thank you. You can proceed. You can start with paragraph 1.

MS CONSTANCE MADZIKANDA: Paragraph 1. I am an adult female. My position in the PIC is a portfolio manager in the portfolio, Management and Valuations Department, PMV. Responsible for the health care, education, affordable housing and oil sector transactions.

I have a BCom Honours Finance Degree from the National University of Science and Technology.

CHAIRPERSON: I wish you could take it a little slower.

MS CONSTANCE MADZIKANDA: I will try, Commissioner. I have been under the employment of PIC for the nine years and nine months in the following positions. Investment admin officer in July 2009 to August 2013. Senior investment administration officer from September 2013 to October 2013. Portfolio Officer which is now titled portfolio associate from November 2013 to June 2016. And now currently, portfolio manager from July 2016 to date.

I have been requested by the commission to provide information relating to my involvement in the mobile Specialised Technology Group, MST and S & S Refineries Investment in my capacity as the portfolio manager. The facts herein contained falls within my personal knowledge, unless otherwise indicated, are both true and correct to the best of my knowledge and believe.

Commissioner, I will start with an overview of the PMV Department and its role. For the purposes of this statement, the PMV Department has the following positions; executive head investment management, a senior manager for PMV, portfolio managers currently occupied by three people, portfolio associates...[intervenes].

MS GILL MARCUS: Sorry, to interrupt. Could you just tell us who is the current head at 5.1?

MS CONSTANCE MADZIKANDA: That would be Ms Robina Solomon. I continue at 5.4. There are currently seven portfolio associates and one portfolio analyst. Below, I set out the role and responsibility of a portfolio manager, being the position I occupy.

CHAIRPERSON: A question. A question here. PMV. It is very confusing, because you know when one looks at it, you do not even think it is post-investment department. Can you just sort of tell us why it is called this? I mean, it is quite confusing to see what does it actually do, you know? The valuations, maybe we can understand, but the other parts I am not sure.

MS CONSTANCE MADZIKANDA: Thank you, Commissioner. Just to give context. It is the teams or the name of the teams are used interchangeable as portfolio management and valuations or in some instances, post-investment monitoring. But where you would have heard post-investment monitoring, it refers to this PMV Department and this is how it is defined internally within the PIC.

CHAIRPERSON: And is it two separate departments, portfolio management and valuations or is it just one department?

MS CONSTANCE MADZIKANDA: That is another, Ms Noma…. The valuations part, although suggested by the title of the department, is actually not a function that is undertaken by this PMV team. Valuations aspect is the responsibility of the finance team, but I will refer to where the departments are linked, later in the statement.

UNIDENTIFIED SPEAKER: [Indistinct]

MS CONSTANCE MADZIKANDA: I hope to make it clear.

CHAIRPERSON: So, it is quite confusing. *Ja*?

MS CONSTANCE MADZIKANDA: I understand.

CHAIRPERSON: All right.

MS CONSTANCE MADZIKANDA: I will make it clear in the subsequent paragraphs.

CHAIRPERSON: Okay. All right.

MS CONSTANCE MADZIKANDA: In terms of the PMV managers' duties, the PMV manager's role is provide guidance and oversight to PMV associates and analysts and the discharge of their duties, which involve the following activities.

To develop...[intervenes].

UNIDENTIFIED SPEAKER: [Indistinct]

MS CONSTANCE MADZIKANDA: Okay. There we go. 7.1. To develop monitoring plans for the respective investee companies; Active post-management and value addition in portfolio companies, in order to maximise value and minimise financial loss of PIC unlisted assets under management; Quarterly monitoring of investments for compliance with legal agreements and financial performance in accordance with monitoring processes, policies, guidelines, free mark(?) and practices; And also to provide early warning signals and remedial actions through timeous collection and analysis of financial and operational report through risk classification framework.

Based on the inputs that I received from the associate, the manager further prepares consolidated global portfolio reports for submission to the three clients which are government employees, pension fund, GPF. Unemployment insurance fund, UIF and the compensation fund, CF.

As a portfolio manager, I directly report to the senior manager who in turn reports to the executive head of investment manager.

MS GILL MARCUS: Can I just ask? In relation to the process that you outlined and it maybe covered a little further on. But if you had to deal with an entity in your post-monitoring process that is in distress, do you cover that later?

MS CONSTANCE MADZIKANDA: Yes.

MS GILL MARCUS: So, you can look at it how you deal with the beginnings of a distress and what happens subsequent to that.

MS CONSTANCE MADZIKANDA: Yes, Commissioner. It is covered in subsequent sections.

The portfolio manager and valuation process:

The process as activities provided in the statement do not reflect the entire ambit of the PMV Department but are meant to provide the context in which MST and the S & N transactions were monitored.

Where the roles of other departments are mentioned in the statement, it is for the purposes of highlighting the inter linkages and the alignment with the PMV Department.

So, the first process we start with is the handover meeting.

The PMV Department is a support function of the impact investment team. That is the transaction team. The PMV team only gets involved once conditions president which is CP's have been fulfilled and the Isibaya Operations team has finalised the disbursement file.

The handover is effected at a handover meeting that is convened by the Isibaya Operations team and handover meeting is also attended by other relevant departments, including the transaction team, investment finance, environmental and social governance and risk.

The purpose of this meeting is to onboard, amongst others, PMV in relation to the transaction. At the meeting the transaction team briefs the participants about the essential features of a transaction, focussing, amongst others, on the key aspects of the transaction to ensure a common understanding.

An attendance register is circulated and signed by all in attendance and filed in the disbursement file. Once the handover process is completed the transaction will now move to the disbursement stage.

In order for an disbursement to be made the Isibaya Operations Teams prepares a disbursement memo on the basis of which the payment or disbursement will be made.

Signatories to the disbursement memo are, amongst others, the Isibaya Operations Team itself, PMV, the fund principles which are from the transaction team, ESG and legal.

And all subsequent disbursement when an investee company draws down on the committed funds and tranches are signed by the same departments. The purpose of PMV's signature on the memo is to confirm that, amongst others, there is no non-compliance on the part of the investee company with, amongst others, the draw down conditions as set out in the transaction agreements.

For subsequent disbursements a PMV manager's signature serves to confirm that no events have taken place that would warrant withholding a payment. Where there are reasons to withhold a payment, PMV would generally seek to resolve such issues.

Once the portfolio manager signs the memo the PMV Department plays no further role in the processing of the memo.

CHAIRPERSON: But how do you satisfy yourselves that everything has been done correct? This risk assessment or whatever other assessments have been done correctly.

MS CONSTANCE MADZIKANDA: Through your Commissioner. Are you asking at the transaction, the first disbursement or the subsequent?

CHAIRPERSON: Whichever one it is. Where you satisfy yourselves that we can now sign and monies can be paid out.

MS CONSTANCE MADZIKANDA: In the first disbursement, you would have a disbursement file that contains all transaction documents, as well as a CP satisfaction letter from the legal team or the external legal counsel.

And you would generally go through the transaction agreement to get the salient features of the transaction and see that the utilisation notice sets out all representations and warranties by the client.

And thereafter, there is an email that is circulated by an associate who also does the same process of satisfying themselves that everything ends in the file as indicated by the CP's extraction letter. So, based on that email and the supporting documentation, you are able to then say whether or not this PMS, PMV you are comfortable providing a signature.

The second process is the PMV Client engagement:

After the first disbursement, the PMV team initiate contact for the purpose of an introductory meeting with the investee company and to confirm that there is a common understanding of the reporting requirements, the framework and or mechanism as stipulated in the legal agreements.

The team collates information for the analysis of the investment, directly from the investee company through clients meetings, site visits and sometimes from the deal teams.

The PMV typically informs and invites the transaction team, finance team and ESG team to the meetings and where possible, those teams attend the meeting with PMV.

The PMV Monitoring Functions:

The main role of the PMV is to monitor compliance by the investee companies with the requirements of the transaction agreements. In monitoring the transactions the focus areas of the PMV team are as follows.

Financial analysis, sector or industry analysis. Which is also the operating environment. Adherence to reporting undertakings. That is the submission of budgets, management accounts, audited financial statements or any other requirement as specified in the legal agreement.

We also have lessons learned compilations to the extent that they are identifiable, recurrent performance detractors, visible across a particular sector or portfolio of investments.

PMV provides an analysis of the lessons that have been learned and this is also submitted to the various committees to assist the committee members in the consideration of new transactions that may fall within those problematic areas.

Depending on the outcomes of the monitoring activities that PMV performs, there are remedial actions that may from time to time need to be taken. In this regard, PMV's task typically relate to initiating the documentation which relates to the following matters.

Conscience and or waiver of breaches, default letters, request for restructuring or corporate actions. Where PMC approval is required for a particular subject matter, PMV would generate documentation, taking into account input from other relevant departments which co-sign on the document.

So, a submission of this nature would go through the following process. First, it is compiled by an associate, taking into account inputs from the transaction team who will also sign off on the documents as co-compilers.

Secondly, it is reviewed by a portfolio manager, taking into account, inputs from the associate principal from the transaction team who will also sign off the document as co-reviewer.

Thirdly, it is submitted for further consideration to the senior manager of PMV who will also sign off on the document as a reviewer. Fourthly, it is submitted to the executive head of investment management, risk and legal for recommendation.

And finally, it is submitted to the executive head for impact investing for approval or it would impact investing or private equity in the way it is applied for approval of that submission of the document to the PMC.

Based on the financial and operational analysis, PMV also undertakes a performance rating exercise of the investments and to this end, PMV classifies each investment according to a set of criteria which categorise the investment performance under the following buckets. You have performing, under-performing, watch list and distress.

Distressed investments:

Where an investment has been classified as watch list of distress, the matter is dealt with either by PMV itself, working with other departments or, it is referred to the PMC unlisted with recommendations, depending on the severity of distress and the risk profile.

Such recommendations may include the appointment of an independent consultant to provide and in depth and comprehensive analysis of the business with the view to provide turnaround strategies.

In terms of PMV reporting:

PMV prepares and submit quarterly reports on its activities, including those that have been described above.

The reporting committees:

There are two forms of reporting and or approvals that PMV does and requires, namely, the quarterly monitoring reports and *ad hoc* reports, which the *ad hoc* reports are a necessitated by remedial actions that are from time to time required.

The latter reports and or approval are submitted to the PMC. The quarterly monitoring reports must be submitted to the following committees, strictly in this order. The Finance and Valuations Committee. The Portfolio Management Committee for PMV unlisted which is also called PMC for PMV. The Fund Investment Panels, which are FIP's and or the Investment Committee.

Now on the Finance and Valuations Committee:

This is first committee that PMV submits its quarterly monitoring reports to. Two other departments, that is Finance and Risk also compile and submit their respective reports to the FVC.

The Finance Team submits valuations reports and the Risk Team submits impairment reports. The Valuation Committee deliberates on the valuations reports from the Finance Team, taking into account the monitoring report of PMV and the impairment of the Risk Team, where it applies.

The FVC then resolves on what valuation figure should be adopted for the quarter, based on the information that has been provided by the different teams. It should be noted as part of the monitoring processes that for quarter ending March of any year, PMV does not compile quarterly reports, as this being the period after the financial year of the PIC. All unlisted investments are assessed by external independent valuers as part of the general year-end valuations process.

PMV's involvement with that process is to provide comments on draft valuation reports, generated by the external valuers. The interaction with external valuers, including provision of information and submission of comments is generally coordinated by the Finance Team.

PMC for PMV:

After the FVC meeting is concluded, PMV updates the quarterly monitoring reports on the basis of the valuation figure that has been adopted by FVC and then submits the updated reports to the PMC's for PMV.

The reports would now contain the investment valuation of that instrument for the reporting quarter. The PMC for PMV deliberates on these investment reports and then approves onwards submission of those reports to the respective fund investment panels and IC.

From the PMC for PMV, the reports are submitted to either a FIB or the IC for approval, depending on the committee that approved the transaction in the first place. There are two different FIB's. Once for social and economic infrastructure and environment sustainability and the other for the private equity, priority sector and SME which is PEPS.

The two FIB's are differentiated by sector of focus. Where a transaction was approved by the IC or a structure below the relevant FIB, the PMV's reports are still submitted to the relevant FIB for information and or noting purposes.

ADV NKAISENG KHOOE: At this point in time, she is then going to move to S & S Refineries.

MS CONSTANCE MADZIKANDA: Yes.

Monitoring of the S & S Refineries Transaction/Handover:

This investment was inherited in July 2016 from a different PMV team two years after the investment date and after all disbursements had been made to the client. The plant had its first production run in April 2016. From the period July 2016 when both myself and the PMV associate, Mr Lesego Mtophi took over the transaction.

We were introduced to the plant manager of S & S Refineries, Mr Jose Ferreira Castro. The introduction was through an email from the transactor, Mr Tshepo Rapudi wherein he requested that the plant manager to include the new PMV team on all correspondence going forward.

ADV NKAISENG KHOOE: Can I stop you there? At the time you inherited the transaction, did the previous PMV team give you the file on and everything that they had done that far?

MS CONSTANCE MADZIKANDA: Yes, they did give us the quarterly reports and the files, so we could onboard ourselves. In October...[intervenes].

CHAIRPERSON: Just for my clarification. How many PMV's are there? Is it one at a time? I see the first point. You say, you inherited in July 2016 from a different PMV team.

MS CONSTANCE MADZIKANDA: Thank you, Commissioner. This is in reference to a reshuffle within the team where a transaction is moved from a different manager to another manager or from a different associate to another associate. So, in this instance, both myself and the associate were given the transaction because of changes in the team and reallocations of investments within the team, but it would mean the same team. It is just a different responsible manager and associate.

MS GILL MARCUS: Is it usual to change a team in the middle of a process like that?

MS CONSTANCE MADZIKANDA: Yes, it has happened before where initially the allocations of investments was based on the portfolio mandate which would be one of the different funds. At a later stage, it was determined that it would be more beneficial to have associates focussing specifically on sectors, so they can establish a particular sector experience.

And then it would enable them to be – to analyse differences or make comparisons of investments that are exposed to the same sector and provide a more informed overview of that sector and the performance of those investments.

So, it has happened before where we moved them around and sometimes it maybe because one particular sector is deploying funds faster than others and you end up with an associate who is overburdened with more transactions than the others. So, in those instances we will do a reshuffle and move some investments away from the one that is overburdened to one who has less to report on.

In October 2016 we received from the plant manager's management's account as of July 2016. The accounts reflected operating losses. Further to that, the management provided sales and collections information which reflected that more than two thirds of what had been invoiced by S & S Refineries to the off taker was outstanding from the production runs that had taken place between April and June 2016.

Between July and September 2016, production was suspended due to working capital challenges which effected procurement of production inputs.

MS GILL MARCUS: Sorry, can I just ask you there? If we look at your point three. The question of… If I understand it, that is non-delivery.

MS CONSTANCE MADZIKANDA: Yes, it is. By the off taker, yes.

MS GILL MARCUS: *Ja*, by the off taker. *Ja*. So, it was non-delivery. Was that for technical reasons because your four talks about working capital challenges. Was there any problem with the plant and the machinery and the functioning or was it purely finance?

MS CONSTANCE MADZIKANDA: It was purely finance at this point and it is later explained the nature of the problem and how it arose. During October we were informed by the plant manager that 1000 tons of crude palm oil had been received and that production had resumed.

PMV arranged to travel to the plant in Nacala, Mozambique for our first site visit and for the discussion on the plant performance and operations. On the 6th December 2016 Mr Mtophi and myself, both from PMV and Mr Rapudi from the Impact Investing Team, met with Mr Castro, the plant manager at the S & N Plant in Nacala.

We took a tour of the refinery which at the time was in production. We were introduced to the production team and some employees in the packaging team. The highly skilled roles, we were told, were filled by expatriate workers, whilst the semi- and unskilled workforce was sourced locally.

At the tour we discussed the management accounts that had been provided to date and the late and intermittent payments made by the off taker, S & N Trading for the oil and soap that had been sold to the trading company, also owned by the sponsor, Mr Rassul. The plant manager informed us that all salaries, wages and other operating costs were paid directly by Mr Rassul from his trading, but he had not settled the full value of the invoices sent to the refinery up to date.

The plant manager also informed us that he had not received a signed contract confirming his employment and he had escalated to the executive board members. This was worrisome to the team and we undertook to raise it with the non-executive board members upon our return, in order to have the matter attended to for proper governance.

The plant manager informed us that there was a software system called Primavera that had been purchased but had not been implemented and as such, all record keeping for production, sales, billing and collections was done manually.

He also informed us that he had no access to the bank accounts which impeded him from fulfilling some of his duties, such as paying for the day to day requirements of the company. This raised concern as the absence of adequate systems and access restrictions on the bank accounts indicated an abnormally in the management of this company.

Mr Castro also advised that the management accounts were compiled with the assistance from BDO Auditors in Maputo. The lack of an in-house accounting function and the financial reporting team at this plant was also noted as a cause for a concern for the PIC.

On the 7th December 2016 we travelled from Nacala to Maputo for a meeting with BDO, Maputo to discuss budgets and forecasts. We met with Mr Abdul Satar Hamid, the audit partner at BDO and requested submission of budgets and forecasts, but he was not able to provide us with the requested information on that date.

The plant manager whom we travelled with then informed us that he would be travelling to Portugal to attend to personal matters and would contact us upon his return to continue engagements on the refinery operations. In an email to the plant manager on 7 February 2017 the PMV Associate requested management accounts and budgets for the December 2016 quarter as he had been committed to. He received no response. On the 21st February 2017 the PMV Associate then emailed Mr Citar at BDO Maputo after failing to get a response from the plant manager. He requested the management accounts from BDO who then responded that they would not be able to assist with the request as Mr Jose Castro had left in December 2016 for Portugal with the information on his laptop.

He would contact Mr Rassul for more information. A copy of this email is attached as Annexure 1. Upon our return I informed the non-executive board members about the issues identified at this visit and requested their intervention to assist. They arranged to travel to Maputo on the 6th March 2017 to meet Mr and Mrs Rassul on the same day the finance and valuations committee meeting of 6 March 2017 took place and in that meeting I reported that we had not received management accounts for the December 2016 quarter. I also informed the committee that the non-executive board members had in fact travelled on that day to Maputo to discuss the issues above.

The CFO, Ms Matshepo More than requested me to urgently join them for that meeting so I travelled to Maputo immediately to meet Mr Rassul together with the non-executive board members at the S&S Refinery's office in Maputo. We emphasized the requirement to comply with information submissions and Mr Rassul committed to providing these soon and we returned to South Africa the following day. During March 2017 the PMV Associate requested financial information from BDB Maputo in preparation for the valuations process. In that email he indicated that the absence of the information was creating challenges for the year end valuation process. There was no response to Mr Matobe's PMV email to BDO which prompted him to request the assistance of the transactor in securing the information. The transactor also emailed the sponsor and auditors reminding them that this information had been requested during the December 2016 site visit. BDO auditors then responded to the transactor's email and attached draft financial statements and these were shared with finance and PMV for valuation purposes. In May the valuations team sent a valuation report for the annual independent valuations performed externally by KMPG and as part of providing input into the year and valuation process the PMV associate expressed discomfort with the forecast which seemed aggressive considering the intermitted production management and stability and operational challenges which had already been identified.

This view was further supported by Mr Masekesa and a copy of the emails is attached as Annexure 2. In 2017 Mr Masekesa informed me that there is a new management team appointed at the Refinery and that another batch of crude palm oil had been delivered to the plant and production would be commencing. I requested their contact details so I could arrange a meeting to discuss performance of the refinery. I also informed the senior manager PMV, Mr Kai Zonke that I intended to visit the plant and requested that he accompany me on the visit as the transactor on this investment was unable to join me on the proposed dates.

On the 19th July I contacted the shareholder and executive board member Mrs Rassul informing her of the teams intention to visit the plant and discuss operational issues as part of our investment monitoring processes. Mrs Rassul responded on the 27th July 2017 to confirm the visit and travel was arranged for myself and Mr Zonke for the 1st

August 2017. We met Mr and Mrs Rassul who are the sponsoring shareholder, Mr Mandar and Ms Manalie who were introduced to us as the new plant and financial manager respectively. We explained the purpose of our visit which was to discuss the Refinery's performance and reiterate the information undertakings to the PIC. Mr Mandar who was the plant manager and Ms Manalie financial manager informed us that they had only been employed recently in the last two months and were undergoing induction.

They however committed to providing detailed financial and operational reports. We were taken on a tour of the refinery and packaging stations and saw the different elements of the plant in operation. We were not able to perform a market tour to establish the popularity of the oil and soap brand due to time constraints but we were informed that the product is sold to vendors, hawkers and certain other retail and wholesale distributors. The export distribution channel had not yet been tested and the product seemed to be confined to the Northern Province only. The managers indicated that high transportation to other regions and currency volatility meant that the price to consumers would have to be increased to recoup those distribution costs which would result in the product being unprofitable.

The managers were also considering recruiting a staff compliment of around 60 permanent employees. 50 of which would be in the production department and the reaming 10 in the administration functions' such as marketing, HR, IT and accounting. Previously there were 20 expatriates employed at the Refinery but due to the disruption in production only 5 remained. The vacant positions were now expected to be filled with locals from Berar.

MS GILL MARCUS: Just on the question of expats. I'm assuming that they tend to refer to people from Portugal. Would that be the case or are you aware of where the expats actually come from?

MS CONSTANCE MADZIKANDA: At this point it was reported that the production team consisted mainly of expats from India yes.

"Critical manpower shortages for departments such as inventory and warehouse management were identified and those exposed the Refinery to risks such a pilferage and inadequate stock control. Further to this the quality assurance lab was also not currently capacitated which had an impact on product quality control. In the weeks after the site visit I followed up with the Refinery's managers who still had not provided the financial and operational reports as agreed at our last visit. I also discussed these challenges with Mr Masekesa who informed me that the transaction would now be handled by the deal team for restructuring purposes.

On the 6th October 2017 I informed the senior manager of the discussion I had had with Wellington which is Mr Masekesa and in that email I also included a letter I had drafted to be sent to the Chairperson of the S&S Refinery's board requesting intervention and assistance in getting reporting information from S&S Refineries. The letter highlighted the following challenges which were identified from the site visits that had been conducted by PMV and transactors.

Management assessment

Management control was lacking at the refinery and the right skills mix that would enable operational continuity had been and continued to be difficult to obtain locally.

The technical and operational assessment

The lack of IT systems or company policies was a area of great concern as had been indicated that the company relied on manual record keeping.

Market assessment

The oil brand had lost market share due to the disruption in the availability of the product. To regain its market position the product's distribution network had to be built up by a dedicated manager from the off taker as S&S Trading which function was absent.

Financial assessment

The lack of accounting function affected their ability to comply with financial reporting requirements and up to that period BDO Maputo had been intermittently assisting with the compilation of financial information as a stop gap measure.

Cash flow management

Mr Rassul's management of the cash flows was adding to the liquidity challenges of the Refinery. The PIC team had on different occasions requested bank statements to track cash movements on the Refinery's account but these were not received."

MS GILL MARCUS: Sorry can you just expand on management of cash flows, does that mean you don't know how the money was used. It was all just cash and not necessarily recorded, reported or used for the affairs of the company? I mean because the difference is there is a record keeping and purpose of use.

If the record keeping is inadequate but the funds are being spent on the company that's one thing. If the record keeping is inadequate but the funds are spent on all kinds of other things including other companies or whatever. Were you able to find out what the cash flow was actually used for?

MS CONSTANCE MADZIKANDA: As I highlighted before we were informed by the plant manager that Mr Rassul was only paying intermittently into the Refinery from his trading company and that would be the amounts that would be deployed to paying salaries and wages and other operating costs.

But in terms of how much is - he actually paid into the company or the receipts in the S&S Refinery's bank statements we were not able to verify what goes in and what comes out of that account.

MS GILL MARCUS: And is that the situation today still?

MS CONSTANCE MADZIKANDA: As of this date we have not yet seen the accounts but the investment is now being monitored by Vimara. We have met with Vimara and we have set out our reporting requirements and we are yet to receive those details.

> "The letter in 37 was sent to the former CEO, Dr Dan Matjila for his signature and on the 31st October 2017 the letter was sent to the Chairperson of S&S Refinery's, Mr Roy Rajdhar. A copy of the letter is attached. Sometime during the quarter ending December 2017 a decision was taken by PMC to request that the investment company management teams of distressed investments should be invited to a PMC on the 4th December 2017 to present their business overview, their challenges and remedial strategies to address the poor performance. This request was repeatedly communicated to the client Mrs Rassul and to the management team during the month of November over a three week period and the client responded to inform that they would not be attending the meeting.
>
> Further to the PMC's invitation to the management teams of distressed investments PMV recommended to PMC that an independent review process be undertaken on the distressed list. The process commenced in January 2018 and by February 2018 PMV had appointed an external consultant to

commence the review of S&S Refineries amongst other investments. The scope of the external consultancy engagement was to review the affected investment to identify the causes of distress and non-performance with a view to developing a workout and or restructuring plan to rescues the company and to present the plan for consideration and approval to the various PIC Investment Committees and related stakeholders.

The external consultant had already started their analysis of the investment based on the information that had been provided to them by the PMV team. As I was aware of the difficulty in accessing information from the client, during February 2018 I requested that the non-executives Mr Rajdhar and Mr Masekesa travel to Nacala to discuss this non compliance reporting by the client as well as the repayment. Sorry that should read as well as the repayment on the 24th January 2018. PMV had initiated a default letter process by informing the legal department of this event of default and copy of this email is attached as Annexure 4.

On the 1st March 2018 we met with Mr Rassul and Mrs Rassul and the two managers Mr Mandar and Ms Manalie. At this meeting I informed the shareholders and management team of the third party business review process that had commenced and that the PMV team would be introducing the external consultants' team at a meeting to be held on the 16th March in Maputo at the BDO offices. The client was also informed that PIC had entered into negotiations with an established operator to take over the management of the Refinery. A process which was being run parallel to the PMV process and run by the deal team. The sponsor did not raise any objections to this exercise.

On the 16th March myself and the senior manager PMV travelled to Maputo to introduce the external team, consultants team to BDO and to Mr and Mrs Rassul both of whom did not attend the meeting although notice had been given to them prior to the meeting. We explained the role of the consultant being to assess the operations and financial position of the Refinery for purposes of advising PIC of potential turn around strategies. Pursuant to that meeting the consultant had various correspondences with BDO Maputo and Mrs Rassul requesting financial information. They informed PMV of the difficulty of getting information from both the auditors and management team. Also during March the external ...[indistinct] KMPG requested information on S&S Refineries for the annual independent valuation of the investment. But also met with challenges in accessing the required forecast. They contacted Mrs Rassul and the two managers but did not get any response from them. The lack of information reported by KMPG was escalated to the board members and on the 9th April another request for information was sent by PMV to the client. Again requesting compliance and notifying them of the repeated default in information undertakings. In response the client sent two reports. A production and sales volumes report only which were insufficient for the valuation requirements. A copy of this email is attached as Annexure 5.

The executive head impact investing advised us to use the projections prepared by the incoming operator as they were more reliable in determining future cash flows based on the due diligence process they had undertaken on S&S Refineries. The valuation was performed on the said forecast. A copy of the email is attached as Annexure 6. As part of handing the over process to the external consultant I also travelled with the investment associate from the deal team to Nacala to hand over the consultancy team to the Refineries management as they had not yet visited the plant. This visit took place on the 8th May 2018.

During this visit we handed the default letter to the Mrs Rassul which we felt was important to do in person to have them understands and acknowledge the contents of the letter since email correspondence would usually be met with long periods of no response. A copy of this letter is attached as Annexure 7. At the time of this handover we were also informed that the two managers who had been working at the plant had both left the country for personal reasons. This was again another indication of management instability which raised further concern on an already difficult transaction. Mr and Mrs Rassul however committed to cooperating with the consultants requests for technical, operational and financial information but over the ensuing weeks they only made partial submissions to the consultants which PMV was informed of.

This lack of cooperation was not unusual as we had also been challenged by the same behaviour over the last few quarters. The consultant also sent a number of information requests to BDO but similarly did not get much cooperation. The consultants review process therefore was frustrated by lack of comprehensive engagement by the stakeholders and against this background they finalised their report with limitations mentioned. The recommendations from the consultant which addressed key areas which were identified as improvement areas that would turnaround of the Refinery. These areas are. Governance and management, to install an effective board, to appoint strong executive management, attend to corporate governance and accountability, improve stakeholder communication, improve record keeping, polices and standard operation procedure documentation and attend to risk safety and quality assurance frameworks.

On financial management and production, highlighted was foreign exchange management, effective costing and pricing management, cash and working capital management and ensuring the effective and efficient plant production management. Under sales and distribution, highlighted was the elimination of the reliance on a single client, diversifying sales channels, arms length sales and distributions and effective sales and marketing management as well as an export strategy. The external ...[intervenes].

ADV NKAISENG KHOOE: Can I stop you there? These recommendations, are you aware whether PIC was aware that these would need to be in place before entering into this transaction?

MS CONSTANCE MADZIKANDA: At this point the report had not yet gone to PIC for adoption or consideration and I refer to that in the next paragraph that the final report however was not presented to the PMC as another process had already been initiated by non-executive board members and the deal team on the other side and the presentation from that consultant is attached as Annexure 8.

So these issues were identified yes but they were not necessarily conditions for the other process. The two were running parallel and the first one to be adopted was the process which was being run by the deal team, hence why this report never made it to the PIC committees for consideration.

ADV NKAISENG KHOOE: And can you perhaps explain why the PIC was battling to get information from Rassul and them when PIC had two representatives on the board?

MS CONSTANCE MADZIKANDA: I think the issue that's prevalent here is that the lack of cooperation was from Mr and Mrs Rassul and from where I sit now it stems from a culture of not being corporatized. This is a businessman and his family who have been running this business without supervision and therefore the entry of a financial institution with such comprehensive requirements was deemed burdensome by Mr Rassul and to the extent that at some point he did suggest that PIC should second resource – an accounting resource to the plant to cater for our reporting requirements.

So I think all efforts were made internally from the transaction team and as well as at the board level but there was just no traction from the sponsor. I don't think that they necessarily understand the value of the place of financial information to an institution or to a lender.

ADV NKAISENG KHOOE: When the PMV inherited this transaction would you have been aware of what ...[indistinct] were in place at the time the disbursements were made or not?

MS CONSTANCE MADZIKANDA: Not to my recollection no. At the time that I took over the transaction, I mean the CP's would have been discharged already and my role was to monitor the compliance going forward. So two years after the CP's have been signed I don't actually recall what the CP's were to the transaction.

I took the transaction forwards on the basis of the legals and the reporting undertakings.

MS GILL MARCUS: Can I ask, in essence it does seem a bit contradictory to have two processes. One by yourselves and one by initiated separately and then one doesn't surface. Why on earth would that happen within one organisation? Surely you would had the minimum combine the two and say let's look at this from all angles. Why would that have occurred like that?

Second of all from beginning to – this is a two year process from what I can see from what you presenting. At least – in fact slightly more. Within which there is a steady deterioration around lack of information, lack of process, lack of governance, poor production, all of the stoppages. As a 70% shareholder do you just accept that?

MS CONSTANCE MADZIKANDA: We don't necessarily accept it. We send out breach notices and default letters where there are defaults and to answer your question on why there was a parallel transaction running at the same time. The board members would have sought or deemed it fit to consider more than one option instead I suppose of waiting for the conclusion of this one.

So whichever one would have materialised or come to fruition first would have been adopted and the Vimara transaction seemed a better option. In this instance what the recommendations were from the consultant were to attend to things that we already knew of and risks we already were aware of.

They did not then get a chance to craft these recommendations into a specific strategy or work plan that is adoptable. So that if the transaction team was running with the process that got to an advanced stage before we could conclude with this consultant process I think it would have been prudent to have them conclude with the operator who is willing – an institutional operator who is willing to come in and turn the fortunes of this investment around.

MS GILL MARCUS: What was the cost of the consultant?

MS CONSTANCE MADZIKANDA: I can't recall exactly Commissioner but I can provide that detail.

MS GILL MARCUS: Ja I think it will be helpful because that is then commissioned for no purpose and I still – I mean I understand issuing notices. You've got a board, two years and this happening. It just seems very slow as a process to deal with a dysfunctional organisation that you've invested in and are the vast majority shareholder.

MS CONSTANCE MADZIKANDA: Commissioner you are correct and that the agility of the PIC in this instance was a bit slow. We generally seek to resolve issues first within our internal capacity using our teams internally. But to the extent that transaction exhibits characteristics that are beyond our scope to resolve, we then contract with external providers and in this instance that external provider provides all resources and attends specifically to that one distressed asset.

The process would be slow in that in that we have to go through appointment and RFP processes and wait for those processes to conclude. We have to on board the external consultants and ensure that they have a common understanding from day 1 and hand them over to the client.

So essentially it's like handing over to another PMV team which also must do it's groundwork and lay the foundation before they can establish what are the remedial strategies that PIC can adopt. So it tends to take a protracted length of time from our experience but in some of the other investments it would generally result in a positive outcome whether it's being dealt internally or externally.

MS GILL MARCUS: Do you not have a panel of service providers that have been through request for proposals across a broad scope of the things that you know that you going to need in different capacities?

MS CONSTANCE MADZIKANDA: We do have a panel. But in the instances of these – I think procurement process would still warrant us to issue an RFP and conclude according to the process. I don't think that it generally would translate into a quicker process because we have a panel. But that process I think can be provided for more context as to how exactly does it take place.

MS GILL MARCUS: No I don't want more information about how slow processes are. I am much more interested in whether you have evaluated the consequence and are there ways to improve it? Because to sit with this problem for two years and come to the conclusion or the situation where you are now should warrant some internal review.Has there been any internal review about this particular transaction? About the process from beginning to end?

MS CONSTANCE MADZIKANDA: There has been a review which is that – we've identified that the challenge has been management and therefore with the transaction brining in a new management operator. We are comfortable that it will look different and we will have a different experience with them.

In terms of what PMV could have done better on this transaction. I believe Commissioner we tried various efforts to either deal with the executive management themselves or their auditor but became of the to and fro from the different personnel it presents a challenge in establishing or assessing what the financial position is and to the extent that they still value, we try and continue to pursue this information requests. I'm not sure if I'm answering you.

MS GILL MARCUS: Ja can you just remind me who the two non-executive members were on the board?

MS CONSTANCE MADZIKANDA: It would have been Mr Roy Rajdhar and Mr Wellington Masekesa.

MS GILL MARCUS: And prior to that was?

MS CONSTANCE MADZIKANDA: They have always been those, it's only been Mr Rajdhar and Welllington on that transaction. Mr Rassul has been asked to hand over everything and vacate from the premises. It's one of the conditions that the current operator expressly requested, that we ensure that he is offsite and he does not interfere with the operations. May I continue, Commissioner? Okay. Under the quarterly reporting of S&S Refineries, in summary, the reporting ... (intervention)

MS GILL MARCUS: Sorry, I just do want to go… No, that's fine. Go ahead.

MS CONSTANCE MADZIKANDA: The reporting process for this investment also follows the PMV processes outlined above. This statement would have applied where I would have started with MST.

"Due to the client's lack of cooperation with information undertakings the PMV's role in assessing this company was greatly constrained and this was reported at all committee meetings relevant."

MR EMMANUEL LEDIGA: Just… I just have to check: Annexure 8 on your document seems to be something different. It seems to be, you know, from my copies, Busamed.

MS CONSTANCE MADZIKANDA: Apologies, Chair. That email contained both… This would have been one of the transactions in distress by – being considered, but there is ... (intervention)

MR EMMANUEL LEDIGA: What should be on Annexure 8, what correct thing should be there, document?

MS CONSTANCE MADZIKANDA: It would be the specific S&S report from the external consultant.

MR EMMANUEL LEDIGA: Who's the consultant, by the way, you said?

MS CONSTANCE MADZIKANDA: It was SAB&T Nexia.

MR EMMANUEL LEDIGA: Oh, it's the same company, but then this is a different ... (intervention)

MS CONSTANCE MADZIKANDA: Yes.

MR EMMANUEL LEDIGA: It's the same consultant, but a different company there?

MS CONSTANCE MADZIKANDA: Yes, they were allocated more than one transaction.

MR EMMANUEL LEDIGA: Oh, alright. So this is different to the KPMG report. Is that the other one?

MS CONSTANCE MADZIKANDA: That's correct.

MR EMMANUEL LEDIGA: The other consultant? Okay. Can we please then get the copy, the correct company? The correct company.

ADV NKAISENG KHOOE: My apologies. I'll do that, Commissioner. Thanks.

MR EMMANUEL LEDIGA: Ja. Alright.

MS GILL MARCUS: And perhaps while you're doing that, I would just want to better understand the relationship of the board where you have Mr Rajdhar and Mr Wellington Masekesa on, and para 51, which was the special – the SPV created for the transaction, which had Mr Matjila and Ms More on as the directors, was that – was the latter one simply a temporary process? What was the relationship between the board and this SPV board? And having four directors involved and this in two different capacities, I would just want to better understand the relationship between the two and what the role of those four non-exec directors appointed by the PIC were in relations to each other and what oversight that provided. Thanks.

MS CONSTANCE MADZIKANDA: I will attend to it, Commissioner.

CHAIRPERSON: Okay. Weren't you going to respond to that question?

MS CONSTANCE MADZIKANDA: I wasn't sure if it's a request to answer to it now or to provide the details later.

MR EMMANUEL LEDIGA: You can answer now if you can.

CHAIRPERSON: No, if you are able to answer it you're welcome.

MS CONSTANCE MADZIKANDA: Commissioner, I wouldn't have the details of the two board members, being Dr Dan and Ms More, on the other SPV but for the intent of transactions it's as S&S under unlisted. The board members would provide oversight.

The…I suppose the peculiar instances that the person who holds the board chairperson role also happens to be the Executive Head of that transaction and therefore in escalating the escalation would be two-pronged as the Investment Head – the Executive Head of the transaction team as well as the chairperson. Where he was dealt with as the Executive Head it would be in reporting all the challenges we've identified, but further to that, the letter which is annexed, I think under – I think it's Annexure 7, would have been written now in – to him in his capacity as a chairperson to say over and above what we've tried to establish from the normal reporting challenges: We are requesting you, as a chairperson, to assist in getting us this information. Both approaches did – still did not give us the result that we needed, which is the information.

MS GILL MARCUS: Okay, continue.

MS CONSTANCE MADZIKANDA: "Under the new strategic operator upon

Conclusion of negotiations with the new managing operator PMV was introduced to the Vamara team in October 2018 after they had officially taken over the refinery. At this meeting we set out reporting requirements and discussed the implementation strategy, which included recruitment of key staff, working capital, rebranding the products, communicating with the statutory bodies in Mozambique and distributing the product, offering to a wider target market. Under Vamara's management a significance in – a significant different in reporting has been noted. Vamara is attending to the legacy issues identified and they are currently working on regularising all the gaps and shortcomings of the previous manager. We have been informed that as of the 15th of March 2019 a shipment of 3 000 tonnes of crude palm oil has been offloaded at the refinery and that production will commence once statutory compliance issues have been resolved."

MS GILL MARCUS: Can I just ask a question on that? Because one of the issues has been the unreliability or the lack of consistency about supplies. It's interesting that there is reference to a shipload. Is there something in your monitoring that says these are the scheduled shiploads that would keep the production at a steady flow, that you don't have gaps in production, and what is the cost, and have you factored in the changing environment around that so that you know what is possible, that with a new management in place there is actually a consistency of supply and at what kind of prices so that you know what the turnaround could be if that is in place? Because this only refers to having one shipment, you know. If you've informed that a shipment has been offloaded, well, that's very well and good for one shipment. What happens thereafter? And how long does it take to process one shipment? If you need a schedule of delivery do you have a schedule of delivery?

MS CONSTANCE MADZIKANDA: Thank you, Commissioner. We have used what Vamara as provided as their DD report to form now what will be the new base case of this transaction and those details referring to at what capacity does the plant operate profitably, at what price would it need to sell the product and at how many cycles, trading cycles, would it require to break even, those details are provided in the DD report and that's what we are now establishing as our baseline in terms of monitoring the performance of Vamara. They do have a scheduled – a schedule of shipments and that can be provided. It's… To my recollection, it will be a cycle of about 60 days from the time that they procure to the time that they – the product is ready for sales or for distribution. But I can check and provide that information, Commissioner, if you so require.

MS GILL MARCUS: I'm not asking for the schedule. I'm asking do you know that there is a schedule and that it can meet the requirements of a sustained operation. I think that's really my question, that that is in place as part of what is reorganising. Giving assets, we can have a copy of the schedule, but if it's not adhered to and you don't have money to pay it doesn't help you very much.

MS CONSTANCE MADZIKANDA: Thank you, Commissioner. There is a schedule and – because Vamara is – they are specifically funding the working capital so the trade cycle will be financed by them. They have the liquidity ... (indistinct) for saying because of that we are establishing this as the base – their DD as the baseline of our performance.

CHAIRPERSON: We've now received a document, ja, workout and restructuring assessment in respect of S&S Refineries. Where does that come?

MR EMMANUEL LEDIGA: Annexure 8.

CHAIRPERSON: Annexure what?

MR EMMANUEL LEDIGA: Annexure 8. That's Annexure 8.

MS CONSTANCE MADZIKANDA: That's Annexure 8 from the external consultant.

CHAIRPERSON: Can we discard the old one?

MS CONSTANCE MADZIKANDA: Yes, Commissioner.

CHAIRPERSON: Yes, thank you.

MS CONSTANCE MADZIKANDA: Sorry, Commissioner, can you come again?

CHAIRPERSON: No, I was saying yes, thank you. I suppose the witness is going to stand down now and we go back to Mr Rajdhar. Or what's the position?

ADV NKAISENG KHOOE: She still needs to go through the recommendations and ... (intervention)

CHAIRPERSON: Alright, carry on.

MS CONSTANCE MADZIKANDA: Commissioner, may I propose that the recommendations are dealt with once the MST transaction has been discussed? Because they would apply to trends that have been identified on both transactions.

CHAIRPERSON: Ms Khooe, what do you say to that?

ADV NKAISENG KHOOE: That is fine, Commissioner. But I just have a few questions that I wanted to ask her.

MS GILL MARCUS: I actually differ. I think that we can have the recommendations now, take them into account at this point and when we look at the MST we know that it the same recommendations. Is that what you're saying?

MS CONSTANCE MADZIKANDA: Yes, Commissioner. I can proceed with the recommendations.

MS GILL MARCUS: I would think so. We're in the middle of this. Let's conclude this and all we note is that when we're looking at the MST we then take these recommendations as similar recommendations to that so that we deal with it now. I would prefer that.

MS CONSTANCE MADZIKANDA: Commissioner, I will tend to the recommendations. Under the current reporting… Excuse me.

"Under the current reporting frameworks portfolio management for existing unlisted investments is not highly prioritised. Typically PMC meetings prioritise investment approvals to the detriment of portfolio management of existing investments. PMV PMC meetings are sometimes scheduled months after the relevant reporting quota has passed, rendering some of the information outdated. In the instances where…"

CHAIRPERSON: Sorry, but who is responsible for that?

MS CONSTANCE MADZIKANDA: It would be a scheduling of the company secretariat, but where they have afforded – or specifically booked a meeting for PMV reports in particular there are usually instances where the reports are either deferred to the end of a meeting because they are more pressing transaction approvals that must be deal with and/or if we do get the chance to ventilate the issues there is only sufficient time to go through the distressed section only and not so much the other, maybe, watch list and underperforming. So my recommendation is that there could be an improvement. This is an improvement area where the frequency of PMV PMCs has increased and enough time is actually scheduled for discussion of at least the watch list or watch list and distressed investments rather than just dealing with distressed because it allows the PMV to express an opinion or an assessment on watch lists so we can get guidance from those committees on how to proceed to resolve the issues before an investment deteriorates into distress.

MS GILL MARCUS: If I understand you correctly, what you are saying is that there insufficient attention to post-investment monitoring and evaluation and paying attention to how the assets are performing in relation to PMC, and has this been escalated from PMC to higher echelons in the organisation, raising it with the CEO, even with the board, to say, listen, you know, we may be making investments but we're not necessarily managing them to the most effective?

MS CONSTANCE MADZIKANDA: It has been escalated, to the extent that the fund investment panels now also have quarterly scheduled meetings for PMV reports. However, the challenge is that we cannot proceed to submit to the fund, the higher governance structures, if a PMC has not taken place, hence my specific focus is that the starting point should be sufficient time be afforded to the PMV team to discuss or table what we find as – in our monitoring activities to the extent that it assists to arrest some of these problems before they deteriorate further and also to assist in the consideration of new transactions as they come on board.

MS GILL MARCUS: Just to again clarify then, the lessons learnt in the investment process by the monitoring and evaluation is not passed on to new transactions sufficiently?

MS CONSTANCE MADZIKANDA: Correct, Chair.

MR EMMANUEL LEDIGA: Okay, just a question from my side. In terms of PMV, you know, how many companies do you look after, you know, roughly, in terms of, you know, with monitoring, workout, distress, you know, the total?

MS CONSTANCE MADZIKANDA: Commissioner, I think as at the December quarter we have slightly over 100 investments that we look after.

MR EMMANUEL LEDIGA: H'm?

MS CONSTANCE MADZIKANDA: Of those may… I'm hesitant to give a specific number of which ones are distressed, or how many, what percentage is distressed.

MR EMMANUEL LEDIGA: Ja, just roughly. We can get… Ja, just roughly and then we can get the correct numbers. Just to get a sense.

MS CONSTANCE MADZIKANDA: I think less than 15% in terms of the value would be classified as distressed.

MR EMMANUEL LEDIGA: H'm. H'm.

MS CONSTANCE MADZIKANDA: And that's at a global, the global portfolio.

MR EMMANUEL LEDIGA: Ja. Ja. Ja.

MS CONSTANCE MADZIKANDA: The other would be in watch list and then the others are either performing or underperforming.

MR EMMANUEL LEDIGA: Ja. And how big is your team? I mean, you know, looking at 100 companies how big is your team – is the team?

MS CONSTANCE MADZIKANDA: We currently have three managers, so on average each manager looks after about 30 transactions.

MR EMMANUEL LEDIGA: H'm.

MS CONSTANCE MADZIKANDA: There are seven associates and on average they are looking at about 18 – 15-18 investments.

MR EMMANUEL LEDIGA: H'm.

MS CONSTANCE MADZIKANDA: But some may have more because, as I mentioned earlier, the sectors – some sectors deploy faster than others.

MR EMMANUEL LEDIGA: Ja? And are you coping, I mean, with these companies, you guys?

MS CONSTANCE MADZIKANDA: Commissioner, I am happy that you asked, because that would be the last recommendation that I mention.

MR EMMANUEL LEDIGA: Oh, okay.

MS CONSTANCE MADZIKANDA: Is that it would be beneficial if the team's capacity could be enhanced either by adding more resources in the PMV team or creating a separate workout and restructuring unit whose main focus is to deal with the distressed assets.

MR EMMANUEL LEDIGA: Yes.

MS CONSTANCE MADZIKANDA: I think that separation would really assist because we find that for those transactions that are now in distress they tend to occupy a lot of the time in terms of chasing after and ensuring compliance and engaging with the management teams of those companies. So it also is a potential problem in that we also then tend to maybe not maybe not necessarily prioritise but rather more attention is given to distress and – versus watching the entire portfolio closely. So a separate team, I believe, for workout and restructuring could be an operating model that could be considered going forward.

MR EMMANUEL LEDIGA: Then the next question is: From the 100 businesses or so, what percentage, roughly, would you say are performing? And then the watch list and the other categories, if you can, and then we can get the correct numbers.

MS CONSTANCE MADZIKANDA: Commissioner, I think ... (intervention)

MR EMMANUEL LEDIGA: The precise numbers after that.

MS CONSTANCE MADZIKANDA: The percentage of performing is slightly above – around, it's around, let me say, around 60%.

MR EMMANUEL LEDIGA: Alright, that sounds not bad.

MS CONSTANCE MADZIKANDA: My ... (intervention)

MR EMMANUEL LEDIGA: And then watch list, so we said about 60% is performing, like 15% is distressed.

MS CONSTANCE MADZIKANDA: The balance would be split now between watch list and underperforming.

MR EMMANUEL LEDIGA: Between watch list and the underperform. Roughly the same? Or different numbers?

MS CONSTANCE MADZIKANDA: No, the watch list, I think it tends to be bigger. Maybe ... (intervention)

MR EMMANUEL LEDIGA: To be more than the underperforming?

MS CONSTANCE MADZIKANDA: Yes. More than the underperforming,yes.

MR EMMANUEL LEDIGA: Alright. Can we please get some correct numbers on that one? Ja. Thank you very much. Thank you, Commissioner.

MS CONSTANCE MADZIKANDA: Commissioner, my last recommendation would be as it relates to the current infrastructure, which is the IT infrastructure which we rely on presently. We have more of a manual process, or a storage mechanism, and it would be beneficial to have an automated system or an electronic where most of the static detail of transactions are loaded and where some of these issues or tracking areas could be assisted by a system that automatically highlights or flags what is due when its due. We currently have to rely on different source documents, for example in terms of keeping track of what is happening in the portfolio. So my recommendation, which is something that is already, I believe, being explored is to install and to implement a system that enables efficient tracking and monitoring of these transactions. Because some of the monitoring efforts, sometimes they fall through the cracks because there are so many things to attend to and no particular system to rely on except your own organisational skills.

MR EMMANUEL LEDIGA: Just to follow up, in terms of the valuations, where are they done, you know? It's 100 companies. It's quite a lot. So who does that and where are they done and is there sort of a common template or each company has got to be done differently and all that?

MS CONSTANCE MADZIKANDA: Thank you, Commissioner. The valuations are done by the finance team, also called the valuations team. That team directly reports to the GM of Finance and he reports to the CFO. In terms of whether they used a template or not, each valuation is dictated to by the nature of the investment. Where it's a loan there's a standard loan valuation. Where it's equity it's a combination of the different valuation methods. But in terms of presentation they are presented in similar format.

MR EMMANUEL LEDIGA: And do they do those internally? Or they tend to get, you know, other people to help, external help?

MS CONSTANCE MADZIKANDA: Commissioner, the finance team does three quarters out of the year, they conduct the valuations internally. It's the final year-end value that is contracted to external valuers for independence purposes. So after three quarters, it would be June, September and December which are done internally, and then the March one is the one which is outsourced as the year – the final year-end figure.

MR EMMANUEL LEDIGA: Ja, thanks. Thank you.

ADV NKAISENG KHOOE: I want to take you back to paragraph 55, the recommendations from the consultant. Is it normal, have you come across a transaction where the PIC has invested in a company and there is no governance, like it's still a one-man show and PIC invests that much money and…? I mean, there's a list here, in paragraph 55, of – that have been highlighted as improvement areas. Have you come across a transaction like this one?

MS CONSTANCE MADZIKANDA: In terms of size, not necessarily. But in terms of the management problem we do tend to see that the companies that usually are family owned exhibit the same pattern where I've mentioned earlier that it's an issue of, for lack of a better word, rehabilitating, or on-boarding them and corporatizing them. There is a corrective action plan that is for such companies, a corrective action plan that's agreed to by the ESG Department where governance risks are highlighted right at inception and they're given timelines, for example to reconstitute the boards, to appoint board subcommittees, to establish policies and frameworks, but those responsibilities are dealt specifically under the EGS function. So the trend is there, yes, for some of these family-run investments, but they are corrected through that mechanism. S&S is one of them, yes.

ADV NKAISENG KHOOE: Are you aware whether the PIC thought that before they entered this transaction or not? Because I understand you inherited this transaction. Are you aware whether this was one of the things that PIC thought about before they entered into this transaction or not?

MS CONSTANCE MADZIKANDA: I think by, Commissioner, by virtue of approving a single sponsor with a single off-taker those considerations were made and the risks might have been flagged as something that is medium or can be mitigated through processes. I have not seen the actual correction – corrective action plan that would have been agreed to by ESG to address the issues, but the fact that the transaction was approved with the one-man show means they had assessed that risk as something that is mitigatable.

MS GILL MARCUS: Sorry, I'm just not very clear about the consultant and then the other consultant. Who was the first consultant that you used?

MS CONSTANCE MADZIKANDA: It was SAB&T Nexia.

MS GILL MARCUS: Okay, so that's the annexure in Annexure 8?

MS CONSTANCE MADZIKANDA: Yes, Commissioner.

MS GILL MARCUS: And the consultant report that was actually approved, where is that? Or the one that was implemented that was initiated by the non-executive board members, where is that?

MS CONSTANCE MADZIKANDA: That would be the Vamara transaction. It is not annexed in this statement.

MS GILL MARCUS: Can we get a copy of that so that we can actually see what the proposal is from them? Because that's the one that's been implemented as the new management and possible partner.

MS CONSTANCE MADZIKANDA: Yes.

MS GILL MARCUS: It would just be useful to see that as well. And then, in the information requested by KPMG for its year-end valuation, did that ever materialise?

MS CONSTANCE MADZIKANDA: The… For the 20 ... (intervention)

<u>MS GILL MARCUS</u>: We talked about here at March 2018, where you wanted to complete the valuation. If you looked at paragraph 49, 50, was that information ever forthcoming?

<u>MS CONSTANCE MADZIKANDA</u>: For the purposes of the valuation we used – or rather, the valuations department used the forecasts provided by this new operator.

<u>MS GILL MARCUS</u>: Okay, because as I understood it, your fourth quarter for valuation purposes was external and that was KPMG.

<u>MS CONSTANCE MADZIKANDA</u>: Yes.

<u>MS GILL MARCUS</u>: Did they ever succeed in giving you a value – a proper valuation?

<u>MS CONSTANCE MADZIKANDA</u>: KPMG did conduct a valuation. However, it wasn't based on information provided by Mr Rassul. It was based now on forecasts that had been provided by the incoming operator.

<u>MS GILL MARCUS</u>: Okay.

<u>MS CONSTANCE MADZIKANDA</u>: As they were more – established to be more reliable.

<u>MS GILL MARCUS</u>: Okay. So they weren't on actuals. They were on forecasts that he – or the new operator anticipated being the case?

<u>MS CONSTANCE MADZIKANDA</u>: Forecasts. Yes.

<u>MS GILL MARCUS</u>: Okay.

<u>ADV NKAISENG KHOOE</u>: Thank you Commissioner that is the evidence of Ms Madzikanda, can I request a short adjournment when we prepare Mr Roy Radjhar to come back for MST?

<u>CHAIRPERSON</u>: May I just mention that when he does come back there might be a few questions still on S & S okay. How long do you want?

<u>ADV NKAISENG KHOOE</u>: 15 minutes.

CHAIRPERSON: 15 that's fine.

ADV NKAISENG KHOOE: Thank you.

CHAIRPERSON: We'll adjourn for 15 minutes.

INQUIRY ADJOURNS

INQUIRY RESUMES

ADV NKAISENG KHOOE: Thank you Commissioner. Mr Rajdhar's been asked to address the question of the parallel processes that were running concurrently and he's ready to do that.

CHAIRPERSON: And there might be further questions not necessarily just that one alone. Mr Rajdhar can I just remind you, you took the oath earlier on, you're still under oath.

MR ROYITH RAJDHAR: Yes.

CHAIRPERSON: You can carry on with what Adv Khooe said you will.

MR ROYITH RAJDHAR: Chair my understanding is that the question is the PMV unit running a process of a business review as well as the team following a process of dealing with Vamara. I just wanted to indicate that the process of working with Vamara started in 2017 so it's been quite a lengthy process also because it had to involve in the other lenders, the Mozambican banks so we had already identified, as you will recall from my testimony earlier, that we wanted to get in place a strategic equity partner so hence we had started that process and to the point where we've brought it to the point where they are operating and within the next six months we are pursuing where they become involved in the equity of the transaction. So ours had been a process that had been welled before, commissioned before the PMV team.

MS GILL MARCUS: Given that it was well under way would you not have discussed with the PMV team that this is the process, is it necessary to do a second evaluation or to refine or redefine what should come out of that second evaluation that would feed into your process, why two parallel processes that don't seem to talk to each other?

MR ROYITH RAJDHAR: Through you Commissioner, yes we would have discussed that with them but importantly for us on the investment team if we look at the post investment team as a, let's call it a control measure, we don't want to dictate to them what they should do, let them establish for themselves what the issues are and those issues we would feed into the process with Vamara and I think that is what the PMV team had done as well.

MS GILL MARCUS: In that regard if one looks at the recommendations that have just been made by Ms Madzikanda, have you had discussions with the PMV team about that kind of changes that are made, the kind of work that has been done, if you looked at the consideration about the attention given to post investment activities surely that should be something that you pay particular attention to. I mean are you surprised by what is being said, are you aware of what has been said and if you are aware what have you done about it?

MR ROYITH RAJDHAR: Through you Commissioner, yes there is discussions and remember the PMV team also presents to the different committees, PMC the fund investment panels and that's where I fit. We also contribute in terms of where we think things can also be improved in terms of for example if you take the operating model the question is if you're doing monitoring should monitoring rather be at least some of it outsourced and pay more attention to work out and value add, these are matters that have been discussed. The issues are in terms of the amount of transactions that they have, should we rather have a cut-off point within PIC where we from a certain value upwards we deal directly, a certain value below we use intermediaries so you're not sitting with a high volume of small value transactions, it would make it very uneconomical. So I mean the transaction which is MST which was R21 million is that too low, is that something that should be done to others so that they have the ratio of number of deals per associate is not that high. So there are various discussions that we have with the PMV team.

MS GILL MARCUS: That doesn't help me very much, that does not give clarity about whether you are comfortable with the level as it is at the moment of whether that is functioning and yes to say there're ongoing discussions that isn't what's come across today. What's come across today is that it's inadequate to me.

MR ROYITH RAJDHAR: Yes I would agree that at the moment it's inadequate. I think they probably need more capacity in the PMV unit because I think the, as you have so many transactions per person they're spreading themselves too thin and especially when it gets into a workout stage. The amount of work you put in is very intensive so I would agree.

MS GILL MARCUS: If I could perhaps just ask you then as a non-exec director, one of the two non-exec directors on the S & S Refineries if we listen to both the presentations today this really sounds like, I mean it's not exactly something that you'd write home about as a successful venture. To what degree as a non-executive board member would you feel the role could have been different, should have been different and how this would influence you going forward, this took you know a lot of time, a lot of effort as you said one of your ventures into the continent from your section and it doesn't come across as something that the PIC has looked at its investment and the results that would have done you sort of, given you a very good record in your first venture. Have you assessed it, what you have you looked at in a role in particular as the representatives of the PIC, the two of you as non-exec board members?

MR ROYITH RAJDHAR: Yes through you Commissioner, this has been a very difficult investment for us it was the first one. Now you have as I mentioned earlier the key reason for it going wrong is the strong devaluation in the currency but then this just becomes compounded when you're dealing with a sponsor that is not very cooperative. We had identified that governance is where we would should look at improving, we tried many things, we tried co-opting the banks even to come onto the board but as a lender they were not prepared to do so. So there were a lot of difficulties for us. I think as a PMV team as eluded maybe the issue in terms of family owned businesses if you're getting involved maybe we need to have a closer look at that because that is where you might have resistance in terms of governance.

But these were all picked in hindsight at the point of doing the appraisal, we had commissioned relevant experts, we were comfortable at that point in time but clearly in this particular case it was like a perfect storm everything that could go wrong went wrong in the investment. But I think that having said that we've spent quite a bit of time and we have taken a long time to bring Vamara in to where we are today but I'm confident that from here on there wouldn't be an issue. I think the question was raised about the sustainability of procurement of the oil and the sales that we are confident that you would not have the stop start or the intermittent supplying in the market because clearly that's a problem.

MR EMMANUEL LEDIGA: Alright so the one question I wanted to ask is it's sort of work out versus value add and I'm not sure it's probably you or the other lady Madzikanda. So where does the value add happen in these companies sort of is it the non-executive director's role or is it the PMV role?

MR ROYITH RAJDHAR: Through you Commissioner, I think it's a combination of both but first and foremost it has to be the investment team that was their investment so with representation on the board I think that's where strategic input should be given.

Obviously in the PMV side because they're working on a number of transactions that might have similar characteristics there would be learning's from there that we could apply in value add. So I think for example on the PMV side they had done quite a bit of work in the healthcare sector and the affordable housing sector because we had done transactions in there so they have developed lessons learnt that we can apply in other projects. So I think it's a combination between working between both teams.

MS GILL MARCUS: Perhaps just a couple of others, given that the introduction to this entity was through Siyabonga Nene by the CIO at the time Mr Matjila, was that interpreted that, how was that interpreted in terms of process, is it something that when you're looking at the due diligence, when you're looking at you should go ahead was there any question that this would be something that was desired or accepted that you do a proper due diligence anyway?

MR ROYITH RAJDHAR: Thank you. As I mentioned earlier that if this project had come in through the normal processes we would have looked at it anyway because of the significant commitment in terms of, financially, monetary wise from the sponsor so the issue of Mr Nene being involved would not have affected our decision on whether to take it through the process. On a preliminary basis we would have still felt that we should proceed with the transaction.

MS GILL MARCUS: And then to the best of your knowledge do you know if Mr Nene given the dispute and the role of the PIC in trying to resolve this fee and the amount of roughly $5 million, do you know if Mr Nene got any of that money?

MR ROYITH RAJDHAR: Not to my knowledge, I don't know all that. All I know is that whenever there was an issue in terms of the settlement of the $3.3 million the pestering always came from Mr Mirza. As I mentioned at the meeting at the Fire and Ice that was the last time I'd ever seen Mr Nene or ever interacted with him.

MS GILL MARCUS: What are the lessons that you would say you've learnt as a non-exec director?

MR ROYITH RAJDHAR: I think perhaps the lesson learnt here is probably if you're going out into a new country I think probably spend a lot of more time in terms of the assessment of the jockey in the project, the person spearheading the project as well as looking at probably the issue again of to what extent do we realistically that we can corporatize a family owned business, I think that would be the key lessons that we would have learned.

MS GILL MARCUS: And can you, as a final question, can you tell me the role of Ecobank?

MR ROYITH RAJDHAR: Ecobank had provided a letter of credit facility to S & S Refinery that it's a working capital facility.

MS GILL MARCUS: Did the PIC have any role in getting that loan made because it was Ecobank Nigeria Ecobank Mozambique?

MR ROYITH RAJDHAR: Yes the PIC had spoken to Ecobank and given that we do have an investment in Ecobank so we did play a role in trying to facilitate the letter of credit.

MS GILL MARCUS: Do you do that often? Because I mean if you're a big shareholder in Ecobank can they say no to you when you're trying to get letters of credit or other investments or loans made?

MR ROYITH RAJDHAR: Look in investments where we can play a role in facilitating something of the nature with Ecobank we would do that, so even, sometimes even in transactions where we think we can co-opt for example the IDC in terms of providing follow on investment it's something that we would do.

MS GILL MARCUS: And in that circumstance do they rely on the work that you have done as the investment, on the investment just to, or do they repeat what you've done or do they take your work as the validation that yes the work has been done and they can make that investment?

<u>MR ROYITH RAJDHAR</u>: No they don't place reliance on us, in fact where they do happen to use our assessment we have a non-reliance letter that is signed between the parties.

<u>MS GILL MARCUS</u>: A non-reliance letter doesn't actually mean they don't rely, it means that they can't hold you liable for it.

<u>MR ROYITH RAJDHAR</u>: Yes but usually you find that they must perform their own independent evaluation and not rely on the work that we have done.

<u>MS GILL MARCUS</u>: Do you know if they did it in the case of S & S?

<u>MR ROYITH RAJDHAR</u>: They wouldn't have done in the case of S & S, no they wouldn't have relied on us.

<u>MS GILL MARCUS</u>: Wouldn't have relied on you and they would have done their own assessment of the letter of credits?

<u>MR ROYITH RAJDHAR</u>: Yes.

<u>MS GILL MARCUS</u>: And you're sure of that?

<u>MR ROYITH RAJDHAR</u>: Yes.

<u>MS GILL MARCUS</u>: They did that work?

<u>MR ROYITH RAJDHAR</u>: As far as I'm aware because they never came to us to ask for, well they had asked us a lot of questions in terms of the company and the business and information but as far as I'm aware they had gone through their own process and that is why in fact it actually took quite a long time for them to approve it.

<u>MS GILL MARCUS</u>: Can we just get clarity from Ecobank that they actually did their own assessment and took their own decision of the letter of credit?

MR ROYITH RAJDHAR: We had that … (intervention)

ADV NKAISENG KHOOE: We'll do so.

CHAIRPERSON: Alright can I just ask something not really related to the two matters that you are here for, I understand and tell me if I'm wrong, that an employee of PIC can introduce somebody who wants to transact with the PIC am I correct?

MR ROYITH RAJDHAR: Yes an employee, any employee in PIC I mean they can originate a transaction but if we look at specifically it will be in the deal team that would originate transactions yes, it's part of their responsibility.

CHAIRPERSON: Yes and if an employee has done that and the transaction passes, it's successful, does the employee get a transaction fee?

MR ROYITH RAJDHAR: No the employee does not get a transaction fee, where it would reflect will be in the employee's balance scorecard.

CHAIRPERSON: For purposes of bonus?

MR ROYITH RAJDHAR: Yes.

CHAIRPERSON: Yes, thank you.

MR EMMANUEL LEDIGA: Just a question to add on lessons learned you know by you guys, just in terms of the fees paid you know the 1.75 million and also the sort of supposedly $3.3 million and all that, I mean what would you say you know from your point of view are the lessons learnt around fees and referral fees and advisory fees and all of that?

MR ROYITH RAJDHAR: Yes I think with regards to advisory fees I think the lesson is let's rather have a very concise policy on it so it avoids a lot of discretion would be the one thing. The second thing would be to what extent should that be the cost for the client, as far as possible we should actually pass on the cost to the borrower that is what I would say. So let it be a cost to the borrower and not to the PIC.

MR EMMANUEL LEDIGA: And the quantum's and the percentages too what can you say about that?

MR ROYITH RAJDHAR: I think with regards to the quantum's the principle should be that the higher the amount the lower the percentage and I think probably also there should be an absolute cap. So I think I mean if somebody's going to come with R10 billion and let's say you're saying it's a .5% I still think it should be subject to a cap, a monetary cap. Because the amount of work done, there's a certain extent to which you can argue that the higher the amount the higher the fee but also you've got to bear in mind sometimes regardless of the size of the transaction some of the costs would be fixed.

MR EMMANUEL LEDIGA: So meaning that you are saying if you are funding a consortium they must carry their own costs, they cannot take the costs of the transaction from the funding which they raised from the PIC is that what you are saying because some consortiums might not have the money to pay for those costs?

MR ROYITH RAJDHAR: Through you Commissioner no I think that, we should allow for that but I think what we don't want to do is for us to, it must be subject to success but that necessarily means that where the consortium appoints its own service providers they have to make sure either if they don't have the money those service providers have to work on risk. But working on risk necessarily means that the costs go up that's the only downside to it. Commissioner if you'll allow me there was a question that was asked to Ms Constance regarding the directorship of Dr Matjila in the SPV and Ms More in relation to myself and Mr Masekesa so I'd like to answer that. So as I mentioned in my testimony if you are an equity holder and a debt provider it has to be in different legal entities. So the appointment of Ms More and Dr Matjila is only for statutory purposes because a company cannot not have directors but that is only for the purposes of the loan funding coming into the SPV and flowing out to S & S Refinery so that they are representatives of the lender if I may put it that way and then with regards to Mr Masekesa and myself we would be the PIC nominees on the operating entity that is S & S Refinery.

MS GILL MARCUS: Does the SPV then dissolve?

MR ROYITH RAJDHAR: No the SPV … (intervention)

MS GILL MARCUS: Still remains all the time?

MR ROYITH RAJDHAR: The SPV will remain until all obligations have been discharged yes.

MS GILL MARCUS: So basically you have two directors for the SPV and two for the board?

MR ROYITH RAJDHAR: Yes.

MS GILL MARCUS: And the SPV directors have very little function other than to enable that funding to take place?

MR ROYITH RAJDHAR: Yes and then the annual signoff of the annual financial statements.

MS GILL MARCUS: Thank you.

MR EMMANUEL LEDIGA: Ja last question from my side, I just need to understand some of the technical staff a bit on the valuation of the company, the S & S. The $18 million that the PIC paid did Mr Rassul actually put in his own equity before then or was the company funded by debt, so I'm just saying I mean 45% for 18 million what is the total valuation what 43 million somewhere there, I don't know, so just explain to us how the equity worked out and then did he fund this through the equity or it was just loans because then it means the balance sheet didn't have a lot of sort of the equity portion?

MR ROYITH RAJDHAR: Ja so it would have been Mr Rassul putting up his $22 million of equity and then the PIC was $18 million so that was the 40 million so I think the 18 out of the 40 is 45% is how we arrived at.

MR EMMANUEL LEDIGA: So there was some money put in by him in terms of the risk?

MR ROYITH RAJDHAR: Yes.

MR EMMANUEL LEDIGA: The equity and then he raised loans to supplement that?

MR ROYITH RAJDHAR: Yes as I indicated earlier the first step was he had a fair amount of the loans in his personal capacity so it came in as shareholder loans but later what we had done we brought in the Mozambican banks directly on the balance sheet so he would have had shareholders loans. So what we had done in the final stage is the shareholder loans would have been converted into equity.

ADV NKAISENG KHOOE: I just want to find out during this period was former CEO Dan Matjila a board member of Ecobank?

MR ROYITH RAJDHAR: I know he was a member of the board, I don't know the period that, but I have a feeling it may have been, it would have coincided with this period.

ADV NKAISENG KHOOE: Okay I'm just going to also take you back to the recommendations that Ms Madzikanda spoke about in paragraph 55 of her statement where she was talking about the recommendations that were addressed. I had asked a question to your colleague Mr Masekesa last week because I heard you speaking about the appraisal report, I asked him a question last week and he said you would be able to answer this and the question was in the appraisal report there are all the different departments normally say what the risks are and they would suggest CP's and in one of the documents, though I don't have it right now, my apologies for that, governance and management and operation was one of the highlights that was said it should be a governance structure that is set up before PIC invests in this transaction and when you were just testifying now you said you had comfort. Can you just explain why you found it comfortable to still invest in this one-man show regardless of the risks that were raised at that particular point in time?

MR ROYITH RAJDHAR: In terms of governance we had always envisaged applying the governance that we have in South Africa in terms of an audit committee, social and ethics, audit and risk and so forth, and that there you'd find that in Mozambique for that matter you don't have those, in fact even if it comes to an audit to a certain threshold they don't, they've never, it wasn't a requirement for companies to be audited but we thought let's go in there and we will try and change this over a period of time. But that has been one of the things where you find governance is not easily embraced or not understood or not valued. I think probably more so it's not valued the way I see it. But look initially well we just started with a board of four we didn't want to layer it with too much of costs we were going to slowly introduce the issue of having fully fledged governance but you had the stop start type of arrangement so the company was not, it wouldn't have been of sufficient size to justify it. In the interim we had tried to also co-opt the Mozambican banks but they were not comfortable in terms of coming on board.

ADV NKAISENG KHOOE: Thank you Commissioner we're now going to move to the MST transaction.

CHAIRPERSON: I think it would be more convenient to do that tomorrow morning. Right so who will start with, Mr Rajdhar or with Madzikanda?

ADV NKAISENG KHOOE: We'll start with Mr Rajdhar.

CHAIRPERSON: Are you happy with us adjourning now?

ADV NKAISENG KHOOE: I was hoping we could move, we could proceed until seven o'clock but …

CHAIRPERSON: That's too ambitious. I think it would be convenient to adjourn. We'll adjourn until 10 o'clock tomorrow morning.

INQUIRY ADJOURNS UNTIL 26 MARCH 2019