

COMMISSION OF INQUIRY OF THE PUBLIC INVESTMENT CORPORATION

HELD AT

TSHWANE, PRETORIA

10

20 MAY 2019

DAY 37

20

PROCEEDINGS HELD ON 20 MAY 2019

CHAIRPERSON: Morning everybody.

ADV JANNIE LUBBE SC: Good morning Mr Commissioner, members.

CHAIRPERSON: What is today the 20th?

ADV JANNIE LUBBE SC: The 20th May. We are ready to proceed.

The next witness is Mr Ndadza and his evidence will be presented by my colleague Adv Monnahela.

CHAIRPERSON: Yes thank you. Can we just record your full names Mr Ndadza?

10 **MR TSHIFHANGO NDADZA:** My names are Tshifhango Emmanuel Ndadza.

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

MR TSHIFHANGO NDADZA: No objections Commissioner.

CHAIRPERSON: Do you then swear that the evidence you're about to give will be the truth, the whole truth, nothing but the truth, raise your right hand and say so help me God.

MR TSHIFHANGO NDADZA: So help me God.

CHAIRPERSON: Thank you. You may be seated.

20 **MR TSHIFHANGO NDADZA:** Thank you.

ADV ISAAC MONNAHELA: Thank you Mr Commissioner. Mr Commissioner I just want to point out one thing that Mr Tshifhango in his, or Mr Ndadza in his statement says that there is a human resource issue that he would deal with at a later stage, if the Commission allows it I have already told him that we will deal with it today and there will

be no need for him to come back. Mr Ndadza you've made a statement which will form part of your evidence before this Commission, may I request you to read your statement from paragraph one?

CHAIRPERSON: Sorry before that can you just tell us what's the date of this statement, when was it signed?

ADV ISAAC MONNAHELA: I apologise Mr Commissioner the statement was sent to the secretary a long time ago and Mr Ndadza didn't testify for reasons that I stated.

CHAIRPERSON: No we do have that but I would like to know did you
10 send a signed copy to the secretary?

ADV ISAAC MONNAHELA: No Mr Commissioner we'll arrange that he signs it as soon as he's done with his evidence.

CHAIRPERSON: Please make sure of that.

ADV ISAAC MONNAHELA: I will do so.

MS GILL MARCUS: Can I ask just an additional question given that it was done some time ago, are there any additions or things that have you've been come aware of since you've sent this statement in that you would want to add?

MR TSHIFHANGO NDADZA: Through you Commissioner just minor
20 changes.

ADV ISAAC MONNAHELA: Yes you may begin at paragraph one.

MR TSHIFHANGO NDADZA: Thank you. My name is Tshifhango Emmanuel Ndadza I'm an African male. I'm employed by the PIC Investment Corporation as a Senior Market Risk Analyst since the 1st April 2014 with uninterrupted service. I have worked across both the

market risk and the credit risk divisions at the PIC.

ADV ISAAC MONNAHELA: Okay if I may intervene there. Did you join the PIC only in 2014?

MR TSHIFHANGO NDADZA: Ja only in 2014.

ADV ISAAC MONNAHELA: Yes you may proceed.

MR TSHIFHANGO NDADZA: My role at the PIC has allowed me to have a bird's eye view on some of the transactions, if not most which are being investigated and as such I've been requested to make representation on two transactions which are stipulated in this
10 statement. I would like to ... (intervention)

MS GILL MARCUS: Sorry can I just ask you a question on that because you say you have a bird's eye view on some if not most of the investigations, are there any other investigations that you would want to make a comment on in addition to the two in your statement?

MR TSHIFHANGO NDADZA: Through you Chair, yes and the transactions in question would relate to Ayo, Steinhoff, Karan Beef and partly Erin.

MS GILL MARCUS: Would you be able to do that verbally at the end of this document?

20 **MR TSHIFHANGO NDADZA:** I'd be happy to do so if there are any questions from yourselves.

MS GILL MARCUS: No not if there're any questions because those would be additional statements so if we could say when we have finished what you have before us we can move to those four items that you have mentioned if you are comfortable to talk about them, yes?

MR TSHIFHANGO NDADZA: Well I am comfortable.

MS GILL MARCUS: Okay thank you, we can do that then.

ADV ISAAC MONNAHELA: Commissioner if I may come in there, I can assist in relation to the Erin transaction because I'm involved in that transaction.

MS GILL MARCUS: That's a separate documentation and that would be fine but given the point made in paragraph 2 I think it would be very useful for the witness to give any information that he has on other transactions that would be useful to the Commission while he's here,
10 okay if he's comfortable with that.

MR TSHIFHANGO NDADZA: I'm quite comfortable.

MS GILL MARCUS: Thank you. So in relation to paragraph number 3 I would like to inform the Commission that I will be presenting an additional statement detailing the classical victimisation I've suffered and continue to suffer at the PIC at a later stage which has been corrected, I will do so after presenting this statement. And then there are also some untold mysteries which were conveniently omitted by the current Executive Head Risk Management, Ms Candace Abrahams. This will give the Commission clarity on the *modus operandi* that has
20 been prevalent at the PIC.

So in terms of the minor changes Ms Abrahams is no longer the Acting Executive Head of Risk, we have a gentleman by Mr Nkosinathi Buthelezi who is the Executive Head of Risk.

CHAIRPERSON: What does Ms Abrahams do now? I think we did get her here but can you just remind us? What position does she hold

now?

MR TSHIFHANGO NDADZA: She's a senior manager. Senior Manager Enterprise Wide Risk.

ADV ISAAC MONNAHELA: Is that the position she was occupying before she was appointed Acting Executive Head Risk?

MR TSHIFHANGO NDADZA: That is correct Chair.

MR EMMANUEL LEDIGA: So are you saying that you will give us some more stuff on that issue, some more ... (intervention)

MR TSHIFHANGO NDADZA: Yes I will.

10 **MR EMMANUEL LEDIGA:** Information on that one, okay.

MR TSHIFHANGO NDADZA: Yes I will.

MR EMMANUEL LEDIGA: Sorry I've got a bit of flu so I hope you're going to hear me.

MR TSHIFHANGO NDADZA: No problem. So in terms of my educational background I completed my matric in 2005, I obtained a bachelor of science degree from the University of the Witwatersrand in 2009. I obtained a bachelor of science honours degree and one computational and applied mathematics, and then two, advanced mathematics of finance from the University of the Witwatersrand in 2009 and 2010 respectively. I obtained a master of management in finance and investments degree from the Wits Business School in 2014. Save for where the context indicates to the contrary or where it is otherwise stated the facts contained in this statement are to the best of my knowledge both true and correct.

So Independent Media Pty and Sagarmatha Technologies Limited, in the

following paragraphs I give detail on the linkages or connection between Independent News Media South Africa or Independent Media Limited and Sagarmatha Technologies. So the background is as follows; prior to 2013 INMSA was a subsidiary wholly owned by Independent News Media PLC. INM is a media company or conglomerate listed on the Irish Stock Exchange and the London Stock Exchange.

Following a group restructure to streamline INM's operations INM decided to sell 100% of INMSA and initiated an asset sale process in
10 its South African operations or business. This culminated in the sale of INMSA to a consortium led by Sekunjalo Independent Media Limited which is referred to as Sekunjalo Independent Media Consortium or SIM Consortium. So the SIM Consortium comprises of Sekunjalo Investment Holdings Limited as a majority shareholder along with trade unions revealed in the Sagarmatha transaction detail and community groupings.

PIC acting on behalf of the GEPF participated and supported this transaction which was structured as follows or in the table there I detail the investment instruments, the description, the nett invested amounts
20 at inception and then there were immediate repayment and then in the last column I detail the nett invested amounts together with some notes at the bottom of the table.

MS GILL MARCUS: Do we know who Interacom is?

MR TSHIFHANGO NDADZA: Without making any inferences through you Chair, so as far as what I've read I think Interacom is the Chinese

entity that was made mention of in an earlier statement at this Commission.

MR EMMANUEL LEDIGA: Ja so the column about repayments there is 71 million and the 325 million just explain the process there, what happened.

MR TSHIFHANGO NDADZA: Okay I'll do my best Chair.

MR EMMANUEL LEDIGA: Okay.

MR TSHIFHANGO NDADZA: So my understanding is that initially, I mean when this transaction was done there was a third party that came
10 into the transaction by the Interacom I think they were also one of the parties that were shortlisted in terms of the bidding process for INM. I think with this immediate repayment they ended up taking a 20% stake in INMSA. So you have SIM at 55%, PIC at 25% and Interacom at 20% if my memory serves me well.

MR EMMANUEL LEDIGA: Term loan was repaid, I mean when, just explain the process there if you can?

MR TSHIFHANGO NDADZA: Okay it wouldn't be my place to speak about that Chair.

MR EMMANUEL LEDIGA: Yes.

20 **MR TSHIFHANGO NDADZA:** So it would be mostly the transaction team.

MR EMMANUEL LEDIGA: Okay alright.

ADV ISAAC MONNAHELA: Okay if I may ask do you know when these amounts were paid?

MR TSHIFHANGO NDADZA: So the transaction was done way before I

joined the PIC but if you look at the sources or in terms of annexures A and B refer to the appraisal reports prepared by the deal team.

And then point number 11 the transaction structure and shareholding is indicated in the diagram below. So as earlier indicated Chair those immediate repayments were for the Interacom Investment Holdings Limited which ended up having an equity state of 20% in INMSA and then further information can also be found on annexure A page 11 specifically paragraph 17 of the PEPs FIP appraisal report.

And then in, point number 12, in 2017 the PIC received an investment
10 exit offer from Sekunjalo Investment Holdings Limited to acquire the GEPF's equity and loan claims in and against INMSA and SIM.

And then with regards to point number 13, the proposal also carried with it an implicit investment consideration by PIC to invest in Sekunjalo's listed entity which is Sagarmatha Technologies Limited or at the time it was referred to Lisgo as we didn't know what the name of the entity would be and then which was, which is anticipated to become a dominant technological company on the African continent. So the salient aspects to the investment exit offer to the PIC by Sekunjalo are shown in the table below. So in this we have the amounts that were
20 invested in INMSA and loans made to Sekunjalo Independent Media and then the offer that Sekunjalo was proposing for PIC to exit.

And then with this Chair you can actually see that the equity component was going to derive some sort of a return and we have done an annexure which includes the risk report that was done pertaining to this exit offer. And then I would like to take the Commission some of those

aspects at the end.

Then 14 is according to the proposal sent to the PIC Sekunjalo Investment Holdings Limited would correspondingly extend an offer to the GEPF's co-shareholders in INMSA or IN as Sekunjalo intended to acquire all shares and loan claims in and against INMSA and since prior to or on the date of the listing of Sagarmatha Technologies. And then reference can be made to annexure C, annexure D and annexure E. So in that we try highlight that this also carried related party component to it in that the offer would have also been extended to the
10 SIM Consortium itself.

And then number 15 is the extension of the investment exit offer to the abovementioned presumably on the same commercial terms it gives rise to the acquisitions and the PIC agreements. The SIM Consortium agreement and the Saktwu Agreement which are collectively referred to as the acquisition agreements in the prelisting statements of Sagarmatha Technologies and then just a minor correction, please refer to annexure F but the page numbers are pages 29 to 31 and that would include all the material contracts in the prelisting statements.

However it can already be determined that the investment exit proposal
20 does not necessarily translate into an outright exit for PIC or GEPF given that the exposure to INMSA would still reside in Sagarmatha. So in that statement Chair what we're trying to detail is an exit offer was proposed to the PIC it was literally not an exit it was merely a transfer from one entity to the other and as we came to later learn is the PIC would have possibly have to even put more money in the so-called

entity Sagarmatha Technologies.

Point number 17, moreover it would appear that the execution of the respective agreements was conditional on PIC participating in the initial public offer or IPO or private placement of Sagarmatha shares given the sequence of events.

Number 18 is I believe this was adequately communicated by myself and Mr Paul at the relevant committees at the PIC given that this conditional exit mechanism could have presented reputational risk as the PIC would be perceived to be funding its own exit.

- 10 Number 19, ultimately the payment in Sagarmatha shares would present material downside risk given that the actual valuation and performance of INMSA is not reflective of the premium offer proposed in the acquisition of INMSA from the abovementioned parties. I believe this risk is affirmed by the proposed protection agreement annexure G. Annexure G actually details the downside protection offer that was sent by Sekunjalo Investment Holdings to the PIC when various teams had expressed their, particularly Victor Seanie, had expressed his discomfort with the investment and the valuation.

- MS GILL MARCUS:** How was your risk assessment received by the
20 relevant committee when you presented it?

MR TSHIFHANGO NDADZA: I think, Chair through you, being in a risk position is quiet a tough one, I mean you try remove elements of subjectivity but given that we know INMSA was performing and also the information disclose from management has been poor. So to be frank it's literally an impaired investment. Now you're transferring it into an

entity whose investment case we did not believe. It was a tough one but a very peculiar one as well in the sense that I think PMC was very receptive of our risk view but the peculiarities come with the fact that the investment was then referred to the investment committee to test for appetite and within that you got an approval even though it never participated but they somehow gave an implicit approval.

MS GILL MARCUS: When did your first presentation to the PMC take place, do you remember the month at least, the month and the year?

MR TSHIFHANGO NDADZA: I can check, I think I've got the risk report
10 here so it will definitely give some sort of an indication.

MS GILL MARCUS: If you could just check on that.

MR TSHIFHANGO NDADZA: Because it's signed together with a date.

MS GILL MARCUS: Is that annex M?

MR TSHIFHANGO NDADZA: I don't think it's annexed here but it should be one of the last attachments to the statement. So according to the document the date was round about the 6th April 2018. So it's 06/04/2018.

MS GILL MARCUS: And then what is the annex N which we've got as N
20 which is also your credit risk report and that is dated the 9th November 2017?

MR TSHIFHANGO NDADZA: Let me just double-check Chair. Oh this relates to project Iris which is the exit. So ... (intervention)

MS GILL MARCUS: This is the exit related to Media ... (intervention)

MR TSHIFHANGO NDADZA: To Independent News ... (intervention)

MS GILL MARCUS: The offer?

MR TSHIFHANGO NDADZA: Ja to Independent News Media.

MS GILL MARCUS: Okay so, because that relates to the exit as well as to the proposal of Sagarmatha?

MR TSHIFHANGO NDADZA: Correct Chair.

MS GILL MARCUS: Okay because if I could just try and stay there a minute, I know you're going to come to it because the dates matter. If you looked at the overall risk on that page 5 for that, if I'm correct in this, for that 9th November 2017, if you can look at the overall risks and your risk is the independent valuation of Sagarmatha should be
10 considered together with any material financial liabilities that may adversely affect the business because you have a very different valuation risk if I remember that was around R7,00 to the share, and if you could just read into the record the overall risk, that last paragraph?

MR TSHIFHANGO NDADZA: So in terms of overall risk so we put the reasons is the corporate governance at Sagarmatha may not ... (intervention)

MS GILL MARCUS: No the overall risk you've got is high.

MR TSHIFHANGO NDADZA: Is high yes, yes it's high correct Chair. Just a point to note Chair is the reason why we were highlighting an
20 independent valuation is you've got an asset that's being transferred into Sagarmatha at a premium relative to how, I mean for the PIC it would have been a great deal in the sense that had we not been participating in Sagarmatha we would have walked away with a good return but now you have to somehow go participate in the listing with a blind spot of not taking into account the fact that you've got an

impaired asset that's actually being overvalued in this listed entity which is not really accounted for and the offer price.

And then point number 20 ... (intervention)

ADV ISAAC MONNAHELA: If I may before you go to point number 20, yes may I refer you to annexure C to your statement. May I request you to go to page 3 of that annexure, who is the author of that letter, page 3?

MR TSHIFHANGO NDADZA: Page 3.

ADV ISAAC MONNAHELA: Yes.

- 10 **MR TSHIFHANGO NDADZA:** Okay so the author is Dr Iqbal Survé or the person signing.

ADV ISAAC MONNAHELA: That's annexure C to the statement.

MS GILL MARCUS: Can I just stay with, because I know you'll come back to it but the question that I'm raising is you looked at annexure M and N they are both, annexure N which is the one we looked at which is the 9th November, but if you go to annexure E and again to the signoff, the signoff which is, if I understand it correctly, approval, annexure E is approval for the sale or for the purchase of, and this is the Sagarmatha deal correct?

- 20 **MR TSHIFHANGO NDADZA:** That is correct Chair.

MS GILL MARCUS: Okay and that is dated the 13th December 2017.

MR TSHIFHANGO NDADZA: Correct.

MS GILL MARCUS: So that is signed by Dr Matjila for the PIC on the 13th December and the price being paid there is rather significantly different because that comes back to the amount being rather, at the

levels that they were going to invest which was in the billions is that correct?

MR TSHIFHANGO NDADZA: Yes Chair. Chair that is correct, that is on point number 2.4.16.

MS GILL MARCUS: 2.4.16.

MR TSHIFHANGO NDADZA: Which says offer price ja.

MS GILL MARCUS: Yes that is R39.62 per share for Sagarmatha, that is already in December of 2013 ag of 2017 and then you look at your recommendations and the considerations are in April 2018 so it has
10 already been signed and sealed months before the committee considers it if I understand the sequencing of this.

MR TSHIFHANGO NDADZA: That is correct Chair and I thinks that what we tried to express from a risk point of view is one thing we highlighted is that by the private equity team sort of, so what we wanted to ensure is they don't impose an automatic participation from the listed team that the listed team should be given the opportunity to make their own independent assessment on whether they like or they see value in Sagarmatha or not. But in the way that it was presented it would have been a ... (intervention)

20 **MS GILL MARCUS:** A fait accompli.

MR TSHIFHANGO NDADZA: Ja it would have ... (intervention)

MS GILL MARCUS: It's already done.

MR TSHIFHANGO NDADZA: Ja it would have been a foregone conclusion if I may it that way.

MS GILL MARCUS: Well it's already signed months before.

MR TSHIFHANGO NDADZA: That is correct.

MS GILL MARCUS: So the deal is signed in December and the committee considers it in annexure H in April of the following year.

MR TSHIFHANGO NDADZA: That is correct Chair.

MS GILL MARCUS: And in that you make it very clear that the PIC's base case estimate of Sagarmatha's intrinsic value was R7,06.

MR TSHIFHANGO NDADZA: Or below.

MS GILL MARCUS: Or below which is significantly below the private placement price of R39,62 right and therefore the recommendation is
10 that if the PIC invests a maximum of R800 million at a price of R7,00 in Sagarmatha it would be okay. In essence you also point out that the deal, the PIC may be funding its own exit and that would be from the Independent Media part and then the question that I would ask and maybe it's not able or not possible for you to reply but if you looked at it, the committee's resolutions, we've had this before for the Commission, but perhaps just to emphasise it, the committee responds, then this is your investment committee so it's the most senior committee before the board, right investment committee is the most senior before the board.

20 **MR TSHIFHANGO NDADZA:** That is correct Chair.

MS GILL MARCUS: Right, says:

“The committee resolved that management should follow their delegated authority and decide whether or not to participate in the proposed transaction and in the event that management decides to invest the entire R3 billion to safeguard the listing

the PIC should obtain downside protection for at least 12 months.”

So basically the committee just abdicated and said go for the R3 billion and just get downside protection notwithstanding your recommendations and pricing, is that correct?

MR TSHIFHANGO NDADZA: That is correct Chair and I think I need to add there’s definitely to tell is with the, on the date that we sat for the investment committee I had to leave for a hearing, I think Mr Paul Magula was having his disciplinary hearing on the same date, and then
10 the meeting somewhat overran so after presenting I had to pack up and leave. But I later learnt of the resolutions after the hearing.

MS GILL MARCUS: But the essence of it is is that four months, five months before this actual committee meeting the deal had already been signed off at the price of R39,62?

MR TSHIFHANGO NDADZA: That is correct and it’s also, I think it’s worth adding that we learnt later that there was a signed agreement ja.

MS GILL MARCUS: The fact that there was a signed agreement was not presented at that meeting?

MR TSHIFHANGO DADZA: That was never presented.

20 **MS GILL MARCUS:** So the investment committee was taking a decision not knowing that there had been a signed agreement some months before, to the best of your knowledge.

MR TSHIFHANGO DADZA: To the best of my knowledge it was never disclosed and I – ja, it would be like that, Chair.

MS GILL MARCUS: Okay. Thank you, I just wasn’t sure that I was

misreading or not understanding the sequencing.

MR TSHIFHANGO DADZA: J.

MS GILL MARCUS: Thank you so much.

MR TSHIFHANGO DADZA: You are welcome, Chair.

MR ISAAC MONNAHELA: Okay, if I may take you back again to annexure C. You've just – you indicated that it was signed by Dr Survè

MR TSHIFHANGO DADZA: Ja, annexure C, nè? I took it out. Ja, that letter.

MS GILL MARCUS: And that is in September 2017 that letter.

10 **MR ISAAC MONNAHELA:** Yes, the letter is dated 14 September 2017 some three months before Dr Matjila signed the sale of shares and claims agreement.

MS GILL MARCUS: The one month he signed in – yes, September – he signed in December.

MR ISAAC MONNAHELA: Yes.

MS GILL MARCUS: Ja.

MR ISAAC MONNAHELA: Yes. Can I ask you to – or may I ask you to go to page 2 of that letter? You will see there is a paragraph after “At same level” and then there is PIC’s shareholders, the second one.

20 Could you read the paragraph that starts with “All...” into the record?

MR TSHIFHANGO DADZA: It reads, it says:

“All of the above equity will be settled by the issue of shares in Sagarmatha prior to its listing on the Johannesburg Securities Exchange. The price per share will be the price per share as per the final

prelisting statement of Sagarmatha approved by the JSE.”

MR ISAAC MONNAHELA: And that was before the PEPS FIP took a resolution on the 6 December 2017.

MR TSHIFHANGO DADZA: That is correct.

MR ISAAC MONNAHELA: What was the decision or the resolution of the PEPS FIP, if you remember?

MR TSHIFHANGO DADZA: So, Chair, one thing that’s not adequately capture is there was the issue of whether this would be a cash
10 settlement or it will be a swap agreement where PIC would swap its interests in I & M and its claims against SIM for Sagarmatha shares which is what we would stipulate that – I mean, it’s difficult those two from PIC funding itself. So determination was not made. If you go through the risk report and some of the resolutions. However, later on you’d learn that actually shares were then acceptable which is – ja, one of the peculiarities with this transaction.

MR ISAAC MONNAHELA: Okay, may I assist you there and ask you to go to annexure J to your statement? May I ask you to go to page 4 of that annexure?

20 **MR TSHIFHANGO DADZA**: On page 4.

MR ISAAC MONNAHELA: Yes, may I ask you to read paragraphs 8.2.2 to paragraphs 8.2.2.3 into the record?

MR TSHIFHANGO DADZA: So 8.22:

“The committee resolved to approve the proposed offer by SIM to acquire all PIC shares in and loan

claims against INMSA and SIM subject to the following conditions precedent.”

8.2.2.1 The offer to exit INMSA and SIM Investments should be separate from the offer to acquire a stake in Sagarmatha and the PICs exit from INMSA should not be conditional upon the PIC’s participation and the listing of Sagarmatha.

8.2.2.2 There should be compliance with the shareholders agreement and the MOI of INMSA in that the requisite approvals from the board of directors and shareholders of the company should be obtained prior to the implementation of the transaction or offer to exit.

8.2.2.3 The PIC should be provided with the information pertaining to how SIM would fund the proposed offer prior to accepting the same.

MR ISAAC MONNAHELA: Yes. If I understand paragraph 8.2.2.3 correctly, the effect thereof was that SIM would pay cash.

MR TSHIFHANGO DADZA: That is correct, Chair.

20 **MR ISAAC MONNAHELA:** And Ms Mathebula testified before this Commission that she sent the resolution of the PEPS FIP to among others Dr Matjila. So Dr Matjila would have been aware of this resolution.

MR TSHIFHANGO DADZA: That is correct, Chair. Just also to add, Chair, I mean, we work in an environment where, I mean, after

resolutions there are still changes in the sense that there is some sort of delegated authority to the CEO to somehow change terms or accept them. So, ja. And I think that will follow through and the transactions we'll touch on later.

MR ISAAC MONNAHELA: But can Dr Matjila change the resolution of a committee without informing that committee?

MR TSHIFHANGO DADZA: I don't think so, Chair.

MR ISAAC MONNAHELA: Or is there any policy that says Dr Matjila can overrule the decision of a committee?

10 **MR TSHIFHANGO DADZA:** I'm not aware of any – of such a policy, Chair.

MS GILL MARCUS: And this was dated the 6 December and he signed off on the deal on the 13 December.

MR ISAAC MONNAHELA: Dr Matjila signed the sales of shares and claims agreement some seven days after this resolution was taken.

MR TSHIFHANGO DADZA: And then continuing with my statement, page 6. It's:

20 “PIC investment committees 3 billion investment appetite and the Sagarmatha call option proposition. In the following paragraph I glean on the PIC investments committee's 3 billion appetite for PMC listed consideration on Sagarmatha Technologies and the subsequent call option proposition offer to the PIC/GPF to subscribe for additional Sagarmatha shares at a strike price of R1, such that the aggregate

cost to the PIC is R8.50 per share.”

So point number 20:

“The Commission should not the peculiar stance by IC to express a 3 billion appetite on the private placement for PMC listed consideration. After the latter had initially decided not to approve PIC/GEPF’s participants in the respective private placement of Sagarmatha. This is adequately reflected in the respective meeting minutes which are included in annexure H, annexure I and annexure J.”

10

And then if we can just go to annexure J, is – I think these were the points that we read out in the – ja, that I’ve just read out. And then number 21 is:

“I came to know about the call option proposition from testimonies made at this Commission and in my personal opinion the respective call option does not address the potential downside risk to which Mr Victor Seanie, myself and others express serious concern and would consequently result in the PIC/GEPF deploying additional capital into Sagarmatha albeit it at R1 per share. Estimates of the additional capital that the PIC would have deployed are presented in annexure K.”

20

So in annexure K, Chair, what we essentially tried to do was look at the – we looked at a range of PIC participation so we’ve got a

couple of scenarios there. So the scenarios were if PIC were to initially invest 3 billion and then 3.250 billion and then 3.5 billion and then looked at the number of shares that would have been allotted to the PIC at the offer price. The subsequent shareholding and then looked at the additional capital that the PIC would have had to deploy should the PIC have exercise the respective call option to ensure that the average cost for the share subscription comes down to R8.50 so that's reflected in annexure K.

MR ISAAC MONNAHELA: So if this downside protection was accepted
10 it would have resulted in the PIC paying more money to Sagarmatha and that would have over – and addition about R300 million in addition to the R3 billion.

MR TSHIFHANGO DADZA: According to this scenario, that is correct,
Chair, and I think one thing to highlight, it's not really downside protection because a call doesn't provide downside protection and the other thing to factor is once that becomes market news is no one can determine whether market price of those shares would have gone down to given that you've got an investor who has exercising a call option at R1 to acquire additional shares. So it's anyone's guess what the
20 differential would have been between the R8.50 and the ultimate trading price for those shares. Anyone's guess.

MS GILL MARCUS: But the essence of it was that if PIC or anyone else bought shares on the open as it was listed they would have paid R39.62 and the share price would have then automatically inevitably fallen to whatever level in order to accommodate these side agreement,

if I understand that correctly.

MR TSHIFHANGO DADZA: Ja, but ...[intervenes]

MS GILL MARCUS: So we don't know what level it would have reached at the bottom but there's no doubt that if I'd bought my shares as Joe Public it would have been at R39.62 and an inevitable given – fall given the agreement to whatever level.

MR TSHIFHANGO DADZA: That is correct be ultimately it will raise a question on the value so it will definitely – it will definitely de-rate, ja.

MS GILL MARCUS: So that would have been hugely disadvantageous
10 to any organisation individual company that was buying shares on the listing with only a handful of people being the PIC and Sagarmatha Sekunjalo knowing that there was a side agreement that the shares would significantly fall. That is correct, Chair.

MR EMMANUEL LEDIGA: Just a question here. Just in terms of the call are you saying even the call, you know, it was a wrong thing to do because there was supposed to be a put. Is that what you are saying?

MR TSHIFHANGO DADZA: So in the essence what I'm trying to say is if this mechanism was to provide downside protection it would have definitely failed. There would have been no protection at all. I think
20 what it then did it would have been maybe taken care of, the analyst's view, Mr Victor Seanie who had a valuation of around about R7.00 so you might really been making the gap between the price at which the PIC bought the shares at to the analyst's recommendation a bit more narrow but not really giving any protection at all.

MR ISAAC MONNAHELA: If I may ask and I think you touched on this,

this thing of Sagarmatha offering additional shares to the PIC at R1.00 per share, does it not raise a doubt regarding the reasonableness of the value of the shares?

MR TSHIFHANGO DADZA: Through you, Chair, without a doubt as I initially mentioned it raises the perception that we might be buying something that's not worth what's stated, it could be far less. How much less, anyone's guess, Chair.

MR ISAAC MONNAHELA: So then if I understand you correctly, Deal team was correct to say the Sagarmatha shares were R39.62 per share
10 were over-valued?

MR TSHIFHANGO DADZA: That is correct, Chair, and I think which is a point that I would like to highlight earlier on is if Victor and the rest of the supporting team had a view we would have not even given recommendation to this at all. Why I say that is as we will talk about the other investments is, I think coming from this point of view working with the Deal team is initially when you don't understand how things work as you look at them and you think that maybe they are part of the problem but as an analyst you are just an employee who has been told you need to prepare an investments theses. Whether you believe in it
20 or not, that's not part of your job, which is one of the challenges that I think transpired with IO and Sagarmatha as well. So, ja. And then point number 22:

“In summary, the sequence of events is as follows;

22.1 – as Commissioner Marcus has already pointed out, I tried to give a sense of how certain approvals would have been – or certain

agreements would have been concluded before they were supposed to be considered committee level before anything was supposed to be signed. So annexure C is the offer letter to the PIC dated 14 September 2017.

And then 22.2 is annexure J, the special PEPS FIP meeting to consider and approve the respective exit offer which is included as the PEPS FIP extract held on the 6 December 2017.

And then 22.3 is annexure E which is the PIC swap agreement, the share of sales and claims agreement signed on the 13 December 10 2017 on the 14 December 2017 by representatives from PIC and Sagarmatha Technologies respectively and then annexure D is the SIM offer letter response dated 26 January 2018.

And then 22.5 is annexure I, action items from the portfolio management committee listed investments held on the 25 January 2018.

And annexure H is feedback from the special investment committee held on the 10 April 2018. So in conclusion to this statement, Chair, is:

20 “The purpose of this statement is to give my version of the events which have transpired in relation to INMSA and Sagarmatha. This includes corroborating evidence presented by Mr Victor Seanie, assistant portfolio manager, non-consumer industrials at the PIC. In doing so I have relied on documentation that has been accessible to me as a risk resource for the

respective transactions.”

And then 24 is:

“The risk reports for the respective transactions are included in annexure LNM and N and I believe there are other supplementary documents in relation to INMSA and Sagarmatha which I have not had the opportunity to peruse.”

And then just as you correctly pointed out, Commissioner Marcus, is if one were to look at the Ayo transaction, I know a statement has been
10 presented here by my then boss, Ms Candice Abrahams, stating that I did not sign the risk report but I never in any way denied having not worked on Ayo.

The explanation I can give for not signing is, when the transaction was assigned to me I had a graduate by the name of Ms [indistinct] Mazibuko who I mentored and my method of mentoring is I literally empower the graduate but in this instance we didn't know what was coming for us in the sense that we thought DD would be allowed or given to as – if you look at the questionnaire that was sent to Ayo, there's a question relating to a valuation where we requested one and
20 the response there was Malik could revert. Well, having listened to what Mr Malik had presented is there was a valuation but it was just never shared with us.

And then thirdly, is we had no knowledge of the signed or the irrevocable agreements that were signed in relation to Ayo. I think it's also one of the reasons why I suffered a bit of persecution because the

PIC went on a – on some sort of an investigation to ascertain where the media leaks were coming from and one case in point was Ayo. But if you look at the risk report which is something I've rehashed even internally is there's nothing to leak in terms of the risk report and I've also been part of the – I mean, I've also been investigated by Sizwe Ntsaluba Gobodo by their forensic investigator just to determine where the leaks could have come from but one thing is, the culture of scape goating does exist, I experienced it personally in the sense that we were called to a meeting room by the CEO together with the executive
10 head of HR and then they – the CEO blatantly told us that it is clear that one of you is responsible for the media leaks.

Then subsequent to that is with – I think my appearance for the disciplinary hearing of Paul Magula might have also had a contribution to the treatment I'd received in the sense that one is, I did not make it secret that I was going to testify on his behalf given that it was aligned to participation in a board strategy document we had to present to the board.

And then the other case in point relates to Steinhoff. So if you have chance to look at the risk report, in the risk report it was – I think
20 it was crystal clear that PIC's decision or PIC's decision to forego the security package that was in place in the national transaction which is project Sierra. So in project Blue Buck, when we were foregoing that security package – if I can bluntly point it out, it was nothing more than just proper speculation in the sense that one, there was no financial model on what Steinhoff Africa would look like, there was no model on

that.

Two, is similar to how Ayo happened is it was rushed in the sense that we had PMC and a special IC sitting in the same week. If I remember correctly, we made our submission just in the late afternoons for an IC sitting the next day and – ja, I think the risk report is quite clear but from the top of the mind we were stating there that not only was it responsible – obviously we put it in a diplomatic manner to say that whatever actions we were taking and foregoing, our security package in favour of Citibank or Steinhoff providing a lesser amount
10 and taking the Steinhoff shares at the time which were way more valuable than what the other parties were putting in and the fact that PIC did have downside protection in the sense that as these collar options, as they put it, mature is the PIC would receive minimum its capital back. The only thing that we were going to forego was the interest payments, that's all.

And then in relation to the other transaction, Karan Beef – well, Karan Beef was approved sometime in August 2018, I think. But following the approval, as I remember being called down by my then boss, Candice Abrahams, stating that there were negative media
20 perceptions around Karan Beef and I think I was somewhat responsible for them, so that's when I was told that I would no longer be involved in the credit risk department. But in relation to that transaction, I mean, even though it was approved I think there were certain CPs that were not fulfilled by the long stop date and then the approval is over six months old, so what it then did was it has to start from scratch as in it

has to go through the whole investment process again from PMC, then go to the PEPS FIP and if applicable then go all the way to IC.

And then the one thing I can add is given the interactions I've had with the deal team is the concerns that were raised by James Nogu somewhat do have some merit in terms of the valuation as when you look at the EBITDA multiple that was done – I mean the EBITDA level that was forecasted for 2018 is when we looked at the management update, they are like I think around about 60 to 70% short of that target. So if one was to do an updated valuation now, PIC would have
10 suffered a material impairment had we approved and disbursed back in 2018.

And then I think coming to my victimisation as – my victimisation is nothing short of the stance we have taken on the transactions. Is I think I've worked on transactions for around about four, five years now and one has seen the quality of the deals that come through and I blatantly state, it puts everyone at risk. I mean, from a risk point of view you've got no choice, you must have to highlight the facts as they are but even from a deal team point of view, as I think – as I said, working in the deal team you do not choose
20 whether you like the deal or not, you just have to do your job.

MS GILL MARCUS: So in essence what, if I understand your correctly, over the four or five years you've seen a deteriorating quality in relation to the deals being presented in terms of the best interest for PIC?

MR TSHIFHANGO DADZA: That is correct but ultimately for the client.

MS GILL MARCUS: Absolutely.

MR TSHIFHANGO DADZA: I mean, if I can put it on point, there was a project called project Spot and project Spot was ...[intervenes]

MS GILL MARCUS: Project?

MR TSHIFHANGO DADZA: Project spot.

MS GILL MARCUS: S-p-o-t?

MR TSHIFHANGO DADZA: S-p-o-t and that related to PIC somehow finding a funding a BEE entity to participate in the acquisition of Grindrod Bank and Grindrod Bank is the bank that was involved in the
10 SASSA scandal and then you also had a project called project – well, I guess, not say – for the sake of not causing damage because it is a listed company, because a view it's not actually underlying itself but the transaction itself didn't make sense. Without naming the entities you've got an entity that trades at a share price of R4.00 and who were doing a deal that would acquire those shares at a premium, say R6.00 and the outlook on that company was obviously negative and then other transactions would include Net 1 UPS. There was a transaction that came through for Net 1 UPS. And, ja. I think one, at the top of my mind, those are the ones that I can recall.

20 **MS JILL MARCUS:** And in essence your victimisation arose out of taking a principled risk assessment of the deals that were being presented and given your honest view.

MR TSHIFHANGO NADADZA: That is correct, Chair. I do not want to collect *Cudo* points for myself. I am just stating that anyone who would have been in my position, just trying to do their job, would have ideally

landed up where I am, because I think I also need to mention that.

I mean subsequent to Pho Magula being suspended and fired was – we were scheduled for interviews, myself and his then PA to meet with the CEO and it was not a...

It was a very peculiar interaction with the CEO, in the sense that he had his view on what Risk should be doing and then obviously raised concerns about me being a Market Analyst doing Creditors work which has got history behind it as well.

When I joined the PIC, the Creditors Team, was virtually non-existent,
10 in the sense that you had – I think you had two guys there. Two gentlemen by the names of *Thiani Ndobu and Itumeleng Mekwa*, and we were all junior, very much supported by Pho Magula and I was based in the Market Risk Department, but what happened we had – I could say we had access capacity on that side.

So I felt a bit of a redundancy. So I approached Pho Magula to say if he needed an extra hand on the Creditors side, I was willing and that is how it started.

And then with time we tried to inquire about recruitment and I think he told us that he does not have the power to hire which is obviously not
20 what you see now, because obviously we are seeing a bit recruitment drive on the Creditors side.

MS JILL MARCUS: And where are you now?

MR TSHIFHANGO NADADZA: Chair, I am still a Senior Market Risk Analyst. I mean back then, I used to report to the CIO himself, but now I report to the Senior Manager of Market Risk which is a position that

became – I mean it was advertised after I had somehow transitioned into the Creditors Risk Department.

MS JILL MARCUS: So when you talk about victimisation, can you spell out exactly what occurred to you?

MR TSHIFHANGO NADADZA: So it goes back to my point. So when Candace, Ms Abrahams came to give her testimony here – I think she came here on a Monday. I had a meeting with her on a Friday and we had a frank chat to talk about what has transpired.

So she told me that she was instructed by the then CEO, Dr
10 Dan that I should be moved. And then the one case is – I mean I enjoyed a period of no work at all. I would just ...[intervenes]

MS JILL MARCUS: So, when you say moved, where to?

MR TSHIFHANGO NADADZA: To the position I was initially employed for, which is – I mean it is nothing wrong with that. I think the context is important.

So, I enjoyed a period where I would just go to the office and sit. No work. And I mean I knew the Creditors Risk environment. They were flooded with work. And on the Market Risk side there was still a bit of excess capacity. So I do not know where I fit.

20 I mean, I found myself having to compete with graduates in terms of generating reports and that would not be fair where you just go in and then now a graduate has to sit and be idle for the mere fact that you have come back in.

And then the other instances relates to issues around leave approval, as I would be denied leave approval for no reason. And the

most recent case was where I applied for leave because I was getting engaged. So we did it in a pretty formal way.

So I booked the Friday and the Monday off and it was denied and then I responded via email to say that I initially communicated that I needed the leave for personal reason, but the comment I got was you could not apply for leave in a certain manner which I responded to if it was a PIC policy or what it is.

Well, eventually the leave was approved but I had to somehow get it in writing, so that I do not come back and have to answer for
10 things that I do not know off as well.

And then the other case relates to my performance score. I think when we did the ratings – I mean Ms Abrahams would be the reviewer to most of the reports I do and in fact, she is the one that allocates most of the transactions to all of us.

So she is aware of my output. She is aware of what my responsibilities are, but unlike other people in my team, I had to justify the scores I had given, and obviously, as you rate yourself and then you discuss with your manager.

Eventually we agreed on a score, but I think the case and
20 point was when I received my bonus letter and the comment she made which was quite concerning.

Obviously there is a bonus issue that is going on at the PIC. Is when I received my bonus letter which was a significant reduction from what I had received the previous year, is that I was told that it is not fair, nè? And I wondered what would warrant that comment.

ADV ISAAC MONNAHELA: If I may ask, who made that comment?

MR TSHIFHANGO NADADZA: It was Miss Abrahams. And I think just also to add. She is of the view that I was Pho's favourite and I asked her if you claim I was Pho's favourite can you prove it?

One, prove it in a sense that if I am still in the same position I was in when Pho was here, where is the favour coming in. Two, is show me where I have received any bonus that was not related to my performance score and literally explained what has transpired between myself and her, but as I said that the certain omissions she had made
10 before she had come here.

She told me everything that she said here, but what she did not say was that the reason why she started allocating less work to me – in fact, she did not allocate less work to me, she withdrew all the work that I was – all the deals in the pipeline that was assigned to me.

Because I have got an email that where she requested that I list all the transactions that I am working so the commence the handover to other resources within the team.

Well, she said that she needed to see that if there would be any media leakages on any controversial transactions, just to see if
20 there is a common element.

And at the end, she said that according to her the media leakages stopped when Ernest, the former Executive Head of Legal was resigned from the PIC which is not something she said here.

And then ...[intervenes]

MS JILL MARCUS: Sorry. Who was she referring to there?

MR TSHIFHANGO NADADZA: Ernest Nesani.

MS JILL MARCUS: Okay.

MR TSHIFHANGO NADADZA: Ja. According to her – that is what she told me. And she somewhat said that the reason why I was treated the way I was treated was because Risk was under siege.

And it was clear – I mean the CEO did not like the Risk Department anymore. Well, ja. Then somewhat, I think we were on the firing line, based on what has transpired at the PIC in terms of all these James Ngo emails.

10 **MR EMANNUEL LEDIGA:** Question. Ja. Are you...? All right
[mechanical interruption]

MR TSHIFHANGO NADADZA: And I have just been reminded and I mean, in that meeting with Dr Dan, it was said the role of Risk is not to block the youth and I do not think we were in anyway trying to block the youth but just tell the facts straight – just straightforward. That is all. Obviously with a bit of diplomacy. Ja.

MR EMANNUEL LEDIGA: Just a couple of questions here. Just in terms of the Risk Department. Do you not think that it needs to be sort of ringfenced and protected in some ways, because Risk you know
20 should say – should mention their mind and should not be you know the CEO should not have a big part on what they are doing?

You know, how would you sort of protect Risk? Because in other companies, say like banks, Risk Departments are very strong.

MR TSHIFHANGO NADADZA: Through you, Chair. That is definitely correct. In terms of how I... I have got many ideas of how that could

be done, but I mean, I think currently what is being revised is in terms of Steinhoff from a risk report point of view, the changes are, the compiler would sign. The reviewer would sign, together with any other reviewers, but it also goes to the CEO to sign.

I mean, with the current CEO there is not much of a problem, but also given where we come from, as you could imagine if that structure was in place initially. It provides an opportunity for people to be sensitised. So you cannot express your view.

Ideally if someone is going to review who is not from the same
10 Risk Department. And then the other thing is as the Commissioner had already pointed out is – I do not think the issue is necessarily with having to report to the...

I think the issue is, as with who the CRO ultimately reports to. If you are reporting to a CEO who has a dual responsibility being a CEO and CIO, it will have issues.

Especially, bearing in mind that most of the transactions that we – I think that are being investigated is, he would have been aware of them but I think the other thing to add is the role of a screening committee.

20 When I expressed the view on some of those transactions where I say the quality has been declining, if you have got an effective screening committee, those transactions should have never passed through the screening committee.

What that does, it shields the individuals because then you have got a committee that has got sort of minimum expectations and if

the deal does not meet those minimum expectations, I as a person as an individual do not have to go and defend or try convince a committee that the transaction would not be in the best interest of the client.

MR EMANNUEL LEDIGA: The next question is on valuations. I mean, within the PIC it sort of looks like some companies are bought at high valuations. You know, you have mentioned a couple. What do you think the problem is?

Is it a technical issue or the PIC just does their valuations and say: It does not matter whether we buy that R 500 million more. You know,
10 what is the issue here in terms of valuations?

MR TSHIFHANGO NADADZA: Through you, Chair. So, one, it would seem the view that you present – the latter view that you presented is the case.

But like, as I have said with Karan Beef, I have learnt that it is not the case. The analyst do not have as much – I mean it also tries back to what Victor was saying. He does not have much of an influence on what gets accepted by the committee.

On the technical side, I think if you look at the profile of our Investment Team, it is very impressive and for one, it is predominantly
20 black individuals who are CA's.

Some of them are CFA chartered holders. You cannot fault it from a technical point of view. And I will take it back to a discussion. I think we have got an investment in the cement sector which is struggling.

I had an interaction with the resource from the Private Equity

Team and I think with that cement investment, you had lenders who are now calling on their security or wanted to perfect their security.

An independent valuation was done and that valuation actually from what the PIC had on its books, was halved. And I can explain what the – where the problem lies.

The problem lies in, if you are doing an acquisition as management would generally give you their focus and I have yet to see management that tell you that we are going to have up and downs.

They always give – I mean if you look at the growth, it is
10 always going up.

MR EMANNUEL LEDIGA: A straight line.

MR TSHIFHANGO NADADZA: A straight line, ja. And then no one – I mean not that no one, but I mean we – I do not know how to put it but looking at past performance and seeing how the business actually performed relative to what has been focused.

Because there is nothing wrong with a port stream, but the question is, can you qualify it. Can you add...? What are the...? What do you attribute the growth to?

And it must be something that is tangible. Not something a pie
20 in the sky. And obviously there are mechanisms on how we can protect ourselves, which is the one thing that we have introduced in the Karan Beef transaction.

We have introduced an earned out mechanism, where if this is our value that is your value. How do we protect both parties, in the sense that, if you achieve the target you said you will achieve, you

should not be compromised by our valuations.

So that earn out provision or that earn out mechanism actually takes care of it. But like I said, one would need to... And I think it is something that the Commission should consider and it is possible even a workshop with the Investment Team and they will tell you their challenges.

And they will tell you that – I mean the seller wants his price and you have got your own values. So how do you breach the gap. But like said earn out provisions and also having performance target that
10 you contract to that protect yourself with the acquirer and the seller, that he gets the price that he or she is targeting here.

MR EMANUEL LEDIGA: So, are you saying that you cannot tell the company to temper their focus? Because you are saying the biggest problem is companies they have straight line focus. So is there no way you can say, this is too high? Can we not talk about some base case and all of that?

MR TSHIFHANGO NADADZA: That is not the case. I believe that has been done. It is just that where we execute, we are more likely to execute at where the management targets are and I think that debate is
20 not necessarily presented as often.

One is that, I think with the Karan Beef transaction is, the seller had a specific price in mind. Valuation say something else and then six months later the numbers are actually telling you that the forecast that management had presented were not actually realistic.

Now the seller presents a case where it is either this number

or no deal at all. And with this transaction adds the complexity of having to fund a BEE party to acquire a specific price where even in your own view the price is actually much less.

So we might not be taking on the full equity risk per se, but for the mere fact that you are willing to fund someone to go buy or execute a transaction at a price that are perceived to be high is, you have definitely missed it.

MR EMANUEL LEDIGA: And are you saying you cannot say no to your transaction?

10 **MR TSHIFHANGO NADADZA:** Chair, I have yet to see, and I think the only time we had say no and I think that is across the Investment Team, possible even the ESG and the Risk Department, was when we did the VBS transaction.

When VBS was just about to be liquidated, was the view from everyone was that we should not entertain the right issue or the additional capital that was requested by VBS.

But that is a special case in the sense that there was already a lot of market noise on VBS. But from other transactions, I have yet to see an outright no.

20 I think the transaction, like I said, if the Commission could possible engage with the Transaction Team, I believe you definitely get a fair view.

MR EMANUEL LEDIGA: The final question from me, is that, in terms of the R 1.5 billion offer from Sekunjalo and then the Karan Beef transactions, where are they now?

MR TSHIFHANGO NADADZA: So with Karan Beef. Karan Beef is at a stage where I think at the last committee which we sat at was at – it was presented at board and also at a FIB Committee. Is that, we should actually go for an independent valuation by a third party.

Obviously we got a valuation by the Deal Team. You have got a valuation by the transaction advisors and all of them have got a best case, worse case, normal case, but given the valuation gap and also how the company has performed.

And again, because of the media perception, is where we are
10 now opting for this route where a third party will give a value and then we will – the transaction will go through the normal process.

I think emphasis is on the media. If there were no media perceptions on this deal, this deal would have gone through, in my personal opinion.

MR EMANUEL LEDIGA: Where is the deal now? Where are we with that?

MR TSHIFHANGO NADADZA: So as far as I know, we – I mean we had sent – it is going on a confirmatory DD. Confirmatory DD is what ideally happens when a transaction is approved but not consummated
20 within a six months period.

So you just have to do a confirmatory DD to see if nothing has really changed and whether the terms that you had agreed on are still favourable terms.

So at this stage, confirmatory DD. I do not know if we have procured a third party to perform the independent valuation. I do not

know if we have contract it as yet, but I think time and again, I know we are – this transaction has been...

I mean the GEPF is continually being appraised on this transaction itself. And the other thing is, what is necessitating this is, there were material changes in the sense that the contributions from the clients changed.

Initially you had the UIF and I think you had the Compensation Pension Fund, together with the GEPF, but the GEPF was going to contribute an amount of less than R 2 billion.

10 So I think the Commission is aware that they have imposed a sort of moratorium that says, any transaction above R 2 billion from the unlisted side, should come to them for approval.

So what has changed is the capital contributions from the GEPF. It is going to be much more than the R 2 billion. So ideally the transaction will have to go through PMC, any other applicable committee and the GEPF as well.

MR EMANNUEL LEDIGA: You mentioned that we should engage with the Deal Team, you know, talk to the Deal Team. Maybe, perhaps, Advocate Monnahela could make some arrangements, because we do
20 want to hear what the problems the Deal Team faces.

You know, what are the issues, the valuations and the others. Maybe we should try make an arrangement for somebody to come and talk to us here.

ADV ISAAC MONNAHELA: We will do so.

MR EMANNUEL LEDIGA: Okay. Thank you.

ADV ISAAC MONNAHELA: Commissioner, it is ...[intervenes]

MS JILL MARCUS: Sorry. Can I just have one follow up question on the Karan Beef. What is the difference in valuation between yourselves as Risk and the Deal Team and what the agreements or the highest level is, which I am assuming is from Karan Beef and the advisors?

MR TSHIFHANGO NADADZA: So, from a Risk point of view, what we do is, we do not give a valuation per se, but we – you look – you test the assumptions and having test the assumptions...

And I think the Deal Team somehow gave us a lot to work with,
10 in the sense that when you look at the EV/EBITDA Multiple which is a valuation measure on this farming business, it appeared to be quite high versus its compatible companies.

I mean, and the compatible companies are like listed. Then you are already capturing that multiple on the entity is still unlisted, although you be acquiring a big chunk of it.

So, one. It poses the risk of how likely are you to exit with a proper return, because you have already – you would have executed it at that type of a multiple.

And then the other thing is. The investment thesis somewhat
20 did not hold water from our side because when they looked at any potential growth avenues - for the business was to provide beef to the Department of Correctional Services and I – I mean this

MS JILL MARCUS: [Indistinct]

MR TSHIFHANGO NADADZA: Karan Beef is an A-grade beef. That is premium beef, but not say that you should not sell to the... But what I

know is, the Department of Correctional Services is somehow self-sufficient, in the sense that they do have abattoirs. They have got all these things by themselves.

So it raise questions there, but there was also a leg to it, where – which talks to the transaction structure that we had a problem with because it captured most of the upside to the BEE party and not to everyone else.

MS JILL MARCUS: Can I just ask one final question, more generally? Because what you have indicated here in relation to quite a number of
10 things, the Sagarmatha, AYO which were agreements that were reached prior to PIC processes being followed and signed off out of funds actually flowing even before consideration and a number of indications here that there was pressure for a deal – for a decision to be taken by various – in terms of timelines.

Is that a standard factor that the processes are truncated to meet a particular deadline or is it something that occurred with particular entities only?

MR TSHIFHANGO NADADZA: So with the time pressure, generally it is special cases. I mean there are times where you have adequate time
20 to actually work on a report and there is not any time pressure in the sense that the Deal Team would likely indicate when they plan to do their submission and you would somehow communicate and tell them if you have got capacity to deliver at that target date.

But I feel I also need to highlight the point where – I think it was in relation to an earlier question – I have done transaction where –

what was presented is not what is executed in a legal agreement.

So had you known how the transaction was going to be executed because it presented material risks that you are not aware of in terms of how the transaction was going to be consummated.

And unfortunately... Ja, that is – it would ...[intervenes]

MS JILL MARCUS: Is there a [mechanical interruption] what is presented and what is approved? So is there a difference between approval and execution or is there a difference between presentation and approval?

- 10 **MR TSHIFHANGO NADADZA:** Maybe if I put it differently, Chair. What I am trying to say is, when the transaction was presented the mechanism of how that transaction would be executed was not disclosed upfront which literally means a whole new transaction all together.

We're done, yeah thank you.

- ADV ISAAC MONNAHELA:** Mr Commissioner it's 11h32, I still have questions for Mr Tshifhango Ndadza on Sagarmartha and he also promised to deal with the [inaudible] section which is a transaction that will be dealt with by the second witness. Can I just ask for an
20 adjournment?

CHAIRPERSON: We'll take the adjournment until 11h50.

ADV ISAAC MONNAHELA: Thank you.

Is that sufficient for you, do you need some time?

ADV ISAAC MONNAHELA: Can I ask until 12h00 so that I can see the second witness as well?

CHAIRPERSON: Until 12h00 then, thank you. We'll adjourn until 12h00.

INQUIRY ADJOURNS

INQUIRY RESUMES

ADV ISAAC MONNAHELA: Thank you, Mr Commissioner. Mr Ndadza, I want us to go back to the Sagarmatha transaction. Can we just tell the commission about the solvency status of Sagarmatha when it approached the PIC to subscribe for shares?

MR TSHIFHANGO NDADZA: Sochair, when we went through the pay
10 listing statements, I think what they provided there. They provided the financial statements of INM and then also consolidated looking at the financial statements of Sagarmartha as a holding entity. So what we saw there is I think it's between 2016/15, there was an increase in the share capital from about 10 million to 700 million. And we linked it together with the solvency status of INM which was roundabout 6 to 500 million in the red meaning it was technically insolvent. So ... (intervention)

CHAIRPERSON: Sorry, can you just repeat that number?

MR TSHIFHANGO NDADZA: So INM had liabilities ... (intervention)

20 **CHAIRPERSON:** Take your time.

MR TSHIFHANGO NDADZA: We had liabilities which were exceeding assets by a figure in the 500 to the 600 million range. And then you also had the unexplained increase in the share capital from a holding entity in terms of Sagarmartha the entity itself. So I think if you look at

the risk report, we do provide a commentary that we're not quite clear and would need that clarity from either the auditors or management.

ADV ISAAC MONNAHELA: Were you given that clarity?

MR TSHIFHANGO NDADZA: The opportunity was never provided for here.

ADV ISAAC MONNAHELA: Okay. In your view you just told the commission that Sagarmatha was technically insolvent and it requested the PIC to invest in it. And the PIC was considering investing about 3 billion rand. In your view based on the fact that Sagarmartha was
10 technically insolvent, would the listing have been successful?

MR TSHIFHANGO NDADZA: So my personal opinion it would have not been successful here. I think if you look at the use of the proceeds that Sagarmartha stated that they were going to use the capital raised for is a significant chunk was going to be for the consolidation of INM into Sagarmartha. I think that figure if you've got 1.5 billion for the PICs portion, estimation was about 2.5 billion of the 3 billion would have been just for that. So you are left with roundabout 500 million. If we are talking on the bases of 3 billion capital raise.

ADV ISAAC MONNAHELA: Sorry, come again. So the 1.5 billion and
20 then the other billion.

MR TSHIFHANGO NDADZA: So you had 1.5 in terms of PIC/GPF equity interest and claim against INM and also SIM. But you also had, Sagarmartha would also be buying out SIMs interest as well. So that's the related party element of it and when you sum up all those

transactions, they would have come to the region of 2 billion 2.5 billion. So that leaves out 500 million from the capital raise.

ADV ISAAC MONNAHELA: Dr Survé testified before this commission and at paragraph 25 of his statement he alleged that he considered that it was a missed opportunity for the PIC not to have invested in Sagarmartha. What is your view on this allegation?

MR TSHIFHANGO NDADZA: Chair, my view is I definitely back the victors view. I think the victor had no clue about INM from the time we did- I also, that's why you see project R has been mentioned in there.

10 And when we mentioned project R again in Sagarmartha and also given what he had experience on the Ayo [inaudible loss] significantly uncountable. So it would have been a- yeah, would have definitely wasted money and just a long story short.

ADV ISAAC MONNAHELA: Just another question. So just in terms of that 3 billion rand raised you say 500 million was going to be the amount left. Was Sagarmartha planning to acquire companies as we saw in the Ayo transactions or they were sort of relying on the current companies to generate the earnings and the value?

20 **MR TSHIFHANGO NDADZA:** [inaudible] yes, they were definitely planning to do both. I think just a bit of background, the initial share capital raise was in the region of I think 9 billion to 5 billion. So the share capital- the amount of money that they initially wanted to raise was between 9 and 5 billion. But I think they do state in their pre-listing statements what they were initially targeting. And now what you find is with the 3 billion is had we gone in and participated and given

them 3 billion, those chances are if Sagarmartha was to be successful, we would have to do continuous the participation in any share capital raise that they might have. And to your question is they were going on a dual strategy of organic and inorganic growth. So they had an inquisition pipeline but they also had other businesses that they were looking to develop from within.

ADV ISAAC MONNAHELA: But the 500 million might be quite a small amount of money if you are going for such.

MR TSHIFHANGO NDADZA: That is correct, yeah, which is meaning
10 that they were going to come back again.

ADV ISAAC MONNAHELA: To raise capital on the market and dilute the PIC?

MR TSHIFHANGO NDADZA: I don't know if we would have funded it.

ADV ISAAC MONNAHELA: Or follow [inaudible] or follow rights and all that.

MR TSHIFHANGO NDADZA: Yes.

ADV ISAAC MONNAHELA: At paragraph 44 his statement Dr Survé said the following, "In the latter part of 2018, Sekunjalo put in a firm offer to the PIC. This meant that Sekunjalo would take on the exposure
20 of the PIC over and above its current support of the operating cash flow need of the business. Sekunjalo therefore went from a minimal risk position to assuming significant risk in an endeavour to help the Government Employee Pension Fund and the PIC." And at paragraph 45 he stated the following, "Despite the PIC having agreed to the above, Sekunjalo has received no formal communication from the PIC

since the offer despite repeated request to the PIC." Are you aware of the PIC agreeing to what is stated in paragraph 44?

MR TSHIFHANGO NDADZA: [inaudible] which is when from the documents I've attached in this, it is clearly highlighted that that's not the truth. I think we did want an exit but the exit that was presented to the PIC one was based on SIMs terms not normal terms that a normal private equity company would desire which is cash. Because I think once you do a private equity transaction it is ideally there comes a point in time where you need to exit and hopefully exiting and the
10 target multiples or whatever IRR will return measure that you haven't, that you would have stipulated.

ADV ISAAC MONNAHELA: Is it true that there was no formal communication from the PIC to Sagarmartha?

MR TSHIFHANGO NDADZA: Not that I'm aware of but if you were to treat Sagarmartha and Sekunjalo as one entity because they are somewhat related then it is not true that. Because I think in one of the documents there was a presentation made to one of the committees in terms of why the INM exit did not materialise. And in there you can see that the interactions where they state that they had received
20 commitment of up to 4 billion. And which tells us the exit was conditional on Sagarmartha listing but it also gives the bases that there were some sort of engagements between the two parties and that's I think it's annexure B. Annexure B if you look at the- correction, it's annexure D. And annexure D does state clear communication from the PIC to Dr Survé accepting the terms of the exit offer. And yeah.

ADV ISAAC MONNAHELA: And so SIM wanted to settle on his own terms not the PICs terms?

MR TSHIFHANGO NDADZA: Yeah, according to my view that is correct.

ADV ISAAC MONNAHELA: Because this annexure D states the terms upon which the PIC was agreeing to settle.

MR TSHIFHANGO NDADZA: That is correct.

MR EMANUEL LEDIGA: But perhaps there's a slight question in that because this annexure D is signed by Mr Mervin Muller whereas the
10 original agreement and the sign off is by Dr Matjila. So would if I was the Sekunjalo team, I would say you've signed off on the deal quite a few months earlier. This is now giving the conditions which would prevail.

MR TSHIFHANGO NDADZA: That would be correct, yeah. And I think the point I was trying to make is on annexure B. If you look at paragraphs 8 to 12 where it says the update on listing. And I think there it does indicate that there were engagements between the PIC and Sagarmartha or SIM for me, put it that way.

MR EMMANUEL LEDIGA: And that one is also in April 2018 signed off
20 by Dr Matjila.

MR TSHIFHANGO NDADZA: That is correct, yes.

ADV ISAAC MONNAHELA: In his testimony if I understood him correctly Dr Survé blamed amongst others the Chairperson of the board the Deputy Finance Minister, Mondli Gungubele for the failure of the Sagarmartha transaction. What is your view on that?

MR TSHIFHANGO NDADZA: I think if we look at the facts without speculating I think the failure was due to the JSE withdrawing the listing due to some compliance issues. And as I stipulated it's a given that IC had redirected the transaction back to PMC and I think at that stage that's when the transaction was withdrawn. I don't see how the Chairman would have tempered with that proof of process.

ADV ISAAC MONNAHELA: But did he temper with the process?

MR TSHIFHANGO NDADZA: Not that I know of and to the best of my knowledge, no.

10 **ADV ISAAC MONNAHELA:** Then he also made an allegation, that is Dr Survé, about the PIC failing to promote Black Economic Empowerment. What is your view on that?

MR TSHIFHANGO NDADZA: Chair that could be far from the truth. And I think that's the point I wanted to just communicate to the commissioners. PIC has always been pro BEE. I think unfortunately what happens is you are more likely dealing with opportunist than what you would call proper entrepreneurs for investment people. There are people who are just trying to get an arbitral agreement or arrangement by doing a BEE transaction. And to qualify the point is if you look at
20 the Steinhoff transaction, the media says it's a significant BEE transaction. But if you look at it it's a when those call options whether it be the [inaudible] or the cause that are being exercised is the BEE party will sell down their equity stake meaning their percentage share of the company will reduce and that already- you already know that from the onset. So you're clearly not doing a BEE transaction or it is a

BEE transaction but it's a short-lived BEE transaction. Because at the end of the transaction the BEE party mainly walks away with the value created not ownership and it also gives room for the BEE party to come again and get another BEE transaction concluded with the PIC. I don't know if that talks to empowerment.

MR EMMANUEL LEDIGA: Can I just ask you given that you've raised the Steinhoff question again. In the documents that I've read on it I recall that there was a request for a special or another due diligence on Mr Naidoo as he was a politically exposed person. Were you involved
10 in that at all?

MR TSHIFHANGO NDADZA: I think that's when I was removed from working on- it's funny I'm removed but I still work credit risk meaning that the Karan Beef transaction, I'm still working on it despite what was communicated. Hence I said it was a convenient action. I was not aware. I'm not aware of anything that might have materialised on the Steinhoff transaction post the proven and execution.

MR EMMANUEL LEDIGA: Were you aware of what the Lancaster Group or who the members of the Lancaster Group were or are at the outset when the PIC was first approached?

20 **MR TSHIFHANGO NDADZA:** We were not aware and to support the point is if you look at the initial risk report for project Siera is when we talk about BEE meaning triple BEE. We spoke about the fact that the transaction was not broad based in nature. One individual and a significant amount exposed to that person.

MR EMMANUEL LEDIGA: So if I understand you correctly, the Lancaster Group comprised only of Mr Naidoo.

MR TSHIFHANGO NDADZA: At that time.

MR EMMANUEL LEDIGA: At that time when he first approached the PIC for 10.4 billion rand.

MR TSHIFHANGO NDADZA: That is correct, yes.

MR EMMANUEL LEDIGA: Okay. We'll come back to that; obviously we're going to be looking again at Steinhoff Lancaster deal. But I just wanted clarity on that. Thank you.

10 **ADV ISAAC MONNAHELA:** Mr Commissioner, I have no further questions for Mr Ndadza on the Sagarmartha transaction. If there is no questions from the Commission then I will ask him to deal with the Erin transaction.

CHAIRPERSON: Yes, you can carry on with the next one.

MR TSHIFHANGO NDADZA: Thank you, Chair. So with regards to Erin Energy when we or when the transaction was assigned to be-

ADV ISAAC MONNAHELA: Mr Commissioner, can I just make the Commission aware of something? The PIC made an investment in 2013/14, it bought shares for 217 million US dollars and it later
20 provided a guarantee, I think in 2016 when the initial investment was made Mr Ndadza was not yet and employee of the PIC. So I think his evidence will relate to the guarantee.

MR TSHIFHANGO NDADZA: So when the transaction was assigned to me Mr Paul Magula was the Executive head of Risk at the time. And I think various resources from the departments from the PIC meaning

listed, I think PMV was also involved together with ESG went on a due diligence exercise. I think it was commended by the committee given that the share price had come down. I think as previously mentioned I think 250 was invested but at the time the equity was worth 152 million there roundabout. So that was ...(intervention)

ADV ISAAC MONNAHELA: Talking US dollars?

MR TSHIFHANGO NDADZA: US dollars. So it had come down by more than 50%. So on the back of this transaction is Erin Energy had technically issues but there were also issue to deal with solvency. It was in discussion with its lenders who were looking to call on their security. So as a significant shareholder we were requested to intervene by providing some sort of a guarantee to third-party financial to provide a funding to Erin Energy. So I think at the time Standard Bank was considered to be the financial institution that would provide a guarantee of a 100 million US. But I need to add that I did not go to the DD for reasons that are- I think I only learned later that Paul was pretty uncomfortable with this transaction. As to why I did not go, I don't know why. But nonetheless I still preformed my risk report based on the, since it was a listed company, based on the any publications that the company had on its website. But we also send questions to the management team, I think the questions were in relation to whether they had insurance in place.

ADV ISAAC MONNAHELA: May I ask in this question, do I understand you to be saying that no one from the risk division went for due diligence?

MR TSHIFHANGO NDADZA: That is correct, yes. So for this particular leg of the transaction no one from risk went to DD. I think the ultimate aim was to just see if the company had operations but I think that would have been confirmed when the deal was done initially. Yeah, that was the purpose of this particular due diligence exercise. So with this transaction what we had in mind given that the PIC had a significant exposure. And by having the banks call on the security the PIC would walk away and forfeit its initial investment. So it was contemplated that due to the significant exposure that the PIC had, it was more comfortable to actually get a third-party to fund the business on the back of a PIC guarantee. I think we got involved in discussion on how this guarantee would possibly work in the sense that our intention was not to have money flow to the company but rather flow to its service providers. Meaning that if the capital in question was in relation to the company drilling and starting to produce the barrels of oil and because they had contracts in place, would insure that those contractors would be paid. And then the loan would be serviced by the barrels of oil that the company will ultimately produce. So that would result in minimal exposure to the PIC. So as they produce the barrels the exposure under the guarantee would come down. But in terms of further engagement as I later learned that the guarantee would not be coming from Standard Bank but from some Mauritius bank I think. And at that stage our involvement got limited, I don't know why, but the front runners, people who were intimately involved at this stage were Ernest Nesane and Fidelis Madavo. And our involvement just ceased from

there. So in terms of execution we were not involved or we were not part to the party.

ADV ISAAC MONNAHELA: Could that be related to what Dr Matjila said and you said it before the adjournment that the role of risk was not to block transaction. Do you think maybe they thought that you would block the transaction?

MR TSHIFHANGO NDADZA: In this instance I would say no because approval was already granted. But I think in terms of the execution it was meant to be as opaque as possible. So only a few people knew
10 what was going on and I think as we later learned there was just a lot of issues with the investment itself.

ADV ISAAC MONNAHELA: What were those issues?

MR TSHIFHANGO NDADZA: I think these are my views. My views are maybe the funding model that was done initially did not hold in the sense that this was typically more of a- I think it would be an early stage type of oil company. So listing and the fact that additional capital would be required based on the early stage or the live of the [inaudible]. But then we later learned that there were contentions about who actually owned those oil fields that they, did Erin own or did
20 they- were they leased to Erin for a certain period of time which would talk to the funding model. Because if it was leased for certain period in time, you wouldn't do a listing. You'd adopt sort of a project finance approach because ideally at the end these things would have to be transferred or either the lease would have to be renewed. So you can't have that risk sitting, the bulk of that funding coming from equity

providers. But as I said the information disclosure on this one was not that good.

MR EMMANUEL LEDIGA: Do you know actually where the matter stands at this moment?

MR TSHIFHANGO NDADZA: So what I do know is the guarantee was ultimately provided and I was just surprised that we never reported on it. Because then it would sit on, it would be exposure to the PIC. But as far as I know is new circulating that there is, I don't know if it's a CEO whoever was trying to sue the PIC for intervening or interfering
10 with the drawdown's that Erin was meant to receive from this Mauritius bank. So there were drawdown's, I don't know to what extent. And in terms of any legal issues I'm not sure where they are.

ADV ISAAC MONNAHELA: May I ask you to go to page 5 of your risk report and we will- unfortunately I didn't know that you would testify on this transaction but it's the risk report that they prepared for the Erin transaction.

MS GILL MARCUS: Is that in the other documentation that we've got this morning or is it a different item altogether?

MR TSHIFHANGO NDADZA: No it's not in the document.

20 **MS GILL MARCUS:** It's not in the document.

MR TSHIFHANGO NDADZA: But we will make it available to the Commission.

CHAIRPERSON: Well I suppose you could go ahead under the proviso that you know if there are things in the report we don't have it now then he might have to come back if there are matters that we want to raise

from the report.

MR TSHIFHANGO NDADZA: So Chair one of the risks that we highlighted in the risk report relates to the guarantee risk or the event that there's a credit default on the back of this guaranteed loan to Erin Energy. So the reason why we saw this being an important issue to raise is that we noted that the company at that stage did not have a commendatory going concern status, so meaning it was somewhat bordering on insolvency and the whole basis of providing the guarantee was so they could increase their oil output. So I think that was one of
10 the risks that we highlighted in the risk report that there was solvency issues with the company at the time.

MS GILL MARCUS: Sorry can you just remind us what the amount of the guarantee was?

MR TSHIFHANGO NDADZA: The guarantee was 100 million US.

MS GILL MARCUS: And at that time Erin's outstanding debt was over \$400 million?

MR TSHIFHANGO NDADZA: I'm not in position of it but ja, they were, ja they were in the red yes.

ADV ISAAC MONNAHELA: Mr Commissioner the next witness will deal
20 with that.

MR EMMANUEL LEDIGA: Just to check in terms of your work, I mean are you going through some disciplinary or you know how's the victimisation when you leave this hearing?

MR TSHIFHANGO NDADZA: None at all, I mean I've got no disciplinary proceedings against me but the one thing I'm doing is I'm

considering lodging a grievance case with Candace, Ms Candace Abrahams and this was not to attack her as a person but I think I need to know what was done or what was instructed and I'm hoping any manager would learn as I think, you don't want to ever do your job and wonder if there are any consequences from doing your job. But based on what she has said because I mean it's things I wouldn't have wanted to mention here but I mean I would often be called into a meeting or be called aside and I'd be told that I'm somehow gossiping about her and when you try find out where's the source of this information she would

10 say someone from your team and obviously which is concerning. I mean I think I'm old enough what I've said. So I tried to explain that how do I have fair relationship with her in there's someone in the team who's saying I'm saying certain things so the best solution is to actually get them, we sit in a meeting three of us and then we can get to the bottom of it. I mean it goes, I mean it gets very petty in the sense that I was once told that Tshifhango was crying, and I mean I would wonder, I went through a tough time but not to the point of tears, especially at work, no. So I'm just lodging a grievance first of all just to find out what is it that has happened and then the other part is based on a

20 comment in relation to my remuneration and obviously it relates to what she has said that I was the favourite and I'm thinking well can you back up your allegations of saying I was the favourite in terms of any undue promotions that I've received or any monetary sort of awards I had gotten on the back of this favour and there's none. So I think that's the only way you can explain favour in the workplace where ...

MR EMMANUEL LEDIGA: To check something, so you are in market risk now and do you want your old job back and there's a new boss in risk, what has that person said about these things, these issues?

MR TSHIFHANGO NDADZA: So there's something quite peculiar, I think a couple of weeks ago I was told by a colleague of mine who works in compliance and he tells me he has made a transition from the compliance department into the credit risk department and I fully understand why, he's background comes, I mean he's got extensive property experience and I think he's been trying to move into other
10 areas of the business preferably the property side but now he's been moved to the credit risk department and then you have me on the other hand where the experience is there, I've done the work to the point of me I can talk about numerous cases where members of the committee, in fact from the IC committee would commend us on the good work we've done from a risk point of view and obviously she'll take the credit but at the end then persecute me for doing the work.

So one is I don't know if I want to do credit risk in its current form because it's definitely not, it's not nice but I do prefer credit risk more than market risk. I've spent most of my career has been in the market
20 risk quantitative space and the whole view of approaching Paul to get exposure was to eventually make a transition into the deal team and the reason why I could say that there was no financial model for Steinhoff is because I was working with them on it. We did not have anything of substance other than the fact that these are South African assets, we know them, you know the common write up. But in terms of

what the balance sheet would look like, how the company's financial performance looks like there was nothing. So ja ...

MR EMMANUEL LEDIGA: And the new boss have you engaged with him on this?

MR TSHIFHANGO NDADZA: Sorry, sorry Chair, sorry for interjecting, sorry.

MR EMMANUEL LEDIGA: No, no the new boss have you talked to him on these issues?

MR TSHIFHANGO NDADZA: No I have because one thing I didn't want
10 is to say good morning to a person and then all of a sudden he finds me here appearing and spewing out these issues so I have spoken to him. I don't know if he's in any way in charge of or in control of the changes that are happening because the changes that are happening were predominantly under Dr Dan's watch in terms of the new appointments and all of these things. And I mean in fact it wouldn't be speculation that the way risk operated is we were designed to be inadequate, we were designed to not have capacity and we were also designed to have a person who's agreeable to investments. So I mean if you look at the whole concept of taking collective responsibility is that you cannot
20 single out any one person. But now it's proving not to hold and ja.

So a long story short is I mean in her own words Candace told me that I had no issue with Dr Dan we worked very well and I'd like to believe she was frontrunner to be the new Head of Risk and I mean Dr Dan not only, he didn't lead he ruled over the PIC, that's pretty much it.

MR EMMANUEL LEDIGA: Alright thank you.

ADV ISAAC MONNAHELA: Mr Commissioner I have just one question on what he said, testified about earlier. You said that the way investigations against you are that you were called to meetings and told that, or you were investigated to establish whether you were the person responsible for leaking information, were you even told of the results of those investigations?

MR TSHIFHANGO NDADZA: Oh sorry, thank you for the reminder. So yes I was called into two investigations one relates to, well obviously a series of transactions being the common person that has worked on
10 Sagarmatha, Steinhoff and Ayo and maybe other transactions is I was investigated like most people. My laptop was taken away with me without any notice, I think I was on training at the time, I got an e-mail that said I should come to the office, I think it was on a Friday afternoon. So I went to the office, I went to Mr Chris Pholwane's office and then he asked me for my laptop together with the password, so I gave it to him. He didn't explain and then I think two weeks later I found myself sitting across the gentleman from Sizwe Ntsaluba a forensic investigator. But in terms of the outcome of that investigation nothing was said, all I know is the laptop that was taken away from me
20 at the time was returned to me with no commentary at all or nothing to say whether I'd been absolved of anything.

And then the second one relates to an investigation by, I think it's LexisNexis I think, some ... I may not get the name right but it was in relation to VBS, I think they wanted to understand my involvement in relation to VBS. But in terms of whether I was cleared I do not know

but whether any formal charge or any hearing against me nothing as yet. Sorry I think I need to state that given the developments at the PIC I'm sure the commission is well aware that the PIC for the first time does have a union and I'm the deputy secretary general of that union, so ja.

ADV ISAAC MONNAHELA: What were the reasons for the PIC not having a union?

MR TSHIFHANGO NDADZA: I don't know what the reasons – well the reasons for the PIC not having is I think remuneration and bonus
10 allotments was somewhat fair and predictable according to some of the PIC staff members but now as the years went by as bonuses were allotted to favourites and you could not reconcile the determination of the bonus to the policy and then, but I think thirdly is I think there's a level of mistrust or there is not that I think, there is a level of mistrust between the majority of the employees with management. I know we somehow some up management but there have been multiple transitions as in people have left. But I think we've reached a point where we simply cannot allow to put our livelihoods and people who have not showed themselves to be faithful one, and then two is we
20 don't think maybe they're communicating or driving the issue of remuneration and bonuses to the shareholder quite well. I mean apart from the portfolio performances you've got the pick of balance sheet, I mean it's sitting well in excess of 2.5 billion and that's just money for PIC corporate and, I mean we're not saying that this money should be plundered but surely it should be for the benefit of PIC staff. The

shareholder gets their dividend, I mean save for the issues that are sitting in front of the Commission is we are somewhat sustainable, somewhat because I mean the assets we manage are not the PIC's but the clients but ja pretty much.

MR EMMANUEL LEDIGA: Just as a follow up, I mean what do you suggest that money in PIC of the 2.5 billion be used for and is that cash in the balance sheets, just liquid cash?

MR TSHIFHANGO NDADZA: That's cash invested in money markets, equities, listed property and unfortunately it was no started going to
10 unlisted investments that's where you've got the likes of BIG emerging ja which is a popular insurance group.

MR EMMANUEL LEDIGA: What must it be sort of used for, I mean what, to pay bonuses, what are you saying there?

MR TSHIFHANGO NDADZA: Not ideally because the bonus determination is, so I'm not simply saying 2.5 billion should be used to pay bonuses but there's a model that says based on a certain percentage of expenditure that's the money you can allocate bonuses from. So I would understand that if the shareholder is raising concerns around sustainability is PIC is not in a financial crisis I mean there
20 could be red flags about our client yes, but in terms of the PIC itself I think it still remains financially sound for there not to be harsh measures on bonuses. I mean ideally we are participating in an industry that pays or rewards its employees in a certain way. So the question is why should we be treated differently.

ADV ISAAC MONNAHELA: Mr Commissioner I have no further

questions for the witness, if the Commission does not have any further questions that will be Mr Ndadza's evidence.

CHAIRPERSON: Yes thank you Mr Ndadza, thanks very much for the evidence that you've placed before us and thanks for your time and as I said be ready when you are asked to come back, if you were to be asked to come back if there are questions that should arise from the document that we're going to get, otherwise you're excused.

MR TSHIFHANGO NDADZA: Okay thank you Chair, you're welcome.

CHAIRPERSON: Thank you.

10 **ADV ISAAC MONNAHELA:** Mr Commissioner it's almost one o'clock our second witness is here, I don't know whether it is a convenient time for us to take a lunch break? Mr Commissioner may I just point out that our next witness is Mr Jeff Tshikhudo he will deal with the Erin transaction.

CHAIRPERSON: That's fine but let's take the break now. Would you be prepared to come back quarter to two?

ADV ISAAC MONNAHELA: Yes Mr Commissioner

CHAIRPERSON: Right we'll take the luncheon adjournment until quarter to two.

20 **INQUIRY ADJOURNS**

INQUIRY RESUMES

CHAIRPERSON: Yes, Mr Monnahela.

MR ISAAC MONNAHELA: Thank you, Mr Commissioner. Our next witness is Mr Jeff Tshikhudo.

CHAIRPERSON: Your full names please, sir?

MR NDIVHUWO JEFFERY TSHIKHUDO: My Ndivhuwo Jefferey Tshikhudo.

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

MR NDIVHUWO JEFFERY TSHIKHUDO: None, sir.

CHAIRPERSON: Okay, Tshikhudo. Do you swear that the evidence you're about to give will be the truth, the whole truth, nothing but the truth, raise your right hand and say so help me God.

MR NDIVHUWO JEFFERY TSHIKHUDO: So help me God.

10 **CHAIRPERSON:** Thank you, you may be seated.

MR ISAAC MONNAHELA: Mr Tshikhudo, you have made a statement which will form part of your evidence before this Commission. Before you begin with your statement may I ask you this question. Were you forced to make this statement?

MR NDIVHUWO JEFFERY TSHIKHUDO: No, Mr Commissioner.

MR ISAAC MONNAHELA: Were you told to include anything in your statement that you did not agree with?

MR NDIVHUWO JEFFERY TSHIKHUDO: No.

20 **MR ISAAC MONNAHELA:** May I ask you to start with your statement at paragraph 1?

MR NDIVHUWO JEFFERY TSHIKHUDO: Thank you, Mr Commissioner, for the time.

“My name is Ndivhuwo Jefferey Tshikhudo, I am an adult male, 39 year old, born in South Africa in Limpopo. On the 7 May 2019 I was contacted by the

evidence leader of the Commission. They requested me to provide statement which will detail my initial introduction to Erin Energy, my involvement in the Erin Energy transaction at PIC. Mr Commissioner, I believe before I set out my involvement in the transaction at PIC that it is vital to elaborate on my qualifications and skills because they contribute quite a lot to the decision-making process.

CHAIRPERSON: Can I just ask you first, did you sign your statement?

10 **MR NDIVHUWO JEFFERY TSHIKHUDO:** Correct, it was signed.

CHAIRPERSON: Yes, thank you.

MR NDIVHUWO JEFFERY TSHIKHUDO: “The facts contained in the statement save

where otherwise stated are within my personal knowledge and what I can recall from meetings that were held a few years ago. The facts are to the best of my knowledge and belief both true and correct.”

On paragraph 2, Mr Commissioner, I highlight the qualifications that I have which include Bachelor of Science in Mechanical Engineering from
20 University of Cape Town, a Master of Business Administration or MBA which I received from Southern Methodist University in Dallas, Texas. I am a Chartered Financial Analyst and I’ve also passed my RE5 exam, FAIS exam for representatives.

If I start on the career highlights, I have more than seven years of experience as an engineer on the technical side in the energy

sector. I have worked for a leading oil and gas company called Pioneer Natural Resources which is based in Dallas Texas from 2002 to 2009.

Prior to joining Pioneer I had experience as an engineering intern and also as a junior engineer at Anglo American Coal, a subsidiary of the mining giant Anglo American PLC. This was all done before April 2002 when I joined Pioneer. I joined Pioneer ...[intervenes]

CHAIRPERSON: Sorry, what was the nature of your work, what were your responsibilities at Pioneer Natural Resources?

10 **MR NDIVHUWO JEFFERY TSHIKHUDO:** Mr Commissioner, I'm going to highlight that shortly now in the next paragraph or so.

CHAIRPERSON: Okay.

MR NDIVHUWO JEFFERY TSHIKHUDO: I joined Pioneer as a trainee petroleum engineer and my training covered both disciplines of drilling engineer which will be the engineer responsible for oil, looking after the wells when we go drilling and making sure that the equipment is in place and the logs, once they've been logged, the interpretation thereof. It also included the part of being reservoir engineer. So as a drilling engineer my time was also spent offshore. I've spent time in
20 the Gulf of Mexico, I've spent time about 100 kilometres south of Mossel Bay, so where you stand on a boat and you look all around you don't see any land but just water. So that was the time when we were drilling wells together with PetroSA, that were feeding into the Mosgas Plant. So that was the training as a drilling engineer.

As a reservoir engineer my training included the auditing of

reserves, understanding what makes reserves more economic because sometimes you discover something and it's not sufficient for them to develop and then so those estimations of pricing, estimations of reserves and capital cost that go into the process, that was part of my job.

I then spent most of my time as a reservoir engineer and I was promoted at Pioneer to the point where I ended up looking after the gas-producing assets in Texas called the West Panhandle gas field.

During 2008 I joined the business development team at
10 Pioneer as the manager of economic analysis. Between 2008 and 2009
- Mr Commissioner, you may recall at that time oil prices were moving
from 40 dollars to 130 dollars so there were a lot of potential
acquisitions. We evaluated a lot of them and it was my primary
responsibility to look at different investment proposals from different
companies and screened them and then eventually about eight of them
will go for final approval at board level.

I subsequently decided to leave the US and Pioneer in June
2009 because of my desire to pursue a career as an investment analyst
and also a big desire to come back home because it had been a long
20 time away from my family.

MR EMMANUEL LEDIGA: Mr Tshikhudo, just a question here.
Geologists, do they do oil drilling or they're just in the mining sector?

MR NDIVHUWO JEFFERY TSHIKHUDO: So in – they do participate in
both areas and in order for us to determine where the oil reserves
might be we need geologists, they will study the maps and try and

understand the geological shifts that happened thousands or if not millions of years ago and they will be the first people to study and direct us as to where you might find some oil reserves and then excavation wells will be drilled and hopefully we find something.

When I came back to South Africa I then spent another seven years as an investment analyst in the private sector working for a reputable institutions like Allan Gray, also some brief stint at SASOL and STANLIB Asset Management. I spent more than four years at STANLIB Asset Management as an investment analyst and my
10 responsibilities included researching South African listed equities in the resources sector, writing an investment report and presenting the findings and investments recommendations to the portfolio managers.

During the period from 2009 to July 2016 when I was working in the private sector my coverage included all mining stocks, including SASOL, outside except from Platinum and Gold stocks which one of my colleagues was covering at the time.

In August of 2016 the PIC recruited me and hired me as a sector specialist looking at infrastructure and energy portfolio. This is within the recently formed research and project development division
20 and my area of responsibility then included providing the PIC with quality and relevant research that will allow for them to make informed investment decisions in the energy and infrastructure space.

Again the common aim for all of us was to improve the returns to the portfolio and also stimulate the growth of the economy.

Also part of my responsibility was to generate new knowledge

and investible ideas and also to help PIC to gain some IP in the sector.

MR ISAAC MONNAHELA: If I may intervene there. Could you just explain to the Commission how you were recruited by the PIC?

MR NDIVHUWO JEFFERY TSHIKHUDO: Okay. So in terms of recruitment there was a post advertised which I then applied for and I was alerted to the need of the skills set that I have because one of the people that worked at PIC used to work with me at STANLIB and they alerted me to the fact that they are looking for skills, I must look out for the advertisement when it comes out and once it came out on the website then I was able to apply and went through interviews and the eventually got the Commission.

MR ISAAC MONNAHELA: Could you just mention the name of the person that alerted you to the position?

MR NDIVHUWO JEFFERY TSHIKHUDO: It was Mr Sholto Dolamo who was my supervisor at STANLIB.

MR ISAAC MONNAHELA: Yes you may proceed.

MR NDIVHUWO JEFFERY TSHIKHUDO: On 2.4.2, Mr Commissioner:

“Around the 20 September 2017 I was appointed as the Acting Fund Principal now looking only on the energy sector. This was a move away from research and project development team to join the Isibaya team or impact investing team. Subsequent to another interview process in around June of 2018 I was promoted and given the same position on a permanent basis, that is the position that I currently serve in at

the moment. So right now my focus is hundred percent on energy in the unlisted sector.

Mr Commissioner, I was asked to talk about Erin Energy and my first introduction to Erin Energy. I thought I should give the Commission a snapshot of where Erin Energy came from and what is the status today.

10 “Erin Energy used to be called Camac Energy, it is engaged in the exploration, development and production of oil and gas assets. This is a very similar job to what I was doing at Pioneer Natural Resources. The company owned and operated the OML 120 production licence offshore Nigeria. This licence is also called the Oyo field, in short, it is located 70 kilometres from the coast of Nigeria where water depth ranges from 300 to 450 metres. The reservoir was discovered about 1.7 kilometres below the sea floor.”

So there is not much that we can go and see, unlike in a mine where we can go and see the actual coal reserves, we can't do that with Oyo fields.

20 “Oyo field is surrounded by much larger oil discoveries such as the ERHA which is owned by Exxon Mobil and Bonga which is owned by Shell. However, this larger discoveries, Mr Commissioner, are not found at the same depth which means that those bigger ones were found in the Miocene formation which is much deeper and geologically it is much older, so geologists talk about geological age, talking about the

movement from ice age, the warming of the earth and then the shifts that happened. The Oyo field ...[intervenes]

MR EMMANUEL LEDIGA: Yes, are these based sort of that area where there is fighting(?), what is it called, by the way?

MR NDIVHUWO JEFFERY TSHIKHUDO: So in this case, no, so the area you are talking about, the Delta, the Niger Delta.

MR EMMANUEL LEDIGA: The Delta, yes, yes.

MR NDIVHUWO JEFFERY TSHIKHUDO: The water depth it's a bit more shallower so it might be less than – it's most probably less than 50
10 metres deep in most of those cases. That's where people are without the proper equipment will go and find – or terrorists will try and go an invade. But in the deeper water there is less disruptions.

MR EMMANUEL LEDIGA: Ja, no, what I wanted to check, this is the place Ken Saro Wiwa was actually based on all that. Do you know?

MR NDIVHUWO JEFFERY TSHIKHUDO: No, I don't know.

MR EMMANUEL LEDIGA: Okay, alright.

MR NDIVHUWO JEFFERY TSHIKHUDO: I don't sort of remember the name.

20 So the oil reservoir was discovered in the shallower Pliocene formation and in spite of the drilling campaigns which included Oyo-7, Oyo-8, Oyo-9 and 5 and 6 which were drilled earlier when ENI was still a partner in the field. This field has failed to create value for shareholders. The company filed for bankruptcy protection in April of last year and the last

news clip that I saw this year, about a month ago said that the government had taken over the licence.”

MS GILL MARCUS: Nigerian government?

MR NDIVHUWO JEFFERY TSHIKHUDO: Yes, correct.

MR EMMANUEL LEDIGA: Question here, I'm sure you'll come to it but was this company in production?

MR NDIVHUWO JEFFERY TSHIKHUDO: There was production and it was very small but then the Oyo – I think it was either Oyo-8 or 7, one of them, was producing at about 5 000.

10 **MR EMMANUEL LEDIGA**: Barrels.

MR NDIVHUWO JEFFERY TSHIKHUDO: Yes, per day.

MR EMMANUEL LEDIGA: Per day, ja.

MR NDIVHUWO JEFFERY TSHIKHUDO: And then the next other well was at 1 000 and that was it.

MR EMMANUEL LEDIGA: Okay, quite small, hey?

MR NDIVHUWO JEFFERY TSHIKHUDO: Yes.

MR EMMANUEL LEDIGA: Okay.

MR NDIVHUWO JEFFERY TSHIKHUDO: So my first introduction to Erin Energy or at that point it was called Camac Energy was at
20 STANLIB. It was around 2013 when my supervisor at that time who was leading the analyst chain in the resources sector, that supervisor was Mr Sholto Dolamo, he had requested me to join him in a meeting. It was not my meeting, it was his meeting but he then came and called me to join in in a meeting with Erin Energy.

MR ISAAC MONNAHELA: Can I ask you this question, apart from Mr

Sholto Dolamo, who else was in that meeting?

MR NDIVHUWO JEFFERY TSHIKHUDO: This I cannot say with certainty but I will bet that Mr Kobus was also in the meeting because he was a senior position in the resources sector that I was at the time.

MR ISAAC MONNAHELA: Was there anyone from Erin?

MR NDIVHUWO JEFFERY TSHIKHUDO: There was at least Dr Kase Lawal, he was the one making the presentation on Erin Energy.

10 “Erin Energy had embarked on a road show in order to raise funding through a listing of the shares on the Johannesburg Securities Exchange. Erin Energy planned to drill Oyo-7 and Oyo-8 wells with the funds raised. Oyo-7 and 8 were expected to raise Erin’s production by up to 14 000 barrels per day. The second Erin objective for Oyo-7 was to explore for the deeper hydrocarbon bearing interval which will be in the Miocene EHRA similar to what the other fields, Exxon or Shell fields were producing from.”

MS GILL MARCUS: At that point do you remember what the amount that Erin wanted to raise was?

MR NDIVHUWO JEFFERY TSHIKHUDO: I don’t know the amount – ja.

20 **MR EMMANUEL LEDIGA:** Just tell me, so Oyo what, 7? That production which you mentioned which area was it? Which Oyo –was there some Oyo-6 or something, the 5 000 barrels and the 1 000 barrels? But if you’re going to cover it, it’s fine, I mean...

MR NDIVHUWO JEFFERY TSHIKHUDO: No, it is in one of the reports.

MR EMMANUEL LEDIGA: Okay.

MR NDIVHUWO JEFFERY TSHIKHUDO: I think if – ja. So if I may refer you to annexure B and page 5 of annexure B. At the bottom I show a chart which shows the oil production total coming from the field. So the first – there are two separate charts and at the bottom – so annexure B, page 5 at the bottom. Ja. So the first half of the chart shows production from Oyo-5 and Oyo-6, those were the wells that were drilled by ENI and Allied Energy or Camac Energy. Can see, Mr Commissioner, that by June of 2014 those wells were producing barely a 1 000 barrels per day and then they were shut in at that point in time.

10 Then it was during that time just before June 2014 – between July 2013 and 2014 when Erin came and they wanted to raise funding and the idea was for them to drill Oyo-7 and Oyo-8 which will then lift the production by 14 000 barrels per day from the current 1 000 – by the then current 1 000 per day.

MS GILL MARCUS: But that is an estimate there, that's not actual numbers.

MR NDIVHUWO JEFFERY TSHIKHUDO: That was an estimate, correct.

MS GILL MARCUS: So the actual numbers go to June '14 and then from May '15 to Feb '17 those are estimates.

20 **MR NDIVHUWO JEFFERY TSHIKHUDO:** No, from – those are actuals, everything in this chart is now actual.

MS GILL MARCUS: Is actual. So 7 and 8 ...[intervenes]

MR NDIVHUWO JEFFERY TSHIKHUDO: Now this is looking back, yes.

MS GILL MARCUS: Okay, so 7 and 8, you then came up 14 000 barrels but by February it was back to zero.

MR NDIVHUWO JEFFERY TSHIKHUDO: Yes, correct.

MR EMMANUEL LEDIGA: Right, okay.

MR NDIVHUWO JEFFERY TSHIKHUDO: So the 14 000 was indeed attained but just for a very short space of time. On 4.3:

“Based on my recollection of that meeting in 2013...”

Unfortunately, Mr Commissioner, this was at STANLIB and I did not have my notes, so I had to rely on my memory and what I can find on the press releases. From what I can remember, I was not confident of their production forecast. We’ve just talked about the production from
10 Oyo-5 and 6 which declined quite quickly to the point where in 2013 it was about 1 000 barrels per day. I was not confident that the new wells will be able to maintain that production rate. My reasons were that the declined rates that we saw were too quick which means that the reserves that are in place may be much smaller than what we thought and it was during that meeting that one starts to interrogate management which was in this case Mr Kase Lawal to say how are we able to get 14 000 and [indistinct] decline or better production rate and when I enquired more and also about the capital requirements he seemed to deflect some of the questions and tried to move on. So that
20 did not give me much confidence about what was – about the investments case that he was proposing.

I was also sceptical that Erin will be able to develop and find reserves in the deeper Miocene formation. My rationale was that ENI, which was a 40% holder of the licence, was a partner previously and ENI would have been under pressure to explore or at least to do the

geological modelling first to understand if there is anything or any potential in the deeper Miocene reserves especially when one considers their biggest competition, which Exxon and Shell, have big production just a few kilometres on either side.

MR EMMANUEL LEDIGA: Let's check something here. So the company was producing something but was that production sort of profitable or was there some cash flow because at some point in time you say they filed for bankruptcy.

MR NDIVHUWO JEFFERY TSHIKHUDO: Yes.

10 **MR EMMANUEL LEDIGA:** So I just want to understand that.

MR NDIVHUWO JEFFERY TSHIKHUDO: Mr Commissioner, at that point in time it was able to continue to sustain itself but there were a lot of -0 there was lot of internal debt which – well, interrelated party debt which was not getting serviced, a lot of accounts payables which were not getting serviced either at that point in time so – but in terms of the cost when we'd look at oil and gas industry, the biggest item is the capital outlay that comes upfront. The actual running costs are quite low and the problem is that now when you start to bring in the financing part that's where they were struggling, they were not able to service that
20 fully.

MR EMMANUEL LEDIGA: Okay.

MR NDIVHUWO JEFFERY TSHIKHUDO: After the meeting I discussed my concerns with my supervisor and indicated that I was not comfortable with the investment case. We did not have enough information and we agreed to not pursue that opportunity at that time

and we would reassess our views once more information came out of the market simply because I felt that some of my questions were not getting addressed and we thought maybe when more information comes to the market there will be more information for us to assess the investment.

In 4.5 I also understand, Mr Commissioner, that Erin also approached the PIC during that road show process asking for funding and eventually PIC acquired a 29% equity interest in Erin for about 270 million dollars for the purpose of funding the Oyo-7 and Oyo-8 wells.

10 **MS GILL MARCUS**: It was also then in 2013?

MR NDIVHUWO JEFFERY TSHIKHUDO: From what I'm seen in the reports it's 2014.

MS GILL MARCUS: 2014?

MR NDIVHUWO JEFFERY TSHIKHUDO: The funds, ja, eventually flowed in 2014. So that marked the end of my involvement with Erin at STANLIB and then I then moved over in 2016 to PIC.

MR EMMANUEL LEDIGA: When you were at STANLIB and then the PIC funded this company what were you guys thinking, you know, at STANLIB?

20 **MR NDIVHUWO JEFFERY TSHIKHUDO**: Mr Commissioner, when we look at resource stocks they are – the essential things one has to bear in mind, it's commodity prices, the reserves, knowing that they will be declining and also the geological risk and at that point in time we had seen oil prices skyrocket to 145 dollars per barrel in 2008 and then only for them to collapse six months later to below 30. So the view was

if one has an aggressive view on oil pricing, then almost any size of reserves it's profitable at that point in time. We stuck to our analysis of the oil market which I was responsible for at STANLIB to understand what is the long term oil pricing and at some point we thought 90 might be the high point and then eventually we went down to 70 as the long term real oil price so we did not see prices going back to 150 which I am – possibly that's what PIC might have seen at that time.

MR EMMANUEL LEDIGA: I see, so the PIC took a different view in terms of the price to you guys basically.

10 **MR NDIVHUWO JEFFERY TSHIKHUDO:** Correct.

MR EMMANUEL LEDIGA: Sort of the 70 dollars versus 150.

MR NDIVHUWO JEFFERY TSHIKHUDO: Correct, I think that might ...[intervenes]

MR EMMANUEL LEDIGA: Could have been.

MR NDIVHUWO JEFFERY TSHIKHUDO: Could have been.

MR EMMANUEL LEDIGA: Could have been that.

MR NDIVHUWO JEFFERY TSHIKHUDO: Ja.

MR EMMANUEL LEDIGA: Okay. Alright.

20 **MR ISAAC MONNAHELA:** Okay, may I ask you this question, before the PIC took a decision to invest in Erin, what steps would you have expected them to take?

MR NDIVHUWO JEFFERY TSHIKHUDO: Mr Commissioner, this is a highly specialised field – well, maybe that's wrong way to put it but in South Africa I can say when I was growing up I never thought about where oil comes from, but coal, one understands because we have a lot

of coal mines, we are exposed to that. So in a case where we are looking at an investment case which is not something that's common I think it is good to have people who are highly qualified in the area and who know and understand the risks that are there in the industry. Having said that, Mr Commissioner, I'd like to pause to say this is in no way a judgment of the skills that there at PIC, I don't know all the people who were working on this at that time and their qualifications but as a requirement for one to invest in this area, especially when it's not a common industry in the country it is important to have people that
10 understand – that have been inside the industry or that have looked at it for a long time.

On section 5, Mr Commissioner, we talk about the Erin transaction at PIC.

“My understanding is that before I joined the PIC in August 2016 Erin Energy had approached the PIC with a request for financial support in the form of a bank guarantee.”

This is now in addition to the other 270 that was spent in 2014.

“This would allow Erin Energy to raise more capital to fund its growth strategy. The PIC was requested to provide a
20 guarantee of 100 million US dollars. Erin had been in the process of negotiating the loan facility with Mauritius Commercial Bank and as far as I'm aware that loan negotiation with MCB also took place before I joined the PIC.”

MR ISAAC MONNAHELA: May I ask you this question. In your view would the 100 million US dollars have been sufficient to enable Erin to

carry out its operations?

MR NDIVHUWO JEFFERY TSHIKHUDO: Mr Commissioner, as the analysis that I was eventually able to do on this company, this was not sufficient. There was still a big hole to be plugged in at a later point in time. In the earlier statement, Mr Commissioner, there was an issue that was raised about the debt that Erin had. Management - I think maybe it's worth bringing it now that management had relied in their forecast that relied on the forbearance of creditors up to 400 million which was made out from interparty related loans, accounts that were
10 payable to the likes of – to the service providers such as Harley Benton and others and also other long term debt to Zenith Bank which were not getting serviced. Management had relied on the fact that they might be able to negotiate their way out of that but even with that, the funding was not sufficient.

ADV ISAAC MONNAHELA: What is your view on a pension fund? You said the sector – there is risk involved and it is high. What is your view on a pension fund investing in the oil and gas sector?

MR JEFF TSHIKHUDO: Mr Commissioner, in SA a pension fund and they also have different mandates and they will have some appetite
20 higher risk investment and I will consider investment in oil and gas be to also on the riskier side, similar to other mining commodities.

And my experience and looking at the company that I used to work for, there are some pension funds that are invested but what happens typically, is that, their exposure it is quite limited and it is diversified across a broader portfolio.

They will not have exposure to just one company and they will not be funding their asset or the development alone either. It is also something that happens that within the industry that when you – people have found a big discovery, similar to what we have had recently that Total discovered something offshore South Africa.

If you look at that, Total did not go on it alone. They brought in other partners. That is one other way that the industry diversifies some of the risk that is in that, that you will be able to fund different prospects and the chance of success and exploration is usually less
10 than 25% and that is why they diversify.

So, it is fine for a pension fund to invest but be diversified.

MR EMANUEL LEDIGA: Ja. Are you saying success rates are about 20%?

MR JEFF TSHIKHUDO: In exploration period.

MR EMANUEL LEDIGA: In that period. In that... Ja. Tell me, was this project or the funding for this projects, were they in the drilling stage or were they in bank feasibility? Where was this funding going to be used for?>

MR JEFF TSHIKHUDO: So Mr Commissioner, because of the
20 production that was there from Oyo 5 and 6 which are not far, one was able to rely on the geological models and say, okay, they are bankable and so the money, the R 270 million, all of it should have gone to the drillings of the wells.

MR EMANUEL LEDIGA: Because 5 and 6 were contiguous to 7 and 8.

MR JEFF TSHIKHUDO: Correct.

MR EMANNUEL LEDIGA: Yes, okay. And then was this company listed by now on the stock market?

MR JEFF TSHIKHUDO: It was listed in New York. I do not remember the date that it was listed in New York.

MR EMANNUEL LEDIGA: And the 29% that the PIC bought for R 270 million, was it bought when it was listed or before listing, the IPO stage?

ADV ISAAC MONNAHELA: Mr Commissioner, at the time Mr
10 Tshikhudo had not yet joined the PIC.

MR EMANNUEL LEDIGA: But then... So that stake, was this part of a listed company stake? Maybe to ask the question in that way.

MR JEFF TSHIKHUDO: Mr Commissioner, I will not know for sure the facts, exactly when the funds flowed. I know eventually they wanted to list on the JSE and how that transaction between PIC and the listing, I do not know.

MR EMANNUEL LEDIGA: Yes, it could have been a secondary listing on the JSE.

MR JEFF TSHIKHUDO: Correct.

20 **MR EMANNUEL LEDIGA:** Giving that maybe they were on the New York Stock Exchange.

MR JEFF TSHIKHUDO: Correct.

ADV ISAAC MONNAHELA: Yes. Mr Commissioner, if I may assist. The comeback which later became Erin did list on the JSE.

MR EMANNUEL LEDIGA: I can remember. Ja, ja. Okay.

MR JEFF TSHIKHUDO:

“Around January 2017, I was made aware, this was bare four or five months after I have joined PIC, of a planned Technical Workshop with Erin Energy in Houston by my manager, Mr Dolamo.

He was the Executive Head of Research and Project Development and which is the division I was employed in as Sector Specialist.

10 He requested me to conduct an independent review of the investment thesis; review the probability of the PIC earning a return on the investment and advise on the next steps for the PIC to take...”

I think 5.2.2 we have talked about where we looked at commodity pricing. I think we have addressed that. So that workshop was held at Erin Energy offices in Houston, Texas on the 27th and the 28th March 2017.

ADV ISAAC MONNAHELA: If I may intervene there. Who accompanied you on the trip?

20 **MR JEFF TSHIKHUDO:** From PIC, when Mr Madavo was leading the group and it was myself and Ms RUBEENA Solomons who is the Executive Head for Portfolio – for PMV and we were also joined at the workshop by the PIC’s technical expert, which was SACOIL and PetroVision .

From Erin’s side, they had all their executive management and geologist. So probably a team of ten people that were coming from

Erin's side.

“On the 10th March just before the trip to Houston, I requested and I was given documents that shed some light on the history of the transaction at PIC.

10 The documents included the resolution of the Investment Committee which indicated that, amongst others, in June 2016 the Investment Committee had considered and approved for PIC to provide a guarantee for the \$100 million loan funding which Erin was requesting from MCB which the Mauritius Commercial Bank.

So PIC Investment Committee had approved for PIC to provide that guarantee.

However, as a precondition for the guarantee, amongst others, the PIC was to ensure that it appointed an independent technical expert who will monitor certain milestones and the process envisaged under the disbursement process which included the review and approval of invoices...”

20 I have attached a copy of the resolution of the Investment Committee as Annexure A and I think we have highlighted the important points.

“In compliance with that resolution of the Investment Committee, the PIC hired the services SACOIL PetroVision to service the PIC's independent technical

experts.

I was not involved, Mr Commissioner in the process of hiring SACOIL and PetroVision. I am not fully aware of the timing when those appointments became effective or the terms of reference of those appointments.

My first interaction with both parties or the technical experts was when we met at Erin's offices driven the Technical Workshop on the 27th..”

10 **ADV ISAAC MONNAHELA:** And if I may ask you. You say PIC appointed SACOIL and PetroVision. That is two service providers. What is your view on all – or what was the role of each of them and what is your view on two service providers being appointed instead of one?

MR JEFF TSHIKHUDO: Mr Commissioner, I was not part of the appointment process, as I have said but in terms of the work that was being done, both PetroVision and SACOIL were effectively doing the same job together.

20 So we will get their reviewed invoices from SACOIL and with commence from PetroVision. I do not understand why there had to be two appointments and I do not know if the agreement was with SACOIL or PetroVision but I do not see the reason for not having one only.

ADV ISAAC MONNAHELA: Mr Commissioner, may I indicate at this point that the agreement was with SACOIL and we will place the agreement before the Commission when one of the witnesses come to

testify.

MR JEFF TSHIKHUDO: On 5.4.1, Mr Commissioner, I highlight a lot of the technical things that we have covered, the topics and I think instead of reading them all out, but those are more for the engineers who would want to review this.

On 5.4.2:

10 “Based on the information that we gathered at the workshop, I was able to compile a report and assess the investment case and make a recommendation to the PIC management in line with the instruction that I was given by my manager.

The process of compiling a report considering inputs from my colleagues in Research and also finalising the same report occurred between March 2017 and April 2017...”

So as soon as we returned and I think on the 19th April it was completed. I have attached a copy of the full report as it was originally reported to the relevant parties as Annexure B. We have already referred to it a few minutes ago.

20 **MR EMANNUEL LEDIGA:** Just a question. Are you going to touch on it because I see you have got some interesting stuff on the executive summaries? Are you going to talk about it later or you want to summarise some of the key aspects on the summary?

MR JEFF TSHIKHUDO: Correct, Mr Commissioner. I think 5.4.3 will highlight all the main points from that report.

MR EMANUEL LEDIGA: Okay. All right.

MR JEFF TSHIKHUDO:

“The findings of my report were as follows:

First of all, Erin Energy was insolvent and it required capital injections, to remain a growing concern...”

I have already highlighted the fact that management was hoping that they will negotiate a way about \$400 million of debt. Either capital long term debt or accounts payable which they were not able to service but even with that they still needed capital injection.

10 The analysis was to look at what happens if Oyo 9 was successful because the \$100 million guarantee was to back the drilling of Oyo 9. Will a successful drilling campaign of Oyo 9 result in Erin having sizeable cash and being able to continue as going concern was the question that I had to address.

My analysis showed that even if I adopt what the management focussed that they will receive debt forgiveness and the fact that related parties were not call on the loans or their accounts payable, Erin still needed at least \$68 million of cash before 2021.

20 This was analysis which actually we were able to get to by just drilling deeper into management focused and they knew that and they understood that too.

In my report I went through other different assumptions. Again to come to the same conclusions and show the sensitivity to changes in oil prices and that is where we have a big table, but in short, the conclusion was that Erin still needed at least \$68 million of cash

injection within the next three to four years.

The issues of debt forgiveness of the preference of trade creditors, we could not test that. Management was adamant that they are busy with the negotiations and they are confident that they are able to get that and if they did not succeed then it meant that the cash injection that was needed was more than \$470 million. Not the \$68 million that I talked about earlier.

The other part which comes into – at least for my interest – was in terms of the reservoir management. It was tricky and Mr
10 Commissioner, if I may explain this in a bit more detail.

Is that we have shown Oyo 5 and Oyo 6 productions which declined quite quickly and that was not comforting for somebody who has been a reservoir engineer for some time.

But then when they produced Oyo 7 and Oyo 8 we saw production of water in once case and production of gas on the other case and in any time that you are producing oil, if you have water or gas intrusion into the well-bore they will basically choke off the oil which is the more valuable part that you want.

So you always want to manage and limit how much gas or how
20 much water is produced through that reservoir. Especially in a case where the gas was getting flat or the gas – and the water has no value when you are offshore.

So the only thing that is valuable is the oil at that point in time. And good reservoir management seeks to limited the flow of water and gas into the well.

The other part was that management was hoping to create some value through the expiration portfolio. And I think it was in *Ghana*, I need to check again, but where they had managed to bring in another party.

But at the same time Erin was being diluted from being hundred percent owner to minority owner and the cash injection that came in was only about \$5 million at that point in time.

So they were hoping that they can develop the exploration but you need funds for wanting to develop that exploration and make it
10 more attractive and get more payment in return.

In view of the whole ...[intervenes]

CHAIRPERSON: Mr Tshikhudo, sorry. I think it would be best for record purposes to just mention when you go to the next paragraph, that I am now going to deal with paragraph so and so. Because you, as I have noticed, you do not keep to the wording of the statement here, correct?

MR JEFF TSHIKHUDO: Correct. Ja, thanks, Mr Commissioner. Will do. If we look at 5.4.4. This was the overall conclusion of my report which again it is in Annexure B.

20 “The conclusion was that PIC was unlikely to earn a meaningful return on investment and consequently the recommendation was for PIC to not proceed with the provision of the guarantee and for PIC to exit the Erin Energy Equity investment totally...”

That report was emailed to my manager who had already

reviewed it before, Mr Sholto Dolamo. It was emailed to him. To Mr Fidelis Madavo, who was the Executive Head of Listed Investments and also to his team the day after.

Also copies on the email was Ms Rubeena Solomon, Executive Head of Investment Management, who had also accompanied to the Technical Workshop. I have attached in 5.4.6, Annexure C and you can see the email correspondence with the team where the report was sent out. This happened on the 19th April 2017.

I pause, Mr Commissioner, in 5.4.7 to highlight that I did have
10 a verbal discussion of my findings with my manager. He had reviewed the report and we discussed it and he said he was going to discuss the report with the CEO who was then Dr Daniel Matjila.

I do not know whether that report was sent to Dr Matjila or whether this discussion did take place but me and my manager, we did have that discussion.

ADV ISAAC MONNAHELA: So what you are saying is that your manager did not come back to you regarding the discussion that he said he was going to have with Dr Matjila?

MR JEFF TSHIKHUDO: Correct. So the report was emailed on the
20 19th April to the team and then in 5.4.8, Mr Commissioner, I highlighted the fact that on the 2nd May 2017, I made a follow up on the report with the rest of the PIC team and also copying my manager. That correspondence is attached as Annexure D.

However, there was no formal feedback from my colleagues, specifically on the query relating to the report and no further input from

the team as to any other analysis that they require.

On the 3rd May, being one day after my query, I together with other members of the PIC team working on the Erin transaction, we received invoices from SACOIL who was one of the independent technical advisors. I have attached a copy of that email from SACOIL as Annexure E.

When we received the email, to me it served as confirmation that the PIC had proceeded with offering the guarantee for Erin's loan. Remember the day before I was inquiring about any feedback on my report which the report recommended that PIC must exit and we did not
10 have any other discussion after that

But now on the 3rd May when I received the email, it just confirmed to me that okay, PIC at some point in time had proceeded with the guarantee and they are getting that guarantee vir die MCB loan.

I further gathered that subsequent to the submission of my report there were other activities in relation to the project which I was not involved in and neither was I copied on.

Including in relation to the process leading to the approval of
20 the guarantee. So I do not what timing when that guarantee was approved finally.

ADV ISAAC MONNAHELA: Yes, just to focus and to go to your Annexure C, to your statement. You have received an email from Mr Madavo at 14:14 on the 19th April.

MR JEFF TSHIKHUDO: Correct.

“In terms of the arrangement made between Eric, PIC, Mauritius Commercial Bank, all the drawdown by Erin in respect of the MCB Funding for which the PIC had provided the guarantee had to be approved by the PIC as well.

The procedure required Erin Energy to submit invoices to SACOIL and PetroVision for sign-off.

10 Where SACOIL and PetroVision were satisfied with the invoices they would forward the same to PIC for approval and sign-off and where disagreements arose, SACOIL and PetroVision would indicate to the PIC that we should not sign-off on this specific invoice.

Once PIC has given the sign-off, our Operations Team will then issue an instruction to MCD for them to release the funds.

20 That is the purpose of the SACOIL email which I received on the 3rd May was to request the PIC team to sign-off on the invoices and I was then requested by my manager, Mr Sholto Dolamo who was the Executive Head of Research and Project Development to review the invoices as when they are received...”

ADV ISAAC MONNAHELA: Okay. You say at the end of paragraph 5.4.9 that:

“There were further activities relating to the Erin Project that you were not involved in or copied on,

including in relation to the process leading to the approval of the guarantee...”

If an agreement had already been reached between the parties would it have been necessary for you to go to or to attend the workshop?

MR JEFF TSHIKHUDO: Mr Commissioner, my instructions when we went to the workshop was to independently review the investment case and assess the probability of PIC earning a decent return and getting the money back.

10 And my understanding at that point in time was that there was still some room for management to decide either way whether to go ahead with the guarantee or not.

The fact that our Investment Committee had given an approval in June 2016 was a PIC internal process but as far as I understood it, at that point in time, or my view, was that their funding agreements were not signed with Erin.

But it was only internal approval that was received within PIC but they had not yet executed anything that will oblige PIC to continue.

ADV ISAAC MONNAHELA: But if the agreement had been concluded
20 would it have been necessary for you to attend the workshop?

MR JEFF TSHIKHUDO: If that agreement had been concluded, Mr Commissioner then the instruction that I was given will not have been useful at all and therefore... unless if PIC wanted to understand more on the technical side, but it would not have been useful for me to go.

ADV ISAAC MONNAHELA: Yes, you may proceed at paragraph 6.1.

MR JEFF TSHIKHUDO: Okay.

On 6.1:

“The PIC was resolute that the loan funding secured from MCB on the back of the PIC guarantee should be used to fund expenses outside of those related to drilling of the Oyo 9 Well.

A reporting template was drafted and agreed to by the PIC, our external experts and PetroVision and Erin Energy...

10 **ADV ISAAC MONNAHELA:** Okay, if I may stop you there. Was there ever a time when Erin wanted to use the fund secured as a result of the guarantee for anything other than the drilling of Oyo 9?

MR JEFF TSHIKHUDO: My perception of the view inside PIC was that we could not fully trust that the funds will be deployed to just the drilling of Oyo 9 and that is why the Investment Committee had asked for an independent technical expert to monitor the delivery of certain milestones and making sure that payments were directed to the drilling of the well.

20 **ADV ISAAC MONNAHELA:** Okay. The invoices that were submitted to the PIC, did they relate only to the purpose for which the guarantee was given?

MR JEFF TSHIKHUDO: All the invoices that I reviewed which were also a prayer to my review which was reviewed by PetroVision and SACOIL, they did relate to the drilling of Oyo 9.

ADV ISAAC MONNAHELA: Okay, you may proceed at 6.2.

MR JEFF TSHIKHUDO: Okay.

On 6.2.1:

“Erin Energy had compiled a capital budget for the drilling of Oyo 9. The budget which in the industry terminology is called Authority for Expenditure or AFE who was considered at the Technical Workshop held in Houston.

The quantum of the PIC guarantee was based on the amount required for the drilling of that well...”

10 The table below shows the total approval which was \$89 million that was required for the Oyo 9 Well. I am looking at the line at the bottom there which is the summary of all the items above. So on the second column. So \$88 965 000 million that was the amount that was required for the well.

 However, I would like to highlight, Mr Commissioner that were long lead items which Erin had already paid for and they had them in stock and that amounted to a value of \$11,4 million and new items that needed to be purchased amount to \$77,5 million.

20 “At the workshop, neither the PIC which was essentially myself relying a lot on my previous experience, not the PIC’s technical expert could find any cost item that was outside of the range of industry expectations...”

 It is true that, Mr Commissioner it is a listen business and rates do differ year by year but there is an industry standard where one

expects prices to be – and we did not find anything that was outside of that range.

Further during the technical workshop Erin Energy stated that they had entered into an equipment leasing contract with the Pacific Bora drilling ship. The drillship was a sixth grade generation which meant it is modern technology that Oyo was going to use so we're not using an ancient drillship. And it had a good 10 year operational history in Nigeria. The rig was expected to arrive on location mid June of 2017 after it had completed the drilling program at a third-party asset. 6.2.3 Additionally some items that had a long procurement lead time was sourced from Erin's inventory. As explained by management this was done to insure drilling operations commence as soon as the drillship was available. I pause highlight that the long lit items were included in the AFE which we have already highlighted in the table above and that is the 11,465 095 dollars. On 6.3 which is titled the review of invoices during drilling operations. As mentioned above the first batch of invoices were received on the 3rd of May 2017 from Sequoia. At PIC I have reviewed the invoices on behalf of the executive vat, research and project development. My reviews are great with recommendations of Sequoia and PetroVision on payment of invoices. I found the approved invoices to be in line with the approved AFE which we've already seen the table in that previous page. The executive vat, research and project development will then sign off on the payment approval memo after discussing the same with me. He relied on my review of the invoices for him to give his approval. I have

attached samples of the emails containing my recommendations to my manager Mr Dolamo. And also to the operations investment support manager Mr Hlongwane to where I get my approval of the invoices. This is all included in annexure F and I think I've included about three of those approvals based on the recommendations from our division in research and project development as well as other relevant divisions. The operations team led by Mr Nkwane will then be responsible for persisting a payment approval memo and issuing a payment instruction to Mauritius Commercial Bank. Between May and December of 2017, I

10 considered 11 batches of invoices, the last batch of invoice either I recommended for approval was batch 10 which was submitted on the 3rd of October 2017. I pause to highlight that despite me having been appointed as an Acting Fund Principal in September of 2017 in the unlisted investment section, I continued to execute my role as a sector specialist research and project development and being the capacity under which I considered the invoices. The main aim was for me to complete some of the outstanding work and before fully moving over to the unlisted investments division. Prior to the submission of batch 11 which I never got a chance to review it, the PIC had taken a view that

20 we should not approve further invoices until such a time that Erin Energy addresses certain concerns that PIC had in relation to amongst others the spending on the project and submission of reports to the PIC. As a result and to the best of my knowledge batch 11 was never approved. Batch 10 was which I did give my approval for, I believe only partial payment was made on that one and on a much later date. On

6.3.7 Mr Commissioner, it is my understanding that following the decision not to approve batch 11, the PIC sought to have a meeting with Erin Energy during the first quarter of 2018. As far as I'm aware this meeting did not take place and unfortunately in terms of my involvement with Erin, that marked the end of my involvement in the transaction. As mentioned above, during July 2018 I was appointed on a permanent basis in the position of Fund Principal Energy and Impact Investing in the unlisted side of the business. And this division was not involved in that transaction since then.

10 **ADV ISAAC MONNAHELA:** Are you aware of the dispute between Erin Energy- not Erin Energy, Allied and Camac Nigeria and Agip regarding the ownership of OML 120 and OML 121?

MR JEFF TSHIKHUDO: Yes. Mr Commissioner, from what I understood it was based on news clips [inaudible] could find that during 2018 Agip which is ENI which is to be a 40% shareholder in the asset had won a case in a UK court which gave them ownership right to the whole of the license and so there was that dispute. But all I saw was just the news clips.

20 **ADV ISAAC MONNAHELA:** Mr Commissioner, the court that issued the award in favour of Agip or its Italian Holding Company was the London Court of International Arbitration. Are you aware also that that dispute related to the fact that Camac Nigeria and Allied had not yet paid the entire purchase price for Agip's interest in OML 120 and 121?

MR JEFF TSHIKHUDO: Mr Commissioner, I was not aware of that details of the dispute. What I understood was that ENI was in 40%

equity holder in the license and the outstanding loans, we were not aware of the details.

ADV ISAAC MONNAHELA: What is your impression on this investment by the PIC?

MR JEFF TSHIKHUDO: Mr Commissioner, having seen this investment in 2013 and being able to make a quick decision at the point in time to say no, lets walk away. Let's not invest in it now. My views on the investment have not changed and the event that have transpired since then have actually proved that that decision that I made at Stanlib was
10 a good decision. And it is not one we should be putting money in.

CHAIRPERSON: Sorry, just let me understand what is a good decision?

MR JEFF TSHIKHUDO: I'm saying the good decision was telling my boss let's not invest in this asset.

ADV ISAAC MONNAHELA: So the investment by the PIC was a bad one from the beginning?

MR JEFF TSHIKHUDO: I believe so.

CHAIRPERSON: Can I ask what the current status is? Because that is then the actual investment which is over 400 million dollars and a
20 guarantee of a 100 million dollars. What is the status of the PIC in relation to those investments? Are they written off? Are they subject to some other process? We do we stand with that?

MR JEFF TSHIKHUDO: Mr Commissioner, in terms of PICs recording of the investment initially it was 270 million which was the acquisition of that 29% equity. And then the loan guarantee of 100 million dollars.

MS GILL MARCUS: 370 or 270?

MR JEFF TSHIKHUDO: 270.

MS GILL MARCUS: 270 million dollars initially plus the 100.

MR JEFF TSHIKHUDO: Correct.

MS GILL MARCUS: So it's 370 plus expenses?

MR JEFF TSHIKHUDO: The only other account on that Madam Commissioner is that we don't know exactly how much was withdrawn from the 100 million guarantee because at some point PIC stopped approving invoices and the work stopped. In terms of where it stands
10 in terms on PICs books I will not be able to state because I don't know. It is an investment in the listed side of the business and my focus has been on the unlisted side. So I don't know how they recorded whether they've written it off or if it's still on the books at the moment.

ADV ISAAC MONNAHELA: Yes, but still if you look at say sort of 370 million dollars, even that 10 rand to the dollar, this is like 3.7 billion rand. And add 12 rand to the dollar it's close to 4 billion rand. So it's quite a large amount.

MR JEFF TSHIKHUDO: Mr Commissioner, you are correct it is a large amount. I was more referring to the process whether PIC has already
20 written this off or not, I don't know. But in terms of what should happen because as I've mentioned before, the Government has taken over the license which means that the value that we see in this asset unless if there was some oil in the FPSO, it will be much smaller than they turn- then the 3 to 4 billion that you've referred to, it would be very small.

ADV ISAAC MONNAHELA: The license, which license has the Government taken and why?

MR JEFF TSHIKHUDO: So what happens Mr Commissioner is that one would apply to Government for a license which then eventually gets converted into a production license. The oil field was a license called [inaudible Oil mill 120] and it was being operated by Erin Energy and PIC was a partner in that ownership. It is that same license which means once that license is withdrawn, it is illegal for anyone to go and produce any of the oils or to drill or to do anything in that field. And at
10 some point in time the Government might auction it to another party who will then take ownership and they start over again the process.

ADV ISAAC MONNAHELA: Okay, so it's for both- for all your 5 and 6 or your 7 and 8 9.

MR JEFF TSHIKHUDO: Correct. All the oil wells.

ADV ISAAC MONNAHELA: Sort of it covers all the wells.

MR JEFF TSHIKHUDO: Correct.

ADV ISAAC MONNAHELA: And why did the Government take it by the way? Sorry.

MR JEFF TSHIKHUDO: Mr Commissioner, so during production Erin
20 was suppose to pay its part of royalties and taxes to the Nigerian Government and it is something that they've been failing to do. And also perhaps their lack of activity to justify allowing Erin to continue to own the license. And then that there's no activity and we have all this outstanding taxes that are overdue and eventually the Government exercised it's right to take over the license.

ADV ISAAC MONNAHELA: Did the PIC have anybody on the board of this company?

MR JEFF TSHIKHUDO: Yes Mr Commissioner, Ms Dudu Hlatshwayo was a board member of PIC was also on the board of Erin Energy.

ADV ISAAC MONNAHELA: Do you know if the PIC was aware that the license could be in danger because of the non payment of the taxes and the royalties? As we know Nigerian companies, that country is very tough on these issues.

MR JEFF TSHIKHUDO: Mr Commissioner, I will not know. This is
10 something more recent which was about a month ago and it probably would have been- there would have been some discussions a few months before that. But at that point in time my focus was elsewhere.

ADV ISAAC MONNAHELA: Mr Commissioner, if I may assist. I would say that the PIC knew that the license would be in danger. There are documents that show that the PIC was aware of the litigation between Camac Nigeria, Allied and Agip. And there were letters from Dr Dan Matjila raising those issues and we will place those letters before the Commission in the future. And there is also a document that really shows that Erin owed taxes to the Nigerian Government. We will also
20 try to raise those documents before the Commissioner.

MS GILL MARCUS: Can I ask a question? Isaac, did you want to say something?

ADV ISAAC MONNAHELA: And if I may also assist Commissioner regarding board presentation. Dr Matjila was the first the official PIC

to be on Erin's board. Ms Dudu Hlatshwayo came in after Dr Matjila resigned.

MS GILL MARCUS: Can I ask a couple of question? And perhaps it's not as much for you as for the PIC team investigation team. The question of this what happened to the PICs 29% stake in this entity at that it paid the money for, where does that stand? What is the status of that investment? The 270 million as distinct from the guarantee as to has this been written off? Where does it stand? What is happening with that? Is there any chance of recovery of any of that funding? And
10 then in terms of the guarantee itself, how much of that guarantee was exercised and therefore did the PIC have to stand behind that guarantee? And how much did that actually end up? Was it the full 100 million dollars or less that was utilised? And where do we stand in relation to the investment as a whole? Has the PIC exited this investment with the license being taken by the Nigerian Government? Or is it something that we now have an interaction between the PIC and the Nigerian Government to try to resolve what may be salvaged or not in relation to this? So that's perhaps information that needs to be provided expeditiously with regard to this investment. But perhaps just
20 a question Mr Tshikhudo, is the sense that you make, you give a recommendation, you contribute to the decision and you're ignored. In essence that is the way I would understand this. You've said don't invest. You took a decision where you were before not to invest. You advise here that this is not a good investment and in essence it's proceeded with and you are no longer in the loop about where it's

preceded or views heard from you. Would you know whether your views against the investment were ever presented to any structure of the PIC when taking the decision?

MR JEFF TSHIKHUDO: Unfortunately Madam Commissioner, in this one I do not know because I was not- it being an investment in the listed side one of the things that happened was that when we work in research we mostly support the unlisted team. That's where we spend about 90% of the transactions, it would be in the unlisted side. So one will have to be invited to a PMC meeting on the listed side which will be
10 discussing this issue.

MS GILL MARCUS: And given that this is a significant investment of a few billion rand and given that it is in dollars and on the Continent. I would have thought in terms of decision making you'd want all expertise around the table irrespective of where they lie in the PIC. You've taken a decision of that magnitude and that complexity of Countries where we already know is technically and financially in great difficulty. So you were not invited and you're not aware whether your views, the written views were presented at all. There was no feedback to you or request for you for information or an opinion in that decision making?

20 **MR JEFF TSHIKHUDO:** I agree and I would have expected to be invited especially considering the industry experience I've had and also by then my manager new the quality of work that he had seen [inaudible] to at Stanlib. So I would have expected to be invited to discuss my views on the investment but that never happened.

MS GILL MARCUS: Who signed off the guarantee?

MR JEFF TSHIKHUDO: Madam Commissioner, the only documents I have seen were the ones from the investment committee which said they are giving approval for the CEO to sign the legal agreements. But whether it was him or somebody else acting at that point in time, I don't know, I have not seen.

MS GILL MARCUS: But the investment committee mandated him to go ahead with the guarantee?

MR JEFF TSHIKHUDO: Correct.

ADV ISAAC MONNAHELA: Do you know if there were some kind of a
10 relationship between Mr Lawal, I think who rent the company and the
PIC Executives? Say Dr Matjila or whatever.

MR JEFF TSHIKHUDO: No, I'm not aware of any.

CHAIRPERSON: I just want to remind you Mr Monnahela that what you placed on record is not evidence until we get those documents.

ADV ISAAC MONNAHELA: We'll place them before the Commission, Mr Commissioner. We'll also place documents before the Commission that deals with the guarantee, the amount that was used by Erin which I can say at the present moment is was over 60 million US dollars. We will place documents that proof that amount. We'll also place
20 documents before the Commission that shows that attempts were made by the PIC to take over the operations even after it became aware of the litigation between the three companies.

CHAIRPERSON: So if I understand you correctly what you're saying is that if the PIC wanted to take this over, it wanted to continue with that exploration notwithstanding the evidence before it.

ADV ISAAC MONNAHELA: Yes.

CHAIRPERSON: And if it had to take that over, what was it willing to spend in addition to what it had already spent? Because it only had a 29% interest so what would it have spent or what would it willing to spent to take it all over?

ADV ISAAC MONNAHELA: I just spoke to my colleague Mr Commissioner. Mr Commissioner, we will provide the Commission with evidence on that issue.

CHAIRPERSON: So to summarise, are we saying that the first decision
10 for the PIC to invest was not right given the issues which held. And then the second one which is even more critical, are you saying the guarantee wasn't supposed to be given? Is that what I'm hearing?

MR JEFF TSHIKHUDO: Mr Commissioner, my first assessment of the investment was that we do not have sufficient information to make a final equity decision on it. And I was also not comfortable with the assumptions that they were using. So I think if I had to redo that over and putting on PICs boots I would have had to get a technical to look at it to understand is this realistic. And when we look at the production which we have seen in annexure B page 5 at the bottom that the Oil 7
20 and Oil 8 wells which were drilled. They did manage to get to 14 000 barrels per day which is what management had indicated early in 2013. But their production collapsed quite quickly, it did not even match what you have seen before with the oil 5 and 6 wells. It was much more poor and that confirmed my suspicion. The one part where I was probably proven wrong is that Erin came back and said that we have found a

discovery in the [inaudible] scene which is the deeper formation using Oil 7 well. And which I doubted because I thought ENI would have explored for that. In as much as I might have been proven wrong on that side, I still think my judgment was correct that this was a bad investment. Because if that discovery was that significant we shouldn't be talking about Erin being in bankruptcy. If it was meant to produce something similar to its neighbours from the [inaudible] scene. So the fact that they found something, it might be actually very tiny.

ADV ISAAC MONNAHELA: Just in terms of the balance sheet when
10 you were at Stanlib and also people within the PIC. There was a lot of debt on the balance sheet. Did the PIC know about that? And if so, how did the company say it was going to meet those debts? Because surely within a DD you'll find this and you go to ask the questions.

MR JEFF TSHIKHUDO: Mr Commissioner, it will be my expectation that PIC did do a DD on the project. I don't know, I was not there. And but the dirt was out for everybody to see even now one can go and look their stock exchange fillings and do work against the records which are available at the time for everyone to see. So PIC had known about the debt that's on the books. How the discussion went at PIC, I don't know.

20 **CHAIRPERSON:** Just a broad question about the skills during that particular time. You are saying the PIC had great people but probably on the petroleum side they didn't have that. Do you think this are some of the problems where the PIC needs to get the best people within those sort of areas or they can go and hire technical people from outside.

MR JEFF TSHIKHUDO: Mr Commissioner, it's definitely PIC must have access to those skilled people whether they are employed permanently or as a service provider. I don't see much difference between the two but I think definitely before we make the decision to put money in an investment, we must make sure that we have the best to research. That we have the latest know how and we understand the risk that we are taking. And in some ways that is also the reason why the research and project developments team was brought about because it's mission is to do that detailed research without the distraction of I have a new
10 transaction that I need to close tomorrow or next month. But now the focus can be just deep dive into the energy sector, deep diving into agriculture and understand what is out there without the other pressures.

CHAIRPERSON: Alright, thank you.

ADV ISAAC MONNAHELA: Mr Commissioner, I have no further questions for the witness.

CHAIRPERSON: Yes, thank you very much Mr Tshikhudo.

MR JEFF TSHIKHUDO: Thank you.

CHAIRPERSON: I hope you'll understand that you might be called back
20 again to clear up certain things. If there are problems that we come across in the documentation that's still to be placed before us. I hope you'll be available.

MR JEFF TSHIKHUDO: I understand.

CHAIRPERSON: Thank you very much. Thank you for your time. And you're excused.

MR JEFF TSHIKHUDO: Thank you.

ADV ISAAC MONNAHELA: Mr Commissioner, may I just request for a short adjournment to make way for the next witness and the evidence leader.

CHAIRPERSON: Is it necessary for a short adjournment or is this a change of chairs and we can sit and wait?

ADV ISAAC MONNAHELA: Yeah, inside Mr Commissioner, we can just move out.

INQUIRY ADJOURNS

10 **INQUIRY RESUMES**

CHAIRPERSON: Yes, Ms Khooe.

ADV NKAISENG KHOOE: Thank you, Commissioner. Good afternoon, Commissioner and Members. Ms Rubeena Solomon is ready to take the prescribed oath.

CHAIRPERSON: Your full names, please, Ma'am?

MS RUBEENA SOLOMON: Rubeena Solomon.

CHAIRPERSON: Spelt R-u-b-e-e-n-a?

MS RUBEENA SOLOMON: Yes, Commissioner.

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

MS RUBEENA SOLOMON: None.

CHAIRPERSON: Not. Do you swear then that the evidence you are about to give, will be the truth, the whole truth, nothing but the truth? Raise your right hand and say so help me God.

MS RUBEENA SOLOMON: So help me God.

CHAIRPERSON: Thank you. You may be seated.

MS RUBEENA SOLOMON: Yes, Solomon. Not Solomons.

MR EMANNUEL LEDIGA: Without the S?

MS RUBEENA SOLOMON: Yes.

MR EMANNUEL LEDIGA: Okay.

ADV NKAISENG KHOOE: Ms Solomon, am I correct that you prepared a statement for this Commission?

MS RUBEENA SOLOMON: Yes, you are.

ADV NKAISENG KHOOE: Can you please start at paragraph 1 of your
10 statement?

MS RUBEENA SOLOMON:

“I am an adult female, currently employed by the Public Investment Corporation as an Executive Head Investment Manager ...[intervenes]

CHAIRPERSON: I think your mic is a bit far from you.

MS RUBEENA SOLOMON: Is that better?

CHAIRPERSON: Yes.

MS RUBEENA SOLOMON: Thank you.

“I am an adult female, currently employed by the Public Investment Corporation as an Executive Head Investment Manager, currently
20 overseeing the following divisions:

- Portfolio Management and Valuations
- Investment Operations
- Environmental Social and Governance...”

CHAIRPERSON: I try to keep up but I cannot.

MS RUBEENA SOLOMON: Sorry.

CHAIRPERSON: Can you just slow down a little?

MS RUBEENA SOLOMON:

“I joined the PIC as a Credit Risk Manager in 2005 from the banking sector.

I served in various roles during the ten year at the PIC which included:

- Chief Risk Officer
- Senior Manager Financial Risk
- General Manager Unlisted Operations
- General Manager Investment Management.

10 I have obtained the following qualifications:

- Bachelor of Commerce
- Bachelor of Commerce Honours
- Master’s in Business Administration
- Certificate in Corporate Governance
- Higher Certificate in Islamic Finance Banking and Law...”

CHAIRPERSON: Is there much difference between Islamic Banking Law and the country’s banking laws?

MS RUBEENA SOLOMON: The structure of the Islamic financing and
20 the way in which the conventional banking is undertaking, there are differences, yes.

CHAIRPERSON: You may proceed.

MR EMANUEL LEDIGA: Question. Just another question. So, within those three divisions, the PMV and the others, how many staff do you have? What is your staff compliment? Because those seems to be

large divisions. Is it not? Do you remember?

MS RUBEENA SOLOMON: I can provide the exact number to the Commission. The entire structure is not fully staffed. There are still vacancies and the recruiting is ongoing.

MR EMANNUEL LEDIGA: But roughly?

MS RUBEENA SOLOMON: There is about 40.

MR EMANNUEL LEDIGA: 40 people?

MS RUBEENA SOLOMON: Ja.

MR EMANNUEL LEDIGA: All right. Okay, thank you.

10 **MS RUBEENA SOLOMON:** Thank you.

“I have been requested by the evidence leader of the Judicial Commission of Inquiry into allegations of impropriety regarding the PIC to submit a statement which provides highlights of the risk rating tool used in Isibaya but the Portfolio Management and Valuation Team for Unlisted Investment.

The role of the PMV Team was previously explained by Mr Khaya Zonke, Senior Manager of PMB during his appearance at this Commission.

The rating classification:

20 The portfolio is disaggregated into four categories, namely:

- Performing Investments, which are defined as investments that are performing in line with the expectation and there are no observable signs of the investment being at risk.
- The second category is underperforming, defined

as financial performance of the portfolio company, is below expectation and these investments usually require performance improvement initiatives to enhance revenues and or margins and or profitability

- 10
- The third category is the watchlist category. There are observable signs that the client's investment may be at risk if no action is taken to remedy such. Investments in this classification are companies that depict early stage of distress. This may include factors such as a decline in the financial performance, operational challenges, amongst other factors.
 - The final category is distressed investments. There may be indications to doubt recoverability on investments. There maybe instances where watchlist and or distressed investments require intervention such as an independent business review with the aim of restricting or optimising the business.
- 20

The detailed rating criteria is attached in Annexure A and if I may reference that now:

The table in Annexure A ...[intervenes]

ADV NKAISENG KHOOE: And can you talk through it, please?

MS RUBEENA SOLOMON: Will do.

MS GILL MARCUS: What is the purpose of talking through that? I mean, yes it is a list of what you would look at in terms of underperforming, watchlist and distressed. I am not sure that it would help to go through each one of those.

MS RUBEENA SOLOMON: Okay, thank you. If I would to move on then to Annexure B. This provides a graphical illustration of the portfolio composition and the rating trends of the last five reporting periods. If I may just talk you through a few key points on it.

On slide 3, the portfolio risk rating illustrations were done as
10 at 31st December 2018. Ratings are done on a quarterly basis. There is a level of fluidity because it gets done every quarter. One would really look at the triggers and assess the portfolio accordingly.

The graph on the top left-hand side reflects the investment performance of the total Isibaya portfolio. The graph beneath that reflects the same portfolio, the investment performance excluding one significantly large legacy investment which compromises and estimate at 61% of the total distress portfolio.

The top right-hand side graph provides and overview of the
20 total invested capital up to date as at 31st December. The quantum's of those investments that were performing and it breaks down the underperforming watchlist and distressed investments.

MR EMANUEL LEDIGA: Sorry. What is dark green versus the light green in the dots there? So you got the R45 billion and you got a light green and a dark green. What is that?

MS RUBEENA SOLOMON: There is no specific reference to the green,

the light green shading in the background. It is just the green bar, the R45 billion is the actual quantum that we would look at.

MR EMANNUEL LEDIGA: And in the distress is R24 billion. The DAV is how much there?

MS RUBEENA SOLOMON: It is 61% of that amount on slide 4.

MR EMANNUEL LEDIGA: Okay, you got it somewhere?

MS RUBEENA SOLOMON: Yes, the next page, slide 4. It breaks down the top ten investments per risk rating classification and we can see AfriSam is sitting at R 13.5 billion which equates to 61% of the total amount of distressed investments.

MR EMANNUEL LEDIGA: Yes, yes. I see. Okay.

MS RUBEENA SOLOMON: On slide 5. It provides the portfolio rating trend over the last five quarters.

MS GILL MARCUS: Let me just go back to that for a second in terms of distress, because if you look at your top ten distress there are a number that have appeared in relation to this inquiry.

It would be independent media is 4% of total distress. It is R 888 million and Sakamoto is 2% is R 543 million and VBS at 2% is R 450 million. Is that correct?

20 **MS RUBEENA SOLOMON:** Yes.

MS GILL MARCUS: So three of the ten entities have been part of this inquiry so far.

MS RUBEENA SOLOMON: Yes.

MR EMANNUEL LEDIGA: I think it is four. The last one the Mozambique one, the SNS.

MS RUBEENA SOLOMON: SNS, ja.

MS GILL MARCUS: SNS equity. Okay, that is the Mozambique one which is R 402 million

MR EMANUEL LEDIGA: Yes, which is four.

MS GILL MARCUS: Okay, so it is four.

MR EMANUEL LEDIGA: Yes, it is four from the ten. Yes, yes.

MS RUBEENA SOLOMON: On slide 5, if I may. It reflects the portfolio rating trend. The primary access on the left-hand side reflects the Rand amounts and the quantum of investments from the period of
10 December 2017 and of new approvals and disbursements, this figure has grown to R 80 billion in December 2018.

The secondary access is in percentage which shows the distribution of the portfolio between the four rating categories. The other annexure that has been provided ...[intervenes]

MS GILL MARCUS: But before you more on from that. I think this – you know, in a sense this portfolio rating trend is actually quite... How much attention do you pay to that? Because that would indicate, as you have said already, a quite significant deterioration of this period, from R 69 billion to R 80 billion.

20 And if that trend continues... Because we are now into 2019. Do you have any idea to what degree the first four, five months of this year have shown in terms of that portfolio trend? Has it improved? Has it deteriorated? What do you asses in that regard?

MS RUBEENA SOLOMON: If I may just correct something, Ma'am. Through you, Commissioner. The R 69 billion is the approved

investments and it has increased to R 80 billion, is what has improved.

MS GILL MARCUS: Okay, so the investment has increased?

MS RUBEENA SOLOMON: Yes, has increased by R 20 billion from December 2017 to December 2018.

MS GILL MARCUS: And percentage of that is non-performing and would that be the percentage that if we went back to your previous graph, your top ten?

MS RUBEENA SOLOMON: Yes, Ma'am.

MS GILL MARCUS: So that would be...? What is the percentage of
10 that, given that AfriSam is so big?

MS RUBEENA SOLOMON: If we include AfriSam then it is 29%.

MS GILL MARCUS: And if you added the watchlist to that?

MS RUBEENA SOLOMON: The watchlist on its own 10%.

MS GILL MARCUS: So basically 39% would be watch list or distressed?

MS RUBEENA SOLOMON: Yes.

MS GILL MARCUS: And what has that been? Is that a declining trend or an increasing trend or an improving trend or a worsening trend?

MS RUBEENA SOLOMON: Over the five periods it has been an
20 increasing trend. There has been various factors that have contributed to it. Some have been at a macro level in terms of the agriculture.

So the value chain would have been impacted construction but a lot of them also would be specifically nuanced to the individual investments.

MS GILL MARCUS: And to what or how quickly or what is the rate by which...? If you took underperforming – because I mean your

performing is sort of your green code, but if you took underperforming does not necessarily move to watchlist. It could be underperforming with intervention to move into a performing entity.

MS RUBEENA SOLOMON: Yes, that is correct.

MS GILL MARCUS: What is the percentage generally that would move from watchlist to underperforming or distress? Do you have some sense that on average it is 50/50 that moves into performing or do you have some trend that would indicate how risky your underperforming is to get into a more difficult position?

10 **MS RUBEENA SOLOMON:** I can provide that statistics to the Commission, Ma'am.

MR EMANNUEL LEDIGA: Just a question. So just in terms of the trends with this performance sort of going down. What could be the key contributors. We know the economy is very weak, but what could be key contributors to this underperformance?

MS RUBEENA SOLOMON: I would not want to single out anyone or two specific contributors. There have been a vagary of reasons and contributors to it. Some of it could be the macro factor. Some of it could be a matter of structure in the investment. Overall financial
20 performance of the entity.

MR EMANNUEL LEDIGA: Sorry. Somehow I cannot hear you. Just get closer. Ja, and then just like start again, please.

MS RUBEENA SOLOMON: There are various contributors to the distressed investments. Some of it are macro factors. A lot of it has to do with the underlining businesses in terms of financial distress that

they might find themselves in.

Operating performance not where it should be, but sometimes you also have to relook or revisit the strategy, if it is implemented or require his alignment as it was initially – as was initially when we bought into the business or invested in the company.

MS GILL MARCUS: If we went back to Annexure B, I think that probably does give you the split if you look at the last column in December 2018. It would be, if you look at your green line, which is performing, is roughly 60% and therefore the combination of distress
10 underperforming and watchlist would be 40%.

MS RUBEENA SOLOMON: Yes.

MR EMANUEL LEDIGA: Do you know much about what is happening to AfriSam? What is the current status? What has been happening in the past few years?

MS RUBEENA SOLOMON: So AfriSam – I can provide the detailed reports. AfriSam was initially invested in during 2008/2009. The global financial crisis happened. There was a write down on the investment subsequent to that.

There was then initiatives to remedy the transaction. A BEE
20 partner was brought in and the investment has stuck along, but I will gladly provide all the documentation to the Commission.

MR EMANUEL LEDIGA: Okay.

MS RUBEENA SOLOMON: But there is an additional annexure that has been provided to the Commission. It is a detailed investment schedule which shows every single investment as well as the risk rating

indication as 31 December. I will gladly furnish all underlining reports that informs these ratings to the Commission, if required.

MR EMANNUEL LEDIGA: Just another quick one. You know, when you say performing. I am just trying to find the ones that are really, really performing. The ones which are like shooting the lights out, basically. Do you have a category or is this not something you guys want to do?

MS RUBEENA SOLOMON: We do have. So performing is basically categorised as – or the performance is in line with the expectation. If
10 we were to look at the broader – the Excel spreadsheet that provides the detail. There are quite a few investments that categorise as performing.

And on slide 4, the top ten performing – the first graph on the left-hand side, gives you the top ten performers in the portfolio.

MR EMANNUEL LEDIGA: Oh, okay. All right. These are the top ten and if i want to see the kind of returns which they are generating where will I see that?

MS RUBEENA SOLOMON: We can provide the financial performance returns as well. That has not been submitted as part of the
20 submissions.

MR EMANNUEL LEDIGA: Ja, ja. Please do.

MS RUBEENA SOLOMON: Will do.

ADV NKAISENG KHOOE: I just want to find out. The frequency of reporting, do you think it is sufficient?

MS RUBEENA SOLOMON: The reporting currently happen on a

quarterly basis. There is a quarterly leg because we allow for investee companies to provide financial information on average 45-days after reporting month-end.

Reporting has always been quarterly. There is a need however for this be increased and to that end, we now have the Portfolio Management Committees, actually focusing on the distressed and watchlist investments on a monthly basis at every portfolio sitting.

ADV NKAISENG KHOOE: And these reports, do you also provide them to the clients?

- 10 **MS RUBEENA SOLOMON:** Yes, these reports, once it has gone through the internal committees it then it informs the reporting that goes through to the PIC clients on a quarterly basis.

MS GILL MARCUS: I just want to come back to this question of trend and how closely you watch that, because elsewhere what would have been Mr Zonke's presentation. He says the performing portion has declined from 66% in December 2017 to 56% in December 2018 and the distressed portion has increased from 25% to 31% in the same period.

To what degree do you then look at..? First of all, a 10% decline in one year is quite significant. How do you deal with that?

- 20 What efforts do you make?

Does your monitoring look at the detail of that at, in terms of both the risk to the PIC and to the investment in that entity and what it would take, not just a funding issue but what it would take to move them from distressed to better performance or watchlist or underperforming or to move them out of the distress.

Because I am assuming distress can end up being a complete failure. What measures do you have place? How much and how big is your team? What effort does that include?

Because I would have thought a 10% decline is pretty significant and the distress portion of that at 6% is quite significant.

MS RUBEENA SOLOMON: I agree with you, Commissioner. It has been a significant decline. With regard to the process, the portfolio management teams would then – these things get reported. They are consulted with and they meet with the deal teams as well.

10 We then look at the contributing factors and the rational for the underperformance or try and unpack the reasons for it. Where required, we then actually then – these get reported at the Portfolio Management Committee.

We also then suggest with regard to appointing independent service providers to actually give us an independent assessment in terms of what potential remedial stances that there may be.

20 These are then presented back to the Portfolio Management Committee and along with the respective teams. Look at the possible and the best alternatives to remedy and turn the business around to start getting it to perform again.

MS GILL MARCUS: What is your success rate?

MS RUBEENA SOLOMON: To date the only one... So the trend has been – the trend has deteriorated over the last five reporting periods. A lot of these are still in the process of independent business review.

There has been... Dereck has been a successful turnaround

strategy but most of them are still underway in terms of turning the business around.

I am happy to provide the Commission with reports on the respective distress investments and the plans around those.

MR EMANUEL LEDIGA: Just another question. When these companies are not performing, who takes the sort of – who carries the can finally for these things?

MS RUBEENA SOLOMON: Well, the Deal Team never give up their ownership of the deal. They bring a specific investment to the PIC.
10 We buy into a specific investment or the targeted return. They never step away from it. Ownership remains with them right through to exit.

MR EMANUEL LEDIGA: I mean, do you have a time where somebody comes or the CEO comes and say: Deal Team, you had two transactions or four transactions. They have failed. Just explain.

MS RUBEENA SOLOMON: So, at the Portfolio Management Committee where these reports would serve on a quarterly basis, the deal owners have to present the deals along with the Portfolio Management Teams, in terms of the contributing factors and the way forward in terms of how we are remedying it.

20 **MR EMANUEL LEDIGA:** Do you get people fired for these things or people just invest and if it did not work out it did not. You know, and that is it and we just – life continues.

MS RUBEENA SOLOMON: To date I am not aware of anyone being fired for it.

MR EMANUEL LEDIGA: So meaning some – these structures are not

working well, sort of, in some sense, maybe?

MS RUBEENA SOLOMON: Yes, maybe.

MR EMANNUEL LEDIGA: Ja. Because in some companies you own a transaction and if it does not work, I mean, you are in trouble.

MS RUBEENA SOLOMON: Yes, Through you, Commissioner. So that would then form part of the remuneration cycle and the HR cycle as well as the performance contracting that each employee is subjected to and has to abide by.

MR EMANNUEL LEDIGA: People should own these transactions and if
10 they do not well, stuff about bonuses we need to have a look at them.
Is it not?

MS RUBEENA SOLOMON: Yes, I concur.

MR EMANNUEL LEDIGA: You concur?

MS RUBEENA SOLOMON: I concur.

MR EMANNUEL LEDIGA: All right.

MS GILL MARCUS: Can I just go back to this underperforming
because if one looks at the schedule that you have provided, what...? I
do not say it is with everything, but it does seem to be with quite a
number.

20 If you look at your – let us take some that have been before
this Commission. One that was here a short while ago which was...
Well, let us take Vendor Building Society for an example.

You have got revolving facility. Facility 2, 3, 4, 5, 6, 7. All for
Vendor Building Society, right. This is accumulative. It is not one off.
It is multi investment in the same entity.

If you take say Independent Media, you will find it is 1, 2, 3,4 of the same thing. So you have accumulative additional investment.

If you take - which was here a couple of weeks ago. You have actually got 1, 2, 3, 4, 5 on that. Five on that, because I think is at the bottom of another page.

So it seems to me, unless I am reading this incorrectly, because it looks like it has a senior loan. There is another loan. But what it indicates is there is not an accumulative risk profile.

PIC seems to be making an investment on top of another
10 investment and when it goes sour, you have got different investments of different amounts that are now in distress.

How does the cumulative risk assessment for the next investment take place?

MS RUBEENA SOLOMON: Through you, Commissioner. So, this spreadsheet reflects it by instrument per investee company. The appraisal document would give cumulative position of the entire exposure to the investee company. If there would be a follow on or any additional request, the committee would look at the total exposure to the investee company

20 **MS GILL MARCUS:** But make the investment, nevertheless.

MS RUBEENA SOLOMON: Depending on the merits, yes.

MS GILL MARCUS: But you can see this in the distress.

MS RUBEENA SOLOMON: Yes.

MS GILL MARCUS: Right. That it is notwithstanding, there seems to be the next investment.

MS RUBEENA SOLOMON: Yes.

MS GILL MARCUS: Okay.

MR EMANNUEL LEDIGA: Just a question. And you know to just raise and issue and tell me if I am sort of wrong or right. Deal Teams should own transactions. This issue has been spoken about quite a lot. The minute you make decisions by the CEO or committee you are going to have problems. Is it not?

Because within a committee you cannot hold people accountable. So, like, is it not better for Deal Teams to own
10 transactions, whether it is in one sector i.e. property or whatever and they would sort of lead and guide by those decisions and committees and management who do not become part of that.

In that way, you can determine their bonuses and all these, depending on the performance of these companies.

MS RUBEENA SOLOMON: I would think in terms of a... You would need to have... Any company would have to have some kind of governance structure and an operating framework that would govern how and when in the quantum's by which investments would then be made.

20 Even if it is made by a committee, it does not necessarily mean that deal makers are not to be held to account. Does that process requires refinement and enhancement? Yes, I think it does.

CHAIRPERSON: Can I just ask you? With a failed investment transaction, where the PIC has invested and the investment fails, is there any kind of review within the PIC to check whether there was a

problem or something omitted or missed in the process towards the decision to invest?

MS RUBEENA SOLOMON: So as part of the portfolio managed, the PMV duties is to undertake a lesson-learned-diagnosis of what went wrong and to share those learnings going forward in future deals when those are contemplated.

CHAIRPERSON: And if it were to be found for instance that the problem was with the Due Diligence Team or Risk or whatever? Does that ever happen?

10 **MS RUBEENA SOLOMON:** So what they would look at is the lessons in terms of where it has gone wrong. In terms of – if requires a process refinement, the deal process of the overall investment process would then be fine-tuned, but if you are asking me about the level of accountability and if certain individuals have been held to account, then my response to that is no. That is an area that is an area for announcement.

MR EMANNUEL LEDIGA: But basically, this is collective responsibility and I think we know that thing does not work really. Collective responsibility. We have seen it on the political field and all of that.

20 Correct?

MS RUBEENA SOLOMON: Yes.

MR EMANNUEL LEDIGA: Ja, ja.

MS GILL MARCUS: You see, I do not want to belabour the point, but if I took something like on your list, Smile Telecoms. Investments in March which is an equity investment. And that, if I understand, its

market value was a round figure of R 645 million. Is that correct?

MS RUBEENA SOLOMON: Yes, that's correct.

ADV NKAISENG KHOOE: So then if we turn the page over and you look at again Smile Telecoms, it's a convertible which is a loan. Is that for an additional 400 million?

MS RUBEENA SOLOMON: Yes.

ADV NKAISENG KHOOE: So it's an additional 400 million a few months later and then there's a further loan in November 2018 of 83 million. Is that correct?

10 **MS RUBEENA SOLOMON:** It's correct. It will also depend on sometimes during the investment tenure there might be additional request. So there might be waivers or consensus that would be required from committees for consideration.

ADV NKAISENG KHOOE: Sure, all I'm saying is that its three- there's a distress in already 2015 and in 2018 there's still further facility granted. Now it may be something- there's a workout program which is not indicated here. To as you say, how do we either work out of this or get it back into a performing? But I'm just saying over a period of three years it goes over a billion rand by quite a bit and there's further
20 investments. At what point in time because one assumes because I don't know when- if you looked at it, your distress is in March 2015 and your further loan is in November 2018 and it is 1.11.2 billion rand that is now in distress. So the question that I'm really asking is given the challenge of moving distressed back, you don't want to lose the

investment you want to move it back into performing. Three years is a long time to be in distress.

MS RUBEENA SOLOMON: Yes, it is. There are initiatives underway in terms of closer monitoring of Smile and to try and work out because it was a co-investment. The other lenders are also undertaking the business review so. It is a long time, there were initiatives during that time. I concur that there are other instruments subsequent to the initial identification. And if the committee would like, I can provide underline reports that specifically detail.

10 **ADV NKAISENG KHOOE:** No, I don't think so. It's really just a question of what proactive role the PIC plays in trying to ensure that distress moves back, you don't get deeper into the whole all the time?

MS RUBEENA SOLOMON: Yes. So through that once it's identified we would then get independent business reviews from service providers to give us an assessment. And to then look at what meaningful measures we can actually put in and implement to start turning the business around.

CHAIRPERSON: Are you done Ms Khooe?

ADV NKAISENG KHOOE: I'm done Commissioner, I have no further
20 questions for Ms Solomon.

CHAIRPERSON: Yes, thank you very much Ms Solomon. Thanks for your contribution.

MS RUBEENA SOLOMON: Thank you.

CHAIRPERSON: I hope you'll be available if and when you are required to come back to clear up certain things.

MS RUBEENA SOLOMON: Certainly Commissioner.

CHAIRPERSON: Otherwise thank you so much for your contribution.

You're excused.

MS RUBEENA SOLOMON: Thank you.

ADV NKAISENG KHOOE: I suppose that concludes the business for today Commissioner.

CHAIRPERSON: Why do you say you suppose?

ADV NKAISENG KHOOE: I thought my evidence leader would be here to tell hither.

10 **CHAIRPERSON**: There he is, he's just working. So we understood that there would be these witnesses. I think that then would be the end of the day. We'll adjourn until tomorrow morning at 10 o'clock. Thank you.

INQUIRY ADJOURNS TO 21 MAY 2019