

Corporate governance



1. Background

PSG Group is invested in various subsidiaries, joint ventures and associates (collectively herein referred to as “investees”) that operate across a diverse range of industries, which include banking, education, financial services and food and related business, as well as early-stage investments in selected growth sectors.

PSG Group is committed to exercising ethical and effective leadership to achieve the four governance outcomes: ethical culture, good performance, effective control and legitimacy, as advocated in the King IV Report on Corporate Governance™ for South Africa, 2016 (“King IV™”).

More than 90% of PSG Group’s total assets are investees separately listed on the JSE and independently managed. These companies are similarly committed to exercising ethical and effective leadership, and to report thereon to stakeholders in terms of King IV™. Whether listed or not, PSG Group expects all its underlying investees to uphold good corporate governance and our representatives on the respective companies’ boards have been tasked to ensure same.

A detailed analysis of PSG Group’s compliance with King IV™ is available at www.psggroup.co.za.

2. Leadership, ethics and corporate citizenship

2.1 *The PSG Group board of directors (“Board”)*

The Board comprises 10 directors of which three directors serve in an executive capacity. Four of the remaining seven non-executive directors are independent. Details of PSG Group’s directors are provided on page 19 of this annual report. The Board is satisfied that its composition contains the appropriate mix of knowledge, skills, experience and independence.

The Board operates in terms of a board-approved charter, the provisions of which have been complied with during the year under review.

There is a clear division of responsibilities at board level to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. The Board is satisfied that its current composition ensures such a balance of power and authority.

2.2 *Key roles and responsibilities of the Board*

The Board’s key roles and responsibilities include, inter alia, the following:

- Promoting the interests of all stakeholders;
- Formulation and approval of strategy;
- Retaining effective control; and
- Ultimate accountability and responsibility for the performance and affairs of the Company.

The Board is ultimately the custodian of shareholder funds, with a responsibility to invest it wisely to deliver on PSG Group’s stated objective of sustainable long-term value creation for shareholders.

2.3 *Chairman*

Mr JF Mouton fulfils the role of non-executive chairman. Since he is not classified as independent given his significant indirect shareholding in PSG Group, Mr PE Burton serves as lead independent director.

2.4 *Chief executive officer (“CEO”)*

Mr PJ Mouton continues to serve as CEO and has been employed within the broader group for the past 14 years. His employment agreement is customary for agreements of this nature, and his resignation notice period is three calendar months.



The Board continuously considers succession planning for the CEO role. In addition, the Company is in a fortunate position to retain the services of Messrs WL Greeff (chief financial officer (“CFO”)) and JA Holtzhausen (CEO: PSG Capital) as executive directors alongside Mr PJ Mouton, whom have respectively served within the broader group for the past 16 and 20 years. Similarly, Messrs WL Greeff and JA Holtzhausen are supported by a dynamic team of long-serving employees within their respective roles.

Mr PJ Mouton serves as representative on the boards of the majority of PSG Group’s core investees, including Capitec, Curro, PSG Konsult and Zeder. He has no professional commitments other than his role as PSG Group CEO.

2.5 Board meetings and attendance

The Board met four times during the past year. The attendance at such meetings is detailed in the table below:

Director	19 Apr 2017	20 Jul 2017	11 Oct 2017	20 Feb 2018
PE Burton	√	√	√	√
ZL Combi	√	√	√	√
FJ Gouws	√	√	√	√
WL Greeff	√	√	√	√
JA Holtzhausen	√	√	√	√
MJ Jooste (or his alternate) ^	√	√	√	n/a
B Mathews	√	√	√	√
JF Mouton (chairman)	√	√	√	√
JJ Mouton	√	√	√	√
PJ Mouton	√	√	√	√
CA Otto	√	√	√	√

√ Present

^ On 6 December 2017, Mr MJ Jooste resigned as director and was replaced by Mr TLR de Klerk. On 9 February 2018, Mr TLR de Klerk resigned as director.

2.6 Board performance and independence evaluations

Both the effectiveness and ethical leadership of the Board are continuously considered and any areas of concern are addressed as and when they arise. The board is assessed annually through a formal internal process that deals with individual directors, including the chairman, the board as a whole, as well as its various subcommittees. The Board is satisfied that it functions effectively.

The independence of non-executive directors and factors that could potentially impair it are evaluated on an ongoing basis. The Board is satisfied with the independence of non-executive directors classified as such, including Messrs ZL Combi, PE Burton and CA Otto, all of whom have served on the Board for more than nine years. These individuals have a thorough understanding and valuable knowledge of PSG Group’s business, and at all times act in the best interest of all stakeholders.

2.7 Race and gender diversity policies adopted by the Board

PSG Group believes that race and gender diversity at board level help achieve its business goals through an improved understanding of the diverse environments in which the group operates. A truly diverse board will include, and make good use of differences in age, gender, race, skills, industry experience and other distinctions.



The PSG Group Nomination Committee will consider and annually agree on measurable targets for achieving race and gender diversity at Board level. In identifying suitable candidates for appointment to the Board, the nomination committee will consider individuals on merit against objective criteria and with due regard for the potential benefits of race and gender diversity.

The Company's level of compliance against its targets for the past year is summarised in the table below:

Percentage of directors	Actual	Target
Black people	30%	≥30%
Female	10%	≥10%

The Board has recently resolved to appoint another black person, preferably a black female, once a suitable candidate has been identified. This decision is being treated as a priority. Once another black female director has been appointed, the Board will be 36% black and 18% female representative, respectively.

2.8 Board subcommittees

The Board has appointed the following committees to assist it in the performance of its duties:

- Executive committee;
- Remuneration committee;
- Nomination committee;
- Audit and risk committee; and
- Social and ethics committee.

2.8.1 Executive committee ("Exco")

The Exco is chaired by Mr PJ Mouton (CEO) and further comprises Messrs JF Mouton (non-executive chairman), WL Greeff (CFO) and JA Holtzhausen (executive director). Mr JC Taljaard (tax advisor) attends the Exco meetings as a permanent invitee, while non-executive directors are always welcome to attend.

The Exco meets every month, or more frequently if required, and:

- Is responsible for determining and implementing strategy, as approved by the Board;
- Acts as the PSG Group investment committee;
- Provides strategic input as members of the Zeder Executive Committee;
- Manages PSG Alpha;
- Acts as PSG Group treasurer by monitoring and managing the capital requirements, gearing and liquidity of PSG Group, and it allocates and invests its resources;
- Monitors the group's performance and provides strategic input and direction to the underlying companies;
- Is the custodian of good corporate governance; and
- Assumes overall responsibility for the growth and performance of PSG Group.

The Board is satisfied that the authority associated with the day-to-day running of PSG Group is adequately delegated to the executive directors and their teams, so as to ensure the effective management of PSG Group.



2.8.2 *Remuneration committee*

The remuneration committee's composition, duties, responsibilities and focus areas are comprehensively addressed in the remuneration report on page 44 of this annual report.

Messrs JF Mouton and PJ Mouton are regular invitees to remuneration committee meetings. However, they do not form part of the remuneration committee's formal decision-making process and recuse themselves when necessary.

The remuneration committee is satisfied that it operated in accordance with its board-approved charter. Its focus areas for the ensuing year will include the ongoing evaluation and refinement of PSG Group's remuneration practices, if necessary, to help achieve the Company's stated business objectives.

2.8.3 *Nomination committee*

The nomination committee comprises Messrs JF Mouton, PE Burton, ZL Combi and CA Otto, all being non-executive directors, with the majority being independent. The nomination committee meets as and when required and is responsible for assisting the Board with the appointment of new directors by making appropriate recommendations, with due regard for, inter alia, race and gender diversity.

2.8.4 *Audit and risk committee*

The audit and risk committee comprises three independent non-executive directors, namely Mr PE Burton (chairman), Ms B Mathews and Mr CA Otto. They have served as members of the audit and risk committee for 11, one, and six years, respectively. The committee met twice during the past financial year on 18 April 2017 and 10 October 2017, as well as after year-end on 23 April 2018, with all members being present.

Messrs JF Mouton, PJ Mouton, WL Greeff, select group finance employees and the external auditor are permanent invitees to the audit and risk committee meetings. However, they do not form part of the audit and risk committee's formal decision-making process.

The members of the audit and risk committee are invited to attend an annual training course regarding any new legal, regulatory and/or financial developments which may affect their roles and responsibilities as members of such committee.

The audit and risk committee is satisfied that it operated in terms of its board-approved charter. A report by the audit and risk committee containing details of how the committee discharged its duties and responsibilities in the past year has been provided on page 72 of this annual report.

The audit and risk committee's areas of focus for the ensuing year will include the adoption of new accounting standards, in particular IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

2.8.5 *Social and ethics committee*

PSG Group believes in conducting its business in a responsible manner, with due regard for the potential impact thereof on the environment in which it operates and society at large. All its investees are similarly committed.

Education is imperative for economic growth and the upliftment of society in general. We thoroughly believe that an educated community will sustainably improve the long-term well-being of society and South Africa. PSG Group as an investment holding company has therefore directed its corporate



social investment efforts at supporting education on various levels. PSG Group also subscribes to and support social upliftment through BEE, having invested in various BEE initiatives. PSG Group is a growing company that employs approximately 56 000 people across the broader group, pays all its taxes regularly and encourages government to spend its revenue responsibly.

During the year under review, the social and ethics committee was reconstituted to comprise Messrs ZL Combi (chairman), PE Burton and PJ Mouton. Previously this committee comprised Mr CA Otto (chairman) and the members of the Exco, whom met monthly during the past year.

The social and ethics committee is responsible for monitoring the Company's activities, with due regard for any relevant legislation, legal requirements and prevailing codes of best practice relating to matters, which include:

- Social and economic development;
- Good corporate citizenship;
- The environment, health and public safety;
- Client relationships; and
- Labour and employment.

The social and ethics committee is satisfied that it operated in terms of its board-approved charter. The committee is furthermore satisfied with the social and ethical aspects pertaining to PSG Group, with details of its corporate social investment initiatives set out on page 10 of this annual report.

2.9 *Appointments to the Board*

Executive directors are appointed by the Board with the assistance of the nomination committee for periods as the Board deems fit and on such further terms as are set out in their letters of appointment. Where appropriate, the CEOs and other executive directors of investees have entered into service contracts with those investees.

Newly appointed board members are formally inducted through a programme comprising, inter alia, the reading of Company-related material and one-on-one information sessions. All Board members have an open invitation to attend further training courses as and when required.

PSG Group's memorandum of incorporation requires a minimum of one third of the non-executive directors of the Company, as well as non-executive directors having served three consecutive years without rotating, to retire by rotation and to offer themselves for re-election by shareholders at the annual general meeting of the Company. In addition, the appointment of any new director should be confirmed by shareholders at the first annual general meeting following such appointment. In accordance with the Company's memorandum of incorporation, Ms B Mathews and Messrs JJ Mouton and CA Otto will retire by rotation and offer themselves for re-election by shareholders at PSG Group's annual general meeting to be held on 22 June 2018.

2.10 *Company secretary*

PSG Corporate Services (Pty) Ltd ("PSGCS") is the appointed company secretary to PSG Group. It acts as conduit between the Board and the Company. The company secretary is responsible for board administration, and liaison with the Companies and Intellectual Property Commission and the JSE. Board members also have access to legal and other expertise when required and at the cost of the Company through the company secretary. The Board is satisfied with the availability of legal and other expertise on offer.



The company secretary maintains a professional relationship with board members, giving direction on matters such as good corporate governance, if required. The audit and risk committee has reviewed, through discussion and assessment, the qualifications, experience and competence of the individuals employed by the company secretary, and concluded that it had performed all formalities and duties timeously and in an appropriate manner. The Board is satisfied that an arm's-length relationship exists with the company secretary.

The certificate that the company secretary, herein represented by Mr A Rossouw, is required to issue in terms of section 88(2)(e) of the Companies Act of South Africa, is included on page 73 of this annual report.

2.11 Transformation

PSG Group is committed to creating and maintaining an environment that provides equal opportunities to all its employees, with special consideration for historically disadvantaged groups. The Company recognises that there are disparities in employment, occupation, income and opportunities within the labour market, with black people, women, and people with disabilities historically being the most disadvantaged groups.

The employees responsible for the day-to-day management of PSG Group, its wholly-owned subsidiaries and PSG Alpha, are employed by PSGCS, a wholly-owned subsidiary. In order to promote transformation at head office level, PSGCS has established a transformation committee consisting of Messrs ZL Combi, PE Burton and WL Greeff, all being directors of PSG Group, with the majority being independent non-executive. The committee met once during the past year and all members were present. At such meeting, the committee approved an employment equity plan for PSGCS to improve equity in the workplace containing, inter alia, five-year employment equity targets.

3. Strategy, performance and reporting to stakeholders

PSG Group sets out its strategy, as well as feedback on its performance against it, in both the *chairman's letter* and the *CEO and CFO report* contained on pages 2 and 22 of this annual report, respectively.

PSG Group fully subscribes to the notion of honesty and transparency, which includes timely, clear, succinct and accurate reporting to all stakeholders. Such reporting includes PSG Group's bi-annual financial results and any other information considered appropriate and for the benefit of all stakeholders, be it voluntarily or as required by the JSE Listings Requirements.

4. Governance matters

4.1 Risk management and internal control

The Board acknowledges that it is accountable for PSG Group's process of risk management and systems of internal control. Each investee has its own board of directors responsible for the risk management and systems of internal control of that company and its business.

Certain of the group's investees operate in highly regulated environments and accordingly risk management in such entities are performed by dedicated risk and compliance teams, as well as internal audit functions where appropriate.

The following risk management measures have been implemented at PSG Group and its investees:

- Detailed risk assessments, containing the identified risk(s) together with control(s) implemented to mitigate such risk(s) to the extent possible; and
- Risk control logs, containing details of the occurrence of risk events, together with management's response thereto and the additional control(s) implemented to help prevent such event from re-occurring.



On the recommendation of the audit and risk committee, the Board has decided not to establish an internal audit function at PSG Group level given the nature and extent of its day-to-day activities, and considering that its investees have, where necessary, either established or outsourced their own internal audit functions.

The Board, on recommendation by the audit and risk committee, concluded that the system of internal control and the risk management process were effective for the financial year under review. The Board is satisfied that there was no material breakdown in controls at either PSG Group or its investees during the past year.

4.2 *Technology and information governance*

PSG Group's head office employs a dedicated information technology ("IT") manager responsible for IT governance, and who reports to the CFO. IT is essential to all PSG Group's investees, with IT governance continuously treated as a priority.

As IT does not play a significant role in the continuity of our business at a PSG Group head office level due to its nature and size, the risk associated therewith is somewhat limited. However, continued data security remains a key focus area for the IT manager.

4.3 *Compliance function*

PSG Group has not appointed a dedicated compliance officer as it has continuous access to the in-house corporate finance and tax advisory expertise of PSG Capital and Grayston Elliot, respectively. If required, PSG Group can obtain further independent advice from reputable third parties.

As certain of the group's investees operate in highly regulated environments, such entities have appointed dedicated compliance officers and supporting structures.

4.4 *Remuneration governance*

Remuneration governance is comprehensively addressed in the remuneration report on page 44 of this annual report.

4.5 *Assurance*

PSG Group, being an investment holding company, does not require assurance in respect of any reports other than its financial statements. Such assurance is provided by PSG Group's external auditor, whose report is included on page 77 of this annual report.

5. **Stakeholder relationships**

PSG Group subscribes to the principles of objective, honest, accurate, transparent, timeous, balanced, relevant and understandable communication of financial and non-financial information to stakeholders at all times. PSG Group has a team responsible for dealing with stakeholder queries.

PSG Group acknowledges the important role and responsibility of regulators, and our relationships with them are maintained in a professional manner – frank and open, but respectful.