

# South African prison scandal raises concerns over Caisse's G4S connections

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Convicted South African rapist and murderer Thabo Bester is brought into the Magistrate's Court in Bloemfontein on April 14.

-/AFP/GETTY IMAGES

At a glitzy party in a luxury Johannesburg hotel several years ago, South African celebrities sang *Happy Birthday* to a well-dressed man appearing by video link who was introduced as the chairman of 21st Century Media. It's an up-and-coming U.S.-based company, they were told, and he was joining them from New York. The man broke into fits of laughter as the serenade continued, seemingly pleased with the attention.

No one clued in at the time but, in reality, the man was Thabo Bester, a convicted murderer and rapist who used Facebook to lure models with fake job offers. And he wasn't tuning into the party from the Big Apple but rather from his jail cell – in a maximum-security prison a few hundred kilometres away in Bloemfontein.

Corrupt guards at the Mangaung Correctional Centre, operated by a subsidiary of multinational security company G4S, allowed Mr. Bester to run fraudulent schemes by computer for years while he was locked up. Later they helped him fake his death and escape, a shocking exploit that was not discovered until months afterward. He was eventually recaptured in Tanzania three weeks ago after a major manhunt. A government investigation found that Mr. Bester was assisted in breaking out from the prison in a “well-calculated and organized” operation in May, 2022.

The saga of Mr. Bester and Mangaung has quickly become the biggest story in South Africa. It has also cast a harsh spotlight on G4S and its U.S.-based parent, Allied Universal, which bought G4S plc in 2021 for £3.8-billion. Allied's biggest shareholders include Canadian pension fund manager Caisse de dépôt et placement du Québec.

Even before this latest scandal, questions were being raised about why a Canadian corporate pillar like the Caisse would jump into the security industry and, later, associate itself with a company like G4S, which has a checkered recent history. Critics say the pension giant, which administers the retirement funds for thousands of public-sector employees, has no business being in the security sector and that the risks outweigh the returns. Others say it should use its muscle to push Allied harder on cleaning up G4S – and be fully transparent about its concerns.

“Doing something means either leaving or trying to be an agent of change,” said Yan Cimon, a specialist in corporate strategy and governance at Quebec City's Laval University. “It's clear that the status quo is not enough. You cannot sit back and wish for that G4S experience in South Africa to go away.”

Pension fund investments around the world are coming under increased scrutiny as environmental, social and governance (ESG) standards gain importance. Observers are asking whether it's appropriate to direct retirees' money into shares in gun manufacturers, oil and gas producers, and other companies often seen as offside on human progress efforts.

The Caisse has a policy on responsible investment in which it cautions it might invest in sectors that “may appear problematic from the standpoint of social responsibility.” It says it approaches those investments in part by taking a “collaborative approach” with the companies

it holds in its actively managed portfolios, which includes communicating directly with a company's executives or directors to discuss concerns.

The Globe and Mail sent the Caisse a series of questions about the South African controversy, and Allied's ownership of G4S. The fund manager did not directly answer those questions but spokesman Conrad Harrington said it was following the situation in the country closely and takes any human-rights allegations "very seriously."

Caisse "is one of the world's most respected investors when it comes to ESG criteria – which we apply rigorously and consistently," Mr. Harrington said in an e-mailed response. "There is no exception with this investment and we have an active ongoing dialogue with the company across a number of strategic matters. When Allied acquired G4S, they communicated plans to evaluate options for certain non-core businesses and these conversations are ongoing."

The Caisse bought into Allied Universal in 2019 in a deal that valued the security company at US\$7-billion, citing the industry's organic growth and consolidation potential. It held a 27.7-per-cent stake in the company as part of \$402-billion in assets under management at the end of 2022, according to its latest annual report; and it has two directors on Allied's 11-member board. The largest shareholder in Allied is a group of funds controlled by New York-based private equity firm Warburg Pincus LLC.

Some say the Caisse should consider selling its investment in Allied. They argue staying in reflects poorly on the pension fund's own reputation, particularly if the U.S. company remains in the business of private prisons through its G4S ownership.

"Our understanding is that in 2021, Allied Universal told investors and reporters that postacquisition, G4S would exit the private prison business," said Jim Baker, executive director of the Private Equity Stakeholder Project, a watchdog group that advocates for workers and other stakeholders affected by private equity investments. "Two years later, it still has not," he said.

Caisse has a responsibility to ensure that its investment complies with laws and international standards on corruption, Mr. Baker said. "Given controversies like the one G4S is currently facing in South Africa, and the poor investment performance for the private prison industry, it is unclear why CDPQ, Allied Universal and G4S are still in the private prison business," he said.

Others have a different view. Pulling out of Allied altogether is the "easy" route, said Patric Besner, vice-president of Montreal's Institute for Governance of Private and Public

Organizations, a think tank. Staying in and pushing to influence the company to have better metrics and better governance is a harder path but the one that might yield better outcomes in the long term, he said.

“The problem is that if they pull out, there will be no force to encourage these corporations to act better and improve their ESG and improve their environmental rules and regulations,” Mr. Besner said.

London-based G4S has worked for years to try to tighten operations after a series of allegations and crises. Human-rights advocates have accused the company of allowing its South African employees to abuse prisoners with electroshocks, assaults and forced injections of anti-psychotic drugs.

In Britain, the company sold its youth-detention business after the BBC broadcast evidence in 2016 of G4S staff abusing inmates at a young offenders institution in Kent. In a separate incident, government inspectors found that a G4S prison in Birmingham had allowed violence and drug abuse by prisoners with near impunity, with its staff locking themselves in offices in fear of arson and other attacks. The government stripped G4S of its contract at the prison in 2019.

Pension funds in Norway and New York have divested themselves from G4S in recent years. Norges Bank Investment Management, which manages Norway's government pension funds, sold its shares in G4S after its ethics council decided there was an “unacceptable risk” that the company is responsible for “serious or systematic human-rights violations.”

These cases gained fresh attention this year after the fake-death prison escape dominated the South African media and made headlines internationally. After the story broke, the South African government concluded that G4S has “lost effective control” of the prison and replaced the facility's management.

South African MPs hauled G4S officials before a parliamentary committee on April 12, asking hours of tough questions about the company's handling of the prison escape. The G4S representatives said they had fired three staffers who had worked in the correctional centre's control room, and suspended seven others over the unauthorized vehicle that allegedly brought the body that was used for the fake death.

A spokesperson for Allied declined to comment, saying the company is bound by contractual obligations and South Africa's correctional services act.