Q2 | July 2022

# STAND POINT

STANLIB

STAND POINT

# Contents


## From our StandPoint

*Head of Institutional Distribution* 03

## A note from our CEO

*Driving growth for our clients, advisers and employees* 04

## Charticle

*Time in the markets* 06

## Insights for impact

*Taking stock of the South African economy mid-way through 2022* 07

*Growing wealth in the age of data* 10

*Change to ESG Investing in China: Considerations for Sustainable portfolios* 12

## Meet the manager

*Vanessa Mathebula – Quantitative Analyst* 15

## Performance at a glance

*Market indicators* 17

*STANLIB core fund performance* 18

## Beside the point

*Then and now – the change in 20 years* 19

# From our StandPoint

A note from our Head of Institutional Distribution,

**Tracy Coetzer**

**What goes up, must come down.** This may come to mind when running a hilly marathon, followed by the overwhelming relief when you crest the top and relish the faster, easier pace on the downhill. A hilly race can be an emotional one, and it is no different when investing in volatile times, although it is unlikely that investors will savour the downhill. At some point in the rising market journey, unexpected factors will likely shift markets down. This is often accompanied by panic and fear. Those who have been around for some time will be aware of the bull and bear market cycles over the last 20 years since STANLIB began, and the related emotions they have experienced. The 2002 stock market lows, precipitated by the internet bubble, were soon followed by a five-year bull market and a little euphoria. Next came the 2008 Global Financial Crisis and a major market crash, lasting less than one-and-a-half years. What followed was an 11-year bull run until March 2020 when the Dow Jones Industrial Average (DJIA) entered the next bear market as a result of the pandemic. And yet, through these 20 years, stock markets have delivered good performance, and long-term investments have grown.

Hindsight is of course often perfect sight, and while the past is not indicative of the future, we can safely say that **what comes down, must go up. It's just a case of when.**

The investment journey has certainly become a little hillier in the past two years. As markets grapple to adjust to higher inflation, interest rate rises, and shifting expectations thereof, supply shortages and lower global growth, now is a good time to step back and recap what it means to invest for growth over the long-term. Interestingly, investing techniques have developed as the world evolves to manage risk and volatility better.

In this edition of STANDPOINT, we celebrate 20 years as STANLIB. We recognise the changes of the past 20 years and how these have shaped us all. We zoom in on the near term and consider events that could play out to shift the current market cycle, and we look forward to opportunities for growth. Growing up means improving how we as a business can embrace change, and be innovative and progressive to deliver financial well-being for our clients. Our chief executive, Derrick Msibi, shares insights on STANLIB's journey as a business into the next decades, and the responsibility and purpose needed to serve our investors.

STANLIB's chief economist, Kevin Lings, provides a clear and realistic view of the challenges SA faces as we head into the second half of a turbulent year.

For most South African investors, investing for long-term capital growth means investing a portion of our portfolio in global funds. The first half of 2022 has not been conducive for global stock markets. As at 30 June 2022, the S&P 500 lost 20.6% and the Dow Jones Index is down 15.3%. However, there are opportunities for growth for investors looking beyond the current volatility and market correction. While China's growth potential is undeniable, JP Morgan Asset Management (JPMAM) are increasingly asked whether investing in China can be reconciled with investing sustainably. Karen Ward and Hugh Gimber of JPMAM tackle this complex conundrum by looking at the environmental, social and governance (ESG) considerations raised by investing in China.

Considering the next 20 years of investing, Chetan Ramlall, portfolio manager in the STANLIB Index Investments team, explores the concept of computer science and how, with the ever-growing availability of data, we can rely on machines to aid investment decisions, or perhaps make those decisions.

**In Meet the Manager,** we share insights from one of STANLIB's managers behind the funds. In this edition, we introduce Vanessa Mathebula, a passionate quantitative analyst who has a love for staying fit and healthy. She's new to the Index Investments team but is already a dedicated team player and enthusiastic about adding value and alpha to our multi-style equity funds.

In the last STANDPOINT, I indicated that 2022 promises more volatility – it certainly has delivered that for us so far. However, while it is natural to debate the global challenges of inflation, high interest rates, policy shifts and how we navigate these times, it is also important to look up and beyond and forward to the next uphill and the next 20 years. For some light relief and a jog down memory lane, take a look at the facts in **Beside the Point.** Were interest rates really 17% 20 years ago? And who would have thought we'd have a South African artist in the same category as Janet Jackson.

Wishing you all the best for the next half of 2022 and for the next 20 years of investing. Thank you, as always, for partnering with STANLIB.
We look forward to sharing the journey to the future together.

Regards,
Tracy

# Driving growth for our clients, advisers and employees

A note from our CEO, **Derrick Msibi**

***STANLIB is celebrating its 20th anniversary this year, which I believe is a poignant moment to reflect on our purpose, our past and our commitment to build a progressive investment management firm.***

**Our purpose and responsibility**

Our purpose, responsibility and impact as an asset manager is not always clearly articulated or understood in a broader context. To put it simply, we carefully and strategically invest our clients' savings and capital in companies, and we provide governments or companies with access to funding. This enables companies to grow, develop infrastructure and create jobs to support economic growth and development. At the same time, investors enjoy a return on investment that grows their capital.

Our responsibility has grown significantly since 2002 when STANLIB was formed. We ended 2002 with around R128 billion in assets under management. Today, we manage over R650 billion of assets for investors, across several investment strategies and funds.

As diligent stewards of our client's capital, our responsibility is to invest these funds with due care and skill. We want to make a positive contribution to society's development goals, while also providing a return to our investors who entrust us with growing and protecting their financial futures and dreams.

That is why, in addition to our core funds, we are committed to impact investing and sustainability. Through the STANLIB Infrastructure Private Equity Fund we're investing in infrastructure sectors such as storage, telecommunications, social infrastructure, water and pipelines. We're also invested in the Khanyisa Impact Investment fund, where we aim to achieve compelling returns whilst making a positive and measurable impact on the South African economy. We see no trade off in pursuing these two objectives simultaneously. Indeed our experience thus far shows that this is achievable.

What inspires us, and is core to what we do, is our fiduciary responsibility - fulfilling our clients' total trust in us to manage and protect their money. It defines our relationship with our clients and informs every decision we make on their behalf. We want to exceed our investors' expectations. Today we are seeing how some of the decisions we have taken over the past few years are contributing to our ability to achieve this.

**Building on firm foundations**

In the past five years, we have prioritised embedding our investment philosophy and evolving our investment process to ensure that they are both rigorous and robust. In addition to philosophy and processes, our focus has been, and continues to be, supported by our investment talent and stable leadership. Combined, these elements will enable us to deliver the consistent investment performance our clients expect in the long term. Our achievements so far have been affirmed by the awards and nominations we've received in 2022.

We have also chosen a leading investment management group, J.P. Morgan Asset Management, to be our primary and strategic offshore partner. Our collaboration gives our investors access to a range of offshore investment opportunities. The partnership has expanded the depth and breadth of the investment skills we have access and reinforces our ability to manage money more effectively, while building on our foundation to become a world-class asset manager.

These foundational measures in place, we are able to make more decisions that will enable us to respond to and stay ahead of the significant long-term changes the asset management industry is undergoing.

**Future-fit investments**

One of the areas where we've made important decisions is technology, which we believe is central to positioning STANLIB for a strong future. Globally, the most successful asset managers have access to world class technology platforms, developed and maintained by the best Information Technology (IT) platform providers, enabling investment managers to focus on maintaining the trust and future financial well-being of investors.

With this in mind, we are investing in, and researching how, we can develop technology systems that can support investment professionals in trading, research, quantitative techniques and deploying artificial intelligence (AI). These systems should enhance our investment managers' ability to improve the probability of making the right investment decisions and they should provide extra means of adding alpha to portfolios.

We are also investing significantly to develop the most modern technology platform in the South African asset management industry, to give our clients and advisers an exceptional digital experience. To achieve this, we're partnering with the best global solutions providers.

**Stepping into the next decade**

As we step into our third decade, we know the best way to create opportunity is to grow. STANLIB is investing in growth.

Armed with an array of lessons learnt from defining market events, insights from multiple strategic projects and as asset manager part of the largest financial services group in Africa, we look forward to the future. We are ready to build on our foundation to continue to evolve with the industry and to fuel the right type of growth for our clients, advisers and employees.

CHARTICLE:

# Time in the markets

“The best time to plant a tree was 20 years ago. The second best time is now.”

*– Chinese proverb.*

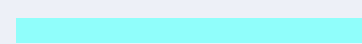
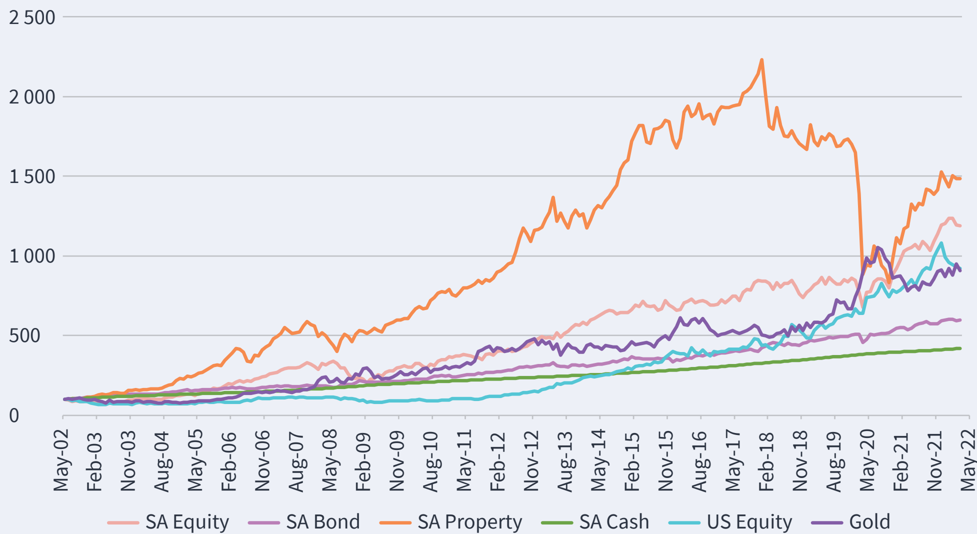


**Chart: R100 invested 20 years ago**




*Source: Morningstar, end May 2022*

The chart above is a good reminder that staying invested for the long term will deliver capital growth. The more risk you take, the higher the return. Panic selling in times of volatility (such as early 2020) can result in investors missing subsequent growth. It is clear that growing capital over the long term requires patience and perseverance.

The picture also shows us how asset classes can deliver extended periods of benign performance. Take the US equity index, the S&P 500. After 13 years of investing in it, you would have doubled your money (partly given rand currency performance). After 20 years, your R100 investment is now close to R1 000. We cannot time the markets, but we can spend time in the markets.

Having learnt these lessons, the question is, where do we invest for the next 20 years? Be mindful that the road ahead may look very different for many reasons. A pandemic has reshaped policymakers’ thinking, consumer behaviour and corporate resilience. Behaviours are also shifting as people aim to protect the longevity of our planet and its people. Technology continues to change how we work and live. So take time to consider your financial goals and needs. Most importantly, if you haven’t invested for the future, the best time is now!

STAND POINT

# Taking stock of the South African economy mid-way through 2022

## AT A GLANCE

*Russia's invasion of Ukraine and China's zero-COVID policy have shaken the global supply chain, even as it has not yet recovered fully from the pandemic, and this has pushed up inflation around the world.*

*SA has faced additional domestic issues: load shedding, the recent floods in KwaZulu-Natal, and the slow pace of policy reform.*

*The second half of this year is likely to present South African policymakers with difficult choices, even as political infighting intensifies ahead of critical ANC conferences in July and December.*

*Deregulation and making it easier to do business are key.*

*By Kevin Lings,*
Stanlib Chief Economist

**South Africa, like many emerging markets, finds itself in a precarious position. Over the past two years a wide range of global developments have had a largely adverse impact on South Africa's macroeconomic environment, including the COVID-19 pandemic, widespread disruptions to global supply chains, and surging global inflation.**

More recently, Russia's invasion of Ukraine in February 2022 resulted in increased global risk aversion, a surge in international oil and food prices, as well as a significant moderation in global economic activity. Equally, China's strict zero-COVID strategy has resulted in severe lockdowns measures being introduced in various parts of the country during 2022, inflicting more damage than expected to both the production and consumption side of the economy. The significant loss of momentum in Chinese economic activity during the second quarter of the year resulted in a further moderation of global growth and aggravated an important part of the global supply chain.

These events are unfolding at a time when the global economy has not yet fully recovered from the COVID-19 pandemic. In addition, broadening price pressures around the world have pushed global inflation up to over 9%, requiring most central banks to increase interest rates at a faster pace than expected. Most noticeably, the US Federal Open Market Committee recently decided to increase rates by 50bps to a range of 0.75% to 1.00%, signalling that further rate hikes are to be expected in the months ahead.

***"From a domestic economic perspective, three developments continued to hinder South Africa's economic progress in 2022."***

**Firstly, loadshedding returned with a vengeance in 2022.** Year-to-date (end of May), there have been 28 24-hour cycle days (673 hours) of loadshedding, compared to around 20 days in 2021. **Secondly, the floods in KZN** have derailed some of the positive momentum that had been building in the first quarter of 2022, **hurting growth nationwide.**

**Lastly, there continues to be a systemic lack of effective policy reform implementation.** While Operation Vulindlela is making good progress, most of the key reforms vital to boost recovery in the short-term and improve long-term growth prospects are still lagging.

All these developments have had a largely negative impact on a wide range of domestic economic factors. From a currency perspective, the rand initially strengthened following the Ukraine invasion, helped enormously by South Africa's position as a net commodities exporter. At the end of March 2022 the rand exchange had strengthened to R14.47 per dollar, a gain of more than 9%. However, it has since weakened significantly, depreciating by more than 9% against the dollar up until the middle of June 2022.

The rand's volatility along with higher global food and commodity prices (particularly oil) has substantially driven up South Africa's consumer inflation from last year's average of 4.5%. In April 2022, inflation had risen to 5.9% year-on-year, which is very near the top of the SARB's target, and is likely to rise to around 7% over the coming months. In addition, while core inflation remained below the mid-point of the inflation target, at 3.9% year-on-year, there is some evidence to suggest a broadening of South Africa's inflationary pressure.

This, together with trends in global interest rates has resulted in the SARB being relatively more aggressive in its interest rate hiking cycle. In its latest interest rate decision in May, the SARB decided to increase the repo rate by a further 50bps to 4.75%. Since November 2021, the repo rate has now increased by a total of 125bps.

In terms of economic growth, South Africa's GDP grew by a welcomed 1.9% quarter-on-quarter in the first quarter of 2022, higher than the 1.4% quarter-on-quarter growth recorded in the final quarter of 2021. While South Africa's economic performance surprised on the upside in the first quarter of the year, it is not necessarily indicative of underlying economic conditions. Concerns around electricity outages, rising fuel prices, ineffective policy implementation and corruption continued to dampen South Africa's overall performance.

In fact, some high frequency data in the first quarter of 2022, show that economic activity remained erratic and struggled to gain momentum. In fact, mining, manufacturing and retail sales all remain below the level of production and spending that prevailed prior to the onset of COVID-19 in 2020.

From the labour market perspective, South Africa's unemployment rate improved to 34.5% in the first quarter, helped by a gain of 370 000 jobs during the quarter. Youth unemployment also measured significantly better at 63.9% in Q1 2022, down from 66.5% in Q4 2021. At the same time, despite some job gains in the first quarter, the number of people employed (formal as well as informal) remains a troubling 1.468 million below the level of employment prior to the onset of COVID-19.

Positively, South Africa's tax revenue collection continued its strong momentum into the start of the second quarter, with growth averaging around 13% so far this year, much higher than the expected 2.2% growth presented in this year's budget. This was driven by improved revenue collection by government and very supportive in terms of trade position due to robust international commodity prices. In addition, the latest ABSA PMI tentatively indicated a rebound in economic activity from the devastating flood in KZN and intense load shedding, rising to 54.8 in May 2022 from 50.7 in April.

**What to expect in the second half of 2022?**

***"The second half of 2022 is likely to be extremely challenging for the South African economy."***

While the country is still benefitting from higher international commodity prices, a commensurate improvement in the trade balance as well as better than expected government tax revenue,

consumer inflation is likely to continue to rise given the record fuel price and rising food prices. In fact, consumer inflation is expected to increase to around 7% over the coming months, averaging above 6% for 2022 as a whole. This will encourage the SARB to keep raising interest rates, taking the repo rate up to around 5.5% by the end of the year compared with 3.75% at the end of 2021.

Unfortunately, South Africa's rate of economic growth is expected to remain sluggish during the remainder of 2022, limiting any meaningful uplift in employment. Clearly, the exceptionally high rate of unemployment is a national crisis, with significant social, economic and political implications, yet the political environment appears to still lack the level of urgency required to start to deal with the crisis. In that regard, the government's current emphasis on infrastructural development and policy reform needs to gain momentum.

The lack of momentum in the domestic economy reflects, not only an absence of fixed investment spending, but also sluggish consumer activity. In particular, the subdued pace of consumer spending is reflected in a moderation of real income growth as employment stagnates and wages struggle to keep pace with inflation. Equally, the lack of fixed investment activity is especially evident in the construction sector, which has declined in each of the past five years, and lost further momentum in the first half of 2022.

To a large extent, South Africa's economic challenges are reflected in weak business and consumer confidence, which are expected to remain subdued over the next six months given the combination of slowing real income growth, higher interest rates, high unemployment, record fuel and rising food prices, infrastructural bottlenecks, a distinct lack of progress in high profile corruption cases and increased political uncertainty.

Government remains committed to implementing key policy reforms, as well as reducing the infrastructural bottlenecks negatively impacting economic activity, including regular electricity outages, disruptions to water supply and breakdowns in critical port and rail infrastructure. Unfortunately, progress has been slow and likely to remain underwhelming over the next six months given budget constraints within the broader public sector, and a lack of appropriate skills within many municipalities.

Instead, senior government officials, including the President, are likely to continue to be hampered by political in-fighting, with the upcoming ANC policy conference in late July as well as the ANC elective conference in December 2022 dominating the political landscape. This, together with the increased bureaucracy relating to the approval of government projects will tend to distract policy officials from implementing critical reforms.

More encouragingly, South Africa's credit rating agencies have recognised the recent improvements in the government's fiscal position and are expected to affirm an improved credit rating outlook later in the year. In addition, the recent successful auction of Spectrum licenses should result in increased investment in the communications industry, while government has approved additional private sector investment in the energy sector, which will help to ease South Africa's electricity constraints over the next couple of years.

One of the key challenges the South African economy faces is that the traditional policy measures a country would typically use to revitalise economic growth are restricted – most especially fiscal and monetary policy. In particular, government can't afford to cut taxes extensively in order to boost household consumption and corporate investment given the extreme fiscal constraints. Equally, the South African government does not have the scope to meaningfully increase its own spending given that their current debt trajectory. At the same time, the SARB has clearly signalled that interest rates can be expected to move higher during 2022, which will increasingly act as a constraint on growth. This means that government's growth initiative (as outlined in the October 2020 Reconstruction and Recovery plan) needs to move ahead rapidly in trying to initiate a wide range of private/public infrastructure partnerships as a means to stimulate growth and employment. This includes deregulating economic activity and continuing to make it easier to do business.

STAND POINT

# Growing wealth in the age of data

## AT A GLANCE

*The rate of technological change creates exciting opportunities for investment management.*

*Advancing data science through artificial intelligence (AI) and machine learning (ML), combined with the powerful computing available today, gives portfolio managers more tools to build and manage portfolios that deliver to investors' expectations.*

*Reaching beyond pure investment performance and strategies, the use of technology across the full investment value chain is proving valuable.*

*The power of technology is enhanced by the people who use it. Adding human insights and creativity, the opportunities are truly endless.*

***By Chetan Ramlall,***
Senior Quantitative Analyst

**Over the last century, the rate of technological progress has far outpaced any period prior in human history, and we find ourselves in the midst of incredible change. As clients are seeking wealth preservation and real growth, it is important to realise that the landscape has shifted, and the winds of change are rapidly reaching gale-force proportions.**

Data has become the new king, the new commodity of the age and it is here, in the harnessing of this data, where the secret potentially lies to increasing our current resources so that they can meet our needs in the future. The tools of data science, artificial intelligence (AI) and machine learning (ML), combined with the powerful computing available today, represent a toolbox for many activities, including the management of our investments to achieve wealth creation and protection.

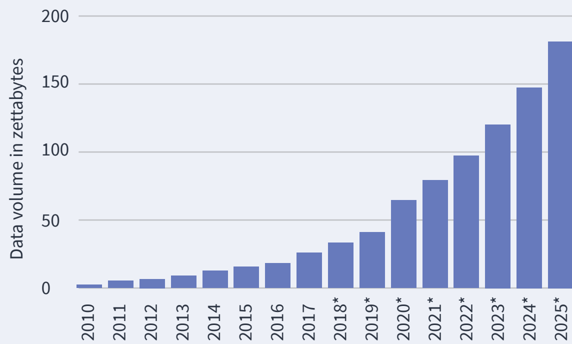
### Data in investment management

The proliferation of data over the last few decades has been truly unprecedented, with the advent of the internet ushering in the data age. The sheer amount of data being created, captured, and consumed worldwide is staggering. In research done by Seagate Technologies, it was estimated that, from 2010 to 2020, the total volume of data worldwide grew from a mere two zettabytes (ZB) per annum to 64 zettabytes, where one zettabyte is equivalent to one trillion gigabytes. These numbers are almost unfathomable and are expected to continue increasing exponentially, with no sign of slowing down.

With so much data at our fingertips, it is clear that, to extract the most value, a new set of skills and tools are needed. This is where data science, AI and ML come to the fore, as key weapons in the arsenal

of successful investment managers. In many ways we are entering a new commodity super-cycle, the difference is that this commodity comes in bits and bytes, as opposed to glitter and gold.

**Volume of data created, captured, copied and consumed worldwide from 2010 to 2025 (in zettabytes)**




*Sources: IDC: Seagate; Statista estimates*

We are increasingly seeing evidence that alpha (excess return above a benchmark) is more challenging to find when investing in markets across the globe. True alpha is becoming scarcer (a topic that has been deftly covered by Swedroe and Berkin in their book ), with research showing that most historical outperformance could be explained by exposure to various underlying risk premia or styles (Value, Growth, Quality, etc.) The ability to derive these insights and use them to construct systematic, data-driven, and unbiased investment strategies represents one of the most sustainable solutions for investors looking to grow wealth over the long term. For example, multi-style investing is rising to prominence , as such data-driven strategies have been shown to produce strong and uncorrelated alpha performance, achieve superior risk management, and accomplish all this at a low cost due to their systematic nature. The ability to leverage large, non-traditional datasets and apply the innovative techniques of AI and ML present further exciting avenues of research to improve investment performance and ultimately assist clients with building wealth into the future.

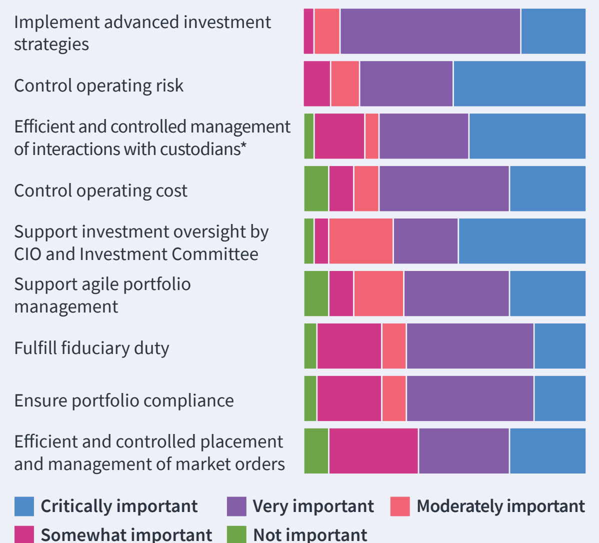
Even going beyond pure investment performance and strategies, the value-add of technology in the wider fund management process can no longer be discounted. Research conducted by the Milestone Group is compelling.

Among the global asset owners and investment managers surveyed, the vast majority rated the importance of technology in the above business areas as either critically important or very important. From implementing advanced investment strategies to supporting portfolio oversight and fulfilling fiduciary duties, it is technology overlaid upon data that ultimately ensures clients receive the best possible experience across all dimensions. Growing wealth sustainably is a non-trivial pursuit, and it is only by applying the best techniques across the entire investment value chain that you maximise the chance of success – delivering optimal financial outcomes.

## Looking to the future

As we reflect on and celebrate the last 20 years of STANLIB and the impact our business has had on the South African asset management space, it is crucial that we also keep an eye on the next 20 years. As a business we are choosing to embrace technology and the tools of the future, as the world and particularly investment management shifts into a new, digital era. It is neither man nor machine that independently holds the key to our future, but rather a potent combination of both. By building this foundation of data science and computing skills within our business, and then empowering our people to leverage it with human insights and creativity, the opportunities are truly endless. This journey is ultimately for the benefit of our clients, and it reaffirms our commitment to staying abreast of new technologies in the pursuit of protecting and growing client wealth over the long-term.

**How important is technology in support of the following objectives?**




*Source: Milestone Group*

As clients, it is crucial that your financial goals are aligned with the future we are stepping into and that you ask your investment managers whether their goals are similarly aligned. It will only be those asset managers who embrace these technologies, remain open-minded and have a willingness to learn and adapt quickly that will be able to best service the client needs of the future. In the words of American philosopher Eric Hoffer: “In times of change, learners inherit the earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists.”

[1] *The Incredible Shrinking Alpha, 2015, L. Swedroe and A. Berkin*
[2] *See the STANLIB Enhanced Multi Style Equity fund as an example*

STAND POINT

ESG investing in China:

# Considerations for Sustainable Portfolios

## AT A GLANCE

*While China's growth potential is undeniable, we are increasingly asked whether investing in China can be reconciled with investing sustainably.*

*Some of China's environmental issues merely reflect the fact that China has a very large population and its economy is still at a relatively early stage of development, with a much greater dependency on manufacturing compared to developed markets.*

*Social concerns in China often relate to the treatment of workers as well as broader public health issues relating to living standards, particularly with regards to pollution in cities. China's record on human rights and treatment of ethnic minorities is also regularly highlighted as a cause for concern.*

*Corporate governance standards are on an upward trend, particularly in "new economy" sectors, such as technology, and more commonly in companies listing on the A-share market*

*ESG considerations for Chinese assets will remain a complex and emotive topic for the foreseeable future, as they encompass a spectrum of varying beliefs and opinions.*

***Karen Ward,***
Chief Market Strategist for EMEA, and

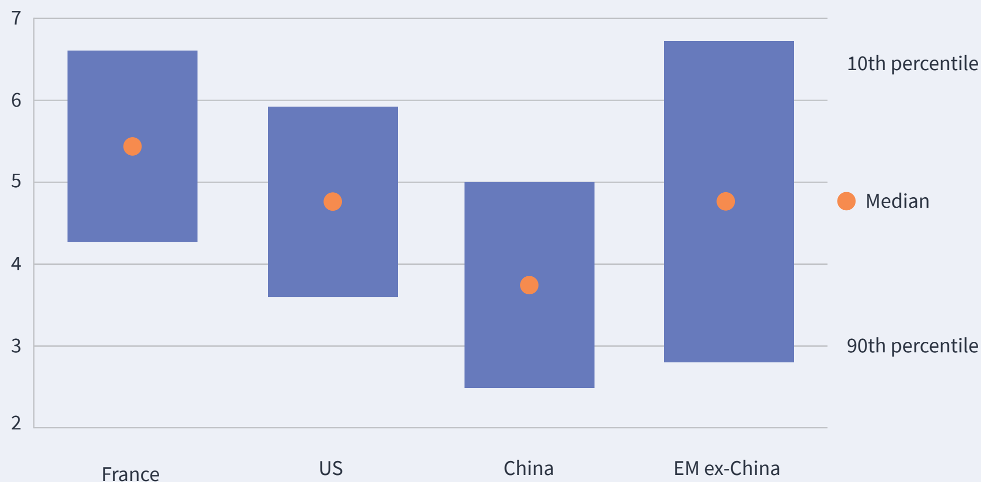
***Hugh Gimber,***
Global Market Strategist, at J.P. Morgan Asset Management

**With the Chinese economy maturing and personal incomes rising rapidly, China is fast becoming the world's biggest consumer market. Within the next two decades, almost all forecasters expect China to be the biggest economy in the world, by nominal GDP. At the same time, J.P. Morgan Asset Management's Long-Term Capital Market Assumptions rank China close to the top of the table for expected stock market returns over the coming 10 to 15 years.**

While China's growth potential is undeniable, we are increasingly asked whether investing in China can be reconciled with investing sustainably. In this piece we tackle this complex conundrum by looking at the environmental, social and governance (ESG) considerations raised by investing in China. Median ESG scores are lower for Chinese companies relative to developed markets based on MSCI data, but the range within each region is typically larger than the range across different regions.

We find that the arguments are not always black and white. The lens may change, for example, when thinking about investing in individual companies domiciled in China, versus investing in the state directly via Chinese government bonds. Nevertheless, each reader of this report will likely have a different view on the relative arguments of ESG investing in China.

**Exhibit 1: Weighted average ESG scores**
**MSCI ESG score**



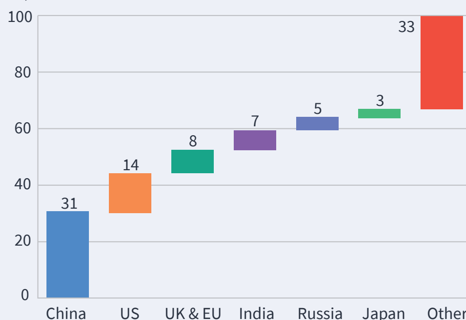

*Source: MSCI, J.P. Morgan Asset Management. The score represents the weighted average of the scores received by MSCI on all the key issues contributing to the final rating of the company. Data as of 11 May 2022.*

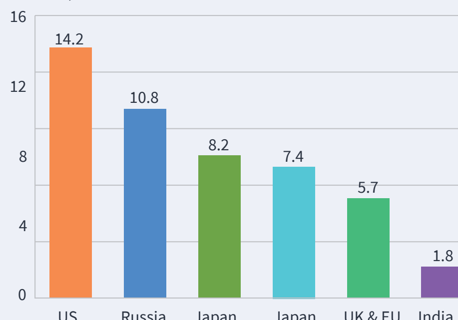
## China environmental considerations

On many metrics China does not stack up well on environmental matters. China's greenhouse gas emissions exceeded those of the developed market economies combined for the first time in 20191. Last year the administration pledged to end financing of overseas coal-fired power plants, but Chinese banks financed nearly 70% of the world's coal power projects from 2016-2020 under its Belt and Road initiative, according to the Council on Foreign Relations. While Beijing has committed to carbon neutrality by 2060, China's emissions are set to continue rising to the end of this decade.

However, some of China's environmental issues merely reflect the fact that China has a very large population and its economy is still at a relatively early stage of development, with a much greater dependency on manufacturing compared to developed markets. For example, China is the biggest emitter of greenhouse gases in absolute terms, but in per capita terms, Chinese emissions are only just over half that of the US. Production that has been outsourced from developed markets to China is another factor. Researchers from the University of Chicago have estimated that roughly 15% of Chinese emissions are attributable to goods that are exported and consumed abroad. We are also seeing China accelerate its environmental ambitions in an international context. Beijing's efforts on a Common Ground Taxonomy, which targets greater international alignment on green taxonomies, under the International Platform for Sustainable Finance platform is one example.

**Exhibit 2: CO2 emissions across regions**




*Source: (Both charts) Gapminder, Global Carbon Project, Our World in Data, United Nations, J.P. Morgan Asset Management. CO2 emissions are from the burning of fossil fuels for energy and cement production. Emission impact from land use change (such as deforestation) is not included. Data as of 31 March 2022.*

China's environmental policy is also driving the rapid increase in renewable energy infrastructure. China has ambitions to take 25% of its energy use from renewables by 2030, which although below the European Union's 40% target, may be more straightforward to reach. China is by far the biggest manufacturer of renewables equipment, commanding 50% of global wind turbine production, 66% of solar panel production and 90% of the battery storage market2.

The electrical infrastructure that can make use of renewable sources of energy is also advancing rapidly. China's electric vehicle penetration passed 15% in 2021 and is comfortably on track to exceed the 20% target for 2025 according to the International Energy Agency (IEA). By contrast, electric vehicle penetration in the US is less than 5%.

Emissions trading is another area where China is making progress from a low base, having launched a national emission trading scheme (ETS) in 2021. While the launch came more than 15 years after the European Union started their equivalent market, China's carbon market is now the largest in the world. After a flurry of activity post the launch, data quality issues have subsequently delayed the market's expansion into other industries outside of electricity.

**Exhibit 3: Electric vehicle sales market share**

*Source: International Energy Agency, China Passenger Car Association, J.P. Morgan Asset Management. Data as of 11 May 2022.*

### China social considerations

Social concerns in China often relate to the treatment of workers as well as broader public health issues relating to living standards, particularly with regards to pollution in cities. China's record on human rights and treatment of ethnic minorities is also regularly highlighted as a cause for concern.

While worker rights sit well below the strict standards rigidly enforced in Europe, for example, the Chinese authorities have been making strides on this front. In 2021, the Chinese Supreme Court ruled that the 9-9-6 working practice (9am to 9pm, six days a week), which had been commonplace in industries such as technology, was illegal. In April 2022, China approved the ratification of 20 International Labour Organization conventions on forced labour.

With regards to broader social standards, again the conclusion is that progress is being made, albeit from a very low base with substantial further progress required. One example is China's air pollution, where greater efforts to regulate and move key polluting activities away from densely populated areas have improved air quality in cities, such as Beijing and Shanghai, by roughly 50%3. Lower China air pollution levels have resulted in an increase in life expectancy of two years since 2013, although we note that the national average levels of pollution still sit six times higher than the World Health Organization guidelines.

There has been significant progress on poverty alleviation, where the Chinese government has had considerable success dispersing the fruits of the country's economic development through to its population. Over the past 40 years, the number of people in China with incomes below $1.90 per day – the International Poverty Line as defined by the World Bank – has fallen by 800 million.

In the recent decade, higher income cohorts have seen incomes rise more quickly, but President Xi has made "common prosperity" a key policy agenda to reduce income and wealth inequality. The common prosperity drive has also led to new initiatives that aim to better protect individuals across the economic spectrum, such as pressure on businesses to provide insurance for employees.

**China governance considerations**

When it comes to governance, state governance and corporate governance should not be viewed as interchangeable for China investment. State level considerations may often be more relevant for fixed income investors than equity investors given the size of the government bond market. The lack of democracy is a worry for many investors, with trepidation as to the ambitions of authoritarian regimes increasing further following Russia's invasion of Ukraine. Yet at the same time, the inclusion of Chinese government bonds in flagship indexes such as the FTSE World Government Bond Index (WGBI) that started in 2021 is helping to provide overseas investors with more comfort that China is determined to attract more foreign capital, and therefore willing to becoming increasingly aligned to international standards.

At a corporate level, governance scores on average are significantly lower than for developed market peers, but closer to those of other emerging market countries. The weight of state-owned enterprises (SOEs) in major indices is one area of concern: while China now has more companies on the Fortune Global 500 list than any other country, nearly 75% of these are SOEs.

Nevertheless, we do find that corporate governance standards are on an upward trend, particularly in "new economy" sectors, such as technology, and more commonly in companies listing on the A-share market. The quality and availability of corporate reporting is also improving, with the proportion of companies in the CSI 300 index producing ESG reports nearly doubling over the past decade, for example.

**Conclusion**

One thing is certain: ESG considerations for Chinese assets will remain a complex and emotive topic for the foreseeable future, as they encompass a spectrum of varying beliefs and opinions. Across E, S and G factors, there are areas where China is making great strides, and there are other areas where investors would like to see much more progress. It is also clear that the decision to invest in Chinese state assets is very different to investing in companies in China. Looking ahead, we expect the relative weights that our clients assign to each issue will likely determine the role of Chinese assets within a sustainable portfolio.

*[1] Rhodium Group, https://rhg.com/research/chinas-emissions-surpass-developed-countries/*
*[2] Wood Mackenzie, https://www.woodmac.com/press-releases/chinas-renewables-boom-year-poses-major-challenges-to-western-markets/*
*[3] University of Chicago Air Quality Life Index, https://aqli.epic.uchicago.edu/wp-content/uploads/2022/02/China-Report_FEB2022-2.pdf*

# Meet the Manager

## A STANDPOINT Q&A

## Vanessa Mathebula

**Quantitative Analyst**

In this edition of STANDPOINT, we meet **Vanessa Mathebula.** Vanessa is a quantitative analyst in the Index Investments team at STANLIB, which she joined four months ago from Prescient Investment Management. Vanessa is not only skilled with numbers and data, she's also passionate about health and well-being and specifically physical fitness.

### 1. You're a quantitative analyst for STANLIB's Index Investment team. Can you share what a typical week at work would look like for you?

On any given week, we start each day with a Morning Scrum, our daily team meeting. The purpose of the meeting is to 'set the scene' for the day. For instance, we have a financial markets update where we discuss how local and global financial markets are performing and factors driving change. We also discuss trading activities in the various funds we manage, as well as any projects we may be working on.

Once the scene is set, the rest of my day will be spent conducting research and analysis around how we can add value to our clients' portfolios. Our team champions holistic integration, so I also dedicate time to presenting our process and fund research to various teams of stakeholders, including the portfolio managers. I am constantly monitoring and analysing data and the role calls for me to "think out of the box" when presenting findings.

### 2. What encouraged you to work in asset management and what aspects of your job do you feel most passionate about?

I enjoy finance and investing and have always been inspired by the idea of being in a position where I am able to make other people's lives better. I looked for a career that would align with my skills, passions and

these values. Asset management met the criteria. I chose to focus on Investment Management in both my undergraduate degree (as an elective in my BCom Economics and Econometrics degree) and in my BCom Honours Investment Management degree. I also pursued an MSc in Financial Engineering and Risk Management which is a beneficial qualification in the industry.

In our day-to-day lives, it is no secret that money is the most important 'material' commodity. It should, therefore, be managed in the most prudent manner, ensuring that future generations are able to reap the rewards. When done right, asset management enables sustainable capital creation. This is one of the main reasons that I am attracted to this field. I believe we make a difference, one rand at a time.

Working within the STANLIB Index Investments team is both inspirational and fun. This job allows me to work with dynamic innovative people while embracing my passion for technology. We are a data-driven team and some of our strategies are backed by cutting-edge technology.

### 3. From your perspective, what are some of the risks and opportunities facing South African investors right now?

Inflation is undoubtedly one of the biggest risks facing the South African investor and consumer. With relatively high and rising inflation, we can expect the Monetary Policy Committee to continue increasing interest rates, which may help to curb inflation but will also lead to higher instalments on our mortgages and vehicles. Unfortunately, SA suffers from historically high unemployment rates. The pandemic worsened this problem, and the recovery to date has unfortunately been dismal.

It is not all doom and gloom. For those who are able to spare some rands to save or invest, the higher interest rate environment opens opportunities for capital appreciation. On the other hand, the recent Regulation 28 increase in offshore allocation to 45% provides further opportunities to diversify one's portfolio globally. Finally, with recovery of global economies from the pandemic, SA's exports (platinum, gold, diamonds and industrial machinery) can be expected to rebound. This will create various advantages for the local market.

### 4. STANLIB turns 20 this year. What are your thoughts around how the asset management industry may shift over the next 20 years and how STANLIB may change as a key player?

My perspective comes with a focus on technology. Big Data has become an important commodity in the asset management industry. With such data, we can use sophisticated tools (e.g. machine learning and artificial intelligence) to derive great inferences. When combined with a well-defined set of rules that allow managers to create an investment strategy that performs well in various economic conditions it ensures that sustainable value is created for our clients.

The asset management industry will shift further to make better use of technological advancements, not only to structure the best portfolios, but to ensure that risks are properly managed. I do see STANLIB as a key player, and already we have various initiatives, including a business-wide machine learning initiative, which will ensure the business is future-proof.

### 5. What makes you positive about living and working in SA?

I am a free-spirited vibrant person and I believe that SA complements this characteristic. The spirit of Ubuntu still lives within South Africans. I feel it every time I pass by a stranger, and they greet me. Such a trivial act, but with so much impact! SA's weather makes it a country I would not trade for any other. I enjoy outdoor activities and the weather makes it a perfect place for someone like me.

STAND POINT

Performance at a Glance

# Market Indicators

## For the period ended June 2022

| | 1 Year | 3 Years* (p.a.) | 5 Years* (p.a.) | 10 Years* (p.a.) |
|---|---|---|---|---|
| SA markets | % | % | % | % |
| All share (J203T) | 4,7 | 8,2 | 8,7 | 10,5 |
| Top 40 (J200T) | 4,6 | 8,6 | 9,3 | 10,7 |
| SWIX (J403T) | 2,8 | 5,6 | 5,9 | 9,3 |
| Financial 15 | 16,9 | -0,6 | 4,9 | 8,9 |
| Industrial 25 | -7,2 | 5,2 | 4,2 | 11,7 |
| Resource 10 | 8,5 | 15,9 | 21,7 | 7,3 |
| Property (J253T) | 0,2 | -9,0 | -7,3 | 2,7 |
| Inflation (CPI) | 6,5 | 4,6 | 4,5 | 5,1 |
| All bond index (ALBI) | 1,3 | 5,8 | 7,8 | 7,2 |
| Cash (STeFI) | 4,2 | 5,0 | 5,9 | 6,1 |
| Offshore markets (Base currency) | | | | |
| MSCI World Index (ZAR) | -1,3 | 13,0 | 13,2 | 18,0 |
| MSCI ACWI (ZAR) | -2,9 | 12,2 | 12,4 | 17,2 |
| Bloomberg Global Aggregate (ZAR) | -2,8 | 1,7 | 4,0 | 7,3 |
| FTSE EPRA Nareit Developed Rental Index (ZAR) | -0,7 | 4,5 | 6,8 | 12,4 |

*Source: Morningstar, June 2022*
**annualised*

STAND POINT

## Performance at a Glance

# Core Fund Performance

## For the period ended June 2022

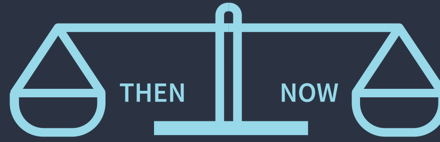
| | Fund | 1 Year | | 3 Years | | 5 Years | | 10 Years | | *Highest or lowest annual returns over the last 10 years (%)* | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Return (%) | Quartile | Return (%) | Quartile | Return (%) | Quartile | Return (%) | Quartile | Highest | Lowest |
| *INCOME* | STANLIB Income Fund | 4,91 | 2 | 5,86 | 2 | 6,93 | 2 | 6,98 | 1 | 9,63 | 4,41 |
| | STANLIB Flexible Income Fund | 4,53 | 2 | 6,40 | 1 | 6,44 | 3 | 6,81 | 3 | 11,86 | 1,84 |
| *STABLE GROWTH* | STANLIB Balanced Cautious Fund | -2,25 | 4 | 5,74 | 2 | 5,89 | 2 | 7,22 | 3 | 21,03 | -2,25 |
| | STANLIB Absolute Plus Fund | 5,21 | 1 | 7,09 | 2 | 6,40 | 2 | 8,03 | 2 | 19,64 | -3,86 |
| *GROWTH* | STANLIB Balanced Fund | -3,69 | 4 | 4,92 | 4 | 5,53 | 3 | 7,67 | 3 | 29,84 | -7,46 |
| | STANLIB Equity Fund | -2,73 | 4 | 4,26 | 4 | 5,46 | 3 | 8,3 | 3 | 37,74 | -12,78 |
| | STANLIB Enhanced Multi-Style Equity Fund | 7,56 | 2 | 7,61 | 2 | 9,83 | 1 | -- | -- | 69,74 | -29,92 |
| | STANLIB Property Income Fund | -2,19 | 4 | -10,11 | 4 | -9,34 | 4 | 1,68 | 3 | 61,04 | -51,80 |
| *OFFSHORE (ZAR)** | STANLIB Global Equity Fund | -14,28 | 4 | 8,26 | 3 | 10,77 | 2 | 15,40 | 2 | 56,44 | -14,28 |
| | STANLIB Global Balanced Fund | -8,57 | 4 | 6,43 | 3 | 8,57 | 1 | 12,23 | 2 | 37,05 | -12,93 |
| | STANLIB Global Property Fund | -3,24 | 4 | 1,56 | 4 | 4,58 | 3 | 10,01 | 3 | 43,48 | -19,27 |

*Source: Morningstar*

**STANLIB Global Growth Fund and STANLIB Global Multi-Strategy Diversified Growth Fund were launched in 2022. These funds are managed by JP Morgan Asset Managed. Find out more https://stanlib.com/moreglobal-growth/ and https://stanlib.com/multi-strat-diversified-growth/*

STAND POINT

# Beside the point




| 2002 | THEN / NOW | | 2022 |
|---|---|---|---|
| **Spiderman** $403,706,375[1] | | Top grossing movie | **Doctor Strange** $398,137,923[1] |
| **Janet Jackson** US | | Grammy Award winner Best Dance/ Electronic Album | **Black Coffee** SA |
| **Michael Schumacher** | | Formula One World Champion (Driver) | **Who will it be?** Max Verstappen or Charles Leclerc? |
| **Bill Gates** $52.8 billion[2] | | Richest person in the world | **Elon Musk** $224 billion[3] |
| **Serena Williams** US | | Top woman tennis player | **Iga Swiatek** Poland |
| **6.273 Billion[4]** | | World population | **7.888 Billion[4]** |
| **R8.65** as at 31 December 2002[5] | | Rand vs Dollar | **R16.08** as at 14 June 2022[6] |
| **17%** as at 31 December 2002[7] | | Prime lending rate | **8.25%** as at May 2022[7] |
| **$50.42** as at 31 December 2002[8] | | Crude oil price (average) | **$121.70** as at 14 June 2022[9] |
| **$0.2559** as at 31 December 2002[8] | | Apple iPhone average stock price | **$131.88** as at 13 June 2022[10] |
| **US $2.49 / SA R9.70** as at December 2002[11] | | Big Mac price | **US $5.81 / SA R39.90** as at 2022[12] |

*[1]Source: IMDbPro [2]Source: Forbes [3]Source: Investopedia [4]Source: Wikipedia [5]Source: Reserve Bank [6]Source: Bloomberg [7]Source: CIEC Data [8]Source: Macrotrends [9]Source: www.tradingeconomics.com [10]Source: www.investor.apple.com [11]Source: Big Mac Index for 2002 [12]Source: www.statista.com*

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Portfolio performance figures are calculated for the relevant class of the portfolio, for a lump sum investment, on a NAV-NAV basis, with income reinvested on the ex-dividend date. Individual investor performance may differ due to initial fees, actual investment date, date of reinvestment of income and dividend withholding tax. Portfolio performance accounts for all costs that contribute to the calculation of the cost ratios quoted so all returns quoted are after these costs have been accounted for. Any forecasts or commentary included in this document are not guaranteed to occur. Annualised return figures are the compound annualised growth rate (CAGR) calculated from the cumulative return for the period being measured. These annualised returns provide an indication of the annual return achieved over the period, if an investment had been held. A portfolio that derives its income primarily from interestbearing instruments calculates its yield daily and is a current effective yield. STANLIB Collective Investments (RF) (PTY) Ltd is an authorised Manager in terms of the Collective Investment Schemes Control Act, No. 45 of 2002.

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