

Q3 | August 2021

STAND POINT

**Women
in asset
management
diversify
more than
the portfolio**

STANLIB



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From our StandPoint



A note from our Head of Institutional Distribution,
Tracy Coetzer

As we celebrated women in society and business in August, it reminded me how privileged and proud I am to work for an organisation that has a culture that genuinely embraces the diversity and inclusivity of women.

At STANLIB, we know that transformation brings about diversity, which benefits us, and that women in our workplace not only deliver quality work but add important dimensions to the culture and spirit of our business. We are grateful to the dynamic women at STANLIB for bringing fresh perspectives and lifting our industry and business to new heights. It is only fitting then, that we share insights from some of these remarkable women in this edition of STANDPOINT.

In this edition

It has been an eventful quarter in SA. Our government fiscus continued to benefit handsomely from cyclical factors that are driving commodity performance. This is evident in the performance of the JSE Resources sector¹ which delivered 12.6% year to date to 20 August. Unfortunately, this revenue bonus will be dampened by costs to rebuild infrastructure and businesses following the devastating unrest in KwaZulu-Natal and Gauteng that occurred in July.

A third wave of COVID-19 infections plunged the country back into another restricted lockdown, with Gauteng experiencing the worst effects. Many of us have been personally touched by the devastating health and economic consequences. I share my deep sympathy if you have lost loved ones. Fortunately, the vaccination programme has gathered pace, and as Ndivhuho Netshitenzhe, STANLIB's economist, writes, the swift roll-out of **vaccines will bring multiple and exponential benefits to our country**, the health of our people and their livelihoods.

As we draw on much-needed resilience to move forward as a nation, we can feel comforted by the bigger picture. Thuli Khumalo, portfolio manager in our Credit Alternatives investment team, reminds us that government initiatives to drive energy reform have started to take shape, and have accelerated in the last quarter. With this comes the **opportunity to truly rebuild SA through investment** in a sustainable and responsible manner.

Of course, investing in South African business is not without risk, however, with a **robust and comprehensive credit process**, we can manage that risk while investing for growth.

Tarryn Sankar, head of credit in our Fixed Income team, sheds some light on the credit process and the health of our state-owned enterprises and reflects on the critical roles these entities play in driving sustainable growth and socio-economic well-being.

Pauline Grange, head of responsible investing at our offshore partner, Columbia Threadneedle, adds a **longer-term perspective on the fashion industry**, regardless of where markets end in 2021. It is hard to believe that the textile industry is the world's largest polluter. However, growing environmental consciousness among consumers and businesses is driving a shift to a more circular economy as we race to save the planet.

A refreshed campaign and tagline

In closing, like the fresh perspectives from our STANDPOINT contributors, you may have noticed a difference in the publication's design. The refreshed design forms part of our new campaign to support our belief that, to navigate this changing world, it is necessary to challenge the status quo and strengthen the science of investing with the power of imagination.

This campaign, which will run from the end of August to the first quarter of 2022, will bring about our new brand identity and tagline, Imagine More, across multiple news platforms, print and social media. During this time, we want to show how imagining more can help you realise your needs to invest for security, returns, offshore diversification and socially responsible investing. Find out more about it here <https://www.youtube.com/watch?v=klsw9UFVvSU>

Thank you, as always, for partnering with STANLIB. I am pleased you have this opportunity, like me, to recognise the women in our industry, the value they bring to our business and, most importantly, the fresh dimensions they bring to our culture.

Stay safe and get vaccinated!

Regards

Tracy Coetzer

Women inclusivity in numbers

The world is changing and embracing the role of women across many industries and recreational activities that have historically been male-dominated. While many countries continue to grapple with gender inequality, it's heartening to see that many stats show that the inclusion of women has continued to trend upwards or is at least remaining strong...but we still have a long way to go.

WOMEN IN BUSINESS


 **28%**
of managerial positions globally in **2019** were held by women. The **same as in 1995**

 **30%**
Women in managerial positions in Sub-Saharan Africa **exceeds the global average**

 **18%**
of companies surveyed by the World Bank had a **woman as Chief Executive Officer**




 **13%**
of **SA Executive Directors** (including CEO, CFO) are women

WOMEN IN GOVERNMENT

Women representation in government has **DOUBLED** but is still at **25%** of seats in 2020  Globally, women cabinet ministers have **QUADRUPLED** but are still **22%** of ministers

South Africa is a global leader for gender equality in cabinet at **47%**

WOMEN IN EDUCATION

 **34%**   **26%**

Women more likely to have earned a bachelor's degree than men in the US

WOMEN ATHLETES IN THE SUMMER OLYMPICS



1972

1059

5386

14.8%
of athletes



2020

48.8%
of athletes

South Africa's economy needs a swift vaccination roll-out

AT A GLANCE

A faster vaccine roll-out will have significant positive results for our health, livelihoods and economic recovery.

Vaccines will protect against severe disease, relieve pressure on the healthcare industry and prevent the emergence of more severe strains and waves.

Limiting further lockdowns is critical to improve livelihoods. In SA, over 2 million people lost their jobs in 2020 due to the impact of lockdowns.

Reaching herd immunity will allow government to shift its focus back to its policy reform agenda.



By Ndivhuo Netshitenzhe,
STANLIB economist

SA's COVID-19 vaccine roll-out has been slow. At the beginning of the roll-out programme, the country faced significant supply issues, failing to timeously secure sufficient doses. Once supplies started trickling in from February 2021, vaccine distribution and delivery strategies were flawed.

Given these and other challenges, the government has had to revise its target for reaching herd immunity (fully inoculating around 40 million South African adults) from December 2021 to March 2022. Positively, the country has subsequently made much better progress in distributing the vaccine around the country, increasing the daily vaccinations from a mere 5 500 at the end of April to a daily peak of over 260 000 in July.

Although this momentum subsided during the violent protests and looting in KwaZulu-Natal and parts of Gauteng in mid-July, the government is close to reaching its target of vaccinating 300 000 people per day. Surpassing this target and bringing forward, as much as possible, the herd immunity goal will deliver many significant benefits for the country. These benefits fall under three main headings: health and well-being, livelihoods, and broader economic benefits.

Currently, (as at 23 August), SA has vaccinated over 10.5 million people, representing almost 18% of the population, with just over 8% of the population being fully vaccinated.

Vaccinate for better health

Research has shown that COVID-19 vaccines help to reduce the spread of the virus between people, making it relatively less contagious. As the world makes significant strides towards herd immunity, it may limit the emergence of other, more serious, waves of COVID-19. In addition, faster vaccination drives reduce the risk that more contagious variants (like Delta) and possibly more deadly ones will develop. It will also limit the ongoing psychological impact of this pandemic.

Unfortunately, vaccination does not fully protect people from becoming infected, so the distribution of the various vaccines will not eliminate COVID-19 completely. Most countries will have to introduce a booster vaccine for the more vulnerable portion of their populations, possibly on an annual basis.

There is clear evidence that all vaccine types and brands help to protect against becoming severely sick, with some even protecting from mild sickness. This should help to ease the pressure on the healthcare system, and free up hospital capacity for patients in need of treatment for other conditions.

Recent developments in the UK provide proof. Hospitalisation rates have remained well contained, with low levels of new deaths from the virus, despite a rise in COVID-19 cases since May in a population where 60% of adults are fully vaccinated. In contrast, hospitalisations and death rates in SA have spiked since the start of the third wave. The hope is that, with herd immunity, COVID-19 will eventually be seen as a severe flu, rather than something that requires significant social and economic interventions.

Vaccinate for better livelihoods

It goes without saying that the COVID-19 pandemic has significantly affected people’s livelihoods and plunged millions into poverty. Various lockdown measures in SA since March 2020 have caused significant job losses and other income shocks. During the worst of the lockdowns last year, 2.2 million people lost their jobs, with millions falling into poverty. Informal economy workers have been particularly vulnerable because the majority lack social protection and have lost access to productive assets. Without the means to earn an income during lockdowns, many are unable to feed themselves and their families.

While government’s efforts to minimise the impact of lockdown measure on business,

households and their incomes were welcomed, these support measures have been relatively brief. This is despite additional waves and ongoing lockdown measures well into 2021. This has left many individuals and businesses more vulnerable than ever at a time when other countries, which have fast-tracked vaccine roll-outs, are re-opening their economies.

Unfortunately, women have been disproportionately affected by the pandemic. Not only have they lost more jobs than men (with 14.7% of women losing their jobs compared with 12.8% of men), they remain under-represented in the COVID-specific government income support programmes provided for unemployed and furloughed workers. According to NIDS-CRAM surveys, only around 35%-39% of the UIF-TERS beneficiaries or the COVID-19 grant recipients were women. The time that women spend on childcare was found to be relatively more responsive to school closures and re-openings than the time men spend on childcare. Far more women than men cite childcare responsibilities as a constraint on their labour market activities.

Despite some easing of lockdown measures compared to last year, SA’s labour market remains extremely weak. The high levels of uncertainty surrounding further waves of COVID-19 and lockdowns has undermined employers’ willingness to hire back the people who lost their jobs during the initial lockdown phase. The number of employed is still 1.4 million below the level of employment at the end of 2019 (prior to COVID-19).

A more effective distribution of vaccines is clearly an important solution in reversing the effects of the pandemic on people’s livelihoods in SA. It would be particularly beneficial in enabling women to return to the labour market. It appears unlikely that SA’s labour market will recover fully until the country has reached population herd immunity – which at this stage is likely to be achieved only in the first half of 2022.

Vaccinate for broader positive economic impact

The sooner the government rolls out the vaccine, the sooner the economy can open

up and activity can normalise. Many of the economic benefits SA stands to gain following successful vaccination are already being experienced by a number of major economies, including the US, UK and parts of Europe.

Firstly, it will increase activity in service sector industries, the most negatively affected area of the economy. In particular, leisure and hospitality, entertainment, restaurants/bars/clubs and travel will benefit. While the South African government has endeavoured to minimise the economic impact of the various COVID-19 restrictions, large portions of the economy have been unable to function effectively for more than a year. For example, international tourism has been stifled, as the emergence of the Beta variant resulted in warnings against travelling to SA from countries such as Germany and the UK.

The US has already enjoyed service sector improvements. The number of passengers using their airports on a daily basis fell from an average of around 2.3 million prior to COVID-19 to a low of around 100 000 a day during the height of the COVID-19 lockdown. Following the increased distribution of the various vaccines, that number has increased to around two million currently. There has been a noticeable surge in airline travel during the second quarter of 2021, as the proportion of people who are fully vaccinated approaches 50%.

While many industries have been able to remain open throughout the COVID-19 crisis, many individual businesses have introduced their own internal restrictions to limit the spread of the virus. In many instances, these restrictions have impinged upon the overall performance of the business. For example, in the mining sector, changing operating practices such as social distancing, screening, testing and closing mine shafts if there is a COVID-19 outbreak have added to cost pressures. Consequently, the productivity of the business sector would benefit significantly from a substantial increase in the number of vaccines, especially if that resulted in the country reaching some form of population immunity.

Critically, while many businesses have managed to adapt to the impact of COVID-19, the increased level of uncertainty has undermined both business and consumer confidence. This increased level of uncertainty has also meant that fixed investment spending,

especially on machinery and equipment, transport equipment or technology upgrades, has been put on hold.

Another benefit of increased vaccination rates is an increase in tax revenue. This would follow from a substantial re-opening of the economy, greater shopping centre activity, which would boost retail sales, and more consistency in the provision of education, especially at a school level – all of which benefit economic performance. In addition, vaccinating the population has the potential to ease the social tensions related to the extended lockdown measures in the country.

Finally, and probably most importantly, reaching herd immunity through vaccinating South Africans will allow government to shift its focus from managing the pandemic back towards its policy reform agenda. The pandemic has further slowed the already sluggish reform process.

Conclusion

A more aggressive vaccine roll-out in SA will ease government's dilemma between saving lives and preserving livelihoods and allow it to focus on ensuring that economic recovery remains on track.

A faster vaccine roll-out is already proving to be beneficial from both a health and economic perspective for many countries around the world.

However, reaching herd immunity is not a silver bullet to resolve the country's socio-economic ills. High unemployment (especially among the youth), rampant inequality, rising poverty and a lack of sustainable economic development remain structural issues in the country. These issues require government to implement appropriate reforms and investment-friendly policies. Aside from a few welcome regulatory reforms related to electricity, SAA and ports, government in general has been slow in implementing the structural reforms and policies needed for long-term socio-economic prosperity. Without these reforms, SA will be stuck in a low-growth environment, even when COVID-19 becomes a thing of the past.

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Fashion sashays into circular economy

AT A GLANCE

The textile industry is one of the highest polluting industries in the world and little of what the industry produces is recycled or reused.

There is a growing shift to a more sustainability-conscious consumer and rising regulation around building a more circular economy.

Adidas is a good example of a company seeking to capitalise on the circular economy trend.

Their initiatives include incorporating sustainable fabrics and seeking ways to improve the longevity of fashion items and ensuring their products are biodegradable.



By Pauline Grange
Deputy Portfolio
Manager: STANLIB Global
Equity Strategy and the
Threadneedle Sustainable
Strategy

The textile industry is one of the industries in the world that rank very high in terms of pollution. This industry emits more CO₂ than aviation and shipping combined. But a leading sports firm is showing a way the sector can embrace radical change.

I love shopping for clothes – I admit it. But increasingly, my shopping is tinged with guilt. I am now much more aware of the terrible environmental impact that fashion has: the textile industry is one of the most polluting industries in the world. Around 100 billion apparel items are sold each year, which is a 50% increase over 2006.¹ This is largely due to the rise in fast fashion – cheap, high-fashion items. In fact, the industry now emits more CO₂ than the aviation and shipping industries combined and uses 79 billion m³ of fresh water a year, while causing around 20% of industrial water pollution.²

Unfortunately, very little of what the industry produces is recycled or re-used. Most items end up in landfills or are incinerated within a year of production.³ According to the Ellen Macarthur Foundation, the global fashion industry produces about 53 million tonnes of fibre a year, more than 70% of which ends up in landfills or bonfires. Less than 1% is re-used to make new clothes.⁴

With heightened awareness, I have changed my consumption patterns – I now buy fewer but high-quality items. In addition, I have changed my negative attitude to buying second-hand clothes and now happily scour for bargains online or in local charity shops. And it looks like I'm not alone: 70% of women either have, or are now open to shopping for second-hand clothing, up from 45% in 2016.⁵ As a result, rental and resale fashion platforms are growing strongly.⁶

“The global fashion industry produces about 53 million tonnes of fibre a year, more than 70% of which ends up in landfills or bonfires. Less than 1% is re-used to make new clothes.”

In fact, consumers are increasingly prioritising sustainability, which is starting to influence the way they shop. Nearly 2.5 times more consumers plan to shift their spending to sustainable brands.⁷ At the same time, regulation to build a more circular economy is rising too, such as the EU Circular Economy Action plan, which aims to shift production and consumption from the linear “Take, Make, Dispose” model to more circular use of products and materials.⁸

Adidas is a good example of a company seeking to capitalise on this trend. Its production and promotion of technical sports performance products contribute positively to social themes like good health and well-being. In any case, fitness wear is generally worn more frequently and for much longer than high-fashion items. Adidas is also a sustainable leader in the industry and has detailed its innovations towards making its products more circular and sustainable. Its target is to have nine out of 10 of its articles environmentally sustainable by 2025, using a “Three-loop” strategy⁹:

1. **Recycled loop:** sourcing recycled raw materials outside its own products, such as 100% recycled polyester or Parley ocean plastic waste (upcycled plastic waste collected on shorelines and coastal areas).
2. **Circular loop:** producing items that can be recycled and re-made into new Adidas products – “made to be re-made”. It has launched an Ultraboost trainer that can be returned, recycled and subsequently re-made into a new pair, and aims to expand this concept to more franchises and categories over time.
3. **Regenerative loop:** if products cannot fit into the categories above, Adidas aims to make them from natural materials that are biodegradable.

Management has set a target for 100% of the group’s products to use only recycled polyester by 2024, aided by the introduction of sustainable fabrics.¹⁰ This all sounds positive, but we wanted to see first-hand how sustainability was embedded into the company’s marketing and products on the shop floor. So, more than a year after our last visit, we revisited the Adidas flagship store on Oxford Street, London.

Adidas has improved the integration of sustainability across its product ranges. Before, “green” ranges were showcased separately and in very limited parts of the store. Today, recycled materials are evident across all the ranges throughout the store.

Adidas uses two sustainable materials in its ranges, which are clearly marked (with a label) on different apparel items and trainers:

- **Primeblue:** a high-performance yarn made with at least 50% Parley ocean plastic.¹¹
- **Primegreen:** a series of high-performance materials that are made from recycled ingredients.

When we looked through men, women and children’s apparel and trainers, it was evident these products made up a substantial percentage of each range. This is a huge advance from a year ago.

Adidas also aims to implement sustainability innovation at scale to make its most popular products the most sustainable. When you enter the flagship London store, you are greeted by its new “green” Stan Smith selection, one of Adidas’ most iconic trainer franchises, which are now made from either Primeblue or Primegreen material. The store also showcased an industry first: a Stan Smith made using Mylo, a mushroom-based material, which looks like leather and is biodegradable.

Another in-store service is the “sneaker services” repair station. This allows customers to repair their trainers, preventing early and unnecessary disposal. Extending the life of a garment by just nine months reduces its environmental impact by an impressive 20-30%.¹²

There was also evidence of progress in targeting our social outcome of “good health and well-being”:

- **Expanding sizing in apparel ranges:** previously there was a separate section for plus sizes. This has now been replaced with expanded sizing, integrated across all ranges, as well as the use of plus-size dummies to model clothes for both women and men’s ranges. This helps promote inclusion in sports and exercise.
- **Greater focus and dedicated innovation around women’s training:** Adidas has increased its investment in its women’s training range. This was evident in-store, from the impressive technical items in the women’s Terrex outdoor range, to displays of its exciting new women’s Tennis range.

Digital is another key area of investment for the firm, and the integration of digital and sustainability was on display in the store. For example, there were photo booths where customers could take and share their pictures and environmental pledge with the online Adidas community.

Overall, we walked away confident that Adidas might achieve its corporate mission: “Through sport we have the power to change lives. By striving to expand the limits of human possibilities, to include and unite all people in sport and to create a more sustainable world”.¹³

¹<https://www.ubs.com/global/en/investment-bank/in-focus/2021/industry-at-risk.html?caasID=CAAS-ActivityStream>

²<https://www.ubs.com/global/en/investment-bank/in-focus/2021/industry-at-risk.html?caasID=CAAS-ActivityStream>

³<https://www.ubs.com/global/en/investment-bank/in-focus/2021/industry-at-risk.html?caasID=CAAS-ActivityStream>

⁴<https://theconversation.com/fashion-production-is-modern-slavery-5-things-you-can-do-to-help-now-115889> ⁵ GlobalData Consumer Survey, December 2019-January 2020

⁶ GlobalData Consumer Survey, December 2019-January 2020

⁷ <https://www.thredup.com/resale/#methodology-and-sources>

⁸ https://ec.europa.eu/environment/topics/circular-economy/first-circular-economy-action-plan_en

⁹ Unless stated elsewhere, all facts and figures regarding Adidas are from this document: <https://news.adidas.com/running/adidas-aims-to-end-plastic-waste-with-innovation-partnerships-as-the-solutions/s/be70ac18-1fc9-45c1-9413-d8abaa2e849>.

¹⁰ Unless stated elsewhere, all facts and figures regarding Adidas are from this document: <https://news.adidas.com/running/adidas-aims-to-end-plastic-waste-with-innovation-partnerships-as-the-solutions/s/be70ac18-1fc9-45c1-9413-d8abaa2e849>.

¹¹ Unless stated elsewhere, all facts and figures regarding Adidas are from this document: <https://news.adidas.com/running/adidas-aims-to-end-plastic-waste-with-innovation-partnerships-as-the-solutions/s/be70ac18-1fc9-45c1-9413-d8abaa2e849>.

¹² https://traid.org.uk/wp-content/uploads/2018/09/impacts_of_clothing_factsheet_23percent.pdf

¹³ <https://www.adidas.co.uk/impossibleisnothing>

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Going For Green:

Opportunities for women to build a sustainable future

AT A GLANCE

Women in SA have a once-in-a-lifetime opportunity to get involved and collectively help to build the future in a sustainable and responsible manner.

The South African government's journey to rebuild an ailing economy has been slow, but most of the recent initiatives are showing signs of progress.

Worldwide, the collective efforts of nations, corporates and consumers to address the impact of climate change have contributed to the establishment of a more sustainable approach to capital formation.

There is a growing list of positive social impact and infrastructure development and investment opportunities which will ultimately benefit the country and future generations.



By Thuli Kumalo
Portfolio Manager:
STANLIB Credit
Alternatives

The celebration of Women's Month in SA is a chance for us all to reflect on the valuable role of women in communities, companies, families and our society. As a mother and aunt to many young people, I believe it is another opportunity to step back and consider how we can shape the world that we wish to leave behind.

Participating through our careers to truly rebuild SA

I am fortunate to work for a company, and in an industry, that despite being historically male-dominated, offers many opportunities to women, who are qualified chartered accountants and investment professionals like me. It is an industry which is actively involved in investment activities that not only aim to grow and nurture the financial well-being of South Africans but also with some of my core beliefs and values about protecting our environment and building a better future.

We all have a once-in-a-lifetime opportunity to influence how the industry and government tackle infrastructure backlogs in a sustainable and responsible manner.

There are a few noteworthy examples in government and the industry which we can support to ensure that we transition towards a better future for all of us.

Government: initiatives showing seriousness about energy reforms

SA's electricity grid is ageing and unstable; and we are among the 20 largest carbon emitters globally. Acknowledging this reality, the government signed the Paris Agreement on Climate Change in 2016, ensuring that, along with approximately 190 other countries worldwide, SA will drive lower carbon emissions and limit increases in global temperatures. Government is showing a renewed focus on emission reduction, energy reforms, generation capacity, and dealing with Eskom's major infrastructure challenges and backlog.

While policy implementation has been frustratingly slow, in recent months government has begun to push-start implementation on many fronts. Some of these actions include:

- Launch of the Renewable Independent Power Producer Programme (REIPPP) to transition SA from coal to renewable energy sources and bring additional megawatts (MW) through private sector investment in wind, solar and gas among other technologies (renewable energy) onto the grid.
- Successful implementation of the first five bidding rounds of the REIPPP programme, and the commencement of the Round 6 bid window, allowing further generation capacity.
- Launch of the emergency Risk Mitigation Independent Power Producer Procurement Programme (RMIPPPP), aimed at stabilising the ailing electricity system and reducing reliance on diesel power.
- The proposed amendments to Schedule 2 of the Electricity Regulation Act (ERA), to facilitate independent renewable energy self-generation by the private sector and to increase the self-generation limit to 100MW.
- The gazetting of the Integrated Resource Plan, a road map of mixed energy generation for the entire country.
- The gazetting of a range of Sustainable Infrastructure Development Projects (SIDS), to fast-track the tedious approval processes for over 250 energy, housing, transport, water and sanitation projects.
- The proposed amendments to Regulation 28 of the Pension Funds Act, to empower regulated entities like pension funds to invest in long-dated infrastructure and renewable energy projects.

These initiatives are significantly positive for much-needed infrastructure roll-outs and energy reforms in SA and a transition to lower the carbon environment.

Industry: encouraging sustainable and impact investing

In response, we have taken the opportunity to expand our responsible and infrastructure investment activities through the STANLIB Khanyisa Impact Fund and the STANLIB Infrastructure Investments Fund. These funds aim to involve critical stakeholders (institutional investors, banks, development finance institutions, industry leaders,

government, private and public entities) to find, unlock and fund infrastructure development and positive social impact opportunities in SA.

More broadly, STANLIB, as a responsible corporate citizen, has incorporated the consideration of environmental, social and governance (ESG) principles into investment philosophies and processes over the years. It has, along with other players in the asset management industry, demonstrated a commitment to sustainable investment by signing up to the United Nation's Principles for Responsible Investment (PRI) and endorsing the Code for Responsible Investment in South Africa (CRISA).

These evolving industry and government initiatives are starting to translate into a growing list of positive social impact, infrastructure development and investment opportunities which will ultimately be beneficial within the asset management industry, the country and future generations. They also create exciting career and investment opportunities for investment professionals – including women.


Women inclusivity: we are winning but more can be done

The current generation of women is fortuitously positioned to shape and actively participate in the infrastructure roll-out programme. My fervent wish is that when the much spoken-about infrastructure-led economic recovery is ignited across SA, many more women will be ready to serve and have a meaningful voice on company boards, investment and executive committees.

Reflecting on my own journey, I was part of a trickle of women who came into this industry a few decades ago.

My hope is that the trickle grows into a deluge of female investment professionals and career opportunities for women.

Company executives, government and human resource practitioners can still do more to create a more inclusive industry in which more women are able to participate in this fresh round of infrastructure development and the positive transformation of our society for generations to come.



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Taking the lead on credit

Tarryn Sankar plays a pivotal role in managing credit in the Fixed Income investment team at STANLIB, which is responsible for ensuring that any credit risk clients will achieve balance between appropriate risk and reward. Credit is an integral component of STANLIB Fixed Income's investment process. The team's credit philosophy is considered, looks through the cycle, and seeks to achieve consistent and stable returns. In this Q&A, Tarryn shares some perspectives on her role, the state of South African credit markets after the unrest and investing in SOEs.

1. What are the three key lessons you have learned in your career as a credit specialist and Head of Credit?

1. To be truly meaningful, credit research must translate into tangible investment outcomes (buy, hold or sell decisions) for client funds.
2. Hold your views lightly. No one is perfect, you can and will get it wrong at some point in your career, so be willing to suspend judgement when processing new information and updating your investment views.
3. Over time, you will develop heuristics and flags that will serve as your own unique early warning signals for impending credit stress. Always do your research but trust these flags.

2. Describe a typical week for you

In a typical week, we engage with other investment teams on markets and investment themes. These meetings ensure we formally share credit views across the investment platform and teams are able to leverage and challenge our thinking for their portfolio construction. The Fixed Income team holds daily meetings to understand key data releases, how they impact bond positioning in client funds and the knock-on effects for the credit team. Team perspectives guide focus areas for credit research and risk analysis.

Regular Credit Committee meetings are critical for good governance and oversight. The committee, which is independently chaired, will approve all new and existing proposals. Limits, exposures and recommendations are reviewed on a quarterly basis. During the height of the pandemic crisis, committee meetings were held weekly.

Apart from internal meetings, I try to divide my attention between developing and supporting my team in producing high quality and relevant credit research and analysis, building and enhancing certain elements of the credit process and reading broadly to identify events that may trigger changes to current bond issuance and or credit spreads.

Engaging with clients is an important part of my job and it's something I really enjoy, whether it is by providing standard client feedback reports, conducting investment due diligence processes or responding to specific client queries. I find it really grounds me and reminds me of the people to whom we are ultimately accountable.

3. How has the recent social unrest influenced your view on the Fixed Income market?

The impact on the overall credit market from the social unrest was relatively benign.

A number of issuers have successfully raised funding in the local debt capital market since the unrest. Pricing and liquidity did not alter meaningfully. However, certain areas were affected, such as property-specific issuance. Spread widening was evident for Redefine Properties Limited, which issued three-year debt in a private placement at 200bps over three-month JIBAR, whereas the pre-COVID level was closer to 160bps over three-month JIBAR. Fortress REIT Limited also raised debt through a private placement in the last month and continues to see spreads for three- and five-year paper (200bps and 240bps respectively) trade wider than pre-COVID levels (165bps and 185bps respectively).

For Fixed Income generally, offshore market events continue to exert more influence on local bond pricing. This was true even after the recent South African cabinet reshuffle, when the market response was relatively muted and short-lived.

In our view, the longer term effect on investor confidence of the social unrest will be an important determinant of fixed capital formation and the need for corporates to raise debt to fund capital expenditure.

4. Please explain how to invest in domestic SOEs, which is critical for economic growth and can generate returns for investors, while managing the risks.

Investing in SOEs is certainly important for economic growth. Many of these entities have a strong investment case and are well positioned to deliver sustainable risk-adjusted returns for debt investors. However, we need to assess a number of risks.

Understanding the credit risk (risk that the SOE borrower will not be able to honour interest and/or principal payments) is critical. We look at financial and non-financial factors and consider various nuances, given the nature of each business:

- Financial: independent and in-depth credit analysis based on through-the-cycle views of credit quality is key. Third-party ratings are merely an input into our credit assessment.
- Non-financial: detailed ESG analysis and a well-researched and substantiated view of the quality of management and government oversight and support are critical elements of non-financial risk. They have a significant influence on the financial performance of SOEs.

Debt issued by certain SOEs is government guaranteed. Although they are a meaningful source of credit enhancement, a government guarantee is not a panacea for all investment risk. We evaluate an overall investment case, rather than merely assessing the quality of a government guarantee.

Concentration risk arguably deals more directly with portfolio construction than pure asset selection but it is meaningful in the context of SOEs, where contagion risk is very real. The questions we seek to answer are what the appropriate level of SOE exposure should be in client funds and how to best reach that target over a period of time.

Liquidity risk relates to the importance of forming through-the-cycle views of credit quality. Excluding some of the larger SOEs (such as Eskom or Transnet), secondary market liquidity can be limited at times.

We use these lenses to help us answer the question whether SOE-issued debt offers good value for the risks it introduces to client funds.

5. As we come to the end of Women's Month in SA, what are the two most important pieces of advice you would give a young woman starting out in the world of finance?

Success is not linear and failure is not final.

Deeply interrogate your motivation for getting into the industry in the first place. You will be tested (both personally and professionally) in the course of your career, so remind yourself of the reasons you stay. Just doing it for the money will not sustain a long and fulfilling career in this industry, in my view.

Never underestimate the power of creativity in financial services, whether it is in building solutions to client problems, understanding and communicating the impact of market events or even designing your own career trajectory as a woman in this industry. On that point, even in 2021, be prepared to search and NOT find nearly enough women at the highest levels of asset management or financial services. Equally, be prepared to imagine a different future for yourself and this industry and use that vision to build new tables for other women to sit at, rather than fight for a seat at a table that was never built with you in mind.

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Performance at a Glance

Market Indicators

For the period ended July 2021

July 2021	1 Year	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)
SA markets	%	%	%	%
All share (J203T)	27,1	9,7	8,8	11,6
Top 40 (J200T)	25,5	10,3	9,7	11,8
SWIX (J403T)	20,9	5,5	5,3	10,7
Financial 15	30,0	(4,8)	1,4	9,6
Resource 10	32,5	24,4	22,2	7,0
Property (J253T)	29,4	(10,4)	(8,7)	4,1
Inflation (CPI)	4,9	3,8	4,2	5,0
All bond index (ALBI)	13,9	8,7	8,9	8,5
Cash (STeFI)	3,9	6,0	6,6	6,2
Offshore markets (Base currency)				
MSCI World Index (ZAR)	16,6	19,4	16,1	20,7
MSCI AC World	14,9	18,6	15,9	19,7
Barclays Global Aggregate (Global Bonds)	(13,4)	8,7	3,6	10,2
Global Property**	16,5	12,1	5,7	15,9

Source: Morningstar, July 2021

Performance at a Glance

Core Fund Performance

For the period ended July 2021

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	5,74	2	7,06	2	7,75	1	7,26	2	9,63	4,85
	STANLIB Flexible Income fund	9,38	1	7,91	1	7,30	3	7,41	2	11,86	1,84
STABLE GROWTH	STANLIB Balanced Cautious fund	11,95	2	9,13	1	6,97	2	8,64	2	21,03	-1,31
	STANLIB Absolute Plus fund	15,75	2	7,70	2	6,71	2	8,51	2	19,64	-3,86
GROWTH	STANLIB Balanced fund	13,67	4	8,47	2	6,34	2	9,48	2	29,84	-7,46
	STANLIB Equity fund	13,20	4	6,81	2	5,23	3	10,37	1	37,74	-12,78
	STANLIB Property Income fund	22,47	4	-10,00	3	-8,96	4	4,03	3	46,75	-51,80
OFFSHORE (ZAR)	STANLIB Global Equity fund	11,50	3	20,15	1	16,41	1	17,58	2	56,44	-12,62
	STANLIB Global Balanced fund	3,77	2	15,52	1	11,60	1	15,02	1	37,05	-12,93
	STANLIB Global Property fund	6,84	4	9,74	3	3,83	3	13,59	1	43,48	-19,27

Source: Morningstar

DISCLAIMER

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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 had an investment been held for the entire period. A portfolio that derives its income primarily from interest-bearing instruments calculates its yield daily and is a current effective yield.

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