



INSIGHT

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Looking at the big theme views from South Africa and corporate preparedness

An Orient Capital interview with the Johannesburg Stock Exchange

In the eighth of Orient Capital's Insight series, we provide an interview with Valdene Reddy, Director of Capital Markets at the South African, Johannesburg Stock Exchange (JSE), an expert and speaker in the field of capital markets.

In this interview, Gustav Pegers (Head of Sales & Marketing, Orient Capital) explores some key topics including trends in the South African markets, ESG, the shape of the modern AGM and the impact on investor relations.

“Valdene, it's great to speak to you as part of our Insights series. Before we begin, tell us a bit about your background. What was the journey for you to get to where you are now?”

In my current role, I am responsible for all the primary and secondary markets activity across the markets of the JSE. This means I look after all the listings and the secondary market placing activity across equities, bonds, and derivatives. Furthermore, I look after our issuer services team, a division established to serve our issuer clients in a whole host of products and offerings, as well as some of the acquisitions that the JSE has made to service our issuers better.

I've been working in financial services for over 17 years. It's all that I live and breathe. I came into the industry after taking a Bachelor's in Actuarial Science

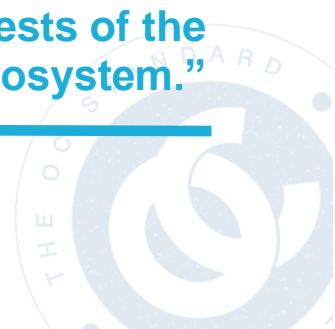
at the University of Cape Town. It was during my university degree, and when working different types of internships, that I learnt that capital markets and investments was really where I wanted to be. After university, I started on a graduate programme at Bank of America Merrill Lynch and worked on the sell-side of two international banks for about a decade in equity derivatives. Thereafter, I joined the JSE. I really joined the JSE to take some of my knowledge and apply it in a different way.

The work that I do has a real impact in the marketplace, and seven years later, I believe I have more to contribute at the JSE. It's really a meaningful job; to find and carve constructive solutions that will progress capital markets.

“South Africa, like the rest of the world at different peaks, made headlines with Covid. How have things settled now? Particularly in relation to ‘the new normal’?”

Over the past two and a half years, South Africa has had to be adaptable in so many ways. Despite not having the highest uptake in vaccination rates, we've

“The new normal marketplace is flexible, responsive, and prioritises the interests of the broader ecosystem.”



“The virtual AGM has proved really efficient and is here to stay.”

essentially achieved herd immunity through having different strains, while coping with quite a high level of infection. Regardless, we came out of the pandemic quite strong and resilient.

Throughout the Covid pandemic, we were impacted by market conditions that we had not experienced before, with high levels of volatility. Last year, we had a massive move in oil, continued bouts of social unrest and environmental issues to deal with. Then, this year, we have the Russian/Ukrainian war, which has really exacerbated the situation and the markets have continued to be fragile, whether it's the economy with the overhang of the recession, or the domino into the European market.

So, it's been fast paced, turbulent and we have faced a few vulnerabilities. Nonetheless, the markets have proved to be resilient. South Africa has also been quite a strong contender due to being a deep liquid market and because of the cushioning within our marketplace, we've had a strong fiscal surplus position coming out of high commodities boom which has supported our economy. Relative to some of the other emerging markets, SA has had some good flows and particularly from a yield play, has seen inflows into our bonds.

The interpretation for South Africa is that it really has been quite a roller coaster ride, as it has been all over the world. This is still not normal, but we are adapting to additional concerns. Things like inflation, which is a global concern at the moment; what that's doing to raise cycles and what pressure that will put onto the end consumers. Other things such as the Russian/Ukrainian war have far reaching consequences, with food security really being questioned. In addition, we all haven't been out of the overhang of global supply chain dependencies post Covid, as well as what's happened with geopolitical tensions.

What this has created is a new normal marketplace that is flexible, responsive, and at any time, prioritises the interests of the broader ecosystem. There is a basic humanity aspect to be considered across it all, whether it's even ESG investing, or the livelihoods or the mental well-being of our staff and community.

Overall, I think that we've come out a bit tougher, a little bit more responsive. I've also never seen such public/private sector collaboration, as has been amplified in the past two years. So, I like to look at the positives that have come out through a global pandemic and market volatility. If anything, Africa has stood quite strong.

“That really epitomises the resilient spirit of South Africa. And I understand with that idea of adaptability, the JSE ran a ‘virtual listing’ during lockdown, what does that mean, and will it be something we see more of going forward?”

We did and I think we'll see more options going forward, whether it's virtual, in-person or hybrid.

It followed the same regulatory approvals back and forth, but what typically happens is, when we get a new listing on exchange, we have a grand market-opening event. So, we have a market open and will typically hold the new listing in person and have a huge celebration. We get everyone from the buy side and sell side together as well as the new listing itself.

Obviously, with Covid and being locked down, we couldn't facilitate in-person events, so we went to a virtual listing which was fantastic. We managed to accommodate more people than we would have if it was in person, given the event was held online. We kept up the traditions, such as blowing the kudu horn when the markets open and the new listing starts to trade on the JSE.

After that first one in 2020, we have had a few additional listings in 2021. For us, it was important not to lose the excitement and appeal to the awareness of welcoming the listing to the JSE. I have to say, we've done one or two in person listings subsequently, and I liked the option of being back in-person to hear and feel the buzz of having people there physically, but we can accommodate more people from all over the world with the virtual option.

“A lot of clients we've worked with have also moved to a virtual AGM. So, talk to me about the South African experience, what you've seen on the ground, and what that's meant? Are there any tips you would suggest having seen a number of these in SA?”

I'm very pleased to say that even without the global pandemic, the team was thinking about how to make the process more inclusive for AGMs. So, when we hit the first round of supporting the AGM season, we were first out of the blocks to bring out the virtual AGM. We have an association with a company called The Meeting Specialists, who are an enterprise development agency of the JSE. They have three decades of experience running AGMs, and they facilitated the first virtual AGMs as we went into lockdown.

Through this offering, we are currently hosting about 60% of our South African market AGMs with a virtual component. It's a high-profile event for any issuer, so we still have to practice and make things perfect through every iteration, but they've done an incredible job in terms of having the right technology and staff available online for support. And actually, we find that most companies prefer the hybrid model, because it's more inclusive and the benefits of it – which is the ability to engage in whatever medium.



“The investor relations position in South Africa is really, really critical.”

So I think the virtual meetings or virtual AGMs will be a lasting effect and trade off after lockdown moving forward. Achieving efficient access for shareholders is the most important aspect. You must have the technology in place and your privacy settings, but it's really proved the way forward and it will be here to stay.

“Beyond the AGM, what are the general issues you are seeing for issuers now, especially in emerging markets? What reforms have you seen which have made a difference?”

We've set up an Issuer Advisory Council, which enables issuers to engage with the JSE and we have quite good representation across our issuers. This provides support to our issuers with respect to their listing journey and creates a medium for issuers to raise aspects that the JSE can assist with, such as how to effectively communicate with shareholders. We have noted questions on dividends. In South Africa specifically, we have a lot of fiscal incentives on things like dividends and there is a requirement to educate shareholders. This is something that we're trying to support our issuers with via Sharehub, which is really a central communication platform for our issuers and their shareholders, combined with shareholder training and trading simulators.

Outside that you also see issuers struggling with some of the regulatory pieces, whether it's the direct or indirect requirements of being listed, even capital flows between public and private and some of the other requirements. So, we put together a consultation to try and figure out how we can simplify regulation, from large cap to mid or small cap. I also know that there are several agenda reforms being tabled, and government initiatives to try and reduce the red tape. There's a lot of exchange control reforms that are being proposed to increase the competitiveness of doing business. You may have also seen that there's massive strides being made to see things of opening policies with net degeneration, or in respect of auctions, or dealing with corruption.

In South Africa, on a surface level at least, there is an attempt to breakdown some of the bottlenecks to really deal with issues that the marketplace faces, to reduce the complexity of doing things within South Africa. It is also worth observing the private sector, who are strong commanders of capital, to understand how we can support the national agenda of objectives, whether it's for infrastructure or whatever is needed. So, there are quite a lot of indices that we either put on holding the pen to try and open up frameworks or to bring product offers, but also trying a lot of initiatives to really make capital markets a conducive environment.

“Leadership in companies has become important. Fit for purpose leadership can create more diversity opportunities.”

“At the heart of the last question, was stakeholder engagement. With the evolving nature of IR in South Africa, how does the JSE see its role in that developing? What are the progressive steps it is taking in that development?”

Absolutely, I think that the time for investor relations positioning for investment into South Africa, is critical. Despite our challenges, the economy is diverse with great value having been hugely discounted to our emerging and developed market peers. We have seen decent market cap growth and have deep quality and liquid markets.

For the JSE, our association with Orient Capital for investor relations analytics is essential to really elevate what we are providing to issuers. Through this association we can equip them with deep analytics to really assist with their institutional shareholder base, and deep metrics within that to help them have a more informed conversation with shareholders or potential shareholders.

This assists with our clients' investor targeting strategies, including how JSE Ltd engages with our investors. That's the hardest part of our day job, as we look at setting up roadshows, and putting our value proposition forward in terms of navigating our investor relations.

There are some good issuers running strong investor relations programmes in South Africa. We really want to showcase that and support it with our investor relations solutions. This helps to highlight the individual issuer as well as the positioning within the global arena.

“What in your view would be what companies are doing well or could improve on?”

So, there's three large focus areas that I think come to mind now and the three are not mutually exclusive, they are quite interlinked.

Firstly, leadership in companies has become important. Markets move fast and fit for purpose leadership can create more diversity opportunities for companies. That theme has become increasingly topical in terms of how people hire, how they think their organisations are seen, how things are prioritised and handle what they're doing.

This is linked to the sustainability agenda, there's a long way to make changes but ESG matters. And I think that's an area that people are getting more knowledgeable about on how to position their companies and areas where almost everybody finds room for improvement. So that would be my second focus topic.

Whether it's rotating out opportunities, you know, whether it is out of division, it's different areas for improvement. In such a diverse marketplace as South Africa, we are really working with the issuers we represent to navigate what's important, from an ESG perspective.



“ESG is a really big focus, and we are working with issuers to navigate what’s important.”

In June this year, the JSE released Sustainability, and Climate Plan Guidance, and it seems to promote transparency, good governance and how that becomes best practice in advance. This is a first for us, and the blueprint we needed to support the preparation of reports with the goal of integrating climate related information which has become hugely valuable in the organisation. So ESG is really a big focus.

The third is seeing how clients feel in digitising their own areas of improvement of their own business strategies. So whether it's the digitisation of policies, or procedures, whether it is just increasing resilience, or responding to change and the constant innovation that's coming in this marketplace. It's constantly unpinned by using good data.

So digitisation of data is really an importance area of improvement. whether it's cleaning data or accuracy, or with finding a path to business, I think is a really important areas of focus in South Africa right now.

“Have you found the number of companies have de-listed in SA over the past number of years? Is that a concern for liquidity?”

The headlines have really been centralised on a few de-listings, which have mostly occurred in the small and mid-cap space. There are various reasons that drive companies to delist. Others delist to pursue M&A opportunities where companies are bought out or companies that have unbundled. There's been some corporate actions where some of the unbundled companies have dropped value.

It is a concern for liquidity overall but even though we've had quite several de-listings in the small and mid-cap space, overall, market cap within the JSE has increased by 15%. In terms of liquidity, a lot of liquidity is concentrated in the top 50 to 100 names.

We've seen our market growing and reaching a peak this year – higher than 2020 where we had a hyper-volatile period. It is very typical to divorce the macro environment from capital marketplace if you do keep over in terms of the number of distinct kinds of de-listing, which are outpacing the number of listings, but they've tried to respond in different ways.

As an example, we launched a sustainability segment in 2020. To that we have added social and sustainability bonds and now we've just added transition bonds. That segment has had 45% liquidity in bonds listed on it with over R25 billion in capital raised. And in ETFs, we have seen lots of innovation with currently 93 ETFs available, a market cap of over R114 billion. So even after the de-listing's, we are not feeling the impact from a liquidity perspective, in capital markets growth funds. As the JSE, we acknowledge that not everybody wants to raise capital on public markets given there are issuers that are seeking private capital raise. It is for this reason that we launched the JSE Private Placements. There are currently 11 deals live on the platform, and R10 billion in investable capital available. So, we've seen alternative forms of capital raised and we are responding to that demand, whether it's an ETF, or a sustainability bond or our private placement.

“What are the risks coming down the track companies should be aware of?”

All the elements of TCFD come top of mind. We have focused on the part directly connected to social aspects, which are important for markets.

Obviously, the current geopolitical risk and topic of globalisation has really upset the sense of balance, with different marketplaces affected because of the knock-on effect. And I've seen that under the cloud of Russia, the supply process is impacting operating efficiency. This all makes the ESG element important and the topic of deglobalisation vital to reduce the dependency for countries like South Africa.

However, it is critical for South Africa to figure out how we position ourselves, so we have a little bit of a cushion, as we still have massive cultural and social issues to work through, with elections coming up and many people below minimum wage. How do we get a move on and start thinking about our own systems and opportunities that really drive our marketplace and economy forward?

One thing that is certain, is that collaborating more constructively going forward is key.

“Valdene, thank you. This has been a fascinating insight for me, and I'm sure one that will be a unique and valuable for our readers to learn about. We look forward to hearing how it evolves.”



Meet the expert



Valdene Reddy is the Director of Capital Markets at JSE. Valdene has over 15 years of experience in the financial industry, with a focus on equity derivatives sales and trading.

She began her career at Bank of America Merrill Lynch, where she worked in equity derivative sales and trading for 7 years. She then joined Renaissance Capital, an investment bank focused on emerging markets. She joined the JSE, the largest stock exchange in Africa, in August 2015 as the Director of Capital Markets. In this role, Valdene is responsible for overseeing all aspects of the capital markets businesses at JSE.

Valdene completed a Bachelor of Business Science in Actuarial Science at the University of Cape Town.

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Our focus is to provide clients with a suite of products and services that enable them to maximise the opportunity of public ownership, and to reap the benefits of good investor relations. We identify and track our clients' shareholders, as well as their behaviour, using either local ownership disclosure provisions or our own proprietary methodologies, which include leveraging our extensive global relationships with custodians and investors.

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