Standard Bank

MEDIA
RELEASE

COULD SECURITIES LENDING BE THE GROWTH SWEETNER YOUR INVESTMENT PORTFOLIO NEEDS?

By Kari van Rensburg, Head of Market Services, Hitesh Harduth, Head of Securities Lending and Borrowing at Standard Bank Corporate and Investment Banking and Lungelo Gcilitshana, Head of Dealing at the Eskom Pension and Provident Fund

May 2025 - Pressure is mounting on investors to find smarter ways to grow capital without exposing their clients to unnecessary risk. While asset managers and pension funds are well-versed in traditional approaches to portfolio management, many still overlook the potential that securities lending offers to quietly and consistently boost long-term portfolio returns.

Simply put, securities lending is a way for investors to temporarily loan out the shares or bonds they already hold in exchange for a fee. These loans are typically made to banks or brokers who put up collateral to cover the transaction and mitigate any risk. While the securities are on loan, the investor still benefits from dividends and interest payments. The only thing they forego is voting rights; but even those can be reclaimed by recalling the securities at any time should an important voting event take place.

Securities lending is a straightforward concept that can fit neatly into most long-term investment strategies. Given that it enjoys strong regulatory oversight and can be set up with clearly defined contracts for optimum risk management, securities lending provides a highly practical way to increase returns without increasing exposure.

When you add securities lending to a portfolio, it’s a bit like adding another type of return. Think of it as a sweetener on top of the income or price appreciation you’d hopefully already achieve just by holding the asset.

For defined benefit funds like the Eskom Pension and Provident Fund (EPPF), where liabilities can stretch over many decades, every opportunity to enhance returns counts. Yet, despite the simplicity and effectiveness of securities lending, participation in these structures remains muted in South Africa. Typically, there is less than R198 billion in assets out on loan at any given time, which is a small fraction of the roughly R54 trillion involved in securities lending globally.

Much of the hesitancy in the domestic market comes down to a misconception that securities lending is risky, despite it being carefully governed through global master securities lending agreements and managed by experienced intermediaries like banks.

The risk is mitigated by the fact that the collateral banks hold is always more than the value of the securities lent out. In the unlikely event of a default, that collateral is readily available to put the lender back in the same position they were before entering into the securities lending contract.

Controls can also be put in place to protect investors from over-exposure to any potential risks. For instance, the EPPF limits lending to 50% of its portfolio, and no more than 25% of any share can be lent to a single counterparty.

Regulation 28 of the Pension Funds Act also provides clear guidance on allowable exposures by asset class and sector, which intermediaries monitor on behalf of the funds that participate in securities lending practices.

The risk and administrative burdens that are often a source of concern for investors can be further limited through outsourcing the lending function. For example, Standard Bank acts as a principal intermediary in many of the lending arrangements it facilitates. This means pension funds and asset managers deal with the bank itself, not the borrower, which significantly reduces their exposure to counterparty risk.

This arrangement has repeatedly proven resilient during times of extreme market stress, including the Covid-19 crisis. 20-hour days were undertaken over that difficult time - recalling stock, selling collateral, and settling trades very quickly to ultimately ensure that lenders came out unscathed.

Securities lending has historically been the domain of large pension funds and institutional asset managers. However, there is plenty of scope for other types of investors to access the benefits, particularly family offices and collective investment schemes. While these investors haven’t specifically been prevented from participating in securities lending, many have been put off by the perceived operational burden involved. However, outsourcing the transaction to an intermediary removes this barrier.

Standard Bank

MEDIA
RELEASE

This is precisely how EPPF has taken advantage of securities lending. Shorn of an internal team to run this aspect of the fund portfolio, it makes more sense to outsource this function to lenders like Standard Bank with the proven expertise and experience.

Importantly, securities lending doesn't just benefit individual funds; it's also an effective way of supporting broader market development. By allowing securities to be borrowed and traded, it deepens liquidity and strengthens the functioning of capital markets.

This liquidity facilitation is one of the main functions of securities lending, which is why Standard Bank is proactively expanding its securities lending infrastructure into African markets like Nigeria, Kenya and Botswana. Regulatory shifts on the continent are creating new opportunities for pension funds to participate and, as these markets develop, adequate liquidity becomes increasingly important for long-term economic growth and development.

As global and domestic investment conditions continue to get tougher, it's not practical for strategies that can safely and simply improve portfolio performance to be left on the table.

Securities lending isn't flashy, nor does it dominate headlines. But it's a proven, conservative tool that can help long-term investors achieve more with what they already have.

In a world where every basis point matters, that certainly makes securities lending worthy of careful consideration.

Ends.