4 April 2017

Dear investor,

S&P Global Ratings has lowered its long-term foreign currency sovereign credit rating on South Africa to 'BB+' from 'BBB-'. This places the rating below investment grade. The agency also lowered the long-term local currency rating to 'BBB-' from 'BBB', which is still investment grade. The outlook on both ratings was kept at negative, suggesting that S&P could revise the country's credit rating lower at a future date should the fiscal parameters deteriorate significantly.

Although the market has been pricing in a potential downgrade for some time, it reacted negatively. The Rand has weakened noticeably against the major currencies, and was trading at R13.75 to the dollar on Monday evening, down from R12.40 the previous Monday. The 10 year (R186) bond yield has moved from a low of 8.25% early last week to touch a high of 9.15% on Monday evening.

S&P made an unscheduled downgrade announcement on Monday evening. The move followed last week's Cabinet reshuffle in which President Jacob Zuma replaced previous Minister of Finance and his Deputy, Pravin Gordhan and Mcebisi Jonas with Malusi Gigaba and Sifiso Buthelezi.

The downgrade to sub-investment grade will likely lead to some sell-off of rand-denominated government bonds and therefore lead to an increased cost of funding for corporates, parastatals and government. Four-and-a-half years ago, South Africa's (SA) government bonds were included in the highly influential Citibank World Government Bond Index (WGBI), leading to large inflows as investors who track the WGBI assumed exposure to SA. Inclusion in the WGBI is based on a country's local currency rating not its foreign currency rating. South Africa's local currency rating is rated higher than that of SA's foreign currency rating. S&P's latest domestic currency debt rating for South Africa is at the lowest level of investment grade, at BBB-.

Investors in SA bonds who are benchmarked against the WGBI can still hold these instruments as long as the local currency rating is investment grade. SA could only be excluded from this index if both Moody's and S&P downgraded the country's local currency to below investment grade. Some large institutional investors would then have to sell off exposure to SA debt because their fund mandates prohibit holding sub-investment grade bonds. Most of South Africa's debt is issued in local currency with SA's foreign currency debt only making less than 10% of total issued debt.

Moody's Investors Service, which rates the nation at two levels above sub-investment grade with a negative outlook, is due to publish its review on April 7. However, on Monday Moody's put South Africa on review for a downgrade. Fitch is due to review South Africa's rating in late May or early June, but it could also decide on an unscheduled review now.

STANLIB would like to keep emphasising that investors can benefit from the approach of a multi-specialist investment manager that diversifies your investments across multiple instruments and issuers. This diversity helps to protect investments from unexpected events in a particular asset class, while also allowing clients to benefit from different sources of return. At the same time many of our investment portfolios have been relatively conservatively positioned due to our concerns about valuation levels and heightened political and economic risk, globally and locally. We will closely monitor the impact of tl recent Cabinet reshuffle and ratings downgrade, and adjust our investment portfolios accordingly.

We would like to reassure our investors that we are focused on taking all factors into account, as we continue to invest for the long-term. This approach has served us well through volatile markets in the past and we anticipate that it will do so now. Please spe to your STANLIB representative or financial adviser if you have any questions or concerns.

Regards,

Seelan Gobalsamy
STANLIB CEO
