



Investments

Securities lending what's it all about?

If you've ever rented out a spare room or let someone borrow your car for a weekend, you already understand the basic idea behind securities lending. It's essentially a way for investors to earn a little extra by temporarily "loaning out" their shares or bonds to someone else who needs them.



Naledi Mokwena
Principal Investment Consultant

Let's break it down

In simple terms, it's when an investor (like a big pension fund or insurance company) lends out some of their shares or bonds to another financial player, usually a bank or hedge fund. In return, the borrower pays a fee and provides something valuable (called collateral) to help ensure the deal is fair and secure.

You're probably wondering why anyone would want to borrow shares. It's usually part of more complex investment strategies, like short selling, where traders bet that a stock's price will go down. But for the lender, the key point is simple: you're getting paid to let someone else use your shares for a while.

How does it work?

Think of it like this:

- ▶ You (the lender): Own shares but don't need to sell them right now.
- ▶ Someone else (the borrower): Wants to borrow those shares for a short period.
- ▶ They give you collateral—kind of like a deposit—and agree to pay a fee.

At the end, they return your shares and get their collateral back.

You keep the borrowing fee—and that's extra income in your pocket.

Who's involved?

There are three main players:



The Lender: Usually big asset owners like pension funds or insurance companies.



The Borrower: Banks, hedge funds, prime brokers and broker dealers.



The Lending Agent: A middleman who handles the details and matches lenders with borrowers.

Using a lending agent makes things much easier. Instead of managing dozens of borrowers, the lender works with a single expert who handles all the interactions and takes care of everything behind the scenes.

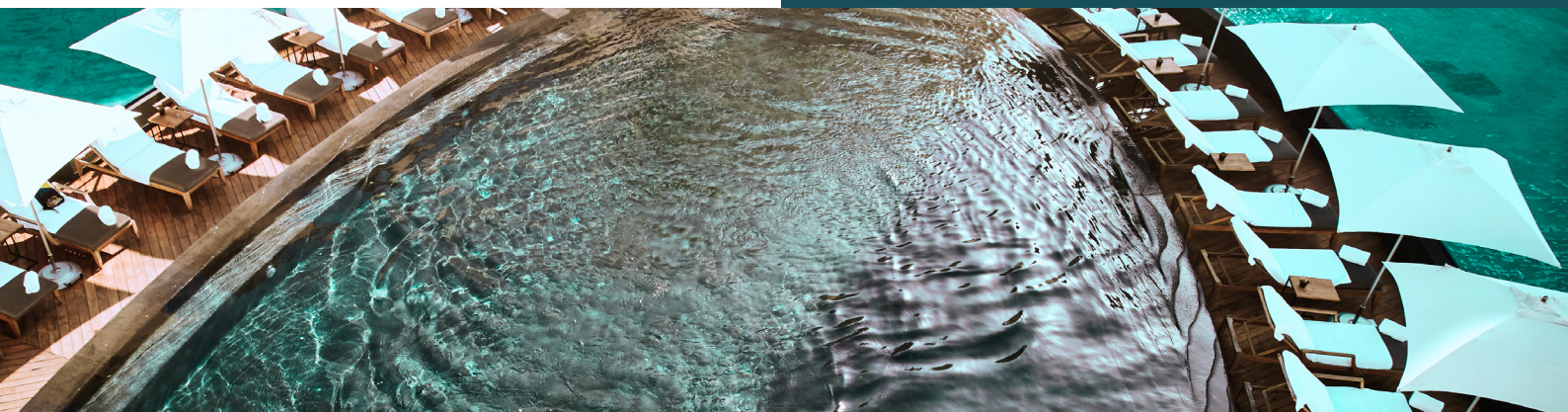
Why do it?

There are a few good reasons:

Earn extra income: You're essentially getting paid to let someone temporarily use your shares. That income can help offset other portfolio costs and enhance your overall returns.

Support the market: Lending helps other investors trade more easily, which keeps the market running smoothly. It's like adding more items to a store's shelves, making it easier for buyers to find what they need and helping the whole system work better.

Protect your portfolio: Even if the value of your shares dips, you're still earning a borrowing fee, which cushions the blow a bit. It's like having an insurance policy that provides some financial protection.



What's the catch?

Like anything in investing, there are risks:



Voting rights: When shares are loaned out, the asset owners temporarily lose their voting rights on those shares. To address this, lending programmes often include an automatic recall feature, ensuring shares are returned in time for the asset owners to vote on company resolutions.



Tax can get tricky: Securities lending doesn't trigger certain taxes but taxes on dividends and fees can be complicated. It's a good idea for lenders to consult a tax specialist to understand their obligations and ensure the programme stays compliant with tax laws.



Counterparty risk: There's always a chance the borrower won't return your shares. That's why collateral is required—and why it's important to work with a reliable agent who manages the process securely and monitors the risks closely.



Making the most of securities lending

Securities lending might sound a bit technical, but at its core, it's a simple and useful tool to earn extra income and help the market keep ticking along.

At Alexforbes, we're always looking for smart ways to add more value to your investments. One such strategy is securities lending—a behind-the-scenes approach that earns extra income by temporarily lending out certain investments for a fee.

That additional income helps reduce overall costs and improve your portfolio's returns. It's just one of the ways we're making sure every opportunity counts, so you get the best possible outcome from your investment.

With Alexforbes, no matter your investment destination, you're in the right place.



Invest with Alexforbes