

Our Business Model

Stakeholder Centric

Our Clients

For whom are we creating value?



Our Value Proposition

Which client's needs are we satisfying?



Channels

How do we engage with our clients?



Client Relationships

What type of relationships do our clients expect from us?



Key Partnerships

Which shareholders and partners are necessary to make the business successful?



Operational Excellence

Key Activities

What important things must we do to make our business a success?



Key Partnerships

Which key partners and suppliers are necessary to make the business successful?



Key Resources

What business and Information Technology resources do we require in our business to operate successfully?



Financial Viability

Revenue Streams

What are our revenue streams and how do we charge for our services?



Cost Structure

What costs are associated with the business?



Key Resources

What financial resources do we require in our business to operate successfully?



Learning and Growth

Key Resources

What human resources do we require in our business to operate successfully?



Our clients - Who are we creating value for?

Strate's positioning and differentiation is important as it explains the segment of the financial markets that Strate operates in and who it is creating value for.

The JSE is currently the only licensed stock exchange in South Africa and its primary service is to provide a platform where capital can be raised through the creation of securities, which are then traded by investors using stockbrokers. This segment of the market is commonly known as the trading environment.

The post-trade environment is where various activities take place after trading in the financial market. Strate operates in this post-trade market segment to give effect to changes in ownership.

There are several entities involved in the post-trade market segment with similar, but varying, needs. Strate has grouped these entities based on the similarity of their needs and has designed its products and services accordingly.

Strate's client groups include:

- Issuers of listed and unlisted securities;
- Authorised CSD Participants;
- The JSE;
- Securities lending and borrowing business partners;
- Money market business partners; and
- Investors, both local and international.

Our value proposition - Which client needs are we satisfying?

As each of the client groups fulfills a specific role in the financial markets, the value proposition of Strate's products and services are different for each group.

Strate's value proposition does, however, have the same underlying themes in that it:

- Reduces risk for clients in the post-trade market segment;
- Reduces costs for clients in the post-trade market segment;
- Enables efficiencies for Strate and its clients;
- Creates revenue-generating opportunities for Strate and its clients; and
- Assists clients with achieving their key deliverables and meeting their obligations in the financial markets.

For further details, a full list of Strate's products and services can be found on its website: <http://www.strate.co.za/our-services-you>

Channels - How do we engage with clients?

Communicating with clients is key. Therefore, several communication mediums are used. The mediums used range from individual or face-to-face meetings, industry forums, newsletters, the media, Strate's website, educational workshops and material as well as company circulars. The nature and purpose of Strate's engagement determines the medium that it uses.

Strate has marketing, sales, operation and relationship teams to interact with clients regularly.

Client relationships - What type of relationships do our clients expect from us?

Clients are one of Strate's most important stakeholder groups. They give Strate purpose and satisfying their needs is essential to ensuring Strate's sustainability.

Strate aims to exceed clients' expectations by keeping them up-to-date with developments, especially those that impact their respective businesses. Operationally, Strate's clients expect it to provide superior post-trade services in line with the purpose for which it was created.

Strate has operational help desks that support its clients on a daily basis. In addition, the relationship management team regularly engages with clients, as effective management of these relationships is integral to Strate's business success.

Revenue streams - What are our revenue streams and how do we charge for our services?

Strate's revenue is mainly earned from transaction fees through settlement activities, which are ultimately paid for by investors. Strate also charges membership and licence fees, which are not a material part of its revenue.

Strate's revenue is highly dependent on economic conditions that impact trading activity and corporate actions. This, in turn, impacts the number of transactions that Strate processes. There are three settlement models on which Strate operates, as per the Bank for International Settlements (BIS).

These are:

- BIS Model 1 - Gross securities and gross funds (cash);
- BIS Model 2 - Gross securities and net funds (cash); and
- BIS Model 3 - Net securities and net funds (cash).

Strate's settlement models are different for each type of security. Strate's equities settlement model is mainly designed on the BIS Model 3 (net securities and net funds), which means that trades are netted, resulting in a lower number of settlement transactions being processed. As a result, changes to Strate's revenue do not necessarily correspond with changes in trading volumes.

There are various types of transactions that Strate processes for which it has determined fixed individual fees based on the effort and associated cost. Strate's clients require it to regularly review its pricing structures, as they are sensitive to price increases.

Key resources - What do we require in our business to operate successfully?

There are several resources that are required in order for Strate to operate successfully. Strate's licence to operate, its Information Technology (IT), people and knowledge of the financial markets are imperative to successfully run the business.

First and foremost, Strate's licence to operate is vital, as without it, Strate does not have a business. Strate operates under a licence that has been awarded to it by its regulator, the Financial Services Board (FSB), which authorises Strate to be a CSD in South Africa. Performing such a function without a licence is in breach of legislation.

IT is a key enabler of Strate's services. Strate's IT infrastructure includes various systems and applications that are required for the daily processing of transactions. The infrastructure includes mainframe, open systems architecture, enterprise storage and networks (such as wide area, local area and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) networks).

As a rule, Strate does not develop IT applications in-house. It partners with international experts in this area. This has improved both the quality and the time frame of delivery of the applications that are required to fulfill Strate's duties as a CSD.

People form the cornerstone of Strate's business. Specialised skills and knowledge are required throughout the organisation. Strate uses a co-sourcing model in various areas, more extensively in IT and, as a result, there are several external vendors providing additional support to Strate's business. Strate sees this model as a risk mitigating action to ensure continuity of critical functions.

Financial soundness is an imperative for a Financial Market Infrastructure (FMI). Strate, as an FMI, performs a critical role in the financial markets and sufficient reserves and funds are required to ensure the continuation of operations - even during adverse market conditions.

In order to attract and retain international investment, it is essential that Strate provides CSD services at an international level. To achieve this, it is necessary for Strate to have infrastructure that is comparable with its international counterparts. This has required a large upfront investment that needs to be maintained.

Key activities - What important things must we do to make our business a success?

Engagement with Strate's stakeholders and a thorough understanding of their needs and expectations is key to Strate's strategic direction and its sustainability. Significant effort and time is spent engaging with its stakeholders in meaningful dialogue.

Strate has obligations in terms of its CSD licence and the adherence to these are always top of mind.

Strate's licence to operate includes the responsibility for:

- The provision and maintenance of infrastructure for holding, settling and administering uncertificated securities;
- The issuing, amendment and suspension, where necessary, of Rules and Directives according to which the market must operate. Strate has a Legal and Regulatory Division that is staffed by regulatory specialists who draft Rules and Directives; and
- The supervision of compliance with the Rules and Directives by the CSD Participants. This function has the potential for conflict of interest to exist, or be perceived to exist, between the Supervisory function and other services undertaken and performed by Strate as the CSD. Appropriate 'Chinese Walls' have been established between these functions. The STRATE Supervision Division reports to the CEO

on administrative matters and to the Regulatory and Supervisory Committee and its Chairman for all other matters.

Key partnerships - Which key partners and suppliers are necessary to make the business successful?

One of Strate's critical success factors is centered on the support that it gets from its partners, suppliers and other stakeholders.

The selection of the right parties to support Strate's applications has historically been a critical success factor. Many of these parties have been with Strate since its inception and they play a key role in the maintenance, development and enhancement of Strate's services.

The ongoing support from Strate's shareholders, initially in the provision of funding, has been essential to Strate's success.

The international alliances and relationships that Strate has established with its peers are invaluable, as these have assisted it in keeping up with international developments and trends.

Cost structure - What costs are associated with the business?

Strate's cost base is largely fixed and it is not impacted by transaction volumes. Strate continuously searches for opportunities to achieve economies of scale and many of the ancillary services that it is researching, or has already implemented, enable it to achieve this.

The majority of Strate's costs relate to staff and the IT infrastructure. The escalation of these costs are carefully managed.