

Investec Structured Return Note

10 January 2019

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Introduction and overview

Introduction to the Investec Structured Return Note	<p>Investec Structured Products is pleased to present the listed Investec Structured Return Note “Note”. The Note will be listed on the JSE under Investec’s Warrant and Note program. The issuer is IBL and the Note is subject to the listing requirements of the JSE, the full terms and conditions of the Note will be set out in the Term Sheet and Application Form read with the Applicable Pricing Supplement to be made available on the listing date.</p>
Purpose	<p>The purpose of this presentation is to provide a high level overview of the current investment opportunity.</p>
Benefit to Investors	<ul style="list-style-type: none"> • Capturing the benefit from current market pricing variables for a potentially high yielding investment • Capital protection of 100% with an additional minimum 15% return payable at maturity • The potential to also receive an additional 25% return at maturity • Access to an investment opportunity that may otherwise not be readily available to investors • Regulation 28 and BN90 treatment • Ease of administration and daily pricing
Pricing	<p>Pricing in this brochure is indicative, actual pricing will be confirmed on the trade date</p>
Liquidity	<p>IBL makes an active daily market with a market related bid to mid spread in the Note on the JSE, enabling investors to exit early if they have unexpected cash flow requirements or if their investment view changes. Investors should be aware that the capital protection and 15% minimum return is only available if the investment is held to maturity. It is expected that the initial cost of hedging will be approximately 0.5%. For example, if the Note is bought for 100%, assuming all else remains constant its NAV or mid price will be 99.50% after hedging costs and it can be sold back to Investec at 99.50% less the mid to bid spread.</p>
Procedure to Invest	<p>The Note is a listed instrument on the JSE. Investors will need to hold a stockbroking or safe custody account to purchase the Note. Prospective investors should refer to the Application Form and Term Sheet for detailed information on the product and the full terms and conditions of the Note will be set out in the Applicable Pricing Supplement and will be made available on or before the listing date.</p>
Investor Declaration	<p>The Note is intended for experienced investors; the investor acknowledges that they are fully aware of the risks concerned and as such has demonstrable knowledge and experience in financial instruments and/or business matters that enables the Investor to assess the risks and merits of an investment into this instrument. The investor further acknowledges that this note has been made of his/her own volition and that he/she has received no advice, guidance or further product information other than what is contained in this document by IBL or any other authorised financial planner</p>
Regulation 28 and Board Notice 90 Treatment	<p>IBL’s internal non-binding view is that the appropriate treatment for Note is “Credit” for Regulation 28 and “Non-Equity Security” for Board Notice 90</p>

Investec Structured Return Note Payoff

- A three year and one week Note linked to the Euro Stoxx 50[®] Index (SX5E)
- Capital protection of 100% with an additional minimum 15% return payable at maturity
- Fixed 25% return in Rands* should the index return be zero or positive (measured using 3 month's exit averaging which is 4 observations), circa 11.7% effective annual rate of return (15% minimum + 25% fixed return)
- Minimum Investment Size: R50,000 and increments of R100
- The performance of the Note is provided by IBL

Term	Downside protection	Index	Minimum/Maximum Return at maturity
3 years and 1 week	100% capital protected at maturity	Euro Stoxx 50 [®]	Minimum return: 15% / 4.7% pa Maximum return: 40% / 11.7% pa

Example of the Investment Returns

Example of the SX5E Index Return maturity*	Invested amount	Return	Investment value at maturity
Index returns 65%	R1mn	40% (capped)	R1.4 mn
Index returns 0%	R1mn	40% (fixed return)	R1.4 mn
Index returns -55%	R1mn	15% (min return)	R1.15 mn

- Counterparty risk is Investec Bank Ltd – senior unsecured risk
- IBL will target a digital pay-off of 25% (Return). However due to the volatile nature and daily movement of the pricing variables, IBL reserve the right to trade at a minimum digital return of 20%, otherwise IBL will contact investors and indicate the achievable Return.

Return Comparison to inflation, rates, equity and balance funds

A comparison of returns is shown below versus the 3yr Rand Interest Swap Rate (to simulate a cash-type return) and current RSA inflation.

Market Rates	3 year IRR
Current CPI Rate	4.9% pa
Current 3 year swap rate	7.8% pa
Minimum annualised Return	4.7% pa (15%)
Maximum annualised Return	11.7% pa (15%+25%)

South Africa General Equities (Unit Trust) (Morningstar)	3 year ending 31/12/2018	5 Year ending 31/12/2018	10 Year ending 31/12/2018	Balanced Funds (Regulation 28 compliant) (Morningstar)	3 Year ending 31/12/2018	5 Year ending 31/12/2018	10 Year ending 31/12/2018
Number of investment managers ranked	126	97	59	Number of investment managers ranked	211	143	84
Peer Group Best	14.99%	8.95%	15.08%	Peer Group Best	9.88%	8.62%	11.93%
Peer Group Worst	-9.03%	-2.97%	5.36%	Peer Group Worst	-7.20%	-0.83%	5.48%
Peer Group Average	2.10%	3.86%	10.61%	Peer Group Average	2.59%	4.97%	9.11%

Return Comparison to bond and money market funds

A comparison of returns is shown below against money market and flexible income funds.

South African Flexible Bond Funds (Morningstar)	3 year ending 31/12/2018	5 Year ending 31/12/2018	10 Year ending 31/12/2018
Number of investment managers ranked	26	15	14
Peer Group Best	11.94%	8.73%	8.80%
Peer Group Worst	0.90%	6.89%	6.88%
Peer Group Average	9.76%	7.64%	7.75%
Risk Category	44% of these funds contained above average risk as rated by Morningstar. These funds may contain 6 to 9 years duration risk, corporate credit risk and foreign currency risk.		

South African Money Market Funds (Morningstar)	3 Year ending 31/12/2018	5 Year ending 31/12/2018	10 Year ending 31/12/2018
Number of investment managers ranked	26	23	20
Peer Group Best	7.66%	7.16%	6.96%
Peer Group Worst	6.88%	6.67%	6.45%
Peer Group Average	7.33%	6.87%	6.61%

Historic price graph of the Euro Stoxx 50[®] Index

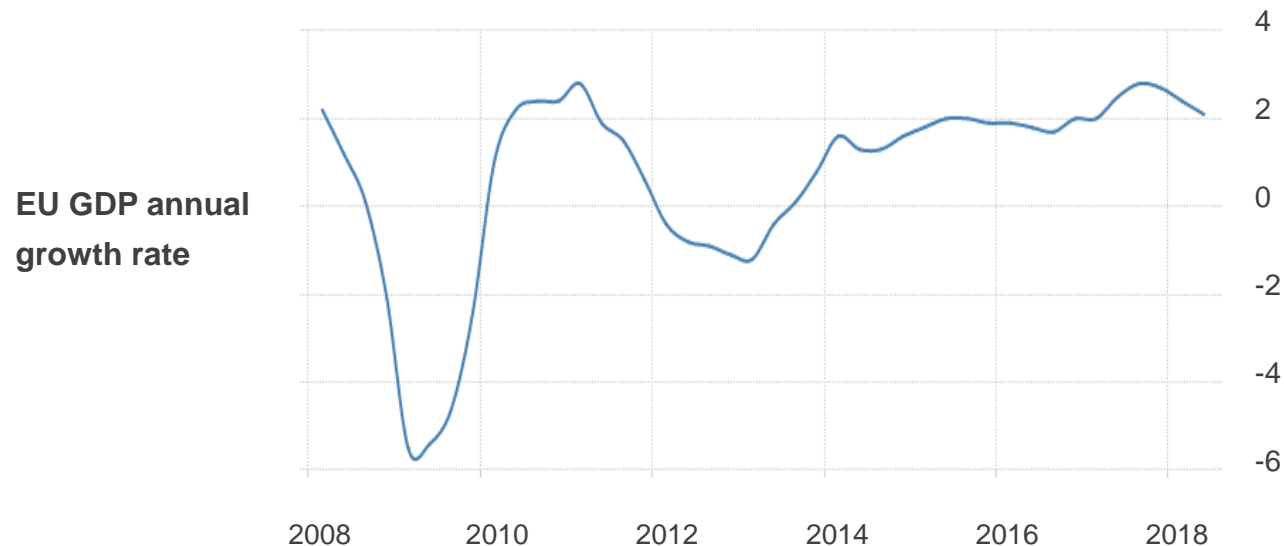
The historic graph of the index has had periods of great volatility (the Note would provide capital protection in that instance)



Source: Bloomberg (10 January 2019)

Euro Stoxx 50[®] commentary

- The Euro Area is the second largest economy in the world.
- Of the 19 member states, the biggest are: Germany (29% of GDP, France (20%), Italy (15%) and Spain (10%).
- On the expenditure side, household consumption is the main component of GDP and accounts for 54% of its total use, followed by gross fixed capital formation (21%) and government expenditure (20%).
- Exports of goods and services account for 47% of GDP while imports account for 43%, adding 4% of total GDP.
- The European Central Bank has called an end to its quantitative easing programme by 2019, showing confidence in the Eurozone economy.
- Per the graph below the GDP annual growth rate has recovered to over 2% per annum after the dual shock of both the financial and Greek crisis.



Source: [Tradingeconomics.com](https://tradingeconomics.com) | Eurostat

Euro Stoxx 50[®] Index Dividend Forfeiture

Euro Stoxx 50 [®] Index	
Current 12m Dividend Yield	3.63%
Less Annual Management Fee	-0.20%*
Net Dividend	3.43%
Compounded for 3 years	10.65%

- Net dividend forfeiture is 10.65% in Euro

*iShares EURO STOXX 50[®] Index ETF (Blackrock) annual ETF fee –
<https://www.blackrock.com/hk/en/products/282361/>

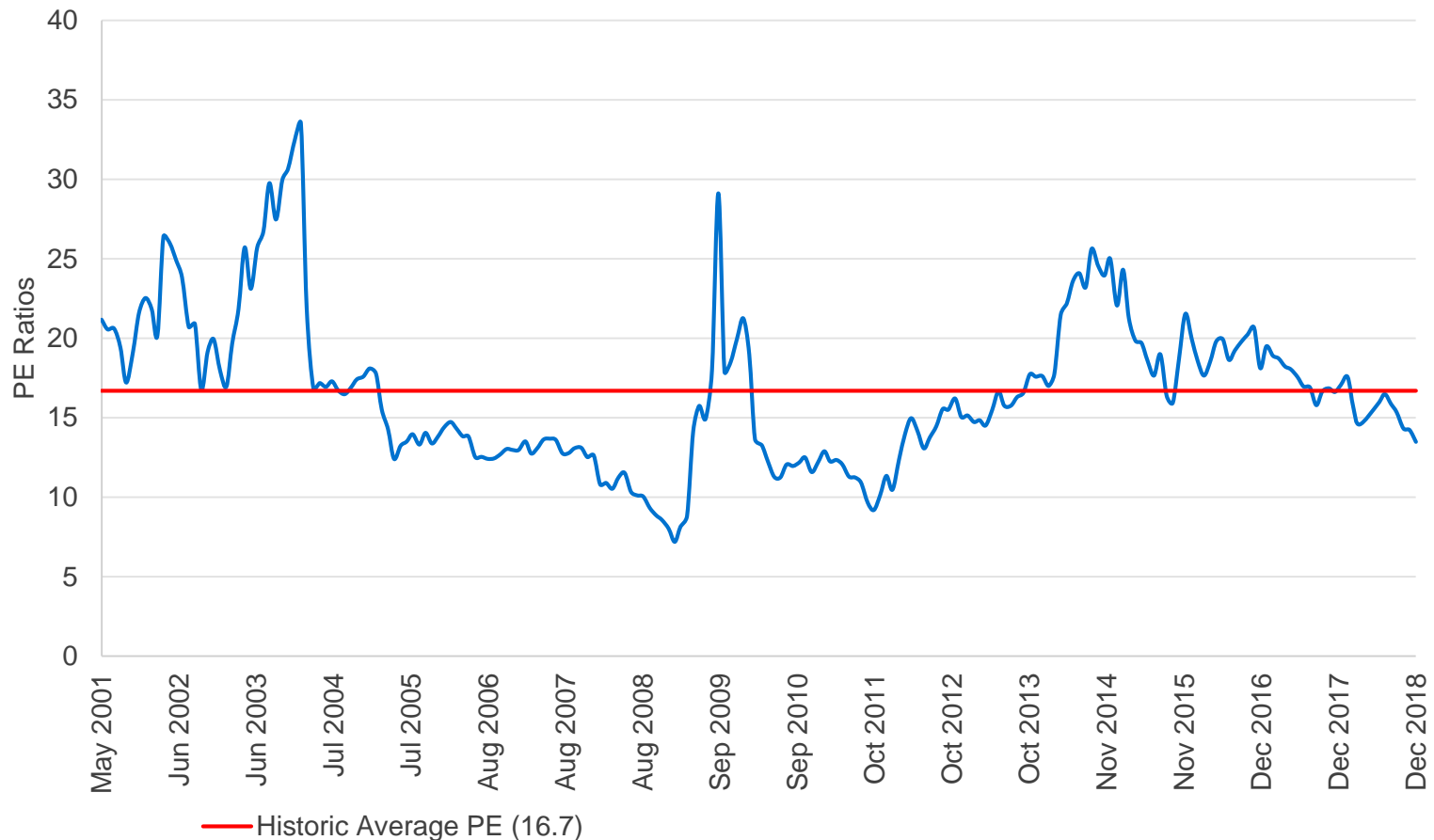
Data source: Bloomberg



Historic price earning graph of the Euro Stoxx 50[®] Index

The current PE ratio of 13.47 is some 19.3% below its historic average of 16.7

Historic PE Ratios of the Eurostoxx50 Index



Price simulation during the investment term

IBL simulated the return of the Note over the term of the product, under the scenarios of a positive and negative Euro Stoxx 50® Index move during the term of the investment.

- The simulation has been done under the assumptions* of constant:
 - Volatility (assuming that the volatility surface remains the same in the future as it is today, i.e. exclusion of forward volatility on the index). If the volatility increased, the option value would increase under the scenario of negative index moves and vice versa.
 - Interest rates
 - Dividends

Index level	Inception	6 months	12 months	18 months	24 months	30 months	Maturity
40%	100%	113%	118%	123%	129%	134%	140%
10%	100%	108%	113%	118%	124%	131%	140%
5%	100%	106%	111%	116%	122%	129%	140%
1%	100%	105%	109%	114%	119%	125%	140%
-1%	100%	104%	108%	113%	118%	123%	115%
-5%	100%	102%	106%	111%	115%	119%	115%
-10%	100%	100%	104%	108%	111%	113%	115%
-40%	100%	96%	99%	103%	107%	111%	115%

The largest drop in the investment for a -40% index move is -4% at the 6 month point.

**Please note that these simulations are subject to a number of assumptions and the effective realisation is likely to vary from the examples shown. Alternative assumptions, models or methodology could materially change the data and analysis.*

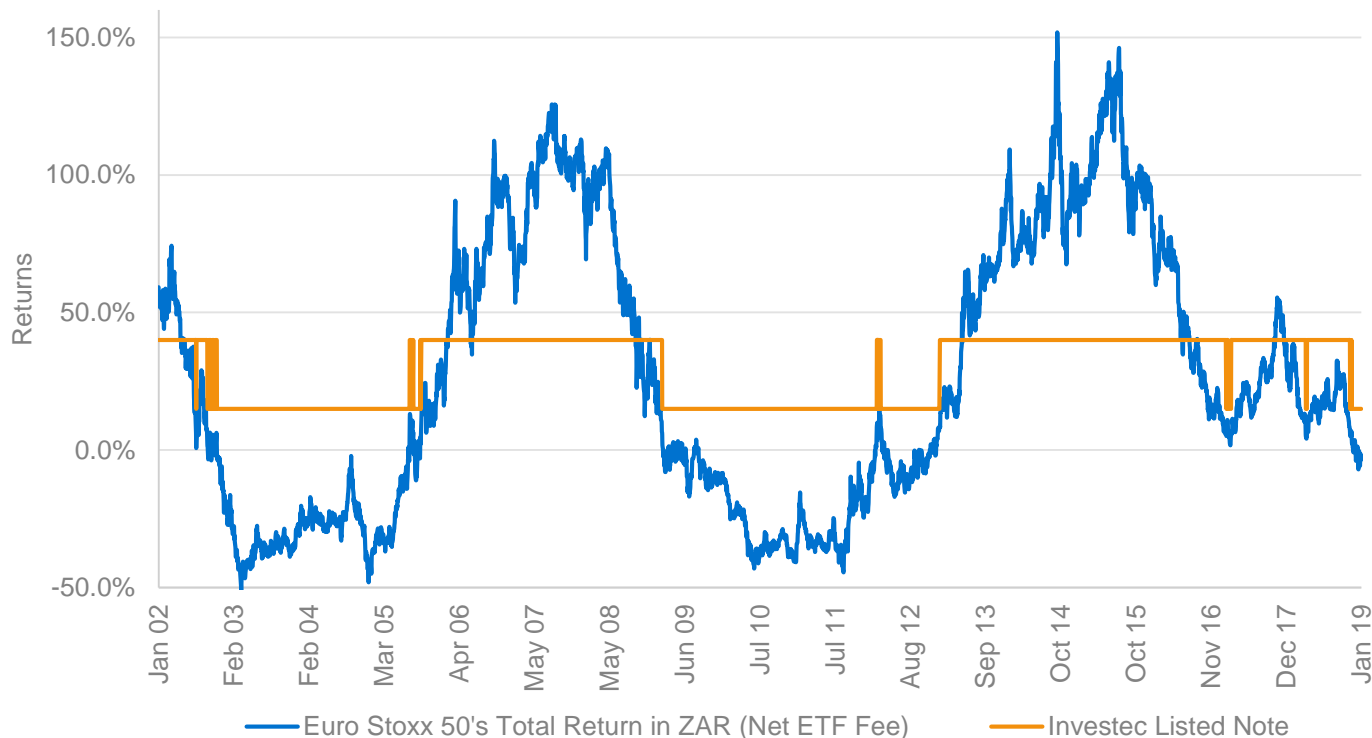
Euro Stoxx 50[®] back-testing since inception

IBL simulated the historic returns of the 3yr and one week Note versus the Euro Stoxx 50[®] Index's total return in ZAR (less an ETF tracker fee of 0.86%pa), calculated daily since the inception of the Euro (January 1999) - 4,427 daily observation periods were measured.

- The historic average index's total return in ZAR (net the ETF fee) was 26.7%.
- The Note returned the 15% minimum return 40% of the time and 60% of the time it paid the 40% return, aggregate average of some 30%. The deduction from this is that if the investor had this product historically he/she would have had a higher return with lower risk.

** Note the above assumes current pricing variables (15% min and 40% max return) applied retrospectively to be compared to the index's total return in ZAR.*

3Y1W Total Returns in ZAR vs Investec's Listed Note



Rand Euro interest rate differential

The digital level of 25% is a result of the ZAR and Euro 3 year yield curve differential which is shown below.

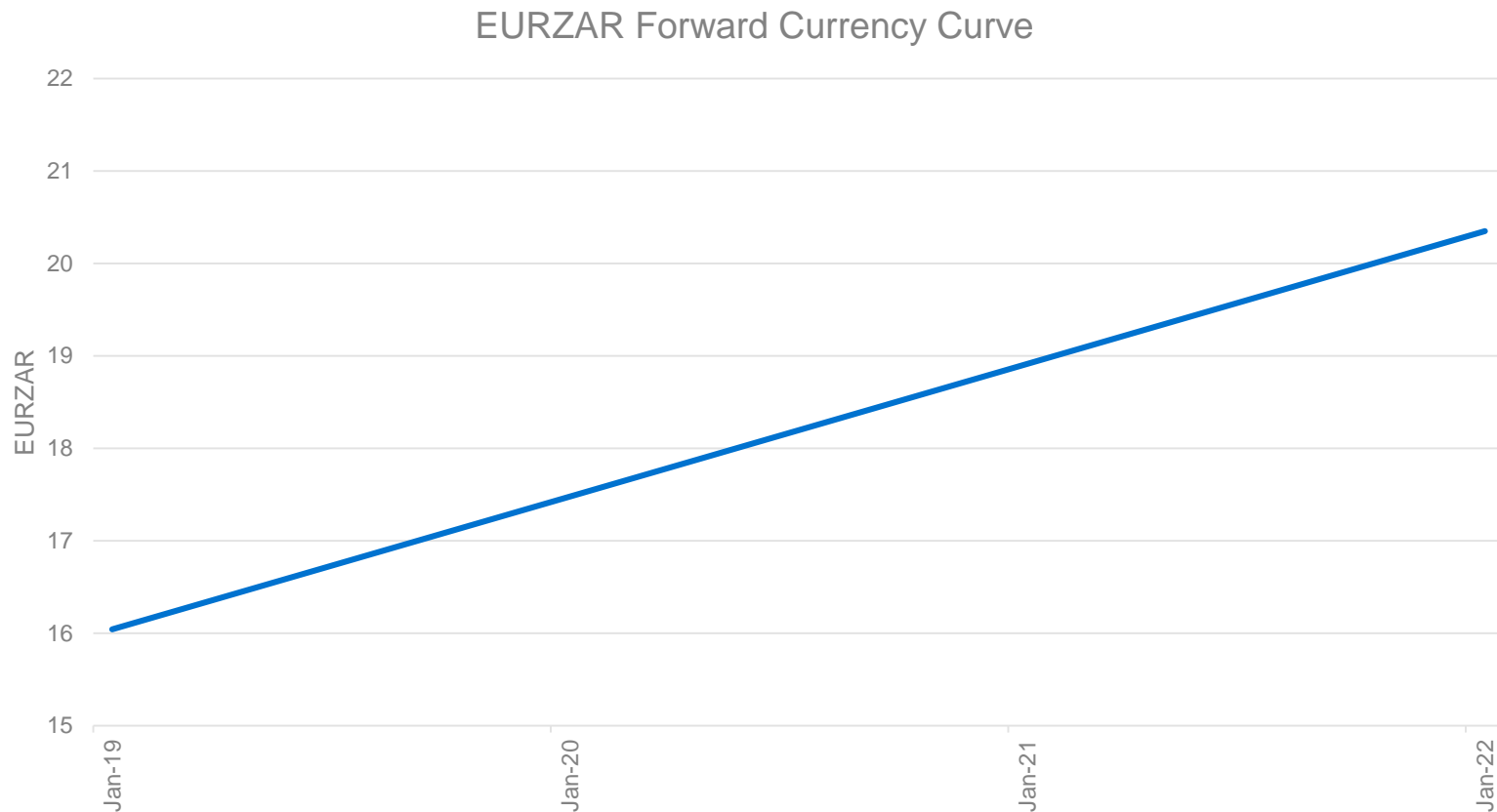
The 3 year EUR swap rate is 0.042% versus the 3yr ZAR swap rate of 7.36%.



Source: Bloomberg (10 January 2019)

EURZAR forward curve for 3 years

The Euro vs the ZAR forward rates over the term of the Note can be seen below. The EUR/ZAR forward depreciation rate is approximately 26.87% over the projected 3 year term. The digital level of 25% is a result of this upward sloping forward curve.



Source: Bloomberg (10 January 2019)

Protection against the Rand strengthening to the Euro

The benefit of this Note is the protection against the Rand strengthening to the Euro, which has happened in numerous occasions in the past.

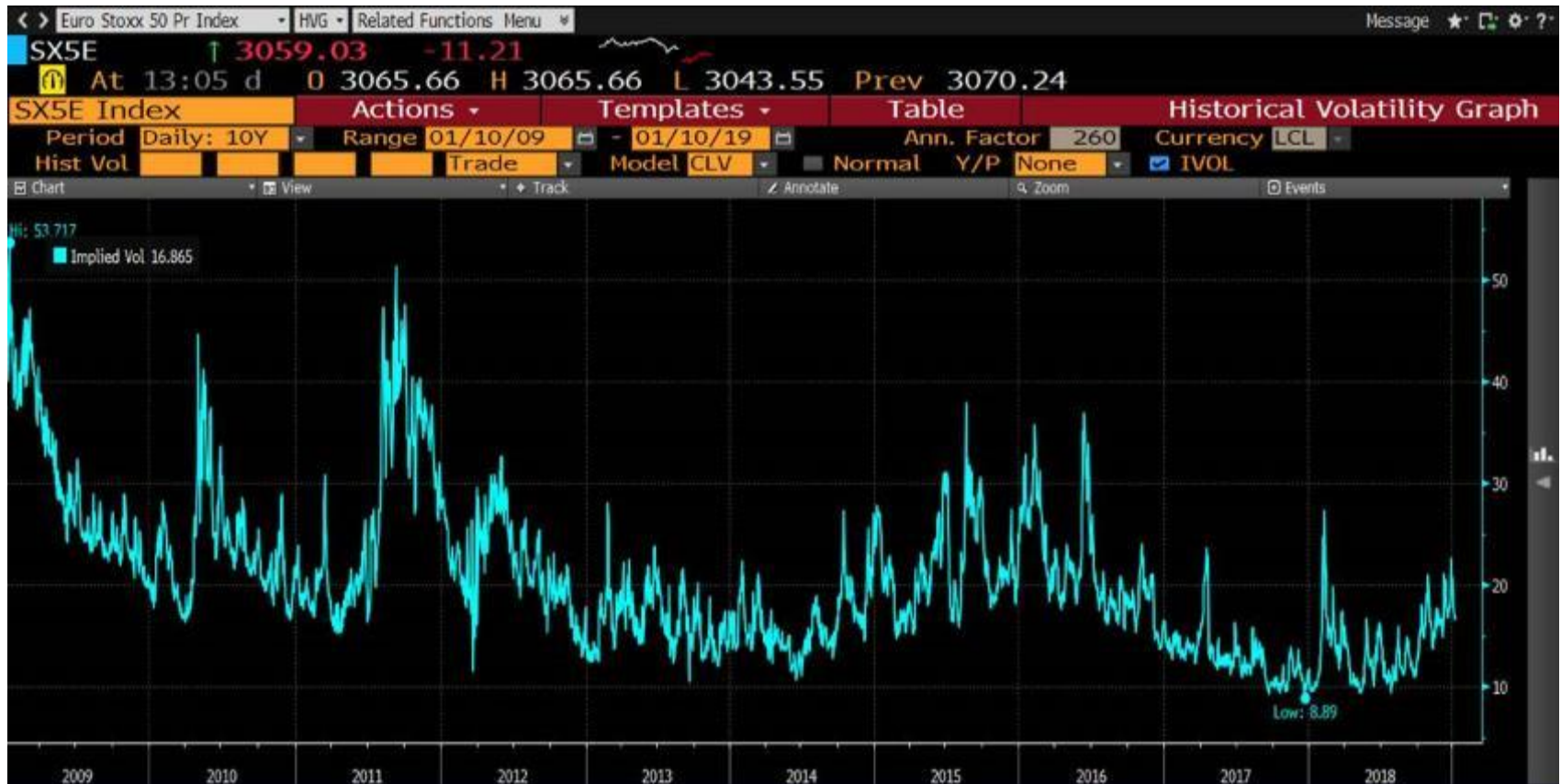


Source: Bloomberg (10 January 2019)

The past 19 years, the average depreciation rate of the Rand to the Euro was circa. 4.2%pa. The 3 year forward depreciation of 27.69% implies an annual depreciation rate of 8.57%pa which is the main driver of the 40% potential return.

Opportunity to capture the Euro Stoxx 50[®] Index's low volatility

The index's implied volatility (a key pricing variable in the 25% Rand return) is relatively low (currently 16.86%). The lower the volatility the cheaper the option price, hence the high % digital return which may not be obtainable if the market variable increases.



Source: Bloomberg (10 January 2019)

Contact details – Investec Financial Products

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Important Dates:

Product closing Date	27 March 2019
Strike Date	29 March 2019
Listing Date on JSE	5 April 2019
Allocation of the units to investors stockbroking account	Up to 3 business days after the Listing Date via the Central Securities Depository Participant (CSDP)
Maturity Date	5 April 2022
Settlement Date	Maturity date plus 4 business days
Final Index Level	The Final Index Level will be calculated as the simple average of the closing levels of the Index as published by Bloomberg on the following dates; 5 January 2022, 7 February 2022, 7 March 2022 and the Maturity Date (exit averaging dates)

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As required by the **Financial Advisory and Intermediary Services Act ('FAIS')**, please find above the details of the product supplier.

Disclaimer



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