

Introduction

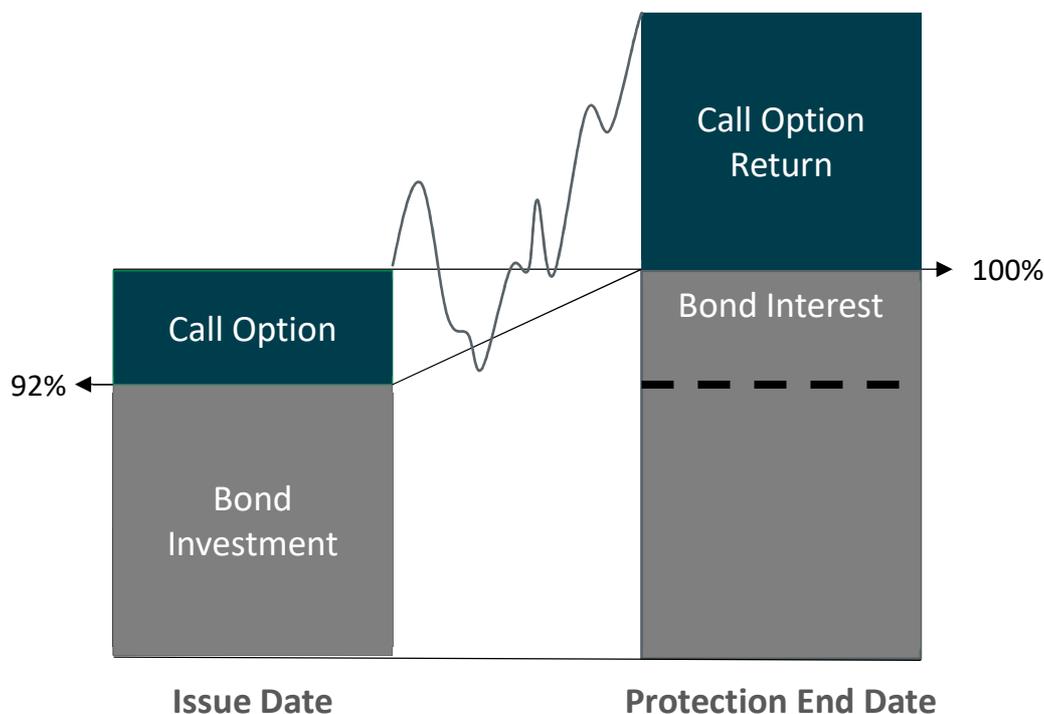
GLOBAL AND SOUTH AFRICAN TRENDS

The size of the global structured product market reached \$553 billion in 2015. The level of interest rates in an economy is an extremely important input in any structured product. In high yielding countries like South Africa capital protected products have more “spend” to purchase geared exposure to riskier assets. Lower yielding regions, like the USA or Europe, have less “spend” available and capital protected products therefore tend to be more yield enhancing products.

Capital protected products are increasingly being used to solve unique risks that clients are facing. There is a growing trend in South Africa to hedge political risk via a structured product without taking unnecessary currency risk whilst maintaining an appropriate asset exposure.

CAPITAL PROTECTED PRODUCTS

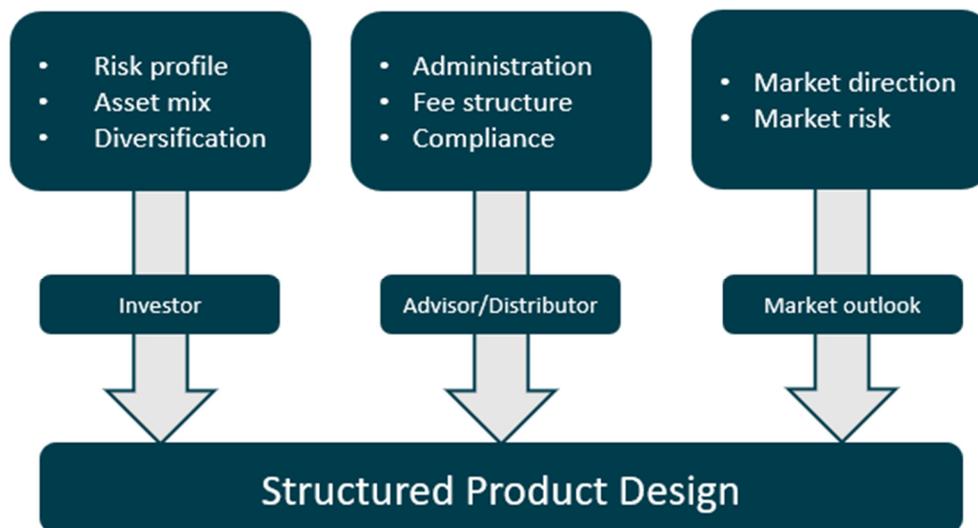
Capital protected products, is a **term based** investment with **capital protection** combined with **exposure** to appropriate **underlying assets**. In its simplest form, the investment can offer secure capital at maturity and leveraged exposure to an equity index as illustrated below.



The product allows for the investor to receive at least the capital investment back, and if the equity market performs, the investor will participate in the full or even geared performance. If the equity market has negative performance the investor has no capital risk. This makes the investment a great diversifier in the investors’ broader portfolio. The product can combine a wide range of investments in a risk profile that can be custom-made to suit specific investment needs. These products can combine investor goals with market outlook in a clean and transparent manner.

Capital protected products can allocate risk to a range of assets and have some unique issues that need to be fully understood.

- Firstly, like any bank deposit, the investment carries **credit risk**. The bank issuing the structured note may default which could result in capital losses. The importance here is to understand the issuing bank’s credit quality. The first step will be to look at the bank’s credit rating and if available the price of the issuer’s CDS.
- **Performance** risk is often ignored, in engineering a guaranteed product the structuring engineer needs to analyse and evaluate the underlying investments to minimise this risk.
- **Liquidity** risk in most Capital protected products is high. Even though the products could be liquidated at short notice, it is done at the ruling market price which could put capital at risk. The products are long term investments and will only derive full benefit at maturity.



Our Offering

STRUCTURING DYNAMICS

TBI Investment Managers offer a unique structuring service to the wealth manager. We focus on **creating solutions in conjunction with the wealth manager**, which are focused on the client's needs, allowing the product to be used as a tool for the wealth manager to compliment the client's asset portfolio and help manage his risk profile efficiently.

Our investment philosophy is based on a **fundamental understanding of global markets** across asset classes. This will include potential risks like geo-political or similar risks on global markets.

- Our **view of the world** starts with **growth, inflation and interest rate** expectations. The view is combined with **potential risks** and the **fundamental pricing of assets** which leads to an **asset allocation** process, given a risk profile, to assets in appropriate regions and asset classes.
- The international **bank products** are **incorporated** where they offer smart indexing with more appropriate risk characteristics than generic market capitalisation based indices. This allows for not only better performance but also more efficient derivative structuring.
- Products are structured in a **tax efficient manner** ensuring that all components, legal structure, asset mix, derivative structuring are optimal to deliver a unique risk profile focussed on the client's needs.

WEALTH MANAGER DYNAMICS

- A structured product requires an **initial minimum investment** amount of around R50 million, depending on the complexity of the structure. Typically, the products are tranching and clients pool their investments via an investment platform to fill the tranche. From a business perspective, when considering the implementation of a structured solution, the wealth manager has a reputational risk if he does not fill the tranche. This problem can be managed by TBI Investment Managers securing the underwriting of the tranche or securing co-invest should it be necessary.
- The **administrative process** needs to be optimal. FICA, client take-on and reporting must be seamless and cost effective. TBI Investment Managers can assist to select the most appropriate platform such as a Lisp of JSE authorised brokers.
- The wealth manager needs to ensure that the group's financial advisers are well versed in the details of the proposed guaranteed product, ensuring the clients are treated fairly and invested appropriately. Where TBI Investment Managers is used as structuring engineer, we will assist with **training**.

DISCLOSURE

This document is proprietary to TBI Investment Managers (Pty) Ltd. It is for information only and may not be distributed or used for any other purpose. It does not address the circumstances of any particular person or entity and is not a recommendation or advice in relation to any transaction or investment. This document should not be relied on without proper advice from an independent financial adviser. We have taken care to ensure that the information is accurate and not misleading but do not guarantee its accuracy or correctness or that it will not change. TBI Investment Managers will not be held liable for loss, damages or expenses by any person or entity as a result of that party relying on or failing to act on any of the information provided. The investment value of any financial product mentioned in this document is not guaranteed.

TBI Investment Managers (Pty) Ltd is a licensed financial services provider.

Alternative Thinking

TBI Investment Managers (Pty) Ltd | www.tbi.co.za | Tel: +27 21 948 0323

Directors: IA Donovan; OJ Goosen; I Groenewald; RJ Hamman; JR Hodgskiss; IE Schneider; MJ van der Mescht

3rd Floor, FedGroup Place, 35 Willie van Schoor Avenue, Bellville, 7530 | PO Box 21168, Parow, 7499

Reg.No: 2010/004912/07 | TBI Investment Managers (Pty) Ltd is a licensed financial services provider | FSP number 42968