



# Global Fixed Return and Growth Protector

Issue HL16

# Introduction

Many investors would like to diversify their investment portfolios to benefit from the growth potential of European and US share markets, but do not want the risk of zero returns or losing any of their capital.

The Global Fixed Return and Growth Protector – Issue HL16 offers you an attractive above-average fixed return, plus the potential of capital growth linked to US and European share markets, all in one single fully capital-protected South African rand (ZAR) investment.

**The Investment is in the form of a Johannesburg Stock Exchange Note issued by Absa Bank Limited and made available to investors through a linked endowment policy underwritten by the Insurer.**

# About the Investment

The Global Fixed Return and Growth Protector – Issue HL16 (the “Investment”) is a five-year, capital-protected investment linked to an Index that follows the performance of top performing US and European companies. The Investment is linked to the Commerzbank Global Equity Risk Premia 15% Risk Control Excess Return Index and the Global Fixed Return and Growth Protector – Issue HL16 (the “Investment”)

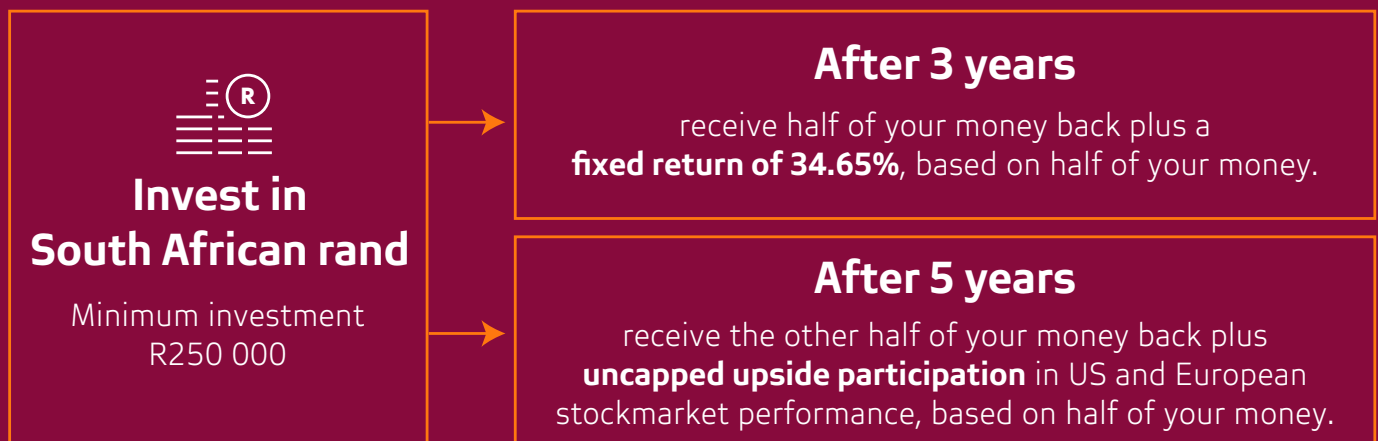
### After three years:

You will receive a Fixed Return, based on half of your Investment Amount, plus half of your Investment Amount back. You may access this money, or reinvest it in your Policy (please refer to ‘Access to your Investment’ section later in the brochure.) The Fixed Return will be determined on the Investment Start Date (please refer to the Investment Schedule for a current estimate of this rate).

### After five years:

You will receive the other half of your Investment Amount back, plus 100% participation in any Index growth.

**The mechanics of how the Investment works and how you can access it are discussed in detail further on in this brochure and the Investment Schedule. Please read this brochure, the Investment Schedule and the Terms and Conditions carefully and make sure that you understand them before investing.**



## For whom is the Investment suitable?

### **This Investment may be suitable if you:**

- Want to invest in South African rand and have a minimum lump sum of R250 000
- Do not want any exposure to foreign currency
- Understand and are comfortable with the Index
- Are able to commit half of your money for three years and the other half for five years
- Do not want to risk losing any capital, provided you remain invested for the full term of each half of the Investment
- Would like to earn an attractive Fixed Return and at the same time benefit from any positive growth of US and European share markets
- Want to diversify your portfolio to markets and assets outside South Africa
- Regard the terms governing the liquidity of the Investment and the Policy as appropriate for you.

### **This Investment may not be suitable if you:**

- Cannot accept that the Index may achieve no or very little growth and that the return on the Equity Index portion of your Investment could after five years be zero or less than you could have earned in a low-risk deposit account
- Do not understand or are not comfortable with the Index used
- Would prefer foreign currency exposure
- Do not want to wait for three years to access half of your money and the Fixed Return, or five years to access the other half and any returns
- Are not willing to assume the full credit risk of the Issuer. If the creditworthiness of the Issuer declines over the investment term, the value of your Investment may also fall, which may result in capital loss if the Investment is sold before maturity. If the Issuer is unable to repay capital or any return due at maturity, you will get back less than is due to you or nothing at all (more information about the Issuer is provided later in this brochure).

## How the Investment works

Half of your Investment Amount will be allocated to a “Fixed Return Investment” that matures after three years and the other half will be allocated to an “Equity Index Investment” that matures after five years. The Investment Amount and capital protection are in South African rand.

### **At the beginning of the Investment term (i.e. on the Investment Start Date), we record the following:**

The closing level of the Index, referred to as the “Initial Index Level”.

### **After three years (Fixed Return Investment maturity):**

You will receive half of your Investment Amount back, plus a Fixed Return that is based on half of the Investment Amount. You can withdraw the money at this point or reinvest it into another investment within your Policy.

### **After five years (Equity Index Investment maturity):**

You will receive the other half of your Investment Amount back, plus at least 100% participation in any positive Index Performance.

- If the Index Performance is negative, you will receive the remaining half of your Investment Amount back, but no additional returns.
- If the Index Performance is positive, you will receive the remaining half of your Investment Amount back, plus an additional return based on this half of your Investment Amount.
- The percentage return will be calculated by multiplying the Index Performance by the Participation Rate.

In addition to the Index Performance, the repayment of the Investment Amount, the Fixed Return and any additional return are subject to the ability of the Issuer to pay and extraordinary market events that may have occurred (see Potential Risks section later on in the brochure).

## Example return scenarios

The examples below illustrate how the Investment would work based on an Investment Amount of R250 000, a Fixed Return of 34.65% after three years and a Participation Rate of 100% in any positive Index Performance after five years. These are for illustrative purposes only and are based on the assumption that no early withdrawals are made from your Policy. If any funds are withdrawn, no further withdrawals can be made until the end of year five (see "Access to your Investment" section below).

Amounts invested			After 3 years	After 5 years		
Total Investment Amount	3-year Fixed Return Investment	5-year Equity Index Investment	Maturity value of 3-year Fixed Return Investment	Index Performance	Participation Rate	Maturity value after tax of Equity Index Investment
R250 000	R125 000	R125 000	R168 312.50	60%	100%	R200 000
R250 000	R125 000	R125 000	R168 312.50	30%	100%	R162 500
R250 000	R125 000	R125 000	R168 312.50	10%	100%	R137 500
R250 000	R125 000	R125 000	R168 312.50	0%	100%	R125 000
R250 000	R125 000	R125 000	R168 312.50	-20%	100%	R125 000
R250 000	R125 000	R125 000	R168 312.50	-40%	100%	R125 000

Source: Absa Corporate and Investment Banking, May 2019

## Access to your Investment

Please note that withdrawals are limited in your Policy and any early withdrawal could result in you losing some of your Investment Amount. It is for this reason that the investment is aimed at investors who do not need access to their money during the Investment term. In terms of legislation, you may access your Investment once during a restricted term of five years by making one full or partial withdrawal. You should be aware of the following:

- If you need to make an early withdrawal before the end of three years, you can ask the Issuer to redeem the entire Investment linked to your Policy at the prevailing market value.
- If you do not make any withdrawals before the end of three years, half of your Investment Amount plus the Fixed Return will be available to take, or to reinvest into another investment in your Policy. You will be contacted accordingly.
- If you choose to take the proceeds at this stage, no further withdrawals can be made from the Policy until the end of the five-year Investment term.
- If you choose to reinvest the proceeds after three years and thereafter need access to your money, you can request the Issuer to redeem your Investment in full at the prevailing market value.

Withdrawals are limited in your Policy and any early withdrawal could result in you losing some of your Investment Amount.

## About the Index

### Background and investment rationale

There is a global movement towards index-linked investment strategies, many of them so-called "factor" or "risk premia" indices. This investment style aims to deliver long-term outperformance of a benchmark of market cap weighted indices, by exploiting market behavioural effects such as valuation biases (value and low volatility), herding tendencies (momentum) and survivorship bias (quality).

Furthermore, large amounts of time and effort are spent in ensuring that drawdowns are managed to counteract

inevitable periods of negative returns. By designing an Index with both a factor and risk control (volatility management) feature, we believe this to be a compelling alternative to traditional market cap weighted indices.

### Index construction

The Index is an equally weighted basket of four 'factor indices' covering the US and European stock markets, i.e. eight sub-indices in total.

The factors being exploited are Value, Momentum, Low Volatility and Quality.

Factor	What is it?
<b>Value</b>	Captures excess returns of stocks with low prices relative to their fundamental value.
<b>Quality</b>	Captures excess returns of stocks that are characterised by low-debt and stable earnings growth.
<b>Minimum Volatility</b>	Captures excess returns of stocks with lower than average volatility or "beta" risk.
<b>Momentum</b>	Captures continued excess returns of stocks which have recent positive price momentum.

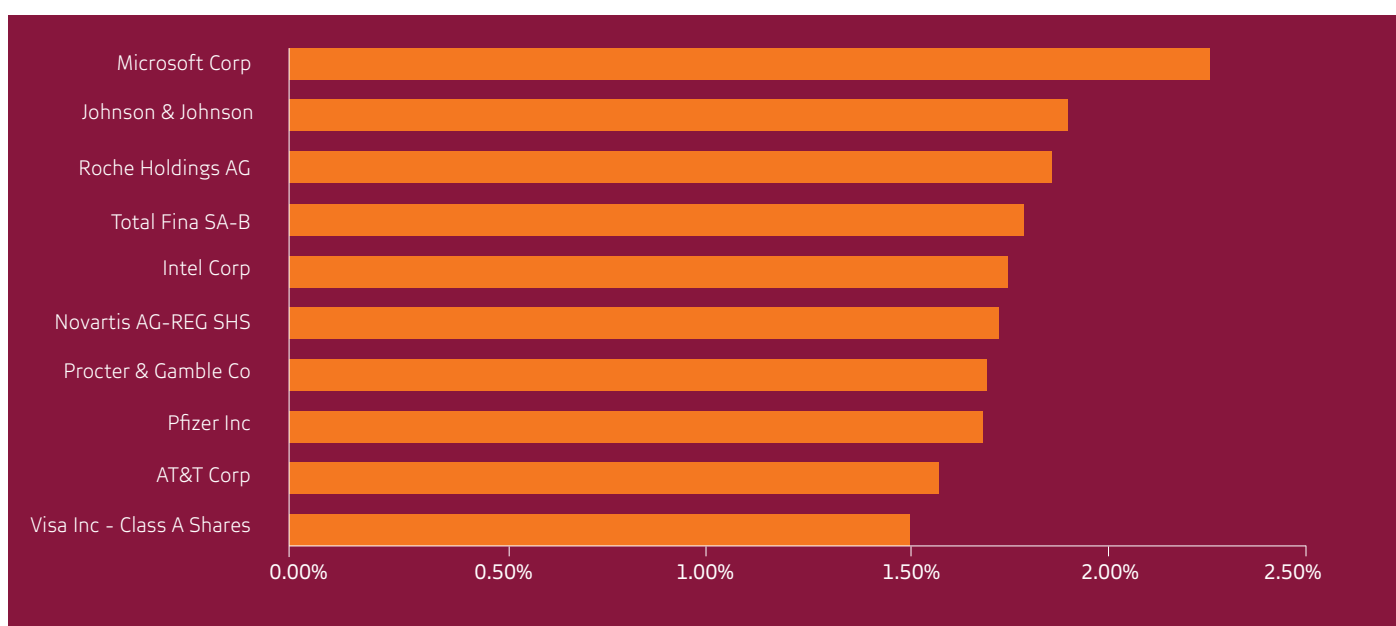
The Index also has a daily risk-control mechanism to control risk. The concept is a simple one in that historically highly volatile markets are associated with negative equity performance, and vice versa. As such it stands to reason that in volatile markets you need to be in safe assets like cash and in times of low volatility you can take more risk.

The Index has a target volatility/risk control level of 15%. The exposure to equity (i.e. the equity factors) and cash will be adjusted daily based on the actual, observed volatility of the underlying equity markets.

If the actual volatility goes above 15%, the Index will allocate a percentage to cash in order to minimise the

## Index components

The current top ten holdings in the Index are:



Commerzbank, April 2019

impact of possible falling equity markets. As the volatility reduces again, this money will be taken out of cash and reinvested in equity. The maximum exposure to equities in the Index is 150% and the minimum is zero. Here are some allocation scenarios based on the 15% target level:

The following table highlights some allocation scenarios:

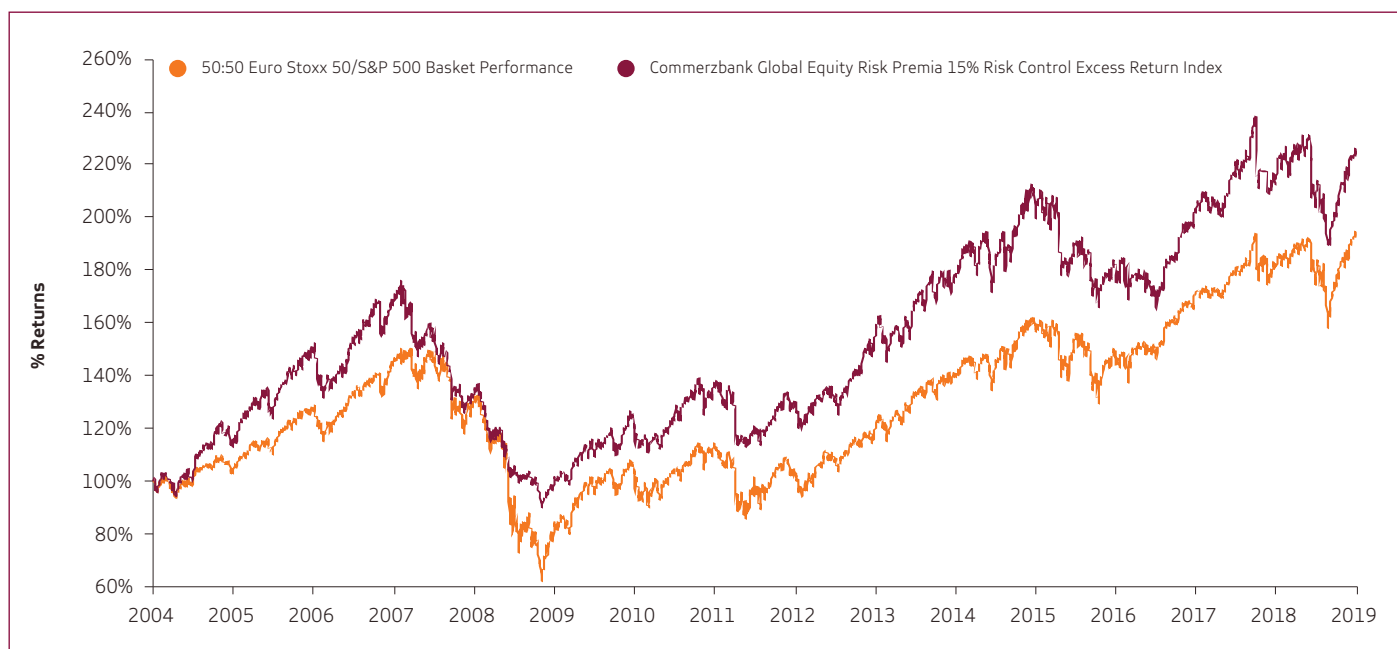
Actual volatility	Allocation to equity	Allocation to cash
10.50%	142.86%	0.00%
15.00%	100.00%	0.00%
21.00%	71.43%	28.57%

Please note that by employing the strategies described above, the Index intends to produce a return by lessening the effect of downward movements in the Index and increasing the effect of upward movements. However, returns from share markets are uncertain and the strategy might not work. You might get little or no return on your Investment because the equity factors perform poorly relative to the market cap weighted Indices or because the method of limiting the effect of any volatility in the market results in you receiving no benefits or reduced benefits during periods when the level of the equity factors rise but volatility remains high.

The Index is calculated on an excess-returns basis and includes fees.

## Index performance

The chart below shows the rebased performance of the Index and a benchmark market cap weighted basket of the S&P 500 and EURO STOXX 50 indices from February 2004 to February 2019 and highlight that the indices may go down as well as up. You should remember that the performance of the Index will determine whether you will receive any additional return on the remaining half of your Investment after five years. Please note that the Index only measures the prices of the shares included and no allowance is made for dividends paid on the shares. The past performance of the Index is not a guide to its future performance.



Source: Refinitiv, Commerzbank, Absa Corporate and Investment Banking, January 2019. Index launch date: 01/11/2016. Prior to Launch Date, the results do not represent those of actual trading and the index did not exist prior to this period. Statistical analysis is the result of back-tested simulated performance by means of a retroactive application of a model designed with a benefit of hindsight. In fact there are frequently sharp differences between simulated performance results and the actual results subsequently achieved by any particular trading program.

## Conclusion

The Index intends to lessen the effect of downward market movements or losses and increase participation in upward market movements. However, returns from stock markets are uncertain and the strategy may underperform at times. Poor performance can be attributable to (1) risk premia underperformance relative to market cap weighted indices, or (2) periods where volatility remains high despite a rising equity market, and positive correlations between equity and US Treasuries.

The Index is calculated on an excess-returns basis and includes fees and adjustments; this is explained further on in the Index factsheets or methodology documents that can be found on our website.

Note that the performance of the Index will determine whether you receive any additional return on the remaining half of your investment after five years. Also note that the Index only measures the prices of the stocks included and no allowance is made for dividends. Past performance of the Index is not a guide to its future performance.

# Important information about the Investment

## About Absa

Absa Bank Limited ("Absa"/"the Issuer") is a leading African bank. We have been serving clients locally for more than 100 years and we have one of the largest distribution networks across Africa. As a winner of major banking awards, we have the capacity to meet your in-country needs and deliver a wealth of local knowledge.

Absa Corporate and Investment Banking has a diverse footprint that extends from Cape Town to Cairo, serving clients across 14 countries and is an award-winning provider of structured products.

## The Issuer

This Investment is issued and the capital protection provided by Absa. In many respects we will also be providing the investment advice. Banks and other issuers of investments are assigned credit ratings to indicate to investors how capable they are of meeting any payments due to holders of investments. (See 'Credit risk' section). Current credit ratings are detailed in the Investment Schedule.

# Your questions answered

## How can I invest?

You can speak to your financial adviser, who will help you make sure that the Investment housed in the Policy is suitable for you. Once you regard this investment proposition as suitable for you, you can complete the relevant application form and investment instruction with your financial adviser and submit it to the address on the forms.

## How can I monitor the performance of my Investment?

You will receive an investment confirmation soon after you have invested. We will regularly make the performance fact sheets available, which you can obtain by speaking to your financial adviser. You will also receive regular investment statements from the Administrator of your Policy. You can speak to your financial adviser if you have any questions.

## Is there any currency risk in the Investment?

Your Investment is made in South African rand and you are not exposed to any movements (positive or negative) of the foreign currencies over the Investment term. This Investment does not use any of your individual foreign exchange allowances.

## Can I access my Investment before the Maturity Date if I need to and are there any fees involved?

The Investment is aimed at investors who do not need access to their money before the end of the five-year Investment term.

Because the Investment is held in a Policy, there are restrictions on the number of withdrawals you can make during the first five years. Any early withdrawal will be based on the prevailing market value of the Investment. The market value will be calculated by the Issuer and paid to the Insurer. Please note that any such early withdrawal could result in you losing some or all of your Investment Amount.

## What happens to the Investment in the event of death?

In the event of death, the value of your Investment is the prevailing market value as calculated by the Issuer. Long-term insurance policies allow for estate planning and there may be benefits to consider from the estate planning options available if you invest via a Policy.

## What happens at the end of the investment term?

On the Maturity Date of each half of the Investment (three and five years respectively), the Issuer will pay the capital and any after tax Investment returns to the Insurer within seven business days and your Policy will be credited with this amount. At the time you will be able to elect an alternative option for your maturing funds. If you elect to take the portion of the funds available to you after three years, you will not be able to access the remaining balances in the Policy for a further two years.

# What are the potential risks associated with the Investment?

## Credit risk

This Investment is issued by Absa Bank Limited and available through an endowment policy. The payments due to you depend on the Issuer meeting their obligations to you. If they cannot meet their obligations, you may lose some or all of your Investment Amount.

In the event of insolvency (all investors would rank as unsecured creditors. That means that only after secured creditors receive payment of their secured claims as well as preferential creditor's claims are settled in full, unsecured creditors will receive a pro-rata dividend in accordance with the size of their claims from the remaining funds.

Financial institutions are rated to indicate to investors how capable they are of meeting any payment commitments.

Credit ratings are assigned by two leading ratings agencies: Standard & Poor's and Moody's National. The highest ratings given by these agencies are AAA from Moody's National and AAA from S&P indicating, in their view, the least risky or most likely to meet payments when due.

The lowest ratings that they give, denoting the riskiest or least likely to meet the payments, are C (Moody's National) and D (S&P). The actual and perceived ability of the counterparty to make payments due to you in respect of the Investment, may affect the market value of your Investment. Furthermore, if the counterparty does fail to pay, you may get back less than is due to you or nothing at all. Please refer to the Investment Schedule for the current credit ratings of Absa.

## Market risk

The value of the Investment on maturity of the Equity Index Investment depends on the level of the Index and the indices comprising the Index, but future performance of the Index cannot be guaranteed. The value of your Investment during the Investment term can change unpredictably because of:

- the performance of the Index and the indices comprising the Index; and/or
- external factors including financial, political and economic events and other market conditions; and/or
- sudden and unpredictable changes in interest rates.

## Early redemption risk

Your Investment is designed to be held until maturity. If you redeem your Investment before the three or five-year Maturity Dates, you could lose some or all of your Investment Amount. Please refer to 'Can I access my Investment before the Maturity Date if I need to?'

## Adjustments risk

The terms of the Investment permit us to delay, reduce or withhold payments in certain circumstances. These provisions are not intended to circumvent what is legally due to you as an Investor, but rather to cover unforeseen

events which may affect your return, such as:

- a suspension or a delay in calculating the level of the index or the price of any of the individual indices that make up the Index;
- errors in calculating an index;
- changes in the way an index is calculated;
- an error in calculating the return itself.

While we will exercise due care and diligence in undertaking our responsibilities in relation to the Investment, the effects of the exceptional types of circumstances referred to in the above 'Adjustments' and 'Index risk' scenarios may decrease the value of your investment.

## Index risk

We as Issuer do not control or calculate the indices in the Index or the Index itself. While we do not expect this to happen, it is theoretically possible that, during the term of the Investment, any of the indices or the Index may cease to exist, cannot be calculated, is modified or cancelled. This is outside our power and if it were to happen the level of the relevant index could fall. What this means is that you, as investor, could lose some of your Investment Amount, especially where the Issuer is forced by events to mature the Investment early. We could look for a replacement index or try to calculate the index ourselves. We would also have the right to redeem or cancel your Investment early. These circumstances could negatively impact the performance of your Investment.

The performance of indices is unpredictable and depends on financial, political, economic and other events as well as each underlying share or the Issuer's performance, market position, risk situation and structure, where applicable.

## Early termination and adjustment risk

Your Investment may be terminated before maturity if there are certain market disruptions or other extraordinary events.

Absa may also delay, reduce, adjust or withhold payment in certain circumstances. These provisions are only intended to cover unforeseen events beyond our control which may impact the Investment.

## Tax risk

The tax treatment of this investment can be complex. Tax rates and the basis of taxation may change during the Investment term.

Any amendment to South African tax legislation, which changes the tax status of the policy or tax treatment thereof, may affect the surrender value and maturity value. In such an event, the Insurer shall have the right to adjust the benefit payable under this policy resulting from the amendment to such tax legislation.



### Portfolio diversification risks

You should carefully consider the exposure that this Investment would have on your overall investment portfolio.

### Issuance programme risk

The listed Note held by the Insurer is from the Issuer's Master Structured Note Programme. This has as part of its construction certain special events that could cause the listed Note to mature early. These include certain corporate actions, like delisting of the underlying securities if the reference index ceases to exist. In the unlikely event that these special conditions occur, the Issuer would have to redeem the listed Note and calculate the early redemption repayment amount as if an early redemption instruction had been received from an investor. There is potential for capital loss or change in tax treatment, especially if these events happen in the first 3 years.

### General risks

Other risks include the following, which could have an adverse effect on the value of your Investment:

- Inflation could erode the real value of your Investment.
- Market disruptions could adversely affect the performance of your Investment.
- Settlement disruptions may mean delays or failures of payments or returns by Absa, your investment platform, clearing system or other third-party paying agents or intermediaries.
- Index returns could differ from the actual returns on the shares that make up an index. This is because an index may not take into account income or changes to its constituents over time and may deduct fees and commissions.
- An investment in an index may be taxed differently from a direct investment in the components of the same index.
- Sponsor action could mean that the Index sponsor could change an index and adjust their composition or calculation methodology, or even suspend or cancel an index.
- Potential return/underperformance risk means that your returns could be less than if you invested in a deposit account or directly in the underlying assets to which the Investment is linked.

**The risks associated with this Policy are not limited to those described, but these are the key risks. Before investing, you should satisfy yourself that you fully understand the risks and you should consult with your own professional financial, tax and legal advisers where necessary.**

### What are the tax implications of the Investment?

The tax implications of buying the Investment are complex, and the levels and basis of taxation may change during the Investment term.

Depending on the type of policy, insurance companies pay different rates of tax on investment returns. The effective tax rates may also differ between insurance companies, based on their level of expenses. Any amendment to South African tax legislation, which changes the tax status of the policy or tax treatment thereof, may affect the surrender and maturity value. In such an event, the Insurer will have the right to adjust the benefit payable under

this policy resulting from the amendment to such tax legislation.

For more details, please refer to your quotation.

### What other documents should I have read before I invest?

Along with this brochure you should have been provided with the Administrator's application form and the Policy Terms and Conditions, which will help you understand the Investment in detail. This brochure represents what Absa Bank Ltd believes to be the most relevant summary of the features and risks of the Investment, but is not intended to be the sole basis for any evaluation. You can read the pricing supplement to more fully appreciate the information associated with the Investment.

### Is there a cooling-off period?

The Insurer will, as the long-term insurer of the Policy, allow up to 37 days from the Investment Start Date in which to change your mind about investing. However, any cancellation made after the Investment start date, as detailed above, might result in a capital loss as the cancellation will be done at the prevailing fair market price of the Investment. All fees that may have been paid will be refunded in full.

## Important information and disclaimer

**This document is for information purposes only.** All applications made by your investment platform to purchase an investment on your behalf require subsequent formal agreement by Absa, which will be subject to internal approvals and binding transaction documents.

**Advice.** This brochure and Investment Schedule do not constitute advice. Please consult your financial and tax adviser before investing.

**You have no claim against the underlying asset(s) to which the Investment is linked.** You will not have any recourse against any issuer, sponsor, manager, obligor or other connected person in respect of the indices.

**Regulatory disclosure.** Absa may disclose any information relating to your Investment that is required by regulators.

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### Investor Declaration

The Investor hereby confirms that they have read and understood the information contained in this Brochure and the Investment Schedule.

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Signed at

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Signature of Investor (or duly authorised person/s for minor Investors)

Date (ccyy-mm-dd)

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Signature of Contact Person or Legal Guardian

Date (ccyy-mm-dd)

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Signature of authorised and mandated Financial Adviser

Date (ccyy-mm-dd)

# Contact us

## Investor

If you have any questions about this Investment or any other Absa investments, please contact your financial adviser.

## Financial advisers

Financial advisers please contact the Structured Products team directly:

**Tel:** 0861 345 223, Option 2

**Email:** aiss@absa.co.za

## Administrator

Absa Investment Management Services (Pty) Ltd t/a Absa Linked Investments is the Administrator of the Investment. Please contact them for any administrative queries or for the full terms and conditions.

**Tel:** 086 000 0005

**Email:** aimscc@absa.co.za

## Complaints

Please contact your financial adviser or our compliance officer on:

**Tel:** 011 895 6263

**Email:** Mike.Pithey@barclayscapital.com

**Postal address:** 15 Alice Lane, Sandton, 2196, Gauteng, South Africa.

## Legal disclaimer – Absa Bank Ltd

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