

Structured Solutions



# Twin Fixed Return and Growth Protector - Issue 65



# Make a safe return

If you are looking for a capital protected investment with geared equity exposure to counter a low growth environment PLUS an element of fixed returns, without having to invest all your money for the long term or risk your capital, you're on the right road.

## Introduction

Many investors would like to diversify their investment portfolios to benefit from the growth potential of global stock markets, especially after the recent market corrections, but do not want the risk of zero returns or worse yet, losing any of their capital.

The Twin Fixed Return and Growth Protector offers you attractive fixed returns, intra term liquidity and geared exposure to global developed equity markets (with some exposure to the ZAR/USD exchange rate on any growth at maturity), all in one single fully capital-protected South African rand (ZAR) investment.

**The Investment is in the form of a Johannesburg Stock Exchange listed equity linked note issued by Absa Bank Limited.**

## Investment overview

The Twin Fixed Return and Growth Protector (the 'Investment') is a five-year, capital-protected investment linked to a global equity multi factor index that follows the performance of top performing offshore companies. The Investment is linked to the MSCI World Business Cycle Clock Factor Select ER Index (the 'Index').

### After one year:

You will receive a Fixed Return calculated on a quarter of your Investment Amount, plus that 25% of your Investment Amount back.

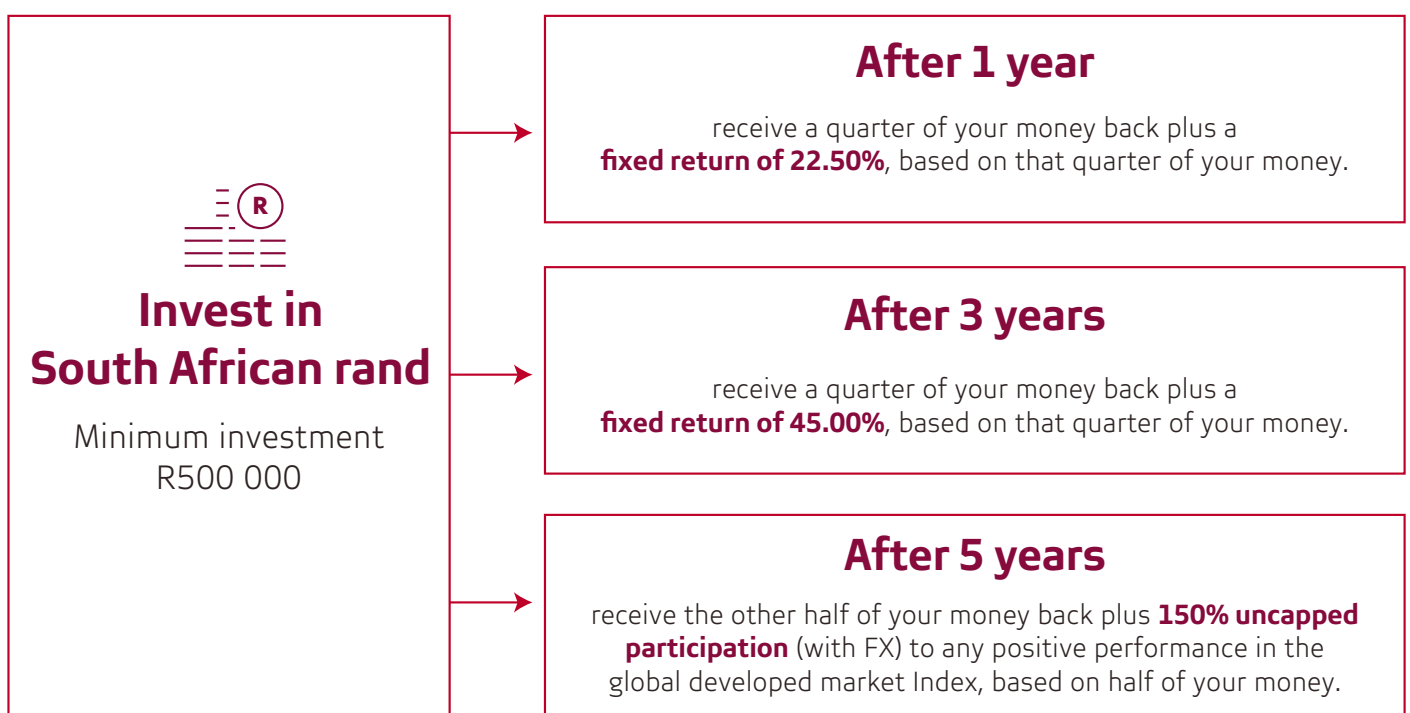
### After three years:

You will receive a Fixed Return calculated on a quarter of your Investment Amount, plus that 25% of your Investment Amount back.

### After five years:

You will receive the remaining half of your Investment Amount back (irrespective of the performance of the Index), plus an Enhanced Return based on the positive performance of the Index.

**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 R500 000.
- Want some exposure to foreign currency.
- Understand and are comfortable with the Index.
- Are able to commit a quarter of your money for one and three years respectively 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 tenure in the Investment.
- Would like to earn attractive Fixed Returns and at the same time benefit geared exposure to any positive growth of global stock markets.
- Want to diversify your portfolio to markets and assets outside South Africa.

### **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 no foreign currency exposure.
- Do not want to wait for either one or three years to access a portion of your money and the Fixed Returns payable on each portion, 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 Investments' that mature after one and 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'.
- The ZAR/USD exchange rate as published by Reuters.

### **After one year (Fixed Return Investment maturity):**

You will receive a quarter of your Investment Amount back, plus a Fixed Return that is based on that quarter of the Investment Amount.

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

You will receive a quarter of your Investment Amount back, plus a Fixed Return that is based on that quarter of the Investment Amount.

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

You will receive the remaining half of your Investment Amount back, plus at least 150% 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 percentage return based on this half of your Investment Amount.
- The percentage return will be calculated by multiplying the Index Performance by the Participation Rate.

A further calculation then takes place.

- The percentage amount by which the ZAR/USD exchange rate has changed over the Investment term will be multiplied by the percentage return amount calculated above.

Assuming the ZAR had weakened against the USD over the Investment term, this would have a positive effect on any return amount (and vice versa in the event the ZAR has strengthened).

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 R1 000 000 a Fixed Return of 22.50% and 45.00% after one and three years respectively and a Participation Rate of 150% in any positive Index Performance after five years and various FX iterations. These are for illustrative purposes only and are based on the assumption that no early withdrawals are made and are pre any tax implications.

Amounts Invested				After 1 year	After 3 years	After 5 years							
Total Investment Amount	1 Year Fixed Return Investment	3 Year Fixed Return Investment	5 Year Equity Return Investment	Maturity value of Fixed Return Investment	Maturity value of Fixed Return Investment	Index Performance	Participation Rate	Equity Return	Initial USD:ZAR	Final USD:ZAR	ZAR:USD Performance	Equity return with FX applied	Maturity value before tax of Equity Index Investment
1 000 000	250 000	250 000	500 000	306 350	362 500	30%	150%	45%	14.00	18.00	28.57%	57.86%	789 286
1 000 000	250 000	250 000	500 000	306 350	362 500	30%	150%	45%	14.00	10.00	-28.57%	32.14%	660 714
1 000 000	250 000	250 000	500 000	306 350	362 500	10%	150%	15%	14.00	18.00	28.57%	19.29%	596 429
1 000 000	250 000	250 000	500 000	306 350	362 500	0%	150%	0%	14.00	10.00	-28.57%	0.00%	500 000
1 000 000	250 000	250 000	500 000	306 350	362 500	-20%	150%	0%	14.00	18.00	28.57%	0.00%	500 000
1 000 000	250 000	250 000	500 000	306 350	362 500	-40%	150%	0%	14.00	10.00	-28.57%	0.00%	500 000

Source: Absa Corporate and Investment Bank, May 2023

## About the Index

### Background and investment rationale

Whilst the movement towards index investing has been growing globally since the 1970s, there is an increasingly popular form of index investing that trends away from viewing equities as a single source of risk and towards an approach that deconstructs the equity market into individual drivers of return (referred to as 'equity factor investing'). Equity factor investing aims to harness all the equity market rewarded risks, called 'equity risk premia' (or 'factors') and avoid unrewarded risks.

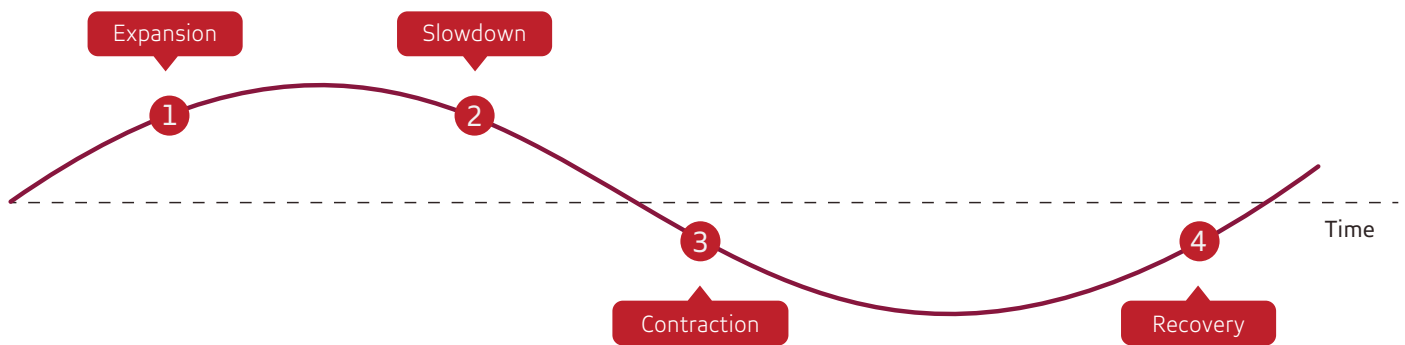
The ability of the investment management community to deliver consistently superior returns through stock-picking or market timing has been historically challenged by financial research. While outperforming the market has proved difficult, controlling risk (volatility) within a portfolio is achievable and has been a key focus of investors since the 2008 crisis and highlighted again in the COVID-19 crisis in early 2020.

By designing an Index with a combined factor and risk control (volatility management) approach, we believe this to be an attractive alternative to traditional actively managed and market cap-weighted index strategies.

### Index construction

The MSCI World Business Cycle Clock Factor Select ER Index ('Index') consists of a long-only portfolio of developed market risk premia indices (the 'Equity Allocation') and an index that tracks the 5-Year US Treasury Futures Index (the 'Fixed Income Component') which together form the Index Portfolio.

In a developed economy, we often observe a succession of alternating periods of recession and expansion. These are usually called 'business cycles' and may be categorised into four different regimes:



Source: MSCI

### 1. Expansion

Period marked by a high growth in GDP, a pick up in demand and consumption, and high money supply. Expansions usually coincide with a bull market.

### 2. Slowdown

Or 'Peak', is the saturation point. Economic indicators reach their highest and then stop growing. It's a transition phase onto the next regime.

### 3. Contraction

Or 'Recession' period when production and sales plummet (usually together with a decline in demand) as income stagnates or decreases. Bankruptcies may happen. It's a global decline in economic activities.

### 4. Recovery

Or 'Turnaround' when the economy starts recovering. This stage may continue until economic activities can reach steady levels.

The Index aims to identify which business cycle the broader developed market appears to be experiencing and dynamically allocates to a particular Equity Allocation that is best suited to that business cycle. To identify which business cycle, the Index utilises the Chicago Fed National Activity Index (CFNAI). The CFNAI provides a single summary measure of various economic data by computing a weighted average of 85 monthly indicators of national economic activity. The CFNAI is a monthly index designed to gauge overall economic activity and related inflationary pressure. The actual value and change in value of the CFNAI are observed on a monthly basis.

The combination of these two observations will signal the present business cycle regime and trigger a reallocation to the appropriate Equity Allocation consisting of the one or more equity risk premia indices. The Equity Allocation is constructed by using a selection of equity risk premia that are appropriately aligned to each business cycle regime from a risk and return perspective. To provide exposure to the designated equity risk premia within each Equity Allocation, individual MSCI factor indices are used. For example, in times of rapid market expansion, an allocation to an aggressive factor in the Equity Allocation such as 'momentum' would take advantage of an upward trajectory in the economy. Conversely, in a period of contraction with negative growth, a risk reducing approach would be appropriate and favour a 'minimum volatility' factor within the Equity Allocation.

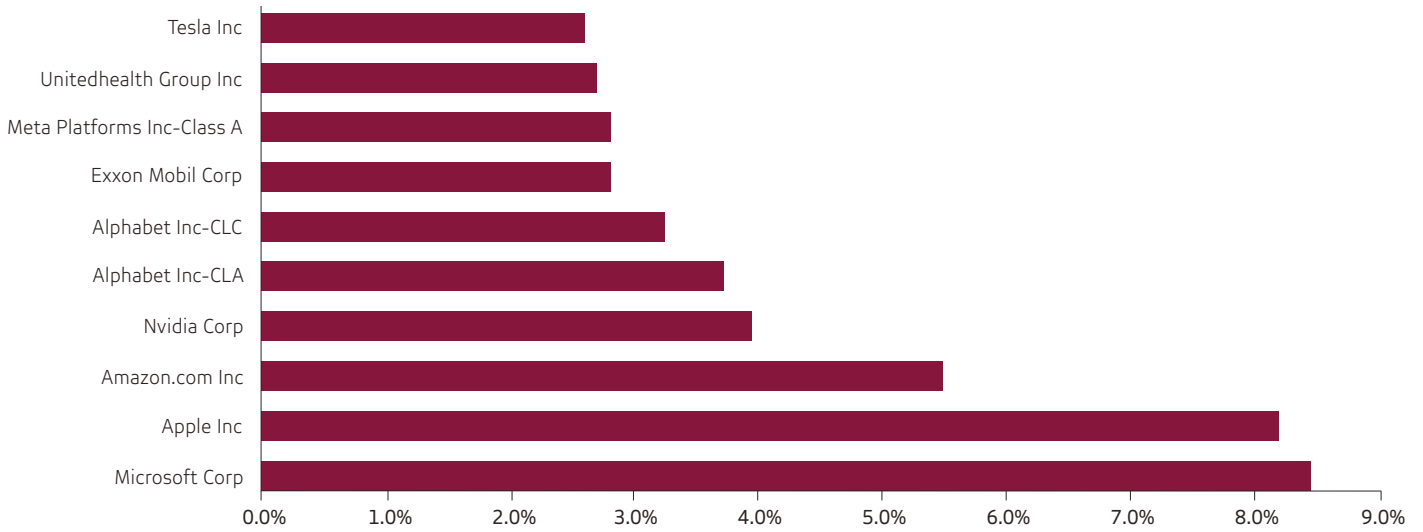
The Index has an embedded daily risk control mechanism that allocates between the Equity Portfolio and the Fixed Income Component. This mechanism aims to minimise drawdowns (or losses) in the Index by lowering exposure to the Equity Allocation as equities become volatile. As volatile markets have often historically been associated with negative equity performance (e.g. the 2008 financial crisis and the 2020 COVID-19 outbreak), the Index aims to reduce allocation to such assets when it is the most challenged.

Exposure to the Equity Allocation will be based on its observed volatility. If its observed volatility level is lower than 6%, the Index will allocate to the Equity Allocation, up to an allocation of 100%. Conversely, the Index will lower its exposure to the Equity Allocation as its volatility increases. Lastly, the Index has an additional feature that considers the long-term performance trend. If the return is positive, this indicates a 'risk-on' environment where price momentum is generally strong and markets are upward trending. If the return is negative, a 'risk-off' environment with downward trending markets is present.

In a 'risk-on' market the Index will allocate 130% to the Index Portfolio, while in a 'risk-off' market, the Index will allocate only 30% to the Index Portfolio. Similar to the daily risk control mechanism, this risk-on/risk-off dynamic allocation aims to provide additional exposure in bullish markets and limits exposure in more bearish ones, ultimately enhancing the entire risk/return profile of the Index over time.

# Index Components

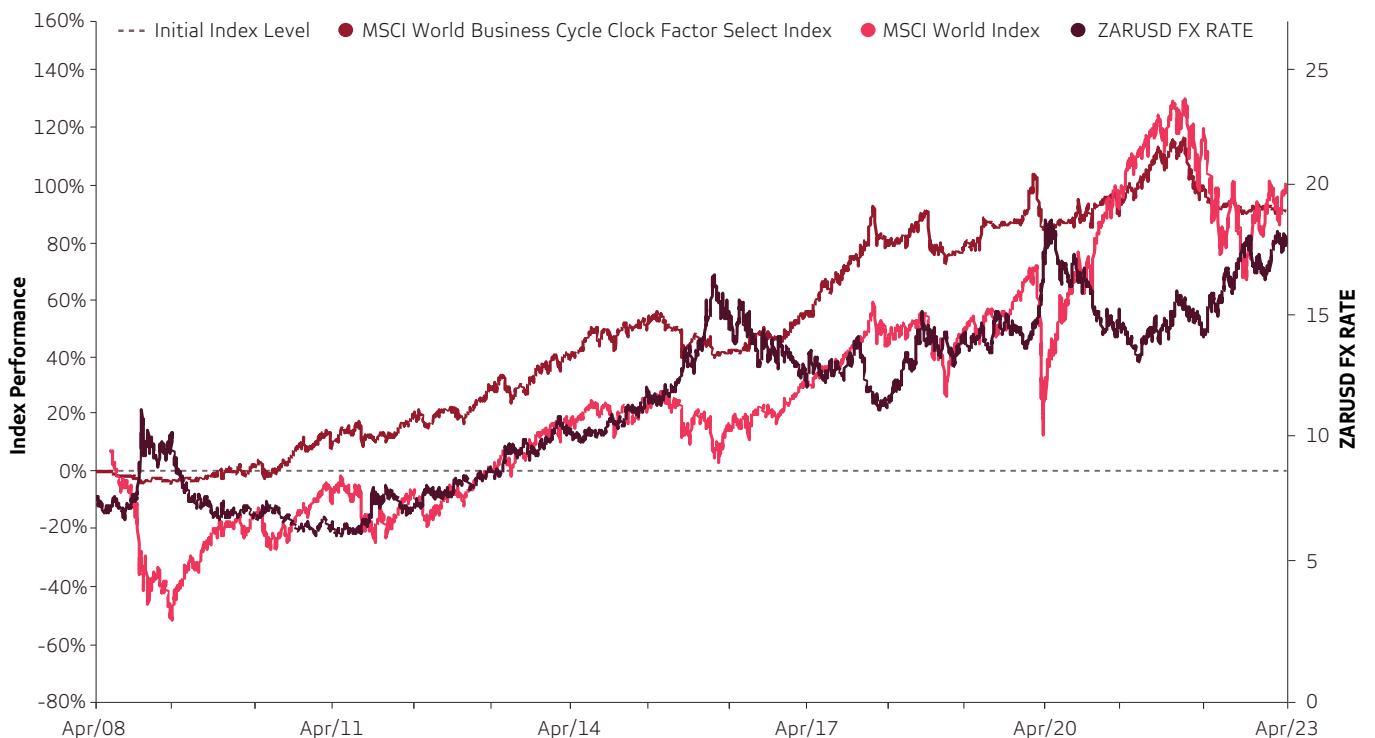
The current top 10 holdings are:



Source: MSCI, April 2023

# Index Performance

The chart below shows the rebased performance of the Index and a comparison with the MSCI World Index (market-cap weighted) Index from April 2008 to April 2023 and highlights that the indices may go down as well as up.



Source: Refinitiv, Absa Corporate and Investment Bank, May 2023. Index Launch Date, 20 May 2019.

Prior to Launch Date, the results do not represent those of actual trading as the Index did not exist. 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. There are frequently sharp differences between simulated performance results and the actual results subsequently achieved by any particular trading programme.

# Conclusion

The construction of the MSCI Business Cycle Clock Factor Select Indices follow the below steps:



Source: MSCI

## Underlying Factors

The initial universe is composed of five MSCI Factor Indices:

- MSCI Equal Weight Index
- MSCI Minimum Volatility Index
- MSCI Momentum Index
- MSCI Quality Index
- MSCI Enhanced Value Index.

## Factors Indexation

A Portfolio of Factors is defined corresponding to each Regime of the Business Cycle:

- Expansion: 100% Momentum.
- Slowdown: 50% Minimum Volatility + 50% Quality.
- Contraction: 100% Minimum Volatility.
- Recovery: 50% Enhanced Value + 50% Equal Weight.

## Equity/Bonds Dynamic Allocation

A dynamic allocation between Equities and Rolling Futures of Bonds is applied on each Portfolio of Factors targeting a volatility of 6%. The strategy is deleveraging the exposure to the Equity Underlyings when the volatility is increasing, inversely proportional to the historical realised volatility. This strategy is Excess Return, i.e. it subtracts a reference rate as cost of financing.

## Risk On/Risk Off

A Risk On/Risk Off mechanism is applied to each Dynamic Allocation, based on the long-term trend:

- If the 12-month performance is positive, the exposure to the asset is set to 130%.
- Otherwise the exposure to the asset is set to 30%.

## Business Cycle Timing

Depending on the Current Value and Recent Change of the economic indicator CFNAI, a different portfolio is allocated the purpose of following the trend of the actual Regime of the Business Cycle.

# Important information about the Investment

## About Absa the Issuer

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.

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 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. You can speak to your financial adviser if you have any questions.

## **Is there any currency risk in the Investment?**

The Index is quoted in USD. Your Investment is in ZAR and any positive Index Performance is exposed to the ZAR/USD exchange rate over the Investment term. Your initial investment is not exposed to any movements (positive or negative) in the ZAR/USD exchange rate only the potential growth on the 5-year equity linked leg. This Investment does not utilise 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 all of their money before the end of the relevant Investment term. Any early withdrawals are subject to normal market conditions and associated costs at the time of withdrawal.

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

In the event of death, the executor of the estate can decide to sell the Investment at its prevailing market value or let the Investment continue until maturity.

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

On the Maturity Date of each of the three legs of the Investment (one, three and five years respectively), the Issuer will pay the capital and Fixed Returns/Equity Index Returns (if any) to the Administrator within seven business days and your account will be credited with this amount.

## **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.

## **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 Investment Schedule, which will help you understand the Investment in detail. This brochure and Investment Schedule 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?**

There is no cooling off period allowed under this Investment, so please consider carefully whether you want to invest before you submit the application form.



# What are the potential risks associated with the Investment?

## Credit risk

This Investment is issued by Absa Bank Limited and available through an investment account. 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 (S&P) and Moody's National (Moody's). The highest ratings given by these agencies are AAA from Moody's 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) and D (S&P).

The lowest ratings that they give, denoting the riskiest or least likely to meet the payments, are C (Moody's) 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 one, three or five-year Maturity Dates, you could lose some or all of your Investment Amount.

## 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 any 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.

### **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 Investor 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.

### **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 stocks 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.
- Foreign exchange risk could positively or negatively impact any returns due to you if you invest in an investment denominated in a currency other than your home currency or if the terms of an investment allow for conversion of your principal or investment returns into another currency.
- 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 investment 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.**

# 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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**FAIS License Category:** Financial advisers need to be Fit and Proper for the following: Subcategory of Financial Product: 1.8 Shares.

## Investor Declaration

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

Signed at

Investor full name

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

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Date (dd-mm-ccyy)

Signature of Contact Person or Legal Guardian

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Date (dd-mm-ccyy)

Signature of authorised and mandated Financial Adviser

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Date (dd-mm-ccyy)

# 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:

**E** [aiss@absa.africa](mailto:aiss@absa.africa)

## Administrator

This could be one of many LISP or stockbroking platforms in South Africa. Your financial adviser can help you ensure that the Administrator you select can administer the JSE listed equity linked note.

## Complaints

Please contact your financial adviser or our compliance officer on:

**T** +27 11 895 6263

**E** [Mike.Pithey@absa.africa](mailto:Mike.Pithey@absa.africa)

15 Alice Lane, Sandton, 2196, Gauteng, South Africa.

## **Let us help structure and define your investment outcomes**

Email us [aiss@absa.africa](mailto:aiss@absa.africa)

## Legal disclaimer – Absa Bank Limited

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