Investec Annual IMF Breakfast 2017

Investec

An overview of Investec

About Investec

Summary

- Established in **1974**
- Today, efficient **integrated international business** platform employing over 9 700 people
- Three principal regions:
  - **Southern Africa**
  - **UK and Europe**
  - **Asia-Pacific**
- Three **core areas** of activity
- Listed on the **JSE** and **LSE** (a FTSE 250 company)
- Total **assets** £53.5bn
- Total **equity** £4.8bn
- Total **FUM** £150.7bn
- **Market Cap** £5.3bn

Mission	"We strive to be a DISTINCTIVE SPECIALIST BANK AND ASSET MANAGER driven by commitment to our core philosophies and values"
Purpose	To facilitate the CREATION of wealth and the MANAGEMENT of wealth
Target Market	Government, Institutions, Corporates, Charities and Trusts, Private Clients both High Net Worth and High Income
Strategy	To build DIVERSIFIED REVENUE STREAMS by providing appropriate asset management, wealth management, specialist banking and advisory services to our target client base in our core domestic markets and across geographies

Note: Data as at end of March 2017 unless otherwise indicated

Three distinct businesses focused on well defined target clients

Corporate / Institutional / Government

ASSET MANAGEMENT
(Operating completely independently)

- Investment management services to external clients

SPECIALIST BANKING

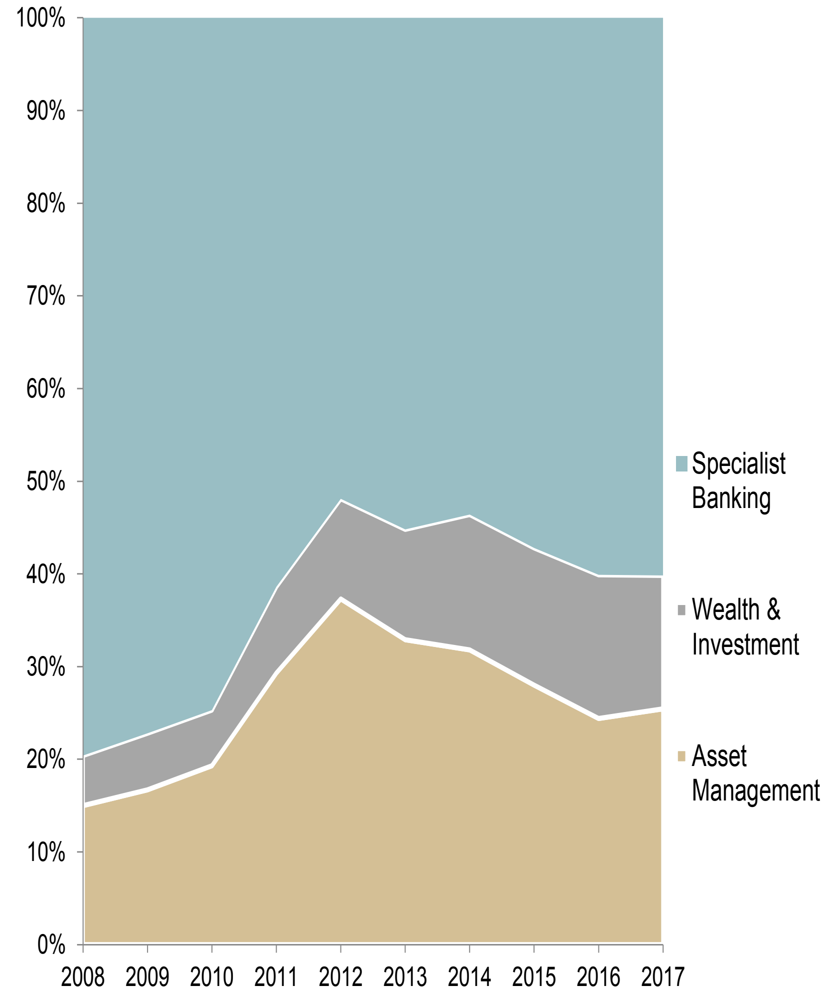
- Advisory
- Transactional banking
- Lending
- Treasury and trading
- Investment activities

Private Client (High Net Worth / High Income / charities / trusts)

WEALTH & INVESTMENT

- Investment management services
- Independent financial planning advice

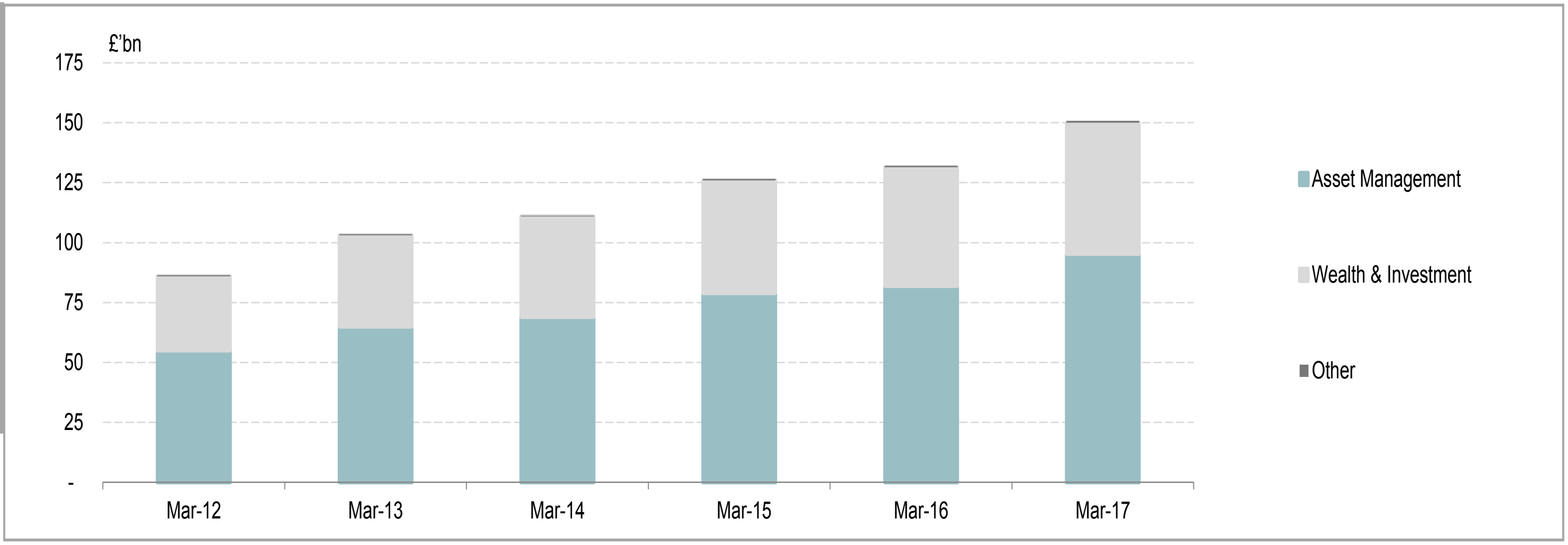
Operating profit before tax*



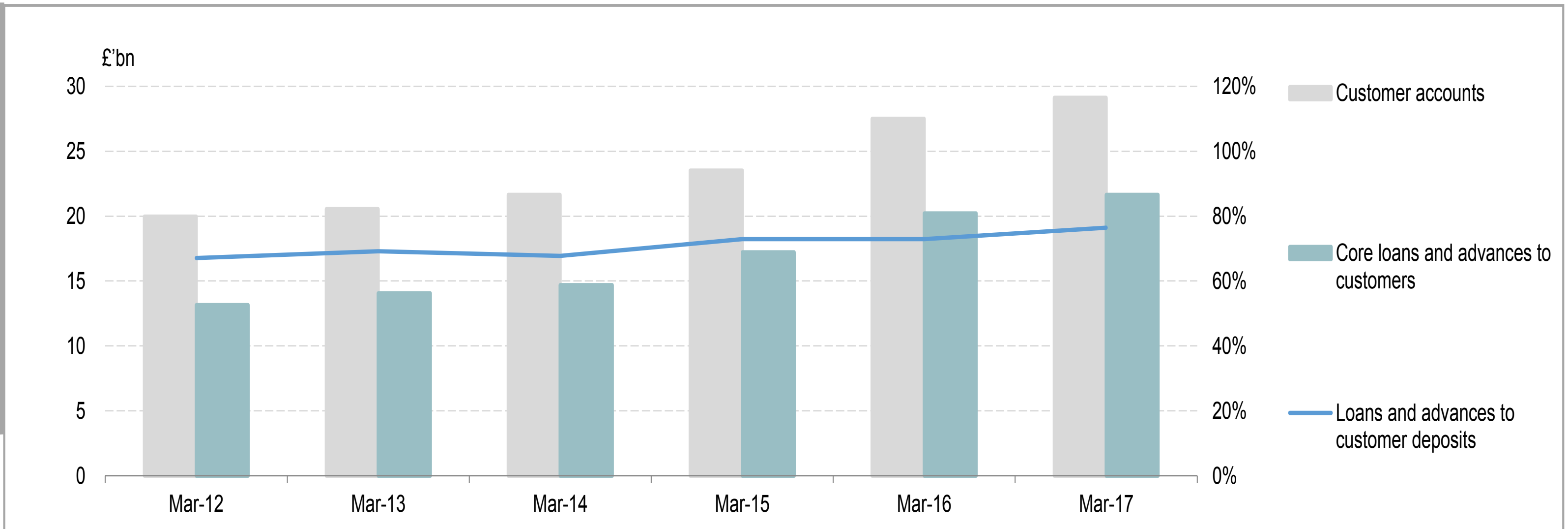
At 31 March
*Before goodwill, acquired intangibles, non-operating items, group costs and after other non-controlling interests.

Key earnings drivers

Third party assets under management^



Customer accounts (deposits) and loans^



Stable capital and low leverage

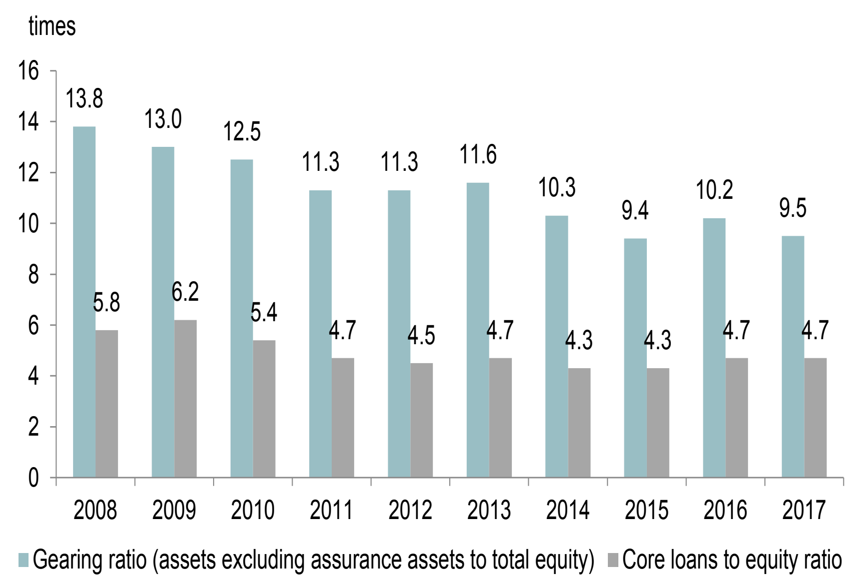
For the six months to 30 September 2017 for both Investec plc and Investec Limited:

- Capital ratios are expected to be within the group's target total capital adequacy range
- The common equity tier 1 ratio is expected to remain slightly below the group's target of 10% for Investec Limited; Investec plc is expected to be ahead of this target
- Leverage ratios are sound and remain comfortably ahead of the group's target of 6% on an estimated Basel 3 fully loaded basis

Capital

	30 June 2017	31 Mar 2017	30 Sep 2016	31 Mar 2016
Investec plc				
Total	14.8%	15.1%	15.0%	15.1%
Tier 1	11.5%	11.5%	11.1%	10.7%
Investec Ltd				
Total	14.4%	14.1%	14.4%	14.0%
Tier 1	10.7%	10.7%	10.8%	10.7%

Gearing ratios



Resulting in a balanced business model

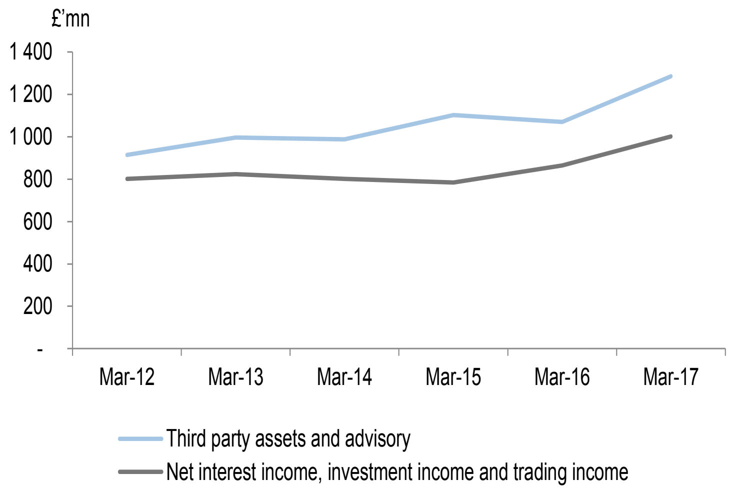
Balanced between capital light and capital intensive activities

Business model

Third party assets and advisory £1,284mn

Net annuity fees and commissions of £965mn (42% of total)

Other fees and other income of £319mn (14% of total)



Net interest, investment and trading income £1,002mn

Net interest income of £681mn (30% of total)

Investment, associate and trading income of £321mn (14% of total)

Capital light activities

- Asset management
- Wealth management
- Advisory services
- Transactional banking services
- Property and other funds

Contribute **56%** to group income

Capital intensive activities

Contribute **44%** to group income

- Lending portfolios
- Investment portfolios
- Trading income
  - Client flows
  - Balance sheet management

Fee and commission income < Types of income > Net interest, investment, associate and trading income

Investec DLC: Salient features

POUND EARNINGS	Mar-17	Mar-16	% change
Operating profit* before tax (£'mn)	599	505	18.5%
Core loans to customer deposits	78.0%	73.6%	6.0%
Credit loss ratio	0.54%	0.62%	13.0%
Adjusted EPS**^ (pence)	48.3	41.3	16.9%
Total shareholders' equity (£'mn)	4 809	3 859	24.6%
Cost to income ratio	66.3%	66.4%	-
Return on average adjusted shareholders equity (post-tax)	12.5%	11.5%	8.7%

*Before goodwill, acquired intangibles, non-operating items and after other non-controlling interests; **Before goodwill, acquired intangibles, non-operating items and after non-controlling interests; ^After deducting preference dividends; ^^Amounts represented on a currency neutral basis assume that the closing and average exchange rates of the group's relevant exchange rates relative to Pounds Sterling remain the same as at 31 March 2017 when compared to 31 March 2016

Update given to the market on 15 September 2017

- The geopolitical environment has been challenging with much uncertainty prevailing in our two core geographies. The uncertainties arising from the complexity of Brexit continue, while the South African political environment remains unsteady in the run up to the December ruling party leadership elections
- This has been somewhat offset by supportive global markets and an improved outlook for the global economy
- Activity levels have remained reasonable and our client base has demonstrated resilience under mixed economic backdrops
- We have continued to see positive overall performance supported by diverse revenue streams and strong franchise businesses
- We continue to focus on execution of our strategic initiatives, mindful of the tough macro environment and uncertainty expected to continue into H2

Investec

An overview of the South African (SA) economy

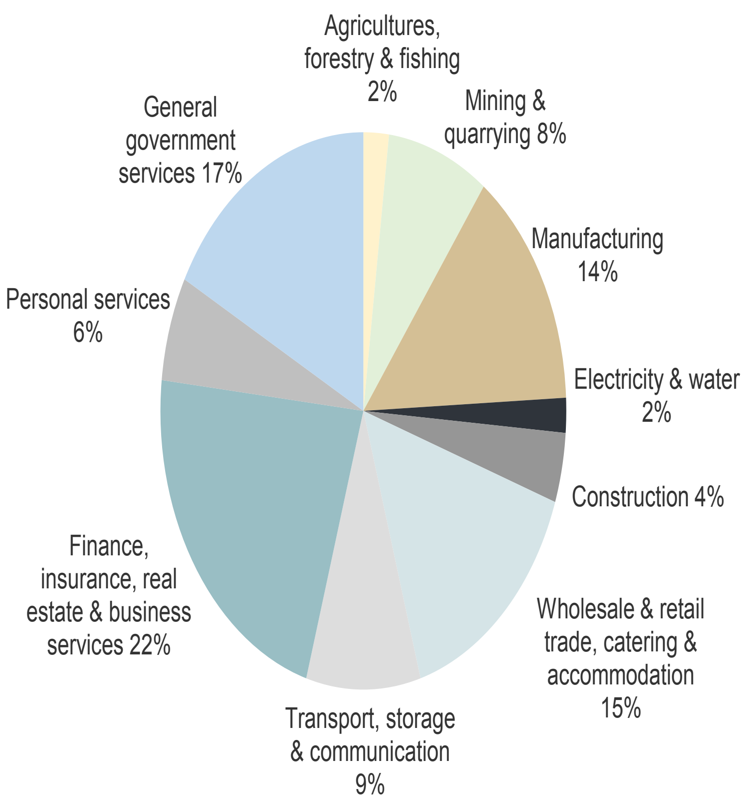
Overview of SA economy

Snapshot of SA

Contribution to SA's GDP

- Population: 55.7mn
- Real GDP: US$300.0bn (R3,071.7bn)

Contribution to SA's GDP



Rating agency and market views

Moody's	Standard & Poor's Ratings Services	Fitch Ratings
Long-term Foreign Currency Debt Baa3 Negative	Long-term Foreign Currency Debt BB+ Negative	Long-term Foreign Currency Debt BB+ Stable
Long-term Domestic Currency Debt Baa3 Negative	Long-term Domestic Currency Debt BBB- Negative	Long-term Domestic Currency Debt BB+ Stable

THE WORLD BANK

- Upper middle income economy
- 38th largest economy in the world
- 2nd largest economy in Africa*

IFC

- 21st in Protecting Investors
- 74th in Ease of Doing Business (out of 190 countries in the World Bank's Survey)

WORLD ECONOMIC FORUM

- 61st of 137 countries in WEF competitiveness index

**In real terms in US$*

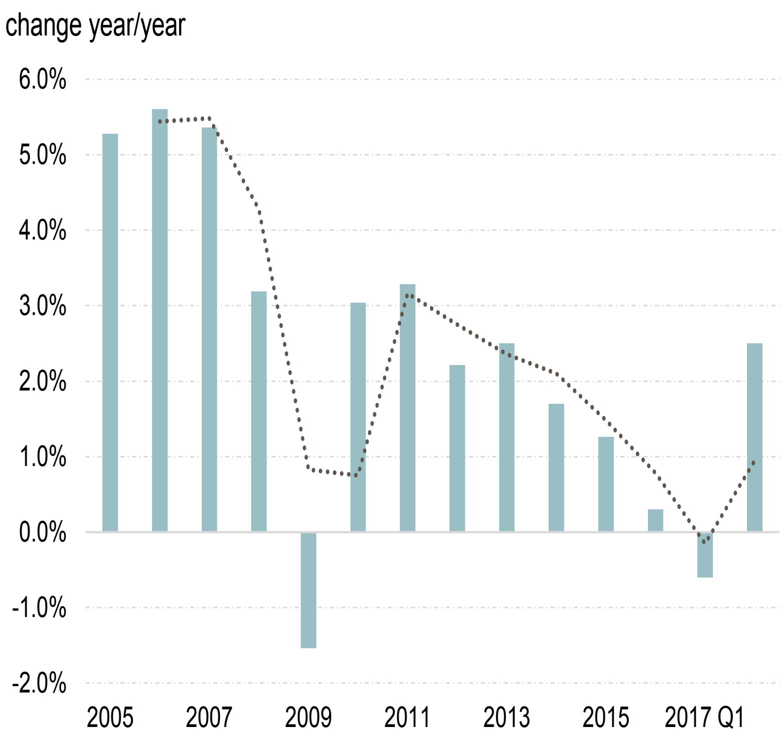
Source: SA Reserve Bank, Economic and Financial data, August 2017

Overview of SA economy

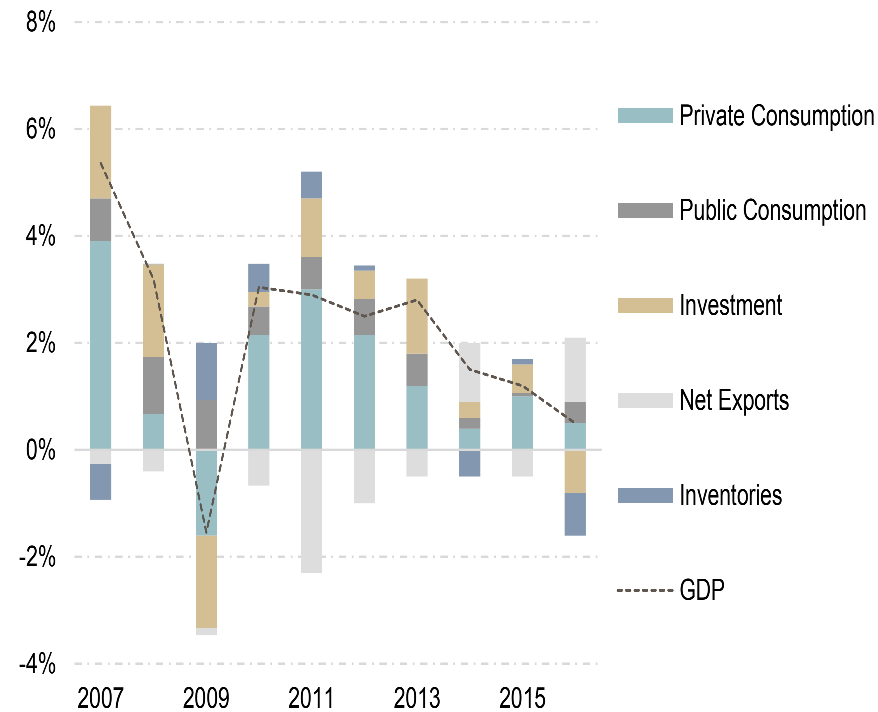
Low economic growth

- The agricultural sector has benefited from favourable weather conditions in maize producing regions of the country compared to last year
- But perceived heightened political and policy uncertainty has weighed on consumer and business confidence, entrenching the low growth environment

SA's GDP growth



Contributions to growth by expenditure component (%)



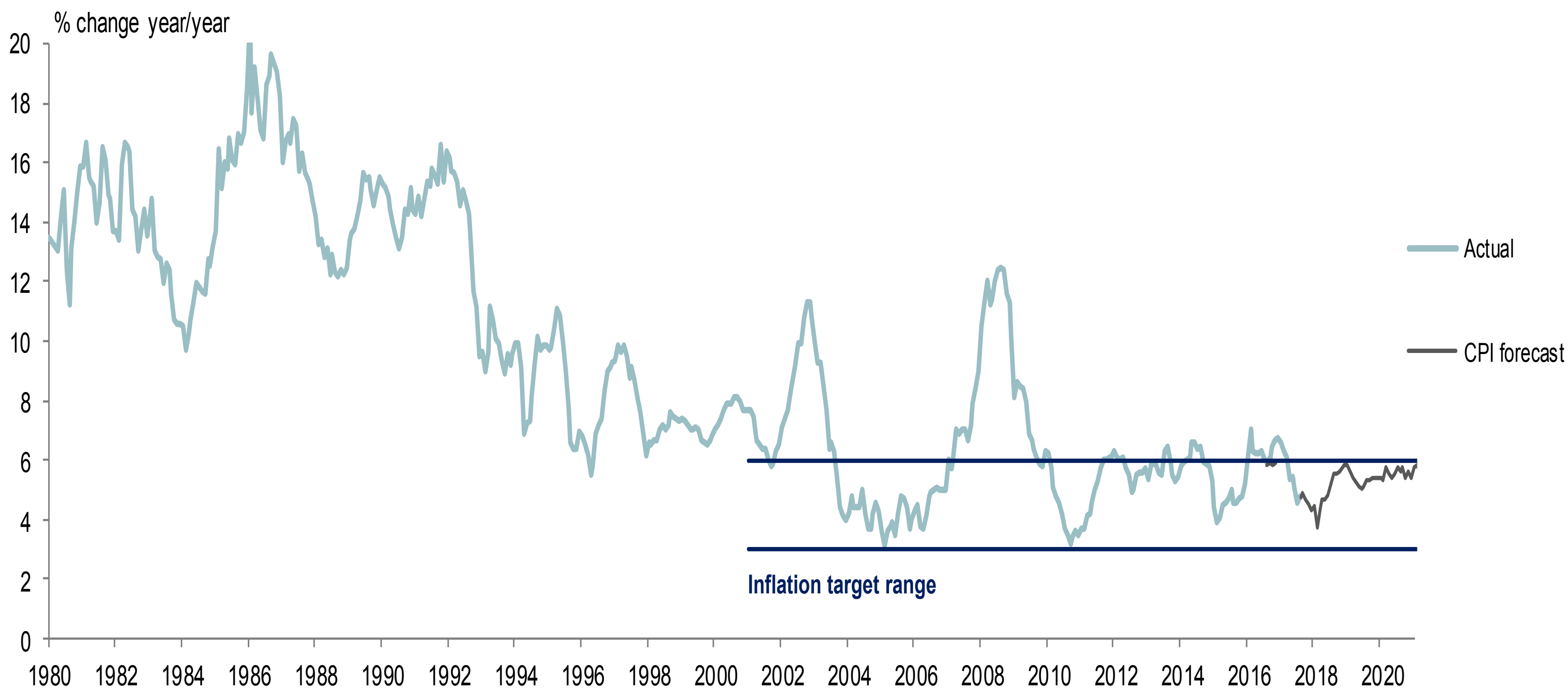
Source: SA Reserve Bank, Stats SA

Overview of SA economy

Inflation has moderated and declined to within the target range in Q2 2017

- A key influencing factor has been food price disinflation, as favourable weather conditions have improved the maize supply prospects
- Weak domestic demand and the lagged effects of past rand appreciation also dampen inflationary pressures

CPI inflation



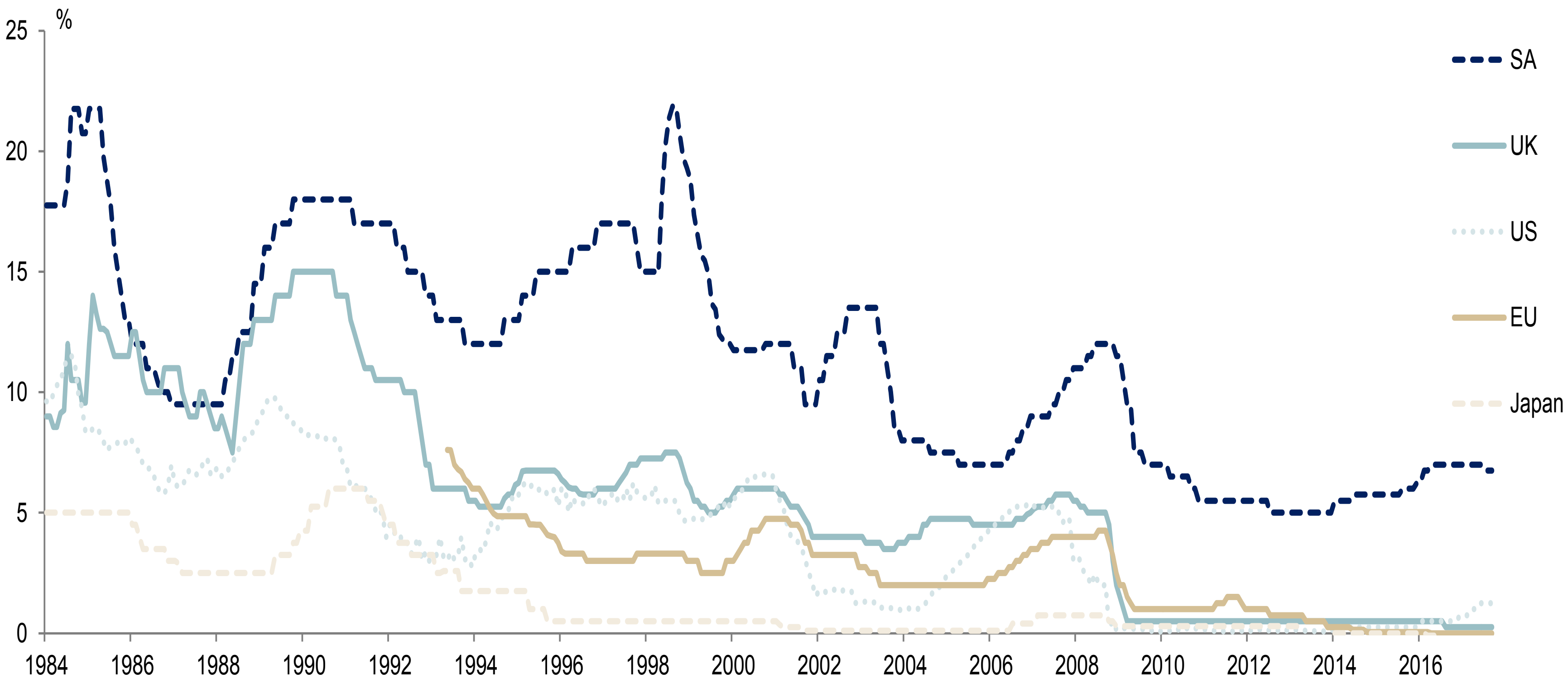
Source: Stats SA, SA Reserve Bank

Overview of SA economy

Moderate decrease in interest rates

- After raising interest rates by a cumulative 200bp since 2014, the SA Reserve Bank reduced rates in July 2017 by 25bp
- The SA Reserve Bank is proceeding with caution owing to upside risks (that include the rand) to the inflation outlook
- The easing cycle is likely to be shallow as SA needs to maintain a positive real interest rate differential versus developed economies in order to avert substantial rand depreciation

Central bank rates



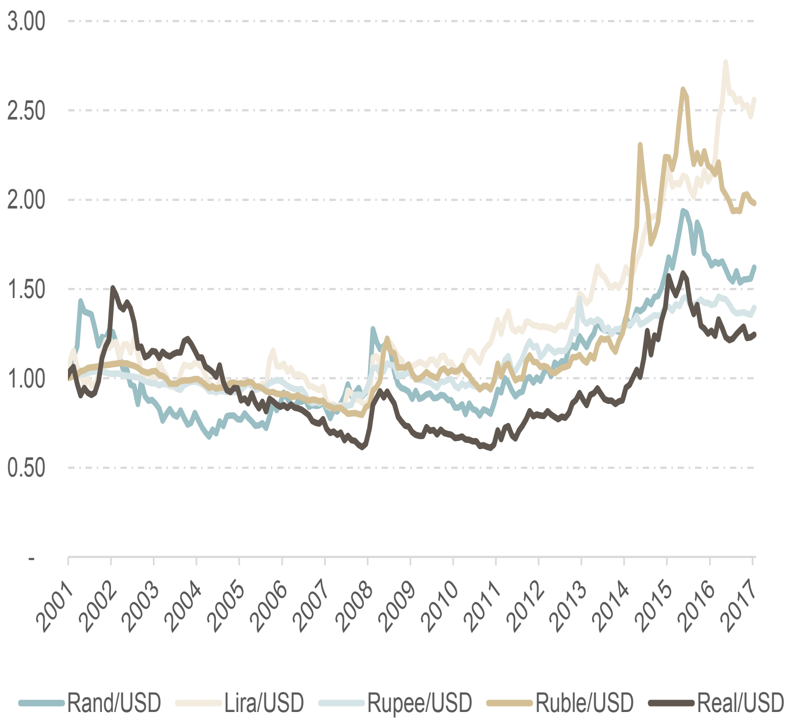
Source: IRESS, SA Reserve Bank

Overview of SA economy

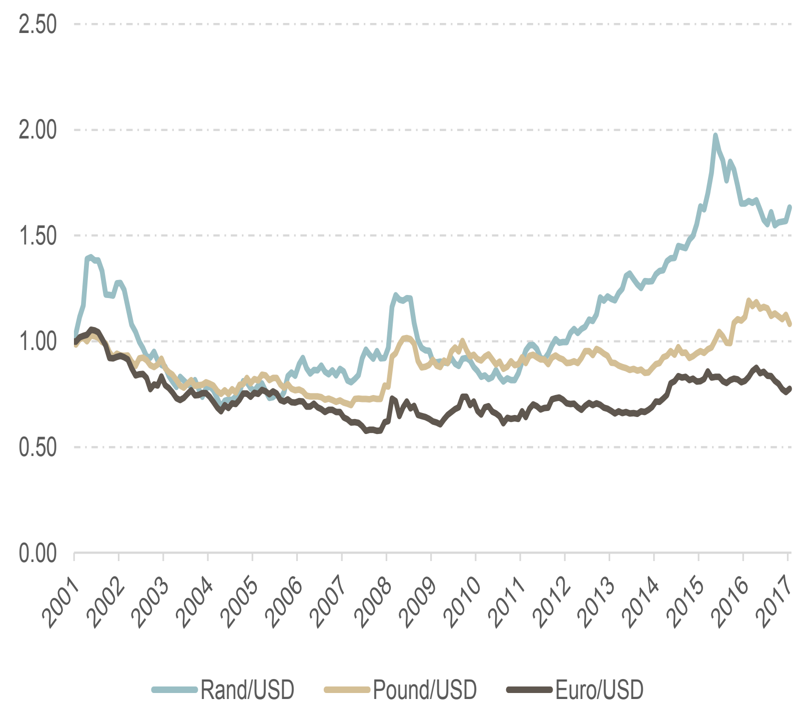
Rand exchange rate has experienced a period of appreciation

- Owing to portfolio inflows to emerging markets amid the hunt for yield
- The Rand remains vulnerable to future changes in the US monetary policy stance, domestic political developments as well as a risk of a possible ratings downgrade from Moody's and S&P later in the year or in 2018

Performance of Rand versus emerging market currencies



Performance of Rand versus developed markets currencies



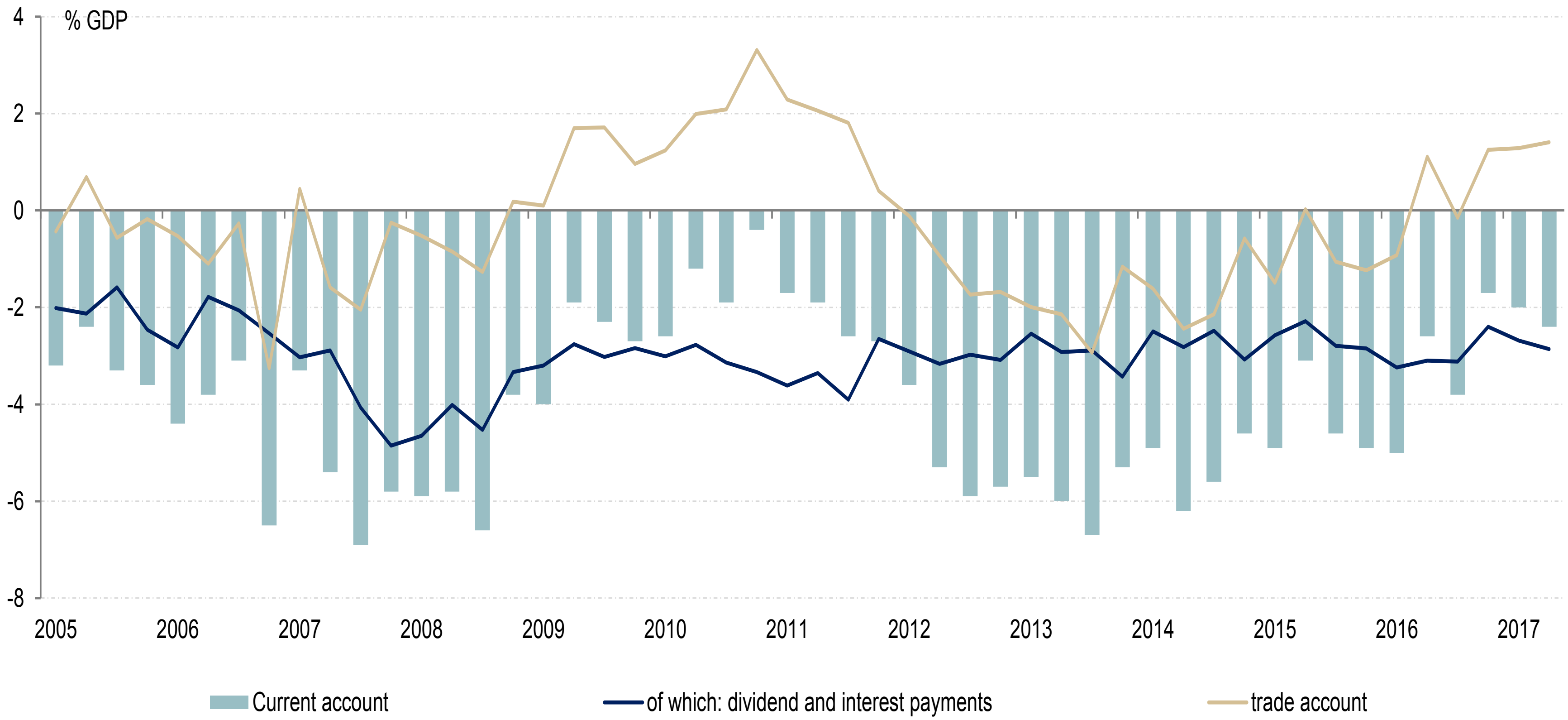
Source: Datastream

Overview of SA economy

Narrowing current account deficit largely due to a stronger trade position

- Favourable trade dynamics have aided the narrowing of the current account deficit
- SA's export performance has strengthened in line with the lift in commodity prices and global demand. Concurrently, weak domestic consumption and investment activity have contributed to suppressing import growth. Consequently, the trade balance is consolidating in surplus territory

Current account deficit as a % of GDP



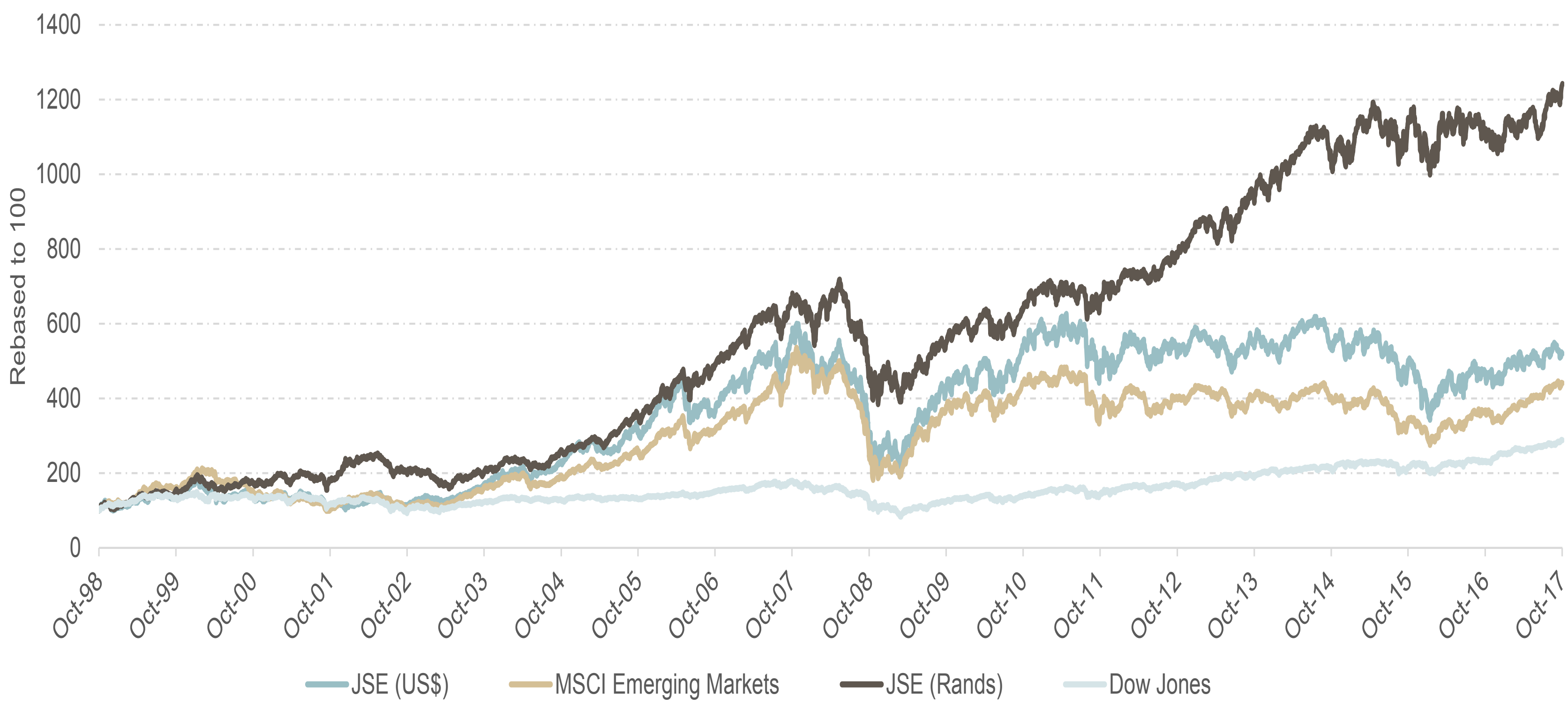
Source: SA Reserve Bank

Overview of SA economy

JSE has outperformed emerging market peers

- SA equities has outperformed emerging markets consistently since financial crisis

JSE relative to MSCI Emerging Markets Index



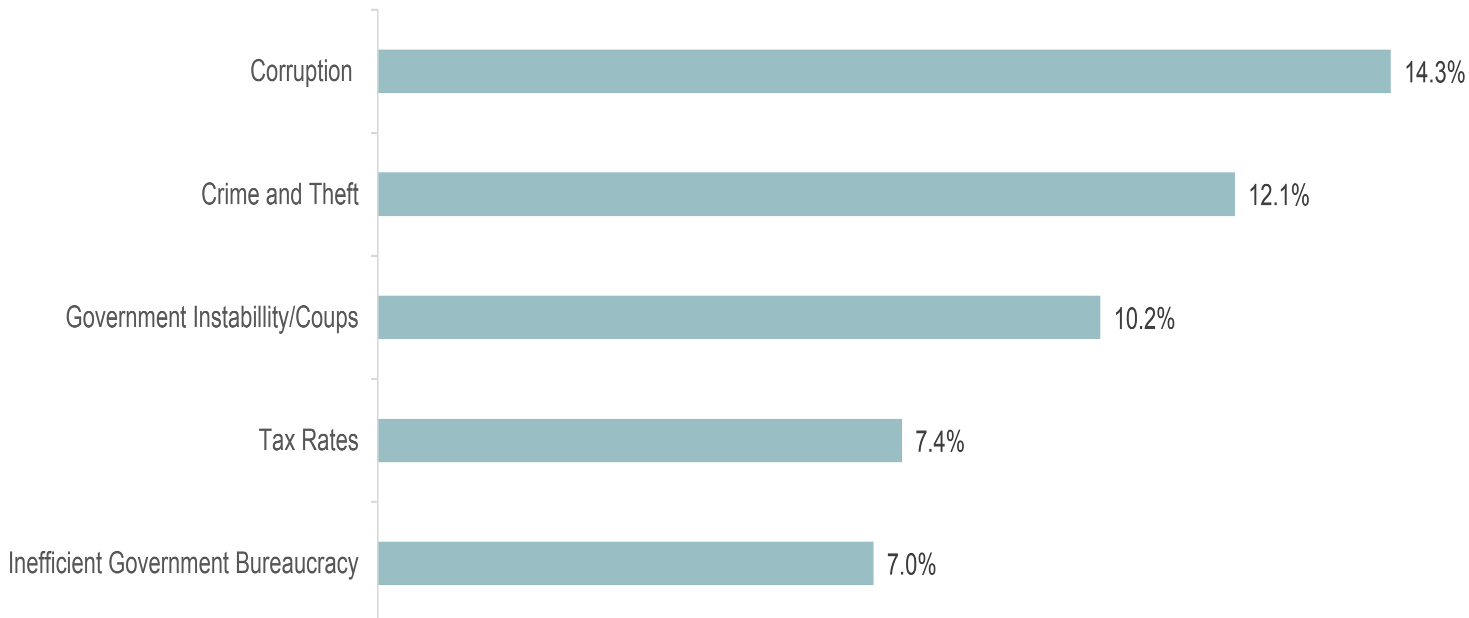
Source: Datastream

Challenges

A number of shortcomings may limit SA competitiveness going forward

- SA ranked 61st out of 137 countries in the World Economic Forum's 2017/18 Global Competitiveness Index (2016/17: 47th)
- SA slipped down 14 places down, primarily due to the low economic growth environment, high unemployment and political uncertainty
- Out of the 16 metrics that measure impediments to doing business, 5 metrics contribute to 51% of these impediments. (See below)
- SA has seen significant decreases in competitiveness in the following key areas:
  - Financial Markets dropping to 44th from 11th in 2016.
  - State Institutions decreased to 76th from 40th in 2016.

The most problematic factors for doing business in South Africa were ranked as follows



Note: Respondents were asked to list the top five factors negatively impacting the country's ease of doing business. The factors that inhibited the ease of doing business were weighted as above.

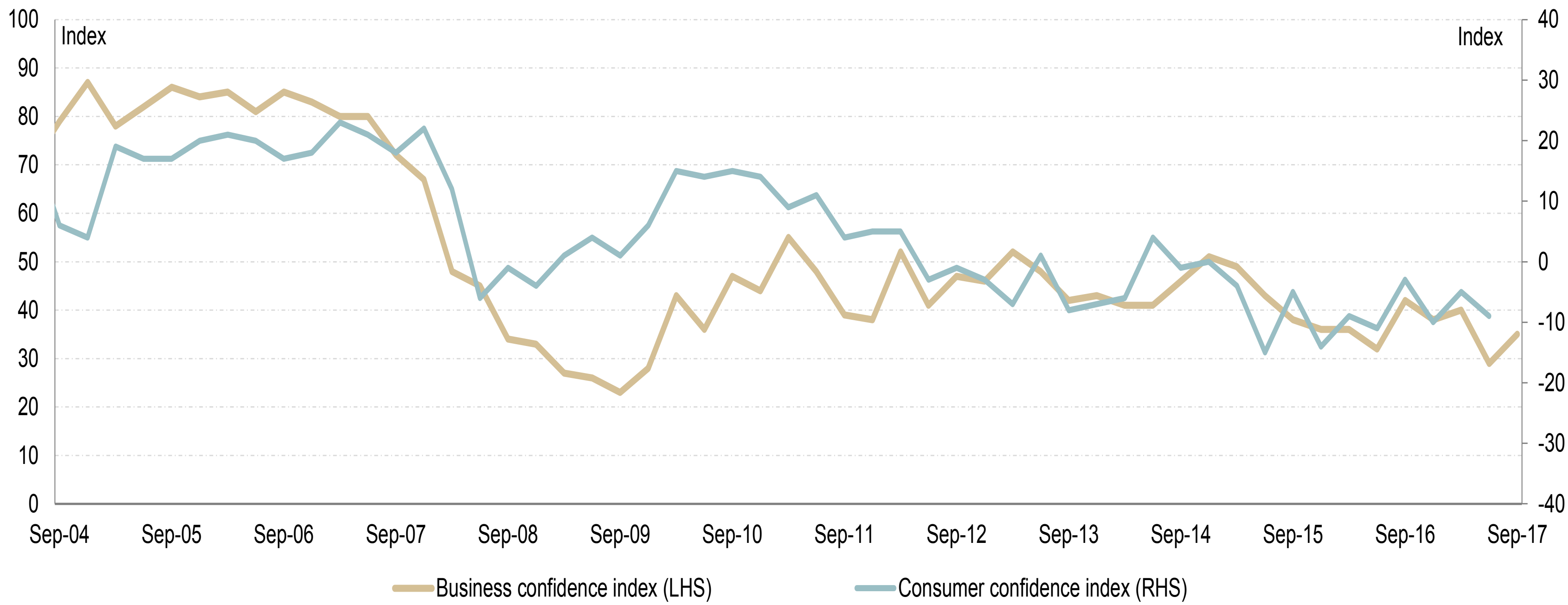
Source: World Economic Forum, Global Competitiveness Survey 2017/2018

Challenges

Political risks remain, impacting business and consumer confidence

- Lower inflation, lower interest rates and higher real wage income growth are expected to provide some support for consumption

RMB business confidence index and FNB/BER consumer confidence index*



*RMB business confidence index (BCI) can vary between 0 and 100, where any reading below 50 is negative. FNB/BER consumer confidence index (CCI) is a net figure showing percentage of consumers whose confidence is up less the percentage whose confidence is down.

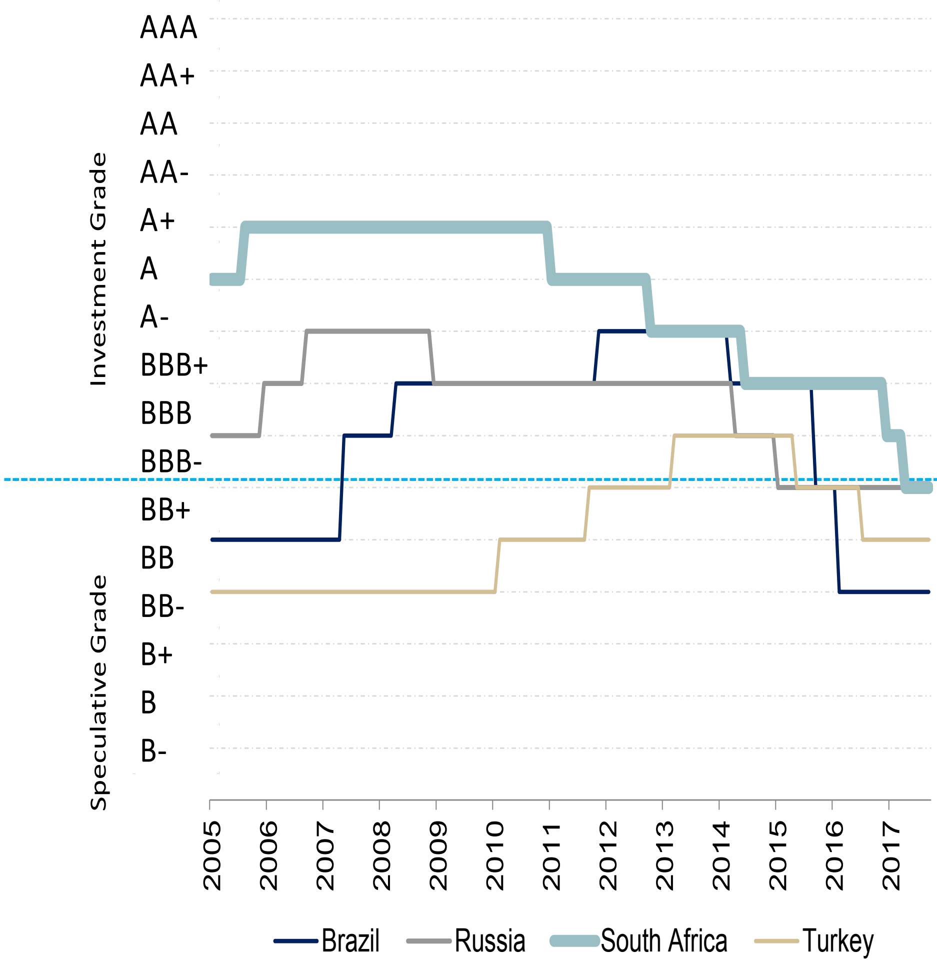
Source: Bureau of Economic Research

Challenges

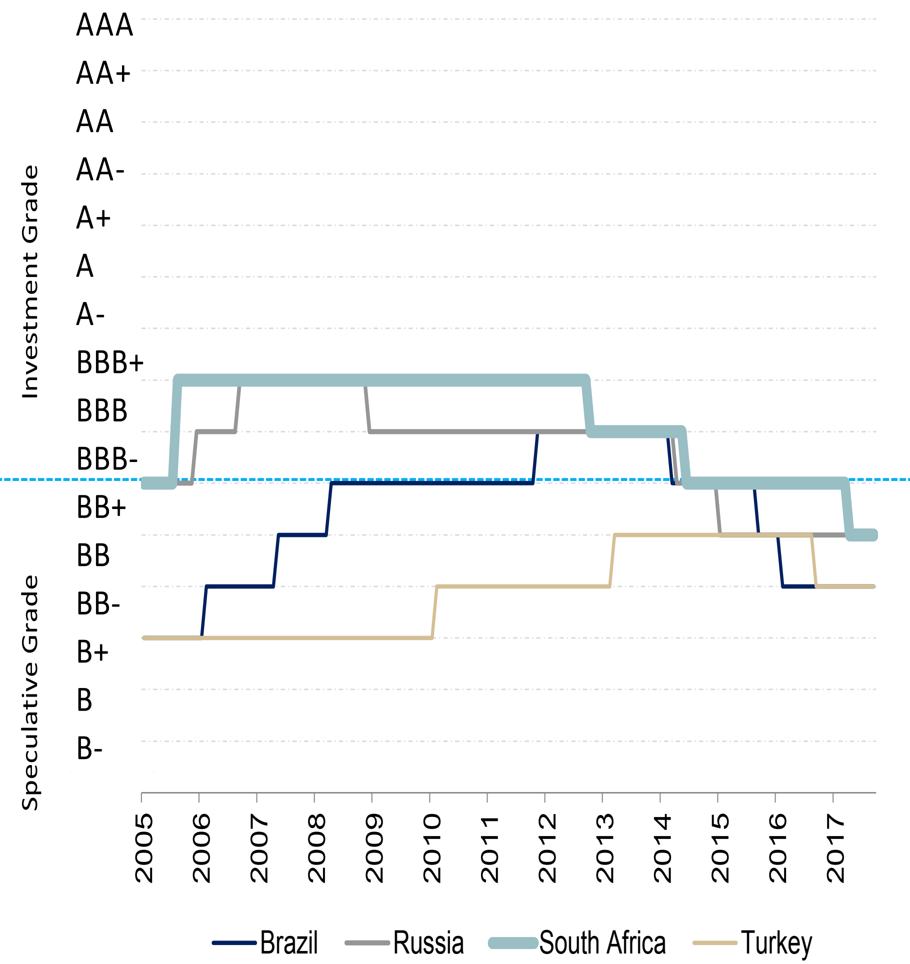
Rating downgrades impacting the cost of money and eroding confidence

- There is still the possibility of a rating downgrade from Moody's and S&P later this year

S&P Local currency long term rating



S&P Foreign currency long term rating



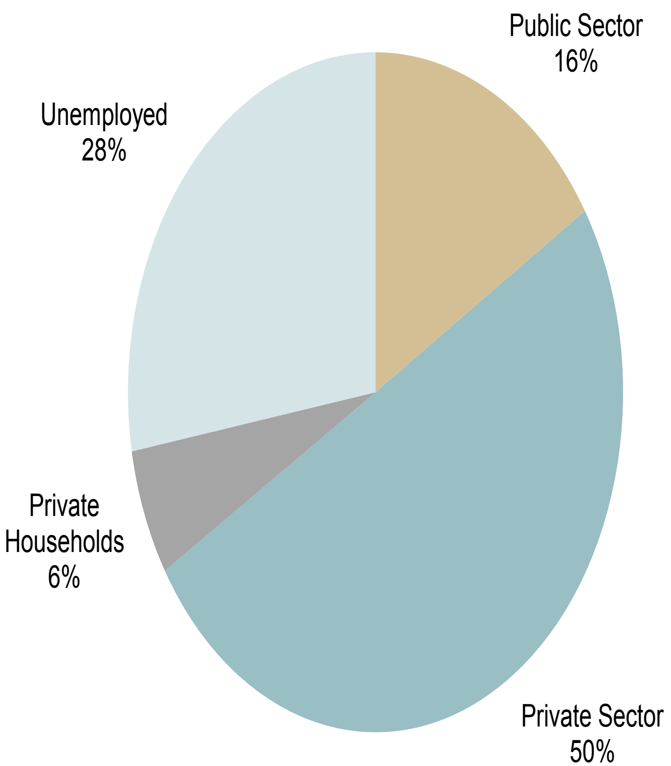
Source: S&P Rating Agency

Challenges

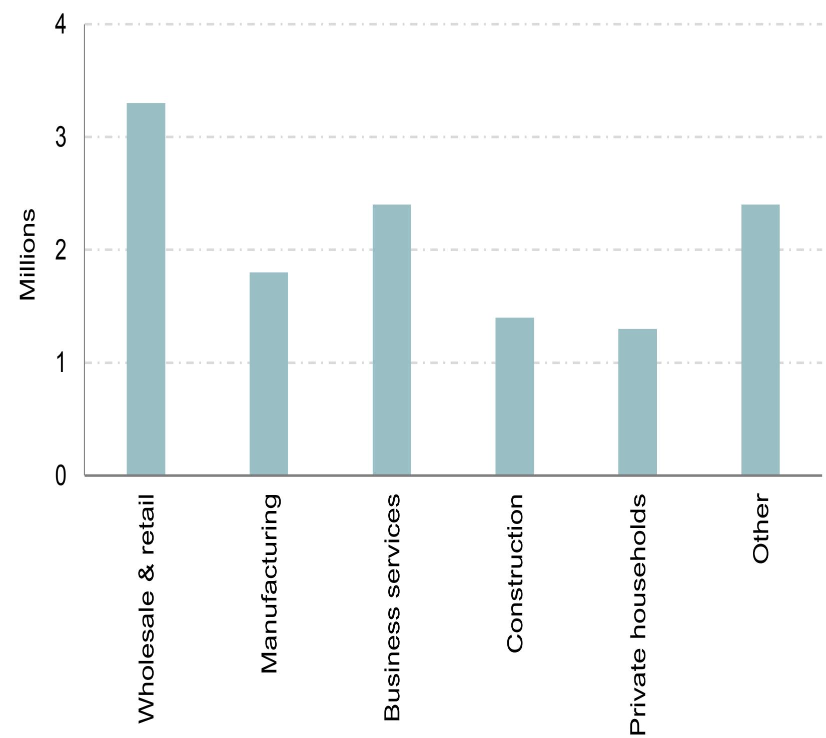
Unemployment a key structural challenge

- 16 million jobs are spread across multiple industries out of a labour force of 22 million
- The public sector, previously the main source of employment growth in the economy, is likely to continue to shed jobs as fiscal constraints intensify

Breakdown of private versus public sector employment



Breakdown of private sector employment by sector



Source: Stats SA Quarterly Labour Force Survey Q2 2017

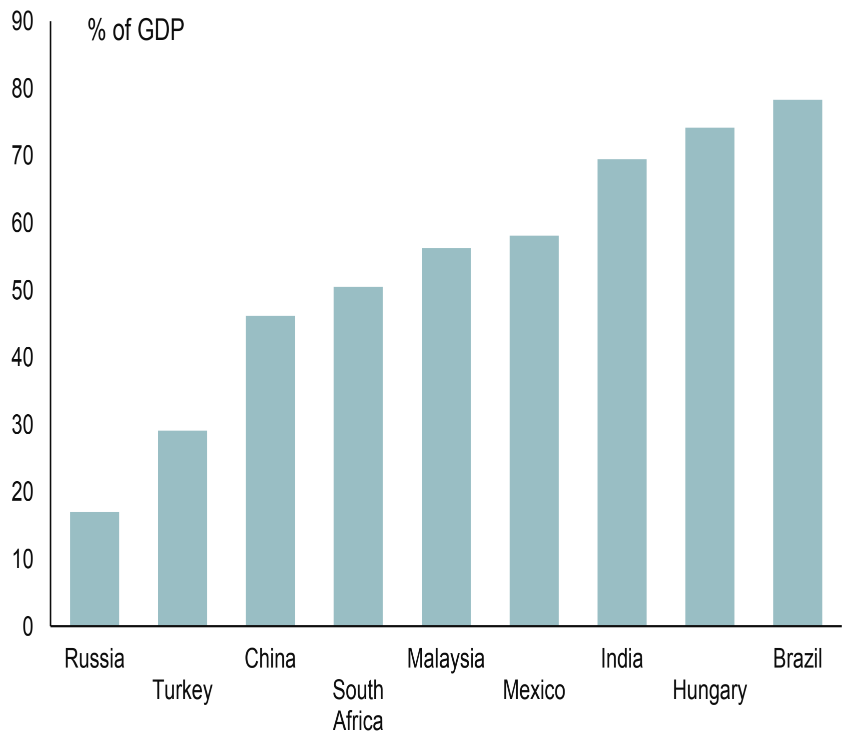
Challenges

Fiscal sustainability threatened by lack of reform of state owned enterprises

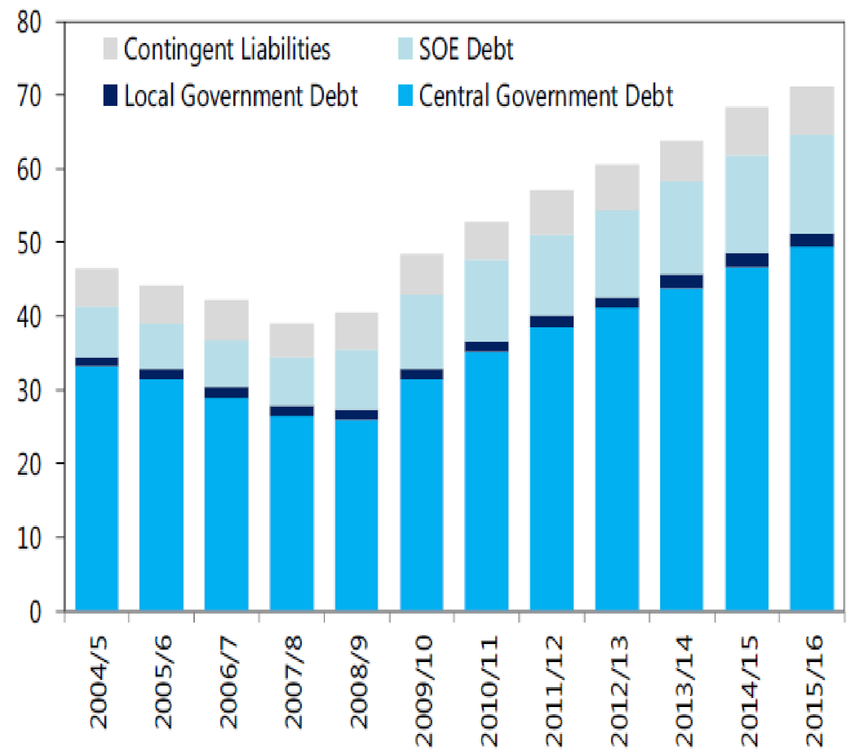
- Government debt and contingent liabilities have more than doubled since the financial crisis
- Reform of SA's state owned enterprises is needed along with strong leadership and governance

"Operational inefficiencies, weak corporate governance, and poor procurement practices persist in SOEs, with government guarantees extended to SOEs rising. This has also increased the likelihood of contingent liabilities crystalizing on the government's balance sheet."
Moody's Investors Services, 9 June 2017

Government debt as a % of GDP



Contingent liabilities as a % of GDP



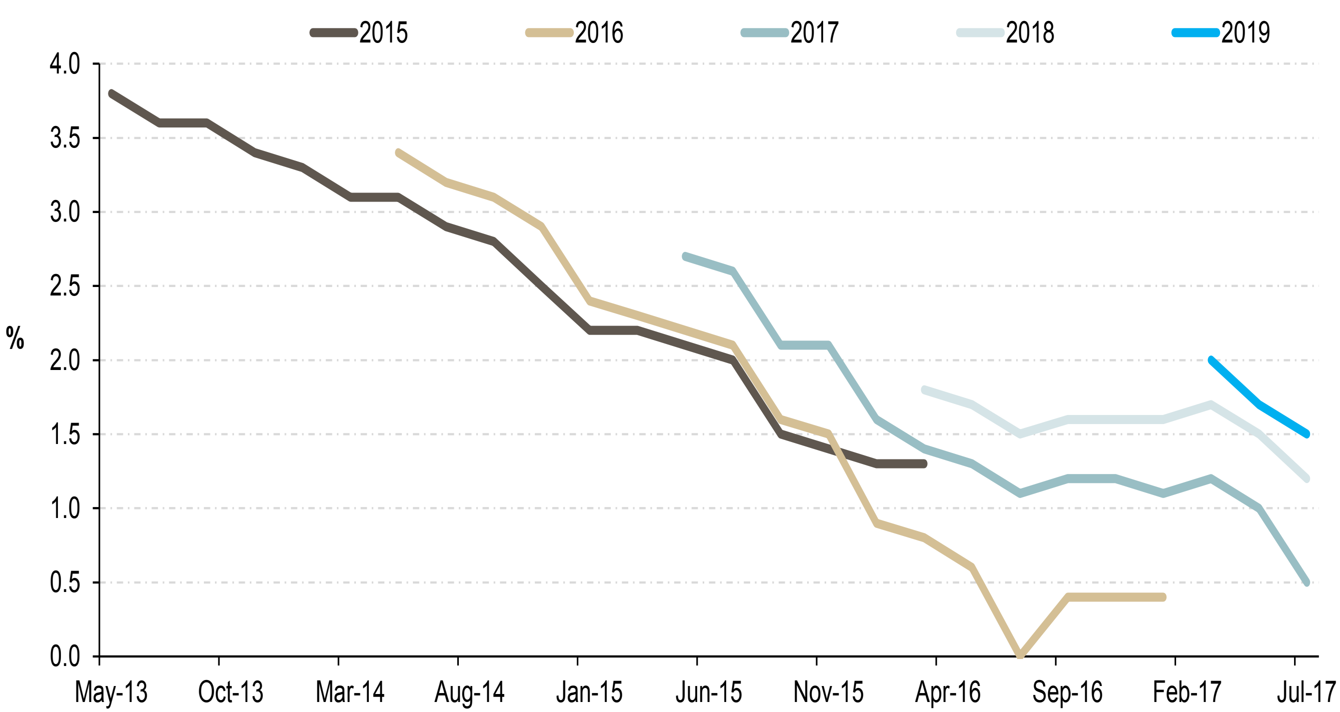
Source: National Treasury and IMF

Challenges

SA growth forecasts have fallen sharply

- SA potential growth has fallen from 3.5% in 2013 to 1-1.5% currently
- Global fundamentals have offered some relief but SA constraints remain a stumbling block

SA Reserve Bank GDP forecasts from the MPC Statements



SA induced pain:

- Political infighting
- Regulatory uncertainty… particular mining
- Labour unrest

Global relief:

- Stable commodity prices
- Supportive financial conditions

Source: Investec Asset Management, SA Reserve Bank, August 2017

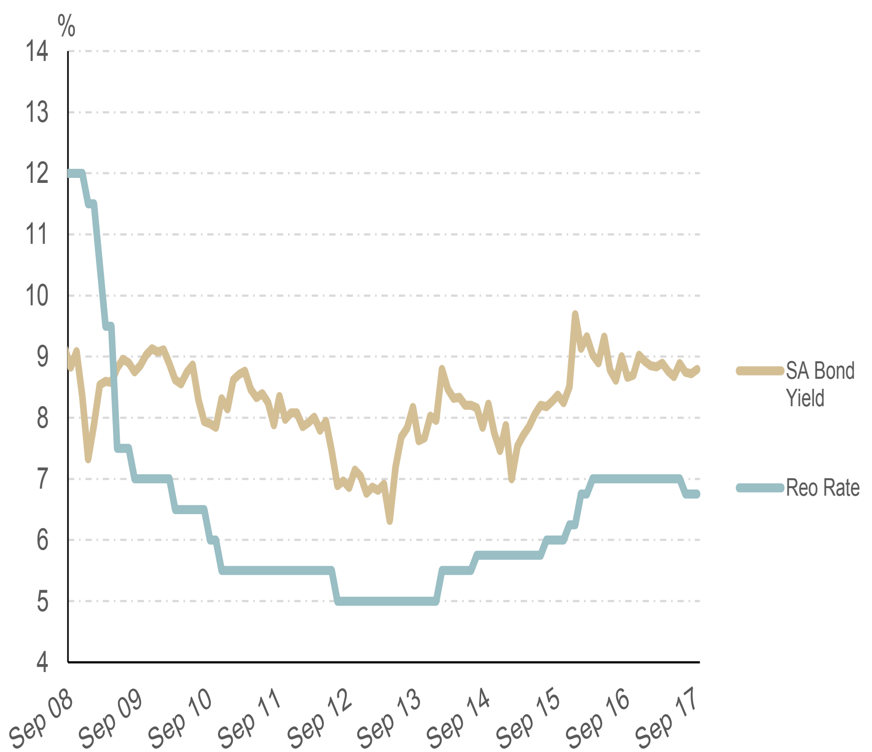
Building on our strengths

Defending monetary policy and the independence of the central bank

"The 'tragic rise of poverty' had coincided with rising inflation and weakening growth and the case for the existing framework is very strong… **inflation targeting makes sense for South Africa** as it helps to uphold our constitutional duty to uphold the value of the rand. There is no distinction, and hence no choice to be made, between protecting the value of the currency and attending to the socioeconomic well-being of South Africans."

Lesetja Kganyago, 30 August 2017, Governor of the SARB

SA 10 year bond vs repo rate



Reserve Bank governor, Lesetja Kganyago

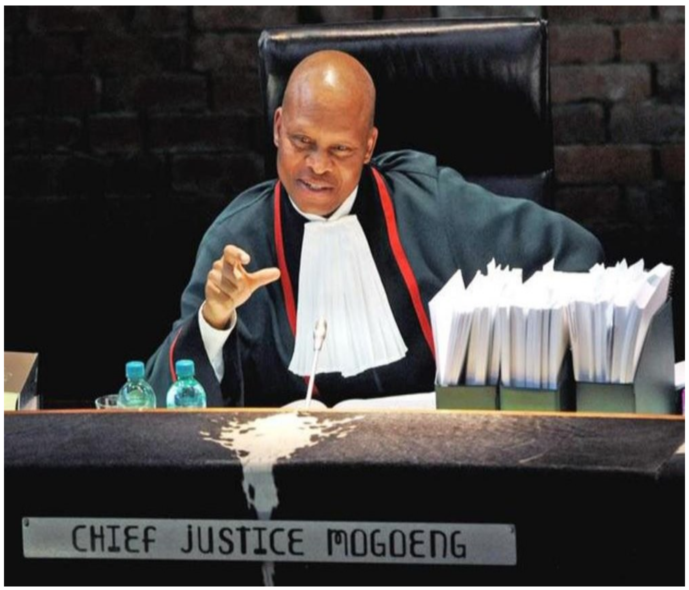
Source: Bloomberg

Building on our strengths

Judicial independence

- The Judiciary remains independent, maintaining the separation of powers doctrine from the Executive and Legislative authorities.

Chief Justice Mogoeng



Constitutional Court

“Let us avoid anything that has the ability to compromise the independence of the judiciary”

Chief Justice Mogoeng, April 2017

Building on our strengths

Business has become more proactive

- Economies only thrive with a strong private sector
- We need to create confidence to drive private investment and growth
- Private sector has created 3.5mn of the total 4.0mn that employment increased between 1994 – 2016*

CEO Initiative

- A **SME Fund** has been established with funding pledges of R1.5bn to invest in promising SME businesses. (Investec Ltd and IPF have contributed R25mn)
- Identifying **new investment areas** and places for intervention where there have been structural blockages, including agriculture, tourism and manufacturing.
- **Investor concerns** on sensitive areas of regulation are being tackled to establish a way to make the environment attractive to investors and address societal imbalances.
- A **Youth Employment Scheme** established as a government and private sector partnership aimed to equip 1mn young people with skills and employment over three years.

Business Leadership SA

- Advancing a modern, inclusive and growing economy;
- Upholding the Constitution and protecting the integrity of the state; and
- Demonstrating that business is a national asset, and is central in addressing poverty, unemployment, economic injustice, workplace transformation and racism.
- Focus areas:
  - Inclusive growth
  - Protecting and strengthening core instiutions
  - Business as a national asset

Do the right thing

Stand by what is right

Reject what is wrong

#BUSINESS BELIEVES

BUSA BUSINESS UNITY SOUTH AFRICA

*Source: StatsSA

Building on our strengths

All members of society coming together

- Organisations, civil society groups, business leaders, prominent individuals, South African citizens coming together to hold government leaders accountable to the Constitution and the values they have pledged to uphold as representatives of the people

Opportunities

We need to take advantage of favourable global conditions

- We need to move our economy away from the heavy reliance on primary production and drive the **industrialization programme**
- Create **export processing zones** by providing tax and export incentives and limiting red tape which will attract foreign direct investment and encourage labour intensive manufacturing
- SA has the ingredients to thrive as a **top tourist destination** (including education and healthcare tourism) this would drive massive employment opportunities in hospitality, transport, retail and other services
- SA has **world class universities** with WITS and UCT ranked in the top 1% of universities in the world* but we need to fix public education and the private sector can assist with providing internships
- Reignite SA as the **gateway to sub-Saharan Africa** to encourage multinational firms to establish their African head offices
- "IBM Digital—Nation Africa" - a digital learning platform offering **free courses for up to 25mn African youths** over 5 years

> " The aim of the initiative is to build skills across the board, from basic IT literacy to more advanced topics like cognitive computing and cybersecurity. There will be a strong focus on building the next generation of developers who can envision and build cognitive applications."
>
> ***Ginni Rometty, IBM CEO***

*Source: In both the Times Higher Education and the QS world university rankings

Closing remarks

The outcome of the ANC National Conference in December is critical

- The conference elects new leadership and the ideological direction in which the ANC will proceed
- It informs the socio-economic scenarios that will follow and determines the future of SA for the next 10-15 years

Conclusion

- South Africa urgently needs a **new social pact** that transcends ideologies and backgrounds. One that **rebuilds trust** and reframes the challenges facing our country within the lens of shared values.

- It needs to unite under a **common goal** and tackle the problem with innovative thinking, and bold and pragmatic leadership. It needs to **simultaneously grow and transform our economy** with a vision well beyond December 2017 or the 2019 national elections.

> "The bottom line is this: South Africa needs accelerated inclusive growth that is urban-led, private sector-driven, enabled by a smart state, and targeted at mass employment"

Source: Centre for Development and Enterprise, The Growth Agenda