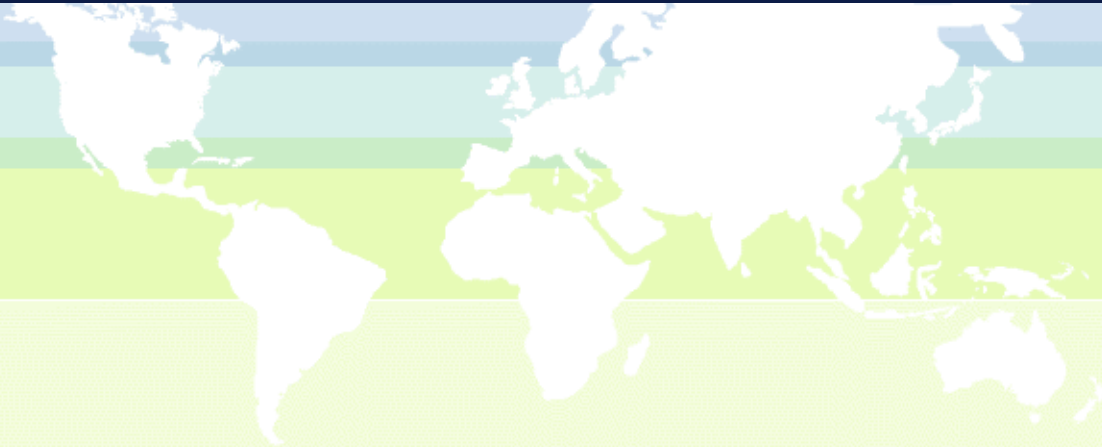


# Investec Investor Briefing

8 September 2003



# Overview



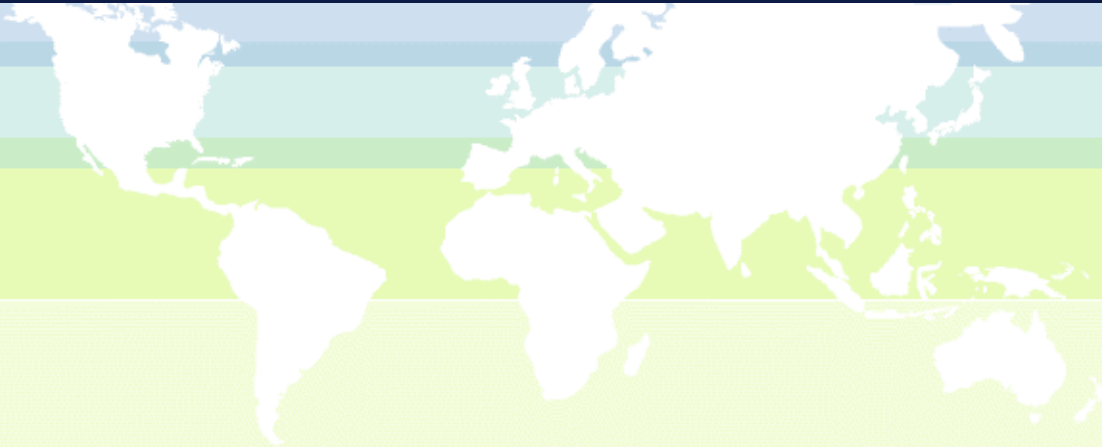
# Introduction

- Purpose of today's introductory briefing is to provide an update on trading trends within the group
- Details regarding the core divisional strategies and developments will be discussed during the course of today

# Overview

- Proviso: unless otherwise stated, figures and trends discussed in the operational review relate to the five month period to 31 August 2003

# Regional developments



# UK and Europe

- There has been a significant turnaround in the performance of the UK operations
  - Largely driven by the rationalisation and the strategic realignment of some of the businesses undertaken in the previous period

# UK and Europe

- The Private Banking operations have continued to perform well
  - Loan book growth of 6.4% since year-end coupled by an increase in fee income and minimal increase in costs
- Carr Sheppards Crosthwaite continues to post creditable results despite equity market volumes remaining subdued
  - FUM: £5.6 billion (31 March 2003: £4.7 billion) - £200 million net inflows

# UK and Europe

- The Treasury and Finance operations are performing well
  - Losses in the trading activities have been curtailed as efforts have been directed towards supporting customer flow as opposed to proprietary trading
  - The banking activities are performing well and there is a strong deal pipeline
- The Investment Banking activities have benefited from a significant reduction in the cost base and a pickup in corporate activity



# UK and Europe

- Asset Management continues to penetrate market and build FUM but still below scale
- With the repositioning of the group's funding structure post the implementation of the DLC structure, the bulk of the return earned last year on surplus capital in the UK will not be repeated in the current period

# Australia

- Reasonable activity levels not all of which will be reflected in the first six months of the year
- The group continues to make good progress in its 3 core areas of activity
  - Advances growth: 19.0% since year-end
  - Advised on 10 announced corporate finance transactions for A\$2.2 billion since 1 Jan 2003

# Israel

- Economic environment remains difficult
- Level of equity capital market activity picked up post Iraq war but has since subsided
- Have experienced negative inflation during this financial year which will weaken nominal performance
- Marginal decline in expenses but further work needs to be done

# US

- Fundamental restructuring of the US business has been completed
  - Ensuring ongoing businesses are profitable
- Headcount now comprises 68 personnel, all based in New York
- Run-off costs associated with the closing of the businesses is in line with what we indicated previously (approx \$3 - \$5 million p.a.)

# South Africa

- The Private Banking operations have continued to perform well
  - Loan book growth of 12.2% since year-end (in rands) coupled by a solid increase in fee income and minimal increase in costs
- Private Client Stockbroking continues to be affected by low equity market activity
  - FUM: R32.2 billion (31 March 2003: R25.6 billion) (large increase in non-discretionary FUM)

# South Africa

- Treasury and Specialised Finance:
  - The majority of the Banking divisions are performing slightly below expectations however the forex and balance sheet management activities have significantly underperformed in relation to the comparative period

# South Africa

- The Investment Banking division has benefited from an improved environment with a strong deal pipeline, direct investment and private equity opportunities

# South Africa

- The Asset Management division has performed well benefiting from net inflows on the retail side and a growing positioning in specialist products
- Assurance Activities: no guidance can be given on performance until the actuarial valuation has been completed
  - However, as indicated previously the significant restructuring profits earned in the prior period are not expected to be repeated



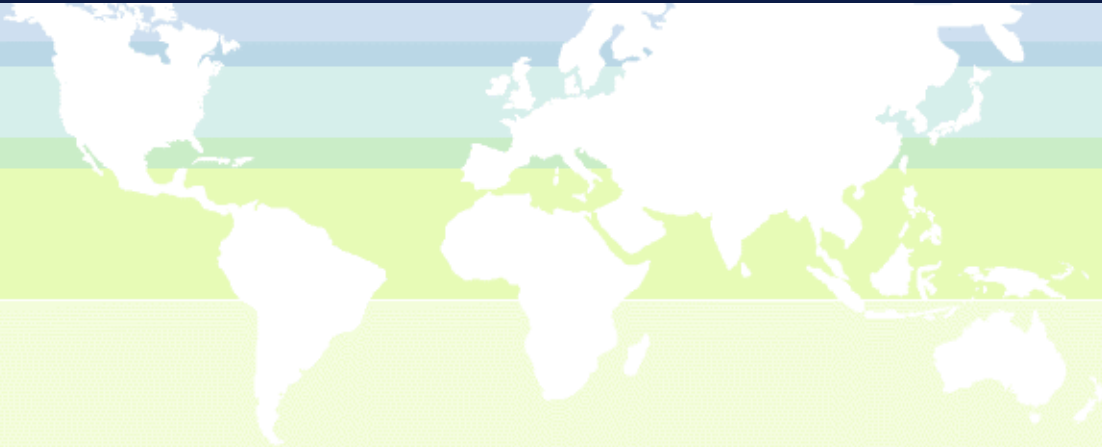
# South Africa

- Other activities:
  - The property division continues to perform well
    - Primegro and Growthpoint Merger
    - Growthpoint (managed by Investec) is now well positioned to become a point of reference for investors seeking SA property market exposure
    - Total assets under management approx R11 billion (31 March 2003: R8.7 billion)

# South Africa

- Traded Endowments continues to make a loss as its traditional client base lost confidence in the product
  - The business remains under strategic review

# Other issues



# Headcount by geography

	Aug 2003	Mar 2003	Mar 2002	Mar 2001
SA & Other	2,655	2,935	3,009	2,244
UK & Europe	1,428	1,471	1,510	1,417
Australia	106	103	84	74
USA	68	131	688	859
Israel	218	234	238	242
<b>Total</b>	<b>4,475</b>	<b>4,874</b>	<b>5,529</b>	<b>4,836</b>

# Headcount by business

	Aug 2003	Mar 2003	Mar 2002	Mar 2001
Investment Banking	282	336	462	344
Treasury & Spec Finance	485	489	503	441
Private Banking	1,077	1,085	958	1,032
Private Client Stockbroking	481	544	855	996
Asset Management	783	771	763	670
Assurance	185	490	576	-
Other Activities	1,182	1,159	1,412	1,353
<b>Total</b>	<b>4,475</b>	<b>4,874</b>	<b>5,529</b>	<b>4,836</b>

# IBL pref issue

- Issued R1.5 billion of non-cumulative, non-redeemable and non-participating preference shares
- More than six times over subscribed
- We had to issue more shares to meet the demand and treat all applicants in the most equitable manner possible
- Will further boost Investec Bank's (and ultimately Investec's) primary, or 'Tier One' capital ahead of regulations expected later this year

# Taxation

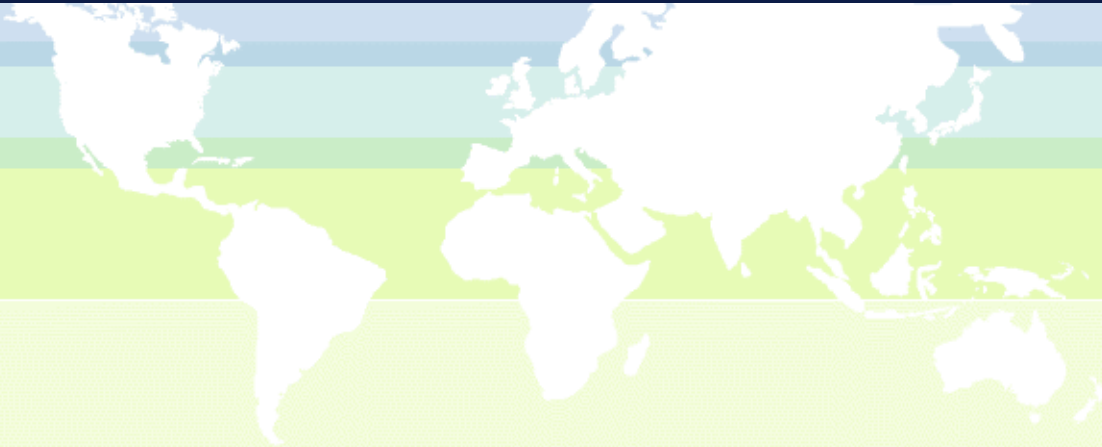
- Effective tax rates relative to Sept 2002:
  - SA is likely to be a lot lower largely as a result of losses brought forward
  - UK should be in line
  - Israel should be higher as a consequence of inflation adjusted earnings

# Empowerment transaction

- The Employee Share Trust created for this deal was approved at the AGM on 7 August 2003
- Shares will be issued when all formalities are finalised
- Final implementation of the transaction is imminent



# Conclusion



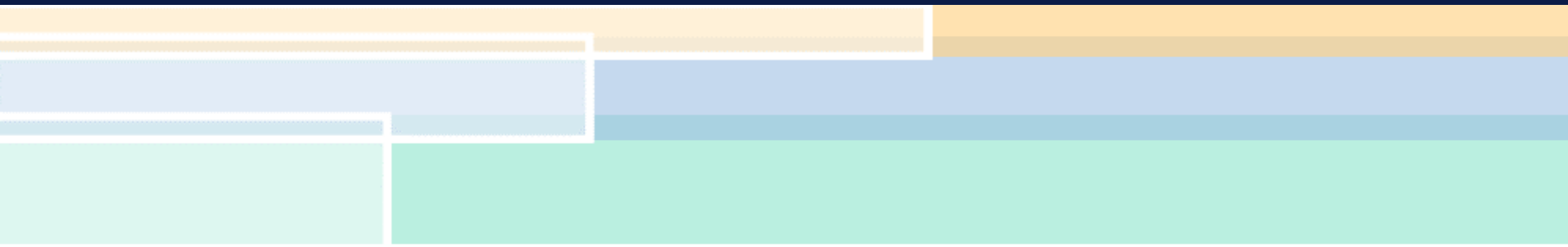
# Conclusion

- Overall cost base adjustment last year is paying off
- Revenue environment still difficult but improving
- Weak spots: Traded Endowments, SA forex activities and Israel

# Conclusion

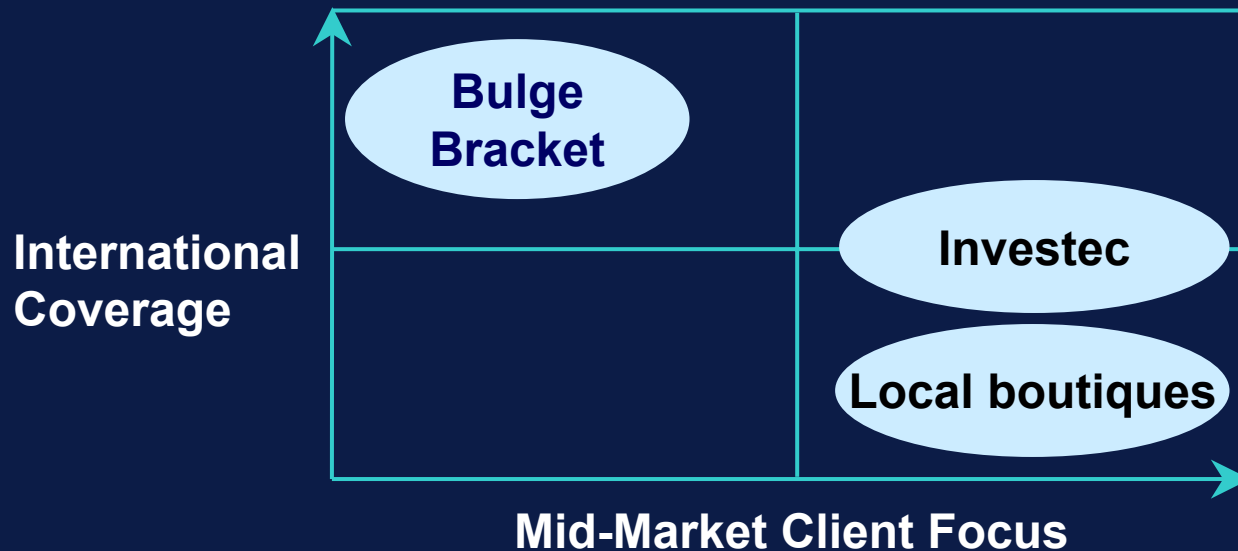
- Highlights:
  - Substantial turnaround in all activities which were under pressure last year
  - Much better investment banking environment
  - Private Bank continues on its growth path

# Investment banking



# Mission statement

- To be an international investment banking super-boutique distinguished by:
  - Our leadership in chosen niches
  - Our people and their approach
  - Our bond with our clients



# Organisation

**Investment Banking**

**Bradley Fried  
Andy Leith**

**Southern  
Africa**

- Johannesburg
- Cape Town

**UK**

- London
- Dublin

**Australia**

- Sydney
- Melbourne

**US**

- New York

**Israel**

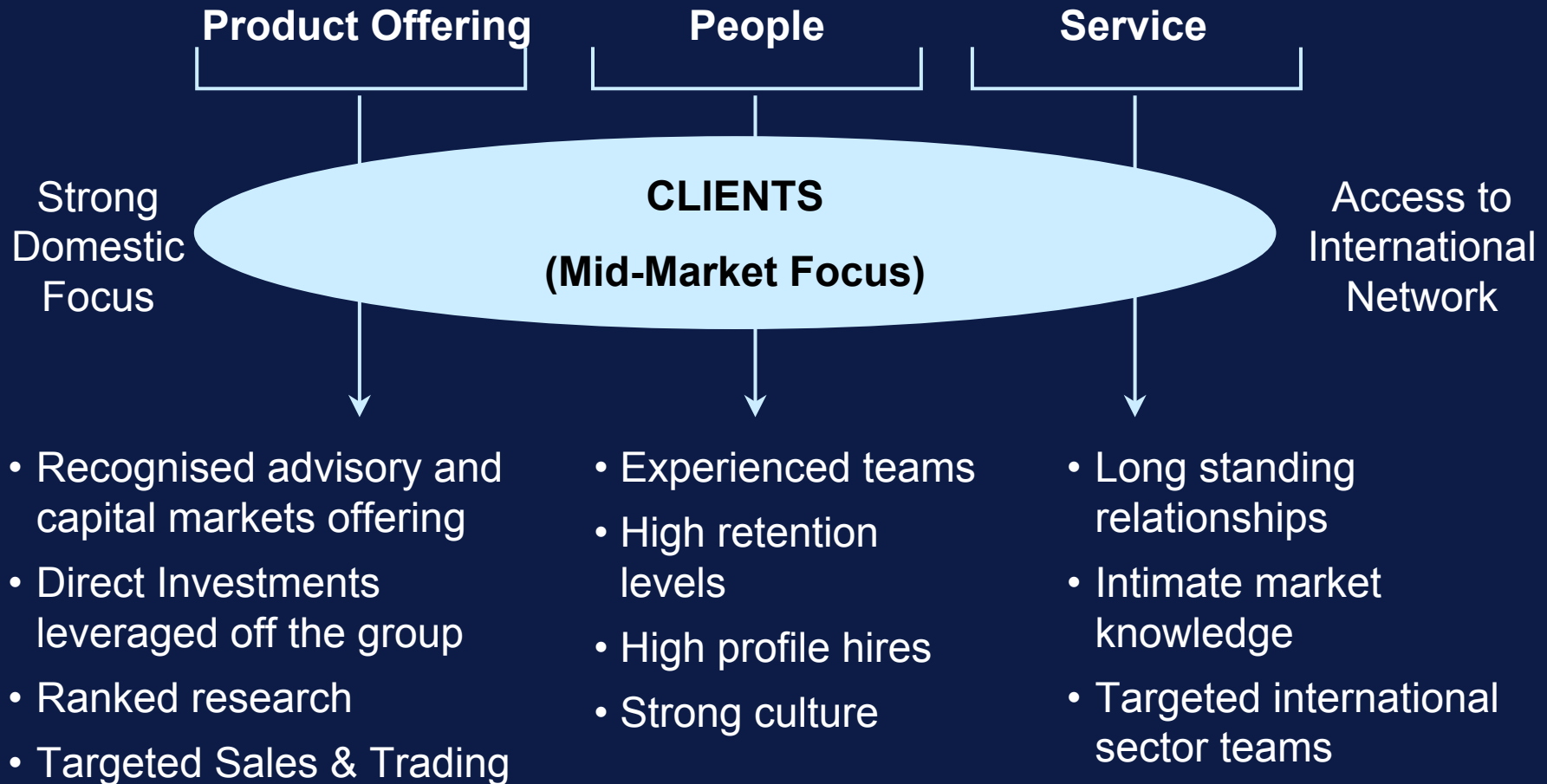
- Tel Aviv

# Product offering

PRODUCT	GEOGRAPHY	DESCRIPTION
Corporate Finance	UK, South Africa, Australia	<ul style="list-style-type: none"><li>• Domestic businesses benefiting from access to an international network</li><li>• Mid-market focus with a penetration into larger clients, specifically in South Africa</li></ul>
Research, Sales & Trading	UK, South Africa, Israel	<ul style="list-style-type: none"><li>• Research operated on domestic platforms; appropriately coordinated internationally</li><li>• Blue chip domestic institutional client base</li></ul>
Private Equity	UK, South Africa, Australia	<ul style="list-style-type: none"><li>• Income primarily from realisations of third party investments acquired through the UK acquisition of Hambros PLC</li><li>• Small but growing private equity businesses in South Africa and Australia</li></ul>
Direct Investments	South Africa, UK, Australia	<ul style="list-style-type: none"><li>• Largely a S.A. business leveraging off Corporate Finance's market knowledge and deal flow</li><li>• Focus on quoted companies</li><li>• Selective, opportunistic approach</li></ul>

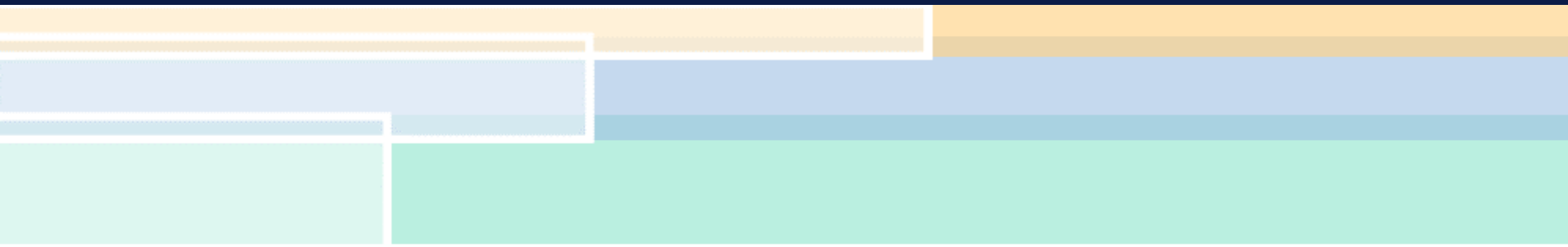
# Strategy

## Business Model





# Investment Banking - South Africa

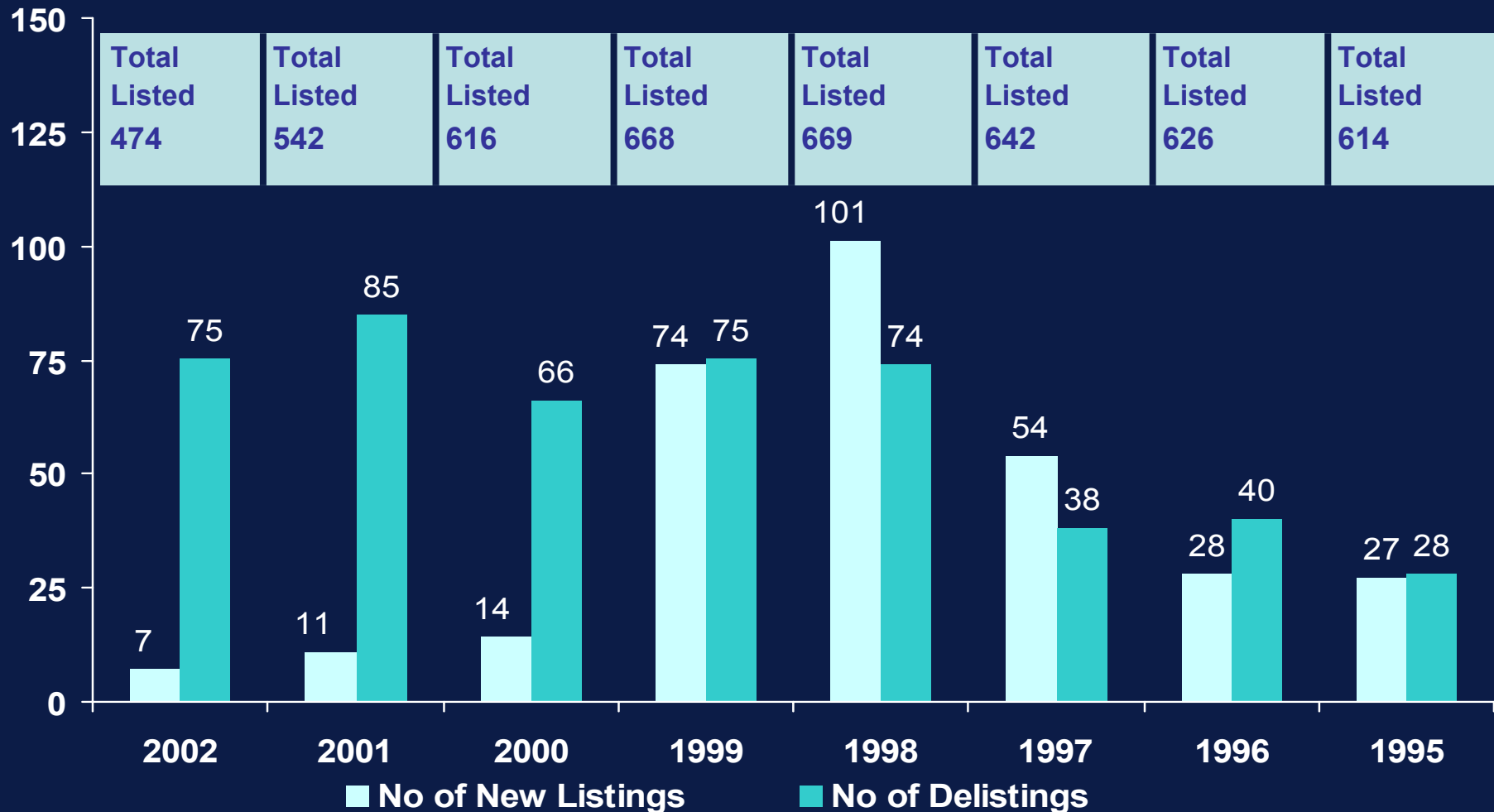


# South Africa - operating environment

- Equity capital market volumes remain depressed
- Strong Black Economic Empowerment focus
- Overcapacity in the market means:
  - significant competition at every level - pressure on fees
  - deals difficult to conclude
  - client retention increasingly under threat
- Low valuation multiples and lower interest rates
- Rand volatility creates investor uncertainty
- Privatisation pace slow

# South Africa - operating environment

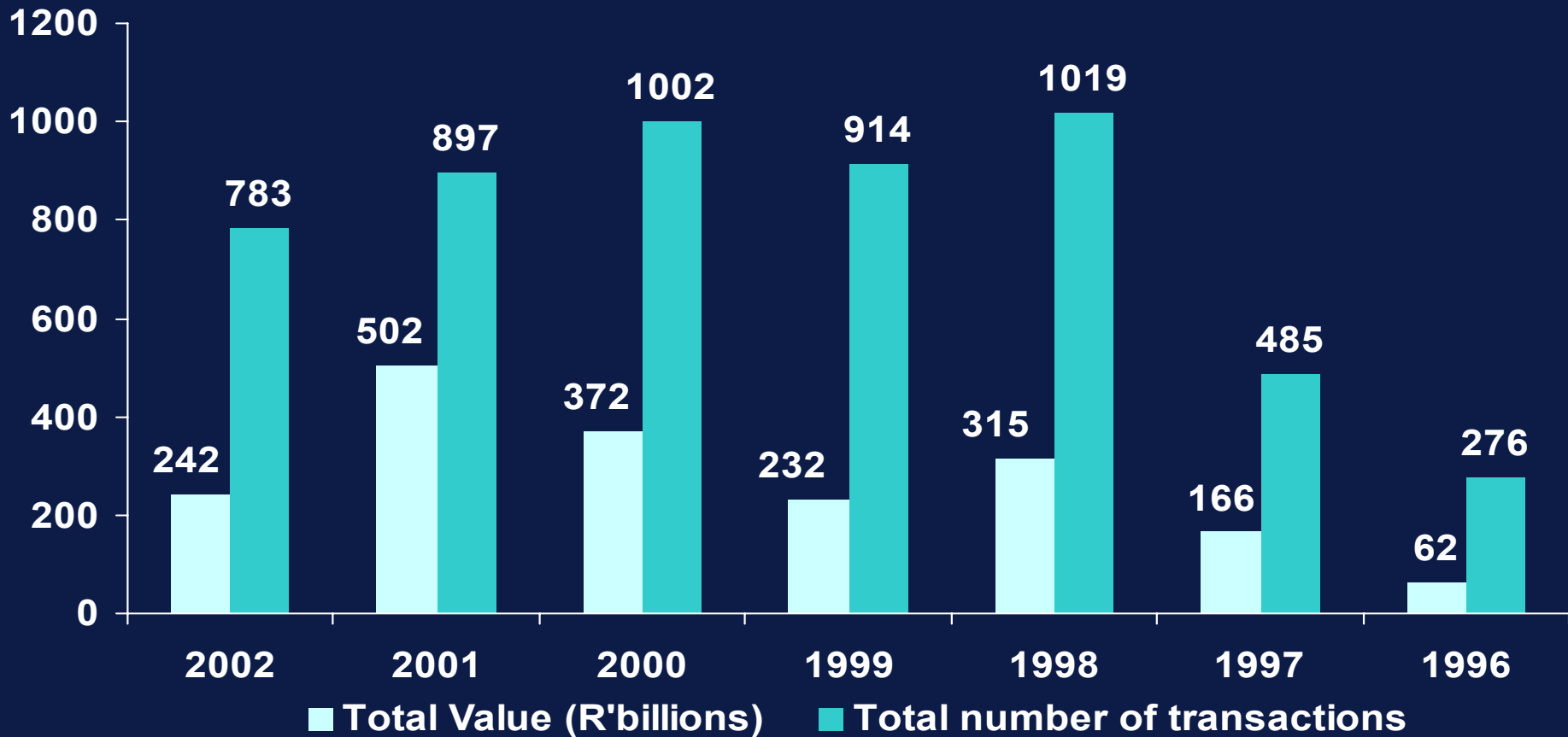
## New listings / delistings



Source: M&A Review (Ernst & Young)

# South Africa - operating environment

## Total M&A activity



*Note: In 2001, two deals (Billiton/BHP merger (R223 billion) and the De Beers delisting (R154 billion)) make up 75% of the total M&A value. Value of the other deals less than a third of the 2000 total*

*Source: M&A Review (Ernst & Young)*

# South Africa - present positioning

- Investec seen as leading black empowered domestic player
- International competitors operating at top end with integrated offering:
  - Deutsche
  - JP Morgan
  - UBS Warburg
  - Merrill Lynch
- HSBC, Goldman Sachs, Morgan Stanley, Citigroup, Cazenove, Rothschild maintain an SA presence
- Main SA competitors:
  - RMB
  - NIB
  - SCMB

# SA Corporate finance - key developments

- Increasing cross border activity with Australia
- Ranked in top 3 in Dealmakers survey in
  - M&A activity
  - general corporate finance activity
- Awarded 20 mandates in last 5 months

# SA Corporate finance - key drivers

- Leverage market positioning and reputation
- State of equity markets
- Proactive versus reactive deal initiatives
- Ability to offer integrated solutions to clients
- Increased BEE transactions
- Competitor activity

# SA Corporate finance - prospects

- Limited capital raising opportunities
- Strong BEE positioning
- Parastatal and government advisory opportunities
- Increased cross border transactions with South African corporates
- Deal pipeline reasonable



# SA Institutional stockbroking - key developments

- Ranked in top 3 by 5 of top-6 institutional clients
- Research ranked no 5 in FM (FM resources dependent)
- Top-ranked domestic stockbroking firm
- Ranked as only BEE firm with value proposition
- ISL ranked FY to date
  - Top-5 in terms of market share (Value)
  - Top-3 in terms of market share (Volume)
- Moves towards “unbundling”

# SA Institutional stockbroking - key drivers

- Market volume (down 23% yr/yr in the three months to August)
- Competitor activity
- Diminishing size of pure agency market – approx. 50% of daily activity
- Allocation process still predominantly research driven
- Best execution becoming increasingly important
- BEE now an important weighting in allocation (as much as 20%)
- Dual listed shares, ex London, dominate trading activity
- Probable move towards “unbundling”

# SA Institutional stockbroking - prospects

- Research coverage now complete, with two recent appointments
- Leverage gains made in South Africa market in recent months
- Depressed market may require streamlined research offering
- Opportunities for sourcing new deal flow, e.g. hedge funds, prime broking
- Monitor cost base in line with market conditions

# SA Private equity and direct investments - key developments

- Concentration on larger transactions
- Rationalisation of current portfolio
- Establishing annuity revenue investments
- Focus on industries / sectors
- Involved in a number of direct investment opportunities

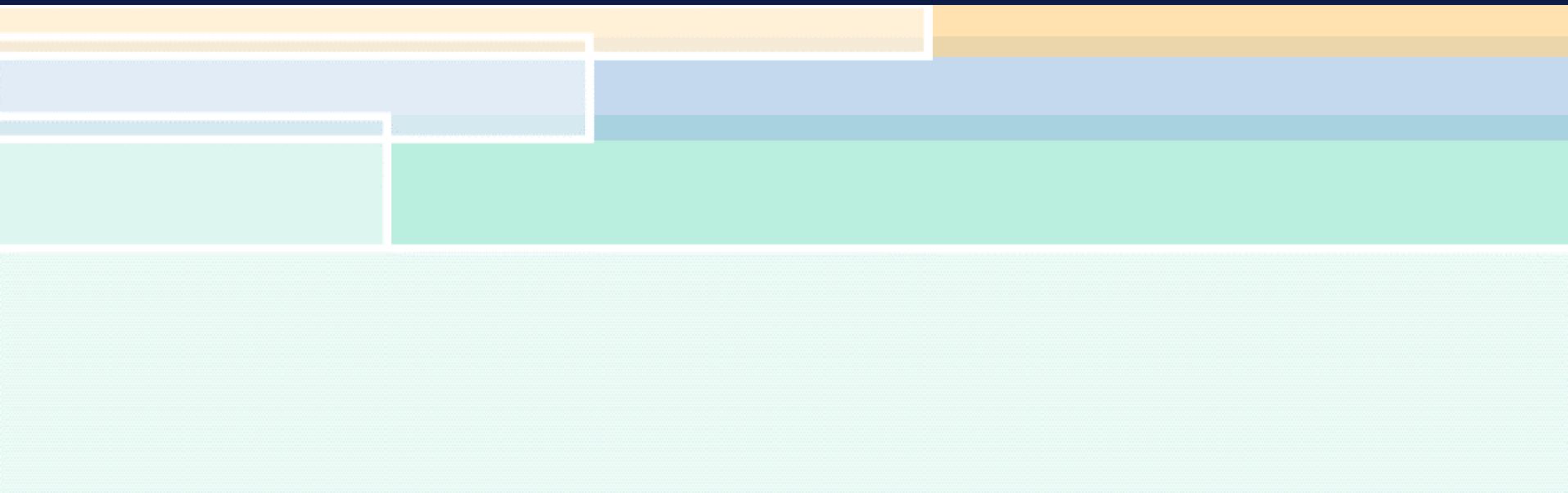
# SA Private equity and direct investments - key drivers

- BEE positioning
- Market demand due to :
  - Low PE's
  - Lower interest rates
- Opportunities coming from :
  - Fund realisations
  - Delisting opportunities
- Surplus funds available for deal opportunities
- Opportunism in direct investments

# SA Private equity and direct investments - prospects

- Larger assets within portfolio performing well
- Rationalisation of Fedsure assets finalized shortly
- Looking at two new investments
- Supporting growth in current investments via acquisition
- Good direct investment opportunities

# Investment Banking - Australia



# Australia – operating environment

- Overall increase in M&A activity
- Difficult equity market conditions
- Deals taking longer to complete
- Foreign investor appetite adversely impacted by strong Australian dollar
- Large competitors moving into mid-cap space
- Limited quality private equity opportunities



# Australia - present positioning

- Corporate finance acts as an independent adviser
  - M&A and general corporate advice
  - Capital and corporate restructuring
  - IPO advisory with some equity arranging
- Market segmentation can be summarised:

Mid - to large cap Corporates	250 companies	<ul style="list-style-type: none"><li>• Below target of “bulge-bracket” players</li><li>• Leverage extensive existing business network</li></ul>
Individuals / families (\$40 - \$200million IA)	400 households	<ul style="list-style-type: none"><li>• Operate at high end</li><li>• Compete against boutiques and accounting firms</li></ul>
Top 50 Corporates	50 companies	<ul style="list-style-type: none"><li>• Selective basis / co-advisory mandates</li><li>• Fill role of independent firm</li></ul>

- Private equity involved in leveraged and management buyouts

# Australia - key developments

- Advised on 10 announced transactions for A\$2.2 billion since 1st January 2003
- Investec Private Equity (IPE) made two investments totalling A\$18 million
- IPE has increased funds under management to ±A\$100 million
- Human Resources
  - Inclusion of Melbourne corporate advisory team
  - Expansion of Sydney teams

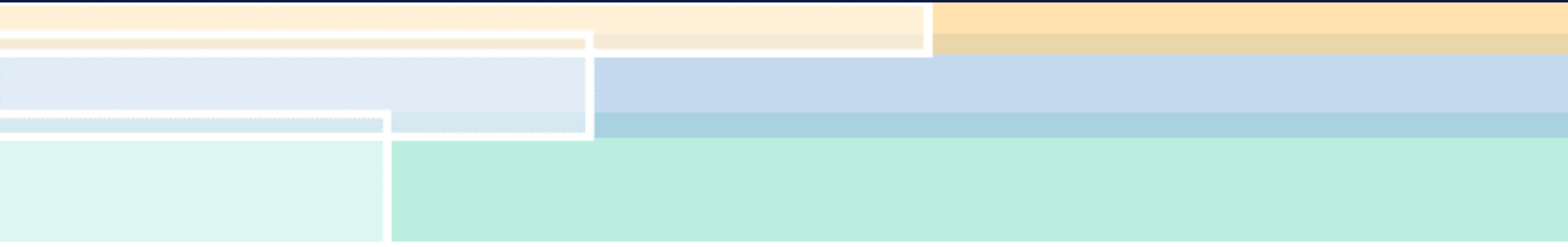
# Australia - key drivers

- Leverage Wentworth contacts, reputation and knowledge
- Recruit additional corporate advisors to expand revenue base
- Grow M&A capability in Melbourne
- Continued focus on core business
- Gradual expansion of service offering
- Leverage off Investec group relationships / cross-border deal flow
- Grow private equity business selectively

# Australia - prospects

- High level of corporate finance activity
- Number of exciting and active deals in the pipeline
  - deals remain hard to close
  - largely success fee driven
  - anticipated timing of revenue difficult to estimate
- Quality private equity investment opportunities remain scarce

# Investment Banking - UK

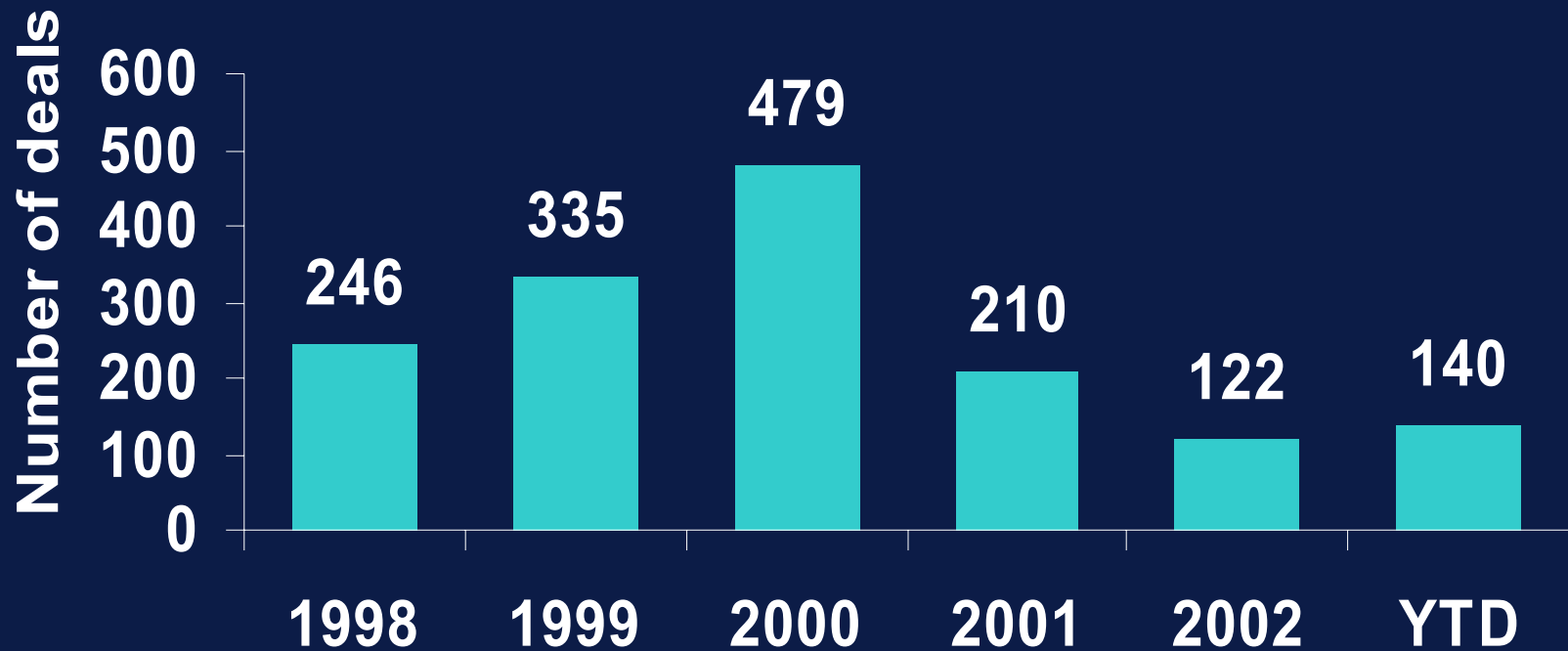


# Investec Investment Banking & Securities

## - operating environment

- Selective economic data highlights rebound
- Improved equity market levels and volumes, in particular in small and mid caps
- Improved investor appetite for primary and secondary dealflow
- Corporate confidence returning as operating leverage from cost cutting kicks in
- Early signs of public-to-private theme reversing, with shift to IPO cycle
- Regulatory uncertainty
  - Unbundling
  - Separation research / investment banking

# UK M&A activity - 1998 to date



Source: *Bloombergs*

# Investec Investment Banking & Securities

## - present positioning

- Stable, integrated model
- Leading 'purely' domestic player, specialized by virtue of
  - Depth of local knowledge and relationships
  - Mid-market strength
  - UK - South African link
- Bulge bracket focus on
  - Top-end corporates
  - Global and pan-European investors
- Main competition from
  - Mid-sized players with strong dedicated UK business (ABN, Dresdner)
  - Emerging boutiques (Numis, Collins Stewart, Bridgewell)



# Investec Investment Banking & Securities

## - developments

- Significant (approx 30%) reduction in cost base (benefit from beginning of financial year)
- Advised on high profile public-to-privates, including: Fitness First and IG Index; several placings completed
- Increased market share amongst traditional buy-side client base; launch of hedge fund initiative
- Increased quality of research product (small cap voting currently in progress)
- Revenue sources well balanced across public offers, M&A, placings, restructurings, securities sales and trading (no reliance on major deals)

# Selected recent advisory transactions



£143m Recommended  
Cash Offer by CVC  
Capital Partners \*


Advisor  
July 2003 



Fitness First


£395m MBO

June 2003 



Incisive Media plc

£35.2m acquisition of  
Risk Waters Group  
Limited


April 2003 



Neoscorp Limited


£13.4m Recommended  
Cash Offer by Scottish  
and Southern Energy

April 2003 



Alders plc

£131.9m Recommended  
Cash Offer by Scarlett  
Retail Limited

February 2003 

\* Announced – yet to be completed

# Selected recent equity issues



Alba plc

10% Placing on  
behalf of Harris  
Family

July 2003



 **DATAMONITOR**

Datamonitor plc

5% Placing on behalf  
of Reuters plc



June 2003



**FERRARIS**  
GROUP plc

Ferraris Group plc

£7.3m Placing and  
Open Offer

June 2003



 **incisivemedia plc**

Incisive Media plc

£16.1m Placing and  
Open Offer

April 2003



# Investec Investment Banking & Securities

## - key drivers

- **Internal**
  - Cost control
  - Stability of key practitioners and team
- **External**
  - Market levels – c.30% rally in London since 3287 FTSE low of March 2003
  - Secondary trading volumes – volatile, but upward trend
  - Corporate confidence – pipeline / enquiries building; pickup in corporate activity
  - Prospects for IPO market in small-and mid-cap stocks improved
  - New corporate client development

# Investec Investment Banking & Securities

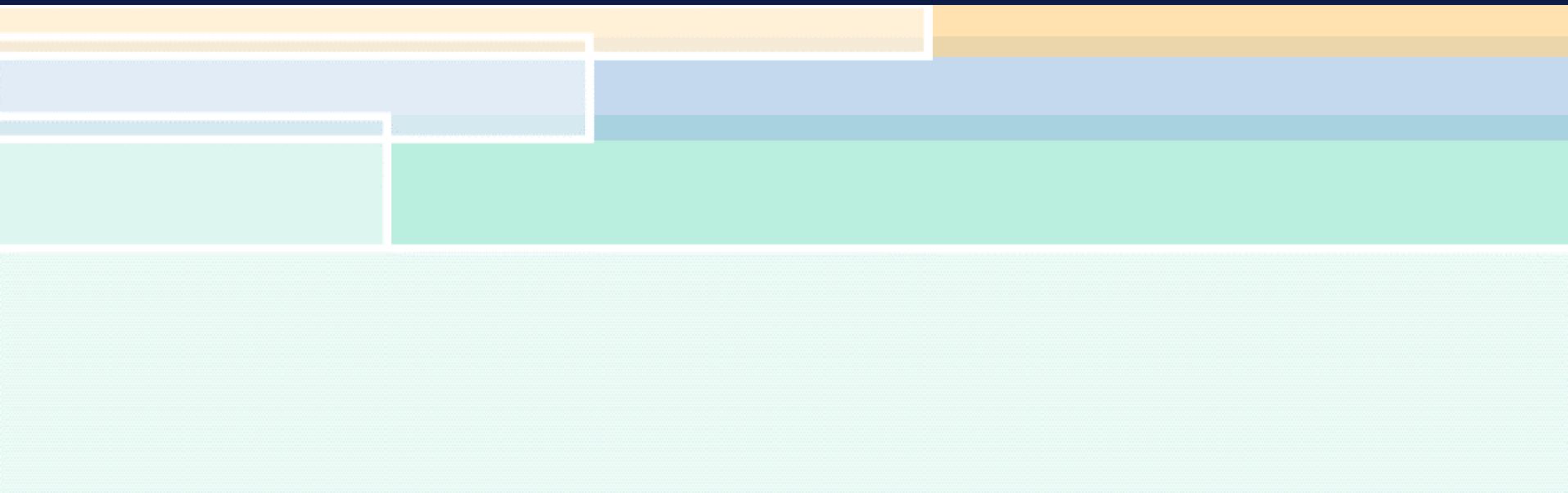
## - prospects

- First half year should be influenced by:
  - Cost initiatives implemented last year
  - Good business mix for first five months
  - Stability of team
- Second half year will be driven by:
  - Corporate pipeline, deal creation and conversion
  - Supportive equity market conditions for traditional and hedge fund clients
  - Our ability to attract new clients to the firm

# UK - Private equity

- **Developments**
  - No material developments in portfolio of 3<sup>rd</sup> party funds
- **Key drivers**
  - Asset disposals in underlying funds
- **Prospects**
  - Remains value potential in residual funds

# Investment Banking - US



# US - developments

- Fundamental restructuring of the US business has been concluded – complete exit from domestic US equities - the business now comprises
  - Institutional Fixed Income trading
  - Vilas and Hickey (interdealer bond brokers)
  - Corporate Bond trading, and
  - an Israeli US stocks equities desk, connected integrally to Investec Bank Israel but held in the US
- Headcount now comprises approx 45 personnel, all based in New York
- Stable 5 months following last year's actions



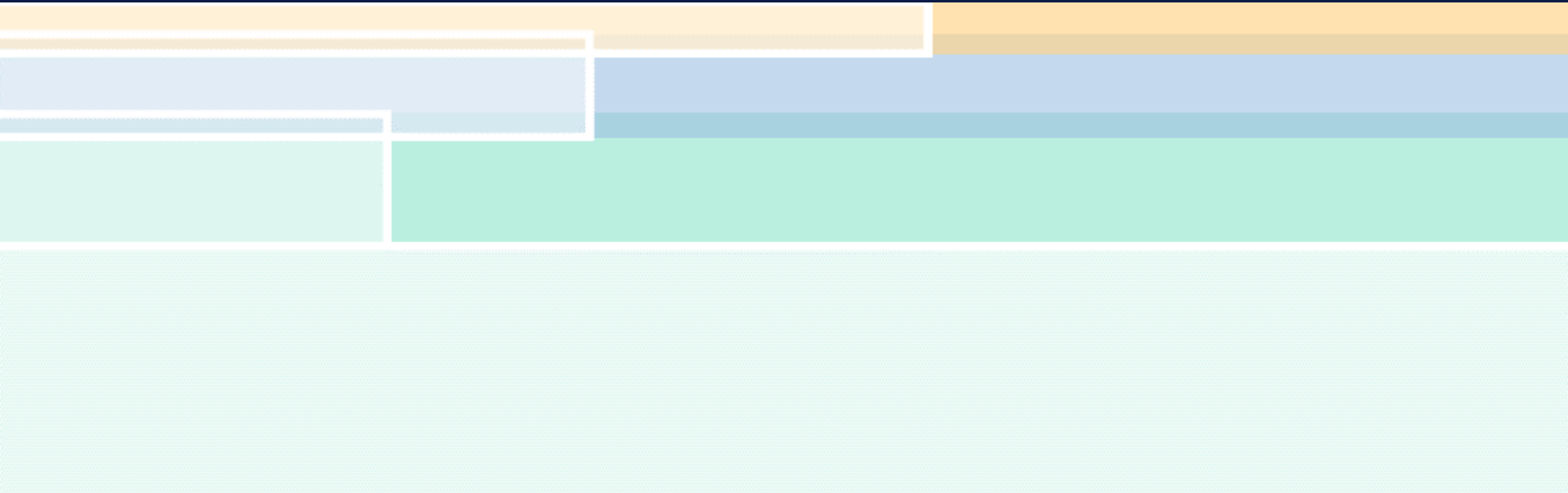
# US - key drivers

- Retention of key personnel
- Bond market flows (corporate and institutional)
- Ability to identify additional small niche businesses and growth opportunities

# US - prospects

- Focus has been on creating stability (staff turnover, morale, P&L)
- Low capital usage and variable cost base across bond businesses caps upside / limits downside

# Investment Banking - Israel



# Israel - positioning

- Full service securities offering to institutions and brokers
- Distinctive (and unique) Israeli offering in New York through dedicated New York-based securities staff

# Israel - key drivers & prospects

- **Drivers**

- Progress on peace
- Increased business and consumer confidence
- Domestic Israeli stock market revival

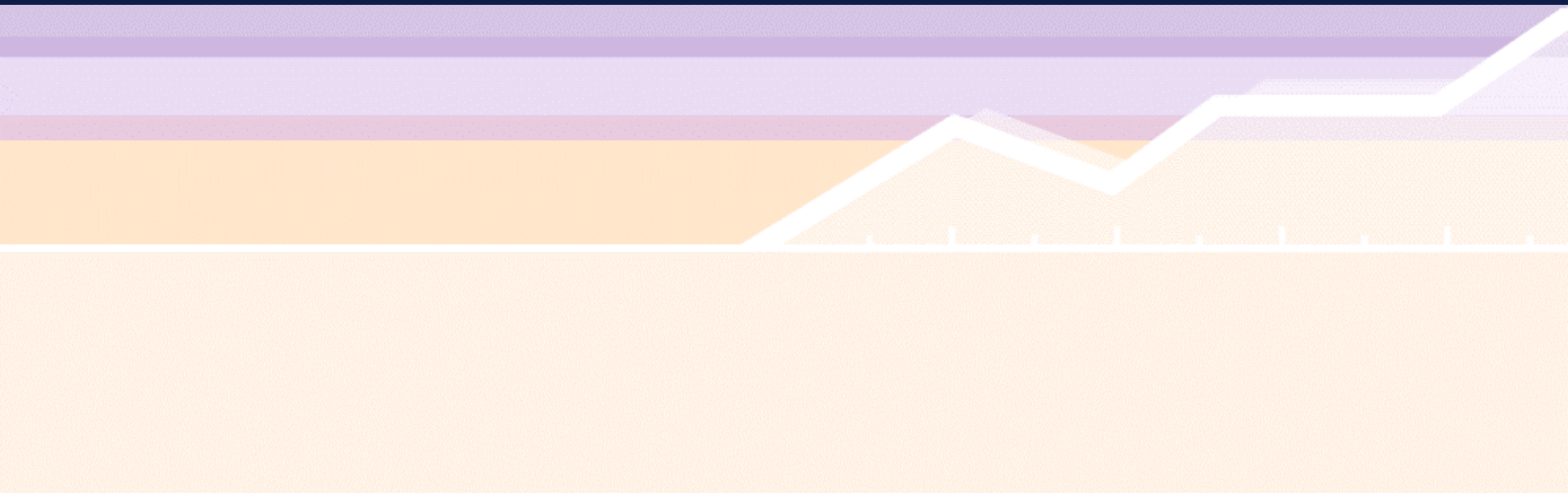
- **Prospects**

- Macro factors highly unfavourable for first 5 months of year

# Investment Banking prospects – overall summary

- Restructuring in UK and US complete
- Activity levels satisfactory in difficult equity markets
- Performance linked to equity market recovery

# Carr Sheppards Crosthwaite



# Scope of activity

- Background and history
- Portfolio management services to “highish” net worth clients both UK and international
- Portfolio management services to smaller charities
- Settlement and administration services to similar financial institutions and corporations
- Holistic financial advice, particularly pensions



# Positioning

- No dominant competitors in the UK market
- Market share around 2%
- Nearest competitors are Rathbones, HSBC, Gerrard and Cazenove
- Competitively priced and good investment performance (where measurable)
- Highly regarded for service and operational expertise

# Developments

- FUM increased by £860 million to £5.6 billion since 31st March
- £660 million increase resulted from rise in market and £200 million from new business
- Discretionary funds increased by 2% to 63% over the past 12 months
- Appointed as one of two fund managers for Lord Chancellors' Department
- Total revenues marginally down on last year despite average FTSE 16% lower

# Developments

- Costs down with staff reduction of 50 (mainly support) since December 2002
- Regional offices rationalised and non-core activities disposed of

# Key drivers

- The ability to generate significant new funds under management
- Some confidence returned to the market with a 19% improvement in the FTSE All Share and no sharp setbacks
- Cost containment, but not at the expense of operational efficiency or control
- Increasing longevity of population
- Increasing consumer demand for relationship driven service and unbiased independent advice (not sales & product driven)

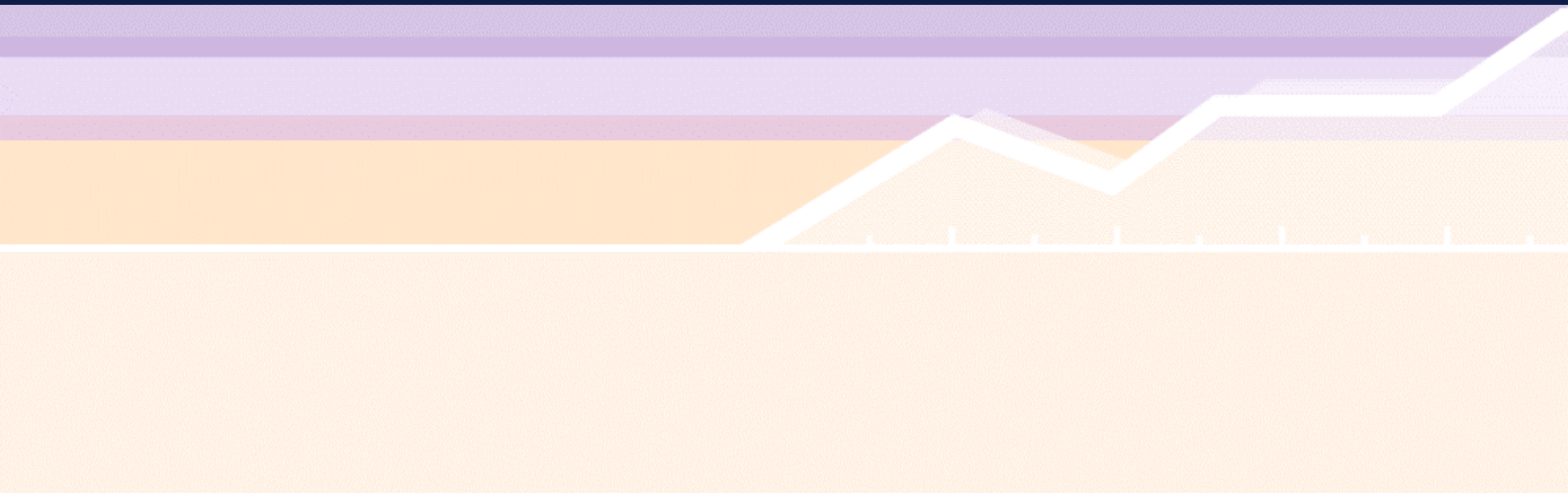
# Industry developments

- Recent results reported by brokers covering the past year have, as expected, been disappointing
- Increasing regulation
- Imminent diminishing of PEPs and ISAs attraction

# Future prospects

- Economic recovery fragile and structural problems remain
- No increase from current market levels assumed
- Gathering new assets under management should continue at current rate
- Benefits of new business gained and cost saving benefits will be evidenced to a greater extent in the second half of the year
- Given a stable UK market with no unforeseen shocks, the second half of the year is expected to show an improvement over the first

# Private Client Stockbroking and Portfolio Management - SA



# Scope of activity

- Discretionary investment management
- Advisory and execution stockbroking
- Specialised investments
- International (boutique) Investment Services



# Present positioning : Investment Management Services

- **Funds under discretionary management**
  - August 2003 : R5.2 billion
  - March 2003 : R4.6 billion
- **Funds under non-discretionary management**
  - August 2003 : R27 billion
  - March 2003 : R21 billion
- **Offshore (included above)**
  - August 2003 : R2 billion
  - March 2003 : R2 billion

# Present positioning

- Largest Private Client stockbroking business in South Africa
- Scale provides operational leverage to continue making profits in a bear market (critical mass; distribution eg. Nedbank and Investec pref share offers)
- Group affiliations enable Private Client Securities business to offer a wide range of service offerings to our client base

# Developments

- Market volumes continue to be under pressure
- Strong currency and continued high real interest rates have negatively affected the market
- Private Client has remained in cash/near cash
- Demand for offshore investments has slowed
- Ongoing domestic consolidation (NIB, Nedcor, BOE, Syfrets merger)
- International investment banks (private client operations) continue to exit the South African market
- Rightsizing process – almost at optimal headcount and skillsets

# Key drivers

- Revenue diversification and economies of scale (new specialised products and services : international; hedge funds; alternative portfolio structures)
- Selective acquisitions – strict criteria (individuals and/or businesses)
- Continued drive towards annuity income
- Technology initiatives (execution, information dissemination etc. - value add projects only)
- Cross divisional relationships
- Efficient and effective central investment process – solid investment performance and compliance

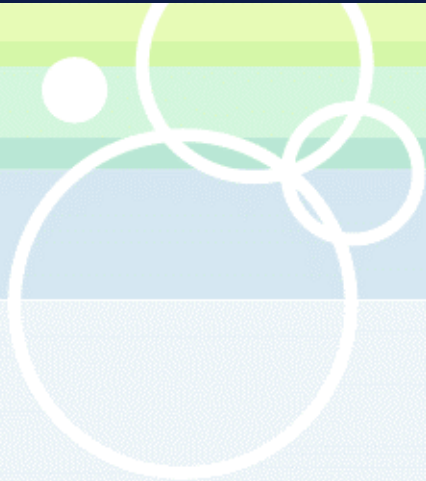
# Prospects and issues influencing performance

- Client relationships
- Investment performance
- Investor sentiment
- Skills attraction/retention
- Changes in legislation
- Macro-economic variables (interest rates; rand volatility etc.)

# Prospects and issues influencing future performance cont...

- Asset gathering/performance
- Optimising skillset and other resources (including infrastructure)
- Introduction of new technologies to improve client service/related economies of scales
- Move up the “value chain” i.e. focus on the HNWI
- Alternative products and services
- Value extraction from existing client base
- Add critical mass where appropriate

# Private banking

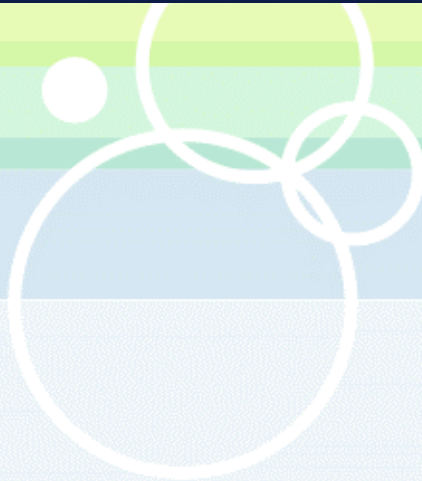


# Mission statement

- To be the specialist private banking partner of choice in the creation of distinct value for our select clients



# Private banking - financial overview



# Net profit before tax (NPBT)

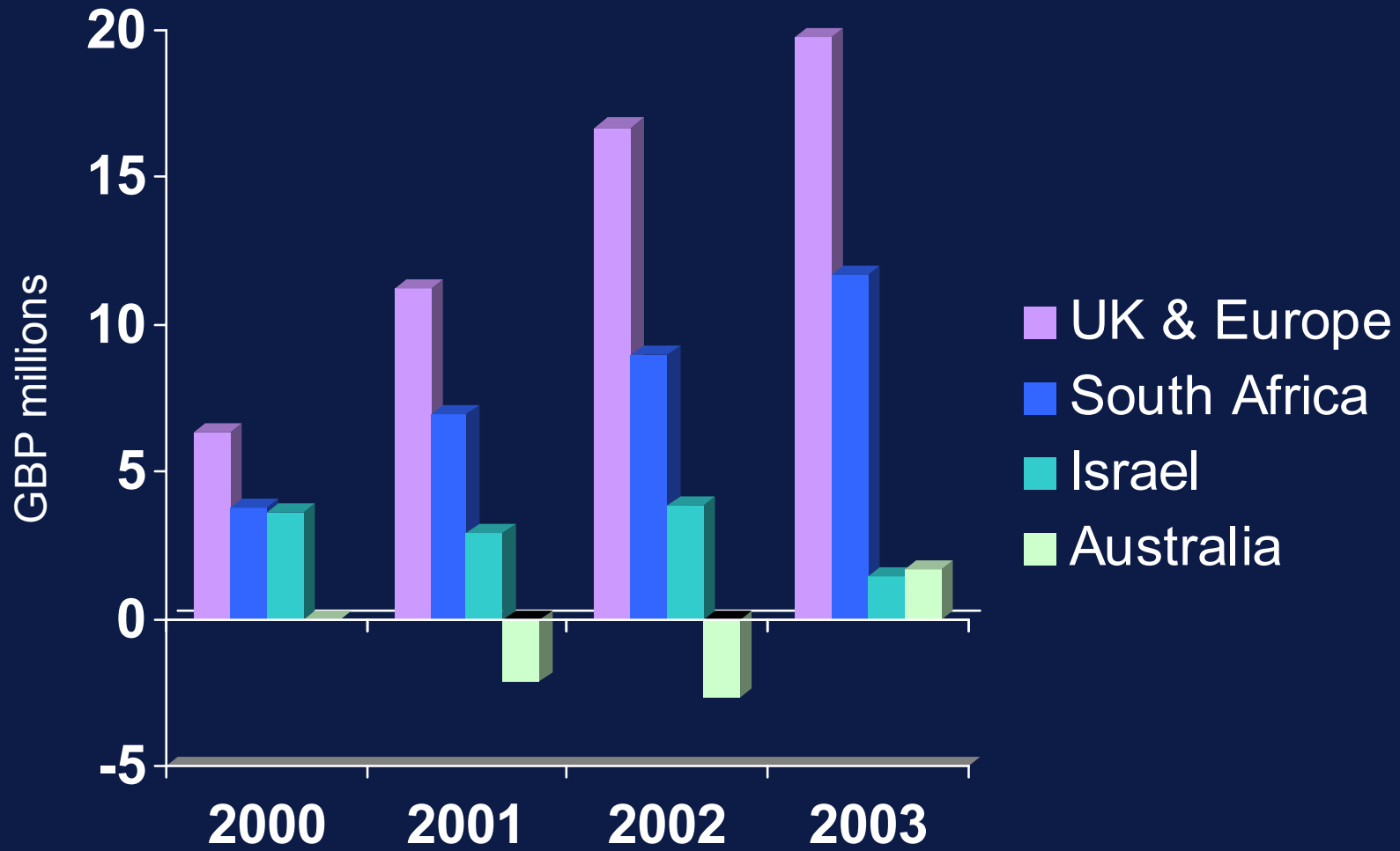
## NPBT

	March 00	March 01	March 02	March 03
GBP 000's	14 386	19 634	26 887	34 641

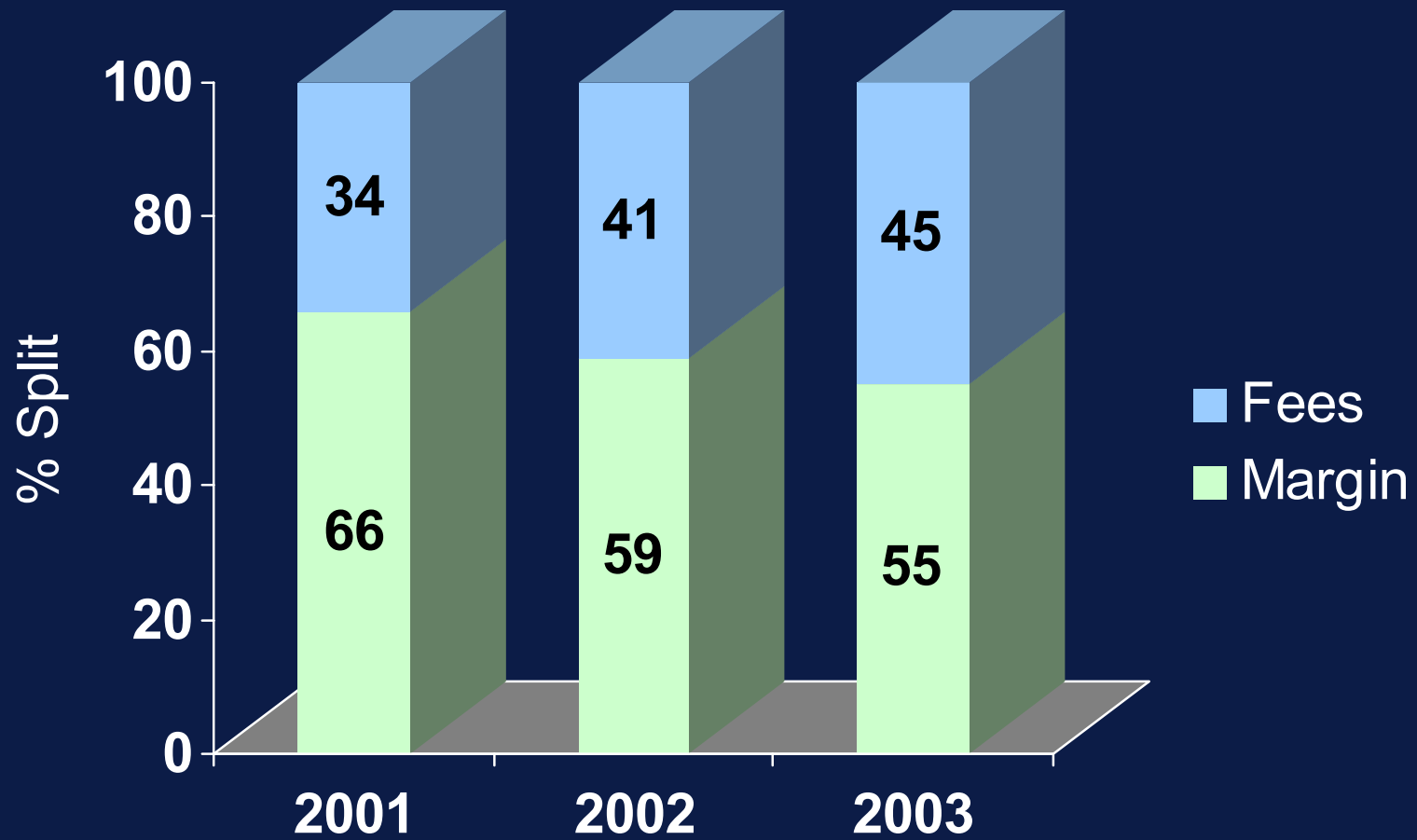
**3 year compound annual growth rate 34%**

	March 00	March 01	March 02	March 03
ZAR	10.46	11.39	16.16	12.51

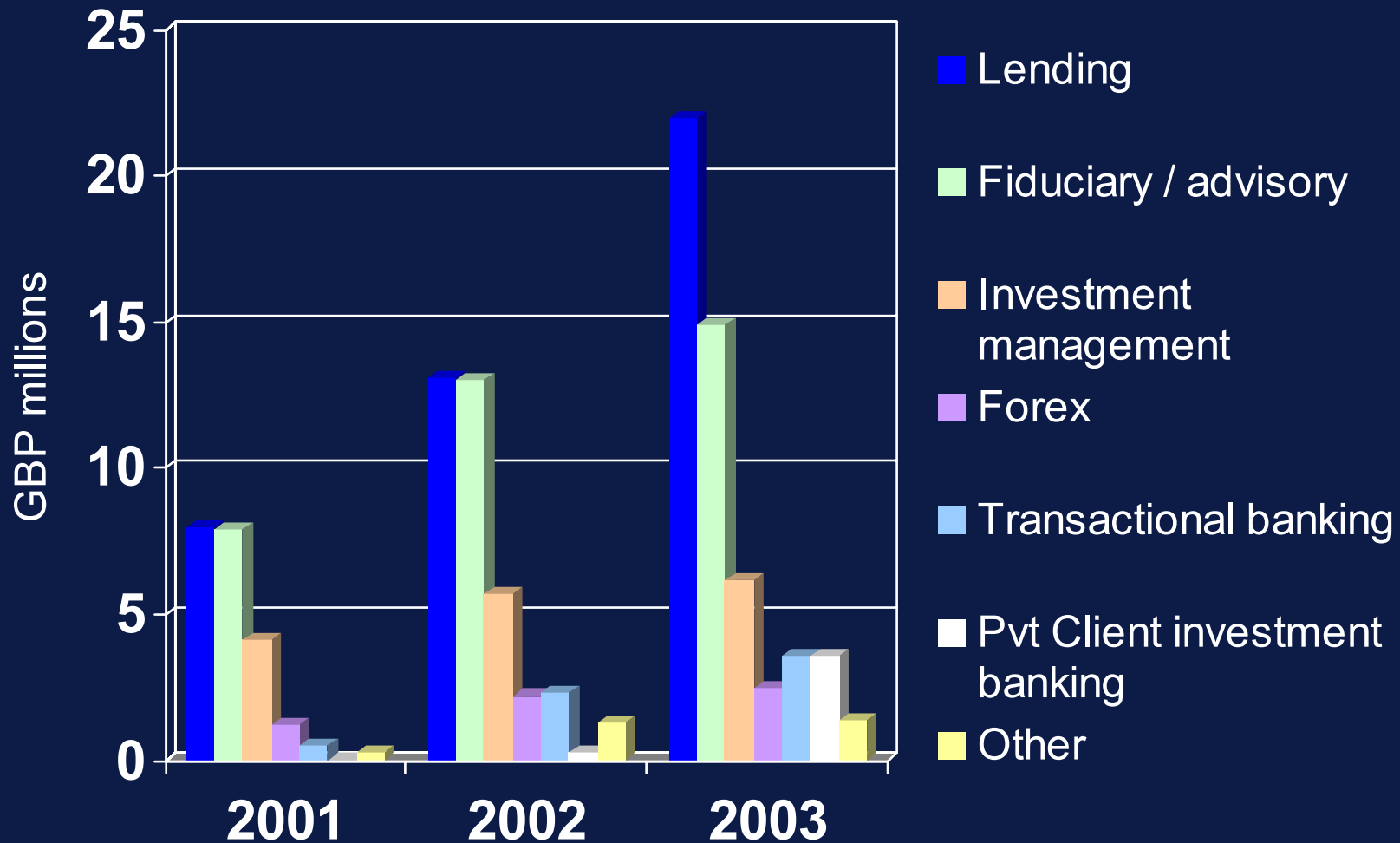
# NPBT by geography



# Total income



# Non-interest income



# Cost to income ratio

	March 2001	March 2002	March 2003
Cost to income ratio *	0.69	0.63	0.61

\* After depreciation and EVA

# Salient features

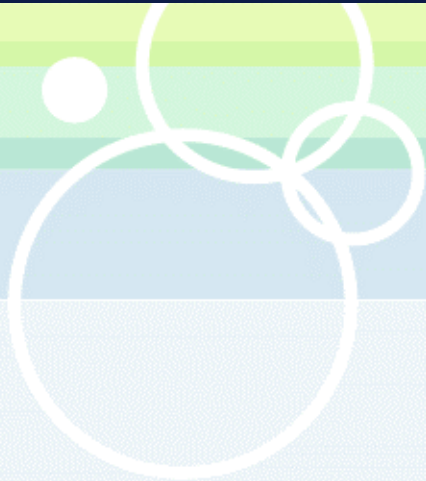
<b>GBP</b>	<b>March 2001</b>	<b>March 2002</b>	<b>March 2003</b>
Lending book growth	18%	14%	46%
Deposits book growth	11%	7%	34%
FUM growth	67%	66%	20%

# Non performing loans

<b>GBP 000's</b>	<b>March 2001</b>	<b>March 2002</b>	<b>March 2003</b>
Lending book	1 732 429	1 973 937	2 873 225
NPL's	31 423	21 968	26 460
NPL's as a % of lending book	1.81%	1.11%	0.92%
Specific bad debt provisions	13 039	6 526	11 190
Specific bad debt provisions as a % of NPL's	41%	30%	42%

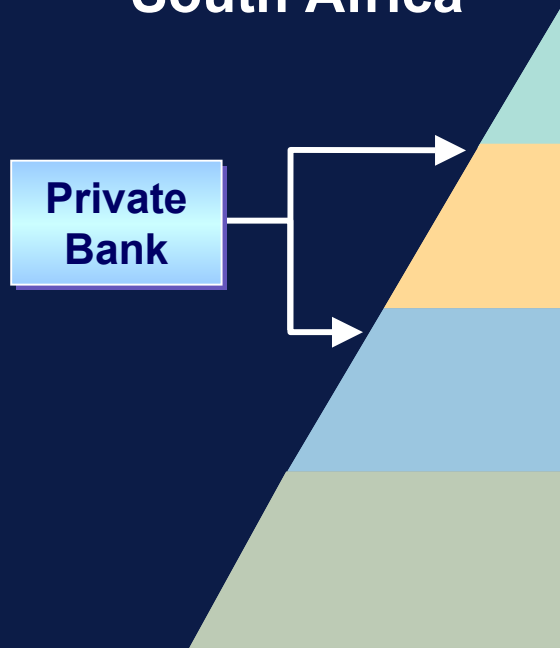


# Private banking - business model



# Target market

## South Africa



Ultra High Net Worth

High Net Worth

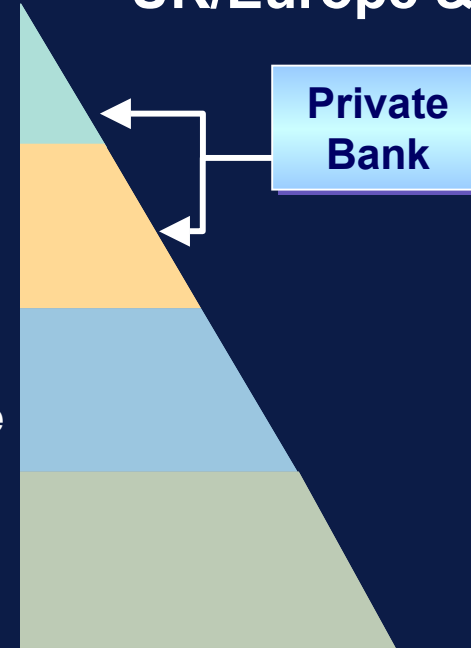
Mass Affluent & High Income

Consumer Banking

### South Africa

- HNWI (net asset value R50m+ and investible assets R15m+),
- private clients (net asset value R5m+ and earning R1m+) and
- professionals (earning R0.5m+)

## UK/Europe & Australia



Ultra High Net Worth

High Net Worth

Mass Affluent & High Income

Consumer Banking

### UK and Europe

- Targeted at individuals with a net asset value of £5m+ and investible assets of £3m+

### Australia

- Targeted at VHNI individuals with a net asset value of \$40 - \$200m
- Targeted at HNWI with a net asset value of \$2-\$10m

# What we do

## Advisory services including:

- Banking
- Specialised lending
- Structured property finance
- Investment management
- Private client investment banking
- Trust and fiduciary services

# Geographical positioning

- The principles, philosophies and strategies are finessed accordingly, to each geography, based on the demographics, identified margin opportunities and the maturity of the different businesses

# Banking services

- Daily transactional banking
- Foreign exchange services
- Deposits and cash investments
- Debt consolidation facilities
- Consumer lending services

# Structured and specialised lending

Tailor made, advice led credit solutions

- Structured property finance
  - Retail, office, residential
    - Mezzanine debt
    - Senior debt
    - Equity participation
- Provide debt solutions for asset backed and investment gearing opportunities
- Aircraft acquisition and funding
- Tax advice

# Investment management

- Bespoke independent investment advisory services
- Comprehensive, innovative offering across all asset classes
- Best of breed offering / open architecture
- Disciplined approach and investment methodology (PB houseview, PB deal forum)
- Personalised asset allocation based on detailed risk profiling
- Quarterly reviews, rebalancing and reporting

# Private client investment banking (PCIB)

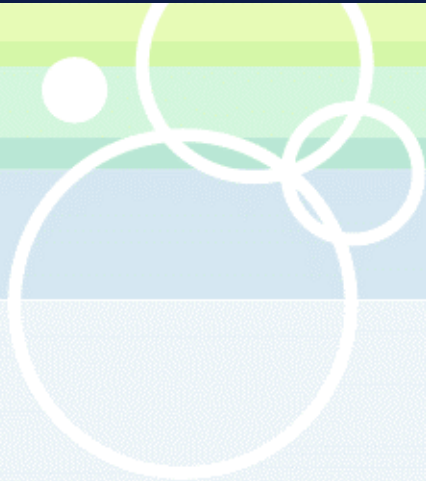
- Targeted at the active wealthy entrepreneur as opposed to the passive wealthy investor
- Below the radar screen of traditional corporate finance and private equity houses
- Focus on growth finance for the HNWI and their businesses incorporating:
  - Debt and equity solutions
  - Advisory services
- Specialist funding for investment activities, ie, acquisitions finance, development capital, MBO's
- Sell side: distribution of privileged access of specialist investment opportunities



# Trust and fiduciary services

- Integral to structuring of private client affairs
- Emphasis on technical capability and advisory services
- International trusteeship and company administration services, including
  - Estate planning
  - Solvency
  - Income, capital and inheritance tax advice

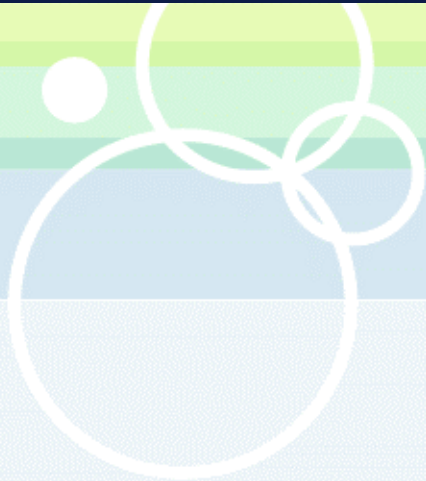
# Private banking – recent developments



# Factors affecting the industry

- Global economic environment
  - Difficult private client investment markets
  - Continued nervous sentiment around equity, property and fixed income markets
- Increased regulatory obligations with resultant increase in costs
  - SA amnesty legislation
  - FAIS, POCA, FICA
  - Money laundering / KYC
- Increased competition

# Private banking - making headlines



# Private banks get hungry

Therefore, some local banks, notably Investec Private Bank can lower their entry requirements for clients they believe will become high net worth individuals in time.

Investec Private Bank provided a line of mezzanine finance for the deal. The Royal Bank of Scotland provided a combination of senior and junior debt and equity.

## Investec has recently launched a specialist private client investment banking service

Investec has recently launched a specialist private client investment banking service. This is aimed at clients whose wealth management is closely linked to their business affairs but who may fall below the radar of most corporate finance advisers.

Leon Blitt, a director of Investec Private Bank, says: "Our activities focus on either lending the money, or we could introduce our client to an investor in a similar sector who has the money and can add value." Instead of carrying a standard return, the bank can realise fees that are more akin to those from venture capital.

Increasing innovation and the growing familiarity with alternative investments should bring increased stability to the finances of private banking clients in future, as well as new lines of business for the banks. But clients must make sure that they venture in carefully - going on another bander is not the answer.



Avron Epstein, Private Client Investment Banking division, Investec Private Bank

## Private Bank clients pay for value

Growing global wealth for high net-worth individuals, writes David Jackson

The growing number of clients who need assistance in building portfolios which will benefit from the rapid growth in the UK private banking sector.

Investing primarily high net-worth individuals, there have been a number of new private banking units in the UK since the start of the year. Capital Partners, wealth preservation, management and growth and the objective of a diversified portfolio for investors.

Investec Private Bank offers growth funding, as the company, management and investment and protection of globally accumulated wealth for high net-worth individuals.

It is very much an advisory business and Paul Hoadley who is responsible for the relationship management of loans on the bank.

The private banking companies include such as financial and wealth management, as well as investment and wealth management, which has been the main focus for high net-worth individuals in recent months, including investment in commercial and residential property or the acquisition of real businesses. For example, these require specialist

knowledge and expertise. Private banking is an increasingly important business for individuals in business whose wealth is not tied to a particular investment.

Private banking is not necessarily about banking when you enter a bank but it is a discrete business offered by a discrete specialist.

Private banking cannot be done in isolation, and the Bank of the main business products offered by commercial banks, he says. "Private banking is very different."

Recent statistics suggest that worldwide there are about 70 million high net-worth individuals with assets in excess of \$1 million.

In the UK, there are estimated to be about 10 million high net-worth individuals with assets in excess of £100,000 and 25 million individuals with £50,000 or more in investable assets, including investable assets such as a home and a car, for example.

Investment, says David, there has been a change over the past 20 years from a reliance on stocks and bonds to a more diversified approach, including real estate, private equity, and alternative investments.

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## Investec Private bank says come clean

Advisers urge clients to come clean, but there are still many areas needing clarity

Private banks and financial advisers are using a hard line on government tax and exchange control amnesty, recommending that clients with any money come clean before the amnesty ends in late November.

Standard Private Bank has sent out letters to clients asking the amnesty a



David Jackson - private banking is not real capital relief banking unless you offer advice how best to use the money

### AMNESTY SCORECARD

- **Points for**
  - Assurance of applying not too late
  - Investment shouldn't be difficult to attract
  - Investors will be able to do their affairs openly after the amnesty
- **Losses**
  - It is difficult to get the money together and the key without disclosing some assets

There are still several unknowns and the amnesty unit has continued to produce a document providing answers to frequently asked questions.

Part of the main confusion surrounds some of the more complicated tax implications of divulging offshore discretionary trusts in certain circumstances.

King says a subject of much debate has been double tax. In terms of the amnesty legislation, the factor of a discretionary trust may start to have the assets deemed to be held by him and will accordingly be liable for any tax on the assets in future. The question is then whether the original double tax will give rise to double tax, or if the subsequent disposition of the assets by the trust has been positive. More and more people clients are consulting for amnesty.

King says Investec Private Bank will offer a simple loan facility to amnesty applicants on a client-by-client basis. He says that when interest rates are low, borrowing to pay the levy rather than bringing the money back is not a bad option.

Charles says Standard Private Bank will also assist in arranging properties for clients if they need money to pay the levy.

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Part of the main confusion surrounds some of the more complicated tax implications of divulging offshore discretionary trusts in certain circumstances.



Warren King. Not too clean

# Spot the gap Investec moves into Internet savings

## Islands development sells well

SAVANNAH-JANE BOGGS



DEVELOPED: These islands in the Krynia Lagoon, with the Heads in the distance.

THE new bridge to Theseus Islands in the Krynia Lagoon was recently opened by Sylvia and Mayor Charles Theobald. The Theseus Islands Development Company built the arched bridge, which has replaced a causeway section of the causeway to the islands, and has restored the natural tidal flow of the lagoon to the surrounding area.

Doris said at the opening function that the stringent design standards and restrictions imposed on the development by the architect and the Theseus Islands Development Company have "had a rub-off effect on other developments in the region because it set specific standards for architects and planners".

The waterways around the islands have also proved successful from an environmental perspective, said Gray Minister of the development company.

The construction of the waterway edge had provided a habitat for the establishment of species of marine organisms which "filtered" the seawater, resulting in superior water quality in the waterways and lagoon around the islands.

Rutherford said the structural waterway provided refuge for small fish and some larger aquatic life.

He said that most recently the environmental rewilding team found that the Gyrona osprey had established itself in the waterways - raising hopes that the 30 hectares of new sheltered water area will provide additional habitat for these endangered creatures.

Theseus Islands is the largest nature development in South Africa and took nine years in the planning, said Rutherford.

Extensive environmental studies were conducted to ensure that the development accords in harmony with the Krynia estuary.

The master planning of the project included research by the Council for Scientific and Industrial Research (CSIR), and other bird, plant and wildlife specialists, he said.

The objective private estate is spread across 10 individually named islands, 18 of which are residential.

The five phases of the 200ha low-density project will consist of about 400 homes which are all built in a colonial maritime style.

About 70% of the homes

## Investec backs properties in south-west London

Beckwith in £20m sale  
Peter Beckwith's PMB Partnership has sold two multi-let properties in south-west London to an associate company of Longford Securities, backed by Investec Private Bank, for £19.6m. The properties are Combined House International House in Kingston, and Park House in Teddington. The deal reflects a yield of 8.5%. Chesterton acted for PMB Partnership.

## The project is funded by the shareholders and Investec Bank.

## Investec funds prospective CAs

Through money received from its partners such as Investec, KPMG, Deloitte & Touche and Robert Walters, it funds prospective CAs and assists them in getting jobs.



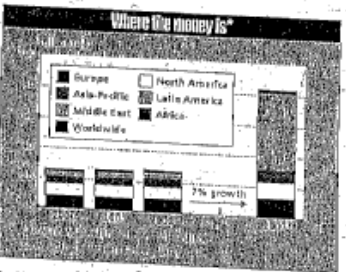
Investec Private Bank, a subsidiary of South Africa's Investec Group, will launch Nova Alpha, its first fund of funds in September. Chicago-based Hedge Funds Research Asset Management LLP manages the fund, and Investec's structured products division acts as subadvisor to the fund. Targeting annual returns of US Libor + 4-8% and volatility of 4-6% Alpha Nova will have a minimum of 20 managers and allocate a maximum of 8% of total assets to each one. The fund of funds will encompass convertible arbitrage, distressed securities, global macro and equity.

Freeing bank resources to concentrate on customers is important

# Restructuring becomes new focus for bankers

European private bankers are probably looking back nostalgically to the golden days of the early 1990s. Since then, life has become increasingly difficult thanks to rising costs, increased competition, more regulation, the movement of money offshore and a prolonged bear market. All these have been a greater need for the private banking industry to examine the way it does business and to find the better practices that may come in its future.

The main focus now is on internal restructuring and outsourcing of wealth management and back-office activities to increase efficiency and growth. Catherine Tiltman, a managing partner of wealth management consultant Scoria Partners, says: "What private banks do best is client-focused, front-office activity. That is why many are looking at how to strip out the processes and basic services that are not an efficient way to save costs."

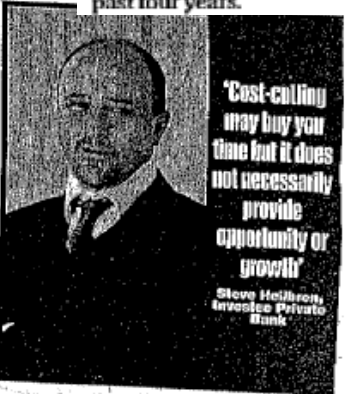


banking at Investec Private Bank, says: "You can spend the money you save on the client-facing activities that are critical in London. This ability to free up bank resources to invest in the client-facing activities is an efficient way to save costs."

broader offering so that the client generally feels it is receiving value for the (often 20-25%) extra fee.

Many organizations have made the mistake of avoiding difficult restructuring decisions and concentrating instead on cost-cutting without understanding where they actually provide value to clients. For example, it is easy to get rid of the private banker's personal assistants.

Maalack says: "Although often among the first to go, these people are frequently as valuable to the bankers themselves as they may be cutting 'the wrong things'." Instead, the focus should be on how to improve services that are difficult, profitable and under resourced. "A lot of organizations have installed a range of productivity services in the interests of providing wealth management, many of which have failed to deliver value."



**'Cost-cutting may buy you time but it does not necessarily provide opportunity or growth'**

Steve Heilbrunn  
Investec Private Bank

very robust logic. Clients tend to feel less loyal than institutions. If a relationship manager is made redundant, and there is no one to step in, the relationship may be lost. This has created the opportunity for some alternative thinking.

There is also a danger that organizations have themselves into a cycle of alternative revenue.

# Investec sets up growth finance arm for SMEs

Investec, the international private bank, has launched a new growth finance division in London to co-invest alongside its network of entrepreneurial clients and other private equity investors. The new unit is focusing on UK-based companies with enterprise values of between £10m and £50m. Clients will target traditional or family businesses that are established, cash-flow positive and have clear visibility of earnings. Investments will be funded off the bank's balance sheet and through client equity investments. The new unit will provide mezzanine for expansion capital and acquisition deals, typically lending between £2m to £20m.

Avroa Epstein, head of the unit, said the bank has identified a shortfall of funding at the smaller end of the market and aims to fill it. Epstein said that it has



Epstein sees other banks doing larger deals

that want to do deals and take part in the upside of an equity stake in addition to possibly having a hand in developing the business. Epstein said that other banks are moving "up market" and targeting much larger deals.

The team has looked at more than 50 deals with a gross value of £340m and committed £62m this year. Epstein said it has partnered mid-tier private equity houses in primary

Bank will offer structured product, writes Pirkko Juntunen

# Investec to launch fund with strategic partner

Investec Private Bank is ready to offer a new fund of funds through a structured product for its clients. Kim Hillier, chief investment officer at the private bank, would like to see the state of its strategic partner so it is still negotiating fees, which are expected to be 25 to 30 basis points. Hillier says the strategic partner has 100s of hedge funds under management and is looking to 1000. She adds it is considered an industry leader in hedge management funds and hedge funds.



**'Adding a certain amount to a portfolio will increase overall returns without pushing up risk'**

Kim Hillier  
Investec Private Bank

Swisscom property fund a 100 million dollar credit default swap on New Jersey Business 10. (Covered debt is more or less like the company's own debt, it is not a method to acquire equity. It is usually used, over-issued and controlled at low prices. Now the private bank looks to use it to provide a new form of alternative capital for the trading room investment, said by hedge funds where the debt is not exchanged for 'structured' equity through a bank-supply of-out-of-sight investment vehicle. Investec Private Bank uses GSC Partners as a co-developer partner in distressed debt. Other private bank assets are available to use new asset class at Investec Private Bank as a hedge fund with a 100m to 200m in assets.

# Investec develops alternatives range

INVESTEC PRIVATE Bank is preparing to offer a fund-of-hedge-fund structured note as part of its range of alternative investment products for high net worth clients. The five-year note will offer 100 percent capital protection and 85 percent upside at maturity.

Its introduction follows a number of other structured products offered recently by the bank that have included notes with differing maturities based on gold, real estate and DJ Eurostoxx 50 returns.

In developing its suite of alternative products, Investec has also offered its most sophisticated clients access to distressed debt investing, believing that the cycle has returned in the specialist asset class. The bank is facilitating the access via a partnership with US firm GSC Partners, an established manager

million in net assets. Investors in the new fund-of-hedge-funds note will gain exposure to eight diversified hedge fund strategies and over 19 different managers. The maximum allocation to any one manager of the assets will be 8 percent and the minimum will be 2 percent.

In terms of asset allocation, the strategies that the fund will initially devote the largest weightings to are equity hedge (24 percent), equity market neutral (17 percent), convertible arbitrage (15 percent), relative value arbitrage (13 percent) and event driven (10 percent). The fund's manager will then actively manage the allocations, noted Kim Hillier, chief investment officer at Investec Private Bank. The remaining strategies will comprise distressed securities, macro, and merger arbitrage.

year and attracted \$20 million, with the assets being invested on a fund-of-funds basis in conjunction with Permal, the specialist fund-of-funds manager.

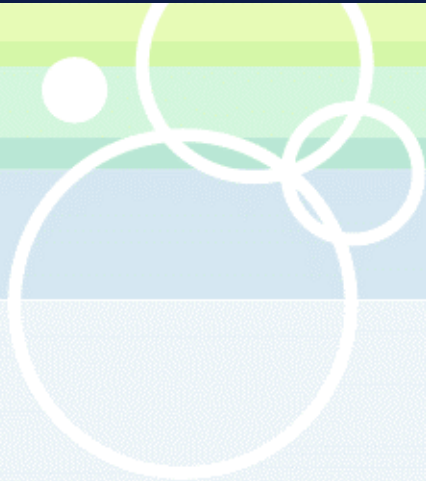
Separately, fund management group GAM, owned by UBS, is launching a specialist

**'South African private bank Investec provides an interesting case of BPO to South Africa. Faced with the need to reduce the operating costs of its select retail banking practice in London, Investec decided to leverage the skills and infrastructure of its South African unit. It has maintained a dedicated service team for the London clientele. Its aim was to reduce the cost-income ratio from 76% to 50%.'**

# Investec Private Bank concludes property deal

The proceeds are destined to... 53 million in Investec's assets and over 2.3 hedge fund structured...

# Private banking - South Africa






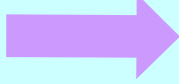




# Market recognition

- Ranked by PMR September 1999, 2001 and 2002 as the best private bank in SA
- Rated by peer group for the fourth consecutive year as the number one private bank as per the Price Waterhouse Coopers 2000, 2001, 2002 and 2003 Southern African banking survey



# Private Banking peer review (*PwC Banking survey*)

## Strategic and emerging issues in SA banking 2003

Rankings	1	2	3	Score	Change
Investec	7	1		23	
FirstRand RMB	1	3	1	10	
Nedcor (Syfrets)	1	2	3	10	
Standard Bank		1	3	5	
ABSA	1	1		5	
UBS Warburg	1		3		
CSFB		1		2	
HSBC			1	1	

# Key developments

ZAR	Booksize	R Growth	% Growth
Advances	19.3bn	2.1bn	12.17%
Deposits	7.3bn	524m	7.69%
AUM	5.2bn	131m	2.62%

- Fee income increased by 31.02%
- Increase in costs 4.33% compared to last 5 months of FY2003
- Scale in the transactional banking business
- Exciting potential exists in private client investment banking (PCIB)

# Key developments

- Innovative product development
  - Pinion
  - Cash management
  - Dividends
- Launch of new branding campaign including:
  - TV
  - Print
  - Direct mail



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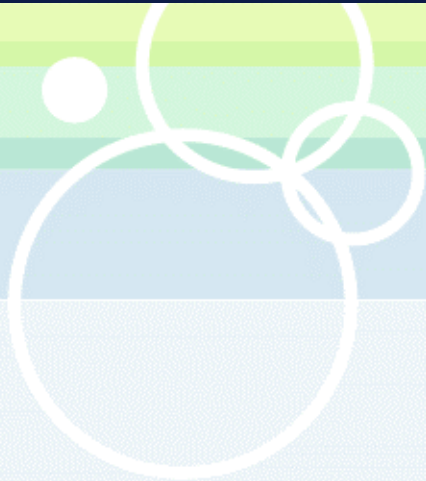
# Key developments

- Tax and exchange control amnesty
  - Established amnesty task force utilising specialist group resources (legal, tax, exchange control, investment advisory)
    - Focused on advice for HNWI applying for amnesty for assets in excess of \$1 million
    - Spin-off opportunities for global investment management (estimated in excess of R50 billion)

# Key developments

- **Black Economic Empowerment**
  - Penetrating new target market and adapting to changing demographics of the SA economy
  - Leverage off group empowerment transaction
  - Private client investment banking opportunities

# Private banking - UK & Europe





# Key developments

GBP	Booksize	£ Growth	% Growth
Advances	984m	59m	6.35%
Deposits	1.3bn	-40m	-2.89%
AUM	287m	30m	11.67%

- Fee income increased by 2.7%
- Increase in costs 0.18% compared to last 5 months of FY2003

# Key developments

- Property market is less active than it was, but we continue to see good deal flow
- Have stress tested property exposures:
  - A reduction of 30% of property values could leave the bank exposed by £12 million
- Establishing a rep office in Manchester
- Relocation of the processing hubs to South Africa is complete
- Improved client acquisition strategy

# PCIB - gaining good traction in the UK market



## FOOD RETAIL

Liquidity Finance  
£3.0 million  
mezzanine funding

February 2003



## CONSUMER FINANCE

Roll out of UK  
business plan  
£4 million  
mezzanine funding

February 2003



## GENERAL RETAIL

Share buyback of partner

£2 million  
mezzanine funding

April 2003



## LIGHT INDUSTRIAL

Ownership Restructuring

£3.4 million  
senior and mezzanine  
funding

July 2003



## FOOD

MBO  
£7.5 million  
senior and mezzanine  
funding £1.4 million  
equity underwriting

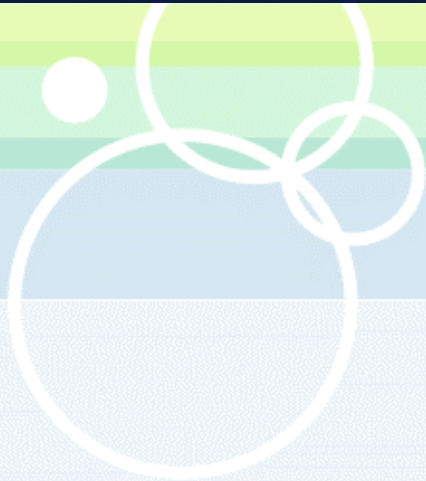
July 2003

# Key developments

- Banking presence in Geneva
  - Maximise synergies with Radcliffes Trustee Company
  - Focus on jurisdictional advantages
- Trust and fiduciary services
  - Adapt to regulatory changes
    - Mauritius office
  - Strong admin engine but focus is on advice
  - Enjoying benefits of integration
- Ireland
  - Starting to develop a meaningful presence in the residential property market



# Private banking - Australia



# Key developments

## Financial developments

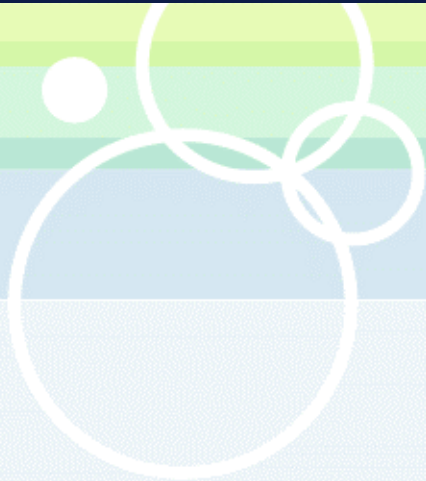
AUD	Booksize	A\$ Growth	% Growth
Advances	502m	80m	18.96%
Deposits	271m	7m	2.73%
AUM	319m	55m	20.83%

- Fee income increased by 25.34%
- Increase in costs 24.8% compared to last 5 months of FY2003

# Key developments

- Strong growth within Structured Property finance pillar
  - Smart use of capital
    - Off balance sheet A\$282 million
- Improved profile within the investment advisory industry
- Leveraging off the Investec Wentworth brand and client base
- In process of establishing a PCIB unit
- Have created a presence in the Melbourne market

# Private banking - Israel





# Key developments

- Negative GDP growth = fall off in consumer spending
  - Managed to keep the loan book flat and stable (NIS1.4 billion)
- With the introduction of tax reforms, global investment opportunities are arising
- Pursuing alternative investment opportunities
- Continue to focus cross border between Israel and the UK or Switzerland



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Asset Management | Investment Management | Banking Services | Structured & Specialised Lending  
Private Client Investment Banking | Trusts & Testamentary Services

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Private Bank

# Treasury and Specialised Finance



# Scope of activity

## Banking activities

## Financial markets activities

	Treasury	Financial Products	Structured & Asset Finance	Project & Resource Finance	Interest Rates	Foreign Exchange	Equity Derivatives	Commodities
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# Banking activities

<b>Treasury operations</b>	deposit taking, liquidity management and corporate treasury activities
<b>Financial Products</b>	securities origination, financial engineering, credit derivatives, and structured products
<b>Structured &amp; Asset Finance</b>	structured finance and lending to corporate and public sector clients, including leveraged buy-out finance, structured insurance products and cross border leasing
<b>Project &amp; Resource Finance</b>	advisory services, debt arranging, debt financing and equity raising for infrastructure and mining and resources projects

# Financial markets activities

## Interest Rates

traders of interest options, forward rate agreements, swaps, money market securities, government bonds, corporate bonds and repurchase agreements

## Foreign Exchange

traders in spot, forward exchange currency swaps and currency options, principally in ZAR and G7 currencies, but including certain developing market currencies

## Equity Derivatives

traders or participants in major equity index options, selected single stock options, equity structured products, arbitrage and equity warrants, and providers of hedging and structuring services to financial intermediaries, institutions and companies.

## Commodities

traders and participants in the spot and derivatives markets of certain precious and base metals and providers of hedging and structuring services to mining and consumer clients

# Positioning in respective markets

- The division is characterised as being specialised and specialist. Survival is felt to be dependent upon ability to differentiate and add value
- Essentially TSF is an Anglo-SA business, with offices in Ireland, Mauritius and Australia
- A future growth in HK has recently been started through a JV - very early stages
- In SA we are in the top 3 of almost all areas of endeavour
- In UK we are very selective and niched, with operations weighed heavily in favour of banking operations

# Positioning in South Africa

- Generally in South Africa we aim to be amongst the top 3 in all areas of endeavour
- Rated by PMR survey of corporates as top in the corporate market
- Rated by Risk magazine as being in the top 3 in FRA's, interest rate swaps
- Second largest issuer of equities warrants based on premium traded per day
- Top 2 in the PPP/ PFI and resource finance sector by our own estimation



# Positioning in UK

- One of only three or four small/ medium sized UK banks excluding branches and subs of non-UK banks
- Focus on banking activities e.g.:
  - PFI/ PPP advising work through Investec European Capital
  - Structured Finance - acquisition of team from UK bank
  - Commodities hedging for resource clients
  - Credit derivatives and structured products
  - Equity structuring through Equities Derivatives in London and Dublin
- Trading operations small and focus is to execute client driven trades

# Developments

- Material turnaround in financial performance and activity in UK TSF operations
- Cost base reduced significantly in the UK, through discontinuation or rationalisation of certain activities
- Poor trading performance in South African operations
- Good growth in deal pipeline both in UK and South African banking operations
- Several large transactions in areas of structured finance, project resource finance, financial products and commodities
- Almost no growth in lending book for the division both in South Africa and the UK

# Key drivers

- Remaining specialised and competing in areas where we can be differentiated
- Leveraging off existing networks of South African contacts and clients in non-South African operations
- Intense management of capital usage and returns thereon
- Focus on cost containment
- Developing sales and distribution capabilities

# Industry developments

- Compliance, corporate governance and other regulatory issues have intensified
- Economic outlook in South Africa promising and the UK stable and has potential to improve
- Accounting changes will introduce volatility in P&L and greater provisioning requirements generally
- Financial services prospects look much better as corporate activity improves after a period of holding off on decisions
- Resource sector has experienced period of good activity

# Prospects

- Pipeline of transactions in banking operations in South Africa and the UK is very good and significantly better than the previous comparative period
- Further cost savings to be pursued
- Prospects of rising interest rates in Europe, UK and US hold opportunities for investment products
- Prospects of falling interest rates in South Africa generally good for interest rates trading activities but would squeeze margins

# Prospects cont.

- Global markets looking better than a year ago. Continued improvement in economics and equities markets will be good for operations
- Concerted drive to get results from the JV established in Hong Kong to distribute investment and derivatives products
- Expect better conditions for corporate lending activities

# Summary

- **UK:** turned the corner - but we are not yet out of the woods
- **South Africa:** maintain a strong position but have suffered poor trading performances
- **Other:** investing in new opportunities which have the potential for good future performance

# Asset Management





# Asset Management

- scope of activity



# Scope of activity

	SA	UK	Offshore
<b>Investments</b>			
<b>Institutional</b>	✓	✓	
<b>Retail</b>	✓	✓	✓
<b>Operations</b>			

# History and development



- **Patiently and confidently strengthening the base for the next growth phase**

# Asset Management - market positioning



# Market positioning

An international specialist firm, focused on performance and client needs

	Area	Position
SA	Institutional segregated	Market leader
	Retail and portfolio products	Market leader
UK	Public sector fixed income	Market leader
	Retail	Entrant to successful contender
	Institutional (pension)	Successful entrant

# Firmly on course in challenging industry conditions

- South Africa once again proves its resilience
- UK plan on track, early wins with stability and performance
- Cost control without capacity destruction

# Asset Management - developments



# General developments

- Optimise resources and focus between major business units
- Aggressive promotion of specialist products
- Keep narrowing the focus (geographically and product wise)
- In process of changing a “fixed cost culture” to a “variable cost culture”
- Combining the need to outsource more of our administration with the low cost advantages of South Africa – Project Rainbow

**Performance, stability, business strength**



# SA Institutional Investments

- Establishing leadership in specialist products (e.g. fixed income, aggressive equities) well on track
- Appointed to manage significant new mandates
  - R1.5 billion of SA equity mandates won outside SA
  - Major municipal funds selecting our multi-specialist platform
- Gross new inflows of R3.2 billion, net outflows of R0.8 billion (to 31 July 2003)
- Regaining composure in the balanced space – important for continued brand strength
- Well diversified product set underpins business resilience
- Empowerment deal solidifies Investec's leading market position

# SA Personal Investments

- Successful expansion of absolute return range of unit trusts
- Gross unit trust inflows of R7.4 billion and net inflows of R1.6 billion (including money market) to 31 July 2003
- Successful implementation of variable reward structure for sales staff
- Investec stronger relative to competition compared to two years ago
- Excellent investment performance of house product (Plexus survey)

# UK Institutional

- Short-listed for Financial News awards (since the beginning of FY2004)
  - UK Asset Management Firm of the Year
  - European Specialist Firm of the Year
- Continued strong performance across the product range
- Three-year global equity record in place
- Healthy inflows received into the money funds (£166 million)
- Appointed to manage significant new segregated mandates
  - Highway, Swiss BAT, Northern Trust corporate bonds, Ingenious
- Continued progress with top investment consultants
- Pick-up in market resulting in promising new business pipeline

# UK Retail (including European sales)

- Onshore funds under management increased from £666m to £806 million (as at 31 July 2003)
- Core focus on UK Blue Chip Fund, American Fund, Cautious Managed Fund and European Fund
- Growing access to major distributors, but opportunities in the UK for new “multi-tie” relationships still to be exploited
- Strong onshore and offshore sales
  - Intermediary gross sales market share for Q1 1.8% (an increase of 29% from prior year Q1 1.4%)
  - Intermediary net sales market share for Q1 2.8% (an increase of 12% from prior year Q1 2.5%)
- Short-listed for Investment Week’s fund management group of the year

# Investec Asset Management in the UK Retail Fund Industry

£ million	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03
IAM assets under management	381	458	525	679	806
Total industry size	214,271	265,081	251,010	222,221	214,695
Size ranking in industry	76 / 151	79 / 153	72 / 150	60 / 132	57 / 130
Industry net sales for the year	12,358	16,903	16,798	10,446	7,548
IAM % of net industry sales	0.11%	0.37%	0.87%	1.85%	2.39%
Industry gross sales for the year	40,089	50,672	55,123	48,352	45,053
IAM % of gross industry sales	0.13%	0.18%	0.35%	0.57%	0.71%

Source: Investment Management Association

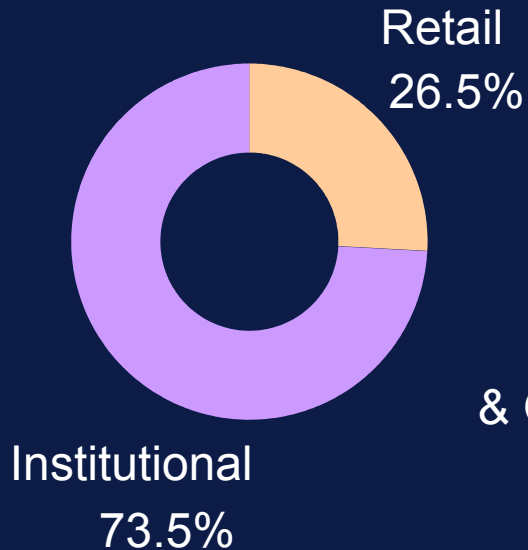
# Asset Management

## - funds under management

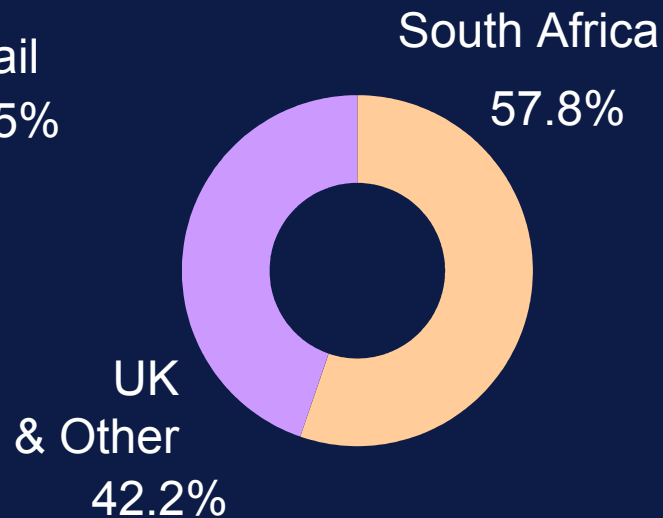


# Funds under management

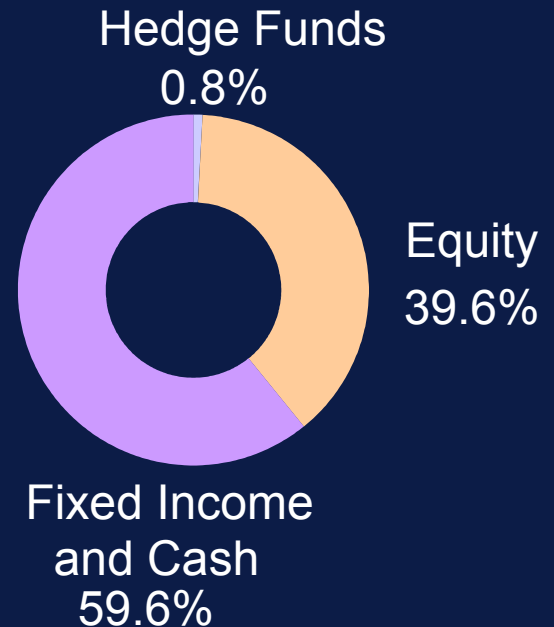
## Business Type



## Geographic



## Asset Class



**Total funds under management £18.3 billion /  
R218.9 billion (as at 31 July 2003)**

# Movements in funds under management

	Total	Institutional	Retail	SA	UK & Other
<b>£ million</b>					
31 March 2003	16,828	12,478	4,350	9,303	7,525
31 July 2003	18,278	13,440	4,838	10,562	7,716
<b>R million</b>					
31 March 2003	210,560	156,125	54,435	116,401	94,159
31 July 2003	218,928	160,975	57,953	126,510	92,418
<b>% of Total FUM</b>		<b>73.5%</b>	<b>26.5%</b>	<b>57.8%</b>	<b>42.2%</b>



# Sales (gross inflows)

Four months to 31 July 2003

<b>Clients</b>	<b>£ million</b>	<b>Products</b>	<b>£ million</b>
Institutional	757	Fixed interest & cash	1,329
Retail	993	Equity	284
	<b>1,750</b>	Balanced	137
			<b>1,750</b>

# Asset Management - investment performance



# Retail performance

To 31 July 2003	1yr	2yrs	3yrs	5yrs
<b>Global Equity Funds</b>				
IAF Global Growth	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
GSF Global Equity	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
<b>UK Equity Funds</b>				
GSF UK Equity	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
UK Blue Chip	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
UK Smaller Companies	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
UK Opportunities	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
UK Value	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
<b>Balanced Funds</b>				
IAF Global Balanced	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>
GSF Global Balanced	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	1 <sup>st</sup>
UK Cautious Managed	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
<b>Global Bond Funds</b>				
IAF Global Bond	3 <sup>rd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
GSF Global Bond	3 <sup>rd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	3 <sup>rd</sup>
SF Global Bond	3 <sup>rd</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>
<b>Sterling Bond Funds</b>				
GSF Sterling Bond	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>
Sterling Bond	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>



Best Overall Group



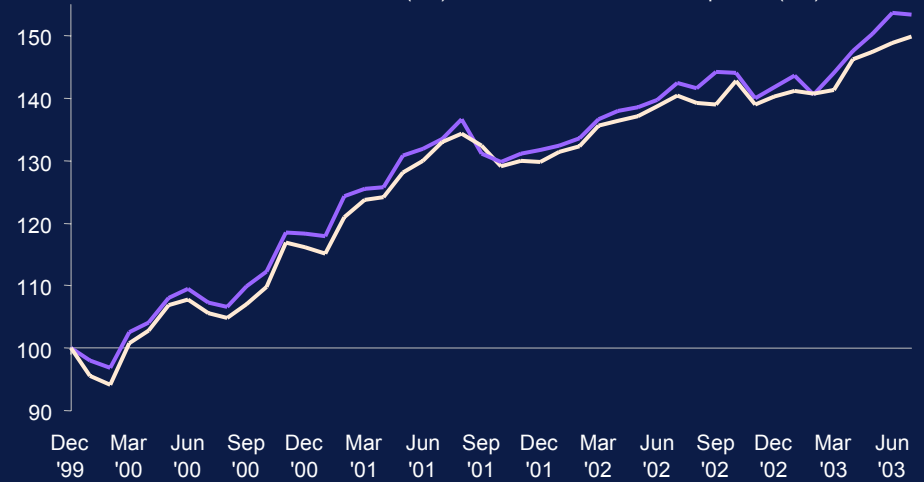
Source: S&P Micropal

# UK Equities – competition and benchmark beating results

UK equities (pension fund composite) rel FTSE All Share



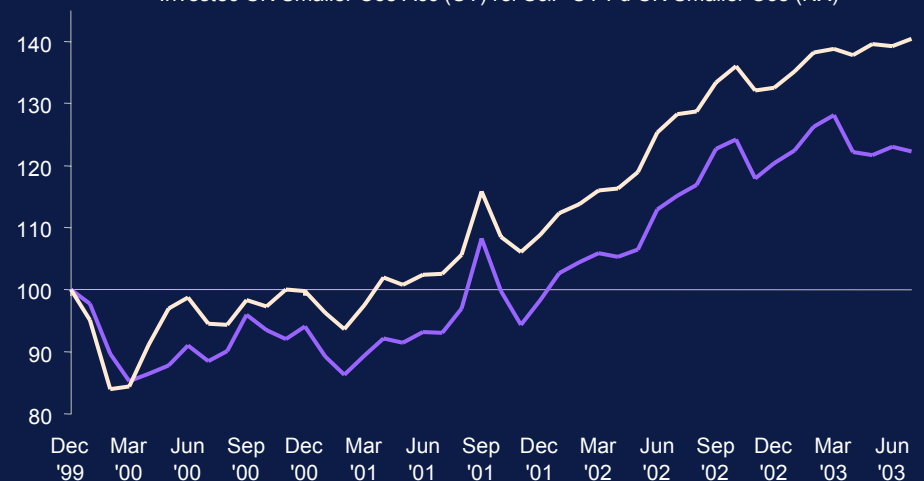
Investec UK Value Inc (UT) rel FTSE All Share  
Investec UK Value Inc (UT) rel S&P UT Fd UK All Companies (NX)



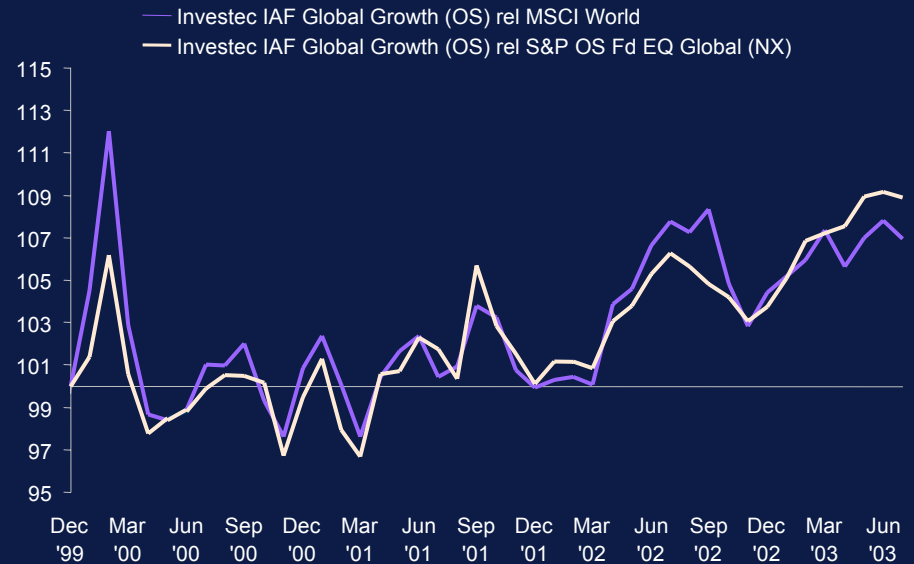
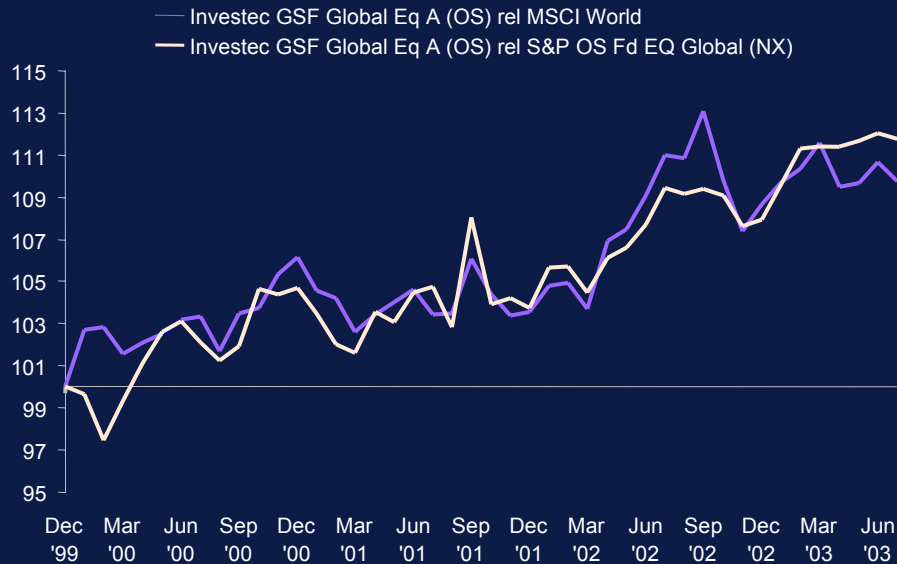
Investec UK Blue Chip (UT) rel FTSE All Share  
Investec UK Blue Chip (UT) rel S&P UT Fd UK All Companies (NX)



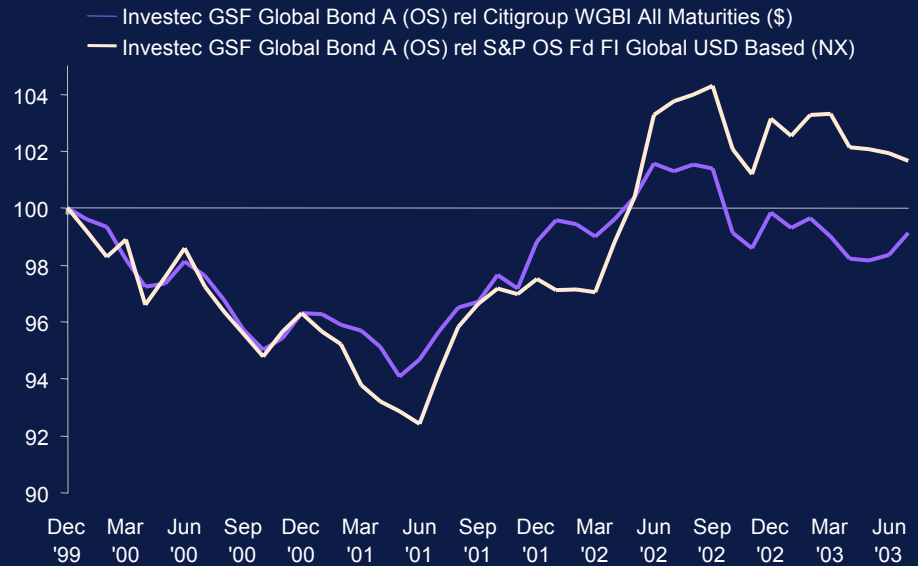
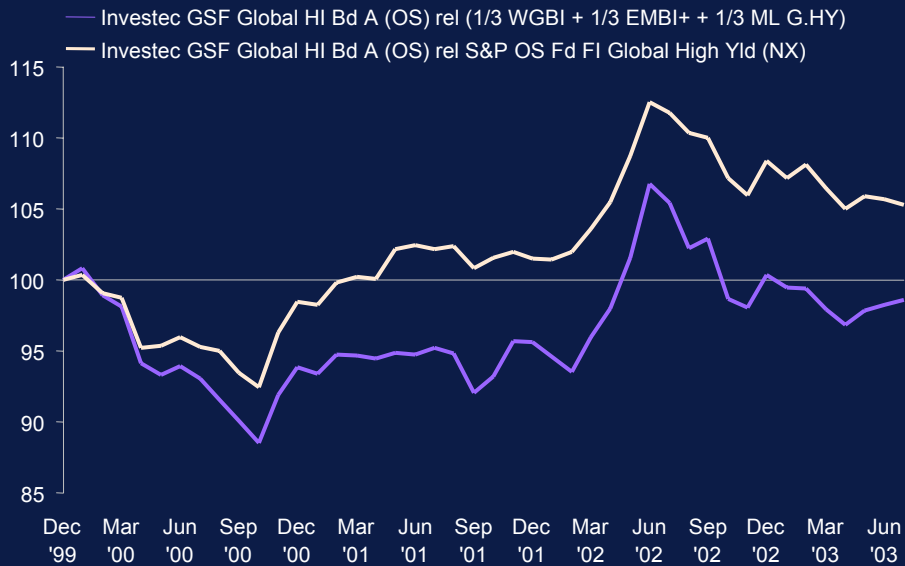
Investec UK Smaller Cos Acc (UT) rel FTSE Small Cap ex Inv Trusts  
Investec UK Smaller Cos Acc (UT) rel S&P UT Fd UK Smaller Cos (NX)



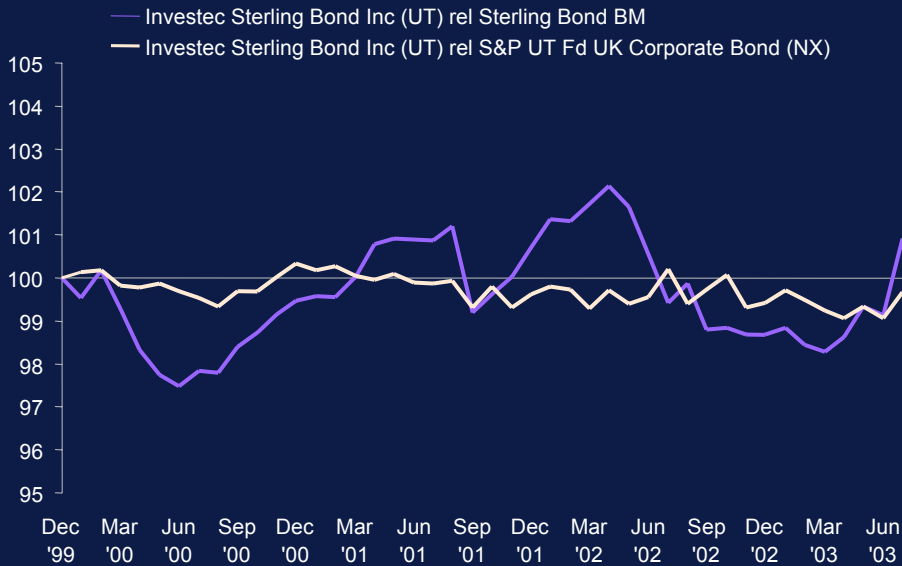
# Global Equities – winning the race in different categories



# Global Fixed Income – up, but volatile

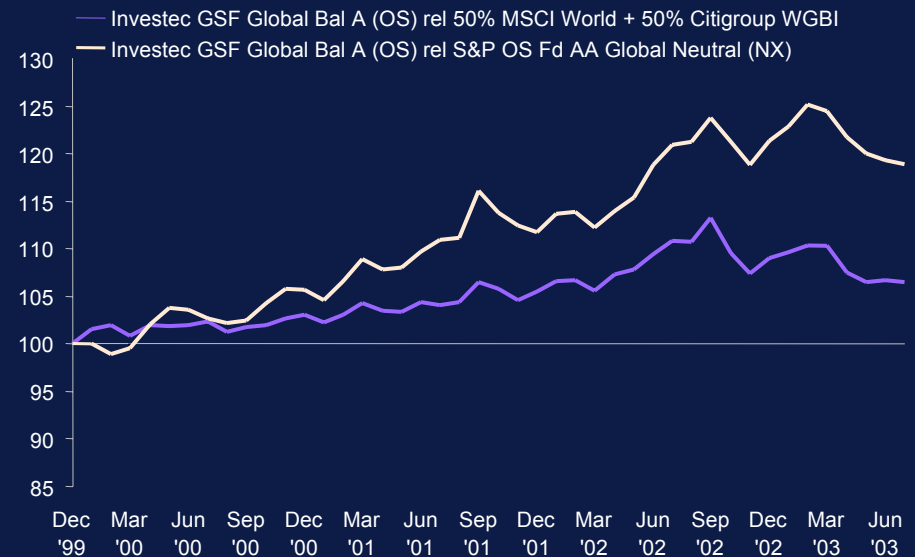
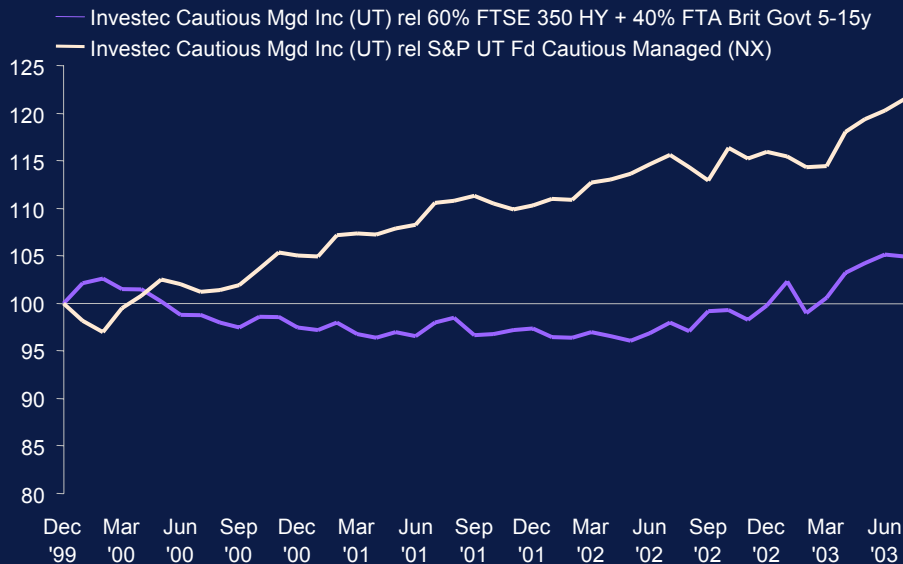


# Sterling Fixed Income



# UK and Global Balanced – strong propositions

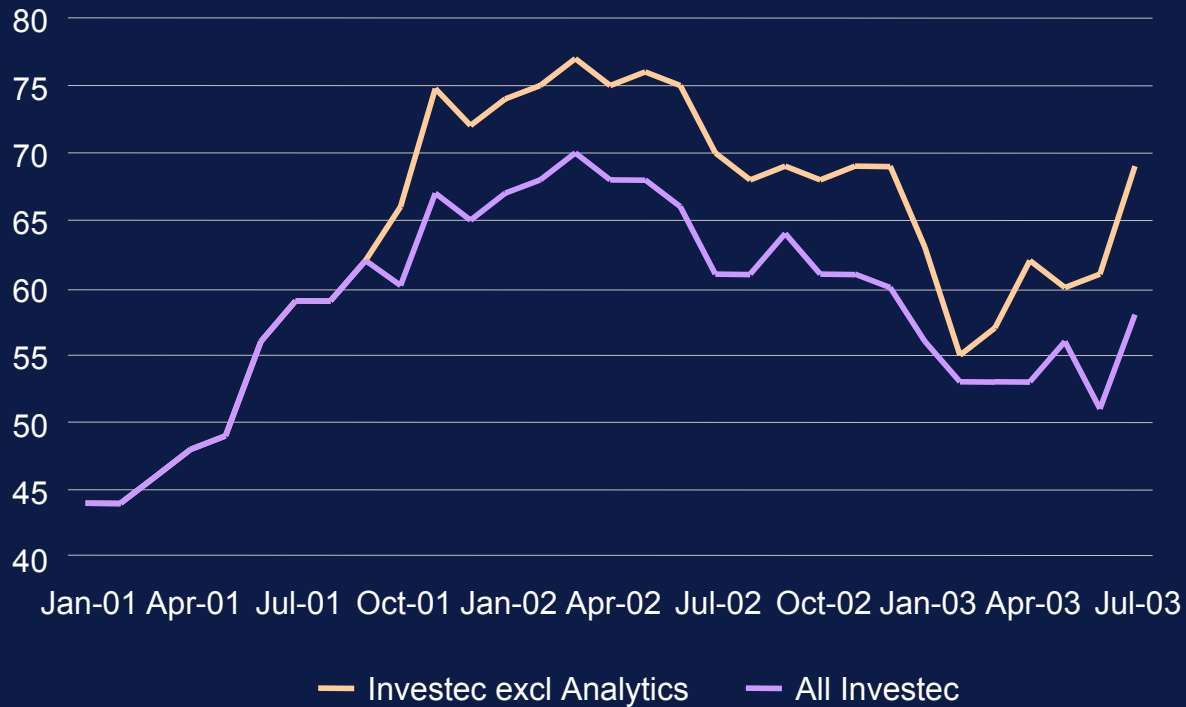
Balanced Pension Fund rel Total Pension Index





# SA Retail Performance

## Rolling 12-month average percentile ranking



Source: S&P Micropal

# SA Specialist Institutional Performances

## Year to Date Performance Relative to Benchmark

Institutional bonds	0.8%
Dynamic bonds	1.2%
Gilt fund	0.7%
Core equities	1.4%
House equities	2.7%
Value equities	4.5%
Growth equities	6.0%

# Asset Management - industry developments



# SA Institutional Industry

- Disappointing absolute returns of major equity indices support active managers and new approaches. Passive is out
- Clients are actively investigating their international investment options – Investec Asset Management well placed
- Financial Services Charter will clarify empowerment requirements of the industry by October
- Cost discipline is finally becoming a theme, but consolidation is less visible than in the retail space

# SA Personal Investment Industry

- The recent bounce has brought the market alive, although IFA community still cautious
- Strong Rand is hurting the international sales effort
- Major competitors in organisational upheaval due to industry consolidation
- More consolidation expected
- Amnesty

# UK Institutional Industry

- Industry consolidation continues
- The pension liability problem is the key issue, manager selection is on the backburner
- Innovative consultant driven strategies being adopted or talked about by trustees – we must stay close to these discussions
- Market churn has increased from low levels
- Multi-managers making significant inroads into the market
- Broader industry issues being considered by trustees resulting in higher standards (and costs) demanded from managers

# UK Retail Industry

- IMA net inflows up 53% for the first four months (April to July) year-on-year
- UK corporate bond and UK all companies sectors continue to be key money takers in first half of year
- IFAs continue to account for majority of inflows (65%)
- CP121 opening up opportunities for pure manufacturers of investment products
- Split capital investigation by FSA ongoing

# Asset Management - prospects





# Prospects

- Investment performance remains the focus
- In UK the emphasis is on new business (revenue growth)
- In South Africa the emphasis is on quality and costs
- A low return world requires investment excellence and strong client relationships

**More of the same**

# Investec Employee Benefits



# History

- **31<sup>st</sup> May 2001:**
  - Fedsure acquisition
  - Reinsurance of Individual Life Business with Capital Alliance Life Limited (CAL)
- **30<sup>th</sup> September 2002:**
  - Reinsurance of Annuity book with CAL
- **31<sup>st</sup> March 2003:**
  - “Sale” of Pension Administration business to Liberty

# History (continued)

## Fedsure Life / Investec Employee Benefits Limited

(statutory accounts)

	31/12/00	31/03/02	31/09/02	31/03/03
	R million	R million	R million	R million
<b>Assets</b>	43 106	27 708	26 816	21 072
<b>Liabilities</b>	41 548	25 340	23 697	17 612
<b>Linked</b>	18 504	13 670	16 907	12 351
<b>Guaranteed</b>	23 044	11670	6 790	5 261
<b>Shareholders</b>				
<b>Surplus</b>	1 558	2 368	3 119	3 460
<b>Value of inforce</b>	1 248	429	199	86
<b>Total Embedded Value</b>	2 806	2 797	3 318	3 546
<b>Car</b>	1 520	866	570	295
<b>Car Cover</b>	1.0	2.7	5.5	11.7

# Current status

- Competition Commission approval for Liberty deal granted in August
- Administration outsource to Liberty 1<sup>st</sup> October – 260 people to transfer
- IEB now consists of:
  - Risk underwriting business
  - Market-linked investments business
  - Guaranteed Investments business

# Current status (continued)

- **Risk Underwriting:**
  - 4<sup>th</sup> largest player in the country
  - Market share of  $\pm 16\%$
  - Objective is to be a niched player and to grow premium income via marketing and product development
- **Market Linked Investments:**
  - No new inflows are accepted
  - Transferring the business to Investec Asset Management
- **Guaranteed Fund Investments:**
  - No new flows accepted
  - Funds are open for disinvestment with alternative products being offered by Investec Asset Management
  - Remaining Funds actively managed and hedged

# Current status (continued)

## Focus for 2003 / 2004:

- Implement Liberty deal
- Reshaping existing business:
  - Systems
  - People
  - Costs
  - Capital
- Development of Risk business

# Future

- Niche Risk Underwriting Business with no administration and small staff complement
- Product provider using Life Licence and for innovative investment solutions



# Investec Investor Briefing

8 September 2003

