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Out of the Ordinary®

Investors' Guide to IDX Futures

March 2017



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Introduction

IDX futures give an investor exposure to an international share just like a single stock future would provide exposure to local shares. They are margined investments, priced in rands, and listed on the South African Futures Exchange (SAFEX).

IDX futures are available on international equities spanning a variety of global markets including but not limited to the US, UK, Europe, Japan, Australia and Hong Kong.

Popular IDX futures include those on Hammerson PLC, Tencent Holdings Ltd, the iShares Core S&P500 ETF, Volkswagen AG and Pernod Ricard to name a few. There are over 300 names currently traded, with more being added on a weekly basis as requested.

Investec Bank Ltd is a recognised market maker and liquidity provider in IDX futures.

Exposure and Gearing

An investor that has long IDX futures has a long exposure to the underlying international share as well as a long exposure to the relevant currency that the underlying share is quoted in. e.g. the long holder of IDX futures on Apple Inc benefits from a long exposure to both Apple shares and US dollars relative to the rand.

Similarly, an investor that has gone short in IDX futures on Vodafone Group Plc has a short exposure to both the Vodafone shares and British pounds.

An IDX investor receives all the benefits of owning the share outright i.e. company distributions and corporate action treatments are passed on directly. To account for dividends, the IDX investor receives dedicated dividend futures at a price of R0, which will only be credited with a value by SAFEX in the event that the underlying share pays out a dividend.

IDX futures are margined investments with SAFEX margins on most instruments ranging in the 10-30% range. This gives the investor up to 10X gearing. As with all geared instruments, the investor is able to achieve greater returns, but also faces the risk of greater losses.

Benefits of Trading IDX

- Provides the holder with exposure to underlying international shares, indices or ETFs.
- IDX futures are listed, regulated and settled through SAFEX (South African Futures Exchange) which enhances transparency and liquidity.
- No exchange control restrictions or counterparty risk associated with OTC trading.
- Allows the holder to engage in cost efficient trading in internationally recognised stocks.
- Convenient means to diversify trading via international equity markets.
- Cash settled.



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Example:

An investor expecting the price of Facebook shares to increase purchases 1 FACG (Facebook) IDX future to take advantage of his/her view.

| | |
|-----------------|------------|
| Facebook price | \$127.55 |
| USD/ZAR | R 13.50 |
| Spot price | R 1 721.93 |
| FACG IDX future | R 1 745.66 |
| SAFEX margin | R 495 |
| Margin % | 28% |
| Gearing | 3.53X |

With either a 5% increase in the price of Facebook, or a 5% appreciation in the dollar relative to the rand, the investor can expect to make approximately 3.53 x 5%, or a 17.65% return, excluding the cost of funding. This gearing applies to losses too, with either a 5%

drop in the price of Facebook or a 5% depreciation in the dollar relative to the rand having the opposite effect.

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Interested in trading the US dollar with a regular JSE Equity account? Have a look at IBLUSD, Investec Bank Ltd's new ETN.

<https://www.investec.co.za/products-and-services/trading/equities/equity-derivatives/exchange-traded-notes/usd-etn.html>

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