Investec

Market Capitalisation	£4.5bn
Operating Profit	£198.3m
Leverage Ratio	8.0%
Common Equity Tier 1	13.1%
Impaired Loans	4.8%
Total Capital Ratio	18.6%
Credit Rating	BBB / Baa
Bond Rating	BBB- / Baa3

The recent upgrade of Investec debt by the rating agencies Fitch and Moody's, has promoted the subordinated paper to investment grade, providing further confidence in one of Credo's larger and long term fixed income positions.

The upgrades are as a result of the continued execution of the strategy to de-risk the business, move away from legacy portfolios, as well as a key focus on capital light business units with lower lending risks and more stable revenue streams, with the background of a well-capitalised balance sheet, lower leverage than peers and strong liquidity buffers.

Investec has made a number of strategic sales which have simplified the business model and reduced asset risk, including the sales of the Australian division and Kensington Group's legacy mortgage assets. These are key steps in reshaping the business. Additionally, Investec have actively been reducing exposure to riskier lending sectors, with lending collateralized by property reducing from 52% in 2010 to 31% at the end of 2015. Impairment within the property book remains at elevated levels of 14%, although at a marginally reducing rate. However, their Irish legacy exposure continues to be a burden as it remains 10% of lending assets, approximately half of which are impaired. From the overall perspective impaired loans are reducing, however still remain at 4.8% of loans. Of these impaired loans, collateral cover is 117%. The bank's appetite for specialised and alternative lending is higher than the peer group, therefore the default rate is likely to remain above peers. Although, with the bank focused on secured lending predominantly to high net worth clients, we would expect the impairments to continue to reduce as Investec work out the back book.

The renewed focus on Wealth & Investment as a key division that provides more stable and sticky revenues is subsequently a benefit to bond holders. Wealth & Investment now makes up over 30% of total operating income, with £29bn assets under management, compared to 2% in 2011.

Investec plc remains comparatively well capitalized, with further buffers after their recent sales. The fully loaded common equity tier 1 ratio is 13.1% which is broadly in line with UK peers. It is important to highlight this ratio is calculated utilizing the standardized approach. The leverage ratio remains attractive compared to UK peers at 8%, when many of the bulge bracket banks are running at less than 5%. This is more conservative than management's targets and therefore has scope to reduce over the medium term. Investec has ample liquidity with a diversified term structure and lending base. The loan to deposit ratio is 80% ensuring the bank is not reliant on wholesale markets. Additionally, Investec have a large liquidity buffer, with £2.9bn at the Bank of England and in UK gilts which makes up 17% of total assets and a total liquidity buffer of £4.4bn representing 26% of assets.

The market exposure within the core capital is mainly restricted to equity investments. These investments hold a value of £407m of which £308m is unlisted equities, with broad and diversified underlying investments. Proprietary trading is generally kept to a minimum and interest rate exposure is mainly hedged.

Operationally the bank continues to improve, with £93m operating profit for H1 2016 compared to £105m for 2015, due to the Wealth & Investment business, thereby improving investment performance and lowering impairments. Looking at the underlying drivers; net interest income remains stable at approximately a third of revenue. Half of revenue is generated from fees and commissions with the balance from customer flow trading and the investment portfolio. Operating expenses remain high at 70-75% of revenue, due to the nature of specialist activities as well as their increased proportion of the Wealth & Investment division. This is in line with Swiss banking peers and is expected to remain elevated for the foreseeable future.

Although the UK and South African operations are segregated from a solvency credit perspective there is a strong connection between the two from a reputational and organisational perspective putting a ceiling on the credit rating. Additionally the bonds have been affected by a broader weakening in financial subordinated credit as well as recent concerns regarding the political stability in South Africa, despite the rating upgrades. Our preferred Investec exposure is the recently upgraded, 9.625% of 2022. The yield has climbed from approximately 5% towards the tail end of 2015 to 6.75%, providing an attractive risk return over the next 6 years and an interesting entry point for new holders.

INCOMEPLUSPORTFOLIOS

The Credo Income Plus portfolios ("CIP") are three high conviction bond portfolios across 2 currencies, each with a minimum targeted annual return that we would expect to achieve over the life of the portfolios, assuming bonds are held to maturity.

Investment Process

Investment Universe
- Primary market is Eurobonds in various currencies
- $150m or £100m minimum issue size

Screening
- Both quantitative and qualitative
- Eliminate bonds that offer inadequate compensation or have significant risks

Analysis
- Balance sheet strength
- Cash flow
- Profitability
- Reputation of issuer
- Terms of debt
- Interest rate sensitivity
- Debt maturity

Portfolios Construction
- Aim to achieve diversity across both industry and maturity
- Portfolios of typically 7-12 high conviction holdings

Ongoing monitoring and analysis

Execution

Unlike the equity world, bonds are generally traded telephonically and 'best price' is not always shown on data sources such as Bloomberg. It is important, therefore, to have a large network of trusted broker-dealers and intermediaries to ensure that bonds are traded at the best possible levels. We have a wide network of market contacts and counterparties making Credo a very attractive house through which to purchase these instruments.

Liquidity

The corporate bond market can become illiquid especially during times of financial stress. In addition certain bonds have large minimum dealing sizes that may be in excess of an individual client's position. It is therefore possible that an investor who wishes to redeem bonds before the stipulated redemption date may not be able to sell as and when required at the reported price if indeed at all. We will endeavour to aid liquidity for sellers.

Portfolios

Low Volatility

Appropriate for the more cautious investor. Bias towards high quality short dated senior investment grade bonds. The portfolio takes little risk in terms of credit and sensitivity to interest rates. A relatively low level of volatility can be expected.

Medium Volatility

This portfolio will take on a little more risk but should still not exhibit significant volatility. We may invest in longer dated bonds and subordinated debt. Some holdings may further not be investment grade. The portfolio is likely to contain more financial exposure but an emphasis on quality will be maintained.

High Volatility

For the more adventurous investor, this portfolio will contain significant exposure to financial paper, longer dated bonds and special situations. The portfolio is likely to experience significantly more volatility than the others. A material part of the portfolio will nonetheless be investment grade.

CREDO WEALTH

Current Portfolios

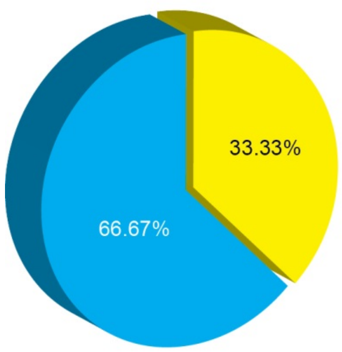
GBP	Target	Yield*
Low Volatility	2% +	2.67%
Medium Volatility	3% +	5.39%
High Volatility	5% +	6.64%

USD	Target	Yield*
Low Volatility	2% +	2.02%
Medium Volatility	3% +	4.66%
High Volatility	5% +	6.91%

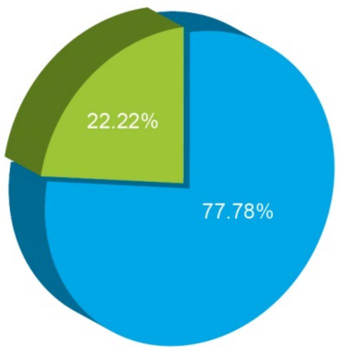
(*) For the annual yield we have estimated the most conservative likely outcome for investors.

Risk Ratings

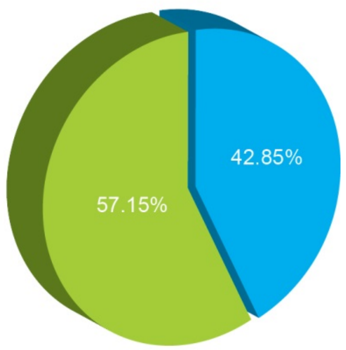
GBP



Low Volatility

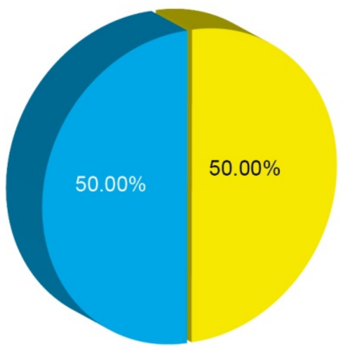


Medium Volatility

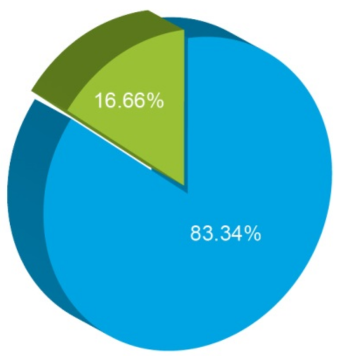


High Volatility

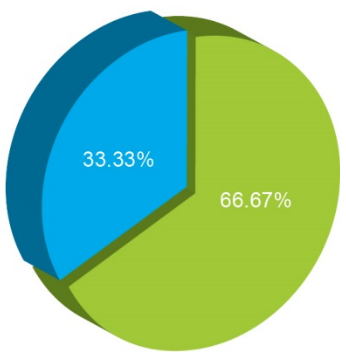
USD



Low Volatility



Medium Volatility



High Volatility

A rated and above | Investment grade | High yield

Investment Terms

Minimum Investment: £100,000 or US$150,000

Implementation

Investors should note that the minimum lot sizes of specific bonds that trade in the market are all different, with some as low as £1,000 and others as high as £200,000. Against this background, there may at times be some delay in aggregating orders. In some cases where we do not reach the minimum lot size within a suitable time frame, we may select alternative bonds.

Important Notice

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Investors are warned that past performance is not necessarily a guide to future performance, income is not guaranteed and security prices may go up or down and if you invest in CIPs you may not get back your original capital invested. The value of your investments may also rise or fall due to changes in tax rates and rates of exchange if different to the currency in which you measure your wealth. Companies in the Credo Group and their respective directors, members and employees may have positions in the companies and may have given advice in relation to the companies in the last twelve months.

Investors should note that annual yields shown are before any charges or fees are levied and are indicative as at 7 March 2016.

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