Products for investors who have large listed shareholdings

Structured solutions group

Make the confident choice. Prosper.
Introduction
Investors can accumulate wealth through various means, including running businesses, holding key positions within companies and inheritances. Some of this wealth may be held in the form of listed shares. If you have large holdings in one or several shares, then it may benefit you to consider diversifying your risk or protecting their value. Absa has developed a range of alternatives for investors with large listed shareholdings that enable you to preserve your investment in the shares, while at the same time changing the risk and reward of your exposure and potentially generating additional income. Absa can also offer you the ability to borrow against your shares or portfolio by using your shares or portfolio as security.

What are the alternatives for owners who have large listed shareholdings?

Once you decide which of the alternatives below suit you best, depending on your needs, we will aim to deliver a customised solution to you in the most tax-efficient manner:

- **Equity Monetisation** allows for protection of downside movements of your share in exchange for giving up some of the upside growth potential of the share.
- You can also borrow against your protected shareholding by providing the shares as security, while still maintaining ownership.
- **Total Return Swaps (TRS)** allow you to exchange your exposure in a particular share for the exposure of other assets including JSE-listed stocks, ETFs, unit trusts or international markets, thus allowing you to diversify concentration risk and deferment of capital gains tax.

Why should you consider these alternatives?

- **Equity Monetisation** protects the value of a share against any future price declines.
- By maintaining ownership of your shares, you maintain your voting rights and rights to future profits and dividends.
- If you borrow against your protected shares, you can receive cash without the need to sell them and, therefore, avoid having to pay potential capital gains tax upfront.
- You will benefit from finance at a fixed rate as the structures can accommodate interest and capital being repaid at the end of investment terms.
- **Total Return Swaps (TRS)** allow you to diversify your exposure to a single share/s by exchanging the performance of the share for that of other JSE-listed shares, exchange-traded funds or local and offshore indices. Diversification reduces the risk in your portfolio as you become exposed to multiple shares, each providing a different source of risk and return. This can be achieved without the need to sell your shares and allows for diversification of concentration risk and deferment of capital gains tax.
**Equity Monetisation**

The investor pledges ownership of shares to Absa, typically over a one- to five-year investment term, and in exchange will participate in price movements within a pre-specified range.

Generally, the investor gives up some upside growth potential beyond a specified level, in exchange for protection of potential future losses. This strategy guarantees the minimum, as well as maximum, value of a share over the investment horizon, as you are buying a put option (which protects against price falls below a certain level) and selling a call option (which gives away growth above a certain level).

You will also have a choice of whether you still want to receive the dividends paid by the company whose shares you own or cede (transfer) the right to the dividends to Absa in order to take advantage of a potentially different tax treatment. The ceding of dividends also allows for an increase in the future potential growth in the share price.

You will also have a choice as to whether you want to borrow against the structure. Doing so it would potentially allow for a higher loan to value than that of equity-backed lending, capital and interest being repaid at the end of the term of the structure and financing being provided at a fixed interest rate.

![Diagram of Equity Monetisation](image)

In the example above, the dotted grey line represents what the change in the price of a share could look like with positive or negative price movements. The straight red line represents what the exposure could look like with an Equity Monetisation option. In this example, the investor buys a 100% strike put option and sells a 120% strike call option. This means that the investor gives up potential growth above 20% in exchange for having protection for 100% and therefore no longer participates in any negative price falls. The percentage return in the investor’s share is restricted to a range of between 0% and 20% over the investment term.

**Total Return Swaps**

The investor simply ‘swaps’ the return of his/her current listed share(s) for the return of another asset or share typically over a one- to five-year investment term.

The Total Return Swaps (TRS) allows you to diversify your equity portfolio without having to sell your shares.

Absa can offer this solution on a variety of shares, provided they are listed on the JSE and have sufficient liquidity.

**Example**

An investor owns Anglo American shares and they enter into a swap to receive the returns of the JSE Top40 Index instead. This allows their overall portfolio to become more diversified and possibly reduce risk, but without the investor having to sell their Anglo American shares. At the end of the investment term, the investor pays the return of the equity performance of Anglo American plus dividends and receives the equity performance return of the FTSE/JSE Top40 Index plus distributions, less administrative costs. In so doing, the investor will diversify his/her concentration risk in Anglo American shares and defer capital gains tax that would ordinarily be paid if such investor had sold Anglo American to purchase the JSE Top40 Index.

The JSE Top40 Index represents the 40 largest companies by market capitalisation included in the FTSE/JSE All Shares Index. Essentially the TRS allows the investor to diversify his/her equity holding away from the investment in a single share to an investment in a basket of South African shares listed on the JSE.

In the unlikely case that there is little or no liquidity in the market for the bank to hedge its exposure to Anglo American, the client may be requested to lend their Anglo American shares to the bank. Should the client be unable to lend the Anglo American shares as required by the bank, the bank will have the right, but not the obligation, to terminate the trade early.

Should the client wish to restructure or terminate the transaction early at a point in time, this would be subject to prevailing market volatility, the counterparty’s risk appetite and interest rates.

**Please see the diagram below**

![Diagram of Total Return Swaps](image)
Possible risks

• Returns or benefits are dependent on the performance of underlying assets or other variable market factors and are not guaranteed. Transactions would be subject to prevailing market volatility, the counterparty’s risk appetite and interest rates.

• There is a direct link between risk and return and Absa does not guarantee the performance or investment returns on any product. Absa accepts no liability for any regulatory, tax or legal risk in respect of the transaction and the associated transaction documentation. The client will be required to understand the underlying transaction and the transaction documentation.

• An early termination of the transaction would be subject to prevailing interest rates and market volatility. There is a specific contractual term and early termination could be to the detriment of the Client.

If you would like to know more about the alternatives we offer for owners of large shareholdings, please contact us.

How to invest

Interested investors should contact their Wealth Manager or Absa Wealth Head of Structured Solutions Group at the details supplied below:

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