

# Absa Investments

## Asset Allocation Fund Offering

ASSET MANAGEMENT  
PRIVATE CLIENT ASSET MANAGEMENT  
MULTI MANAGEMENT  
**UNIT TRUSTS**  
STOCKBROKING  
PARTICIPATION BONDS  
LINKED INVESTMENTS



Asset allocation is one of the key ingredients required for accumulating and creating wealth over the long term. With this investment principle in mind, Absa Investments offer a range of asset allocation funds aimed at meeting a wide range of investment objectives. The Absa Managed Fund, Absa Balanced Fund, Absa Absolute Fund, Absa Cautious Fund of Funds and the Absa Inflation Beater Fund ultimately seek to provide capital growth while minimising investment risk.

The range of asset allocation funds are positioned from a moderately aggressive to a low risk profile. The Funds are suitable for both voluntary and compulsory investments through products such as retirement annuities, preservation funds and living annuities.

The key investment principles that have stood the test of time and remain true regardless of market circumstances are the relationship between time, risk and return and an optimal asset allocation strategy.

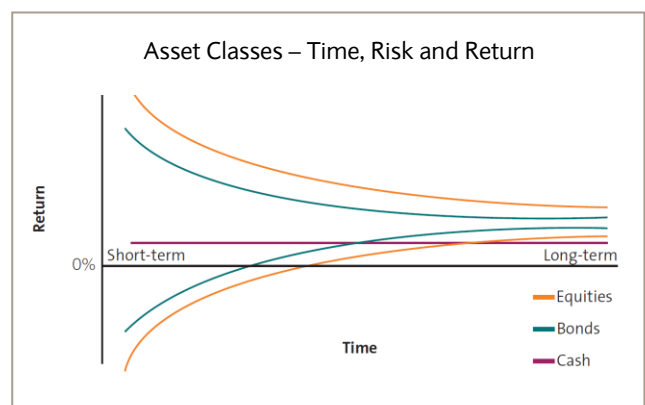
### Time, risk and return

The cornerstone of investing is the relationship between time, risk and return. In order to achieve a specific reward or rate of return, a certain amount of investment risk has to be accepted. The higher the return required, the higher the level of risk that needs to be taken. However, the higher the risk taken the greater the potential movement in the capital value in the short-term. It is here where time becomes an important element of the investment equation.



By investing over a longer period of time, the risk associated with capital movements is reduced, i.e. returns are smoothed. Therefore, the higher the required rate of return, the longer the time period required to reduce the investment risk.

The illustration below provides an indication of how time, risk and return relate to the main asset classes. While a riskier asset class like equities (orange line) typically provides a higher return in the long-term, there is a greater degree of uncertainty of returns in the short-term. Therefore, in the short-term it is possible that the returns on an investment might be negative. Cash, as a low risk investment (maroon line), provides a greater degree of certainty in terms of returns, but the benefits of increased certainty have to be weighed against the opportunity cost of higher returns in the long run.



It is therefore important to understand the relationship between time, risk and return when developing an investment strategy as these elements will influence the ability to create wealth.

### Asset Allocation

Asset allocation refers to the mix of different asset classes with the aim of achieving a specific investment outcome. Accumulating or creating wealth involves the objective of growing investment capital. The growth of capital is achieved by predominately investing in riskier asset classes such as equities.

An aggressive fund, with a higher equity exposure, will offer the highest potential for capital growth and the ability to beat inflation. However, this potential return

is associated with relatively higher investment risk in the short-term. Therefore, an aggressive fund would be more suited to a long-term strategy. Adding additional asset classes such as cash and bonds can be used to reduce investment risk through portfolio diversification. A balanced fund, for example, provides a trade-off between achieving inflation-beating returns at an acceptable level of investment risk.

Where the investment objective involves receiving a regular income, a cautious fund will offer the necessary capital stability in the short- to medium-term. The higher the income need, expressed as a percentage of investment capital, the greater the allocation to a safe asset class such as cash.

An asset allocation strategy also aims to provide a mechanism to manage and reduce investment risk. This is achieved by investing in various asset classes that behave differently under varied market circumstances. It is, therefore, important to find the most appropriate mix of asset classes (i.e. equities, fixed interest, property and cash) that will provide the optimum combination of risk and return in line with the required investment objective.

It is difficult to predict which asset class will perform best in a given year. The table below illustrates the unpredictability of the various asset classes over the past 20 years (1990-2009). For each year, the asset classes are ranked from first to fifth in terms of annual return.

### Asset Class Performance over 20 years (1990-2009)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1st	Cash	Offshore	Bonds	Equity	Equity	Offshore	Offshore	Offshore	Offshore	Equity	Property	Offshore	Property	Property	Property	Equity	Equity	Property	Bonds	Equity
2nd	Bonds	Equity	Offshore	Bonds	Cash	Bonds	Cash	Bonds	Cash	Property	Bonds	Equity	Bonds	Bonds	Equity	Property	Offshore	Equity	Cash	Property
3rd	Property	Cash	Cash	Offshore	Property	Cash	Equity	Property	Bonds	Offshore	Offshore	Bonds	Cash	Equity	Bonds	Offshore	Property	Cash	Property	Cash
4th	Equity	Property	Property	Cash	Offshore	Property	Bonds	Cash	Property	Bonds	Cash	Cash	Equity	Cash	Cash	Bonds	Cash	Offshore	Offshore	Bonds
5th	Offshore	Bonds	Equity	Property	Bonds	Equity	Property	Equity	Equity	Cash	Equity	Property	Offshore	Offshore	Offshore	Cash	Bonds	Bonds	Equity	Offshore

Source : I-Net

### Variance of Investment Returns

The returns of the individual asset classes vary over time. The table below provides insight into the returns of local asset classes over the last 20 years (1990 – 2009). The returns (before tax) high-lighted in red show the best performing asset class in that respective year. Equity has been the best performing asset class for 8 of the 20 years on an after tax basis.

Asset class returns are driven by a number of market factors including interest rates and the business cycle. Typically cash and bond yields track the interest rate environment whereas bond prices tend to move inversely to the business cycle. A positive relationship exists between equity prices and a growing economy. There are times when equity and bonds tend to move in the same direction, particularly if interest rates are declining or rising rapidly.

The return on a diversified portfolio is equal to the average return of the individual asset classes within a portfolio. The volatility of the portfolio as a whole will be less than the average volatility of the individual asset classes within a portfolio. Being in a diversified portfolio is more important than trying to receive above average returns in a single asset class.

By spreading the investment portfolio across various asset classes, avoids the risk associated with placing ‘all your eggs in one basket’.

Asset Class Performance 20 Years 1990-2009

Dec	Equity-ALSI	Bonds-ALBI	Cash-STEFI	Property
1990	-5%	16%	21%	3%
1991	31%	14%	19%	19%
1992	-2%	27%	16%	7%
1993	55%	32%	13%	12%
1994	23%	-9%	11%	9%
1995	9%	30%	15%	11%
1996	9%	6%	16%	-11%
1997	-5%	29%	17%	20%
1998	-10%	5%	18%	3%
1999	61%	29%	16%	55%
2000	0%	19%	11%	27%
2001	29%	18%	11%	8%
2002	-8%	16%	12%	23%
2003	16%	18%	12%	41%
2004	25%	15%	8%	43%
2005	47%	11%	7%	41%
2006	41%	5%	7%	16%
2007	16%	4%	9%	21%
2008	-26%	17%	12%	-4%
2009	29%	-1%	10%	14%
CAGR%	14.5%	14.5%	13.0%	16.7%

Data shown before tax.

Source : Morningstar

## Introducing the Absa Investments Asset Allocation Fund Offering

The Absa Managed Fund, Balanced Fund, Absolute Fund, Cautious Fund of Funds and Inflation Beater Fund select asset classes on the basis of their low correlation to each other. This means that while one asset class may not be performing, another asset class might be, thereby reducing the overall risk of the Fund. The allocation to an asset class is determined by examining both historic data and its future return prospects. The result is a strategic asset allocation view within the prescribed bands defined by the Fund's mandate.

From time to time, the fund manager will deviate from the strategic asset allocation to improve the return and, more importantly, to reduce the investment risk. This is referred to as tactical asset allocation. For example, the exposure to equities might be reduced and the cash holdings increased when the equity market is expensive and the return on cash is relatively attractive.

It has been proven over time that wealth can only be created in real terms by introducing inflation-beating asset classes to a portfolio, which are by nature more volatile. Risk aversion has been detrimental to wealth creation as returns have not outperformed inflation.

The constant rise of living expenses as measured by the consumer price inflation (CPI), causes a continuous reduction in the value of money over time. Inflation measures the rate at which the price of goods and services rise. For example, at an inflation rate of 7% per annum, the real purchasing power of money is

halved every 10 years.

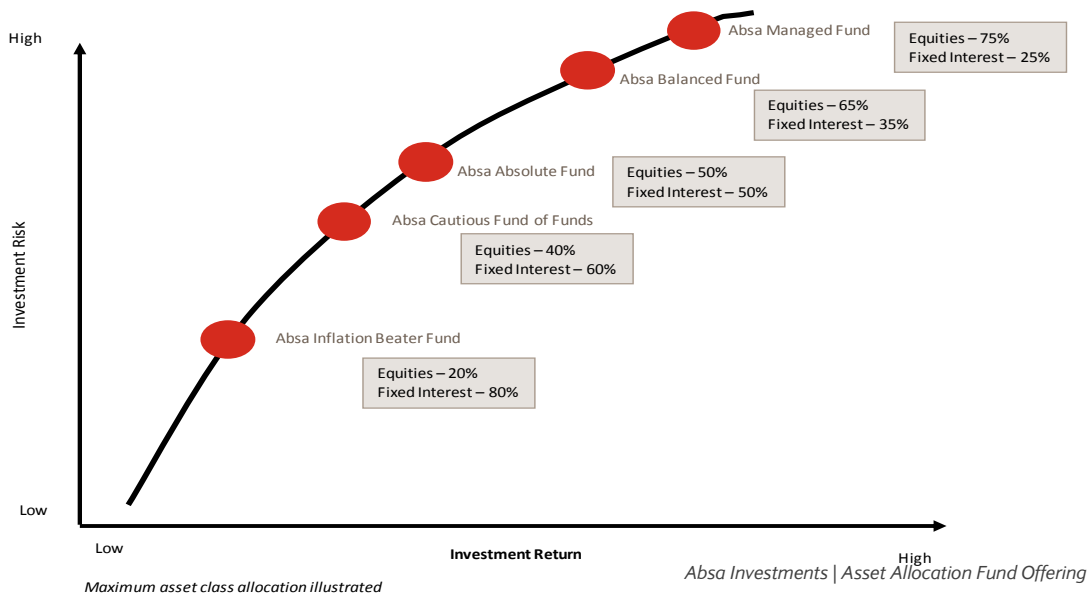
This affects future spending patterns. Another way of illustrating the impact of inflation is by reviewing the cost of a cheeseburger and chips in 1983 which cost R2.30, while today the same cheeseburger and chips cost R34.95.

In order to hedge against inflation in the long-term, investors require sufficient exposure to equities which has proven itself to be the best generator of wealth in the long-term. The selected fund must meet an investors' risk profile and expectations. The relationship between expected returns, risk tolerance, and investment term must also be taken into consideration.

The graph below illustrates the Absa Investment Asset Allocation Fund offering. The higher the targeted returns the higher the required risk to achieve the investment objective.

The Funds are actively managed to participate in market rallies while limiting downside risk during market downturns. In addition, the fund manager rebalances the Fund to realign the portfolio weightings to the most appropriate asset allocation on an ongoing basis.

This rebalancing of the Fund holdings offers the benefit of locking in profits as the portfolio is trimmed back on the best performing asset classes while adding to the potential undervalued asset classes.



## Fund Offering

The table below provides an overview of the available asset allocation funds offered by Absa Investments.

<b>Fund Map</b>									
	INVESTMENT OBJECTIVE	FIXED INTEREST Duration			EQUITY Capital			RISK	TERM
		LOW	MED	HIGH	LOW	MED	HIGH		
<b>ASSET ALLOCATION</b>									
Absa Inflation Beater	CPI + 3% p.a. 36 month rolling	Q			10 - 20			L	2 yrs +
Absa Cautious FOF	Domestic AAPrudential LowEquity Mean	BI			10 - 40			L ↔ M	3 yrs +
Absa Absolute	CPI + 4% p.a. 36 month rolling	BI			10 - 50			L ↔ M	3 yrs +
Absa Balanced	CPI + 5% p.a. 5 yr rolling	BI			40 - 65			M	4 yrs +
Absa Managed	CPI + 6% p.a. 5 yr rolling	BI			45 - 75			M ↔ H	5 yrs +

### Definitions

**Investment Objective** – The Funds targeted benchmark inline with its mandate

**Fixed Interest Duration** – The sensitivity of a Fund’s underlying fixed interest instruments. This portion of the Fund is income based and the distribution frequency is represented by:  
M = Monthly  
Q = Quarterly  
BI = Bi-annually

**Equity Capital** – The exposure and risk profile of the underlying equity holdings as well as their respective bands.

**Risk** – The Fund’s overall risk rating which is represented by:  
Low risk = L  
Medium risk = M  
High risk = H

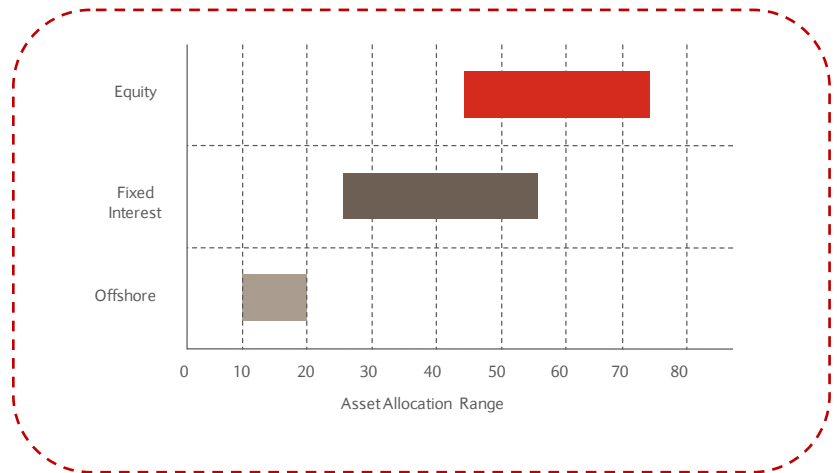
**Term** – The recommended investment term aligned to the Fund’s mandate.

*For more information please consult the individual fund fact sheets.*

## Absa Managed Fund

The Absa Managed Fund's objective is to maximise capital growth and income by outperforming inflation by 6% per annum over a rolling 60-month period. Equity allocation can be as high as seventy-five percent should the fund manager see value in the market and can be as low as forty-five percent in an overvalued market. The rest of the mix includes a bond and property component for stable income and a cash allocation for liquidity. Offshore exposure is maintained for risk diversification and may vary from ten to twenty percent over time, depending on Absa Asset Management's global investment view.

The graph illustrates the asset allocation bands in which Absa Asset Management are able to actively manage the Fund. As a moderately aggressive fund, a large degree of flexibility is permitted in the management of the asset class exposures. This Fund is suitable as a long-term core fund with a recommended investment term of five years or longer.

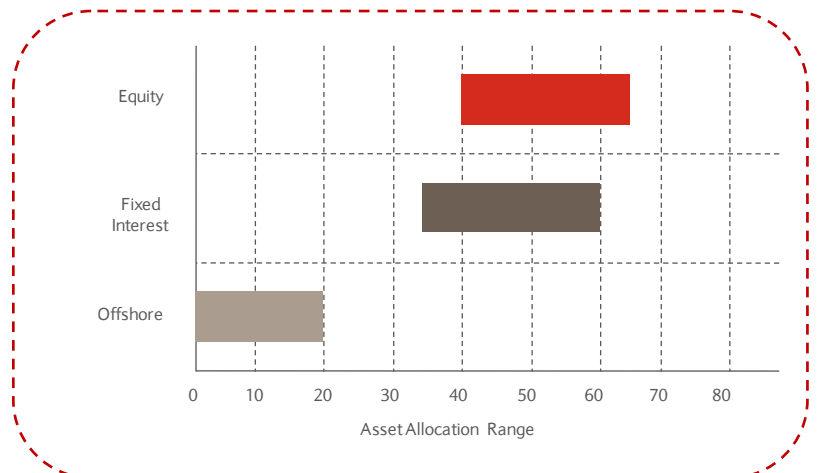


## Absa Balanced Fund

The Absa Balanced Fund aims to provide an optimum mix of security, return and growth by outperforming inflation by 5% over a rolling 6 month period. The maximum equity allocation is sixty-five percent and can be as low as forty percent. The Absa Balanced Fund has a diversified investment portfolio that invests in top quality FTSE/JSE listed shares in all sectors of the exchange, quoted property trusts, bonds and interest-bearing investments.

Due to its moderate asset allocation, the Absa Balanced Fund carries a lower risk than a pure equity fund. The graph illustrates the asset allocation bands within which the Fund is actively managed by Absa Asset Management.

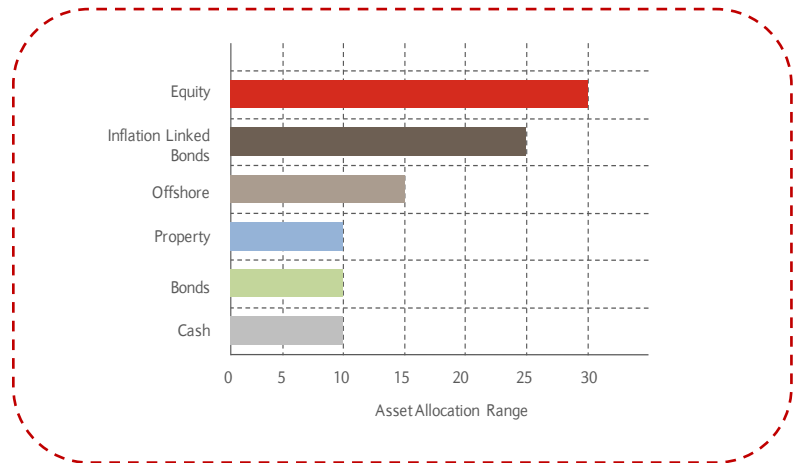
The Absa Balanced Fund recently won a Raging Bull award for the best Domestic Asset Allocation Prudential Medium Equity Fund for the five year period ending 31 December 2009.



## Absa Absolute Fund

The Absa Absolute Fund aims to provide consistent positive returns while minimising the risk of capital loss over a 12 month period by outperforming inflation by 4% over a rolling 36 month period. The maximum equity allocation is fifty percent and can be as low as zero. This moderately conservative fund follows a strategic asset allocation strategy that enables the fund manager to minimise the potential downside risk of the portfolio over a 12 month period.

Within each asset class, low risk assets of a high quality nature are selected to further reduce volatility. The graph illustrates the asset allocation bands within which the Fund is actively managed by Absa Asset Management. Tactical allocation will be applied to overweight or underweight a specific asset class, by no more than 10% depending on the market conditions.

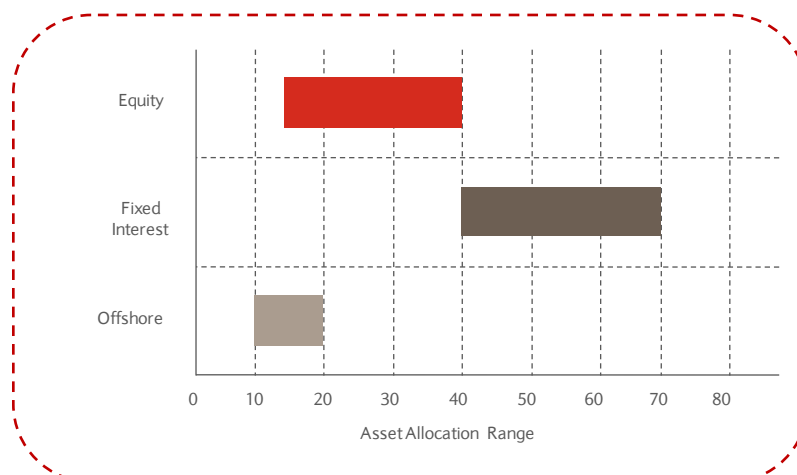


## Absa Cautious Fund of Funds

The Absa Cautious Fund of Funds aims to grow income and capital over the medium term and seeks to preserve capital in real terms with lower volatility over the short- to medium term. In addition, the Fund, which follows a multi management strategy, selects and combines the best investment managers as part of a single investment portfolio. The maximum equity allocation is forty percent and can be as low as zero with the balance into fixed interest instruments and offshore exposure.

The graph illustrates the asset allocation bands within which the Fund is actively managed by Absa Multi Management.

The assets of the Fund are invested with recognised investment managers, such as Allan Gray, Investec, Prescient and Absa Asset Management. The underlying managers add value to fund performance through active asset allocation as well as sector, stock and instrument selection.

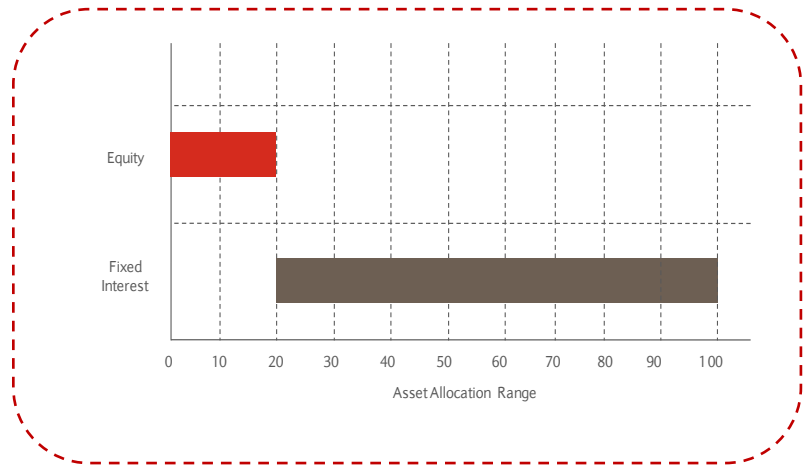


## Absa Inflation Beater Fund

The Absa Inflation Beater Fund seeks to beat inflation over the shorter term by outperforming inflation by 3% and minimising capital loss. The maximum equity allocation is twenty percent and can be as low as zero. This conservative fund is an attractive entry point for investors who are risk averse and not comfortable with the volatility of the equity market.

In addition, the fund manager selects FTSE/JSE listed large capitalisation shares that offer a higher dividend and are traditionally less volatile.

The remaining 80% of the portfolio is made up of a combination of fixed interest instruments, short duration bonds and inflationlinked bonds. The graph illustrates the asset allocation bands within which the Fund is actively managed by Absa Asset Management.



## In Conclusion

The diversity and scope of the Absa Investments asset allocation range of funds is able to meet specific investment objectives. For more information please speak to your dedicated Absa Investments sales support consultant.

**DISCLAIMER :** Collective Investment Schemes in Securities (Unit Trusts) are generally medium to long term investments. The value of participatory interest (units) may go down as well as up and past performance is not necessarily a guide to the future. Forward pricing is used. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Income is distributed monthly, quarterly and half yearly according to the Fund mandate and any income may be paid out into an account as nominated by the investor or be represented by additional units. All requests for transactions received on or before 16:00 every day will be traded at ruling prices and valued after 16:00 on that day. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Some funds may be closed to new investments. The Fund Manager may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Foreign interest and dividends as well as foreign currency movements affecting capital may be fully taxable under current legislation. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. The Total Expense Ratio (TER) is expressed as an annualised percentage of the charges, levies and fees incurred by the portfolio related to its management against the average NAV of the portfolio. A higher TER does not necessarily imply a poor return, nor does a lower TER imply a good return. The current TER cannot be regarded as an indication of future TER's. Consult the Management Company for details. Not for sale to US persons. Absa Fund Managers is a member of the Association for Savings & Investment SA.

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