

Growing Wealth

Investing for Growth

 **STANLIB**

the art and science of investing

Most people associate growth as something positive. This is especially true in the investing world. The popularity of growth assets stems from their proven ability to beat inflation convincingly over time. They generally are also a tax effective way to invest, unlike interest producing investments. This has led investors to the realisation that in order to grow their wealth and beat inflation over time, they need exposure to growth assets in their portfolio.

Growth investing is an investment strategy that investors follow in order to maximize their capital gains. These growth assets include equities and property investments. Bonds held over long periods of time can also provide capital gains.

Investing involves uncertainty. The more uncertainty there is, the higher the potential return or loss. For investors wanting relative certainty, interest producing investments are the place to be, but you are unlikely to beat inflation over time by investing only in cash.

There are a number of ways of dealing with the uncertainties i.e. diversification, asset allocation techniques and flexible portfolio management. But above all one needs to be in the market to be in the money. The old adage of “time in the market” is more relevant than ever. Instead of trying to capitalise on short term market movements investors should go back to investment basics – selecting a longer time horizon for achieving your goals and avoiding short term knee-jerk reaction to the markets.

Focusing your strategy away from the day to day movements of these markets to a longer term perspective is the only way to create wealth in the medium to long term. Smart investors are patient investors – it takes time to make money.

Patience allows investors to also benefit from the effect of compounding on their investment. Compounding is when your investment grows either through capital appreciation i.e. the value of the underlying share in the fund increases or through interest earned on the investments. The additional money or growth is added to the portfolio and in turn also earns interest or grows. So you land up gaining from growth on your additional growth.

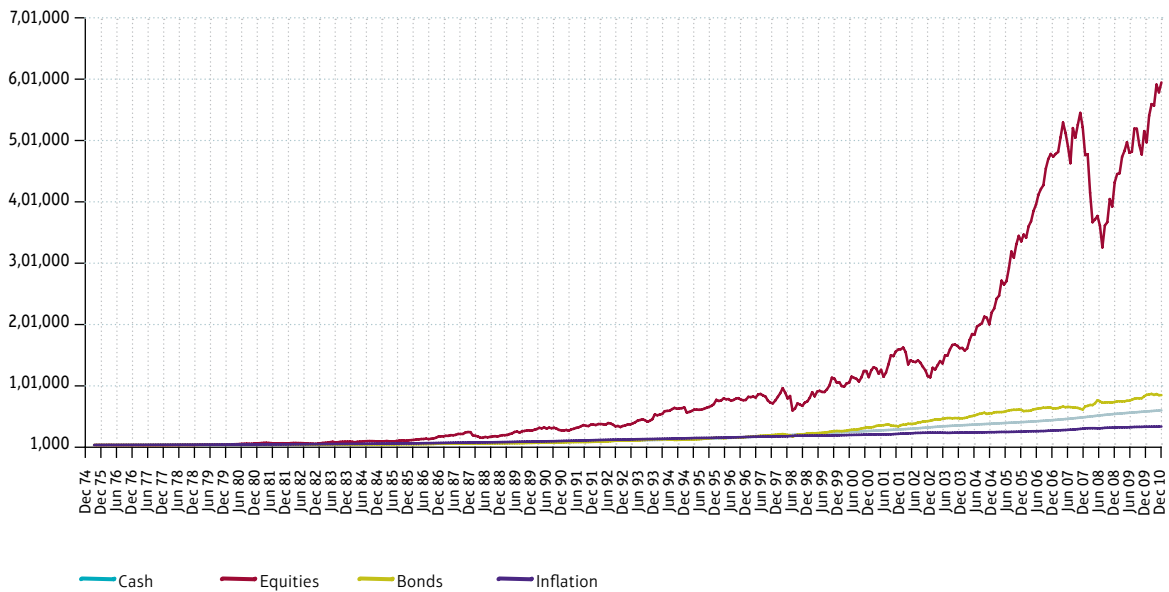
STANLIB has a range of equity, property and asset allocation funds designed to meet the various needs of our investors. Before considering these solutions however, it is useful for the investor to understand what each class of funds entails and the risk/reward involved.

Equity Investing

The storm that has hit the markets in recent years has made many investors nervous about committing their savings to what appears to be riskier ways of investing. While the extent of the global economic crisis was in many ways unprecedented, it is not the first time that investors have had to ride out storms.

Clever investors do more than this – they invest for after the storm.

Figure 1



Lumpsum of R1000 invested at the end of 1975

Source: STANLIB

Why invest in Equities?

Equities not only have historically provided the best returns, they also have the potential to provide significantly better returns than other types of investments over the long term, despite the underlying volatility. Usually the more risk you are willing to take, the greater the potential return on your investment. Equities are also the only asset class to have convincingly beaten inflation over time. Considering the value eroding power of inflation, equities as an asset class cannot be ignored.

Investing in stocks listed on the JSE gives you access to a wide range of Industries and businesses spread over diverse sectors, from mining or resources stocks through to service or IT businesses.

Benefits include:

- **Capital Growth:** Equities have historically been the best performing asset class over time, far exceeding inflation
- **Dividends:** Provides investors with a tax free form of income
- **Specialised teams:** Our specialised equity teams manage the sector and stock selection on behalf of the investor and invest in companies where they find value at any point in time
- **Diversification:** Funds invest in a number of companies at any point in time, making them well diversified and not dependent on the performance of a single company
- **Wide range of funds:** STANLIB has a comprehensive range of equity funds to meet the needs of various investors

If you fail to plan, you plan to fail

One of the hardest things to do is to start saving. Our brains are wired around short term problems and opportunities and we tend to put off the longer term issues. In fact we tend to undervalue long term goals and exaggerate the cost of short term sacrifice. In reality though, the more time you have, the more investment options you will have at your disposal and the more risk you are able to take.

Studies show that investors who do even a little retirement planning have twice the savings of those who do almost none. A common excuse used by investors is that they need to evaluate their entire financial life, assets and liabilities. The thought of this huge task is enough to prevent most of us starting the exercise, as it is so overwhelming. To avoid this stage fright, start with whatever you think you can spare. Choose a flexible product like a unit trust as there are no penalties if you decide that you cannot invest, or if you suddenly find that you have an unexpected expense that you had forgotten about. Unit trusts are very forgiving vehicles – they allow you to stop and start at will, change the amount you are investing – or even withdraw part of the amount that you have saved already, for that unexpected emergency or expense.

One of the best ways to begin is to set concrete, attainable goals. “I’ll pay an extra R200 a month off on my credit card” is more likely to succeed than “I’m going to get my act together.” You will find it easier to set the next goal when you have had some success and results with the first goal too. Use a debit order off your account as you won’t have to action the saving again – it will happen automatically. And if you make the debit order go off your account as your salary comes in, in time you won’t even notice the lack of instant cash you have become used to.

The good news is that once you have tasted some success i.e. when you see how much money you have managed to save by just foregoing the extra cash a month, you will find it easier to take the next step – even if you still haven’t got around to the full financial plan or analysis. In time as the steps and savings add up, you will find the thought of sitting down and doing a full scale plan not nearly as daunting. What many people think is that they are saving because they have money sitting parked in a bank account, or a money market fund. In fact they may well be dissaving, as their money may not even keep up with inflation, over the medium to long term.

Inflation is not the only factor to consider. Equities also offer you superior tax advantages over other investments. Tax has big implications for the actual return you receive from your investment. Dividends from equities are tax free. Capital Growth is taxed on a CGT (Capital Gains Tax) basis, but only when you decide to sell your investment. The Capital Gains tax rate is also less onerous than when you hold cash or money market investments, which attract income tax, charged at your marginal tax rate after any interest exemption has been used.

The best way to create wealth, if you have time, is to invest in stocks and shares on the equity markets. This is not nearly as daunting as it sounds as STANLIB has a range of funds that help you do just this.

Selecting a fund with the help of your adviser becomes a lot easier once you have worked out for how long you can afford to invest. This influences your portfolio structure in terms of exposure to the different asset classes as well the individual funds. The table at the end can assist you in selecting a suitable equity fund.

Property Investing

A valuable part of your investment mix

Many would be surprised to hear that listed property has been the best performing asset class in South Africa over the last 15 years. This asset class can be accessed by buying stakes in property companies listed on the JSE. These companies own a wide range of buildings in the retail, office, hospital, hotel and residential sectors which in turn are let to a multitude of tenants including retailers, banks and the government.

The property sector's impressive performance can be attributed to reasonably low interest rates in South Africa over the past 15 years which have led to a surge in consumer spending as well as increased demand for property. The environment has been conducive to growth in interest income as well as creating predictability in earnings streams for the listed property sector.

The listed property market has also become more investor friendly over the last few years and is now characterised by better liquidity and increased critical mass as well as improved corporate governance and disclosure.

Why Invest in Property?

Investing in an asset class such as listed property has proven worthwhile to many investors. Its distinct payoff profile has made its contribution invaluable to a balanced portfolio.

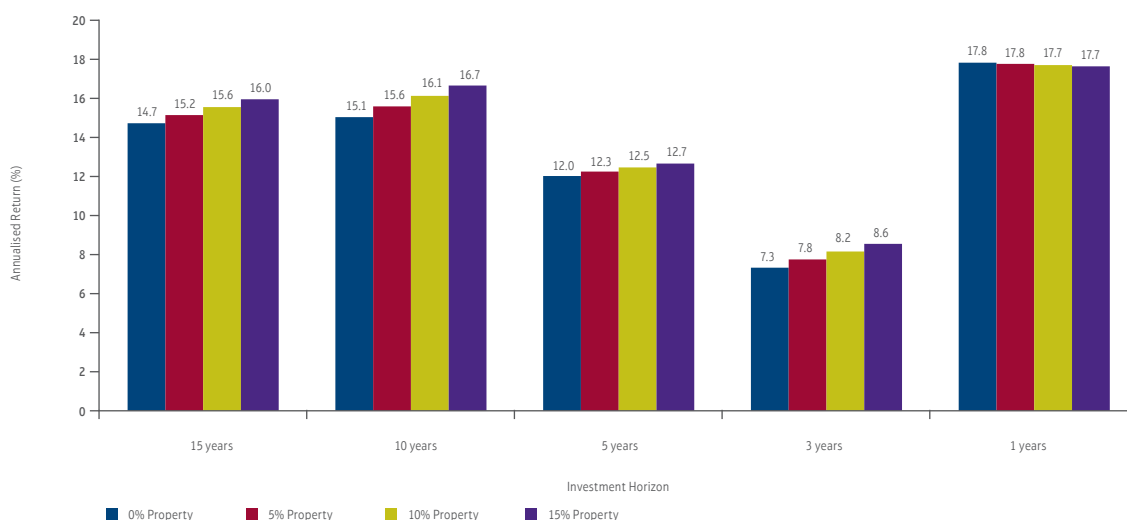
Benefits include:

- **Portfolio diversification**

Listed property plays a core role in the diversification of a portfolio as property returns traditionally have a low correlation with the performance of other asset classes.

Research has shown that by increasing your property exposure in an investment portfolio, not only is the overall risk reduced, but returns are also enhanced as the graph below illustrates:

Annualised Returns of Portfolios with Different Weightings in Property – February 2011



- **Regional and Sectoral diversification**

Listed property companies own various properties across all categories including commercial (offices), retail (shopping centres), specialised and industrial (factories). All these buildings are further diversified across different geographic areas in the country.

- **Ease of access to difficult markets**

Listed property gives the layman access to property investing beyond the residential market.

- **Inflation-beating opportunity**

While traditional fixed interest investments normally have a fixed coupon (income payment), the yield produced by listed property portfolios tends to escalate over time. This provides an excellent, inflation-beating income.

- **Liquidity**

An investment in listed property is more liquid than an investment in residential property. In addition, lower minimum investment amounts allow easier access to owning a stake in the property sector.

- **Growth of capital and income**

Listed property has the potential to deliver strong and stable investment returns, but traditionally with lower volatility than equities and unlike cash and bonds, it offers the opportunity for a growing income stream. Furthermore, while property companies declare virtually all their profits to investors, companies in the equity sector do not necessarily, and may alter their dividend policies. Three identifiable wealth-building devices within a listed property portfolio include distributions or annual yield which offers a regular and stable income; income which tends to grow as the rental income in the underlying property portfolio grows, and lastly, the capital value of the property portfolio which tends to increase as the value of the underlying buildings increases. These buildings increase in value because of higher rentals and appreciating replacement values.

Listed property can be an inflation hedge over the long-term, particularly where there are lease escalations.

Asset Allocation

A single investment solution

While some investors may be comfortable constructing their own portfolio using funds that invest in the individual asset classes (e.g. the growth asset classes such as equities or property), asset allocation or balanced funds provide investors with a single investment solution by investing in all the asset classes (cash, bonds, property, equity and offshore assets). These are tailored to meet investor's goals, time horizon and risk profile.

Local asset class returns during the 2000s

Year	Cash	Bonds	Property	Equities
2000	10,5	19,4	27,6	0,4
2001	10,2	17,8	14,0	32,6
2002	11,6	16,0	20,1	-8,3
2003	12,3	18,1	41,0	16,1
2004	8,0	15,2	41,3	25,4
2005	7,1	10,8	50,0	47,3
2006	7,4	5,5	28,4	41,2
2007	9,3	4,2	26,5	19,2
2008	11,7	17,0	-4,5	-23,2
2009	9,1	-0,9	14,1	32,1
2010	6,9	15,0	29,6	19,0

Green indicates highest return in that year. Red indicates the lowest return in that year

Source: I-Net and Morningstar

Why invest in Asset Allocation funds?

Markets change, making investment decisions fairly complicated. Equities can become more or less attractive, interest rates can change, offshore markets can come calling. Not to mention the vast choice of investment options available to investors. Often the fear of making the wrong choice can cause one to procrastinate and avoid the decision altogether. Those decisions are made for you in an asset allocation fund. A dedicated team of investment professionals manage the fund, investing where they find value in any of the asset classes and at any point in time. It is this flexibility that can prove extremely beneficial in a variety of market conditions.

There are three broad types of asset allocation or balanced funds. The most well known are the prudential funds, which are designed to meet all the requirements for investing in retirement funds, with their very specific investment requirements. These funds are often called balanced funds and come in a range of risk profiles, to meet any client needs. Generally, the higher the level of potential exposure to the equity sector, the more risky the fund can be – but also consequently, the more likely to provide inflation beating returns.

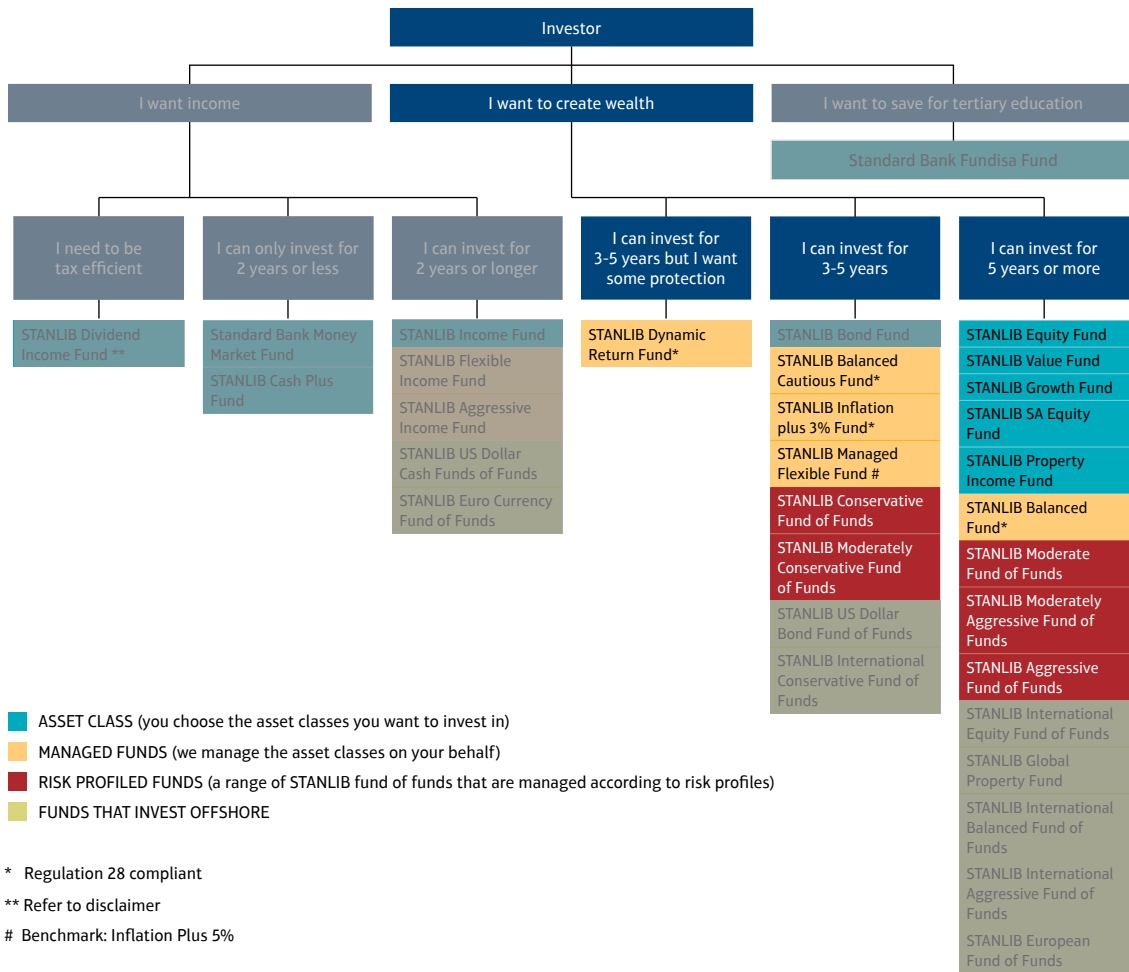
Flexible funds on the other hand, allow the fund manager to have wide discretion in terms of the level of exposure to any one class – with no investment limits beyond those required by the Collective Investment Schemes legislation. These funds are ideal for investors who are happy to leave all the decisions to an expert fund manager, and happy also to potentially take on more risk than balanced funds at times. Targeted Absolute and Real Return funds tend to display below average short-term volatility and are mandated to manage towards a predetermined, explicit benchmark.

Benefits include:

- **Diversification:** Balanced funds invest in a variety of different asset classes (Cash, Bonds, Property, Equity and Offshore assets), thereby reducing the risk of being exposed to any one asset class
- **Tailored:** Investors can match the appropriate balanced fund to their goals, investment time horizon and risk profile
- **Simplicity:** Single fund solution, taking away the complexity of constructing one's own diversified portfolio
- **Flexibility:** Markets change. Balanced funds have the flexibility to invest where they find value at any point in time. This is achieved while still adhering to the long term objectives of the fund
- **Regulation 28 compliant:** STANLIB has four funds that comply with Regulation 28 guidelines, namely the STANLIB Inflation + 3% Fund, the STANLIB Balanced Cautious Fund, STANLIB Balanced Fund and the STANLIB Dynamic Return Fund. This means that these funds are suitable for retirement investing

Asset allocation funds are a simple, single fund solution, providing investors with the peace of mind. Once you have chosen the right fund according to your goals, investment time horizon and risk profile, your investment decisions are taken care of for you, and you can then pursue a more balanced and measured approach towards achieving your financial objectives. STANLIB has a range of asset allocation funds designed to meet the various needs of investors, illustrated at the back.

Guide to STANLIB's Growth Range



The funds above can also be accessed through the STANLIB Classic platform solution

Investment Risks

Investing is not without risks. Although STANLIB strives to reduce these risks, you should bear these in mind when making your investment decisions. Unit trusts offer diversification, at a fraction of the price of buying the underlying assets themselves. This is one of their key strengths to help manage or reduce risk. Potential risks include:

- **Volatility:** Growth assets move up and down in price, and can be volatile. The more rapid the movement, the higher the volatility. However it is worth remembering that growth assets also have the potential to provide better returns when trying to evaluate your stomach for volatile assets.
- **Economic and Political Risk:** The growth in the earnings of listed companies is often related to the performance of the economy. In times of an economic boom, companies tend to grow their earnings. The opposite is also true. These external factors often have an impact on company performance and share prices/values. Political actions, such as coups, civil unrest, or even labour policy changes can also unsettle financial markets.
- **Keeping up with inflation:** Inflation erodes the purchasing power of money. It is therefore important to invest in growth assets that are likely to outperform inflation over time.
- **Company Risk:** Shares issued by companies are only as good as the companies behind them. Despite the best forecasting efforts by analysts, companies can fail. It is wise to be diversified by investing in a number of different shares. Unit trusts have strict guidelines on ensuring that portfolios are adequately diversified.

There are however a number of ways in which you can minimize risks in investing. For one, you can ensure that you make the appropriate asset allocation decision. You also need to choose the correct investment horizon given your investment objectives and constraints. Your financial adviser can assist you in making the right investment choice in terms of structure and portfolio composition.

Our Investment Approach

STANLIB's skills lie in a proactive, valuation driven asset management approach. We believe that we can add value through our superior research and a rigorous investment process, with a specific focus on asset valuation. We actively seek out assets which trade at levels below their intrinsic value.

It is our view that each investment area requires different skills and approaches and hence we create small teams, each with a dedicated focus. These multi-asset teams allow us to appoint talented and passionate people with the specific skills to deliver the best potential outcome for our clients, backed by our rigorous process.

STANLIB employs over 40 investment specialists. Some focus on specific areas within the equity, property and fixed interest sectors, while others are specialists in asset allocation. We have diversity in our investment team as we believe that it is only through recruiting independent thinkers that we can provide our clients with the diversity of specialist skills they need.

We follow the same philosophy in our approach to offshore investing but where necessary, we complement our own in-house skills by carefully selecting experienced asset managers who share the same valuation driven approach.

Why Invest in STANLIB's Growth Solutions?

STANLIB has developed a proud track record as one of South Africa's top investment managers. We offer top fund management in a broad range of asset classes both locally and globally. These fund managers are able to tap into one of the most respected economic think tanks in the country.

STANLIB provides access to one of the most comprehensive ranges of unit trusts in the country. We offer one of South Africa's oldest unit trust funds, the STANLIB Equity Fund which has provided solid and reliable wealth creation opportunities to our clients since 1970. We also offer our clients the opportunity to invest in a wide range of linked products, retirement vehicles and funds from other companies in order to satisfy our clients' diverse needs.

What has set STANLIB apart from its competitors has been the early adoption of a culture of diversity in every way. The flat management structure creates an environment that allows our talented and diverse teams to operate with energy and specialist focus. We encourage initiative and rigorous debate because this ensures robustness of opinion and depth of conviction. Our staff are encouraged to fully develop their talent but in a focused manner that will be to the ultimate benefit of our clients.

We have many years of industry experience and are recipients of many reputable awards including Standard & Poor's and Raging Bull, amongst others.

Appendix: Fund Awards

STANLIB Equity Funds (Core)

Morningstar Awards	
STANLIB Capital Growth Fund	2007 - Best in sector - 1 Year, 3 Years, 5 Years
	2006 - Second best in sector - 1 Years, 3 Years, 5 Years
	2005 - Best in sector - 5 Years
STANLIB Value Fund	2007- Best in sector - 1 Year, 3 Years
	2007 - Second best in sector - 5 Years
STANLIB Financials Fund	2010 - Best in sector - 3 Years
Raging Bull Awards	
STANLIB Growth Fund	2007 - Top performance
STANLIB Value Fund	2007 - Top performance

STANLIB Property Income Fund

2003	Financial Mail / Standard and Poor's Award	Best Risk Adjusted Return Over 1 Year
2005	AUT / Personal Finance / Raging Bull Award	Best Straight Performance Over 3 Years
2005	Financial Mail / Standard and Poor's Award	Best Risk Adjusted Return Over 3 Years
2006	Financial Mail / Standard and Poor's Award	Best Risk Adjusted Return Over 3 Years
2007	Financial Mail / Micropal Award	Best Risk Adjusted Return Over 5 Years
2008	Plexus / Profile Data/ Personal Finance / Raging Bull Award	Best Risk Adjusted Return Over 5 Years
2009	Raging Bull Award	Best Risk Adjusted Return Over 5 Years
2009	Raging Bull Award	Top Performance Over 3 Years
2010	Plexus / Profile Data / Personal Finance / Raging Bull Award	Best Risk Adjusted Return Over 5 Years

STANLIB Asset Allocation Funds (Core)

Morningstar Awards	
STANLIB Balanced Fund	2007 - Best in sector - 1 Year
	2007 - Second best in sector - 3 Years
Raging Bull Awards	
STANLIB Balanced Fund	2004 - Consistency of performance

Disclaimer and statutory disclosure

Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. A Portfolio of a collective investment scheme in securities may borrow up to 10% of the market value of the Portfolio to bridge insufficient liquidity as a result of the redemption of participatory interests. The exposure limit to a single security in some Portfolios can be greater than is permitted for other Portfolios in terms of the Collective Investment Schemes Control Act, 2002 ("the Act"). Fluctuations or movements in exchange rates may cause the value of underlying international investments in a portfolio to go up or down, where applicable. CIS are traded at ruling prices and can engage in borrowing and scrip lending. The price of each unit of a domestic money market portfolio is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the Fund. Other participatory interest 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 divided by the number of participatory interests in issue. Permissible deductions include brokerage, STT, auditor's fees, bank charges, trustee/custodian fees and the service charge levied by STANLIB Collective Investments Limited ("the Manager"). Different classes of units apply to these portfolios and are subject to different fees and charges. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. The Manager undertakes to repurchase participatory interests at the price calculated according to the requirements of the Collective Investment Schemes Control Act, 2002, and on the terms and conditions of the relevant Deeds. Payment will be made within 14 days of receipt of a valid repurchase form. Any capital gain realized on the disposal of a participatory interest in a collective investment scheme is subject to Capital Gains Tax (CGT). The Manager is obliged to report on the weighted average cost method for CGT purposes. All portfolios are valued on a daily basis at 15h30. The Portfolio Charges document (including the Performance Fee Frequently Asked Questions) is available on www.stanlib.com. Contact details of Trustees: Absa Bank Ltd, 6th Floor, Absa Towers North (6E1), 180 Commissioner Street, Johannesburg, 2001. Telephone No. (011) 350-4000. Liberty is a full member of the Association for Savings and Investments of South Africa. The manager is a member of the Liberty Group of Companies.

As neither STANLIB Wealth Management Limited nor its representatives did a full needs analysis in respect of a particular investor, the investor understands that there may be limitations on the information mentioned in this document with regard to the investor's unique objectives, financial situation and particular needs. The information and content of this document are intended to be for information purposes only and STANLIB does not guarantee the suitability or potential value of any information contained herein.

STANLIB Wealth Management Limited is an authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act No. 37 of 2002 (Licence No. 26/10/590). STANLIB Wealth Management is an approved Retirement Fund Administrator (24/178).

STANLIB Collective Investments Limited (SCIL) has recently received a circular, (CISCA Circular No.11), from the Registrar of Collective Investment Schemes regarding a joint investigation of National Treasury, SARS and the FSB, which is currently in progress with regard to dividend income fund type portfolios. SCIL is obliged, in terms of this circular, to bring the following to your attention with regard to this investigation. The outcome of the investigation could affect certain structures and SPVs (special purpose vehicles) used by underlying investments of these types of portfolios, which may result in possible adverse tax consequences, and may require amendments to existing legislation. The above mentioned regulators still have concerns which could impact negatively on the future of these portfolios and the continuation of these portfolios can therefore not be guaranteed. SCIL however do not believe that there is any current cause for concern regarding the STANLIB Dividend Income Fund and should there be a more definitive outcome from the investigation investors in our STANLIB Dividend Income Fund will be informed timely of any legislative changes that may affect their investment.

Compliance number: 2448ZB

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Paper

As part of STANLIB's environmental policy this brochure has been printed on Magno Satin paper. Produced in Austria, this paper comprises 100% virgin fibre. At least 50% of the fibres used during the paper manufacturing process come from forests managed according to criteria established by the Forest Stewardship Council. Compliance with these standards was certified by an independent body.

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