

# Investment

## Six investment principles

Investors today are looking for investments that help them achieve their financial goals.

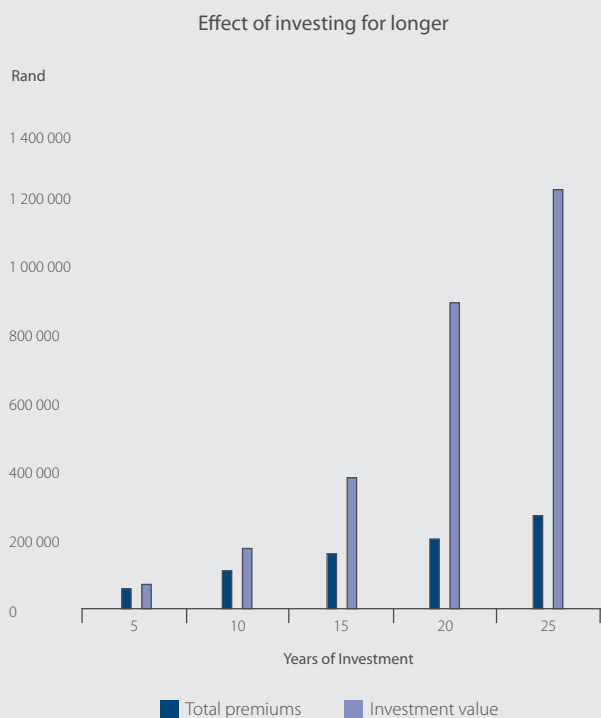
At Liberty Life, we believe in understanding individual circumstances and needs, and developing investment plans with investors to achieve their objectives using world-class investment vehicles and portfolio management expertise.

By keeping to the following tried and trusted investment principles, investors will be well on their way to achieving their investment goals:

### 1. You need to take a long-term view to create wealth

To create wealth, you need to take a long-term view to investing. The longer funds are invested, the greater the benefit of compounding is on the ultimate value of the investment. This applies to both interest bearing and equity related investments.

The following graph shows how investing for a longer term impacts on the ultimate value of an investment. As the term of the investment increases, so does the difference between the value of the investment and the accumulated premiums paid over the lifetime of the investment.



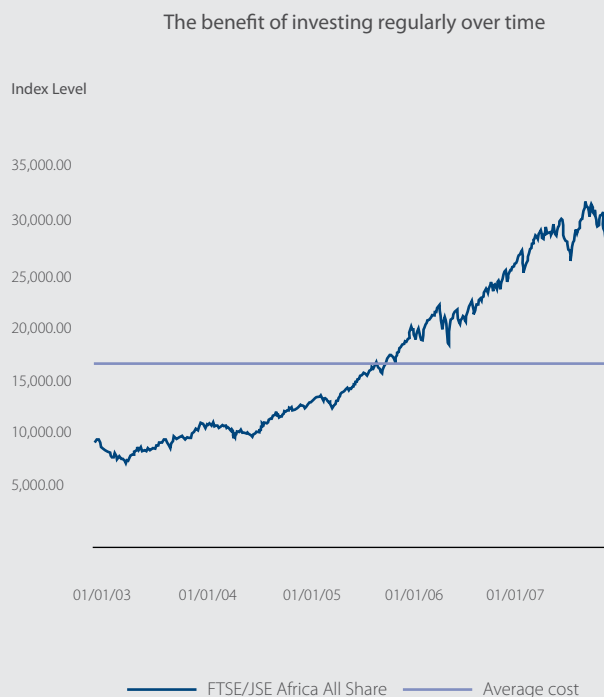
Source: Liberty Life

### 2. You can benefit from investing regularly over time

Many investors do not want to invest when markets decline or are volatile, preferring to wait for more positive conditions. Unfortunately, the best time to invest can only be determined with hindsight, and the longer investors delay, the more they will need to invest to achieve their financial goals.

Once you have determined your financial goals and plans to achieve these, volatile markets should not stop you from taking action. In fact, by investing on a regular basis, you may benefit from rand cost averaging. This means that if you invest steadily and regularly over a period of time, downward market trends are an opportunity to buy units or shares at a lower price, which may benefit you in the long term.

The graph below shows the JSE All Share index and the average level of the units bought by investing each month over five years to January 2008. This average value is significantly below the value of the index at January 2008, illustrating how rand-cost averaging can work in your favour.



Source: Liberty Life

## Six investment principles, continued

### 3. Use your risk profile to choose your investment and then stick to it

Whatever investment strategy is chosen, it has an expected risk (as measured by the volatility of returns from month to month) and return profile. When you choose an investment it is important that you understand:

- your tolerance for short-term volatility
- your investment time horizon (how long you can leave their money invested before you will need it), and
- the long-term return you hope to achieve.

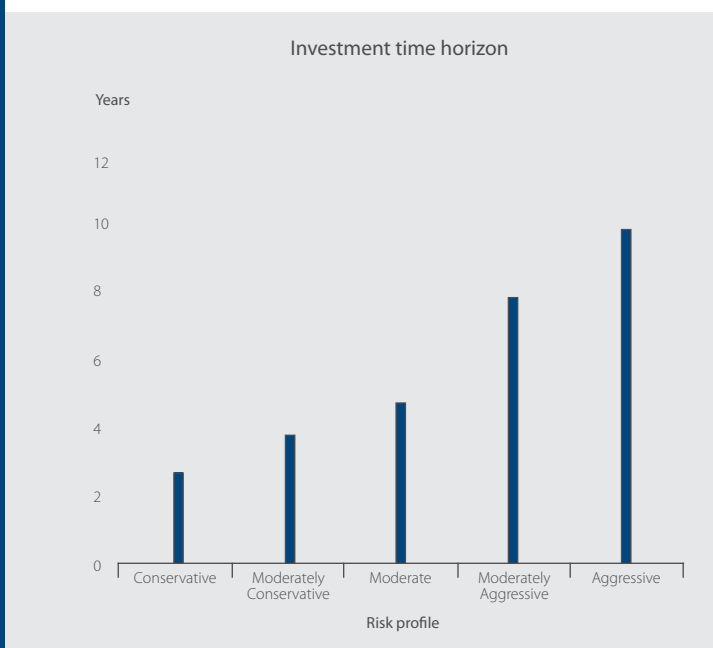
Investing in different asset classes will reduce investment risk. It is important for you to select an asset mix appropriate to your investment objectives and risk profile. This will allow you to achieve the long-term investment returns you expect within acceptable levels of short-term volatility.

Liberty Life has identified five different risk profiles ranging from conservative to aggressive. To assist you to match your portfolio choice with their investment strategy, Liberty Life has constructed risk profiled portfolios to match each of these profiles.

The key characteristics of each of these risk profiles are shown in the three graphs below:

#### i) Investment time horizon

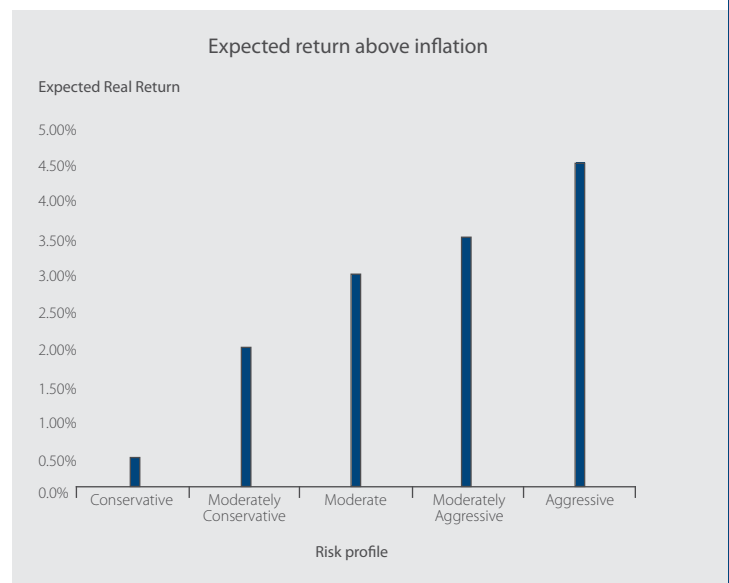
This is the minimum period over which the investment should be held in order to achieve the expected returns.



Source: Liberty Life

#### ii) Expected return above inflation

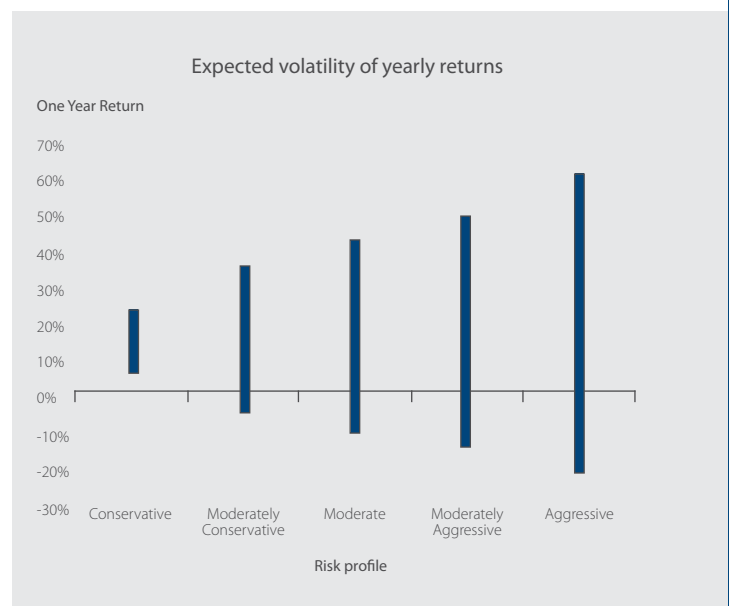
This illustrates the expected returns (after tax and charges) in excess of inflation that are targeted over the investment time horizon under each risk profile.



Source: Liberty Life

#### iii) Expected volatility of yearly returns

This illustrates the simulated best and worst 1-year performance of the portfolios over the past 20 years. This gives the likely range of yearly returns that can be expected from these various portfolios.



Source: Liberty Life

## Six investment principles, continued

### 4. Invest in a geographically diversified mix of assets

Just as different asset classes perform differently over time, so do different markets. By investing in a geographically diversified portfolio, investment risk is reduced, thereby enhancing the return per unit of risk.

The following graph compares the relative performance, in US Dollars, of markets in the USA, Europe, the Pacific Basin and South Africa over the last 10 years.



Source: Liberty Life

### 5. Don't chase the best performing asset classes

Different asset classes have different risk reward profiles. Investing purely in equities may produce better long-term returns than cash and bonds, but it also results in a greater probability of negative returns in the short term.

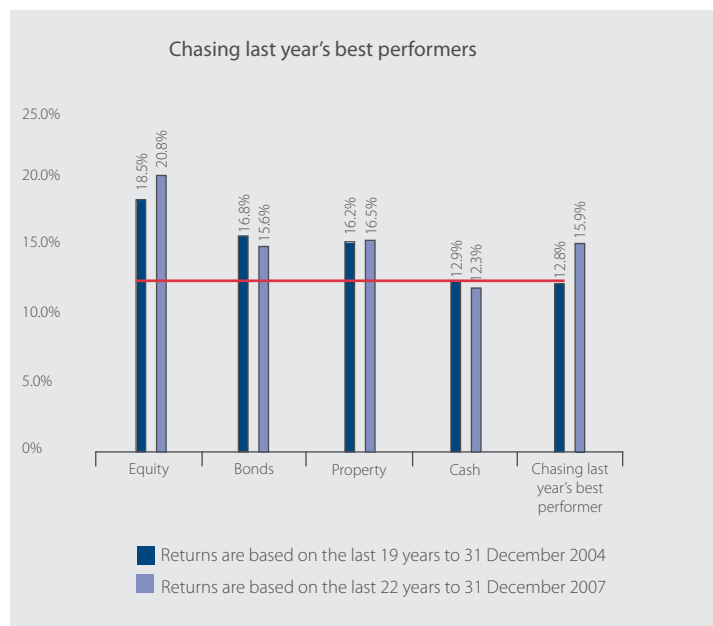
Some investors fear missing out on opportunities, so they continually switch into last year's best performers. Today's winner can be tomorrow's loser, so by chasing markets you can seriously burn your fingers! If you try to chase the 'flavour' of the month or year, the chances are that you have already missed the best performance and your investment will probably under perform in the short term.

By combining different asset classes such as equities and bonds, you are able to reduce investment risk to below that of a pure equity investment, while generating a long-term expected return

in excess of that of bonds. You should invest in portfolios where the asset mix suits your individual risk profile.

The graph below shows the average pre-tax returns that you would have if you had invested purely in equities, bonds, property or cash over the selected periods, compared to the returns you would have achieved if you had switched into the previous year's best performer each year.

To give a realistic picture, two periods were selected. The shorter period excludes the very strong bull run that local markets have experienced from 2005 to 2007. As can be seen from the graph, chasing last year's best performer has historically been a very unwise investment strategy. Even small differences in returns, when compounded over the investment term, has a very significant impact on the final investment value.



Source: Liberty Life

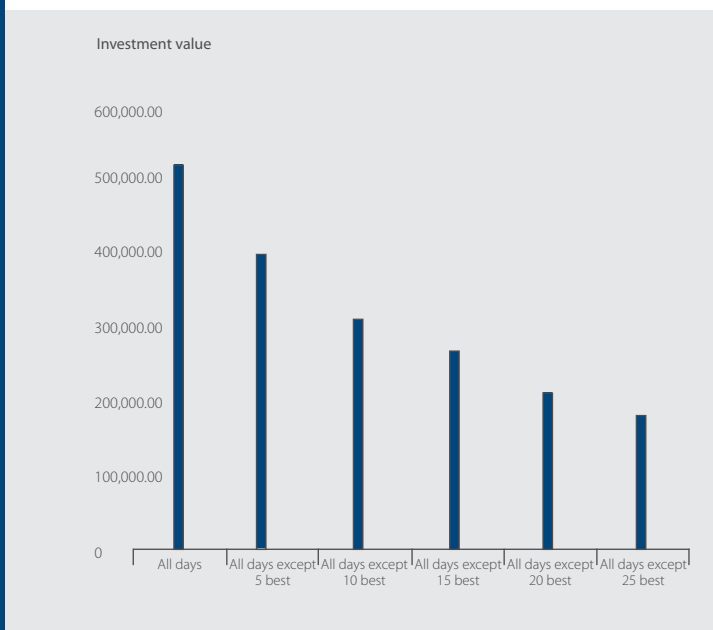
By investing in a balanced mix of asset classes and sectors, investment risk is reduced and you get exposure to asset classes and sectors before they become the 'flavour of the month'.

### 6. Don't try to time the market

All investors want to 'time the market' by investing when markets are low and disinvesting when they are high. Research has shown that very few people get this right. Rather than try and time the market, you should develop a long-term investment plan and stick to it.

## Six investment principles, continued

The following graph illustrates this point; missing just a few of the market's best days can have a dramatic impact on the value of an investment.



Source: Liberty Life

### Why trust Liberty Life with your investment?

Liberty Life is a blue chip company that has been listed on the Johannesburg Securities Exchange (JSE) since 1962. It has a reputation for both innovation and excellence, and has been a leader in the financial services industry since then.

Liberty Life has access to world-class South African and offshore asset management operations, enabling it to provide investors with global investment solutions.

Liberty Life's total assets under management are in excess of R340 Billion, and it has shareholder capital significantly in excess of liabilities. This provides the financial muscle and security for investors in turbulent markets.

Liberty Life's goal is to meet the needs of its customers through competitive and innovative products, by producing investment returns that create long-term wealth, and by delivering quality financial advice and service.

As well as sticking to key investment principles, successful wealth creation also requires the right investment vehicles. Liberty Life's Excelsior Investments range of products has a number of features aimed at helping you to create and preserve your wealth and includes:

#### Cost effectiveness

Liberty Life's Excelsior Investments range offers a competitive charge structure. While charges are not the only consideration, they are an important one as the lower the charges, the greater the amount of money working for you.

#### Performance

STANLIB Asset Management and STANLIB Multi-Manager are the primary asset managers on the Excelsior Investments range. They have a long track record of producing inflation-beating returns and top-ranked performance. In addition, the portfolios of a number of other top ranked fund managers are also available.

#### Flexible investment choice

Investment portfolios ranging from cash to equities, and including both local and offshore options, are available.

#### Guarantees

Liberty Life provides performance guarantees on certain portfolios. These provide you with peace of mind, particularly if you have a shorter investment time horizon; for example if you are approaching retirement.

#### Ad-hoc payments

You can, within certain legislative limits, make additional payments into the investment products available under Excelsior Investments. This provides you with the flexibility to maximize your wealth creation within one investment product.

#### Tax efficiency

Tax is an important consideration, as your investment should provide sufficient real rates of return after the deduction of tax and charges. If you are in a higher tax bracket you may benefit from the favourable tax treatment of policies offered by Liberty Life. This will help you maximize your wealth creation.

#### Disclaimer

The information contained in this document does not constitute advice by Liberty Life. Any legal, technical or product information contained in this document is subject to change from time to time. If there are any discrepancies between this document and the contractual terms or, where applicable, any fund rules, the latter will prevail. Past performance cannot be relied on as an indication of future performance. Investment performance will depend on the growth in the underlying assets, which will be influenced by inflation levels in the economy and prevailing market conditions.

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