

Investment Strategy Document (“ISD”)

for

Direct client

(“Investor”)

Prepared by

Seed Investment Consultants (Pty) Ltd

(“Seed”)

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1. Introduction

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SECTION I – Client's investment objective

1. Summary of your information

The correctness of this information is critical in establishing your investment strategy document (ISD).

A summary of your information is as follows:

Name and Surname:	Direct Client
Date of Birth:	01/07/1960
Gender:	Male
Name and Surname of Spouse:	Mrs. Direct Client
Date of Birth:	01/07/1960
Expected retirement age:	65
Size of current value of assets: ¹	R2 000 000
Provident Fund	R1 500 000
Secondary property	R300 000
Discretionary share portfolio	R200 000

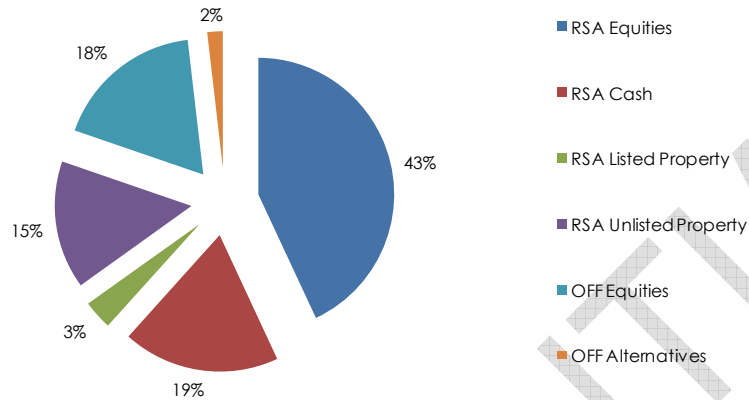
¹ We do not take into account primary property, cars, emergency savings and other assets that are not deemed for long term investing purposes.

Total

R2 000 000

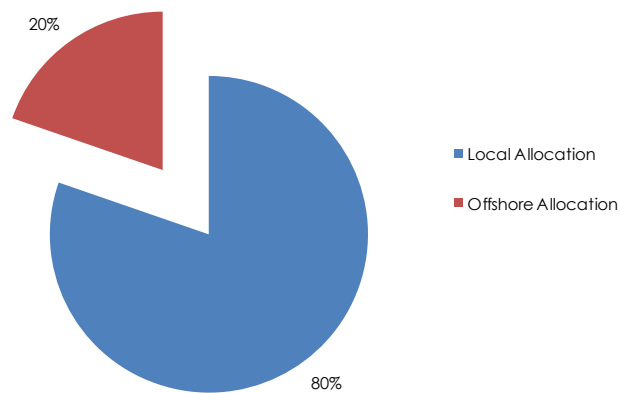
Based on the information you provided Seed your current asset allocation² is shown below.

Graph:



Your current asset allocation split between local and offshore³ assets are shown below. Note that the definition for offshore is offshore domiciled assets plus offshore "swap" assets but excludes locally listed companies with a form of offshore revenue stream.

Graph:



2. Your investment and income requirements

From our discussion we understood that your main investment objective is to be able to receive a targeted pension of R15,000 p.m. (net of tax). This pension amounts are all in today's monetary terms and should increase at the rate of inflation.

² Asset Allocation – This is how your current assets (excluding primary homes and motor cars) are split between the different asset classes.

³ Not that the definition for "offshore" is offshore domiciled assets plus offshore "swap" assets but excludes locally listed companies with a form of offshore revenue stream.

3. What are the risks of meeting your investment objectives?

We believe it is critical to define what the "risk" is you are facing. Unless we define it properly we will never be able to reduce that risk. Contrary to normal belief, that risk equals the volatility (i.e. unpredictability) of returns, we define risk as follows (in terms of priority):

- **Actuarial Risk** i.e. the risk of not meeting your long term liabilities (expected cash requirements)
- **Investment Risk** i.e.
 - The risk of not meeting your long-term investment objectives for example, outperforming Inflation + 5% over the long-term and
 - The risk of losing capital over the short- to medium-term.
- **Behavioural Risk** i.e. the risk of not buying consistently low and selling consistently high but rather following the herd.

Please refer to **Appendix C** for a detailed description of other risks that you will be exposed to in the market.

4. Your required real return

Based on the information you provided Seed, we estimated that you need a long term return on your assets of at least CPI (Inflation) + 2.4% p.a. in order to meet your pension payouts in real terms.

We calculated this required return by taking into account your current assets, pension requirement during retirement and expected life expectancy.

5. Summary of Seed's future set of assumptions

Seed uses a set of assumptions to value both your assets and liabilities (e.g. future pension payments) into the future. We estimate 1000's of possible economic scenarios in order to capture the likely impact of these economic scenarios on your investment portfolio. We therefore don't work with one set of future inflation rate but rather a range of possible rates. The same is true for real interest rates (i.e. difference between the repo rate minus inflation), equity returns, property returns, ZAR devaluations, wage increases etc.

SECTION II - Establishing the client's optimal asset allocation

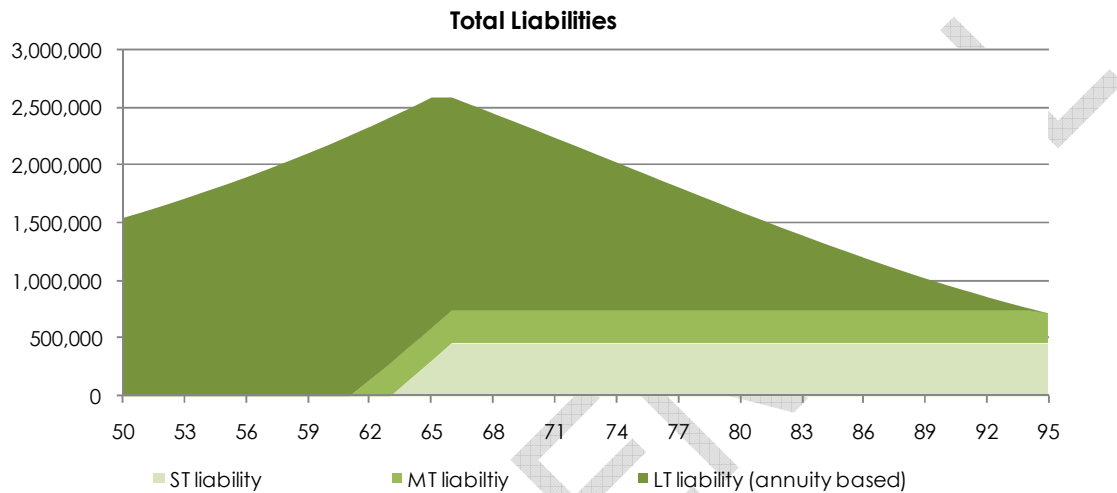
The asset allocation of your investments is driven by:

1. The size of your liabilities i.e. your income requirements in the future
2. The size of your assets and future contributions
3. The timing of your retirement

1. Size of your liabilities

We define liabilities as the present value of your future income requirements after retirement. The graph below illustrates the present value of your liabilities at different ages.

Graph



We divide your total present value of liabilities into three "buckets". They are:

1. The "ST liability" (Short Term liability) bucket is the present value of your income requirements for the first and ensuing three years.
2. The "MT liability" (Medium Term liability) bucket is the present value of your income requirements for the following two years.
3. The "LT liability" (Long Term liability) bucket is the present value of your income requirements for the balance of the expected future years. We use the standard actuarial mortality tables to define the likely probabilities in the future.

Therefore, your total liability at any given age in the future is the sum of these three buckets.

Each of these three buckets will be impacted by different economic, social and political factors. In order to ensure that you have sufficient capital to finance your liabilities in future years, the most efficient way is to match your liabilities with a specific asset. We therefore divide your assets also into three buckets.

2. Size of your assets

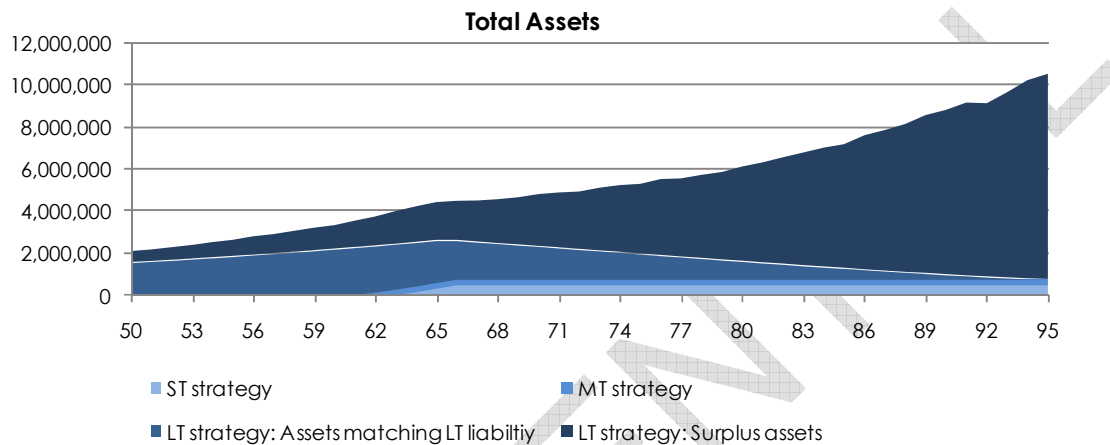
In order to match your assets with your liabilities we need to understand the following:

1. Current value of your assets
2. Your expected future savings towards retirement
3. The likely growth of your assets in the future
4. The characteristics of the different assets in the different market conditions

We projected your assets into the future based on our proprietary stochastic model. We then stress tested your portfolio under 100's of different scenarios.

Assuming you invest all your assets into the recommend asset allocation then the graph below illustrates the likely outcome. The graph illustrates the projection of your assets, less any income draw downs, based on averages.

Graph



The graph illustrates that you have sufficient assets (on average) to finance your income requirements and still have assets in your estate.

The “**ST strategy**” (Short Term strategy) represents the bucket of assets that matches the “ST liability” bucket. This ST strategy bucket will be sufficient to ensure you have enough assets to finance your short term income requirements for the first and ensuing three years irrespective of markets conditions.

The “**MT strategy**” (Medium Term strategy) represents the bucket of assets that matches the “MT liability” bucket. This MT strategy bucket will be sufficient to ensure you have enough assets to finance your medium term income requirements. The MT strategy is designed in such a way that the assets have a 90% probability of being able to finance your income requirements for years four and five from now.

The “**LT strategy**” (Long Term strategy) represents the bucket of assets that matches the “LT liability” bucket. This LT strategy bucket’s aim is to grow your portfolio in real terms in order to increase the likelihood of having sufficient capital to finance your income requirements in years beyond the short and medium term.

In order to reduce capital losses we believe it is critical to consider the following three points when constructing the LT strategy portfolio:

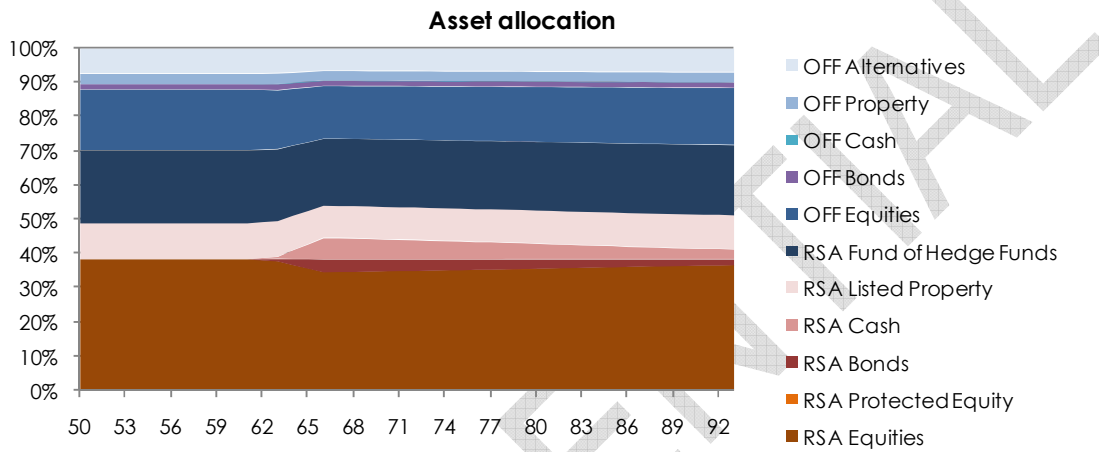
- Include a diversified pool of assets classes
- Include asset classes that increase in real terms but that are uncorrelated
- Include hedged (protected) equity funds

3. Your recommended asset allocation

Each of the short term, medium term and long term buckets of assets have their own characteristics.

However, on a consolidated basis the recommended asset allocation today and in the future is shown below.

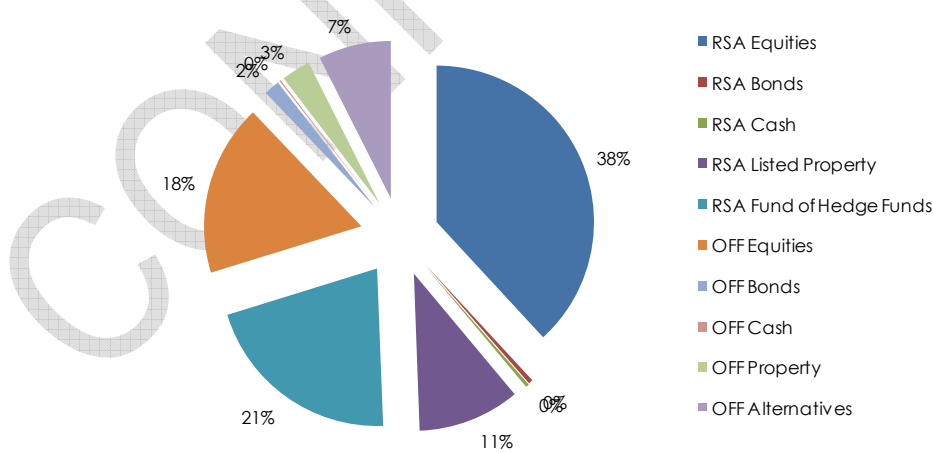
Graph



Over time the allocation to volatile assets like local equities, property and offshore assets will reduce while more cautious assets like cash and bonds will increase over time.

The graph below illustrates the asset allocation of the recommended strategy at your current age.

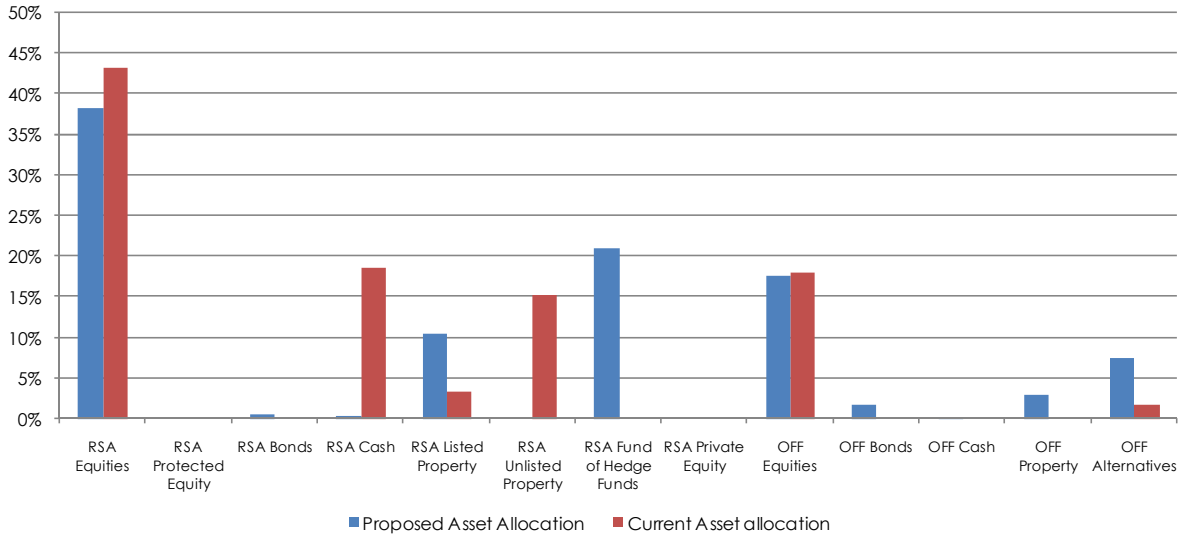
Graph



We recommend investing in a well diversified portfolio where the underlying asset classes exhibit **low correlation** against each other and they are all **growth assets**. The graph below illustrated the comparison between your current strategy

and the proposed asset allocation. Seed recommends that we align your portfolio, over time, as close as possible to this proposed asset allocation. Seed has drafted a separate document proposing an implementation process.

Graph

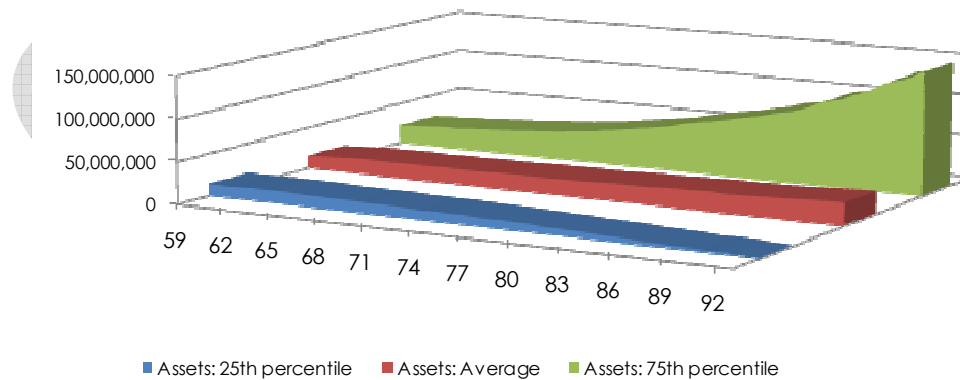


4. Stress testing your asset allocation

It is important to stress test any portfolio and to understand the likely impact of future events. We simulated your portfolio 100's of times each with different scenarios. We used data from 1960 to assist us with this process.

The graph below shows the projection of your assets based on the 25th percentile (i.e. worst case scenario), the 75th percentile (i.e. best case scenario) and the average scenario.

Graph



The graph above shows that there is a probability of a pension shortfall if the worst case scenario materialises. This is only likely to occur after age 90.

5. Dynamic global economic view

We regularly update our view on the global economy and asset classes. Based on our view we manage the exposure to the different asset classes. This allows us to take advantage of miss-priced assets versus more expensive assets. We will therefore manage the portfolio within limits around the strategic asset allocation.

6. Researching the best asset managers

Currently there are more unit trusts than listed companies. This makes it even more important to have a structured process when it comes to selecting the best performing unit trusts (i.e. asset managers). We don't believe in only looking at historic performances when it comes to selecting unit trusts. Instead, we consider five major factors and a number of sub-factors when it comes to selecting the best unit trust managers. A balanced approach is therefore necessary when selecting these managers. The five major factors are:

- Company structure e.g. administration and sustainability
- Percentage ownership of management
- The credibility of the investment process
- The skill of the investment professionals
- Historic performances and statistics

The first four factors are "qualitative factors" while the last factor is the "quantitative factor" that considers historic performances and risk statistics. Canadian research⁴ has shown that asset managers with certain characteristics generally outperform their peers. These are:

- The individuals managing the assets owns a large part of the company
- The managers are generally bottom-up stock selectors
- The managers experience a low turnover of staff
- The managers manage a relatively small portfolio

We believe these criteria are critical to consider when selecting managers.

The details of the funds are described in the [Implementation Document](#).

7. Risk management

Risk management is critical to the whole process. In order to manage the risks described in this document, one has to ensure that the process is reviewed regularly and that all parties adhere to their requirements. This includes the following points:

⁴ "Institutional or Entrepreneurial Management?" Canadian Investment Review (Spring 2005)

- The investor needs to review his/her long term objective regularly
- The optimal strategic asset allocation needs to be updated if and when important information changes
- The investor's portfolio is implemented as represented in this document
- The portfolio has to be managed according to the limits specified in this document
- The unit trust managers manage the investors' assets according the agreed mandate stipulated by the Collective Investment Schemes Act and the Financial Services Board
- The Hedge Fund manager manages the investor's assets according the policy mandate and according to the Long Term Life Assurance Act

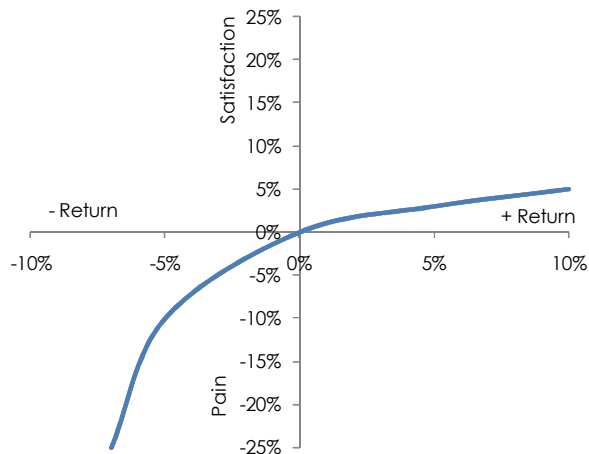
This regular review of the objectives, investment strategy and relevant asset managers is an ongoing process.

SECTION III – Client's investment behaviour

Understanding your emotional investment behaviour

Your attitude towards risk will have an impact on the sustainability of your long term portfolio. To put it simply, we don't believe it is efficient to structure a portfolio for a client that deviates too far from his/her personality or attitude towards risk. This is not an easy task to quantify.

A typical investor's emotion to positive returns and negative returns can be illustrated in the following graph.



The graph shows that with a 10% gain the level of "satisfaction" is minimal. However the level of "pain" someone feels for losing only say 7% is substantial.

Seed recognizes this behaviour and the best way to manage this behaviour is to have clear indication what the level of risk is of the underlying portfolio. This is shown in graph below.

Important contact information

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