

# GERBER & LOUW (Pty) Ltd

FINANCIAL SERVICE PROVIDER  
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JULY 2010

## INVESTMENT PORTFOLIO ADVICE SERVICE

“Linked Investment Portfolios” placed with Linked Investment Service Providers. (LISP’s) (In terms of the Collective Investment Schemes Control Act of 2002)

Our primary selected Asset Managers (LISP’S) are: Stanlib, Momentum Wealth, AIMS (Absa), Fairbairn Capital (Old Mutual), Investec and Glacier (Sanlam).

To summarize; - some important information; We follow specific investment principles in determining investment strategy with our clients, namely:

- 1) **Strategic diversification** between selected fund managers and /or investment houses, asset classes and geographical markets, to fit the **risk profile** of our client without unnecessary duplication and cost intensive selections.
- 2) Evaluation of our client’s total **personal situation** in terms of capital and / or income needs, to determine fund selections, terms, income selections and final structure of each portfolio.
- 3) Exposure to only **above average** performing fund managers and investment houses over the short, medium and longer terms. (Up to 5 years)
- 4) Utilizing market opportunities and conditions to implement **portfolio changes**, after thorough considerations of the clients total investment strategy.
- 5) The total disclosure of **cost and fee** implications of investment activities as well as applicable **tax** considerations.
- 6) Continuing **evaluation** of portfolio performance and communication thereof to our clients.
- 7) **Implementing** the placement of the selected portfolio of funds with any of the recognized Asset Managers or Linked Investment companies according the choice of the investor.

Abovementioned strategy has enabled us to limit risks and to achieve above average returns for our clients. Our function is primarily advisory as well as the implementation of our client’s investment decisions. Our investment advice strategy follows fundamental sound investment principles. We **do not expose** our clients to the high risk and volatile environment of specific high exposure to **one** asset class, geographical market, share, scheme, currency or investment instrument unless our client specifically instructs us to do so on his or her behalf.

## FUND SELECTION PROCESS

Investors have a wide choice of South African and / or off shore funds to choose from. (More than 800 in SA). In SA these funds are so-called “Unit Trust Funds ” and the capital value of the underlying units in a fund can go up as well as down, depending on various factors. The funds are regulated by the “Collective Investment Schemes Control Act” and are approved investment instruments by the Financial Services Board (FSB). It is this regulatory environment and control that **provides protection and security** to the investor in approved funds.

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## 2.

Investment structures **outside** the control of the FSB does not have this protection. Many of the SA “Unit Trust” funds are the primary investment vehicle for individual investors as well as pension funds. The funds vary in strategy **from rather conservative to very aggressive**, depending on the underlying asset classes invested in. However, once a **client’s risk profile**, investment term and needs are determined, the choice of funds are narrowed down considerably and it becomes the function of the **accredited investment adviser** to advise the client on the best funds available. The process of selecting suitable top performing funds that also provides a high level of stable performance for the investor, takes years of experience and a thorough knowledge of the subject. In this process, a team of Asset Managers - Consultants as well as their Fund Managers supports us.

### **RISK PROFILING**

This normally refers to the investor’s appetite for risk in achieving investment goals. The risk referred to is normally the level of volatility in the value of an investment over a specific term and not necessarily whether the investor will lose all his or her capital or not. (This can however be the case with “investments” outside the financial sector with which we have nothing to do!). Risk profiles in the financial sector are normally categorized as either conservative, cautious, moderate, assertive or aggressive. The **conservative investor** will **not** tolerate fluctuations in the value of his initial investment and will be satisfied with less competitive returns on his capital. This investor should only be exposed to fixed interest bank accounts, money market funds and possibly certain Income funds. On the other side of the spectrum, the **aggressive investor** will tolerate high volatility in the value of his investment over time, in the expectation of high returns. Specialist equity (shares), local and offshore, will typically form part of such an investment. This investor would typically be prepared to wait patiently for the desired returns irrespective of periods of poor returns. High returns on capital are normally achieved if the investor maintains this strategy over the long term (5 to 10 years and longer).

**By far the most of our investors** are either **cautious** or at the most, **moderate** in their investment strategy. In our experience, this strategy has proved to deliver consistent competitive results against money market fund returns and the inflation rate with low volatility in values.

The **Cautious Investor** is typically investing for pension (saving) or income purposes. A higher stable return than bank rates or money markets is required from year to year at minimum volatility levels. Capital protection with stable growth is the primary objective. If the capital is discretionary (non pension), the investor typically has at least a 3-year investment term in mind but wants access to capital if urgently needed, without penalties, restrictions, or capital losses. The typical portfolio of such an investor should probably consist of Income funds, Varied Specialist Income funds, a Property fund, a Low Equity Prudential (pension) fund and or an Asset Allocation fund / Target Return fund.

The **Moderate Investor** normally invest to achieve a more market related return on his capital in accordance with financial markets and the performance of the economy on a year to year basis, but still with acceptable levels of volatility. (Less than financial markets) .This Investor typically has a term of 5 or more years as investment horizon and is normally also prepared to wait for optimum returns before he or she capitalizes on good returns. **The typical portfolio** of such an investor should probably include a Property fund, Balanced fund(s), Asset Allocation fund(s) and/or even an Equity fund and/or funds with balanced offshore exposure. Normally an investor will give clear indications as to the preferred risk category. If the investor is unsure, a questionnaire is used to assist the investor and advisor in this decision.

### 3.

Many of our investors are somewhere **between Cautious and Moderate** in their investment approach and several variations on above-mentioned portfolios will apply for different investors and / or market conditions.

#### **HISTORICAL RETURNS**

Although historical returns do not necessarily indicate future performance, the following results may be an indication of the return potential of certain funds;

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
INCOME FUNDS	9.39 %	10.2%	9 %
INCOME FUNDS (Var. Strategy)	10.6 %	9.5 %	9.2 %
BOND FUNDS	10.3 %	8.4 %	7.6 %
PENSION: LOW EQUITY	11.7 %	7.3 %	11 %
PENSION: MEDIUM EQUITY – Asset Allocation	15.8 %	2.7 %	13 %
EQUITY: Asset Allocation - Target Return	13.2 %	5.9 %	11 %
EQUITY: Asset Allocation - Flexible	17.8 %	5.3 %	13.4%
PROPERTY FUNDS	26.2 %	9.1 %	18 %
GENERAL EQUITY FUNDS	21.3 %	2.8 %	16.2%
WORLDWIDE FUNDS(Equity Allocation)	(-2.6 %)	3 %	8.9 %
MONEY MARKET FUNDS	<u>7.34 %</u>	<u>9.77 %</u>	<u>8.85 %</u>

NB. These results are averages (annualised) by close calculation on primary selected funds utilized by GERBER & LOUW for their investment clients. (As at **30 06 2010** – including the international financial crisis – from August 2008 onwards)

#### **COST**

Obviously the implementation and maintenance of an investment portfolio, is more costly than ordinary bank deposits. Financial and investment specialists are continuously making your capital work for you within a very strictly regulated financial environment. The implementation costs of a portfolio, as well as the ongoing annual cost, varies according to the investment amount, the selected administrative- and investment- Asset Managers and the specific investment product (discretionary or pension). Unless the investor has specific preferences in his regard, we will seek the most competitively priced fee structure with the various financial institutions. All costs are clearly indicated on official quotations.

As independent advisors, we are in a position to provide our clients only the most competitive products and services of well recognized and accredited financial institutions and investment houses.

*GERBER & LOUW* would like to extend our service to you in future, on a continuing basis.

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