

Asset Allocation Overview

SIGNAL ASSET ALLOCATION

The Investment World

- Many people have a bit of capital to invest, or want to put away a monthly amount to provide for the future. One glance at the listing of hundreds of funds leaves them overwhelmed at the complexity of the markets.
- Signal Asset Management has researched this problem, and has come up with a solution to suit you.
- Most clients want their money to give them good returns - either in growth to provide a substantial capital sum when they retire, or in income when they have retired.

Why Asset Allocation?

- Diversification is universally accepted as the leading methodology to enhance returns, while mitigating losses.
- Diversification is achieved through asset allocation i.e. investing in a number of different type of asset classes.
- Utilization of Asset Allocation Models prevents one from being dogmatically wedded to a small number of asset classes or investment approaches, which do well for a certain period of time and then languish.
- Asset Allocation is therefore the key to Long Term Investment success.

Signal Asset Allocation Model

- Signal Asset Management has developed a systematic asset allocation model designed to provide enhanced returns, while mitigating risk.
- We achieve this by diversifying holdings across a number of different asset classes such as equities, bonds, fixed income, money market, property, offshore holdings and alternative investments
- In this way, the investor achieves a balanced portfolio, with risk spread across a number of different investment types.

Signal have developed **3 distinct model portfolios** tailored to suit the risk profile of the individual investor:

SIGNAL HIGH GROWTH
 For investors who are looking for enhanced returns, with an allocation wholly in high growth assets and who can tolerate the risk of market drawdowns.

SIGNAL MODERATE GROWTH
 For investors who are looking for good returns, and have moderate tolerance to the risk of market drawdowns.

SIGNAL STABLE GROWTH
 For investors who are looking for growth with an emphasis on income, and have little tolerance to the risk of market drawdowns.

Systematic Tactical and Strategic Rebalancing

- Our allocations are based on the principle of mean reversion: asset prices are at times expensive, and at other times cheap; but after time they all revert back to their long term average performance.
- We scale back our holdings when an asset has outperformed its historical rate, and we buy more of an asset when it is cheaper i.e.
- We buy low and sell high.
- Our methodology, however, also recognises long term trends by annually rebalancing all asset classes to their long term averages.

WHY USE SIGNAL?

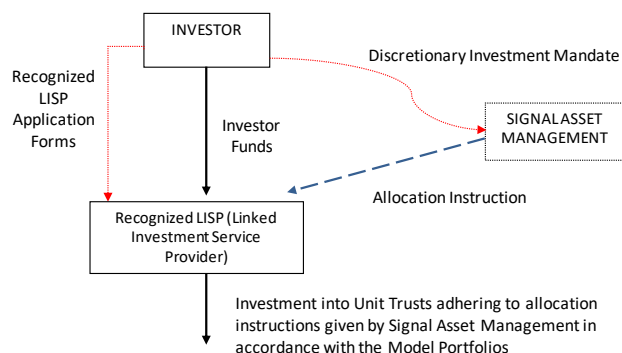
- Our returns compare very favorably with existing balanced funds and we achieve lower drawdowns in times of market adversity, like in 2008.
- We use a non-emotional systematic rebalancing of all asset classes back to their long term mean (*reversion to the mean* concept).
- We invest only in *best of breed* funds on recognized Linked Investment Service Providers (LISP's).
- We utilise recognized LISP's for the administration of investor funds on our behalf.
- We are flexible because of our size, which means that we can always get the allocation needed in each asset class, which some of the bigger balanced funds cannot achieve.
- We are in essence a value-add to the Independent Financial Advisory (IFA) industry.
- Our cost structure is very competitive – our total expense ratio (TER) compares very favourably with the other balanced funds in the market place.

Other services to benefit the investor:

- You can invest a lump sum, or by monthly debit order.
- We are continuously sourcing out new funds and have a solid bench of funds to replace any of the existing funds, if need be.
- We monitor the management of existing Funds for style drift and unusual variances in performance, both good and bad.
- We do periodic management visits and attend the annual roadshows to assess material management changes.

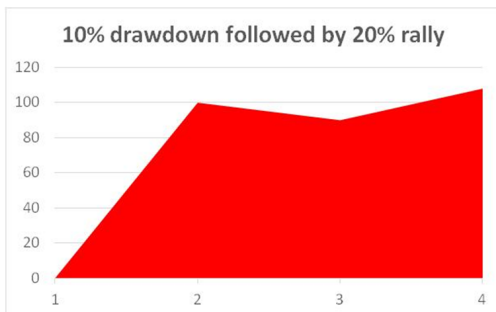
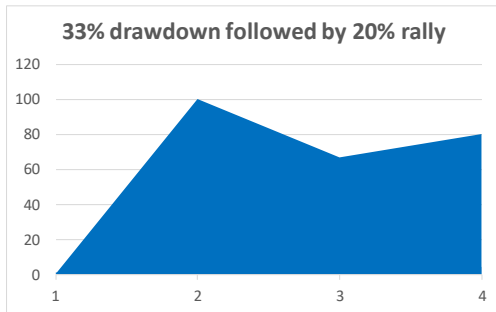
Flow of Investor Funds and Documentation

- The investors assets are held under their name in *best of breed* unit trusts.
- These unit trusts are managed by Signal Asset Management on recognized LISP's. Investors have full transparency into their holdings, reporting and ease of management.
- Signal Asset Management periodically makes the decision to rebalance the clients assets; in other words, we decide what percentage of the investors funds should be allocated to the individual unit trusts.
- Signal Asset Management makes all the allocation decisions. The recognized LISP's administer the assets in the name of the investor, on behalf of Signal Asset Management.



AVOIDING SIGNIFICANT DRAWDOWNS IS AN ESSENTIAL COMPONENT OF LONG TERM INVESTING

- A 33% drawdown, followed by a 20% rally, will only return your asset value to 80, after a previous high of 100.
- By limiting your drawdown to just 10%, followed by the same 20% rally, your asset value achieves a new high of 108.

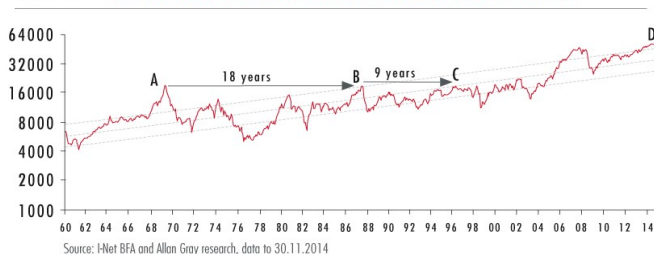


Drawdowns Applied to Actual Market Conditions

"Graph 2 illustrates the uncertainty in the expected return from the stock market, and specifically the impact of overpaying. An investor who invested at the peak of the market in 1969 (point A on the graph) would have taken 18 years to get his initial invested capital back, and that is only if he sold his investment at exactly the right time (point B). If he had missed this exit point, he would have had to wait a further nine years to come out even (point C)".

"Point D shows where the market is today. While equities should always be considered long-term investments, the market is currently expensive compared to its history. As shown in the example, if you come in at a high point and the market returns to more normal levels, you may have to wait longer than expected before your investment recovers its value"

GRAPH 2 FTSE/JSE ALL SHARE INDEX ADJUSTED FOR INFLATION



Courtesy - Wanita Isaacs: Head of Investor Education - Allan Gray



FEE STRUCTURE

1. Unit Trust Fee

Fees charged by the underlying unit trusts are: Management and Performance fees. These vary from 0.30% p.a. (income funds) to 2.50% p.a. (equity funds). These fees together are known as the Total Expense Ratio (TER). The overall average TER for the Model Portfolios currently range between 0.90% p.a. to 1.50% p.a.

2. Discretionary Investment Manager Fee

Fees charged by the Discretionary Investment Manager (Signal Asset Management) to manage the process of allocation and rebalancing the underlying unit trusts is set at 0.25% p.a.

3. Platform Fee

Platform fees charged by the administrators of the LISP's range from 0.15% p.a. to 0.50% p.a., depending on the amount invested and differing LISP's.

4. Advisory Fee

Advisory fees are fees negotiated between the investor and his/her advisor. They can take the form of an introductory up-front fee plus an advisory ongoing fee, or only the latter, depending on the level of services required. The industry has moved away from the introductory up-front fee.

Fees 1, 2 and 3 are all taken into account in the performance numbers of the Model Portfolios, i.e. all returns are net of fees 1, 2 and 3.

Fee 4 is not taken into account in the performance numbers of the Model Portfolios.

LEGISLATION AND TAX

Regulation 28 Compliant

Our allocation is Regulation 28 compliant – that is, we limit our exposure to equities (75%), offshore (45%) and property holdings (25%) to comply with the FSCA regulation, thus allowing **retirement funds** to make use of our model.

Ratified legislation to encourage compulsory savings

Contributors to all forms of retirement funds including Pension and Provident Funds will be able to get a maximum annual deduction of 27.50% on the higher of their remuneration or taxable income limited to a maximum of R350 000 p.a. from 1 March 2016. This is an increase from the previous maximum annual deduction which was 15% of non-retirement funding employment income for RA'S only.

Tax Issues

The recognized independent investment platform administrators:

- Withhold 15% of interest for non residents and 20% of dividends for both local and non-residents and pay it over to SARS on your behalf. They issue each client an IT3(B) subject to various exemptions.
- Calculate and deduct the Capital Gains Tax (CGT) payable and pay over to SARS on your behalf. They issue an IT3 (C) subject to variable exemptions for non residents.

Each individual is entitled to a R40 000 CGT exemption yearly. If not utilized, it is lost for that particular year.