



# Asset Allocation

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When it comes to unit trust investments, there are four main asset classes which are available locally and offshore:

- Cash/money market
- Bonds
- Equities
- Property

Asset allocation refers to how an investment is spread across the different asset classes to achieve certain investment objectives. Any well-balanced investment portfolio will be diversified across asset classes because this will expose the portfolio to any growth potential in the market, while offering downside protection by removing the risk associated with being exposed to only one asset class.

As each asset class has a different associated risk, the investor's risk profile will determine the amount of exposure a portfolio has to each one. For example, an investor who is 25 years old with the goal of saving for retirement or another long-term goal will have a high risk profile and can tolerate short-term market volatility, in return for long-term inflation-beating growth. This investor could be almost 100% invested in equities, with perhaps some money market holdings to provide a portion of stable liquidity.

However, an investor nearing retirement cannot risk losing their retirement capital. This investor therefore has a shorter time horizon and a lower risk profile, and may be more conservatively invested with more bond and money market exposure.

*Important: Because our current economic environment is characterised by low interest rates, lower returns across all asset classes and rising inflation, even the most conservative investor should consider including some equity in their portfolio in order to outpace inflation and gain decent real returns.*

With unit trusts, you can own a diversified portfolio in one of two ways:

- You can combine single asset class unit trusts, e.g. a general equity unit trust, a bond unit trust and a property unit trust. This approach is appropriate for someone who wants to make their own investment and asset allocation decisions, and who may also want to diversify across portfolio managers. Old Mutual Unit Trusts has a range of over 40 unit trusts ranging from aggressive specialist equity unit trusts (such as the award-winning Old Mutual Mining & Resources Fund) to ultra-conservative money market investments – and something for every risk profile in between.
- You can invest in an asset allocation unit trust, which is a unit trust that is allowed to invest in all the asset classes, in line with a predetermined risk profile. These unit trusts are managed by one portfolio manager who makes all the investment and asset allocation decisions on behalf of the investor.

Old Mutual Unit Trusts offers asset allocation unit trusts that range from very conservative (such as Old Mutual Enhanced Income Fund, SYm|METRY Defensive Fund of Funds and Old Mutual Real Income Fund) to more aggressive (such as Old Mutual Flexible Fund), while the SYm|METRY Balanced Fund of Funds and Old Mutual Balanced Fund offer more moderate, evenly weighted options.

## Basic asset class descriptions

On the latest client statement mailing we have provided clients with a breakdown of their portfolios by asset class. These are the simple explanations we have provided for each asset class:

- **Local Equity:** Equities are also referred to as shares or stocks. Local equities are shares in South African companies that are listed on the JSE.
- **Local Property:** Also referred to as listed property. Local property includes both property management companies and property unit trusts that are listed on the JSE.
- **Local Fixed Interest:** These are investments that yield a regular return. The most common examples of these are corporate or government bonds. Bonds are a form of debt that is issued when the issuer (borrower) needs to raise capital. Repayment is specified at a predetermined interest rate and date.
- **Local Money Market:** This is sometimes referred to as 'cash', due to the fact that it is as accessible as a cash savings account. However, money market instruments are fixed interest investments that aim to offer investors better interest rates than a savings account at a bank. They offer a regular interest income and capital stability, but minimal capital growth.
- **Foreign Equity:** Equities are also referred to as shares or stocks. Foreign equity refers to shares in companies that are listed on a stock exchange in a country other than South Africa; for example, the New York Stock Exchange (NYSE) or the Namibian Stock Exchange (NSE).
- **Foreign Other:** This refers to: foreign money markets, which offer exposure to foreign currencies such as the US dollar or the British pound; foreign fixed interest, which refers to investments such as bonds issued by non-South African governments and companies; and foreign property, which refers to property companies listed on the stock exchanges of countries other than South Africa.

Unit trusts are generally medium-to long-term investments. The portfolio performance is calculated on a NAV-NAV basis and does not take any initial fees into account. Income is reinvested on the ex-dividend date. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Past performance is no indication of future growth. Shorter term fluctuations can occur as your investment moves in line with the markets. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Unit trusts can engage in borrowing and scrip lending. The fund's TER reflects the percentage of the average Net Asset Value of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. A schedule of fees, charges and maximum commissions is available from the company. The total return is primarily made up of interest (declared daily at 13h00), but may also include any gain/loss 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. Certain funds may be capped to be managed in accordance with their mandates. Different classes of units apply to these portfolios and are subject to different fees and charges. Old Mutual Unit Trusts is a member of the Association of Savings and Investment SA (ASISA).