

Libfin Review

25 November 2011 – Analyst day



Brief summary from 2010: Distinguishing between management strategies

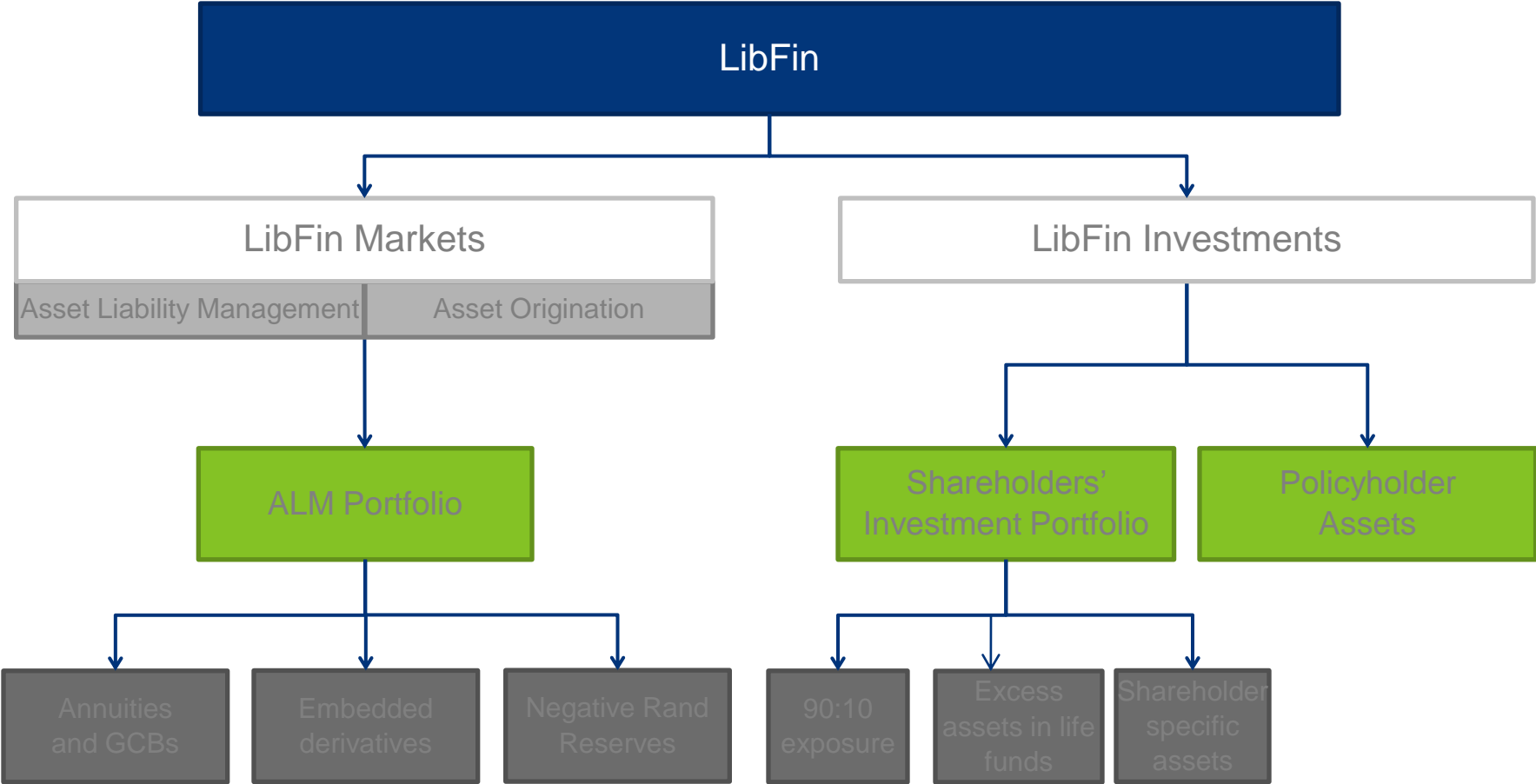
Asset Liability Management

- Disposal of market risk originated by the insurance business at point of sale, which is not attractive to the organisation on a risk-to-reward assessment
- Risk is often complex and non-linear in nature and can be very capital intensive
- Profitable management of such risk requires a skill set usually found in Investment banks requiring: trading type skills, comprehensive risk management structures and daily position management

Investment management

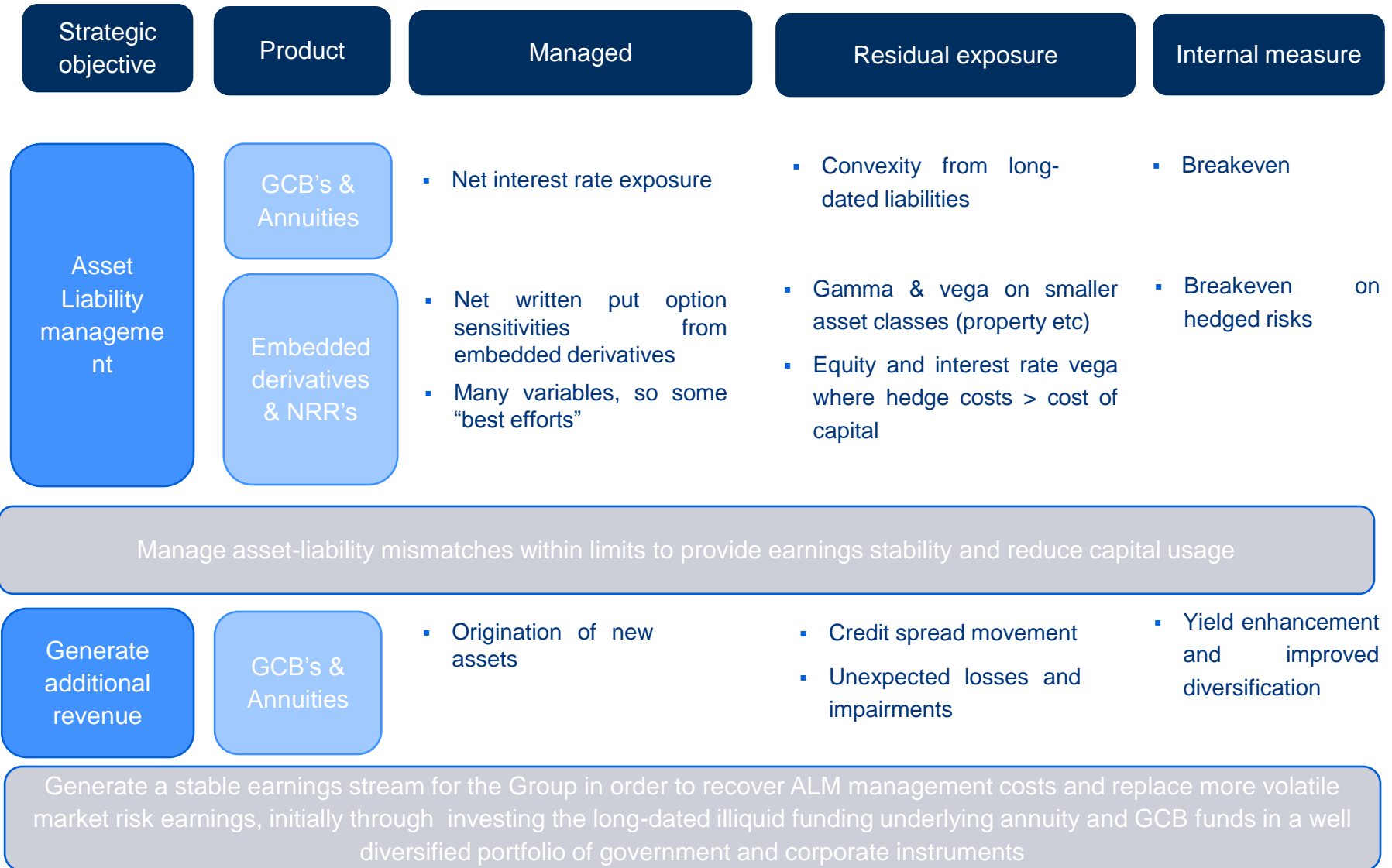
- The business of being an insurer also generates opportunities to invest in market risk which is attractive on a risk-to-reward assessment in the long term, despite possibly exhibiting short-term volatility
- Such risk is usually linear and not particularly complex to quantify (although potentially more complex to forecast directionally)
- Profitable management of such risk requires a skill set usually found in asset managers or asset consultants requiring: portfolio management type skills, and long-term investment mindset, strategic asset allocation, tactical asset allocation and stock picking skills
- Similar skills set and discipline equally applicable to policy holder investments

Brief summary from 2010: LibFin Structure



Libfin Markets

Libfin markets: summary strategy and business case

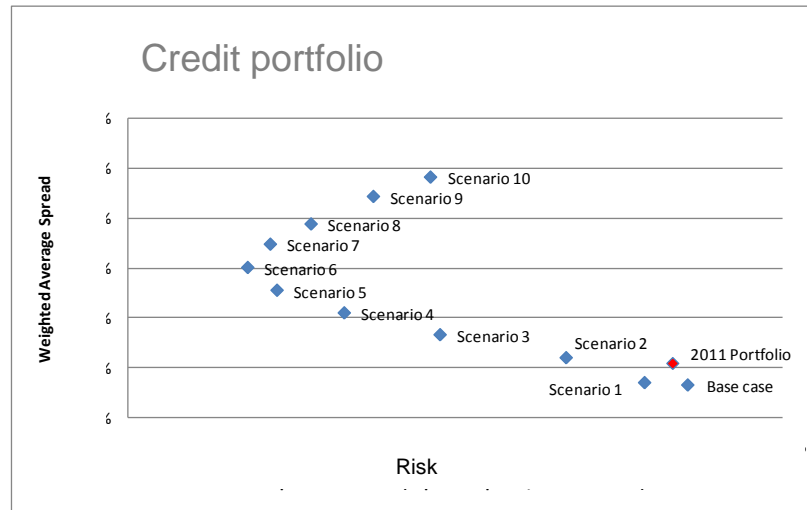
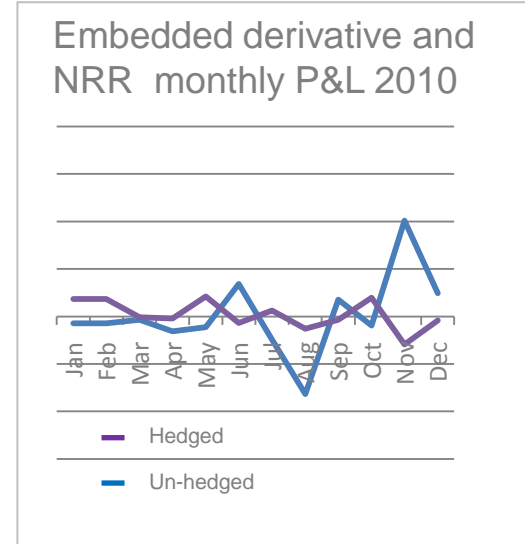
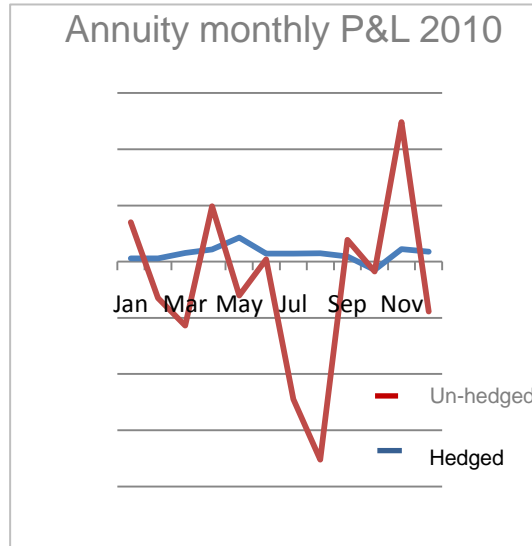


LibFin Markets: Commercial Objectives presented in early 2010 were delivered

2010 Objectives

Manages market risk exposure from complex and long dated asset liability mismatches

Extracting value by investing underlying annuity and GCB funds in a well diversified portfolio of government and corporate instruments



R 2 bn originated (R25 bln book)

Increased marginal income

Improved yield and diversification

LibFin Markets: 2011 experience continues to build on 2010

Variable	Experience year to date	Result
GCB's & Annuities		
Managed interest rates	• Good position management	😊
<i>Very long dated Interest rate (not hedged)</i>	• <i>Volatile market interest rate markets</i>	😞
Credit asset origination	• Better than expected underlying product sales, dislocated markets and balances	😊 😊
Credit spreads	• Tightening credit spreads over the period	😊
Sub-total		😊
Embedded Derivatives & NRR's		
Managed option positions	• Good position management	😊
<i>Equity option vega (not hedged)</i>	• <i>Volatile markets</i>	😞 😞
Sub-total		
Total	• Better than current market conditions would suggest	😊





Libfin Markets: Income statement performance to end September

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- Management has been trying to reduce ALM mismatches while improving the mix of credit assets backing the annuity and GCB products. This year's results (thus far) are primarily a function of
 - Risk management profits
 - Credit accrual and small credit spread mark to market
 - Equity volatility
- Risk management experience has been good, which has partly off-set losses from increases in equity volatility
- We now have the analytics to manage equity volatility, but on a through the cycle basis, we believe the costs of doing so are currently expensive relative to the costs of capital associated with this risk. Accordingly while we may act to dampen this risk if an opportunity presents itself, we are not actively managing this exposure
- Credit accrual experience has been better than we expected:
 - New business from GCB's
 - Cash balances in the business
 - Better opportunities in dislocated credit market

Libfin Investments

Libfin investments: summary strategy and business case

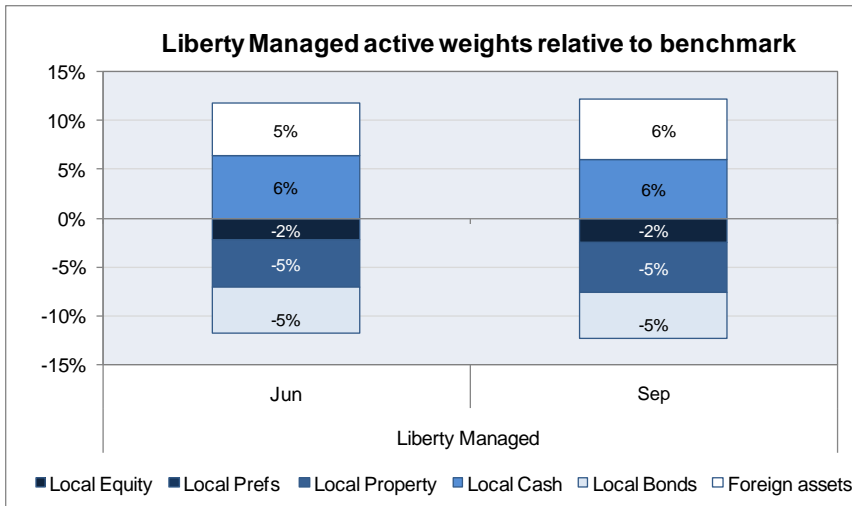
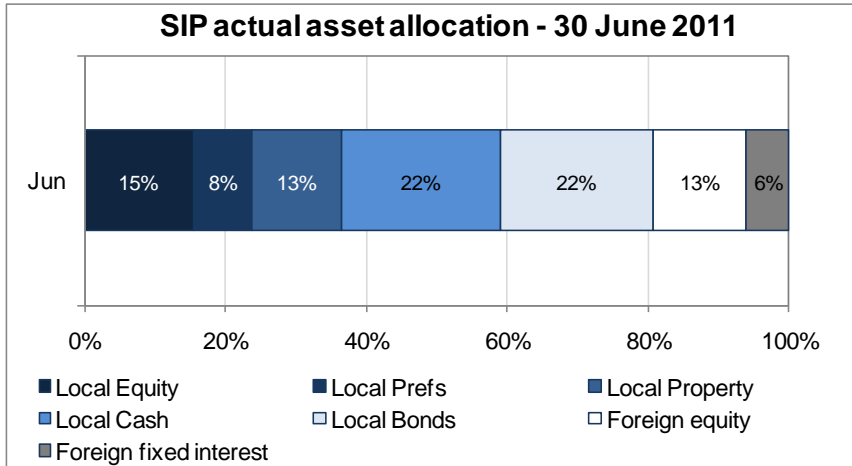
Portfolio	Strategic objective	Internal measure	Score
Shareholder Investment management	Ensure that the Shareholder's Investment Portfolio (SIP), maximises after tax returns , over a 5 year period, for the allocated economic capital and other risk constraints	<ul style="list-style-type: none"> Passive benchmark in the cycle Hurdle rate through the cycle Sharpe ratio 	 Risk off  
Policyholder investment management	Ensure superior risk adjusted performance to policyholders by constructing the appropriate customer portfolios and managing the asset managers to deliver on these objectives.	<ul style="list-style-type: none"> Relative performance of investment portfolios to benchmark (i.e. Customer promise) 	 1 and 5 years

Key actions

- 2010 and 2011 largely focused on getting the basics right. Clear SAA's established, appropriate mandates, monitoring and enforcing performance.
- 2012 and 2013 will focus on rejuvenating our investment proposition and ensuring portfolio is appropriately positioned and efficient in a SAM environment
- 2014 will focus on differentiating our investment proposition

Libfin Investments: Shareholder portfolio positioning

- The SIP portfolio remains defensively positioned in both local equity and local bonds whilst maintaining an overweight position in foreign assets. This asset relative view is also evidenced in the 90:10 reference portfolio managed by the asset manager (i.e. Liberty Managed).



LIBERTY
Own your life

Lifestyle Managed Portfolio

As at 30 September 2011

Portfolio objective

This Portfolio is a managed portfolio, which provides a guaranteed minimum return at specific dates. It combines the objectives of superior performance and prudent risk management. The Portfolio provides diversified exposure to local equities, bonds and property, as well as to equities and bonds denominated in foreign currencies. The underlying investment performance guarantees provide the investor with a well-balanced relationship between potentially high returns and low risk.

Portfolio facts

Portfolio manager	Robert Taylor
Management company	LIBERTY
Launch date	January 1993
Portfolio type	Single Manager
Portfolio size	\$ 4,872,210,313
Guarantee available	An optional guarantee is available on this portfolio.

Performance

Returns

	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs	8 Yrs	10 Yrs
Total	+1.02%	+1.21%	5.04%	6.81%	5.12%	5.12%	13.02%
Entirement Annual	+1.02%	+1.21%	4.97%	3.85%	6.68%	6.44%	13.46%
Inflation	1.40%	3.52%	5.34%	4.97%	4.84%	5.2%	6.02%

Who should invest in this portfolio

- This Portfolio is suited to the investor who:
 - wants a well-diversified high quality investment with security of capital
 - wants to invest in equities and secure high yielding fixed interest instruments, both domestic and offshore
 - has an investment horizon of at least 3 years
 - is prepared to accept high fluctuations in returns from year to year

Risk profile

No adjustments have been made to the above risk profile for the guaranteed version of this portfolio. If a guarantee is selected on the portfolio, then the risk profile will be lower, provided the investor remains in the guaranteed portfolio for the duration of the guarantee term.

What return is this portfolio designed to achieve?

Expected return*	CPI + 3.5%
Investment horizon	3 years

Quarterly commentary (and quarter)

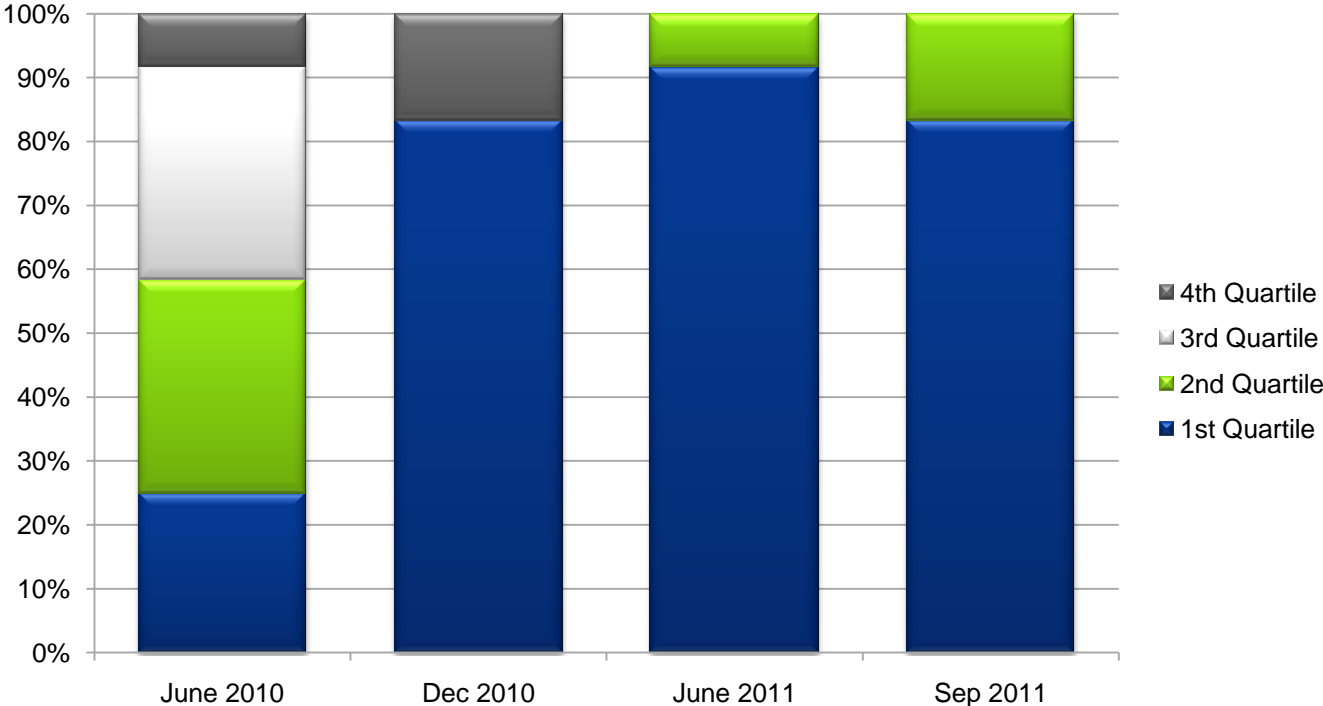
The Managed portfolio yielded another robust return over the benchmark for the second quarter of 2011. The portfolio continues to outperform the benchmark over five and six year periods ending 30 June 2011, with marginal underperformance over 3 years. Over the quarter, most of the alpha generation came from positive asset allocation and stock selection within the equity and offshore bonds. The strategy regarding the Managed portfolio was unchanged in the second quarter of 2011 whereby, from a tactical asset allocation perspective, the underweight domestic equity and bond position has maintained, given the continued macro uncertainty surrounding peripheral Europe, as well as the ongoing discussions regarding the US debt ceiling and the related risk of US Treasury credit downgrade. However, the overweight offshore equity position was maintained given the relative attractiveness of offshore equity markets relative to the domestic market. The portfolio in equity stock selection was retained given the continued uncertainty as to the longevity and sustainability of the global economic recovery, together with the risk of margin trading at recent levels in equity sectors. The Managed portfolio also remains overweight cash and given the expectation for income generation "fully" reinvested in property.

While the prudent equity stock selection strategy has been a detractor from the longer-term performance of the equity block, this has been the repeat call over assets as risk aversion away from high-beta stocks has increased. As stated in previous reports, when required, preference has been to use "tactical" asset allocation to ensure greater beta exposure within the portfolio. As a sector level, the portfolio continues to be underweight Resources and Financials and overweight Industrials.

Although stock selection within the bond portfolio was positive, this was largely neutralised by negative sector allocations, i.e. an underweight exposure to the 10-year area and an overweight exposure to the 1-3 year area. There does, however, still remain concern over the long-term prospects of the nominal bond market as the curve is expected to normalise further.

Interventions by LibFin have had positive impact on Policyholder Performance

- Significant project completed ensure client mandates and asset manager mandates aligned
- Most appropriate capability utilised to ensure delivery to policyholders investment objectives
- Mandates improved to leverage off capability, through scope, design or change to PM



One year performance relative to peers shows significant improvement (similar result for 3 and 5 years)

Questions