Investment Solutions

Compliance

Security of Assets Invested with Investment Solutions Limited

March 2009

Overview

Investment Solutions Limited is a wholly owned subsidiary of Investment Solutions Holdings Limited, and is the leading provider of multi-manager investment portfolios in the South African market.

Investment Solutions Limited is a registered long-term insurer with the Financial Services Board (FSB) and has a life licence, which allows for the pooling of assets. The life-licence route was selected over the other vehicles available because Investment Solutions Limited's clients are long-term investors, making the legislation governing life offices more appropriate. The company's licence is limited, precluding it from accepting mortality, morbidity or investment risk for its own account. Clients investing into the Investment Solutions portfolios do so via a policy of insurance issued by the company. All policies are written on a market-value investment basis.

Investment Solutions Limited has issued share capital of R18 068 000, which is more than the share capital requirement set by the FSB. In addition, the company is also required to maintain assets meeting capital adequacy requirements which is based on the company's business lines and the risk profile.

Where guarantees of capital and/or returns are a feature of the investment portfolio, for instance in the fully vesting guaranteed-type portfolios, the guarantees are fully underwritten by other life insurers or banks.

Investment Manager Selection and Monitoring Process

Investment Solutions Limited's multi-manager investment team, the largest in the local marketplace, is engaged in quantitative analysis, qualitative analysis and market and economic research.

The in-house quantitative and qualitative teams conduct the research, using external systems (such as BARRA, Micropal, I-Net Bridge, Datastream, SPSS statistics package and Connex) as tools in the process. The company has developed several in-house systems (MIDAS, PAS, MARS, style plots and cluster analysis and a collective investment scheme database) that give it a competitive advantage. The investment team does all the research and proposes the investment decisions to the board-appointed investment committee. This committee adds vast experience and has overall responsibility for investment decisions regarding the Investment Solutions investment portfolios.

The unique investment process, internally designed and developed, incorporates a number of steps backed by dedicated proprietary systems. The investment team selects reputable and established independent investment managers, independent of Investment Solutions Limited, who invest in the underlying physical assets according to the investment mandates provided.

In every instance, there is a portfolio-management agreement with the investment manager, with Investment Solutions Limited as the principal client. The contractual relationship between the company and the investment manager is similar to a direct client-fund relationship with the investment manager.

The investment mandates applied across all the appointed investment managers limit the company's risk regarding individual share exposure, asset allocation, derivative trade and credit risk. Dedicated staff members monitor investment managers' compliance with investment mandates using a compliance-monitoring system, and where breaches occur, the managers are immediately required to explain and rectify the situation. If required, a claim is made to ensure the portfolio is not prejudiced.

Independent Custodian

Absa Bank Limited, a nominee approved by the Registrar of Long-term Insurance, is the independent custodian of all the underlying assets in the company's portfolio range. The selected investment managers are contractually obliged to use the services of Absa Investor Services as custodian.

The use of an independent custodian increases security by providing the company with an independent source of information on the portfolios. This information is reconciled monthly to the investment -manager holdings by Investment Solutions Limited, and all differences are queried and resolved.

IT ALL ADDS UP!

Please turn over for further details.

Restricted Authority to Allocate Assets

Any investment into the company's portfolio range passes through its clearing accounts into an investment manager account held at Absa. Investment Solutions Limited opens the required bank and scrip accounts for, and on behalf of, the appointed investment manager. Absa is mandated to follow instructions from the underlying investment managers relative only to trading. The investment manager, in making investment decisions and effecting the transaction, instructs Absa on behalf of Investment Solutions Limited to transact, and at no point has access to, or is responsible for, the processing or handling of documents of title or cash.

Audit Committee and Auditors

An audit committee comprising a majority of non-executive directors and chaired by an independent non-executive director is responsible for ensuring effective internal controls and processes.

PricewaterhouseCoopers Incorporated (PwC) is the Investment Solutions Group's auditor. The scope of the external audit is to express an audit opinion on the annual financial statements, as well as fulfil reporting requirements to various regulatory authorities. Its findings are reported directly to the audit committee.

Investment Solutions Limited's independent internal auditor, currently KPMG, reviews the reliability and integrity of financial and operational functions, the systems of internal control and risk management. It reports directly to the audit committee.

Internal Systems, Controls and Structures within Investment Solutions Limited

The internal operational procedures within Investment Solutions Limited regarding investing and disinvesting policyholders' money are tightly controlled and tested by PwC and KPMG on a continuing basis to ensure appropriate and correct processes are followed. These processes are also subject to internal audit reviews as approved by the audit committee. The effectiveness as well as the ability of the procedures and controls to mitigate risk are reviewed at regular risk-assessment workshops.

Compliance Monitoring

- Compliance monitoring forms part of management’s normal business operations.
- Compliance conducts independent reviews.
- Compliance provides reporting on monitoring as required by certain pieces of legislation.
- The Compliance Monitoring programme highlights controls to be implemented by management.

The following Compliance System Applications are implemented to assist with the robust compliance function:

CURA

CURA provides regulatory knowledge-bases, assessments of compliance based on these knowledge-bases and the ability to create advanced reporting.

StatPro

The system provides for regulatory rules, client mandates, investment mandates and in-house requirements all defined in one system. Compliance monitoring takes place at both consolidated level and individual portfolios. It focuses on breaches with comprehensive breach analysis and breach processing repository. It utilizes a flexible rules engine to accommodate new regulations and more complex mandates. A full audit trail and calculation drill-down is available. It provides access to compliance results at any point in time.

CSA

Control Self Assessment (CSA) - is the system by which management and individuals within the organisation perform self assessment and report their accountability on the existence and performance of controls for which they are responsible. It is used within the organisation in conjunction with internal audit who once the system has been designed and implemented, provide independent assurance on the integrity of management reporting.

Please turn over for further details.

Independent Actuary and Reporting

Independent actuarial consulting firm Deloitte & Touche Actuarial & Insurance Solutions is Investment Solutions Limited's valuator. The valuation of the insurance company's financial soundness is completed annually and certifies that the shareholders' funds exceed the capital-adequacy requirements calculated according to the guidelines of the Actuarial Society of South Africa. Investment Solutions Limited is also required to submit quarterly statements to the FSB, which include asset details relative to the client investments. It also annually provides the FSB with an audited regulatory return (LT2000), which contains a detailed analysis of the assets, liabilities and financial soundness of the company.

Fidelity and Professional Indemnity Insurance

Errors and Omissions of Investment Managers and Custodian

Investment Solutions Limited requires contracted investment managers and the custodian to annually provide detailed proof of adequate and appropriate fidelity and professional indemnity insurance. The adequacy of this cover is reviewed in terms of the investments under their management.

The portfolio-management agreement holds the investment manager liable in the event of fraud or negligence. The custody agreement holds Absa liable in the event of fraud or negligence.

Errors and Omissions within Investment Solutions

The AF Group, which includes Investment Solutions Limited, has professional indemnity (errors and omissions) insurance structured on the basis of:

Limit of indemnity:	GBP 107 500 000 (First GBP 7 500 000 insured by Mannequin)
Excess:	R7 500 000 any one claim
Expiry Date of Policy:	31 March 2010
Territorial & Jurisdiction Scope:	Worldwide
Insured By:	Lloyd’s of London and other international insurers

Investment Solutions also has fidelity guarantee insurance (Comprehensive Crime) as outlined below, ensuring clients’ interests are protected at all times. A detailed insurance summary is available on request.

Limit of indemnity:	R200 000 000 per loss
Excess:	R1 000 000
Expiry Date of Policy:	31 March 2010
Territorial & Jurisdiction Scope:	Worldwide
Insured By:	Lloyd’s of London

If the fidelity insurance cover of R200 million is eroded, additional cover is available in terms of the Group's errors and omissions policy that provides an additional £5 million subject to the residual deductibles.

Conclusion

Investment Solutions Limited is committed to operating with the highest standards of professionalism and integrity. The company recognises its responsibilities and measures itself against international best practice.

Investment Solutions Limited's full-time compliance officer, André Vorster, can be contacted on (011) 505-6151.