

Sanlam Employee Benefits

Sanlam Umbrella Fund investment report to the Joint Forum

1st Quarter 2016

Insurance

Financial Planning

Retirement

Investments

Wealth

Sanlam Umbrella Fund

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Background and overview of the Fund



Investment options

The Sanlam Umbrella Fund offers participation in a defined contribution umbrella pension or provident fund. Employers can choose between two benefit design options depending on whether member-directed investment choice is required:

- The Standard Option: All the Sub-fund's investments are invested in the selected default investment strategy. (there are four defaults to select from);
- The Comprehensive Option: Members can opt out of their Sub-fund's selected default investment strategy and choose a tailored investment strategy that meets their needs.

Investment strategy

The trustees take responsibility to ensure that the fund offers an appropriate range of investment choice options. Participating employers can select either the standard or the comprehensive offering. Both options offer a choice of default investment portfolios. The default strategy preferred by the trustees is the Lifestage Programme. Employers can however select a more conservative default strategy namely the Volatility Protection Strategy depending on the needs of their employees and on the advice of their benefit consultant. A second alternative default strategy is the Passive Lifestage Strategy, which gives passive exposure to the investment markets at a competitive fee. In addition the third alternative strategy is the Sanlam Blue Lifestage Strategy.

Under the comprehensive option, members may select their own investment choices. The default portfolios are designed to meet the investment objectives of the majority of members. Those members who are of the view that the default portfolios do not serve their specific needs can opt to select their own investment portfolios from the member choice investment menu.

The performance of the portfolios selected will directly affect member's eventual retirement benefit. The trustees regularly monitor the investment strategy and the investment choices on offer to ensure their appropriateness. A key part of this process is monitoring the performance of the portfolios selected and comparing it to the agreed investment benchmarks. The trustees appointed Simeka Consultants & Actuaries as investment consultants to assist them to monitor and manage the Funds' investments.

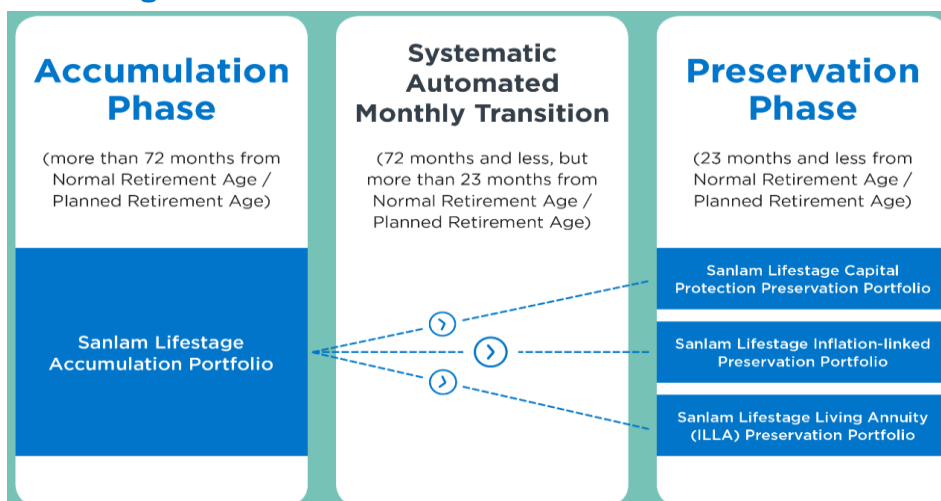
The role of the Joint Forum

Each participating employer is required to establish and maintain a Joint Forum. This is a representative forum with equal representation by member and employer representatives where retirement fund benefits are considered and agreed upon. This forum therefore ensures member participation in the decision making and monitoring processes. One of the most important roles of the Joint Forum is to consider the appropriateness and performance of the default strategy as selected. Note that the employer technically remains the contracting party who acts on the decisions taken at the Joint Forum.

The Fund's default investment strategies



Sanlam Lifestage:



Fund performance

| Sanlam Lifestage | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|---------------------------------|----------|----------|--------|---------------------|---------------------|
| Accumulation Portfolio | 3.5% | 6.1% | 4.5% | n/a | n/a |
| Preservation Portfolios: | | | | | |
| Capital Protection | 1.8% | 4.3% | 10.7% | n/a | n/a |
| Inflation-Linked | 2.1% | 3.5% | 5.0% | n/a | n/a |
| Living annuity (ILLA) | 3.4% | 6.1% | 6.3% | n/a | n/a |

Please note: Members that were invested in the Lifestage Programme Accumulation Phase before July 2013 and were part of the transition in July 2013 (to the Sanlam Lifestage Accumulation Portfolio) would have benefitted from the following actual investment returns (based on the combination of the underlying investment strategies):

Fund performance

| Sanlam Umbrella Fund Solution | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|--------------------------------|----------|----------|--------|---------------------|---------------------|
| Sanlam Umbrella Fund Lifestage | 3.5% | 6.1% | 4.5% | 13.1% | 14.1% |

Volatility Protection Strategy:

Composition

The Volatility Protection Strategy currently invests all moneys in the Sanlam Monthly Bonus Fund.

Fund performance

| Volatility Protection Strategy | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|--------------------------------|----------|----------|--------|---------------------|---------------------|
| Sanlam Monthly Bonus Fund | 1.7% | 4.1% | 10.4% | 14.3% | 12.7% |

Sanlam Blue Lifestage Strategy:

| Sanlam Blue Lifestage Strategy | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|--|----------|----------|--------|---------------------|---------------------|
| Sanlam Blue Lifestage Accumulation Portfolio | 4.0% | 6.4% | 5.7% | 12.5% | 13.7% |

Passive Lifestage Strategy:

Composition

The Passive Lifestage Strategy currently invests all moneys in the SIM Enhanced Tracker Balanced Fund.

Fund performance

| Passive Lifestage Strategy | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|--|----------|----------|--------|---------------------|---------------------|
| Passive Lifestage Accumulation Portfolio | 3.9% | 7.0% | 6.5% | 14.5% | 15.1% |

Although this default strategy was only made available from 1 May 2011, the underlying portfolio has a longer track record, which is shown above.

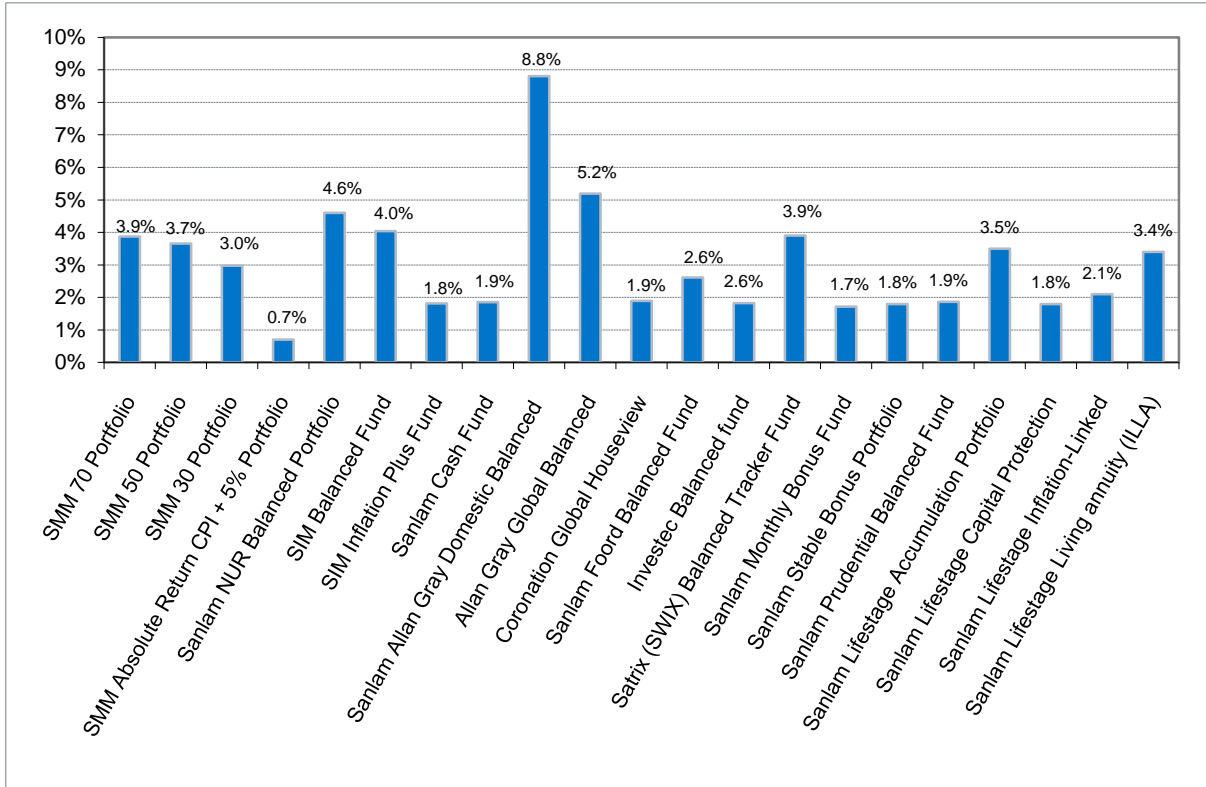
Please note:

- Investment returns for the Lifestage Programme are quoted gross of investment management fees.
- For the Smooth Bonus Range the bonuses declared are gross of investment management fees, but net of guarantee charges.
- Investment returns for periods greater than 12 months are annualised.

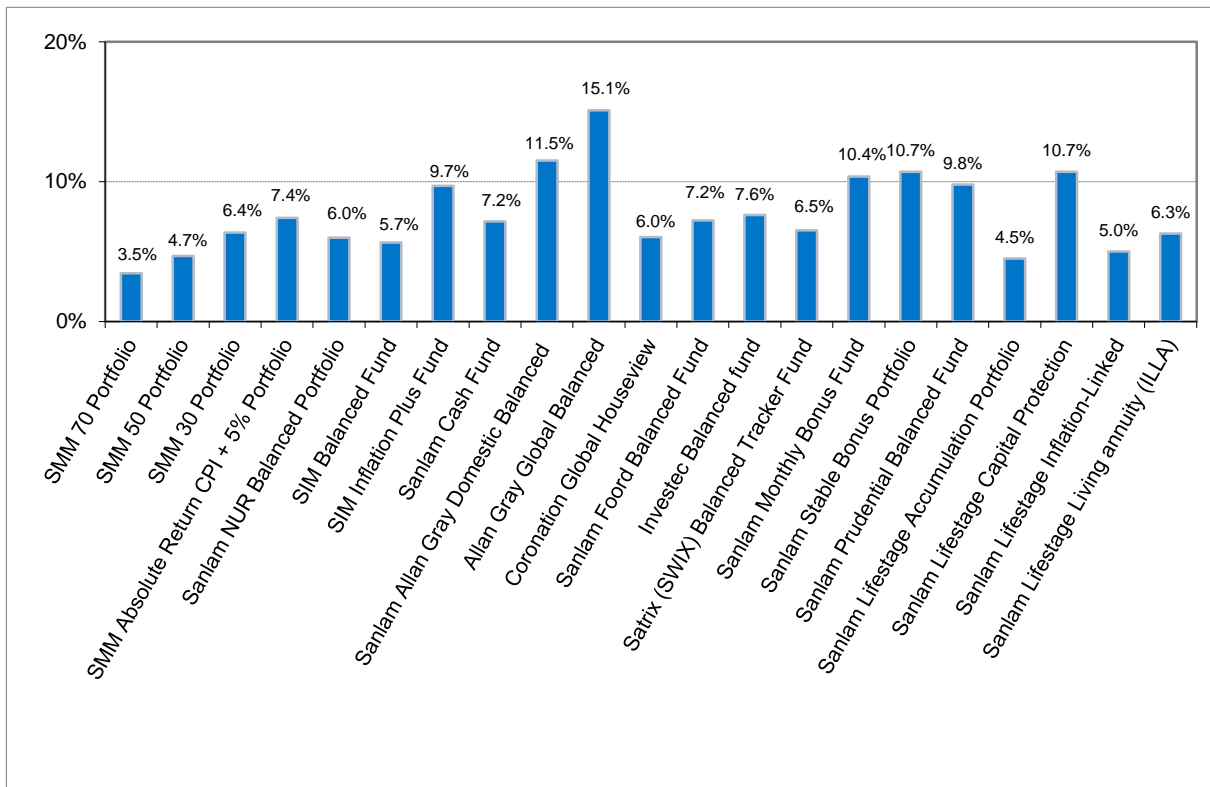


Short-term performance analysis

Total Fund performance for the quarter ended 31 March 2016



Total Fund performance for the 12 months ended 31 March 2016

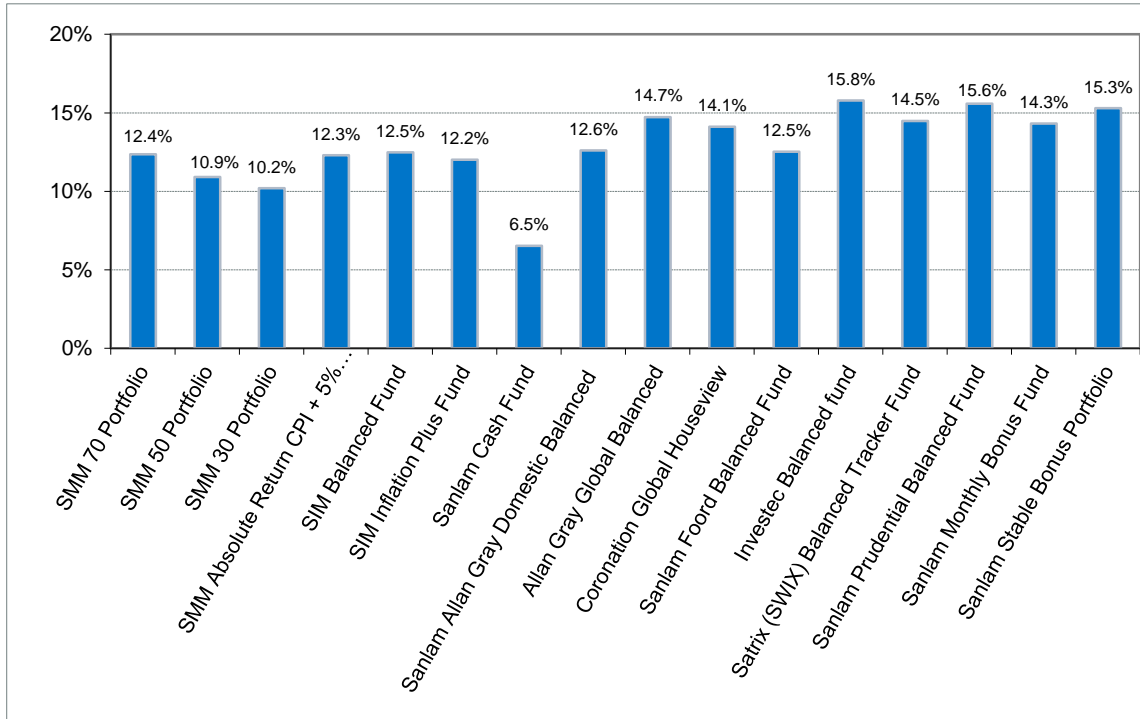


* Sanlam NUR Balanced Portfolio has a track record shorter than 12 months.



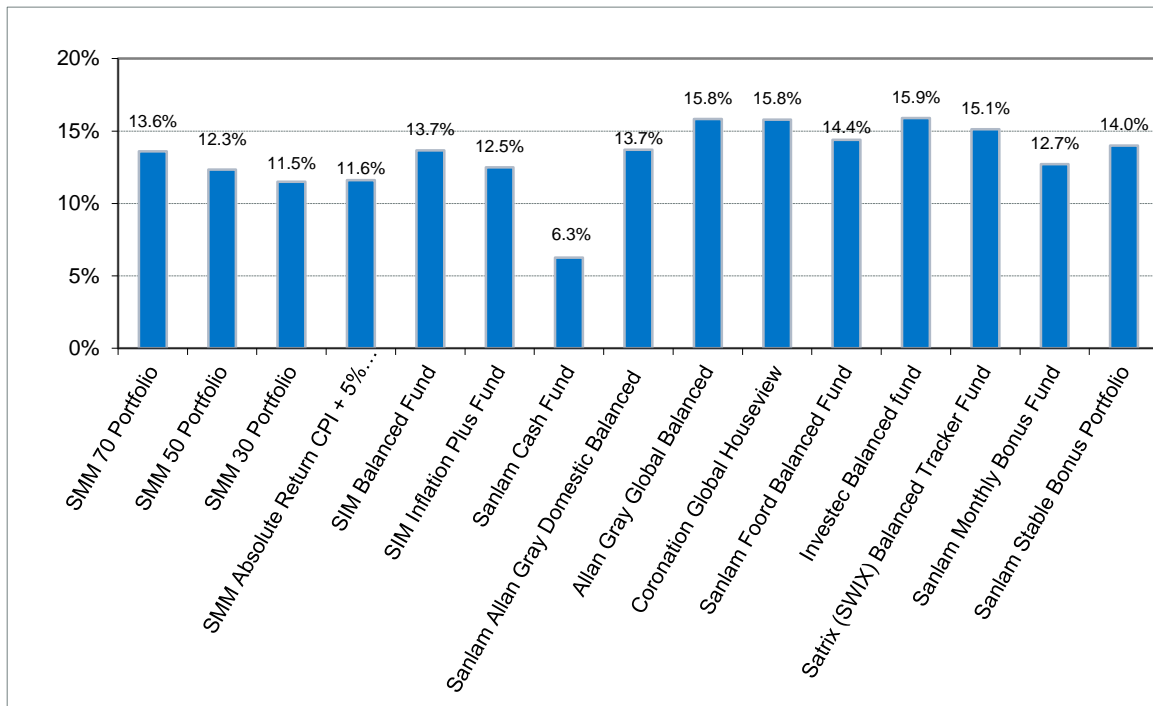
Medium-term performance analysis

Total Fund performance for the 3 years ended 31 March 2016 (% p.a.)



* Sanlam NUR Balanced Portfolio has a track record shorter than 3 years.

Total Fund performance for the 5 years ended 31 March 2016 (% p.a.)



* Sanlam NUR Balanced Portfolio has a track record shorter than 5 years.

Summary of returns



Multi-manager Range

| Portfolios | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|--|----------|----------|--------|---------------------|---------------------|
| SMM 70 Portfolio | 3.9% | 5.0% | 3.5% | 12.4% | 13.6% |
| SMM 50 Portfolio | 3.7% | 4.9% | 4.7% | 10.9% | 12.3% |
| SMM 30 Portfolio | 3.0% | 5.0% | 6.4% | 10.2% | 11.5% |
| SMM Absolute Return CPI + 5% Portfolio | 0.7% | 6.1% | 7.4% | 12.3% | 11.6% |
| Sanlam NUR Balanced Portfolio | 4.6% | 8.6% | 6.0% | n/a | n/a |

SIM Single Manager Range

| Portfolios | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|-------------------------|----------|----------|--------|---------------------|---------------------|
| SIM Balanced Fund | 4.0% | 6.4% | 5.7% | 12.5% | 13.7% |
| SIM Inflation Plus Fund | 1.8% | 5.8% | 9.7% | 12.0% | 12.5% |
| Sanlam Cash Fund | 1.9% | 3.6% | 7.2% | 6.5% | 6.3% |

External Single Manager Range

| Portfolios | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|-------------------------------------|----------|----------|--------|---------------------|---------------------|
| Sanlam Allan Gray Domestic Balanced | 8.8% | 12.7% | 11.5% | 12.6% | 13.7% |
| Allan Gray Global Balanced | 5.2% | 13.3% | 15.1% | 14.7% | 15.8% |
| Coronation Global Houseview | 1.9% | 7.0% | 6.0% | 14.1% | 15.8% |
| Sanlam Foord Balanced Fund | 2.6% | 6.9% | 7.2% | 12.5% | 14.4% |
| Investec Balanced Fund | 1.8% | 6.6% | 7.6% | 15.8% | 15.9% |
| Sanlam Prudential Balanced | 1.9% | 5.6% | 9.8% | 15.6% | n/a |

Index-tracking Range

| Portfolios | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|-------------------------------------|----------|----------|--------|---------------------|---------------------|
| Satrix (SWIX) Balanced Tracker Fund | 3.9% | 7.0% | 6.5% | 14.5% | 15.1% |

Smoothed Bonus Range

| Portfolios | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|-------------------------------|----------|----------|--------|---------------------|---------------------|
| Sanlam Monthly Bonus Fund | 1.7% | 4.1% | 10.4% | 14.3% | 12.7% |
| Sanlam Stable Bonus Portfolio | 1.8% | 4.3% | 10.7% | 15.3% | 14.0% |

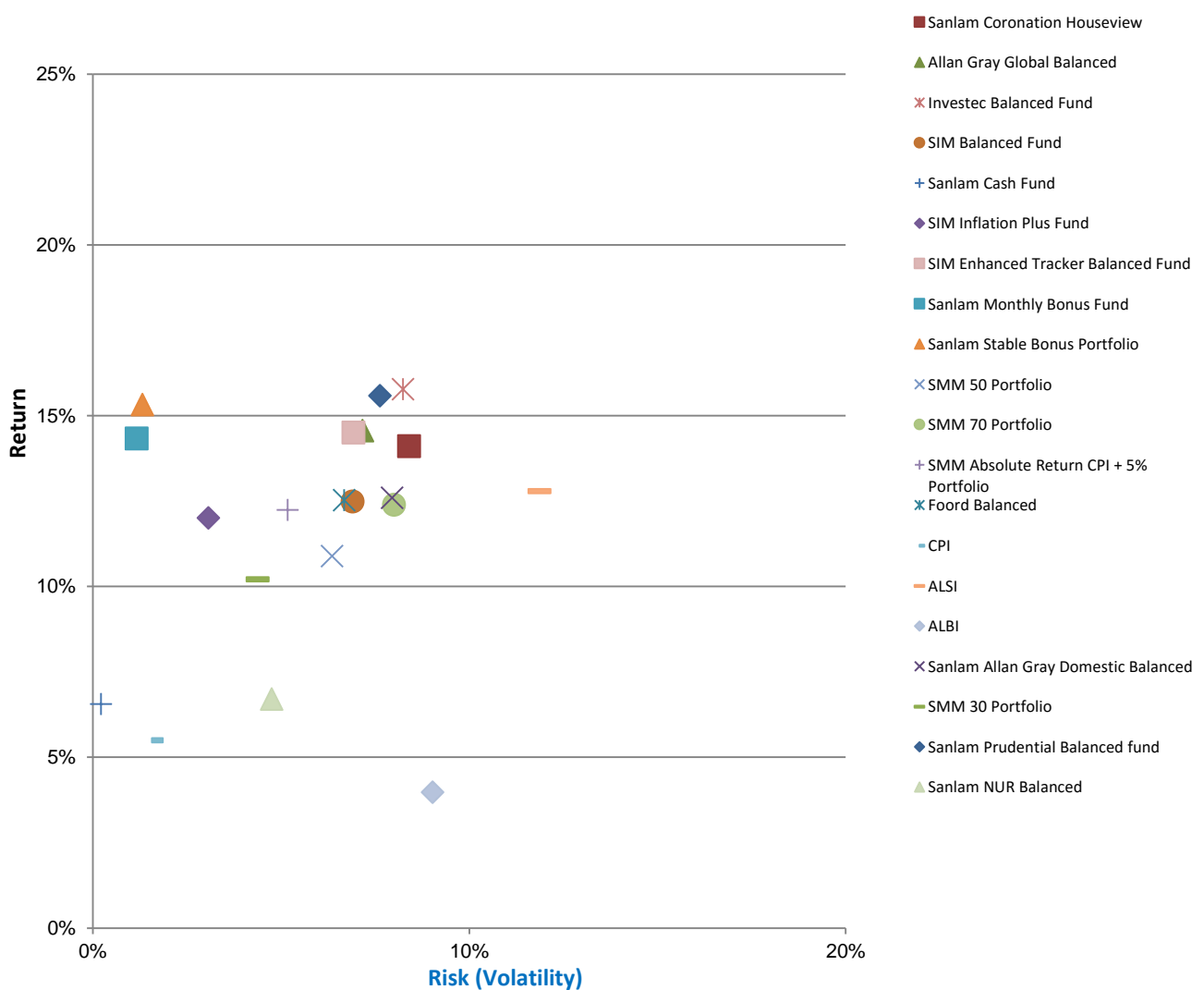
Summary of returns (continued)



Market indices

| Market | 3 Months | 6 Months | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|---------------------------------|----------|----------|--------|------------------|------------------|
| All Share Index | 3.9% | 5.6% | 3.2% | 12.8% | 13.6% |
| All Bond Index | 6.6% | -0.3% | -0.6% | 4.0% | 7.8% |
| JP Morgan Global Bond Index (R) | 1.4% | 12.3% | 28.3% | 18.1% | 18.6% |
| MSCI World (R) | -5.3% | 11.9% | 17.0% | 25.0% | 24.4% |
| STeFI | 1.7% | 3.3% | 6.6% | 6.0% | 5.8% |
| CPI | 2.9% | 3.5% | 6.3% | 5.5% | 5.7% |
| Top 40 | 1.5% | 4.1% | 3.3% | 12.7% | 13.0% |
| Resource 20 | 13.2% | -9.2% | -27.8% | -12.7% | -10.0% |
| Industrial 25 | -0.7% | 6.6% | 10.5% | 21.1% | 24.6% |
| Financial 15 | 5.4% | 2.0% | -3.6% | 15.7% | 18.8% |
| Financial Industrial 30 | 0.3% | 5.8% | 8.0% | 20.1% | 23.3% |

Risk vs Return - 3 YEAR



Market commentary

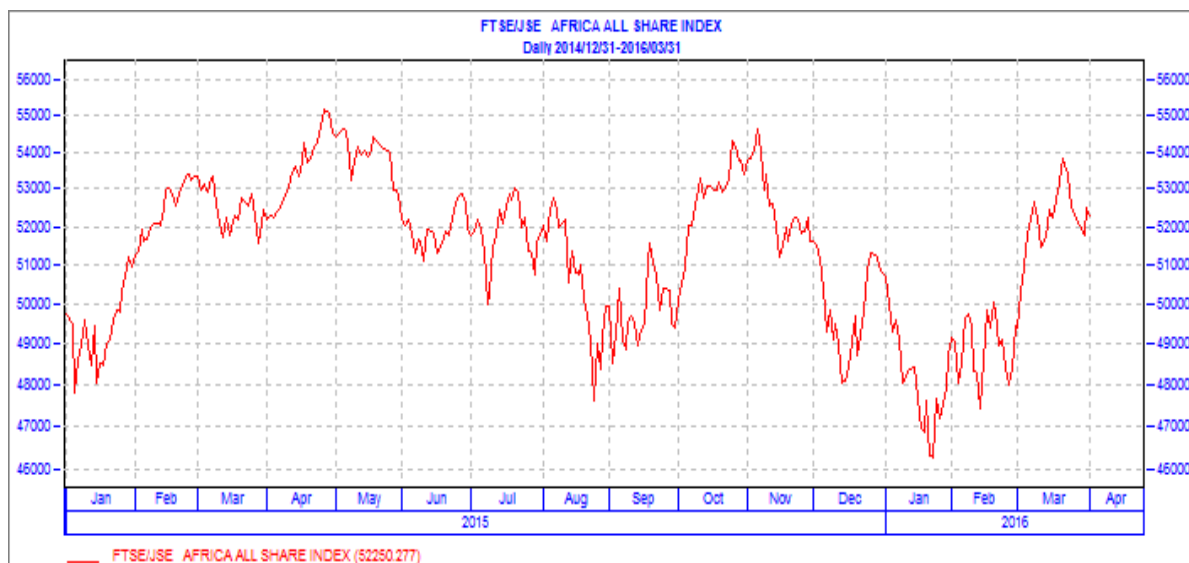


Domestic Markets

SA equities tracked their emerging market counterparts higher in Q1, gaining some 3.9% in rands and 9.3% in USDs, ahead of the MSCI Emerging Market Index. Similar to the trend in emerging market equities, the gains came in March with the Alsi rallying 6.4% in rands. It is worth noting that over the quarter, foreigners remained net sellers of domestic equities totalling a substantial R22bn. Despite the equity outflows, inflows into the bond market, USD weakness and gains in precious metals prices helped underpin the rand. Resource counters benefitted from the gains in commodity prices with resources gaining some 18.1% in rands, outperforming the broader market sectors. Platinum and gold counters surged some 74.6% and 92.8% respectively as precious metals found favour in an environment of low or negative interest rates.

While resources were the dominant theme over the quarter, SA Inc counters rallied strongly in March with the Fini-15 returning some 12.4%, well ahead of the Resi-10 (4.7%) and the Indi-25 (4.7%). The rally came about despite a further 25 basis point increase in the repo rate and ongoing downward revisions to domestic economic growth. Given concerns about the health of the consumer on the back of rising interest rates, escalating food prices, a 9.4% increase in electricity tariffs and high levels of household indebtedness, general retailers contracted 1.4% over the quarter, while banking and non-life stocks gained some 13.0% and 27.0% respectively.

With the market trading on a multiple of 21.5X earnings, the market appears to be extremely overbought. On a rolling basis, the diagnosis is no better with the Alsi trading on a 19.4X multiple, up from 17.1X the month before. The forward multiple of 16.2X is also stretched with rand-hedge industrials skewing the multiple to the upside. If the top 6 rand-hedge counters are stripped out of the index (BIL, NPN, MTN, CFR, SAB, BTI), the forward multiple declines to 12.6X earnings, slightly below the historical average.



Market commentary (continued)



International Markets

Risk assets underperformed their defensive counterparts in Q1 as global growth concerns persisted, the low oil price raised fears of default risks in the oil and banking sectors and a Chinese hard landing seemed inevitable as the country transitioned from an infrastructural export driven growth model to a consumer driven economy. The MSCI World Index declined some 0.9% in USDs and 5.8% in rands, while emerging markets fared much better yielding 5.4% in USDs and 0.1% in rands. Most of the losses occurred in January and February with strong gains in March helping to partially reverse some of the losses. The change in sentiment was due to the Federal Reserve Bank signalling a moderation in its forward-looking interest rate projections and the ECB extending its QE programme. In March, the MSCI World Index gained 6.5% in USDs (-0.7% in rands), while emerging market equities surged an impressive 13.2% in USDs (5.5% in rands).

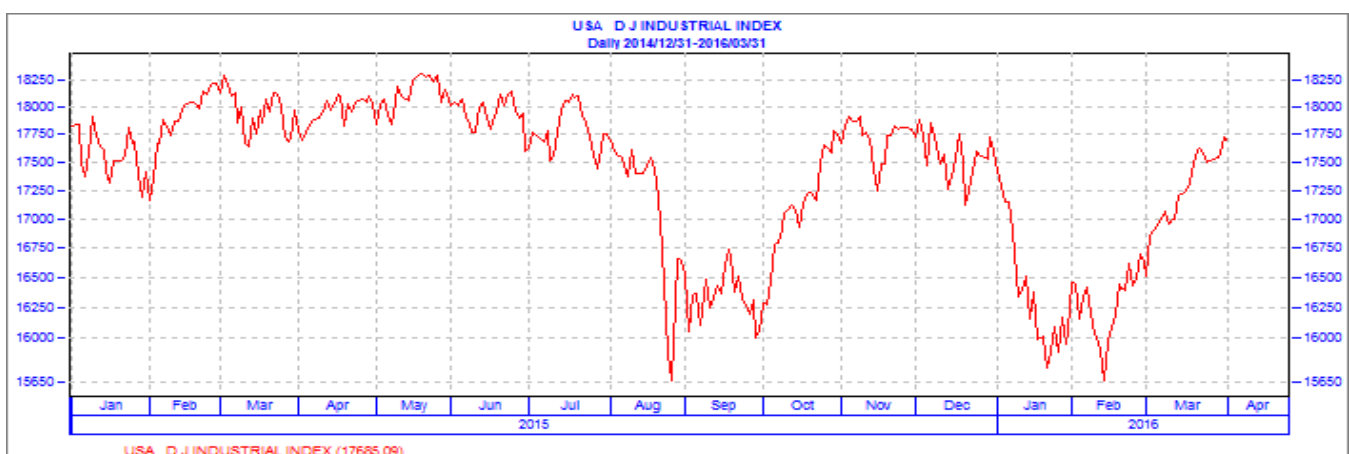
Gains in oil and commodity prices contributed to the more upbeat assessment of emerging markets given their attractive relative valuations and the release of better than expected Chinese economic data after quarter end. The FOMC's March decision to leave rates unchanged was premised on concerns that global economic prospects had led to increased market volatility and tighter financial conditions in the US.

Although conditions in the US labour market have improved considerably, subdued inflation expectations persisted, pushing out the timing of interest rate hikes. The FOMC revised down its expected number of interest rate increases this year from four to two, underpinning the demand for risk assets.

In light of the pedestrian growth outlook for the Eurozone coupled with deflationary risks, the ECB announced an expansion of its QE programme to Euro 80bn from Euro 60bn per month. The ECB said that although growth momentum had been weaker than anticipated at the start of the year, the economic recovery would "proceed at a moderate pace."

Japan's government also downgraded its assessment of the current economic climate for the first time in five months but maintained its overall view that the economy was still on a "moderate recovery" path. In the near term, sluggish growth in Asian emerging economies, caused by China's recent economic slowdown, have been a drag on overall export growth.

Trailing earnings on the MSCI World Index declined some 11.6% in the year to end March, whereas emerging markets declined some 9.8%, albeit it well off their earlier lows. Similarly, earnings multiples for the two indices to end March were 19.7X and 13.9X respectively, up from 18.5X and 12.3X the month before. Although equity market prices typically lead earnings by around 9 to 12 months, consensus earnings estimates point to higher earnings than those currently implied by the market.



Investment Manager changes



Allan Gray

In January 2016 the founding family of Allan Gray announced that they have established a new foundation to hold the family's controlling interests in the Allan Gray and Orbis groups.

The investment team changes that were announced last year have been officially incorporated since 1 March 2016.

Coronation

Sarah-Jane Alexander was appointed as co-portfolio manager to Karl Leinberger on the Coronation Houseview portfolios.

SIM

There have been no major changes in the Investment philosophy and process or corporate developments over the quarter.

Investec

There have been no major changes in the Investment philosophy and process or corporate developments over the quarter.

Performance fees



The following table represents the impact which performance fees had on the following funds over a rolling one year period ending 31 March 2016:

| Portfolios | Rolling 1 year Performance fees |
|---|---------------------------------|
| SMM 70 Portfolio | 0.00% |
| SMM 50 Portfolio | 0.00% |
| SMM 30 Portfolio | 0.00% |
| Sanlam Allan Gray Global Balanced | 0.00% |
| Sanlam Foord Balanced Fund | 0.00% |
| Sanlam Lifestage Accumulation Portfolio | 0.00% |
| Sanlam Preservation: ILLA | 0.00% |
| SMM Absolute Return CPI + 5% Portfolio | 0.00% |

| Multi Managed Portfolio | 2011 | 2012 | 2013 | 2014 | 2015 | Average |
|---|-------|-------|-------|-------|-------|---------|
| Sanlam Lifestage Accumulation Portfolio | 0.00% | 0.00% | 0.10% | 0.03% | 0.00% | 0.03% |
| Sanlam Lifestage Living Annuity (ILLA) Preservation Portfolio | 0.00% | 0.00% | 0.10% | 0.03% | 0.00% | 0.03% |
| SMM 70 | 0.01% | 0.05% | 0.08% | 0.04% | 0.02% | 0.04% |
| SMM 50 | 0.01% | 0.08% | 0.01% | 0.04% | 0.00% | 0.03% |
| SMM 30 | 0.00% | 0.07% | 0.01% | 0.03% | 0.00% | 0.02% |
| Smooth Bonus Portfolio | | | | | | |
| Sanlam Monthly Bonus | 0.00% | 0.00% | 0.05% | 0.10% | 0.00% | 0.03% |
| Sanlam Stable Bonus | 0.00% | 0.00% | 0.05% | 0.10% | 0.00% | 0.03% |
| Single Manager Portfolio | | | | | | |
| Sanlam Allan Gray Global Balanced | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Sanlam Foord Balanced Fund | 0.00% | 0.00% | 0.31% | 0.11% | 0.03% | 0.09% |