

Sanlam Employee Benefits

## Sanlam Umbrella Fund investment report to the Joint Forum

2nd 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.

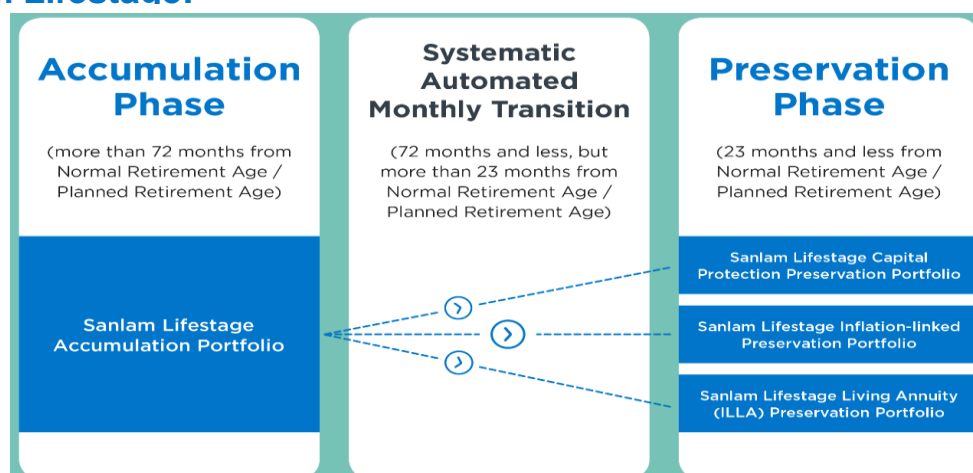
## The role of the Joint Forum

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	1.8%	5.4%	6.4%	n/a	n/a
<b>Preservation Portfolios:</b>					
Capital Protection	2.4%	4.3%	9.4%	n/a	n/a
Inflation-Linked	4.6%	6.8%	9.2%	n/a	n/a
Living annuity (ILLA)	2.6%	6.2%	8.9%	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

### Fund performance

Sanlam Umbrella Fund Lifestage Solution	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Umbrella Fund Lifestage	1.8%	5.4%	6.4%	13.6%	14.3%

## 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	2.3%	4.1%	9.0%	13.6%	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	1.7%	5.9%	8.0%	12.6%	13.8%

## 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	1.9%	5.9%	9.1%	14.5%	15.5%

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

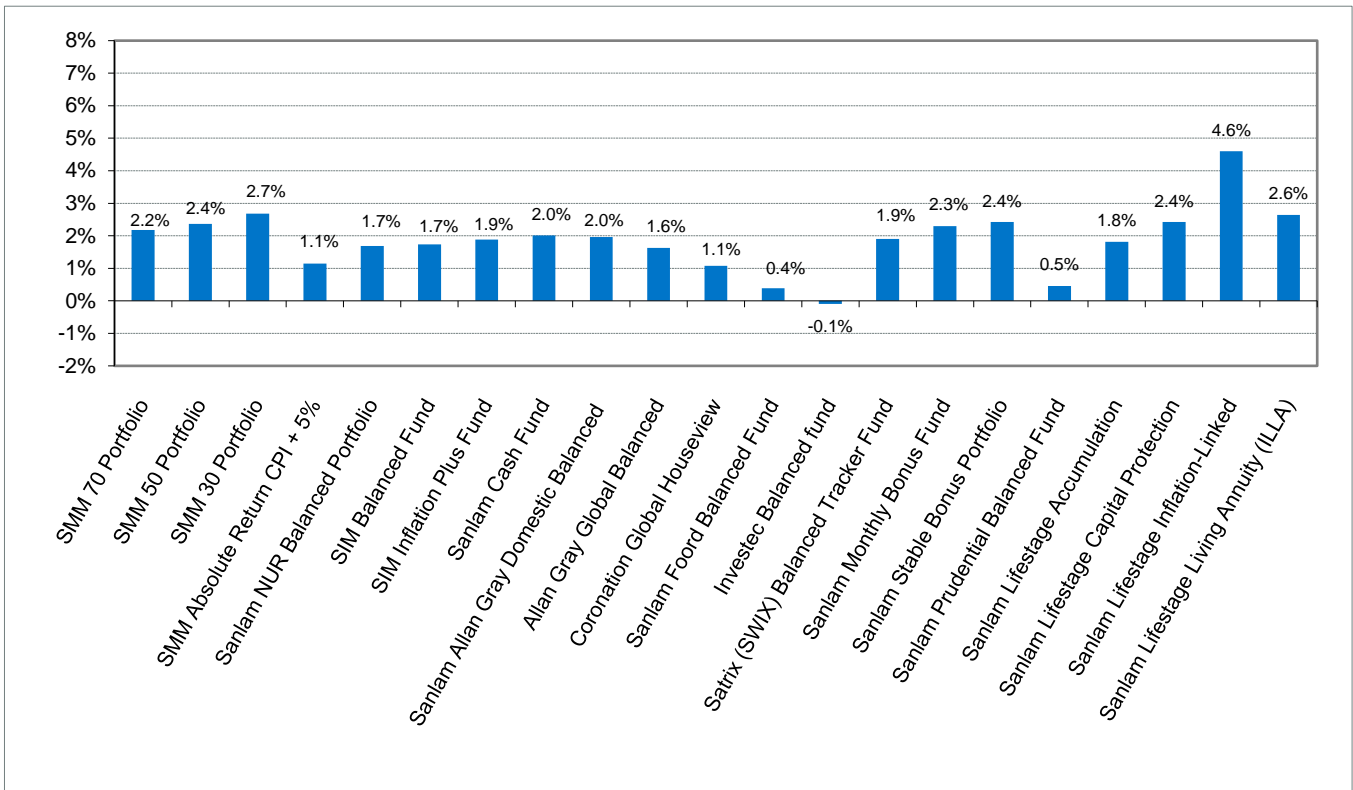
### Please note:

- 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.

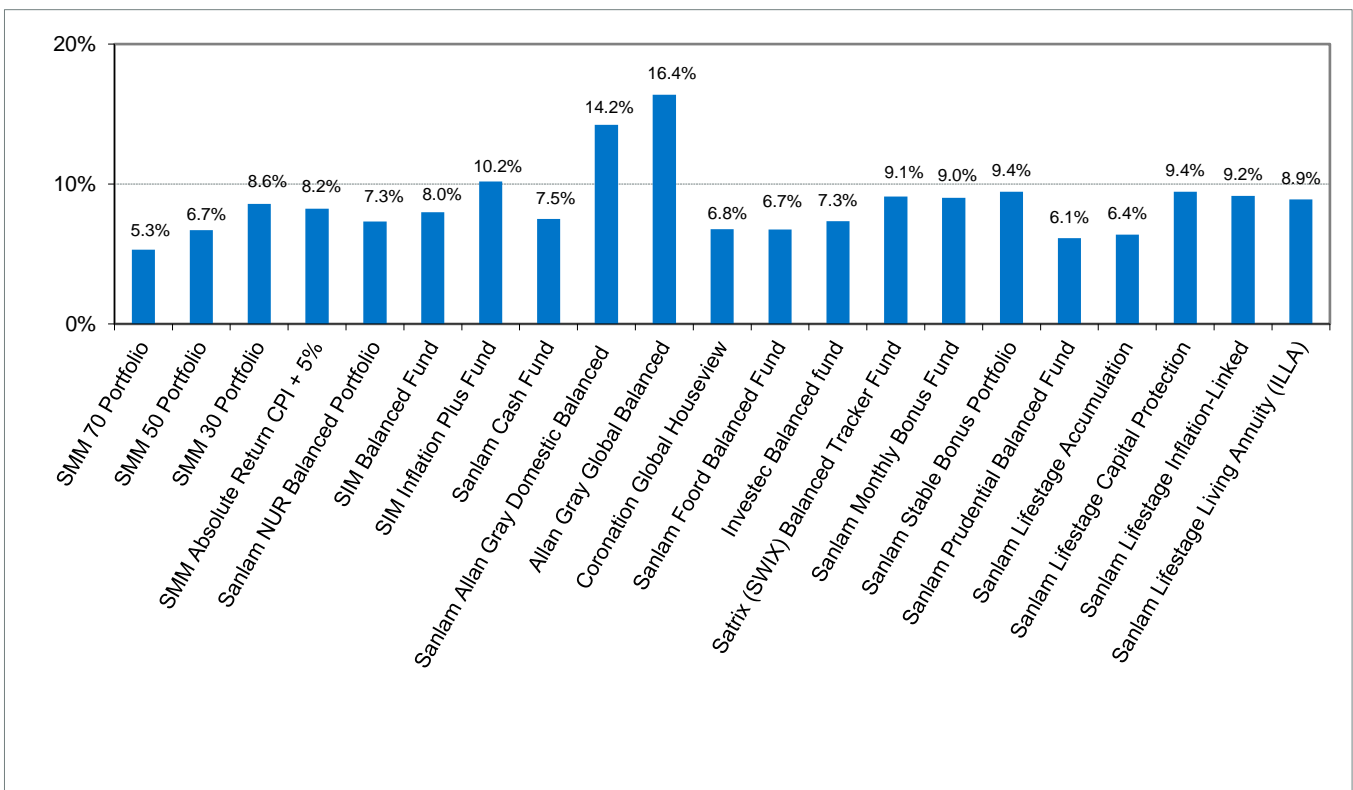


# Short-term performance analysis

Total Fund performance for the quarter ended 30 June 2016



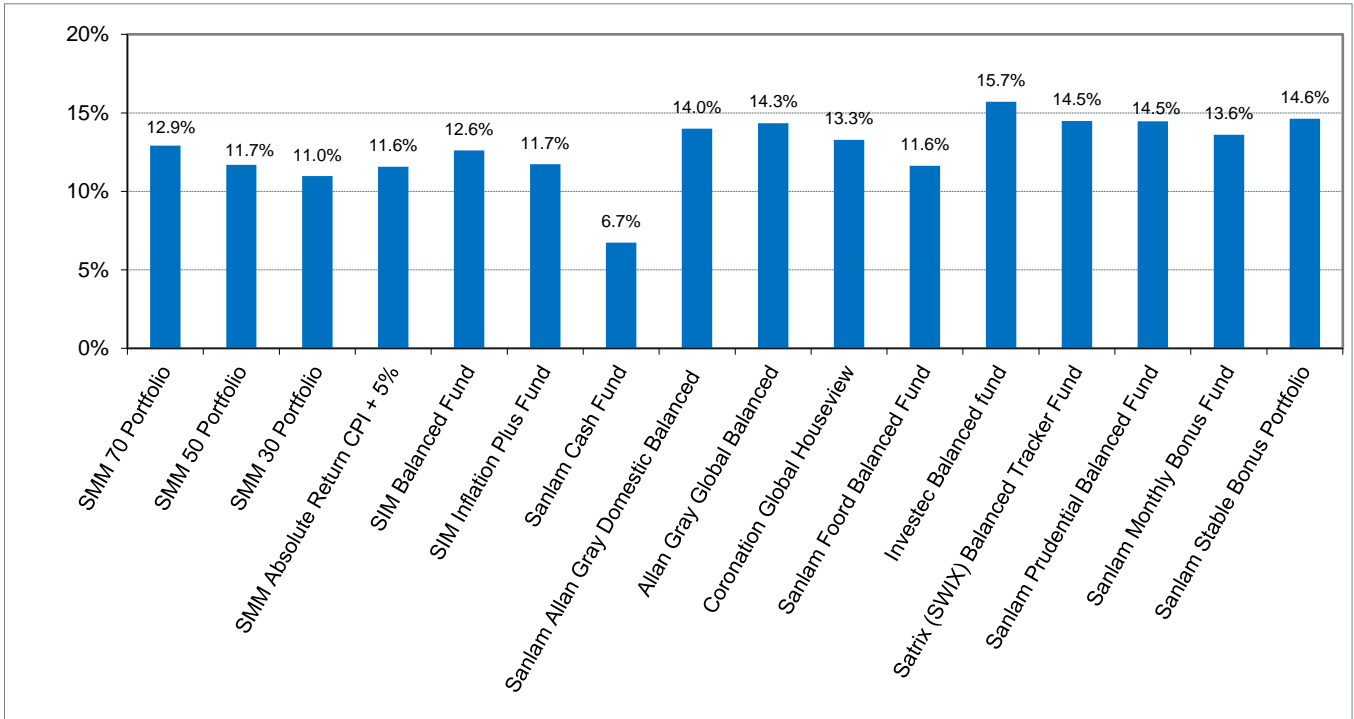
Total Fund performance for the 12 months ended 30 June 2016





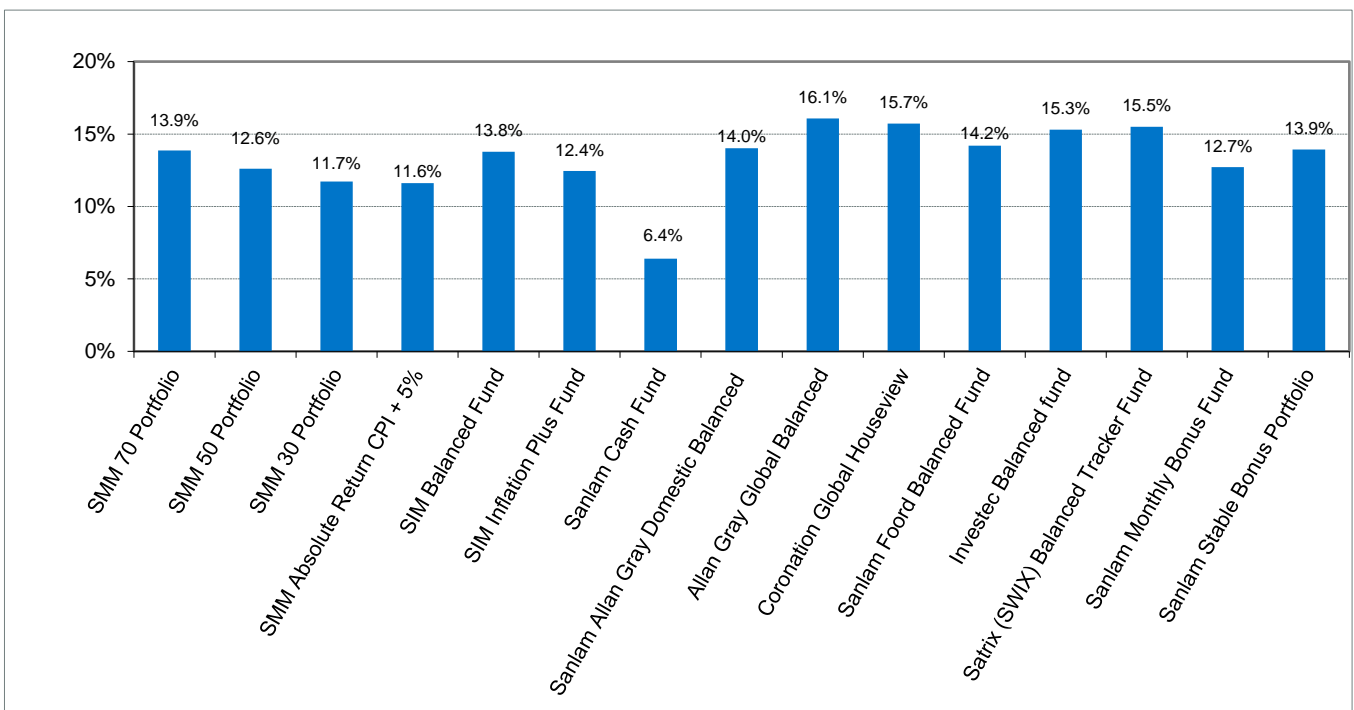
# Medium-term performance analysis

Total Fund performance for the 3 years ended 30 June 2016 ( p.a.)



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

Total Fund performance for the 5 years ended 30 June 2016 ( p.a.)



\* Sanlam NUR Balanced and Sanlam Prudential Balanced Portfolios have track records 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	2.2%	6.1%	5.3%	12.9%	13.9%
SMM 50 Portfolio	2.4%	6.1%	6.7%	11.7%	12.6%
SMM 30 Portfolio	2.7%	5.7%	8.6%	11.0%	11.7%
SMM Absolute Return CPI + 5%	1.1%	1.8%	8.2%	11.6%	11.6%
Sanlam NUR Balanced Portfolio	1.7%	6.4%	7.3%	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	1.7%	5.9%	8.0%	12.6%	13.8%
SIM Inflation Plus Fund	1.9%	3.7%	10.2%	11.7%	12.4%
Sanlam Cash Fund	2.0%	3.9%	7.5%	6.7%	6.4%

## External Single Manager Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Allan Gray Domestic Balanced	2.0%	10.9%	14.2%	14.0%	14.0%
Allan Gray Global Balanced	1.6%	6.9%	16.4%	14.3%	16.1%
Coronation Global Houseview	1.1%	3.0%	6.8%	13.3%	15.7%
Sanlam Foord Balanced Fund	0.4%	3.0%	6.7%	11.6%	14.2%
Investec Balanced Fund	-0.1%	1.8%	7.3%	15.7%	15.3%
Sanlam Prudential Balanced	0.5%	2.3%	6.1%	14.5%	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	1.9%	5.9%	9.1%	14.5%	15.5%

## Smoothed Bonus Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Monthly Bonus Fund	2.3%	4.1%	9.0%	13.6%	12.7%
Sanlam Stable Bonus Portfolio	2.4%	4.3%	9.4%	14.6%	13.9%

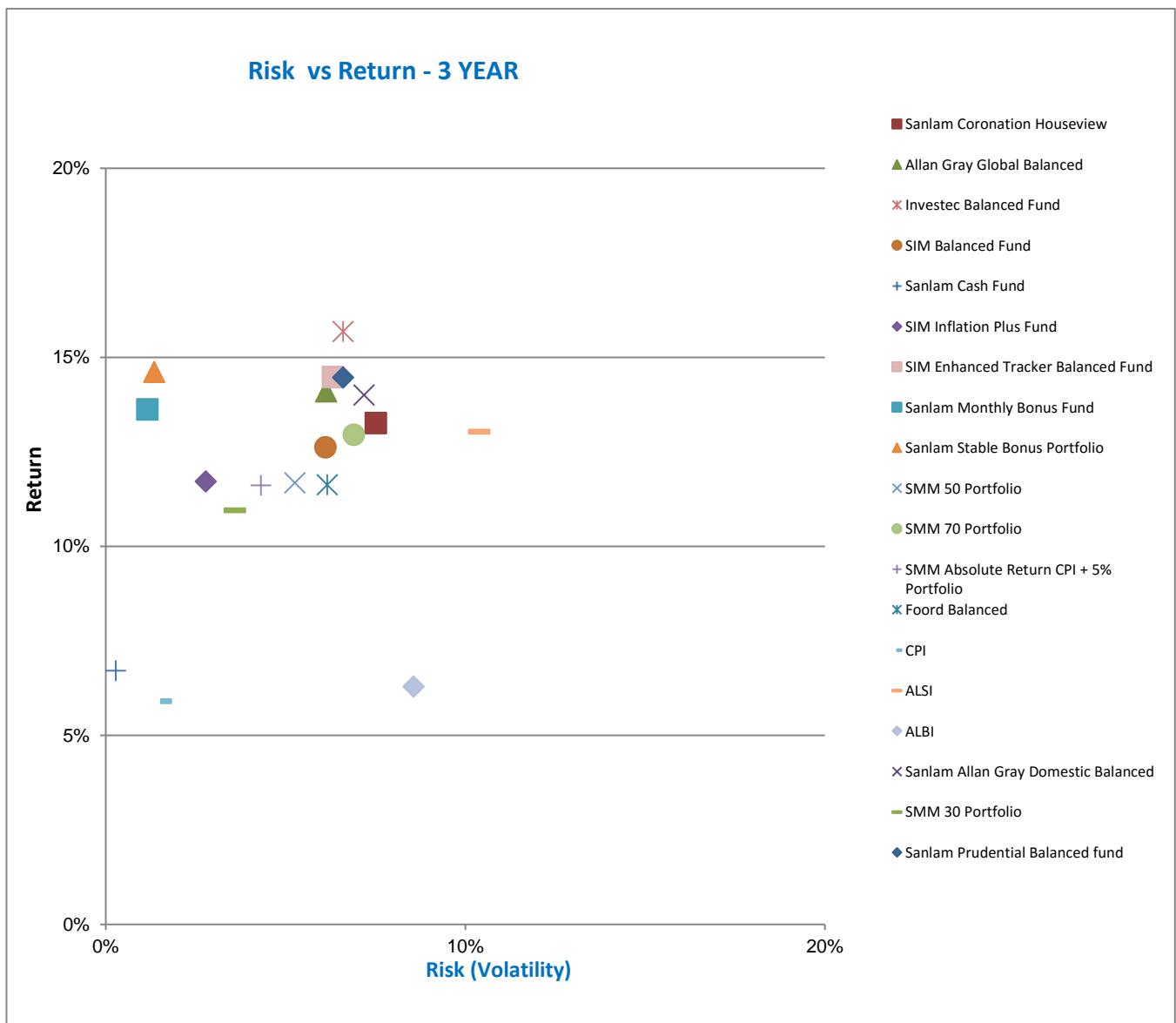


# Summary of returns (continued)

## Market indices

Market	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
All Share Index	0.4%	4.3%	3.8%	13.0%	13.8%
All Bond Index	4.4%	11.2%	5.2%	6.3%	7.9%
JP Morgan Global Bond	4.1%	5.5%	35.7%	17.8%	18.7%
MSCI World	1.5%	-3.9%	18.3%	22.1%	24.6%
STeFI	1.8%	3.5%	6.8%	6.2%	5.9%
CPI	1.6%	4.5%	6.3%	5.9%	5.7%
Resource 10	6.5%	20.5%	-19.4%	-7.2%	-7.8%
Industrial 25	0.4%	-0.3%	8.7%	18.2%	23.7%
Financial 15	-6.1%	-1.0%	-7.0%	14.1%	17.2%
Financial Industrial 30	-1.2%	-0.9%	5.3%	17.6%	22.3%
Top 40	0.1%	1.6%	2.6%	12.8%	13.4%

## Volatility versus return over a 3 year period





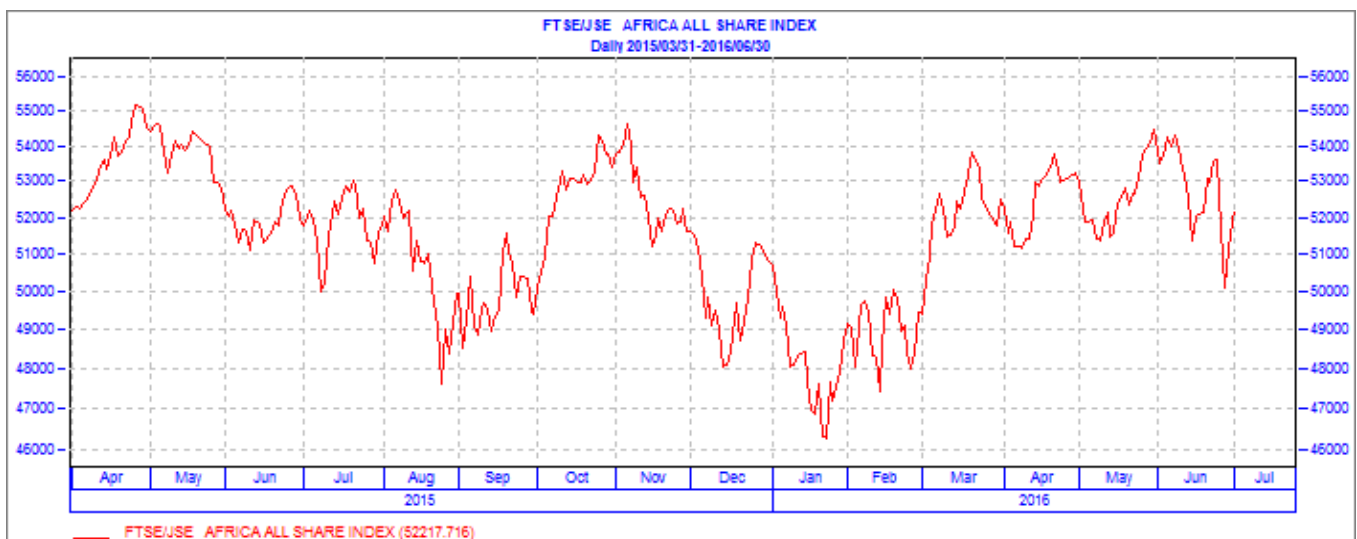
# Market commentary



## Domestic Markets

SA equities tracked the performance of their emerging market counterparts in Q2 as the implications of a “Brexit” vote weighed on sentiment, given the historical trade ties between SA and the UK. The All Share Index eeked out a gain of 0.4% in rands but yielded 0% in USDs given a small depreciation in the rand. Despite the disappointing rand returns, foreigners were net buyers of equities, totalling a staggering R47.6 billion. This suggests that although foreigners were net buyers of emerging market assets, including SA, domestic investors were selling down their equity exposure. Since the market sell-off came well ahead of the Brexit vote and after the sovereign ratings reprieve by S&P Global Ratings and Fitch Ratings, a switch out of equities into bonds in all likelihood accounted for the weak market returns. At the sectoral level, financials came under selling pressure with the Fini-15 down 6.1%, while the Indi-25 gained a pedestrian 0.4% and the Resi-10 a welcome 6.5%. Gold counters, in turn, rallied strongly, gaining some 16.4%, underpinned by demand for safe-haven assets and a strong rally in the metal’s USD price. While disappointing Q1 GDP data may have contributed to the negative sentiment in the market, a weak Q1 reading was largely priced into the market.

Following the Q1 GDP report, estimates for growth were revised lower with the IMF forecasting growth of only 0.1% this year and some 1.1% in 2017. This will add to the previous 2 years of negative GDP per capita growth, a key consideration for ratings agencies when assessing an investment or sub-investment grade score. Although retail sales and manufacturing production data beat the consensus in May, mining production continued to contract on a year-on-year basis. Despite the pedestrian GDP growth outlook, the top-down measure of earnings growth - the gross operating surplus - has shown an improvement since Q4 2015, a trend that continued in Q1 2016.





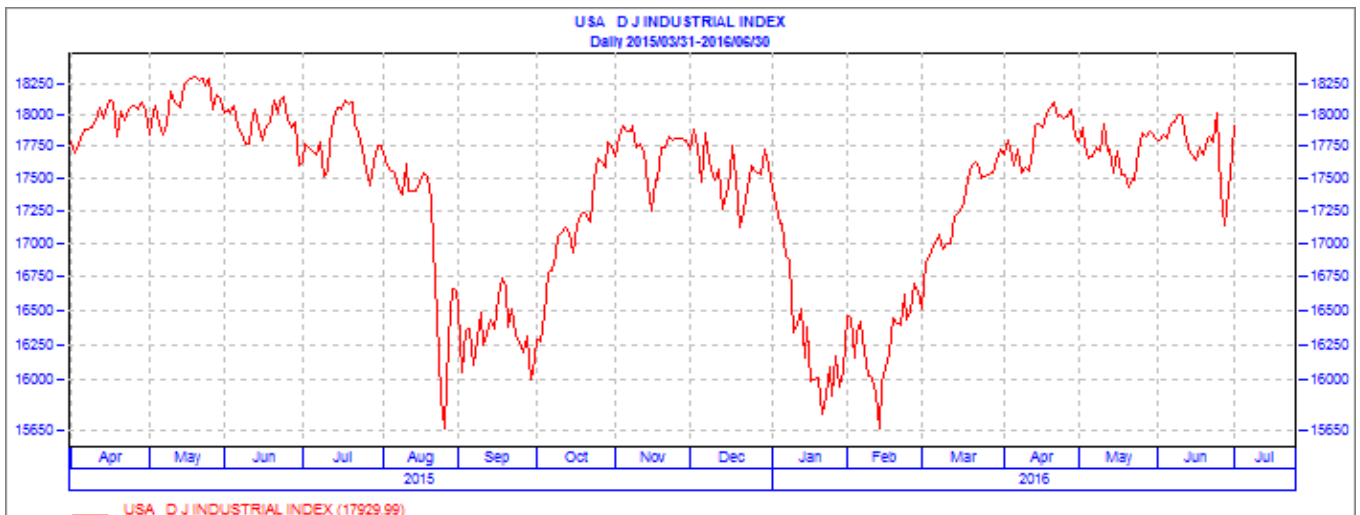
## Market commentary (continued)

### International Markets

Global equities gained a pedestrian 0.3% in USDs and 0.8% in rands as uncertainty about the timing of a Fed rate hike persisted and concerns about a “Brexit” vote weighed on sentiment. Both hawkish and dovish FOMC statements over the quarter only served to fuel the risk-on risk-off trade, with the latter gaining the upper hand. In the most recent FOMC minutes, the Fed indicated it was losing confidence in the need to raise rates as the sharp slowdown in May non-farm payrolls data pointed to slowing momentum in the job market. Furthermore, the uncertainty that a “Brexit” vote would bring to the global financial system and concerns about economic stability in China also weighed on the Fed’s decision to leave rates unchanged. With inflation expectations also continuing to trend lower, the Fed was cautious of fuelling a further slowdown in global growth. The IMF did not help either, weighing in with successive downgrades to global growth expectations. Although emerging market assets rallied strongly in June as currency risks abated, the gains were insufficient to offset the losses in the previous months. As a consequence, emerging market equities declined some 0.3% in USDs but gained a negligible 0.1% in rands. In contrast, the S&P Africa ex SA Index bucked the trend, rallying an impressive 10.1% in USDs and 10.6% in rands.

Although markets initially reacted negatively to the UK’s yes-vote on 23 July, markets bounced back to pre-Brexit levels in July. Theresa May was appointed as the new UK Prime Minister, with a cabinet reshuffle taking place the following day. The appointment of “leave” campaigners to the foreign ministry and the “Brexit” ministry was no doubt an attempt to unite the Conservative Party and show its commitment to implementing the will of the people. Also the issue of corporate passporting may not be resolved in Britain’s favour, resulting in the flight of banks and insurers from the UK. In the run-up to the “EU exit” vote, expected in December 2018, the UK is likely to cut interest rates by 50 basis points at the August MPC meeting, expand QE further and possibly reduce the corporate tax rate by some 5% as a means of stimulating growth.

While UK economic growth will almost certainly be negatively affected by the decision to leave the EU, fed fund futures are again pricing in a higher probability of a Fed rate hike by December, following a surge in June non-farm payroll data, better than expected industrial production and retail sales data and a positive start to the Q2 earnings reporting season, especially amongst US banks. Chinese data also surprised on the upside with retail sales, industrial production and foreign direct investment all beating the street. Despite strong growth in aggregate financing, the surge in the country’s total debt to GDP ratio, coupled with default risks, poses a headwind for growth.





## Investment Manager changes

### **Allan Gray**

Cristiana De Alessi, an equity analyst, has left the business to pursue other opportunities.

### **Coronation**

Pieter Hundersmarck, David Cook and Kyle Wales from the Emerging Markets team left the business to join Old Mutual.

### **SIM**

Azola Zuma has been appointed as CEO from June 2016. Given the departure of Chris Hamman, Mokgatla Madisha has been appointed as the new Head of Fixed Interest.

### **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 30 June 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	0.00%	0.00%	0.10%	0.03%	0.00%	0.03%
Sanlam Lifestage Living Annuity (ILLA) Preservation	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%
<b>Smooth Bonus Portfolio</b>						
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%
<b>Single Manager Portfolio</b>						
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%