

Sanlam Employee Benefits

## Sanlam Umbrella Fund investment report to the Joint Forum

3rd 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.

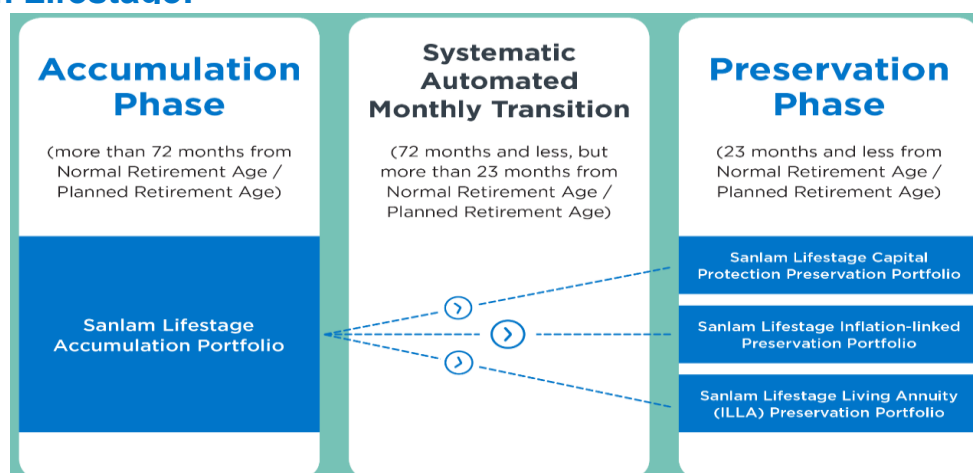
## The role of the Joint Forum

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	0.2%	2.0%	8.2%	n/a	n/a
<b>Preservation Portfolios:</b>					
Capital Protection	2.2%	4.7%	9.2%	n/a	n/a
Inflation-Linked	0.3%	4.9%	8.5%	n/a	n/a
Living annuity (ILLA)	0.8%	3.4%	9.7%	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	0.2%	2.0%	8.2%	10.1%	15.1%

## 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	2.1%	4.5%	8.8%	13.4%	12.8%

## 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	1.6%	3.3%	10.0%	10.1%	14.7%

## 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	0.1%	2.0%	9.1%	11.8%	15.6%

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

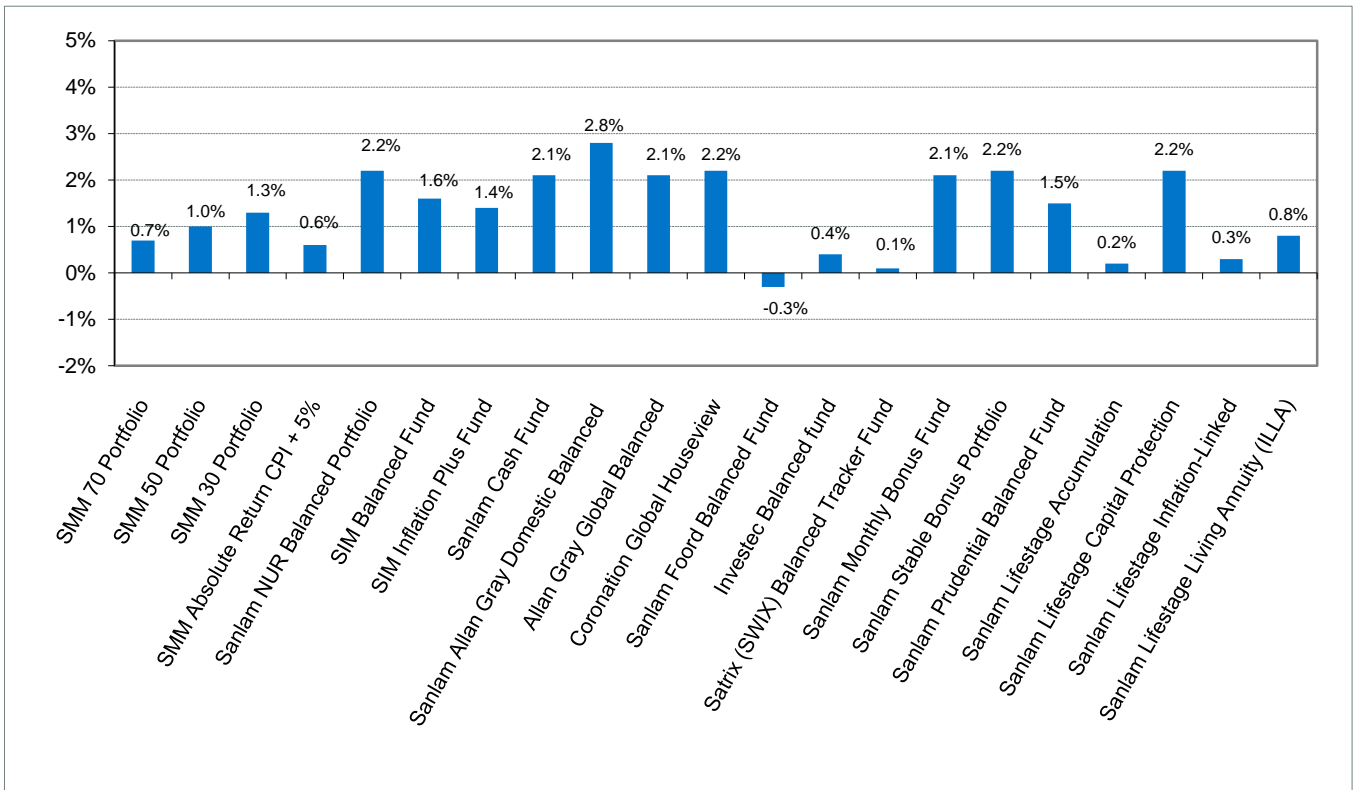
### Please note:

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

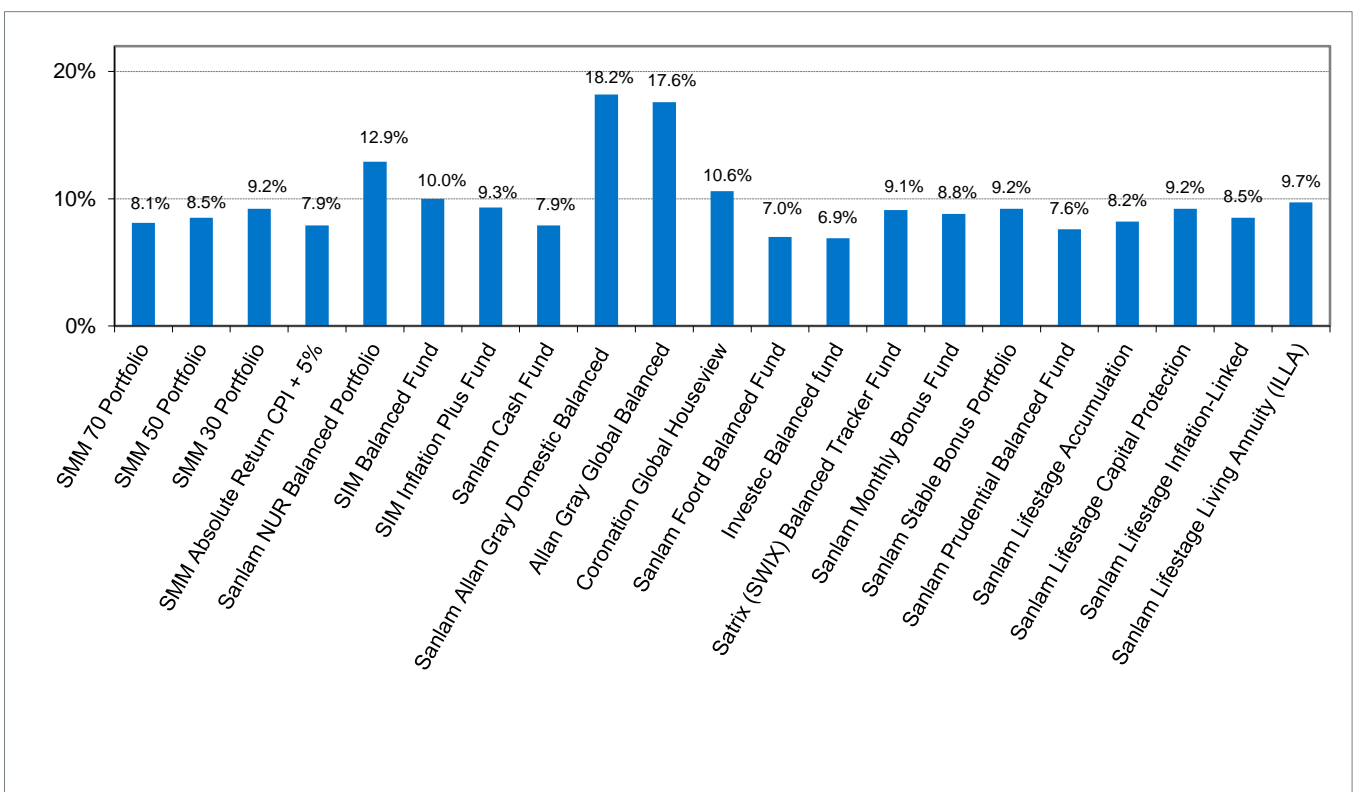


# Short-term performance analysis

Total Fund performance for the quarter ended 30 September 2016



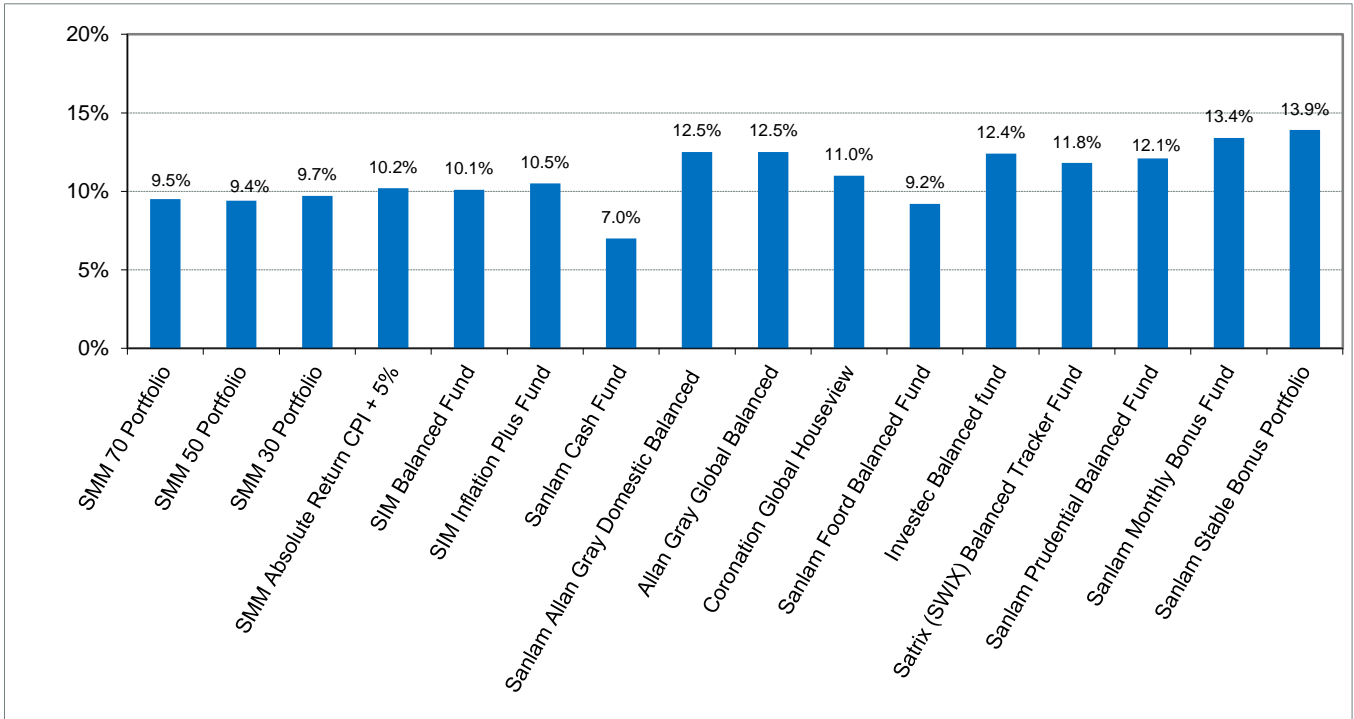
Total Fund performance for the 12 months ended 30 September 2016





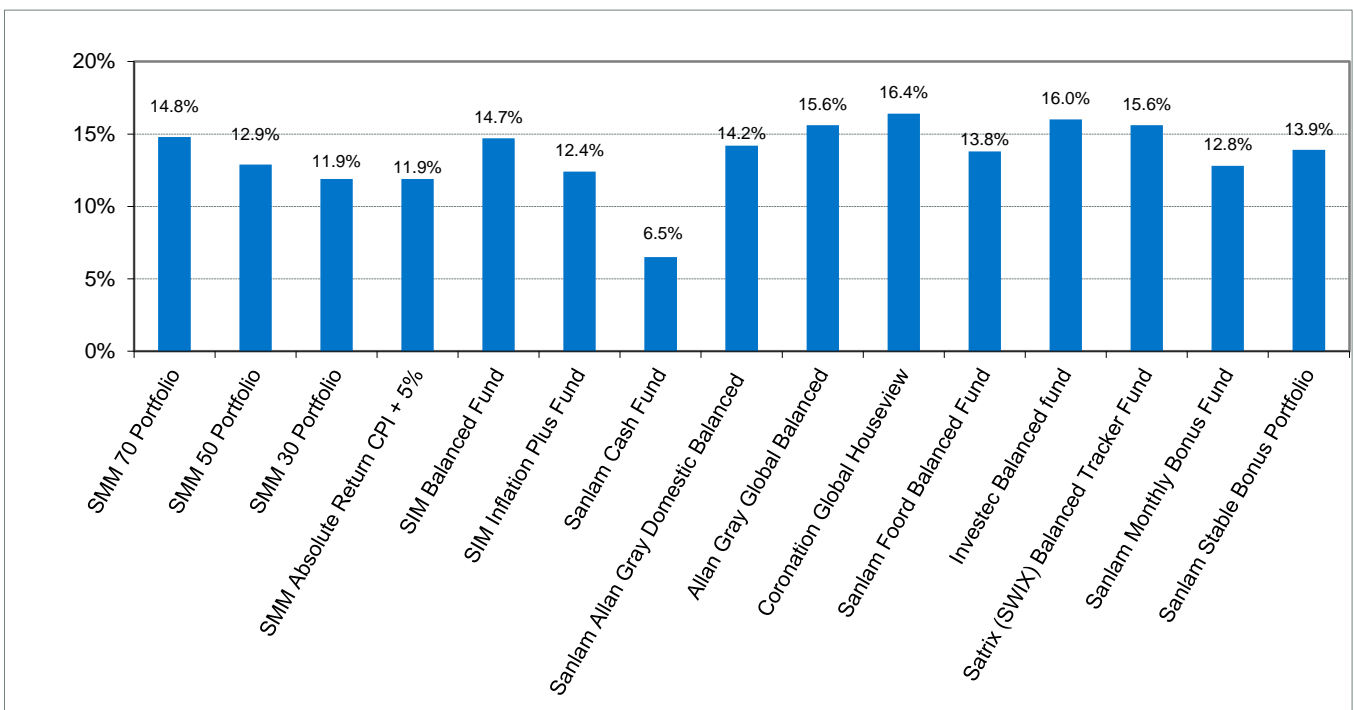
# Medium-term performance analysis

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



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

Total Fund performance for the 5 years ended 30 September 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	0.7%	2.9%	8.1%	9.5%	14.8%
SMM 50 Portfolio	1.0%	3.4%	8.5%	9.4%	12.9%
SMM 30 Portfolio	1.3%	2.9%	9.2%	9.7%	11.9%
SMM Absolute Return CPI + 5%	0.6%	1.7%	7.9%	10.2%	11.9%
Sanlam NUR Balanced Portfolio	2.2%	3.9%	12.9%	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	1.6%	3.3%	10.0%	10.1%	14.7%
SIM Inflation Plus Fund	1.4%	3.3%	9.3%	10.5%	12.4%
Sanlam Cash Fund	2.1%	4.1%	7.9%	7.0%	6.5%

## External Single Manager Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Allan Gray Domestic Balanced	2.8%	4.8%	18.2%	12.5%	14.2%
Allan Gray Global Balanced	2.1%	3.8%	17.6%	12.5%	15.6%
Coronation Global Houseview	2.2%	3.4%	10.6%	11.0%	16.4%
Sanlam Foord Balanced Fund	-0.3%	0.1%	7.0%	9.2%	13.8%
Investec Balanced Fund	0.4%	0.3%	6.9%	12.4%	16.0%
Sanlam Prudential Balanced	1.5%	1.9%	7.6%	12.1%	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	0.1%	2.0%	9.1%	11.8%	15.6%

## Smoothed Bonus Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Monthly Bonus Fund	2.1%	4.5%	8.8%	13.4%	12.8%
Sanlam Stable Bonus Portfolio	2.2%	4.7%	9.2%	13.9%	13.9%

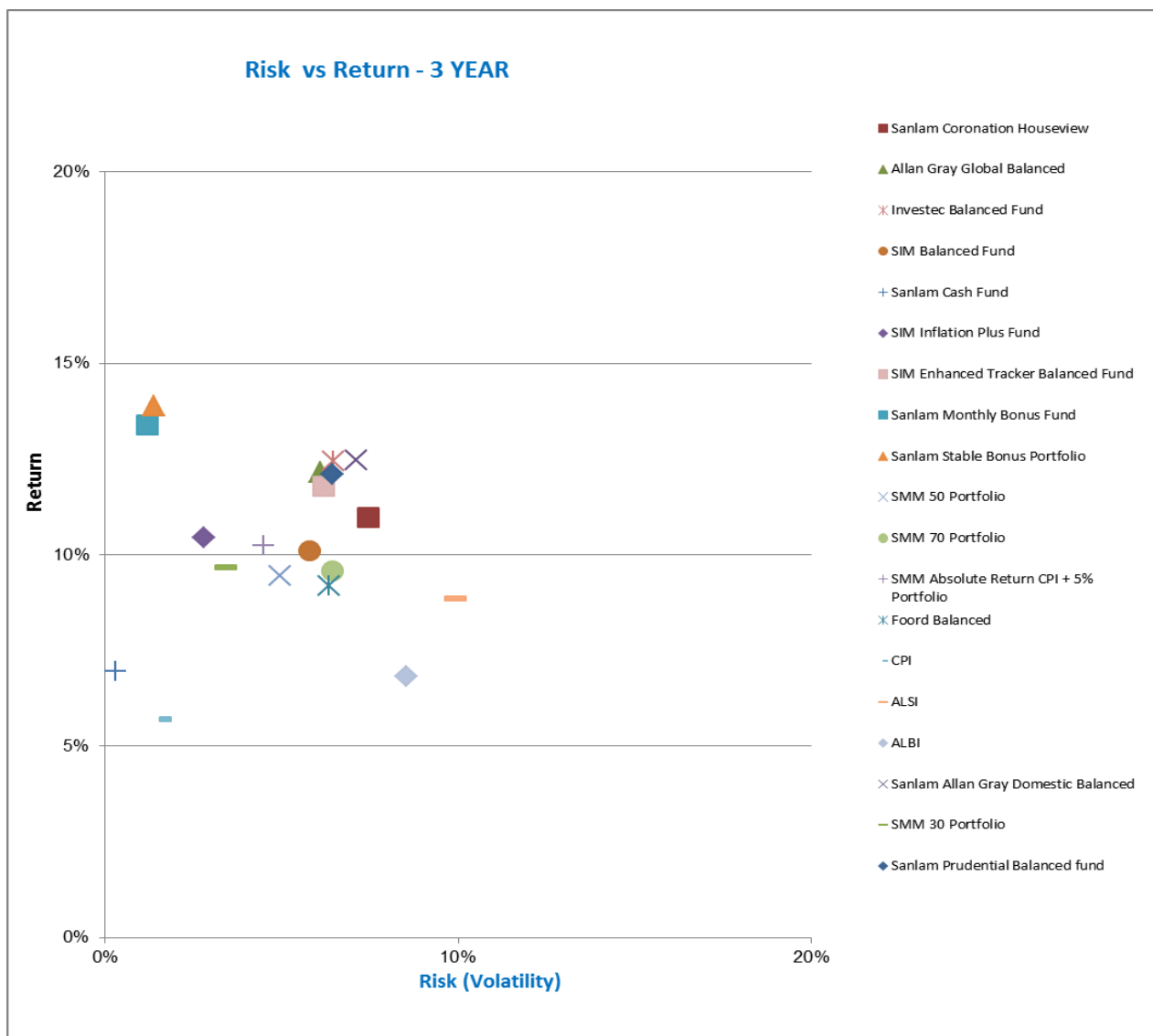


# Summary of returns (continued)

## Market indices

Market	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
All Share Index	0.5%	0.9%	6.6%	8.8%	15.3%
All Bond Index	3.4%	8.0%	7.7%	6.8%	8.0%
JP Morgan Global Bond	-7.0%	-3.2%	8.8%	13.5%	12.4%
MSCI World	-2.6%	-1.2%	10.6%	17.4%	24.2%
STeFI	1.9%	3.7%	7.1%	6.4%	6.0%
CPI	0.9%	2.5%	6.1%	5.5%	5.6%
Resource 20	8.1%	15.2%	4.6%	-10.3%	-4.3%
Industrial 25	-3.0%	-2.6%	3.8%	12.7%	23.8%
Financial 15	1.4%	-4.8%	-2.9%	11.6%	18.6%
Financial Industrial 30	-1.7%	-2.9%	2.7%	12.7%	22.8%
Top 40	-0.2%	-0.1%	4.0%	7.9%	14.9%

## Volatility versus return over a 3 year period





# Market commentary

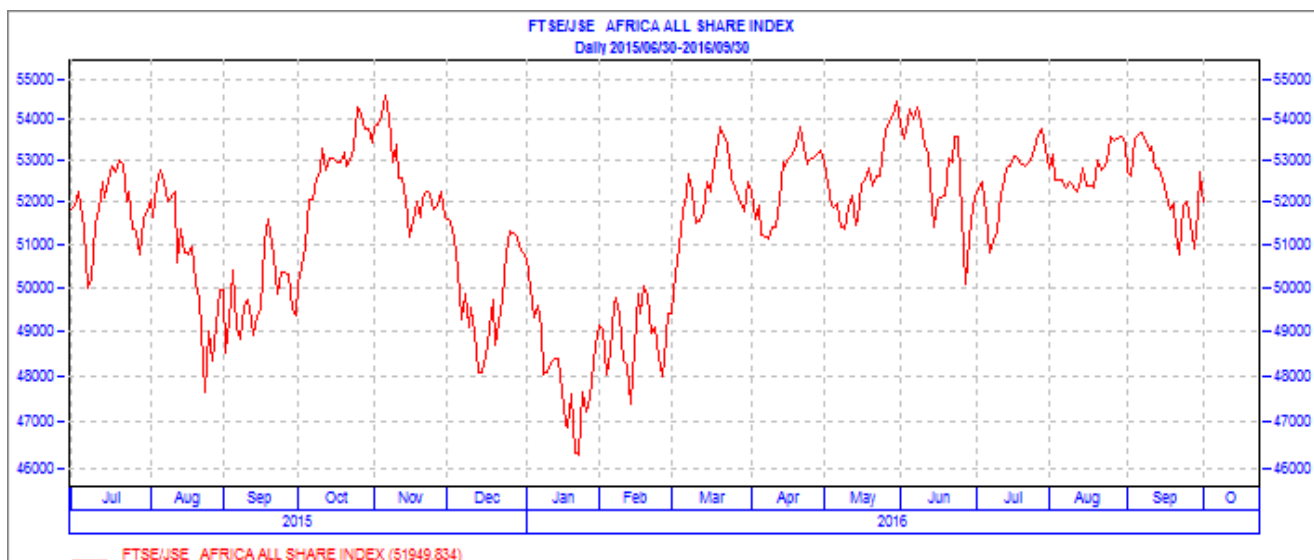


## Domestic Markets

SA equities tracked the \$-performance of their emerging market counterparts higher in Q3 as the search for yield continued. The All Share Index eaked out a gain of 0.5% in rands but yielded a stunning 8.2% in USDs given the significant appreciation in the rand/USD exchange rate. Unlike their emerging market counterparts, however, domestic equities experienced net capital outflows totalling some R19.5bn, well in excess of the net inflows into the bond market, which totalled R3.9bn. Despite the net outflows, the rand appreciated strongly as concerns about the the fraud charges against the Minister of Finance abated and the foreign exchange proceeds from the AB-Inbev SAB Miller deal began to flow into the currency market. Despite the appreciation in the rand, resource stocks gained some 8.1% in rands, driven by a 5.9% increase in \$-metals prices. Industrial counters came under pressure, declining some 3% as rand-hedge stocks retreated, while financials gained a more subdued 1.4% as banks rallied an impressive 9.9%.

While the better than expected Q2 GDP figures may have helped underpin domestic demand for SA stocks, the trend reversal (improvement) in the gross operating surplus points to a recovery in the JSE's earnings outlook. Top-down indicators of earnings growth, such as the BER-Barclays PMI, show a similar trend, suggesting that the current multiple of the market will improve from very over-bought levels as earnings recover. Bottom-up consensus earnings estimates concur, suggesting that earnings could grow around 22% off a low base in the year ahead, still short of the implied earnings priced into the market. Given the difference between expected and implied earnings, there is a risk of a market correction.

This risk is, however, mitigated by the high valuations attributed to rand-hedge stocks which have served as a hedge against domestic political risk. Since the risk of a ratings downgrade looms large later this year, not because of fiscal indiscipline but rather slow progress in reforming SOE's and ongoing political upheaval amid allegations of "State Capture", rand weakness is likely to persist in the near term.





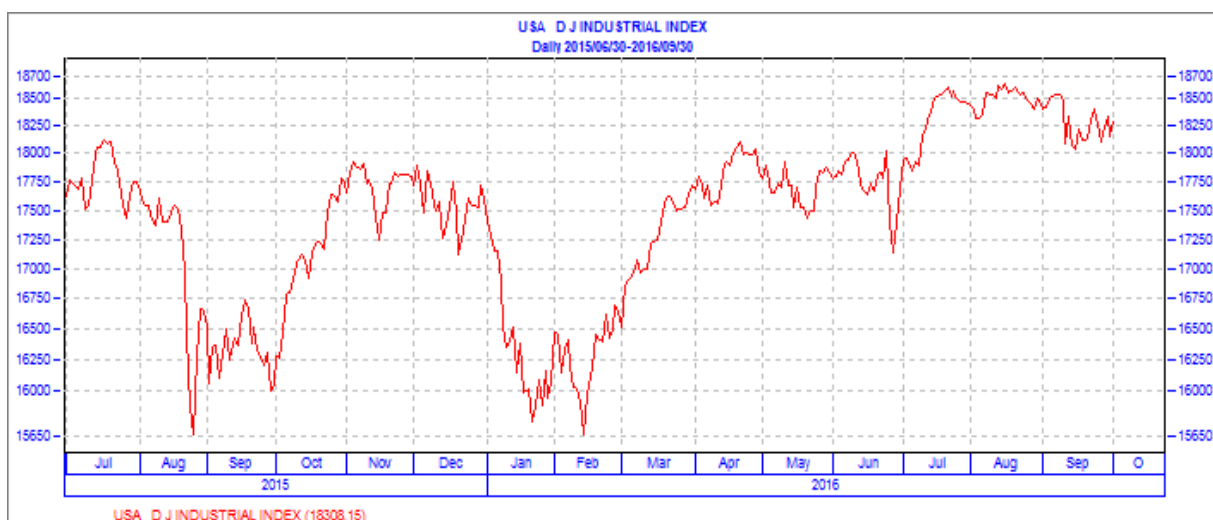
## Market commentary (continued)

### International Markets

Global equities gained a healthy 4.4% in USDs but -3.0% in rands as a delay to a Fed funds rate hike and a rebound in European, US and Japanese financials underpinned equities. UK stocks recovered strongly from their Brexit-induced weakness following the shock referendum result. The FTSE in GBP's delivered 7.8% over the quarter due to the sharp depreciation in the pound, while rallies in emerging and commodity markets underpinned global \$-returns. US stocks yielded positive returns with the S&P500 returning some 3.9% in USDs. Speculation that interest rates would be increased in September caused some uncertainty in markets but these subsided after the FOMC meeting. The actions of central bankers to keep a lid on interest rates, along with a rebound in the oil price also fuelled positive investor sentiment. European equities benefitted from the expansion of QE by the ECB, while Japanese shares rallied early in the quarter to overcome a late sell-off. Expectations of further economic stimulus grew after the ruling party won an outright majority in the July elections. Currency movements also had a significant effect on Japanese shares, given the high concentration of exporters in the mix. With respect to emerging markets, they outperformed their developed market counterparts, supported by higher prices for oil, metals and other commodities, as well as a weaker USD.

At the beginning of the year, the Fed was expected to raise the policy rate four times in 2016. This did not materialise due to the slower than expected economic recovery, especially in H1. The September FOMC meeting confirmed that Fed officials would continue nudging monetary policy towards a normalised stance.

Opinion polls suggest a Trump victory is unlikely, but if the Brexit vote has taught investors anything, it is that political sentiment in financial capitals is not always a reflection of the views of the nation as a whole. Global equity markets have recovered from their initial post-Brexit losses, while the significant depreciation in the GBP has supported UK equities. In Europe, the focus over the quarter was centred on the banking sector as banking shares fell sharply in the wake of the Brexit vote. Although it is unlikely that there will be a systemic failure of banks in Europe, in the last week of September Deutsche Bank came under immense selling pressure.





## Investment Manager changes

### **Allan Gray**

There have been no changes to the philosophy, investment process or team.

### **Coronation**

Three equity analysts in the GEM and Global team left this quarter, Henk Groenewald from our SA team has thus moved across to the GEM team. Nishan Maharaj has been promoted to head of Coronations fixed income team this quarter.

### **SIM**

Azola Zuma was appointed as Chief Executive of Sanlam Investment Management, and Benjamin Kodisang was appointed as Chief Executive of the Alternatives business. Mokgatla Madisha joined as Head of Fixed Interest following Chris Hamman's departure. Michael Canterbury has left as Portfolio Manager in the General Equity fund. Fred White is now in the new role as Head of Balanced Funds for third-party clients.

## Performance fees



The following table represents the impact which performance fees had on the following funds over a rolling one year period ending 30 September 2016:

Portfolios	Rolling 1 year Performance fees
SMM 70 Portfolio	0.09%
SMM 50 Portfolio	0.09%
SMM 30 Portfolio	0.09%
Sanlam Allan Gray Global Balanced	0.00%
Sanlam Foord Balanced Fund	0.00%
Sanlam Lifestage Accumulation Portfolio	0.07%
Sanlam Preservation: ILLA	0.06%
SMM Absolute Return CPI + 5% Portfolio	0.06%

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%