



Sanlam Lifestage Feedback Report Quarter 4 2016



Employee Benefits

Insurance

Financial Planning

Retirement

Investments

Wealth



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How does Sanlam Lifestage work?

Sanlam Lifestage aims to meet a member's retirement savings requirement in a single seamless investment solution, designed to adapt to the member's time remaining to retirement and income needs after retirement.

In terms of the lifestage approach, a member's savings are initially invested in a portfolio that places emphasis on long-term capital growth with some tolerance for short-term market volatility. As retirement approaches, a member's savings are automatically switched to a preservation portfolio. A preservation portfolio protects a member against the specific risks inherent in the purchase of the particular annuity the member is targeting to obtain an income in retirement.

As members may employ a range of different income strategies at retirement, 3 Sanlam Lifestage Preservation Portfolios are available, each designed to align capital to an income strategy for an almost seamless transition into retirement.

Transition from the accumulation phase to the preservation phase takes place by means of 50 monthly switches, starting 6 years prior to retirement, to reduce market timing risk. The transitioning switches that shift exposure from the Sanlam Lifestage Accumulation Portfolio to the Sanlam Lifestage preservation portfolios are calculated and implemented monthly based on members' actual ages. Members may plan to retire earlier than the normal retirement age determined by their employer, if this is allowed by their retirement fund. In such cases, planned retirement dates instead of normal retirement ages can be used to determine the timing of the transitioning process. This is done at no additional cost to the member.

> Accumulation phase:

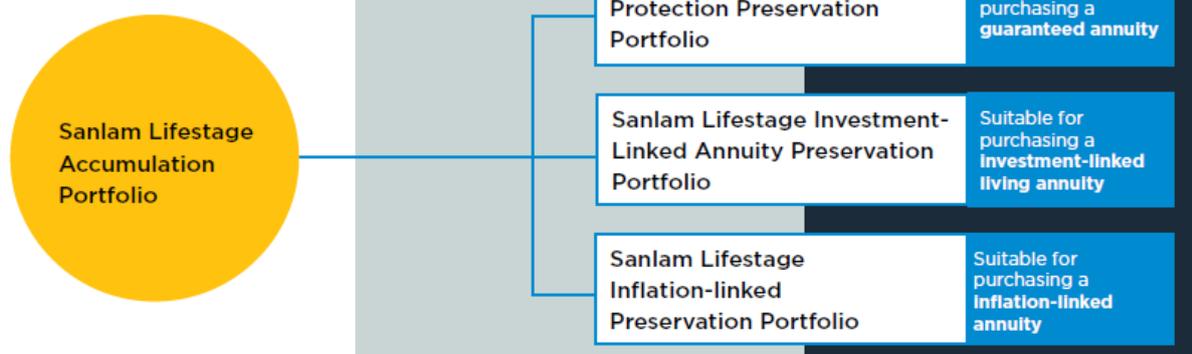
All members more than 6 years from Retirement Age.

> Systematic automated monthly transition:

All members 6 years and less but more than 22 months from Retirement Age.

> Preservation phase:

All members 22 months and less from Retirement Age.



The Capital Protection Preservation Portfolio is appropriate for a member wishing to purchase a guaranteed annuity at retirement, or who is uncertain on which annuitisation strategy they wish to employ at retirement. The Inflation-linked Preservation Portfolio is appropriate for a member wanting to purchase an inflation-linked annuity at retirement, and the ILLA Preservation Portfolio for a member who plans to manage their income in retirement through an Investment-linked Living Annuity (ILLA).



Investment Portfolios offered in Sanlam Lifestage

Accumulation Portfolio

The Sanlam Lifestage Accumulation Portfolio aims to provide market-related capital growth to members who are more than six years from retirement and who need to grow their retirement savings.

The portfolio is a multi-managed portfolio which allocates its assets across equity, bond, property and cash sub-portfolios. In the case of each domestic sub-portfolio a core-satellite investment strategy is employed. The core is a low-cost index-tracking strategy, around which the satellite managers aim for active returns through the out-performance of their respective benchmarks.

The portfolio has an aggressive risk profile.

Preservation Portfolios

Capital Protection Preservation Portfolio

The Sanlam Lifestage Capital Protection Preservation Portfolio invests in the Sanlam Stable Bonus Portfolio. The portfolio aims to protect the invested capital. The Stable Bonus Portfolio provides investors with exposure to the financial markets, while protecting them against adverse market movements.

This is achieved by smoothing the returns over time and offering capital protection on the net contributions invested together with the vested bonuses in case of resignation, retirement, death, retrenchment or disability. A bonus is declared monthly in advance, which consists of a vesting and non-vesting component. Bonuses cannot be negative.

The portfolio has a conservative risk profile.

Inflation-linked Preservation Portfolio

The Sanlam Lifestage Inflation-linked Preservation Portfolio aims to provide members nearing retirement with the ability to buy a post-retirement income that will grow in line with inflation after retirement. As such, the investment portfolio may fluctuate when interest rates rise or fall, as it aims to match the movement in purchasing prices of inflation-linked annuities rather than protect or maximise growth of capital in the short term.

The Sanlam Lifestage Inflation-linked Preservation Portfolio invests in a long-duration bond portfolio, the Sanlam Employee Benefit Inflation Annuity Tracker portfolio, where the benchmark for this portfolio is the SALI Real. The SALI Real has been developed by Sanlam to track the cost of purchasing an inflation-linked annuity.

The portfolio has a conservative risk profile.

Living Annuity (ILLA) Preservation Portfolio

The Sanlam Lifestage Living Annuity Preservation Portfolio aims to provide moderate market growth. This portfolio is suitable for members who want to invest in an investment-linked living annuity at retirement. The Sanlam Lifestage Living Annuity Preservation Portfolio allocates its assets across equity, bond, property and cash sub-portfolios.

In the case of each domestic sub-portfolio a core-satellite investment strategy is employed. The core-satellite is a low-cost index-tracking strategy, around which the satellite managers aim for active returns through the outperformance of their respective benchmarks.

This portfolio has a moderate risk profile.



Product Commentary – Quarter ending December 2016

The ripple effect from the U.S election and subsequent Donald Trump win has bolstered inflation expectations with bond yields increasing in anticipation of greater fiscal stimulus and further increases in the US interest rate by the U.S Federal Reserve over the foreseeable future. The U.S Fed raised rates by 25bps in December sparking a positive reaction from the market, with financials doing especially well due perceived benefits of higher yields while commodity prices also increased supporting a rally in energy and commodity producers. Emerging markets however have lagged over the quarter (returning -4.9% in USD) given the strengthening dollar and fears that many may be exposed to protectionist trade measures from the U.S. Overall the MSCI World performed 1.5% (USD) over the quarter with value outperforming growth returning 5.6% (USD) and -1.7% (USD) respectively. Global Bonds were down with the Barclays Global Aggregate Bond Index returning -7.1% (USD) whilst EM bonds as measured by the JP Morgan Emerging Market Bond Index were down -5.3% (USD).

Domestically over the quarter South Africa fared well to avoid a full blown sovereign debt downgrade to junk status while at the same time the South African Reserve Bank held off on raising rates any further this year. The Rand in turn managed to remain fairly resilient over the quarter having already priced in increased probabilities of rate hikes by the U.S Federal Reserve. Overall the effect was strong performance from financials and property. The All Share Index was down -2.1% (ZAR) with financials and listed property being the only positive sectors increasing by 3.2% (ZAR) and 1.3% (ZAR) respectively. Resources were down 1.1% (ZAR) and Industrials down 5.4% (ZAR) over the quarter. Bonds were up 0.3% (ZAR) and cash was up 1.9% (ZAR) over the quarter.

There remains the risk of a binary outcome for markets in 2017. Whilst we feel that Global Growth is going to improve in 2017, there remains a big risk of a trade war between the US and China (given Donald Trump's negative commentary towards China) as well as the myriad of political issues locally which could negatively impact markets returns in the year.

The impact of Donald Trump and whether or not he will be allowed to carry through with his policies is also an uncertainty. Given what we know of his policies as well as the people he has appointed, his policies could be positive for US Employment and Growth, but potentially negative for the rest of the world.

However despite this, Global Equity remains fairly valued, with much potential within Europe whilst the US is in our opinion a little bit overvalued. Global Equity remains one of our favoured asset classes for 2017, whilst Global bonds remain expensive. It is our view that the US Federal Reserve is likely to increase interest rates more than once in 2017, and if Donald Trump's policies end up bringing some inflation and growth into the US Economy this would mean potentially 3 or 4 interest rate increases. This would be negative for Global bonds but good for the US Dollar.

Locally, SA Equity remains slightly expensive, but earnings are likely to rebound somewhat this year after a couple of years of no earnings growth. There is thus the potential for double digit returns from domestic equity this year, although high single digits seems more likely with some volatility. Domestic bonds remain cheap, but given the likelihood of a downgrade in 2017 being high, this could get worse before it gets better. The Rand rallied hard in 2016, and in our view is likely to weaken against the US Dollar this year especially given the tailwinds to the Dollar as well as the likely downgrade. In addition should any kind of cabinet reshuffle result in the Finance minister losing his job, expect the Rand to weaken markedly. As a result we favour offshore assets through 2017.



Portfolio Commentary – Quarter ending December 2016

Sanlam Lifestage Accumulation Portfolio

The Sanlam Lifestage Accumulation Portfolio was under its benchmark over the quarter ending 31 December 2016.

Asset allocation contributed to performance over all three months while manager selection detracted from performance over all three months. Within asset allocation the fund held an underweight in domestic equity and overweight in domestic bonds which outperformed over the period. International exposure detracted from the performance on a stock selection level as the benchmark returns were positive. Additionally emerging markets underperformed given the sell-off following a Trump win in the U.S election. As such one of the largest detractors within manager selection was Blackrock Emerging Markets fund.

Sanlam Lifestage Capital Protection Preservation Portfolio

The Sanlam Capital Protection Preservation Portfolio continues to be a safe haven for our members during these volatile markets. The smoothing and guarantees offered by this portfolio means that there is no need for Lifestage members to panic. The stable and predictable monthly bonuses reduces the temptation to make emotional decisions during uncertain times, such as switching to more conservative investment options and thereby locking in losses when markets are down.

Sanlam Lifestage Inflation Linked Preservation Portfolio

The portfolio aims to closely match movements in its benchmark index, the SALI Real by investing in inflation-linked bonds. This index tracks the changes in the cost of an inflation linked annuity caused by changes in real interest rates. The portfolio therefore aims to preserve a member's ability to purchase an inflation linked annuity.

Sanlam Lifestage ILLA Preservation Portfolio

The Sanlam Lifestage Living Annuity outperformed its composite benchmark over the quarter ending 31 December 2016.

The fund has a larger exposure to bonds relative to equity which contributed to performance over the quarter given the outperformance of the fixed interest asset class. Domestic equities was the largest detractor from performance in which the fund held an underweight allocation. Foreign allocation contributed to performance on the back of U.S trump election which saw the U.S market rally at the expense of an emerging markets sell off. Consequently within manager selection Blackrock World Index was the largest contributor to performance.



Fund Fact Sheets

Sanlam Lifestage



Mandate description

Sanlam Lifestage is the Fund's trustee approved default investment strategy and aims to meet each member's savings requirement by working towards a target date, which would be the Normal Retirement Age or the Planned Retirement Age (if different).

How Sanlam Lifestage works

The investment strategy consists of two phases and members are automatically switched from one phase to another as they near retirement. The two phases are:

- Accumulation phase
- Preservation phase

As retirement approaches, this target date strategy invests in an investment portfolio matching the member's postretirement needs or plans, but in the years prior to this greater emphasis is placed on achieving capital growth. Members with more than 6 years before reaching their Normal Retirement Age or Planned Retirement Age (if different) are fully invested in the Sanlam Lifestage Accumulation Portfolio which aims to achieve capital growth. Six years (72 months) before a member reaches his/her Normal Retirement Age or Planned Retirement Age (if different), the member is gradually switched from the Sanlam Lifestage Accumulation Portfolio to his/her selected Sanlam Lifestage preservation portfolio by means of 50 monthly switches.

Members with more than 6 years before reaching their Planned Retirement Age are fully invested in Sanlam Lifestage Accumulation Portfolio which aims to achieve capital growth.

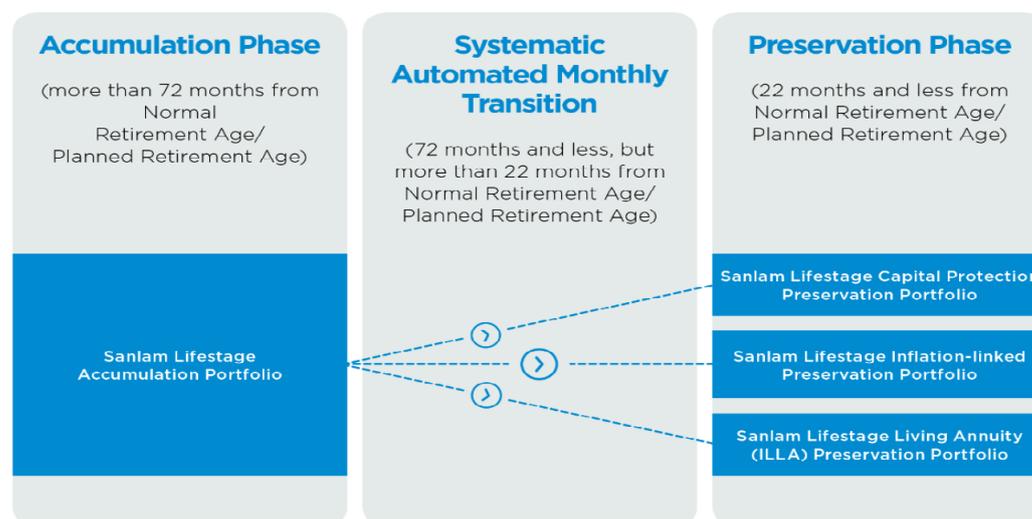
Six years (72 months) before a member reaches his/her Planned Retirement Age, the member is gradually switched from the Sanlam Lifestage Accumulation Portfolio to his/her selected Sanlam Lifestage preservation portfolio by means of 50 monthly switches.

Fund performance

Phase	1 month	3 months	1 year	3 years
Accumulation Portfolio	1.1%	-1.8%	3.7%	7.6%
Preservation Portfolios:				
Capital Protection	0.6%	1.9%	8.7%	12.8%
Inflation-Linked	-0.7%	-1.2%	5.8%	7.3%
Living annuity (ILLA)	0.9%	-0.4%	6.5%	8.4%

Please note:

Sanlam Lifestage investment reporting only commences from 1 August 2013, but the following longer term performance was achieved applicable to members previously invested in the Accumulation Phase of the Sanlam Umbrella Fund's discontinued Lifestage Programme, and whose investments were transitioned to Sanlam Lifestage during the month of July 2013.



Note: Performance figures are gross of investment management fees, but are net of any performance fees (if applicable). For portfolios in the Smoothed Bonus Range, the returns are gross of investment management fees, but are net of any guarantee premiums. Performance figures for periods greater than 12 months are annualised. All data shown is at the month-end, unless specifically indicated differently. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance is not necessarily a guide to the future returns. The value of investments and the income from them may increase or decrease and are not guaranteed. You may not get back the amount you invest. The product information sheets are prepared for the SANLAM UMBRELLA FUND by its investment consultants. The product information sheets are prepared in good faith and the information, data and opinions contained in the product information sheets are based on source information considered reliable. However, no guarantee, explicit or otherwise is provided that the information and data contained therein are correct and comprehensive. The SANLAM UMBRELLA FUND and the investment consultants cannot be held liable for any loss, expense and/or damage following from the use of the product information sheets.



Sanlam Lifestage Accumulation Portfolio



Period Ending 31-Dec-16
Fund Size R 7,979 million
Inception Date Jul-13

Fund objective

The fund is an aggressive portfolio displaying high levels of volatility over the short term and is aiming to provide market related growth. Scrip lending may be performed on the passive equity component.

Risk profile

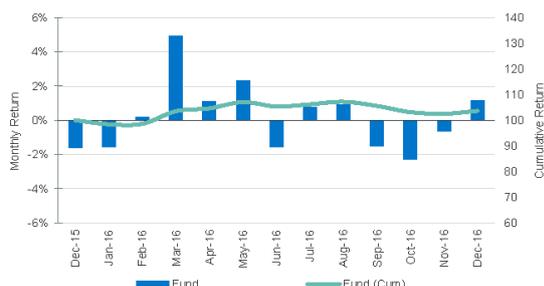
This portfolio has an moderate-aggressive risk profile

Fees

1.00% per annum for the first R50m
 0.90% per annum on the portion of assets between R50m - R100m
 0.775% per annum on the portion of assets between R100m - R300m
 0.70% per annum on the portion of assets between R300m - R500m
 0.65% per annum on the portion above R500m

All Sub-funds invested in Sanlam Lifestage Accumulation Portfolio are charged the highest investment management fee applicable to the first tranche of assets, and Sub-funds with greater than R50 million assets are separately rebated any savings due to the sliding investment management fee scale on a monthly basis. The underlying investment managers may be incentivised on a performance fee basis.

Monthly and cumulative returns



Fund performance (%)

	Fund	Benchmark
1 Month	1.1%	1.4%
3 Months	-1.8%	-1.8%
6 Months	-1.6%	-1.9%
1 Year	3.7%	4.1%
3 Years	7.6%	9.1%
5 Years	n/a	n/a

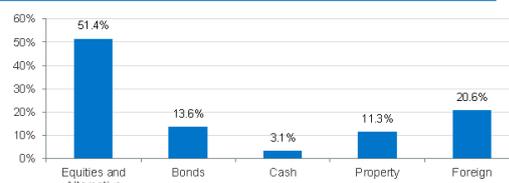
Top 10 holdings (% of Equities)

Share Name	% of Equities
Naspers	15.7%
British American Tobacco Plc	4.4%
Steinhoff Int Hldgs N.v	4.0%
Firstrand Limited	3.8%
Sasol Limited	3.7%
MTN Group	3.6%
Standard Bank Group Limited	3.5%
Old Mutual	2.3%
Anglo American	2.3%
Remgro Limited	2.0%

Benchmark

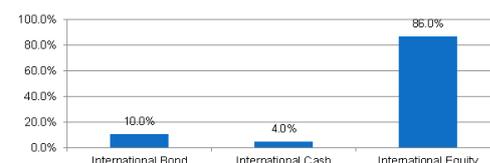
- 55% SWIX (Shareholder Weighted Index)
- 10% BEASSA Total Return All Bond Index
- 7.5% FTSE/JSE SAPY Index
- 3% Short Term Fixed Interest Index (STeFI)
- 3% STeFI Index
- 5% Barclays BESA Gov. Inflation-linked Index
- 15% MSCI World (Developed Markets) Equity Index
- 5% Barclays Global Aggregate Index
- 5% BEASSA Inflation linked bond

Asset class breakdown



The benchmark reflects the fund's long-term strategic asset allocations. Fund asset allocations may be allowed to vary from the benchmark, depending on market conditions.

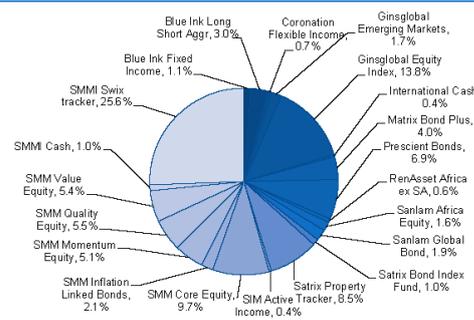
Foreign split



Equity sectoral exposure (%)

	Fund	Benchmark
Financials	22.4%	19.9%
Resources	14.2%	20.0%
Industrials	63.4%	60.1%

Fund manager breakdown



Please refer to the "Local equity manager breakdown for SMMI portfolios" for a detailed outline of the underlying equity managers within this portfolio.

Risk analysis

(based on the last 3 years' monthly returns)

% of negative months over the last 3 years	36.1%
Average capital loss in one month	-1.4%
Downside risk *	0.8%

* of the portfolio relative to CPI

Note: Performance figures are gross of investment management fees, but are net of any performance fees (if applicable). For portfolios in the Smoothed Bonus Range, the returns are gross of investment management fees, but are net of any guarantee premiums. Performance figures for periods greater than 12 months are annualised. All data shown is at the month-end, unless specifically indicated differently. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance is not necessarily a guide to the future returns. The value of investments and the income from them may increase or decrease and are not guaranteed. You may not get back the amount you invest. The product information sheets are prepared for the SANLAM UMBRELLA FUND by its investment consultants. The product information sheets are prepared in good faith and the information, data and opinions contained in the product information sheets are based on source information considered reliable. However, no guarantee, explicit or otherwise are provided that the information and data contained therein are correct and comprehensive. The SANLAM UMBRELLA FUND and the investment consultants cannot be held liable for any loss, expense and/or damage following from the use of



Sanlam Lifestage Capital Protection Preservation Portfolio



Period Ending 31-Dec-16
Fund Size (Book Value) 1448 million
Inception Date Aug-13

Fund objective

The Portfolio offers investors stable, smoothed returns with a partial guarantee on benefit payments. A bonus, which consists of a vesting and non-vesting component is declared monthly in advance. Bonuses cannot be negative. The portfolio offers 100% capital guarantee and partially vesting bonuses.

Risk profile

The portfolio has a conservative risk profile

Fees

Sanlam's cost in relation to the investment plan is recouped by recovering the following fees:

Investment Management Fees:

0.425% per annum

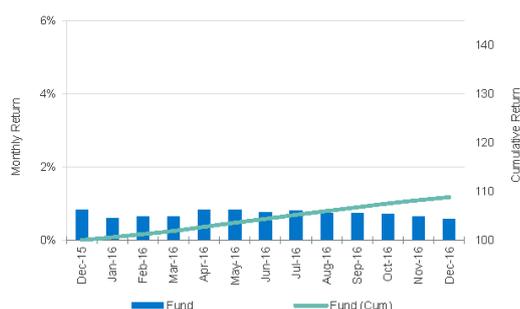
Guarantee Premium:

A guarantee premium of 0.90% per annum

Annual Performance Linked Fee:

The investment manager may be incentivised with performance fees (capped at 0.30% p.a.)

Monthly and cumulative bonuses



Fund bonuses (%)

	Fund (gross of fees)
1 Month	0.6%
3 Months	1.9%
6 Months	4.2%
1 Year	8.7%
3 Years	12.8%
5 Years	n/a

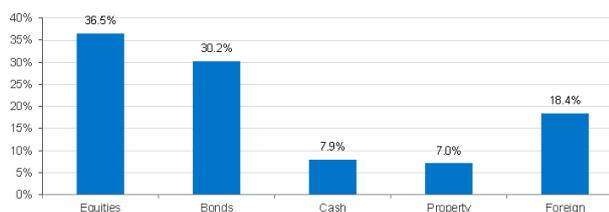
Top 10 equity holdings (% of Equities)

Share Name	% of Equities
Naspers N	16.1%
BTI Group	5.3%
Sasol	4.9%
MTN Group	4.5%
Stanbank	4.1%
Steinhoff (SNH)	3.8%
Old Mutual	3.6%
FirstRand	2.9%
Anglos	2.2%
Remgro	2.1%

Benchmark

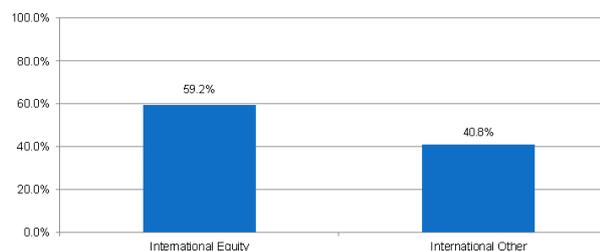
- 42.0% SWIX (Shareholder Weighted Index)
- 25.5% BEASSA Total Return All Bond Index
- 1.0% STeFI + 2%
- 2.0% Barclays BESA Gov. Inflation-linked Index
- 7.5% MSCI World Index (Dev. Markets)
- 5.0% Barclays Global Aggregate Index
- 2.5% HFRI Fund of Funds Composite Index
- 8.0% STeFI Index
- 6.5% BEASSA 7-12 years TRI plus 1.0% p.a.

Asset class breakdown



The benchmark reflects the fund's long-term strategic asset allocations. Fund asset allocations may be allowed to vary from the benchmark, depending on market conditions.

Foreign split



Equity sectoral exposure (%)

	Fund
Financials	21.8%
Resources	13.2%
Industrials	65.0%

The Non - Vested bonuses as a proportion of the total Sanlam Stable Bonus Portfolio holdings:

Sanlam Umbrella Pension Fund	6.72%
Sanlam Umbrella Provident Fund	8.94%

* Only impacts Sanlam Lifestage members opting for this preservation strategy in the last 6 years before retirement.

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Sanlam Lifestage Living Annuity Preservation Portfolio



Period Ending 31-Dec-16
Fund Size R 52 million
Inception Date Oct-13

Benchmark
 40% FTSE / JSE Shareholder Weighted Index
 20% BEASSA Total Return Index
 13% Short Term Fixed Interest Index (STeFI)
 10% FTSE/JSE SAPY Index
 17% Barclays BESA Gov. Inflation-linked Index

Fund objective

The relatively high equity allocation of the Fund should occasionally result in high volatility but also a high rate of growth compared to funds with a moderate risk profile.

Risk profile

The portfolio has a moderate risk profile.

Fees

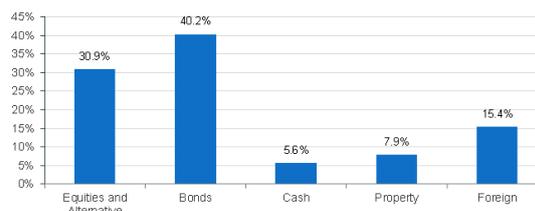
Investment Management Fees:
 0.80% per annum.

The underlying investment managers may be incentivised on a performance fee basis.

Monthly and cumulative returns

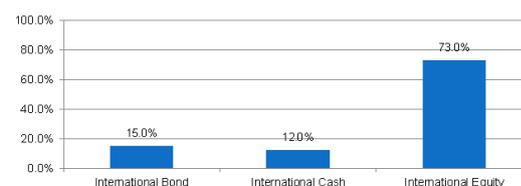


Asset class breakdown



The benchmark reflects the fund's long-term strategic asset allocations. Fund asset allocations may be allowed to vary from the benchmark, depending on market conditions.

Foreign split



Equity sectoral exposure (%)

	Fund	Benchmark
Financials	22.6%	19.9%
Resources	14.1%	20.0%
Industrials	63.3%	60.1%

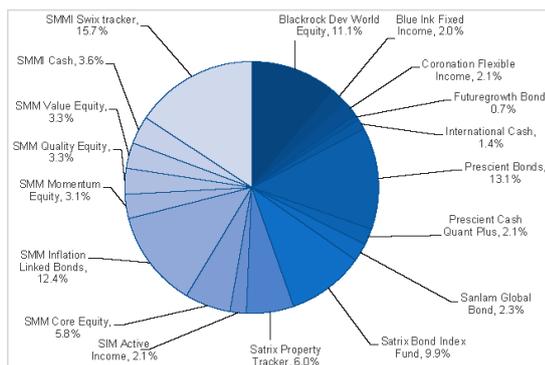
Fund performance (%)

	Fund	Benchmark
1 Month	0.9%	1.0%
3 Months	-0.4%	-1.2%
6 Months	0.3%	-0.8%
1 Year	6.5%	5.9%
3 Years	8.4%	8.5%
5 Years	n/a	n/a

Top 10 equity holdings (% of Equities)

Share Name	% of Equities
Naspers	15.7%
British American Tobacco Plc	4.4%
Steinhoff Int Hldgs N.v	4.0%
Firststrand Limited	3.8%
Sasol Limited	3.7%
MTN Group	3.6%
Standard Bank Group Limited	3.5%
Old Mutual	2.3%
Anglo American	2.3%
Remgro Limited	2.0%

Fund manager breakdown



Please refer to the "Local equity manager breakdown for SMMI portfolios" for a detailed outline of the underlying equity managers within this portfolio.

Note: Performance figures are gross of investment management fees, but are net of any performance fees (if applicable). For portfolios in the Smoothed Bonus Range, the returns are gross of investment management fees, but are net of any guarantee premiums. Performance figures for periods greater than 12 months are annualised. All data shown is at the month-end, unless specifically indicated differently. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance is not necessarily a guide to the future returns. The value of investments and the income from them may increase or decrease and are not guaranteed. You may not get back the amount you invest. The product information sheets are prepared for the SANLAM UMBRELLA FUND by its investment consultants. The product information sheets are prepared in good faith and the information, data and opinions contained in the product information sheets are based on source information considered reliable. However, no guarantee, explicit or otherwise are provided that the information and data contained therein are correct and comprehensive. The SANLAM UMBRELLA FUND and the investment consultants cannot be held liable for any loss, expense and/or damage following from the use of the product information sheets.



Sanlam Lifestage Inflation-linked Preservation Portfolio



Period Ending 31-Dec-16
Fund Size (Book Value) R2 million
Inception Date Aug-13

Fund objective

The portfolio aims to closely match movements in its benchmark index, the SALI Real. This index tracks the changes in the cost of an inflation linked annuity caused by changes in real interest rates. The portfolio therefore aims to preserve a member's ability to purchase an inflation linked annuity.

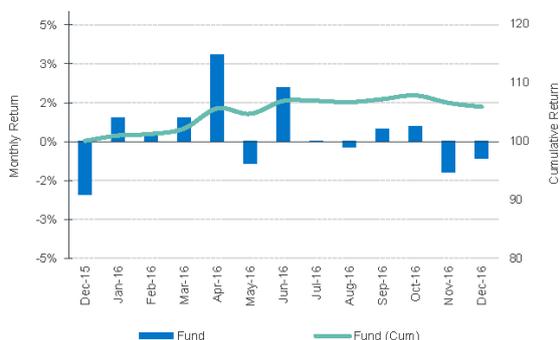
Risk profile

This fund has a conservative risk profile

Fees

Investment Management Fees:
 0.70% per annum.

Monthly and cumulative bonuses

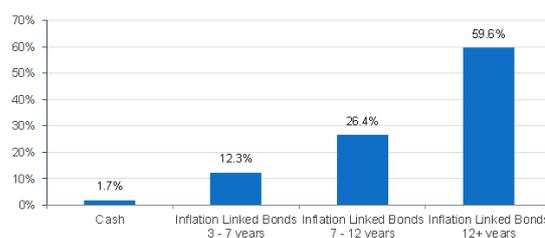


Fund bonuses (%)

	Fund (gross of fees)	Benchmark
1 Month	-0.7%	-1.0%
3 Months	-1.2%	-2.0%
6 Months	-1.0%	-1.7%
1 Year	5.8%	5.4%
3 Years	7.3%	7.3%
5 Years	n/a	n/a

Benchmark Sanlam Asset Liability Index Real (inflation linked)

Asset class breakdown



Note: Performance figures are gross of investment management fees, but are net of any performance fees (if applicable). For portfolios in the Smoothed Bonus Range, the returns are gross of investment management fees, but are net of any guarantee premiums. Performance figures for periods greater than 12 months are annualised. All data shown is at the month-end, unless specifically indicated differently. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance is not necessarily a guide to the future returns. The value of investments and the income from them may increase or decrease and are not guaranteed. You may not get back the amount you invest. The product information sheets are prepared for the SANLAM UMBRELLA FUND by its investment consultants. The product information sheets are prepared in good faith and the information, data and opinions contained in the product information sheets are based on source information considered reliable. However, no guarantee, explicit or otherwise are provided that the information and data contained therein are correct and comprehensive. The SANLAM UMBRELLA FUND and the investment consultants cannot be held liable for any loss, expense and/or damage following



Local equity manager breakdown for SMMI portfolios

	Lifestage Accumulation	SMM 70 Portfolio	SMM 50 Portfolio	SMM 30 Portfolio	ILLA Preservation
Domestic Equity					
Core Equity					
Fairtree Equity	1.9%	3.9%	2.8%	1.4%	1.2%
Truffe Equity	1.9%	3.9%	2.8%	1.4%	1.2%
ABAX Equity	1.9%	4.0%	2.9%	1.4%	1.2%
Coronation Equity	2.6%	5.2%	3.8%	1.9%	1.5%
Sentio Equity	1.3%	2.7%	1.9%	1.0%	0.8%
Quality Equity					
First Avenue	1.9%	3.9%	2.8%	1.4%	1.1%
Steyn Equity	1.7%	3.5%	2.5%	1.2%	1.0%
Bataleur Equity	1.9%	4.0%	2.9%	1.4%	1.2%
Momentum Equity					
Kaizen Thematic Equity	1.9%	3.9%	2.8%	1.4%	1.2%
Satrix Momentum	1.9%	4.0%	2.9%	1.4%	1.2%
Capricorn Equity	1.3%	2.6%	1.9%	0.9%	0.8%
Value Equity					
ABSA Select Equity	1.6%	3.3%	2.4%	1.2%	1.0%
Investec Value	1.9%	3.9%	2.8%	1.4%	1.1%
SIM General Equity	1.9%	3.9%	2.8%	1.4%	1.2%
Total	25.6%	52.7%	38.0%	18.6%	15.5%

Note: Performance figures are gross of investment management fees, but are net of any performance fees (if applicable). For portfolios in the Smoothed Bonus Range, the returns are gross of investment management fees, but are net of any guarantee premiums. Performance figures for periods greater than 12 months are annualised. All data shown is at the month-end, unless specifically indicated differently. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance is not necessarily a guide to the future returns. The value of investments and the income from them may increase or decrease and are not guaranteed. You may not get back the amount you invest. The product information sheets are prepared for the SANLAM UMBRELLA FUND by its investment consultants. The product information sheets are prepared in good faith and the information, data and opinions contained in the product information sheets are based on source information considered reliable. However, no guarantee, explicit or otherwise are provided that the information and data contained therein are correct and comprehensive. The SANLAM UMBRELLA FUND and the investment consultants



Performance vs Benchmark

Performance to end December 2016

Sanlam Lifestage	1 Month	3 Months	6 Months	1 Year	3 Year
Accumulation Portfolio	1.13%	-1.80%	-1.62%	3.69%	7.57%
Benchmark	1.39%	-1.75%	-1.84%	4.11%	9.12%
Capital Protection Preservation*	0.57%	1.93%	4.20%	8.67%	12.80%
Inflation-Linked Preservation Portfolio	-0.65%	-1.24%	-0.95%	5.78%	7.29%
Benchmark	-0.99%	-1.97%	-1.73%	5.36%	7.26%
ILLA Preservation Portfolio	0.93%	-0.44%	0.32%	6.51%	8.44%
Benchmark	1.04%	-1.24%	-0.78%	5.92%	8.52%

* The Capital Protection Preservation Portfolio does not have an explicit benchmark.

Performance Attribution

Multi-Managed Portfolios:

3 months ending December 2016	Active Return	Tactical Asset Allocation	Manager Selection
Sanlam Lifestage Accumulation	-0.04%	0.61%	-0.66%
Sanlam Lifestage ILLA Preservation	0.79%	1.09%	-0.29%

The Sanlam Lifestage Accumulation portfolio performed in-line with its benchmark over the quarter.

Asset Allocation added value over the quarter, with the overweight to foreign equity and underweight to foreign bonds adding significant value. However within the foreign equity the exposure to emerging markets and Africa detracted value. The underweight to SA Equity and Hedge Funds also added value.

Manager Selection detracted value. This was mostly as a result of the underperformance of the domestic equity blend over the quarter. Most other managers were in-line with their benchmarks.

The Sanlam Lifestage ILLA Preservation Portfolio outperformed its benchmark over the quarter.

Asset Allocation added significantly to performance, in particular as a result of the timing of moving overweight to foreign equity through the quarter. The underweight to foreign bonds also added significantly as did the underweight to domestic equity.

Manager selection detracted from performance which was entirely as a result of domestic equity manager selection, with most managers underperforming over the quarter.

Please refer to the portfolio commentary for insight into performance of the Sanlam Capital Protection and Inflation-Linked Preservation Portfolios. These portfolios do not provide comparable information to the above due to the unique nature of their structure and mandate.



Economics

January 2017

Executive summary

President-elect Donald Trump's surprise electoral win in November triggered a repricing of risk globally that saw developed market equities coming out tops and fixed income asset classes the losers. Emerging market equities were particularly hard hit notwithstanding strong gains in \$-metals prices. The boost to equities was due to expectations of an earnings windfall courtesy of Trump tax cuts and pro-business economic policies, while rising long bond yields and a stronger USD reflected expectations of more expansionary fiscal policies and rising inflation. With the Fed poised to raise rates further in 2017, USD strength will redistribute growth to the rest of the world with Europe and Japan likely to be the biggest beneficiaries.

Although inflation at the producer price level has risen sharply in recent months, driven by raw material input costs rather than final goods prices, there has nonetheless been some feed-through into consumer prices. Leading economic indicators suggest the trend will continue, at least in the first half of 2017, due to an acceleration in broad-based economic growth. Structural changes to China's growth model, a tightening of credit conditions in the property market and a reduction in debt-fuelled growth could, however, cap commodity prices, while delays to US infrastructural investments will further limit gains. Given the uncertain policy environment under Trump and the risk of a populist backlash in Europe as voters go to the polls, volatility is expected to be higher this year than in 2016. Geopolitical risks are also expected to be elevated given the risk of trade war between the US and China which could spill over into conflict in the South and East China Seas.

On the domestic front the converse was true with fixed income asset classes outperforming their risky counterparts, with SA cash the best performing of the domestic asset classes. Market concerns about a ratings downgrade and ongoing political uncertainty were the dominant themes in 2016. In the year ahead, the risk of a ratings downgrade still looms large as economic reform takes a back seat ahead of the ANC's consultative and elective conferences this year. Lower inflation expectations and attractive real yields on nominal bonds are still supportive of fixed income asset classes, although more active management will be required given the political risks. With respect to equities, an improvement in valuations makes us more upbeat about the outlook for this asset class in the year ahead. Although a market derating is expected, earnings growth is expected to more than compensate for the drag on total returns.

Highlights

- ⊗ Markets digest "Trumponomics"
- ⊗ Leading economic indicators supportive of global growth in 2017
- ⊗ Fed raises rates; dot-plot points to 3 rate hikes in 2017
- ⊗ OPEC and non-OPEC countries announce 1.8m bpd cut in oil production
- ⊗ Brexit faces legal setback but May appeals
- ⊗ ECB extends QE to end 2017 but reduces monthly purchases by Euro20bn
- ⊗ Reflation trade buoys global equity markets
- ⊗ China poised to export inflation globally
- ⊗ Fitch (BBB-negative), Moody's (Baa2-negative) downgrade SA sovereign debt but investment grade rating retained
- ⊗ S&P Global Ratings downgrades SA local currency debt (BBB from BBB+) but retains foreign currency rating at BBB- (negative).
- ⊗ SA's Medium Term Budget Policy Statement shows fiscal slippage



Global Equities

Broad-based, positive economic data releases in Q4 served to offset concerns about a Fed rate hike that had been largely priced into the market. Risk assets held onto their gains, buoyed by the prospect of an earnings windfall courtesy of tax cuts and pro-business economic policies expected under a Trump administration. Although there is still significant uncertainty about the exact details of his economic plan, the market has continued to reprice risk across all asset classes. While growth momentum had been showing signs of a broad-based improvement prior to Trump's surprise electoral win, leading indicators of economic activity accelerated further in over the quarter, buoyed possibly by the market's positive reaction to Trump. The MSCI World Index gained some 1.5% in USDs and 1.1% in rands courtesy of a small appreciation in the rand/USD exchange rate. In contrast, emerging market equities gave up some 4.6% in USDs and 4.9% in rands as capital flight accelerated over the quarter. Purchasing manager indices in the US, Europe, Japan and China all showed improvements, with further job gains and signs of reinflation underpinning equities. Inflation at the producer level has accelerated sharply in recent months, driven by raw material input costs and base effects, while consumer price inflation has also trended higher on most of the metrics the Fed considers when deciding on interest rate policy. The risk to the earnings outlook is that margins get squeezed on the back of still modest aggregate demand and a lack of pass-through into final goods prices.

The release of the FOMC minutes following the December meeting showed that almost every member of the FOMC expected the US economy to support only small interest rate increases over the next two years, with rates returning to normal only in 2019. Members expressed considerable uncertainty about the timing, size and composition of any future fiscal and other economic policy initiatives — a clear reference to Trump — as well as how those policies would affect aggregate demand and supply. Nonetheless, a strengthening labour market and expectations that inflation would increase to the targeted 2% over the medium term, persuaded FOMC members to approve the 25 basis point December rate hike, although some worried about how a strengthening dollar would impact inflation. Participants attributed improvements in financial market conditions — including increased longer-term interest rates, a strengthening dollar, rising equity prices and narrowing credit spreads — to expectations of more expansionary fiscal policies in coming years or to possible reductions in corporate tax rates.

While Trumponomics will dominate the investment landscape in the year ahead, the policy certainty the market is looking for will only become evident once Trump is inaugurated as President on 20 January. Although much has been said about the positive effects that corporate and individual tax cuts will have on the economy and on corporate earnings, these are likely to be more muted than commonly expected, given that the effective corporate tax rate is substantially lower than the headline rate. In addition, the tax cuts are expected to be funded from savings generated from trade reforms. Banks are likely to be the biggest beneficiaries of tax cuts, while also cashing in on the steepening in yield curves globally. Similarly, Trump's stance on bringing back US manufacturing jobs by threatening to introduce a border tax, has already seen commitments from automakers (Ford, Fiat-Chrysler) and tech companies (Alibaba) to expand investments and jobs in the US. The commitment to infrastructural spend, coupled with support for clean-coal plants and steel production is also seen as jobs-supportive. Even talk about deregulation in the banking industry by repealing the Dodd-Frank Act has been positively received by the market, even though bankers only favour certain amendments to the existing legislation rather than a total repeal. A new bidding process for State purchases of pharmaceutical drugs has also been proposed, with Obamacare to be repealed and replaced once Trump takes office. Cyber-security has been flagged as an area in need of new investment given the prevalence of hacking attacks in the US.

But it is the area of trade that we find most troublesome and most underrated by the market. Already there are indications that Trump's protectionist stance towards trade in general and China in particular will be the single biggest risk facing the global economy. The President-elects nominated appointments to the trade and commerce portfolios are supportive of Chinese import tariffs, viewing the country as a currency manipulator, intellectual property thief and serial dumper of goods at below cost on world markets. Their argument is simply that trade balances should be broadly in balance over the long term, rather than being skewed in favour of one particular country. By imposing punitive duties on Chinese imports, the US will import inflation, prompting a more aggressive interest rate response from the Federal Reserve. A trade war with China remains a distinct probability that would be disruptive to the global economy and which could easily elevate geopolitical risks in the South and East China Seas.

China too will have its hands full trying to contain capital flight that has pressured the yuan in 2016, resulting in a reweighting of the USD in the yuan currency basket. The unwinding of the USD-yuan carry trade and the marked reduction in offshore bank lending to China has also contributed to the net outflows. China has recently introduced extra requirements for citizens converting yuan into foreign currencies designed to close loopholes exploited for purposes such as money laundering and the illegal channelling of money into overseas property. An estimated \$1 trillion flowed out of the country in 2016, according to a Bloomberg Intelligence gauge. While the regulator left the annual quota per person unchanged at \$50,000, extra disclosure requirements were introduced. Furthermore, with Chinese house prices



rising is excess of 20% in many major cities, housing has become unaffordable to the vast majority of people, forcing the government to strictly limit credit flowing into property in order to avert a potential property bubble. China has for years considered an annual property tax, though little progress has been made since a limited tax was implemented in Shanghai and Chongqing in 2011. This is set to change with the finance minister actively pushing forward reforms on property taxes. Furthermore, the rebalancing of the economy away from overcapitalized smoke-stack industries and debt-fueled growth to consumer and service related industries, will also bring about a structural slowdown in growth.

With the Fed having signalled three possible rate hikes in 2017 following the December FOMC meeting, USD strength remains a headwind for emerging markets. Interest rates aside, the possible repatriation of USDs held in offshore bank accounts could further underpin the USD. Commodity exporters are likely to be more resilient given the currency underpin from higher commodity prices. Emerging market outflows in 2017 are also likely to be more muted following the substantial capital outflows in 2016. The Euro and Yen will not be left unscathed either since the ECB is only expected to taper QE in 2018. In December 2016, the ECB extended the term of its current QE programme to the end of 2017 but reduced the quantum of its monthly purchases by some Euro 20 billion as growth accelerated and inflation ticked higher. The BoJ, for its part, will continue to expand its QQE programme as it continues to battle deflation notwithstanding its strategy to target the yield curve and not the monetary base. As a consequence, the interest rate differentials between the Eurozone and Japan will widen, keeping currencies under pressure. USD strength will, however, bring about a redistribution of growth globally, but the benefit to emerging markets will be limited by their high levels of USD-denominated debt. Over the medium term, the stronger USD will weigh on US corporate profits as the boost from expected tax cuts fades and economic activity slows. Since Chinese growth is expected to moderate slightly in 2017, demand for commodities is likely to stabilise at best, even as global growth accelerates, and additional supply is brought on stream as producers exploit current commodity prices. The oil sector is a case in point where shale producers have increased output following the combined 1.8 million bpd reduction by both Opec and non-Opec countries. For now, however, the growth momentum seen across the US, Europe, Japan and China will continue to underpin commodity prices, at least in the first half of 2017. A weakening in the terms of trade later in the year could again see some pressure to bear on emerging market currencies.

The populist train that brought Trump to power and the UK to the verge of a Eurozone exit will make its way to Germany, the Netherlands, France and possibly Italy in 2017, bringing with it uncertainty about the survival of the single currency area and the euro. Added to the mix will be whether Theresa May invokes article 50 of the Lisbon Treaty by the end of March as planned or whether a further legal challenge to the Brexit decision delays it even further. May appealed a High Court ruling that the House of Commons had to vote on invoking article 50. Should her appeal fail, a further legal challenge to include the House of Lords would slow the process down even further. She has however committed to Parliament voting on Britain's final exit plan envisaged early in 2019. In the interim, however, the uncertainty about single market access and migration could see banking sector jobs being moved to Frankfurt, Paris or Dublin.

Despite the risks and uncertainties highlighted above, the positive underpin to global equity earnings from accelerating economic activity and positive base effects suggests equities could deliver double digit gains in the year ahead despite expectations of a moderate derating linked to slightly higher interest rates. Given US policy uncertainty and the risk of a populist backlash in Europe this year, volatility is expected to be higher in 2017 than in 2016. Euro and Yen weakness is expected to support earnings growth in these regions, helping to offset potential weakness in US equity markets as a stronger dollar erodes the earnings outlook in that market. With respect to emerging market equities, the risk of currency weakness linked to capital outflows, high levels of USD-denominated debt and slightly stretched valuations, suggests returns will fall short of developed market returns. As a consequence, an overweight developed market equity position is retained whereas emerging markets are downweighted to neutral.

Global Bonds

Global bonds repriced lower in Q4 following a sharp sell-off in November after Trump's electoral win. Signs of an uptick in inflation, particularly at the producer price level also aided the weaker trend in global bonds. The yield on the JP Morgan Global Aggregate Total Return Index increased from 1.32% to 1.88%, accounting for the -6.8% USD return yielded by the asset class. Breakeven inflation also pushed up further to 1.97% from 1.6% (10-year), much in line with the 2% targeted by the US Fed. It is worth noting that the repricing of risk in Q4 resulted in bonds being the worst performing of the broad asset classes.



The steepening in yield curves since November suggests the market is expecting increased fiscal expenditure this year coupled with some reinflation of the global economy. Whereas China has historically been an exporter of deflation to the rest of the world, China is now expected to become a net exporter of inflation. This is borne out by the rise in producer price inflation, not only at the raw material input cost level but also at the final goods level. In addition, US moves to impose import duties on imported goods, particularly Chinese imported goods, could also fuel cost-push inflation in the US. Factors that could constrain the trajectory of inflation, however, include USD strength and excess capacity utilisation globally. Given the historical inverse relationship between the USD and commodity prices, raw material input costs could also become less of a driver of inflation in the second half of this year. Nonetheless, our base case view is that rising inflation expectations should support somewhat higher bond yields in the medium term, reinforcing our underweight position in this asset class. In the near term, however, bonds yields could tread water as the market anticipates long lead times between increased fiscal expenditure and rising inflation.

Global inflation-linked bonds tracked their nominal counterparts lower in Q4, declining some 5.4% in USD's and 5.7% in rands despite rising inflation expectations. The real yield on the BarCap Inflation Linked Bond Index did however improve slightly over the quarter, increasing to -0.74% from -0.95% at the end of Q3. Although global corporate bonds outperformed both their nominal sovereign and inflation-linked counterparts, they still recorded a negative return of 4.2% in USD's and 4.5% in rands. The relative outperformance was due to further declines in spreads and relatively higher absolute yields on offer. Somewhat surprising was the relative outperformance of emerging market bonds over their developed market counterparts, declining some 5.3% in USD's as higher yields offset the widening in spreads from 345 basis points to 363 basis points. Although we are generally negative on global bonds due to low yields and high modified duration, we are less downbeat of emerging market bonds, having upweighted this asset class to neutral on expectations that the search for yield globally will persist in 2017.

Global listed property derated materially over the quarter as the sector repriced risk on rising interest rate expectations, yielding some -5.4% in USD's and -5.7% in rands. In December, however, the sector rebounded as valuations improved, yielding 3% in USD's. The price-to-book ratio decreased from 1.57X to 1.46X over the quarter bringing valuations back in line with the historical mean. Since US Fed rate hikes are expected in the second half of 2017, we continue to retain a near-term neutral weighting in this asset class.

SA Equities

SA equities outperformed their emerging market counterparts in Q4 to yield some -2.1% in rands and -1.8% in USD's. The softer returns were due to large foreign capital outflows totalling R28.4bn, an increase from the R19.5bn recorded in the previous quarter. Despite a surge in \$-metal prices over the quarter (up 7.9%), the Resi-10 index declined by 1.1%. The decline was due to the sharp sell-off in gold and platinum counters that fell 35.5% and 33.1% respectively. Concerns about USD strength aided the selloff in precious metals amid expectations of further fedfunds rate hikes in the coming years. In contrast, the Fini-15 gained 3.2% helping to offset the 5.4% decline in the Indi-25. The fact that the domestic equity market held up better than its emerging market peers was also likely due to the reconfirmation of South Africa's investment grade sovereign rating. Moody's and Fitch reaffirmed South Africa's investment grade sovereign rating in November, albeit with a negative outlook, while S&P Global Ratings also reaffirmed the country's investment grade rating in December. Although S&P retained the foreign currency rating at BBB- (negative), it downgraded the country's local currency debt to BBB from BBB+, similar to Fitch's alignment of the local currency rating with its foreign currency rating at BBB- in mid-2016.

A recovery in the Standard Bank PMI, signalling a broad-based expansion in economic activity in the coming quarters, also helped underpin sentiment in SA. Expectations are that SA will avoid an economic recession in 2017, with growth likely to accelerate to around 1.1% from an estimated 0.4% in 2016. The manufacturing sector remains a concern, however, as reflected in the BER's PMI which fell further in December, maintaining a level that signals contraction in the sector. While lack of competitiveness and weak global aggregate demand are partly to blame, rand strength has also been a factor in the pedestrian growth expected from this sector. Other risks include weak consumer and business confidence which could result in household final consumption expenditure (HFCE) and private sector gross fixed capital formation (GFCF) remaining weak in 2017. Ongoing legislative uncertainty, particularly around the Expropriation Bill, Minerals Bill and Agricultural Bills remain a constraint on new investment, while higher tax rates and high levels of household debt could constrain household consumption expenditure. Still, given the low growth base in 2016, HFCE and GFCF could record gains in the year ahead. A similar scenario is expected to play out in corporate earnings, with



base effects expected to support earnings growth in 2017. Despite the weakness in the manufacturing PMI data, the level of this gauge is still consistent with positive earnings growth.

Although trailing multiples of some 23.8X earnings (in mid-January 2017) are extremely high by historical standards, the rolling P/E of the market is substantially lower at 16.3X earnings. This measure reports the earnings of all listed companies on a specific date, by aligning financial year-ends on the JSE using both reported financial yearend earnings data and earnings estimates for the coming year. Utilising the trailing earnings metric in isolation, particularly in Q1 of a year when large market capitalisation companies still need to report their December financial year-end results, materially distorts the valuation of the market. If a mean reversion of P/E multiples is assumed at some 14X earnings, the All Share Index is expected to return high single digits in the year ahead. Given the dispersion of returns around the point forecast, a neutral weighting is retained in domestic equities. Similarly, if forward multiples are used, the market is seen as moderately expensive trading on a rolling forward multiple of some 13.7X earnings, also slightly ahead of 12.6X mean. Despite an expected derating in the market, earnings growth will more than compensate for the drag on total returns in the year ahead.

SA Bonds

SA bonds yielded a pedestrian 0.4% in rands and 0.7% in USD's in Q4 as yields on the All Bond Index increased from 9.1% to 9.4% on a marginal increase in breakeven inflation and net foreign sales of domestic bonds totalling a staggering R52bn. Uncertainty about a ratings downgrade also contributed to the sell-off, while a repricing of emerging market risk following Trump's win contributed to the rise in yields. It is worth noting that in December, inflation expectations did moderate from their highs in November, with a further easing in inflation expectations anticipated in 2017 and 2018. Since real yields on nominal bonds are well in excess of the 3% we consider to be fair value, an overweight position is retained in this asset class, at least in the near term. Similar to 2016, an active trading approach to bonds will need to be taken since ratings' agencies all have the country on negative watch, with two of the three agencies on the cusp of sub-investment grade.

This implies that in the absence of meaningful economic reforms, rising unemployment and pedestrian economic growth (lower than the population growth rate) the likelihood of a ratings downgrade mid-year or later in December, remains a high probability event. In a politically charged year in which jockeying for positions within the ANC is expected to take centre stage, economic reform is likely to fall by the wayside. While rumours of a cabinet reshuffle before the State of the Nation (SOA) address in February have been doing the rounds, the intention being to replace the Minister of Finance, this appears unlikely due to the market fallout that would follow. This then raises the question of how Eskom will fund its nuclear-build programme in the absence of further government guarantees to Eskom. In the event that Eskom does go ahead with the build programme, its credit rating will be downgraded even further to beyond its current junk rating. Funding costs will then be borne by users through higher tariffs over the coming years with obvious implications for new investment and economic growth.

It is in light of the ratings downgrade risk that an active approach to domestic bonds needs to be taken. A near term overweight position will be reduced to neutral only to be followed by an underweight position in Q3 and an overweight position again in Q4 post the ratings announcements. Through the cycle, an overweight position is recommended given the long term favourable inflation outlook.

Inflation-linked bonds lagged the returns of their nominal counterparts in Q4, declining some 1.1% (in rands) as yields rose to 2.14% from 1.93%. Declining inflation expectations and a still high breakeven inflation rate of 6.8% supports an overweight nominal bonds position relative to inflation-linkers. Global corporate bonds outperformed their sovereign counterparts in Q4, yielding 1.5% in rands due to higher absolute yields and a small compression in spreads. Given the higher absolute yields on corporate bonds, the tactical allocation on this asset class mirrors that of SA's sovereign bonds.

SA listed property yielded a positive return of 1.3% in Q4 despite the rise in bond yields. In this instance, the surge in distributions growth offset the increase in bond yields. Although the sector derated relative to the 10-year bond yield over most of the year, the property-to-bond yield ratio held steady in Q4 at a level now approaching the 5-year mean, a



period that coincides with the major structural changes that have taken place within the sector. These include mergers and acquisitions and the large foreign property ownership component of the index that now makes up nearly 40% of the sector's market capitalisation. While there is a temptation to overweight listed property in line with our bonds recommendation, the associated risks of doing so, in the event of a ratings downgrade, are deemed to be just too high at this stage

SA Cash

SA cash yielded 1.9% in Q4, the best performing of all the broad asset classes. Despite lower inflation expectations going forward and an expected normalization in real interest rates to around 2% over the coming years, the market's interest rate view was revised marginally higher over the quarter. The longer-dated Fra curve is still relatively flat with the market expecting at least one 25 basis point increase in 2017, to be followed by a further 25 basis point increase in 2018. This represents only a small upward adjustment to interest rate expectations from the previous quarter. The market's view is still more aggressive than our base case view in which no further rate hikes are expected in the current cycle, with two rate cuts of 25 basis points each penciled in for the second half of 2018. The market's more aggressive view is in all likelihood premised on an expected sovereign ratings downgrade later this year to be followed by somewhat higher inflation over the medium term. In the event that interest rate increases are more aggressive than our base case view, higher debt funding costs are likely to weigh on household final consumption expenditure late in 2017 and in 2018 with obvious implications for growth that is still expected to fall short of the population growth rate.



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