Sanlam Lifestage Feedback Report
Quarter 1 2017

Sanlam

Employee Benefits

Insurance | Financial Planning | Retirement | Investments | Wealth

Contents

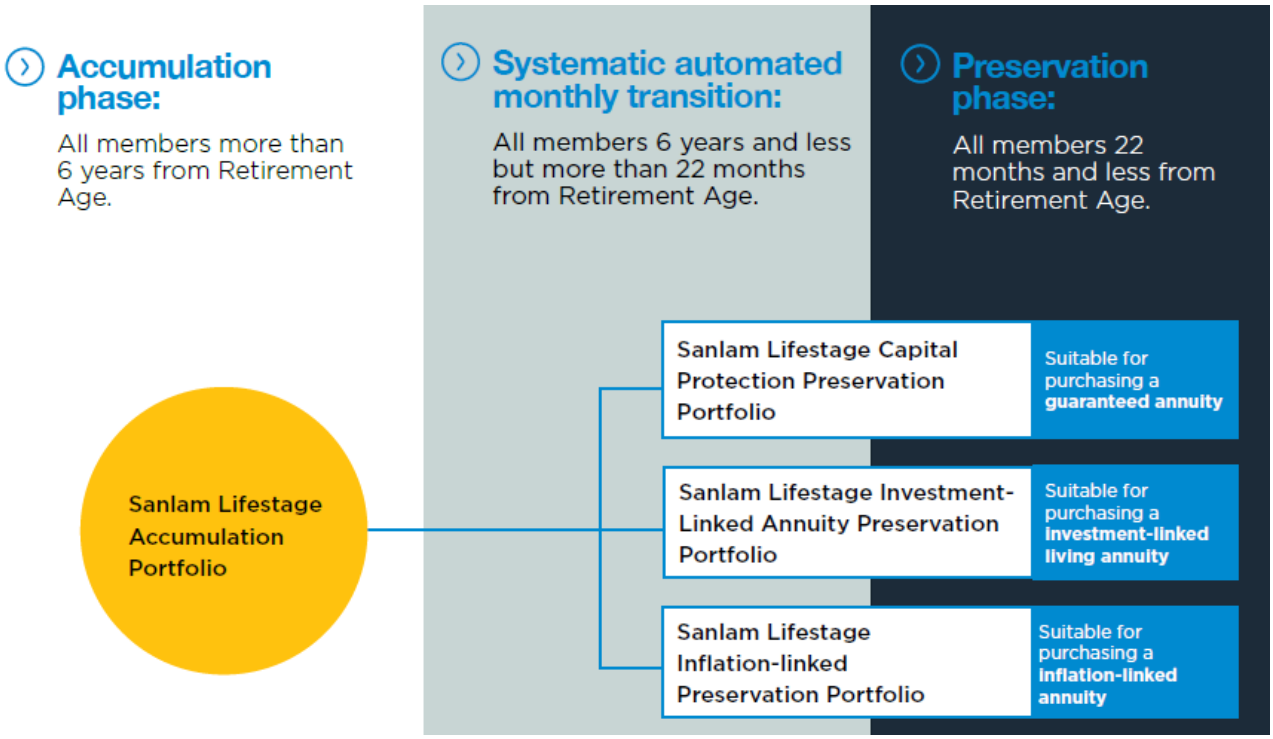
How does Sanlam Lifestage work?

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.



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 March 2017

Globally, the first quarter was characterised by outperformance of risk assets. The MSCI World returned 5.9% (USD) while the Barclay's Capital Global Aggregate which returned 1.8% (USD). The MSCI Emerging Market (EM) Index significantly outperformed its developed market counterpart returning 11.1% (USD), whilst Emerging Market bonds returned 3.2% (USD). A large component of this outperformance is attributable to the strengthening of Emerging Market currencies. This is likely as a result of two major reasons.

Firstly, during the quarter the Federal Reserve Bank (FED) decided to increase rates by 25 basis and minutes of the meeting suggested that there could be 3 more increases for the year. Market participants perceived this to mean that the United States economy was strong. This provided investors with the feeling that there was normalisation in global markets as well as minimising the risk of deflation and rather increasing the risk of higher inflation. As a result there was a greater appetite for risk. This has often occurred at the beginning of an interest rate hiking cycle in the United States. Secondly, there continued a search for yield, as interest rates in many developed markets remain artificially low.

The big news out of local markets was the recall of Pravin Gordhan and Mncebisi Jonas from the United Kingdom and the subsequent cabinet reshuffle that resulted in the firing of both ministers and several other members of parliament. Prior to this, the Rand had been one of the best performing currencies year to date and had strengthened just shy of 10% over the quarter. However after these events the Rand weakened significantly along with domestic bond yields. The subsequent depreciation in the Rand was ironically good for the South African equity market with the large offshore earnings component benefitting from the weaker currency. As a result the All Share Index returned 3.8% (ZAR). The South African Reserve Bank decided to keep interest rates on hold, giving the bond market reason to rally with the All Bond Index had returning 5.9% (ZAR) prior to the reshuffle. However post the reshuffle, bonds fell and only ended the quarter up 2.5% (ZAR). South African listed property returned 1.4% (ZAR). Over the quarter the Rand strengthened by 1.9%.

Macroeconomic factors and geopolitical risk still hang over global markets threatening every now and then to interfere in what is otherwise fairly good economic data globally showing signs of stronger growth in 2017 with less risk of deflation. There has been an uptick in geopolitical issues, particularly surrounding Syria and North Korea which creates instability in those regions.

In the US from a macroeconomic perspective the failure of the Obamacare repeal despite a Republican dominated house has raised questions surrounding whether or not Donald Trump is going to be able to implement some of the reforms he had proposed; such as the infrastructure spending and tax reforms. This has created uncertainty, particularly given the optimism which greeted the start of his presidency as investors cheered the potential higher inflation and growth trajectory. These views could be adjusted downward which could have negative ramifications for markets.

Locally the fallout from the cabinet reshuffle is unlikely to dissipate quickly and could get worse as we get closer to the ANC elective conference in December. The downgrade to junk status has already occurred and the effect on the economy and inflation is hard to estimate at this stage, but it will definitely negatively impact these factors. In addition any obvious movements towards accelerating the nuclear build program could incur further downgrades and lost investment. This increases the risk for domestic fixed interest assets as well as the Rand. Ironically SA equities stand to benefit from a weaker Rand given the large offshore earnings component, but local only companies could be in for a difficult patch. Global Equity remains our preferred asset class, whilst global bonds remain at unsustainably expensive yields. Domestic property looks attractive, however this could perform poorly should bond yields suffer.

As a result whilst the base case scenario for better global growth and higher inflation in 2017 remain intact, there are definitely risks which could derail this, particularly in South Africa.

Portfolio Commentary – Quarter ending March 2017

Sanlam Lifestage Accumulation Portfolio

The Sanlam Lifestage Accumulation Portfolio outperformed its benchmark by 0.48% over the quarter ending March 31 2017.

Asset Allocation as well as manager selection both contributed positively to performance. SA bonds returned 2.46% for the quarter under tough conditions given the cabinet reshuffle by President Jacob Zuma which was followed by a sovereign debt downgrade. As a consequence, short to medium term bonds outperformed longer dated bonds favouring shorter duration managers. Coronation strategic income, SIM active income and Prescient bonds contributed 0.02%, 0.01% and 0.19% to performance respectively. Within the equity portion of the portfolio the contribution to return totalled 1.71% given the last 3 months have favoured risk on assets.

The foreign equity portion of the fund managed to contribute slightly positively to performance despite Rand appreciation of 2.1% whereby the international bond allocation detracted from performance given the global search for yield has continued.

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 ILLA Preservation Fund outperformed its benchmark for the quarter ending 31 March 2017 having returned 2.63% versus the benchmark's 2.18%. Both asset allocation as well as manager selection contributed to outperformance with Asset Allocation contributing 0.20% and Manager Selection 0.25%.

Overweight asset allocation to International Equities and SA Bonds as well as underweight allocation to International Bonds, SA ILB's and SA Cash contributed to performance whilst underweight to SA Equities, overweight SA Hedge funds, overweight in SA Property and an overweight in International Cash detracted from performance. SA Equities performed better than SA Bonds at the back of the cabinet reshuffle and International Equities outperformed other asset classes barring EM in dollar terms whilst SA medium term Bonds (1-3 and 3-7 years) outperformed longer and shorter duration bonds and international bonds were negative.

Manager selection in SA Equity, SA Property, Bonds, ILB's, SA Cash, SA Hedge funds, International cash, International Equities and International bonds contributed to outperformance with SMMI Gov and Bank ILB's, Prescient Bonds, Blackrock World Index, SMMI Property Fund and Blue Ink Fixed Income Arbitrage being the largest contributors while Local Equity managers Sim Equity (Inst) and the Passive Equity portfolio detracted from 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.

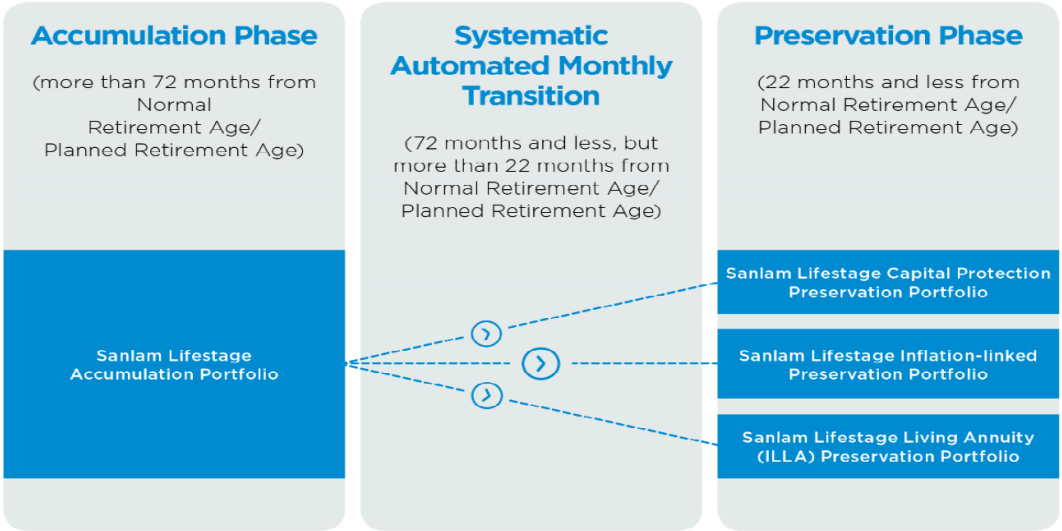
Six years (72 months) before a member reaches his/her Planned Retirement Age, the member is gradually switched from the Sanlam Lifestage Accumulation Portfolio to his/her selected Sanlam Lifestage preservation portfolio by means of 50 monthly switches.

Fund performance

Phase	1 month	3 months	1 year	3 years
Accumulation Portfolio	2.0%	3.3%	3.5%	7.7%
Preservation Portfolios:				
Capital Protection	0.6%	1.8%	8.7%	11.4%
Inflation-Linked	-2.1%	-0.4%	3.2%	6.3%
Living annuity (ILLA)	1.4%	2.6%	5.7%	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 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 Accumulation Portfolio

Period Ending	31-Mar-17
Fund Size	R 8,690 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

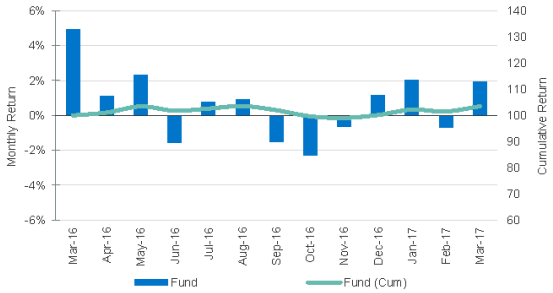
This portfolio has an moderate-aggressive risk profile

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	2.0%	1.9%
3 Months	3.3%	2.8%
6 Months	1.4%	1.0%
1 Year	3.5%	2.9%
3 Years	7.7%	9.0%
5 Years	n/a	n/a

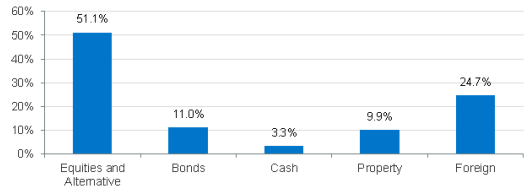
Top 10 holdings (% of Equities)

Share Name	% of Equities
Naspers	15.1%
British American Tobacco Plc	4.7%
Sasol Limited	3.6%
MTN Group	3.5%
Steinhoff Int Hldgs N.v	3.3%
Standard Bank Group Limited	2.9%
Firstrand Limited	2.7%
Old Mutual	2.0%
Anglo American	2.0%
Bid Corporation Limited	1.7%

Benchmark

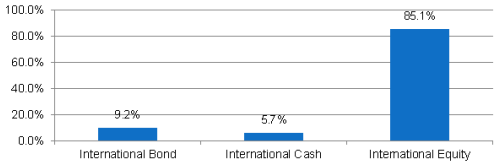
55%	SWIX (Shareholder Weighted Index)
10%	BEASSA Total Return All Bond Index
7.5%	FTSE/JSE SAPY Index
2.5%	Short Term Fixed Interest Index (STeFI)
5%	Barclays BESA Gov. Inflation-linked Index
15%	MSCI World (Developed Markets) Equity Index
5%	Barclays Global Aggregate Index

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.

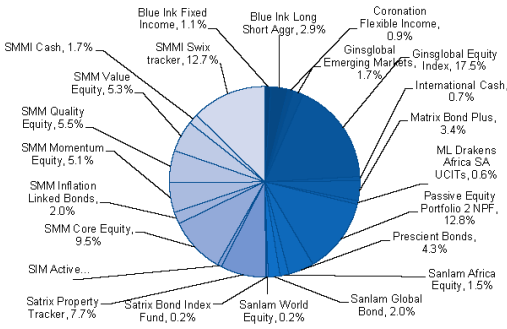
Foreign split



Equity sectoral exposure (%)

	Fund	Benchmark
Financials	20.6%	18.6%
Resources	15.4%	19.7%
Industrials	64.0%	61.7%

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	-1.3%
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-Mar-17
Fund Size (Book Value)	R 1548 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

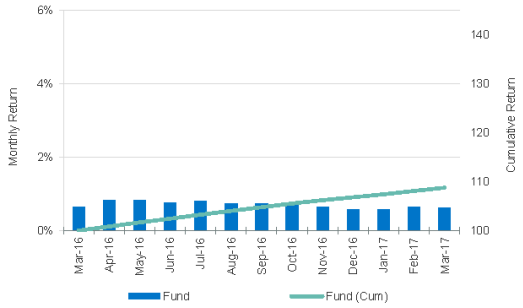
Guarantee Premium:

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	1.8%
6 Months	3.8%
1 Year	8.7%
3 Years	11.4%
5 Years	n/a

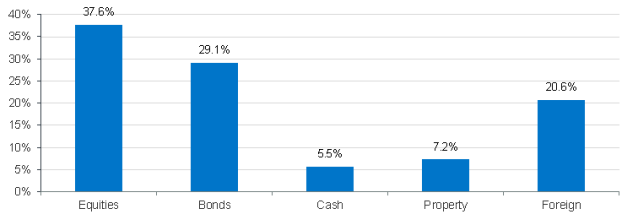
Top 10 equity holdings (% of Equities)

Share Name	% of Equities
Naspers N	18.3%
BTI Group	6.0%
Sasol	4.7%
MTN Group	4.4%
Stanbank	3.8%
FirstRand / RMBH	3.7%
Steinhoff (SNH)	3.4%
Old Mutual	3.2%
Anglos	2.1%
Remgro	1.9%

Benchmark

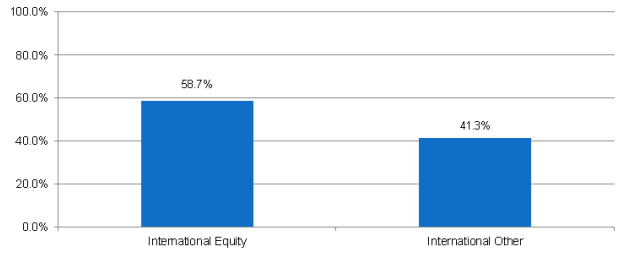
37.0%	SWIX (Shareholder Weighted Index)
25.5%	BEASSA Total Return All Bond Index
1.0%	STeFI + 2%
2.0%	IGOVI
12.5%	MSCI World Index (Dev. Markets)
5.0%	Barclays Global Aggregate Index
2.5%	US 3 month London InterBank Offered Rate (LIBOR) +2.5% (net of fees)
8.0%	STeFI Index
6.5%	BEASSA 7-12 years TRI 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	20.6%
Resources	13.9%
Industrials	65.5%

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

Sanlam Umbrella Pension Fund	8.30%
Sanlam Umbrella Provident Fund	9.47%

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

Funding Level

April 2017: 97.77% funded

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 Living Annuity Preservation Portfolio

Period Ending	31-Mar-17
Fund Size	R 56 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

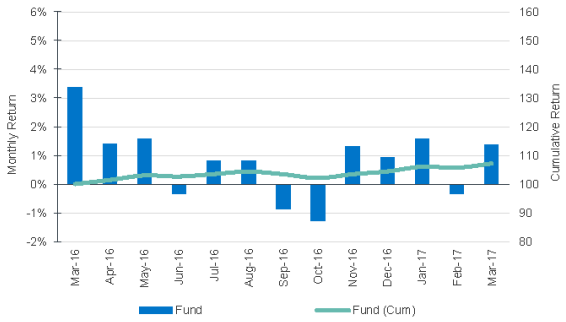
The portfolio has a moderate risk profile.

Fees

Investment Management Fees:
0.80% per annum.

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

Monthly and cumulative returns



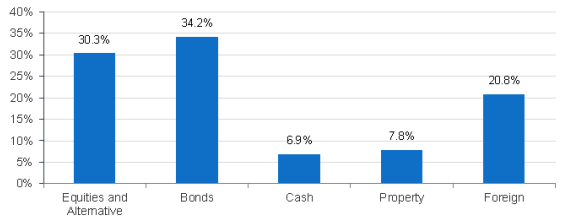
Fund performance (%)

	Fund	Benchmark
1 Month	1.4%	1.1%
3 Months	2.6%	2.2%
6 Months	2.2%	0.9%
1 Year	5.7%	4.1%
3 Years	8.4%	8.3%
5 Years	n/a	n/a

Top 10 equity holdings (% of Equities)

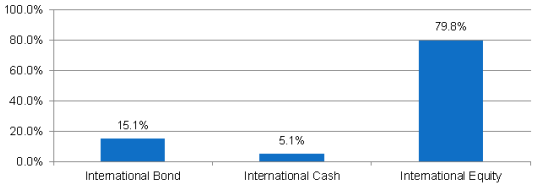
Share Name	% of Equities
Naspers	17.1%
British American Tobacco Plc	5.0%
Sasol Limited	4.0%
MTN Group	3.9%
Steinhoff Int Hldgs N.v	3.5%
Standard Bank Group Limited	3.2%
Firstrand Limited	2.9%
Anglo American	2.2%
Old Mutual	2.1%
Aspen Healthcare Holdings	1.8%

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.

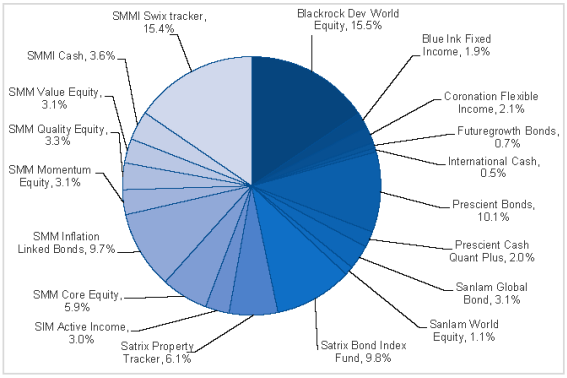
Foreign split



Equity sectoral exposure (%)

	Fund	Benchmark
Financials	20.7%	18.6%
Resources	14.2%	19.7%
Industrials	65.1%	61.7%

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.

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Sanlam Lifestage Inflation-linked Preservation Portfolio

Period Ending 31-Mar-17
Fund Size (Book Value) R2 million
Inception Date May-13

Benchmark Sanlam Asset Liabilty Index Real (inflation linked)

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.

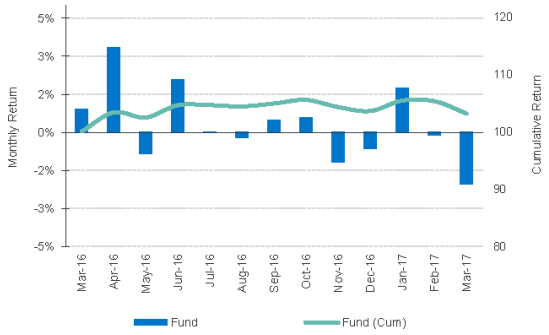
Risk profile

This fund has a conservative risk profile

Fees

Investment Management Fees:
0.70% per annum.

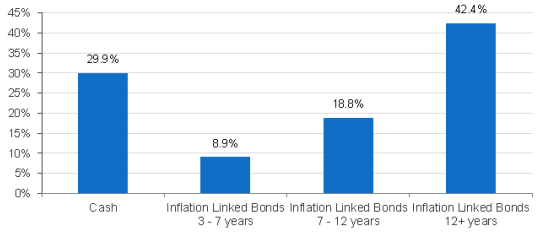
Monthly and cumulative bonuses



Fund bonuses (%)

	Fund (gross of fees)	Benchmark
1 Month	-2.1%	-2.7%
3 Months	-0.4%	-0.8%
6 Months	-1.7%	-2.7%
1 Year	3.2%	2.2%
3 Years	6.3%	6.1%
5 Years	n/a	n/a

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 Portoflio	SMM 30 Portfolio	ILLA Preservation
Domestic Equity					
Core Equity					
Fairtree Equity	1.9%	4.0%	2.8%	1.3%	1.2%
Truffe Equity	1.9%	3.9%	2.8%	1.3%	1.2%
ABAX Eqity	1.9%	3.9%	2.8%	1.3%	1.2%
Coronation Equity	2.5%	5.2%	3.7%	1.8%	1.5%
Sentio Equity	1.3%	2.6%	1.9%	0.9%	0.8%
Quality Equity					
First Avenue	1.9%	4.0%	2.9%	1.4%	1.2%
Steyn Equity	1.6%	3.4%	2.5%	1.2%	1.0%
Bataleur Equity	1.9%	3.9%	2.9%	1.4%	1.2%
Momentum Equity					
Kaizen Thematic Equity	1.9%	3.9%	2.8%	1.3%	1.2%
Satrix Momentum	1.9%	3.9%	2.8%	1.3%	1.2%
Capricorn Equity	1.3%	2.6%	1.9%	0.9%	0.8%
Value Equity					
ABSA Select Equity	1.5%	3.0%	2.2%	1.1%	0.9%
Investec Value	1.8%	3.5%	2.5%	1.3%	1.1%
SIM General Equity	1.8%	3.5%	2.5%	1.3%	1.1%
Total	**25.0%**	**51.4%**	**37.0%**	**17.7%**	**15.3%**

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 March 2017

Sanlam Lifestage	1 Month	3 Months	6 Months	1 Year	3 Year
Accumulation Portfolio	1.95%	3.31%	1.45%	3.49%	7.67%
Benchmark	1.88%	2.83%	1.03%	2.89%	8.96%
Capital Protection Preservation*	0.61%	1.83%	3.80%	8.67%	11.41%
Inflation-Linked Preservation Portfolio	-2.05%	-0.44%	-1.67%	3.15%	6.31%
Benchmark	-2.65%	-0.76%	-2.72%	2.22%	6.10%
ILLA Preservation Portfolio	1.37%	2.62%	2.18%	5.68%	8.42%
Benchmark	1.07%	2.17%	0.91%	4.12%	0.11%

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

Performance Attribution

Multi-Managed Portfolios:

3 months ending March 2017	Active Return	Tactical Asset Allocation	Manager Selection
Sanlam Lifestage Accumulation	0.48%	0.28%	0.19%
Sanlam Lifestage ILLA Preservation	0.45%	0.20%	0.25%

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

Asset allocation was positive over the quarter. The underweight to inflation-linked bonds added value as well as the overweight position to foreign equity and underweight position to foreign bonds.

Manager selection also added value, driven by the good performance of the domestic equity managers. The biggest contributor to performance came from Coronation and Fairtree who performed very well over the quarter with good stock selection particularly in the Basic Material and Industrial sectors.

Managers that performed particularly poorly were Sentio and ABSA. In addition value was added through the flexible income and bond mandates as well as the Hedge Funds who performed well in the first quarter.

For the Sanlam Lifestage ILLA Preservation Portfolio within the domestic bond space, both Prescient and Matrix performed well and added significant value during 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

April 2017

Executive summary

President Zuma's Cabinet reshuffle and the axing of the Finance Minister has changed the growth trajectory of the South African economy for the next number of years. The subsequent ratings downgrade and potential for further downgrades has undermined new investment in the country and has raised the cost of borrowing for both business and government. The consequence is expected to be weak consumption expenditure as the cost of "state capture" and inefficiency of government spend is borne by taxpayers. The decline in household real wealth to levels last seen in 2012 through successive income and wealth tax increases will also have long-term implications for the country's tax base and the ability of government to fund social expenditure. While the upcoming vote of no-confidence in the president could be a material game changer, it appears unlikely that the opposition will garner the requisite number of votes, even if the vote is by secret ballot. The potential for more populist economic policies to emerge from the ANC's consultative conference in June is seen as another milestone that could result in S&P Global Ratings, which already has South Africa on "negative watch", further downgrade the country's local currency debt to "junk". With both S&P and Fitch rating South Africa as sub-investment grade, the country's exclusion from world government bond indices would almost certainly trigger an outflow of foreign capital. It is against this backdrop that diversification across multiple asset classes will be key to managing these socio-political risks.

Highlights

- Fed raises rates 25 basis points but retains dovish tone
- Fed minutes reflect balance sheet reduction plans
- BoJ leaves bond yield target rate unchanged at 0%
- G20 drops anti-protectionist mantra
- Trump's Affordable Care Act repeal fails in Congress igniting fears about tax and fiscal reform
- UK triggers Article 50; two-year countdown begins
- SARB leaves rates unchanged; revises inflation lower
- Zuma Cabinet reshuffle triggers ratings downgrade

Global Equities

Risk assets outperformed their defensive asset classes in Quarter 1 even as uncertainty about Trump's tax reforms, the effect of Brexit on global trade and the implications of the Fed reducing its balance sheet weighed on confidence. While the Fed's 25 basis point rate hike in March was largely expected, the median of member interest rate forecasts was reduced from four to three rate hikes in 2017. The MSCI World Index gained some 5.85% in USDs and 3.87% in rands for the quarter, while emerging market equities rallied an impressive 11.14% in USDs and 9.06% in rands given the Fed's more dovish stance. The relative outperformance of emerging market equities can also be attributed to the pace of the recovery in the earnings cycle, which has risen some 22.1% year/year at the end of Quarter 1 versus the 5.7% increase for the MSCI World.

The Fed's discussion about reducing its balance sheet was however more hawkish, as it implied higher bond yields and reduced global liquidity that could negatively affect equity market valuations in the future. Despite the negative implications of tapering the Fed's balance sheet, the ECB's Mario Draghi squashed any expectations of an earlier move by the ECB to taper its QE programme. The BoJ also shied away from withdrawing its massive stimulus programme leaving the Bank's bond yield target unchanged. Under the policy framework aimed at controlling the yield curve, the BoJ guides short-term interest rates at -0.1% and 10-year government bond yields around 0% via aggressive asset purchases. While Japan's economy was slowly recovering, it still lacked enough momentum to quickly boost inflation to the BoJ's 2% target, with risks to both the growth and price outlook skewed to the downside.

President Trump's failure to get approval for the repeal of the Affordable Care Act (Obamacare), due to dissent within his own party's ranks, further raised the likelihood that a wholesale package of tax reforms and massive fiscal spending would be watered down in order to ensure their passage. With Trump having to get approval for the FY2018 budget

and an increase in the debt ceiling before the fiscal year begins on 1 October, compromises on tax reform will be needed. Our base case view is that tax reform will include some lowering of tax rates coupled with the elimination of certain deductions on both the corporate and individual side. The infamous Border Adjustment Tax (BAT) looks unlikely to be included at this stage given Trump's softer stance towards China following his meeting with President Xi in April. The meeting concluded with both countries agreeing to a "100-day plan" to discuss trade. The most likely course of action appears to be case-by-case, sector-by-sector tariffs and the enhanced enforcement of US trade laws. Although China is becoming less dependent on external demand as its shifts to a consumption-driven model, any trade war would be particularly negative for US allies (Taiwan, Malaysia, Korea, Vietnam and Singapore) and would threaten complex mutual supply chain links between the countries.

While the UK's decision to invoke Article 50 of the Lisbon Treaty has been expected for some time, it did once again intensify uncertainty about the UK's future as an international financial hub, with some banks and insurers relocating certain of their teams to Brussels (Lloyd's of London), Luxembourg (AIG) and Dublin (Beazley). Uncertainty about a breakup of the UK also weighed on sentiment as Scotland indicated it would hold a second referendum on whether to stay or leave the UK. Since first prize for the UK would be a soft-Brexit, implying it would secure a trade deal with the EU before 2019, this appears unlikely since the UK wants to end the free movement of people, which is fundamentally tied to the free movement of goods, services and capital within the EU. The EU is also unlikely to offer Britain equal or better terms outside of the bloc as it needs to discourage other countries from following suit.

Despite the uncertainty about a future trade deal, the UK has taken a first step to transfer EU law onto UK statute books through a Great Repeal Bill which will ensure that a post-Brexit trade deal can be more easily struck. The Great Repeal Bill will also repeal the 1972 European Communities Act which took Britain into the EU. In the case of the devolved administrations viz Scotland, Wales and Northern Ireland, they will be given the powers to make changes to EU laws that they have the responsibility for implementing.

Since geopolitical risk appears to have been scaled back somewhat and with global growth gaining broad based traction, the recovery in the earnings cycle is expected to continue, helping to support further price gains across equity markets. PMI and ZEW indices have rebounded sharply in recent months supporting the more positive assessment of global growth. Although valuations are full with both the MSCI World and Emerging Market Indices trading at around their long term averages, the pace of earnings growth and interest rate normalisation in the US will be key to how quickly markets de-rate over the longer term. With the Fed signalling its intention to let the economy run "hotter" for longer from an inflationary point of view, we do not believe the cycle is over. A risk to this view is the drying up of global liquidity in the event that central banks aggressively reduce their balance sheets by offloading assets onto the market. With only the US Fed signalling its intention to reduce its balance sheet in the medium term, US treasuries will have to compete with bonds in Europe and Japan, some of which are now yielding positive returns. With growth in these economies expected to improve over the coming years, more and more of these bonds will exit sub-zero levels. This will make it increasingly difficult for the US to reduce its balance sheet without risking a material backup in yields. Since QE has been a cornerstone of equity market stability since the Great Recession, central banks will likely hold assets until maturity. Given SMM's relative return expectations for the various offshore asset classes, we retain an overweight position in global equities.

Global Bonds

Global bonds ground out positive returns in Quarter 1, yielding 0.91% in USDs and -0.98% in rands as a dovish Fed and uncertainty about Trump's ability to ignite economic growth through fiscal spend and tax cuts, triggered a flight to safety. Break-even inflation rates also eased slightly as pricing pressures abated on slightly softer oil and commodity prices. With the ECB and BoJ committed to asset purchases and monetary expansion, despite Fed speak of reducing its balance sheet, near-term fears of a backup in yields abated, at least for now. The expectation that the Fed would let the economy run "hotter" for now, coupled with a change to the Fed's dot-plot, also attracted flows into emerging market bonds. The moderation in expected US interest rate increases, from four to three hikes this year, encouraged investors back into higher yielding emerging market bonds. The JP Morgan Emerging Markets Bond Index gained some 3.78% in USDs and 1.83% in rands as spreads narrowed slightly to 338 basis points from 363 the previous quarter. Despite the positive returns from this asset class, negative real yields on US treasuries and talk of reducing the Fed's USD4.5trillion balance sheet support an underweight bias in this asset class.

Global inflation-linkers outperformed their nominal counterparts in Quarter 1 as real yields decreased marginally from -0.74% to -0.77%. The slightly softer demand for inflation-linkers may be due to expectations that Trump's border adjustment tax, which would be inflationary, may also fail passage in Congress as was the case with the Affordable Care Act. Following Trump's meeting with Xi, the apparent softening in the US President's stance towards punitive tariffs on Chinese imports may also have alayed inflationary fears for now. Furthermore, with further Fed rate hikes

expected this year, even if more modest than expected, real interest rate differentials will widen, supporting a stronger USD. While this may help to contain imported inflation, a stronger USD is a double-edged sword in that it erodes the competiveness of US exports and reduces corporate profitability. Since global inflation-linkers are yielding negative real yields, an underweight position is retained in this asset class.

Global listed property shrugged off a rise in global bond yields from 1.88% to 1.94% rerating from a price-to-book ratio of 1.47X to 1.49X. The rerating was in all likelihood due to the more positive outlook for US interest rates, which saw the sector gain some 2.28% in USDs and 0.37% in rands. Despite the retaing, thge sector is still trading somewhwat ahead of the 1.43X mean. With the Fed poised to continue normalising interest rates over time, we retain a small underweight position in global listed property.

SA Equities

SA equities tracked their developed and emerging market counterparts higher in Quarter 1, benefitting from a recovery in the earnings cycle. Although the JSE returned some 3.78% in rands, much less than the 9.06% from emerging market equities, the positive returns came about despite net foreign sales totalling R38.6bn. The primary drivers of returns were industrials and resource stocks with the Indi-25 up 7.12% and the Resi-10 a more muted 1.93%. Financials were the losers, with banks in particular coming under pressure as a result of the Minister of Finance's recall and subsequent sacking as part of the Cabinet reshuffle. The Fini-15 gave up some 1.94%, with banks hard hit declining some 6.27%.

The recovery in trailing earnings accelerated over the quarter rising by 10.1% year/year from -15.7% the previous quarter, while earnings per share grew a staggering 20.5% quarter/quarter. The ongoing recovery in earnings per share is seen as the catalyst for further gains in equity prices as earnings have lagged the market price since around 2015. Since implied earnings growth of some 17.8% is currently priced into the market, any earnings misses will likely continue to cap equity prices. While there are differences between the top-down (+10%) and bottom-up (+19.4%) estimates of earnings growth over the coming year, the earnings implied by the market suggest the risks of earnings disappointments are only moderate. Furthermore, since around 70% of Top 40 company earnings are foreign currency denominated, the equity market is reasonably insulated against slower domestic economic growth. Already there are concerns that SA is headed for recession in the second half of this year as reflected in Standard Bank and Barclays PMI indices, which point to growth slowing rather than an outright recession. Negative retail sales growth are a further concern as consumers begin to feel the brunt of income and wealth tax increases announced in the Budget.

While the JSE's trailing multiple of 19.5X earnings at quarter end is high by historical standards, the rolling P/E of the market is somewhat lower, at around 17X earnings. This measure reports the earnings of all listed companies as at a specific date, by aligning financial year-ends on the JSE using both reported financial yearend earnings and earnings estimates for the coming year. Utilising the trailing earnings metric in isolation distorts the valuation of the market. If a mean reversion multiple for the market is assumed at some 15X earnings, the All Share Index is expected to return single digits in the year ahead. If large cap companies deriving the bulk of their revenue offshore are excluded from the bottom-up analysis (Naspers, Richemont, Glencore and British American Tobacco), the rolling p/e of the market declines to 13.4X earnings, suggesting possible returns in the mid-teens in the year ahead. Given the dispersion of returns between the two point forecasts, a neutral weighting is retained in domestic equities given the riskiness of this asset class and uncertainty about the direction of the rand/USD exchange rate. Similarly, if forward multiples are used, the market is seen as expensive, trading on a rolling forward multiple of some 14.3X earnings, ahead of the 12.6X mean. However, if the four large cap offshore stocks discussed above are excluded from the forward multiple calculation, the forward multiple of the market declines to 11.3X earnings, somewhat lower than the mean. Relative to bonds, the earnings yield differential between equities and bonds supports a neutral weighting in domestic equities given that the differential is in line with the historical mean.

SA Bonds

The recall of the Minister of Finance and his deputy from a planned London investor roadshow and the subsequent Cabinet reschuffle jolted the bond market in March. While yields on the All Bond Index had traded as low as 8.86% during the month, yields shot up to close the month at 9.38%, largely unchanged from the 9.39% the previous quarter. As a consequence, bonds yielded a positive return of 2.46% (in rands) for the quarter. The volatility in the bond market reflected not only the axing of the Minister and his deputy, but also the expectation that a ratings downgrade would follow. Despite the negative sentiment, foreigners were still net buyers of domestic bonds totalling some R15.7bn, suggesting the global search for yield persists.

In early April the ratings agencies struck. S&P Global Ratings was first out of the starting blocks, downgrading SA's foreign currency debt to "junk" (BB+) and the country's local currency debt to BBB-, their lowest investment grade rating. Fitch followed a few days later, downgrading SA's foreign and local currency debt to sub-investment grade (BB+). While S&P kept SA on negative watch, Fitch gave the country a stable rating. With one of the two ratings agencies now rating SA's local currency debt at "junk", all eyes will be on the Moody's rating due out in the next few months. Moody's still rates SA's debt at two notches above investment grade and is expected to downgrade SA to one notch above investment grade.

In the near term then it appears unlikely that SA will be excluded from the World Government Bond Index since at least two of the three ratings agencies need to rate the country's local debt at sub-investment grade. However since S&P still has South Africa on "negative watch" following its recent downgrade, it could announce a further downgrade post the ANC's consultative conference. Should pupulist economic policies emerge from the ANC's consultative conference, a further ratings downgrade is likely. Capital flight would be inevitable as some foreign investor mandates do not permit them to invest in sub-investment grade debt. The quantum of capital outflows is estimated at around USD10bn which would certainly impact negatively on the rand.

Notwithstanding the sharp depreciation in the rand from a high of R12.42/$ intra-month to some R13.41/$ at month end, the rand was still stronger over the quarter having appreciated sopme 1.9% against the USD. As a consequence, SMMI's base case inflation outlook is largely unchanged in the current year but has been revised slightly higher in 2018/19 given the increase in political risk. With inflation expected to average around 5.5% over the next three years, nominal bond yields are seen as attractive, offering real yields of around 4%. An overweight position is therefore still retained in this asset class in the very near term. Over the medium term, a neutral bias is suggested given the risk of a further ratings downgrade from S&P. Other risks include the possibility that the ANC succeeds in amending the property clause in the constitution to allow for expropriation without compensation, an agenda the Zuma faction is pushing hard for. A further risk, and potentially more negative for the bond market, is the reintroduction of prescribed investment requirements that would make it mandatory for pension funds to invest a specified percentage of their assets in government bonds.

Over the longer term, a possible increase in the VAT rate to say 16% in 2018, coupled with VAT being levied on the petrol price, would also materially change the outlook for bonds. In this scenario, inflation would surge to a high of 8.6% at the back-end of 2018, averaging around 7.3% for the year. While a VAT rate hike results in a stepwise adjustment to inflation at its point of inception, the base effect falls out of the index a year later with inflation dropping to around 6.1% in 2019. With the average inflation rate under this scenario totalling around 6.4% over the coming 3 years, nominal bonds would return around 3% in real terms, in line with our long term fair value estimate.

The losers over the past quarter were inflation-linked bonds that declined some 0.68% in rands, largely on account of a 2% decline in March. Real yields increased from 2.13% to 2.34% over the quarter, accounting for the negative returns. Given the depreciation in the rand in March, one would have expected inflation-linkers to have rallied on expectations of an improvement in the inflation carry. Since our base case inflation view is largely unchanged, the inflation carry also remains unchanged in 2017. As a consequence, a neutral weighting is retained in inflation-linkers since real yields are trading slightly ahead of our fair value estimate of 2%.

Despite unchanged nominal bond yields over the quarter, SA listed property derated relative to the 10-year bond, with the relative yield rising to 0.70X from a 0.66X previously. The derating reflected investor concerns about negative retail sales growth and expectations that recent wealth and income tax increases announced in the Budget would erode disposable incomes in the year ahead. As a consequence, rental escalations were expected to slow, capping distributions growth in the year ahead. Although listed property yielded some 1.37% over the quarter, the positive returns were due to still, albeit slowing, distributions growth. With interest rate cuts firmly off the table in 2017 and the likelihood that the sector will derate further relative to bonds, listed property has been downweighted to neutral in the near term. Over the medium term, however, the sector is downweighted to underweight given the political uncertainty that will play out through to December. Given the likelihood of shocks to the bond market, these will be amplified in the listed property sector, given the geared relationship between property and bonds.

SA Cash

SA cash yielded 1.8% in Quarter 1, outperforming listed property and inflation-linked bonds. A moderation in break-even inflation coupled with downward revisions to the Reserve Bank's inflation forecasts saw money market rates ease over the quarter. The Monetary Policy Committee's expected inflation rate for 2017 was revised lower to 5.9% from 6.2%, while in 2018 inflation was revised down to 5.4% from 5.5% previously. The MPC also extended its forecast period to include 2019 when inflation was expected to average 5.5%. In its statement following the MPC meeting on 30 March,

the MPC indicated that despite the recent depreciation in the rand, the current level of the rand was still consistent with the exchange rate assumption in the forecast.

Although the international oil price assumption remained unchanged, the exchange rate was expected to lead to lower petrol price inflation, and was reflected in a downward revision to the assumption for administered prices. This favourable trend was, however, partially offset by the slower pace of disinflation in food and non-alcoholic beverages, which was driven by an expected acceleration in poultry prices in particular. Food price inflation was expected to average 7.4% and 5.2% in 2017 and 2018 respectively, higher than the 7.0% and 5.0% previously. Despite the relatively dovish MPC statement, the FRAs were still pricing in the likelihood of a further 25 basis point increase in the repo rate, lower than the 50 basis points expected the previous quarter. However, following the Cabinet reshuffle and the axing of the Minister of Finance and his deputy, the FRAs have now priced in a cumulative 50 basis points of interest rate increases over the coming year. In contrast, SMMI's base case view is that rates will remain unchanged this year with a 25 basis point cut in mid-2018 still a possibility.

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