



Sanlam Lifestage Feedback Report Quarter 4 2017



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:

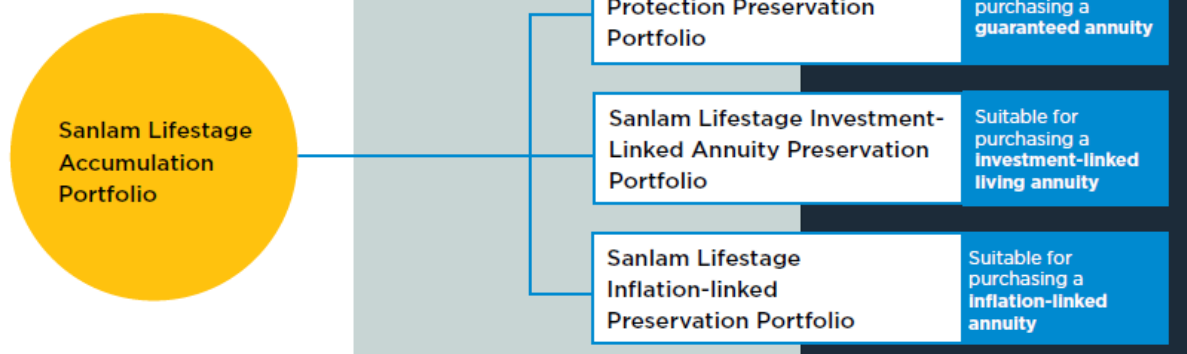
All members more than 6 years from Retirement Age.

➤ 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 fund is an aggressive portfolio displaying high levels of volatility over the short term and is aiming to provide market related growth.

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 out-performance of their respective benchmarks.

This portfolio has a moderate risk profile.



Product Commentary – Quarter ending December 2017

The final quarter of 2017 saw broad-based gains in global purchasing manager and confidence indices, pointing to double digit earnings growth over the coming quarters in key developing economies, also helping to allay market concerns about stretched equity market valuations. Although inflation has been benign in developed economies and slowing in many emerging economies, an expected closing of the output gap and declining unemployment is likely to feed through into higher consumer prices going forward. Falling unemployment will eventually spur inflation in the euro region, even if there's little sign of that just yet. Furthermore, the reaffirmation of the Fed's intention of running down its balance sheet, which commenced in October, remains a risk to asset prices since a back-up in bond yields would trigger a repricing of risk across all asset classes. With the Fed the first to exit QE and the ECB expecting to cut its QE in half in 2018, bond yields are expected to rise resulting in a broad-based derating of equities. A reduction in Fed asset holdings is a tightening policy via a largely untested means and runs the risk for unforeseen market consequences, therefore policy makers will likely opt for slower rate hikes. Also, the US Congress passed the much anticipated tax reforms which should boost US economic growth in 2018. There will be positive consequence from the tax legislation in the near-to-medium term, but the price tag casts a shadow over the longer run benefit. Furthermore, tax cuts which skew toward businesses and the wealthy risk populist retaliation against such a situation that pushes the tax policy pendulum toward a much less business friendly position – reversing the potential benefits of the current plan.

The MSCI World index delivered 5.14% in dollars and -3.60% in rands during the quarter. The MSCI EM index outperformed its developed market counterpart delivering 7.09% in dollars and -1.81% rands during the quarter, against a backdrop of above-trend global growth underpinning earnings expectations. Global bonds lagged the returns of global equities during the quarter as long bond yields increased on the back of above-trend global growth and rising inflation expectations. The Fed, PBoC, and BoE raised rates during the course of the quarter. As such, global bonds as measured by the JP Morgan Global Aggregate delivered 1.03% in dollars and -7.37% in rands, while Emerging Markets as measured by the JP Morgan EM index delivered -0.32% in dollars and -8.61% in rands. Profit-taking in emerging market bonds was in all likelihood the primary catalyst for the sell-off. In contrast, global inflation-linked bonds rallied some 2.85% in dollars and -5.70% in rands, outperforming nominal global bonds. Listed global property benefitted the most from the Fed's dovish inflation outlook to yield some 3.82% in dollars and -4.81% in rands.

In South Africa, S&P Global Ratings downgraded the country's sovereign debt to sub-investment grade and Moody's placed the country on review for a downgrade. While there was a general consensus in the market that S&P would downgrade SA's domestic currency debt to "junk" (S&P had downgraded SA's foreign currency debt to BB+ earlier in the year), the ratings agency downgraded the country's foreign debt further to BB but awarded SA a stable outlook. In contrast, Moody's retained its BBB- rating on both local and foreign debt but put the country on review for a downgrade. The rand recorded a weak point of around R14.55 against the dollar in mid-November. Notwithstanding expectations of a weaker rand following the ratings downgrade, the rand gained on the back of a weaker USD and expectations that Cyril Ramaphosa was set to win the ANC Presidency in December. The stronger rand in December moved the currency 9.07% lower against the dollar for the quarter, settling at R12.38 at month end. Despite the favourable outcome of the ANC's elective conference, it appears unlikely that major policy reforms will be implemented in 2018 given that the ANC will need to regroup, after a divisive campaign, ahead of the 2019 general elections. Nevertheless, the political situation remains delicately poised moving into 2018. The domestic growth outlook remains weak, continuing its deviation from the generally more favourable global pattern. In light of the high degree of uncertainty prevailing in the economy and the balance of risks, the repurchase rate remains unchanged at 6.75%.

The general risk-on environment over the quarter saw the ALSI deliver 7.44% in rands and 17.19% in dollars, where financials buoyed market returns with the Fin-15 returning some 19.23% in rands. December witnessed a scandal out of one of South Africa's most important and global companies. The specific nature of the irregularities at Steinhoff still remains a matter of speculation. Steinhoff's fall from grace saw its share value drop nearly 90% in a week. As such, the consumer goods economic group delivered -14.60% in rands. In the run up to the ratings review the ALBI YTM sold off 7.37% during the first two months of the quarter. But, this move was largely reversed soon after and the bond market had a strong rally into the year-end on the back of the ANC elective conference outcome and the market largely anticipating the negative stance of the ratings agencies. Over the quarter, the ALBI delivered some 2.22% in rands and 11.49% in dollars underperforming SA listed property which yielded 8.32% in rands and 18.14% in dollars. Inflation-linked bonds marginally underperformed its nominal counterparts delivering 1.52% in rands and 10.73% in dollars.



The global growth outlook remains positive despite geopolitical risks. Confidence indices in a number of developed countries have reached their highest levels since the global financial crisis. The World Bank forecasts global economic growth to edge up to 3.1% in 2018 after a much stronger-than-expected 2017, as the recovery in investment, manufacturing, and trade continues. Growth in developed economies is expected to moderate slightly to 2.2% in 2018, as central banks gradually remove their monetary accommodation and the upturn in investment growth stabilises. The recovery in the developed economies appears to be most sustained in the euro area, the US and Japan. Subsequently, the extent to which this recovery continues for some developed economies is predicted on further monetary accommodation is unclear. Inflation pressures are mostly benign in the developed world although there are some near-term risk from higher international oil prices. Low wage growth is seen as a brake on core inflation pressures, despite relatively tight labour markets.

The outlook for global risk assets are keenly focused on yields as central banks embark on their next phase of tightening. Financial equities, in particular, need it to be “different this time” for yields, and are looking forward to higher rates in 2018. As real interest rates are key to equity market valuations, each time central banks tried to stop expansion in recent years, stock markets corrected. Yet valuations have recently started to climb, so far shrugging off pending balance sheet changes and instead looking forward to rising rates. Equity valuations may be at risk as the central bank reverses course. The gap between short and longer-term interest rates has been narrowing even as the Fed raises its policy rate, a trend that echoes the so-called flattening of the yield curve. Lower inflation and neutral interest rates as well as political uncertainty are all weighing on longer-dated bond yields, keeping them low even as the Fed boosts the cost of borrowing in the near-term. Subsequently, it means that if price pressures pick up quickly, investors could begin to demand better compensation for holding longer-dated bonds – reversing the flattening yield curve and potentially dinging stock market valuations, which are based partly on the low level of yields in the bond market.

The outlook for emerging markets remains mixed but generally favourable. However, some concerns about possible headwinds from slowing momentum in the Chinese economy remain. The World Bank forecasts that growth in developing economies as a whole is projected to strengthen to 4.5% in 2018, as activity in commodity exporters continues to recover amid firming prices. The outlook for continued capital flows to emerging markets remains relatively favourable given the search for yield globally. Locally, upside risks to the inflation outlook have increased mainly due to higher international oil prices. Stronger world growth has contributed to a further increase in international oil prices, which could, in turn, provide a boost to global inflation. The domestic economic growth outlook remains subdued but positive, with both consumer and business confidence remaining low given the political uncertainty. The economic growth outlook remains constrained, as weak confidence continues to weigh on investment expenditure. The World Bank forecasts that South Africa economic growth will tick up to 1.1% in 2018 from 0.8% in 2017.

Portfolio Commentary – Quarter ending December 2017

Sanlam Lifestage Accumulation Portfolio

The portfolio underperformed its benchmark over the quarter.

Asset allocation was a slight detractor over the quarter. The overweight to foreign equity detracted the most value whilst the underweight position to foreign bonds was the largest contributor. In addition, the exposure to Africa and Emerging Markets was a good contributor.

Within manager selection, domestic equity manager selection was the largest detractor from performance. Naspers continued to rally hard over the quarter and most managers were underweight this stock which detracted significant performance. The Fund was mildly overweight Steinhoff which detracted somewhat, but the overweight to Platinum and Gold counters detracted greater than Steinhoff. The Value Strategy managed by Investec and the Momentum strategy managed by Kaizen performed particularly poorly over the quarter, whilst strong Contributions came from the smart beta strategies managed by Satrix, namely Quality, Momentum and Stable Dividend. The enhanced SWIX structure also contributed well.

The portfolio is currently positioned with an overweight to foreign assets, in particular to foreign equity, whilst being underweight foreign bonds and domestic equity. Foreign equity from a bottom up valuation perspective remains one of our favoured asset classes. During the quarter we reduced exposure to domestic bonds in the run-up to the Medium Term budget and downgrade announcement and remain underweight.



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 portfolio underperformed its benchmark over the quarter.

Asset allocation was a slight detractor over the quarter. The overweight to foreign equity detracted the most value whilst the underweight position to foreign bonds was the largest contributor. In addition the exposure to Africa and Emerging Markets was a good contributor.

Within manager selection, domestic equity manager selection was the largest detractor from performance. Naspers continued to rally hard over the quarter and most managers were underweight this stock which detracted significant performance. The Fund was mildly overweight Steinhoff which detracted somewhat, but the overweight to Platinum and Gold counters detracted greater than Steinhoff. The Value Strategy managed by Investec and the Momentum strategy managed by Kaizen performed particularly poorly over the quarter, whilst strong Contributions came from the smart beta strategies managed by Satrix, namely Quality, Momentum and Stable Dividend.. The enhanced SWIX structure also contributed well.

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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.

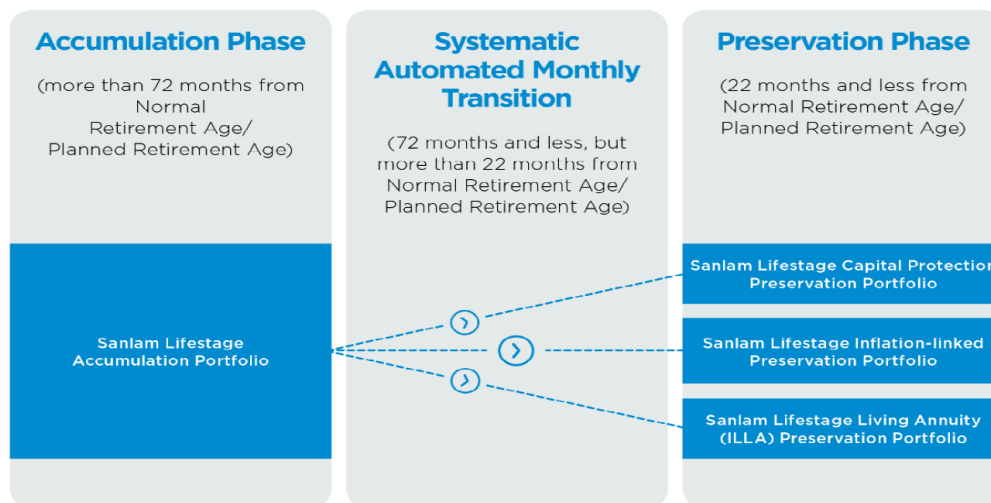
Six years (72 months) before a member reaches his/her Planned Retirement Age, the member is gradually switched from the Sanlam Lifestage Accumulation Portfolio to his/her selected Sanlam Lifestage preservation portfolio by means of 50 monthly switches.

Fund performance

Phase	1 month	3 months	1 year	3 years
Accumulation Portfolio	-1.6%	4.6%	15.4%	8.5%
Preservation Portfolios:				
Capital Protection	0.8%	2.3%	8.2%	9.6%
Inflation-Linked	6.1%	0.9%	2.2%	3.7%
Living annuity (ILLA)	-0.1%	3.6%	12.2%	8.6%

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-17
Fund Size R 10,626 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

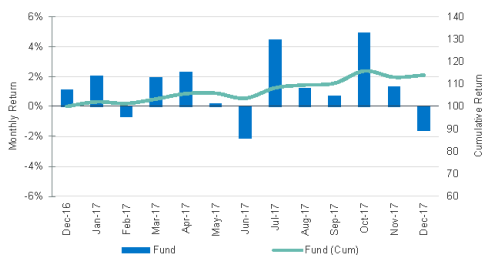
This portfolio has an moderate-aggressive risk profile

Fees

1.00% per annum for the first R50m
 0.90% per annum on the portion of assets between R 50m - R100m
 0.775% per annum on the portion of assets between R100m – R300m
 0.70% per annum on the portion of assets between R 300m – R500m
 0.65% per annum on the portion above R 500m

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	-1.6%	-0.6%
3 Months	4.6%	5.4%
6 Months	11.4%	12.1%
1 Year	15.4%	15.9%
3 Years	8.5%	9.5%
5 Years	n/a	n/a

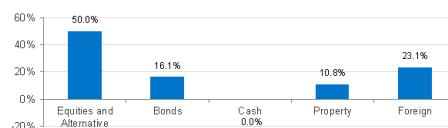
Top 10 holdings (% of Equities)

Share Name	% of Equities
Naspers	17.2%
British American Tobacco Plc	4.4%
Standard Bank Group Limited	3.9%
MTN Group	3.5%
Firststrand Limited	3.2%
Sasol Limited	3.0%
Anglo American	2.6%
Old Mutual	2.3%
Sanlam	2.0%
Barclays Africa Group Limited	1.7%

Benchmark

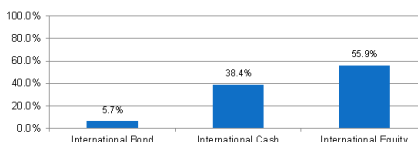
55% SWIX (Shareholder Weighted Index)
 10% BEASSA Total Return All Bond Index
 7.5% FTSE/JSE SAPY Index
 2.5% Short Term Fixed Interest Index (STeFI)
 5% Barclays BESA Gov. Inflation-Linked Index
 15% MSCI World (Developed Markets) Equity Index
 5% Barclays Global Aggregate Index

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.

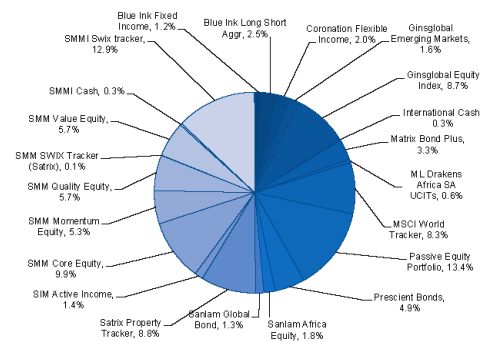
Foreign split



Equity sectoral exposure (%)

	Fund	Benchmark
Financials	23.2%	20.7%
Resources	15.2%	18.5%
Industrials	61.6%	60.8%

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	38.9%
Average capital loss in one month	-1.4%
Downside risk *	0.9%

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. Past performance 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 Capital Protection Preservation Portfolio



Period Ending 31-Dec-17
Fund Size (Book Value) 1801 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

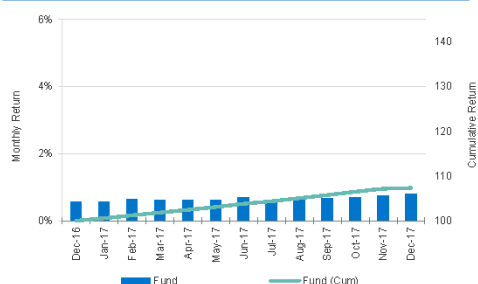
Guarantee Premium:

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 (%)

Period	Fund (gross of fees)
1 Month	0.8%
3 Months	2.3%
6 Months	4.2%
1 Year	8.2%
3 Years	9.6%
5 Years	n/a

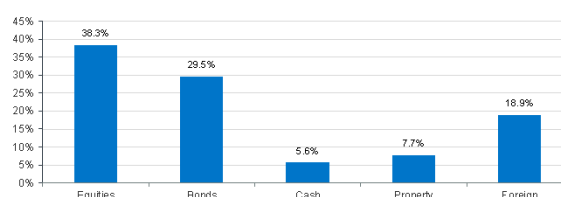
Top 10 equity holdings (% of Equities)

Share Name	% of Equities
Naspers N	23.4%
BTI Group	5.1%
FirstRand / RMBH	4.5%
Stanbank	4.3%
Sasol	4.3%
MTN Group	4.2%
Old Mutual	3.0%
Barclays	2.7%
Anglos	2.2%
Remgro	1.8%

Benchmark

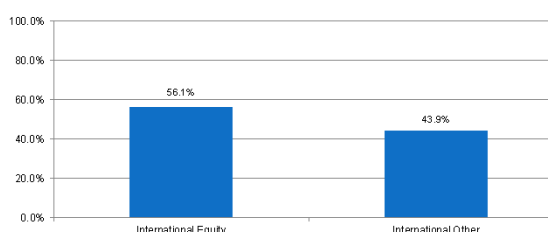
37.0% SWIX (Shareholder Weighted Index)
 25.5% BEASSA Total Return All Bond Index
 1.0% STeFI + 2%
 2.0% IGOVI
 12.5% MSCI World Index (Dev. Markets)
 5.0% Barclays Global Aggregate Index
 2.5% US 3 month London InterBank Offered Rate (LIBOR) +2.5% (net of fees)
 8.0% STeFI Index
 6.5% BEASSA 7-12 years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

Financials	Fund
Resources	23.0%
Industrials	12.2%
	64.8%

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

January 2018: Fully 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.



Local equity manager breakdown for SMMI portfolios

	Lifestage Accumulation	SMM 70 Portfolio	SMM 50 Portfolio	SMM 30 Portfolio	ILLA Preservation
Domestic Equity					
Core Equity					
Truffe Equity	1.9%	4.1%	3.0%	1.5%	1.2%
ABAX Equity	2.0%	4.1%	3.1%	1.5%	1.2%
Coronation Equity	2.6%	5.5%	4.1%	2.0%	1.5%
Sentio Equity	1.4%	2.9%	2.2%	1.1%	0.8%
Quality Equity					
First Avenue	2.0%	4.3%	3.2%	1.5%	1.2%
Steyn Equity	1.1%	2.5%	1.8%	0.9%	0.7%
Bataleur Equity	1.4%	3.1%	2.3%	1.1%	1.4%
Satrix Quality Index	1.2%	1.9%	1.9%	0.9%	1.2%
Momentum Equity					
Kaizen Thematic Equity	1.8%	3.6%	2.7%	1.3%	1.1%
Satrix Momentum	2.1%	4.3%	3.2%	1.6%	1.3%
Capricorn Equity	1.3%	2.7%	2.0%	1.0%	0.8%
Value Equity					
ABSA Select Equity	1.4%	2.9%	2.2%	1.1%	0.8%
Investec Value	1.3%	2.7%	2.0%	1.0%	0.8%
SIM General Equity	1.7%	3.5%	2.6%	1.3%	1.0%
Satrix Stable Dividend	1.2%	2.4%	1.8%	0.9%	0.7%
Total	24.5%	50.5%	38.0%	18.6%	15.7%

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 of December 2017

Sanlam Lifestage	1 Month	3 Months	6 Months	1 Year	3 Year
Accumulation Portfolio	-1.58%	4.64%	11.39%	15.44%	8.47%
Benchmark	-0.55%	5.44%	12.05%	15.89%	9.47%
Capital Protection Preservation*	0.82%	2.28%	4.21%	8.15%	9.64%
Inflation-Linked Preservation Portfolio	6.12%	0.92%	1.99%	2.17%	3.71%
Benchmark	6.23%	0.83%	1.65%	1.65%	3.34%
ILLA Preservation Portfolio	-0.05%	3.60%	8.72%	12.17%	8.60%
Benchmark	1.09%	4.04%	9.15%	12.44%	8.28%

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

Performance Attribution

Multi-Managed Portfolios:

3 months ending December 2017	Active Return	Tactical Asset Allocation	Manager Selection
Sanlam Lifestage Accumulation	4.64%	-0.41%	-0.39%
Sanlam Lifestage ILLA Preservation	3.60%	-0.48%	0.05%

The Sanlam Lifestage Accumulation portfolio underperformed its benchmark over the quarter on the back of an eventful last month of the quarter. In the attribution of the fund both manager selection and asset allocation were the unfortunate detractors to the performance of the fund. Looking at the quarter in its different months the month that detracted from performance the worst was December from both asset allocation and manager selection due to a left field event in the Steinhoff scandal and the other being a binary event in the ANC elective conference outcome.

On the asset class exposure the funds foreign asset allocation detracted from performance as the Rand strengthened over the quarter due to the increased sentiment with the CR17 victory in the ANC elective conference of the outlook of the country. Other asset classes to detract were the SA Equity, Bonds and Cash portions along with the SA Hedge Funds allocation.

On the Manager Selection front the positive sentiment on the country reflected in the stronger currency that impacted the foreign components considerably more so than those funds actual performances, with the SIM Africa portion contributing the most even with the stronger Rand. On the equity component side the building blocks was negatively affected by big Steinhoff scandal and the renewed optimism that caused a rally on "SA Inc." shares where managers held the rand hedge stocks, coupled with the share Naspers also detracting from performance as it is has a big bearing on the market with its large weighting.



The Sanlam Life Stage ILLA Preservation fund underperformed its benchmark over the quarter on the back of an eventful last month of the quarter. Despite Asset allocation contributing positively in October and November, the month of December was disproportionately a large detractor. Manager Selection was relatively flat over the quarter with the December negative contribution offsetting the previous 2 months of positive contribution.

Within Asset allocation the fund was overweight foreign equity and foreign cash detracted from performance as the Rand rallied sharp in December following a Cyril Ramphosa win at the ANC elective conference. Similarly SA bonds and SA equity detracted from performance given the relative underweight.

At a manager selection level SA equity focused managers who were exposed to Steinhoff struggled following a rapid decline in the share price early in December. Additionally managers that had a Rand hedge bias struggled given SA Inc. shares ran in December. SIM equity was the largest detractor in manager selection given their slight overweight to Steinhoff. One of the largest contributors to performance Included Prescient that benefited from a rally in bonds.



Economics

December 2017

Executive summary

Risk assets outperformed their defensive counterparts over the quarter as the global growth outlook improved, inflation remained relatively subdued and monetary policy remained accommodative. In the year ahead risk assets are once again expected to outperform, but the environment is likely to be more challenging. The closing of the output gap, rising wages, higher tariffs and the removal of easy money (quantitative easing) could trigger a back-up in bond yields and an adjustment to the term premium as inflation expectations rise and bond issuance increases. With equity market valuations already stretched due to historically low interest rates, an equity market derating or even correction remains a distinct risk. While rising labour productivity will partially mitigate some of these inflationary pressures and add to overall global growth, exposure to risk assets should be moderated later in the year on expectations of a cyclical slowdown in 2019.

South Africa followed the global risk-on trend over the quarter with equities outperforming all of the broad fixed income asset classes. Fixed income returns masked a turbulent quarter for nominal and inflation-linked bonds as the Medium Term Budget Policy Statement and ratings downgrades disappointed the market. While the February National Budget and the pending Moody's ratings decision remain event risks in the first quarter of 2018, asset allocation decisions will become increasingly important. Given the binary nature of the ratings decision, a preference for domestic equities is retained in the near term, whereas over the medium term, we favour domestic fixed income asset classes.

Highlights

- ⊗ US Fed raises rates; signals three increases in 2018
- ⊗ China follows Fed raising rates 5 basis points
- ⊗ ECB to scale back asset purchases from January 2018
- ⊗ Trump tax plan passes House and Senate; signed into law
- ⊗ German coalition talks stall on SPD demand for United States of Europe
- ⊗ S&P Global Ratings, Fitch downgrade South Africa to "junk"
- ⊗ Moody's retains its investment grade rating but puts country on review for a downgrade
- ⊗ Cyril Ramaphosa wins ANC presidency but Zuma faction leads in 80-member NEC
- ⊗ Constitutional Court rules Parliament did not hold Executive to account
- ⊗ Parliament to set up rules for removal of President
- ⊗ Steinhoff batters equity market with 91.7% decline

Global Equities

Global equities rallied in Q4 2017 as broad-based gains in purchasing manager indices, above-trend GDP growth, still accommodative monetary policy and easier financial conditions underpinned expectations that global growth would accelerate further in 2018. The rebound in global trade supported an upturn in investment, while commodity exporters benefitted from higher commodity prices. The bottoming out in growth in Brazil, Russia and Nigeria supported emerging and developing economies, with momentum expected to continue into 2018. Against this backdrop, the MSCI World Index gained some 5.1% in USDs but fell some 3.6% in rands following a 9.1% appreciation in the rand/USD exchange rate. The much hoped for win by Cyril Ramaphosa as president of the ANC sparked a 10.2% rally in the rand in December as the market anticipated that President Zuma would be recalled, the fight against corruption would finally gain traction and much-needed economic and policy reforms would propel the South African economy onto a higher growth trajectory.



With growth outside the US surprising to the upside in 2017, particularly in the Eurozone, the USD weakened supporting portfolio and capital inflows into emerging and developing economies. As a consequence, emerging market equities outperformed their developed market counterparts to yield some 7.1% in USDs but -1.8% in rands. With inflation generally benign globally, concerns about stretched equity market valuations were largely shrugged off by the market despite the US raising interest rates three times during the course of the year. Although the Fed's guidance is for rates to rise three more times in 2018, the ECB and the BoJ are unlikely to move on short-term rates. Rather, the ECB is expected to accelerate the unwinding of its bond purchase programme beyond the proposed 50% cut, while the BoJ is likely to tighten its 10-year bond yield target rate from 0% to 0.5%. In contrast, ongoing deleveraging in China will likely see bond yields and short-term interest rates trend higher, as liquidity to the shadow banking industry is withdrawn, credit demand is reined in and systemic risks in the financial sector better managed. Growth is expected to exceed the 6.4% estimated by the World Bank in 2018, given an expected rebound in manufacturing production, export growth and increased investment in the services sector.

Following the US Fed's 25 basis-point rate hike in December, the People's Bank of China (PBOC) raised the medium term lending facility rate and the repurchase agreement rate by some 5 basis points. The decision to raise rates was in all likelihood due to its deleveraging strategy rather than an attempt to follow the Fed in lock-step. This view is supported by the rather wide interest rate gap between Chinese and US bond yields. At current levels, interest rates are unlikely to encourage capital flight at a time when China is attempting to shore up its foreign exchange reserves via restrictions on individual and corporate outward bound investments.

The buoyancy in purchasing manager indices across the US, Eurozone, Japan and China suggests that industrial production will be particularly buoyant over the coming 6 months, helping to shore up above-trend growth. The passage of the US's tax reform bill is also expected to add between 0.2% to 0.3% p.a to US growth over the coming three years, while increased fiscal spend due to reconstruction spending after the hurricane season and the removal of caps on federal discretionary spending will add a further 0.2% to growth. Given the above, consensus growth estimates are probably too conservative, pointing to a low risk of earnings or growth disappointments. However, for earnings to accelerate from current levels, given unfavourable base effects, producer price inflation would need to remain buoyant in order to underpin corporate profits.

Growth in MSCI World and Emerging Market earnings slowed over most of 2017 as PPI moderated, highlighting the importance of pricing power to drive profitability. Given the appreciation of the yuan and the removal of excess industrial capacity in 2017, China is expected to become an exporter of inflation rather than deflation in the year ahead. The closing of the output gap across a broad front (the US, Eurozone, China and Japan) as production is ramped up, is also expected to feed through into higher inflation, while historically low unemployment rates in the US and Japan will trigger a welcome rise in wage inflation. Offsetting some of these inflationary pressures will be further gains in labour productivity, which will cap the rise in inflation and therefore the extent of monetary tightening.

Risks to the base case view include an inflation shock, increased protectionism through tit-for-tat punitive tariffs, a stronger USD and rising geopolitical tensions. With global growth leadership expected to shift back to the US this year on tax reforms and increased fiscal spend, the USD could appreciate on a widening in the real interest rate differential, risking capital flight from emerging markets. While a trade war between the US and China is not entirely ruled out, reciprocal punitive tariffs on imported goods will raise input costs in importing countries, further fueling inflationary pressures. China's constraints on foreign inward investment and the requirement to hand over technology to Chinese-partnered companies has become a bone of contention with both the US and Europe, threatening a reduction in new Chinese investment and the erection of reciprocal non-tariff barriers on Chinese investment. The World Bank has even cited this growing friction as a risk to global trade and has stressed the need for China to reform in order to play its stated leadership role in globalization.

Political risks in Europe are expected to remain elevated this year with pending Italian elections that could bring about further gains for anti-establishment political parties and a sessionist push by the north. With Germany failing to cobble together a coalition government in the back-end of 2017, following another Merkel term win and Catalanian pro-independence parties winning regional elections, volatility could increase amid the heightened uncertainty.

Despite the risks discussed above, concerns about high equity market valuations, slowing earnings growth and an increased risk of a market derating, high single-digit returns are still expected from developed market equities and



low double-digit returns from emerging market equities in the year ahead. The base case view is that returns will be much lower in 2018 than they were in 2017 and that a tightening in monetary conditions will be gradual with the real fed funds rate anchored at around zero percent. Since emerging market equities are trading in line with their historical discount to the MSCI World Index, expectations of higher earnings growth in the year ahead should support the relative outperformance from emerging market equities. Overweight positions are, however, maintained in both developed and emerging market equities given the return expectations for alternative asset classes. Support for this view is also seen in the earnings yield differential between equities and bonds which remains well above its historical mean. As the year progresses and bond yields rise in response to expected inflationary pressures, a more diversified strategy may be more appropriate given the risk of a cyclical slowdown in 2019 and a sharp equity market derating in the latter part of the year.

Global Bonds

Global bonds lagged the returns of global equities in Q4 2017 as long bond yields ticked up on above-trend growth expectations and rising inflation expectations in 2018. The JP Morgan Global Aggregate Total Return Index gained some 1.0% in USDs as yields rose slightly to 1.94% from 1.91% the previous quarter. In rands, global bonds fell 7.4% on account of a sharp appreciation in the rand driven by optimism that the newly elected ANC president would be able to halt SA's slide over the fiscal cliff. Emerging market bonds underperformed their developed market counterparts on constituent currency appreciation and a widening in spreads, up from 317 basis points to 329 basis points. The JP Morgan Emerging Markets Bond Index fell some 0.3% in USDs and 8.6% in rands.

With the output gap closing as excess capacity is absorbed on rising global aggregate demand and unemployment falling to levels below the natural rate of unemployment in the US and Japan, wage cost pressures are expected to increase over the forecast horizon. Rising labour productivity across key developed markets is, however, expected to cap inflationary pressures while also contributing positively to overall global GDP growth. Given our base case view of above-trend growth and somewhat higher inflation, an underweight position is retained in developed and emerging market bonds. In the event that yields approach 3% on 10-year US treasuries, bonds will be upweighted to neutral.

The US Fed's exit from QE and the closing of the USD1.5trillion funding gap arising from the tax reform bill will result in increased issuance over the coming years and a repricing of the term premium in bonds. Similarly, the ECB's stated intention of halving its asset purchases this year will also increase the term premium as will an expected adjustment to the BoJ's targeted 10-year bond yield, up from 0% to 0.5%. Although the US yield curve has flattened through most of 2017 as a result of increases in the fed funds rate, a reversal in this trend is expected on a repricing of the term premium and an acceleration in economic growth. In the case of the Eurozone, the steepening in the yield curve – reflecting increased economic activity – has been due to a repricing of the term premium and an unchanged repo rate. Since the ECB is unlikely to raise the repo rate this year, the yield curve is likely to steepen further, supporting an underweight position in bonds.

Global inflation linkers outperformed their nominal counterparts in Q4, gaining some 2.9% in USDs as real bond yields fell from -0.65% to -0.78%. As inflation becomes more entrenched, real yields are likely to decline further on liability matching demand from ever aging populations. With real yields well below historical averages, an underweight position is retained in this asset class. Since US inflation-linkers yield positive real returns, we favour exposure to this instrument rather than a basket of bonds.

Despite rising bond yields, global listed property rallied some 3.8% in USDs in Q4 as the sector rerated. The price-to-book ratio increased from 1.44X to 1.47X, slightly ahead of the 1.43X mean. With risks tilted towards higher bond yields in 2018, listed property is vulnerable to a correction. Nonetheless, since dividend yields of 4% exceed most developed market bond yields, a neutral weighting is retained in this asset class.



SA Equities

SA equities followed the generally firmer trend in global equity markets in Q4 2017 buoyed by a 19.2% surge in financials (Fini-15). Even the 92% collapse in the Steinhoff International share price in December failed to derail the equity market's 21.0% return. The resignation of Steinhoff's CEO and the release of a damning report by Viceroy Research Group alleging the use of off-balance sheet entities to obscure losses and artificially inflate earnings, served as the catalyst for the sell-off. Despite the sharp appreciation in the rand/USD exchange rate, rand-hedge stocks held up reasonably well with the Resi-10 yielding some 3.7% and the Indi-25 some 4.7%. Banks were the biggest beneficiaries of the stronger rand, rallying an impressive 28.3% over the quarter.

Despite the strong gains in equities in 2017, bottom up consensus earnings estimates suggest the All Share Index could still return low double-digit returns in the year ahead. The bottom-up methodology uses two-year rolling average earnings estimates in its valuation rather than a 12-month estimate only. The rationale for using the longer term forecasts is that the market is forward looking at any given time, pricing in expected earnings growth 12 months out. Using the rolling methodology, the All Share Index is seen to be trading on a multiple of 16.4X earnings and a forward rolling multiple of 14.2X earnings, both expensive relative to history. Using a reconstituted index for the All Share Index, which strips out large cap rand-hedge counters (NPN, BTI, CFR and GLN), the rolling multiple improves to 14X earnings and the forward multiple to 12.6X earnings, both fairly valued relative to the mean. Relative to bonds, however, the earnings yield differential is tilted in favour of bonds, suggesting some caution in overweighting equities over the forecast horizon. Rather, given specific event risks over the course of the year, tactical asset allocation decisions will be necessary.

Given our above-consensus view of global growth in 2018 and the high foreign income component embedded in domestically listed companies' earnings, the rand-hedge component of the All Share Index should perform well even at the current rand/USD exchange rate. In the event of a Moody's downgrade post the February budget, these foreign sources of income will serve to insulate portfolios from a sharp back-up in bond yields and a sell-off in SA Inc shares. For this reason, a near-term overweight is retained in domestic equities, whereas over the medium term, a neutral weighting is envisaged. In contrast, domestic indicators of economic activity, the proxy for SA Inc counters, point to a slow recovery in household final consumption expenditure over the coming year, with private sector gross fixed capital formation expected to remain under pressure, due to weak business confidence. With policy uncertainty likely to persist given the stalemate on the Mining Charter and the Minerals Bill, and uncertainty about constitutional amendments to property rights, fixed investment expenditure will continue to act as a drag on real economic activity, at least in the first half of 2018. Similarly, household final consumption expenditure is also at risk from tax increases expected to be announced in the February budget. With inflation well-contained, particularly given recent rand strength, tax increases are expected to offset gains in real disposable incomes, limiting consumption expenditure growth over the course of the year. Economic growth is nonetheless expected to show an improvement on the estimated 0.8% in 2017, helping to support earnings growth of SA Inc shares.

SA Bonds

SA bonds gained a pedestrian 2.2% in Q4 hamstrung by intra-quarter volatility triggered by worse-than-expected fiscal dynamics in the Medium Term Budget Policy Statement and uncertainty about whether ratings agencies would downgrade the country's debt to sub-investment grade. In the final analysis, S&P Global Ratings and Fitch both downgraded South Africa's debt to "junk", whereas Moody's retained its BBB- investment grade rating on both local and foreign debt. Moody's did however put the country on review for a downgrade, expected in March 2018 following the tabling of the National Budget in February. Despite a 5.7% surge in bond returns in December, the yield on the All Bond Index was only marginally higher over the quarter at 9.35%, but sharply lower than the 10% yield at the end of November. The rally was triggered by Cyril Ramaphosa winning the ANC presidential race by a wider-than-expected margin at the elective conference. The market optimism following his win is premised on the belief that President Zuma will be recalled, SOE's will be restructured, a new head of the NPA will be appointed, state corruption will be investigated and policy reforms will be implemented. Other sources of optimism included the Constitutional Court ruling that Parliament did not hold the President to account and that Parliament had to set up rules for the



removal of the President. Despite the optimism, foreigners were net sellers of South African bonds totalling some R32.6billion, suggesting that domestic investors were aggressive buyers of bonds in the latter part of the year.

Despite the end-of-year bond market rally, bonds are still attractively priced with real yields on the Albi in excess of 5%, well ahead of the 3% real yield we consider to be represent fair value. With inflation expectations also having moderated following the recent surge in the rand, Nersa's announcement of a 5.23% electricity tariff hike and the Minister of Health's gazetting of a 1.26% increase in the single exit price for pharmaceutical drugs, inflation risks are tilted to the downside in 2018, making bonds even more attractive. Given the risk of a Moody's downgrade in March and SA's possible exclusion from the Citigroup WGBI, the largest of the global bond indices tracking emerging markets, a near-term neutral position is held in bonds. While our through-the-cycle real yield estimate of 4% would normally signal an overweight position in bonds, event-driven risk is high informing our tactical near-term neutral weighting and medium-term overweight position in nominal bonds. With further spread compression limited in corporate bonds, a near-term neutral weighting and medium-term overweight is also recommended for this asset class.

Inflation-linked bonds lagged their nominal counterparts in Q4 yielding a pedestrian 1.5% as real yields held steady at 2.51% and the inflation carry benign. Similar to nominal bonds, intra-quarter volatility was high with real yields reaching a high of 2.99% in November. As real yields declined in December, the BarCap Inflation-Linked Bond Index yielded an impressive 5.8% for the month. With current real yields still in excess of the 2% level we consider to represent fair value, inflation-linkers are still attractively priced. However, with break-even inflation at 6.2%, well ahead of our three-year average inflation estimate, nominal bonds are preferred to inflation-linkers. A near-term neutral position is, however, held in inflation-linkers in anticipation of a negative outcome to the Moody's ratings decision.

Notwithstanding the volatility in bond yields in Q4, SA listed property rallied some 8.3% in rands and 18.1% in USDs as a material rerating relative to bonds offset a small quarterly decline in distributions growth. Given the sensitivity of the listed property sector to movements in bond yields, the Moody's ratings decision remains a material event risk in the near term. As a consequence, a near-term neutral weighting and medium-term overweight position is retained in this asset class. Market rumours in January that Viceroy Research Group (of Steinhoff fame) was about to release a report on the Resilient Group weighed heavily on listed property, despite the release of favourable financials. Some of the early losses were reversed with the sector derating to a level just short of our one-year property to bond yield exit ratio. Double digit returns are therefore likely from this asset class in the year ahead.

SA Cash

SA cash yielded 1.8% in Q4, outperforming only inflation-linked bonds within the domestic fixed income space. Following the rally in the rand post the ANC elective conference, money market rates fell across the curve with the longer dated FRA's (18x21) declining some 75 basis points. While a 25 basis point increase in interest rates is still priced into the market in 2019, a rate hike in 2018 is now not expected. The MPC is similarly expected to revise lower its inflation expectations at the upcoming policy rate setting meeting in January, with amendments to its base case view also expected. The SARB had previously included a 25 basis point rate hike for the second half of 2018 in its base case view, with a further 50 basis points of increases expected in 2019. This view is now expected to change, with the MPC likely to signal an unchanged interest rate environment in 2018. With the Moody's rating decision pending, the SARB will be cautious of easing monetary conditions, given that a subdued 2018 inflationary environment will create unfavourable base effects in 2019, prompting a more aggressive tightening in interest rates.



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Disclosure

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