Sanlam Lifestage Feedback Report
Quarter 1 2018

Sanlam

Employee Benefits

Insurance | Financial Planning | Retirement | Investments | Wealth

Contents

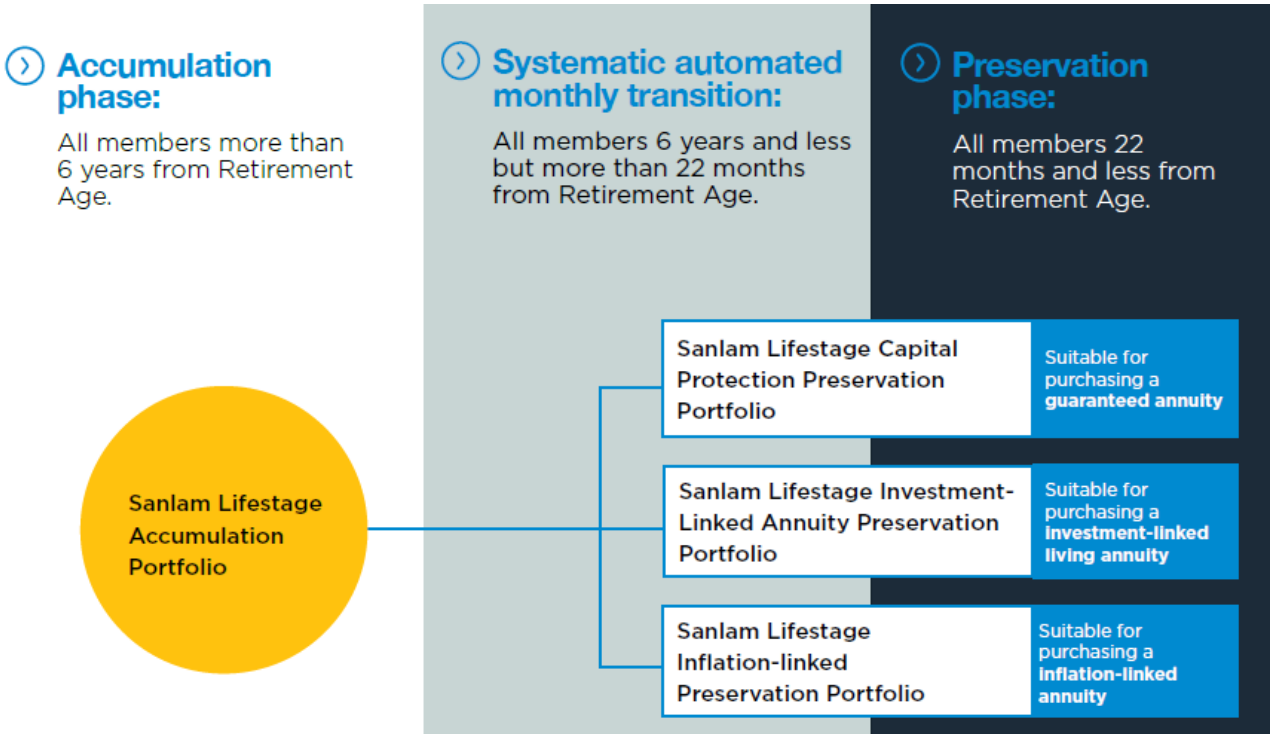
How does Sanlam Lifestage work?

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 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 outperformance of their respective benchmarks.

This portfolio has a moderate risk profile.

Product Commentary – Quarter ending March 2018

Risk assets came under selling pressure over the quarter as a sharp increase in US wage inflation triggered a back-up in bond yields, more noticeably in the US. The MSCI World index delivered -1.74% in dollars and -5.96% in rands. Generally, most developed equity markets were softer over the quarter. However, emerging market equities outperformed their developed market counterparts. The MSCI Emerging Market index delivered 1.07% in dollars and -3.27% in rands. While volatility is expected to persist in 2018 in line with a late-cycle economic expansion, emerging markets are cutting interest rates as inflation moderates on currency appreciation and falling food prices. In global bonds, the JP Morgan Global Aggregate index delivered 0.95% in dollars and -3.38% in rands in the risk-off quarter. Emerging market bonds measured by the JP Morgan EM index underperformed their developed market counterparts, delivering -2.04% in dollars and -6.24% in rands. Global listed property derated sharply on the rise in bond yields as a stronger dollar in recent times weighs on commodity prices. Subsequently, the EPRA/NAREIT Developed Markets Property index delivered -4.31% in dollars and -8.42% in rands.

The domestic market saw bonds benefiting from the rand and the "Ramaphosa Factor", while equities were hit by a collapse in listed property stocks and the "Naspers Effect". The catalyst for the sell-off in selected stocks was market rumours that the Viceroy Research Group was due to release a report on Aspen and then the Resilient Group. Although neither of these companies were Viceroy's target, the listed property sector has yet to recover the losses fuelled by short-sellers in the market. Following Cyril Ramaphosa's win, there is a renewed optimism in the domestic market of a return to good governance and that much needed economic and structural reforms will underpin growth and propel the local economy onto a higher growth trajectory. The positive inflation outlook, a positive budget, SA avoiding a ratings downgrade, and the "Ramaphosa Factor" helped the local bond market rally, reversing the current valuation gap. Despite the economy expanding at a relatively strong pace in the fourth quarter of 2017, tailwinds that supported private consumption growth are now turning. Even if with improved sentiment following the change in leadership, capital investment is set to remain weak in the near term. Production data has showed more signs of a cyclical slowdown at the end of 2017. Mining is likely to have contributed less to growth, growth in agriculture has slowed, and manufacturing maintains momentum but is too weak to add to expansion.

The outlook for the local economy remains mixed, even with business confidence improving. The uptick in household spending and capital investment growth remains cyclical in nature and requires continued structural reform. Improved sentiment and continued strong global economic growth may extend this phase of the cycle, but is not enough to get the local economy firing on all cylinders. Without a marked upturn in capital investment, economic growth is unlikely to significantly surprise on the upside. The rand remains a large risk as the local currency has strengthened significantly since December as a result of the change in the ANC leadership. SA is likely to remain a laggard among its peers relative to global growth even though it's now under the new leadership of President Ramaphosa. The ALSI index was down 5.97% in rands and 1.75% in dollars, largely driven by the negative contribution to total return from the consumer discretionary and consumer staples sectors. Naspers was the largest detractor from the overall market performance, and its contribution to total return for the month was -3.18%. SA government bonds in the first quarter of 2018 measured by the ALBI index delivered 8.06% in rands and 12.90% in dollars, largely driven by the rally in bond yields at the longer end of the sovereign yield curve. Local inflation-linked bonds underperformed their sovereign counterparts, delivering 3.98% in rands and 8.64% in dollars. The local property market collapsed by 19.61% in rands and 16.00% in dollars over the quarter fuelled by short-sellers in the market and speculation. The largest detractors from property sector total return were driven by Resilient, Fortress B, Nepi Rockcastle and Greenbay Properties, all plummeting in excess of 40% in absolute terms, which significantly contributed to the sector's negative total return. SA cash delivered 1.76% for the same period.

The first quarter of 2018 saw rising yields, sharp equity pull-backs and signs that inflation pressures are alive. However, the year kicked into strong equity market returns buoyed by optimism about global growth against the backdrop of a recovery in investment, manufacturing and trade. The volatility in the first quarter of 2018 left many investors wondering whether the multiple-year bull market in risk assets is starting to show cracks. There is no question that the world economy is doing well. It seems the world economy is slowly coming out of the deflationary environment of anaemic growth, deflation and weak spending. Constrained demand and policy reflation have propelled the global economy into a new environment of strengthening nominal growth, rising asset values and improving corporate profitability. However, the bull market in risk assets in recent years is becoming more selective and rotational, weighed down by prospects for monetary restraint and the threat of a trade war, despite a relatively buoyant global economy. At present, very few people are really expecting a bad inflation outbreak. Inflation remains subdued and interest rates, though rising, remain too low around the world and key central banks are still quantitatively easing. Today, with the world economy seemingly on a synchronised upswing, concerns over inflation are resurfacing. Although cyclical forces are pushing the world economy out of a deflationary trap and nominal growth is returning to a more normal state, it is premature to expect a sustained increase in general inflation.

However, greater economic uncertainty is on the rise looking ahead to 2019/2020. Rising US protectionism is a risk to the near-term global outlook and it is likely that increasing US actions against China and other countries will spark bouts of volatility but not derail the economic and market backdrop. Yet, any escalation into a trade war could deal a blow to investor sentiment. Confidence plays a great role spreading the growth benefits of globalised trade dynamics. This may renew a safety premium in bonds that pushes down the term premium, lifting the dollar and other assets that benefit from risk aversion. The synchronized global economic expansion is rolling on and a maturing cycle presents a wider array of potential outcomes ahead. Also, the general rise in government bond yields this year has unnerved investors. The risk is a surge in interest rates unrelated to the economic growth outlook driven by central banks getting behind the curve on inflationary pressures. The reflexive view that economic performance in 2018/2019 will echo the experience post-2008 may be shattered by an array of shifting undercurrents – synchronised global growth, a clearer transcendence of full employment and relatively strong business and consumer confidence. The increase in inflation expectations and the forward guidance of further interest rate hikes have driven the market to price in more aggressive increases in 2018 given historically low unemployment and robust economic growth.

The Bank of Japan (BoJ) cannot count on the Fed rate hikes to drive the yen weaker, and as the Fed delivered a widely expected rate increase, the BoJ won't be able to count on a weaker currency supporting their reflation program. The yen's recent strength adds to the reasons why the BoJ is in no hurry towards an exit from its accommodative monetary policy. A robust set of readings for China's official purchasing manager indexes in March is a positive sign of economic growth momentum in the second quarter. Early signs of 2018 growth flag surprising strength as global demand remains strong, headwinds from tighter domestic policy take time to gather pace, and protectionism generates more news headlines than real impact. A risk ahead was that factory output prices have fallen – a further indication that the industrial reflation cycle is turning down. In the euro area, underlying inflation is likely to accelerate eventually. The economy of the monetary union has almost completely healed from the euro crisis and the erosion of spare capacity should eventually put upward pressure on wages. The expectation for price pressures from the labour market to increase should allow the ECB to continue to unwind its monthly asset purchases.

Portfolio Commentary – Quarter ending March 2018

Sanlam Lifestage Accumulation Portfolio

The Sanlam Lifestage Accumulation fund underperformed its benchmark by -0.74% over the quarter ending 31 March 2018. Asset allocation detracted from overall performance while manager selection contributed positively.

The equity markets sold off heavily domestically and globally over the quarter driven by higher than expected fears of inflation coupled by trade wars between China and the U.S.A. In addition the domestic property markets were down aggressively following rumours of a Vice Roy report including the Resilient Group. The fund had an overweight to property and International equity which detracted from performance.

Despite the sell off and a neutral position in SA equities the fund's manager selection contributed to portfolio returns largely from SIM Equity.

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 benchmark for the portfolio is the SALI index. The index is created by Sanlam to match the purchase price of an inflation linked annuity. The portfolio closely matches the performance of the benchmark over the long term. This is to ensure that clients will be able to purchase an annuity that is linked to inflation upon retirement.

Sanlam Lifestage ILLA Preservation Portfolio

The Sanlam ILLA fund underperformed its benchmark by -0.31% over the quarter ending 31 March 2018. Asset allocation detracted from overall performance while manager selection contributed positively.

The equity markets sold off heavily domestically and globally over the quarter driven by higher than expected fears of inflation coupled by trade wars between China and the U.S.A. In addition the domestic property markets were down aggressively following rumours of a Vice Roy report including the Resilient Group. The fund was overweight international equity and SA property which detracted from performance over the quarter. A neutral position in domestic equity contributed positively to performance from a manager selection perspective rather than asset allocation. The equity structure in the fund was the largest contributor to equity performance as well as SIM equity.

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Fund Fact Sheet

Sanlam Lifestage Accumulation Portfolio

Multi-Manager March 2018

Fund Information

Inception Date : 1 July 2013
Fund size : R10 036 m

Benchmark

27.5% SWIX; 27.5% Capped SWIX; 10.0% ALBI; 7.5% Listed Property; 2.5% STeFI; 15.0% MSCI World; 5.0% Barclays Global; 5.0% BESA ILB

Asset Manager Allocation

Manager	Asset Class	Exposure
Passive Equity Portfolio	Balanced	11.2%
Matrix Bond Plus	Bond	3.7%
Prescient Bonds	Bond	6.6%
SSS	Cash	1.3%
SMMI	Derivatives	1.1%
SMM Core Equity	Equity	9.9%
SMM Momentum Equity	Equity	5.2%
SMM Quality Equity	Equity	5.7%
SMM Value Equity	Equity	5.6%
SMMI Swix tracker	Equity	12.8%
Coronation Flexible Income	Flexible Income	0.6%
Blue Ink Fixed Income	Fund of Hedge Fund	1.4%
Blue Ink Long Short Aggr	Fund of Hedge Fund	2.8%
SIM Active Income	Income	0.4%
International Cash	International Cash	0.3%
Ginsglobal Emerging Markets	International Equity	1.7%
Ginsglobal Equity Index	International Equity	9.2%
ML Drakens Africa SA UCITs	International Equity	0.7%
MSCI World Tracker	International Equity	8.2%
Sanlam Africa Equity	International Equity	1.9%
Satrix Property Tracker	Property	9.7%

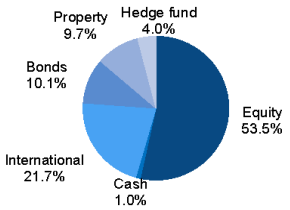
Comments

Global equity markets stumbled in March as a US tech sell-off and a potential trade war dragged equities lower globally. The US Fed's interest rate-setting meeting and a revival of trade war fears overshadowed most other economic news in the month, with the US equity market shifting lower in response to the 0.25% interest rate hike. The US manufacturing ISM index has been sending robust signals about economic growth and factory activity, reaching the highest level in the business cycle. However, the US 10-year yield remains range bound, after expectations that it would push through 3%. Recent PMI surveys for key emerging and developed market economies suggest that the speed of the synchronised global recovery is decelerating, but only gradually. Information technology stocks accounted for -0.64% in dollars of the MSCI World index total return in March. The MSCI World index delivered -2.41% in dollars and -2.04% in rands. The MSCI Emerging Market index fared marginally better, delivering -2.03% in dollars and -1.66% in rands. The risk of a trade war drove investor risk aversion, and developed market bonds measured by the JP Morgan Global Aggregate delivered 1.19% in dollars and 1.58% in rands. Also, the JP Morgan EM Bonds index underperformed its developed market counterparts, delivering 0.70% in dollars and 1.09% in rands. As interest-bearing instruments benefited during the month, the EPRA/NAREIT Developed Markets Property index rallied some 2.48% in dollars and 2.87% in rands. The local economy expanded 1.3% in 2017 as growth accelerated for the first time in four years, exiting a slowdown that endangered the countr's credit rating. The new president has inherited a stronger economy than many had thought as he seeks to tackle corruption and reverse policies seen as hostile to investment. South Africa now stands in sight of escaping weak growth that has been persistent since 2008. Post the "Ramaphosa factor" South Africa has experienced a healthy pull-back in risk assets, which was triggered by international markets. South Africa avoided a further downgrade after Moody's kept the country at investment grade. Their outlook remains stable, balancing the growth potential for the economy against the risks of continued infighting in the ANC. The SA Reserve Bank voted to cut the benchmark rate to 6.5%, after judging that inflation will remain low while growth revives faster than expected. The ALSI index was down 4.18% in rands largely driven by the negative contribution to total return from the consumer discretionary and consumer staples sectors. Naspers was the largest detractor and its contribution to total return for the month was -2.24%. The sell-off in Naspers followed the announcement it would be selling 2% of its shareholding in Tencent. The ALBI delivered 2.07% in rands, and South African benchmark yields fell to the lowest level in almost three years and the rand extended gains after the credit ratings announcement. Local inflation-linked bonds outperformed its sovereign counterparts, delivering 4.92% in rands. The local property market saw a reversal in recent performance this year, delivering -0.96% in rands. SA cash delivered 0.60% in rands for March.

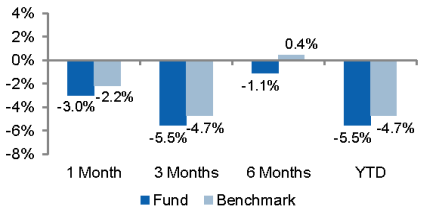
Fund Objective

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

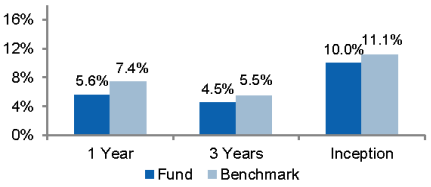
Asset Allocation



Short-term Returns



Long-term Returns



Sanlam Life Insurance Ltd is an authorised financial services provider.

DISCLAIMER: Performance figures are gross of multi manager fees, gross of fixed fees charged by investment managers and net of any performance fees (where applicable) charged by investment managers. Performance figures for periods greater than 12 months are annualised. All data shown is at the month end. Changes in currency rates of ex-change 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 go down as well as up and are not guaranteed. You may not get back the amount you invest.

Fund Fact Sheet

Sanlam Lifestage ILLA Preservation Portfolio

Multi-Manager March 2018

Fund Information

Inception Date : 1 October 2013
Fund size : R 49 m

Benchmark

17.5% SWIX; 17.5% Capped SWIX; 20.0% ALBI; 7.5% STeFI; 10.0% MSCI World; 5.0% Barclays Global; 5.0% SA Property Index; 17.5% BESA ILB

Asset Manager Allocation

Manager	Asset Class	Exposure
Futuregrowth Bonds	Bond	1.2%
Prescient Bonds	Bond	10.0%
Satrix Bond Index Fund	Bond	10.1%
SMM Inflation Linked Bonds	Bond	10.3%
SSS	Cash	0.8%
SMMI	Derivatives	0.7%
SMM Core Equity	Equity	6.4%
SMM Momentum Equity	Equity	3.5%
SMM Quality Equity	Equity	3.8%
SMM Value Equity	Equity	3.7%
SMMI Swix tracker	Equity	16.4%
Coronation Flexible Income	Flexible Income	5.7%
SIM Active Income	Income	4.3%
International Cash	International Cash	2.0%
Blackrock Dev World Equity	International Equity	13.0%
Sanlam Africa Equity	International Equity	2.2%
Satrix Property Tracker	Property	5.9%

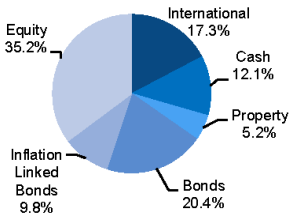
Comments

Global equity markets stumbled in March as a US tech sell-off and a potential trade war dragged equities lower globally. The US Fed's interest rate-setting meeting and a revival of trade war fears overshadowed most other economic news in the month, with the US equity market shifting lower in response to the 0.25% interest rate hike. The US manufacturing ISM index has been sending robust signals about economic growth and factory activity, reaching the highest level in the business cycle. However, the US 10-year yield remains range bound, after expectations that it would push through 3%. Recent PMI surveys for key emerging and developed market economies suggest that the speed of the synchronised global recovery is decelerating, but only gradually. Information technology stocks accounted for -0.64% in dollars of the MSCI World index total return in March. The MSCI World index delivered -2.41% in dollars and -2.04% in rands. The MSCI Emerging Market index fared marginally better, delivering -2.03% in dollars and -1.66% in rands. The risk of a trade war drove investor risk aversion, and developed market bonds measured by the JP Morgan Global Aggregate delivered 1.19% in dollars and 1.58% in rands. Also, the JP Morgan EM Bonds index underperformed its developed market counterparts, delivering 0.70% in dollars and 1.09% in rands. As interest-bearing instruments benefited during the month, the EPRA/NAREIT Developed Markets Property index rallied some 2.48% in dollars and 2.87% in rands. The local economy expanded 1.3% in 2017 as growth accelerated for the first time in four years, exiting a slowdown that endangered the country's credit rating. The new president has inherited a stronger economy than many had thought as he seeks to tackle corruption and reverse policies seen as hostile to investment. South Africa now stands in sight of escaping weak growth that has been persistent since 2008. Post the "Ramaphosa factor" South Africa has experienced a healthy pull-back in risk assets, which was triggered by international markets. South Africa avoided a further downgrade after Moody's kept the country at investment grade. Their outlook remains stable, balancing the growth potential for the economy against the risks of continued infighting in the ANC. The SA Reserve Bank voted to cut the benchmark rate to 6.5%, after judging that inflation will remain low while growth revives faster than expected. The ALSI index was down 4.18% in rands largely driven by the negative contribution to total return from the consumer discretionary and consumer staples sectors. Naspers was the largest detractor and its contribution to total return for the month was -2.24%. The sell-off in Naspers followed the announcement it would be selling 2% of its shareholding in Tencent. The ALBI delivered 2.07% in rands, and South African benchmark yields fell to the lowest level in almost three years and the rand extended gains after the credit ratings announcement. Local inflationlinked bonds outperformed its sovereign counterparts, delivering 4.92% in rands. The local property market saw a reversal in recent performance this year, delivering -0.96% in rands. SA cash delivered 0.60% in rands for March.

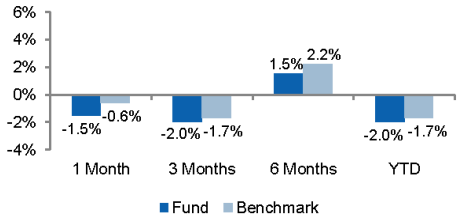
Fund Objective

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.

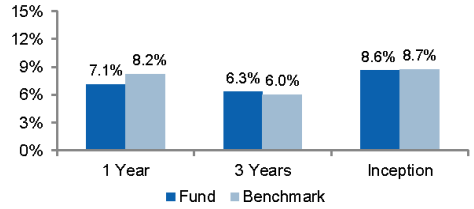
Asset Allocation



Short-term Returns



Long-term Returns



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Fund Fact Sheet

Sanlam Lifestage Inflation-linked Preservation Portfolio

Employee Benefits March 2018

Fund Information

Fund Manager	:	Sanlam Investment Manager (SIM)
Inception date	:	May 2013
Fund size	:	R 1m

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.

Benchmark

SALI stands for Sanlam Asset Liability Index. In the same way the All Share Index (ALSI) tracks the change in value of the stocks on the Johannesburg Stock Exchange over time, so SALI tracks the change in the cost of purchasing an annuity.

Real refers to inflation linked. Members, who want to maintain their standard of living in retirement, should consider buying an annuity that protects them against increases in the cost of living i.e. inflation. An inflation linked annuity is guaranteed to provide increases equal to inflation.

The **SALI Real** has been developed by Sanlam to track the cost of purchasing an inflation linked annuity.

As real interest rates move up (and down) and the cost of an inflation linked annuity decreases (or increases), so the index will change to reflect this change in cost.

Fund Performance (%)

Periods to 31/03/2018	Return	Benchmark
1 Month	5.34%	5.57%
3 Months	3.94%	4.45%
6 Months	4.90%	5.32%
YTD	3.94%	4.45%
1 year	6.67%	6.99%
3 years	4.93%	4.76%

Duration Distribution

Cash & Nominal Bonds	8.21%
Inflation Linked Bonds 0 - 3 years	-
Inflation Linked Bonds 3 - 7 years	12.84%
Inflation Linked Bonds 7 - 12 years	16.32%
Inflation Linked Bonds 12+ years	62.63%
Average Duration	**13.06%**

Asset Composition (%)

Cash	7.89
Bonds	0.32
Inflation Linked Bonds	91.79

For more information and contact details please see our product brochure at http://sanl.am/sebi

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While all reasonable attempts are made to ensure the accuracy of the information, neither Sanlam nor any of its subsidiaries makes any express or implied warranty as to the accuracy of the information. Past performance is not necessarily a guide to future returns. The level of bonuses issued from time to time is not guaranteed nor are investment amounts on termination. This disclaimer must be read in conjunction with the Flash Fact disclaimer.

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Fund Fact Sheet

Sanlam Lifestage Capital Protection Preservation Portfolio

Employee Benefits March 2018

Fund Information

Fund Manager	:	Sanlam Investment Manager (SIM)
Fund Size	:	R 1 845 m

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.

Strategic asset allocation

RSA Equities (Unhedged)*	16% SWIX and 16% Capped SWIX
RSA Fixed Interest	25.5% BEASSA Total Return All Bond Index
RSA Hedge Funds	1% STeFI + 2%
RSA Inflation-linked Bonds	2% IGOVI
Foreign Equities**	17.5% MSCI (Developed Markets)
Foreign Fixed Interest	5% Barclays Global Aggregate Index
Foreign Alternative Investments	2.5% US 3 month London InterBank Offered Rate (LIBOR) +2.5% (net of fees)
Cash	8% STeFI (Short term fixed interest index)
RSA Property	6.5% BEASSA 7 – 12 years Total Return Index plus 1.0% p.a.

* Transitioning from 100% SWIX to above benchmark by June 2018

** Transitioning from 12.5% foreign equity to 17.5% by June 2018

Top 10 shares

Share name	% of fund
Naspers N	5.59
Stanbank	1.72
BTI Group	1.55
FirstRand / RMBH	1.55
Sasol	1.47
MTN Group	1.30
Old Mutual	1.08
Barclays	1.00
Anglos	0.90
Aspen	0.62

Funding level

April 2018: 97.75% funded

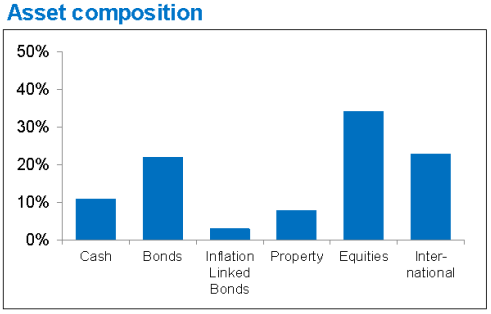
Gross bonuses (%)*

Periods to 31/03/2018	Capital Protection Preservation	CPI Inflation**
1 Month	0.65	1.12
3 Months	2.13	1.90
6 Months	4.45	2.78
YTD	2.13	1.41
1 Year	8.47	4.40
3 Years	9.28	5.89
5 Years	12.58	5.50
10 Years	11.17	5.83

* Gross bonuses net of guarantee fee, gross of investment fee

** 28/02/2018 CPI figures used, 31/03/2018 not available yet

Asset composition



Asset class breakdown

Cash	10.8%
Bonds	21.8%
Inflation Linked Bonds	2.8%
Property	7.8%
Equities	
- Unhedged Equities	34.1%
- Hedged Equities	0.0%
International	
- Equity	11.8%
- Other	10.9%

12-Month Gross Bonus History

Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18
0.602%	0.622%	0.689%	0.552%	0.664%	0.661%	0.693%	0.742%	0.824%	0.721%	0.741%	0.649%

For more information and contact details please see our product brochure at http://sanl.am/sebi

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Performance vs Benchmark

Performance to end of March 2018

Sanlam Lifestage	1 Month	3 Months	6 Months	1 Year	3 Year
Accumulation Portfolio	-2.95%	-5.47%	-1.08%	5.63%	4.53%
Benchmark	-2.25%	-4.73%	0.45%	7.37%	5.50%
Capital Protection Preservation*	0.65%	2.13%	4.45%	8.47%	9.28%
Inflation-Linked Preservation Portfolio	5.34%	3.94%	4.90%	6.67%	4.93%
Benchmark	5.57%	4.45%	5.32%	6.99%	4.76%
ILLA Preservation Portfolio	-1.49%	-2.03%	1.50%	7.08%	6.34%
Benchmark	-0.59%	-1.72%	2.25%	8.16%	6.00%

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

Performance Attribution

Multi-Managed Portfolios:

3 months ending March 2018	Active Return	Tactical Asset Allocation	Manager Selection
Sanlam Lifestage Accumulation	-0.74%	-0.83%	0.09%
Sanlam Lifestage ILLA Preservation	-0.31%	-0.49%	0.18%

Sanlam Lifestage Accumulation and Sanlam Lifestage ILLA Preservation

The portfolio underperformed its benchmark over the quarter.

Asset allocation was a detractor to performance with the largest detractors being the underweight to Inflation-Linked bonds and the overweight to domestic property. The largest contributor to performance was the overweight to Africa.

Manager selection was a slight detractor with the domestic equity managers underperforming. Managers who detracted from performance were Fairtree and Investec Value, both of whom were overweight Resource counters. In addition the Momentum strategy managed by Satrix detracted from performance as did the quality strategies managed by Steyn Capital and First Avenue.

Managers who contributed to performance included ABAX, who follow a GARP philosophy, Bateleur, Capricorn and Sentio also performed well.

A hedge structure that was put in place in November contributed significantly during the first quarter as a result of the falling equity market. This structure was removed in early April.

The portfolio is currently positioned with an overweight to foreign assets, in particular to foreign equity, whilst being underweight foreign bonds and domestic equity. We are retaining the underweight to inflation-linked bonds and overweight to domestic property. This is a position we are comfortable to hold as we believe that property is undervalued whilst Inflation is likely to remain benign in the near future.

Economics

April 2018

Executive summary

Risk assets came under selling pressure in the first quarter as fears of inflation and a possible trade war weighed on equities. In the fixed income space, inflation fears offset trade war concerns, with global bonds outperforming their risky counterparts. The trade friction between the US and China resulted in a broad-based decline in business and consumer sentiment, with leading indicators of economic activity also suggesting that the global growth cycle has peaked. Despite expectations of a slowdown in growth over the next few years, the correction in equity markets in Q1 resulted in a material improvement in forward valuations, thereby informing our overweight bias to this asset class. Against the backdrop of rising US inflation and increased bond issuance as a result of higher fiscal deficits, an underweight position is retained in fixed income asset classes. Heightened geopolitical risks will, however, be a headwind which is likely to contribute to increased market volatility over the investment horizon.

On the domestic front, bonds were the best performing of the broad asset classes, benefitting from Moody's reaffirmation of the country's investment grade rating and better-than-expected inflation data. Property stocks were the worst performers as short-selling in the Resilient Group of companies weighed on the sector. Given the sector's derating and the independent audit finding clearing Resilient of any wrong-doing, listed property has been upweighted to overweight. The sharp sell-off in Naspers following disappointing forward guidance from Tencent and Naspers' 2% sale of shares in Tencent, contributed to more than half of the equity market's overall decline. Since forward valuations now look even more attractive, an overweight position is retained in this asset class.

Highlights

- US-China trade tensions trigger volatility and a rise in market premia
- US wage inflation triggers a rise in bond yields and equity market sell-off
- USD structurally weak on twin deficits
- March FOMC statement hawkish on rates, inflation
- Geopolitical risks on the rise as Russia faces renewed sanctions
- Leading indicators of economic activity point to global slowdown
- Moody's retains SA investment grade rating but with a stable outlook
- SARB cuts rates 25 basis points but statement lacks conviction

Global Equities

Global equities declined in the first quarter as fears of inflation and tighter monetary conditions gave way to concerns of a possible trade war between the US and China. Fears of more aggressive rate hikes by the US Fed and the trade friction between the US and China has resulted in a broad-based decline in business and consumer sentiment, with leading indicators of economic activity suggesting that the global growth cycle has peaked and that growth will moderate in the year ahead. Purchasing manager indices and analyst expectations as reflected in the ZEW indices have also all peaked and are slowing to levels that are still consistent with above-trend growth over the investment horizon. The MSCI World Index declined some 1.7% in USDs and 6.0% in rands, as investors switched out of risk assets into more defensive asset classes. Emerging market equities fared slightly better, increasing some 1.1% in USDs but declining by 3.3% in rands as a result of a 4.5% appreciation in the rand/USD exchange rate. The divergence in returns was largely due to differences in interest rate expectations between emerging and developed markets as a result of lower inflation risks in emerging economies.

Apart from the slowdown in leading indicators of economic activity, real economy variables have shown a similar trend in recent months. Korean exports – a bellwether for global trade – have decelerated, Japanese machinery orders have rolled over and the Baltic dry index has plunged by 39.5% from its December highs.

Similarly, the expectations component of the German IFO index and export growth have fallen, reflecting more subdued growth momentum. In China the trend is similar with China's real economy proxy's viz. data on electricity production, freight traffic volumes and bank lending, all having come off their highs. Furthermore, a wave of property market selling has hit the market following President Xi's warning that homes are for living and not for investing. The likelihood of property taxes being introduced has no doubt also contributed to the softening in house price growth. A weaker Chinese property market comes with the risk of a slowdown in construction spending, which could adversely affect commodity prices. The start to the second quarter has, however, been somewhat more promising with the Baltic dry index recouping some 6.5% in lost ground, with commodity prices rising across a broad front. For now, the longer term recovery in commodity prices appears intact, notwithstanding the trade war and inflation fears that dominated in Q1.

Following the imposition of import duties on solar panels and washing machines in January, the US imposed further tariffs of 25% and 10% respectively on imports of aluminium and steel products in March, with Canada and Mexico exempted from the hikes, while a temporary reprieve was afforded the European Union, Australia, Argentina, Brazil and South Korea. China's tit-for-tat response by imposing import duties on US agricultural products (nuts, wine, pork and fruit, with soybeans and electric vehicles still possible inclusions) totaling some USD3billion was met by threats from the US that further Chinese-specific tariffs of 25% on some 1300 items, totaling around USD50 billion, could still be in the offing. Trump subsequently extended this threat to include a further USD100 billion in Chines imports, although no final decision has yet been taken on the China-specific tariffs. Speculation is that tech firms (computers, cellphones) and retailers (apparel and footwear) would be adversely affected by such a move as stock shortages and price increases would be negative for these sectors.

China appears to have extended an olive branch to the US by stating its commitment to opening up its market to foreign investors, financial services and insurance, and also indicated its intention of reducing tariffs on imported vehicles. While Xi's comments have helped ease investor anxieties for now, the reality is that China has been committing to opening up its market for a number of years now. Nonetheless, its stated intention of opening up the motor vehicle sector to foreign investors by 2022 is a welcome indication of its commitment. We are of the view that the US rejoining the APP (Asia Pacific Partnership Agreement) would be a more constructive way of limiting China's power rather than the more confrontational approach of imposing punitive import tariffs.

A more hawkish US Fed also weighed on sentiment in March as Jerome Powell oversaw his first FOMC meeting as Chairman. In the statement following the meeting, the Fed's dot plot forecast a steeper rate hike path in 2019 and 2020 as a result of the improving growth outlook and upward revisions to inflation. Higher than expected core and headline US inflation released subsequently supported the Fed's more aggressive stance on interest rates, as lower cell phone charges in March 2017 came out of the 2018 base, accounting for the breach of the 2% target set by the Fed. The central forecast for rates increased from two increases to three increases in 2019, with the median rate of 2.9% penciled in for the end of 2019. Similarly, the central rate for 2020 increased from 3.1% to 3.4%, implying at least two further increases in 2020.

In the absence of a commensurate increase in long bond yields, the flattening in the US yield curve poses a risk to growth and earnings, particularly if the yield curve inverts. Although leading indicators of sentiment and growth are slowing quite sharply in the US, increased fiscal stimulus in the form of tax cuts and additional spending will continue to underpin above-trend growth, at least over the coming year. Our base case view is that a recession is not around the corner, but that growth will slow in 2019 and 2020 as rates continue to rise and a higher discount rate weighs on risky assets. Hence a steepening in the yield curve remains our base case view, in spite of the recent curve flattening. Equities normally sniff out recessions before they start, with a lead time of normally around six months. In this late cycle expansion, however, equities typically do well, supporting our bias towards risk assets.

Despite the correction in equity markets in March and expectations that growth will slow over the coming two years, earnings have not been revised lower, partly due to tax changes in the US and expectations that above-trend global growth is still intact. Given the lead and lag between equity prices and earnings,

consensus earnings estimates still point to further equity market price gains over the coming year. Further support for this view is seen in forward multiples which have improved to 15.8X earnings from 18.3X at the end of December, cheap-to-fairly valued relative to the historical mean. Conversely, in the case of emerging markets, forward valuations have also improved post the market sell-off. Forward multiple have improved from some 14.1X earnings at the end of December to some 12.5X earnings, still somewhat higher than the mean of 11.7X earnings. Despite the slightly stretched valuations, an overweight position is retained in both developed and emerging market equities, with a tilt in favour of developed market equities given slightly better relative valuations.

Global Bonds

Global bonds were mixed in quarter one with the JP Morgan Global Aggregate Index gaining some 1.0% in USDs but -3.4% in rands. The quarter was dominated by the conflicting themes of inflationary pressures and trade war concerns. Following a sharp rise in bond yields in February due to higher-than-expected US non-farm wage inflation, trade war concerns triggered a flight-to-safety in March. For the quarter, however, yields rose from 1.9% to 2.1% as inflationary fears offset the risk of a trade war. Market concerns about a rise in inflation due to the imposition of higher tariffs was largely shrugged off as participants viewed a possible trade war as negative for aggregate demand and hence pricing power. The fact that producer price inflation has also been slowing in OECD countries allayed some of these concerns since producer inflation tends to feed into consumer inflation, albeit with a lag. The dominance of inflationary fears in the bond market in Q1 resulted in emerging markets bonds contracting by 2.0% in USDs and 6.2% in rands, as spreads widened from some 329 basis points to 343 basis points. Rising geopolitical tensions between Russia and the US, EU and the UK following the poisoning of a former Russian double agent and his daughter, contributed to the widening in spreads as did the imposition of new sanctions on Russian oligarchs. Similarly, the trade tensions between the US and China may also have contributed to some emerging market capital flight.

Global inflation-linkers outperformed their nominal counterparts in Q1, even as real yields increased slightly on the back of a rise in breakeven inflation. The Barclays Capital Global Inflation Linked Bond Index increased 1.6% in USDs but declined some -2.8% in rands. The USD gains were, in all likelihood, due to liability matching investors taking advantage of the slightly higher real yields. Following the recent increase in core and headline US inflation, demand for inflation-linkers is expected to intensify since the inflation carry is likely to increase over the coming months. However, given the negative real yields available on inflation-linkers and still subdued inflationary pressures in the EU, Japan and some emerging economies, we continue to underweight this asset class.

Global listed property wrapped up a disappointing quarter, following the sharp rise in bond yields in February. The EPRA/NAREIT Developed Markets Property Index declined some 4.3% in USDs and 8.4% in rands as the sector derated from a price-to-book ratio of some 1.45X to some 1.36X, well below the mean of 1.43X. Despite the improved valuation, an underweight position is retained in this asset class given its sensitivity to rising bond yields. With increased issuance expected from the Fed going forward, due to larger fiscal deficits and an unwinding of the Fed's balance sheet, bond yields are expected to trend higher, serving as a headwind for the sector.

SA Equities

SA equities underperformed their emerging market counterparts in Q1 as Naspers came under renewed selling pressure, down some 16.2%, following disappointing forward guidance from Tencent and the announcement that Naspers would reduce its holding in Tencent by some 2%. The All Share Index declined around 6.0% largely due to the Naspers sell-off. Its contribution to total returns amounted to -3.2%, more than half of the overall market's decline. As a consequence, the Indi-25 declined some 8.7%, followed by the Resi-10 at -2.7% and the Fini-15 at -1.1%. Upward revisions to domestic economic growth following revised GDP growth figures for 2017 also failed to support the market, in all likelihood, due to the decline in the Barclays PMI index, which pointed to a contraction in manufacturing production in the months ahead.

In contrast, positive consumer and business sentiment also failed to inspire the market as new car sales and new commercial vehicle sales contracted over the quarter, both good proxies for household final consumption expenditure and private sector gross fixed capital formation. The failure of tax bracket adjustments to compensate individuals for fiscal drag, coupled with petrol price increases arising from the fuel levy and a higher oil price, are all expected to weigh on household consumption expenditure over the coming quarters. With inflation also expected to rise meaningfully off its March lows following the 1% VAT rate hike, real wages will come under further pressure constraining household expenditure.

Similarly, the uncertainty about a resolution to the Mining Charter and Minerals Bill, and uncertainty about property rights, will also likely limit new investment expenditure over the coming quarters, especially in agriculture. The High Court's recent endorsement of the "once empowered, always empowered" rule for mining companies will help expedite a resolution to the current stand-off, although the Minister has indicated that it will be adjudicated on a case-by-case basis. The recent signing of the IPP agreements, with renewable energy providers totalling some R56 billion, will however be a welcome and much needed boost to investment expenditure over the next two to three years. Similarly, the President's recently announced USD100 billion 5-year fixed investment drive is a further welcome initiative to boost the level of investment and growth potential of the country over the longer term. Whether investor interest translates into actual investment remains to be seen but the President has chosen his ambassadors well in the likes of Trevor Manuel, Jacko Maree, Mcebisi Jonas and Phumzile Langeni.

Even though foreigners were net buyers of domestic equities totalling some R24.6billion in Q1, the increased demand for domestic equities failed to lift the market. The SARB's 25 basis point cut in interest rates was also shrugged off by the market, given its rather hawkish outlook for future interest rate increases. The MPC statement's base case forecast is for rates to rise to around 6.9% by the end of 2018, increasing to 7.1% in 2019 and some 7.5% in 2020, effectively a 100 basis point increase. Even the wave of euphoria that followed Cyril Ramaphosa's ascent to the Presidency appeared to be waning in March, with the PMI Business Optimism Index coming off its recent high.

A possible explanation for the waning optimism may be the realisation that the structural and economic reforms the country needs will not be forthcoming, at least not before the 2019 elections, given the factionalism that still divides the ruling ANC. Our base case view is that the Ramaphosa presidency will be characterized by "good governance" at SOE's, but that economic reforms will only move centre-stage post the 2019 elections. To ensure his hold on power post the upcoming elections, the President is expected to firstly tackle the low-hanging fruit of reforming SOEs, rather than risk a decline in voter support from effecting economic reforms.

Following the sell-off in equities over the past two months, equity market valuations have improved, with the rolling forward multiple of the market improving from 14X earnings at the end of December to some 13.3X at the end of March. If a reconstituted index excluding Naspers, Richemont, British American Tobacco and Glencore is used, the forward multiple of the market declined from 12.6X earnings to 11.8X earnings, attractive relative to the mean. Alternatively, the divergence between bottom-up consensus earnings estimates of some 13% and implied earnings growth of some 5.8% priced into the equity market, suggests that there is still further upside to equities over the investment horizon. At the sectoral level, the valuations are also supportive of resources and industrials, whereas financials are seen as expensive given their strong returns in the final quarter of 2017. In terms of style beta, the reflation trade globally is expected to support value managers, with industrial metals counters, consumer discretionary and tech stocks the biggest beneficiaries. The domestic market, in turn, is expected to benefit from investor demand for resource shares, GARP stocks (growth-at-reasonable price) and early cycle industrials, while listed property is also expected to benefit following the near 20% sell-off in the sector in Q1.

SA Bonds

SA bonds were the best performing of all the broad asset classes in Q1, rallying some 8.1% as yields on the All Bond Index declined from 9.35% to 8.62%. The catalyst for the gains included lower than expected inflation and the reaffirmation of South Africa's investment grade rating by Moody's. Not only did Moody's reaffirm the rating but it also upgraded the outlook to stable from negative. As a consequence, South Africa's inclusion in the Citigroup World Government Bond Index was assured and a material downside risk to the bond market removed. With the uncertainty now out of the way, foreigners returned to the market as net buyers of bonds totaling a pedestrian R7.2billion for the quarter. Since the estimated through-the-cycle real yield on the All Bond Index is marginally ahead of the 3% we consider to be fair value, domestic bonds are down-weighted to neutral from overweight. Given the 1% VAT rate hike and expectations that food inflation will bottom out later in the year, the trajectory for inflation is higher in 2019, placing upward pressure on bond yields.

Inflation-linked bonds also yielded pleasing returns in Q1, with the Barclays Capital Inflation Linked Bond Index returning some 4.0% in rands. Real yields declined sharply from 2.52% to 2.3%, as liability driven investors snapped up inflation-linkers at yields slightly ahead of our fair value estimate of 2%. Opportunist buying ahead of the April VAT rate hike was in all likelihood a further motivation for the increased demand. From a market timing point of view, inflation-linkers are expected to benefit from the inflation carry in the near term following the VAT hike. With break-even inflation currently around 5.9%, ahead of our 5.5% through-the-cycle inflation estimate, nominal bonds are still preferred to inflation-linkers. As a consequence, an underweight position is retained in inflation-linked bonds.

Following the sharp sell-off in listed property stocks in January and February, the sector declined a further 1% in March, bringing the quarterly decline to some 19.6%. Short-selling in the Resilient Group of companies appeared to have run its course, with investors eagerly awaiting the report from the independent auditor on whether Resilient was guilty of share price manipulation through its associated group of companies. In the final analysis, the auditor cleared Resilient of any wrong-doing which saw Resilient, Fortress B and Greenbay rally strongly in April. In light of the material derating of the listed property sector and the fact that the sector is now trading at a discount to its net asset value, listed property has been upweighted to overweight from neutral.

SA Cash

SA cash yielded 1.8% in Q1, underperforming domestic bonds. Following successively lower inflation prints in recent months and downward revisions to the MPC's inflation forecasts, the SARB cut the repo rate by some 25 basis points, in line with market expectations. The MPC cited rand strength, Moody's retention of South Africa's investment grade rating and the temporary effect of the VAT rate hike on inflation as the justification for the cut. Its inflation forecast for 2018 remained unchanged at 4.9%, while the 2019 estimate was revised lower to 5.2% from 5.4% previously. The forecast for 2020, a new inclusion in the statement, was some 5.1%. Similarly, the core inflation forecast for 2018 was left unchanged at 4.6%, whereas the 2019 forecast was revised 0.2% lower at 4.9%. The core inflation forecast for 2020 was also included at 4.9%. Coupled with lower inflation expectations as surveyed by the Bureau of Economic Research and the MPC's belief that food inflation was no longer a major risk to the inflation outlook, a rate cut was apparently justified. In terms of the SARB's Quarterly Projection Model, however, the implied path of future interest rate increases is for two rate hikes in 2019 and a further two increases in 2020, bringing the repo rate at the end of 2020 to some 7.5%. Given the MPC's intention of raising rates over the next two years, it is somewhat surprising that a rate cut was announced in March. Highlighting the divergence in views between voting members of the MPC was the fact that four members of the committee opted for a rate cut whereas three members opted for rates to remain on hold. While our base case view is for rates to end 2020 at some 7.25%, the money market is pricing in an even lower repo rate of some 7% at the end of 2020.

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Disclosure

Warnings and Disclaimer

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