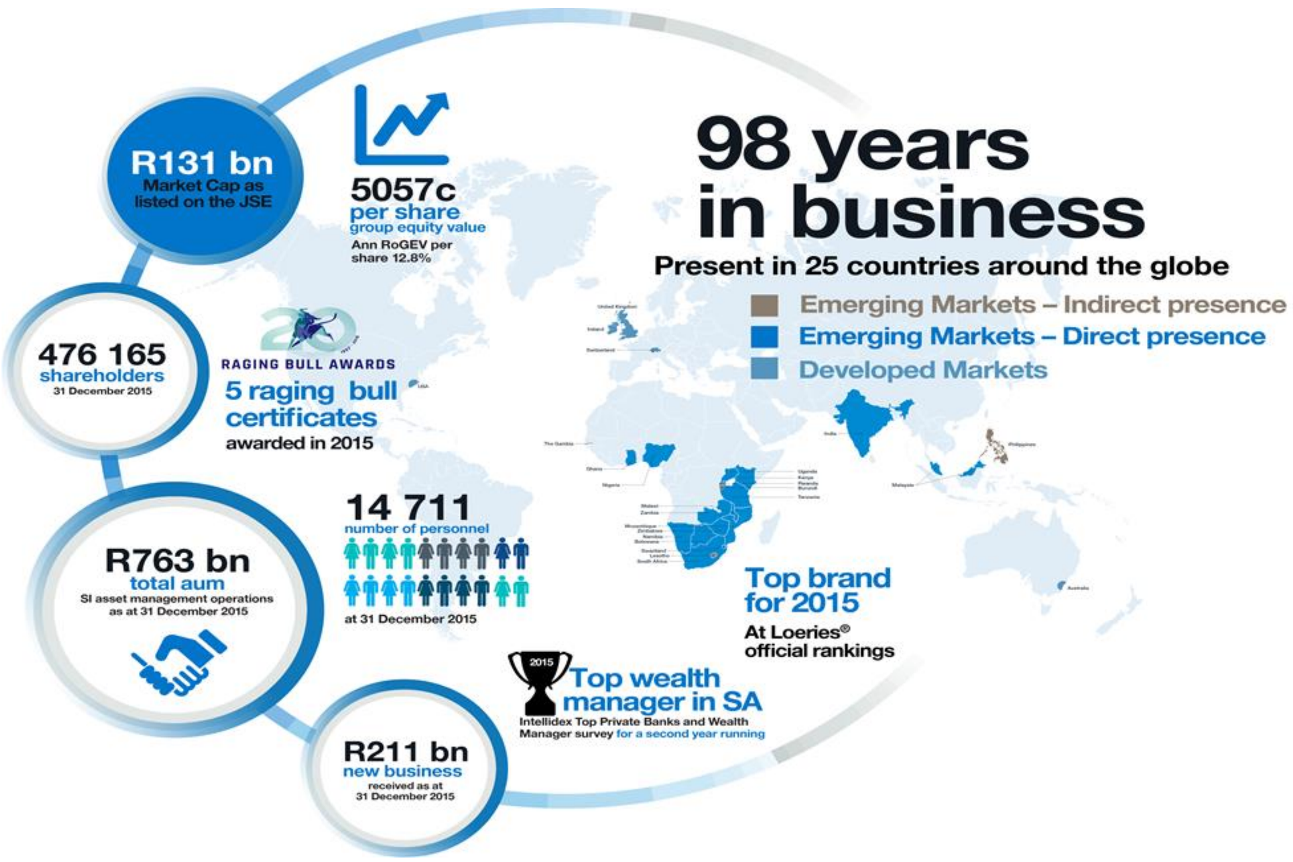
CEO's corner

In this quarters CEO's corner: I would like to share some information on the performance of Sanlam Group in 2015. Under trying times the group continued to perform exceptionally well. We are proud to be part of such an awesome organization that has provided financial solutions to customers on the continent and beyond for the past 98 years.

Here is a snap shot of the Group's overall performance in 2015.



Swaziland

‘’Growth for all with all through optimizing, innovating, boosting domestic revenue and spending efficiently,’’ was the theme of the Budget for 2016/17 financial year which was presented by the Minister of Finance, Honourable Senator Martin G. Dlamini on March 2016. In 2015, GDP expansion was lower than in 2014 averaging 1.7 percent compared to 2.4 percent, which was the result of drought and the depreciation of the Lilangeni. Revenue and grants were projected to have been E14.3 billion in 2015, of which E6.99 billion was SACU receipts. Government expenditure was E17.7 billion which resulted in a deficit of E3.4 billion. This deficit was financed through both domestic and external borrowing.

The 2016/17 budget is estimated at E20.6 billion, which is more than 16% of last year’s government budget. The largest contributor towards government expenditure will be the Ministry of Education at E3.1 billion and Ministry of Health at E2 billion. Both sectors account for close to 25% of the budget.

In the financial service sector, the Swaziland government has assigned the Financial Services Regulatory Authority (FSRA) to determine different local investment instruments that insurance and pension funds can invest to meet the 30% local asset requirement.

According to the recent report from Central Bank of Swaziland, consumer inflation for Swaziland in February 2016 accelerated to 7.3 percent, its highest rate in three years, from 5.6 percent recorded the previous month. The effects of persistent drought manifested itself through a significant jump in food prices particularly maize. The price of rice rose by 7.4 percentage points whilst other cereals, which include processed maize products rose by 17 percentage points. As a result, food inflation jumped to double digits, recording 10.5 percent in February 2016 from 6.6 percent the previous month.

Review – SA Capital Markets

After the “Nenegate” event in December last year, the FTSE/JSE All Share Index (ALSI) fell by 6.6%, reaching a low on 21 January. The ALSI, however, rebounded by 14.7% by 22 March off its lows and is now up by 3.9% for the year to date. The first quarter of 2016 brought good news with the mild strengthening of the rand propelling positive gains in the bonds market resulted in the All Bond Index (ALBI) returned 2.63% in March alone. However, the bond yields are still significantly higher than a year ago. Nominal bonds returned 6.6% for the quarter, followed by inflation-linked bonds at 2.2% and cash at 1.7%. Listed property recovered all of its fourth quarter losses and posted a gain of 10.1%.

The rally in the resources sector from a twelve month period return of -30.23% to a current three month period return of 12.67% is attributed to; platinum prices that recovered off its lows of $830 per ounce to $966 per ounce. Copper’s current price is $5 070 per ton from a low of $4 376 per ton. Iron ore price also recovered to $58 per ton after reaching a low in December 2015.

Review – SA Economy

Outlook for inflation going forward is weak, especially due to the fluctuating rand and the anticipated impact of the drought on especially food prices, vindicating the past increases of the repo rate. After the finance minister debacle in December, the rand weakened from R14.88/$ to a whopping R16.84/$ representing a depreciation of 13.2%.

It has since recovered to R15.30/$. However, we forget that it was only a little more than a year ago when it was R11.55/$ (1 January 2015).

Outlook – SA Capital Market

Some confidence has returned to the country which is evident from the strengthening of the rand, as well as the lowering in the inflation risk premium. Ten year South African rand bonds strengthened, without any significant changes to the inflation outlook. The equity risk premium for companies that derive their income from the South African economy also improved, as is evident in the outperformance of the mid-cap and small-cap indices.

Over the next year or two, average inflation is likely to remain above the upper end of the target given the rand's depreciation and increasing food prices. There is also the possibility of a downgrade of South Africa's credit rating to sub-investment grade. Bond investors are well aware of these issues and their fears are more than likely reflected in the current bond prices.

Outlook – SA Economy

The South African economy has been plagued by an enormous amount of negative news and sentiment since Finance Minister Nhlanhla Nene was fired on 9 December. These include fears of investment grade downgrades, lower GDP growth, higher inflation, higher interest rates, an extremely weak rand, and politically driven power plays between current Finance Minister Pravin Gordhan, the Hawks and SARS. This news, however, is widely publicized in the media every day. As a result, it is mostly priced into the market - this is nothing new. If South Africa experience a downgrade in their sovereign debt status, there will definitely be further volatility.

However, there is expectation by the Stats South Africa that consumer price inflation (CPI) will be 7.0% this year. This is 100bps above the Reserve Bank's upper limit of 6.0%.

Global Review – Capital Markets

In the first quarter of 2016, US resilient manufacturing and employment data lifted markets. The Federal Reserve announced, it would likely keep interest rates unchanged and it is currently forecasting 2.2% growth for the US Economy in 2016. The FED's optimism is clearly supported by the performance of both the Dow Jones Industrial and S&P showing three months gains of +1.49% and +0.77% respectively.

In Europe, the ECB indicated that it would put more measures in place to stimulate the weak Euro economy. Meanwhile, in the East, China experienced its largest decline in exports since May 2009 while the Japan Nikkei 225 Average continued its losses of [-11.95% and -12.75%] on a three [3] and twelve [12] month period. Emerging markets (EMs) and commodities had a strong month, similarly benefiting from the softened tone at the US Fed. Key commodities, including Oil and Iron Ore, continued to recover some ground while EM equities saw broad strength. Despite some worrying data released including, the bombings in Belgium and several other countries disrupting the lives of citizens and businesses, the MSCI World Index returned a strong 6.8% in March. These positive gains come after the MSCI World Index averaged a negative return of 5.32% in the twelve [12] months, ended 31 December 2015, on a total return basis in dollar terms.

Global Review – Economy

Global industrial production remains under pressure with emerging market economies at seven-year lows and activity remaining below trend. China first quarter growth in production has been weak and GDP growth is at 25-year lows. Most commodity markets are in surplus with the oil market still requiring supply discipline to balance wavering demand with US stock piles at the highest level since 1930, leading to the oil price hitting 12-year lows in February. Despite setting at 6.5%-7% GDP growth target for 2016, hard landing risks remain for China.

Though there has been a promising start to the year, a more complete set of economic data confirmed that global growth stabilized in 2015 as dynamics worsened in the final quarter of the year. The ongoing slowdown in China's economy, the fall in commodity prices, weak global demand and rising geopolitical threats in some regions took their toll on growth in 2015. Global GDP expanded 2.8% in 2015, which matched the result tallied in the previous year. We have seen similar results in the first quarter of the year 2016.

Global Outlook – Equity Markets

In 2016, global developed market equities have declined 0.9% for the quarter while emerging markets rose by 5.4%, both in dollars terms. Global bonds and property performed well, returning 5.9% and 5.5% respectively.

To date, the global economy seems to have entered into a more stable phase so far following the roller coaster ride at the outset of the year when volatility in the financial and equity markets increased sharply and oil prices hit an over-two-decade low.

In recent weeks, fresh signs that China will avert a sudden slowdown, higher oil prices on expectations that the world's key producers could agree on freezing crude extraction and steady gains in the labour market, particularly in advanced economies, all helped to boost global economic sentiment.

Global Outlook – Economy

China remains a focal point. Loosening of fiscal and monetary policy appears to have improved the outlook for the country in the near term. Although the annual advance in China's industrial production is at its lowest level since the financial crisis, the recent improvement in the country's manufacturing purchasing managers' Indices gives some cause for optimism. Another factor that is playing a decisive role this year is politics.

The possibility of a Brexit, which could mark the first step toward the disintegration of the European bloc, is clouding the outlook for the Eurozone, while elections in many countries, including in the United States, are fostering political uncertainty.

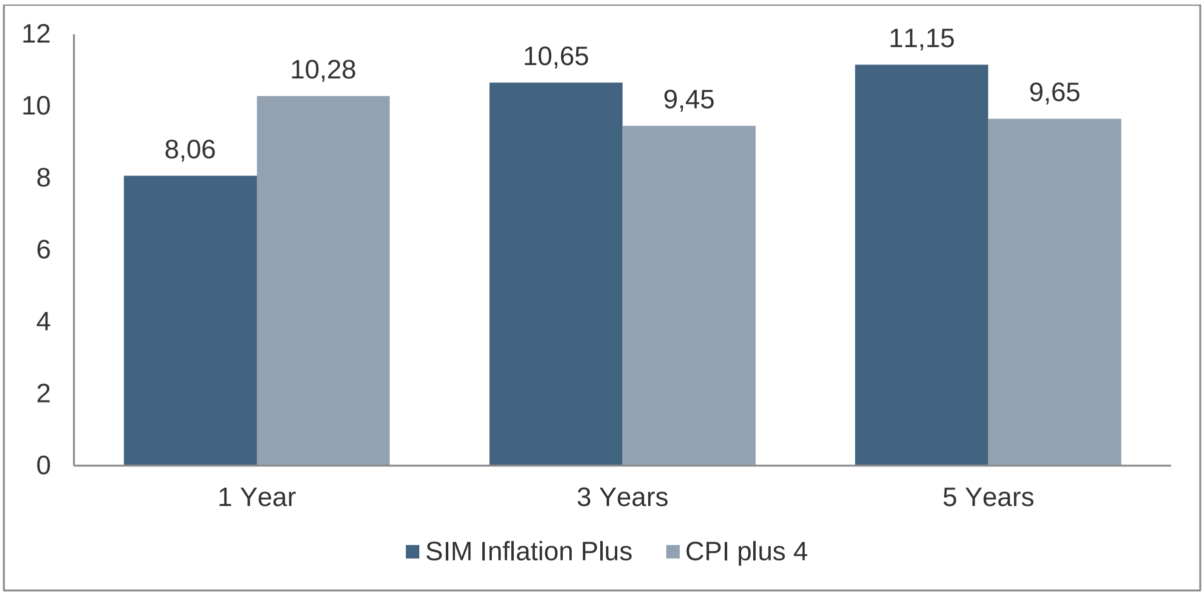
Investment Strategy

Domestic (SA)	Position	Rationale
Local equities	Underweight	We retained our underweight position. Even though SA equities are fairly priced using a bottom-up valuation of the individual companies, we continue to prefer global developed market equities instead. SA equities continue to trade at a substantial premium to other emerging markets on both a price to earnings and a price to book basis.
Local Bonds (SA)	Overweight	In January we increased our overweight position, specifically to SA 10-year bonds. They traded at yields of 9.6%, offering a 3.6% real return relative to the 1.8% average since 1900. There is also the possibility of a downgrade of SA's credit rating to sub-investment grade, but investors' fears are more than likely reflected in the current bond prices. SA bonds are attractive relative to bonds in other developing and developed markets.
Inflation-linked bonds	Overweight	We retained our overweight position, which we implemented in December. Ten-year inflation-linked bonds then traded at real yields of 2.3%. The default risk on inflation-linked bonds is low as the government is in control of the rand printing presses. These bonds have now strengthened to 1.75%, but still trade above our current long-run assumption of fair value, which is 1.5%.
SA listed Property	Neutral	We retained our neutral position in listed property. We prefer international listed property companies, which we believe are cheaper.
International (Global)	**Position**	**Rationale**
Global equities	Overweight	We retained an overweight position. The dividend yield of developed market (DM) equities is 2.8% - higher than the average of the past 30 years. Only in 2008 were dividend yields substantially higher than current levels. We continue to prefer Europe and the UK to the rest of the developed world. European companies trade at a lower price to book valuation and higher dividend yields than most other developed markets.
Global bonds	Underweight	The real yield on offer from DM bonds remains unattractive relative to riskier assets. We retained our underweight position in favour of international listed property.
Global Property	Overweight	We retained our overweight position via listed REITs. Our portfolio currently consists of nine companies that have properties in the USA, Europe and Australasia. The average dividend yield of the portfolio is 5.5%.

Fund Performance

SIM Inflation Plus Fund

This is a multi-asset low equity fund which aims to deliver smooth, positive real returns (adjusted for the effects of inflation) targeting CPI +4% over a rolling 3 year period. Equity exposure is limited to 40%. This actively managed fund is a combination of investments in equity, bonds, money market instruments and listed property both locally and abroad. It can invest 25% offshore. This fund uses derivatives to protect capital.

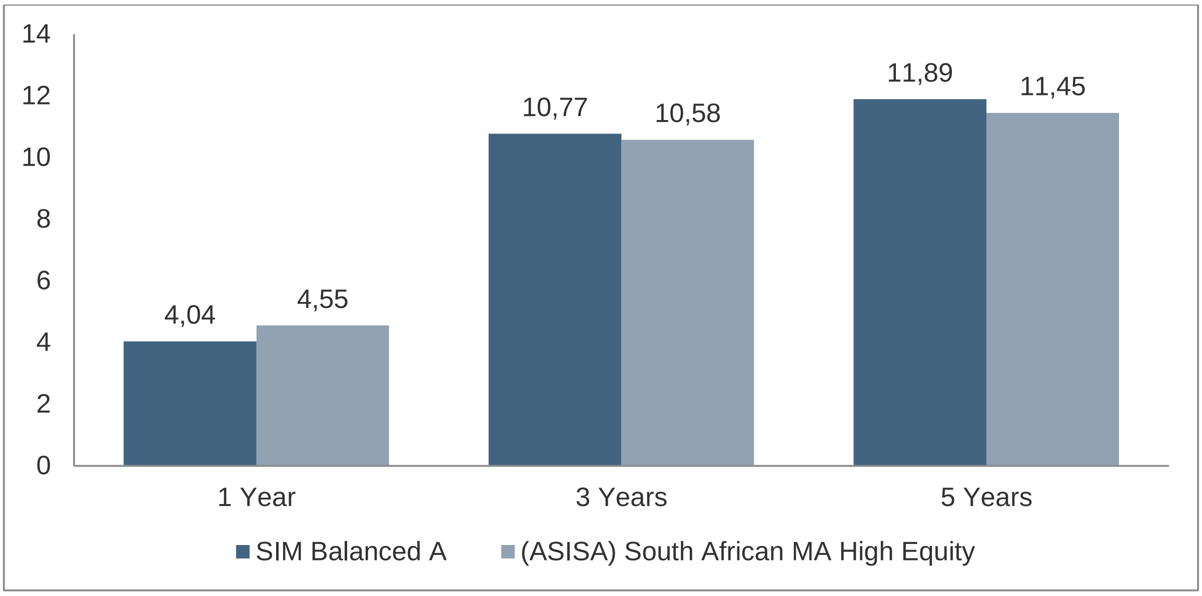


Fund Commentary

During the last quarter of 2015 and first few weeks of 2016 investors got an opportunity to buy attractively priced domestic fixed income and listed property assets. The 10-year government bonds are trading above 9%; with a high long-term inflation assumption of 6% investors will be receiving a real return of at least 3%.Domestic equity is trading at a slight premium to fair value from a bottom-up perspective. Therefore, we are maintaining our slightly more defensive stance via the equity protective overlays. For funds with international exposure, we still prefer international equities to their domestic counterparts. Over the past year we've maintained our international property stock position relative to developed market bonds while we have also retained our overweight European equity position.

SIM Balanced Fund

This is a medium-risk portfolio that aims to deliver income and capital growth over the medium term. This portfolio is designed to minimize volatility and aims to cultivate as smooth a ride as possible. There is some exposure to risky asset classes (such as equities) necessary to grow capital over the medium to long term. This fund holds a large weighting in JSE shares with a maximum equity exposure of 75%. Capital exposure will also include investments in money market instruments, bonds, listed property and up to 25% in offshore assets. The preservation of real capital is of primary importance in achieving this objective.



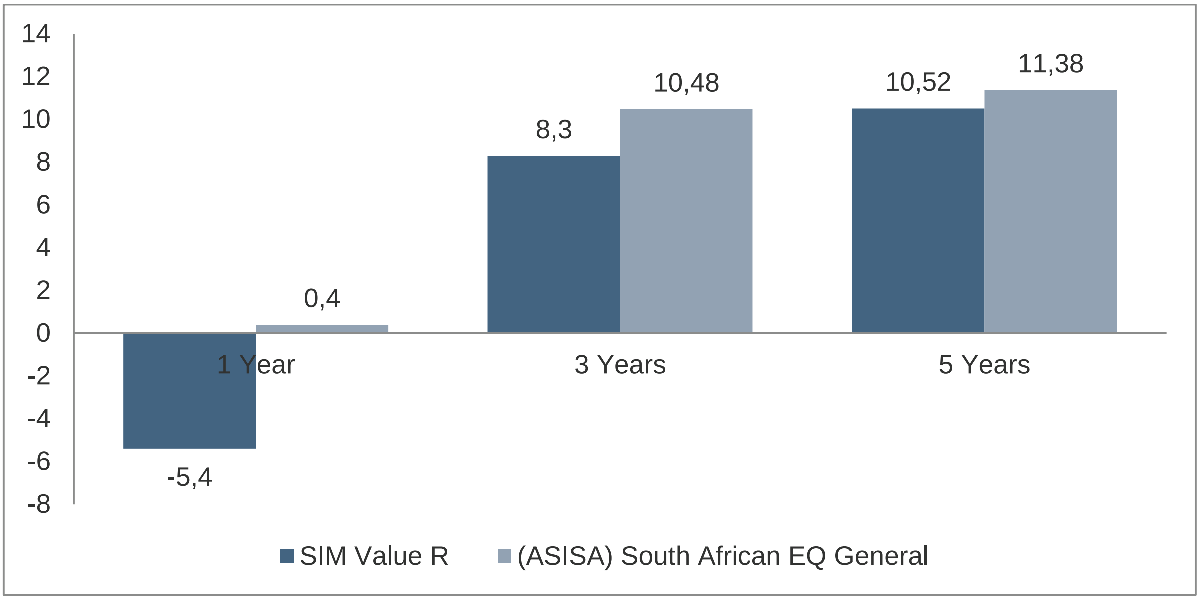
Fund Commentary

Even though South African equities are fairly priced using a bottom-up valuation of the individual companies, we retained our underweight position in local equities. Global developed market equities are preferred and are ahead of SA equities. South African equities continue to trade at a substantial premium to other emerging markets on both a price to earnings and a price to book basis. South African 10-year bonds are trading at yields of 9.6%, thus offering a 3.6% real return assuming inflation is at the upper end of the inflation target band for the next 10 years. We also, believe that the policy of a 3% to 6% inflation target band will be maintained going forward. The SA Reserve Bank's recent rate hikes are to some extent a confirmation of this.

In local listed property, we still retain our neutral holding in listed property. We prefer international listed property companies, which we believe are cheaper. We retained an overweight position in global equities. The dividend yield of developed market equities is at 2.8%. This is higher than the average dividend yield of the past thirty years. Only in 2008 were dividend yields substantially higher than current levels.

SIM Value Fund

This is an aggressively managed pure equity fund diversified across all sectors of the JSE. It offers a reasonable level of current income and the potential for long term outperformance. The portfolio aims to deliver capital growth over the long term (greater than 5 years) also substantially outperform the markets. The portfolio is diversified across all major asset classes with significant exposure to equities, and may include offshore equities. The fund managers only invest in shares which are undervalued and are very aware of downside risks. A maximum of 25% offshore assets may be held. There may be some capital volatility in the short term, although higher returns may be expected from five years or beyond.



Fund Commentary

The first quarter of the year has provided great opportunities for value investors to increase their position due to the recent market volatility. The FTSE/JSE Banks Index fell by 28.5% between 1 November and 11 December last year. With dividend yields approaching 8%, thus creating a fantastic opportunity to add to some of our existing bank positions.

The recovery of in the underlying commodity prices this quarter has also resulted in a strong rally in commodity-related stocks that were hugely oversold towards the end of last year. To name a few, the Brent Crude price bottomed on 21 January at almost $29 per barrel, only to recover to its current levels of $41.79. The platinum price has recovered off its lows of $830 per ounce to $996 per ounce. The copper price reached a low of $4 376 per ton, only to recover to its current levels of $5,070 per ton, while the iron ore price similarly recovered to $58 per ton after reaching a low in December 2015. The recovery in the commodity prices off their lows has resulted in significant moves in the underlying shares. Anglo Platinum's share price has doubled year to date (up 95%), Anglo American is up 67%, and Northam is up 59%, to mention a few.

In addition, some of our other industrial holdings have performed well. This includes companies like Barloworld (up 27% year to date), Steinhoff, our largest holding, is up 23% for the year. Hudaco has recovered and is up 18%. We are witnessing a change in sentiment back towards value. It is evident that the market's focus on value has become more acute, which favours our overall positioning on behalf of our clients. After all, long-term returns are based on the price you pay for a share.