Sanlam

Fund Fact Sheet

Sanlam Namibia General Equity Fund

October 2018

Fund Objective

This is a pure equity fund diversified across all sectors of the JSE. This fund is suitable for investors who can withstand potential capital volatility in the shorter term.

Fund Strategy

This fund aims to outperform the FTSE/JSE All Share Index through active stock selection across all sectors and market capiltalisation on the JSE. The fund may at any time hold a maximum of 25% in offshore assets.

Why choose this fund?

*The fund offers a carefully selected, well diversified basket of shares from any sector on the JSE.
*All shares are subject to rigorous, in-depth research and must adhere to SIM's pragmatic value investment philosophy.
*This is a risky fund and is not for the short-term investor.
*The fund aims to achieve maximum capital growth over the meduim to long-term by investing in companies that are undervalued relative to realistic growth prospects.

Fund Information

Classification	Namibia Equity Domestic General Funds
Risk profile	Moderate aggressive
Benchmark	General Equity Funds Average
Portfolio launch date	1 July 1994
Minimum investment	Lump Sum: N$ 2 000 | Monthly N$ 200
Portfolio size	N$630.4 million
Last two distributions	30 Jun 18: 6.34 cents per unit 31 Dec 17: 4.42 cents per unit
Income decl. dates	30 Jun | 31 Dec
Income price dates	5th working day in January and July
Valuation time of fund	15:00
Trading closing Time	13:00

Fees (Incl. VAT)

	Retail Class (%)
Initial Fee	N/A
Annual Service Fee	1.50

This fund is also available via certain LISPS (Linked Investment Service Providers), which levy their own fees.

Top 10 Holdings

Securities	% of Portfolio
Naspers -N-	18.15
Sasol	6.37
NBS	5.91
BTI Group	5.63
Anglos	4.81
Stanbank	4.79
Old Mutual Limited	4.19
BHP Billiton	3.72
FirstRand / RMBH	3.37
ABSA Group Limited	3.11

Top 10 Holdings as at 30 Sep 2018

Performance (Annualised)

Retail Class	Fund (%)	Benchmark (%)
1 year	(11.53)	(10.38)
3 year	(0.57)	(0.18)
5 year	3.68	4.14
10 year	11.14	11.47

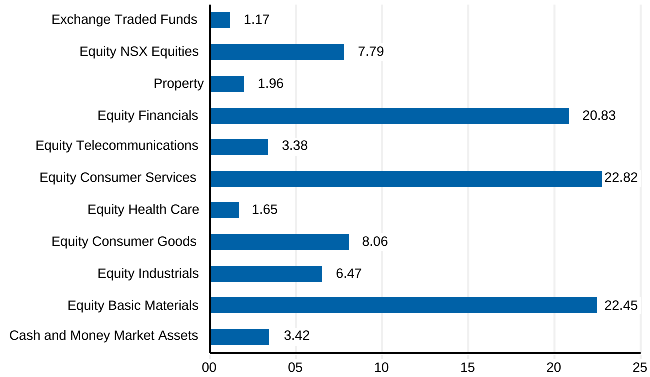
Annualized return is the weighted average compound growth rate over the period measured.

Performance (Cumulative)

Retail Class	Fund (%)	Benchmark (%)
1 year	(11.53)	(10.38)
3 year	(1.69)	(0.54)
5 year	19.82	22.49
10 year	187.44	196.20

Cumulative return is aggregate return of the portfolio for a specified period.

Asset Allocation



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Portfolio Manager(s) Quarterly Comment - 30 Sep 2018

Global Markets

The S&P 500 Index delivered a total return of 7.7% over the last three months, 10.6% year to date and 14.4% since its February lows. Unfortunately, this strength is not shared broadly, with European, Australasian, Far Eastern (EAFE) and emerging markets (EMs) returning (in US Dollar terms) 1.4% and -0.9% for the quarter and -1.0% and -7.4% year to date.

A spate of newsflows from across the globe is currently driving markets. America's trade war against what seems to be the rest of the entire world remains an ongoing concern for investors. This has led to some participants betting that China will increase their current stimulus programme in the coming months. Trump also made another enemy in the Organisation of Petroleum Exporting Countries (OPEC), publicly calling them out to reduce oil prices by increasing supply. At the same time, focus was on the Federal Open Market Committee, which raised rates again - the third this year - and reaffirmed a hawkish outlook going into 2019 and beyond. It would seem as if another hike in December is almost assured.

Additional to this, the laundry list of potential market headwinds is quite long, with the yield curve that is flattening; disruptive mid-term elections; peak margins; increasing corporate leverage; problems in EMs; and a stock market trading at record price-to-sales ratios. Despite this litany of concerns, we think none will cause the transition from market risk to a market problem.

Despite the best efforts by bears, international equities are so far rather resilient. The MSCI World Index is up 5.9% year to date, outperforming bonds by 700 basis points, on a total return basis. The performance, however, is quite US-centric, but it is notable that even accounting for the latest Italy setback, Eurozone equities are also holding up relative to fixed -income this year, with the MSCI Eurozone at 0.7% against bonds at -0.7%. The general market expectation is that there would be further gains into year-end, as the US Dollar is potentially peaking, the US business cycle remains well supported, and there is some stabilisation in EM/Eurozone activity evident. Fundamentally, growth drivers are also far from exhausted. Although the yield curve has flattened, stocks have never peaked before the yield curve inverted. The current yield curve shape is consistent with double-digit S&P 500 returns over the next 12 months.

EM equities have performed poorly in 2018, and at the recent low point were down as much as 20% from January highs. Our best view is that EMs are flattening out as they tend to have a strong inverse correlation to the US Dollar, which could be peaking out.

Prospects for the Rand and other EM currencies have swung as they have moved from being some of the most promising asset classes this year to becoming the worst-performing asset classes in the first half of the year, largely due to tailwinds from the global economy turning into headwinds.

South Africa

After a dismal first-quarter growth print of -2.2%, the second-quarter GDP print was again negative at -0.7%, plunging the economy into a **technical recession**. Domestic demand remains weak, down almost 4%, with some rebound in exports by 14% helping. Companies continue to run down inventories, detracting from GDP.

In the third quarter of 2018 the FTSE/JSE All Share Index (ALSI) posted a Rand total return of -2.17%. The last three months were anything but easy, especially with the quantum of the downward moves of some of the equity prices. It is also extraordinary how intraday volatility has picked up, and the fact that more than 60% of the ALSI constituents saw a more than 5% intraday move during this period. SA Resources and SA Financials outperformed in the third quarter with total returns of 5.2% and 2.8% respectively, while SA Industrials were the drag on the index, shedding 7.8% over the same period. The FTSE/JSE All Bond Index (ALBI) was virtually flat with a total return of 0.8%, while the FTSE/JSE SA Listed Property Index (SAPY) returned -1% over the same period.

Year to date, the ALSI has posted a total return of -3.8% versus the ALBI's 4.8% and -22.2% for the SAPY. SA Resources (+21%) have severely outperformed SA Financials (-6.8%) and Industrials (-11.8%) since January 2018.

South Africa remains on a low growth path. The aftershocks of State Capture and policy uncertainty persist, constraining confidence and investment. Structural economic reforms remain slow in coming, though the finalisation of the Mining Charter before the end of the year marks an important milestone.

South Africa needs growth in order to arrest further fiscal, socio-economic and credit ratings decline. Moody's review of the sovereign's ratings around middle October is unlikely to deliver any surprises (no change to its stable outlook or its Baa3 rating), though we think there is a chance the review could be delayed until after the 24 October medium-term budget.

The economy should drag higher in the second half of the year as we shake off the worst impact of agriculture after good rains and companies re-stocking ahead of the Christmas season. We remain on track for 1.3% economic growth in 2018, which would be a sub-par outcome, but the second-half growth numbers should look more decent, up 3% off a low base. Consumer confidence is holding up after reaching record highs at the beginning of the year, but business confidence remains in the doldrums.

Performance

The ALSI delivered a return of -2.17% during the last three months, which was better than that of the FTSE/JSE Shareholder Weighted Index (SWIX), which realised -3.34%. Your fund managed to outperform the ALSI marginally.

Our overweight position in certain resource stocks drove our performance, especially our overweight position in Anglo American Platinum, which performed well. Given the weaker Rand, the platinum group metals (PGM) basket has improved by 8% quarter-on-quarter and the company should move into a free cash flow positive position following

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its planned restructuring. Sasol (overweight) also performed well, up over 10%, with Brent oil up 7% this quarter in Rand terms. The oil price is at four-year highs with supply concerns augmented by the US threatening to boycott Iranian exports.

On the **Financial side**, the fund benefited from the overweight position in Old Mutual, which unbundled its stake in UK wealth manager Quilter and came back home for a primary listing on the JSE. Old Mutual was up 14% in the quarter, outperforming the ALSI. On the downside, the underweight position in Discovery detracted from performance after the insurer delivered results which beat expectations as their UK business appeared to turn the corner. The stock was up 15% in the quarter but trades at a hefty premium to embedded value.

The **Industrial sector** suffered the sharpest downdraft with some heavyweights being subject to some panic selling. MTN, a stock where we have a marginal overweight position, sold off 17% this quarter with yet another unexpected move by the Nigerian government. The Nigerian Central Bank demanded the return of US$8 billion of dividends which had been paid out over the past decade. The stock was sold off so sharply that the market implied a zero value for the Nigerian business – MTN's most profitable operation. While the government's actions ahead of forthcoming elections remain unpredictable, our estimate is that the risk is now more than discounted in the share price and that a lengthy legal battle is likely to mean that some level of sanity will prevail.

Conclusion

In South Africa, the sentiment pendulum has swung from optimism, with the new political administration driving business and consumer confidence higher, to disappointment about the latest macro-economic drivers (GDP), which has dampened expectations of a solid economic recovery. Either way, economic mood swings tend to be exaggerated. Also, the expectation that President Ramaphosa will, in one fell swoop, reverse years of neglect and maladministration is unrealistic.

The JSE trades on a forward P/E of just around 13x, which, relative to its long-term history, is not expensive.

Portfolio Manager(s)

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BCom (Hons)

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