Sanlam Investments

newsletter

Swaziland
2nd quarter 2015

CEO's corner

SIM Swaziland – farewell Johan van Zyl

In this edition of our quarterly newsletter I dedicate the CEO's corner to the outgoing Group CEO, Mr. Johan van Zyl. His vision, his leadership, his mentorship, his policies, his presence has left an indelible mark not only on Sanlam but the financial industry globally. We salute him. In tribute I simply repeat in my corner his farewell message. May he have a blessed future having been a blessing to Sanlam, his industry and his nation.

Looking back

Colleagues

"Following our announcement earlier this month that I will be retiring from the Group today [30 June 2015] and that Ian Kirk will take up the position as Group Chief Executive as from the 1st of July, I thought it would be fitting to reflect on the 12 years I have spent with you.

I have been very fortunate to head the Sanlam Group since 2003 – fortunate with regard to the opportunities that came our way, fortunate with regard to the support I received to explore those opportunities and fortunate to work with great and passionate people. The past 12years were marked by exciting industry challenges, demanding financial and economic conditions and thrilling technological innovations – all offering new opportunities that we could explore and turn into satisfying achievements for the Group.

There have been many such achievements in Sanlam since 2003 and a number of highlights come to mind. Those of you who were here in 2003 will remember the mumbling and grumbling when we kicked off with the restructuring and streamlining of a back-to-basics-focused Sanlam. In subsequent years we had the satisfaction of successful corporate transactions that include the selling of our Absa stake to Barclays, our trendsetting BBBEE transaction with Ubuntu- Botho and the establishment and build out of Sanlam Sky Solutions, Sanlam Emerging Markets, Sanlam Investments and Santam through strategic acquisitions elsewhere in Africa and the world. I will remember these and other successful corporate actions were the result of us seizing opportunities through our steadfast implementation of our five-pillar strategy.

Through this we managed to transform Sanlam from a South African based insurance company to a sought-after international diversified financial services group that delivers on its promises and constantly provides stakeholder value. But if I were to be asked to name the single personal highlight in my years as Group Executive of Sanlam, I would without hesitation respond its people.

In a business like ours, it is the people that give you the edge. You can only win if you have good people – and I have worked with great people. For twelve years I was backed by people with exceptional ability, loyalty unequalled commitment and diligence. It was truly a great team and team effort brought us success.

And the results of your efforts are the Sanlam of today. A big thank you to all for making it happen. You are truly Wealthsmiths.

While I will still be around till the end of the year working on special projects, Ian Kirk will now have the enviable pleasure of leading a great company with great people as from tomorrow. I will certainly be following your progress keenly.

Most of us get opportunities along our way but there are only a few who really manage to seize them and turn into success. Be sure you are one of the few.

Best wishes

Johan

Market and Economic Commentary

Swaziland Q2 2015

The Governor of the Central Bank of Swaziland presented his annual monetary policy statement during the quarter. The Governor, Mr. Majozi Sithole, stated that preliminary forecasts for real GDP growth indicate that the economy grew by 2.5 percent in 2014 which is lower than the revised estimate of 3.0 percent in 2013.

He went on to highlight that consumer inflation increased slightly to 4.9 percent in April 2015 from 4.7 percent in March 2015. In response to inflationary pressure, the discount and prime rates increased by 25 basis points to reach 5.5 percent and 9.0 percent respectively in May 2015. The Governor noted that private sector credit depicted a sluggish growth of 0.7 percent (m/m) to E4.6 billion at the end of April 2015. Broad money supply (M2) increased by 6.4 percent (m/m) to close at E11.7 billion in April 2015. Reserves stood at E8.1 billion at the end of May 2015, reflecting a decline of 6.2 percent (m/m) from April 2015.

The Central Bank reported that at the end of May 2015 total public debt amounted to E6.70 billion, an equivalent of 16.8 percent of GDP, from 16.7 percent of GDP in April 2015.

Overall balance of payments for the quarter ending December 2014 reflects an overall surplus of E713. 1 million, from a deficit of E380 million in the previous quarter.

South African Review

The FTSE/JSE All Share Index (ALSI) once again reached a new record high on 24 April 2015, touching 55188 points. In April alone we saw the ALSI edge higher by 4.7% for the month.

This was, however, short-lived as markets around the world declined, as attention remained focused on unfolding events in Eurozone where the risk of Greece exiting the European Monetary Union increased uncertainly. It was ultimately the Greek woes, along with growth concerns in China, which resulted in the SA market (ALSI) ending over 6% down from its April peak and flat for the quarter.

The best performing sectors during the quarter were Support Services (+11.7%), General Financials (+11.5%) and Mobile Telecoms (+11%). The worst performing sectors were Gold Miners (-16.8%) and Industrial Metals (-13.7%).

Real GDP growth slowed to 1.3% annualised in Q1 2015 (constrained by a 2.4% outright decline in manufacturing) from a robust advance of 4.1% in Q4 2014 (when production lifted following the end of labour disputes). By and large weak productivity, including labour productivity, continues to constrain South Africa's potential growth rate.

Outlook South Africa

The market has shrugged off large earnings downgrades in resources shares and we have seen huge foreign flows into financial stocks, which have led to further multiple expansion. This is entirely disconnected from a somber economic backdrop where S&P downgraded Eskom's debt to junk bond status and South African economic growth forecast is an uninspiring 2% for this year.

On a 17x price to earnings ratio the SA market is not cheap, relative to both its own history and that of other global equity markets. We still believe that there are a handful of stocks which are contributing to the overvaluation of the market, including Naspers, SABMiller, Aspen and British American Tobacco. The resources sector has delivered very poor returns over the last decade and offers some interesting opportunities with both commodity and share prices approaching levels last seen in the 2009 Global Financial crisis.

Overall, real GDP growth is expected to average 2% in 2015 and little more in 2016 with supply constraints, including the risk of electricity outages and labour disputes, posing downside risk. The marked depreciation of the rand since 2010 is partially explained by the collapse in export commodity prices and South Africa's weak productivity performance. But, on a purchasing power parity basis the rand appears undervalued against the US dollar. The risk, however, is that the currency remains weak, while inflation increases over time.

Global Review

Globally, markets continue to break records with the NASDAQ above its bubble peak and the Nikkei at 18-year highs. However, Investors' faith in the ability of governments to engineer a soft landing for global financial markets was shaken this quarter with Europe and China experiencing acute volatility. The risk, however, is that the currency remains weak, while inflation increases over time.

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For the quarter, the Nasdaq and Nikkei 225 Average were up 3.67% and 5.36% respectively while markets that posted negative gains include the S & P 500 (-0.23%), FTSE 100 (-3.72%) and the Dow Jones Industrial (-0.88%)

Available data suggests global real GDP growth has lifted in Q2 2015, following the decidedly soft outcome recorded in Q1 2015, but this partly reflects an improvement from a weak base. Indeed, the global all-industry Purchasing Manager Index (PMI) suggests the global economy is expanding at a moderate pace only.

Specifically, the manufacturing output PMI softened significantly in Q2 2015 and is consistent with low single digit global industrial production growth. Among developed economies, recovery in Europe has continued, but at a subdued pace. Eurozone GDP advanced by some 1.5% annualised in Q1 2015, similar to the outcome for Q4 2014.

At least Europe's all-industry PMI suggests momentum in economic activity is firming a bit - in keeping with available retail sales and industrial production data.

Global Outlook

Overall, the outlook for global real economic activity remains modest as the pattern of alternating weaker and firmer quarters of growth around a moderate mean continues to repeat itself. Meanwhile, although core inflation, notably in developed countries, remains low and stable, headline inflation is likely to lift in the second half of 2015 - as the impact of lower oil prices fades from the data.

But, although concerns around deflation have eased in Europe, the ECB continues to signal it intends maintaining its current extraordinarily accommodative monetary policy stance for an extended period.

In contrast to the ECB (and the Bank of Japan), the US Federal Reserve appears intent on hiking its policy rate at some point -probably before year-end 2015. In its June 2015 FOMC statement the US Federal Open Market Committee stated:

“The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labour market and is reasonably confident that inflation will move back to its 2% objective over the medium term”.

Essentially, against the backdrop of a persistent decline in the US unemployment rate, the US Federal Reserve is adopting a forward-looking stance, although it can be expected to proceed cautiously.

Investment Strategy

Second quarter 2015

Domestic (SA)	Position	Rationale
Local equities	Underweight	We retained our underweight position in SA equities and continue to prefer international developed market equities. The JSE trades on a 2.7 price to book ratio, compared to other emerging markets' price to book of 1.5 and developed markets' 2.3, on average. The JSE trades on a current price to earnings ratio of 16.3, and 14.9 one year forward.
Local Bonds	Overweight	We increased our overweight position in SA long bonds in mid-March. Ten-year bond yields had weakened to 7.85% at that stage even though SA inflation appeared well contained. Since then 10-year bond yields have weakened further to 8.25%. Currently offering real returns of approximately 3%, SA bonds remain attractive, even though US Treasury yields have weakened somewhat. Furthermore, the rand continues to trade at very weak levels on a purchasing power parity basis. An appreciation of the rand should be positive for SA bonds as it would result in lower short-term inflation. as it would result in lower short-term inflation.
Inflation-linked bonds	Neutral	Ten-year inflation-linked bonds offer about 1.7%, which is close to our long-run required return from this assets class. We retained our neutral position.
SA listed Property	Neutral	We retained our neutral holding in listed property. We prefer international listed property companies, which are cheaper on similar dividend yields.

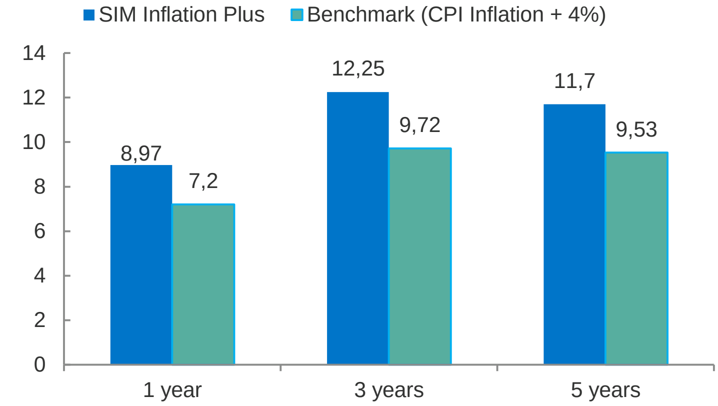
International (Global)	Position	Rationale
Global equities	Overweight	We retained our overweight position here. The real prospective yields on offer from developed equity markets remain attractive relative to their sovereign bonds. We continue to prefer cheaper Europe and UK to the rest of the developed world. Also, earnings remain suppressed, but if they recover to their pre-crisis levels, European equity markets would be very cheap on a P/E basis.
Global bonds	Underweight	Even though global bonds have weakened, the real yield on offer remains unattractive. We retained our underweight position in developed market bonds in favour of international listed property.
Global Property	Overweight	We retained our overweight position in international property via listed REITs. Our portfolio currently consists of nine companies that have properties in the US, Europe and Australasia. The average dividend yield of the portfolio is 5%.

Fund performance

Second quarter 2015

The SIM Inflation Plus

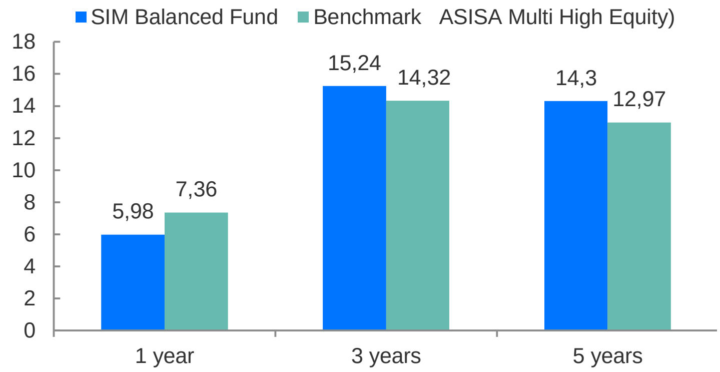
This is a multi-asset medium equity fund which aims to deliver smooth, positive real returns (adjusted for the effects of inflation) targeting CPI +4% over a rolling 3 year period. Equity exposure is limited to 60%.This actively managed fund is a combination of investments in equity, bonds, money market instruments and listed property both locally and abroad. It invests 25% offshore and uses derivatives to protect capital. The fund has performed well compared to its benchmark (CPI +4%).



Source: ASISA | Annualised (%) – June 2015

The SIM Balanced Fund

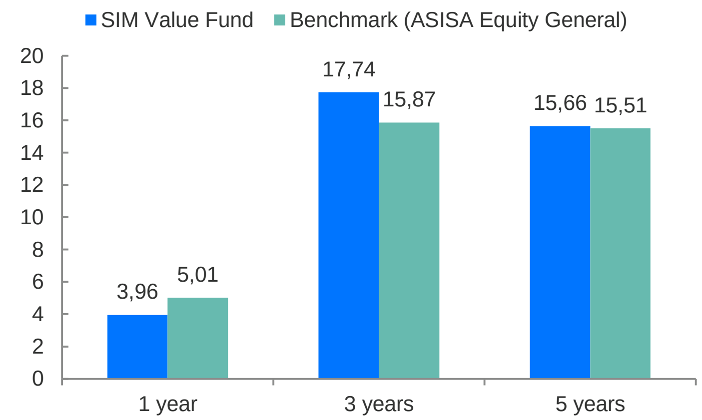
The Balanced Fund holds a variety of instruments and will primarily be equity centric, seeking long term capital growth. Currently the manager has a strong preference for offshore assets and has an exposure of 25%. The Balanced Fund performs very well compared to the category average and produces handsome risk adjusted returns. The Balanced Fund generated competitive returns and has beaten its benchmark over the longer term.



Source: ASISA | Annualised (%) – June 2015

The SIM Value Fund

This is a 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 fund managers only invests in shares which are undervalued and are very aware of downside risks. A maximum of 25% offshore assets may be held. This fund may invest in any listed share, but focuses on financially sound companies which offer exceptional value. These include shares with a low price to earnings ratio; shares trading at a discount to their net asset value and shares whose price does not yet reflect future earnings potential. The fund is suitable for clients seeking long term capital growth and an unconstrained investment style.



Saving for your children's education or retirement.

Which one comes first?

In today's economic climate, families often find themselves between a rock and a hard place when making decisions about saving for the future. What should you save for first? Your children's education and then retirement? Or vice versa? In the view of Danielle van Heerde, head of advice processes at Sanlam Personal Finance, one financial priority should always take precedence – saving for retirement. "Many people delay starting to save for retirement, believing it is more important to put away money for their children's education first.

They think they will be able to catch up on retirement savings later, once their children have started working. Some people even believe that, with a good education, their children will be able to look after them in their old age," Van Heerde says.

But in her view, retirement comes first – and here's why:

You can't borrow for retirement. You can however, borrow for your children's education, normally at very good rates. There are also other options available, including bursaries. Encouraging your kids to take a gap year to earn some money and experience the world of work before they start their studies may also be a good idea. This will also give them a better idea of the career direction they wish to pursue.

Your children are not your retirement fund. "We are already the 'sandwich generation'. Many people are providing financially not only for their children, but also for their parents, who did not save adequately for their own retirement. And you will in all likelihood live longer than your parents will. Do you really want to place such a heavy financial burden on your children, who will have their own families to look after?" asks Van Heerde.

You need to let compounding perform its magic. Compounding has been called the eighth wonder of the world. The earlier you start saving for retirement, the more your money will grow exponentially until the day you retire. putting money away in your 40s."

People are having children later in life. If you start your family in your late 30s, your children will probably be taking their first steps into the world of work at a time when you want to retire. It will place a huge burden on them to have to look after you when they may themselves not be earning very much yet.

You need to set an example to your children. It is crucial that your children start saving for their own retirement from the day they receive their first pay check. The best way for them to learn this important lesson is by following your example. If you have not made retirement savings a priority, be open about your mistakes and explain what you should have done and why.

"Saving for the future means making choices and creating a balance between competing financial demands," says Van Heerde. "Retirement savings always come first, and if you have money to spare after this, you can put some away for your children's education.

Out and about

No: 43 KwaMagogo Event

This is an annual historic and business event that has gained popularity over the years. The event brings together high profile individuals and politicians from South Africa and Swaziland to celebrate the life of Magogo Masilela and the critical role the Kingdom played towards the South African liberation struggle. The highlight of the event was the business breakfast in which captains of industry from both Swaziland and South Africa convened to discuss economic and development issues related to the region and beyond. The key note speaker at this year's event was the Governor of the South African Reserve Bank

Left: SIM Swaziland, Managing Director: Asset Management Mr. Muzi Dlamini at the Business Breakfast Roundtable.

Mr. Elias Masilela listening to speeches.

Reserve Bank of South Africa Governor: Mr. Lesetja Kganyago.

Hhohho Business Community Dinner - Kings Birthday Dinner

This is an event in which the business community sponsor and host a ceremonial dinner for His Majesty, the King in celebration of his birthday. This ye ar, the Hhohho Region Business Community had a chance to host this important event in celebration of His Majesty King Mswati's 47th Birthday. The event was an astounding success. SIM Swaziland were co-sponsors of the event and SIM Swaziland management attended the dinner held at Buhleni Royal Residence.

Left: His Majesty King Mswati 111 and Her Majesty the Indlovukati cut the cake

A section of the invited guests