newsletter

Sanlam Investments

newsletter

Swaziland
3rd quarter 2015

CEO's corner

Congratulations Robert Roux: Sanlam Investments new CEO

Taking over as Sanlam Investments CEO, is Robert Roux who previously held the position of Chief Operations Officer at Sanlam Investments. We congratulate Robert and have no doubt that he will take Sanlam Investments to new heights. I have been reporting directly to Robert Chief Operations Officer at Sanlam Investments and wish my boss the best of luck as he moves from success to success.

Please see below the announcement from Group CEO Ian Kirk announcing his appointment sent out on 16 October 2015.

Colleagues

Today we announce a change at the Group Executive Committee.

Johan van der Merwe, Chief Executive Officer of Sanlam Investments (SI), will step down and be succeeded by Robert Roux, who is currently Chief Operating Officer at SI.
Johan has made a significant contribution to the Group's success over the past 13 and a half years. Since his appointment in June 2002 he has led the investment business through a major turnaround. At the start of Johan's tenure, Sanlam Investments was a single asset management business. Today the cluster is multi-faceted and can be credited with providing leading solutions, locally and offshore, across a broad spectrum comprising alternative investments, multi-management, passive funds, capital management, wealth management and employee benefits, with the latter being part of the SI

business since 2008.

In recent years Johan spearheaded a client-centricity drive across Sanlam's investment-related business. This created an all-important focus on client needs, particularly in the context of greater consumer activism and increased regulatory pressure across the industry.

Now Johan hands over the leadership baton to Robert, who is no stranger to the Group having joined in 1992 as a graduate and having been COO of SI since 2005. Robert has worked directly alongside Johan and participated in key strategic issues and decision making. He has filled a number of different roles during this period, including CEO of Employee Benefits and CEO of our international investment businesses. It is with great pleasure that we welcome Robert to the role of Chief Executive Officer: SI. We wish him well and look forward to the valuable contribution he will be making.

Whilst these changes are effective from 1 November, Johan has kindly agreed to stay on till 31 January 2016 to ensure a seamless handover to Robert. Thereafter, the relationship with Johan will be an on-going one as he will remain on the Sanlam Investments Board as a non-executive director and he will also continue to serve on a number of other subsidiary boards in a non-executive capacity. I would like to extend thanks and appreciation to Johan for his major contribution to Sanlam Investments and I am very pleased that his relationship with Sanlam will continue.

Group Interim Results:

30 June 2015: New Business R100 billion.

30 June 2015: Net value of new covered business increased by 5%

30 June 2015: Normalised headline earnings per share up 4%

WARREN BUFFETT: Can you be as frugal?

Warren Buffett, repeatedly ranked among the world's richest men, lives a lifestyle that hasn't changed much since before he made his billions. He is often referred to as the world's greatest investor, and his long-term track record suggests the title is well deserved.

He is also legendarily frugal, residing in the same house in Omaha, Nebraska, that he bought in 1958 for $31,500 [approximately E425 000.00]. He is well known for his simple tastes, including McDonald's hamburgers and cherry Coke, and his disdain for technology, including computers and luxury cars. Underlying his legend is one simple fact: Buffett is a value investor. It's the hallmark trait of both his professional and personal success.
Warren Buffett has a clear strategy for making money. He often says, "The first rule of investing is don't lose money; the second rule is don't forget Rule No. 1." It's a strategy he employs in his personal life as well as in his profession. It begins by living far below his means.

Despite a net worth measured in billions, Warren Buffett earns a base salary of $100,000 [approximately E1, 3million] a year at Berkshire Hathaway. It's a salary that has not changed in 25 years. A man of simple tastes, including watching sports on television and eating junk food, Buffett easily supports his modest standard of living with this salary.

In keeping with his views, Buffett is not an accumulator of toys or other trappings of wealth. He views the maintenance and expense associated with these things as a burden. It's a view that he extends to cellular telephones and computers, too.

As a value investor, Buffett is always looking for a bargain. Even his wedding was a simple affair rather than a celebrity-studded gala. A man who could have chosen any venue in the world got married in 2006 in Omaha at a private ceremony held at his daughter's house. The ceremony lasted just 15 minutes.

Warren Buffett loves his job. He often says that nothing is more fun than running Berkshire, so he doesn't spend a lot of money on relaxation, travel and other ways to forget the misery of his day job. He had the ambition to start his own company rather than complain about the one he works for, so he took the necessary steps to put himself in a position where he would be happy. [Source: Investopedia].

Market and Economic Commentary

Swaziland

According to provisional estimates released by the Central Statistics Office (in September 2015) reflect that the economy slowed from 2.9 percent in 2013 to 2.4 percent in 2014. The decrease in GDP growth mainly resulted from poor performance in the primary sector and loss of momentum in the tertiary sector.

The Central Bank report for the period ended August 2015 states that consumer inflation was steady at 4.8 percent in August 2015 compared to 4.9 percent in July 2015. The slight drop was attributed to slower growth in the price indices for housing utilities and healthcare.

In terms of monetary policy and money supply, the discount and prime rates stood at 5.75 percent and 9.25 percent respectively in August 2015. Private Sector credit reflected a marginal increase of 0.1 percent (m/m) to settle at E11.3 billion in July 2015 with broad money supply (M2) improving slightly by 0.8 percent (m/m) to reach E11.8 billion in July 2015.

On the fiscal side, the Central Bank reports that gross official reserves stood at E8.2 billion reflecting a contraction of 4.2 percent (m/m) in August 2015. Total public debt at the end of August 2015 was recorded at E6.86 billion, indicating a marginal increase of 0.55 percent from E6.82 billion recorded in July 2015. Overall balance of payments for the first quarter of 2015 reflects an overall surplus of E82.8 million from a wider surplus of E713.1 million in the previous quarter.

Within the capital markets, commercial banks still dominate participation in the treasury bill and bond market followed by non-banked financial services, accounting for 51.2 and 34.6 percent respectively. During the quarter, the Central Bank, on behalf of the Government of Swaziland issued an amount of E150 million for a 7 year bond. The coupon rate for this bond has been set at prime minus 50 basis points.

South Africa Review

If you were a Resource Bull during the quarter you may have experienced a roller coaster ride filled with emotional ups and downs, but mostly downs. Off an already low base at the outset of the quarter one certainly would not have expected to see the Resource sector shed a further 18% during the quarter. As a whole the SA stock market went through a highly volatile quarter earmarked by extreme movements across all sectors. Let us illustrate by means of an example. If you had invested R100 in Lonmin and R100 in SAB at the beginning of the quarter, your investment in Lonmin would have been worth R17 and your investment in SAB R124 at the end of the quarter. Although this is an extreme example, there are quite a few more examples we could use to prove the point.

Overall, Mr Market managed to take back from his investors and the FTSE/JSE All Share Index ended the quarter down by 2.1%. The rand continued to come under pressure and depreciated by a further 12.1% against the dollar, hitting fresh lows. It was once again the rand hedge stocks that outperformed the overall market, led by Beverages (+25%), Tobacco (+17.4%) and Household Goods (+10.3%).

On the economic front, it is untenable that South Africa can continue to run a large current account deficit against the current global backdrop where global financial market conditions have been tightening and liquidity has waned. Indeed, the decline in the current account deficit to 3.1% of GDP in 2Q15, from 4.8% in 1Q15 (more than 6% a year ago), is not surprising. Export volumes have been improving relative to import volumes and the trade account has recorded a marked improvement over the past year, even though a deficit of R9.9 billion was recorded in August 2015. The flipside of the improvement in the deficit is a marked decline in net foreign capital inflows.

South Africa Outlook

With headline inflation close to the middle of its inflation target range the Reserve Bank opted to leave its policy interest rate unchanged at 6.0% per annum at the conclusion of its Monetary Policy Committee meeting in September 2015. Still, the Bank remains wary as regards the long-term inflation outlook against a backdrop of expected high electricity price increases, currency weakness and sticky inflation expectations. Accordingly, the Bank's informal forward "guidance" suggests additional interest rate hikes are likely stating that "the MPC remains on a gradual policy normalization path "Government's track record with regards to its expenditure targets has improved in recent years and fiscal risk appears to have diminished for the time being. Even so, persistent weak growth implies taxes are likely to be raised next year, adding to downward pressure on the economy. Fiscal risk could escalate over the medium term if growth does not accelerate or if government support for state-owned enterprises is not deficit neutral.

South African economic growth remains subdued and the Reserve Bank has revised its growth and inflation projections downwards. GDP was revised to 1.5% (from 2%) in 2015; 1.6% (from 2.1%) in 2016 and 2.1% (from 2.6%) in 2017 and inflation was marked down to 4.7% in 2015 (from 5%). We expect commodity stocks and stocks that are linked to the commodity sector to continue to face headwinds going into the last quarter of the year, but the dispersion between these stocks and the expensive industrial stocks are at extremes and due care need to be taken in allocating capital.

Global Review

Further afield, the much expected increase in US policy rates by the FED did not materialize during the quarter as renewed fears around slower global growth dominated news flow. It was, however, China that dominated most of the news headlines during the quarter and it was probably the main contributor to global volatility. On July 6 the Chinese regulators suspended IPOs (initial public offerings) in an attempt to stabilize the falling Chinese stock market, on August 11 the People's Bank of China (PBoC) devalued the yuan reference rate by 1.86% and on August 25 the PBoC announced a further 25 basis point rate cut, taking the one-year benchmark deposit rate to 1.75% and the one-year lending rate to 4.6%. Internationally, the

Global equities experienced their worst quarter in four years, down close to 10% with the MSCI World Index losing 3.6% on a total return basis in US dollars, while the MSCI Emerging Markets Index declined by 3.0%. Disappointing global growth, falling commodity prices, extreme market whiplash and a weakening currencies all contributed to a sharp pull-back with emerging markets seeing half a trillion dollars in capital flee out – the first net outflow from emerging economics since the 1980s.

Global real economic activity disappointed in 1H15, led by weaker than expected growth among developing economies. There is little to suggest a sustained acceleration in growth is imminent. Indeed, risks appear skewed to the downside. Growth, generally, in developing economies has weakened due to poorer productivity outcomes, collapsed commodity prices (for some), a weaker profits environment and a debt overhang, including in China. A combination of slowing economic growth and tighter global financial market conditions implies vulnerability for numerous developing economies, notably those running macroeconomic imbalances.

Global Outlook

Globally, equities have pulled back from their peak of the past year, none more dramatic than the 40% pull-back in the Chinese market from its peak. In general, equity markets have experienced the highest level of volatility since the Lehman Brothers collapse seven years ago. In the US, the Federal Open Market Committee (FOMC) kept rates on hold at its September meeting, despite speculation that the Fed would start raising rates from its record lows. Although Janet Yellen's September statement had a surprisingly dovish tone to it, 13 of the 17 FOMC members were still expecting a rate hike during this year.

We believe that the gradual recovery in global economies, together with a more normalised interest rate environment, will lead to more rational capital allocation and that this will support our value approach to investments and our current portfolio positioning's.

Investment Strategy

3rd quarter 2015

Domestic (SA)	Position	Rationale
Local equities	Underweight	We retained our underweight position. The SA equity market trades on a current price to earnings (P/E) ratio of 15.5. The 12-month forward P/E ratio is approximately 14 using the consensus 12-month earnings forecast. Since 2008 the one-year forward consensus earnings forecast has always been at least 10% higher than the actual realized earnings. We believe a fair market P/E ratio for the JSE is in the region of 12 to 13.
Local Bonds (SA)	Overweight	We retained our overweight position. Ten-year bonds weakened to 8.5% during the quarter. Inflation remains contained within the inflation target and the real returns of approximately 3.0% on offer are attractive relative to other asset classes. 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.
Inflation-linked bonds	Neutral	Ten-year inflation-linked bonds offer about 1.8% in real terms, which is close to our long-run required return from this asset 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 we believe are cheaper and are on higher dividend yields

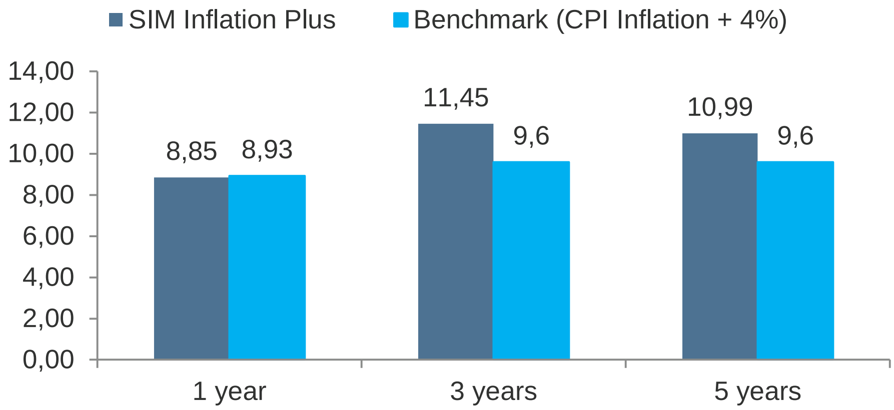
International (Global)	Position	Rationale
Global equities	Overweight	We retained our overweight position. We continue to prefer Europe and the UK to the rest of the developed world. Even though Europe and the UK trade on similar valuations to the USA on current earnings, earnings have not yet recovered to pre-2007/8 levels. This is mainly due to operating profit margins that remain suppressed. If earnings do recover to their pre-crisis levels, these markets would be cheap on a P/E basis relative to other developed markets.
Global bonds	Underweight	The real yield on offer from developed market bonds remains unattractive relative to more risky assets. We retained our underweight position in favour of international listed property. We implemented a currency hedging structure in applicable portfolios to benefit if the rand appreciates.
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 6%.

Fund Performance

3rd quarter 2015

SIM Swaziland Inflation Plus

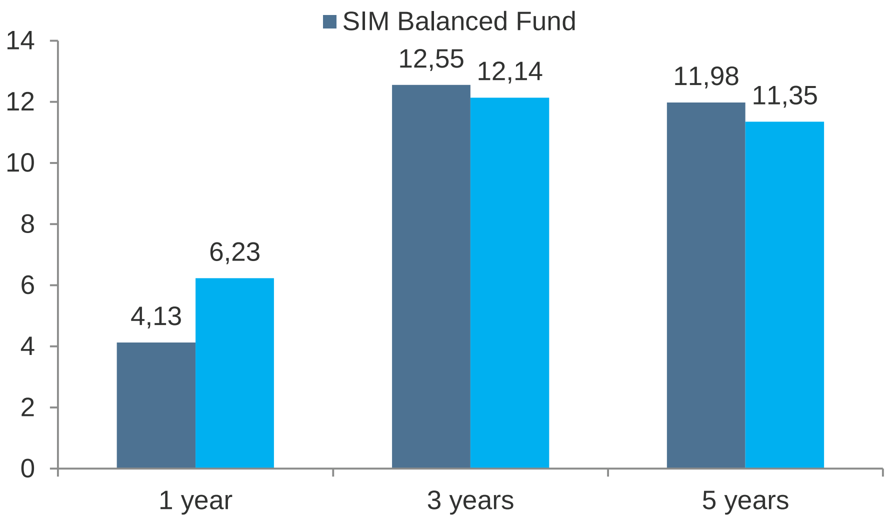
This is a multi-asset medium equity fund which aims to deliver smooth, positive real returns (adjusted for the effects of inflation) targeting CPI +4% over a rolling 3 year period. Equity exposure is limited to 60%.This actively managed fund is a combination of investments in equity, bonds, money market 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%).



Annualised (%) – September 2015

SIM Swaziland 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.

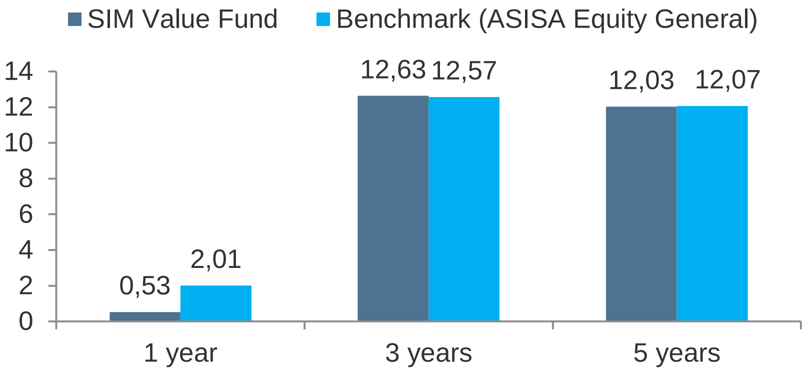


Annualised (%) – September 2015

SIM Swaziland 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.

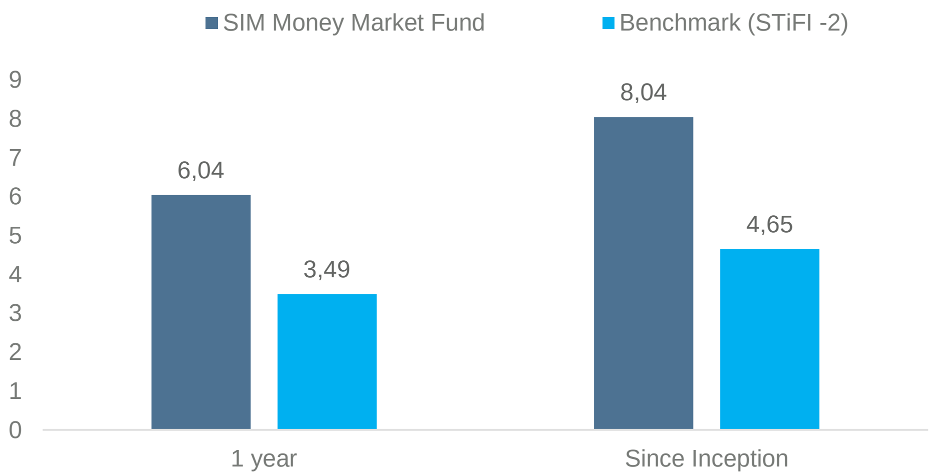


Annualised (%) – September 2015

SIM Swaziland Money Market Fund

The SIM Swaziland Money Market Fund seeks to maximise interest income whilst ensuring capital preservation, always allowing a fair level of liquidity. Conservative (low risk) and suitable for investors looking for an ideal cash investment, capital preservation and a fair amount of liquidity.

The Fund invests in a range of short term money market products available exclusively in Swaziland. Fixed deposit investments are made in the major Swaziland banks, combined with investments in Swaziland Government Treasury bills and other suitable short term instruments, The Fund is suitable for clients seeking to invest in pure Swazi assets in order to be able to comply with the local content requirement of 30% imposed on retirement funds and other institutional investors.



Annualised (%) – August 2015

Sanlam Institutional Investor Conference 2015

The annual Sanlam Institutional Investor Conference took place at Hyde Park in Johannesburg on the 3rd of September 2015. This annual event is aimed at bringing different stakeholders within investments to discuss and find solutions to issues that affect Asset Managers, Pension and Retirement Funds and other stakeholders. The Institutional Insights Conference unpacked critical factors for success, the impact of demographic and economic shifts, and challenges faces by custodians of retirement and pension funds.

This year's line-up of speakers consisted of renowned international speakers who shared their perspectives and insights on local and global trends affecting members' retirement outcomes.

The line –up of speakers included amongst other:

Dr. Philippa Malmgren

Dr Philippa Malmgren is a strategist who helps companies, investors, public audiences and policymakers better understand how risk and prices will move across the economic landscape. She brings together insights about markets, politics, policy and geopolitics that signal important and investable trends. She was an economic advisor to US President George Bush in the White House and a member of the National Economic Council. She was deputy head of Global Strategy at UBS and the chief currency strategist for Bankers Trust. She headed the Global Investment Management business for Bankers Trust in Asia. She sits on boards at MIT, Indiana University and the Ditchley Foundation.

Bart Heenk

As Managing Director of Avida International, Bart Heenk heads up Avida International in the UK. Avida International helps pension funds streamline their investment management governance and extract maximum value out of supplier relationships in order to achieve the financial goals of their stakeholders. Typical themes are organisational change and outsourcing strategies for complex investment and risk management activities.

Dr. Amlan Roy

Dr Roy is Head of Global Demographics and Pensions Research in the Investment Banking Division of Credit Suisse, based in London. He is also a Senior Research Associate of The London School of Economics Financial Markets Group and a guest Professor of the Finance Department of the London Business School. Prior to his current role, Dr Roy was a Global Emerging Markets Strategist at Credit Suisse. He joined Credit Suisse in 1998 from the University of London where he taught at Queen Mary and Westfield College and The London School of Economics. Prior to this he held similar positions at the University of Iowa and Boston University. He received four teaching awards from University of Iowa Business School and Boston University School of Management. He served as an expert on Financial Architecture and Crises Modelling at the Bank of England, IMF, US and UK Treasury.

To view presentations by the different speakers please visit: https://goo.gl/Ze6XVR

Out & About

FSRA MARATHON 3 October 2015

Sanlam Swaziland's Water Point

SIM Swaziland's Team

Runners

Investor Conference

Participants at the conference

Dr. Amlan Roy

SI Swaziland Management Team