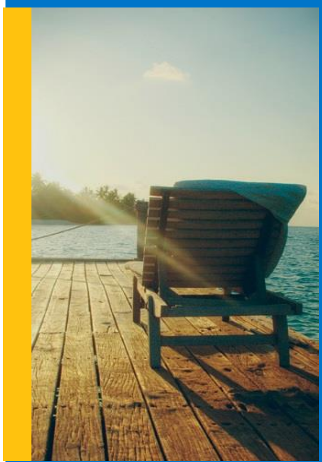


Sanlam

Sanlam Employee Benefits

Sanlam Umbrella Fund investment report to the Joint Forum

2nd Quarter 2015

Insurance | Financial Planning | Retirement | Investments | Wealth

Sanlam Umbrella Fund

Section **Page number**

Background and overview of the Fund

Investment options

The Sanlam UImbrella Fund offers participation in a defined contribution umbrella pension or provident fund. Employers can choose between two benefit design options depending on whether member-directed investment choice is required:

• The Standard Option: All the Sub-fund's investments are invested in the selected default investment strategy. (there are three defaults to select from);
• The Comprehensive Option: Members can opt out of their Sub-fund's selected default investment strategy and choose a tailored investment strategy that meets their needs.

Investment strategy

The trustees take responsibility to ensure that the fund offers an appropriate range of investment choice options. Participating employers can select either the standard or the comprehensive offering. Both options offer a choice of default investment portfolios. The default strategy preferred by the trustees is the Lifestage Programme. Employers can however select a more conservative default strategy namely the Volatility Protection Strategy depending on the needs of their employees and on the advice of their benefit consultant. A second alternative default strategy is the Passive Investor Strategy, which gives passive exposure to the investment markets at a competitive fee.

Under the comprehensive option, members may select their own investment choices. The default portfolios are designed to meet the investment objectives of the majority of members. Those members who are of the view that the default portfolios do not serve their specific needs can opt to select their own investment portfolios from the member choice investment menu.

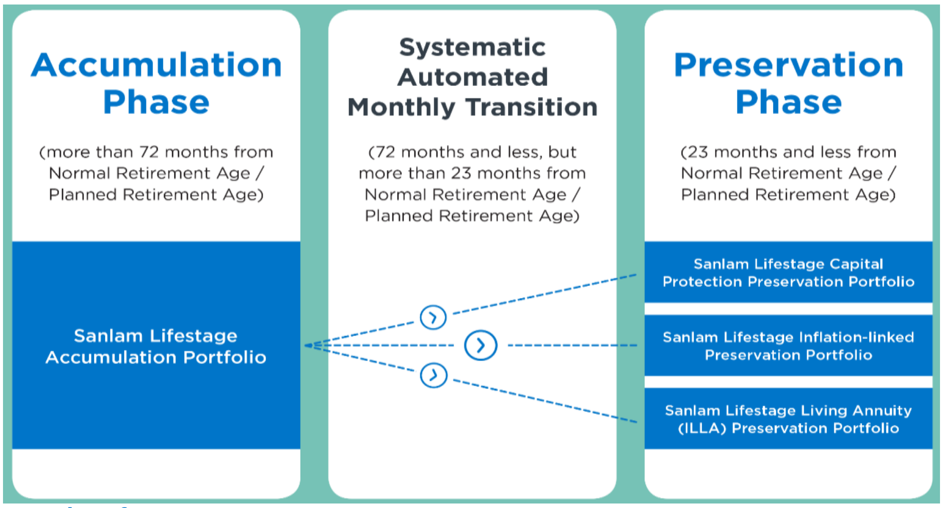
The performance of the portfolios selected will directly affect member’s eventual retirement benefit. The trustees regularly monitor the investment strategy and the investment choices on offer to ensure their appropriateness. A key part of this process is monitoring the performance of the portfolios selected and comparing it to the agreed investment benchmarks. The trustees appointed Simeka Consultants & Actuaries as investment consultants to assist them to monitor and manage the Funds’ investments.

The role of the Joint Forum

Each participating employer is required to establish and maintain a Joint Forum. This is a representative forum with equal representation by member and employer representatives where retirement fund benefits are considered and agreed upon. This forum therefore ensures member participation in the decision making and monitoring processes. One of the most important roles of the Joint Forum is to consider the appropriateness and performance of the default strategy as selected. Note that the employer technically remains the contracting party who acts on the decisions taken at the Joint Forum.

The Fund's default investment strategies

Sanlam Lifestage:



Fund performance

Sanlam Lifestage	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Accumulation Portfolio	0.0%	5.6%	9.3%	n/a	n/a
Preservation Portfolios:					
Capital Protection	3.6%	6.9%	14.3%	n/a	n/a
Inflation-Linked	0.6%	1.0%	4.8%	n/a	n/a
Living annuity (ILLA)	0.2%	4.5%	9.1%	n/a	n/a

Please note: Members that were invested in the Lifestage Programme Accumulation Phase before July 2013 and were part of the transition in July 2013 (to the Sanlam Lifestage Accumulation Portfolio) would have benefitted from the following actual investment returns (based on the combination of the underlying investment strategies):

Fund performance

Sanlam Umbrella Fund Solution	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Umbrella Fund Lifestage	0.0%	5.6%	9.3%	18.2%	16.9%

Volatility Protection Strategy:

Composition

The Volatility Protection Strategy currently invests all moneys in the Sanlam Monthly Bonus Fund.

Fund performance

Volatility Protection Strategy	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Monthly Bonus Fund	3.6%	6.7%	14.7%	15.4%	12.9%

Passive Investor Strategy:

Composition

The Passive Investor Strategy currently invests all moneys in the SIM Enhanced Tracker Balanced Fund.

Fund performance

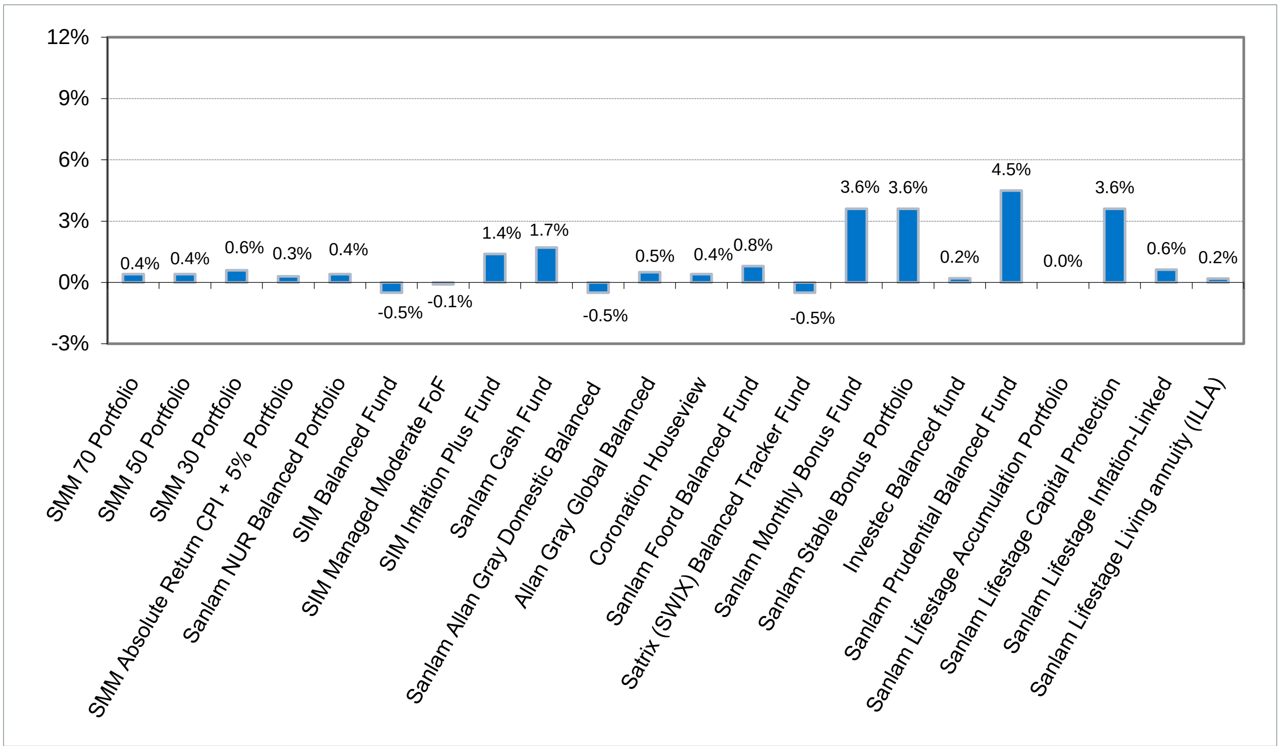
Passive Investor	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Satrix (SWIX) Balanced Tracker Fund	-0.5%	5.7%	11.6%	18.4%	17.1%

Although this default strategy was only made available from 1 May 2011, the underlying portfolio has a longer track record, which is shown above.

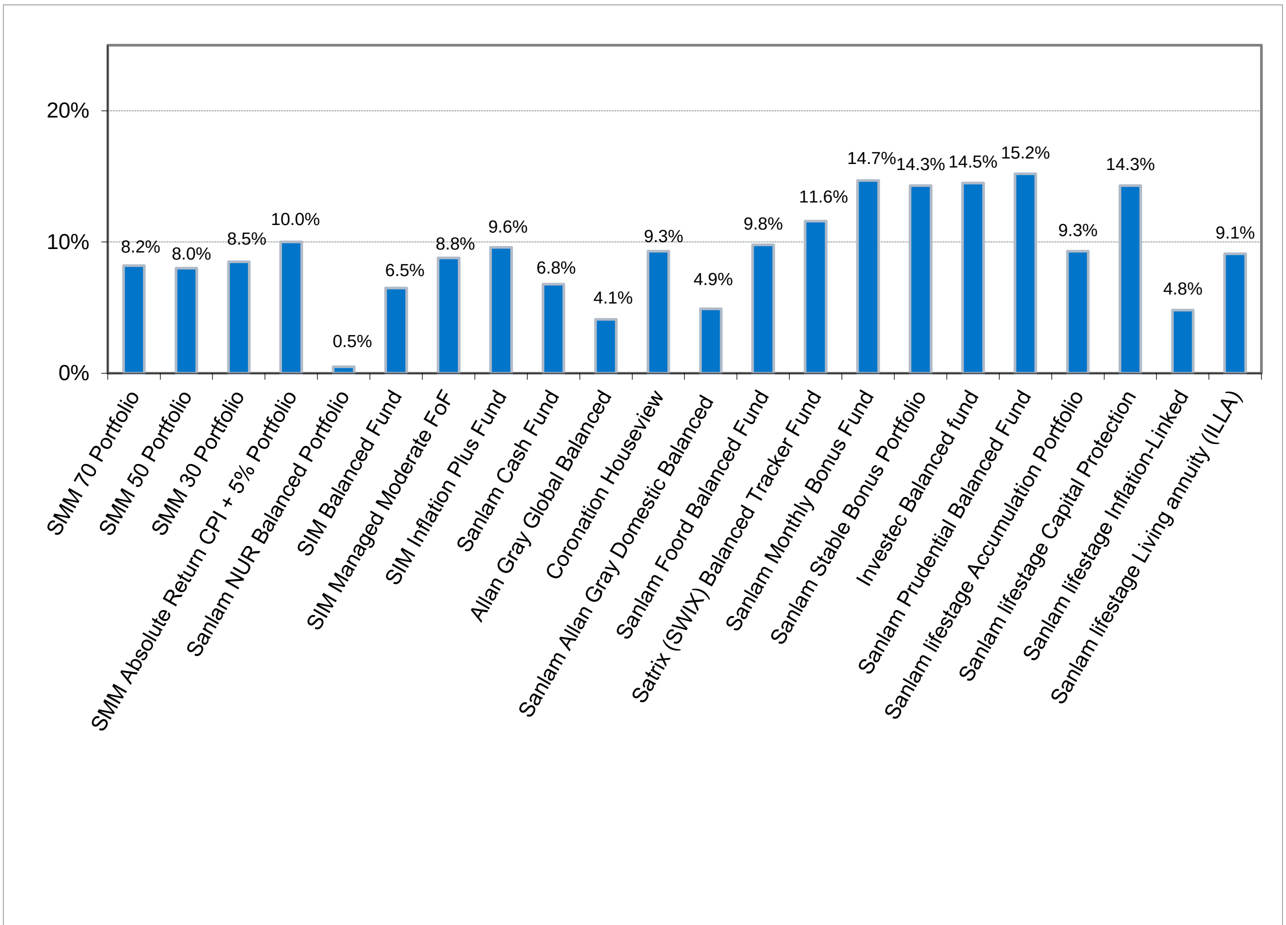
Please note:
1. Investment returns for the Lifestage Programme are quoted gross of investment management fees.
2. For the Smooth Bonus Range the bonuses declared are gross of investment management fees, but net of guarantee charges.
3. Investment returns for periods greater than 12 months are annualised.

Short-term performance analysis

Total Fund performance for the quarter ended June 2015

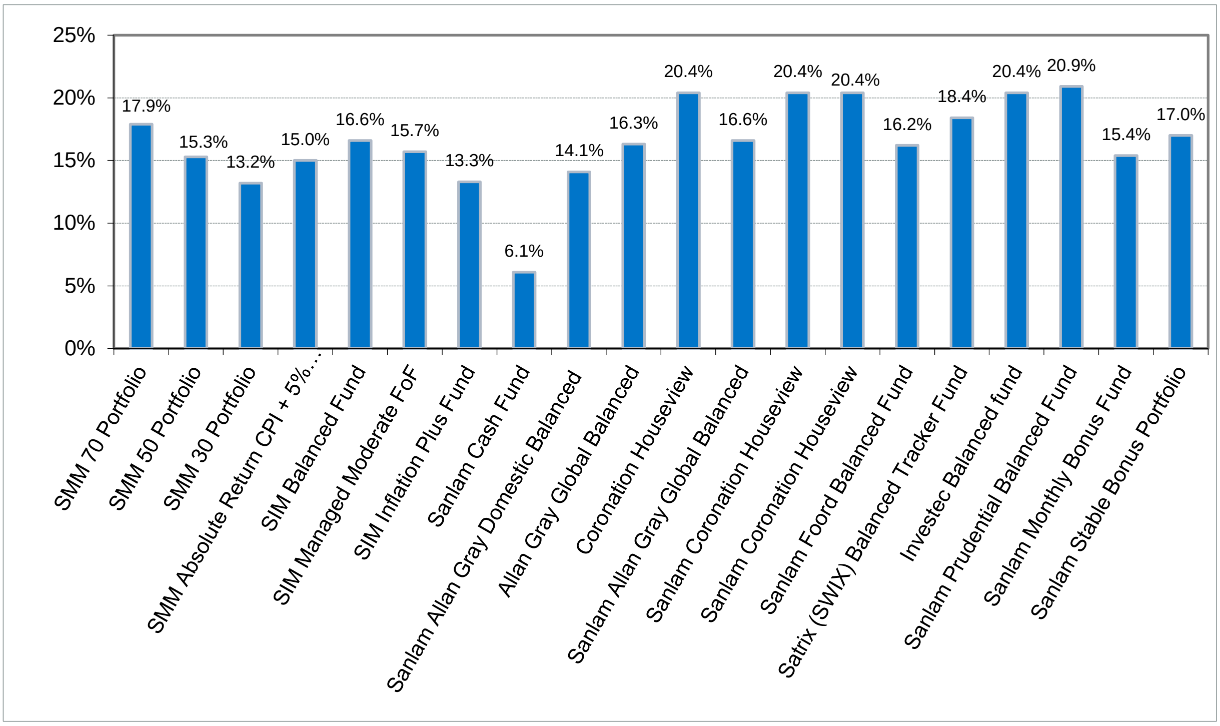


Total Fund performance for the 12 months ended June 2015



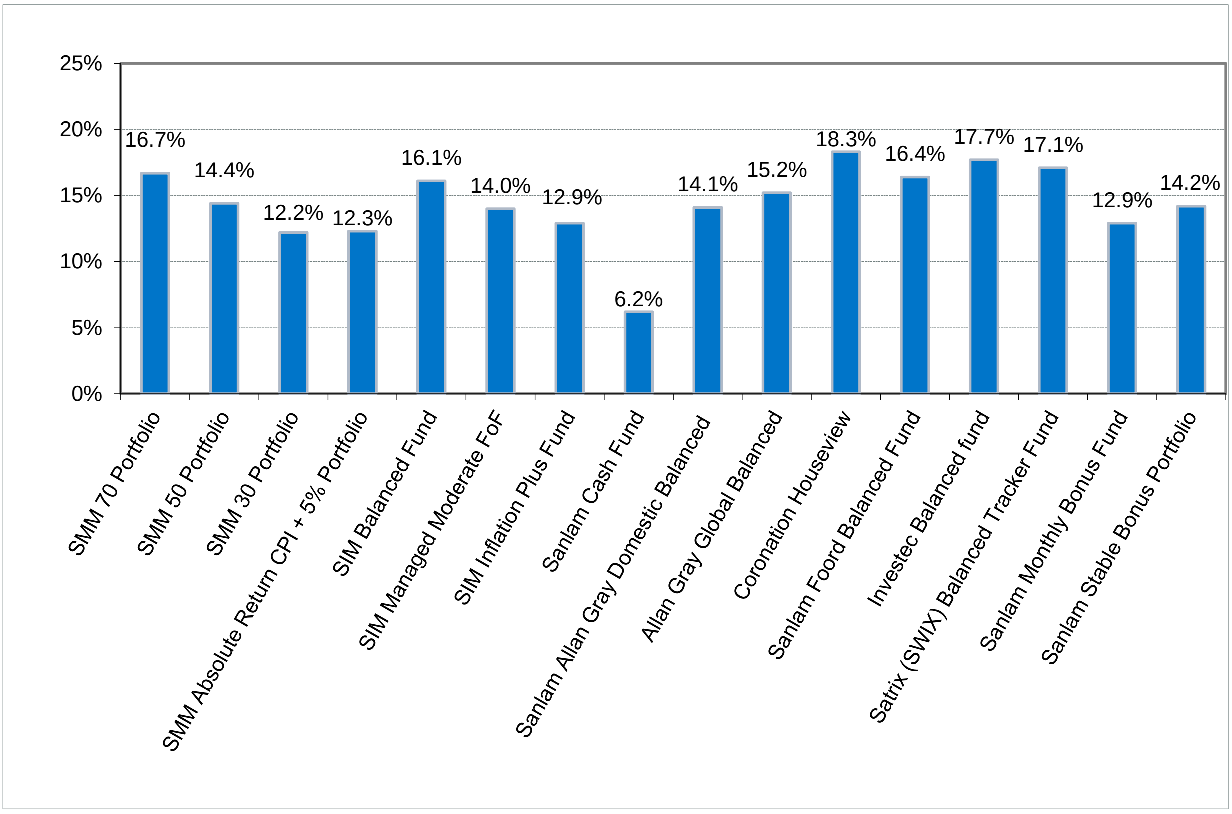
Medium-term performance analysis

Total Fund performance for the 3 years ended June 2015 (% p.a.)



* Sanlam NUR Balanced Portfolio has a track record shorter than 3 years.

Total Fund performance for the 5 years ended June 2015 (% p.a.)



* Sanlam NUR Balanced Portfolio has a track record shorter than 5 years.

Summary of returns

Multi-manager Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
SMM 70 Portfolio	0.4%	5.6%	8.2%	17.9%	16.7%
SMM 50 Portfolio	0.4%	4.8%	8.0%	15.3%	14.4%
SMM 30 Portfolio	0.6%	4.3%	8.5%	13.2%	12.2%
SMM Absolute Return CPI + 5% Portfolio	0.3%	4.7%	10.0%	15.0%	12.3%
Sanlam NUR Balanced Portfolio	0.4%	-0.2%	0.5%	na	na

SIM Single Manager Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
SIM Balanced Fund	-0.5%	4.3%	6.5%	16.6%	16.1%
SIM Managed Moderate FoF	-0.1%	4.9%	8.8%	15.7%	14.0%
SIM Inflation Plus Fund	1.4%	5.5%	9.6%	13.3%	12.9%
Sanlam Cash Fund	1.7%	3.4%	6.8%	6.1%	6.2%

External Single Manager Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Allan Gray Domestic Balanced	-0.5%	3.1%	4.9%	14.1%	14.1%
Allan Gray Global Balanced	0.5%	3.7%	4.1%	16.3%	15.2%
Coronation Houseview	0.4%	5.5%	9.3%	20.4%	18.3%
Sanlam Foord Balanced Fund	0.8%	5.2%	9.8%	16.2%	16.4%
Investec Balanced Fund	0.2%	9.8%	14.5%	20.4%	17.7%
Sanlam Prudential Balanced	4.5%	10.3%	15.2%	20.9%	n/a

Index-tracking Range

Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Satrix (SWIX) Balanced Tracker Fund	-0.5%	5.7%	11.6%	18.4%	17.1%

Smoothed Bonus Range

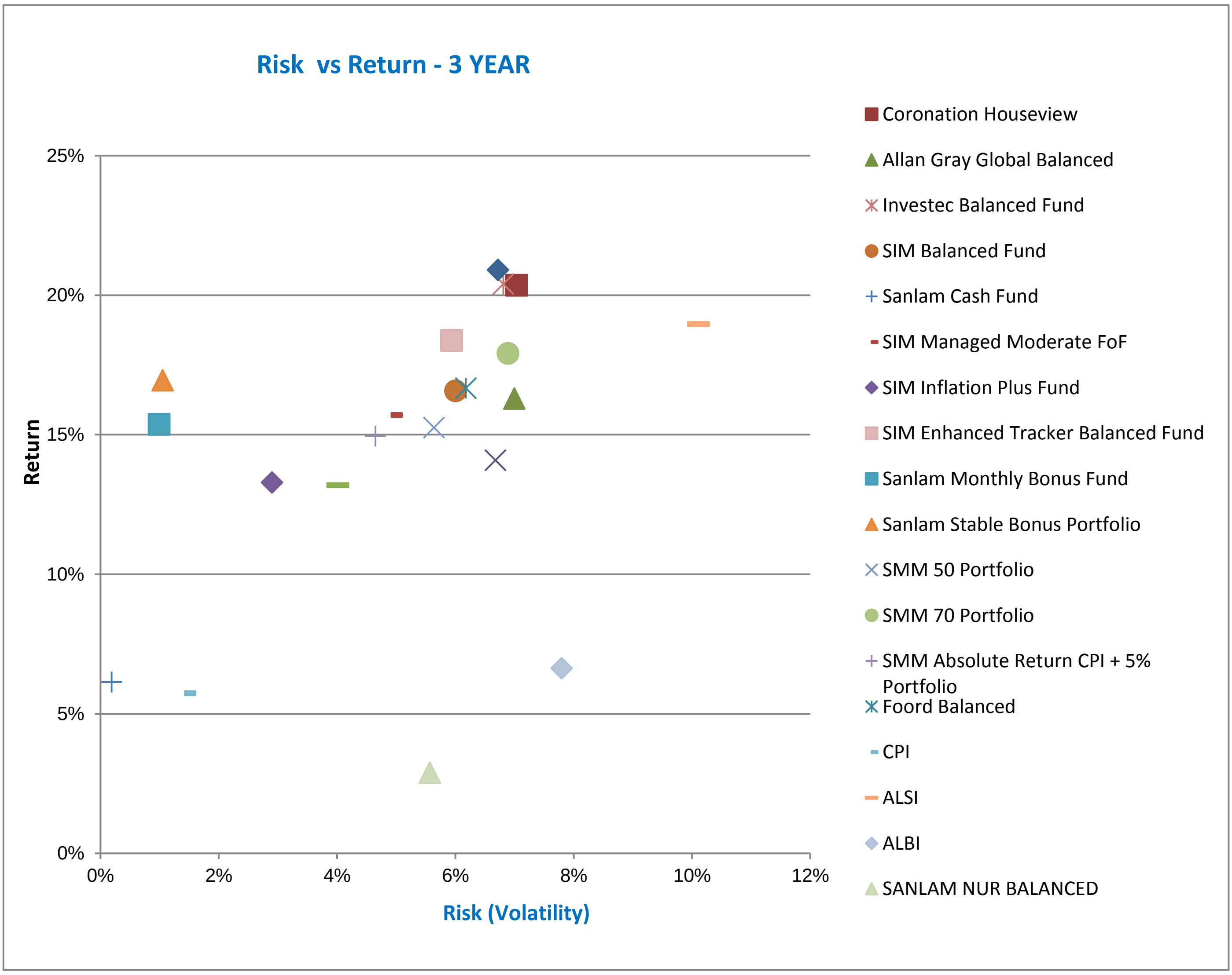
Portfolios	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
Sanlam Monthly Bonus Fund	3.6%	6.7%	14.7%	15.4%	12.9%
Sanlam Stable Bonus Portfolio	3.6%	6.9%	14.3%	17.0%	14.2%

Summary of returns (continued)

Market indices

Market	3 Months	6 Months	1 Year	3 Years (% p.a.)	5 Years (% p.a.)
All Share Index	-0.2%	5.6%	4.8%	19.0%	18.0%
All Bond Index	-1.4%	1.6%	8.2%	6.6%	9.1%
JP Morgan Global Bond Index (R)	-1.6%	1.4%	5.7%	11.6%	11.1%
MSCI World	0.4%	7.8%	15.3%	28.8%	21.9%
JP Morgan Global Bond Index (USD)	-1.7%	-3.4%	-7.5%	-2.2%	1.4%
STeFI	1.6%	3.1%	6.3%	5.7%	5.8%
CPI Inflation	1.8%	3.8%	5.0%	5.7%	5.5%
Top40 - (Tradeable)	0.8%	6.4%	3.4%	19.4%	18.0%
Mid Cap	-6.4%	0.7%	11.7%	15.6%	17.4%
Small Cap	1.5%	4.7%	13.7%	22.3%	20.6%
Resource 20	-4.6%	-4.8%	-28.7%	-2.8%	0.0%
Industrial 25	2.0%	8.1%	14.7%	30.4%	29.2%
Financial 15	-2.7%	7.6%	18.1%	24.5%	22.7%
Financial Industrial 30	1.3%	8.5%	15.5%	29.2%	27.5%
MSCI World Equity Index (USD)	0.4%	2.7%	0.7%	13.0%	11.9%

Volatility versus return over a 3 year period



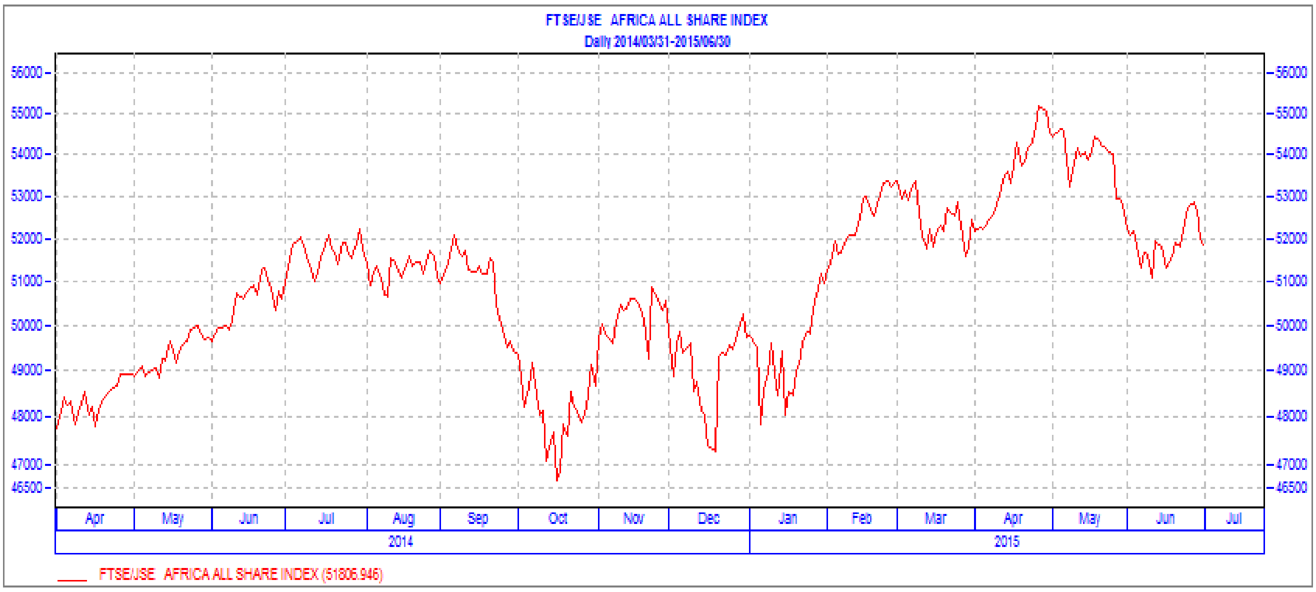
Market commentary

Domestic Markets

SA equities marginally underperformed their developed and emerging market counterparts in Q2 on further downward revisions to domestic economic growth and concerns about a possible SARB rate hike in July. Sharp declines in consumer and business confidence to multi-year lows suggest that consumption expenditure and private sector fixed capital formation will weigh on growth over the next two years. Ongoing load-shedding, the likelihood of a strike in the gold mining sector and the possibly of a VAT rate hike in 2016 also pose further downside risks to the domestic economy. As a consequence, earnings growth amongst SA Inc counters could ease to low single digits in the year ahead, offset by gains in rand-hedge industrial counter earnings. If large rand-hedge industrial counters are stripped out of the Alsi universe of stocks, consensus earnings 1-year out decline from around 11% to 5.3%, highlighting the drag on domestic earnings from pedestrian economic growth.

Contagion risks from a possible Grexit were largely shrugged off by foreigners investors in Q2 as they bought equities totalling some R19.97bn. A possible explanation for the resilience of the domestic equity market is that earnings per share have continued to trend higher, in stark contrast to the trend in emerging markets. With resource shares now also making up only around 13% of the JSE's market capitalisation, the domestic equity market has become more insulated against developments in commodity markets. The Alsi declined some 0.2% for the quarter led by a 4.6% decline in the Resi-10 Index. For the year as a whole, the Alsi gained a pedestrian 4.8%, less than the 14% yielded by the MSCI World Index and the 5.9% returned by the MSCI Emerging Markets Index.

Although domestic equity market valuations appear stretched, trading on a trailing multiple of 17.5X earnings, well ahead of the 14X mean, the multiple drops to 15.1X if the "super 6" stocks (NPN, MTN, Rem, CFR, SAB and BTI) are stripped out of the index. Similarly, on a forward basis, the forward multiple drops to 13.8X earnings from 16.1X, still somewhat expensive relative to the 12.9X historical mean but within 1 standard deviation of the mean. Given that the dispersion of expected returns contains a large tail-risk, we remain cautious of this asset class in the year ahead despite a more upbeat "top-down" estimate for earnings growth. The latest BER/Kagiso PMI index supports earnings growth of around 15%, albeit off a low earnings base. In this instance, the tail-risks are reduced with the dispersion in expected returns more favourable. In light of the above, we retain a neutral weighting in domestic equities, expecting volatility to intensify in coming months.



Market commentary (continued)

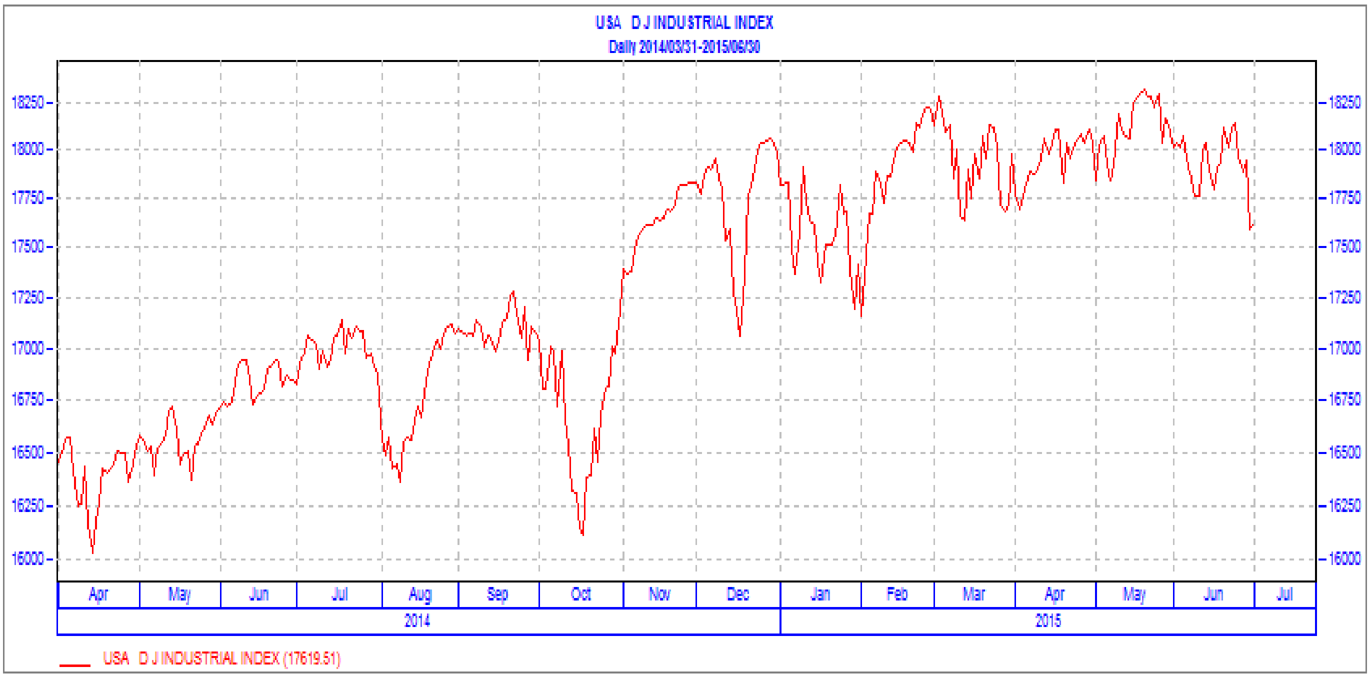
International Markets

Global equities were slightly weaker in Q2 as fears of a Greek exit and a Chinese stock market rout offset signs of an economic improvement in major developed market economies. Due to the sell-off in Chinese stocks, commodity prices came under some pressure, impacting negatively on emerging market equities. The MSCI World Index declined some 0.3% in USD's and 0.01% in rands, while emerging market equities declined some 0.2% in USD's but gained some 0.05% in rands. Expectations of an imminent rate hike in the US also weighed on sentiment even as voting members of the FOMC remained divided on the timing of such a move. Greece's rejection of a bail-out plan by its creditors, its default on some Euro1.5bn in debt repayments and the calling of a referendum on whether to accept or reject the terms of the bail-out brought Greece to the edge of a Eurozone exit. With banks shut, Euro 60 per day limits on ATM withdrawals and capital controls in place, bankruptcy and the insolvency of Greek banks loomed large. Despite the "no" vote in the referendum and the "end-game" scheduled for the 12th July, Greece finally agreed to a new 3-year bail-out deal that is yet to be ratified by the Greek parliament.

It is important to note that an endorsement of the deal only means that formal talks on accessing the Euro 500bn Eurozone Stability Mechanism can begin. Equally important is the IMF's continued participation in Greece's bail-out programme, which is scheduled to end in March 2016. The IMF has stressed that its continued participation is dependent on the Eurozone agreeing to substantial debt relief for Greece. This could take the form of a hair-cut or an extension of the maturity on debt. Other options include a further 30 year grace period during which Greece will not make a single interest or principal payment on Eurozone loans. Under the IMF's own rules, it is not allowed to participate in a bailout if a country's debt is deemed unsustainable and there is no prospect of it returning to private bond markets for financing. A stand-off between the IMF and Eurozone creditors is still likely suggesting that over the longer term there is still a substantial risk of a Grexit. For now, the "can has simply been kicked further down the road".

The release of the June FOMC minutes highlighted the divisions between voting members of the committee on whether or not the conditions for a rate tightening had been met. These included improvements in consumer spending, gains in housing starts, increases in job openings and non-farm payrolls, wage growth and a pickup in inflation due to the stabilization in the USD and oil prices. Despite the positive assessment by some, US growth is likely to slow in the coming quarters as inventories moderate, industrial production continues to slow and wage growth remains contained at below 2%. Furthermore, with capital goods orders excluding aircraft benign and orders of machinery slowing, the Fed is likely to delay its rate normalisation until the latter part of the year. Although Janet Yellen has indicated rates could rise this year, she has also said there is slack in the labour market with conditions not yet consistent with maximum employment. In the event that the Fed does tighten rates, however, the increases over time are likely to be gradual, falling well short of levels seen historically.

Given the more subdued interest rate outlook globally, the MSCI World Index is expected to trade around current multiples with low double digit earnings growth expected to underpin returns. Although MSCI World earnings per share is slowing marginally, consensus estimates point to normalised EPS growth of around 11.7% over the next two years. In contrast, emerging market equities have become expensive relative to their developed market counterparts, with a structural slowdown likely to persist for a number of years. This is highlighted by the ongoing contraction in trailing earnings (-13.9%) and a decline in actual earnings per share. Given the risk of capital flight linked to the carry trade and weak commodity prices on slowing Chinese demand, and a possible lifting of sanctions against Iran, we continue to underweight emerging market equities. The single biggest risk to our outlook remains a material re-pricing of the term premium in bond markets or some unforeseen geopolitical event, the result of which could be a flight from equities. This is, however, not our base case scenario given still pedestrian inflation and sub-par global economic growth.



Investment Manager changes

Allan Gray
In May 2015 Allan Gray announced that Ian Liddle, Chief Investment Officer, will assume the role of Chairman of Allan Gray from March 2016. Andrew Lapping, who has been with Allan Gray since 2001 in the capacity of analyst and portfolio manager, will be taking over from Ian as the new CIO next year.

Coronation
Nishan Maharaj has been appointed Head of Fixed Interest Research. In addition Coronation have announced that they are beginning a process of converting to a multi-counsellor system, starting in the Fixed Income team from 1 July 2015 where there will be 5 portfolio managers each managing a portion of the portfolio, namely Mark le Roux, Nishan Maharaj, Adrian van Pallander, Mauro Longano and Steve Jansen. The aim is to extend this to other parts of the business eventually.

SIM
There have been no major changes in the Investment philosophy or corporate developments over the quarter

Prescient
Prescient has appointed Haakon Kavli as a Research Analyst in the asset allocation team.

Investec
There have been no major changes in the Investment philosophy or corporate developments over the quarter.

Sanlam Investments: Multi-Manager
There have been no major changes in the Investment philosophy or corporate developments over the quarter.

Performance Fees

The following table represents the impact which performance fees had on the following funds over a rolling one year period ending **30 June 2015**:

Portfolios	Rolling 1 year Perfomance fees
SMM 70 Portfolio	0.01%
SMM 50 Portfolio	0.03%
SMM 30 Portfolio	0.02%
Sanlam Allan Gray Global Balanced	0.00%
Sanlam Foord Balanced Fund	0.03%
Sanlam Lifestage Accumulation Portfolio	0.01%
Sanlam Preservation: ILLA	0.00%
SMM Absolute Return CPI + 5% Portfolio	0.11%

Multi Managed Portfolio	2011	2012	2013	2014	Average 2011 to 2014
Sanlam Lifestage Accumulation Portfolio	0.00%	0.00%	0.10%	0.03%	0.03%
Sanlam Preservation: ILLA	0.00%	0.00%	0.10%	0.03%	0.03%
SMM 70	0.01%	0.05%	0.08%	0.04%	0.04%
SMM 50	0.01%	0.08%	0.01%	0.04%	0.03%
SMM 30	0.00%	0.07%	0.01%	0.03%	0.03%
Smooth Bonus Portfolio					
Sanlam Monthly Bonus	0.00%	0.00%	0.05%	0.10%	0.04%
Sanlam Stable Bonus	0.00%	0.00%	0.05%	0.10%	0.04%
Single Manager Portfolio					
Sanlam Allan Gray Global Balanced	0.00%	0.00%	0.00%	0.00%	0.00%
Sanlam Allan Gray Foord Balanced	0.00%	0.00%	0.31%	0.11%	0.11%