Q3 2015

Sanlam Investments

intelligence news+insights

Change brings opportunity

Stay on top of global trends

Events that moved the market

SA improves current account deficit

2 JUL — US unemployment falls to 5.3%, the lowest since April 2008, but wage growth is flat
Source: ***Wall Street Journal***

5 JUL — Greek electorate says No to more austerity
Source: ***The Guardian***

20 JUL — Greece repays €4.2bn to ECB after receiving temporary funding
Source: ***WN.com***

20 JUL — Nasdaq hits (another) new high
Source: ***Wall Street Journal***

10 JUL — Platinum shares hit decade low
Source: ***Fin24***

21 JUL — Microsoft posts $3.2bn loss – its biggest ever – after Nokia write-down
Source: ***Bloomberg News***

22 JUL — Oil price falls to below $50 a barrel
Source: ***Wall Street Journal***

23 JUL — MPC surprises with 25 basis point hike, taking the repo rate to 6%
Source: ***Fin24***

27 JUL — Chinese stocks plunge more than 8% – their biggest one-day loss
Source: ***BBC***

24 JUL — Rand falls to 14-year low against the dollar
Source: ***Reuters***

30 JUL — US GDP data shows 2.3% annualised growth in Q2
Source: ***Forbes***

3 AUG — Greek stock exchange loses 16.2% in one day
Source: ***Fin24***

5 AUG — Rand falls against the pound and dollar as Fed guides towards September rate hike
Source: ***Fin24***

EUR/USD	1.153
GBP/USD	1.5695
AUD/ZAR	9.3766
EUR/ZAR	15.2003
GBP/ZAR	20.6863
USD/ZAR	13.1803

11 AUG

China orchestrates the biggest devaluation of the yuan since 1994

Source: ***Wall Street Journal***

14 AUG

Q2 eurozone growth disappoints as it slows by 0.3%

Source: ***Reuters***

17 AUG

Morgan Stanley includes rand in its 'Troubled 10' list of vulnerable currencies

Source: ***Bloomberg***

21 AUG

Caixin China Manufacturing PMI falls to a 77-month low

Source: ***Wall Street Journal***

21 AUG

Oil price falls to below $40 a barrel

Source: ***Wall Street Journal***

20 AUG

Greek Prime Minister Alexis Tsipras resigns

Source: ***Reuters***

24 AUG

Chinese stock market loses 8.5%, its worst one-day decline since 2007

Source: ***CNBC***

25 AUG

SA GDP contracts by 1.3% annualised in Q2

Source: ***Statistics SA***

26 AUG

China cuts its main interest rate by 25 basis points, the fifth cut since November 2014

Source: ***BBC News***

31 AUG

SA trade balance swings from surplus in June to R400m deficit end July

Source: ***Bloomberg News***

27 AUG

Q2 US GDP growth surprises on the upside, sending US stocks soaring

Source: ***Reuters***

1 SEPT

SA new-vehicle sales decline by 8.2% year on year

Source: ***Reuters***

3 SEPT

SA Business Confidence Index falls to lowest level in more than 16 years

Source: ***SACCI***

7 SEPT

Rand falls to record low of R14.01 against the dollar

Source: ***Fin24***

15 SEPT

SA posts an improvement in its current account deficit – 3.1% of GDP

Source: ***SARB Quarterly Bulletin***

9 SEPT

Standard & Poor's downgrades Brazil's credit rating to junk status

Source: ***Reuters***

8 SEPT

Chinese imports dive 13.8% from August last year

Source: ***Reuters***

16 SEPT

UK wage growth speeds up and the jobless rate drops to 5.5%

Source: ***Bloomberg***

16 SEPT

The ALSI 40 surges after AB InBev starts courting SABMiller

Source: ***Wall Street Journal***

17 SEPT

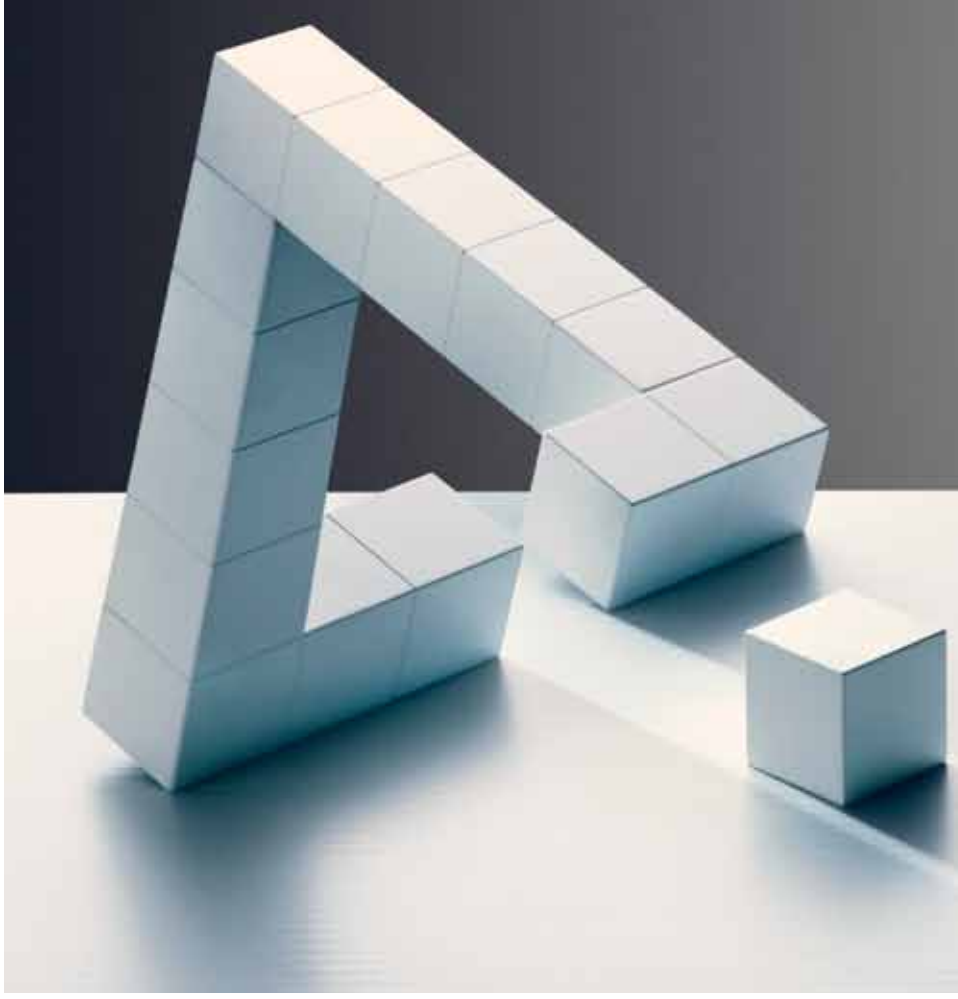
Fed announces it will keep US interest rates on hold

Source: ***Wall Street Journal***

Keeping future fit

FundForum's global think-tank focuses on the client

Fintech, **partnership and investor education** emerge as key enablers.



+IN SIGHT

It's no secret that Sanlam Investments (SI) is on a client-centricity drive and that we switched from a product to a solution mindset quite a few years ago. To create world-class solutions we pay attention to what clients need most and keep track of what is being offered globally.

To stay in touch with these trends, CEO Johan van der Merwe, Cora Fernandez, CE of Institutional Business, and Kay Lala-Sides, Head of Strategic Integration, attended FundForum International 2015 in Monaco earlier this year.

'We don't go every year, but this year's client-centricity theme resonated with us as a business,' Kay says. 'FundForum International is the world's largest event for fund managers and global distribution partners with over 1 200 attendees.'

Product development takes a back seat

At the conference, speakers shared research that highlighted how investors are becoming increasingly aware that investment products are very different from cars and computers. For example, investment products do not have a definable shelf life or replicable outcomes. Actual returns can vary markedly from expected returns and investors are realising that putting blind faith in past performance numbers may also mean investing in products that cost too much and deliver too little.

That's why asset managers are shifting their focus away from product innovation towards identifying, understanding and delivering on clients' specific needs, including those of which clients are not even aware. The trend points towards solution innovation rather than product innovation.

In a study by Create Research, for example, 58% of the respondents cited the switch from products to solutions as the most important driver of innovation over the next three years.

Three stand-out themes

Aligned with the client-centricity theme at FundForum International 2015, speakers identified a number of enablers and three stood out:

1. Fintech
2. Partnership
3. Investor education.

Client enabler
#1: Fintech

Disruptors such as Uber, Airbnb, Betterment and Bitcoin were mentioned by speakers. It's clear that technology is creating a wave that will change the shape of our industry. Already low-cost online 'advice' platforms, such as Betterment, Nutmeg, Wealth Horizon, Money Farm and Nordnet, are offering simple tools that help individual investors make asset allocation decisions. Worth noting is that for two of the platforms discussed, the average age of users are 47 and 48 respectively, showing that these 'robo-advisers' are not being used by millennials only.

Although these platforms are putting pressure on the adviser end of the value chain, we at SI believe there will always be a place for quality professional advice.

On the other end of the of the value chain, crowd-funding platforms are connecting investors/funders with borrowers, providing investors with the opportunity to invest in assets not normally available to retail investors. Retail clients are quickly becoming accustomed to receiving products and solutions at wholesale prices, putting the margins of financial service providers under pressure.

Client enabler
#2: Partnership

The financial services ecosystem has a number of stakeholders who are interdependent on one another. But the world within which we're operating is now being disrupted by crowd influencers, opportunities to invest in assets not normally available to retail investors, a 'non-consumption' mindset where big 'blockbuster' brands are not the only attraction for investors, and competitors are coming from all sectors, not only financial services.

We believe this creates plenty of opportunity for redefining and strengthening partnerships across our value chain as well as the types of solutions we can offer.

Client enabler
#3: Investor education

Because so many investors have been following past performance blindly to such extremes that the bulk of global flows goes into top star funds, the industry has unsurprisingly developed a blockbuster culture, focused on past performance, which is not replicable and cannot form the basis of client decisions. It's crucial that investors receive better guidance on the implications of their investment and saving decisions throughout their lifetime.

Where is SI in terms of these trends?

Over the past two years the SI cluster has successfully shifted its strategy and approach from products to solutions and client outcomes. Our Retail business delivered this through its implemented consulting solutions to Sanlam Financial Advisers and independent financial adviser (IFA) market segments.

Our Institutional business is following suit with similar solutions aimed at the 'mid-market' retirement funds. The latest examples of solutions include liability-driven investing in the defined-benefit segment, lifestyle investing in the defined-contribution segment and advice-embedded investing in the mass market.

In terms of fintech, 'robo-adviser' solutions are being explored, not as an alternative to using a real adviser but as an auxiliary channel for clients with small investment amounts and simple needs who prefer to invest online.

We see significant opportunity in the fallout from new regulation and have developed leading solutions to help our wide range of clients meet their fiduciary requirements and fulfil the needs of the end client or retirement fund member.

For example, within one of our businesses we've developed a solution to bridge the gap between retirement funds (our institutional clients) and the traditional retail advice sector. It provides the much-needed 'best of both worlds' to members with regard to the governance, expertise and wholesale cost structure of a retirement fund, together with individual financial planning and advice.

Globally, one of the most noteworthy shifts is the one towards the client. 'This shift has shaped how we think about what we offer our clients and is also reshaping our industry,' Johan says. 'I am confident that the strategies being pursued across the Investments cluster strongly position us to take advantage of this shift.

'Importantly, the shifts are also aligned with our core purpose, which is to improve the lives of a broad range of stakeholders. To my mind this is a powerful combination and will enable Sanlam to be a sustainably future-fit organisation.'

To create world-class solutions we pay attention to what clients need most and keep track of what is being offered globally.

Johan van der Merwe
CEO

Kay Lala-Sides
Head of Strategic Integration

Cora Fernandez
CE of Institutional Business

Fund managers met at FundForum International 2015 in Monaco this year.

Images: gettyimages.com and supplied

Putting the fun into virtual financial planning

Kate Holmes, founder of Belmore Financial LLC, gave delegates attending the FPI Retirement and Investment Convention in Cape Town in September **a glimpse into the life of a virtual financial planner**.

+IN SIGHT

CFP® Kate Holmes has never met any of her clients face to face. Most of them prefer to Skype her after the kids have been put to bed. When she just started out she rented an office just in case a client wanted to come to see her. This never happened and she cancelled the lease. Now, through healthy online engagement, her financial planning practice is thriving and Kate boasts clients across the United States, as well as in Australia.

Kate's business is an example of a financial planning practice that has moulded itself to the changing environment – not only in terms of the way she charges fees, but also in terms of how she uses the web.

Benefits of adopting virtual elements

Add value

Use technology to increase your value proposition to clients and better engage prospects.

Reduce expenses

In many cases, the virtual option is less expensive, faster, more scalable, and more client-friendly.

Expand client base

Narrow your niche and expand your reach to ideal clients, regardless of where they live.

Source: *Kate Holmes | September 2015*

For millennials only?

Kate charges a flat fee for a 'jump start' session, such as choosing the right 401(k) plan or enrolling in your company's retirement plan. This pay-as-you-go structure is in line with what people expect to pay for any other type of (non-financial) advice in the US and Kate thought it would attract clients in their 20s and 30s in particular. But it turned out the majority of her clients are wealthy individuals over the age of 55 who simply prefer easy online advice.

She also provides ongoing financial coaching in return for a monthly retainer – similar to how most bills, like your phone bill, are paid. This means she's accessible to all segments of clients, regardless of their income or net worth.

Rock your website

When a client is referred to you, whether you're a virtual or a traditional adviser, your website creates the first impression. One of the biggest mistakes a financial planner can make is to not give his website a personality, Kate says. When photographed for her 'About' page, the photographer struggled to get her to strike a 'corporate' pose. 'That's not me,' she says. 'I don't take myself that seriously and prefer to attract clients who can appreciate the fun I bring to financial planning.'

Competition is fierce and clients are more likely to contact someone who has the same interests as them. So show yourself mountain biking or travelling or playing with the kids. Stock photography is an absolutely no-no.

Kate describes herself as extremely frugal and created all her introductory videos at home with her MacBook Air. The result is top quality and the cost $0. Her BA degree in photography is useful but she also relies heavily on open-source services such as Squarespace, iconmonstr and Pixabay to add some fun and flair to her site.

Plug in the parts and play

Along with the website, the following components all need to fall in place:

- **Cloud-based storage:** Dropbox and Google Drive are popular choices.
- **Email encryption:** Kate never contacts a client before she knows the content will be absolutely safe. A financial planner's reputation hinges on keeping client information confidential and not losing any data.
- **CRM system:** To make sure you and your paraplanner have the latest details about a client and client interactions, a good customer relationship management (CRM) system is indispensable. Two examples are Wealthbox and Less Annoying CRM.
- **Virtual meeting software:** Use whatever the client is already using, be it Skype, FaceTime or Google Hangouts.
- **E-signature solutions:** EchoSign, DocuSign and RightSignature are a few of the options out there.
- **Financial planning software:** Packages specifically designed for the South African adviser have flooded the market over the past few years and can vary hugely in cost, depending on whether you would need it to integrate directly with Astute, how much of your compliance burden it will take care of and whether it provides reports for annual follow-up meetings. Do your research well.

Win-win for client and adviser

Giving online advice is a convenient way to win clients and enjoy a more flexible lifestyle away from an office. But the rise of the virtual adviser is great news for the consumer too. In January 2016 the My Money Conference will be taking place, the world's first online consumer-facing financial conference. Traditionally, clients were limited to a financial planner within driving distance; now the speed of your internet connection is the only limitation.

Images: gettyimages.com and supplied

Retire on purpose, with purpose

I've been retired for a year now and I'm thinking, is this it? Surely there must be more to life than being on holiday all the time!

I know what I really want to do with my life, but I'll wait till retirement.

I don't want to retire, but my company is forcing me. I'm not sure what I'm going to do with my time now.

Kim Potgieter describes traditional, 'left brain' retirement planning as the substance of the cupcake, while **life planning is the icing**.

+IN SIGHT

Kim Potgieter, CFP® and Director of Chartered Wealth Solutions, often hears clients say things like this. But over the years she's also seen that if you don't start playing the piano, volunteering, teaching or whatever it is you picture yourself doing after 60 before you hit that mark, chances are it's never going to happen. This, and the early deaths of her parents, prompted her to add another component to her financial planning process: life planning.

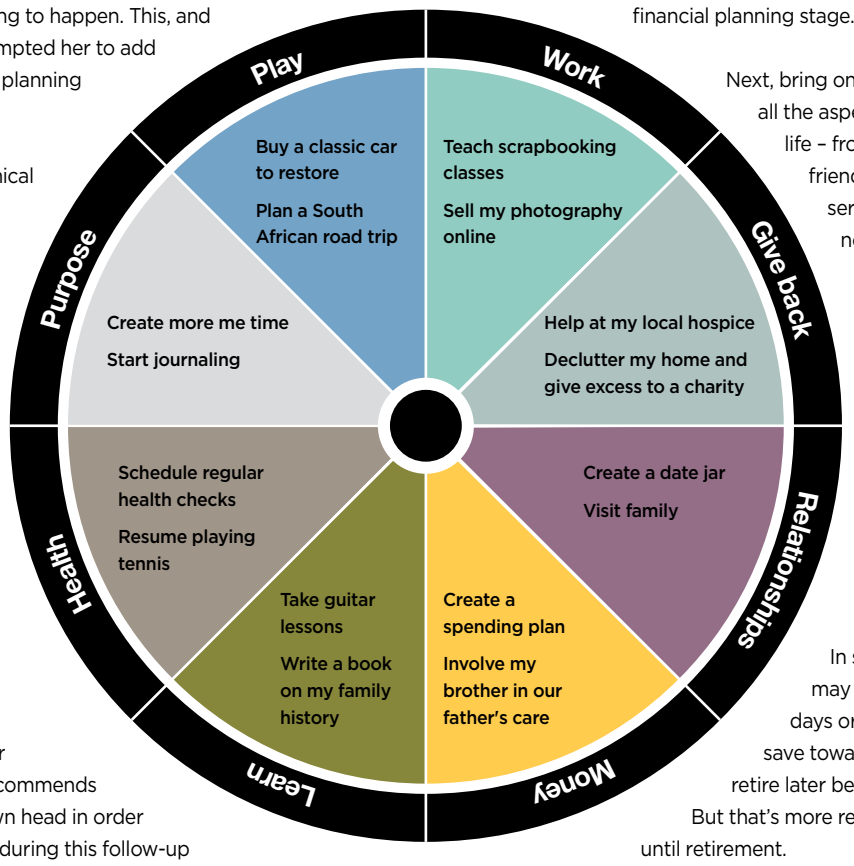
It helps that Kim has a degree in clinical psychology and is one of only two Registered Financial Life Planners in South Africa. But she insists you don't need to be a psychologist to guide a client towards the life they've always dreamed of. It's enough to be the facilitator of a conversation around retirement and life.

Where does life planning fit in?

How does Kim incorporate life planning into her financial planning process?

'After the introductory meeting, it's important to get both spouses in for maximum impact,' Kim says. She recommends moving all the 'clutter' from your own head in order to focus completely on your clients during this follow-up meeting. This is their time to talk and share as much as they're comfortable with.

This session is a time for you and your clients to explore their money history and principles. For example, how do they view money? As something that needs to be saved or used? Is money their master or do they control their money? Only ask questions that you as a financial planner would be comfortable asking yourself.



What's the dream?

After you've created some awareness in your clients by raising the right questions, you can start to talk about their dream for retirement. Keep the analytical critic in yourself quiet during this stage – you can focus on the reality of an income statement and balance sheet during the quantitative financial planning stage.

Next, bring on the balance by highlighting all the aspects that make up a fulfilled life – from fun and spending time with friends and family to health and service or giving back. Make sure no part of a balanced lifestyle is left out.

Focus on specifics

From the 'balance wheel' move on to the 'bucket wheel', listing under each part of a balanced life what exactly it is your client would like to achieve in that area. Encourage them not to wait until retirement, but to start working on it already.

In some instances, your client may need to start working fewer days or hours a week and, as a result, save towards retirement for longer and retire later because of the smaller income. But that's more realistic than leaving everything until retirement.

Only at the very end of the process, usually during a separate session, does the fact finding for the traditional financial plan take place.

The end result? Combining a life plan with a financial plan leads to a retirement with enough money, and meaning. 'It's the stage in which you can pursue your unfulfilled dreams and goals, on your own terms and in your own time,' Kim says.

Image: supplied Graphic: Kim Potgieter | 2015

My stock pick

Tiger Brands

Portfolio Manager Marlo Scholtz discusses Tiger Brands

Tiger Brands is the largest manufacturer of branded food products in sub-Saharan Africa, with operational facilities in six African countries, including South Africa, Nigeria, Kenya and Cameroon.

It trades in a broad range of categories spanning food, home, baby and personal care products with market-leading brands like Albany, Tastic, Jungle Oats, Koo, Oros, Purity, Ingram's and Energade. The stock is out of favour after some poor asset allocation decisions.

What we like

Tiger Brands has one of the most desirable portfolios of consumer branded products among South African listed manufacturers. The bulk of its revenue comes from market-leading brands that occupy the number-one position in their categories.

There are still a lot of self-help opportunities in the South African business, which makes up most of the valuation. The appointment of Noel Doyle as COO of the various divisions should help reduce some of the excess cost and inefficiencies that have built up over the years by running the various units in silos.

Despite its dominant position and plethora of market-leading brands, Tiger Brands' share trades at a discount of between 14% and 60% to its listed peers on a historical PE basis.

What we don't like

Management's track record relating to capital allocation has been patchy over the past few years. The Dangote acquisition has proven to be disastrous up to now and one has to question how objective management can be in deciding whether or not to allocate more capital to the business, given that they were responsible for the buyout.

Risk to valuation

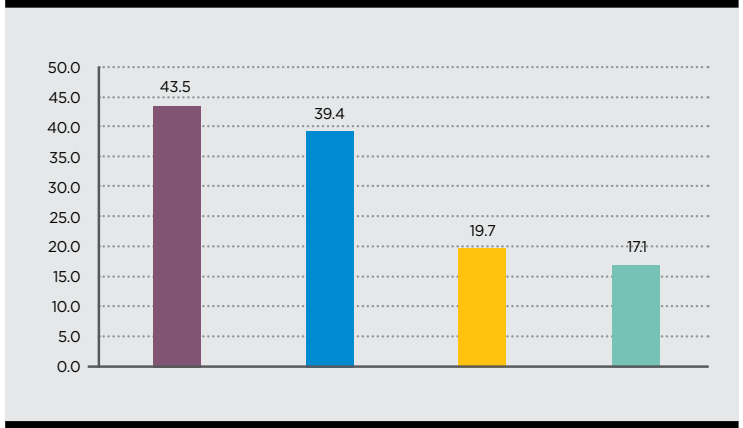
The big risk is that management throws good money after bad in Dangote if the economics of the business does not justify further investment.

Furthermore, competitors have been attacking some of its leading brands. If the business doesn't act swiftly and decisively to protect its position, this will affect its valuation negatively.

The bottom line

Tiger Brands is a company with superb underlying assets that are currently operating sub-optimally. The excessive negative sentiment relating to Dangote has created a good buying opportunity.

Historical PE



Source: *Sanlam Investment Management 21 September 2015*

Allied Electronics Corporation

Portfolio Manager Michael Canterbury discusses Allied Electronics Corporation

Allied Electronics Corporation (Altron) is active in telecommunications, multimedia, information technology and power electronics industries. Its business activities take place through its three wholly-owned subsidiaries Bytes Technology Group, Power Technologies and Allied Technologies.

Some of the key businesses are Altech Netstar (stolen vehicle recovery and fleet management), Powertech Cables (electrical cable manufacture), UEC (set-top box/decoder manufacturing), Bytes Document Solutions (Xerox) and Powertech Transformers (power transformer manufacturing). Altron also operates several international businesses covering areas such as Spain, Portugal, the UK, Germany and India.

What we like

The business has suffered a number of setbacks that have caused the earnings to decline to the point where it is loss-making. As a result the share price has fallen by some 70%.

The problems occurred in Powertech and Allied Technologies. During this time the performance of Bytes remained robust and the business has increased its earnings. Management has undertaken a programme of restructuring to return the business to profitability.

The actions include the sale of Altech Autopage Cellular, a commitment to restructuring management, cutting costs significantly and rationalisation. These actions should yield results over the medium term, at which point we believe the value of the company will be restored. At present the share is trading at a 30% discount to its net asset value.

What we don't like

The company has taken a series of poor capital allocation decisions, which have resulted in the destruction of value. Two examples of such decisions are its purchase of Kenya Data Networks and the development of the Altech Node product. Kenya Data Networks moved from profit to loss after its acquisition and was subsequently closed. The Node product has failed to gain any significant commercial traction and has been discontinued.

Risks to the investment case

- Exposure to the construction cycle via its Powertech subsidiary, which may see a protracted period of low activity levels
- Slow progress in management action with respect to taking corrective action
- Any significant poor capital allocation

Images: supplied

Less tax, more pension

Professor Matthew Lester, a member of the Davis Tax Committee, shared **useful tax tips for retirees** at the recent FPI Retirement and Investment Convention.

NEWS

In financial planning, pre-retirement and the benefits of contributing to a retirement fund enjoy a lot of attention, while the optimisation of tax after retirement sometimes takes a back seat. Here are a few ways in which your clients can cut their tax bill.

1 Medical scheme contributions

After age 65, the 7.5% limit in terms of how much of your medical expenses you can deduct falls away. A third of your qualifying medical expenses are tax-deductible – as long as there's proof of the expense. Urge your clients to keep all medical receipts.

2 RA contributions

After last year's amendment to the Income Tax Act, it's no longer necessary to retire from your employer's fund (if the fund rules now allow for continued membership) or from your personal retirement annuity (RA) when you retire from your job.

This means your clients can phase in their retirement over many years to build up a larger tax-free savings pot and make their money last longer. It will also be technically possible to draw income from an employer fund after retirement and at the same time contribute up to 27.5% of income (from 1 March 2016) to an RA – tax-deductible.

An RA can also be a great estate-planning tool. It has the added benefit of the assets being exempt from estate duty, bar all excess contributions that weren't tax-deductible, as per the Treasury's 2015 proposal.

Professor Lester advised against leaving assets intended for your spouse in an RA, as your spouse already enjoys the 'spouse's rebate' – so you wouldn't reduce the estate duty payable if your spouse is nominated as beneficiary. From an estate duty point of view, your children or any heir other than your spouse would make more sense as a beneficiary. (Bear in mind that the trustees ultimately decide who will get your client's share in the retirement fund. The nomination will guide them, though.)

3 General and age rebates

Fortunately, there are a few things to look forward to as we age. For the 2015/16 tax year, taxpayers under the age of 65 can make use of a R13 257 rebate. Add R7 407 if you're older than 65 and another R2 466 if you're older than 75. This means that, if your client is 75 or older, they would not be paying any income tax on any taxable income up to R128 500.

4 Capital gains exemption

Chances are good that your client has discretionary savings, such as those in a unit trust or personal share portfolio, in addition to her living or life annuity. To optimise her discretionary money drawdowns, you would need to keep a close eye on the value and the type of investment she cashes in. Make sure she uses as much as possible of the annual R30 000 capital gains exemption without becoming liable for capital gains tax – and not by cashing in investments that lost money because of temporary market adjustments.

5 Donations

Lastly, remind your client that all individuals, irrespective of their age, may deduct donations to public benefit organisations of up to 10% of their taxable income (excluding retirement fund lump sums and severance benefits).

This list is not exhaustive; it simply highlights the most common and easiest ways to minimise your client's tax bill. While tax is unavoidable, the tax alpha a financial planner can add to a client's total portfolio is invaluable.

China's growth prospects dimming

A slowdown was expected but **how prolonged and deep will it be?**

By Arthur Kamp
Investment Economist

NEWS

Although policymakers have some big levers to pull, including possible expansionary monetary and fiscal policy, that may underpin real economic activity for some time, China's long-term real GDP growth prospects have dimmed.

Slowdown not unexpected

In 2011, Barry Eichengreen, Donghyun Park and Kwanho Shin, in a joint paper[1], warned of the pending slowdown in China's growth. They identified a number of growth drivers, but the broad thrust of their argument is that economies can grow fast for a period by shifting labour from the primary sector to the secondary industry, while 'importing' and applying technology from abroad. These developments typically boost productivity and GDP growth, but not indefinitely.

Ultimately, they observe, once an economy reaches a particular stage of development, a growth slowdown typically occurs as economies struggle to continue extracting robust productivity gains from these drivers. Characteristics of this 'stage of development' include a median GDP per capita level of just over US$15 000 in 2005 constant international prices and manufacturing employment of around 23% of total employment. Roughly, China is approaching this point.

Viewed from this perspective, the slowdown in China's growth rate is therefore no surprise. But the question is just how prolonged and deep the slowdown will be.

Will throwing more capital at the problem help?

There is reason for concern. China's fixed investment expenditure has been exceptionally strong for decades. Accordingly, the level of capital stock has increased sharply relative to both GDP and labour input.

During the first decade of this century China's investment ratio climbed from around 30% of GDP to close to 50% of GDP, while the real capital stock increased, on average, by more than 10% per annum. This is exceptionally high and cannot continue indefinitely.

For a time, strong investment spending drives productivity and GDP growth. But as the capital stock continues to expand for a given level of GDP and labour, it becomes more difficult to sustain growth as an increasing share of investment goes towards replacing ageing plant and machinery.

An increasingly smaller portion of investment is in new machinery and equipment. Although productivity is boosted at first when workers are equipped with new machinery, the marginal product of capital (the increase in output per additional unit of capital input) decreases as more and more capital is added for a given level of the workforce.

Investment in property has already declined markedly, but overall fixed investment spending continues to outpace growth in GDP, while the ratio of investment in output has remained high at close to 50%. It seems unlikely that this can continue.

Declining demographics

China's demographic trends are not favourable. Indeed, the country's working-age population is going into decline. GDP growth is a function of employment and productivity.

Given a declining labour force, long-term growth is dependent on productivity growth. But, considering the above, productivity growth is likely to slow significantly.

Looking ahead, China's economic growth seems set to disappoint materially, while a defining feature of further moderation in China's growth is likely to be a falling share of investment in GDP.

What does this mean for investors?

China is currently the world's second-largest economy and a net importer of commodities, which means commodities countries like South Africa will be affected. Investors will need to taper their expectations regarding equity returns over the next few years.

[1] Eichengreen, B., Park, D. and Shin, K. *When Fast Growing Economies Slow Down: International Evidence and Implications for China*, National Bureau of Economic Research Working Papers, Working Paper 16919, March 2011.

SIM Value Fund – in it for the long run

The value and growth styles take turns to lead the investment pack, with each stage of this cycle normally lasting two to three years.

However, since September 2011 the MSCI SA Value Index has underperformed the MSCI SA Growth Index – the longest run of underperformance since 1997. How long can this continue?

Portfolio Manager Ricco Friedrich says, 'A big portion of the long-term outperformance by value managers comes from a focus on preserving capital when valuations are extreme [as is currently the case] and then return to normal.'

The SIM Value Fund is for the long run, through all market cycles.

Despite markets not favouring the value style of investing, over the past three years to 31 August 2015, the SIM Value Fund's annualised performance only marginally lagged that of the FTSE/JSE All Share Index.

These factors contributed to the success of the fund:

- Successful bottom-up stock-picking
- The requirement for a large margin of safety when allocating capital
- Valuation metrics that are consistently lower than the market
- Buying reasonably valued companies with greater upside return potential than the market.

True-to-label value investing

As one would expect from a value fund, the price/earnings (P/E) ratio and price to net asset value (NAV) are significantly lower than the market. For example, the fund's one-year forward P/E ratio (indicated in the chart below) is currently 10.7 versus the ALSI's P/E ratio of 15.2.

At the same time, sporting the colours of a true value fund, the dividend yield and two-year earnings growth are higher than that of the FTSE/JSE All Share Index.

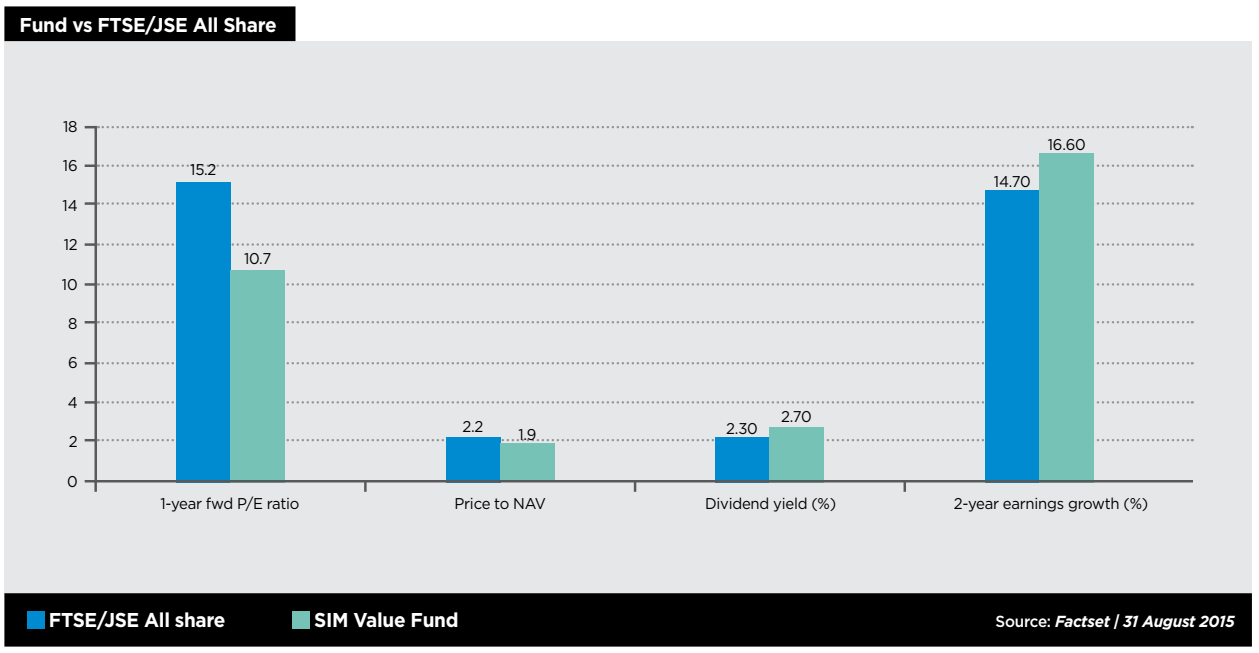
Run by veterans in value management

Ricco Friedrich and Claude van Cuyck run the SIM Value Fund. They strive to deliver superior long-term investment returns by following a value-based framework with a focus on the facts and detailed competitive and financial analysis rather than by predicting short-term earnings forecasts.

Why choose this fund

- It's a true-to-label value fund.
- Our value investment philosophy has delivered superior long-term performance.
- The fund can invest up to 25% in offshore assets, increasing the opportunity to invest in good companies at a discount.
- Our fund managers are experienced and passionate investment professionals with access to expert research resources and capabilities.

Fund vs FTSE/JSE All Share

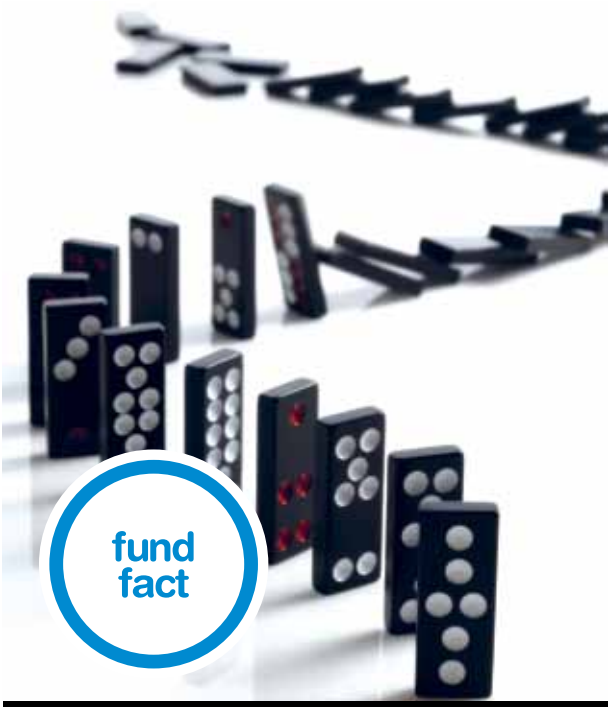


Considering investing? Here are key facts about the fund:

Fund category	SA – Equity – General
Risk profile	Aggressive
Max equity	100%, of which up to 25% may be offshore
Benchmark	FTSE/JSE All Share Index
Minimum time horizon	5 years
Launch date	1 October 1998
Initial advice fee (max)	3.42%
Initial manager fee	2.28%
Annual advice fee (max)	1.14%
Annual manager fee	1.53%
Total expense ratio (TER)	1.61%

The retail class of this fund has a TER of 1.61% for the year to 31 March 2015. For the period from 1 April 2014 to 31 March 2015, 1.61% of the average net asset value of the portfolio was incurred as charges, levies and fees related to the management of the portfolio. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

Please check the fund's factsheet on *www.sanlamintelligence.co.za/fact-sheets* for more information on the fund. It is available from the manager free of charge.



How do the portfolio managers define risk?

The portfolio managers' definition of risk is not the short-term volatility of relative returns versus the market, but rather the risk of a permanent loss of capital and your investment not keeping up with inflation.

Image: Thinkstock

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