



Sanlam Collective Investments (RF) (Pty) Ltd
Annual Report | 2018

Investments



CEO Report



Dear investor

I am pleased to share with you the highlights of Sanlam Collective Investments in 2018 and a preview of what you can expect in the year to come.

A brief overview of the markets

2018 will be remembered as a tough year for financial markets, both internationally and here in South Africa. Early in the year international trade was disrupted by President Trump's announcement of tariffs on imports. This was mostly aimed towards China. Nine months later the IMF revised its growth forecast for the global economy down, citing escalating trade tensions and emerging market stress.

Partly as a result of Trump's trade tariffs, lower tax rates in the US and a more lenient fiscal policy, the US economy has diverged from other economies and led global growth in 2018. During the year the Fed continued to hike its federal funds rate, up from 1.25 - 1.5% at the start of the year to 2.25 - 2.5% at the end of the year. As a result, the US yield curve has started to flatten significantly. In the past this was a strong indicator of a potential US recession.

Locally, a technical recession set in, the first in nine years. In general, 2018 was a tough year for the South African consumer, with persistently high unemployment, a VAT hike in April and petrol prices hitting a record high during the year. As a result, consumer confidence ended the year on a rather bleak note.

An unusual number of SA businesses experienced steep declines in their share price during 2018 for diverse reasons, some of these relate to misrepresentation, regulatory action, and perceived poor handling of a crisis. Steinhoff, the Resilient Group, Aspen, Tiger Brands, and MTN come to mind, to name a few.

Asset class returns

Notwithstanding the challenging macro-economic environment, several international stock markets, such as the S&P 500 and the Nasdaq, managed to hit record levels in the first 9 months of the year. The Nikkei hit a 27-year high. Then "red October" arrived, which sent markets plunging worldwide, causing an estimated loss of \$2 trillion across world markets. Unsurprisingly, most asset classes as a result delivered disappointing returns for 2018. For the full calendar year of 2018, the ALSI and listed property returned -8.53% and -25.26% respectively. The ALBI returned 7.69% and cash 7.25%. Internationally, the MSCI World Index returned -8.71% in US dollar.





Our fund performance highlights

We are very proud of the achievement of the Sanlam Multi Managed Conservative Fund of Funds, which was the 2018 Raging Bull Award winner for risk-adjusted performance. All multi asset (balanced) funds across the low, medium and high equity categories in the industry were considered for this award. This means that the fund came first across the three industry categories in which the bulk of the industry's retirement money is invested - a phenomenal achievement.

In addition, the SIM Enhanced Yield Fund was named the best SA Interest-Bearing Short-Term Fund once again, which means it has remained first in its category for the three years to the end of 2014, 2016, 2017 and 2018! The consistently strong track record of the fund demonstrates its ability to outperform during increasing and decreasing interest rate cycles. This fixed interest fund aims to offer investors a better return than that of a money market fund over 12 months or longer.

For the second year in a row the Sanlam Global Property Fund scooped the Raging Bull certificate for the Best FSCA-approved Offshore Global Real Estate General Fund.

We are also very pleased that all three of our single manager multi asset unit trust funds, namely the SIM Balanced Fund, SIM Inflation Plus Fund and the SIM Active Income Fund, delivered either first or second quartile performance over the three and five year periods to 31 December 2018, as seen in the performance table below.

Fund	3 Years Rank	5 Years Rank
SIM Enhanced Yield Fund	1/26	1/23
SIM Inflation Plus Fund	31/114	10/77
SIM Balanced Fund	33/140	43/93
SIM Active Income Fund	21/61	16/44
SIM General Equity Fund	52/128	26/103

Source: Morningstar Direct | 3-year and 5-year returns to 31 Dec 2018 | Past performance is not an indication of future performance. The return is calculated on a NAV-NAV basis, with income reinvested on a lump sum invested at the start of the measurement period.



What does **2019** hold?

2018 was not the first time that we experience a negative calendar year in local equities, listed property and hence in many high equity balanced funds too. There is no guarantee that history will repeat itself, but it's worth noting that, in the past 20 years, every year of negative equity returns was followed by a year of double digit returns.

While it's near impossible to forecast when the tide will turn, what we do know is that when markets start running, they usually rally hard and it's important to be in the market from day one to capture the upswing.

Regulatory changes

A significant part of our year was devoted to playing our role in combating financial crime through making sharp adjustments to our transaction interfaces with investors, operational platforms and supporting processes. We planned and implemented a risk-based approach to on-boarding clients as required by the new FIC Amendment Act, which will come into effect on 1 April 2019. We also took stringent steps to prohibit the inflow of funds without the prior identification, verification and screening of potential new investors. The phenomenon of financial crime such as money laundering and terrorist financing threaten economic and investment performance. SCI's commitment to the regulatory framework is underpinned by our commitment to the guardianship of our investors' wealth.

Other developments at Sanlam Collective Investments

We have diversified our income streams with the take on of several co-named fund manager partnerships and funds and the administration of another Collective Investment Scheme management company in the Sanlam Group. The strategy with co-name partnerships is to offer our services to fund managers who have other relationships with the Sanlam group or where Sanlam holds strategic equity stakes.

We have optimised our operating model and service arrangements with our external service provider Silica and during the year successfully insourced the processing of all investor registrations and subsequent instructions to manage their investments. This resulted in a significant improvement of our service levels.

Keeping pace with global initiatives towards digital transformation and protecting sensitive client information, SCI took progressive steps towards improving our investor portal for self service through user-selected security credentials. This was done alongside discontinuing the dissemination of posted and emailed quarterly investor statements, which have become more prone to interception and decryption at current industry security practices. The stopping of post in particular is a small contribution to Sanlam's carbon footprint reduction. All the utility of the traditional statement has been made available on the secure portal in addition to a host of new features and functions.

Thank you for your business and ongoing support. The SCI team is committed to guard your wealth and to provide you with great client experiences in the process of doing so.

Yours sincerely

Liezl Myburgh
CEO: Sanlam Collective Investments

Report of the trustees



We, the Standard Bank of South Africa Limited, in our capacity as Trustee of the Sanlam Collective Investments Scheme (“the Scheme”) have prepared a report in terms of Section 70(1)(f) of the Collective Investment Schemes Control Act, 45 of 2002, as amended (“the Act”), for the financial year ended 31 December 2018.

In support of our report we have adopted certain processes and procedures that allow us to form a reasonable conclusion on whether the Manager has administered the Scheme in accordance with the Act and the Scheme Deed.

As Trustees of the Scheme we are also obliged to in terms of Section 70(3) of the Act to satisfy ourselves that every statement of comprehensive income, statement of financial position or other return prepared by the Manager of the Scheme as required by Section 90 of the Act fairly represents the assets and liabilities, as well as the income and distribution of income, of every portfolio of the Scheme.

The Manager is responsible for maintaining the accounting records and preparing the annual financial statements of the Scheme in conformity with International Financial Reporting Standards. This responsibility also includes appointing an external auditor to the Scheme to ensure that the financial statements are properly drawn up so as to fairly represent the financial position of every portfolio of its collective investment scheme are in accordance with International Financial Reporting Standards and in the manner required by the Act.

Our enquiry into the administration of the Scheme by the Manager does not cover a review of the annual financial statements and hence we do not provide an opinion thereon.

Based on our records, internal processes and procedures we report that nothing has come to our attention that causes us to believe that the accompanying financial statements do not fairly represent the assets and liabilities, as well as the income and distribution of income, of every portfolio of the Scheme administered by the Manager.

We confirm that according to the records available to us, no losses were suffered in the portfolios and no investor was prejudiced as a result thereof.

We conclude our report by stating that we reasonably believe that the Manager has administered the Scheme in accordance with:

- (i) the limitations imposed on the investment and borrowing powers of the manager by this Act;
- (ii) and the provisions of this Act and the deed;

A handwritten signature in black ink, appearing to read 'Melinda Mostert'.

Melinda Mostert
Standard Bank of South Africa Limited

A handwritten signature in black ink, appearing to read 'Seggie Moodley'.

Seggie Moodley
Standard Bank of South Africa Limited

29 March 2019

Summarised information for the year ending 31 December 2018

	Octagon Sanlam Collective Investments Cautious Fund of Funds	Octagon Sanlam Collective Investments Flexible Income Fund of Funds	Octagon Sanlam Collective Investments Growth Fund of Funds	Octagon Sanlam Collective Investments Worldwide Flexible Fund of Funds
Condensed Statement of Comprehensive Income	(R'000)	(R'000)	(R'000)	(R'000)
Income	13 352	3 244	-25 846	-1 776
Expenditure	7 228	172	4 898	484
Operating profit/(loss) for the year before finance costs	6 124	3 072	-30 744	-2 260
Distribution of income	27 808	3 099	11 633	487
Change in net assets attributable to unit holders	-21 684	-27	-42 377	-2 747
Condensed Statement of Financial Position	(R'000)	(R'000)	(R'000)	(R'000)
Net assets attributable to unit holders	790 846	93 654	516 196	44 653
Trade and other payables	78	2	73	45
Related parties payable	605	28	392	34
Cash overdraft	-	-	-	-
Derivatives	-	-	-	-
Distributions payable	14 779	1 671	6 763	271
Liabilities other than net assets attributable to unit holders	15 462	1 701	7 228	350
Investments	804 915	94 565	522 639	44 629
Accrued income & debtors	7	5	4	1
Cash and bank balances	1 386	785	781	373
Total Assets	806 308	95 355	523 424	45 003
Portfolio composition	(%)	(%)	(%)	(%)
Basic Materials	-	-	-	-
Bonds	-	-	-	9,02
Consumer Goods	-	-	-	-
Consumer Services	-	-	-	-
Financials	-	-	-	-
Health Care	-	-	-	-
Industrials	-	-	-	-
Oil & Gas	-	-	-	-
Property	-	-	-	-
Technology	-	-	-	-
Telecommunications	-	-	-	-
International Assets	-	-	-	-
Other Securities	-	-	-	-
Holdings in Collective Investments Schemes - International	2,15	-	2,20	17,86
Holdings in Collective Investments Schemes - Local	97,68	99,17	97,66	72,42
Liquid Assets	0,17	0,83	0,14	0,70
TOTAL	100,00	100,00	100,00	100,00
Investment Performance	(%)	(%)	(%)	(%)
One year up to 31/12/2017	8,84	-	10,23	8,15
One year up to 31/12/2018	0,93	-	-5,46	-4,76
All-share Index 2018: -11.37% 2017: 17.47%				
Fees	(%)	(%)	(%)	(%)
Maximum Initial fee	-	-	-	-
Service fee (including VAT)	0,87%	0,35%	0,87%	0,87%
Total Expense Ratio (TER)	1,79%	0,98%	1,84%	2,22%

Summarised information for the year ending 31 December 2018

	March 2018	June 2018	September 2018	December 2018	Total
Distribution per unit (cents per unit)	C	C	C	C	C
Octagon Sanlam Collective Investments Cautious Fund of Funds	-	17,45	-	19,51	36,96
Octagon Sanlam Collective Investments Flexible Income Fund of Funds	-	-	18,66	17,87	36,52
Octagon Sanlam Collective Investments Growth Fund of Funds	-	9,30	-	13,10	22,40
Octagon Sanlam Collective Investments Worldwide Flexible Fund of Funds	-	5,16	-	6,20	11,36

The full annual report is available to all investors.

Kindly send your personal details together with your collective investment account number to:

Sanlam Collective Investments, PO Box 30, Sanlamhof 7532

Or visit our **Client Contact Centre** at:

Sanlam Head Office, 2 Strand Road, Sanlamhof, Bellville, South Africa

An electronic version of our annual report is available on our website or can be requested from our Client Contact Centre or via e-mail.

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The Sanlam Group is a full member of the Association for Savings and Investment SA. Collective investment schemes are generally medium- to long-term investments. Please note that past performances are not necessarily an accurate determination of future performances, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager, Sanlam Collective Investments (RF) Pty Ltd, a registered and approved Manager in Collective Investment Schemes in Securities. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained from the Manager, free of charge. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding tax. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Lump sum investment performances are quoted. The portfolio may invest in other unit trust portfolios which levy their own fees, and may result in a higher fee structure for our portfolio. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 ("CISCA"). International investments or investments in foreign securities could be accompanied by additional risks such as potential constraints on liquidity and repatriation of funds, macroeconomic risk, political risk, foreign exchange risk, tax risk, settlement risk as well as potential limitations on the availability of market information. The Manager has the right to close any portfolios to new investors to manage them more efficiently in accordance with their mandates. A Fund of Funds is a portfolio that invests in portfolios of collective investment schemes that levy their own charges, which could result in a higher fee structure for the fund of fund. A feeder fund is a portfolio that invests in a single portfolio of collective investment schemes, which levies its own charges and which could result in a higher fee structure for the feeder fund. A money market portfolio is not a bank deposit account. The price is targeted at a constant value. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument and in most cases the return will merely have the effect of increasing or decreasing the daily yield, but that in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. Total Expense Ratio (TER) is a percentage of the value of the Financial Product was incurred as expenses relating to the administration of the Financial Product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. Transaction Cost (TC) is a percentage of the value of the Financial Product was incurred as costs relating to the buying and selling of the assets underlying the Financial Product. Transaction Costs are a necessary cost in administering the Financial Product and impacts Financial Product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Financial product, the investment decisions of the investment manager and the TER. The Manager retains full legal responsibility for the third-party-named portfolio. The portfolio management of all the portfolios is outsourced to financial services providers authorized in terms of the Financial Advisory and Intermediary Services Act, 2002. Standard Bank of South Africa Ltd is the appointed trustee of the Sanlam Collective Investments Scheme.



Investments

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