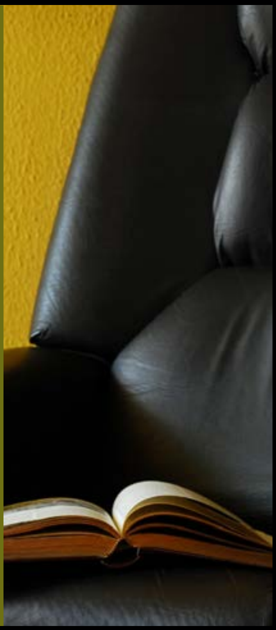


Sanlam

Sanlam Collective Investments (RF) (Pty) Ltd

Annual Report | 2016

Investments

Brackenham

CEO Report

Dear investor

I am pleased to share some of Sanlam Collective Investments' 2016 highlights with you.

We remain focused on offering you an extensive range of funds designed to help you and our advisers construct portfolios that suit your needs and help you meet your long-term investment goals.

Fund performance highlights from 2016

Some of our top-performing funds for 2016 include:

Top 5 funds	1-year performance
SIM Resources Fund	32.42%
SIM Bond Plus Fund R	15.58%
Sanlam Select Bond Plus Fund B3	15.24%
Graviton SCI Flexible Income Fund B2	10.83%
SIM Value Fund B8	10.47%

Source: Morningstar | 1-year return to 31 Dec 2016 | 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.

Overview of asset class returns for 2016

The year 2016 was exceptional for bonds, with the All Bond Index the clear winner at a 15.45% total return for the calendar year. Listed property kept up the pace at 10.2%, while the FTSE/JSE All Share Index disappointed with its 2.63%, lagging SA inflation and the 7.37% performance of cash. The MSCI World Index ($) and the MSCI Emerging Markets Index ($) returned 7.51% and 11.22% during 2016. However, the strong appreciation of the rand during the year meant that most South Africans invested in these global indices would have experienced a negative net return after taking into account the strengthening of the rand in 2016: 13.21% against the US dollar, 34.93% against the British pound and 16.67% against the euro.

Total returns for South African asset classes for 2016 were as follows:

Index	12 Months (R)	12 Months (US$)
MSCI World Index (Global Equities)		7.51%
MSCI Emerging Markets Index (Equities)		11.22%
JPMorgan Global Bond Index		1.9%
JPMorgan Emerging Market Bond Index		9.6%
Bloomberg Barclays Global Inflation Linked Bond Index		10.1%
FTSE/JSE All Share Index	2.6%	
BEASSA All Bond Index	15.45%	
SA Barclays Inflation Linked Bond Index		10.2%
FTSE/JSE Listed Property Index	10.2%	
STeFI Composite Index	7.4%	
STeFI Composite Index	6.46%	-20.52%

Source: Morningstar and I-Net | 1-year return to 31 Dec 2016 | Past performance is not an indication of future performance.

A brief overview of **the markets** in 2016

The year 2016 will be remembered for a few big geopolitical surprises, namely Brexit and the election of Donald Trump as US president. Both of these events were largely driven by populism and protectionism. One could call it the 'revenge of the middle class'. The election of Donald Trump led to a sharp increase in US treasury yields (and global yields) as markets anticipated fiscal stimulus (increased government spending) from the US, deregulation and a possible increase in trade barriers. We saw a global sell-off in previously loved asset classes like property and bonds, while value stocks started to outperform substantially after the election results.

The year will also be remembered as a mostly uninspiring year for equities. In the US, Trump's clean sweep Republican victory is likely to result in a mix of tax cuts and government spending. This has caused havoc in the bond market with 30-year US bonds experiencing their most vicious sell-off in the last 40 years. This may be the beginning of the global bond yield climb as inflation looks set to rise through increased government spending, tax cuts and import tariff protection.

In South Africa, political events also drove the market and we saw continued political infighting, which led to lots of currency volatility and market concerns about a ratings downgrade as the dominant themes in 2016. We started 2016 reeling from the 'Nenegate' episode and the finance minister sidestepping accusations from the Hawks. The rand staged a recovery during the course of 2016 after being oversold after the Nenegate wobble at the end of 2015. It gained 11% against the US dollar, and closed at R13.68/$ from R15.49/$ the previous year.

A peek at **2017**

Just when we thought we'd staved off a ratings downgrade, our worst fears were realised in April 2017 with the double ratings downgrades by Standard & Poor's (S&P) and Fitch, following President Zuma's sudden recall of then-Finance Minister Pravin Gordhan from his roadshow in the UK. Fitch's recent downgrade has more serious implications than that of S&P. While S&P downgraded only SA's foreign currency debt to sub-investment grade ('junk'), Fitch downgraded SA's foreign and local currency debt. In their statement Fitch indicated that the Cabinet reshuffle could lead to a change in the direction of economic policy and undermine the past year's progress made in reining in expenditure of state-owned enterprises. Moody's are holding back for now.

While there was initially a high level of uncertainty and volatility in the market, the impact on financial markets and the local currency has been less than expected. This is because the downgrade seems to have been mostly priced in. Having said that, the outlook for markets is uncertain. Looking at the global economy, there are signs of strength and renewed growth, for example US infrastructure spending with its reliance on natural resources, which could benefit South African companies and our currency. But the risk of additional downgrades of South Africa's credit ratings is also casting a shadow over South African shares and bonds. Should our political situation stabilise in the near future, the impact of that could be positive for South African bond prices and the Rand.

While it may be tempting to run to cash for safety, the best investments tend to be made when the market is on 'sale' and quality stocks are sold off indiscriminately. Investors who take the long view and invest when others lose their heads are the ones who come out on top. This time is no different.

The strength of multi-asset classes

Although our substantial domestic bond position was initially hurt by the jump in bond yields, combined with a 10% weakening of the currency, the year-to-date performance of local bonds is still positive and in line with that of global bonds in rand terms.

Our entire offshore position, which we increased to very close to the maximum position of 25% just days before Minister Gordhan's recall, benefitted from the movement in the currency. This more than offset the loss in our local bond holdings. The local equity holding in the balanced portfolios benefitted from a solid exposure to rand hedge stocks and increased in value during these times of turmoil. All of this illustrates again the benefits of a well-diversified, multi-asset portfolio.

Invest for the long term

Despite the recent volatility and turbulence in the markets, this is a relatively short time in the lifetime of an investor. The JSE remains the best performing market globally since 1900. Our market has withstood credit downgrades, political and economic isolation, wars and worse phases of economic turmoil and will keep on rewarding investors focussed on the long term.

Experience matters

It's in times like these that having a strong philosophy and process shows its mettle. Our consistently cautious management style has assisted our portfolios to weather the recent volatility reasonably well.

As a value-orientated investment manager, our pragmatic valuation driven philosophy has served us well in turbulent times. In addition, we have various strategies in place to mitigate risk and protect your investment against severe market movements and we are disciplined in how we apply our investment process.

Regulatory **changes**

During 2016 we managed the implementation of two key changes in the regulatory environment, namely collective investment schemes in hedge funds and a new Asisa standard for the disclosure of Effective Annual Cost (EAC).

Hedge funds

Following the Global Financial Crisis in 2008, South Africa as a committed member of the G20 embarked on a process to enhance and expand the scope of regulation and oversight over hedge funds. Treasury and the Financial Services Board coordinated inputs from industry and in April 2015 South Africa became the first country to implement comprehensive regulation for hedge fund products. The new regulations brought South African hedge funds under the supervisory and regulatory provisions of the Collective Investment Schemes Control Act (CISCA).

Previously hedge funds were only available to institutions and high-net-worth investors. Since the promulgation of the new regulations, both retail and qualified investors have the opportunity to invest in hedge funds:

- Qualified investor funds are intended for investors who have R1 million or more to invest and these investors must have a clear understanding of the market and the associated investment risks.
- Retail investor hedge funds are open to all investors. However, they are more strictly regulated than qualified investor hedge funds, and the risks they are allowed to take are limited.

Sanlam Collective Investments received approval for its Retail and Qualified Investor Hedge Fund schemes in April 2016 and launched its first funds in July 2016. By the end of year we had eleven Retail and seven Qualified Investor Hedge Funds available to investors.

Although the regulation of hedge fund products is new, hedge fund managers in South Africa have been regulated for a number of years and must comply with the Category IIA license requirements of the FAIS Act before they can manage investors' funds.

Other developments at **Sanlam Collective Investments**

During 2016 we made a considerable effort to stabilise the outsourcing of parts of our IT and administration processes to Silica Administration Services. The introduction of Silica as a strategic partner has realised the following benefits for investors:

- Faster pay-outs of disinvestments and income distributions
- Improved quality of reporting in quarterly investor statements and annual tax reports
- Additional features in the secure services portals for investors, and
- The introduction of a secure services portal for intermediaries.

Sanlam Collective Investments embarked on a number of other projects during the year to simplify and shorten instruction forms and enable the digital completion thereof, to improve the content and navigation on our public website and make online investments possible with a few easy clicks. We have changed our recruitment policy and are proud of the calibre of consultants we now have in our contact centre. Lastly, we have waived our initial fees on all new investments – that puts more money into your hands.

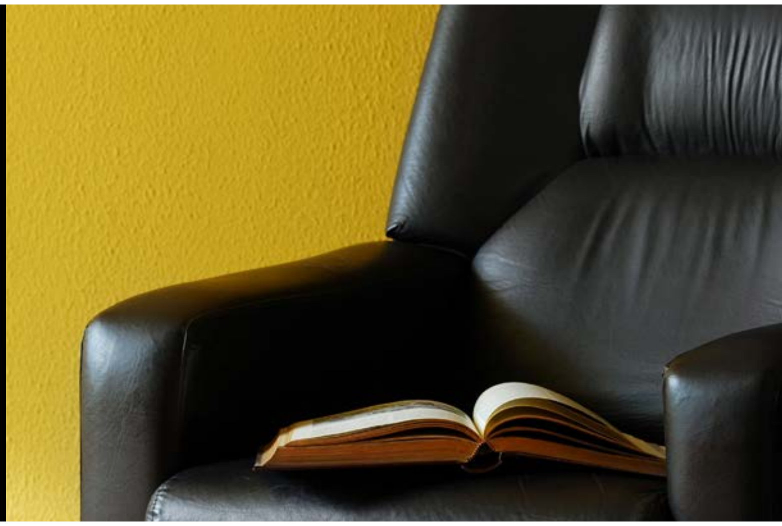
Throughout 2017 we will persist in our endeavours to continue improving your client experience and hope your investment outcomes will meet your expectations in 2017. Thank you for your continued support.

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 2016.

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;

Melinda Mostert
Head: Trustee Services

Seggie Moodley
Head: Risk and Legal
(Trustee Services)

STANDARD BANK OF SOUTH AFRICA LIMITED
27 June 2017

Summarised information for the year ending 31 December 2016

	Brackenham Sci Managed Fund
Condensed statement of comprehensive income	**(R'000)**
Income	5 261
Expenditure	9 692
Operating profit/(loss) for the year before finance costs	**-4 431**
Distribution of income	9 248
Change in net assets attributable to unit holders	**-13 679**
Distribution per unit (cents)	**3.13** **5.92 (B1)**
Condensed statement of financial position	**(R'000)**
Net assets attributable to unit holders	**498 938**
Trade and other payables	62
Related parties payable	707
Distributions payable	5 630
Liabilities other than net assets attributable to unit holders	**6 399**
Investments	482 419
Accrued income & debtors	887
Cash and bank balances	22 031
Total Assets	**505 337**
Portfolio composition	**(%)**
Basic Materials	6.71
Consumer Goods	6.51
Consumer Services	-
Financials	7.87
Health Care	1.15
Industrials	4.19
Oil & Gas	2.05
Property	3.22
Telecommunications	4.51
Technology	-
International Assets	-
Other Securities	7.16
Holdings in Collective Investments Schemes - Local	4.60
Holdings in Collective Investments Schemes - International	24.49
Liquid Assets	27.53
TOTAL	**100.00**
Investment Performance	**(%)**
One year up to 31/12/2016 One year up to 31/12/2015 **All-share Index 2016:** 0.08% **2015:** 1.85%	-0.98 9.09
Fees	**(%)**
Maximum Initial fee (including VAT)	-
Service fee (including VAT)	1.71(A) 0.17 (B1)
Total Expense Ratio (TER)	2.21 (A) 0.34 (B1)

SIN002 7/2017

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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