

FUND RATING ANNOUNCEMENT

GCR accords a fund rating* of AA_{(ZA)(f)} to Sanlam Investment Management Enhanced Yield Fund; Outlook Stable.

Johannesburg, 29 November 2017 -- Global Credit Ratings has accorded Sanlam Investment Management Enhanced Yield Fund a national scale fund rating* of AA_{(ZA)(f)}; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above fund rating to Sanlam Investment Management Enhanced Yield Fund ("SIM EYF", "the fund"), key features of which are summarised below, based on the following key criteria:

Fund summary

Fund currency	South African Rand
Fund data review date	30 September 2017
Assets under management ("AUM")	R4.69bn
Net asset value ("NAV")	Market value (variable NAV)
Fund benchmark	STeFI+0.5%

Fund rating factors: GCR qualitatively assesses the fund's management, and performs an evaluation of the fund portfolio's historical performance in terms of price/return volatility, underlying asset quality, and market and liquidity risks.

Fund profile: The fixed income mandate of the fund aims to deliver total returns exceeding those offered by money market ("MM") funds. The mandate prioritises capital preservation, attracting retail, corporate and institutional investors. The fund complies with regulatory limits, investment policy, and the trust deeds, and features 3 day liquidity and a 2 year weighted average duration ("WAD") limit.

Manager profile: Sanlam performs fund and investment management functions in house, outsourcing selected administration activities. GCR assesses SIM EYF as being managed within a very strong fund management and control environment, supporting the rating. The capacity, capability and competence of Sanlam Investment Management ("SIM") and Sanlam Collective Investments facilitate achievement of performance objectives within mandate constraints. Marketing, risk/compliance and administration follow market best practices.

Investment performance: The fund's return has exceeded its benchmark since inception. Volatility over 3 and 5 year time horizons is assessed as moderate. AUM growth has been strong over the past 3 years, highlighting the appropriateness of the fund's mandate and execution in meeting investor requirements.

Portfolio quality and market risks: GCR's portfolio analysis considered credit/concentration risk, tenor/duration (and limits), NAV volatility, and additional sources of market risk, in addition to SIM EYF's stress-tested weighted average credit rating ("WACR") of 'AA_(ZA)', in determining the fund rating.

Fund risks: Very high investor concentration and high counterparty concentration, and tenor-based exposure, are SIM EYF's key risks. The fund's very high investor concentration is a function of its top 10 investors/holdings being other SIM managed funds which utilise the fund as a strategic holding of MM assets. Credit concentration is a systemic issue in South Africa, and affects most variable rate, short-term fixed income funds (ie, MM funds and other cash strategies), due to the typically high allocation of bank securities in these funds' portfolios. The fund manages this by adding selected corporate, government and structured instruments to the portfolio, while maintaining high credit quality. The mandated duration limit matches the fund's investment horizon, while actual WAD was within the mandated upper limit. SIM EYF's long maturity profile (weighted average maturity of 4.1 years) raises spread risk.

An increase in the WACR of the portfolio, accompanied by a sustained reduction in tenor and stability or improvement in concentration risks. Furthermore, a sustained track record of low volatility could enhance the rating. Mandate breaches, and/or significant increase in the volatility of the fund. Also, a deterioration in the WACR of the fund could negatively affect the rating.

* Fund ratings (denoted by a 'f' modifier) provide an opinion regarding the fund's ability to preserve principal value under varying market conditions; with reference to the relevant asset management environment. Refer to published rating scales and definitions.

NATIONAL SCALE RATINGS HISTORY

Initial/last rating (November 2017)

Fund rating: AA⁻(ZA)(f)

Outlook: Stable

ANALYTICAL CONTACTS**Primary Analyst**

Kurt Boere

Senior Credit Analyst

(011) 784-1771

boere@globalratings.net

Committee Chairperson

Jennifer Mwerenga

Senior Credit Analyst

(011) 784-1771

jennifer@globalratings.net

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Funds and Asset Managers, updated March 2017

RATING LIMITATIONS AND DISCLAIMERS

ALL GCR'S CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, GCR'S RATING SCALES AND DEFINITIONS ARE ALSO AVAILABLE FOR DOWNLOAD AT THE FOLLOWING LINK: [HTTP://GLOBALRATINGS.NET/RATINGS-INFO](http://GLOBALRATINGS.NET/RATINGS-INFO). GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, PUBLICATION TERMS AND CONDITIONS AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE AT [HTTP://GLOBALRATINGS.NET](http://GLOBALRATINGS.NET).

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable fund rating document.

Sanlam Investment Management (Proprietary) Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The fund rating has been disclosed to Sanlam Investment Management (Proprietary) Limited with no contestation of the rating.

The information received from Sanlam Investment Management (Proprietary) Limited and other reliable third parties to accord the fund rating included:

- A breakdown of the fund investment portfolio, including information on the instruments, their terms, conditions and credit quality;
- A breakdown of the fund investor portfolio, including fund flows and withdrawal terms;
- Detail on historical fund returns, fee structures, and expense ratios (where available);
- Details regarding the fund management, investment management and administration activities of the fund;
- Financial statements for Sanlam Investment Management Enhanced Yield Fund, Sanlam Investment Management (Proprietary) Limited and Sanlam Limited at 31 December 2016;

- Corporate governance and enterprise risk framework; and
- Industry comparative data and regulatory framework.

The rating above was solicited by, or on behalf of, Sanlam Investment Management (Proprietary) Limited, and therefore, GCR has been compensated for the provision of the rating.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Asset Value	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Securities	Various instruments used in the capital market to raise funds.



Global Credit Rating Co.

Local Expertise • Global Presence

Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Tenor	The time from the value date until the expiry date of a financial instrument.

For a detailed glossary of terms please click [here](#)

ALL GCR CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS, TERMS OF USE OF SUCH RATINGS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS, TERMS OF USE AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS](http://GLOBALRATINGS.NET/UNDERSTANDING-RATINGS). IN ADDITION, RATING SCALES AND DEFINITIONS ARE AVAILABLE ON GCR'S PUBLIC WEB SITE AT WWW.GLOBALRATINGS.NET/RATINGS-INFO. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. GCR'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE UNDERSTANDING RATINGS SECTION OF THIS SITE.

CREDIT RATINGS ISSUED AND RESEARCH PUBLICATIONS PUBLISHED BY GCR, ARE GCR'S OPINIONS, AS AT THE DATE OF ISSUE OR PUBLICATION THEREOF, OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL AND/OR FINANCIAL OBLIGATIONS AS THEY BECOME DUE. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, MARKET LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND GCR'S OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND GCR'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND GCR'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. NEITHER GCR'S CREDIT RATINGS, NOR ITS PUBLICATIONS, COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS AND PUBLISHES GCR'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

Copyright © 2013 Global Credit Rating Co (Pty) Ltd. INFORMATION PUBLISHED BY GCR MAY NOT BE COPIED OR OTHERWISE REPRODUCED OR DISCLOSED, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT. Credit ratings are solicited by, or on behalf of, the issuer of the instrument in respect of which the rating is issued, and GCR is compensated for the provision of these ratings. Information sources used to prepare the ratings are set out in each credit rating report and/or rating notification and include the following: parties involved in the ratings and public information. All information used to prepare the ratings is obtained by GCR from sources reasonably believed by it to be accurate and reliable. Although GCR will at all times use its best efforts and practices to ensure that the information it relies on is accurate at the time, GCR does not provide any warranty in respect of, nor is it otherwise responsible for, the accurateness of such information. GCR adopts all reasonable measures to ensure that the information it uses in assigning a credit rating is of sufficient quality and that such information is obtained from sources that GCR, acting reasonably, considers to be reliable, including, when appropriate, independent third-party sources. However, GCR cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall GCR have any liability to any person or entity for (a) any loss or damage suffered by such person or entity caused by, resulting from, or relating to, any error made by GCR, whether negligently (including gross negligence) or otherwise, or other circumstance or contingency outside the control of GCR or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits) suffered by such person or entity, as a result of the use of or inability to use any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained in each credit rating report and/or rating notification are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained in each credit rating report and/or rating notification must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER IN ANY FORM OR MANNER WHATSOEVER.