

# STEINHOFF AND YOUR INVESTMENT



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Late last year, Steinhoff International Holdings was ranked amongst the top 50 global shares to watch in 2017 by Bloomberg Intelligence. Then, last week its share price went from R46 to R6 in under three days, its value on the JSE down nearly 80% by close of day on Friday after news broke that Markus Jooste had resigned amid signs of accounting irregularities.

The extent of the irregularities at Steinhoff has yet to be determined, and so far no further information has become available. For this reason, there is very little rational information upon which to make an objective assessment of what exactly has transpired.

Please be assured your portfolio managers at Sanlam Investment Management (SIM) will continue to monitor the situation closely and keep you informed as new information presents itself and the facts become clearer. Our teams remain committed to making rational, factually-based decisions, unswayed by emotions, such as fear and greed.

We share with you insights from SIM's portfolio managers on what you can expect following the Steinhoff debacle.

***“VOLATILITY IS  
NOT THE ENEMY  
OF THE LONG-  
TERM INVESTOR.  
THAT INVESTOR’S  
RESPONSE TO  
VOLATILITY IS.”***

**JOSH BROWN**

### What is the impact on Equities?

Patrice Rassou, Head of Equities at SIM says, 'In investing there is always an element of risk. We try to manage this by assessing downside risk, and exercising vigilance at all times. However, we would do well to remind ourselves that the equity risk premium (the premium we are rewarded for taking on a certain level of risk) is alive and well. For now, we are taking a pragmatic view - acknowledging that there will be some erosion of value - but also that over the medium term part of the value will be restored.'

'We think it unlikely that the share price will recover much in the short term. However, there will be value to be unlocked over the medium term. In our view,' says Rassou, 'the underlying assets within the Steinhoff group are attractive and, should the accounting allegations prove correct, then there is the possibility that these assets can be ring-fenced and the business restructured. We monitor these developments closely.'

### What is the impact on SIM's Balanced funds?

Says Fred White, Head of Balanced at SIM, 'While we feel the impact on our balanced funds, the impact is limited thanks to substantial diversification within our portfolios.'

For all our balanced portfolios, Steinhoff made up about 3% of the SA equity portion of the portfolios at the end of last month (and we did not have any exposure to Steinhoff Africa Retail). With equity exposure varying between 33% and 53% of the

portfolio (depending on the type of mandate), it implies that the 80% loss in the share price so far this month has resulted in losses in fund value ranging from 0.8% in our low equity portfolios to 1.3% in portfolios with the highest equity exposure. In our SIM Balanced Fund that loss was 1.1%.

'Despite the losses, our relatively limited exposure should give investors some comfort about the state of their investment amid the current uncertainty,' says White.

### What is the impact on SIM's Absolute Return funds?

Says Natasha Narsingh, Head of Absolute Return, 'While the sharp decline in the share price has affected fund performance in the short term, this should be negated to some extent by the low level of exposure to equities in our funds as well as the well diversified nature of the funds that we manage. We had no exposure to Steinhoff Retail Africa.'

### What is the impact on Fixed Interest portfolios?

According to Mokgatla Madisha, Head of Fixed Interest at SIM, 'Our exposure to Steinhoff debt in SIM's Fixed Interest funds is relatively limited. The internal credit rating for Steinhoff was relatively good at A+, and was based on previously available information about the company. For the portfolios that have exposure to Steinhoff, it is limited to an average of between 1% and 2% of respective fund values, depending on the risk and return objectives of the respective mandate in question.'

### Our fund exposures at a glance

The table below shows the exposure to Steinhoff of our retail funds on 5 December, the day before the announcement of Jooste’s resignation, versus the exposure on 8 December. It includes equity and fixed interest exposures.

Fund name	% exposure at close of trade on 5 Dec	% exposure at close of trade on 8 Dec
SIM Money Market Fund	0%	0%
SIM Enhanced Yield Fund	1.2%	1.2%
SIM Active Income Fund	1.1%	1.1%
SIM Inflation Plus Fund	1.2%	0.7%
SIM Balanced Fund	1.4%	0.3%
SIM General Equity Fund	3.6%	0.4%
SIM Top Choice Equity Fund	4.9%	0.3%

### How will this play out?

‘At this early stage of the investigation, we are faced with an information vacuum and await the hard facts. However, we suspect the Steinhoff group will need to be restructured from its current form,’ says Rassou. Halting of trade in the group may be likely, the Board may need to be reconstituted and the structure of the business is likely to change. All this will take time and eventually the different components of the business will reform in a new shape and we expect some value to be restored.

### What should clients do?

We need to remind ourselves that volatility in share prices is fundamental to the world of investing, and that keeping a cool head is essential for successful investing. History has shown that investors who take the long-term view are the ones who come out on top.

Stick to your long-term plan, stay calm, stay the course.

## Investments

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The Sanlam Investment Management (SIM) Balanced Fund is a multi-asset, high-equity fund and is exposed to equities, which means the prices will go up and down. The Retail class is the most expensive class offered by the Manager. The maximum fund charges include (including VAT): An initial advice fee of 3.42%; annual advice fee of 1.14% and annual manager fee of 1.25%. The most recent total expense ratio (TER) is 1.67%. For the SIM Money Market Fund the maximum fund charges include (incl VAT): Initial advice fee, 0.34%. Initial manager fee, 0.00%. Annual advice fee, 1.14%. Annual manager fee, 0.57%. Total expense ratio (TER), 0.58%. 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 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. The SIM Active Income Fund is a multiple asset income fund. The Retail class is the most expensive class offered by the Manager. Maximum fund charges include (incl VAT): Initial advice fee, 1.14%. Initial manager fee, 0.00%. Annual advice fee, 1.14%. Annual manager fee, 0.91%. Total expense ratio (TER), 0.92%. The SIM Enhanced Yield Fund is an interest-bearing fund that invests in a wide range of debt instruments. The Retail class is the most expensive class offered by the Manager. The maximum fund charges include (including VAT): An initial advice fee of 0.34%; annual advice fee of 1.14% and annual manager fee of 0.47%. The most recent total expense ratio (TER) is 0.49%. The SIM Inflation Plus Fund is a multi-asset, high-equity fund and is exposed to equities, which means the prices will go up and down. The maximum fund charges include (incl VAT): Initial advice fee, 1.14%. Initial manager fee, 0.00%. Annual advice fee, 1.14%. Annual manager fee, 1.14%. Total expense ratio (TER), 1.25%. The SIM General Equity Fund is an equity fund, which means the prices will go up and down. The maximum fund charges include (incl VAT): Initial advice fee, 3.42%. Initial manager fee, 0.00%. Annual advice fee, 1.14%. Annual manager fee, 1.25%. Total expense ratio (TER), 1.56%. The SIM Top Choice Equity Fund is a high-conviction equity fund, which means the prices will go up and down. The maximum fund charges include (incl VAT): Initial advice fee, 3.30%. Initial manager fee, 0.00%. Annual advice fee, 1.14%. Annual manager fee, 1.02%. Total expense ratio (TER), 1.13%.

Please note that past performances are not necessarily an accurate guide of future performances, and that the value of investments / collective investment units / unit trusts may go down as well as up. Commission may be paid and, if so, would be included with the brokerage charges, securities transfer tax, auditor's fees, bank charges, trustee fees and levies in the overall costs, which will be levied against the fund. A schedule of fees and charges and maximum commissions is available from the manager, Sanlam Collective Investments (RF) Pty Ltd on request. 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 value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Portfolio performance is calculated on a NAV to NAV basis and does not take any initial fees into account. An annualised growth rate is used for all performance data of 12 months or longer. Income is reinvested on the ex-dividend date. Total return performances are published. The source of performance data and risk statistics is Morningstar. Actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The manager has the right to close the portfolio to new investors in order to manage it more efficiently in accordance with its mandate. If the fund holds assets in foreign countries and could be exposed to the following risks regarding potential constraints on liquidity and the repatriation of funds, macroeconomic, political, foreign exchange, tax risks, settlement risks and potential limitations on the availability of market information.