Sanlam

Sanlam Corporate: Investments

Sanlam Blue Lifestage Strategy

Investment Report

Quarter 2 2023

Insurance | Financial Planning | Retirement | Investments | Wealth

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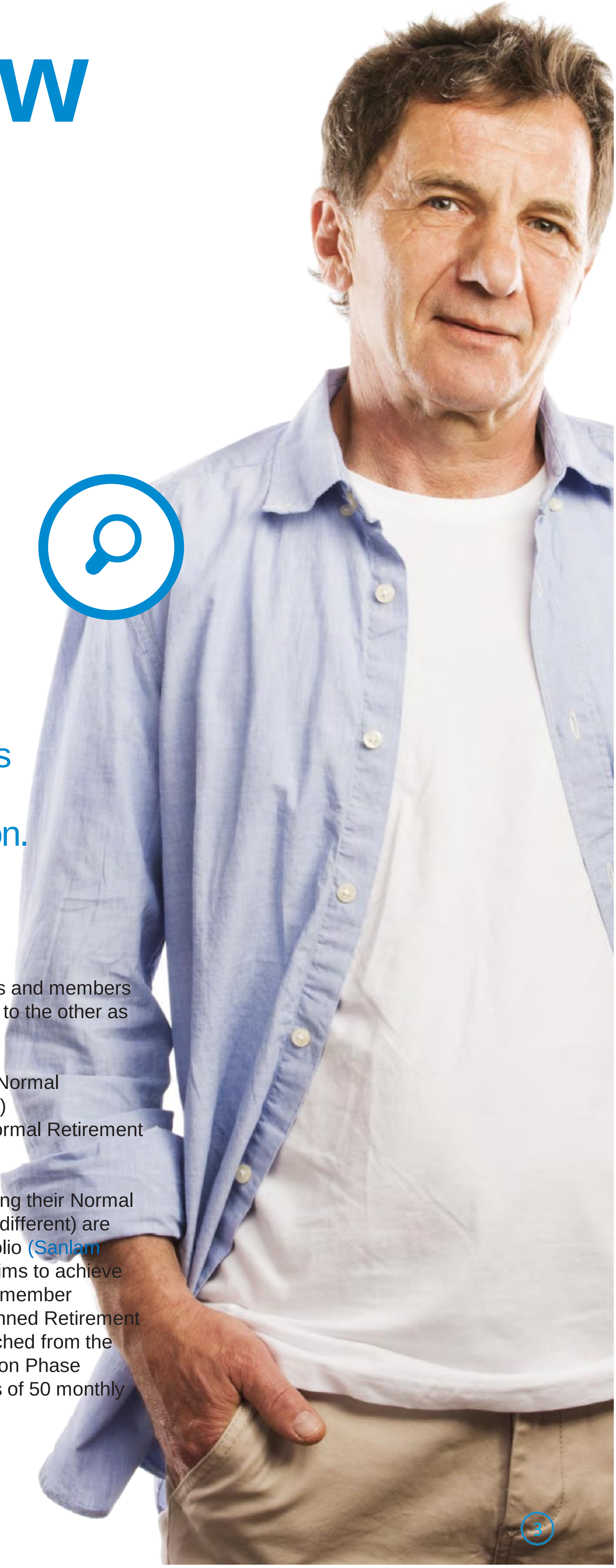
Overview

of the Sanlam Blue Lifestage Strategy



Sanlam Blue Lifestage Strategy aims to meet a member's retirement savings requirement in a single seamless investment solution.

The investment strategy consists of two phases and members are automatically switched from the one phase to the other as they near retirement. The two phases are:

- Accumulation phase (more than 6 years to Normal Retirement Age or Planned Retirement Age)
- Preservation phase (less than 6 years to Normal Retirement Age or Planned Retirement Age)

Members with more than 6 years before reaching their Normal Retirement Age or Planned Retirement Age (if different) are fully invested in the Accumulation Phase Portfolio (Sanlam Blue Lifestage Accumulation Portfolio) which aims to achieve capital growth. Six years (72 months) before a member reaches his/her Normal Retirement Age or Planned Retirement Age (if different), the member is gradually switched from the Accumulation Phase Portfolio to the Preservation Phase Portfolio (Sanlam Capital Protection) by means of 50 monthly switches.

In the Lifestage approach, a member's savings are initially invested in a portfolio that emphasizes long-term capital growth with some tolerance for short-term market volatility.

As retirement approaches, the member's savings are automatically switched to a preservation phase portfolio. A preservation phase portfolio protects against specific risks inherent in purchasing an annuity that suits the member's retirement income needs.

Sanlam Blue Lifestage Strategy

6 YEARS FROM RETIREMENT AGE

Accumulation phase

All members with **more than 6 years** from Retirement Age

GROWTH

The Accumulation Portfolio aims to provide market-related capital growth to members who need to grow their retirement savings and have more than six years from retirement.

Sanlam Blue Lifestage Accumulation Portfolio

As members may employ a range of different income strategies at retirement, three Sanlam Lifestage Preservation Phase Portfolios are available, each designed to align capital to an income strategy for an almost seamless transition into retirement. Should the member not choose from their preservation phase portfolio, their funds will automatically be invested in the default preservation phase portfolio, the Sanlam Capital Protection Portfolio..

The transition from the accumulation phase to the preservation phase occurs through 50 monthly switches, starting 6 years before retirement and is essential to reduce market timing risk. The switches aim to transition exposure from the Sanlam Lifestage Accumulation Portfolio to the Sanlam Lifestage Preservation Portfolios. These switches are calculated and implemented monthly based on the actual age of the member. A member may plan to retire earlier than the normal retirement age determined by their employer if this is allowed by their retirement fund. In such cases, planned retirement dates instead of normal retirement ages can be used to determine the timing of the transitioning process at no additional cost to the member.

22 MONTHS FROM RETIREMENT AGE

RETIREMENT AGE

Systematic automated monthly transition

All members with less than **6 years but more than 22 months** from Retirement Age

Preservation phase

All members with **22 months and less remaining** from Retirement Age

50 MONTHLY SWITCHES

Transition from the accumulation phase to the preservation phase takes place by means of **50 monthly switches**

PROTECTION

A preservation phase protects a member against the specific risks inherent in the purchase of an annuity

Sanlam Capital Protection Portfolio

solution

Investment Portfolios

offered in

Sanlam Blue Lifestage

Accumulation Phase

Sanlam Blue Lifestage Accumulation Portfolio

The Sanlam Blue Lifestage Accumulation Portfolio aims to invest 50% in SIM Balanced Fund and 50% in SPW Balanced Fund. Both portfolios invest in a wide spectrum of investments in equity, bonds, money and property markets in order to maximise total returns over the long term. By investing in a portfolio which diversifies across all the major asset classes, investors "outsource" the difficult decision of how much and when to invest in the different asset categories to the fund manager. The portfolio is suitable for investors requiring capital growth via a moderate-aggressive risk balanced portfolio.

Preservation Phase

Sanlam Capital Protection Portfolio

This portfolio was selected as the preservation strategy given its objective to protect the invested capital by guaranteeing the net contributions invested.

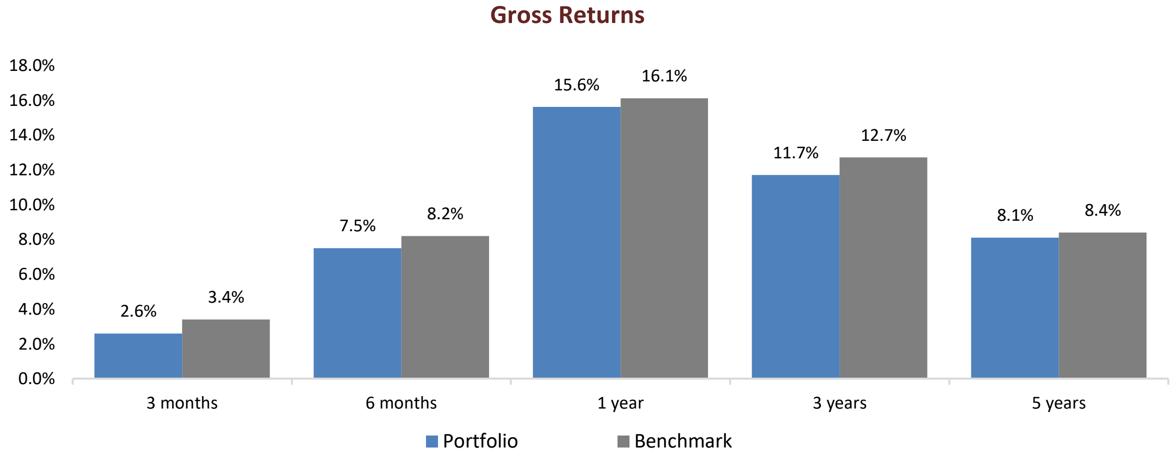
The portfolio invests in the Sanlam Stable Bonus Portfolio. The Stable Bonus Portfolio provides investors with exposure to the financial markets, which provides investors with exposure to equity markets, but also protects them against adverse market movements. This is achieved by smoothing the returns over time and guaranteeing the net contributions invested together with the vested bonuses in case of resignation, retirement, death, retrenchment or disability..

Non-vested bonuses are also declared over and above the vested bonuses. These can be removed in very extreme circumstances though this has never yet occurred since the portfolio's commencement in 1986.

The underlying portfolio has a diversified exposure to domestic equity, bonds, property and alternative investments as well as international assets. The portfolio has a conservative risk profile.

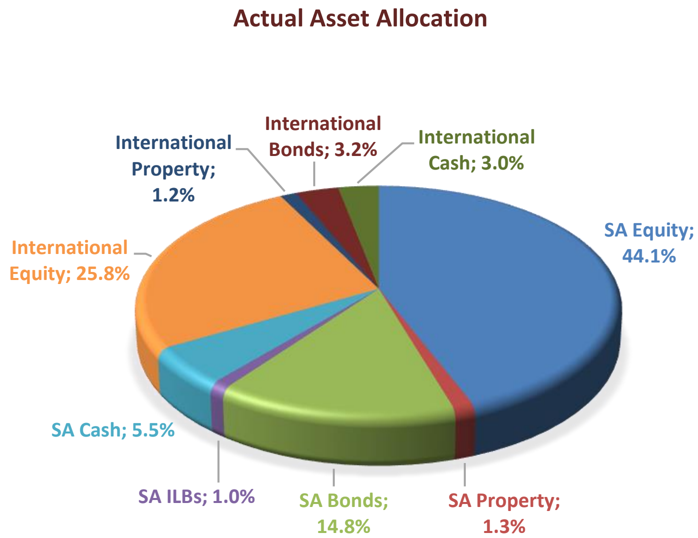
Sanlam Blue Lifestage

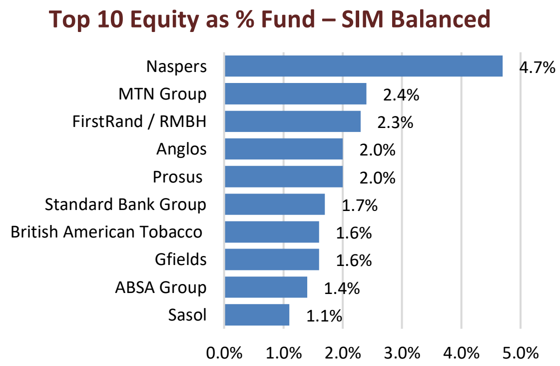
Sanlam Blue Lifestage Accumulation Portfolio

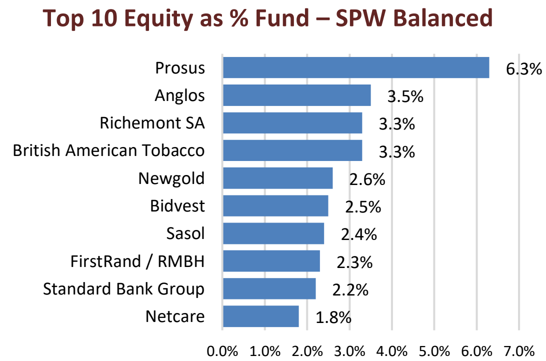


The Sanlam Blue Accumulation Portfolio returned 2.6% for the quarter and 15.6% for the one year ended 30 June 2023. In contrast, its benchmark returned 3.4% and 16.1% respectively over the same periods.

SIM Balanced Fund (50%) uses the Alexander Forbes Global Large Manager Watch Median as its benchmark, for the quarter ended 30 June 2023, the portfolio returned of 2.9% compared to a return of 3.1% from its benchmark. Looking at the one-year return, the SIM Balanced portfolio return 14.4% vs a benchmark which returned 16.2%. On the other hand, SPW Balanced Fund (50%) uses the Gross ASISA South African MA High Equity as its benchmark, the portfolio returned 2.3% vs. 3.2% from its benchmark over the quarter ended 30 June 2023. Over the one-year period, the SPW Balanced Fund delivered positive return of 16.8% which outperformed its benchmark return of 15.5%.

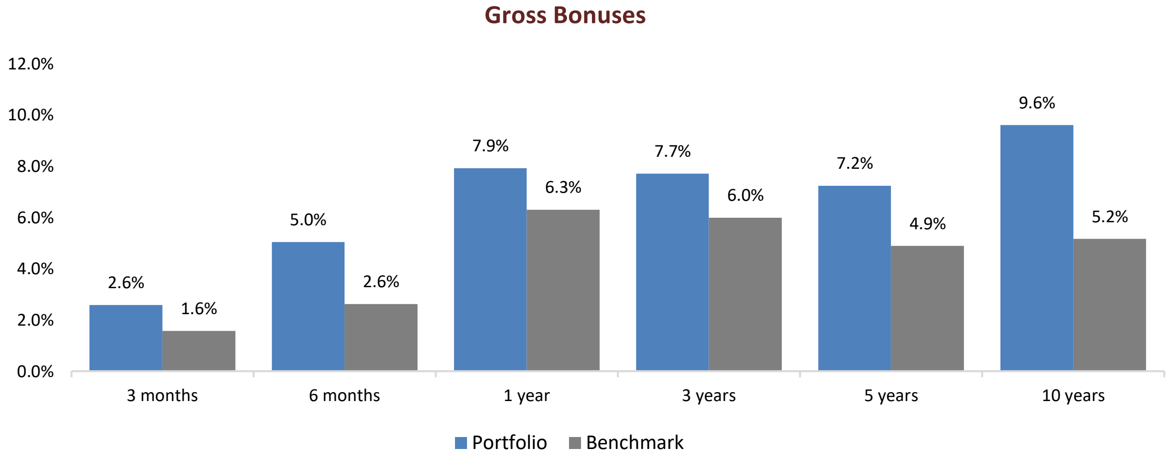






The assets allocation for Sanlam Blue Lifestage Accumulation Portfolio were calculated using the actual splits between SIM Balanced Fund and SPW Balanced Fund of 48.9% and 51.1% respectively as of 30 June 2023..

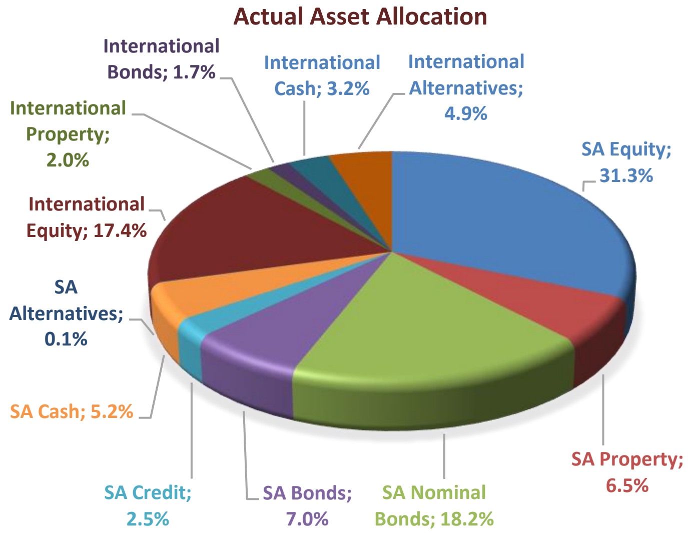
Preservation phase portfolio
Sanlam Capital Protection Portfolio

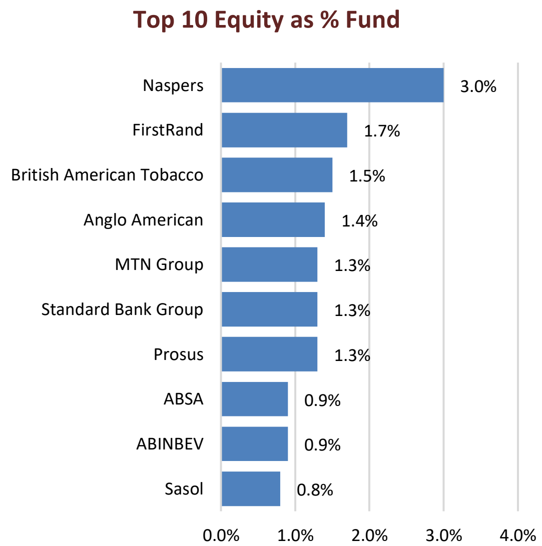


The preservation phase of the Lifestage Strategies continues to deliver stable, dependable positive returns for investors. Over the second quarter of 2023, the Sanlam Capital Protection Portfolio gave investors a return of 2.6% and a return of 7.9% for the year. Over the long term, the portfolio also posted strong inflation beating returns.

This portfolio is especially important for members closer to retirement, as it offers protection over their accumulated capital.

*Inflation is lagged by one month





Looking at the current composition of the portfolio, the overweight positions are SA Alternatives, International Equity, SA ILBs and International Cash. The portfolio is neutral in SA Nominal Bonds and underweight in all the otherr asset classes.

Performance summary

30 June 2023	3 months	6 months	1 year	3 years	5 years	10 years
Accumulation Phase						
Sanlam Blue Lifestage						
Sanlam Blue Accumulation Portfolio	2.6%	7.5%	15.6%	11.7%	8.1%	9.2%
Benchmark	3.4%	8.2%	16.1%	12.7%	8.4%	9.3%
Preservation Phase						
Capital Protection Portfolio**	2.6%	5.0%	7.9%	7.7%	7.2%	9.6%
CPI***	1.6%	2.6%	6.3%	6.0%	4.9%	5.2%

**Returns prior to 1 August 2022 are reflective of the Sanlam Wealth Creation portfolio structured on the AlexForbes life license*
*** The Capital Protection Portfolio does not have an explicit benchmark.*
****CPI figures are calculated to end of May 2023*

Macroeconomic commentary

Highlights

Global

- US Q1 GDP revised higher to 2% on robust consumption expenditure
- Eurozone enters technical recession following downward revision to Q1 GDP
- China's State Council announces financial support for property developers, tax exemptions on electric EVs and tax breaks for high-end manufacturers
- US Democrats and Republicans reach agreement on two-year debt limit suspension
- US Fed pauses on rate hikes; ECB raises rate 25 basis points and the BOE 50 basis points
- China imposes export restrictions on semiconductor manufacturing metals

Local

- SA avoids technical recession, expanding 0.4% q/q in Q1
- SA bonds rebound as threat of secondary sanctions subsides
- SARB leading economic indicator declines further, signaling slower growth
- ABSA and S&P Global PMIs still in contractionary territory

Global economics

Global Equities

Global equities rallied strongly in the second quarter of the year, supported by positive economic factors such as upward revisions to US Q1 GDP growth, a surge in consumer confidence, and robust services sector performance. For the quarter ended 30 June 2023, the MSCI All Country World Index gained 13.1% in rand terms, outperforming the emerging markets as measured by the MSCI Emerging Markets Equities which returned 9.3% in rand terms. The South African equities underperformed both developed and emerging markets due to a 6.1=5% depreciation in the rand/US dollar exchange rate. The FTSE/JSE All Share Index gained a modest 0.7% in rands, with resources being the major drag on performance (-6.1%). Precious metals counters experienced significant declines, while consumer discretionary and financial stocks showed positive momentum. However, the sector derated over the quarter, and the price-to-book ratio declined. The positive market mood was driven by the suspension of the US debt ceiling, better-than-expected retail - sales, and the US Fed's decision to pause raising interest rates. Inflation measures were favorable. Additionally, China's stimulus measures aimed at countering deflation provided support. Despite the upbeat data, global growth momentum slowed raising concerns about a potential recession. Forward earnings estimates declined, and valuations became stretched, warranting caution for risk assets. The impact of export controls on semiconductor equipment between major economies and rising interest rates poses risks to equity markets.

Global Bonds

In the second quarter, concerns about a potential US debt default and hawkish actions by central banks, including the US Federal Reserve, the European Central Bank (ECB), and the Bank of England (BOE), led to higher bond yields. The Bloomberg Global Aggregate Bond Index saw its yield increase to 3.84% from 3.54%. Global bonds returned 4.8% in rands. However, corporate bonds outperformed sovereign bonds, and high-yield credit performed well. .

Global Listed Property

In the second quarter, the global listed property sector faced challenges due to the rise in global bond yields. The FTSE EPRA/NAREIT Developed Dividend+ returned a modest 0.5% in US dollars and 6.3% in rands. Concerns about rising office vacancies and retailer bankruptcies weighed on the sector throughout the quarter. Despite attractive valuations, the sector derated, and the price-to-book ratio declined to 1.21X from 1.22X, still below the historical mean of 1.46X. Another risk is the potential for stranded assets resulting from the transition to a green economy, as 'greenifying' old buildings could be costly and impact net asset value.

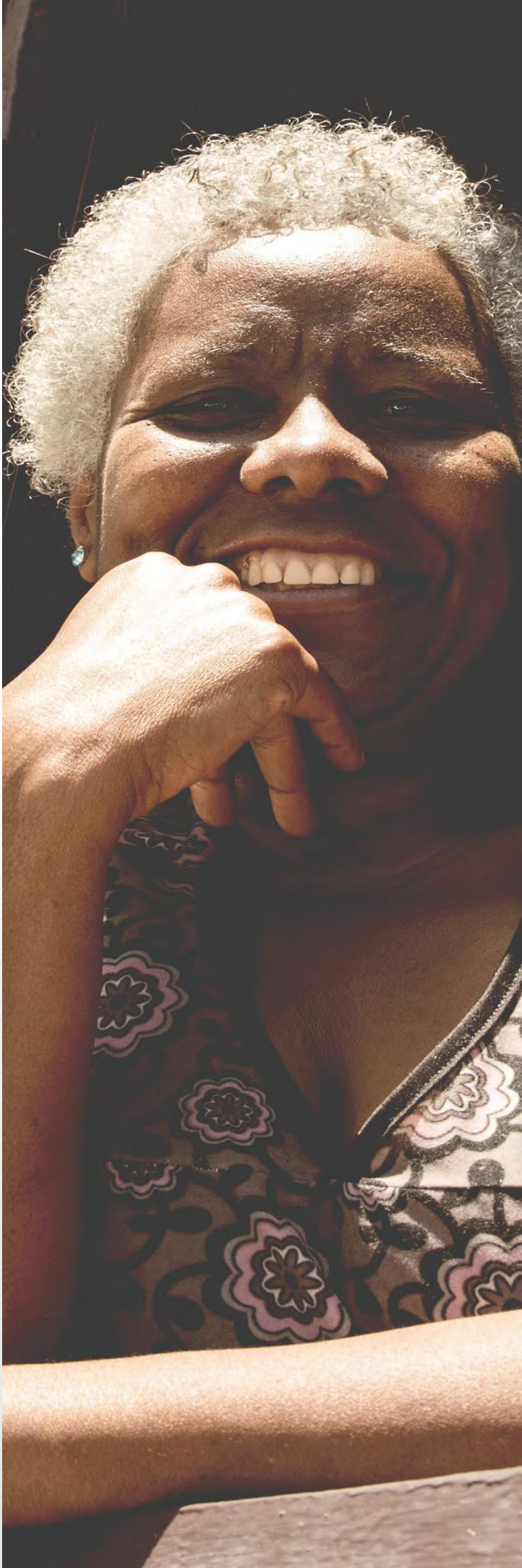
Local economics

Local Equities

In the second quarter, South African equities underperformed both developed and emerging markets due to a 6.1% depreciation in the rand/US dollar exchange rate. The FTSE/JSE All Share Index gained a modest 0.7% in rands but declined by -5.5% in US dollars, with resources sector being the major drag on performance. Precious metals counters experienced significant declines, while consumer discretionary and financial stocks showed positive momentum. However, the sector derated over the quarter, and the price-to-book ratio declined. The forward price-to-earnings ratio for the ALSI and the MSCI SA Index increased, but the earnings growth outlook is expected to soften, especially for large cap rand hedge counters. The valuation gap between trailing earnings and market price may narrow due to rand appreciation, reducing investor interest in domestic equities. The SA Inc complex is highly dependent on domestic economic growth, which is expected to remain flat or soften over the coming year.

Local Bonds

In the second quarter, South African bonds were the worst-performing asset class, affected by escalating political tensions between SA and the US over its non-aligned stance with Russia. A thawing in the standoff in June, following a proposed change in venue for the upcoming BRICs summit to China, saw bond yields decline, partially reversing May's losses. However, political risks resurfaced in July, leading to a repricing of risks and higher bond yields. Despite a disinflationary trend, risks to the inflation outlook remain, including a weaker rand and inflationary effects from load shedding. The budget deficit is tracking higher than expected, impacting the fiscal outlook.



Local Listed Property

The domestic listed property asset class faced challenges in the second quarter, as the increase in bond yields functioned as a headwind. Returns were subdued at 0.7% in rands and -5.5% in US dollars . Despite a slight decline in dividends per share, the property sector became more expensive compared to the 10-year bond, with the property-to-bond yield ratio declining below the long-term mean. Several factors, such as potential increases in commercial rates and taxes, the risk of stranded assets in central business districts, higher stages of load shedding, and possible further rate hikes, are expected to constrain rental escalations and resets in the sector over the coming year. Due to return expectations lagging other asset classes, an underweight position is retained in listed property. Some of the biggest gainers in the sector included Sirius Real Estate, Fortress B, and Fortress A, while the losers included Equites Equity Fund, Emira, and Growthpoint.

Summary

Over the second quarter, economic surprises extended growth momentum and supported the risk-on trade, pushing out the anticipated recession further in time. Global equities outperformed defensive assets, driven by positive economic indicators and better-than-expected GDP growth in the US and China. Emerging market returns lagged due to the trade war's impact on the Hang Seng Index. South African assets underperformed due to the sharp depreciation of the rand, influenced by the diplomatic standoff with the US over its stance on Russia. Developed market central bankers are nearing the peak of their interest rate cycles, with inflation expected to decline, leading to optimism in markets. A soft landing for the global economy is anticipated, with the US recession now likely only in 2024, as higher interest rates eventually reduce consumption expenditure.

Market performance summary (in ZAR) to 30 June 2023

		3 months	6 months	1 year	3 years	5 years	10 years
Local	Equities (All Share Index)	0.7%	5.9%	19.6%	16.1%	9.6%	10.3%
	Equities (Capped SWIX)	1.2%	3.6%	13.5%	15.7%	6.9%	8.5%
	Property	0.7%	-4.4%	10.0%	11.3%	-3.5%	1.5%
	Nominal Bonds	-1.5%	1.8%	8.2%	7.6%	7.4%	7.4%
	Inflation Linked Bonds	-0.8%	0.0%	1.1%	8.7%	5.3%	5.3%
	Cash	1.9%	3.7%	6.8%	5.0%	5.8%	6.3%
International	Equities (MSCI ACWI)	13.1%	26.5%	34.4%	14.1%	15.3%	16.0%
	Equities (MSCI EM)	9.3%	18.5%	19.5%	5.9%	8.0%	10.4%
	Bonds	4.8%	12.6%	13.8%	-2.3%	5.5%	6.9%
	Property	6.3%	11.4%	8.7%	6.1%	6.4%	10.0%
	Rand vs US Dollar	6.5%	11.0%	15.3%	2.8%	6.6%	6.6%
Equity Sector	Financials	5.3%	5.0%	13.6%	19.7%	3.5%	7.5%
	Resources	-6.1%	-10.5%	3.0%	13.9%	15.0%	9.2%
	Industrials	3.4%	17.5%	34.2%	14.5%	8.5%	10.2%
Size	Small Cap	0.5%	1.3%	10.8%	29.8%	8.5%	9.0%
	Medium Cap	-0.2%	-1.2%	7.5%	14.2%	5.3%	6.8%
	Large Cap	0.9%	7.2%	22.2%	16.3%	10.3%	10.8%

call us

Marie du Plessis
Sanlam Corporate Investments
+27 (21) 950 7548
Marie.duPlessis@sanlam.co.za

Matimu Ngobeni
Sanlam Corporate Investments
+21 (21) 950 2085
Matimu.Ngobeni@sanlam.co.za

Sanlam
Live with confidence

2 Strand Road, Bellville, Cape Town | PO Box 1, Sanlamhof 7532, South Africa

T +27 (0)21 947 9111
F +27 (0)21 947 8066

www.sanlam.co.za