Sanlam

Sanlam Corporate: Investments

Lifestage Report

Quarter 3 2021

Insurance | Financial Planning | Retirement | Investments | Wealth

Contents

Overview of the Sanlam Lifestage solution

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

The product is designed to adapt to the remaining time until a member retires and invest a member's funds according to their risk appetite. Our solution is specially designed to meet a member's income needs after retirement. This is done by investing their funds in a preservation phase portfolio suitable for the member's annuity choice during retirement.

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.

Lifestage Solution

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 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

solution

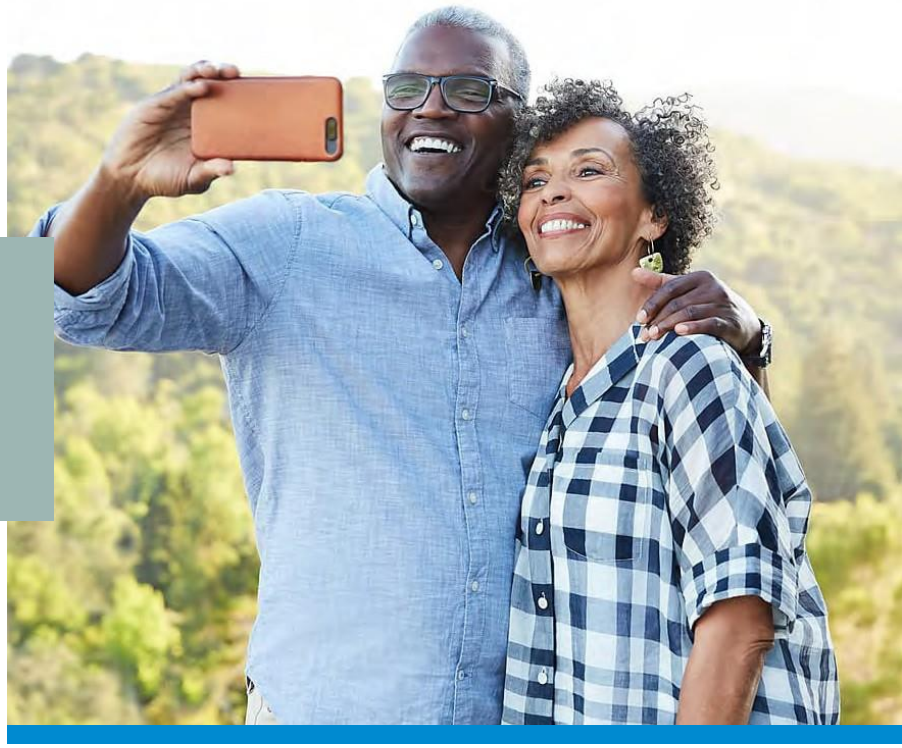
- Sanlam Capital Protection Portfolio — Suitable for purchasing a guaranteed annuity
- Sanlam Living Annuity Target Portfolio — Suitable for purchasing a investment-linked living annuity
- Sanlam Inflation Annuity Target Portfolio — Suitable for purchasing a inflation-linked annuity

Investment Portfolios offered in Sanlam Lifestage

Accumulation Phase

Sanlam Lifestage Accumulation Portfolio

The Sanlam Lifestage Accumulation Portfolio aims to provide market-related capital growth to members who are more than six years from retirement and who need to grow their retirement savings. The multi-managed portfolio allocates its assets across equities, bonds, property, private markets, and cash. A core-satellite investment strategy is generally employed. The core is a low-cost index-tracking strategy, around which the satellite managers aim for active returns through the outperformance of their respective benchmarks. The portfolio is an aggressive portfolio displaying high levels of volatility over the short term and aims to provide market-related growth.



Preservation Phase

Sanlam Capital Protection Portfolio

The Sanlam Capital Protection Portfolio invests entirely in the Sanlam Stable Bonus Portfolio. The portfolio aims to protect the invested capital by exposing investors to the investment markets while safeguarding them against adverse market movements.

This is achieved by smoothing returns over time and offering capital protection on the capital invested and the vested bonuses. Benefit payments include resignation, retirement, death, retrenchment and disability. A bonus is declared monthly in advance, which consists of vesting and non-vesting components.

The Capital Protection Portfolio is appropriate for a member who wishes to purchase a guaranteed annuity at retirement or is uncertain about which annuitisation strategy they want to employ. The portfolio has a conservative risk profile.

Sanlam Inflation Annuity Target Portfolio

The Sanlam Inflation Annuity Target Portfolio aims to provide members nearing retirement with the ability to buy a post-retirement income that will grow in line with inflation after retirement. As such, the value of the investment portfolio may fluctuate when interest rates rise or fall. The portfolio aims to match the movement in purchasing prices of inflation-linked annuities rather than protect or maximize capital growth in the short term.

The portfolio invests in a long-duration bond portfolio, the Sanlam Corporate Inflation Annuity Tracker Portfolio, with the SALI Real as the benchmark. Sanlam has developed the SALI Real Index to track the cost of purchasing an inflation-linked annuity. The portfolio has a conservative risk profile.

Sanlam Living Annuity Target Portfolio

The Sanlam Living Annuity Target Portfolio aims to provide moderate market growth. The portfolio allocates its assets across equities, bonds, property and cash.

A core-satellite investment strategy is generally employed where the core is a low-cost index-tracking strategy, around which the satellite managers aim for active returns through the outperformance of their respective benchmarks.

This portfolio is suitable for members who want to invest in an investment-linked living annuity at retirement.

This portfolio has a moderate risk profile.

Macroeconomic commentary

Highlights

Global

- Europe and China's energy crisis a headwind for growth, inflation and supply chains
- US FOMC announces asset purchase tapering by year-end. Median dot-plot points to rate hikes in 2023
- US Congress still at odds over debt ceiling; no agreement yet on Biden's social spending plan
- BOE signals rate hike by year-end on inflation risks
- China Evergrande Group triggers bond default risks and surge in high-yield spreads

Local

- SARB leaves repo rate unchanged in unanimous decision
- US, UK and EU envoys discuss green financing for Eskom
- November MTBPS a test for SA's new Minister of Finance

Global economics

Global Equities

Global equity market returns were volatile over the third quarter as energy cost squeeze in Europe and China, ongoing global supply chain disruptions, the US Congress's failure to raise the debt ceiling, and expectations of asset purchase tapering all weighed on investor sentiment. The regulatory crackdown in China, coupled with a slowdown in the country's fiscal impulse, weighed on commodities as the growth outlook deteriorated. Indications from the BOE that it stood ready to raise rates before the end of the year, even before QE had been unwound, was a further headwind for risk assets. With inflation risks now elevated at the producer and consumer price level, bond yields have been steadily rising since the beginning of the year. US 10-year treasury yields have increased from 0.92% at the beginning of the year to 1.49% at quarter-end.

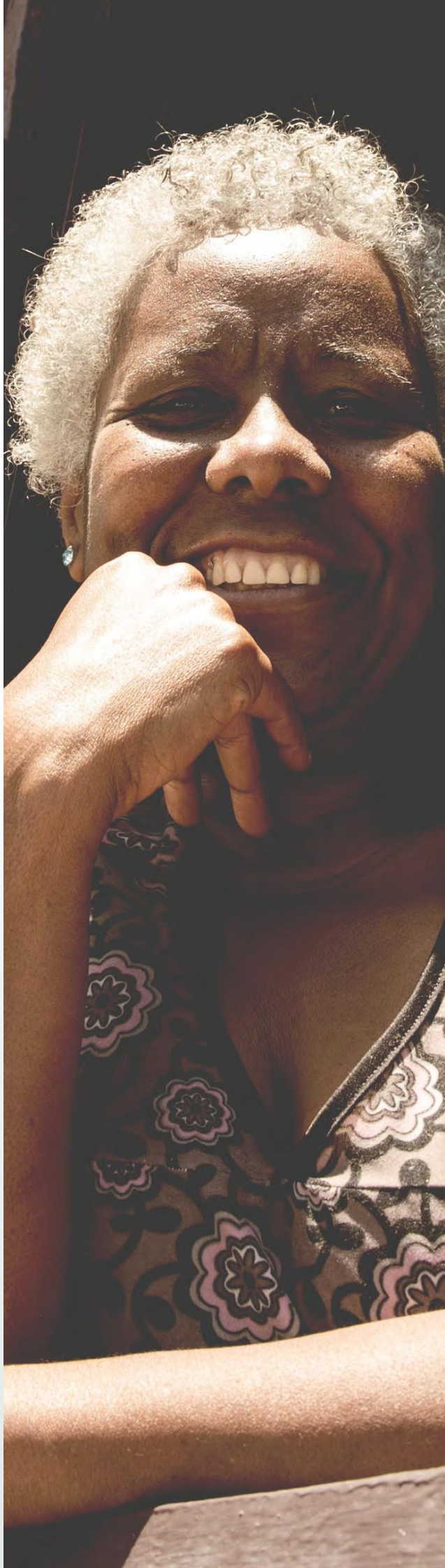
Since elevated energy costs will filter through into reduced consumer spending and lower industrial consumption, it is no surprise that growth estimates are being revised lower, with investors fretting about the forward earnings outlook. While value stocks have outperformed growth stocks over the year-to-date period as bond yields have pushed higher, static yields in the third quarter helped growth stocks to outperform their value counterparts.

However, this was not the case within emerging markets as technology stocks sold off heavily following the Chinese government's regulatory crackdown on big-tech companies. The MSCI World Index was flat for the quarter, down 0.01% in US dollars but up 5.4% in rands due to rand depreciation. Emerging market equities, in turn, bore the brunt of lower industrial commodity prices, the funding squeeze at China Evergrande Group and the effects of the regulatory crackdown, declining by 8.0% in dollars and 3.1% in rands.

The Chinese energy crunch has been fueled by a surge in coal prices, given that about two-thirds of Chinese electricity production is sourced from coal. With state-owned power generators caught between the regulated prices at which they are permitted to sell power, and the market-determined cost of their fuel, profits at generators have fallen by around 70% from a year earlier, in the first half of the year. Although generators depend on implicit guarantees from the government that they will be bailed out in the event of stress, this has not been the case thus far as the government has not released reserves from its stockpiles. With reserves at a quarter of what they were a year ago, generators have been left with no option but to shut down rather than selling power at deep losses. The ban on importing Australian coal in 2020 and challenging emissions targets ahead of the Beijing Winter Olympics has been a further cause of the spike in prices. The upshot of the current energy crisis is that supply chains could be further disrupted across countries and provinces that rely on imported raw materials from China. But, there could be light at the end of the tunnel. After months of being ordered to stick closely to capacity limits, miners are now being called to produce as much as possible, which could take the wind out of thermal coal prices and prevent the crisis from extending through the winter.

In Europe's case, the surge in gas prices has spilt over into oil and coal prices as countries look for alternative energy sources. European gas prices have tripled this year, while power prices have almost doubled, highlighting the predicament that individual and industrial consumers face. Planned outages of nuclear reactors, delayed maintenance at gas production facilities and lower availability from wind power all combined to create gas shortages in Europe, which have not yet been replenished ahead of the coming winter. The risk is that Europe could face blackouts this winter, given that storage site inventories are at their lowest levels in more than a decade for this time of the year. How long the energy crunch will persist depends on whether Russia will increase supply to the EU and whether Germany will expedite regulatory approval of the Nord Stream 2 pipeline that the US is opposed to. President Putin has indicated his willingness to raise output to at least stabilize gas prices in the region. But since Gazprom's Nord Stream 2 pipeline will only be running at about 10% capacity in the remaining months of the year, buy-in will be required from Ukraine and Poland to use their pipelines to supply the EU. Since the surge in energy prices is likely to be short-lived, 2022 is expected to see a significant inventory rebuild as companies restock, while consumers will draw down on their excess savings built up over the pandemic period to spend on goods. Supply chain constraints are expected to ease with semi-conductor backlogs filled, aiding recovery in the global auto sector. Currently, semi-conductor lead times are at 21.7 weeks, the ninth month of gains. Fixed investment expenditure is also expected to increase, given the current disparity between capital goods orders and shipments. These growth drivers are expected to offset the contractionary effect of the decrease in fiscal outlays expected from next year onwards.

The uncertainty about the US debt ceiling was partially removed after quarter-end, with the US Congress agreeing to raise the debt ceiling by some $480bn until December. After that, negotiations will resume, once again bringing uncertainty about a potential US debt default into focus.



A further cause of investor uncertainty has been the Fed's stated intention of tapering its asset purchase program before the end of the year, helping to push bond yields higher, even though asset purchase tapering and policy rate hikes are viewed as two separate issues by the Fed. While tapering is expected to be completed by the middle of 2022, the Fed's median dot-plot shows that FOMC members expect the first policy rate hike to come into effect in 2023, with a cumulative 75 basis points of increases expected in that year. In 2024, a further 75 basis points of increases is expected, bringing the fed funds rate to 1.75%. But, monetary accommodation is expected to remain in place in the EU and Japan, even as the ECB plots its exit from the Euro 1.85 trillion Pandemic Emergency Purchase Program (PEPP) by March 2022. The ECB may introduce a new bond buying program to complement its existing QE program that came into effect in 2015. The intention behind the new program is to ensure sufficient policy tools to prevent periphery country bond spreads from widening as the PEPP is withdrawn.

While monetary policy normalization in the US is expected to result in an equity market derating, there is still sufficient earnings growth momentum in markets to offset a market derating. If the MSCI World Index derate from its current 23.4X earnings to 21X (long-term mean), a return of 10% is possible given consensus bottom-up earnings growth estimates of 20.5% in the year ahead. Alternatively, if 10-year US Tips were to increase by 50 basis points, the S&P500 is unlikely to derate meaningfully given that some derating has already been priced into the index. Furthermore, an analysis of changes in 10-year bonds yields relative to equity market returns suggests that US 10-year bond yields would need to increase meaningfully from current levels in order for equity markets to yield negative returns. Since bond yields are unlikely to push substantially higher over the coming year, equities still appear to be the asset class of choice given the duration risks embedded in bonds. However, since inflation risks are becoming more broad-based, and earnings growth expected to slow to single digits two years out, the aggressive overweight to global equities is moderated to a smaller overweight position on a six to twelve-month view. In the case of emerging market equities, a small overweight position is retained in spite of China's high weighting in the MSCI Emerging Market Index. The sell-off that has accompanied Chinese equities in recent months does offer a buying opportunity for investors, particularly in some of the big-tech names

While there is a risk that China Evergrande Group debt defaults could spill over into the broader property sector with more names defaulting, this is not regarded as China's Lehman's moment.

With vaccine rollouts also expected to gain traction across emerging market economies over the coming year, the re-opening trade coupled with an acceleration in economic growth will offer investors good returns over the coming years.

Global Bonds

Global bond yields rose over the quarter, as inflation risks intensified amid spikes in energy, gas, coal and oil prices. Expectations that the US Fed would start tapering its asset purchase programme was a further contributor to the upward pressure on yields. While pandemic related price increases in used car and truck prices, car rentals and accommodation costs will prove to be transitory, the spike in energy costs could prove to be more persistent, at least over the northern hemisphere winter. Wage cost pressures from the on-shoring of global supply chains and the holding of higher inventory levels could also extend well into 2022, with surging house price increases and ongoing supply chain disruptions further headwinds over the coming year. Against this backdrop, the Barclays Capital Global Aggregate Bond Index declined by 0.9% in US dollars but rose 4.4% in rands, underperforming global equities. The yield on the index increased from 1.13% to 1.17%, accounting for the negative returns. Despite a 3.5% depreciation in emerging market currencies and an increase in spreads from 269 basis points to 302 basis points, emerging market bonds yielded -0.6% in US dollars given their relatively attractive yields. 10-year yields on Brazilian bonds rose to 11.09%, Mexican bonds to 7.38%, Russian bonds to 7.31% and Turkish bonds to 17.92%, highlighting the broad based nature of the rise in yields.

As a result of the upside risks to inflation, global inflation-linked bond yields moved deeper into negative territory, declining from -1.51% to -1.56%, accounting for the 0.6% US dollar-return on the Barclays Capital Global Inflation Linked Bond Index. US inflation-linked bond yields were mostly unchanged at -0.85% over the quarter, but over the past month real yields increased with breakeven inflation pushing marginally higher. 10-year break-even inflation increased to 2.38% from 2.34%, whereas five-year break-even inflation increased to 2.6% from 2.55%, reflecting the bond market's view that inflation will remain above the 2% target of most developed market central banks over the coming years. While central banks have stressed that inflation would be transitory, they have nonetheless given themselves breathing room by changing their inflation targeting regime to an average inflation target over a number of years. But, the University of Michigan's Inflation Expectations Index is more bearish with the five to ten-year measure of expected inflation higher at 3%. This points to the likelihood of an earlier move to raise interest rates, notably by the US Fed and the BOE, which can explain the rise in real treasury inflation protected security yields over the past month. Given the upside risks to inflation and the high duration risk on bonds, an underweight position is still retained in both nominal and inflation-linked bonds.

Global Listed Property

Over the past month, the increase in inflation risks saw the EPRA/NAREIT Developed Markets Property Index give up 5.7% in USD's as investors worried about the impact of surging energy costs on consumer spending and the prospects for lower rental growth. For the quarter, listed property yielded a -0.8% USD return, with the price-to-book ratio holding steady at some 1.52X. But the sector had rerated sharply earlier in the quarter as Covid-19 lockdown restrictions were eased across several countries as vaccination rates accelerated. However, since the price-to-book ratio is still ahead of the 1.46X mean, the sector has been down-weighted to underweight from neutral.

Local economics

Local Equities

South African equities underperformed developed market equities in the third quarter but outperformed the emerging market composite benchmark, yielding some -0.8% in rands and -5.9% in US dollars. The Capped Swix Index performed somewhat better, yielding 3.2% in rands given the lower exposure to resource and technology shares. Technology counters lost 19.2% due to China's regulatory crackdown on technology heavyweight companies, whereas resource shares lost 3.6% on the surge in energy prices and a lower growth outlook, particularly for China. The weaker rand failed to offset the sharp decline in US dollar-metals prices and platinum group metals. US dollar-metals prices were down 29.2% for the quarter, while platinum was down 9.1%, palladium 29.8% and rhodium 29.5%. This, in all likelihood, reflects production constraints within the automotive sector linked to the shortage of critical semi-conductors. Precious metals counters were down 17.6% within the resources subsector, and industrial metals counter 7.3%. Unsurprisingly, value stocks (5.4%) outperformed growth stocks (-6.9%), given the still relatively high weighting of Naspers and Prosus in the index..

On the positive side, healthcare stocks rose some 33.9%, led by a 67.1% surge in Aspen's share price. The gains followed Aspen's announcement of a deal with Johnson and Johnson to produce their Covid-19 vaccine for South Africa and Africa. In general, SA Inc. shares recorded gains following Stats SA's rebasing and re-benchmarking exercise that showed the economy 11% bigger than initially thought in 2020, with household consumption expenditure revised 16% higher.

Better-than-expected GDP prints for both the first and the second quarter also resulted in upward revisions to consensus growth estimates for the current year, further underpinning SA Inc. counters.

Following the September MPC meeting, the SARB also revised its growth estimate for 2021 higher to 5.3% from 4.2%, whereas, for 2022 and 2023, growth was revised lower from 2.3% and 2.4% to 1.7% and 1.8%, respectively. The SARB's benign forecasts in the outer years suggest that the country's much needed structural reforms will not be forthcoming any time soon. However, support for the SARB's upward revision can be seen in the latest Absa purchasing managers index that rebounded sharply after the July unrest. The new orders-to-inventories sub-components support this view, pointing to an acceleration in manufacturing activity as inventories are rebuilt, not just from the July unrest but also the Covid-related lockdowns..

Despite the subdued economic growth outlook for 2022 and 2023, bottom-up consensus earnings estimates still support equities, especially since the market is attractively priced when valued on a forward price-to-earnings basis. Since the All Share Index is trading on a trailing price-to-earnings ratio of 11.4X, well below the 15.8X mean and one standard deviation below the mean, earnings growth is expected to drive returns in the year ahead. The market's forward price-to-earnings ratio of 9.9X supports this view, which is not dissimilar from the MSCI SA forward multiple of 9.2X earnings. Bottom-up consensus earnings estimates of some 13% over the coming year point to a possible market return above 20%, even if a small rerating to 12X earnings are priced into estimates. While earnings growth is expected to slow markedly to around 1.5% two years out, the resources sector is expected to record negative earnings growth of almost -20%. This leaves financials and industrials as the drivers of earnings in year two, with the Fini-15 and Indi-25 expected to deliver earnings growth of 15% and 18%, respectively. This does not necessarily mean that resource shares are an obvious sell since the Resi-10 trades on a forward P/E of some 6.5X earnings, also cheap relative to history. For these reasons, the overweight to domestic equities is retained, at least over the coming year, despite market expectations of a 200 basis point rise in the repo rate.

Local Bonds

South African bonds fell foul of investors' flight-to-safety in the year's third quarter amid a stronger dollar and heightened risk aversion. Foreigners were net sellers of South African bonds, totalling a whopping R68.1bn and highlighting the capital flight from emerging markets.Inflation also pushed higher to 4.9% from 4.6% the month before, mainly due to higher transport costs (petrol). Food inflation was also higher and is now at its highest level in four years. Since food and transport inflation is likely to remain elevated for the next few months, headline inflation will likely hover around current levels before moving back to the middle of the inflation target range next year, aided by base effects..

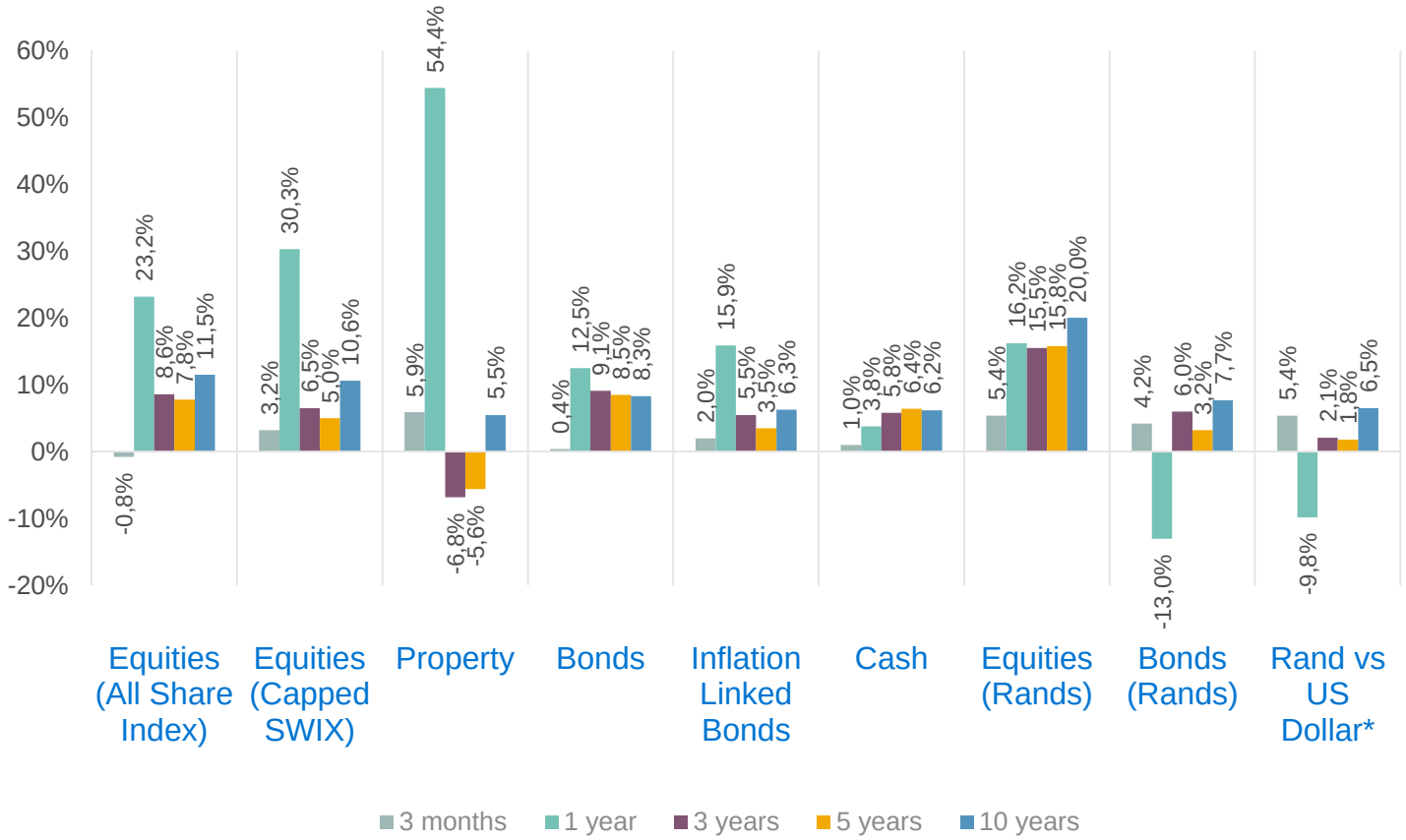
Due to the increase in risk aversion and investors' flight-to-safety, the yield on the All Bond Index increased from 9.7% to 10.0%, accounting for the lacklustre 0.4% rand return (-4.7% in US dollars). Inflation-linked bonds benefitted from the inflation carry to yield 1.9% for the quarter, even as real yields on the inflation-linked bond index ticked higher from 3.9% to 3.9%. At current yields (on the Albi), nominal bonds offer real returns above 5%, consistent with our fair value assumption. With inflation likely to average around 4.5% over the coming few years, an overweight position is retained in nominal bonds. A neutral weighting is maintained for inflation-linkers since real yields are aligned with our 4% fair value assumption. However, since break-even inflation of some 6.0% exceeds our average inflation estimate of 4.5%, the yield pick-up from nominal bonds over inflation-linkers, even after adjusting for the inflation risk premium, is still more than 1%.

But bond market risks abound ahead of the November Medium Term Budget Policy Statement, given growing calls on the new Minister of Finance, Enoch Godongwana, to implement a basic income grant, a proposal supported by the World Bank given SA's high unemployment rate. Funding for some form of National Health Insurance (NHI) could also be on the cards, given repeated calls by the government and the President to implement such a programme. While the favourable terms of trade have underpinned tax revenues in the current fiscal year and have buoyed incomes, Treasury will not be able to rely on a similar windfall in the 2022/23 fiscal year, given expectations of a slowdown in global growth and a reversal in the current account surplus. Even if the windfall persisted, revenue would fall well short of the costs needed to fund the basic income grant and NHI. In addition, the unbundling of Eskom into three separate entities will have cost implications, with the transmission business on track to be unbundled by the end of this year and the distribution and generation businesses by the end of 2022. But these entities will require funding to transition away from fossil fuels, which Meridian Economics estimates at R450bn over the next decade to build 6000MW of renewable projects annually, while another R200bn will need to be spent on transmission lines and distribution grids..

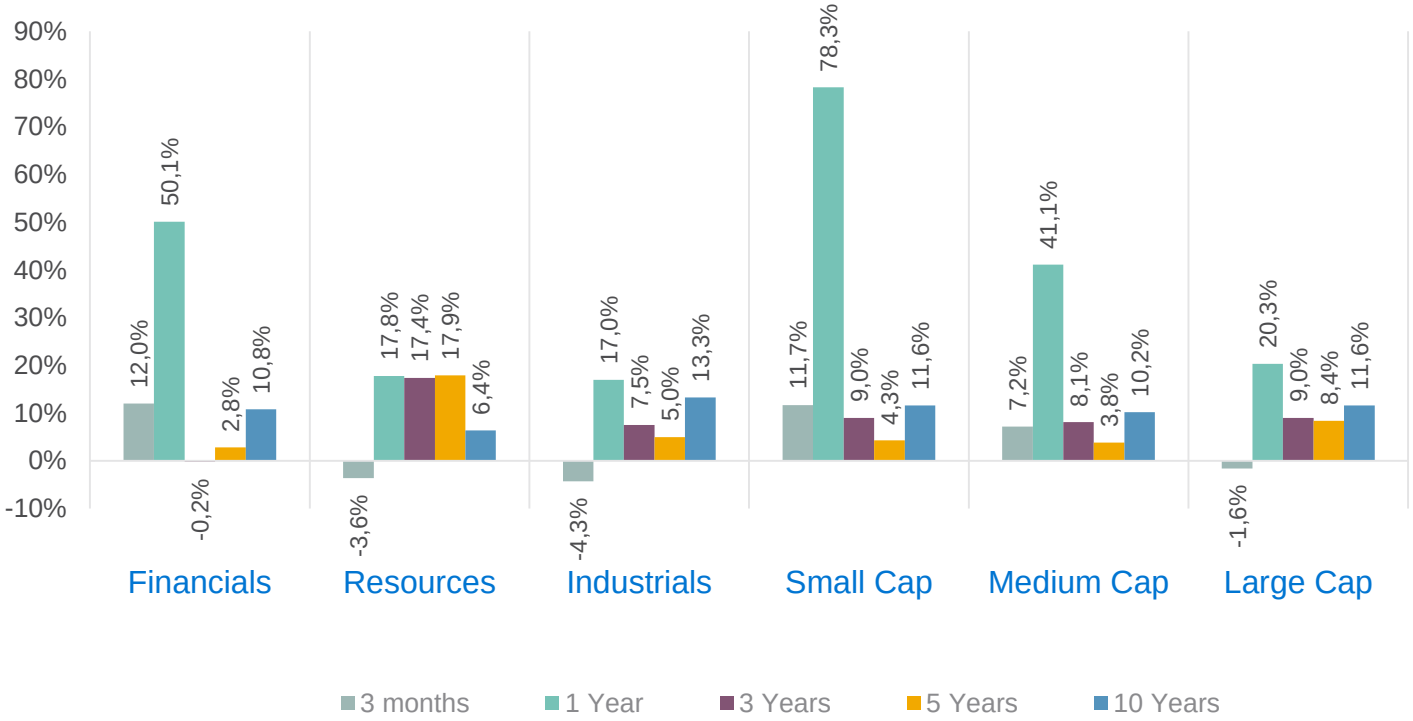
With half of Eskom's debt likely to be apportioned to the generation business and the remaining debt split between the transmission and distribution businesses, Eskom will not be able to finance the capital expenditure required as it has repeatedly asked for a debt write-off of approximately R200bn.

Meridian, a Cape Town-based consultancy, envisages concessional and discounted financing to help reduce Eskom's debt burden and interest costs. While the proposal envisages a green funding facility of US$16bn (R240bn) over five years at a concessional interest rate of 1.5%, the size of Eskom's debt is unlikely to reduce. However, the concessional funding would reduce the interest bill and could allow for the refinancing of existing debt, although funders are unlikely to want to fund coal assets. At the end of the day, Treasury would need to take the debt on board. Given Stats SA's R548bn upward revision to SA's gross domestic product, there may be a window of opportunity to take on some of Eskom's debt without fast-tracking further rating downgrades. With climate envoys keen to use South Africa as a poster child for the upcoming COP26 climate talks in November, the opportunity to access green funding is now. Since the country's estimated debt-to-GDP ratio for the 2021/22 fiscal year has likely fallen to around 73% of GDP, down from approximately 81% of GDP at the February budget, this could be a possible solution to the country's low-growth trajectory..

Market performance summary to 30 September 2021



*Index return in Rands



Portfolio Commentary

Quarter ending September 2021

Sanlam Lifestage Accumulation Portfolio

The Lifestage Accumulation fund has underperformed its benchmark over the quarter by 0.4%. Risk assets disappointed in the year's third quarter as a cocktail of surging energy costs, ongoing supply chain disruptions, and a possible US debt default weighed on investor sentiment. With bond yields rising in tandem with rising inflation expectations, bonds also yielded negative returns, with only global inflation-linked bonds yielding positive returns within the broad offshore asset classes. On the domestic front, equities were hardest hit by a sharp sell-off in technology and resource stocks amid China's regulatory crackdown and slowing economic growth. At the same time, bonds squeezed out positive returns despite higher nominal and real bond yields.

Our SA Cash, SA Hedge Funds, Foreign DM Equity and Foreign Property managers allocation added value within manager selection, while the other assets, SA Equity, SA Property, SA Bonds, SA ILBs and the other Foreign managers, detracted from performance. On the asset allocation side, the allocation to SA Equity, SA ILBs, SA Cash, Foreign Property, Offshore Africa Equity, Foreign Cash and Foreign Bonds contributed positively to performance while the other asset classes detracted.

Looking at the portfolio's current positioning, the overweight's are Foreign Property, Offshore Africa Equity, Offshore Emerging Equity, Foreign Cash assets and locally SA Equity, SA Bonds, and SA Hedge Funds.

The underweight positions in the portfolio are SA Property, SA ILBs, SA Cash, Foreign DM Equity and Foreign Bonds.

Sanlam Living Annuity Target Portfolio

The Lifestage ILLA Preservation fund has outperformed its benchmark over the quarter by 0.2%. Risk assets disappointed in the year's third quarter as a cocktail of surging energy costs, ongoing supply chain disruptions, and a possible US debt default weighed on investor sentiment. With bond yields rising in tandem with rising inflation expectations, bonds also yielded negative returns, with only global inflation-linked bonds yielding positive returns within the broad offshore asset classes. On the domestic front, equities were hardest hit by a sharp sell-off in technology and resource stocks amid China's regulatory crackdown and slowing economic growth. At the same time, bonds squeezed out positive returns despite higher nominal and real bond yields.

Within manager selection, our SA Equity, SA Property, SA Cash, Foreign DM Equity and Foreign Property allocation added value. In contrast, the other assets, namely SA ILBs, SA Bonds and the other Foreign managers, detracted from performance. On the asset allocation side, the allocation to SA Cash, Foreign Property, Offshore Africa Equity, Foreign Cash and Foreign Bonds contributed positively to performance while the other asset classes detracted.

Looking at the portfolio's current positioning, the overweight's are Foreign Property, Offshore Africa Equity, Offshore Emerging Equity assets, Foreign Bonds, Foreign Cash and locally SA ILBs, SA Equity and SA Bonds. The underweight positions in the portfolio are SA Property, SA Cash and Foreign DM Equity.

Sanlam Capital Protection Portfolio

The portfolio aims to deliver consistently smooth investment returns through monthly bonuses declared in advance. In addition, it seeks to protect the invested capital by providing investors with exposure to the investment markets while safeguarding them against adverse market movements.

Over the longer term, the portfolio has managed to deliver returns above inflation. It continues to strike a balance between two often conflicting objectives: downside protection (through smoothing and guarantees) and investment growth.

Sanlam Inflation Annuity Target Portfolio

The portfolio aims to closely match movements in its benchmark index, the SALI Real. This index tracks the changes in the cost of an inflation-linked annuity caused by changes in real interest rates. The portfolio, therefore, aims to preserve a member's ability to purchase an inflation-linked annuity.

As of 30 September 2021, the portfolio has consistently outperformed its benchmark over the period greater than 1 year, thus preserving the purchasing power of individuals to purchase an inflation-linked annuity upon retirement.

The aim of the portfolio is not necessarily to deliver high returns but rather to provide returns that are in line with the price of an inflation-linked annuity at retirement.

Performance summary

30 September 2021	3 Months	6 months	1 year	3 years	5 years	7 years
Accumulation Phase						
Accumulation Portfolio	2.4%	4.2%	21.7%	8.6%	7.5%	7.5%
Benchmark	2.8%	5.3%	22.4%	8.3%	7.2%	7.9%
Preservation Phase						
Capital Protection Portfolio*	1.8%	3.6%	7.4%	6.8%	7.3%	8.3%
CPI**	1.7%	3.2%	4.9%	4.1%	4.4%	4.6%
Inflation Annuity Target Portfolio	2.1%	5.2%	16.9%	5.3%	3.2%	4.2%
Benchmark	2.1%	5.3%	19.0%	4.0%	2.0%	3.3%
Living Annuity Target Portfolio	2.5%	5.0%	19.5%	8.4%	7.5%	7.9%
Benchmark	2.3%	5.2%	18.5%	8.2%	7.0%	7.5%

** The Capital Protection Portfolio does not have an explicit benchmark.*
***CPI figures are calculated to end of August 2021*

Sanlam Lifestage

Mandate description

Sanlam Lifestage is the Fund's trustee approved default investment strategy and aims to meet each member's savings requirement by working towards a target date, which would be the Normal Retirement Age or the Planned Retirement Age (if different).

How Sanlam Lifestage works

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

- Accumulation phase
- Preservation phase

As retirement approaches, this target date strategy invests in an investment portfolio matching the member's postretirement needs or plans, but in the years prior to this greater emphasis is placed on achieving capital growth. Members with more than 6 years before reaching their Normal Retirement Age or Planned Retirement Age (if different) are fully invested in the Sanlam 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 Sanlam Lifestage Accumulation Portfolio to his/her selected Sanlam Lifestage preservation portfolio by means of 50 monthly switches.

Members with more than 6 years before reaching their Planned Retirement Age are fully invested in Sanlam Lifestage Accumulation Portfolio which aims to achieve capital growth.

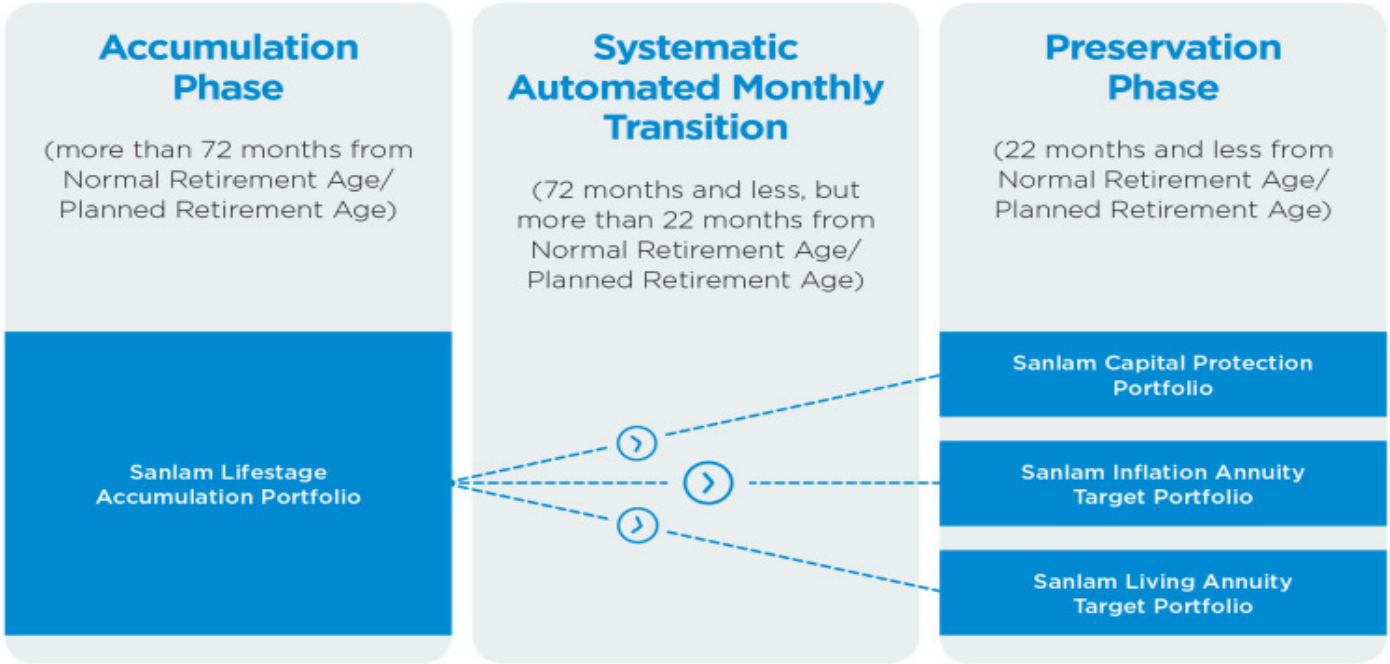
Six years (72 months) before a member reaches his/her Planned Retirement Age, the member is gradually switched from the Sanlam Lifestage Accumulation Portfolio to his/her selected Sanlam Lifestage preservation portfolio by means of 50 monthly switches.

Fund performance

Phase	1 month	3 months	1 year	3 years	5 years
Accumulation Portfolio	-1.0%	2.4%	21.7%	8.6%	7.5%
Preservation Portfolios:					
Capital Protection	0.7%	1.8%	7.4%	6.8%	7.3%
Inflation Annuity	0.2%	2.1%	16.9%	5.3%	3.2%
Living Annuity	-0.7%	2.5%	19.5%	8.4%	7.5%

Please note:

Sanlam Lifestage investment reporting only commences from 1 August 2013, but the following longer term performance was achieved applicable to members previously invested in the Accumulation Phase of the Sanlam Umbrella Fund's discontinued Lifestage Programme, and whose investments were transitioned to Sanlam Lifestage during the month of July 2013.



Sanlam Lifestage Accumulation Portfolio

Period Ending	30-Sep-21
Fund Size	R 18,689 million
Inception Date	Jul-13

Fund objective

The fund is an aggressive portfolio displaying high levels of volatility over the short term and is aiming to provide market related growth.
Scrip lending may be performed on the passive equity component.

Risk profile

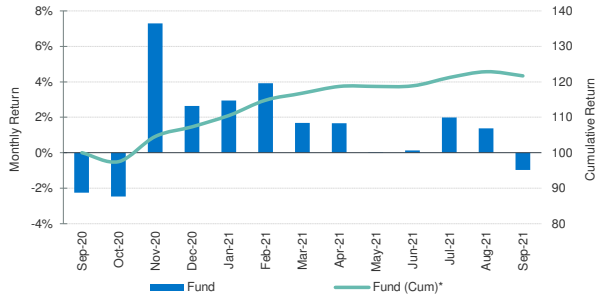
This portfolio has an aggressive risk profile

Fees

1.00% per annum

A rebate is payable to Sub-funds investing in excess of R50 million in respect of this Portfolio, and quantum thereof will be formally confirmed by Sanlam in writing.

Monthly and cumulative returns



*Based on 1 year returns

Fund performance (%)

	Fund	Benchmark
1 Month	-1.0%	-1.0%
3 Months	2.4%	2.8%
6 Months	4.2%	5.3%
1 Year	21.7%	22.4%
3 Years	8.6%	8.3%
5 Years	7.5%	7.2%

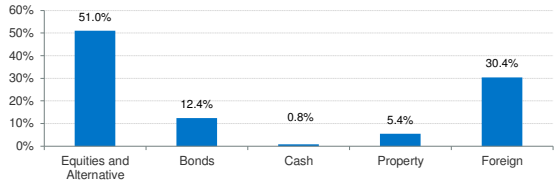
Top 10 holdings (% of Equities)

Share Name	% of Equities
STR10984 : IBLIIR	8.0%
Naspers	6.0%
Prosus	5.8%
Firstrand Limited	4.1%
Anglo American Plc	3.7%
MTN Group Limited	3.5%
IB ZARINDEX ELN 8JULY26 NOTE	2.9%
Impala Platinum Holdings Limited	2.6%
British American Tobacco Plc	2.4%
Sasol Limited	2.4%

Benchmark

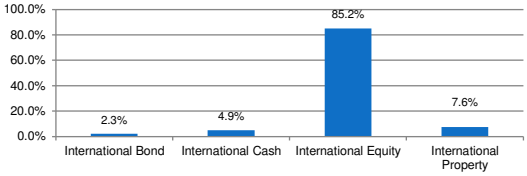
23.0%	SWIX (Shareholder Weighted Index)
23.0%	Capped SWIX (Shareholder Weighted Index)
11%	BEASSA Total Return All Bond Index
6.0%	FTSE/JSE SAPY Index
2.0%	Short Term Fixed Interest Index (STeFI)
7%	JSE Inflation-linked Govt Bond Index
2%	FTSE EPRA/NAREIT Developed Dividend+Index
24%	MSCI World (Developed Markets) Equity Index
2%	Bloomberg Global Aggregate Index

Asset class breakdown



The benchmark reflects the fund's long-term strategic asset allocations. Fund asset allocations may be allowed to vary from the benchmark, depending on market conditions.

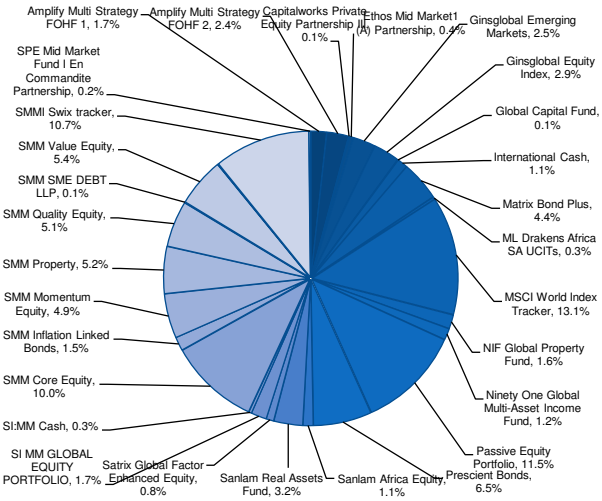
Foreign split



Equity sectoral exposure (%)

	Fund	Benchmark
Financials	25.6%	18.4%
Resources	22.2%	38.1%
Industrials	52.2%	43.5%

Fund manager breakdown



Please refer to the "Local equity manager breakdown for SMMI portfolios" for a detailed outline of the underlying equity managers within this portfolio.

Risk analysis
(based on the last 3 years' monthly returns)

% of negative months over the last 3 years	30.6%
Average capital loss in one month	-3.1%
Downside risk *	8.6%

of the portfolio relative to CPI

Sanlam Capital Protection Portfolio

Period Ending 30-Sep-21
Fund Size (Book Value) R 4,122 million
Inception Date Nov-86

Fund objective

The Portfolio offers investors stable, smoothed returns with a partial guarantee on benefit payments. A bonus, which consists of a vesting and non-vesting component is declared monthly in advance. Bonuses cannot be negative. The portfolio offers 100% capital guarantee and partially vesting bonuses.

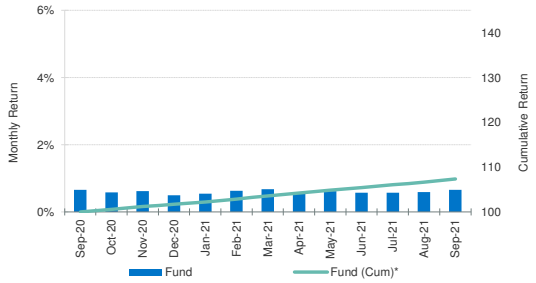
Risk profile

The portfolio has a conservative risk profile

Fees

Sanlam's cost in relation to the investment plan is recouped by recovering the following fees:
Investment Management Fees:
0.425% per annum
Guarantee Premium:
A guarantee premium of 0.90% per annum
Annual Performance Linked Fee:
The investment manager may be incentivised with performance fees (capped at 0.30% p.a.)

Monthly and cumulative bonuses



*Based on 1 year returns

Fund bonuses (%)

	Fund (gross of fees)
1 Month	0.7%
3 Months	1.8%
6 Months	3.7%
1 Year	7.4%
3 Years	6.8%
5 Years	7.3%
10 Years	10.6%

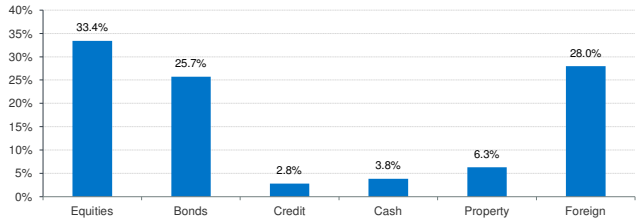
Top 10 equity holdings (% of Equity)

Share Name	% of Equity
Naspers	9.5%
FirstRand	6.1%
Prosus	6.1%
MTN Group	4.8%
British American Tobacco	4.6%
Anglo American	4.4%
Standard Bank Group	3.6%
Consol Holdings	3.6%
Sasol	3.0%
Impala Platinum Holdings	2.7%

Benchmark

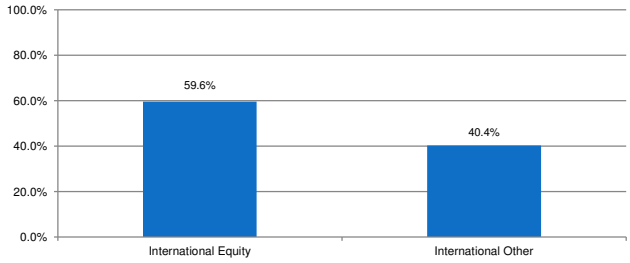
16.0% SWIX (Shareholder Weighted Index)
16.0% Capped SWIX (Shareholder Weighted Index)
19.0% BEASSA Total Return All Bond Index
5.5% 3 month JIBAR +1.25%
2.0% IGOVI
17.5% MSCI World Index (Dev. Markets)
5.0% Bloomberg Global Aggregate Index (GABI)
2.5% US 3 month LIBOR+2.5% (net of fees)
2.5% US 3 month LIIBOR
7.5% STeFI Index
6.5% BEASSA 7-12 years TRI plus 1.0% p.a.

Asset class breakdown



The benchmark reflects the fund's long-term strategic asset allocations. Fund asset allocations may be allowed to vary from the benchmark, depending on market conditions.

Foreign split



Equity sectoral exposure (%)

	Fund
Financials	25.4%
Resources	21.6%
Industrials	53.0%

The Non-vested bonuses as a proportion of book value.

Sanlam Umbrella Pension Fund	8.02%
Sanlam Umbrella Provident Fund	6.74%

** Only impacts Sanlam Lifestage members opting for this preservation strategy in the last 6 years before retirement.*

Risk analysis
(based on the last 3 years' monthly returns)

% of negative months over the last 3 years	0.0%
Average capital loss in one month	0.0%
Downside risk *	0.6%

* Downside risk is measured as the standard deviation of the underperformance of the portfolio relative to CPI

Funding Level

October 2021: Fully funded

Sanlam Living Annuity Target Portfolio

Period Ending	30-Sep-21
Fund Size	R 46 million
Inception Date	Oct-13

Benchmark	15.5% Capped SWIX (Shareholder Weighted Index)
	15.5% SWIX Index
	22.0% BEASSA Total Return Index
	9.0% Short Term Fixed Interest Index (STeFI)
	4.0% SAPY Property Index
	11.0% JSE Inflation-linked Govt Bond Index
	19.0% MSCI World Equity Index
	2.0% FTSE EPRA/NAREIT Developed Dividend+ Index
	2.0% Bloomberg Global Aggregate Index

Fund objective

The relatively high equity allocation of the Fund should occasionally result in high volatility but also a high rate of growth compared to funds with a moderate risk profile.

Risk profile

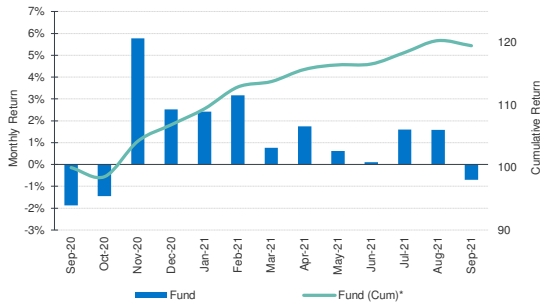
The portfolio has a moderate risk profile.

Fees

Investment Management Fees:
0.80% per annum.

The underlying investment managers may be incentivised on a performance fee basis.

Monthly and cumulative returns



*Based on 1 year returns

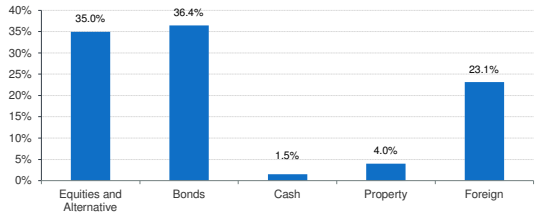
Fund performance (%)

	Fund	Benchmark
1 Month	-0.7%	-0.9%
3 Months	2.5%	2.3%
6 Months	5.0%	5.2%
1 Year	19.5%	18.5%
3 Years	8.4%	8.2%
5 Years	7.5%	7.0%

Top 10 equity holdings (% of Equities)

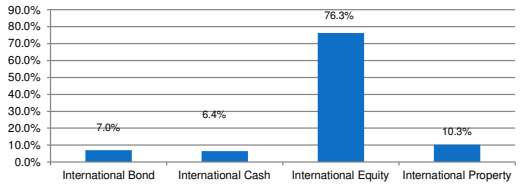
Share Name	% of Equities
Naspers	7.8%
Prosus	6.9%
Firstrand Limited	5.1%
Anglo American Plc	4.4%
MTN Group Limited	4.4%
Impala Platinum Holdings Limited	2.9%
Sasol Limited	2.9%
Standard Bank Group Limited	2.8%
British American Tobacco Plc	2.8%
Capitec	2.5%

Asset class breakdown



The benchmark reflects the fund's long-term strategic asset allocations. Fund asset allocations may be allowed to vary from the benchmark, depending on market conditions.

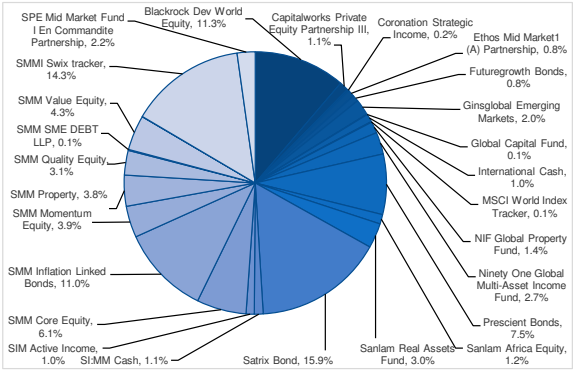
Foreign split



Equity sectoral exposure (%)

	Fund	Benchmark
Financials	25.6%	18.4%
Resources	22.1%	38.1%
Industrials	52.3%	43.5%

Fund manager breakdown



Please refer to the "Local equity manager breakdown for SMMI portfolios" for a detailed outline of the underlying equity managers within this portfolio.

Risk analysis
(based on the last 3 years' monthly returns)

% of negative months over the last 3 years	27.8%
Average capital loss in one month	-2.5%
Downside risk *	7.0%

* Downside risk is measured as the standard deviation of the underperformance of the portfolio relative to CPI

Sanlam Inflation Annuity Target Portfolio

Period Ending	30-Sep-21
Fund Size	R 5 million
Inception Date	May-13

Benchmark Sanlam Asset Liabilty Index Real (inflation linked)

Fund objective

The portfolio aims to closely match movements in its benchmark index, the SALI Real. This index tracks the changes in the cost of an inflation linked annuity caused by changes in real interest rates. The portfolio therefore aims to preserve a member's ability to purchase an inflation linked annuity.

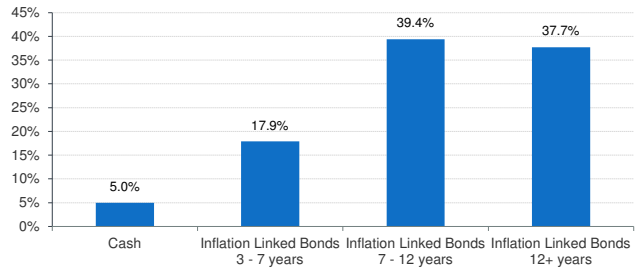
Risk profile

This fund has a conservative risk profile

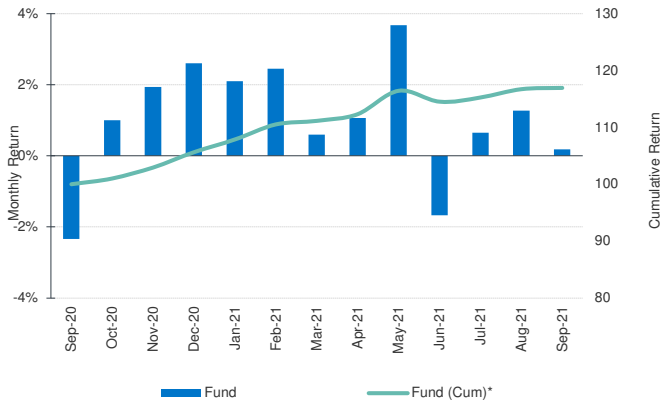
Fees

Investment Management Fees:
0.70% per annum.

Asset class breakdown



Monthly and cumulative returns



*Based on 1 year returns

Risk analysis
(based on the last 3 years' monthly returns)

% of negative months over the last 3 years	30.6%
Average capital loss in one month	-1.8%
Downside risk *	5.9%

* Downside risk is measured as the standard deviation of the underperformance of the portfolio relative to CPI

Fund performance (%)

	Fund	Benchmark
1 Month	0.2%	0.2%
3 Months	2.1%	2.1%
6 Months	5.2%	5.4%
1 Year	16.9%	19.0%
3 Years	5.3%	4.0%
5 Years	3.2%	2.0%

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