Sanlam

Sanlam Corporate: Investments

Lifestage Strategies

Investment Report

Quarter 4 2022

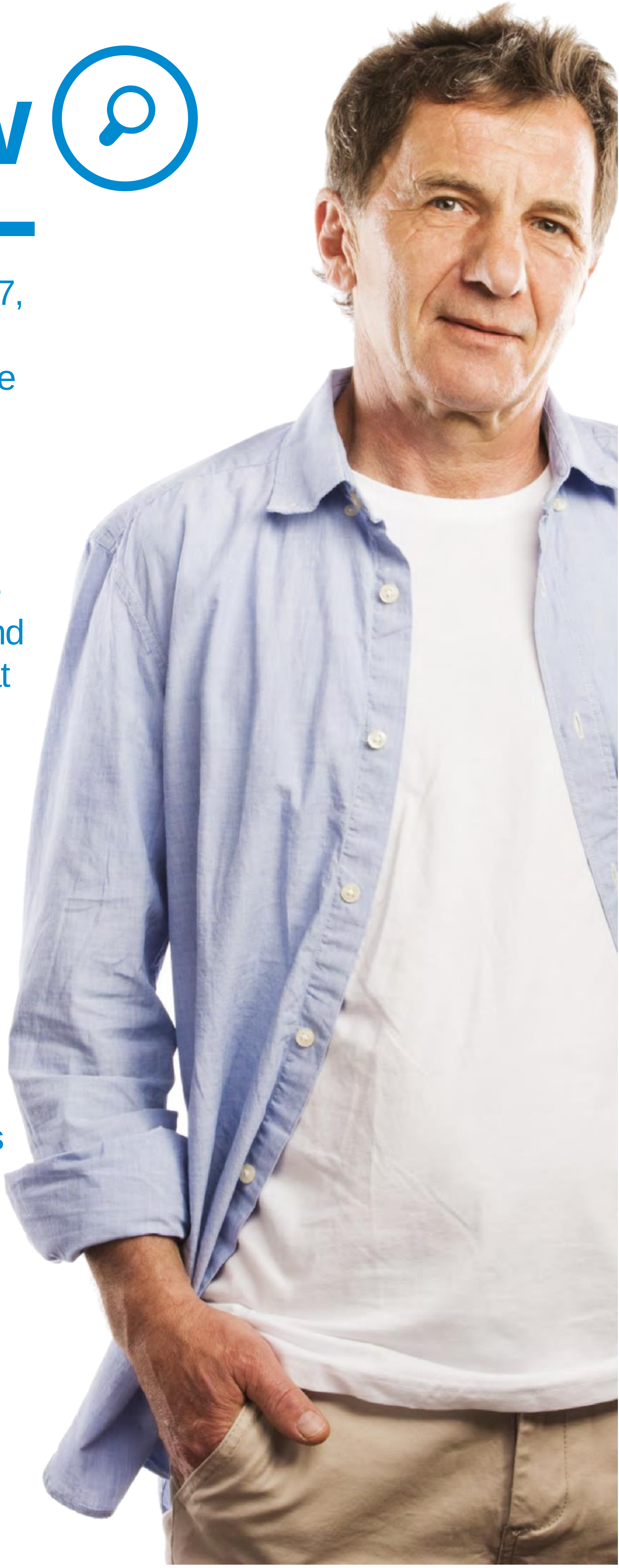
Insurance | Financial Planning | Retirement | Investments | Wealth

Contents

Overview

In line with Default Regulation 37, the trustees have approved the **Sanlam Lifestage model** as the Fund's **default** investment strategy. However, in order to cater for divergent client preferences, the trustees have also approved three **alternative default lifestage strategies**, and three **protection strategies** that can be chosen as a default investment strategy at participating employer level depending on the required investment objectives and product option.

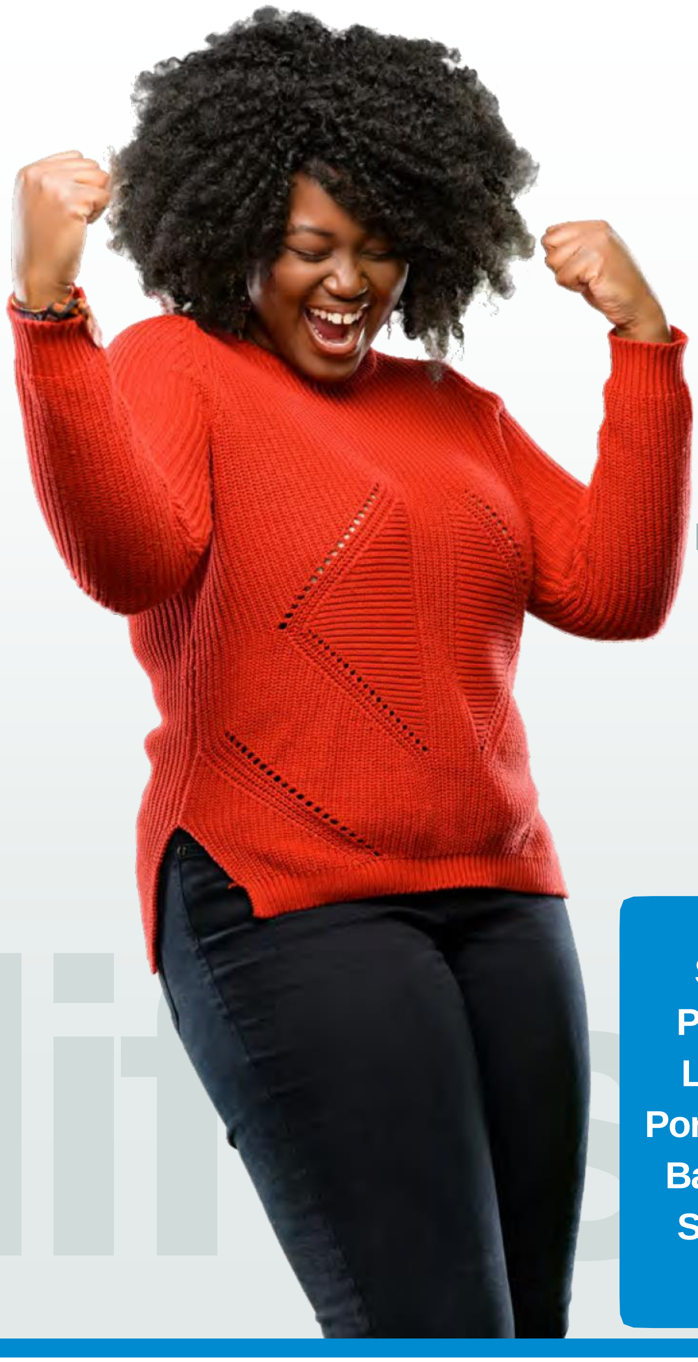
A **lifestage strategy** aims to meet each member's savings requirement by working towards a target date, which would be the Normal Retirement Age or the Planned Retirement Age (if different).



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, this target date strategy invests in an investment portfolio matching the member's post-retirement needs or plans, but in the years prior to this greater emphasis is placed on achieving capital growth.

Lifestage Strategy



6 YEARS FROM RETIREMENT AGE

Accumulation phase

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

GROWTH

The Accumulation Phase 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 Accumulation Portfolio or **Sanlam Blue Lifestage Accumulation Portfolio** or **Satrix Enhanced Balanced Tracker Fund** or **Sanlam Wealth Creation Portfolio**

While each lifestage strategy utilises a different accumulation phase portfolio, all of the Trustee-approved lifestage strategies utilises the Sanlam Capital Protection Portfolio in the preservation phase.

The phasing from the accumulation phase portfolio to the preservation phase portfolio is calculated and implemented monthly based on members' actual age, with no cost to the member. The first phasing switch disinvests 1/50th of exposure in the accumulation phase portfolio and re-invests the proceeds in the preservation phase portfolio. The second monthly phasing switches a further portion of the exposure in the accumulation phase portfolio and invests the proceeds in the preservation phase portfolio.

The third monthly phasing switches a similar portion of the exposure in accumulation phase portfolio and invests the proceeds in the preservation phase portfolio. The monthly phasing switches are repeated until, after 50 switches, the exposure to the accumulation phase portfolio is zero and the member is fully invested in the preservation phase portfolio 22 months prior to retirement.

The Fund's communication strategy makes provision for the distribution of communication to members 7 years, 6.5 years and 1 year before retirement date.

Systematic automated monthly transition

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

22 MONTHS FROM RETIREMENT AGE

Preservation phase

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

RETIREMENT AGE

50 MONTHLY

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

PROTECTION

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

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.

solution

Accumulation phase

Portfolios offered in Lifestage strategies

Sanlam Accumulation *Lifestage*

The Sanlam Accumulation Portfolio aims to provide market-related growth to members who are more than six years from retirement and who need to grow their retirement savings. The portfolio allocates its assets across equity, bond, property, cash, hedge fund and international portfolios. In the case of each domestic portfolio a core/satellite investment strategy is 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 has an aggressive risk profile.

Sanlam Blue *Lifestage*

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.

Accumulation phase
Portfolios continue

Sanlam Passive *Lifestage*

The portfolio's objective is to provide high long-term investment growth. It invests primarily in equities, property, fixed-interest investments, cash and foreign assets. Each of the underlying asset classes, except cash, is managed on a passive basis - in other words, by tracking an underlying index. Tactical asset allocation is also employed to enhance the performance of the fund relative to the performance of its benchmark. The underlying portfolio is the Satrix Enhanced Balanced Tracker Fund. The portfolio has a moderate to aggressive risk profile.

Sanlam Wealth Creation

Lifestage

The portfolio's objective is to deliver superior real returns over the long term. This balanced portfolio is managed in a multi-manager basis and includes international exposure.

Each manager has been selected on the basis of rigorous quantitative and qualitative analysis. The underlying managers of the portfolio have been selected, mandated, monitored and reviewed by a Joint Investment Committee.

Lifestage Preservation Portfolio

Sanlam Capital Protection Portfolio

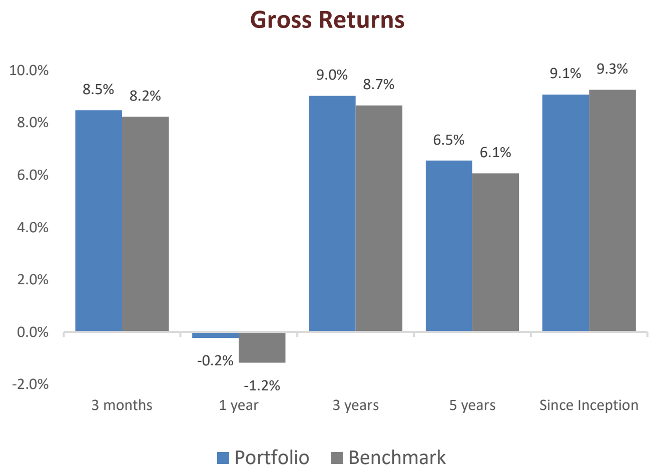
This portfolio was selected as the preservation strategy given its objective to protect the invested capital by guaranteeing the net contributions invested.

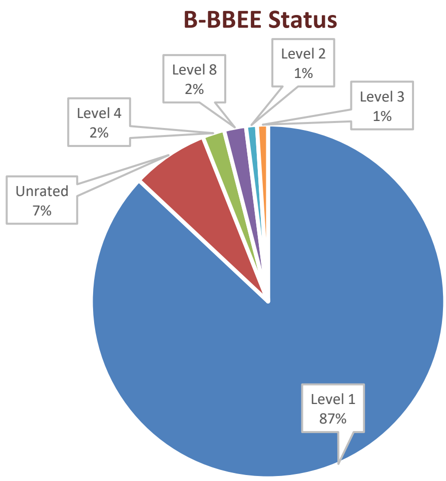
The portfolio invests in the Sanlam Stable Bonus Portfolio. The Stable Bonus Portfolio provides investors with exposure to the financial markets, which provides investors with exposure to equity markets, but also protects them against adverse market movements. This is achieved by smoothing the returns 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 Accumulation Lifestage
Sanlam Accumulation Portfolio

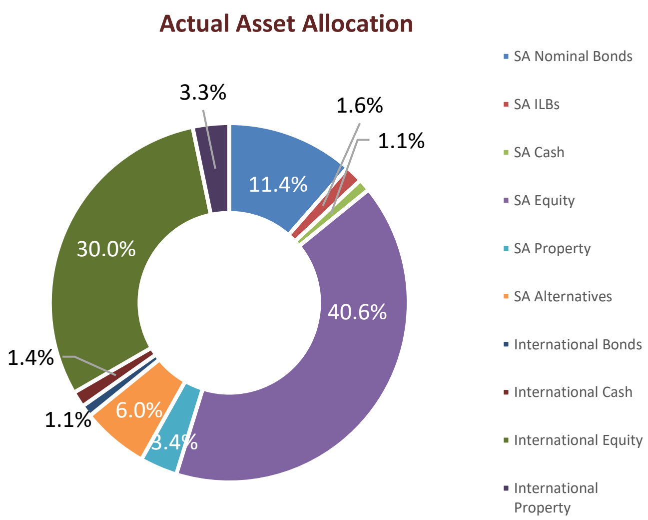


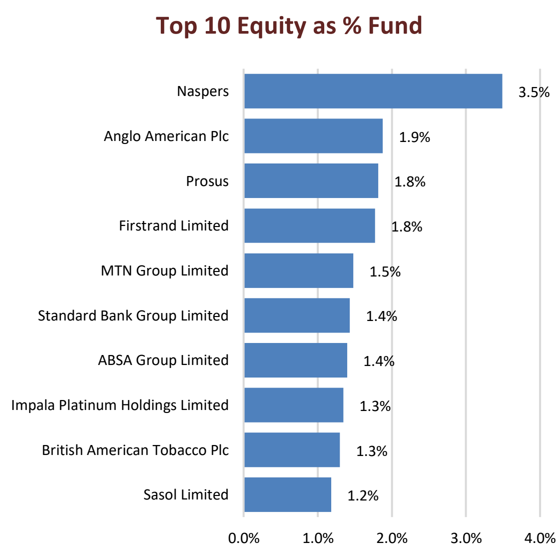


The Sanlam Accumulation Portfolio returned 8.5% for the quarter and -0.2% for the year ended 31 December 2022, outperforming its composite benchmark which returned 8.2% and -1.1% respectively. Our international strategy weighed on overall performance given the rerating of many global technology and growth stocks, but the performance of the local equity blend continues to drive overall outperformance.

Within manager selection, SA Bonds, SA ILBs, SA Hedge Funds, Offshore Africa Equity, Offshore EM Equity and Foreign Cash added value. SA Cash, SA Absolute Return was neutral while other asset classes namely SA Equity, SA Property, Foreign Equity, Foreign Property and Foreign Bonds detracted from performance from a manager selection perspective.

On the asset allocation side, allocation to SA Equity, SA ILBs, SA Cash, Foreign Equity, Foreign Property, Foreign Bonds and Foreign Cash contributed positively to performance while SA Property, SA Bonds, SA Hedge Funds, Offshore Africa Equity and Offshore EM Equity detracted from it. The remaining asset classes were neutral.

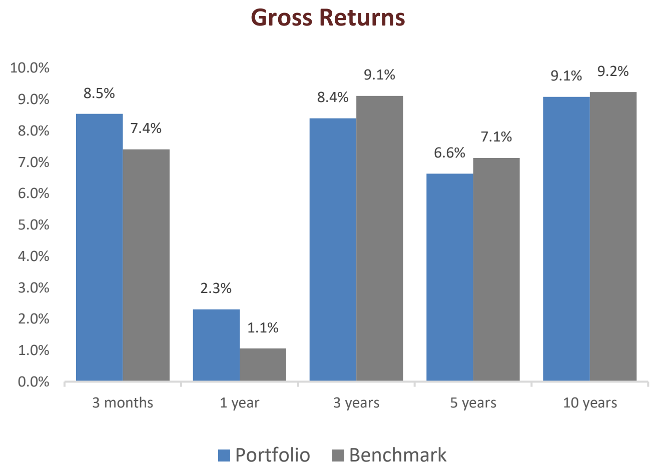


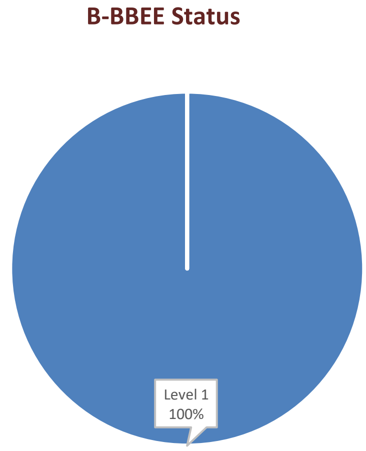


Looking at the current composition of the portfolio, the overweight positions are SA Equity, SA Bonds, SA Hedge Funds, Offshore Africa Equity, Offshore EM Equity and Foreign Cash. The underweight positions in the portfolio are SA Property, SA ILBs, SA Cash, Foreign Equity, Foreign Property and Foreign Bonds.

Sanlam Blue Lifestage

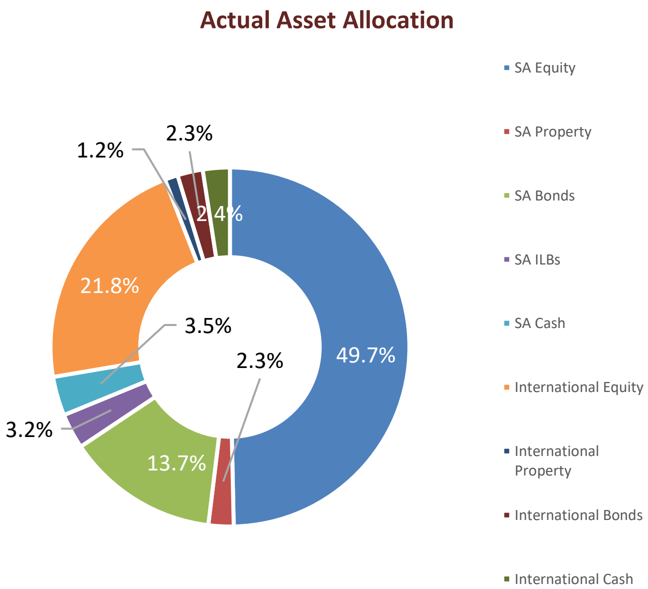
Sanlam Blue Lifestage Accumulation Portfolio

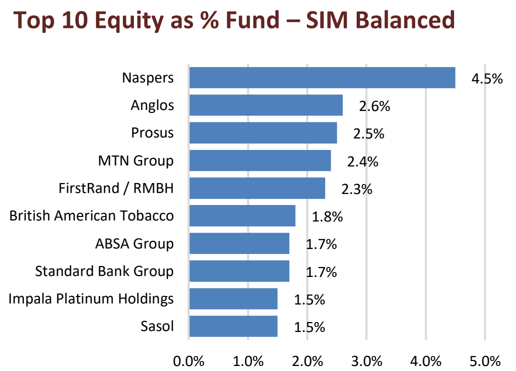


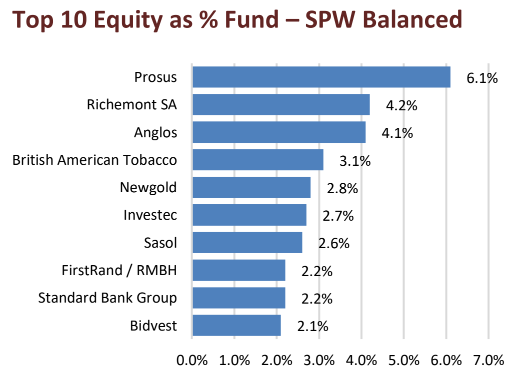


The Sanlam Blue Accumulation Portfolio returned 8.5% for the quarter and 2.3% for the one year ended 31 December 2022. Whilst this outperformance in the shorter term is welcomed, the portfolio has had some stumbling blocks that have seen it delivering an almost par to the benchmark performance over the last 10 years and since inception. The 3-year and 5-year numbers are where some of the challenges experienced in the portfolio can still be seen with a 70 bp and a 50 bp underperformance, respectively.

SIM Balanced Fund (50%) utilizes Alexander Forbes Global Large Manager Watch Median as its benchmark, for the quarter ended 31 December 2022, the portfolio delivered a return of 8.5% compared to a return of 7.7% from its benchmark. Looking at the one-year return, the SIM Balanced portfolio return 0.9% vs a benchmark which returned 1.5%. On the other hand, SPW Balanced Fund (50%) uses the Gross ASISA South African MA High Equity as its benchmark, the portfolio returned 8.6% vs. 7.1% from its benchmark over the quarter ended 31 December 2022. Over the one-year period, the SPW Balanced Fund delivered positive return of 3.7% which outperformed its benchmark (0.6%)

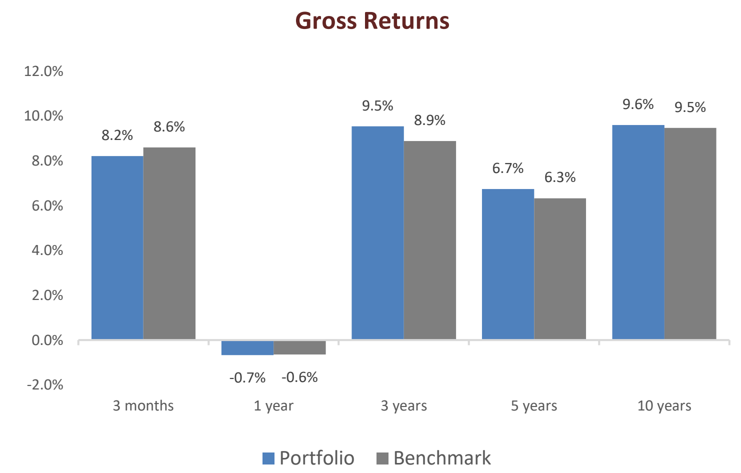


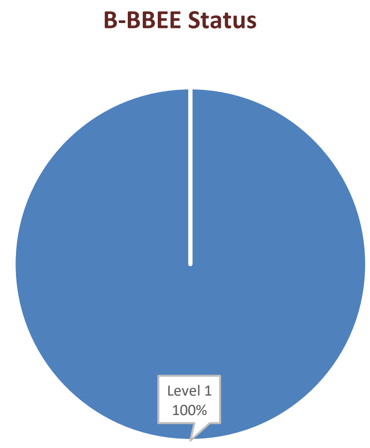




The assets allocation for Sanlam Blue Lifestage Accumulation Portfolio were calculated using the actual splits between SIM Balanced Fund and SPW Balanced Fund of 49.2% and 50.8% respectively as of 31 December 2022.

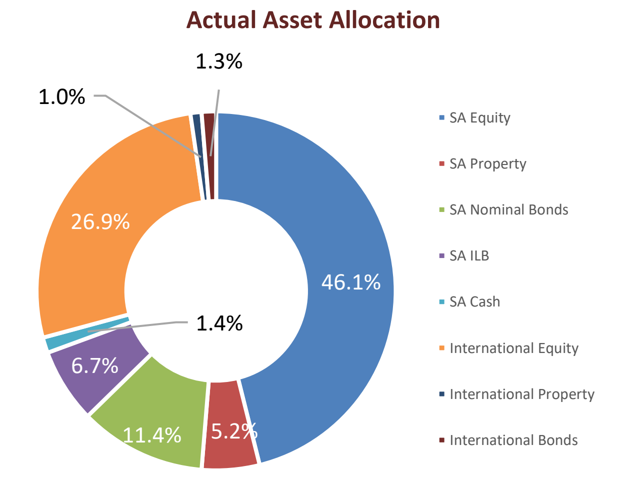
Sanlam Passive Lifestage
Satrix Enhanced Balanced Tracker Fund

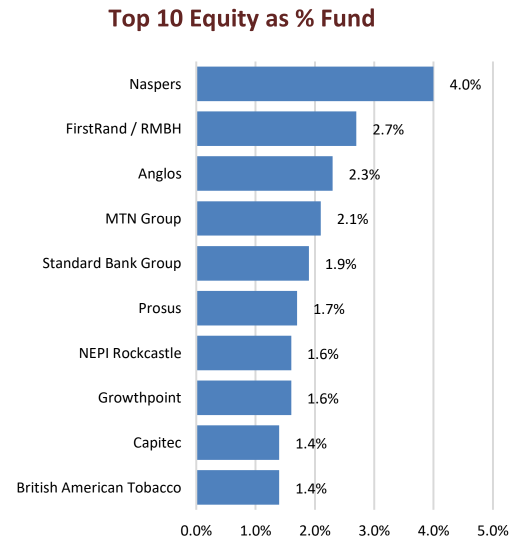




The Satrix Enhanced Balanced Tracker Fund returned 8.2% for the quarter and -0.7% for the one year ended 31 December 2022. For the quarter ended 31 December 2022, the Satrix Enhanced Balanced Tracker Fund underperformed its composite benchmark by 0.4%. The portfolio managed to consistently outperform its benchmark over the past 10 years. This is mainly due to its ability to add value from tactical asset allocation positioning, thereby offsetting the transaction costs associated with tracking a multi-asset class index. Furthermore, the ranges and asset allocation tolerances the fund is managed within before a trade is triggered, help to minimize the turnover and transaction costs within the fund.

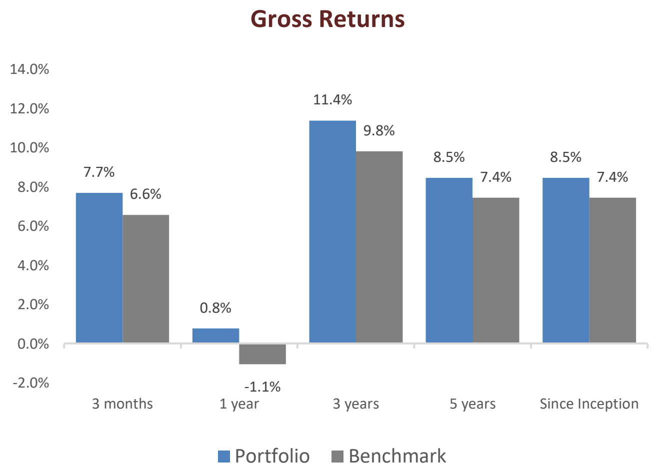
The offshore component of the portfolio outperformed the benchmark counter part with stock selection adding value and manager selection being neutral. Within the local asset classes, the stock selection detracted from performance, however, asset allocation added value.

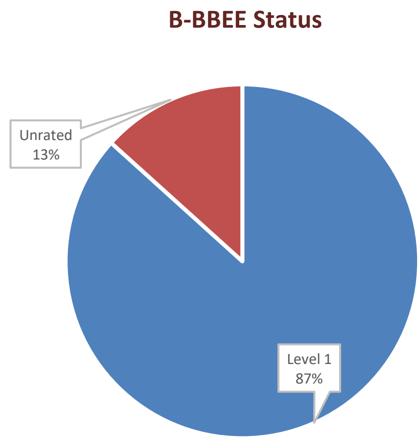




Looking at the current composition of the portfolio, the is overweight in International Equity, SA Nominal Bonds and SA Equity. The underweight positions are International Property, SA Property, International Bonds, SA Cash and SA ILBS

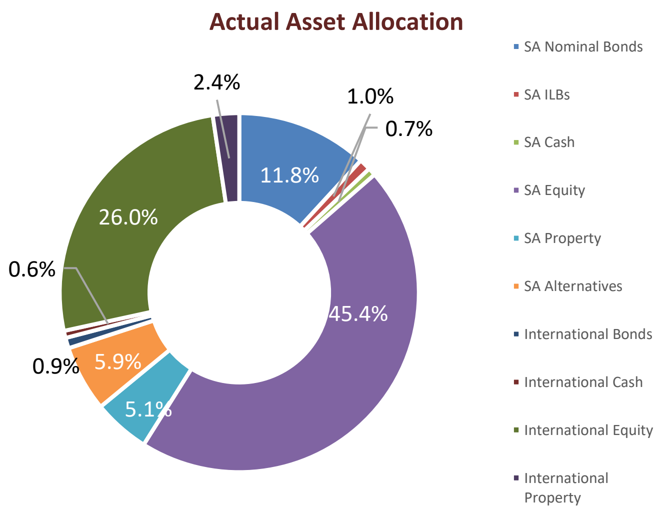
Sanlam Wealth Creation Lifestage
Sanlam Wealth Creation Portfolio

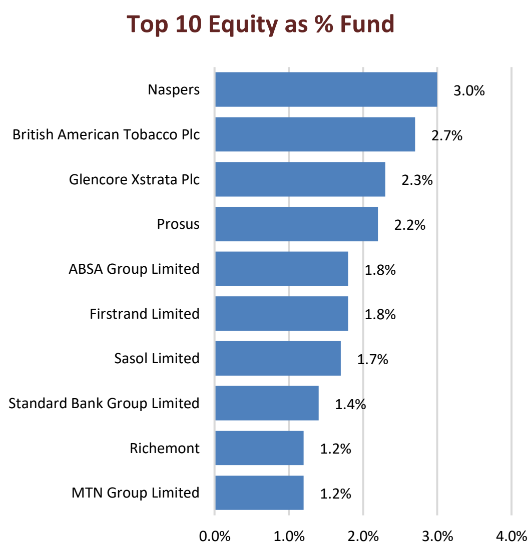




The Sanlam Wealth Creation Portfolio returned 7.7% for the quarter and 0.8% for the year ended 31 December 2022, beating its composite benchmark which returned 6.6% and -1.1% respectively. To see where the 7.7% return for the quarter come from, we look at the security level contribution analysis for the portfolio. The top 3 contributors to the 7.7% return were M&G Life Domestic Balanced Fund (which contributed 1.3%), Coronation Domestic Houseview (which contributed 1.1%) and Ninety-One SA Balanced (which contributed 1.0%). As we can see, all our securities did not detract from the quarter's performance.

*Returns prior to 1 August 2022 are reflective of the Sanlam Wealth Creation portfolio structured on the AlexForbes life license

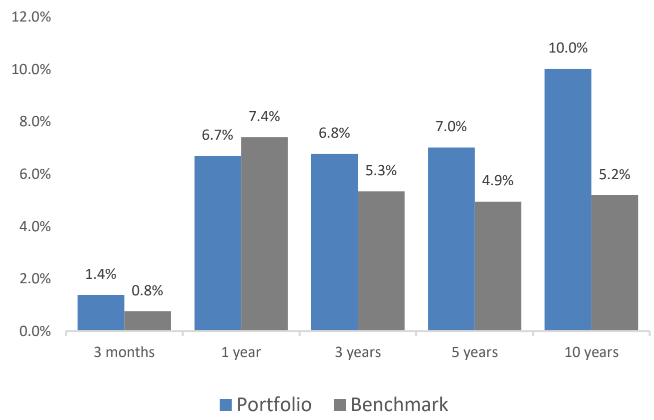




At present, the fund has an overweight position relative to the benchmark in domestic large balanced funds (4.8%) and local cash (0.7%) while underweight positions in the remaining asset classes.

Preservation phase portfolio
Sanlam Capital Protection Portfolio

Gross Bonuses



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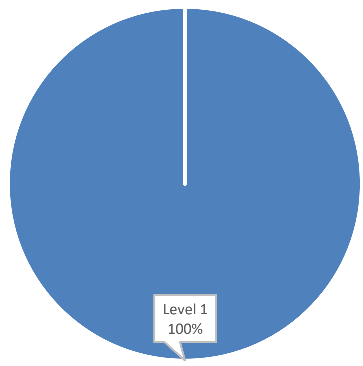
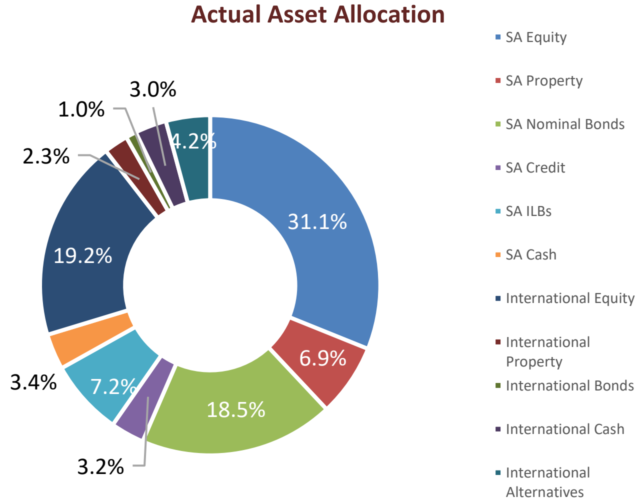


The preservation phase of the Sanlam Passive Lifestage Strategy continues to deliver stable, dependable positive returns for investors. Over the last quarter of 2022, the Capital Protection Portfolio gave investors a return of 1.4% and a return of 6.7% for the year despite the challenging market conditions. Over the long term, the portfolio also posted strong inflation beating returns.

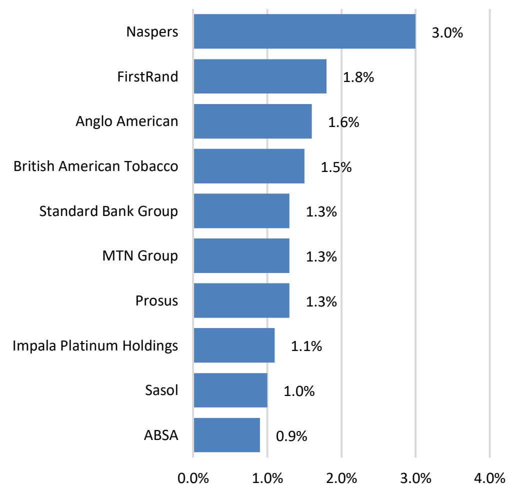
The Sanlam Capital Protection Portfolio continues to deliver stable, dependable positive returns for investors. This portfolio is especially important for members closer to retirement, as it offers protection over their accumulated capital.

*Inflation is lagged by one month

Actual Asset Allocation



Top 10 Equity as % Fund



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

Performance summary

31 December 2022	3 months	6 months	1 year	3 years	5 years	SI
Accumulation Phase						
Sanlam Lifestage						
Sanlam Accumulation Portfolio	8.5%	7.9%	-0.2%	9.0%	6.5%	9.1%
Benchmark	8.2%	7.6%	-1.2%	8.7%	6.1%	9.3%
Sanlam Blue Lifestage						
Sanlam Blue Accumulation Portfolio	8.5%	7.6%	2.3%	8.4%	6.6%	11.2%
Benchmark	7.4%	7.3%	1.1%	9.1%	7.1%	11.3%
Sanlam Passive Lifestage						
Satrix Enhanced Balanced Tracker Fund	8.2%	7.5%	-0.7%	9.5%	6.7%	9.9%
Benchmark	8.6%	7.8%	-0.6%	8.9%	6.3%	10.0%
Sanlam Wealth Creation						
Sanlam Wealth Creation Portfolio*	7.7%	7.0%	0.8%	11.4%	8.5%	8.5%
Benchmark	6.6%	6.2%	-1.1%	9.8%	7.4%	7.4%
Preservation Phase						
Capital Protection Portfolio**	1.4%	2.7%	6.7%	6.8%	7.0%	13.5%
CPI***	0.8%	3.6%	7.4%	5.3%	4.9%	-

**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 November 2022*

Macroeconomic commentary

Highlights

Global

- World Bank revises 2023 global growth lower to 1.7% on synchronized slowdown
- US labour market strength may keep rates higher for longer, but productivity is key
- Fed raises rates a cumulative 125 basis points with the terminal rate also higher at 5% to 5.25%.
- ECB raises rates 50 basis points and signals March start to quantitative tightening
- BOJ expands 10-year bond yield target range to +/-50 basis points from +/-25 basis points
- Earnings downgrades on recession risks a headwind for equities in 2023

Local

- Cyril Ramaphosa secures a second term as ANC President and NEC elects new faces, purging the old.
- SARB slashed its 2023 growth forecast for SA to 0.3% from 1.1% at the time of the previous (November 2022) meeting.

Global economics

Global Equities

Risk assets rallied in the fourth quarter of the year, buoyed by expectations of a near-term peak in the interest rate cycle and a pivot on rates during 2023. However, persistent hawkish comments from the US Fed that rates would remain higher for longer with no pivot in 2023, saw equites sell off in December following two months of stellar gains. The MSCI World Index declined by 4.3% in US dollars (-4.2% in rands) in December, bringing the quarterly gain to 9.8%. For the year, the index was down some 18.1% in US dollars as a market derating technology and growth stocks, fueled by rising real bond yields, weighed on prices. Given solid gains on the Hang Seng Index (13.4%) following China's abrupt re-opening, emerging market equities also rallied 9.8% over the quarter. For the year, emerging market equities declined by 19.9% in US dollars as investors priced in the likelihood of a global recession.

The question now is whether equities will post a second consecutive year of negative returns in 2023. The good news for investors is that since 1928, the S&P500 Index has only delivered consecutive years of negative returns eight times. Put differently, the index has delivered a positive annual return following a down year, 67% of the time.

Global Bonds

Global bonds yielded positive returns in the fourth quarter of 2022 even as yields increased marginally following the Fed's cumulative 125 basis points of rate hikes, a 50-basis point rate hike from the European Central Bank (ECB) and the Bank of Japan's (BOJ's) unexpected announcement of a doubling of the cap on Japan's 10-year bond yield. The ECB also announced the start of quantitative tightening in March this year, with the APP portfolio declining at a monthly rate of Euro 15 billion until the end of the second quarter. The ECB President, Christine Lagarde, stated that the central bank expected a short-lived and shallow recession this year with staff -

projections for real GDP growth downgraded to 0.5%. However, the inflation projections were revised up to 6.3% (from 5.5%) for 2023 and to 3.4% (from 2.3%) for 2024. Lagarde stressed that the central bank viewed growth risks as skewed to the downside while inflation risks were skewed to the upside. For this reason, the ECB was likely to continue raising rates in 50-basis point increments, with a terminal rate of some 3% expected. The ECB also made it very clear that they would not be pivoting any time soon.

The BOJ, for its part, surprised the market with a change to its policy of yield curve control, widening the 10-year cap to 0.5% from 0.25% previously. Investors perceived the move as a potential first step towards rate hikes this year, prompting Japanese Government Bond (JGB) yields to rise and the Yen to strengthen. The increase in yields forced the BOJ to make substantial unscheduled bond purchases as speculators tested the central bank's resolve to protect the new cap. Although price pressures are comparatively muted in Japan, they reached a four-decade high of 3.7% on surging imported energy costs (exacerbated by yen weakness) and a BOJ statement highlighting a recent rise in inflation expectations.

The policy rate hikes lifted yields across the nominal and inflation-linked bond curves, triggering a de-rating in equity markets. A better-than-expected inflation print in the both the US and the EU saw real bond yields rise as investors betted on a lower-than-expected inflation outcome for the year. A sharp drop in energy costs has fueled the more positive sentiment with natural gas prices falling some 39% over the quarter, aided by a warmer European winter. The yield on the Bloomberg Capital Global Aggregate Bond Index increased marginally from 3.7% to 3.73%, whereas global government inflation-linked bond yields increased to 1.05% from 0.81% the previous quarter. Since US breakeven inflation rates across the one-to-ten-year portion of the curve are all well anchored at below 2.5%, this suggests the market expects inflation to drop-off sharply this year. The Bloomberg Capital Global Aggregate Bond Index yielded some 4.6% in US dollars (-1% in rands), while the Bloomberg Capital Global Inflation Linked Bond Index yielded 4.1% in US dollars (-1.5% in rands). Emerging market bonds, in turn, outperformed their nominal sovereign counterparts yielding 6.6% in US dollars given their higher absolute yields and a compression in spreads.

Global Listed Property

Despite the small rise in bond yields and the policy rate hikes by the Fed and the ECB, the EPRA/NAREIT Developed Markets Property Index gained 7.1% in US dollars (1.4% in rands) over the quarter, ahead of the 4.6% yielded by global bonds. Since global listed property stocks had derated sharply over the year to end-September, the sector rerated in the fourth quarter on expectations of a near term peak in the interest rate cycle and a rate pivot later this year. The sector re-rated with the price-to-book ratio increasing from 1.16X to 1.23X, well below the 1.45X historical mean. Warnings from Fed speakers that the terminal rate of interest would be higher than what the market expects and would remain higher for longer did however result in property stocks giving back some of their gains in December.

Given expectations of further rate hikes through the first quarter of 2023, coupled with still high energy costs (which are falling), declining real incomes and expected corporate lay-offs, slowing turnover growth and subdued rental escalations are expected to be a headwind for the sector.

Local economics

Local Equities

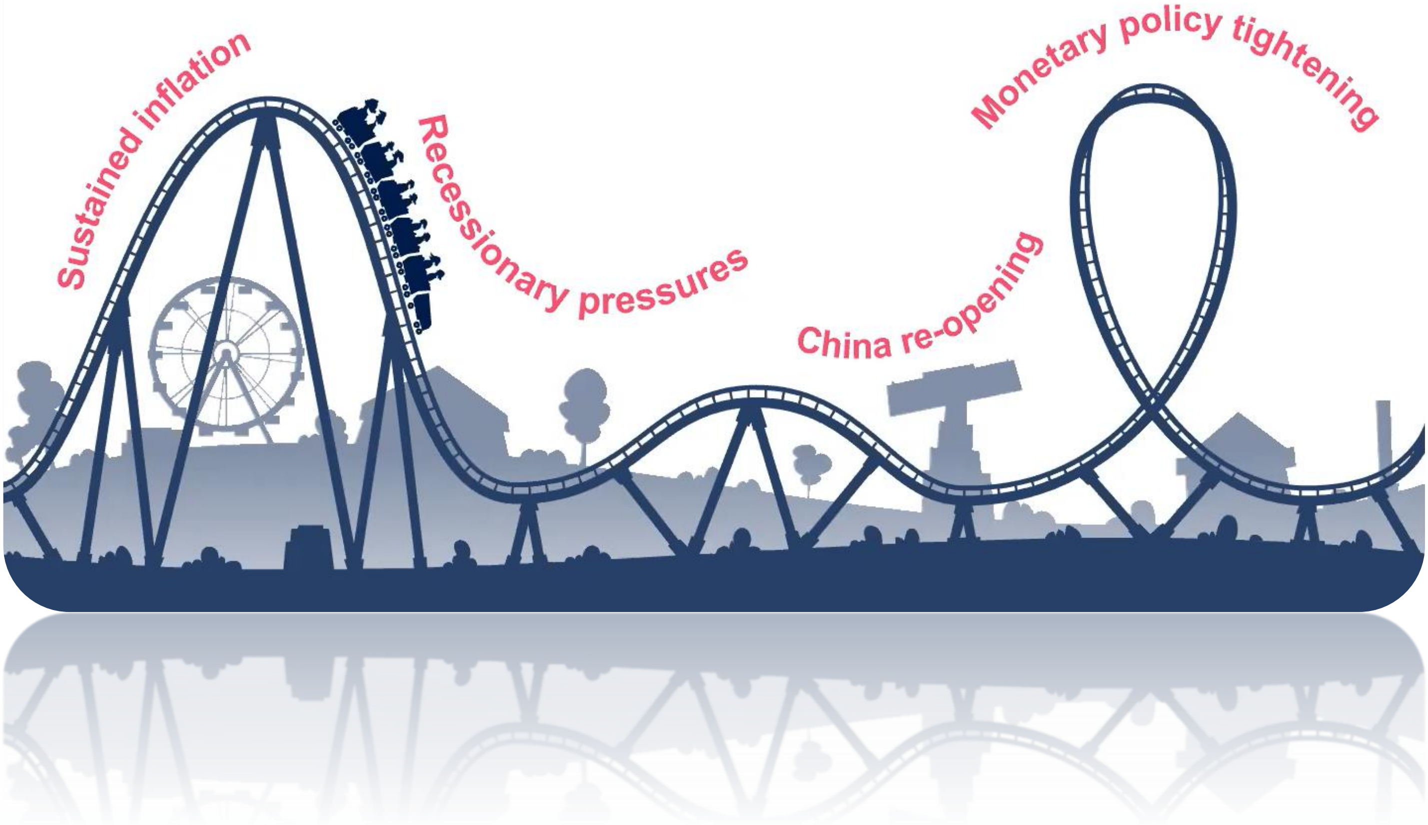
South African equities outperformed their developed and emerging market counterparts in the fourth quarter of the year, rallying 15.2% in rands, buoyed by cyclical and rand-hedge stocks. In US dollar terms, the All-Share Index rallied 21.6%, well ahead of the 9.8% yielded by developed and emerging market equities. Due to China's re-opening, industrial metals prices rebounded 17.2% in US dollars, led by gains in nickel (36.5%) and iron-ore (14.4%). Consequently, industrial metals and mining stocks on the JSE rallied 20.4% in rands, while precious metals and mining counters rallied 19.8%, aided by a 24.1% rise in the platinum price and an 8.4% gain in the gold price. The China re-opening trade and a loosening of regulatory restrictions on technology companies boosted technology stocks (24.3%), led by Naspers (25.2%) and Prosus (24.2%). The re-opening trade was also positive for consumer discretionary stocks (23.1%) – notably Richemont – that gained 30.4% over the quarter. The laggards included healthcare (2.4%), telecommunications (3.2%), industrials (5.6%) and consumer goods (6.7%).

While economic growth surprised to the upside in the third quarter, rising by 1.6% quarter-on-quarter seasonally adjusted and 4.1% year-on-year, the growth outlook over the coming years is expected to be benign, due to electricity supply constraints, a pending global recession, lower commodity prices and the high cost of capital. The SARB slashed its 2023 growth forecast for SA to 0.3% from 1.1% at the time of the previous (November 2022) meeting. Its 2024 and 2025 forecasts were also lowered notably, to 0.7% (from 1.4%) and 1.0% (from 1.5%), respectively.

The load-shedding intensity index was at 1 692.5 GWh, with load-shedding rising to an all-time high of 1054 hours in the third quarter of the year, some 47.7% of the time (an average of 14.8 calendar days per month). The South African Reserve Bank (SARB) revised its growth estimates for 2023 lower to 1.1% (from 1.4% previously), while growth for 2024 was also revised lower to 1.4% (from 1.7% previously). The World Bank's latest estimates are very similar at 1.4% and 1.8% respectively. Despite the weak growth outlook, markets got some cheer following the release of the Absa and Standard Bank purchasing manager indices. The Absa PMI rose from 52.6 index points to 53.1 index points, while the Standard Bank PMI dropped slightly to 50.2 index points from 50.6 index points, still is expansionary territory. In terms of the ABSA activity indices, new orders, employment and expected business conditions showed large gains, while the new orders to inventories ratio rebounded sharply, pointing to expanding manufacturing activity over the next two quarters.

Local Listed Property

South African listed property stocks benefitted from the rally in domestic bonds helping to offset a 13.5% decline in dividends per share over the quarter. The SAPY yielded a staggering 19.3% in rands and 26% in US dollars as the sector also rerated relative to bonds. The property-to-bond yield ratio eased from 0.75X to 0.73X, still expensive relative to the 0.9X mean. The biggest gainers over the quarter included Hammerson Plc (36.5%), Growthpoint (29.8%), Nepi Rockcastle Plc (27.2%) and Redefine (24.7%), while the laggards included Emira (0%), Liberty Two Degrees (1.1%), Industrials Reit (1.2%) and Capco (3.5%).



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It is incredibly difficult to make any prediction about anything, especially investment markets, however, there are significant risks which were topical in 2022 that we believe will continue into 2023. For example, the interplay between inflation, interest rates and economic growth is likely to impact global and local asset class returns in 2023. In this instance, we are likely to witness either a global recession driven by the hawkish monetary policy displayed by global central banks, or on the flip side a bull market driven by a sharper than expected decline in global inflation. The latter position can be attributed by China reopening its economy more rapidly. These risks, while having divergent and potentially large impacts on financial markets, are well appreciated and less likely to surprise. On the other hand, a global earnings recession shock in our view is the event that could surprise the most.

Market performance summary (in ZAR) to 31 December 2022

	31 December 2022	3 months	1 year	3 years	5 years	10 years
Local	Equities (All Share Index)	15.2%	3.6%	12.7%	8.0%	9.9%
	Equities (Capped SWIX)	12.2%	4.4%	10.1%	4.9%	8.3%
	Property	19.3%	0.5%	-3.4%	-7.2%	2.8%
	Nominal Bonds	5.7%	4.3%	7.1%	7.8%	7.1%
	Inflation Linked Bonds	2.2%	4.2%	7.8%	5.1%	5.0%
	Cash	1.6%	5.2%	4.8%	5.8%	6.1%
Global	Equities	3.9%	-12.7%	12.0%	13.1%	16.7%
	Bonds	-1.0%	-10.7%	2.0%	4.8%	6.7%
	Property	0.8%	-19.2%	1.5%	6.3%	10.7%
	Rand vs US Dollar	-5.3%	6.6%	6.8%	6.6%	7.2%
Sector	Financials	12.9%	6.9%	3.7%	0.5%	7.4%
	Resources	16.1%	8.6%	20.3%	20.9%	8.3%
	Industrials	15.7%	-3.7%	10.9%	4.1%	9.8%
Size	Small Cap	4.4%	7.6%	19.5%	6.9%	9.8%
	Medium Cap	8.0%	1.6%	3.9%	3.2%	7.1%
	Large Cap	17.1%	4.2%	13.7%	8.7%	10.2%

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