



Sanlam Corporate: Investments

Sanlam Passive Lifestage Report

**Quarter 3 2023**

Insurance

Financial Planning

Retirement

Investments

Wealth

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# Contents

Overview of the Sanlam Passive Lifestage solution	3
Accumulation Phase Portfolio	6
Preservation Phase Portfolio	7
Investment related feedback	8
Performance summary	10
Macroeconomic commentary	11
Economic performance summary	16
Contact Details	17

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# Overview

## of the Sanlam Passive Lifestage solution



**The core objective of this alternative default investment strategy is to cater for the needs of members who seek an aggressive strategy, believe in passive investing, working towards a target date, with a view to contain costs.**

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 ([Satrux Enhanced Balanced Tracker Fund](#)) 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.

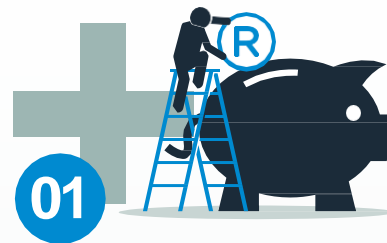




In terms of the Lifestage approach, a member's savings are initially invested in a portfolio that places emphasis on long-term capital growth with some tolerance for short-term market volatility.

The Passive Lifestage strategy is targeted for members who value the benefits of passive investing, as such delivering market competing returns over the long term at lower costs. The portfolio aims to track a basket of indices which are likely to deliver long-term high returns. The portfolio benefits from active tactical asset allocation which allows it to deliver competing long-term returns at a lower tracking error.

## Lifestage Solution



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.

Satrix  
Enhanced  
Balanced  
Tracker Fund

The phasing from the Accumulation Phase to the Preservation Phase 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 the 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.



### 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

# Investment Portfolios offered in Sanlam Passive Lifestage



## Accumulation Phase Portfolio

The underlying portfolio is the [Satrix Enhanced Balanced Tracker Fund](#). 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. Cash is actively managed to generate excess returns relative to the STeFI Composite Index returns within the multi-asset benchmark. Tactical asset allocation is also employed to enhance the performance of the fund relative to the performance of its benchmark. The portfolio has a moderate to aggressive risk profile

Within each asset class, the fund tracks its respective asset class benchmark index, either through physical replication, synthetic replication, or a combination of the two. Synthetic replication facilitates excess returns relative to the index by employing a portable alpha strategy with enhanced cash returns.





## Preservation Phase Portfolio

The strategy utilises [Sanlam Capital Protection Portfolio](#) in the preservation phase. This portfolio was selected as the preservation phase portfolio given its objective to protect the invested capital by guaranteeing the net contributions invested.

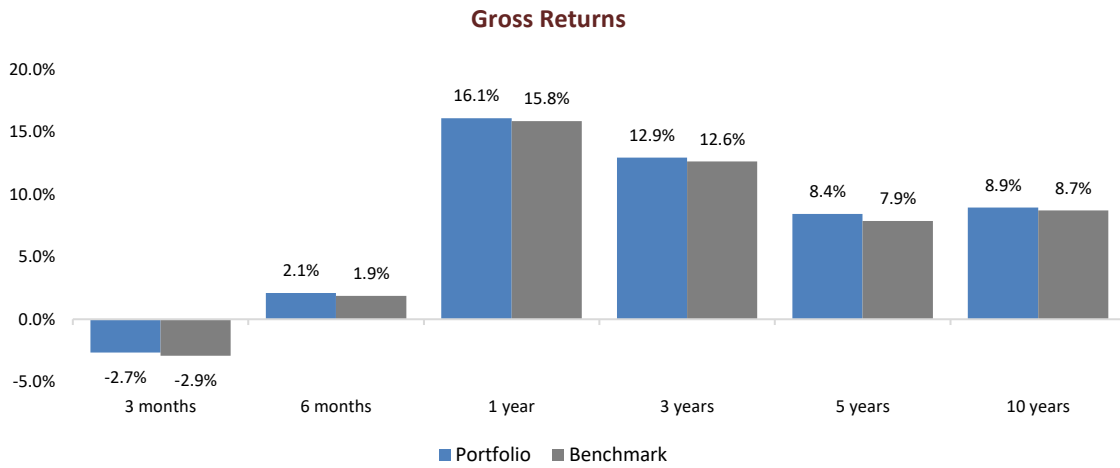
The [Sanlam Capital Protection Portfolio](#) invests in the [Sanlam Stable Bonus Portfolio](#). The Stable Bonus Portfolio provides investors with exposure to the financial markets, which provides investors with exposure to equity markets, but also protects them against adverse market movements. This 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.

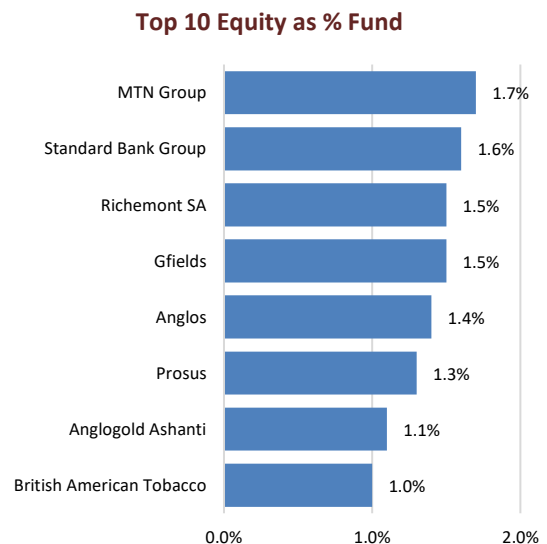
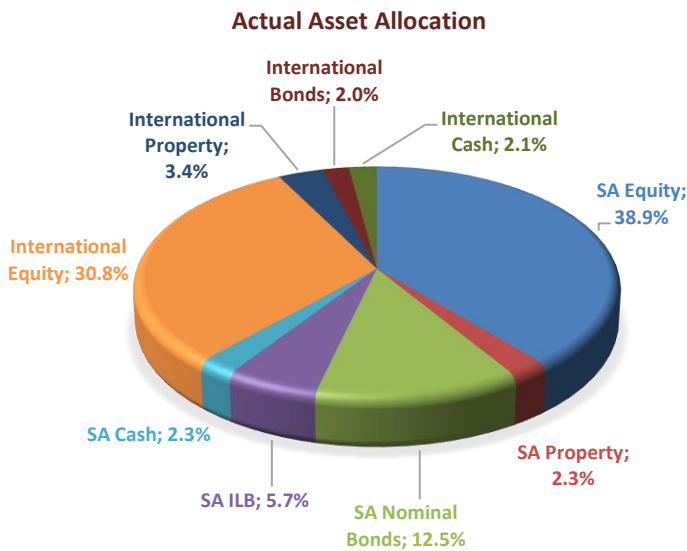
# Sanlam Passive Lifestage

## Satrix Enhanced Balanced Tracker Fund



The Satrix Enhanced Balanced Tracker Fund experienced a 2.7% dip in the last quarter, although it performed impressively by delivering a 16.1% return for the year concluding on September 30, 2023. Despite the challenging quarter, the portfolio outshone its strategic benchmark, which yielded -2.9% and 18.8% over the same period.

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.

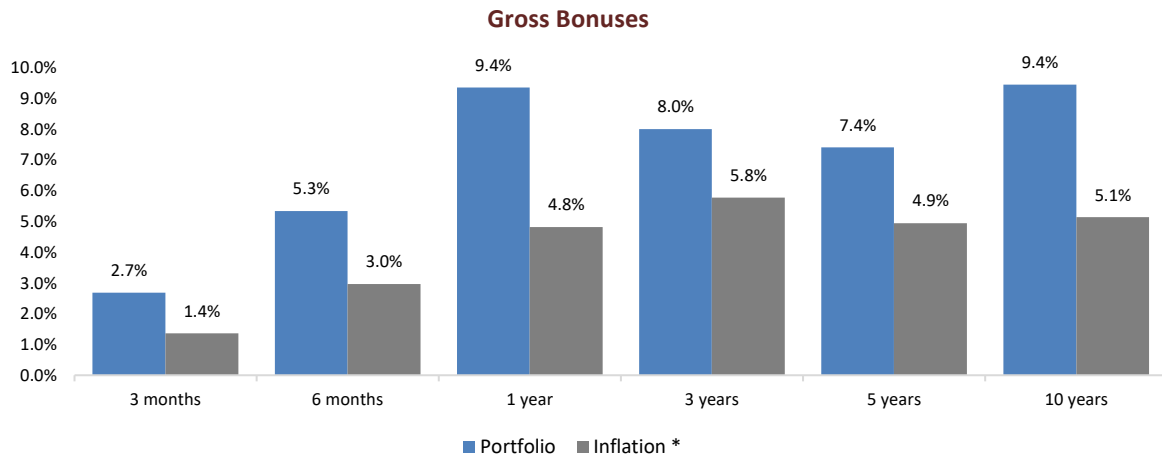


Looking at the current composition of the portfolio, the portfolio is underweighted in SA Equity, SA Property, International Equity and International Bond. The portfolio has an overweight position on other asset classes.



# Preservation phase portfolio

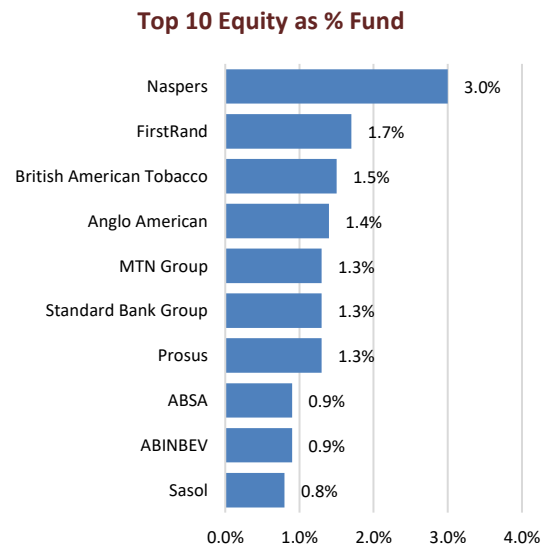
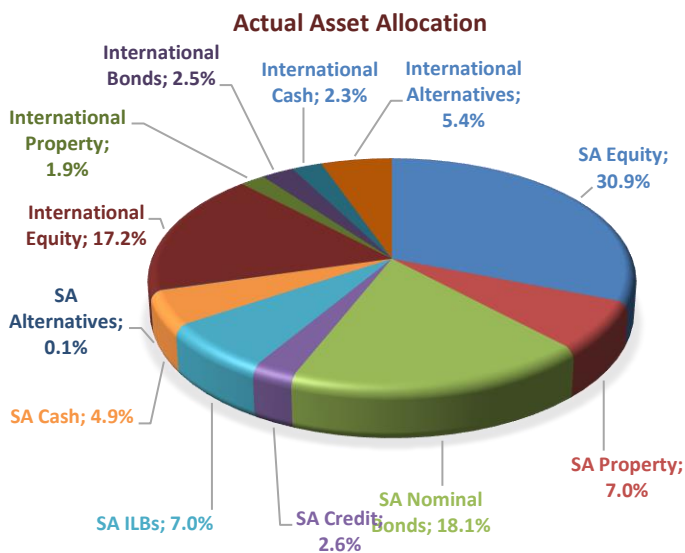
## Sanlam Capital Protection Portfolio



The preservation phase of the Lifestage Strategies continues to deliver stable, dependable positive returns for investors. Over the third quarter of 2023, the Sanlam Capital Protection Portfolio gave investors a return of 2.7% and a return of 9.4% 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 underweight positions are International Equity, SA Alternatives, SA Cash, SA Credit and International Property. The portfolio is overweight in all other asset classes. Despite being a smoothed bonus portfolio, it maintains a well-diversified structure, allowing investors to participate in market upswings while safeguarding against downside risks.



# Performance summary

30 September 2023	3 months	6 months	1 year	3 years	5 years	10 years
<b>Accumulation Phase</b>						
<b>Sanlam Passive Lifestage</b>						
<b>Satrix Enhanced Balanced Tracker Fund</b>	-2.7%	2.1%	16.1%	12.9%	8.4%	8.9%
<b>Benchmark</b>	-2.9%	1.9%	15.8%	12.6%	7.9%	8.7%
<b>Preservation Phase</b>						
<b>Capital Protection Portfolio**</b>	2.7%	5.3%	9.4%	8.0%	7.4%	9.4%
<b>CPI***</b>	1.4%	3.0%	4.8%	5.8%	4.9%	5.1%

\*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 August 2023

# Macroeconomic commentary



## Global Equities

Global equities fell in the third quarter due to rising bond yields driven by US inflation misses and a 22% oil price surge. The yield curve steepened, signaling an expected soft landing in the coming year, aligning with the IMF's projections of slowing global growth. The IMF anticipates a slowdown from 3.5% in 2022 to 3% this year and 2.9% next year. Near-term risks are downside, with the Bloomberg GDP global tracker showing 2.4% growth in Q3. Medium-term growth is expected at 3.1%, below the historical average of 3.8%. The US 10/2-year bond spread rose, reflecting expectations of higher inflation. Fed's September dot-plot suggests a possible rate hike in November, and rate cut expectations for 2024 reduced to 50 bps from 100 bps, with rates likely on hold for a year. Tip yields increased, supported by higher break-even inflation.

In the third quarter, equities de-rated as investors adjusted to a prolonged high-interest rate environment, reigniting the inverse relationship between price-to-earnings ratios and interest rates.

## Highlights

### Global

- Global growth expected to decrease from 3.5% in 2022 to 3% this year and 2.9% next year
- Yield curve bear steepening triggers equity market rout
- Fed's Dot-Plot reins in 2024 rate cuts to 50 bps from 100 bps
- PBOC cuts rates and the required reserve ratio to counter CPI deflation
- Services sector PMIs slow further in August
- Oil prices surge on extended OPEC+ production cuts

### Local

- SA bond yields rise as markets price in deteriorating fiscal metrics ahead of the MTBPS.
- SARB leaves rates unchanged in split 3/2 vote

This suggests that earlier optimism about rate cuts may lead to further de-ratings. Historically, the fourth quarter typically brings positive equity returns. With the Fed focusing on the duration of restrictive policy rather than rate heights, it may be nearing the end of its tightening cycle.

Higher bond market rates led to a 3.7% MSCI World Index drop, with a milder 3.1% fall in emerging markets, supported by strong Chinese data, while adjustments to reserve ratios and rate cuts improved sentiment. However, developed market earnings estimates declined, but emerging markets saw upward adjustments. Manufacturing and services face pressure, housing and consumer debt issues impact the US, while the EU faces recession risks. The IMF revised euro area growth down to 0.7% this year and 1.2% next year, and the US outlook improved to 2.1% this year and 1.5% next year. Tighter credit conditions, rising bankruptcies, and consumer struggles are factors to watch. The US may experience a growth slowdown as fiscal boosts wane in 2024.

## Global Bonds

In the third quarter, bonds, typically seen as safe-havens, couldn't shield investors from a stock market decline due to rising yields driven by inflation concerns and expectations of prolonged high-interest rates. The surge in oil prices, along with worries about a broader conflict's impact, steepened the US yield curve.

Increased bond issuance and fiscal deficits in the US also weighed on bonds. Yields rose across various bond indices, causing declines in returns. Global government inflation-linked bonds fared worse, yielding -4.9%. Meanwhile, corporate bonds outperformed sovereign bonds, and emerging market bonds showed relative strength, despite currency depreciation. Countries that started tightening their rates earlier than the US may now be able to aggressively cut rates in 2024 as inflation returns to central bank target ranges. However, the strengthening US dollar, linked to expectations of higher interest rates, limits emerging markets' ability to cut rates significantly without risking currency depreciation and imported inflation. The Fed seems to have shifted focus from raising interest rates to determining the appropriate duration of restrictive policy, signaling the potential end of their rate tightening cycle.

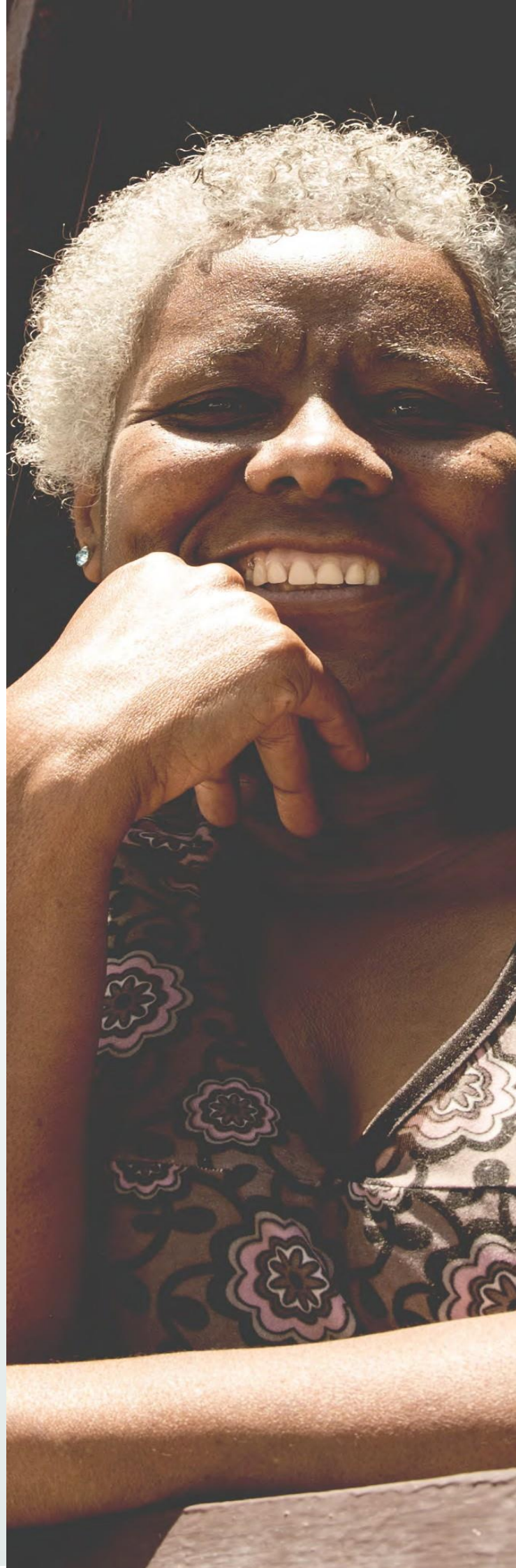
## Global Listed Property

Global listed property bore the brunt of the rise in both the nominal and real curves. The FTSE EPRA Nareit Developed Markets Property Index declined by 55.9% in rands, the worst-performing of the broad asset classes. The sector de-rated sharply, with the price-to-book ratio declining from 1.21X to 1.14X, well below the historical mean of 1.46X. Since the to-book ratio is now back at levels seen during market drawdowns post the 2008 Global Financial Crisis, the sector is showing value. Although refinance risk is not an immediate concern, given loan-to-value ratios of 34%, debt will have to be refinanced at much higher levels with expected earnings growth revised lower to 4%. Further support for global listed property comes from the fact that REITs currently trade at a 22% discount to net asset value and offer an attractive dividend yield.

## Local economics

### Local Equities

South African equities could not escape the third quarter rout in global markets. They declined by 3.5% in rands and 3.2% in dollars. Domestic equities did, however, outperform their developed market counterparts but lagged emerging markets, largely due to negative returns from telecommunications (-17.2%), technology (-11.0%) and consumer discretionary stocks (-9.7%). The selloff in telecommunications was led by Telkom (-26.7%), Multichoice (-22.5%) and MTN (-18.3%), whereas technology was driven by declines in Prosus (-11.7%), and Naspers (-11.0%) due to declines in Tencent and a US technology selloff due to higher bond yields.





Expectations of higher-for-longer interest rates weighed on consumer discretionary stocks with Richemont (-25.5%), Metair (-18.7%) and Italtile (-16.8%) leading the losers. Resource counters were also lower over the quarter, declining by 4.4% on Chinese growth concerns. But it was precious metals (-17.5%) counters that bore the brunt of the higher-for-longer interest rate outlook, with Anglogold Ashanti (-23.2%), Goldfields (-20.4%) and DRD Gold (-18.4%) bringing up the rear. While healthcare stocks (-3.5%) were lower, led by Aspen (-4.6%), SA Inc counters yielded positive returns with industrials (7.8%), financials (2.2%) and consumer staples (1.8%) limiting the market selloff.

Following better-than-expected Q2 GDP growth of 1.6% YoY and 0.6% QoQ, the SARB raised its 2023 growth estimate to 0.7%, while 2024 and 2025 projections remained at 1% and 1.1%. GDP growth for H1 matched the revised estimate of 0.9%. The IMF slightly increased its 2024 growth estimate to 1.8%. However, the SARB's outlook reflects domestic challenges like softer commodity prices, persistent power cuts, infrastructure constraints, and a financially strained consumer. The start of Q3 disappointed, with mining and manufacturing production declining in July. Manufacturing's negative trend was reflected in the Absa Manufacturing PMI, and the broader S&P Global SA PMI also entered contractionary territory. While forward-looking PMIs indicate potential growth, gross fixed capital formation outperformed government and household consumption, though imports exceeded exports due to logistical issues, contributing to a trade deficit. Nevertheless, higher imports facilitated a surge in electricity generation. Ongoing electricity reforms aim to create port and rail regulators, a rail infrastructure manager, and a rolling stock leasing firm, with private sector involvement. Even coal and iron ore rail export lines may be privately operated. Transnet will transition into a holding company, with private sector participation in subsidiaries and state majority control of infrastructure.

In line with the expected uptick in economic growth over the coming year, bottom-up consensus earnings growth for the All-Share Index (excluding Prosus and Naspers) was revised upwards to 3.9% from 2.6% the previous quarter. In the second forecast year, earnings growth was revised marginally higher to 3.9%, up from 3.5% previously. Conversely, expected earnings growth for the MSCI SA Index was revised lower, from 2.3% to -1.3%. The difference in the estimates reflects the different constituents making up the respective indices and the volatility in the rand/dollar exchange rate, which has caused assumptions.

## Local Bonds

Domestic bonds outperformed global counterparts despite the nation's deteriorating fiscal metrics, which led to a higher fiscal deficit and raised the All-Bond Index (ALBI) yield from 11.53% to 12.06%. The Cili Inflation-Linked Bond Index yield also increased from 4.91% to 5.04%, resulting in approximately 0.8% yield for inflation-linked bonds in rands, with rising break-even inflation rates. The five-year rate rose from 5.58% to 5.9%, while the 10-year rate increased from 6.56% to 7.15%. The significant uptick in the 10-year break-even rate raises concerns about structurally higher long-term inflation and an associated increased cost of capital that may limit growth and investment.

Cumulative revenue collection in the fiscal year's first five months fell by 0.7%, missing the 3.6% budgeted increase, while expenditure surged by 9.1%, exceeding the 1.4% budgeted increase, resulting in a significant budget deficit, far ahead of last year's corresponding period, amounting to about the full year's budgeted deficit. This compares to a previous fiscal year where the deficit was only 52% of the full year's budgeted deficit. The gross borrowing requirement is expected to surpass the R516 billion budgeted in the current fiscal year, driven by R162.3 billion in redemptions and Eskom's R78 billion debt relief. This will further delay debt stabilization due to a higher budget deficit, as the anticipated primary balance surplus over the coming years is unlikely to materialize. Pressure to maintain the Social Relief of Distress grant may lead to cost-cutting in other budget categories, and rumors of a 2% VAT rate hike in an election year could be unpopular with voters.



While headline inflation remains in line with expectations, core inflation and producer price inflation have edged higher, with further increases expected in September and October due to rising petrol prices.

The Medium-Term Budget Policy Statement in November may drive yields higher, but bonds remain attractive with yields over 12% and a real yield of 6.5% compared to 5% for inflation-linked bonds, even after considering the inflation risk premium.

## Local Listed Property

The rise in bond yields weighted on the domestic listed property sector in the third quarter. The FTSE/JSE SA Listed Property Index (SAPY) declined by 1.0% in rands. Despite a lacklustre 0.9% increase in dividends per share and earnings downgrades in company guidance statements, the sector rerated slightly relative to the 10-year bond, with the property-to-bond yield ratio easing to 0.74X from 0.76X the previous quarter. With reported escalations on new leases continuing to trend lower, an oversupply of property in many subsectors and high vacancy rates, distribution growth is expected to be benign. Higher finance costs and liquidity constraints have necessitated capital retention, pointing to lower distributions over the coming year. While the sector does show value, trading at a 40% discount to net asset value, the headwinds discussed above, coupled with return expectations that lag those of the other broad asset classes, informs an underweight position in listed property. The biggest losers over the quarter included Mas Real Estate (-26.4%), Lighthouse Capital (-13.2%) and Growthpoint (-9.5%), whereas the gainers included Liberty Two Degrees (53.5%), Fortress B (20.6%) and SA Corporate Real Estate (8.5%).

## Summary

Cash outperformed equities and bonds in the third quarter due to rising yields fueled by inflation risks and expectations of prolonged higher interest rates. Factors such as OPEC+ production cuts and inflation misses contributed to the surge in yields. The US yield curve suggested a soft economic landing, but short-term yield increases indicated a shallower rate-cutting cycle, aligned with the Fed's dot-plot. Equity valuations declined due to higher discount rates and earnings estimate revisions, reversing the previous positive relationship between rates and price-to-earnings ratios. The fourth quarter historically favors equity. The Fed's focus on policy duration rather than rate heights suggests it may be concluding its rate-tightening cycle. Thus, underweighting equities is recommended for early 2024, with a barbell strategy emphasizing short-term treasuries and gradually increasing duration as rate cuts become expected.

## Medium Term Budget Policy Statement (MTBPS)

Curtailing government expenditure was one of the key features of the minister's speech. He stressed the need for restraint in the public service wage bill, but this has proven very difficult to implement in the past few years. The MTBPS also allocated no additional financial support, beyond what has already been announced for Eskom, to state-owned entities (SOEs).

However, rising interest payments on government debt are now crowding out spending on other priorities, particularly social relief. In the medium term, government will have to make provision for the ending of the Social Relief of Distress grant after the latest one-year extension, and there are other looming needs, including funding for Transnet (if it meets certain conditions) and the National Health system.



Finance minister Enoch Godongwana. Picture: FREDDY MAVUNDA/BUSINESS DAY

**This means the South African economy needs to grow faster to reduce the unemployment rate and generate more tax revenue.**

### Other highlights/features:

- SA's main budget deficit forecast for 2023 has worsened, to 4.9% of GDP, compared to the 4% estimated in the February budget.
- The gross debt will rise from R4.8 trillion in the current financial year to R6 trillion in 2025/26.
- Over the next three years, debt-servicing costs as a share of revenue will increase from 20.7% in 2023/24 to 22.1% in 2026/27.
- Spending has been revised down by R21 billion for the current financial year. Further reductions of R64 billion in 2024/25 and R69 billion in 2025/26 are proposed.
- No bailout was announced for Transnet.
- No further major bailouts were announced for other state-owned enterprises (SOEs) such as Eskom, Denel or SAA.
- Additional funding of R24 billion for the 2023/2024 public sector wage increase (this is lower than an amount of R37 billion cited by Godongwana in May, as the increase will only cover key departments such as education, health and policing/defence. Other departments will need to absorb the increase, according to National Treasury)
- Fast-tracking 'growth enhancing' reforms announced by President Cyril Ramaphosa previously. (However, a new financing mechanism for large infrastructure projects is being proposed – no details were provided).

# Market performance summary (in ZAR) to 30 September 2023

		3 months	6 months	1 year	3 years	5 years	10 years
Local	Equities (All Share Index)	-3.5%	-2.8%	17.7%	14.5%	9.3%	8.6%
	Equities (Capped SWIX)	-3.8%	-2.7%	11.9%	13.8%	6.4%	6.9%
	Property	-1.0%	-0.3%	12.9%	16.8%	-3.5%	1.5%
	Nominal Bonds	-0.3%	-1.9%	7.2%	7.0%	7.2%	7.2%
	Inflation Linked Bonds	0.7%	-0.1%	3.0%	8.6%	5.3%	5.2%
	Cash	2.1%	4.0%	7.5%	5.3%	5.9%	6.3%
International	Equities (MSCI ACWI)	-3.7%	8.9%	26.6%	11.3%	12.7%	14.5%
	Equities (MSCI EM)	-0.5%	8.7%	22.4%	3.9%	7.4%	9.6%
	Bonds	-3.9%	0.8%	7.2%	-3.1%	4.2%	6.0%
	Property	-6.1%	-0.2%	5.3%	4.7%	4.4%	9.1%
	Rand vs US Dollar	-0.3%	6.2%	4.8%	4.1%	5.9%	6.5%
Equity Sector	Financials	1.7%	7.1%	20.6%	21.0%	3.3%	7.0%
	Resources	-4.3%	-10.2%	-0.6%	10.0%	12.8%	6.8%
	Industrials	-6.2%	-3.0%	27.4%	12.9%	8.9%	8.3%
Size	Small Cap	1.1%	1.6%	7.0%	28.8%	9.2%	7.9%
	Medium Cap	0.9%	0.7%	7.7%	14.1%	5.8%	6.4%
	Large Cap	-4.6%	-3.7%	19.8%	14.2%	9.9%	8.8%



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