



Sanlam Corporate: Investments

Sanlam Passive Lifestage Report

Investment Report

Quarter 4 2023

Insurance

Financial Planning

Retirement

Investments

Wealth

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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 ([Satrx 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.

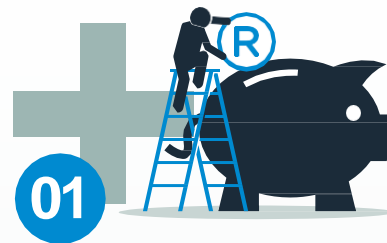




In terms of the Lifestage approach, a member's savings are initially invested in a portfolio that places emphasis on long-term capital growth with some tolerance for short-term market volatility.

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..

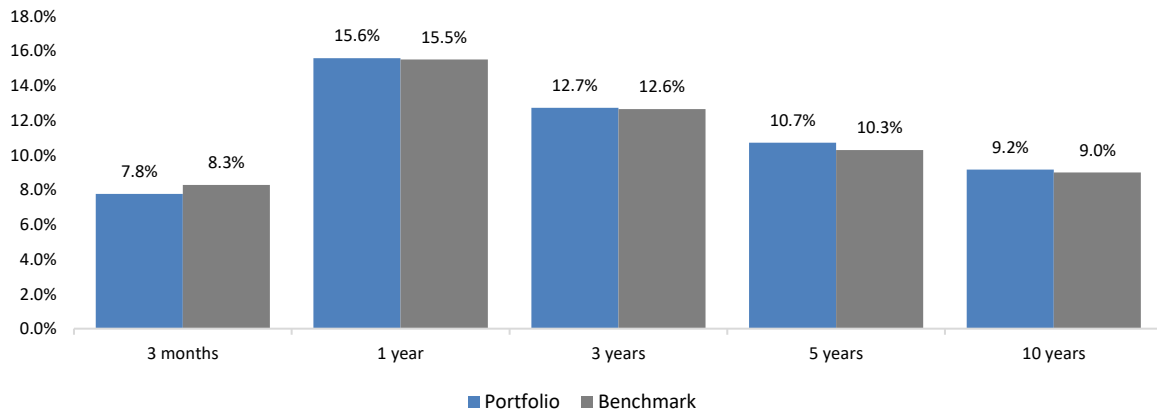
Non-vested bonuses are also declared over and above the vested bonuses. These can be removed in very extreme circumstances though this has never yet occurred since the portfolio's commencement in 1986.

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

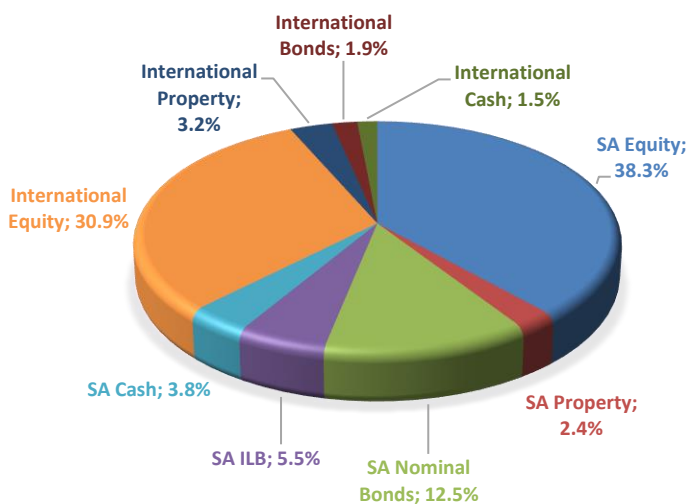
Gross Returns as at 31 December 2023



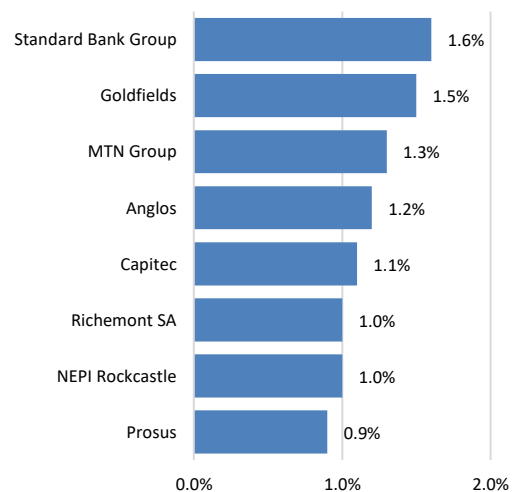
The Satrix Enhanced Balanced Tracker Fund achieved a return of 7.8% in the preceding quarter and a 15.6% return for the calendar year ended 31 December 2023. Correspondingly, its composite benchmark exhibited analogous patterns, registering returns of 8.3% for the quarter and 15.5% for the entire year during the same timeframe.

Over the last decade, the portfolio has consistently surpassed its benchmark, primarily attributed to its proficiency in generating value through strategic asset allocation positioning. This capability effectively mitigates the transaction costs associated with tracking a multi-asset class index. Additionally, the fund's adherence to predefined ranges and asset allocation tolerances prior to trade execution plays a crucial role in minimizing turnover and transaction costs within the fund.

Actual Asset Allocation



Top 10 Equity as % Fund

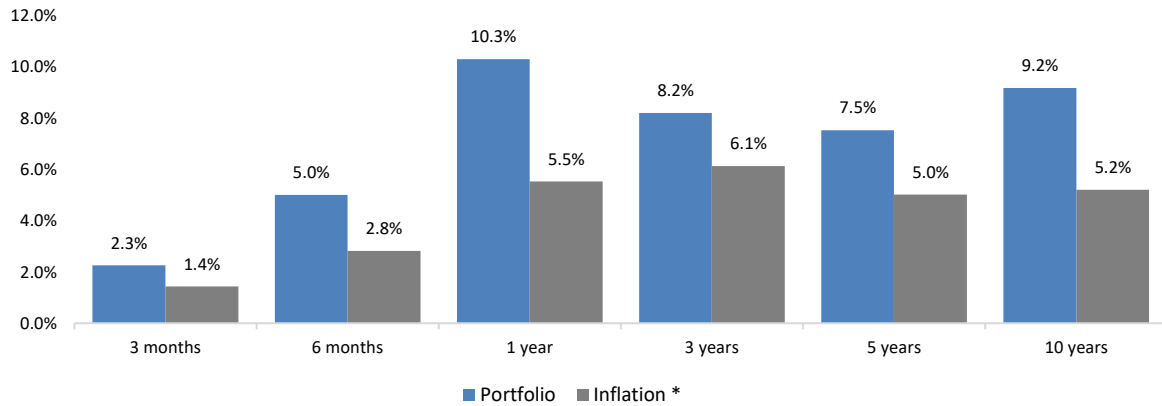


Looking at the current composition of the portfolio, the overweight positions are in SA cash, international, international cash, SA Bonds and SA Inflation Linked Bonds. The portfolio is relatively underweight to all other asset classes (SA Equity and Property, International Equity, property and Bonds)

Preservation phase portfolio

Sanlam Capital Protection Portfolio

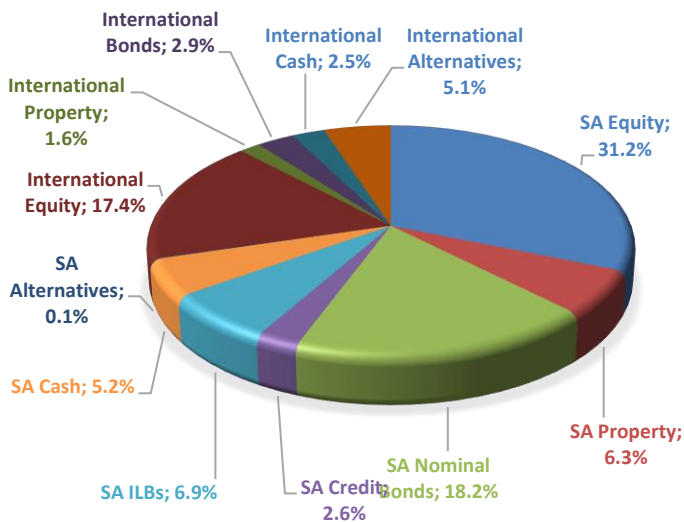
Gross Bonuses as at 31 December 2023



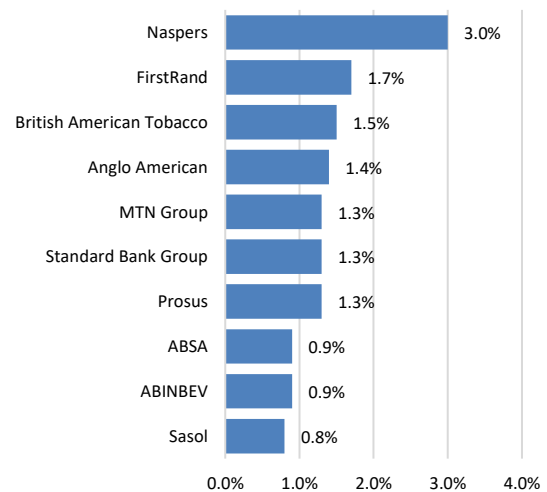
The preservation phase of Lifestage Strategies continues to deliver stable, dependable positive returns for investors. Over the final quarter of 2023, the Sanlam Capital Protection Portfolio gave investors a return of 2.3% and a return of 10.3% for the year. Over the long term, the portfolio also posted strong inflation beating returns. This portfolio is especially important for members closer to retirement, as it offers protection over their accumulated capital but retaining the benefit from the market upside.

*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, SA Nominal Bonds, International Bonds, and International Alternatives. The underweight positions in the portfolio are International Equity, SA Alternatives, SA Credit, SA Cash, International Property and SA Property, SA Inflation-Linked Bonds, Foreign Equity and Foreign Property.



Performance summary

31 December 2023	3 months	6 months	1 year	3 years	5 years	10 years
Accumulation Phase						
Sanlam Passive Lifestage						
Satrix Enhanced Balanced Tracker Fund	7.8%	4.9%	15.6%	12.7%	10.7%	9.2%
Benchmark	8.3%	5.1%	15.5%	12.6%	10.3%	9.0%
Preservation Phase						
Capital Protection Portfolio**	2.3%	5.0%	10.3%	8.2%	7.5%	9.2%
CPI***	1.4%	2.8%	5.5%	6.1%	5.0%	5.2%

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

** The Capital Protection Portfolio does not have an explicit benchmark.

***CPI figures are lagged by one month

Macroeconomic commentary



Highlights

Global

- ▶ FOMC leaves rates unchanged, signals a pivot in 2024.
- ▶ US Fed's dot-plot points to three rate cuts in 2024 but fed fund futures price in more aggressive cuts.
- ▶ Red Sea commercial shipping attacks risk renewed supply-side cost pressures.
- ▶ Israel/Hamas conflict risks higher oil prices despite non-OPEC+ production.
- ▶ China's clampdown on gaming triggers sharp sell-off in Tencent

Local

- ▶ SA's Q3 GDP contracts by 0.2% quarter-on-quarter and 0.7% year-on-year
- ▶ Load shedding remained a bind on growth despite positive contribution by the energy sector.
- ▶ Local listed property was the best performing broad asset class for quarter 3 2023.

Global economics

Global Equities

After a sharp decline in the third quarter, global equities rebounded in the fourth quarter, propelled by a dovish stance from the US Federal Reserve signaling the end of the rate hiking cycle. The positive sentiment was reinforced by a drop in the University of Michigan's one-year inflation forecast from 4.3% to 3.1%. Despite the Fed's dot-plot indicating a cumulative 75 basis points of rate cuts in 2024, the market's pricing is more aggressive, anticipating 150 basis points of rate cuts with the first cut expected in May. Potential deferral of rate cuts until later in the year, coupled with a tight labor market and persistent wage inflation, could pose challenges for equities. Additional risks include supply-side pressures from Houthi attacks rerouting shipping and the EU's withdrawal of energy subsidies, impacting inflation.

Investor optimism about the interest rate outlook, fueled by generally beating inflation estimates, led to lower nominal and inflation-linked bond yields.

The bull curve steepening reflects the market's consensus view of a soft-landing scenario for the US economy, supported by the World Bank's forecast of global growth slowing to 2.4% in the current year. The MSCI ACWI gained 7.8% for the quarter, while emerging market equities underperformed due to negative returns from Chinese stocks, influenced by ongoing deflation, oversupply, and regulatory restrictions on online gaming. The unpredictability of the Chinese regulator raises concerns about China's investability. Despite a rebound in equity markets, stretched valuations, geopolitical risks, and uncertainty about rate cuts suggest a near-term underweight position for equities, followed by a medium-term neutral weighting.

Global Bonds

Global bonds experienced a rally following the US Federal Reserve's shift in interest rates, leading to a decrease in both nominal and inflation-linked bond curves. The Bloomberg Capital Global Aggregate Bond Index yielded 8.1% in dollars and 4.9% in rands, with yields dropping from 4.2% to 3.5% in the quarter. Similar returns were observed in emerging market bonds as spreads narrowed from 316 basis points to 297 basis points.

Inflation-linked bonds also rallied, with the Bloomberg Capital Global Government Inflation-Linked Bond Index yielding 8.1% in dollars as real yields decreased from 1.7% to 1.2%. Despite the expectation of continued disinflation, there are potential upside risks later in the year due to low base effects. December's US inflation data, released in January, indicated higher-than-expected core and headline inflation.

However, certain risks exist, including the possibility of a broader Israeli/Hamas conflict impacting oil prices, which could affect the positive outlook for rates. Higher-for-longer interest rates pose a risk to economic growth, and rising supply chain cost pressures are evident due to Houthi attacks on commercial shipping in the Red Sea. Insurers' reluctance to cover US and UK ships in the Red Sea has prompted rerouting via SA, contributing to increased freight rates.

Despite these challenges, the rate hiking cycle seems to be over, with the neutral rate of interest significantly lower than current policy rates in the US and EU. Given US inflation at 3.1%, assuming a 0.5% real neutral rate implies an implied long-term fed funds rate of around 3.6%. In the EU, with a real neutral rate closer to 0%, the implied policy rate is around 2.9%, much lower than the current refinancing rate of 4.5%.

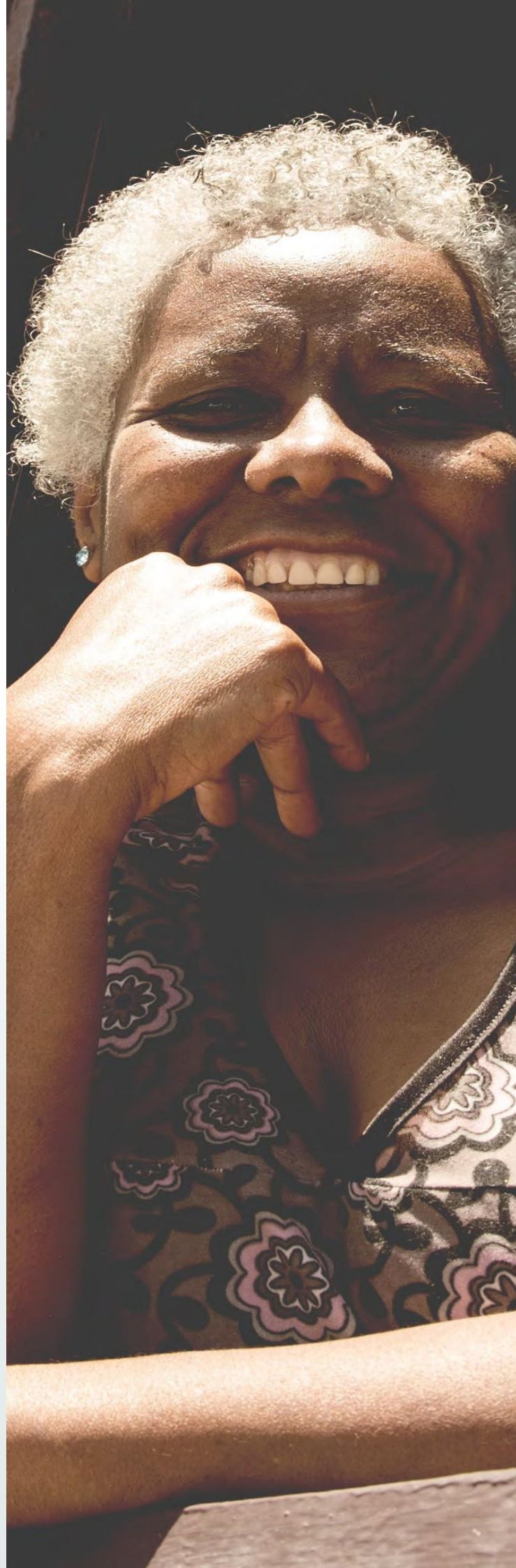
Global Listed Property

Global listed property experienced a surge in the quarter, driven by lower bond yields and a dovish shift from the US Federal Reserve. The FTSE EPRA Nareit Developed Markets Property Index showed strong returns, with a quarterly yield 12.0% in rands. The annual gains reached 17.0% in rands. The sector's rerating was evident, with the price-to-book ratio rising from 1.15X to 1.32X, still below the historical mean of 1.46X. Despite the recent rally, real estate investment trusts (REITs) offer value, trading at an 11% discount to net asset value with an attractive dividend yield of about 4.3%. Lower funding costs are expected to aid in refinancing loans and deleveraging, with the sector recommended for overweight positioning in the second half of the year as the rate-cutting cycle begins.

Local economics

Local Equities

Despite the third quarter's disappointing GDP contraction of -0.2% quarter-on-quarter, the fourth quarter saw a positive market trend. The FTSE/JSE All Share Index gained 6.9% in rands, outperforming the emerging markets composite index which returned 0.8% for the same period. The rally was driven by SA Inc. sectors, particularly mid and small-cap stocks, reflecting the market's anticipation of rate cuts in 2024. Financials led gains, followed by consumer discretionary, healthcare, and defensive consumer staples.





Industrial and technology sectors also showed positive momentum, while basic materials, specifically industrial metals and mining, faced challenges due to Chinese growth concerns. Precious metals, however, surged.

The GDP contraction in Q3 was attributed to declines in household consumption and gross fixed capital formation, with machinery, transport equipment, and construction contributing to the latter. Production declines in mining, manufacturing, and a significant contraction in agricultural output also influenced economic performance. Electricity supply and demand issues persist, despite the positive contribution from the electricity sector following five consecutive quarters of declines.

The 2023 Integrated Energy Plan revealed a continued electricity deficit until 2030, with reduced emphasis on renewable energy. Factors include delayed decommissioning of coal-fired power stations, lower demand forecasts, and a shift from the previous plan's allocations. Expectations for modest economic growth in 2024 are reflected in upwardly revised consensus earnings estimates. Looking ahead, a forecast of mid-teen returns from equities in 2024, supported by a historically cheap market and expected re-rating as interest rates decrease, aligns with returns anticipated from domestic bonds.

Local Bonds

In the fourth quarter, South African bonds performed well, gaining 8.1% in rands despite higher-than-expected domestic inflation. The All-Bond Index saw its yield decrease from 12.1% to 11.23%. Positive fiscal year revenue receipts exceeded expectations, but higher expenditure raised concerns about the fiscal deficit.

Risks for the rand in 2024 include a drawdown from the Gold and Foreign Exchange Contingency Reserve Account, upcoming elections in May, and uncertainty about the SA Reserve Bank Governor's reappointment. The drawdown may increase exchange rate volatility, while election outcomes, especially an ANC-EFF coalition, could negatively impact the market, leading to a sell-off in equities, bonds, and the rand. The potential weaker rand could result in imported inflation, limiting rate-cut possibilities.

Local Listed Property

Due to lower bond yields and a surge in global listed property stocks, the domestic sector put in a sterling performance to end the quarter up 16.4% in rands and 19.9% in dollars. It was the best performer of the broad asset classes. The sector rerated relative to the 10-year bond, with the property-to-bond yield ratio declining from 0.74X to 0.59X, well above the 0.85X mean. This suggests that property stocks are expensive relative to bonds. 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 subdued over the coming year. Higher finance costs and liquidity constraints have also necessitated capital retention, again pointing to lower distributions over the coming year. Dividends per share were down almost 17% over the quarter, justifying concerns about distribution growth. Although the sector does show value, trading at a 49% discount to net asset value, return expectations lag those of the other broad asset classes, especially after the recent rally. As a result, an underweight position is retained in South African listed property. The biggest gainers in the quarter included Lighthouse Capital (36.1%), Nepi Rockcastle (21.4%) and Hammerson PLC (18.3%), while the laggards included Fortress A (7.3%), Hyprop (8.8%) and Mas Real Estate (10.9%).



Summary

The investment outlook for 2024 is expected to present greater challenges compared to 2023, marked by escalating geopolitical risks, escalating trade wars, and a global economic slowdown. This slowdown is attributed to the lagged effect of aggressive rate hikes, diminished Chinese growth, and a notable deceleration in global trade. Although the World Bank has maintained its global growth estimate for the current year at 2.4%, it has revised the estimate for 2025 downward to 2.7%. The drivers of last year's growth, including buoyant consumption expenditure due to Covid-era stimulus measures, the US CHIPS Act, the US Inflation Reduction Act, and the EU's Green Deal Industrial Plan, are anticipated to lose momentum. This is because the additional expenditure is now incorporated into the baseline. With the US reinforcing export restrictions on high-tech chips and chip manufacturing equipment to China and the EU initiating trade investigations into Chinese EV subsidies, Chinese economic growth is expected to decelerate from 5.2% in 2023 to 4.5% this year.

The EU's Carbon Border Adjustment Mechanism (CBAM), a tax on emissions of carbon-intensive imports into the EU, is another restrictive measure, initially targeting cement, iron, aluminium, fertilizers, electricity, hydrogen, and steel. Although effective in 2026, exporters to the EU are now obligated to provide emissions data to customs authorities or face fines from January this year. The UK aims to introduce its own carbon tax in 2027, and other countries like the US and Japan may also implement similar taxes. The CBAM is expected to be a significant obstacle for China, with officials labeling it as "green protectionism." However, these protectionist measures against China stem from the overproduction of manufactured goods, leading to deflation, with China's surplus now equivalent to about 2% of global GDP.

Market performance summary (in ZAR) to 31 December 2023

		3 months	6 months	1 year	3 years	5 years	10 years
Local	Equities (All Share Index)	6.9%	3.2%	9.3%	13.5%	11.9%	8.8%
	Equities (Capped SWIX)	8.2%	4.1%	7.9%	12.7%	9.0%	7.1%
	Property	16.4%	15.2%	10.1%	14.9%	0.2%	2.9%
	Nominal Bonds	8.1%	7.7%	9.7%	7.4%	8.2%	8.0%
	Inflation Linked Bonds	6.2%	7.0%	7.0%	8.9%	6.5%	5.6%
	Cash	2.1%	4.2%	8.1%	5.7%	5.9%	6.4%
International	Equities (MSCI ACWI)	7.8%	3.8%	31.3%	13.8%	17.2%	14.1%
	Equities (MSCI EM)	0.8%	-2.4%	13.8%	0.9%	8.0%	8.6%
	Bonds	4.9%	0.9%	13.6%	1.7%	4.6%	6.1%
	Property	12.0%	5.1%	17.0%	8.8%	7.7%	10.1%
	Rand vs US Dollar	-2.9%	-3.2%	7.5%	7.6%	4.9%	5.7%
Equity Sector	Financials	12.3%	14.3%	20.0%	18.5%	6.1%	7.5%
	Resources	3.0%	-1.5%	-11.8%	8.2%	14.6%	6.8%
	Industrials	5.9%	-0.7%	16.6%	12.4%	11.6%	8.2%
Size	Small Cap	8.6%	9.7%	11.2%	23.9%	12.7%	8.4%
	Medium Cap	10.0%	11.0%	9.7%	12.8%	7.3%	6.8%
	Large Cap	6.6%	1.6%	9.0%	13.4%	12.5%	8.9%

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