



Sanlam Corporate: Investments

Sanlam Blue Lifestage Strategy

Investment Report

Quarter 1 2024

Contents

Overview of the Sanlam Blue Lifestage Strategy	3
Investment related feedback	8
Performance summary	10
Macroeconomic commentary	11
Economic performance summary	16
Contact Details	17

Overview

of the Sanlam Blue Lifestage Strategy

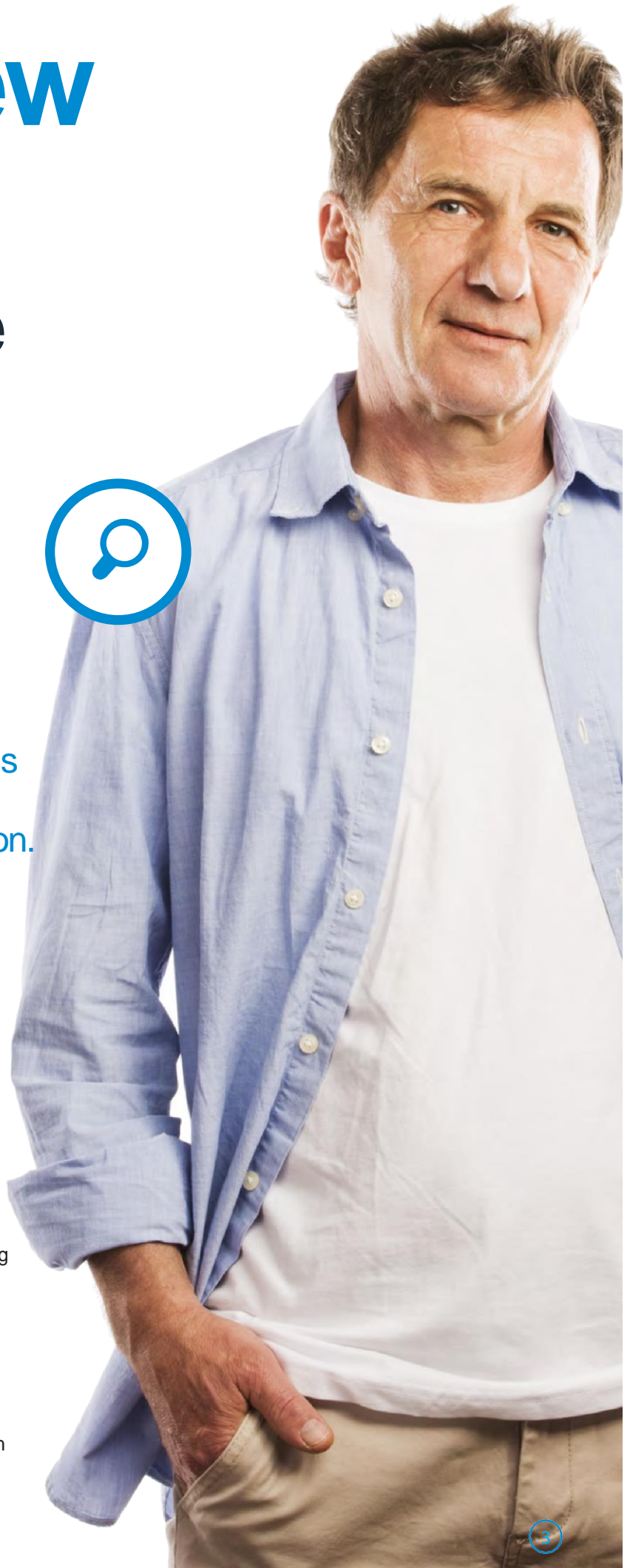


Sanlam Blue Lifestage Strategy aims to meet a member's retirement savings requirement in a single seamless investment solution.

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

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

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





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

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

Sanlam Blue Lifestage Strategy



01

6 YEARS FROM RETIREMENT AGE

Accumulation phase

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

GROWTH

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

Sanlam Blue Lifestage Accumulation Portfolio



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

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



Systematic automated monthly transition

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

50 MONTHLY SWITCHES

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



Preservation phase

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

PROTECTION

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



Sanlam Capital Protection Portfolio

Solution

Investment Portfolios

offered in
Sanlam Blue
Lifestage



Accumulation Phase

Sanlam Blue Lifestage Accumulation Portfolio

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



Preservation Phase

Sanlam Capital Protection Portfolio

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

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

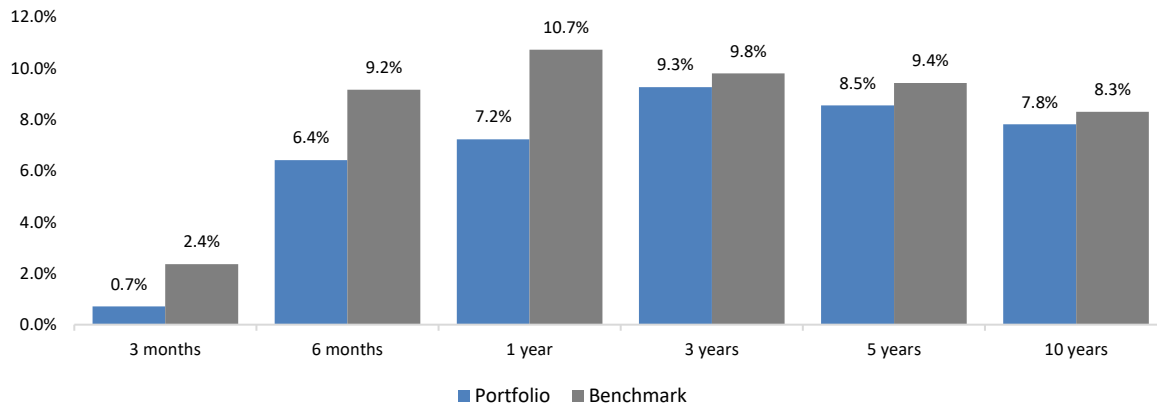
Non-vested bonuses are also declared over and above the vested bonuses. These can be removed in very extreme circumstances though this has never yet occurred since the portfolio's commencement in 1986.

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

Sanlam Blue Lifestage

Sanlam Blue Lifestage Accumulation Portfolio

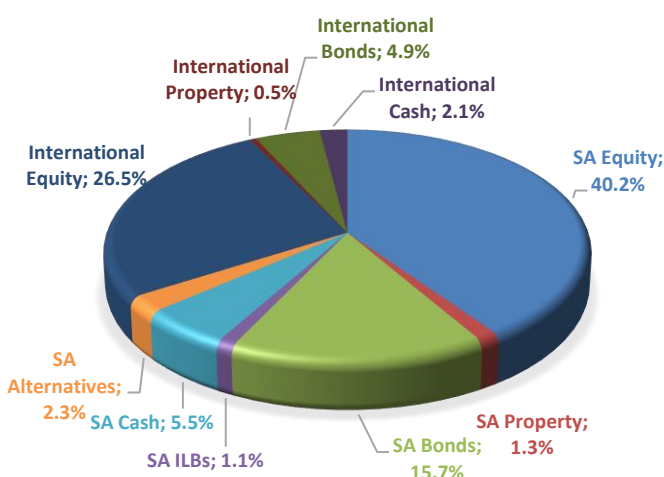
Gross Returns as at 31 March 2024



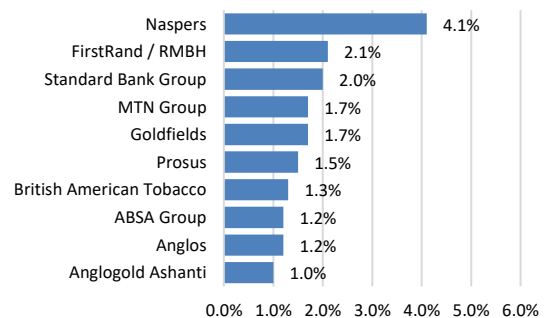
The Sanlam Blue Lifestage Accumulation Portfolio experienced returned 0.7% in the last quarter and 7.2% return for the year ended 31 March 2024. The portfolio underperformed its benchmark, which returned 2.4% and 10.7% over the same period.

The SIM Balanced Fund (50%) aligns with the Alexander Forbes Global Large Manager Watch Median as its benchmark. It achieved a quarterly return of 0.6% and a one-year return of 8.7% as of March 31, 2024. In comparison, its benchmark exhibited returns of 1.8% and 10.0% for the same respective periods. Conversely, the SPW Balanced Fund (50%) utilizes the Gross ASISA South African MA High Equity as its benchmark. Over the quarter ending on March 31, 2024, the portfolio yielded a return of 0.8%, falling short of the benchmark's 1.8%. Looking at the one-year performance, the SPW Balanced Fund delivered a positive return of 5.8%, which lagged behind its benchmark's return of 10.3%.

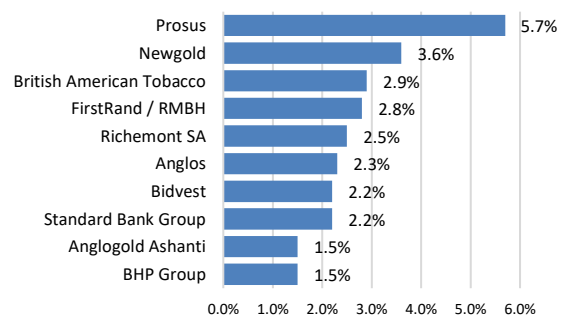
Actual Asset Allocation



Top 10 Equity as % Fund – SIM Balanced



Top 10 Equity as % Fund – SPW Balanced

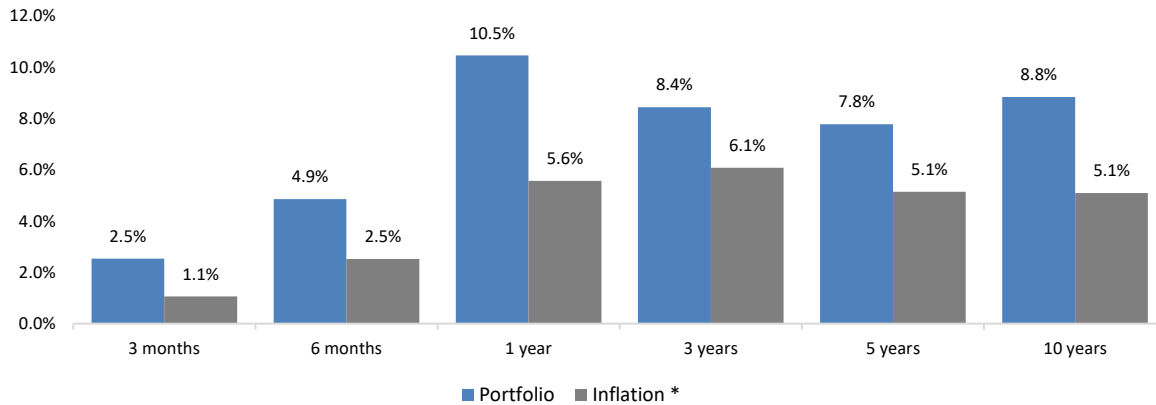


The assets allocation for Sanlam Blue Lifestage Accumulation Portfolio were calculated using the actual splits between SIM Balanced Fund and SPW Balanced Fund of 49% and 59% respectively as of 31 March 2024.

Preservation phase portfolio

Sanlam Capital Protection Portfolio

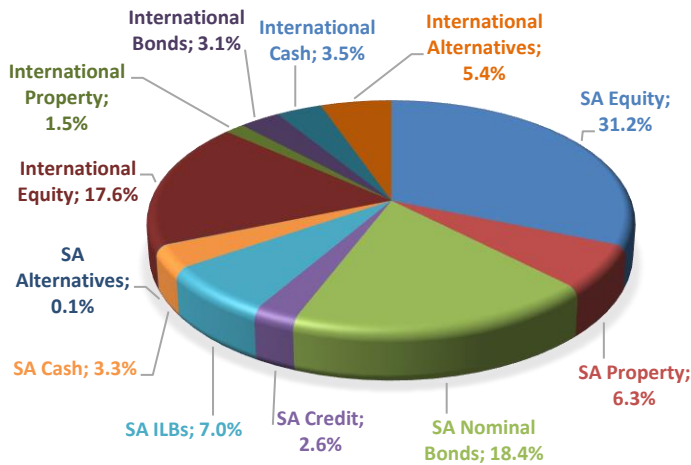
Gross Bonuses as at 31 March 2024



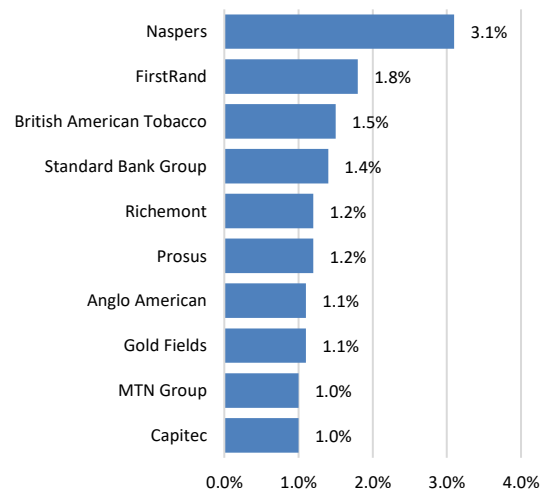
The preservation phase of Lifestage Strategies continues to deliver stable, dependable positive returns for investors. Over the first quarter of 2024, the Sanlam Capital Protection Portfolio gave investors a return of 2.5% and a return of 10.5% for the year. Over the long term, the portfolio also posted 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 SA Cash, International Equity, SA Alternatives, SA Credit, International Property and SA Property.



Performance summary

31 March 2024	3 months	6 months	1 year	3 years	5 years	10 years
Accumulation Phase						
Sanlam Blue Lifestage						
Sanlam Blue Accumulation Portfolio	0.7%	6.4%	7.2%	9.3%	8.5%	7.8%
Benchmark	2.4%	9.2%	10.7%	9.8%	9.4%	8.3%
Preservation Phase						
Capital Protection Portfolio**	2.5%	4.9%	10.5%	8.4%	7.8%	8.8%
CPI***	1.1%	2.5%	5.6%	6.1%	5.1%	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 lagged by one month

Macroeconomic commentary



Global Equities

Global equities rallied for a second consecutive quarter ending in March, driven by positive economic data and earnings forecasts, despite concerns over rising interest rates. The MSCI World Index climbed 8.9% in USD and 12.7% in rands, while the MSCI Emerging Markets Index saw more modest gains of 2.4% in USD and 6.1% in rands. However, Chinese stocks hindered overall performance, with the CSI 300 edging up only 1.3% in USD and the Hang Seng Index slipping by -3.1%, influenced by geopolitical tensions and regulatory uncertainty.

Meanwhile, in the US, Fed funds futures now only project two rate cuts for the year, down from six previously, as inflation remained elevated. Despite this, equities surged due to improved Global Composite Purchasing Manager Indices (PMIs) and GDP growth projections. However, concerns persist regarding potential recession risks amid fluctuations in employment data. With non-farm payroll data resilient at 303,000 in March, well ahead of the 214,000 expected by the market, there are no clear signs of an imminent crack in the jobs market.

Highlights

Global

- US Fed's dot-plot pencils in three rate cuts but market pricing is for only two cuts in 2024.
- US Q4 2023 GDP revised higher to 3.4% quarter/quarter.
- US ISM manufacturing PMI reverts to expansionary territory.
- ECB likely to cut rates in June as it revises inflation lower to 2.3% from 2.7%.
- US/UK impose sanctions on Russian industrial metals on the London Metals Exchange.
- Global Composite PMIs in expansionary territory for both developed and developing economies.

Local

- SARB leaves rates unchanged for a fifth consecutive meeting but QPM signals only two rate cuts in 2024.
- SA narrowly averts a technical recession in Q4 2023, growing by 0.1% quarter/quarter.
- SA bonds sell off on net foreign sales ahead of national and provincial elections.
- SA equities rebound on resources.

The job openings rate remains stable at 5.3%, the hiring rate little changed at 3.7%, and the quits rate unchanged at 2.2%. Further declines would be needed before unemployment rises meaningfully from the current 3.8% level.

Global Bonds

US inflation misses in the first quarter led to an increase in bond yields across developed markets, resulting in higher nominal yields and real bond yields; consequently, the Bloomberg Capital Global Aggregate Bond Index returned about -2.1% in US dollars, contrasting with a modest +1.4% in rands. Emerging market bonds outperformed, yielding 1.5% in US dollars and a notably higher 5.1% in rands, underscoring a significant discrepancy in performance between the two currencies; however, nominal yields rose faster than real yields, with US five-year breakeven inflation climbing to 2.44% from 2.15%, and the 10-year breakeven rate increasing to 2.32% from 2.17%, highlighting a widening gap between nominal yields and inflation expectations.

Global Listed Property

Despite a rally in global listed property stocks in March, the sector yielded a negative return for the quarter on the back of higher bond yields. The FTSE EPRA Nareit Developed Markets Property Index declined by 1.1% in US dollars (+2.4% in rands) as the sector derated on a price-to-book basis, down from 1.33X to 1.31X, still well below the 1.46X mean. The malls sector was the top performer (8.4%) followed by the single-family sector (5.7%), the hospitality sector (5.4%) and data centres (4.5%). The student accommodation (-6.7%) sector was the worst performer, with negative returns also coming from gaming (-5.2%), manufactured homes (-5.2%) and self-storage (-5.1%). Since REITs currently trade at a 12% discount to net asset value and offer an attractive dividend yield of about 4.5%, there is still value to be found in listed property. Higher-for-longer interest rates could limit the ability of companies to refinance expiring loans at lower rates, putting forward earnings growth under pressure. With US\$929 billion of commercial real estate debt falling due this year, about 20% of the total, defaults could rise in a higher-for-longer environment, placing pressure on banks to offload debt at steep discounts.



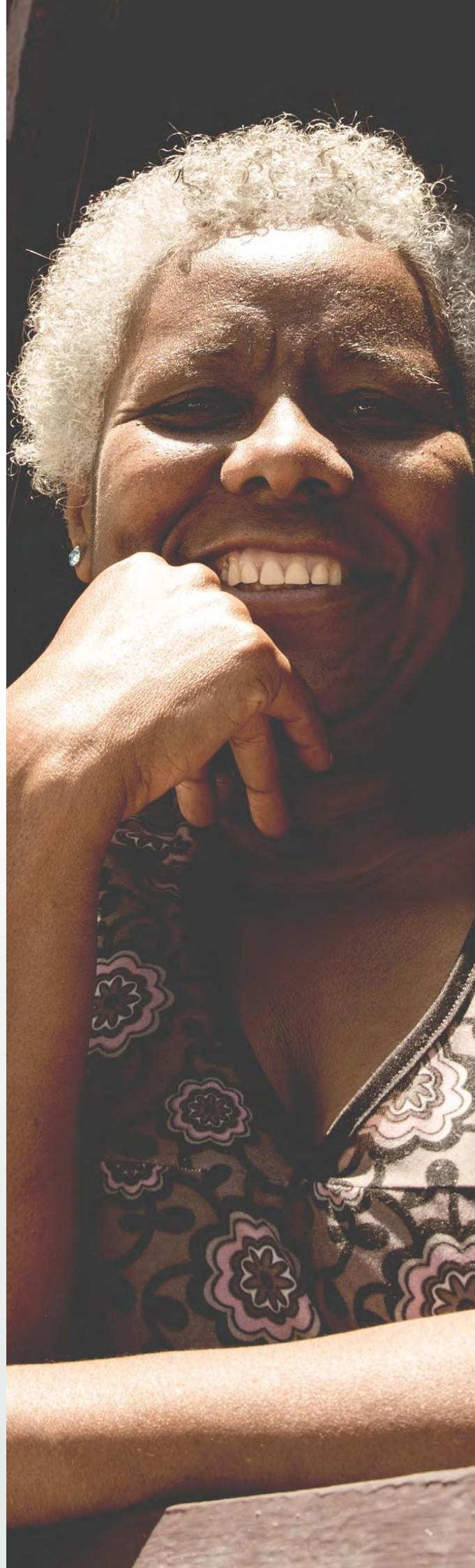
Local economics

Local Equities

For the first time this year, South African equities posted positive returns in March, buoyed by a 12.8% surge in resource stocks, driven by precious metals and industrial commodities. However, for the quarter, domestic equities bucked the firmer trend in global markets, ending down 2.3% in rands and 5.6% in US dollars. The primary drivers of the negative returns included the telecommunication sector (-11%) led by MTN (-18.8%) and Vodacom (-7%), followed by financials (-7.6%) and industrials (-5.6%). In financials, Remgro (-24.8%), HCI (-15.1%) and Old Mutual (-10%) led the decliners, whereas in industrials, Barloworld (-19.7%), PPC (-17.3%) and Super Group (-13.6%) led the losers. While resources (-1.6%) were also lower over the quarter, this was largely due to negative returns from industrial metals and mining (-5.2%). Kumba Iron Ore (-20.8%), African Rainbow Minerals (-17.8%) and South32 Ltd (-12.3%) were the biggest detractors.

Even though precious metals posted a positive return of 4%, platinum counters brought up the rear on sharp declines in platinum (-8.7%) and palladium prices (-9.1%). As a result, Anglo Platinum (-19.3%), Northam Platinum (-18.8%) and Impala Platinum (-14.2%) underperformed. Conversely, gold stocks were higher, led by Harmony Gold (32.1%), Pan African Resources (31.9%) and AngloGold (20.6%) following a 7.4% increase in the gold price. Defensive sectors such as healthcare (1.1%) were supported by gains in Aspen (7.8%), while consumer staples (0.5%) were underpinned by advances in RCL Foods (17.6%), AVI Ltd (11.3%) and Bid Corp Ltd (9.5%). Consumer discretionary (1.9%) stocks gained on Advtech (15.7%), Richemont (12.5%) and Mr Price (10.8%), and the technology (6.1%) sector benefited from gains in Naspers (7.3%) and Prosus (6.7%).

While narrowly avoiding a technical recession in the fourth quarter of 2023, the domestic economy experienced sluggish growth of 0.1% quarter/quarter, falling short of the consensus estimate of 0.2%.





Major detractors from growth included agriculture (-9.7%), trade, catering, and accommodation (-2.9%), and construction (-1.4%), while positive contributions came from the transport, storage, and communication sector (2.9%) and the mining sector (2.4%). Household final consumption expenditure saw growth of 0.2%, but net exports and general government consumption expenditure both contributed negatively to overall growth.

Looking ahead to 2024, GDP growth is forecasted to improve to around 1.2% from the 0.6% recorded in 2023, albeit with a subdued outlook. The start of the first quarter has been mixed, with retail sales and mining production contracting, while manufacturing production showed slight improvement. Economic weakness is evident in various PMI indicators, yet expectations of reduced load shedding and logistical improvements are reflected in rising business confidence indices. Despite ongoing economic challenges, total returns in the mid-teens are expected from domestic equities, similar to those from domestic nominal bonds, with recent political polls suggesting the likelihood of a coalition government after the May elections, adding to market uncertainty and potentially impacting sovereign risk premiums.

Local Bonds

South African bonds lagged the returns of their global counterparts in the first quarter of the year following inflation misses and uncertainty about the May election outcome. Foreigners were net sellers of bonds totaling R35.3 billion as they shied away from the local market ahead of the national and provincial elections. With the outcome largely binary from an economic policy point of view, as either an ANC-EFF-MK grouping or an ANC-DA grouping could win the elections, the rand is expected to weaken and bond yields to rise in the run-up to the elections. The yield on the All-Bond Index increased by 82 basis points to 12.05%, dragging returns down by 1.8% in rands and 5.2% in US dollars. Similarly, the yield on the CILI Inflation-Linked Bond Index increased from 4.78% to 5% on expectations that inflation was contained. Inflation-linkers yielded a small negative return of 0.4% in rands, as the inflation carry partly offset the capital loss from higher real yields. Unsurprisingly, five-year and 10-year breakeven inflation rose sharply to 5.9% and 7% respectively from 5.3% and 6.3% the previous quarter.

The latest reading on headline and core inflation, at 5.6% and 5% respectively, was higher than the 5.5% and 4.9% expected by the market. Comments by the SARB Governor that an inflation target range of between 3% and 4%, rather than the current 3% to 6% range, would be more appropriate for the country also aided the sell-off.

A hawkish Monetary Policy Committee (MPC) statement following the March meeting was a further contributor to the quarterly rise in yields, with the SARB expecting inflation to only return to the mid-point of the target range towards the end of 2025, a year later than previously projected. As a consequence, FRAs are pricing in only one rate cut this year, down from two rate cuts previously. The country's fiscal outlook was a further headwind. While Treasury's decision to tap the SARB's Gold and Foreign Exchange Contingency Reserve Account (GFECRA) for R150 billion (30% of the total) over the next three years is expected to reduce debt service costs and rein in the country's rising debt-to-GDP ratio, the estimated funding requirement this year of 6.1% of GDP is still uncomfortably high and well ahead of the 4.5% public sector borrowing requirement. A higher growth rate is needed to generate additional revenue for the fiscus.

Local Listed Property

Despite the rise in domestic bond yields, along with expectations that interest rates will remain higher-for-longer, domestic listed property stocks rallied: the SAPY Index gained 3.9% in rands and 0.3% in US dollars. The sector rerated relative to bonds, with the property-to-bond yield ratio declining to 0.53X from 0.6X, well above the 0.85X mean. This suggests that property stocks are expensive relative to bonds, even though they trade at a substantial discount to net asset value. While the operating metrics of property companies reporting over the results season were encouraging – with office vacancy rates and retail rental escalations improving – the failure of net operating income growth to translate into earnings growth was due to pressure from the high interest rate environment. The best performing stocks over the quarter included Attaq (15.7%), Lighthouse Capital (9.5%) and Nepi Rockcastle (7.8%), while Equites Property Fund (-8.6%), Hyprop (-5.6%) and Mas Real Estate (-4.9%) brought up the rear.



Summary

Global equities rallied for a second consecutive quarter to the end of March as better-than-expected economic data and upward revisions to earnings estimates outweighed expectations of higher-for-longer interest rates following successive US inflation misses. Market expectations for rate cuts were pared back from six rate cuts at the beginning of the year to only two this year. Despite the more uncertain outlook for interest rates, consensus earnings were revised higher, particularly for emerging markets. South African equities bucked the firmer trend in global markets to end the quarter lower, despite a surge in resource stocks in March. The primary drivers of the negative returns were the telecommunication, financial and industrial sectors.

US inflation misses in the first quarter of the year triggered an increase in bond yields across most developed markets as investors digested consecutive months of higher-than-expected inflation. Emerging market bonds outperformed their developed market counterparts, yielding positive US dollar returns as Mexico, Brazil, Chile, Hungary, the Czech Republic, and Colombia cut interest rates. In contrast, South Africa's market pricing of interest rate cuts was reduced from two 25-basis point rate cuts to only one cut this year, following higher-than-expected domestic inflation and warnings from the MPC that food inflation risks were rising along with imported inflation due to a weakening in the country's terms of trade. Net foreign sales of domestic bonds, ahead of the May elections, was a further headwind for the asset class.

Market performance summary (in ZAR) to 31 March 2024

		3 months	6 months	1 year	3 years	5 years	10 years
Local	Equities (All Share Index)	-2.2%	4.5%	1.5%	8.1%	9.7%	8.1%
	Equities (Capped SWIX)	-2.3%	5.7%	2.9%	7.5%	7.6%	6.4%
	Property	3.8%	20.9%	20.5%	13.9%	0.7%	3.1%
	Nominal Bonds	-1.8%	6.2%	4.2%	7.4%	7.0%	7.7%
	Inflation Linked Bonds	-0.5%	5.7%	5.6%	7.0%	6.3%	5.4%
	Cash	2.0%	4.1%	8.3%	6.1%	6.0%	6.5%
International	Equities (MSCI ACWI)	12.0%	20.8%	31.5%	16.2%	17.1%	15.2%
	Equities (MSCI EM)	3.5%	8.3%	12.8%	2.4%	7.5%	9.4%
	Bonds	1.4%	6.4%	7.3%	3.5%	4.4%	6.0%
	Property	1.6%	13.8%	13.5%	7.1%	5.1%	9.5%
	Rand vs US Dollar	3.5%	0.5%	6.7%	8.6%	5.6%	6.1%
Equity Sector	Financials	-6.1%	5.5%	13.0%	14.7%	4.9%	6.2%
	Resources	-1.6%	1.3%	-9.0%	1.6%	10.5%	5.6%
	Industrials	0.6%	6.5%	3.3%	8.2%	10.2%	8.2%
Size	Small Cap	-1.1%	7.4%	9.1%	15.8%	13.3%	7.8%
	Medium Cap	-3.5%	6.1%	6.8%	8.2%	5.9%	6.2%
	Large Cap	-2.3%	4.1%	0.3%	8.0%	10.2%	8.2%

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