



Sanlam Corporate: Investments

Sanlam Umbrella Fund Protection Strategies

Investment Report

**Quarter 2 2024**

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# Overview

In order to cater for divergent client preferences, the trustees of the **Sanlam Umbrella Fund** have approved the 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. These strategies provide different levels of guarantees and smoothing of investment returns for our clients.

The protection strategies consist of 3 options which members can invest in. (1) **Sanlam Secure Strategy** which invests 100% in the *Sanlam Monthly Bonus Fund*, (2) **Sanlam Stable Strategy** which invest 100% in *Sanlam Stable Bonus Portfolio*, and the (3) **Volatility Protection Strategy** which invest 75% in *Sanlam Monthly Bonus Fund* and 25% in *Satrix Enhanced Balanced tracker Fund*



# Protection Strategies

## Portfolios



### Sanlam Secure Strategy

The trustees have approved an alternative default investment strategy suitable for members who wish to achieve inflation-beating real returns over the medium to long term, but who are particularly concerned against significant short-term investment losses.

The strategy will most likely result in lower returns than the Lifestage Strategies over the long term as a consequence of the implicit cost of the underlying guarantees and lower effective equity exposure. Nonetheless, the trustees recognise that such a strategy is suitable for many members – particularly those members who are not financially sophisticated and who might not appreciate that a high equity exposure inevitably implies some risk of capital loss over the short-term.

The strategy could be considered by investors preferring a cautious approach to money management; investors who require capital security and investors who regard financial security as highly important. The strategy currently invests all contributions in the [Sanlam Monthly Bonus Fund](#) which declares fully vesting bonuses with full guarantees.

### Sanlam Stable Strategy

The trustees have approved an alternative default investment strategy, suitable for members who wish to have exposure to the financial markets, while protecting themselves against adverse movements in the markets.

This is achieved by smoothing the returns over time, and guaranteeing (for resignation, retirement, death, retrenchment and disability events) the net contributions invested together with the vested bonuses.

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

The strategy could be considered by investors preferring a cautious, arm's-length approach to money management; investors wishing to avoid any chance of losing money; investors who require capital security and investors who regard financial security as highly important. The strategy currently invests all contributions in the [Sanlam Stable Bonus Portfolio](#).

### Volatility Protection Strategy

The default investment strategy is suitable for members who wish to achieve inflation-beating real returns over the medium to long term, but who are particularly concerned about protecting against significant short-term investment losses.

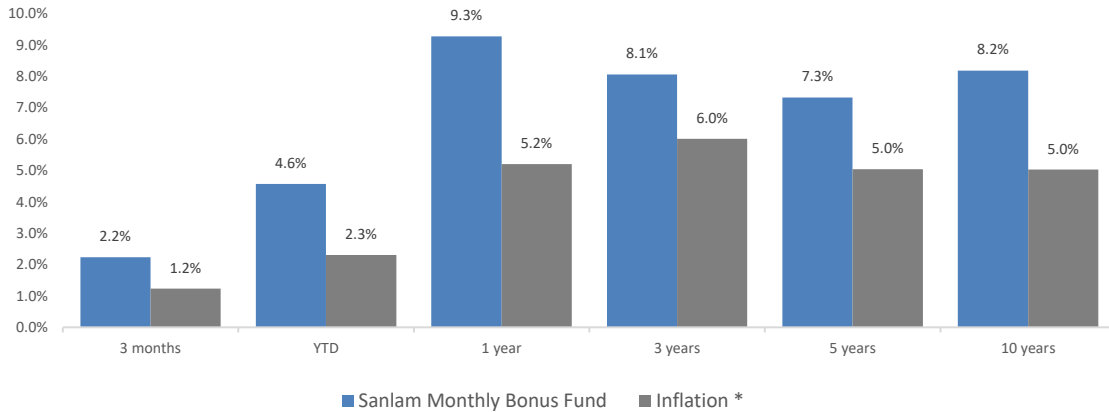
The strategy will most likely result in lower returns than the four Lifestage strategies over the long term as a consequence of the implicit cost of the underlying guarantees and lower effective equity exposure. Nonetheless, the trustees recognise that such a strategy is suitable for many members – particularly those members who are not financially sophisticated and who might not appreciate that a high equity exposure inevitably implies some risk of capital loss over the short-term.

The trustees review the investment strategy of the Volatility Protection Strategy continually and will make periodic changes to the underlying investments in line with the objectives of the strategy. The Volatility Protection Strategy aims to invest **75% in the Sanlam Monthly Bonus Fund and 25% in the Satrix Enhanced Balanced Tracker Fund**.

# Sanlam Secure Strategy

## Sanlam Monthly Bonus Fund

Gross Bonuses as at 30 June 2024

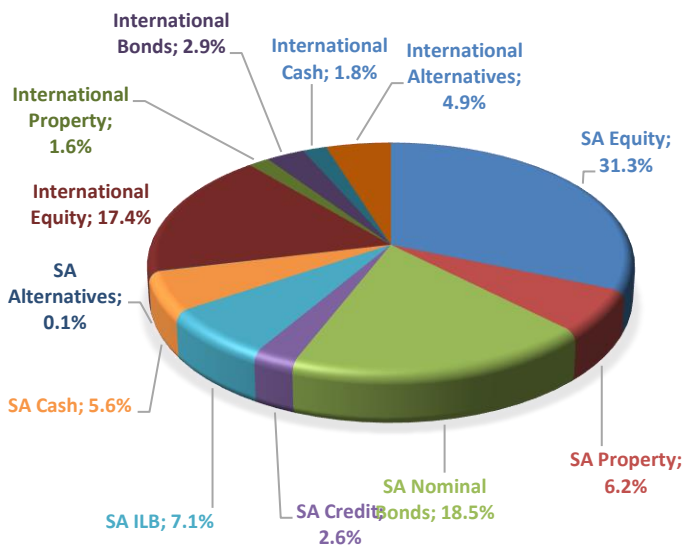


The Sanlam Monthly Bonus Fund returned 2.2% for the quarter and 9.3% for the one year ended 30 June 2024.

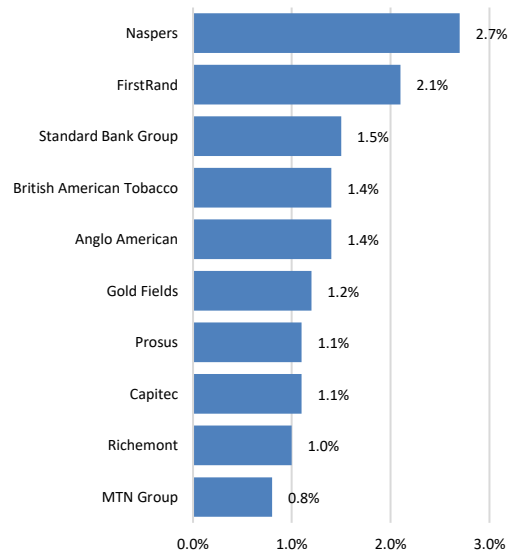
The portfolio consistently outperformed inflation over all periods. The returns over the last decade have exceeded inflation by over 3.0% p.a. For this portfolio, Sanlam can never remove or reduce any of the monthly bonuses once declared.

\*Inflation is lagged by one month. Gross bonuses net of guarantee charge.

Actual Asset Allocation



Top 10 Equity as % Fund



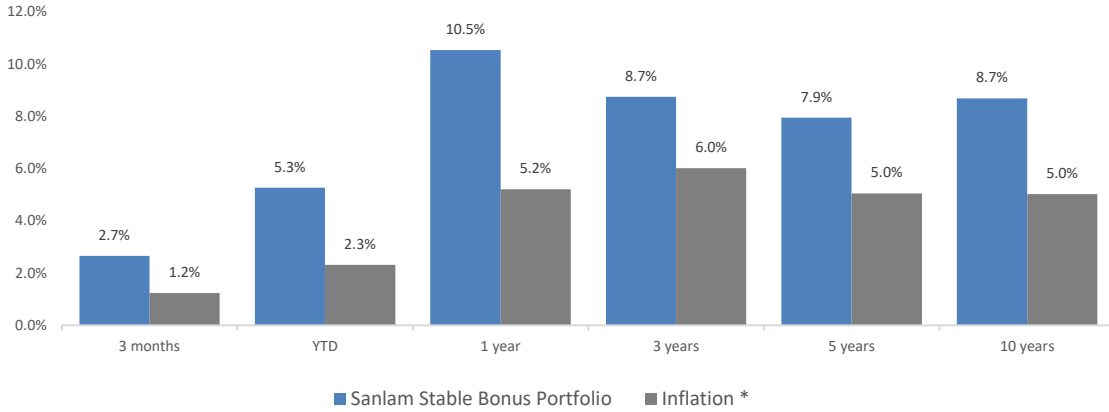
Examining the portfolio composition as of 31 March 2024, there were overweight positions in SA ILBs, International Cash, SA Equity, SA Nominal Bonds, and International Bonds. Conversely, the portfolio maintained underweight positions in all other asset classes, including International Equity, SA Alternatives, SA Cash, SA Credit, International Property, SA Property and International Alternatives.



# Sanlam Stable Strategy

## Sanlam Stable Bonus Portfolio

Gross Bonuses as at 30 June 2024

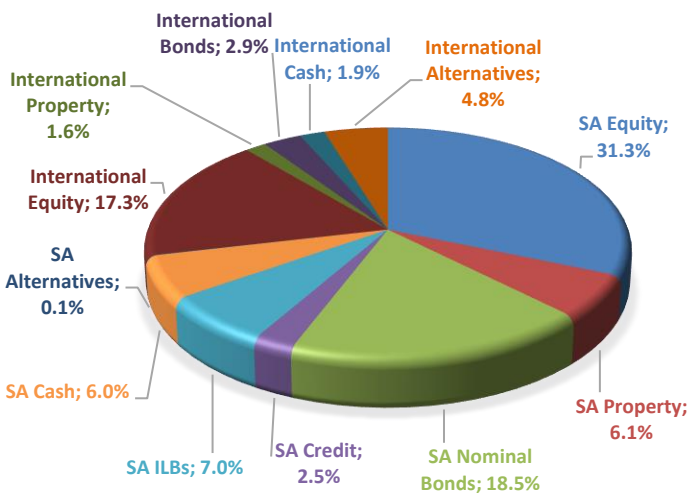


The Sanlam Stable Bonus Portfolio returned 2.5% for the quarter ended 30 June 2024 and a return of 10.5% for the year. Over the long term, the portfolio posted strong inflation beating returns.

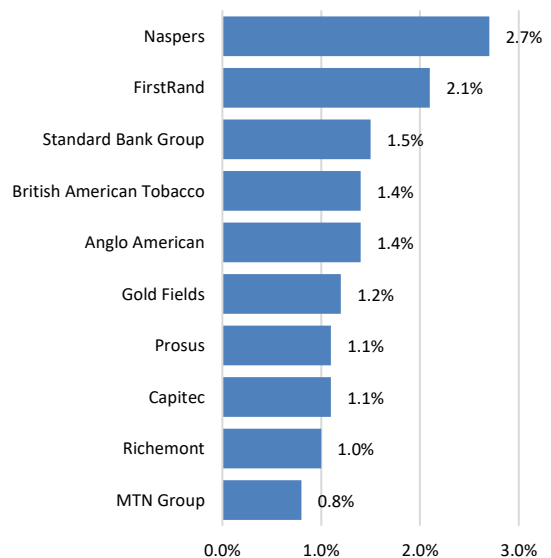
The Sanlam Stable Strategy provides monthly bonuses, roughly half of which is vesting and half non-vesting. In an extreme market downturn Sanlam may remove some of the accumulated non-vested bonuses, although we have not done so since launching the underlying portfolio in 1986. This strategy provided real returns of 3.7% p.a. over the last 10 years, with very stable and predictable returns over the period.

\*Inflation is lagged by one month

Actual Asset Allocation



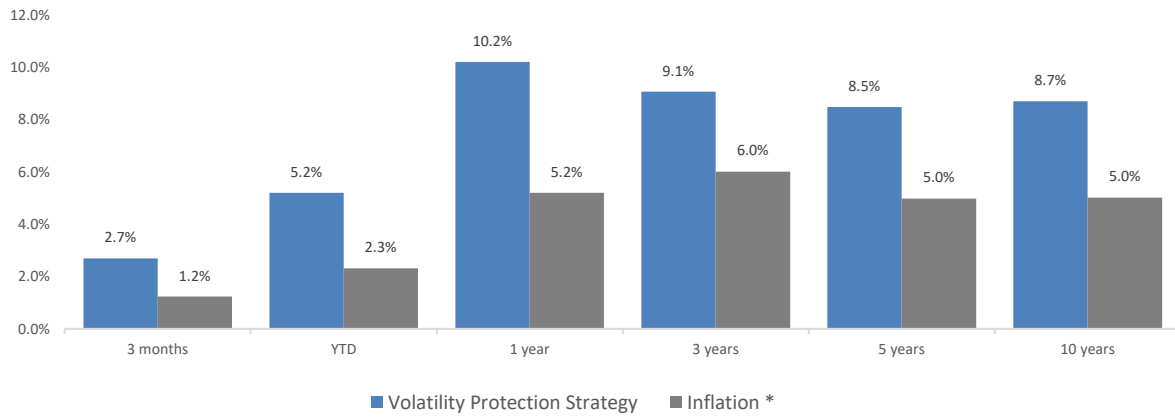
Top 10 Equity as % Fund



Looking at the current composition of the portfolio, the overweight positions are SA ILBs, International Cash, SA Equity, SA Nominal Bonds, and International Bonds. The underweight positions in the portfolio are SA Cash, International Equity, SA Alternatives, SA Credit, International Property, SA Property. And International Alternatives.

# Volatility Protection Strategy

Gross Bonuses as at 30 June 2024

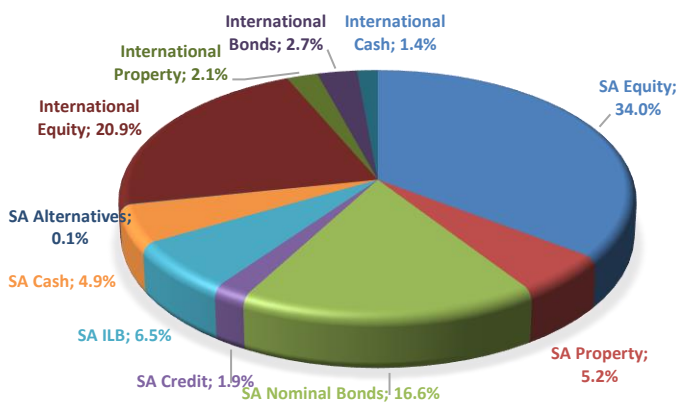


The Volatility Protection Strategy returned 2.7% for the quarter and 10.2% for one year ended 30 June 2024.

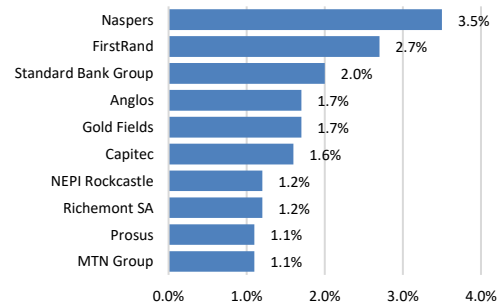
The Volatility Protection Strategy has given a similar return to the Sanlam Secure Strategy over the last 10 years, but with a bit more volatility. This is due to the strategy since 2017 having a 25% exposure to the Satrix Enhanced Balanced Tracker fund, which is an aggressive passive portfolio. This passive component can add extra returns when markets are strong but, can lead to the strategy having occasional negative returns. It is important to note that the Volatility Protection Strategy does not provide a capital guarantee but provides returns which are far less volatile than a normal balanced fund.

\*Inflation is lagged by one month

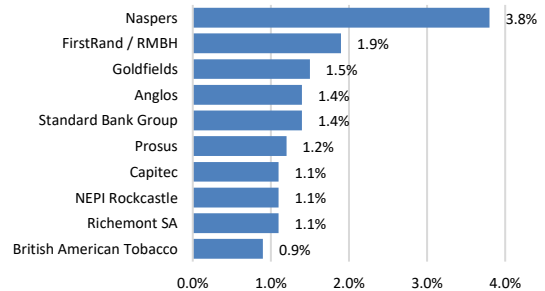
Actual Asset Allocation



Top 10 Equity as % Fund – Monthly Bonus



Top 10 Equity as % Fund – Satrix Enhanced



The trustees review the investment strategy of the Volatility Protection Strategy continually and will make periodic changes to the underlying investments in line with the objectives of the strategy. The Volatility Protection Strategy aims to invest 75% in the Sanlam Monthly Bonus Fund and 25% in the Satrix Enhanced Balanced Tracker Fund.



# Performance summary

| 30 June 2024                           | 3 months | 6 months | 1 year | 3 years | 5 years | 7 years | 10 years |
|--|----------|----------|--------|---------|---------|---------|----------|
| <b>Sanlam Secure Strategy</b>          |          |          |        |         |         |         |          |
| <b>Sanlam Monthly Bonus Fund*</b>      | 2.2%     | 4.6%     | 9.3%   | 8.1%    | 7.3%    | 7.2%    | 8.2%     |
| CPI**                                  | 1.2%     | 2.3%     | 5.2%   | 6.0%    | 5.0%    | 4.9%    | 5.0%     |
| <b>Sanlam Stable Strategy</b>          |          |          |        |         |         |         |          |
| <b>Sanlam Stable Bonus Portfolio*</b>  | 2.7%     | 5.3%     | 10.5%  | 8.7%    | 7.9%    | 7.9%    | 8.7%     |
| CPI**                                  | 1.2%     | 2.3%     | 5.2%   | 6.0%    | 5.0%    | 4.9%    | 5.0%     |
| <b>Volatility Protection Strategy</b>  |          |          |        |         |         |         |          |
| <b>Volatility Protection Strategy*</b> | 2.7%     | 5.2%     | 10.2%  | 9.1%    | 8.5%    | 8.0%    | 8.7%     |
| CPI**                                  | 1.2%     | 2.3%     | 5.2%   | 6.0%    | 5.0%    | 4.9%    | 5.0%     |

\*CPI figures are lagged by one month

\*\* Gross Bonuses net of guarantee charge



# Macroeconomic commentary



## Global Equities

Equity markets benefited from the risk-on soft-landing narrative in the second quarter, as disinflation trends continued and global growth stayed in expansionary territory, albeit at a slower pace. US headline and core inflation came in lower than expected at 3.3% and 3.4%, leading to fed funds futures pricing in one rate cut this year. The MSCI ACWI gained 2.9% in US dollars (-0.9% in Rands) over the last quarter, driven by US tech stocks, while Eurozone markets declined due to gains by right-wing political parties in European Parliamentary elections and France's snap election decision.

It is feared that a right-leaning European Parliament may prioritize issues like migration over other issues such as the "green-deal" or digital transitions. The shift to the right could also complicate parliamentary approval for accession treaties, enhanced financial assistance for enlargement-related reforms, and the emphasis on the rule of law. Far-right parties generally oppose further EU enlargement, viewing it as costly in terms of national sovereignty, economic efforts, and potential "undesired" migration flows. Adding fuel to the fire was Emmanuel Macron's decision -

## Highlights

### Global

- US Fed's revised dot-plot points to one rate cut this year and four rate cuts in 2025
- ECB cuts rates for first time in five years even as core inflation revised higher
- European Parliamentary elections show gains for right-wing political parties
- BOJ to reduce bond purchases in move to unwind monetary stimulus

### Local

- Bloated GNU formed after ANC fails to gain majority in SA elections
- SA bonds rally as political risk premium declines
- SA raises tariffs on Shein and Temu imports
- SA Q1 GDP contracts by 0.1% quarter/quarter but expands by 0.5% year/year
- Rate cut optimism returns to South Africa's FRA market

to immediately dissolve the French parliament and call a snap election in July. The Euro Stoxx 50 Index was 4.1% lower for the quarter. In contrast, emerging markets outperformed their developed market counterparts to rally 4.6% in US dollars (0.8% in rands), buoyed by a 7.3% (in USD) surge in the Hang Seng Index as Chinese state-owned asset managers embarked on a state-sanctioned ETF buying spree.

## Global Bonds

Despite disinflation and dovish central banks, nominal bonds returned negatively as yield curves shifted higher, with the Bloomberg Capital Aggregate Bond Index yield rising to 3.9% and returning -1.1% in US dollars and -4.6% in rands. Corporate bonds also fell, with yields on the Bloomberg Capital Global Corporate Bond Index increasing to 5.04% and returning -0.2% in US dollars and -3.7% in rands. Emerging market bonds gained 0.7% in US dollars (-2.9% in rands) due to higher yields and reduced spreads, while inflation-linked bonds fell as real yields rose to 1.59%, with the Bloomberg Capital Global Government Inflation-Linked Bond Index returning -0.8% in US dollars and -4.4% in rands. The Bank of Japan's balance sheet reduction and European election shifts influenced these outcomes, while breakeven inflation rates declined, signaling stable inflation expectations and suggesting potential future US Fed rate cuts.

## Global Listed Property

The rise in bond yields and the deferral of interest rate cuts weighed on the global listed property sector in the second quarter of the year, even as the sector re-rated on a price-to-book basis. The FTSE EPRA Nareit Developed Markets Property Index declined by 2.2% in US dollars and -5.7% in rands. The price-to-book ratio increased from 1.23X to 1.34X, still below the 1.46X mean. 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. Top-line rental growth continues to beat consensus estimates while better-than-expected tenant demand and muted supply across most sectors also support property. However, the deferral of interest rate cuts to late in the year could still limit companies' ability to refinance expiring loans at lower rates, raising default risks and placing forward earnings under pressure.

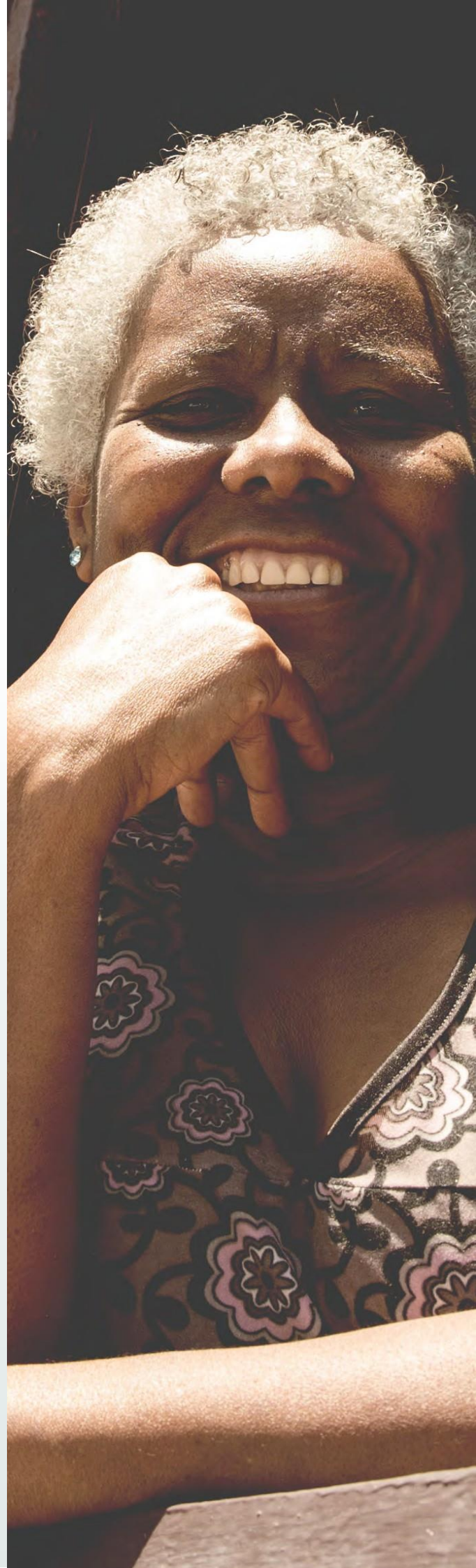


## Local economics

### Local Equities

South African equities surged in the second quarter, with the FTSE/JSE All Share Index rising 8.2% in rands and 12.2% in US dollars, driven by a favorable election outcome and improved interest rate expectations. The ANC's failure to secure a majority, gaining only 40.2% of the vote, led to the formation of a Government of National Unity (GNU) that includes the ANC, DA, IFP, PA, FF+, PAC, and Good, but excludes the EFF and MKP. The new Cabinet comprises 32 ministers and 43 deputy ministers, with the ANC holding 20 cabinet posts, the DA six, and the IFP two, while the PA, FF+, Good, and PAC each secured one position. This political shift boosted investor sentiment as economic policy moved towards a more market-friendly stance, with interest rate expectations now anticipating three rate cuts over the coming year, influenced by the US Fed's revised dot-plot and better-than-expected local inflation data.

SA Inc. shares performed strongly, with financials up 17.8% (Capitec +27.3%, Coronation +25.5%, FirstRand +24.6%), driven by a reduced risk of nationalization. Industrials gained 14.6% (Barloworld +40.6%, Raubex Group +32.7%, Wilson Bayly Holmes Ovcon +19.8%), while healthcare stocks increased 7.9% (Life Healthcare +17.8%, Adcock Ingram +9.3%, Netcare +7.1%). Technology stocks rose 6.8% (Altron +22.3%, Karoo Ltd +14.9%, Prosus +8.8%), and consumer discretionary stocks were up 6.0% (Foschini +28.1%, Truworths +22.2%, Mr Price Group +18.5%). Consumer staples gained 3.2% (PicknPay +37.6%, Spar +33.9%, Astral Foods +15.5%), and basic materials increased 3.2% (Tharisa PLC +44.3%, African Rainbow Minerals +43.2%, Afrimat +25.2%), while telecommunications lagged with a -4.6% drop (Telkom -18.3%, Blue Label Telecoms -16.7%, Multichoice -6.2%). Despite a lower-than-expected Q1 GDP, the outlook improved with positive signs in mining, manufacturing, and retail, supported by a higher leading economic indicator and a generally positive growth outlook.







## Local Bonds

South African bonds rallied sharply in the second quarter as the political risk premium priced into the market declined following the positive election outcome. The formation of a GNU saw bond yields decline as the EFF and MKP were excluded from the Cabinet. Expectations of more market-friendly policies and the re-appointment of Enoch Godongwana as the Minister of Finance – ensuring fiscal consolidation – buoyed sentiment, with the yield on the All-Bond Index falling from 12.05% to 11.31%, a massive 74 basis point decline. Due to the sharply lower bond yields, the All-Bond Index yielded an impressive 7.5% in rands and 11.5% in US dollars. The long end of the curve (12+ years) was the best-performing sub-sector as duration was rewarded following the decline in yields. Inflation-linked bonds yielded a more subdued 2.4% in rands as yields moved from 5.01% to 5.07%.

While headline and core inflation missed estimates earlier in the quarter, towards the back-end inflation was trending lower, in line with expectations. Headline inflation eased to 5.2%, while core inflation came in at 4.6%, just shy of the SARB's 4.5% target. Since interest rate expectations also improved over the quarter, the stage is set for the SARB to start its rate cutting cycle, although there does seem to be some push-back from the Governor. He has warned that inflation expectations are still elevated, and that the SARB must deliver on its inflation target sooner rather than later, to re-anchor expectations. Although FRAs are pricing in three rate cuts over the coming twelve months, up from one rate cut expected at the end of March, these expectations can still be upended if the SARB revises the inflation target range lower, from the current 3-6% range, to a new 2-4% range. The implication of the revised inflation target would be higher-for-longer interest rates and a shallower rate cutting cycle.

## Local Listed Property

South African listed property rallied in the second quarter of the year as bond yields plummeted, with the SAPY yielding a pleasing 5.5% in rands and 9.4% in US dollars. Even though dividends per share declined by 1.2% quarter/quarter, the property-to-bond yield ratio derated slightly from 0.53X to 0.55X, still well below the 0.85X mean. This suggests that lower bond yields were the primary driver of returns over the quarter. However, with real nominal bond yields trading below their fair value, there is limited scope for a further compression in bond yields, at least over the near term. Property stocks are also expected to derate relative to bonds going forward, given that the property-to-bond yield ratio is now at a historical inflection point. Although pressure from higher interest rates affects earnings growth, positive operating metrics, such as improved office vacancy rates and retail rental reversions, suggest there is potential for earnings acceleration once interest rates begin to decline.



## Summary

The risk-on trade dominated markets in the second quarter of the year, as ongoing disinflation triggered interest rate cuts in Canada, the EU, Sweden and Switzerland. While the US Federal Reserve (US Fed) left rates unchanged, its revised dot-plot signalled that the next move in rates would be a cut, but that the timing of the cuts would be data dependent. Global and developed market Composite PMIs were generally higher over the quarter, but developing economies showed a small slowdown in economic activity. Softer readings were seen in Brazil, Russia, South Africa and the UK, while Japan moved into outright contractionary territory. With growth expected to slow over the coming year, consensus earnings estimates were revised marginally lower, in line with the “soft-landing” outlook for the global economy.

Despite the downward revisions, earnings growth in the second forecast year was revised higher, suggesting that any economic slowdown is likely to be short-lived. Emerging markets outperformed their developed market counterparts, buoyed by a surge in the Hang Seng Index, as state-owned asset managers bought up Chinese ETFs to place a floor under the market. In contrast, EU parliamentary elections and France’s decision to call a snap election weighed on Eurozone equity markets. Nominal and inflation-linked global bonds yielded negative returns as yield curves shifted higher on the deferral of interest rate cuts following the US Fed’s revised dot-plot.

On the domestic front, the favourable election outcome and the formation of a government of national unity boosted investor sentiment, with bonds rallying sharply and SA Inc. shares surging over the quarter. In general, South African asset classes outperformed their global counterparts, thanks to rand appreciation. Bonds also benefitted from a sharp decline in the country’s political risk premium after the elections, while domestic equities rallied on a more favourable interest rate outlook and expectations of more market-friendly policies by the new government. Fears that banks and mines could be nationalised abated as the EFF and MKP were excluded from the new Cabinet. Interest rate expectations also shifted meaningfully lower with the FRAs pricing in three rate cuts over the coming year rather than the single cut priced in a month earlier.

# Market performance summary (in ZAR) to 30 June 2024

|               |                            | 3 months | 6 months | 1 year | 3 years | 5 years | 10 years |
|---------------|----------------------------|----------|----------|--------|---------|---------|----------|
| Local         | Equities (All Share Index) | 8.2%     | 5.8%     | 9.1%   | 11.0%   | 10.6%   | 8.2%     |
|               | Equities (Capped SWIX)     | 8.2%     | 5.7%     | 10.0%  | 10.1%   | 8.7%    | 6.5%     |
|               | Property                   | 5.5%     | 9.6%     | 26.3%  | 11.7%   | 0.9%    | 3.2%     |
|               | Nominal Bonds              | 7.5%     | 5.6%     | 13.7%  | 7.6%    | 7.8%    | 8.2%     |
|               | Inflation Linked Bonds     | 2.4%     | 1.9%     | 9.0%   | 6.9%    | 6.3%    | 5.0%     |
|               | Cash                       | 2.1%     | 4.2%     | 8.5%   | 6.5%    | 6.1%    | 6.6%     |
| International | Equities (MSCI ACWI)       | -0.8%    | 11.1%    | 15.4%  | 14.4%   | 16.6%   | 14.5%    |
|               | Equities (MSCI EM)         | 0.8%     | 4.3%     | 5.8%   | 2.2%    | 8.0%    | 8.6%     |
|               | Bonds                      | -4.6%    | -3.3%    | -2.4%  | 2.6%    | 3.2%    | 5.1%     |
|               | Property                   | -5.6%    | -4.0%    | 0.8%   | 3.1%    | 4.4%    | 8.0%     |
|               | Rand vs US Dollar          | -3.6%    | -0.2%    | -3.3%  | 8.5%    | 5.3%    | 5.6%     |
| Equity Sector | Financials                 | 15.9%    | 8.9%     | 24.4%  | 17.4%   | 6.9%    | 7.0%     |
|               | Resources                  | 3.6%     | 1.9%     | 0.4%   | 4.6%    | 10.8%   | 5.7%     |
|               | Industrials                | 5.2%     | 5.9%     | 5.1%   | 9.7%    | 10.4%   | 7.8%     |
| Size          | Small Cap                  | 10.7%    | 9.6%     | 20.2%  | 16.8%   | 15.2%   | 8.3%     |
|               | Medium Cap                 | 9.5%     | 5.7%     | 17.3%  | 9.4%    | 7.6%    | 6.6%     |
|               | Large Cap                  | 7.9%     | 5.5%     | 7.2%   | 11.1%   | 10.9%   | 8.2%     |



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