



Sanlam Corporate: Investments

Sanlam Blue Lifestage Strategy

Investment Report

**Quarter 2 2024**

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# Overview

## of the Sanlam Blue Lifestage Strategy



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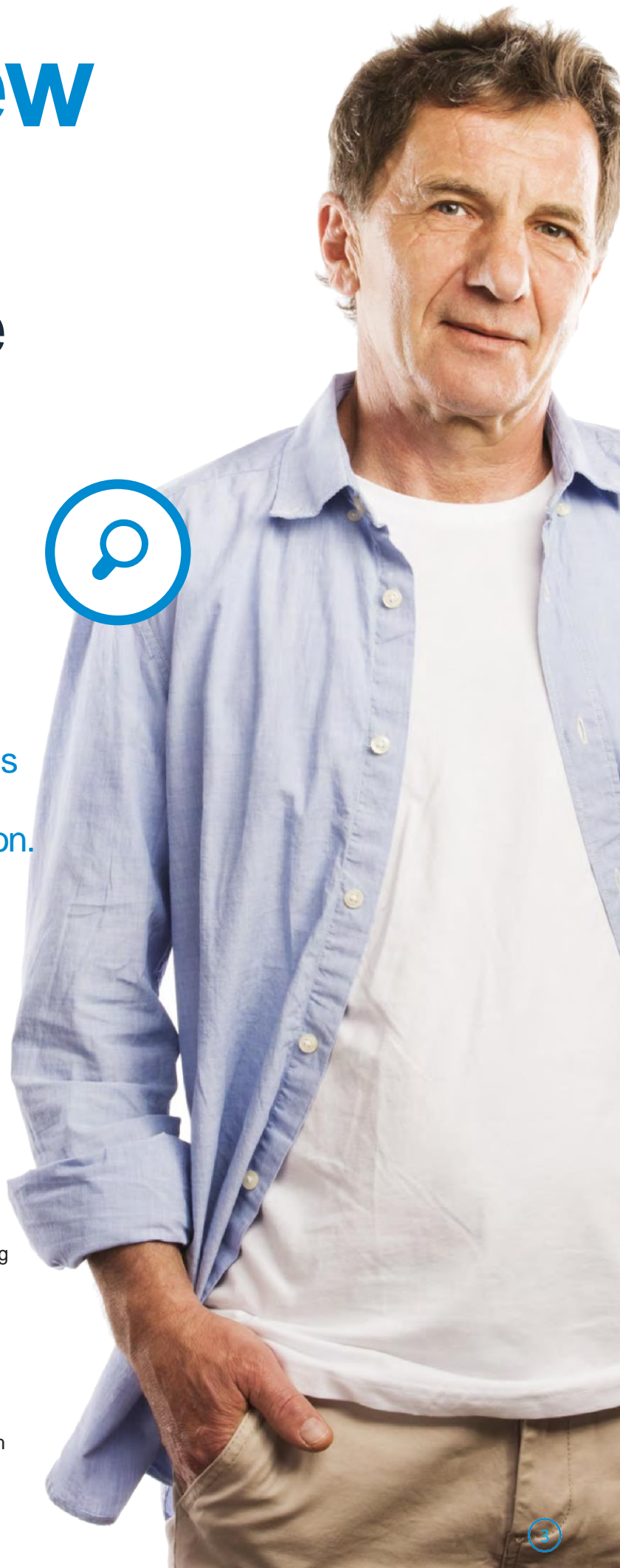
**Sanlam Blue Lifestage Strategy** aims to meet a member's retirement savings requirement in a single seamless investment solution.

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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



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**

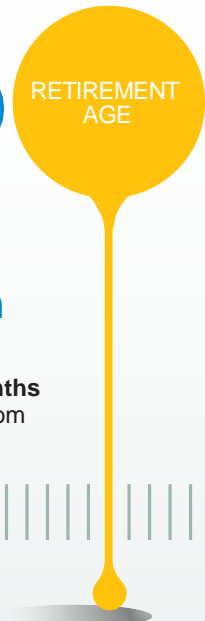


### Preservation phase

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..

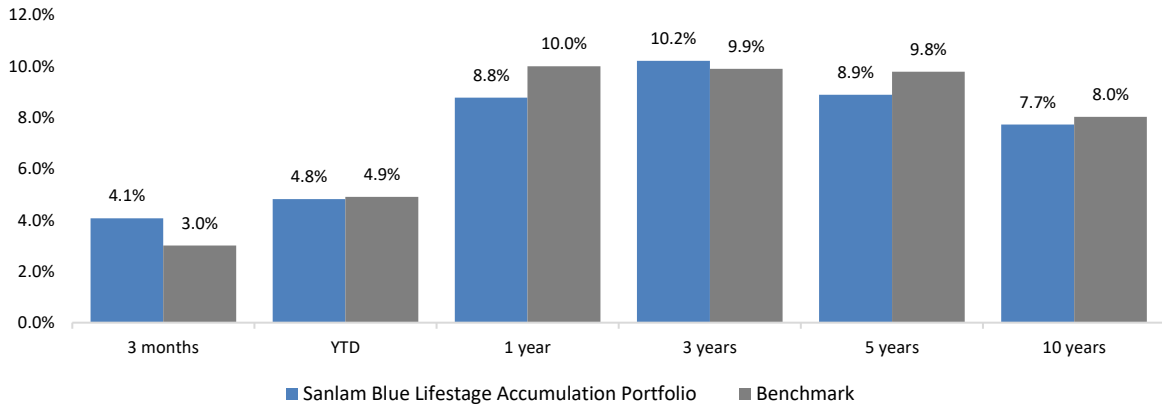
Non-vested bonuses are also declared over and above the vested bonuses. These can be removed in very extreme circumstances though this has never yet occurred since the portfolio's commencement in 1986.

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.

# Accumulation phase portfolio

## Sanlam Blue Lifestage Accumulation Portfolio

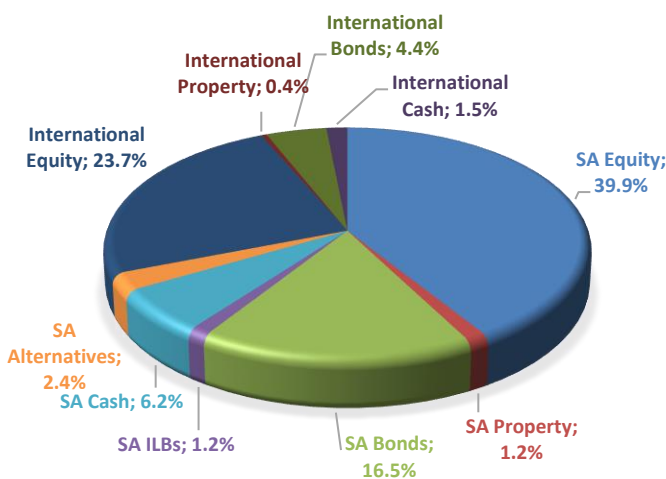
Gross Returns as at 30 June 2024



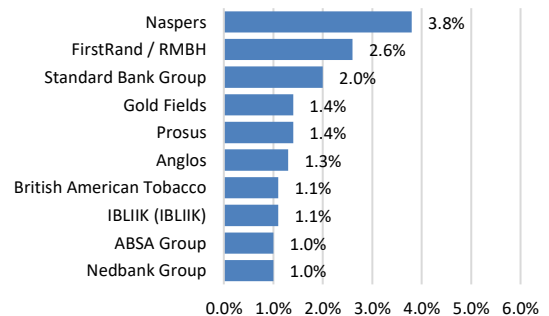
The Sanlam Blue Lifestage Accumulation Portfolio achieved a return of 4.1% in the last quarter and 8.8% for the year ended 30 June 2024. The portfolio outperformed its benchmark, which returned 3.0% over the quarter. However, it underperformed over the past twelve months, during which the benchmark returned 10.0%.

The SIM Balanced Fund (50%) aligns with the Alexander Forbes Global Large Manager Watch Median as its benchmark. It achieved a quarterly return of 4.2% and a one-year return of 10.1% as of June 30, 2024. In comparison, its benchmark exhibited returns of 3.8% and 10.8% for the same respective periods. The SPW Balanced Fund (50%) utilizes the Gross ASISA South African MA High Equity as its benchmark. Over the quarter ended 30 June 2024, the portfolio yielded a return of 3.9%, falling short of the benchmark's 4.0%. Looking at the one-year performance, the SPW Balanced Fund returned of 7.5%, which lagged behind its benchmark's return of 11.1%.

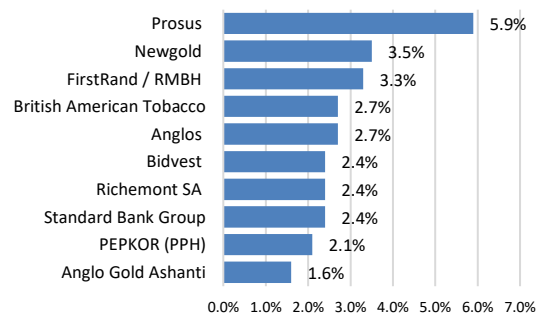
Actual Asset Allocation



Top 10 Equity as % Fund – SIM Balanced



Top 10 Equity as % Fund – SPW Balanced



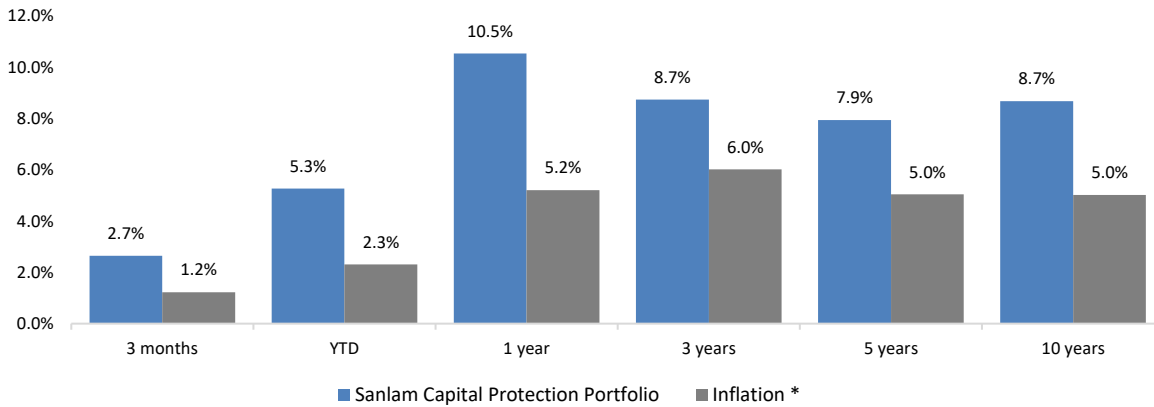
The assets allocation for Sanlam Blue Lifestage Accumulation Portfolio were calculated using the actual splits between SIM Balanced Fund and SPW Balanced Fund of 49% and 59% respectively as of 30 June 2024.



# Preservation phase portfolio

## Sanlam Capital Protection Portfolio

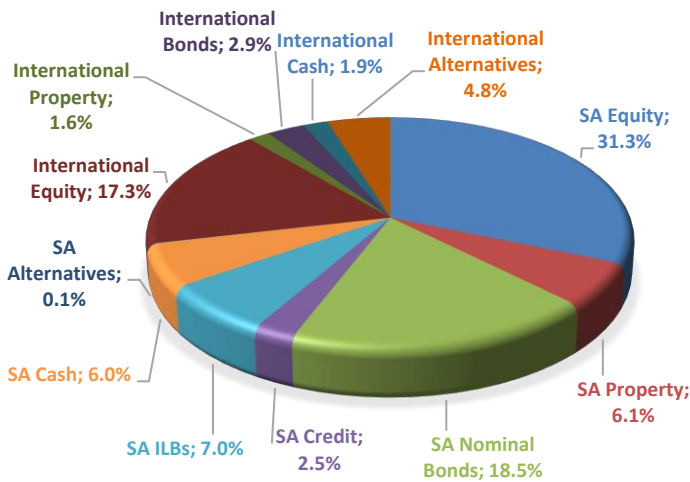
Gross Bonuses as at 30 June 2024



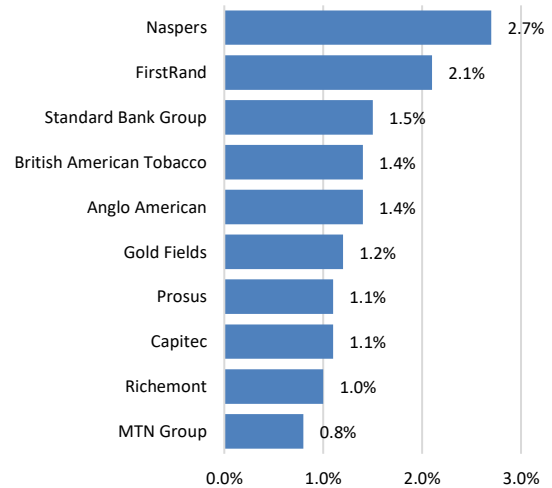
The preservation phase portfolio of the strategy continues to deliver stable, dependable positive returns for investors. Over the first second of 2024, the Sanlam Capital Protection Portfolio gave investors a return of 2.7% and a return of 10.5% for the year. Over the long term, the portfolio also posted 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, Bonuses net of guarantee charge

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.



# Performance summary

30 June 2024	3 months	6 months	1 year	3 years	5 years	7 years	10 years
<b>Accumulation Phase</b>							
<b>Sanlam Blue Lifestage</b>							
<b>Sanlam Blue Accumulation Portfolio</b>	<b>4.1%</b>	<b>4.8%</b>	<b>8.8%</b>	<b>10.2%</b>	<b>8.9%</b>	<b>8.2%</b>	<b>7.7%</b>
Benchmark	3.0%	4.9%	10.0%	9.9%	9.8%	8.8%	8.0%
<b>Preservation Phase</b>							
<b>Capital Protection Portfolio*</b>	<b>2.7%</b>	<b>5.3%</b>	<b>10.5%</b>	<b>8.7%</b>	<b>7.9%</b>	<b>7.9%</b>	<b>8.7%</b>
CPI**	1.2%	2.3%	5.2%	6.0%	5.0%	4.9%	5.0%

\* The Capital Protection Portfolio does not have an explicit benchmark. Bonuses are declared net of Capital Charge

\*\*CPI figures are lagged by one month

# 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.

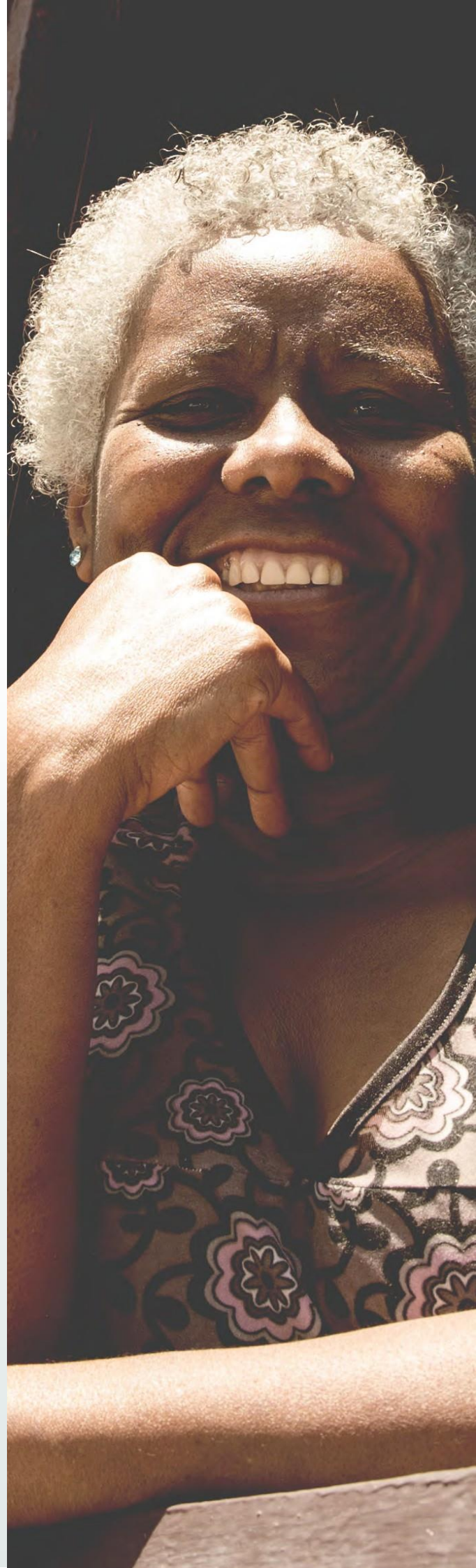


## Local economics

### 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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