Sanlam Corporate: Investments

Sanlam Wealth Creation Lifestage Strategy

Investment Report

Quarter 2 2024

Financial Planning | Retirement | Insurance | Health | Investments | Wealth | Credit

Contents

Overview

The **Sanlam Wealth Creation Portfolio** which is the **Accumulation Phase Portfolio** for this strategy aims to deliver **superior real returns** over the long term. This **balanced portfolio** is managed in a multi manage basis and includes **foreign exposure**. Each manager has been selected based on **rigorous quantitative and qualitative analysis**. The portfolio construction includes both **domestic balanced mandates**, **passive exposure** as well as **specialist mandates**.

A **lifestage strategy** aims to meet each member's savings requirement by working towards a target date, which would be the Normal Retirement Age or the Planned Retirement Age (if different).

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, this target date strategy invests in an investment portfolio matching the member's post-retirement needs or plans, but in the years prior to this greater emphasis is placed on achieving capital growth.

Sanlam Wealth Creation Lifestage Strategy

01

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.

Sanlam Wealth Creation Portfolio

lifestage

While each lifestage strategy utilises a different accumulation phase portfolio, all of the Trustee-approved lifestage strategies utilises the Sanlam Capital Protection Portfolio in the preservation phase.

The phasing from the accumulation phase portfolio to the preservation phase portfolio 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 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.

The Fund's communication strategy makes provision for the distribution of communication to members 7 years, 6.5 years and 1 year before retirement date.

22 MONTHS FROM RETIREMENT AGE

RETIREMENT AGE

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

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

PROTECTION

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

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.

solution

Investment Portfolios

offered in the Sanlam Wealth Creation Lifestage Strategy

Sanlam Wealth Creation

Lifestage

The portfolio's objective is to deliver superior real returns over the long term. This balanced portfolio is managed in a multi-manager basis and includes international exposure.

Each manager has been selected on the basis of rigorous quantitative and qualitative analysis. The underlying managers of the portfolio have been selected, mandated, monitored and reviewed by a Joint Investment Committee.

Lifestage Preservation Portfolio

Sanlam Capital Protection Portfolio

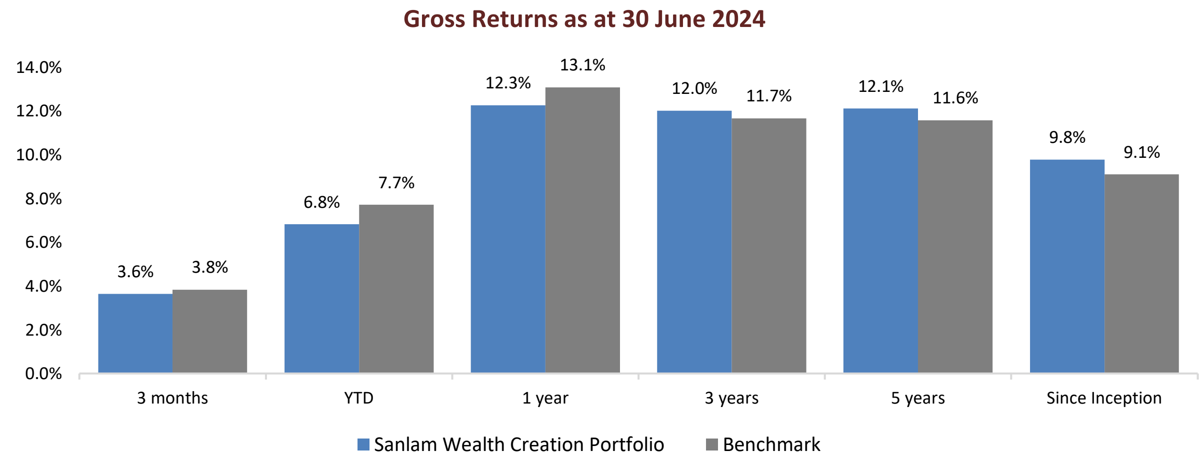
This portfolio was selected as the preservation strategy given its objective to protect the invested capital by guaranteeing the net contributions invested.

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 Wealth Creation Portfolio

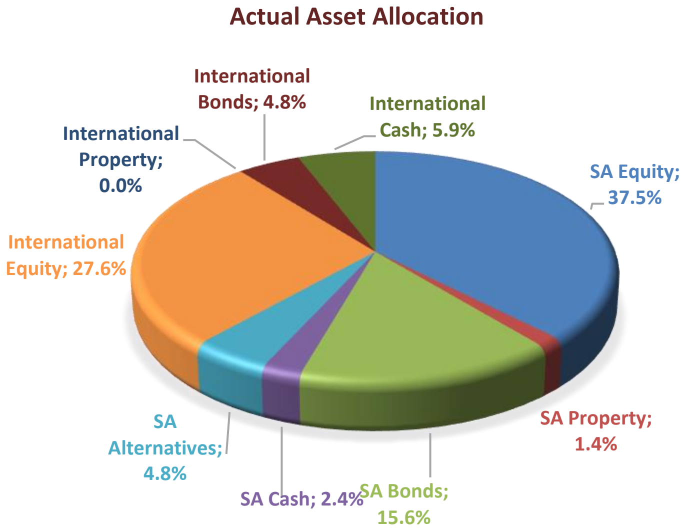


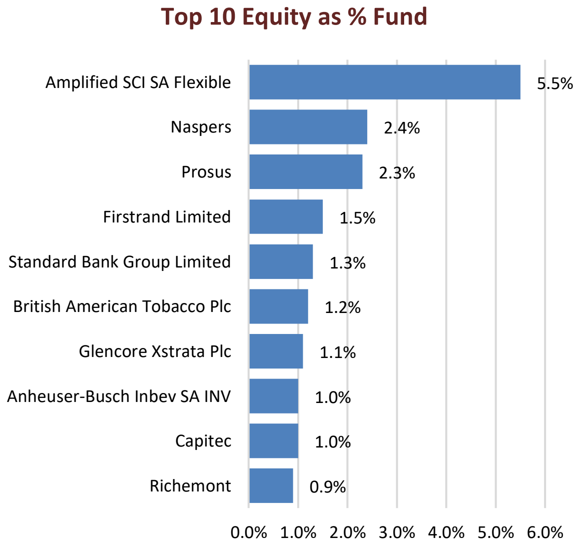
The Sanlam Wealth Creation Portfolio has underperformed the benchmark over the quarter and year ended 30 June 2024 by 0.2% and 0.8% respectively.

Within manager selection, SA Cash remained neutral. Within manager selection to Domestic Large Managers, SA Bonds added to performance (0.10%). International Equity, International Bonds and International Cash detracted from performance (-0.30%). The total manager selection effect for the quarter was -0.20%.

On the asset allocation side, allocation to SA Cash and International Bonds added to performance (0.25%). Domestic Large Managers, SA Bonds, International Equity and International Cash detracted from performance (-0.24%). The total asset allocation effect for the quarter was 0.01%.

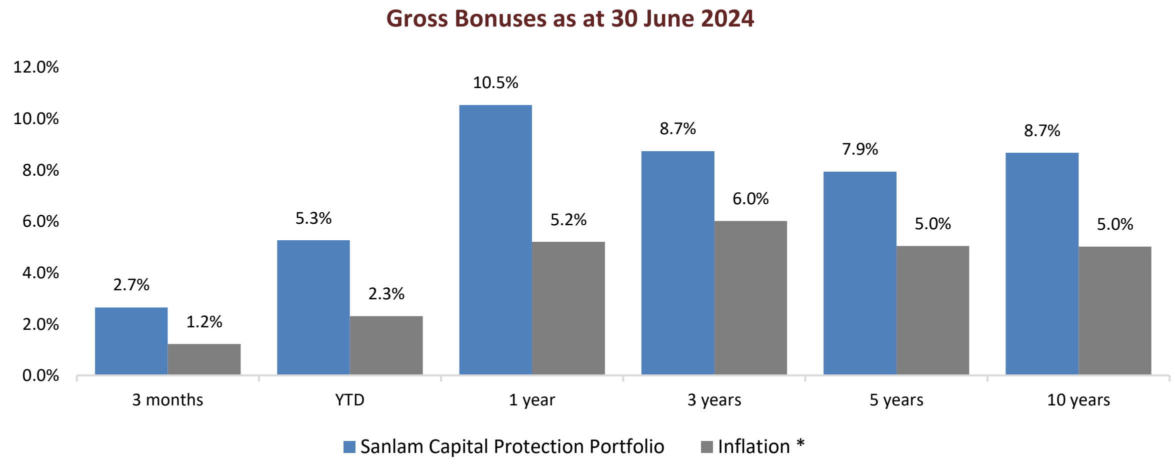
*Returns prior to 1 August 2022 are reflective of the Sanlam Wealth Creation portfolio structured on the AlexForbes life license





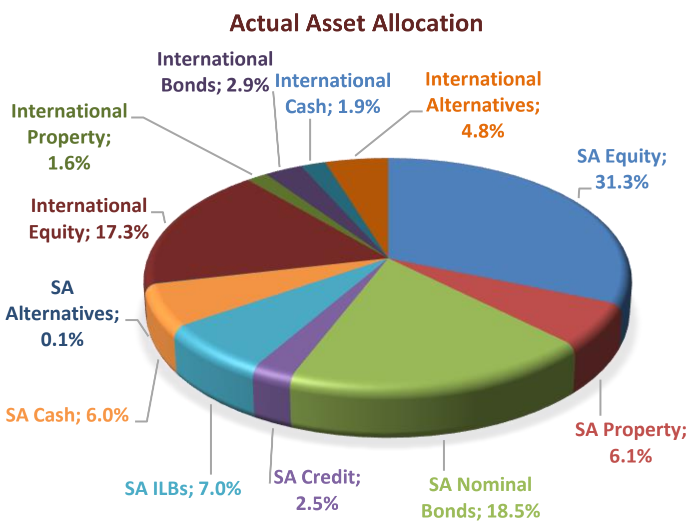
As at 30 June 2024, the portfolio had overweight positions in Domestic Large Managers, SA Cash, International Equity, and International Cash. The portfolio is relatively underweight to the benchmark in SA Bonds and International Bonds.

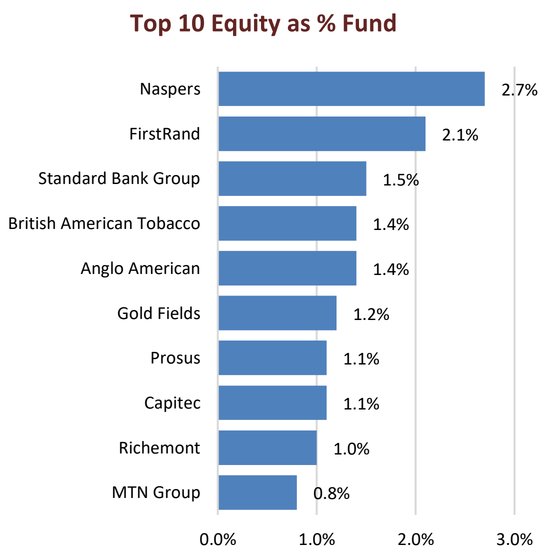
Preservation phase portfolio
Sanlam Capital Protection Portfolio



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 form the market upside.

***Inflation is lagged by one month, Bonuses net of guarantee charge**





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
Accumulation Phase						
Sanlam Wealth Creation						
Sanlam Wealth Creation Portfolio*	**3.6%**	**6.8%**	**12.3%**	**12.0%**	**12.1%**	**10.7%**
Benchmark	3.8%	7.7%	13.1%	11.7%	11.6%	10.4%
Preservation Phase						
Capital Protection Portfolio**	**2.7%**	**5.3%**	**10.5%**	**8.7%**	**7.9%**	**7.9%**
CPI***	1.2%	2.3%	5.2%	6.0%	5.0%	4.9%

**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. Bonuses are declared net of Capital Charge*
****CPI figures are lagged by one month*

Macroeconomic commentary

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

Global economics

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 - 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

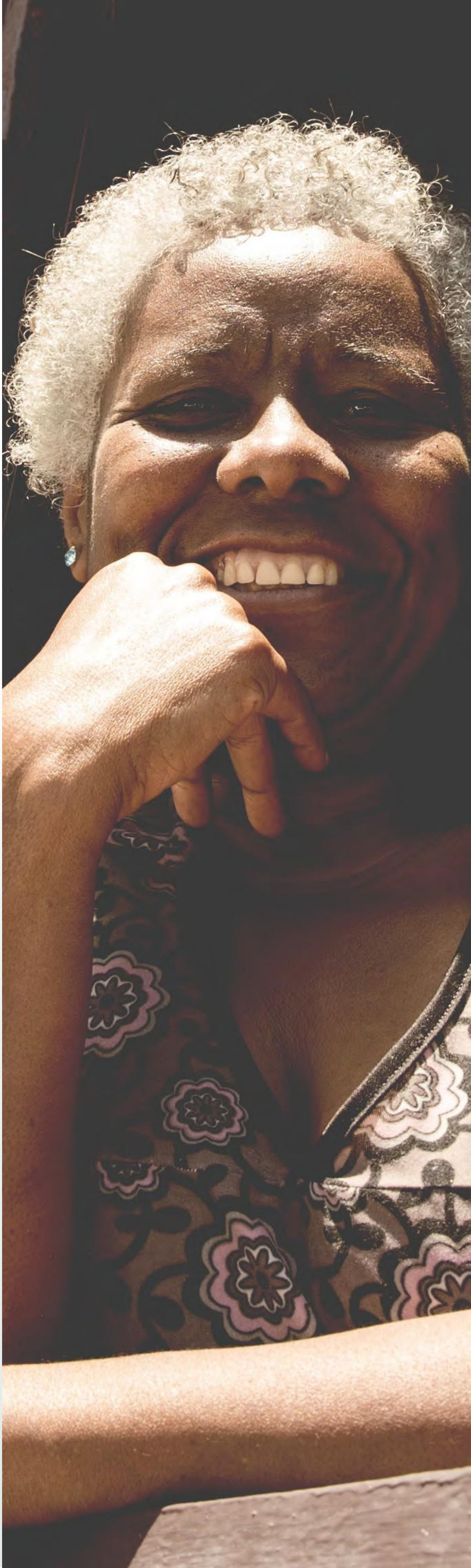
The rise in bond yields and the deferral of interest rate cuts weighed on the global listed property sector in the second quarter of the year, even as the sector re-rated on a price-to-book basis. The FTSE EPRA Nareit Developed Markets Property Index declined by 2.2% in US dollars and -5.7% in rands. 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%, Karooooo 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-owed 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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