



Sanlam Corporate: Investments

Sanlam Passive Lifestage Strategy

Investment Report

Quarter 3 2024

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Overview

of the Sanlam Passive Lifestage solution



The core objective of this alternative default investment strategy is to cater for the needs of members who seek an aggressive strategy, believe in passive investing, working towards a target date, with a view to contain costs.

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

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

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





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

The Passive Lifestage strategy is targeted for members who value the benefits of passive investing, as such delivering market competing returns over the long term at lower costs. The portfolio aims to track a basket of indices which are likely to deliver long-term high returns. The portfolio benefits from active tactical asset allocation which allows it to deliver competing long-term returns at a lower tracking error.

Lifestage Solution



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.

Satrix
Enhanced
Balanced
Tracker Fund



The phasing from the Accumulation Phase to the Preservation Phase is calculated and implemented monthly based on members' actual age, with no cost to the member. The first phasing switch disinvests 1/50th of exposure in the Accumulation Phase Portfolio and re-invests the proceeds in the Preservation Phase Portfolio. The second monthly phasing switches a further portion of the exposure in the Accumulation Phase Portfolio and invests the proceeds in the Preservation Phase Portfolio. The third monthly phasing switches a similar portion of the exposure in the Accumulation Phase Portfolio and invests the proceeds in the Preservation Phase Portfolio. The monthly phasing switches are repeated until, after 50 switches, the exposure to the Accumulation Phase Portfolio is zero and the member is fully invested in the Preservation Phase Portfolio 22 months prior to retirement.



Systematic automated monthly transition

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

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

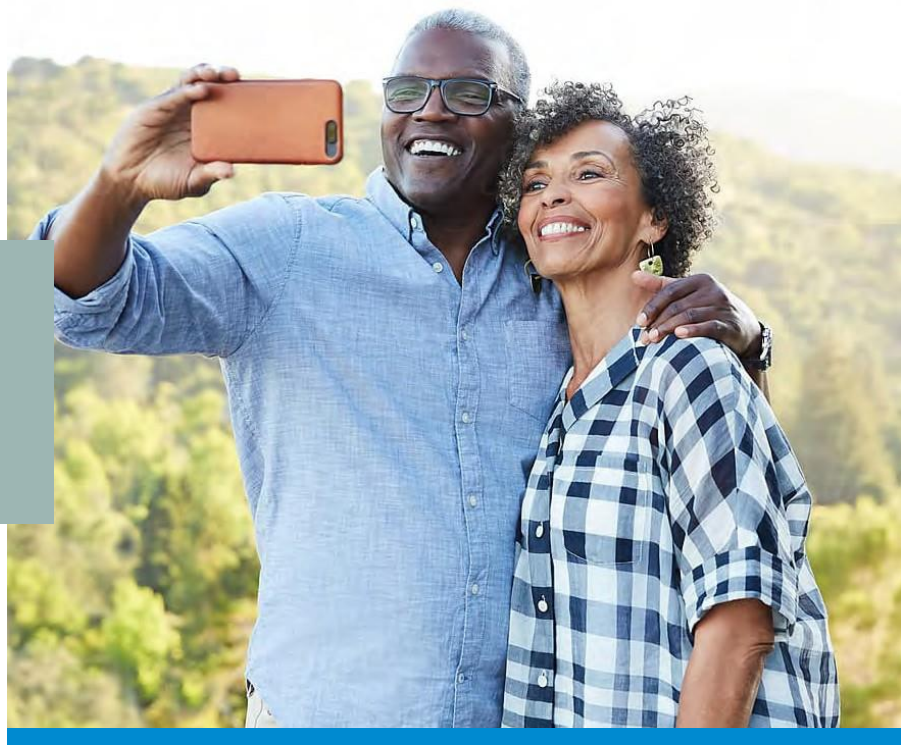
Investment Portfolios offered in Sanlam Passive Lifestage



Accumulation Phase Portfolio

The underlying portfolio is the [Satrix Enhanced Balanced Tracker Fund](#). The portfolio's objective is to provide high long-term investment growth. It invests primarily in equities, property, fixed-interest investments, cash and foreign assets. Each of the underlying asset classes, except cash, is managed on a passive basis - in other words, by tracking an underlying index. Cash is actively managed to generate excess returns relative to the STeFI Composite Index returns within the multi-asset benchmark. Tactical asset allocation is also employed to enhance the performance of the fund relative to the performance of its benchmark. The portfolio has a moderate to aggressive risk profile

Within each asset class, the fund tracks its respective asset class benchmark index, either through physical replication, synthetic replication, or a combination of the two. Synthetic replication facilitates excess returns relative to the index by employing a portable alpha strategy with enhanced cash returns.



Preservation Phase Portfolio

The strategy utilises [Sanlam Capital Protection Portfolio](#) in the preservation phase. This portfolio was selected as the preservation phase portfolio given its objective to protect the invested capital by guaranteeing the net contributions invested.

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

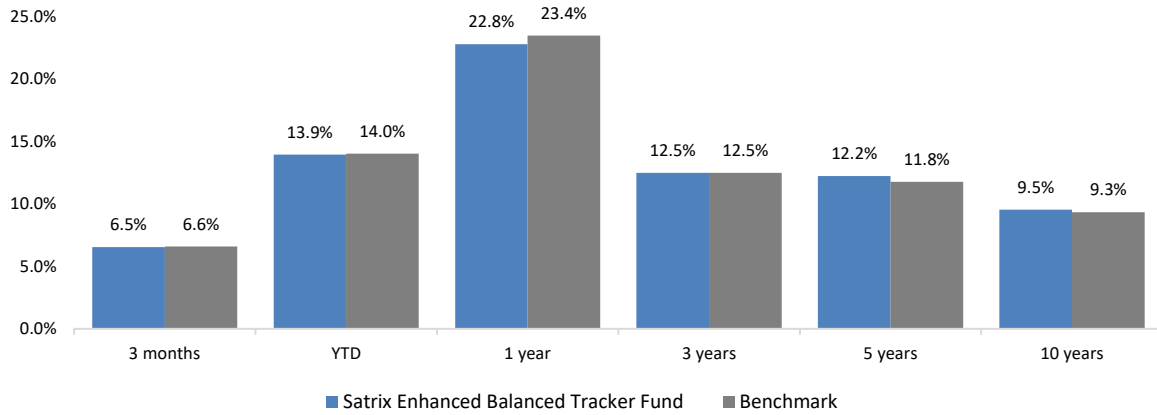
Non-vested bonuses are also declared over and above the vested bonuses. These can be removed in very extreme circumstances though this has never yet occurred since the portfolio's commencement in 1986.

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

Accumulation phase portfolio

Satrix Enhanced Balanced Tracker Fund

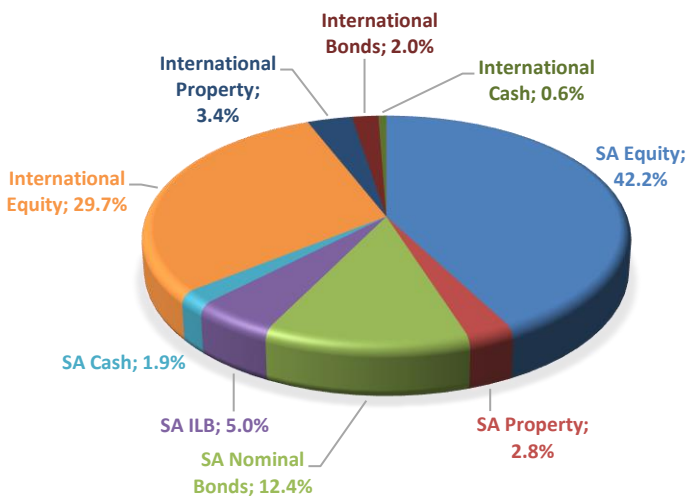
Gross Returns as at 30 September 2024



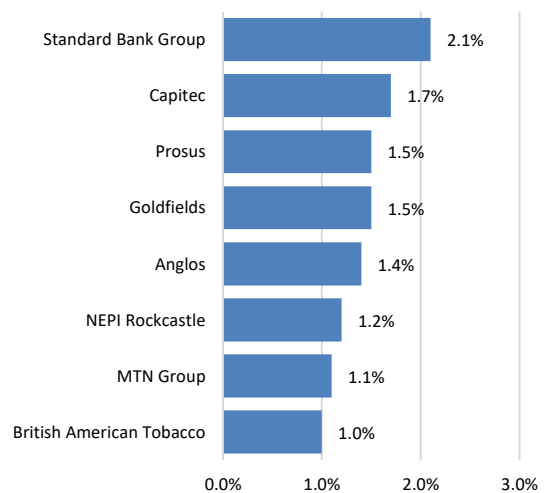
The Satrix Enhanced Balanced Tracker Fund achieved a return of 6.5% in the preceding quarter and a 22.8% return for the calendar year ended 30 September 2024. Correspondingly, its composite benchmark exhibited analogous patterns, registering returns of 6.6% for the quarter and 22.4% for the year ended during the same timeframe.

The Satrix Enhanced Balanced Tracker Fund keeps costs low by tracking a benchmark and boosts performance by making strategic adjustments, such as shifting investments within set limits to respond to market changes and stay ahead of its benchmark. Additionally, the fund's adherence to predefined ranges and asset allocation tolerances prior to trade execution plays a crucial role in minimizing turnover and transaction costs within the fund.

Actual Asset Allocation



Top 10 Equity as % Fund

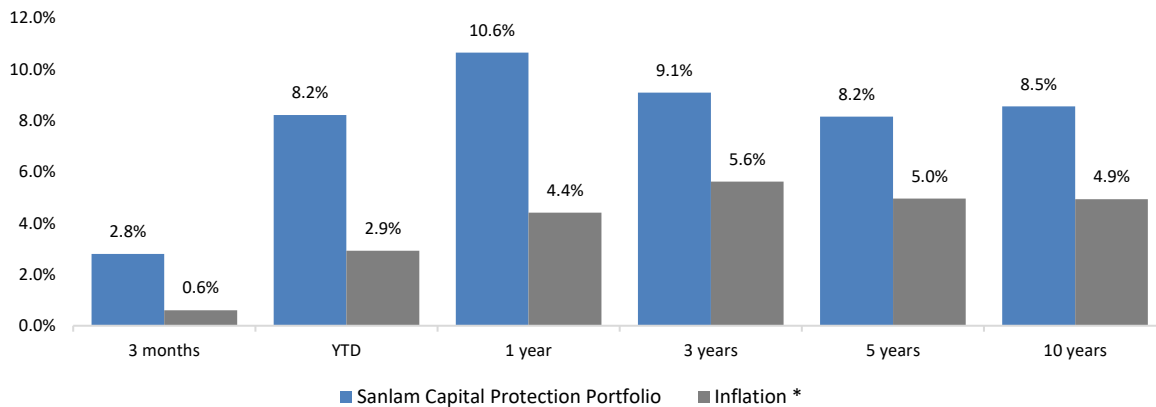


Looking at the current composition of the portfolio, the overweight positions are in SA Equity, SA Nominal Bonds, International Cash. The portfolio has a neutral positions in SA Inflation Linked Bonds and International Bonds. The portfolio is relatively underweighted in SA Property, International Equity, SA Cash and International Property. The Portfolio have a neutral position in SA ILBs.

Preservation phase portfolio

Sanlam Capital Protection Portfolio

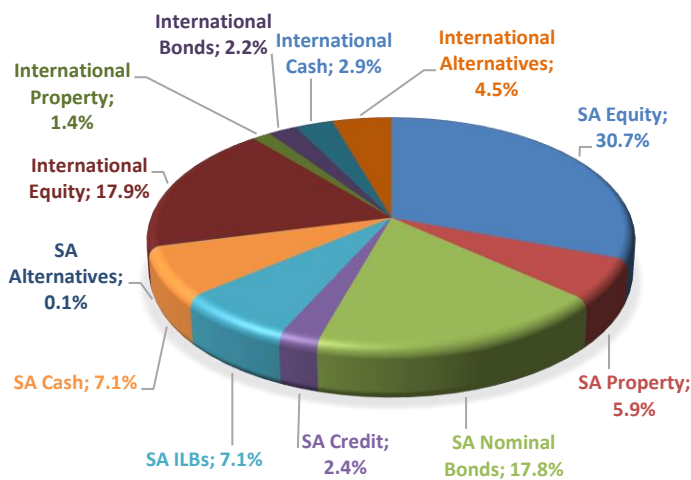
Gross Bonuses as at 30 September 2024



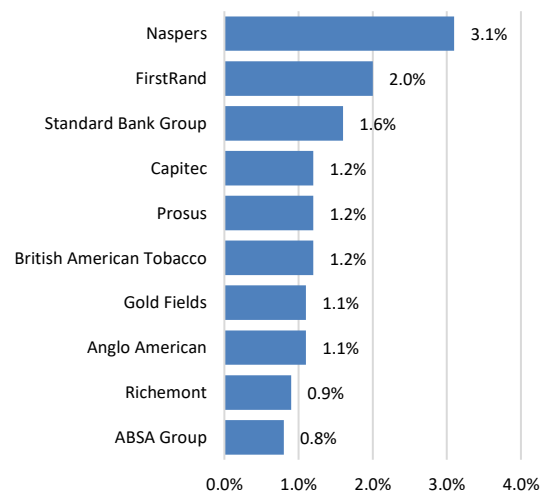
The preservation phase portfolio of the strategy continues to deliver stable, dependable positive returns for investors. Over the third of 2024, the Sanlam Capital Protection Portfolio gave investors a return of 2.8% and a return of 10.6% for the year. Over the long term, the portfolio posted strong 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

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 SA Cash. The underweight positions in the portfolio are International Bonds, International Equity, SA Alternatives, SA Credit, International Property, SA Property. And International Alternatives.



Performance Summary

30 September 2024	3 months	YTD	1 year	3 years	5 years	7 years	10 years
Accumulation Phase							
Sanlam Passive Lifestage							
Satrix Enhanced Balanced Tracker Fund	6.5%	13.9%	22.8%	12.5%	12.2%	9.7%	9.5%
Benchmark	6.6%	14.0%	23.4%	12.5%	11.8%	9.4%	9.3%
Preservation Phase							
Capital Protection Portfolio*	2.8%	8.2%	10.6%	9.1%	8.2%	8.0%	8.5%
CPI**	0.6%	2.9%	4.4%	5.6%	5.0%	4.9%	4.9%

** 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



Executive summary

Risk assets rallied further in the third quarter of the year as the US Federal Reserve (US Fed) joined other central banks in cutting interest rates and the People's Bank of China (PBoC) announced a surprise monetary stimulus package. Chinese equities stole the show, buoyed by the Chinese central bank's announcement that brokers and non-financial institutions would be able to access PBoC funding to buy stocks, using bonds, cash, ETFs and other financial assets as collateral. While not the base case view, recession fears also increased following a rise in US unemployment and weak Eurozone PMI data, with Germany expected to have entered a technical recession. Trade tensions between China and the EU increased after the EU's decision to impose anti-dumping duties on Chinese EV imports. China is expected to target EU agricultural and dairy imports in retaliation. Bond yields were lower across both the nominal and real curves, helping to underpin equities. The biggest beneficiary of the lower bond yields was listed property, which was the best performing of the broad offshore asset classes.

South African equities outperformed their developed and emerging market counterparts on expectations of mid-to-upper teen earnings growth, rate cut expectations and sharp gains in Tencent, which underpinned the Naspers and Prosus share prices.

Highlights

Global

- ▶ United States (US) Fed cuts rates by a bigger-than-expected 50 basis points
- ▶ European Central Bank (ECB) cuts rates for second time since June
- ▶ The European Union (EU) imposes anti-dumping duties on Chinese EV imports
- ▶ Purchasing Managers' Index (PMI) suggest Germany is headed for technical recession
- ▶ The People's Bank of China (PBoC) sweeping monetary stimulus boosts equities

Local

- ▶ South African Monetary Policy Committee (MPC) cuts rates by 25 basis points on lower-than-expected inflation
- ▶ Bureau for Economic Research (BER) business and consumer confidence improve in Q3
- ▶ SA's leading economic indicator supports of earnings growth

Expectations that economic growth would accelerate in the coming years was a further tailwind for equities, with gains in the country's PMIs and increases in business and consumer confidence supporting the more bullish outlook. South African bonds also rallied strongly, outperforming their peers on inflation beats, a 25-basis point rate cut and rand appreciation. Although inflation has eased to below the mid-point of the South African Reserve Bank (SARB)'s target range, the central bank has signalled a shallower rate cutting cycle, citing risks of higher housing costs, larger electricity price increases, or wage increases in excess of inflation. Global conditions added challenges, with heightened geopolitical risks potentially generating further economic shocks, while trade restrictions and rising debt levels could significantly add to global inflationary pressures.



Global Equities

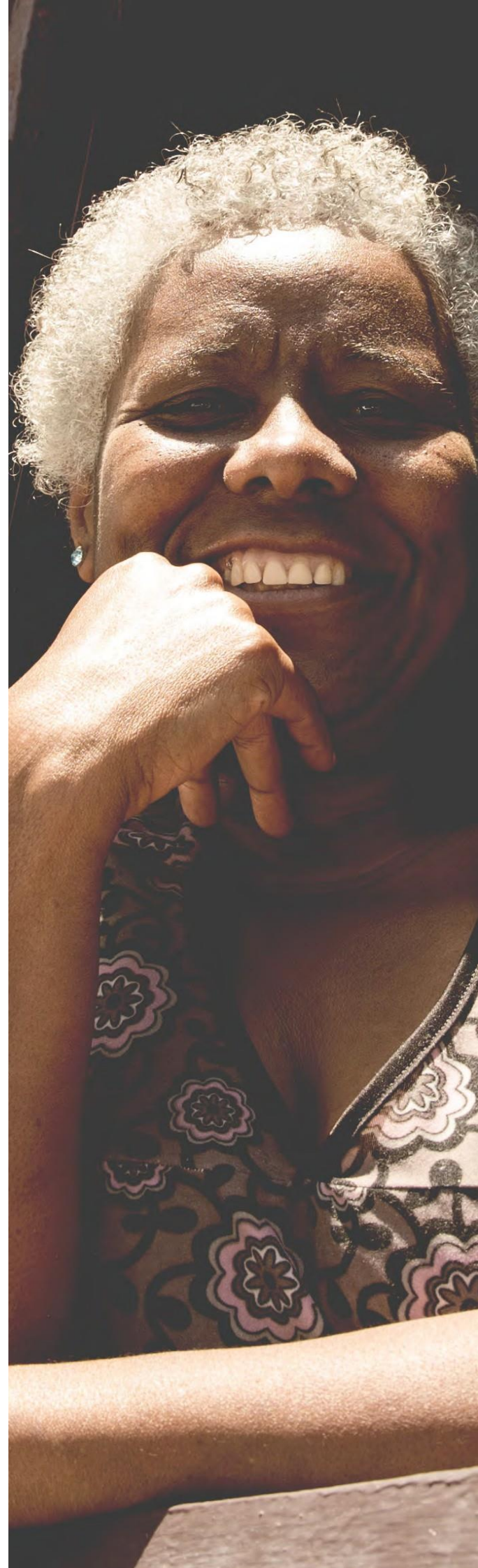
Global equities rallied in the third quarter of the year, supported by central bank actions like the US Federal Reserve's larger-than-expected 50 basis point rate cut, which brought the fed funds rate down to between 4.75% and 5%. The MSCI World Index rose 6.4% in US dollars and 0.4% in rands, dampened by the 5.6% appreciation of the rand against the dollar. The Fed's rate cut was driven by inflation trends, with core PCE inflation increasing only 0.1% month-on-month, lower than the 0.2% consensus estimate. While August's non-farm payroll data raised recession concerns, stronger September data, along with upward revisions, helped calm these fears as the unemployment rate dropped to 4.1%. Nonetheless, wage growth increased to 4.0%, signaling persistent inflation pressures.

In contrast, the Eurozone, particularly Germany, is facing economic challenges. Germany is expected to enter a technical recession, exacerbated by weak manufacturing production and ongoing trade tensions with China. The European Central Bank cut rates again in September, with further cuts expected, and the terminal deposit rate is forecast to fall to around 2%, down from 3.5%. Trade tensions escalated as the EU imposed anti-dumping tariffs of 35.3% on Chinese electric vehicles, and China retaliated with duties on EU agricultural products. Despite these risks, global fund managers were cautiously optimistic, with the Bank of America September Fund Manager Survey showing two-thirds of managers did not expect a global recession.

Meanwhile, the People's Bank of China (PBoC) announced a surprise stimulus package, which drove significant gains in Chinese (20.2%) and Hong Kong (19.8%) stocks, contributing to a 7.1% rise in the MSCI Emerging Market Index in US dollars and 1.0% in rands. The stimulus package included a bigger-than-expected 20 basis point cut in the benchmark seven-day reverse repo rate along with a 50-basis point cut, to 9.5%, in the required reserve ratio for major banks. This measure is expected to inject around RMB 1 trillion in liquidity into the financial system. The one-year medium-term lending facility rate was also cut by 30 bps to 2.0%. Specific actions were also taken to address China's troubled property sector, such as reducing the down-payment ratio for second homes from 25% to 15%. While China's measures have improved sentiment and supported growth, investors are watching for further fiscal stimulus, potentially RMB 10 trillion in ultra-long-term government bonds, to sustain the recovery.

Global Bonds

Global bonds rose in the third quarter, driven by disinflation and interest rate cuts, except in Japan. The Bloomberg Global Aggregate Bond Index yield dropped from 3.9% to 3.33%, with nominal bonds returning 7.0% in US dollars (1.0% in rands). Inflation-linked bonds also saw gains. In the US, a larger-than-expected rate cut caused two-year bond yields to fall, and fund managers shifted to steeper strategies. Emerging market bonds underperformed, yielding 5.8%. While either a Trump or a Harris win is expected to add to the fiscal deficit, the Committee for a Responsible Federal Budget estimates a Harris government would add around \$3.5 trillion to debt over the next decade, whereas a Trump government would raise the deficit by an even larger \$7.5 trillion. Trump's proposed deportation of immigrants and aggressive tariff increases also risks incurring structurally higher inflation and lower growth (stagflation), a view held by 43% of fund managers participating in the Bank of America Fund Manager Survey.





Global Listed Property

Global listed property stocks benefitted from the lower bond yields in the third quarter. The FTSE EPRA Nareit Developed Markets Property Index gained 16.0% in US dollars and 9.4% in rands, the best performing of the broad international asset classes. The improved interest rate outlook caused the sector to rerate, with the price-to-book ratio increasing to 1.58X from 1.35X, well ahead of the 1.45X historical mean. Due to the material re-rating of global listed property over the past few months and the risk of higher bond yields after the US election in November, a near-term underweight position is held in global listed property.



Local economics

Local Equities

South African equities experienced significant gains in the third quarter, with the FTSE/JSE All Share Index rising 9.6% in rands and an impressive 16.1% in US dollars. This growth was driven by mid-to-upper percentage earnings estimates, expectations of interest rate cuts, and substantial increases in Tencent, which underpinned the Naspers (17.6%) and Prosus (16.2%) share price appreciation. The technology sector emerged as the best performer, returning 17.1%, while financials rose by 14.3%, led by Momentum Metropolitan (28.7%), Discovery (27.5%), and OUTsurance (25.0%). Consumer discretionary stocks also performed well, with Southern Sun (46.0%) and Mr Price Group (34.6%) among the leaders. In contrast, resource stocks faced a decline of 1.5%, impacted by a 15.6% drop in oil prices and a 12.7% decrease in iron ore prices.

The domestic economic outlook showed signs of improvement, although the 0.4% quarter-on-quarter GDP growth fell short of the 0.5% consensus estimate. Despite this, the economy saw a positive shift as inflation eased to 4.4% in August, resulting in improved real incomes that could boost consumption expenditure, especially with at least one anticipated 25 basis point rate cut remaining this year.

While manufacturing production dipped by 0.6% month-on-month in August, it had previously grown by 1.6% in July. The Absa Manufacturing PMI exhibited volatility, dropping to 43.6 in August before rebounding to 52.8 in September, suggesting positive contributions to third-quarter growth.

Mining production contracted by 3.4% in July but showed a robust recovery with a 7.5% increase in August. Additional indicators, such as a 3.9% year-on-year rise in the SARB's leading economic indicator, point to sustained growth. Both the RMB/BER Business Confidence Index and consumer confidence improved in the third quarter, indicating a more optimistic outlook. With earnings growth projected at 17% for the coming year, equities are expected to continue their upward trajectory, reinforcing the positive sentiment in the market.

Local Bonds

In the third quarter, South African bonds rallied significantly due to a favorable election outcome, a 25-basis point rate cut, and lower-than-expected inflation readings. August's headline inflation rose by only 0.1% and core inflation remained unchanged, bringing them to 4.4% and 4.1%, respectively, both below the SARB's target of 4.5%. Consequently, the yield on the All-Bond Index decreased by 123 basis points to 10.09%, yielding 10.5% in rands and 17.1% in US dollars. While further inflation reduction is anticipated, potential increases in petrol prices due to geopolitical tensions may slightly offset this. Nonetheless, the prevailing real repo rate of 3.6% suggests that more rate cuts are possible, with expectations now adjusted to around 100 basis points.

The upcoming Medium-Term Budget Policy Statement (MTBPS) on October 30, 2024, is expected to highlight the fiscal outlook. Revenue increased by 19.1% compared to a budgeted 5.4%. This surge is largely attributed to a R100 billion allocation from the Gross Gold and Foreign Exchange Contingency Reserve Account (GFECRA). Although expenditures are up 4.3%, aligning with projections, the budget deficit is R85.6 billion lower than the previous year, indicating a healthier fiscal position. However, gross tax revenue is underperforming relative to budget estimates, with VAT receipts down 0.7% and personal income tax growth at 11.7%, below the budgeted 13.8%.



Despite these revenue shortfalls, the lower borrowing requirements are not expected to hinder the bond market following the MTBPS.

Local Listed Property

The 126-basis point decline in the 10-year bond yield powered SA listed property stocks in the third quarter. The SAPY yielded 18.7% in rands and 25.8% in US dollars, the best performing of the broad asset classes. While the primary driver of returns has been the geared bond effect after the election, a narrowing in the price-to-net-asset-value discount also contributed. While dividends per share rose 1.1% quarter/quarter, they were still some 14.4% lower than a year earlier, and half the levels seen pre-Covid. The dividend yield of 5.3% is also well short of the 8.1% mean. In addition, the earnings yield on the property sector has slowed to 6.5%, below the 7% mean and half the levels seen a year earlier. While the sector rerated slightly relative to bonds over the quarter, the property-to-bond yield ratio of 0.53X is well below the historical mean of 0.83X, and is now at an inflection point where listed property typically derates. This suggests that the sector is expensive relative to bonds, and with earnings growth also slowing, informs a longer-term underweight position in this asset class. With bond yields expected to decline further on interest rate cuts and lower inflation, listed property stocks could still post further gains over the near term. However, once the bond market rally has run its course, equity risk is preferred to listed property risk. The best-performing stocks over the quarter included Hyprop (46.6%), Burstone Group Ltd (33.7%) and Resilient Reit Ltd (30.3%), while the laggards included Lighthouse Capital (1.4%), Sirius Real Estate (2.7%), and Emira (5.6%).

Market performance summary (in ZAR) to 30 September 2024

		3 months	6 months	1 year	3 years	5 years	10 years
Local	Equities (All Share Index)	9.6%	18.6%	23.9%	14.7%	13.7%	9.4%
	Equities (CAPI)	9.6%	18.6%	24.0%	14.5%	14.1%	9.4%
	Property	18.7%	25.2%	51.3%	16.0%	5.4%	4.3%
	Nominal Bonds	10.5%	18.8%	26.1%	11.1%	9.8%	9.1%
	Inflation Linked Bonds	4.8%	7.4%	13.5%	7.8%	7.2%	5.4%
	Cash	2.1%	4.2%	8.5%	6.9%	6.1%	6.6%
International	Equities (MSCI ACWI)	0.6%	-0.2%	20.5%	13.1%	15.1%	14.1%
	Equities (MSCI EM)	1.0%	1.9%	10.4%	3.6%	7.6%	8.4%
	Equities (MSCI World)	0.4%	-0.7%	21.1%	14.1%	16.0%	14.8%
	Bonds	1.0%	-3.7%	2.4%	1.4%	1.7%	4.9%
	Property	9.4%	3.4%	17.6%	4.7%	3.8%	8.7%
	Rand vs US Dollar	-5.6%	-9.0%	-8.5%	4.6%	2.6%	4.3%
Equity Sector	Financials	14.3%	32.5%	39.8%	18.2%	11.4%	8.4%
	Resources	-1.5%	2.1%	3.4%	5.4%	11.9%	6.3%
	Industrials	11.6%	17.4%	25.1%	15.5%	13.5%	9.1%
Size	Small Cap	15.6%	28.0%	37.5%	18.1%	19.3%	9.6%
	Medium Cap	10.9%	21.5%	28.9%	10.7%	10.2%	7.5%
	Large Cap	8.6%	17.2%	22.1%	14.8%	13.9%	9.4%

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