Sanlam Corporate: Investments

Sanlam Unity Umbrella Fund

Investment Report

Quarter 3 2024

Contents

Overview

of the default investment strategy

The Trustees of the Fund have a formal investment strategy in place whereby the Fund aims to provide stable long term returns in excess of inflation that suits the majority of the members' long-term investment needs.

The Fund currently invests 90% in Sanlam Stable Bonus Fund and 10% in the SIM Cash Fund in order to achieve its objectives.

- Protects investors against short-term volatility while providing partial guarantees on benefit payments
- Smoothes investment return
- Bonuses consist of a vesting and non-vesting portion and are declared monthly in advance. Bonuses cannot be negative.

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.

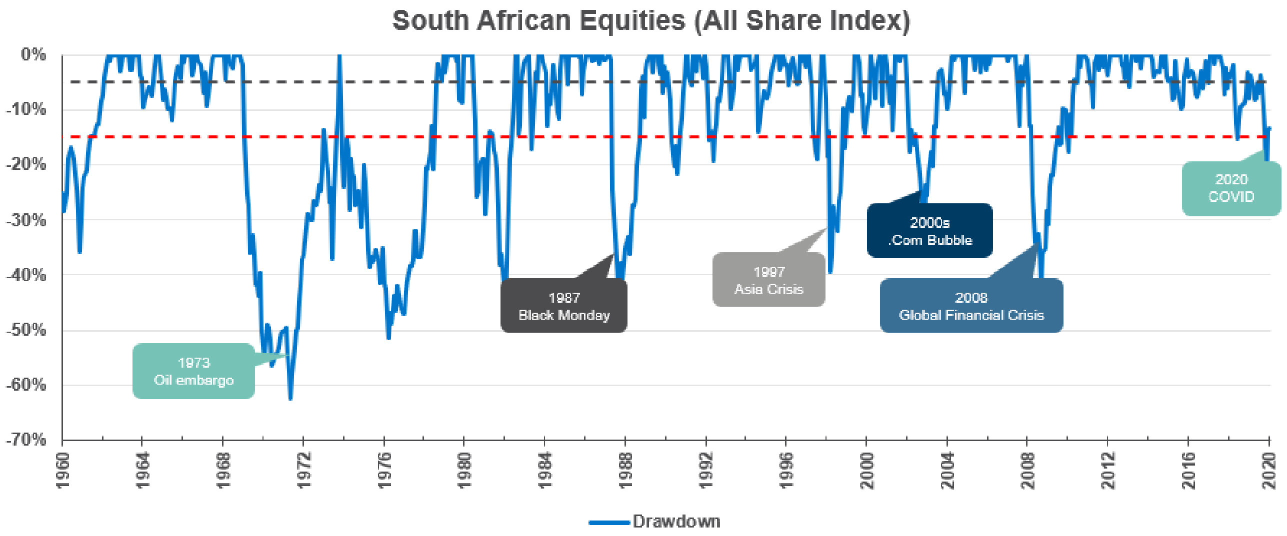
The strategy could be considered by investors preferring a cautious, arm's-length approach to money management; investors wishing to avoid any chance of losing money; investors who require capital security and investors who regard financial security as highly important.

Default Investment Strategy
Portfolios

Sanlam Stable Bonus Portfolio?

Why Sanlam Stable Bonus Portfolio?

Investment Markets are subject to **drawdowns** (negative returns). Smoothing of investment returns can reduce the drawdowns but **may not be enough to eliminate** them (some investors who do not like seeing their fund value going down may still worry). Adding a guarantee can fully **eliminate the drawdowns** and hence give investors the piece of mind.

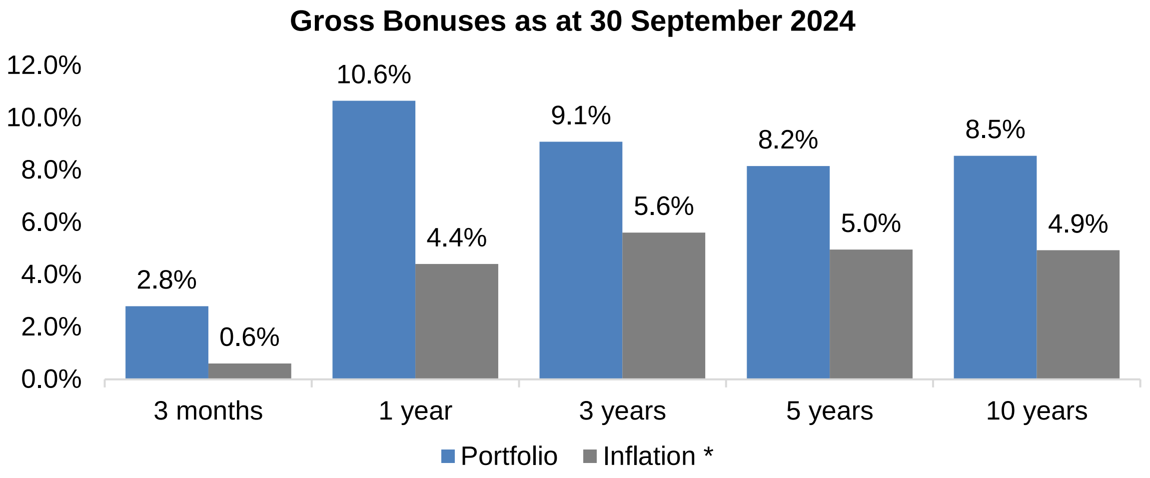


What are Smoothed Bonus Portfolios?

In smoothed bonus portfolios, investment returns are smoothed by way of regular bonus declarations. This results in stable and dependable investment returns, lessening the roller-coaster ride that investors in market-linked portfolios might experience – consider the global financial crisis during 2008 as an example. These bonus declarations are based on the returns achieved on the portfolio's underlying investments. However, some returns are set aside during periods of strong market growth to be used to boost returns during periods of weaker performance.

Guarantees

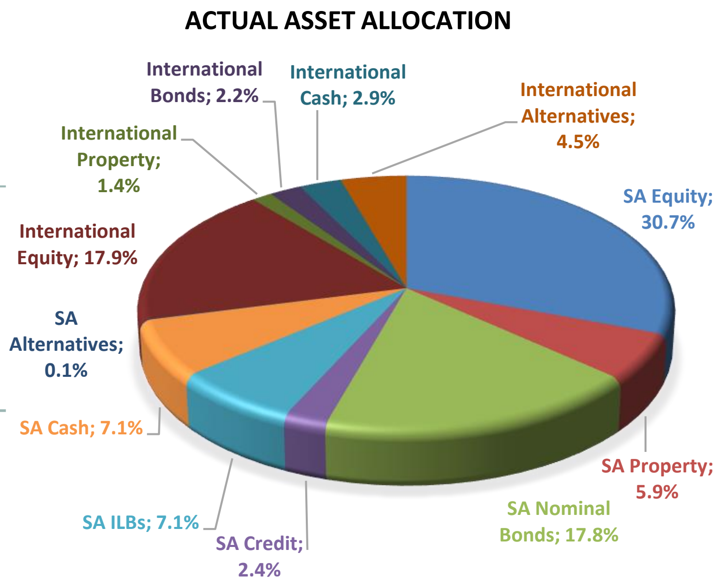
- The book value is the value that is guaranteed to be paid out for benefit payments (death, disability, resignation, retrenchment and retirement) regardless of market conditions. The book value is the net contributions accumulated at the bonus rates.
- There is no limit on the amount of benefit payments at book value.
- All guarantees are backed by the financial strength of Sanlam Life.
  - Solvency cover of 166% on 30 June 2024 and a Standard & Poor (S&P) credit rating of zaAAA.
  - The resilience of the Sanlam share price during the sub-prime crisis shows the market's confidence in Sanlam and its management

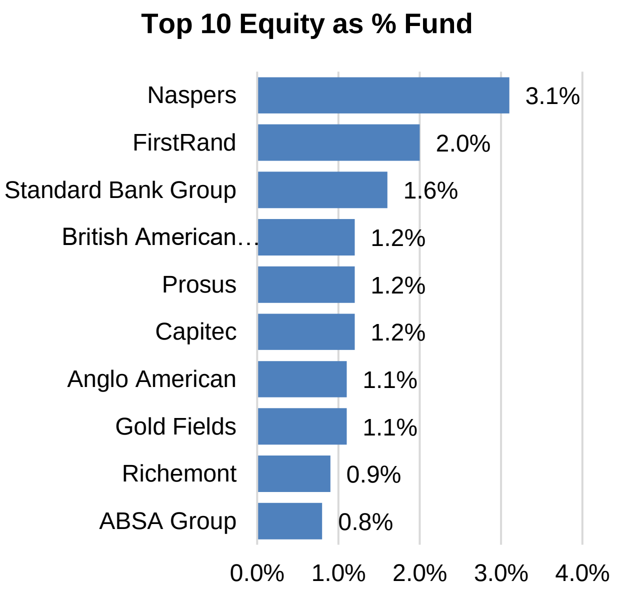


The Sanlam Stable Bonus Portfolio returned 2.8% for the quarter ended 30 September 2024 and a return of 10.6% for the year. Over the long term, the portfolio posted strong inflation beating returns.

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 3.6% p.a. over the last 10 years, with very stable and predictable returns over the period.

*Inflation is lagged by one month





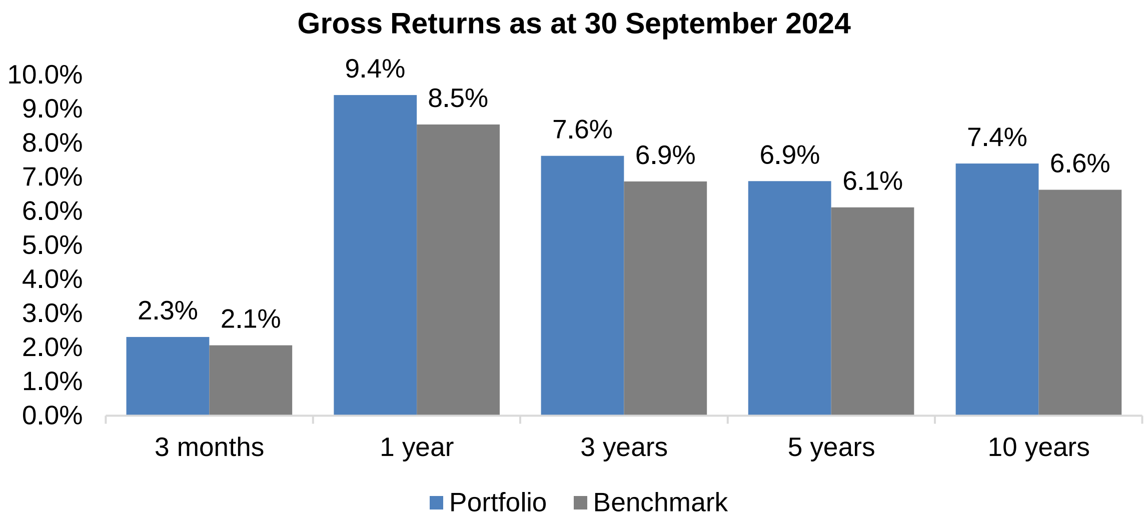
Looking at the current composition of the portfolio, the overweight positions are SA ILBs, International Cash, SA Equity, SA Nominal Bonds and SA Cash. The portfolio is neutral in International Alternatives, SA Property and International Bonds. The underweight positions in the portfolio are International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

SIM Cash Fund

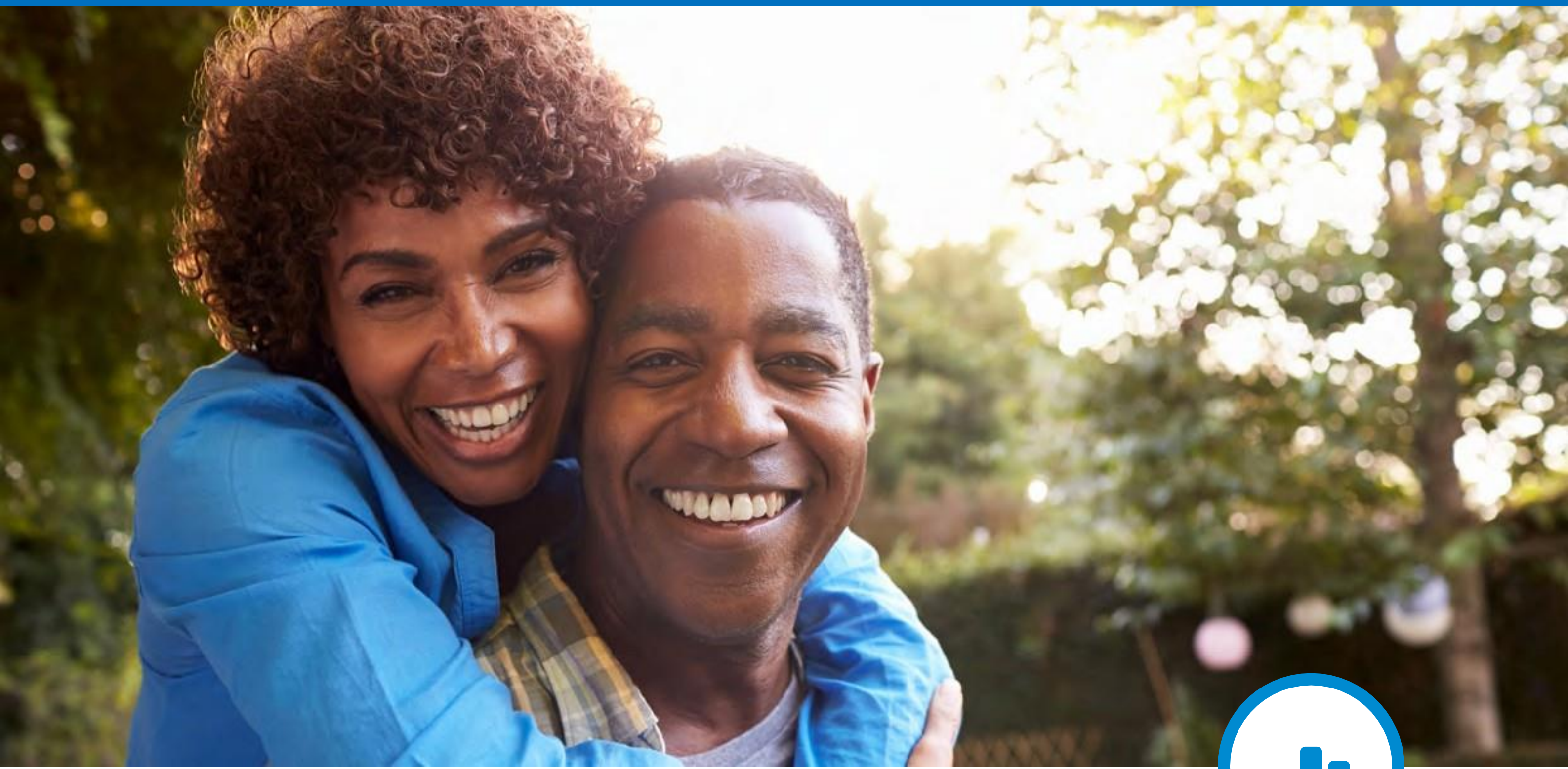
Why the SIM Cash Fund?

The SIM Cash Fund provides capital stability by investing primarily in cash and money market instruments. The portfolio is suited to investors requiring competitive interest with regular income and total capital stability. It is ideal for risk-averse investors, or for investors who are waiting for market volatility or global uncertainty to subside.

The portfolio should produce higher returns than call deposits while interest rates are declining. In rising interest rate environments, these funds will benefit soonest from higher call deposit rates. The portfolio could be considered by investors preferring a cautious, arm's-length approach to money management; investors who require capital security and investors who regard financial security as highly important.



The SIM Cash Fund returned 2.3% for the quarter ended 30 September 2024 and a return of 9.4% for the year. Over the long term, the portfolio has consistently outperformed its benchmark.



Performance summary

30 September 2024 Default Investment Strategy	3 Months	6 months	1 year	3 years	5 years	10 years
Sanlam Stable Bonus Portfolio	2.8%	5.5%	10.6%	9.1%	8.2%	8.5%
CPI*	0.6%	1.8%	4.4%	5.6%	5.0%	4.9%
SIM Cash Fund	2.3%	4.6%	9.4%	7.6%	6.9%	7.4%
STeFI Composite	2.1%	4.2%	8.5%	6.9%	6.1%	6.6%

CPI figures up to 31 August 2024

Macroeconomic commentary

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

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.
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 economics

Global Equities

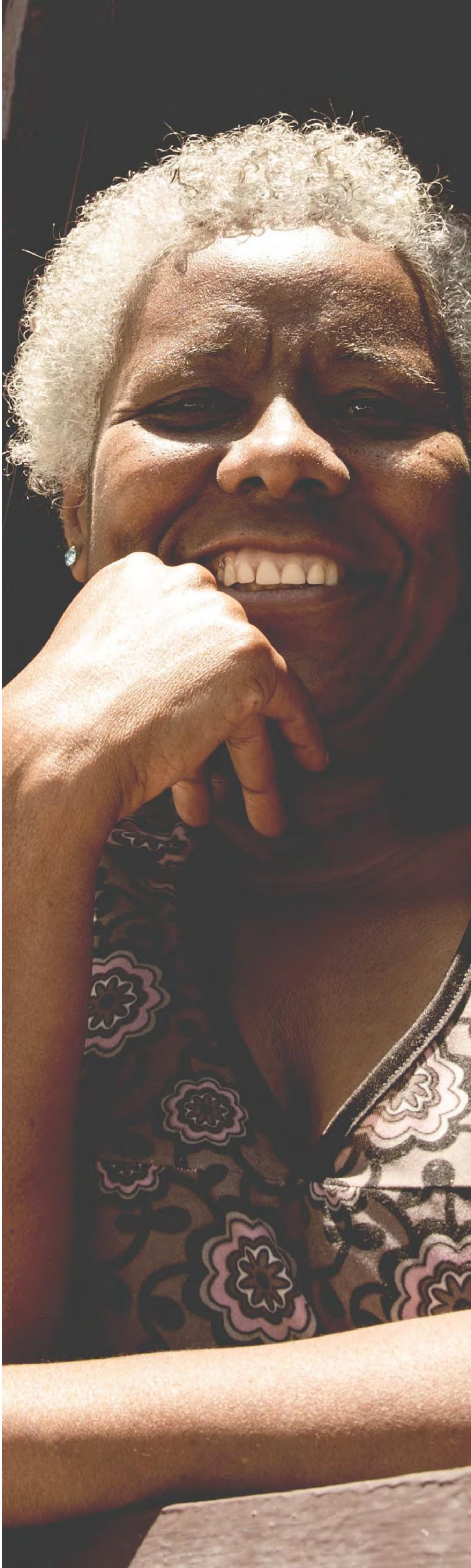
Global equities rallied in the third quarter of the year, supported by central bank actions like the US Federal Reserve's larger-than-expected 50 basis point rate cut, which brought the fed funds rate down to between 4.75% and 5%. The MSCI World Index rose 6.4% in US dollars and 0.4% in rands, dampened 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 an 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 steepener 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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