Sanlam Corporate: Investments

Sanlam Umbrella Fund Protection Strategies

Investment Report

Quarter 4 2024

Contents

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-terms investment losses.

The strategy will most likely result in lower returns than the Lifestage Strategies over the long term as a consequence or the implicit cost 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.

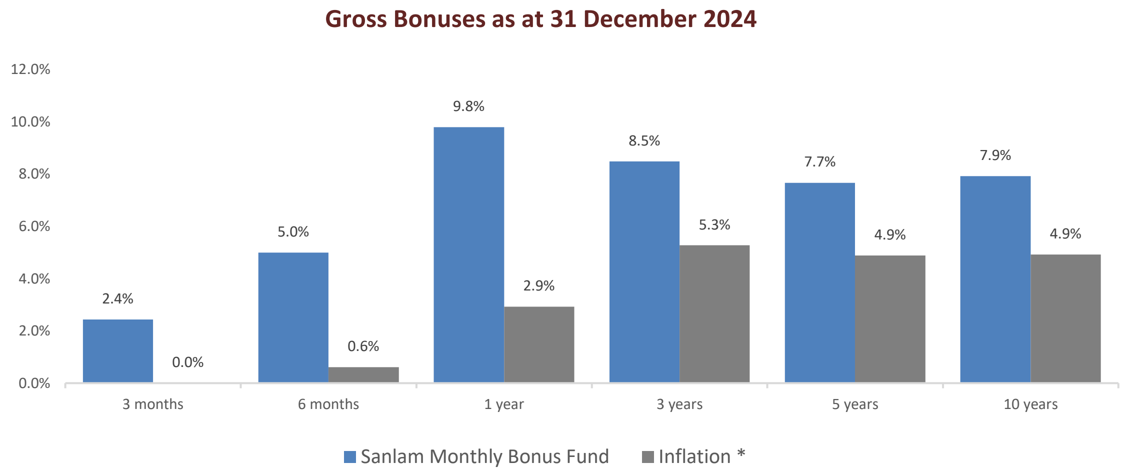
Volatility Protection Strategy

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.

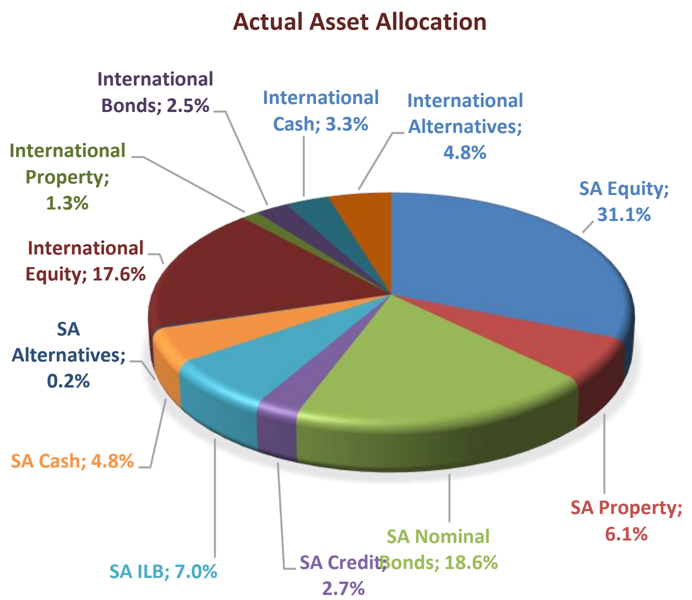
Sanlam Secure Strategy
Sanlam Monthly Bonus Fund

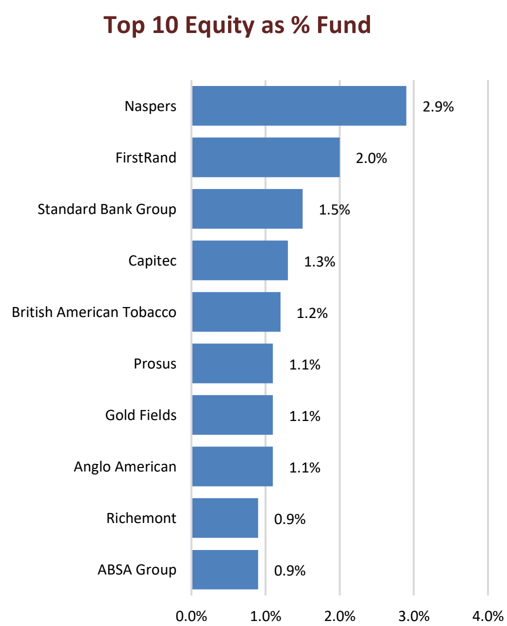


The Sanlam Monthly Bonus Fund returned 2.4% for the quarter and 9.8% for the one year ended 31 December 2024.

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.

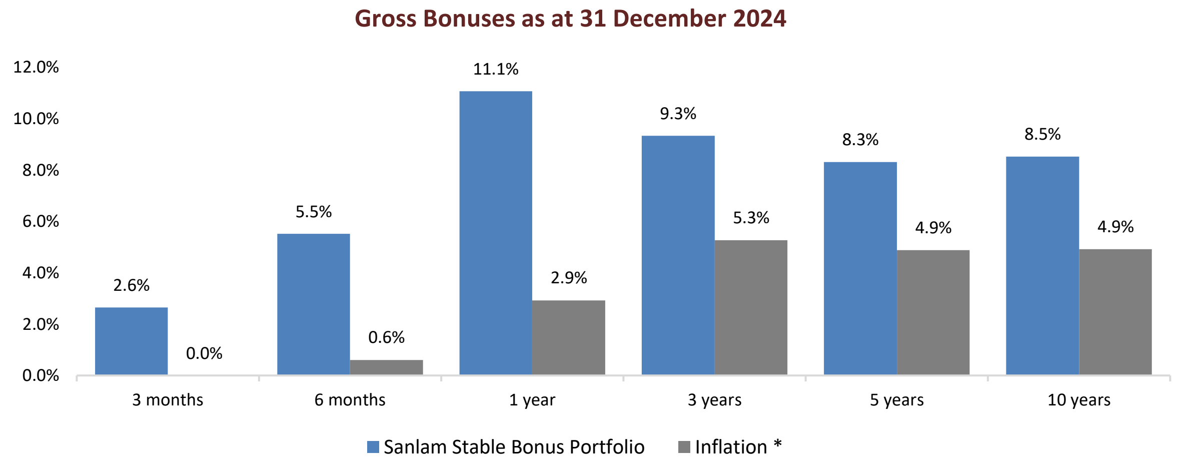
*Inflation is lagged by one month. Gross bonuses net of guarantee charge.





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

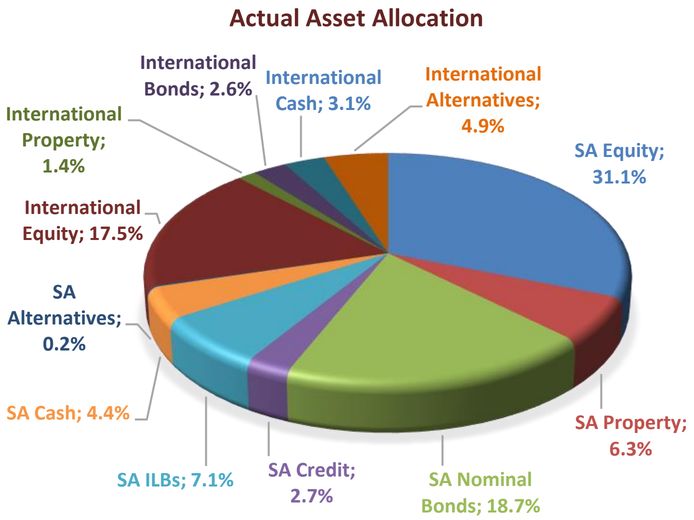
Sanlam Stable Strategy
Sanlam Stable Bonus Portfolio

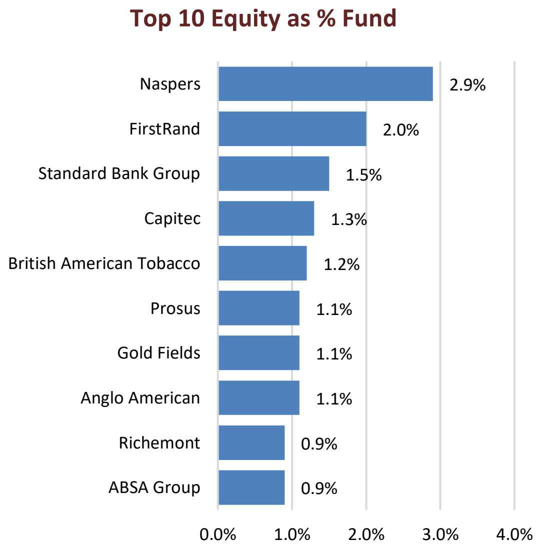


The Sanlam Stable Bonus Portfolio returned 2.6% for the quarter ended 31 December 2024 and a return of 11.1% for the year. Over the long term, the portfolio posted strong inflation beating returns.

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





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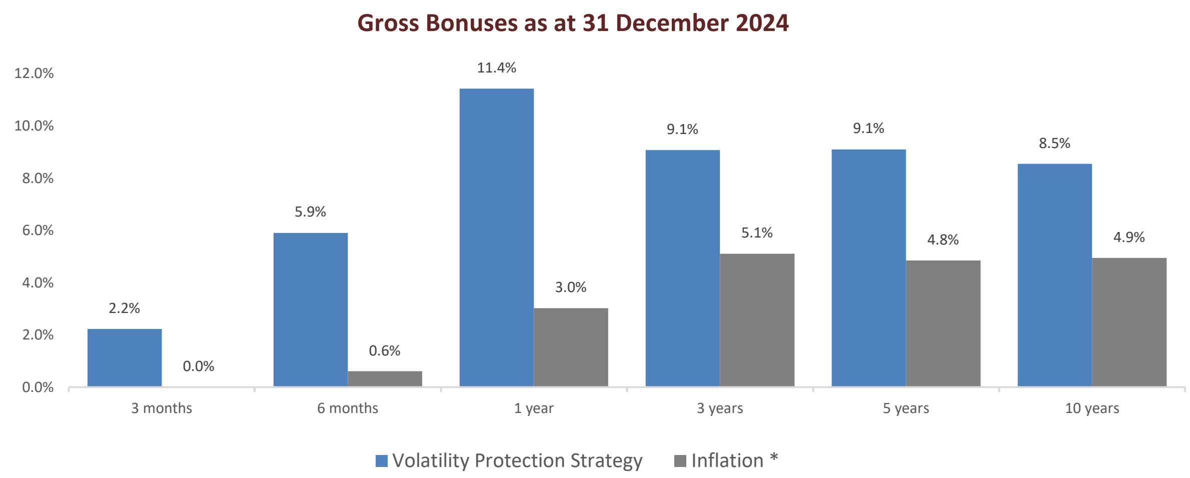
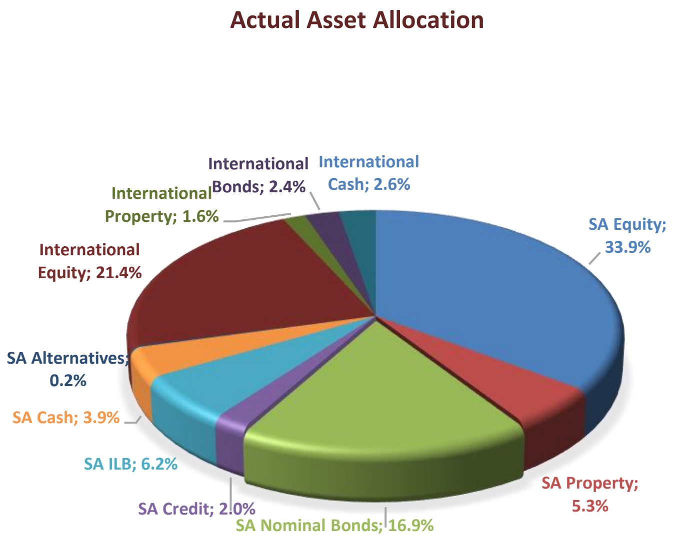
Volatility Protection Strategy

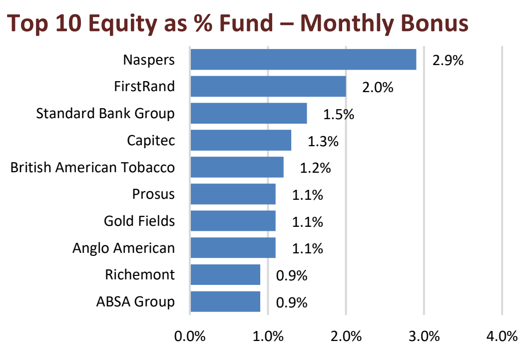


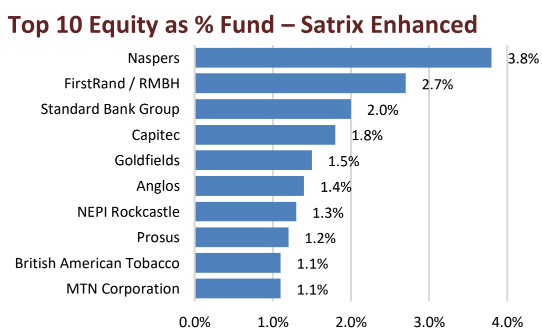
The Volatility Protection Strategy returned 2.2% for the quarter and 11.4% for one year ended 31 December 2024.

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 that a normal balanced fund.

*Inflation is lagged by one month







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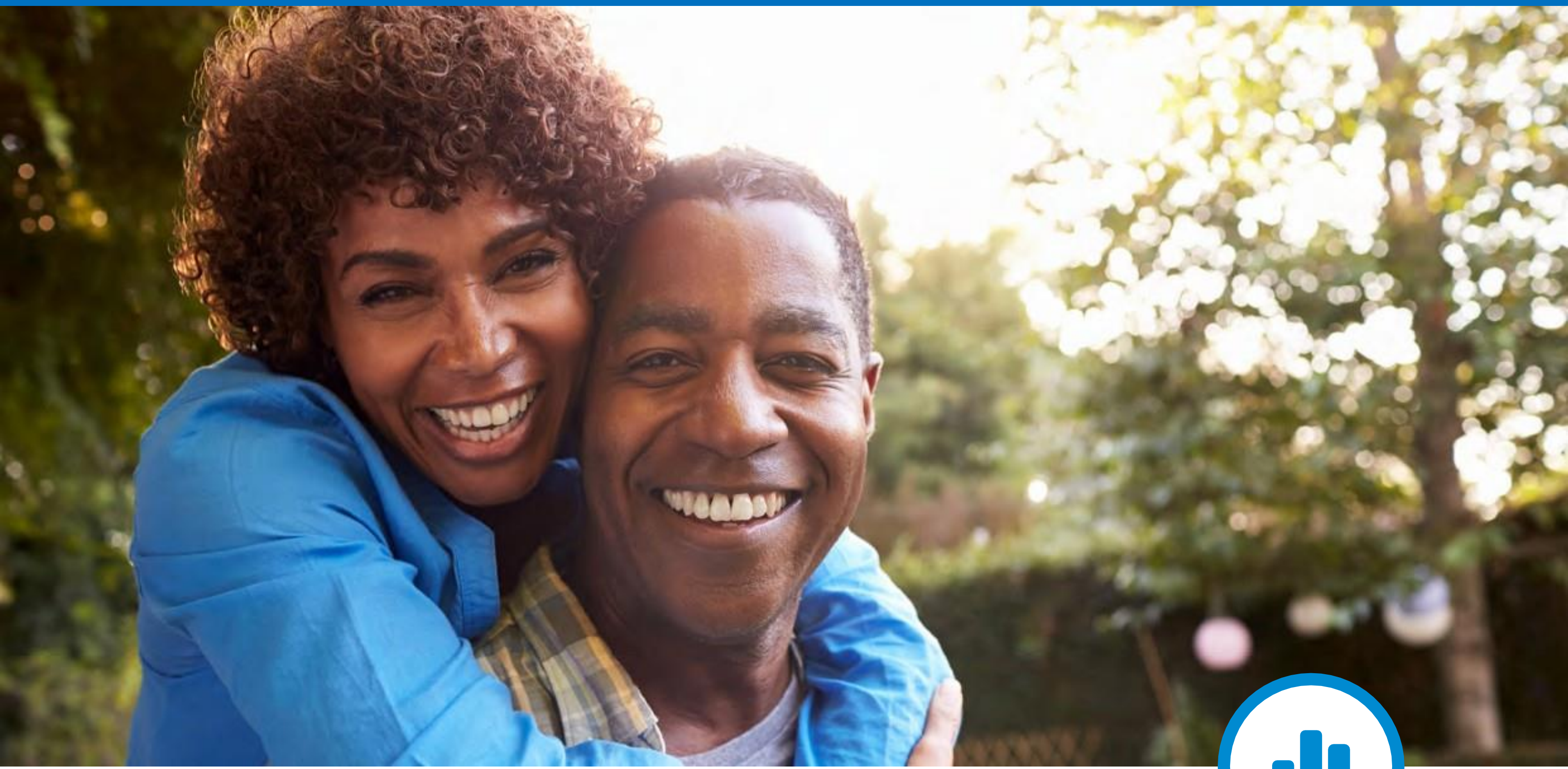

Performance summary

31 December 2024	3 months	YTD	1 year	3 years	5 years	7 years	10 years
Sanlam Secure Strategy							
Sanlam Monthly Bonus Fund*	***2.4%***	***5.0%***	***9.8%***	***8.5%***	***7.7%***	***7.4%***	***7.9%***
CPI**	*0.0%*	*0.6%*	*2.9%*	*5.3%*	*4.9%*	*4.7%*	*4.9%*
Sanlam Stable Strategy							
Sanlam Stable Bonus Portfolio*	***2.6%***	***5.5%***	***11.1%***	***9.3%***	***8.3%***	***8.0%***	***8.5%***
CPI**	*0.0%*	*0.6%*	*2.9%*	*5.3%*	*4.9%*	*4.7%*	*4.9%*
Volatility Protection Strategy							
Volatility Protection Strategy*	***2.2%***	***5.9%***	***11.4%***	***9.1%***	***9.1%***	***8.2%***	***8.5%***
CPI**	*0.0%*	*0.6%*	*3.0%*	*5.1%*	*4.8%*	*4.7%*	*4.9%*

**CPI figures are lagged by one month*
*** Gross Bonuses net of guarantee charge*

Macroeconomic commentary

Highlights

Global

- Hawkish Fed cuts rates 25 basis points but revises dot-plot higher on Trump policies
- US headline and core PCE inflation beat the street
- US-China trade relations deteriorate further on new export restrictions
- China unveils RMB 10 trillion local government debt swap programme

Local

- President Ramaphosa signs into law a 150% tax incentive for electric and hydrogen-powered vehicle manufacturers
- SA's headline and core inflation print lower than expected
- South African Q3 GDP misses estimate on agriculture
- S&P Global Ratings upgrades SA's outlook to "positive" from "stable"

Executive summary

Risk assets sold off in the fourth quarter of the year after stellar gains the previous quarter. The catalysts included sticky US inflation and above-trend economic growth that caused the US Federal Reserve (US Fed) to revise its dot-plot higher. The Fed's revised dot-plot signalled only two 25-basis point rate cuts in 2025, down from four cuts previously expected. The minutes of the Federal Open Market Committee (FOMC) meeting (released in January) showed the shift in sentiment had much to do with the election of Donald Trump as US president. Uncertainty about the policy direction of the new administration and whether it would add to inflationary pressures are at the core of the Fed's concerns. While tax cuts, deregulation and increased government expenditure are expected to be positive for growth and earnings, the forced repatriation of illegal immigrants, coupled with tariff increases, is likely to be inflationary. The bond market agrees.

Bond yields have pushed higher over the quarter, risking an equity market derating as the gap between the US 10-year TIPS yield and the S&P 500's price-to-earnings ratio widens. Even better-than-expected US Personal Consumption Expenditure (PCE) inflation was unable to prevent the equity market sell-off. The rise in bond yields weighed heavily on the global listed property sector as the spectre of higher interest rates caused the sector to derate further on a price-to-book basis.

South African asset classes were also lower in US dollars as contagion spread across markets. Factors that weighed on the domestic equity market included China's failure to announce a major fiscal stimulus, which negatively impacted the resources sector, and the prospect of fewer rate cuts, which weighed on interest rate sensitive stocks.

Global economics

Global Equities

Global equities reversed some gains in the fourth quarter, with the MSCI World Index declining by 0.2% in US dollars, driven by persistent US inflation and above-trend economic growth that led the US Federal Reserve to revise its rate projections higher. Emerging markets were hardest hit, falling 7.8% in US dollars, though rand depreciation softened the blow, resulting in a 0.9% return in rands. In China, the People's Bank of China announced a RMB 10 trillion debt package aimed at repairing municipal balance sheets as a long-term solution rather than injecting immediate liquidity into the economy, disappointing investors and contributing to declines of 5.8% and 5.0% in the CSI 300 and Hang Seng Index, respectively.

The Fed signaled fewer rate cuts in 2025 and slower inflation moderation, with core PCE inflation expected to reach 2% only by 2027. Sentiment was further influenced by the inclusion of "placeholder assumptions" in Federal Reserve forecasts related to Donald Trump's re-election, with potential implications for trade, immigration, and government spending policies. Inflation risks, trade uncertainties, and higher yields, such as the 61-basis point rise in the US 10-year TIPS yield to 2.24%, further weighed on equity markets.

Valuations of developed equity markets are stretched, but real economy indicators suggest that earnings growth is becoming more broad-based and could re-accelerate, particularly in the US. Emerging markets, in turn, will be vulnerable to a strong US dollar but could receive a material boost from a large Chinese fiscal stimulus, expected in March. China's Politburo, ahead of the annual Central Economic Work Conference, announced that China would adopt an "appropriately loose" monetary policy this year, alongside a more proactive fiscal policy, to spur economic growth. But headwinds remain, informing the quantum of emerging market exposure. These include the deterioration in US-China trade relations following fresh export controls on US-made semiconductors and semiconductor-making equipment, with China retaliating through export bans on gallium, germanium, antimony and other "super hard" materials used in the production of semiconductors and electric vehicle batteries.

Global Bonds

The shift in market expectations towards above-trend US growth and sticky core PCE inflation – supporting a shallower rate cutting cycle – weighed on the bond market in the fourth quarter of the year. The yield on the Bloomberg Capital Aggregate Global Bond Index increased by 35 basis points to 3.68%, dragging returns down by 5.1% in US dollars (+3.9% in rands). The yield on the US 10-year bond jumped by an even bigger 74 basis points to 4.57%, while the 10-year TIPS yield increased by 61 basis points to 2.24%. Unsurprisingly, the yield on the Bloomberg Capital Global Government Inflation Linked Bond Index increased by 43 basis points to 1.76%, dragging returns down by 6.3% in US dollars. In contrast, emerging market bonds outperformed their developed market counterparts, yielding -1.5% in US dollars (+7.9% in rands) even as spreads narrowed from 247 to 220 basis points and the emerging market currency basket depreciated by 7.4% against the US dollar.

While fed funds futures were pricing in some 44 basis points of rate cuts at quarter-end, at the time of writing, they were pricing in only 30 basis points of rate cuts this year, after the release of November's US job openings data (JOLTS) and December's US non-farm payroll data (both released in early January).

Global Listed Property

The rise in bond yields weighed heavily on the global listed property sector, as the spectre of higher interest rates caused the sector to derate further in December. The FTSE EPRA Nareit Developed Markets Property Index yielded -9.5% in US dollars (-0.9% in rands) as the price-to-book ratio declined from 1.58X to 1.39X, below the 1.46X mean.

In terms of sector performances, all of the broad sub-sectors – barring data centres (8.1%), regional malls (3.7%) and shopping centres (1.4%) – yielded negative returns. Self-storage (-17.1%), industrial space (-16.7%) and free-standing rentals (-12.8%) brought up the rear. With rate cuts being pared back and long bond yields rising ahead of Trump's 20 January inauguration, the sector could still face some headwinds over the medium term.

Local economics

Local Equities

South African equities also came under selling pressure in the fourth quarter of the year, lagging the returns of their emerging market counterparts. The FTSE/JSE All Share Index declined by 2.1% in rands and 10.6% in US dollars, weighed down by a 9.0% decline in resource stocks. Both precious metals (-9.5%) and industrial metals (-8.0%) stocks detracted from returns following declines in nickel (-11.2%), copper (-10.9%), palladium (-8.9%), platinum (-7.7%), aluminium (-3.6%) and gold (-0.7%). The biggest losers included Kumba Iron Ore (-18.6%), African Rainbow Minerals (-16.9%) and Sibanye-Stillwater (-16.1%). While a reduced number of interest rate cuts weighed on precious metals counters, investor disappointment at China's failure to announce a major fiscal stimulus was another factor weighing on the resources sector. Healthcare (-9.4%) stocks also came under intense selling pressure, with Aspen (-15.5%) and Adcock Ingram (-4.5%) weighing on returns.

Industrials (-5.5%) sold off, led by Bidvest Group (-9.9%), KAP Industrial Holdings (-9.7%) and Reunert (-7.4%), reflecting weak domestic economic growth. Interest rate sensitive sectors yielded negative returns, with financials down 1.2%, led by Ninety One Ltd (-12.3%), Ninety One PLC (-12.2%), HCI (-9.6%) and Standard Bank (-8.5%). Telecom (-0.1%) stocks were dragged lower by Vodacom (-4.8%) and Multichoice Group (-0.9%), while technology (-0.02%) was marginally lower, led by Bytes Technology Group (-16.7%), Prosus (-0.7%) and Naspers (-0.2%). Defensive sectors such as consumer staples (0.8%) yielded positive returns with Premier Group Ltd (30.8%), Tiger Brands (24.0%) and Pick 'n Pay (18.8%) leading the charge. The consumer discretionary (5.1%) sector was the best performing of the broad sectors, benefitting from rallies in WeBuyCars (46.6%), Cashbuild (31.4%) and Pepkor Holdings (20.2%).

Third-quarter GDP fell -0.3% quarter/quarter, missing the 0.4% estimate due to a 28.8% decline in agriculture, forestry and fishing from drought. Since agriculture dragged GDP down by 0.7% quarter/quarter, if it is stripped out of the estimate, GDP growth would have been in line with estimates at 0.4% quarter/quarter. Public-private partnerships are expected to drive infrastructural investment under the Government of National Unity (GNU), accompanied by necessary structural reforms and a new credit guarantee vehicle backed by the World Bank to de-risk private sector projects. This could result in growth exceeding the South African Reserve Bank (SARB)'s 1.7% estimate for this year and 1.8% estimate for 2026, helping to underpin both growth and earnings. In late December, President Ramaphosa signed a 150% tax incentive into law for electric and hydrogen-powered vehicle manufacturers, effective from 1 March 2026 to 1 March 2036, allowing manufacturers to deduct 150% of the cost of buildings and equipment used in production, with conditions for use over five years.

Although hybrid vehicle investments were excluded, three Chinese automakers have already shown interest by signing non-disclosure agreements with the Automotive Business Council, signalling potential new investments. Despite slow growth, consensus earnings estimates rose to 16%, supporting double-digit returns and favourable equity valuations.

Local Bonds

South African bonds faced pressure amid a global bond market rout, with the All Bond Index (ALBI) yielding 0.4% in rands and -8.3% in US dollars over the quarter as yields rose 36 basis points to 10.44% despite inflation beating estimates. Inflation-linked bonds returned 0.8% in rands, with real yields rising from 4.79% to 4.88%, reflecting domestic disinflation. Headline and core inflation increased by 2.9% and 3.7%, below consensus estimates, but the SARB's optimistic forecasts for 2025 face risks from rising international food prices, higher electricity tariffs, and surging oil prices, which climbed from $74.64 to $81 per barrel amid new sanctions on Russia. Coupled with an 8% rand depreciation, these pressures could push food and headline inflation higher, with petrol prices expected to rise by 69c/l in February. Forward rate agreements (FRAs) initially priced in 49 basis points of rate cuts for the year but have since reduced expectations to 27 basis points, while ALBI yields rose to 10.71%.

Local Listed Property

South Africa's listed property sector yielded a negative rand return in the fourth quarter of the year, due to the rise in bond yields. In US dollars, SA listed property performed in line with its global counterpart, yielding -9.4%. The SAPY yielded -0.8% in rands as the sector derated slightly relative to bonds. Dividends per share were 0.8% higher quarter/quarter, while earnings per share were 5.1% higher, suggesting that the derating detracted from returns. The property-to-bond yield ratio eased from 0.53X to 0.54X, still well below the 0.83X mean. While the sector is very expensive relative to bonds, the earnings yield on the SAPY is at 7.1%, not too different from the 7.0% mean, suggesting the sector is largely fairly valued. With bond yields expected to trend lower – although on more subdued interest rate cuts – and inflation to settle at the midpoint of the SARB's target range, listed property stocks are expected to post further gains over the near term. The large gains in listed property stocks over the past year (+29.0%) were due to the geared bond effect following a 79-basis point decline in the yield on the ALBI. The best-performing stocks for the quarter included MAS Real Estate (27.7%), Fairvest Ltd (10.7%) and Attacq (10.1%). The laggards included Sirius Real Estate (-12.2%), Hammerson Plc (-9.2%) and Shaftesbury Capital (-7.4%).

Market performance summary (in ZAR) to 31 December 2024

		3 months	6 months	1 year	3 years	5 years	10 years
Local	Equities (All Share Index)	-2.1%	7.3%	13.4%	8.7%	12.2%	9.0%
	Equities (CAPI)	-2.1%	7.3%	13.4%	8.7%	12.5%	9.0%
	Property	-0.8%	17.7%	29.0%	12.6%	5.1%	3.1%
	Nominal Bonds	0.4%	11.0%	17.2%	10.3%	9.6%	8.7%
	Inflation Linked Bonds	0.8%	5.7%	7.7%	6.3%	7.6%	5.3%
	Cash	2.0%	4.1%	8.5%	7.2%	6.2%	6.7%
International	Equities (MSCI ACWI)	8.4%	9.1%	21.2%	11.5%	16.9%	14.7%
	Equities (MSCI EM)	0.7%	1.8%	6.2%	2.3%	7.1%	8.4%
	Equities (MSCI World)	9.3%	9.7%	22.5%	12.4%	18.0%	15.5%
	Bonds	3.9%	4.9%	1.4%	1.0%	4.1%	5.2%
	Property	-0.7%	8.7%	4.3%	-0.5%	5.0%	7.5%
	Rand vs US Dollar	9.5%	3.3%	3.2%	5.7%	6.2%	5.0%
Equity Sector	Financials	-1.1%	13.0%	23.1%	16.5%	10.5%	7.2%
	Resources	-9.0%	-10.4%	-8.6%	-4.4%	7.0%	7.6%
	Industrials	0.2%	11.9%	18.5%	10.0%	13.5%	8.4%
Size	Small Cap	7.1%	23.7%	35.6%	17.5%	20.8%	9.7%
	Medium Cap	-1.5%	9.2%	15.4%	8.8%	7.3%	6.4%
	Large Cap	-3.4%	4.9%	10.7%	7.9%	12.2%	9.1%

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