



Sanlam Corporate: Investments

Sanlam Passive Lifestage Strategy

Investment Report

**Quarter 4 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 ([Satrux 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



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.



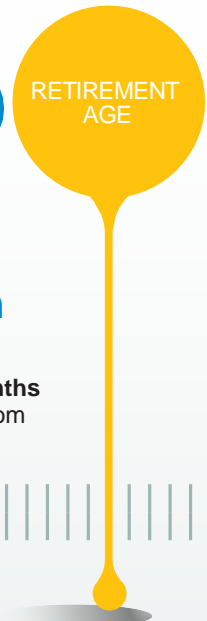
### Systematic automated monthly transition

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



### Preservation phase

All members with **22 months and less remaining** from Retirement Age



#### 50 MONTHLY SWITCHES

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

#### 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..

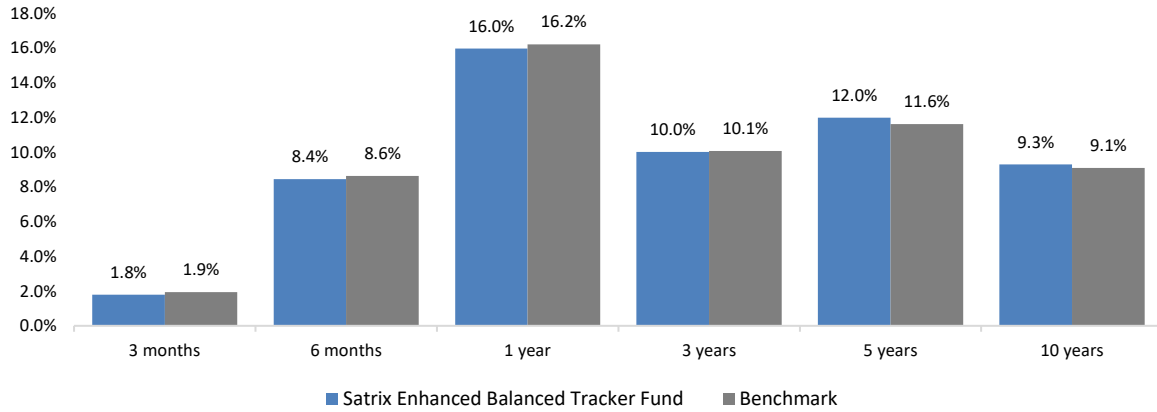
Non-vested bonuses are also declared over and above the vested bonuses. These can be removed in very extreme circumstances though this has never yet occurred since the portfolio's commencement in 1986.

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

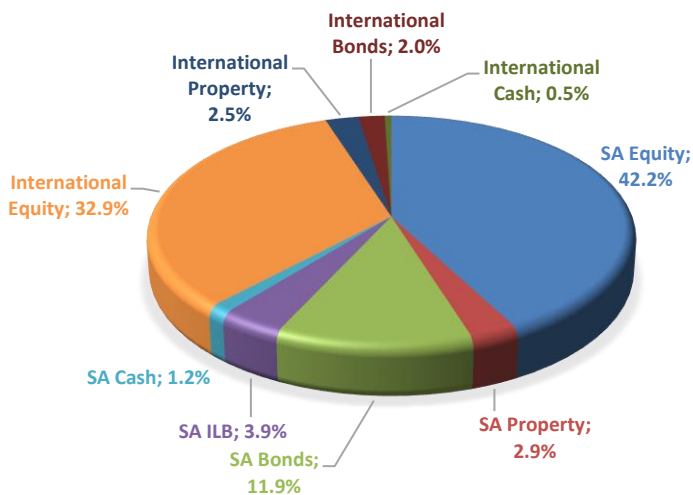
Gross Returns as at 31 December 2024



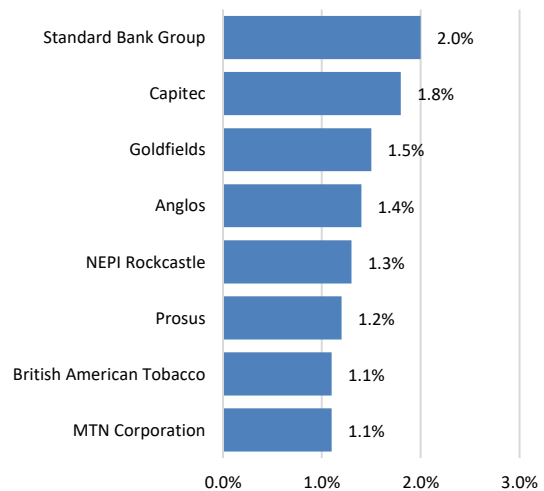
The Satrix Enhanced Balanced Tracker Fund achieved a return of 1.8% in the preceding quarter and a 16.0% return for the calendar year ended 31 December 2024. Correspondingly, its composite benchmark exhibited analogous patterns, registering returns of 1.9% for the quarter and 16.2% for the year ended 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



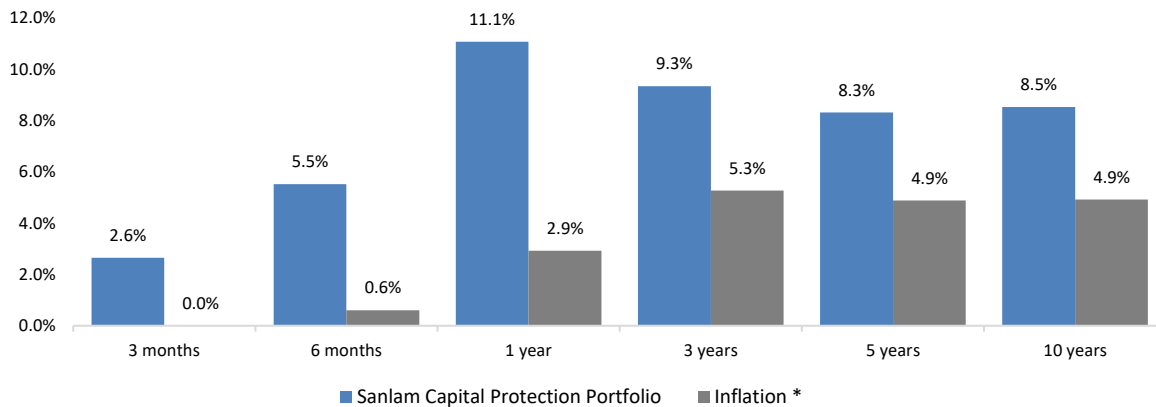
Looking at the current composition of the portfolio, the overweight positions are in SA Equity, International Equity, SA Nominal Bonds, and International Cash. The portfolio has a neutral positions in International Bonds. The portfolio is relatively underweighted in SA Property, International Equity,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



# Preservation phase portfolio

## Sanlam Capital Protection Portfolio

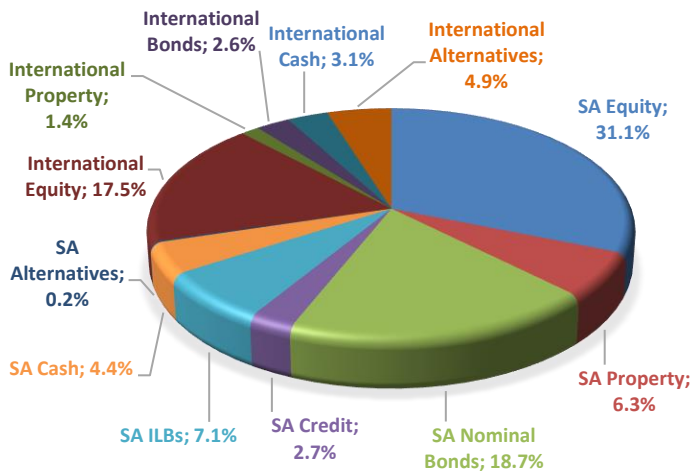
Gross Bonuses as at 31 December 2024



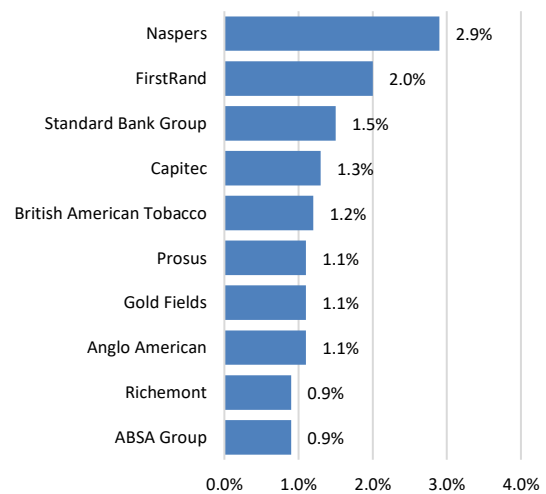
The preservation phase portfolio of the strategy continues to deliver stable, dependable positive returns for investors. Over the fourth quarter of 2024, the Sanlam Capital Protection Portfolio gave investors a return of 2.6% and a return of 11.1% for the year. Over the long term, the portfolio posted 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 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 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.



# Performance Summary

31 December 2024	3 months	6 months	1 year	3 years	5 years	7 years	10 years
<b>Accumulation Phase</b>							
<b>Sanlam Passive Lifestage</b>							
<b>Satrix Enhanced Balanced Tracker Fund</b>	<b>1.8%</b>	<b>8.4%</b>	<b>16.0%</b>	<b>10.0%</b>	<b>12.0%</b>	<b>9.2%</b>	<b>9.3%</b>
Benchmark	1.9%	8.6%	16.2%	10.1%	11.6%	9.0%	9.1%
<b>Preservation Phase</b>							
<b>Capital Protection Portfolio*</b>	<b>2.6%</b>	<b>5.5%</b>	<b>11.1%</b>	<b>9.3%</b>	<b>8.3%</b>	<b>8.0%</b>	<b>8.5%</b>
CPI**	0.0%	0.6%	2.9%	5.3%	4.9%	4.7%	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

## 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 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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