



Sanlam Employee Benefits Investments

Lifestage Report

Quarter 3 2019

Insurance

Financial Planning

Retirement

Investments

Wealth

Contents

Overview of the Sanlam Lifestage solution	1
Investment Portfolios offered in Sanlam Lifestage	4
Macroeconomic commentary	6
Economic Performance Summary	10
Portfolio Commentary – Quarter ending September 2019	11
Performance summary	12
Fund Fact Sheets	13
Contact Details	17

Overview of the Sanlam Lifestage solution



Sanlam Lifestage aims to meet a member's retirement savings requirement in a single seamless investment solution.

The product is designed to adapt to the time remaining for the member to retire, and to invest member's funds according to their risk appetite. Our solution is specially designed to meet member's income needs after retirement, this is done by investing member's funds in a preservation portfolio that is suitable for the member's annuity choice during retirement.





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.

As retirement approaches, member's savings are automatically switched to a preservation phase. A preservation phase protects a member against the specific risks inherent in the purchase of the particular annuity that the member is targeting to obtain an income in retirement.

Lifestage Solution



01

6 YEARS FROM RETIREMENT AGE

Accumulation phase

All members **more than 6 years** from Retirement Age

GROWTH

The Accumulation Portfolio aims to provide market-related capital growth to members (more than six years from retirement) who need to grow their retirement savings

Sanlam
Lifestage
Accumulation
Portfolio



As members may employ a range of different income strategies at retirement, three Sanlam Lifestage Preservation Portfolios are available, each designed to align capital to an income strategy for an almost seamless transition into retirement. Should the member not make a choice of their preservation portfolio, their funds will automatically be invested in the default preservation portfolio, the Sanlam Capital Protection Preservation Portfolio.

Transition from the accumulation phase to the preservation phase takes place by means of 50 monthly switches, starting 6 years prior to retirement.

This is essential to reduce market timing risk. The transitioning switches that shift exposure from the Sanlam Lifestage Accumulation Portfolio to the Sanlam Lifestage Preservation Portfolios are calculated and implemented monthly based on the actual age of the member. A member may plan to retire earlier than the normal retirement age determined by their employer, if this is allowed by their retirement fund. In such cases, planned retirement dates instead of normal retirement ages can be used to determine the timing of the transitioning process. This is done at no additional cost to the member.



02 Systematic automated monthly transition

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



03 Preservation phase

All members **22 months and less** 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 Lifestage Capital Protection Preservation Portfolio
- Sanlam Lifestage Investment-linked Living Annuity (ILLA) Preservation Portfolio
- Sanlam Lifestage Inflation-linked Preservation Portfolio

- > Suitable for purchasing a guaranteed annuity
- > Suitable for purchasing an investment-linked living annuity
- > Suitable for purchasing an inflation-linked annuity

Investment Portfolios offered in Sanlam Lifestage



Accumulation Phase

Sanlam Lifestage Accumulation Portfolio

The Sanlam Lifestage Accumulation Portfolio aims to provide market - related capital growth to members who are more than six years away from retirement and who need to grow their retirement savings.

The portfolio is a multi-managed portfolio which allocates assets across equities, bonds, property and cash. A core - satellite investment strategy is generally employed whereby the core is a low-cost index- tracking strategy, around which the satellite managers aim for active returns through the out - performance of their respective benchmarks.

The fund is an aggressive portfolio displaying high levels of volatility over the short-term and aims to provide market - related growth.





Preservation Phase

Capital Protection Preservation Portfolio

The Sanlam Lifestage Capital Protection Preservation Portfolio invests fully in the Sanlam Stable Bonus Portfolio. The portfolio aims to protect the invested capital by providing investors with exposure to investment markets, while protecting them against adverse market movements.

This is achieved by smoothing the returns over time and offering capital protection on the capital invested together with the vested bonuses in case of resignation, retirement, death, retrenchment or disability. A bonus is declared monthly in advance, and consists of a vesting and non-vesting component. Bonuses cannot be negative.

The Capital Protection Preservation Portfolio has a conservative risk profile and is appropriate for a member wishing to purchase a guaranteed annuity at retirement, or one uncertain on which annuitisation strategy they wish to employ at retirement

Inflation-linked Preservation Portfolio

The Sanlam Lifestage Inflation-linked Preservation Portfolio aims to provide members nearing retirement with the ability to buy a post-retirement income that will grow in line with inflation after retirement. As such, the value of the investment portfolio may fluctuate when interest rates rise or fall, as it aims to match the movement in purchasing prices of inflation - linked annuities rather than protect or maximise growth of capital in the short-term.

The portfolio, with its conservative risk profile, invests in a long-duration bond portfolio, the Sanlam Employee Benefit Inflation Annuity Tracker Portfolio, where the benchmark is the SALI Real. The SALI Real Index has been developed by Sanlam to track the cost of purchasing an inflation - linked annuity.

Investment-linked Living Annuity (ILLA) Preservation Portfolio

The Sanlam Lifestage Investment-linked Living Annuity (ILLA) Preservation Portfolio aims to provide moderate market growth. The portfolio, with its moderate risk profile, allocates its assets across equities, bonds, property and cash.

A core-satellite investment strategy is generally employed where the core is a low-cost index-tracking strategy, around which the satellite managers aim for active returns through the outperformance of their respective benchmarks.

This portfolio is suitable for members who want to invest in an investment-linked living annuity at retirement.

Macroeconomic commentary



Global economics

Global Equities

Global equities gained a subdued 0.5% in USDs and 8.1% in rands during the quarter as volatile investor sentiment weighed on returns. Global recession fears, geopolitical uncertainty and an intensification of the US-China trade war, all battled for supremacy against more accommodative Central Bank monetary policy.

On the geopolitical front, the passage of the Benn Act helped allay fears of a no-deal Brexit, bringing potential closure to a saga that has raged on for three years. Emerging market equities had a tougher ride despite rate cuts from Turkey, Russia and South Africa.

Highlights

Global

- US Fed cuts rates by a cumulative 50 basis points in Q3; markets expect another 75 bps before 2020 year-end
- European Central Bank cuts rates by 10 bps and signals a restart of Quantitative Easing(QE) in November
- US-China trade talks ongoing
- UK parliament votes against a “no-deal” Brexit (the Benn Act)
- EU Brexit Summit is scheduled for 17/18 October
- China cuts its reserve requirement ratios (RRR) by a further 50 bps to 13%, a USD126bn stimulus
- Argentina imposes capital controls as currency slumps

Local

- Treasury releases SA economic strategy document for comment
- SA avoids a technical recession in Q2 2019, but the outlook for Q3 remains weak
- SARB cuts rates by 25 bps in Q3
- The Integrated Resource Plan (IRP) and Eskom’s White Paper to be released before MTBPS

The MSCI Emerging Markets Index declined some 4.2% in USDs but gained 3.1% in rands, courtesy of a 7% depreciation in the rand/USD exchange rate.

Monetary accommodation received a boost from two cumulative 25 basis point Fed rate cuts and expectations that the Fed would cut rates by a further 75 basis points before the end of 2020. However, fears of a global recession are elevated with the New York Fed’s 12-month probability indicator pointing to a 38% chance of a US recession in the next 12 months, pressure is mounting on policy makers to find a solution to the impasse.

While trade wars have been the catalyst for a global manufacturing recession, the ongoing expansion in the services sectors (albeit slowing) suggests that a full-blown recession could still be averted. The European Central Bank (ECB), for its part, cut rates by some 10 basis points to -0.5%, and signalled its intension of restarting QE to the tune of Euro20 billion per month, beginning in November.

However, critics of negative interest rates argue that they are a risk to pension funds (defined benefit funds) as liabilities surge on low interest rates (the discount rate), prompting pension funds to abandon liability hedging strategies in favour of more risk-on strategies. The Chinese Central Bank, in turn, cut the banks' required reserve ratios (RRR) by 50 basis points to 13% (a USD126 billion stimulus) with further rate cuts and additional fiscal stimulus expected over the coming months as growth slows.

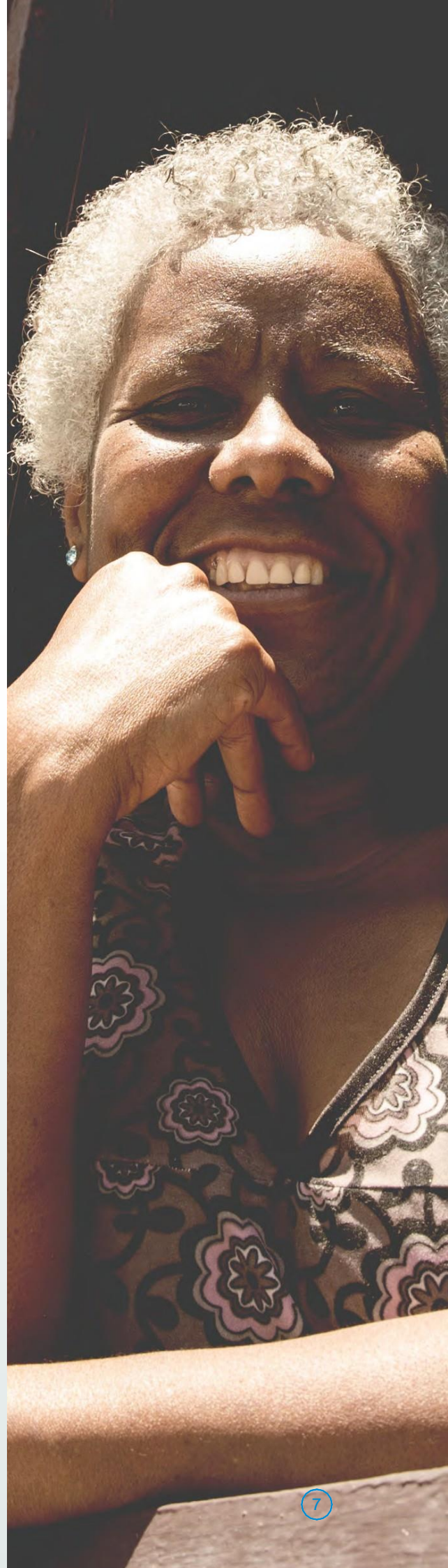
Uncertainty about a no-deal Brexit eased somewhat in September as the UK parliament passed the Benn Act, effectively preventing Boris Johnson from leaving the European Union (EU) on 31 October without a deal. Although an extension to the deadline (to 31 January 2020) was proposed to give the prime minister more time to cobble together a deal, EU member states would still need to agree to the extension or approve a revised plan. In terms of the partnership, EU tariffs and laws would apply to Ireland with the UK tasked with collecting taxes/revenue on behalf of the EU. If this last-ditch effort fails, the likelihood then is that Article 50 would need to be revoked, with the UK continuing to remain part of the EU.

In assessing the outlook for equities over the coming year, our base case view is that the US will continue to cut rates, paving the way for other central bankers to follow suite. The more accommodative monetary environment, coupled with fiscal expansion in Germany and China, is expected to help avert a recession. Over the near term (3 to 6 months), developed equity markets are expected to outperform, whereas over the medium term (6 to 12 months), emerging market equities are expected to outperform

Global Bonds

Global bonds outperformed their risky counterparts in the third quarter, as recession fears and an intensification of the US-China trade war outweighed the positive effects of central bank monetary accommodation. The JP Morgan Global Aggregate Total Return Index returned some 1.2% in USDs and 8.8% in rands, as the yield on the index decreased from 1.61% to 1.36%. Although the global aggregate index shows yields in positive territory, over USD14trillion worth of bonds are currently offering negative yields, a figure that is expected to rise as the Fed and ECB cut rates further and the ECB extends its QE programme indefinitely.

Emerging market bonds did not fare so well, declining some 1.7% in USDs even as spreads narrowed to 399 basis points from 406 basis points at the end of Q2. A 4.1% depreciation in emerging market currencies accounted for the disappointing USD returns, the bulk of which can be attributed to President's Mauricio Macri's primary election defeat that gave rise to fears that the country would abandon its market-friendly policies in favour of more socialist/populist policies.



Global inflation-linkers outperformed their sovereign counterparts in the third quarter, yielding 1.7% in USDs and 9.4% in rands. In September, however, the tide turned with inflation-linkers giving back some of their earlier gains. Global corporate bonds tracked their sovereign counterparts higher, yielding 1.2% in USDs and 8.8% in rands. Global listed property benefitted from the lower interest rate environment with the EPRA/NAREIT Developed Property Market Index yielding 4.9% in USDs and 12.8% in rands, the best performing of the broad asset classes. Expectations that the US Fed would avert a prolonged inversion in the yield curve, and that consumption expenditure would remain supportive of growth, given low unemployment rates and real income growth, helped the sector rerate on a price-to-book basis.



Local economics

Local Equities

Local equities were the worst performing of the broad asset classes in the third quarter, yielding a disappointing -4.6% in rands and -11.3% in USDs. Factors contributing to the disappointing returns included net foreign sales of domestic equities, totaling a staggering R44.9 billion, the signing of the National Credit Amendment Bill into law, the adoption of the National Health Insurance Bill as official government policy, and the sharp decline in business confidence to multi-decade lows.

The decline in the RMB/BER Business Confidence Index to a 20-year low and the SACCI's Business Confidence index to its lowest level since April 1985, all weighed on sentiment. The timing of the releases could not have come at a better time, following the Treasury's release in late August of its economic transformation document.

In late August, the Treasury released its economic transformation document. The SACP and Cosatu widely rejected the Treasury's proposals, citing job losses as the primary reason. In contrast, President Ramaphosa supported some of the recommendations, albeit not the most important ones. Eskom's jewels, Medupi and Kusile, would not be sold off, despite their build defects. If any changes in SOE ownership were to occur, primacy would have to be given to worker and social ownership (i.e. co-operative ownership).

President Cyril Ramaphosa made reference to selling a stake in SAA, suggesting there may be an interest in the airline from an external investor. Tito Mboweni's idea of allowing the private sector to help run trains and ports was also jettisoned, despite Transnet's rail network being old and slow and the country's ports inefficient.

The MPC's decision to leave rates unchanged at the September meeting, following the 25 basis point cut in July, was based on a largely unchanged inflation outlook, although upside risks to inflation were expected from fuel, electricity and water prices. Eskom's legal challenge to NERSA's tariff determination is a headwind for inflation, should the courts find that the R69 billion allocated to Eskom in the February budget should not have been included in the utility's revenue determination. Tariff escalations could therefore be adjusted upwards by +/- 10%, posing a further headwind for consumption expenditure in 2020. Eskom's pricing model for households and corporate users could also change to include a sharp rise in the fixed cost recovery tariff and lower usage tariffs in order to shore up revenue. This will again have negative consequences for consumption.

Despite the lost opportunity to effect policy reforms as highlighted by the National Treasury's economic transformation document, domestic equity market valuations are attractive, with the All Share Index trading on a rolling forward price-to-earnings ratio of some 10.1X.



Local Bonds

Local bonds underperformed their developed and emerging market counterparts in the third quarter, yielding 0.7% in rands but a woeful -6.3% in US Dollars. The yield on the All Bond Index increased from 9.25% to 9.47% even as inflation remained contained at 4.3%, below the South African Reserve Bank's (SARB) mid-point target range of 4.5%. Net foreign sales of domestic bonds totaling R29.8 billion, a deterioration in the country's fiscal position following more SOE bail-outs and the MPC's decision to leave rates unchanged at the September meeting, all accounted for the lacklustre returns. The tabling of the Special Appropriation Bill allocated a further R59 billion to Eskom over the next two years which was in addition to the R69 billion allocated to Eskom in the February budget. Coupled with expectations of revenue shortfalls (R50bn), fuelled by lower-than-budgeted economic growth and an unrealistic tax buoyancy assumption of 1.31X (ratio of tax revenue to nominal GDP), the fiscal deficit for the current financial year is expected to increase to over 6% of GDP, well ahead of the 4.5% budgeted for in the current year.

Even though nominal bonds are currently yielding around 5% in real terms and justify an overweight position in portfolios, there are a number of headwinds in October and November that could still derail bonds. Given government's stated reluctance to consider selling off Eskom assets, including its defect-ridden Medupi and Kusile, restructuring the debt would require climate change funding, possibly from the World Bank, in return for achieving set targets for the reduction of coal usage.

The Treasury has stated that it would like to see expenditure cut by 6% on average over the next three years or that a wage freeze on public servants could be considered. This would be difficult to achieve as a push-back from unions is a certainty. Inflation-linked bonds barely squeezed out positive returns over the quarter, given a benign inflation-carry. The Barclays Capital Inflation-linked Bond Index gained 0.1% in rands as real yields increased from 3.31% to 3.51%.

Domestic listed property lagged its global counterparts to yield a poor -4.4% in rands and -11.1% in USDs, as the sector derated over the month. The property-to-bond yield ratio increased from 1.03X to 1.045X, levels last seen as far back as 2009. A weak near-term growth outlook, expectations of additional consumer stress, rising unemployment and higher taxes (both direct and indirect) are some of the headwinds the sector has faced.

Economic performance summary to September 2019

Asset Class Specific	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
All Share Index (ALSI)	-4.6%	7.1%	1.9%	5.1%	5.3%	11.5%
Shareholder Weighted Index (SWIX)	-4.3%	4.3%	0.2%	2.6%	4.6%	11.5%
Capped SWIX	-5.1%	1.4%	-2.4%	1.0%	3.4%	N/A
All Bond Index (ALBI)	0.7%	8.4%	11.4%	8.9%	8.3%	8.8%
Property (SAPY)	-4.4%	1.3%	-2.7%	-3.5%	3.2%	11.2%
STEFI Composite	1.8%	5.5%	7.3%	7.4%	7.1%	6.5%
MSCI World Index (Rand)	8.1%	24.0%	9.1%	13.9%	13.7%	16.8%
JP Morgan Global Agg	8.8%	12.3%	16.5%	4.6%	8.3%	9.3%
RAND vs US\$	7.5%	5.4%	7.1%	3.4%	6.0%	7.2%

SA Equity Sector Specific	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
Financials	-6.8%	-2.1%	-4.2%	3.5%	5.5%	12.7%
Resources	-6.4%	13.0%	7.9%	15.0%	1.0%	3.6%
Industrials	-2.5%	8.9%	1.8%	1.6%	4.9%	14.8%

SA Equity Size Specific	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
Small Cap	-3.2%	-4.8%	-11.8%	-5.6%	0.7%	9.9%
Medium Cap	-1.8%	2.4%	5.1%	0.1%	4.8%	11.4%
Large Cap	-5.2%	7.5%	1.9%	5.6%	5.1%	11.3%

Portfolio Commentary

Quarter ending September 2019



Sanlam Lifestage Accumulation and ILLA Preservation Portfolios

The Lifestage Accumulation portfolio and Lifestage ILLA Preservation have outperformed their benchmarks over the quarter by 0.36% and 0.41% respectively despite global recession fears, geopolitical uncertainty and an intensification of the US-China trade war. Domestically cash was king as the market's focus shifted to the luke-warm reception of Treasury's economic transformation document received, the expected release of the Eskom White Paper detailing the utility's financial restructuring and the tabling of the Medium Term Budget Policy Statement (MTBPS).

Within the manager selection portion the best performer was the equity blend, this was because of the core and value portions of the blend doing well. The other managers to contribute positively to performance were the SA Property, SA Bonds and SA Cash along with the International Equity managers (excluding Africa and Emerging Markets managers).

On the asset allocation side, Offshore Africa Equity, and Offshore Emerging Equity were a positive contributor as EM's had a good performance over the quarter along with a depreciation of the Rand. International Cash was also another asset class to contribute from the 7% Rand depreciation against the dollar over the quarter. Locally the asset allocation to SA Hedge Funds, SA Equity and SA Property contributed to the funds' performance.

Looking at the current positioning of the portfolio, the overweight's are Offshore Africa Equity, Offshore Emerging Equity, International Equity assets and locally SA Cash, SA Hedge. The underweight positions in the portfolio are SA Equity, SA Bonds, SA Property, SA ILBs and International Bonds.

Sanlam Lifestage Capital Protection Preservation Portfolio

The market performance during the third quarter was negative due to a variety of factors. The portfolio remained resilient during this time by delivering a handsome 8.9% over a five year period. The portfolio remains slightly underfunded, and continues to strike a balance between two often conflicting objectives: downside protection (through smoothing and guarantees) and investment growth.

Sanlam Lifestage Inflation Linked Preservation Portfolio

The portfolio aims to closely match movements in its benchmark index, the SALI Real. This index tracks the changes in the cost of an inflation linked annuity caused by changes in real interest rates. The portfolio therefore aims to preserve a member's ability to purchase an inflation linked annuity. As at 30 September 2019, the portfolio has consistently outperformed its benchmark, thus preserving the purchasing power of individuals to purchase an inflation linked annuity upon retirement.



Performance summary

Sanlam Lifestage to 30 September 2019	3 Months	YTD	1 Year	3 Years	5 Years
Accumulation Phase					
Accumulation Portfolio	-0.2%	8.9%	4.2%	5.2%	6.1%
Benchmark	-0.5%	8.3%	4.2%	5.2%	6.9%
Preservation Phase					
Capital Protection Preservation*	1.8%	5.1%	6.8%	7.7%	8.9%
Inflation-Linked Preservation Portfolio	0.6%	4.3%	4.9%	1.7%	3.6%
Benchmark	-0.5%	2.4%	2.0%	0.0%	2.6%
ILLA Preservation Portfolio	0.5%	8.3%	5.6%	6.0%	7.1%
Benchmark	0.0%	7.9%	5.8%	5.4%	6.8%

* The Capital Protection Preservation Portfolio does not have an explicit benchmark.

call us[®]



Darryl Moodley
Sanlam Employee Benefits Investments
+27 (21) 950 2088
Darryl.moodley@sanlam.co.za

Bethuel Korase
Sanlam Employee Benefits Investments
+21 (21) 950 2536
Bethuel.korase@sanlam.co.za

Disclaimer

Sanlam Life Insurance Ltd is an authorised financial services provider.

This survey is for the use of Sanlam and its clients only and may not be published externally without permission first obtained from Sanlam. While all reasonable attempts are made to ensure the accuracy of the information, neither Sanlam nor any of its subsidiaries makes any express or implied warranty as to the accuracy of the information. Past performance is not necessarily a guide to future returns. Investment returns can be positive or negative. The material is meant to provide general information only and not intended to constitute accounting, tax, investment, legal or other professional advice or services. This information should not be acted on without first obtaining appropriate professional advice. The use of this document and the information it contains is at your own risk and neither Sanlam nor any of its subsidiaries shall be responsible or liable for any loss, damage (direct or indirect) or expense of any nature whatsoever and howsoever arising.



2 Strand Road, Bellville, Cape Town | PO Box 1, Sanlamhof 7532, South Africa

Sanlam Life Insurance Limited Reg no: 1998/021121/06. Licensed Financial Services Provider.

T +27 (0)21 947 9111

F +27 (0)21 947 8066

www.sanlam.co.za

