Sanlam

Sanlam Corporate

Sanlam Bonus Portfolios'
Quarterly report as at 31/12/2023

Financial Planning | Retirement | Insurance | Health | Investments | Wealth | Credit

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Sanlam's commitment to transforming the financial services sector

Danie van Zyl
Head: Smooth Bonus Centre of Excellence
Sanlam Corporate: Investments

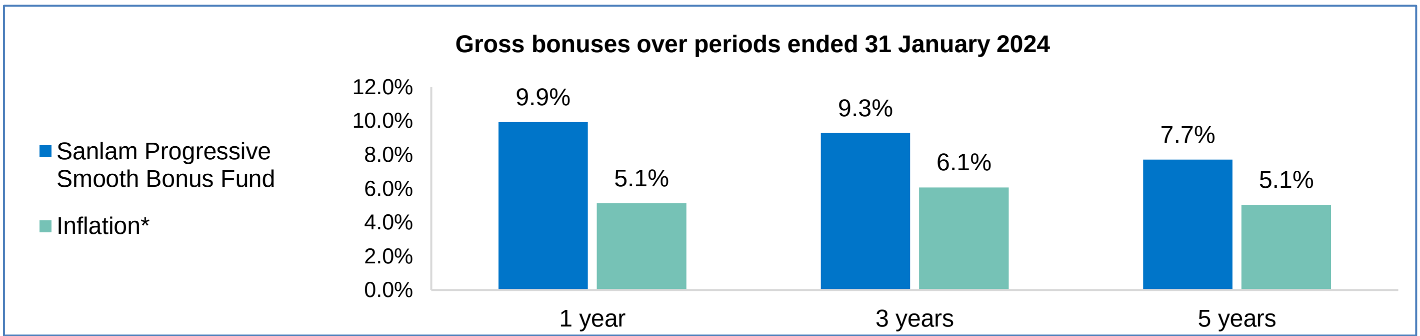
Sanlam, as a purpose-led company, seeks to empower generations of South Africans to be financially confident, secure and prosperous. Our commitment to transformation is informed by the universal insight that everyone deserves an equal chance and opportunity to live a better life. Our grounding and history in South Africa has exposed us to the reality that it is impossible to transform economies without dealing with the underlying systemic social challenges, including redressing past injustices.

As part of our commitment to prioritizing empowerment as both a business goal and a national economic necessity, Sanlam partnered with various smaller black asset managers during 2017 to launch South Africa's first black-managed smoothed bonus product. The Progressive Smooth Bonus Fund's assets are allocated to black fund managers through a multi-managed mandate while the smoothing and capital guarantee is provided by Sanlam. As South Africa's only smoothed bonus fund truly managed by black asset managers, the product was created for progressive clients who value the economic empowerment of black asset management firms and seek smoothing and guarantees in investment products. Since its launch in 2017, we have successfully invested more than R2.5bn with black South African asset managers.

In selecting the best managers to manage the underlying assets in the portfolio, we actively seek managers who meet the following triple criteria: being majority black owned, majority black managed and where the majority of investment professionals are black South Africans.

Since inception the Progressive Smooth Bonus Fund has consistently outperformed inflation without providing a single month with a negative return for investors – not even during the Covid induced crash of March 2020.

Sanlam Progressive Smooth Bonus Fund



* Inflation lagged by one month

Real Returns	1 year	3 years	5 years
Sanlam Progressive Smooth Bonus Fund	4.8%	3.2%	2.6%
Number of months with a negative return	0	0	0

In uncertain financial times, it's imperative to develop responsive products that adapt to the shifting requirements of the market while still fostering long-term goals. Retirement funds have a key role to play in transforming South Africa's asset management industry. Now, funds can be invested across multiple black asset managers with the confidence provided by the smoothing and investment guarantees provided by Sanlam. This is progressive empowerment made real.

Room for thought …

By **Tinotenda Mtemeri**
Head of Distribution
Sanlam Investments

Financial markets

2023 was a very challenging year for the investment management industry globally, particularly for active managers who have experienced significant net outflows. Capital markets have been very volatile, and clients have been less inclined to invest in higher-risk assets given short-term interest rates are high following quite aggressive hikes from central banks globally since late 2021. This has meant that there has been leakage from the investment industry as investors have found refuge in bank deposits, which are offering compelling returns currently and are perceived to be less risky by the average investor. The good news for investment managers is that indications are that we are closer to the top of the interest rate hiking cycle and inflation numbers are starting to subside, which may see interest rate cuts soon and subsequently encourage investors to move up the risk curve.

In this challenging environment, the investment managers that have weathered the storm better are those that have more diversified businesses and do not rely solely on their active management business. In other words, asset managers that also offer private markets investment options and indexation products in addition to the active offering have fared better. At Sanlam Investments, we have been deliberate over the years to ensure we diversify our investment offering and this has helped us to provide varying solutions to our clients (i.e., indexation, active, private markets and multi-management solutions) and weather the storm in this very tough environment.

Reflection on the integration of the Absa investment management business into Sanlam Investments

Following the conclusion of the deal to acquire Absa Asset Management on 1 December 2022, the last year was a year of consolidation at Sanlam Investments as we looked to bed down the integration of the Absa investment management business into Sanlam Investments. This strategic partnership not only solidified our position as one of the largest black-owned asset managers in South Africa, but also set the stage for the remarkable journey that lies ahead. The integration with Absa enabled us to achieve scale in our business, further enhancing our offering in both institutional and retail markets.

The investment management landscape is littered with many examples of mergers that failed. Therefore, as we entered 2023, we were mindful of not becoming another statistic. Our focus was to ensure that we keep the additional skills set that we acquired from Absa Asset Management and continue to serve the client base well. This has required us to be very attentive to client concerns to ensure we continue to meet their investment needs and ensure an inclusive culture to allow the integration of the Absa staff. We are pleased with the progress we have made thus far but we also realise that we need to continue evolving to continue to be able to service our clients accordingly. Our next key focus in this merger is to ensure a seamless amalgamation of key funds. This is expected to be concluded in March this year. This will streamline our capabilities, ensuring added value for you, our clients.

Two-pot retirement system implementation

The imminent implementation of the two-pot retirement system next year has been quite topical and at one time looked likely to be pushed from 1 March 2024 to 1 March 2025 as per National Treasury's recommendation. National Treasury also recommended that the accessible amount be the lower of 10% of accumulated retirement savings as at 28 February 2025 or R30 000 as opposed to R25 000 previously proposed. The suggested postponement was to allow the South African Revenue Service and industry participants to prepare accordingly and to allow time to resolve any unclear implementation matters. Cosatu challenged the postponement and was pushing for the withdrawal amount to be increased to the lower of 10% of accumulated retirement savings or R50 000.

Parliament's finance committee went against the advice of National Treasury and insisted on the implementation date remaining 1 March 2024. Finance Minister Enoch Godongwana then proposed that the implementation date be moved to 1 September 2024 to allow for the tabling of key legislation and the amendment of retirement fund rules. This was accepted by Parliament's finance committee. Early indications are that most retirement fund members, particularly those in the lower income bracket, will look to cash in on the funds accessible. Over the long term this new legislation should be supportive of saving as we are moving from a regime were there was no preservation at all to one where at least two-thirds of your retirement savings are inaccessible until you retire.

Looking forward to 2024

We enter 2024 energised to ensure that we deliver on our clients' investment goals and to continue to ensure we help our clients to be financially confident, secure and prosperous.

We thank you for your continued support and wish you a prosperous year ahead.

Economic Review

By Arthur Kamp
Chief Economist
Sanlam Investments

GLOBAL

Review

Resilient global growth in 2023

The resilience of global real economic activity was the surprise of 2023, as an upturn in services in the first half of the year compensated for depressed manufacturing production. Positive momentum in global real GDP was sustained through the latter half of the year, although available data suggest it slowed significantly in the fourth quarter of 2023 (Q4) from robust growth in the third quarter of 2023 (Q3).

After being weak for most of 2023, global manufacturing activity recorded firmer growth in Q4, although this mostly reflected a tech-related bounce in Asia, while activity remained soft in Europe. Further, the global manufacturing output purchasing manager's index (PMI) decreased to 49.5 in December 2023 from 49.9 in November 2023. Despite some improvement in the final month of the year, it remained depressed well below the 50 level in the Euro area. Similarly, the PMI indices for the US, the UK, Japan and Taiwan ended the year at levels suggesting contraction.

In contrast, after sliding through most of the latter half of 2023, stronger services PMI data helped lift the global all-industry PMI in November 2023 and December 2023, with the emerging market (EM) data relatively more buoyant than developed markets (DM), due to activity in China. At a level of 51.0, the all-industry PMI points to moderate growth in the global economy.

In the US, the advance in real GDP cooled in Q4, following a strong 4.9% annualised increase in Q3, at the very least because a repeat of the sharp increase in inventories recorded in Q3 is unlikely to be repeated. Still, cooling inflation and jobs growth have supported real household incomes, while auto sales surprised on the upside in December 2023, although we should note delinquencies for auto loans and credit card debt are rising.

Meanwhile, the all-important US non-farm payrolls data delivered yet another solid increase of 216k, although downward revisions to the data for previous months amounted to a cumulative 70k. At the same time the unemployment rate remained unchanged at 3.7%, while average hourly earnings increased by a firm 0.4%. Nonetheless, it seems fair to argue the labour market is cooling. The pace of jobs growth has slowed, job openings are on a declining trend and momentum in wage growth was softer in Q4 overall.

In China, we have previously argued the slowdown in trend growth since the global financial crisis in large part reflects an overhang of excessive investment. Indeed, the hit to housing in China as policymakers sought to address speculative excess has been severe. Efforts to support construction of affordable housing are reflected in the positive annual advance in new home completions. However, the annual increase in newly built residential building prices was only marginally positive in Tier 1 and Tier 2 cities in November 2023, while decreasing outright elsewhere. Meanwhile, investment in real estate and new home starts decreased sharply in the year to November 2023.

That said, following the termination of China's zero-Covid policy, retail sales growth was buoyed by consumer spending on services in 2023, while industrial production increased by a solid 6.6% in the year to November 2023.

Elsewhere, among the large EM economies, India continued to deliver strong real GDP growth, even if objections to the method applied to deflate data are accounted for.

Disinflation gained momentum in the fourth quarter

Another stand-out feature of 2023 was the onset of significant disinflation despite tight labour markets, especially in DM. In Q4, inflation slowed faster than expected, bolstering expectations inflation was on course to return to central banks' targets, at least over the medium term.

In the US, the core personal consumption expenditures (PCE) deflator advanced just 2.2% on a 3-month annualised basis in November 2023. The slower increase in the core PCE deflator relative to core consumer price inflation (CPI), which advanced 3.4% annualised over the same period, in part reflected softer services inflation excluding shelter costs. This is a significant development given previous references as to the importance of 'supercore' inflation by US Federal Reserve (Fed) Chair Jerome Powell.

In the UK, against the backdrop of a stalled economy, the November 2023 inflation print surprised markedly on the downside with momentum in core goods prices turning negative, although services inflation remained firm.

In the Euro area, too, against the backdrop of a stagnating economy, inflation slowed significantly. The flash estimate for the Harmonised Index of Consumer Prices (HICP) recorded an annual increase of 2.9% in December 2023. Although this is higher than the 2.4% print in November 2023, inflation has slowed from 10.6% in October 2022 – in large part reflecting lower energy prices. At the same time, core inflation, which peaked at 5.7% in March 2023, eased further to 3.4% in December 2023, from 3.6% in November 2023.

These developments prompted market participants to price in earlier, more aggressive interest rate cuts in 2024 on both sides of the Atlantic.

Central banks push back on aggressive interest rate cut expectations

DM central banks have, however, been more reserved in their assessment of the inflation and policy interest rate outlook.

In the US, the minutes of the December 2023 Federal Open Market Committee (FOMC) meeting noted the labour market remains tight, given solid (albeit slowing) jobs growth and a low unemployment rate. Further, although CPI has eased, the committee indicated it remains 'elevated'. However, the committee did acknowledge that labour supply and demand are shifting towards 'better alignment'. Further, given reduced labour market imbalances wage growth was trending lower.

Meanwhile, in the Euro area, despite the slowdown in core inflation, the Governing Council of the European Central Bank (ECB) noted in the press release following its December 2023 meeting that domestic price pressures remain 'elevated' due to robust unit labour cost growth.

In the UK, the Bank of England's Monetary Policy Committee (MPC) left the Bank Rate unchanged at 5.25% in December 2023. However, whereas six committee members supported the decision, the remaining three members still favoured a 25-basis point (bps) increase in the policy interest rate. In addition to expressing concern over upside risk to wage growth, the MPC statement warned that 'the Committee continues to judge that monetary policy is likely to need to be restrictive for an extended period of time. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures'.

The situation is different in Japan, where real GDP growth disappointed in Q3. The Bank of Japan's aim has been to boost inflation and is embarking on a journey of gradual monetary policy normalisation. In October 2023 the bank announced it would continue to purchase government bonds (JGBs) in sufficient quantity without setting an upper limit so that 10-year JGB yields remain at around 0%. This removes the 1.00% ceiling on 10-year yields, which is now regarded as a reference point instead.

Outlook

Will global growth surprise on the low side in 2024?

Although the relationship between the PMI and actual activity data has not been as tight in recent years as it was before the pandemic, it remains a very useful gauge of the relative strength and direction of economic activity.

For manufacturing, decreases in the new orders and employment components of the December 2023 global manufacturing PMI, in addition to the soft new-orders-to-inventory ratio, suggest stalling production (although at least the future output series improved).

However, considering the nascent improvement in the global services PMI and, by extension, the all-industry PMI data, it appears as though the global economy remains resilient heading into the first quarter of 2024.

That said, we should leave room for the possibility that global real GDP growth may surprise on the low side this year. In the US, the inverted yield curve and its historically strong relationship with recessions has been a cause for concern. That said, the relatively healthy balance sheets of consumers and households in the US are important buffers against a sharp downturn. Still, restrictive monetary policy acts with a lag and we remain cautious of the impact of high interest rates, especially as more and more corporate debt is rolled over at higher interest rates amid tighter lending standards.

Moreover, US households benefited from large government transfers during the pandemic, but the household savings ratio is now below its long-run average. The extent to which the savings rate increases against the backdrop of higher interest rates will likely be a key determining factor governing the extent of the expected slowdown in economic activity.

Among the other DM economies, tepid real GDP growth only is expected in the Euro area in 2024. Not only is the restrictive impact of high interest rates visible in the 0.6% fall in credit extended to residents in the year to November 2023, but fiscal policy is expected to become a drag on growth too as European Union (EU) fiscal rules are reintroduced.

In China, the property sector may continue to act as a drag on GDP this year, although the reported intention to provide 1 trillion yuan in financing, supported by the People's Bank of China, for affordable housing should provide support.

Also, China's drive to promote production of technologically advanced activity, including mass production of electric vehicles, is delivering positive results.

In addition, the absence of inflation in China allows for some additional policy easing, including lower policy interest rate cuts and liquidity support through reserve requirement ratio (RRR) cuts. That said, the policy interest rate is already very low, while concerns around local government debt must be noted (although debt restructuring is expected to ease liquidity concerns for now).

Elsewhere, among the EM economies, there are headwinds to growth in India, including a decline in foreign direct investment, the use of macroprudential tools by the Bank of India to curb specific credit extension categories, and the El Niño weather phenomenon. However, India is expected to continue delivering strong growth in 2024, in part reflecting buoyant high-tech activity and business services activity. Sustaining high growth in the medium to long term requires further economic reform.

On balance, considering the lagged impact of monetary policy, moderate real GDP growth of little more than 2% (dollar-weighted) is expected in 2024, from 2.7% (dollar-weighted) in 2023.

How fast and how far will policy interest rates fall?

The burning question for 2024 is the likely timing and extent of cuts in policy interest rates in the US and elsewhere in DM. If the recent momentum in inflation in the US is maintained one would conclude the Fed has succeeded in taming inflation. However, it is probably premature to draw this conclusion.

In large part, global disinflation reflected falling oil prices and goods price deflation as supply chain disruptions faded. However, goods price deflation is unlikely to be sustained. Global manufacturing PMI delivery times are increasing, suggesting renewed supply constraints are emerging. Also, air and shipping freight costs are rising.

Viewed differently, given the breadth and extent of the bounce in inflation in the post-pandemic period, it is difficult to believe that the inflation shock was driven by temporary supply constraints alone. The downside surprises in services inflation in the US give pause for thought. However, labour markets remain relatively tight and hold upside risk to inflation outcomes. Similarly, loose US fiscal policy holds similar risk.

Hence, whereas we concede the momentum in inflation has softened more than expected, we think there is sufficient risk to keep DM central banks cautious. Therefore, whereas we believe the DM interest rate hiking cycle has peaked, we would not be surprised if the interest rate cutting cycle is delayed to around mid-year.

Geo-economic and geopolitical conflict

To date, the Israel-Hamas conflict has not moved the needle on our economic assumptions and forecasts by much. However, indications that the conflict may broaden within the region are concerning. From an economics perspective it is notable that the Middle East accounts for around one-third of global oil production. This implies global inflation risk.

Overall, the current events in the Middle East are another indication of global geopolitical fragmentation, which is increasingly reflected in geo-economic fragmentation. Currently, this is showing up as a decline in strategic investments from the western DM economies into, for example, China and EM Asia generally.

If this translates into lower investment flows into EM more broadly then capital-scarce economies, including South Africa, are at risk.

SOUTH AFRICA

Review

The balance of payments constraint and economic activity

Given a downward revision to the second-quarter growth estimate in addition to the 0.99% annualised decrease in real GDP in Q3, it seems growth for the calendar year 2023, overall, is likely to be restricted to 0.6%.

The key development reflected in the Q3 real GDP release was the outright falls in household consumption expenditure (-1.2% saar) and gross fixed-capital formation (-13% saar). Including government consumption total consumption fell 0.6% saar in the quarter.

This is consistent with the decrease in South Africa's current account deficit from 2.3% of GDP in the second quarter of 2023 to 0.3% of GDP in Q3. Less consumption implies more savings. Together, more savings and less investment (fixed investment plus the change in inventories) are consistent with an improvement in the current account balance.

At the same time, the current account deficit is the mirror image of the net capital inflows required to fund it. Hence, the shrinking current account deficit implies less net capital inflows were available to support domestic expenditure.

The rand, inflation and the SARB repo rate

Viewed from one perspective, the vulnerability of the rand exchange rate over the past two years reflects the impact of tightening US monetary policy, electricity loadshedding (which constrains potential GDP growth), lower export commodity prices in 2023 and, probably, South Africa's Financial Action Task Force (FATF) greylisting in February 2023. Indeed, after factoring in these factors the rand is arguably trading where it should.

Meanwhile, since South Africa is a small, open economy, currency weakness has contributed to inflation pressures and higher inflation expectations in recent years. This prompted the South African Reserve Bank (SARB) to hike its policy interest rate by a cumulative 125 bps to 8.25% in 2023, although it left the policy interest rate unchanged in the latter half of 2023. In turn, restrictive monetary policy has constrained domestic demand. Simultaneously, higher interest rates have been necessary to dampen imports and limit the deterioration in the current account balance.

Headline CPI increased from 5.4% in September 2023 to 5.9% in October 2023, before slowing to 5.5% in November 2023. Apart from relatively firm increases in food and non-alcoholic beverages over October and November, an interesting development was the 9.7% monthly surge in hotel prices in October 2023, followed by a further increase of 0.1% in November 2023 – a surprising outcome since hotel occupancy rates have not yet fully recovered to their pre-pandemic level. Still, given the low weight of just 1.05% for this sub-index the jump did little damage to the advance in total CPI. At the same time, encouragingly, core CPI increased by 4.5% in the year to November 2023, in line with the mid-point of the SARB's inflation target range.

In a further important development on the inflation front, the producer price index (PPI) for intermediate manufactured goods decreased 2.3% in the year to November 2023, while the PPI for final manufactured goods increased 4.6% over the same period, suggesting contained pipeline goods price pressures.

Medium-Term Budget Policy Statement (MTBPS) holds the line

The November 2023 MTBPS reflected a familiar outcome as the trajectory of the government's debt ratio was revised higher by National Treasury. Gross loan debt is now expected to peak at 77.7% of GDP in 2025/26, before moderating according to National Treasury's projections. This compares with the expected peak of 73.6% of GDP in 2025/26 published in the February 2023 Budget Review.

Given modest real GDP growth, Treasury projected an expected net revenue shortfall of R44.4 billion in the current fiscal year, while projecting a larger Main Budget deficit of 4.7% of GDP in 2023/24, relative to the initial projection of 3.9% of GDP published in February 2023. This excludes support for Eskom, amounting to R78 billion (1.1% of GDP) in the current fiscal year.

Tax revenue is forecast to grow faster than nominal GDP over the next three fiscal years. In part, this reflects expected revenue raising measures amounting to R15 billion in 2024/25 (read possible tax increases).

Treasury is still intent on following through on its fiscal consolidation promise but this is becoming increasingly difficult as high interest payments on the government's large debt stock absorb an ever-increasing share of available resources. In 2008/09, debt servicing cost amounted to 8.8% of Main Budget revenue. Treasury projected this will increase to an estimated 20.7% of revenue in 2023/24 (or R354.5 billion).

Outlook

Some improvement in GDP off a depressed base

Real GDP forecasts reflect higher GDP growth for 2024 and 2025. Lifting economic growth requires fixed investment in infrastructure, which implies a wider current account deficit. However, this is only possible if foreign capital inflows increase to fund it.

At least, additional electricity capacity is expected to be made available once maintenance is completed at Kusile and Medupi, while construction of new capacity relating to renewable energy, in addition to increased embedded generation, rooftop solar and municipal procurement implies electricity loadshedding should be constrained to relatively low levels in 2024 (assuming adequate energy availability factor (EAF) levels related to existing capacity are maintained). This, in addition to some support for household income once the so-called 'two-pot' retirement system is implemented from September 2024, is expected to lift real GDP growth this year.

Even so, weaker terms of trade and the lagged impact of interest rate hikes remain significant constraints. On balance, we expect real GDP growth to increase to between 1% and 1.5% in 2024 from 0.6% in 2023.

A risk scenario is one in which infrastructure bottlenecks are not resolved, while GDP growth and potential returns on investment are too low to attract sufficient funding for the widening current account deficit. If so, the rand can be expected to remain weak, accompanied by increasing pressure on the fiscus and further downward adjustment to growth expectations.

Can the cheap rand recover in 2024?

We consider the rand to be materially undervalued and the currency could fare better over the medium term, given an expected improvement in electricity supply, likely US interest rate cuts in 2024 and forecast stabilisation of the terms of trade.

Near-term influences aside, though, a fundamental problem for the South African currency is that net foreign capital inflows into South Africa have been on a declining trend since 2015. To attract capital and overcome South Africa's current balance of payments constraint, economic reforms, which boost trend growth and lift the potential return on investment, are required. It is also imperative that we exit the FATF greylist.

If not, South Africa's weakened balance of payments condition may keep the rand on the back foot, while the lack of savings inflows also constrains GDP growth.

Nascent disinflation points to interest rate cuts

It appears the peak in the inflation 'cycle' was reached in July 2022 at 7.8%. At the same time, there is no indication of excessive demand in the economy. A marginally positive output gap only is projected over the medium term, while credit extension to households is currently negative in real terms.

Historically, the interest rate hiking cycle has typically ended once it is clear inflation has peaked and is heading towards the intended target. On balance, we expect the SARB to remain on hold for an extended period before cutting its repo rate by a cumulative 75 bps through 2024, commencing in the second or third quarter of the year.

One risk is the strong increase in our weighted food and fuel price index in recent months relative to core CPI, which holds the risk of significant second-round impacts as production costs increase and wage demands rise. However, there is little sign of excessive wage growth per worker, while the price of petrol decreased in each of the three months from November 2023 to Januatry 2024. Moreover, the outright fall in the PPI for intermediate manufactured goods prices augurs well for sustained goods price disinflation in the months ahead.

On balance, therefore, inflation is expected to resume its disinflationary trend in the second quarter of 2024, following volatile outcomes in the next few months (largely reflecting base effects and fuel price changes). We forecast average CPI of 5.1% in 2024 (4.6% in December 2024), relative to 5.9% in 2023 (5.3% in December 2023).

Budget 2024 will be a focal point in the first quarter

Planned expenditure restraint announced in the 2023 MTBPS looks onerous, even though government expects to implement targeted cost-saving measures including merging or closing public entities. Projected consolidated expenditure is below expected inflation on average over the next three years, implying reduced spending in real terms. Moreover, the expenditure cuts announced include a drawdown of the contingency reserve. This leaves a cumulative contingency reserve of just R27.1 billion for the medium term.

Further, the social relief of distress grant has been extended for two more fiscal years only. However, it will ostensibly need to be extended thereafter (or be replaced by a basic income grant). In addition, there is no provision for likely additional transfers to state-owned companies (SOCs) in the projected MTBPS numbers.

We expect the gross loan debt ratio to increase to 77% of GDP over the next three fiscal years. Given assumed additional spending on social grants and SOCs we continue to expect a sustained increase in the debt ratio thereafter over the long term, unless economic reforms are implemented, which lift trend real GDP growth, ultimately leading to sovereign debt rating upgrades (and hence, all else equal, lower borrowing costs).

In the interim, given the expected large government borrowing requirement, attention is likely to turn to alternative sources of funding, the most prominent of which currently is potential use of the SARB's Gold and Foreign Exchange Contingency Reserve Account (GFECRA). That said, we expect a cautious approach to be adopted. Given South Africa's dearth of foreign exchange reserves we do not believe the SARB is likely to sell foreign exchange reserves to access the GFECRA balances. Further, it should be noted that monetisation of the GFECRA balances (estimated at close to R500 billion in November 2023) would not be a costless option. Indeed, monetising the full GFECRA balances, for example, would imply substantial liquidity management costs for the SARB of around R40 billion per annum, given the current repo rate of 8.25%. Still, during the press conference following the bank's November 2023 MPC meeting, Governor Lesetja Kganyago left the door open for, potentially, some use of the balances, while being clear that the capital position of the bank would need to be considered.

Considering this backdrop any updates to current projections in the upcoming 2024 Budget will be keenly followed.

1 Seasonally adjusted annual rate (saar)

By Donovan van den Heever &
Trevor Ngubane
Portfolio Managers

South African Money Market

Market review

A series of lower-than-expected inflation prints across the US and Europe shifted investors' mindset from 'higher for longer' to the possibility of pre-emptive rate cuts from central banks. This view was then further supported by the December US Federal Reserve (Fed) meeting where the projections suggest three cuts over 2024.This meant that the final quarter contributed positively to the total return of the year of both equity and bond markets. Developed Market (DM) equities returned 24.4% for the year and Emerging Market (EM) equities returned 10.3% for the year while Global IG bonds and EM bonds returned 9.6% and 10.5% respectively. Locally, the equity, bond and cash markets returned 5.3%, 9.7% and 8% respectively. All of this were on the back of markets expecting central banks to cut interest rates earlier than previously thought, although one should be cognisant of the Israel-Hamas war which could throw a spanner in the works in case it escalates.

At the South African Reserve Bank (SARB)'s November Monetary Policy Committee (MPC) meeting they voted unanimously to keep the repo rate unchanged at 8.25%. The general tenor of the MPC statement remained hawkish, with a strong emphasis on upside risks to the inflation outlook and concern about inflation expectations remaining above the mid-point of the target range. They reiterated that it sees the current policy settings as restrictive.

After a resilient first half of the year, SA GDP contracted by 0.2% quarter-on-quarter (q/q) in the third quarter of 2023 (Q3), which can mainly be attributed to persistent rotational loadshedding, logistical constraints as well as a challenging global environment. Five of the 10 economic activities declined, with agriculture (-9.6% q/q), manufacturing (-1.3% q/q) and construction (-2.8% q/q) contributing the most to the overall decline.

Employment rose for the eighth consecutive quarter in 2023. Employment has risen by 2.2 million since the first quarter of 2022 and is now 325k above the pre-pandemic level. In Q3, employment rose faster than the labour force, lowering the unemployment rate by 0.7% to 31.9%, the best figure since the third quarter of 2020.

Moody's ratings warned that spending pressure from SOEs and social support raise the risk of further deterioration in public finances in coming years.

Headline CPI declined to 5.5% year-on-year (y/y) in November from 5.9% y/y in October as a consequence of the 5.5% drop in fuel prices in November. Contrastingly, because of the ongoing Avian flu food prices increased, and core CPI rose from 4.4% y/y to 4.5% y/y. PPI inflation dropped to 4.6% y/y in November from 5.8% y/y in October.

The rand strengthened from 18.89 in September to 18.26 in December vs the US dollar. The 10-year SA government bond yield strengthened to 11.05% in December from 12.05% in September. The trade balance increased to a surplus of R21 billion in November from a surplus of R12 billion in September.

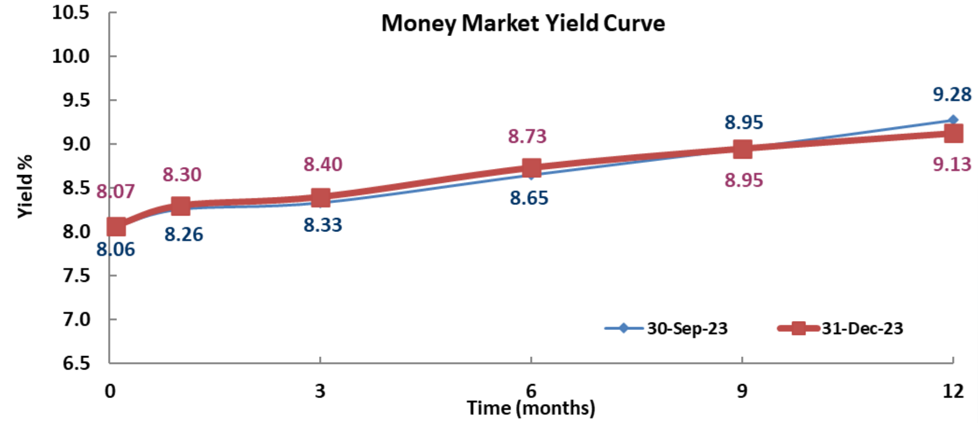
The money market yield curve ended the quarter slightly steeper as loadshedding returned, GDP growth remained under pressure and rates probably must remain higher to attract foreign capital.

What SIM did

Quality corporate credit and RSA Treasury Bills (TBs), which are yielding higher than JIBAR rates, were added to the portfolio. The combination of corporate credit, high-yielding RSA TBs, negotiable certificates of deposit (NCDs) and floating-rate notes (FRNs) will enhance portfolio returns.

SIM's strategy

Our preferred investments would be a combination of fixed-rate notes, floating-rate notes and quality corporate credit to enhance returns in the portfolio. With the money market yield curve remaining very steep, fixed-rate bank notes are potentially relatively more attractive than FRNs. This is because bank FRN spreads have recently declined due to the steep money market/forward rate agreement curve, making their performance very dependent on the future interest rate path. Only some RSA TBs yield slightly higher than bank NCDs now.



International

By Justin Greeley
Head of Fund Solutions
Sanlam Investments

Market Review

While the US Federal Reserve (Fed) last raised interest rates in July, and thus kept interest rates unchanged during Q4, the final quarter of 2023 might well go down in history as the quarter when markets confirmed the peak in US interest rates for this cycle. Coming into the quarter there was still much debate about whether the Fed would need to raise interest rates further, but during October and into November it became increasingly clear that the pressures on the Fed to raise interest rates further had substantially reduced. This is because US inflation has been falling rapidly, and while still elevated and above the Fed's target level, which is an average over a cycle, the projected levels for inflation during the quarter appear to indicate that the Fed has done enough already. While this will unlikely be fully confirmed until well into 2024, the market appears to have already reached this conclusion, and moved rapidly to reflect this towards the end of October, which then led to a substantial market rally in November across bonds and equities, while December continued in the same trend though not at the same rate. This is the market increasing its confidence in the soft-landing scenario materialising. The picture in Europe, including the UK, is significantly opaquer than in the US, and while markets have generally followed the lead of the US, and rallied, the economic outlook, both on inflation declining and economic growth remaining positive, is more negative for both Continental Europe and the UK. Arguably, in Continental Europe the issue is more about economic growth, while in the UK it is more about the stubbornness of inflation, though both metrics present challenges across Pan Europe. Hence, while the European Central Bank may have reached peak interest rates for this cycle, the picture is much less clear for the Bank of England. Elsewhere, the Bank of Japan continues with yield curve control despite inflation rates continuing to exceed official target levels.

Outside of capital markets the quarter was marked by Hamas' attack on Israel in early October. This has led to a fully-fledged Israel-Hamas conflict, which has reignited broader tensions within the Middle East, though so far has had no material economic consequences for the wider global economy, e.g., the oil price fell during the quarter. The hostilities there, combined with those between Russia and Ukraine, serve to remind us of the heightened geopolitical tensions currently prevailing globally. Within the US, the potential government shutdown, which was a substantial risk heading into the quarter, was also successfully averted through the passing of a temporary spending bill – though this resolves the immediate issues it does little to address the long-term US spending challenges. However, this removed a market risk for the quarter, and thus one potential headwind for the market to rally.

With the market assumption of an interest rate pivot, global equity markets, as measured by the MSCI World Index, rose by 11.42% for Q4 2023. The quarter started in a similar fashion to the downturn of Q3, with a decline of 2.90% in October. However, November's significant rally of 9.38%, driven by the market's readjusted interest rate expectations, meant the quarter was materially back into positive territory, while December's return of 4.91% further compounded the quarter's return. Across regions the monthly picture at the global level was reflected in all the regions, with the only notable issue being the Pacific ex Japan region having lagged the other regions across October and November, recouped lost ground in December to materially outperform the other regions for the month. For the quarter as a whole, the MSCI Japan region was the weakest developed market region rising 8.19%, while Europe gained 11.05%, and the Pacific ex Japan and North America regions rose 11.39% and 11.78% respectively.

Global Emerging Markets followed the broader market trend during the quarter but were consistently weaker than developed markets in each month of the quarter, leading to a 7.86% gain for the quarter. For 2023, the MSCI World Index rose 23.79%, with MSCI North America outperforming with a return of 25.96%, while the other regions all lagged, though Europe and Japan both returned around 20%, but the Pacific ex Japan region only rose 6.44% and global Emerging Markets by 9.83%.

From a sector perspective Energy was the only sector to produce a negative absolute return for the quarter, with a 4.08% decline. Consumer Staples was the next weakest sector returning 5.30%, while Health Care, with a return of 5.87%, was also at the weaker end of the sector spectrum. The remaining sectors all produced double-digit returns with Real Estate, rising 18.06%, the best performing sector, though it was closely followed by Information Technology's gain of 17.52%. Several sectors returned around 13% including Industrials, Financials and Materials, and thus outperformed the broader market, while another grouping returned around 11%, including Consumer Discretionary, Communication Services and Utilities, with these all underperforming the broader market. For the calendar year the clear sector winners were Information Technology, Communication Services and Consumer Discretionary with gains of 53.27%, 45.55% and 35.05% respectively. Industrials were the only other sector to rise over 20%, while Financials, Materials and Real Estate managed double-digit returns. Health Care, Energy and Consumer Staples produced returns in the 2% to 4% range, while Utilities was the clear laggard with only a 0.28% return.

While equities outperformed bonds for the quarter, the rally in the equity market was driven by the pivot in the bond market during the quarter. The US 10-year treasury yield reached nearly 5% in October, yet by the end of the quarter the yield was just under 3.88%. This indicates the extent of the move in global bond markets during the quarter. As a function of this for Q4, global bonds, as measured by the Bloomberg Global Aggregate Index, returned 8.10%. This made it the best quarter for global bonds since the second quarter of 2002. As for equity markets October was the weakest month, which saw global bond markets decline by 1.20%, as yields continued to rise. November's gain of 5.04%, followed by December's gain of 4.16%, drove the overall quarterly return as yields tumbled on the changed interest rate outlook. This substantial end-of-year rally meant that global bonds averted a third successive year of declines and posted an overall gain of 5.72% for the year.

Within global bond markets, global sovereign bonds have started to perform better, and produced an 8.10% return for the quarter, aligned to the broader bond market. However, global investment-grade corporate bonds continued to outperform with a gain of 8.84% for the quarter, while their high-yield equivalents delivered 8.56% – the former benefiting from both credit and duration effects, while the latter really only benefited from the credit tailwinds during the quarter. For 2023, global sovereign bonds were the major laggard with a return of 4.18%, while global investment-grade corporate bonds returned 9.61% and global high-yield bonds produced a 14.04% return.

* *All performance numbers are in US dollars unless stated otherwise.*

Asset Allocation

By **Gerhard Gruywagen**
Chief Investment Officer
Sanlam Investments

Our positioning

Our active asset class positions, relative to the benchmark, are based on our assessment of the current valuations of the asset classes with reference to our long-run fair value assumptions.

Our valuation approach is anchored in a set of required real returns per asset class. These required returns reflect the risk associated with each asset class and are partly based on realised real returns for these asset classes since 1900.

Long-run inflation expectations are fundamental to asset valuations. As inflation rises, investors require a higher nominal return from their investments, and assets should reprice accordingly. Our asset allocation positions reflect our concern that inflation could be higher than the developed market central banks' 2% target and the South African Reserve Bank (SARB)'s 3-6% target range for a protracted period.

We have entered a period of deglobalisation because of rising geopolitical tensions, and as a result, production costs are increasing. Also, we are amid a secular investment boom in defence spending, climate change and infrastructure investments, all of which increase the demand for commodities. At the same time, populations are ageing, giving rise to labour shortages.

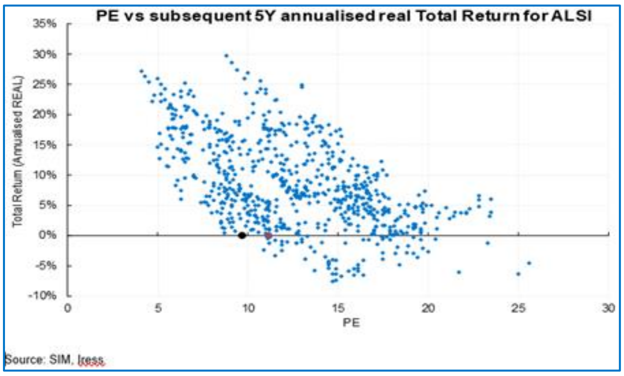
Local investments:

Local equities

We retained our overweight position in SA equities.

The current forward price-to-earnings (PE) ratio of the FTSE/JSE Capped Shareholder Weighted All Share Index (Capped Swix) is around 10.7, while the forecast dividend yield is 4.6%. Relative to history, our market is attractively priced.

Historically, the five-year subsequent real returns delivered by the SA equity market have, on average, been high when investing at the current valuation levels, as is evident from the graph below. (The light grey and black dots indicate the trailing and one-year forward PE ratios, respectively.)



Furthermore, according to the SIM equity analysts, the aggregate of the individual company valuations shows that the local equity market is about 20% undervalued.

The South African equity market also remains undervalued relative to other emerging markets.

Local bonds

We maintained a benchmark position in local bonds.

SA 10-year bonds are trading at around 11%, offering a real return of 5% if measured relative to the upper end of the SARB's long-run inflation target of 3-6%. This is well above their historical real return of about 1.8%. The current high yield on long bonds reflects an increase in South Africa's country and inflation risk premia.

The higher country risk premium can be ascribed to rising government debt as a percentage of GDP. Given the energy and infrastructure problems in the country, real growth in GDP is expected to be poor, thus making it difficult for the government to reduce its debt-to-GDP ratio.

We believe the likelihood of SA's long-run inflation being above the target range has increased, along with the rest of the world, due to deglobalisation, as explained above. A higher long-run inflation rate would also benefit the government's fiscal situation as it will reduce its debt burden in real terms.

We, therefore, continue to prefer SA inflation-linked bonds (ILBs) ahead of conventional bonds.

Inflation-linked bonds

We maintained our significant overweight position in ILBs. Ten-year ILBs offer a 4.75% real yield, well above the 1.8% real return that South African conventional bonds have given since 1900.

The inflation break-even rate is about 6.25%, calculated by subtracting the 10-year ILB yield from the conventional long-bond yield. Therefore, assuming an inflation risk premium of about 1%, the market prices future inflation at 5.25%, well within the SARB inflation target band.

However, considering the global inflation concerns and the risk that the government could use higher inflation to reduce its debt obligations in real terms, we believe that ILBs are attractive and less risky than nominal bonds.

Local listed property

The property sector has been severely affected by Covid. The ongoing write-downs of underlying property values reflect the pandemic's long-term effect on the asset class.

Property companies are also required to make unplanned capital investments in solar energy and battery backup systems to supplement the intermittent electricity supply from Eskom.

Based on consensus forecasts, the SA-listed property sector is trading on a one-year forward PE ratio of about 10.6 and a one-year forward dividend yield of about 8.7%.

We continue to prefer SA equities and ILBs ahead of SA-listed property stocks.

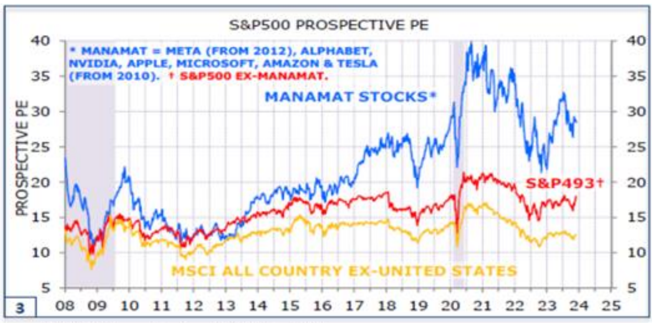
Global investments:

We currently favour SA assets ahead of developed market assets. The rand is trading over two standard deviations weaker than its purchasing power parity valuation versus the US dollar, and SA assets are relatively more attractive.

Global equities

We retained our underweight position in global equities. Global developed equity markets are trading at a 19.3 one-year forward PE ratio and a 2% forward dividend yield. The S&P 500 is trading at a one-year forward PE ratio of 23.

The seven largest stocks in the S&P 500 index, which are all technology-related, constitute a record-high 28% index weight. Their combined one-year forward PE is about 29, based on consensus earnings growth of about 25%. As illustrated in the graph below, these seven stocks are trading at a significant premium valuation relative to the rest of the developed world's listed equities.



Source: S&P, DataStream, Bloomberg, NBER, Minack Advisors

The current valuation of these companies implies that their earnings will continue to grow ahead of the equity market in general and the overall economy. In other words, they will continue to take market share and their weights in the equity indices will continue to reach new record highs.

Given the size of these companies, we believe that the market is over-optimistic in the earnings growth assumptions and is consequently overvaluing these stocks.

Excluding these seven stocks, the remainder of equities are more reasonably priced. However, there is the risk that companies' profit margins, which are high relative to history, might revert to the lower levels seen in the past. See the graph below.

Source: S&P, DataStream, Bloomberg, NBER, Minack Advisors

In response to the lower nominal interest rates following the 2008 financial crisis, non-financial companies have generally increased their leverage. For example, in the US, the percentage of total debt to total assets has risen from a low of 26% in 2006 to 35% currently. If higher nominal interest rates persist, companies' interest costs will significantly increase as their debt comes up for refinancing.

Also, effective corporate tax rates in the US are now 15% compared to 30% in 2002. The tax rate is more likely to increase than decrease in the future.

US companies' interest and tax expenses as a percentage of earnings before interest and tax have declined from 47% to 25% over the past 20 years.

All this has contributed to US profit margins being at their current high levels.

Global property

We marginally increased our underweight position in global real estate companies.

Globally listed property companies have gearing ratios of 45% on average. The current higher long-bond rates are increasing the interest expense of highly geared companies as they refinance loans. Their debt was financed at the unusually low yields we had over the past decade. Assuming interest rates remain elevated, their future earnings will be adversely affected. Currently, the globally listed property sector trades on a one-year forward PE ratio of 26, which is significantly higher than the forward PE ratio of the MSCI World Index of 19.8.

Global bonds

During the past quarter, US 10-year inflation-linked bonds (TIPS) weakened briefly to offer a real yield of 2.5%, which is attractive relative to the long-run real return history of nominal long bonds. We introduced a small overweight position in US TIPS at these attractive levels.

We believe a prospective 1% real return from developed market sovereign bonds is fair compensation for their term and inflation risk. This belief is founded in the long-run return histories of these bonds and their competing asset classes.

Developed market central banks have an implicit inflation target of 2%, implying that US long bonds, for example, are fairly priced at around a 3% nominal yield. However, as explained above, long-run inflation might settle above the central banks' 2% target for a protracted period. In addition, developed markets' debt-to-GDP ratios are extremely high, so bond investors should require an increased term risk premium.

The current yield of US 10-year bonds of about 4% most likely reflects these concerns.

Risks and opportunities ahead

The risk of a global recession remains high. A recession could result in a repricing of equities and corporate debt.

By **Andrew Kingston &**
Dale Hutcheson
Co-Heads of Equities

Equities

Economic Review

Global backdrop

A review of the past year of 2023 very much resembles the volatility and turmoil that characterised the 2022 calendar year for the global investment environment. We commenced this past year with elevated risks on multiple fronts. Most prominent were lingering concerns related to inflation and rising interest rates in many markets, threats of recession in many regions of the world potentially, and lastly, geopolitical upheaval (at the time Russia remained at war with Ukraine). We now enter 2024 with a challenging combination of similar risks, albeit that a consensus has formed that we are now at the peak of the global interest rate cycle and while some lingering upside risks remain a concern for inflationary forces at the margin, overall, this general thematic risk is a lot more contained in many regions of the world than it was this time last year. Unfortunately, geopolitical risks have accelerated with the addition of the Israeli-Palestinian conflict, which commenced in October last year and continues to pose an elevated risk to the wider Middle Eastern region.

The US economy has confounded sceptics this past year, delivering strong GDP growth momentum in the face of a sharp increase in the US federal funds rate over the last two years and corroborated by a strong performance by the US equity market in 2023. We entered the year with a historically reliable recession indicator in play for the US economy: two-year interest rates exceeded 10-year interest rates, inverting the US yield curve. This remains the status quo up to today and despite some closure of the gap due to a rise in the longer end of the US yield curve towards the end of last year (as mirrored globally in many markets), this highly regarded signal continues to call for an imminent recession in the US. While this may still play out, the overall narrative around the US economy has softened and an expectation of a softer landing has become more prominent. One of the key reasons for this remains the ongoing resilience in US labour markets, which continues to support US consumption and the dominant services mix within that economy. At the margin we've seen some softening of labour data here and there, but the unemployment rate in the US remains at decade lows. A softer US housing market and much higher interest rates relative to history do not seem to have compromised the US consumer, with many market proponents citing residual effects of historic economic stimulation that bolstered savings and the ability for US consumers to continue to spend.

This year may also prove to pose a state of flux for US economic policy, as the country faces a crucial presidential election in November 2024. While the US Federal Reserve (Fed) seems to have achieved a stabilisation of inflation, it has signalled that further interest rate hikes are unlikely, and the market has now turned its attention to the prospect of interest rate cuts. The timing of this remains very uncertain, given that the present higher interest rate regime has yet to tilt the US economy into a full-blown recession. Ultimately, it remains to be seen how this dynamic plays out this year and the risk of some form of recession in this very important economy globally continues to be a feature of our scenario analysis, albeit that it may transpire as a more shallow, shorter-lasting recession. What we do observe is that very high levels of uncertainty and difficulty with forecasting these dynamics have led to the market becoming very short-term orientated and 'news flow-driven', exacerbating market turbulence as important economic data are systematically released.

Across in Europe, more challenging dynamics have plagued this geographic collection of economies. Here, we have seen recessionary forces at play and a far weaker growth trajectory than the resilience that has characterised the US. While the UK has narrowly averted a recession, despite multi-decade high interest rates, the same can't be said for many European countries that have experienced contractions within their economies this past year and remain under considerable stress going into 2024. While the damaging impact of rampant energy prices and supply bottlenecks that plagued European economies going into 2023 have largely subsided, decreased household spending, high interest rates and ongoing geopolitical turmoil in Eastern Europe remain key threats to this broader region. The entire structural positioning of Western European economies continues to shift in the aftermath of a cut-off of Russian energy in the form of both oil and gas, much of which is now being diverted to China and to alternative trading partners that are willing to take Russian commodities. We expect this impact to reverberate across European economies over the next few years, as they reposition their manufacturing and industrial bases in response to this. A spillover from the unrest in the Middle East and its impact on the Mediterranean Sea has the potential to place further pressure on Europe, with many shipping companies already diverting their geographic route to now travel around the South of Africa to facilitate key seaborne trade. At the same time, long-term demographic challenges continue to accelerate slowly and pose great structural risk to many European economies. So while we do not expect deep and protracted recessions to play out in the key European economies in 2024 (the UK, Germany and France being the most important), we see this region as remaining in a state of flux, with the only silver lining likely to come from any prospective declines in interest rates that may be announced by the European Central Bank or the Bank of England during the course of this year.

China and the broader Asian region remain a mixed influence on the overall global economy going into 2024. The most important region remains the Chinese economy, which continues to struggle with a multitude of challenges, many of them structural in nature, resulting in protracted impacts. The most critical remains the broad and lingering impact of the Chinese property market, which has historically been a key growth lever for this economy, as pressure from over-investment and unsustainable levels of debt weigh. The risks here have not abated. At the same time, consumption has remained more subdued than anticipated, plagued by unfavourable demographic shifts and a high youth unemployment rate. High levels of government control and regulation remain a third force that impacts the Chinese economy, albeit that the theme of 'Common Prosperity' by the Chinese authorities is noble in its intent. A case in point was a raft of regulations published late last year to clamp down further on gaming, which led to some panic across the world for large tech companies that have exposure to the supply of this (Tencent, NetEase, etc.). Lastly, the threat of deflation in the wake of weak consumption remains a concern for the Chinese economy, despite multiple attempts to stimulate the economy. Given this structurally challenged backdrop, it can be said that we do not expect the Chinese economy to provide substantial support to global economic growth this coming year.

Domestic backdrop

This past year has been a very challenging year for the South African economy. After a challenging 2022, we entered 2023 with a bout of intense energy loadshedding that extended throughout most of last year, with some respite seen during the winter months, when scheduled maintenance was intentionally reduced across the energy generation fleet. This set a challenging backdrop for economic growth in 2023 and sets the stage for a potentially fragile recovery in 2024 if we can improve this situation in the near term, which is also potentially debatable. This past year was one that was characterised by 'state owned entity-induced' headwinds from both Eskom and Transnet, which posed an additional layer of risk to the domestic economy, hampering productivity, trade and overall growth. The ongoing challenge of decaying infrastructure and state capacity has deteriorated further and remains a crucial risk to the effective functioning of the South African economy going into 2024.

An adverse commodity cycle also weighed on the South African economy this past year, and while pressure was seen across the board in most commodities, it was most notably observed in the platinum mining industry, which suffered sharp commodity price contractions from 2022 commodity price levels. This naturally hampered domestic economic terms of trade and resultant tax collections, further pressuring already fragile fiscal dynamics. In conjunction with the risks highlighted above as well as a very strong US dollar, we saw a substantially weakened rand this past year, closing the year as one of the worst-performing currencies globally in 2023.

The South African economy remains plagued by structural challenges that are well telegraphed and understood by market participants and the loadshedding challenge has only served to weigh more on this narrative. As a result, we go into 2024 remaining circumspect about real economic growth prospects. Despite this, a few points should be raised as important considerations to the present domestic economic outlook.

From a cyclical perspective, South Africa, like many other economies, is currently challenged by elevated interest rates versus recent history and this naturally stifles growth and consumption, given the effectiveness of the South African monetary policy transmission mechanism into the economy; we expect interest rates to fall in 2024 and while the timing and extent is unpredictable, this will provide a cyclical underpin to the South African economy this year. Thus, with all the available information that we currently have, we do expect a better trajectory for the South African economy this year versus last year, albeit that this scenario can always potentially be destabilised by the advent of an unanticipated 'black swan' event.

Finally, we are also entering a national election year in 2024, which can prove disruptive, but also deliver much-needed change if new governing structures can emerge. One of the likely permutations is further contraction in support for the ruling party, the ANC, which could usher in a new era of coalition politics that is a feature of many countries around the world but is largely unchartered territory for South Africa at a national level. At a political level, a lot is at stake currently from a domestic perspective, with heightened uncertainty, which needs to be factored into our thinking this year when analysing our investment environment.

MARKET REVIEW

Global market performance

After a weak third quarter, in the last eight weeks of 2023, the investment world moved back towards a 'risk-on' paradigm and across the board we saw an extraordinary rally in global markets, premised on a scenario of substantial interest rate cuts anticipated in 2024. As highlighted above, a prevailing sense of uncertainty and the myopic focus of market participants presently has caused extreme turbulence in global markets, and we see this theme potentially continuing into 2024.

After a tough 2022, the MSCI World Index ended the year on a high note and was up 24.4% in 2023 (in US dollar terms). The final quarter of 2023 was the grand finale and saw the MSCI World Index generating a total return of 11.5%.

Regionally, the North American region was the strongest, generating a total return of 11.9% for the quarter and up 26.6% for the full year in 2023. Despite the economic woes of Europe highlighted above, their equity markets delivered a robust performance last year, with this region up 20.7% for the full year and up 11.1% in the final quarter of 2023. Within the developed market landscape, the Pacific region was last, but certainly not least, also generating a robust return of 15.6% for the full year and 9.3% in the final quarter (all returns quoted in US dollars). Within the MSCI suite of performance, the only sub-regional developed equity market that lagged in 2023 was Hong Kong, which generated a total negative return for 2023 of 14.8%, but also enjoyed a final quarter rebound of 3.4% in the fourth quarter of 2023. Across the developed market universe not one single sub-regional market generated a negative return in the final quarter of 2023, reiterating the broad-based nature of the rally across global equity markets that was experienced.

On the emerging market front, we saw similar dynamics, with all the action concentrated in the final quarter of last year – the MSCI Emerging Markets (EM) Index was up 7.9% in the fourth quarter and ended the full year up 10.3% in US dollar terms.

Regionally, this performance was more mixed than the broad-based rally seen in developed markets. Within the MSCI EM regional clustering, the Latin American region (Brazil, Chile, Colombia, Mexico and Peru) was the strongest – up a staggering 17.8% in the final quarter and 33.4% for the full year of 2023. While both the EMEA (Eastern Europe, Middle East and Africa) and Asian regions were also up in the final quarter and for the full year, their relative return profile was not quite as buoyant as the stunning performance of the Latin American region. The EMEA region generated a final quarter return of 8.4% and delivered a full-year return in US dollars of 8.6%, while the Emerging Asian region (China, India, Indonesia, etc.) was up 6.8% in the final quarter and up 8.2% for the full year in 2023. The main laggard in the Asian region was the Chinese market, which delivered a negative total return of 11% in US dollars for the full year of 2023. Kuwait, Turkey, the UAE, and China were the only geographic sub-regions globally to post a negative return in the fourth quarter (the Chinese market was down 4.2% over that period).

Within the MSCI EM Index, the South African region enjoyed a sharp rally in the final quarter of 2023 in US dollars, posting a return of 12.7%, a welcome trend after the preceding three negative quarters. For the full year 2023, the South African region underperformed and posted a below-average return in US dollars of 2.3%.

Domestic market performance

The relief rally seen in the final quarter of 2023 redeemed the South African domestic equity market's performance for the full year in rand terms. The FTSE/JSE Shareholder Weighted All Share Index (SWIX) ended the full year up 7.8% (total return with dividends reinvested) in 2023. Following a challenging third quarter, the final quarter saw the SWIX generating a total return of 8%. The FTSE/JSE Capped SWIX Index was up 8.2% in the final quarter and 7.9% for the full year of 2023.

From a high-level sector perspective, financial shares generated the best returns last year, with the Financials Index up 20% for the full year in 2023 and producing a robust return of 12.3% in the final quarter of 2023. This was closely followed by the Industrial Index for the full year, which was up 16.6%, but lagged the stellar performance of the financial universe in the final quarter of 2023, generating a total return of 5.9% in the fourth quarter. The past year was not a good year for resource shares, as the Resources Index lost 11.8% for the full year of 2023, but did enjoy a minor relief rally in the final quarter of 3%. Listed property shares enjoyed a better year in 2023 than the preceding few years – the SAPY Index gained 10.1% in 2023 and enjoyed a very sharp final quarter rally of 16.4%. The rally seen in financial and property shares was primarily in response to a synchronised fall in global bond yields highlighted above that transpired towards the end of last year.

For the full year, from an economic sub-sector perspective, the strongest performance came from the Pharmaceutical & Biotech sub-sector, which generated a total return of 50.6% in 2023. This was followed by the Life Insurance sector (+38.6%), Industrial Transportation (+38.5%), Consumer Services (+35.3%) and the Non-Life Insurance sector (+34.9%). On the negative side, the worst-performing economic sub-sector was the Finance and Credit Services sector (-75.9%), comprised solely of the performance of Transaction Capital, followed by Automobiles and Parts (-35.5%), Closed-End Investments (-21.3%), the Chemicals sector (-21%) and the Industrial Metals and Mining sector (-15.7%).

Portfolio performance

The Moderate Equity House view portfolio underperformed the benchmark by 237 basis points in the fourth and final quarter of 2023 as we had to contend with several extraneous factors which compounded towards the end of the year. Performance in the short term is unpredictable and in Q4 several events occurred that had an outsized impact on the portfolios. This unfortunately weighed on the performance for 2023, as we underperformed by 319 basis points for the year as earlier weakness was compounded by a weak final quarter. Importantly, we continuously challenge our views and our positions within the portfolio, remaining convicted that in time this difficult period will pass. We have been through previous periods of underperformance and can take comfort from a solid team, tried-and-tested philosophy and a great long-term track record. Indeed, our three- and five-year numbers show material alpha generation across almost all funds.

In the quarter, the financial shares performed well. We are underweight, particularly in property, which recovered sharply as bond yields declined. We do not expect long-end interest rates to decline meaningfully from here and so view this as a temporary situation as inflation globally is likely to remain higher for longer, medium-term. The gold shares had another run in Q4, and as we are underweight this cost us in terms of performance. We are seeing shares generally moving more significantly based on geopolitical factors, which are difficult to read. While the Russia-Ukraine war was certainly unexpected, the outbreak in the Middle East was equally unexpected. We have closed some of our underweight position in gold as these risks are expected to persist for some time.

On the resources side, we have been constructive and overweight, which has not been the place to be in 2023 as weaker economic growth globally, compounded by extensive commodity destocking, had an outsized impact on several areas of the resources market. This was particularly evident in the PGM and chemical markets where we have large overweight positions. Once destocking ends and demand returns, we are of the view prices will move sharply higher as incentive pricing for new capacity is well above current pricing in many commodities. Geopolitics is also likely to play a role in commodity shares going forward and needs to be factored into the investment cases of various commodity prices more directly in future.

On the industrial side our deep value overweight positions just got cheaper as the prospect of lower bond yields reignited the growth shares. We remain somewhat cautious on economic growth prospects globally going into 2024 and any derailment will have an outsized impact on these growth shares. Caveat emptor! Unfortunately, our value holdings underperformed and the high-quality growth shares outperformed, and so we were on the wrong end of both these areas of the market. It remains important to stick to what we believe in and over time we anticipate the higher growth expectations now priced into various growth stocks will disappoint in an environment of higher cost of capital and weaker economic growth. As a manager that is value-orientated, we will generally struggle in these periods of excess liquidity and economic stimulus, but invariably someone will have to pay for what has been a period of rapidly rising debt, higher cost, rising cost of capital and more polarised economies.

For the quarter, within financials, our overweight positions in Quilter and Reinet and underweight position in Discovery contributed to performance, while our underweight position in Capitec and overweight position in Absa detracted. As referenced above, we have been more cautious of the growth priced into various businesses, which unfortunately did not work as the expectations of lower interest rates into the future propelled these shares higher, while the value end of the market struggled. Our underweight position in financials detracted generally, compounded by an underweight position in property as this area of the market performed best within the major sub-sectors in Q4. For the year, the contribution from financials has been slightly positive, with contributions from underweight positions in Capitec and Transaction Capital, and overweight positions in Sanlam and Alexander Forbes, offset by an overweight position in Absa and underweight positions in Discovery and Remgro. Property performed well in Q4 but was neither a major contributor nor detractor for the year.

Within resources, there were very little contributors in Q4, with the weak commodity environment weighing on the sector generally. There was a bit of a recovery in some of the platinum counters off very depressed bases, although hardly sufficient to reverse the sharp underperformance this past year. Overweight positions in Anglo American Platinum and Northam Platinum contributed, as did the underweight position in Sibanye-Stillwater, although the detractors were significant, with our large overweight positions in Sasol and Anglo America detracting, while underweight positions in Harmony, Gold Fields and Kumba Iron Ore also detracted. For the 12 months, large overweight positions in various mining shares have been a major contributor to negative alpha generation, with only small contributors from underweight positions in Anglo American Platinum and Sibanye-Stillwater. For the 12 months, our overweight positions in Sasol, Northam Platinum and Anglo American were major detractors, while underweight positions in the gold counters detracted, notably underweight positions in all the major gold counters: Harmony, AngloGold and Gold Fields. Resources are by nature highly cyclical and when the sector recovers it should do so meaningfully.

The theme in Q4 as refenced above regarding value/growth shares was a key feature of the relative contributors/detractors within the industrial sector and for the year. For Q4, the major industrial contributors were overweight positions in Aspen Pharmacare and Pepkor, while underweight positions in Barloworld, Bidvest, Vodacom and Supergroup also contributed. Unfortunately, the detractors far outweighed the contributors, with overweight positions in Pick n Pay and British American Tobacco and underweight positions in Clicks and Tiger Brands detracting. For the year, it was much of the same, with positive contributions from overweight positions in Aspen, Datatec, Pepkor, Truworths and PPC and underweight positions in Vodacom and MultiChoice. Detractors included overweight positions in Pick n Pay, KAP and British American Tobacco and underweight positions in Richemont, Bidcorp and Clicks.

Conclusion

As we enter this next year, several issues remain unresolved and unclear. While we can clearly support the fact that we are at the peak of a challenging global interest rate cycle, it is yet to be ascertained where the environment settles, how inflation evolves around the world and where interest rates ultimately recede back to. We have a clear sense that they will need to be higher than history, which implies a higher cost of capital than the investment world has become accustomed to in recent times. This poses a challenge to equity valuations, and we are incorporating these debates into our views and our process. At the same time, we see the year ahead as being fraught with economic growth challenges in many regions of the world – potentially the US, in Europe and likely in China. This means that a broad-based, typical business recovery is not expected to play out as it has in previous cycles and that there are more nuances in the current environment that we need to consider. We also need to overlay structural longer-term challenges such as climate change, the green agenda, ageing demographics, and geopolitical upheaval, all of which move slowly, but have a material influence on the environment that we are navigating.

In South Africa, we face a continuation of the same structural challenges – economic growth, underperforming state-owned entities, weak institutional state capacity, high unemployment, and a fractured political environment. These factors are always considered and factored into our risk management process. Despite these structural impediments, a cyclical narrative also requires consideration, and we have highlighted above that any reduction in loadshedding and a lowering of interest rates will support the performance of the South African economy in the near term. In many sectors of our market, South African equities remain materially discounted relative to their global peers and the lack of foreign interest in our market further exacerbates this. This also implies that we have several investment cases that we hold within the fund that offer excellent value but will require patience to unlock over time.

This past year has offered great learnings from the confluence of challenges that transpired during the year. It has reminded us of the importance of remaining committed to our robust investment research process and anchored within our investment philosophy – of the need to constantly scrutinise and re-scrutinise the investments that we hold on behalf of our clients. Last year was characterised by extreme turbulence, material dislocations in the market and a short-term, myopic focus. When confusion prevails and a general consensus is not comfortably known or a business cycle is not playing out in its usual manner, it is difficult to stay one's course and stick to your knitting. Our experience this past year has taught us that these choppy and volatile market conditions can endure and that we will likely need to continue to navigate these dynamics to protect and grow the capital of our clients. If we are prepared to question ourselves over and over and deliver a high quality of research that has some edge and can provide us with conviction that we need to concentrate capital in ideas, then these turbulent market conditions can offer some exceptional investment opportunities.

Bonds

By Mokgatla Madisha
Head of Fixed Income
Sanlam Investments

The FTSE/JSE All Bond Index (ALBI) delivered a strong return for the quarter of 8.08% to rescue what would otherwise have been a dismal year. For the first 10 months of the year the ALBI delivered just 3.23%, less than half the return of the Alexander Forbes Short-Term Fixed-Interest (STeFI) cash index of 6.6%. Following a strong rally in November and December the ALBI delivered 9.67% for the year compared to 8.03% and 7.87%, respectively, for the STeFI and FTSE/JSE Capped Shareholder Weighted All Share Index (Capped SWIX). The performance of the bonds followed a similar rally in global bonds which was sparked by dovish comments from US Federal Reserve (Fed) Chair Jerome Powell and reinforced by soft data. In late October, speaking before the Economic Club of New York, Powell was quoted as saying tight policy was putting downward pressure on economic activity and inflation. He also intimated that soaring bond yields, which at the time were nearing 5% on the US 10-year bond, could help the Fed slow the economy further, cooling inflation and possibly signalling the end of rate hikes. In another speech Fed Vice Chair Philip Jefferson said the Fed must balance the risk of not tightening enough with being too restrictive. The US 10-year bond yield rallied 108 basis points (bps) from a high of 4.99% on 19 October to end December at 3.91%. German and UK benchmark bonds rallied 81.5 bps and 90.5 bps respectively for the quarter. The Medium-Term Budget Policy Statement (MTBPS), delivered on 1 November, held little positive news for the bond market. The debt trajectory continues to deteriorate due to slow revenue growth and continued support for state-owned entities. However, the market was somewhat buoyed by indications that weekly issuance will be held at current levels against some market expectations of an increase. The inaugural rand sukuk auction was very successful delivering R20.3 billion in new funding and alleviating any residual fears of an imminent increase in issuance for this fiscal year.

The bond curve steepened significantly during November and December rallies with the R213 (8-year bond) outperforming the R2048 (25-year bond) by nearly 50 bps. This shows that for the market lingering doubts remain about the fiscal trajectory.

In October, Hamas attacked Israel and took many hostages, sparking violent reprisal the likes of which we have not seen since the first intifada which ended in 1993. The markets' primary concern has been whether the conflict would spill over into a wider regional conflict. Oil prices initially spiked from around $84 per barrel to $92 per barrel, but subsequently declined to $77, as the war remained contained between Hamas and Israel. Despite inflation accelerating from the lows of 4.7% in July to 5.9% in October, the bond market remained sanguine because of the continuing global disinflationary trend.

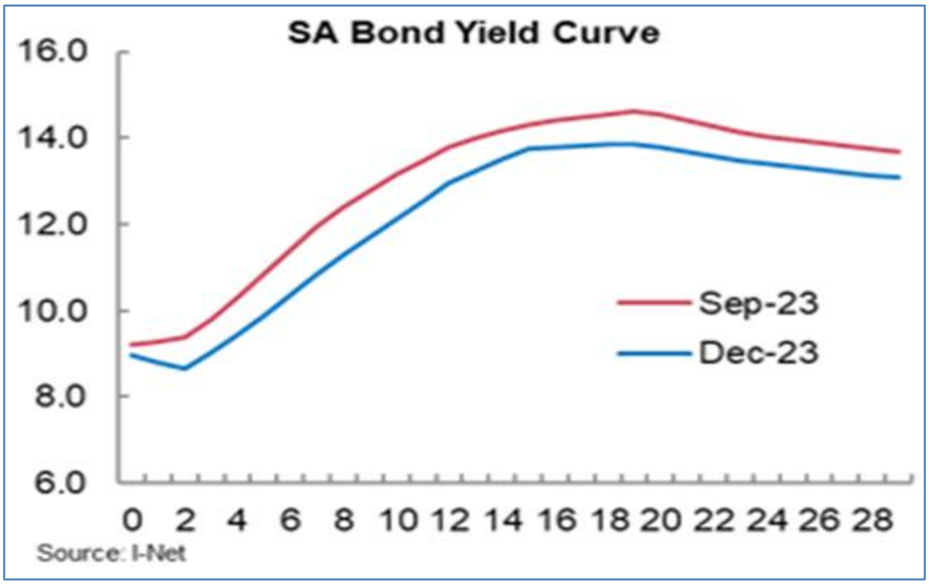
Bond market outlook

Bonds outperformed our expectations in 2023 and therefore start 2024 slightly overvalued. However, with inflation in developed markets closer to target and economic growth slowing, central banks will likely be reducing policy rates this year, leading to a better backdrop for bonds. In the US, the market is fully pricing the first cut by May and is expecting five rate cuts this year. The current federal funds rate of 5.5% is very restrictive compared to consensus CPI forecast of 2.3% by year-end.

The local market is pricing 95 bps of cuts by the end of the year, and only another 25-bps reduction between 12 and 24 months. The market is not looking for a deep rate cutting cycle.

We think nominal bonds will outperform cash and inflation-linked bonds meaningfully. Within the nominal bonds space, we like front-end and intermediate bonds, which will benefit from monetary policy easing.

The back end of the yield curve has underperformed significantly over the past year, but we are not yet convinced that it represents the best value. Treasury's funding strategy will be critical to whether the curve will flatten or not.



Smoothed Bonus Portfolios

Members benefit from the underlying portfolios' investment returns through regular bonus declarations. These regular bonuses are designed to provide a smoothed return to members over time. This reduces the volatility of investment returns (i.e. extreme ups and downs in the market) relative to an investment in market-linked portfolios.

During periods of strong investment performance, a portion of the underlying investment return is held back in reserve and is not declared as a bonus. This reserve is then used to declare higher bonuses during periods of lower return than would otherwise have been the case.

The benefits of smoothing include:

- Reducing the exposure to short-term market volatility.
- Lessening the risk of investing in or disinvesting from the market at the wrong time due to circumstances beyond a member's control.

It is important to note that smoothing merely changes the timing of when investment returns are released and does not reduce or increase the returns. Over time, the bonuses should produce a similar return to the underlying investment in the fund (after deduction of the guarantee costs).

Smoothing terminology

Book value

The book value is the net contributions accumulated at the bonus rate declared.

Market value

The market value is the amount obtainable on the open market by the sale of the underlying assets.

Bonus

A monthly increase to a client's book value, expressed as a percentage. Bonuses are declared before the start of the month to which they apply, and are allocated at the end of the month.

Benefit payments

The book value is paid on death, disability, resignation, retrenchment or retirement. There is no limit on the amount of benefit payments at book value. Other exits, such as termination or investment switches will occur at the lower of book and market value.

Funding level

The products' funding level is the ratio of market value to book value. This is used in the bonus declaration formula.

Product Range

Stable Bonus Portfolio

The Stable Bonus Portfolio (SBP) offers investors stable, smoothed returns with a partial guarantee on benefit payments. A bonus, which consists of a vesting and non-vesting component is declared monthly in advance. Bonuses cannot be negative.

Monthly Bonus Fund

The Monthly Bonus Fund (MBF) protects investors against short-term volatility by smoothing out investment returns, while providing valuable guarantees on benefit payments. Fully vesting bonuses are declared monthly in advance. Bonuses cannot be negative.

Progressive Smooth Bonus Fund

The Progressive Smooth Bonus Fund is a multi-managed smooth bonus fund, managed by a diversified blend of black economic empowerment asset managers. The fund protects investors against short-term volatility by smoothing out investment returns while providing valuable guarantees on benefit payments. The underlying portfolio holds less risk assets than a typical balanced fund. An investor's investment account will consist of a vesting and non-vesting portion.

Sanlam Absolute Return Plus Fund

Sanlam Absolute Return Plus Fund provides risk-averse members with exposure to Sanlam's Inflation Linked Fund with a capital guarantee. This is achieved through extensive use of derivative (hedging) instruments and the declaration of a monthly fully vesting bonus. Bonuses cannot be negative. At termination, the full value of net contributions plus declared bonuses are paid.

Fees

Monthly Bonus Fund and Stable Bonus Portfolio

Guarantee fee	
Monthly Bonus Fund	1.60%
Stable Bonus Portfolio	0.90%
Investment administration fees	
Size of investment	Fee
Less than R100m	0.425%
R100m to R300m	0.375%
R300m plus	0.325%

The investment manager may be incentivised with performance fees (capped at 0.3% p.a.). Details of the performance fees actually paid over the past calendar year are available on request.

Progressive Smooth Bonus Fund

Guarantee fee	0.70%
Investment administration fee*	Max 0.70% (excl. VAT)

* All clients pay the same fee regardless of the size of the investment. As the portfolio grows and economies of scale can be achieved, all savings passed onto clients by way of a lower fee.

Underlying managers may be incentivised with performance fees subject to a portfolio performance fee threshold.

Sanlam Absolute Return Plus

Investment administration fee	1.00%

Product information

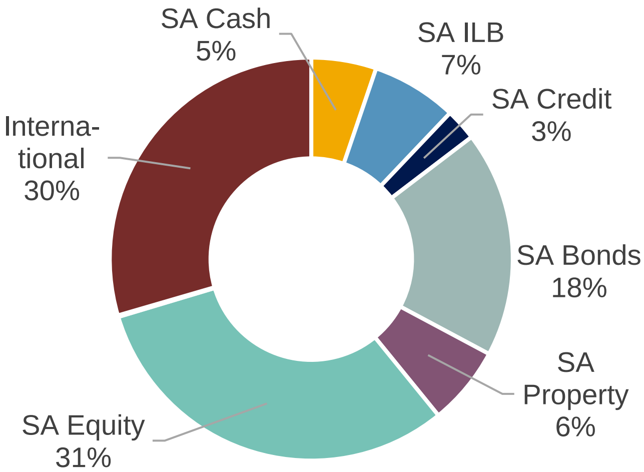
Performance: Bonuses % (Gross of fees)

Portfolio	Oct-23	Nov-23	Dec-23	Periods to 31 December 2023 (annualised)		
				1 year	3 years	5 years
Smoothed Bonus Partially Vesting						
Sanlam Stable Bonus Portfolio	0.817%	0.543%	0.882%	10.29%	8.19%	7.52%
Progressive Smooth Bonus Fund	0.774%	0.635%	0.708%	9.92%	9.21%	7.60%
Smoothed Bonus Fully Vesting						
Monthly Bonus Fund	0.727%	0.433%	0.792%	9.49%	7.73%	6.99%
Derivative Based Fully Vesting						
Sanlam Absolute Return Plus	0.360%	0.083%	1.540%	9.48%	7.98%	7.87%
Inflation	0.89%	-0.09%	0.00%	5.13%	6.07%	5.05%

Top ten equity holdings and asset allocation as at 31 December 2023

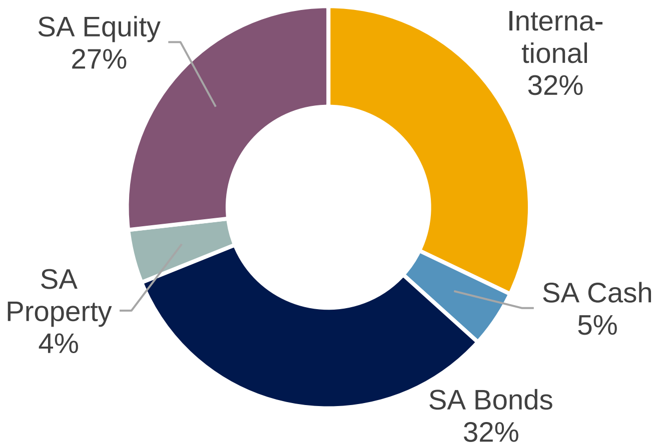
Stable Bonus Portfolio	% of Fund
Naspers	2.6
FirstRand	2.1
Standard Bank Group	1.5
British American Tobacco	1.4
Goldfields	1.3
MTN Group	1.2
Anglo American	1.1
Richemont	1.1
Prosus	1.0
Capitec	0.9

Stable Bonus Portfolio



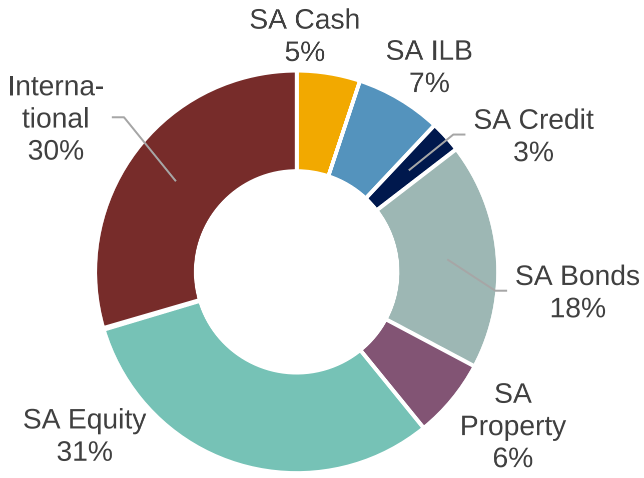
Progressive Smooth Bonus Fund	% of Fund
Naspers	2.5
FirstRand	1.8
Standard Bank Group	1.5
Prosus	1.4
Anglo American	1.2
MTN Group	1.2
Anglogold Ashanti	0.9
Richemont	0.9
Goldfields	0.9
British American Tobacco	0.8

Progressive Smooth Bonus Fund

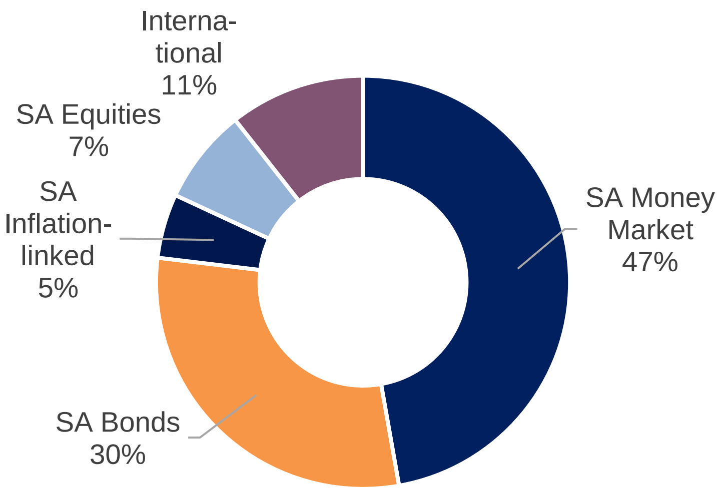


Monthly Bonus Fund	% of Fund
Naspers	2.6
FirstRand	2.1
Standard Bank Group	1.5
British American Tobacco	1.5
Goldfields	1.3
MTN Group	1.2
Anglo American	1.1
Richemont	1.1
Prosus	1.0
Capitec	0.9

Monthly Bonus Fund



Sanlam Absolute Return Plus



Sanlam Smooth Growth Series

The objective of the fund is to provide stable long-term capital growth to risk averse living annuity clients and other investors. This is achieved by smoothing volatile investment returns while declaring monthly bonuses.

How It Works

In the Sanlam Smooth Growth Series the investment returns are smoothed by way of monthly bonus declarations. This helps to reduce the short term volatility that investors in market- linked portfolios may experience.

When the market is doing well and the investment portfolio is performing strongly, a portion of the underlying investment return is held back in a reserve and not declared as a bonus. This reserve is then used to declare higher bonuses when returns are lower. This helps to even out or smooth the underlying investment returns.

Smoothed bonus portfolios address a common investment behavioral problem that many investors, especially those in living annuities face. These investors are often risk-averse and without appropriate advice may end up too conservatively invested for their risk profile and investment horizon. This problem is aggravated when one needs to draw a regular income from the investment, as in the case of a living annuity.

The smoothing provided by these portfolios reduces the volatility of the investment, giving risk-averse members the capacity to invest more in growth assets such as equities and property.

The Smooth Growth Series consists of 2 portfolios

- **Sanlam Smooth Growth Fund** - This is a single-managed, moderate-aggressive multi-asset class portfolio managed by Sanlam Investments' Single-Manager.
- **Sanlam Select Growth Fund** - This is a multi-managed, moderate-aggressive balanced fund of funds managed by Sanlam Investments' Multi-Manager.

Available for the following product categories:

- Living Annuities
- Retirement Annuity Funds
- Retail Preservation Funds

Suitable for investors who:

- Want high exposure to growth assets but with reduced short-term volatility in their retirement income portfolios.
- Aim for investment returns of CPI + 4.5% over the longer term.
- Understand that with the monthly bonus formula they will have less market volatility than similar multi-asset class portfolios but in the event of severe market conditions their bonuses may at times be zero or negative.

Investment Charges:

Portfolio	Investment fee
Select Growth Fund	1.00%
Smooth Growth Fund	0.60%

Portfolio	Smoothing fee
Select Growth Fund	0.20%
Smooth Growth Fund	0.20%

SMMI may incentivise underlying asset managers with performance fees. Details of the performance fees actually paid over the past calendar year are available on request.

Provides the following 3 main benefits:

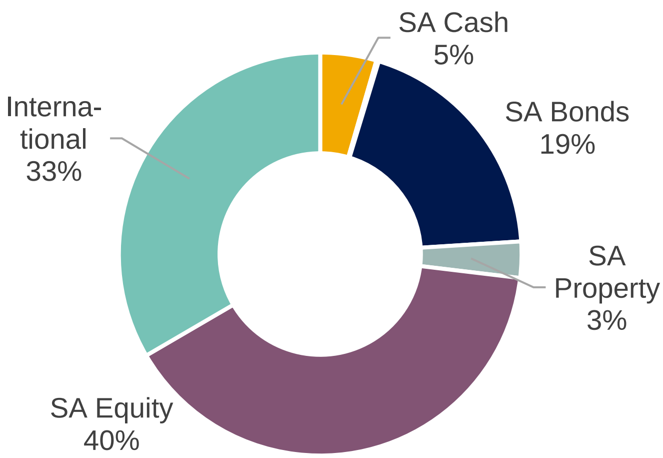
- Deliver consistent and reliable inflation beating returns whilst eliminating or reducing the chances of capital loss.
- Protect your investment from extreme volatility that will occur in investment markets over time.
- Limit negative returns on benefit payment events.

Product information

Top ten equity holdings and asset allocation as at 31 December 2023

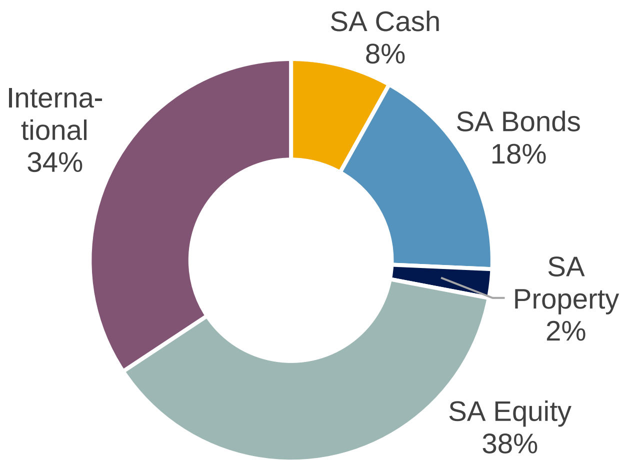
Sanlam Smooth Growth Fund	% of Fund
Naspers	4.2
FirstRand	2.6
Standard Bank Group	2.5
MTN Group	1.8
Goldfields	1.6
Prosus	1.5
ABSA Group	1.4
Anglo American	1.3
British American Tobacco	1.3
BHP Group	1.2

Sanlam Smooth Growth Fund



Sanlam Select Growth Fund	% of Fund
FirstRand	2.4
Prosus	2.3
ABSA Group	2.0
Naspers	1.9
Anglo American	1.4
Standard Bank Group	1.4
British American Tobacco	1.3
Richemont	1.2
Bid Corporation	1.1
Aspen Healthcare Holdings	1.1

Sanlam Select Growth Fund



Gross bonuses (period to 31 December 2023)

	Sanlam Smooth Growth Fund	Sanlam Select Growth Fund
1 Month	0.68	0.73
3 Months	1.72	2.13
1 Year	9.38	10.16
3 Years	8.84	9.52

Record of Proxy Voting

In terms of the mandate you have given us, we vote your shares according to SIM's Proxy Voting guidelines. A full record of the "Against" votes cast by SIM is shown below. A complete record of all votes cast on your shares is available on request.

Adcock Ingram Limited

(Annual General Meeting 21-Nov-2023)

Non-binding advisory votes - Endorsement of Implementation of remuneration policy	STI performance targets based on budgets are not transparent

AFRICAN RAINBOW CAPITAL INVESTMENT

(Annual General Meeting 14-Nov-2023)

General authority for Directors to allot and issue A ordinary shares for cash	Exceeded our 5% limit

African Rainbow Minerals

(Annual General Meeting 08-Dec-2023)

Re-election of Dr RV Simelane	Director has served in excess of our cap of 12 years
Re-election of Mr AD Botha	Director has served in excess of our cap of 12 years
Re-election of Mr JA Chissano	Director has served in excess of our cap of 12 years
Re-election of Mr WM Gule	By the time the director is up for re-election again, he/she would have served for a period exceeding our service cap of 12 years
To individually elect the following independent non-executive directors as members of the audit and risk committee- Dr RV Simelane - Subject to their re-election as directors pursuant to ordinary resolution numbers 1 and 5 (as applicable)	Director has served in excess of our cap of 12 years
To individually elect the following independent non-executive directors as members of the audit and risk committee- Mr AD Botha - Subject to their re-election as directors pursuant to ordinary resolution numbers 1 and 5 (as applicable)	Director has served in excess of our cap of 12 years
To individually elect the following independent non-executive directors as members of the audit and risk committee- Mr F Abbott	Director has served in excess of our cap of 12 years
To individually elect the following independent non-executive directors as members of the audit and risk committee- Mr TA Boardman (chairman)	Director has served in excess of our cap of 12 years

Afrocentric Inv Corp Ltd

(Annual General Meeting 09-Nov-2023)

Non-binding advisory vote - Approval of the remuneration implementation report	Out-of-policy Executive Rewards paid to the CEO and CFO over the period in question

Aspen Pharmacare Holdings Ltd

(Annual General Meeting 07-Dec-2023)

Re-election of directors: Kuseni Dlamini	By the time the director is up for re-election again, he/she would have served for a period exceeding our service cap of 12 years

ATTACQ Limited

(Annual General Meeting 16-Nov-2023)

Allotment and issue of shares to employees of Attacq under the Attacq long-term incentive plan - Authorise the company to allot and issue shares to employees under the long-term incentive plan	For incentivisation, but we do not support the incentive scheme
Non-binding advisory vote to support the remuneration policy - Confirm support for the group's remuneration policy	Incentive scheme does not include a performance hurdle based on operating returns

Record of Proxy Voting (continued)

AVI Ltd

(Annual General Meeting 08-Nov-2023)

Increase in fees payable to Chairman of the Audit and Risk Committee	Perceived non-independence and capacity constraints of the remuneration committee
Increase in fees payable to Chairman of the Remuneration, Nomination and Appointments Committee	Perceived non-independence and capacity constraints of the remuneration committee
Increase in fees payable to Chairman of the Social and Ethics Committee	Perceived non-independence and capacity constraints of the remuneration committee
Increase in fees payable to members of the Audit and Risk Committee	Perceived non-independence and capacity constraints of the remuneration committee
Increase in fees payable to members of the Remuneration, Nomination and Appointments Committee	Perceived non-independence and capacity constraints of the remuneration committee
Increase in fees payable to non-executive directors, excluding the Chairman of the Board	Perceived non-independence and capacity constraints of the remuneration committee
Increase in fees payable to non-executive members of the Social and Ethics Committee	Perceived non-independence and capacity constraints of the remuneration committee
Increase in fees payable to the Chairman of the Board	Perceived non-independence and capacity constraints of the remuneration committee
Non-binding advisory vote: to endorse the implementation report	Incentive scheme performance hurdles not scaled
Non-binding advisory vote: to endorse the remuneration policy	Performance targets are not specified and individual participation exceeds our 0.5% limit

BHP GROUP PLC

(Annual General Meeting 01-Nov-2023)

Adoption of the Remuneration Report	Incentive scheme does not include a performance hurdle based on operating returns
Approval of equity grants to the Chief Executive Officer	For incentivisation, but we do not support the incentive scheme

Blue Label Telecoms Ltd

(Annual General Meeting 23-Nov-2023)

Election of Mr JS Mthimunye as a member and Chairman of the Audit, Risk and Compliance Committee	Director has served in excess of our cap of 12 years
Re-election of Mr JS Mthimunye as a Director of the Company	Director has served in excess of our cap of 12 years

Bowler Metcalf Ltd

(Annual General Meeting 07-Nov-2023)

Appointment and reappointment of Audit and Risk Committee - Mr Craig MacGillivray	Director has served for a period equal to our cap of 12 years
Non-binding advisory vote - Endorsement of remuneration policy	Remuneration implementation disclosure needs to be improved
Non-binding advisory vote - Endorsement of the implementation report of remuneration policy	Remuneration policy requires further development
Re-election of Director Mr Finlay Craig MacGillivray	Director has served for a period equal to our cap of 12 years

Cashbuild Ltd

(Annual General Meeting 27-Nov-2023)

Endorsement, on a non-binding advisory basis, of the Implementation of the Company's Remuneration Policy	Remuneration implementation disclosure needs to be improved
Re-appointment of the Audit Committee Members - DSS Lushaba	Director has served for a period equal to our cap of 12 years

City Lodge Hotels Ltd

(Annual General Meeting 23-Nov-2023)

Appointment of group audit committee members - Ms N Medupe	Director has served in excess of our cap of 12 years

Discovery Limited

(Annual Meeting 16-Nov-2023)

Non-binding advisory vote on the remuneration policy	Only one performance hurdle, with a weighting of 15%, is used as a measure of long-term performance

Record of Proxy Voting (continued)

DRDGold Limited

(Annual General Meeting 29-Nov-2023)

Adoption of the Company's Single Incentive Plan incorporating the Deferred Share Plan	Performance measured over a one-year period, below our minimum of three years for long-term performance. Plan does not include a performance hurdle based on operating returns
General authority to issue securities for cash	Exceeded our 5% limit
Non-binding advisory vote - Endorsement of the Company's Implementation Report	Performance targets based on budgets are not transparent
Non-binding advisory vote - Endorsement of the Company's Remuneration Policy	Incentive scheme does not include a performance hurdle based on operating returns

Emira Property Fund

(Annual General Meeting 14-Nov-2023)

Appointment of the chairman and members of the Audit Committee - Appointment of Mr V Mahlangu as a member of the Audit Committee	Director has served for a period equal to our cap of 12 years
Appointment of the chairman and members of the Audit Committee - Appointment of Mr V Nkonyeni as a member and chairman of the Audit Committee	Director has served for a period equal to our cap of 12 years

Harmony Gold Mining Company Ltd

(Annual General Meeting 04-Dec-2023)

To approve the remuneration policy	Incentive scheme does not include a performance hurdle based on operating returns
To re-elect John Wetton as a director	Director has served for a period equal to our cap of 12 years
To re-elect John Wetton as a member of the audit and risk committee	Director has served for a period equal to our cap of 12 years

Hyprop Investments Ltd

(Annual General Meeting 29-Nov-2023)

Appointment of the members of the Audit and Risk Committee - Thabo Mokgatlha - chairperson	By the time the director is up for re-election again, he/she would have served for a period exceeding our service cap of 12 years
Re-Election of directors - Kevin Ellerine	Director has served in excess of our cap of 12 years
Re-Election of directors - Thabo Mokgatlha	By the time the director is up for re-election again, he/she would have served for a period exceeding our service cap of 12 years

Italtile Ltd

(Annual General Meeting 09-Nov-2023)

Election of Audit and Risk Committee members: Election of Mr S G Pretorius	Director has served for a period equal to our cap of 12 years
Election of Audit and Risk Committee members: Election of Ms S M du Toit	Director has served for a period equal to our cap of 12 years
Non-binding advisory votes: Endorsement of the Company's Implementation Report	Performance targets based on budgets are not transparent
Non-binding advisory votes: Endorsement of the Company's Remuneration Policy	Individual participation exceeds our 0.5% limit
Re-election of directors: Re-election of Mr S G Pretorius	Director has served for a period equal to our cap of 12 years
Re-election of directors: Re-election of Ms S M du Toit	Director has served for a period equal to our cap of 12 years

Lewis Group Ltd

(Annual General Meeting 12-Oct-2023)

Adoption of the Lewis 2023 Executive Performance Scheme	Individual participation exceeds our 0.5% limit
Non-binding advisory vote - Endorsement of the Company's implementation report	Performance targets based on budgets are not transparent
Non-binding advisory vote - Endorsement of the Company's remuneration policy	Individual participation exceeds our 0.5% limit
Re-election of Hilton Saven as a director	Director has served in excess of our cap of 12 years

Mas Plc

(Annual General Meeting 07-Dec-2023)

Advisory, non-binding approval of compensation implementation report for Executive Directors	Target and scaling of performance hurdles not disclosed
Advisory, non-binding approval of compensation policy	Incentive scheme does not include a performance hurdle based on operating returns

Record of Proxy Voting (continued)

Metrofile Holdings Limited

(Annual General Meeting 23-Nov-2023)

Re-election of SV Zilwa as a non-executive director	By the time the director is up for re-election again, he/she would have served for a period exceeding our service cap of 12 years
Re-election of SV Zilwa, subject to adoption of ordinary resolution number 3 as a member of the Audit, Governance and Risk Committee	By the time the director is up for re-election again, he/she would have served for a period exceeding our service cap of 12 years

Momentum Metropolitan Holdings Limited

(Annual General Meeting 23-Nov-2023)

Approval of amendment to the company's memorandum of incorporation, MOI	Directors should retire at age 70, with exceptions granted on a case-by-case basis
Non-binding advisory vote on the implementation report as set out in the remuneration report of the Company	Incentive scheme performance hurdles not scaled
Non-binding advisory vote on the remuneration policy of the Company	Incentive scheme does not include a performance hurdle based on operating returns

Northam Platinum Hldgs LTD

(Annual General Meeting 30-Oct-2023)

Non-binding endorsement of the group's remuneration policy	Incentive scheme does not include a performance hurdle based on operating returns

Outsurance Group Limited

(Annual General Meeting 23-Nov-2023)

Non-binding advisory vote - Advisory endorsement of remuneration implementation report	Incentive scheme performance hurdles not scaled

Pan African Resource Plc Npl

(Annual General Meeting 23-Nov-2023)

To endorse the Company's remuneration implementation report	Performance targets based on budgets are not transparent
To endorse the Company's remuneration policy	Incentive scheme does not include a performance hurdle based on operating returns

Remgro Ltd

(Annual General Meeting 04-Dec-2023)

Election of director - Mr N P Mageza	Director has served in excess of our cap of 12 years
Election of member of the Audit and Risk Committee - Mr F Robertson.	Director has served in excess of our cap of 12 years
Election of member of the Audit and Risk Committee - Mr N P Mageza	Director has served in excess of our cap of 12 years
Election of member of the Audit and Risk Committee - Mr P J Moleketi	Director has served in excess of our cap of 12 years
Non-binding advisory vote on Remuneration Policy	Individual participation exceeds our 0.5% limit

Shoprite Holdings Ltd

(Annual General Meeting 13-Nov-2023)

Re-election of Directors - Dr Christo Wiese	Director has served in excess of our cap of 12 years

South32 Limited

(Annual General Meeting 26-Oct-2023)

Grant of awards to executive director	For incentivisation, but we do not support the incentive scheme

Spur Corporation Ltd

(Annual General Meeting 01-Dec-2023)

Non-binding advisory vote - Remuneration policy	Incentive scheme does not include a performance hurdle based on operating returns

Record of Proxy Voting (continued)

Truworths International Ltd

(Annual General Meeting 09-Nov-2023)

To confirm the appointment of the following qualifying directors to the company's Social and Ethics Committee for the period until the next annual general meeting : Mr H Saven	Director has served in excess of our cap of 12 years
To re-elect by separate resolutions the retiring directors who have made themselves available for re-election: Mr H Saven	Director has served in excess of our cap of 12 years

Governance Structure

A sound governance structure is needed to manage discretionary participation business, which forms a substantial proportion of Sanlam Life's liabilities. The Sanlam Life Insurance Limited Board ("Sanlam Life Board") is ultimately responsible for the governance of discretionary participation business, but a number of parties assist in this regard, including:

- the Board's Audit, Actuarial and Risk Committee;
- the Board's Policyholders' Interest Committee;
- the Asset Liability Committee (ALCO);
- the Statutory Actuary; and
- the external auditors and their actuarial resources

Directive 147.A.i (LT) issued by the Financial Services Board requires insurers to define, and make publicly available, the Principles and Practices of Financial Management (PPFM) that are applied in the management of their discretionary participation funds.

The Sanlam Life Board has tasked its Policyholders' Interest Committee to monitor compliance with the PPFM on its behalf. The PPFM may change as the economic or business environment changes. Any change to a Principle or Practice will be approved by the Sanlam Life Board, on recommendation from the Statutory Actuary and the Policyholders' Interest Committee.

The Asset-liability committee (ALCO), comprising Sanlam Life employees with actuarial, investment and client solution backgrounds, oversees the investment policy for the various smoothed bonus portfolios.

Asset & Liability Committee

Sanlam's Asset Liability Committee (ALCO) provides a strategic framework for the management of Sanlam's Smoothed Bonus business. This includes determining the strategic asset allocation and the setting of benchmarks and risk parameters for Sanlam Investment Management (SIM).

Authority

The ALCO is mandated by the Sanlam Life Board to oversee the investment management of the portfolios mentioned within the Sanlam Investment Policy and the Approval Frameworks of the relevant entities. It is a management committee which reports on its deliberations and activities to the Customer Interest as well as the Risk and Compliance committees of the Sanlam Life Board.

Responsibilities for investment decision

The role of ALCO is inter alia to:

- Find an appropriate balance between competitive investment returns and an acceptable degree of risk given the nature of the policy liabilities.
- Establish, monitor and update investment parameters outlined in Investment Guidelines that reflect the objectives of the funds under consideration.
- Manage the natural conflict of interests between shareholders and policyholders with regard to the relevant portfolios.
- Obtain feedback and reporting on markets, investment actions undertaken, fund flows and the performance and attribution of the underlying funds.
- Ensure compliance with legislation and policyholder reasonable benefit expectations.
- Debate potential new types of investment opportunities that may further optimize the portfolios' risk return profiles.

Composition

The ALCO is a joint forum on which executives from Sanlam Life and its South African life insurance subsidiaries and Sanlam Specialised Finance (SanFin) are represented. The ALCO comprises of:

- The Chief Actuary of the Sanlam Group (Chairman)
- The Heads of Actuarial Function of Sanlam Life and its South African life insurance subsidiaries.
- Other representatives of Sanlam Life and its South African life insurance subsidiaries:
  - Sanlam Personal Finance Client Solutions
  - Sanlam Corporate Client Solutions
  - Actuarial
  - Risk Management
- Representatives of SanFin

Responsibility for investment decisions

Decision	Responsibility
Strategic asset allocation	ALCO
Benchmarks per asset class	ALCO
Tactical asset allocation	SIM
Stock selection	SIM
Risk parameters	ALCO

Financial Strength

Sanlam Corporate is part of Sanlam Life, a South African insurance giant. Our policies are backed by the considerable financial strength of Sanlam Life, providing security and peace of mind.

The capital levels of Sanlam Group are shown below:

30 June 2023

Solvency Capital Requirement (SCR): 167%

Sanlam Life has a Standard & Poor's (S&P) credit rating of zaAAA.

Smoothed Bonus – Roles

Rhoderic Nel

BCom Certificate in Finance & Investments

CEO : Sanlam Corporate Investments

Danie van Zyl

B.Com (Hons), FIA, FASSA

Head: Smooth Bonus Centre of Excellence

Sanlam Corporate: Investments

Melissa Reddy

Senior Investment Consultant

Sanlam Corporate: Investments

Boitumelo Ngoepe

Actuarial Graduate

Sanlam Corporate: Investments

Lorraine Loubser

Assistant

Sanlam Corporate: Investments

Anthea Petersen

Contracts

Sanlam Corporate: Investments

Further Information

Visit our website at:

http://sanl.am/sebi

Protection-focused Solutions

Structured investments and retirement fund solutions for a comfortable retirement.

Our guaranteed investments provide retirement fund members with smoothed, real returns and capital protection to protect and grow retirement savings. The portfolios offer full or partial guarantees on benefit payments for death, disability, resignation, retrenchment and retirement. Bespoke asset liability matching or liability- driven investment solutions cater for both pre- and post-retirement liabilities. Our annuities provide guaranteed, regular income for life.

Smoothed Bonus Portfolios

Protect your investments from short-term downturns and volatility through monthly bonuses that are designed to provide a smoothed return.

Read more

Annuities

Receive a regular income throughout retirement for peace of mind. You can choose to increase your income by a level percentage, or an increase linked to either inflation or an underlying investment portfolio's growth.

Read more

Asset-Liability Matching Solutions

Match liabilities by investing in assets that move in line with the liabilities, taking into account future required increases. The full range of liability-driven investment strategies caters for each client's specific risk-return objectives, making use of different enhancing strategies for outperformance.

Read more

Post-Retirement Medical Aid (PRMA) Solutions

This is a comprehensive solution, which could entail removing the liability from the balanced sheet, or setting up a plan asset or various funding solutions funded via an asset liability matching strategy.

Read more

call us

Any queries may be mailed to:

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Private Bag X8

Tyger Valley

7536

Call us at: (021) 950-2500

E-mail: SCInvestments@sanlam.co.za

If you have any recommendations to enhance this document, please write to the above address.

Any queries regarding legal compliance issues should be made in writing and addressed to:

The Compliance Officer

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