

# Sanlam Smoothed Bonus Portfolios Disclosure & Governance Report

December 2022



Sanlam Corporate: Investments



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# Introduction



By **Danie van Zyl**  
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Sanlam Corporate: Investments

## Foreword

Global and local markets experienced a volatile year during 2022. We saw major central banks continue to raise interest rates due to concerns about rising inflation, despite the increasing risk of a global recession. Russia's ongoing war in Ukraine, Europe's energy crisis and China's ongoing COVID crisis added further to the negative sentiment.

Looking at historic returns, a portfolio consisting of both local and global equities and bonds provided investors with some diversification to lower their investment risk. When one type of asset class (such as equity or bonds) performed poorly, the other one performed better, helping investors to weather the storm. However, over the last 12 months, many of these asset classes have not provided the diversified returns that investors have become accustomed to. While our smoothed bonus portfolios do an excellent job of smoothing out the market fluctuations, the lower returns we have seen still feed into monthly bonus declarations.

Smoothing of investment returns provides for a more stable journey to retirement with members not having to be concerned with the impact of market downturns. We like to think of these solutions as our four-wheel drive solutions. The benefit of four-wheel drive vehicles is that they have more grip, even when the available traction is very low. The vehicle feels more stable, and its rear end does not slide back and forth in a way that gives you heart palpitations.

Similarly, our smoothed bonus portfolios aim to provide stable investment returns, even in an environment of very low and sometimes negative returns. The journey to retirement feels more stable and members close to retirement do not have to nervously watch the markets every day leading up to their retirement date.



# Purpose of this document

This document provides information on the product features, bonus philosophy, investment management and governance of our smoothed bonus portfolios:

- The Monthly Bonus Fund (MBF)
- The Stable Bonus Portfolio (SBP)
- The Sanlam Progressive Smooth Bonus Fund (PSBF)
- Sanlam Smooth Growth Fund
- Sanlam Select Growth Fund
- Multi-Managed Smooth Growth Fund Taxable
- Multi-Managed Smooth Global Growth Fund

This is an annual report which serves to provide a greater understanding of the portfolio operations to our clients. A range of more regular documents providing information on portfolio performance and product features are published:

- Portfolio brochure
- Portfolio Factsheets (updated monthly)
- Sanlam Smoothed Bonus products Quarterly Report (updated quarterly)
- “Everything you need to know about smoothed bonus products” document

These can be accessed on our website by clicking on the following link:

<http://sanl.am/sebi>

This document is intended to be a less technical supplementary document to the Principles and Practices of Financial Management.

In terms of Financial Services Board Directive 147.A.i (LT), Sanlam is required to define the principles and practices of financial management (PPFM) that are applied in the management of its discretionary participation business, which includes all the Smoothed Bonus Portfolios.

The PPFM documentation relevant to our Smoothed Bonus Portfolios is available on the Sanlam Investments [website](#) under Protection Focussed Solutions.

While the PPFM report provides an overview of principles and practices relating to our Smoothed Bonus Portfolios, it is not intended to be a comprehensive explanation of contractual terms and conditions. The terms and conditions of the policy will always apply.

# Products and Features

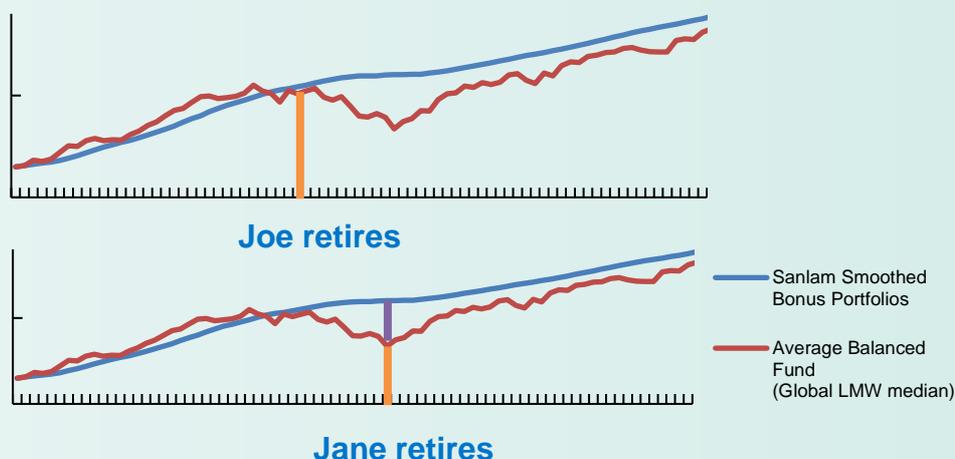
As an introduction to the use and value of smoothed bonus investment portfolios, we use an illustration of two members who are approaching retirement, and show the value of their savings had they been invested in a smoothed bonus portfolio compared with an average balanced fund:



Joe



Jane



As members typically have little choice over when exactly they retire, exposure to the market – even in a balanced fund (as illustrated by the red line above) – may be undesirable. Take Joe as an example, he retired in June 2008, which is shown by the orange line. If he was invested in an average balanced fund and retired 6 months later, when Jane does, his retirement savings would be substantially smaller, due to market movements.

But if invested in a smoothed bonus product (blue line), both Jane and Joe would have some capital protection. Jane is in a far better position when she retires due to this capital protection. The value of the smoothed bonus portfolio for Jane is shown by the purple line – the difference between the values of the investment in the smoothed bonus portfolio and the same capital invested in an average balanced fund.

## Sanlam Smoothed Bonus Products

Sanlam has a long history of providing smoothed bonus portfolios, the first to be launched was the Alpha Bonus Portfolios which was launched in 1982, this portfolio's closed and clients transferred into the Stable Bonus Portfolio in 2010. We were the first to launch a smoothed bonus portfolio which only has black underlying managers in South Africa, the Progressive Smooth Bonus Fund.

Product Name	Inception	Vesting Style	Capital Guarantee	Manager Style	Fund size
Monthly Bonus Fund	1999	Fully vesting	100%	Single manager	R8 977m
Stable Bonus Portfolio	1986	Partially vesting	100%	Single manager	R16 220m
Progressive Smooth Bonus Fund	2017	Partially vesting	80%	Multi-manager	R2 805m
Smooth Growth Fund	2020	Partially vesting	50%	Single manager	R58m
Select Growth Fund	2020	Partially vesting	50%	Multi-manager	R2 338m
MM Smooth Growth Fund Taxable	2022	Partially vesting	50%	Multi-manager	R24m
MM Smooth Global Growth Fund	2022	Partially vesting	50%	Multi-manager	R1 084m

Our smoothed bonus portfolios have been protecting investors against short-term volatility by smoothing out investment returns while providing valuable guarantees on benefit payments since their inception.

# Portfolio size

Portfolio size as at 31 December 2022

Portfolio Name	Book Value (Pooled Product)	Book Value (Segregated clients)*	Total Book Value
Monthly Bonus Fund	R8 637m	R340m	R8 977m
Stable Bonus Portfolio	R13 762m	R2 458m	R16 220m
Progressive Smooth Bonus Fund	R276m	R2 529m	R2 805m
Smooth Growth Fund	R58m	-	R58m
Select Growth Fund	R2 338m	-	R2 338m
Multi-Managed Smooth Growth Fund Taxable	R24m	-	R24m
Multi-Managed Smooth Global Growth Fund	R1 084m	-	R1 084m

\* These clients have their own funding level and bonus rates.

Five largest clients by asset value (combing pension and provident fund for the same employer)

1	2	3	4	5
R4 987m	R3 579m	R1 109m	R876m	R717m

Values as at 31 December 2022. For the Sanlam Umbrella Fund, this looks through to the underlying participating employer.

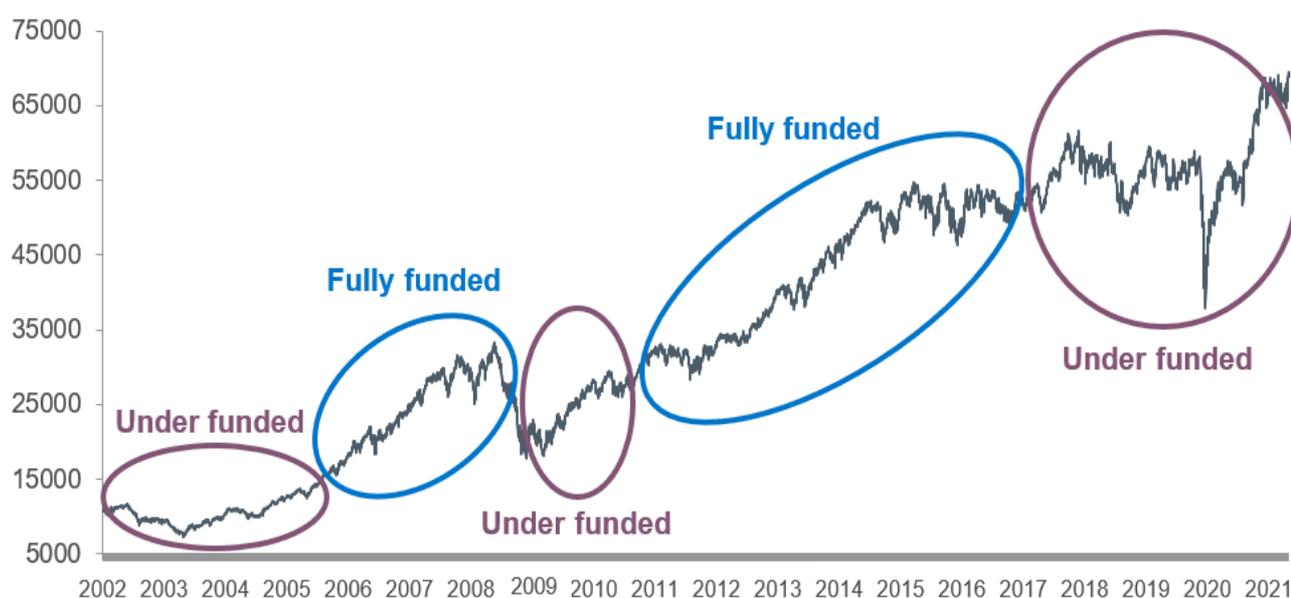


# Impact of Smoothing Investment Returns

Members benefit from the underlying portfolio's investment returns through regular bonus declarations. These regular bonuses are designed to provide stable and predictable investment returns to members over time. This smoothing reduces the volatility of investment returns associated with an investment in market-linked portfolios.

When the market is doing well and your 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 returns on your investment.

A consequence of the smoothing process is that the guaranteed value or book value does not equal the underlying pool of assets in the portfolio. When investment returns are held back, the underlying pool of assets exceed the total book value. When this happens, the portfolio is fully-funded and has a surplus. When investment returns are negative, the underlying pool of assets may be less than the total book value and the portfolio is therefore under-funded and has a deficit.



The graph above shows the growth of an investment in the ALSI index and periods where the Sanlam smoothed bonus portfolios were mostly fully-funded/under-funded.

It is natural for smoothed bonus portfolios to oscillate between having a surplus and a deficit over time as the underlying investment return is volatile. What is important is that a member's book value depends on the bonus rate declared and does not exhibit the same volatility as the underlying assets. The book value is paid on death, disability, resignation, retrenchment, retirement and certain living annuity income payments.

## 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 e.g. retirement, retrenchment or death.

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).

# Funding level

Sanlam is required to disclose funding levels that are below 92.5% at financial year end (i.e. Bonus Smoothing Reserve (BSR) below -7.5%). However, we publish the funding levels on a monthly basis on the Minimum Disclosure Documents.

The long-term funding level target of our smoothed bonus portfolios is 103%.

## Funding levels as at 1 December 2022:

Portfolio Name	Funding level
Monthly Bonus Fund	Fully-funded
Stable Bonus Portfolio	Fully-funded
Progressive Smooth Bonus Fund	Fully-funded
Smooth Growth Fund	Fully-funded
Select Growth Fund	Fully-funded
Multi-Managed Smooth Growth Fund Taxable	Fully-funded
Multi-Managed Smooth Global Growth Fund	99.20%



# Bonus Philosophy

Sanlam's bonus philosophy is that the underlying assets for a particular group of smoothed bonus policies will, over time, be used for the benefit of those policyholders subject to charges recovered from the portfolio.

The bonus philosophy further aims to provide a reasonable compromise between smoothing the volatility of investment returns on the one hand and ensuring equity among different generations of policyholders on the other.

The approach used when determining bonus rates is as follows:

- The starting point is the net expected long-term investment return, taking into account the asset composition of the particular portfolio.
- This return is adjusted to eliminate surpluses or deficits which have accrued due to actual experience differing from the expected long-term investment returns in the portfolio over a suitable period.
- Policyholders' reasonable benefit expectations are also taken into account when discretion is applied to bonus declarations.

Bonuses are declared at the start of the month to which they apply, and are allocated at the end of the month to which they apply. Sanlam retains the right to change the bonus formula should the circumstances require.

The Sanlam Life Board approves the bonus philosophy on the advice of the statutory actuary.

The net bonuses for our **Monthly Bonus Fund** and **Stable Bonus Portfolio** are declared monthly in advance based on the following formula:

**Bonus =  $i + (FL - 103\%) / (24 - m) - \text{fees}$**

$i$

expected net  
long-term  
monthly  
return

$FL$

funding  
level of the  
product

$m$

months

FL > 115%	m = 12
For 97.5% <= FL <= 115%	m = 0
For 92.5% <= FL < 97.5%	m = 10
FL < 92.5%	bonus = 0% net of fees

Bonuses are declared net of the guarantee premium and have a minimum value of zero. The difference between the actual funding level and 103% is normally added to the bonus over a rolling 24-month period.

The following exceptions apply:

- if the funding level is lower than 92.5%, a zero net bonus is declared;
- if the funding level is between 92.5% and 97.5%, the difference between the actual funding level and 103% is added to the bonus over a rolling 14-month period;
- if the funding level is above 115%, the difference between the actual funding level and 103% is added to the bonus over a rolling 12-month period.



Bonuses for our **Progressive Smooth Bonus Fund** are declared monthly in advance based on the following formula:

<p><b>Bonus = <math>i + (FL - 103\%) / (24 - m) - \text{fees}</math></b></p> <p><i>i</i>: expected net long-term monthly return  <i>FL</i>: funding level of the product  <i>m</i>: months</p>	<table border="1"> <tr> <td>FL &gt; 115%</td> <td>m = 10</td> </tr> <tr> <td>For 97.5% ≤ FL ≤ 115%</td> <td>m = 0</td> </tr> <tr> <td>For 92.5% ≤ FL &lt; 97.5%</td> <td>m = 12</td> </tr> <tr> <td>For 85% ≤ FL &lt; 92.5%</td> <td>bonus = 0% net of fee</td> </tr> <tr> <td>For 80% ≤ FL &lt; 85%</td> <td>bonus = -10% net of fees</td> </tr> <tr> <td>FL &lt; 85%</td> <td>bonus = -20% net of fees</td> </tr> </table>	FL > 115%	m = 10	For 97.5% ≤ FL ≤ 115%	m = 0	For 92.5% ≤ FL < 97.5%	m = 12	For 85% ≤ FL < 92.5%	bonus = 0% net of fee	For 80% ≤ FL < 85%	bonus = -10% net of fees	FL < 85%	bonus = -20% net of fees
FL > 115%	m = 10												
For 97.5% ≤ FL ≤ 115%	m = 0												
For 92.5% ≤ FL < 97.5%	m = 12												
For 85% ≤ FL < 92.5%	bonus = 0% net of fee												
For 80% ≤ FL < 85%	bonus = -10% net of fees												
FL < 85%	bonus = -20% net of fees												

- ⌚ The aim is to deliver stable and predictable bonuses over time to clients, smoothing out spikes and falls in asset values. For a funding level below 92.5% and above 85.0% the net bonus should be zero.
- ⌚ Further deterioration in the funding level will result in a possible negative monthly bonus
- ⌚ The maximum accumulative negative bonus on the portfolio is -20%

While the portfolio's funding level is above 92.5% the portfolio targets the **Long-term return (LTI)** of **CPI + 4%** over a rolling **3-year period**

Should the portfolio have a significantly low funding level (**funding level < 92.5%**) the CPI-related target is removed and the bonus only depends on the funding level of the portfolio.

## Sanlam Smooth Growth Series

The portfolio aims to deliver investment returns of CPI +4.5% p.a. over the long-term, however this return is not guaranteed as it is subject to market conditions. In severe market conditions a negative bonus may be declared; the negative bonuses may not exceed 50% of the capital and declared bonuses. Once positive bonuses and net inflows have restored any negative bonuses that have been declared, the guarantee level will reset.

Bonuses for the **Smooth Growth Fund**, **Select Growth Fund** and **Taxable MM Smooth Growth Fund** are declared monthly in advance and are based on the following formula:

**Bonus =  $i + (FL - 103\%) / (24 - m) - \text{fees}$**

$i$

expected net  
long-term  
monthly  
return

$(FL - 103\%)$

funding  
level of the  
product

$(24 - m)$

months

FL > 115%	m = 10
For 97.5% <= FL <= 115%	m = 0
For 92.5% <= FL < 97.5%	m = 12
For 85% <= FL < 92.5%	bonus = 0% net of fee
For 80% <= FL < 85%	bonus = -10% net of fees
FL < 85%	bonus = -20% net of fees

The difference between the actual funding level and 103% is normally added to the bonus over a rolling 24-month period.

The following exceptions apply:

- if the funding level is below 80%, a -20% net bonus is declared;
- if the funding level is between 80% and 85%, a -10% net bonus is declared;
- if the funding level is between 85% and 92.5%, a zero net bonus is declared;
- if the funding level is between 92.5% and 97.5%, the difference between the actual funding level and 103% is added to the bonus over a rolling 12-month period;
- if the funding level is above 115%, the difference between the actual funding level and 103% is added to the bonus over a rolling 14-month period.

Bonuses for the **Global MM Smooth Growth Fund** are declared monthly in advance and are based on the following formula:

**Bonus =  $i + (FL - 103\%) / (24 - m) - \text{fees}$**

$i$

expected net  
long-term  
monthly  
return

$(FL - 103\%)$

funding  
level of the  
product

$(24 - m)$

months

FL > 115%	m = 10
For 97.5% <= FL <= 115%	m = 0
For 92.5% <= FL < 97.5%	m = 12
For 85% <= FL < 92.5%	bonus = 0% net of fee
For 80% <= FL < 85%	bonus = -10% net of fees
FL < 85%	bonus = -20% net of fees

The difference between the actual funding level and 103% is normally added to the bonus over a rolling 24-month period.

The following exceptions apply:

- if the funding level is below 80%, a -20% net bonus is declared;
- if the funding level is between 80% and 85%, a -10% net bonus is declared;
- if the funding level is between 85% and 92.5%, a zero net bonus is declared;
- if the funding level is between 92.5% and 100%, the difference between the actual funding level and 103% is added to the bonus over a rolling 12-month period;
- if the funding level is above 115%, the difference between the actual funding level and 103% is added to the bonus over a rolling 14-month period.



# Benefit Philosophy

The book value of the investment is paid out to clients in the event of:

- ✓ **Death**
- ✓ **Disability**
- ✓ **Resignation**
- ✓ **Retrenchment**
- ✓ **Retirement**
- ✓ **Certain living annuity income payments as agreed with Sanlam**

Clients should note that similar guarantees do not apply on selective events e.g. transferal of funds to another portfolio and termination. In this instances, the lower of book value and market value will be paid to the client.

# Fee Structure

Fully Vesting Portfolios	Monthly Bonus Fund	
Guarantee premium	1.6% p.a.	
Investment Administration fee	< R100m	0.425%
	R100m to R300m	0.375%
	>R300m	0.325%
Performance fee	Yes (capped at 0.3% p.a.)	

Partially Vesting Portfolios	Stable Bonus Portfolio		Progressive Smooth Bonus Fund
Guarantee premium	0.9% p.a.		0.7% p.a.
Investment Administration fee	< R100m	0.425% p.a.	Max 0.70% p.a. (excl. VAT)
	R100m to R300m	0.375% p.a.	
	>R300m	0.325% p.a.	
Performance fee	Yes (capped at 0.3% p.a.)		applicable to some underlying managers

Smoothing - Only	Smooth Growth Fund	Select Growth Fund	Taxable MM Smooth Growth	Global MM Smooth Growth
Smoothing fee	0.20% p.a.			
Investment Administration fee	0.60% p.a.	1.00% p.a.	1.05% p.a.	1.10% p.a.
Performance fee	n/a	applicable to some underlying managers	n/a	n/a

The gross bonuses are declared net of the guarantee fee. The investment administration fee is recovered from the gross monthly bonus declared. The bonus net of this fee is applied to the client's investment account.

The investment manager may be incentivised with performance fees. Details of the performance fees actually paid over the past calendar year are available on request. This may result in higher fees, but only when underlying asset managers appointed outperform their performance targets.

The Portfolios may be invested in one or more of the managed asset classes. Managed asset classes include amongst others: hedge funds, exchange traded funds, property investments, private equity investments, derivatives and credit conduits. The managers of these managed asset classes, which may include companies within the Sanlam Group, deduct their management fees and expenses directly from the investment returns. These deductions are therefore not included in our fees above.

All the Smoothed Bonus Portfolios include a guarantee premium/smoothing fee for the cost of smoothing and providing the underlying guarantees. This premium is over and above the investment and administration fee and is levied as an implicit fee from the portfolio before bonuses are declared, i.e. bonuses are declared net of the guarantee premium (guarantee fee).

The guarantee fee of  $\frac{1}{12}^{th}$  of values quoted in the table above is recovered monthly from the assets in the portfolio.



# Investment Philosophy

The underlying portfolio has a diversified exposure to domestic equity, bonds, and property as well as international assets. The Asset Liability Committee (ALCO), headed by Sanlam's Statutory Actuary, oversees the investments.

The aim is to find the optimum balance between attractive investment returns and stable investment returns, given the need to meet smoothed benefit payments and to support the declaration of stable bonus rates in line with the product design.

The requirements for the investment management of each portfolio are set out in investment guidelines, with a view to managing risk through: limiting exposure to volatile assets and limiting credit risk. Adequate diversification is also ensured by setting limits for any single counter party. There is no limit on exposure to the RSA government, since this is considered risk free.

Derivative instruments may be utilised:

- to hedge the portfolios against unforeseen circumstances;
- for strategic and tactical asset allocation; and
- to take advantage of anomalies or inefficiencies in the derivative market pricing in order to enhance returns.

*NOTE: Derivatives may not be used for speculation.*

The investment guidelines contain benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks to help manage returns on portfolios.

Although the investment guidelines are not expected to change frequently, ALCO will make adjustments as changes occur in the economic, investment and regulatory environment or in the assessment of inherent risks in our smoothed bonus portfolio. The latest versions of the investment guidelines were signed on August 2021 for the Monthly Bonus Fund and Stable Bonus Portfolio.

Feedback on the investment policy, its implementation and the performance of the smoothed bonus portfolios is provided regularly to the ALCO and the Sanlam Life Board.

# Investment Benchmark

## Strategic Asset allocation and Portfolio Benchmarks

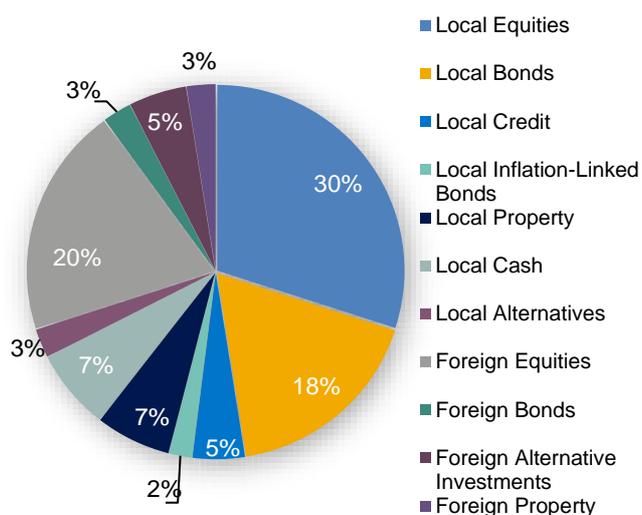
Following the recent developments in the industry such as the updated asset exposure limits set out in Regulation 28 as well as the increased SARB offshore limits for retirement funds, Sanlam has reviewed the strategic asset allocation for all smooth bonus portfolios. The review has led to the conclusion that our long-term benchmarks and long-term strategic asset allocation can be improved by moving some of our local equity exposure to offshore equity exposure. A more detailed communication on the changes to the Strategic Asset Allocation can be found [here](#).

As of February 2022, retirement funds may invest up to 45% of their assets offshore. This has been increased from 30% previously, with an additional 10% allowed for African exposure (ex-SA). Sanlam implemented the new strategic asset allocation during September 2022 as follows:

### Sanlam Monthly Bonus Fund and Stable Bonus Portfolio

The maximum exposure to volatile assets is currently limited to 60% of the Portfolio.

ALCO can increase or decrease the above limits, subject to regulatory requirements, by up to 10% as circumstances change. For example, it can increase the maximum exposure to volatile assets from 60% to 70% or decrease it from 60% to 50%.



Asset Class	Benchmark
Local Equities	100% Capped SWIX
Local Bonds	Government Bond Index
Local Credit	3 months JIBAR +1.25%
Local Inflation-linked bonds	Inflation-linked Govt Bond Index
Local Property	7-12 years Total Return Index plus 1.0% p.a.
Local Cash	STeFI
Local Alternatives	CPI + 4.5%
Foreign Equities	87.5% MSCI World (Developed Markets) and 12.5% MSCI Emerging Markets Index
Foreign Bonds	Bloomberg Global Aggregate Index
Foreign Property	FTSE EPRA/NAREIT
Foreign Alternatives	90-day Average SOFR

There is a transitional arrangement as the allocation to SA Alternatives is filled, which is to be funded 40% from SA Bonds, 40% from SA Credit, and 20% from SA Cash. The interim benchmark will be adjusted as that allocation is filled over time.

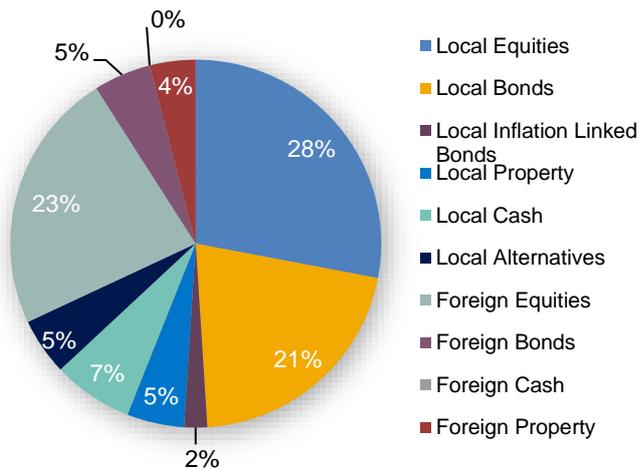
The allocation to Local Equities was reduced by 2.5% to fund Foreign Equities

The addition of Global Property was funded from Global Bonds, resulting in a more diversified and efficient benchmark, particularly given the long-term outlook for global bonds.

The benchmark for Local Equities was changed from 50% Capped SWIX and 50% SWIX to 100% Capped SWIX.

The Libor benchmark (for the Global Alternatives allocation) was phased out and replaced with the 90-day average SOFR rate going forward. This change was implemented together with the above changes.

## Sanlam Progressive Smooth Bonus Fund



Asset Class	Benchmark
Local Equities	Capped SWIX
Local Bonds	All Bond Index
Local Inflation-linked bonds	CILI
Local Alternatives	CPI + 4%
Local Property	All Property Index
Local Cash	STeFI
Foreign Equities	MSCI World Index
Foreign Bonds	Bloomberg Global Aggregate Index
Foreign Cash	SOFR
Foreign Property	FTSE ERPA/NAREIT

The total offshore allocation was increased from 25% to 32%, which was funded by the reduction in the allocation to SA Equities, SA Property, SA Nominal Bonds and SA Cash.

The increased allocation to Global Equities and the addition of Global Property, was funded from Local Property and Global Cash, resulting in a more diversified and efficient benchmark.

Additionally, the CPI+3% benchmark (for SA Alternatives) is replaced with the CPI+4% benchmark which is more in line with the benchmark used by many alternative managers locally, and particularly in line with the Prescient Clean Energy and Infrastructure Debt Fund benchmark.

The Libor benchmark (for the Global cash allocation) was phased out and replaced with the 90-day average SOFR rate.

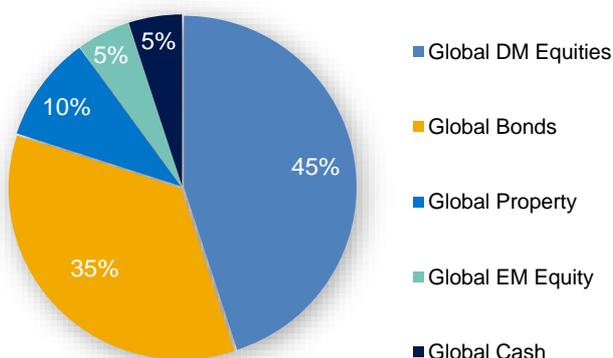
## Sanlam Smooth Growth Series

Sanlam Smooth Growth Series comprises of the following portfolios, with their underlying portfolios as follows and respective benchmarks as follows:

Portfolio Name	Underlying portfolio	Benchmark
Smooth Growth Fund	SIM Balanced Fund	Alexforbes Global Large Manager Watch Median
Select Growth Fund	SMM Select Balanced Fund	Alexforbes Global Large Manager Watch Median
Taxable MM Smooth Growth Fund	SMM Select Balanced Fund	Alexforbes Global Large Manager Watch Median net of tax

The underlying portfolios do not have a strategic benchmark, rather a peer group benchmark. To receive the most recent asset allocation within the portfolios, please check the portfolio factsheets (Minimum disclosure documents) that can be found here: <http://sanl.am/sebi>

The **Global MM Smooth Growth Fund** uses the Sanlam Global Moderate Fund underlying which has the following benchmark:



Asset Class	Benchmark
Global DM Equities	MSCI World Index
Global Bonds	Bloomberg Global Aggregate Index
Global Property	FTSE EPRA NAREIT Developed Real Estate Index USD
Global EM Equities	MSCI Emerging Market Index
Global Cash	USD LIBOR (LIBID 1Week USD)

# Scrip Lending

Sanlam may leverage the assets in the Monthly Bonus Fund and Stable Bonus Portfolio for transactions such as scrip lending. Any income or losses arising from these transactions will be for Sanlam's account and will therefore not affect the amounts that clients are entitled to in terms of their policy. There is no scrip lending for the multi-managed portfolios.

## Governance and Risk Management

In order to safeguard the interests of our clients, sound governance and strong financial backing are required in the management of our smoothed bonus portfolios.

Some of the steps that are taken:

There is a clear separation of shareholder and policyholder funds.

- Each product has separate assets that are used to support the benefits of the particular policyholders as a group.
- Each product has an investment guideline that sets out the mandate for that specific product, based on the nature of investment guarantees that are provided.
- The portfolio manager is instructed that all investment decisions taken within policyholder funds are in the best long-term interest of the relevant policyholders.
- Potential conflicts of interest between shareholders and policyholders are raised at the ALCO meetings.
- Clients are allocated the full investment return earned (smoothed via our bonus formula), less specified charges. All investment returns retained as surplus are retained in bonus stabilisation reserves, which may only be used to support future bonus declarations.
- Paying particular attention to ensuring that the declaration of bonuses and changes to the bonus formula is done in a responsible manner to the benefit of the policyholder.
- The transfer of Bonus Smoothing Reserves between different smoothed bonus portfolios is not precluded (for instance combining two portfolios). The principle applied is that clients in neither portfolio be prejudiced by such a step.

### 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.

# Asset & Liability Committee (ALCO)

The Asset Liability Committee (ALCO), comprising Sanlam Life employees with actuarial, investment and client solutions backgrounds, oversees the investment policy for the various smoothed bonus portfolios.

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).

The ALCO is a joint forum on which executives from Sanlam Life and SIM are represented. The Committee comprises of:

- Chief Actuary & Chief Risk Officer (Chairman)
- Head of Actuarial Control Function (Veto)
- Head of Group Balance Sheet Management
- Head of Group Risk Management
- Executive Head of SLS Actuarial
- Sanlam Retail Affluent Executive Head of Savings & Retail Credit (representing both Sanlam Retail Affluent and Retail Mass)
- Sanlam Corporate Investments Managing Executive
- Glacier Head of Product Management
- The SIG Chief Strategy Officer as a representative of SPM

The role of ALCO is 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 interest between shareholders and policyholders with regards to the relevant portfolios.
- Obtain feedback and reports on markets, investment actions undertaken and the performance and attribution of the underlying funds.
- Understand the investments in the portfolios, i.e., the various asset classes and derivatives implemented and how these will behave.
- Debate potential new types of investment opportunities that may further optimize the portfolios' risk-return profiles.
- ALCO has the authority to establish the Property Committee.

## Authority

The ALCO is mandated by the Sanlam Life Board to oversee the investment management of the portfolios mentioned within the Approval Framework of Sanlam Personal Finance and Sanlam Corporate Investments. It is a management committee which reports on its deliberations and activities to the Policyholders' Interest as well as the Audit, Actuarial and Risk committees of the Sanlam Life Board.

## Responsibilities for investment decision

Decision	Responsibility
Strategic Asset Allocation	ALCO
Benchmark per asset class	ALCO
Tactical asset allocation	Portfolio manager
Stock selection	Portfolio manager
Risk parameters	ALCO

## Financial Strength

Sanlam Corporate Investments 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.

	31 December 2022
Solvency Capital Requirement (SCR)	169%

Sanlam Life has a Standard & Poors (S&P) credit rating of zaAAA

## BEE levels

Company name	BBBEE status	Effective until
SIH Capital Holdings	Level 1	8 March 2024
Sanlam Limited	Level 1	30 August 2023

# Our Approach to Responsible Investing

Sanlam Life Insurance Limited (“Sanlam Life”) as an asset owner, has a fiduciary duty to the ultimate beneficiary of its assets, and as such Responsible Investment (RI) should be an essential consideration. We believe that the role of an asset owner includes the duty to invest assets responsibly and integrate sustainability factors into core investment processes. We believe that this integration ensures that we live up to our values, demonstrates good corporate citizenship, and, if applied consistently over the long term, will enable superior risk-adjusted returns for our clients. Not only does this make business sense, but as corporate citizens, it also involves internalizing our fiduciary duty by doing the right thing.

The Sanlam Group, through its Sanlam Investments subsidiary, has developed RI policies and procedures to demonstrate its commitment to responsible investing and to highlight the measures taken to integrate sustainability into the daily, ongoing investment process for the benefit of all stakeholders.

In 2009, Sanlam Investments became a signatory to the United Nations Principles of Responsible Investment (PRI), the predominant global framework on Economic, Social and Governance (ESG) issues in investment and ownership decision-making practices and subscribed to the Code for Responsible Investing in South Africa (CRISA) in 2011. In addition, Sanlam acknowledges the need and importance of the UN Sustainable Development Goals and our country’s National Development Plan and, as such, is a member of the Global Impact Investment Network (GIIN) with access to leading industry information, tools, and resources to enhance practitioners’ ability to make and manage impact investments. As part of our commitment to this agenda, we will report on progress annually through the various frameworks.

RI is about integrating material ESG risks and opportunities into the investment process across business units, investment styles and asset classes to enhance investment returns, identify opportunities, and mitigate downside risk. Below is our approach to responsible investing:

		SUSTAINABLE PRODUCT CATEGORIES		
				
<i>Strategy</i>		ESG RISK-FOCUSED	SUSTAINABILITY-FOCUSED	IMPACT-FOCUSED
<i>Implementation Mechanisms</i>	<b>ESG INTERGRATION</b> Alternatives Listed Equities Satrix	<b>SUSTAINABILITY</b> Alternatives Segregated mandate (LPF) Fixed Income (i.e. Green bonds)	<b>IMPACT INVESTING</b> Alternatives Investments	
	<b>STEWARDSHIP</b> Listed Equities Fixed Income Satrix			
<i>Objective</i>	<b>ESG INTEGRATION</b> ESG integration factors risks and opportunities in the investment process and decision making	Sustainability themed ownership that address societal & environmental issues in South Africa (NDP, SDG & controversies)		Niche Mandates with specific measurable positive outcomes
	<b>STEWARDSHIP</b> Use engagement and proxy voting to encourage good governance and sustainable corporate practices that create value and impact			
100% ESG risk assessment: E, S and G consideration and analysis				
100% active stewardship: company engagement and proxy voting				



# ESG Disclosure



Sanlam is a signatory to the **United Nations Principles of Responsible Investment (UN PRI)** - the world's leading proponent of responsible investment - <https://www.unpri.org/>

Sanlam has adopted the principles of the **Code for Responsible Investing in South Africa (CRISA)**. Sanlam fully supports CRISA's five principles that emphasise the importance of integrating sustainability factors, such as ESG, into long-term investment strategies- <https://www.iodsa.co.za/page/CRISACode>



Sanlam is a member of the **Global Impact Investing Network (GIIN)**. GIIN Membership provides impact investing organisations with access to a diverse global network of leading impact investors and industry information, tools, and resources to effectively enhance practitioners' ability to make and manage impact investments. Through our membership with GIIN, we intend to develop impact measurement and management strategies further, identify deal opportunities, and access expert training. Above all, we hope to retain glimmers of an inclusive, sustainable future for us all - <https://thegiin.org/>

# Frequently Asked Questions

## What is discretionary participation business?

Discretionary participation business is the term given to business where the insurer has some discretion in determining the policy benefits.

## Is this document the PPFM?

No, this document is a less technical supplementary document to the Principles and Practices of Financial Management. The PPFM document can be found [here](#).

## Will Sanlam change the approach to managing these products?

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 Sanlam Customer Interest Committee.

At least three months before a change to a Principle is implemented, the relevant policyholders and the Registrar of Long-Term Insurance will be informed and the proposed change will be published on our website. Any change to a Practice will be published on our website and policyholders will also be informed of such a change in the annual portfolio statement.

## Are these the only Sanlam products covered by the PPFM?

No, the products which require disclosure of the PPFM are:

- Sanlam Life Participating Annuity Products
- Sanlam Corporate Investments Smoothed Bonus Products
- Sanlam Personal Finance Reversionary Bonus Products
- Sanlam Personal Individual Smoothed Bonus Products

Additionally, the Principles of Financial Management (PFM) are described for:

- Sanlam Corporate Investments Provider Pension Products
- Sanlam Life Linked and Market-related Products

These documents can be found at: [Retirement Annuity Investment & Savings | Investment & Capital Protection | Sanlam Investments](#)



## How does Sanlam's financial strength impact my investment?

The capital that Sanlam has backing your investment acts as security on guaranteed benefits. The greater the multiple of capital held, the more protected your guarantees are. This means that your benefit can and will be paid out to you when required.

## How long will it take for me to access my investment in either of these products?

Book value is paid as soon as practicable (but within 30 business days), unless it is considered not to be in the interests of remaining policyholders to pay out book value immediately (e.g. if market value is less than book value). Payment may then be spread over a period. Alternatively, the fund may request Sanlam to pay out a cash value immediately.

## Where do I find information on the current performance of these products?

For our monthly fact sheets, which include information on the asset allocation, performance and top holdings of the products, please visit: <http://sanl.am/sebi>

## How does a retirement fund invest in these products?

For further information on investing in these products, please contact your investment consultant.

## What other Sanlam investment products may be of interest to me or my employees?

Sanlam Absolute Return Plus offers capital guarantees to investors and is particularly suited to retirement fund members who are looking for returns in excess of inflation, regardless of market conditions. This is appealing for members who need more consistent returns with limited downside risk, and for whom simply guarding against the loss of capital isn't enough.

## What value will I get if I switch to another portfolio?

Switches by individual members are done at lower of book value or market value.

# Further Information

Sanlam Corporate Investments specialises in the provision of risk, investment and administration services to institutions and retirement funds. Focused on meeting the unique needs of its diverse clients, Sanlam Corporate Investments assists companies to create and deliver customised employee benefits solutions, including the collection of premiums and communication to fund members. For more information, please visit:

<http://www.sanlaminvestments.com>

Any queries may be emailed to:

**Sanlam Corporate Investments**

E-mail: [SCInvestments@Sanlam.co.za](mailto:SCInvestments@Sanlam.co.za)



*Sanlam Corporate (SC) is an operating division of Sanlam Life Insurance Ltd, which specialises in the provision of risk, investment and fund administration services to institutions and retirement funds. Sanlam Corporate Investments is a sub-division of SC which develops and provides structured investment and retirement solutions, annuity and guaranteed products for the institutional and retirement fund industry.*

*Sanlam Life Insurance Ltd is an authorised financial services provider.*

*Registration Number 1998/021121/06*

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## Disclaimer

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

Official policy conditions are contained in the policy contract. If there are discrepancies between this document and the policy contract, conditions in the policy contract apply.

# Glossary

## Benchmark portfolio

The portfolio against which performance of the product is measured.

## 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 for either of these products.

## 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.

## Book value

The book value for both funds is defined as 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.

## Solvency Capital Requirement (SCR)

The Solvency Capital Requirement is a measure of an insurer's ability to cover its obligations. It indicates the amount of capital the insurer holds to cover the commitments it has made to clients.

## Discretionary participation business

Any business that allows discretion to be used in the way bonuses are declared. All Sanlam Life's smoothed bonus products fall into this category.

## Funding level

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

## Hedge fund

A portfolio which uses any strategies or takes any positions that could result in the portfolio incurring losses greater than its total market value at any point in time, and which strategies or positions include but are not limited to short positions. A short position is where an asset is sold by a seller for delivery at a future date or time, and the seller does not own such asset at the time of the sale. Though hedge funds do not necessarily hedge their investments against adverse market moves, the term is used to distinguish them from regulated retail investment funds – for example, collective investment schemes.

## Hedging

Hedging is a strategy designed to reduce exposure to market risk, for example a fall in equity prices.

## Derivative

A contract whose value is derived from that of other investment instruments.

## Non-vested bonuses

Bonuses that can be removed under adverse circumstances. In this document, non-vesting bonuses apply to the Stable Bonus Portfolio (SBP) and the Progressive Smooth Bonus Fund only. Sanlam has never removed any non-vested bonuses in the above mentioned funds.

## Vested bonuses

Bonuses that may not be taken away from the policyholder.

## Over funded

When the assets are more than the liabilities in the portfolio, i.e. when the portfolio is more than 100% funded.

## Underfunded

When the liabilities are more than the assets in the portfolio, i.e. when the portfolio is less than 100% funded.

## Partial terminations

Removing part of the funds under Sanlam Life's management from Sanlam Life's portfolios or products.

## Terminations

Removing funds under Sanlam Life's management from Sanlam Life's portfolios or products.

One calendar month's written notice is required for terminations and partial terminations. Book value is paid out, unless it is considered not to be in the interests of remaining policyholders to pay out book value immediately (e.g. if market value is less than book value). If this is the case, payment is then made over a period which may not exceed 10 years. Alternatively, the fund may agree with Sanlam to pay out a cash value immediately.

## Smoothed Bonus products

Sanlam Life's business that allows discretion to be used in the way bonuses are declared.

## Switches

Movement of funds between different Sanlam Life portfolios or products.

## Volatile assets

The value of these assets is expected to vary considerably over time. Volatile asset classes include equities and international investments.



# Annexure

## Conduct Standard certificate by Head of Actuarial Function



### Confirmation by Head of Actuarial Function in terms of FSCA Conduct Standard 5 of 2021

The main objective of the Conduct Standard is to prescribe the conditions with which a smoothed bonus policy must comply to meet the definition of “default investment portfolio” - as defined in the Regulations made in terms of section 36 of the Pension Funds Act, 1956 (Act 24 of 1956).

I, Barry Stephen Laggar, Head of Actuarial Function of Sanlam Life Insurance Limited (“Sanlam”), hereby confirm that a policy investing in any one or more of the smooth bonus portfolios listed below meet the conditions as prescribed in FSCA Conduct Standard 5 of 2020 (RF) – Conditions for Smoothed Bonus Policies to Form Part of Default Investment Portfolios. This certificate will be issued annually.

MONTHLY BONUS FUND

STABLE BONUS PORTFOLIO

SANLAM MULTI MANAGER VESTING FUND

PROGRESSIVE SMOOTH BONUS FUND

Sanlam shall immediately advise the policyholder in the event that the aforementioned portfolios no longer meet the requirements of the Conduct Standard.

Signed on this 4th day of February 2022

BS Laggar, FASSA  
Head of Actuarial Function  
Sanlam Life Insurance Limited

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Retirement

Investments

Wealth

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Refer to the Sanlam website for directors and company secretary details.

[www.sanlam.co.za](http://www.sanlam.co.za)

