Sanlam

Product Brochure

SEB Inflation Annuity Tracker

Members often approach retirement savings with the goal of saving a certain Rand amount by the time they retire. The flaw in this approach is that it ignores what is really important, namely an annuity income for the rest of a member's life. This is where interest rates come in to the picture; interest rates have a major impact on the cost of an annuity. If the interest rate used in calculating an annuity income for life reduces by 1%, it can lead to a reduction in your annual income of 10%. A major risk that members face is that they do not know what interest rates will be at retirement.

The Sanlam Employee Benefits Inflation Annuity Tracker tracks changes in the relative cost of an inflation linked annuity caused by changes in interest rates. Members who are within 5 years of retirement can therefore aim to preserve their ability to afford an inflation linked annuity.

Investment Objective

The Inflation Annuity Tracker portfolio aims to closely match movements in its benchmark index, the SALI Real. This index tracks the changes in the cost of an inflation linked annuity caused by changes in real interest rates. The portfolio therefore aims to preserve a member's ability to purchase an inflation linked annuity.

Portfolio benchmark – SALI Real

SALI stands for Sanlam Asset Liability Index. In the same way the All Share Index (ALSI) tracks the change in value of the stocks on the Johannesburg Stock Exchange over time, so SALI tracks the change in the cost of purchasing an annuity.

Real refers to inflation linked. Members, who want to maintain their standard of living in retirement, should consider buying an annuity that protects them against increases in the cost of living i.e. inflation. An inflation linked annuity is guaranteed to provide increases equal to inflation.

The **SALI Real** has been developed by Sanlam to track the cost of purchasing an inflation linked annuity.

As real interest rates move up (and down) and the cost of an inflation linked annuity decreases (or increases), so the index will change to reflect this change in cost.

Who should invest?

- Retirement Fund members, within five years of retirement, who want greater certainty regarding their final retirement income (and wish to link their income to inflation).
- Defined Benefit Pension Funds that want to reduce the uncertainty of the cost of purchasing a post-retirement income, which grows with inflation, for members close to retirement.

Liability-driven vs. Asset-driven investing

An asset-based approach will generally focus on investing in low risk assets (like cash) to preserve capital close to retirement. This can actually increase the risk of not being able to secure the post-retirement income required: the actual cost of the post-retirement income (liability) is determined by the impact of fluctuations in longer term interest rates, rather than short term rates on cash.

A liability-driven approach focuses on the cost of providing the annuity cash flows after retirement (the liability) and on the factors affecting the cost, e.g. interest rate changes. The solution is then to invest in a portfolio of assets that closely matches a member's expected annuity liability.

For example, a year ago a given Rand amount may have been able to purchase an income of, say, R1 000 per month, increasing annually with inflation.

An asset-based strategy would report on the returns generated relative to the Rand amount at the start of the period, without any focus on the whether it can still purchase the same level of income.

A liability-driven strategy would still report on the returns generated, but the focus would be on ensuring that members should, on average, receive sufficient income to buy the same goods and services they could a year ago with the R1 000. The objective is not focused guaranteeing capital, but rather on maintaining the level of inflation-adjusted income that can be purchased.

Sanlam Asset Liability solutions

The SALI range of indices form part of Sanlam's suite of Asset Liability solutions. These solutions help trustees and members to develop a better understanding of the factors that influence a member's ability to retire comfortably.

SALI also gives the members access to instruments that help protect the level of monthly pension they hope to receive at retirement.

Equipped with these new insights and products, a member will be able to make better investment decisions. Most importantly, these decisions will be aligned with **the pension** a member aims to buy at retirement.

Investment Mandate

- To match inflation linked liabilities for a typical member within five years of retirement (at age 60).
- A variety of financial instruments such as bonds, cash, derivatives and interest rate swaps may be used to achieve this objective.
- The asset composition of the portfolio complies with Regulation 28 of the Pension Funds Act of 1956.

Risk Profile

The portfolio has a low risk profile.

Fees

One-twelfth of 0.50% p.a. is recovered monthly.

Cash flow

The portfolio facilitates daily cash flows for contributions and disinvestments.

Termination conditions

30 Days written notice is required to realise assets, after which a cash payment, equal to the market value of the units held, will be made. There is no penalty or exit fee on termination.

Policy contract

Sanlam Employee Benefits, a division of Sanlam Life Insurance Ltd, has taken all reasonable effort to ensure that this brochure correctly reflects the terms and conditions of the policy contract. If there are discrepancies between this document and the policy contract, conditions in the policy will apply.

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