Member bulletin

10 July 2020

The saying goes that records are made to be broken. Even bad records.

This is certainly true of our experience in 2020 so far.

The prices of financial assets dropped sharply from January to March as we experienced one of the fastest crashes ever. Just as sharply as the crash, the prices of financial assets recovered in a flash, faster than after any of the previous crashes.

By June, most members' savings will have recovered to levels comparable to December 2019. This follows on the intervention by economic authorities around the world.

As the impact COVID-19 pandemic and accompanying lockdown became evident, authorities stepped in to stabilise the global financial system and the prices of financial assets recovered sharply.

The steps taken by authorities include the R500 billion support package announced by President Ramaphosa and the 3% reduction of our policy repurchase rate by the Reserve Bank. Similarly, the Federal Reserve of New York reduced the Fed Funds rate to 0.05% and crucially, it increased money supply by USD3700 billion. To put this step into perspective, South Africa's Gross Domestic Product (GDP) is USD350 billion.

What we need to understand is that the intervention by economic authorities is to provide emergency support and relief. These steps cannot replace long-term economic growth as driver of positive investment returns.

The concern from around the world is that there may be a flare-up in the spread of COVID-19 infections later in 2020. This is referred to as the double-hit scenario. A double-hit scenario may require further "smart" lockdown measures. While smart lockdown will not have the same economic effect as the hard lockdown experienced in April and May 2020, it will nevertheless weigh on the prospects of economic recovery.

Our biggest challenge presently is to continue with measures that prevent the spread of the COVID-19 pandemic, but in a way that does not create economic hardship and poverty. This requires the accelerate full re-opening of all economic sectors, while relying on social distancing, testing, tracking, tracing and isolation (TTTI) to reduce the impact of the COVID-19 pandemic on the population at large.

Individual retirement fund members have very little influence over or control of these matters, yet the value of retirement savings is affected by these events.

It is important to control what one can – work for as long as possible, preserve savings when changing jobs, contribute at a rate that supports expectations and earn a reasonable, targeted investment return (e.g. 5% above inflation.

Decisions made in response to events in the first half of 2020 will affect members over the next decade.

What must members do? It is important to get the basics right:

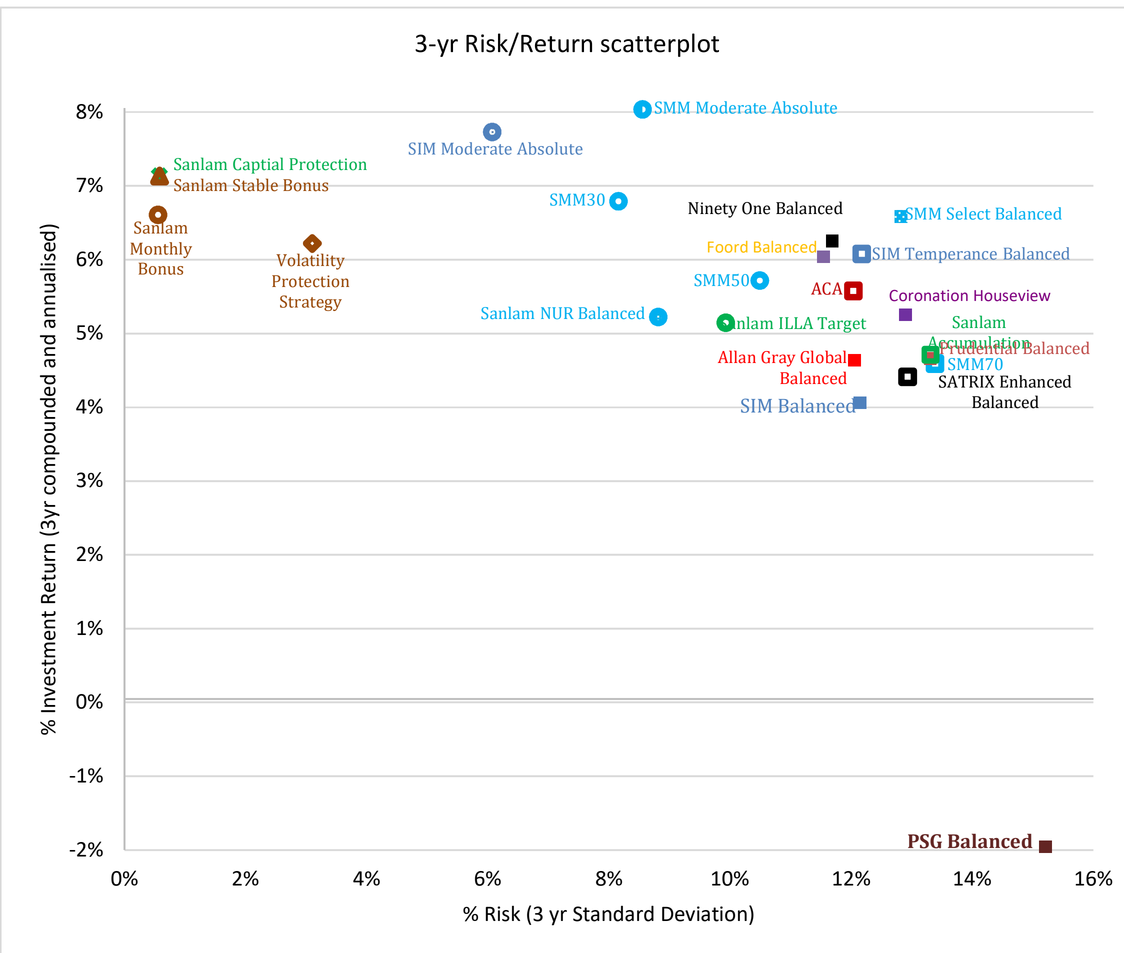
1. Focus on long-term results rather than short-term volatility.
2. Devise an individual financial plan that reflects each person's unique circumstances;
3. Invest with quality investment managers that have a proven track record;
4. Make sure that investment risk is reduced by diversifying exposure to different assets;
5. Utilise opportunities not previously available, e.g. Sustainable Infrastructure Development Projects.

Smoothed bonus guaranteed funds were underfunded by March 2020 and some insurers closed older product series and opened new product series. This creates administrative challenges going forward. The fund levels of most of the smoothed bonus-guaranteed funds have largely recovered by June 2020.

The investment returns for each of the major asset classes in which retirement funds can invest were:

To 30 June 2020	Most recent quarter %	Calendar YTD %	1 year % p.a.	3 years % p.a.	5 years % p.a.
All Share Index	23.2%	-3.2%	-3.3%	5.1%	4.2%
Listed property	20.4%	-37.6%	-40.0%	-18.3%	-9.1%
STeFI Composite	1.5%	3.2%	6.9%	7.2%	7.2%
BEASSA ALBI	9.9%	0.4%	2.9%	8.1%	7.5%
MSCI All Country World ZAR	16.1%	16.5%	26.3%	17.3%	14.9%
Barclays Global Aggregate ZAR	0.4%	27.7%	28.3%	14.1%	11.2%
Rand (+ strengthening, - weakening)	2.9%	-19.3%	-18.8%	-8.2%	-6.0%
Inflation (estimate)	-0.3%	1.3%	2.6%	4.0%	5.0%

The 3-year investment returns and risk are shown in the graph below. Risk (standard deviation) is shown on the x-axis and the investment return is shown on the y-axis. Ideally, growth portfolios that assume more risk should be rewarded with a higher investment return. Currently, this is not the case and many growth portfolios achieved investment returns similar to low risk portfolios.



The investment results for funds available in Sanlam Umbrella Fund are:

Investment returns to June 2020	Quarter %	Calendar YTD %	1 year % p.a.	3 years % p.a.	5 years % p.a.	3-yr Std Deviation %
Sanlam Lifestage Accumulation	17.3%	-2.7%	0.2%	4.7%	4.5%	13.3%
Sanlam Lifestage Capital Protection Preservation	0.5%	2.3%	6.1%	7.1%	7.8%	0.6%
Sanlam Lifestage Inflation-linked Preservation	5.5%	-4.4%	-4.6%	0.3%	1.8%	9.1%
Sanlam Lifestage ILLA Preservation	13.3%	-1.6%	1.0%	5.3%	5.6%	9.9%
Volatility Protection Strategy	4.5%	1.4%	4.4%	6.0%	6.9%	3.1%
Passive Lifestage Accumulation	17.2%	-3.1%	-1.5%	4.3%	4.8%	12.9%
Sanlam Blue Lifestage Accumulation	12.8%	-1.8%	0.9%	4.5%	5.4%	10.1%
Sanlam Monthly Bonus	0.5%	2.1%	5.5%	6.5%	7.2%	0.6%
Sanlam Stable Bonus	0.5%	2.3%	6.1%	7.1%	7.8%	0.6%
Sanlam Progressive Smooth Bonus	0.2%	2.0%	6.1%	n/a	n/a	n/a
SATRIX Enhanced Balanced Tracker Fund	17.2%	-3.1%	-1.5%	4.3%	4.8%	12.9%
SIM Balanced	13.6%	-3.9%	-0.5%	4.0%	5.1%	12.1%
SIM Moderate Absolute Fund	7.9%	2.4%	6.7%	7.7%	8.0%	6.1%
Sanlam Cash	1.7%	3.8%	7.8%	8.1%	8.1%	0.2%
SIM Temperance Balanced Fund	15.9%	-4.0%	-0.9%	6.0%	5.3%	12.2%
SPW Balanced	10.6%	4.3%	4.7%	6.7%	6.4%	n/a
SMM70	17.4%	-3.5%	-0.3%	4.6%	4.1%	13.4%
SMM50	14.3%	-1.2%	2.0%	5.7%	5.4%	10.5%
SMM30	11.4%	-0.3%	2.7%	6.7%	6.8%	8.2%
SMM Moderate Absolute	12.4%	1.9%	7.1%	8.1%	7.2%	8.6%
SMM NUR Balanced	10.9%	-2.5%	0.1%	5.1%	5.2%	8.8%
The Most Aggressive Portfolio	17.3%	-5.0%	-2.2%	n/a	n/a	6.1%
Sanlam Accumulation	17.3%	-2.7%	0.2%	4.7%	4.5%	12.8%
SMM Select Balanced	17.6%	-2.1%	4.0%	6.5%	6.3%	12.0%
ACA Wealth Creation	15.3%	-1.1%	2.3%	5.5%	n/a	13.4%
Sanlam Allan Gray Global Balanced	13.8%	-1.8%	2.4%	4.0%	6.4%	12.1%
Allan Gray Global Balanced	14.0%	-0.4%	3.1%	4.1%	6.4%	12.1%
Sanlam Coronation Houseview	16.5%	-2.2%	2.9%	5.2%	5.3%	12.9%
Coronation Houseview	15.2%	-1.4%	3.9%	5.4%	5.6%	12.9%
Sanlam Foord Balanced	15.1%	5.3%	10.2%	6.0%	5.4%	11.5%
Ninety One Balanced	13.3%	-0.4%	2.8%	6.2%	5.8%	11.7%
Sanlam Prudential Balanced	16.7%	-4.3%	-2.7%	4.6%	4.0%	13.3%
PSG Balanced	16.9%	-12.5%	-12.6%	-2.0%	1.8%	15.2%

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