Q and A, SUF Investment Feedback Session, 28 May 2020

Question	Answer
Please can you explain why the value of our investment has significantly dropped in the last 4 months?	The Covid-19 pandemic resulted in investment markets experiencing a downturn in 2020 with March 2020 presenting the biggest loss for the year to date. All economies, both local and global were impacted by this pandemic resulting in local and global investment market returns being impacted.
The government has borrowed funds, but still has to pay back funds exceeding this loan amount. Hence, servicing the debt could at some point lead to austerity measures, which isn't good for our growth.Can you take us through how this impacts the portfolio of shares our retirement funds are invested in?	Sanlam Investment's current base case sees the debt/GDP ratio climb to 90% on a five year horizon - assuming real GDP growth of -8% in 2020, followed by +4% in 2021, +1.8% in 2022 and trend growth thereafter at 2%. This GDP growth trajectory does not result in the debt/GDP ratio stabilising, i.e. debt/GDP would continue to worsen post the five year period. In order to stabilise the debt ratio, SA would need to generate sustained real GDP growth of +3.5% post the -8% 2020 growth number. Austerity measures are already on the cards, to date these have been focused on reducing government expenditure, specifically the government wage bill. Austerity is good for reducing indebtedness, but not generally good for generating economic growth – directly through the reduction in government expenditure and indirectly through reduction in personal disposable income and knock-on reduced personal consumption. It must also be noted that austerity will not be a SA only phenomenon. Global sovereign indebtedness is at unprecedented levels – most, if not all economies will embark on austerity measures to rein in sovereign debt. To understand how austerity and resulting dampened economic growth could affect SA equity valuation, one needs to understand the revenue 'make up' of the SA Equity Market. At present approximately 65% of JSE-listed company revenues are generated outside of South Africa. We refer to these companies as the 'rand-hedge' stocks, the remaining 35% of the companies are referred to as SA-Inc stocks. SA Rand hedge stocks are dominated by tech and resource counters whose revenues are largely unaffected by a reduction in South African demand; whereas SA-Inc would be affected. To ascertain the impact of austerity on share prices, prospective austerity-affected revenue growth needs to be viewed in the context of valuations, where South Africa at least on a PE ratio measure has become significantly cheaper over the last five years vs EM peers and MSCI world. In a world of near zero nominal global bond yields, one would expect support of equity markets specifically cheaper markets like South Africa/EM. Given the high proportion of rand hedge stocks on the JSE as well as the relative valuation of SA Equity markets compared to other foreign markets, one would expect a large degree of buffering from impact of austerity albeit with a large degree of volatility as markets adjust to the new normal. In SIM Balanced, SIM Temperance Balanced and a large

	component of Sanlam Blue Lifestage Strategy we have held an overweight position to rand hedge stocks coupled with hedging using derivatives (portfolio insurance) to protect our investor’s investments with us.

My concern is that the medical crisis is likely to increase inequality in SA. Should that happen we are likely to have a smaller consumer base for goods and bigger government intervention. Or have we averted this through the stimulus intervention?	Whilst the stimulus intervention will help limit the impact of the lockdown, it is too small to be able to mitigate it completely. Unfortunately, due to the poor state of the fiscus, South Africa does not have the ability to spend as much per capita as many developed nations in order to stimulate the economy. One can view it that some countries have a bazooka in terms of stimulating the economy, such as the US or Britain, whereas other countries have water pistols. Unfortunately South Africa falls into this latter category in terms of ability to mitigate the fallout from the economic effects of the lockdown. As a result it is highly likely that the consumer will be under greater stress and as a result it is likely that South Africa will have a smaller base for goods and services for the short to medium term or further intervention/stimulus. The Reserve Bank has cut interest rates by 2.75% year to date which has also helped indebted consumers, but will hurt pensioners as a result of the lower rates. Thus this all will put pressure on the consumers ability to support the economy and in reality the South African Government needs to prioritise economic growth and growth focused reforms in order to improve unemployment rates and reduce inequality. South Africa does not have the fiscal tools that the developed world has to stimulate our way out of this crisis.
Can we have your view on the possible proposal of Prescribed Assets?	As a member of ASISA, Sanlam supports ASISA's position on the issue of prescribed assets, in line with the statement ASISA has issued publicly. ASISA has engaged extensively with various relevant parties on the potential impact of "prescribed assets", including directly with government ministers tasked with infrastructure development, via Business Unity South Africa (BUSA) into the National Economic Development and Labour Council (Nedlac), and via the CEO initiative. The savings and investment industry, as represented by ASISA and its members have publicly stated that "prescribed assets" would not be beneficial for the country. According to ASISA, it is important to understand that the concept of "prescribed assets" would force the savings and investment industry to deploy the savings of ordinary South Africans into entities that have over the recent past been negatively mentioned in the state capture commission, and lack of delivery. This would also have a negative impact on the country's credit rating. ASISA and its members believe that many of the country's challenges can be overcome through effective public private partnerships (PPPs). ASISA members have already deployed about R1.3 trillion in support of the South African Government, local authorities and SOEs and direct investments of about R200 billion into various infrastructure projects instrumental in the development of our communities and economy. This firmly indicates that the industry is very keen to invest in the country and its infrastructure
Would you recommend purchasing RSA government bonds? The SOE's are not being run effeciently so this is a gamble. What is your views?	Unfortunately we are not able to provide financial advice. Please speak to a financial advisor who will be able to assist with your portfolio.
What are your views on Sasol, are it's shares currently a bargain or do you feel it will go under?	Unfortunately we are not able to provide financial advice. Please speak to a financial advisor who will be able to assist with your portfolio.

If a client is retiring in 2-3 years, should he be holding more bonds or should he ride out the equity market to the end?	Unfortunately we are not able to provide financial advice. Please speak to a financial advisor who will be able to assist with your portfolio. Howerver, members invested in our Lifestage Strategy will be almost fully invested if retiring in 2-3 years, if not already fully invested in the Capital Protection Portfolio which has a diversified exposure to domestic equity, bonds, and property as well as international assets,. The aim of the portfolio is to reduce the volatility of your investment, especially as you approach retirement, without giving up the upside potential of returns.
What is your take on this diversification of my portfolio: 5% Local Equities Ashburton Top 40 40% Offshore Equities - Satrix Worldwide 10% Local Property - Satrix Property ETF 10% Offshore Property - Sygnia Global Property ETF	Unfortunately we are not able to provide financial advice. Please speak to a financial advisor who will be able to assist with your portfolio.
We have not seen the fact sheet for April yet; what is the funding level now, post the recovery in April?	The Capital Protection Portfolio's funding level for June 2020 was 95.3%.
Will SUF be offering any additional low risk cash/fixed income portfolios available as defaults to assist the low income earners who cannot afford to take further risk on their primary savings?	The Volatility Protection Strategy (75%/25% invested in the Sanlam Monthly Bonus Fund /Satrix Enhanced Balanced Fund) is the default strategy that specifically aims to address the risk of large drawdowns and aims to provide protection against short term volatility.
How aggressive is the "Default Portfolio" offered to SUF members and the impact of the level of aggresiveness considering Global market challenges?	The Sanlam Umbrella Fund has 4 trustee approved defaut strategies, each catering to different needs members may have including different risk profiles. Depending on the default portfolio chosen by the participating employer, the level of risk (i.e. conservative to aggressive) will be different. Sanlam Lifestage Accumulation portfolio which is our main default strategy n an aggressive balanced portfolio before retirement to give your investments the greatest opportunity to grow and compound over time.The fund will display high levels of volatility over the short-term and aims to provide market - related growth.

In your opinion are we seeing a later retirement age i.e. 70?	There are two things to consider when it comes to later retirement ages, firstly are people able to work longer given health considerations and secondly what drives the need for later retirement ages. To the first point, there has been major healthcare improvements globally. Global life expectancy standing at 67.2 years, and South African life expectancy edging up to 60, many retirees can reasonably expect to remain healthy and productive well into their 70s, which could support a later retirement age. In South Africa many individuals reach retirement age with retirement assets far too little to support them for their remaining years. As such a later retirement age is sometimes a last resort for many who need to save up more. It is however also important to understand that not many individuals may have the option available for them to retire later. Time will tell as to whether we will start to see later retirement ages, but it may take regulatory changes before we see a significant increase.
Do you expect both local and international markets to test levels seen in March ?	There are many analysts who believe that the market has not yet settled and a further downturn can be expected. However it is difficult to predict if this will happen or not given that new information is surfacing daily and the market reaction to that information is not always as expected.