

# Strategic asset allocation changes for Sanlam's institutional portfolios



At Sanlam, we take great pride in ensuring that our solutions remain relevant and appropriate for our clients. To this end we have recently concluded the latest review of our institutional portfolios' strategic asset allocation (for risk profiled portfolios) and benchmarks. The review included rigorous analysis from various investment teams within the Sanlam Group and robust debate to arrive at the final results. The previous strategic asset allocation review was done in October 2022 considering increase in the offshore investment limit by the South African Reserve Bank. In collaboration with Sanlam Investments Multi Managers and Satrix, we reviewed strategic asset allocations during October 2024 using the same methodology and principles applied in the previous review. In addition, the review highlighted that the strategic asset allocations needed to respond to changes in the economic and investment environment.

## Why is this important?

A key principle of how we build certain multi-asset portfolios within our investment range is the employment of a strategic asset allocation approach. This approach is centered on evaluating how much to allocate to each asset class in order to optimally position a portfolio over its planned investment horizon. These strategic weights are typically held static. Our view, supported by a host of academic and practitioner research, is that the strategic asset allocation is the most important contributor to portfolio performance, contributing in excess of 80% to a portfolio's ultimate performance.

## Summary of the changes:

The changes in the table on the following page are made in respect of the portfolios across various risk profiles.



## Summary of the changes:

	Cautious/ Conservative (SMM 30 and Satrix Low Equity Balanced Fund)			Moderate (SMM 50 and Satrix Medium Equity Balanced Fund)			Moderate-Aggressive (SMM 70, Sanlam Accumulation Portfolio, Satrix Enhanced Balanced Tracker Fund and Satrix High Equity Fund)		
Asset class	Old	New	Change	Old	New	Change	Old	New	Change
SA Equities	15%	15%	0%	30%	28%	-2%	40%	40%	0%
SA Bonds	30%	45%	15%	19%	33%	14%	11%	18%	7%
SA ILB	14%	0%	-14%	10%	0%	-10%	5%	0%	-5%
SA Property	2%	0%	-2%	4%	0%	-4%	4%	2%	-2%
SA Cash	13%	15%	2%	6%	8%	2%	2%	2%	0%
<b>South Africa (Local)</b>	<b>74%</b>	<b>75%</b>	<b>1%</b>	<b>69%</b>	<b>69%</b>	<b>0%</b>	<b>62%</b>	<b>62%</b>	<b>0%</b>
International Equities	20%	16%	-4%	25%	22%	-3%	32%	28%	-4%
International Bonds	3%	0%	-3%	3%	0%	-3%	2%	0%	-2%
International Property	3%	4%	1%	3%	4%	1%	4%	5%	1%
Global Infrastructure	0%	5%	5%	0%	5%	5%	0%	5%	5%
<b>International</b>	<b>26%</b>	<b>25%</b>	<b>-1%</b>	<b>31%</b>	<b>31%</b>	<b>0%</b>	<b>38%</b>	<b>38%</b>	<b>0%</b>
<b>Total Equity</b> (including infrastructure)	<b>35%</b>	<b>36%</b>	<b>1+%</b>	<b>55%</b>	<b>55%</b>	<b>0%</b>	<b>72%</b>	<b>73%</b>	<b>1%</b>

In addition to the asset class changes above, the following index changes are updated for certain portfolios as a result of the JSE harmonisation project (see below):

JSE harmonisation: In March 2024, the Johannesburg Stock Exchange (JSE) aligned the methodology of FTSE/JSE vanilla indices with the SWIX variants, standardising the free float calculation and resulting in identical constituents, weights, and returns.

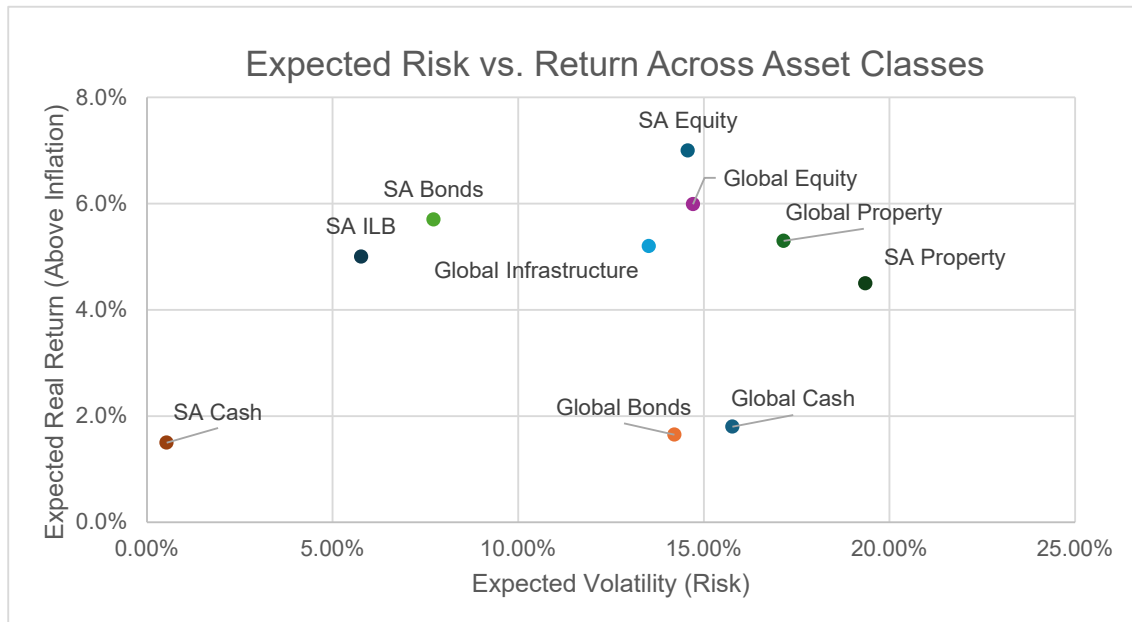
Asset Class	Previous	New index	Comment
<b>SA Equities</b>	FTSE/JSE Capped Shareholder Weighted All Share Index (Capped SWIX)	FTSE/JSE Capped All Share Index (CAPI)	The JSE will continue to publish both the FTSE/JSE vanilla and the SWIX indices until such a time the SWIX indices are decommissioned given that the vanilla and SWIX variants will have the same calculation methodology
<b>SA Property</b>	FTSE/JSE SA Listed Property Index (SAPY)	FTSE/JSE All Property Index (ALPI/J803)	The JSE will be terminating the FTSE/JSE SA Listed Property Index (SAPY/J253) and replace it with the FTSE/JSE All Property Index (ALPI/J803).

While we are in favour of maintaining strategic asset allocations over the long-term, we prefer to review the strategic allocations every 2 years to ensure continued appropriateness. This means that we can respond to changes in the economic and investment environments, which affects expected investment performance of different asset classes. It is important to note that while the strategic asset allocation review takes place every 2 years, it is performed with a long-term view (typically over the next 10 years). The process ensures that our long-term strategic asset allocation setting and review is dynamic.



## Expected long-term returns and risk (volatility)

The scatter plot below presents the relationship between expected real return (return above inflation) and expected volatility across various asset classes. The x-axis represents expected volatility, indicating the level of risk, while the y-axis shows the expected real return. The simulations assume an inflation rate of 5.0% and 2.8% currency movements between the rand against the US dollar.



Local bonds continue to be one of the best options for earning solid returns above inflation over the medium term. On the other hand, global interest-bearing investments, like bonds and credit, remain less attractive despite their higher yields. Global property and infrastructure provide an opportunity to earn offshore income, especially as interest rates are expected to decline, which could benefit these asset classes. Real assets, like property and infrastructure, offer a mix of income and growth potential, with infrastructure historically providing stability when global stock markets declined. Equities, both locally and globally, have the highest expected returns but also come with the biggest ups and downs, making them riskier investments.

## Conclusion

We believe that these changes lead to better diversification within the portfolios. While there will likely be short-term volatility given the risk profile of these portfolios, we are of the view that these changes position the portfolios optimally to deliver strong inflation-beating returns over the long-term.

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