

Sanlam Investment Management SCI Managed Moderate Aggressive Fund of Funds

March 2026

Portfolio Manager Quarterly Comment

The new year started off much like 2025, with economic growth remaining reasonable but with inflation somewhat elevated. That was turned on its head towards the end of the quarter as the US and Israel went to war with Iran in what has become a protracted conflict and disrupted the stable, albeit more conflicted global environment. The biggest impact by far has been the rapid rise in the oil price that initially exceeded \$110/barrel and looks set to remain elevated for an extended period. Notwithstanding the US's best efforts to bring the war to a speedy conclusion, the nature of the conflict is such that this will not be easy to bring about, as much damage has already been inflicted and if anything, the war has hardened Iran's resolve, notwithstanding leadership changes in the conflict. For now, Europe has not joined the US in supporting its military objectives, although they bear significant cost as they remain largely an energy importer.

The high oil price has also supported Iran as it remains their primary source of income, although logistics remains problematic. The conflict has centred around access to the Strait of Hormuz where a significant amount of global freight pass, and with Iran firing missiles at various targets, passage within the Strait has remained problematic and limited. The disruptions in the region have resulted in energy shortfalls and combined with Iran targeting neighbouring energy supplies, has created a volatile and difficult environment, which has kept the oil price elevated. Indeed, the longer the disruptions continue, the more problematic it will be for global economic growth, as shipping will need to be re-routed and manufacturing disruptions may require inventory build-ups.

The challenges in the Middle East will not only impact the oil market but will have a knock-on impact on other commodities as energy impacts various industries, with the natural gas, plastics, chemical and fertiliser markets all likely to be impacted down the line, particularly if the timelines become extended. Generally, countries have limited inventory of key commodities as it remains expensive to keep excess supply and so as inventories are drawn down, there is a risk that supply availability also becomes problematic, particularly for the energy importers. Some countries, like the UK, but also others, are at risk in terms of supply, as a large portion of their energy requirements are sourced from the Middle East. The International Energy Agency (IEA) also announced the largest release of their oil reserves in history in the quarter to mitigate supply constraints. Coal as an alternative source of energy stepped into the supply disruption gap and several countries stepped up coal production or announced intentions to do so, as this is time-efficient in terms of bringing supply to market. This is occurring, notwithstanding environmental concerns, as it is viewed as a stopgap until the disruptions are eased, although it may endure for longer than expected.

Overall, 1Q26 was a difficult period, as some pre-existing challenges accelerated, while growth prospects deteriorated, and inflation looks set to rise again. Supply chain challenges that were evident even before the war are now even more problematic, with short-term issues compounding more structural long-term challenges. Many countries have seen debt levels rise, without the composite increase in efficiency or growth prospects, raising the risk of vulnerability to external shocks. Should the war in the Middle East come to an end, it's not certain that prospects will improve immediately. We remain in a world that is characterised by more risks and more vulnerability.

Local equities | The first quarter of 2026 was slightly negative for South African investors. The FTSE/JSE Capped All Share Index (Capped ALSI) generated a return of -0.5% over the period. With respect to the sectoral breakdown of this performance, Resources returned 7.2%, Financials -0.3% and Industrials -8.7%.

The South African market remains undervalued compared to other emerging markets and to global developed markets. The current forward price-to-earnings (PE) ratio of the Capped ALSI is 9.5, while the forecast dividend yield is 4.6%. Relative to history, our market is attractively priced.

Exposure to SA equities was lower over the quarter.

Local bonds | The FTSE/JSE All Bond Index (ALBI) returned -3.4% for the period. Yields on the generic 10-year bond rose by 98bps to 9.3%. Inflation-linked bonds outperformed nominal bonds, with the FTSE/JSE Inflation-Linked (CILI) Index returning -1.1% for the quarter.

SA 10-year bonds are offering a very attractive real yield of more than 5% if measured relative to the mid-point of the South African Reserve Banks' inflation target of 3%. This is well above their long-run historical real yield of 3%. Exposure to SA bonds was lower the quarter.

Local listed property | Listed property shares were under pressure this past quarter and we saw the FTSE/JSE SA Listed Property Index (SAPY) generating a total return of -4.9%.

The SA-listed property sector is trading on a trailing earnings yield of 7.1% and a trailing dividend yield of 5.4%.

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We maintain a low position to the sector, continuing to prefer SA equities over local listed property.

Foreign equities | Global markets were down, with the MSCI World Index generating a total return of -3.5% (in US dollar terms). From an emerging market perspective, performance was flat, outperforming developed markets. The MSCI Emerging Markets Index generated a total return of -0.1% in US dollar terms.

Exposure to foreign equities was lower over the quarter.

Global bonds | Global bonds as measured by the Bloomberg Global Aggregate Bond Index fell by 1.1% for the quarter.

The fund has retained a low exposure to offshore bonds over the quarter.