INVESTMENT UPDATE 2017 ■ QUARTER 2

RETIREMENT FUND

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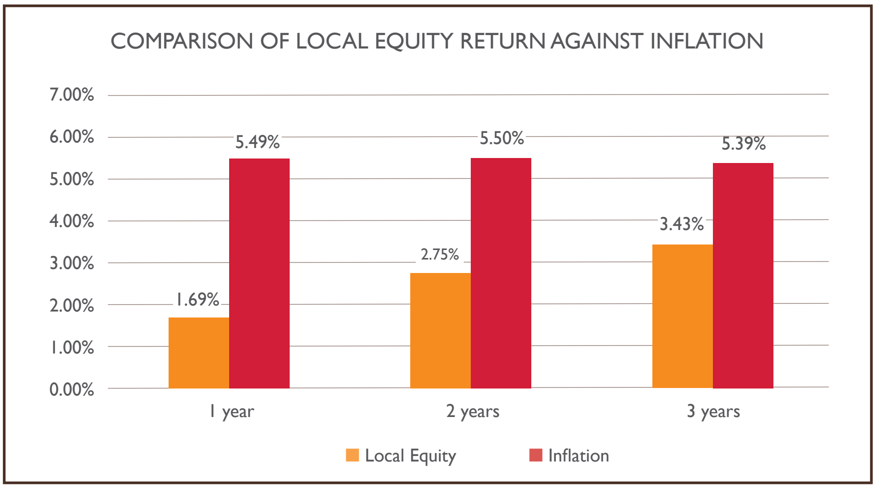
In our quarter 1 investment update we looked at market performance over the past three years and noted how tough conditions have been for investors. Even equities, the asset class which should provide members with growth that beats inflation over the longer term, has not managed to beat inflation over this short term period.

Political leadership battles and continued negative headlines, such as those around the institutional mandate of the South African Reserve Bank, the radical proposals to the Mining Charter and the material State Capture allegations has unfortunately delayed any good news that we had hoped for.

Negative economic growth over the past two quarters has also now seen South Africa effectively enter into a technical recession. Our growth rate has in-fact been the slowest in the world over the past year, and as a result business confidence remains low.

The All Share Index, which is a proxy for our local equity market performance, lost ground over the past quarter ending June 2017 - losing 0.39%. Over the 12 months, it produced a meager 1.69% whereas inflation was at 5.49%. Even over the past two and three years our local equity market has struggled.

The table below outlines the disappointing local equity returns over the past 3 years and compares such to inflation.



As you can see, it has indeed been a very difficult environment to produce returns in excess of inflation over the past 3 years. Investors should however always remember that investing is a long-term strategy. If assessed over the past 5 years, our local equity market has produced 12.19% per annum and has handsomely outperformed inflation, which produced 5.67%.

LA RETIREMENT FUND

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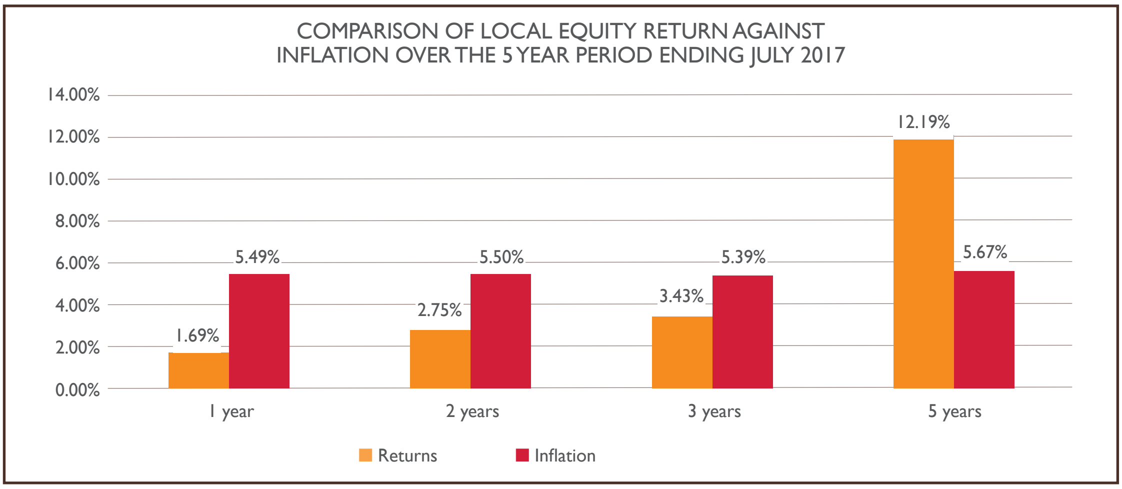


So, how has LA Retirement Fund's Risk Profiled Solutions performed under these tough market conditions?

The Fund's Risk Profiled Solutions have produced solid returns under very tough market conditions.

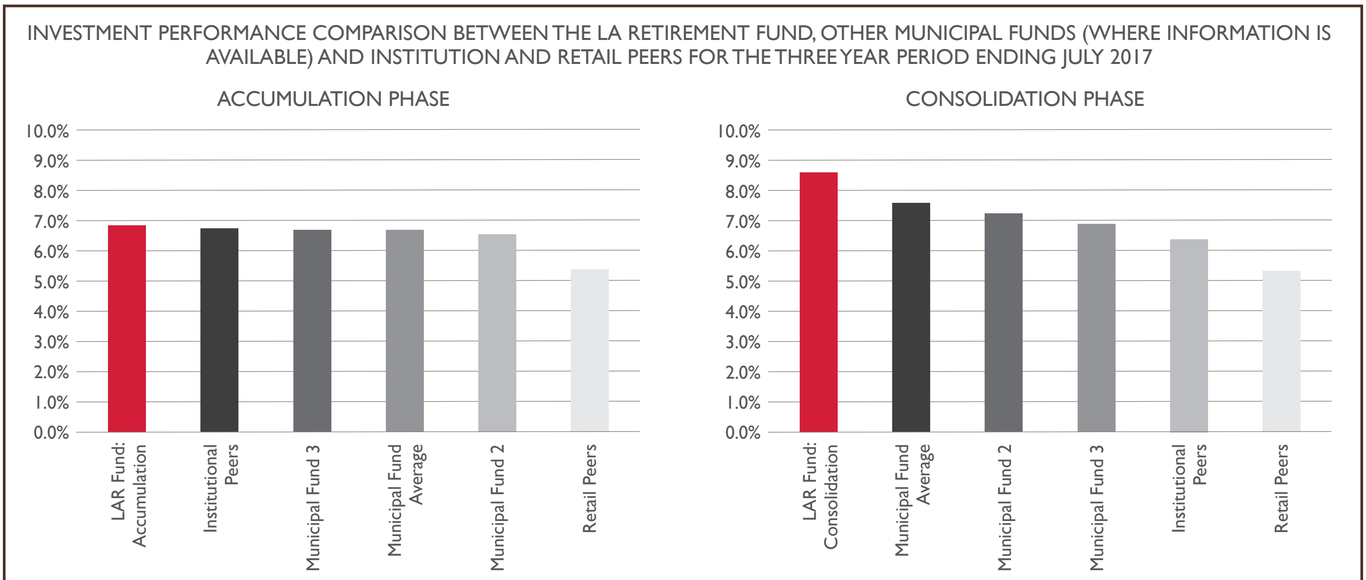
The table on the right showcases the different portfolios performance from July 2014 to July 2017, and also compares this to inflation over the same period.

PORTFOLIO	ABSOLUTE RETURN JULY 2014 TO JULY 2017
Accumulation phase	**6.77%**
Preservation phase	**8.17%**
Consolidation phase	**8.62%**
Cash plus solution	**8.03%**
Inflation	**5.18%**

An absolute return is the investment return earned net of fees and costs.

Although the Risk Profiled Solutions of the LA Retirement Fund underperformed their long-term inflation targets, which ranges from CPI + 2% to CPI + 6%, since inception their performance has however been superior when compared to their peers.

The table below outlines the performance of our Risk Profiled Solutions relative to other Municipal Funds as well as other Balanced Funds with similar risk profiles.



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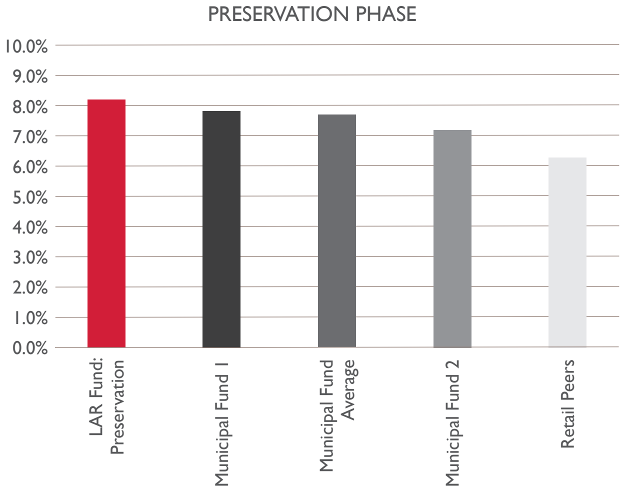

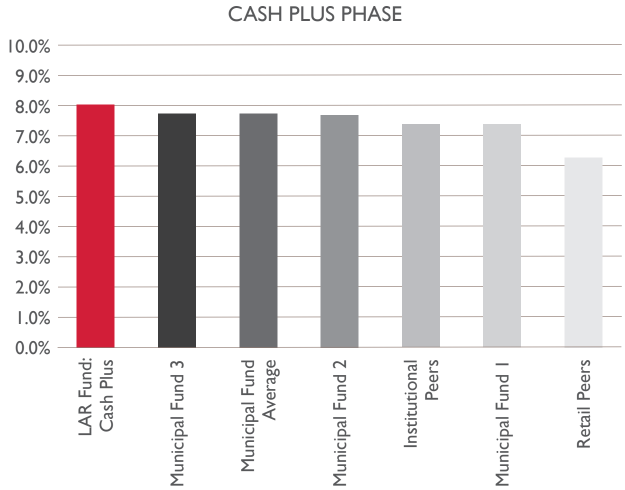

LOOKING FORWARD

Global growth is projected to accelerate to above 3% this year, which would be the best performance since 2014, and global political risks also seem to be less likely than before as the risk of a Euro break up has reduced.

On the domestic front deflationary economic conditions could motivate a rate cut which would help ease some of the pressure on the household and business sectors. A falling inflation rate bodes well for our bond markets which offer among the highest local currency real returns in emerging markets. Our government bonds currently offer returns around 8.5%, while inflation is moving down from 6.5% last year to levels of around 5% this year. These conditions are particularly attractive to offshore investors given the low real returns available in offshore equity markets, as well as offshore bond markets.

Unfortunately, political tensions and uncertainty remain high and as such contribute to the volatile local investment landscape, and it may not be long before we are downgraded to junk by all three credit agencies. The impact of such a downgrade could see between R100 to R200 billion rand leave the country. In looking at our local equity market, so many shares have taken an absolute beating over the past 3 years. A cut in interest rates is typically good for our equity markets and our market valuations are now fairer and we therefore believe that it is now a good time to start accumulating more local equity exposure.

Our approach remains to be cautious but optimistic in the near term. Local equity markets may just produce a decent run in the months to come and such will help to lift the absolute performance of our various Risk Profiled Solutions.

Our reminder to you our member is that low, single digit or even negative performance over the short term is part of any long-term investment path.

What is important is that you stay the course and remain committed for the long term…

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