

## INVESTMENT UPDATE 2017 ■ QUARTER 3

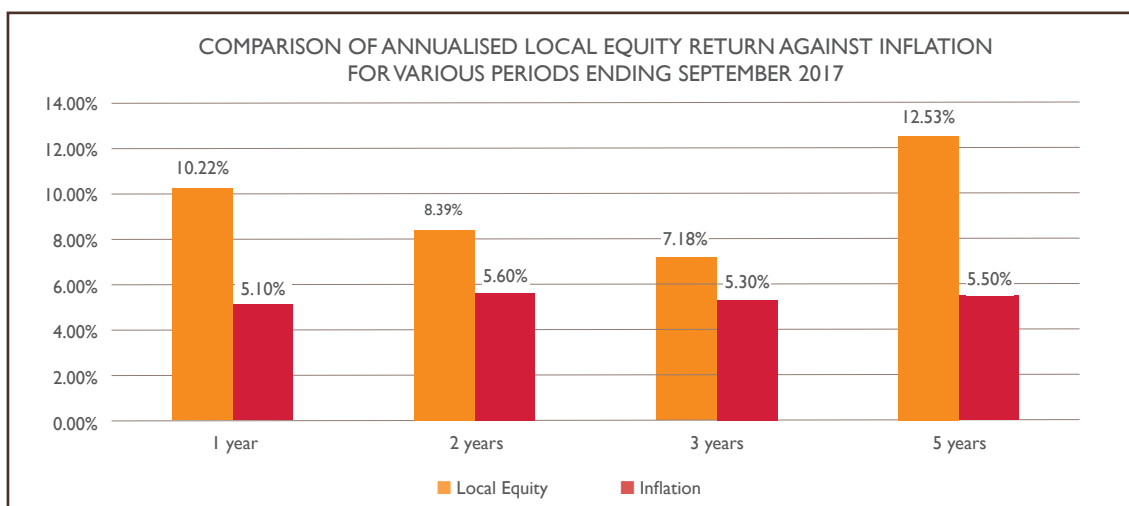
### MARKET OVERVIEW

The third quarter of 2017 provided some much needed good news for local investors as all our local asset classes ended up in positive territory. The All Share Index (ALSI), which is a proxy for our local equity market performance, stood out as it strengthened investments with a return of 8.91% over the past quarter.

This is contrary to our politics which witnessed yet another rollercoaster quarter. It is important to note that the ALSI does not represent the state of our economy, as most of the companies generate a significant portion of their revenues offshore. None the less, some of the headlines were the continuous development of the State Capture story, our President surviving another vote of no confidence and an interest rate cut from the South African Reserve Bank (SARB) - the first such cut in five years.

On a positive note, South Africa managed to break out of the technical recession which was highlighted in our previous investment update. A quarter on quarter GDP growth of 2.5% was enough to help us break out of that deadlock.

The table below provides a comparison of the annualised local equity returns over the past 5 years and compares such to inflation.



As a result of a strong third quarter performance local equities have managed to produce a real return (a return greater than inflation) over the past 12 months. Over the long-term i.e. the five year period, equities is still one of the best performing asset classes and has earned returns on excess of inflation plus 6%.

The above table clearly illustrates why it is important for members to invest for the long-term and to always keep their eye on the end target.

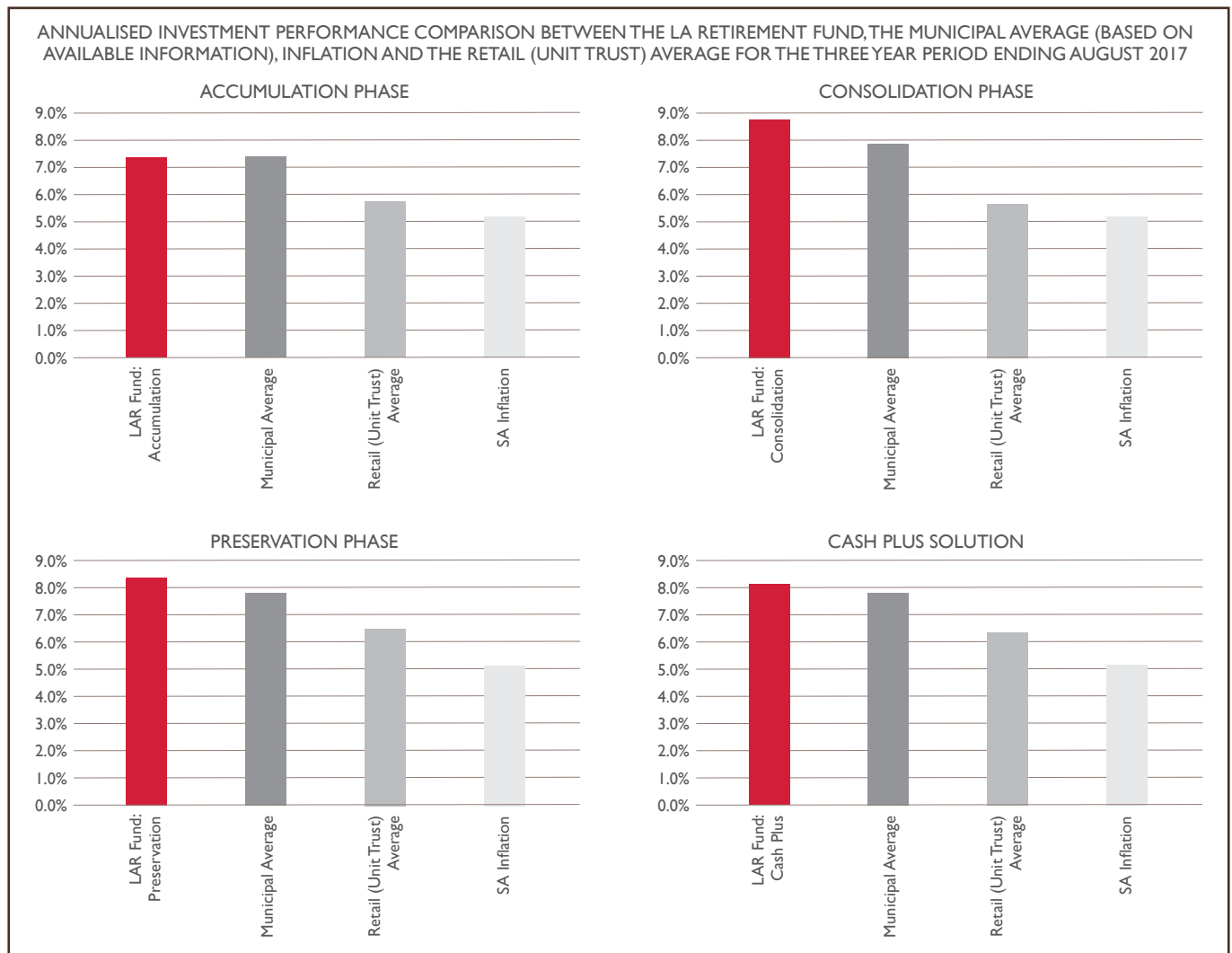
## Performance of the LA Retirement Fund's risk profiled solutions for the three year period ending August 2017

The table on the right illustrates the different risk profiled solutions performance (net of all fees) over the past 3 years from August 2014 to August 2017 and compares such to inflation over the same period.

The Fund's risk profiled solutions continue to produce superior returns, outperforming inflation by 2% to 3% even though it has been a difficult period for the markets.

PORTFOLIO	ABSOLUTE RETURN AUG 2014 TO AUG 2017	
Accumulation phase	<b>7.36%</b>	An absolute return is the annualised investment return earned net of fees and costs.
Preservation phase	<b>8.39%</b>	
Consolidation phase	<b>8.78%</b>	
Cash plus solution	<b>8.13%</b>	
Inflation	<b>5.18%</b>	

Furthermore, relative to its peers, the Fund's risk profiled solutions continue to produce strong performance. The graphs below compare the Fund's risk profiled solutions to other institutional municipal funds and also other retail or unit trust balanced funds with similar risk profiles. The results show that the Fund remains a leader in the industry. Not only has it performed strongly against other municipal funds but it far outperforms retail or unit trust balanced funds. We have included the retail or unit trust funds to illustrate the value of selecting the in-fund living annuity at retirement as opposed to purchasing a retirement product from a life assurer or other financial services provider.



## LOOKING FORWARD

It is no secret that the final quarter of the year will be a watershed one for our country. As expected, the Medium-Term Budget Policy Statement (MTBPS) reflected a material deterioration in our fiscus. Finance Minister Gigaba announced a larger than expected budget deficit, weaker economic growth forecasts and an increase in our overall debt position. The MTBPS was everything that the credit rating agencies did not want to see.

At year-end, the focus will shift to the ANC National Elective Conference, an event that will provide more certainty to where our country is headed in the medium to longer term.

Global central banks will continue to be closely watched. The Federal Reserve Bank will continue its massive balance sheet unwinding with other central banks potentially following suit. There are also some signs of global inflation picking up and it is anticipated that some central banks may well be raising their interest rates.

**Our message remains simple, stick to your investment strategy through these times and control the “controllable”.**

**“Successful investing is about managing risk, not avoiding it.” Benjamin Graham**