



**RETIREMENT FUND**

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## INVESTMENT UPDATE 2018 □ QUARTER 3

### MARKET OVERVIEW

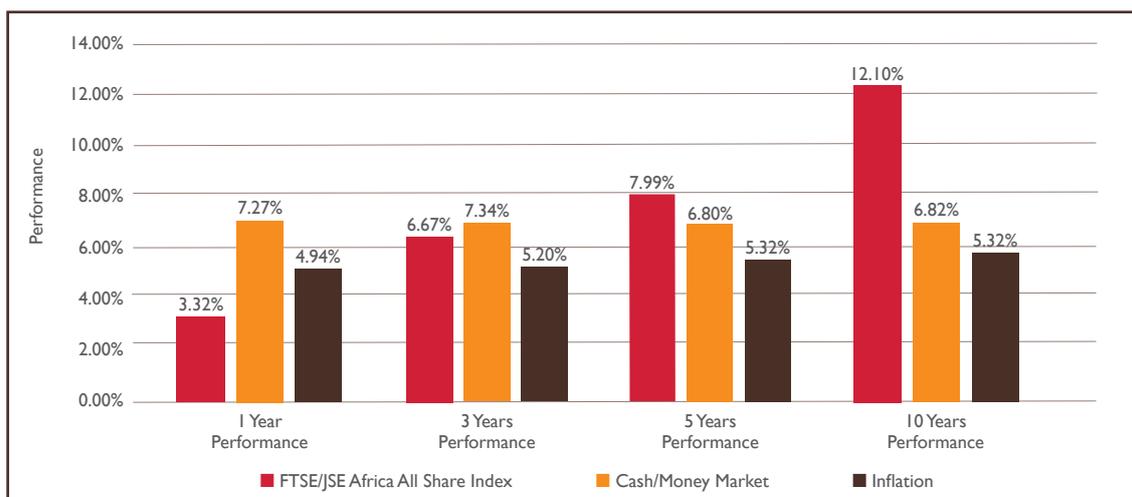
During this quarter the “Ramaphoria” effect has unfortunately faded into “Ramapause” or “Ramareality”. Mr Mboweni was appointed as South Africa’s sixth Minister of Finance since December 2015. This appointment was well received as Mr Mboweni is not new to the financial sector. He spent 10 years as the governor of the Reserve Bank, and during this time demonstrated a safe pair of hands that earned the respect of investment markets and investors.

Globally, the US Federal Reserve has now raised interest rates six times in the past three years. On 14 September, the United States announced significant tariffs on import goods from China - Beijing duly responded with tariffs on imports from the United States.....THE TRADE WAR HAS BEGUN!!!

Higher US interest rates, the US/China trade war, US dollar strength and political uncertainty in Turkey, Argentina and Brazil has placed pressure on all investment markets.

Locally, it has been a very tough year for our equity market as it only produced a return of 3.32% over the last 12 months. Almost 40% of stocks in the All Share Index are now trading at prices below where they were 5 years ago, and when adjusted for inflation, 60% of these stocks are trading at prices below where they were 5 years ago. In other words, nearly two thirds of the market has gone backwards.

The table below provides a comparison of our local stock market, the All Share Index, against an investment in the money market, as well as inflation over the short, medium and long term. The results clearly show the importance of including riskier assets such as equities into any well diversified investment strategy, which provides healthy returns in excess of cash or inflation over 5 to 10 year periods.

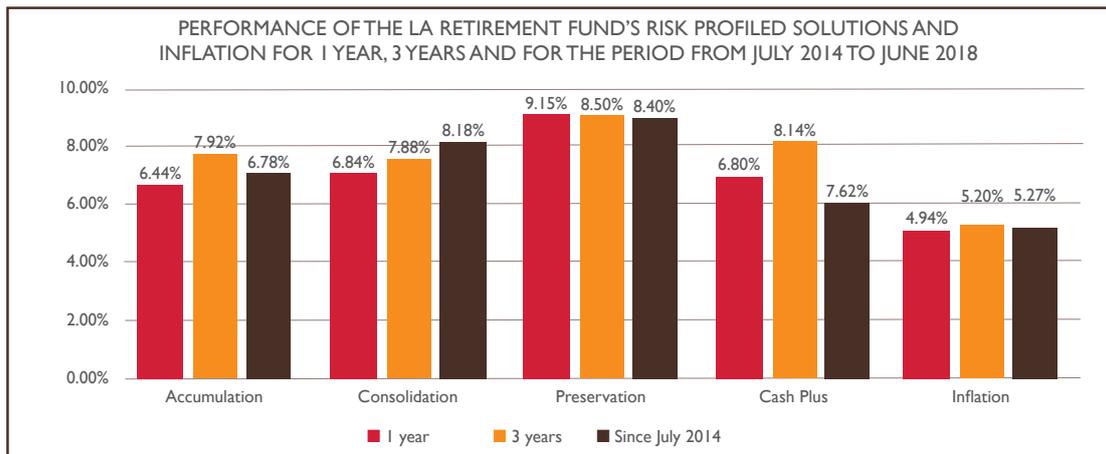


Although local listed property has been the “darling” for investors over the past 15 years, it has lost value over the past 3 years due to the sell off which occurred in the first quarter of 2018. Listed property earnings over the past 5 years have now barely outperformed inflation.

The Rand is once again proving to be the most volatile currency in the world. Over the past 12 months it has switched from the best performing emerging market currency to the worst. Recently during the emerging market sell-off it lost nearly 20% against the US dollar.

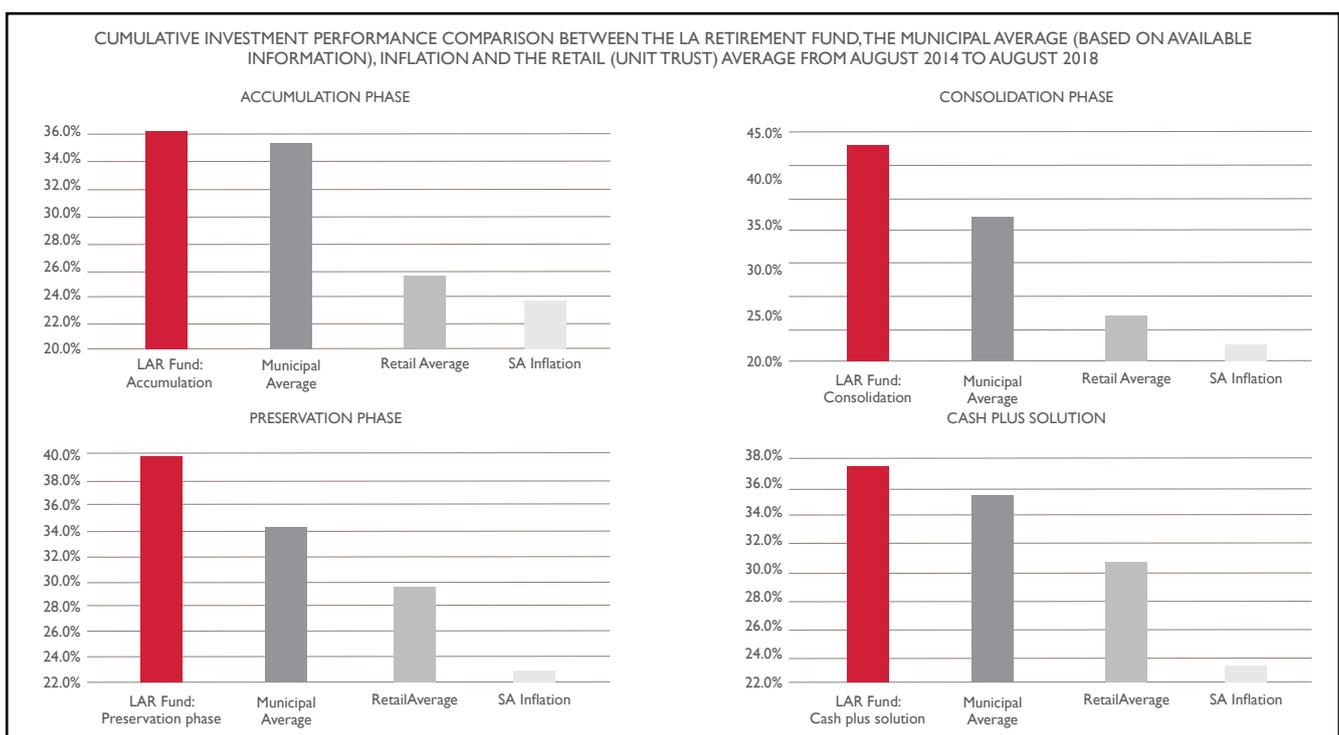
## PERFORMANCE OF THE LA RETIREMENT FUND'S RISK PROFILED SOLUTIONS

The table below illustrates the different risk profiled solutions performance, net of fees over the past 1 year, 3 years and since inception of the Defined Contribution solutions (1 July 2014) to the end of September 2018. It also compares to inflation over the same period.



The results indicate that irrespective of the poor performance of the JSE All Share Index which only produced 3.32% over the past year, the **LA Retirement Fund solutions have held up well and again produced returns in excess of inflation.**

The LA Retirement Fund continues to outperform their municipal peers and the broader industry of retail retirement fund products. The Fund's performance remains one of the strongest in the industry and this clearly demonstrates that the Fund is a leader amongst its peers.



## The Life Stage strategy is dynamically managed and provides a seamless transition into the In-Fund Living Annuity

Despite exceptional market volatility over the last few years, members should note that the Life Stage strategy, which the Trustees have put in place, has been structured to provide an appropriate balance of risk and expected return at different stages in a member's working life.

Members who are approaching retirement and are invested in the Life Stage strategy do not need to be concerned about the current volatility of the markets. The risk of capital loss is managed by shifting investments to less risky assets as a member gets closer to retirement. For example, members automatically move from the growth strategy to a moderate strategy (i.e. the Consolidation portfolio) within 5 years of their normal retirement age and this reduces their allocation to risky assets to keep their capital safe.

The Life Stage strategy also ensures an easy transition for members who choose to automatically invest their retirement savings in the In-Fund Living Annuity at retirement. Because a member's share value does not need to be disinvested into cash, it is not at risk in the event of a volatile market downturn overlapping with their retirement date. As per the Life Stage strategy, the member share value is invested in the Consolidation portfolio prior to retirement and it may remain invested in this portfolio on purchasing the In-Fund Living Annuity. The In-Fund Living Annuity provides a member with a pension income during their retirement years.

A major advantage for members is the cost benefit, as the fees of the In-Fund Living Annuity are extremely low compared to products available from external providers (life insurance companies or investment platforms). In addition, the Fund has proven to be a top performer against their peer groups, exceeding retail savings products performance by a material margin. In a nutshell, The Fund provides a superior option than what the market offers, should the member choose to retire outside the Fund.

## The In-Fund Living Annuity investment options

At retirement when a member invests in the In-Fund Living Annuity, they can select one of two options which will determine the investment of their retirement capital and the amount of their monthly pension:

- **Trustee Endorsed Option:** The member's retirement savings are invested in the Consolidation Phase of the Fund. The amount of money the member can take (draw down) from the retirement capital as a pension income is a fixed percentage. The fixed percentages were set with sustainability in mind and increase every five years.
- **Customised Option:** The member can choose to invest in any one or more of the Fund's three Risk Profiled investment options (i.e. the Accumulation, Consolidation, Preservation Phases or the Shari'ah portfolio.). This flexibility also allows the member to choose the investment option from where their monthly income must be paid. In addition, the member is required to select the draw down rate from a range applicable to their age band. This effectively allows the member to choose the percentage of their total retirement savings they can access as their pension income. The member can then adjust this draw down rate every year by selecting the appropriate rate to meet their needs from the range provided.

You can find out more about the In-Fund living annuity at [www.laretirementfund.co.za](http://www.laretirementfund.co.za)

## LOOKING FORWARD

Looking at the big picture, you need to understand that expected returns in the short term might remain low at a time when volatility and uncertainty is increasing - the current market correction may indeed have another leg to go.

The Trustees have implemented protection strategies for any further downside surprises across US and SA equity markets, as well as against any unexpected Rand strength. This prudent short-term approach buffers the Fund against any unintended near term risks or downside surprises.

As we always insure our lives, our houses and our cars, we also have to insure our investments! In the medium term, growth assets such as emerging market and local equity assets may rebound - the Fund has therefore retained a prudent allocation to such asset classes to ensure that they benefit from any such rebound.