INVESTMENT UPDATE QUARTER 4 □ 2018

RETIREMENT FUND

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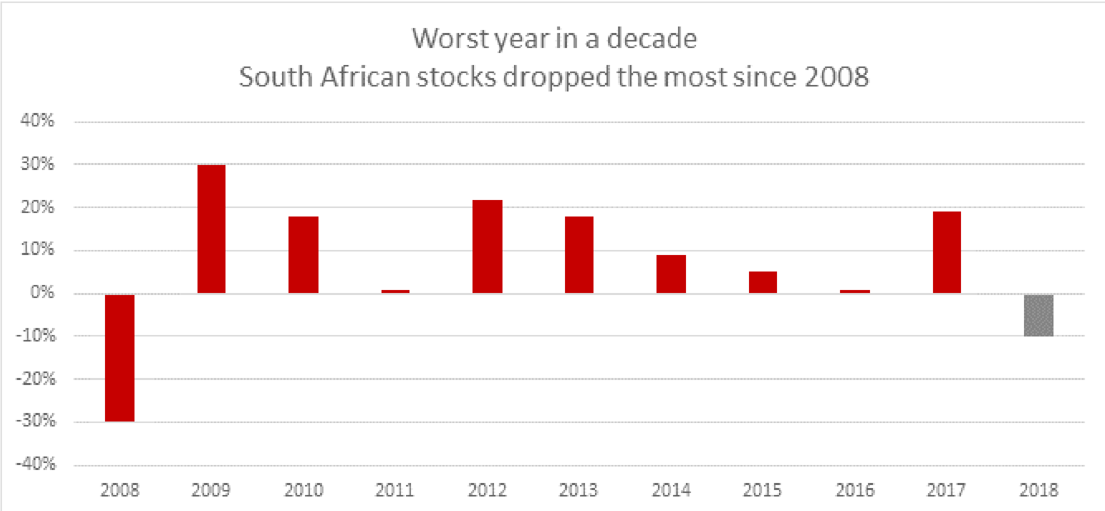
MARKET OVERVIEW

It has been yet another quarter where growth assets such as local equities (-4.88%) and local property (-3.99%) lost value.

During 2018 our local equity market lost 8.5% — that is the total return (including dividends) for the year, which was a major concern for all investors. Putting this in perspective is not easy. The chart below illustrates how the 2018 performance has been the worst year in the last decade. The last time we saw negative calendar-year JSE All Share returns was during the 2008 financial crisis when our local market lost 23%.



The table below outlines the performance of growth assets compared to an investment in a money market and also versus inflation over the short, medium and long term.

	1 Year	3 Years	5 Years	10 Years
Local Equity	-8.53%	4.33%	5.77%	12.62%
Local Property	-25.26%	-1.19%	5.70%	12.09%
Local Cash / Money Market	7.25%	7.39%	6.91%	6.70%
SA Inflation	5.18%	5.47%	5.39%	5.34%

The results above clearly illustrate that money market assets have been the best performers over the short to medium term (1, 3 and 5 years). The results also highlight the importance of investing in growth assets and sticking to a long-term investment strategy. Over the last 10 years local equity and local property yielded returns of 12.62% and 12.09% per annum which is well in excess of inflation.

What on earth happened in 2018?

The South African investment market is influenced by multiple factors, both domestic and international, and the interactions between these factors is complex.

However, if one had to single out a key influence during 2018, it would be the developments in the United States, which negatively affected emerging markets such as ours. Three themes dominated the US economy during 2018:

- Trade tensions between the US and China
- The US Federal Reserve increasing the interest rates to its upper end of its range to 2.5%, but also sending signals of fewer hikes in the future;
- Overall economic data coming out of the US

How did this impact us?

The trade war between the US and China has had a mixed bag of impacts. Some US sectors have benefited from tariffs placed on Chinese products, resulting in booming corporate profits. However, other sectors have been negatively impacted, such as the US industrial sector, which is reliant on imports of products such as steel and aluminum.

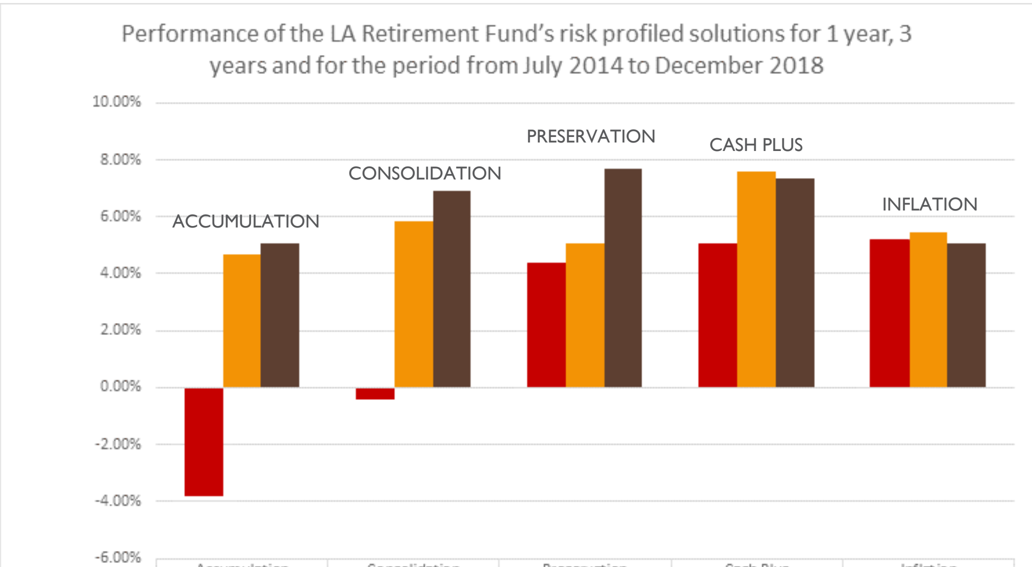
The US economy powered ahead during 2018 compared to other economies. This contributed to a stronger US Dollar versus other currencies. The age-old economic principle of "demand and supply" came into play. As the outlook for the US Dollar was seen to be positive, investors started flocking to it to invest, resulting in the demand for the US Dollar increasing.

The continued rising interest rates also had an effect. Increased rates made US government bonds more attractive, which further aided in the strengthening of the US dollar.

Collectively, these "themes" negatively affected emerging economies (such as South Africa), with foreign investment flowing out of emerging economies to the US.

HOW HAS THE LA RETIREMENT FUND'S RISK PROFILED SOLUTIONS PERFORMED?

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



	Accumulation	Consolidation	Preservation	Cash Plus	Inflation
1 year	-3.78%	-0.39%	4.34%	5.02%	5.18%
3 years	4.69%	5.82%	5.07%	7.59%	5.47%
Since July 2014	5.07%	6.90%	7.70%	7.32%	5.07%

Whilst the Fund's Accumulation and Consolidation risk profiled portfolios yielded negative returns over the past year, such performance should be considered in the light of the poor performance of growth asset classes such as local property and local equity, which yielded -8.53% and -25.26% respectively.

Over the 3-year term it has also been tough to produce inflation beating returns as local property and local equities returned 4.33% and -1.19%.

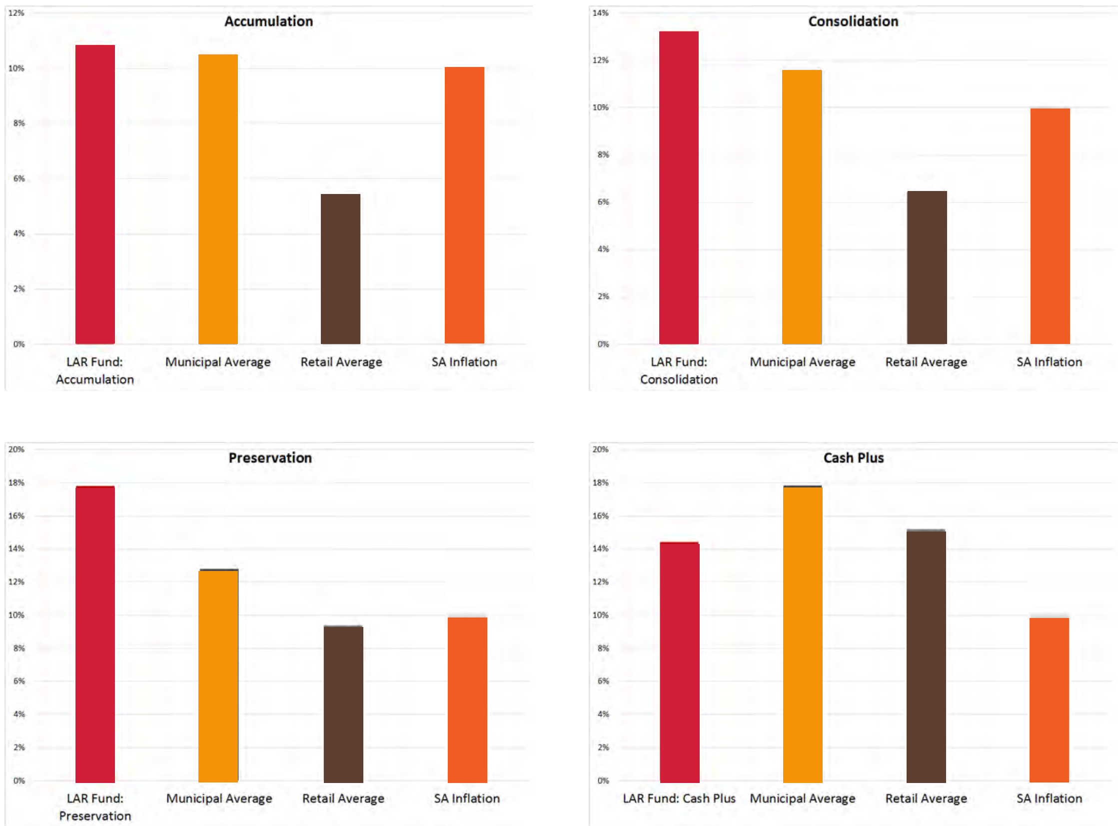
Since the inception of the Fund's risk profiled portfolios in July 2014, they have outperformed both the money market and inflation despite the difficult investment market environment.

FUND VERSUS PEER GROUP

Whilst the performance has shown disappointing returns it should be highlighted that the Fund's risk profiled solutions have continued to outperform their municipal peers as well as the broader industry of retail retirement fund products. In addition, our review also clearly shows that our Fund's costs are lower than our peers'.

Most importantly, the Fund's performance demonstrates that the Fund is a leader amongst it peers. For purpose of the peer group comparison, we looked at the performance over the past two years to end of December 2018 — this incorporates the strong performance in 2017 and the poor performance in 2018:

CUMULATIVE INVESTMENT PERFORMANCE COMPARISON BETWEEN THE LA RETIREMENT FUND, THE MUNICIPAL AVERAGE (BASED ON AVAILABLE INFORMATION), INFLATION AND THE RETAIL (UNIT TRUST) AVERAGE FROM DECEMBER 2016 TO DECEMBER 2018



The results above show that the Fund remains a top performer against its municipal peers as well as comparative retail based portfolios i.e. unit trust funds which target the same returns.

Members of the Fund who wish to retire outside of the Fund should realise that performance of retail based unit trusts are lower on average and much more expensive. Retiring in the Fund is a very attractive proposition and we urge you to contact our Fund Counsellor for more information regarding the In-Fund Living Annuity. This will enable you to make an informed decision.

WHY CONTINUE TO INVEST IN RISKY ASSETS?

You may ask why you should continue investing in risky asset classes, if they have not outperformed low risk money market assets? In a nutshell, the answer is that retirement investing is not a short term or speculative strategy but rather a well-diversified plan that aims to yield inflation beating returns over the long term.

As Warren Buffet, perhaps the best investor of all time notes - ***"Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons."***

Our local equity and property markets are now trading at very attractive levels. Relative to other markets, they haven't been this cheap in more than 5 years. The last four occasions when the majority of local equities yielded negative returns, this resulted in strong returns in the following year or two. For example, our local equity market returned 70.8% in 1999, 32.6% in 2001, 32.1% in 2009 and 20.95% 2017.

In terms of our local property sector, it is currently yielding 9.3% - the highest in ten years. The correction in the sector has been overdone and a number of stocks are very attractively priced. If we experience some macro improvement in the local economy our property market should do very well from these low levels.

South African bonds compare favorably to their emerging market peers, relative to their own history, and still offer good value and therefore warrant an allocation.

The best action you can take, therefore, is to THINK LONG-TERM when crafting your investment strategy, and don't make hasty changes. Although it is easy to say that there is nothing that you need to do right now, we also acknowledge that there is a lot of concern amongst members. Our view is that you should educate yourself on why markets move, by reading more about investments (such as this and previous investment updates) and asking questions if you are not certain about something. We encourage everyone to speak to a financial advisor, not only at times like these but also in the good times, to ensure you have the right long-term investment strategy to keep your savings on track for a comfortable retirement.

LOOKING FORWARD

The Trustees of the Fund follow a disciplined investment approach, which requires courage to look beyond the short-term in search of long-term value.

Most importantly, we don't allow the Fund's risk profiled solutions to hinge on single macro-economic and investment views. Instead, we value diversification across sectors, industries, regions, investment managers and funds as well as currencies. We are also always implementing robust risk management strategies to protect the Fund against adverse market movements.

Looking forward, the change in stance in December 2018 by the US Fed and their adoption of a more patient approach to hiking US interest rates provides the foundation for a more positive global risk environment for South African assets. As noted previously, at current levels our local bond, property and equity markets offer many attractive opportunities relative to our offshore counterparts.

Albeit we are positive about better prospective local returns, we recognise that we continue to face many domestic risks, including national elections. We do however believe that any confidence boost in South Africa should lead to a stronger Rand exchange rate and stronger growth markets during 2019.

Looking abroad, the concern remains that US equity valuations are still extended albeit to a smaller extent post the December losses. Continued trade uncertainties between the US and China may also continue to have a negative impact on the markets. As a result, the Fund continues to implement strategies that protect the Fund's performance against downside– especially within US equity markets which are fully priced.

In summary, a few words of wisdom: the tactics of timing the market are fraught with danger; history vouches for the fact that "time in the market" is a safer strategy than trying to "time the market".

As Trustees of the Fund we continue to apply a well defined and robust investment strategy to ensure that we provide the members of the Fund with the best chance of meeting their retirement objectives.

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