LA RETIREMENT FUND

Securing your retirement

This summary overview provides insight in terms of the recent market events up to 13 March 2020. We are currently experiencing extreme price movements and even this overview will be outdated by the time it is published.

To reflect on the start of the year, we entered 2020 with optimism supported by signs of stabilising global growth and progress on the trade war between the US and China. Equity markets were poised for further potential gains after a strong 2019. Then it all changed – not one but two black swans hit the market. A black swan is an unforeseen event that has a material and adverse impact on the investment markets.

What is currently happening in the markets?

1. COVID-19, or better known as the Coronavirus, as well as the unexpected and sudden "oil war" between Saudia Arabia and Russia have been the two major black swan events which have collectively triggered the dramatic market corrections we are witnessing across global markets. The World Health Organisation (WHO) has now characterised COVID-19 as a pandemic. It's the most serious health crises in over a century. Many countries are now in lockdown. As we now know, COVID-19 is highly infectious and it is deadlier than the common flu. That, and the speed at which it has spread, has caused investors to panic.

2. The second "black swan" event involves an oil production war and this has compounded market fears. Saudi Arabia and Russia could not agree on setting oil production levels and consequently oil prices have fallen sharply – over a short space of time the price of oil halved to $34 a barrel. To explain the impact of such a sudden drop in price, a share such as Sasol stocks have now lost 92% of its value. In April last year, Sasol stocks were worth R470. In a week of stocks crashing across the world, Sasol has been the worst-performing share in all emerging markets.

No developed or emerging market has been spared with a complete sell off at record pace. At this stage most analysts are suggesting the disruption can last anywhere between three months and a year but actually nobody can say for certain.

Equity markets

Whilst the current market correction may not yet be the worst in recent history, it has been the fastest market correction. The table below indicates the current losses experienced by some of the major indices worldwide:

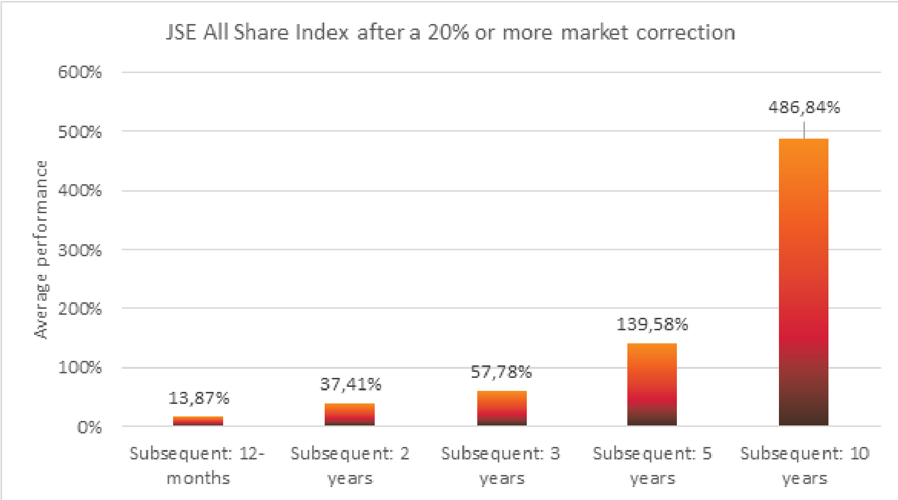
Index	Loss from recent peak to 13 March 2020
All Share Index (SA)	-20.99%
Dow Jones Industrial Average (US)	-21.54%
S&P 500 (US)	-19.80%
FTSE 100 (UK)	-31.88%
Hang Seng (Hong Kong)	-17.29%
Nikkei 225 (Japan)	-27.62%

The Fund's Risk Profiled Solutions have also unfortunately been materially affected by these significant and rapid equity drawdowns. As can be seen from the table above, South Africa has been caught in the crossfire of the correction in global markets. There has been nowhere to hide and we have been hit by international sentiment and panic.

Risk Profiled Solutions	Loss from recent peak to 13 March 2020
Accumulation portfolio	-16.79%
Consolidation portfolio	-12.65%
Preservation portfolio	-8.05%
Cash Plus	-3.79%
Shariah	-9.72%

Perspectives on the markets post a crises period

The chart below indicates the subsequent average performance of the JSE All Share Index over certain periods going as far back as 1960 when the market dropped by 20% or more. It has happened 9 times in history, with an average recovery rate of 23 months. These results simply remind us that equity markets are risky and one needs to embrace risk to generate growth in excess of inflation.



If one further considers the ten worst days on the JSE from 28 February 1997 to 28 February 2020 the biggest daily loss has been -11.9% and the average daily loss across these days was -7.14%, which is roughly in line with what investors experienced this month.

Cash and bonds

Although cash and bonds have not been as severely impacted as equities, they are unlikely to return more than inflation + 2% per annum over the long-term. However in order to achieve a long-term real return of at least 4% or more it is necessary for funds to invest in equities and other growth assets rather than being in an overweight allocation to cash and bonds.

Is there a silver lining?

While inventories and capital spending are likely to fall during the next few months, governments around the world are already uniting in their response and resolve to resurrect demand. The US and many other countries have already responded aggressively by reducing interest rates with the possibility of more rate cuts in the next few weeks. South Africa is to decide our course in the coming week.

Low oil prices have a stimulus effect for countries like South Africa, as it is our main import. Lower oil prices will hopefully bring some relief as the petrol price could drop by an estimated R1.50 per litre.

Market commentators note that during the worst financial crisis, innovation gains traction. Thanks to breakthroughs in DNA sequencing and artificial intelligence, researchers sequenced the COVID-19 virus in just two days, compared to five months for the SARS virus. As a result, the first vaccine could be found in a few months instead of 12-18 months, well ahead of the next flu season.

Investec Asset Management notes that this entire pandemic has benefits for the planet. NASA released pictures last week showing how much pollution over China has cleared as a result of the slowdown. Further, with air travel significantly curtailed, carbon emissions will reduce substantially. If that somehow induces long-term behavioural changes skewed towards more online meetings and events rather than physical travel, it can only be a good thing. It almost feels as though the planet said: "You humans aren't going to change your behaviour in time, let me do it for you".

What should our members and In-Fund Living Annuitants do?

When investment markets are volatile, it is tempting to make impulsive decisions based on positive or negative information we see in the media. Saving for retirement is a long-term initiative that involves many risks and uncertainties. The impact of COVID-19 on investment markets will extend beyond the short to medium term.

The best way to deal with uncertainty is through proper planning and adherence to a long-term investment strategy. Making "knee-jerk" changes to a long-term investment strategy, without any clear evidence, would be premature. Any such premature changes may result in more harm than good. Presently we see no evidence that calls for change to the fundamental principles of long-term investing and therefore the Fund is not planning any immediate changes to its long-term investment strategies. Volatility in investment markets does afford skilful active asset managers an increased opportunity to outperform the general market.

Many retirement fund members ask if they should sell or reduce exposure to growth portfolios at current levels. The answer is a definite no as selling now will result in members locking in their losses permanently. The same applies to our In-Fund Living Annuitants. Members are encouraged to stick to their long-term strategy. Equally, there are those who ask if they should buy at current depressed levels. The answer is also a definite no as it takes a brave person to wade into the market just yet.

In addition the fact that we continue contributing means that there is an averaging effect which serves to dampen the losses we experience, and this helps our investments to bounce back when markets recover.

What should I do if I am about to retire?

We recommend that you speak to both a financial advisor and to the Fund Counsellor. Members are encouraged not to retire right now. Remember that even though you have or will soon be retiring from your employment, you can choose to delay retirement from the Fund (called phased retirement). Your member share will remain invested in your chosen investment portfolio and it will therefore benefit from the gains to be made when the market recovers. Alternatively, you can purchase an In-Fund Living Annuity from the Fund which allows you to remain invested in your chosen investment portfolio and it will therefore also benefit from an upswing in the market. The benefit of both of these options is that we do not have to disinvest your member share value (i.e. sell your units) now which would permanently lock in the losses to date. Please access the phased retirement and IFLA Q&A from the Q&A guides tab on the Fund's website (www.laretirementfund.co.za). Your capital value will benefit from the recovery in returns.

What is the impact on our defined benefit pensioners?

Your current pension remains fully funded, cannot be reduced and will be paid to you for the rest of your life. As a pensioner, if you have an eligible spouse, should you pass away then 60% of your pension will also be paid to your eligible spouse for the rest of his / her life. As a Fund pensioner, you benefit from the pooling of the risk of long life. This means that your pension will be paid to you for the rest of your life, no matter how long you live. The Fund achieves this promise by pooling together all its pensioners and working out how much money it needs. There is sufficient funding in the LA Retirement Fund to ensure that the promised pensions will be paid for life.

The recent market correction may impact, to a limited extent, on future pension increases and pensioner bonuses. However, a large portion of the assets underlying your pension are invested in bonds that more closely match the value of your promised pension benefits.

Will the Fund's administrator be able to continue to process member contributions and claims payments during this time?

Yes, Verso Financial Services has plans and mitigation strategies in place in the event of COVID-19 disrupting business continuity and practices. Verso is taking every precaution to ensure that their business continues to run smoothly and that they continue to service all of the Fund's members and pensioners with as little disruption as possible. The continuity of the member support services team, including their call centre staff, is ensured.

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