RETIREMENT FUND

Securing your retirement

INVESTMENT UPDATE 2020 QUARTER 2

MARKET OVERVIEW

In the last market update we reflected on how two black swan events (rare and unforeseen events which have a material and adverse effect on investment portfolios) hit the market at the same time. We usually experience a black swan event every few years but not two in the space of two months.

Most stock markets across the world dropped by more than 30%. There was nowhere to hide. We were shocked when local listed property, which had been the best asset class in South Arica for the past 10 years, experienced its largest fall ever - dropping by more than 48%.

We also outlined that a pandemic such as the Coronavirus is nothing new to the investment markets. History shows us that investment markets recover and move to new highs, and that's exactly what happened during Q2 2020.

After the significant losses in February and March, markets have strongly rebounded and the Fund's Risk Profiled Solutions have posted strong results.

Equities and property assets performed strongly on rising risk sentiment, coupled with a weaker US Dollar and the markets pricing in an optimistic V-shaped (a quick) economic recovery. The sharp rally in the markets was furthermore driven by the US Federal Reserve Bank's most accommodative monetary policy in US history.

The JSE All Share Index was among the best-performing stock markets in the world returning 23.18% for the quarter, the best quarter since 1998. Offshore technology stocks were the best performer as measured by the Nasdaq and increased by 30% in US dollars, compared to the 19% increase in the MSCI All Country World Index (a broad basked of shares for the entire world).

As the Nasdaq reached a new, all time high record in late June, so too did the number of new Coronavirus cases in many parts of the world. Investors have taken note that equity markets are not always a good reflection of what's happening in the real economy and with the man on the street. It is difficult to recall a time when positive sentiment across equity markets has felt so at odds with the real economic and social pressures of the man on the street who is simply trying to survive, feed his family, retain his job, or save his business.

On the local front, interest rates have declined to historic lows of 3.75%. Inflation has also decreased dramatically, from 4.6% in February 2020, to 2.05% year-on-year.

MARKET PERFORMACE

The table below outlines the performance of our stock market and listed property market which represent long term growth assets as compared to an investment in local bonds and cash and compares such against inflation over the short, medium and long term.

	Qtr. 2	1 Year	2 Years	3 Years	5 Years	10 Years
Local Equities	23.18%	-3.30%	0.48%	5.11%	4.16%	10.89%
Local Property	20.43%	-39.98%	-22.22%	-18.33%	-9.06%	4.68%
Nominal Bonds	9.94%	2.85%	7.09%	8.11%	7.49%	8.30%
Local Cash	1.46%	6.86%	7.08%	7.17%	7.20%	6.48%
Inflation	-0.78%	2.05%	3.26%	3.63%	4.50%	4.94%

Local equities and property rebounded strongly and even local bonds produced a strong comeback. The impact of the Coronavirus on the property market can now be seen - this asset class posted material losses in March and has underperformed against inflation over the past 10 years!

The table below outlines the $ performance of offshore stock markets and listed property markets as compared to an investment in offshore bonds and US cash, and compares such against US inflation over the short, medium and long term.

	Qtr. 2	1 Year	2 Years	3 Years	5 Years	10 Years
Offshore Equities	19.22%	2.11%	3.91%	6.14%	6.46%	9.16%
Offshore Property	11.02%	-15.16%	-3.67%	-0.72%	2.38%	7.50%
Offshore Bonds	3.32%	4.22%	5.03%	3.79%	3.56%	2.81%
US Cash	0.06%	1.37%	1.87%	1.77%	1.28%	0.74%
US Inflation	-0.88%	0.12%	0.95%	1.56%	1.52%	1.63%

As with local growth assets, offshore equities and property rebounded strongly. Offshore property has held up better than local property as despite the material drawdown in March, it has still outperformed inflation over the past 5 and 10 years.

During Q1 2020, the Rand depreciated significantly from just below R14 to R19 to the US Dollar. This provided a buffer to offshore assets and as such, resulted in less severe losses in Rand terms. During Q2 2020 the Rand strengthened to R17.35 to the US Dollar.

PERFORMANCE OF THE LA RETIREMENT FUND'S RISK PROFILED SOLUTIONS

The table below illustrates the LA Retirement Fund's Risk Profiled Solutions performance, net of fees since the inception of the Defined Contribution solutions (1 July 2014) to the end of June 2020 and compares such to inflation over the same period.

	Qtr. 2	1 Year	2 Years	3 Years	5 Years	Since July 2014
Accumulation	12.46%	1.08%	2.02%	5.07%	4.99%	5.28%
Consolidation	9.32%	1.95%	3.23%	5.67%	5.61%	6.61%
Preservation	6.51%	2.25%	5.29%	7.02%	6.62%	7.20%
Cash Plus	3.97%	2.89%	5.66%	6.20%	7.15%	6.96%
Shari'ah	10.00%	0.53%	3.20%	5.05%	5.89%	6.02%
Inflation	-0.78%	2.05%	3.26%	3.63%	4.50%	4.51%

Due to the strong rebound in local and offshore equities, the Fund's Risk Profiled Solutions recovered strongly and now show positive returns over the past 12 months. Over the 3-year period performance has exceeded inflation and as such, members have not lost any value in real terms.

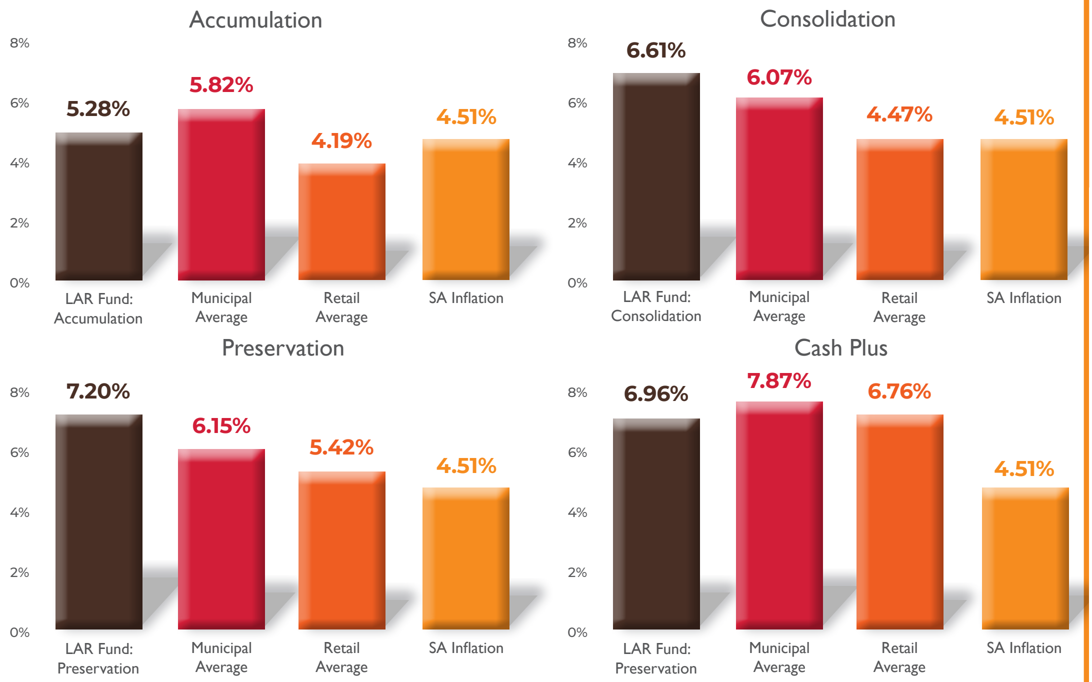
When compared to the peer group, the Fund's Risk Profiled Solutions continue to outperform the broader industry of retail retirement fund products.

THE LA RETIREMENT FUND CONTINUES TO OUTPERFORM THE BROADER INDUSTRY OF RETAIL RETIREMENT FUND PRODUCTS AND ITS PEERS!

The table below provides a peer group comparison of the annualised performance since the inception of the Fund's Risk Profiled Solutions. This comparison once again highlights how important it is for members to consider the "In-Fund Living Annuity" when they retire, as the results below clearly illustrate that the Fund has significantly outperformed other retail offerings.

As an example, the Consolidation Risk Profiled Solution (a moderate risk profile, in which members who select the In-Fund Living Annuity's Trustee Endorsed option invest their retirement capital) has yielded a return of 6.61% per annum since inception. Over the same period, a similar "Out of Fund" annuity yielded a return of 4.47% per annum. For more conservative members, the Preservation Risk Profiled Solution yielded a return of 7.20% per annum since its inception versus a comparative retail unit trust peer group that yielded 5.42% per annum.

ANNUALISED INVESTMENT PERFORMANCE COMPARISON BETWEEN THE LA RETIREMENT FUND, THE MUNICIPAL AVERAGE (BASED ON INFORMATION AVAILABLE) AND THE RETAIL PEER GROUP (RETAIL RETIREMENT FUND PRODUCTS) FROM JULY 2014 TO 30 JUNE 2020



The Fund's Risk Profiled Solutions have performed well relative to their direct municipal peers. Whilst the Accumulation Risk Profiled Solution is marginally behind its peers, the Consolidation and Preservation Solutions have handsomely outperformed theirs.

The Fund's performance remains one of the strongest in the industry and this once again demonstrates that the Fund is a leader amongst its peers.

COSTS

The Fund's performance is always reflected after costs and fees have been deducted, as we believe this provides an accurate reflection of the performance of each member's growth. The costs are:

- Accumulation 0.70%
- Consolidation 0.73%
- Preservation 0.69%
- Cash Plus 0.46%
- Shari'ah 1.32%

Whilst we can't compare such directly to other municipal funds as their information is not publicly available, we believe our costs are competitively low. Where data does exist and where we can make comparisons (such as what a member would pay on purchasing a retail retirement product on retirement) our costs and fees are typically half of what a member would pay on purchasing a retail retirement product on retirement.

For example, should a member invest in a risk profiled unit trust that aims to beat inflation by 2% to 6% then the average total costs for such will range between 1.30% and 1.70%. The Fund's Risk Profiled Solutions have therefore not only outperformed retail products, but our costs are also much lower.

LOOKING FORWARD

The Coronavirus pandemic is still causing major financial market uncertainty. Prospects of a vaccine against the virus are rising and falling weekly, and each time the market seesaws between hope and dismay.

We remain vigilant in our asset allocation and how we position the Fund's investment strategy. We continue to diversify the underlying investments and are currently in the process of adding various new investment manager mandates.

The climate crisis continues to threaten global health and global economies - the past three-months were the second warmest recorded in 141 years of National Oceanic and Atmospheric Administration data.

The LA Retirement Fund retains a healthy allocation of investments that are focused on responsible investment practices which care about our planet. Currently, we are looking at the feasibility of allocating assets to an investment manager who focuses on low carbon investments, without sacrificing long term returns. As a member of the Principles of Responsible Investment (UNPRI) we believe that we need to be responsible stewards of our member capital and therefore include best global practices to incorporate environmental, social and governance principles into our investment strategy and process.

FOOD FOR THOUGHT

YOU NEED EQUITIES

The reality is that most of us will not retire with enough money, unless we take serious action. The lesson to learn from this is that you need to save more AND you need higher long-term returns to grow your savings. The best asset class with which to do this is equities.. However, your retirement savings can't be 100% invested in this asset class due to Regulations. This is also the asset class that has the highest chance of delivering negative returns in the short term, hence the value of diversification between asset classes is important to note here. However, if you are overly conservative with your investment for a long period of time you will lose out on real investment growth.

You would need to attain each asset class's long-term average returns in order to double your real investment value

SA Equities	SA Bonds	SA Cash
10 Years	42 Years	87 Years

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