LA RETIREMENT FUND
Securing your retirement

INVESTMENT UPDATE 2019 QUARTER 3

MARKET OVERVIEW

The South African government is in a difficult position. It has to balance the priorities of the economy i.e. the need for job creation and economic stimulus and deal with Eskom and South African Airways who are in dire need of prompt intervention. It seems that these entities may have to carry a higher priority in the short term.

Sadly, no firm plans are on the table yet to resolve our biggest threat being Eskom. Municipalities owe Eskom billions in unpaid fees. Eskom is attempting to recover some of this bad debt, but it is a drop in the ocean compared to the amount needed to turn it away from disaster.

On the global front, the trade war between the US and China unfortunately continues. Despite good news in terms of US GDP growth, and positive news from the job and employment sectors, the fears that the US economy may enter recession remains a reality and is a major concern for investors. In addition we have Brexit lurking around the corner and are experiencing a global economic slow-down. All of these issues create uncertainty and, as a result have an impact on the markets.

The tables below outline the performance of our stock market as compared to an investment in cash and compares such versus inflation over the short, medium and long term. Cash has been king over the past 5 years as our equity market has struggled and only marginally outperformed inflation over the 3 and 5 year period.

	1 Year	3 Years	5 Years	10 Years
All Share Index	1.86%	5.07%	5.32%	11.48%
Cash / Money Market	7.34%	7.41%	7.14%	6.53%
Inflation	4.34%	4.67%	4.91%	5.12%

The associated "risk-off" investment behaviour is clearly visible as both local and offshore equities have performed poorly over the past 12 months.

"risk-off"
When uncertainty or negativity hits the market, investors tend to sell their riskier assets and buy "safer" assets, ones that are typically less vulnerable to a weakening outlook or negative investor confidence.

Unlike local equities, offshore equities have experienced a very strong run over the past 3 and 5 years. Fortunately, the Fund has held adequate allocations to offshore equities and, as such, has benefited from their performance.

	1 Year	3 Years	5 Years	10 Years
Offshore Equities	1.38%	9.71%	6.65%	8.35%
US Cash / Money Market	2.36%	1.71%	1.14%	0.68%
US Inflation	1.75%	2.13%	1.53%	1.74%

PERFORMANCE OF THE LA RETIREMENT FUND'S RISK PROFILED SOLUTIONS

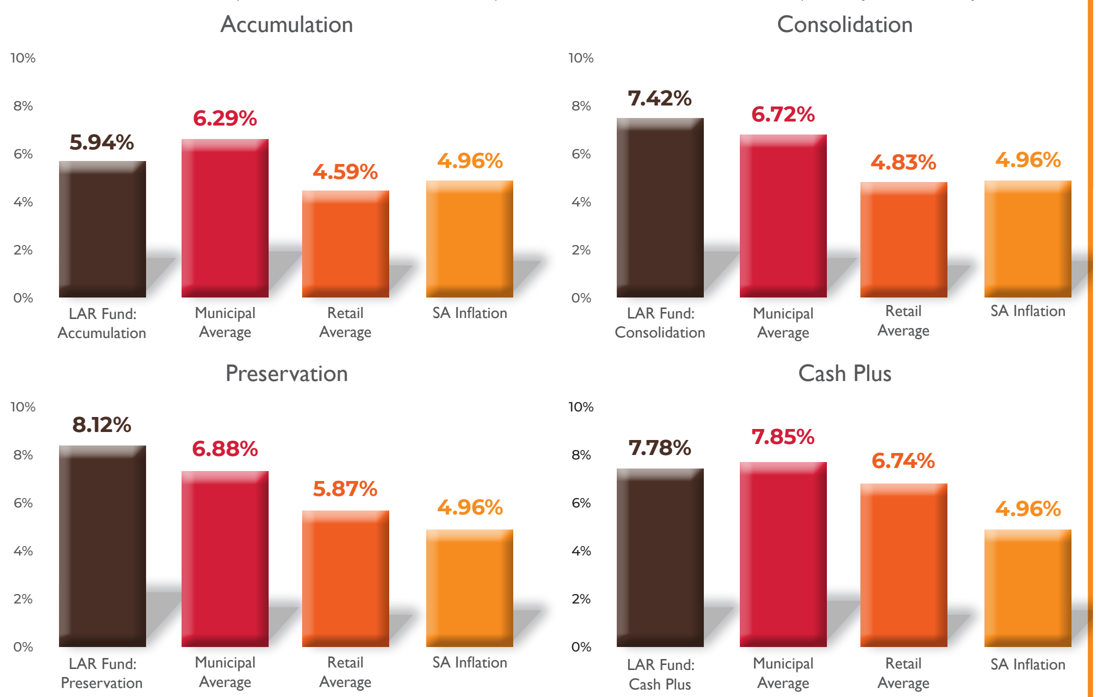
The table illustrates the different risk profiled solutions performance, net of fees over the past 1 year, 3 years, 5 years and since the inception of the Defined Contribution solutions (1 July 2014) to the end of September 2019 and compares such to inflation over the same period.

	1 Year	3 Years	5 Years	Since July 2014
Accumulation Portfolio	2.46%	5.75%	6.32%	5.94%
Consolidation Portfolio	4.25%	6.57%	7.47%	7.42%
Preservation Portfolio	6.93%	8.18%	8.22%	8.12%
Cash Plus Portfolio	8.46%	7.86%	8.03%	7.78%
Inflation	4.34%	4.67%	4.91%	4.96%

Although the Fund's risk profiled solutions yielded single digit performance, it still managed to exceed inflation over the majority of the periods. Although the Accumulation and Consolidation solutions have underperformed against inflation over the past 12 months, this short-term underperformance is understandable as both of these solutions have a healthy allocation to growth assets which performed poorly over the past year.

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

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 JUNE 2019



It is important to look at this performance in context and to note that the Fund's risk profiled solutions (net of fees) continue to outperform the broader industry of retail retirement fund products.

The graphs on the left provides a peer group comparison of the annualised performance since the inception of the risk profiled solutions.

We continue to emphasise the significance of this comparison as it highlights the Fund's outperformance of retail offerings (at lower costs) and emphasises how important it is for members to consider In-Fund solutions when they retire.

The Fund's risk profiled solutions have also performed well relative to their municipal peers. The Accumulation and Cash Plus solutions have marginally underperformed the peer group (i.e. by 0.34% and 0.07%) whereas the Consolidation and Preservation solutions handsomely beat their peers.

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.

LOOKING FORWARD

We are cautiously optimistic that local growth assets such as equities and property may provide better performance going forward. Valuations indicate that our markets are relatively cheap versus other markets - especially versus the US stock market which is now considered expensive.

Investors must note that our stock market almost always outperforms cash over a 5-year period. We just have to be patient and keep our eye on the end target!

The outlook going forward is brighter than it has been in a while for local equities.

The Fund has retained a healthy allocation to our local equity market to participate in potential upside gains. Where markets are expensive, for example the US stock market, the Fund has implemented offshore equity hedges to protect the Fund from sudden market losses.

Local cash and bonds continue to provide attractive real returns i.e. returns in excess of inflation and should provide members with a buffer should the equity market recovery take longer than expected.

"Be fearful when others are greedy and be greedy when others are fearful."
Warren Buffett

The Rand is also showing signs of strength albeit that most market observers remain pessimistic about our currency. We believe the Rand may well strengthen against the US Dollar in the short to medium term and have, therefore, implemented currency hedges to position the Fund appropriately.

It is important to remember that retirement savings are a long term investment – keep your eye on the end target and remain committed for the journey.......

FOOD FOR THOUGHT

YOU NEED EQUITIES

Many investors will not retire with enough money. We need the higher long-term returns from equities to grow our wealth. This is particularly important in a world where people are living longer.

PERFORMANCE OVER 89 YEARS
(Nominal returns from December 1929 to December 2018)

	all numbers are per annum
SA Equities	13.8%
SA Bonds	7.8%
SA Cash	6.9%
Inflation	6.0%

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