LA RETIREMENT FUND
Securing your retirement

INVESTMENT UPDATE 2020 QUARTER 3

MARKET OVERVIEW

The first two months of the third quarter were dominated by monetary support from central banks and strength from "big tech" companies in the post-COVID-19 economy. September saw a resurgence of COVID-19 cases in Europe, coupled with fears that fiscal and monetary support for the economy had likely peaked.

US equities ended the quarter with high single digits of 8.9% and 5.6% for the year, despite a decline in risk appetites by September. In an effort to remain as accommodating as possible, the US Federal Reserve Bank (Fed) adopted an average inflation targeting ("AIT") methodology, implying that interest rates will remain lower for longer. The US Fed also reiterated that more fiscal stimulus will be needed to keep the economic recovery on track.

The third quarter has made a strong argument for geographic diversification. Asian markets gained 12.1%, the United Kingdom lost -0.2% and European markets returned low single digits of 4.6%. These three regions ended the year on 8.3%, -23.4%, and -8.4% respectively, in Dollar terms.

Early in the quarter, the European Union approved a €750 billion fund (€390 billion in grants and €360 billion in loans) to help member states recover from the COVID-19 pandemic. Germany extended their furlough schemes which are designed to support jobs through the crisis. The United Kingdom lagged behind other regions during the period, due to revived fears around Brexit and a looming second wave of COVID-19 infections. The strengthening of the Pound over the quarter also added pressure to an already battered Oil and Financial sector.

Japan ended the quarter positively returning, in Dollar terms, 7.1% for the quarter and -0.3% for the year. Shinzo Abe announced his resignation, citing a long-standing health problem and Yoshihide Suga took over the mantel of prime minister. The change in prime minister did not impact markets much, as Suga was Chief Cabinet Secretary under Abe and will most probably carry on with Shinzo Abe's previous economic policies.

China, which arguably managed the COVID-19 pandemic the most pro-actively posted earnings of 12.4% for the quarter. China's economic data signalled ongoing recovery and Q2 corporate earnings results were positive. Tensions with the US have, however, escalated as new restrictions were imposed on Chinese telecoms company Huawei, and US President Donald Trump signed an executive order to prevent US companies from doing business with TikTok and WeChat.

The MSCI Emerging Markets Equity Index increased in value by 9.6% and outperformed the MSCI Developed World Equity Index which earned 8.0% for the quarter in Dollar terms. For the year ending September 2020, Emerging Markets still, however, lagged behind by 3%.

For the third quarter, Emerging Markets' earnings were driven by strong Chinese economic data and a weak US Dollar. The South African Rand was among the top performers. Leading the emerging market currency recovery was the Mexican Peso (4.7%), Chinese Renminbi (3.9%), South African Rand (3.4%), and Korean Won (2.9%).

Locally, the All Bond Index posted a total return gain of 1.45% compared to a gain of 9.9% for the previous quarter. The All Share Index posted a total return of just 0.67% for the third quarter compared to 23.2% in the previous quarter.

For the quarter, SA Resources returned 6.0%, while SA Financials and SA Industrials lost 1.6% and 2.3% respectively. The SA Property Index lost 14.14% in the quarter compared to the last quarter gain when it yielded 20.4%.

MARKET PERFORMACE

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

	Qtr. 3	1 Year	3 Years	5 Years	10 Years	15 Years
Local Equities	0.67%	2.01%	2.39%	4.75%	9.58%	11.31%
Local Property	-14.14%	-46.07%	-23.80%	-12.85%	1.78%	7.49%
Nominal Bonds	1.45%	3.58%	7.33%	7.57%	7.62%	8.02%
Local Cash	1.16%	6.20%	6.93%	7.11%	6.43%	7.25%
Inflation	2.01%	3.09%	4.12%	4.60%	5.08%	5.67%

The third quarter saw none of the local asset classes keep up with inflation, and only nominal bonds and local cash outperformed inflation over a 1-year period. The local property market has also shifted and now only outperforms inflation over the long term (15 years).

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

	Qtr. 3	1 Year	3 Years	5 Years	10 Years	15 Years
Offshore Equities	8.13%	10.44%	7.12%	10.30%	8.55%	6.46%
Offshore Property	2.79%	-17.35%	-0.24%	3.09%	5.97%	4.77%
Offshore Bonds	2.66%	6.24%	4.10%	3.92%	2.36%	3.78%
US Cash	0.04%	0.88%	1.68%	1.28%	0.74%	1.45%
US Inflation	1.37%	1.31%	1.92%	1.75%	1.76%	1.89%

Offshore property has held up better than local property. Despite the material drawdown in March, it has still outperformed inflation over the past 5, 10, and 15 years.

During the third quarter, the Rand strengthened by 3.4% from R17.35 to R16.76 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 (01 July 2014) to the end of September 2020, and compares such to inflation over the same period.

	Qtr. 3	1 Year	2 Years	3 Years	5 Years	Since July 2014
Accumulation	1.31%	1.88%	2.17%	3.58%	5.58%	5.28%
Consolidation	1.44%	2.32%	3.28%	4.45%	6.02%	6.59%
Preservation	1.27%	2.04%	4.46%	6.00%	6.86%	7.12%
Cash Plus	1.34%	2.38%	5.38%	5.85%	7.03%	6.90%
Shari'ah	1.40%	1.49%	2.31%	3.84%	5.96%	6.01%
Inflation	2.01%	3.09%	3.71%	4.12%	4.60%	4.66%

It has been a very tough 5 years for our local markets, especially growth asset classes such as equities and property. For example, over the past 5 years, local equities have returned 4.75% and listed property -12.58%, before costs and fees. It is important to note that the performance of growth asset classes is key to empowering the Fund to meet its inflation targets.

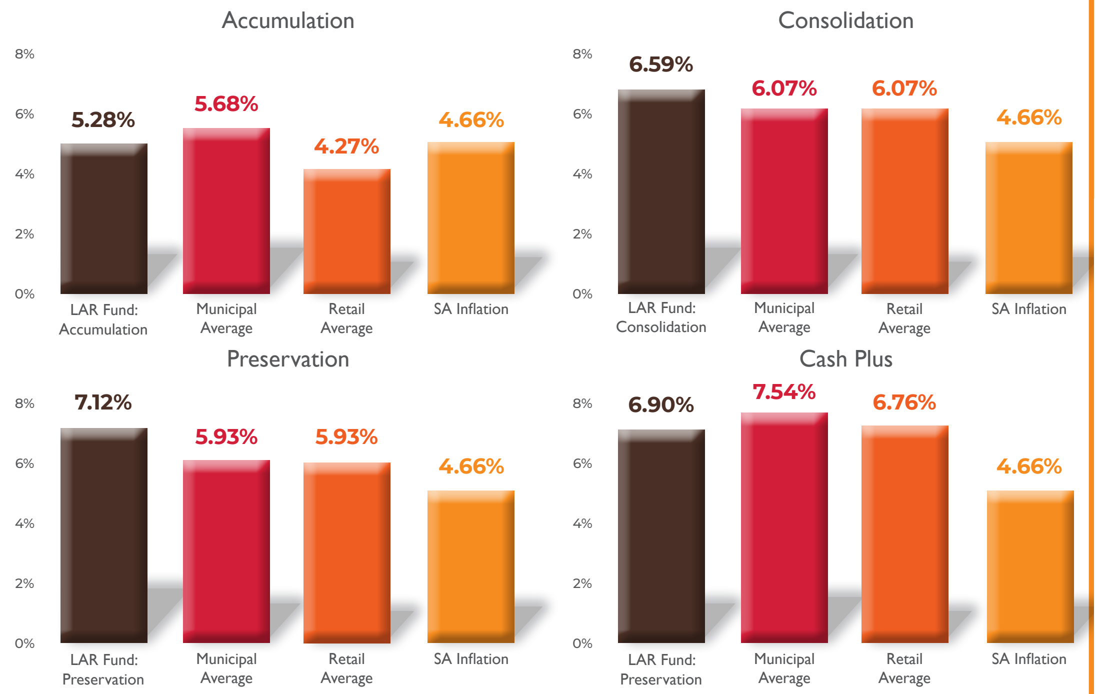
THE LA RETIREMENT FUND CONTINUES TO OUTPERFORM THE BROADER INDUSTRY OF RETAIL RETIREMENT FUND PRODUCTS AND ITS PEERS!

When compared to the peer group, the Fund's Risk Profiled Solutions continue to outperform the broader industry.

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 6.59% per annum since inception. Over the same period, a similar "Out of Fund" annuity yielded a return of 6.07% per annum. For more conservative members, the Preservation Risk Profiled Solution yielded a return of 7.12% per annum, since its inception versus a comparative retail unit trust peer group that yielded 5.93% 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 SEPTEMBER 2020



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

Although the Cash Plus and Shari'ah solutions are not part of the Life Stage process, members can select these solutions if they wish to opt-out of the Life Stage process and tailor-make their investment strategy.

COSTS

The Fund's performance is always reflected after costs and fees have been deducted, as we believe this provides an accurate reflection 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 when members invest outside of the Fund into a mix of unit trusts) our costs and fees are typically half of what a member would pay.

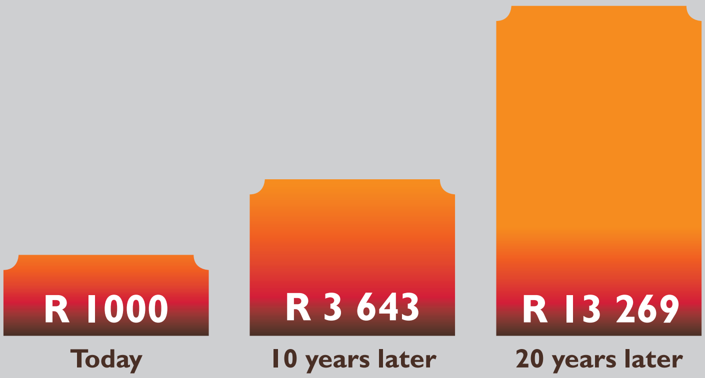
For example, should a member invest in a risk profiled unit trust that aims to beat inflation by 2% to 6% then the average total costs for such will range between 1.30% and 1.70%. The Fund's Risk Profiled Solutions have therefore not only outperformed retail products, but our costs are also much lower.

FOOD FOR THOUGHT

COMPOUNDING IS A POWERFUL WEALTH GENERATOR

Money needs time to benefit from the full potential of compounding growth. Start saving as soon as you can, save as much as you can, leave it for as long as you can and let compounding do the work for you.

Using the long-term nominal average return of 13.8% a year on SA Equities, look at what happens when a lump sum of R1000 is invested now.



RETIREMENT FUND
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Trustees: Mr DL Carstens (Chairperson), Mrs M van Zyl (Deputy Chairperson), Adv CJ Franken, Mr J Lawack, Mr J Jacobs, Mr WR Meiring, Mr S Philander, Mr JAH van den Berg, **Principal Officer:** Mrs IT Hartlief

PO Box 4300, Tygervalley, 7536 • Belmont Office Park, Twist Street, Bellville, 7530
Tel: 021 943 5305 • Fax: 021 917 4114 • support@laretirementfund.co.za
www.laretirementfund.co.za • Fund registration No: 12/8/1278/2