LA RETIREMENT FUND
Securing your retirement

INVESTMENT UPDATE 2020 QUARTER 4

MARKET OVERVIEW

The speed at which COVID-19 has spread around the world has been overwhelming. It caught governments around the world off guard as they tried to understand the severity of the virus and figure out how to slow down the spread. Most countries had to limit human interaction by means of a national lockdown. This essentially meant bringing entire economies to a standstill, leading to widespread economic devastation.

As the year progressed, lockdown restrictions started reducing, leading to a third quarter rebound in the global economy and the investment markets. Unfortunately, the reduction of restrictions led to a resurgence in COVID-19 infections going into the fourth quarter, and many countries were forced to reinstate lockdown measures. The investment markets pushed forward and continued to persevere through the uncertainty and posted strong results.

2020 has been an extraordinary year for financial markets. Global equity markets, despite COVID-19, soared to record highs as central banks poured vast amounts of stimulus into capital markets to counter the negative effects of the economic lockdown. News of the development of a vaccine breakthrough fuelled further optimism.

For example, after losing 19.6% in the first quarter, the US equity market posted three consecutive quarters of positive returns ending the year up 21.4%, with a fourth-quarter return of 13.1%. In Europe, the pandemic continued to be the focus for markets, although sentiment was seemingly lifted by the rally in US stocks and formal approval of a Brexit trade deal. France ended the year 4.7% higher, with the fourth quarter being the best quarter of the year, up 20.4%. Germany ended the year in double digits with 12.3%, and 11.5% higher in the fourth quarter. In Asia, governments within the region proved more successful in containing the spread of the virus than their US and European counterparts. Asia ended the year 28.8% higher with a strong 18.9% return for the fourth quarter. Japan also ended the year up 14.9%, with the last quarter of the year up 15.3%.

In the fourth quarter emerging markets outperformed developed markets, returning 19.8% and 14.1% respectively. Over the year emerging markets also outperformed the developed markets, as the US Dollar weakened, and risk-on sentiment returned as the year came to an end with 18.7% and 16.5% respectively. The Fund's overweight exposure to emerging markets benefited the performance of the various Risk Profiled Solutions.

Locally, in the fourth quarter, the overall asset class winner with a return of 22.2% was the Listed Property sector while the All Share returned 9.8%. In terms of sectors, Financials were the winners in the fourth quarter with a gain of 19.5% compared to 8.3% for Resources and 7.4% for Industrials. The last quarter of the year also witnessed the All Bond Index (ALBI) posting a return of 6.7%.

For the year SA Bonds was the best performing asset class with the ALBI delivering a total return of 8.7%. SA Equities were the second-best performing asset class, with the All-Share posting a return of 7.0%, and Listed Property (SAPY), with its largest negative annual return on record since 1976 of -34.5%, was the worst-performing asset class. SA money market assets posted a total return of 5.4% for 2020.

MARKET PERFORMANCE

The table below summarises the performance of the local asset classes from long-term growth assets (like Equities and Property) as well as investments in Bonds and Cash and compares such relative to inflation over the short, medium, and long-term.

Local Asset Classes (ZAR)	Qtr. 4	1 Year	3 Years	5 Years	10 Years	15 Years
Local Equities	9.75%	7.00%	3.12%	6.36%	9.61%	11.45%
Local Property	22.19%	-34.49%	-20.68%	-8.42%	3.52%	8.16%
Nominal Bonds	6.71%	8.65%	8.88%	10.43%	8.24%	8.13%
Local Cash	0.97%	5.39%	6.64%	6.97%	6.36%	7.20%
Inflation	0.43%	3.17%	3.97%	4.62%	5.08%	5.66%

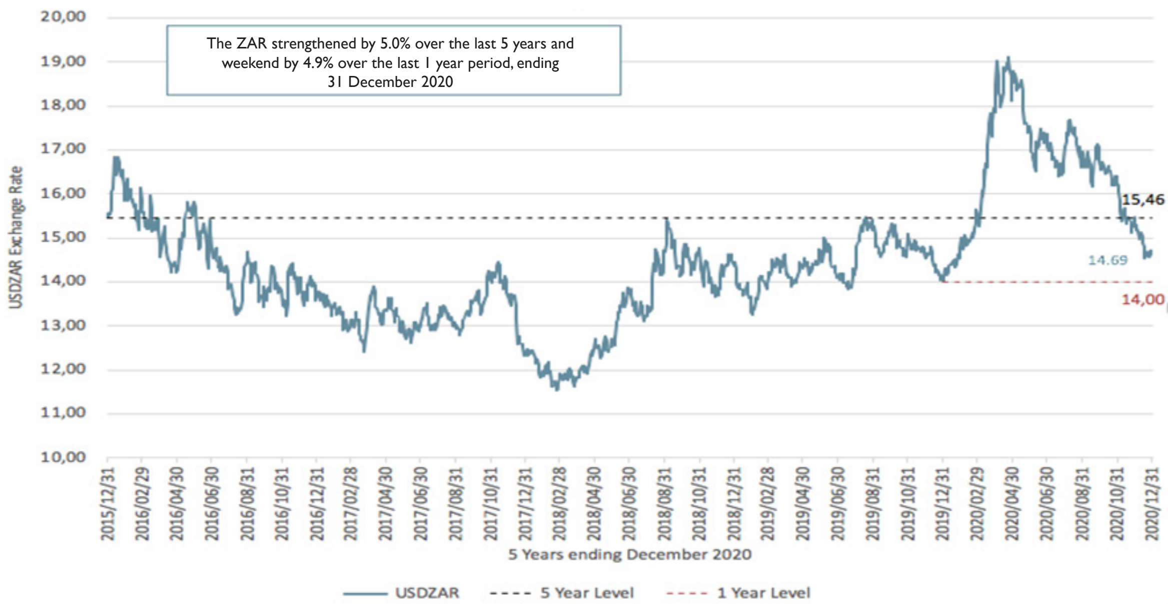
The fourth quarter saw all the local asset classes keep up with inflation with only property underperforming inflation over the past year. The local property market now only outperforms inflation over the long-term (i.e. 15 years) as shown in the table above.

The table below outlines the $ performance of offshore markets and compares such relative to US inflation over the short, medium, and long term.

Offshore Asset Classes (USD)	Qtr. 4	1 Year	3 Years	5 Years	10 Years	15 Years
Offshore Equities	14.68%	16.25%	10.06%	12.26%	9.13%	7.20%
Offshore Property	13.17%	-7.44%	2.71%	4.68%	6.53%	5.29%
Offshore Bonds	3.28%	9.20%	4.85%	4.79%	2.83%	4.09%
US Cash	0.04%	0.48%	1.58%	1.28%	0.74%	1.38%
US Inflation	0.12%	1.17%	1.80%	1.86%	1.75%	1.85%

Offshore equities have shown another strong performance for the year. It is quite unbelievable to think that they had lost nearly 30% in March, just to rebound strongly and finally yield 16.25% for the 12 months ended December 2020.

During the fourth quarter, the Rand strengthened further from the R16.76 level to the US Dollar where it ended the quarter at R14.69, which is stronger by more than 12%. Many investors were overly pessimistic about the Rand after it had fallen to as low as R19.20 to the US Dollar. The Fund implemented protection strategies to its benefit if the Rand strengthened and such has been the case with the Rand showing a strong run in the second half of 2020. The Fund has benefited handsomely from this strategy.



PERFORMANCE OF THE LA RETIREMENT FUND'S RISK PROFILED SOLUTIONS

The table below illustrates the LA Retirement Fund's Risk Profiled Solutions performance per year, net of fees over the same periods as outlined above and as far back as the inception of the Defined Contribution solutions (1 July 2014) to the end of December 2020 and compares such to inflation over the same period.

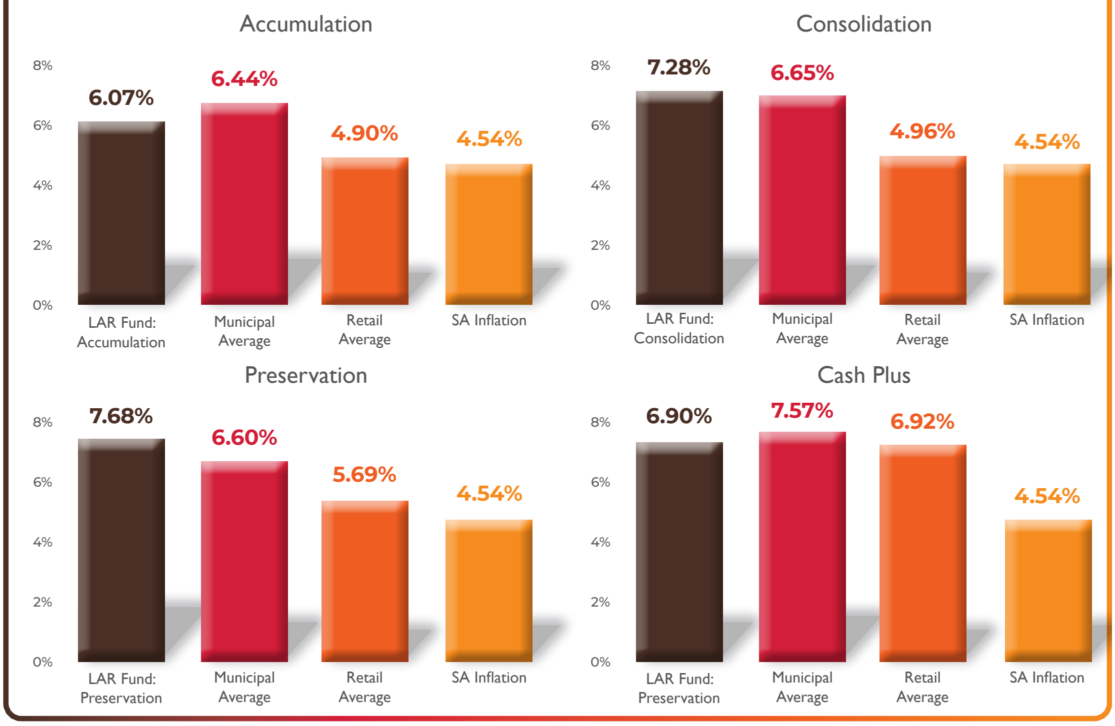
	Month to Date	1 Year	3 Years	5Years	Since July 2014
Accumulation	1.86%	4.69%	4.14%	6.14%	6.07%
Consolidation	1.58%	5.48%	5.23%	6.75%	7.28%
Preservation	1.67%	4.91%	6.52%	7.59%	7.68%
Cash Plus	1.33%	5.03%	6.36%	7.37%	7.23%
Shari'ah	2.18%	5.14%	5.10%	5.95%	6.69%
Inflation	0.00%	3.17%	3.97%	4.62%	4.54%

Whilst the Fund's Risk Profiled Solutions yielded low single-digit returns, it has outperformed inflation over all periods.

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 annualized performance, net of fees, since the inception of the Fund's Risk Profiled Solutions. All the solutions outperformed their retail peers since its inception.

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



We re-emphasise the significance of this comparison to emphasise the importance for members to save cost-effectively and more importantly to consider the Fund's "In Fund" solutions when they retire, as the Fund has outperformed other "Out of Fund" retail offerings.

For example, the Consolidation Risk Profiled Solution (a Moderate Risk Profile) in which most members who select the "In Fund" annuity have invested, yielded 7.28% per annum since inception versus a similar "Out of Fund" retail fund which has yielded 4.96% per annum and inflation was 4.54%. For more conservative members the Preservation Risk Profiled Solution has yielded 7.68% per annum since its inception versus a comparative retail fund which has yielded 5.69% per annum.

The Fund's Risk Profiled Solutions have also performed well relative to their direct municipal peers if the same comparison is made. Whilst the Accumulation Risk Profiled Solution is marginally behind their peers, the Consolidation and Preservation Solutions produced outperformance. It should be noted that the Fund's performance is on a net of fees basis whilst it is not transparent whether fees have been deducted from the municipal peer performances.

COSTS

The Fund's performance is always reflected as net of all costs. We believe such provides an accurate reflection of the performance of each member's growth after costs and fees have been deducted.

- Accumulation 0.83%
- Consolidation 0.84%
- Preservation 0.72%
- Cash Plus 0.44%
- Shari'ah 1.34%

Whilst we cannot compare such directly to other Municipal Funds as their information is not publicly available, we believe our investment costs are extremely 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%. Therefore, not only are the costs of the Fund's Risk Profiled Solutions lower than retail products, the Fund's solutions have also outperformed these peers.

LOOKING FORWARD

Will 2021 bring another roller-coaster ride for markets? We believe the global recovery will continue in 2021 and will gain strength once vaccines are broadly deployed. Historically, equity markets have generated higher risk-adjusted returns during the early stages of a business cycle, but many grey swan events are possible.

Grey swans are foreseeable but low-probability events that are disruptive and may have a negative effect on investment portfolios. For 2021 these may include a surge in inflation, negative Treasury yields, military escalation between China and the U.S and many others. Further, the US equity market is currently priced for perfection and we may just see a pull back here in the short term.

Three plausible risks that stand out:

1 The V-shaped economic recovery in 2021, which equity markets are taking for granted, fails to materialise. Either the COVID-19 vaccine does not work as expected or rolling out the vaccination programme takes much longer than expected, turning 2021 into another year which can be largely written off.

2 The massive increase in global money supply, which has been part of governments' response to the health crisis, begins to have a rather unpleasant impact on inflation to which financial markets react negatively.

3 For whatever reason (could be because of either (1) or (2) above), the runaway bull market in Big Tech finally punctures and retail investors who have dominated the buying of Big Tech for most of the past year panic, leading to a collapse of the (overvalued) US stock market.

Over the past two years, the Fund has started to focus more on megatrends, making the most of every opportunity. Megatrends are powerful socio-economic, environmental and technologic forces that are shaping our world and disrupting global industries. Such megatrends relate to powerful forces that sculpt and mould new investment landscapes for long-term investors such as the Fund.

Megatrends, such as digitization, the ageing population and climate change, are just some of these megatrends affecting the Fund's members on a multitude of facets and such will drive the long-term performance of the markets. For instance, imagine how the climate change crisis will drive the development of cleaner sources of energy, and related industries such as transport, which will as a matter of necessity move towards electric vehicles. The Fund already has a healthy allocation to investments that benefit from being responsible about the environment and the Board is further considering investments in low carbon funds to further diversify and enhance the Fund's investment strategy.

INVESTMENT LINGO 101

In each Investment Update, we will give you some insight into some of the important terminology used when discussing investments.

In this edition, we will be defining an **asset class:**

An **asset class** is a category of financial instrument. The term can be used to describe both physical assets and financial assets.

These instruments are grouped into asset classes based on:

- Whether they show similar characteristics
- If they behave in the same way in the market
- If they are governed by the same laws and regulations

Examples of asset classes: **cash, property, bonds** and **equities**

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