LA RETIREMENT FUND
Securing your retirement

INVESTMENT UPDATE 2021 QUARTER 2

MARKET OVERVIEW

During this quarter, global equity markets advanced due in part to progress in accelerating Covid-19 vaccine rollouts worldwide, positive corporate earnings reports, and favourable economic data.

The performance of government bonds was divergent. US 10-year bond yields declined (meaning prices rose) while European yields rose (meaning prices fell). South African nominal bonds generated strong returns. Globally, corporate bonds outperformed government bonds. Commodities showed gains. As human mobility and activity gradually returned to normal, commodities gained, with energy again being the strongest component. Brent crude oil's spot price rose another 18.2% during the quarter, resulting in an increase of 45% over the year. This has fueled inflation around the world. The price of most commodities rose during the quarter, with the exception of platinum, which fell 7.4%. A rise in commodity prices is a boost for the South African economy, resulting in a positive impact on our multinational corporations' tax revenues. Gold gained 4.5% for the quarter, and palladium gained 3.5%, giving it a 40% gain over the past 12 months.

Unites States

In late June, the S&P 500 reached a new all-time high, marking a strong quarter for US equities. Almost all sectors posted gains during the quarter. The economic outlook remains positive.

GDP increased by 6.4% in the first quarter (quarter-on-quarter, annualised), slightly less than the consensus estimate of 6.7%. Consumption growth was especially strong. It is not surprising that the inflation data received a lot of attention, although there is a feeling among many that inflation is unlikely to rise for long as the inflationary impact of the post-pandemic recovery normalises. The core consumer price index (CPI) rose from 3% to 3.8% in May, marking the largest annual increase since June 1992.

Also in June, US President Joe Biden signed a deal to upgrade roads, bridges, and broadband networks by the end of the decade.

IT, communication services, energy, and real estate dominated the market over the quarter, led by tech giants like Apple and Microsoft.

Europe

European equities gained during the quarter, helped by a relatively strong earnings season, a faster vaccine roll-out pace in the region, and improved consumer and investor confidence. In many European countries during the quarter, Covid-19 infections declined, allowing social and economic restrictions to be loosened.

The market rotated between growth and value areas, resulting in a mixed group of sectors leading the gains. Top-performing sectors included defensive areas such as consumer staples and real estate, which lagged in the first quarter as investors focused on more economically sensitive areas. However, as with the US, IT gained market share during the quarter. For the first quarter, earnings were generally very robust across the board, except for the healthcare sector.

The economic data showed a strong rebound in activity in this quarter. Inflation in the eurozone was estimated at 1.9% in June, down from 2.0% in May. The European Commission has approved the first of the national recovery plans that will receive funding from the Next Generation EU fund worth €800 billion.

United Kingdom

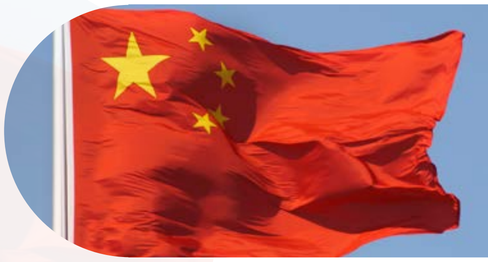
Equities performed well in the UK during the second quarter, with sector performances diverging. The domestically-focused areas which had performed very well on re-opening hopes also slumped quite sharply in June. This was partly because of concerns over the impact of Covid-19's Delta variation on the re-opening plans. In particular, the retail and travel and leisure sectors did poorly as the UK government delayed the lifting of social distancing laws.

Japan

During the second quarter, Japanese stocks underperformed other developed markets. Despite the overall low rate of Covid-19 infections in Japan at the time, the subsequent persistent increase in cases, particularly in Tokyo, led the government to delay lifting the state of emergency until 20 June. This, along with initial slow progress in the vaccine roll-out, further damaged government credibility. Vaccination rates accelerated towards the end of May as bureaucratic and logistical problems seemed to have been overcome. Japan can now administer one million vaccinations per day. As a result of an outbreak of infections, the state of emergency was reinstated in July, preventing spectators from attending the Olympic games, which began on 23 July.

Emerging Markets

Emerging market stocks performed well during the quarter. Even so, there was a sell-off in May as higher-than-expected US inflation raised concerns about the timing of monetary policy tightening. Several factors contributed to a boost in sentiment, including tightening policy in response to rising inflation, an acceleration in vaccine roll-out, eased fiscal concerns, and renewed reform progress.



Asia

The MSCI Asia ex-Japan Index recorded a positive return during the quarter amid investor optimism for a return to economic normality and an end to the Covid-19 pandemic. The market, however, became more muted towards the end of the quarter as resurgences in Covid-19 infections and lockdowns in the wake of the Delta variant curtailed investor optimism.

South Africa

Economic growth in the first quarter was 4.6% (quarter-on-quarter, annualized), significantly higher than the 2.5% forecast by the market. Despite evidence of a slow recovery, Stats SA noted that the economy's absolute size was equivalent to that last seen in 2016. As supplies of the Covid-19 vaccine arrived in the country and the government's vaccination programme continued to expand, this progress was overshadowed in June by the onset of the third wave of infection. Consequently, Level 2 and later Level 4 lockdown measures were implemented, again curtailing vital economic and social activity.

Although equity markets as a whole were flat (0.05% return for the quarter), and previously out of favour, listed property was among the best performers (FTSE/JSE All Property Index grew 11.0%). Despite the performance of underlying commodities, resources, being more expensive, underperformed.

Despite outperforming its Emerging Market peers in the first quarter, South African stocks underperformed their peers this quarter due to the high resource exposure of the market. Nominal bonds in South Africa generated strong returns for the quarter.

A record-low interest rate of 3.5% was maintained by the South African Reserve Bank at its 20 May 2021 Monetary Policy Committee meeting on the budget forecast, due to slow progress on vaccinations, limited energy supply, and policy uncertainty. Inflation in consumer prices increased in April and May, coming off a low base.

MARKET PERFORMANCE

The table below summarises the performance of the local asset classes - from long-term "growth" assets (like equities and property) to "income" generating asset classes such as bonds and cash and compares it to inflation over the short, medium, and long term.

Local Asset Classes (ZAR)	Qtr. 2	1 Year	3 Years	5 Years	10 Years	15 Years
Local Equities	0.05%	25.07%	8.09%	8.11%	10.92%	11.10%
Local Property	12.12%	25.17%	-8.86%	-6.85%	5.08%	9.53%
Nominal Bonds	6.86%	13.67%	9.24%	9.16%	8.53%	8.64%
Local Cash	0.92%	4.01%	6.05%	6.62%	6.26%	7.09%
Inflation	1.43%	5.16%	3.89%	4.31%	5.00%	5.68%

The quarter yielded a mix of returns, with property and bonds generating the highest returns. All local asset classes (except cash) have outperformed inflation over the past year as the markets continue to recover from the material COVID-19 pandemic induced losses last year.

The table below outlines the USD-based performance of offshore markets and compares it to US inflation over the short, medium, and long term.

Offshore Asset Classes (USD)	Qtr. 2	1 Year	3 Years	5 Years	10 Years	15 Years
Offshore Equities	7.39%	39.27%	14.57%	14.61%	9.90%	7.60%
Offshore Property	9.82%	35.23%	7.86%	5.73%	7.39%	5.50%
Offshore Bonds	1.31%	2.63%	4.23%	2.34%	2.05%	3.71%
US Cash	0.02%	0.13%	1.28%	1.24%	0.73%	1.22%
US Inflation	2.35%	4.99%	2.28%	2.30%	1.77%	1.92%

As was the case locally, the quarter witnessed offshore property assets outperforming other offshore asset classes. Over the past year, US cash and offshore bonds were the only asset class to not outperform inflation. This is mainly due to the record-low interest rates currently observed in most economies globally.

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 over the same periods as outlined above since the inception of the Defined Contribution Risk Profiled Solutions (1 July 2014) to the end of June 2021 and compared it to inflation over the same period. The performance is annualised which means the performance relates to the returns generated per annum. For example, the Accumulation Risk Profiled Solution has returned 7.32% per annum since July 2014 versus inflation of 4.60% per annum. Over the past year, all the Fund's Risk Profiled Solutions outperformed inflation handsomely due to a strong post-COVID pandemic market recovery.

Over the past 12 months each Risk Profiled Solution performed as expected with the aggressive solution i.e. the Accumulation Risk Profiled Solution (high equity and property exposure) and Consolidation Risk Profiled Solution (moderate equity and property) outperformed the more conservative solutions. The Preservation and Cash Plus Solutions also produced strong performance compared to inflation and outperformed due to fixed income assets such as bonds also yielding attractive results.

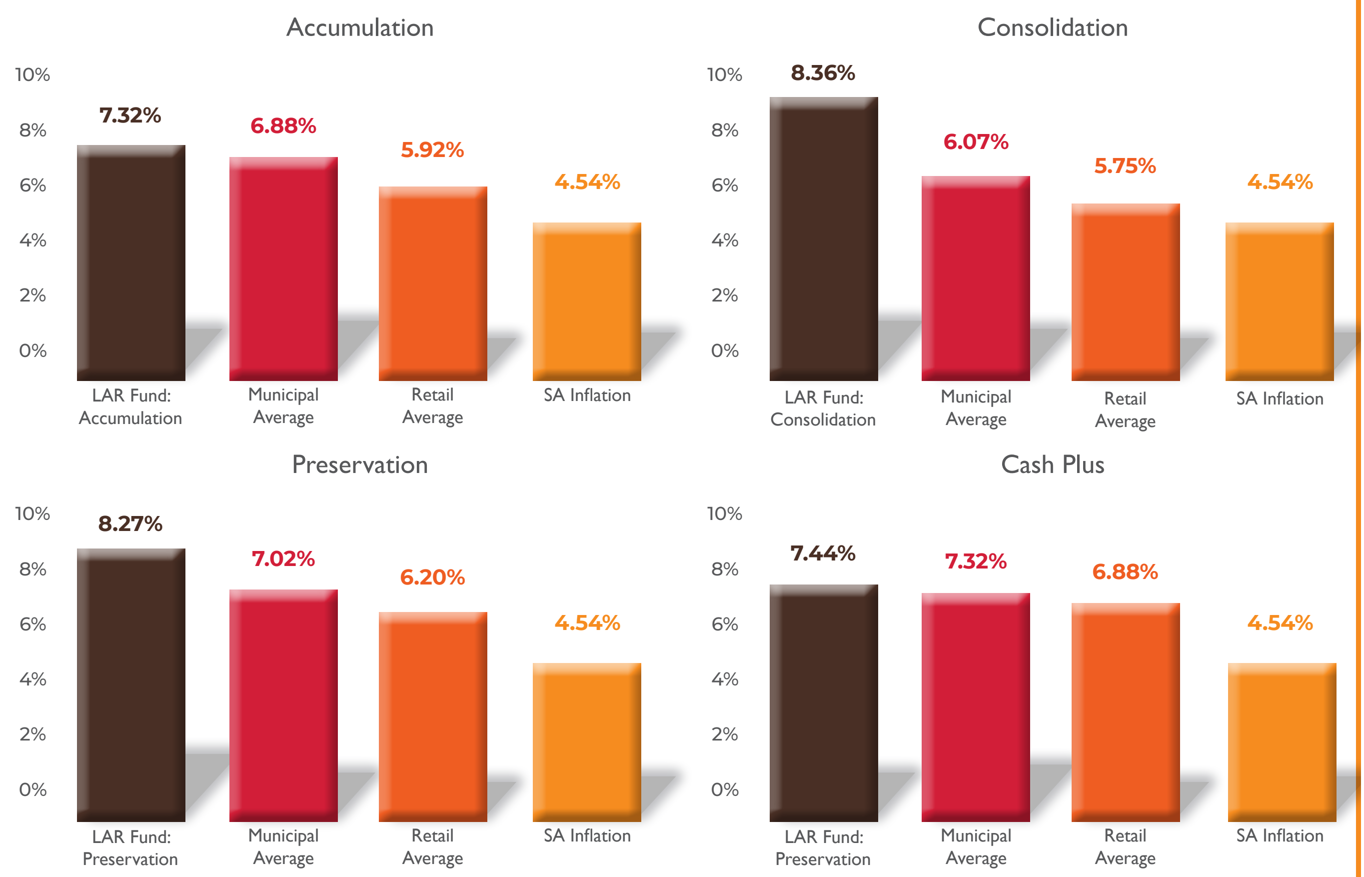
	Month to Date	1 Year	3 Years	5Years	Since July 2014
Accumulation	2.89%	20.42%	7.82%	7.56%	7.32%
Consolidation	2.83%	19.46%	8.38%	8.16%	8.36%
Preservation	3.14%	14.95%	8.41%	8.27%	8.27%
Cash Plus	3.92%	10.36%	7.20%	7.33%	7.44%
Shari'ah	1.64%	18.95%	8.20%	6.96%	7.78%
Inflation	1.43%	5.16%	3.89%	4.31%	4.60%

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 or per annum performance since the inception of the Fund's Risk Profiled Solutions. We would like to again re-emphasise the significance of this comparison, as it drives home the importance for members to save cost-effectively in the Fund rather than opting for retail Unit Trust offerings which financial advisors may recommend to our Fund's members. Members should consider the LA Retirement Fund's "In Fund" solution options when they retire, as the Fund has outperformed other "Out of Fund" retail (Unit Trust) offerings and at much lower fees too.

For example, the Consolidation Risk Profiled Solution (a Moderate Risk Profile) in which most members who select the "In Fund" Living Annuity are invested, yielded 8.36% per annum since inception versus a similar "Out of Fund" Unit Trust which has yielded 5.75% per annum. For more conservative members, the Preservation Risk Profiled Solution has yielded 8.27% per annum since its inception versus a comparative retail Unit Trust peer group which has yielded 6.20% 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 2021



COSTS

The Fund's performance is always shown net of all costs. We believe that to offer an accurate reflection of the performance of each member's investment, figures net of investment costs and fees should be shown. The costs are as follows:

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

For example, when a member invests in an "Out of Fund" retail Unit Trust that aims to beat inflation by 2% to 6%, the average total cost for such will range between 1.30% and 1.70% and such excludes administration or investment platform fees or advisory fees which will be additional costs if members wish to retire or save outside the Fund. Therefore, not only are the costs of the Fund's Risk Profiled Solutions materially lower than "Out of Fund" retail products, the Fund's returns have also outperformed such materially.

LOOKING FORWARD

In terms of the Fund's offshore asset allocation, the Fund remains overweight global equities relative to global bonds, global property, and cash. Since US equities continued to be expensive compared to other markets, our portfolios maintained an underweight position in the US market in favor of select European and emerging market stocks.

Additionally, we continue to favour SA equities. South African equity valuations (measured by the forward Price/Earnings ratio of the FTSE/JSE Capped SWIX Index) remain attractive. The outlook for a continued improvement in the domestic economy should support improved equity valuations.

We maintain our positioning in SA listed property. So far this year, listed property has been the best-performing sector (and asset class), recording a 20.1% return during the six months to the end of June. However, earnings have been broadly flat, and forward earnings yields have fallen slightly from 11.5% to 10.25%. We will continue to hold high quality companies that have strong balance sheets.

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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

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