# OLD MUTUAL SUPERFUND

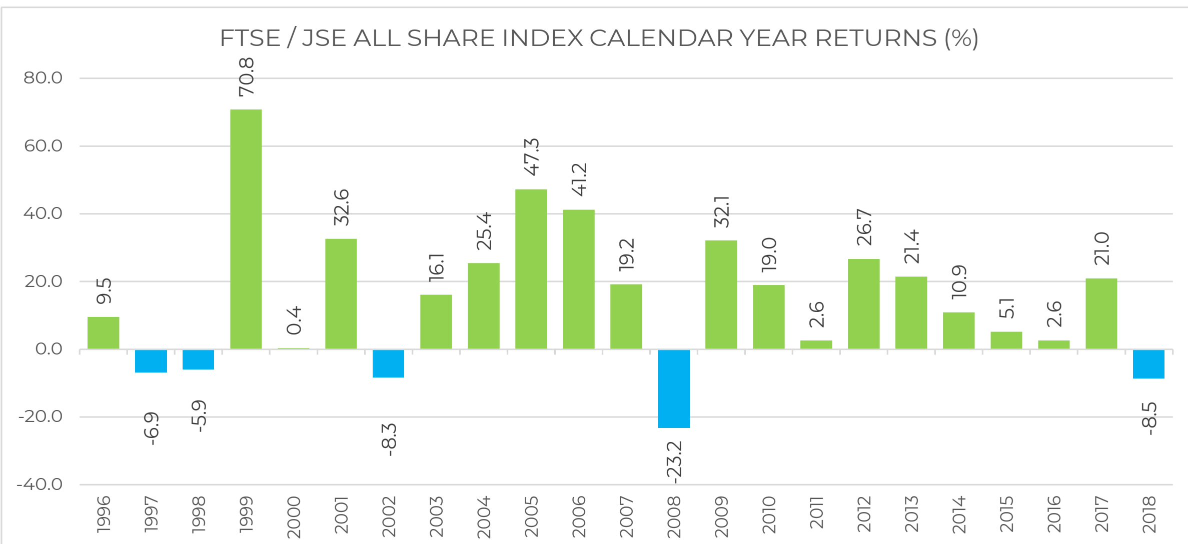
MEMBER INVESTMENT UPDATE

February 2019 | Q1

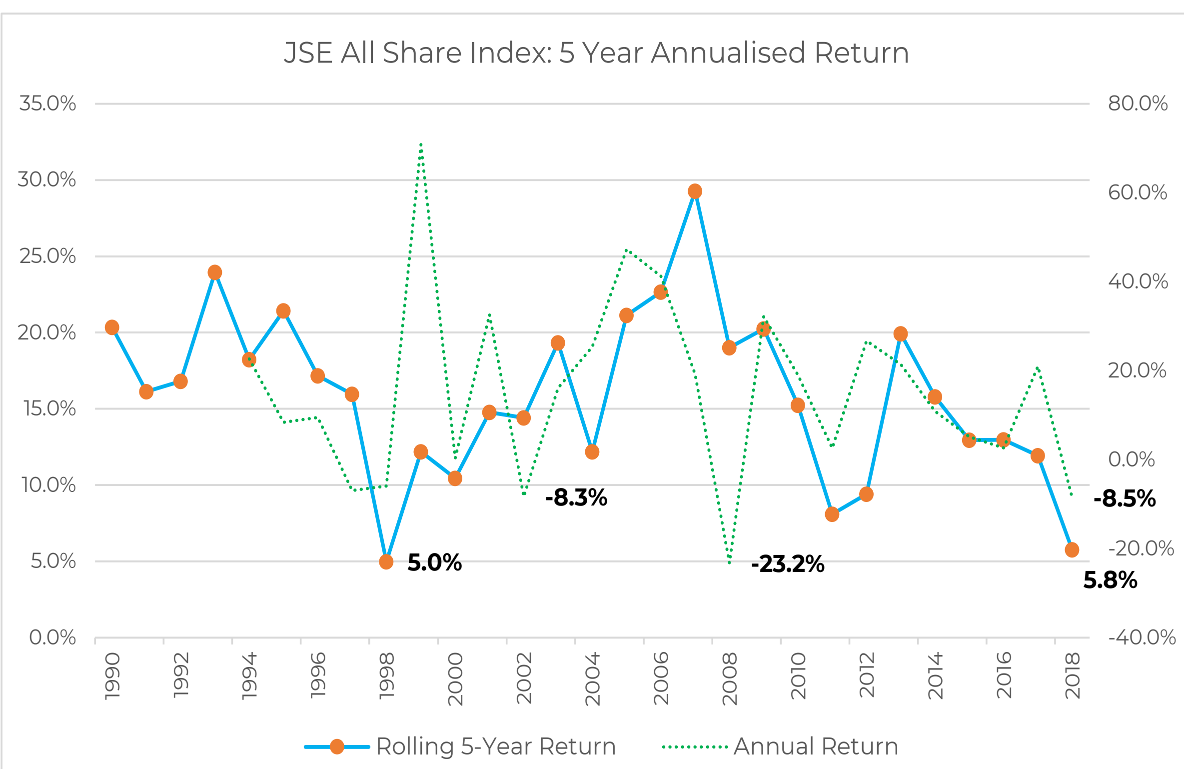
## HELLO 2019! GLAD TO SEE THE END OF 2018...

Welcome to 2019, which is expected to be another challenging year for investors.
Now, more than ever, we need to keep a long-term perspective in our investment decisions.

During 2018 our local equity market **lost 8.5%**, that is the total return (including dividends) for the year, which was a major concern for all investors. Putting this in perspective is not easy. The chart below reflects that the last time we saw negative calendar-year JSE All Share returns was during the 2008 financial crisis when our local market **lost 23%**. Prior to that, it was with the bursting of the internet bubble in 2002, when the market **lost 8.3%**.




It is even more sobering to look at the 5-year rolling return of the JSE All Share Index, which reflects a **5-year annualised return of only 5.8%** for the period ending 31 December 2018. The last time we saw such a low 5-year return was 20 years ago, in 1998. This 5-year view provides valuable perspective when considering the performance of your selected investment portfolios.



## What on earth happened?

The South African investment market is influenced by multiple factors, both domestic and international, and the interactions between these factors is complex. However, if one had to single out a key influence during 2018, it would be the developments in the United States, which negatively affected emerging markets such as ours. Three themes dominated the US economy during 2018:

- Trade tensions between the US and China
- The US Federal Reserve increasing the interest rates to its upper end of its range to 2.5% but also sending signals of fewer hikes in the future;
- Overall economic data coming out of US

## How do these impact us?

The trade war between the US and China has had a mixed bag of impacts. Some US sectors have benefited from tariffs placed on Chinese products, resulting in booming corporate profits. However, other sectors have been negatively impacted, such as the US industrial sector, which is reliant on imports of products such as steel and aluminum.

The US economy powered ahead during 2018 compared to other economies. This contributed to a stronger US Dollar versus other currencies. The age-old economic principle of "demand and supply" came into play. As the outlook for the US Dollar was seen to be positive, investors started flocking to it to invest, resulting in the demand for the US Dollar increasing.

The continued rising interest rates also had an effect. Increased rates made US government bonds becoming more attractive, which further aided in the strengthening of the US dollar.
Collectively, these "themes" negatively affected emerging economies (such as South Africa), with foreign investment flowing out of emerging economies to the US.

## Looking ahead

The recent agreement between China and the US to postpone proposed tariff increases for the time being should benefit emerging economies. Furthermore, expectations are that the US economy will not be able to maintain the same level of positive performance in 2019. The Federal Reserve is also expected to ease off from continued rate hikes for this year with some foreign economists predicting two increases at most.

On the domestic front, an election year brings some uncertainty again on the political frontier, which could affect our local market. However, in a number of key areas some positive progress is being made: The Commission of Inquiry into State Capture; new board appointments for Eskom, Transnet and Denel; the finalization of the mining charter; and the appointment of well respected Tito Mboweni as Finance Minister.
A key factor for our economy is confidence, which must be maintained and, if possible, strengthened. The overall economy is better placed in 2019, with higher growth expectations. This, together with global events which are expected to positively impact emerging economies, should provide investors with a sense of greater comfort regarding future returns.

## Diversification

Your retirement fund savings are invested in investment portfolios that consist of many different types of asset classes. This spread across different asset classes, such as equities, bonds, property, cash and alternative assets is known as diversification.

Can spreading assets across classes that react differently lessen the impact of volatility on your portfolio as a whole? The answer is simple: Yes! - this has been empirically proven in multiple studies. This is because each asset class reacts differently to market events. For example, as mentioned earlier, our local equities lost 8.5% in 2018, but bonds delivered 7.7%, cash 7.2% and international equities 6.1% over the same period.

Despite the benefits of diversification, it is likely that you have seen a significant drop in your investment returns in 2018, because your portfolio performance is directly linked to what is happening in the market, and because South African equities form a major component of most retirement fund investment portfolios.

For members invested in a smoothed bonus portfolio (such as the Old Mutual Absolute Growth Portfolio, or AGP), the impact has been felt differently to that of a market-linked portfolio. This is because AGP holds a reserve (called the bonus smoothing reserve) to facilitate the smoothing of market events. Further, the bonuses (investment returns) being declared by AGP are based on a transparent, defined formula. The combined effect is that members invested in AGP have not experienced the negative returns of a typical market-linked portfolio. (The median of the balanced market linked portfolios delivered -2.0% for 2018, whereas the Old Mutual Absolute Stable Growth Portfolio delivered 6.5%). However, the smoothing mechanism also means that AGP may be slower to pass on positive returns when the market does pick up.

## What should you do?

As you can see, there are wide ranges of factors which influence your investment returns! The Old Mutual SuperFund is careful to ensure that the Investment Managers offering investment portfolios to our Members have excellent people and processes in place, with fully diversified investment portfolios available for selection. These features should work together to protect you against inflation and achieve the investment returns required over the long term in order for you to ultimately live comfortably off your retirement savings.

The best action you can take, therefore, is to THINK LONG-TERM when crafting your investment strategy, and don't make hasty changes. Although it is easy to say that there is nothing that you need to do right now, we also acknowledge that there is a lot of concern amongst members. Our view is that you should educate yourself on why markets move, by reading more about investments (such as this and previous investment updates) and asking questions if you are not certain about something. We encourage everyone to speak to a financial advisor, not only at times as these but also in the good times, to ensure you have the right long-term investment strategy to keep your savings on track for a comfortable retirement.

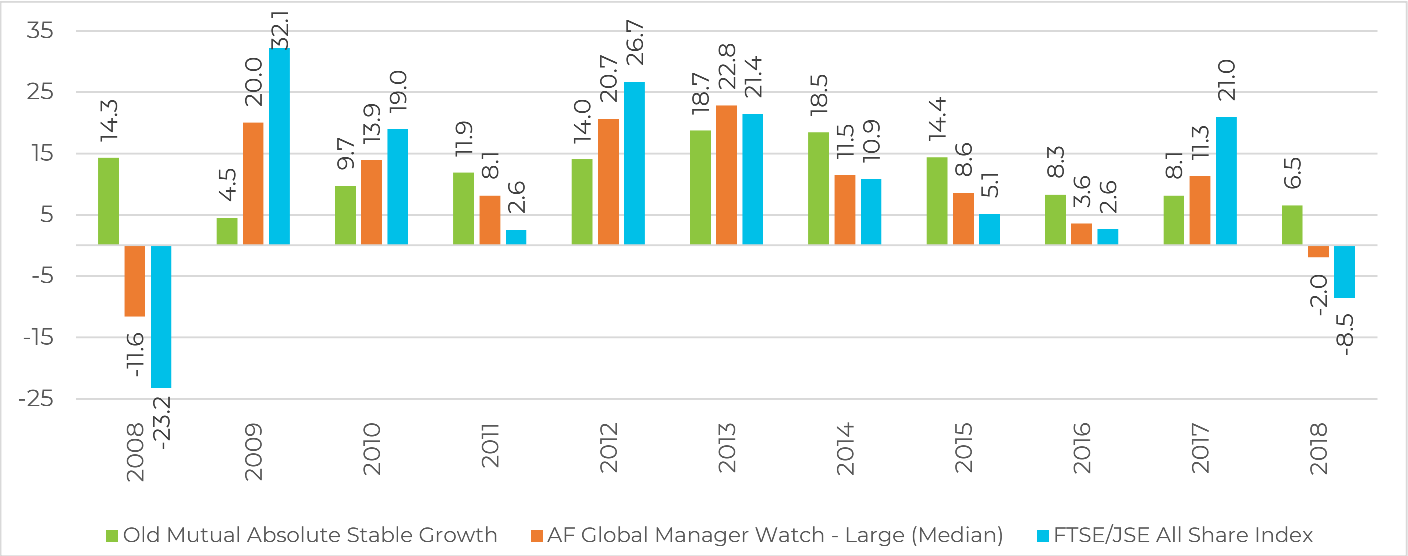
Be careful not to let market events such as we experienced in 2018 frighten you into hastily disinvesting from the market and putting your retirement savings into portfolios that only aim to preserve capital value at the expense of long-term growth. In the long term, you need to stay invested in growth portfolios, as these stand the best chance in the long term to deliver the investment returns that you require.

# ABSOLUTE STABLE GROWTH PORTFOLIO

The Old Mutual Absolute Stable Growth Portfolio is the Management Board's "default" investment for members who do not want to make an active investment decision. It is a smoothed bonus portfolio, which aims to provide competitive long-term returns with lower volatility.

Over the long term, you would expect to earn similar returns to a comparative market-linked fund – just with fewer ups and downs. It does this because of smoothing.

Smoothing is a tool that is used to turn unstable market returns into smoothed returns, also called bonuses. These returns will give a smooth progression of the value of your investment over time. These bonuses are calculated using a simple and transparent formula. The benefit of this formula is that it smooth's growth over time and reduces the impact of market ups and downs on your retirement savings. The chart below reflects the calendar year for the past 11 years of this portfolio compared to the performance of our local equity market and the median return of balanced market linked portfolios.




## WRAPPING UP...

The investment world can be complicated and confusing, and there are lots of different views and events that affect this. We hope this Investment Update has helped explain some of the complexity and put you at ease.

Look out for the next Investment Update in May 2019. Until then... continue saving!