OLD MUTUAL SUPERFUND

MEMBER INVESTMENT UPDATE

QUARTER 2 | MAY 2020

Every one of us has been affected by COVID-19. The economic impact has touched many aspects of our lives, including our retirement savings. Old Mutual, along with every other financial institution, has received numerous calls from concerned investors, although these have reduced since the market started recovering. We believe that you will probably have similar concerns. For this quarter, we have used a *Frequently Asked Question* format to let you know we are by your side and to answer questions you may have.

Q: WHAT'S GOING ON?

A: A highly dangerous virus has broken out worldwide, called COVID-19. To prevent people from dying, governments around the world, including ours, have put "forced isolation" measures in place. People cannot go to work (not just in South Africa), and many businesses cannot operate. When people can't work, they are often not paid, and don't pay taxes which keep things running along. If companies do not operate, then there are lower profits or even losses, and in some cases, bankruptcy. For example, airlines are not flying people around, and hotels are empty. Shopping malls are closed but business owners still have to pay rent, interest payments, local municipal taxes, and other operating costs. Similarly, for world governments, if taxes are not paid then they might not be able to meet their obligations. The impact of the virus on the real economy has caused investment markets to become "volatile", resulting in major price fluctuations.

There are some positive stories: online services like Netflix and companies that generate content from home or allow people to work from home (like computer programmers) can still operate. Naspers and Prosus (together a relatively large portfolio investment and part-owner of Chinese internet company Tencent) have done well as online demand has spiked from customers confined to their homes. At the same time, the fuel price has dropped dramatically, along with interest rates.

Basically, the investment world is trying to figure out who the winners, the losers and the survivors in this scenario are going to be. There will be some of each. So far, the winners have been cash, the US dollar and gold. The losers have been everything else in this order: global bonds, global equity, local bonds, the Rand, local equity, oil, and local property. These can reverse quite quickly; however, this was the scoreboard at the beginning of April 2020.

Q: WHAT ABOUT MY SAVINGS?

A: Your savings are invested in each of these classes of assets above and target a return above inflation over time. Returns during the COVID-19 pandemic have been mostly negative, but have also been positive on some days. We call this up-and-down move in prices "volatility". When we say volatility is higher, we mean that prices change more often, with bigger changes than usual. Right now, things are definitely volatile.

Q: HOW NEGATIVE HAVE THE RETURNS BEEN?

A: If you had R100 invested a year ago (31 March 2019), that investment could be worth somewhere between R99 and R87 at the end of March 2020. This is a return of between -1% and -13%. At the lowest point in March, your R100 of investments could have been worth only R75 (-25%). R75 invested at that time was worth R87 by the end of the month. That's volatility! Overall, the negative markets have almost cancelled out all the returns of 2017, 2018 and 2019.

Q: IS THERE ANY HOPE?

A: One cannot predict the future, but we have always seen that in the past, after negative returns, positive returns will normally follow. It takes quite a lot of patience, but it happens. Research in many different markets over long periods show this to overwhelmingly be the case.

The bottom line: we can expect better returns in due course, but we need patience to enjoy the benefits. A simple example your grandma would use: a cold and rainy winter does not last forever. Summer eventually follows and life tends to flourish then, but that does not help us know when the last winter storm will come through.

Q: WHY AM I IN A RETIREMENT FUND?

A: When you retire, you will require about 25 to 30 years' worth of savings to be sure living comfortably for the rest of your life. The Government (State Old Age Grant) will give you some money if you have none, but not your full salary.

Therefore, you need to save around 18% of your salary each month from around age 30 (preferably earlier) until around age 63 and achieve CPI+5% over the long term to have enough money to retire comfortably. You can work out if you are saving enough and the investment return that you require with this calculator.

You will not get that return every year, but in the longer term, you should get this return on average, and in fact, you have. Over the long term, time is your friend as it smooths out the bumps and you get the average long-term return.

Q: WHAT SHOULD I DO?

A: With investing, especially if you are in the Default strategy or have chosen a strategy that suits your long-term goals, the answer is to **change nothing and let time be your friend.** It sounds difficult, especially when there is little else to do. It's a bit like being in lockdown – doing nothing is the right thing to do, but it can be hard and frustrating. We suggest that you stay disciplined and stick to your strategy. Note that the asset managers are adjusting the portfolios with your target return in mind, so any necessary changes are constantly being made.

! If you are retiring in the next year or so, then please get in touch with a qualified financial planner to talk about what you should do. Note that some pensions are cheaper now too, so the change in your portfolio level does not mean your pension will be that much lower. There are Retirement Benefit Counsellors available (via phone or email) to explain how the retirement options available might suit you, or which investment portfolio is best suited to your likely pension strategy.

! If you are thinking about changing your portfolio, we still recommend you speak to a qualified financial planner to make sure you think about everything before you do.

Q: WHAT ARE THE ASSET MANAGERS DOING TO PROTECT MY MONEY?

A: This is a volatile time with many things changing. However, the asset managers appointed all favour four key principles: High **Quality** companies, paying a **Fair Price** when you invest, **Diversification**, and holding investments for the long term (**Time**).

Before the crisis, the managers held more money in cash and bonds and more money offshore. They will continue to place more money where they believe there is better value. In addition, some money is invested in alternative investments, which may be better able to protect capital during times like this. These steps definitely helped cushion the negative returns. The companies that you own are generally high quality (this mostly means you can see the growing profits as cash dividends and the companies have a competitive edge), and so their prices did not fall as far. Now the managers are looking to "rebalance" the portfolio and take advantage of the upside as things slowly (although uncertainly) recover, while making sure that your money remains diversified. They are looking for winners and trying to avoid losers and firms going bankrupt, and making sure that the assets remain diversified to protect against further shocks.

Q: WHAT DO YOU MEAN BY DIVERSIFIED?

A: Your grandma would simply say, “don’t put all your eggs in one basket”, and the managers agree. It means you spread your investments and risk. One can never predict exactly which companies or assets win or lose, but by diversifying you are seldom in the exactly wrong position when unexpected things (like COVID-19) do happen. Your money is invested in different countries, different asset classes, different styles of asset management, different managers and each of those with different amounts at different times in the investment cycle.

Q: ARE YOU SAYING THINGS CAN ONLY GET BETTER?

A: On a 5 to 10-year view, yes. But tomorrow? Next month? I wish I could say! It’s just not possible to say exactly when things will recover and in fact, all research shows that the harder you try to make changes or guess the future, the less likely you are to achieve an inflation-beating return. What is definitely true is that investments are cheaper now than they were on New Year’s Day (and in fact mostly since 2017). You are getting more assets for your contribution than any time in the last three years. So, sit tight and wait it out.

Q: IS THERE ANYTHING ELSE I CAN DO?

A: Right now, you should first stay physically safe with your family. Then, a useful step is to look at your budget to see where, if anywhere, you need to make changes. Investigate whether you can take advantage of the low investment prices or increase your savings. Try to imagine what expenses you plan to have when this lockdown lifts, or when you retire, and have that discussion with your family.

For example, can you maintain (or increase) your bond (mortgage) repayments to get out of debt quicker? Could you maybe pay off your store cards or car loan with money you would spend on getting to work? Are there well-respected but discounted (online) courses you can complete to improve your skills and employability? Can you find cheaper, locally sourced vegetables (or meat) to support a local producer and reduce global travel of foodstuffs? These are achievable goals, which increase the amount of money you have to save, and positively affect the local economy. It will also potentially reduce your dependence on investment return. As this crisis recedes, we recommend that you top up your short-term savings to ensure that you have around 3 to 9 months’ of “unavoidable expense” money (food, accommodation, water, transport) on hand, so that next time there is such an event, you have cash readily available.

The right thing to do now rather than focus on your investment portfolio is to focus on what you can potentially control. Now is the time to revise your budget: how much is enough spending, debt, luxury goods and services? If you can find a way to spend smartly into your local economy, then you will be helping to both build the country and get investment returns. The portfolio will do its job if you give it time.

Q: I’M SCARED?

A: That is perfectly understandable, and we know it is uncomfortable. These are unsettling times! However, it is not the first time the markets have fallen, nor the economy has been in trouble. Try to remember 2018, 2008, 2003, 2001, 1997, 1994, and so on. Each caused similar worries, but we recovered. Each time the markets have fallen, they have recovered over time, often unexpectedly and quickly. Long-term investors have been rewarded.

Look out for the next Investment Update in August 2020. Until then… keep safe and continue saving!