OLD MUTUAL SUPERFUND

MEMBER INVESTMENT UPDATE

September 2019 | Q3

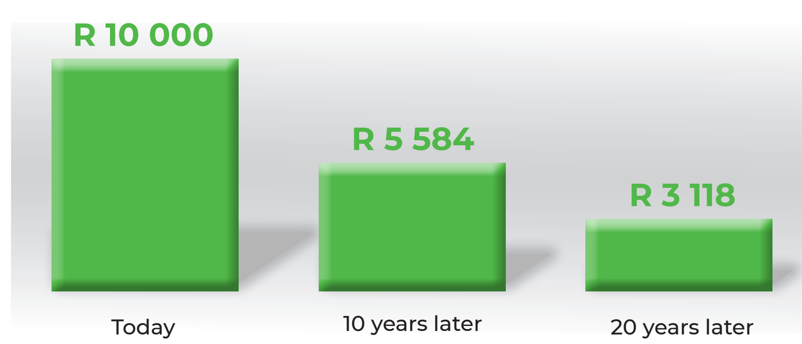
It feels like we just celebrated the new year of 2019 but we have already passed the mid-year mark! It feels like every year is getting shorter which is all the more reason that, for this investment update, we pause for a minute and take stock of what your main objective as an investor is. Especially for your retirement fund, as although you should be saving for the long-term, you also need to maximise your investment return.

In a recent article published by Old Mutual Investment Group Macro Solutions Boutique, they concluded, after an analysis of long-term data, a number of valuable lessons to help build a resilient investment plan.

In previous investment updates we covered many of these identified lessons but there is value in reflecting on the basics from time to time.

LESSON NUMBER 1: INFLATION IS YOUR ENEMY

Many investors suffer from "inflation illusion" as they do not realise how destructive inflation can be over time. The lesson to learn is to look at the long-term investment returns in "real" terms. This simply means stripping out the impact of inflation. The chart below demonstrates the effect of a 6% inflation rate, if you took R10 000 and simply hid it under the mattress (i.e. you did not invest it anywhere). After 10 years, the impact of inflation will have almost halved the real value of your savings!

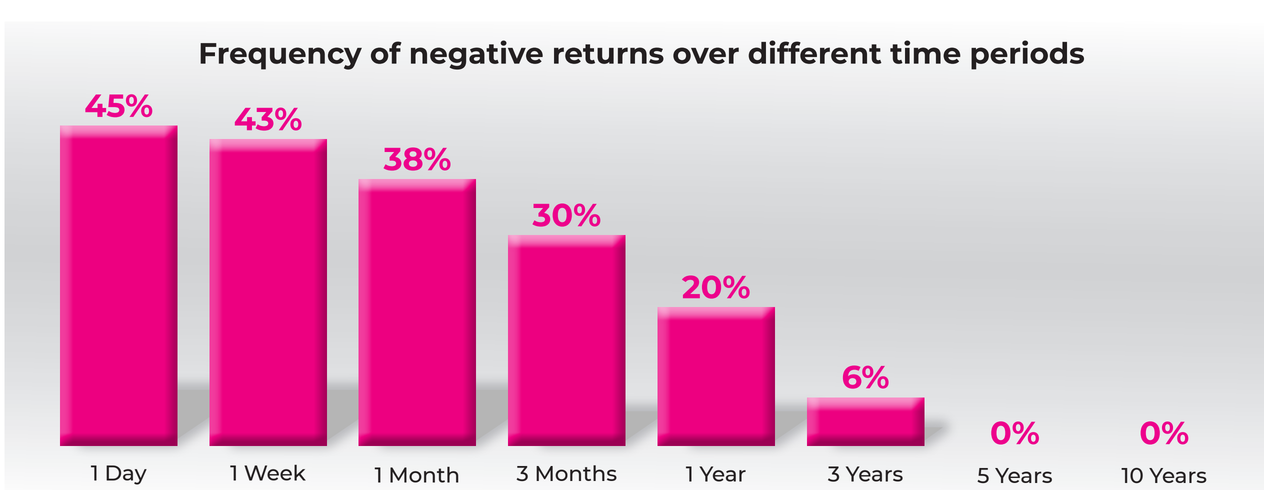


LESSON NUMBER 2: TIME IS YOUR FRIEND

You may have heard the old adage that "It's the time in the market, not timing the market that counts".

The best way to manage the risk of losing money and invest in growth assets is to remain invested for longer.

Looking at the past performance of SA Equities, the risk of losing money reduces the longer you remain invested. If you look at what happened in 2008, after a negative 30% return, the market recovered to deliver a solid 14% annual return over the following five years.



The graph above shows the historic frequency of negative nominal returns over various periods for the South African equity market over the period 1960 to 2018.

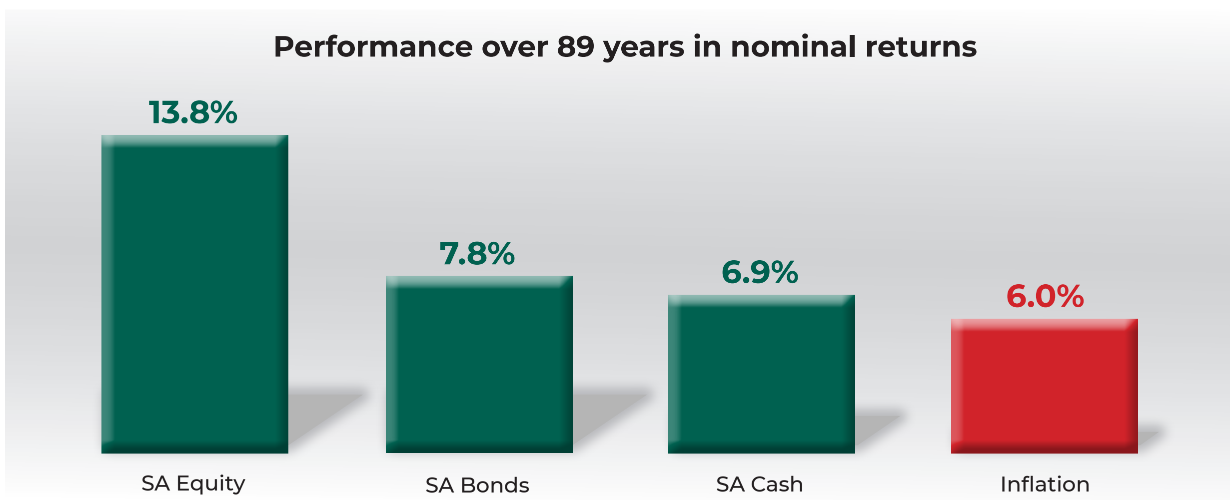
LESSON NUMBER 3: YOU NEED EQUITIES

The reality is that most of us will not retire with enough money, unless we take serious action. The lesson to learn from this is that you need to save more AND you need higher long-term returns to grow your savings. The best asset class to do this with is equities. However, your retirement savings can't be 100% invested in this asset class due to Regulations. This is also the asset class that has the highest chance of delivering negative returns in the short term, hence the value of diversification between asset classes is important to note here. However, if you are overly conservative with your investment for a long period of time you will lose out on real investment growth.

Using each asset class's long-term average returns, this is how long it would take to double your REAL investment value.

LESSON NUMBER 4: CASH IS TRASH

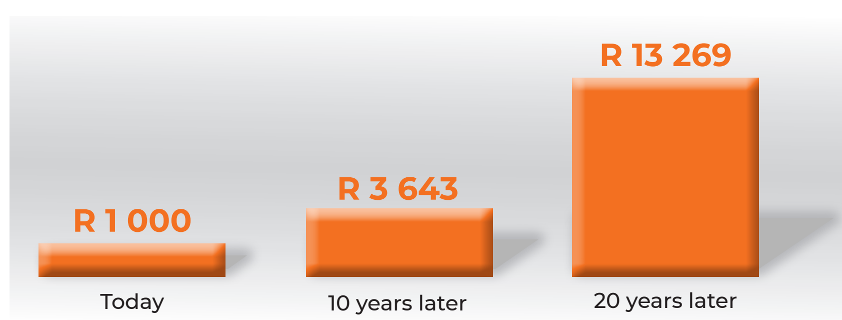
Wait a minute you may say when reading this, cash is KING! After all, over the recent few years, cash has been the best performing asset class! However, over the past 89 years cash only provided an after-inflation return (i.e. a real return) of about 1% a year. Over the same period, South African equities delivered a real return over 7%, as shown in the chart on the right.



LESSON NUMBER 5: 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.

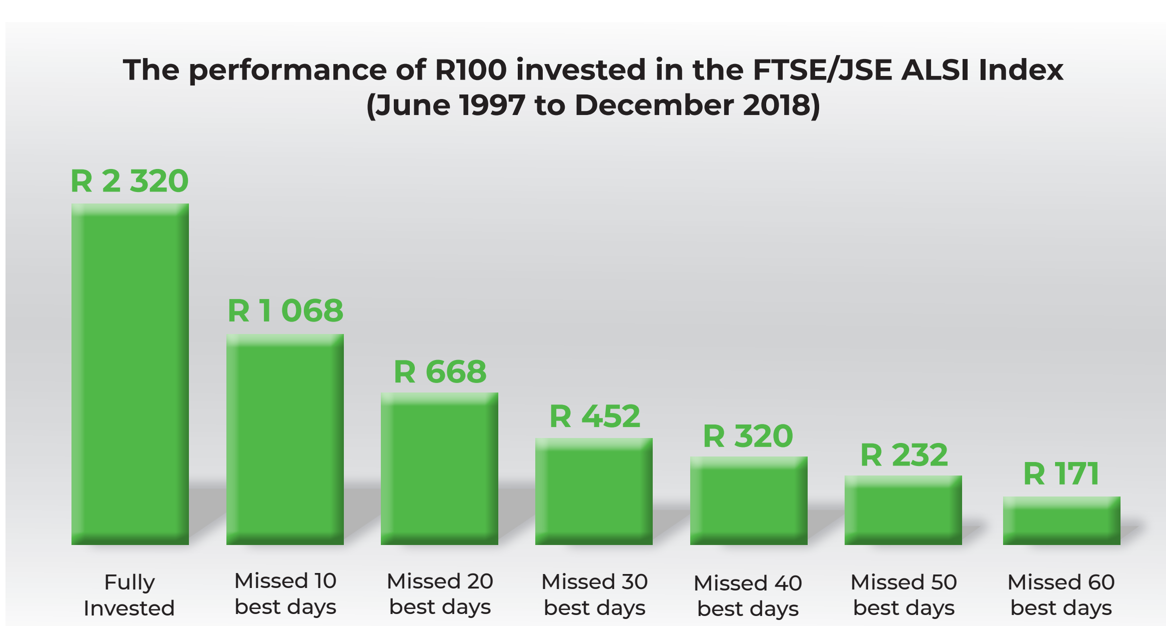
Using the long-term nominal average return of 13.8% a year on SA Equities, look at what happens when a lump sum of R1000 is invested now.



LESSON NUMBER 6: HIGH PRICE OF MISSING OUT

Short term volatility can often lead to investors selling out their investments or switching to another investment at the worst time. Statistics of price movements on the JSE show that almost all of the 10 best days on the JSE occurred after bad news or during uncertain times.

Sitting on the side-lines and missing those good days can be detrimental to your savings. The only thing you can control is having a well-considered plan and sticking to that plan. This is the best way of ensuring you have a secure retirement. The chart on the right shows the high price of missing out.



LESSON NUMBER 7: DON'T PUT ALL YOUR EGGS IN ONE BASKET

Equities may have been the best performing asset class since 1929, but cash was the best performer for 11 of those 89 years and listed property for 9 years.

Diversification is the one free lunch in investments, use it! It pays to invest across different asset classes. The information shown on the right is the percentage of time these three asset classes were the best performing classes from the 1930's to 2018.

12%
SA Cash

14%
SA Bonds

47%
SA Equity

WHAT SHOULD YOU DO?

The Old Mutual SuperFund is diligent in ensuring that the Investment Managers offering investment portfolios to our Members have great people and robust processes in place, offering fully diversified investment portfolios for you to select from. These features should work together to protect you against inflation and achieve the investment returns you require 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 any hasty changes. We recommend that you educate yourself on why markets move by reading more about investments (such as these 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 like 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 recent market events 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 portfolio for members who do not want to make an active investment decision. It is a smooth 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 smoothes growth over time and reduces the impact of market ups and downs on your retirement savings.

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 reminded you of the basics that you should always keep in mind when saving for your retirement.

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

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