MACROSOLUTIONS

INVEST WITH PERSPECTIVE

SAVINGS

A MACRO ECONOMIC VIEW

July 2018

OLDMUTUAL INVESTMENT GROUP

LOOKING BACK AT MY PREVIOUS MESSAGES AT THIS ANNUAL EVENT

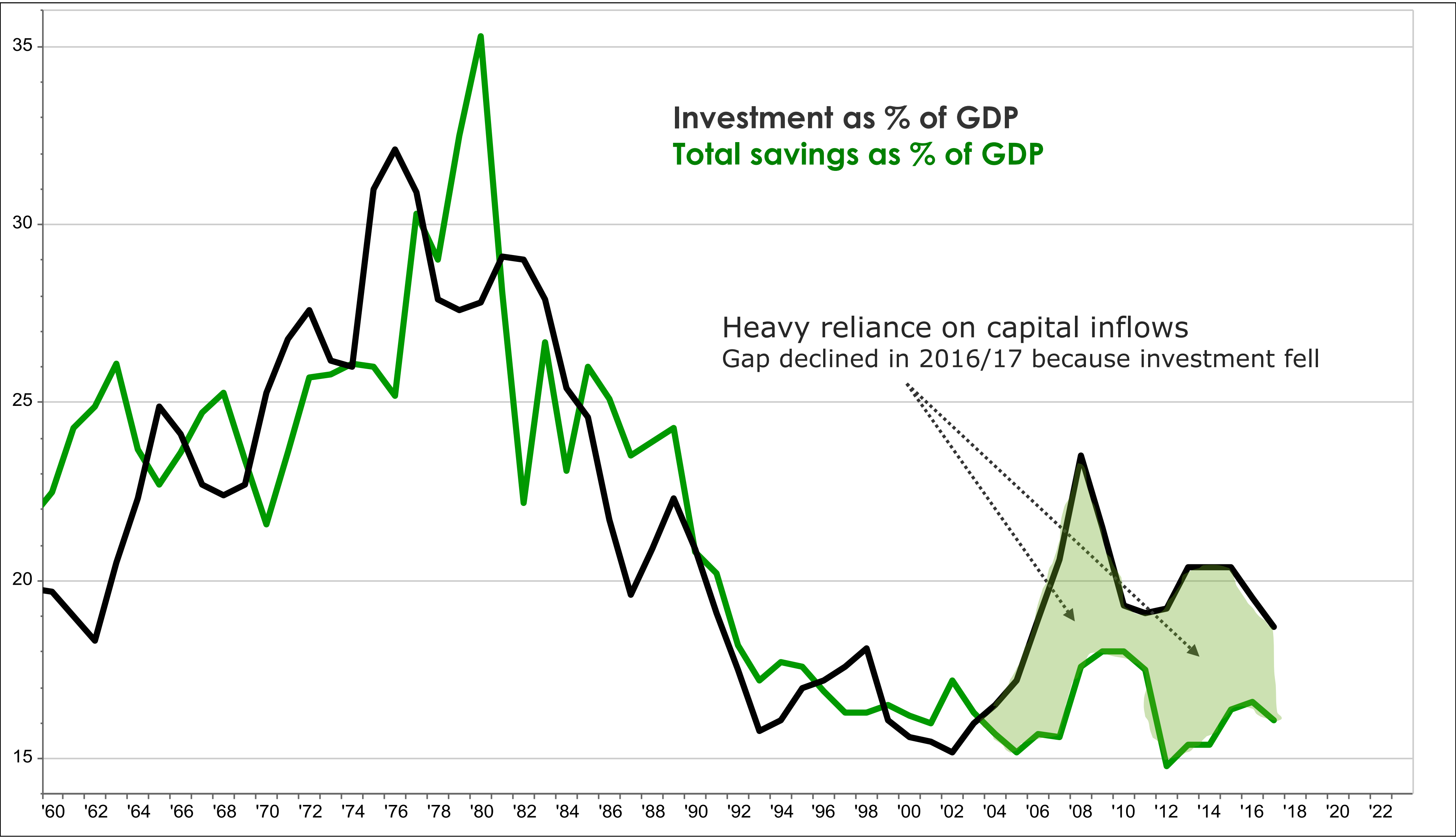
- **South Africa, as a country, saves too little**
  - It places a bind on investment and makes us vulnerable to capital flight shocks
  - SA needs to grow faster, MUCH faster, to help solve its economic & social problems
- **People who <u>can</u> save, save way too little**
  - They *grossly* underestimate their future financial liabilities
  - They wrongly assume they 'will be OK' at retirement
- **People make poor investment decisions**
  - Risk-ignored investments cost them 100% of their capital
  - Fixation with short term market volatility leads to poor *long term* investment decisions
  - No savings goal means no investment plan
- **It's going to get even harder to save more**
  - Slow economic/employment growth is causing youth dependency ratios to rise
  - Longevity is pressuring dependency ratios as people have to care for parents
  - Govt's fiscal troubles are eating into people's save-able income through taxes
- **Investment returns will be lower**
  - Slower global/local growth, competitive environment, regulation, expensive markets
- **… Plan properly**
  - Start early, have a goal, have a plan, *stick to it*

A NUMBER OF THESE WERE REINFORCED THE PAST YEAR - 1

- **As a country, *SA still saves way too little***
  - It is a serious obstacle in the pursuit of higher economic growth

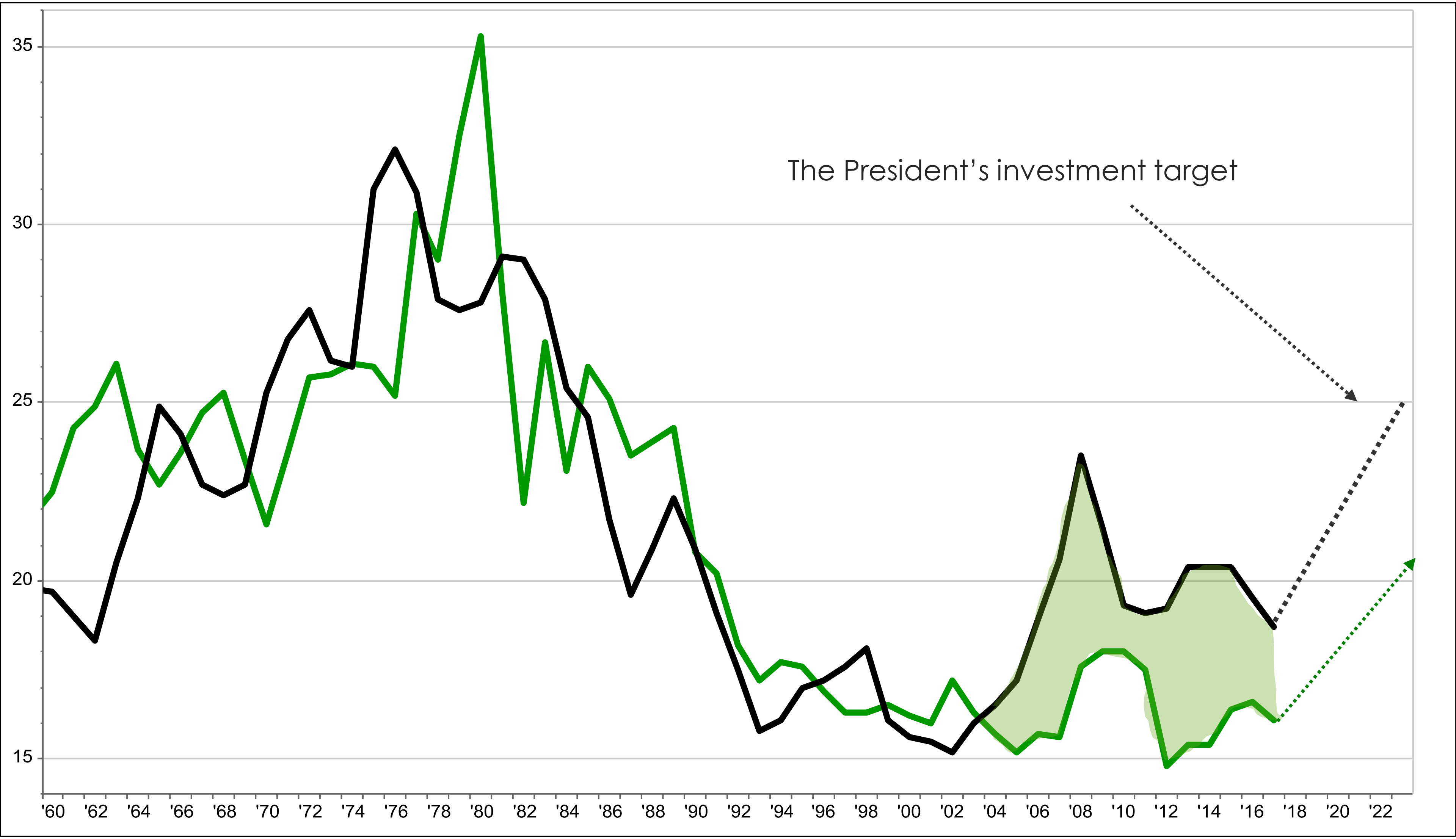
SA'S FOREIGN FUNDING REQUIREMENT HAS BEEN LARGE THE PAST DECADE…

IT LEAVES SA WITH A BINDING CONSTRAINT ON INVESTMENT AND VERY VULNERABLE TO CAPITAL FLOW REVERSAL



ACHIEVING THE PRESIDENT'S INVESTMENT TARGET REQUIRES A BIG SAVINGS EFFORT

IMPOSSIBLE TO FULLY RELY ON FOREIGN CAPITAL TO FUND THE SHORTFALL



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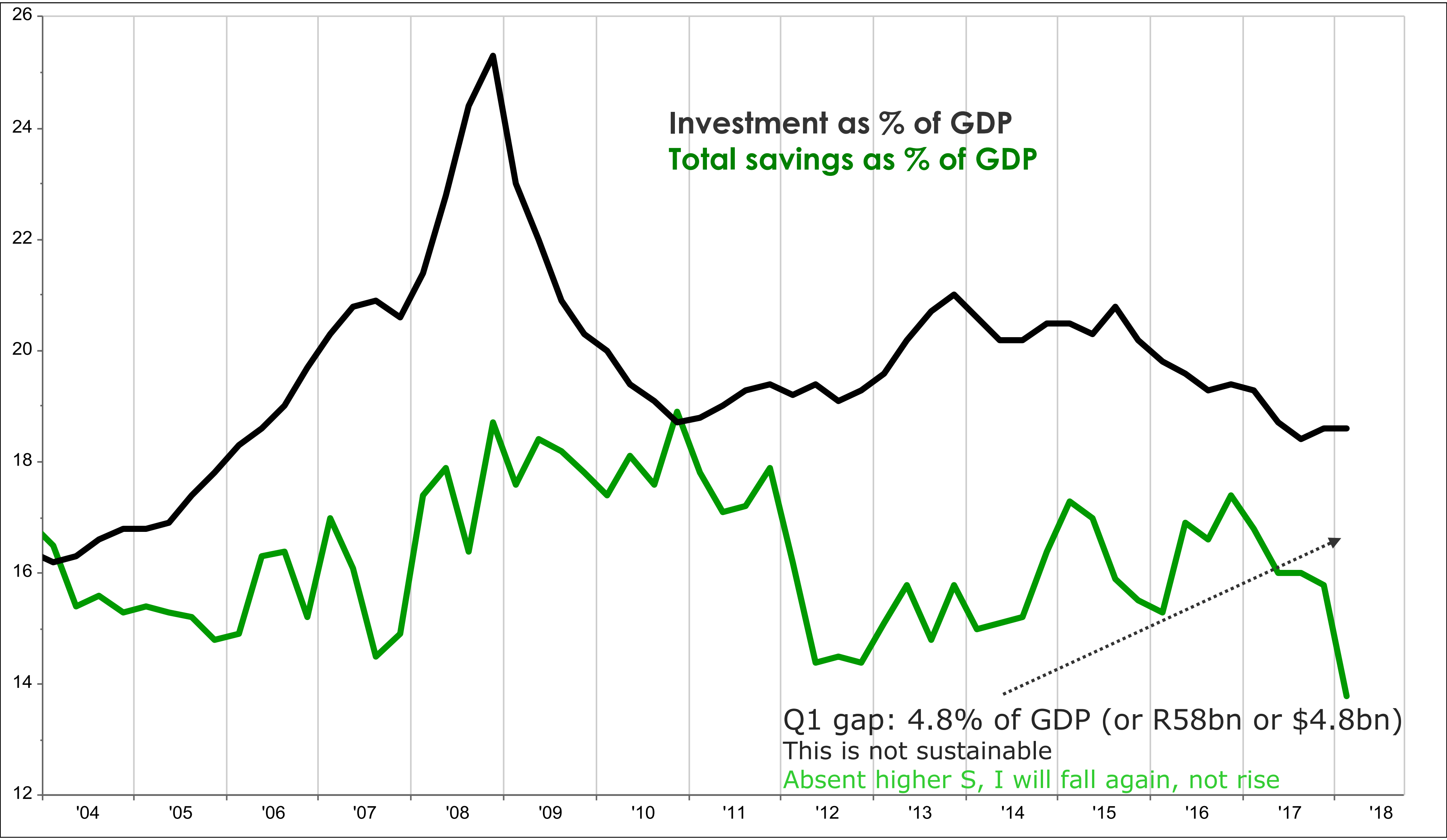
SHOCKING COLLAPSE IN SAVING IN Q1 A VERY BAD OMEN FOR INVESTMENT

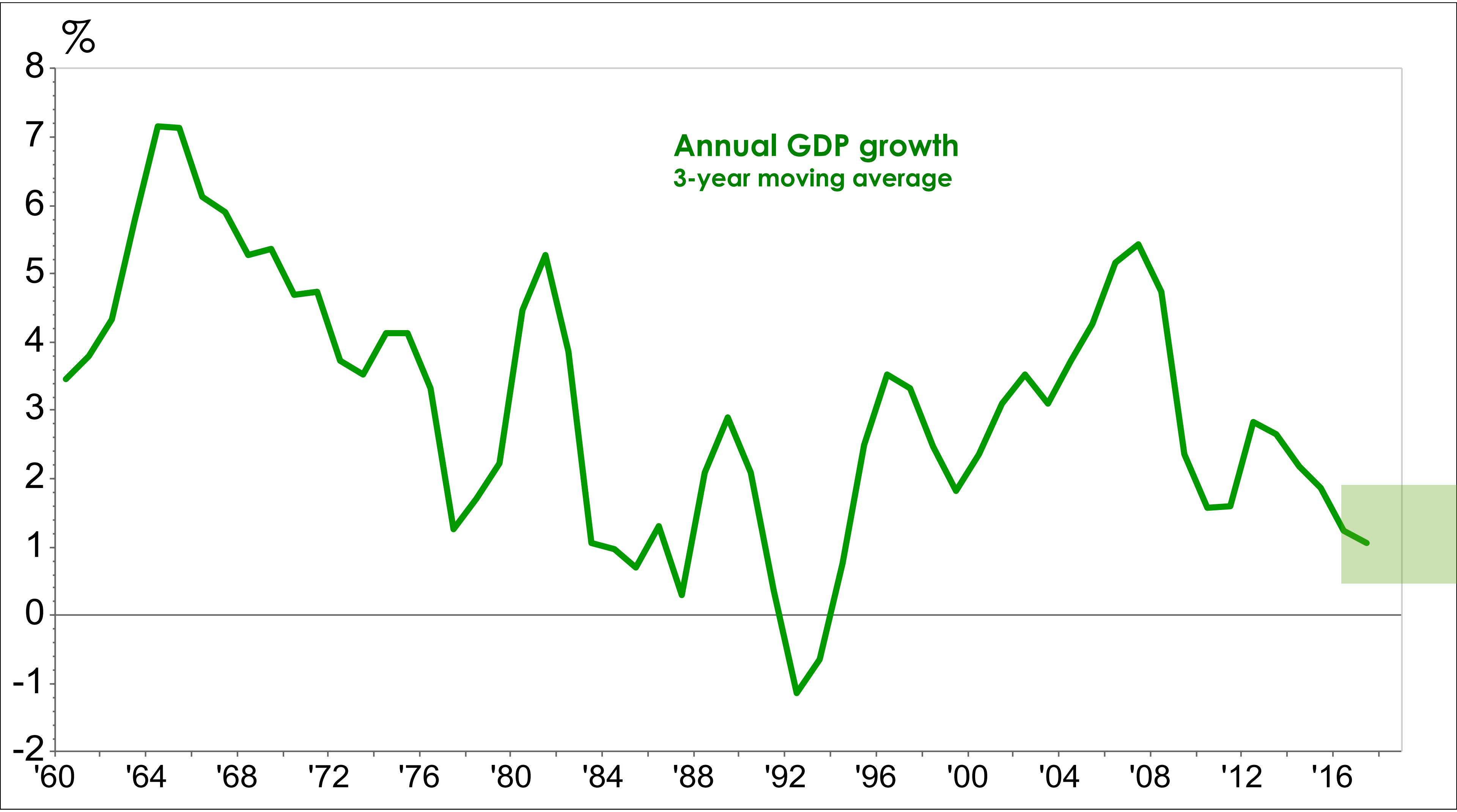


A NUMBER OF THESE WERE REINFORCED THE PAST YEAR - 2

- As a country, SA still saves way too little
- **SA's weak economic growth is cementing many of our economic/social problems more firmly**
  - Economic contraction in Q1 of 2018 was a huge shock; no evidence of any improvement in Q2
  - The 1½% economy: this year's f'cast is 1½%, past 5-year ave growth was 1.3%, potential is 1.3%
  - Absent a higher actual and potential growth pace, it will:
    - Be extremely hard to consolidate the fiscal situation (weak tax growth, heavy spending pressures)
    - Entrench weak investment and growth as savings will likely remain depressed
    - Make the unemployment situation and dependency of people on family and govt worse
    - Risk losing our last investment grade rating, falling deeper into junk territory and risk a ZAR crash
    - Cause SA to increasingly fall off global investor radar screens

SA'S GROWTH PERFORMANCE IS AWFUL AND URGENTLY NEEDS TO IMPROVE

IT IMPLIES LITTLE JOB CREATION AND RISING DEPENDENCY RATIOS



 | Source: Factset

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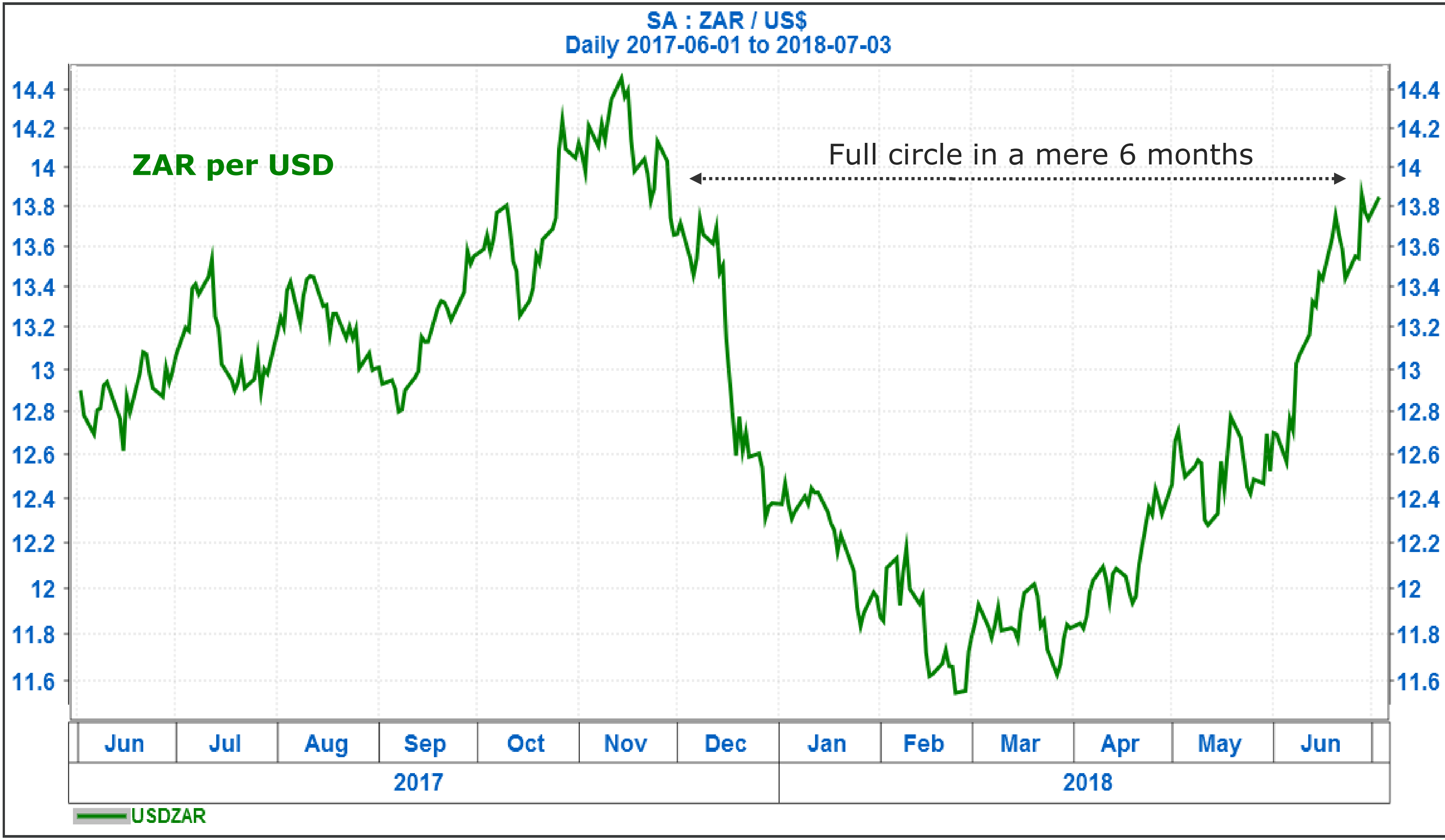
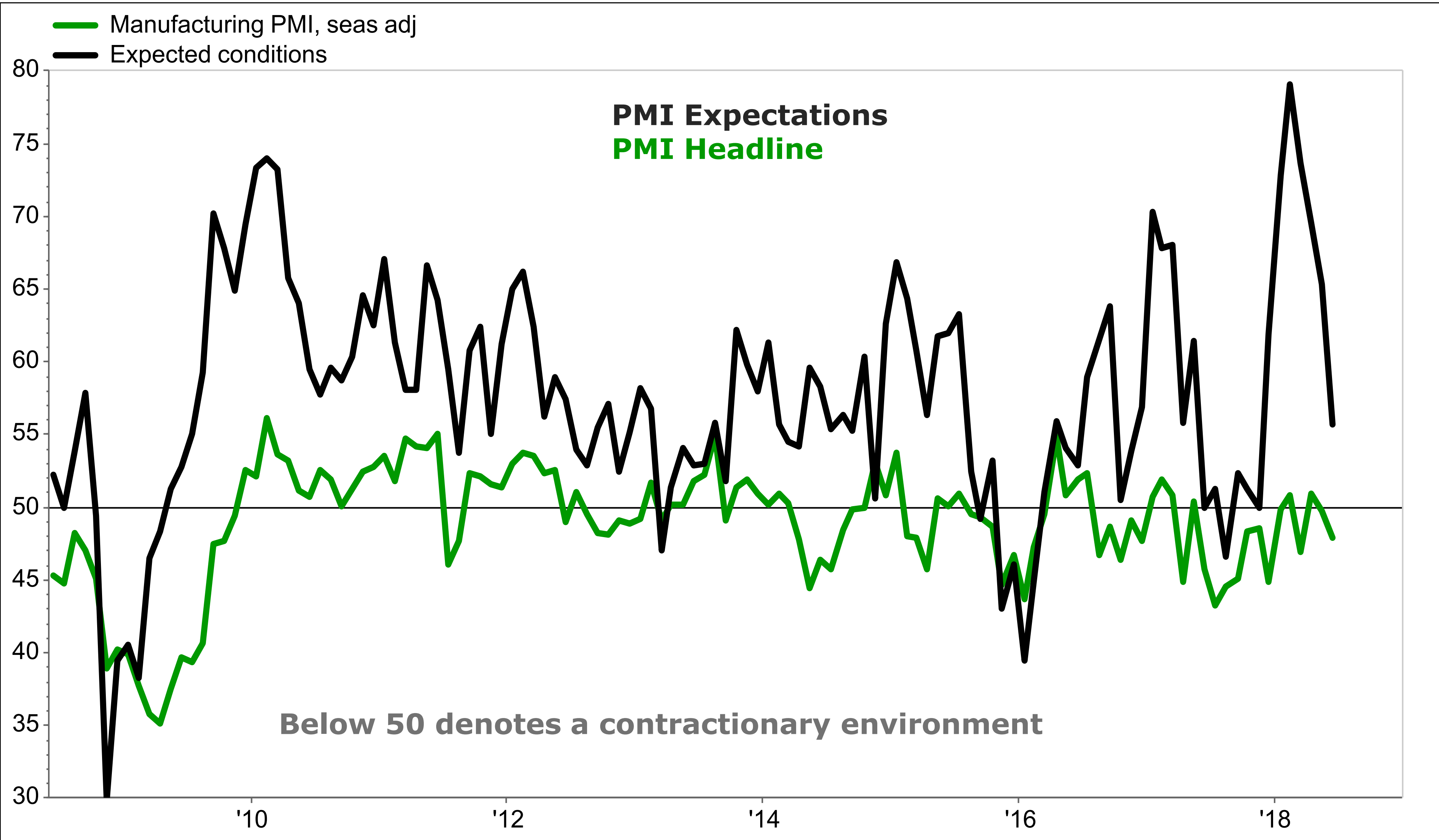
    - Risk losing our last investment grade rating, falling deeper into junk territory and risk a ZAR crash
    - Cause SA to increasingly fall off global investor radar screens
  - **What on earth has happened to Ramaphoria and the optimism surge early in 2018?**
    - In a 37-year career, I have never seen such a quick reversal of a bout of jubilance and hope

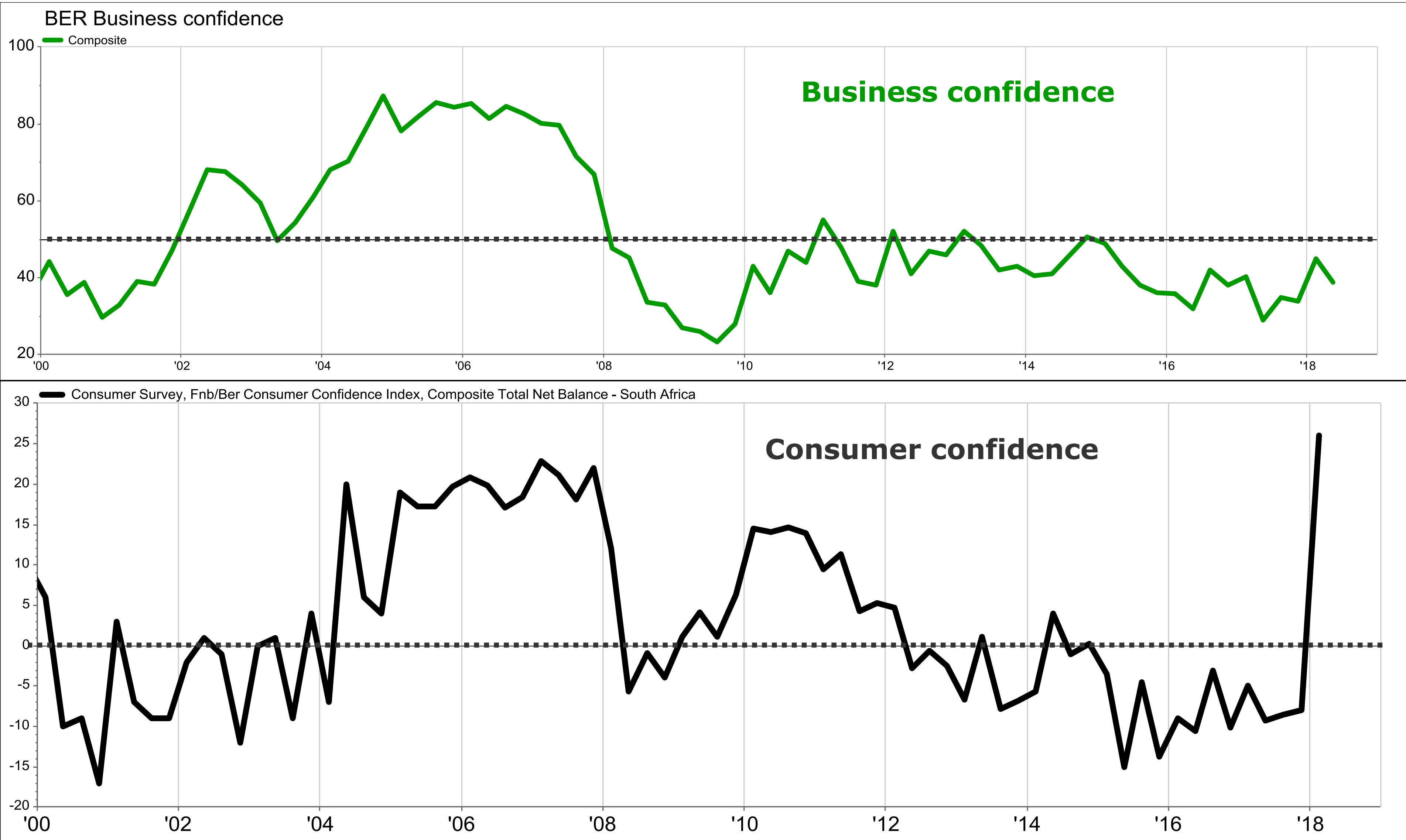
RAMAPHORIA CAME QUICKLY, WENT JUST AS FAST



MANUFACTURERS' EXPECTATIONS OF BETTER CONDITIONS EVAPORATE TOO

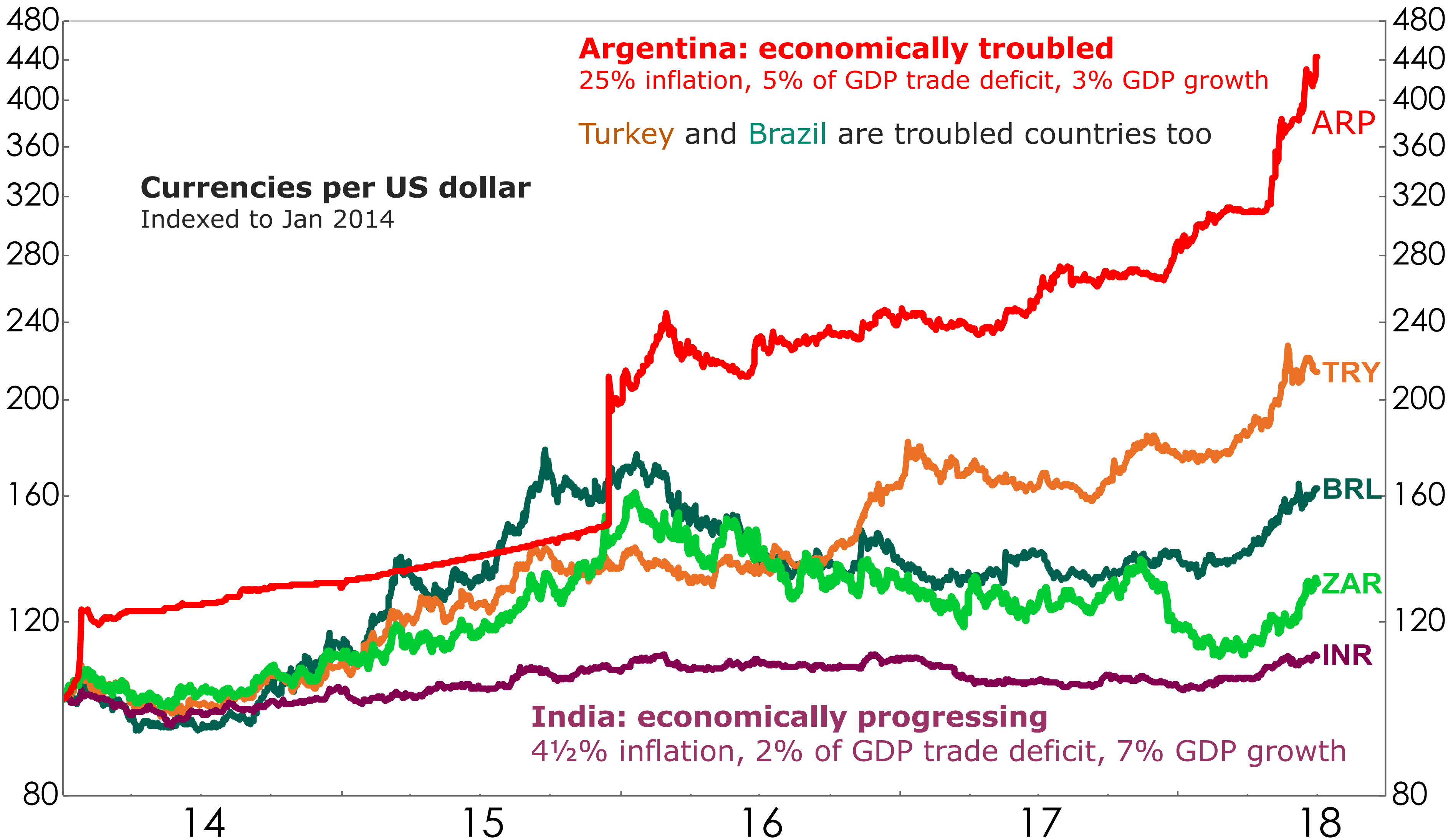


BUSINESSES JUST NEVER SHARED CONSUMERS' EARLY-2018 OPTIMISM SURGE



INVESTORS DISTINGUISH BETWEEN SUCCESSFUL AND UNSUCCESSFUL COUNTRIES

INVESTORS NO LONGER TREAT DEVELOPING COUNTRIES AS A HOMOGENEOUS GROUP; THEY DISTINGUISH BETWEEN GOOD AND BAD



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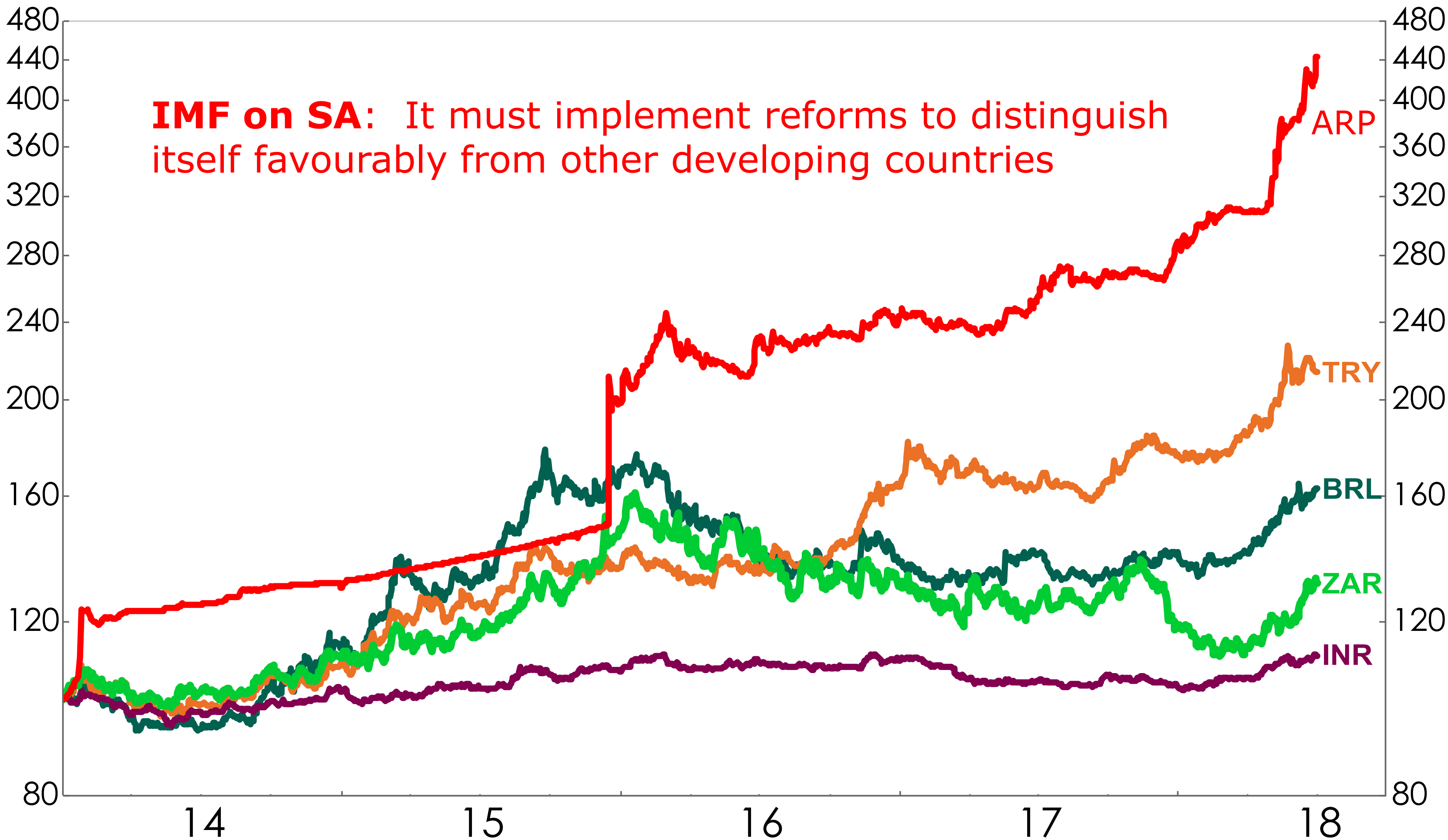
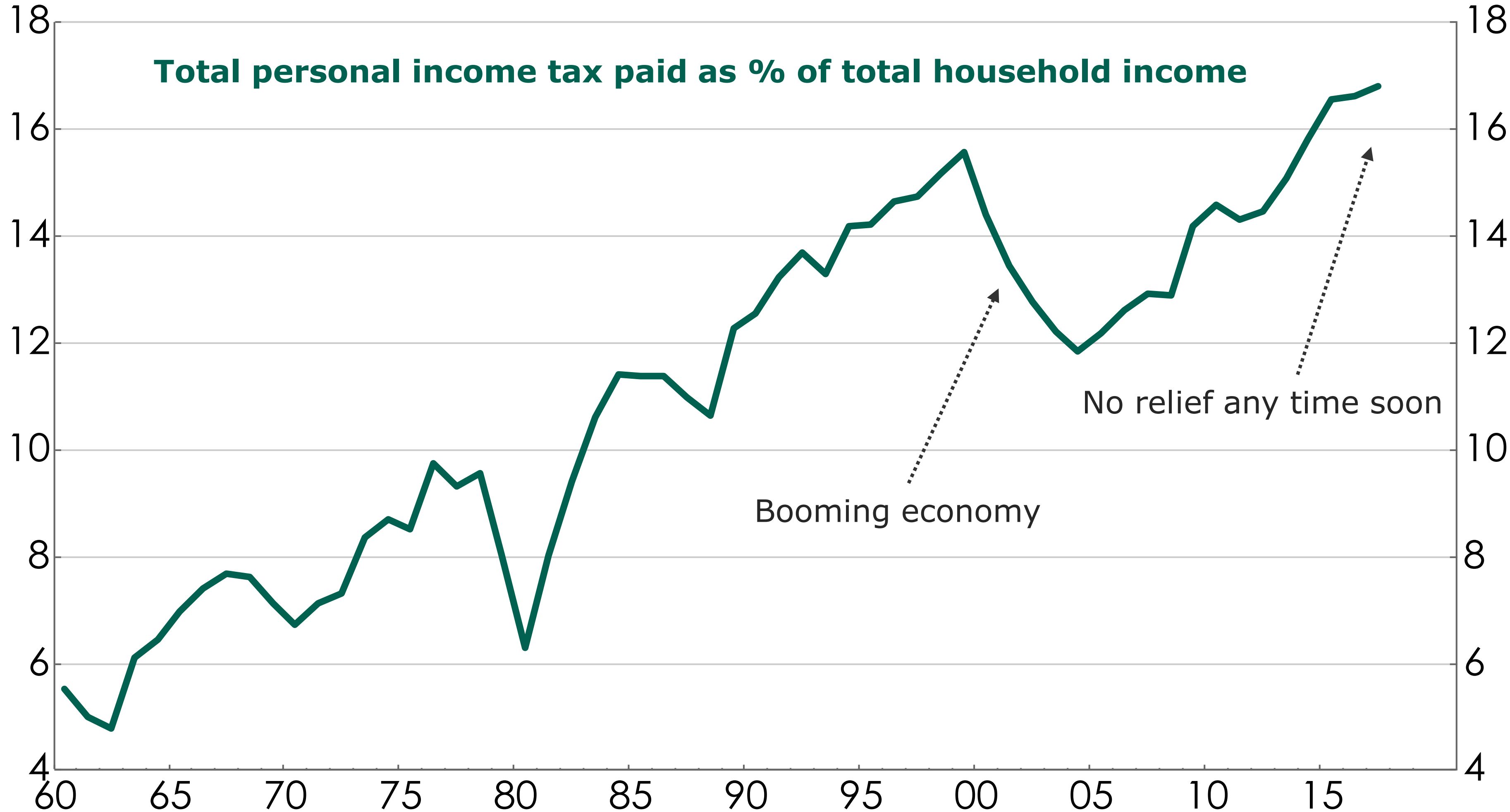


A NUMBER OF THESE WERE REINFORCED THE PAST YEAR - 3

- As a country, SA still saves way too little
- SA's weak economic growth is cementing many of our economic/social problems more firmly
- **It's going to get even harder to save more**
  - Saving crucially depends on the *ability to save*: this means jobs, which we are not really creating
  - So, sandwiches *getting more sandwiched: living-at-homes and boomerangers are evidence*
  - And govt is taking a lot more in tax *and it will rise even further as growth won't bail the fiscus out*
  - *Govt even did the politically unthinkable and raised the VAT rate – a sure sign of pressure*

GOVERNMENT IS DELVING EVER DEEPER INTO PEOPLE'S POCKETS

HOUSEHOLD TAX BURDEN HAS BEEN INCREASING RELENTLESSLY AS THE FISCUS HAS BEEN CONSTRAINED BUT, AS THE TOP MARGINAL RATE BECAME TOO PUNITIVE, IT (FINALLY) TURNED TO VAT



Source: SARB, Factset

A NUMBER OF THESE WERE REINFORCED THE PAST YEAR - 4

- As a country, SA still saves way too little
- SA's weak economic growth is cementing many of our economic/social problems more firmly
- It's going to get even harder *still* to save more
- **Investment returns will be lower**
  - This has played out to a tee and *the outlook has not changed*

...EVEN IF THINGS GET BETTER, *YOU STILL NEED TO SAVE MUCH MORE*

Sector	10 years 60-69 (%)	10 years 70-79 (%)	10 years 80-89 (%)	10 years 90-99 (%)	10 Years 00-09 (%)	5 years 10-14 (%)	4 years 15-18 (%)	59 years 60-18 (%)	What we expect (%)
Shares	15.8	21.3	26.7	16.6	17.9	16.1	4.6	18.3	10.0
Bonds	4.5	6.8	11.8	19.5	13.5	15.3	9.4	11.4	8.5
Cash	4.4	8.2	14.8	16.2	10.0	5.6	6.4	10.0	6.5
Inflation	**2.5**	**10.3**	**14.7**	**9.4**	**6.2**	**5.2**	**5.6**	**8.1**	**5.5**

Rough estimates
Balanced Fund of 60:30:10
Over 59 years: 15.4% vs 8.1% inflation = 7.3% real
Past 4 years 6.2% or only 0.6% real
Going forward: 9.2% vs 5½% inflation = 3.7% real

A NUMBER OF THESE WERE REINFORCED THE PAST YEAR - 5

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- It's going to get even harder *still* to save more
- Investment returns will be lower
- **Longevity is a growing issue**
  - Aggravated by us retiring too early: average age of 60 in SA, global norm around 65 (and rising)
  - Age brings heavier medical costs, expensive retirement accommodation, high frail care costs
  - Some SA stats (from StatsSA)
    - In 2002 the population 75+ totalled 861k, **or 1.9%** of total population
    - In 2017 the population 75+ totalled 1.5m, **or 2.7%** of total population
    - My own mother turns 91 in August!

THE OLD QUESTION…AND THE STANDARD ANSWER

- How much capital do I need?
  - Estimates differ widely, *but it's most likely more than you think*
  - *A commonly mentioned number is 17 times last annual after-tax salary, retiring at 62*
- Only 3 things determine how you get to 'enough capital'
  1. How long you save for
  2. How much you save
  3. Investment return

  Of the above three, *only number 2 is in your control*
- What percentage of my income must I save?

HOW MUCH MUST I SAVE?

Goal: Capital equal to 17x last annual salary by age ±62

Start at age	Investment return: 5% real after costs
25	14% of income
30	21% of income
35	28% of income
40	40% of income

Imagine you started saving at birth…in investments, time is your greatest friend

Achieving 5% real p.a., after costs, is of course crucially important

DECISIONS FOR FUND MEMBERS

Key decisions are not necessarily investment ones, rather….

- It's a conscious decision to analyse your financial situation in detail…
- …to make sure you fully understand your provisioning for future liabilities…
- …save more, *much more*…
- …implies a move to a *life-time* focus on financial affairs and resist life-stage decisions

Leave the underlying investment decisions to the professionals

- People often make their worst investment decisions **when emotions run high**
  - Taking money offshore in Dec 2001 and Jan 2016
  - Selling out of equities in 1998 and 2009
  - Storming into tech shares in 2000 or small caps in 1998
  - And so on and so on … …

- **Beware of fear and greed:** both can cost you a lot of your capital

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