



OLD MUTUAL SUPERFUND

INVESTMENT UPDATE
October 2021 | Q3

Your range of investment choices

This quarter we look at the different kinds of investment portfolios available to you as a retirement fund member. Old Mutual SuperFund Choice offers a wide range of investment funds to Employers and members, although some packages limit the extent of choice available to members.

Investment fund overview

If you were to ask a group of people about their investment needs, you would hear a wide range of answers:

- Some members are only interested in returns, no matter how much risk is involved.
- Some members just want capital protection – they can't stand the thought of losing money, and they don't mind giving up some upside to protect their money.
- Some members have a very long-term perspective, while others (for example, those close to retirement) have a short-term view.
- Some members are primarily concerned about inflation.
- Some members are worried about interest rate movements (if they are close to retirement and are planning on purchasing a traditional annuity).
- Some members want to include international investments, while others are only focused on local investments.
- Some members have a favourite asset management company, while others don't have a preference.

As you can see, no one investment fund can meet all of these needs. As a result, Old Mutual SuperFund offers a range of investment funds, which target a range of outcomes.



Legal guidelines for retirement fund investments

To further complicate things, retirement funds like Old Mutual SuperFund must comply with Regulation 28 of the Pension Funds Act.

Regulation 28 includes guidance and constraints set by the government to protect pension fund investors. For example, not more than 30% of a pension fund's assets can be invested overseas, and not more than 75% can be invested in equities.

Within these limits, Investment funds typically hold a range of different asset classes. These would usually include:

- Equities (usually shares on the stock market);
- Bonds (also called fixed interest);
- Money market investments;
- Property; and
- Alternative investments (such as infrastructure developments and hedge funds).



Investment Portfolio Categories



Old Mutual SuperFund is very careful to make sure that the Investment Managers offering investment funds to our members have excellent people, well explained investment philosophies and investment processes that are comprehensive.

It is important that you choose the right investment strategy for your needs, before considering which Investment Manager you prefer. In other words, your first decision should be what kind of investment fund you need:

- A Higher Reward/Higher Volatility (high risk) investment fund?
- A Medium Reward/Medium Volatility (medium risk) investment fund?
- A Lower Reward/Lower Volatility (low risk) investment fund?

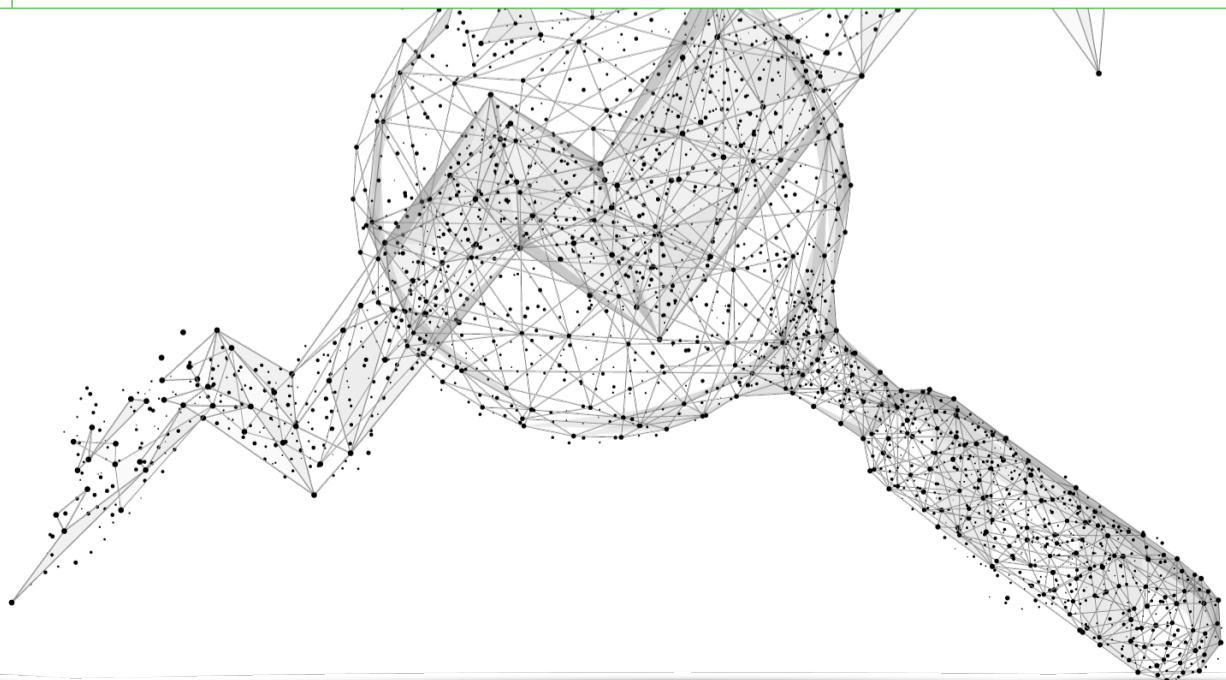
Only after that would you consider the different “sub-strategies” (e.g. Smooth Bonus or Market-linked), and only then would you consider which Investment Manager you prefer.

The tables below summarise the categories of investment funds available to retirement fund members in Old Mutual SuperFund Choice. The tables also describe what to expect from each category.

Category	What to expect from these investment funds
Higher reward – Higher volatility	<ul style="list-style-type: none"> • These funds are the most aggressive portfolios within the Regulation 28 limits. They are most likely to be affected by market ups and downs. (In technical terms, they have higher volatility). However, over the long term you can expect the highest returns from these investment funds. • This category has more growth assets (like equities) than the others. These growth assets tend to be the cause of the volatility, but also give higher expected long-term returns. • In summary: If you are OK with ups and downs over the shorter term, investment funds in this category should give you the best returns over the long term.

Category	What to expect from these investment funds
Medium reward – Medium volatility	<ul style="list-style-type: none"> • These investment funds fall somewhere in the middle. They have slightly less growth assets, and may have more bonds and cash/money-market investments. These funds are still affected by the ups and downs of the markets, but not as much as the first category. • In summary: Over the long term, you can expect good inflation-beating returns from investment funds in this category, with slightly lower volatility than the first category.

Category	What to expect from these investment funds
Lower reward – Lower volatility	<ul style="list-style-type: none"> • These funds are the most conservative. They are the least affected by the ups and downs of the markets. They provide some short-term capital protection, but also tend to give the lowest returns in the long term. • This category has the highest exposure to cash and bonds, so may be more affected by interest rates. • In summary: Over the long term, this category provides the most predictable returns. Returns are not likely to be much higher than inflation, so this category does not provide much real investment growth.



Within each of these broad categories, there are several kinds of investment portfolios:

Sub-Category	What to expect from these investment funds
Market-linked funds	<ul style="list-style-type: none"> • The returns of these funds are directly linked to the returns earned in the markets (such as equity markets, bond markets, and so on). • They give more variable returns than smoothed bonus funds and targeted return funds. In other words, market-linked funds are the most influenced by ups and downs in the market. • Higher reward/Higher Volatility market-linked funds usually give the best returns over the long term.
Smoothed bonus funds	<ul style="list-style-type: none"> • A smoothed bonus fund holds some of the returns back when markets are doing well, to support returns when markets fall. • These funds still aim to provide long-term returns similar to those earned on market-linked funds in the same category. This means they are a very good option for members who want competitive returns with less volatility. • You can expect the most stable returns from these funds. Investment returns are passed on more slowly when the markets are doing well (compared to a market-linked fund), but they provide excellent protection when markets fall. • These funds may provide a guarantee (such as a 50%, 80% or 100% guarantee). However, they may be more expensive, because you pay a capital charge for any guarantees.
Index Tracking funds	<ul style="list-style-type: none"> • An Index Tracking fund (sometimes called a passive strategy) is a kind of market-linked fund which aims to mirror a combination of specific underlying benchmark indexes. They offer a low cost alternative to normal market linked funds.
Absolute Return funds	<ul style="list-style-type: none"> • Absolute Return funds target a return in relation to inflation. For example, they may target Inflation + 3%, or Inflation + 5%. This is normally their primary objective. • These are a kind of market-linked fund, but they are usually less volatile (fewer ups and downs) and often provide a secondary objective of aiming to protect against negative returns in the short run.
Money-market	<ul style="list-style-type: none"> • A money-market investment is a low-risk investment. Returns are similar to what you could earn in a short-term fixed deposit with a bank. • These funds protect capital (although capital is not guaranteed), but they don't provide proper protection against inflation over the long term. For this reason, a money-market fund is not usually suitable as a long-term investment.
Fixed-interest	<ul style="list-style-type: none"> • Fixed-interest investments (also called bonds) are relatively low-risk investments which provide moderate returns over the longer-term. • They can go up and down with the markets, but usually less than market-linked balanced funds. Returns are also usually lower in the long run than market-linked balanced funds. • Fixed-interest investments can provide a good match for some kinds of annuity, so they may be suitable for certain members close to retirement. This will depend on the annuity choice that the member makes at retirement.

WRAPPING UP

The investment world can be complicated and confusing, and there are a lot of options out there.

We hope this Investment Update has helped explain some of the complexity! Look out for the last Investment Update in November 2021. Until then... happy saving!

