



**Understanding Investment Returns**

Investment performance is often reported in a table, as at a single point in time. However, there are core factors one needs to consider in order to read a table like this with understanding.

1. Predictability of performance; and
2. Drivers of investments performance.

Other factors to consider (which we will consider in future investment updates) include:

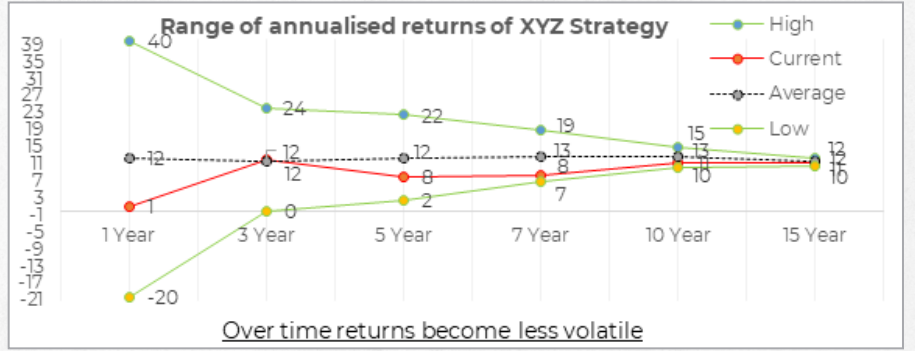
- point in time vs rolling returns;
- understanding metrics and terminology; and
- focus on the ultimate long term goal.



**Predictability of Performance**

The reality is that investment performance continually changes as markets move through cycles. While there may be overarching drivers of investment returns, no-one can accurately predict the performance of markets, portfolios or stocks over any given period. However, one can get a sense of the range where performance is likely to be, given past performance.

The following chart shows the range of returns experienced over the past 20 years by a sample portfolio with a high equity allocation, like most medium-high risk/reward portfolios. It shows the best and worst return over a given period ending December 2022. For example, the best return over a rolling 3-year period over the past 20 years was 24%, whereas the worst was 0% for this portfolio.



As shown on the right, while the rolling one-year return ranges anything between +40% and -20% for this sample portfolio, the range of the 15-year annualized returns is much narrower, between +12% and +10%. Although losses can be experienced over shorter periods, history does show that long term investing has been rewarded with positive real returns.

**Drivers of Investment Performance**

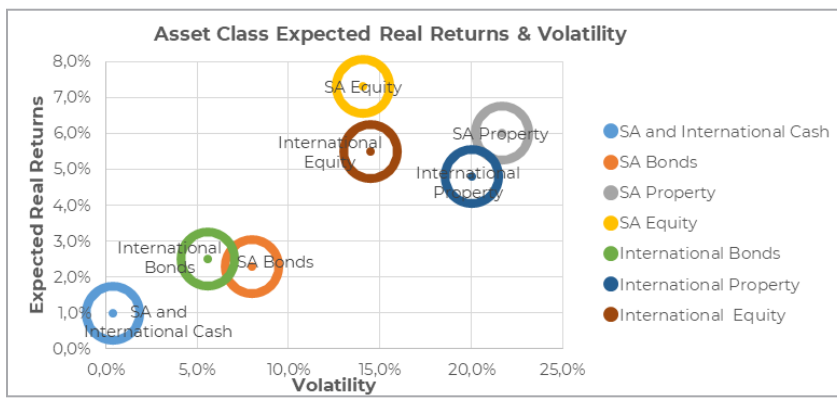
The investor's experience of Investment performance is driven by the combination of two factors:

- i) The portfolio's underlying asset performance; and
- ii) The portfolio's return declaration methodology.

**i. Underlying Asset Performance**

Investment performance moves in cycles. Poor performance may be followed by good or even flat performance. The rate at which investment performance moves through these cycles is known as **volatility**. If the value of the investment moves up and down significantly in a short period, the investment is known to be highly volatile. If it moves slowly through these cycles or even experiences repetitive and steady increases or decreases, it is known to have a low volatility. **The reality is that those investments which provide the best inflation-beating (real) returns over time, tend to be more volatile in the shorter term.**

Asset classes such as equity and property (both locally and globally) tend to provide the best real returns over time, but can also be highly volatile and experience negative returns over the short term. Bond and cash investments experience less volatility compared to equity and property, but are expected to provide lower real returns over time. Therefore, a high equity and property allocation is likely to provide better returns over time. The chart below illustrates the volatility and return expectations for each of these asset classes:



As different asset classes have different ranges of expected returns, different portfolios with different asset allocations will also experience different returns. A portfolio with a high equity allocation will perform very differently to a money market portfolio over any given period. **Consequently, these returns should not be compared to one another without the necessary guidance.**

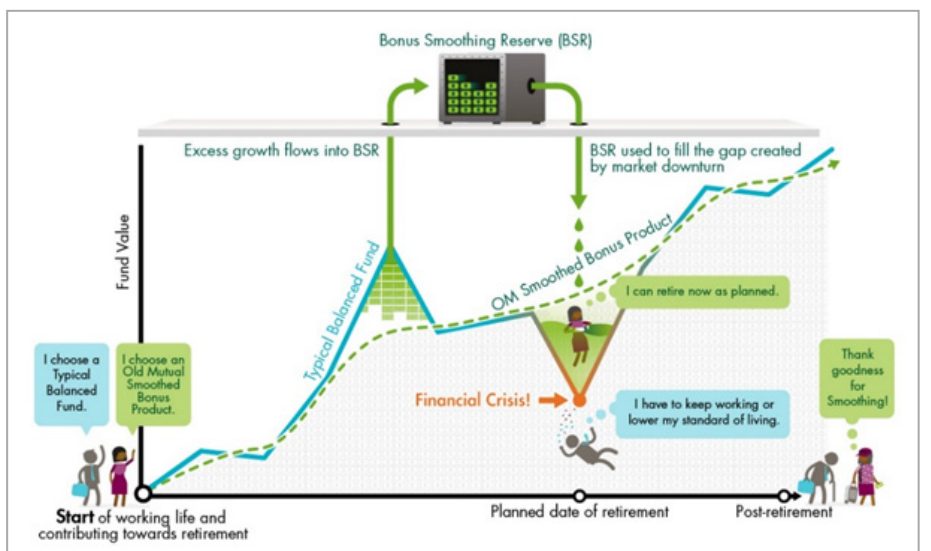
In turn, different actively managed portfolios will have different weightings to different underlying stocks within asset classes. As performance is driven by these underlying stocks, different asset manager portfolios, even with similar asset allocations, can also experience different returns.

**Please note: The real returns and volatility above are expectations and not guaranteed. It is likely that, on occasion these asset classes over- or under-perform the expectations, but on average they are expected to achieve this over time.**

**ii. Return Declaration Methodology**

**Market linked portfolios** allocate investment returns immediately to the investors. In SuperFund, member fund values are updated daily with the relevant return, known as daily pricing.

**Smooth bonus portfolios** invest in similar asset classes as market linked funds, but returns are smoothed over time. Return smoothing is illustrated on the right. In periods of good performance, some returns are withheld from the investor and used to boost performance in weak or negative periods. This process therefore reduces the volatility of returns compared to market linked funds and gives the investor a "smoother ride". As returns are sometimes deferred, it is difficult to compare smoothed portfolios to other market linked portfolios over the short and medium term. However, over time, it is expected that these portfolios provide similar performance compared to other market linked portfolios.



**Portfolio Update: Smoothed Portfolios**

The product owner of the smoothed bonus portfolios on offer to SuperFund members have changed their target return from a point to a range.

Markets move through cycles over time. Similarly, smoothed bonus portfolios are equally likely to exceed or fall short of their target over time. To better reflect these return expectations, the target return has changed from a point to a range which is 1% above and 1% below the initial point target.

The target returns reflected on marketing material and fund fact sheets will therefore be changed as follows:

Smoothed Bonus Portfolio	Old: Target Return Point	New: Target Return Range
AGP Smooth	CPI +6%	CPI +5% - 7%
AGP Stable	CPI +5.5%	CPI +4.5% - 6.5%
CoreGrowth 100	CPI +3%	CPI +2% - 4%

**Please note: this change does not affect nor change how the assets are managed, the capital charges, formulas nor bonus declarations of these portfolios.**

**Conclusion**

When reading investment performance it is therefore advisable to:

- a) Understand your investment portfolio and its long-term return/volatility expectations;
- b) Practice caution when comparing different portfolios, as many have different underlying asset exposures and return declaration methodologies; and
- c) Please seek financial advice before basing any switching on historic investment performance.

It is worth noting that the default portfolios utilised by SuperFund Choice members are continuously monitored for suitability for members by the Management Board. Returns are published on the website monthly. <https://www.oldmutual.co.za/corporate/employers/retirement-solutions/superfund/superfund-investment-funds/>.



It must be noted that the Management Committees (with assistance from the Investment Consultant) of SuperFund Customised schemes must ensure that appropriate investment-related communication is provided to members.