OLD MUTUAL SUPERFUND

MEMBER INVESTMENT UPDATE

August 2020 | Q3

This year has been full of unprecedented events. It feels like we have experienced decades of history compressed into only a few months. Have we survived the turbulent market falls of the 1st quarter of this year? Does the second quarter reflect a V-shape recovery?

For the third time this year we have seen a fall in the repo rate in South Africa. This time it was reduced by another 0.25% to 3.5% with the corresponding prime rate sitting at 7%. The last time it was at this low level was in October 1973.

What is a V-shape recovery?

A sharp (or quick) economic decline followed by a very strong recovery which resembles a V-shape.

REPO VS PRIME

The repo rate is the rate at which the central bank lends money to other banks. The prime rate is the rate at which these banks lend out to their best consumers. For most of us, a cut in this rate is viewed as a good thing. Banks will now in turn be charging lower interest rates on home loans and motor vehicle finance arrangements (assuming these are not fixed rates).

However, pensioners and other people who rely on interest as income will not be too happy. The lower interest rates may mean a drop in income for such investors.

DIVERSIFICATION

Your retirement fund savings are invested in investment portfolios that consist of many different types of assets. Spreading money across a range of asset classes is known as diversification. The different asset classes include equities (shares), bonds, property, cash and alternative assets. Not all asset classes react the same way to market events. By spreading assets amongst asset classes that react differently, the impact of such market events on your portfolio as a whole can be lessened.

Each investment portfolio available to Old Mutual SuperFund members has a slightly different mix of asset classes. This asset mix depends on whether the portfolio is more focused on growth or protection. It also depends on the views of the asset manager. This means that your choice of investment portfolio(s) will depend upon:

- your attitude towards risk,
- the number of years of service you have left until you retire,
- the investment strategy you plan to follow in retirement (i.e. which annuity/pension you will choose), and
- other aspects of your own financial planning.

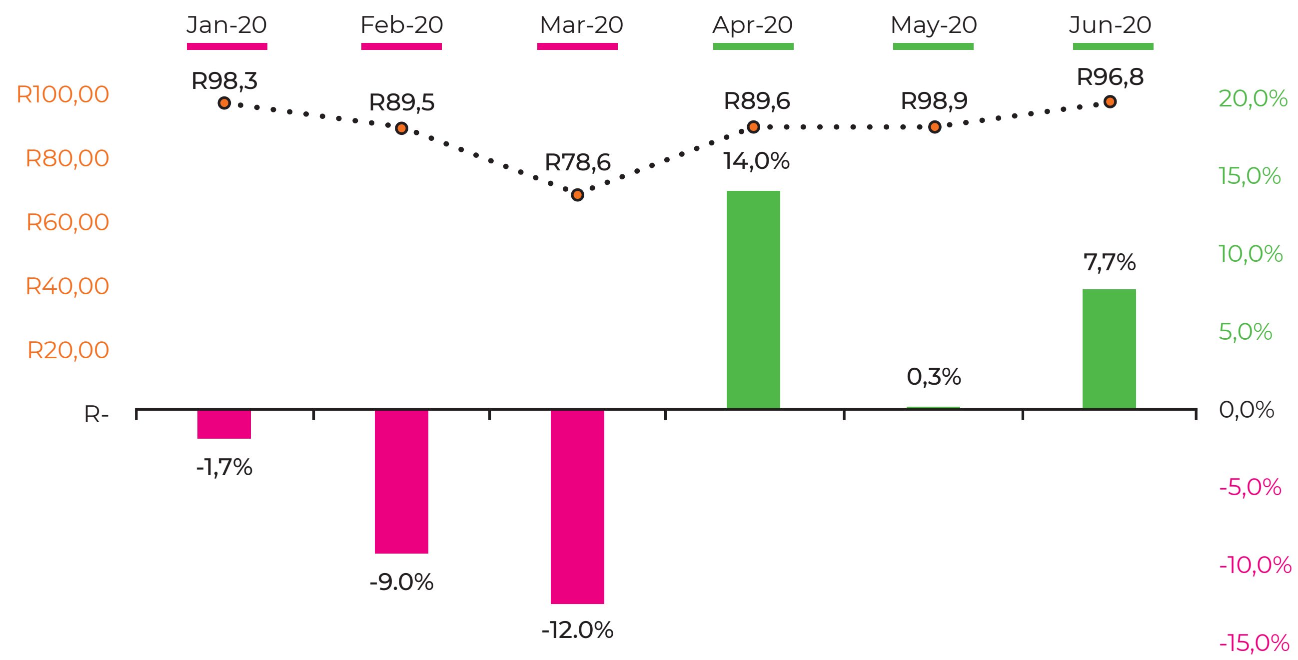
The investment returns that you earn depend on the different assets classes of your investment portfolio(s). For example, if your investment portfolio has a higher allocation towards equity, and equity markets fall, then you may earn less investment returns than a friend who had a lower allocation towards equity. However, in another year equity markets might rise, and you would earn higher returns than your friend.

Diversification is the key to balancing it all out, so that the downturns in one asset class can be offset by better returns from other asset classes (such as bonds, property and money market).

For example, looking at the first 6 months equity returns of 2020; if you had R100 invested at the start of January 2020:

- during January, you would have lost nearly R2,
- during February, you would have lost almost another R9, and
- during March you would have lost approximately another R12.

But you would have started making up these losses again from April, gaining almost R14 in April, a R0.30 gain in May, and almost another R8 gain in June.



All of these ups and downs might make you nervous! But bear in mind that there is a bigger picture. Rather consider the quality of your investments, than the volatility of short-term performance of the markets. Long-term gains in a retirement fund come from a long-term outlook and investment philosophy. So, educate yourself or contact a financial advisor.

Always remember that your retirement fund savings are a long-term investment. Please don't make emotional decisions based on poor (or good) performance of the markets over a short-term period. When you invest money into your retirement fund it should be with a long-term outlook, whether you are 5 years or 20 years from retirement. Remember that your investment timeframe doesn't end at retirement. Your savings will need to remain invested once you retire, to provide you with income and growth during your retirement years.

When investing your retirement fund savings, contact a reputable financial advisor who can provide you with sound financial advice about investments. Don't forget that your retirement is a long-term investment. Sticking with a long-term outlook as well as riding the wave of instability for the short term will make it worth it in the longer term.

So, plan ahead by taking the extra cash from the interest rate cut (if you can afford this) and putting more money towards short-term emergency savings or your retirement savings. By educating yourself you have more control over your financial future.

WRAPPING UP

Old Mutual SuperFund is designed for long-term prudent investors. The Investment Managers offering investment portfolios to our members have excellent people and processes in place, and each investment portfolio is well diversified across the various asset classes.

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 helped explain some of the complexity and put you at ease with regards to what is happening in our country.