



# OLD MUTUAL SUPERFUND

INVESTMENT UPDATE  
JUNE 2021 | Q2

## What do you do when the sky is falling?



Investment cycles can be scary; especially if, in the words of Chicken Licken: *"The sky is falling"*. For those that don't know this story: An acorn falls on Chicken Licken's head and he is convinced the sky is falling down. He convinces his friends that the sky is falling and they need to find cover. The sly Fox learns of this and leads the team to safety in his lair where he proceeds to eat them. The moral of this story? A falling acorn doesn't mean everything is falling, and what appears to be the obvious move, can lead to your downfall.

How can we apply this to recent market events?

## When something is falling, it may not be the sky:

In March 2020, it was easy to believe that the world was headed for imminent disaster as COVID19 led to hard lockdowns throughout the world. At the time, we did not know when life would return to normal, if ever.

For some, the sky has fallen: Many people have lost loved ones; Businesses have failed. For investment markets however, the crash was severe, but the panic did not last long. With announcements of stimulus packages to support economies, most asset classes experienced one of the quickest recoveries in history.

We may be feeling a little more euphoric now with many lockdown restrictions lifting and major sections of the economy restarting. However, Covid remains a concern and we cannot eliminate the possibility of further lockdowns or the delayed recovery of sectors like Tourism.

## Understand your sky

In a defined contribution fund like Old Mutual SuperFund, members take responsibility for their own retirement outcomes. Members do this by:

- saving enough; and
- understanding the nature of the investment portfolio in which their long term savings are invested.

Investment portfolios go through different cycles. There are periods when a portfolio may do well against peers, and other periods when it lags. Understanding this is important for long term investments. Members must ensure that they understand where their retirement funds are invested.

Case study: How have the Old Mutual Absolute Growth Portfolios fared in severe market conditions?

SuperFund's Trustee default portfolio is the Old Mutual Absolute Stable Growth Portfolio. This is the portfolio selected if your employer has not made a different default investment choice on behalf of its members. The long term return objective of this portfolio is inflation +5.5% after all fees, with low short term volatility.

The nature of this portfolio is to invest more than 80% into assets which have a high growth focus. However, a high growth focus goes hand-in-hand with short-term unpredictability (volatility) of the underlying assets. The returns to members are therefore smoothed using a formula which helps stabilize returns in the short term. In addition, there is an 80% capital guarantee. In extreme market events, negative returns are therefore possible, but otherwise returns tend to be stable. When comparing these returns to market-linked portfolios, there is usually very little downside during crashes, but performance usually lags during periods of recovery.



The year 2020 was a typical example of this. Due to the severity of the market crash, the Absolute Stable Growth Portfolio declared a -5% return, while other market linked funds experienced a fall of up to -25% during mid March 2020. When markets recovered, however, the market linked funds experienced a steep rally. By contrast, smoothed funds like the Absolute Growth Portfolios have lagged in this recovery. However, the assets underlying these portfolios have rallied strongly and this has built up significant smoothing reserves. We therefore anticipate that these returns will be passed on to members smoothly over the coming months. It is important to note that while the short term return differences appear large, this gap closes when assessing longer term returns. As retirement savers, members must focus on the long term objectives and understand possible short term volatility to avoid knee-jerk reactions.

## Understand when you should react



We may have felt the need to “find cover” as markets fell or to “follow the herd” during recoveries. Evidence indicates that shifting between portfolios on the back of short term circumstances, could be to the detriment of the investor.

Should you feel the need to change your investment option (whether in a period of panic or euphoria) from the one that is selected as your fund’s default, it is important to make an informed decision. We recommend you seek qualified financial advice. This is particularly important for members nearing retirement.

There are **4 things to remember** when it feels like the “investment sky” is falling and you feel the need to act.

### 1 Market crashes and recoveries have occurred before as part of investment cycles.

Morningstar has conducted a study of previous crises including The Great Depression, World War I and the Influenza outbreak, as well as the more recent Dot Com Bust and Global Financial Crisis. They found that each time the US market dropped by more than 20%, the market eventually recovered to new record highs. The varying factor is how long it took to recover.

Investment returns have bad periods followed by good periods. They may even experience some extended muted periods. The key therefore is to remain invested through the cycle and take advantage of good long term returns.

### 2 Retirement savings are intended for the long term.

As these investments are intended for retirement, it is important to understand that short term fluctuations are possible, but to keep focus on your long term objectives. Even if you are nearing retirement, you may still have a long-term investment horizon. This is because your retirement savings will still need to be invested during your retirement years.

### 3 Investments are well priced after a crash

As investment prices fall during a crash, it means that your monthly contributions have the opportunity to buy low-priced assets which will likely rebound over time.

### 4 Most importantly, never listen to the Fox who lets you think that the best thing to do is find cover.

The Fox appears when *fear overtakes reason* and incorrect decisions lead to potentially worse outcomes. If your investments are correctly structured to meet your long term needs, short term market losses should not result in fear.

## What to remember when the sky is bright?

In general, stock prices started recovering and the world is again expecting a return to growth. As a result, the “investment sky” has been looking pretty bright in recent months. Domestic equity returns over the 12 months to end March 2021 have delivered over 50% growth.

It is important to remember that this is the good part of the investment cycle, and that there is no guarantee how long it will continue. The key is that you now know that good cycles will be followed by bad ones and bad ones by good ones. Don’t focus on short term performance (be it good or bad), but rather the long term investment outcome for your retirement and ensuring that your investment strategy is suitable for your own individual needs.

For more information regarding investment returns of the SuperFund portfolios please consult the [website](#).