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Investment Newsletter

June 2018

The ABCs of retiring right

In this newsletter we look at the best way for Fund members to deal with difficult market conditions. We also show our usual snapshot of the SA economy / currencies, as well as how markets and your Fund's investments have performed on the second page.

The economy

Headlines:

- Consumer Price Inflation (CPI) was 4.5% over a 1 year period as at 30 April 2018
- The Rand closed at R12.58 to the US Dollar on 30 May 2018
- The Prime interest lending rate was cut from 10.25% to 10% at the end of March 2018.

Markets are volatile – moving up and down sharply over short periods of time, for most of 2018 so far.

International highlights

Global markets have stabilised after a rocky start in 2018. However:

- Fears of Italy leaving the Euro has caused global market uncertainty
- The USA has introduced increased trading tariffs which could spark a trade war, globally. The US has also increased interest rates. Both of these factors have affected the global economic outlook.

Local highlights

- Headline inflation has gone up, partly because of the 1% increase in the VAT rate from 14% to 15%
- The Rand started its fall at the end of April 2018, weakening 5.2% against the US dollar over the month (the Rand's weakest month since August 2016).

Comment on both International and local share markets:

- International political risks and strong global demand has caused an increase in international oil prices
- The SA share market usually gains when the rand is weak, due to companies that trade in overseas currencies which are listed on the SA share index
- Global shares also recovered in April 2018 after a weak start to the year, which supported gains in both local share and property markets
- Emerging markets' currencies are struggling as higher US interest rates make some investors shy away from investing in emerging markets (SA is an emerging market).

Even though investors' confidence in SA share markets improved after Cyril Ramaphosa became President of SA, Fund members have experienced some turmoil in the markets in the first few months of 2018. This has less to do with South Africa and more because of things that are happening overseas. Please remember that SA's share markets are affected by what goes on in global markets. Periods like this can be unsettling for Fund members. It's concerning when one's savings seem to lose value and it's even tempting to try to 'do something'. However, often the worst thing you can do is take action. This is because it's difficult to see now what will happen in future and how your investments will be affected.

Saving and investing for retirement – keeping on track

Saving for retirement is a long term process and it's important to have a growth investment strategy in place for your retirement savings when you are younger. Then you need to sit tight, keep your eyes on the long term and don't let your emotions take over. Of course, this is easier said than done so let's look at why it's better to stick to your long term growth strategy. Firstly, take a look at the retirement savings formula:

It's really simple. Your contributions plus the investment growth equals the pot of money you will have at retirement.

If you are relatively young, your fund credit now will be low and your future contributions represent a much larger part of your savings. The volatile market conditions right now only affect your current savings. Your future contributions may benefit from lower prices, as you will be investing them at the reduced prices. Secondly, even if you're older, your time horizon is not until retirement age but rather until death. So your time horizon is actually much longer than you may think.

Thirdly, as mentioned above, it is very difficult to predict what will happen to investments and prices in future. Trying to time the market is therefore not a good idea. Bear in mind that not only do you need to predict when to switch out of the share market, but also when to switch back in - you cannot remain on the sidelines forever or you will miss out on share market growth. There are lots of ways to try to time the market and some of them might even be successful, but getting it right consistently is hard to do and requires a lot of skill.

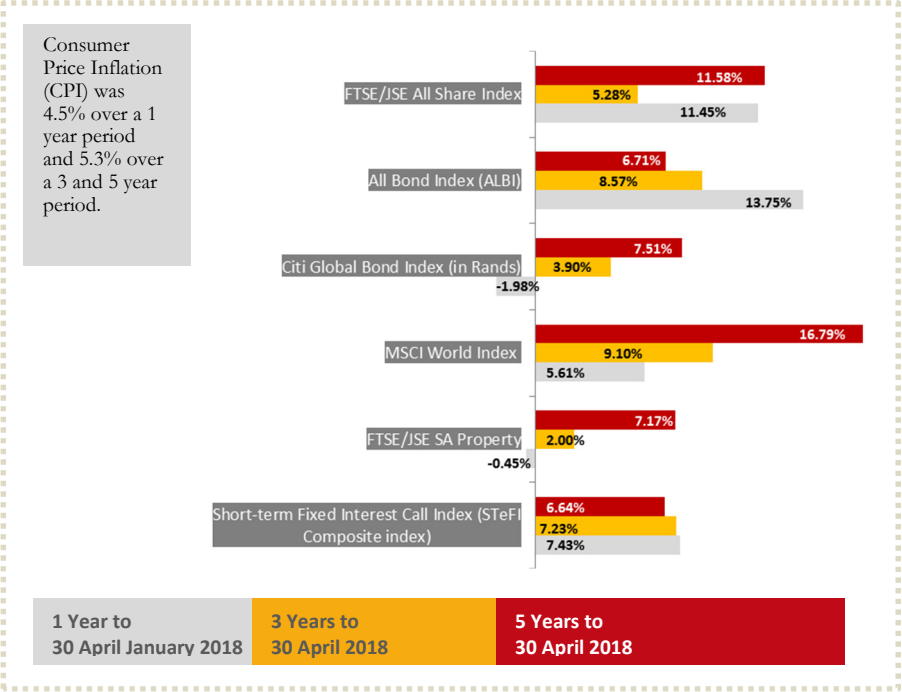
Lastly, remember that the stock market doesn't go up in a straight line, but it does go up over time. You can see this in the graph below:

The blue line goes up in the long term but there are some hiccups along the way – these are shown by the red bars, which show the years when there were negative returns. It's really important to not pay too much attention to the losses when they happen. Rather remind yourself that you are a long term investor and that volatility is actually your friend - your savings will go up in the long term.

*Provided by Old Mutual Asset Consultants

Volatility is part of the journey and is a part of saving enough money for a comfortable retirement, which cannot be avoided. This is because investments in cash, which offer a more comfortable ride, just don't deliver investment returns that beat inflation by enough of a margin to get us to where we need to be, at retirement.

Asset classes



Time weighted investment returns measure a single investment at the beginning of the period and then that same single investment at the end of the period. On the other hand, money weighted investment returns take into consideration time plus the Fund's cash flows, after investment costs.

Even though the share markets are volatile, they continue to give investment returns which are higher than inflation, over the long term.

Remember, "volatility" in relation to share markets means share markets move sharply upwards and downwards over short periods of time. On the other hand, cash investments will generally give returns slightly higher than inflation, over a similar period.

Our Fund's Investments

	..... Fund: ..... Portfolio	..... Fund: ..... Portfolio	..... Fund: ..... Portfolio
Investment Return: 12 months to 30 April 2018	%	%	%
Investment Return: 36 months to 30 April 2018	%	%	%
Investment Benchmark: 36 months to 30 April 2018	%	%	%
Difference between return & benchmark (36 months to 30 April 2018)	%	%	%

Notes:

The **return** earned by an investment portfolio is the actual gain or loss that portfolio achieved (over the period measured).

The **benchmark** for each investment portfolio is the "line in the sand" set by the Fund, which the investment portfolio should earn over time.

If the **difference** between the return and the benchmark is + (positive), your portfolio has done better than its benchmark.

the difference is – (negative), your portfolio has not performed as well as its benchmark.

Generally, Trustees will review investment portfolios that don't perform in line with or better than their benchmarks, measured over a 3 year period.