MEMBER COMMUNICATION
INVESTMENT UPDATE

Since the turn of the year, global financial markets have seen their worst declines since the 2008 Global Financial Crisis. Major stock exchanges around the globe have fallen in excess of 20%, signalling the end of the longest bull market that the globe has experienced on record (which coincidentally began in March 2009). The table below outlines some of the returns on global markets (up to Monday, 16 March 2020).

Portfolio	Since 1 Jan 2020	1 year
SA Equity (FTSE/JSE All Share Index) [in Rands]	-29.1%	-27.4%
US Equities (S&P500) [in US Dollars]	-26.1%	-15.0%
UK Equities (FTSE 100) [in Pound Sterling]	-28.8%	-25.1%
Japan Equities (Nikkei) [in Yen]	-28.1%	-20.1%
German Equities (Dax 30) [in Euro]	-34.0%	-24.6%

In order to try and help you understand the uncertainty, let's begin with understanding the factors that have influenced recent events so that we can position ourselves for growth into the future.

What has happened globally?
While slowing global growth has been a feature of markets leading into 2019, 2 main events appear to have been the catalysts for the current market rout.

1. ***Oil price stand-off***

   The price of oil plunged to below $30 per barrel after OPEC (The Organisation of Petroleum Exporting Countries) failed to agree a production deal with Russia, and reduced its price aggressively to boost market share. This standoff resulted in a vicious global market sell-off, with investors already on edge due to the Corona Virus.

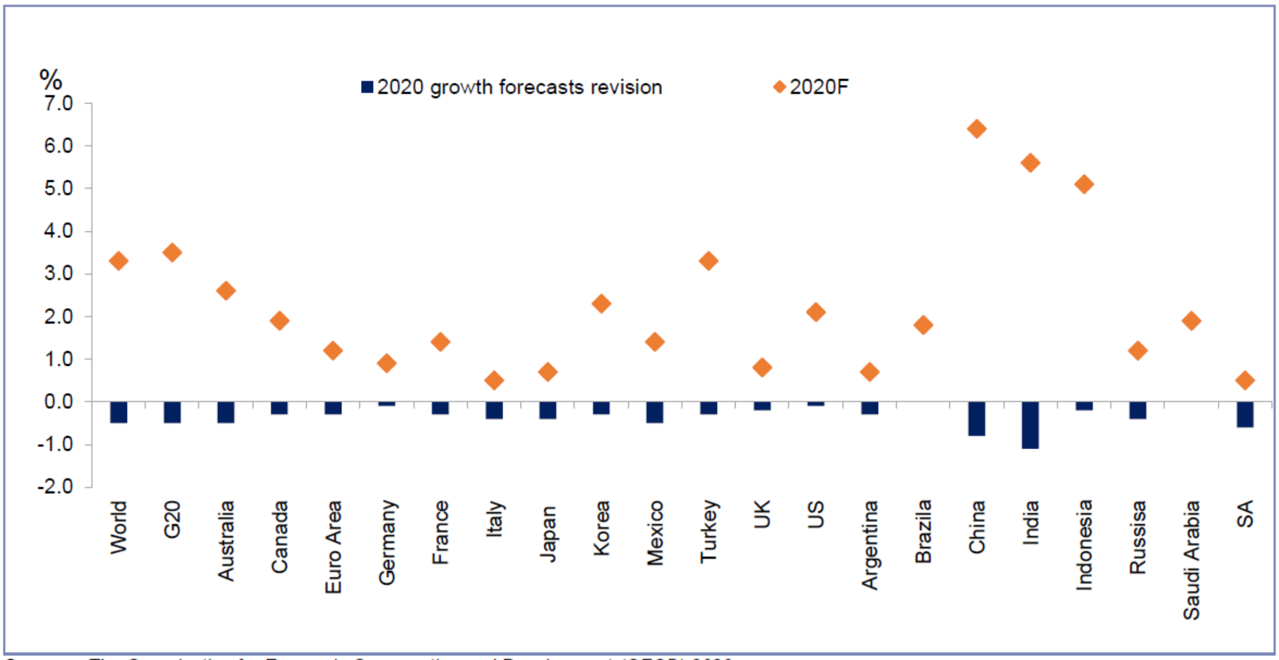
   One of the local casualties of this price collapse was Sasol, historically one of the largest companies on the JSE, as it shed 46% in a single day. It reached a low of R28.67 per share on 12 March 2020, a 95.6% fall from its all-time high in mid-2014, and represents a dramatic fall from grace for one of the previous darlings of the JSE. Sasol's recent difficulties emanated from a spiralling debt situation and an embattled Lake Charles Chemical Project in the United States as its ambitions of transforming into a global petrochemicals player stuttered. However, its fortunes still remain inextricably linked to the oil price, and this "perfect storm" has brought the company to its knees.

2. ***Corona Virus***

   On 11 March 2020, the World Health Organisation (WHO) declared COVID-19 ("Corona Virus") as a pandemic, as the number of new infections and deaths outside of China continued to escalate exponentially. President Ramaphosa followed on 15 March 2020 by declaring a national state of disaster in South Africa and imposing radical measures to curtail the movement of people and large gatherings. The measures appear to be more extensive than those imposed by other countries to proactively limit the spread of the pandemic. While these 2 actions will in all likelihood result in amplified stress on the local economy, they are necessary to safeguard the health of South African citizens and will meaningful mitigate the long-term impact on South Africa.

   Indications suggest that the Corona Virus is worse and more contagious than the flu, meaning that it is likely going to influence our lives for an extended period of time. The associated impact on economic growth will be damaging, and will negatively affect financial markets over the short to medium term.

   The economic impact of COVID-19 will be larger than other similar virus outbreaks
   Initially, the market impact of COVID-19 was assumed to track the 2002/2003 Severe Acute Respiratory Syndrome (SARS) outbreak, and more recently the Saudi Arabia oil refinery bombing as well as the killing of the Iran Army General, Qassem Suleimani. In all these cases, analysts assumed that the market impact would be transitory and localised, and that a solution would be found quickly. However, COVID-19 is different in that a non-financial shock (just like other viral outbreaks) is causing sudden stops in consumer activity, corporate activity and financial markets, unlike other viral outbreaks in the past. The chart below shows the Organisation for Economic Co-operation and Development has slashed growth forecasts for 2020 across the G20 countries. Economic forecasters should revise their economic growth expectations lower. Even if they find a solution to the virus today, the impact will crystallise in the economy. Expectations of a global recession have surfaced and they continue to gain momentum.



Sources: The Organisation for Economic Co-operation and Development *(OECD) 2020*

How does this affect my retirement fund investments?
The confluence of market (black swan) events has precipitated the most violent fall in global and local investment markets experienced in arguably the past 3 decades. And this at a time when global economic growth has been stagnating, and SA's economic growth non-existent.

Most retirement fund portfolios, within the boundaries imposed by Regulation 28, typically have a large exposure to global equity markets, which have dropped significantly. It is also important to remember that retirement fund portfolios are not fully exposed to equity market volatility due to the diversification inherent in such portfolios by design and the limitations of Regulation 28. While retirement fund portfolios have a long-term orientation (up to a 40 year time horizon), it does however mean that significant negative returns have been experienced in most retirement fund portfolios.

Investors close to retirement with a much shorter time horizon should typically have aligned their pre-retirement investment with their post retirement annuity option. For a retiring member purchasing a life/guaranteed annuity post retirement, the member would have moved their portfolio into a more conservative investment strategy would have shielded them from some of the market turmoil. For a retiring member purchasing a living annuity post retirement, they are comforted by the fact that they will move from a depressed market into a depressed market and that over the longer term, their portfolios should recover.

What should I do as a retirement fund investor?
The Corona Virus is a massive humanitarian crisis that implores us to focus on factors that we can control – and not those that we can't. Behavioural changes – such as extreme personal hygiene and social distancing - is the key lever in containing the spread of the disease, and much of the measures put in place rely on people consistently doing the right thing.

And similarly, in managing one's retirement fund portfolios, let's focus on the factors within our control, rather than those we can't. Most investment portfolios are constructed using sensible investment principles such as diversification, rebalancing, and the adoption of a long-term approach. These are factors within the investors' control, and have in the past proven to be the most effective antidotes to unpredictable financial markets and irrational human behaviour

According to behavioural economics theory, such short-term market declines have the potential to stimulate a human emotion – fear- that can lead to incorrect panic-stricken decisions in turbulent times. Panic is not only unhelpful, but also unwarranted – in dealing with both with the Corona Virus and with one's investment strategies. Making short-term panic decisions, such as switching investment portfolios or attempting to time the market, is precisely a strategy to destroy long-term value.

By remaining focused on the long term and executing on one's investment strategy, retirement fund investors give themselves the best chance of securing a comfortable retirement.

Economist are realistic around the challenging short-term prospects for global markets. But also remain unwaveringly optimistic for the long-term, and resolute in delivering financial resilience to their investors.

Source: Sanlam & Alexander Forbes