How to Look After Your Retirement saving in a time of a Crisis

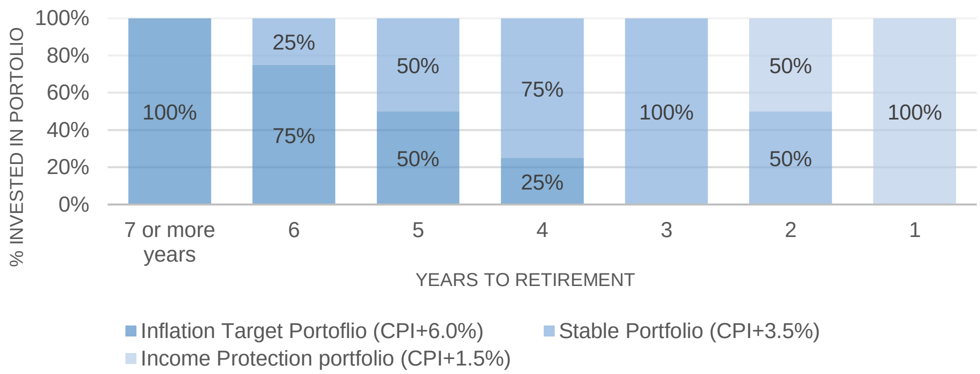
These are especially tough times. Many people are fearful and anxious about their health and that of their loved ones, as well as possibly their jobs - and on top of this, many Fund members will be deeply concerned to see the value of their retirement savings falling at the same time.

Such fear and anxiety are entirely understandable, and in many instances, it helps us to make immediate decisions. But sometimes problems are so complex that we need to pause and think about what the best solution may be. In working out that solution, you need to consider the evidence. After looking at the evidence, you need to decide on your course of action. Of course, it is critical that you are comfortable with whatever decision you make.

Now let's consider the evidence around your investments.

How are your retirement savings invested?

First and most importantly, you need to know how your retirement savings are invested. The University of South Africa Retirement Fund operates a life stage model as the basis of investment for members that feel that they do not know enough about investments to choose their own strategy. Most people feel this way and almost all of the members in the Fund have their money invested according to the life stage model[1].



[1] The life stage model of the Fund is designed based on the member's normal retirement age of 65 except in respect of USAf members and disability income claimants until 30 June 2015 for whom normal retirement age is age 60. Members can also elect the life stage model with a retirement age of 55 or 60.

It is best to check where your retirement savings are indeed invested, but you can see from this chart that if you are in the life stage model and very close to retirement then some or most of your money will be invested in the Income Protection Portfolio, which is largely unaffected by the current declines in share prices.

If, however you are more than six years from retirement then your retirement savings will be fully invested in the Inflation Target Portfolio. This is the Fund portfolio that has been most negatively affected by the fall in share markets, but at the same time it is important to take stock of the fact that you still have a long period of time before you are expected to retire, and there is reason to believe that your savings can recover from the recent losses with this long time horizon.

Other members in the default strategy will be in the period leading up to retirement when a portion of your retirement savings is invested in the Stable Portfolio. This Portfolio has some exposure to share markets, but this is smaller than for the Inflation Target Portfolio, and as such, the impact of the recent market falls is significant, but not as severe as for the Inflation Target Portfolio.

How bad is the impact on investment returns?

The table below sets out the returns earned on the Fund's three investment portfolios in 2020 to 31 March 2020.

Period	Inflation Target Portfolio	Stable Portfolio	Income Protection Portfolio
January	1.4%	1.5%	0.8%
February	-5.3%	-3.0%	0.6%
March	-9.8%	-5.5%	0.5%
Year to date	**-13.5%**	**-6.9%**	**1.9%**

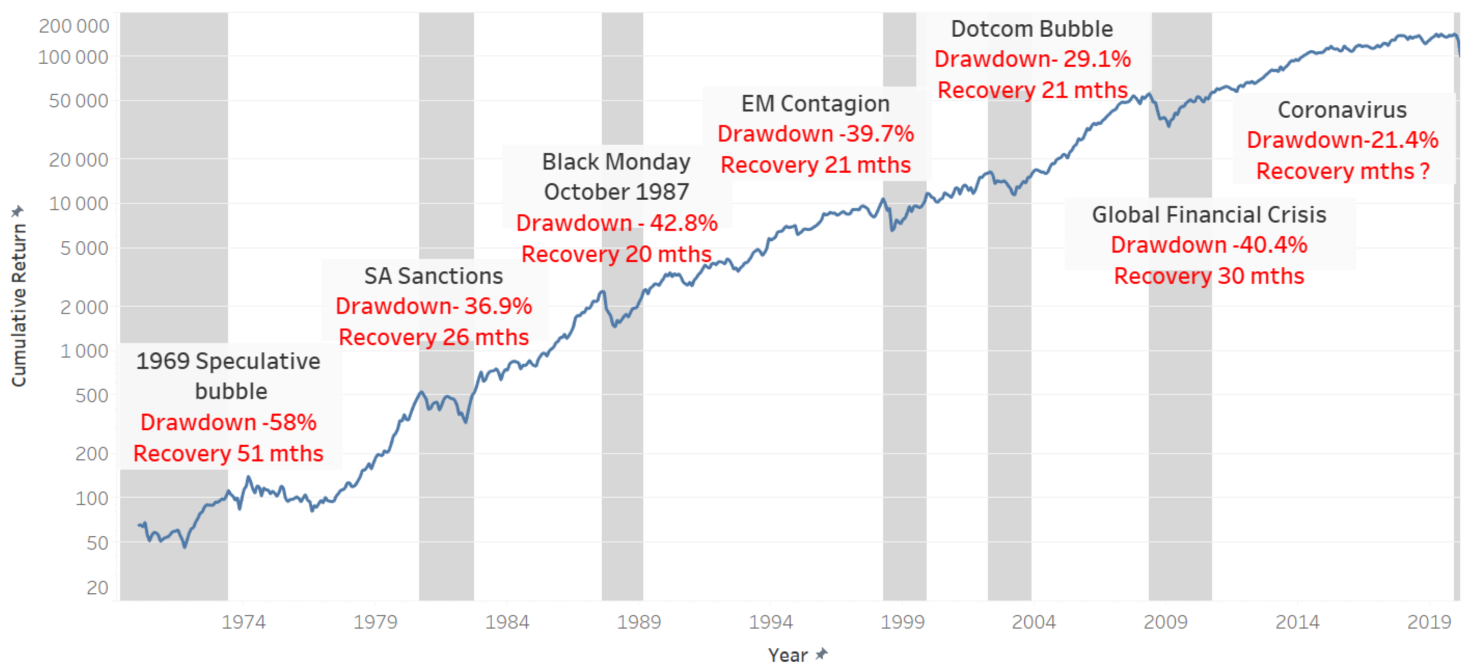
It is evident from the above that the recent share market falls have had a very negative impact on the investment returns for the Stable Portfolio, and in particular the Inflation Target Portfolio.

Investment markets are likely to recover

In order to target, a high level of investment return over long periods (such as is targeted by the Inflation Target Portfolio) you need to invest a large proportion of the portfolio in shares. However, share prices are volatile, and inevitably, there are times when share prices fall a lot, causing the very fear and anxiety that you may be experiencing today.

Nevertheless, so far, the market has always recovered from such "crashes" and in time moved to new highs. The chart below shows the market crashes of the Johannesburg Securities Exchange ("JSE") share index during the last 51 years. This somewhat unusual period was chosen to include the market slump of October 1969, which is the worst decline on record. For each crash, the chart shows the extent of the "drawdown", i.e. the negative return on the share market index caused by the crash, and the recovery period in months for the index to get back to this level (it does not allow for the effect of inflation, which would make the recovery longer).

Market crashes 1969 - 2020



Should I switch into cash and then get back into the share market at the right time?

Even though the evidence is that markets have always recovered after a slump, you, like many others, may still be discomforted by the reality that there is no guarantee that such a recovery will indeed happen. Your immediate instinct may be to take your money out of the Inflation Target (and Stable) Portfolios and move to the Income Protection Portfolio, with the aim of re-investing it later when things are clearer.

Whilst this seems like a sensible approach when markets are falling, the big challenge you will have to overcome is to decide when to put your money back into the market. You must remember that the bottom of the market happens when share prices are at their cheapest and when nobody wants to buy

Shares because of the negative sentiment. This means that you would need to put your money back into the market when everyone else thinks it is a bad idea. To do so will be very difficult (and some would argue impossible).

The other important point is that a significant part of the recovery can happen very quickly after the market reaches its lowest level. The table overleaf demonstrates the point – it shows for each crisis the date when the market bottomed, how many months it took to recover the loss and the two months, which delivered the highest return in the recovery period.

Crises	1969 stock market bubble	Sanctions against SA	1987 Black Monday	Emerging Market contagion	Dotcom bubble	Global Financial Crisis
Date when market bottomed	Oct-71	Jun-82	Feb-88	Aug-98	Apr-02	Feb-09
Months it took to reach the bottom	31	22	7	5	13	10
Your loss at the bottom of the market	-58.0%	-36.8%	-42.6%	-39.7%	-29.1%	-40.4%
Months it took recover your loss	20	4	13	16	8	20
Best month return in recovery period	12.1%	17.8%	11.2%	14.6%	14.1%	11.0%
No. of months this happened after bottom	2	1	13	2	1	1
2nd best month return	11.7%	16.7%	11.1%	13.3%	9.8%	10.3%
No. of months this happened after bottom	1	2	1	16	6	3

For instance, in the Global Financial Crisis, the market bottomed in February 2009, but it had made up its loss by the end of October 2010 or 20 months later. In March and May 2009, the market was up 11.0% and 10.3% respectively. Clearly if you did not get your money back into the market just soon after, it bottomed, it would have taken you an even longer period to make up your loss.

The shaded rows on the previous page highlight the importance of putting your money back into the share market at the time when most other investors would be too anxious to do so. Except for the 1987 Black Monday episode, you had to get your money re-invested at most two months after the market bottomed. Do you think you can call the bottom of the market and be so brave?

So, if you switch your retirement savings into the Income Protection Portfolio now, you are assuming that the market could still go down a lot. If the market continues to fall – and of course there is no guarantee that it cannot fall a lot further – then it may for a while feel as though you have made a good decision, but you will also have the stress of knowing that at some time you must switch back into the other Fund investment portfolios if you wish to achieve your long-term investment goal.

What should I be doing?

The key messages from the above are:

1. Check where your retirement savings are invested. If you are very close to retirement age and your money is invested according to the life stage model, the coronavirus market slump is likely to have had less impact on your money as some/most of your retirement savings will be invested in the Income Protection Portfolio. However, most members will have their money invested in the other Fund portfolios, where losses have been incurred. For these members the next two points are important.

2. The history of markets shows that the share market has always recovered and made up its losses after previous market crashes, although this outcome is not guaranteed.

3. A sharp fall in markets such as we are experiencing, together with the uncertainty as to whether they will recover, leads many investors to consider switching into cash (i.e. the Income Protection Portfolio) with the idea that they will then go back into the market when things are clearer. The Trustees believe that this approach is extremely difficult to implement. This is because the time when the market is cheapest is the point when almost all investors are most fearful. To reinvest at this point would therefore require you to re-enter the market when most others think that this is a dumb idea.

The above suggests that most members should not change their investment strategy in reaction to the current market falls. However, investments are not only about academic thinking, how you feel about your investment is also very important.

If, after considering the evidence, you are still fearful and anxious about how your money is invested then it could be better to do something. In this way, you reduce your anxiety and if the market falls further, at least you have taken some action.

Maybe you can do something simple like investing your future retirement savings contributions into the Income Protection Portfolio or allocating a small percentage of the money you have invested in the

Inflation Target Portfolio to the Stable or Income Protection Portfolio. If you have a financial advisor, it may be worth getting their guidance. If you decide to do this, you must pencil in to review your decision in at most 12 months' time. Note a member entitled to the minimum benefit underpin at retirement will forfeit his benefit if he or she becomes an "own choice" member but retains the underpin benefit if he or she elects a life stage model with a retirement age different from his or her normal retirement age.

In conclusion

This is the toughest of times, with so many things to worry about. The Trustees hope that this communication has lifted some of the load as to how to approach the investment of your retirement savings in this time of crisis.

Most importantly, the Trustees would like to extend their sincere wishes to all the Fund's members and your families and friends at this difficult time. Please continue to focus on your safety and let us all come through this experience together.