NJMPF Investment Feedback 2019

Your Fund, Your Savings, Your Future

FUND INVESTMENTS

The Board invests the Provident Fund assets in line with the Investment Policy Statement. The Fund aims to achieve investment returns of 5% above inflation over the medium term. In this way the savings of members will grow to accumulate a good retirement benefit, which more than keeps track with the costs of living.

The Fund has achieved excellent investment returns – at the Members' Meeting this year the actuary reported that, over the last 18 years, an investment of R100 would have increased to R1,050, an increase of 14% per year, which is significantly more than the average inflation of 5.7% over the same period.

The Board has also won a number of awards for its investment strategy and processes, confirming that your investments are well looked after.

SMOOTHING OF INVESTMENT RETURNS

The Fund also aims to prevent members from experiencing very volatile investment returns. To do this the Fund's investment returns are "smoothed" by declaring a "bonus" every quarter. These bonuses are less volatile than the underlying investment returns, which can fluctuate widely from month to month. As part of this process the Fund also holds an Investment Reserve, which acts as a buffer in times of poor investment returns. To prevent members who exit the Fund from being disadvantaged, all members who leave the Fund get their proportionate share of the Investment Reserve.

In the past 16 years investment returns have been negative for 59 months (out of the 192 months), whereas the Fund only had to declare a negative bonus in 2 of those months. The smoothed bonus philosophy means that members are less exposed to the fluctuations of the stock markets. This is especially useful to members who are close to retiring and want to understand what level of income they can expect to receive. The retirement benefit of such members will be far more predictable with this method than in a fund where monthly returns are declared based on actual investment returns earned.

INVESTMENT MARKETS HAD BEEN UNDER PRESSURE

Some members may be concerned with the weak investment returns earned by the Fund of late. It should be noted that our Fund is not alone in this and other retirement funds are in the same position. The South African and global investment markets are going through a period of low growth.

During 2018, none of the ten portfolios monitored by the Global Large Manager Watch, a well-known survey of South African investment funds, managed to achieve a positive return. Over the past 5 years, only global equities and global listed property have achieved returns in excess of the Fund's objective of inflation plus 5%. The major asset classes such as SA equities, SA listed property and SA inflation-linked bonds have all underperformed compared to bonds and cash.

Due to this pressure on the portfolio, the Investment Reserve was reduced in January 2019. This enabled the Fund to avoid declaring negative bonus rates, so that member benefits did not reduce, even when investment returns were negative.

INVESTMENT STRATEGY

In difficult times in the investment markets the question always crops up: "will it not be better to be invested in cash, where we do not get negative returns?" The answer is that such safe investments will lead to much worse results for members in the long term.

The Fund aims to achieve investment returns which are sufficiently higher than inflation to provide good retirement benefits to members. In order to achieve this, the Board sets a long-term strategy, which is reviewed annually. Even though some other assets may perform better in the short-term, experience has shown that one should not base investment decisions on short-term experience. Long term experience suggests that a considerable amount of any retirement fund's assets should be invested in equities, as can be seen in the table below:

Period up to 30 Jun 2019	Inflation	Investment returns in excess of inflation		
		SA Equities	SA Bonds	SA Cash
10 years	5.2%	8.3%	3.7%	2.5%
20 years	5.6%	9.1%	5.5%	3.5%

It was mentioned earlier that an amount of R100 would have grown to R1,050 over the last 18 years. Investments in cash would have given a member less than half this amount over the same period. This illustrates the value in the consistent long-term strategy that the Board is following.

SUMMARY

The Board regularly reviews its investments and keeps a very close eye on its investment managers, to ensure that they achieve the best possible investment returns.

The investment philosophy of the Board and the smoothing structure combine to provide members with a relatively stable, though still very competitive long-term return. The Board is confident that this will be beneficial to members, even through these difficult investment times.