# COVID-19 "CORONAVIRUS" EPIDEMIC:
# HOW TO LOOK AFTER YOUR RETIREMENT SAVING IN A TIME OF A CRISIS

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Dear Living Annuitant

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 Cape Municipal Pension Fund ("CMPF") 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, they help 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 is your Living Annuity Account invested?

First and most importantly you need to know how your Living Annuity Account is invested.

It may be that some or most of your money will be invested in the Money Market portfolio, which is largely unaffected by the current declines in share prices. You may also have some money invested in the Stable portfolio which offers some (but not complete) guarantees against market losses.

If however you have significant investments in the Market portfolio or the Shari'ah portfolio, you will be feeling some pain as a result of the recent market falls.

## How bad is the impact on investment returns?

The table below sets out the returns earned on the CMPF's five investment portfolios for the 2020 financial year, up to 31 March 2020.

**Table 1: Investment returns July 2019 to March 2020**

| | Market Portfolio | LEB Portfolio | Money Market Portfolio | Stable Portfolio | Shari'ah Portfolio |
|---|---|---|---|---|---|
| July 19 | -0.38% | 0.61% | 0.75% | 0.29% | -0.5% |
| August 19 | -0.03% | 1.09% | 0.73% | 0.15% | 0.79% |
| September 19 | 1.28% | 0.86% | 0.68% | 0.05% | 0.28% |
| October 19 | 1.52% | 1.09% | 0.72% | 0.15% | 1.88% |
| November 19 | -0.68% | -0.20% | 0.67% | 0.12% | -0.78% |
| December 19 | 1.48% | 0.68% | 0.70% | 0.33% | 0.60% |
| January 20 | 1.18%% | 1.85% | 0.73% | 0.34% | 0.96% |
| February 20 | -4.82% | -1.49% | 0.61% | 0.55% | -3.63% |
| March 20 | -11.75% | -6.09% | 0.58% | 0.38% | -5.67% |
| **2020 year-to-date[1]** | **-12.28%** | **-1.82%** | **6.32%** | **2.38%** | **-6.13%** |

It is evident from the above that the recent share market falls have had a very negative impact on the investment returns for the Market Portfolio and Shari'ah Portfolio. There has also been a negative impact on the LEB portfolio, though not as severe as the Market and Shari'ah portfolios.

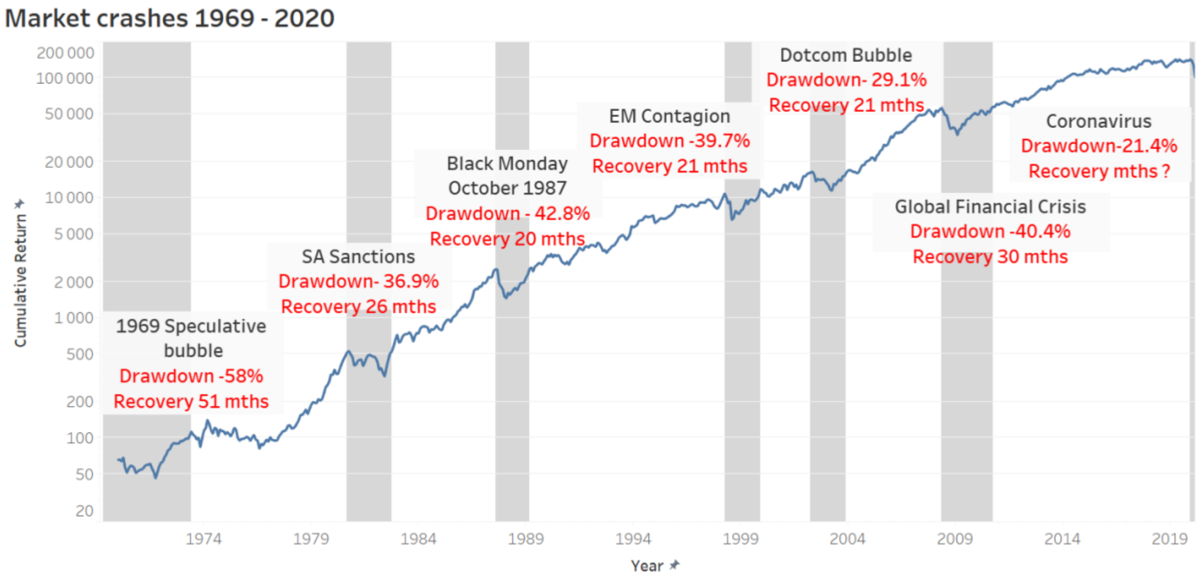
## Investment markets are likely to recover

Portfolios like the Market and Shari'ah portfolios have a large proportion invested in shares, in order to target a high level of investment return over long time periods. 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, if you are invested in these portfolios.

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).

[1] Differences may occur due to rounding

**Chart 1: 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.

If you have amounts invested in the Market portfolio (or Shari'ah portfolio), and perhaps even the LEB portfolio, your immediate instinct may be to take your money out and move to the Money Market portfolio, with the aim of re-investing it at a later date 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 an unwise decision. 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 below 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.

**Table 2: Time markets take to reach the bottom, recovery time and best two months**

| 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 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 money from the Market portfolio (or Shari'ah portfolio) into the Money Market 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 CMPF investment portfolios if you wish to achieve your long-term investment goal which is to ensure you have sufficient money in your Living Annuity Account to last your life time.

## What should I be doing?

The key messages from the above are:

1. Check where are actually invested. If you are all or mainly invested in the Money Market and/or Stable portfolio, the current market slump is likely to have had less impact on your money. However, some living annuitants will have money invested in the other CMPF 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 Money Market 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 bad idea.

The above suggests that most living annuitants 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 does fall further, at least you have taken some action.

Maybe you can do something simple like switching a small percentage of any money you have invested in the Market portfolio to the Money Market 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 at the time of your annual re-election (in at most 12 months' time). Trustees are also considering further ways to assist living annuitants and will be communicating further.

If you do not wish to disinvest from the Market portfolio at this time and you have some money invested in the Money Market or Stable portfolios, you can choose to change the portfolios from which your pension payments are drawn, so that less comes from the Market portfolio. This means that you will only be changing the portfolio(s) you are drawing down from. For further information on this option, please send an email to lsavahl@capefund.com.

As things stand, the law does not allow you to change your income drawdown percentage more than once a year, so if you have recently revised your drawdown you will not be able to change this until your next renewal date. Meanwhile, if you are able to reduce your expenditure, you can of course save any income (that is beyond your current needs) outside the CMPF.

This may also be a time to consider converting your pension to a "life annuity" (fixed or inflation-linked pension). For quotations from the CMPF on its life annuity (inflation-linked) pension and for further information on the CMPF's in-fund life annuity, please contact a consultant at the Fund or send an email to lsavahl@capefund.com.

At your next renewal date, you should review your position, as regards both your CMPF savings (and any other investments you may have) and your income needs.

## 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 CMPF living annuity pensioners 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.

**Disclaimer**

This communication has been prepared by the Board of Trustees of the Cape Municipal Pension Fund. It aims to highlight some of the factors members should consider in deciding on their investment strategy. It does not constitute advice by the Board of Trustees and any of its service providers. Furthermore, no guarantees are provided in terms of performance and past performance is not necessarily a good predictor of future performance. Members are strongly encouraged to seek advice from a duly licensed financial advisor when considering their investment decisions.