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

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Dear Members

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.

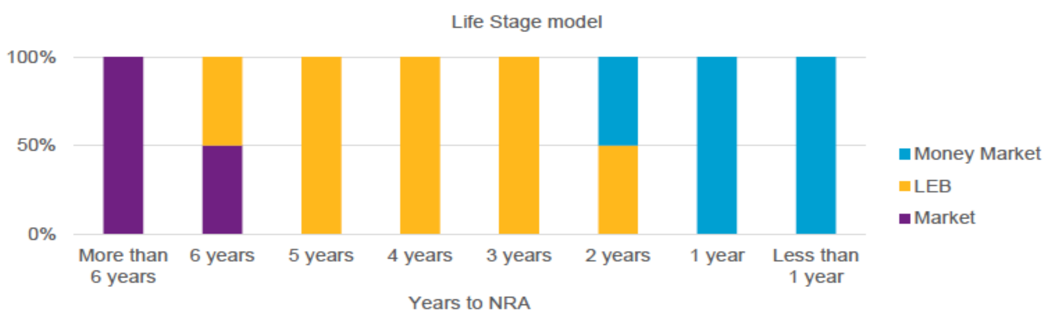
After looking at the evidence you need to decide on your course of action. Of course it is critical that you are comfortable with whatever decision you make.

Now let's consider the evidence around your investments.

How are your retirement savings invested?

First and most importantly you need to know how your retirement savings are invested. The Cape Municipal Pension Fund operates a life stage model as the basis of investment for in-service members who feel that they don't know enough about investments to choose their own strategy. Many people feel this way and a significant proportion of the CMPF members have their money invested according to the life stage model – but a large number of members have decided to make their own investment choices.

Chart 1: The Fund's life stage model[1]



[1] Members in the Old Life Stage Model will have 100% invested in the Money Market portfolio. How do you know if you are in the Old Life Stage Model? If you were age 62 or older in March 2019, you are in the Old Life Stage Model. The Old Life Stage Model operated on the basis that members are transitioned from the Market Portfolio to the Money Market Portfolio (Cash) in five stages, starting at age 53 and completing at age 57. Therefore, you are already invested 100% in the Money Market portfolio and are reasonably unaffected by the current declines in share prices.

It is best to check where your retirement savings are indeed invested, but you can see from this chart above 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 Money Market Portfolio, which is unaffected by the current declines in share prices.

If however you have not yet reached the year in which you turn 59 (i.e. more than 6 years to normal retirement age of 65) then your retirement savings will be fully invested in the Market Portfolio. This is the CMPF 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 fairly long time horizon.

Of course, if you are close to retirement and you have chosen to be fully invested in the Market Portfolio or the Shari'ah Portfolio, rather than following the life stage model, you will feel some pain as a result of the market falls.

Important note: Trustees have temporarily suspended the life stage switches out of the Market and the LEB Portfolios. The trustees believe that a life stage switch at end March/1 April will inevitably crystallize (and lock in) major losses incurred in these portfolios for March 2020. The trustees are considering spreading the switch over 12 months, as opposed to a single transaction, to limit the impact on members under transition. The Fund will issue further communication once this is in place.

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[2]	**-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.

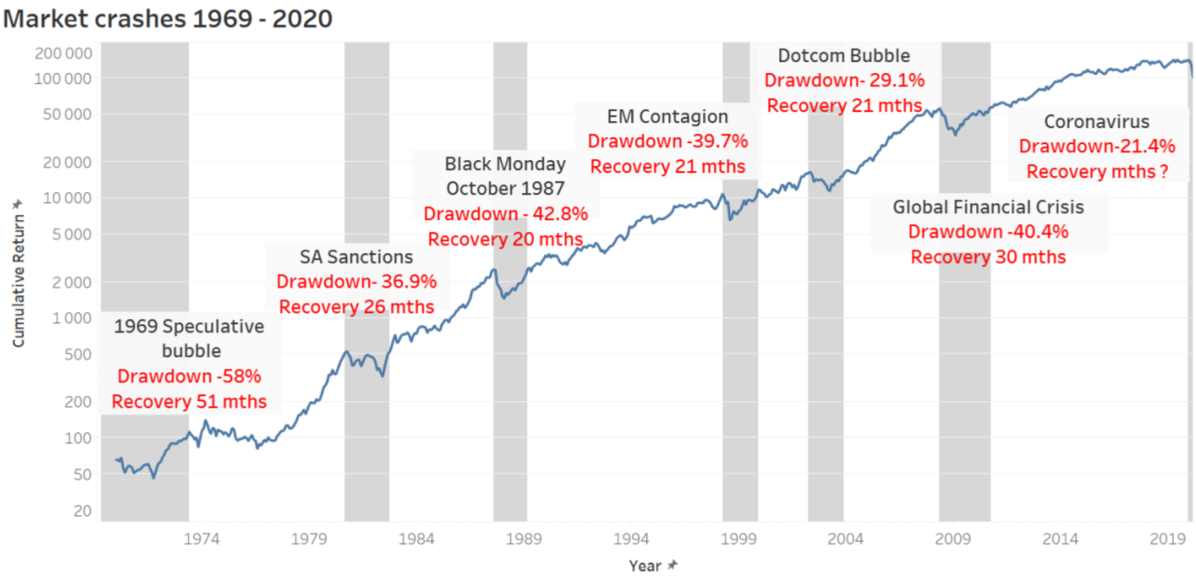
[2] Differences may occur due to rounding

Investment markets are likely to recover

In order to target a high level of investment return over long time periods (such as is targeted by the Market and Shari'ah Portfolios) 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 are 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).

Chart 2: 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 Market Portfolio (or Shari'ah Portfolio) and move to the Money Market Portfolio, with the aim of re-investing it 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 a stupid 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 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 your retirement savings 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.

What should I be doing?

The key messages from the above are:

1. Check where your retirement savings are actually invested. If you are very close to retirement age and your money is invested according to the life stage model (or if you made your own choices and decided to invest quite conservatively, i.e. in a portfolio with little or no exposure to share markets), the current market slump is likely to have had less impact on your money as some/most of your retirement savings will be invested in the Money Market and/or Stable Portfolios. However, most members will have their 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 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 does fall further, at least you have taken some action.

Maybe you can do something simple like investing your future retirement savings contributions into the Money Market Portfolio or 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 in at most 12 months' time.

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'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.

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.