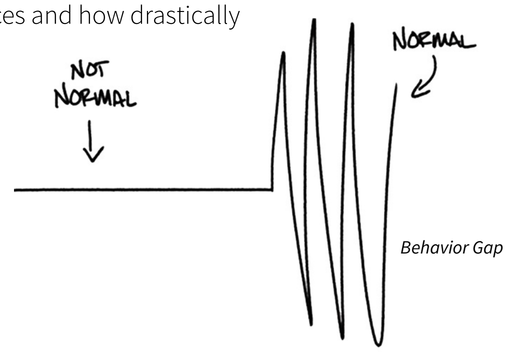
HOW TO INVEST DURING TIMES OF MARKET VOLATILITY

March 2019

We live in a world characterised by volatility, uncertainty, complexity and ambiguity (VUCA) - an acronym Alexander Forbes Investments adopted as part of our language to reflect the current and anticipated investment environment.

Volatility represents upward and downward movement of asset prices and how drastically they could swing.



Market volatility makes members anxious. The reality is that it's 'normal' for investments to come with some risk and market volatility.

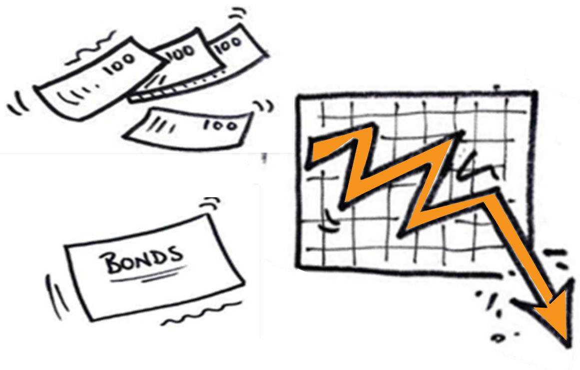
Members are currently confronted with market volatility that has been somewhat absent since the 2008 global financial crisis.

In addition, members are continuously bombarded with breaking news on new crises.

These include:

- Geopolitical concerns
- Trade tensions
- Risk of faltering global economic growth
- Debt crisis

The list goes on...

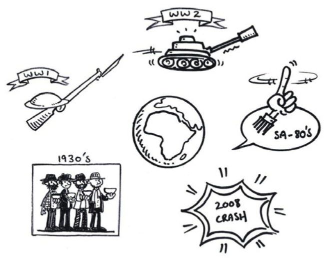


Therefore it's no surprise that investors panic, so they tend to switch into defensive assets, such as cash and bonds. This might seem like a good idea in moments of panic, but it may destroy investment values.

Statistics show that although defensive asset classes have more stable returns over the shorter term, they have a lower likelihood of beating inflation in the long term.

Despite the noise, it's important to remember that markets are cyclical.

Historically, we've seen markets recover to provide inflation-beating returns. Staying invested, even when performance is low, may be beneficial to investments. Remember that long-term investment strategies normally take into account short-term volatility.



Case in point: from 1900 to present, South Africa witnessed many crises…

WWI and WWII	**The Great Depression of the 1930s**	**PW Botha's Rubicon speech of the 1980s**	**The global financial crisis in 2008**

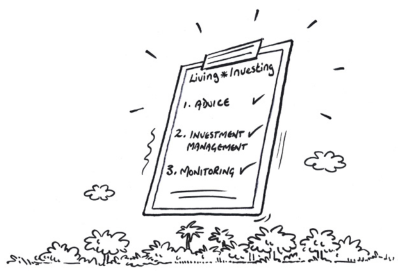
Despite these crises, South Africa delivered better equity market returns from 1900 to 2018, than many other markets, beating countries like Australia and the United States.

So, while the headlines continue to evoke fear, and investors become increasingly worried about their savings, remember that there are periods of contraction (recession) and recovery (growth) in every economy.

We remind you not to let fear take flight as this leads to irrational actions with undesirable outcomes.

During times of heightened volatility and unpalatable returns, an investment approach that focuses on your long-term objectives is critical.

We continuously work to implement solutions that are positioned to manage your experiences, comfort levels and behavioural biases, through different market cycles. We do this through our unique adaptive investment approach - Living*Investing™.



Don't let your emotions get in the way of your long-term success.

The secret is to remain committed to your long-term objectives, which may mean not taking your savings out of the market, or altering your investment.

FAQS

What is a low-return environment?

An environment in which investment performance is not expected to beat inflation to the same extent it has in the past.

How should investors manage their savings during times of market volatility?

We encourage you to remain patient. The pain of loss is felt twice as much as the pleasure derived from gains. It's this fear of loss that often causes investors to sell after markets have dropped. This locks in the losses that have already been incurred.

Investor Do's and Don'ts

Do consider remaining invested – always consult a financial adviser or consultant to ensure your investment is still on track to meeting your objectives.

Don't panic – don't attempt to time the markets and don't focus on the short term.

Cash delivered the best return over the last year. Should investors consider switching their savings into a cash portfolio?

It's important to remember that different asset types behave differently over time and during different market cycles. Growth assets, like equity and property, look to achieve an investment return that outperforms inflation. Defensive assets like cash and bonds, on the other hand, look to achieve more stable returns relative to growth assets.

Although switching into cash or other defensive assets may seem like a good idea, such asset classes have a lower likelihood of beating inflation in the long term. The desire to achieve inflation-beating returns over the long term, should be balanced with a complementary mix of growth and defensive assets. This should be guided by your investment objectives.

How are savings protected from investment risks?

The secret is in knowing how to manage the risks. During periods of volatility, it's important to spread investment risk across various investment types and sectors, locally and internationally. This is known as diversification.

How are our investors' portfolios positioned to deal with market volatility?

Our portfolios have been structured to be robust and well positioned to deal with risk.

They are:

- invested in companies that earn a large portion of their profits overseas, which provides protection against rand depreciation
- diversified across multiple asset classes, strategies and investment managers
- exposed to fixed income assets, like bonds with shorter maturities, which helps in minimising interest rate risks
- allocated to as much as 30% offshore for further diversification
- invested in alternative assets, such as hedge funds and private markets, in response to the anticipated low-return environment

What role do alternative assets play in an investment portfolio?

Alternative investments provide an opportunity to spread investment risk, as well as capture different sources of investment return. They have a strong alignment with the long-term investment horizon of retirement funds. By including alternatives, investment portfolios increase their possibility of achieving long-term success, although the risks may be increased.

Does market volatility really create opportunities?

We love shopping when goods are on sale, but it's strange how our instincts differ when it comes to our investments.

A decline in investment returns often results in investors reacting irrationally, selling or switching their investments. However, it's during these periods that investors can afford to purchase a greater stake in their investment portfolio, for the same rand contribution or investment. This may lead to better returns in the future, because it may be the best time to invest.

You should consider all the options available to you to meet your long-term investment objective. Every investor is different, which means investment strategies should be tailored to meet personal needs and objectives. There is no one size fits all. This should be done with the assistance of your financial adviser.