The journey

momentum
consultants & actuaries

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Investments
Understand what you're targeting and stay invested

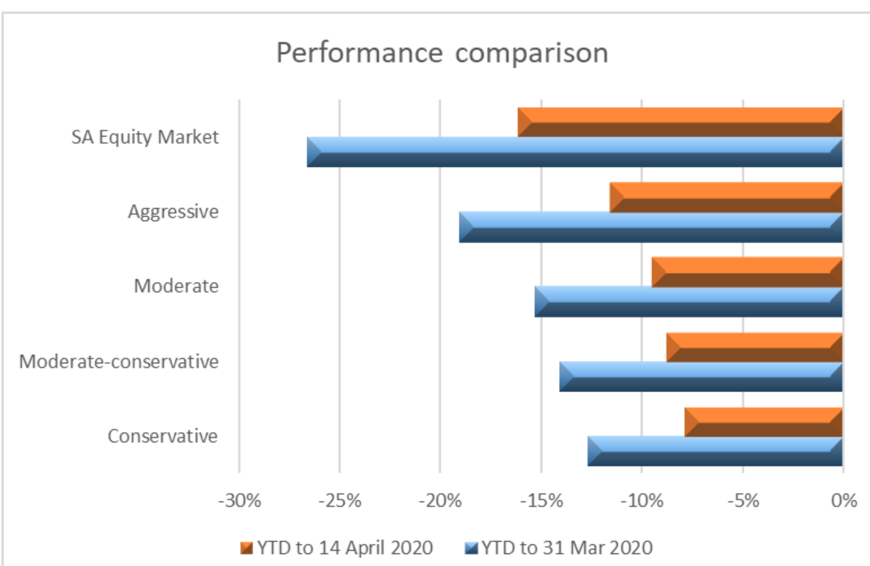
The key purpose of a retirement fund is to enable members to build up an asset, in the form of their fund credit, which they can use to buy a reasonable retirement income. Members close to retirement naturally get anxious when their asset values decrease to the extent witnessed in March and April 2020, with reductions of between 7% and 15%. Members believe that these market conditions decrease the purchasing power of their retirement savings, i.e. the income they can purchase at retirement, to the same extent. **But is this really true?**

To answer this question, we explore two key elements of investing for retirement |

1. The value of staying invested
2. The importance of members understanding their liability, i.e. what they are targeting.

Staying invested

This graph shows the investment return for four risk-profiled portfolios. As expected, the aggressive portfolio performed poorly given the significantly negative equity market, with the conservative portfolio performing marginally better. The blue bars represent each portfolio's return for the period 1 January 2020 to 31 March 2020. Understandably, such poor returns could cause investors to panic and even change their strategy. Our experience and current trends show that members typically switch into more conservative portfolios. Looking at an extended period to mid-April 2020, the orange bars in the



graph, we see a significant improvement in the year-to-date return. Any investor who switched to a more conservative portfolio at the end of March 2020 would have missed out on the strong return and locked in the investment loss.

The message to your members should be to remain invested, or risk locking in losses and missing out when the market recovers. No one can predict future market performance. A member switching to a conservative portfolio at the end of March 2020 may have benefitted from that decision at the time but will likely need to move back into a more aggressive portfolio at some stage. It's one thing for an investor to succeed in timing the market and make the right asset allocation decision once but doing it twice in a row is a remote possibility, even for professional asset managers. The best decision for most members is to remain invested amid market volatility.

Understanding the liability

Many funds seem to have implemented a with-profit annuity as their retirement strategy to comply with the default regulations. To understand how the recent market volatility impacted on the retirement liability, trustees and advisory bodies must consider the market impact on the purchasing price of their annuity strategy. Annuity prices change through time and are based on various criteria, including market performance and the change in nominal interest rates. So, while the actual value of the conservative portfolio, where your members will be invested just before retirement, **dropped** by about 8% in absolute terms between 1 January and 14 April 2020, the with-profit annuity income that can be purchased **increased** by 12% over the same period. This means the **purchasing power of their investments increased by 4%.**

It is therefore important for members to understand the type of annuity they plan to buy at retirement and then invest their assets accordingly in the final years of their working lives. The pre-retirement investment requirements will differ, depending on whether a member plans to withdraw a portion of their fund credit as cash, or buy a living annuity or a life annuity. It's key that a member's pre-retirement investment strategy aligns to their post-retirement investment strategy.

Most retirement funds offer member choice portfolios to provide for their different investment needs. Most funds also have benefit counsellors to help members understand the differences between the portfolios and different annuities. Members should also have access to a financial advisor at least five years before retirement to help them understand which annuity is likely to be most appropriate and how to invest their assets accordingly.

In a nutshell, members should |

- Avoid emotional decisions during market volatility and stick to their investment strategy.
- Understand what they are targeting and align their investment strategy accordingly.
- Seek advice from a qualified financial advisor.

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