

UNIVERSITY OF THE WITWATERSRAND RETIREMENT FUND

JULY 2021 - ECONOMIC & PERFORMANCE UPDATE

More than a year after stringent lockdowns and various other regulations ravaged the global economy, COVID-19 along with its subsequent variants continue to create some uncertainty in world markets.

However, since early 2020 the recovery experienced in global trade and economic growth has been remarkable as the vaccine rollout gathered pace. This together with significant financial assistance by most central banks and governments in the form of fiscal stimulus and accommodative monetary policies, contributed to positive sentiment and an increase in asset prices.

The focus has now shifted towards higher inflation expectations along with possible interest rate increases. History has taught us that this is not good news for equity and bond markets. The nervousness resulted in global markets struggling for direction recently, but positive momentum returned after the US Federal Reserve calmed investors with their flexible stance on inflation.

Recently, global markets gained for the fifth straight month as investors maintained the view that the record-high inflation figures would be transitory. Some commentators however fear that excessive price movements in the US housing market combined with higher wages will drive inflation beyond what the Federal Reserve considers transitory and ultimately force their hand to increase interest rates. Currently, this remains one of the biggest risks for global markets, and members must expect some volatility as the global inflation story unfolds.

Closer to home, the South African Reserve Bank's Monetary Policy Committee decided to keep interest rates at 3.5%, as was widely expected, even as inflation jumped to 4.4% recently. However it is expected that it will remain well within the set 3% - 6% target range.

South Africa can also expect stronger growth for 2021 to account for the higher mining output (and commodity prices) and better terms of trade. While some parts of the economy are performing well, households generally remain under pressure. This can largely be attributed to the dire unemployment situation as the official unemployment rate increased to 32.6% in the first quarter of 2021. On top of that, South Africa's fiscal position remains difficult, which should place economic policy reforms on the top of the government's agenda.



Conclusion

During the last 18 months, the market volatility has been quite extreme and unprecedented, even for the most experienced investment teams across the globe. After the initial fall-out in March 2020, we have seen a remarkable recovery in the months following the initial lockdowns. Markets are forward looking, and have priced in an economic recovery beyond what we still experience as economic reality today. The tailwinds include:

- The successful vaccine rollouts globally
- Higher than expected global growth
- Accommodative monetary and fiscal policy

However, the economic reality always has some influence on the markets and we would like to caution members to lower their return expectations. Many risks remain, which can easily derail the good economic recovery. The headwinds include:

- Higher inflation and interest rates
- Very high global debt levels

Time will tell whether global inflation will become more permanent in nature which may well result in various market adjustments and economic policy changes. Such a scenario will create uncertainty and members can expect some market volatility over the short to medium term.

The UWRF portfolios

The UWRF's investment portfolios are governed by a set Investment Policy Statement. All investment portfolios have a long term investment strategy with investment objectives to outperform inflation by a certain percentage per annum (after fees). To achieve these objectives, the assets of the various portfolios are invested in accordance with their respective long term investment strategies across various asset classes including local equities, bonds, cash, listed property, and international assets. These allocations are optimised through various modelling and optimisation techniques to ensure that the targets are achievable over long term investment horizons.



Members in general should remain focused on the longer-term return prospects and investment strategies, as reacting to short-term volatility can easily result in making poor investment decisions. The UWRF remains committed to providing members with well-diversified investment portfolios which will provide satisfactory real returns and capital growth over the long term. Up to 31 May 2021, the various UWRF portfolio returns compared to their investment objectives, over various periods, are indicated in the table below. The returns compare very well with that of peers and similar funds throughout the industry.

Portfolio	1 Year	3 Years Ann.	5 Years Ann.	Since Inception Ann.
UWRF Shariah Product	9.0%	6.2%	4.1%	6.4%
UWRF Shariah Product Objective	7.7%	6.8%	7.3%	8.5%
UWRF Capital Protection	4.4%	6.5%	7.0%	6.5%
UWRF Capital Protection Objective	4.9%	6.4%	6.9%	6.5%
UWRF Conservative Product	18.4%	6.7%	5.6%	8.7%
UWRF Conservative Product Objective	7.7%	6.8%	7.3%	8.6%
UWRF Growth Product	24.2%	8.7%	6.7%	9.6%
UWRF Growth Product Objective	8.9%	7.9%	8.4%	9.7%
CPI	4.6%	3.7%	4.2%	

