UNIVERSITY OF THE WITWATERSRAND RETIREMENT FUND
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High level view

The good news for members is that the general conditions for investments have improved significantly in 2021 as most of the pandemic restrictions were adjusted across the globe. The global economic environment remains generally positive as we experience a faster economic recovery (estimated at 5.5% for 2021) above the 2020 global growth rate of -3.3%.

Furthermore, a large percentage of the world's population has received at least one dose of the COVID-19 vaccine. This is good news for most economies and of course investments, as well as the performance of the retirement fund's portfolios.

South Africa's finances have also improved significantly as the state's coffers were boosted by higher-than-expected tax collections, thanks to the mining industry that has benefited from high commodity prices. However, reversing the job losses that resulted from the pandemic will remain a big challenge for our government going forward. Unfortunately, the pandemic, load shedding along with the July 2021 unrest and looting will have a negative impact on the economy and new job opportunities for some time.

The recent sharp increase in the price of goods (and petrol!) is worrying and it can be bad news for some investments. Price increases are normally followed by interest rate increases which means that the man on the street will pay more for loans and other debt. Going forward, for South Africa, government policy must strengthen focus on creating jobs, building infrastructure and in so doing create better lives for all South Africans.

More detailed economic commentary

During the third quarter of 2021, global markets experienced more volatility, as the combination of slowing growth, less accommodative monetary policy, the continued spread of the Delta (and more recently the Omicron) variant and fears of contagion from a potential default by China's second-largest property developer, Evergrande, shook investor sentiment.

In the US, the surge in inflation to a 40 year high of 6.8% in November prompted the Federal Reserve (the Fed) to acknowledge the need for more aggressive intervention. With inflation exceeding the Fed's 2% target for the ninth consecutive month, traders now expect three interest rate hikes in 2022 with the first hike expected as early as March.

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Inflation in the US is expected to remain high for somewhat longer than initially expected as supply chain disruptions continue to put pressure on prices amid robust consumer demand. Meanwhile unemployment recently dipped below 4%, giving the Fed some scope to raise rates into a relatively stronger economy. Household savings have been shored up by generous COVID-19 relief packages and consumers are slowly putting that money to good use which will help support the US economy into 2022, barring further supply chain constraints.

In China, the potential default by the nation's second largest property developer, Evergrande, shook financial markets. In addition, the ever-increasing regulatory interventions by the authorities are concerning as they have created severe uncertainty about their impact on economic growth and corporate profitability. These interventions are part of the Chinese authorities' efforts to align the private sector with the nation's social development objective to achieve a "common prosperity".

Economists are concerned about the "triple threat" posed by weakening domestic consumption: supply shocks and weakening expectations as overall uncertainty about jobs weakens people's willingness to spend, and Beijing's crackdown on the property sector affects households' perceptions of wealth. China's GDP is expected to grow between 4.2% and 5.5% in 2022 as authorities pause monetary policy tightening and provide further support to the beleaguered real estate sector.

In South Africa, inflation rose 5.5% in November – the highest level in more than four years – as the weaker rand and high petrol prices filtered through to the prices of other goods and services, especially transport. Economic activity in Q3 slumped by 1.5% largely impacted by the July civil unrest combined with tight lockdown restrictions and restricted activity at key ports due to a cyber-attack on Transnet. For the 2021 calendar year, SA recorded a trade surplus of R421bn as booming commodity prices pushed up the value of exports.

Meanwhile SA's GDP is expected to grow by 5.3% in 2021. It is worth noting that the jump is partly due to the recalculation of the metric and base effects rather than an indication of any sustained growth momentum. In fact, the SARB has revised growth expectations for 2022 and 2023 down to just 1.7% and 1.8% respectively, confirming that the local economy will continue to fall behind global peers in the post-COVID recovery.

Outlook

Much of the global economic outlook still remains dependent on vaccine roll-outs and the re-opening and recovery of many affected sectors (especially hospitality, travel and other service industries) post-COVID. The path to a full recovery is expected to be uneven as many uncertainties remain. These uncertainties include the impact of new virus variants and their impact on lockdown restrictions, unemployment figures and a higher inflation environment.

There is a case to be made for higher inflation on a more permanent basis as some commentators fear that excessive price movements in the supply chain of manufactured goods combined with higher wages will drive inflation beyond what is considered temporary. This may put pressure on central banks to increase interest rates over time (to curb inflation), which is bad news for those governments, companies and individuals with high debt levels.

This remains one of the biggest risks for global markets and members must expect some volatility as the global inflation story unfolds with resultant tighter monetary policy (higher interest rates). Future market returns will remain a function of valuations and many other factors. The most prominent risks in the markets today are:

- Tighter monetary policy (higher interest rates)
- Higher inflation combined with lower economic growth (stagflation)
- High debt levels
- Chinese regulations
- Geopolitical and other risks

The economic outlook for 2022 remains fairly positive for South Africa with the growth in GDP expected to be around 2%. That said, South Africa's finances remain under pressure. Meanwhile, the future and well-being of all South Africans is in the balance and urgent economic policy action is required to take the country forward. Credit rating agencies again warned that despite the improved fiscal (government finances) outlook, a lot of pressure remains to stabilise debt by 2025/2026. Moving forward, the continuation of the basic income grant and funding requirements for SOEs will remain a challenge for the government. Collaboration between public and private enterprises is of utmost importance for our future as fixed investment spending must be utilised to build infrastructure, create jobs and ultimately drive productivity.

Time will tell whether or not higher inflation globally will become more permanent in nature. This may well result in various market adjustments and economic policy changes. Such a scenario will create uncertainty and members must expect some market volatility over the short to medium term.

The UWRF portfolios remain well diversified across many asset classes, market sectors and regions, and are governed by specific investment objectives and risk tolerances which will be achieved over the longer 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 poor investment decisions. The UWRF remains committed to providing members with well-diversified investment portfolios which should provide satisfactory returns and capital growth over the long term. The table below shows the various UWRF portfolio returns compared to their investment objectives over various periods up to 31 December 2021. We are pleased to note that the returns compare favourably with that of peers and similar funds available in the retail market.

Portfolio	1 Year	3 Years Ann.	5 Years Ann.	Since Inception Ann.
UWRF Shariah Product	22.8%	11.5%	7.6%	7.2%
UWRF Shariah Product Objective	8.2%	7.1%	7.4%	8.5%
UWRF Capital Protection	4.4%	5.9%	6.5%	6.4%
UWRF Capital Protection Objective	6.1%	6.2%	6.7%	6.5%
UWRF Conservative Product	16.3%	11.1%	7.6%	9.0%
UWRF Conservative Product Objective	8.2%	7.1%	7.4%	8.6%
UWRF Growth Product	21.7%	14.3%	10.0%	10.0%
UWRF Growth Product Objective	9.7%	8.4%	8.5%	9.7%
CPI	5.0%	4.0%	4.3%	