PRUDENTIAL
INVESTMENT MANAGERS

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Have you missed out on 2017's equity returns?

After three years of disappointing equity returns, the FTSE/JSE All Share Index (ALSI) has delivered a return of 19.6% in 2017 (to the end of October). This improved run has been driven mainly by global factors, including good foreign investor demand for emerging market equities, higher commodity prices that have held up well; and ongoing strong global growth. Global equities have been enjoying a bull run for over six successive quarters now. This has pushed our resources stocks higher, as well as big global counters like Naspers and BAT, for example. Unfortunately, some investors have missed out on this long-awaited good performance because they had moved away from equities, unable to tolerate the underperformance.

In the past three years, local equities were largely flat, underperforming money market returns and even not beating inflation over two years. The average ASISA General Equity fund returned only -1.1% p.a. over one year and 1.7% p.a. over three years (both after fees to 30 June 2017), far less than the average Money Market fund return of 8.7% p.a. and 7.3% p.a. respectively.

In turn, this poor equity performance was reflected in the returns of well-diversified multi-asset funds, like balanced funds and low-equity funds, that many investors rely on for retirement.

The average ASISA low-equity multi-asset fund delivered only 5.8% p.a. over the three years to 30 June 2017, well below the average 15-year performance of 9.7% p.a. The average balanced fund returned only 4.7% p.a. over three years compared to the 15-year average of 11.9% p.a. These long-term performances are in line with the funds' generally accepted return targets of inflation + 4% for the less aggressive low-equity category, and inflation + 6% for the more aggressive high-equity category (with inflation at 6%).

So investors have been understandably worried about their returns over the past three years. As we know about human behaviour, the longer a period of poor investment performance continues, the greater becomes the urge to "do something" – and unsurprisingly, investors have taken action. The ASISA Q2 and Q3 2017 unit trust industry statistics highlighted a large increase in the number of investors shifting away from funds with equity exposure, in favour of cash. These investors would have now missed out on some of 2017's excellent equity returns, mainly recorded since June. We at Prudential have been warning against switching for some time now, since asset valuations have been showing that prospective returns from multi-asset funds are higher than those from cash assets.

Helped by the equity run, the average balanced fund has now returned 12.7% over 12 months and 7.6% p.a. over three years (to 31 October). And the Prudential Balanced Fund has significantly outperformed this with 15.5% and 9.1% p.a. respectively, ranking in the top quartile of its ASISA category over all annual periods from one- to 10-years to the end of October 2017.

Since no one can predict the short-term ups and downs of equity markets, investors need to stay invested to benefit from the upturns to meet their longer-term retirement goals. Fund managers, meanwhile, have perfected their investment processes over many years with the goal of overcoming investment volatility and meeting each fund's investment objective over its specified investment horizon. Investors need to take a longer-term view and trust that fund performance will recover as markets do.

Prudential offers investors two equity funds: the Prudential Equity Fund and the Prudential Dividend Maximiser Fund. For more information, contact us on 0860 105 775 or at query@prudential.co.za