

ALLAN GRAY

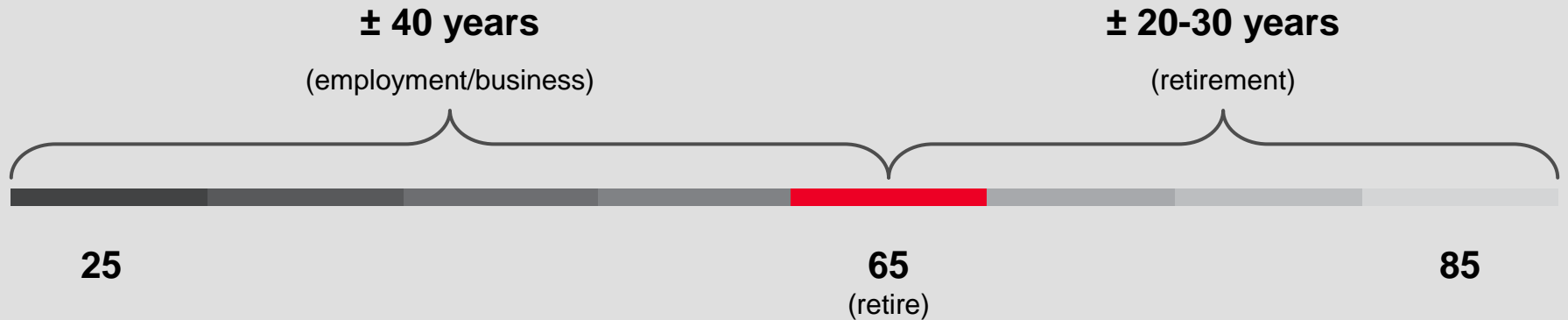
LONG-TERM INVESTING

Achieving a sustainable income in retirement

Richard Carter
Webinar series
June 2017



The concept of time and investing



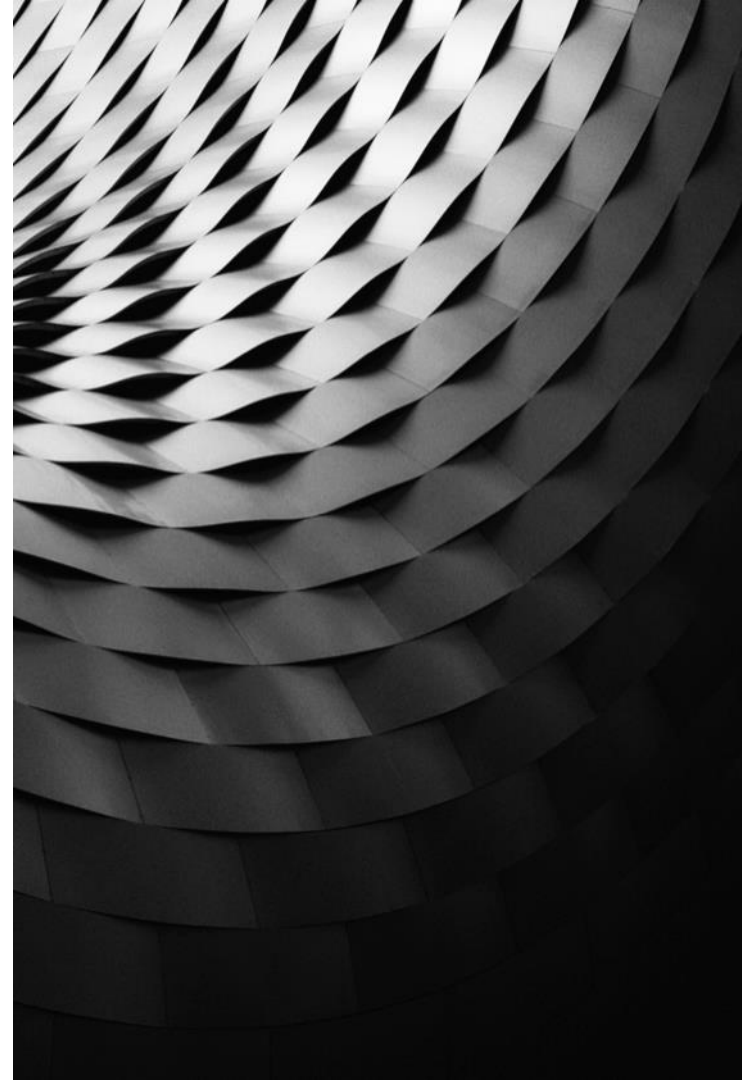


Agenda

01 | Risks in retirement

02 | Drawdowns and investment strategy

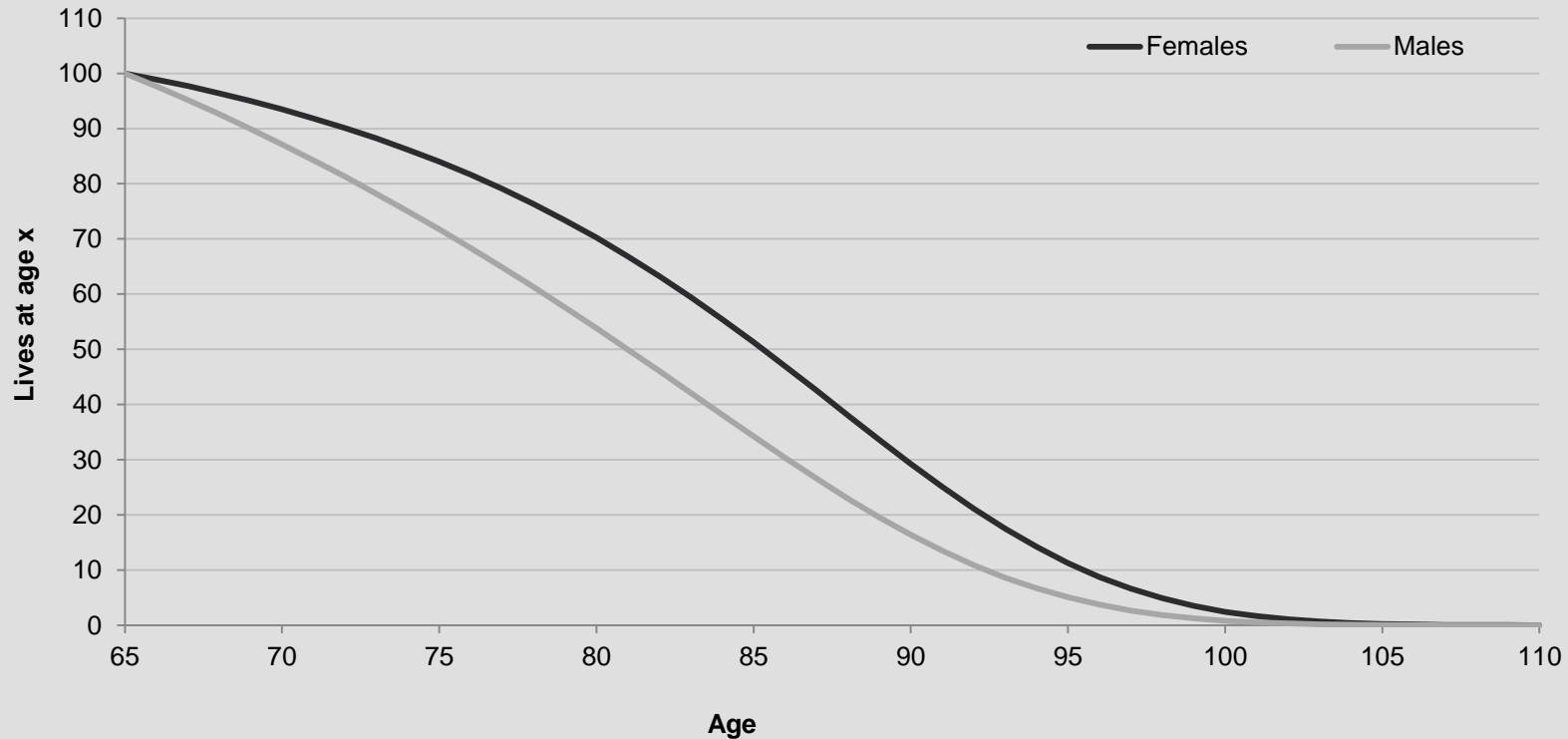
03 | Alternative strategies



Risks in retirement

- Longevity
- Inflation
- Investment return

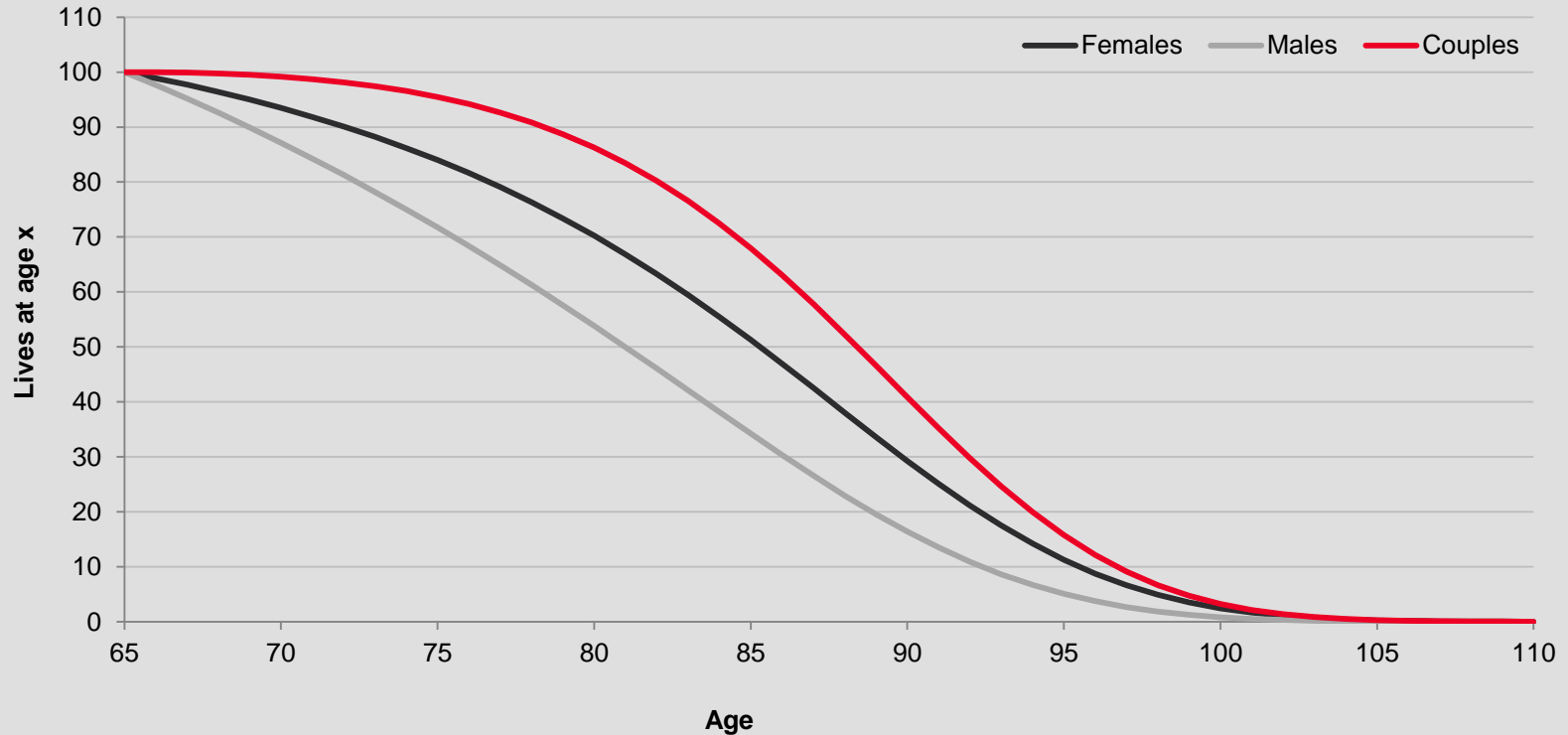
Longevity: Clients may live longer than they expect



Source: ASSA, South African Annuitant Standard Mortality Tables 1996 - 2000

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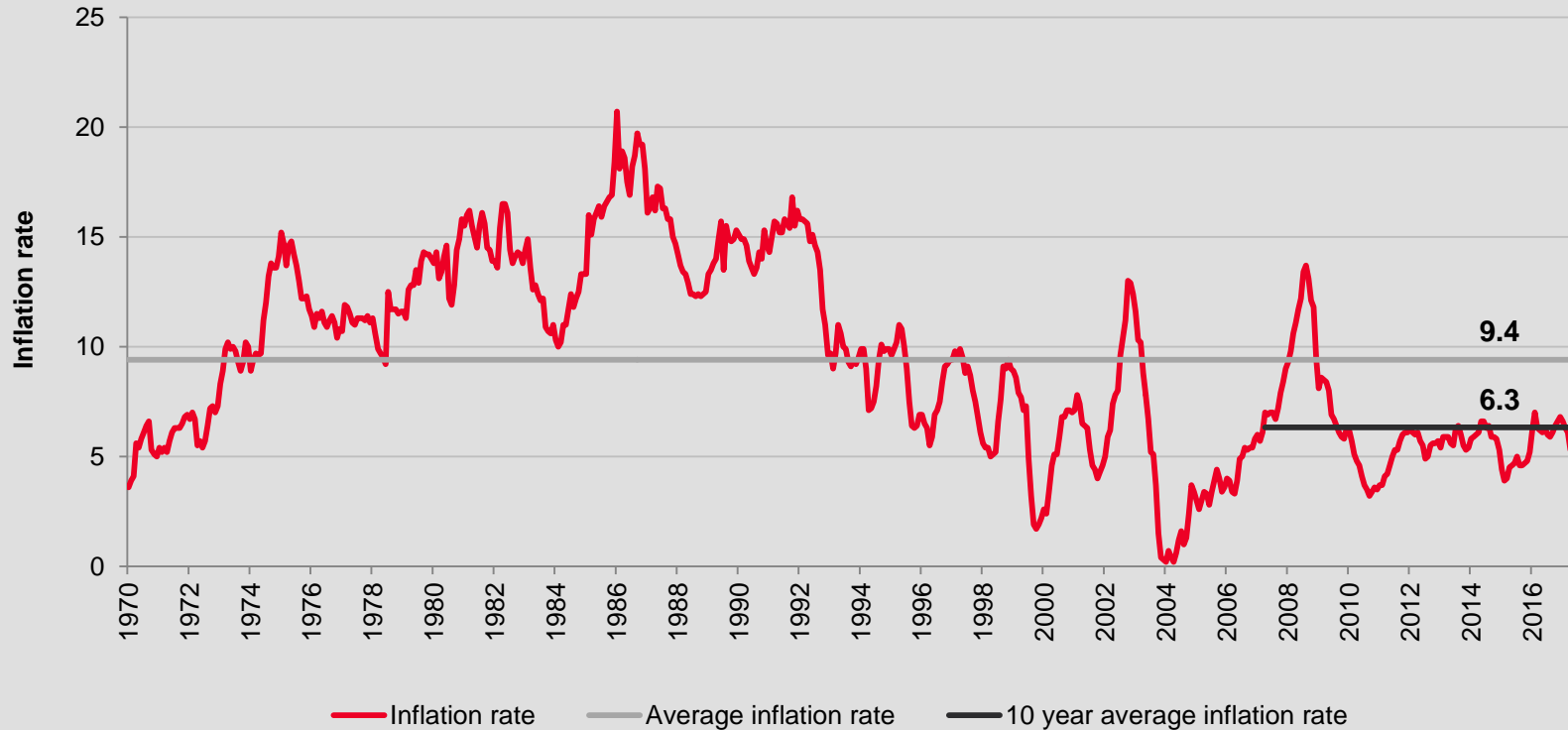
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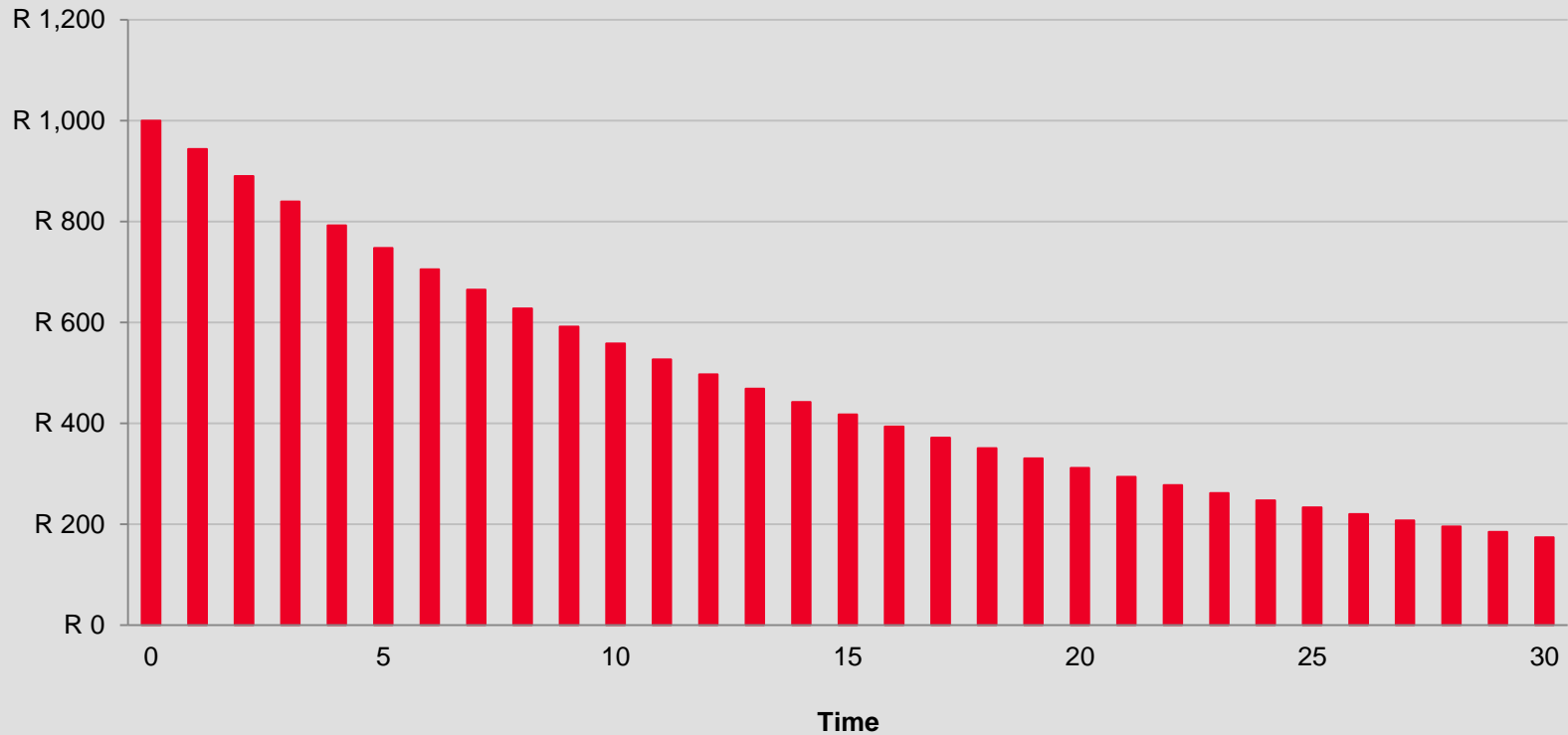
Inflation: South African inflation over time



Source: I-Net

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Inflation: The real value of R1000 over time



Inflation of 6% p.a.

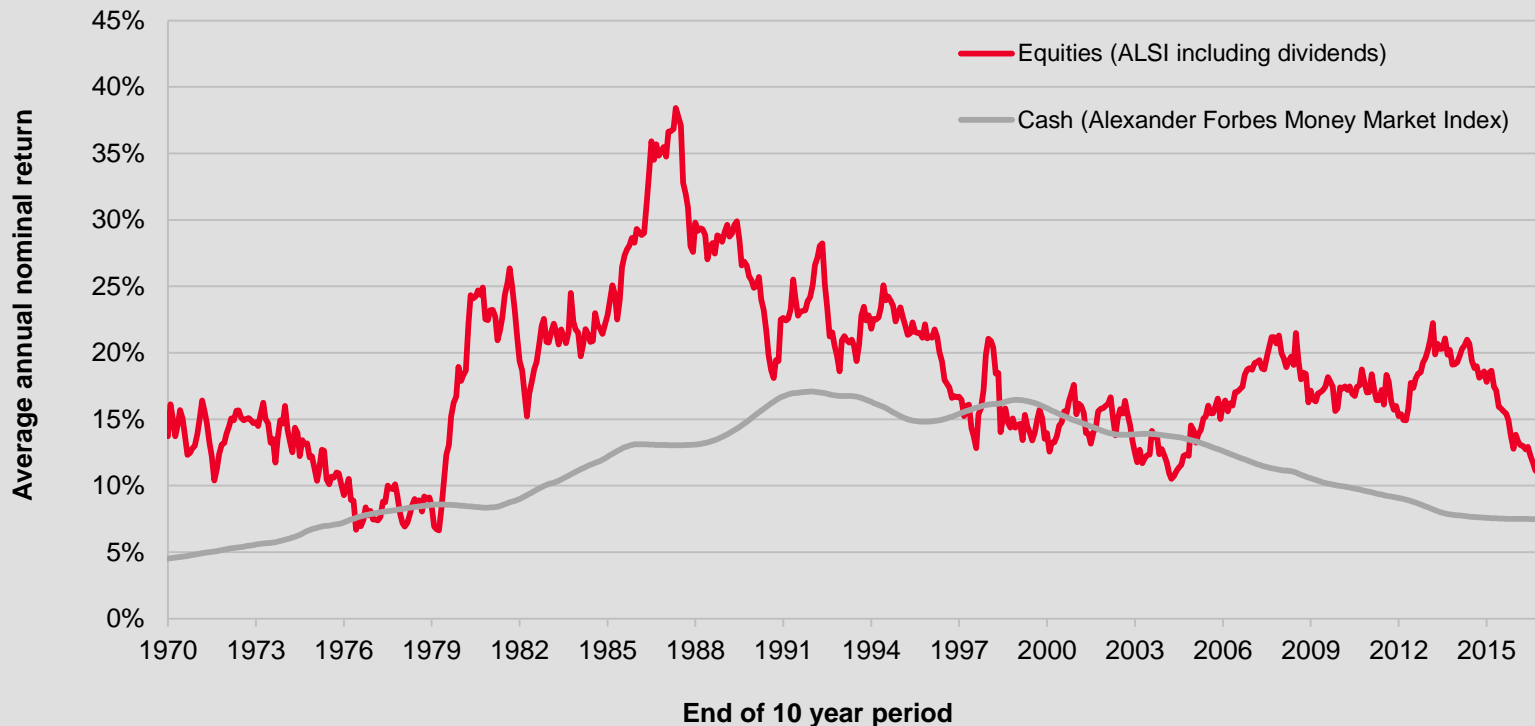
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Investment return: The importance of real returns

“My retirement savings are my most important investment – I can’t afford to take risks, and so I’ve put it all in the money market.”

- Actual 36-year old investor

Investment return: Equity risk over the longer term



Source: I-Net

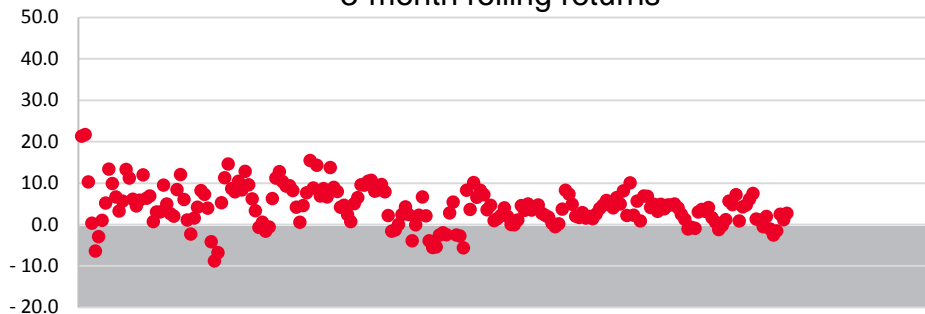
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Investment return: Seldom comes in a straight line

Allan Gray Balanced Fund

3-month rolling returns



Allan Gray Balanced Fund

1-year rolling returns

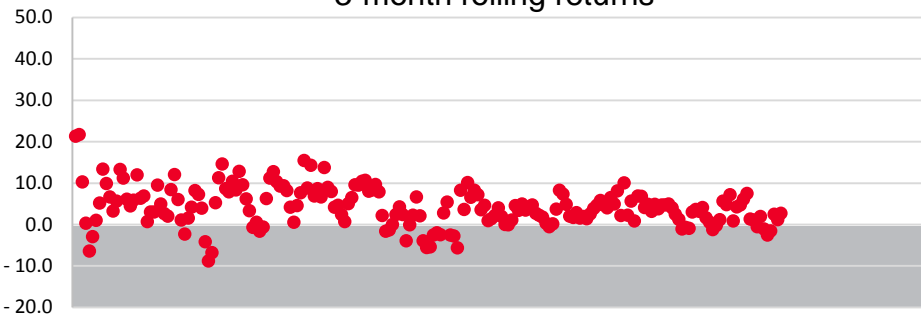




Investment return: Seldom comes in a straight line

Allan Gray Balanced Fund

3-month rolling returns



3-year rolling returns



Allan Gray Balanced Fund

1-year rolling returns



5-year rolling returns





Agenda

01 | Risks in retirement

02 | Drawdowns and investment strategy

03 | Alternative strategies



What drawdown is sustainable?

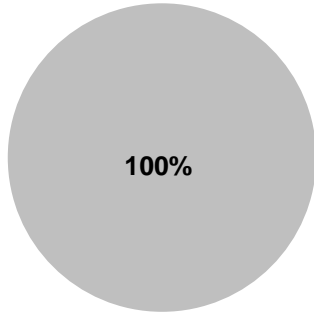
Objective of a Living Annuity is to provide a sustainable income

- Initial income > 75% of final salary
(Lifestyle risk)
- Increases with inflation
(Inflation & investment risk)
- For at least 30 years
(Longevity & investment risk)

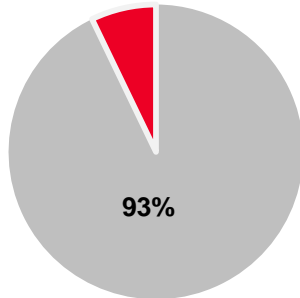


Drawing a sustainable income

At least 20 years



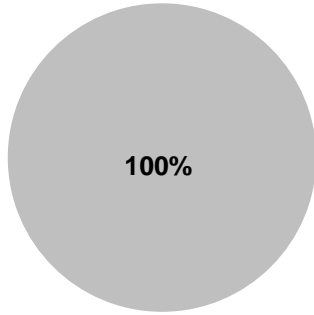
- 4% withdrawal
- Fixed rand amount
- Annual inflationary increase
- 55% equity exposure



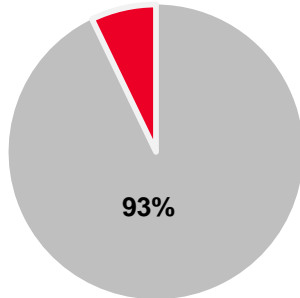
- 5% withdrawal

Drawing a sustainable income

At least 20 years

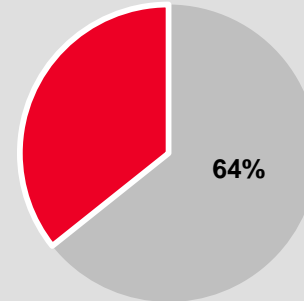
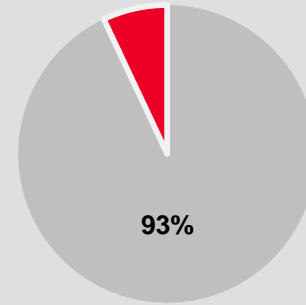


- 4% withdrawal
- Fixed rand amount
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- 55% equity exposure



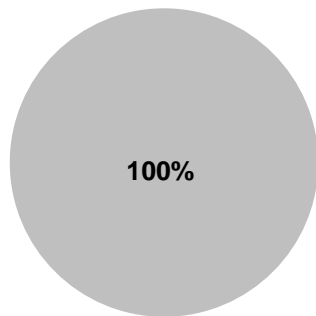
- 5% withdrawal

At least 30 years

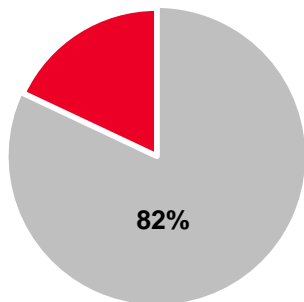


Drawing a sustainable income

At least 20 years



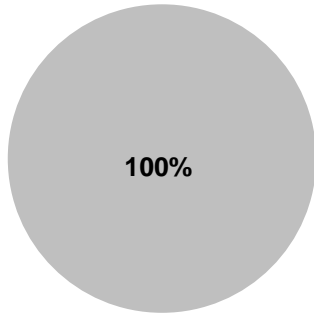
- 4% withdrawal
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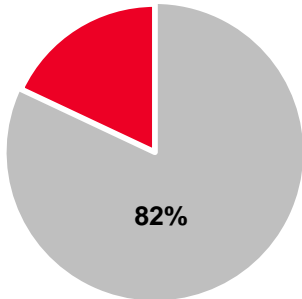
- Annual increase above inflation

Drawing a sustainable income

At least 20 years

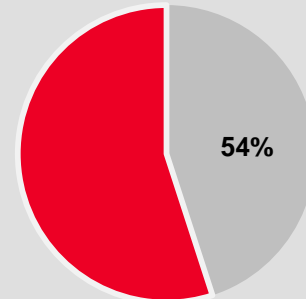
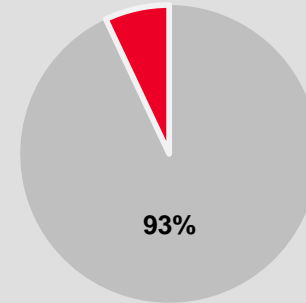


- 4% withdrawal
- Fixed rand amount
- Annual inflationary increase
- 55% equity exposure



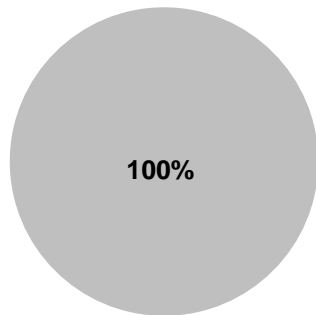
- Annual increase above inflation

At least 30 years

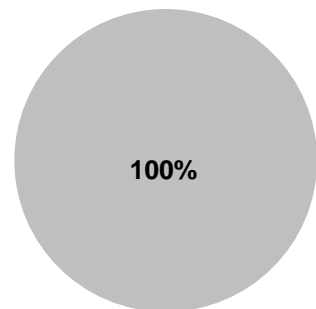


The importance of real returns

At least 20 years



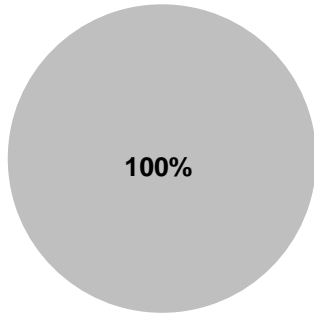
- 4% withdrawal
- Fixed rand amount
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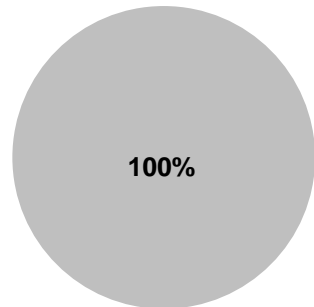
- 30% equity exposure

The importance of real returns

At least 20 years

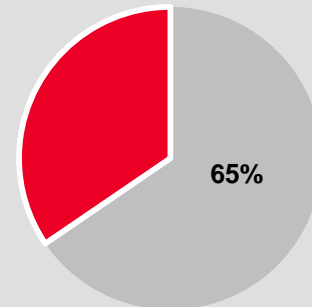
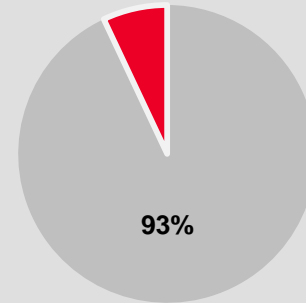


- 4% withdrawal
- Fixed rand amount
- Annual inflationary increase
- 55% equity exposure



- 30% equity exposure

At least 30 years



What drawdown is sustainable?

Objective of a Living Annuity is to provide a sustainable income

- Initial income > 75% of final salary (Lifestyle risk)
- Increases with inflation (Inflation & investment risk)
- For at least 30 years (Longevity & investment risk)

Requirements to achieve this

- Calculate 4% of capital
- Convert this to a fixed rand amount
- Increase annually by inflation
- Maintain a minimum of 55% equity exposure

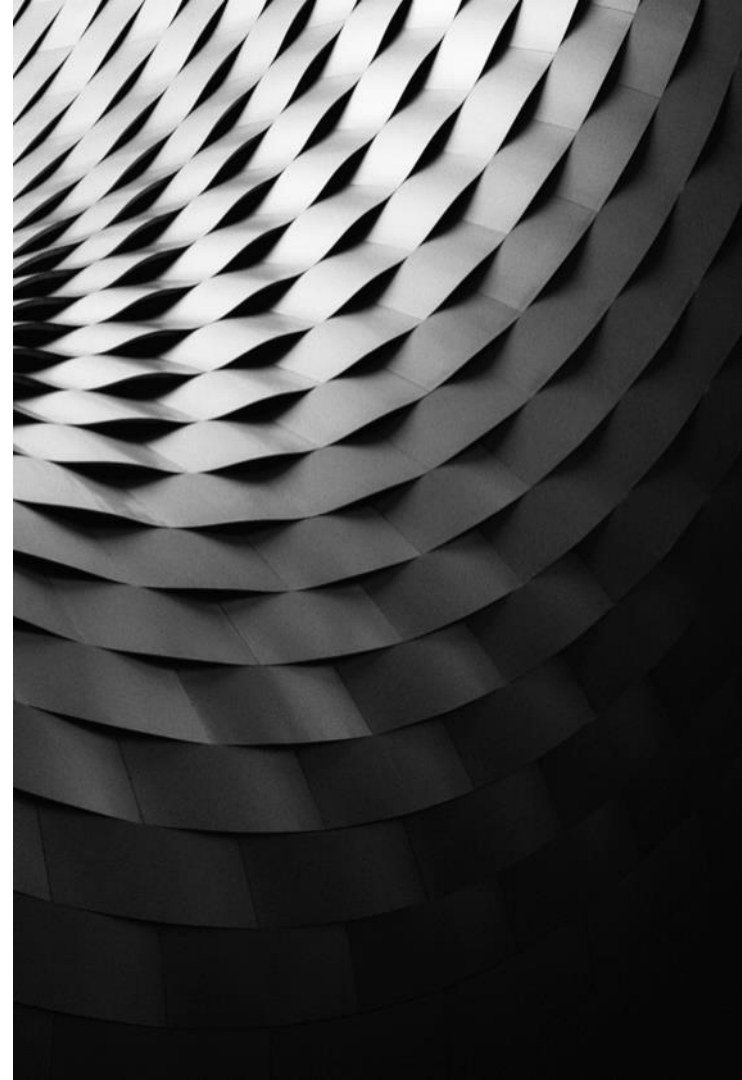


Agenda

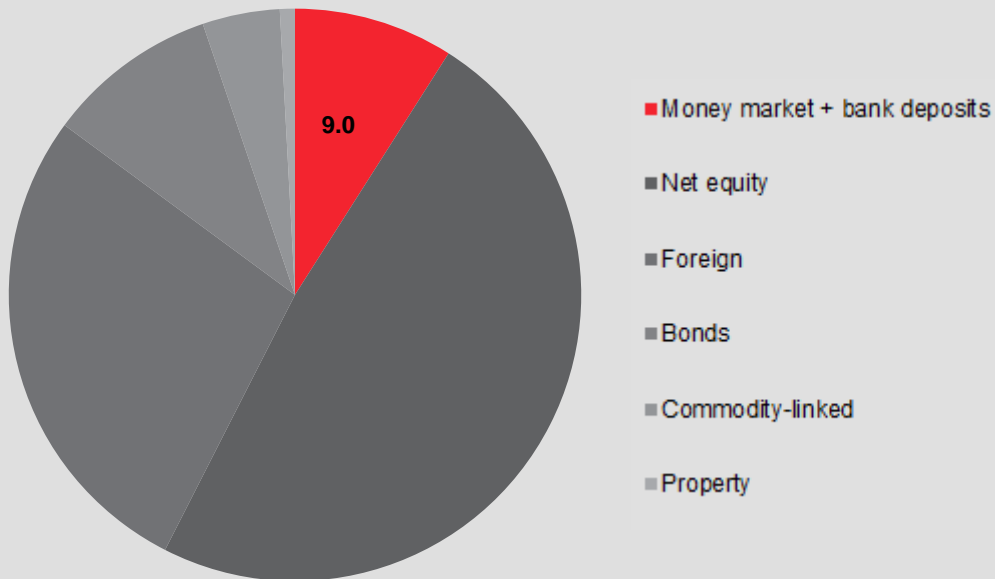
01 | Risks in retirement

02 | Drawdowns and investment strategy

03 | **Alternative strategies**

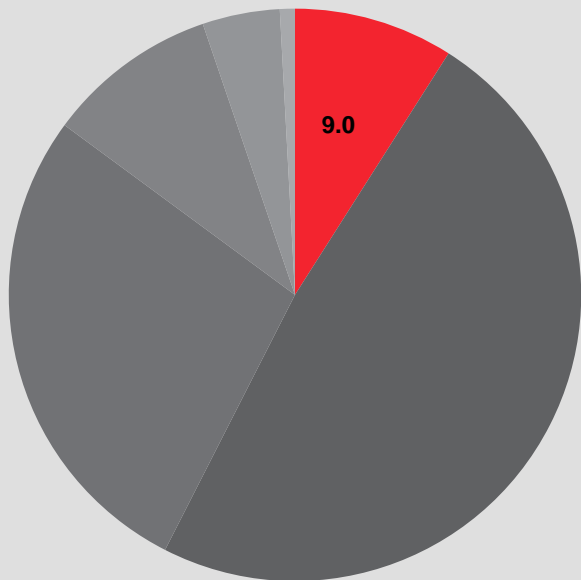


Drawing from the money market



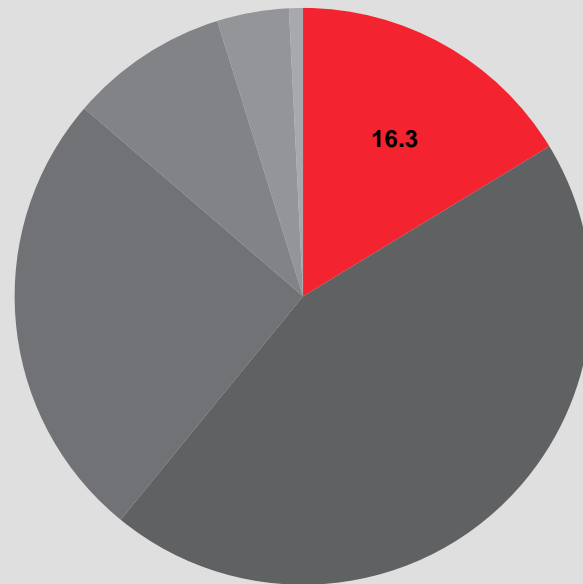
AGBF

Drawing from the money market



AGBF

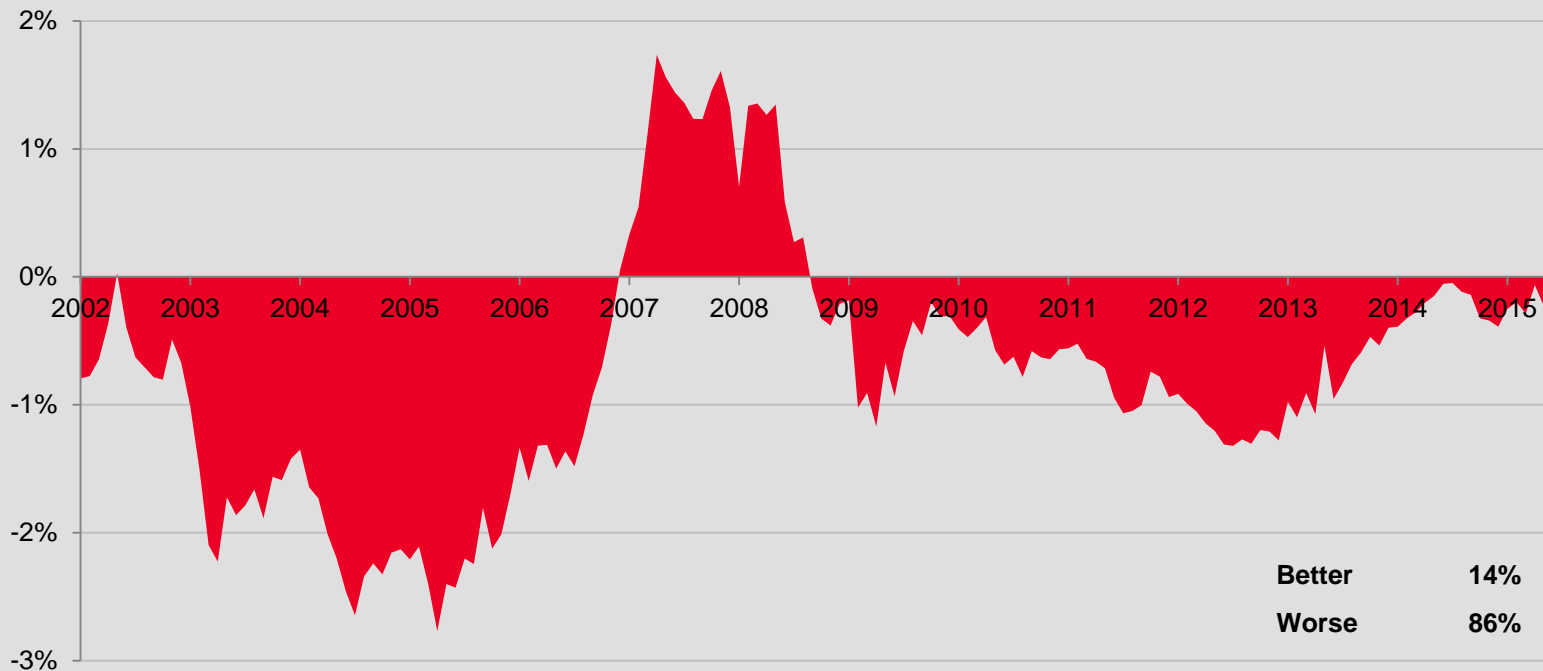
- Money market + bank deposits
- Net equity
- Foreign
- Bonds
- Commodity-linked
- Property



92% AGBF, 8% AGMF

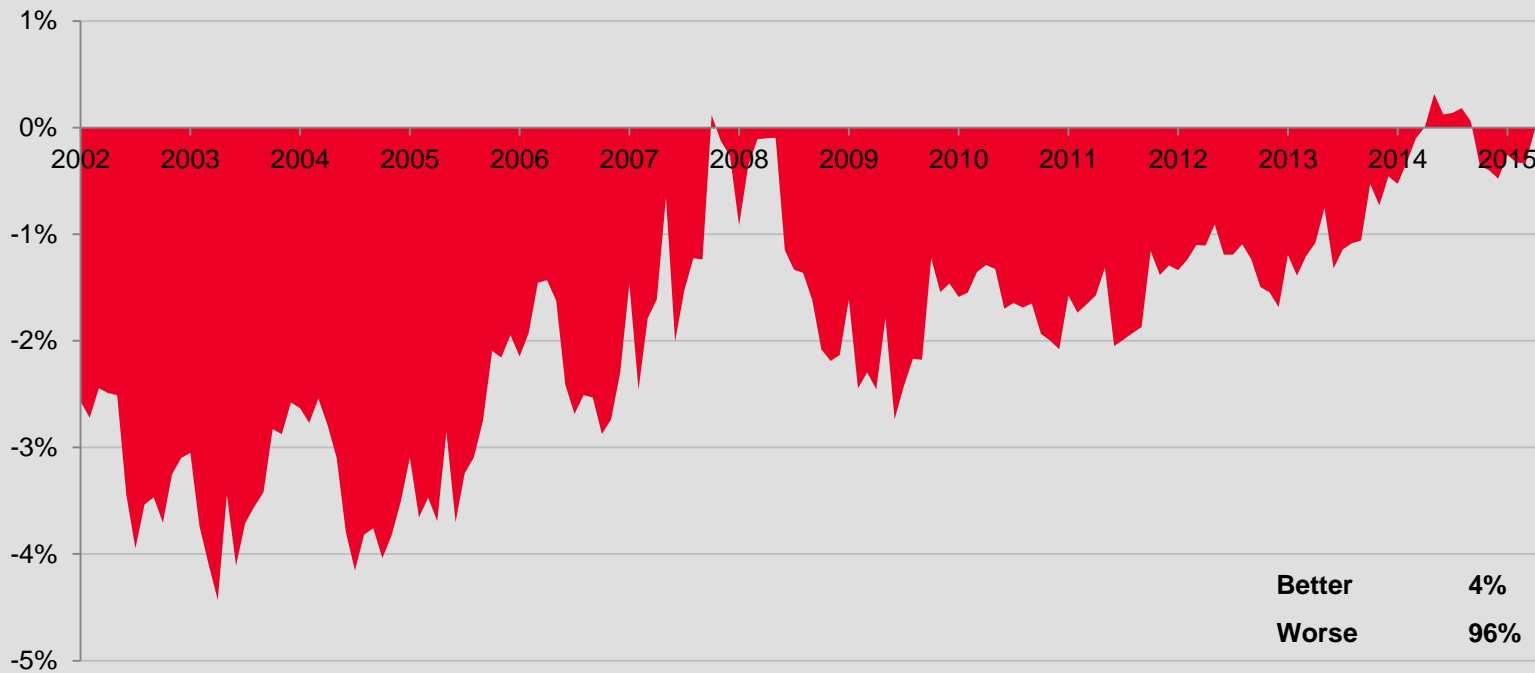
Drawing from the money market – At the start

Excess market value - 2 years income in AGMF at the start vs. straight AGBF



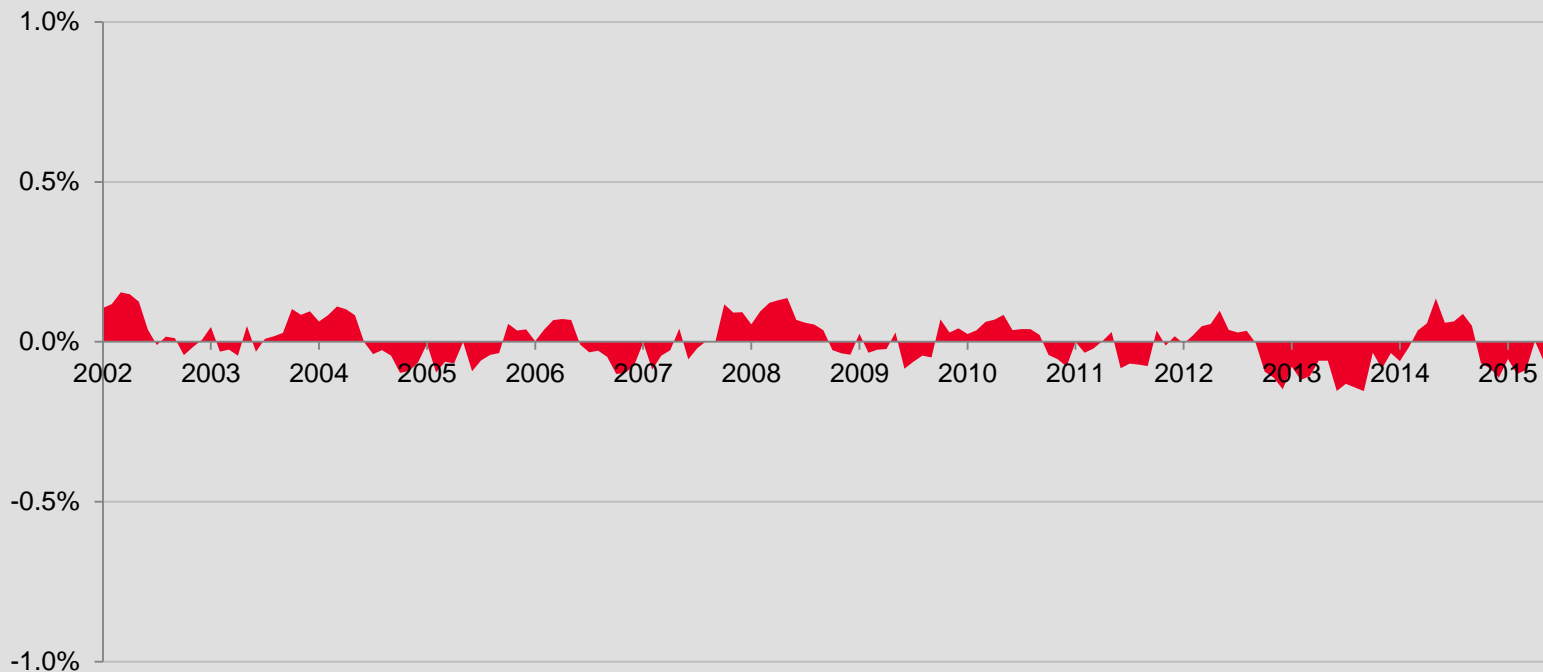
Drawing from the money market – Over time

Excess market value - 2 years income in AGMF replenished 2 yearly vs. straight AGBF

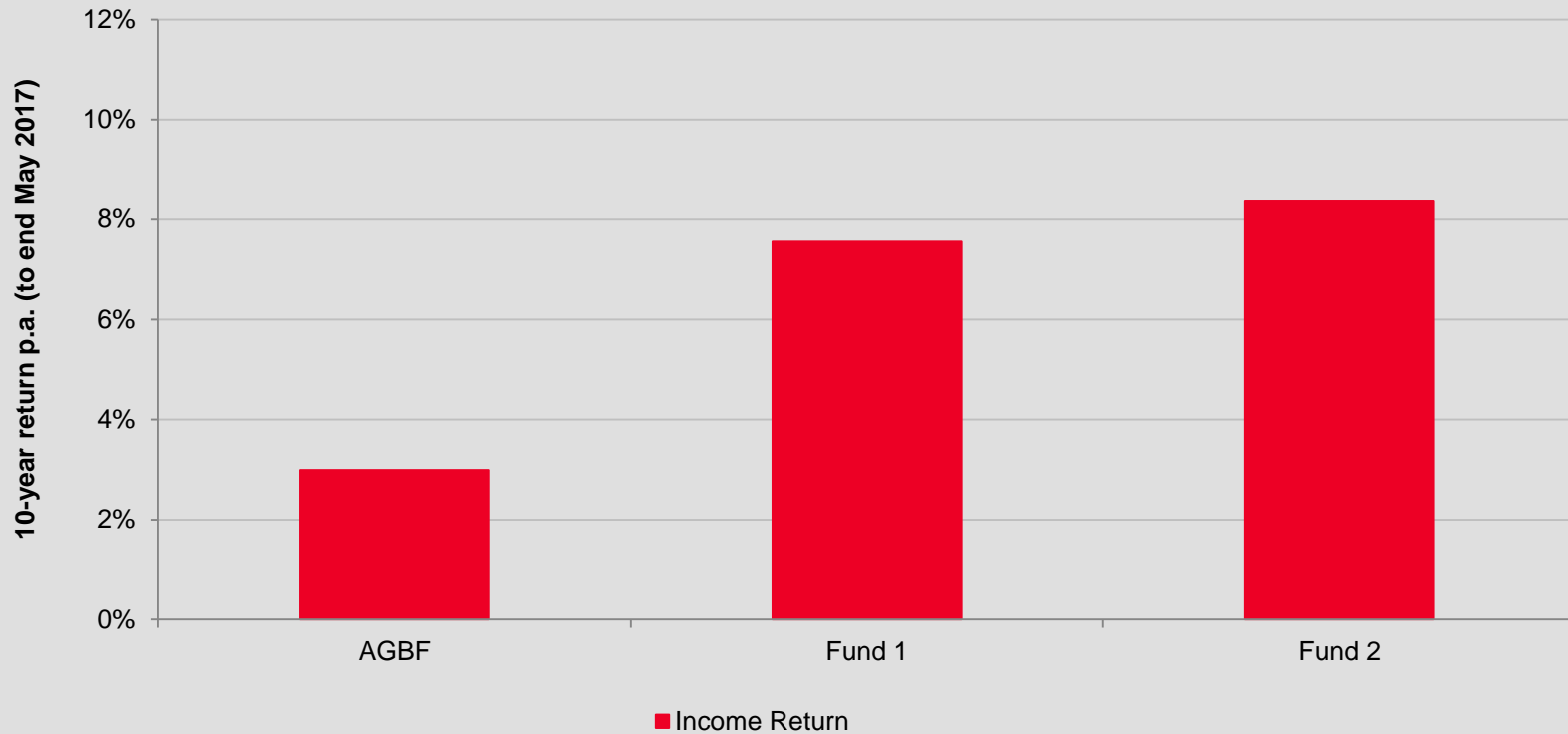


Drawing from the money market – Over time

Excess market value - 2 years income in AGMF replenished 2 yearly vs. 4% in AGMF



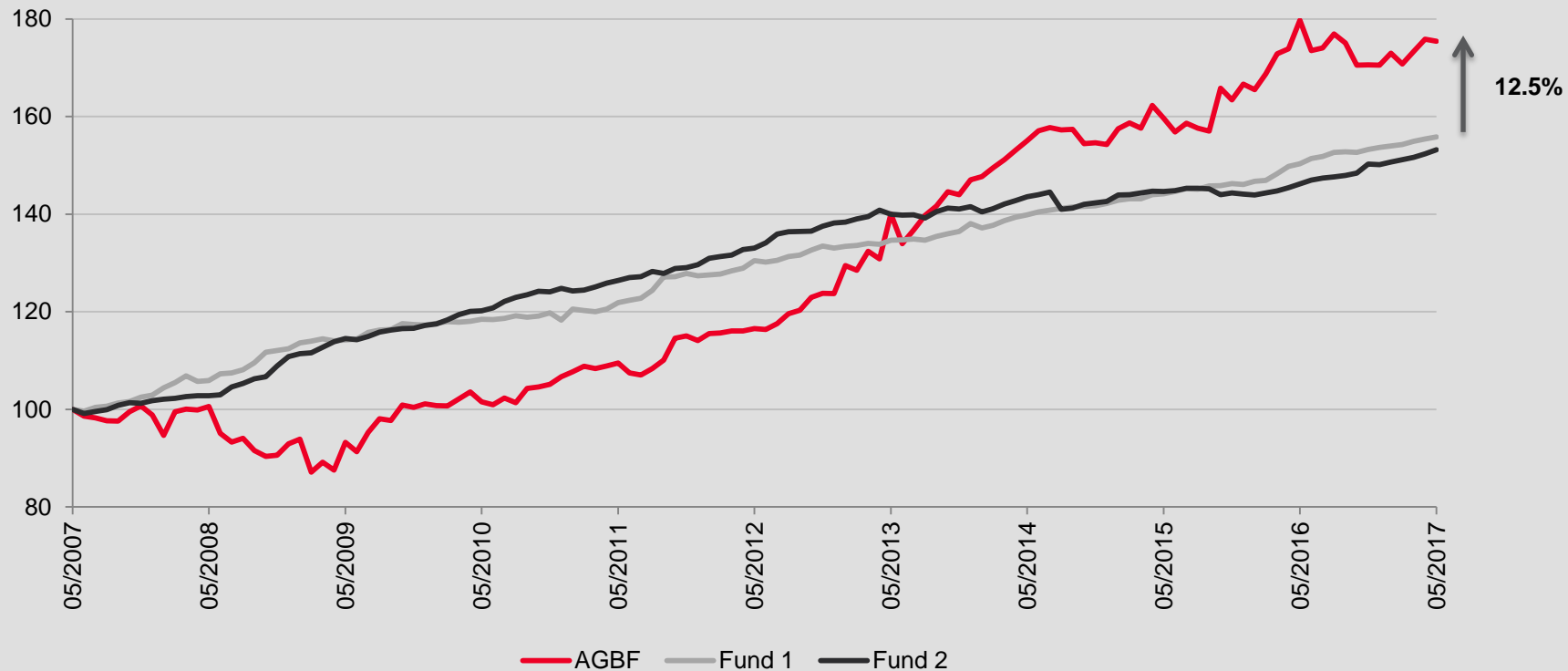
Focusing on income returns



Focusing on income returns



Focusing on income returns



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LONG-TERM INVESTING

Thank You

