



Taking Stock

Autumn 2025

—
Investing for a
world of change



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Making

The long game wins

There's an old adage that says investing is a marathon, not a sprint. Perhaps now more than ever, it deserves repeating. If there's one lesson to take from Donald Trump's tariff whiplash, it is that the disciplined investors – those who pace themselves, block out the noise, and stay focused on their end goal – are often the ones who win.

We've come through a period of remarkable highs. The S&P 500, fuelled by the Magnificent 7, achieved annual gains exceeding 20% in two consecutive years (2023 and 2024) – a rarity not witnessed since the late 1990s. This surge was underpinned by what many dubbed the new era of US exceptionalism. But as we entered 2025, the tide began to turn. April was a sharp reminder of how quickly sentiment and direction can shift, as markets reacted to Trump's declaration of "Liberation Day" and a fresh wave of headline-fuelled volatility.

| April was a sharp reminder of how quickly sentiment and direction can shift.

In an environment like this, the temptation to react emotionally can be overwhelming. A sudden correction, a political tremor, a dramatic currency move and suddenly, long-term strategy gives way to short-term panic. In my view, the most dangerous investment decisions are often made in haste, with one eye on the headlines and the other on today's price movements. As Clyde Rossouw, Head of Quality, said in the wake of the S&P 500 posting its steepest four-day drop since inception, "I'm hesitant to make any major changes today, as what may be a rational decision today, in these markets and political climate, may be an irrational one in a week's time."

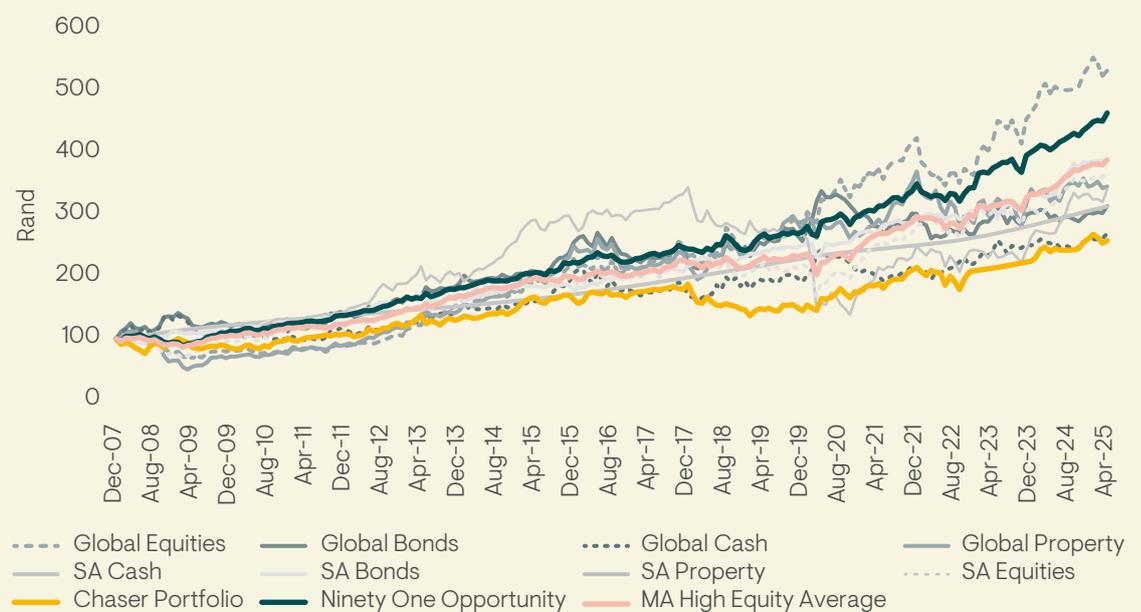
Stock

This is where perspective becomes your greatest ally. Most investors have an investment horizon that could easily span 40 years of working life, and another 20 to 30 years in retirement. Over a period of up to 70 years, even a sharp correction or a standout year becomes just a blip on a much longer investment journey.

Let's consider what happens when investors ignore that perspective and instead chase the previous year's winning asset class. We looked at a hypothetical "chaser portfolio," where, at the start of each year, an investor moves 100% of their capital into the best-performing asset class of the previous year. To illustrate this, we plotted returns from 1 January 2008 to the end of April 2025, a period that included the Global Financial Crisis, the Covid-19 downturn and the most recent tariff-induced volatility. We compare this strategy to the underlying asset classes as well as a balanced fund.

What Figure 1 below shows is that, over time, this performance-chasing behaviour leads to profoundly poor outcomes. In fact, it delivered the worst return of any option in the comparison, even underperforming the worst individual asset class. While this example is exaggerated, it highlights how destructive this behaviour can be and underscores the importance of maintaining a diversified mix of assets over time. It is further important to note that the annual switch may also be subject to capital gains tax, further reducing the after-tax return.

Figure 1: Chasing performance leads to poor investment outcomes



Source: Morningstar, dates to end April 2025. Performance figures above are based on a lump sum investment (R100), NAV based, net of fees with gross income reinvested, in rand. Past performance is not an indicator of future performance; losses may be made. ASISA sectors used as a proxy for asset classes (first eight chart legends) and do not represent alternative investment choices in their own right. Figure 1 is for illustrative purposes only to demonstrate the impact of chasing past performers. Ninety One Opportunity (A Inc ZAR class unit inception date: 02.04.00). The highest and lowest 12-month rolling performance since inception is 43.8% and -15.7% respectively. Please visit the [Ninety One Opportunity Fund](#) web page for more details on the fund, including the factsheet (MDD).

As advisors, your role in keeping clients anchored is more vital than ever. Remind them that reacting to noise isn't a strategy and that the most successful portfolios are often those built not on perfect timing, but on patience, discipline, and sound planning.

Recent research continues to reinforce the value of this guidance. According to the 2024 Russell Investments survey, financial advisors can add up to 3.52% to a client's annual return, nearly 40% of which stems from behavioural coaching. This includes helping clients avoid panic-selling during downturns or making emotionally driven switches that lock in losses. The remaining value comes from tax-efficient planning (22%), informed asset allocation and broader family wealth strategies (21%), and active rebalancing (11%). In other words, the greatest value advisors offer isn't just technical, it's emotional discipline that helps clients stay on track.

So, what's the lesson?

Think of investing like building a championship sports team. While the star player may grab headlines, just as the S&P 500 or Magnificent 7 did, it's solid teamwork, a clear strategy and long-term planning that win the season. Or, to bring it back to the track: the marathon is won by those who conserve energy, stick to their pace, and don't burn out chasing early front-runners.

In today's fast-moving, tweet-fuelled world, the best strategy remains surprisingly timeless: stay invested, stay diversified, and stay focused on your long-term goals.

Let's keep playing the full season.

Thank you for your continued support.

Siobhan

Siobhan Simpson
Head of SA Unit Trusts





2

The great market shift – how market dislocation benefits active investors



Clyde Rossouw
Head of Quality

This isn't just another market cycle – it's a structural shake-up. We explore how an active strategy, built on quality, can weather disruption and uncover opportunity.

The fast view

- We're in a new era of persistent disruption, driven by protectionism, policy uncertainty and shifting global alliances. In this environment, long-term positioning matters more than short-term predictions.
- Market dislocations often create mispricing, providing active management opportunities to allocate capital strategically based on fundamentals, not headlines.
- Our portfolios are well diversified: we combine defensive quality for stability, durable compounders for consistent growth and selective growth drivers for upside.
- We focus on process rather than market noise. This means we invest in businesses with predictable earnings and solid fundamentals, making changes only when clearly justified by risk/reward.

There's no modern precedent for the current level of disruption. The pace of change – from retaliatory tariffs to shifting alliances and conflicting official statements – has been unrelenting. Markets are flooded with noise, and volatility has returned – coming not in brief bouts, but in sustained waves across asset classes and regions.

This is likely more than a short-term dislocation. The convergence of global protectionism, economic nationalism and geopolitical tensions has now crystallised into policy. We are entering a world of higher trade barriers, disrupted supply chains and increasingly unpredictable policymaking. Investors should exercise caution about making short-term calls – what appears rational today, given current market and political dynamics, could seem irrational a week later. The key question for investors isn't whether uncertainty will persist, but how portfolios can be constructed to withstand it. This is not the moment for macro bets or reactionary rotations. Rather, it's a time for humility, discipline and a clear investment process.

The key question for investors isn't whether uncertainty will persist, but how portfolios can be constructed to withstand it.

What really matters

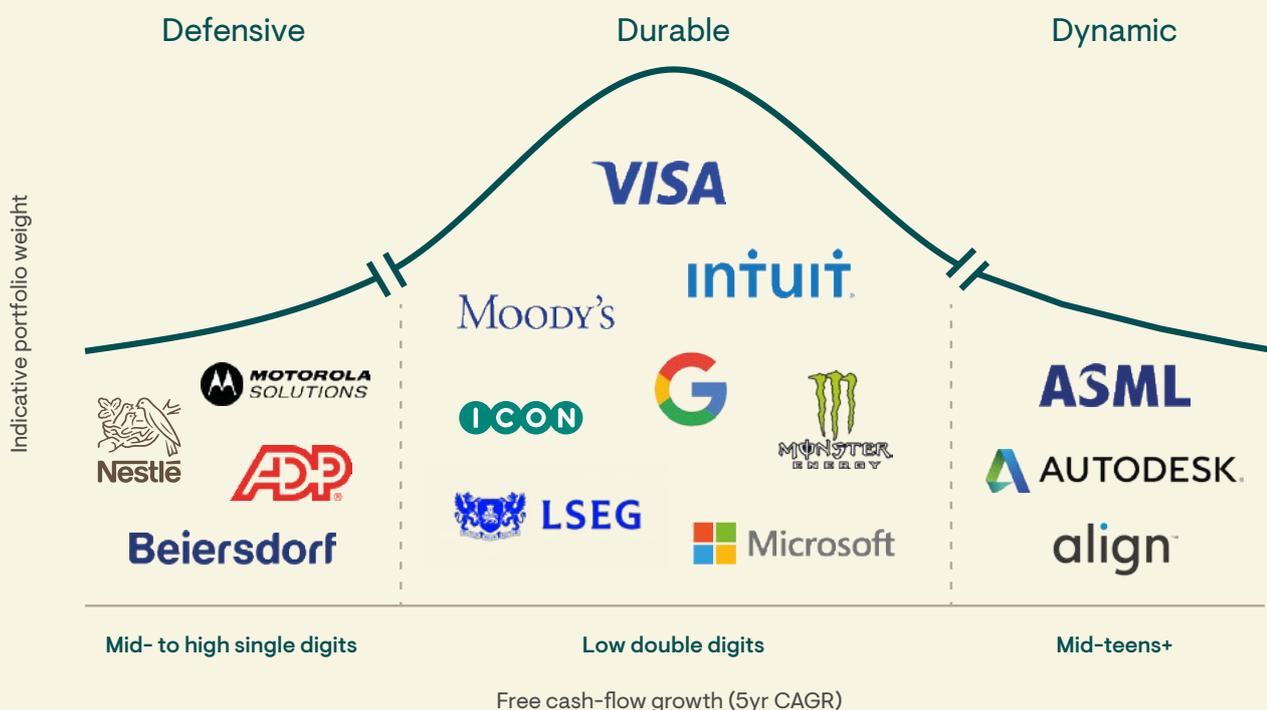
Much has been said about US exceptionalism – and for years, strong innovation, deep capital markets and corporate profitability provided a fertile hunting ground for investors. But recent history highlights the cost of complacency. In 2022, fixed income faltered, showing a lack of flexibility. This year, global equity trackers – largely proxies for US mega caps – exposed their weaknesses. These strategies thrived when the dollar was rising and tech was booming, but shifts are underway.

2025 has underlined just how fragile the global system has become. Despite current scepticism towards the US, many of these firms still offer exceptional compounding potential. The key factor is quality, not geography. Where a company is listed matters less than how and where it earns revenue.

For us, creating balance on the high wire of global equities requires purposeful diversification across three areas of focus:

- 1 **Defensive quality is the ballast**, providing stability in tough markets. These are companies with strong balance sheets, recurring revenues and steady cash flows through the economic cycle – offering capital preservation and resilience.
- 2 **Durable compounders are the engine**, driving long-term growth. These businesses have strategic moats, disciplined capital allocation and strong reinvestment potential, enabling them to steadily build value through cycles.
- 3 **Selective growth drivers provide optionality** and add upside. Focused outside of overowned mega-cap US tech, these are high-potential businesses with sound fundamentals, scalable models and exposure to structural themes – carefully chosen and appropriately sized.

Figure 1: Illustrative portfolio shape – balancing attractive compounders with diversified growth drivers



Performance is not guaranteed. Losses may be made. These stocks represent holdings across the spectrum within the portfolio. This is not a buy, sell or hold recommendation for any particular security.

Balanced exposure mitigates single-factor or regional risk, enabling portfolios to withstand volatility, compound consistently and capture opportunities. Importantly, this shape must be flexible, shifting appropriately to manage changing market dynamics.

Quality at the core

In volatile markets, quality is key. The companies that preserve capital – and emerge stronger – are those with pricing power, low capital intensity, strong governance and a clear strategic edge.

These are the types of businesses we prioritise in the Ninety One Global Franchise Fund. Rather than chase momentum, we seek resilient franchises with predictable earnings, disciplined capital allocation and enduring relevance.

Quality businesses tend to demonstrate more resilient earnings due to structural advantages that help them withstand economic and market shocks. These companies typically have strong competitive moats, pricing power and loyal customer bases, which support stable revenues even in downturns. Their disciplined capital allocation, lower debt levels and asset-light models also provide greater financial flexibility, while recurring revenue streams – often through subscriptions or essential services – create predictability. For investors, resilient earnings mean fewer surprises, smaller drawdowns and more consistent compounding over time.

Importantly, many of these companies are inherently insulated from the brunt of tariff-related risks. Our portfolios are skewed towards services-oriented, subscription-based businesses – like software, financials and consumer services – with limited exposure to capital-intensive sectors like autos, machinery or commodities.

Quality businesses tend to demonstrate more resilient earnings due to structural advantages that help them withstand economic and market shocks.

Figure 2: Global Franchise revenue breakdown - looking beyond the top line.

Resilience via higher-quality revenue streams



Robust balance sheets and the inherent resilience of earnings help to limit second-order effects from tariff-related economic weakness. This resilience is already evident in market performance. During tariff-induced sell-offs, the fund has experienced smaller drawdowns than the broader market, demonstrating its defensive strength.

Source: Ninety One, FactSet, as at 31 December 2024. The portfolio may change significantly over a short period of time.



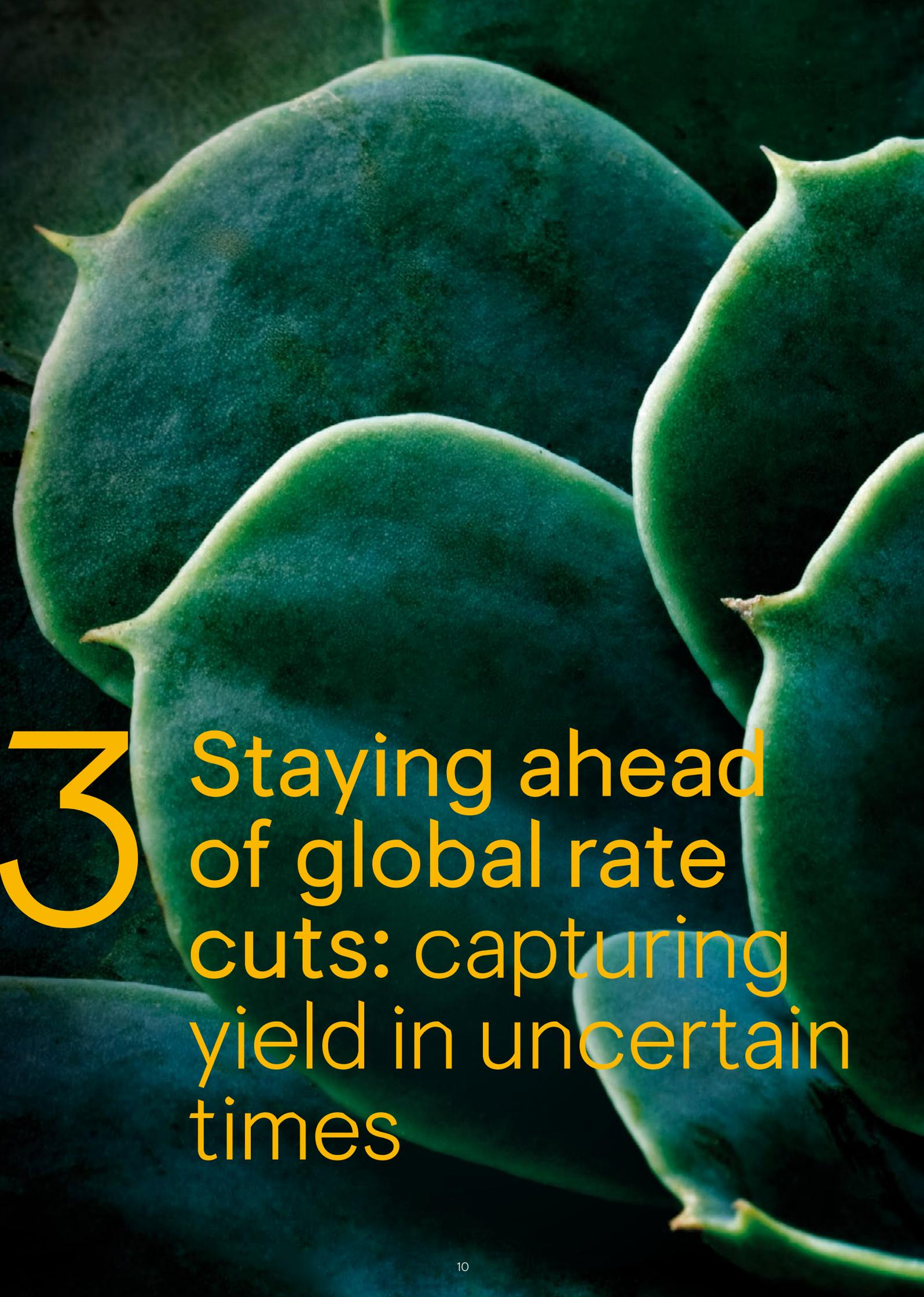
Discipline amidst the noise

The current environment remains fluid and complex, marked by uncertain policy paths and macroeconomic shifts. Clarity and discipline outweigh speed.

We don't know when this latest bout of volatility will subside. No one does. But we do know that markets will likely remain unsettled as trade rules are rewritten, inflation proves sticky and policies grow more unpredictable.

Now is not the time for overconfidence – it's the time to hold portfolios that can absorb shocks, remain agile and stay anchored in fundamentals. Resilience isn't optional – it's essential. That said, we remain highly attuned to identifying opportunities and ready to lean into more dynamic exposures, particularly after our defensive holdings have provided effective downside protection.





3 Staying ahead of global rate cuts: capturing yield in uncertain times

Fast



Adam Furlan
Portfolio Manager



Jason Borbora-Sheen
Portfolio Manager

With rate cuts on the horizon in key global markets, holding cash could come at a cost. We explore how a diversified fixed income strategy can help investors secure yield and preserve capital amid market volatility and policy shifts.

The fast view

- Over the long run, holding cash exposes investors to inflation and eroded purchasing power. In the near term, they may also miss out on securing compelling yields should central banks cut interest rates amid slowing growth.
- Regional and asset-class diversification remains crucial for preserving capital and locating attractive yield in uncertain times.
- Conservative income-seeking investors with an investment horizon of at least 12 months should consider a high-quality mix of bonds through strategies such as the [Ninety One Global Diversified Income Fund](#).
- This global fixed income portfolio targets a return of 1.5% above US dollar cash (gross of fees) over a rolling 12-month period, and no negative returns – also over rolling 12 months.
- By investing across global government debt, credit and currency markets, we seek to maximise income and mitigate risk.

A challenging environment for fixed income investors

Global markets have been turbulent this year amid escalating tariff tensions and concerns around inflation and growth. Risk assets, particularly equities, have experienced sharp declines as investors grapple with policy uncertainty. Even traditionally stable developed bond markets – which have historically offered shelter during volatile periods – have exhibited unexpected price swings. We've seen an aggressive sell-off in longer-dated bonds, reflecting deeper structural shifts and changing fiscal dynamics in developed economies.

| We've seen an aggressive sell-off in longer-dated bonds.

April vividly illustrated this unusual market behaviour as traditional correlations expected during risk-off episodes broke down. Equities fell sharply, yet the US dollar weakened against the euro, and the 10-year US Treasury yield rose, clearly diverging from typical risk-off dynamics.

This complex backdrop presents distinct challenges for fixed income investors, with sentiment globally having taken a knock. Conservative investors – especially those holding substantial positions in dollar cash – may instinctively favour caution, choosing to remain on the sidelines until clearer signals emerge. However, this perceived safety could mask hidden risks.



Global growth fears

Tariff measures introduced by US President Trump have injected inflationary pressures into global markets. Although some of these tariffs – including key ones involving China – have recently been reduced as trade negotiations resume, several remain in effect. These tariffs are effectively inflationary – raising prices of imported goods – but crucially, their indirect impacts dampen economic growth.

We expect short-term inflationary effects to give way to substantial growth challenges. However, the outlook for the US could be different than many other countries impacted by tariffs. Our current assessment suggests the US faces stagflation risks – higher inflation followed by slower growth. Conversely, other countries and regions, including Europe, the UK and New Zealand, might experience deflationary pressures due to currency strength and exposure to reduced global trade.

Market dynamics are shifting as global economies enter late-cycle territory and policymakers grapple with how best to respond to tariffs. With countries and regions diverging in interest rate responses and economic outlooks, diversification across markets is more important than ever.

Figure 1: Market expectations of the federal funds rate by the end of 2025

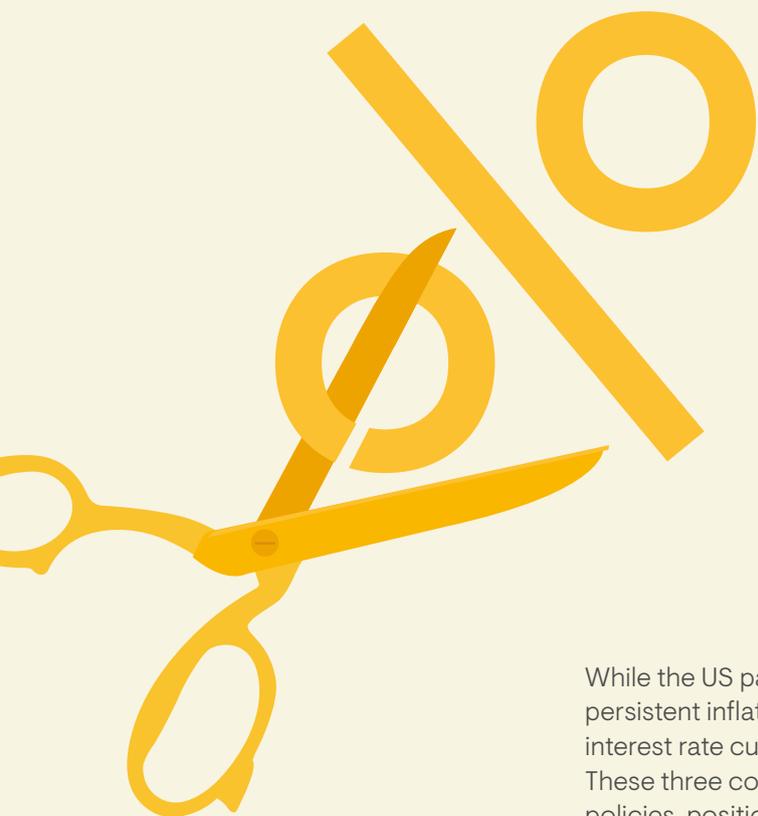


Source: Bloomberg and Ninety One.

Market expectations have moved significantly more dovish. The probability of rates being cut further in 2025 in the US (implied by the options markets) has increased from 50% to 80%.

Strategies to avoid FOMI (Fear Of Missing Income)

Markets are pricing in more interest rate cuts, leaving cash investors exposed to both eroding purchasing power and the likelihood of much lower yields when reinvesting. Locking in current attractive yields through diversified fixed income instruments mitigates these risks, helping to secure a stable income stream.



We anticipate more aggressive interest rate cuts in markets like the UK, Canada and New Zealand.

While the US path of interest rate cuts will likely be shallow due to persistent inflationary pressures, we anticipate more aggressive interest rate cuts in markets like the UK, Canada and New Zealand. These three countries currently have relatively restrictive monetary policies, positioning them for deeper rate reductions than markets currently anticipate. Our proactive stance in these regions aims to lock in yields at attractive levels, which could also provide potential capital gains as interest rates decline.

For instance, we have reduced the Ninety One Global Diversified Income Fund's exposure to longer-duration US and European bonds, redirecting capital to shorter-duration and higher-yielding positions in Canada, New Zealand and the UK. Such targeted moves illustrate our responsiveness to shifting market conditions and our commitment to safeguarding investor capital while enhancing yield.

Our cautious stance extends to credit markets, where we maintain a strong preference for shorter-duration high-quality, investment-grade corporate bonds. This selective approach has minimised the portfolio's exposure to recent volatility in credit spreads. We distinguish between temporary market dislocations and deeper systemic issues through rigorous analysis, choosing assets resilient to economic stress. Additionally, structured credit products like mortgage-backed securities (MBSs) and collateralised loan obligations (CLOs) further diversify and enhance the portfolio's yield, offering stability beyond traditional corporate paper.

Dynamic and nimble management

Currency strategy is another important component of our approach. While predominantly holding US dollars, we dynamically manage currency exposure – for example, recently taking positions in the yen to mitigate volatility and strengthen capital protection. This flexibility enables us to swiftly adjust to changing market conditions, ensuring resilience during turbulent periods.

Offering a yield of around 4.9%,¹ the Ninety One Global Diversified Income Fund embodies our balanced investment philosophy. We focus on robust capital preservation and yield enhancement through prudent duration management, targeted credit exposure and tactical geographic diversification.

Ultimately, our fund aims to provide conservative investors with an attractive alternative to holding dollar cash, carefully balancing risk and return. Amid ongoing market uncertainty, prudent diversification, flexibility and active management remain crucial in today's challenging global fixed income landscape.

We dynamically manage currency exposure

1. Source: Ninety One, as at 30 April 2025.



4

Ninety One Value Fund: 25 years on – what we have learnt

Value



John Biccard
Portfolio Manager

John Biccard assumed portfolio management of what was then the Investec Value Fund in 2000. Over the past 25 years, he has delivered exceptional returns for unit holders.

The Ninety One Value Fund has returned 16.2% p.a. over the period, outperforming both the JSE All-Share Index (14.2 % p.a.) and the average general equity fund (12.6 % p.a.).¹ Throw in the powerful effect of compounding, and the difference is staggering: an initial investment of R100 000 invested 25 years ago in the average general equity fund would have grown to approximately R1.94 million today, whereas the same amount invested in the Ninety One Value Fund would be worth around R4.29 million today.²

We asked John to reflect on the last quarter century at the helm of the [Ninety One Value Fund](#), and the secret to his performance track record.

The performance is not due to a smarter or harder-working fund manager, nor is it thanks to any ability to foresee the future. Rather, it is my firmly held belief that over the long term, value investing trumps all other investment styles. We have consistently applied these six value principles (with no exceptions) since I took over the Ninety One Value Fund 25 years ago.

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1. Source: Morningstar, dates to 30 April 2025. NAV based, net of fees with gross income reinvested, in rand. Past performance is not an indicator of future performance; losses may be made. Ninety One Value Fund A Inc ZAR class unit inception date: 02.04.00. The highest and lowest 12-month rolling performance since inception is 87.4% and -28.2% respectively. Please visit the [Ninety One Value Fund](#) web page for more details on the fund, including the factsheet (MDD).
 2. Source: Morningstar, dates to 30 April 2025. Performance figures above are based on a lump sum investment (R100 000), NAV based, net of fees with gross income reinvested, in rand.

1 We don't come up with stock ideas, the market does.

Our ideas come solely from our exclusive focus on the worst-performing stocks, not stocks that have pulled back 10 or 20 percent from all-time highs, but rather stocks that have fallen massively (usually 80 percent or more) and preferably stocks that have been falling for years and are now ridiculed by market commentators.

To quote Bank of America's Michael Hartnett, our mantra is to "sell hubris, buy humiliation". We don't rely on 'good ideas' based on what we think is going to happen in the future. This is important, as our experience is that nobody is very good at predicting the future.

2 We don't make forecasts.

In our experience, forecasts are generally wrong. We also don't believe that upsizing the analytical team improves the success rate, which seems to us to remain stubbornly around 50%. Rather than making forecasts, we view the future as entirely uncertain, preferring to 'play the odds' by buying stocks that have been humiliated and trade on extremely low valuations.

This category of stocks helps protect us against an uncertain future – if the news is bad, the share is protected by the combination of a low valuation and low expectations of its shareholders ("I told you the share is a dog!"). If the news is good, it is a surprise to the market, which has sold the share down, expecting nothing good in the future.

3 We only buy low-valuation stocks.

There are no exceptions to this rule. This is because, in our view, valuation is *the* most important variable in selecting a stock. As discussed above, it is a protection in a 50/50 world. In addition, of all the factors that drive stock returns (which include future earnings, future growth of the industry in which the company operates and future value creation, i.e. return on equity above the cost of capital), historical valuation is the *only* variable we know with 100% certainty. We therefore upweight this variable to be the dominant driver of our decision whether to invest or not.

4 We will average down relentlessly.

There is no reason a share should rise simply because we've bought it. In fact, this hardly ever happens. When we purchase a stock, we fully expect it to fall further. Before buying, we ask ourselves: How would we feel if the stock fell a further 50% after our purchase? Would we be inclined to buy more or panic out? An example of this is our large platinum group metals (PGM) position during the mid-2010s. We started buying Impala in 2014 at around R90 a share and were still buying it 4 years later at R30.

5 We are not worried about catalysts for stocks and don't believe in the existence of "value traps".

If we were to wait for the appearance of a catalyst to unlock a stock's value, we would be too late: if we can see the catalyst, then the entire market can see it, and the share would already have risen. A stock that is labelled a "value trap" is really just a stock on which the market has totally given up – one that the market is 100% sure will never see a catalyst to unlock the value. As a result, we are especially interested in "value traps".

6 We define risk differently to the market.

The market focuses on two types of risk: volatility of the share price (i.e., how much the share moves up and down every day) and tracking error of the portfolio (i.e., how your portfolio differs relative to the index). Neither of these is of any consideration to us. Why should we care if the stock moves around a lot in the short term?

Tracking error risk is really just 'career risk'; it's what happens if we are wrong over the short term and get fired while we are waiting for the value to be unlocked. Jokes aside, the only risk that concerns us is the risk of a permanent loss of capital as a consequence of the liquidation of the company or industry in which we are invested. The work we do to limit this risk is to analyse the industry and focus on the company's balance sheet and liquidity. This approach helped us to avoid Kodak, which was a victim of the industry's collapse, and African Bank, where there was liquidity and balance sheet risk.

A key component to achieving long-term returns is to judge when to go big, i.e., when to upsize the positions in the fund. A sign that it is time to do this is when the market's aversion to a stock or a group of stocks becomes a narrative. This concept is often expressed by a catchphrase which either dismisses the idea or justifies holding it. Some good recent examples you've likely heard over the last 12 months are "American exceptionalism" and "China is uninvestable". These catchphrases have been used to backfill the reason why US stocks have massively outperformed Chinese stocks over the last 10 years.

Sticking to this approach, the Ninety One Value Fund's long-term track record has therefore been built around five large positions over the last 25 years, in each case going against the narrative of the time. In 2001, we invested solely in 'SA Inc.' stocks during the rand crisis and low valuations; in 2024, we did this again during the Eskom crisis and election uncertainties; and from 2014 to 2018, we invested in gold and PGMs, after avoiding all commodities in 2008.

The Ninety One Value Fund's long-term track record has been built around five large positions over the last 25 years.

The fund is currently positioned in mid- and small-cap 'SA Inc.' stocks trading at absurdly low valuations due to lingering concerns with respect to South Africa. We also have exposure to select SA-listed commodity stocks (Exxaro, African Rainbow Minerals and Sasol), which are affected by low valuations and low prices for oil, manganese, coal and, to a lesser extent, iron ore. Offshore, the fund is invested in China, emerging markets and global beer and spirits stocks. We have almost no exposure to the US.

The simple process we have described has driven the performance we have achieved. However, it's important to emphasise that although the process is simple, it is not easy. While technical skills are obviously required, the real differentiators are tenacity, and an ability to ignore the crowd and tolerate long periods of underperformance. The longest period of underperformance began in September 2011 and lasted 4 years. Over that time, the fund underperformed the benchmark by 40%, which saw two-thirds of our clients leave us. We have no doubt that those dark days will return, but after 25 years – and having witnessed the rise and fall of many cycles – we know that if the work has been done and one is prepared to see it through, the rewards may well be significant.

The real differentiators are tenacity, and an ability to ignore the crowd and tolerate long periods of underperformance.

John Biccard
Portfolio Manager



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5 Managing market risk for pensioners: protecting pension income as retirement nears



Jaco van Tonder
Advisor Services Director

Many investors approaching retirement face concerns about protecting their pension pot from late-market shocks. We share strategies to effectively manage market risk from pre- to post-retirement.

The fast view

- Pre-retirement market corrections pose a significant risk to pension income stability.
- Different annuity types require tailored pre-retirement investment strategies.
- Investors choosing guaranteed annuities should during their last few working years gradually shift towards a bond-oriented portfolio that matches their chosen annuity's asset composition.
- Living annuity investors require exposure to growth assets such as equities to ensure a sustainable pension income. Therefore, de-risking their portfolio before retirement is generally not a prudent strategy.
- They should maintain their pre-retirement equity exposure into retirement, staying invested during market downturns to avoid locking in losses.

Retirement savers face numerous risks throughout their financial journey. Most of these risks are well understood: starting retirement planning too late, contributing inadequate amounts to their pension pot, making early withdrawals from retirement funds and investing pension assets too conservatively. While we've addressed these issues in previous articles, another critical risk emerges as retirement approaches – one that recent global market volatility has brought into sharp focus.

The pre-retirement vulnerability window

Adverse market movements close to retirement can significantly erode the value of a pension pot at the worst possible time. A key objective for financial advisors during these vulnerable final years is helping clients navigate this risk to ensure their retirement income objectives remain achievable.

What's crucial to understand is that the optimal approach to managing this risk depends not only on the investment strategy but also on the type of annuity the retiree intends to purchase. This article outlines tailored protection strategies aligned with different annuity types, offering a practical framework for managing risk from pre- to post-retirement.

Understanding the pre-retirement to post-retirement transition risk

We have previously explored the risks pensioners face from different pension income product options. However, the specific retirement income product chosen also exposes retirees to sequence-of-returns risk during the final accumulation years, where market shocks occurring shortly before retirement can disproportionately impact retirement incomes.

Many occupational retirement funds in South Africa attempt to address this risk through life-stage investment strategies, where asset allocations become increasingly conservative as retirement approaches. This creates a false sense of security by focusing on maintaining a stable market value of the pension benefit, when the real priority should be on the level of inflation-adjusted income the pensioner will be able to secure. That said, a life-stage portfolio may still be appropriate in certain circumstances – but it's not a universal solution for mitigating market risk close to retirement.

Case study: Mr Johnson

Let us consider Mr Johnson, who has contributed to his company pension fund throughout his working life and now has R10 million saved for retirement:

- His retirement portfolio is invested in a standard balanced portfolio (70% equities and 30% bonds).
- He plans to retire with a living annuity, maintaining 60-70% equity exposure and drawing an initial annual income of 4%.
- Shortly before his retirement date, an equity market drop of 15% reduces his fund value by 10%.

Is Mr Johnson worse off? Conventional wisdom suggests yes, as his pension portfolio has decreased by 10% to R9 million. The reality, however, depends on the nature of the market drawdown:

Scenario 1

If the equity market drawdown is short-lived due to temporary factors, Mr Johnson will be largely unaffected. As markets recover, so too will his portfolio – provided he maintains a high equity exposure.

Scenario 2

If, however, the correction stems from structural, longer-term economic headwinds leading to a 5-year bear market, Mr Johnson's portfolio will experience significant sequence-of-returns risk. His living annuity will struggle to recover unless he can temporarily reduce his income withdrawals during this period.

What can Mr Johnson do to protect his portfolio in those crucial few years before retirement? Unfortunately, there isn't a straightforward solution.

Progressively switching his pension portfolio into lower-risk investments like bonds and cash during his last few working years may seem attractive to guard against a market collapse. But it feels counterintuitive to de-risk a long-term investment portfolio to fixed income prior to retirement. By switching to fixed income, he risks locking in market losses or missing out on valuable equity market growth in those critical final years. Additionally, he would then need to phase back into equities after purchasing the living annuity, introducing further complexity.

Another case study: Ms Smith

Now consider Ms Smith, who is also about to retire from her company pension fund, with R10 million available to purchase a lifetime pension income:

- Her retirement portfolio is also invested in a standard balanced portfolio (70% equities and 30% bonds).
- She wants to retire with a fully guaranteed life annuity with a 5% fixed annual income increase – currently offering a 6.5% starting income (R650 000 p.a.).
- Shortly before her retirement date, an equity market drop of 15% reduces her fund value by 10%.

Is Ms Smith worse off? Again, conventional wisdom suggests yes, as her pension portfolio has decreased by 10% to R9 million. However, the reality depends on bond market behaviour during the equity market decline, as guaranteed annuity rates are driven by long-dated bond yields.

The outcome varies depending on the context:

Scenario 1

The correction is triggered by a temporarily overheated equity market, with no fears of an economic crisis. Bond yields and annuity rates remain stable at 6.5%. Here, Ms Smith is indeed worse off, as her starting income falls from R650 000 to R585 000 annually.

Scenario 2

The correction stems from structural economic issues – credit fears, a weakening currency and inflation concerns – causing both equity and bond markets to experience capital losses. Bond price declines increase yields, triggering a spike in life annuity rates to 8.5% (similar to the 2008 Global Financial Crisis). In this scenario, Ms Smith's starting income actually increases to R765 000 – higher than before the market correction. However, the possibility of rising inflation eroding her pension income over time is a concern.

What pre-retirement investment strategy could protect Ms Smith's pension pot? The simplest strategy would be to match the asset allocation of the guaranteed life annuity portfolio she intends to purchase for her pension income. This typically comprises 10%-15% equity exposure, with the majority of assets invested in medium- and long-dated bonds. The pension fund or financial advisor could implement a glide path to this portfolio allocation during the final 3-5 years before retirement.

Executing this strategy effectively hedges Ms Smith's income against late-market corrections negatively impacting her initial income. However, it also means that she will not fully participate if equity markets rally shortly before she retires.

Both examples illustrate that there are no free lunches when trying to protect pension pots against pre-retirement market corrections. All the options involve a trade-off between risk and return.

Solving the problem: working backwards from the annuity strategy

Both case studies highlight why advance planning for the transition into retirement is so important. Ideally, an advisor should actively engage with prospective pensioners starting 3-5 years before the planned retirement date.

Effectively managing the risks associated with a pre-retirement market correction requires a clear understanding of the intended pension annuity type. The key investment strategy involves gradually aligning the asset allocation of the pre-retirement portfolio with that of the chosen pension annuity.

Guaranteed annuities require a bond-matching strategy

For someone like Ms Smith, who is retiring with a guaranteed life annuity, income certainty is more important than other considerations. Target clients for guaranteed annuities often have limited retirement savings from the outset, reinforcing the need for secure, predictable income.

For Ms Smith, it makes sense to gradually de-risk her portfolio in the final working years. Such an approach can be implemented by investing her pension pot in a life-stage portfolio at least 3 years before retirement. This creates a glide path towards matching the bond portfolio typically backing guaranteed life annuities, largely mitigating the impact of late-market shocks on her starting pension income.

Most occupational pension funds in South Africa now offer life-stage solutions to members.

Living annuities require a growth-asset strategy

In the case of Mr Johnson, who intends to purchase a living annuity, a different approach is required. Some readers might intuitively feel that Mr Johnson should follow the same glide path towards a bond portfolio as Ms Smith. Wouldn't a bond portfolio provide a more stable fund value in the final years?

This is a common misconception, as what truly matters is the stability of pension income – not necessarily the stability of the portfolio value. Following a glide path towards a bond portfolio actually represents a tactical asset allocation strategy, where the investor shifts into fixed income before retirement, only to switch back into a balanced portfolio upon converting to a living annuity. Such dramatic changes in asset allocation exacerbate rather than solve the problem.

What truly matters is the stability of pension income – not necessarily the stability of the portfolio value.

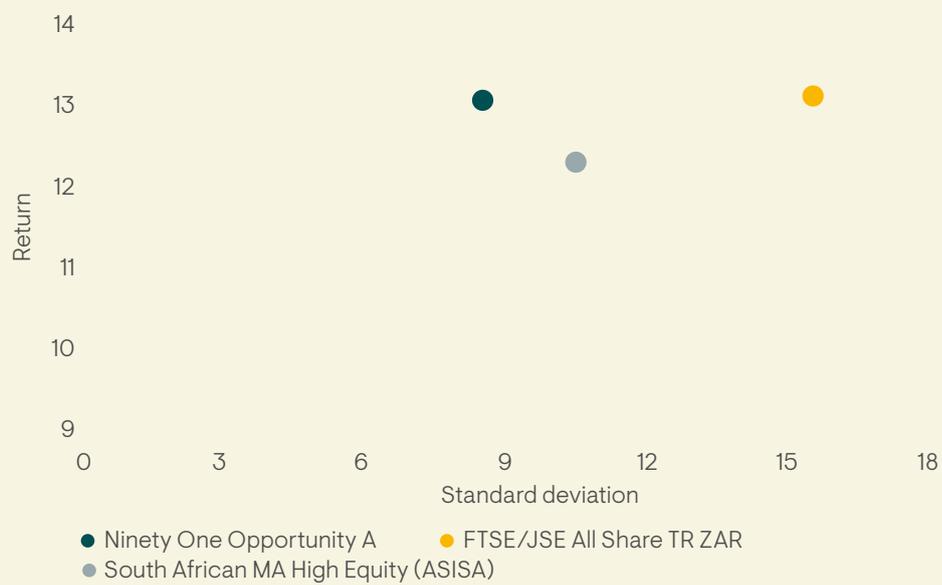
Mr Johnson's optimal strategy is actually to maintain his pre-retirement equity exposure throughout his final working years – just as any long-term investor should remain invested during market downturns. Based on our previous research into optimal living annuity portfolios, this means maintaining around a 60% equity exposure in those critical final years before retirement.¹

If Mr Johnson wanted additional protection, he could implement other strategies to guard against market volatility around his retirement date. One strategy, if affordable, would be temporarily drawing a very low income from his living annuity for one or two years following a market crash. This would give his living annuity time to recover with the markets.

1. [Managing retirement income | Ninety One | South Africa.](#)

A second strategy would be investing those final three years in a low-volatility balanced portfolio offering downside protection while still retaining meaningful exposure to equity growth assets. The Ninety One Opportunity Fund provides an excellent example of such an option, demonstrating a credible track record of equity market participation combined with downside protection since inception.

Figure 1: Ninety One Opportunity Fund – producing equity-matching returns at half the volatility since inception



Source: Morningstar, NAV to NAV, gross income re-invested, performance net of fees from 02.05.00 to 31.03.25. Equities represented by the FTSE/JSE All Share TR.

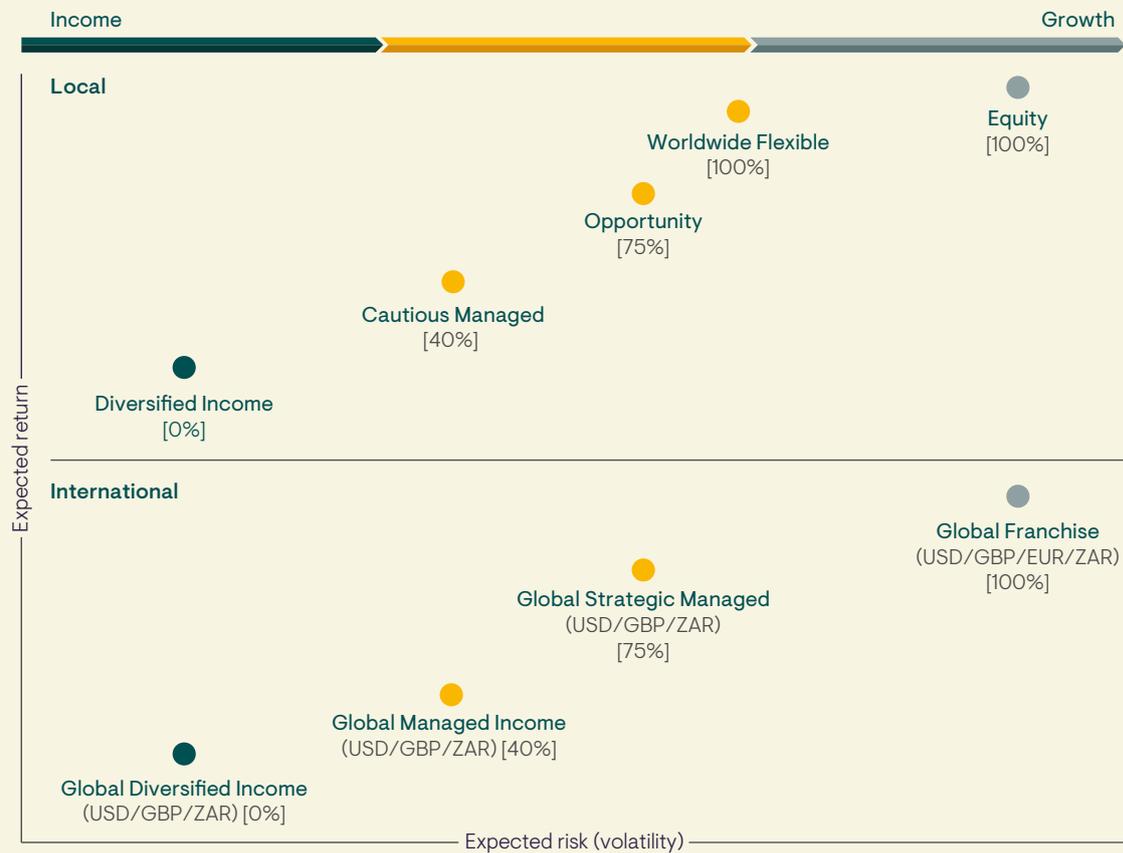
Conclusion: matching investment strategy to reality

A well-structured retirement transition plan isn't about blindly protecting pension asset values from adverse markets in the final pre-retirement years. Rather, it involves carefully aligning the investment strategy with each client's income goals and chosen annuity.

Different annuity types introduce distinct risks, each requiring tailored actions during those critical final years before retirement. For financial advisors, understanding these nuances is essential for designing pre-retirement portfolios that provide stability and confidence to pensioners as they approach retirement – regardless of market conditions.



Ninety One core fund range



Note: [] indicates maximum in equities. Our offshore funds are available as feeder funds. The expected risk and volatility may not be achieved, and the value of your investment may go down as well as up. Please refer to our [Core fund range](#) page on our website.



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