



## **Impact of global financial crisis**

**The facts, the international perspective and  
a consulting perspective**

Ant Lester, Tommie Doubell & John Anderson



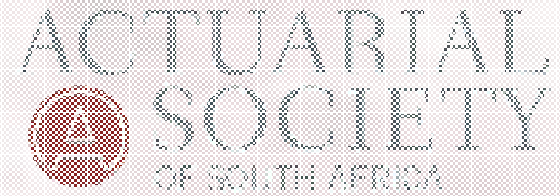
## **Impact of global financial crisis**

Ant Lester

Fifth Quadrant Actuaries & Consultants



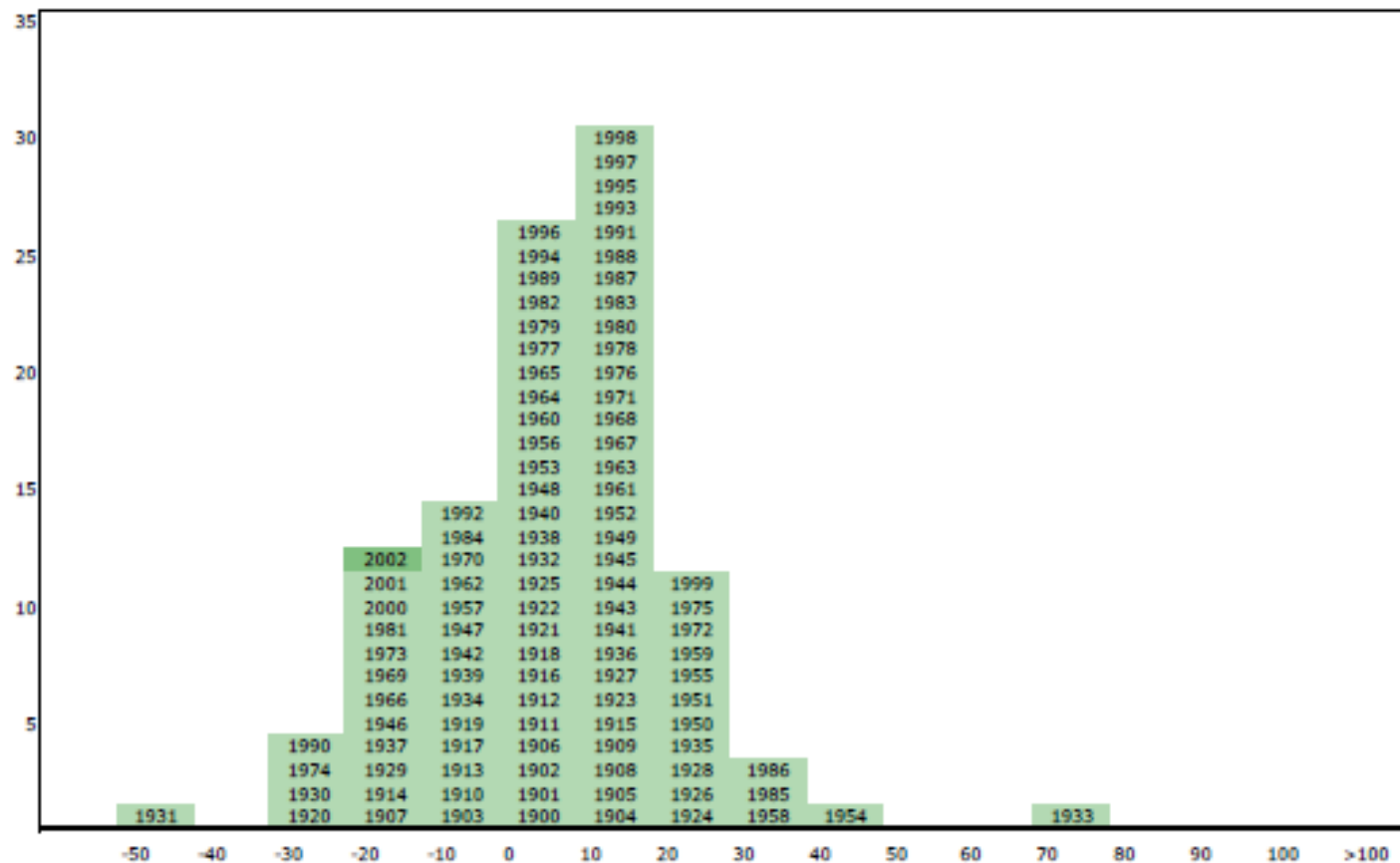
# Agenda



1. A historical perspective
2. Impact on retirement fund members
3. Looking forward

# Global equities in USD

Chart 87 : World equity risk premium relative to bills

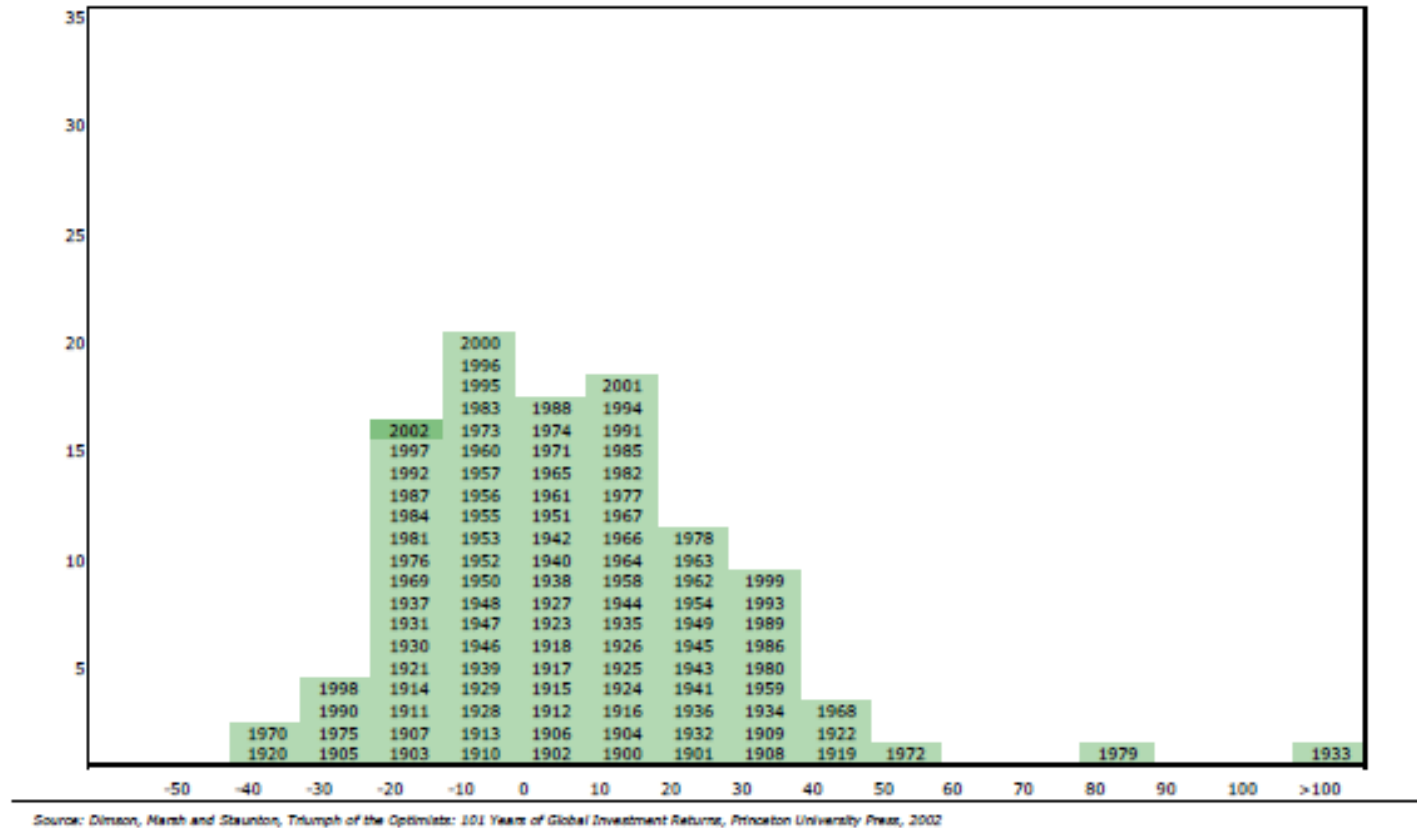


Source: Dimson, Marsh and Staunton, Triumph of the Optimists: 101 Years of Global Investment Returns, Princeton University Press, 2002

2008 risk premium to cash is -42%, worst since 1931

# SA equities

Chart 63 : South African equity risk premium relative to bills



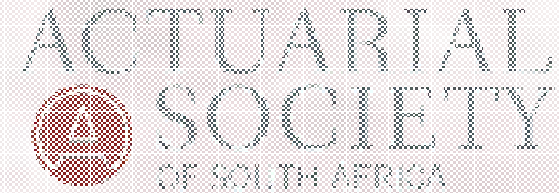
2008 risk premium to cash - 35%



## Causes of the crisis

- Excessive borrowing at low interest rates
  - Shadow banking system
  - Consumption culture
  - Speculation
- Governments wrongly believed that they could avoid recessions (and depressions) via a combination of monetary and fiscal policy

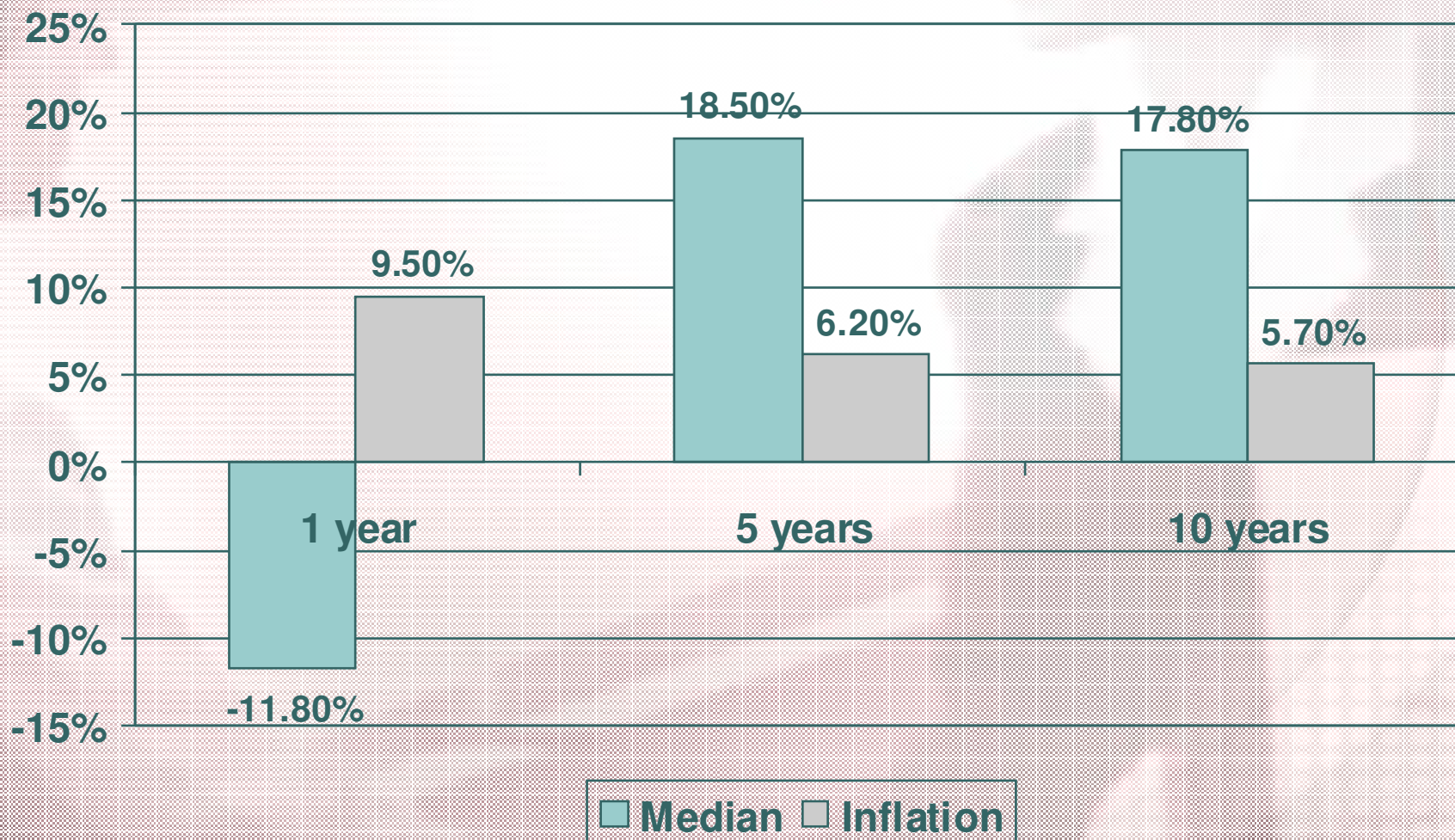
## Causes of the crisis (continued)



- Forgot that capitalism is a system based on trust and confidence
  - “Batten down hatches”
  - Mark to market accounting
  - Tightly coupled complex system

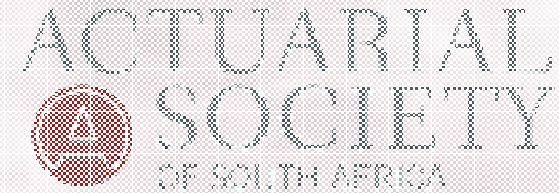


# Returns to 31 December 08





# Comments



- Real returns of 15% + are not sustainable (no economic growth story is that good); must give away something in the future
- Funds generally came out of this well
  - Manager “alpha”
  - Strong SA bond performance in 2nd half of 2008
  - ZAR depreciation offset about 50% of the global equity returns

## Possible long term effects

- Corporates and households were reduce the extent of their borrowings – switch from consumption to savings culture
- De-globalisation – “Buy American”; “British jobs for British people”; lower investment in emerging markets
- Re-regulation – US and UK governments hold large investment in the financial and auto sectors; executive remuneration; reduce moral hazard



## Possible long term effects

- All of this points to lower growth in the developed world
- Risk of social unrest (probably small, but a “left field” event)

## Comments

- Current crisis is fundamental – odds are that the recovery will take a long time. Same order of dislocation in markets as in “Great Depression” (1930’s) and hyper-inflation (1970’s)
- Does not say whether equity markets are expensive or cheap – this depends on whether market expectations (in price) are the same (market prices fair), too optimistic (market expensive) and too conservative (market cheap)



# Summary

- SA retirement funds did remarkably well through the 2008 crisis and the 10 year real returns remain far above the long term average
- Going forward may be more challenging
  - Less alpha
  - Inflation risk in SA
  - Low economic growth



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