Volume 11, No. 11,
November 2015

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 2015

By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

1. Review of Portfolio Performance

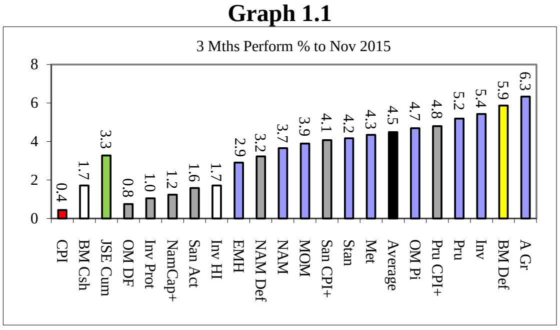
In **November** the **average prudential balanced portfolio** returned -0.32% (Oct: 5.23%). Top performer is Investec (0.39%); while EMH Prescient (-1.21%) takes the bottom spot. For the 3 month period Allan Gray takes top spot, outperforming the 'average' by roughly 1.8%. On the other end of the scale EMH Prescient underperformed the 'average' by 1.6%.

Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced portfolios (black bar), the JSE Allshare Index (green bar), and the CPI (red bar). Benchmark investors should take note of the performance of the default portfolio (yellow bar), which now represents a combination of Prudential Namibia Inflation Plus and Allan Gray Namibia Balanced Fund.

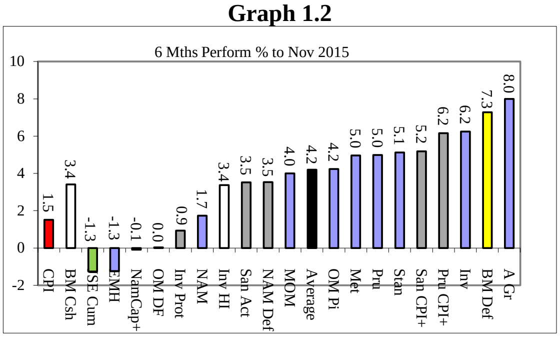
Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer Price Index	CPI (red)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no color)
Investec High Income (interest bearing assets)	Inv HI (no color)
Investec Protector	Inv Prot (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Sanlam Active	San Act (grey)
Sanlam Inflation Linked	San CPI+ (grey)
NAM Capital Plus	NamCap+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
EMH Prescient Balanced Absolute	EMH (blue)
Investec Managed	Inv (blue)
Prudential Managed	Pru (blue)
Metropolitan Managed	Met (blue)
NAM Prudential Balanced	NAM (blue)
Old Mutual Pinnacle Profile Growth	OM Pi (blue)
Momentum Managed	MOM (blue)
Stanlib Managed	Stan (blue)

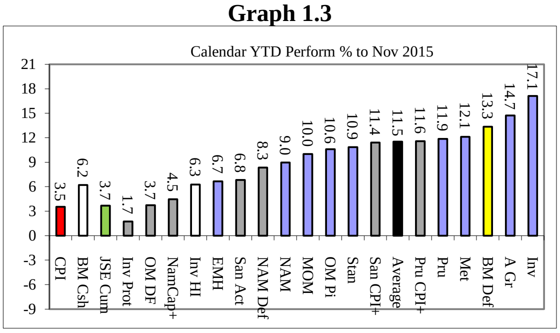
Graph 1.1



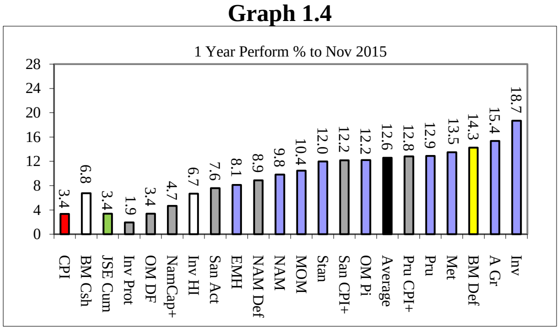
Graph 1.2



Graph 1.3



Graph 1.4



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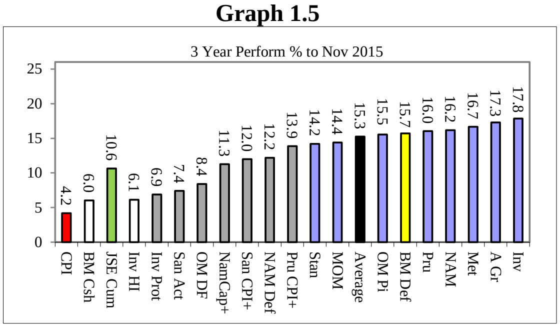
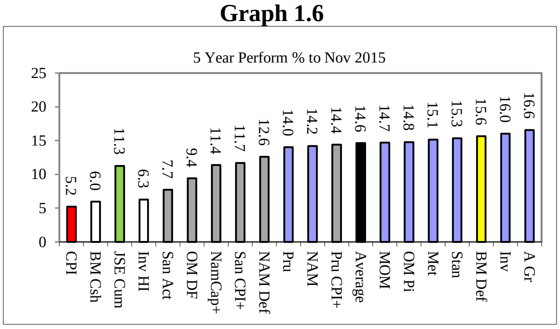
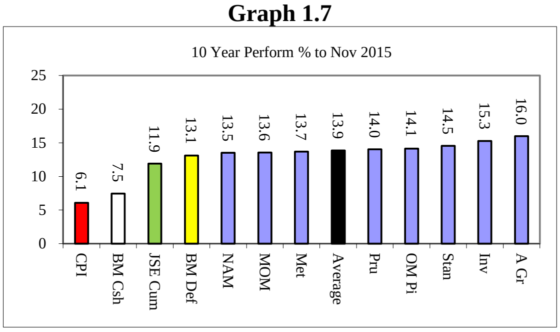
Graph 1.5



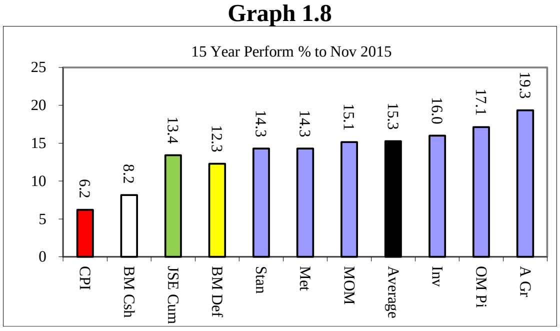
Graph 1.6



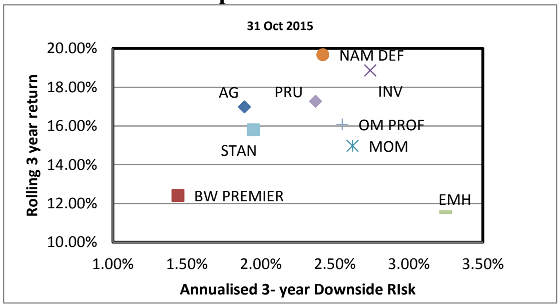
Graph 1.7



Graph 1.8

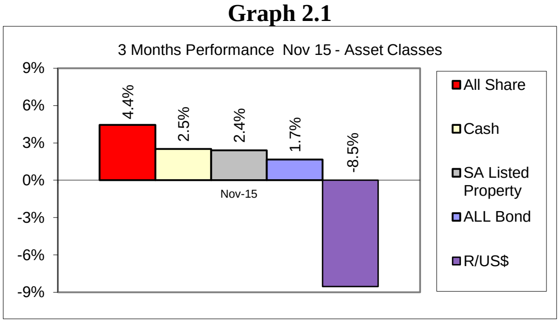


Graph of the month

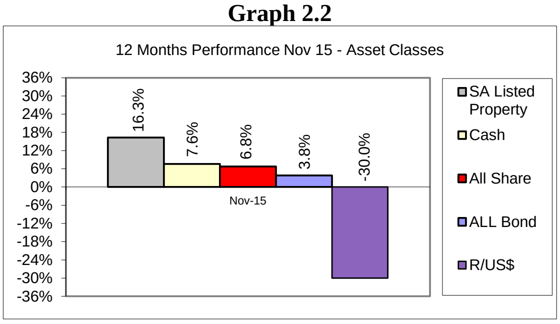


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

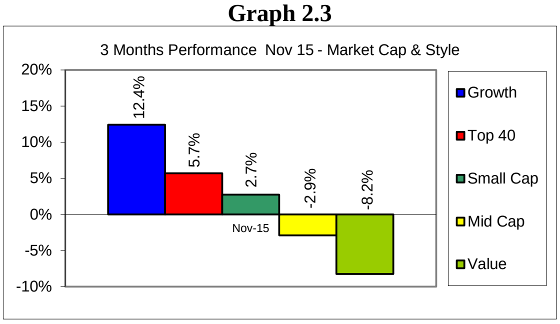
Graph 2.1



Graph 2.2



Graph 2.3



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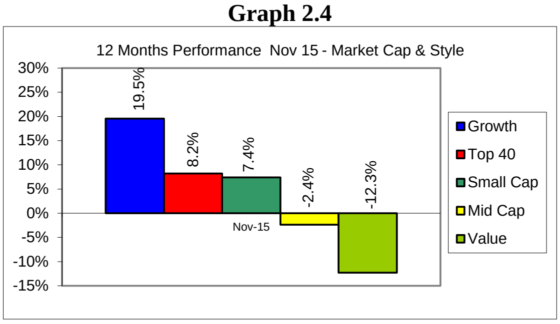
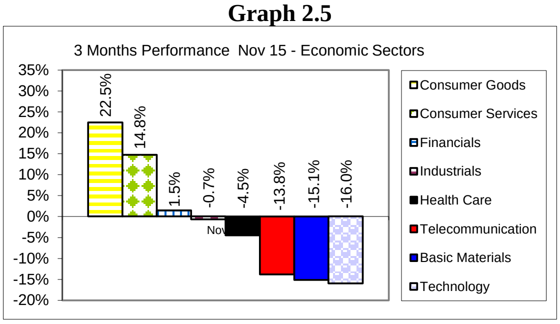
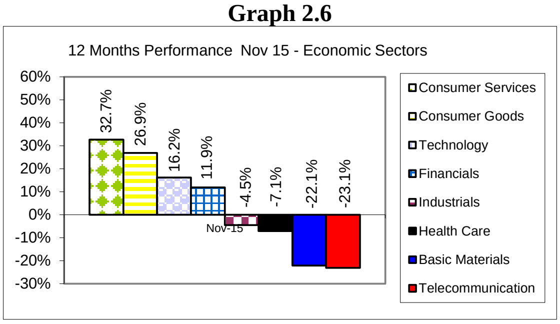
Graph 2.4



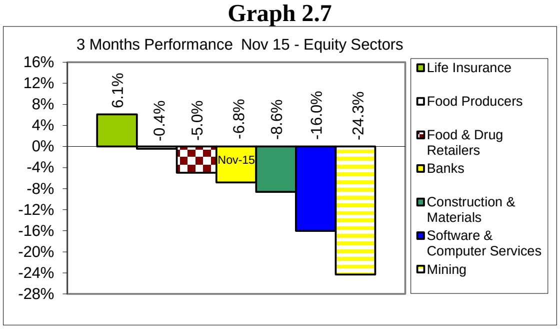
Graph 2.5



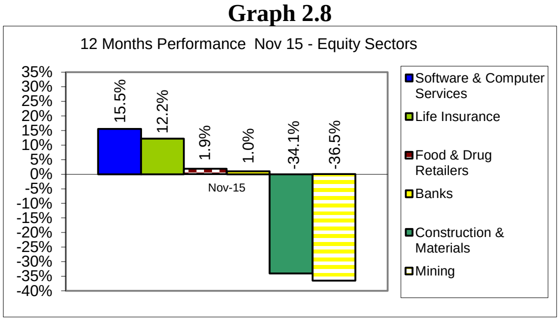
Graph 2.6



Graph 2.7



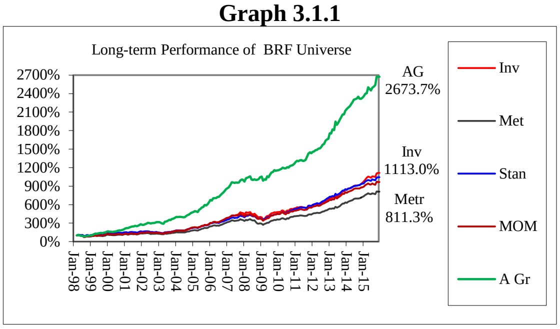
Graph 2.8



3. Portfolio Performance Analysis

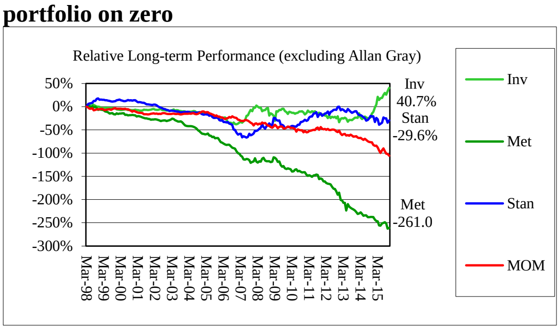
3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

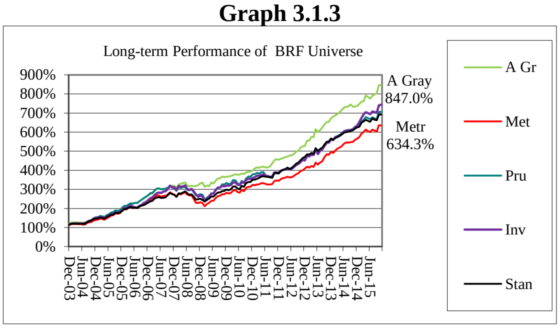


Graph 3.1.2

Cumulative performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

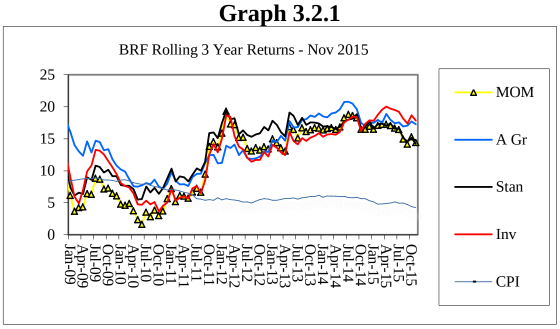


Graph 3.1.3



3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1



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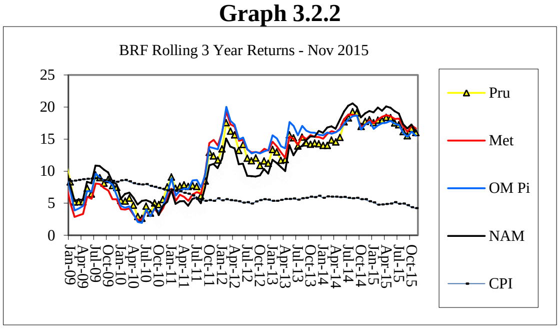
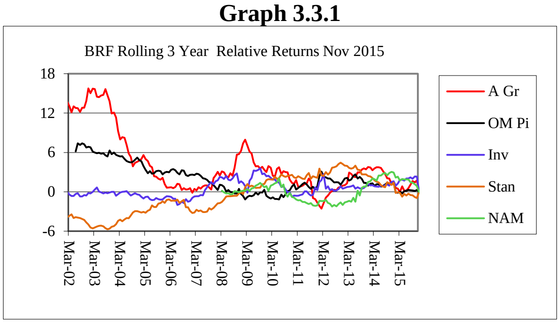
Graph 3.2.2

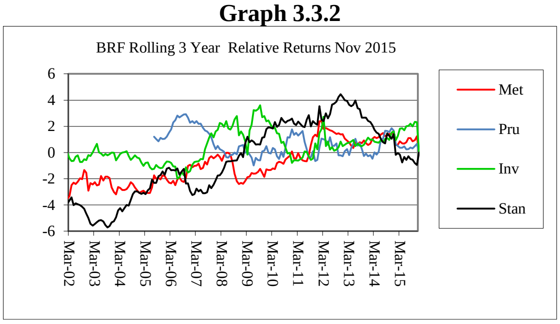


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

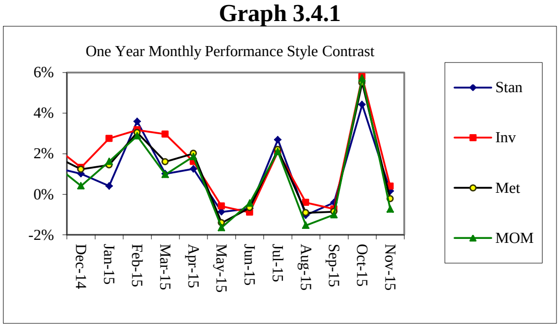


Graph 3.3.2

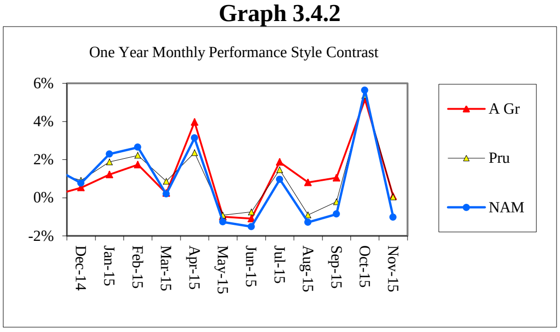


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

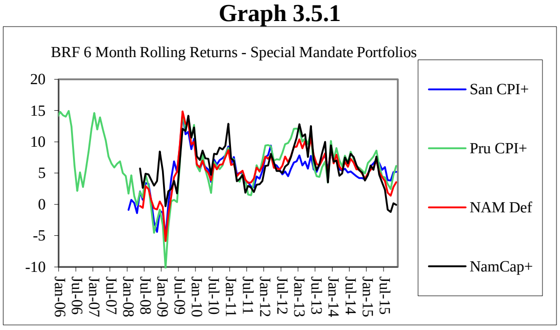


Graph 3.4.2

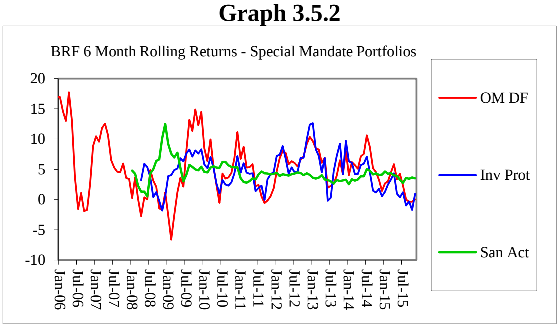


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

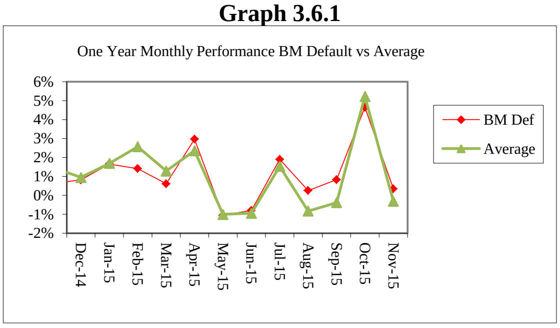


Graph 3.5.2



3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1



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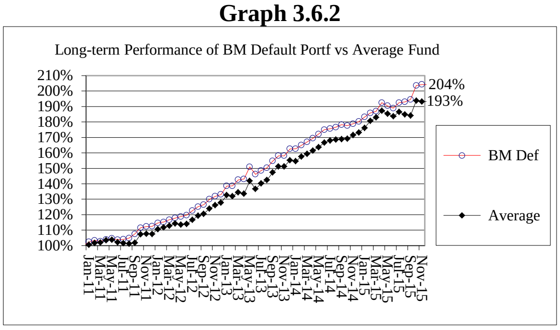
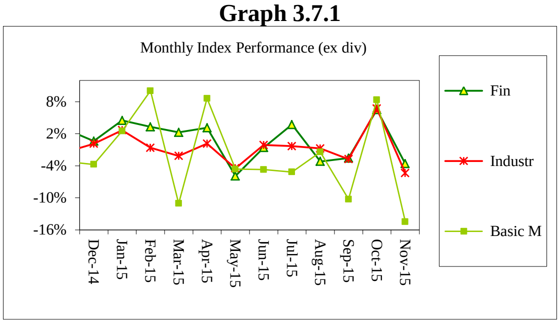
Graph 3.6.2

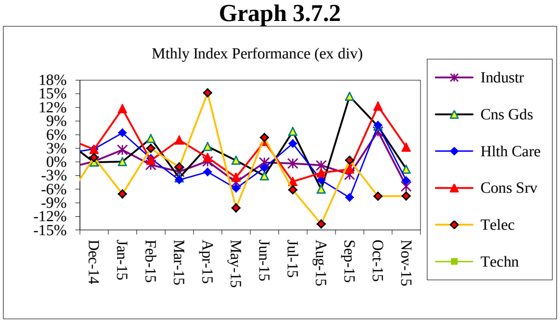


3.7 One year monthly performance of key indices (excluding dividends)

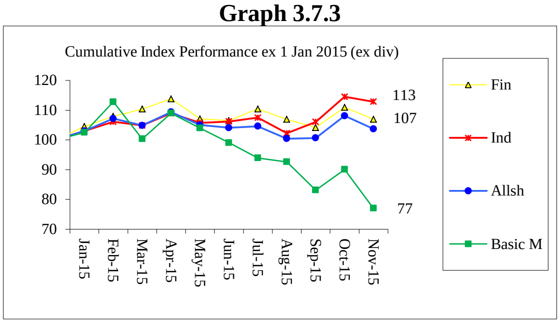
Graph 3.7.1



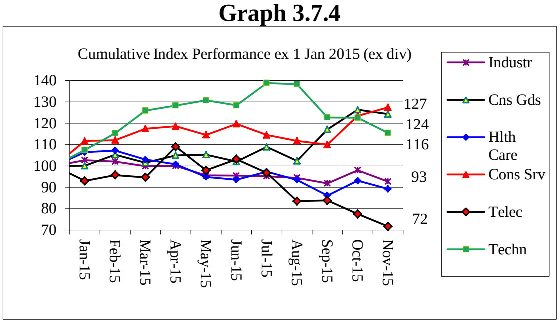
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average pru man portfolio
5 year nominal return - % p.a.	15.6	14.6
5 year real return - % p.a.	10.4	9.4
Equity exposure - % of portfolio	50.2	61.5
Cumulative return ex Jan 2011	103.6	93.7
5 year gross return target - % p.a.	5	6
Target income replacement ratio p.a.	2	2
Required net retirement contribution - % of salary	13.0	11.6

The above table reflects the actual returns versus target returns required to produce an income replacement ratio of 2% of salary per year of fund membership that should secure a comfortable retirement income.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.3%	8.0%	9.0%
Best annual performance	6.8%	27.1%	25.0%
No of negative 1 year periods	n/a	0	0
Average of negative 1 year periods	n/a	n/a	n/a
Average of positive 1 year periods	5.8%	16.6%	16.8%

The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years December 2012 to November 2015. This gives an indication of volatility of the performance of these 3 risk profiles.

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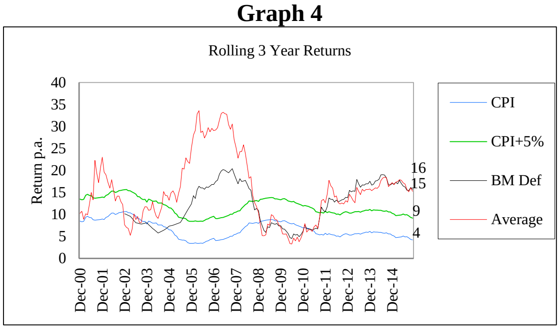
Graph 4



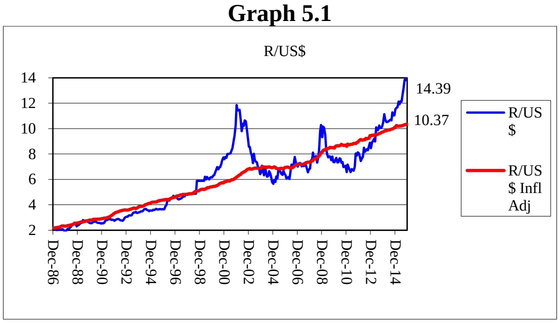
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end November was 15.69%, the average was 15.25% vs CPI plus 5% currently on 9.2%.

5. Review of Foreign Portfolio Flows and the Rand

How is the Rand doing?

Graph 5.1 indicates that the Rand by our measure is fairly valued at 10.37 to the US Dollar while it actually stood at 14.39 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

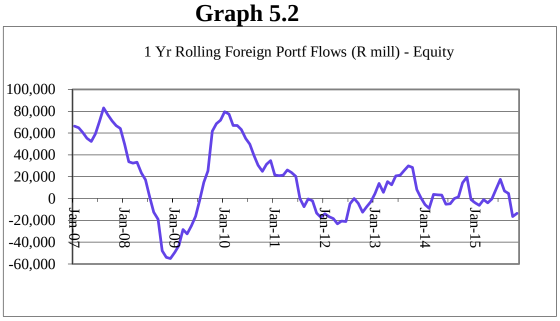
Graph 5.1



Rand weakened with foreign capital outflows

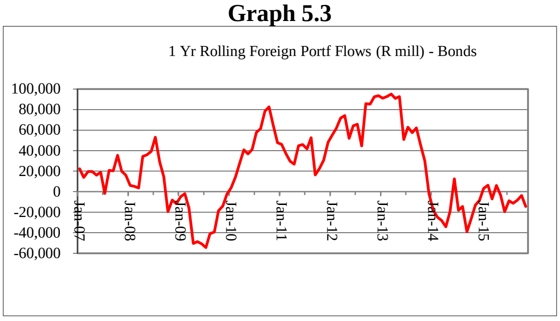
Graph 5.2 reflects a flow of capital into South African equities on a rolling one year basis, with a net outflow of 13.7 bn on a year-on-year basis at the end of November (outflow of R 16.5 bn year-on-year to end October).The month of November experienced a net outflow of R 8.4 bn. Since the beginning of 2006, foreign net investment in equities amounts to R177 bn (end October R 185 bn). This represents roughly 1.5% of the market capitalization of the JSE.

Graph 5.2



Graph 5.3 on a rolling one year basis reflects foreign portfolio outflows in respect of SA bonds of R 14.5 bn over the past 12 months to end of November (outflow of R 3.7 bn over the 12 months to end of October). Since the beginning of 2006, foreign net investment in bonds amounts to R 213 bn (to October just over R 219 bn). The month of November experienced a net outflow of R 5.9bn.

Graph 5.3



The net outflows of foreign capital from equity and fixed interest securities was R 28.2 bn for the rolling 12 months to end November 2015 (outflow of R 20.3 bn to end October 2015), compared to an outflow of R 6.6 bn for the 12 months to end November 2014 (outflow of R 12.4 bn to end of October 2014). Since the beginning of 2006, total net foreign portfolio inflows amounted to R 389 bn (October 404 bn).

Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 11.9% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of just over 28 years was 8.4% per year. This is equivalent to a growth in real terms of 3.5% p.a. over this period, excluding dividends, or around 7% including dividends.

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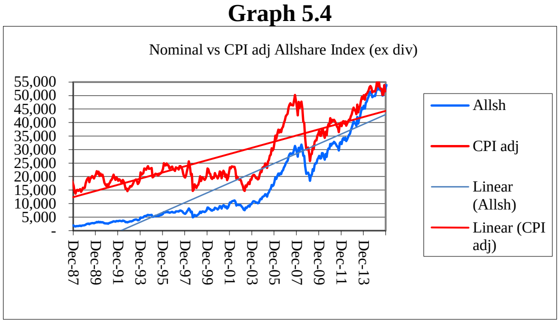
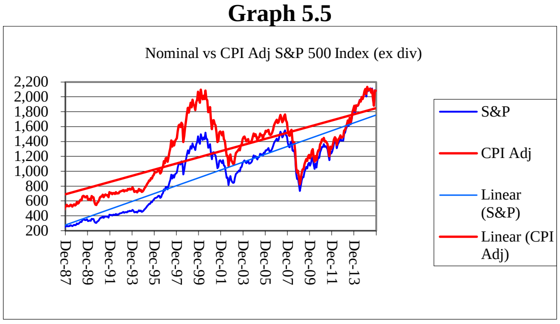
Graph 5.4



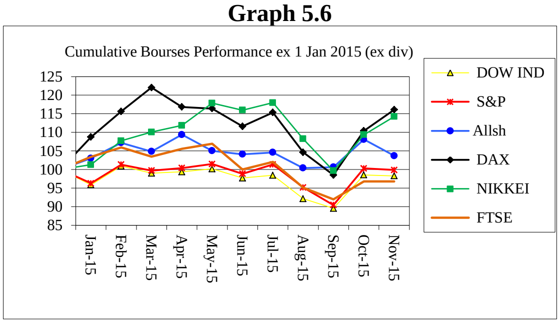
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.3% per annum, over this period of just over 28 years. US inflation over this period was 2.7%. This is equivalent to a growth in real terms of 4.6% p.a. over this period, excluding dividends.

Graph 5.5



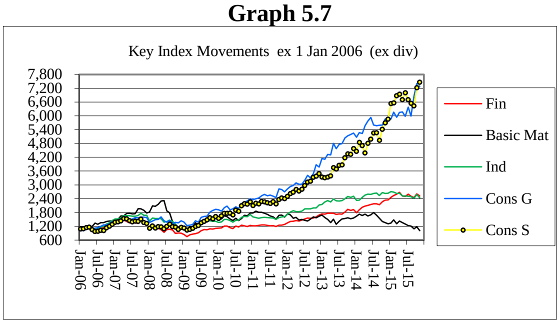
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the DAX and the NIKKEI as the top performing share indices.

Graph 5.6



Graph 5.7 provides an overview of relative movement of the key equity sectors on the FTSE/JSE since December 2005 when these indices were first introduced. From this the investor should be able to deduce which sectors offer greater value and which one's offer less value on the basis of fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 22.5%; Consumer Goods 22.2%; Financials 9.7%; Industrials 9.4%; and Basic Materials 0.1%.

Graph 5.7



6. Should your asset manager factor political considerations into investment decision?

By Tilman Friedrich

When you listen to money managers of pension fund investments, they say their investment horizon is the long-term and they will caution not to be overly concerned about the short-term. They will also tell you that in the long-term you should be invested in equity as equity has historically proven to outperform all other 'conventional' pension fund asset classes. But look at this table:

Period	Worst perf	Best perf	Average	JSE Allshare
3 Months	2.7%	7.1%	3.9%	3.3%
6 Months	-0.4%	6.8%	3.5%	-1.2%
YTD	8.0%	16.7%	11.9%	8.1%
1 Year	11.1%	21.1%	14.6%	8.2%
3 Years	15.2%	18.7%	16.0%	13.1%
5 Years	13.9%	16.7%	14.7%	12.1%
10 Years	13.7%	16.3%	14.1%	12.6%
15 Years	14.1%	19.6%	15.2%	13.4%

The interesting conclusion is that even the worst performing typical pension fund investment manager managed to outperform the JSE Allshare index over all periods barring the year-to-date, where it was on par with the JSE Allshare Index. Does this prove the adage wrong that equities outperform all other conventional asset classes over the long-term?

No, it does not but what this does show is that by adapting the mix of asset classes in the pension fund investment portfolio in the light of market conditions, investment managers manage to outperform equities. How is this possible you may ask? Well the point is that there are the short- and the medium-terms when other asset classes outperform equities and if the investment manager does his job well, as it seems they generally do, he pre-empts swings in fortunes between the different asset classes by switching between these in good time. The best quality investment managers need to possess in this regard is discipline. Set your pointers when to switch out of an asset class and when to switch into an asset

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class and do this consistently and in a disciplined manner.

But what about the political environment? Can you divorce the political environment from the economic environment? We believe you cannot. Political structures employ all means at their disposal to achieve their economic objectives and wealth is the ultimate goal of our economic system. We evidence on a daily basis that the world is not a unipolar system but that there are competing forces that go to any extent to achieve their economic objectives. So what happens if we invest in a country that all of a sudden falls out of favour? Take Lybia, Syria, Iraq or Afghanistan. Not too long ago many investors would have considered these countries for investing – and most of those that have invested would have lost all of it or pretty close to all of it and it is not a question of such an investment ever recovering again because it simply no longer exist. This would be a permanent loss and such losses must be avoided by an investor at all cost. Today we may think China is a sound investment destination, or Russia, or Turkey or even Europe but are they still going to be a sound destination next year or in 10, 15 or 20 years when you get to retirement and would like to start drawing on your retirement capital?

So what happened to Libya, Syria, Iraq and Afghanistan? Is it fair to say they crossed swords with the wrong sparring partner? What is the chance of this happening to Turkey, Russia or China? There are clear signs that China and Russia are not well aligned with our biggest global sparring partner and it is quite conceivable that this sparring partner is busy or has already taken aim at these emerging competitors also referred to as threat. Most investment managers are still happily investing in China as some have invested in Russia and have taken serious losses on behalf of their pension fund investors. Of cause at this stage these losses are still of a temporary nature and one can hope that they will recover once the environment normalises. Problem is - if it gets worse the temporary losses can very well turn into permanent losses.

If I were the biggest global sparring partner I would consider China as my biggest threat for preventing me from laying down the rules for the global economic game. To neutralize this threat China would have to be encircled first of all and with Russia preventing an entry through the back door, this hurdle would have to be eliminated. To preserve my resources though, I would get others to do the job for me as far as possible. These others could conceivably be Europe, Turkey and a few more. Is this what we currently see unfolding in Europe and the Middle East?

As an investor I would certainly be concerned about any investment in Russia, Turkey and the Middle East and I would not be overly comfortable about an investment in Europe either because if Russia is being pushed into a corner it has no alternative but to resort to its ultimate arrow in its quiver and that could mean serious trouble. China of course will know that Russia is it Achilles heel and is unlikely to remain a spectator in this game.

One may say this is an apocalyptic scenario. Shall we therefore hope that Russia will rather start towing the line soon, which should give us a few more years on China unless China also starts towing the line? In this scenario it would seem that South America and Africa should be able to stay out of the cross fire and these continents should present fairly safe investment destinations. Taking a bet on who the winning side will be at least for the next 50 years or so, the investor could be a bit bolder and consider investing in North America.

Conclusion

The investor should continue to focus on real returns rather than absolute returns to increase his wealth slowly and steadily. With an inflation rate of around 3% one should be quite content if one manages to achieve an investment return around of 8% per annum. As an active fund member one should not shun equities but should be cautious, spread the risks as far as the law allows and focus on stock picking. Do take into account the not so obvious, but very possible risks that certain offshore investments present as referred to above.

To cite some good advice from an article that recently appeared in Moneyweb: “You can do anything you like in investments if it seems like a good idea to you, with one rule: don’t put all your eggs in one basket. Make sure you’ve got a diversified portfolio. A very good rule of thumb is put a *maximum* of – I think it actually should be 5% but most people use 10% – put a maximum of 10% of your wealth at risk on any one idea, any one product, any one investment, any one share. Diversification is the only thing that truly protects you from a catastrophe.”

And when reference is made to diversification, part of your investment strategy must be to diversify offshore as well but if you do beware of the currency risk and rather spread your offshore money transfers over a period of time to avoid the risk of buying when the Rand is at its weakest!

7. Important notice and disclaimer