Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2016

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

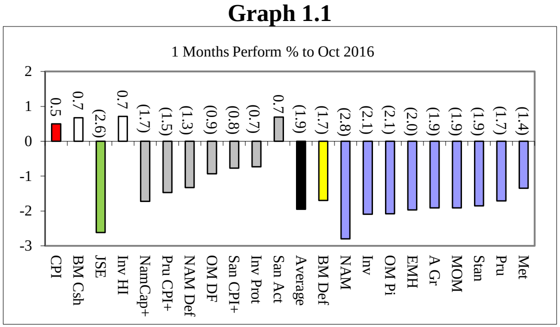
In **October** the **average prudential balanced portfolio** returned -1.95% (September: -1.59%). Top performer is Metropolitan (-1.35%); while Namibia Asset Management (-2.80%) takes the bottom spot. For the 3 month period Allan Gray, takes top spot, outperforming the 'average' by roughly 1.4%. On the other end of the scale Stanlib underperformed the 'average' by 0.9%.

Graphs 1.1 to 1.9 reflect the performance for periods from 1 month to 15 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.

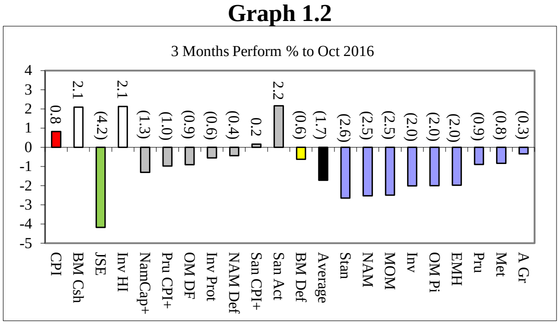
Below is the legend to the abbreviations reflected on the graphs:

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)
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)

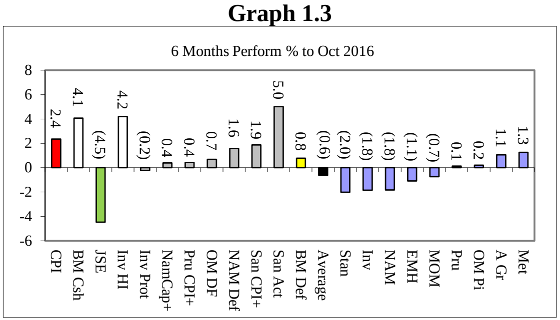
Graph 1.1



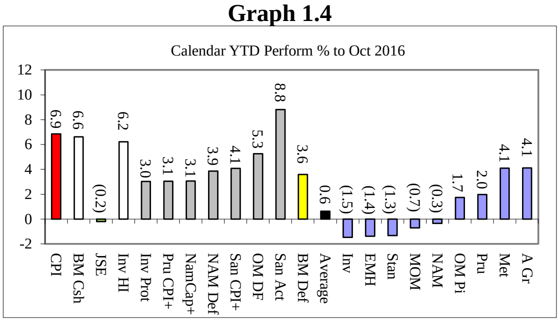
Graph 1.2



Graph 1.3



Graph 1.4



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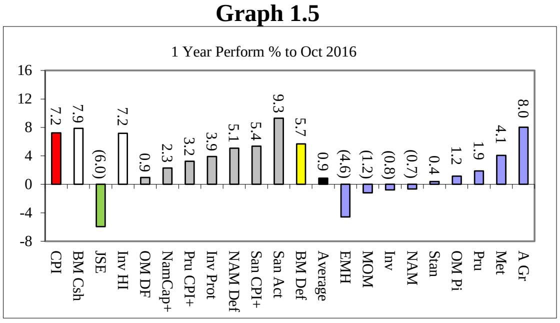
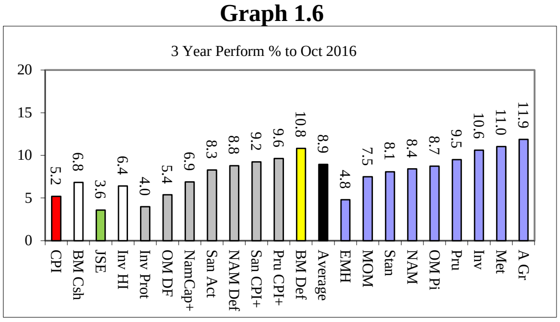
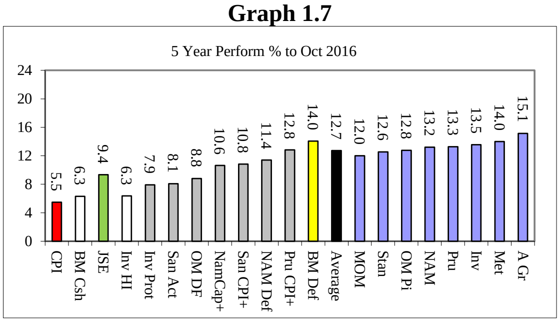
Graph 1.5



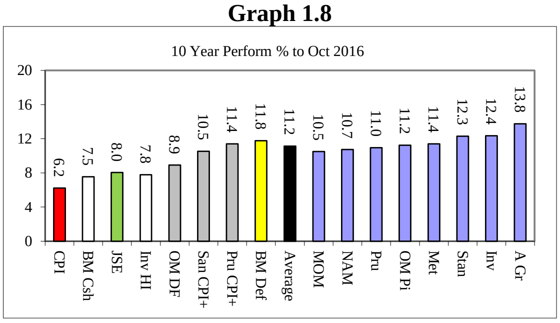
Graph 1.6



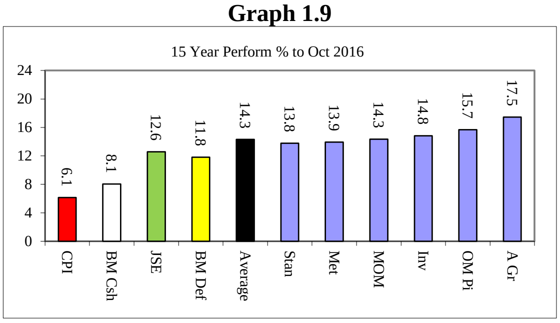
Graph 1.7



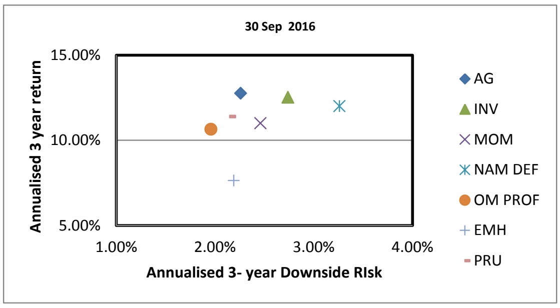
Graph 1.8



Graph 1.9

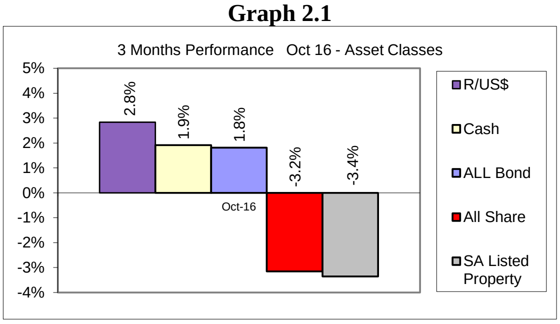


Risk/ Return

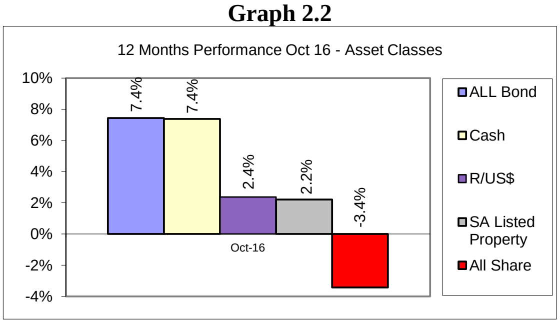


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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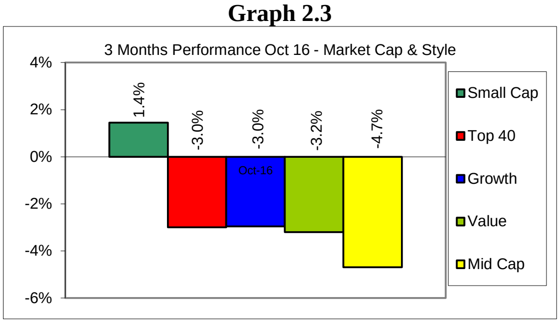
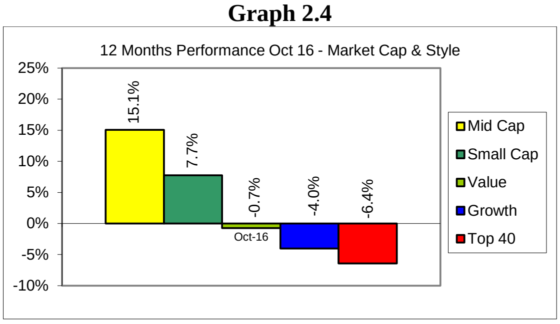
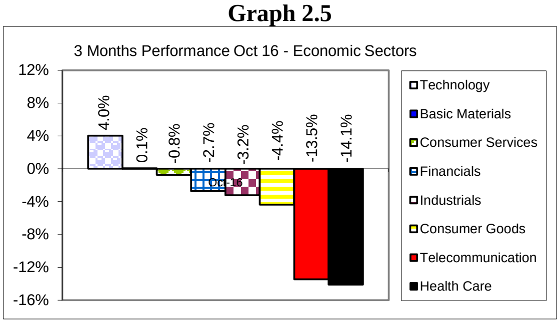
Graph 2.3



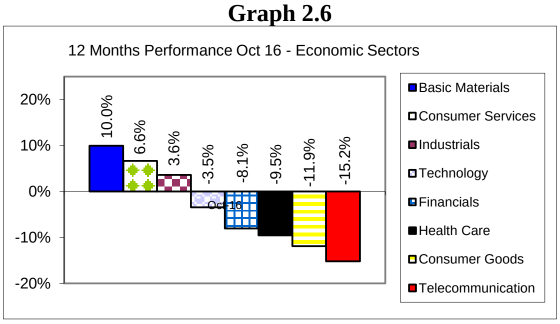
Graph 2.4



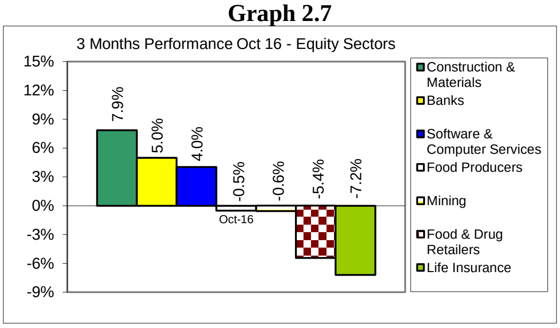
Graph 2.5



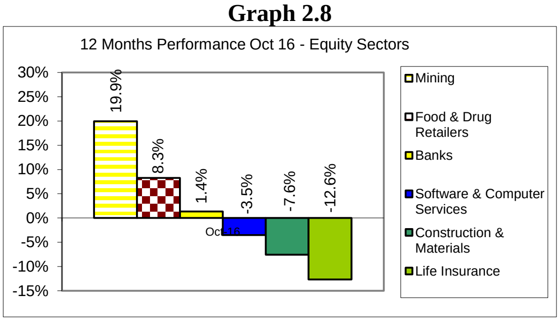
Graph 2.6



Graph 2.7



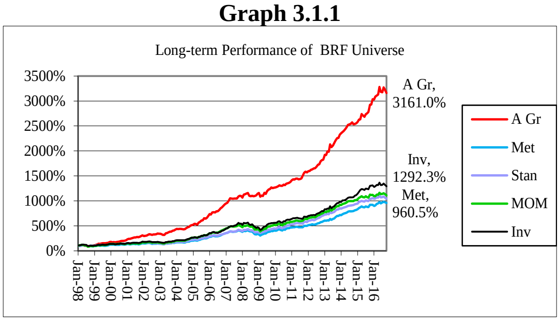
Graph 2.8



3. Portfolio Performance Analysis

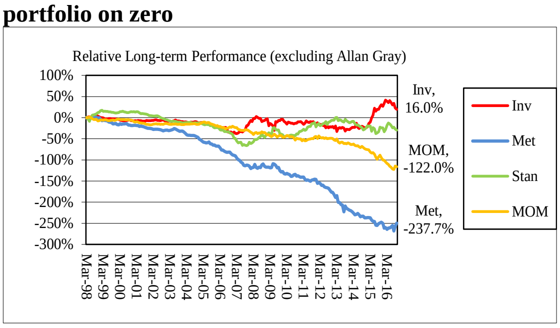
3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

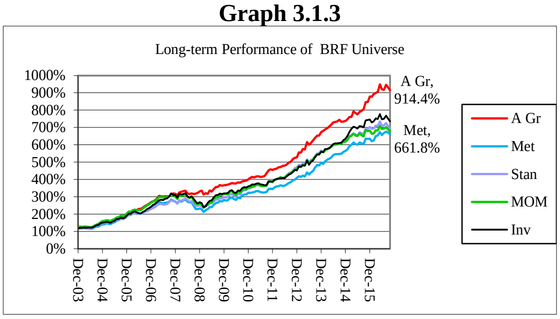


Graph 3.1.2

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



Graph 3.1.3



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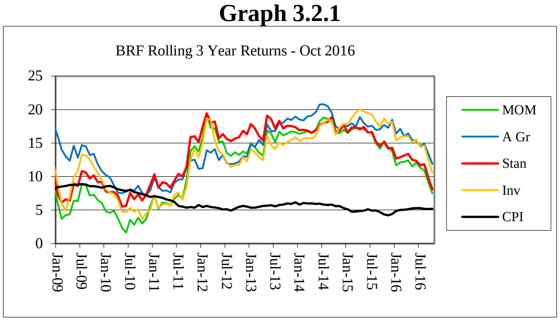
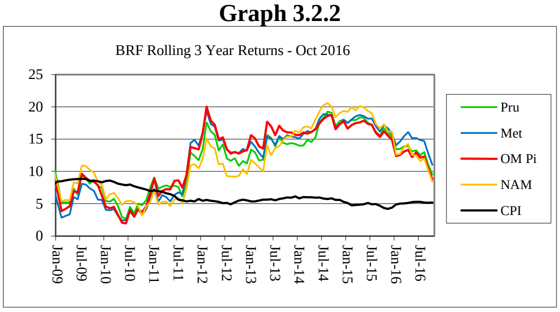
3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

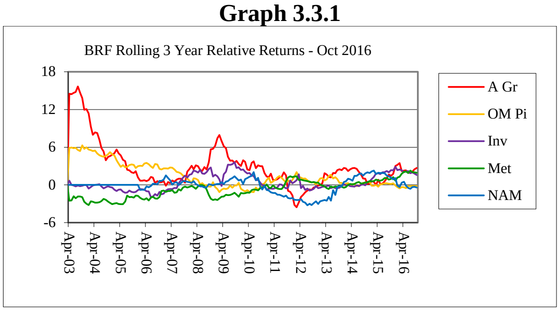


Graph 3.2.2

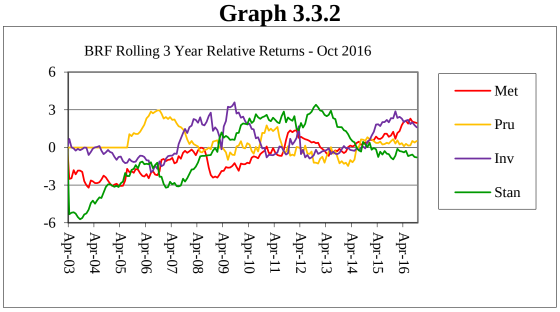


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

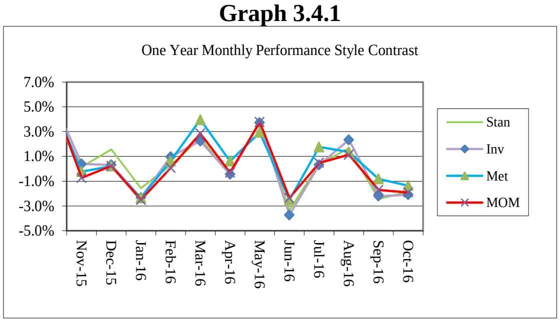


Graph 3.3.2

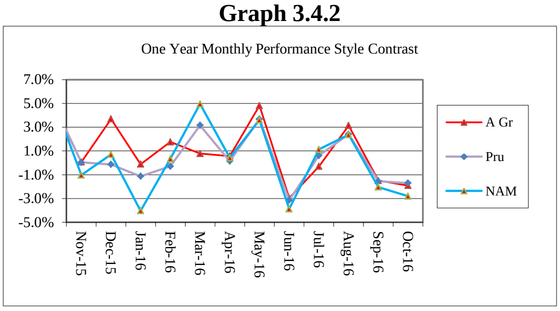


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

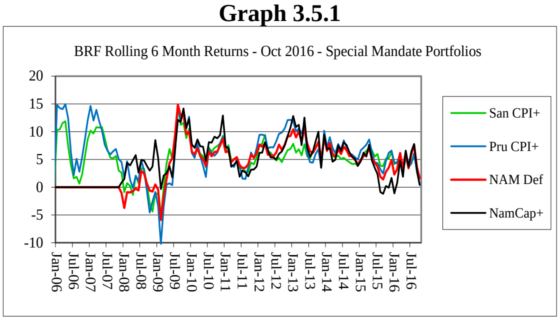


Graph 3.4.2

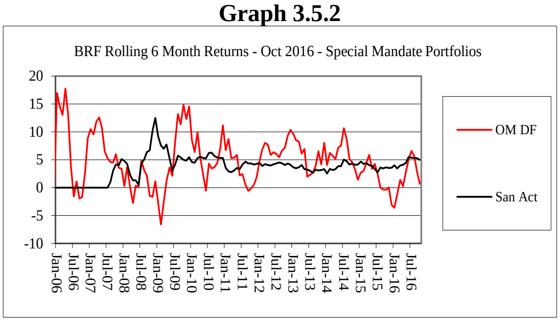


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1



Graph 3.5.2



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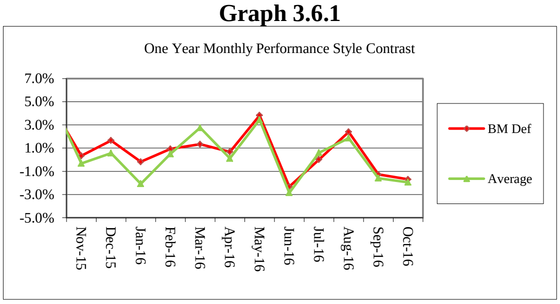
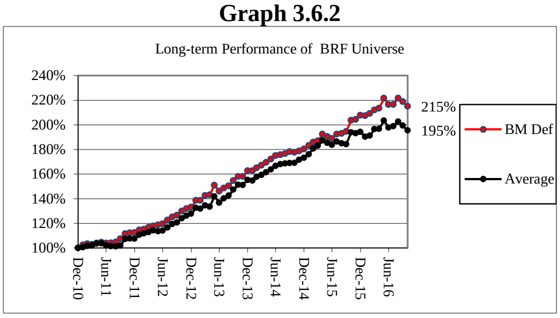
3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

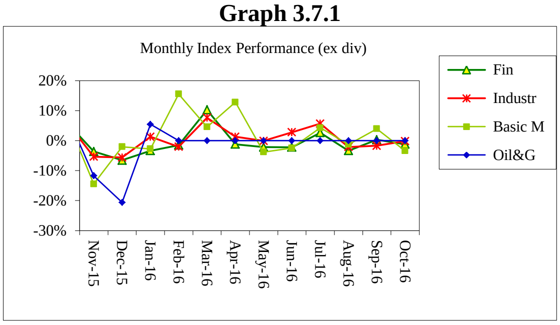


Graph 3.6.2

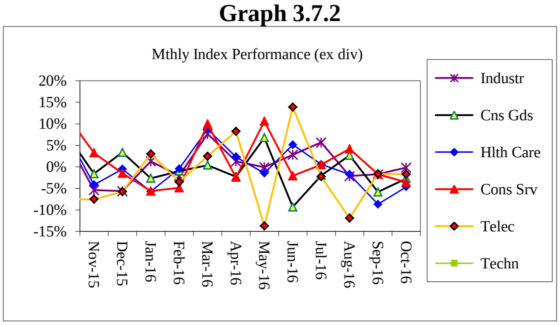


3.7 One year monthly performance of key indices (excluding dividends)

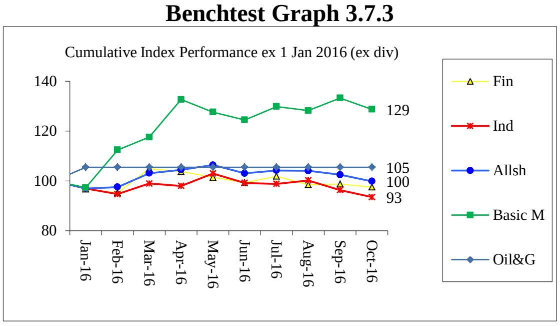
Graph 3.7.1



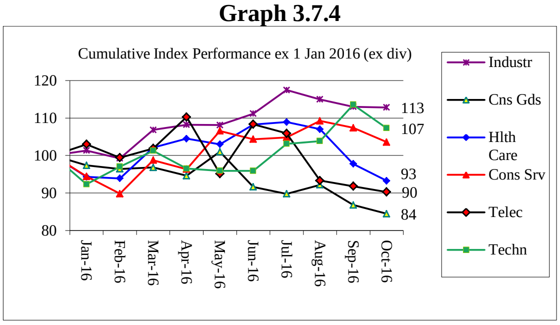
Graph 3.7.2



Benchtest Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average prudman portfolio
5 year nominal return - % p.a.	14.0	12.7
5 year real return - % p.a.	8.5	7.2
Equity exposure - % of portfolio (qtr end)	48.2	55.9
Cumulative return ex Jan 2011	115.1	95.5
5 year gross real return target - % p.a.	5	6
Target income replacement ratio p.a. - % of income per year of membership	2	2.4
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	5.6%	10.8%	8.9%
Best annual performance	6.8%	19.1%	18.5%
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	6.0%	16.1%	15.5%

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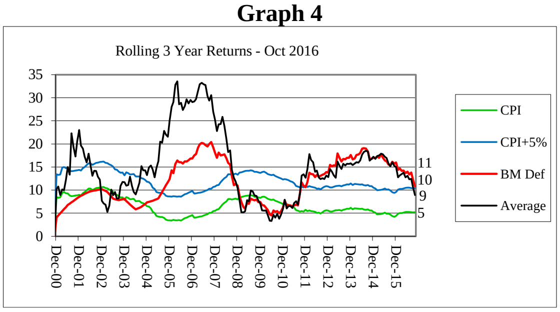
The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years November 2013 to October 2016. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

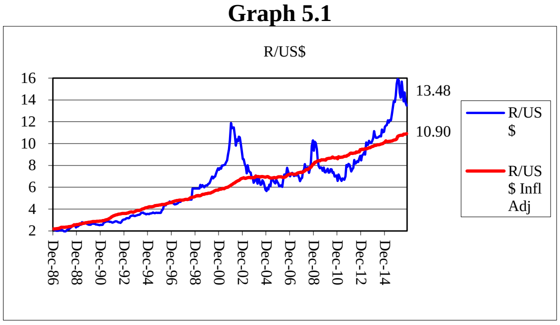


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end October was 10.8%, the average was 8.9% vs CPI plus 5% currently on 10.4%.

5. Review of Foreign Portfolio Flows and the Rand How is the Rand doing?

Graph 5.1 indicates that the Rand by our measure should be at 10.90 to the US Dollar while it actually stood at 13.48 at the end of October, representing a significant under valuation. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

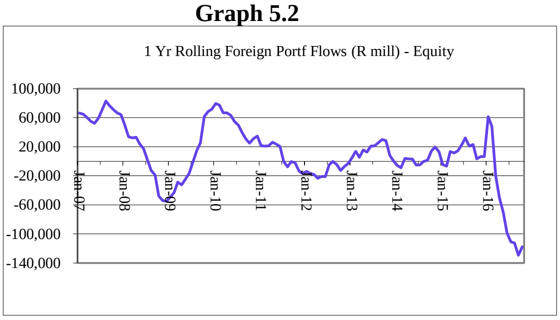


Rand strengthens despite foreign capital outflows

The Rand strengthened by 1.8% in October despite net foreign investment outflows from bonds and equities of N$ 14.8 bn, probably supported by a positive trade surplus. Over the past 12 months the Rand strengthened by 2.4% on net outflows of foreign capital from equity and fixed interest securities of R 68.1 bn (outflow of 59.6 bn to end September 2016). Over the 12 months to end of October 2015 SA experienced an inflow of R 10.8 bn (inflow of R 26.4 bn to end of September 2015). Since the beginning of 2006, total net foreign portfolio inflows amounted to R 367 bn (September R 380 bn).

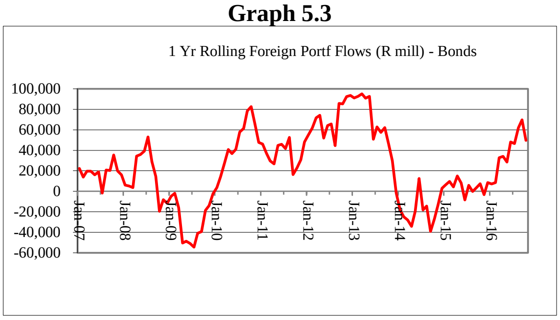
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one year basis, with a net outflow of R 118 bn over 12 months to the end of October (outflow of R 129 bn year-on-year to end September). The month of October experienced a net outflow of R 4.5 bn. Since the beginning of 2006, foreign net investment in equities amounts to R87 bn (end September R 92 bn). This represents roughly 0.6% of the market capitalization of the JSE.

Graph 5.2



Graph 5.3 on a rolling one year basis reflects foreign portfolio inflows in respect of SA bonds of R 50 over the past 12 months to end of October (inflow of R 70 bn over the 12 months to end of September). Since the beginning of 2006, foreign net investment in bonds amounts to R 280 bn (to September just over R 290 bn). The month of October experienced a net outflow of R 10.4 bn.

Graph 5.3



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 11.5% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of just over 29 years was 8.4% per year. This is equivalent to a growth in real terms of 3.1% p.a. over this period, excluding dividends, or around 6.1% including dividends.

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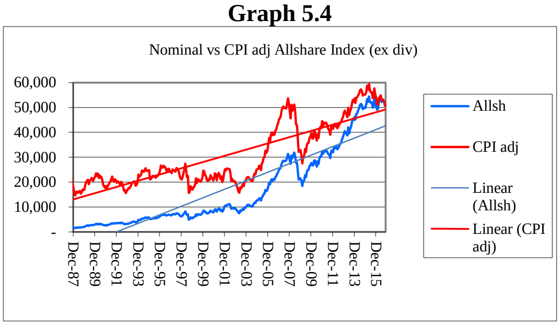
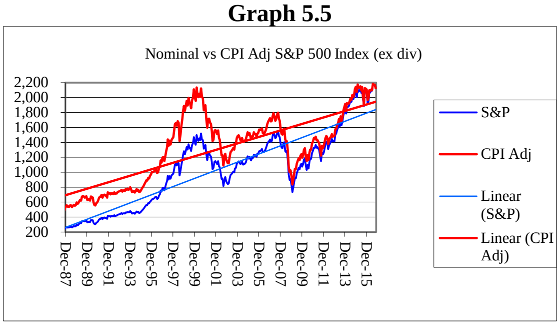
Graph 5.4



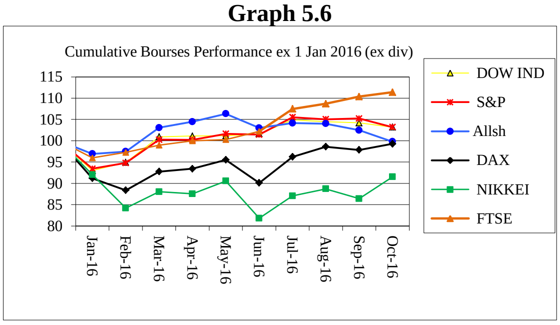
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.1% per annum, over this period of just over 29 years. US inflation over this period was 2.7%. This is equivalent to a growth in real terms of 4.4% p.a. over this period, excluding dividends.

Graph 5.5



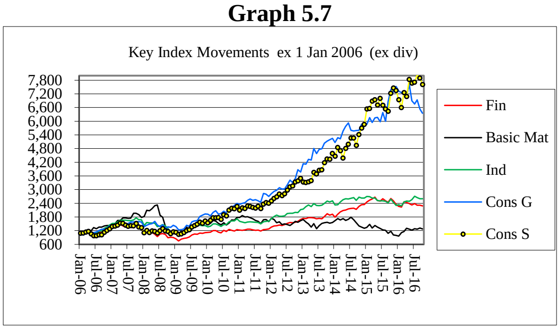
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the FTSE, and S&P 500 as the top performing share indices.

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: 20.8%; Consumer Goods: 18.8%; Industrials: 9.3%; Financials: 8.0%; and Basic Materials: 2.3%.

Graph 5.7



6. How will the new US president impact global financial markets?

by Tilman Friedrich

The US elections during October were undoubtedly the most important news event of the last quarter of 2016. Hillary Clinton was credited with a handsome lead over Donald Trump until the day before the elections by the main stream media. Was this based on objective opinion polls or was it just a premeditated campaign against a candidate that is not part of the political establishment in the US? Hillary Clinton of course is firmly entrenched in the political establishment as wife of a former president and as former Secretary of State during President Obama's first term of office. So these media have clearly betrayed their own bias for the political establishment and cannot lay any claim to independent reporting. I guess these media will quickly sweep this under the carpet and will want the public to quickly forget about their biased reporting.

The fact that president elect Trump is ostensibly not part of the political establishment has raised the hopes, and fears, of many that the US will experience nothing short of a political and economic revolution under his leadership, hopes of those who want to see a change from the past, fears of those who prefer to have the status quo maintained.

Uncertainty of course is not good for financial markets and causes volatility. Analysts are trying to forecast what the consequences might be of the policies they think the new president will adopt or he promoted during the course of the election campaign. If the new presidency proves to be a political and economic revolution, there will be winners and losers and you will not want to be betting on the wrong horse in terms of your investment decisions. So how should you respond to this situation?

Well, I do not believe that the new presidency will deliver an economic or political revolution at all. America is not the president and the president is not America. America is a political and economic system that has been purposefully driving its goals over the past hundred years and more! And it has been quite

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successful to date in its single minded endeavours to achieve global political and economic hegemony. Witness the sanctions Europe slapped on Russia at the behest of the US against its own economic interests but in accord with the US' political interests, or the sanctions against Iran, the war against the Taliban, Muammar al-Qaddafi and so on and so forth. Mr Trump has been allowed to run for president but he will not be allowed to derail the long harbored dream of being the global power supreme. To former president Bush it was black or white, no in-between. You were either for or against the US – being neutral was not an option.

Having said this, some nuances of a president Trump may be different to those of his predecessors but none will change the course of history in the US' definition. The US' drive for total global hegemony remains in place. The only real threat to this goal is China and then there are some 'nuisance factors', such as Russia, perhaps now the Philippines under its president Duterte, Venezuela under president Maduro and Turkey under president Erdogan who are all facing their own challenges at home – home grown or fomented? China is currently in no position to challenge the US either economically or militarily and Russia as it Achilles heel may not be able to sustain its resistance to US domination for too long. Should that happen, China will really be hard pressed not to succumb to US hegemony.

So the long and the short, in my view is that we will not see any dramatic changes that could impact global economies or investment markets. While the economically disenfranchised majority of the global population may have yearned for a more just, more peaceful more honest and more transparent democratic world order, I am afraid the world will continue in the good old tradition of deceit, dishonesty, force and violence to control and dominate.

On that basis I do not see significant changes in the economic and financial environment. The rebalancing of global investment flows has commenced, years later that I would have expected. The consequences will be as expected though. Developing countries and in particular, commodity based economies such as ours and SA's have benefited greatly from the loose monetary policies pursued by the US with massive in-flows of investment capital and a significant strengthening of the Rand. This will unwind now and we are seeing massive reverse flows of investment capital. Over the past 12 months, R 120 billion left the SA equity market. Since February the equity market experienced only negative monthly flows. Although foreign bond purchases were still mildly positive with a 12 month inflow of R 50 billion to end October, the month of October experienced a net outflow of R 10 billion. Local equity markets were boosted by foreign equity purchases while interest rates were lowered by foreign purchases. This will fade away and we will see interest rates on an incline while our equity markets are likely to move sideways.

The US economy is on an upward trail and there is a chance that a different economic policy of the new US administration may boost the US economy further. It would actually make sense if the US diverted resources from the maintenance of its war endeavours to developing its infrastructure. This should have a positive spin-off for the global economy in general and for our economy more specifically, in the medium term. Resources in particular may benefit from a new economic policy in the US.

Conclusion

In this scenario of increasing interest rates our currencies remaining under pressure and slowly improving global economic fundamentals, equities remain our preferred asset class. Spread the risk as widely as you can across the world but stay out of politically exposed areas, referred to above as the 'nuisance factors'. Your biggest assets are in Namibia in all probability, and you have no choice of moving these elsewhere. Discretionary capital that you can move you should consider investing outside Namibia for the sake of spreading risk. Any money transfer off-shore should be spread over time for the benefit of Rand cost averaging to limit the currency risk. We also remain of the opinion that an investment in equities should be undertaken on a very cautious and selective basis. The emphasis should be on quality companies generating high cash flows and high yields on your investment with the prospect of high dividends yields. This is really what you need at the end of the day to survive.

Rand hedge shares not only protect against a weakening currency, they also provide a further diversification into foreign economies. Export orientated companies and the tourism sector should also benefit from a weakening Rand. Increasing interest rates will put pressure on the local consumer and on local banks and companies dependent on the local consumer.

7. Important notice and disclaimer