Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2018

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

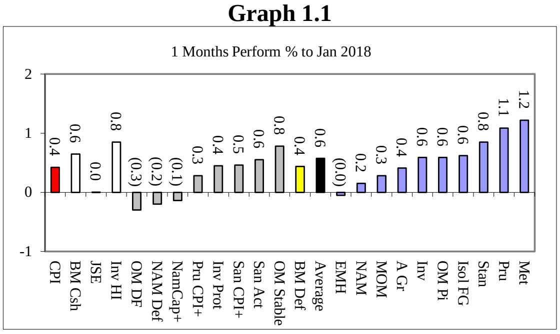
In January 2018 the average prudential balanced portfolio returned (0.57%) (December 2017: -1.49%). Top performer is Metropolitan (1.22%); while EMH (-0.05%) takes the bottom spot. For the 3 month period, Metropolitan again takes top spot, outperforming the 'average' by roughly 1.9%. On the other end of the scale Investec underperformed the 'average' by 1.6%.

Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 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 represents a combination of Prudential Namibia Inflation Plus, Sanlam Inflation Linked and Allan Gray Namibia Balanced Funds.

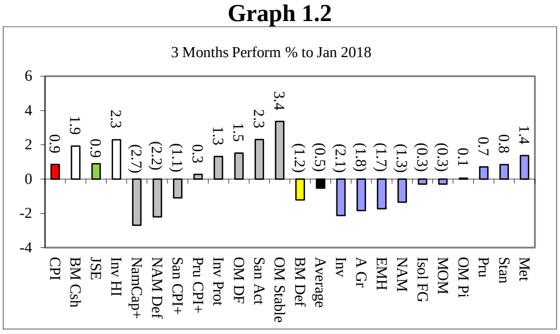
Below is the legend to the abbreviations reflected on the graphs:

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)
Smooth bonus portfolios	
Old Mutual AGP Stable	OM Stable (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)
Investment Solutions Bal Growth (multimanager)	Isol FG (blue)

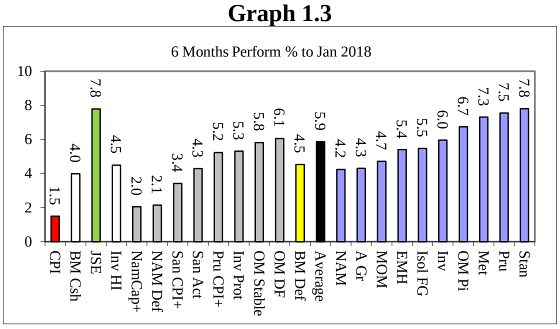
Graph 1.1



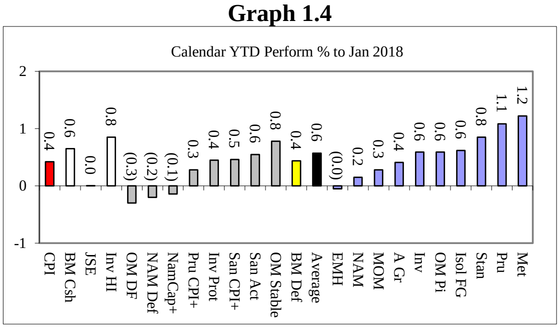
Graph 1.2



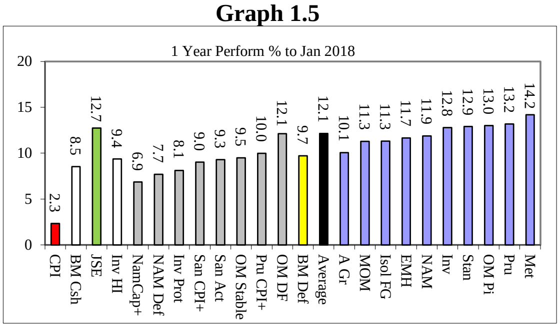
Graph 1.3



Graph 1.4



Graph 1.5



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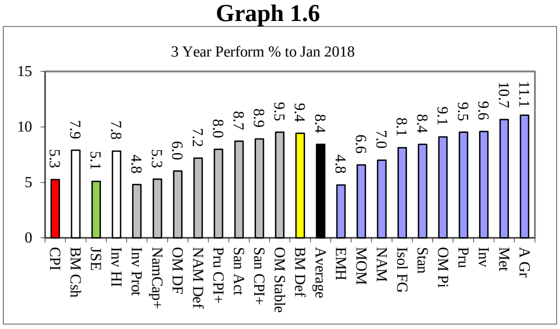
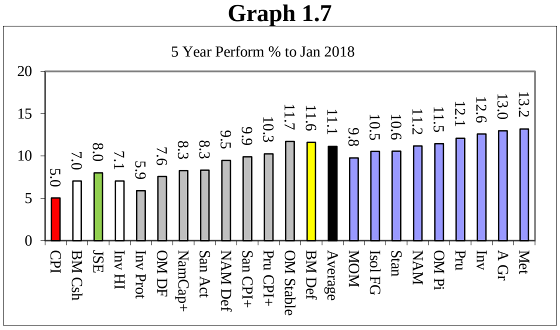
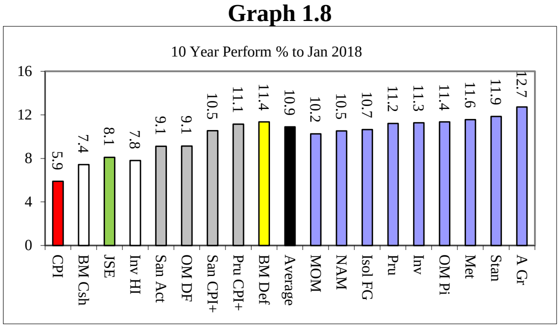
Graph 1.6



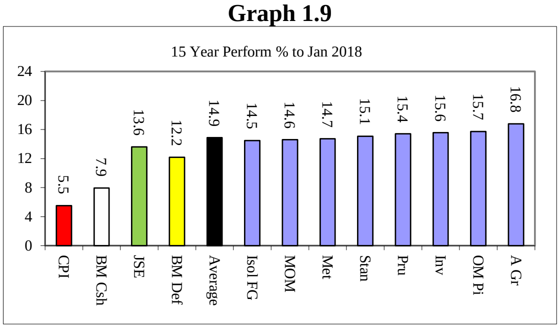
Graph 1.7



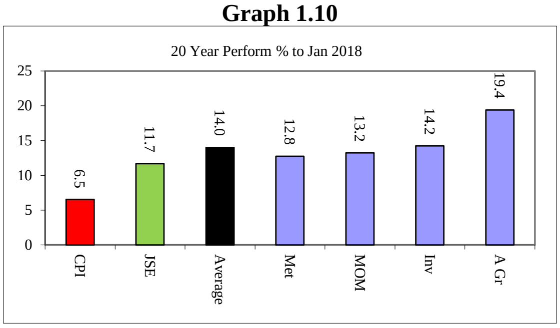
Graph 1.8



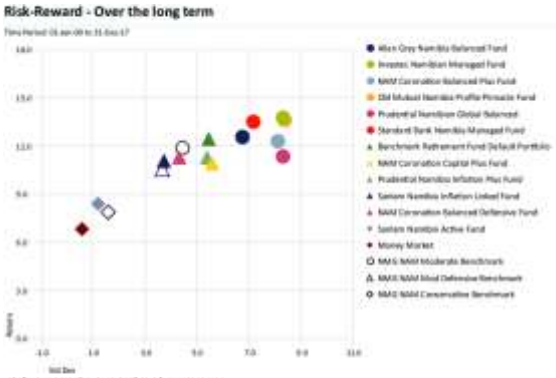
Graph 1.9

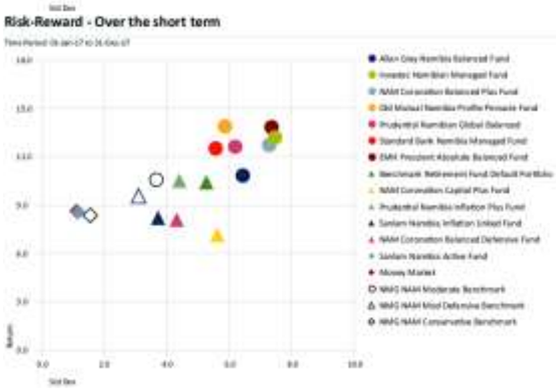


Graph 1.10



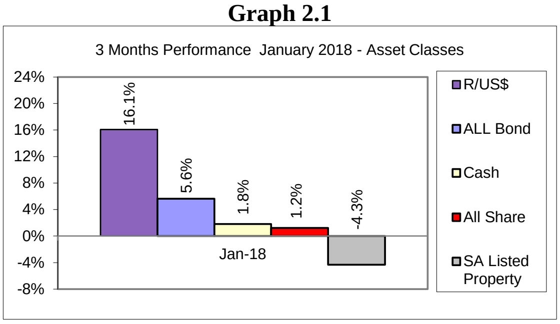
Risk/ Return



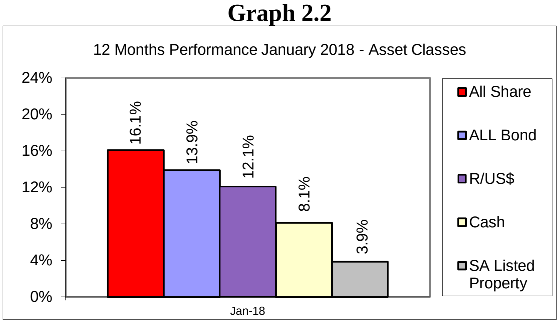


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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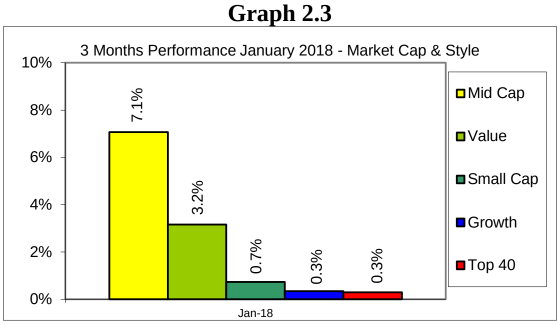
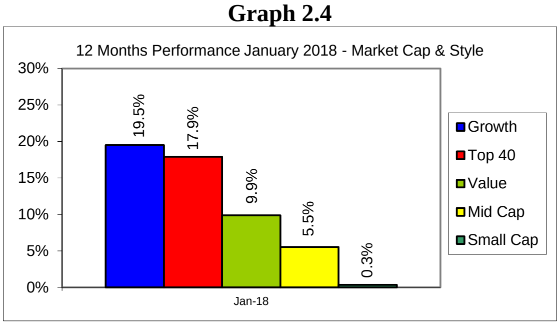
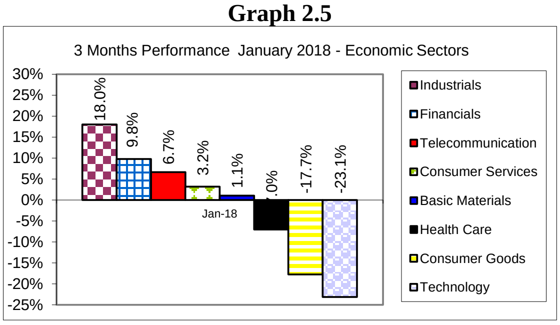
Graph 2.3



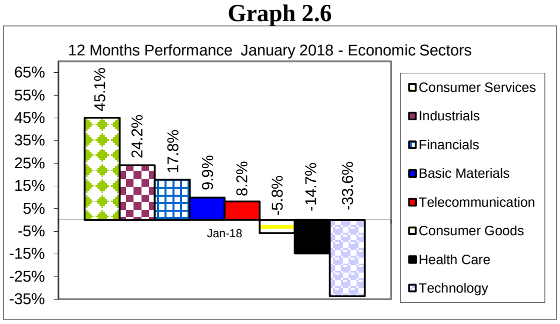
Graph 2.4



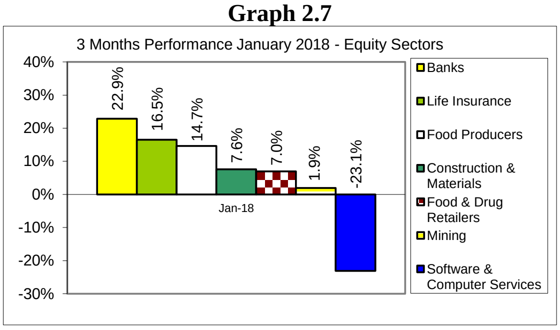
Graph 2.5



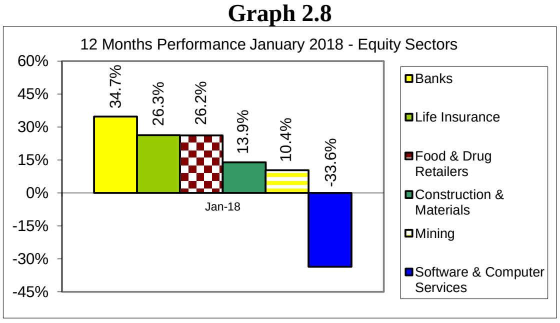
Graph 2.6



Graph 2.7



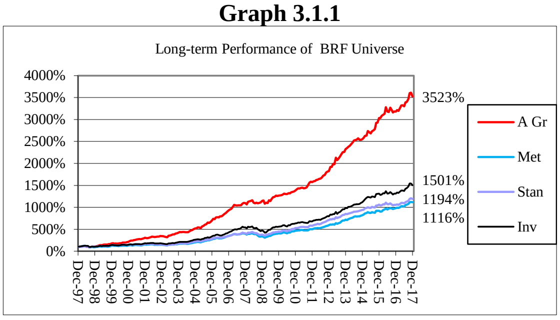
Graph 2.8



3. Portfolio Performance Analysis

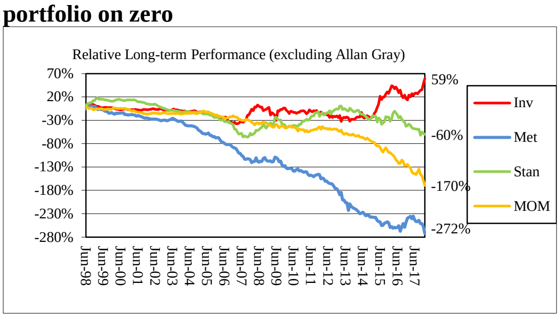
3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1

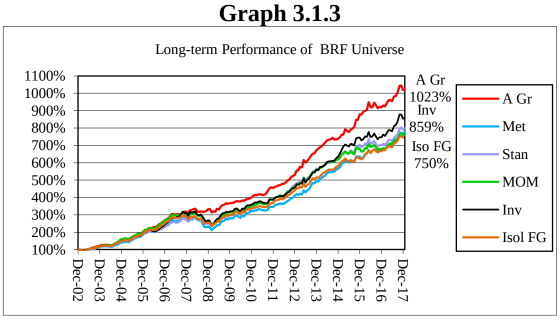


Graph 3.1.2

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



Graph 3.1.3



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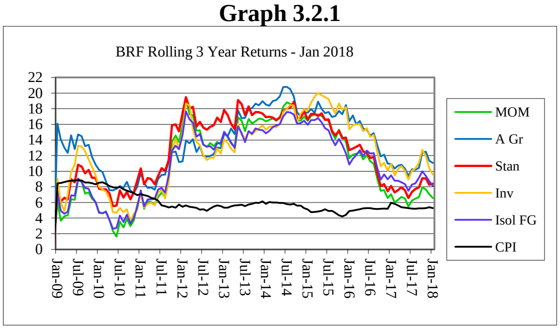
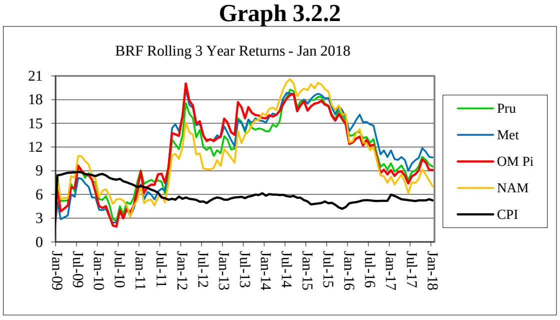
3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

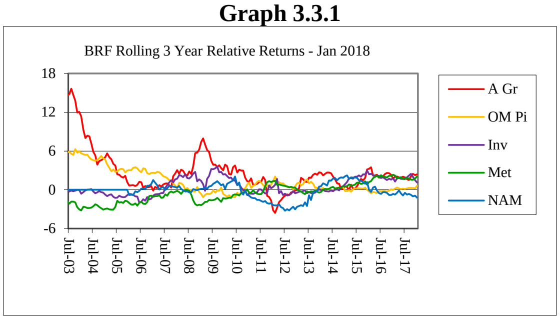


Graph 3.2.2

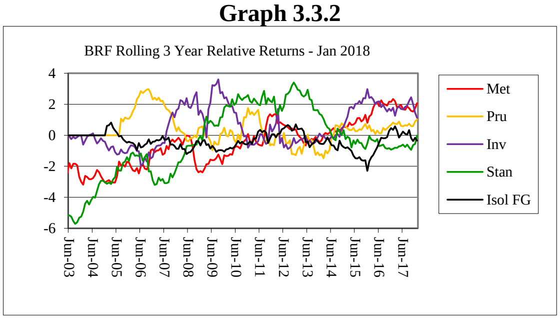


3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

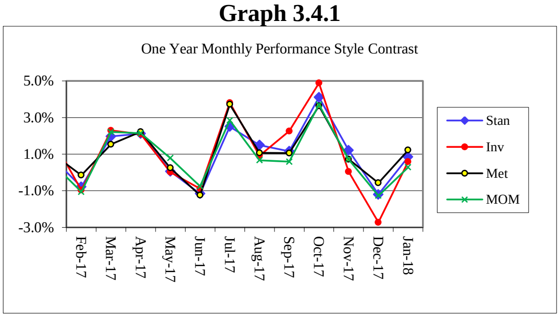


Graph 3.3.2

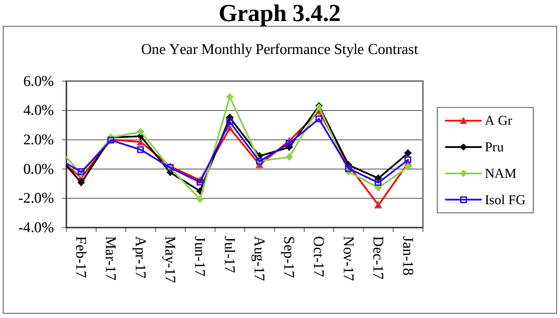


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

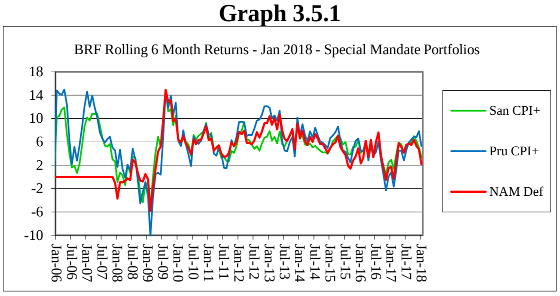


Graph 3.4.2

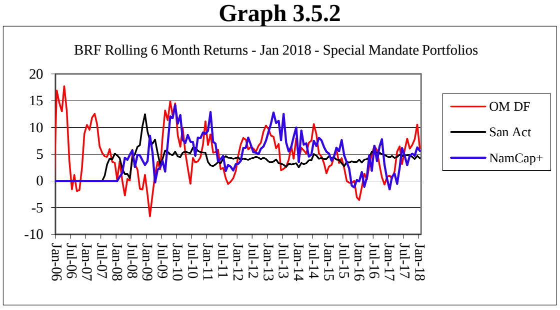


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

Graph 3.5.1



Graph 3.5.2



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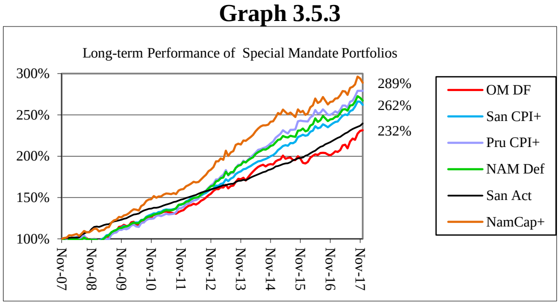
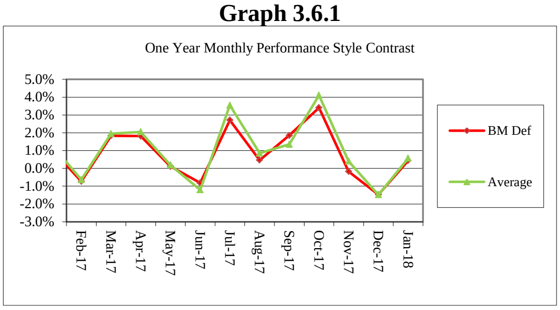
Graph 3.5.3

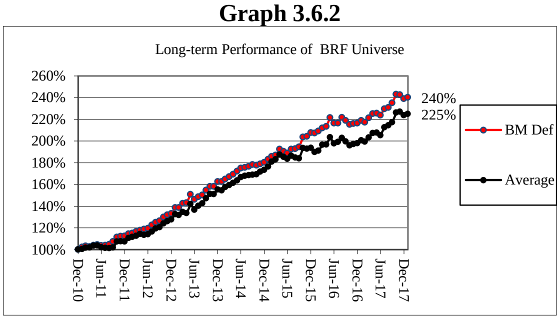


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

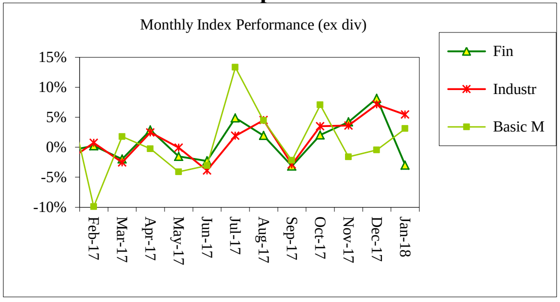


Graph 3.6.2

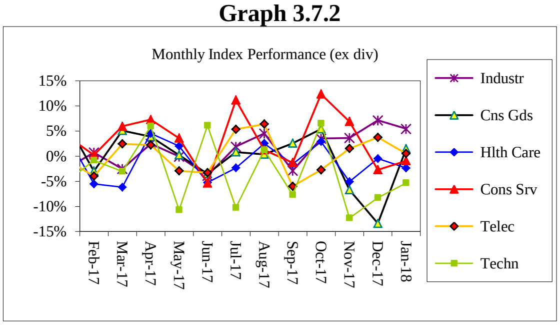


3.7 One year monthly performance of key indices (excluding dividends)

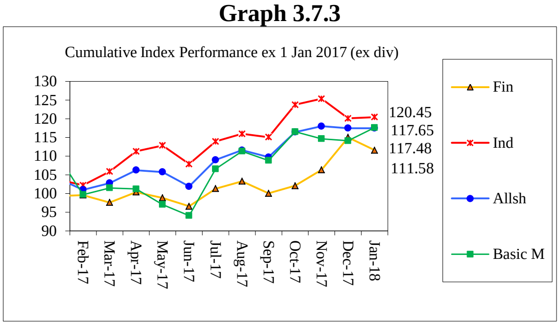
Graph 3.7.1



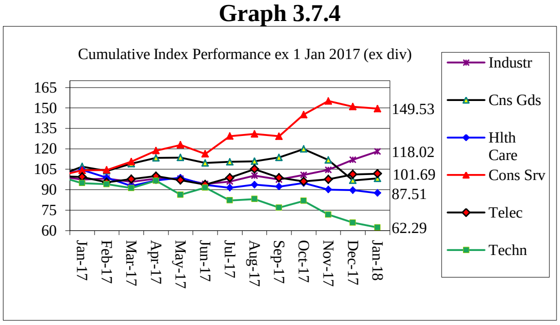
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5 year nominal return - % p.a.	11.6	11.1
5 year real return - % p.a.	6.6	6.1
Equity exposure - % of portfolio (qtr end Dec 2017)	47.8	61.1
Cumulative return ex Jan 2011	140.0	125.0
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 of the Default Portfolio 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.

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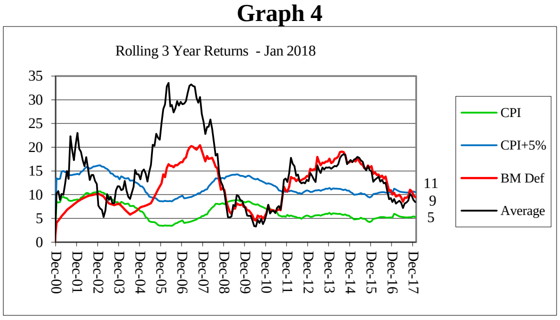
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.8%	8.5%	7.2%
Best annual performance	7.9%	17.8%	18.0%
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	6.7%	12.9%	12.1%

The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years February 2015 to January 2018. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4



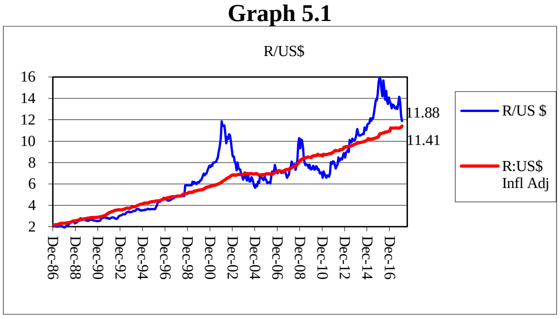
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end January was 9.43%, the average was 8.43% vs CPI plus 5% currently on 10.50%.

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 at fair value at 11.41 to the US Dollar while it actually stood at 11.88 at the end of January. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

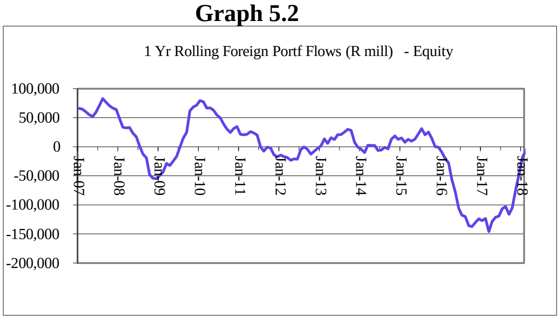


The Rand strengthened by 4.11% in January with net foreign investment inflows into bonds and equities of R 6.7 bn. Over the past 12 months the Rand strengthened by 12.09%. Net inflows of foreign capital into equity and fixed interest securities over the past 12 months amounted to R 30.7 bn (inflow of R 6.3 bn to end December 2017).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 348 bn (December R 341 bn).

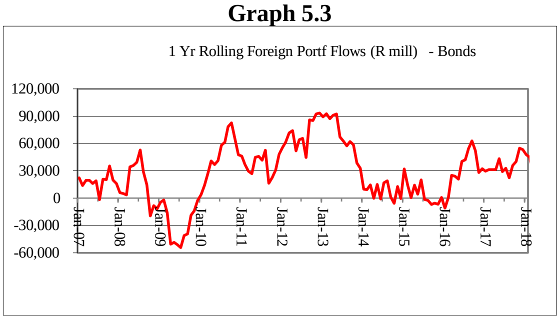
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one year basis, of R17.1 bn at the end of January (outflow of R 47.1 bn year-on-year to end December). The month of January experienced a net inflow of R 15.4 bn. Since the beginning of 2006, foreign net disinvestment from equities amounts to R 24.2 bn (end December net investment of R 8.8 bn). This represents roughly 0.15% 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 47.8 bn over the past 12 months to end of January (inflow of R 53.5 bn over the 12 months to end of December). The month of January experienced a net outflow of R 8.7 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 323.8 bn (to December R 332.6 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 30 years was 8.2% per year. This is equivalent to a growth in real terms of 3.3% p.a. over this period,

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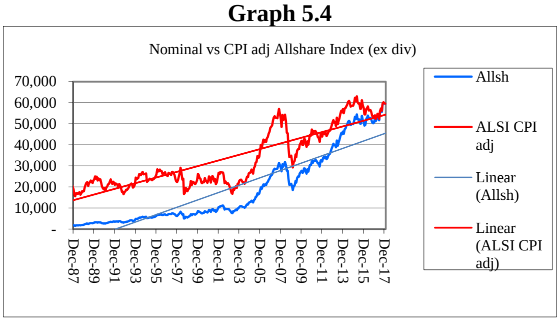
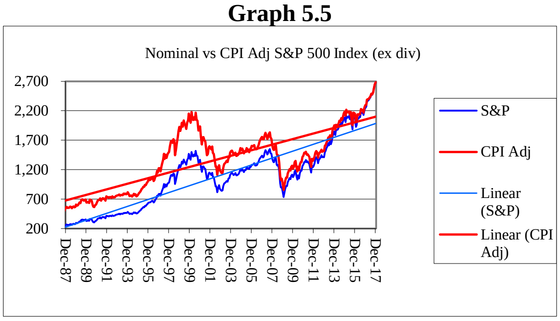
excluding dividends, or around 6.3% including dividends.

Graph 5.4



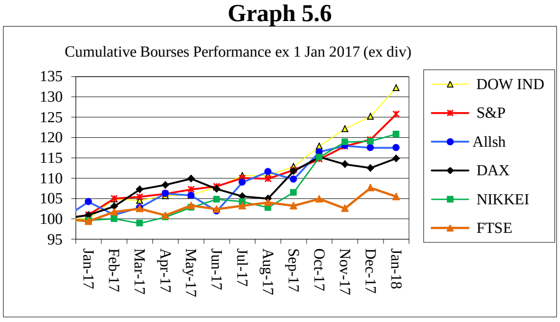
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.8% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.2% p.a. over this period, excluding dividends.

Graph 5.5



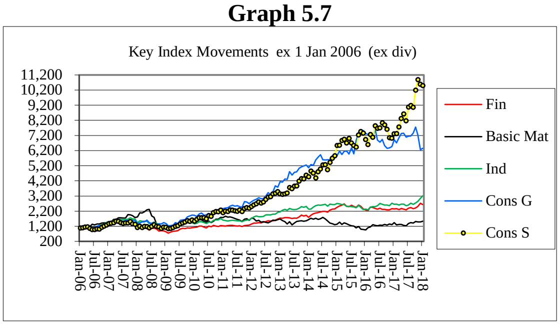
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the Dow Jones as the top performing index indices since the start of 2017.

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: 21.3%; Consumer Goods: 16.4%; Industrials: 10.1%; Financials: 8.3%; and Basic Materials: 3.6%.

Graph 5.7



6. **Will the 'sweet spot' soon be over?**
by Tilman Friedrich

What do you do if you are not patient enough to wait for your theory to realise? Well when all the SA news media were focusing their political attention on the upcoming elections of the new president of the ANC and it became ever more evident that Cyril Ramaphosa was the clear front runner the imminent strengthening of the Rand was a 'no-brainer' for any observer. Investment experts would have you believe that efficient financial markets would have duly discounted this development in the price setting of the Rand, and to some extent this is what indeed happened. The Rand did strengthen from over 14 to the US Dollar to around 13.60 just before the election. But since the election it went on a rampage strengthening to around 11.60 by the time of writing this column. So much for the theory of markets properly discounting certain foreseeable events and hurtful for the impatient speculator.

In the mean-time global equity markets have taken a bit of a beating but for foreign investors the strengthening of the Rand by close to 20% over the past 3 months has delivered some nice returns of 20% for the US Dollar investor and around 13% for the European investor. No wonder foreigners are starting to pile back into SA equity but are seemingly wary of fixed interest investments in the face of a rising interest rate tide. Over the past 3 months foreign investors invested R 51 billion in the SA equity market while at the same time some R 19 billion was withdrawn from the fixed interest market. Despite this significant inflow into our equity market over the past 3 months our equity market has not managed to rise but rather the contrary occurred. Well with a market cap of around R 16 trillion, 51 billion will not really move the SA equity market.

Will this sweet spot for foreigners and of a strong Rand soon be over or will we see more of this? As far as equity markets are concerned we surmised in last month's column that we expect a lot of volatility for one, but we also believe that US and European investors are likely to start moving capital into their markets as interest rates increase and are likely to withdraw investments from developing countries. In general we would expect equity

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2018

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.

markets to move sideways as the equilibrium between equities and fixed interest assets is slowly reinstated.

Since February 2017, SA has continuously been running a positive monthly trade balance against the backdrop of the strengthening Rand with a cumulative positive balance of R 92 billion. A strong Rand of course helps importers who pay less for imports but does not help exporters who earn less from their exports. It also weakens the competitiveness of local manufacturers as it makes imports cheaper and more competitive. A strong Rand also does not help local tourism.

What will get the SA economy going again? Firstly the financial position of the consumer needs to be strengthened and this can be done by lowering interest rates. The strong Rand offers the opportunity right now to lower interest rates in SA and we would thus expect this to be a likely event. However this will not be sustainable for too long and it is likely to lead to the weakening of the Rand again as SA will return to a cyclically rising global interest rate environment. At its current level of Rand 11.60 to the US Dollar, the Rand is indeed very close to what we believe to be fair value of 11.41. We believe the strengthening of the Rand was the result of a 'sweet spot' that is unlikely to lead to an overvaluation of the Rand. There is nothing on the horizon we can see to support such a positive outlook on the Rand whereas the prospective lowering of interest rates in SA will put pressure on the Rand.

Conclusion

At the current exchange rate it is pretty obvious that the investor should move money offshore to the extent allowed by foreign exchange regulation. We are currently in a 'sweet spot' that is unlikely to last for too long.

As we pointed out in last month's column, there are a number of potential developments visible on the horizon in 2018 that may impact global economies in 2018. It will clearly not be a one-way road and there is likely to be a lot of volatility. The expected improvement in global economies is likely to be undermined by protracted efforts to normalise monetary policy and to reign in excessive national debt and liquidity in financial markets. In the light of improving global economies, the demand for commodities is already and will continue to be on the rise which will be positive for resource based economies such as SA and Namibia.

With an expected improvement in the local economies, local equities should offer medium term prospects of good returns. Fixed interest should offer good short-term prospects but this is only expected to be a short window of opportunity as foreign interest rate increases will syphon down to SA and Namibia as well. Property should also offer good prospect as the economy improves.

Internationally, booming US equities is a cause of concern but in the absence of alternatives and in the light of the normalization of monetary policy, it is foreseen that the US market will continue on its trajectory given the absence of any unexpected global political crisis, for which there is quite a bit of potential. The same is likely to be true for European equity markets. We therefore expect offshore equity markets to in general do well but are wary of fixed interest assets in the light of a tightening of monetary policy. Amongst the various equity sectors, commodities have been in the doldrums for quite some time now and are thus expected to offer best prospects for 2018.

7. Important notice and disclaimer

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