Volume 15 No. 9
September 2019

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

By T H Friedrich – 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

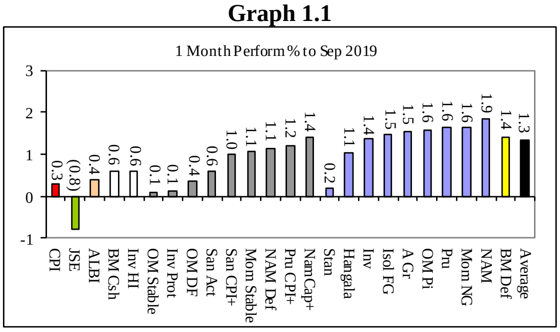
In September 2019 the average prudential balanced portfolio returned 1.3% (August 2019: 0.2%). Top performer is NAM Coronation Balanced Plus Fund with 1.9%, while Stanlib with 0.2% takes the bottom spot. For the 3-month period, Allan Gray Namibia Fund takes top spot, outperforming the 'average' by roughly 2.3%. On the other end of the scale Hangala Prescient Absolute Balanced underperformed the 'average' by 2.0%. Note that these returns are before (gross of) asset management fees.

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.

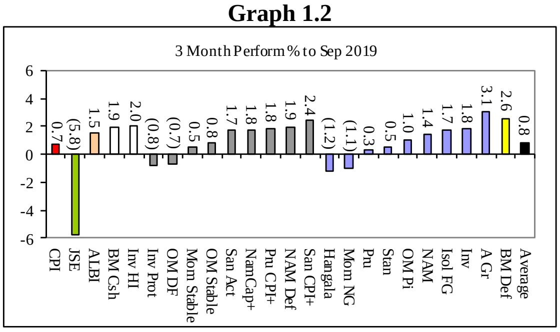
Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
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)
Momentum Nam Stable Growth	Mom Stable (grey)
NAM Capital Plus	NamCap+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Sanlam Active	San Act (grey)
Sanlam Inflation Linked	San CPI+ (grey)
Smooth bonus portfolios	
Old Mutual AGP Stable	OM Stable (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Hangala Prescient Absolute Balanced	Hangala (blue)
Investec Managed	Inv (blue)
Investment Solutions Bal Growth (multimanager)	Isol FG (blue)
Momentum Namibia Growth	Mom NG (blue)
NAM Coronation Balanced Plus	NAM (blue)
Old Mutual Pinnacle Profile Growth	OM Pi (blue)
Prudential Managed	Pru (blue)
Stanlib Managed	Stan (blue)

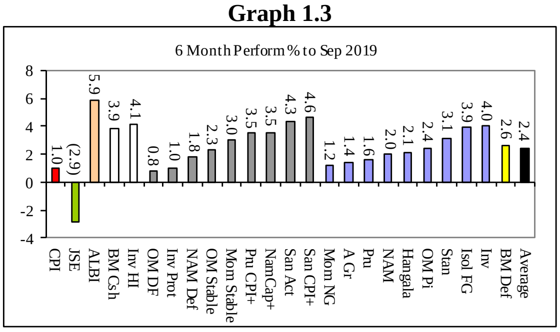
Graph 1.1



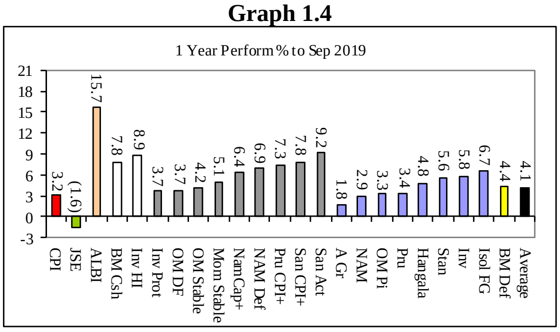
Graph 1.2



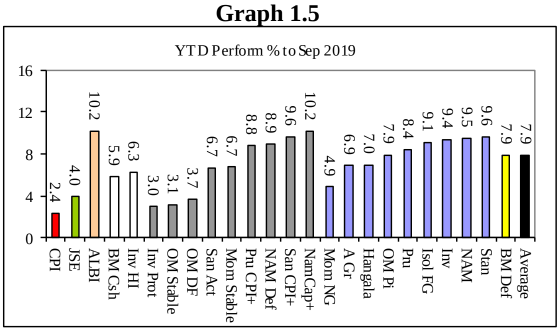
Graph 1.3



Graph 1.4



Graph 1.5



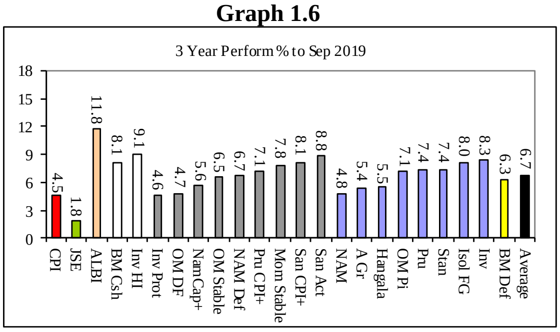
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

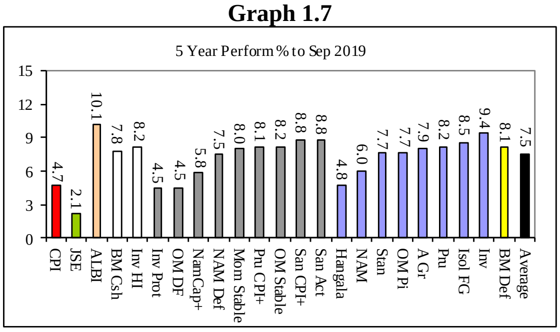
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

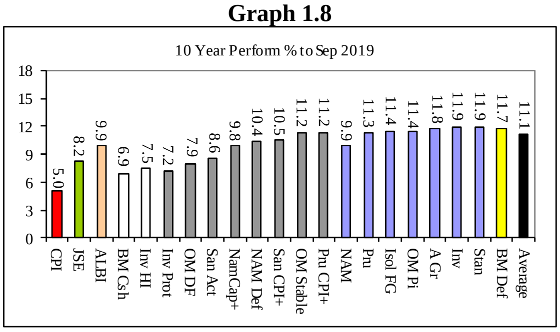
Graph 1.6



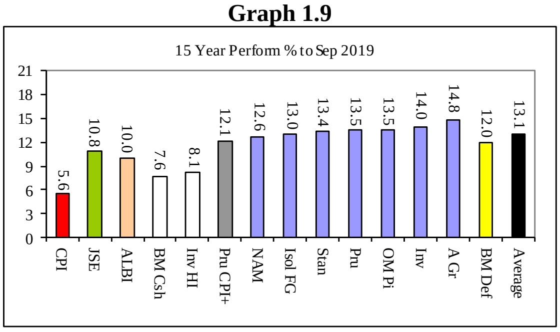
Graph 1.7



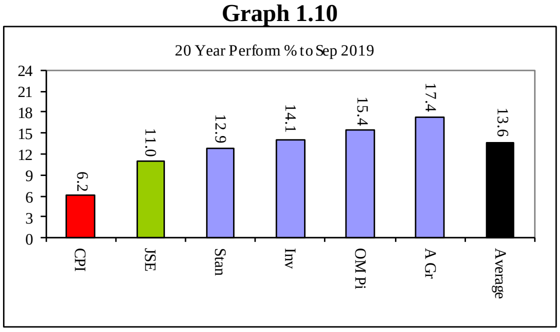
Graph 1.8



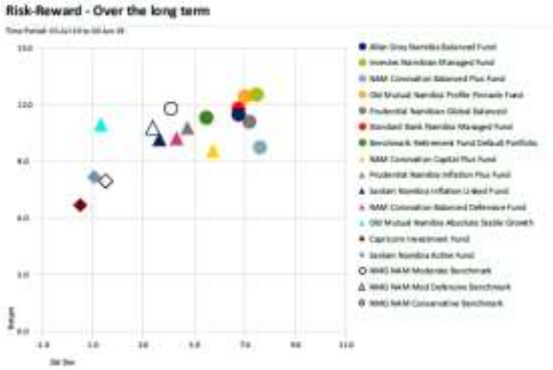
Graph 1.9

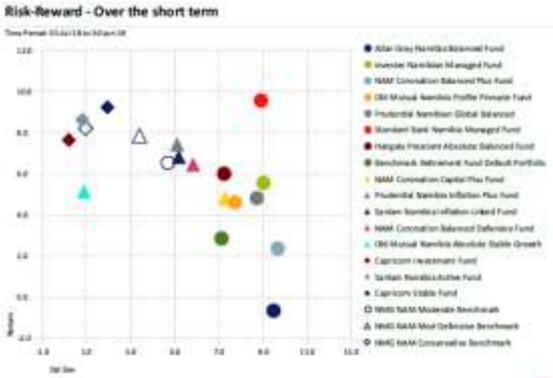


Graph 1.10



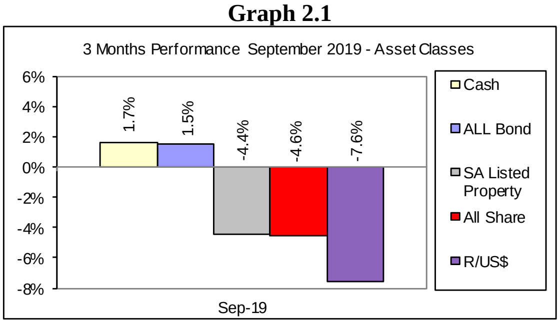
Risk/ Return



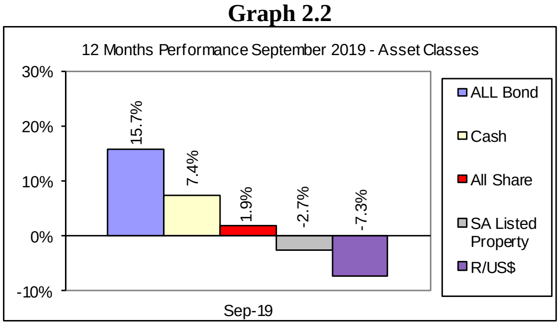


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



Volume 15 No. 9
September 2019

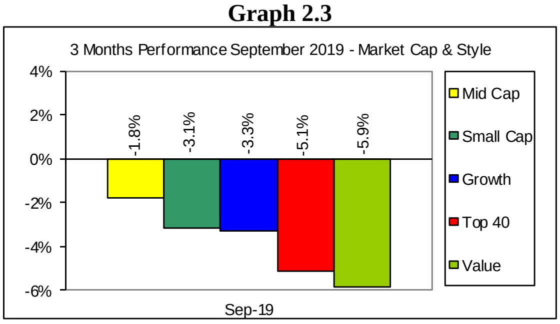
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

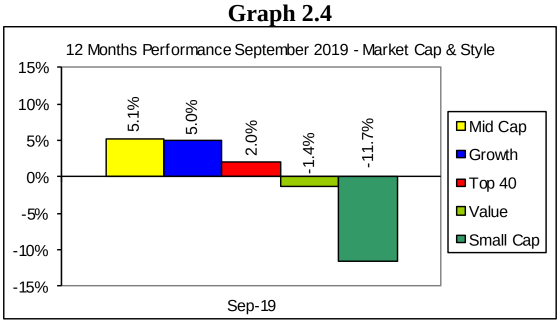
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

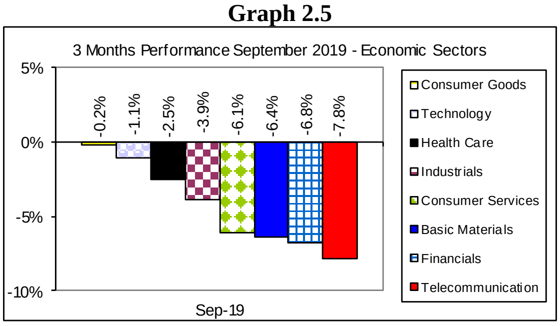
Graph 2.3



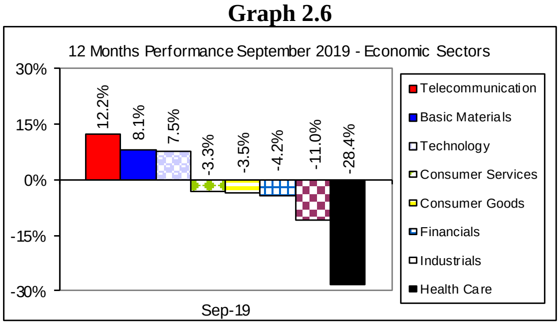
Graph 2.4



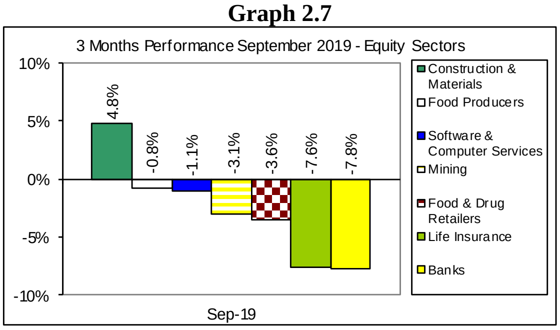
Graph 2.5



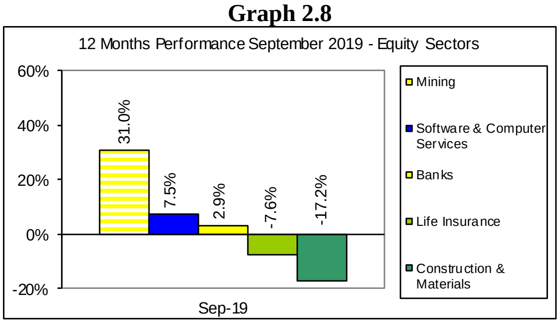
Graph 2.6



Graph 2.7



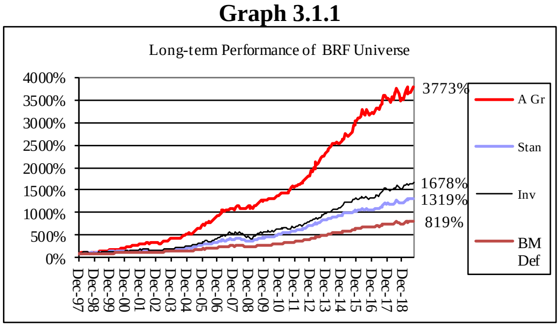
Graph 2.8



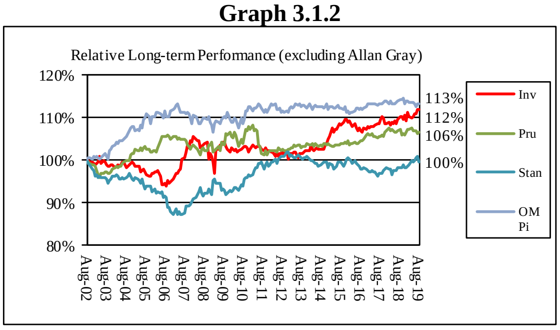
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



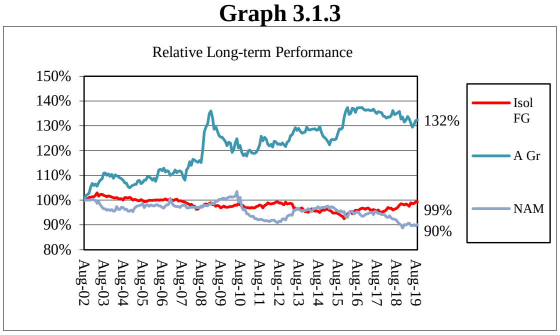
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

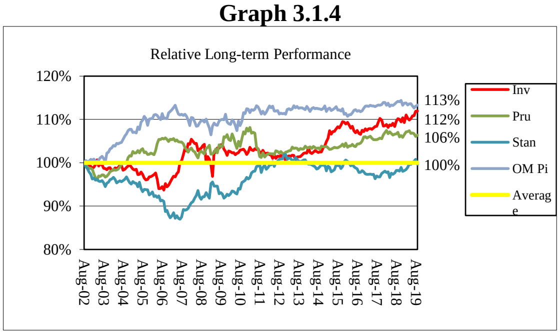
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

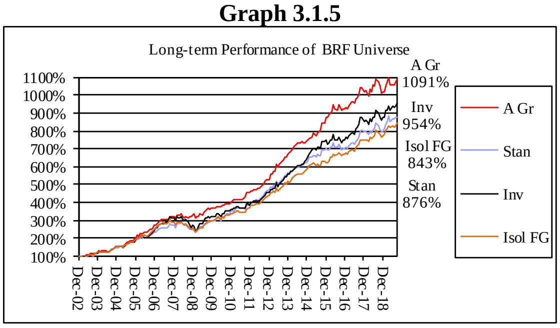
Graph 3.1.3



Graph 3.1.4

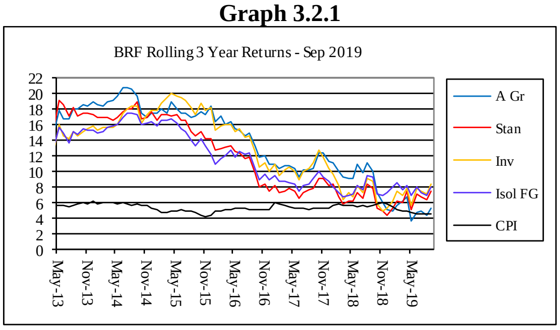


Graph 3.1.5

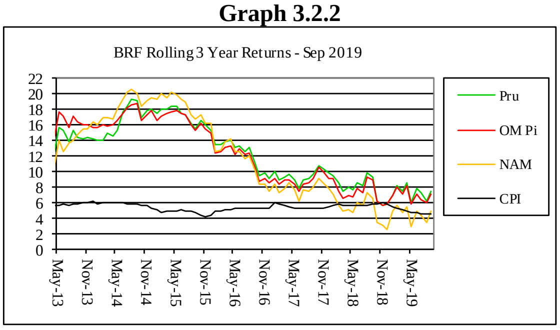


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

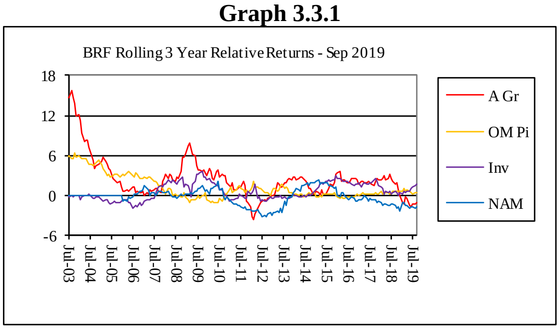


Graph 3.2.2

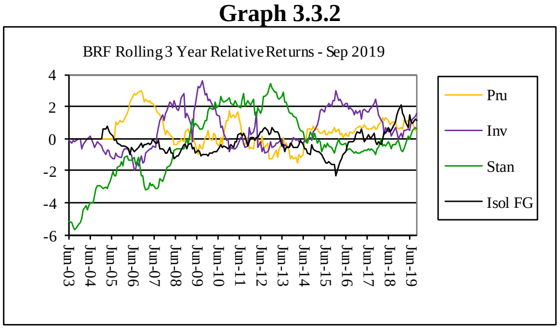


3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

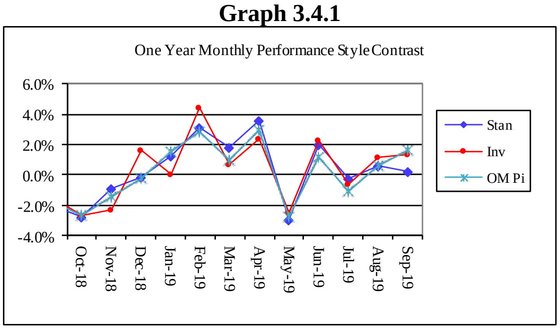


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



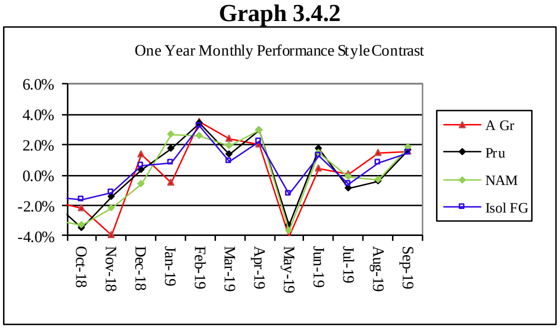
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

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

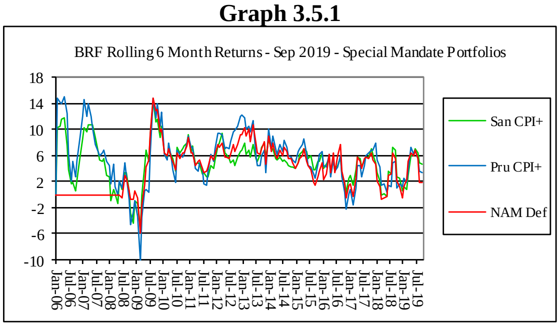
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.4.2

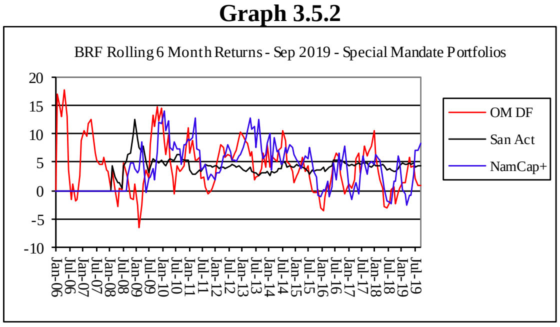


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

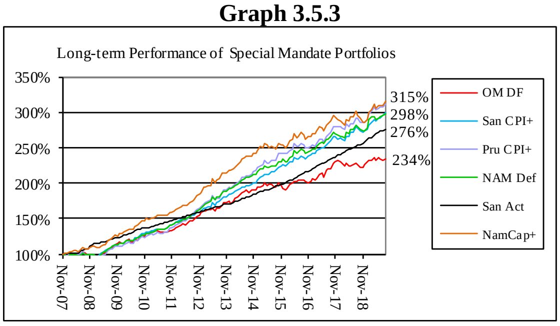
Graph 3.5.1



Graph 3.5.2

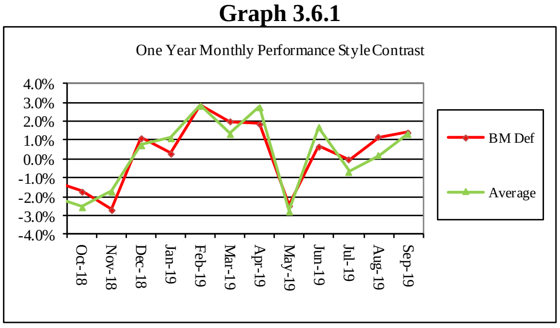


Graph 3.5.3

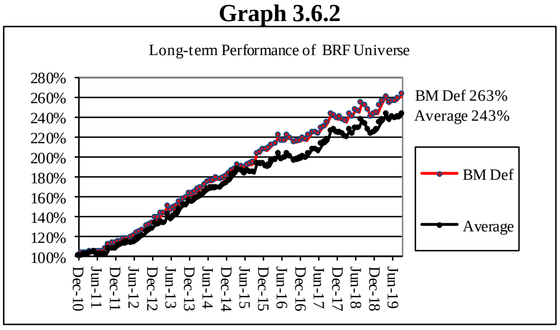


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

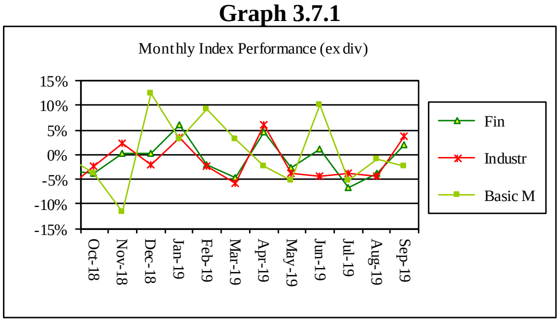


Graph 3.6.2

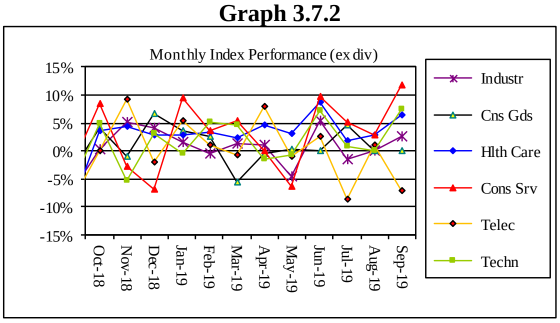


3.7 One-year monthly performance of key indices (excluding dividends)

Graph 3.7.1



Graph 3.7.2



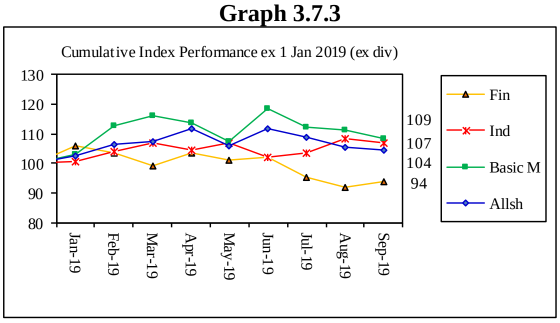
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

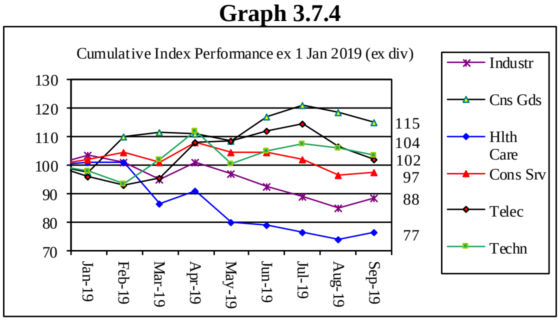
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

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.	8.1	7.5
5-year real return - % p.a.	3.4	2.8
Equity exposure - % of portfolio (qtr end June 2019)	47.0	65.6
Cumulative return ex Jan 2011	162.5	142.5
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 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. It is to be noted that the default portfolio managed to out-perform the average prudential balanced portfolio despite its significantly lower risk profile as represented by its equity exposure.

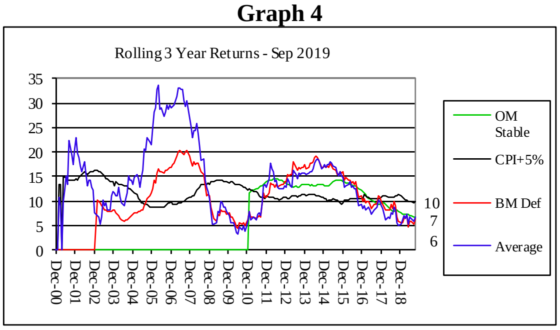
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.8%	4.7%	5.0%
Best annual performance	8.2%	11.0%	10.1%
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	7.8%	8.3%	6.7%

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years October 2016 to September 2019. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4



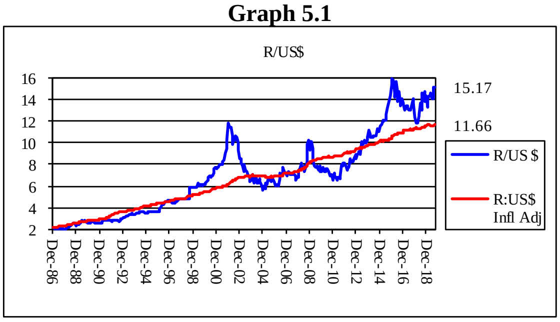
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end September was 6.3%, the average was 6.7% vs CPI plus 5% currently on 9.5%.

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 11.66 to the US Dollar while it actually stood at 15.17 at the end of September. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

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

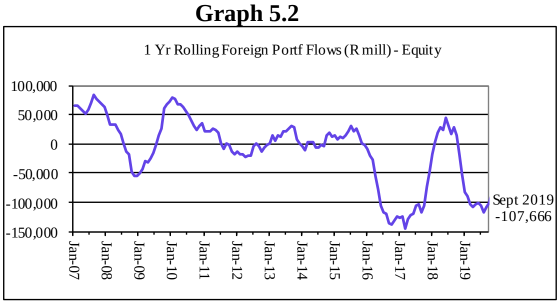
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

The Rand strengthened by 0.23% in September with net foreign investment outflows from bonds and equities of R8.0 bn. Over the past 12 months the Rand weakened by 7.3%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 129.3 bn (outflow of R140.1 bn to end of August 2019).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 147.0 bn (August R 155.0 bn).

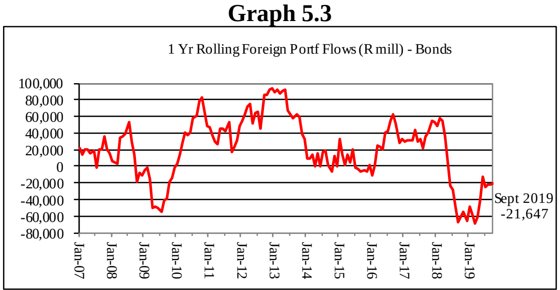
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 107.7 bn at the end of September (outflow of R 117 bn year-on-year to end August). The month of September experienced a net outflow of R 6.0 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 113.6 bn (end August net investment outflow of R 107.6bn). This represents roughly 0.65% of the market capitalization of the JSE.

Graph 5.2



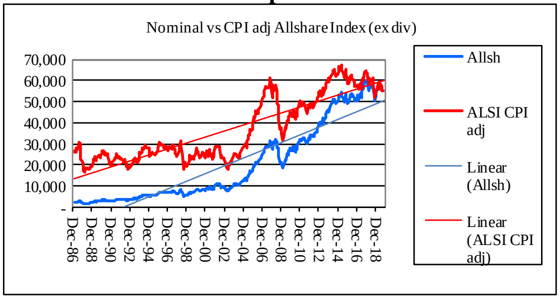
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 21.6 bn over the past 12 months to end of September (outflow of R 22.8 bn over the 12 months to end of August). The month of September experienced a net outflow of R 2.0 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 260.5 bn (to August R 262.6 bn).

Graph 5.3



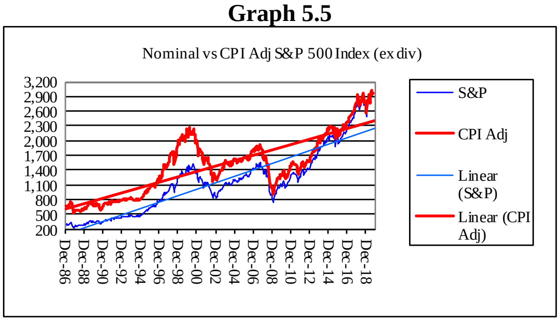
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.6% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 30 years was 8.0% per year. This is equivalent to a growth in real terms of 2.6% p.a. over this period, excluding dividends, or around 5.6% including dividends.

Graph 5.4



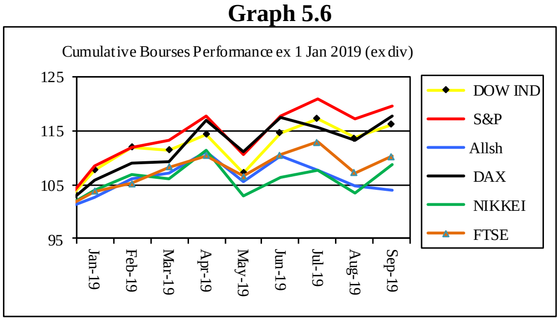
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.5% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 4.9% p.a. over this period, excluding dividends or around 7.1% including dividends.

Graph 5.5



Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2018.

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: 17.1%; Consumer Goods: 12.9%;

Benchmark Retirement Fund

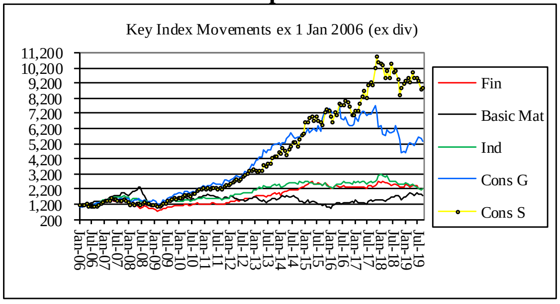
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

By T H Friedrich – 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.

Financials: 5.9%; Industrials: 5.9%; and Basic Materials: 4.3%.

Graph 5.7



6. Should you be concerned about recent poor performance of your pension fund?

by Tilman Friedrich

As a pension fund member you will no doubt be disappointed with the investment returns your (probably) biggest investment has earned over the last number of years. This investment is to carry you through retirement and in order to ensure a comfortable retirement. This assumes a typical total contribution by you and your employer of around 17% of salary and on the underlying expectation of long-term returns that your pension fund investment should earn of 5% per year in real terms, i.e. above inflation. Where inflation for the year to 30 September was 3.2%, your investment should thus have earned 8.2% for the year to 30 September. The average return of typical pension fund investments for the same period however, was only around 3.4% (after fees). Over a 5 year period inflation was 4.7% per year. Your investment should have thus earned 9.7% per year while the average return of typical pension fund investments for the same period however, was only around 6.8% per year (after fees). So over both periods, your investment has substantially underperformed the underlying expectation. One will have to extend the period to 8 years to get to the first measurement period where the average return of about 9.8% per year (after fees) actually achieved the expected real return of 9.9% per year (inflation of 4.9% plus 5% real return).

Any member of a fund who has been in the fund for 7 years or less certainly has good reason to be disappointed and to be concerned, however, only if you are approaching retirement and you have not preserved your pension capital for all the years you have worked until 7 years ago. The underlying expectation for you to retire in comfort is that you will have worked and saved up uninterruptedly for your entire working life of at least 30 years, i.e. you only started to work at age 30 and will already go on retirement at age 60. Most people in fact start working at 20 and retire earliest at age 60, actually giving them 40, not 30 years of saving up for retirement. If you are one of the diligent fund members who has indeed saved up uninterruptedly for the past 20 years (or longer) your return should have been 11.8% per year as opposed to inflation over the same period of 6.3% per year, i.e. a real return of 5.5% per year including the disappointing past 7 years.

If you diligently started to save up from the day you started to work (at age 25) and this was 7 years ago, and you intend to remain as diligent, you still have 28 years to save up. Why should you be concerned now? Clearly it is only those fund members that have reneged on their commitment to save up from their first to their last working day who may find that they will not be able to live comfortably on their pension. Unfortunately this is not how pension funds are designed and these members should rather look critically at themselves than at the performance of their pension fund over the past 7 years. Over the past 10 years, pension funds have achieved the return expectation of inflation plus at least 5% per year per year (after fees).

Having referred to the past, you may well ask “but what about the future”? Can I be certain that over the next 28 years my pension investment will recover what it fell short over the past 7 years? Of course, no one will be able to look into the future, and indeed one may have valid concerns considering that ‘things’ have changed in financial markets globally since the financial crisis in 2008/ 2009.

It seems, the law of economics, of demand and supply, no longer has any bearing on the behaviour of markets today. Savers are paying off the debt of borrowers through artificially low interest rates that are set by monetary authorities across the world. So-called ‘safe haven’ investments are earning negative real interest rates and the investor is now conditioned to accepting that he will have to work until he passes away, instead of realising his dream of retiring at an age where one might still be able to enjoy life for a while. Retirement ages are extended while pension entitlements are at best being questioned already, and even reduced in some countries.

It is pretty much common knowledge that the situation we are and have been facing in investment markets globally for the past nearly 10 years, is the result of ‘ultra-loose’ monetary policy by central banks across the world, including Namibia. After the financial crisis, central banks poured money into the financial markets in order to encourage the consumer to pick up spending levels again after these had fallen flat in the aftermath of the financial crisis. Artificially low interest rates, designed to encourage spending, were great for the borrower, but bad news for the depositor, pension fund members and pensioners to a significant extent. In many instances depositors would earn negative real interest rates.

With negative real interest rates seemingly having become the ‘new norm’, asset valuation models are now

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019

By T H Friedrich – 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.

being questioned. Why should this be of concern to a pension fund member? Well as we pointed out above pension fund contribution structures were established over the course of the past century or more based on the assumption of cash returning around 2% above inflation, bonds around 4% above inflation, property around 5% above inflation and equity around 8% above inflation. A typical balanced portfolio comprising of a mix of these assets based on conventional investment theory was expected to return roughly 5% above inflation, net of fees. Pension theory then arrived at a net retirement funding contribution rate of 11%+, to produce an income replacement ratio of 2% per year of membership, that is 60% of the member's last salary before retirement after 30 years, or 80% after 40 years uninterrupted fund membership.

Indications based on the 'new norm' are that one is now only looking at a net return of between 2% and 3% per year as opposed to 5% per year. If this were to become true, the retirement funding contribution rate would have to be raised from 11% to at least 16%. Add to this a typical cost element of 6% for risk benefits and management costs, the 'new norm' for a total retirement fund contribution rate is now at least 22% instead of the 17% before the advent of the 'new norm'. Alternatively the retiree would now have to settle on an income replacement ratio of only around 40% after 30 years of service, instead of his expected 60%!

We are certainly living in a different world today to what it was 30 years ago. What we expected of the future may be materially different and we will have to find ways and means to deal with the impact these changes have on our lives and on our retirement planning. One can only find some comfort in the fact that we are all 'in the same boat', from 'top to bottom', the answers have not been found and a lot of energy and time will be spent all across the globe to find answers how to still have time in retirement to enjoy.

The global economy just has to get going again by getting consumers to start spending again and governments across the world are making every effort to achieve this goal. We are all consumers and we all know that we have an urge to spend our money, to buy a new TV, a new motor vehicle, to go on leave etc. but we are able at times to also to hold back on spending when times are bad, only to feel the spending urge growing as time goes by. There are many possible scenarios that are likely to lead to increased spending. Namibia has experienced a terrible drought for the past few years that has resulted in many Namibians holding back on spending. At some stage it will start raining again and this will then lead to the pent up spending urge to be unleashed. Globally there is much talk about the '4th industrial revolution' evolving right now where the advancement in technology is in the process of changing the world of work ever faster. Any revolution will lead to the destruction of existing infrastructure and reconstruction of new infrastructure that will require large-scale investment.

With the prevailing exceptionally low interest rates, borrowers have a 'hay-day' while depositors (and pension fund members) are suffering. This is turning conventional money wisdom upside-down and must and can be corrected in different ways.

Conclusion

We are convinced that the prevailing situation cannot continue for too long and that conventional money wisdom will return. Which investor in his right mind will invest in an asset that gives him a return of 0% or even a negative return, i.e. his investment declines in value as time goes by? And this is currently in nominal terms and the situation is exacerbated by prevailing inflation as the result of which the decline in value is actually accelerating. Either interest rates will return to normal or we will see deflation (or negative inflation) meaning that goods and services will become ever cheaper as time goes by.

Pension fund members we believe do not need to be overly concerned about the poor investment experience of the past 7 years, provided they have been and remain diligent and focused on saving up for retirement throughout their working life. A pension fund is designed to deliver only over the working life of a member of 30 to 40 years. Those that are at the end of their working life and have saved up right through should still be able to retire in comfort, given that 7 years ago the picture was a lot rosier, but we are still on target! If you are at the beginning of the road of still saving up for another 30 to 40 years, markets still have a lot of time to correct and the pension fund member ultimately can influence the growth of his pension savings by saving more at a time when interest rates are low and house and rent prices have declined as the result of the prevailing economic environment..

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2019
By T H Friedrich – 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.

Law. If any provisions of these disclaimers and exclusions shall be unlawful, void or for any reason unenforceable then that provision shall be deemed severable and shall not affect the validity and enforceability of the remaining provisions.