Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2020

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

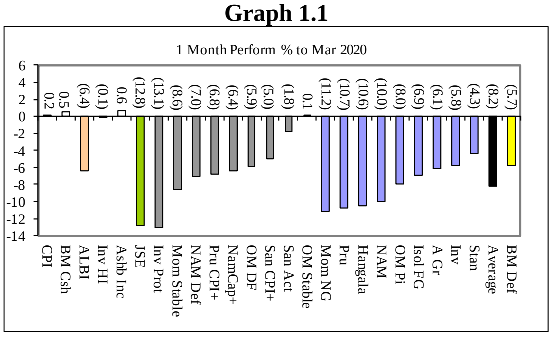
In March 2020 the average prudential balanced portfolio returned -8.2% (February 2020: -3.7%). Top performer is Stanlib Balanced Fund with -4.3%, while Momentum Namibia Growth Balance Fund with -11.2% takes the bottom spot. For the 3-month period, Stanlib Balanced Fund takes the top spot, outperforming the 'average' by roughly 4.7%. On the other end of the scale Momentum Namibia Growth Fund underperformed the 'average' by 4.9%. 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.

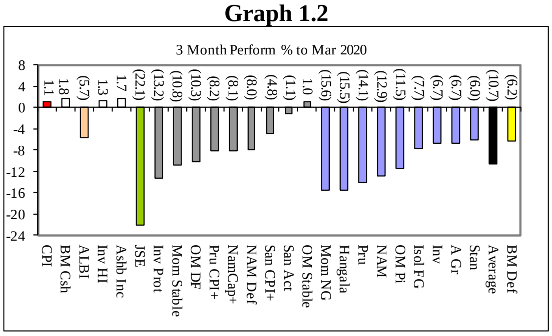
Below is the legend to the abbreviations reflected on the graphs:

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)
Ashburton Namibia Income Fund	Ashb Inc (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)

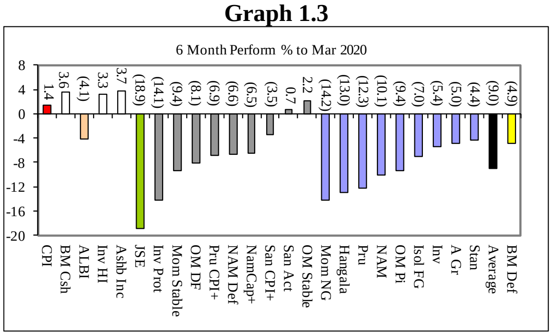
Graph 1.1



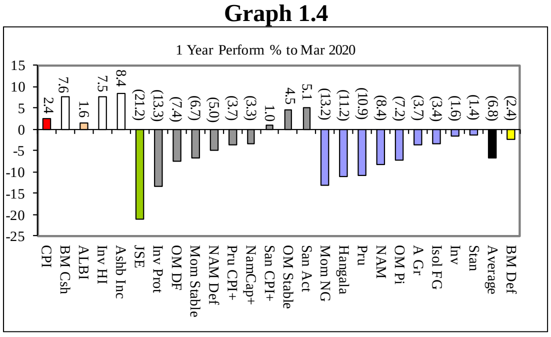
Graph 1.2



Graph 1.3



Graph 1.4



Volume 16 No. 03
March 2020

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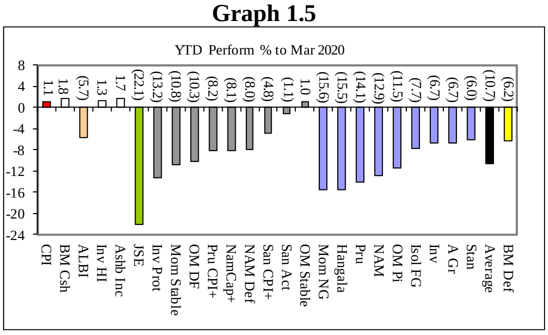
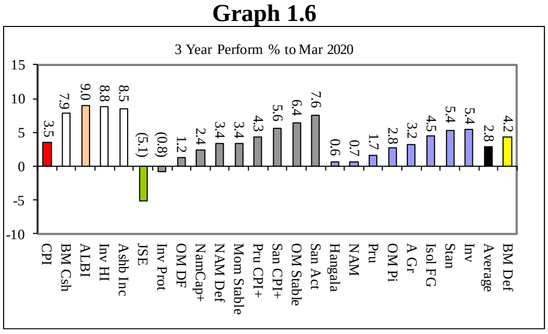
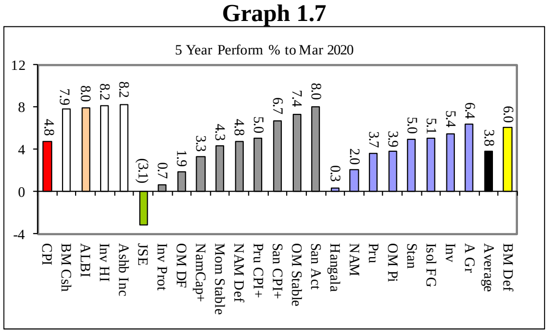
Graph 1.5



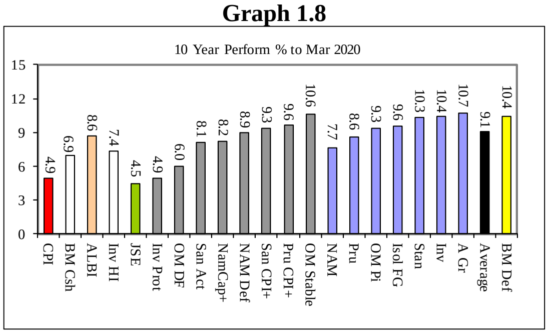
Graph 1.6



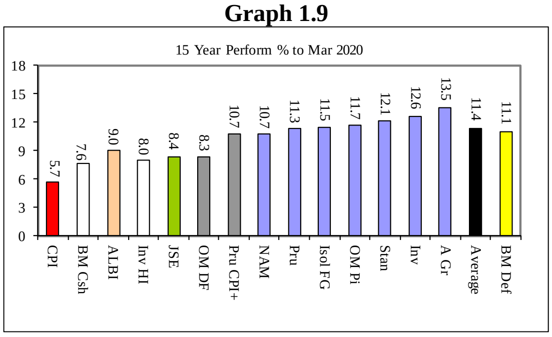
Graph 1.7



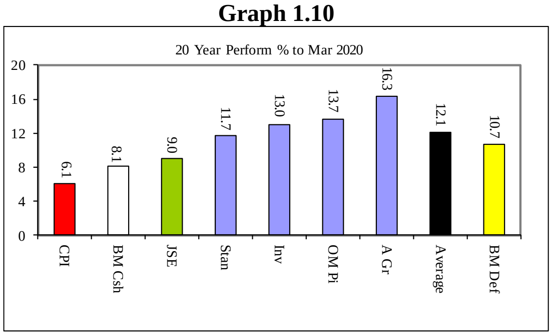
Graph 1.8



Graph 1.9



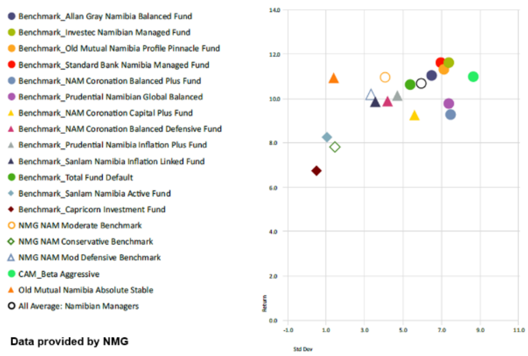
Graph 1.10



Risk/ Return

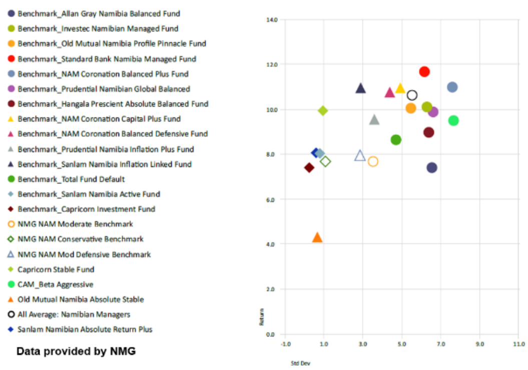
Risk-Reward - Over the long term

Time period: Jan 2010 – Dec 2019 (10 years)



Risk-Reward - Over the short term

Time period: Jan 2019 – Dec 2019 (1 year)



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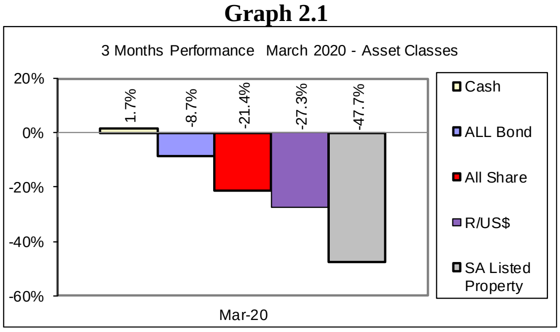
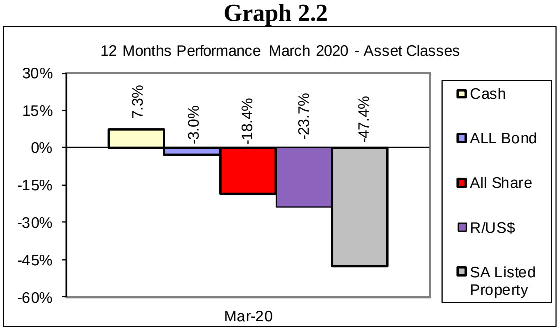
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

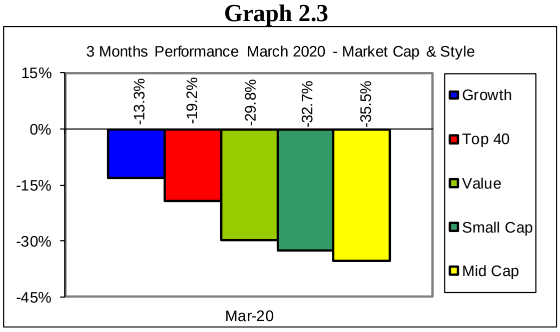
Graph 2.1



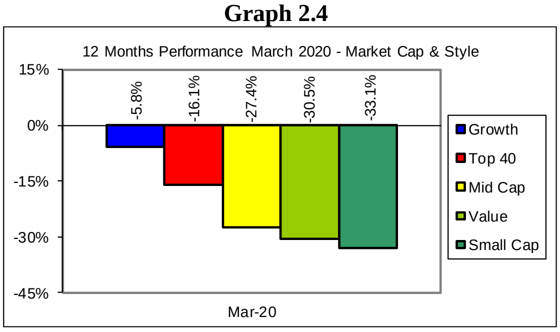
Graph 2.2



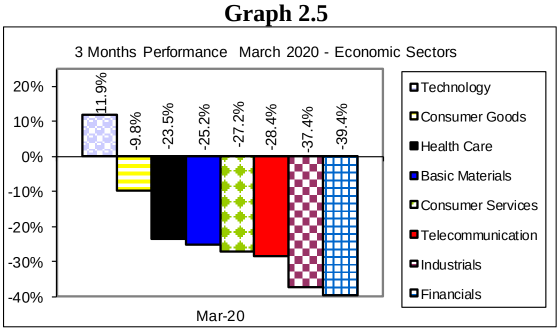
Graph 2.3



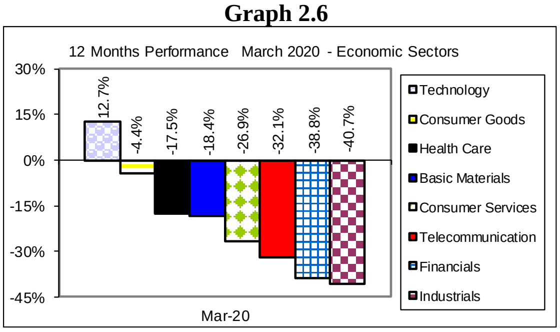
Graph 2.4



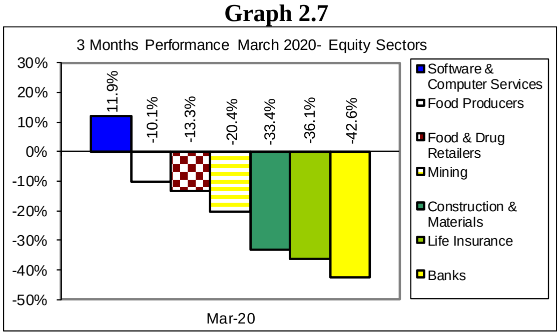
Graph 2.5



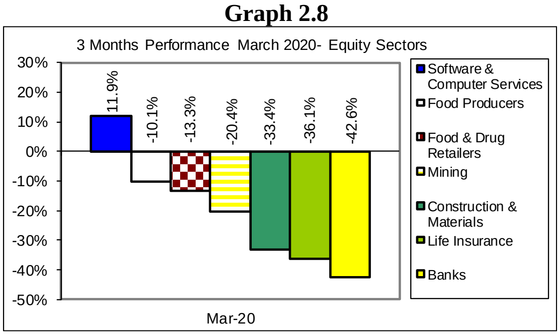
Graph 2.6



Graph 2.7



Graph 2.8



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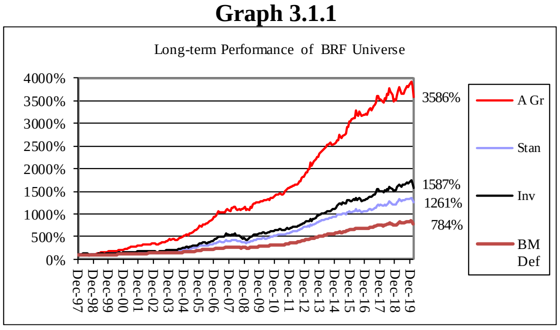
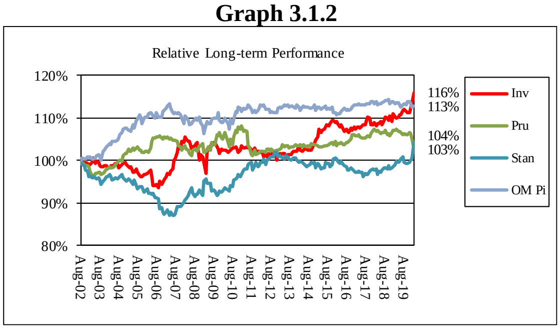
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

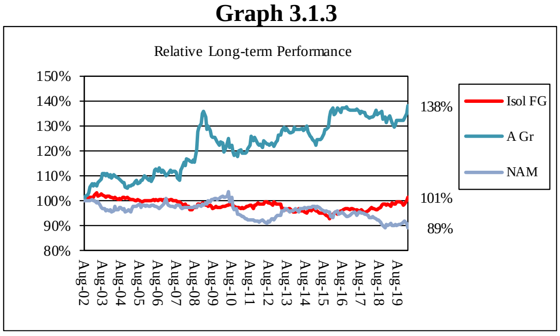
Graph 3.1.1



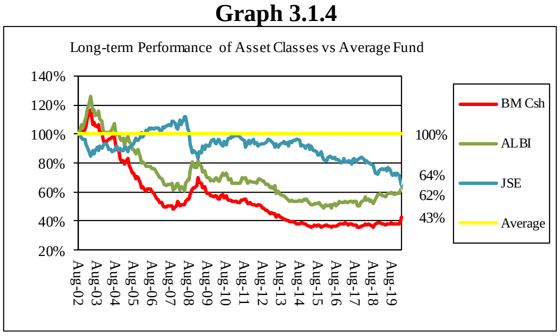
Graph 3.1.2



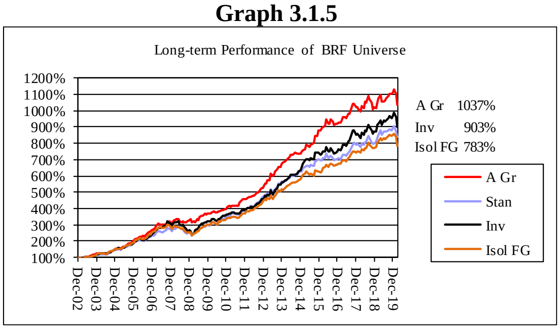
Graph 3.1.3



Graph 3.1.4

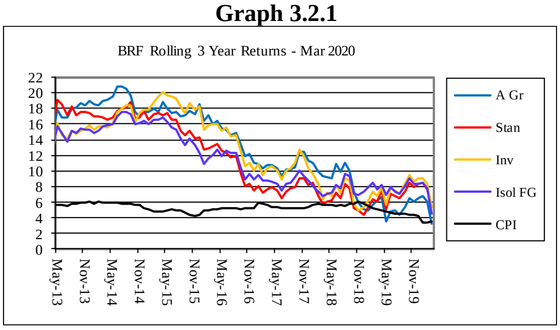


Graph 3.1.5

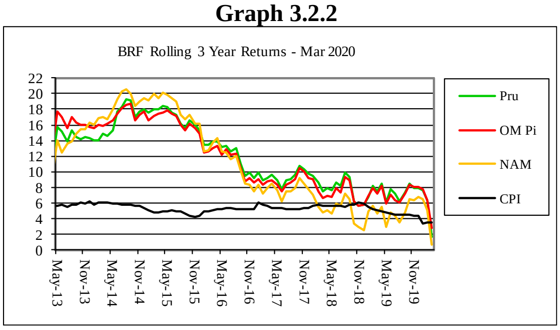


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

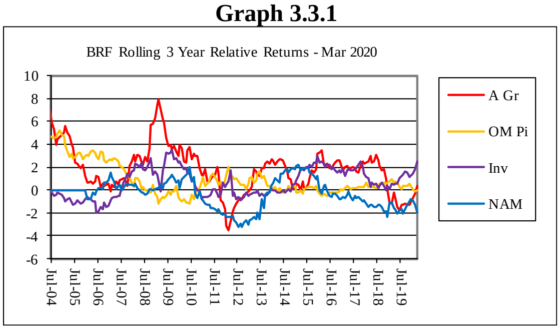


Graph 3.2.2



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

Graph 3.3.1



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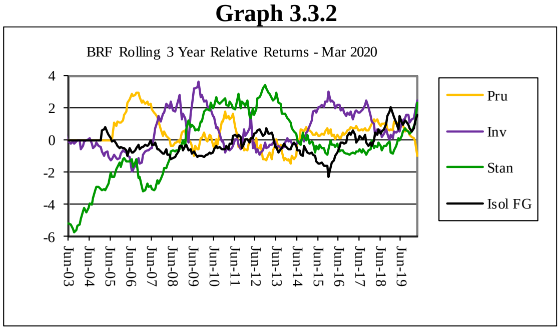
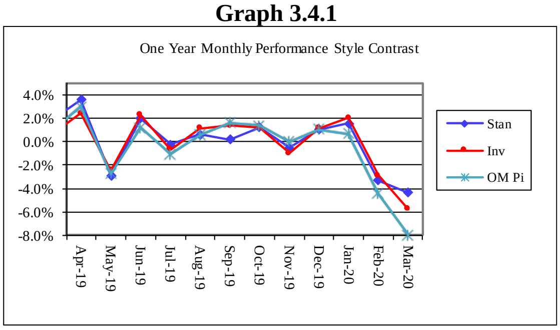
Graph 3.3.2

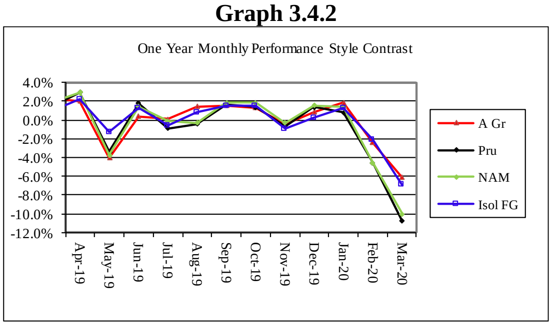


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

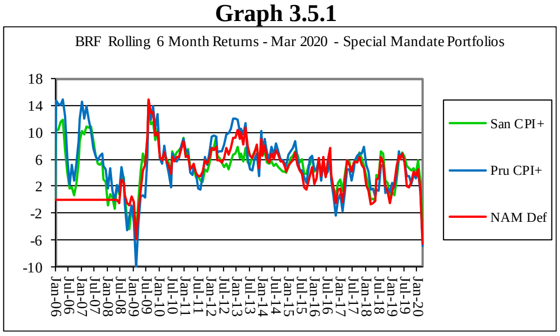


Graph 3.4.2

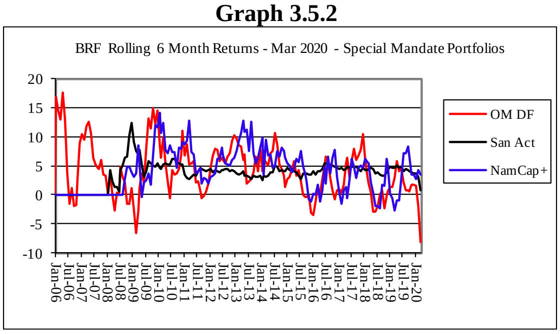


3.5. 6-month rolling and cumulative returns of ‘special mandate’ portfolios

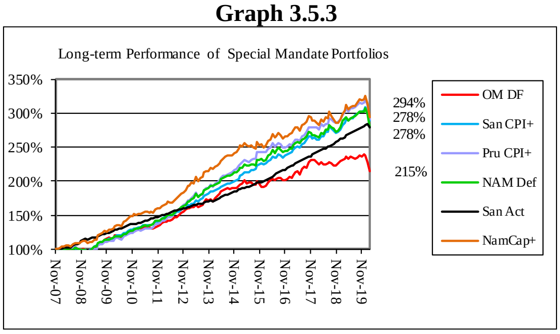
Graph 3.5.1



Graph 3.5.2

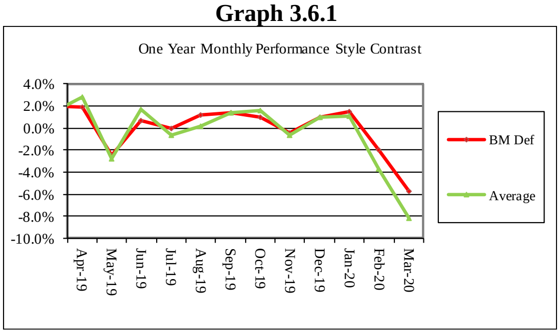


Graph 3.5.3

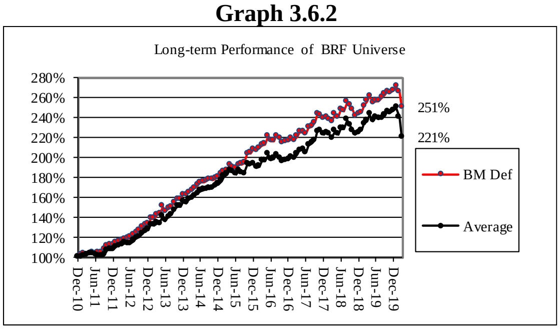


3.6 Monthly and cumulative performance of ‘Benchmark Default’ portfolio relative to average prudential balanced portfolio

Graph 3.6.1



Graph 3.6.2



Volume 16 No. 03
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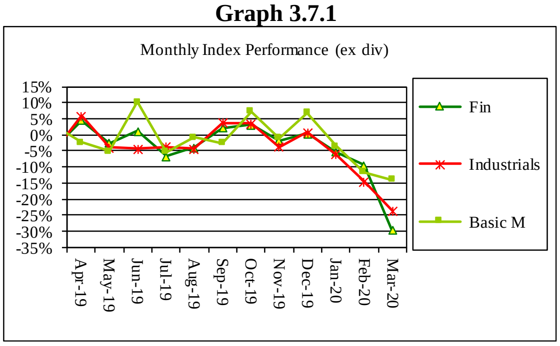
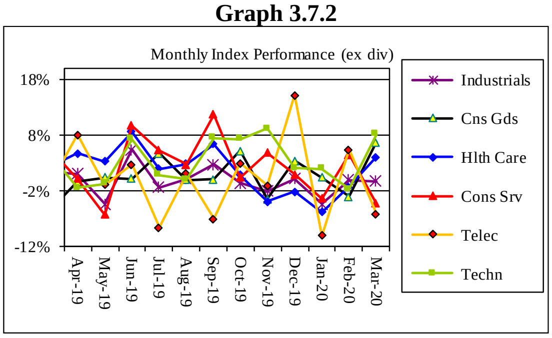
3.7 One-year monthly performance of key indices (excluding dividends)

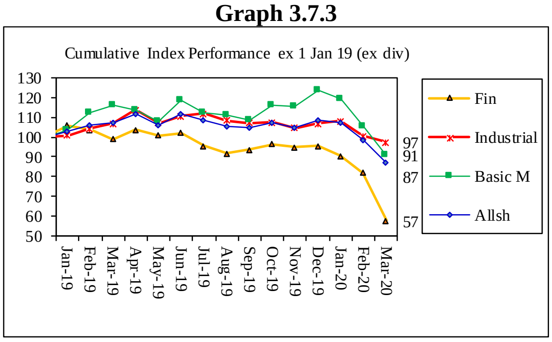
Graph 3.7.1



Graph 3.7.2



Graph 3.7.3



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	6.0	3.8
5-year real return - % p.a.	1.2	-1.0
Equity exposure - % of portfolio (qtr end December 2019)	47.2	62.0
Cumulative return ex Jan 2011	150.73	120.83
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.

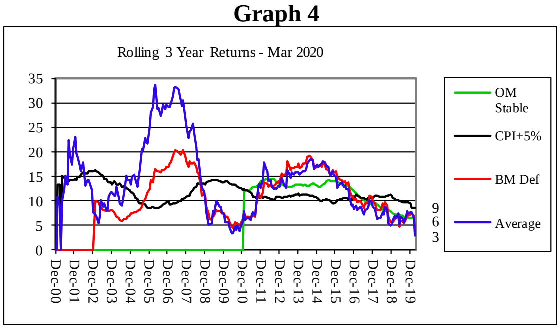
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	7.4%	4.2%	2.8%
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	8.0%	7.8%	7.2%

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years April 2017 to March 2020. 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 March was 4.2%, the average was 2.8% vs CPI plus 5% currently on 8.5%.

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 12.00 to the US Dollar while it actually stood at 17.80 at the end of March. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

Volume 16 No. 03
March 2020

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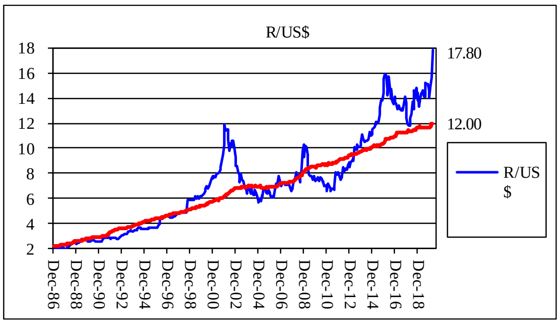
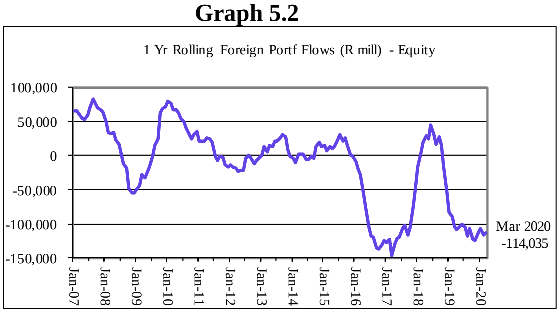


The Rand weakened by 13.5% in March with net foreign investment outflows from bonds and equities of R62.5bn. Over the past 12 months the Rand weakened by 23.7%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 200.3bn (outflow of R 149.2bn to end of February 2020).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 14.6 bn (February R 77.0 bn).

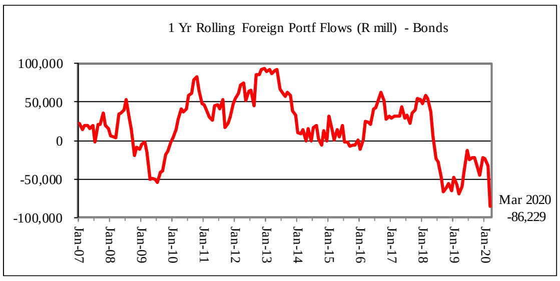
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 114.0 bn at the end of March (outflow of R 115.7 bn year-on-year to end February). The month of March experienced a net outflow of R 13.8 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 183.1 bn (end February net investment outflow of R 169.3 bn). This represents roughly 1.31% of the market capitalization of the JSE.

Graph 5.2



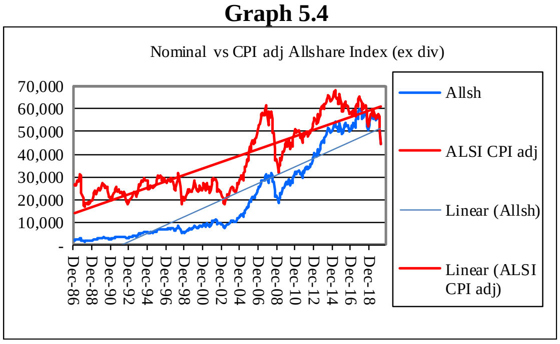
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 86.2 bn over the past 12 months to end of March (outflow of R 33.6 bn over the 12 months to end of February). The month of February experienced a net outflow of R 48.6 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 197.7 bn (to February R 246.3 bn).

Graph 5.3



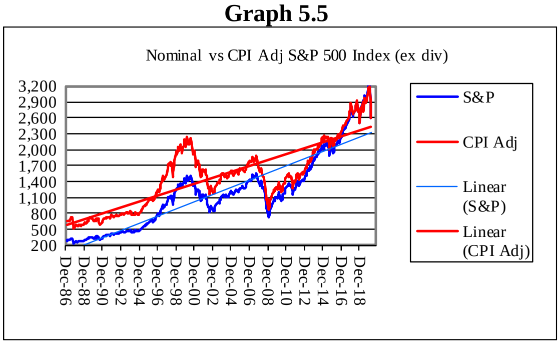
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 9.8% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 33 years was 7.9% per year. This is equivalent to a growth in real terms of 1.9 % p.a. over this period, excluding dividends, or around 4.9% 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 7.0% per annum, over this period of 33 years. US inflation over this period was 2.5%. This is equivalent to a growth in real terms of 4.5% p.a. over this period, excluding dividends or around 6.7% 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 2019.

Graph 5.6

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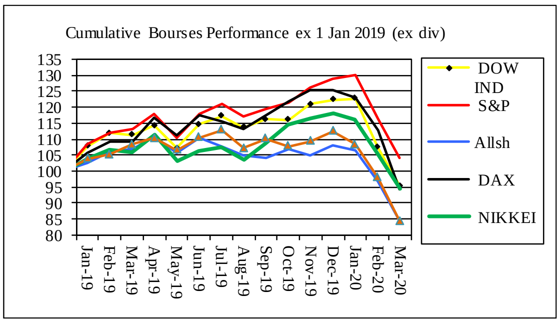
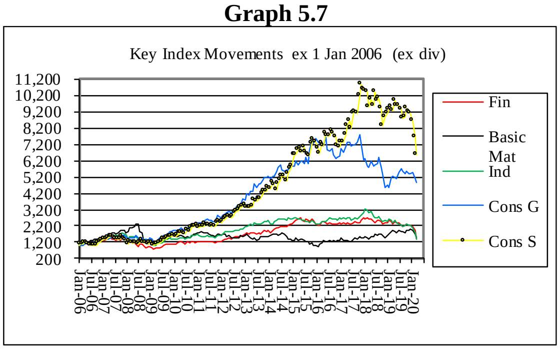


Graph 5.7 provides an overview of relative movement of the key equity sectors on the FTSE/JSE since December 2005 when these indices were first introduced. From this the investor should be able to deduce which sectors offer greater value and which one's offer less value on the basis of fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 14.0%; Consumer Goods: 11.6%; Financials: 2.2%; Industrials: 2.2%; and Basic Materials: 2.8%.

Graph 5.7



6. It's not a good time to invest while the volcano is still active!

by Tilman Friedrich

The lockdown has created a situation in global economies and financial markets that no-one of 'us mortals' could have ever foreseen. What is particularly depressing about it, is that it is man-made. Governments across the world consciously decided to do serious harm to their economies in an effort to save lives.

We know for sure that the global economy will take a serious knock and we can be pretty sure that COVID 19, and any other bout of flu for that matter, will take lives. So the argument goes, that saving lives is more important than saving jobs. However, is this true? As well-known SA economist Dawie Roodt, surmises in an article in Moneyweb of 17 April, the number of deaths that will be caused as the result of a significant increase in poverty may very well significantly exceed the number of deaths caused by the Corona virus.

Unfortunately, 'peer pressure' will have prevented any country from following any autonomous course of action in addressing the COVID 19 epidemic. Yet country specific circumstances differ vastly from one country to the next and more acutely between developed countries and developing countries. Furthermore, the epidemic started in the northern hemisphere during its winter and flu season, while the southern hemisphere was still in the summer season where the rapid spreading of any flu is unlikely. We will still get into our flu season and we will have 'spent all our ammunition'. Come winter season, and the spreading of flu, including COVID 19, we will have a serious problem trying to contain the spreading of these diseases.

At this stage, the huge uncertainties and the unknown consequences linked to the prevailing lockdown, markets will remain jittery and volatile. A significant part of the economy will disappear over the lockdown with many companies closing down. Governments will focus on rebuilding their economies. They will make every effort to convince their citizens to travel within their countries and to spend their discretionary moneys within, rather than outside. Tourism for one will not anytime soon return to what it has been before the lockdown. A large number of people will be poorer so their spending capacity will have declined and they will spend less on travelling, hospitality entertainment and other discretionary expenses. Some industries will change their face for an extended period, others forever.

We now have to live with the economic and financial consequences of the COVID 19 measures taken across the world. The global economy was already in the doldrums even before COVID 19, and it's now in much worse shape. The problem is that we cannot really reliably say how things are going to evolve after we are all out of this disaster nor how long it will take until global economies and global financial markets have found their bottom and will turn around. It is also pretty certain that some industries will be negatively impacted and others will be positively impacted. Tourism, travelling and entertainment industries depending on physical on-site presence such as sport events, shows etc. will take years to recover. In contrast, digital, home-based entertainment and services designed to provide for the home-based consumer will have a bright future. People will generally be more home-bound. Anything depending on people 'through-put' and mass consumption should experience tough times while personalized and individualized services and consumption should come out strongly after the lockdown. Health care will obviously enjoy more prominence and growing demand. One can just see drones taking over in providing the home-based consumer with all he may need. Generally, technology driven services should experience an ever-growing demand.

To use an analogy, we currently experience the eruption of an economic and financial volcano that is spewing lava

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MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2020

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and ash into the atmosphere. Do we know when it will die down or what the world around it will look like after it has died down again? There will be lots of ash all around it and out of this ash in a few years' time we will see new plants sprouting any growing lusciously and the world will then look quite a lot differently. No crop farmer would start preparing his soil while the volcano is still smouldering. No crop farmer would use all his capital to purchase a single type of seed and to start sowing as if the soil is the same as before the eruption. Of course, the weather will also contribute towards the successful or unsuccessful growth of the seeds. He would probably rather purchase a wide range of different seeds to experiment which ones will flourish in the new environment and he would probably not sow all at the same time but spread it over time so that the impact of the weather can play out as well. Of course, some may be tempted to capitalize on the situation and put all their capital into a single type of seed he believes will flourish and at a time when most still hesitate and rather first experiment with smaller amounts.

The investor is now essentially in the same position as the crop farmer. He either takes a view of what the world will look like and aggressively pursue this view in the hope that the risk will be rewarded appropriately or he follows a more cautious approach. Certainly, it is wise to wait until the Corona volcano has died down before starting to invest. What will markets do if a second bout of COVID 19 breaks out? The response is likely going to be even more violent than we have seen after the first outbreak. At risk in particular will be countries in the southern hemisphere that are only moving into the flu season from June onwards, unless an effective vaccine has been developed by then. We really can only be certain that this volcano has died down once a vaccine has been developed and is freely available. We will also only know which types of business will no longer flourish, over time. We can either learn from the experience of others or we can do our own research and base our investment decisions on what our own research shows. Principally one can identify with a fair level of certainty some industries that should flourish and others that are likely to whither but there will be a broad spectrum of industries where this will likely not be the case.

Speculation is a short-term game and it is fraught with risk and is highly dependent on timing. Speculating repeatedly reduces the risk but also the return. Pension Fund investments are a long-term game and should not be driven by speculation. Applying the crop farmer analogy and given that we are playing a long-term game in the pensions industry we should not sell all our crop now after the demand for the crop has collapsed because of the outbreak of the volcano which led people to believe the crop may be poisoned. One should not sow new seeds now in the hope that they will yield a better harvest than the crop in the field.

Conclusion:

Given this environment, where can a pension fund still invest? Fixed interest assets are evidently too risky being too exposed to monetary and fiscal manipulation. Even if we here at the southern tip of Africa are living in a much more sheltered environment, our financial markets are shackled to global developments. This essentially leaves real business as the asset class to invest in. We all have to live, eat, drink, dress, get to work, nurture our health, go on holiday, learn, find shelter and so on. The 'real economy' will continue and is best represented by commerce and industry, in short, investment in equity appears to be really the most appropriate asset class for the normal investor who shies away from the more exotic asset classes such as gold, works of art etc.

As we usually say, based on fundamentals, equity is still our preferred asset class, more specifically value companies offering a high dividend yield in the current environment. However, the company must also operate in a sector that will not whither as the result of the Corona volcano eruption. While it is possible to identify sectors that are likely to whither and those that are likely to flourish it does not necessarily apply to each business in these sectors.

One should not sell out of equities but should selectively dispose of holdings that are clearly in the wrong industry to replace them with ones that are clearly in the right industry as we have alluded to above. One can expand one's holdings in the right sectors provided one is assured of the sustainability of the specific holding post the volcano having died down. We do not believe it is the right time now to either sell existing holdings, or to invest in new holdings hand over fist.

Index investing will merely result in returns mirroring the general performance of the economy and that will be worse than it has been before the lockdown. Stock picking can add value if the shrewd manager avoids companies likely to suffer and pounces on opportunities that will become available. In these times of high volatility, one should mitigate the risk by spreading one's investment over a period.

Foreign investments may not have lost at all or may have only incurred limited losses as the result of the severe depreciation of the Rand. While the Rand was already badly under-valued by our assessment it is now in a much worse position having weakened by 26% from 14 to the US$ to close to 19. At the same time the US S&P 500 dropped by only 14%. Repatriating foreign investment capital is an option to consider. For the sake of spreading ones' risk globally this should be done with the firm intention to expatriate the capital again at a later stage

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when the Rand has recovered from its overdone weakness.

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