Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 April 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

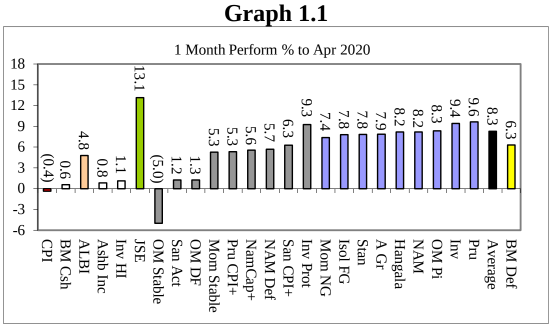
In April 2020 the average prudential balanced portfolio returned 8.3% (March 2020: -8.2%). Top performer is Prudential Namibia Balanced Fund with 9.6%, while Momentum Namibia Growth Balanced Fund with 7.4% takes the bottom spot. For the 3-month period, Investec Namibia Managed Balanced Fund takes the top spot, outperforming the 'average' by roughly 4.4%. On the other end of the scale Momentum Namibia Growth Balanced Fund underperformed the 'average' by 4.8%. 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.

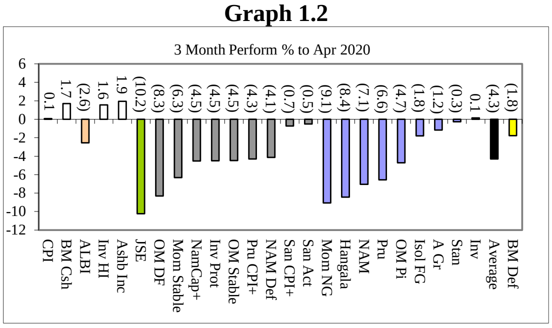
Below is the legend to the abbreviations reflected on the graphs:

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)

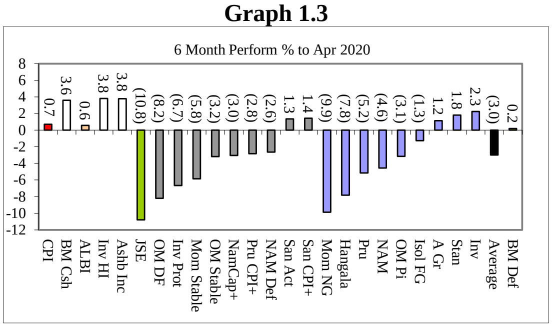
Graph 1.1



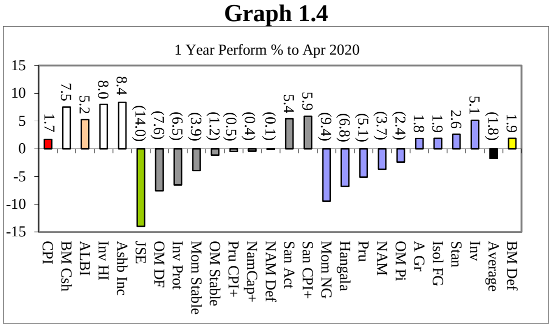
Graph 1.2



Graph 1.3



Graph 1.4



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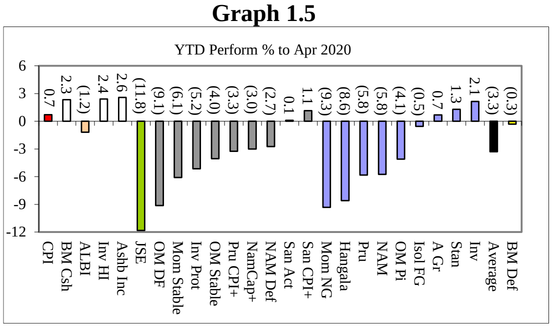
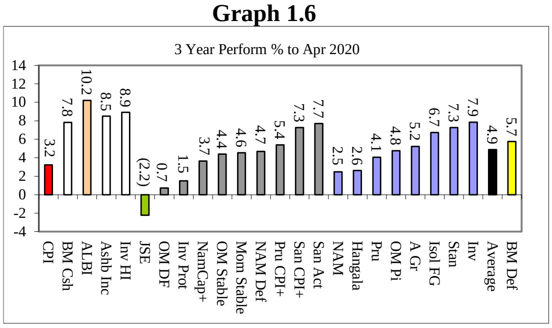
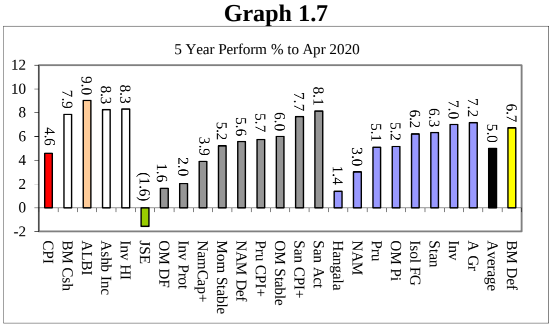
Graph 1.5



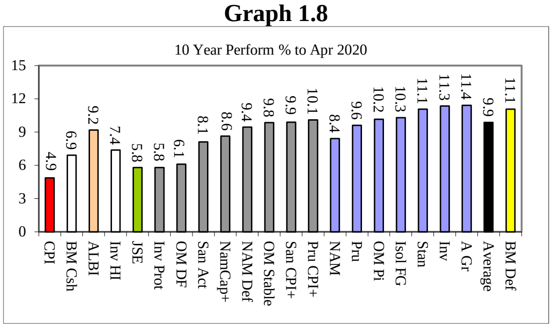
Graph 1.6



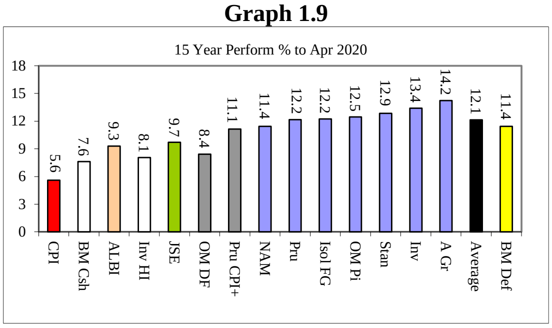
Graph 1.7



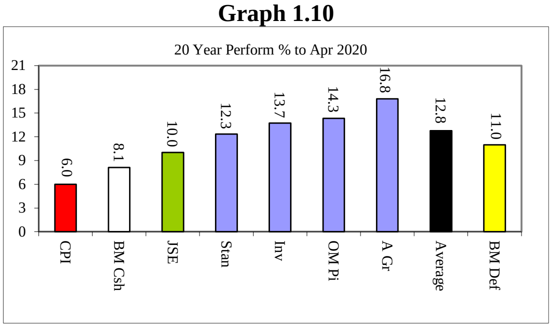
Graph 1.8



Graph 1.9



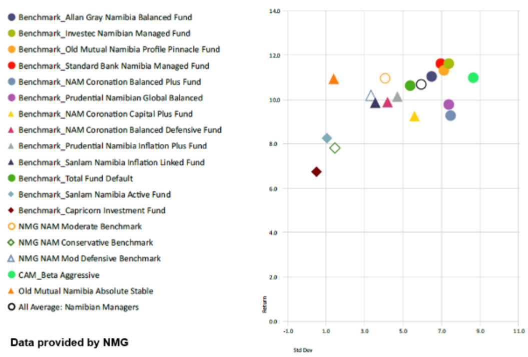
Graph 1.10



Risk/ Return

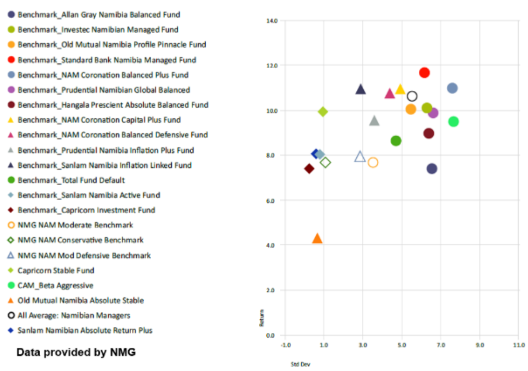
Risk-Reward - Over the long term

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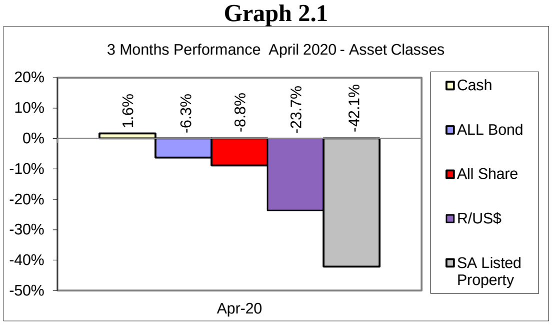
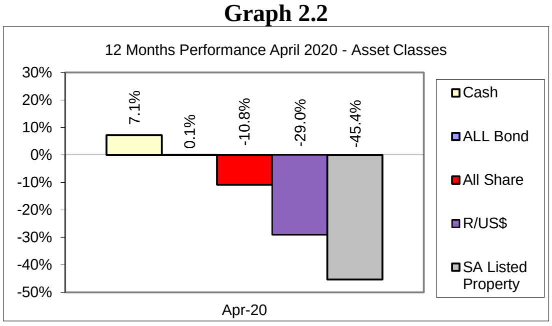
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

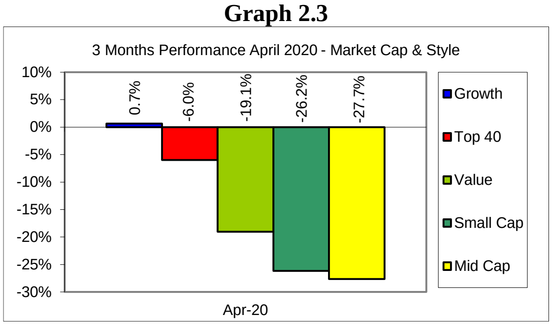
Graph 2.1



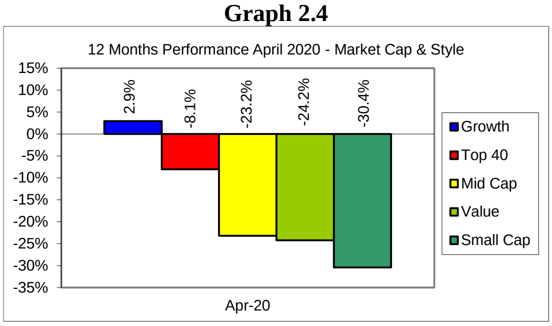
Graph 2.2



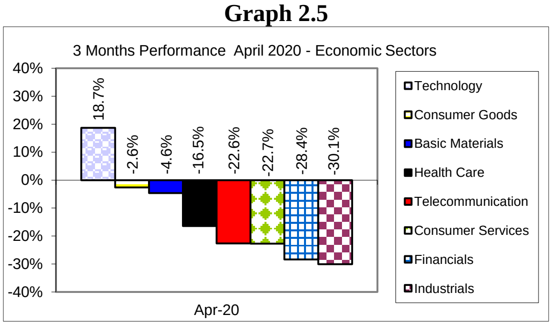
Graph 2.3



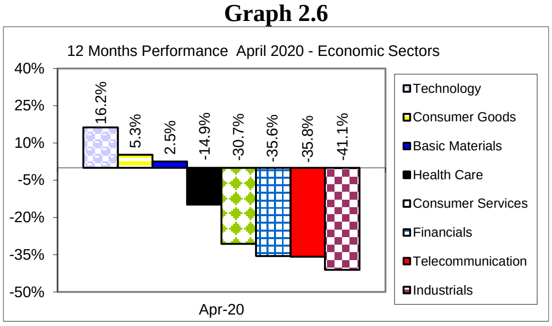
Graph 2.4



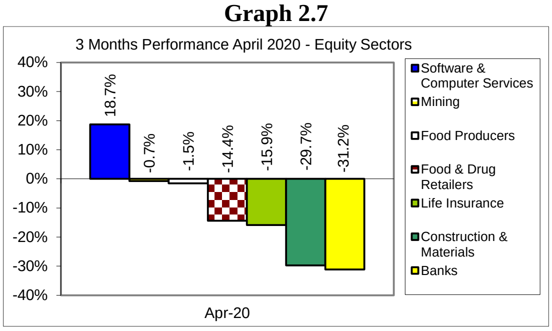
Graph 2.5



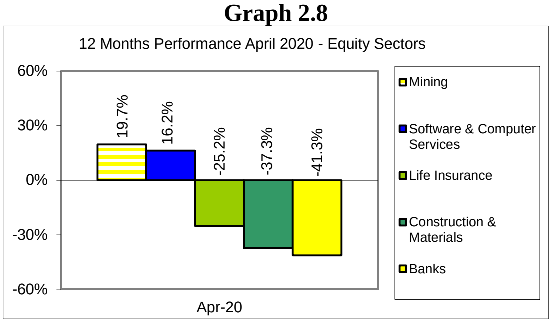
Graph 2.6



Graph 2.7



Graph 2.8



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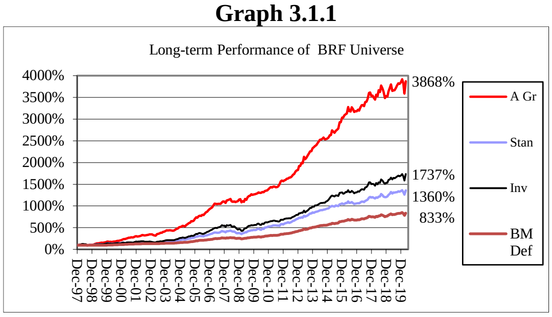
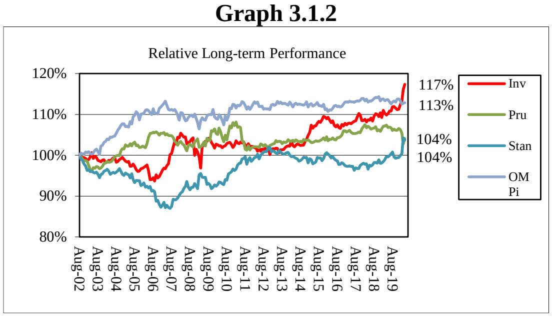
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

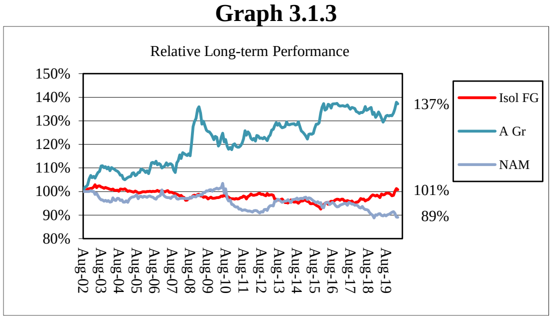
Graph 3.1.1



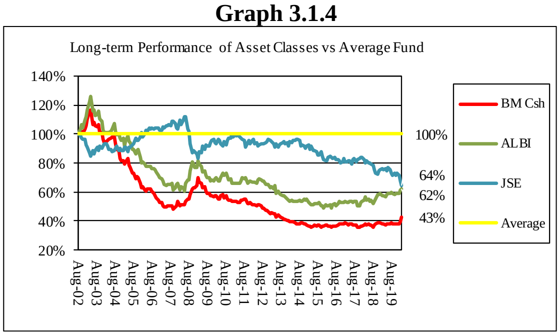
Graph 3.1.2



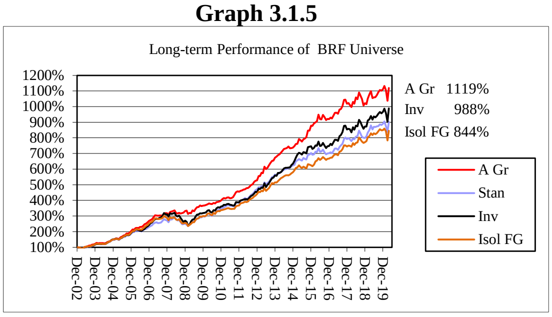
Graph 3.1.3



Graph 3.1.4

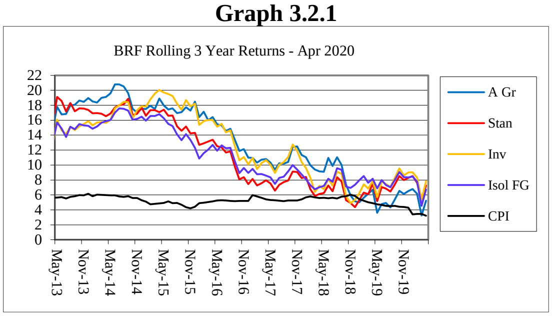


Graph 3.1.5

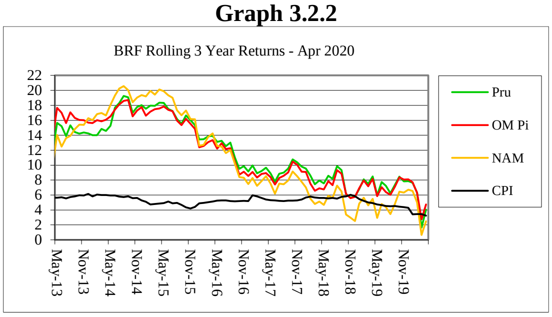


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

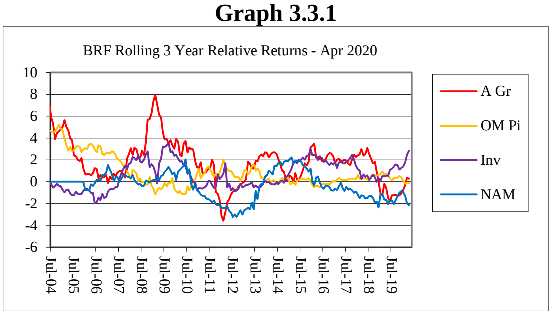


Graph 3.2.2



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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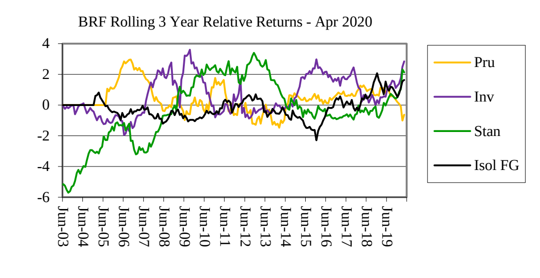
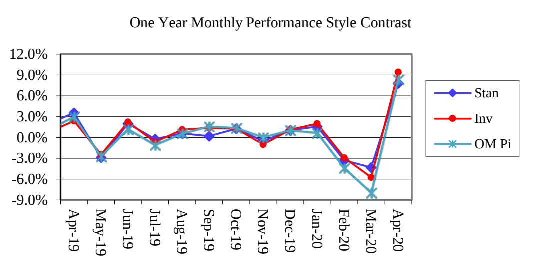
Graph 3.3.2

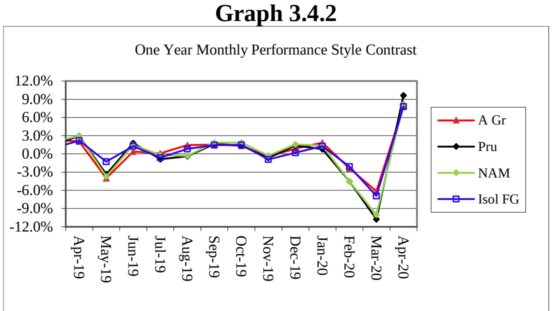


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

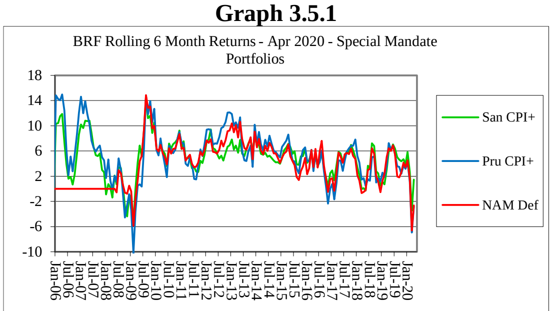


Graph 3.4.2

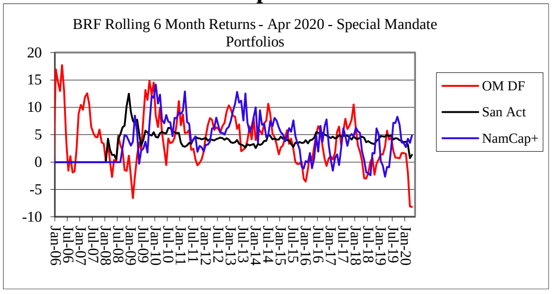


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

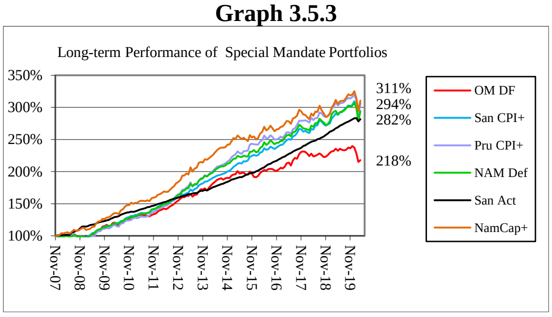
Graph 3.5.1



Graph 3.5.2

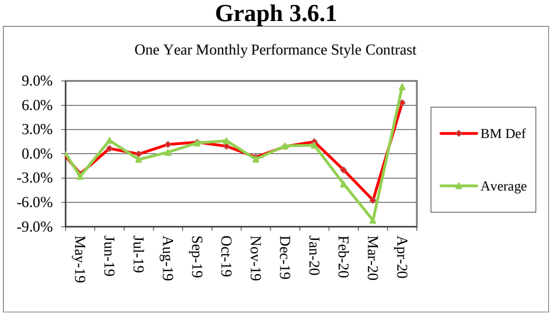


Graph 3.5.3

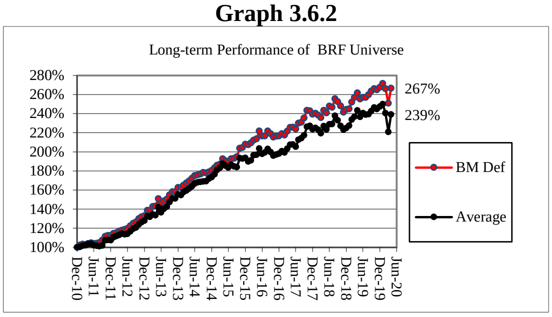


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1



Graph 3.6.2



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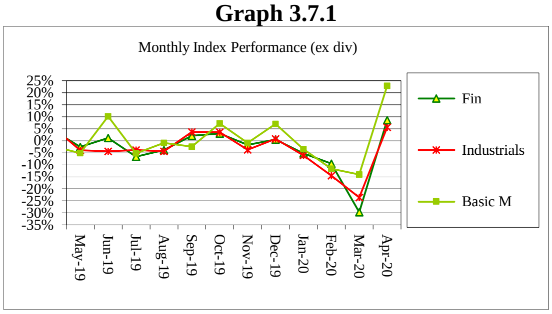
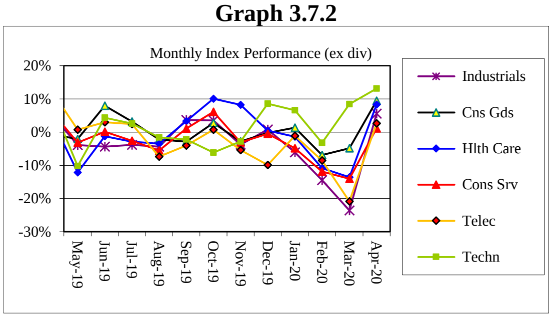
3.7 One-year monthly performance of key indices (excluding dividends)

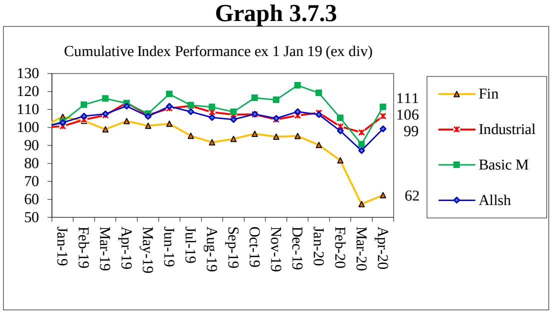
Graph 3.7.1



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.	6.7	5.0
5-year real return - % p.a.	2.1	-0.4
Equity exposure - % of portfolio (qtr end March 2020)	45.4	63.0
Cumulative return ex Jan 2011	166.56	139.13
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.

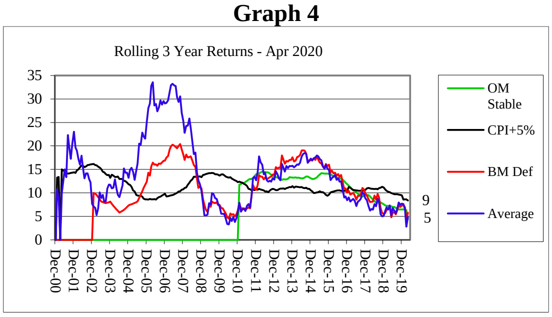
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	7.5%	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%	7.6%	7.0%

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years May 2017 to April 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 April was 5.8%, the average was 4.9% vs CPI plus 5% currently on 8.38%.

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 11.79 to the US Dollar while it actually stood at 18.48 at the end of April. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

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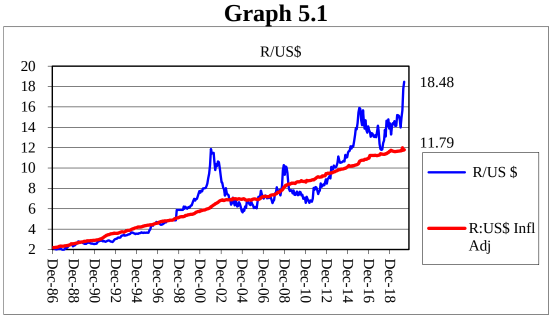
Graph 5.1

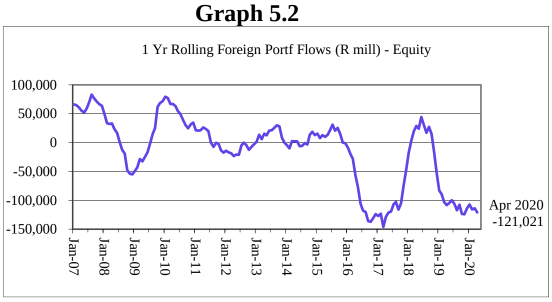


The Rand weakened by 3.8% in April with net foreign investment outflows from bonds and equities of R23.3bn. Over the past 12 months the Rand weakened by 29.0%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 229.9bn (outflow of R 200.3bn to end of March 2020).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 8.7 bn (March R 77.0 bn inflows).

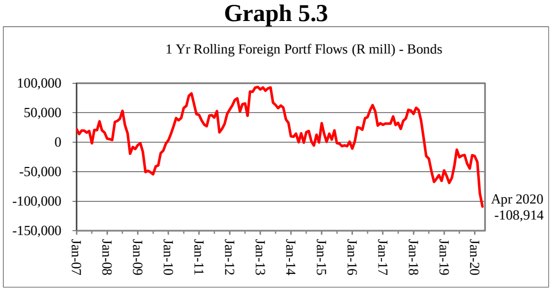
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 121.0 bn at the end of April (outflow of R 114.0 bn year-on-year to end March). The month of April experienced a net outflow of R 7.6 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 190.7 bn (end March net investment outflow of R 183.1 bn). This represents roughly 1.18% of the market capitalization of the JSE.

Graph 5.2



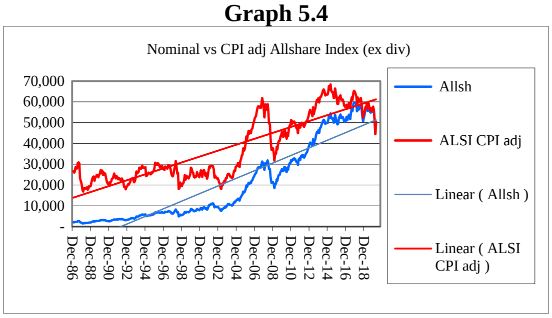
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 108.9 bn over the past 12 months to end of April (outflow of R 86.2 bn over the 12 months to end of March). The month of April experienced a net outflow of R 15.7 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 182.0 bn (to March R 197.7 bn).

Graph 5.3



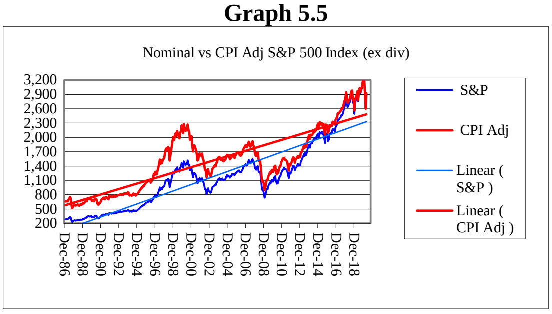
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.2% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 33 years was 7.9% per year. This is equivalent to a growth in real terms of 2.3 % p.a. over this period, excluding dividends, or around 5.3% 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 7.3% 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 4.8% p.a. over this period, excluding dividends or around 7.0% 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.

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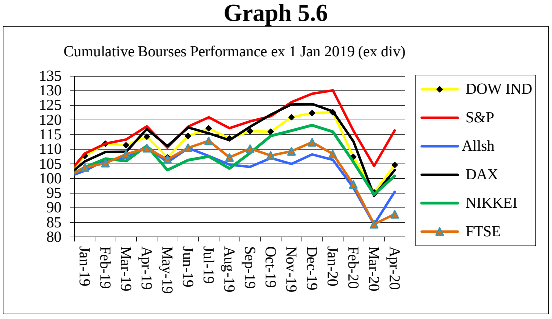
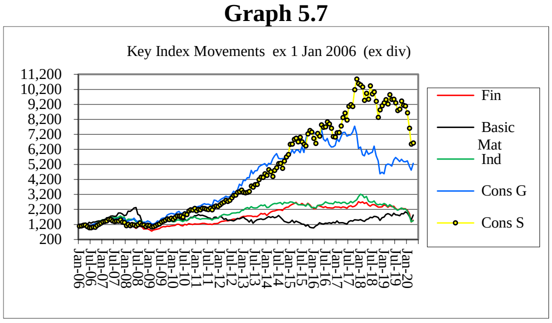
Graph 5.6



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: 14.1%; Consumer Goods: 12.3%; Basic Materials: 4.3%; Financials: 2.8%; and Industrials: 2.6%.

Graph 5.7



6. After Corona the world will never be the same again!

by Tilman Friedrich

Every politician, every news medium, and of course Bill Gates, are all heralding that the world we knew before will never be the same again, after Corona. The abbreviations A.C. and B.C. have been given a new meaning – After Corona and Before Corona. Have you noticed like I, that this message is driven in particular by ITC companies and others, clearly wanting to capitalise on IT to promote their business?

In the 20 years or so B.C. we experienced a huge tidal wave of human movement across the world. One may probably differentiate between business movement and leisure movement. I believe these two will respond differently in the years A.C.

Maybe me, as a 'baby boomer', am still of the old school. I believe human beings are social animals. They like to socialise, meet face to face and interact on a personal level and have that feel-, smell-, taste experience, simply being a human being. We do not want to be prescribed to the nth degree what we may do, what we may not do, where we may and may not be, how and when we may move around – like an animal in a zoo. We may live being shackled for a while, but we will not, as a species accept shackles for any extended period and the longer we are shackled down, the more violent the breaking of these shackles will eventually be. This is what history tells us. The virtual world may add a facet to our lives but it will not change our human genes. I am convinced that the new reality A.C. is a huge hype blown up by people with a vested interest and opportunists joining the band wagon.

People who have been moving around for business reasons probably never experienced such travelling as fun, and it was time consuming, disruptive, inefficient and expensive, to the consumer in the final analysis. Did they have to move around? Probably not but the world had not cottoned up to the new way of doing business simply because there was no real imperative to do so. In the interregnum, (i.e. the various stages of lockdown), us all had to accept the other person doing things differently and us being forced to also start doing things differently. We were all forced to start using technology to avoid prohibited movement while still keeping the business fire burning.

Just think of your staff training and your personal continuing professional education obligations. So many businesses out there are nowadays obliged to spend x amount on training and x hours on continuing professional education and if this is all one wants to achieve then I guess the virtual event will do it for you. It will be a lot cheaper, a lot more accessible, efficient, practical and much less disruptive. Not driving to and from the airport, sitting in the departure hall, flying across the world, booking into a hotel to attend the conference or seminar starting 8h00 tomorrow morning, and all of this in reverse upon return.

This type of movement undoubtedly will shrink dramatically. It's been wasteful of natural resources and it is good for us all and our environment for this to largely disappear! So much as the demand for training and CPE, much to my personal dismay, was blown up artificially, this bubble has burst never to return again. The need for training however, will remain and this will largely be served with the assistance of IT. ITC businesses and those that provide virtual training will thus experience a quantum leap.

However, when it comes to human movement for leisure and entertainment, I doubt we will see a dramatic change. Just think of that gala event. That special, memorable event will always be a personal, live experience rather than the virtual experience. Think of the personal, live experience of being exposed to another country, another people, other traditions and cultures another climate and

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environment. That travel fever, that travel bug cannot be emulated by virtual deception, it has to be 'the real thing!

We will see a line drawn between 'must have' where price, efficiency and practicality will be essential, and 'nice to have', where those considerations are not important but rather the live experience where feel good, atmosphere etc will be important. The former will rely on the human element ever less, the latter ever more.

Accordingly, we will see a lot of spare capacity and dead capital where ever business relied on business movement. Business that has been focusing on movement for leisure and entertainment purposes is likely to return to, and substantially exceed the B.C. business levels A.C., but it will take time. The demands of this type of movement will increase exponentially and the opportunities arising out of the increasing demands will be huge. During the interregnum, however, many people will have lost their job, many will have experienced a sharp decline in income and all are now in a state of shock. Everyone will try to rebuild their lives, their confidence and their reserves, before they will think about spending money on leisure and entertainment again.

You may ask what this has to do with pension funds? The main business of pension funds is investment. So pension fund trustees must be alert and ascertain that their asset managers are on the right track because failing to find the right track will cost fund members dearly!

Conclusion:

The world after Corona will be different and it will take a long time for all systems and processes to adapt to the new reality. It will be a huge shake-up of all we had before and there will be a large fall-out. It will be like the aftermath of a global war, probably with as much destruction in every respect as a war typically causes. At the same time new products and services will be created. Businesses serving commerce and industry will become much more IT driven while businesses serving personal leisure and entertainment will become much more focussed on personal needs and preferences rather than 'one size fits all'. In this transition there will be lots of failures and lots of shining successes. There will be lots of volatility in global financial markets as the processes and procedures of new products and services are being calibrated to avoid mistakes and to improve and expand on success formulas.

For an investor the transition will be a difficult time as there will be lots of tears of joy and pain. At the end of the day real business is 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.

We remain with our previously expressed view that 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 A.C., which of course will prove to be quite a gamble.

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 during the transition from the world B.C. to the world A.C. Stock picking will 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.

The Rand still being badly under-valued by our measures, while foreign equity markets have already picked up substantially, the prospect being for global equity markets catching their own Corona as the widespread impact of the global lockdown measures manifest in global economies and for the Rand to reverting to fair value, there is still a significant opportunity to repatriate foreign investments at this stage.