Volume 16 No. 05
May 2020

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 May 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

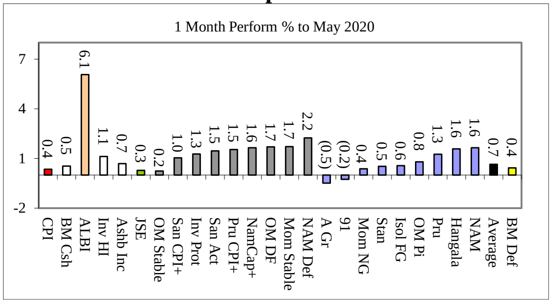
In May 2020 the average prudential balanced portfolio returned 0.7% (April 2020: 8.3%). Top performer is Nam Coronation Balanced Plus Fund with 1.6%, while Allan Gray Balanced Fund with -0.5% takes the bottom spot. For the 3-month period, Stanlib Managed Balanced Fund takes the top spot, outperforming the 'average' by roughly 3.7%. On the other end of the scale Momentum Namibia Growth Balanced Fund underperformed the 'average' by 4.3%. 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.

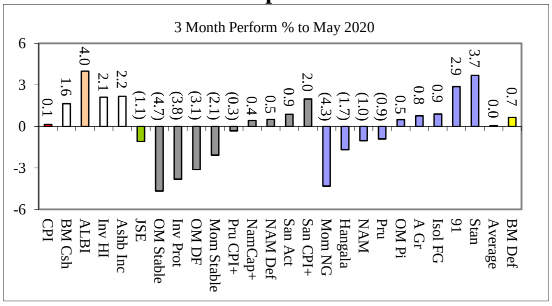
Below is the legend to the abbreviations reflected on the graphs:

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)
NinetyOne Managed	91 (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)

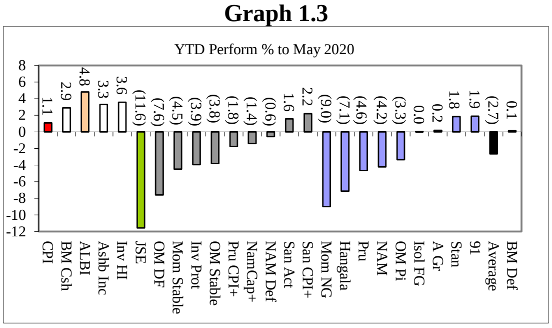
Graph 1.1



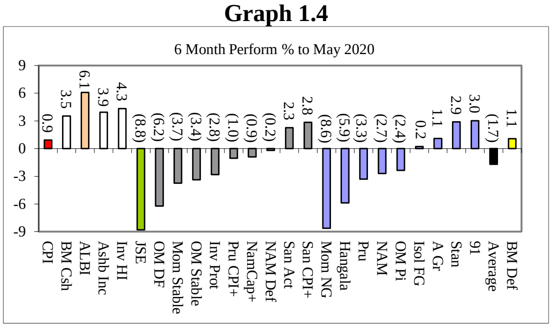
Graph 1.2



Graph 1.3



Graph 1.4



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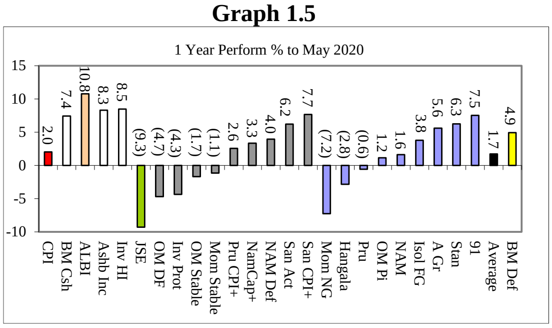
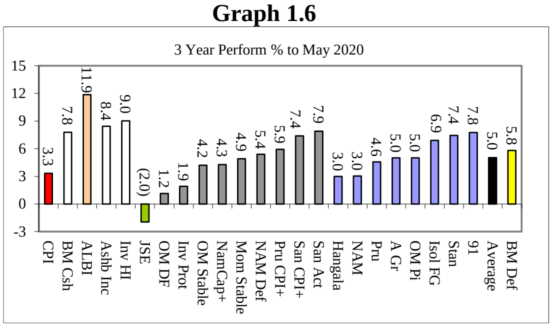
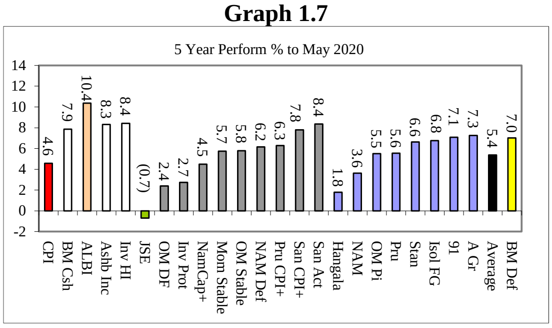
Graph 1.5



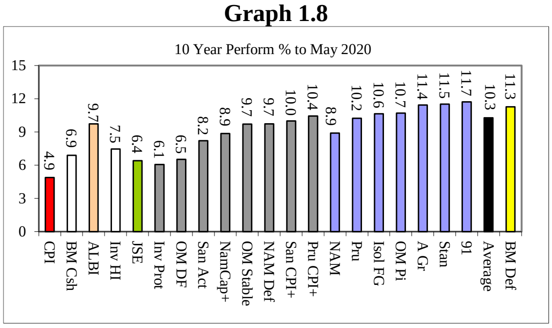
Graph 1.6



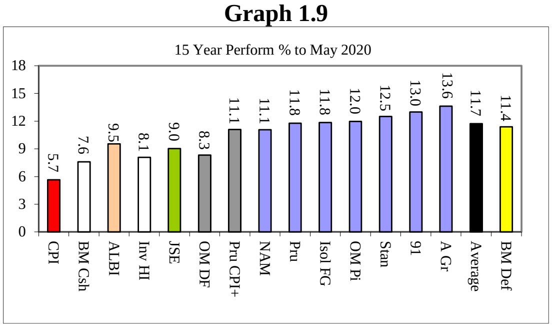
Graph 1.7



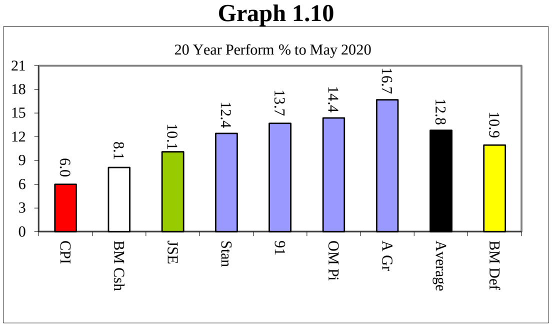
Graph 1.8



Graph 1.9



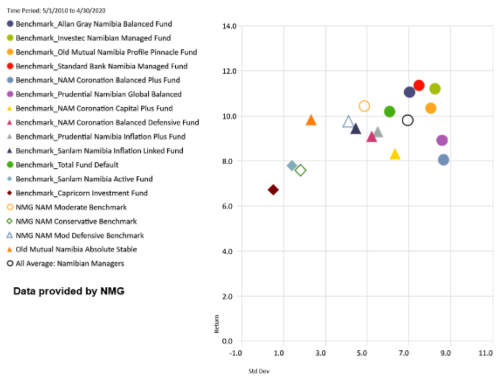
Graph 1.10



Risk/ Return

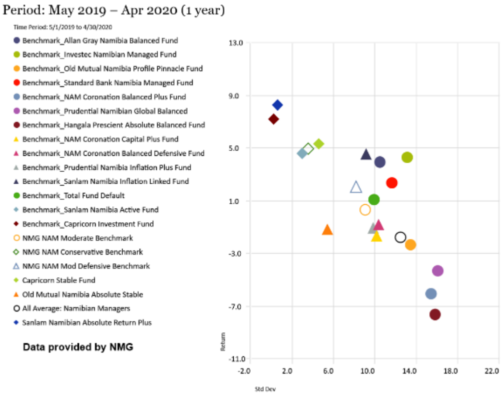
Risk-Reward – Over the long term

Time Period: May 2010 – Apr 2020 (10 years)



Risk-Reward – Over the short term

Time Period: May 2019 – Apr 2020 (1 year)



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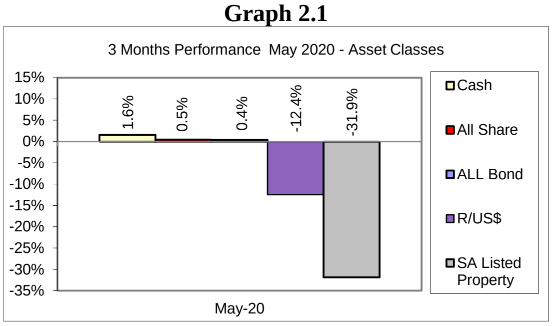
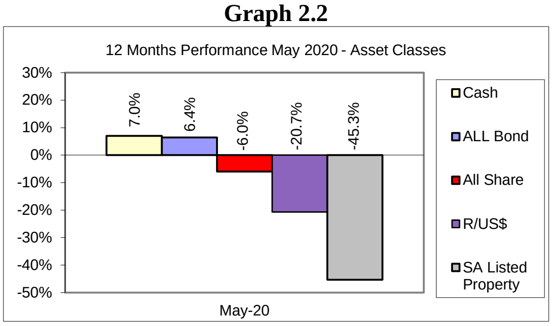
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

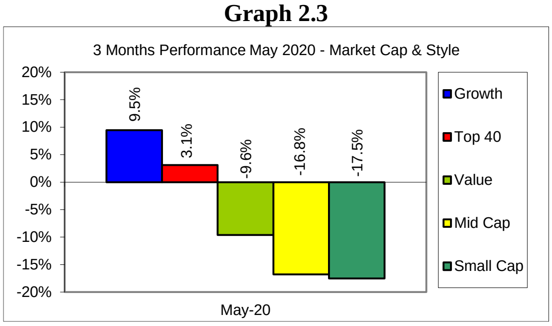
Graph 2.1



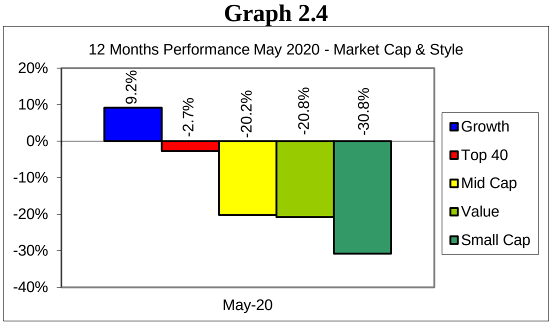
Graph 2.2



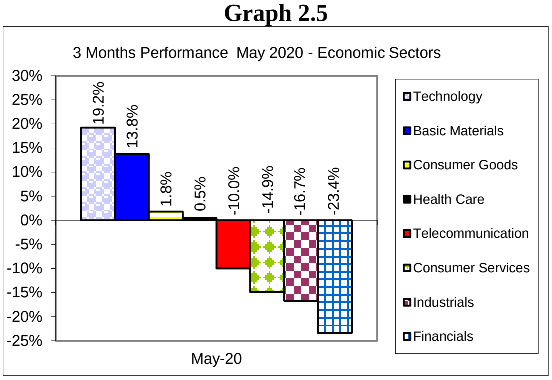
Graph 2.3



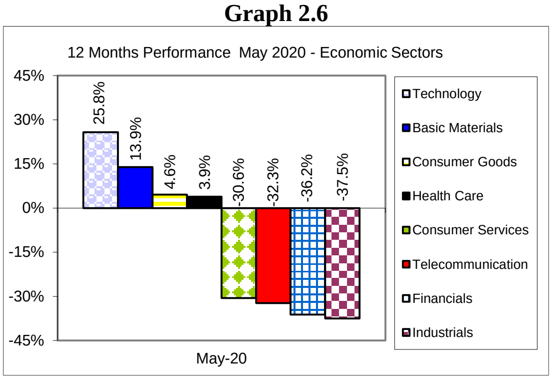
Graph 2.4



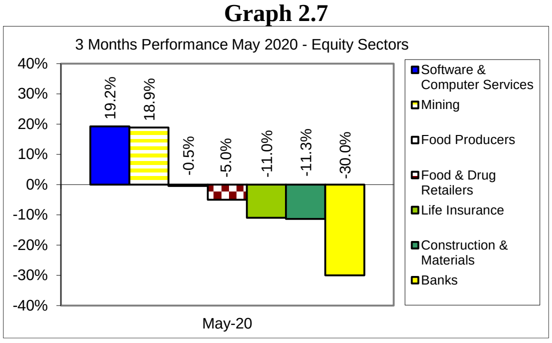
Graph 2.5



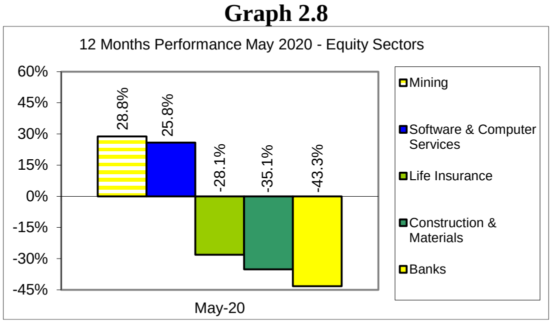
Graph 2.6



Graph 2.7



Graph 2.8



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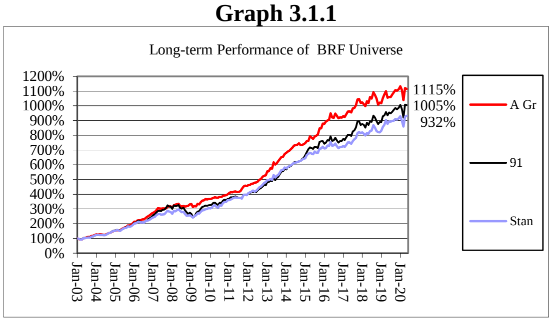
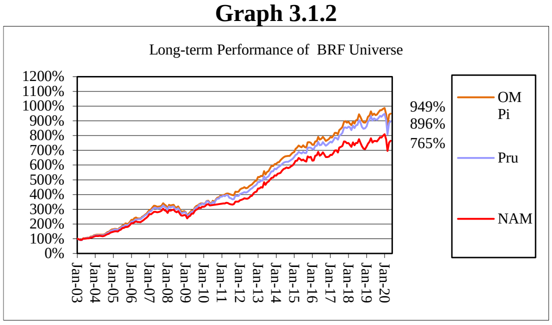
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

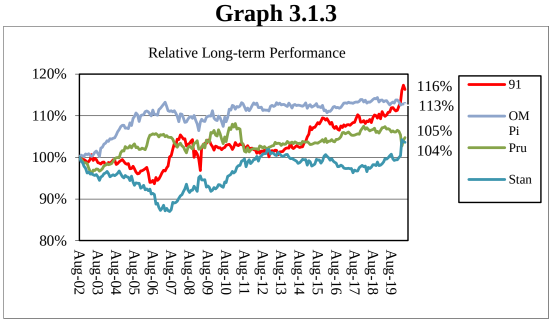
Graph 3.1.1



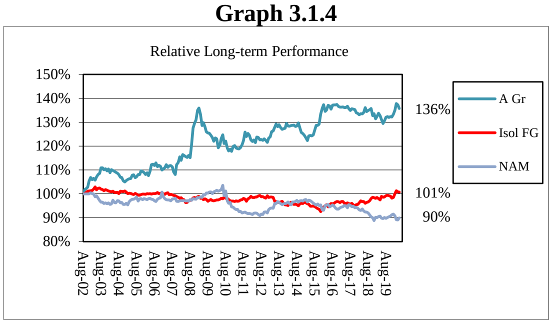
Graph 3.1.2



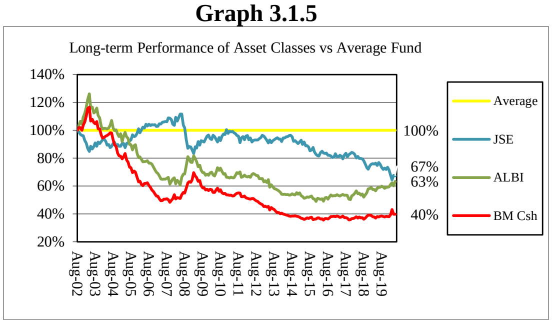
Graph 3.1.3



Graph 3.1.4

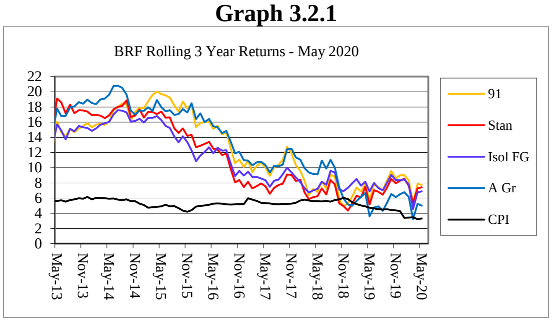


Graph 3.1.5

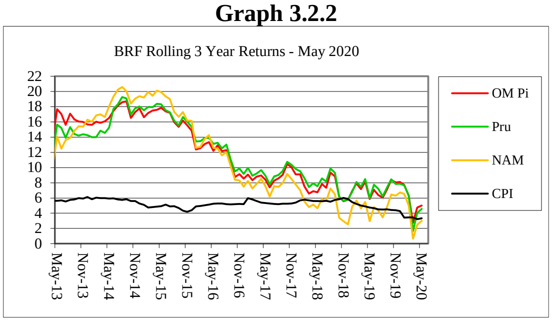


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

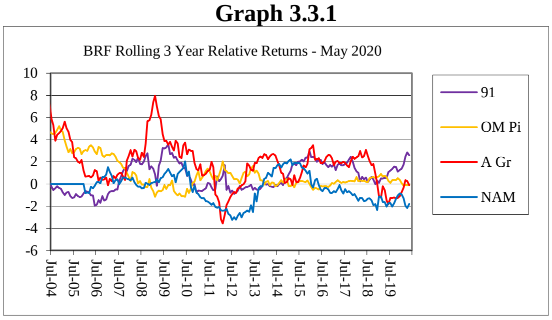


Graph 3.2.2



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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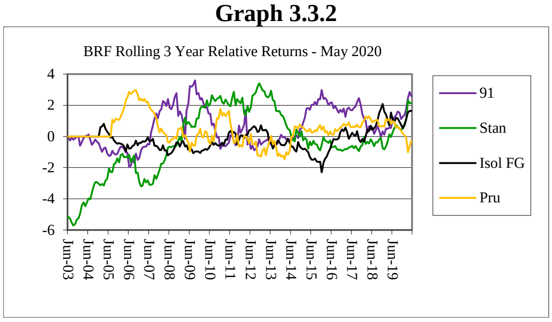
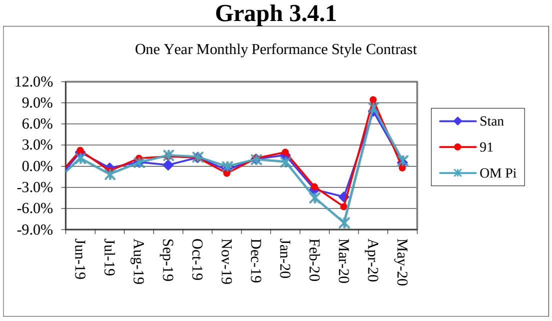
Graph 3.3.2

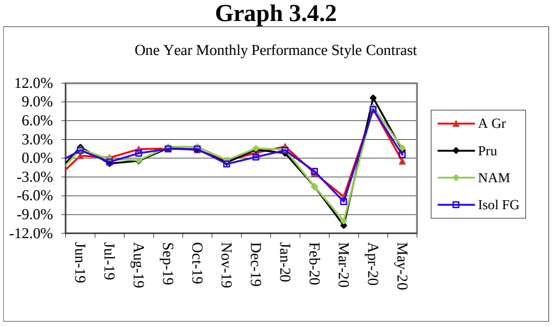


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

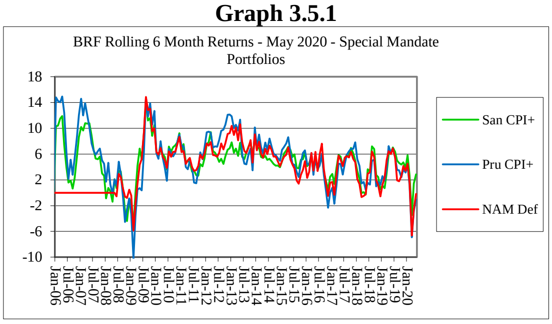


Graph 3.4.2

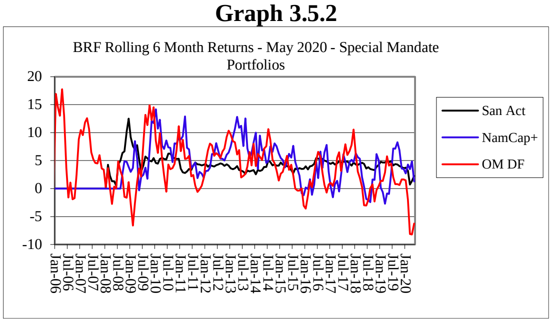


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

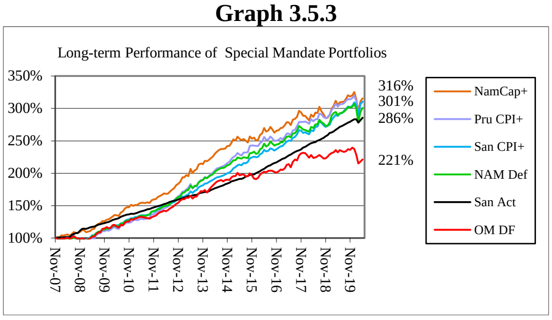
Graph 3.5.1



Graph 3.5.2

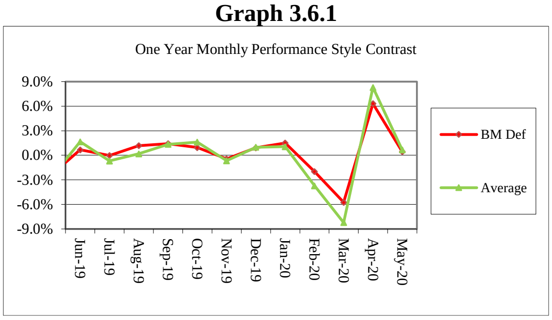


Graph 3.5.3

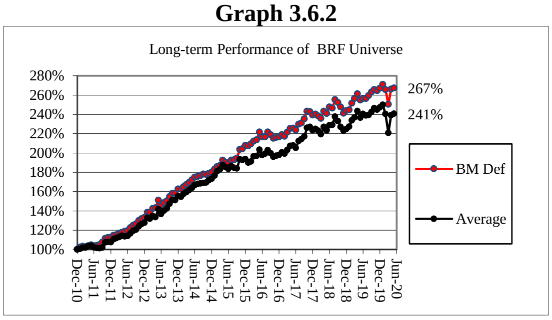


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1



Graph 3.6.2



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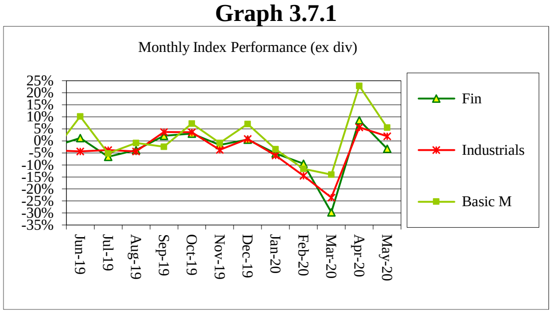
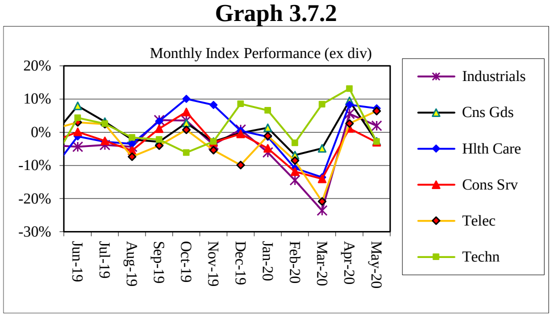
3.7 One-year monthly performance of key indices (excluding dividends)

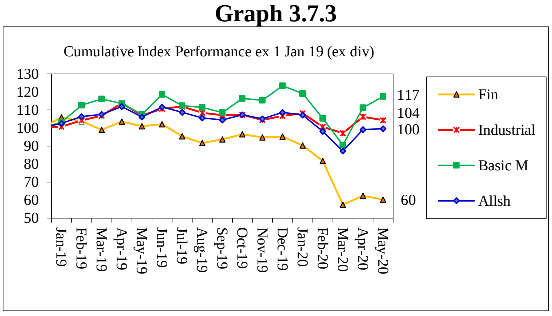
Graph 3.7.1



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.	7.0	5.4
5-year real return - % p.a.	2.4	0.8
Equity exposure - % of portfolio (qtr end March 2020)	45.4	63.0
Cumulative return ex Jan 2011	167.39	140.70
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.

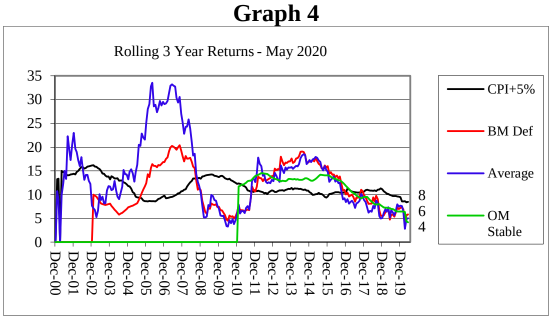
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

Table 4.2

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

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years June 2017 to May 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 May was 5.8%, the average was 5.0% vs CPI plus 5% currently on 8.3%.

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 11.83 to the US Dollar while it actually stood at 17.63 at the end of May. Our measure is based on

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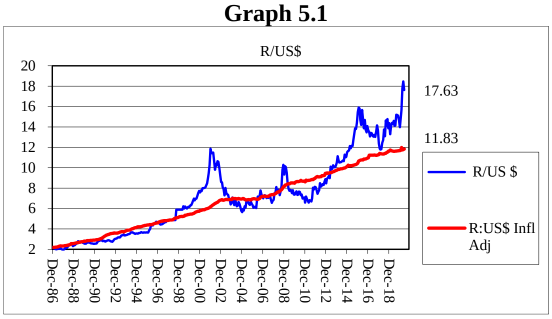
adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

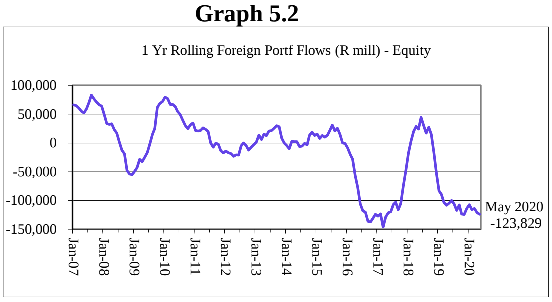


The Rand strengthened by 4.6% in May with net foreign investment outflows from bonds and equities of R17.1bn. Over the past 12 months the Rand weakened by 20.7%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 235.4bn (outflow of R 229.9bn to end of April 2020).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 25.8 bn (April R 8.7 bn outflows).

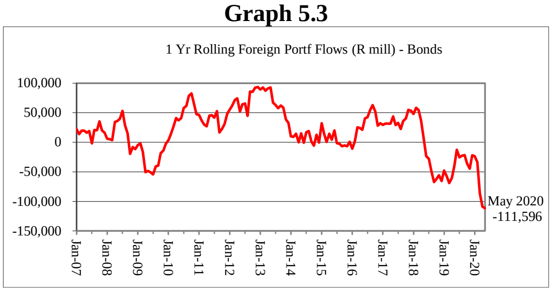
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 123.8 bn at the end of May (outflow of R 121.0 bn year-on-year to end April). The month of May experienced a net outflow of R 12.5 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 203.2 bn (end April net investment outflow of R 190.7 bn). This represents roughly 1.26% of the market capitalization of the JSE.

Graph 5.2



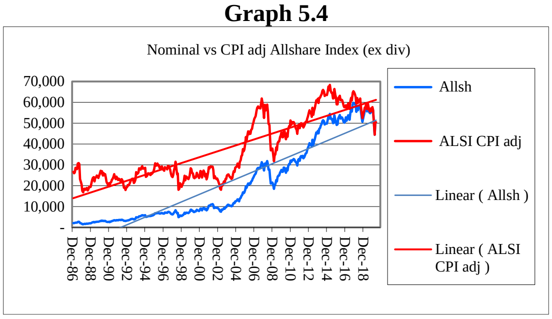
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 111.6 bn over the past 12 months to end of May (outflow of R 108.9 bn over the 12 months to end of April). The month of May experienced a net outflow of R 4.5 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 177.5 bn (to April R 182.0 bn).

Graph 5.3



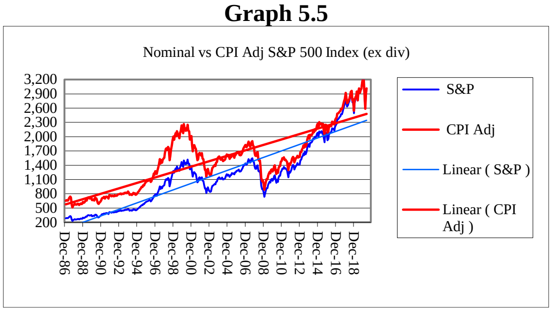
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.2% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 33 years was 7.8% per year. This is equivalent to a growth in real terms of 2.4 % p.a. over this period, excluding dividends, or around 5.4% 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 7.4% 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 4.9% 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 2019.

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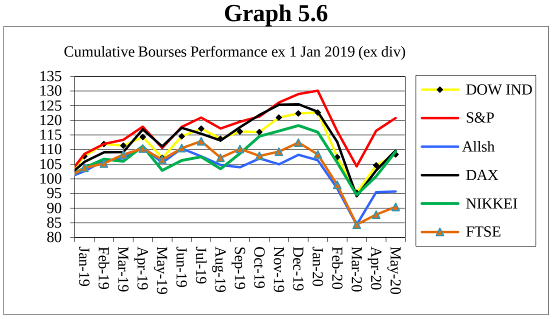
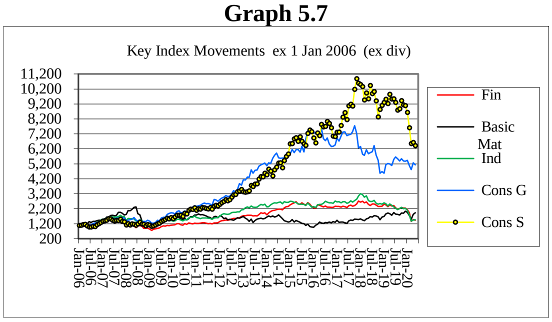
Graph 5.6



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: 13.8%; Consumer Goods: 12.0%; Basic Materials: 4.7%; Industrials: 2.7% and Financials: 2.5%.

Graph 5.7

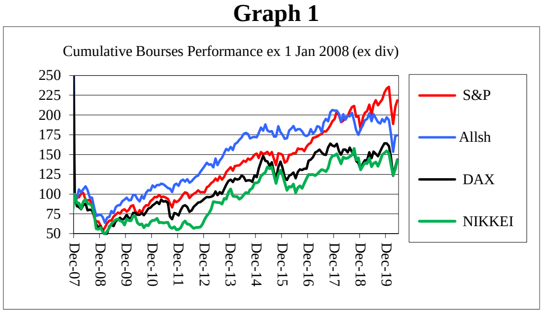


6. Will equity markets Corona in a stride?

by Tilman Friedrich

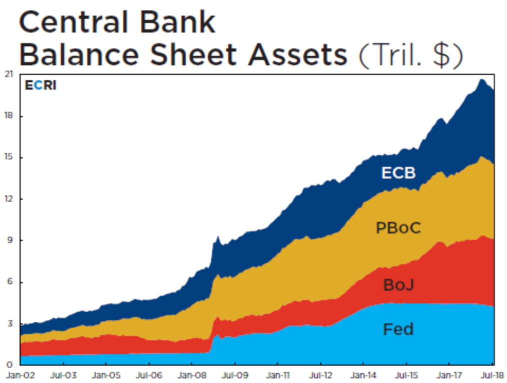
Looking back at how global bourses have performed since the global financial crisis in 2007/ 2008, as depicted in graph 1 below, by 2014, all bourses had recovered the market slump resulting from the global financial crisis and since the only new one direction and that was up! This was of course up until Covid 19 struck and bourses plunged by around 20% from end of December 2019 to end of March 2020. At that point many investors went into panic mode and already saw the end of the world closing in on them. Tracking the bourse since then however, markets have recovered about half of the losses incurred up to the end of May and are on a good course June-to-date.

Graph 1



The question is evidently - what has caused the rapid recovery and can we expect markets to take the Covid 19 decline in its stride in the same way it did with the global financial crisis? We know that central banks across the globe introduced zero interest rate policy and quantitative easing measures in an effort to stimulate lending and consumption and thereby stimulating the global economy. Graph 2 below is clear evidence of the extent of quantitative easing applied by the major central banks across the globe. It shows that their balance sheet assets grew by around 300% from around US$ 6 trillion to close to US$ 21 trillion. We also see that these central banks then started to taper off quantitative easing as manifested in the decline of their balance sheet asset since the beginning of 2019.

Graph 2



When the Covid-19 crisis hit the world, monetary authorities of the main countries were planning wide ranging reviews of their strategies. The exceptional measures they had adopted to cope with the global financial crisis of 2007/8 and its appendixes, including the euro area crisis of 2010-12, needed a careful evaluation, a deeper understanding of their limits and undesired side effects. The idea was to gradually define and implement a "new normal" strategy learning from a decade of unconventional policies.

The Covid shock has precipitated again the world in exceptional times requiring the postponement of efforts towards any "normality" and the adoption of new

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 May 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.

extraordinary measures. Moreover, while the health aspects of the shock will probably be relatively short lived, its economic consequences are bound to last much longer, requiring monetary authorities to devise a true medium-long term anti-Covid strategy, going beyond one-off special decisions. The virus pushed their policy design from one decade of exceptionality to a new period of necessarily abnormal strategic attitudes.

Most developed countries have made massive economic responses to the COVID-19 pandemic, ramping up spending and using monetary policy to cushion the blow of lockdowns and other measures that have shut down businesses and left huge numbers unemployed. The Federal Reserve has stepped in with a broad array of actions to limit the economic damage from the pandemic, including up to $2.3 trillion in lending to support households, employers, financial markets, and state and local governments. The European Central Bank (ECB) launched the €750 billion Pandemic Emergency Purchase Program (PEPP), which will last until the coronavirus crisis period is over but, in any case, at least until the end of 2020.

We will therefore see central bank assets growing massively once again. The announcements that have been made by central banks of their policy responses to the Covid 19 crisis clearly was the primer for the renewed surge in equity markets since the end of March. Financial markets are once again being flooded with money that will seek investment opportunities across the globe and this will lead to asset prices inflating further on.

The major central banks of developed countries have shown their resolve to prop up their economies with further stimulus measures since the Covid 19 crisis struck the world. These measures have already provided an underpin to global equity markets. It may therefore be expected that equity markets will recover and probably continue on their trajectory that was capped only recently as the result of the tapering off of support measures taken by central banks after the global financial crisis.

Investor sentiment however, is likely to swing wildly as the real economic consequences of lock down trickle into the media over the next year or two, and this could of course take longer, depending on whether we will see further lock downs in response to further waves of Covid 19.

Conclusion

The problem investors are facing, is that central banks had not yet found a way out of the consequences of policy responses to the global financial crisis. First steps taken to unwind these had to be reversed abruptly in the face of the Covid 19 crisis. Many commentators already warned of the aftermath of unwinding the previous policy measures that were taken by central banks and the likely negative impact on global financial markets. These concerns will now be exacerbated by the latest policy response measure to the Covid crisis.

While equity markets are enjoying the underpin of the latest policy responses to the Covid 19 crisis, the expected volatility in these markets, suggest that short-term investors should be cautious and not risk cashing in at a time negative sentiment has reduced their capital. Medium to long-term investors should be well placed in equities.

In this column of our previous two newsletters, we alluded to our expectation that the world will change significantly after Covid 19 and that these changes will lead to the demise of some industries and to the burgeoning of others. This must be taken into account when taking investment decisions.

Measuring the value of the Rand relative to the US Dollar since 1986 on the basis of the inflation differential, the exchange rate should currently be 11.8 while it was 17.6 at the end of May, thus indicating that the Rand is still undervalued by more than 30%. This indicates it is not a good time to expatriate capital but rather to repatriate capital to capitalise on the hopefully, temporary, severe undervaluation of the Rand.