Volume 16 No. 11
November 2020

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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

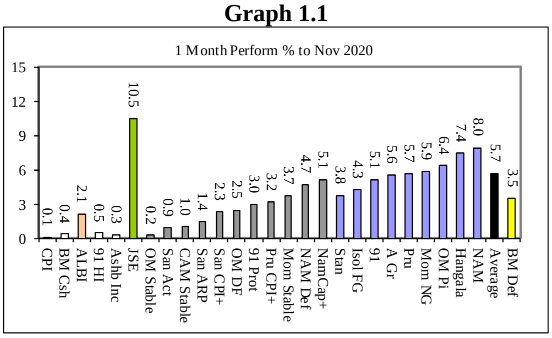
In November 2020 the average prudential balanced portfolio returned 5.7% (October 2020: -2.0%). Top performer is NAM Coronation Balanced Plus Fund with 8.0%, while Stanlib Managed Fund with 3.8% takes the bottom spot. For the 3-month period, NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 2.3%. On the other end of the scale Stanlib Managed Fund underperformed the 'average' by 2.1%. 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. **Take note that we have added a new graph 3.5.3 which reflects the returns of the low risk special mandate funds**.

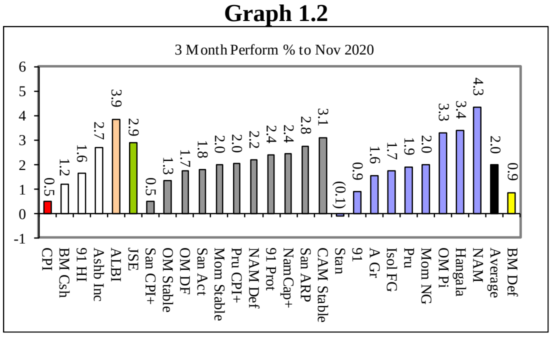
Below is the legend to the abbreviations reflected on the graphs:

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)
NinetyOne High Income (interest bearing assets)	91 HI (no color)
Ashburton Namibia Income Fund	Ashb Inc (no color)
Capricorn Stable	CAM Stable (grey)
Momentum Nam Stable Growth	Mom Stable (grey)
NAM Capital Plus	NamCap+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
NinetyOne Protector Balanced Fund	91 Prot (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)
Sanlam Absolute Return Plus	San ARP (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)

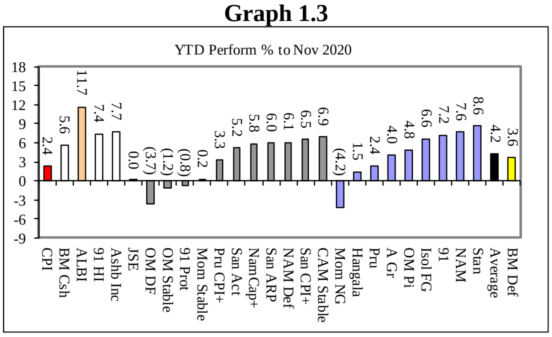
Graph 1.1



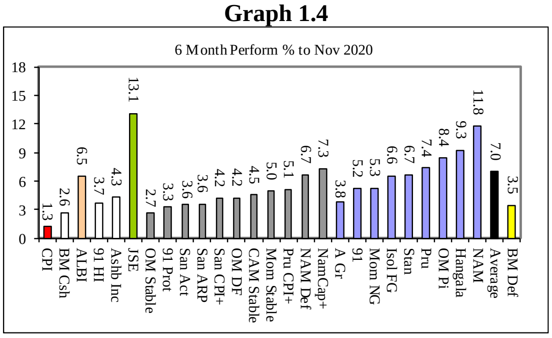
Graph 1.2



Graph 1.3



Graph 1.4



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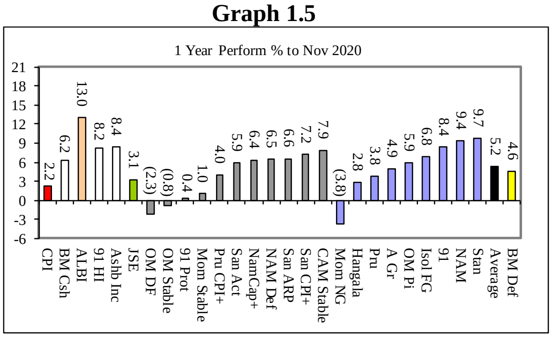
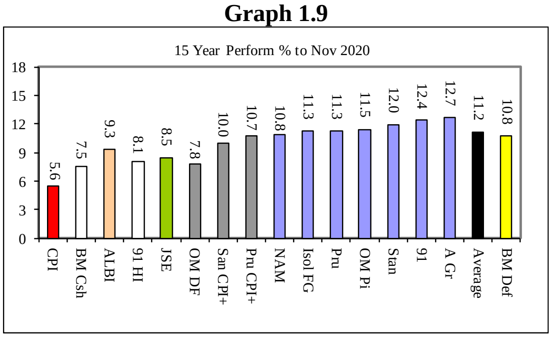
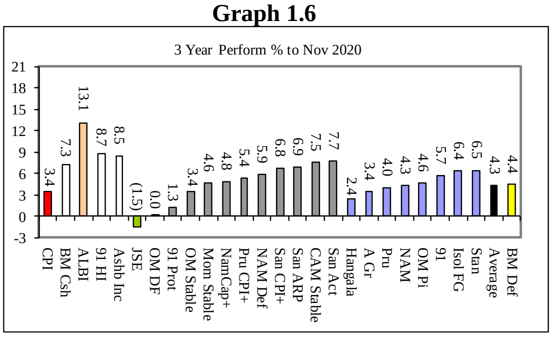
Graph 1.5



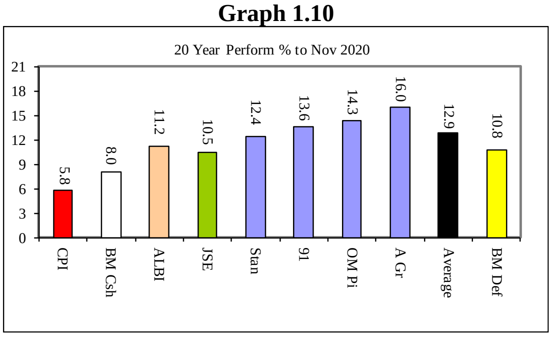
Graph 1.9



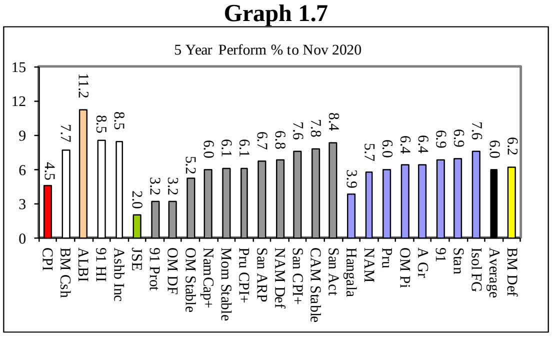
Graph 1.6



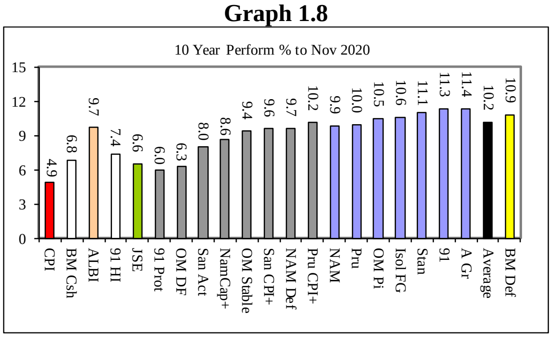
Graph 1.10



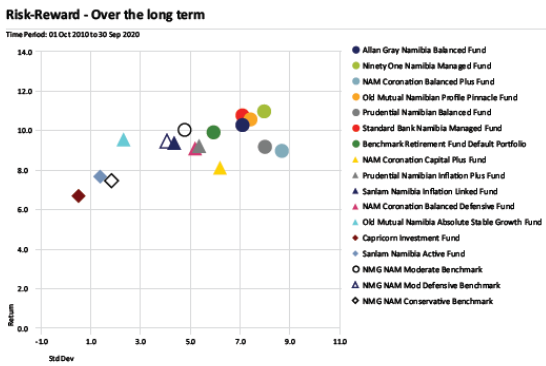
Graph 1.7

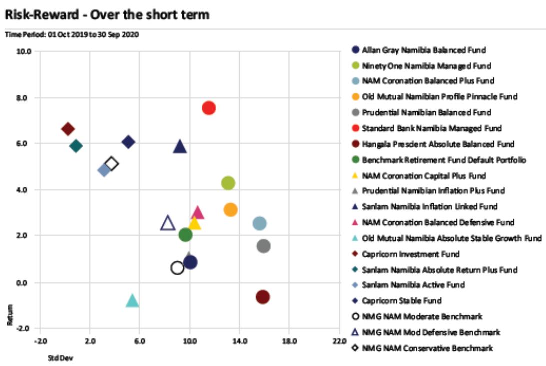


Graph 1.8



Risk/ Return





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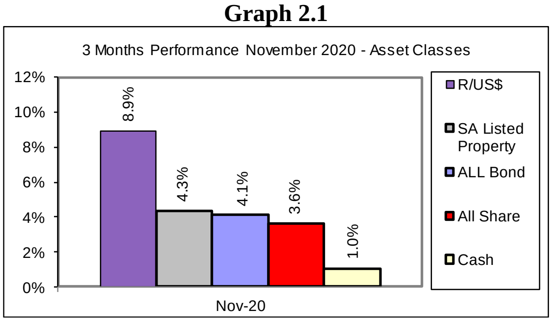
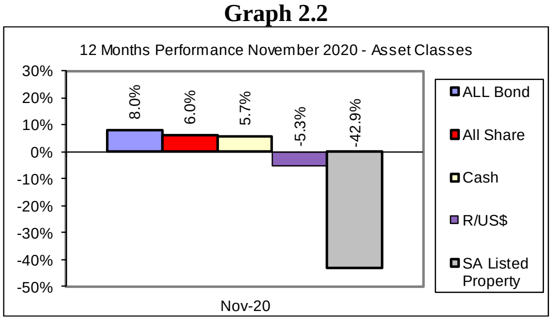
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

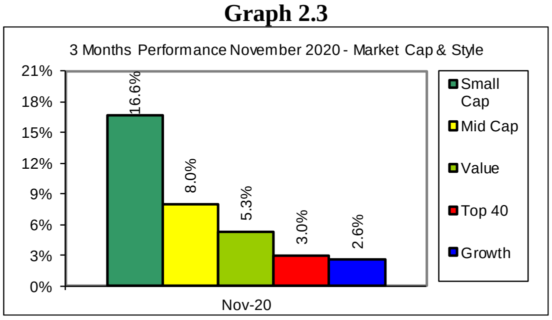
Graph 2.1



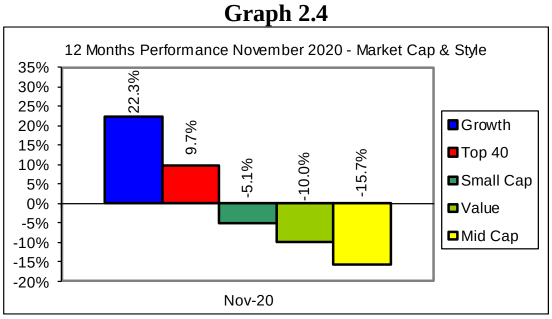
Graph 2.2



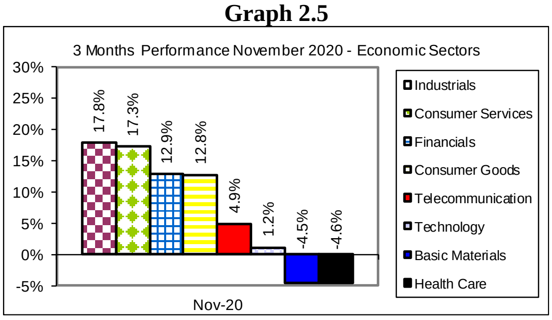
Graph 2.3



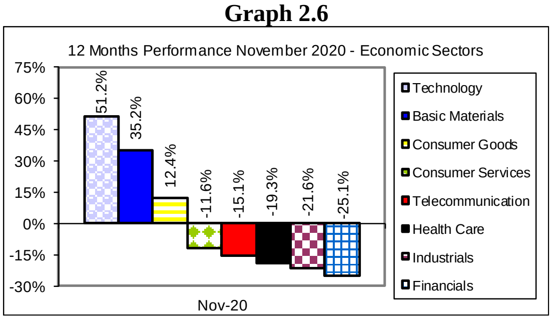
Graph 2.4



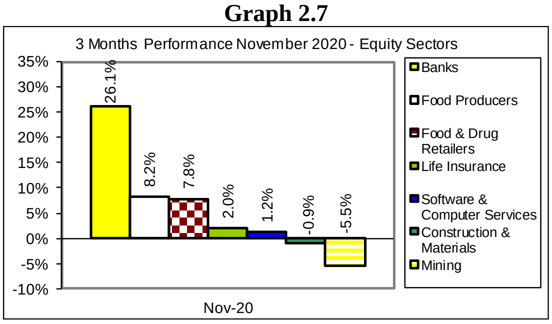
Graph 2.5



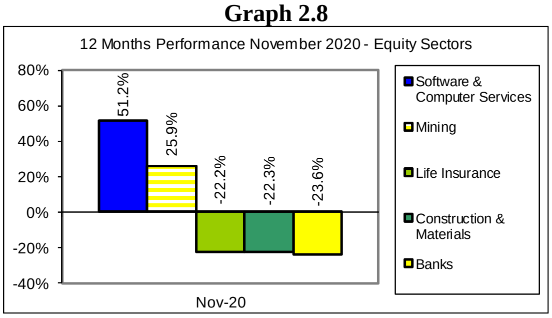
Graph 2.6



Graph 2.7



Graph 2.8



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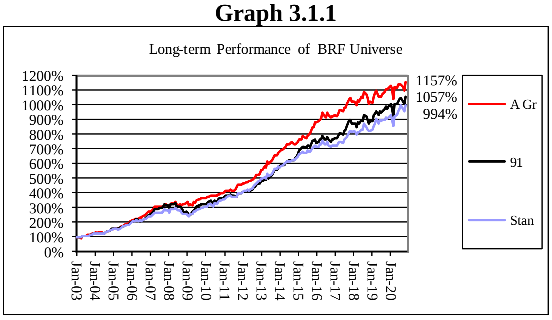
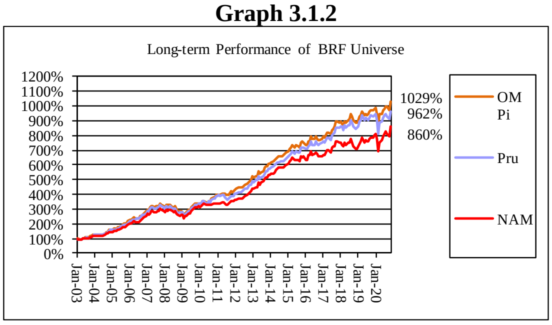
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

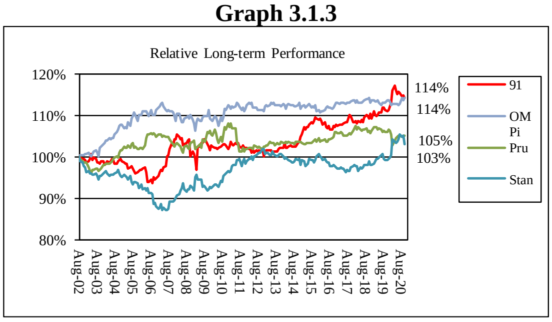
Graph 3.1.1



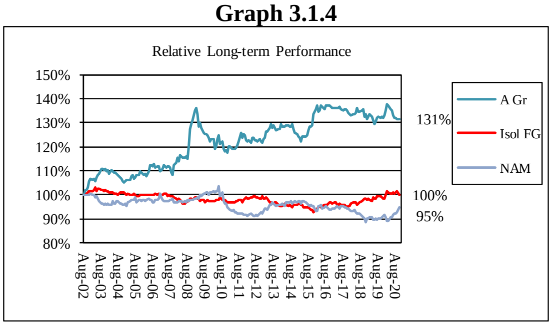
Graph 3.1.2



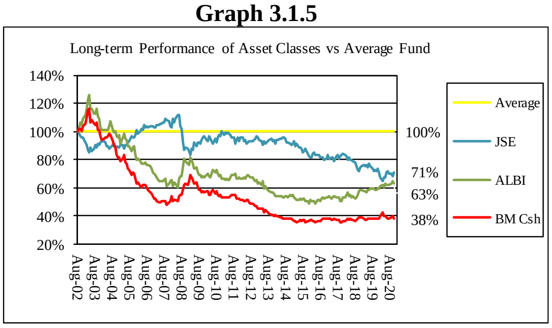
Graph 3.1.3



Graph 3.1.4

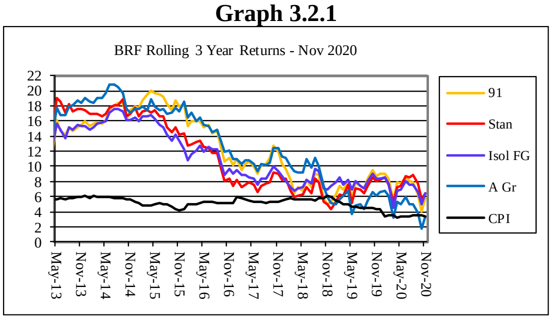


Graph 3.1.5

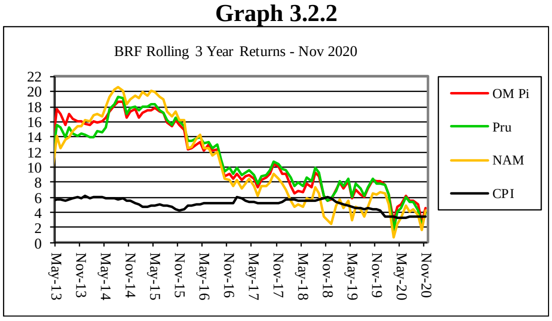


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

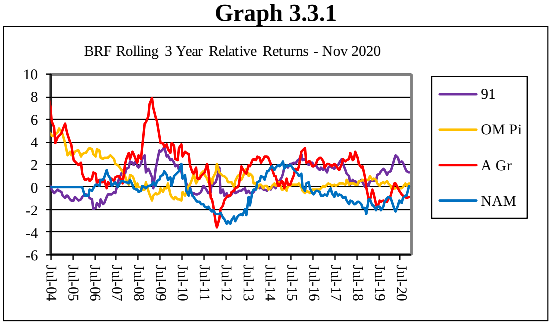


Graph 3.2.2



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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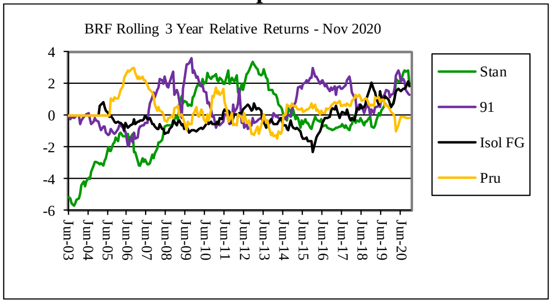
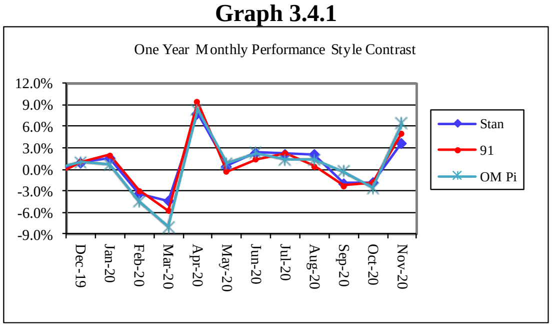
Graph 3.3.2

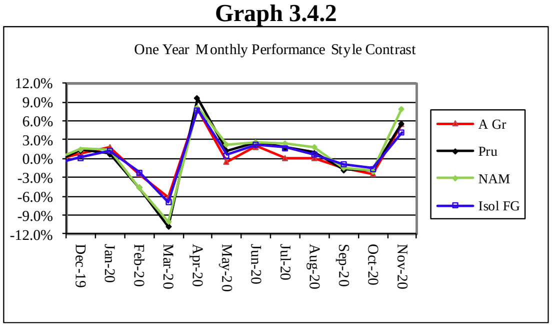


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

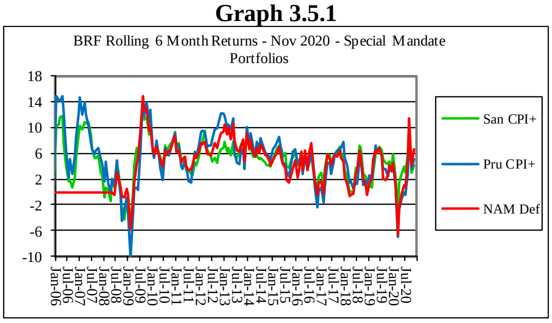


Graph 3.4.2

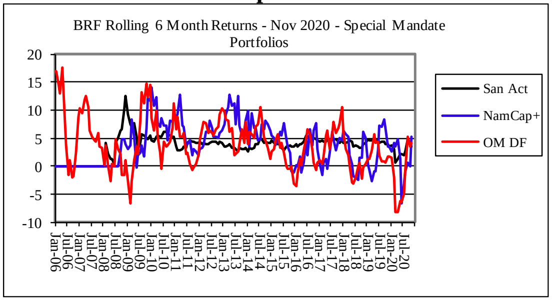


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

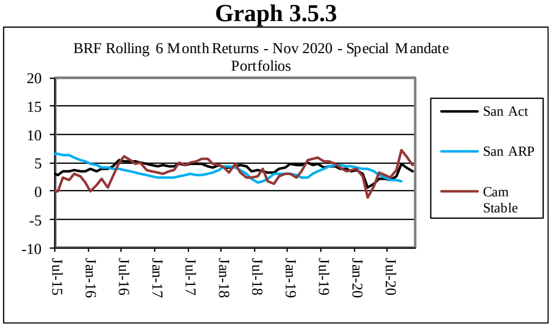
Graph 3.5.1



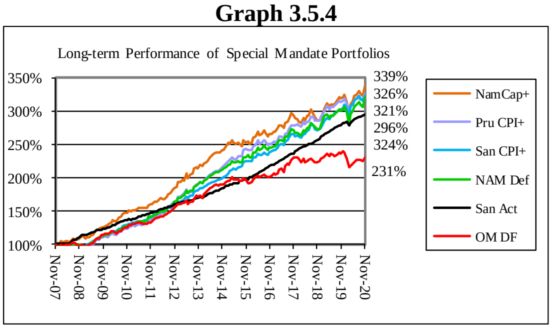
Graph 3.5.2



Graph 3.5.3

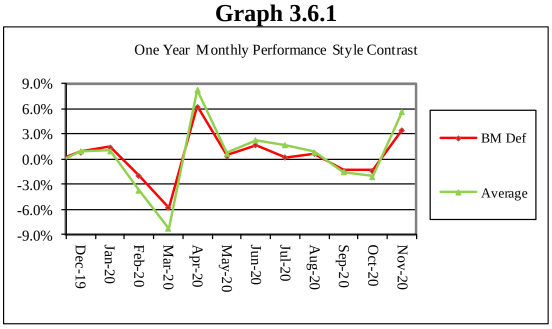


Graph 3.5.4



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

Graph 3.6.1



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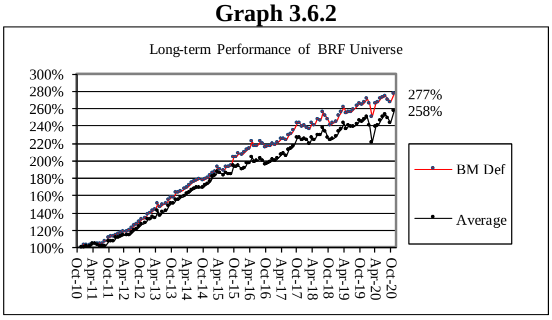
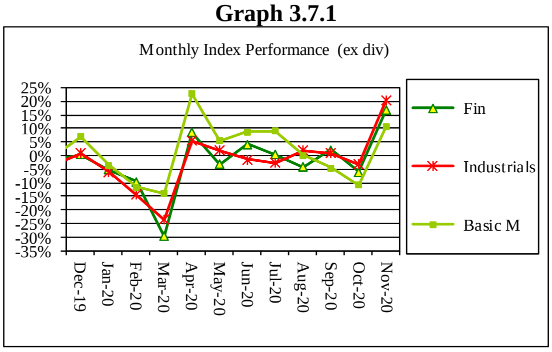
Graph 3.6.2

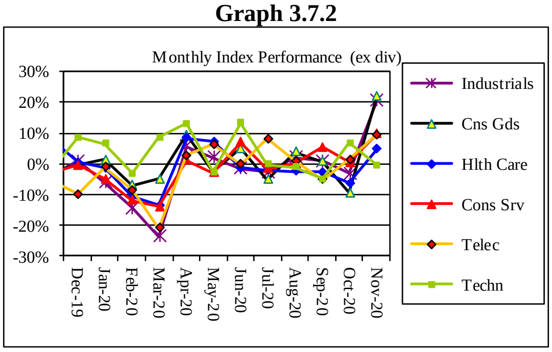


3.7 One-year monthly performance of key indices (excluding dividends)

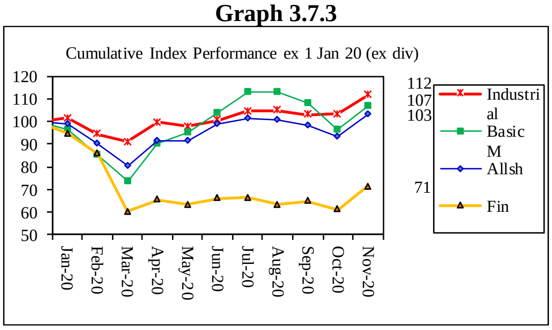
Graph 3.7.1



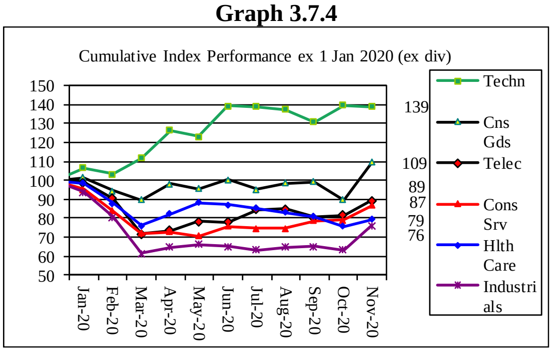
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	6.2	6.0
5-year real return - % p.a.	1.7	1.5
Equity exposure - % of portfolio (qtr end September 2020)	45.1	63.3
Cumulative return ex Jan 2011	176.7	157.8
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	7.3%	3.2%	2.5%
Best annual performance	8.2%	9.9%	8.9%
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%	6.7%	6.3%

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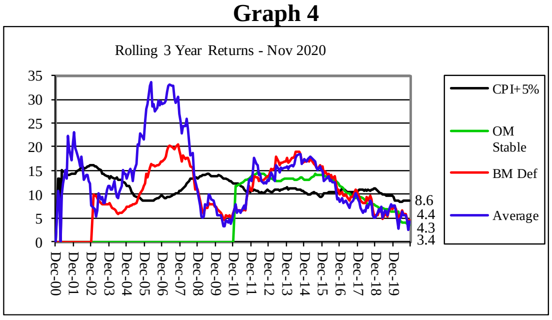
The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years December 2017 to November 2020. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

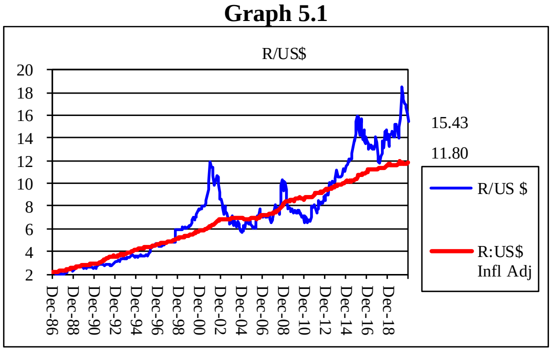


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end November was 4.4%, the average was 4.3% vs CPI plus 5% currently on 8.6%.

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 11.80 to the US Dollar while it actually stood at 15.43 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

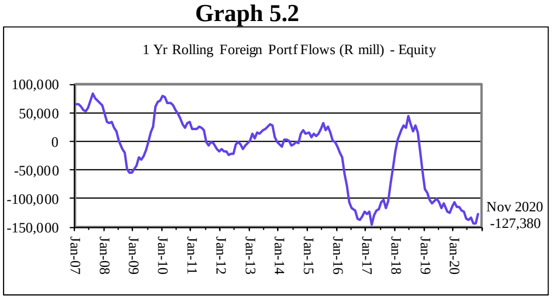


The Rand strengthened by 5.0% in November with net foreign investment inflows from bonds and equities of R14.1 bn. Over the past 12 months the Rand weakened by 5.33%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 184.7 bn (outflow of R 227.1 bn to end of October 2020).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 103.1bn (October R 117.2 bn outflows).

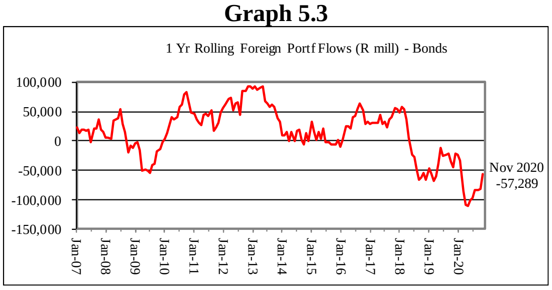
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 127.4 bn at the end of November (outflow of R 144.6 bn year-on-year to end October). The month of November experienced a net outflow of R 3.6 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 283.5bn (end October net investment outflow of 279.9 bn). This represents roughly 1.6% 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 57.3 bn over the past 12 months to end of November (outflow of 82.6 bn over the 12 months to end of October). The month of November experienced a net inflow of R 17.6 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 180.4bn (to October R 162.7 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 10.4% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 33 years was 7.8% per year. This is equivalent to a growth in real terms of 2.6% p.a. over this period, excluding dividends, or around 5.7% including dividends.

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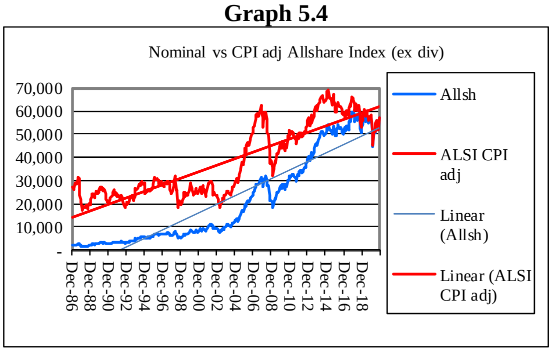
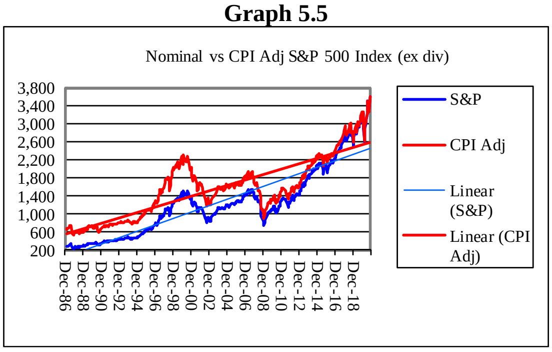
Graph 5.4



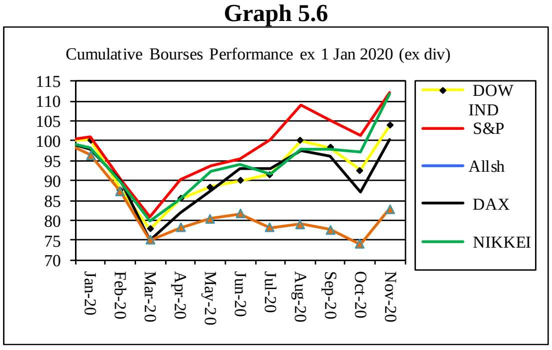
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.9% per annum, over this period of 33 years. US inflation over this period was 2.5%. This is equivalent to a growth in real terms of 5.4% p.a. over this period, excluding dividends or around 7.6% including dividends.

Graph 5.5



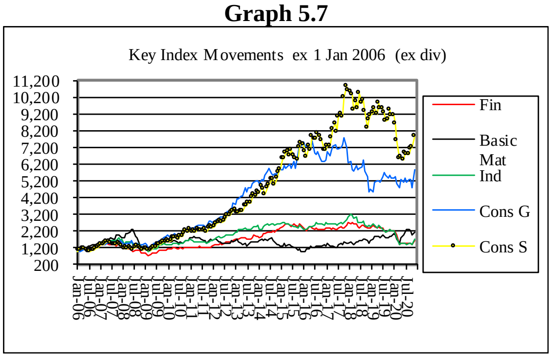
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2020.

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: 14.7%; Consumer Goods: 12.54%; Basic Materials: 5.3%; Industrials: 3.6% and Financials: 3.2%.

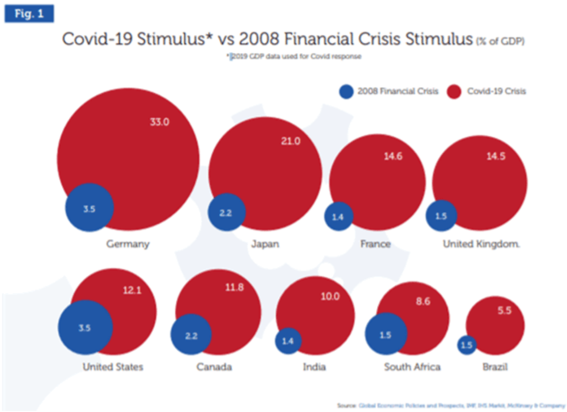
Graph 5.7



6. Typical balanced pension fund portfolios should offer peace of mind!

by Tilman Friedrich

Just recently I came across interesting information in John Mauldin's Thoughts from the Frontline newsletter, as reflected in figure 1 below. It depicts the stimulus as percentage of GDP injected by a selected number of countries into their economies, where the blue circles represent the 2008 financial crisis stimulus and the blue circles the COVID-19 stimulus.



Take Germany whose 2008 financial crisis stimulus was a mere 3.5% of GDP and in line with that of the US. This time around the stimulus represents 33% of GDP, nearly 3 times the stimulus given by the US at 12.1% of GDP. With an economy of only US$ 3.8 trn representing only about 18% to the US economy's US 21.4 trn, the German COVID stimulus of US$ 1.3 trn, amounts to half the US stimulus of US$ 2.6 trn. These figures are based on World Bank GDP data of 2019, before the decimation of global economies by COIVD-19. According to John Mauldin's newsletter global debt will be US$ 300 trn by the end of the first quarter of 2021, that represents 340% of 2019 global GPD, estimated at US$ 87.8 trn by the World Bank!

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Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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.

If you want to put this into the context of a household, that is the equivalent of a household having borrowed around 11 times its annual household income. If your household income is your salary and that is N$ 1 million, your debt is just over N$ 11 million. If you had to repay this debt at the bank's mortgage rate of currently 8.5% over say 20 years, you would be in deep trouble as the loan repayment of N$ 1.18 million per annum would already exceed your salary and you have not paid your bills yet. Of course, we know that some governments nowadays actually pay zero % interest on the money they borrow. Even at 0%, the repayments over 20 years still represent 57% of total government revenue, before government has spent any money on infrastructure, health, housing, education, government and social services.

This is telling us, firstly, that governments across the world have built up a huge debt burden. Secondly it tells us that governments across the world cannot afford to pay interest on its debt for the next 20 years. If the debt is borrowed from its citizens, it means that citizens will earn no interest on money lent to their government. Countries that are less fortunate as to be able to tap into the local capital markets, do not have the lever in their hands to determine how much interest they can afford and will pay to their lenders. Such countries with such debt burdens will simply not be able repay their debt. If we look at Namibia, its debt is expected to amount to 70% of GDP with an increasing trend, currently at the rate of around 12% of GDP per annum. Namibia has thus currently borrowed 2.3 times its annual household income. If we take the Namibian IJG Allbond index as proxy for our funding rate, government is paying around 13% to its lenders, the annual repayment over 20 years would exceed 30% of our annual household income. It all indicates that the Namibian government is currently really sailing very close to the wind!

Given that the world is hugely over-indebted, that many governments across the world will find it very difficult to just repay the capital, let alone interest and given that as the result only accelerating inflation or a very, very long time of very low interest rates can resolve this challenge, the huge stimulus extended to markets means that lots and lots of money is floating around looking for investment opportunities. We are seeing a lot of this happening and we see many youthful investors piling into a few in vogue shares, gold crypto currencies and other assets, in rather unqualified fashion. When one looks at equity indices, it appears that they are flourishing yet when one looks at the underlying shares, it becomes evident that they are actually driven by a handful large cap shares while the rest of the shares are actually not performing at all.

The following table recently presented in Cover magazine of 5 November (access at this link) provides an illuminating overview of cheap (out of favour) and expensive (in favour) stock markets in terms of a number of different criteria. The figures in brackets represent the 15-year median. Evidently none of these markets are considered cheap on all criteria. This is the result of earnings having collapsed after the COVID-19 hysteria struck.

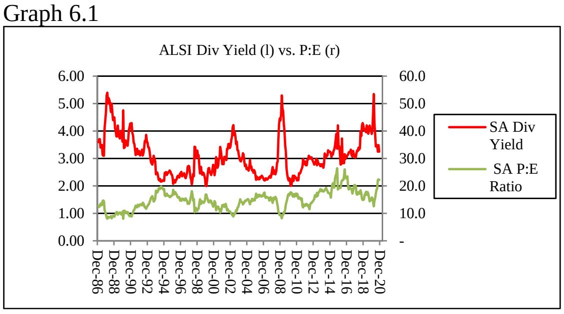
	CAPE	Forward P/E	Trailing P/E	P/B	DY
UK	12 (13)	14 (12)	16 (14)	1.4 (1.8)	3.9 (3.8)
US	31 (25)	21 (15)	28 (18)	4.0 (2.8)	1.6 (2.0)
Europe ex. UK	19 (16)	18 (13)	21 (16)	1.8 (1.7)	2.4 (3.2)
Japan	19 (23)	18 (14)	21 (16)	1.3 (1.3)	2.3 (1.9)
Emerging Markets	13 (15)	14 (11)	19 (14)	1.7 (1.7)	2.3 (2.6)

Key:	>20%	10-20%	0-10%	0-10%	10-20%	>20%
	Expensiveness			Cheapness		

Past Performance is not a guide to future performance and may not be repeated.
Figures are shown on a rounded basis. Assessment of expensive/cheap is relative to 15-year median.
Source: MSCI, Refinitiv, Schroders, Robert Shiller. 498388

It will be noted that even emerging markets are rated expensive on price: earnings and dividend yield, both of which are a result of the collapse of earnings due to COVID-19. We do not have the same information about South African stocks, however graph 6.1 below depicts 1 year trailing price: earnings and dividend yield of the JSE Allshare index. It shows that the SA price: earnings index has also increased sharply to 22, not far off its 30+ year high of just over 26 in October 2015, and far above its median over 30+ years of 13.6, despite a decline in the Allshare index, meaning that earnings have declined sharply since March of this year. Similarly, the dividend yield declined sharply to 3.25% and close to its 30+ year median of 3%. This of course is consistent with the conclusions depicted in the table above with regard to these two criteria.

Graph 6.1



Conclusion

The thrust financial markets have been experiencing as the result of the stimulus measures, since COVID-19 struck markets, should fizzle out by the time the stimulus measures have run their course, which will likely be in 2021. From that point onwards the value of shares will be determined on the basis of the relevant company's performance rather than re-ratings due to the hype in the market that we are currently experiencing with regard to only a small number of favoured technology shares and favoured markets. One will therefor see a readjustment in equity markets between the small spectrum of favoured tech shares and favoured markets and the broad spectrum of those currently out of favour. Principally, economic

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fundamentals should improve as the COVID-19 hysteria subsides going forward.

As the global economies start to recover, company earnings should start to recover and dividend yields should improve. Some commentators believe that it could take up to 5 years for the global economy to reach its pre-COVID levels. With the stimulus thrust fizzling out share prices are likely to move sideways for quite some time. In the mean time the investor will have to rely on dividends to generate his investment yield. Coming off a low, one can expect earnings growth to outpace inflation and dividend growth to track earnings growth. The investor should thus be able to expect a real dividend yield in excess of 3%. This may be low in relation to what we have seen in years gone by, however it is still a respectable return on any equity investment. As we know local cash currently generates a real yield of around 3% with a declining trend. The local IJG Allbond index generates a superior real return of around 11%. The downside of a fixed interest investment and cash is that their fortunes are likely to turn swiftly once inflation starts picking up, which it should do in view of excessive liquidity in financial markets, and interest rates start moving up in line with inflation. On that basis, an investment in a typical balanced portfolio should be able to generate a real return of around 5%, or around 7% in the prevailing inflationary environment. Once again this is not what we got used to in the years gone by, but it is pretty consistent with the long-term return expectation of the typical balanced pension fund portfolio.

In last month's column, I suggested that offshore diversification is an imperative and this is what typical balanced pension fund portfolios do. Members of pension funds should thus be comfortable that their investment should deliver returns in line with their long-term expectation.

For a highly qualified corroborating and more detailed view on specific asset, read Jared Dillian in Mauldin Economics on the top consensus trade of 2021 in this link…