Volume 17 No. 01
January 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2021

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

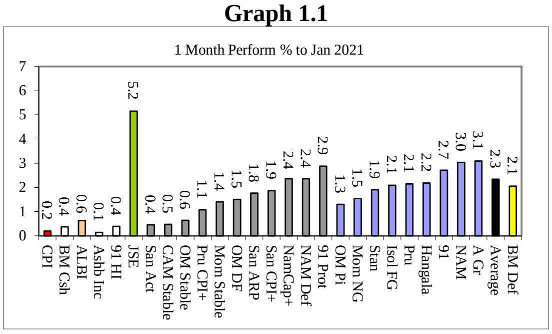
In January 2021 the average prudential balanced portfolio returned 2.3% (December 2020: 1.9%). Top performer is Allan Gray Balanced Fund with 3.1%, while Old Mutual Pinnacle Profile Growth Fund with 1.3% takes the bottom spot. For the 3-month period, NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 4.2%. On the other end of the scale Stanlib Managed Fund underperformed the 'average' by 2.8%. 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. **Take note that we have added a new graph 3.5.3 which reflects the returns of the low risk special mandate funds**.

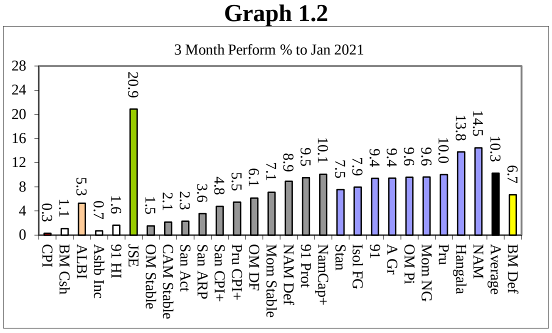
Below is the legend to the abbreviations reflected on the graphs:

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)

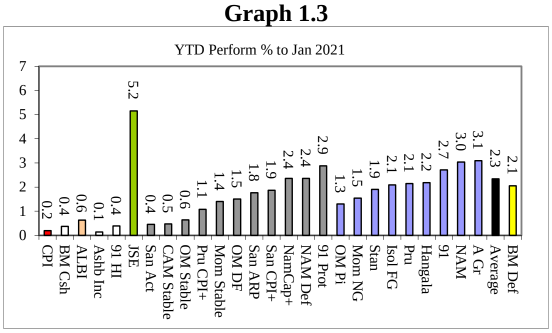
Graph 1.1



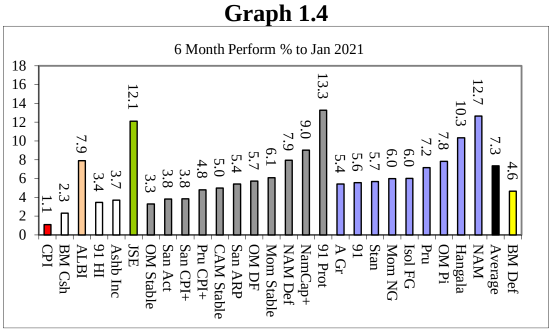
Graph 1.2



Graph 1.3



Graph 1.4



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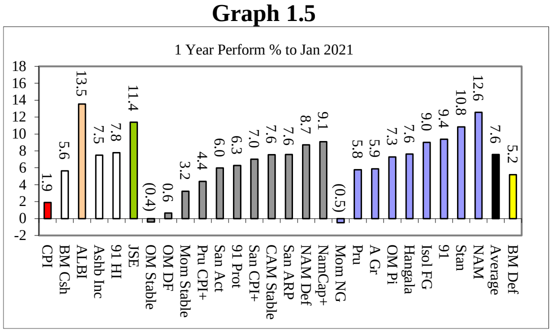
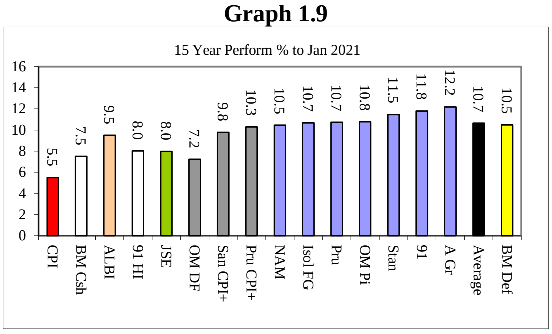
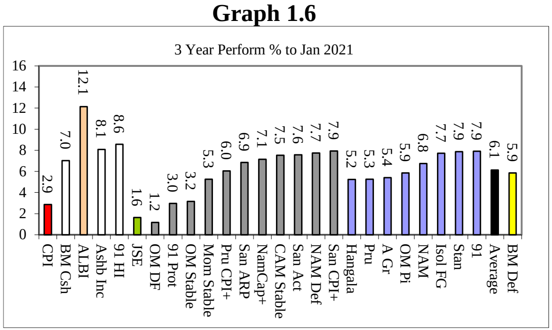
Graph 1.5



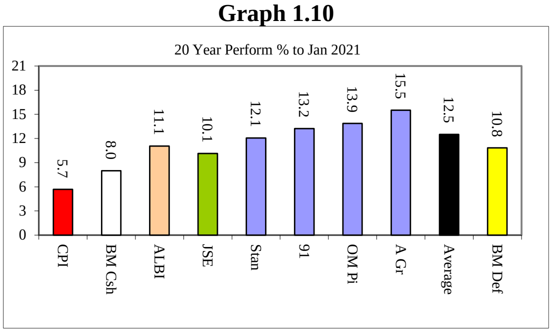
Graph 1.9



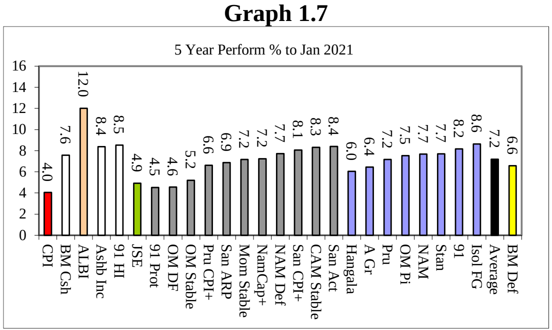
Graph 1.6



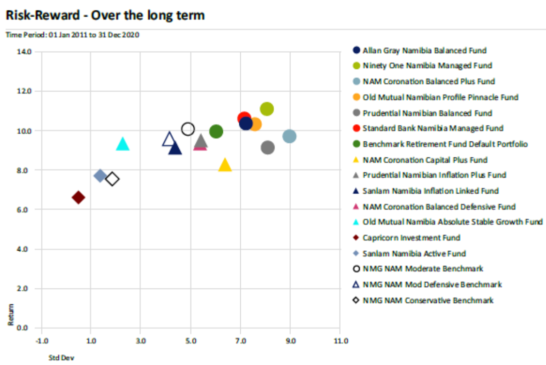
Graph 1.10



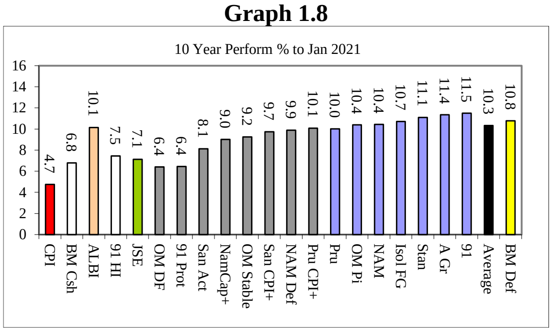
Graph 1.7

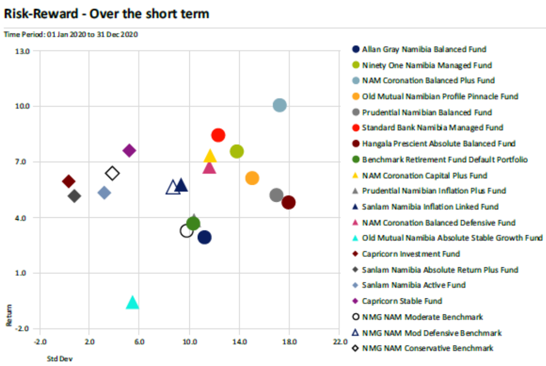


Risk/ Return



Graph 1.8





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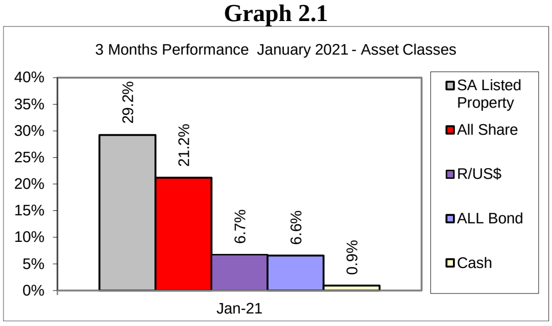
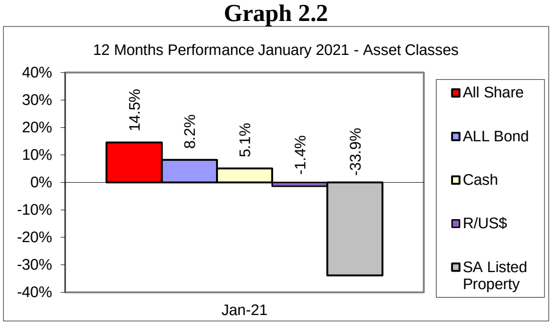
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

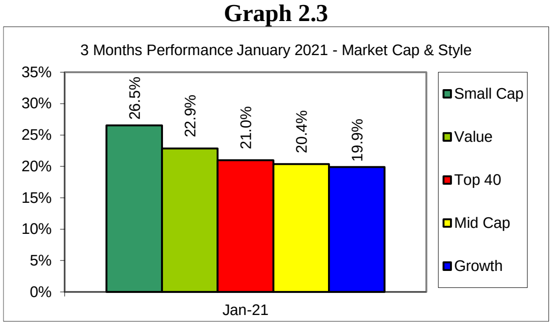
Graph 2.1



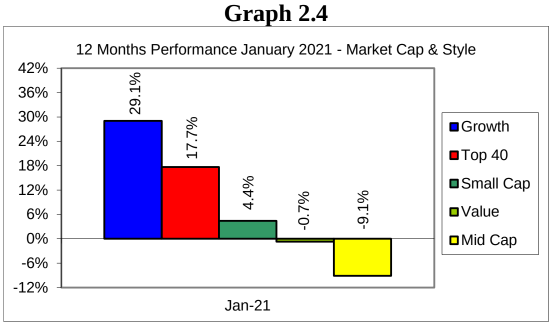
Graph 2.2



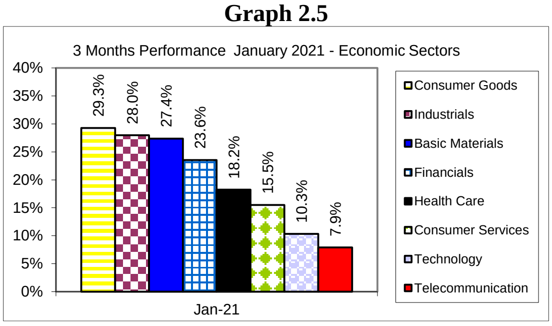
Graph 2.3



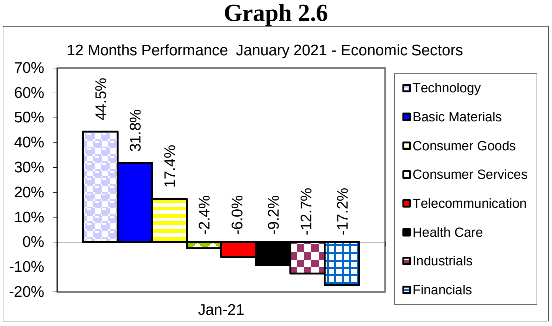
Graph 2.4



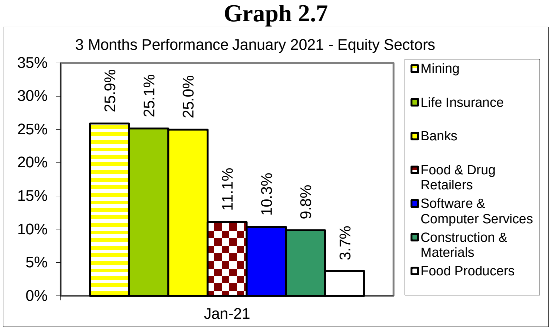
Graph 2.5



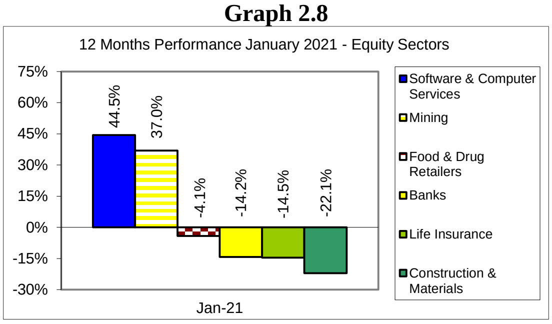
Graph 2.6



Graph 2.7



Graph 2.8



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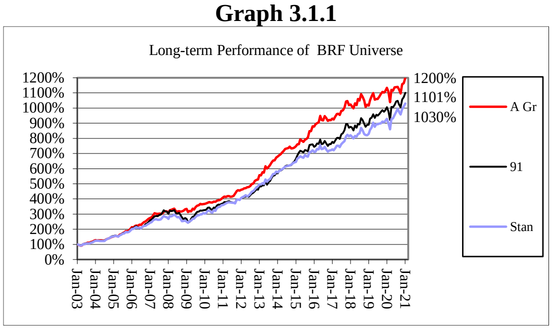
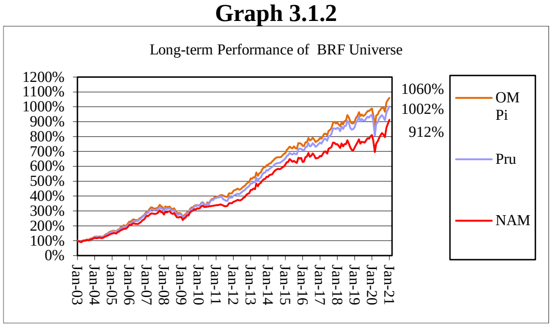
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

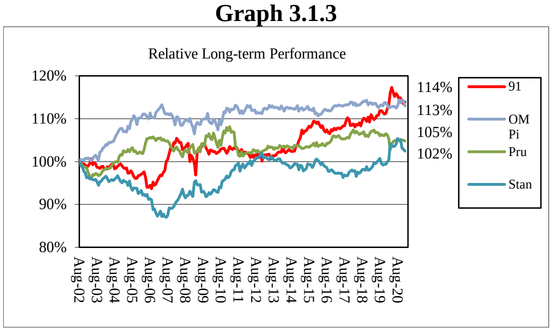
Graph 3.1.1



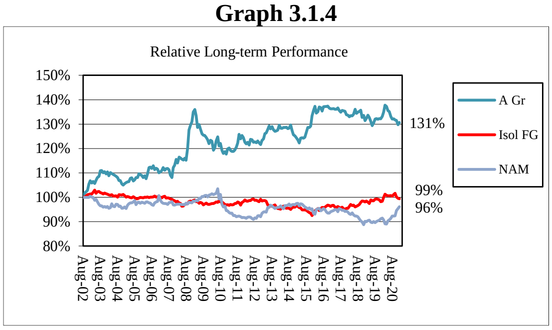
Graph 3.1.2



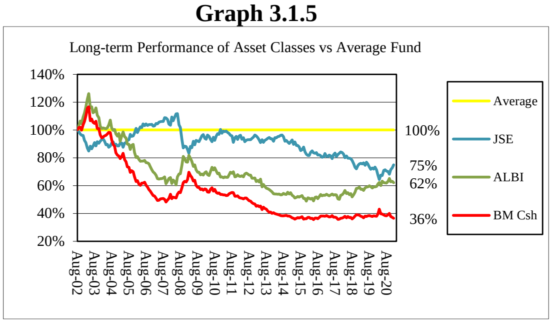
Graph 3.1.3



Graph 3.1.4

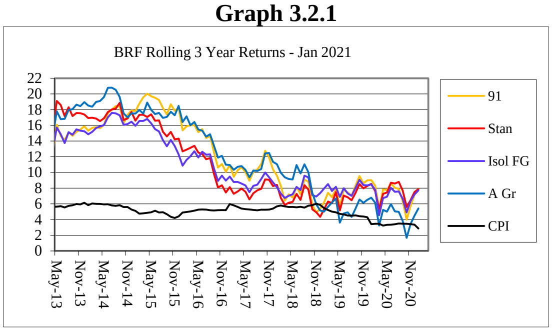


Graph 3.1.5

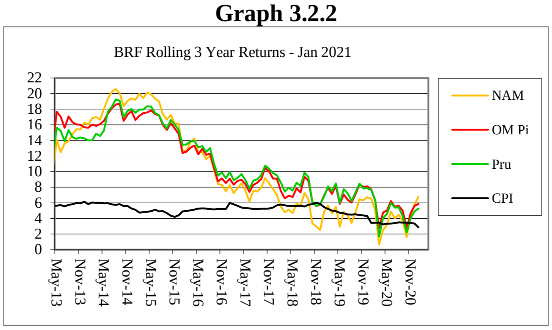


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

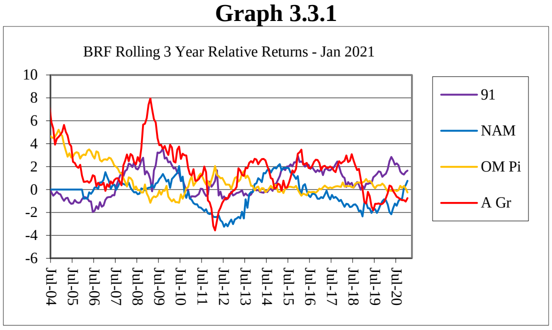


Graph 3.2.2



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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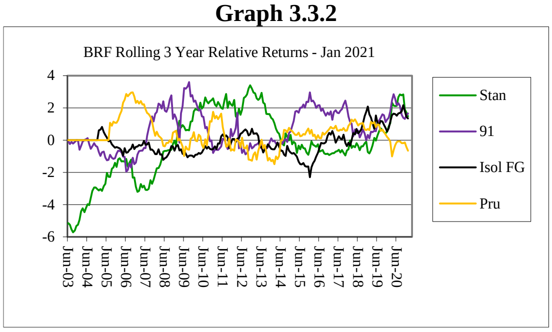
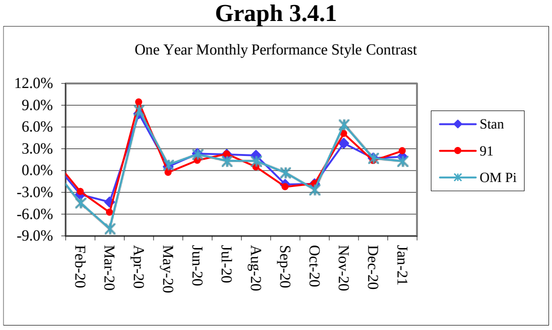
Graph 3.3.2

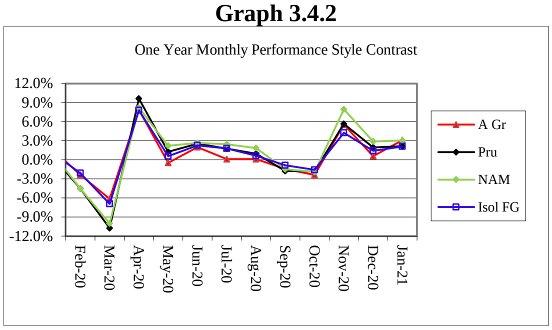


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

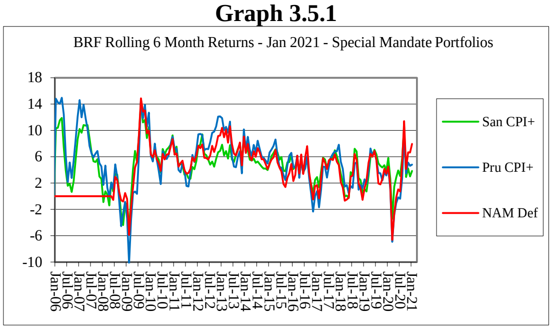


Graph 3.4.2

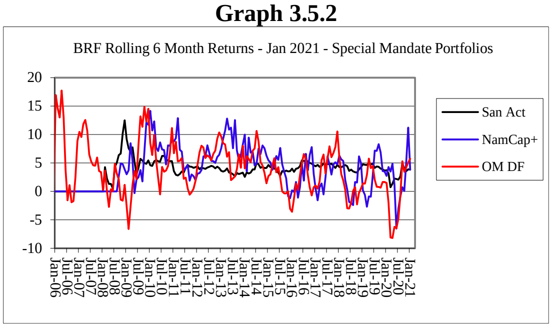


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

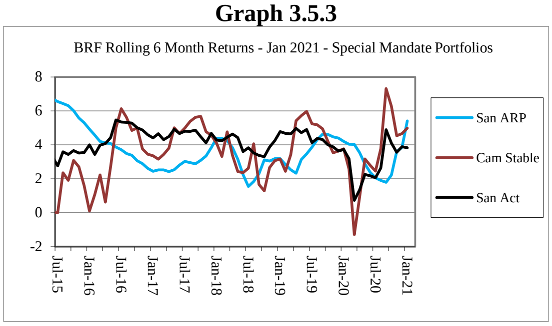
Graph 3.5.1



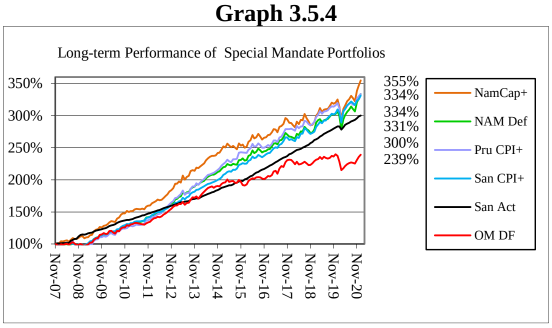
Graph 3.5.2



Graph 3.5.3

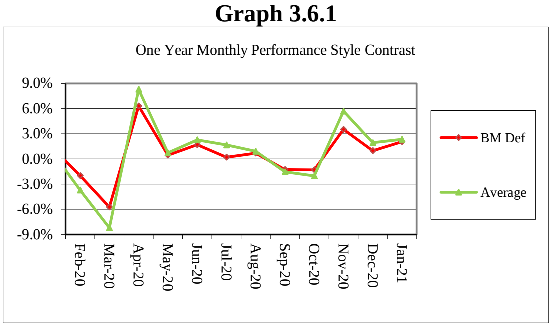


Graph 3.5.4



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

Graph 3.6.1



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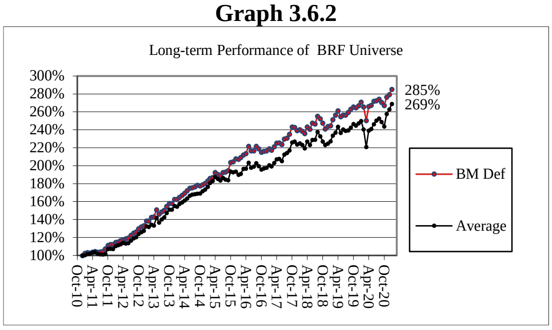
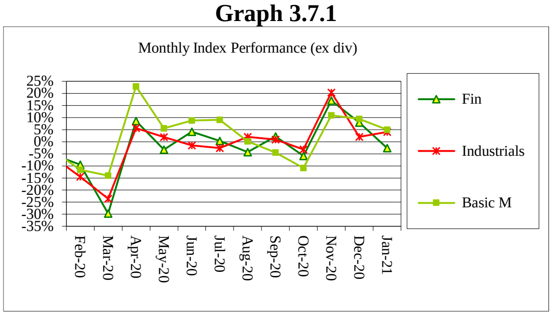
Graph 3.6.2

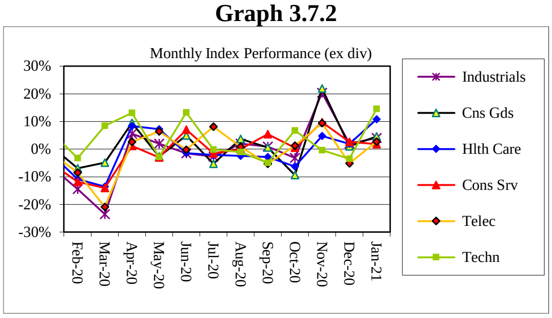


3.7 One-year monthly performance of key indices (excluding dividends)

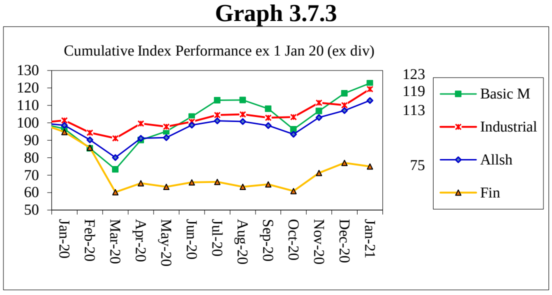
Graph 3.7.1



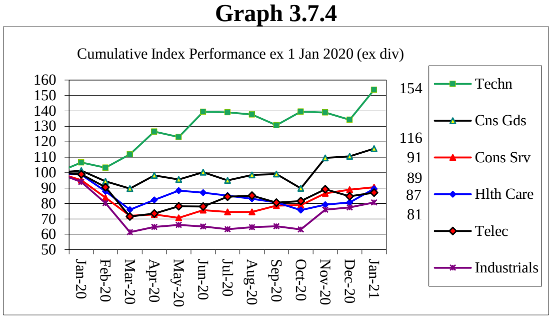
Graph 3.7.2



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.	6.6	7.2
5-year real return - % p.a.	2.6	3.2
Equity exposure - % of portfolio (qtr end December 2020)	45.1	65.4
Cumulative return ex Jan 2011	185.1	168.9
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 of late under-performed the average prudential balanced portfolio, although still ahead since January 2011, when it was restructured to its present structure. This is the result of its significantly more conservative structure with an equity exposure of only 45% compared to the average prudential balanced portfolio's exposure of 65%. When equities significantly out-perform the other main asset classes, the default portfolio will under-perform the average prudential balanced portfolio. Over the past 6 months and as the result of the further significant increase in central banks' bond buying activities, equities have indeed outperformed the other asset classes except property, significantly. This intervention of course distorts financial markets and causes significant volatility and artificially increased valuations of equities, in particular.

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.

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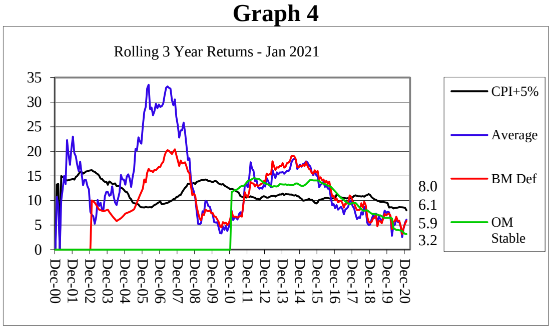
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	7.0%	3.2%	2.5%
Best annual performance	8.2%	9.8%	8.8%
No of negative 1-year periods	n/a	0	0
Average of negative 1-year periods	n/a	n/a	n/a
Average of positive 1-year periods	7.9%	6.5%	6.2%

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years February 2018 to January 2021. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

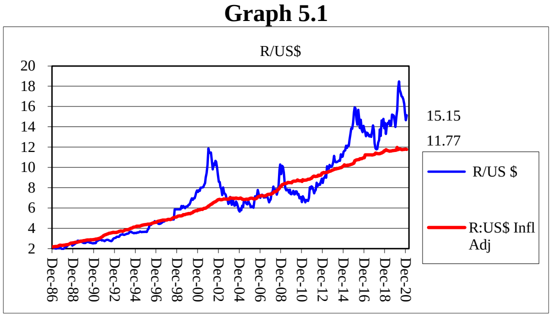


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end December was 5.9%, the average was 6.1% vs CPI plus 5% currently on 8.0%.

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 11.77 to the US Dollar while it actually stood at 15.15 at the end of January. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

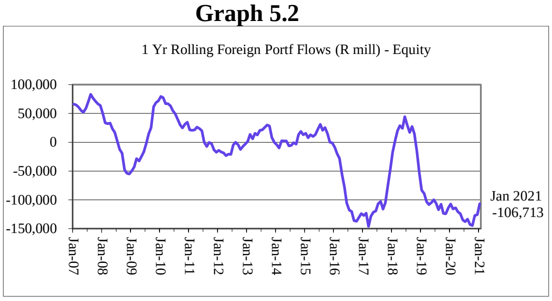


The Rand weakened by 3.38% in January with net foreign investment inflows into bonds and equities of R17.3 bn. Over the past 12 months the Rand weakened by 1.40%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 155.7 bn (outflow of R 173.8 bn to end of December 2020).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 69.6 bn (December R 86.9 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 106.7 bn at the end of January (outflow of R 125.5 bn year-on-year to end December). The month of January experienced a net inflow of R 10.6 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 273.1 bn (end December net investment outflow of 283.6 bn). This represents roughly 1.4% 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 49.0 bn over the past 12 months to end of January (outflow of 48.3 bn over the 12 months to end of December). The month of January experienced a net inflow of R 6.7 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 203.4 bn (to December R 196.7 bn).

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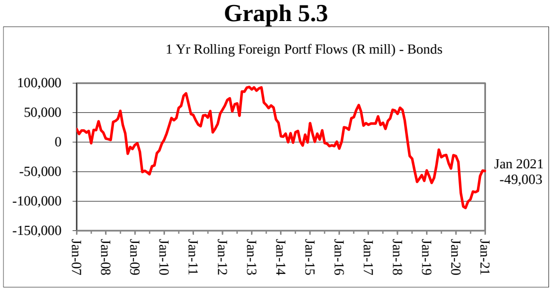
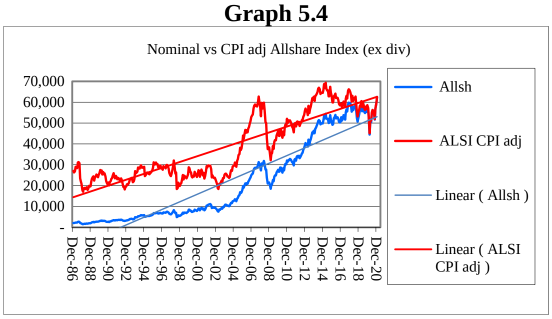
Graph 5.3



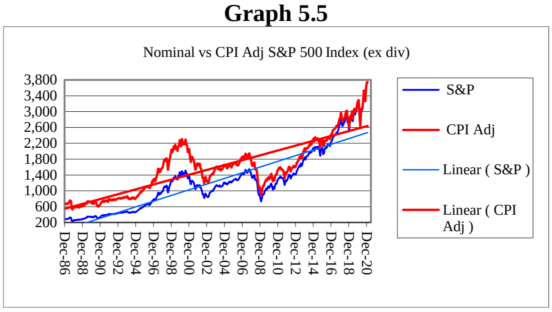
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.7% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 34 years was 7.7% per year. This is equivalent to a growth in real terms of 3.0% p.a. over this period, excluding dividends, or around 6.1% including dividends.

Graph 5.4



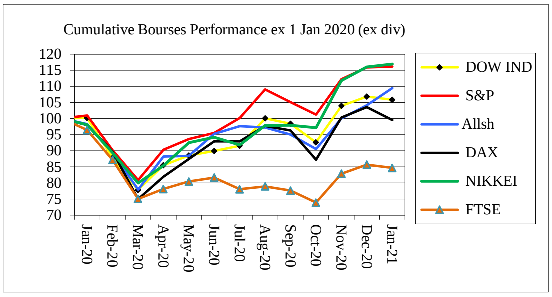
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 8.0% per annum, over this period of 34 years. US inflation over this period was 2.5%. This is equivalent to a growth in real terms of 5.5% p.a. over this period, excluding dividends or around 7.7% including dividends.

Graph 5.5



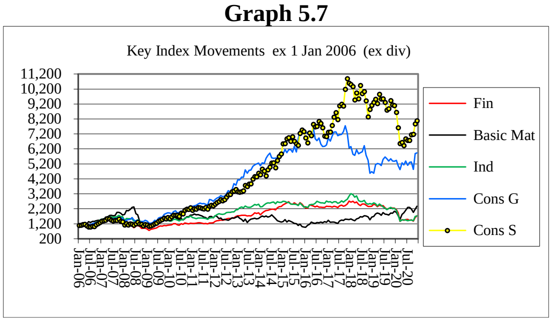
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the Nikkei as the top performing index since the start of 2020.

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 ones offer less value on the basis of fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 14.9%; Consumer Goods: 12.8%; Basic Materials: 6.2%; Industrials: 3.9% and Financials: 3.5%.

Graph 5.7



6. What can we expect of investment market in 2021?

By Tilman Friedrich

Review of investment markets

The inauguration of a new president of the United States has brough about quite a change to the outlook for global financial markets, particularly since he can speak with authority knowing that the Democrats now have a majority in both houses of parliament. President Biden intends to spend another US$ 1.9 trn to stimulate the US economy, and that is nearly 10% of US GDP. As the result global equity markets have responded positively to the new outlook. The SA Allshare index increased by 9.5% over the last 2 months, the SP&500 increased by 33.3%, the Dax increased by 5.2%, the Nikkei increased by 38.3% leaving only the FTSE that actually declined by nearly 25%. Similarly, the US 10-year bond yield increased by 27.1%, which for an investor unfortunately presented a severe capital depreciation. I expect that the US moves will force the hand of other developed countries to employ similar measures, not only to stimulate their economies but also to protect their currencies. The day of reckoning therefore seems to have been pushed forward by at least another year and the

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2021

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.

reversion to an equilibrium between the various asset classes is nowhere in sight. While the economies of most developing countries are still reeling under the consequences of COVID-19, the Chinese economy seems to be picking up speed and as the result global commodity prices are also on an upward trend. This of course is good news for commodity-based economies such as SA and also Namibia. As I pointed out in last month's column, the easy money floating around, that is currently stimulating global bourses and other asset classes, but particularly in specific large cap technology shares. So while it might appear that some bourses linger at dwindling hights, this tremendous growth was not across the board and there are still lots of opportunities to be found elsewhere.

Monetary stimulus so far has failed to get the global economies going though, more lately exacerbated by the COVID induced slump in the global economy. Fiscal stimulus may now be a more effective was of achieving this goal and that seems to be the route President Biden intends to go and other developed countries are likely to go as well.

Following the media closely, one will have noticed how the talk about economic metrics such as the fiscal deficit of 3% and a cap on debt to GDP of around 60% is nowhere referred to anymore. In any event there are only few countries in the world that still meets these metrics. While the global debt to GDP ratio increased by only about 3% from 310% to 320% following the global financial crisis, it then shot up by 11% following the COVID-19 pandemic. In this column in an earlier Performance Review journal, I also showed that Namibia is sailing very close to the wind with its debt situation already. Namibia of course cannot print money while the US in particular, and to a lesser extent the other developed countries have the means to manage excessive debt by determining the interest rate they have to pay on borrowed money.

At this point it is likely that new fiscal stimulus in the US, likely to be followed by other developing countries, will provide an underpin to global equity markets as the result of which equities should do well for this year, at least in line with the expected uptick in the economies. The expectation is that the gradual opening up of developed economies will stimulate consumption and get their economies going again, which is envisaged towards the end of this year. I believe the hope is that inflation will then pick up and will help in reducing the real value of government debt that has now been built up since the global financial crisis. This will then provide the room for a gradual return to an equilibrium between the different asset classes and a return to normality in asset valuations and risk adjusted investment returns. I expect this to be a long, drawn-out process though that will put a cap on investor over-exuberance for a number of years to come. As interest rates will then start to increase central banks will need to reduce their balance sheets by reducing excessive liquidity in the financial markets. Investors will no longer be able to bloat equity valuations by borrowing at near zero interest rates and generating a net return from the appreciation of their investments. This will be the time for a correction of valuations and return to normality, which as we know, drove up the values of specific shares only but not the market across the board.

Conclusion

So, what has changed since last month? Firstly, equity markets recovered nicely. Secondly the Rand recovered nicely as well. The general outlook has improved as the result of a new economic policy inaugurated by the new US president that is positive for equities. Europe is still locked down and its economy is in the doldrum but China is starting to move ahead. With this, global commodity prices are moving ahead as well and this will be positive for the Namibian and SA economies that are commodity based. Form an investors point of view, we are probably about where we were before Corona struck but now our economies are due to arise out of an even deeper trough than they had been in after the global financial crisis. This also makes for a positive outlook. The joker in this game is: what measures will be taken by fiscal and monetary authorities to return economic metrics back to normality? No one knows yet what this joker entails and when it will be pulled out of the pack of cards, but it is unlikely that this will happen soon. Consequently, I also do not expect a material uptick in inflation this year or in interest rates, but certainly also not any further decline in either of these rates.

Under these circumstances I remain optimistic about the prospects of equities, being a mirror of the real economy, and believing that there is not much scope for a further decline in global economies. We have already seen interest rates ticking up and I will therefore be dovish on fixed interest investments. The Rand has regained its pre-Corona posture, following its severe depreciation last year, opening up an opportunity to now revert to full global diversification

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