Volume 17 No. 06
June 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 JUNE 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

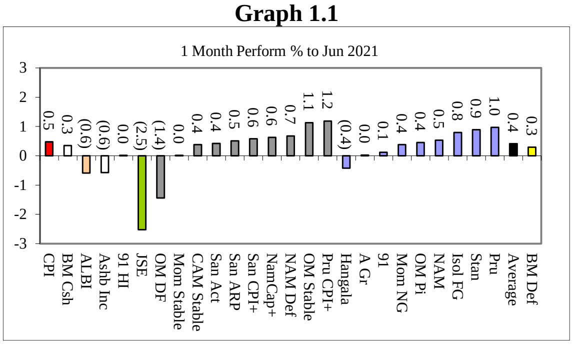
In June 2021 the average prudential balanced portfolio returned 0.4% (May 2021: 0.3%). Top performer is Prudential Managed Fund with 1.0%, while Hangala Prescient Absolute Balanced Fund with -0.4% takes the bottom spot. For the 3-month period, NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 1.2%. On the other end of the scale NinetyOne Managed Fund underperformed the 'average' by 1.4%. 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**.

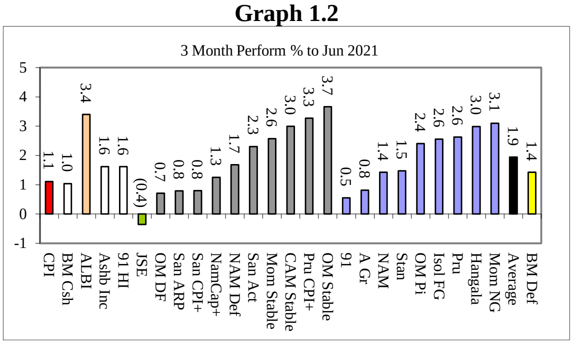
Below is the legend to the abbreviations reflected on the graphs:

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)

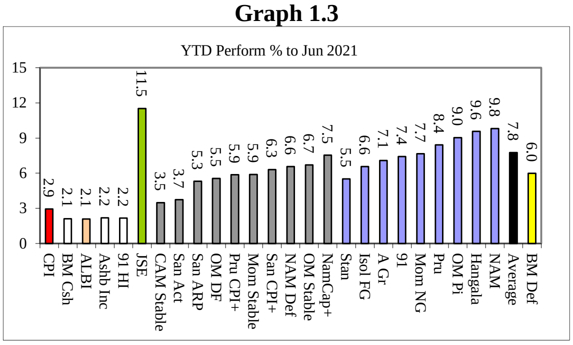
Graph 1.1



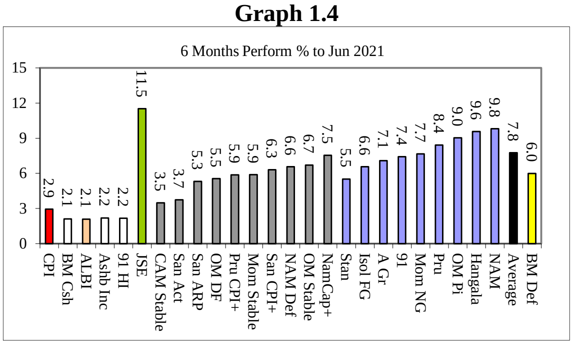
Graph 1.2



Graph 1.3



Graph 1.4



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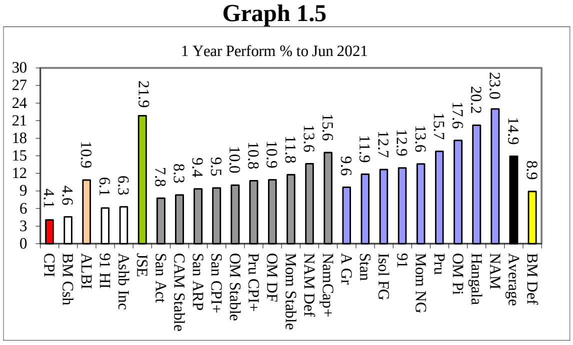
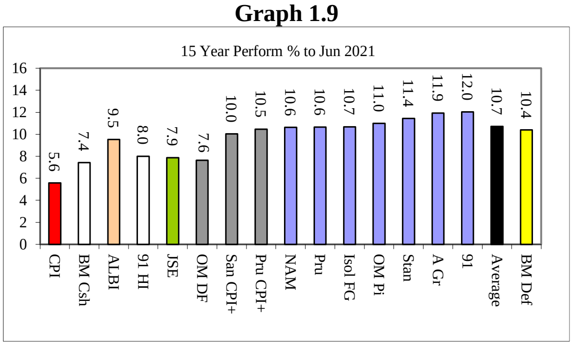
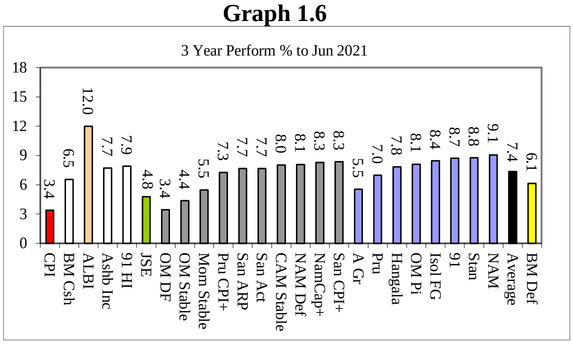
Graph 1.5



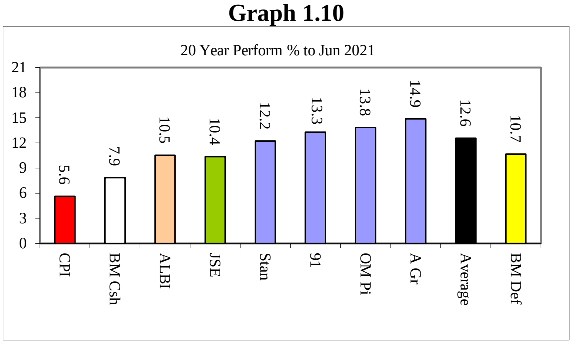
Graph 1.9



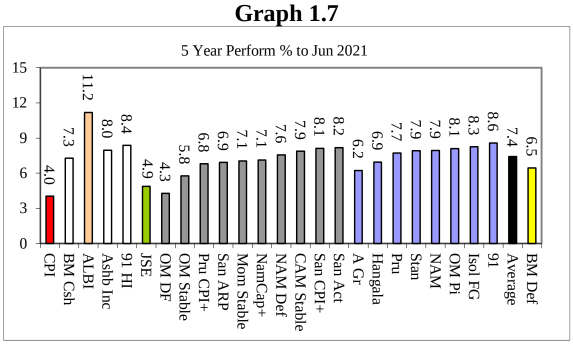
Graph 1.6



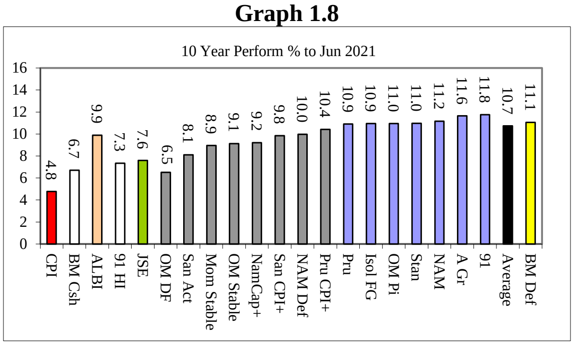
Graph 1.10



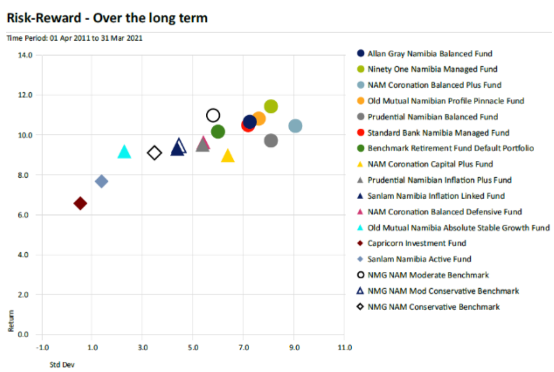
Graph 1.7

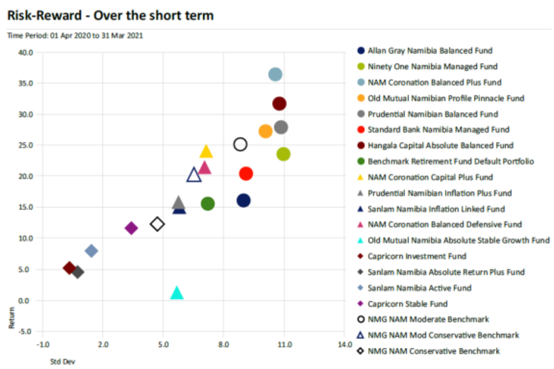


Graph 1.8



Risk/ Return





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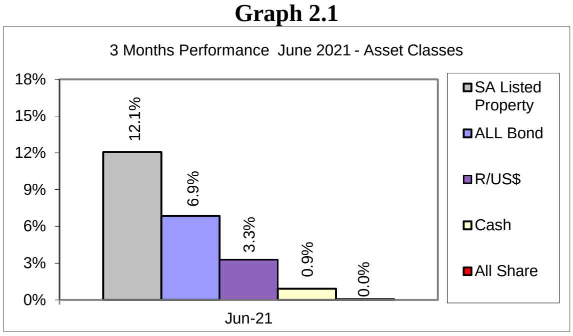
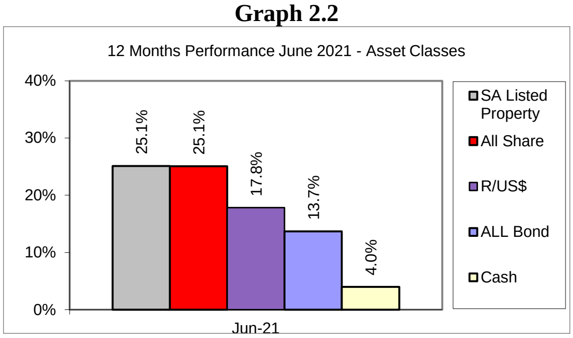
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

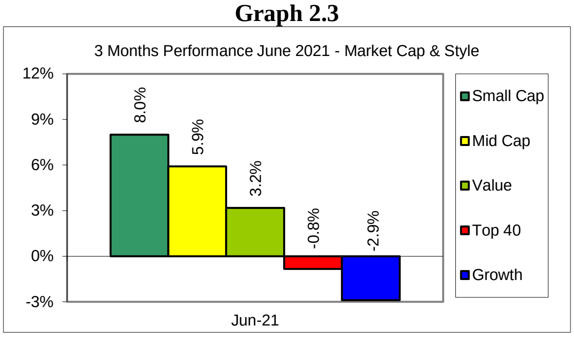
Graph 2.1



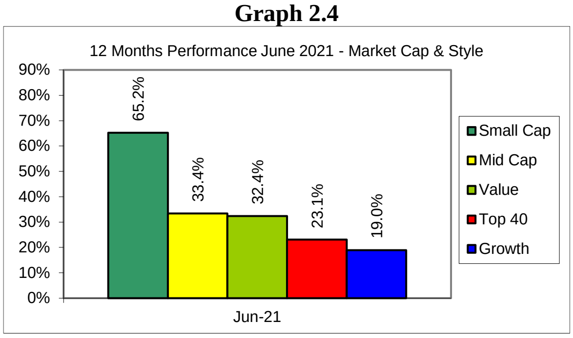
Graph 2.2



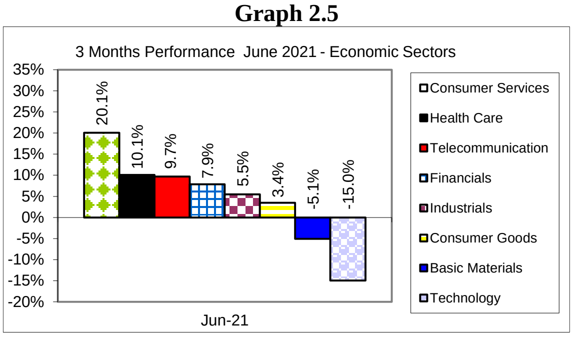
Graph 2.3



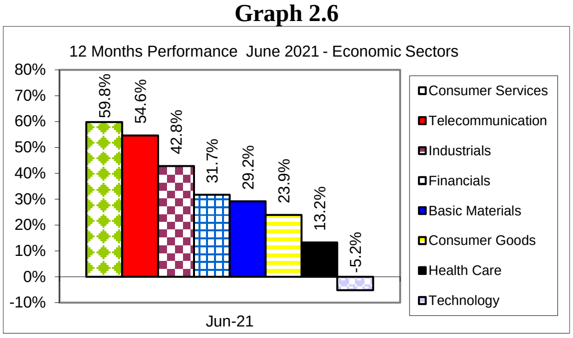
Graph 2.4



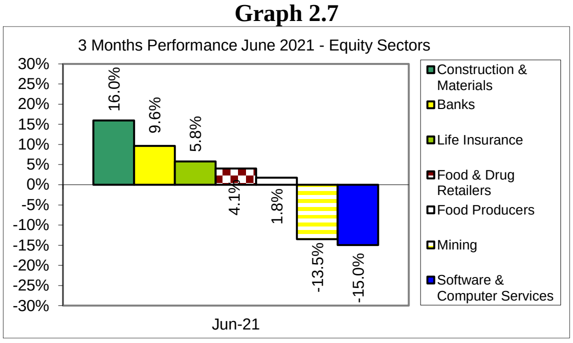
Graph 2.5



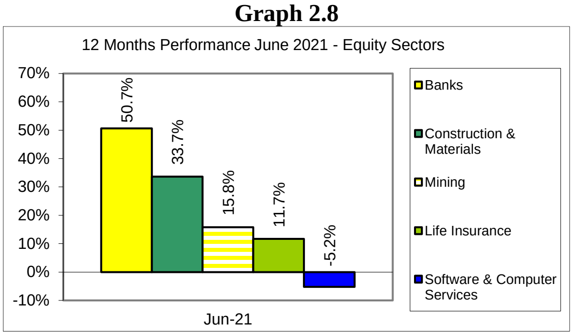
Graph 2.6



Graph 2.7



Graph 2.8



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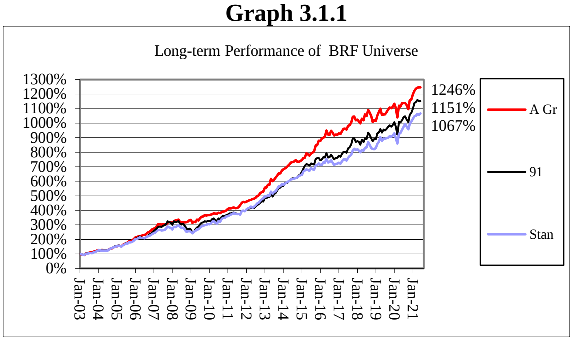
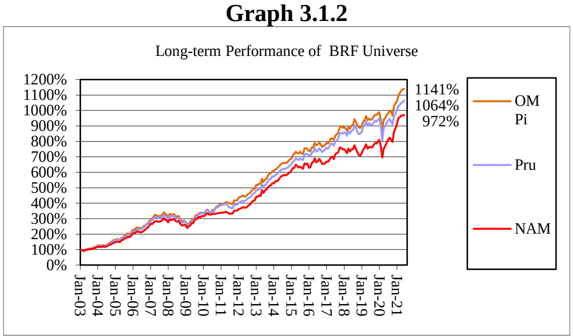
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

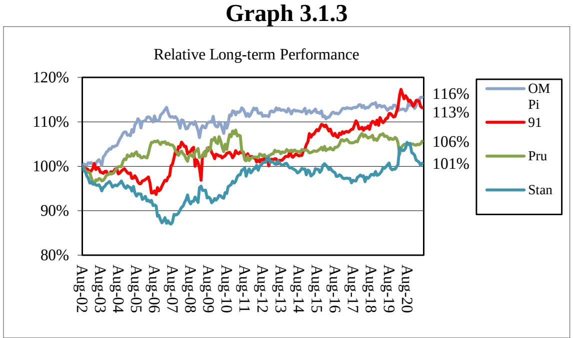
Graph 3.1.1



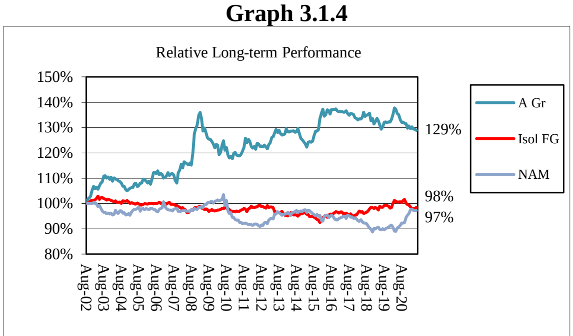
Graph 3.1.2



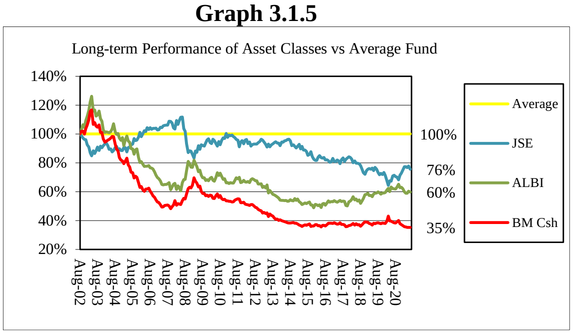
Graph 3.1.3



Graph 3.1.4

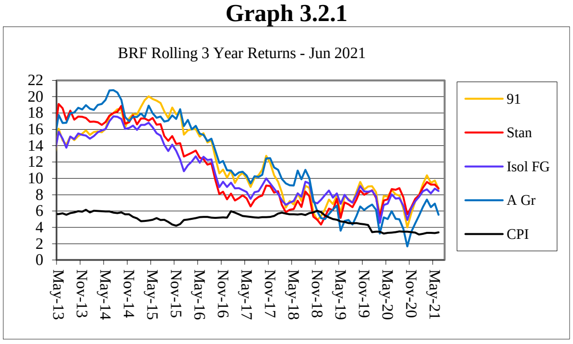


Graph 3.1.5

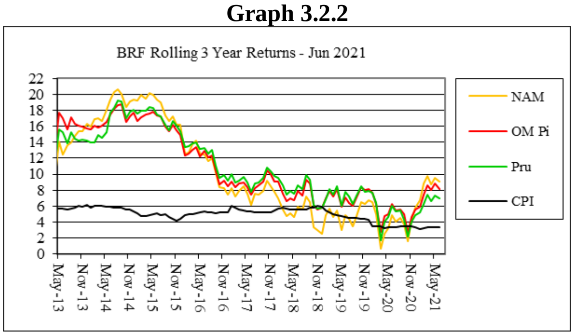


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

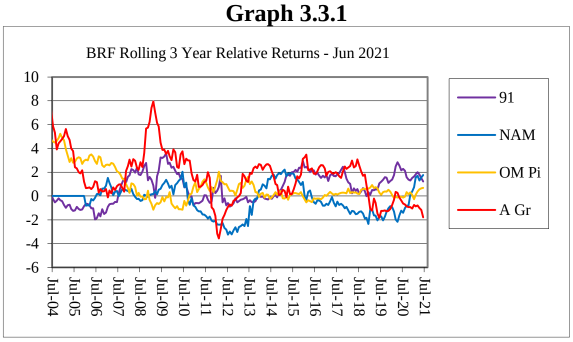


Graph 3.2.2



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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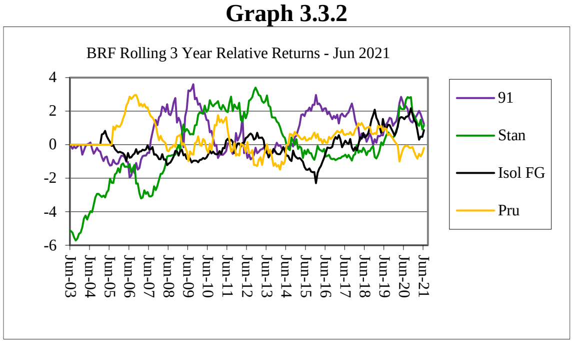
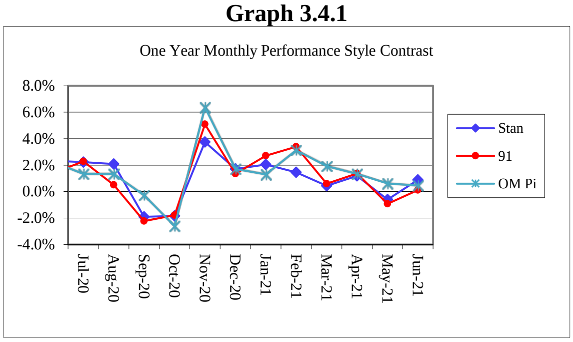
Graph 3.3.2

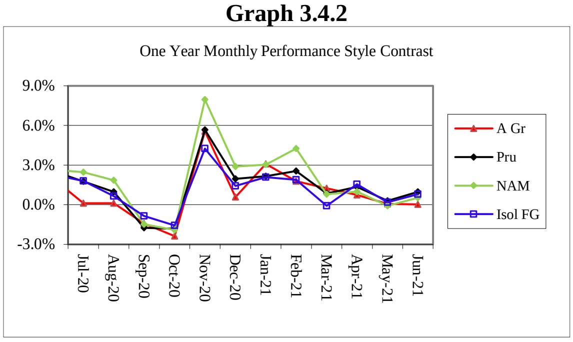


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

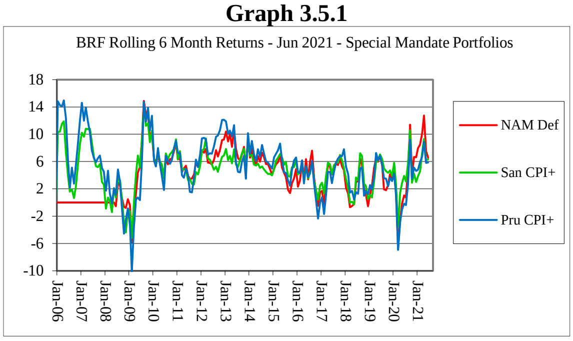


Graph 3.4.2

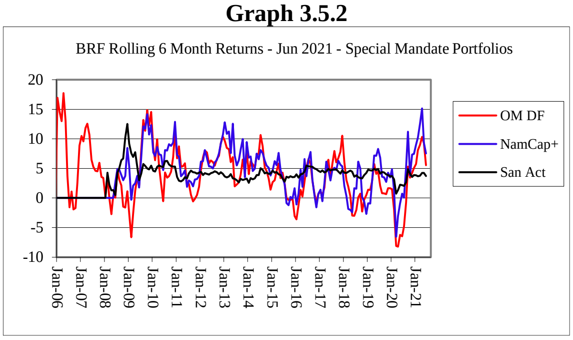


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

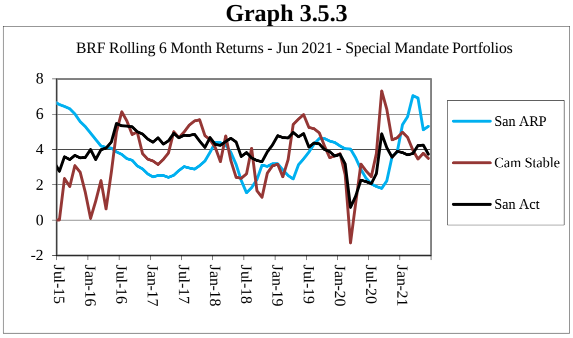
Graph 3.5.1



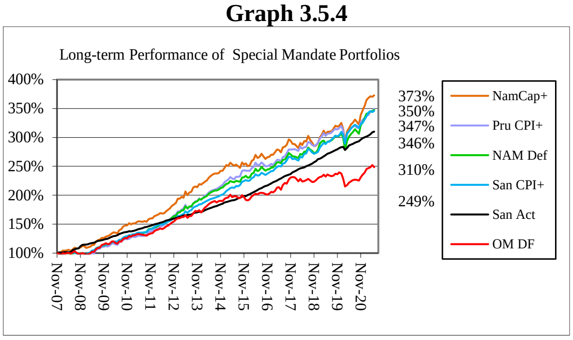
Graph 3.5.2



Graph 3.5.3

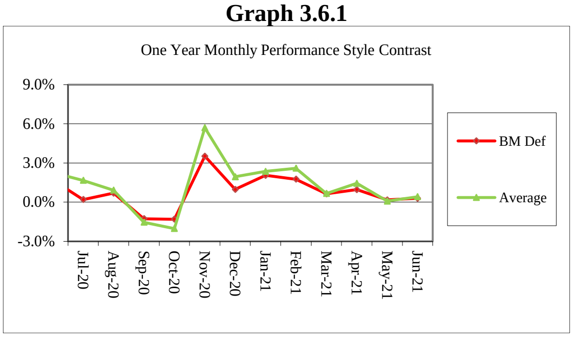


Graph 3.5.4



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

Graph 3.6.1



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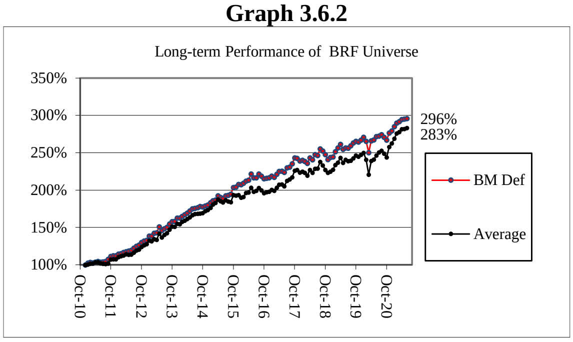
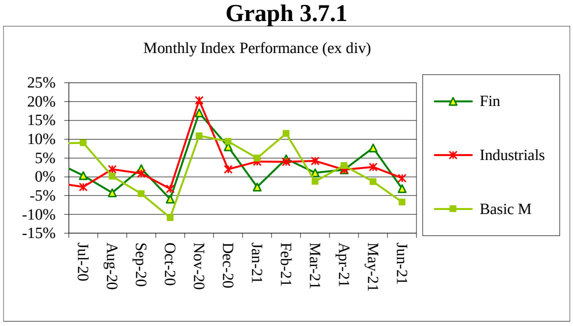
Graph 3.6.2

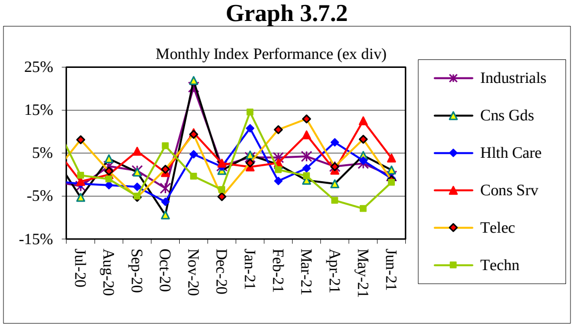


3.7 One-year monthly performance of key indices (excluding dividends)

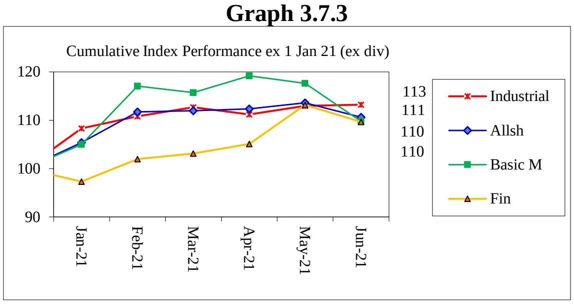
Graph 3.7.1



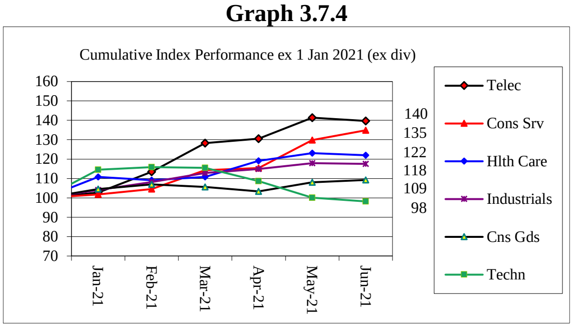
Graph 3.7.2



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.	6.5	7.4
5-year real return - % p.a.	2.5	3.4
Equity exposure - % of portfolio (qtr end March 2021)	47.5	63.6
Cumulative return ex Jan 2011	195.3	182.7
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 48% compared to the average prudential balanced portfolio's exposure of 64%. When equities significantly out-perform the other main asset classes, the default portfolio will under-perform the average prudential balanced portfolio. Over the past 12 months and as the result of the further significant increase in central banks' bond buying activities, equities have indeed significantly outperformed the other asset classes except property. 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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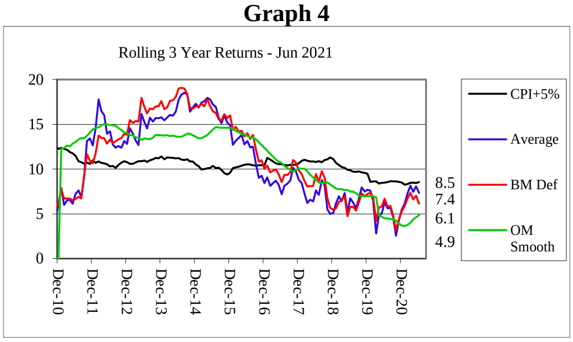
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.5%	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	7.8%	6.3%	6.3%

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

Graph 4



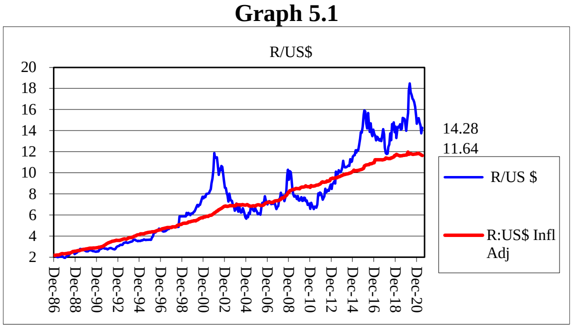
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end June was 6.1%, the average was 7.4% vs CPI plus 5% currently on 8.5%.

5. Review of Foreign Portfolio Flows and the Rand

How is the Rand doing?

Graph 5.1 indicates that the Rand by our measure is at fair value at 11.64 to the US Dollar while it actually stood at 14.28 at the end of June. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

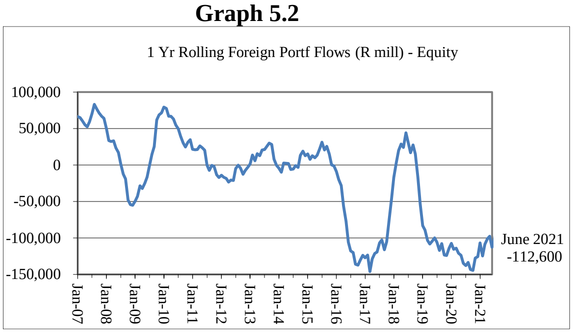


The Rand weakened by 3.9% in June with net foreign investment outflows from bonds and equities of R31.6 bn. Over the past 12 months the Rand strengthened by 17.8%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 142.6 bn (outflow of R 108.3 bn to end of May 2021).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 165.7 bn (May R 134.1 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 112.6 bn at the end of June (outflow of R 97.8 bn year-on-year to end May). The month of June experienced a net outflow of R 20.2 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 321.2 bn (end May net investment outflow of R 301.0 bn). This represents roughly 1.7% 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 30.0 bn over the past 12 months to end of June (outflow of R 10.5 bn over the 12 months to end of May). The month of June experienced a net outflow of R 11.4 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 155.6 bn (to May R 167.0 bn).

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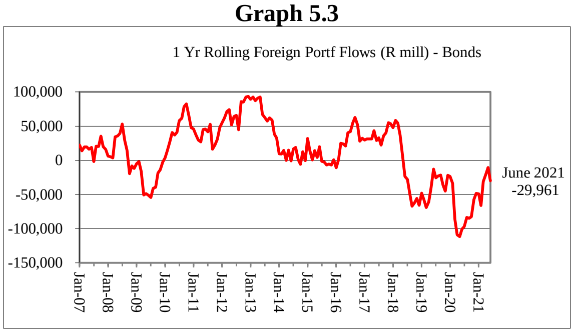
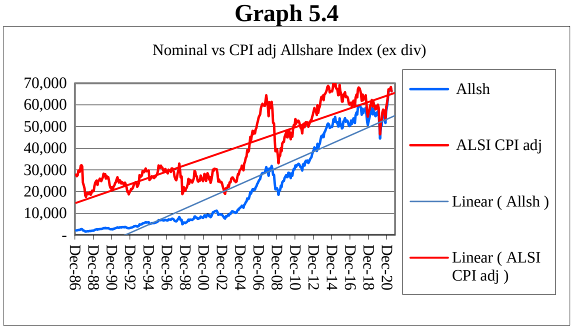
Graph 5.3



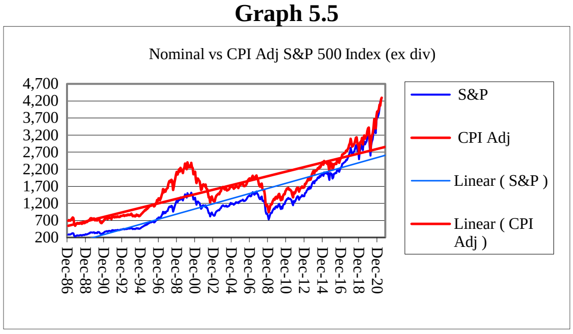
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.7% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 34 years was 7.7% per 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



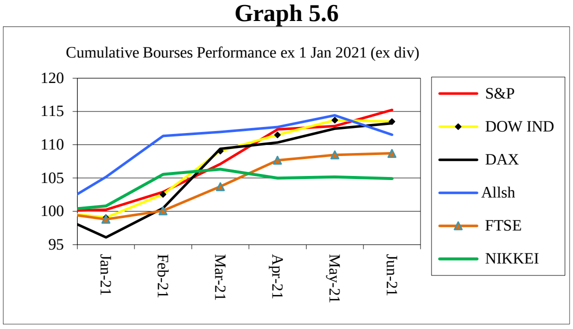
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 8.3% per annum, over this period of 34 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.7% p.a. over this period, excluding dividends or around 7.9% including dividends.

Graph 5.5



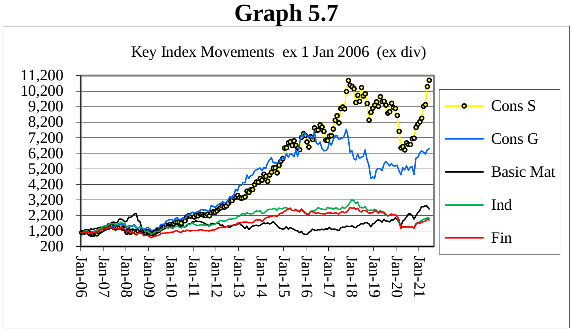
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P500 as the top performing index since the start of 2021.

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: 16.7%; Consumer Goods: 12.8%; Basic Materials: 6.4%; Industrials: 4.7% and Financials: 4.2%.

Graph 5.7



6. Understanding Benchmark Retirement Fund investments – Part 3

By Tilman Friedrich

In the next few issues of our monthly Performance Review, I will be providing background and guidance on investments to assist Benchmark Retirement Fund members to take charge of their fund investments. This will address the following topics:

1. Parties to fund and their roles and responsibilities
2. Investment choice and return objectives
3. Investment range and portfolio composition
4. Performance characteristics of asset classes and portfolios
5. The default portfolio
6. The default portfolio vs the smooth growth portfolio
7. Income replacement ratio and contribution rates
8. Selection of investment managers
9. Combining investment portfolios and when to switch
10. Investment manager risks and manager diversification
11. Performance measurement

In the previous two newsletters, I covered the first four topics. In this newsletter, I will cover the topic ‘the default

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 JUNE 2021

By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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portfolio' and 'the default portfolio versus the smooth growth portfolio'.

5. The default portfolio

The Benchmark Retirement Fund's default portfolio currently consists of:

- Prudential Namibia Inflation Plus Fund +/- 25%
- Sanlam Namibia Inflation Linked Fund +/- 25%
- Allan Gray Namibia Balanced Fund +/- 50%

The Prudential Namibia Inflation Plus Fund and the Sanlam Namibia Inflation Linked Fund are moderate- to low-risk portfolios. Prudential currently holds around 40% in shares, while Sanlam holds about 40% in shares. Allan Gray is a moderate-risk portfolio and presently invests just below 60% in shares. The Allan Gray portfolio is a typical prudential balanced portfolio. The total exposure of the default portfolio to shares is currently just below 50%. Due to the relatively low equity exposure, it will not perform as well as other typical prudential balanced portfolios do when shares perform well and vice-versa. This characteristic was particularly evident over the 12 months since April 2020.

The trustees' objectives with the default portfolio are as follows:

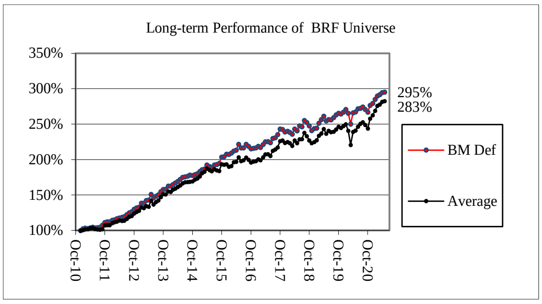
- To reduce risk (volatility) by spreading assets over more than one investment manager;
- To employ opposing (low correlation) investment philosophies;
- To reduce 'the pain of loss' by sacrificing some of the 'pleasure of gain';
- To achieve a real return of 5% after fees over rolling three years;
- To reduce the risk of negative returns over a rolling twelve months;
- To reduce the risk posed by a single manager;
- To replace pre-retirement income at the rate of 2% per year of fund membership.

The last objective (income replacement at the rate of 2% per year) presupposes that the employer and the member together contribute at least 12% of pensionable salary for retirement only. The cost of death benefits, disability benefits and fund management would be on top of the 12%.

The trustees initially set up the default portfolio as a low-to moderate-risk portfolio. As from the start of 2011, the trustees increased the risk profile to moderate-risk. However, due to market conditions that prevail since then, the portfolio's risk profile was increased only moderately.

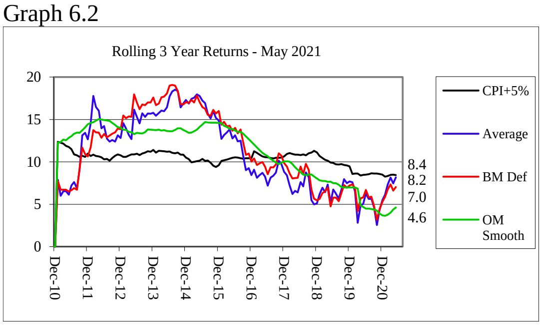
Graph 6.1 depicts the cumulative performance since the beginning of 2011 of the default portfolio compared to the average prudential balanced portfolio. The graph shows that the default started to open a gap to the average portfolio in the middle of 2015. This gap began to close in the middle of 2020.

Graph 6.1



6. The default portfolio versus the smooth growth portfolio

Graph 6.2



Graph 6.2 reflects the different return characteristics of a smooth bonus portfolio (OM AGP Smooth portfolio) and the typical market-linked portfolio (Average prudential balanced portfolio and BM Default portfolio) over rolling three years. In this graph, we benchmark the returns of these portfolios to the typical pension fund's expected long-term return of inflation plus 5% (the black line). Firstly, the green line (OM Smooth) is significantly more stable than the blue line (the average prudential balanced portfolio) and the red line (the BM Default portfolio). Secondly, sometimes the green line is above the red and blue lines, and sometimes it is below them. The green line (OM Smooth) is more stable than the blue and red lines because the OM Smooth is a smooth bonus portfolio. The 'smooth bonus' portfolio and the 'prudential balanced' portfolios all invest with similar risk profiles. It means that they have a similar exposure to shares and the other asset classes. However, the product provider manages the 'smooth bonus' portfolio's investment returns; in other words, what you see is not what you get. When the share market does well, the product provider withholds a portion of the market return and vice-versa. The investor in the smooth bonus portfolio can never forecast his investment return by simply considering the performance of shares and other asset classes. The smooth bonus portfolio is of 'flesh and blood' like the typical prudential balanced portfolios and cannot do any magic!

The following graphs show a few 'vital statistics' that reveal the attributes of the Benchmark Default portfolio (BM Def) compared to the Old Mutual AGP stable portfolio's features (OM Smooth). The graphs also depict the vital statistics of the portfolios comprising the BM Def

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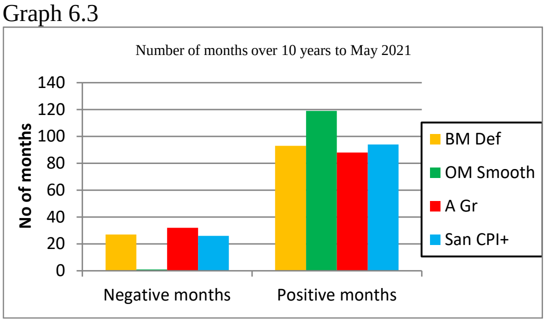
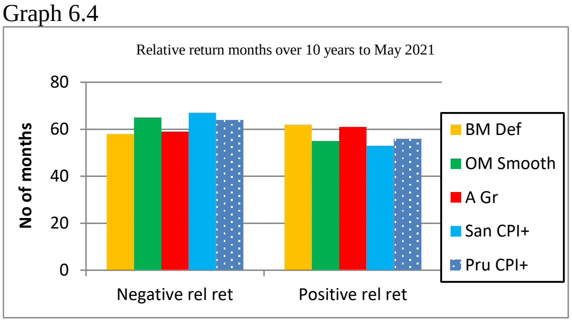
portfolio. These are the Allan Gray portfolio (A Gr), the Sanlam Inflation Linked portfolio (Sanl CPI+), and the Prudential Inflation Plus portfolio (Pru CPI+). The graphs cover the ten years up to 31 May 2021.

Graph 6.3



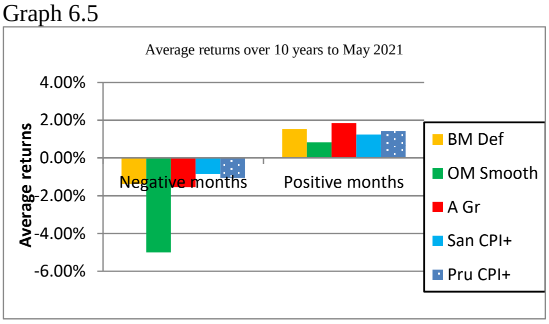
Graph 6.3: OM Smooth only had one negative month, and the balance is positive months. BM Def had 27 negative months, and the balance is positive.

Graph 6.4



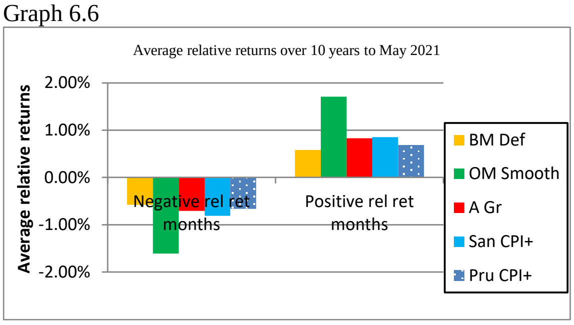
Graphs 6.4: Relative to the average prudential balanced portfolio, OM Smooth had 65 negative months (underperforming), and the balance is positive months (outperforming). BM Def had 58 negative months (underperforming), and the balance is positive months (outperforming).

Graph 6.5



Graph 6.5: This graph measures the average returns of negative months and positive months. OM Smooth average return of negative months (1 month) is – 5%, and of 119 positive months is 0.8%. BM Def's average return of negative months (27 months) is – 1.4%, and of 93 positive months is 1.5%.

Graph 6.6



Graph 6.6: This graph depicts returns relative to the average prudential balanced portfolio. It shows the average return of the negative months and the positive months. OM Smooth relative negative return is – 1.6% and the relative positive return is 1.7%. BM Def relative negative return is – 0.6% and the relative positive return is 0.6%.

Over the 10 years to 31 May 2021, the BM Def portfolio produced a 10.9% return per year. The OM Smooth produced a 9.7% return per year.

I will continue this article in the next Benchtest Performance Review.

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