Benchmark Retirement Fund

Volume 11, No. 10,
October 2015

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2015

By T H Friedrich – Managing Director, 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

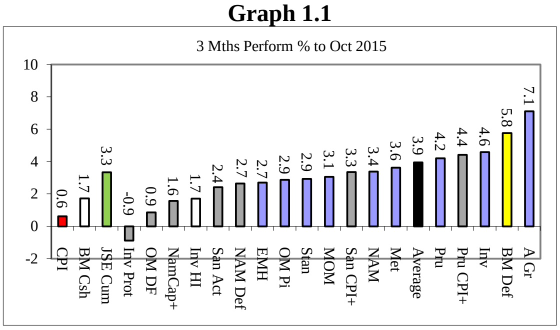
In **October** the **average prudential balanced portfolio** returned 5.29% (Sep: -0.39%). Top performer is Investec (5.79%); while EMH Prescient (4.21%) takes the bottom spot. For the 3 month period Allan Gray takes top spot, outperforming the ‘average’ by roughly 3.2%. On the other end of the scale EMH Prescient underperformed the ‘average’ by 1.2%.

Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 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 now represents a combination of Prudential Namibia Inflation Plus and Allan Gray Namibia Balanced Fund.

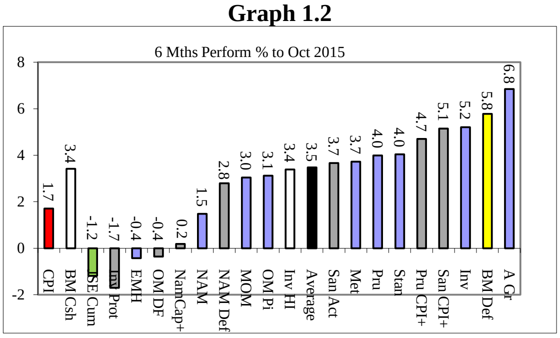
Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer Price Index	CPI (red)
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)
Investec Protector	Inv Prot (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Sanlam Active	San Act (grey)
Sanlam Inflation Linked	San CPI+ (grey)
NAM Capital Plus	NamCap+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
EMH Prescient Balanced Absolute	EMH (blue)
Investec Managed	Inv (blue)
Prudential Managed	Pru (blue)
Metropolitan Managed	Met (blue)
NAM Prudential Balanced	NAM (blue)
Old Mutual Pinnacle Profile Growth	OM Pi (blue)
Momentum Managed	MOM (blue)
Stanlib Managed	Stan (blue)

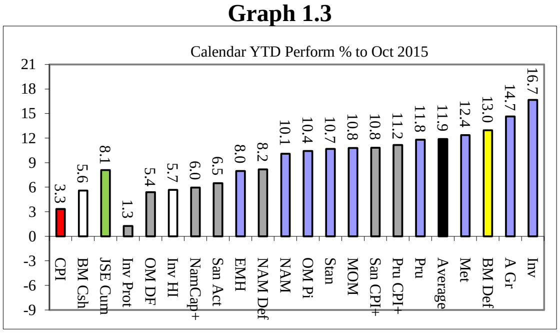
Graph 1.1



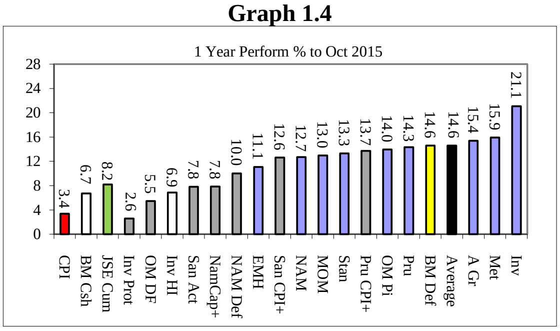
Graph 1.2



Graph 1.3



Graph 1.4



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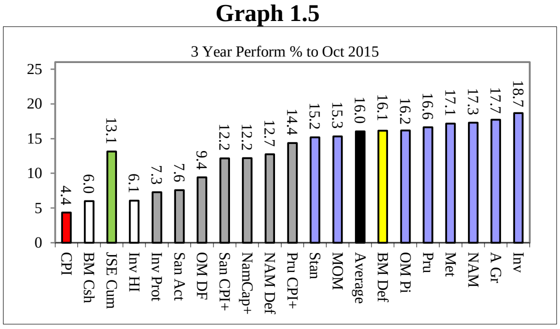
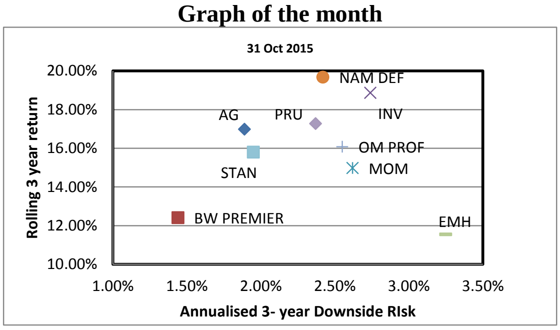
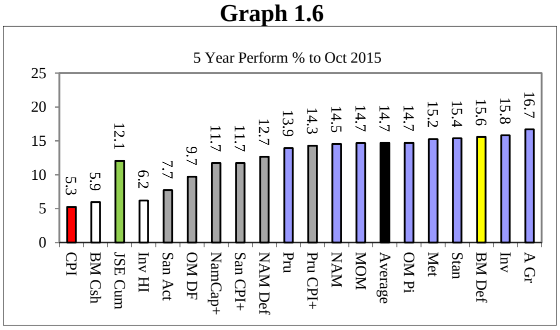
Graph 1.5



Graph of the month

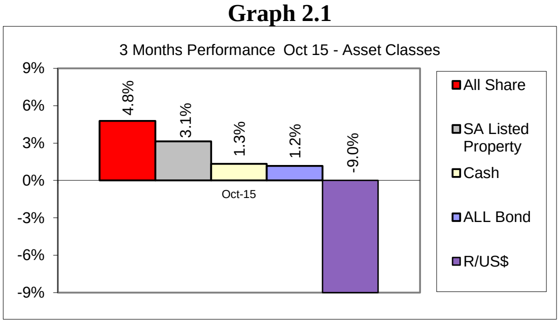


Graph 1.6

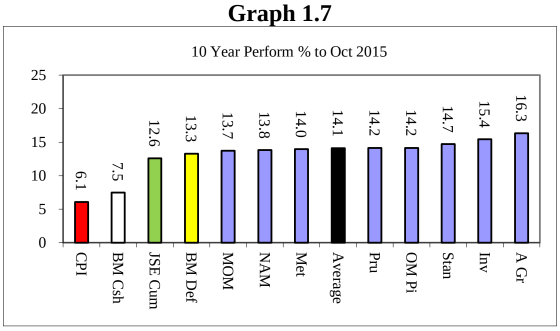


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

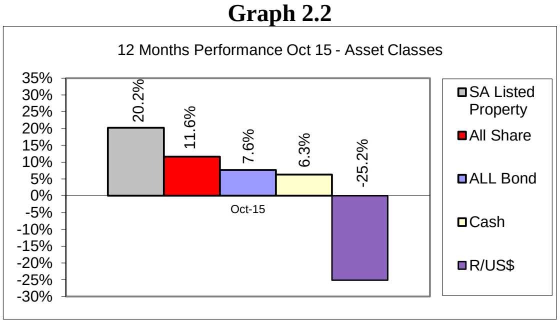
Graph 2.1



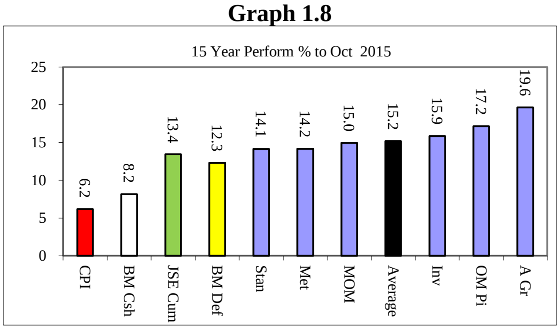
Graph 1.7



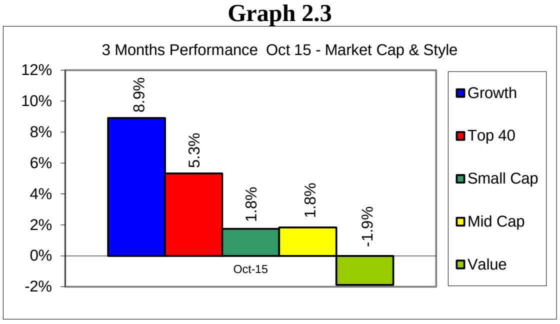
Graph 2.2



Graph 1.8



Graph 2.3



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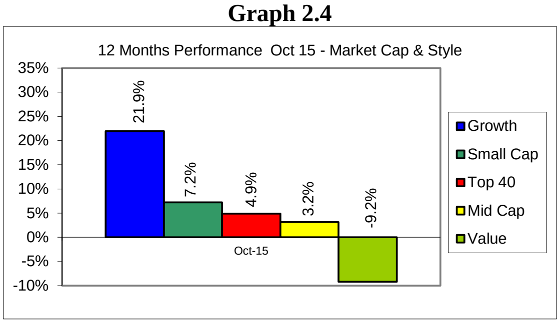
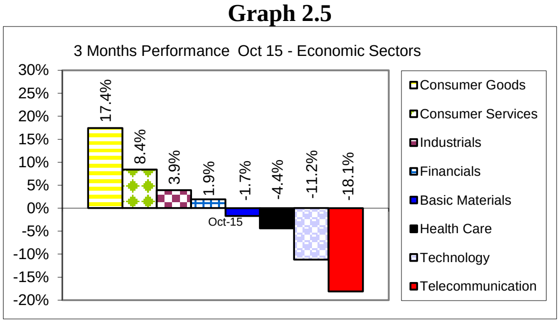
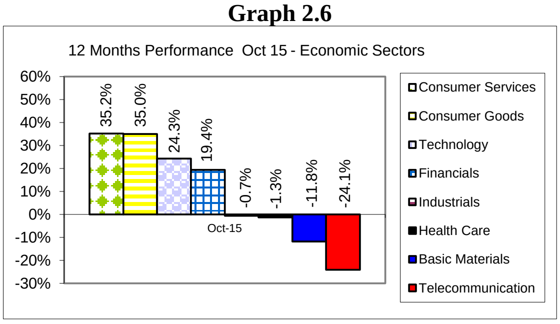


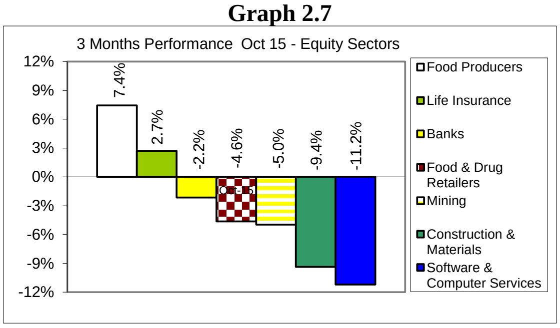
Graph 2.5



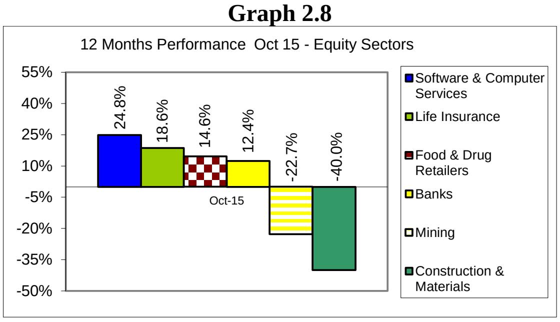
Graph 2.6



Graph 2.7



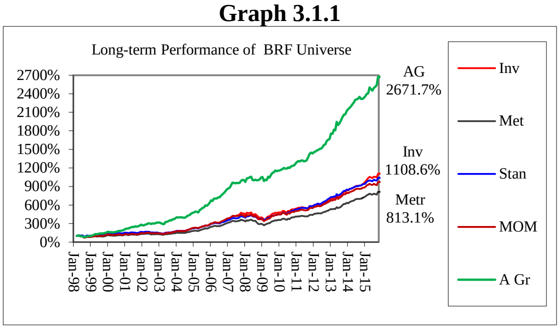
Graph 2.8



3. Portfolio Performance Analysis

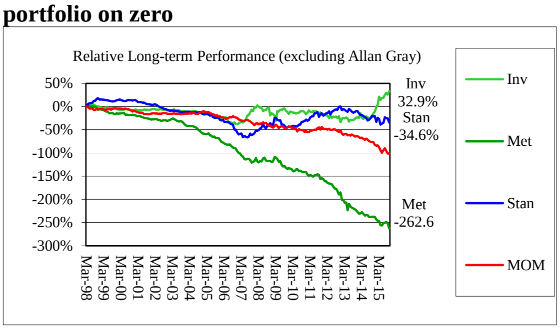
3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

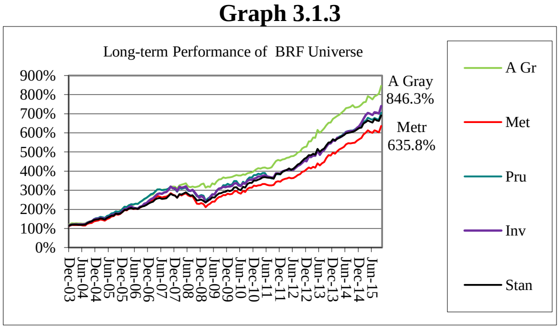


Graph 3.1.2

Cumulative performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

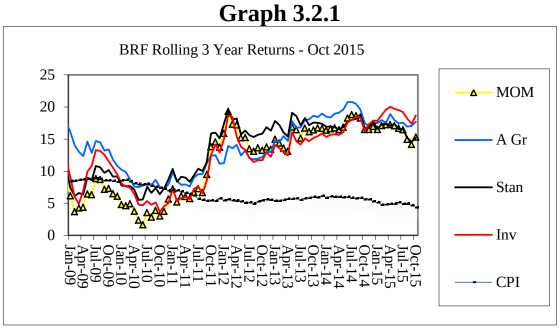


Graph 3.1.3



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

Graph 3.2.1



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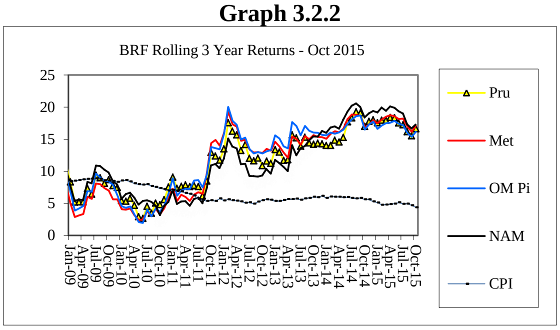
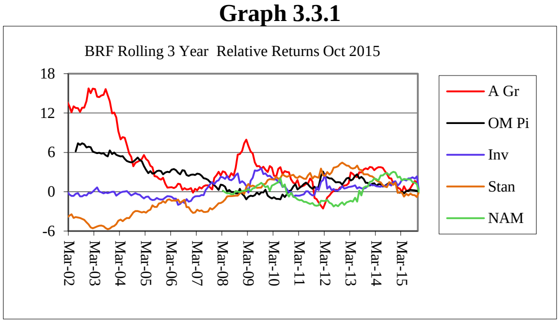
Graph 3.2.2

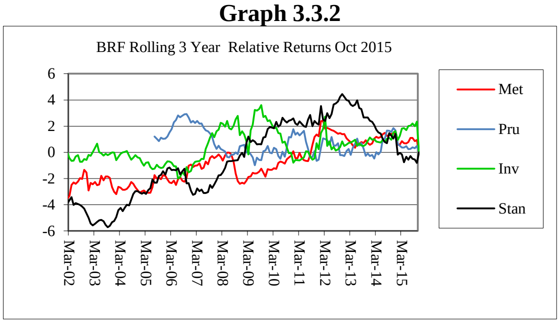


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

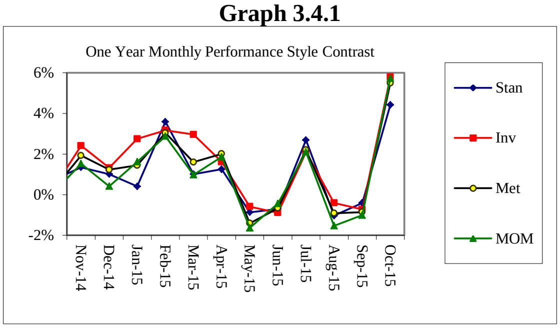


Graph 3.3.2

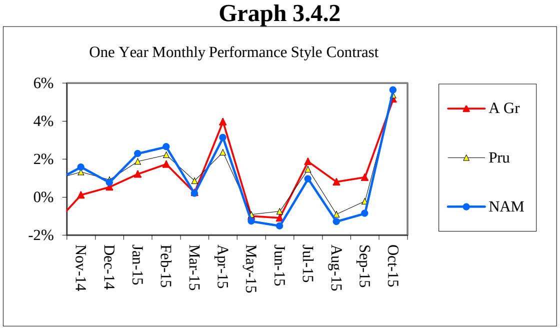


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

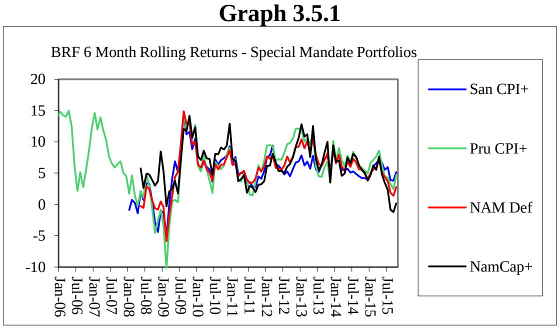


Graph 3.4.2

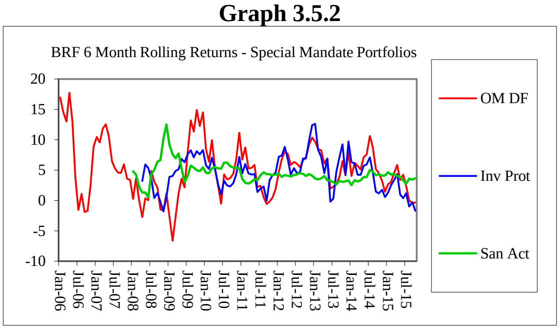


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

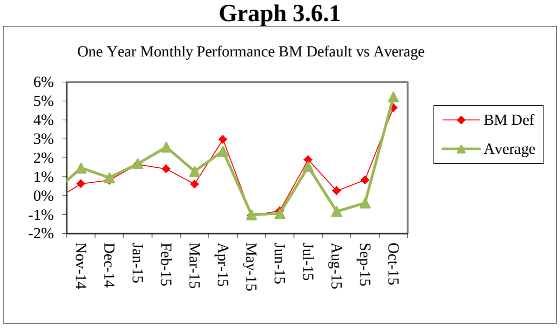


Graph 3.5.2



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

Graph 3.6.1



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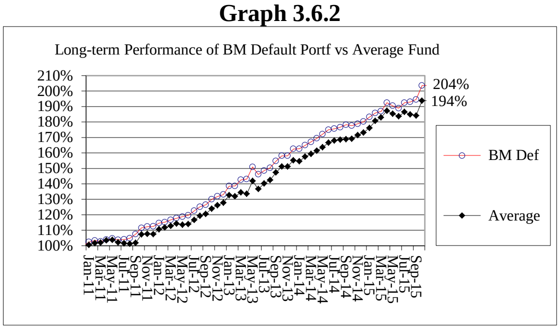
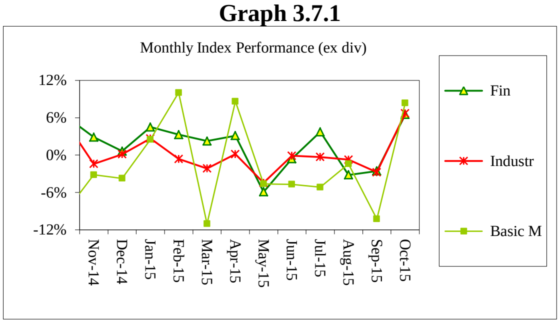
Graph 3.6.2

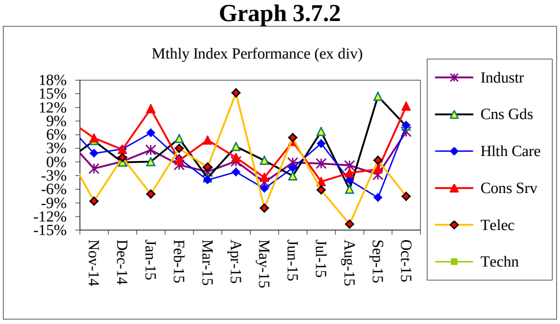


3.7 One year monthly performance of key indices (excluding dividends)

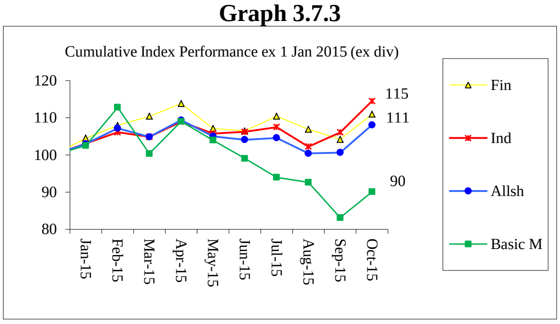
Graph 3.7.1



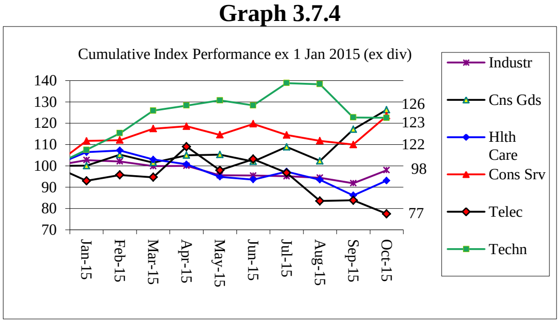
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average prudential man portfolio
5 year nominal return - % p.a.	15.6	14.7
5 year real return - % p.a.	10.3	9.4
Equity exposure - % of portfolio	50.2	61.5
Cumulative return ex Jan 2011	103.6	93.8
5 year gross return target - % p.a.	5	6
Target income replacement ratio p.a.	2	2
Required net retirement contribution - % of salary	13.0	11.6

The above table reflects the actual returns 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.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.3%	8.0%	9.0%
Best annual performance	6.7%	27.1%	25.0%
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	5.8%	16.7%	16.9%

The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years November 2012 to October 2015. This gives an indication of volatility of the performance of these 3 risk profiles.

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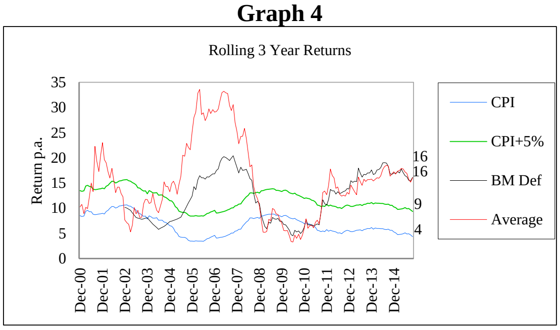
Graph 4



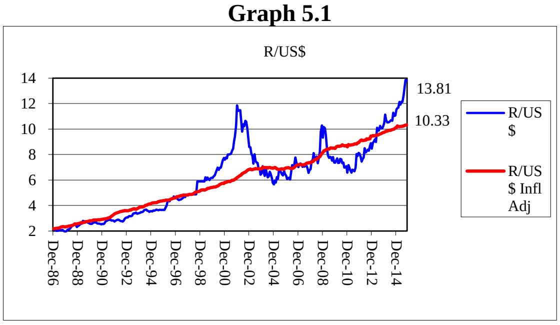
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end October was 16.1%, the average was 16.1% vs CPI plus 5% currently on 9.4%.

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 fairly valued at 10.33 to the US Dollar while it actually stood at 13.81 at the end of October. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

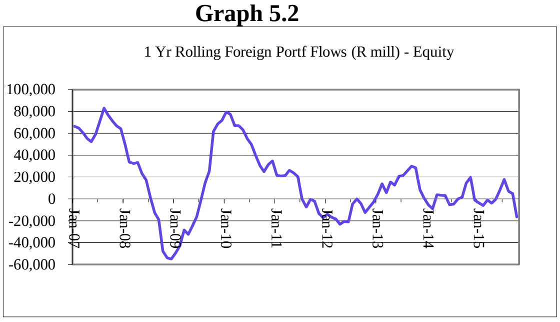
Graph 5.1



Rand strengthen despite foreign capital outflows

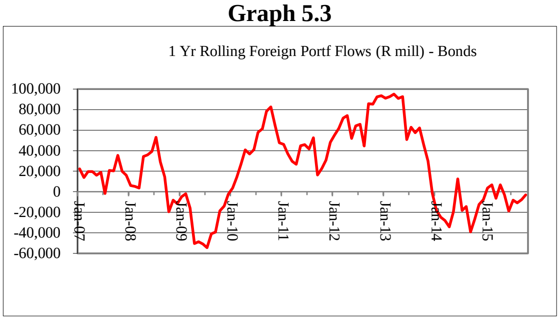
Graph 5.2 reflects a flow of capital into South African equities on a rolling one year basis, with a net outflow of 16.5 bn on a year-on-year basis at the end of October (inflow of R 4.7 bn year-on-year to end September). The month of October experienced a net outflow of R 17.5 bn. Since the beginning of 2006, foreign net investment in equities amounts to R185 bn (end September R 202 bn). This represents roughly 1.5% 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 3.2 bn over the past 12 months to end of October (outflow of R 7.7 bn over the 12 months to end of September). Since the beginning of 2006, foreign net investment in bonds amounts to R 219 bn (to September just over R 209 bn). The month of October experienced a net inflow of R 10.1bn.

Graph 5.3



The net outflows of foreign capital from equity and fixed interest securities was R 19.7 bn for the rolling 12 months to end October 2015 (outflow of R 2.9 bn to end September 2015), compared to an outflow of R 12.4 bn for the 12 months to end October 2014 (outflow of R 37.7 bn to end of September 2014). Since the beginning of 2006, total net foreign portfolio inflows amounted to R 404 bn (September 411 bn).

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 12.1% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of just over 28 years was 8.4% per year. This is equivalent to a growth in real terms of 3.7% p.a. over this period, excluding dividends, or around 7% including dividends.

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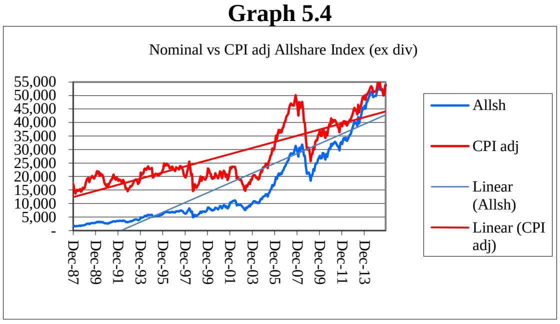
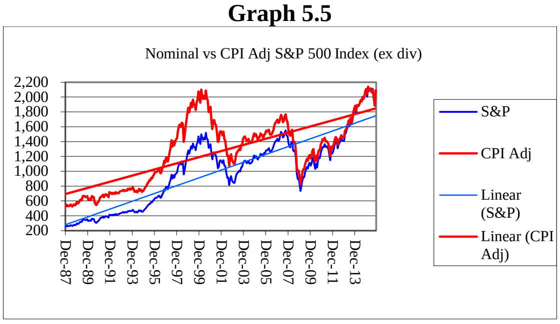


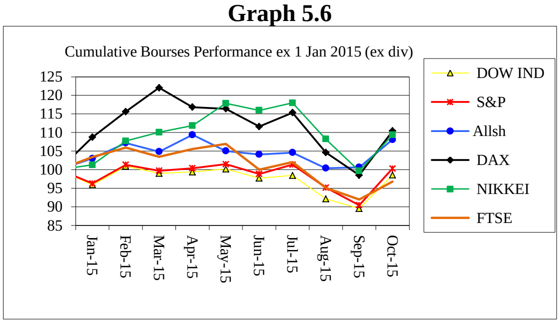
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.3% per annum, over this period of just over 28 years. US inflation over this period was 2.7%. This is equivalent to a growth in real terms of 4.6% p.a. over this period, excluding dividends.

Graph 5.5



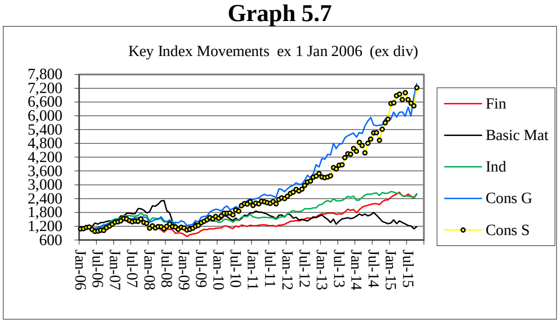
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the DAX and the NIKKEI as the top performing share indices.

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 Goods: 22.6%; Consumer Services 22.3%; Financials 10.2%; Industrials 10.1%; and Basic Materials 1.7%.

Graph 5.7



6. Will this cloud have a silver lining?

By Tilman Friedrich

Will this cloud have a silver lining?

Bad news both on the economic as well as the political front are currently unfortunately dominating our media and this also manifests in our financial markets of late. Investors are clamouring for good news and each time there is some good news, financial markets also respond positively to these. Where we have seen the FTSE/ JSE Allshare Index increasing steadily since the end of the financial crisis from its low of 21,000 in October 2008 to around 49,000 at the end of April this year, it has been see-sawing since then between 49,000 and 54,000.

We read of South Africa's economic woes; Namibia ran a trade deficit of N$ 10 billion in the latest reported month, there are reports that our government is running out of cash and has recently had to issue a Eurobond, exposing Namibia to a significant currency risk while at the same time the Rand has depreciated by 26% from 10.5 at the end of April this year to currently around 14.2. Global commodity markets are in the doldrums, which is particularly bad news for commodity based economies such as South Africa and also Namibia. But wait – on the positive side of lower commodity prices is the low oil price which has declined by 65% from just short of US$ 133 per barrel in July 2008 to its current level of around US$ 47 per barrel only which should be good for your pocket and mine. But is this true? In fact for you and me diesel for example only declined by 4% from N$ 11.31 per litre in July 2008 to N$ 10.85 currently. In Rand terms, one barrel cost R 976 or roughly N$ 6.14 per litre in July 2008, as opposed to R 643 per barrel, or roughly N$ 4.04 per litre the end of October this year, a reduction of 34%. Does this sound as strange to you as it does to me? What this implies is that besides the taxes already built into fuel prices in July 2008 someone is currently cashing in at the rate of N$ 2.1 per litre consumed in Namibia. Working back from reported SA fuel consumption of 25 billion litres per annum on the basis of our economy relative to the SA economy, Namibia's fuel consumption should be in the region of 1 billion litres per annum. Times this by N$ 2.1

per litre, this ‘someone’ is currently cashing in at the rate of N$ 2 billion per annum, and this for a full year already. Even the fuel storage facility in Walvis Bay which is reported to cost N$ 3.6 billion should be paid off fully by October next year everything else being equal. So what could have been one piece of good news for the Namibian consumer unfortunately is also not really good news.

Where else can we then look to for good news? What about Europe? Europe is still very much in the doldrums and its quantitative easing will continue for a while. As the result of the refugee crisis, Europe is doomed to divert more and more resources internally to manage this crisis. This must be expected to impact negatively on the consumer – so good news is unlikely to come out of Europe for some time. What about China, will it once again become the locomotive of global growth? Well by all counts China is successfully in process of migrating from an export based economy to a consumption based economy where local retail growth of around 11% is outpacing economic growth of currently 6.9%, by a substantial margin. China was the largest importer of many base materials and other commodities and has been driving the commodity boom. This is no longer the case and will also not be the case again. Listening to an interesting presentation on China by an ‘insider’, figures coming from China are simply mind boggling and are destined to become more so. There are now 90 million Chinese tourists travelling the world every year and this figure will grow by leaps and bounds. So if we cannot export our base materials to China anymore, how about exporting our nature to the Chinese tourist? Tourism after all is an important sector of our economy and provides employment for a substantial portion of our work force.

What about the US as largest global economy? Well by a number of indicators it seems that the US economy is busy building up steam. The unemployment rate has declined from its peak of 10% to currently only 5%. The US economy added 271 000 Nonfarm jobs in October, marking the strongest pace of employment growth this year and nearly 100 000 jobs above the consensus forecast for 182 000. The other key variables of US CPI and the trade weighted US Dollar exchange rate have also improved significantly since the beginning of 2014, to the point where some commentators now quantify the likelihood of a Fed rate hike to have reached 80% from a low of only 5% at the beginning of 2011. So there is some good news it seems, or is it? This good news unfortunately does not manifest positively in the Rand US$ exchange rate which has weakened significantly, probably purely as the result of a general expectation that the Fed will hike the repo rate as early as its next session in December.

What does all of this mean for us in Namibia? For one, the Rand will remain under pressure, not only because of improving economic fundamentals in the US but also because of the poor state of our own economies both in South Africa as well as in Namibia. Of course once the US starts hiking the repo rate, SA and Namibia will have to follow, possibly even pre-empt such a hike to prevent the demise of our currency. The weak currency and the fact that the likelihood of oil declining further being a lot lower than it increasing, will clearly not be good news for the local consumer who will have to tighten his belt, over-indebted as he already is. Export orientated businesses should do well though as the result of the weak Rand.

Conclusion

The investor should continue to focus on real returns rather than absolute returns to increase his wealth slowly and steadily. With an inflation rate of around 3% one should be quite content if one manages to achieve an investment return around of 8% per annum. As an active fund member one should not shun equities but should be cautious, spread the risks as far as the law allows and focus on stock picking.

To cite some good advice from an article that recently appeared in Moneyweb: “You can do anything you like in investments if it seems like a good idea to you, with one rule: don’t put all your eggs in one basket. Make sure you’ve got a diversified portfolio. A very good rule of thumb is put a *maximum* of – I think it actually should be 5% but most people use 10% – put a maximum of 10% of your wealth at risk on any one idea, any one product, any one investment, any one share. Diversification is the only thing that truly protects you from a catastrophe.”
And when reference is made to diversification, part of your investment strategy must be to diversify offshore as well but if you do beware of the currency risk and rather spread your offshore money transfers over a period of time to avoid the risk of buying when the Rand is at its weakest!

7. Important notice and disclaimer