Benchmark Retirement Fund

Volume 12, No. 2,
February 2016

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2016

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

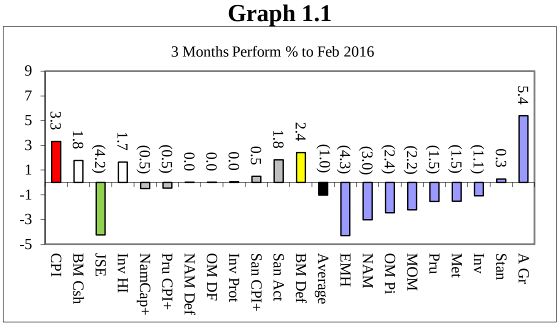
In **February** the **average prudential balanced portfolio** returned 0.50% (Jan: -2.08%). Top performer is Allan Gray (1.76%); while Prudential (-0.29%) takes the bottom spot. For the 3 month period Allan Gray, for the 7th consecutive month takes top spot, outperforming the 'average' by roughly 6.4%. On the other end of the scale EMH Prescient underperformed the 'average' by 3.3%.

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.

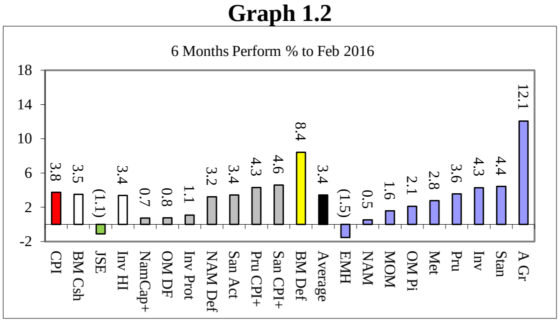
Below is the legend to the abbreviations reflected on the graphs:

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)
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)

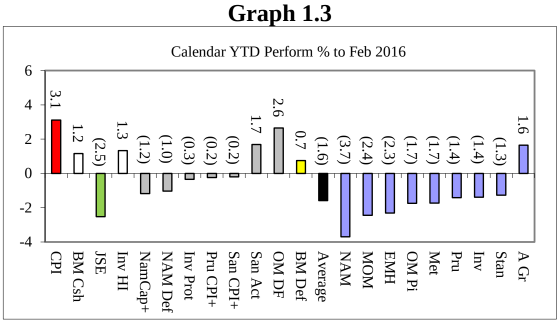
Graph 1.1



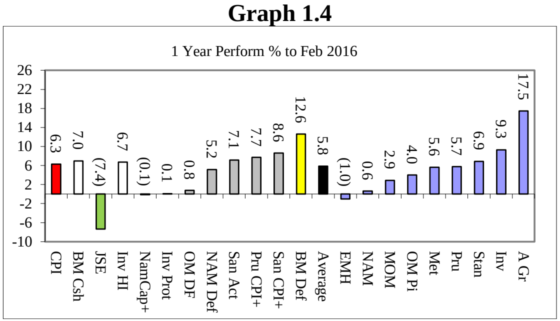
Graph 1.2



Graph 1.3



Graph 1.4



Volume 12, No. 2,
February 2016

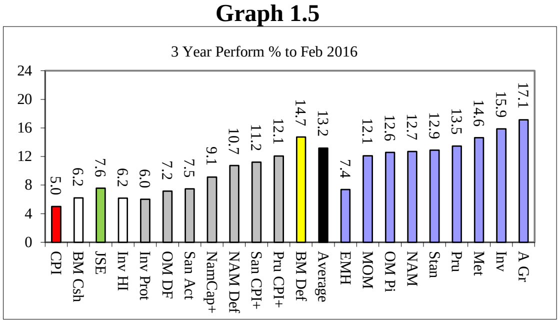
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2016

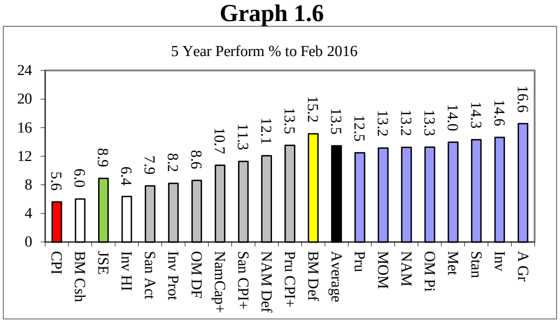
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

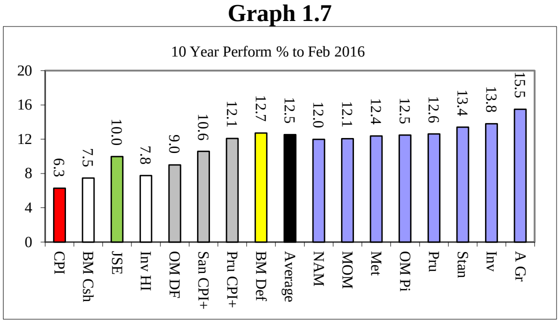
Graph 1.5



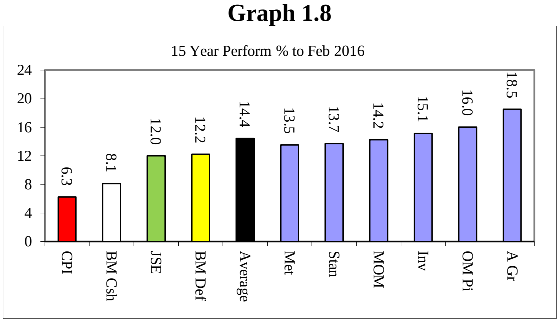
Graph 1.6



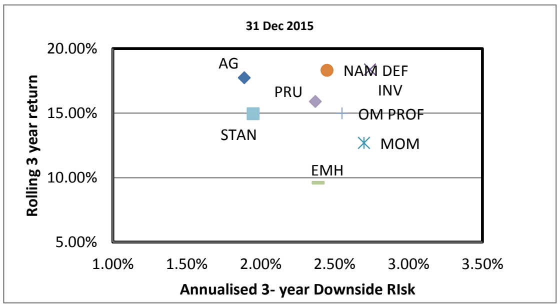
Graph 1.7



Graph 1.8

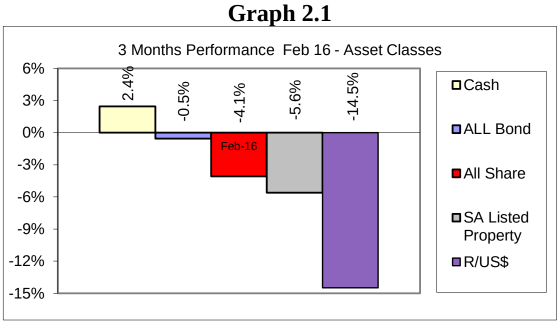


Risk/ Return

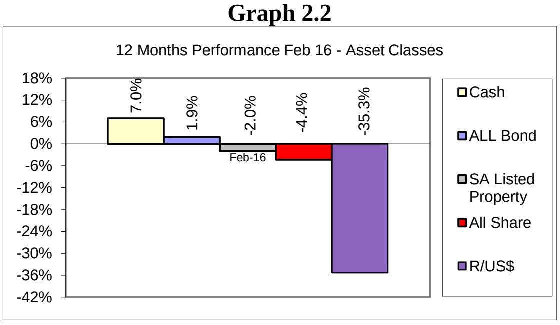


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

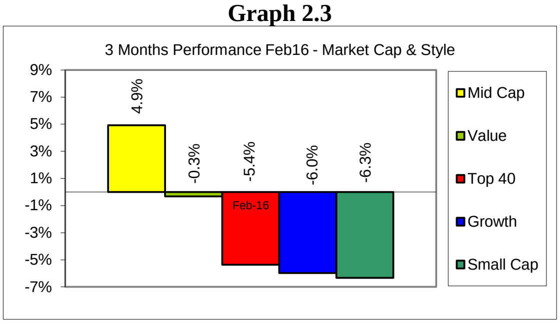
Graph 2.1



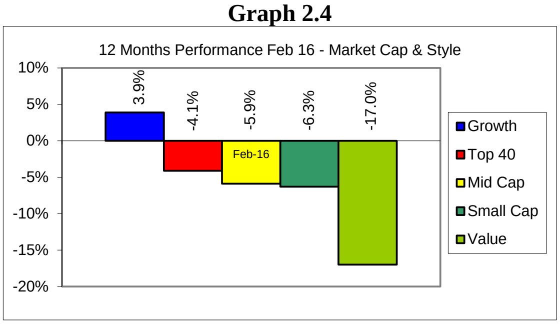
Graph 2.2



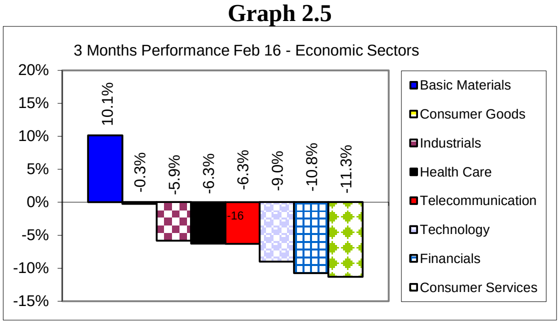
Graph 2.3



Graph 2.4



Graph 2.5



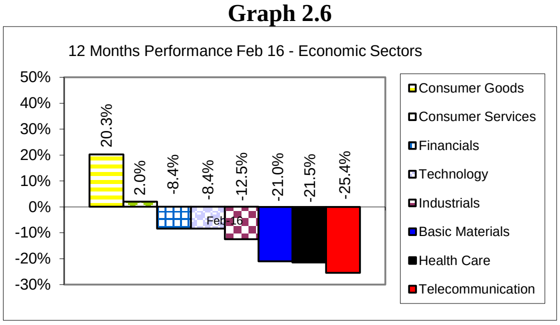
Benchmark Retirement Fund
Volume 12, No. 2,
February 2016

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2016

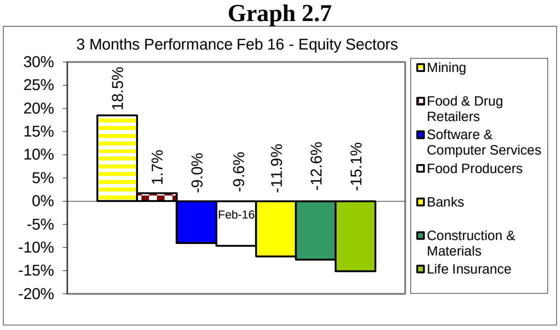
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

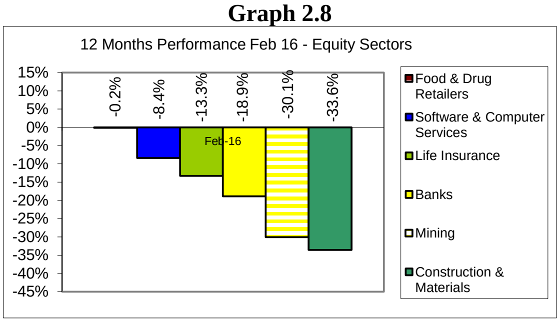
Graph 2.6



Graph 2.7



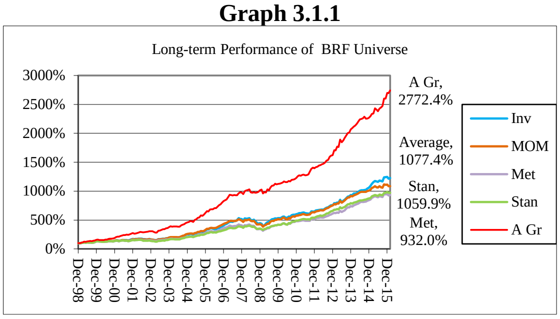
Graph 2.8



3. Portfolio Performance Analysis

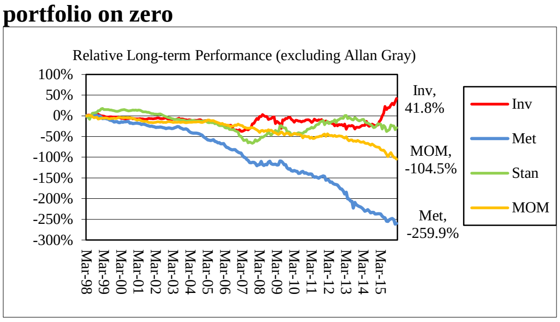
3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

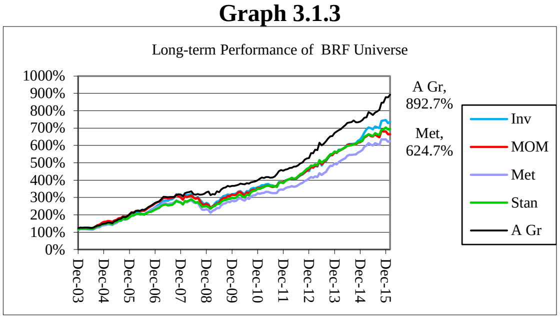


Graph 3.1.2

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

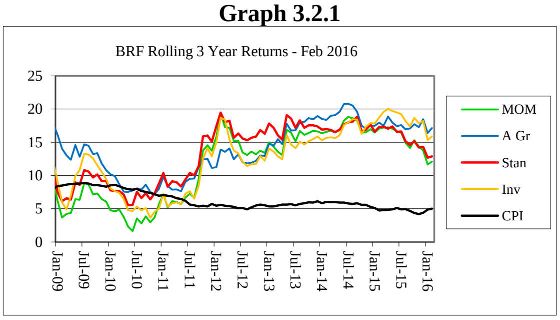


Graph 3.1.3

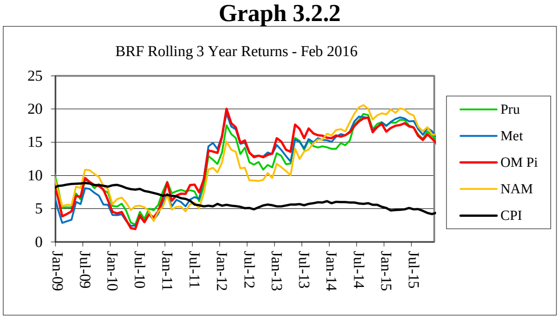


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1



Graph 3.2.2



Benchmark Retirement Fund

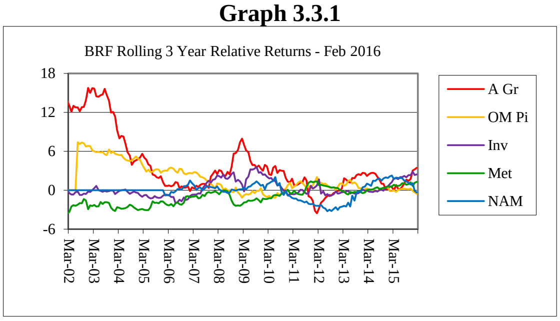
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2016

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

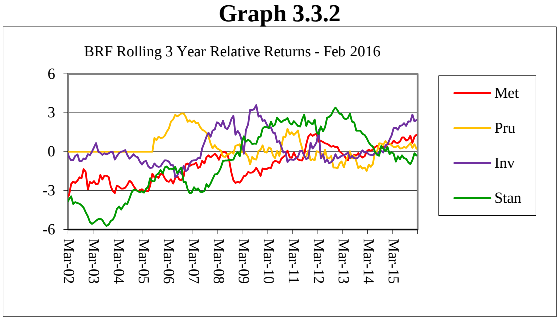
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

Graph 3.3.1

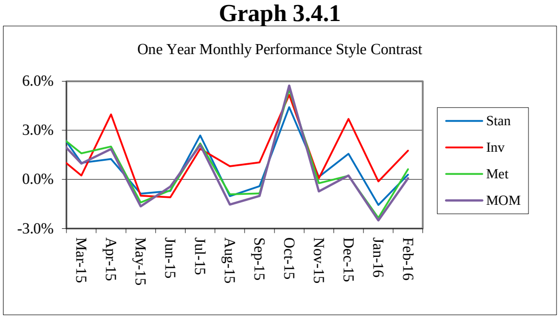


Graph 3.3.2

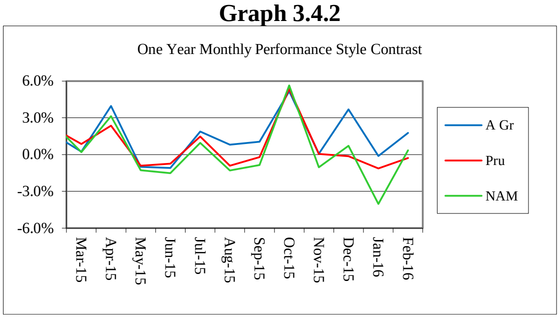


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

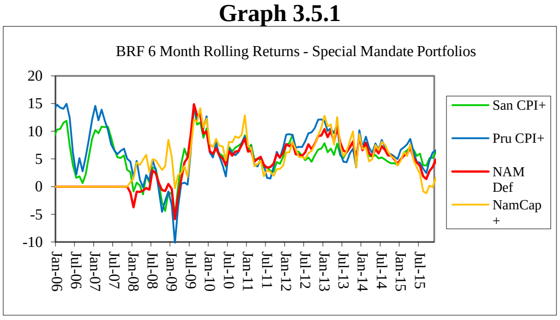


Graph 3.4.2

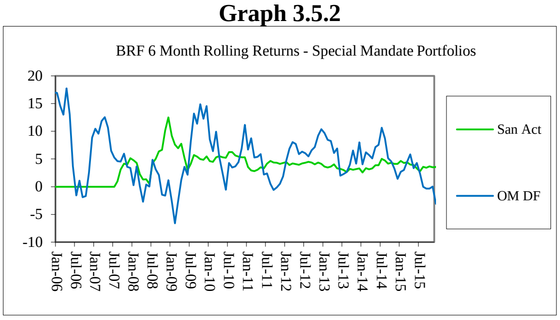


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

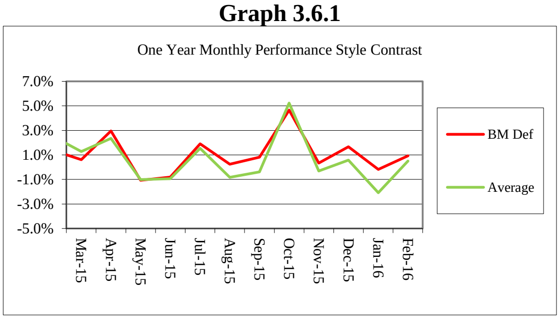


Graph 3.5.2

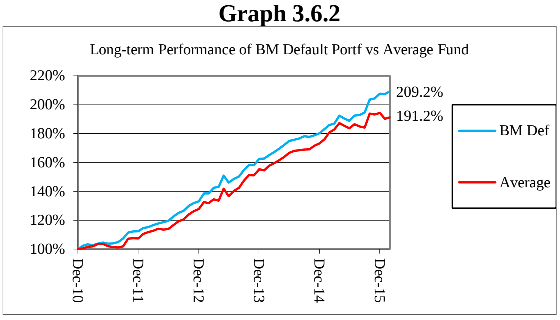


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1



Graph 3.6.2



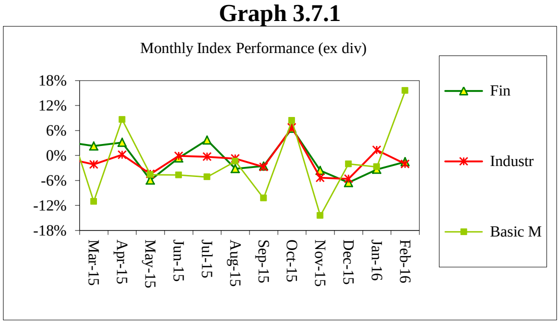
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2016

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

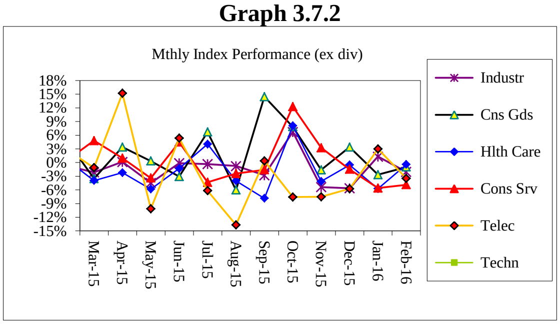
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

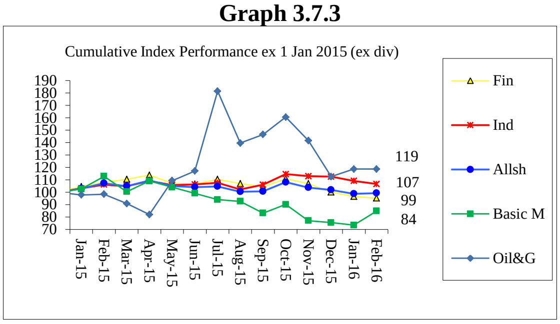
Graph 3.7.1



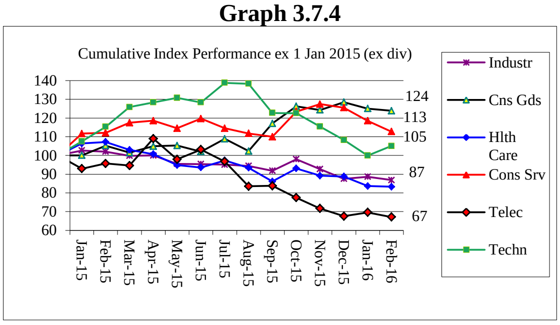
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average pru man portfolio
5 year nominal return - % p.a.	15.2	13.5
5 year real return - % p.a.	9.6	7.9
Equity exposure - % of portfolio	49.7	57.4
Cumulative return ex Jan 2011	109.2	91.2
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

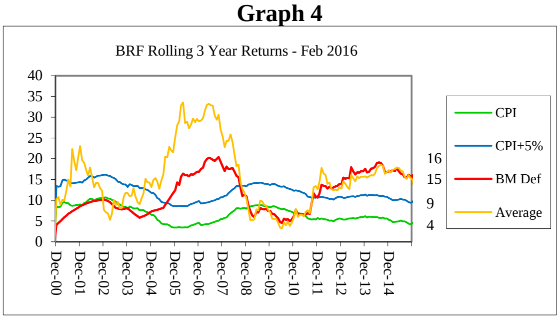
The above table reflects the actual returns versus target returns required to produce an income replacement ratio of 2% of salary per year of fund membership that should secure a comfortable retirement income.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.6%	14.4%	12.9%
Best annual performance	6.2%	19.1%	18.5%
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	5.5%	16.8%	16.0%

The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years March 2013 to February 2016. 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 February was 14.71%, the average was 13.18% vs CPI plus 5% currently on 10.2%.

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2016

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

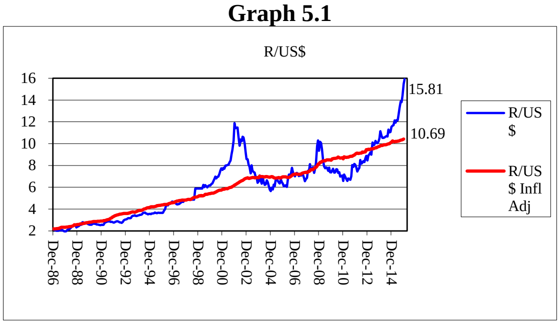
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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 10.69 to the US Dollar while it actually stood at 15.81 at the end of February. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

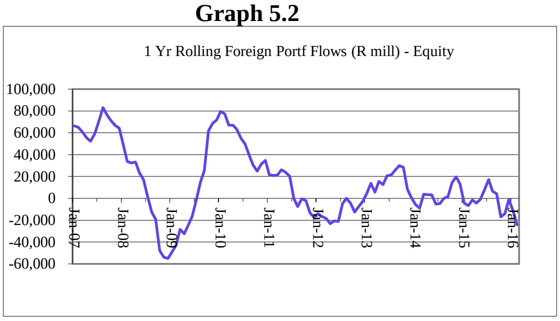
Graph 5.1



Rand weakened with foreign capital outflows

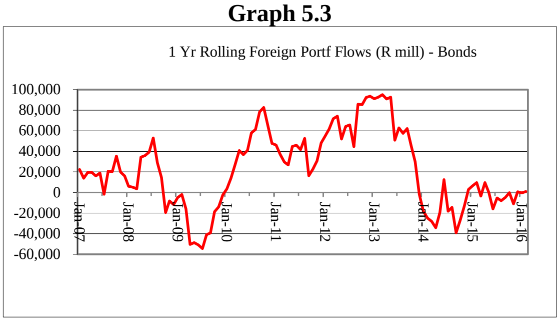
Graph 5.2 reflects an outflow of capital into South African equities on a rolling one year basis, with a net outflow of 24.2 bn on a year-on-year basis at the end of February (outflow of R 11.1 bn year-on-year to end January). The month of February experienced a net outflow of R 10.6 bn. Since the beginning of 2006, foreign net investment in equities amounts to R138 bn (end January R 148 bn). This represents roughly 0.9% of the market capitalization of the JSE.

Graph 5.2



Graph 5.3 on a rolling one year basis reflects foreign portfolio inflows in respect of SA bonds of R0.9 bn over the past 12 months to end of February (outflow of R 0.4 bn over the 12 months to end of January). Since the beginning of 2006, foreign net investment in bonds amounts to R 209 bn (to January just over R205 bn). The month of December experienced a net inflow of R 3.8 bn.

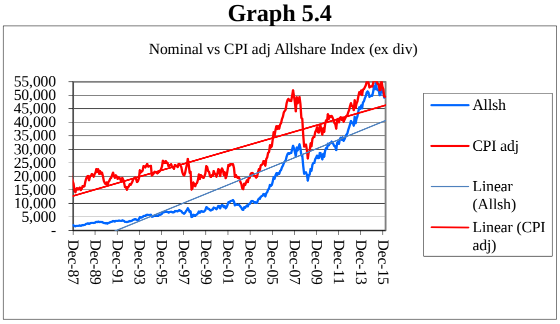
Graph 5.3



The net outflows of foreign capital from equity and fixed interest securities was R23.4 bn for the rolling 12 months to end February 2016 (outflow of R 11.5 bn to end January 2016), compared to an inflow of R 3.0 bn for the 12 months to end February 2015 (inflow of R 2.2 bn to end of January 2015). Since the beginning of 2006, total net foreign portfolio inflows amounted to R 347 bn (January 354 bn).

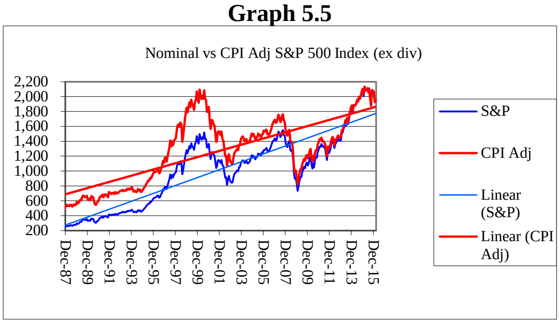
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 11.6% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of just over 29 years was 8.4% per year. This is equivalent to a growth in real terms of 3.2% p.a. over this period, excluding dividends, or around 7% 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 6.9% per annum, over this period of just over 29 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 4.3% p.a. over this period, excluding dividends.

Graph 5.5



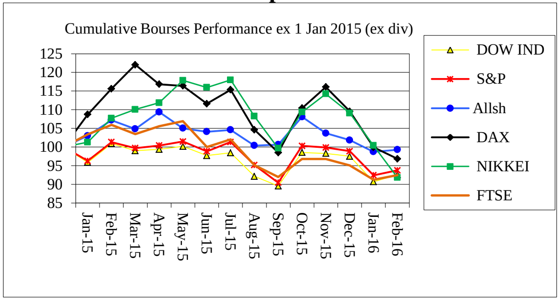
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2016

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.

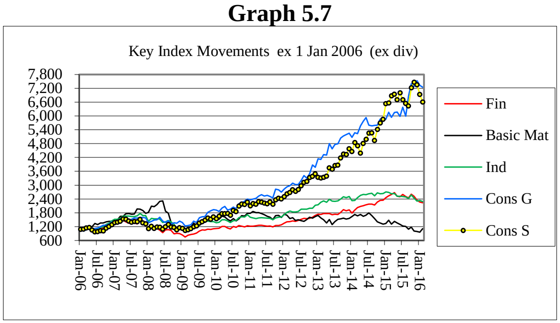
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the DAX and the NIKKEI as the top performing share indices.

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: 21.3%; Consumer Services 20.2%; Industrials 8.4%; Financials 8.2%; and Basic Materials 1.0%.

Graph 5.7



6. Beware of stepping on the wrong toes!

By Tilman Friedrich

In the years after the financial crisis, when the Fed introduced its large scale asset purchase programme and reduced its repo to 0.25%, when commodities and the oil price were running hot things were going extremely well with many resource driven emerging economies and with oil producing countries. Their interest rates were low, their currencies and bourses appreciated substantially driven by foreign investors looking for yield. Those were the days when many of these countries started to think about how to break the shackles of the global hegemon. There were moves to trade crude in currencies other than the US Dollar in an effort to break the US Dollar monopoly. We read about the BRICS countries having resolved to establish a BRICS Bank in order to break the shackles of the IMF and World Bank.

A number of oil exporting countries that became more outspoken on their anti US sentiments experienced civil uprisings, some experienced regime changes and with the dramatic fall of the oil price, those regimes that survived are at last also experiencing severe economic problems. If we look at the BRICS countries, Brazil, Russia, India, China and South Africa it seems too much of a coincidence that all of them, barring perhaps India, are also now suddenly facing serious economic difficulties. Their currencies have depreciated severely while the windfall from high commodity prices was blown away.

It now seems that all plans to break the shackles had to be abandoned. We have not heard of the BRICS Bank as the BRICS countries are under extreme pressure to salvage their own economies. So it seems the oil price and the Fed interest rate levers have certainly strengthened the position of the US by weakening the ability of those rogue countries that made attempts to challenge the US. These countries are down – but they are not out yet and are hence still a threat to the US. Will they be able to survive to overcome the hegemon or will they buckle down eventually? And we are really only talking about China and Russia here that have the potential to pose a serious challenge and only if they establish a strong alliance. Russia is in a much weaker position and if a regime change can be achieved there the challenge posed by China can then be tackled in earnest.

If these global strategic goals are behind the dramatic decline of the oil price, one should expect this to continue until we have 'mission accomplished' in Russia, i.e. Mr Putin and his party are removed from power. Not seeing a strong alliance between Russia and China, this is the most likely scenario at this stage. What is worse is that we may see the economic measures being complemented with military measures which may then start looking very ugly also for bourses around the globe.

As far as South Africa is concerned, the dream of a BRICS Bank is probably off the table and that challenge to US dominance has died. Our commodity prices will move in sympathy with the oil price which we do not expect to recover substantially anytime soon. Our currency may well recover as it was totally oversold but it will remain under pressure for quite some time as the result of likely further Fed repo rate increases. This will at the same time maintain pressure on local interest rates and with that also on the local consumer for quite some time to come.

Conclusion

We do not expect an improvement in the global economy to manifest soon. Equity markets will therefore continue to drift sideways while interest bearing assets, including property, will face headwinds with the anticipated increases in interest rates. Investing in the right asset classes and in the right assets within each class is a skill that should still produce acceptable investment returns.

We therefore like prudential balance pension portfolios in the current scenario where the manager has the discretion to move between asset classes. This has proven to be a successful recipe over many years and has delivered returns well above inflation, the ultimate enemy of anyone who is concerned about retiring in dignity.

Our view thus remains unchanged. We believe that the commodity sector may offer selective buying opportunities but it may require patience to realise gains. The consumer facing increasing pains, and the fact that Consumer Goods and Consumer Services had a terrific run since the beginning of 2006, it is hard to see this sector continuing on its trajectory. The financial sector too is likely to suffer in sympathy with the consumer. The excessively depreciated Rand indicates that it should recover along with an increasing oil price and other commodities. The weak Rand at this point in time eliminates the option of offshore diversification although offshore should otherwise always be part of an investor's strategy of diversifying risk. This leaves the Industrial sector as a sector we believe to also offer prospects, in the light of the weak Rand and low commodity prices.

In terms of diversification between different asset classes locally, the likelihood of further repo rate increases suggests that interest bearing investments do not hold good prospects at this stage. However the prospect of accelerating inflation favours inflation linked bonds.

7. Important notice and disclaimer