

# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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](http://www.rfsol.com.na).

### 1. Review of Portfolio Performance

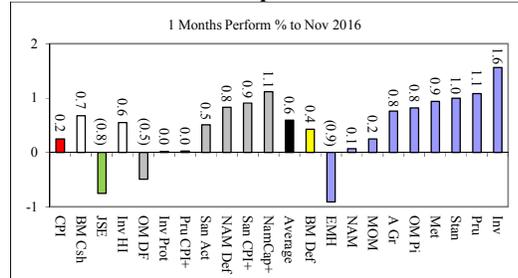
In November the average prudential balanced portfolio returned 0.59% (October: -1.95%). Top performer is Investec (1.56%); while EMH Prescient (-0.91%) takes the bottom spot. For the 3 month period Metropolitan, takes top spot, outperforming the ‘average’ by roughly 1.7%. On the other end of the scale Namibia Asset Management underperformed the ‘average’ by 1.8%.

Graphs 1.1 to 1.9 reflect the performance for periods from 1 month to 15 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 and Allan Gray Namibia Balanced Fund.

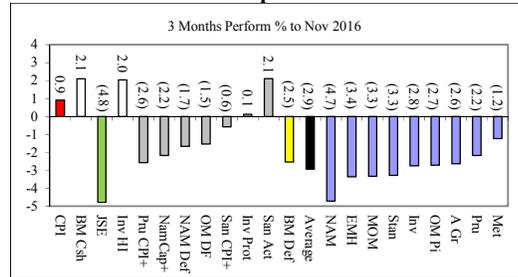
Below is the legend to the abbreviations reflected on the graphs:

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)

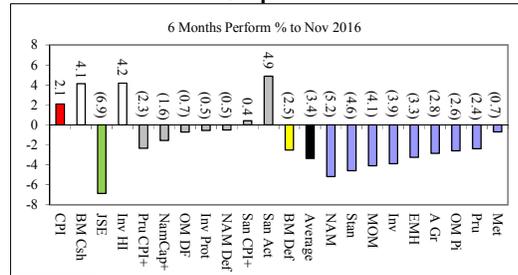
Graph 1.1



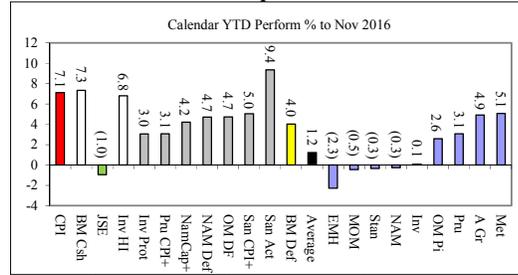
Graph 1.2



Graph 1.3



Graph 1.4

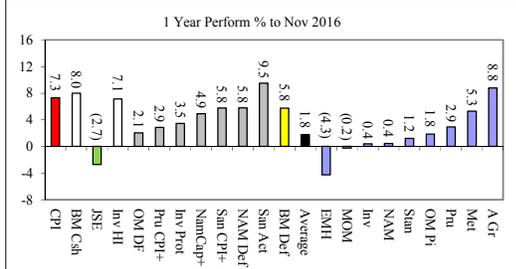


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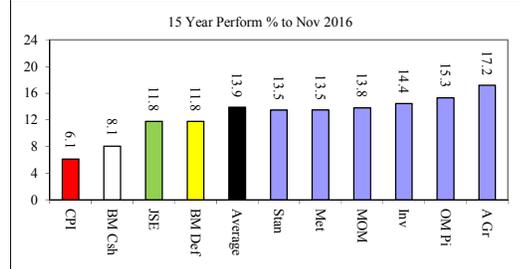
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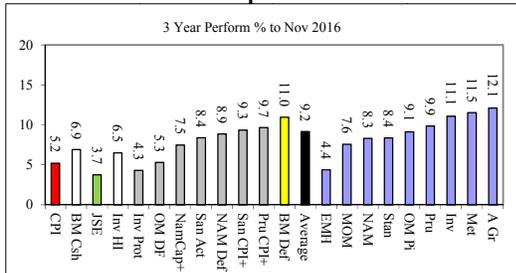
**Graph 1.5**



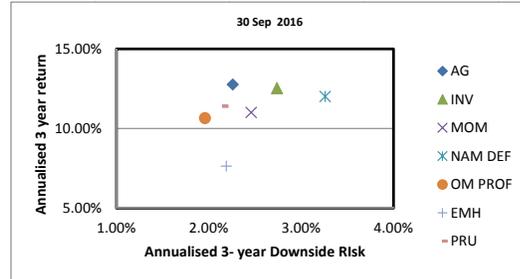
**Graph 1.9**



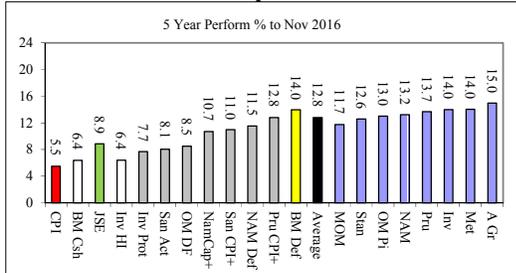
**Graph 1.6**



**Risk/ Return**

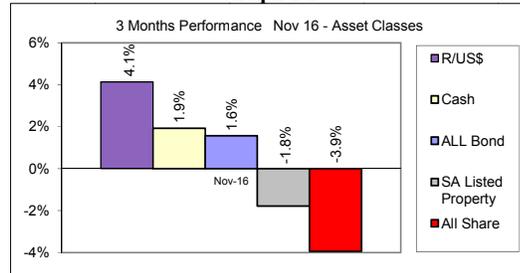


**Graph 1.7**

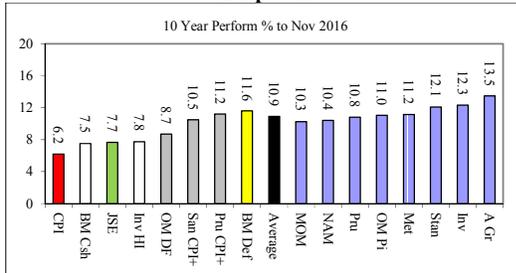


## 2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

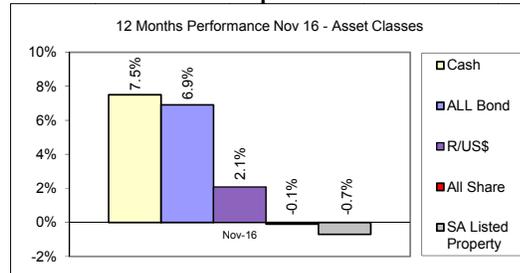
**Graph 2.1**



**Graph 1.8**



**Graph 2.2**



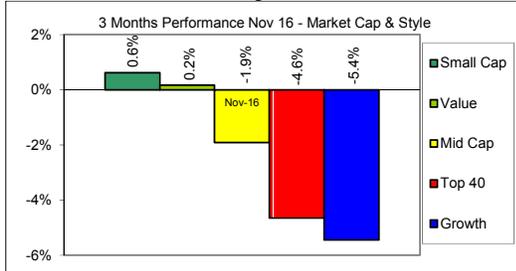


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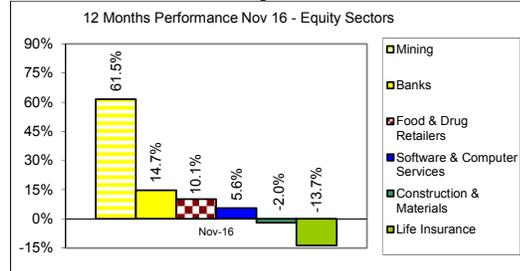
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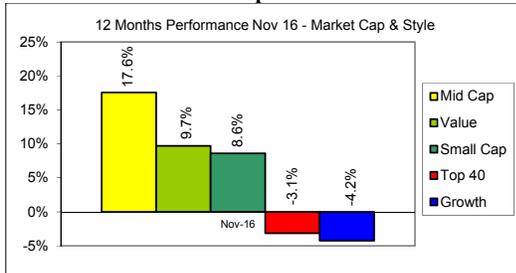
**Graph 2.3**



**Graph 2.8**

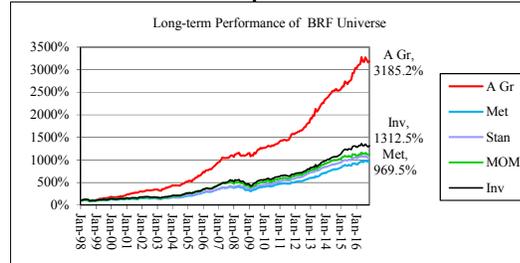


**Graph 2.4**

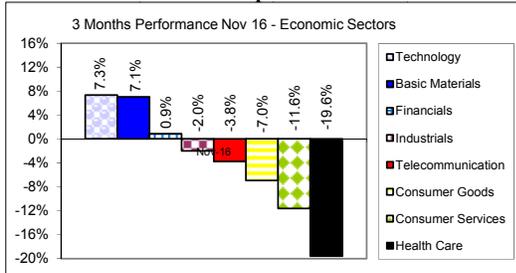


**3. Portfolio Performance Analysis**  
**3.1. Cumulative performance of prudential balanced portfolios**

**Graph 3.1.1**

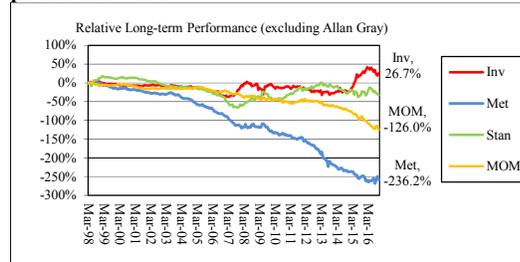


**Graph 2.5**

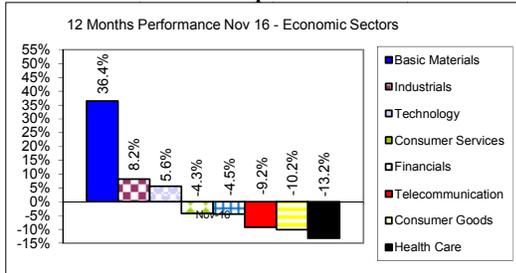


**Graph 3.1.2**

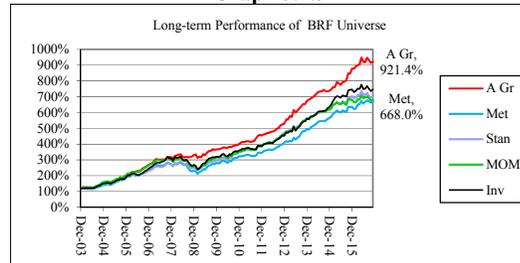
**Cumulative performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero**



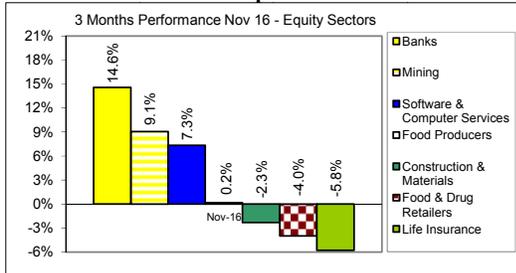
**Graph 2.6**



**Graph 3.1.3**



**Graph 2.7**



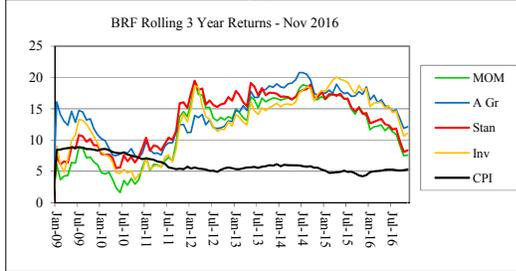
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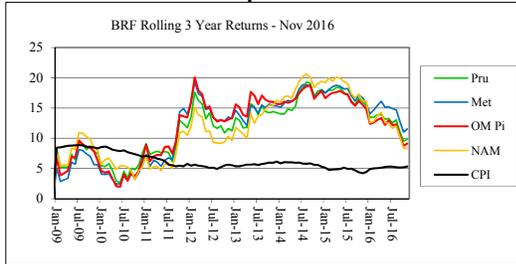
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### 3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

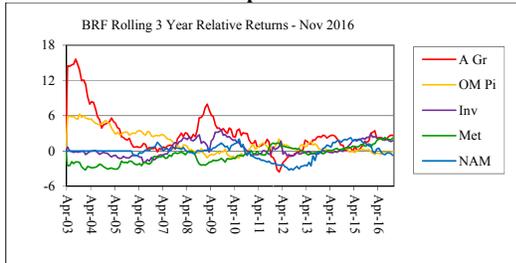


Graph 3.2.2

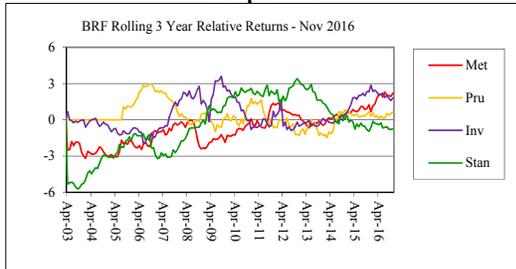


### 3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

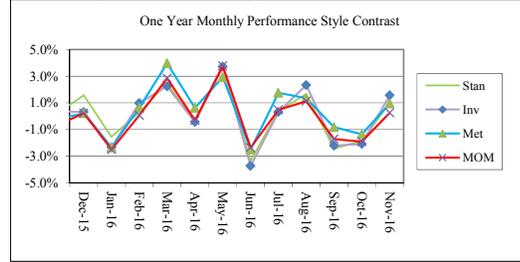


Graph 3.3.2

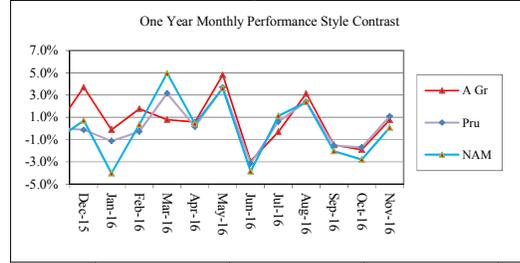


### 3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

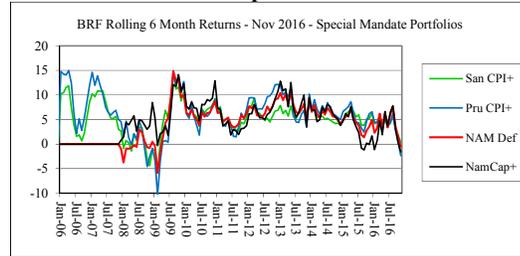


Graph 3.4.2

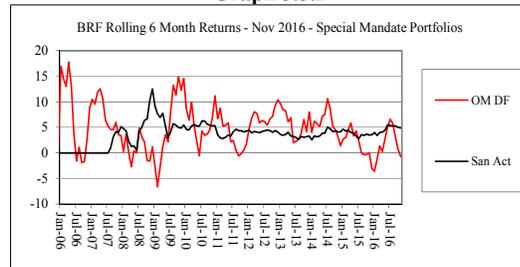


### 3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1



Graph 3.5.2



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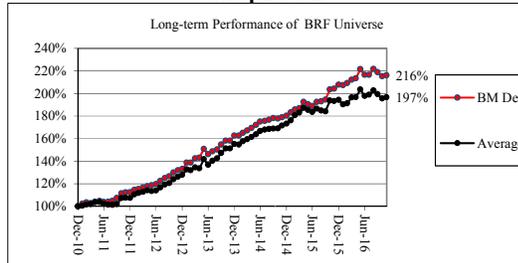
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### 3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

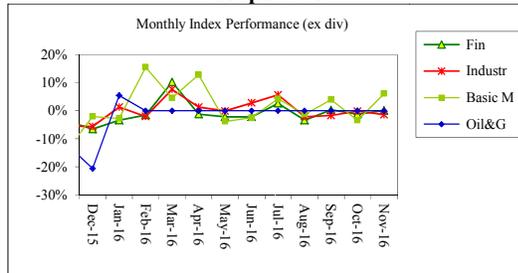


Graph 3.6.2

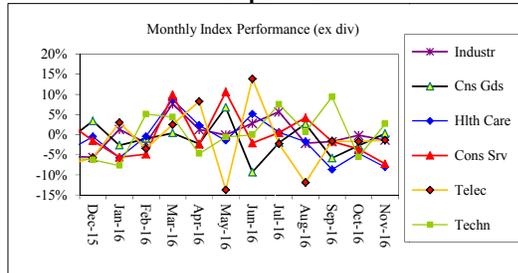


### 3.7 One year monthly performance of key indices (excluding dividends)

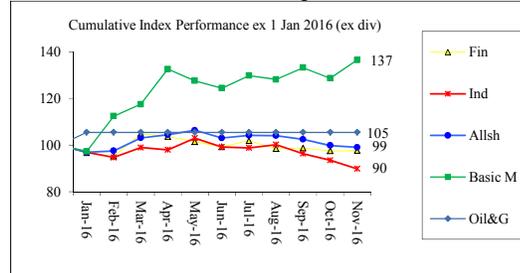
Graph 3.7.1



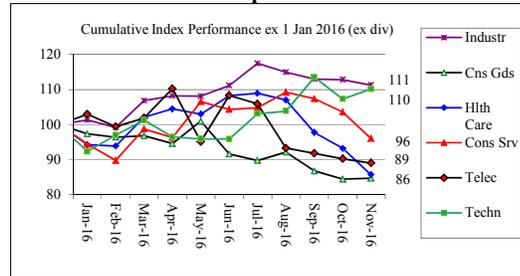
Graph 3.7.2



Benchtest Graph 3.7.3



Graph 3.7.4



### 4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average prudential portfolio
5 year nominal return - % p.a.	14.0	12.8
5 year real return - % p.a.	8.5	7.3
Equity exposure - % of portfolio(qtr end)	48.2	55.9
Cumulative return ex Jan 2011	116.0	96.6
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 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%	10.8%	8.9%
Best annual performance	6.9%	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	6.0%	16.0%	15.3%



# Benchmark Retirement Fund

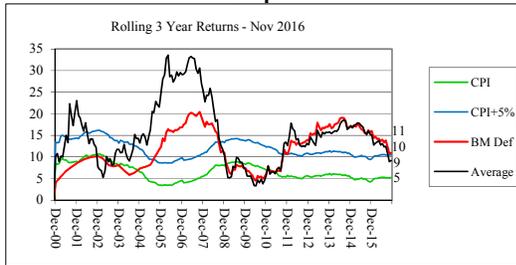
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The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years December 2013 to November 2016. This gives an indication of volatility of the performance of these 3 risk 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 November was 11.0%, the average was 9.2% vs CPI plus 5% currently on 10.4%.

### 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 undervalued at 10.91 to the US Dollar while it actually stood at 14.09 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

**Graph 5.1**

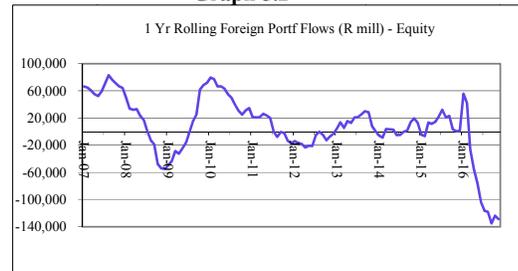


#### Rand weakened with foreign capital outflows

The Rand weakened by 4.5% in November with net foreign investment outflows from bonds and equities of N\$ 39.0 bn. Over the past 12 months the Rand strengthened by 2.1% on net outflows of foreign capital from equity and fixed interest securities of R 92.8 bn (outflow of 73.9 bn to end October 2016). Over the 12 months to end of November 2015 SA experienced an outflow of R 8.6 bn (inflow of R 5.0 bn to end of October 2015). Since the beginning of 2006, total net foreign portfolio inflows amounted to R 316 bn (October R 355 bn).

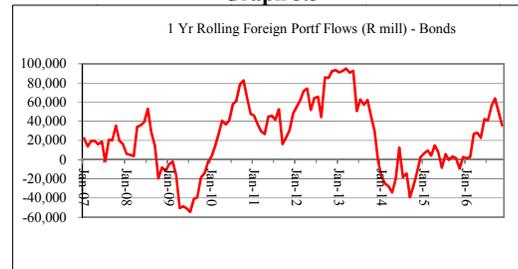
**Graph 5.2** reflects a net outflow of capital from South African equities on a rolling one year basis, with a net outflow of R 129 bn on a year-on-year basis at the end of November (outflow of R 124 bn year-on-year to end October). The month of November experienced a net outflow of R 19.2 bn. Since the beginning of 2006, foreign net investment in equities amounts to R62 bn (end October R 81 bn). This represents roughly 0.5% 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 R 36 over the past 12 months to end of November (inflow of R 50 bn over the 12 months to end of October). Since the beginning of 2006, foreign net investment in bonds amounts to R 254 bn (to October just over R 274 bn). The month of November experienced a net outflow of R 19.8 bn.

**Graph 5.3**



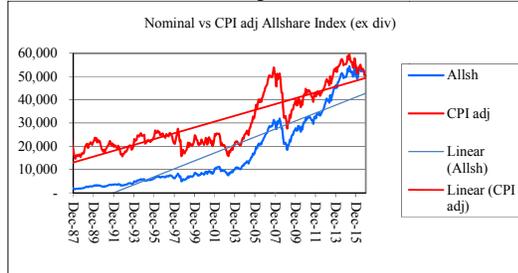
**Graphs 5.4** reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 11.4% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of just over 29 years was 8.3% per year. This is equivalent to a growth in real terms of 3.1% p.a. over this period, excluding dividends, or around 6.1% including dividends.

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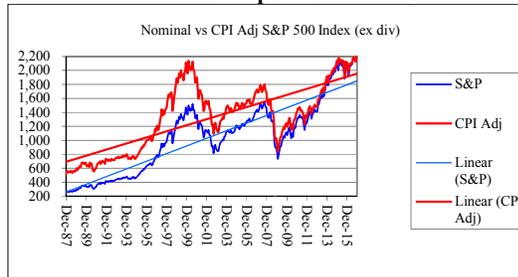
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**Graph 5.4**



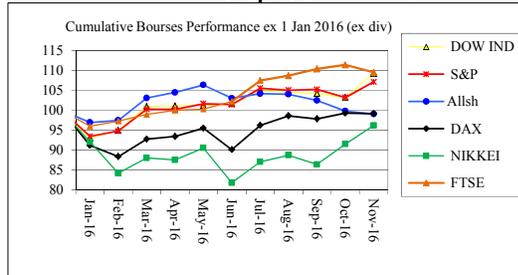
**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.2% per annum, over this period of just over 29 years. US inflation over this period was 2.7%. This is equivalent to a growth in real terms of 4.5% p.a. over this period, excluding dividends.

**Graph 5.5**



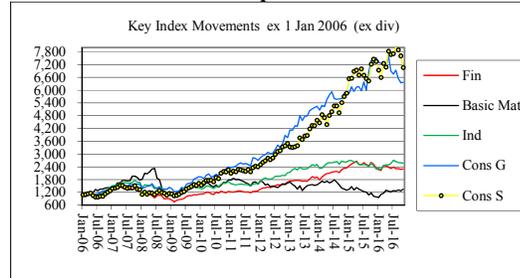
**Graph 5.6** provides an interesting overview of some of the major global share indices, showing up the FTSE, Dow Jones and S&P 500 as the top performing share indices.

**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 Services: 19.8%; Consumer Goods: 18.6%; Industrials: 9.1%; Financials: 8.0%; and Basic Materials: 2.8%.

**Graph 5.7**



### 6. As 2016 is drawing to a close by Tilman Friedrich

For RFS, 2016 was a year of mixed fortunes. On the down side, we unfortunately lost our appointment as administrator to 2 of our prestigious clients. Both funds went out to tender during 2015, after RFS had been serving them for 15 years. Both funds were in 'administrative distress' when we were appointed in 2001 and both have never looked back since they had the courage to engage that new kid on the block called RFS, soon after the company was established. In both cases, however, corporate memory of painful experiences preceding our appointment in 2001 has faded over the years through changes to the composition of the boards of trustees. Where price at the time was rated second to service quality and reliability, these considerations were ostensibly no longer considered imperative. The dilemma of trustees is how to weigh up cost against quality of service. Bad experience cannot be corrected at any price!

On the positive side, RFS was re-appointed by 9 clients since 30 June 2015, following their regular review of service provider mandates. This record speaks for itself, is testimony to our reputation in the market and the trust and confidence our clients have in our capabilities. We are extremely proud of this achievement and of course also extremely grateful to these clients! At the same time we are humble and appreciate that clients expect to receive value for their money. For this we have to continue going the extra mile to meeting our clients' expectations.

RFS has no intention to be the largest player in our market but has every intention to be uncompromising in its pursuit of delivering a service of the highest standards!

As far as the Benchmark Retirement Fund, our unique house brand, is concerned we have expanded the range of products available in the fund in response to the challenge posed to pension funds by Inland Revenue's new interpretation of Practice Note 5 of 2003 and in anticipation of what impact the National Pension Fund



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and the FIM Bill is likely to have on stand-alone pension funds. In addition we have introduced an innovative living annuity product that will assist pensioners to manage their income in retirement sustainably and to manage market volatility in an innovative manner.

For the past year-and-a-half we have invested substantial resources in having the MIP administration system developed to support our efforts of delivering an advanced and superior service experience to our clients. In 2017 RFS is set to turn over a new leaf in its history with the migration from the Compen administration platform to the MIP administration platform, a state of the art web-based system that will assist us in meeting the ever more technology driven needs of our clients and the market.

Besides our challenge to convert all clients to MIP the regulatory environment will no doubt pose a number of challenges to retirement funds and to us as administrator of funds. Here we are referring to the National Pension Fund that SSC aims to launch in 2017 and the FIM Bill that NAMFISA aims to have enacted in 2017. These laws will no doubt introduce incisive changes to the retirement funds industry and are likely to lead to the demise of a number of retirement funds.

In the light of the large slice government and its SOE's already represent of the Namibian economy and the financial distress that government is experiencing, it is concerning to the private sector that government seems intent on taking over an ever growing slice of the economy through the establishment of more and more para-statals that are all siphoning off revenue that could have ended up in government's coffers. These SOE's to a large extent operate in a protected environment that suppresses the free market mechanism of allocating resources and promoting competition for the benefit of the consumer. Hardly a month goes by without the announcement of the establishment of yet another SOE. Can Namibia afford this?

Unlike the usual format of this column I do not comment on investment markets this time around or provide our investment views. They are unlikely to change from our Monthly Review of Portfolio Performance to October 2016. However, by the time the November issue will be released I will be overseas, watching the markets from a different, very cold perspective.

Do refer to our October issue for the last review of investment markets and our investment views for 2016. I trust you find something of interest and something you can personally relate to from time to time in these reviews!

I wish you a merry Christmas and a prosperous 2017! May the country experience a good rainy season to brighten up all our spirits and may it be blessed with peace and harmony!

### 7. Important notice and disclaimer

Whilst we have taken all reasonable measures to ensure that the results reflected herein are correct, Benchmark Retirement Fund and Retirement Fund Solutions Namibia (Pty) Ltd do not accept any liability for the accuracy of the information and no decision should be taken on the basis of the information contained herein before having confirmed the detail with the relevant portfolio manager. The views expressed herein are those of the author and not necessarily those of Benchmark Retirement Fund or Retirement Fund Solutions.