Volume 13, No. 01
Jan 2017

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017

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

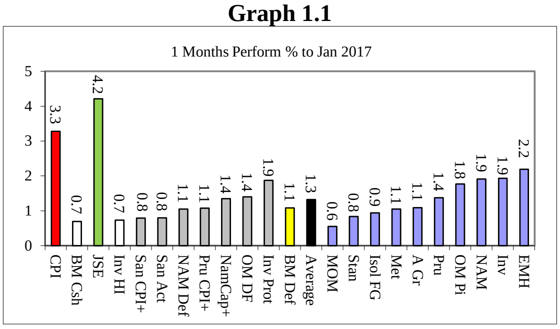
In **January** the **average prudential balanced portfolio** returned 1.32% (December: 0.40%). Top performer is EMH Prescient (2.19%); while Momentum (0.55%) takes the bottom spot. For the 3 month period Prudential, takes top spot, outperforming the 'average' by roughly 1.4%. On the other end of the scale Momentum underperformed the 'average' by 1.4%.

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.

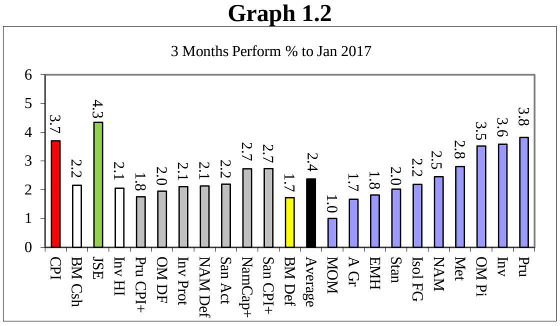
Below is the legend to the abbreviations reflected on the graphs:

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)
Investment Solutions Bal Growth, (multimanager)	Isol FG (blue)

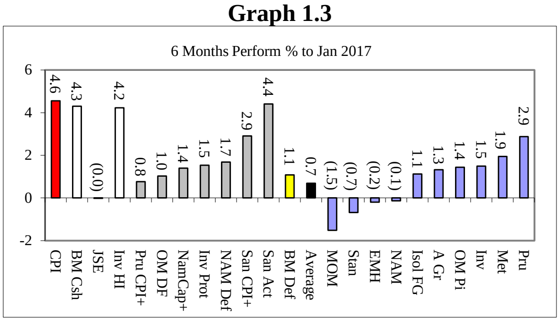
Graph 1.1



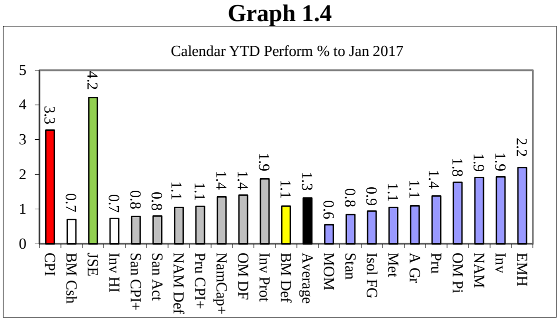
Graph 1.2



Graph 1.3



Graph 1.4



Volume 13, No. 01
Jan 2017

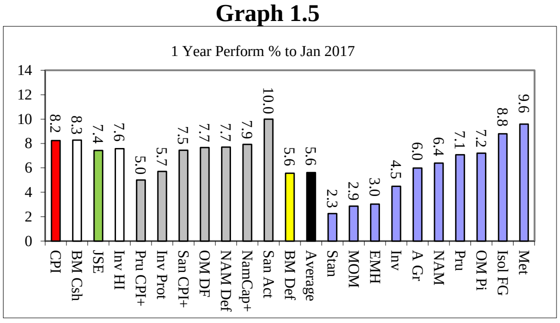
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017

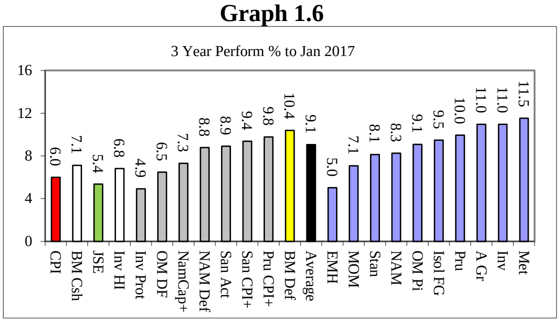
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

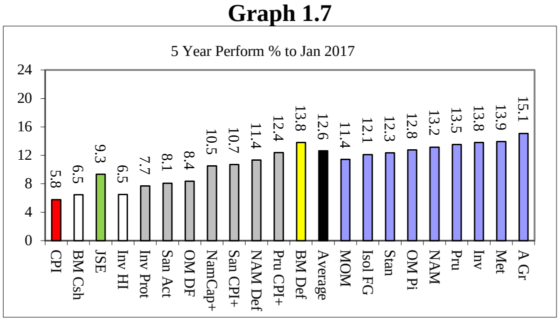
Graph 1.5



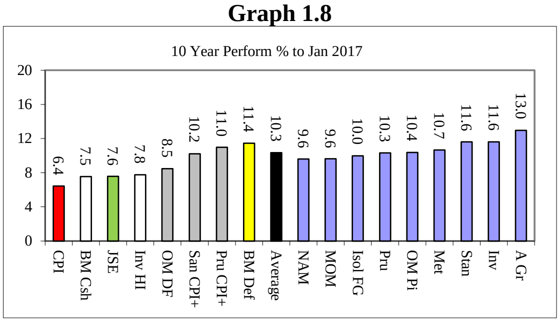
Graph 1.6



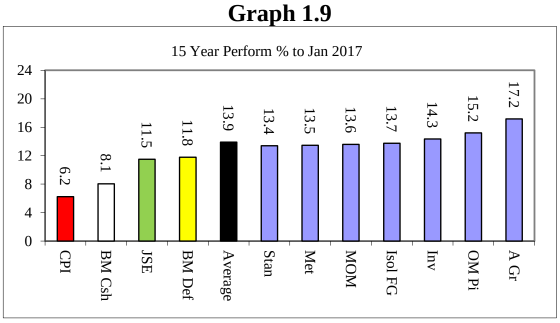
Graph 1.7



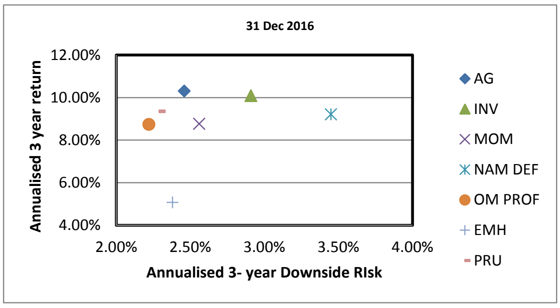
Graph 1.8



Graph 1.9

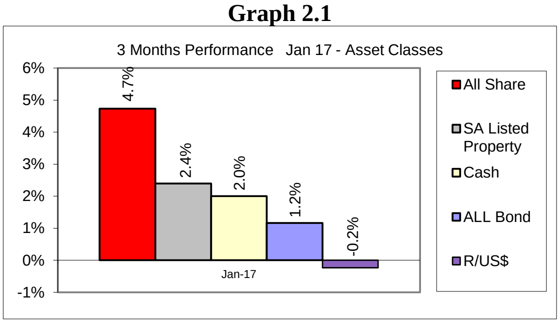


Risk/ Return

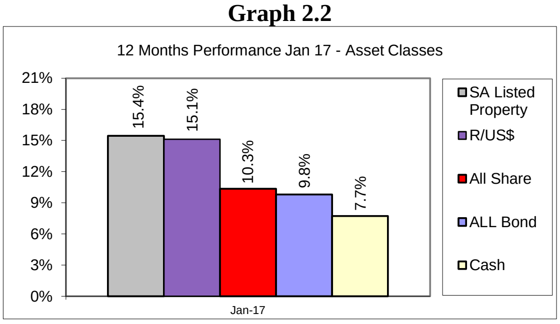


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



Volume 13, No. 01
Jan 2017

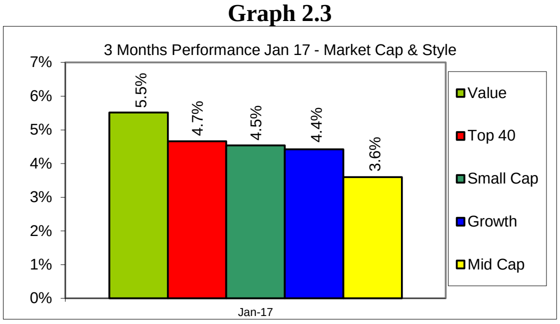
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017

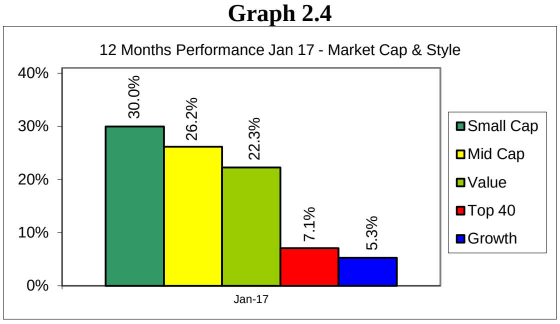
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

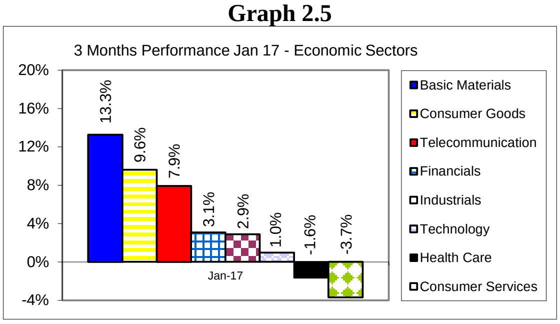
Graph 2.3



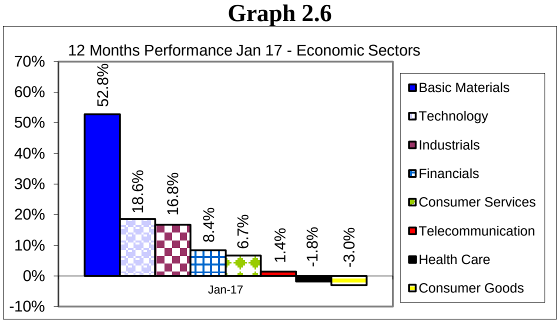
Graph 2.4



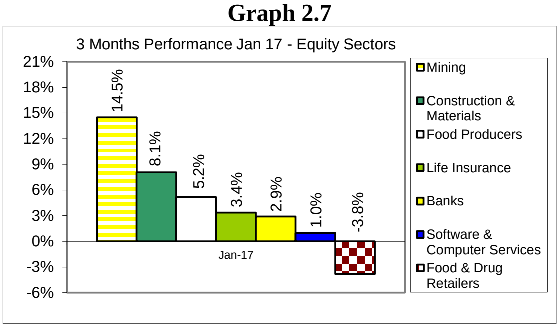
Graph 2.5



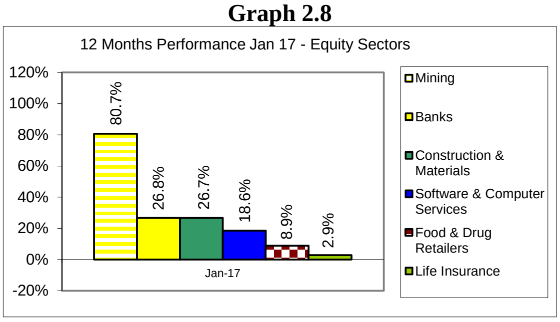
Graph 2.6



Graph 2.7



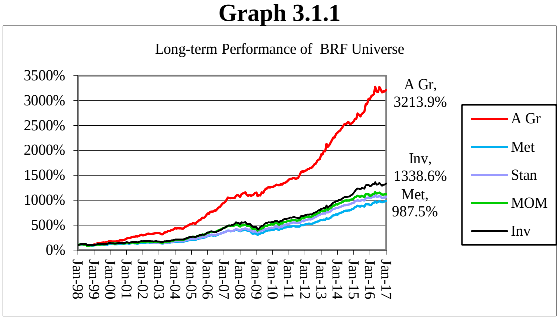
Graph 2.8



3. Portfolio Performance Analysis

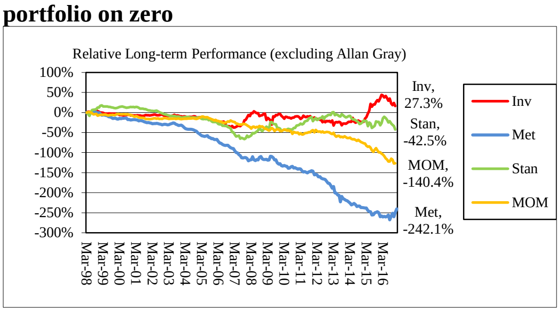
3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2

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



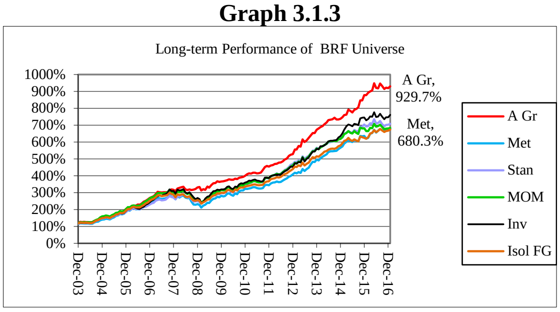
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017

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

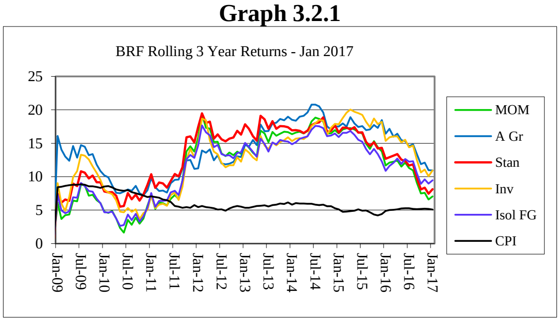
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.1.3

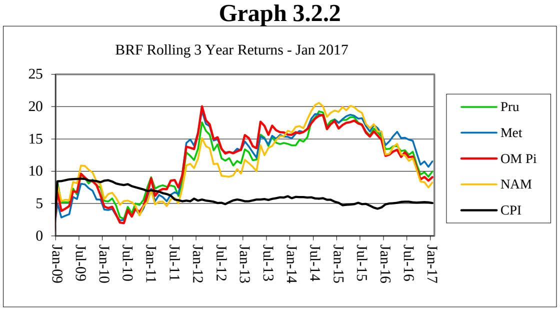


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

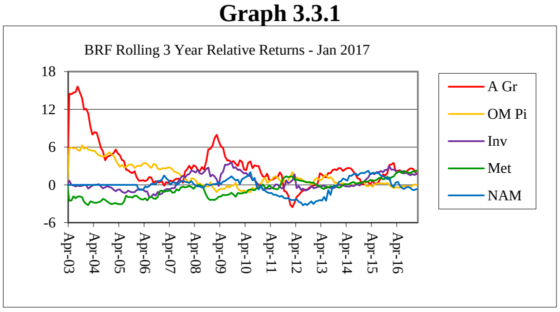


Graph 3.2.2

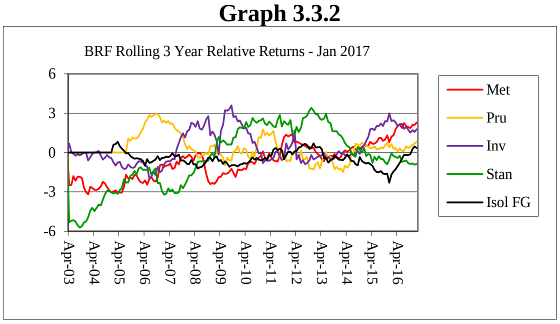


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

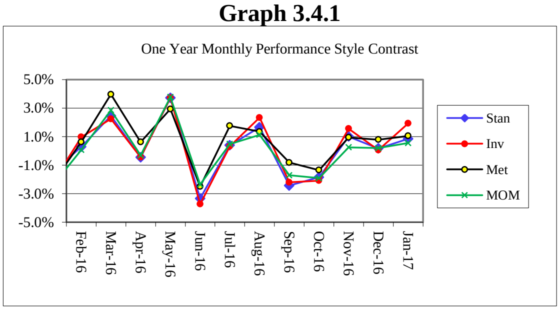


Graph 3.3.2

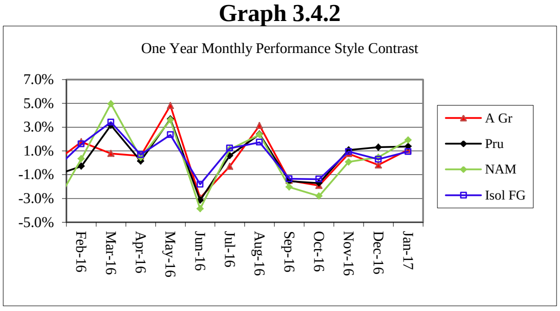


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

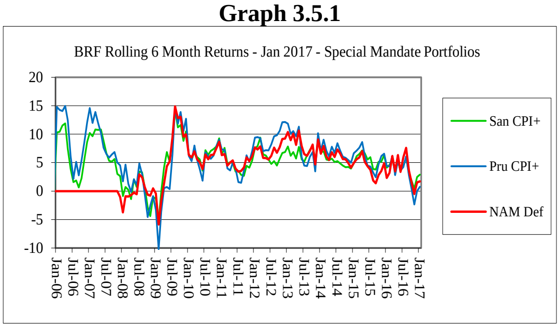


Graph 3.4.2



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

Graph 3.5.1



Volume 13, No. 01
Jan 2017

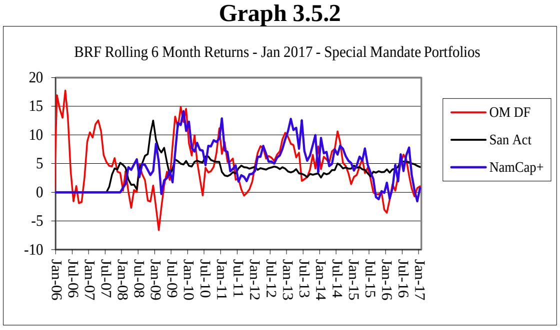
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017

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

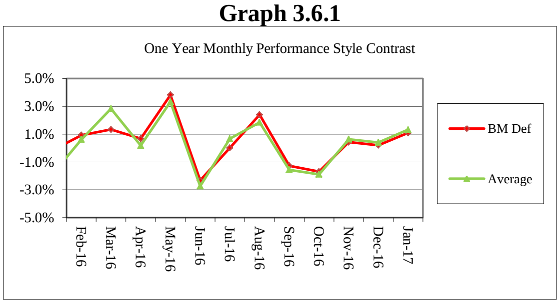
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.5.2

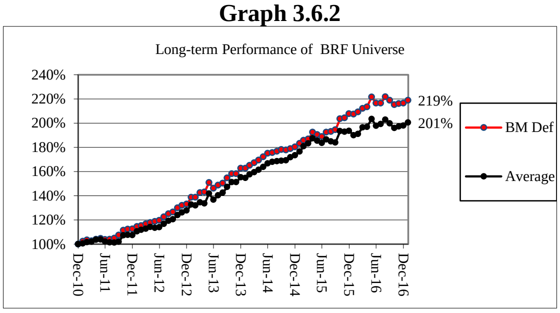


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

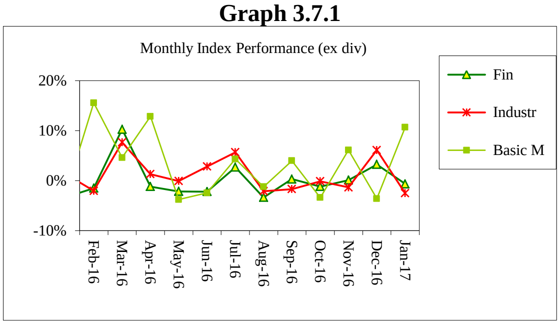


Graph 3.6.2

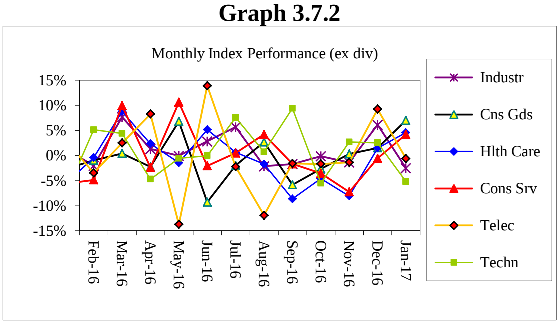


3.7 One year monthly performance of key indices (excluding dividends)

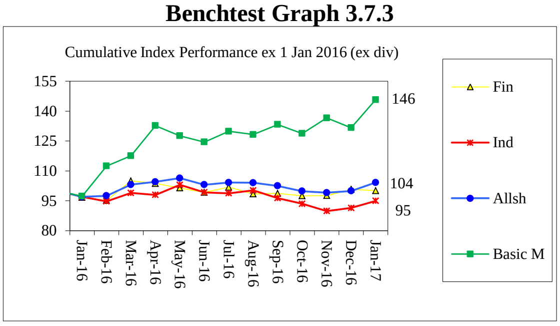
Graph 3.7.1



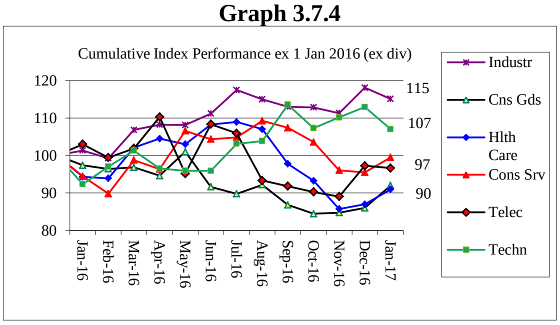
Graph 3.7.2



Benchtest Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average pru man portfolio
5 year nominal return - % p.a.	13.8	12.6
5 year real return - % p.a.	8.0	6.8
Equity exposure - % of portfolio(qtr end)	47.7	60.9
Cumulative return ex Jan 2011	118.8	100.5
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

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017

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.

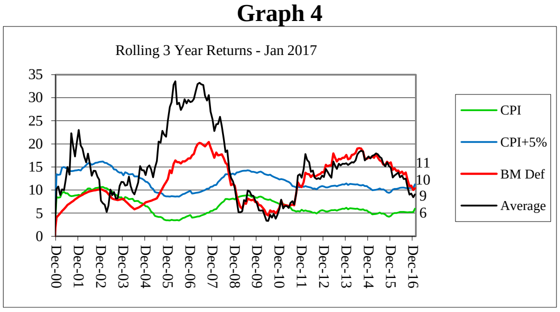
of 2% of salary per year of fund membership that should secure a comfortable retirement income.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.6%	10.0%	8.4%
Best annual performance	7.1%	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	6.1%	15.6%	14.9%

The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years February 2014 to January 2017. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4



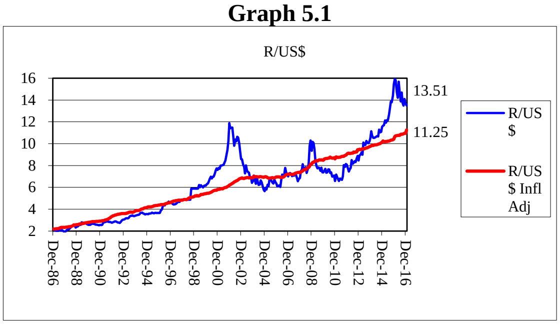
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end January was 10.4%, the average was 9.1% vs CPI plus 5% currently on 11.3%.

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 11.25 to the US Dollar while it actually stood at 13.51 at the end of January. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



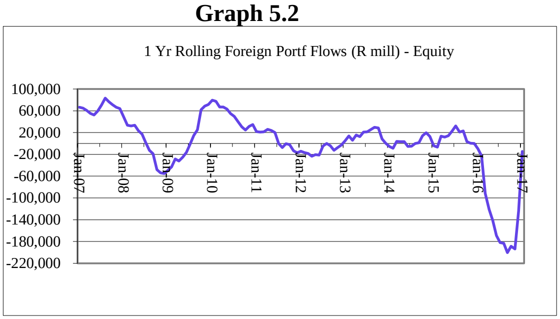
Rand continues to strengthen with foreign capital inflows in January

The Rand strengthened by 1.39% in January with net foreign investment inflows from bonds and equities of N$ 29.3 bn. Over the past 12 months the Rand strengthened by 15.1% on net outflows of foreign capital from equity and fixed interest securities of R 17.7 bn (outflow of 91.5 bn to end December 2016). This indicates that the weakness of the Rand may have been driven by negative sentiment rather than by fundamentals and that fundamentals are once again asserting themselves on the Rand.

Over the 12 months to end of January 2016 SA experienced an outflow of R 9.9 bn (inflow of R 2.8 bn to end of December 2015). Since the beginning of 2006, total net foreign portfolio inflows amounted to R 317 bn (December R 288 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 14 bn on a year-on-year basis at the end of January (outflow of R 124 bn year-on-year to end December). The month of January experienced a net inflow of R 77.4 bn. Since the beginning of 2006, foreign net investment in equities amounts to R135 bn (end December R 58 bn). This represents roughly 1.0% of the market capitalization of the JSE.

Graph 5.2



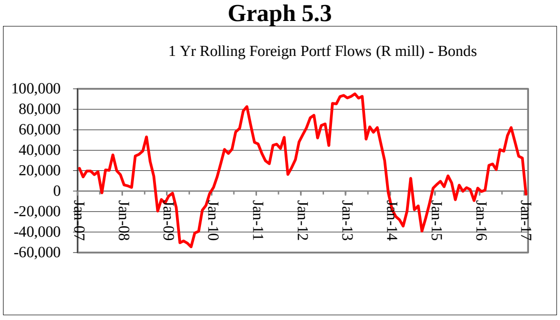
Graph 5.3 on a rolling one year basis reflects foreign portfolio outflows in respect of SA bonds of R 3.2 bn over the past 12 months to end of January (inflow of R 32 bn over the 12 months to end of December). The month of January experienced a net outflow of R 48 bn.

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017
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.

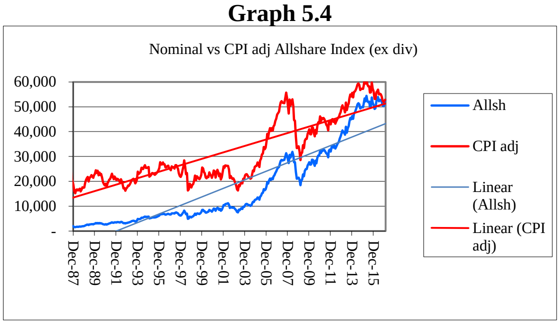
Since the beginning of 2006, foreign net investment in bonds amounts to R 182 bn (to December just over R 230 bn). The month of January experienced a net outflow of R 48 bn.

Graph 5.3



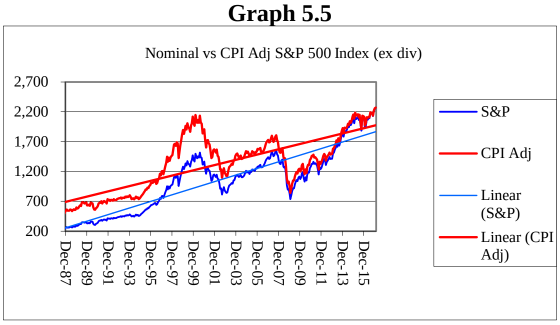
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 11.6% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 30 years was 8.4% per year. This is equivalent to a growth in real terms of 3.2% p.a. over this period, excluding dividends, or around 6.2% including dividends.

Graph 5.4



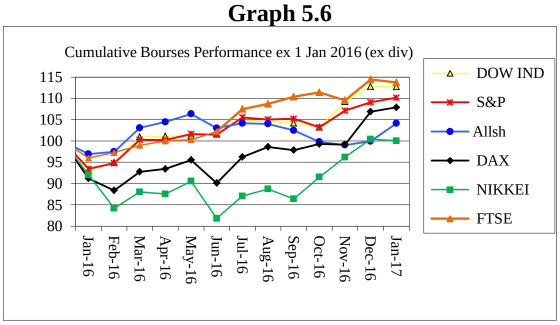
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.3% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 4.7% p.a. over this period, excluding dividends.

Graph 5.5



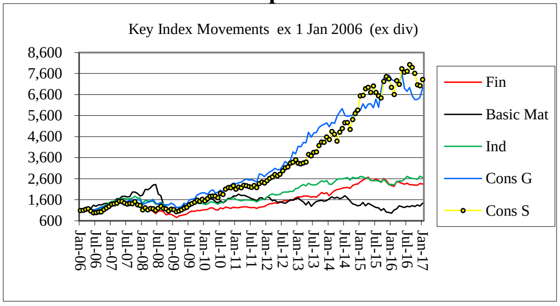
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the FTSE and Dow Jones as the top performing share indices.

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: 19.2%; Industrials: 9.3%; Financials: 8.1%; and Basic Materials: 3.4%.

Graph 5.7



6. What is your investment strategy?
by Tilman Friedrich

Latest pension fund investment returns disappoint

If you followed investment markets more generally and latest investment returns of pension fund portfolios more specifically, you will be forgiven for your concern about the seemingly poor short-term investment returns of your Benchmark Default portfolio or any other portfolio you may have chosen to invest in, for that matter. However before you go off on a tangent because of these disappointing short-term results, you must ask yourself whether you have defined your investment strategy? What is your investment horizon? If you want positive returns for the next 6 to 12 months, do not invest in prudential balanced portfolios but rather in cash!

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2017

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.

Pension fund portfolios invest for the long-term

Pension fund portfolios are designed to produce real investment returns over the long-term. To achieve this objective, these portfolios invest up to 75% in equities depending on the return objective set by the portfolio. The higher the return objective, the higher the equity exposure, and vice-versa. The higher the equity exposure, the higher the investment return volatility, and vice-versa. In the case of an equity investment, the investment return is largely made up of market movement, or capital appreciation and to a small extent only of dividends income.

Rising interest rates cap equity returns

We are currently experiencing a period of low growth in equity markets as the result of slowly rising interest rates where investors are starting to move investment capital out of equities into interest bearing investments again. This only makes sense for investors who are after the interest income and do not worry about capital appreciation or depreciation of the investment. When interest rates start moving up, the capital value of the interest bearing investment declines, often producing a net loss for the long-term investor who actively buys and sells in the market. Pension funds fall into that category.

Don't expect 'fireworks' from equity over the next year

We do not expect any 'fireworks' from financial markets while interest rates are on an upward trend, but we still believe that equities hold out the best prospect of providing real returns over the next 12 months and longer, i.e. returns above inflation. This is what pension fund managers are concerned about because the structures of pension funds rely on investments returning around 5% above inflation over the long-term, to secure a decent income in retirement from one's pension fund capital.

Benchmark Default portfolio produces competitive returns despite reduced risk

Over the past couple of months typical pension fund investments have not achieved their long-term return objective. The investment return history of the Benchmark Default portfolio is a good average of the typical pension fund portfolio, although its equity exposure is up to about 10% lower than that of other typical pension fund portfolios. And here we are not talking about special purpose portfolios that aim to outperform inflation by a pre-set percentage of between 2% and 4%, or that aim to avoid any negative returns. These more conservative portfolios have a low or no equity exposure but will not meet the long-term return objectives that a pension fund member requires to produce a decent pension relative to his pre-retirement income after having worked for 30 or 40 years. The Benchmark Default portfolio represents a slightly lower risk in terms of performance volatility than the typical pension fund portfolio.

Returns disappoint over the short-term only

The performance graphs 1.1 to 1.9 above provide the point-in-time returns of the Benchmark Default portfolio over various periods up to 31 January 2017 as follows:

- 1 month: 1.1% (0.2%)
- 3 months: 1.7% (- 1.1%)
- 6 months: 1.1% (0%)
- 12 months: 5.6% (4.2%) - 2.6% (3.1%) below inflation
- 3 years: 10.4% (10%) p.a. – 4.4% (4.8%) above inflation)
- 5 years: 13.8% (14%) p.a. – 8% (8.6% above inflation
- 10 years: 11.4% (11.5%) p.a. – 5% (5.3%) above inflation
- 15 years: 11.7% (11.8%) p.a. – 5.6% (5.6%) above inflation

Note – the figures in brackets are the comparative figures for the periods up to 31 December 2016. It shows how quickly fortunes change over the short term, while over the longer term they become more and more stable.

Benchmark Default portfolio achieves its objective over the medium to long-term

The above returns are before fees. Except for the short term (12 months and less), the Benchmark Default portfolio generally achieved its return objective, sometimes higher, sometimes lower. That is the nature of market linked pension fund portfolios that invest largely in volatile equity markets. It is to be noted that the portfolios with lower or no equity exposure, shown as greyed bars in graphs 1.1 to 1.9 above, as opposed to the typical pension fund portfolios shown as blue bars, in general only produce better or less negative returns than the typical pension fund portfolios with higher equity exposure when equity markets turn negative. Note in particular that cash is amongst the top-performing portfolios only over the 6 month period. Does this mean that one should now move into cash?

It's not about 'timing the markets but about time in the markets'

The difficulty of moving investments when you are concerned about the status of investment markets is correct timing. We generally have a feeling of when markets are low or high but we never know when a correction will occur. If you want to avoid a down-turn and move back in anticipation of an up-turn, you would firstly have to time the move out of the market correctly and would secondly then have to time the move back into the market correctly. This is neigh impossible and the chances of one getting both legs right are very slim indeed! Bear in mind that steep drops in markets are mostly caused by sudden swings in investor sentiment. As much as one would want to avoid such sudden swings they cannot be foreseen, unlike absolute market levels. Steep market drops are virtually always followed by steep market corrections as sentiment corrects very quickly.

Do not be concerned about the short-term returns
As pension fund members we should thus generally not be concerned about our investment in the fund as long as we know that the money will still be locked up for a long-time. Persons intending to retire though may want to protect their capital. The main concern should be a steep drop in markets that will have been caused by a sentiment swing. Since we cannot foresee such a development, the best we can do is to accept low investment returns by moving money into a portfolio that protects against negative returns shortly before retirement as a matter of principle. This period should be kept as short as possible so as to avoid sacrificing too much in the form or prospective investment returns, but how short is too short? No-one can tell as we cannot foresee sentiment swings. It may just happen the day before you wanted to move and this could be one, two or ten years before retirement. Not a good position to be in!

Time your fund exit rather than your investment
We suggest that one should generally not move out of a market linked investment sooner than 2 years before the planned retirement as history has shown that markets generally recover fairly rapidly after a steep decline. In this context it also needs to be borne in mind that upon retirement only one-third of the capital can be paid out in cash. This is the portion that one should only be concerned about. The two thirds balance must be applied to arrange a pension and will most likely remain invested in the market for another 15 to 20 years, or for the long-term. So if your investment dropped at retirement there is ample time for it to recover and to actually more than make up for what you may have lost in the short-term.

Preserve your capital to time your exit
Probably the ideal solution would be to delay retirement, or to preserve retirement capital in the event of a sudden drop to only activate retirement once markets have recovered. One would then not sacrifice prospective superior investment returns on the investment in the market unnecessarily – the drop in market may in hindsight actually not have happened!

The only alternative strategy to avoiding moving your retirement capital into a low or no equity portfolio to avoid short-term market fall-outs shortly before retirement is to invest in a smooth bonus or guaranteed portfolio throughout your working life. These are insurance products that will always come at a premium meaning that you will sacrifice some investment return over the long-term. Such a decision should always be left to the individual. It should never be a decision taken on behalf of a group as it would imply sacrificing returns for the majority for the sake of potentially avoiding an individual's loss.

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.