Volume 13, No. 03
Mar 2017

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 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

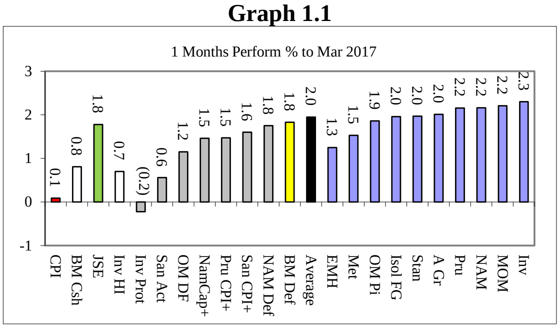
In March the average prudential balanced portfolio returned 1.95% (February: -0.64%). Top performer is Investec (2.30%); while EMH Prescient (1.25%) takes the bottom spot. For the 3 month period Namibia Asset Management, takes top spot, outperforming the 'average' by roughly 1.2%. On the other end of the scale Momentum underperformed the 'average' by 0.9%.

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.

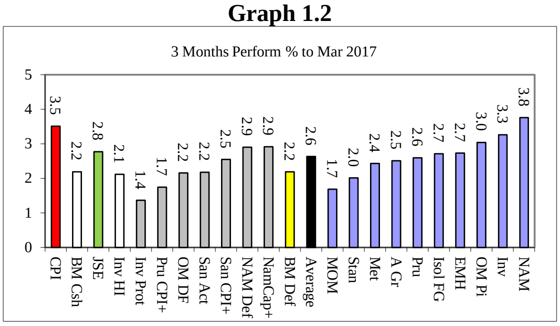
Below is the legend to the abbreviations reflected on the graphs:

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)

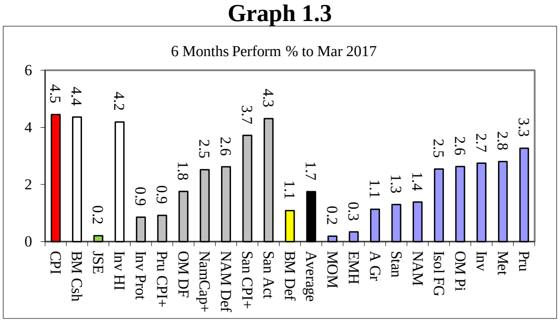
Graph 1.1



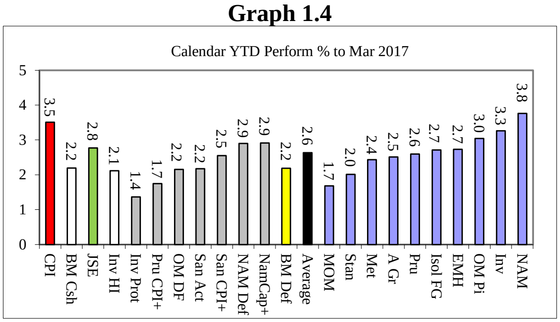
Graph 1.2



Graph 1.3



Graph 1.4



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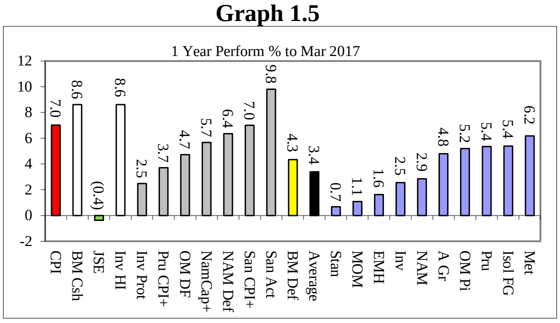
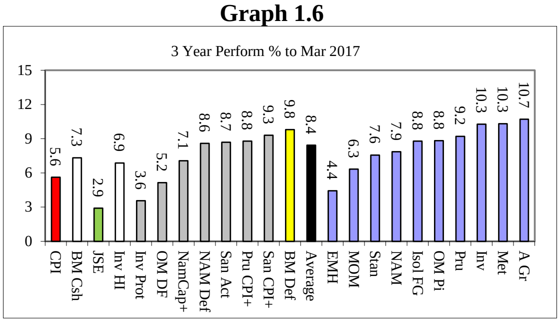
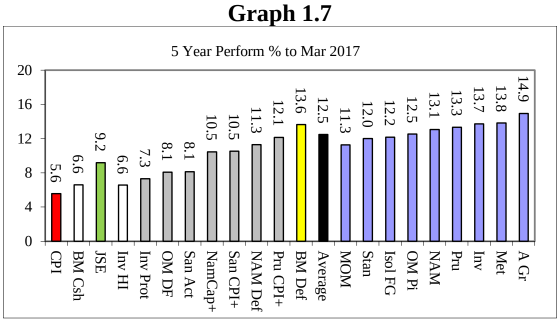
Graph 1.5



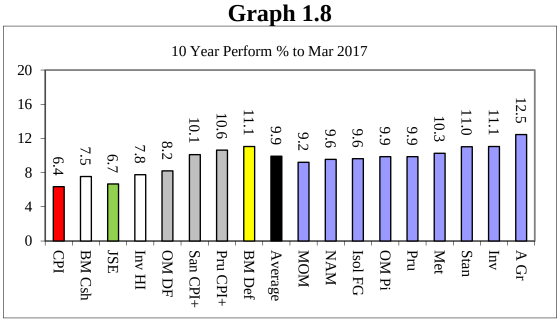
Graph 1.6



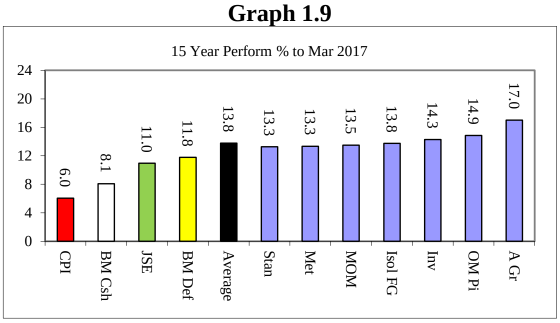
Graph 1.7



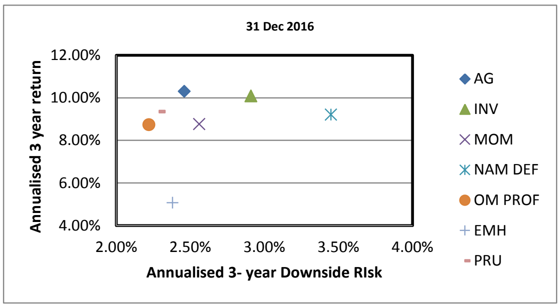
Graph 1.8



Graph 1.9

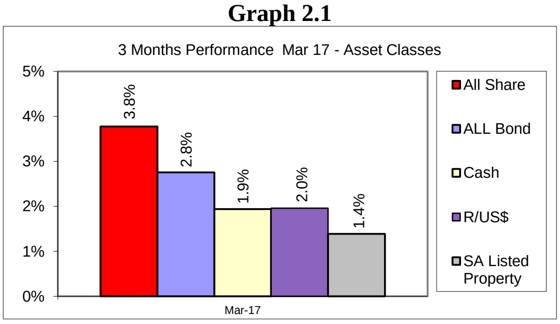


Risk/ Return

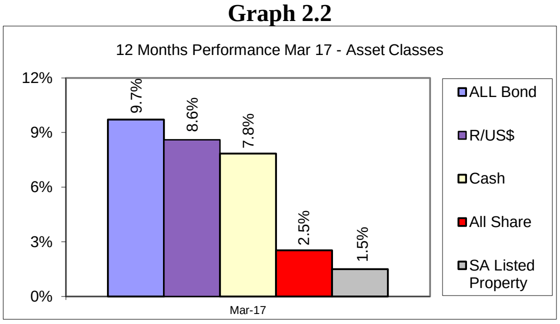


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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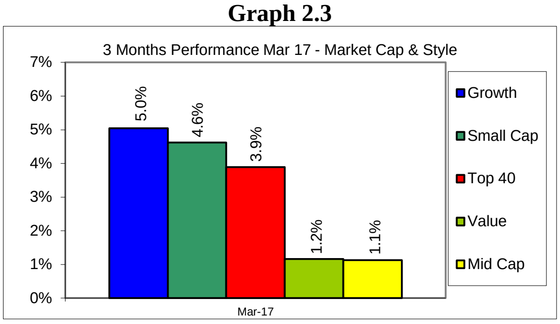
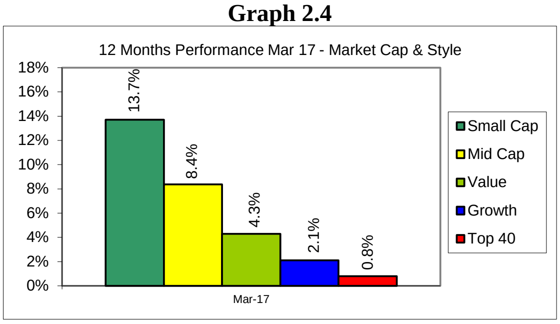
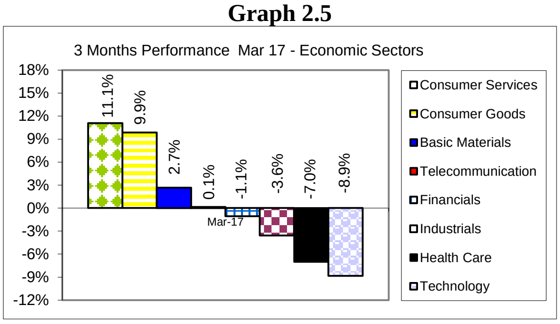
Graph 2.3



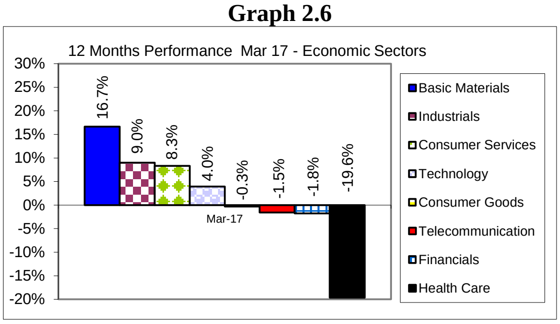
Graph 2.4



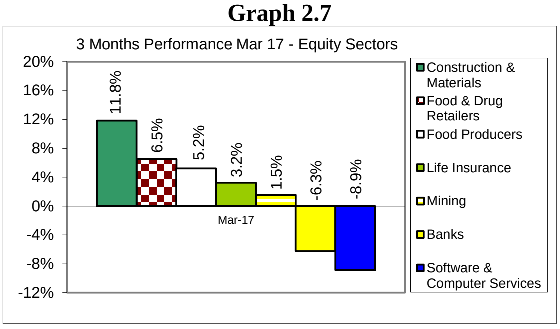
Graph 2.5



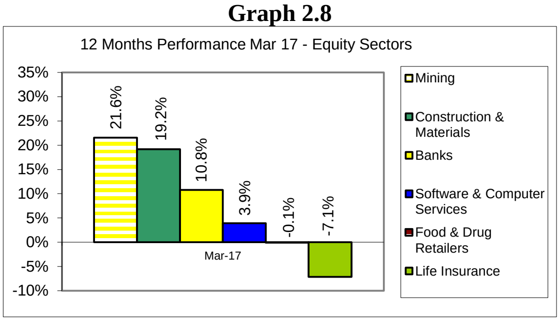
Graph 2.6



Graph 2.7



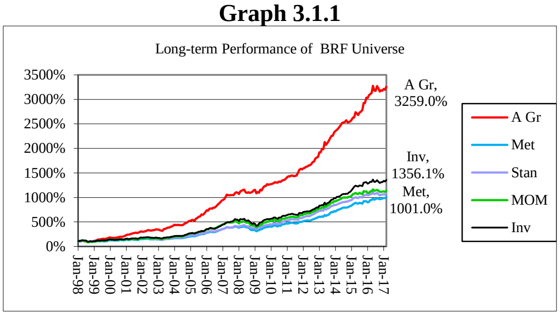
Graph 2.8



3. Portfolio Performance Analysis

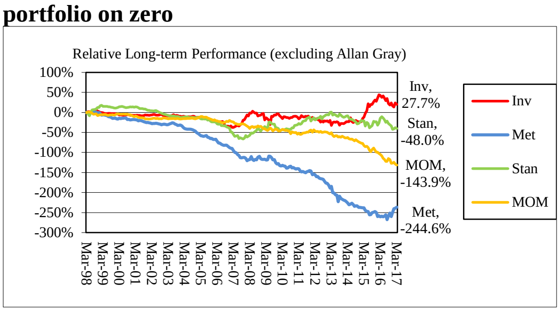
3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2

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



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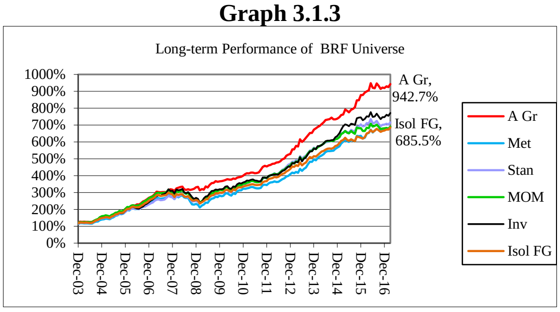
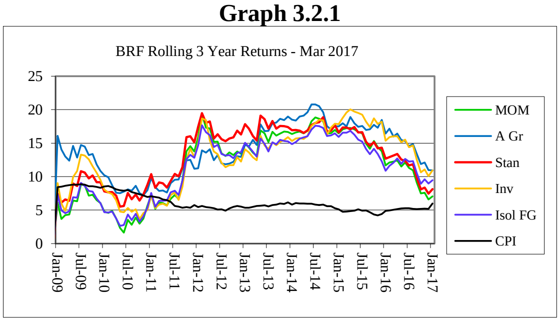
Graph 3.1.3

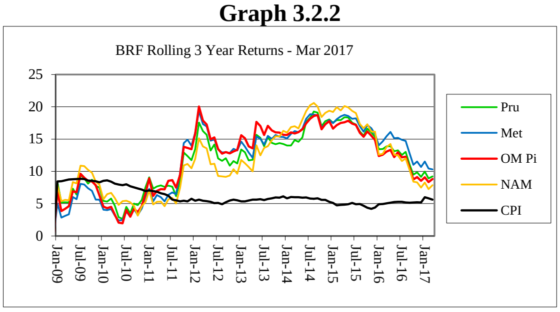


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

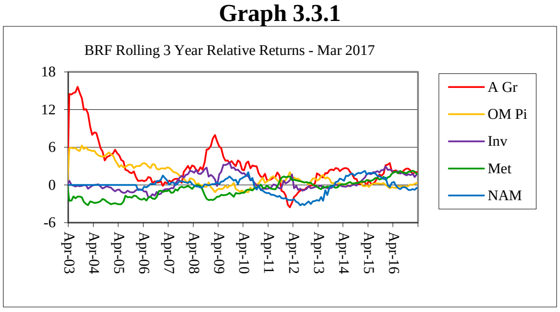


Graph 3.2.2

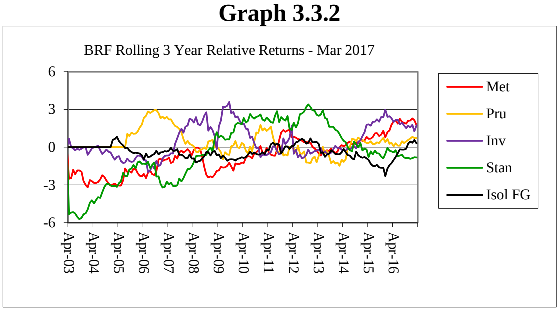


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

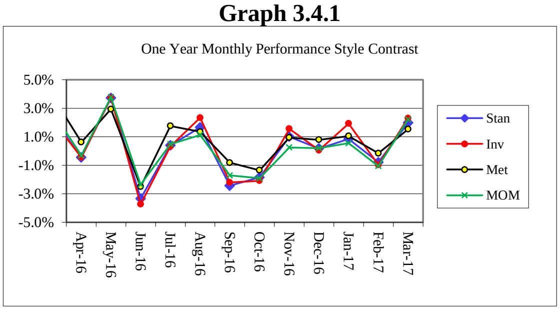


Graph 3.3.2

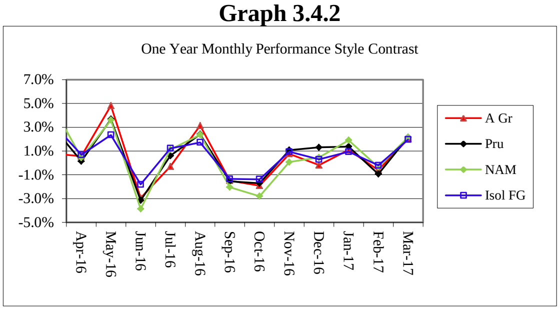


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

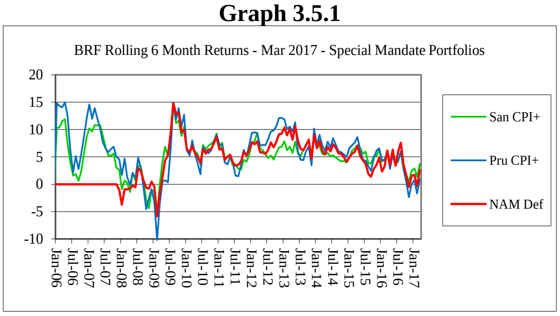


Graph 3.4.2



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

Graph 3.5.1



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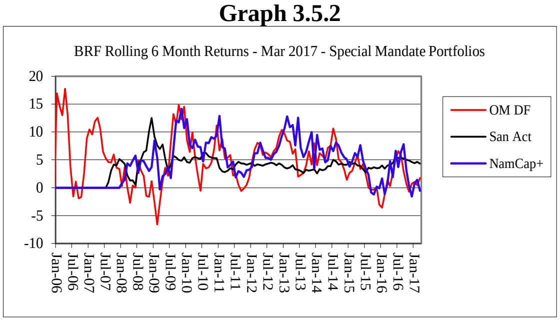
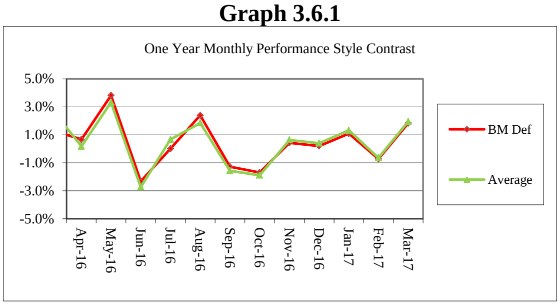
Graph 3.5.2

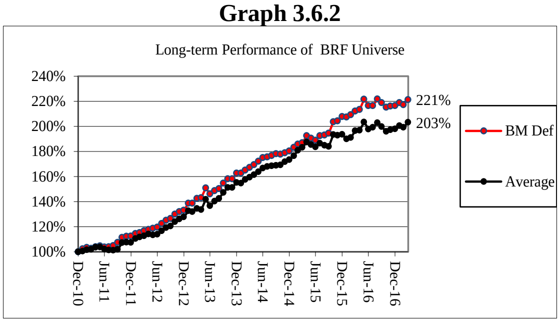


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

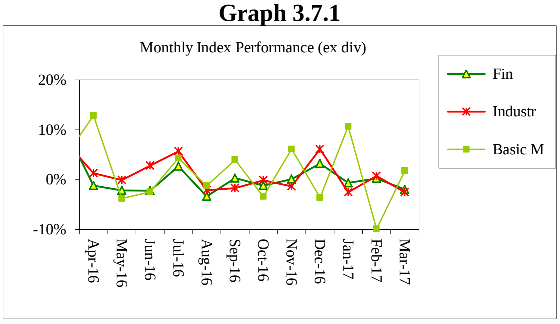


Graph 3.6.2

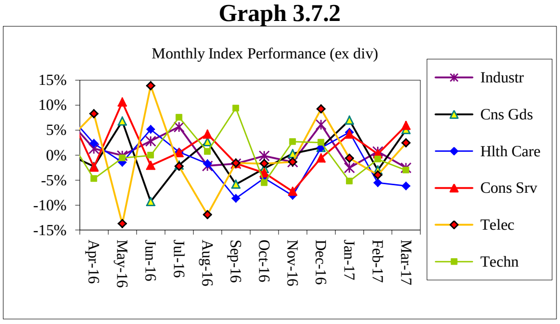


3.7 One year monthly performance of key indices (excluding dividends)

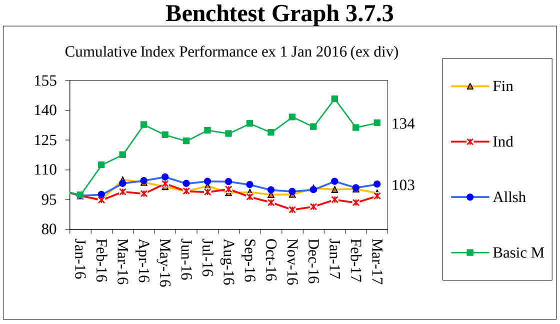
Graph 3.7.1



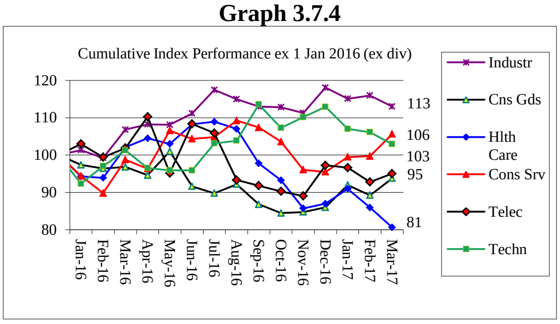
Graph 3.7.2



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.	13.6	12.5
5 year real return - % p.a.	8.0	6.9
Equity exposure - % of portfolio(qtr end)	47.7	60.9
Cumulative return ex Jan 2011	121.2	103.1
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

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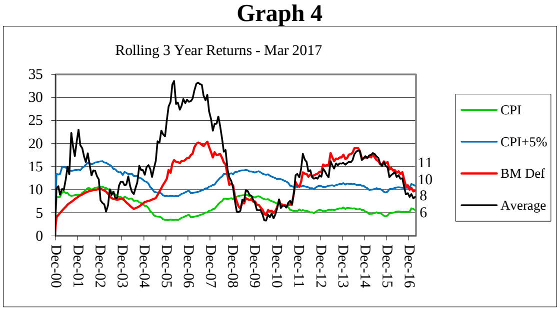
The above table reflects the actual returns of the Default Portfolio versus target returns required to produce an income replacement ratio of 2% of salary per year of fund membership that should secure a comfortable retirement income.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.6%	9.6%	8.1%
Best annual performance	7.3%	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	6.2%	15.2%	14.5%

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

Graph 4



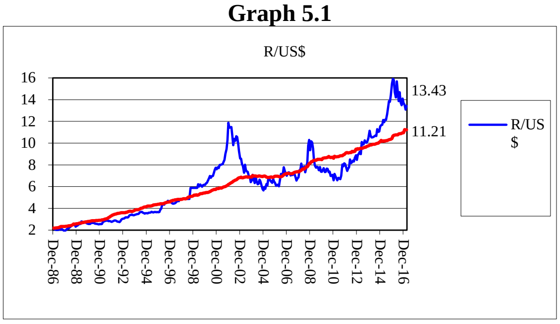
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end March was 9.8%, the average was 8.4% vs CPI plus 5% currently on 10.9%.

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 11.21 to the US Dollar while it actually stood at 13.43 at the end of March. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



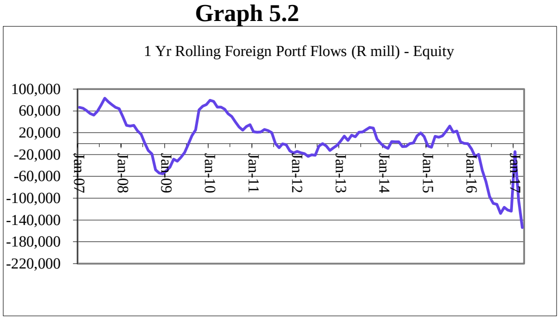
Rand weakens despite foreign capital inflows in March

The Rand weakened by 2.74% in March with net foreign investment inflows from bonds and equities of N$ 1.6 bn. Over the past 12 months the Rand strengthened by 8.6% on net outflows of foreign capital from equity and fixed interest securities of R 115.4 bn (outflow of 63.8 bn to end February 2017). 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 March 2016 SA experienced an inflow of R 0.6 bn (outflow of R 22.1 bn to end of February 2016). Since the beginning of 2006, total net foreign portfolio inflows amounted to R 286 bn (February R 284 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 154 bn on a year-on-year basis at the end of March (outflow of R 104 bn year-on-year to end February). The month of March experienced a net outflow of R 17.9 bn. Since the beginning of 2006, foreign net investment in equities amounts to R16 bn (end February R 34 bn). This represents roughly 0.1% 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 38.5 bn over the past 12 months to end of March (inflow of R 40.2 bn over the 12 months to end of February). The month of March experienced a net inflow of R 19.5bn. Since the beginning of 2006, foreign net investment in

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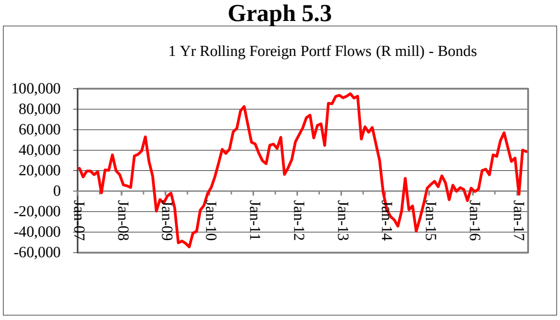
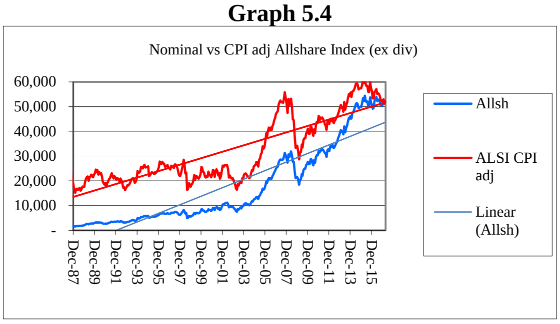
bonds amounts to R 270 bn (to February just over R 250 bn).

Graph 5.3



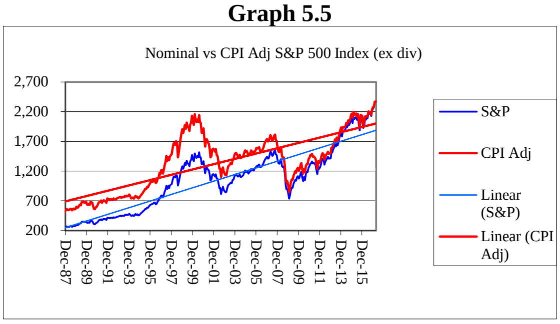
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 11.4% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 30 years was 8.4% per year. This is equivalent to a growth in real terms of 3.0% p.a. over this period, excluding dividends, or around 6.0% including dividends.

Graph 5.4



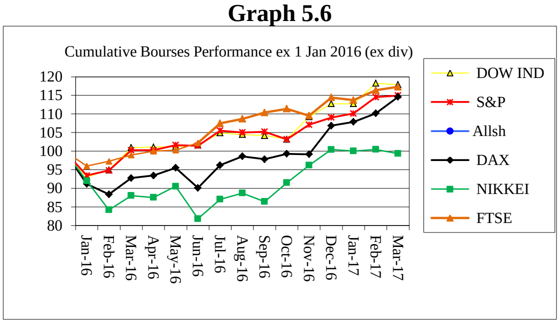
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.4% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 4.8% p.a. over this period, excluding dividends.

Graph 5.5



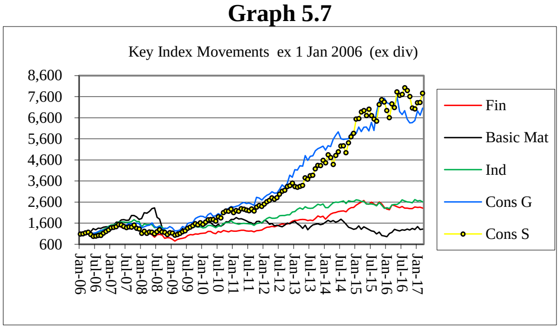
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the Dow Jones and FTSE as the top performing share indices.

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: 20.1%; Consumer Goods: 19.1%; Industrials: 8.9%; Financials: 7.8%; and Basic Materials: 2.5%.

Graph 5.7



6. Is SA facing a financial tsunami?

by Tilman Friedrich

There can be little argument that South African financial markets are experiencing turbulent times. Looking further abroad, there is no less argument for agreeing that global financial markets are experiencing turbulent times and there is no end in sight. As I previously stated, present Trump is not America, he is just a pawn in a well-established chess game that has been going for a very long time and that will not be diverted in its focus and intent by a president, of which there have been many. In the same way president Zuma is not South Africa. He too is just a pawn and I believe this is substantiated by the panicky spiking of the Rand after the dismissal of former finance minister and its speedy recovery once the hype of this move was out of the system. Certainly the media is playing a key role in inciting panic and making investors act against their own best interests. I do not believe it is rational to take any investment decision based on what any individual has said or done, how ever influential he may be, unless your intention is to speculate by pre-empting public response to such statement or act.

Just yesterday 24 April, Magnus Heystek, well known investment expert and investment strategist at Brenthurst Wealth, called sort of panic in his assessment of the SA economy and what the investor should consider doing in response. He insinuates the generally professed bias for investment is the consequence of asset managers and intermediaries earning higher fees than what is charged on a cash investment. At the same time he confesses though that this bias has worked for investors in the long-term. So in what he is suggesting the man-in-the-street should do, he must be referring to the short-term although in his bleak outlook on the SA economy he makes reference to the next 5 to 10 years. If anyone believes any economy will stay in the doldrums for 10 years, he must have concluded that there is a systemic problem as it is unlikely a matter of economic cycles. This to my mind is a very negative view. The SA economy must surely benefit by what is going on outside SA considering the extent of its integration into the global economy, even if it were off a low base? And there seems to be general consensus that the global economy will expand significantly over the next few years. Is it realistic to believe any businessman would be happy earning returns on his business endeavors equal to or below cash returns for the next 10 years? Then you might as well close your business or sell it and invest the proceeds in cash. I do believe that business will ensure that they earn returns in excess of cash returns. In the short-term this may not necessarily translate into value for the investor in the business via the stock exchange due to valuations going through cycles. In the medium to long-term though, fundamentals should prevail.

Having given my view on the sentiment of Magnus Heystek's article 'A blue print for financial survival' in Moneyweb of 24 April 2017 (refer link in our Benchtest 03.2017 newsletter), here is what he suggests and I comment:

1. Sell all your non-income producing assets and convert to cash or reduce debt. Comment: I partly agree. Non-income producing assets exist for reasons of status or luxury which one actually never really needs. Whether to convert to cash or another asset, should depend on your investment strategy and investment plan that should take many factors into account.
2. If your buy-to-let property does not yield 6%, sell. Comment: I agree if you measure return over a period rather than point in time.
3. Move all moneys in pension fund vehicles 75% into cash the balance into offshore equity-based asset swaps. Comment: Moving into cash for the next 10 years is in all likelihood going to leave you worse off at the end of the 10 year period. If you do invest your retirement capital in cash it must be for a short-term (probably not more than 3 years) and you must set yourself a specific time frame where after you move out again in spite of what the situation at that time indicates else you will either never find the right time or you will find it way too late.

These are the key pieces of the strategy he would follow with his money, the others being of less relevance, particularly to us here in Namibia.

The very next day after Magnus Heystek's article, well know commentator Ryk van Niekerk retorted, saying there is 'no financial tsunami on the horizon of SA (Moneyweb of 25 April 2017). I side more with his views on the future of the SA economy.

To me Magnus Heystek is putting forward very radical ideas and may have simply wanted to shake up and wake up the man-in-the-street.

On the basis of fundamentals I believe in equity as being the best long-term asset class an investor should be invested in if he does not want to manage his investments himself. There are other ways of making lots of money if you understand the business and know what you are doing and stick to your principles. And I say categorically that I earn no income from any investment any client makes either directly or indirectly, unless it were via an insurance policy, in which event the built-in, regulated commission income does not depend on the type of asset the client invests in.

Conclusion

Dear reader, do not expect us to change our conclusions from month to month. The environment normally does not change significantly from one month to the next. We do however always provide a different perspective and so much the better if it still supports last month's conclusion. Where it does not, we would review our conclusion – not this time around though.

In last month's newsletter we did point out that there is a substantial risk of SA company earnings growth no being 34% for the next 24 months, as analysts are forecasting. There is also a substantial risk of the SA P:E ratio declining to below 15 which means that there is a substantial risk that the ALSI will decline from its current levels. This risk is also supported by the Rand: US $ exchange rate that indicates the Rand is still undervalued and a return to fair value of 11.23, as per our measure, also indicates a potential decline in the ALSI to 40,000.

The SARB can influence the Rand exchange rate through manipulation of the repo rate depending on how it assesses the impact of a strong or a weak Rand on the SA economy. It is likely that SARB does not support Rand strength and might consider reducing the repo rate. If this were to happen and were to reverse further Rand strengthening, the risk of a significant decline in the ALSI diminishes. We believe that SARB will be under pressure to reduce the repo rate in the course of the next 12 months to prevent a further strengthening of the Rand, in the light of the negative consequences of a strong Rand on the SA economy. The risk will also grow itself out of the system as the global economy expands as is generally expected and talk is of an expansion of up to 3.6%.

Whilst we do not expect great returns from equities as an asset class, equities remain our preferred asset class as it allows you to spread the risk widely across the world. The wide choice you have also provides the opportunity to find equities that will outperform. SA equities currently pose substantial risks and should be based only on stock picking rather than asset allocation. Offshore equity markets offer more opportunity and to this extent we do agree with what Magnus Heystek suggests in terms of investment in equities.

For a Namibian whose investments are largely concentrated in Namibia, discretionary capital should be moved outside Namibia for the sake of spreading risk, particularly now that the Rand is showing increasing strength. Any money transfer off-shore should be spread over time for the benefit of Rand cost averaging to limit the currency risk.

7. Important notice and disclaimer

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