Volume 13, No. 05
May 2017

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 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

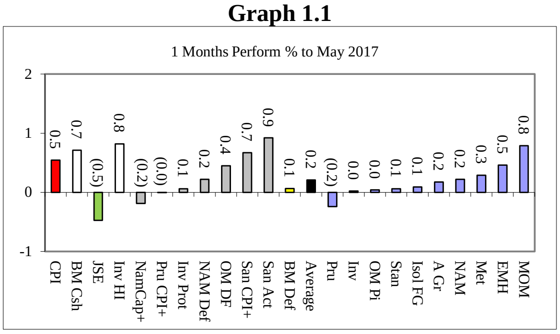
In May the average prudential balanced portfolio returned 0.21% (April: 1.95%). Top performer is Momentum (0.79%); while Prudential (-0.24%) takes the bottom spot. For the 3 month period, Momentum takes top spot, outperforming the 'average' by roughly 1.0%. On the other end of the scale Investment Solutions underperformed the 'average' by 0.8%.

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.

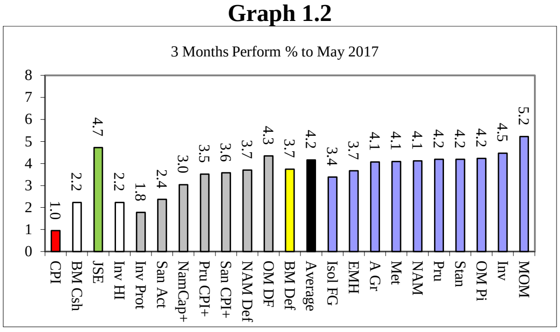
Below is the legend to the abbreviations reflected on the graphs:

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

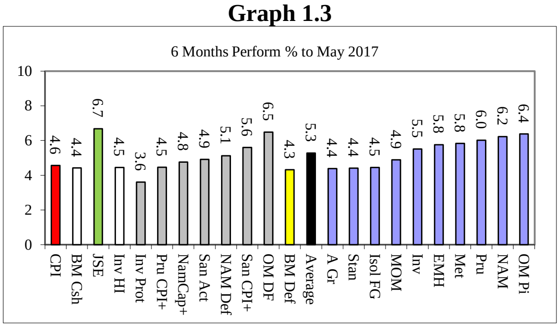
Graph 1.1



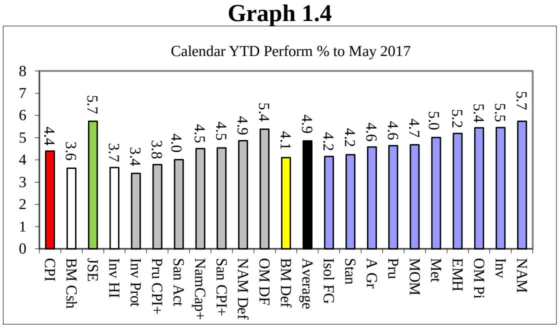
Graph 1.2



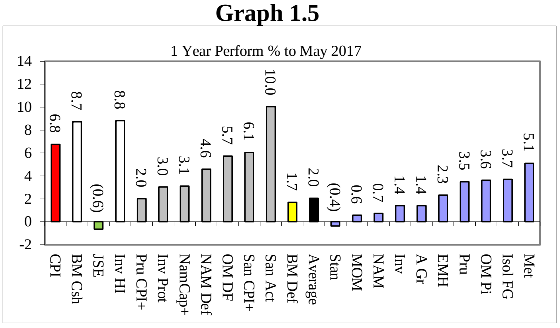
Graph 1.3



Graph 1.4



Graph 1.5



Volume 13, No. 05
May 2017

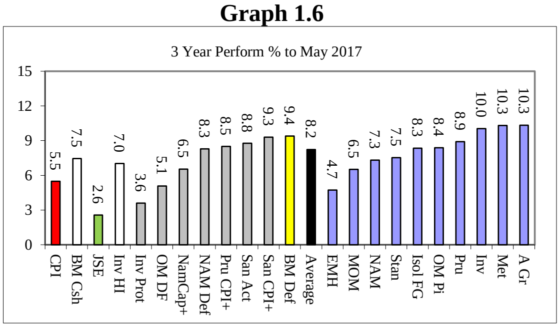
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2017

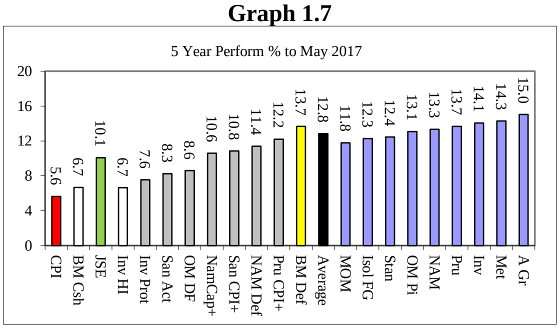
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

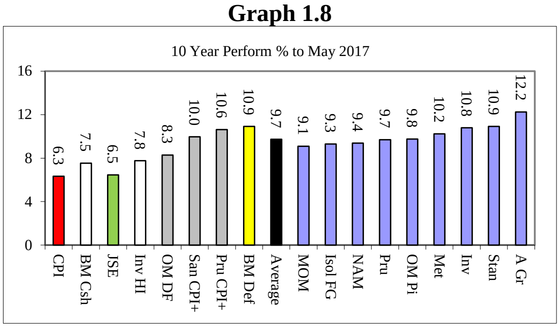
Graph 1.6



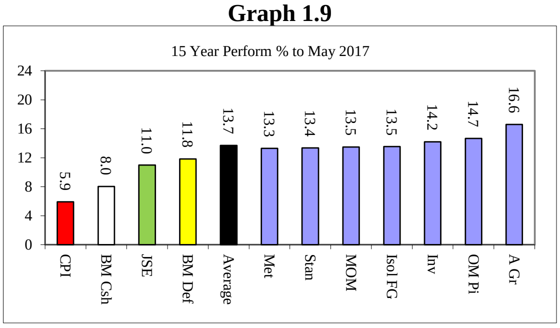
Graph 1.7



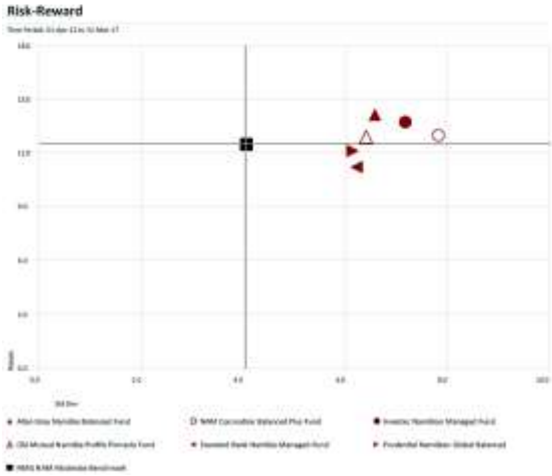
Graph 1.8



Graph 1.9

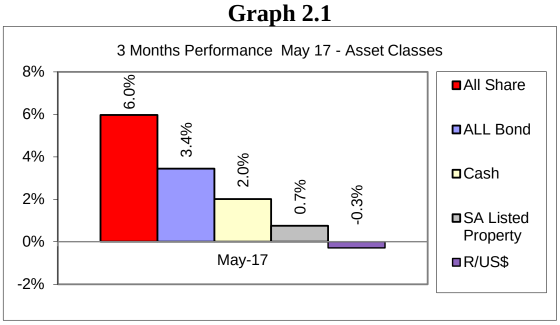


Risk/ Return

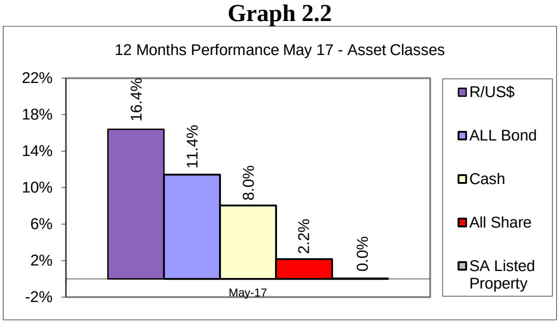


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

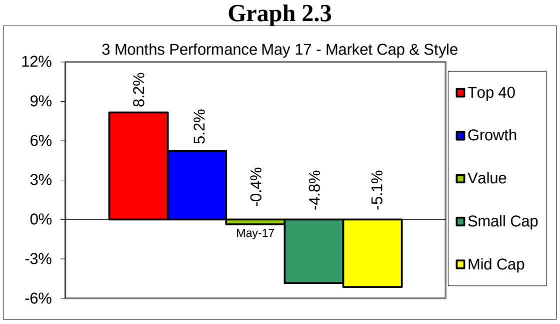
Graph 2.1



Graph 2.2



Graph 2.3



Volume 13, No. 05
May 2017

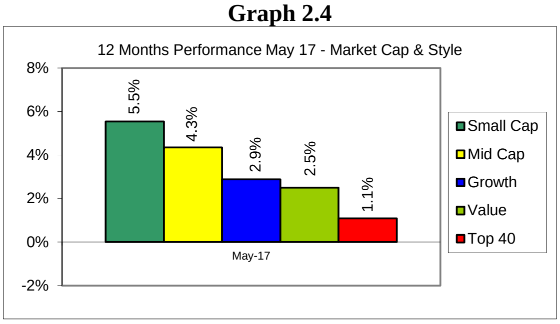
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2017

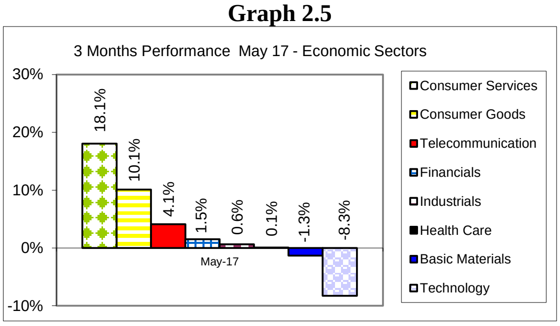
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

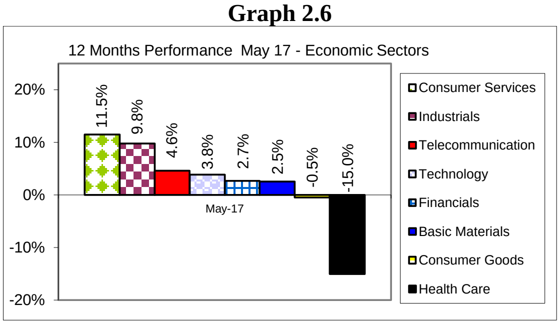
Graph 2.4



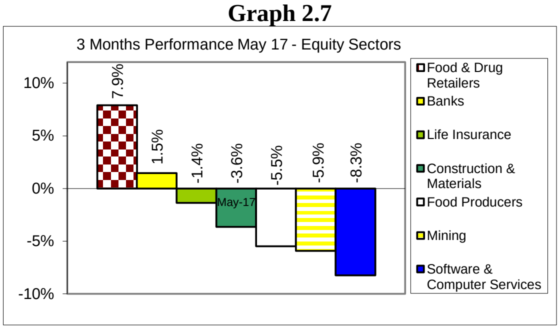
Graph 2.5



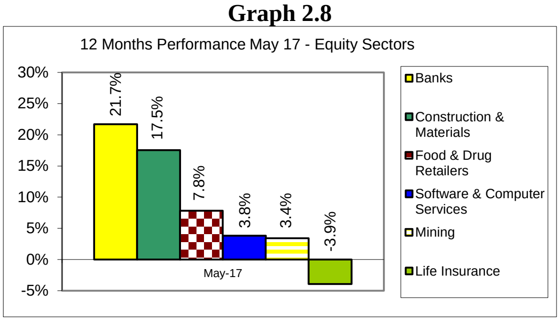
Graph 2.6



Graph 2.7



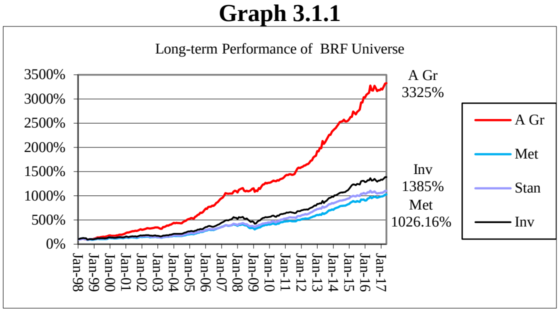
Graph 2.8



3. Portfolio Performance Analysis

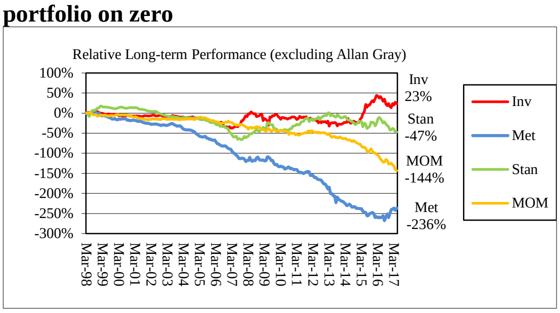
3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1

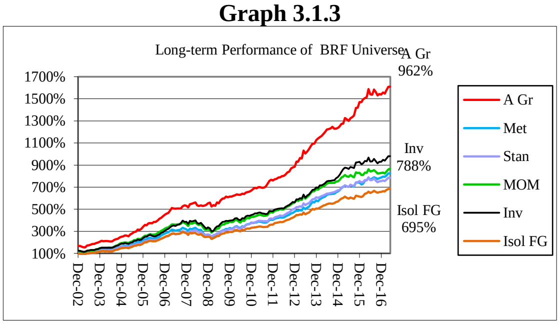


Graph 3.1.2

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

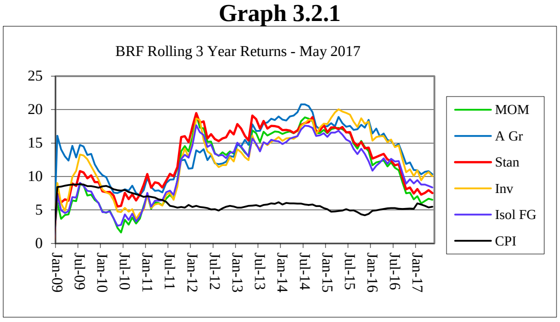


Graph 3.1.3



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

Graph 3.2.1



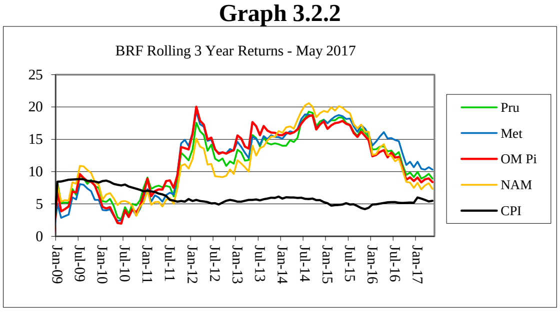
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2017

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

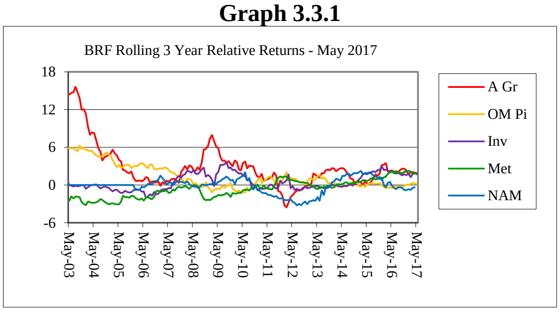
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.2.2

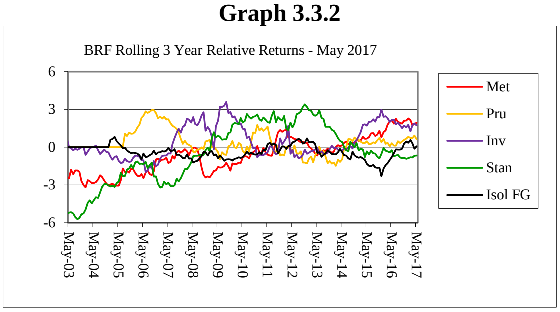


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

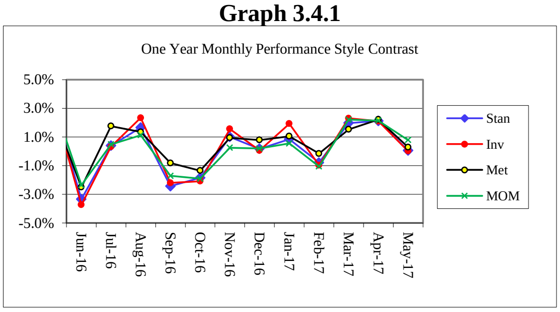


Graph 3.3.2

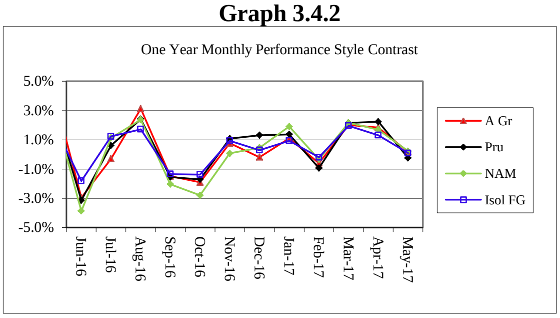


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

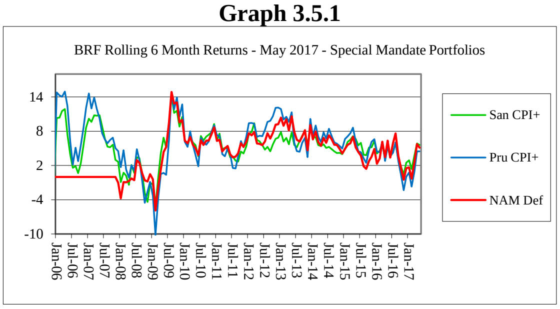


Graph 3.4.2

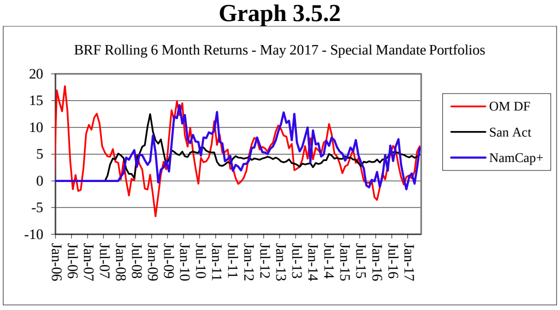


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

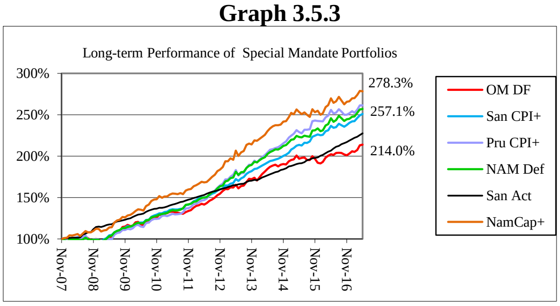
Graph 3.5.1



Graph 3.5.2



Graph 3.5.3



Volume 13, No. 05
May 2017

Benchmark Retirement Fund

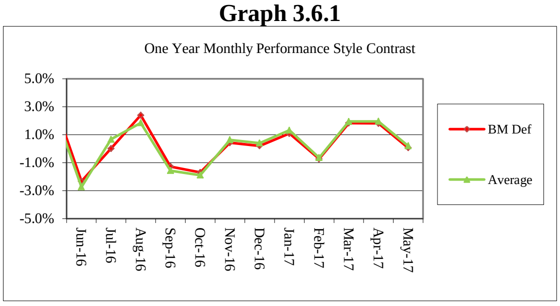
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2017

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

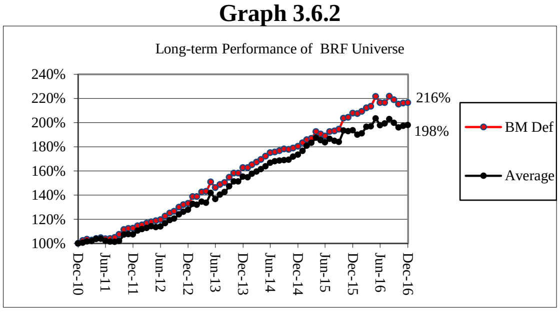
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

Graph 3.6.1

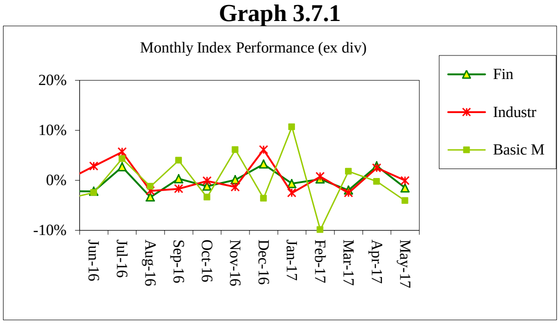


Graph 3.6.2

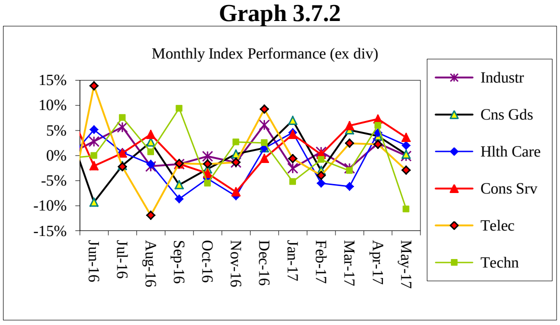


3.7 One year monthly performance of key indices (excluding dividends)

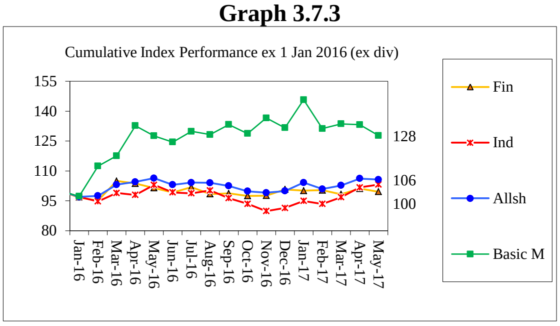
Graph 3.7.1



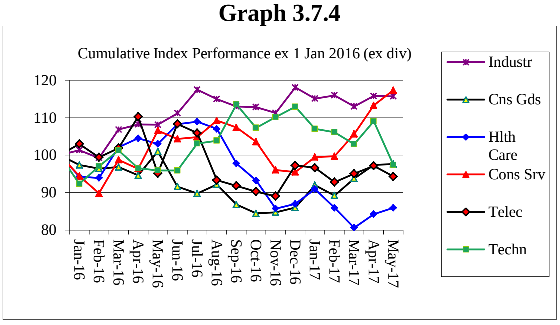
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5 year nominal return - % p.a.	13.7	12.8
5 year real return - % p.a.	8.0	7.2
Equity exposure - % of portfolio (qtr end)	48.7	62.5
Cumulative return ex Jan 2011	116.5	97.9
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 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%	9.4%	8.1%
Best annual performance	7.5%	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	6.3%	14.7%	14.1%

Volume 13, No. 05
May 2017

Benchmark Retirement Fund

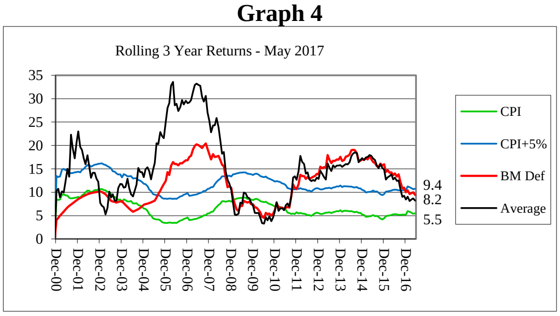
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2017

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.

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

Graph 4

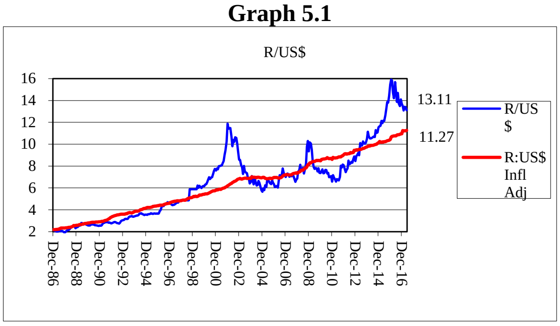


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end April was 9.4%, the average was 8.2% vs CPI plus 5% currently on 10.5%.

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 11.27 to the US Dollar while it actually stood at 13.11 at the end of May. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



Rand strengthens slightly on the back of foreign capital inflows in May

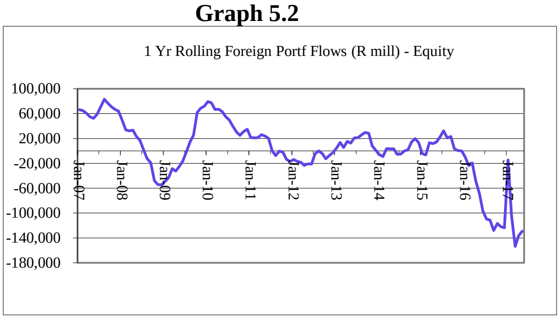
The Rand strengthened by 1.96% in May with net foreign investment outflows from bonds and equities of N$ 0.05 bn. Over the past 12 months the Rand strengthened by 16.38% on net outflows of foreign capital from equity and fixed interest securities of R 78.7 bn (outflow of 98.1 bn to end April 2017).

Over the 12 months to end of May 2016 SA experienced an outflow of R 53.4 bn (inflow of R 27.3 bn to end of April 2016).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 298 bn (April R 298 bn).

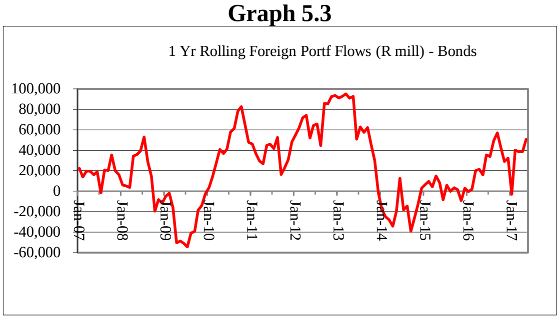
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one year basis, with a net outflow of R 129 bn on a year-on-year basis at the end of May (outflow of R 137 bn year-on-year to end April). The month of May experienced a net outflow of R 8.9 bn. Since the beginning of 2006, foreign net investment in equities amounts to R3.2 bn (end April R 12 bn). This represents roughly 0.02% 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 50.5 bn over the past 12 months to end of May (inflow of R 38.5 bn over the 12 months to end of April). The month of May experienced a net inflow of R 8.8 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 295 bn (to April R 286 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 8.3% 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.

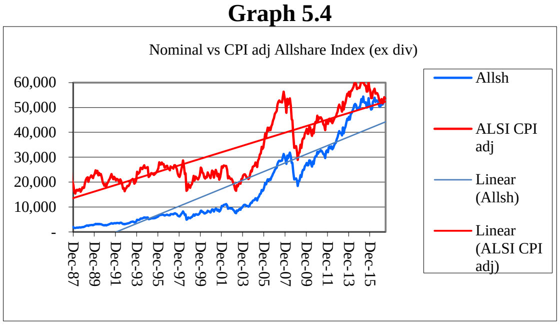
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2017

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

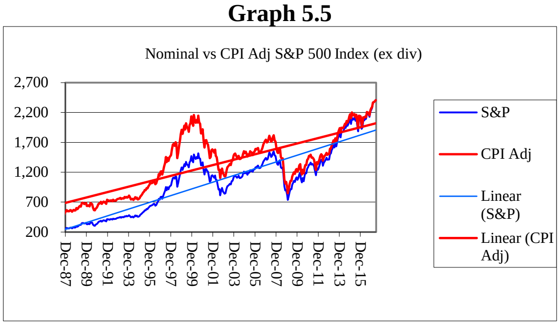
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 5.4



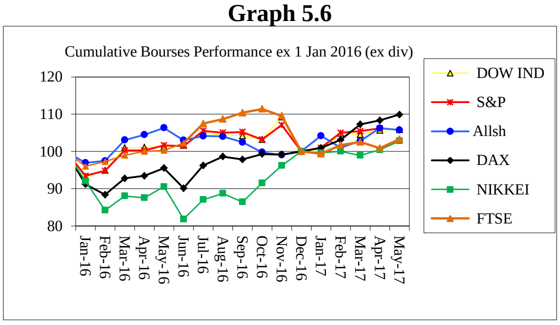
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.4% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a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

Graph 5.5



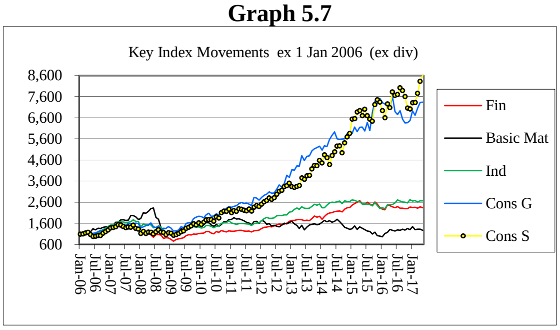
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the Dow Jones, DAX, S&P 500 and FTSE as the top performing share indices since the start of 2016.

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: 20.6%; Consumer Goods: 18.9%; Industrials: 8.9%; Financials: 7.7%; and Basic Materials: 2.0%.

Graph 5.7



6. The 'everything bubble' – so where do you invest?

by Tilman Friedrich

What we see happening in financial markets currently we foresaw years ago when the Fed launched its quantitative easing, or large scale asset purchase programme in consequence of the financial crisis, although we believed it would have happened much sooner. As we know, the Bank of Japan and the European Central Bank followed suit with similar programmes. The world was flooded with cheap money much of which flooded into emerging markets, lifting their bourses and prices of just about any asset worth investing. This in turn lead to a decline in interest rates to zero or even lower in real terms.

Our Benchtest 05.2017 newsletter contains an interesting and somehow frightening article titled 'the everything bubble' making the point that just about every asset class in the world today represents a bubble, i.e. it is significantly overprized. This conclusion is corroborated by another article in same newsletter titled 'Median p: e and forward 10 year returns' specifically with reference to the US equity market. This article suggests that median returns on equities for the next 10 years are likely to be only around 4.3% per annum based on the current median p: e ratio of the US S&P 500 of 24 being in the 5th quintile, the highest quintile of historic mean p: e's.

In the Benchmark Monthly Performance Review of 28 February we presented graphs on the JSE Allshare index and its p: e, currently on 19.3, which is similarly way above its 30 year average of between 13 and 15. SA equities are thus also in 'bubble territory'.

So where should one invest in this environment? Magnus Heystek suggested that one should move all your pension investments invested locally into cash, sell all non-income producing assets and convert them to cash and sell all property investments that do not yield at least 6%. Moving or converting investments into cash can only be a short-term strategy and the only reason for doing this in our opinion, is to avoid a sudden correction in financial markets. This may happen or may not happen. We will not know in advance. It may be kicked off by a global political crisis and there are a number looming on the

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 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.

horizon, so there is certainly a risk of a sudden correction happening.

As pointed out above, the US equity market is likely to return only 4.3% over the next 10 years based on its current p: e ratio of 24 versus its long-term mean of 17. Not an exciting return for the risk equities present but still significantly better than the return on cash which is currently just around 0.5 percent. Of course, with an inflation rate currently at 2.2%, equities would return a meager 2.1% in real terms which is significantly lower than the 5% real return assumed in pension fund models as the long-term return that pension fund contributions need to earn to secure a decent pension upon retirement.

Conclusion

Everything else being equal, we expect asset prices to move sideways for the next couple of years. In last month's newsletter we expressed the view that the SA equity market would require over 4 years in order for inflation to produce a p: e ratio equal to its long-term average of around 14.5. As pointed out above, the US equity market is likely to produce very pedestrian returns of 2% in real terms for the next 10 years.

A major global event such as a war with North Korea, Iran, Russia or China, however, could just burst the current asset bubble. What are the chances of such a dramatic event happening and if so when may this happen? Of course no one can give an answer to these questions.

An investor who is concerned about a sudden downward correction of asset prices and who would like to preempt such a development, which he or she considers imminent, can only achieve this objective by moving into cash. Your chance of either moving into cash too early or too late is evidently equally high. When to move back into the market after the event again presents the next challenge as you may once again be too early or too late. And of course the feared event may never happen and markets will just move sideways peacefully over the next couple of years. Here it is important to set yourself a time frame up front for when to move back into the market. How long that time frame is depends on how long your investment horizon is and whether you can afford to sacrifice market returns for an extended period. A pension fund member will normally have a long-term investment horizon given that even a person retiring at 60 or 65 still has a life expectancy of between 15 and 20 years. With a long-term investment horizon a short-term correction is asset prices should not be such a concern. A person with a short-term investment horizon and someone intending to convert his or her investment to cash in the near future for specific reasons, is in quite a different position and should not dwell on his or her decision, if he or she is concerned about the bursting of the asset bubble.

Since no one will refute that a war happening is pure speculation, an investment decision based on such a dramatic event is also speculative. As an individual concerned with your own investments, you are free to speculate. We do not believe it would be the right decision though for someone entrusted with others' investments. For this class of investor, investment managers of balanced portfolios are entrusted with the mandate to manage risk as best they can and since risk is not certainty they would and should never move fully into cash yet try to protect the capital against a dramatic event through are more conservative asset allocation (longer term strategy) or through hedging (short-term strategy).

7. Important notice and disclaimer