Volume 13, No. 11
November 2017

# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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

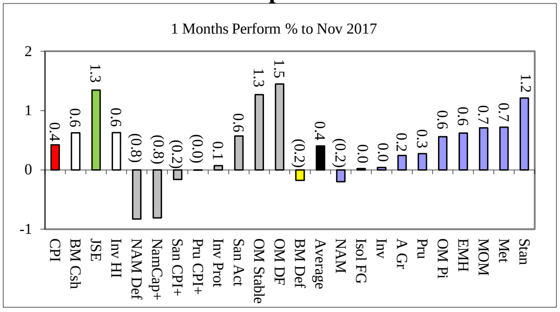
In November the average prudential balanced portfolio returned 0.40% (October: 1.20%). Top performer is Stanlib (1.20%); while Nam Asset (-0.20%) takes the bottom spot. For the 3 month period, Investec takes top spot, outperforming the 'average' by roughly 1.37%. On the other end of the scale Nam Asset underperformed the 'average' by 1.07%.

**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.

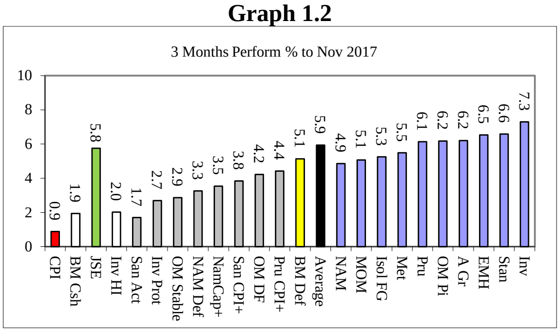
Below is the legend to the abbreviations reflected on the graphs:

| | |
|---|---|
| **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) |
| **Smooth bonus portfolios** | |
| Old Mutual AGP Stable | OM Stable (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) |

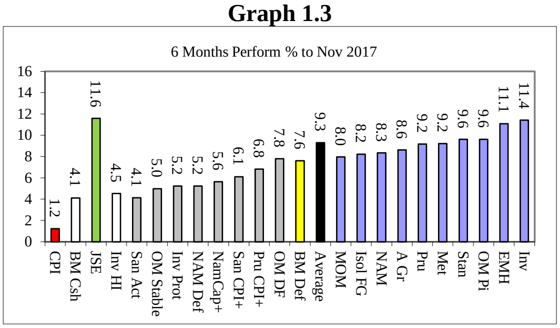
**Graph 1.1**



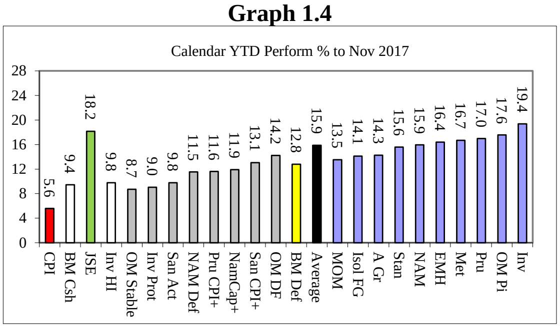

**Graph 1.2**



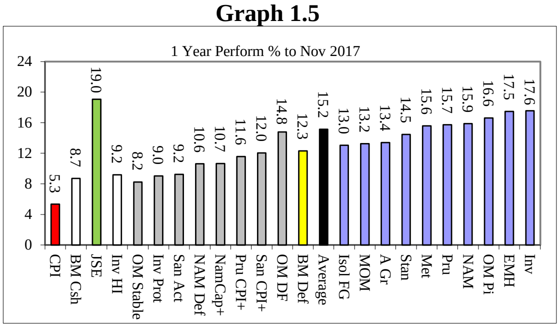

**Graph 1.3**




**Graph 1.4**




**Graph 1.5**



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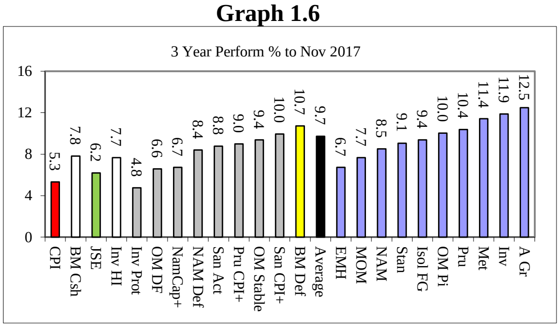
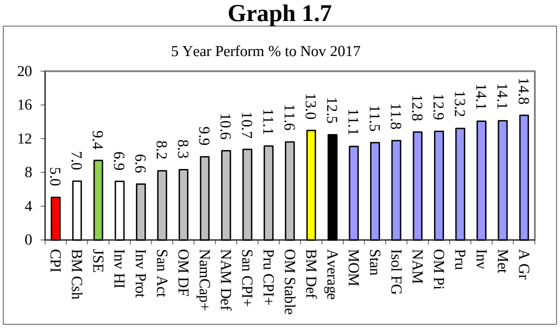
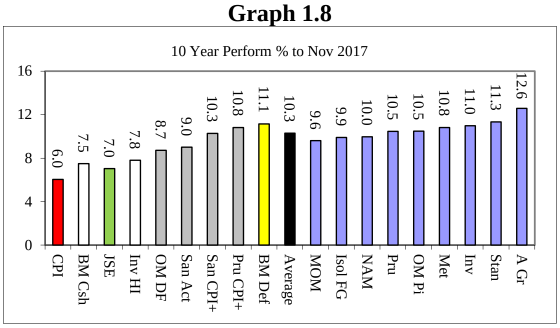
### Graph 1.6



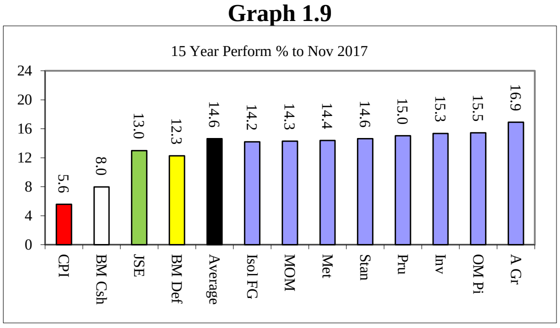

### Graph 1.7



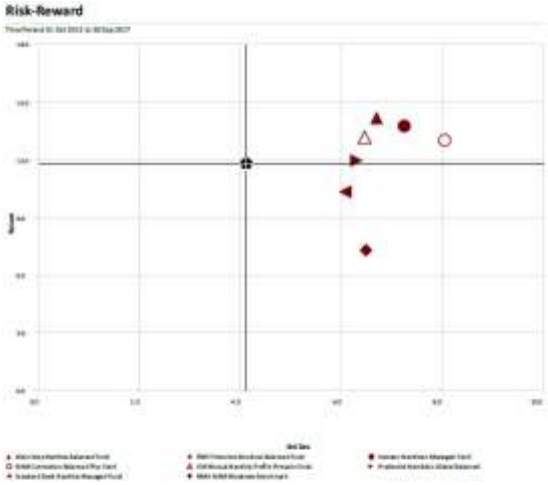

### Graph 1.8




### Graph 1.9

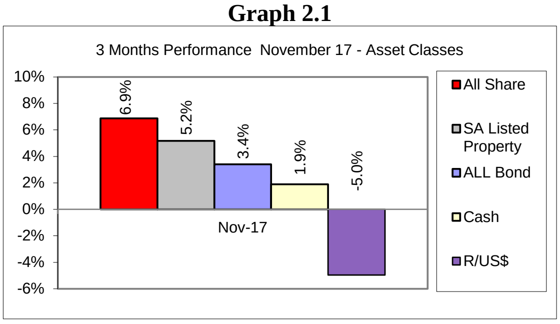



### Risk/ Return

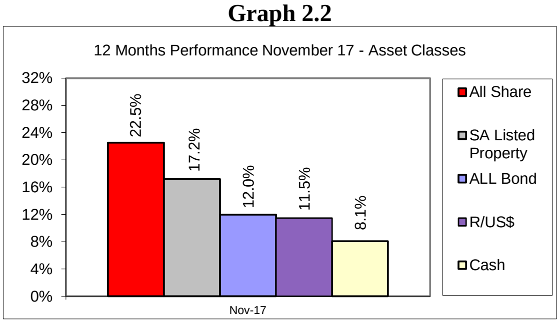



## 2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

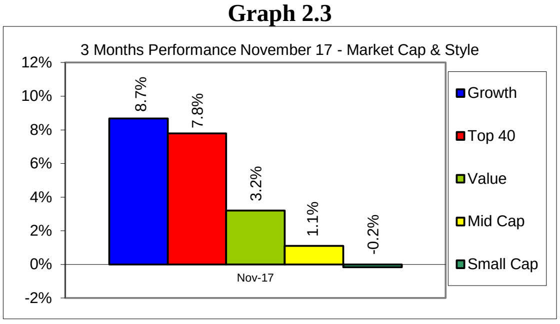
### Graph 2.1




### Graph 2.2




### Graph 2.3



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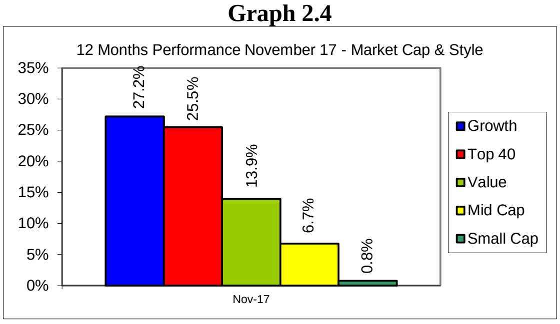
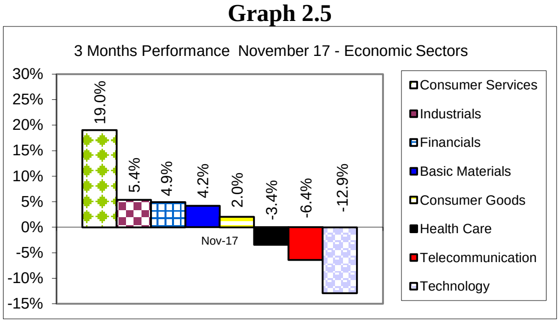
### Graph 2.4




### Graph 2.5

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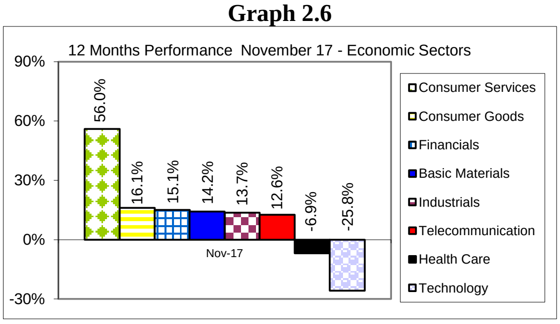
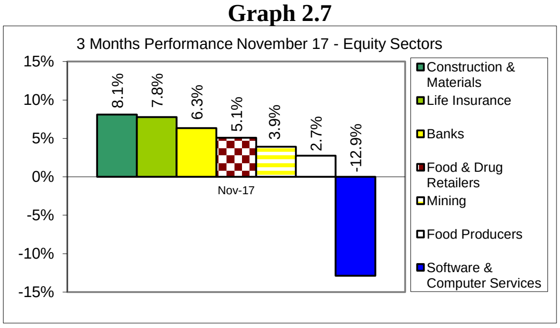
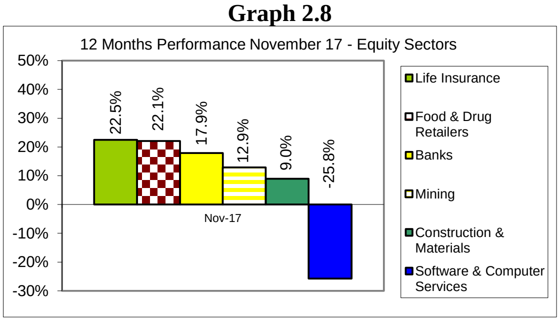



### Graph 2.7



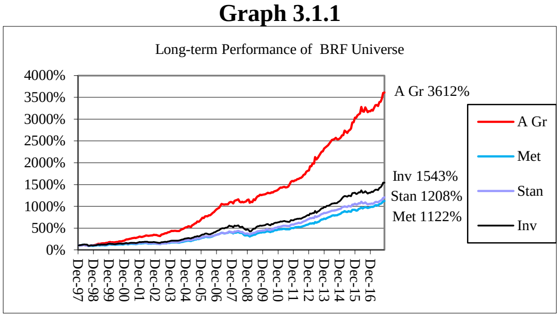

### Graph 2.8




## 3. Portfolio Performance Analysis

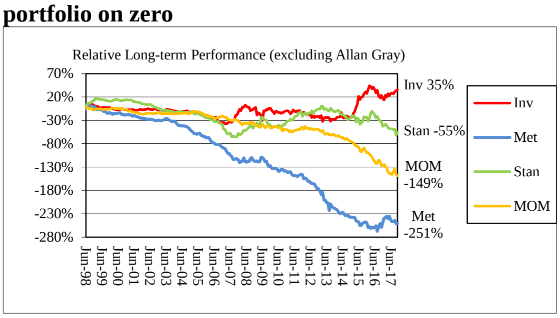
### 3.1 Cumulative performance of prudential balanced portfolios

### Graph 3.1.1

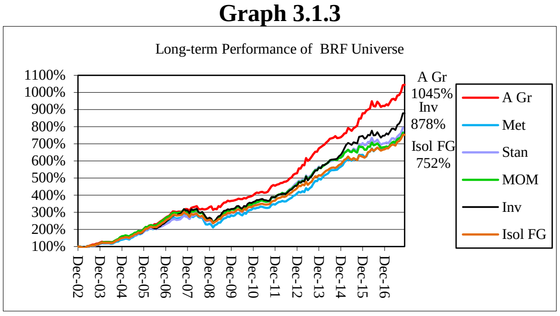



### Graph 3.1.2

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

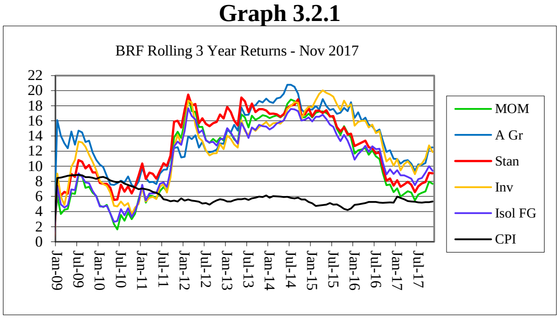



### Graph 3.1.3




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

### Graph 3.2.1



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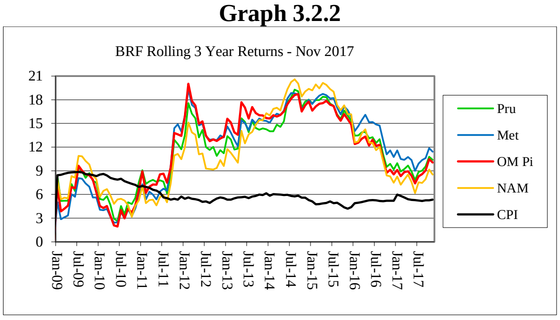
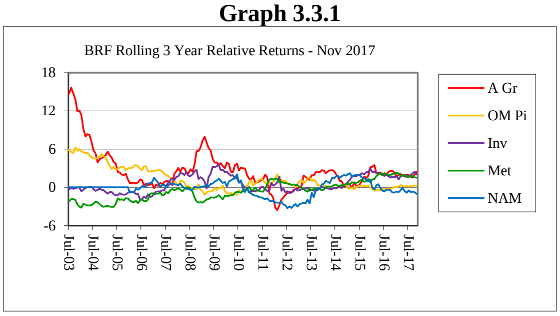
**Graph 3.2.2**

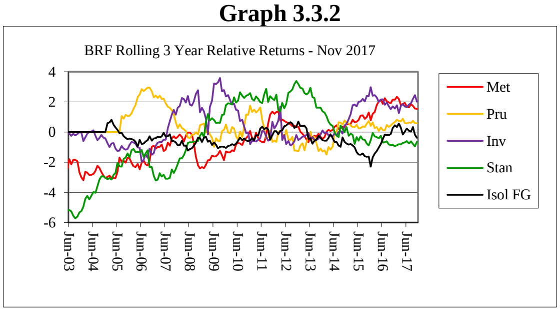



### 3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

**Graph 3.3.1**

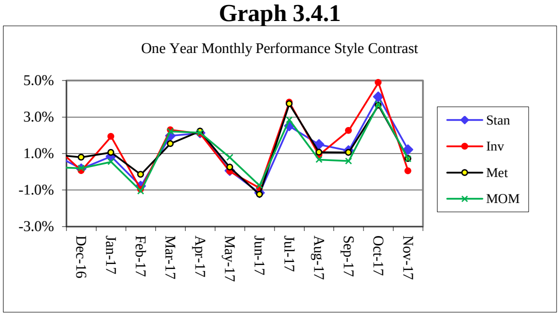



**Graph 3.3.2**

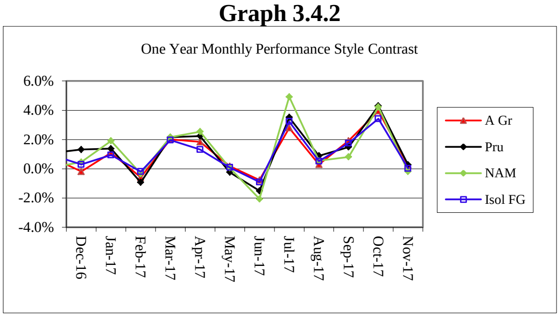



### 3.4 Monthly performance of prudential balanced portfolios

**Graph 3.4.1**

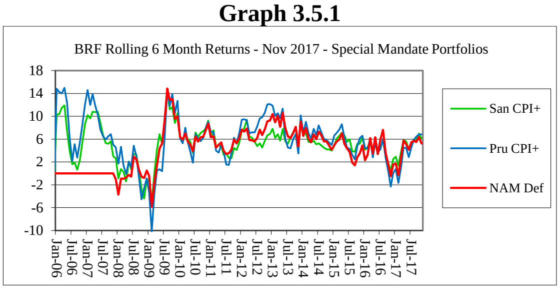



**Graph 3.4.2**

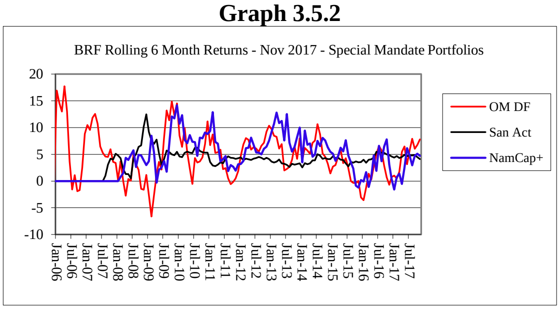



### 3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

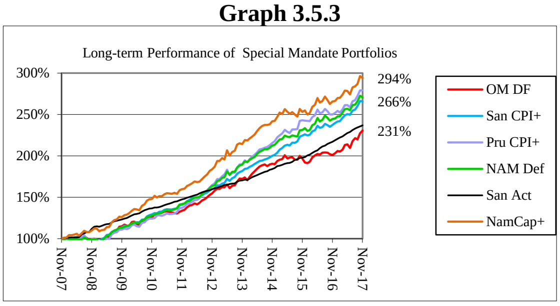
**Graph 3.5.1**




**Graph 3.5.2**




**Graph 3.5.3**



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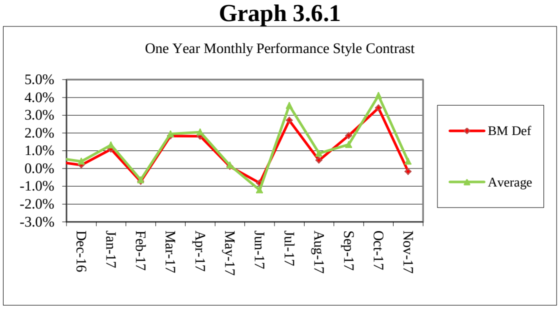
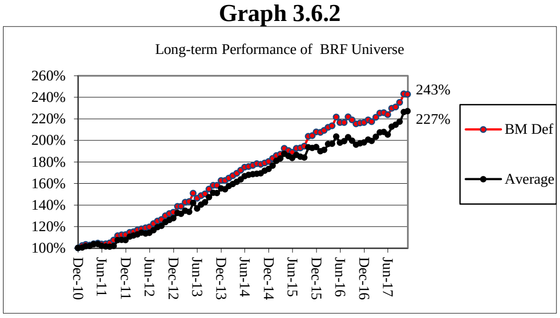
### 3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

**Graph 3.6.1**

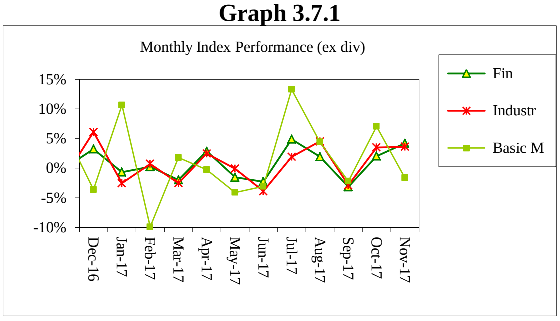



**Graph 3.6.2**

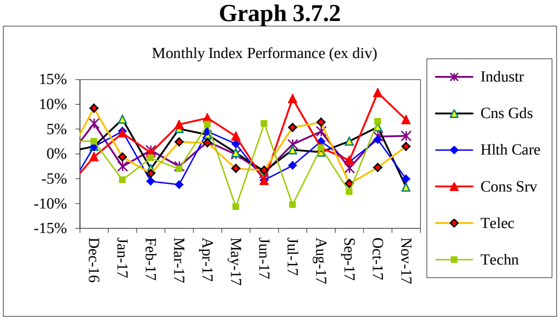



### 3.7 One year monthly performance of key indices (excluding dividends)

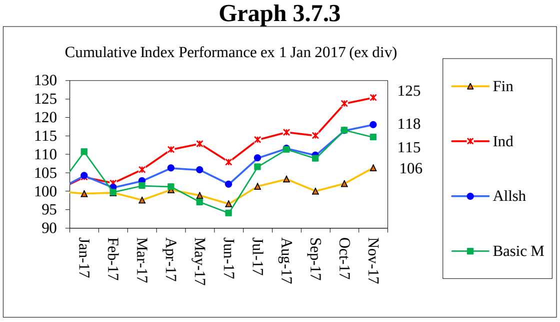
**Graph 3.7.1**



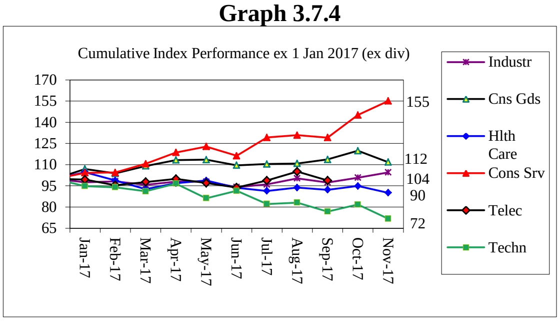

**Graph 3.7.2**




**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. | 13.0 | 12.5 |
| 5 year real return - % p.a. | 8.0 | 7.5 |
| Equity exposure - % of portfolio (qtr end Sep 2017) | 46.1 | 61.3 |
| Cumulative return ex Jan 2011 | 142.6 | 127.0 |
| 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 | 5.7% | 8.5% | 7.2% |
| Best annual performance | 7.8% | 17.8% | 18.0% |
| 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 | 6.6% | 13.3% | 12.6% |

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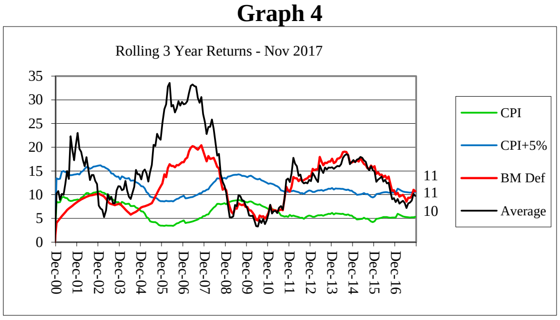
The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years December 2014 to November 2017. This gives an indication of volatility of the performance of these 3 risk profiles.

**Graph 4**



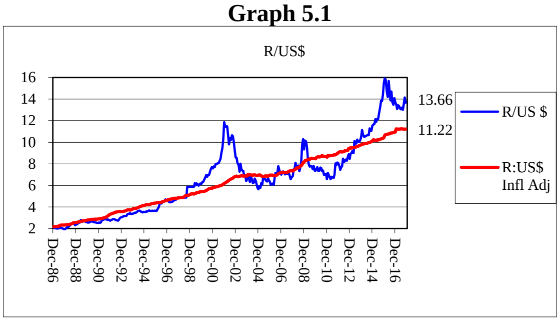

**Graph 4** measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end November was 10.7%, the average was 9.7% vs CPI plus 5% currently on 10.3%.

### 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 11.22 to the US Dollar while it actually stood at 13.66 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

**Graph 5.1**

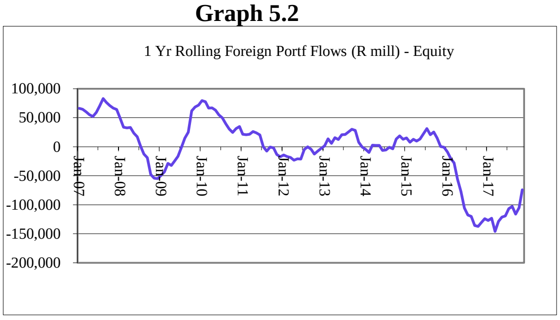



The Rand strengthened by 3.47% in November with net foreign investment inflows into bonds and equities of R 6.6 bn. Over the past 12 months the Rand strengthened by 3.06%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 19.4 bn (outflow of R 65.0 bn to end October 2017).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 323 bn (October R 316 bn).

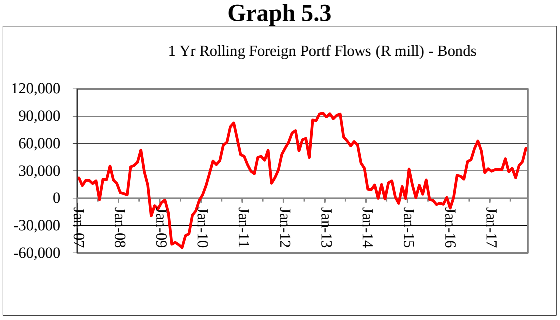
**Graph 5.2** reflects a net outflow of capital from South African equities on a rolling one year basis, with a net outflow of R 74.4 bn on a year-on-year basis at the end of November (outflow of R 105 bn year-on-year to end October). The month of November experienced a net inflow of R 11.6 bn. Since the beginning of 2006, foreign net disinvestment from equities amounts to R 15.2 bn (end October net investment of R 26.7 bn). This represents roughly -0.09% 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 55.0 bn over the past 12 months to end of November (inflow of R 40.1 bn over the 12 months to end of October). The month of November experienced a net outflow of R 5.0 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 338.1 bn (to October R 343.2 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 8.2% per year. This is equivalent to a growth in real terms of 3.4% p.a. over this period, excluding dividends, or around 6.4% including dividends.

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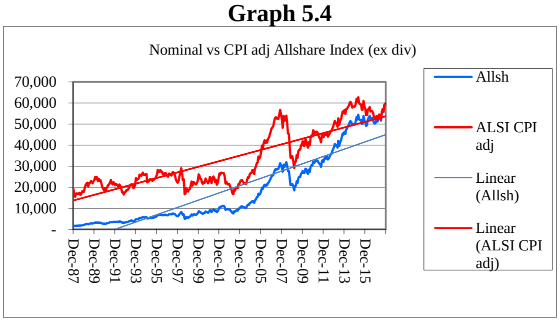
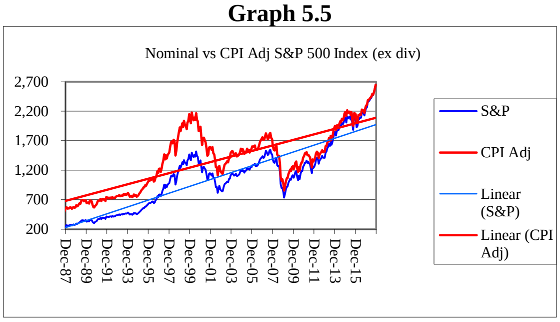


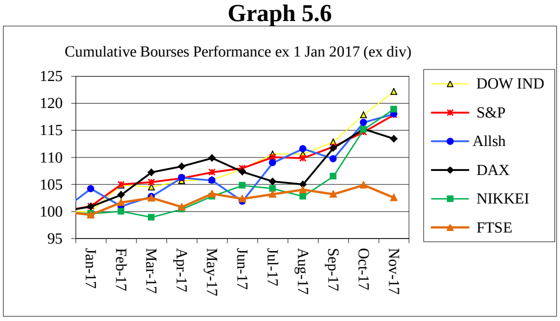

**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.6% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.0% p.a. over this period, excluding dividends.

**Graph 5.5**



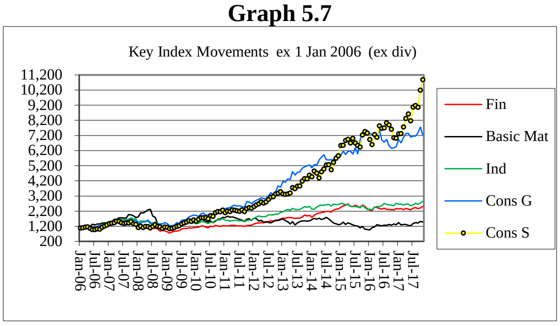

**Graph 5.6** provides an interesting overview of some of the major global share indices, showing up the Dow Jones, DAX, S&P 500 and FTSE as the top performing share indices since the start of 2016.

**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: 22.0%; Consumer Goods: 17.9%; Industrials: 9.1%; Financials: 8.0%; and Basic Materials: 3.4%.

**Graph 5.7**




## 6. The key to outperformance is to think different and better!

by Tilman Friedrich

In this column of our September newsletter, we asked the question whether markets had any further room to rise. We pointed out that since the global financial crisis, US earnings had raced up to 30 year highs and are currently 25% above their 30 years average. We also showed that the price: earnings ratio has risen gradually since the global financial crisis meaning that investors in the US equity markets are prepared to pay ever more for historically high earnings pushing up the S&P 500 by 4.9% per annum in real terms, excluding dividends, over the past 30 years, as opposed to the 3.2% growth of the SA Allshare Index in real terms, excluding dividends. We concluded that the risk of a decline in the US equity market was high particularly in the face of rising interest rates. What happens in the US is of course of great relevance to our equity markets as it will have a direct knock-on effect on our markets. The US stock market comprises nearly 40% of global stock markets as opposed to SA's 1%!

In a special newsletter of 9 December John Mauldin paints a grim picture of public finances in the US and the state of its financial markets. He points out that unfunded pension liabilities at state and local levels quintupled over the past decade to between US$ 4 trillion and US$ 6 trillion and that a number of cities such as Detroit, Stockton and Harrisburg have filed for bankruptcy and that there are likely more to follow. Total federal debt has ballooned by over 120% over the past decade to US$ 20 trillion, more than US GDP of US$ 18 trillion. The interest burden will soon become unaffordable and will require drastic steps that "…will have a profound effect on our lives and portfolios." That is, in the US in the first instance, but with knock-on effects on the rest of the world.

John Mauldin along with others such a Warren Buffet are all warning about equity investors' exuberance and are cautioning that it is time to cut risk. Mauldin points out that Fed tightening cycles, as we are currently in, usually end in recession which is bad for equities. He shows how closely correlated the growth in the Fed balance sheet (from US$ 2 trillion in 2009 to US$ 4.5 trillion in 2014)

Benchmark Retirement Fund

**MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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.

and the S&P 500 (from 800 in 2009 to 2,100 in 2014) has been since the global financial crisis and how the S&P 500 has continued to grow even after the Fed started to taper its balance sheet growth in 2014 and it is forecast to decline to US$ 3.5 trillion by the end of 2020. Assuming the S&P 500 would return to its close correlation to the Fed balance sheet it would indicate a decline from its current level of 2,600 to around 1,700, a 50% drop in the index! Mauldin expresses his concern that investors are "…becoming more and more unanimous in their beliefs and are all moving in the same direction, making the same trades, piling into the top few ETF's and chasing consensus picks." He believes that investment needs to be approached in an independent, contrarian way but not just for the sake of being contrarian, but being better than the crowd.

The Benchmark trustees have taken a clue from these concerns and have reduced the risk of the Benchmark Default Portfolio from an equity exposure of close to 50% down to around 40%, as opposed to the average equity exposure of around 61% of prudential balanced portfolios. Investors who are equally concerned about global financial markets as the trustees of the Benchmark Retirement Fund, should take comfort in the Benchmark Default Portfolio under- performing the average prudential balanced portfolio when equities perform well for the sake of a strong downside protection over the next few years.

**Conclusion**

In the light of the scenario sketched above, offshore diversification remains a must for reducing your chances of losing and improving your chances of better returns and should be considered, particularly now that the Rand has strengthened again. The concern about a possible correction in the US markets should also be borne in mind and risk exposure should be reduced. Pension fund investments are contractual obligations where certain parameters, such as prescribed investment and prescribed investment limits cannot be changed but more conservative portfolios should be considered. Since the Namibian investor is likely to be overweight Namibia with his or her total assets one should use one's liquid discretionary capital to diversify risk away from Namibia. As far as local investments are concerned, in the short-term there is little to choose between the more and the less volatile asset classes in our opinion. We retain our preference for equities over cash and would be wary of bonds in the medium term although there may still be opportunity in the shorter term while SARB may still reduce interest rates against the global trend, even though this becomes ever more remote.

#### 7. Important notice and disclaimer