Volume 14, No. 3
March 2018

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

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

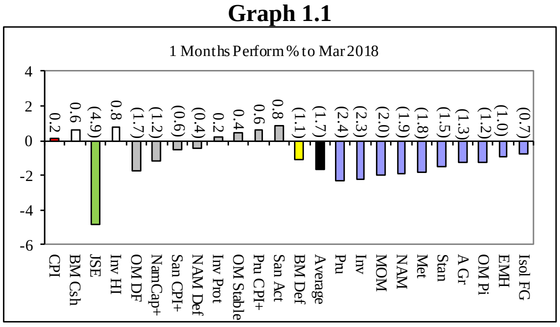
In March 2018 the average prudential balanced portfolio returned minus -1.67% (February 2018: 0.79%). Top performer is Investment Solutions (-0.74%); while Prudential (-2.35%) takes the bottom spot. For the 3 month period, Investment Solutions again takes top spot, outperforming the 'average' by roughly 1.68%. On the other end of the scale EMH underperformed the 'average' by -1.70%.

Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 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, Sanlam Inflation Linked and Allan Gray Namibia Balanced Funds.

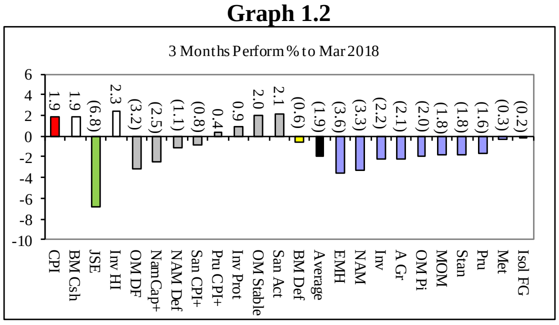
Below is the legend to the abbreviations reflected on the graphs:

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)

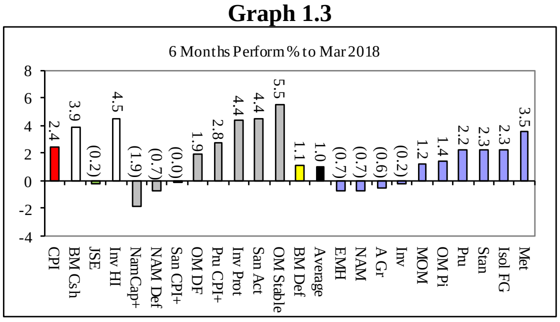
Graph 1.1



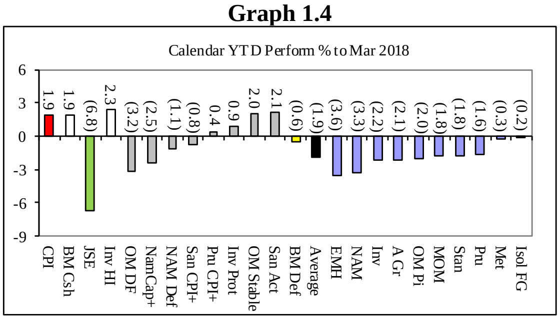
Graph 1.2



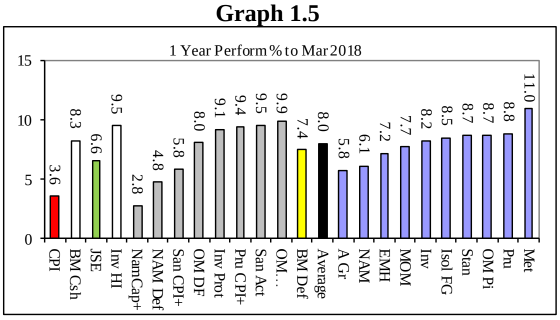
Graph 1.3



Graph 1.4



Graph 1.5



Volume 14, No. 3
March 2018

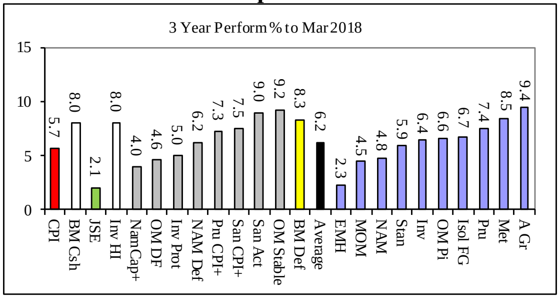
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

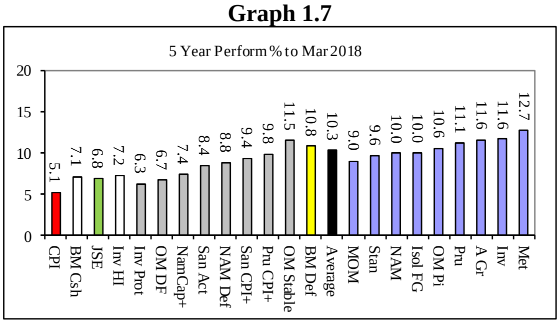
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

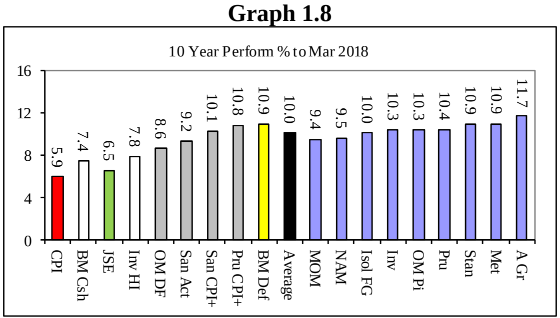
Graph 1.6



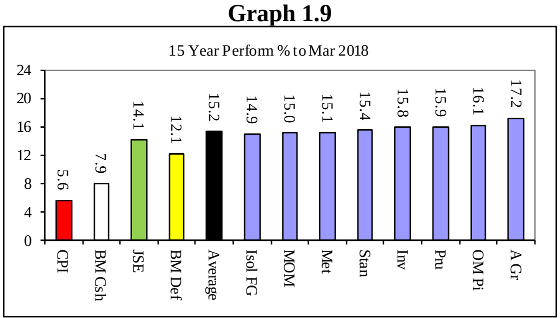
Graph 1.7



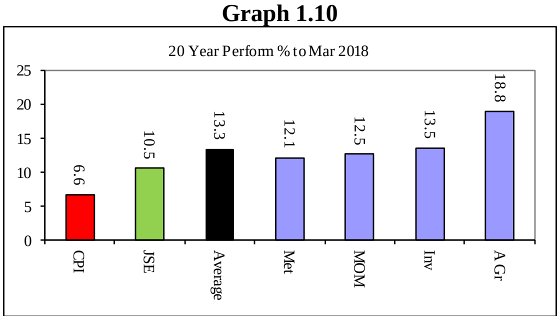
Graph 1.8



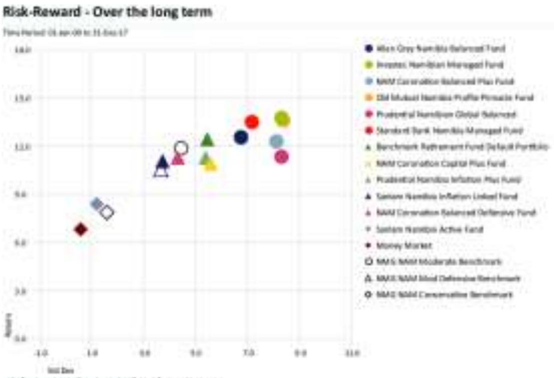
Graph 1.9

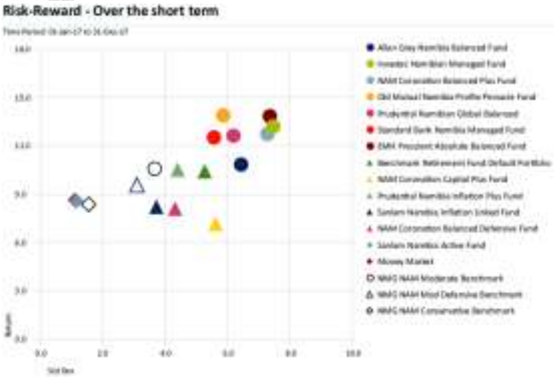


Graph 1.10



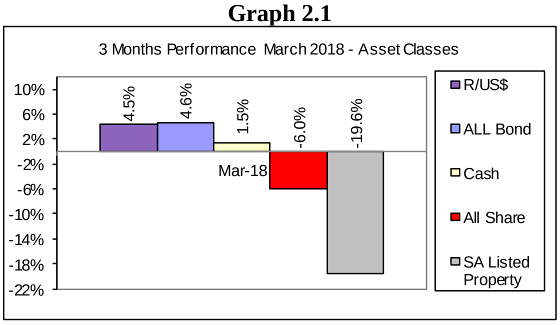
Risk/ Return



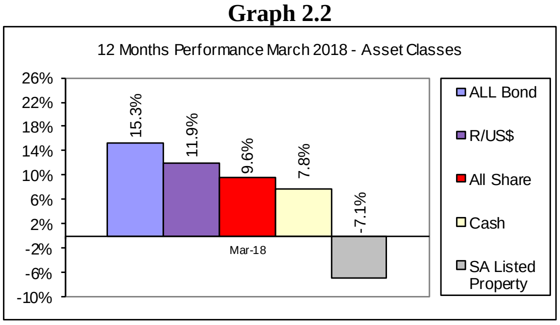


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



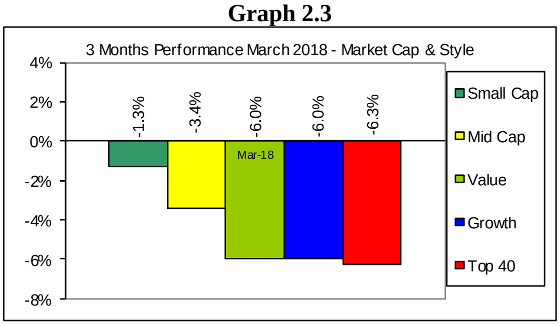
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

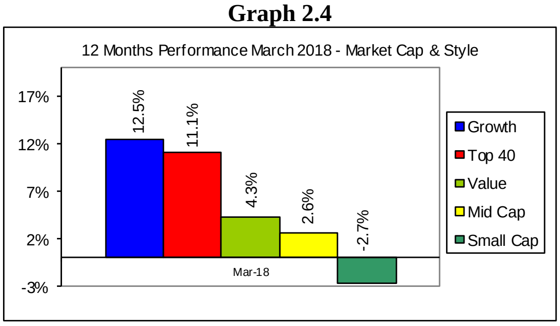
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

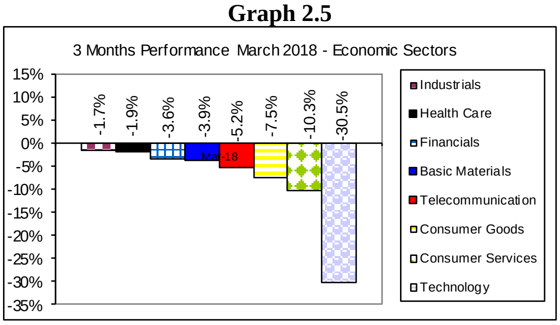
Graph 2.3



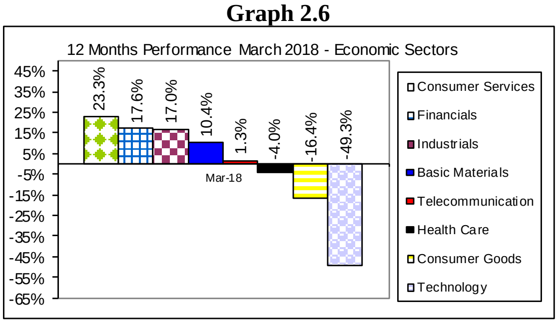
Graph 2.4



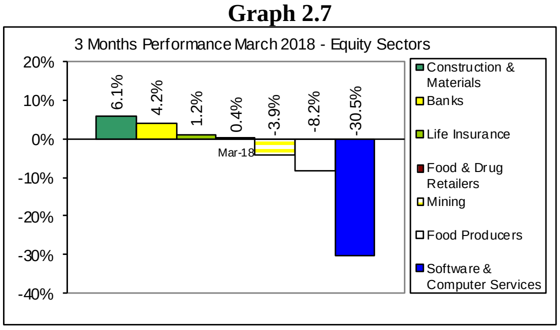
Graph 2.5



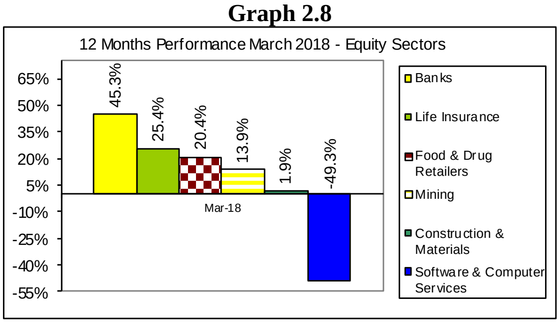
Graph 2.6



Graph 2.7



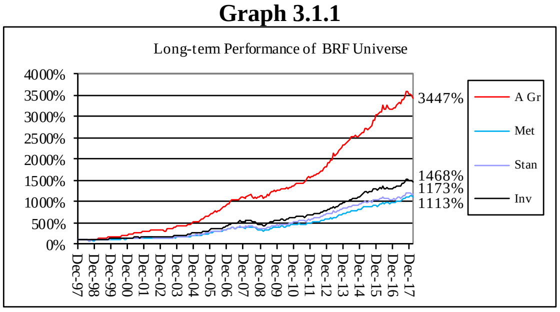
Graph 2.8



3. Portfolio Performance Analysis

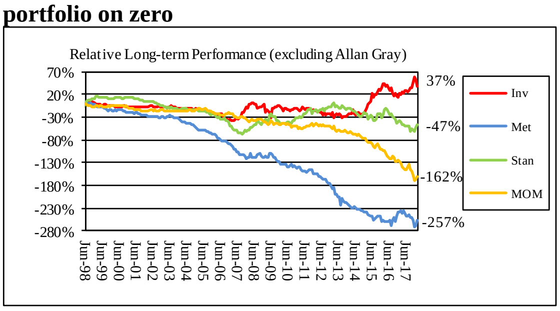
3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1

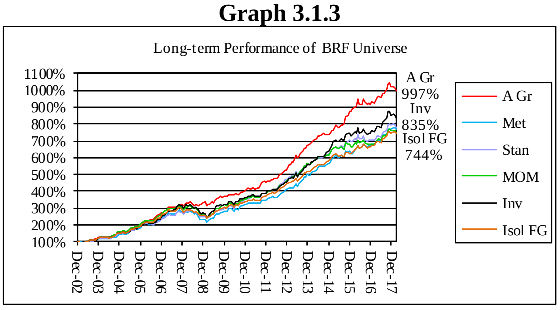


Graph 3.1.2

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



Graph 3.1.3



Volume 14, No. 3
March 2018

Benchmark Retirement Fund

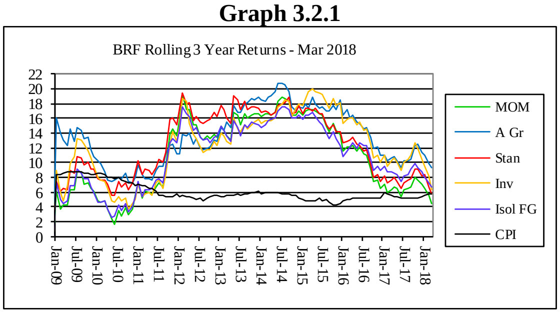
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

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

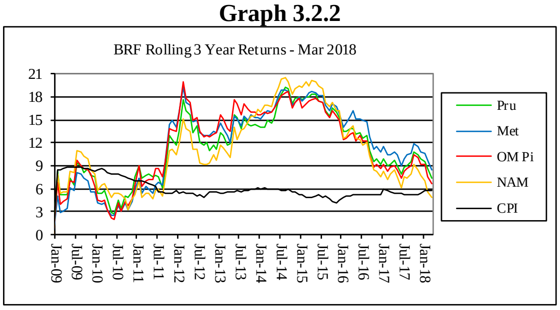
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

Graph 3.2.1

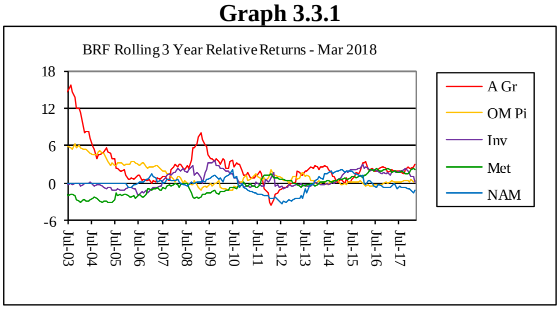


Graph 3.2.2

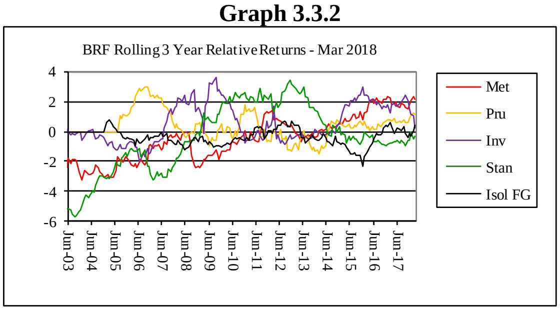


3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

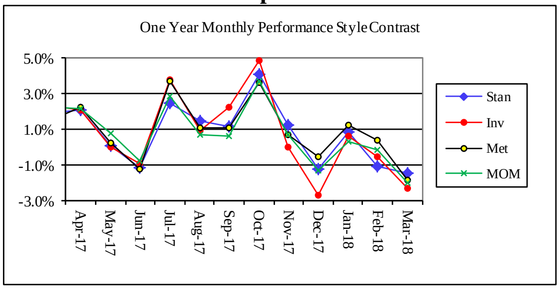


Graph 3.3.2

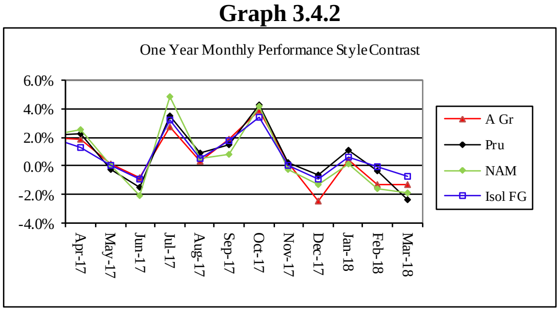


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

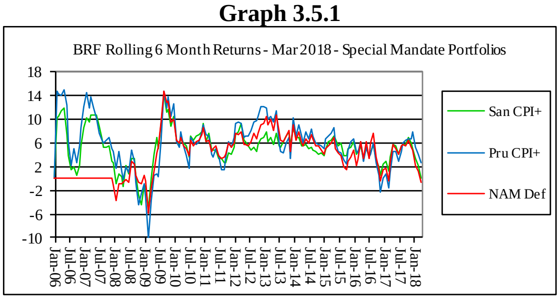


Graph 3.4.2

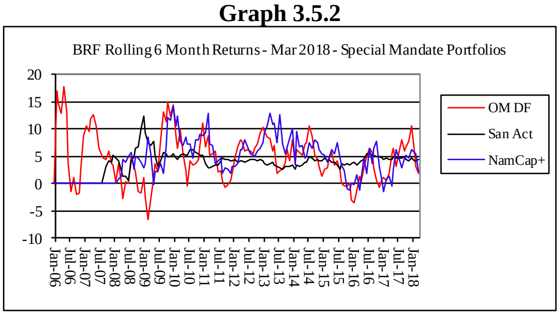


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

Graph 3.5.1



Graph 3.5.2



Volume 14, No. 3
March 2018

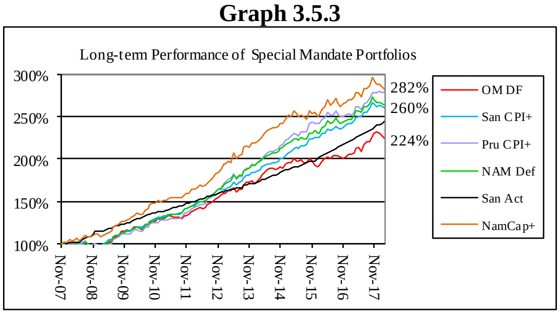
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

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

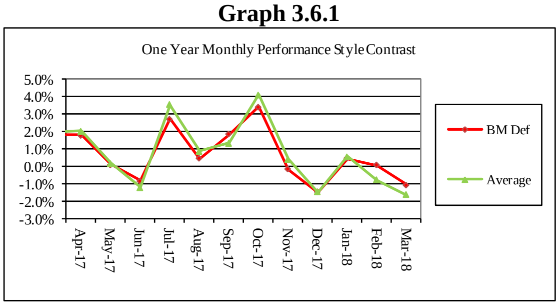
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.5.3

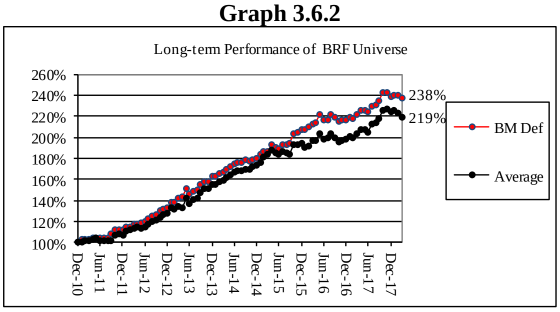


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

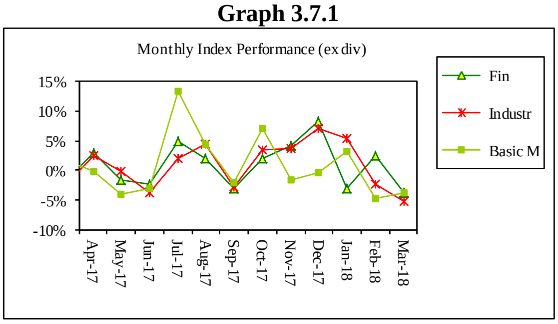


Graph 3.6.2

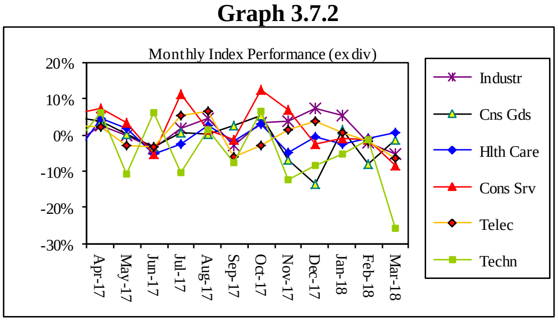


3.7 One year monthly performance of key indices (excluding dividends)

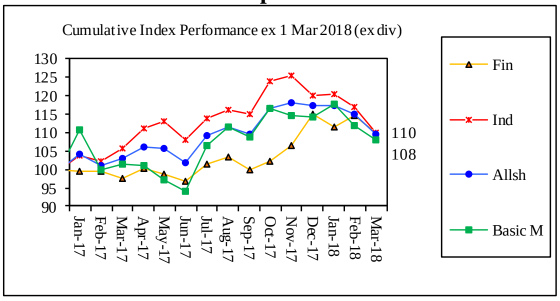
Graph 3.7.1



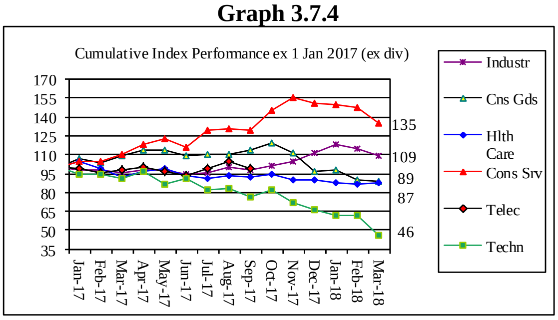
Graph 3.7.2



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.	10.8	10.3
5 year real return - % p.a.	5.7	5.2
Equity exposure - % of portfolio (qtr end Dec 2017)	47.8	61.1
Cumulative return ex Jan 2011	137.66	119.46
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.

Volume 14, No. 3
March 2018

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

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

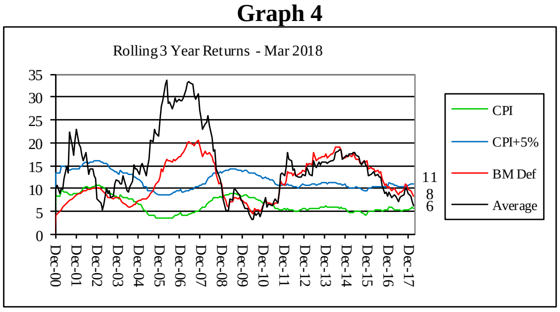
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.8%	8.3%	6.2%
Best annual performance	7.9%	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	6.8%	12.4%	11.5%

The table above presents one year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years April 2015 to March 2018. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

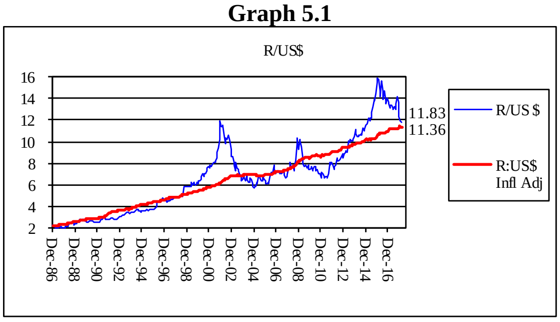


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end February was 8.34%, the average was 6.22% vs CPI plus 5% currently on 10.68%.

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 11.36 to the US Dollar while it actually stood at 11.83 at the end of March. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

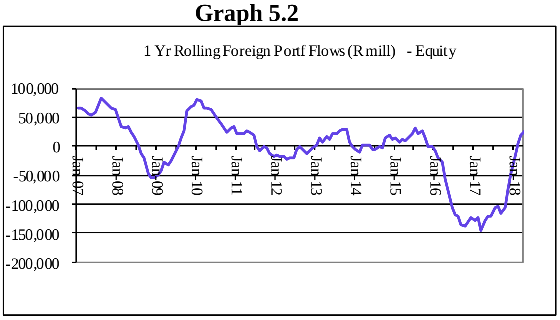


The Rand weakened by 0.45% in March with net foreign investment inflows into bonds and equities of R 13.9 bn. Over the past 12 months the Rand strengthened by 11.9%. Net inflows of foreign capital into equity and fixed interest securities over the past 12 months amounted to R 74.2 bn (inflow of R 61.9 bn to end February 2018).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 387 bn (February R 373 bn).

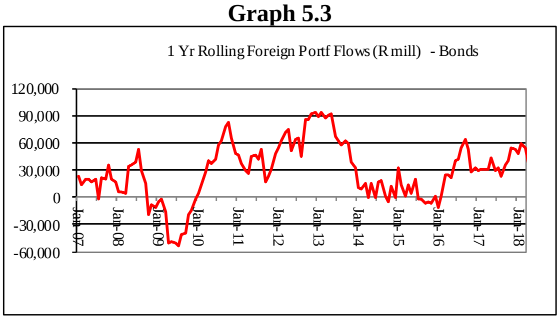
Graph 5.2 reflects a net inflow of capital from South African equities on a rolling one year basis, of R19.8 bn at the end of March (inflow of R 3.4 bn year-on-year to end February). The month of March experienced a net outflow of R 1.5 bn. Since the beginning of 2006, foreign net disinvestment from equities amounts to R 34.1 bn (end February net investment of R 35.6 bn). This represents roughly 0.24% 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 54.3 bn over the past 12 months to end of March (inflow of R 58.4 bn over the 12 months to end of February). The month of March experienced a net inflow of R 15.4 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 352.8 bn (to February R 337.5 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 11.2% 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% p.a. over this period,

Benchmark Retirement Fund

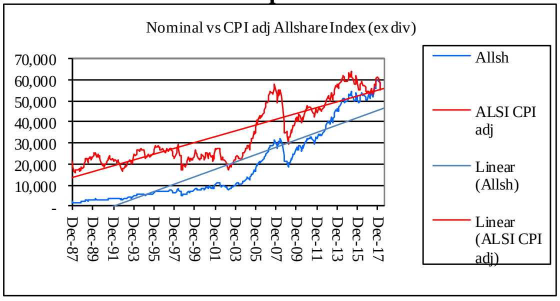
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

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.

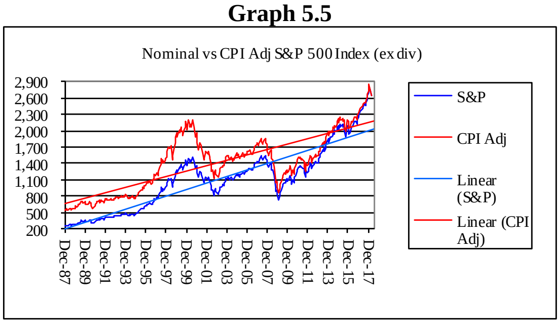
excluding dividends, or around 6.3% including dividends.

Graph 5.4



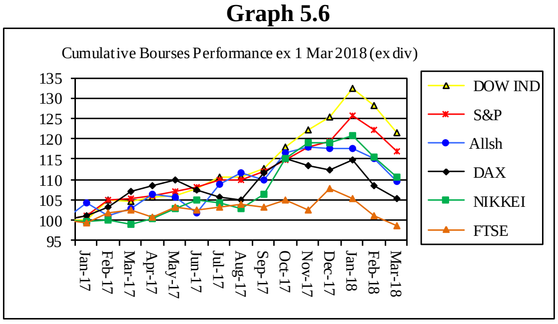
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.5% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 4.9% p.a. over this period, excluding dividends.

Graph 5.5



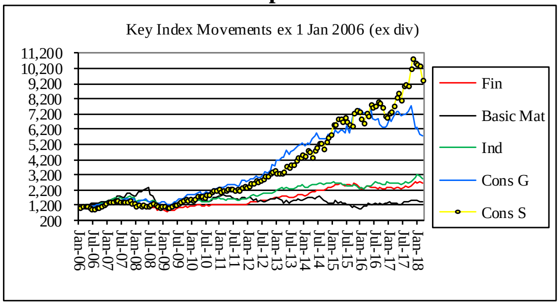
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the Dow Jones as the top performing index indices since the start of 2017.

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: 20.0%; Consumer Goods: 18.1%; Industrials: 9.23%; Financials: 8.5%; and Basic Materials: 2.8%.

Graph 5.7



6. Do investors care about governance when there is money to be made?

by Tilman Friedrich

This is the topic of an article by Ingé Lamprecht in Moneyweb of 18 April. In this article she makes reference to the predicament Facebook recently landed itself in after it emerged that the election consultancy Cambridge Analytica used the data of millions of users without their consent and potentially influenced voter behaviour in the process. Besides the fact that Russia was accused of influencing the US elections, this indiscretion at least initially cost Facebook dearly in terms of a drop. of its market capitalization. She makes the point that "…While investors tend to pay lip-service to environmental, social and governance (ESG) factors at the firms they invest in as long as returns are favourable, recent corporate scandals at Steinhoff and Tiger Brands have highlighted how serious the damage can be when safeguards fail…"

Doing business presents risks as being alive and the adage that taking greater risks will deliver greater returns will always remain true. Somewhere there is a tipping point where the risk was just too high and resulted in the demise of the venture. When is a risk a normal business risk and when does it become morally questionable – whose morals do we apply as the measure anyway? And where is the boundary between business and politics? I do not believe there is a boundary between these two. Politics is but another arrow in the quiver of business while war is the ultimate argument of politics on behalf of business. Take US politics. Without business involvement, a candidate would get nowhere. So business interests are eventually dictating to politics what interests to protect and to promote. US global hegemony is absolutely essential for US business interests to achieve their goals and to dominate the global economy. We are all experiencing in our own lives how we have to dance to the tune of the US be it when you want to open a bank account, when you want to enter into a business relationship with a North Korean company, or you want to consider a request by the Chinese government to set up an earth satellite tracking station near Swakopmund or to construct a naval base in Walvis Bay. What is morally wrong with this? The problem is that should the Chinese get a foothold in Namibia they might be able to challenge

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2018

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 US military dominance and consequently the global dominance of US business interests.

One can only conclude that there is ultimately no such thing as moral values when it comes to human endeavour. The United Nations was established through US initiative on the noble ticket of promoting peaceful coexistence of nations across the globe. Yet how many times has the US enlisted so-called coalitions of the willing to enforce its interests as dictated by business without UN mandate and did these interventions make the world any better? It's not that the US would need Denmark or Britain or France or Australia to make its point but it is merely trying to give its brute endeavours a moral coating. The first things one hears in the media after the recent attack on Syria is how the 'west' can now get its foot in the door with the reconstruction of Syria. The 'west' of course being the US first and foremost, with some spoils left to the willing allies.

It seems to me a bit of a farce and an exercise in futility of the weak, applying ESG principles when the ultimate argument is brutal force.

So what does this have to do with investors and their investments you may ask? The point I want to make is that moral values are not engrained in competitive human behaviour and doing business is a competitive venture of human behaviour. As an investor one needs to be realistic and interpret and understand the indicators of business interests as borne out by political behaviour.

We are talking a lot about the new world order but we do not have a new world order. We have the US that is imposing its will on the rest of the world, with or without UN mandate, and the investor needs to recognise this fact when making investments else you make be caught off balance. It's about US business interests and nothing else, no ethical values playing a role at all. From an ethical point of view one should probably not invest in or have any business dealings with the US. Where does this leave the noble ESG principles of investment?

Today the US's main global economic adversary is China which is also in the process of building its military capabilities as it would not be able to protect its business interests without a serious military capability. Although Russia does not pose an economic challenge to US interests, it does pose a bit of a military challenge that the US is intent to deal with. Primarily however, Russia is China's Achilles heel. Investments in the influence spheres of Russia and China face a serious political risk as we have recently seen when Russian Sperbank lost some 35% of its market capitalization when the US decided to impose sanctions on the bank. As we suggested in a previous newsletter – when you invest, make sure you are on the winning side and stay out of the cross fire!

Conclusion

In our previous commentary we suggested that equities present a risk. Any major global political event may kick-off a sell-down of equities. Without such event it is likely that equities are now in a phase of a long drawn-out correction, as interest rates in the US are moving to more normal levels again. Going by the Fed's forewarnings, and everything else being equal, one is probably looking at another one to two years until we will reach the point where fixed interest investments once again offer a fair risk adjusted return and where investors will rebalance their portfolios away from equities to fixed interest. In the meantime we expect equities to continue moving sideways and markets to become more volatile. We do not see any conventional asset class, that is equities, property, bonds and cash that offers exiting prospects in the near future. Solid companies purchased at fair value should be able to produce reasonable real returns although we retain our equity bias. This should be the time for stock pickers who can identify value in the universe of the various asset classes. And, once again we caution investors not to expect double digit returns for the next few years. Rather take comfort with an inflation beating return in the region of 4% to 5% and try to lock in such opportunities when they present themselves.

The strong Rand still offers an opportunity to diversify offshore. In the light of announced changes to regulation 28 that require the Namibian exposure of pension fund investments to be lifted to 45%, the investor faces the dilemma of investments being highly concentrated in Namibia. The SA allocation will effectively be restricted to 25%, the balance of 30% invested offshore. This in itself presents an imbalance in the typical pension fund portfolio, too much being required to be invested in Namibia. Discretionary assets should thus now be expatriated to improve this imbalance.

Amongst the various equity sectors, commodities have been in the doldrums for quite some time now and should benefit from a slowly improving global economy and are thus expected to offer fair prospects for 2018. The expected improvement in consumer sentiment should benefit industrials and consumer goods and services.

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.