Volume 14, No. 4
April 2018

# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 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

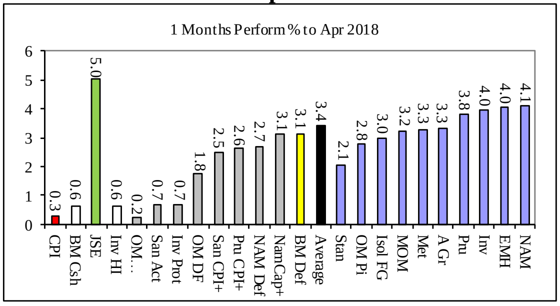
In April 2018 the average prudential balanced portfolio returned 3.4% (March 2018: -1.67%). Top performer is Namibia Coronation Balanced Plus (4.1%); while Stanlib (2.1%) takes the bottom spot. For the 3 month period, Investment Solutions takes top spot, outperforming the 'average' by roughly 1.23%. On the other end of the scale Stanlib underperformed the 'average' by 1.49%.

**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.

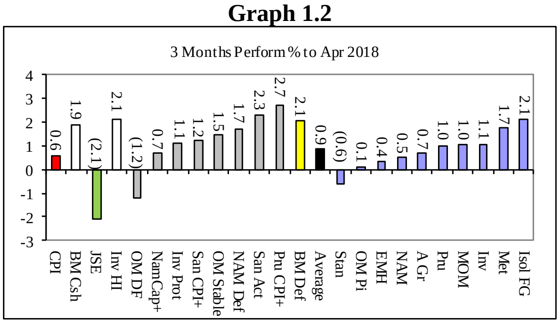
Below is the legend to the abbreviations reflected on the graphs:

| | |
|---|---|
| **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) |

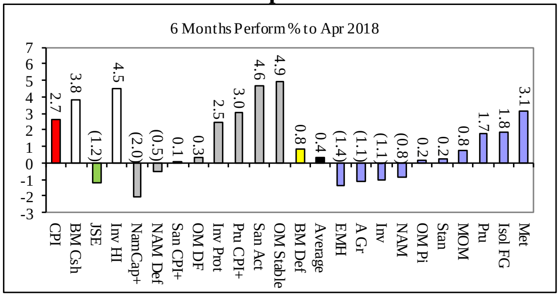
**Graph 1.1**




**Graph 1.2**




**Graph 1.3**

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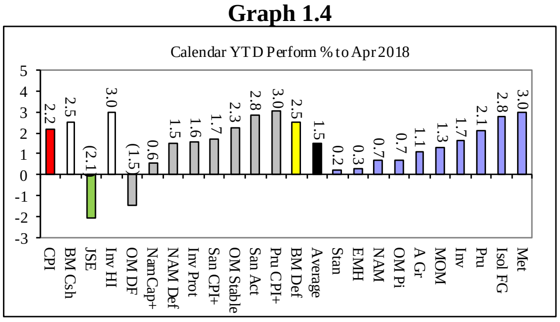
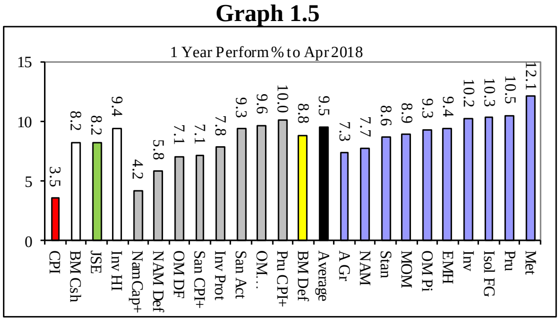



**Graph 1.5**



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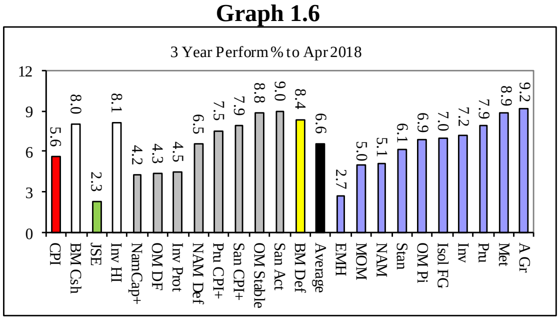
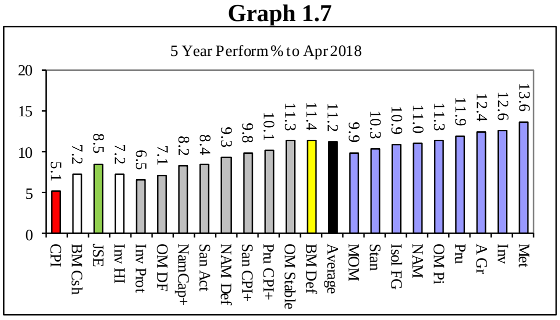
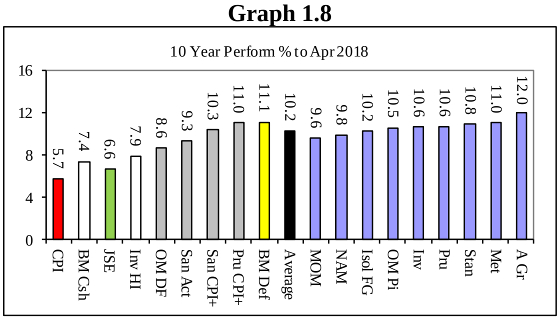
### Graph 1.6



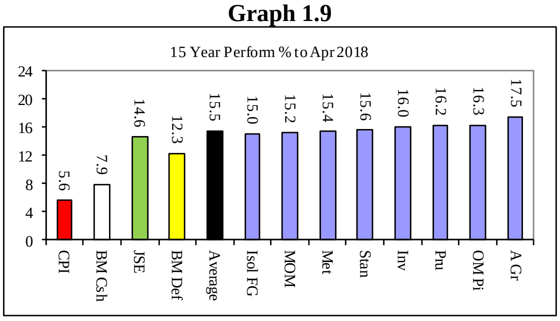

### Graph 1.7



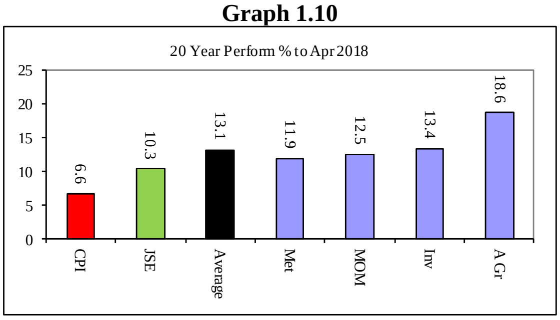

### Graph 1.8



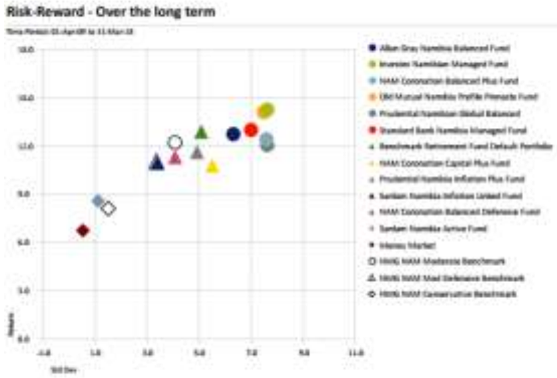

### Graph 1.9

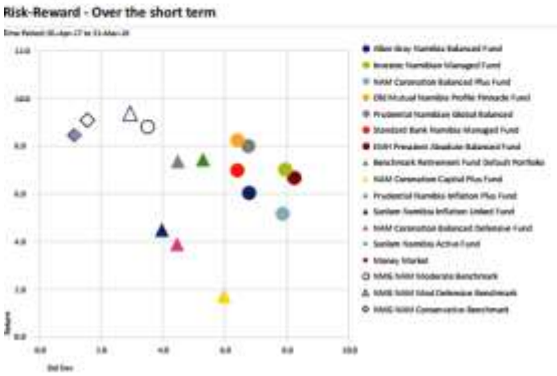



### Graph 1.10



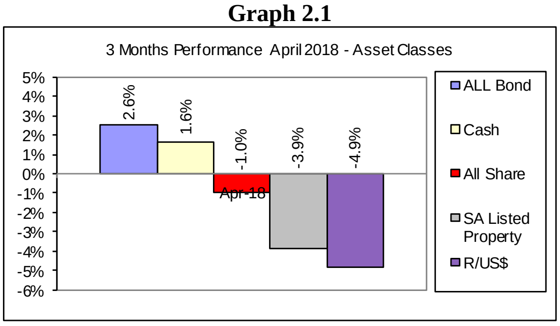

### Risk/ Return



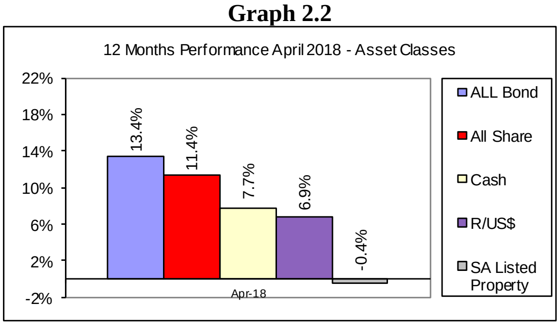




## 2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

### Graph 2.1




### Graph 2.2



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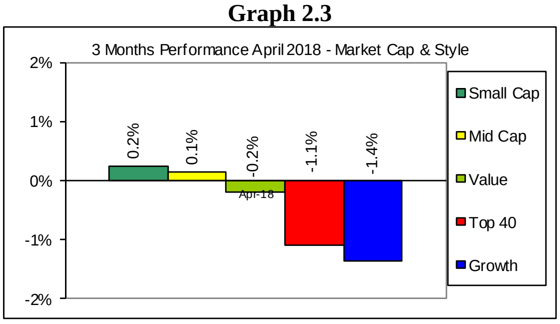
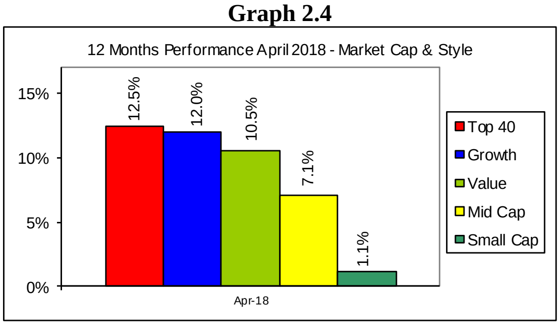
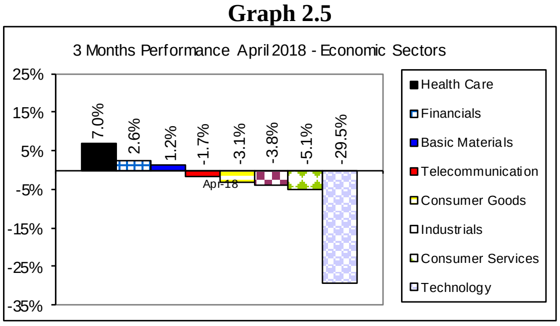
**Graph 2.3**



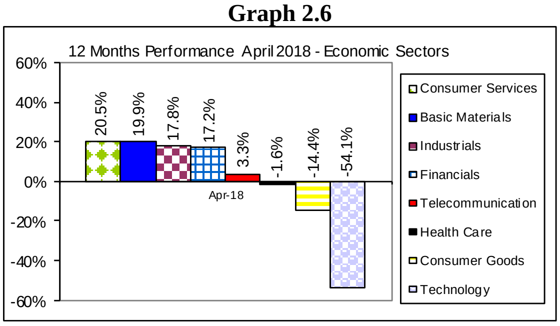

**Graph 2.4**



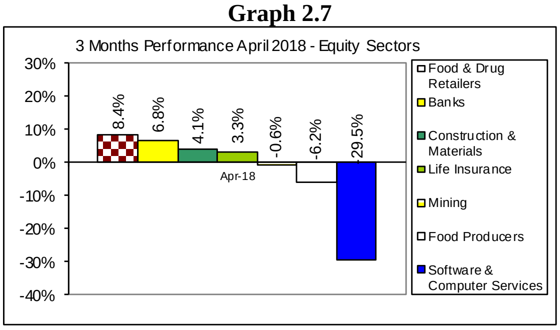

**Graph 2.5**



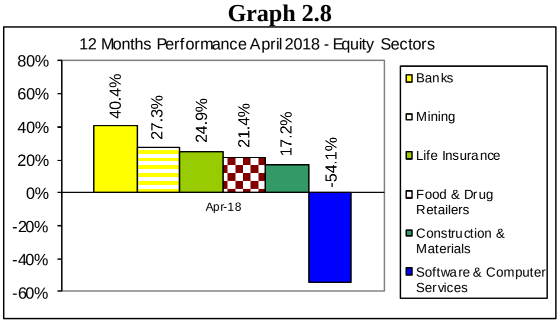

**Graph 2.6**




**Graph 2.7**



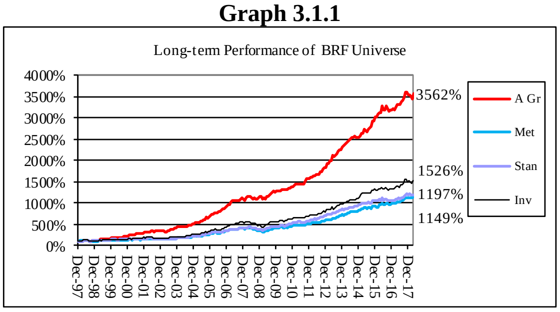

**Graph 2.8**




## 3. Portfolio Performance Analysis

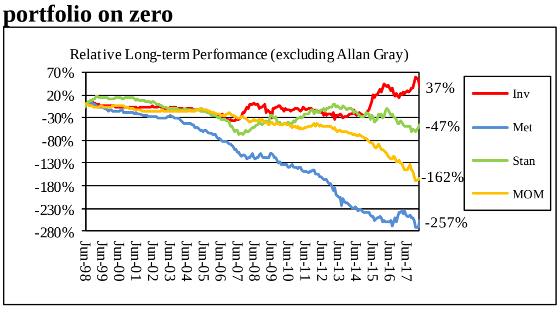
### 3.1 Cumulative performance of prudential balanced portfolios

**Graph 3.1.1**

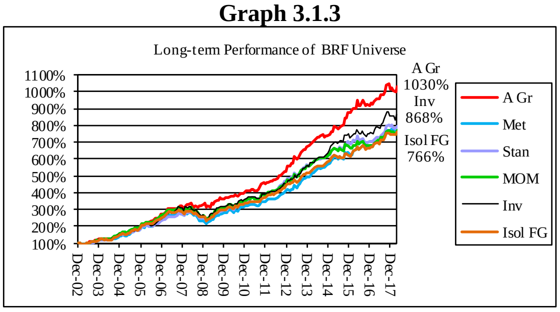



**Graph 3.1.2**

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




**Graph 3.1.3**



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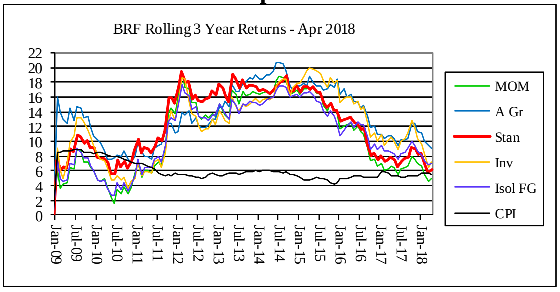
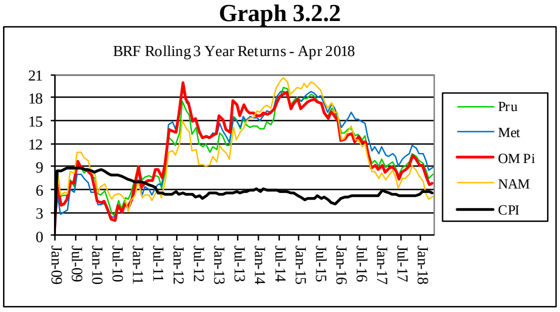
### 3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

**Graph 3.2.1**

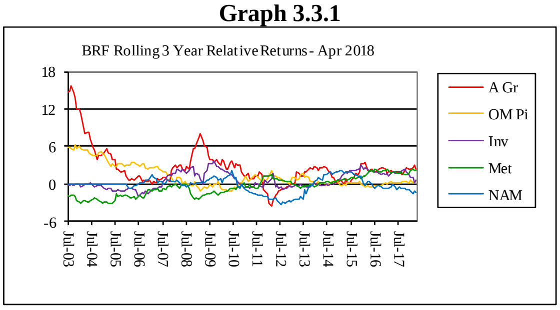



**Graph 3.2.2**

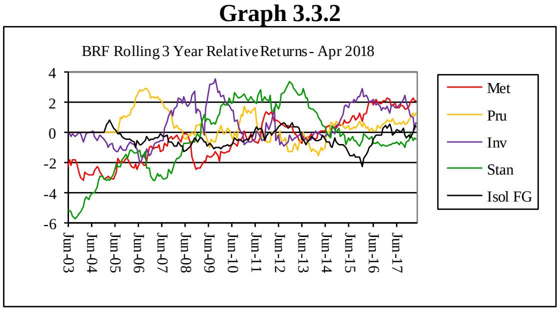



### 3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

**Graph 3.3.1**

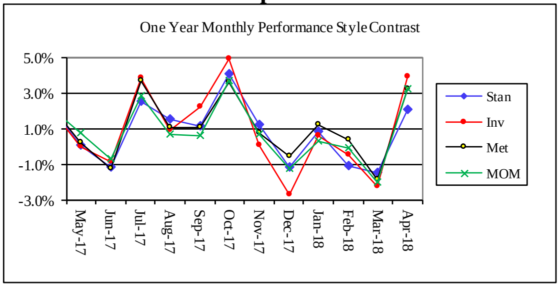



**Graph 3.3.2**

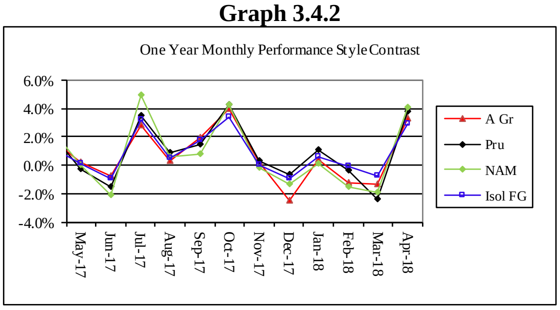



### 3.4 Monthly performance of prudential balanced portfolios

**Graph 3.4.1**

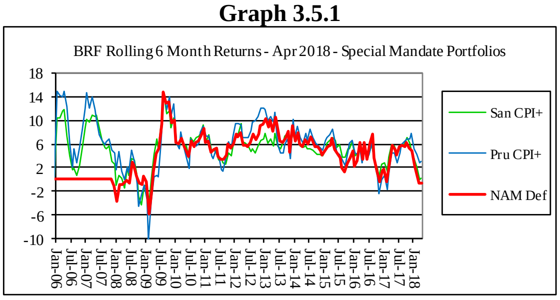



**Graph 3.4.2**

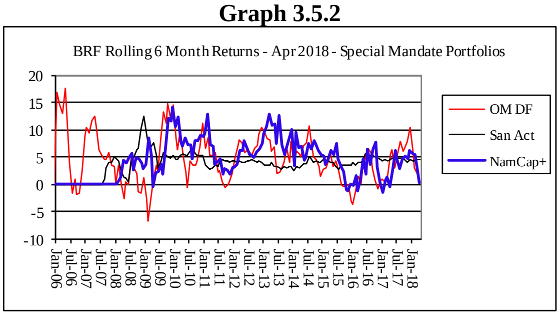



### 3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

**Graph 3.5.1**




**Graph 3.5.2**



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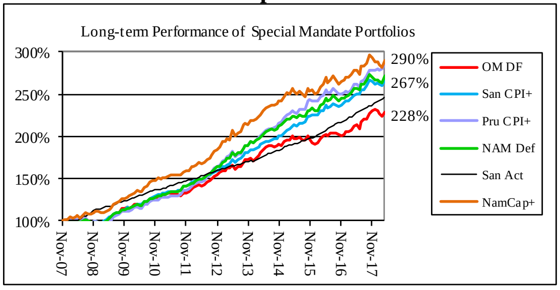
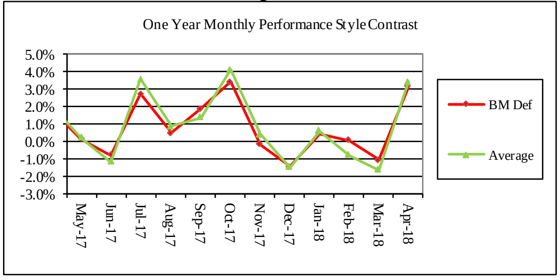
**Graph 3.5.3**

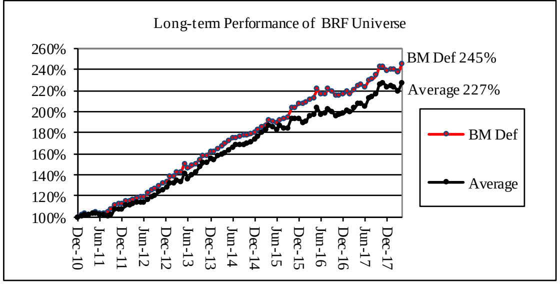



### 3.6 Monthly and cumulative performance of ‘Benchmark Default’ portfolio relative to average prudential balanced portfolio

**Graph 3.6.1**

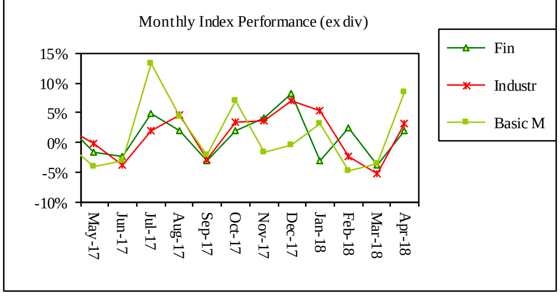



**Graph 3.6.2**

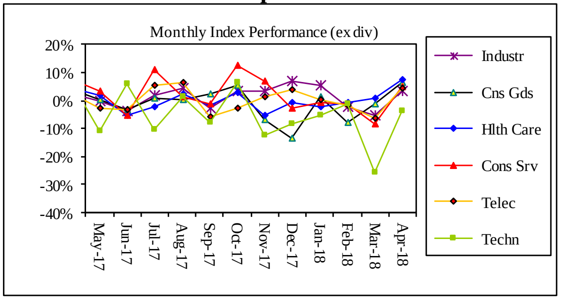



### 3.7 One year monthly performance of key indices (excluding dividends)

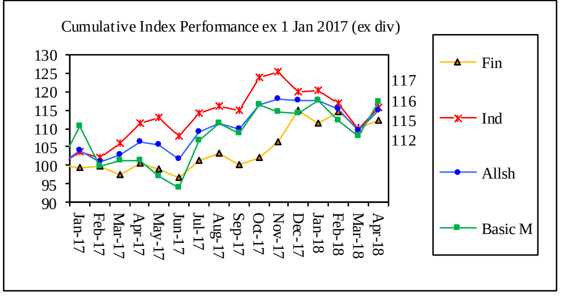
**Graph 3.7.1**



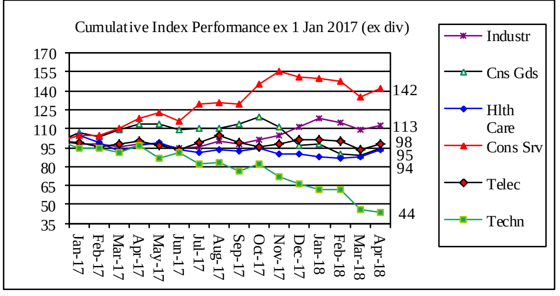

**Graph 3.7.2**




**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. | 11.4 | 11.2 |
| 5 year real return - % p.a. | 6.3 | 6.1 |
| Equity exposure - % of portfolio (qtr end Mar 2018) | 46.4 | 66.6 |
| Cumulative return ex Jan 2011 | 145.1 | 126.9 |
| 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.

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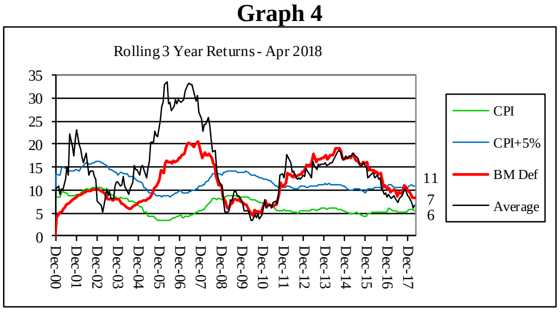
**Table 4.2**

| **Measure** | **Money Market** | **Default Portf** | **Average Prud Bal** |
|---|---|---|---|
| Worst annual performance | 5.8% | 8.3% | 6.2% |
| Best annual performance | 8.0% | 17.0% | 17.8% |
| 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 | 6.9% | 8.4% | 6.7% |

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

**Graph 4**

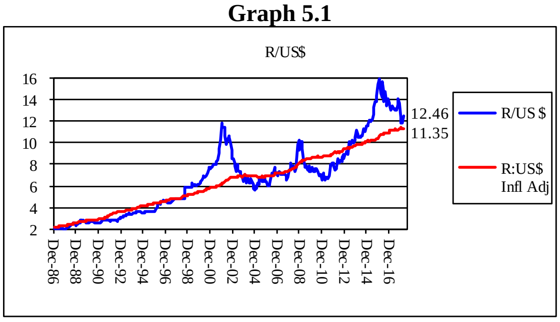



**Graph 4** measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. The Benchmark default portfolio 3 year return to end April was 8.4%, the average was 6.6% vs CPI plus 5% currently on 10.6%.

### 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 11.35 to the US Dollar while it actually stood at 12.46 at the end of April. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

**Graph 5.1**

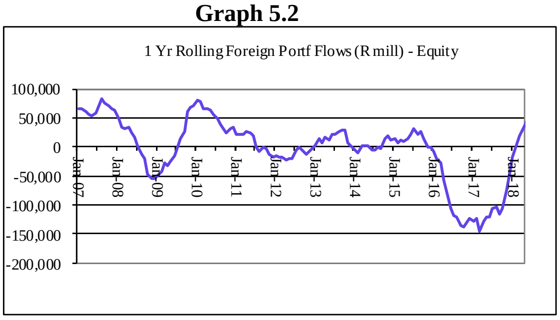



The Rand weakened by 5.26% in April with net foreign investment inflows into bonds and equities of R 3.2 bn. Over the past 12 months the Rand strengthened by 6.9%. Net inflows of foreign capital into equity and fixed interest securities over the past 12 months amounted to R 65.4 bn (inflow of R 74.2 bn to end March 2018).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 390bn (March R 387 bn).

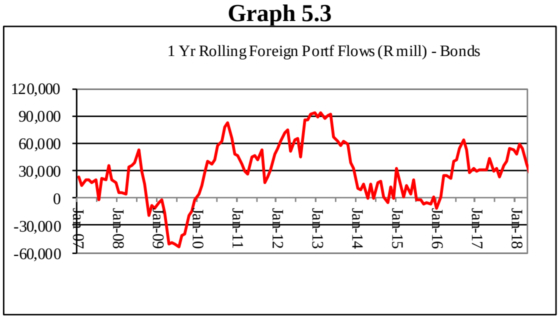
**Graph 5.2** reflects a net inflow of capital into South African equities on a rolling one year basis, of R28.9 bn at the end of April (inflow of R 19.8 bn year-on-year to end March). The month of April experienced a net inflow of R 4.7 bn. Since the beginning of 2006, foreign net investment into equities amounts to R 38.8 bn (end March net investment of R 34.1 bn). This represents roughly 0.27% 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 36.5 bn over the past 12 months to end of April (inflow of R 54.3 bn over the 12 months to end of March). The month of April experienced a net outflow of R 1.5 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 351.4 bn (to March R 352.8 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 8.2% per year. This is equivalent to a growth in real terms of 3.2% p.a. over this period, excluding dividends, or around 6.2% including dividends.

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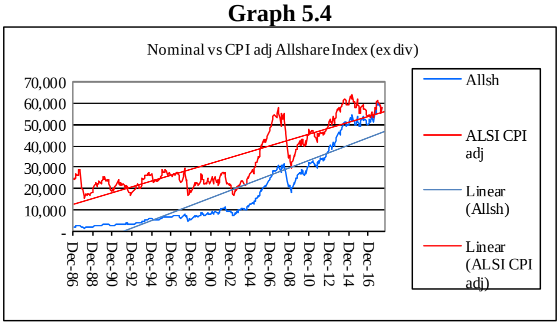
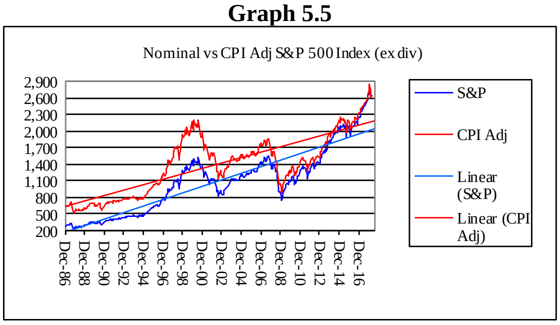


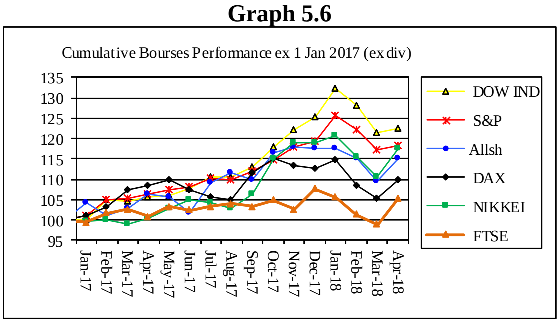

**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.5% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent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

**Graph 5.5**



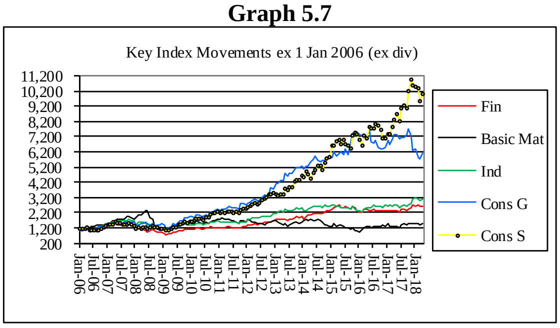

**Graph 5.6** provides an interesting overview of some of the major global share indices, showing up the Dow Jones as the top performing index indices since the start of 2017.

**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: 20.3%; Consumer Goods: 15.7%; Industrials: 9.4%; Financials: 8.2%; and Basic Materials: 3.4%.

**Graph 5.7**




### 6. Are we heading towards a global show-down?
by Tilman Friedrich

As stated previously, I believe one should not invest without considering the global political environment that will set the scene for global economic development. Speculating on the demise of the US Dollar as global trading and reserve currency, for example, to my mind is naïve as it does not take into consideration the means America has at its disposal to protect its economic interests, the ultima ratio being its military superiority – and the end to this is certainly not in sight barring the horror scenario referred to below materializing and ending in the demise of US hegemony!

President Trump's election slogan was 'America First' – and he seems to mean it. This is probably to be understood to mean that America will not tolerate any challenge to its economic and military supremacy. His election apparently was the result of massive voter manipulation, without which Hilary Clinton would have won. She was part of the political establishment that may just have been the tail having tried to wag the dog for many years and the dog being business. Donald Trump in contrast seems to now be pushing the agenda of business unashamedly, doing all to re-establish American global economic dominance.

In its endeavours to maintain its global dominance the US must be following a broad spectrum of strategies. One of them must be to eliminate any 'regime' that does not toe the line, firstly by economic means and if needs be by military means. We have seen many of these regime changes over the recent past with all the colour revolutions. Sometimes it worked without military intervention (e.g. Ukraine, Brazil?, SA?, Egypt?), often it required military intervention (e.g. Iraq, Libya, Syria, Afghanistan). It is not too difficult to identify countries trying to ditch US hegemony but not posing a real threat (e.g. North Korea, Iran, Syria, Turkey) and countries posing a serious threat to US's ultima ratio being Russia but foremost China, where Russia poses a more immediate threat while China is a more long-term threat. Ultimately, the biggest headache to the US must be China. However that bone is probably too big for the US to use its ultima ratio at this stage so it will try and use economic and other means to undermine China's

**MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 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.

potential to challenge the US to a point where it submits itself or until the US is in a position where it can comfortably resort to its military to 'close the bag' so to speak.

It seems that the US now believes that it can push through considering that it has withdrawn from the Iran agreement despite all opposition from all other signatories to the agreement. It is seemingly intent to deal with Iran. Once achieved, Syria will probably be the next domino to fall, followed by the demise of the Hezbollah as political factor in Lebanon and the fall of the Erdogan 'regime' in Turkey (ever noticed that every government striving for true autonomy is referred to as 'regime' in all Western media?). It will remove Russian presence in the Middle East and it will close potential transit routes for trade with China and it will close Russian access to the Mediterranean from the Black Sea. Russia will no longer need the Crimean peninsula or its Black Sea fleet. It will offer further means to throttle Russia economically until it submits itself. I believe there are two strategies the US may consider, the first will be a horror scenario unlikely to happen whereas the second scenario is very likely to happen. Investors must be on the alert and act according to how things are evolving.

*The horror scenario*

Well that may be what the US is up to but all of the other challengers to US hegemony will be very clear on what is happening and at this stage it seems that none is willing yet to submit itself. Given though that I believe the US has firmly set its sight on Iran as the first Domino and seems intent to do so quickly, a show-down between the US and Russia will be inevitable if the US were to take on Iran itself. With or without the involvement of China, this is likely to end up in disaster for the global economy and investors. Whether or not the US would prevail, is anybody's guess. Whatever the outcome, however, we would have a new world order, be it total and unfettered global US control or a world in turmoil looking for a new world order that is likely to take many, many years to be instituted.

This is a real horror scenario that I believe the US would rather want to avoid.

*The likely scenario*

A strategy it may rather want to pursue is to give Israel the mandate and backing to fell the Iran domino and that may be the reason for sending a whole fleet into the Mediterranean. The Russians may then be happy with a regime change in Syria as long as it retains its military bases. It will also mean the end of Hezbollah. The US long-term goals will remain in place though and Russia and eventually China will remain under pressure.

So what should an investor do in the face of these prospective global developments of such magnitude?

As we suggested in a previous newsletter – when you invest, try to punt and be on the winning side and stay out of the cross fire!

For the horror scenario of the US leading the strategy in Iran and Syria with its eyes firmly set on Russia, at this stage my bet is on the US but there certainly is a risk that must be mitigated when looking for investment opportunities. Find countries to invest in that are neutral, humble enough, are not considered a threat, do not have any resources required in a military confrontation and are unlikely to be drawn into such a confrontation. America's adversaries will not take it against anyone who submitted itself to US hegemony, but the opposite will hold true. Countries who manage to stay out of such a confrontation are likely to experience a significant economic boost from such a military confrontation. It is probably easier to list countries around the globe that are of any interest to the investor that are likely to be drawn into such a confrontation because of their resources than it is to list those that are unlikely to be drawn in. Unfortunately latter countries are typically not investment destinations and therefore do not offer the appropriate infrastructure for investment. My unsubstantiated view is that Africa and South America will be best placed for investment should the feared scenario become reality and since we live in Africa, it may be advisable to repatriate your investments from exposed parts of the world to then spread out from home base as the mist lifts.

The economic boost I referred to above will be driven by a demand for resources in the broadest sense, in such a scenario. This will have a knock-on effect on all other sectors of the economy barring perhaps tourism that will suffer badly.

**Conclusion**

I have sketched sort of a horror scenario above for many parts of the world but I believe in Namibia and in Sub-Saharan Africa we should be pretty safe. This scenario is unlikely to materialize. If it were to materialize, I would expect it to happen during the presidency of Donald Trump and it is likely to start with Iran. Investors need to be on the alert when this happens and keep an eye on who leads the action. If it is the US keep an eye on how Russia responds. In the event of it not showing signs of responding the world will carry on and investors can keep on investing as before. If Russia does respond one should repatriate any offshore investments as quickly as possible and rather invest in Africa.

The more likely scenario is that Israel will lead the action against Iran most probably with massive US support. The world will carry on and Iran will be subjugated. Such an 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 faced 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

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