Volume 15 No. 7
July 2019

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2019

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

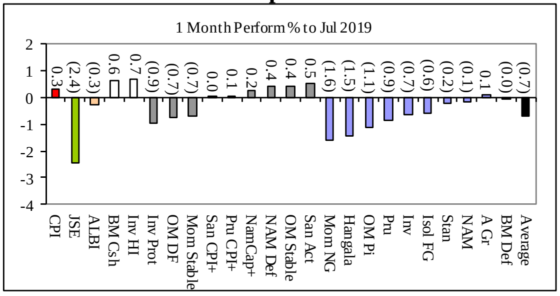
In July 2019 the average prudential balanced portfolio returned -0.7% (June 2019: 1.7%). Top performer is Allan Gray Balanced Fund with 0.1%, while Momentum Namibia Growth Fund with -1.6% takes the bottom spot. For the 3-month period, Investment Solutions Balanced Fund takes top spot, outperforming the 'average' by roughly 1.2%. On the other end of the scale Allan Gray Balanced Fund underperformed the 'average' by 1.8%. Note that these returns are before asset management fees.

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.

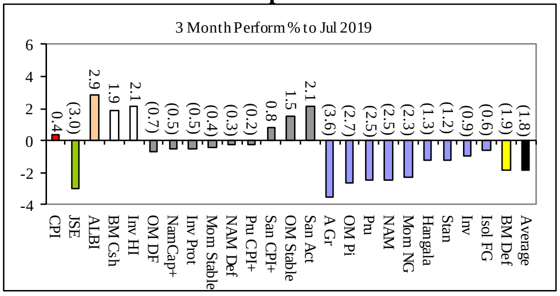
Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
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)
Momentum Nam Stable Growth	Mom Stable (grey)
NAM Capital Plus	NamCap+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Sanlam Active	San Act (grey)
Sanlam Inflation Linked	San CPI+ (grey)
Smooth bonus portfolios	
Old Mutual AGP Stable	OM Stable (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Hangala Prescient Absolute Balanced	Hangala (blue)
Investec Managed	Inv (blue)
Investment Solutions Bal Growth (multimanager)	Isol FG (blue)
Momentum Namibia Growth	Mom NG (blue)
NAM Prudential Balanced	NAM (blue)
Old Mutual Pinnacle Profile Growth	OM Pi (blue)
Prudential Managed	Pru (blue)
Stanlib Managed	Stan (blue)

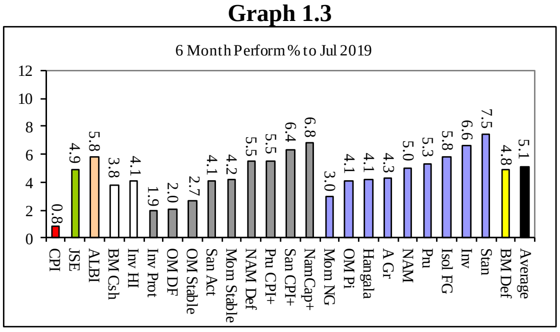
Graph 1.1



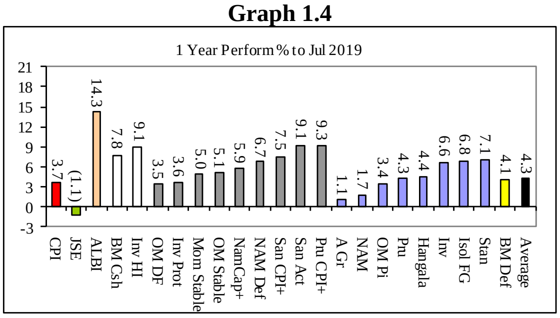
Graph 1.2



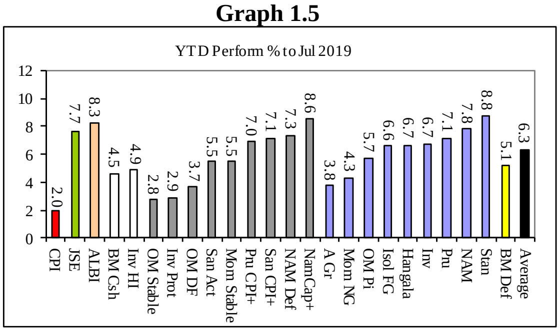
Graph 1.3



Graph 1.4



Graph 1.5



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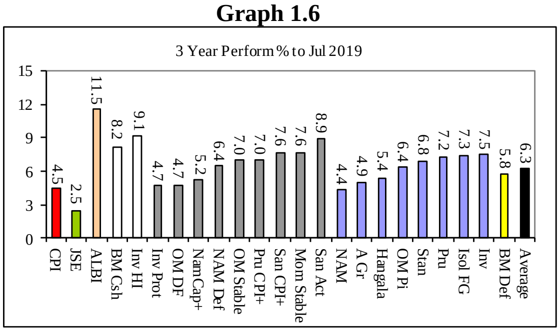
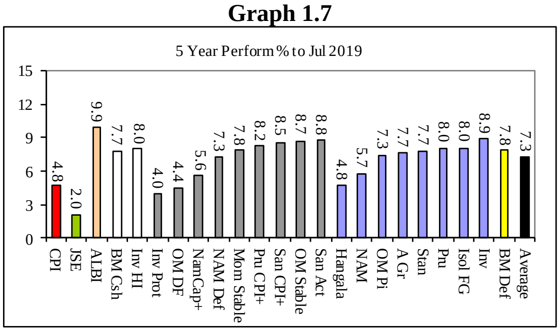
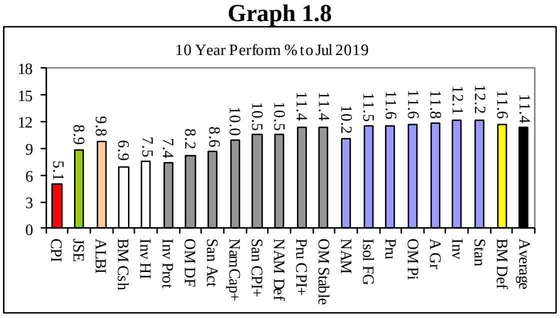
Graph 1.6



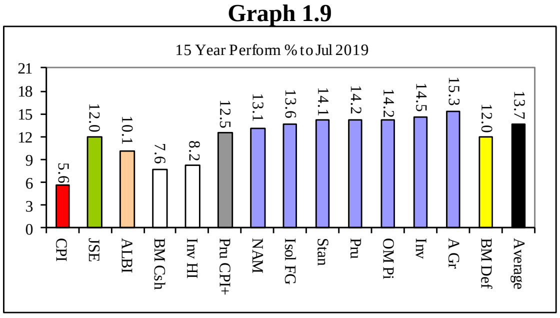
Graph 1.7



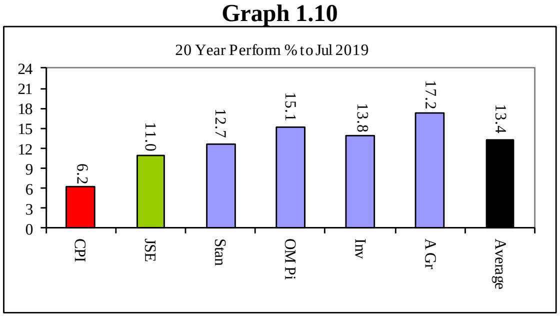
Graph 1.8



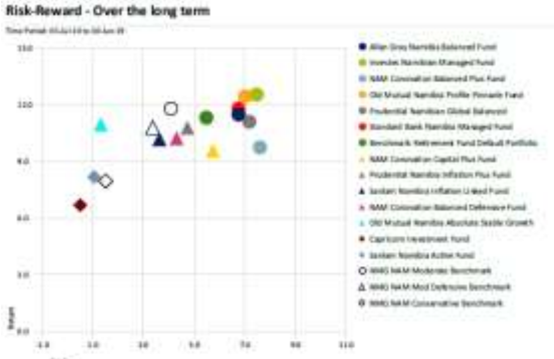
Graph 1.9

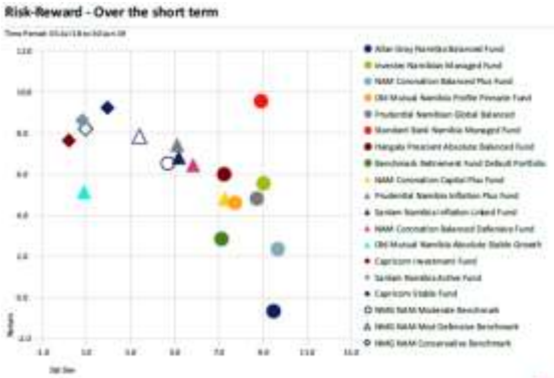


Graph 1.10



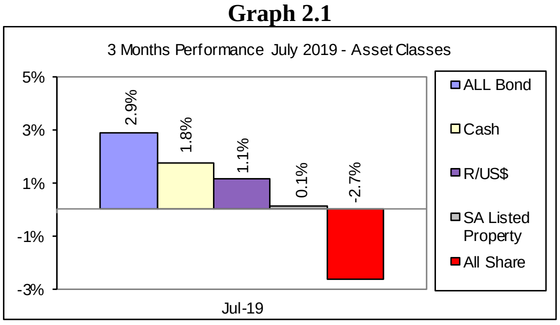
Risk/ Return



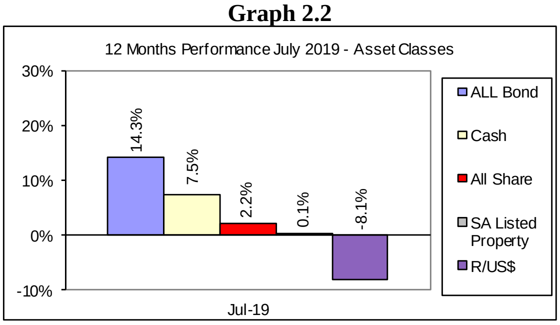


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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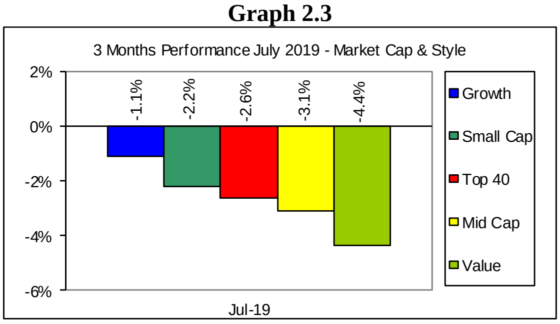
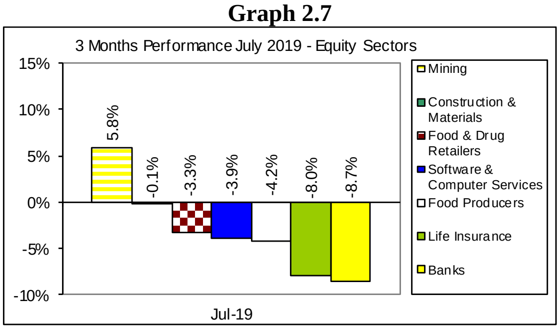
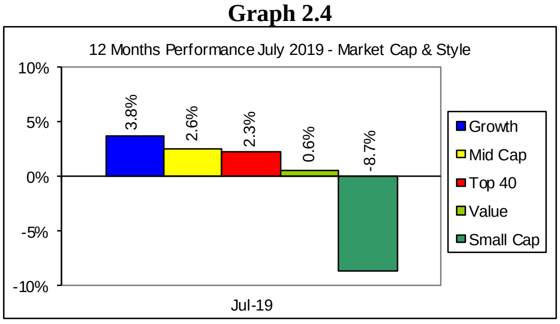
Graph 2.3



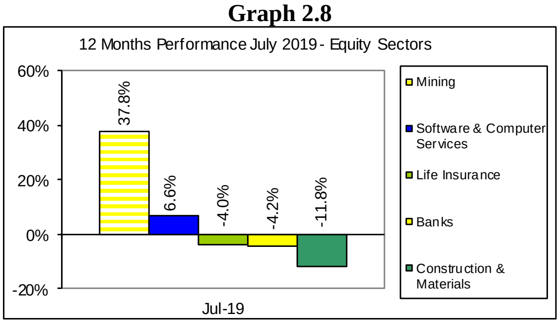
Graph 2.7



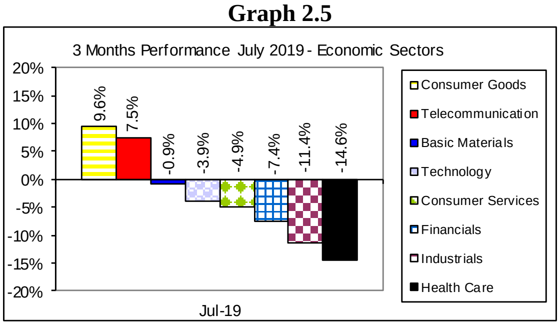
Graph 2.4



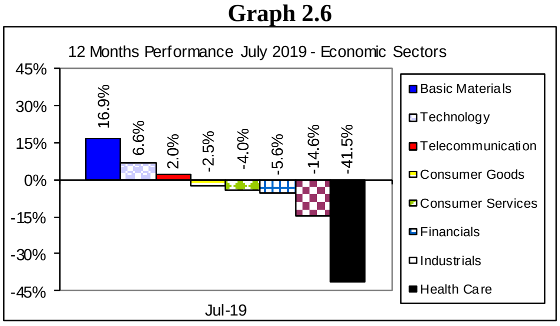
Graph 2.8



Graph 2.5



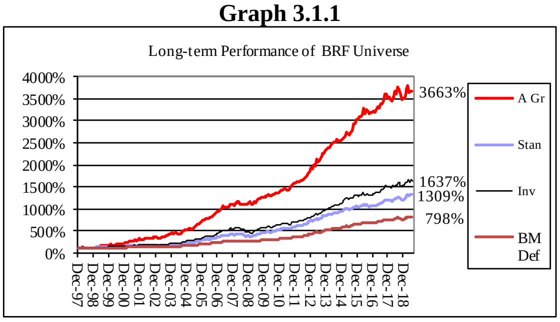
Graph 2.6



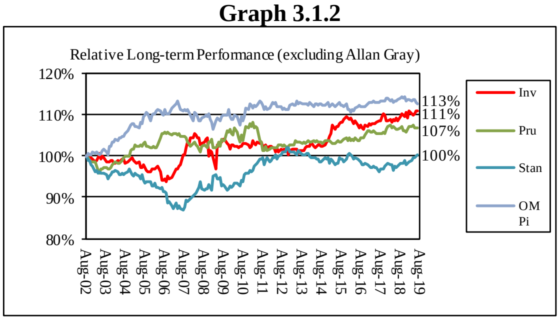
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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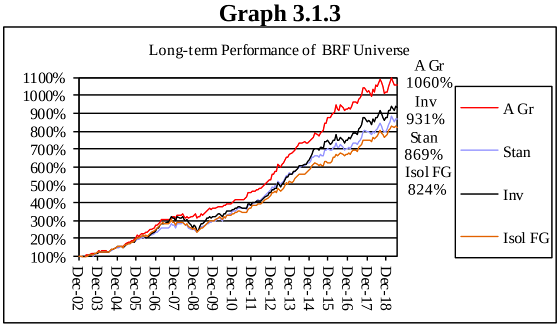
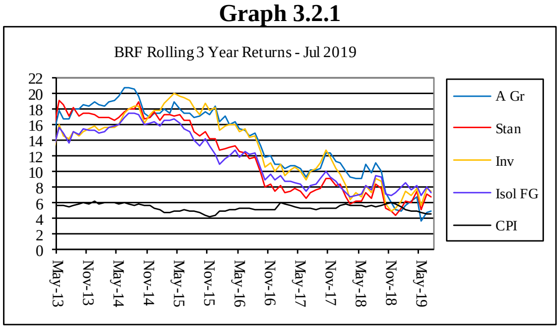
Graph 3.1.3

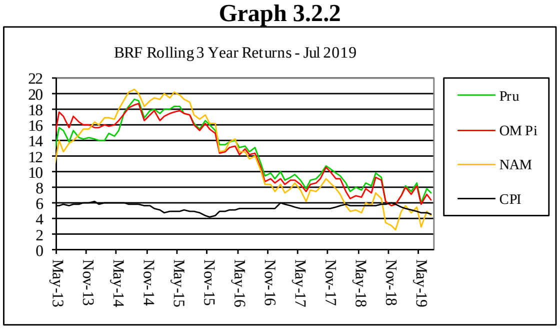


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

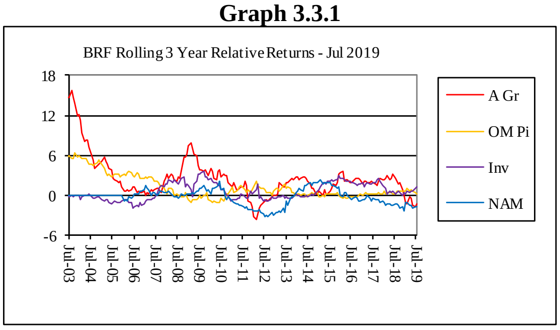


Graph 3.2.2

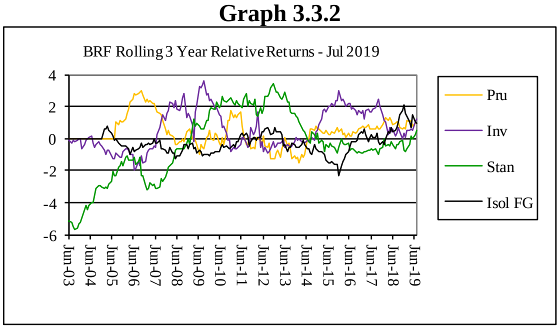


3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

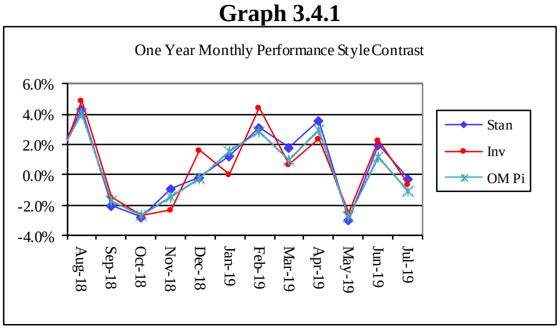


Graph 3.3.2

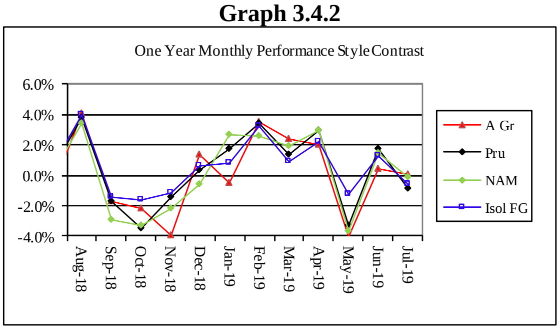


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

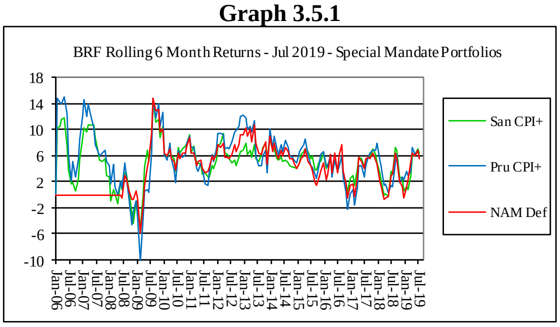


Graph 3.4.2



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

Graph 3.5.1



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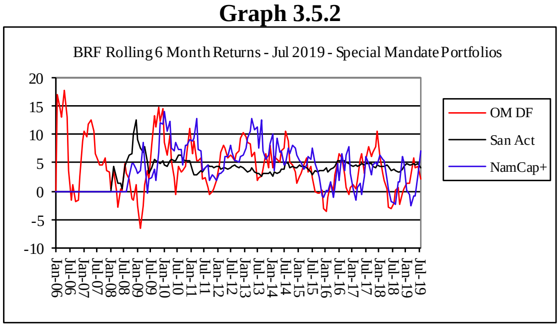
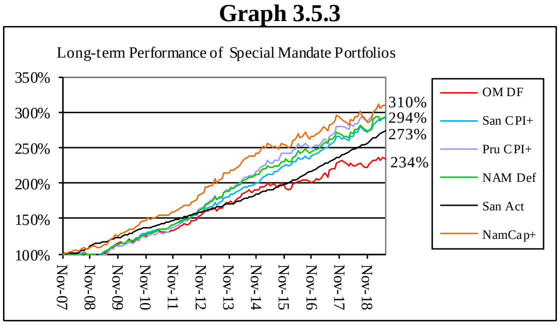
Graph 3.5.2

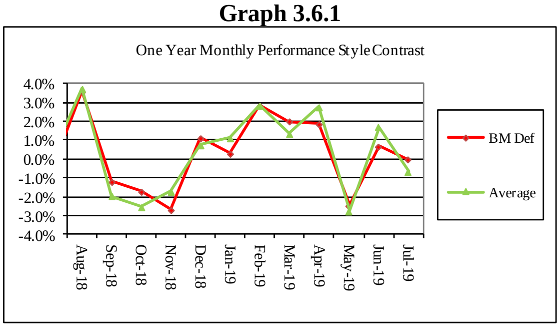


Graph 3.5.3

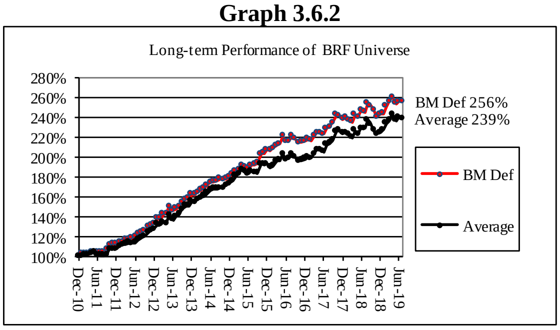


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

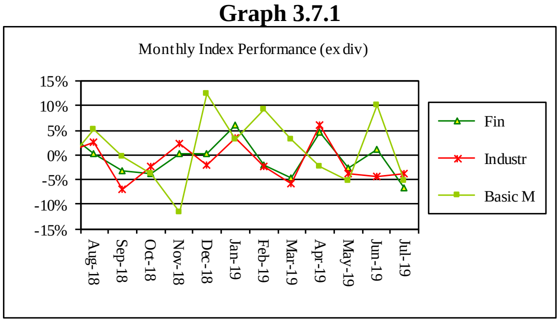


Graph 3.6.2

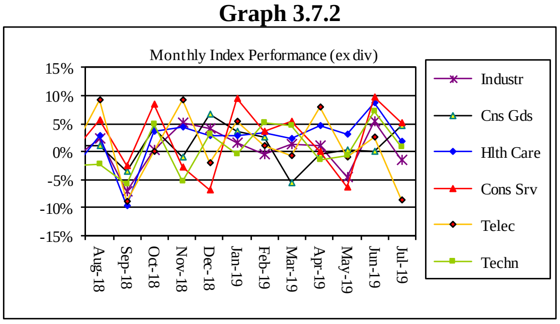


3.7 One-year monthly performance of key indices (excluding dividends)

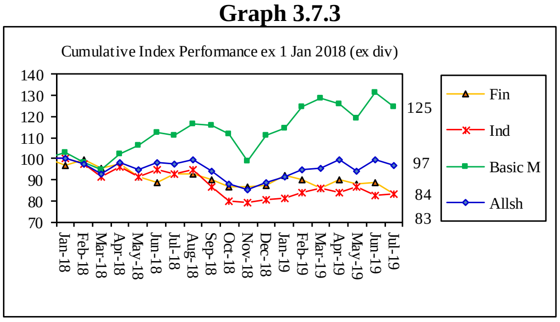
Graph 3.7.1



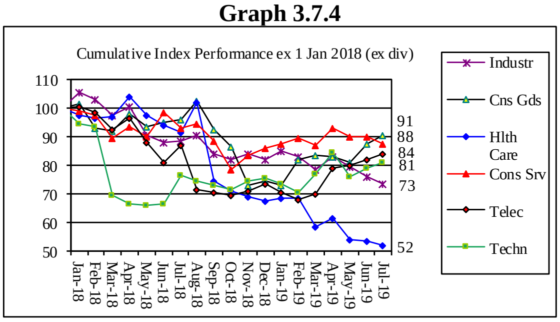
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



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4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	7.8	7.3
5-year real return - % p.a.	3.0	2.5
Equity exposure - % of portfolio (qtr end June 2019)	47.0	65.6
Cumulative return ex Jan 2011	155.9	138.9
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. It is to be noted that the default portfolio managed to out-perform the average prudential balanced portfolio despite its significantly lower risk profile as represented by its equity exposure.

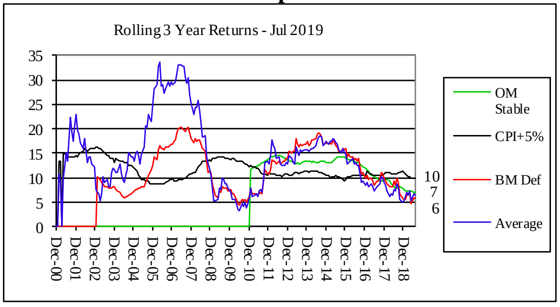
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.6%	4.7%	5.0%
Best annual performance	8.2%	13.8%	12.5%
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	7.8%	8.7%	7.8%

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years August 2016 to July 2019. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4



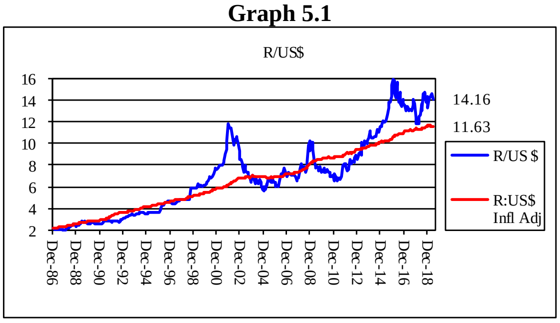
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end July was 5.8%, the average was 6.3% vs CPI plus 5% currently on 9.5%.

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 11.63 to the US Dollar while it actually stood at 14.16 at the end of July. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



The Rand weakened by 0.4% in July with net foreign investment outflows from bonds and equities of R15.3 bn. Over the past 12 months the Rand weakened by 8.1%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 131.4 bn (outflow of R112.8 bn to end of June 2019).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 197.0 bn (June R 212.4bn).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 106 bn at the end of July (outflow of R 100 bn year-on-year to end June). The month of July experienced a net outflow of R 9.3 bn. Since the beginning of 2006, foreign net

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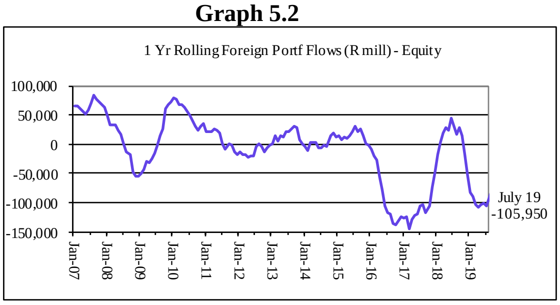
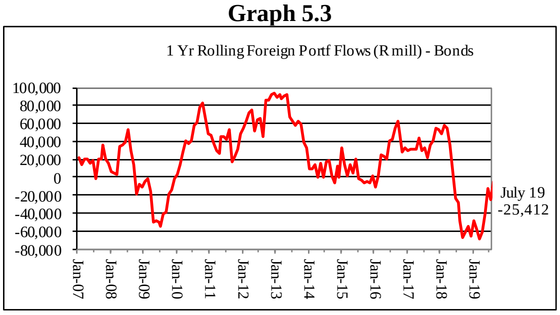
investment outflows from equities amounts to R 83.1 bn (end June net investment outflow of R 73.8bn). This represents roughly 0.50% of the market capitalization of the JSE.

Graph 5.2



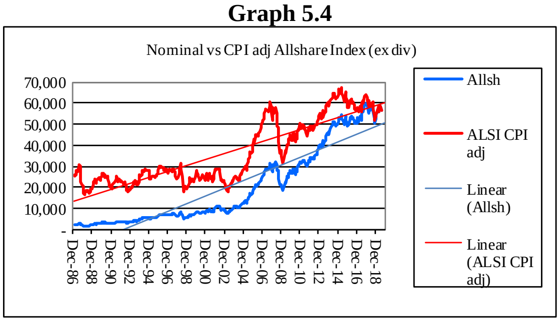
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 25.4 bn over the past 12 months to end of July (outflow of R 12.8 bn over the 12 months to end of June). The month of July experienced a net outflow of R 6.1 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 280.1 bn (to June R286.2 bn).

Graph 5.3



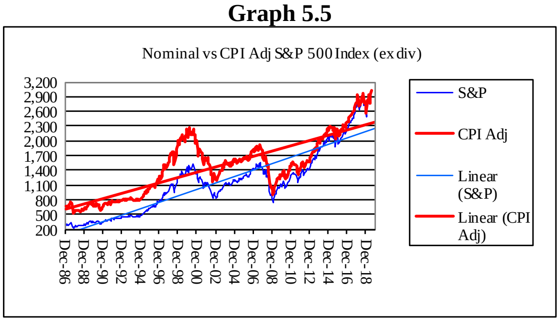
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.8% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 30 years was 8.0% per year. This is equivalent to a growth in real terms of 2.8% p.a. over this period, excluding dividends, or around 5.9% including dividends.

Graph 5.4



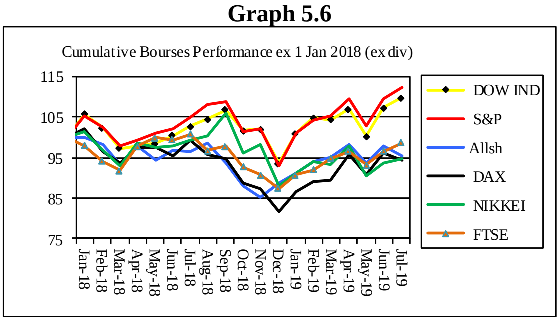
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.6% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.0% p.a. over this period, excluding dividends or around 7.2% including dividends.

Graph 5.5



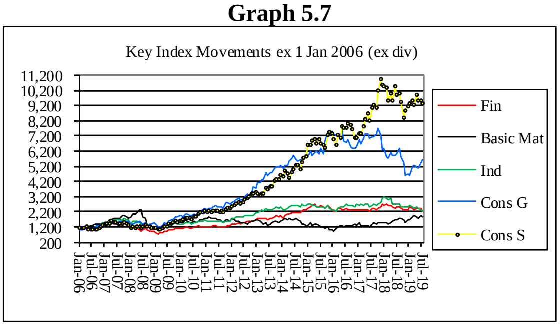
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2018.

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: 17.7%; Consumer Goods: 13.5%; Financials: 6.1%; Industrials: 6.1%; and Basic Materials: 4.6%.

Graph 5.7



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6. When is a good time to switch to another investment manager

By Tilman Friedrich

Retirement fund members who have become used to Allan Gray 'shooting the lights out' often can no longer bear with its performance lingering right at the bottom or close to the bottom of the performance ranking tables of prudential balanced managers, for periods up to 5 years as depicted in graphs 1.2 to 1.7 above. Interestingly, for the month of July Allan Gray managed to rise to the top, given that it is a very short period and bears no relevance.

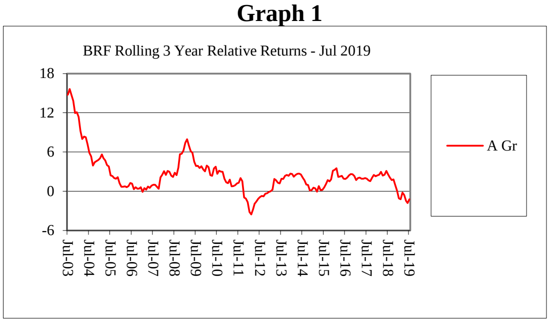
As the result, clients more and more often contemplate or even decide to move their investments away from Allan Gray to another manager. The questions are - is it a good time to move away from Allan Gray and when is a good time to move away from your trusted manager?

I guess when we talk about buying or selling a house, there will be little argument about not selling when the market is at the bottom and not buying when the market is at the top. This is a sensible principle that one should apply to one's investments and investment manager as well. The difficulty however is to know when any asset has reached the bottom or the top.

In last month's column, I pointed out that the members that invest in a prudential balanced portfolio should have an investment horizon of at least 3 years as these portfolios tend to outperform money market and bond portfolios only over 3 years and longer.

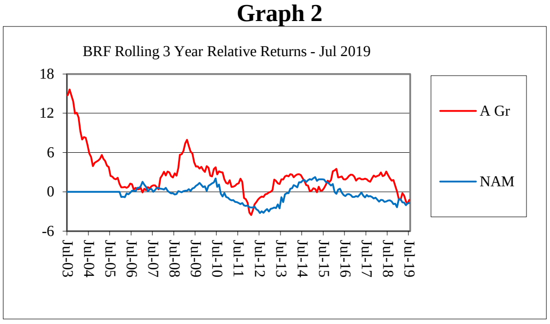
The following graphs therefor depict rolling 3 year returns of a few of the more prominent prudential balanced portfolios measured against Allan Gray and against the average prudential balances portfolio as represented by the '0' line on the vertical axis of the graphs.

Graph 1



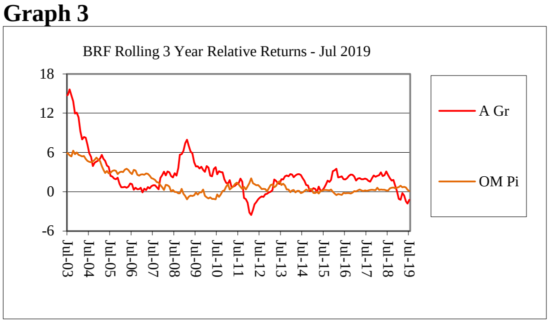
Graph 1 above shows that Allan Gray is currently on a downward slide. Since the beginning of 2000, Allan Gray has only had 2 periods of underperforming the average (on the zero line). It also shows that the previous period of underperformance stretched over a year from around the middle of 2011 to around the middle of 2012. There is currently no other experience of below average performance from which one can draw any meaningful conclusion. One does not know whether Allan Gray is at the bottom but evidently it is not at the top, i.e. it is not the time one should sell as it is too late to avoid the downturn that has already happened.

Graph 2



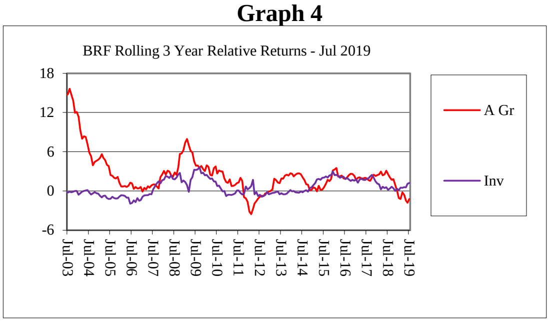
In graph 2 above we see that Namibia Asset Management (Coronation) oscillates around the average. Interestingly, curves typically cover 3 year periods. Since the end of about 2015 this manager was below the average but there seem to be an uptick since earlier this year. Going by that experience, this is potentially a manager one should buy now rather than sell.

Graph 3



In graph 3 above we see the Old Mutual Pinnacle portfolio moving very close to the average for all the time since the beginning of 2008. This portfolio only commenced at the beginning of 1998 and probably experienced the benefit of then still being a small and nimble portfolio. This is a portfolio that one can buy and sell at any time without running too much of a risk of picking the wrong time.

Graph 4



In graph 4 above, we see that Invest has performed above average for longer periods than it has performed below the average. It is also interesting to note that the cycles typically stretch between 3 and 4 years. Investec more recently had a period of outperforming the average from the end of 2014 to the end of 2017. It currently looks as

Benchmark Retirement Fund

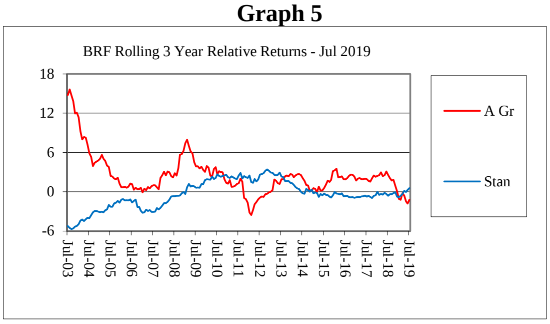
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2019

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.

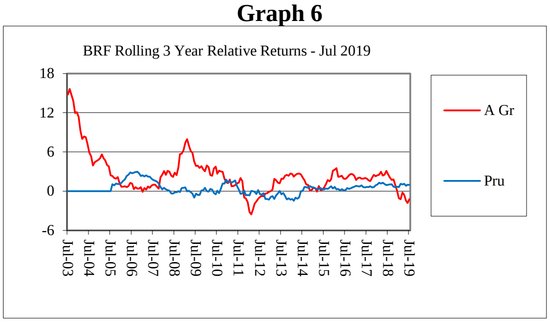
if Investec has entered a period of average performance. It does not look like Investec generally poses a serious risk of under-performance. It is currently not at the top of an outperformance cycle and hence Investec is currently a potential buy rather than a sell, just having reverted to average performance, given that past cycles indicate that the current cycle of average performance may still last for another a while (two to three years?).

Graph 5



In graph 5 above we see Stanlib having badly under-performed for a period of roughly 5 years up until the middle of 2008. This was followed by another roughly 5 years of significant outperformance until the beginning of 2014 and subsequent average performance of yet again 5 years. On that basis, Stanlib is currently a potential buy rather than a sell. In the case of Stanlib, there is a risk of severe under-performance but also the prospect of substantial out-performance over extended periods.

Graph 6



In graph 6 above we see Prudential oscillating fairly closely around the average manager (on the zero line). The cycles appear to typically stretch over 3 years, the latest one having commenced at the beginning of 2016. As it shows limited deviation from the average manager performance, the risk of buying or selling at the wrong time appears to be low. In the same way as one needs not fear Prudential to under-perform significantly, it is unlikely to outperform significantly.

Conclusion

The above 3 year rolling return graphs are very meaningful for assessing a manager's absolute capabilities as well as its relative capabilities with reference to the average manager. It is quite interesting to note over what periods the managers seem to consistently either out-perform or under-perform the average manager and the extent to which they do so. Given the wisdom of not selling at the bottom and not buying at the top, the 3 year rolling return graphs should assist the investor to better understand where the manager is on its performance cycle. If the investor cannot rely on such information he is really left to gut-feel when deciding which manager to buy and which manager to sell at any given point in time. Of course hind-sight can be exact science the saying goes and is not an indicator of what the future may bring.

Besides the question when is a good time to switch to another investment manager the investor should consider employing a combination of managers so that he is not totally reliant on the fortunes of one manager. In Benchmark Performance Review to January 2018 in this link, we have dwelled on this question and the reader is referred to the article 'Selecting an Asset Manager to Diversify Risk' under 'Günter Pfeifer's Benchmark Notes'.

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