Volume 15 No. 8
August 2019

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

By T H Friedrich – 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

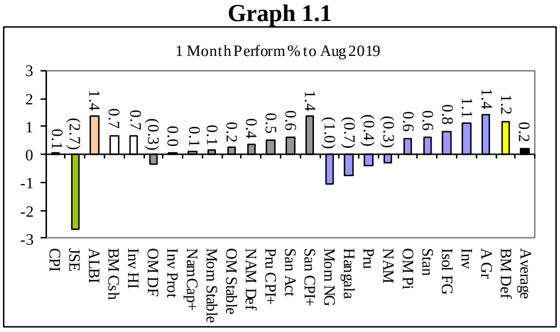
In August 2019 the average prudential balanced portfolio returned 0.2% (July 2019: -0.7%). Top performer is Allan Gray Balanced Fund with 1.4%, while Momentum Namibia Growth Fund with -1.0% takes the bottom spot. For the 3-month period, Investec Namibia Managed Fund takes top spot, outperforming the 'average' by roughly 1.6%. On the other end of the scale Momentum Namibia Growth Fund underperformed the 'average' by 2.5%. Note that these returns are before (gross of) 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.

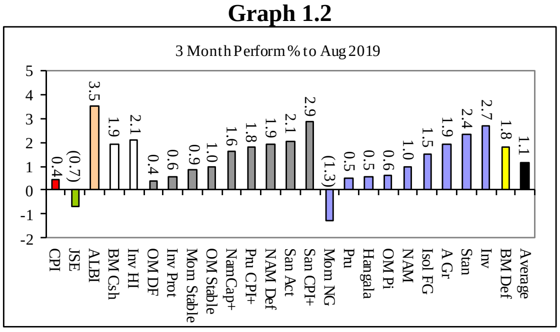
Below is the legend to the abbreviations reflected on the graphs:

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)

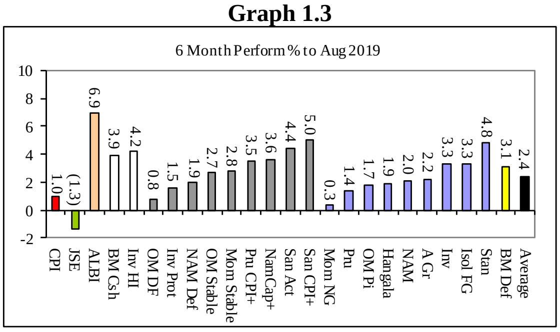
Graph 1.1



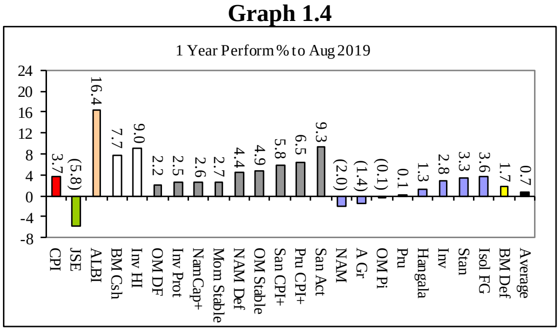
Graph 1.2



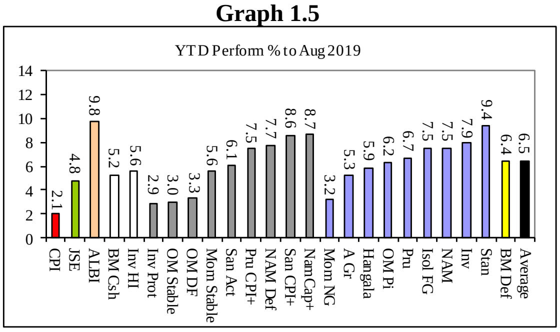
Graph 1.3



Graph 1.4



Graph 1.5



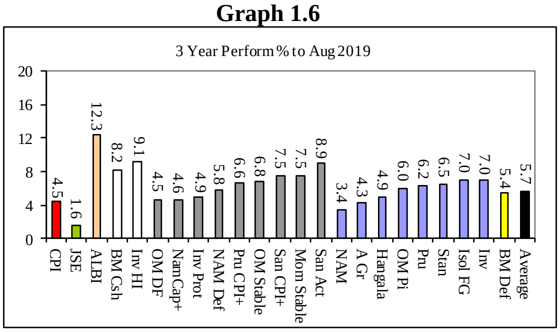
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

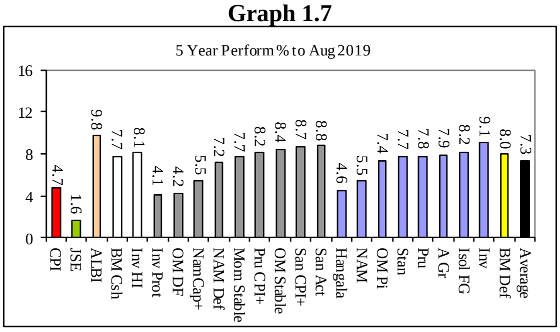
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

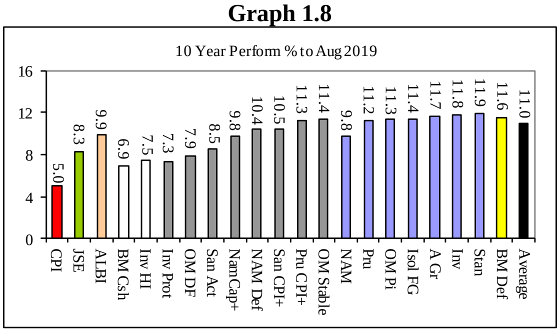
Graph 1.6



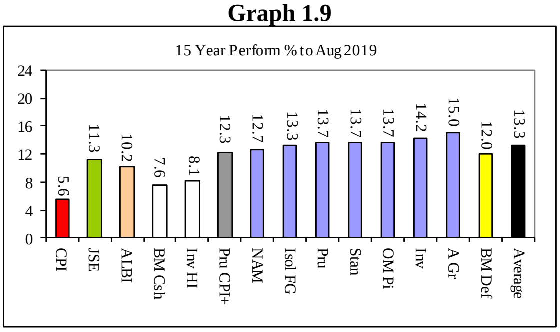
Graph 1.7



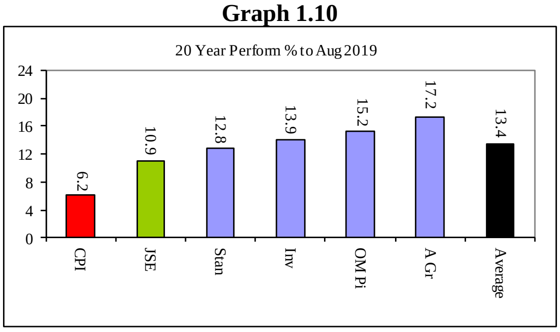
Graph 1.8



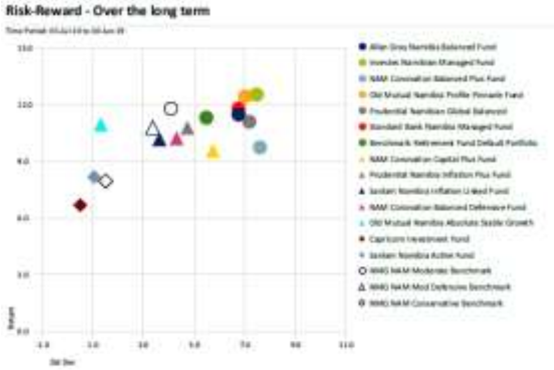
Graph 1.9

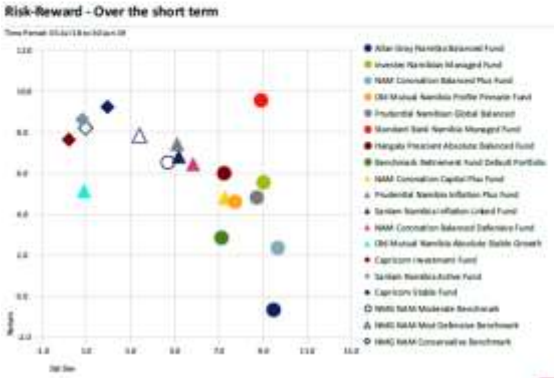


Graph 1.10



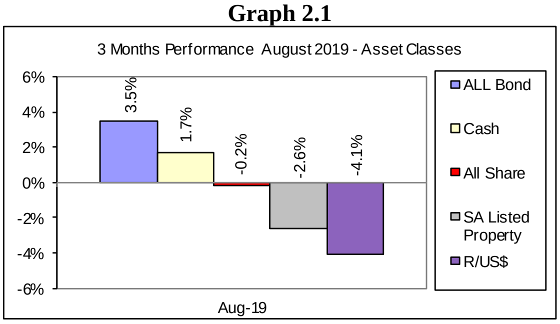
Risk/ Return



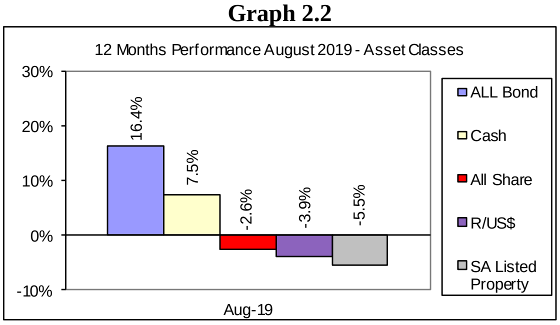


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



Volume 15 No. 8
August 2019

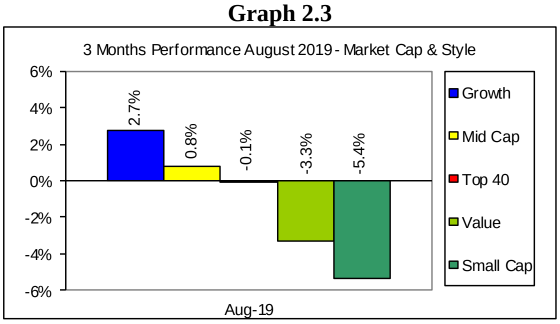
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

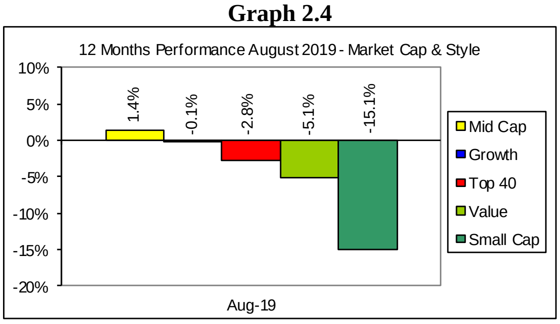
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

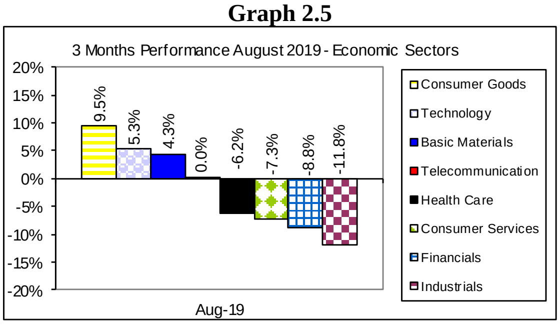
Graph 2.3



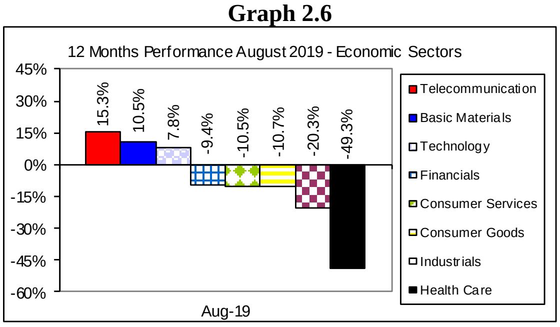
Graph 2.4



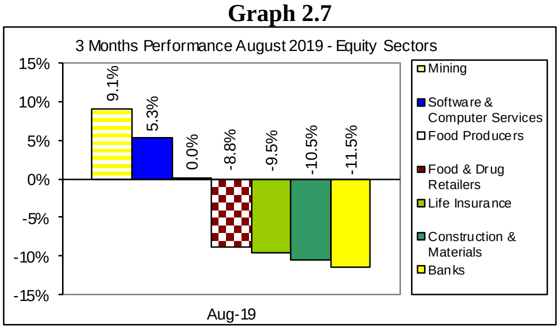
Graph 2.5



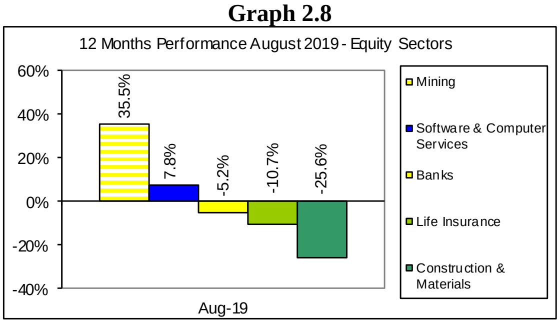
Graph 2.6



Graph 2.7



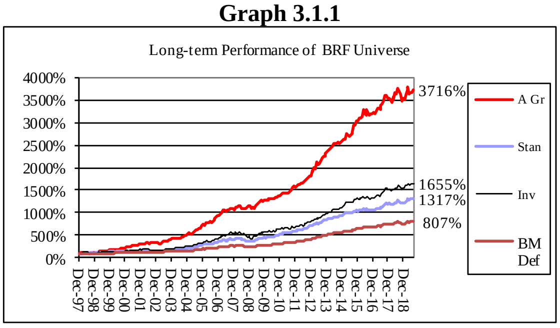
Graph 2.8



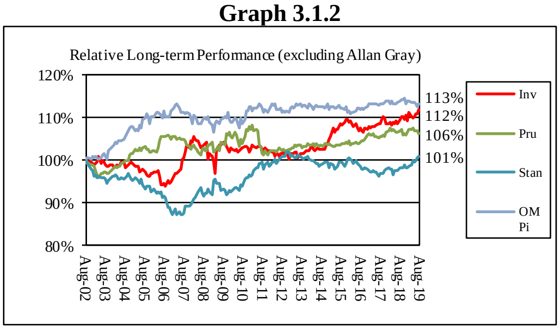
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



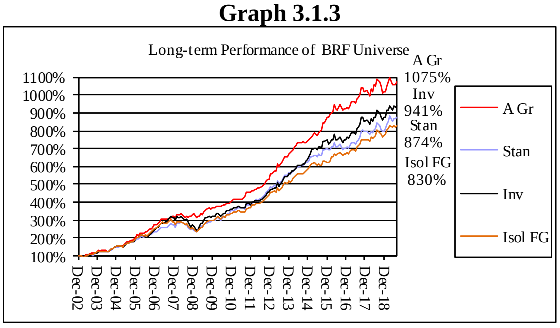
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

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

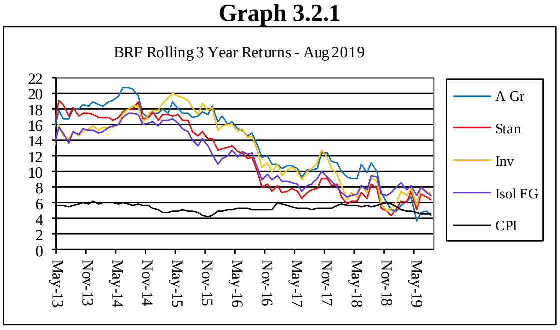
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.1.3

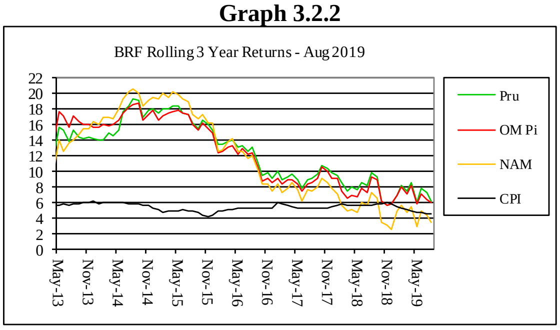


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

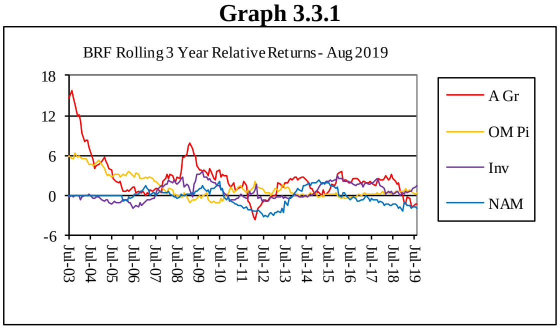


Graph 3.2.2

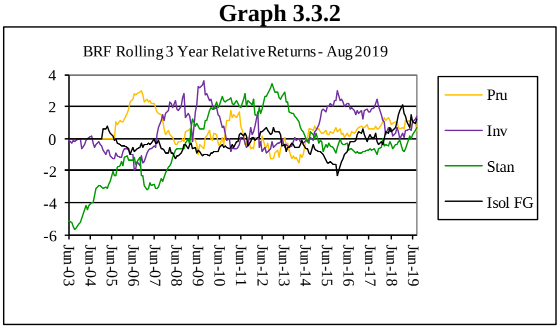


3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

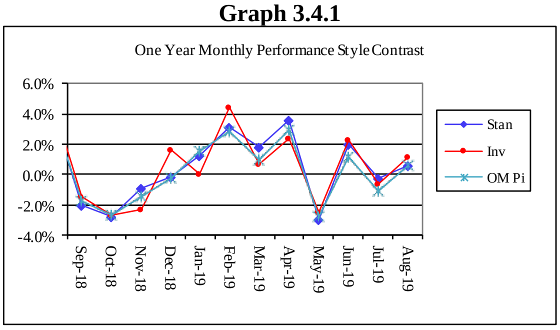


Graph 3.3.2

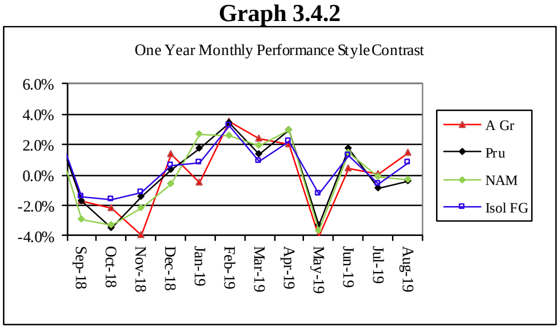


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

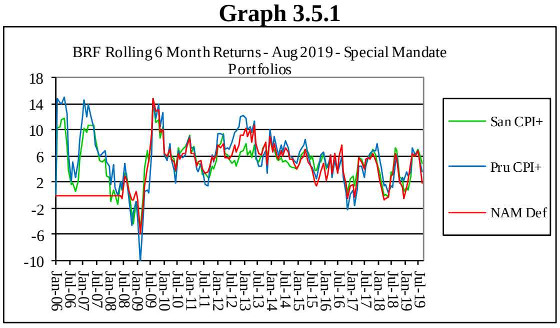


Graph 3.4.2



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

Graph 3.5.1



Volume 15 No. 8
August 2019

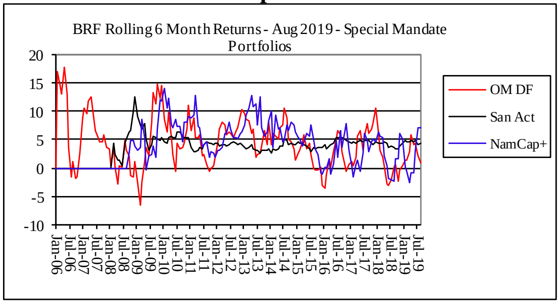
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

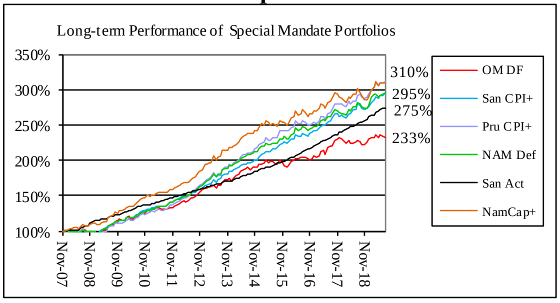
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

Graph 3.5.2

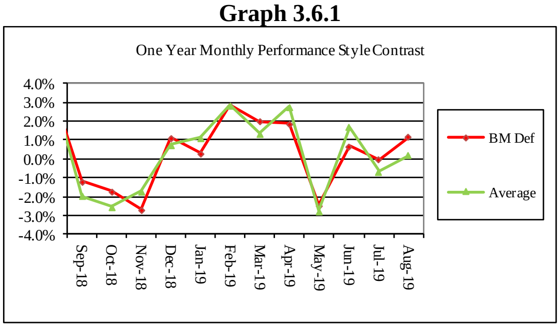


Graph 3.5.3

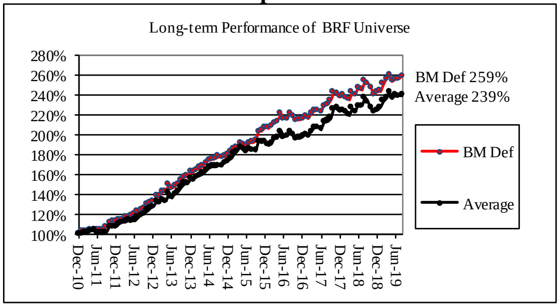


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

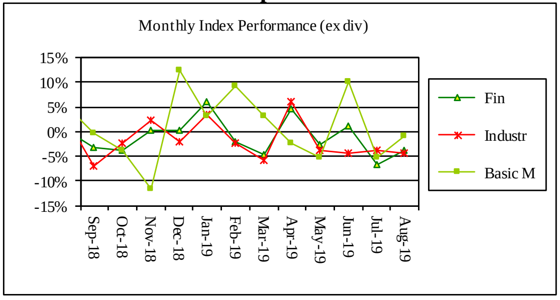


Graph 3.6.2

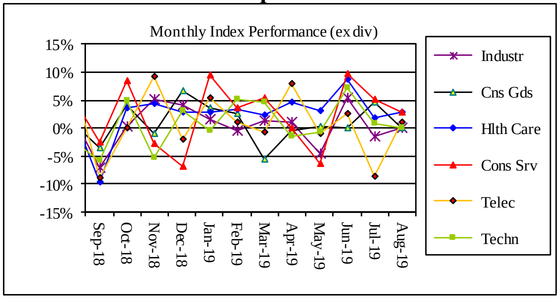


3.7 One-year monthly performance of key indices (excluding dividends)

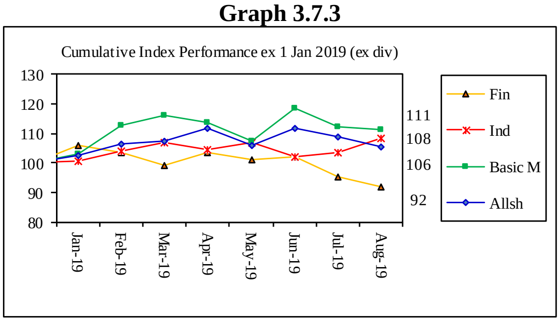
Graph 3.7.1



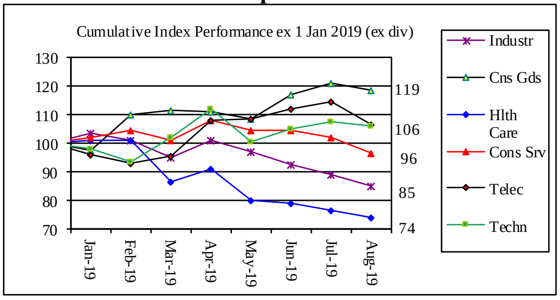
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

By T H Friedrich – 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.

4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	8.0	7.3
5-year real return - % p.a.	3.3	2.6
Equity exposure - % of portfolio (qtr end June 2019)	47.0	65.6
Cumulative return ex Jan 2011	158.8	139.3
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.

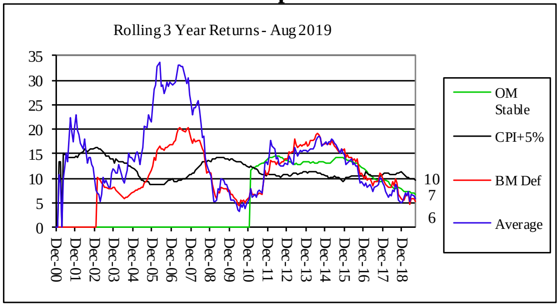
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

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 September 2016 to August 2019. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

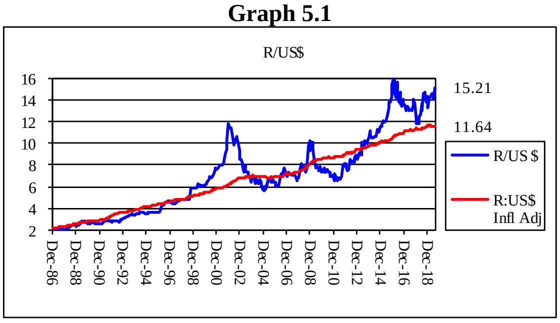


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end August was 5.4%, the average was 5.7% 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 11.64 to the US Dollar while it actually stood at 15.21 at the end of August. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



The Rand weakened by 7.4% in August with net foreign investment outflows from bonds and equities of R42.0 bn. Over the past 12 months the Rand weakened by 3.9%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 140.1 bn (outflow of R131.4 bn to end of July 2019).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 155.0 bn (July R 197.0 bn).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 117 bn at the end of August (outflow of R 106 bn year-on-year to end July). The month of August experienced a net outflow of R 24.5 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to

Benchmark Retirement Fund

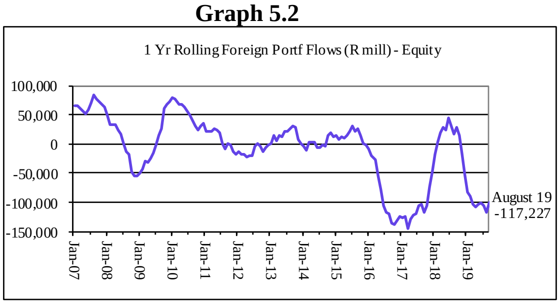
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

By T H Friedrich – 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.

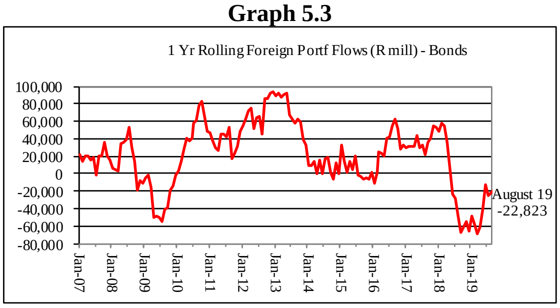
R 107.6 bn (end July net investment outflow of R 83.1bn). This represents roughly 0.67% of the market capitalization of the JSE.

Graph 5.2



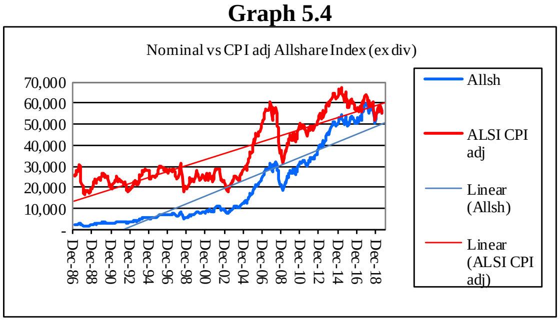
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 22.8 bn over the past 12 months to end of August (outflow of R 25.4 bn over the 12 months to end of July). The month of August experienced a net outflow of R 17.5 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 262.6 bn (to July R280.1 bn).

Graph 5.3



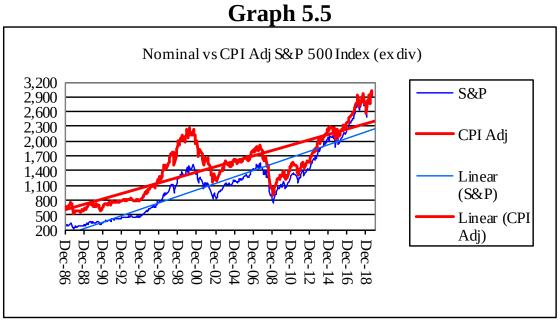
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.7% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 30 years was 8.0% per year. This is equivalent to a growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 6.1% including dividends.

Graph 5.4



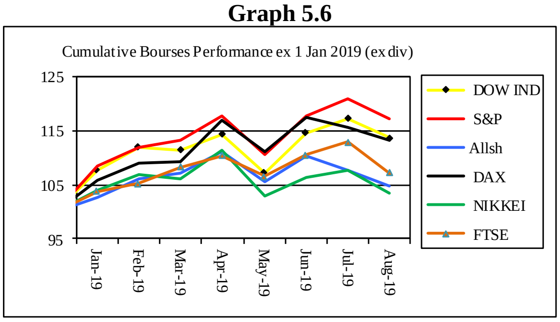
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.5% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 4.9% p.a. over this period, excluding dividends or around 7.1% including dividends.

Graph 5.5



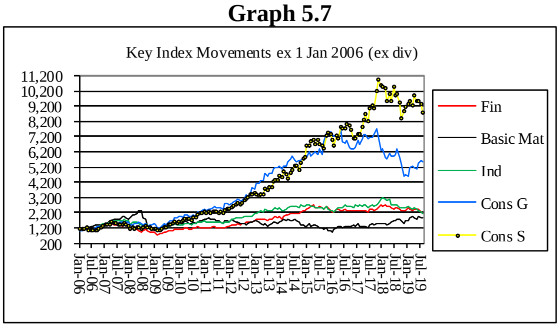
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2018.

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: 17.1%; Consumer Goods: 13.3%; Financials: 5.8%; Industrials: 5.7%; and Basic Materials: 4.5%.

Graph 5.7



Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

By T H Friedrich – 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.

6. How do you invest in times of political and economic unrest?

By Tilman Friedrich

Since governments across the globe are net debtors, they all have to pay interest and they all have to repay their debt. The best friends of governments are economic growth and inflation. Economic growth raises tax collections while inflation reduces the real value of debt and both thus ease the burden of governments to service their debt.

In the aftermath of the financial crisis, followed by a deep slump in global consumer confidence and global economies, reserve banks across the globe, including Namibia, thought it wise to boost consumer confidence and consumer spending through massive monetary easing and an ultra-low interest rate environment, thereby creating massive liquidity in global financial markets. Unfortunately these measures never achieved the desired results and where we are today global economies, including those of China, the Eurozone and Namibia are in reverse gear. Consumer confidence has not really improved and the consumer has not really started to consume. Much of the global liquidity flowed into China. The result of that was a massive build-up of Chinese foreign reserves, and massive investment in economically unviable projects and infrastructure such as futuristic ghost cities centrally planned by the communist government. One of these, Kangbashi, was built in the remote south-west of the country with little economic justification, initially for a population of half a million and later expanded for one million, but currently inhabited by only around 150,000 people. In the meantime the Chinese 'gold rush' of foreign investors is about to come to its end. The high hopes of the Chinese consumer fuelling the global economy also looks like it will not happen anymore while foreign investors are busy pulling their money out of China, thereby rapidly reducing China's foreign reserves and putting pressure on China's financial system and currency.

The question reserve bankers must be asking themselves is how to get their economies going again particularly in the light of China not bringing the relief hoped for. Interest rates are already zero or even negative in a number of developed countries so this will not work. When one follows the media, one picks up hints here and there of developments that appear to be aimed at promoting economic growth. Germany is now being criticised harshly for not doing enough to get its population to desist from saving and to start spending. While the German saver is getting no interest on his saving, maybe he will start spending his money may have been the thinking. However, this has still not really happened. Well the German 'climate cabinet' just recently agreed on spending 54 billion Euros over the next few years to achieve 'climate neutrality' by something like 2050. So what does this entail? Germany is now on a mission to dismantle its traditional motor vehicle industry, the mainstay of the German economy for many years and the industry where Germany was a world leader and had a strong global competitive advantage. The German government now wants to seriously promote electric mobility. This will not be an industry where Germany will have any competitive advantage and in fact there are many newcomers to this industry such as Tesla that are probably way ahead of German car makers.

The hysteria about global climate change might be another of such less overt attempts to reignite the global economy. If this is a conscious strategy and this strategy really gets traction globally, it will most likely lead to another industrial revolution in the course of which much of the existing economic infrastructure will be rendered redundant and will be replaced with new infrastructure which of course will come at a huge expense, but at least there is hope for this boosting the economy. Global media appear to be driving a concerted global effort towards another industrial revolution that will require huge amounts of investment in new infrastructure. Perhaps this will eventually be called the 5th industrial revolution which will be supported by the 4th industrial revolution heralded by artificial intelligence.

In the past, wars have done quite a good job in rejuvenating peoples and economies and igniting economic growth. With a 'self-inflicted' in-house industrial revolution driven by politicians, one may be able to achieve similar results while avoiding much human pain and suffering but of course the flip-side of that coin is that there will be not rejuvenation of peoples. Having said this, it does not appear as if the US is relenting at all on its thrust to remain the only global hegemon. As long as this strategy is still firmly in place, and as long as there are countries refusing to bow down and accept the US as the only global hegemon, such as Russia, China, Iran, Turkey and a number of smaller 'players' the US is likely to apply conventional methods to impose itself . We are seeing this all over the globe. The huge fuzz about 'rocket man' Kim Jong-un had absolutely nothing to do with his rockets or his nuclear capabilities. It was blown out of all proportions to pressure South Korea to accept the deployment of the US THAAD system that is really aimed at containing China. And the US was successful. One of South Korea's newly elected president Moon's first official acts was to stop the deployment of the system only to relent a month later despite public protests. We see NATO moving into former Eastern Bloc countries despite undertakings not to do so when the iron curtain fell. We see how aggressively the US pursues its strategies in Venezuela and the Strait of Hormuz, with Turkey, in the Middle East, Afghanistan, Libya in the South China Sea etcetera.

Is this what is behind the current economic war on China (and on Russia, Turkey, Iran etcetera)? China used the last 20 years of peaceful economic co-existence to not

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2019

By T H Friedrich – 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.

only build its economy but also to build its military capabilities as did Russia. While no opponent to US hegemony has the means to challenge this hegemony on his own, things will certainly look different if China, Russia, Turkey and Iran form an alliance to take up the challenge and this is what seems to be happening right now. Of course the US is not watching this idly. Brexit could very well be part of this strategy that will emancipate the UK, as once all mighty global hegemon, from its European Union shackles. Purely for this reason, it appears inevitable that Brexit will happen. It is not about economic niceties but about military imperatives. Since Russia and China are highly unlikely to submit to US domination, a war seems inevitable as China is already posing a serious military threat the US must contain sooner rather than later, else China will become the next global hegemon. Typically the US would not want to fight a war on its own territory but would rather set up others frontier states to lead the fight against its adversaries on their territory until the warring parties have virtually bled to death, for the US to then 'take the honours'.

Conclusion:

There are two global developments happening now to address two key challenges the world faces. Firstly it's the absence of global growth and secondly it is the challenge posed to the US global hegemony. These will impact investment and must be taken into account when investing. The challenge of the absence of global growth appears to be addressed by a move from fossil fuelled mobility to electric mobility and from carbon emission intensive to carbon neutral industries and technology, together with the advent of artificial intelligence. Secondly China's threat to US hegemony is likely to be addressed by the US forcefully re-imposing itself as the undisputed global hegemon – hence "we will make America great again".

From an investment perspective, old fossil fuel dependent industries standing in the way of the '5th industrial revolution' should be dropped in favour of 'climate friendly' industries. Countries whose economies depend on fossil fuels will face a tough time. Climate friendly electricity generation will become popular and even nuclear power may experience its renaissance. From a political perspective, Brexit is likely to happen and the UK will no doubt capitalise on the opportunities this will offer as opposed to a European Union that will experience an economic decline. Since the European Union does not have the military means to protect its economic interests, it is doomed to towing the US line and it becoming the field of fire in a military confrontation between Russia and the US. China and its economy are also on the back foot and will find the going tough and this will negatively impact investments in Chinese firms. In terms of geographical distribution of investments, frontier countries of US adversaries present a fair risk. In contrast, politically stable developing countries, with well managed economies that are out of the line of fire should offer more secure investment prospects.

Although the timing of more serious global political turbulence as sketched above is difficult to foresee, conceivably this can be towards the end of president Trump's tenure as this may be the last opportunity for the currently dominating school of thought on US strategy to have its will.