Volume 16 No. 01
January 2020

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

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

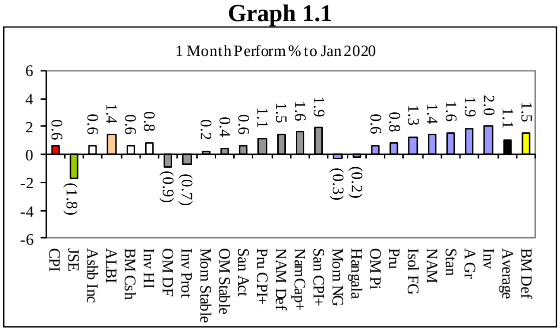
In January 2020 the average prudential balanced portfolio returned 1.1% (December 2019: 1.0%). Top performer is Investec Namibia Managed Fund with 2.0%, while Momentum Namibia Growth Fund with -0.3% takes the bottom spot. For the 3-month period, Namibia Coronation takes the top spot, outperforming the 'average' by roughly 1.3%. On the other end of the scale Momentum Namibia Growth Fund underperformed the 'average' by 2.3%. 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.

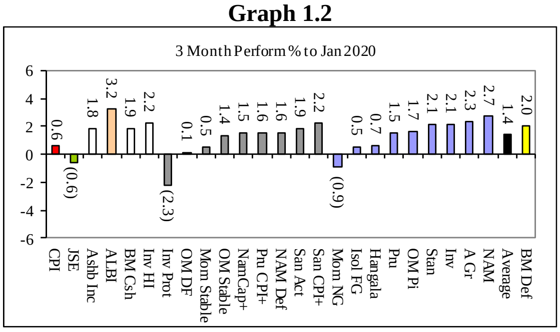
Below is the legend to the abbreviations reflected on the graphs:

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)
Ashburton Namibia Income Fund	Ashb Inc (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 Coronation Balanced Plus	NAM (blue)
Old Mutual Pinnacle Profile Growth	OM Pi (blue)
Prudential Managed	Pru (blue)
Stanlib Managed	Stan (blue)

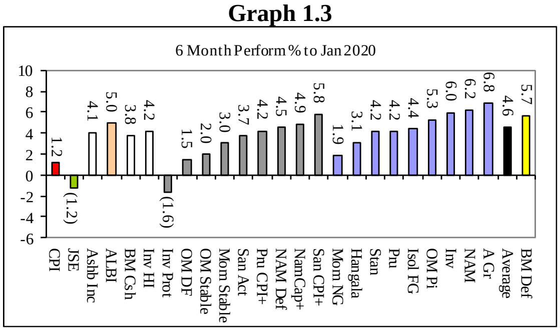
Graph 1.1



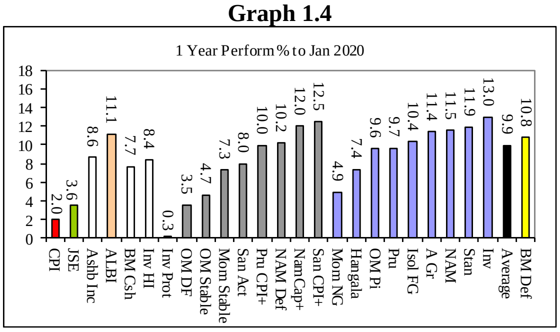
Graph 1.2



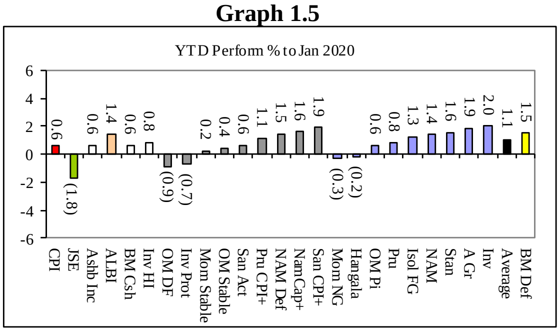
Graph 1.3



Graph 1.4



Graph 1.5



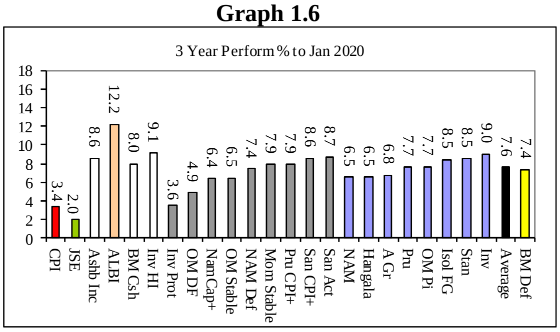
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

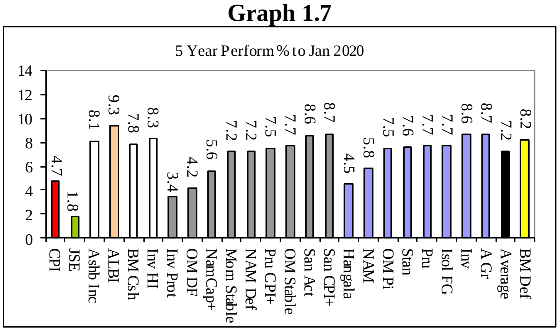
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

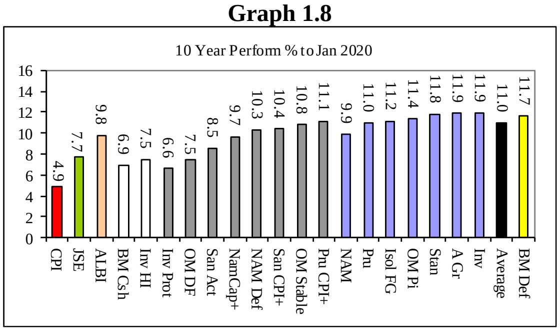
Graph 1.6



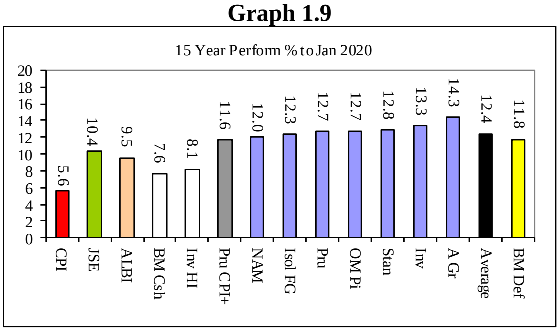
Graph 1.7



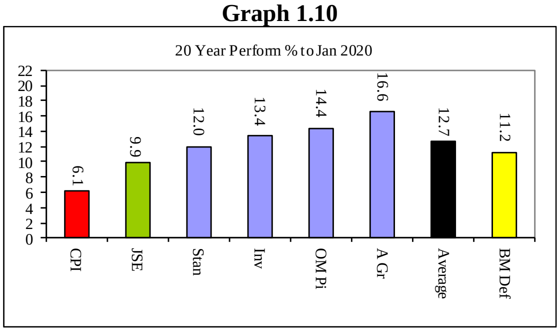
Graph 1.8



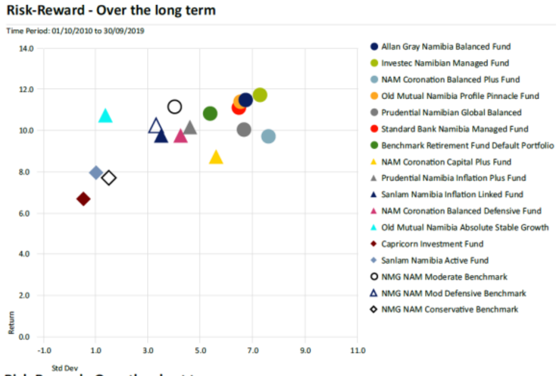
Graph 1.9

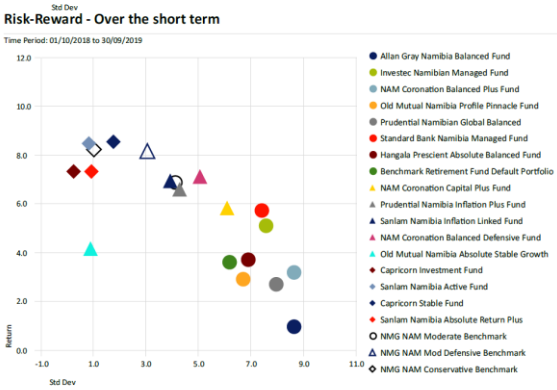


Graph 1.10



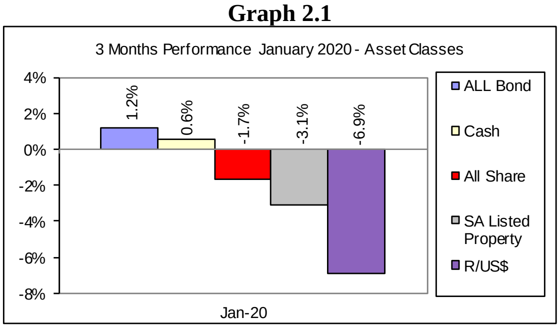
Risk/ Return



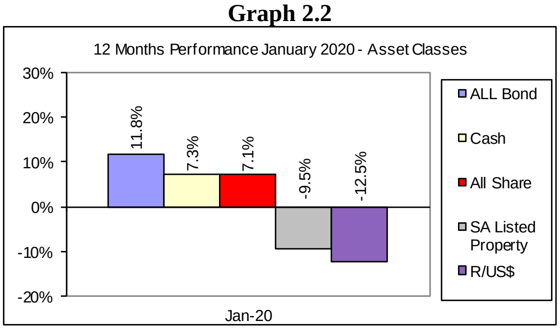


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



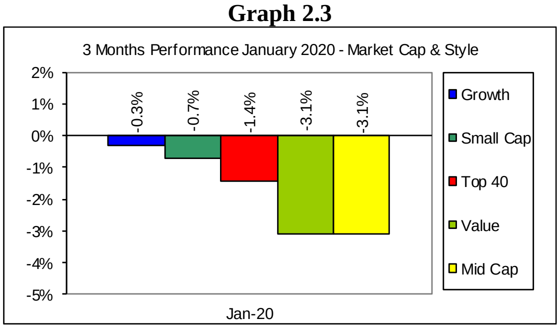
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

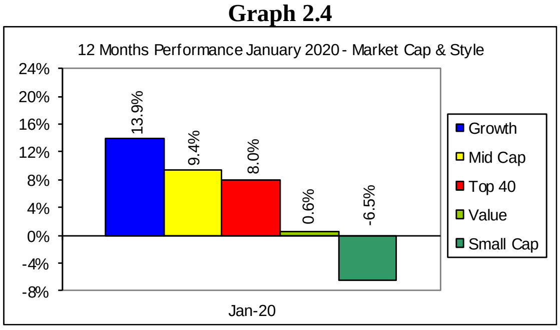
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

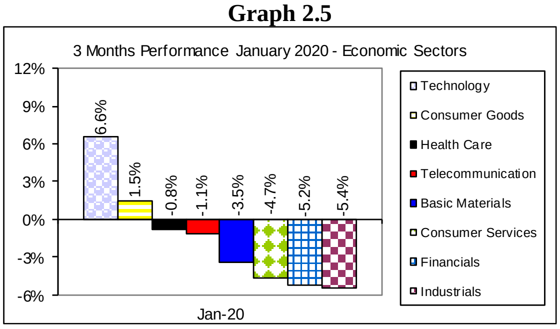
Graph 2.3



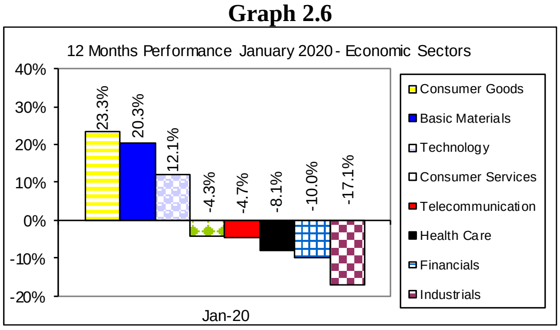
Graph 2.4



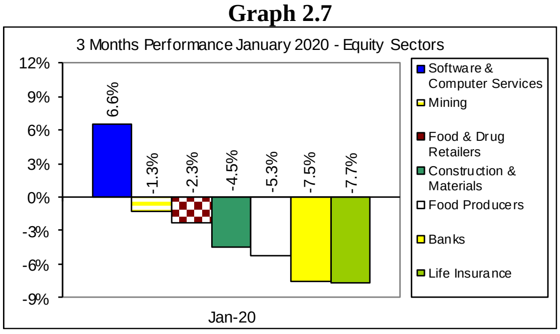
Graph 2.5



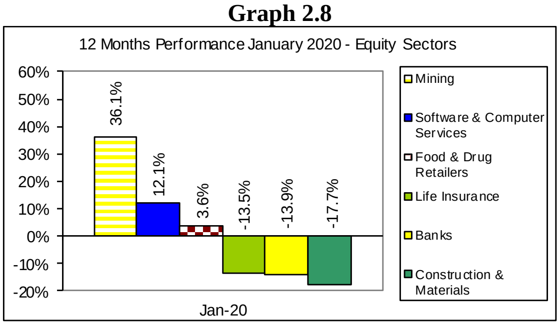
Graph 2.6



Graph 2.7



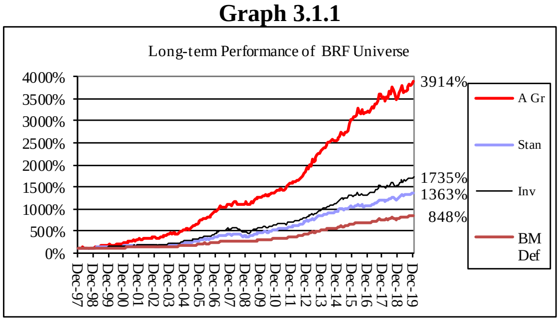
Graph 2.8



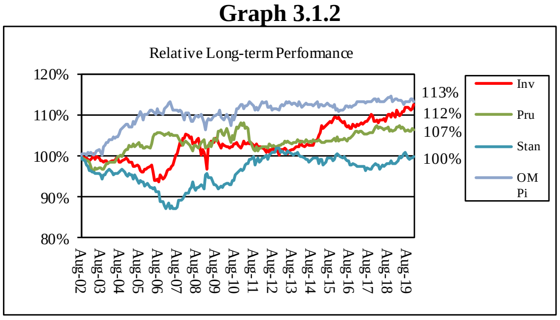
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



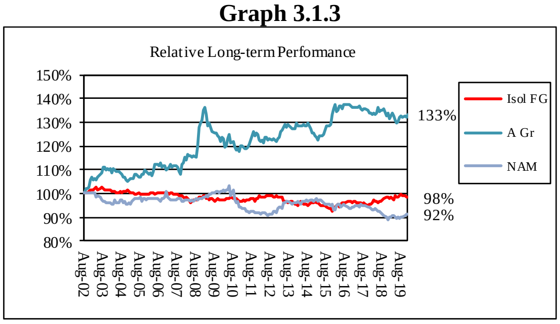
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

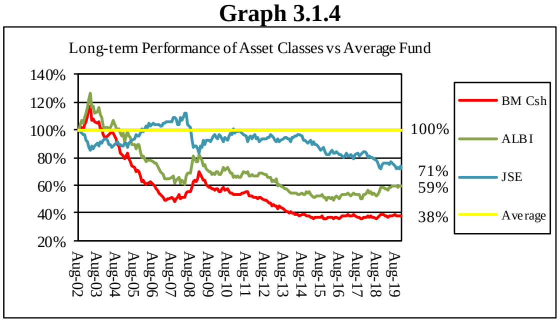
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

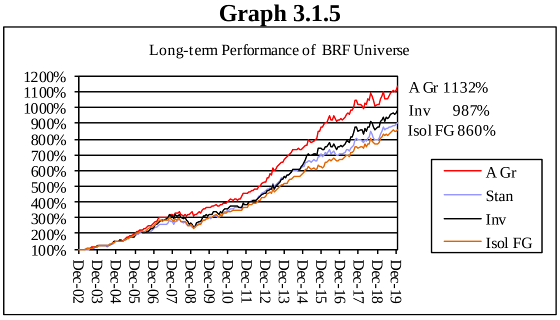
Graph 3.1.3



Graph 3.1.4

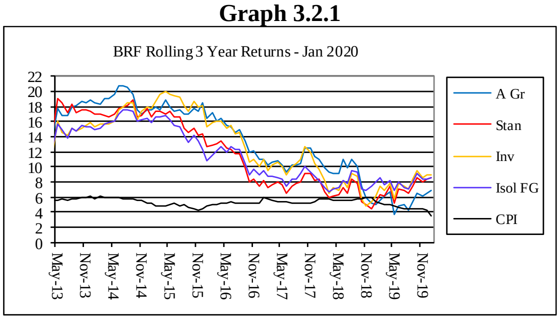


Graph 3.1.5

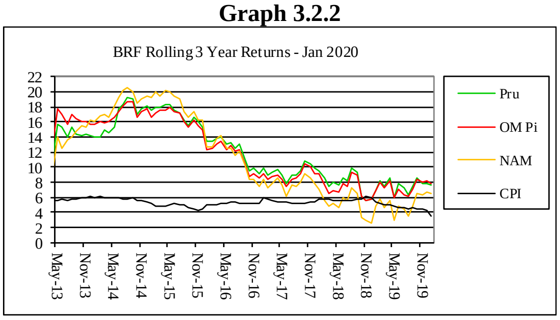


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

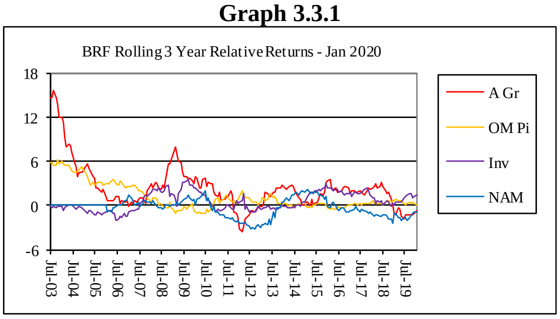


Graph 3.2.2

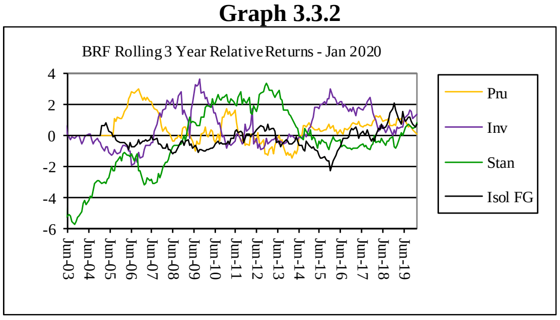


3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

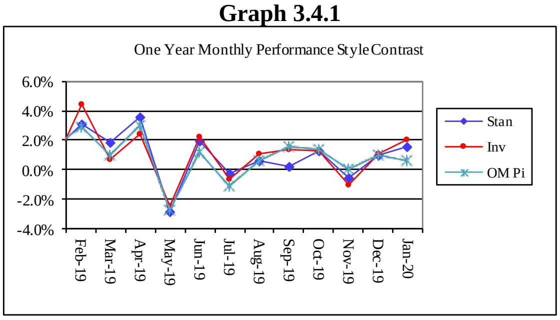


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



Volume 16 No. 01
January 2020

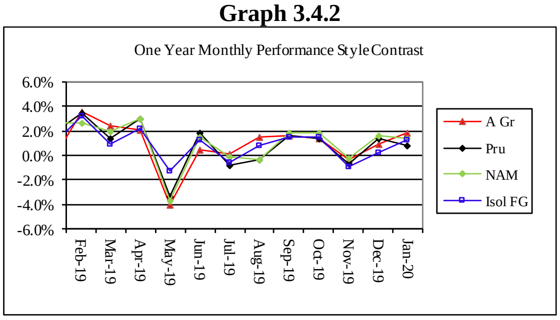
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

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

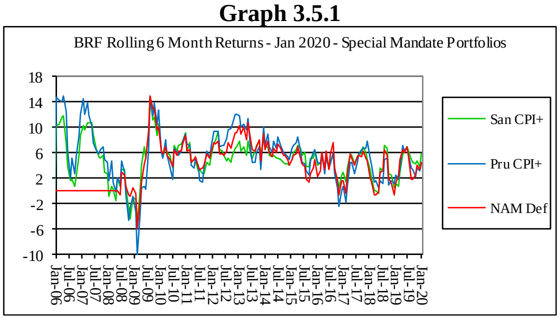
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.4.2

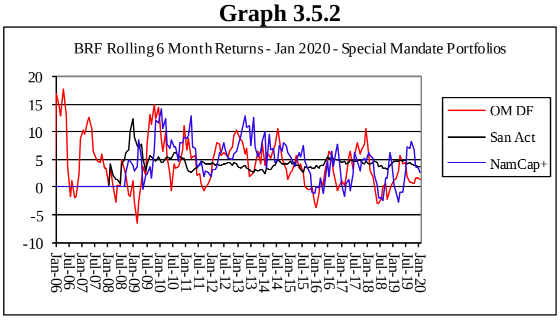


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

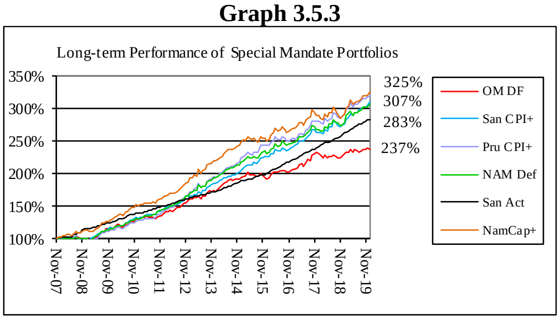
Graph 3.5.1



Graph 3.5.2

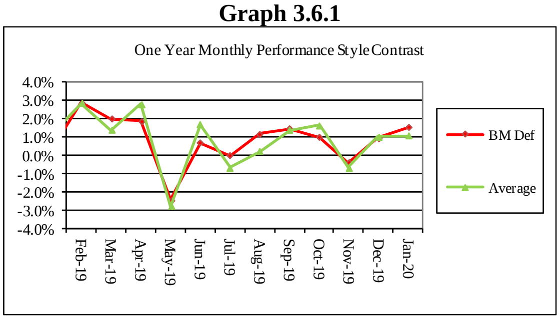


Graph 3.5.3

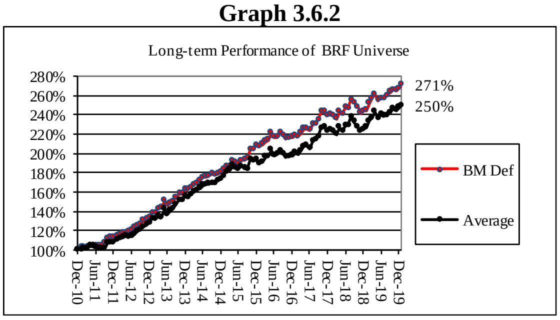


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

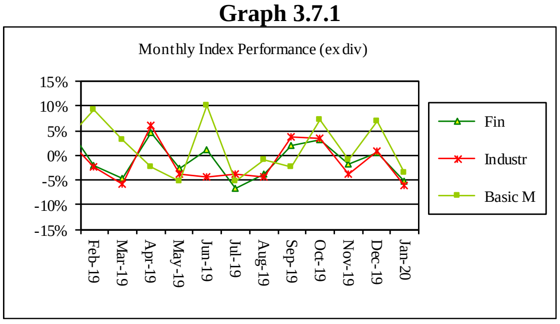


Graph 3.6.2

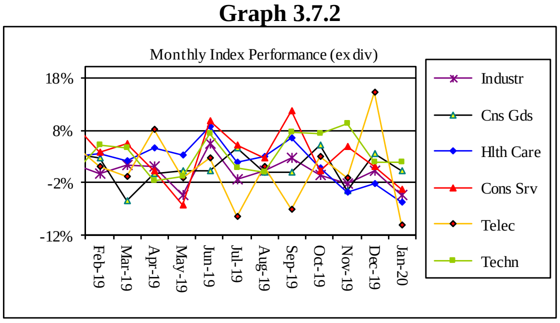


3.7 One-year monthly performance of key indices (excluding dividends)

Graph 3.7.1



Graph 3.7.2



Volume 16 No. 01
January 2020

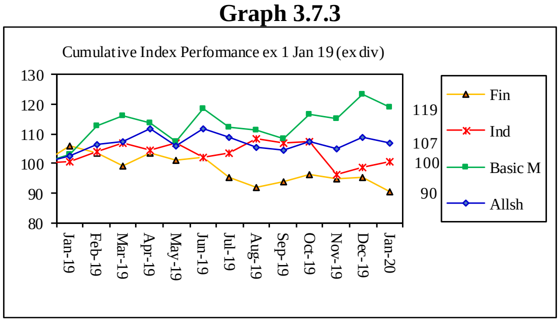
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

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 3.7.3



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	8.2	7.2
5-year real return - % p.a.	3.5	2.5
Equity exposure - % of portfolio (qtr end September 2019)	48.3	66.0
Cumulative return ex Jan 2011	171.4	149.9
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.

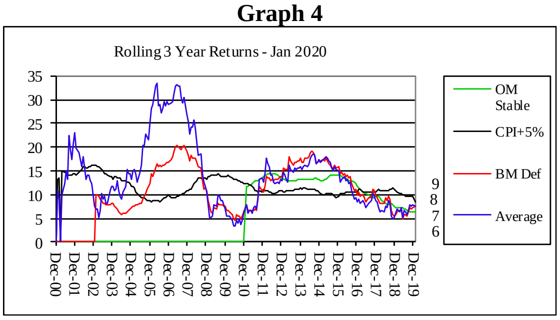
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	7.2%	4.8%	5.0%
Best annual performance	8.2%	11.0%	10.1%
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	8.0%	8.0%	7.4%

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years February 2017 to January 2020. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

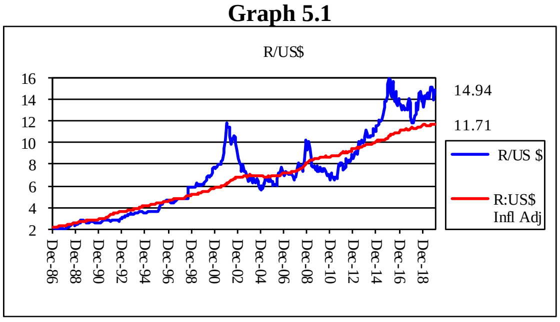


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end January was 7.4%, the average was 7.6% vs CPI plus 5% currently on 8.4%.

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 11.71 to the US Dollar while it actually stood at 14.94 at the end of January. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



The Rand weakened by 6.9% in January with net foreign investment outflows from bonds and equities of R0.8bn. Over the past 12 months the Rand weakened by 12.5%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 130.7bn (outflow of R 136.0 bn to end of December 2019).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 86.0 bn (December R 86.9 bn).

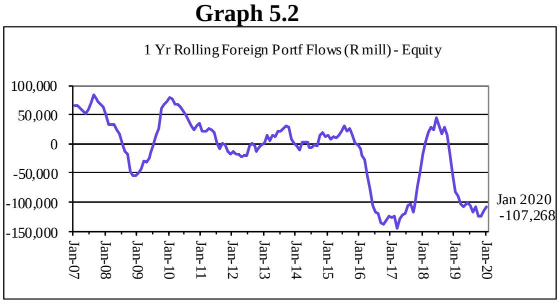
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 107.3 bn at the end of January (outflow of R 114.0 bn year-on-year to end December). The month of January experienced a net outflow of R 8.3 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020
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.

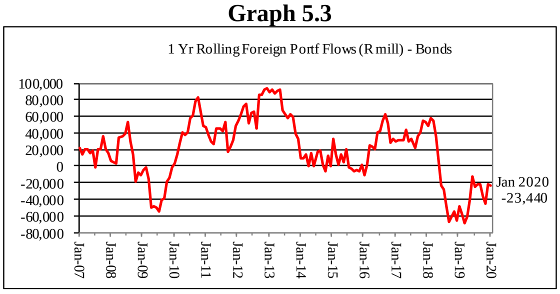
R 166.3 bn (end December net investment outflow of R 158.1 bn). This represents roughly 0.96% of the market capitalization of the JSE.

Graph 5.2



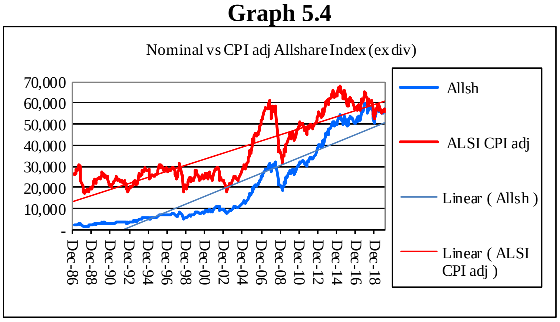
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 23.4 bn over the past 12 months to end of January (outflow of R 22.0 bn over the 12 months to end of December). The month of January experienced a net inflow of R 7.5 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 252.4 bn (to December R 244.9bn).

Graph 5.3



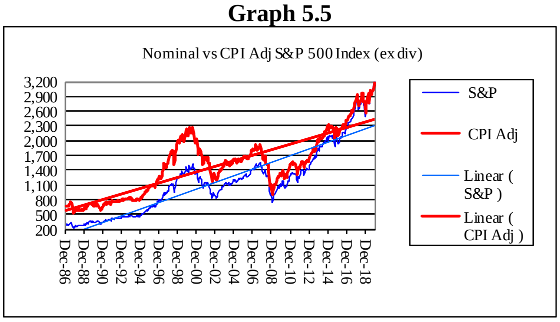
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.6% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 30 years was 7.9% per year. This is equivalent to a growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 5.7% including dividends.

Graph 5.4



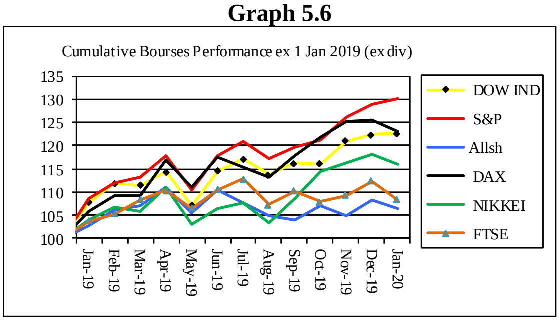
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.7% per annum, over this period of 30 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.1% p.a. over this period, excluding dividends or around 7.3% including dividends.

Graph 5.5



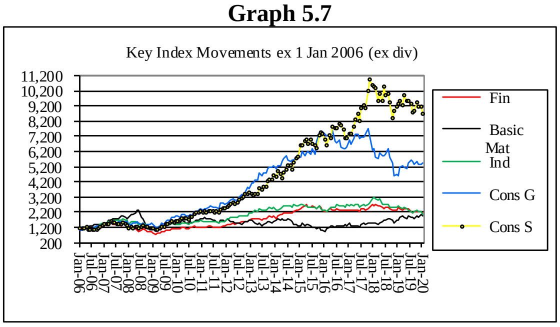
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2019.

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: 16.4%; Consumer Goods: 12.7%; Financials: 5.5%; Industrials: 5.4%; and Basic Materials: 4.9%.

Graph 5.7



6. Does the global economy show any signs of recovery?

by Tilman Friedrich

Since the performance of the global economy is the underpin of the performance of global equities, our hopes for an improvement of our retirement outlook is pinned to an improvement in the global economy. We have all

Volume 16 No. 01
January 2020

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

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.

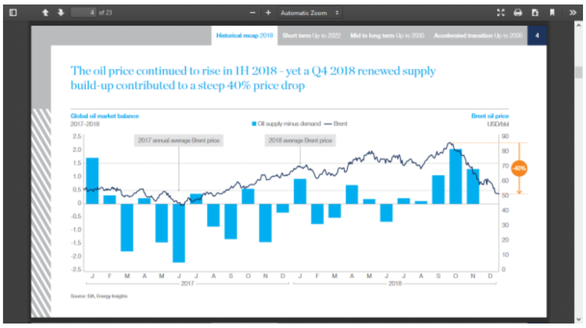
been incensed by the negative impact of president Trump's trade war with China in 2018, primarily on equities. Some glimmer of hope of the dispute being resolved reared its head in 2019 and lead to a pleasing recovery in global equities. In 2018, our average prudential balanced portfolio returned a mere 0.5% against the backdrop of an inflation rate of 5.1% - thus a negative real return of 4.6% for the year! In 2019 fortunes turned much to every pension member's satisfaction. For the year 2019, our average prudential balanced portfolio returned 9.9% against the backdrop of an inflation rate of now only 2.1% - thus a positive real return 7.8% for the year! Many a fund member may not appreciate the fact that funds returned 'only' a single digit return having been spoilt in the 20 years or so up to the financial crisis in 2008. However, considering that the expected long-term real return on a typical prudential balanced investment portfolio is around 6%, the real return on our average prudential balanced fund for 2019 actually exceeded the expected long-term real return by around 2% - nothing to be dissatisfied with at all! This has been quite an unexpected turn of fortunes for pension funds.

I acknowledge that I did not expect this and I venture to say that very few people if anyone, expected this turn of fortunes. Certainly, going by the exposure of our prudential balanced portfolio to equities, a slight decrease of total equity exposure from 67% in September 2018 to 66% in September 2019 does not exactly reflect a mass piling into equities by the managers of these portfolios. Not a single manager increased its total equity allocation by more than 1%. Digressing briefly into the no-risk cash vs 'high risk' equity debate, the adamant cash proponent's investment would have underperformed the average equity proponent's investment by 2.2% for 2019, ranging between as little as no difference to the worst performing portfolio and as much as 5% difference to the best performing portfolio, at the expense of the cash proponent.

Will we see another great year for equities in 2020? Well in the previous two columns of this journal I concluded that it is unlikely. This month I take another perspective to try and form an opinion on this question. Oil is a bell-weather commodity for the global economy, so understanding which direction oil consumption is going in 2020 will give a fair indication for the direction the global economy is likely to take.

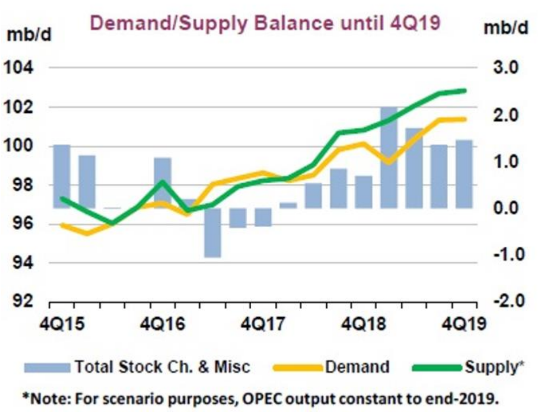
Graph 6.1 below depicts global oil supply minus demand as the blue bars up to November 2018 and the oil price depicted as the grey line. We see is that undersupply for most of the time depicted in this graph up until August 2018 has lead to a steadily increasing oil price. From September to November the reverse happened where oversupply lead to a sharp decline in the oil price by 40% from its peek in October 2018. For most of 2018 supply thus exceeded demand. But was this due to supply increase or was it due to demand slowing considering that demand reflects the momentum of the global economy?

Graph 6.1



Graph 6.2 below now provides the missing insight, showing that demand started to move sideways over the last 2 quarters of 2019, while supply continued to grow. This does not bode well for global equities as it reflects a flattening of the global economy.

Graph 6.2



The Wallstreet Journal reports on 13 February 2020 that "…the global oil demand is expected to fall in the first 3 months of the year – the first quarterly drop in more than a decade – according to a closely watched forecast of the International Energy Agency, which blamed a likely economic slow down in China related to the novel corona virus outbreak there." This corroborates the trend reflected in graph 6.2 and raises the level of concern about the state of the global economy while dashing hopes for meaningful growth in equities for 2020.

Closer to home, graph 6.3 shows the close correlation between the global oil price and SA equities as represented by the JSE ALSI. It is to be noted that since the collapse in the oil price at the end of 2014 from over R 1,000 per barrel to R 562 per barrel just a few months later, the JSE ALSI hardly moved, having reached a peak of 54,440 in April 2015. This graph indicates that one of

Volume 16 No. 01
January 2020

Benchmark Retirement Fund

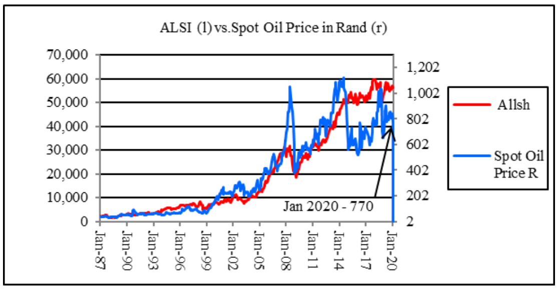
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2020

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.

two things must happen – either the oil price must move beyond R 1,000 per barrel from its current level of R 770 per barrel or the JSE ALSI must drop to about 45,000 to get back to where we were at the end of 2014. The target oil price of R 1,000 per barrel was briefly reached in September/ October 2018, a time when it seemed the global economy was on a good course.

Graph 6.3



Conclusion

Based on our above analysis and as concluded in this column in our preceding performance surveys, we see no recovery in the global economy for 2020 but a growth of around 2% appears achievable nevertheless. For SA and Namibia economic growth is likely to only be in the region of only 1%. Note that the IMF forecasts a 3.3% global growth, but the corona virus is likely to impact negatively. Equities are thus likely to move with inflation and the little bit of economic growth that may still materialize. Inflation having declined to around 2% in Namibia (4.5% in SA) at the end of January 2020, local equities are expected to grow by between 6% and 8% in 2020. In last month's column we expressed our expectation that there is not much scope for further reductions in the SA repo rate, after the recent 0.25% reduction in the repo rate, except if SA inflation dropped relative to US inflation or if the US reduced the Fed rate further. It is unlikely that the Fed with raise it policy rate soon and with this SA is also unlikely to lift its repo rate soon. The converse may yet happen in 2020. Interest rates are likely to remain low which should make bonds slightly more attractive. We should see returns of around 11% in 2020, in line with those of 2019. Money market returns should decline to around 7%. We also pointed out last month that the Rand is currently noticeably undervalued. We therefore do not see much scope for a further weakening of the Rand and thus not much support for foreign investments coming from a weakening currency. If these expectations are to come true, the typical prudential balance portfolio will produce a return of between 7% and 9%, slightly above the expected interest on a money market investment. We expect inflation to be in the region of 3%, which implies that the average prudential balanced portfolio should produce a real return of between 3% and 6% in 2020.