Volume 16 No. 02
February 2020

# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 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

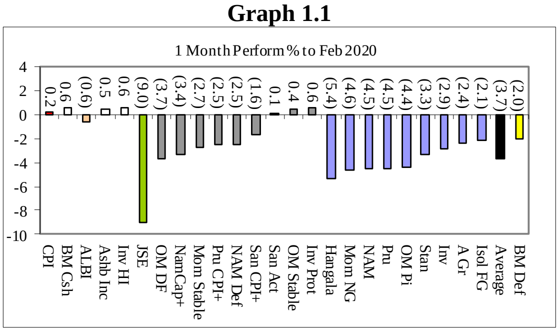
In February 2020 the average prudential balanced portfolio returned -3.7% (January 2020: 1.1%). Top performer is Investment Solutions Balanced Fund with -2.1%, while Hangala Prescient Balance Fund with -5.4% takes the bottom spot. For the 3-month period, Allan Gray Balanced Fund takes the top spot, outperforming the 'average' by roughly 2.0%. On the other end of the scale Momentum Namibia Growth Fund underperformed the 'average' by 2.8%. 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.

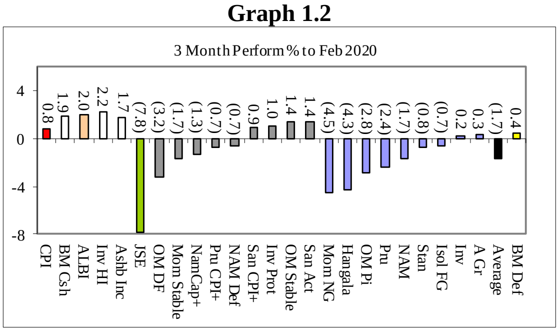
Below is the legend to the abbreviations reflected on the graphs:

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

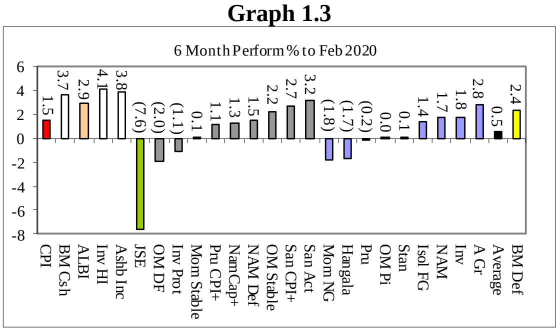
**Graph 1.1**



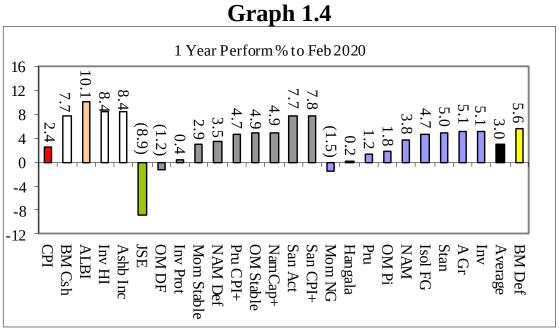

**Graph 1.2**



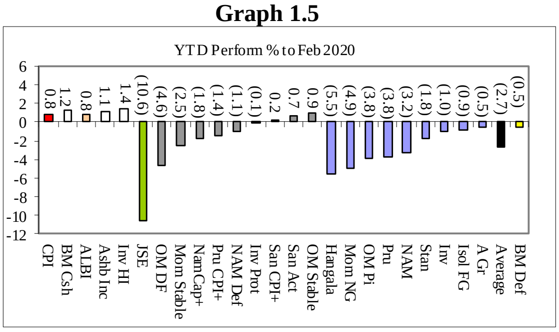

**Graph 1.3**




**Graph 1.4**




**Graph 1.5**



Volume 16 No. 02
February 2020

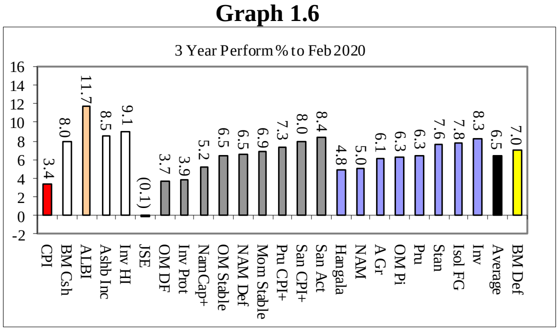
# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2020

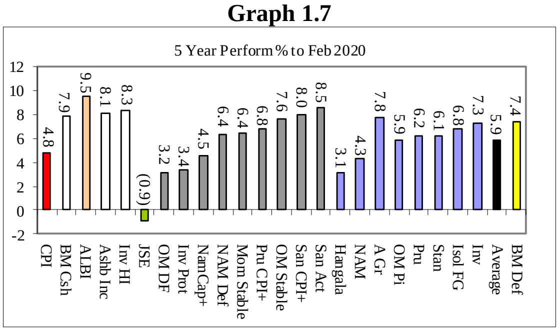
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

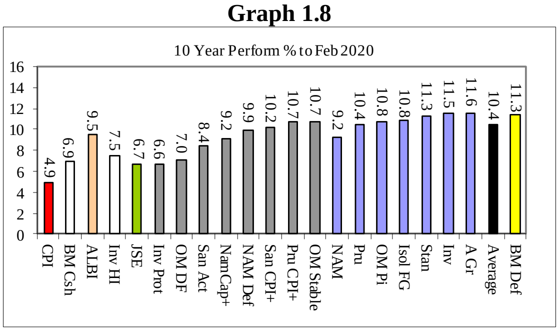
### Graph 1.6



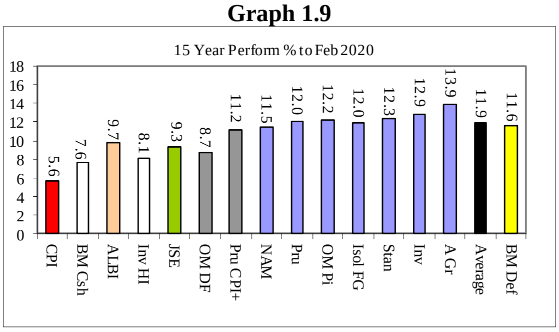

### Graph 1.7



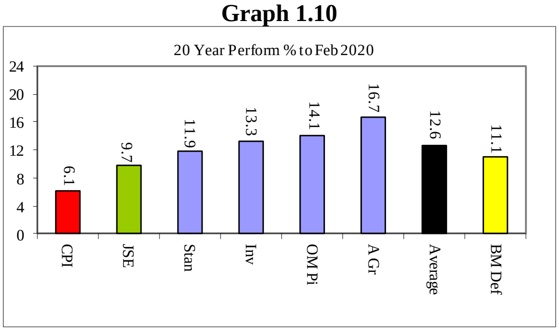

### Graph 1.8




### Graph 1.9



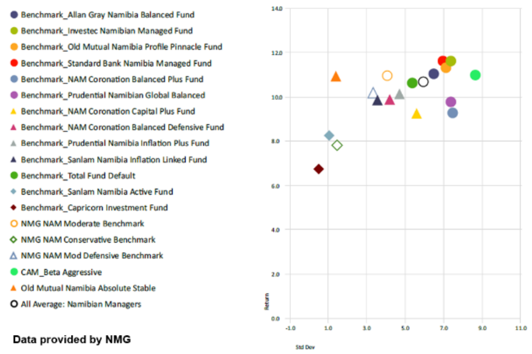

### Graph 1.10




### Risk/ Return

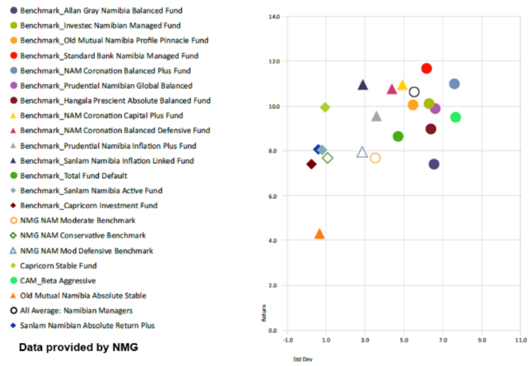
**Risk-Reward - Over the long term**

Time period: Jan 2010 – Dec 2019 (10 years)



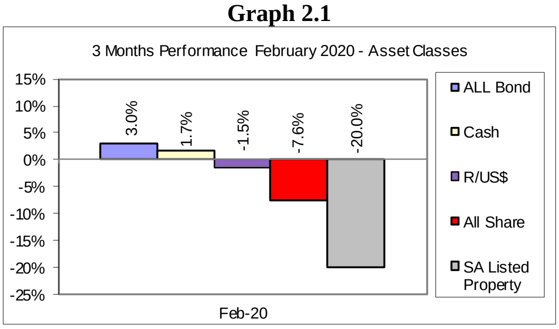

**Risk-Reward - Over the short term**

Time period: Jan 2019 – Dec 2019 (1 year)

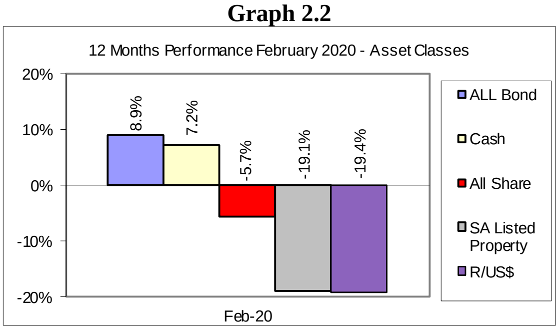



## 2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

### Graph 2.1




### Graph 2.2



Volume 16 No. 02
February 2020

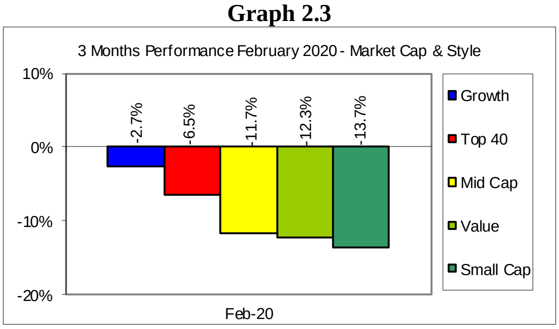
# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2020

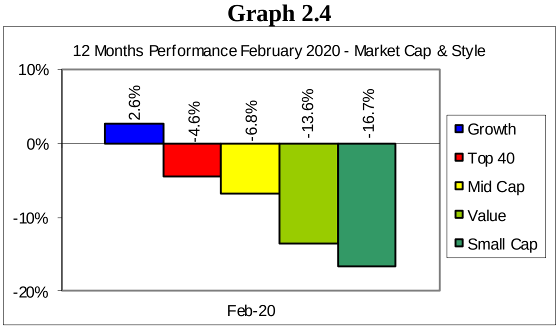
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

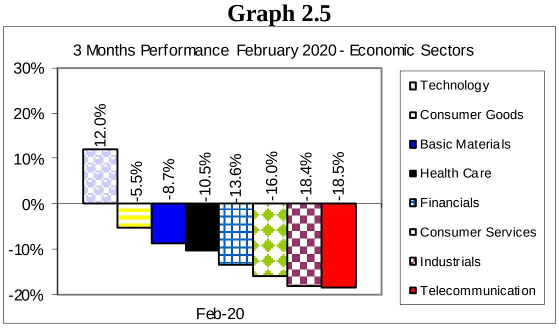
### Graph 2.3



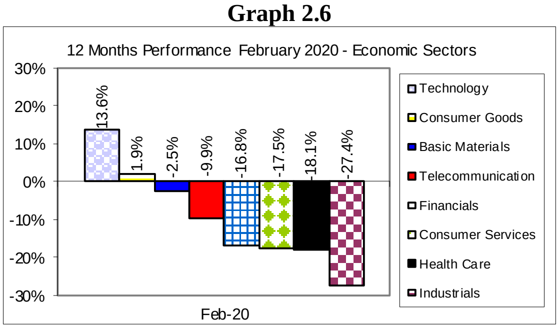

### Graph 2.4



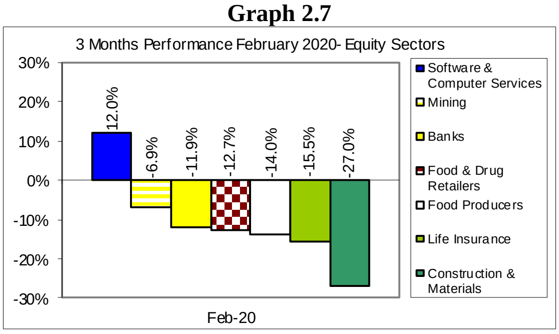

### Graph 2.5



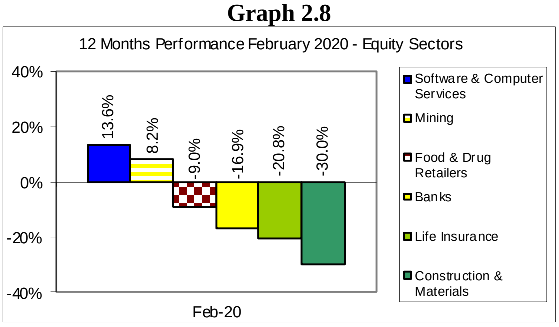

### Graph 2.6




### Graph 2.7



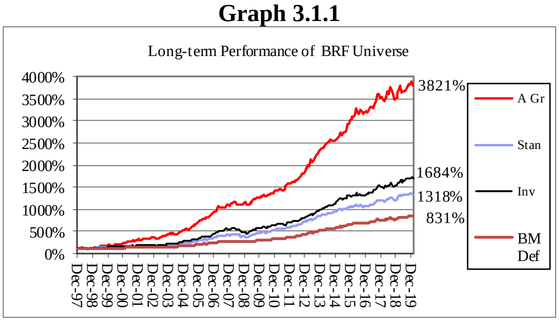

### Graph 2.8



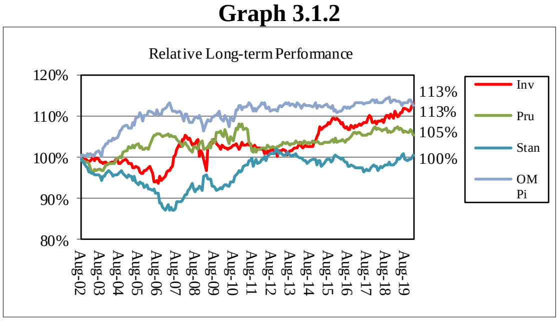

## 3. Portfolio Performance Analysis

### 3.1 Cumulative performance of prudential balanced portfolios

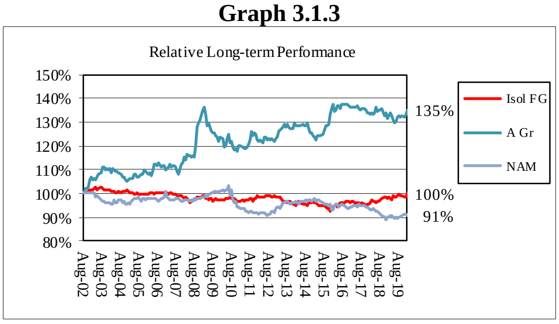
### Graph 3.1.1




### Graph 3.1.2




### Graph 3.1.3



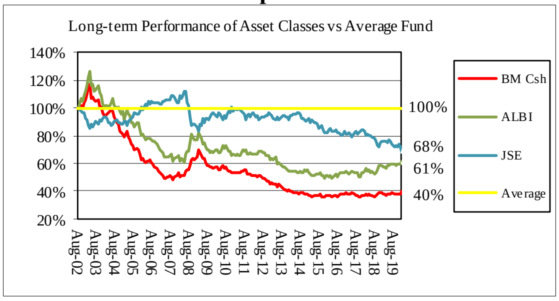
# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2020

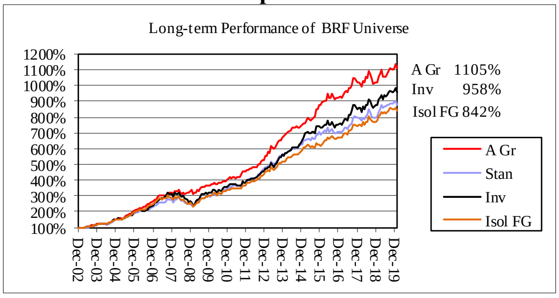
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

### Graph 3.1.4

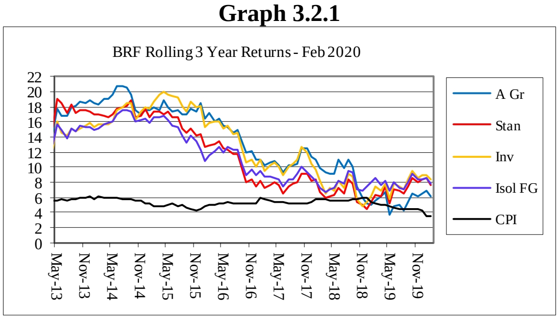



### Graph 3.1.5

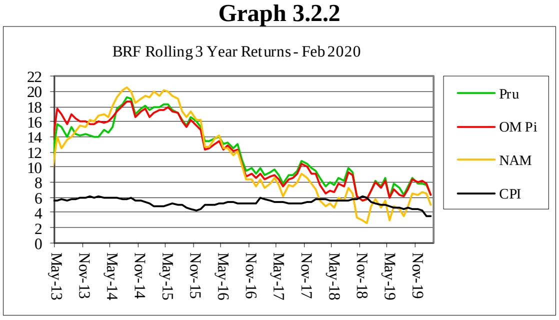



### 3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

### Graph 3.2.1

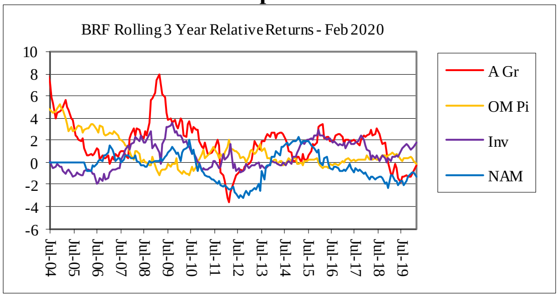



### Graph 3.2.2

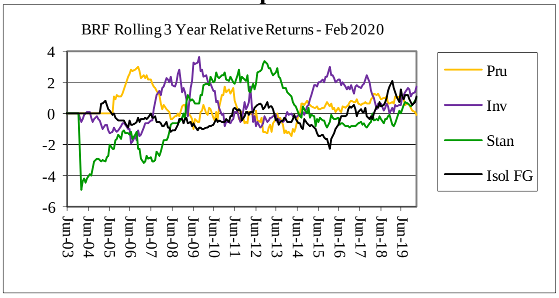



### 3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

### Graph 3.3.1

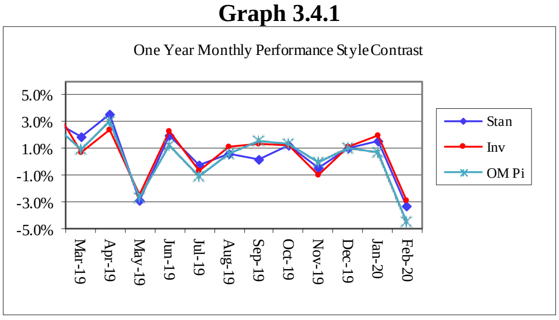



### Graph 3.3.2

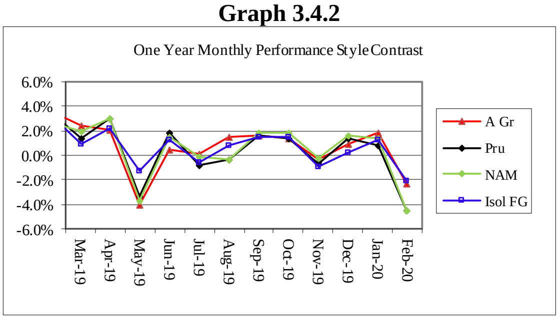



### 3.4 Monthly performance of prudential balanced portfolios

### Graph 3.4.1




### Graph 3.4.2



# Benchmark Retirement Fund

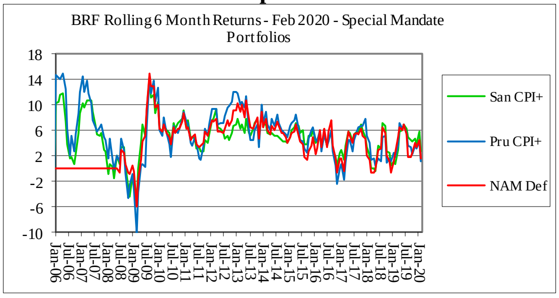
## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2020

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

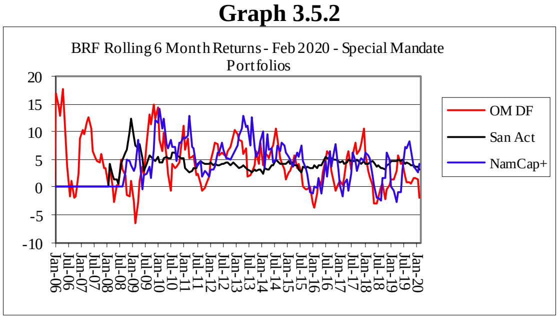
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

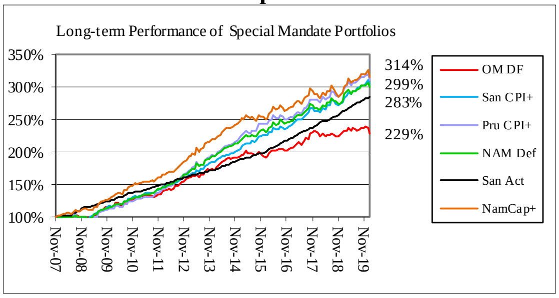
**Graph 3.5.1**




**Graph 3.5.2**

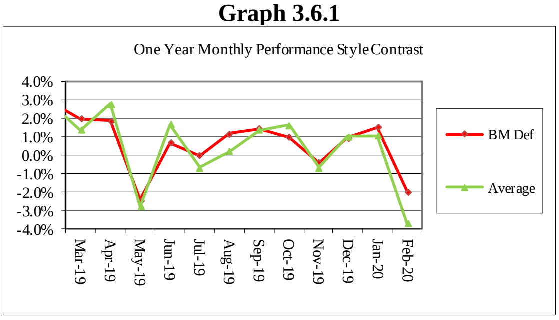



**Graph 3.5.3**

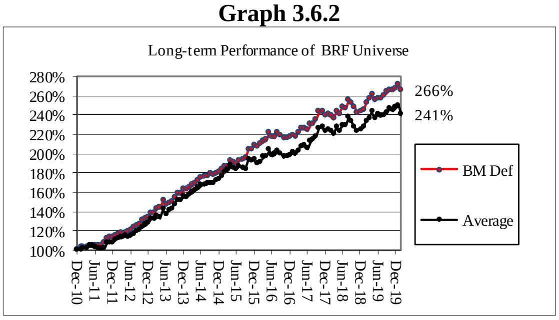



### 3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

**Graph 3.6.1**

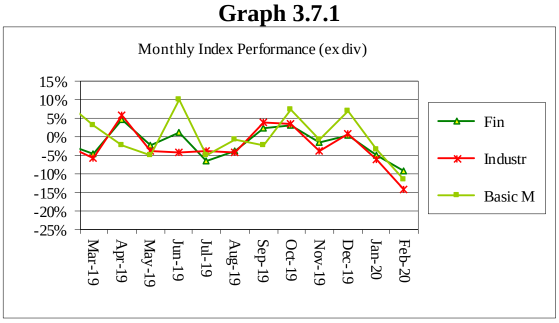



**Graph 3.6.2**

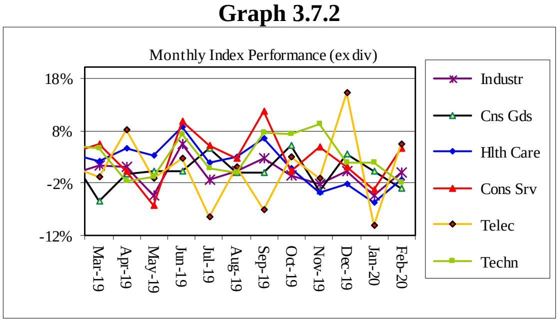



### 3.7 One-year monthly performance of key indices (excluding dividends)

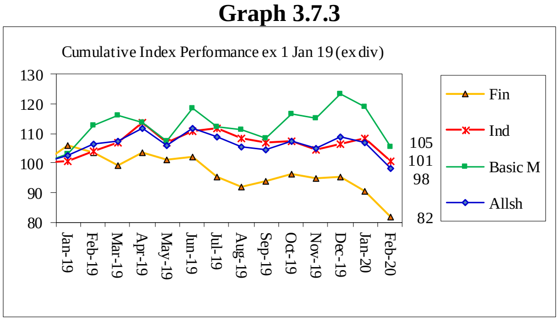
**Graph 3.7.1**




**Graph 3.7.2**




**Graph 3.7.3**



Volume 16 No. 02
February 2020

# Benchmark Retirement Fund

**MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 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.

## 4. The Benchmark Default Portfolio – Facts in figures

**Table 4.1**

| Portfolio | Default portfolio | Average Prud Bal |
|---|---|---|
| 5-year nominal return - % p.a. | 7.4 | 5.9 |
| 5-year real return - % p.a. | 2.6 | 1.1 |
| Equity exposure - % of portfolio (qtr end December 2019) | 47.2 | 62.0 |
| Cumulative return ex Jan 2011 | 166.0 | 140.58 |
| 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.

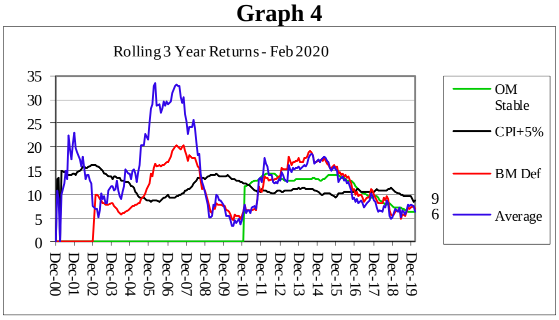
The default portfolio's long-term return must be read in the context of it initially having been managed with a low risk profile that was only changed from the beginning of 2011 when the Metropolitan Absolute Return fund was replaced with the Allan Gray balanced portfolio.

**Table 4.2**

| Measure | Money Market | Default Portf | Average Prud Bal |
|---|---|---|---|
| Worst annual performance | 7.3% | 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% | 7.9% | 7.3% |

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

**Graph 4**

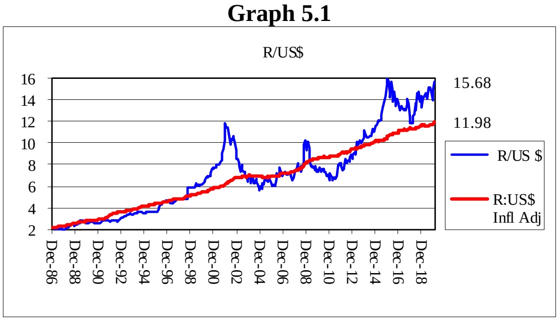



**Graph 4** measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end February was 7.0%, the average was 6.5% vs CPI plus 5% currently on 8.5%.

## 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 11.98 to the US Dollar while it actually stood at 15.68 at the end of February. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

**Graph 5.1**

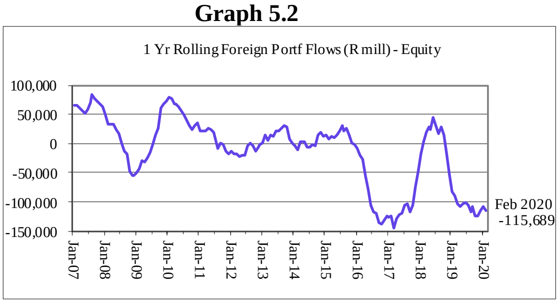



The Rand weakened by 5.0% in February with net foreign investment outflows from bonds and equities of R9.0bn. Over the past 12 months the Rand weakened by 11.5%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 149.2bn (outflow of R 130.7bn to end of January 2020).

Since the beginning of 2006, total net foreign portfolio inflows amounted to R 77.0 bn (January R 86.0 bn).

**Graph 5.2** reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 115.7 bn at the end of February (outflow of R 107.3 bn year-on-year to end January). The month of February experienced a net outflow of R 3.0 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 169.3 bn (end January net investment outflow of R 166.3 bn). This represents roughly 1.07% of the market capitalization of the JSE.

**Graph 5.2**



Volume 16 No. 02
February 2020

# Benchmark Retirement Fund

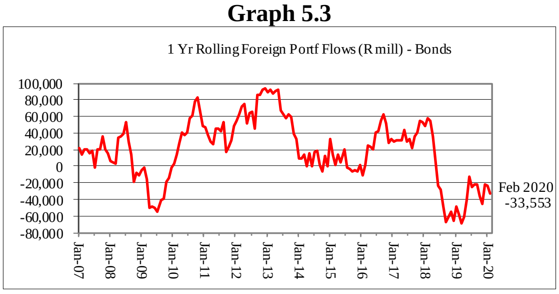
## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2020

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.

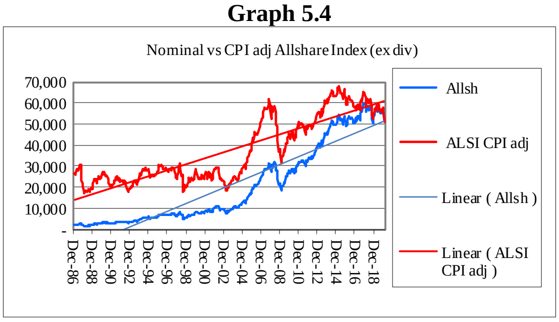
**Graph 5.3** on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 33.6 bn over the past 12 months to end of February (outflow of R 23.4 bn over the 12 months to end of January). The month of February experienced a net outflow of R 6.1 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 246.3 bn (to January R 252.4 bn).

**Graph 5.3**



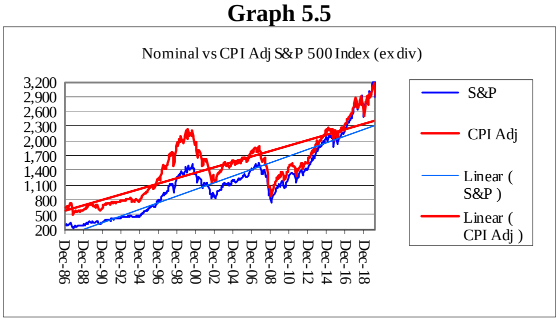

**Graphs 5.4** reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.3% per year since January 1987, and this excludes dividends of 3%. Namibian inflation over this period of 30 years was 7.9% per year. This is equivalent to a growth in real terms of 2.4% p.a. over this period, excluding dividends, or around 5.4% including dividends.

**Graph 5.4**



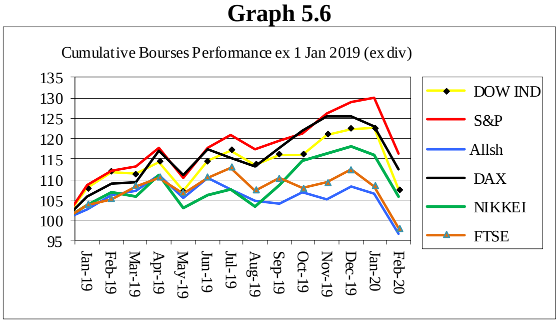

**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 7.4% per annum, over this period of 30 years. US inflation over this period was 2.5%. This is equivalent 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**



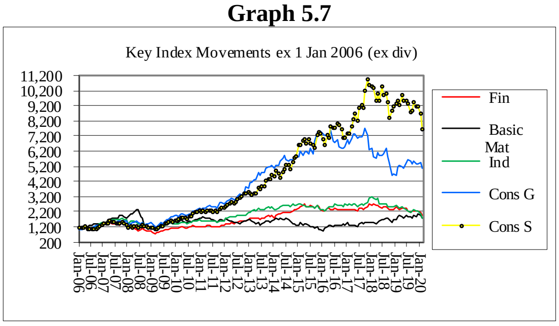

**Graph 5.6** provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2019.

**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: 15.3%; Consumer Goods: 12.1%; Financials: 4.7%; Industrials: 4.2%; and Basic Materials: 3.9%.

**Graph 5.7**




## 6. Will there be life after Corona?

by Tilman Friedrich

By now we are all acutely aware of the sharp decline in global financial markets. The JSE Allshare Index declined by 33% from 57,084 at the end of December to 38,267 at the time of writing this column. Earnings of the index were 6.34% at the end of December while the dividend yield was 3.9%. If the underlying companies were able to maintain earnings at that level, earning should currently amount to 9.5% and dividend yield should amount to 5.8%. To put this into a more common context, if you let your house of N$ 2 million generating a return of 6.34% your rent would amount to N$ 10,600 per month. If you were to continue earning the same rent but your property agent tells you that the value of your house has dropped to N$ 1,3 million, why should you be concerned about this drop in value. Supply and demand should result in the market adjusting upward again in time to come.

Now let's look at an investor who invests offshore. The S&P 500 index declined by 29% from 3,217 at the end of

Benchmark Retirement Fund

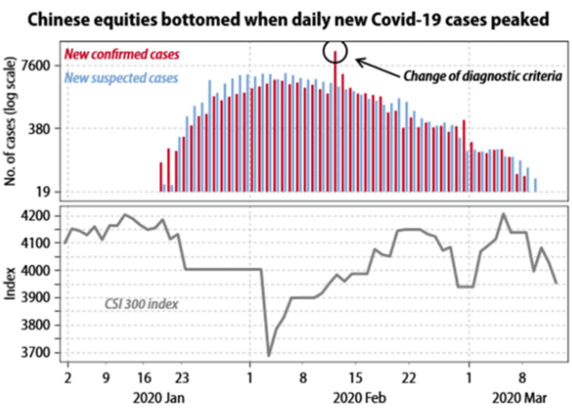
**MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 FEBRUARY 2020**
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

December to 2,284 at the time of writing. However, the Rand: US$ exchange rate at the same time weakened from 13.98 to 17.7. The value of the index at the end of December for a local investor would have amounted to N$ 44,974 while it now amounts to N$ 42,196, representing a decline in value of 'only' 6%. Something one can live with, I suppose. This once again shows the value of diversifying one's investment across the globe. As readers will know, pension funds typically have invested around 30% offshore as the result of which one can expect the decline in value of pension fund investments to be 'only' in the region of 25% for the first quarter to the end of March.

The problem at this stage is that the sharp decline of financial markets in consequence of the Corona pandemic is now exacerbated by the measures that have been taken by countries across the world in an effort to curb the spread of the virus. These have already had a seriously negative impact on economies across the world and we are only at the beginning stage of these measures in the western world and in Africa. Things will get much worse economically once countries move into a lock-down. All businesses will experience a decline in income and for many this will be so drastic that they will not survive. One commentator believes that the US economy will shrink by 24% in quarter 2 of 2020! That is a dramatic decline bound to lead to many business casualties, not only in the US but across the globe. Business in general will have to reduce staff and overhead costs. Employing the rental house analogy again, if your rent now drops to a return of 6.34% of the market value of your property that declined to N$ 1.3 million, your rent will decline by nearly N$ 4,000 to N$ 7,000 per month. If your rental income just covered your interest obligation towards the bank prior to the crisis your loan would have been N$ 1.1 million at the pre-crisis interest rate of 11.25%. As the result of the reduction in the interest rate to now 10%, you would now have to pay interest of 'only' N$ 9,000 per month but you now need to pay an amount of N$ 2,000 out of your pocket, on a salary that is likely to have declined sharply as well. The same scenario will of course apply to most businesses. Some of the loss of revenue will be permanent where it compensated for consumption that cannot be deferred, while deferred consumption will eventually result in the recovery of lost revenue. By the rental house analogy, if your house was vacant for a while, it represents a permanent loss of revenue, however if the housing market recovers to it pre-crisis levels, your loss in value of the house would have been of a temporary nature only. Working less hours for all intents and purposes implies a permanent loss of income unless you took leave now to avoid a reduction in working hours.

Investments of course create productive capacity. For the time this productive capacity is not employed or employed unproductively, revenue that could have been generated is forfeited. This may once again represent a short-term permanent loss of revenue or it may represent deferred revenue. The impact of a loss of revenue for the investor is a loss of dividends, and a loss of capital growth relating to retained revenues. It can be foreseen that it will take quite a long time for the economies to recover from this shock. Investors in businesses that closed down will have lost their total investment. At the same time the closing down of businesses means that the surviving businesses will be able to deploy their full capacity again sooner.

An interesting and somewhat encouraging picture emerges from the graph below that I copied from John Mauldin's 'Thoughts from the Frontline' newsletter. It reflects the incidence of Corona cases in relation to the movement of the Chinese CSI 300 index from the beginning of January to the middle of March. The slump in the index occurred at the peak of Corona incidence. As the incidence declined the market recovered sharply. Since it staged this recovery, it slumped once again to around 3,600 at the time of writing, lower still than it was at the peak of the Corona crisis, now probably driven by bad news coming in from the rest of the world. (If you like to read this interesting newsletter find it in this link…) (attached as BT 02.2020 J Mauldin Coronavirus…Pdf. Note that you can subscribe at no cost if you follow the link in the newsletter)




As for my case, you are likely to spend a great deal of your time and thoughts on what measures you should take to lessen the blow this is undoubtedly going to have on you, your investments and your business, and you are likely to also feel overwhelmed. The media attention given to this crisis is deafening and unprecedented, dwarfing the attention Greta Thunberg enjoyed for a while and any other pandemic we had before and that never reached the expected magnitude, such as swine flu and bird flu. With so much media attention it is inevitable that the man in the street will reach conclusions that are not justified or appropriate, in the absence of any frame of reference At this link https://www.contagionlive.com/outbreak-monitor you can examine the total number of cases and the death toll as the result of various contagious diseases. Note that the fatalities from Corona varies widely and one needs to investigate further to establish the reasons but it is likely linked to the quality of the health care systems in the various countries. One should put these figures into the context of the respective exposed populations and of the normal annual flu for a proper appreciation of what these figures are really telling us. Italy for example is a country with a very high fatality rate. I understand that the rate of resistance to antibiotics in Italy is 26% whereas it is only 0.5% in Germany. Iran is another country with a high fatality rate. Iran is subjected to sever international sanctions which probably contribute to its experience. In Wuhan the fatalities in absolute numbers is high but fatalities are less than 5% of its cases.

Not being as disciplined and authoritarian as China, the rest of the world will take a lot longer before the number of new infections will start to subside. It took China about 6 weeks going by the above graph. The rest of the world is likely to take two to four times as long, probably anything between 3 months and 6 months. The peak in China was reached after about 2 weeks. The rest of the world may probably only reach its peak by somewhere between end April and end May. We may thus only see a slow recovery in financial markets from the second half of this year. By then our tourism industry would have missed its main season for 2020.

**Conclusion**:

If the Chinese experience with the Corona virus and its impact on the economy is anything to go by, the world economy will start recovering from the second half of 2020. However, it will be a slow recovery until it gets into pre-crisis full swing again. Many people will have lost their job and many businesses will have closed down. To rebuild the lost capacity will take some time.

In the light of our expectation of a recovery in the second half of 2020, investors should grant their investments one to two years to recover. This is a short-term in most investors' lives unless you have to retire. Where you can or are allowed to switch investment portfolios, this is not the right time to move from a high risk to a low risk portfolio as this would merely realise the unrealized losses the investment has incurred – the horses have bolted. It serves no purpose to close the gate now. Given that timing is a play most would lose out most of the time, this is rather a time to move from a low-risk to a high-risk portfolio. Be prepared for a further decline in financial markets – we would not expect anything as dramatic as we have experienced in February and March. Best is not to watch the markets for the next 3 to 6 months. If you urgently do need funds, rather consider repatriating foreign investments than realizing substantial losses locally. If you are due to retire and are forced to sell cheap, buy cheap again into a high-risk portfolio so that you can benefit from any recovery in the markets. Try to defer your retirement if your employer allows, before your cash in your one-third commutation from a high-risk portfolio that has already suffered a loss or move your money to a preservation fund until things have recovered. Best is not to resign from your employer now – any income even if it is less than before and some certainty is infinitely better than no income and no certainty. There will be life after Corona!