Volume 16 No. 09
September 2020

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 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

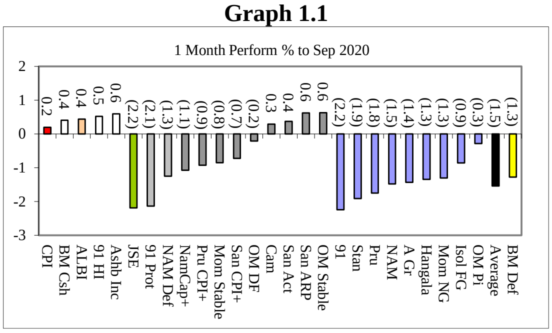
In September 2020 the average prudential balanced portfolio returned -1.5% (August 2020: 0.9%). Top performer is Old Mutual Pinnacle Profile Growth Fund with -0.3%, while NinetyOne Managed Fund with -2.2% takes the bottom spot. For the 3-month period, NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 1.8%. On the other end of the scale Allan Gray Balanced Fund underperformed the 'average' by 2.2%. 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. **Take note that we have added a new graph 3.5.3 which reflects the returns of the low risk special mandate funds**.

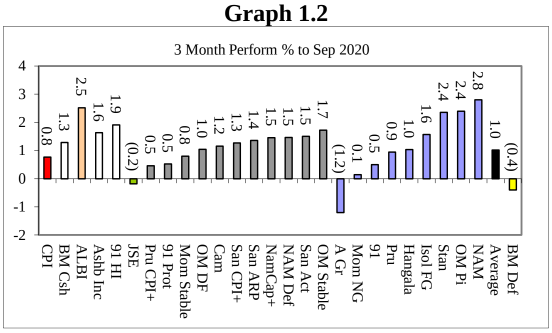
Below is the legend to the abbreviations reflected on the graphs:

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)
NinetyOne High Income (interest bearing assets)	91 HI (no color)
Ashburton Namibia Income Fund	Ashb Inc (no color)
Capricorn Stable	Cam (grey)
Momentum Nam Stable Growth	Mom Stable (grey)
NAM Capital Plus	NamCap+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
NinetyOne Protector Balanced Fund	91 Prot (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)
Sanlam Absolute Return Plus	San ARP (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Hangala Prescient Absolute Balanced	Hangala (blue)
NinetyOne Managed	91 (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)

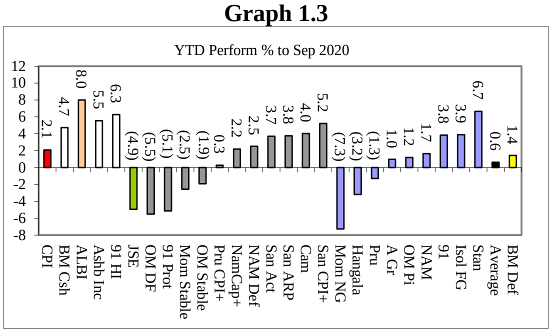
Graph 1.1



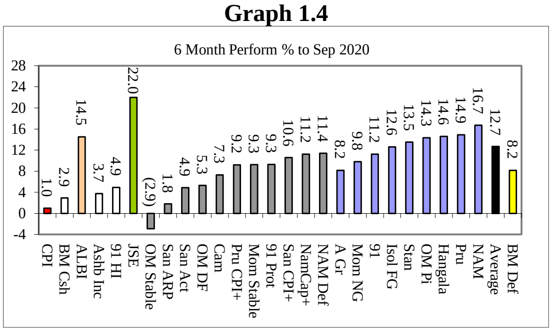
Graph 1.2



Graph 1.3



Graph 1.4



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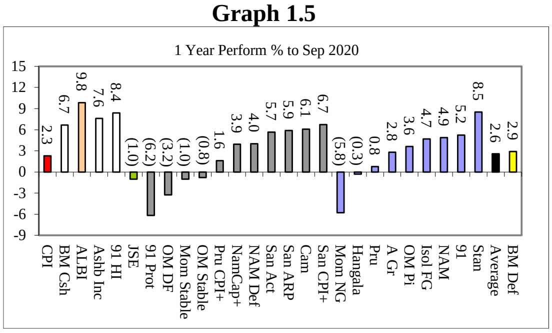
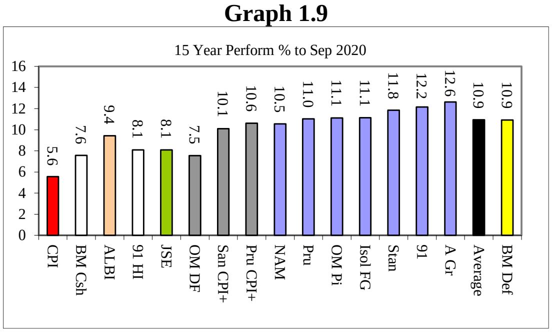
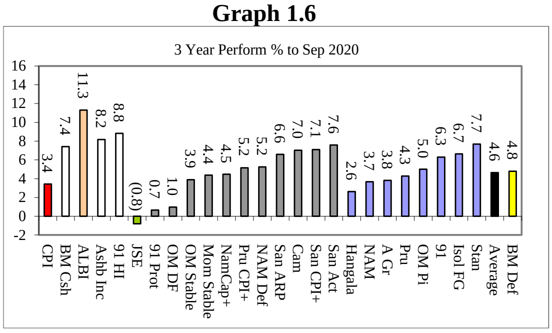
Graph 1.5



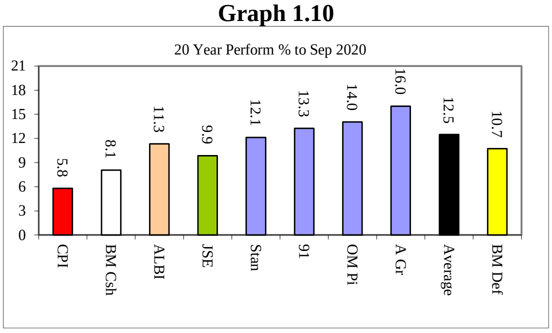
Graph 1.9



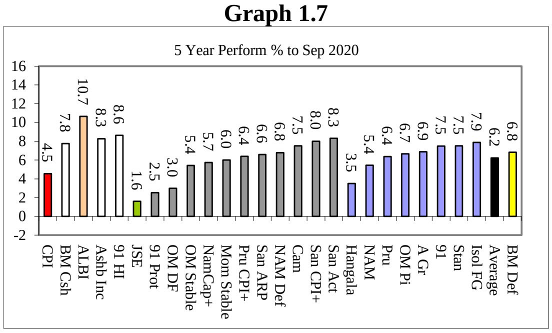
Graph 1.6



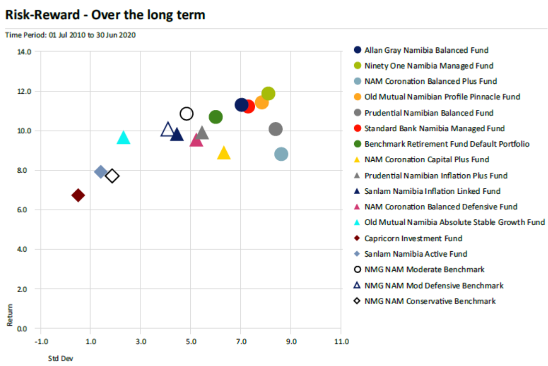
Graph 1.10



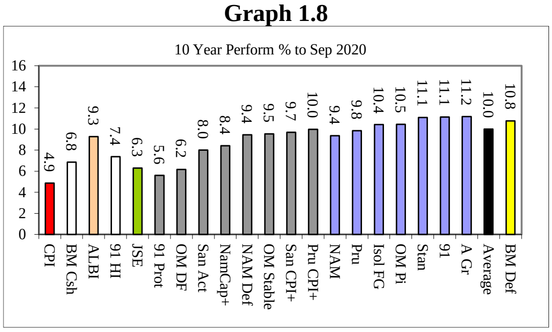
Graph 1.7

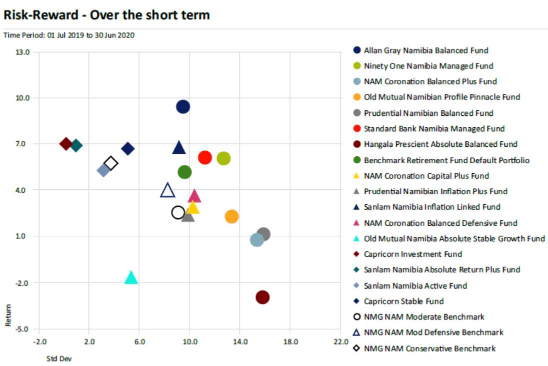


Risk/ Return



Graph 1.8





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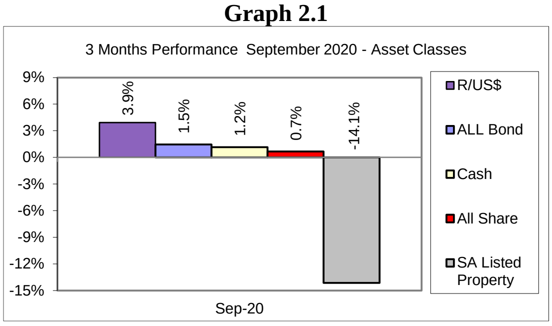
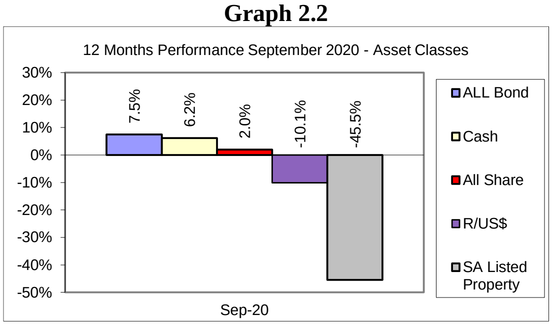
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

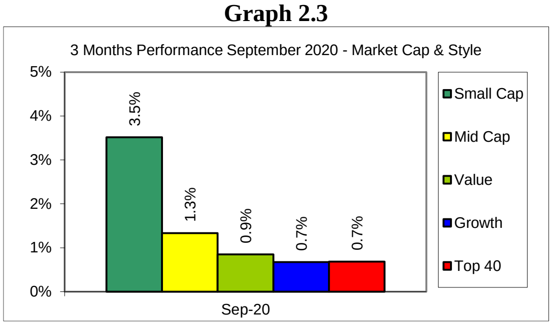
Graph 2.1



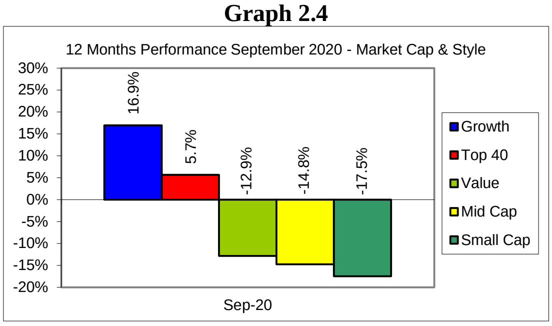
Graph 2.2



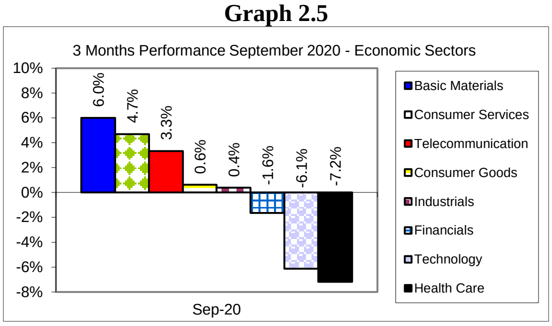
Graph 2.3



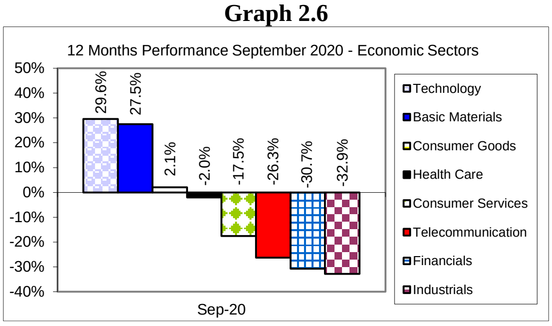
Graph 2.4



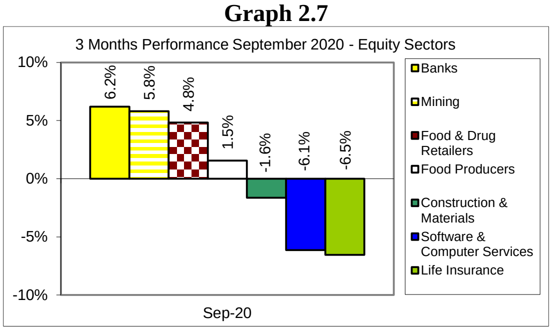
Graph 2.5



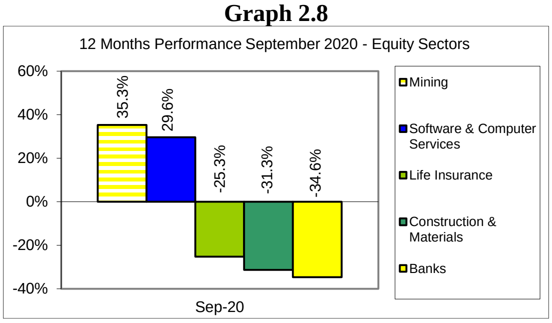
Graph 2.6



Graph 2.7



Graph 2.8



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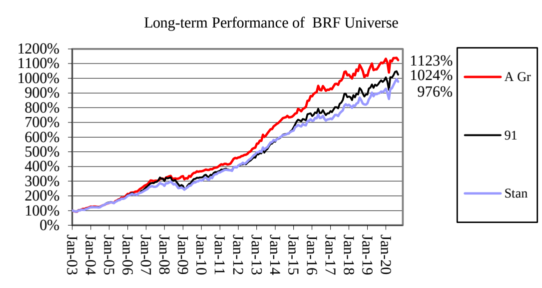
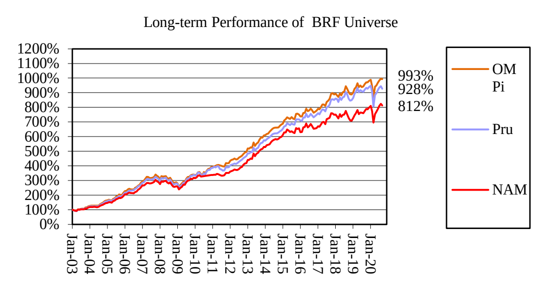
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

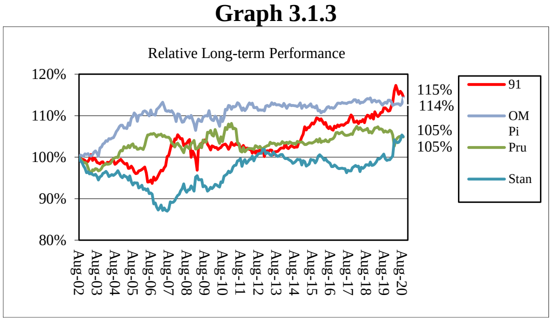
Graph 3.1.1



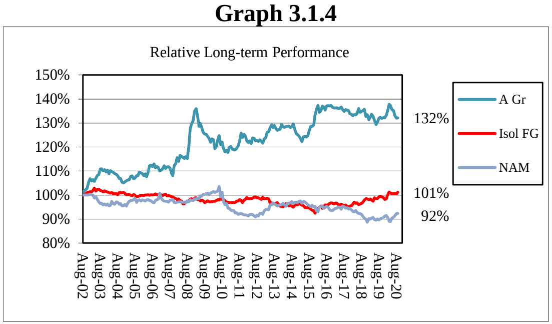
Graph 3.1.2



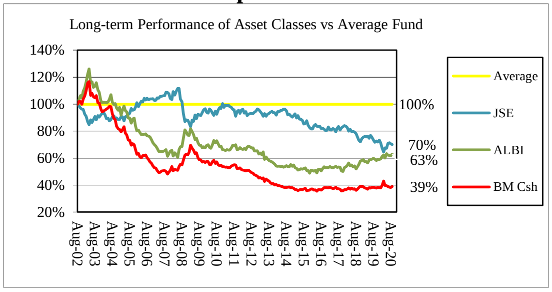
Graph 3.1.3



Graph 3.1.4

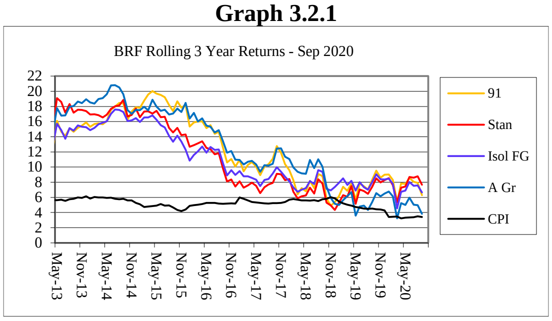


Graph 3.1.5

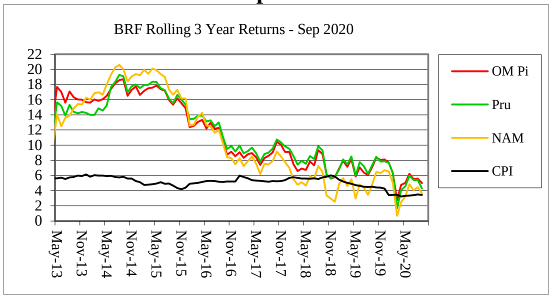


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

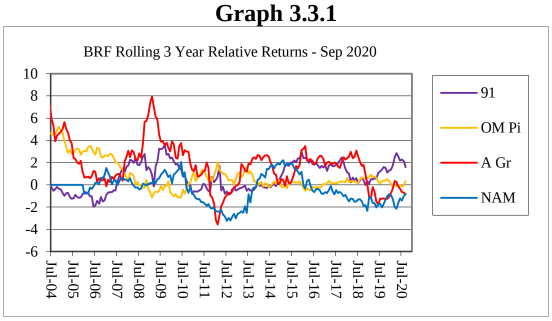


Graph 3.2.2



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

Graph 3.3.1



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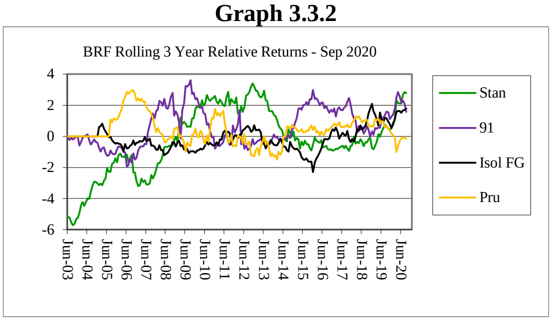
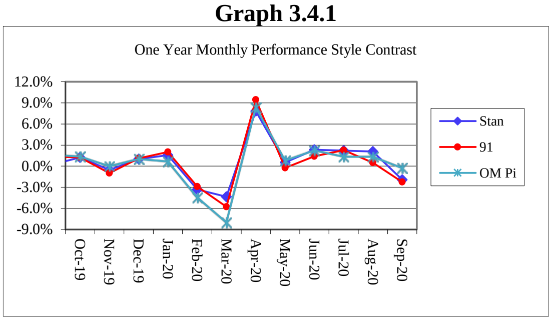
Graph 3.3.2

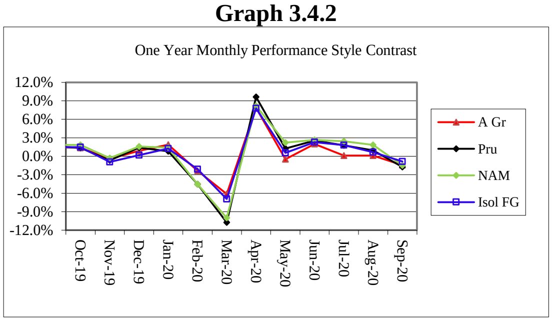


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

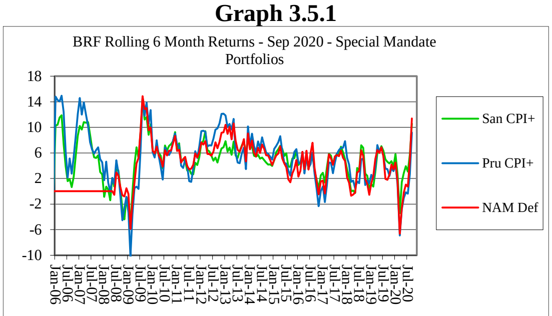


Graph 3.4.2

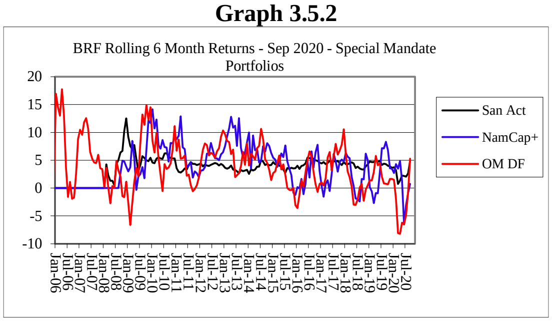


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

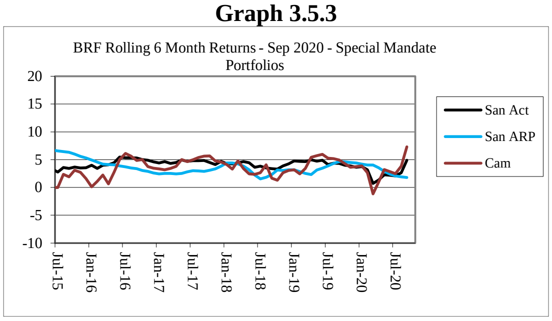
Graph 3.5.1



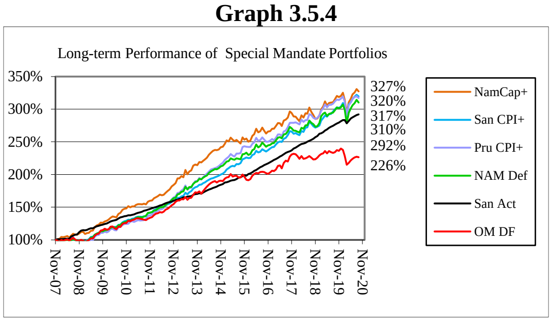
Graph 3.5.2



Graph 3.5.3

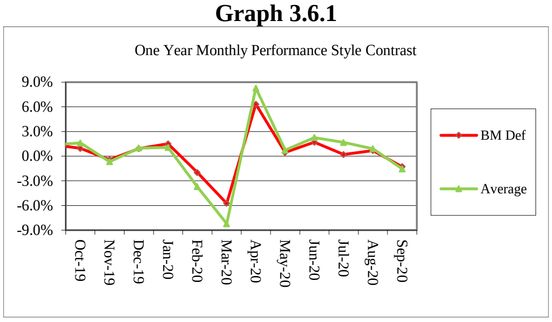


Graph 3.5.4



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

Graph 3.6.1



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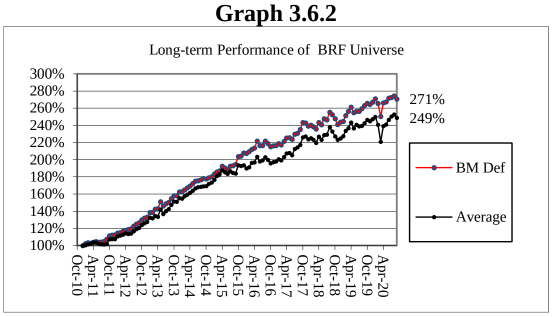
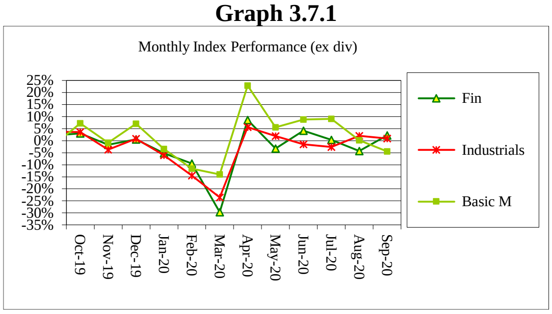
Graph 3.6.2

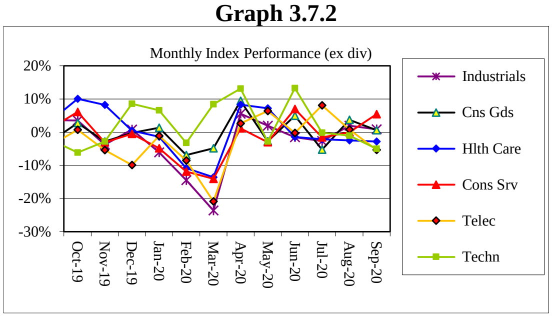


3.7 One-year monthly performance of key indices (excluding dividends)

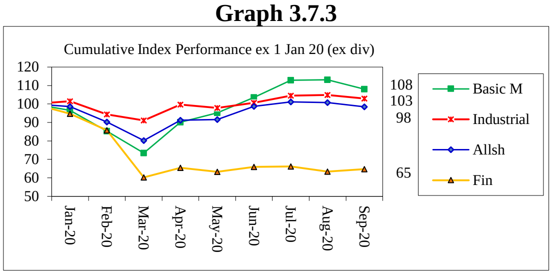
Graph 3.7.1



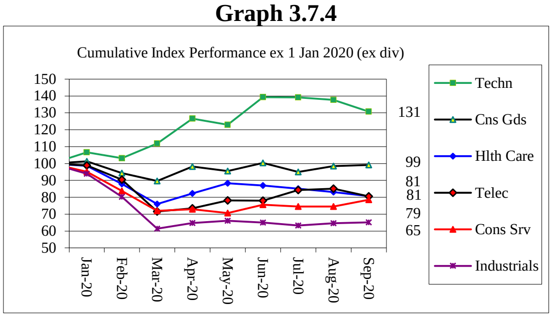
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	6.8	6.2
5-year real return - % p.a.	2.3	1.7
Equity exposure - % of portfolio (qtr end June 2020)	45.8	63.2
Cumulative return ex Jan 2011	170.84	148.94
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	7.4%	4.2%	2.8%
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%	7.1%	6.7%

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

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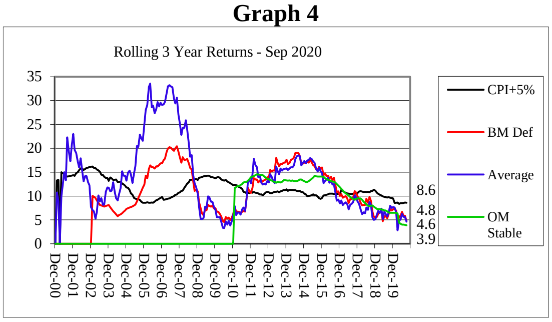
Graph 4

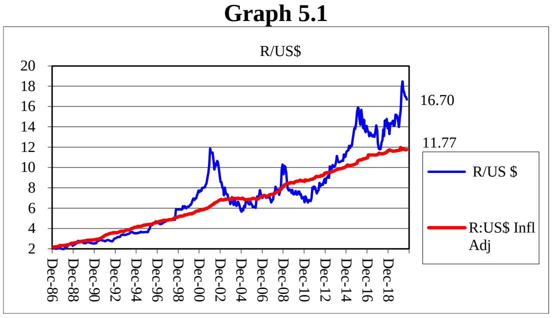


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end September was 4.8%, the average was 4.6.% vs CPI plus 5% currently on 8.6%.

5. Review of Foreign Portfolio Flows and the Rand
How is the Rand doing?

Graph 5.1 indicates that the Rand by our measure is at fair value at 11.77 to the US Dollar while it actually stood at 16.70 at the end of September. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

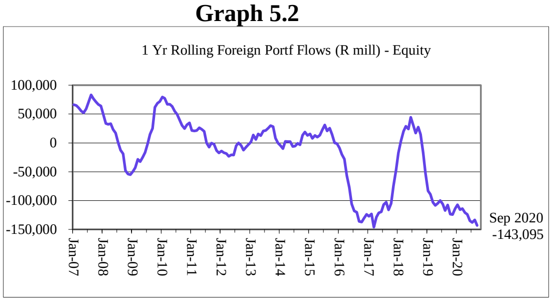


The Rand strengthened by 1.5% in September with net foreign investment outflows from bonds and equities of R18.8bn. Over the past 12 months the Rand weakened by 10.07%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 227.9bn (outflow of R 217.1bn to end of August 2020).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 81.0bn (August R 62.1bn outflows).

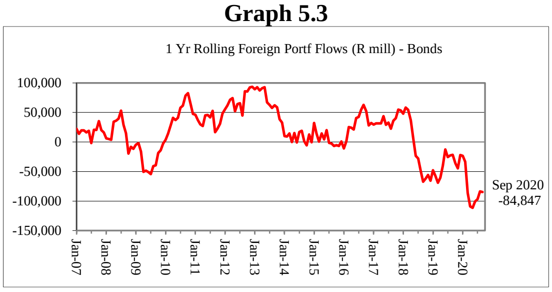
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 143.1 bn at the end of September (outflow of R 133.6 bn year-on-year to end August). The month of September experienced a net outflow of R 15.4 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 256.7bn (end August net investment outflow of 241.2bn). This represents roughly 1.5% of the market capitalization of the JSE.

Graph 5.2



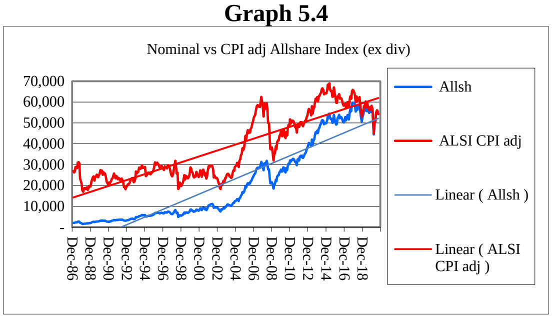
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 84.8bn over the past 12 months to end of September (outflow of R 83.5bn over the 12 months to end of August). The month of September experienced a net outflow of R 3.4 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 175.7bn (to August R 179.1 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 10.3% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 33 years was 7.8% per year. This is equivalent to a growth in real terms of 2.5 % p.a. over this period, excluding dividends, or around 5.6% 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 33 years. US inflation over this period was

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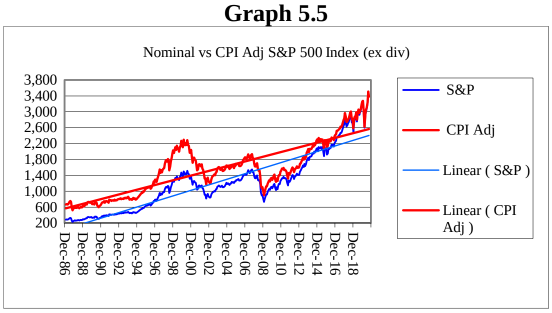
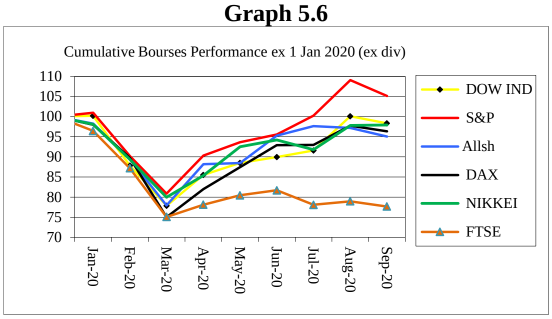
2.6%. This is equivalent to a growth in real terms of 5.1% p.a. over this period, excluding dividends or around 7.3% including dividends.

Graph 5.5



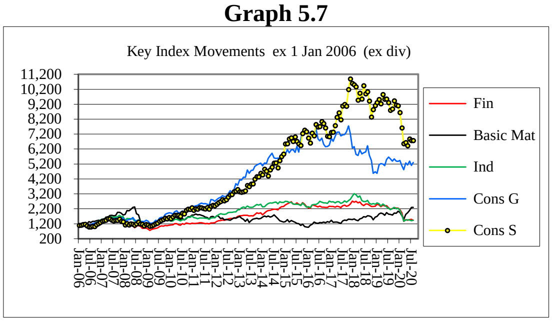
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2020.

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: 14.2%; Consumer Goods: 11.9%; Basic Materials: 5.4%; Financials: 2.6% and Industrials: 2.5%.

Graph 5.7

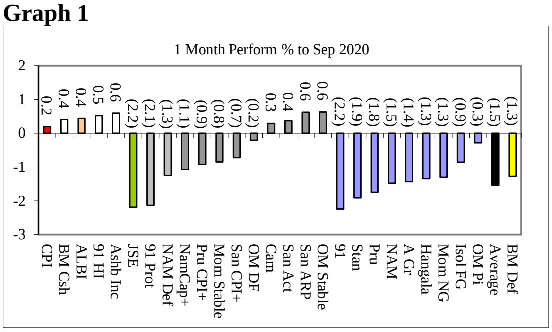


6. It's tough times for any investor!

by Tilman Friedrich

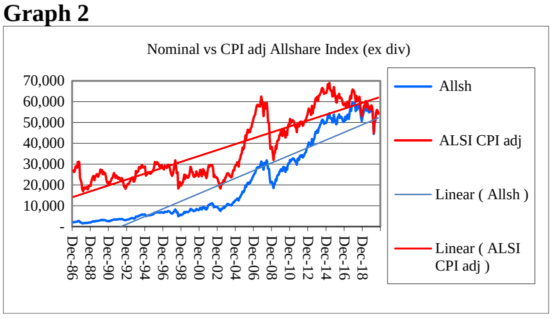
Last month I suggested in this column that this is not the time to increase your investment risk. This statement is immediately vindicated by looking at the 1-month performance of portfolios monitored by us per Graph 1 below. It will be noted that equity (green bar), the highest risk conventional asset class produced a negative 2.2% return for the month. Only portfolios holding no equities or very little in equities (no colour bars) have managed to produce just slightly positive returns while the special mandate portfolios with lower equity exposure (grey bars) in general produced better returns than the typical prudential balanced portfolios (blue bars) with a high equity exposure.

Graph 1



Looking at graph 2 below, it will be noted that the SA Allshare index in nominal terms (blue line) turned down since the beginning of 2018 while, adjusted by the change in the CPI index (red line), the peak was reached in April 2015 and since then the line trends downwards noticeably.

Graph 2



Drilling down into the main sectors within equity as per graph 3 below, it will be noted that since the beginning of 2020 all sectors, except 'Technology', produced zero or negative returns for the year to end September. The stellar performance of technology is to be expected in the light of the COVID pandemic.

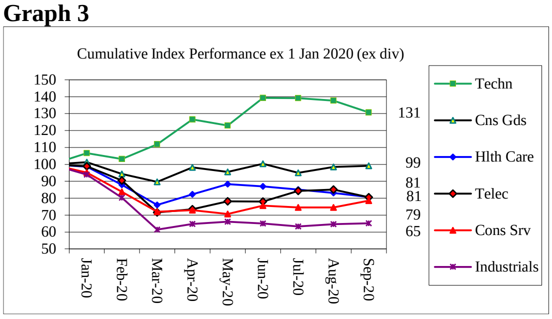
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2020

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

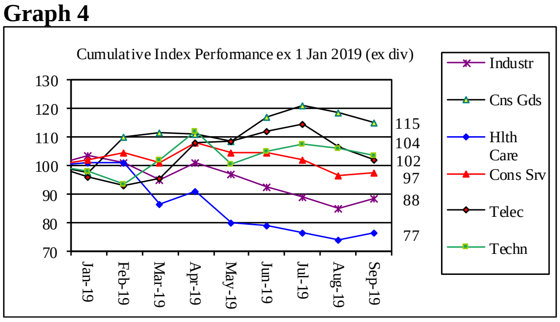
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3



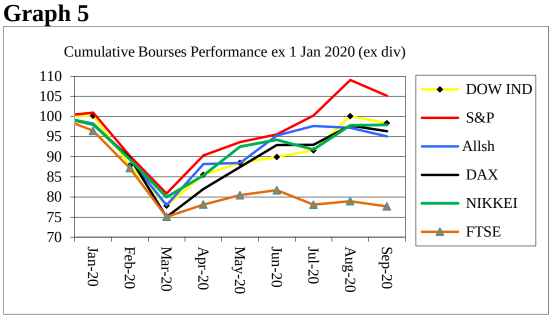
'Turning the clock back' exactly 12 months though, graph 4 shows that for the year to end September 2019, only one sector, 'Consumer Goods', produced a decent return, while the other sectors, such as technology, produced hardly any return or negative returns. Last year September, no-one would have increased his exposure to the technology sector. This experience emphasises the role timing plays and the futility of speculating as one is most likely to miss the bus when making a call.

Graph 4



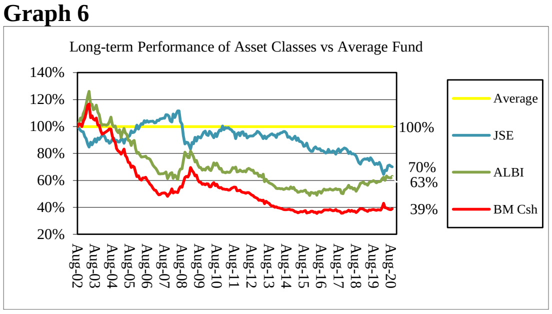
Evidently equity overall, as the mainstay asset class of retirement fund portfolios, failed to produce a positive real return since April 2015. This is clearly a problem for the investor, more specifically for someone trying to build up enough capital to enable his retirement in comfort. One may be forgiven for thinking that perhaps foreign equities may have been the place to be while SA equities are failing us. Looking at graph 5, however, we see that all main foreign share market indices produced zero return, except the US S&P 500 that produced a meagre 5% return for the year to the end of September.

Graph 5



To complete the picture, let's look at graph 6 below. It depicts the cumulative out – or underperformance of the main asset classes in typical retirement fund portfolios relative to the average prudential balance portfolio (yellow line) since 2002. We see that bonds (green line) and cash (red line) initially out-performed equity (blue line) and the average portfolio for about 3 years to 2005. The table then turned in favour of equity against cash and bonds that started to seriously under-perform equity and the average portfolio up until 2008. Interestingly the under-performance of bonds and cash relative to the average portfolio was severe while the out-performance of equity relative to the average portfolio was muted. Since then the performance of all asset classes has been below that of the average portfolio on a cumulative to date basis. However, one can detect a slight improvement of fortunes of cash and bonds relative to the average portfolio while equity, the mainstay asset class, continued to weaken its relative position ever since 2014.

Graph 6



While the average prudential balanced portfolio achieved its implicit return objective of inflation plus 5% over a period of 10 years or longer, the return on an investment in that portfolio has fallen significantly short of the long-term return expectation, and the shorter the period the bigger the shortfall.

While we have not looked at property, it is common knowledge that property is in the doldrums in Namibia, in South Africa and in many other countries of the world as the result of the knock global economies took from COVID measures. It is also common knowledge that interest rates are negative or zero in many parts of the world, particularly in the developed world.

As COVID continues and most countries in the world are severely over-indebted and cannot afford any increase in interest rates, there is simply no silver lining on the horizon for the foreseeable future. Interestingly it was reported in the media recently that US value investment fund AJO Partners is closing down its fund after more than 35 years and is returning US$ 10 billion to its investors. CEO Aronson explained "Our relative performance has suffered because our investment edge, our 'secret sauce', is at odds with many forces driving the market."

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Conclusion

It's tough times for any investor, particularly someone planning to retire within the next 5 years or having retired already. Conventional investment wisdom as implicit in the management of investments in prudential balanced portfolios, will find it hard to deliver positive real returns. Many an investor may feel enticed to take bigger risks in their investment decisions and invest more speculatively in the hope of these investments yielding the desired returns. Few will factor in the true risk properly, if at all.

In the past, wars proved to provide an escape from a desperate situation. Who is prepared to speculate on a war once again solving our prevailing problems and presenting a global economic and financial reset?

Investment managers of these portfolios should rather cast their nets further and find more 'unconventional' investment opportunities without venturing into highly risky and speculative investments. This requires some lateral thinking but it offers a significant opportunity to 'win the race' if one is first out of the blocks. In this endeavour, the investment manager must bring the investment closer to the investor. Do I need any return on investment, as commonly understood, if my money can be invested to build my foundation off which I can generate an income at some time in future? If my investment earns no return, investments with a social and/ or environmental objective should find it much easier to compete with conventional investments. I do have some thoughts in this regard that may be worth being explored further by investment managers. Anyone interested to venture onto this road with us is welcome to contact us.