

# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 October 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](http://www.rfsol.com.na).

### 1. Review of Portfolio Performance

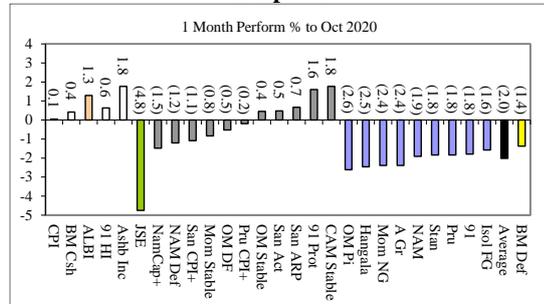
In October 2020 the average prudential balanced portfolio returned -2.0% (September 2020: -1.5%). Top performer is Investments Solutions Balanced Growth Fund with -1.6%, while Old Mutual Pinnacle Profile Growth Fund with -2.6% takes the bottom spot. For the 3-month period, NAM Coronation Balanced Plus Fund takes the top spot, outperforming the ‘average’ by roughly 1.1%. On the other end of the scale Allan Gray Balanced Fund underperformed the ‘average’ by 1.0%. 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.**

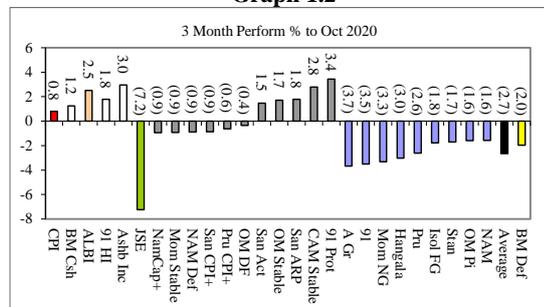
Below is the legend to the abbreviations reflected on the graphs:

| 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 Stable (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)         |

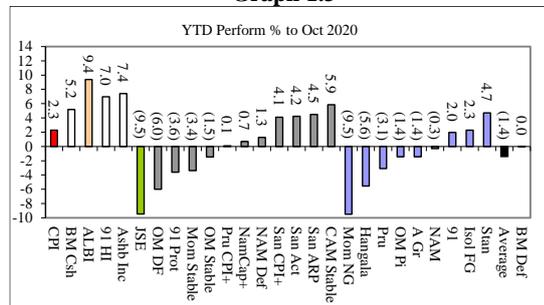
Graph 1.1



Graph 1.2



Graph 1.3



Graph 1.4





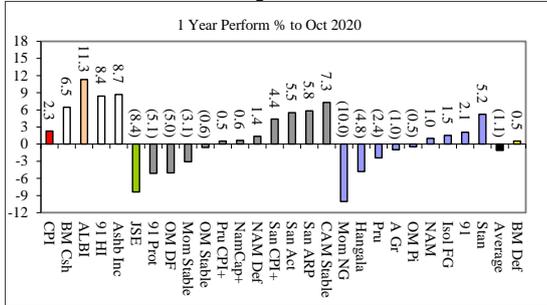
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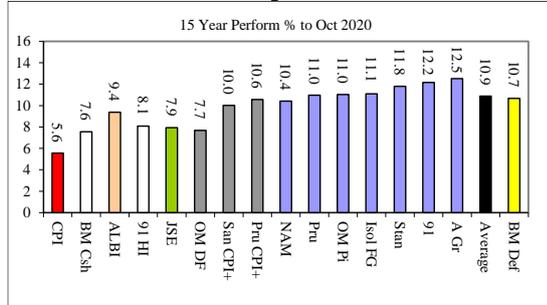
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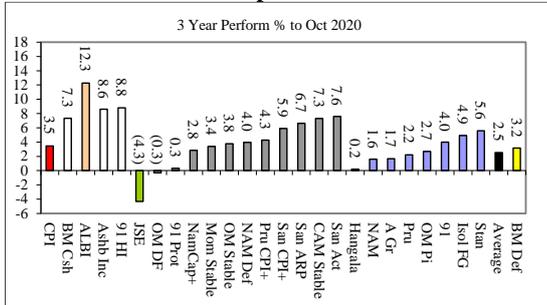
**Graph 1.5**



**Graph 1.9**



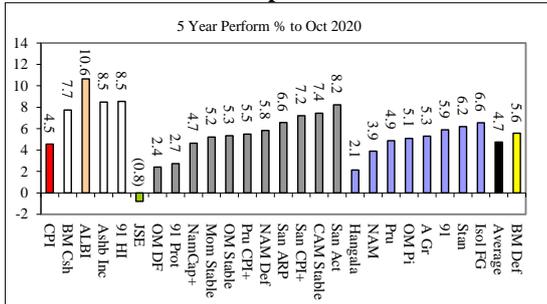
**Graph 1.6**



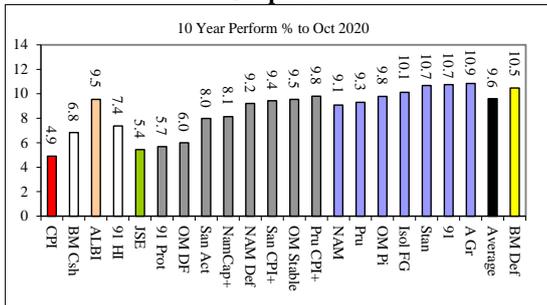
**Graph 1.10**



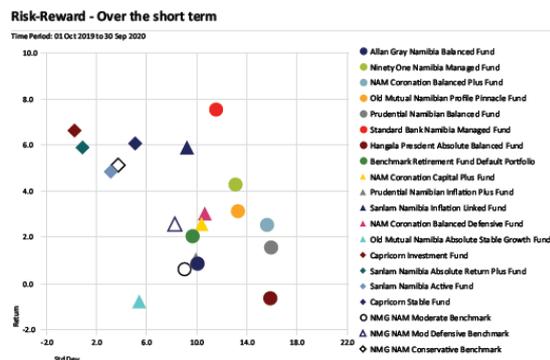
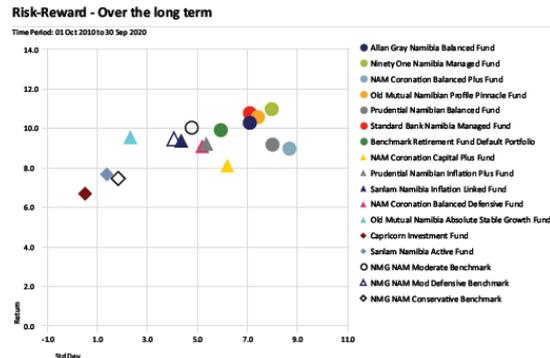
**Graph 1.7**



**Graph 1.8**



**Risk/ Return**



# Benchmark Retirement Fund

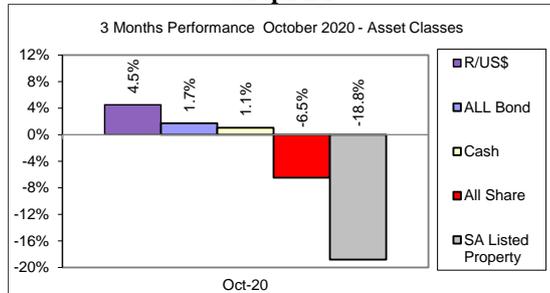
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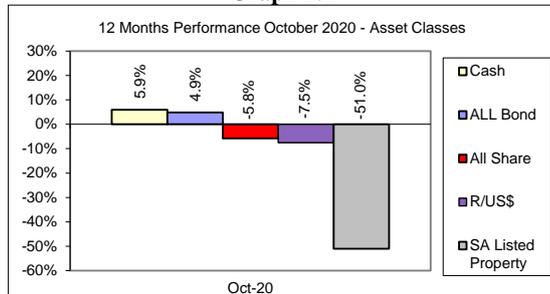
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### 2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

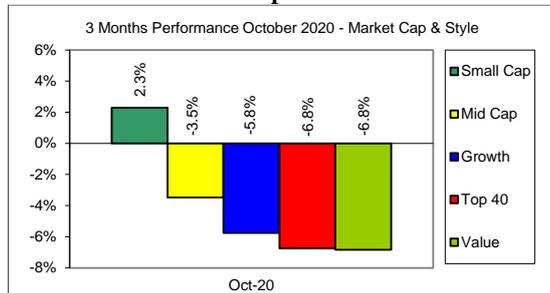
**Graph 2.1**



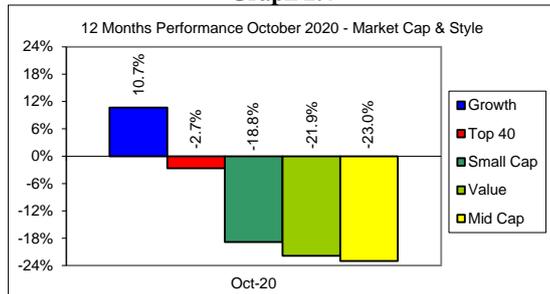
**Graph 2.2**



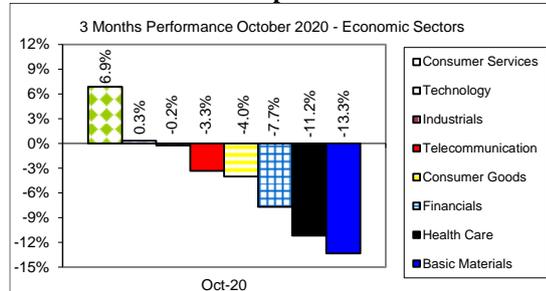
**Graph 2.3**



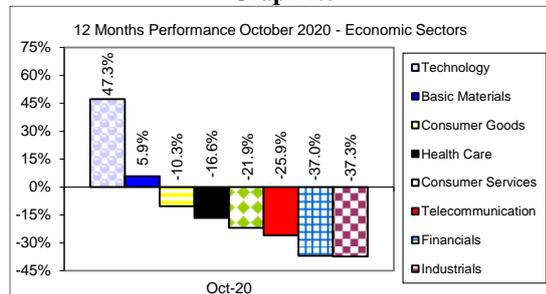
**Graph 2.4**



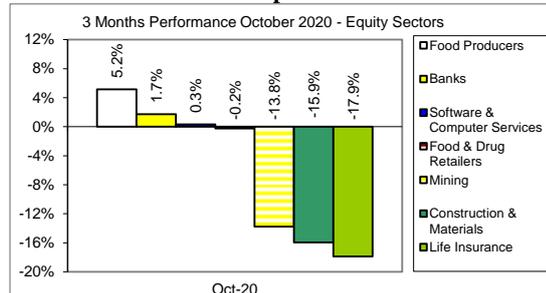
**Graph 2.5**



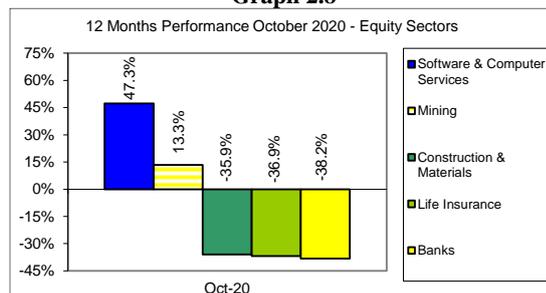
**Graph 2.6**



**Graph 2.7**



**Graph 2.8**



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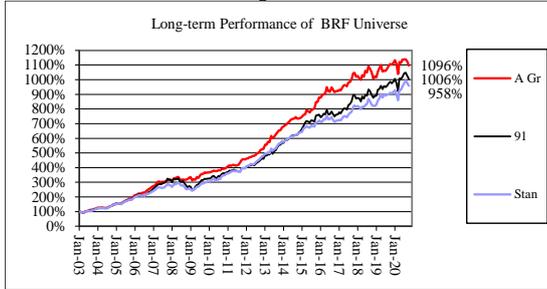
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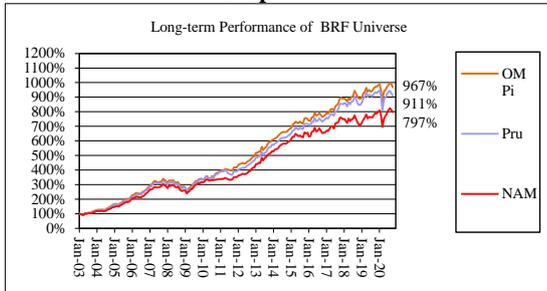
### 3. Portfolio Performance Analysis

#### 3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



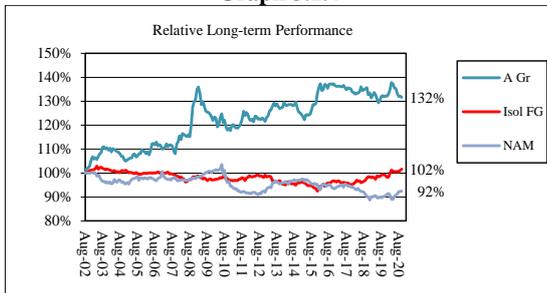
Graph 3.1.2



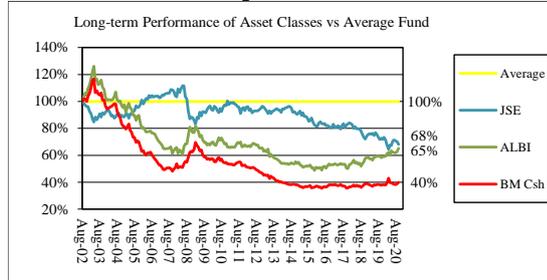
Graph 3.1.3



Graph 3.1.4

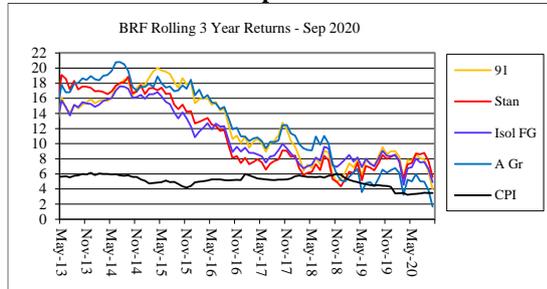


Graph 3.1.5

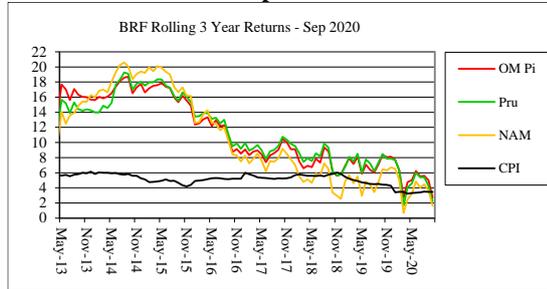


#### 3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

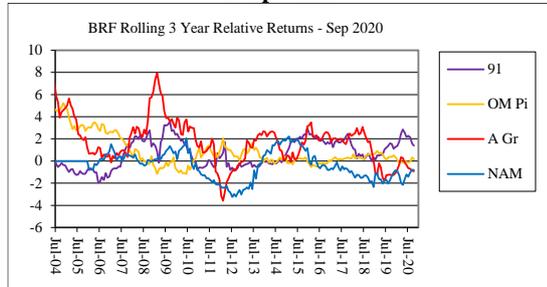


Graph 3.2.2



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

Graph 3.3.1





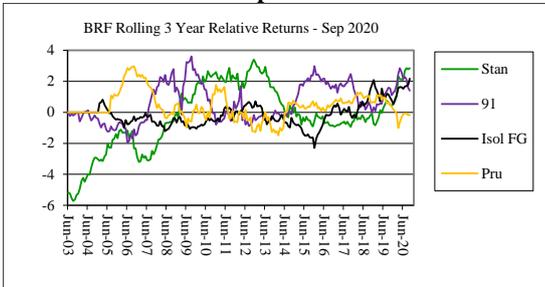
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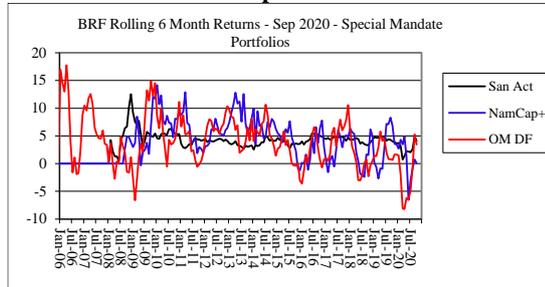
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**Graph 3.3.2**



**Graph 3.5.2**



### 3.4 Monthly performance of prudential balanced portfolios

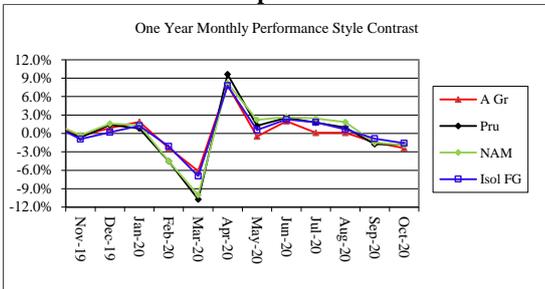
**Graph 3.4.1**



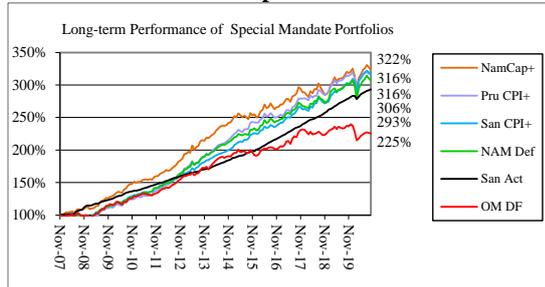
**Graph 3.5.3**



**Graph 3.4.2**



**Graph 3.5.4**



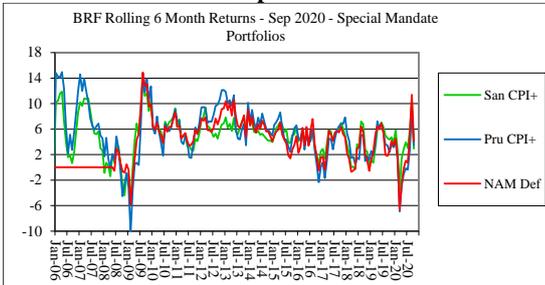
### 3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

**Graph 3.6.1**



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

**Graph 3.5.1**





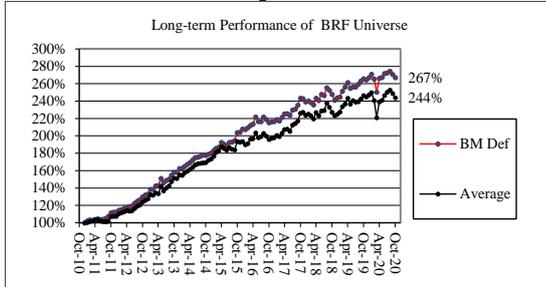
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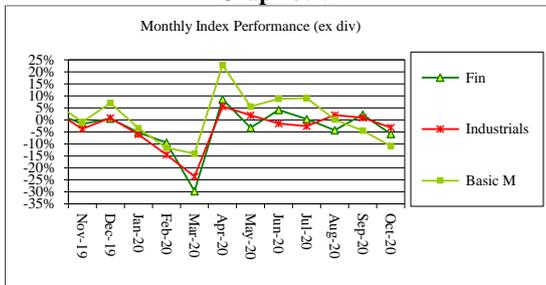
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**Graph 3.6.2**

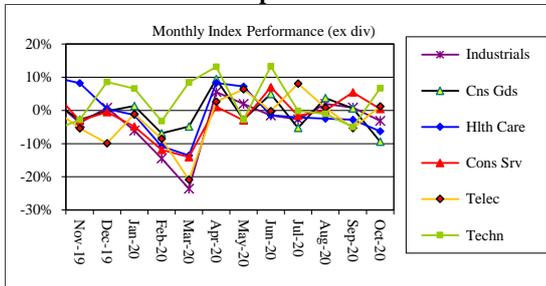


### 3.7 One-year monthly performance of key indices (excluding dividends)

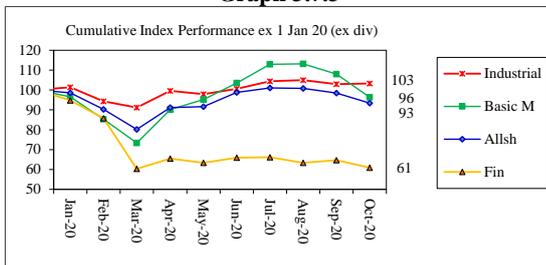
**Graph 3.7.1**



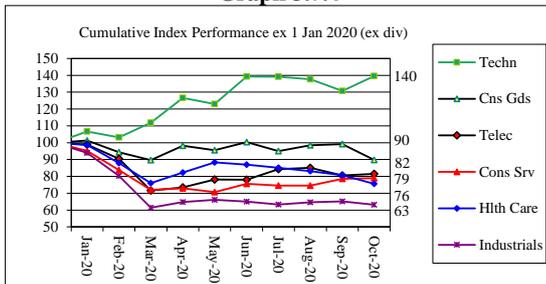
**Graph 3.7.2**



**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 September 2020)                 | 45.1              | 63.3             |
| Cumulative return ex Jan 2011   | 170.8             | 148.9            |
| 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           | 7.3%         | 3.2%          | 2.5%             |
| Best annual performance            | 8.2%         | 10.7%         | 9.7%             |
| 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%         | 6.9%          | 6.5%             |

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years November 2017 to October 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 October was 3.2%, the average was 2.5% 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 11.78 to the US Dollar while it actually stood at 16.24 at the end of October. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

**Graph 5.1**



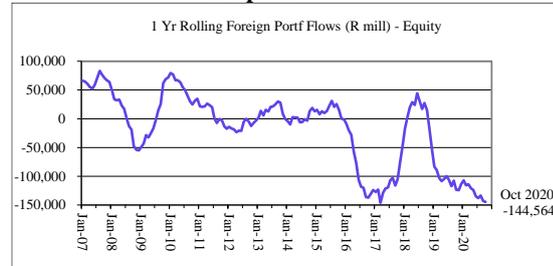
The Rand strengthened by 2.7% in October with net foreign investment outflows from bonds and equities of R36.2 bn. Over the past 12 months the Rand weakened by 7.54%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 227.1 bn (outflow of R 227.9 bn to end of September 2020).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 117.2bn (September R 81.0 bn outflows).

**Graph 5.2** reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 144.6 bn at the end of October (outflow of R 143.1 bn year-on-year to end September). The month of October experienced a net outflow of R 23.3 bn. Since the beginning of 2006, foreign net investment outflows from

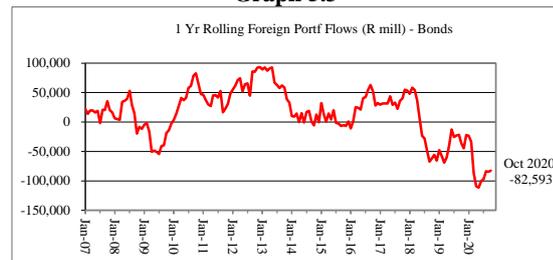
equities amounts to R 279.9bn (end September net investment outflow of 256.7 bn). This represents roughly 1.6% of the market capitalization of the JSE.

**Graph 5.2**



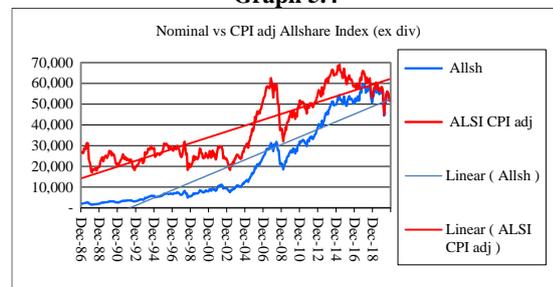
**Graph 5.3** on a rolling one-year basis reflects foreign portfolio outflows in respect of SA bonds of R 82.6 bn over the past 12 months to end of October (outflow of 84.8 bn over the 12 months to end of September). The month of October experienced a net outflow of R 13.0 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 162.7bn (to September R 175.7 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 10.1% 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 2.3% 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 7.6% per annum, over this period of 33 years. US inflation over this period was

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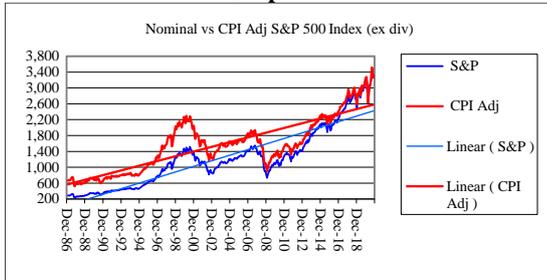
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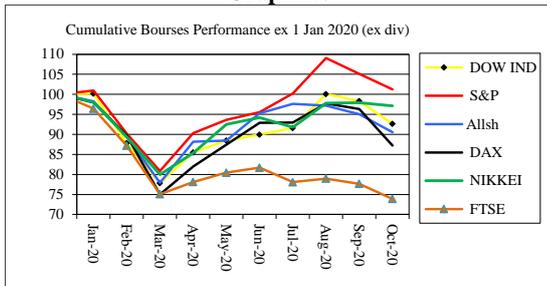
2.6%. This is equivalent to a growth in real terms of 5.0% p.a. over this period, excluding dividends or around 7.2% including dividends.

Graph 5.5



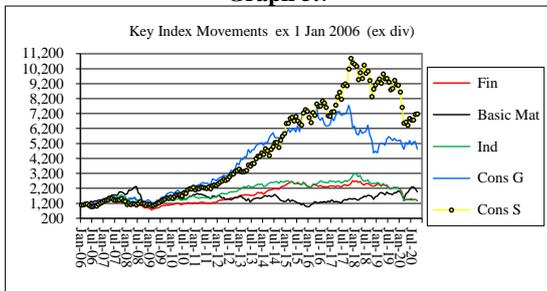
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P as the top performing index since the start of 2020.

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: 14.1%; Consumer Goods: 11.1%; Basic Materials: 4.6%; Industrials: 2.3% and Financials: 2.2%.

Graph 5.7



## 6. Offshore diversification – an imperative for pensioners!

by Tilman Friedrich

Table 6.1 below, depicts how the value of a local investor's investment in foreign currency denominated assets have moved, since the beginning of this calendar

year up until the end of April, when financial markets were just routed by Covid 19, and up until the end of October.

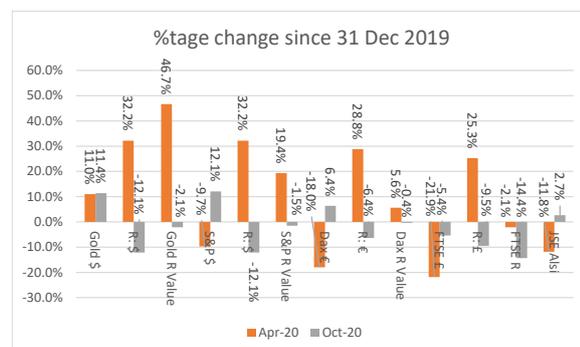
It covers the investment by a local investor the following assets: gold; the S&P 500 index; the DAX index; in the FTSE index; the JSE Allshare index.

Table 6.1

|                              | Dec-19  | Apr-20  | Oct-20  |
|------------------------------|---------|---------|---------|
| <b>Gold US\$</b>             | 1,522   | 1,689   | 1,881   |
| <i>Change since Dec 2019</i> |         | 10.97%  | 11.37%  |
| Rand Exchange Rate           | 13.98   | 18.48   | 16.24   |
| <i>Change since Dec 2019</i> |         | 32.19%  | -12.12% |
| <b>Value N\$</b>             | 21,278  | 31,213  | 30,547  |
| <i>Change since Dec 2019</i> |         | 46.69%  | -2.13%  |
| <b>S&amp;P US\$</b>          | 3,217   | 2,905   | 3,256   |
| <i>Change since Dec 2019</i> |         | -9.70%  | 12.08%  |
| Rand Exchange Rate           | 13.98   | 18.48   | 16.24   |
| <i>Change since Dec 2019</i> |         | 32.19%  | -12.12% |
| <b>Value</b>                 | 44,974  | 53,684  | 52,877  |
| <i>Change since Dec 2019</i> |         | 19.37%  | -1.50%  |
| <b>Dax €</b>                 | 13,249  | 10,862  | 11,556  |
| <i>Change since Dec 2019</i> |         | -18.02% | 6.39%   |
| Rand Exchange Rate           | 15.69   | 20.21   | 18.92   |
| <i>Change since Dec 2019</i> |         | 28.81%  | -6.38%  |
| <b>Value</b>                 | 207,877 | 219,521 | 218,640 |
| <i>Change since Dec 2019</i> |         | 5.60%   | -0.40%  |
| <b>FTSE £</b>                | 7,554   | 5,901   | 5,582   |
| <i>Change since Dec 2019</i> |         | -21.88% | -5.41%  |
| Rand Exchange Rate           | 18.55   | 23.24   | 21.04   |
| <i>Change since Dec 2019</i> |         | 25.28%  | -9.47%  |
| <b>Value</b>                 | 140,127 | 137,139 | 117,445 |
| <i>Change since Dec 2019</i> |         | -2.13%  | -14.36% |
| <b>JSE Allshare R</b>        | 57,084  | 50,337  | 51,685  |
| <i>Change since Dec 2019</i> |         | -11.82% | 2.68%   |

Graph 6.1 below, reflects the percentage changes of the various assets since 31 December 2019, per the above table.

Graph 6.1





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## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 October 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](http://www.rfsol.com.na).

Looking at these assets one by one we note the following:

### 1. Investment in gold

Had an investor already held an investment in gold at the end of December 2019, the investment would have generated a return of 47% in Rand terms to the end of April this year. Two forces drove this return in the same direction. Firstly, the depreciation of the Rand against the US Dollar by 32% and secondly, the appreciation of gold by 11%.

From the end of April to the end of October this investment would have lost 2% in Rand terms. Now these two forces drove in opposite directions. The Rand appreciated by 12% while the gold price appreciated by 11%. A local investor who thought it wise to move into gold after the Covid 19 crisis struck, will be disappointed with the returns since then.

### 2. Investment in the S&P 500 index

Had an investor already held an investment in S&P 500 index at the end of December 2019, the investment would have generated a return of 19% in Rand value to the end of April this year. Two forces drove this return in the opposite direction. Firstly, the depreciation of the Rand against the US Dollar by 32% and secondly, the decline of the S&P 500 index by 10%.

From the end of April to the end of October this investment would have lost 2% in Rand terms. Again, these two forces drove in opposite directions, each one in the opposite direction of that of the preceding period. The Rand appreciated by 12% while the S&P 500 index increased by 12%.

### 3. Investment in the DAX index

Had an investor already held an investment in the Dax index at the end of December 2019, the investment would have generated a return of 6% in Rand terms to the end of April this year. Two forces drove this return in the opposite directions. Firstly, the depreciation of the Rand against the Euro by 29% and secondly, the decline of the Dax index by 18%.

From the end of April to the end of October this investment would show no change in Rand value. Again, these two forces drove in opposite directions, each one in the opposite direction of that of the preceding period. The Rand appreciated by 6% while the Dax 500 index increased by 6%.

### 4. Investment in the FTSE index

Had an investor already held an investment in the FTSE index at the end of December 2019, the investment would have generated a negative return of 2% in Rand value to the end of April this year. Two forces drove this return in opposite directions. Firstly, the depreciation of the Rand against the British Pound by 25% and secondly, the decline of the FTSE index by 22%.

From the end of April to the end of October this investment would have lost 14% in Rand terms. Now these two forces drove in the same direction. The Rand appreciated by 9% while the FTSE index declined by 5%.

### 5. Investment in the JSE allshare index

Finally, had an investor held his investment in the JSE Allshare index, he would have had a negative return of 12% to the end of April and a slight improvement of fortunes with a return of 3% to the end of October.

When the Covid 19 crisis struck at the end of March panic hit financial markets. As the result, investors sold out of riskier investments and weak currencies, to move their money into cash in strong currencies. As gold is considered a safe haven in times of panic, gold actually increased in value over the Covid 19 crisis in US Dollar terms. Local investors benefited from this increase in value and the depreciation of the Rand at the same time had they already been invested in gold before the crisis. Since then, panic started to fade and rationality started to return to markets. As the result, the Rand has started to gain in value as investors are returning to riskier currencies and assets in the developing world.

### Conclusion

This experience shows, that when panic strikes investment markets, foreign investments of local investors tend to serve as an effective hedge against a drop in foreign markets as the result of the simultaneous depreciation of the Rand. Panic, however, is usually only a temporary condition caused by unexpected and unforeseen developments. When panic fades, the increase in foreign markets is typically diluted by an appreciation of the Rand.

Since the end of April, the peak of the Covid 19 crisis, the bourses examined above, produced a neutral to positive return in Rand value, while the JSE Allshare dipped by 13%. Since then to the end of October all the bourses, as well as gold, produced a negative return while the JSE Allshare was just in positive territory.

A pensioner should try to protect his income from his retirement capital, in real terms. The panic we have seen earlier this year would have caused a loss in the value of the local pensioner's offshore investment. However, the





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simultaneous depreciation of the Rand cushioned the decline in the value of the investment. In the longer term, a weak Rand would normally lead to accelerating inflation and the cost of living of the pensioner, as many of the goods and services consumed by a pensioner are import dependent and susceptible to inflation. In this instance, inflation has not really occurred due to other factors such as the decline in interest rates and in the price of fuel which in turn was caused by the Covid 19 panic and the slump in the global economy. To diversify the pension portfolio offshore is thus an imperative for every pensioner. A strengthening Rand now once again offers an opportunity to achieve the objective of diversifying offshore. With interest rates offshore being as low as they are, equity is really the only conventional asset class that holds out the prospects of reasonable real returns, provided one does not buy into expensive markets or assets.

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