Volume 17 No. 03
March 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2021

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

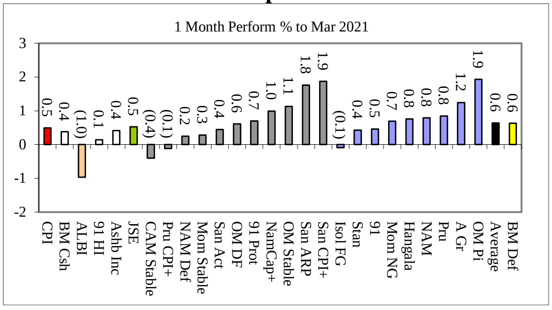
In March 2021 the average prudential balanced portfolio returned 0.6% (February 2021: 2.6%). Top performer is Old Mutual Pinnacle Profile Growth Fund with 1.9%, while Investment Solutions Bal Growth Fund with -0.1% takes the bottom spot. For the 3-month period, NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 2.6%. On the other end of the scale Stanlib Managed Fund underperformed the 'average' by 1.9%. 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**.

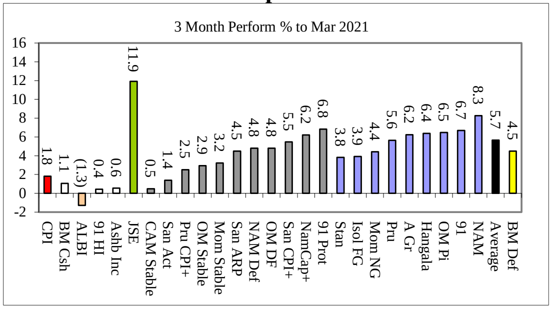
Below is the legend to the abbreviations reflected on the graphs:

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)

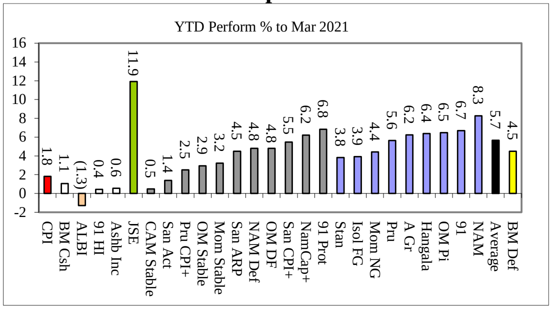
Graph 1.1



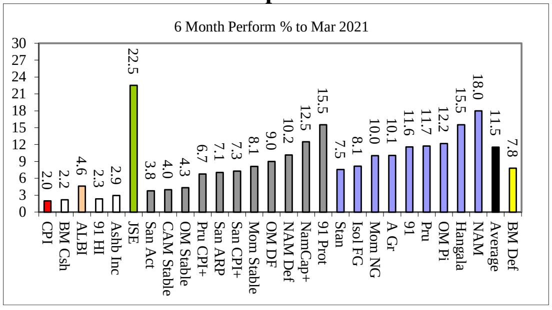
Graph 1.2



Graph 1.3



Graph 1.4



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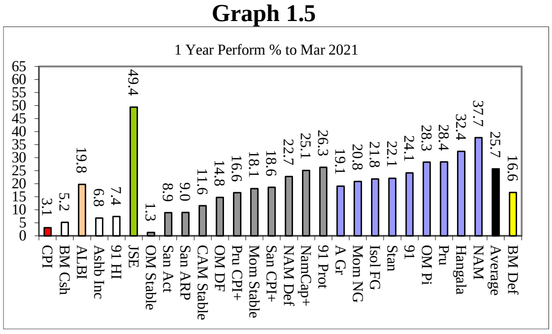
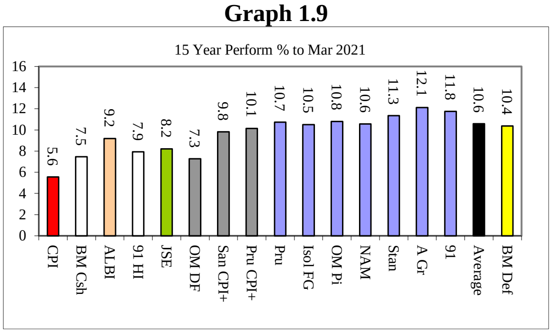
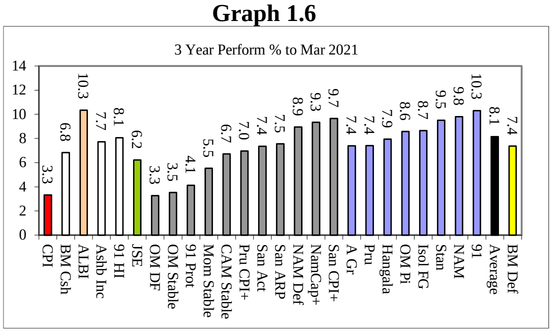
Graph 1.5



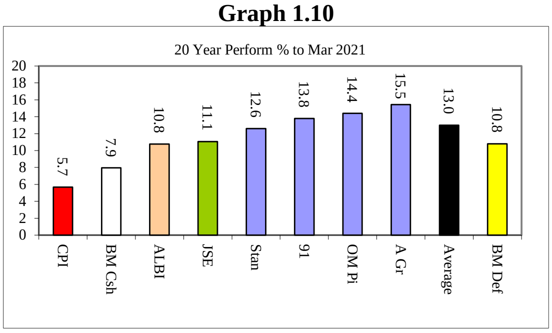
Graph 1.9



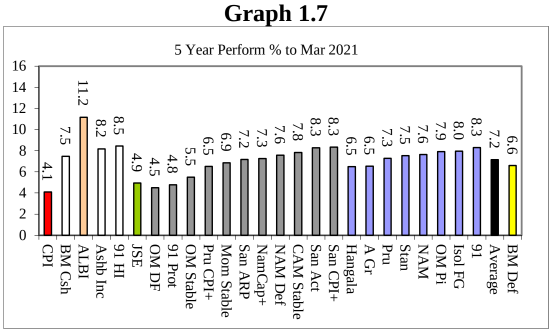
Graph 1.6



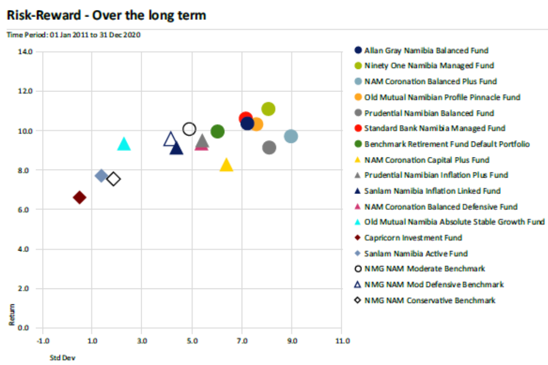
Graph 1.10



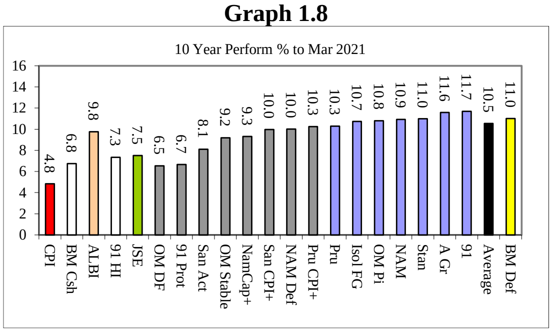
Graph 1.7

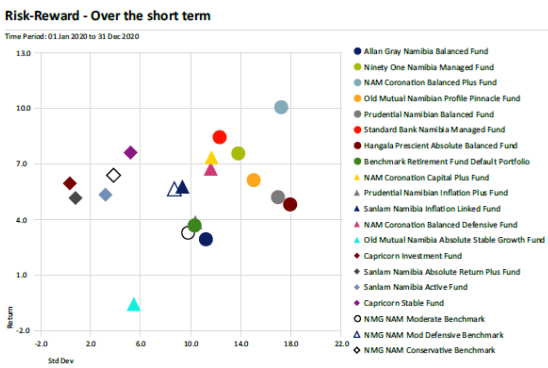


Risk/ Return



Graph 1.8





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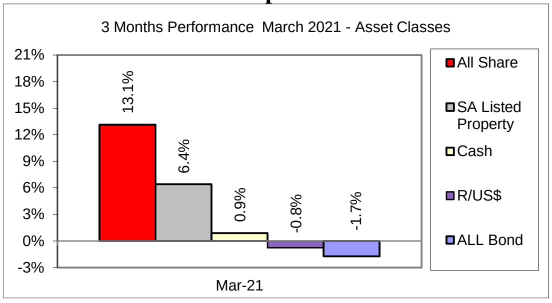
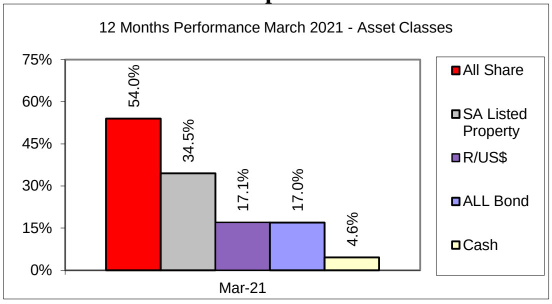
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

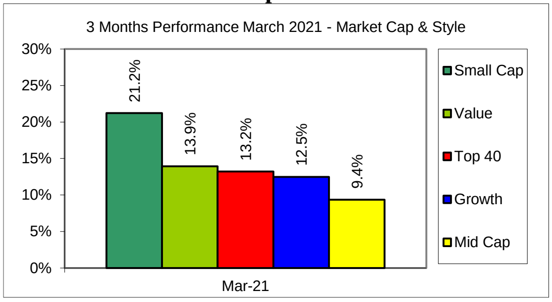
Graph 2.1



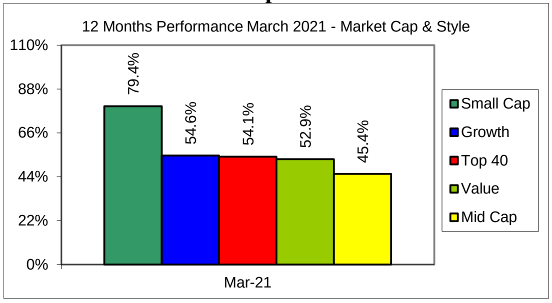
Graph 2.2



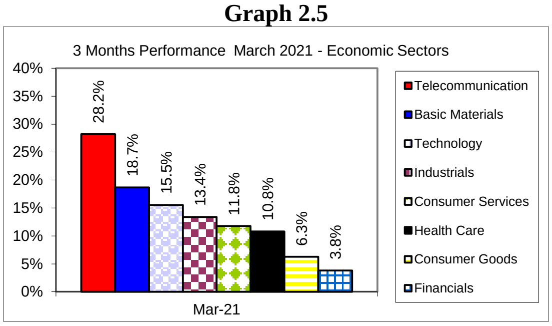
Graph 2.3



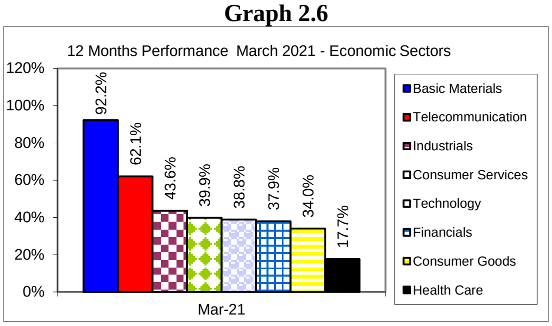
Graph 2.4



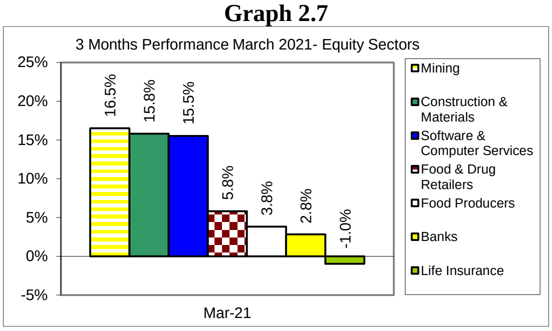
Graph 2.5



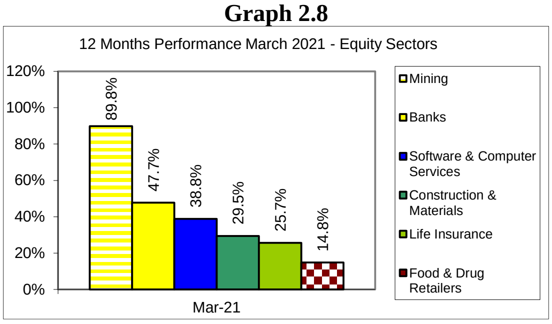
Graph 2.6



Graph 2.7



Graph 2.8



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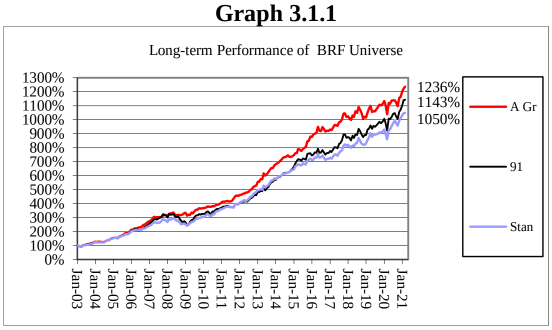
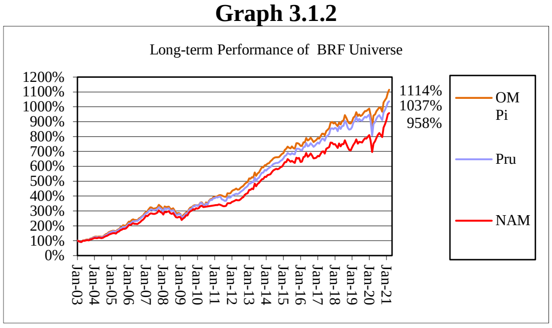
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

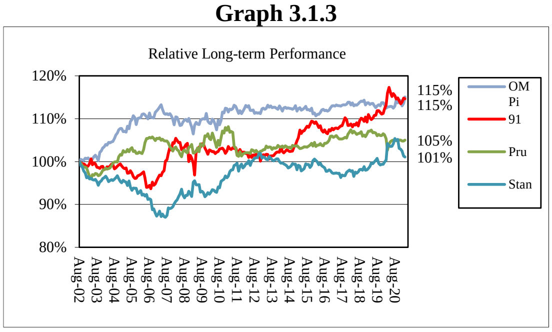
Graph 3.1.1



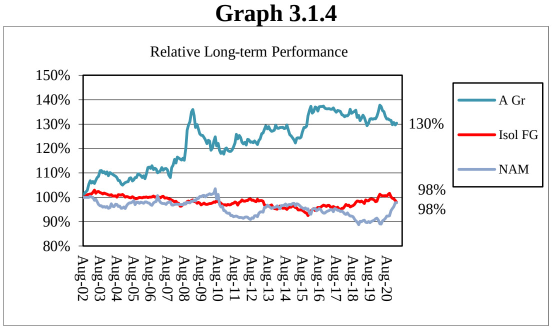
Graph 3.1.2



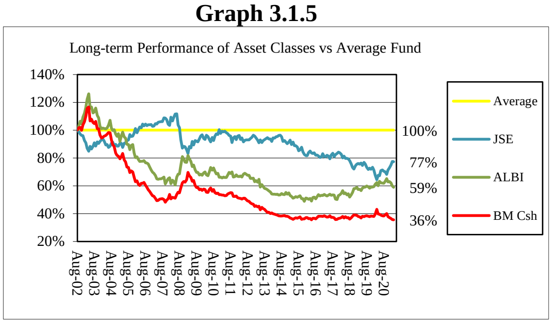
Graph 3.1.3



Graph 3.1.4

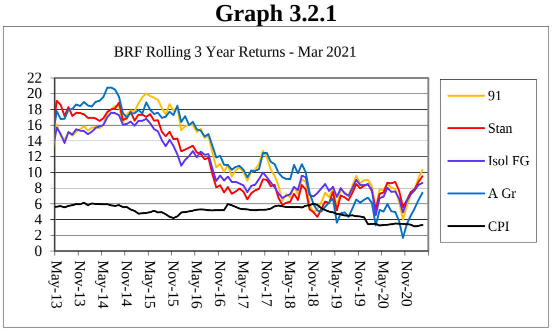


Graph 3.1.5

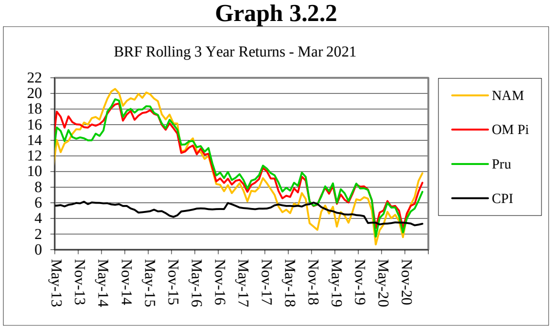


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

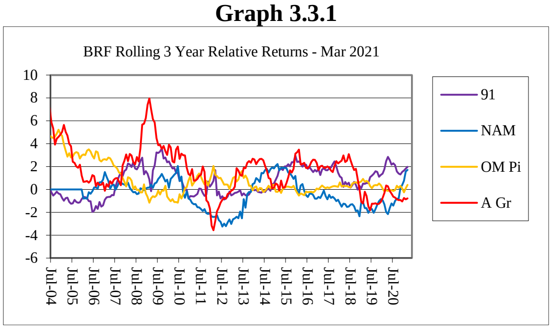


Graph 3.2.2



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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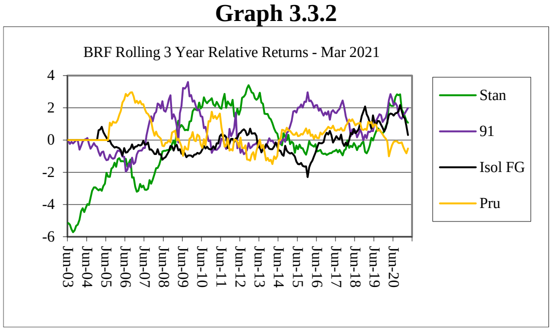
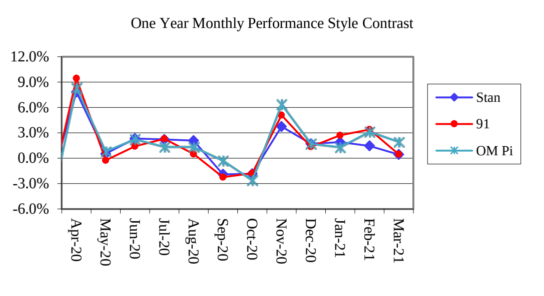
Graph 3.3.2

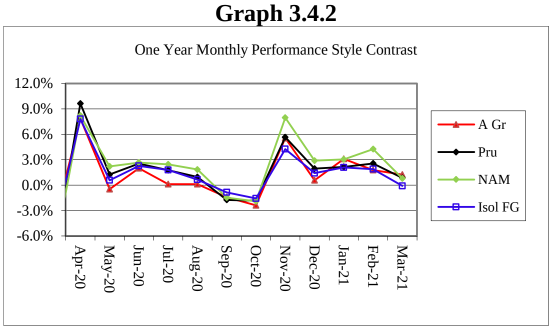


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

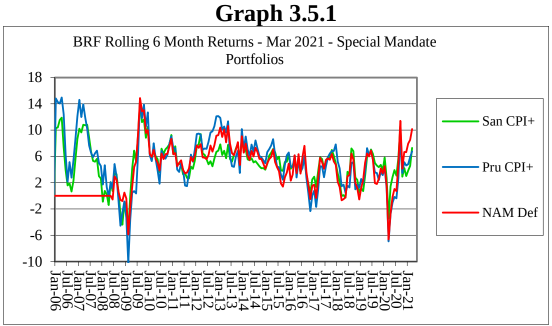


Graph 3.4.2

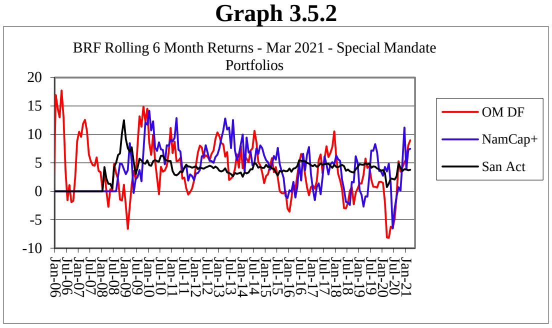


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

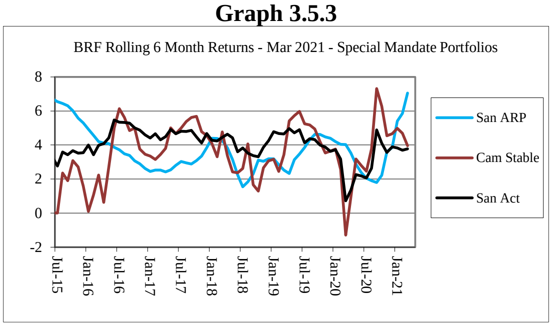
Graph 3.5.1



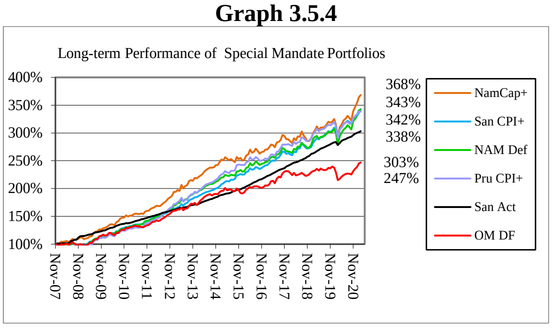
Graph 3.5.2



Graph 3.5.3

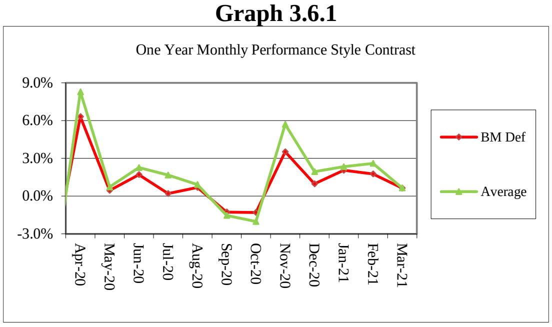


Graph 3.5.4



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

Graph 3.6.1



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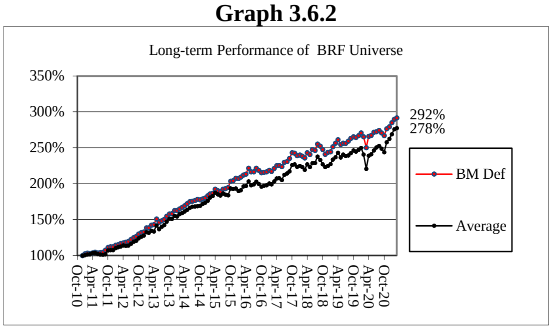
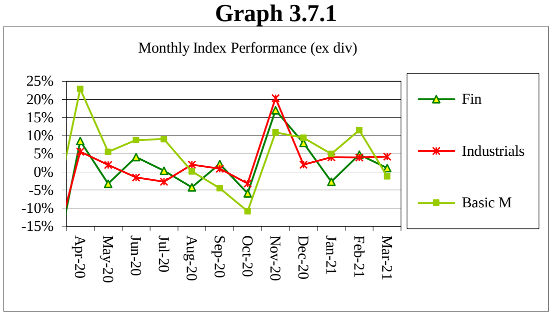
Graph 3.6.2

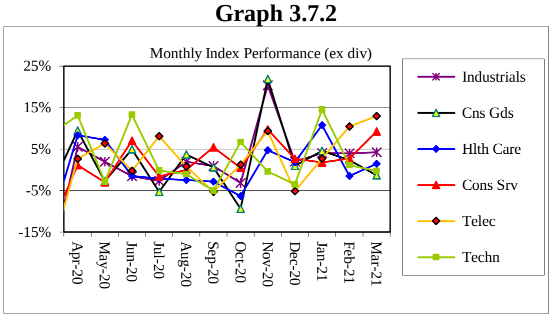


3.7 One-year monthly performance of key indices (excluding dividends)

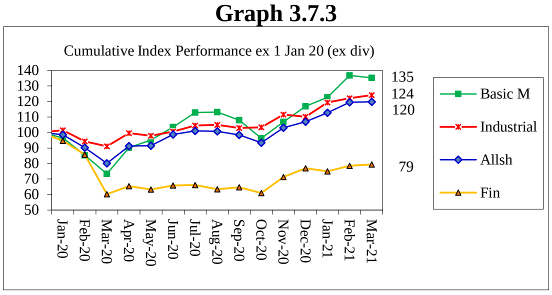
Graph 3.7.1



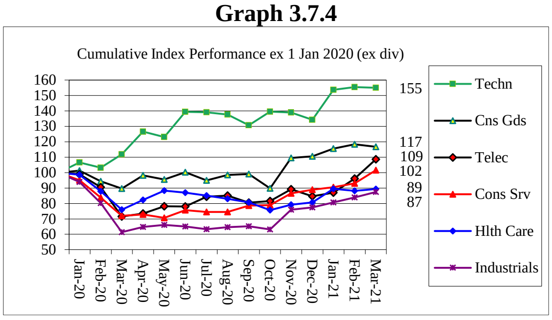
Graph 3.7.2



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.	6.6	7.2
5-year real return - % p.a.	2.5	3.1
Equity exposure - % of portfolio (qtr end December 2020)	45.1	65.4
Cumulative return ex Jan 2011	192.0	177.7
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 of late under-performed the average prudential balanced portfolio, although still ahead since January 2011, when it was restructured to its present structure. This is the result of its significantly more conservative structure with an equity exposure of only 45% compared to the average prudential balanced portfolio's exposure of 65%. When equities significantly out-perform the other main asset classes, the default portfolio will under-perform the average prudential balanced portfolio. Over the past 12 months and as the result of the further significant increase in central banks' bond buying activities, equities have indeed significantly outperformed the other asset classes except property. This intervention of course distorts financial markets and causes significant volatility and artificially increased valuations of equities, in particular.

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.

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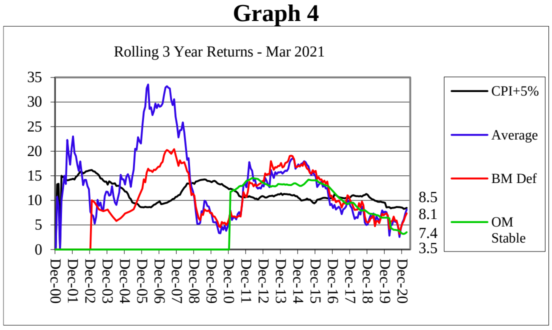
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.8%	3.2%	2.5%
Best annual performance	8.2%	9.8%	8.8%
No of negative 1-year periods	n/a	0	0
Average of negative 1-year periods	n/a	n/a	n/a
Average of positive 1-year periods	7.9%	6.4%	6.2%

The table above presents one-year performance statistics. It highlights the performance differences between the 3 portfolios over the 3 years April 2018 to March 2021. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

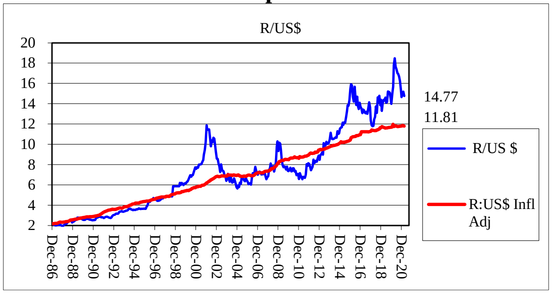


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end December was 7.4%, the average was 8.1% 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 11.81 to the US Dollar while it actually stood at 14.77 at the end of March. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

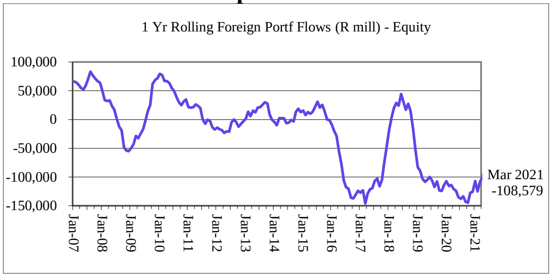


The Rand strengthened by 2.7% in March with net foreign investment outflows from bonds and equities of R10.9 bn. Over the past 12 months the Rand strengthened by 17.1%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 139.3 bn (outflow of R 190.9 bn to end of February 2021).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 124.7 bn (February R 113.8 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 108.6 bn at the end of March (outflow of R 124.8 bn year-on-year to end February). The month of March experienced a net inflow of R 2.4 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 291.7 bn (end February net investment outflow of 294.1 bn). 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 30.7 bn over the past 12 months to end of March (outflow of 66.0 bn over the 12 months to end of February). The month of March experienced a net outflow of R 13.3 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 167.0 bn (to February R 180.3 bn).

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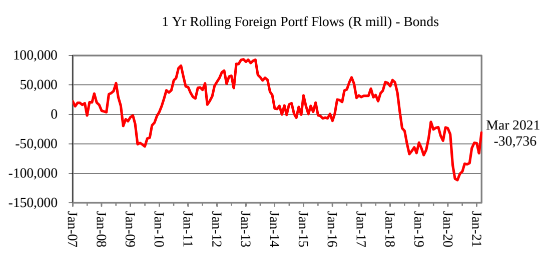
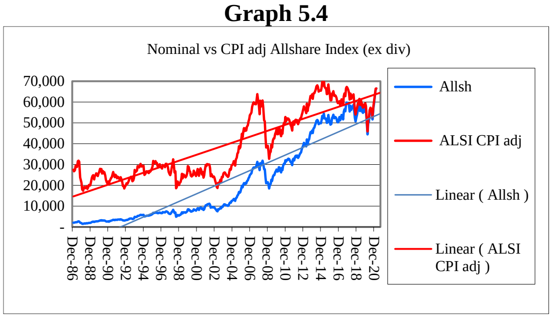
Graph 5.3



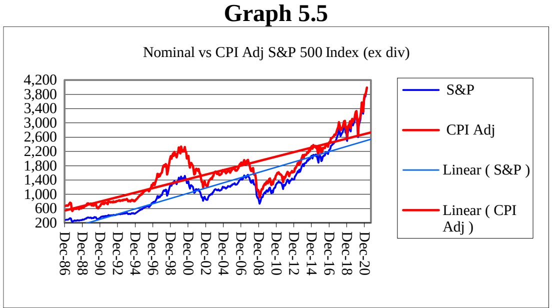
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.8% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 34 years was 7.7% per year. This is equivalent to a growth in real terms of 2.8% p.a. over this period, excluding dividends, or around 5.9% including dividends.

Graph 5.4



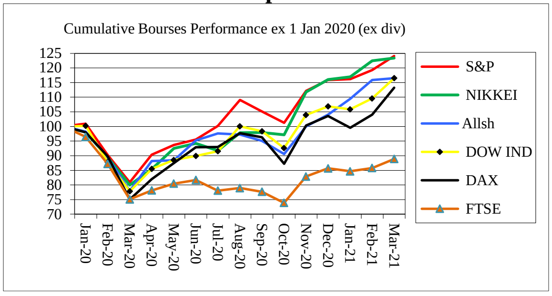
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 8.0% per annum, over this period of 34 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.4% p.a. over this period, excluding dividends or around 7.6% including dividends.

Graph 5.5



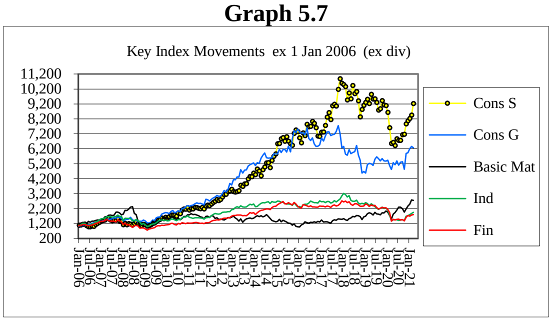
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P500 as the top performing index since the start of 2020.

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 ones offer less value on the basis of fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 14.9%; Consumer Goods: 12.8%; Basic Materials: 6.9%; Industrials: 4.2% and Financials: 3.8%.

Graph 5.7



6. Why the prudential balanced portfolio is the answer for pension funds

By Tilman Friedrich

A typical statement made by fund members, in particular when markets are not doing so well, is that the Benchmark Default portfolio has been performing poorly over the past so many years and one should have rather been invested in the money market.

Well, when someone makes such a statement, one needs to establish what the commentator's benchmark is for saying that the portfolio has been doing poorly. One also needs to understand what this portfolio aims to achieve before one can put such a statement into context. This statement is similar to saying 'my Ferrari's fuel consumption is horrific'. Really an empty statement when made out of context. The fuel consumption of a Ferrari will certainly be significantly higher than that of a 1.4 litre Golf TSI. Would you not have expected this, when comparing the technical specs of these two cars, particularly in terms of engine output? It's simply an unreasonable comparison and a matter of 'horses for courses'!

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2021

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

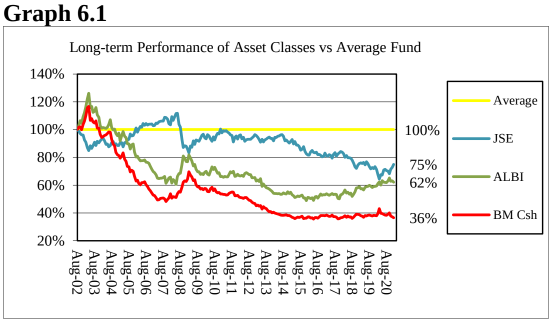
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

The default portfolio's technical specs are those of the typical prudential balanced pension fund portfolio, having been a significantly more conservative portfolio to the end of 2010. The portfolio's technical specs have changed to mirror those of the prudential balanced portfolio only since the beginning of 2011. Due to the fact that the default portfolio comprises of 3 different portfolios, its performance should mimic the performance of the average prudential balanced portfolio. This it does by-and- large. Cumulatively, an investment of N$ 100 in the default portfolio since its restructuring at the end of 2010, would be worth N$ 285 while the same investment in the average prudential balanced portfolio would be worth N$ 268 at the end of January 2021. That out-performance of the default portfolio was not by design, but rather by coincidence. The fact that the portfolio is currently structured more conservatively than the average prudential balance portfolio, with an equity exposure of only around 45% vs the average prudential balance portfolio's 65%, has benefited it over the past 11 years and is the result of high market volatility and poor performance of equities relative to other asset classes. This more conservative structure is by design in the face of market volatility.

Relative to what the default portfolio is designed for, namely mimicking the average prudential balanced portfolio, one clearly cannot say that the portfolio has performed poorly, in fact over the past 11 years it has actually done slightly better that what may be expected. Over the past 10 years to end of January 2021, both the default portfolio (annualised return of 10.8%) as well as the prudential balanced portfolio (annualised return of 10.3%) out-performed the All-bond Index (annualised return of 10.1%), equities (annualised return of 7.1%), money market (annualised return of 6.8%) and listed property (annualised return of minus 2.6%). These returns were as at specific point in time and the picture will change if one looks at different points in time. These two portfolios' 10-year returns were not far short of the annualised return on gold of 11.4%. There will be other specialist portfolios that have out-performed these portfolios. For example, an investment in the S&P 500 index would have yielded 19.5% in Rand terms, excluding dividends, or about 21.7% including dividends, helped on by an annualised Rand depreciation by 7.7%. Property was hailed as the answer for quite some time, but where property markets are today, we do not even have to take this topic any further!

Measuring investment performance on a point in time basis is always extremely misleading as the performance depends on when the period measured starts and when it ends and just one month can make a significant difference. For this reason, I believe it is much more illuminating to look at relative rolling return performance. Graph 6.1 reflects rolling returns over time relative to the average prudential balanced portfolio. It reflects the volatility of the different lines and how they perform relative to each other. Anyone who wants to assess whether or not an investment has performed well, needs to first establish the context within which he/she then can determine whether the performance was good, bad or indifferent and that is what these rolling return performance graphs do.

Graph 6.1



This graph establishes the context as being the relative cumulative performance of the average prudential balanced portfolio. This is reflected as the yellow line on 100%. The actual annual performance of this notional portfolio over this period from August 2002 to January 2021 was 13%. Annual inflation over this period was 5.3%. The notional portfolio has thus out-performed the inflation by 7.7% per year! Now, let's look at the blue line, representing the JSE Allshare index. An investment in this index would have only been ahead of the notional portfolio from February 2006 to August 2008. Before and after that short period of out-performance, the JSE Allshare index never managed to produce a cumulative out-performance of the notional portfolio, ending up 25% below the notional portfolio at the end of January 2021. Neither did any of the other asset classes. In order of cumulative under-performance, the graph shows that the Allbond Index under-performed the notional portfolio by 38% and right at the bottom, money market with an under-performance of 64%, cumulatively to the end of January 2021.

For those investors who question from time to time why the Benchmark Default portfolio was not moved to money market instead of being invested in prudential balanced portfolios, mimicking our notional portfolio above, one needs to ask: When would you have moved to money market and when would you have moved back to the prudential balanced portfolio? I believe we are all agreed that the prudential balanced portfolio in the long-run substantially outperforms the money market as also evidenced by graph 6.1 above, be it only over a close to 20-year period. Clearly, with hindsight one can say that only when the red line moves up, the money market out-performed the notional portfolio cumulatively. As the graph shows, these times were only short spells, the longest one having lasted from October 2007 to April 2009.

Conclusion

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From this deliberation, it should be evident that the average prudential balanced portfolio has actually done very well and their managers can only be complimented for managing the balance between the various asset classes very effectively, in the face of highly volatile markets. These portfolios can also be employed by private investors with their discretionary capital. I would recommend that unless the investor has money 'to play with' that he can expose to higher risk and he understands the risk and manages the portfolio actively, the prudential balanced portfolio is your best bet. These managers all manage to the good old fashioned investment principle to not put all your eggs in one basket, but diversify your risk by spreading it across assets and asset classes as widely as possible. They also spread their investment globally and they have the mechanisms in place to switch and move swiftly where circumstances require, unlike the individual investor who will first have to establish what all the legal and regulatory requirements are before he/she can implement a decision. Of course, your time horizon is important and our commentary above deals with people who invest with a time horizon of at least 3 years.

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