Volume 17 No. 04
April 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 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

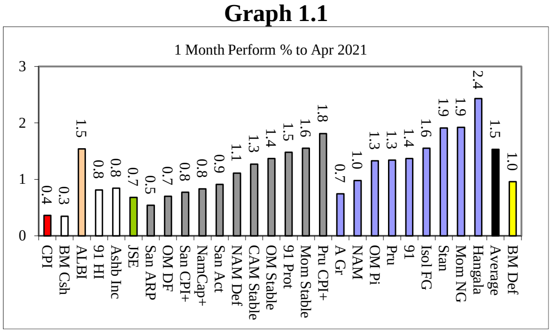
In April 2021 the average prudential balanced portfolio returned 1.5% (March 2021: 0.6%). Top performer is Hangala Prescient Absolute Balanced Fund with 2.4%, while Allan Gray Balanced Fund with 0.7% takes the bottom spot. For the 3-month period, Hangala Prescient Absolute Balanced Fund takes the top spot, outperforming the 'average' by roughly 1.8%. On the other end of the scale Investment Solutions Balanced Growth Fund underperformed the 'average' by 1.4%. 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**.

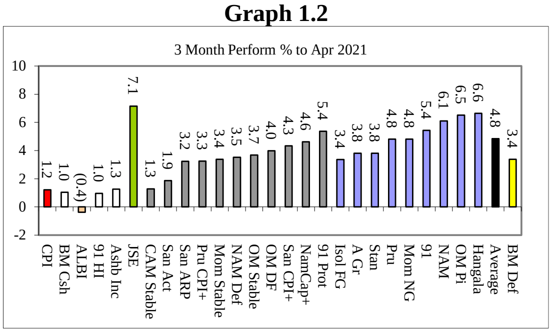
Below is the legend to the abbreviations reflected on the graphs:

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)

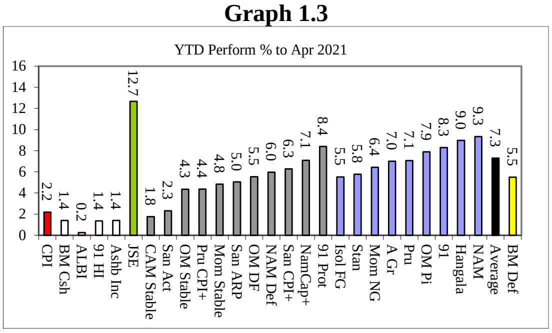
Graph 1.1



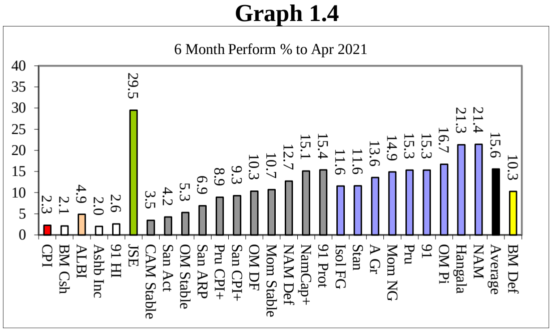
Graph 1.2



Graph 1.3



Graph 1.4



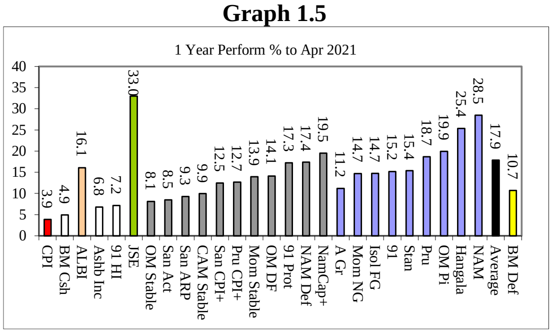
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2021

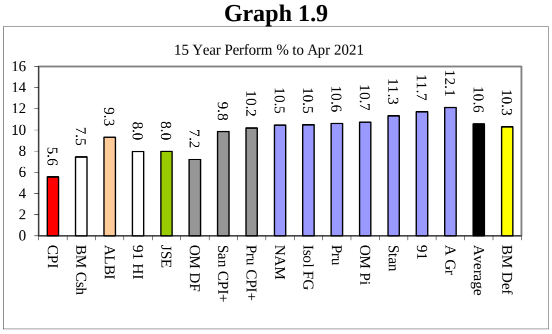
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

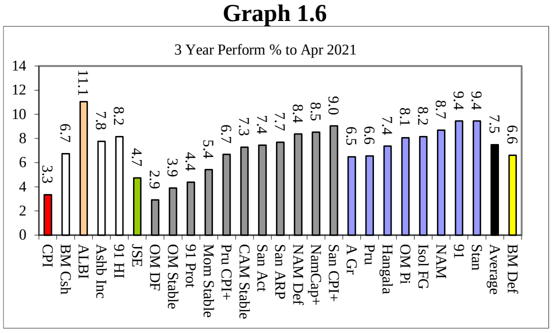
Graph 1.5



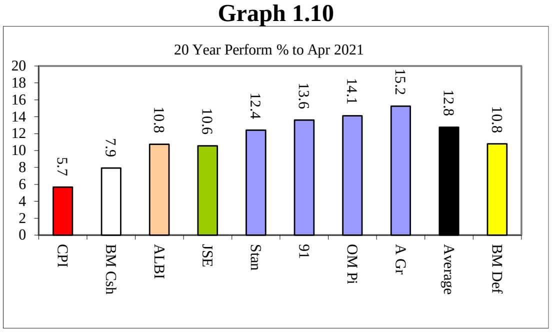
Graph 1.9



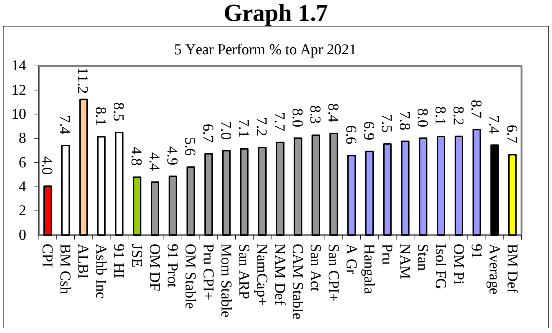
Graph 1.6



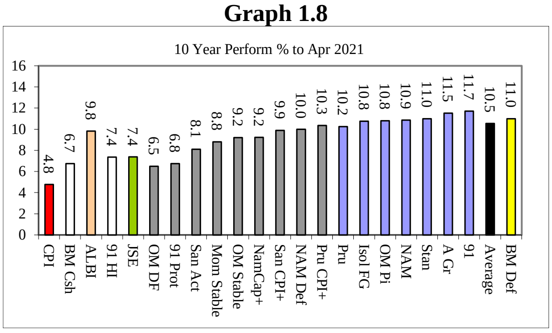
Graph 1.10



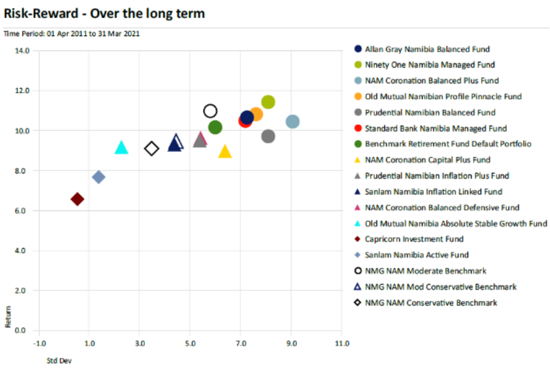
Graph 1.7

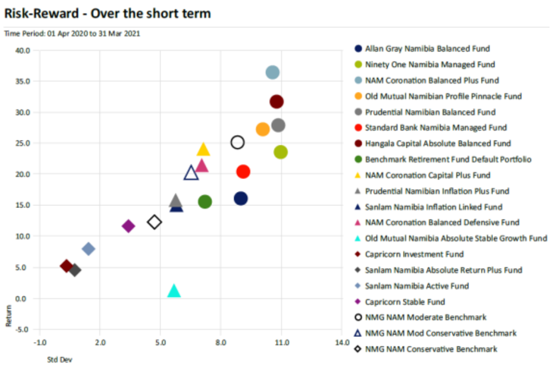


Graph 1.8



Risk/ Return





Benchmark Retirement Fund

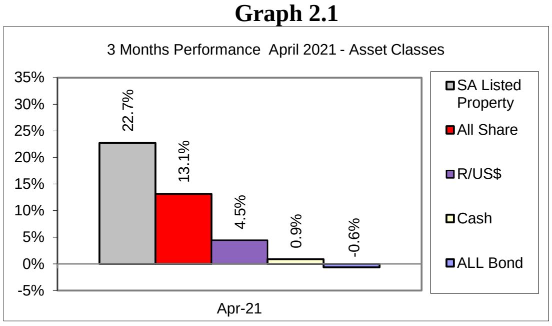
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2021

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

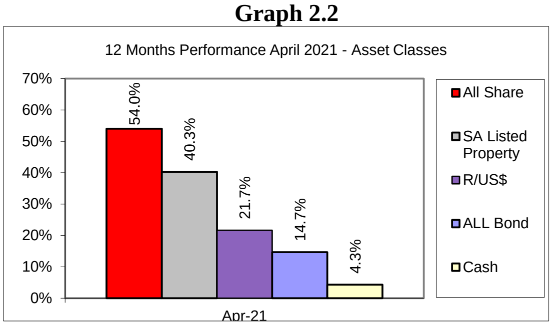
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

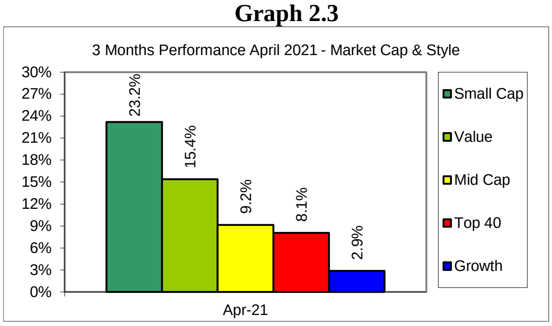
Graph 2.1



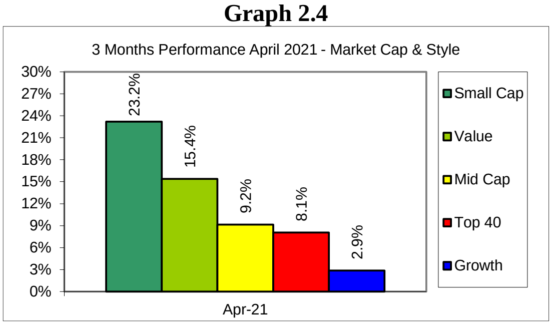
Graph 2.2



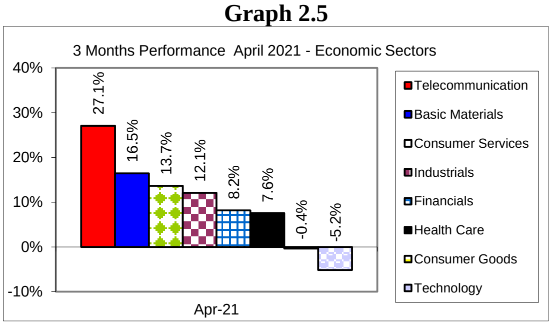
Graph 2.3



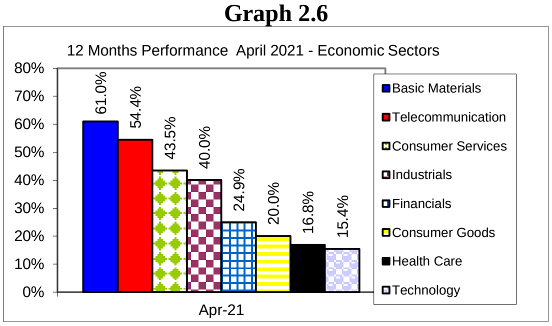
Graph 2.4



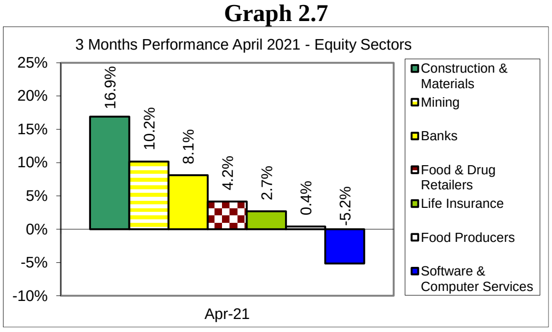
Graph 2.5



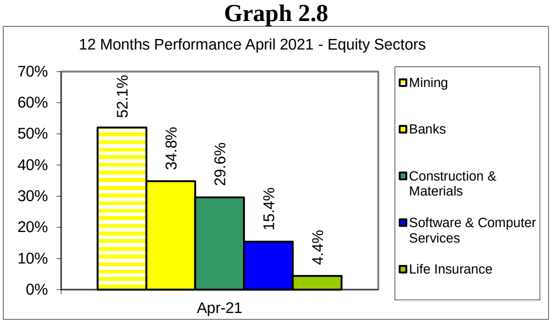
Graph 2.6



Graph 2.7



Graph 2.8



Volume 17 No. 04
April 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2021

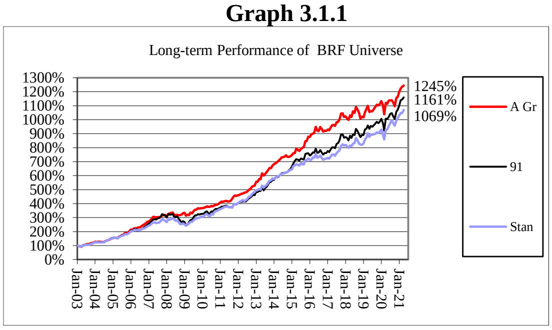
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

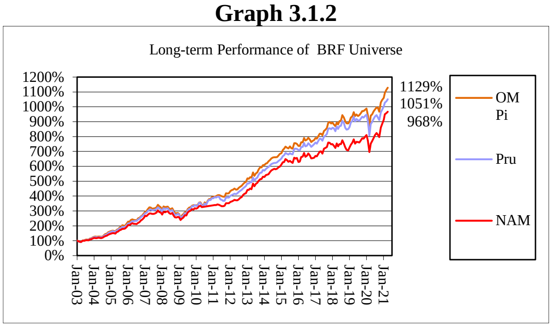
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

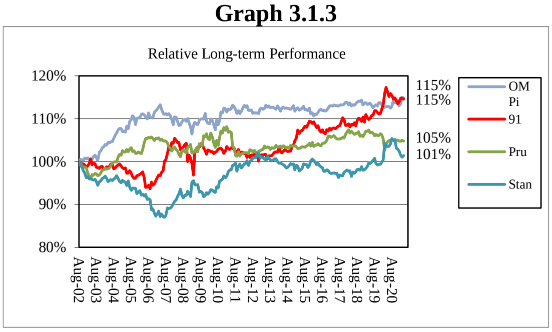
Graph 3.1.1



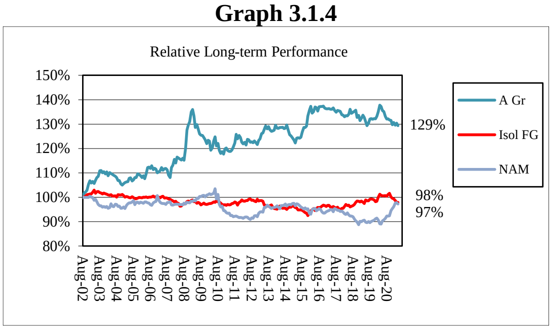
Graph 3.1.2



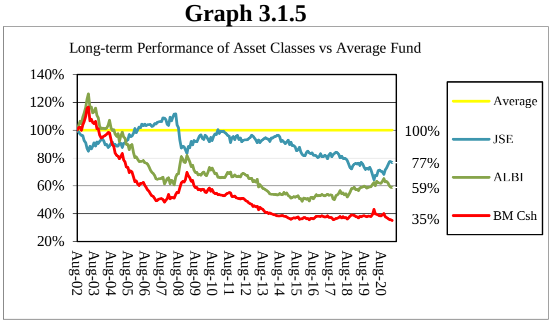
Graph 3.1.3



Graph 3.1.4

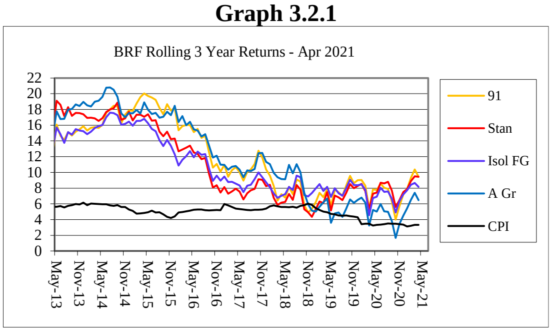


Graph 3.1.5

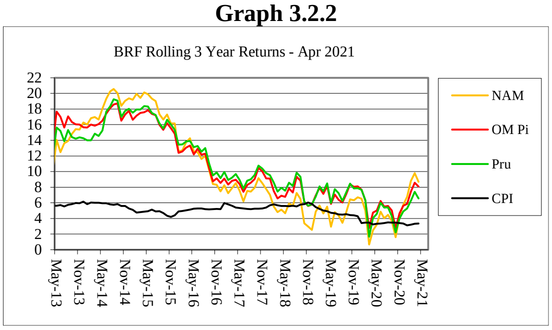


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

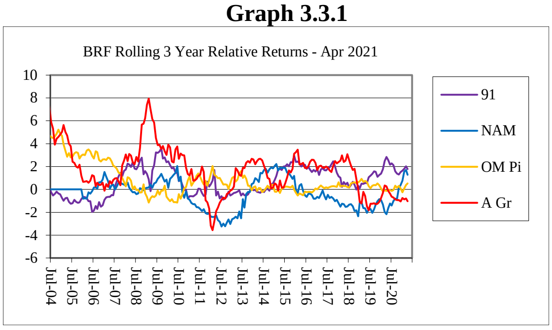


Graph 3.2.2



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

Graph 3.3.1



Volume 17 No. 04
April 2021

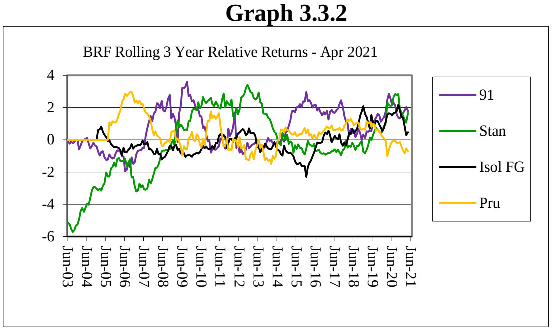
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2021

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

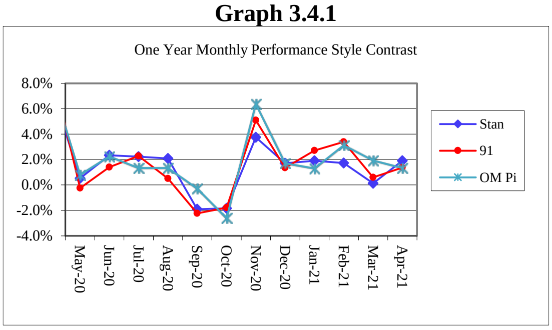
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.3.2

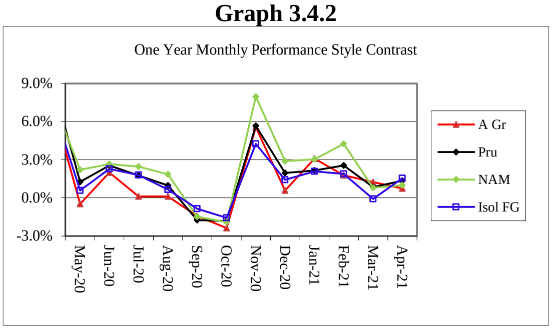


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

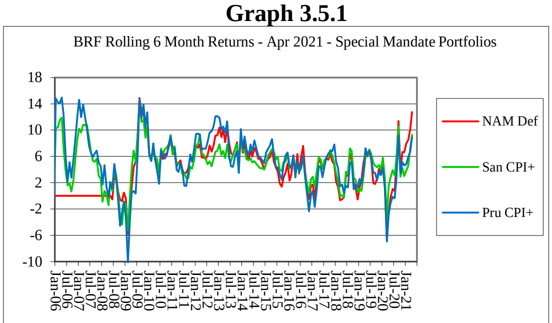


Graph 3.4.2

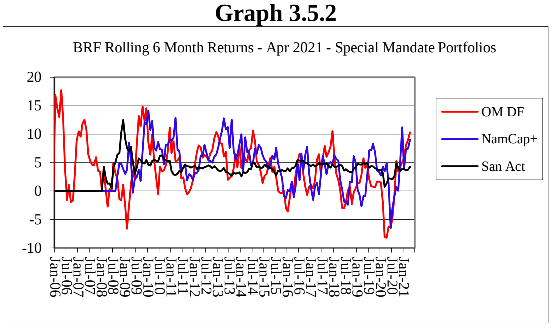


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

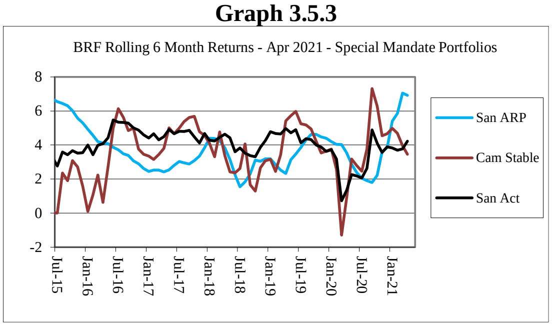
Graph 3.5.1



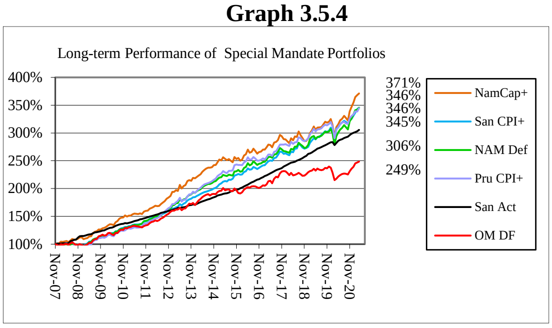
Graph 3.5.2



Graph 3.5.3

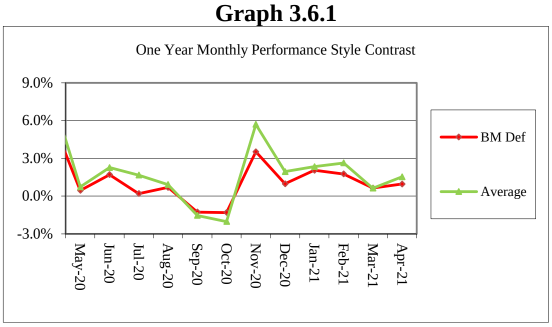


Graph 3.5.4



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

Graph 3.6.1



Volume 17 No. 04
April 2021

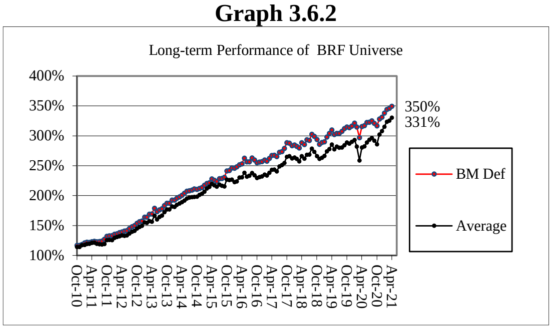
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2021

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

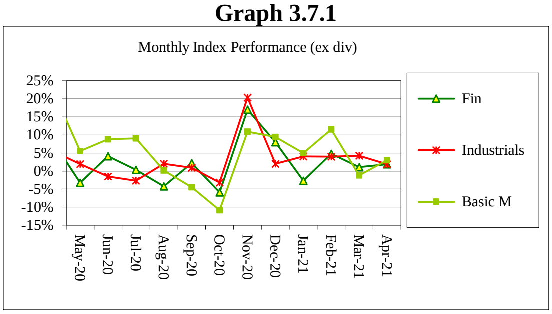
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.6.2

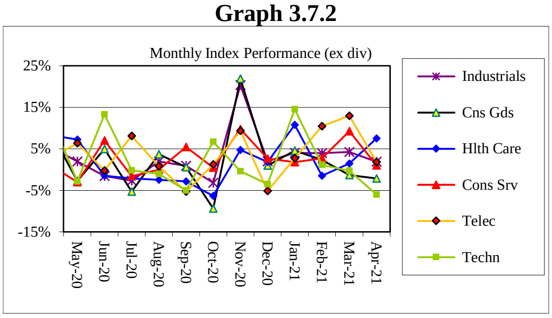


3.7 One-year monthly performance of key indices (excluding dividends)

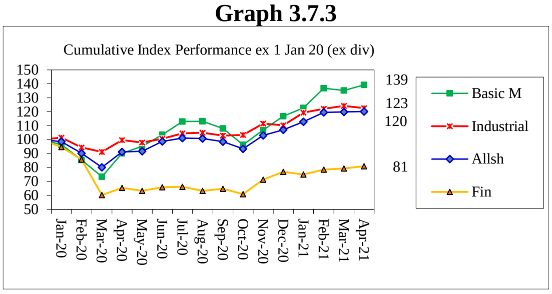
Graph 3.7.1



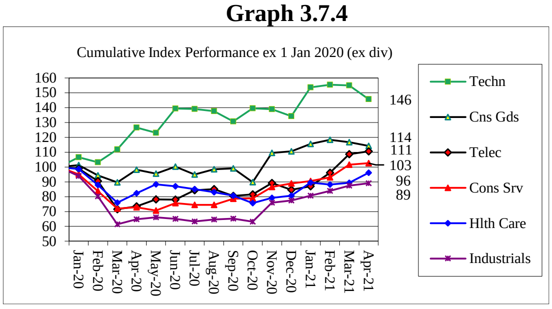
Graph 3.7.2



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.	6.7	7.4
5-year real return - % p.a.	2.7	3.4
Equity exposure - % of portfolio (qtr end March 2021)	47.5	63.6
Cumulative return ex Jan 2011	194.8	182.0
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 48% compared to the average prudential balanced portfolio's exposure of 64%. 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.

Volume 17 No. 04
April 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2021

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

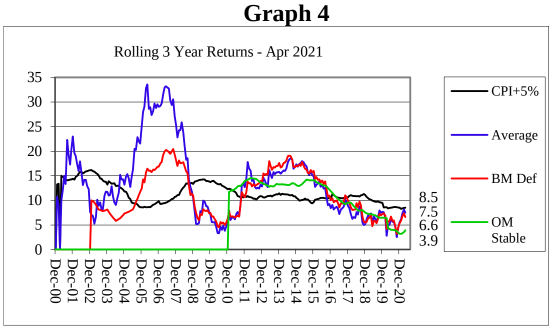
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.7%	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	7.8%	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 May 2018 to April 2021. This gives an indication of volatility of the performance of these 3 risk profiles.

Graph 4

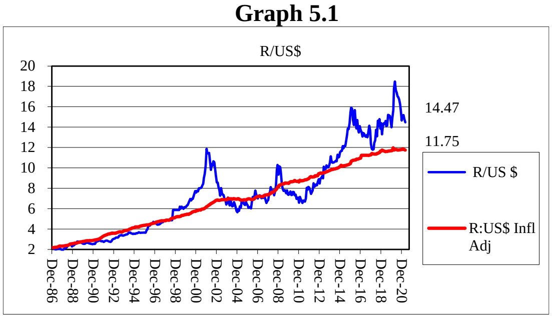


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end December was 6.6%, the average was 7.5% 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 11.75 to the US Dollar while it actually stood at 14.47 at the end of April. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

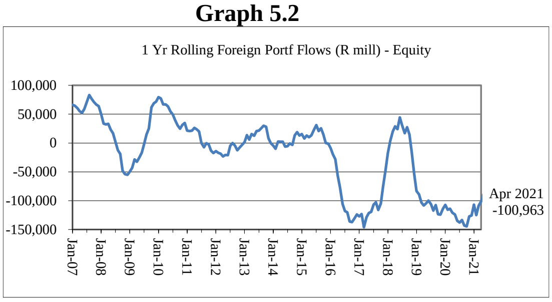


The Rand strengthened by 2.0% in April with net foreign investment outflows from bonds and equities of R5.4 bn. Over the past 12 months the Rand strengthened by 21.7%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 121.5 bn (outflow of R 139.3 bn to end of March 2021).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 130.2 bn (March R 124.7 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 101.0 bn at the end of April (outflow of R 108.6 bn year-on-year to end March). The month of April experienced a net inflow of R 0.07 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 291.6 bn (end March net investment outflow of R 291.7 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 20.5 bn over the past 12 months to end of April (outflow of R 30.7 bn over the 12 months to end of March). The month of April experienced a net outflow of R 5.5 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 161.5 bn (to March R 167.0 bn).

Volume 17 No. 04
April 2021

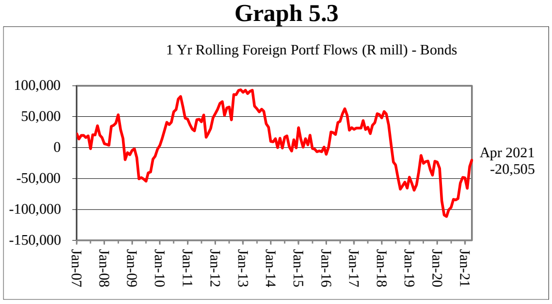
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2021

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

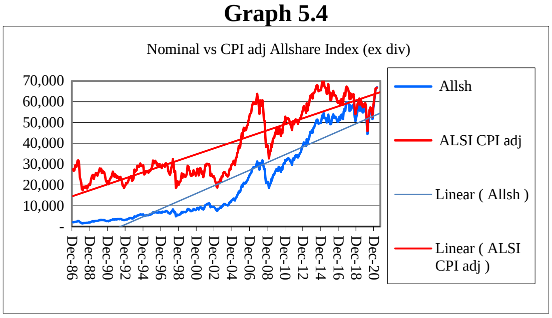
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 5.3



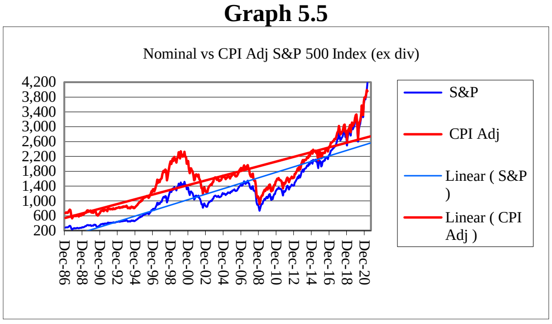
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.8% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 34 years was 7.8% per year. This is equivalent to a growth in real terms of 3.0% p.a. over this period, excluding dividends, or around 6.1% including dividends.

Graph 5.4



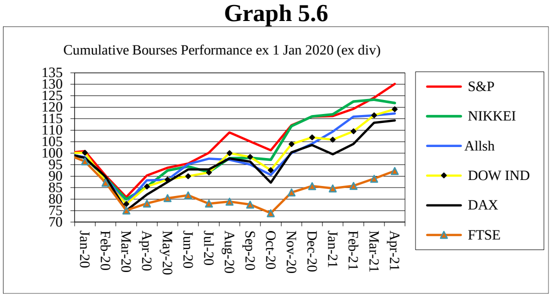
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 8.3% per annum, over this period of 34 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.7% p.a. over this period, excluding dividends or around 7.9% including dividends.

Graph 5.5



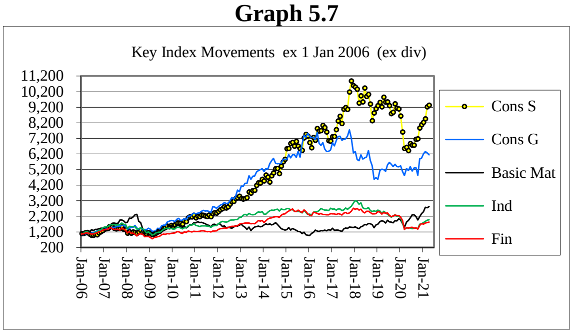
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P500 as the top performing index since the start of 2020.

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: 15.7%; Consumer Goods: 12.6%; Basic Materials: 7.0%; Industrials: 4.2% and Financials: 4.0%.

Graph 5.7



6. Understanding Benchmark Retirement Fund investments – Part 1

By Tilman Friedrich

In the next few issues of our monthly Performance Review, I will be providing background and guidance on investments to assist Benchmark Retirement Fund members to take charge of their fund investments.

- Parties to fund and their roles and responsibilities
- Investment choice and return objectives
- Investment range and portfolio composition
- Performance characteristics of asset classes and portfolios
- The default portfolio
- The default portfolio vs the smooth growth portfolio
- Income replacement ratio and contribution rates
- Selection of investment managers
- Combining investment portfolios and when to switch
- Investment manager risks and manager diversification
- Performance measurement

1. Parties to the fund and their roles and responsibilities

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 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.

By Tilman Friedrich

Board of trustees

The board of trustees of the fund is the equivalent to the board of directors of a company. They are ultimately accountable for the success or the failure of the business of the fund. There is one critical difference though. The trustees are responsible for trust moneys, unlike in the case of a company where the directors run the business for its shareholders as if it was their own business. The trustees have a fiduciary duty to run the business of the fund, towards the owners of the moneys in the fun – you, the members. They cannot argue for themselves, "if it was my money, I would do the following…" but should rather argue "this is not my money and I have to take extra care in the decisions I take on behalf of those to whom the money belongs and who have entrusted the money to me."

The trustees' responsibilities typically encompass the following:

- Provide a suitable range of investment products and portfolios in which members can invest
- Review the investment manager's performance
- Review the appointment of the investment consultant
- Ensure compliance with regulatory standards
- Select and manage suitable default portfolios in which members can invest

The investment consultant

- Assist the Trustees with the preparation, review and implementation of the investment policy
- Assist in the selection and appointment of investment managers
- Perform asset-liability modelling and matching for the fund's default portfolios
- Assist in the packaging of appropriate default portfolios (active members, pensioners)
- Assist in the regular monitoring of the investment managers' performance
- Monitor the market and bring new investment portfolios to the attention of the trustees

The participating employer

Participating employers can play different roles. They can participate passively and only get involved in seeing to the smooth administration as conduit between the management of the fund and the employer's employees who are members of the fund. They can also play an active role by establishing a committee of management that comprises of member representatives and employer representatives and take an active position in defining the benefit structure and investment options, the appointment of certain service and product providers and generally assisting the board of trustees with decisions relating to members of their employer, such as the distribution of benefits in the event of the death of a member.

The responsibilities of the participating employer or the committee of management typically encompass the following:

- Determine appropriate salary replacement ratio
- Determine contribution towards retirement
- Determine investment horizon
- Determine risk tolerance and return requirements
- Selection of investment portfolio(s) to invest in
- Switching between investment portfolio(s) and when deemed appropriate

The employee benefits consultant

- Assist and advise participating employer/ individual/ pensioner with selection and switching of investment portfolio(s)
- Assist the participating employer with member communication regarding investments
- Assist the participating employer to determine an appropriate salary replacement ratio
- Assist the participating employer to determine an appropriate contribution rates
- Assist client to determine an appropriate investment horizon
- Assist client to determine risk tolerance and return requirements
- Assist client to determine appropriate investment portfolio/s

2. Investment choice and return objectives

- Members have different risk tolerances and different needs
- Long-term horizon (young members) vs short-term horizon (pre-retirement; high volatility vs low volatility in respect of one-third
- Alternative risk profiled portfolios offered –

Risk Profile	Return objective
Aggressive	CPI + >6%
Moderate	CPI + 5% to 6%
Moderate to low	CPI + 4% to 4.5%
Low	CPI + 1% to 2%

- Portfolio choice options
    - Portfolio/s chosen by employer
    - Employer and member portfolio choice
    - Member portfolio choice

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 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.

3. Investment range and portfolio composition

Investment Portfolio	Risk Categorisation	Performance Objective	**Historical Performance Experience (Before Fees)**
Allan Gray Balanced Fund (segregated)*	Moderate	None	CPI+5% to 6%
91 Namibia Managed Fund	Moderate	None	CPI+5% to 6%
NAM Coronation Balanced Plus Fund	Moderate	None	CPI+5% to 6%
Old Mutual Namibia Profile Pinnacle Fund	Moderate	None	CPI+5% to 6%
Prudential Namibia Balanced Fund	Moderate	None	CPI+5% to 6%
Standard Bank Namibia Managed Fund	Moderate	None	CPI+5% to 6%
Hangala Prescient Absolute Balanced Fund (restricted)**	Moderate	CPI+5%	CPI+5%
Benchmark Default Portfolio***	Moderate		CPI+5%
Old Mutual Namibia Absolute Stable Growth****	Moderate Low	CPI+4.5%	CPI+4.5
NAM Coronation Capital Plus Fund	ModerateLow	CPI+4% (1 year)	CPI+4%
Prudential Namibia Inflation Plus Fund	ModerateLow	CPI+4%	CPI+4%
Sanlam Namibia Inflation Linked Fund*****	ModerateLow	CPI+4%	CPI+4%
NAM Coronation Balanced Defensive Fund	Moderate Low	IJG Money Market + 3%	CPI+2% to 3%
Capricorn Stable Fund	Low	CPI + 2% (2 years)	CPI+2% to 3%
Sanlam Namibia Absolute Return Plus	Low	CPI + 2%	CPI+2% to 3%
Sanlam Active Fund	Low	13-year ALBI	CPI+2% to 3%
Capricorn Investment Fund	Capital Preservation	7-day Repo Rate	CPI to CPI + 1%

Notes: * Performance-based fees charged on off-shore portion ** Off-shore assets charged between 0.70% and 0.80% *** Fees of Default Portfolio consist of fees of underlying asset managers as well as performance-based fees charged by Alan Gray **** Capital charge of 0.70%

This article will be continued in the next Benchtest Performance Review.