Volume 17 No. 07
July 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 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

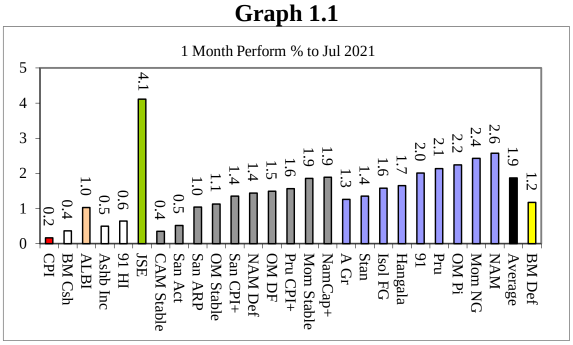
In July 2021 the average prudential balanced portfolio returned 1.9% (June 2021: 0.4%%). Top performer is NAM Coronation Balanced Plus Fund with 2.6%, while Allan Gray Balanced Fund with 1.3% takes the bottom spot. For the 3-month period Momentum Namibia Growth Fund takes the top spot, outperforming the 'average' by roughly 1.2%. On the other end of the scale NinetyOne Managed Fund underperformed the 'average' by 1.2%. 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**.

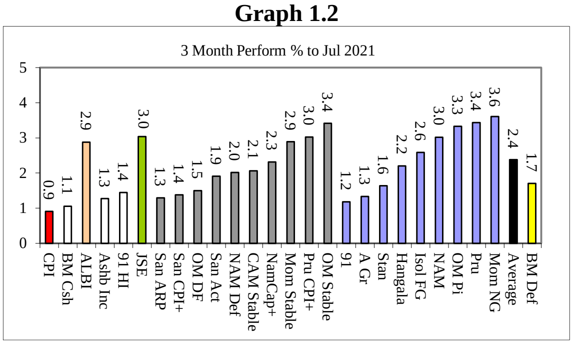
Below is the legend to the abbreviations reflected on the graphs:

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 Stable (grey)
Momentum Nam Stable Growth	Mom Stable (grey)
NAM Capital Plus	NamCap+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Sanlam Active	San Act (grey)
Sanlam Inflation Linked	San CPI+ (grey)
Smooth bonus portfolios	
Old Mutual AGP Stable	OM Stable (grey)
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)

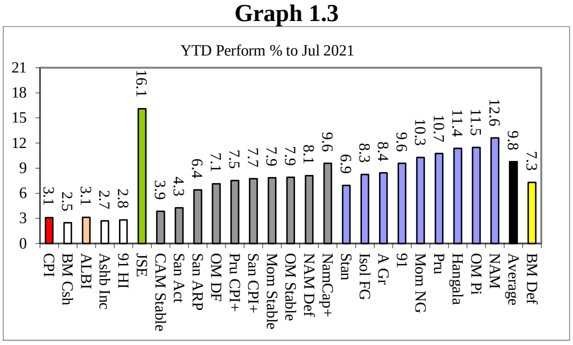
Graph 1.1



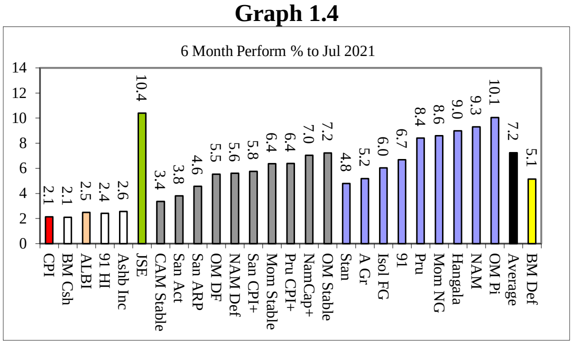
Graph 1.2



Graph 1.3



Graph 1.4



Volume 17 No. 07
July 2021

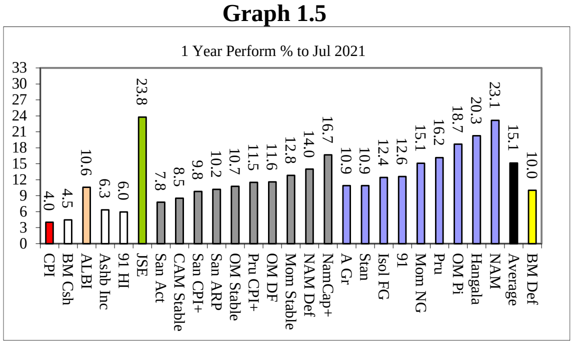
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2021

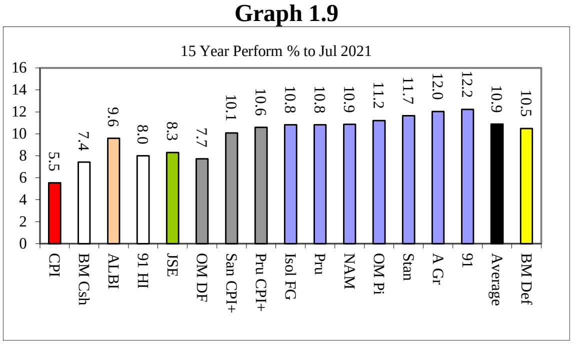
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

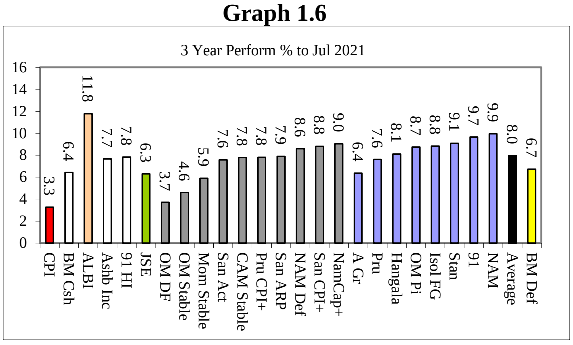
Graph 1.5



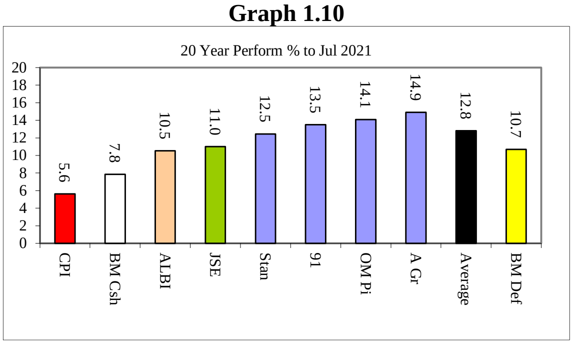
Graph 1.9



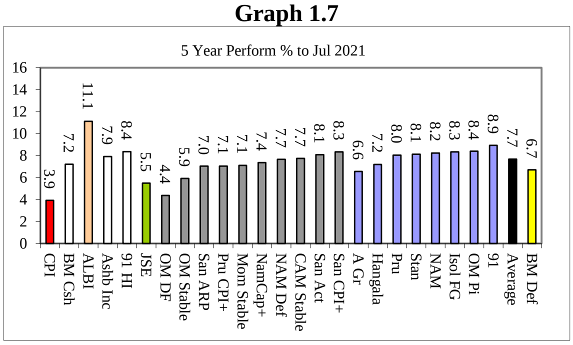
Graph 1.6



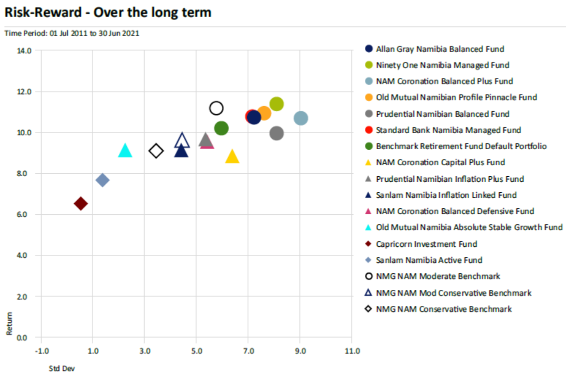
Graph 1.10



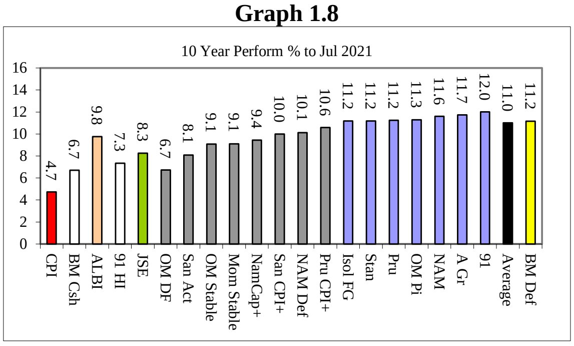
Graph 1.7

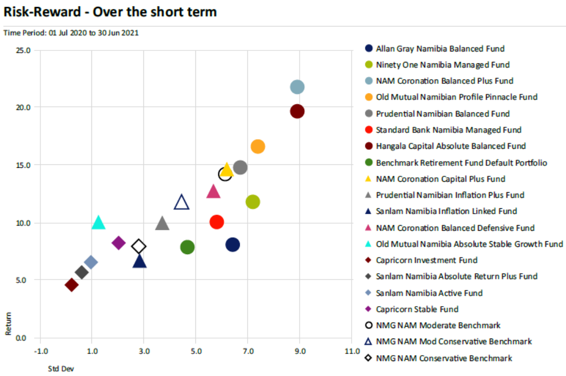


Risk/ Return



Graph 1.8





Benchmark Retirement Fund

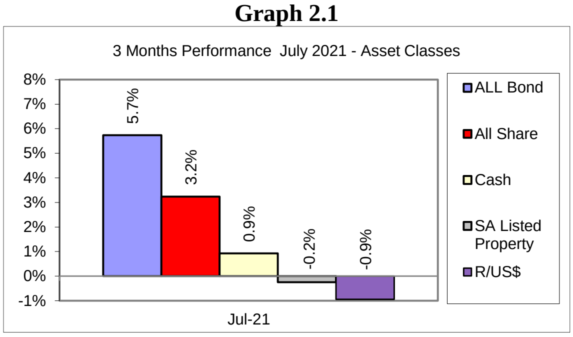
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2021

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

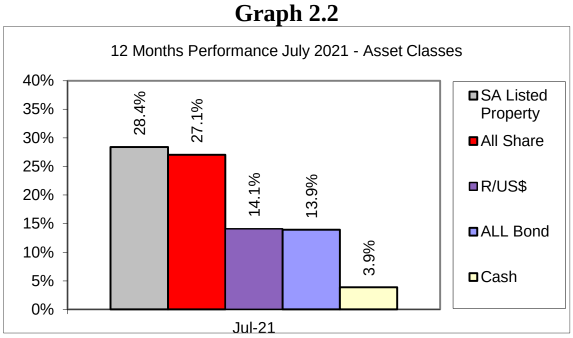
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

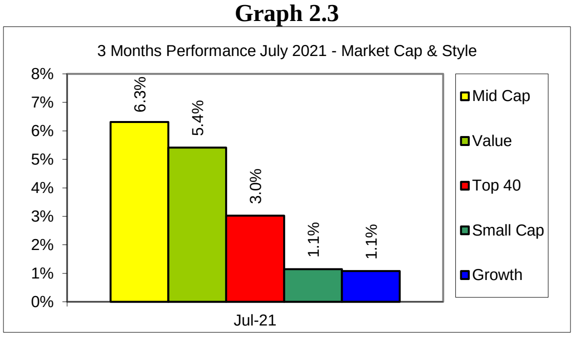
Graph 2.1



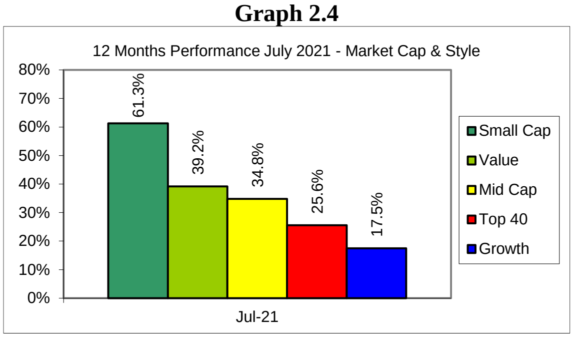
Graph 2.2



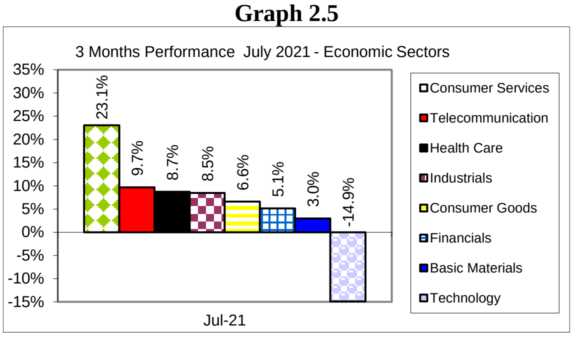
Graph 2.3



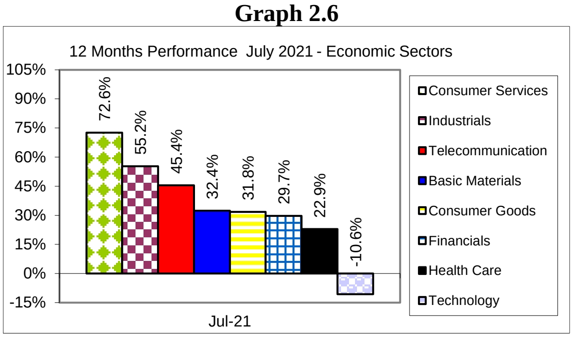
Graph 2.4



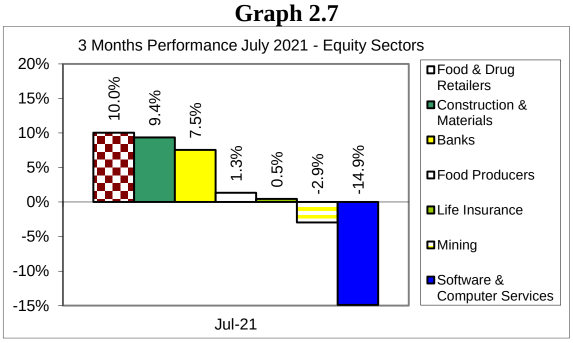
Graph 2.5



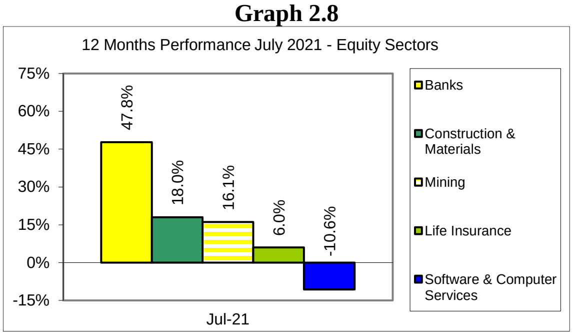
Graph 2.6



Graph 2.7



Graph 2.8



Volume 17 No. 07
July 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2021

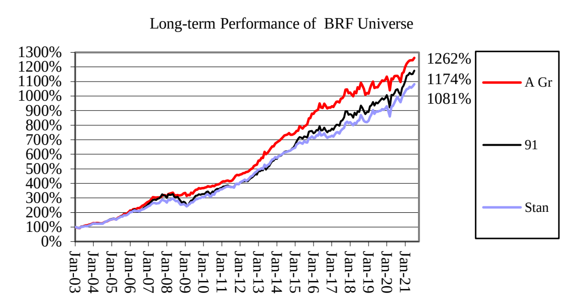
By T H Friedrich – Retirement Fund Solutions Namibia (Pty) Ltd

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

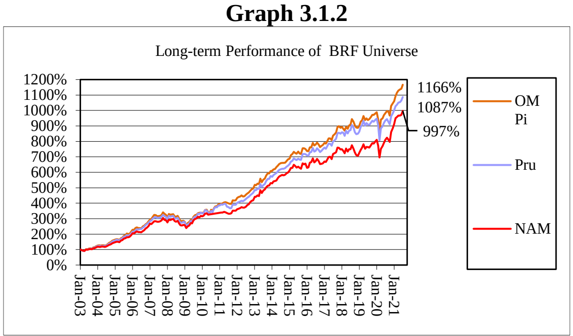
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

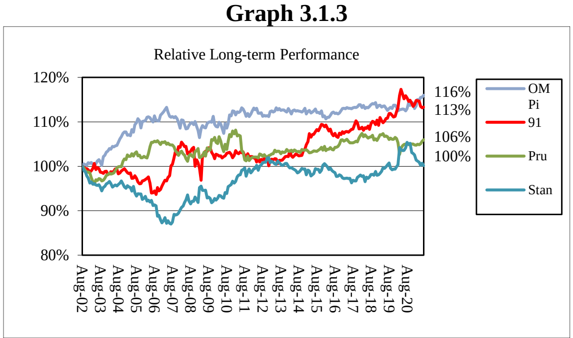
Graph 3.1.1



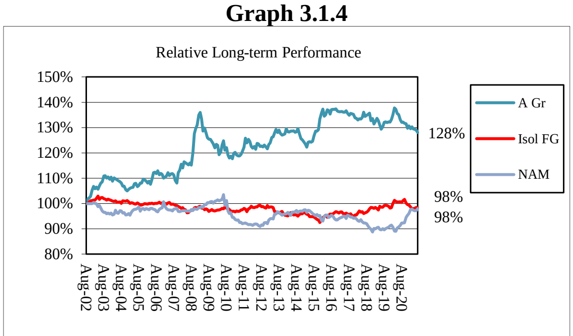
Graph 3.1.2



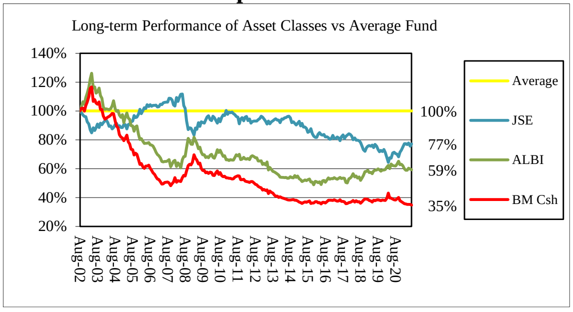
Graph 3.1.3



Graph 3.1.4

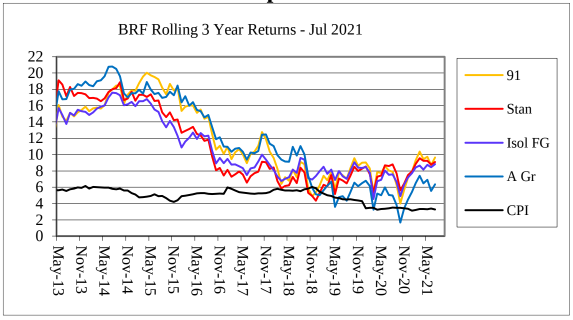


Graph 3.1.5

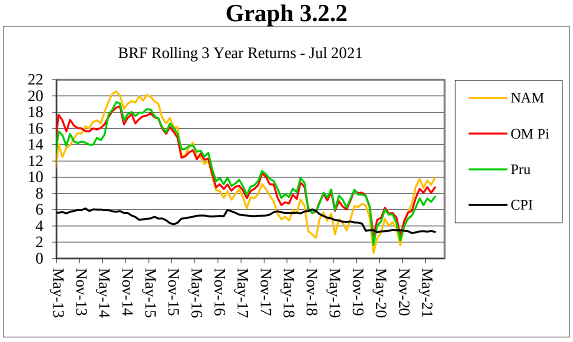


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

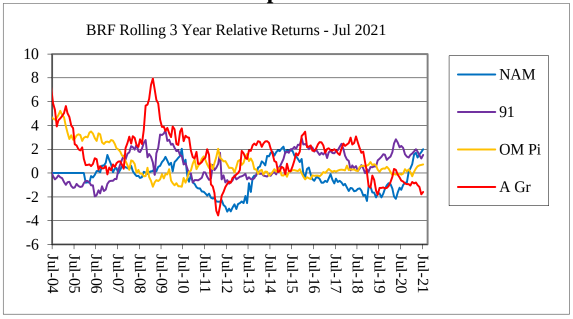


Graph 3.2.2



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

Graph 3.3.1



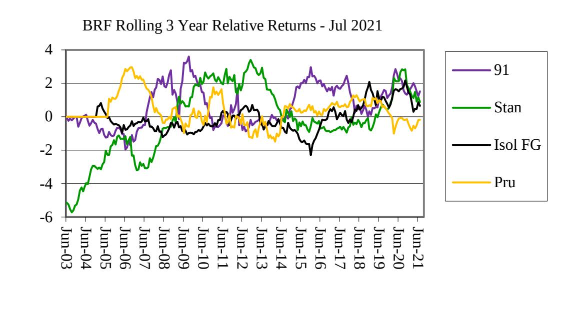
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2021

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

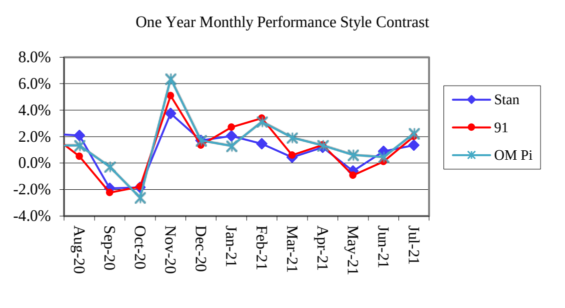
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.3.2

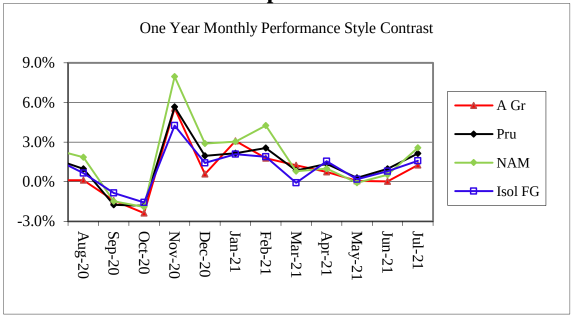


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

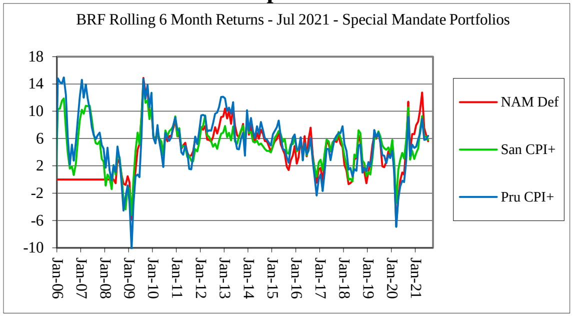


Graph 3.4.2

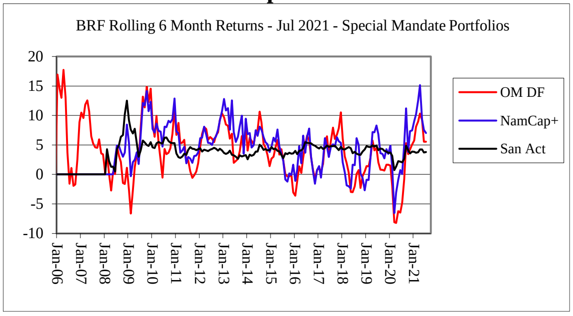


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

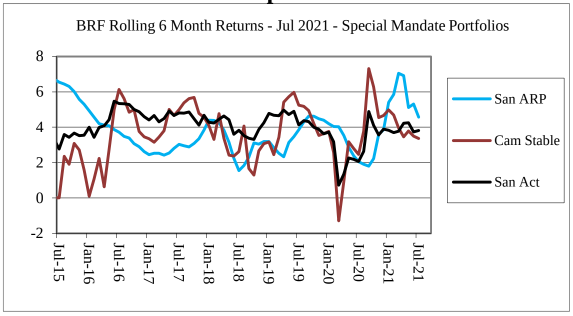
Graph 3.5.1



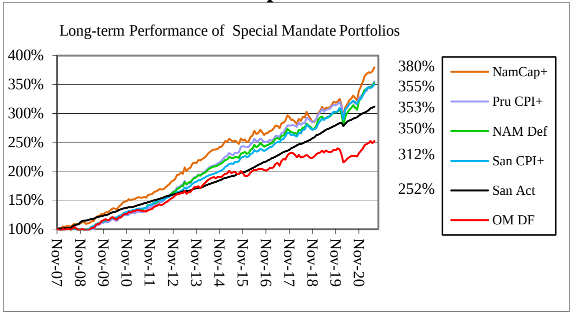
Graph 3.5.2



Graph 3.5.3

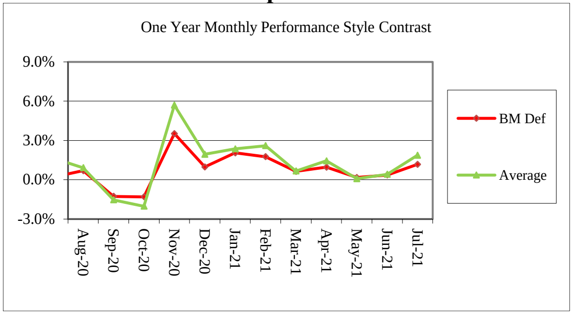


Graph 3.5.4



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

Graph 3.6.1



Volume 17 No. 07
July 2021

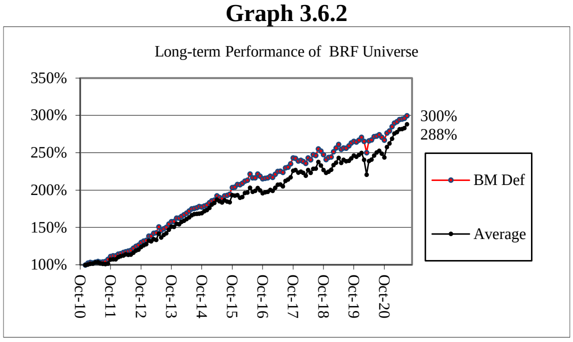
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2021

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

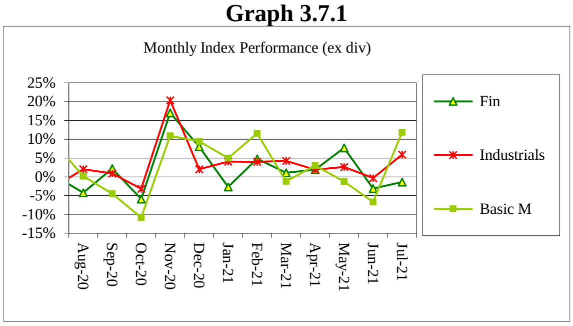
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.6.2

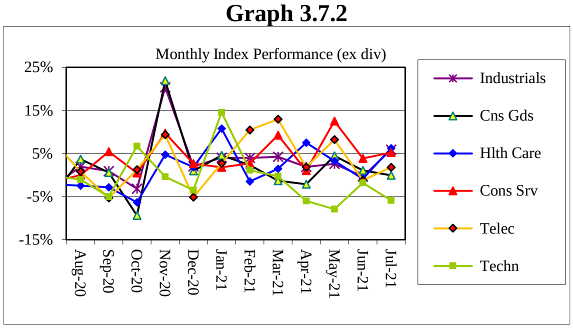


3.7 One-year monthly performance of key indices (excluding dividends)

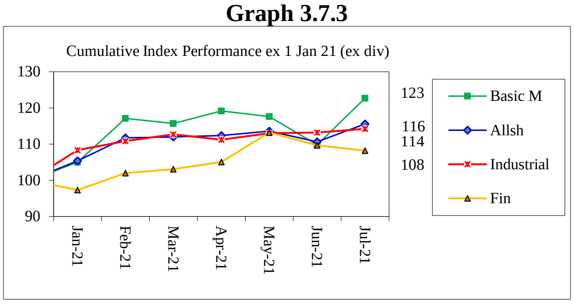
Graph 3.7.1



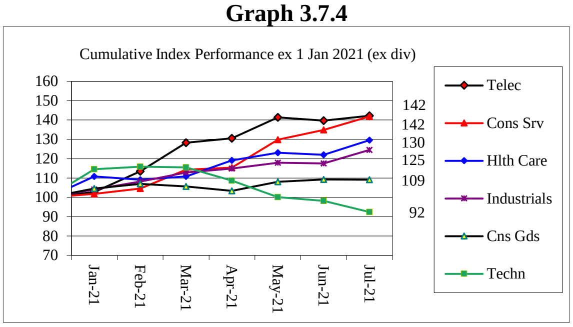
Graph 3.7.2



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	7.7
5-year real return - % p.a.	2.8	3.8
Equity exposure - % of portfolio (qtr end June 2021)	47.1	64.8
Cumulative return ex Jan 2011	199.8	188.5
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 47% 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.

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2021

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

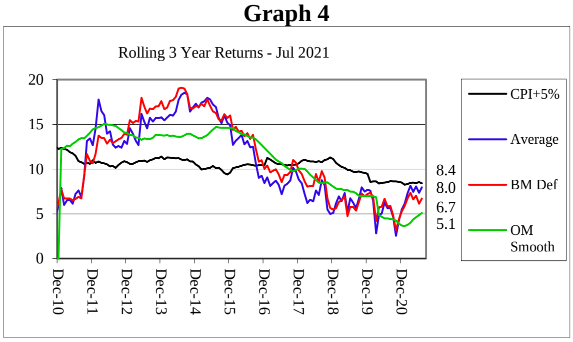
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.4%	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	7.7%	6.2%	6.3%

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

Graph 4

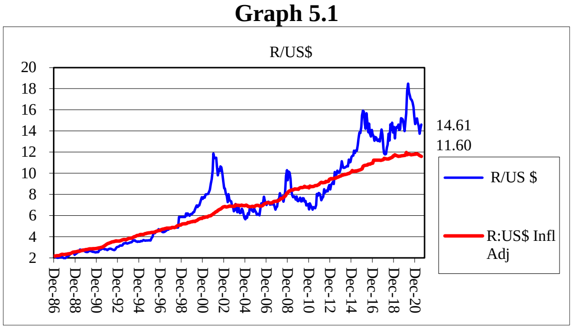


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end July was 6.7%, the average was 8.0% vs CPI plus 5% currently on 8.4%.

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 11.60 to the US Dollar while it actually stood at 14.61 at the end of July. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

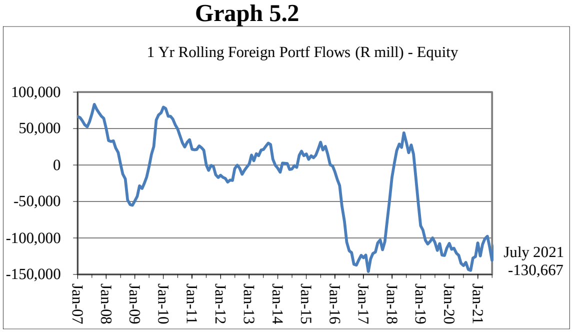


The Rand weakened by 2.3% in July with net foreign investment outflows from bonds and equities of R37.1 bn. Over the past 12 months the Rand strengthened by 14.1%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 165.1 bn (outflow of R 142.6 bn to end of June 2021).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 202.8 bn (June R 165.7 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 130.7 bn at the end of July (outflow of R 112.6 bn year-on-year to end June). The month of July experienced a net outflow of R 30.4 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 351.7 bn (end June net investment outflow of R 321.2 bn). This represents roughly 1.9% 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 34.4 bn over the past 12 months to end of July (outflow of R 30.0 bn over the 12 months to end of June). The month of July experienced a net outflow of R 6.7 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 148.9 bn (to June R 155.6 bn).

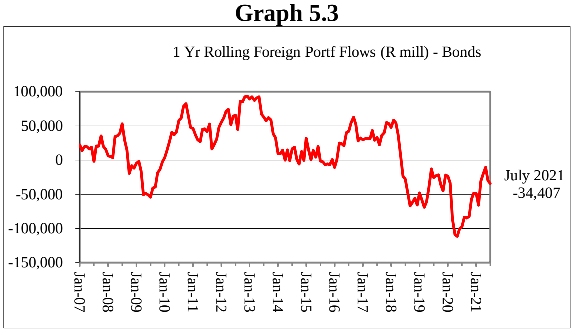
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2021

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

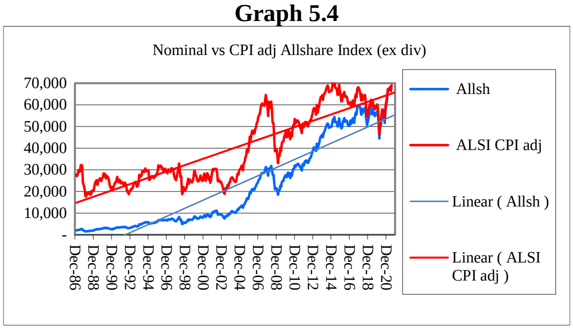
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 5.3



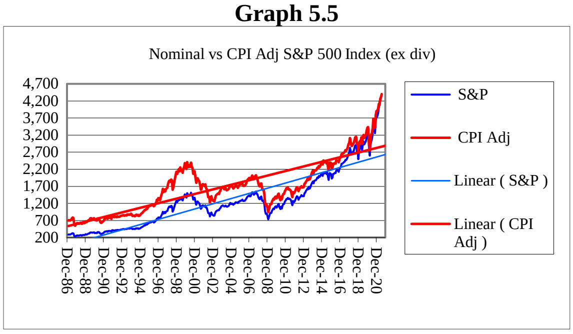
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.8% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 34 years was 7.7% per year. This is equivalent to a growth in real terms of 3.1% p.a. over this period, excluding dividends, or around 6.2% including dividends.

Graph 5.4



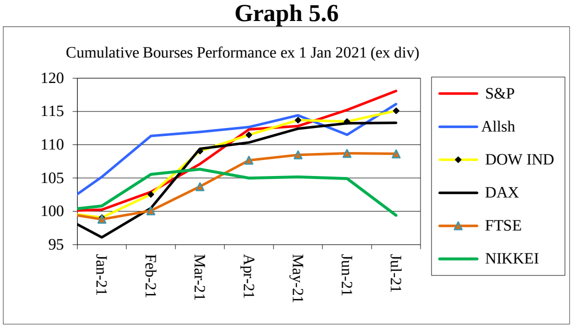
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 8.4% per annum, over this period of 34 years. US inflation over this period was 2.6%. This is equivalent to a growth in real terms of 5.8% p.a. over this period, excluding dividends or around 8.0% including dividends.

Graph 5.5



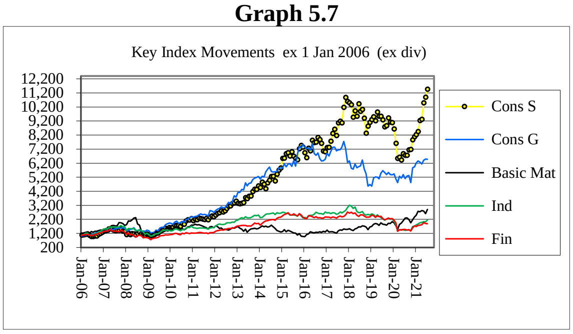
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P500 as the top performing index since the start of 2021.

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: 16.9%; Consumer Goods: 12.7%; Basic Materials: 7.1%; Industrials: 5.0% and Financials: 4.1%.

Graph 5.7



6. Understanding Benchmark Retirement Fund investments – Part 4

By Tilman Friedrich

In the next few issues of our monthly Performance Review, I will provide background and guidance on investments to assist Benchmark Retirement Fund members and employers taking charge of their fund investments. I will address the following topics:

1. Parties to fund and their roles and responsibilities
2. Investment choice and return objectives
3. Investment range and portfolio composition
4. Performance characteristics of asset classes and portfolios
5. The default portfolio
6. The default portfolio vs the smooth growth portfolio
7. Income replacement ratio and contribution rates
8. Selection of investment managers
9. Combining investment portfolios and when to switch
10. Investment manager risks and manager diversification
11. Performance measurement

In the previous three newsletters, I covered the first six topics. In this newsletter, I will cover the topic ‘Income

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 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.

replacement ratio and contribution rates' and 'Selection of investment managers'.

7. Income replacement ratio and contribution rates

Most of us save for retirement in some form or another. And all of us hope that when we retire, enough investments have accumulated for a dignified retirement. Instead of just hoping for the best, one should plan for retirement, and one of the tools one can use is the salary replacement ratio. This ratio expresses the pension you will receive on retirement as a percentage of the pensionable salary in the month of retirement. The table below reflects this ratio based on certain assumptions.

Table 6.1

	Assumed NET contribution towards retirement i.e., AFTER all costs for risk and administration etc (as % of pensionable salary)				
Assumed Investment Return for 30 years before retirement (after fees)	8%	10%	12%	14%	16%
CPI + 5%	38%	47%	57%	66%	76%
CPI + 4%	32%	40%	48%	56%	64%
CPI + 3%	27%	34%	41%	48%	55%
CPI + 2%	24%	29%	35%	41%	47%

The Trustees consider an appropriate post-retirement income to be 60% of pre-retirement pensionable income after 30 years of service (assuming that 2% accumulates for each year of service). Table 6.1 shows a range of ratios for various net retirement funding contribution rates in relation to real investment returns, assuming retirement at age 60. Other important factors to bear in mind are:

Pre-retirement:

- The real rate of return before retirement is dependent on the investment portfolio chosen;
- Salaries are assumed to increase in line with price inflation. When assessing the impact of a salary increase of 1% per annum above inflation, one needs to look at a 1% per annum lower real return (e.g., if the targeted real rate of return on the selected investment portfolio is CPI + 4%, then one needs to look at the results of CPI + 3% in the above table to see the salary replacement ratio if salaries increase 1% per annum above price inflation);
- Pensionable salary should not be significantly lower than the total remuneration package. Your standard of living is largely a function of your total remuneration. However, it is the pensionable salary that determines the pension you will receive one day.
- No break-in-service or 100% preservation of accumulated credit where there is a change of employer;
- The member uses his full accumulated credit on retirement (one-third and two-thirds) to generate the pension;
- Effect of tax is not taken into account.

Post-retirement:

- The retiree purchases a single life with-profit annuity at the age of 60 years;
- The table makes allowance for future pension increases of approximately 100% of price inflation.

You will realize that I place a lot of emphasis on 'real investment returns' and on 'income replacement ratios' and you may ask, are the figures used in the table good, bad, or indifferent? Firstly, if you invested in equity only, history has shown that you can expect a 'real investment return' in the long term of around 7%. Pension funds, however, are only allowed to invest a maximum of 75% in equity. Fund spread the balance mainly across bonds, property, and cash. So 'real investment returns' from a typical prudential balanced pension fund portfolio should be around 5% in the long term. The table uses 5% as the maximum as more conservative portfolios are likely to achieve lower real returns in the long term. Note that the income replacement ratio no-where close to 100% in any of these scenarios. Internationally, pension fund structures aim to achieve an income replacement ratio of 2% per year of service. If you worked and saved continuously for retirement for 40 years, a well-structured fund should be able to offer you a pension equal to around 80% of your last salary before retirement. An income replacement ratio of 100% is therefore essentially unachievable.

Read the table as follows: a member that has invested in a portfolio (or combination of portfolios) that yields CPI plus 4% (i.e. 'real investment return' of 4%) and who, together with his employer, has contributed a net 14% of pensionable salary towards retirement only, will have a replacement ratio of 56%. He can thus expect a pension of 56% of his pensionable salary on the retirement date. Note that the contribution rates in the table are after risk premiums and other costs. It only shows the actual portion set aside for retirement. Typically, the total contributions to a retirement fund for this member could be something like 17%, where perhaps 3% is used to pay for death and disability cover and administration and other costs.

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 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.

8. Selection of investment managers

Selection guidelines

Unless a member, or the employer, has chosen the Benchmark Default portfolio, the employer or the member must choose a manager or a combination of managers. In this process, one needs to take cognisance of the following factors:

- Future returns and return volatility depend on the risk exposure of the portfolio.
- Future investment returns cannot be forecast and there are no guarantees for future returns.
- Investment risk and volatility are spread and reduced by choosing more than one portfolio.
- The more managers you choose, the closer the performance moves towards an average performance.
- Historical performance is a poor indicator of future performance; however, the longer the term measured, the more reliable forecasts become.
- The main objective of a retirement fund is to generate inflation-beating returns.
- The environment and needs change over time and one must review investment philosophy and objectives regularly.

Diversification

- Growth manager with value manager
  - Opposing investment styles complement each other well through all economic cycles.
- Core manager with another manager
  - The objective is to rely on the core portfolio manager's skills to generate out-performance, while the second manager is to counter its underperformance through average performance.
- Benchmark Default Portfolio (also a combination of portfolios)
  - Combines a moderate risk prudential balanced portfolio (Allan Gray) with moderate- to low-risk portfolios (Pru Infl Plus; Sanlam Infl Linked).

Performance objectives of diversification

- Superior performance
  Choosing managers who are likely to out-perform the average manager in the long term.
- Above-average performance
  Choosing 'core' manager/s who is/are likely to out-perform the average in the long-term and other non-core managers who is/are likely to produce returns mirroring those of the average as closely as possible.
- Hedged performance
  Selecting managers with an opposing investment philosophy and style (i.e., value versus growth).

Correlation between investment managers

When searching for an appropriate combination of managers, the correlation of the performance of two managers provides useful information. A high correlation, i.e., a correlation of 1, means there is no difference in the performance of the two managers, and the opposite is also true. A low correlation between any two managers also means that the two managers have very different investment philosophies. Choosing two managers with a low correlation in their performance should produce more stable investment returns through different economic cycles. Typically, when one manager does well, the other does not, and the opposite. We refer to this as 'hedged performance'. One alternative is a combination of a manager who has a history of out-performance. The second manager must have a high performance correlation so that this manager is also likely to out-perform at the same time as the first manager. We refer to this combination as 'superior performance'. The third possible combination is a core manager trusted to out-perform combine with another manager expected to produce average performance, buffering the first manager's occasional under-performance.

Table 6.2

Benchmark Retirement Fund

Correlation Calculator

Time Period: 3 (Year Rolling Returns)

	91	NAM	Stan	A Gr	Pru	OM Pi	Hangala	BM Def	San CPI+	Pru CPI+	NAM Def	NamCap+	OM Stable
91	1.00												
NAM	0.83	1.00											
Stan	0.90	0.75	1.00										
A Gr	0.55	0.56	0.34	1.00									
Pru	0.61	0.63	0.33	0.78	1.00								
OM Pi	0.75	0.82	0.50	0.76	0.95	1.00							
Hangala	0.79	0.84	0.62	0.32	0.67	0.81	1.00						
BM Def	0.67	0.63	0.45	0.98	0.84	0.83	0.45	1.00					
San CPI+	0.95	0.91	0.84	0.68	0.74	0.86	0.80	0.77	1.00				
Pru CPI+	0.79	0.71	0.55	0.71	0.92	0.92	0.76	0.83	0.84	1.00			
NAM Def	0.77	0.95	0.61	0.64	0.77	0.90	0.84	0.70	0.89	0.78	1.00		
NamCap+	0.82	0.98	0.76	0.44	0.56	0.77	0.87	0.51	0.88	0.64	0.93	1.00	
OM Stable	-0.17	-0.19	-0.50	0.45	0.56	0.34	-0.03	0.42	-0.08	0.36	0.02	-0.28	1.00

Index Abbreviations:

Allan Gray Balanced Fund	A Gr
NinetyOne Managed Fund	91
Nam Coronation Balanced Plus Fund	NAM
Old Mutual Profile Pinnacle Fund	OM Pi
Prudential Balanced Fund	Pru
Standard Bank Managed Fund	Stan
Hangala Prescient Absolute Balanced Fund	Hangala

Benchmark Default Portfolio	BM Def
Old Mutual Absolute Stable Growth Fund	OM Stable
Nam Coronation Capital Plus Fund	NamCap+
Prudential Inflation Plus Fund	Pru CPI+
Sanlam Inflation Linked Fund	San CPI+
Nam Coronation Balanced Defensive Plus Fund	NAM Def

Table 6.2 shows the performance correlation of managers we monitor over the 3 years to 31 May 2021. For example, reading the first column of figures in this table, 91 is the first manager in the blue horizontal line and in the blue vertical column. It shows a correlation of 1, because the table compares 91 against 91. 91 in the horizontal line measured against NAM in the vertical column shows a correlation of 0.83; a high correlation as opposed to the correlation of 0.37 between 91 (horizontal line) measured against OM Stable (horizontal column).