Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 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

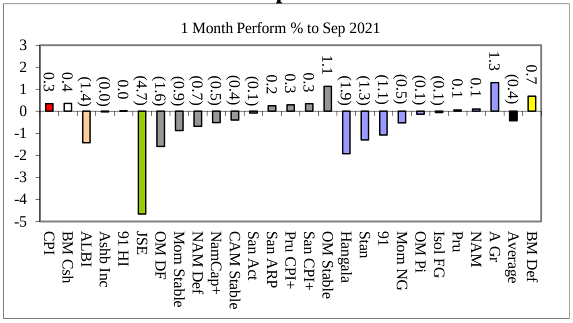
In September 2021, the average prudential balanced portfolio returned -0.4% (August 2021: 1.2%). The top performer is Allan Gray Nambibia Balanced Fund with 1.3%, while Hangala Prescient Absolute Balanced Fund with -1.9% takes the bottom spot. For the 3-months Old Mutual Pinnacle Profile Growth Fund takes the top spot, outperforming the 'average' by roughly 1.8%. Hangala Prescient Absolute Balanced Fund underperformed the 'average' by 2.4% on the other end of the scale. 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 note 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**.

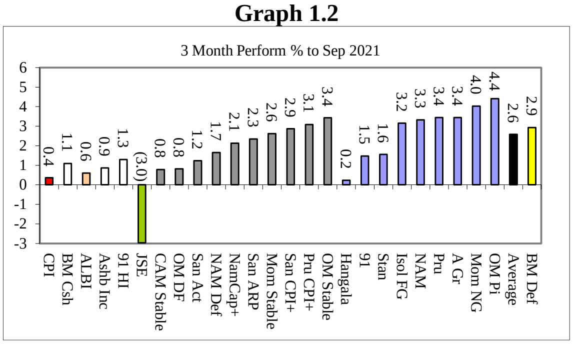
Below is the legend to the abbreviations reflected on the graphs:

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)

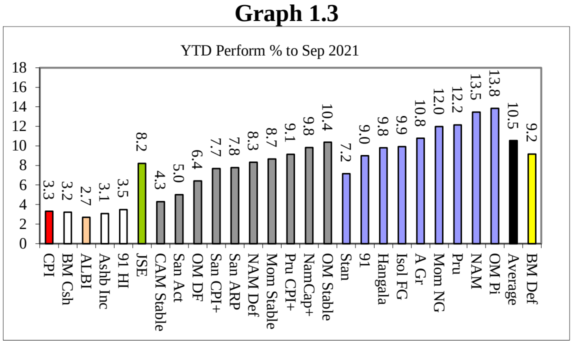
Graph 1.1



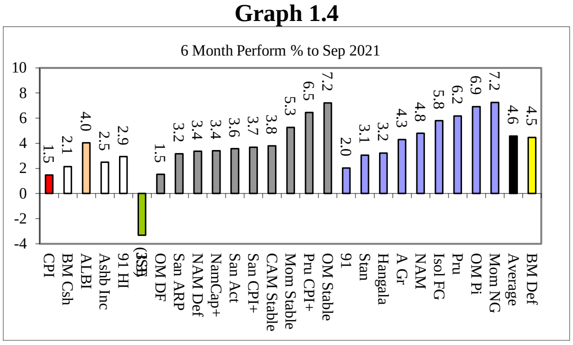
Graph 1.2



Graph 1.3



Graph 1.4



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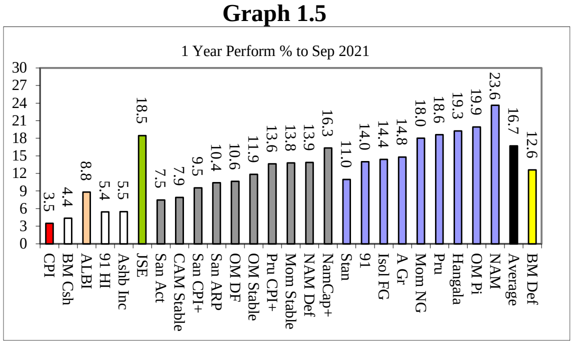
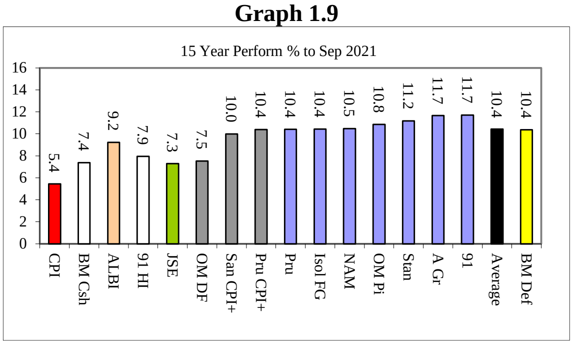
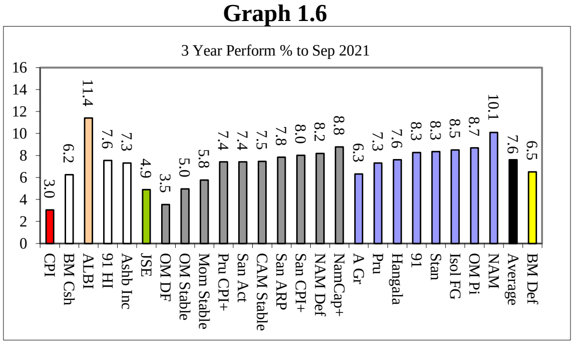
Graph 1.5



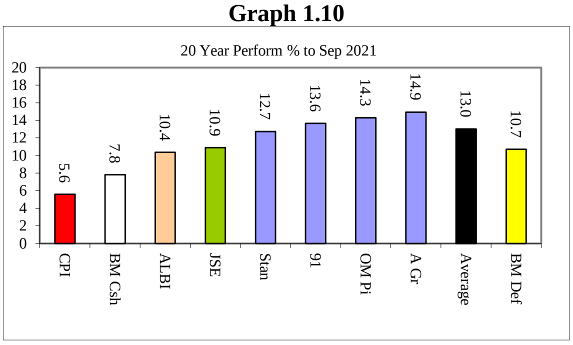
Graph 1.9



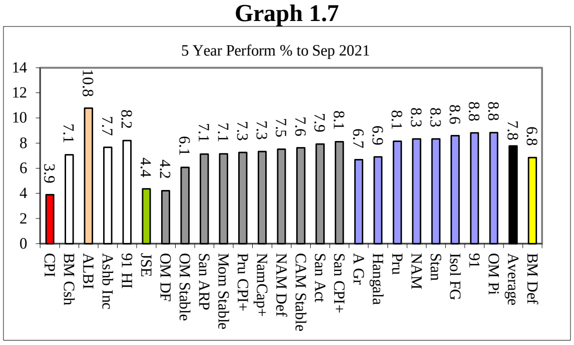
Graph 1.6



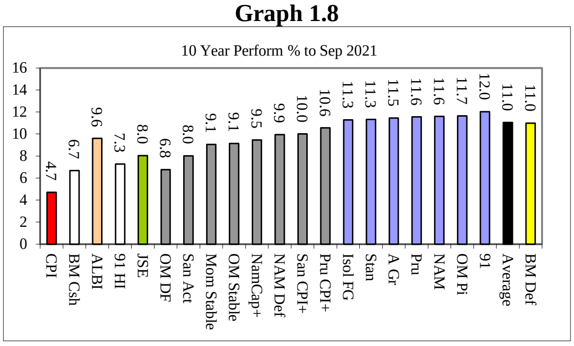
Graph 1.10



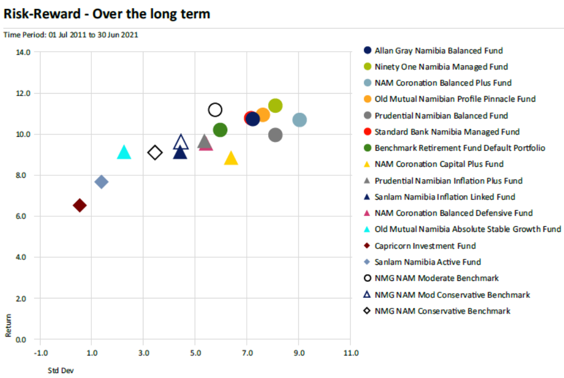
Graph 1.7

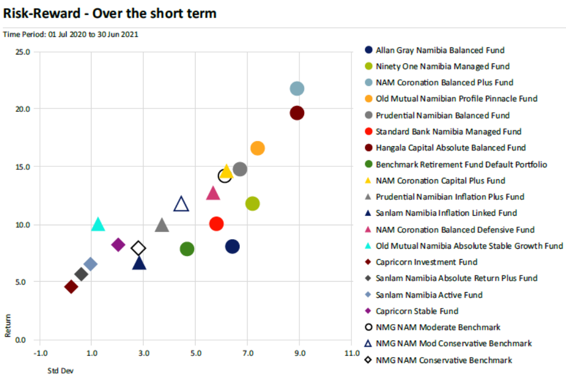


Graph 1.8



Risk/ Return





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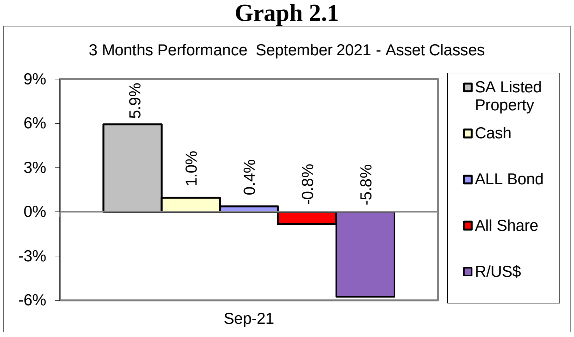
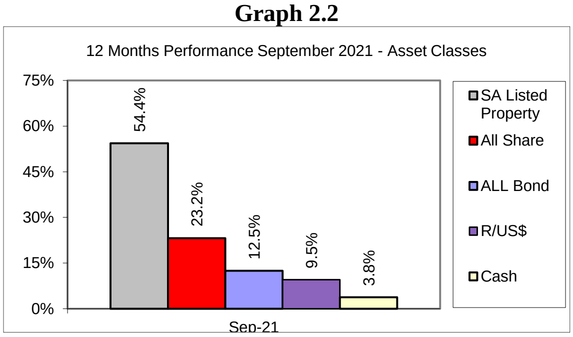
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

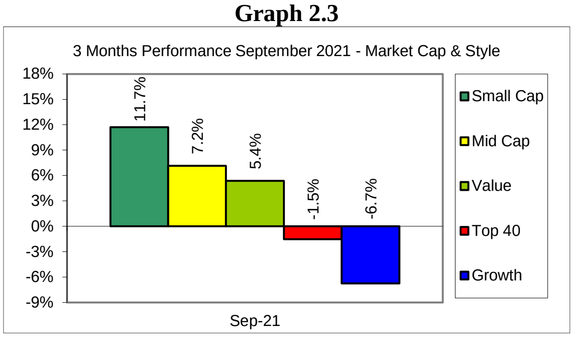
Graph 2.1



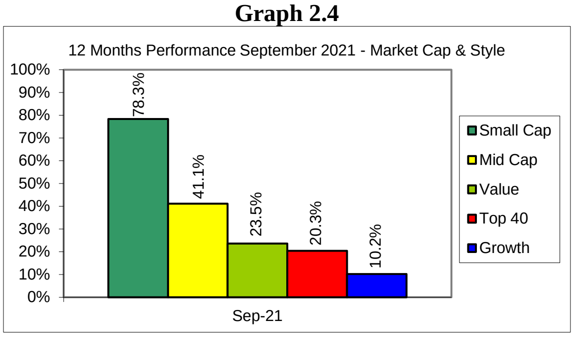
Graph 2.2



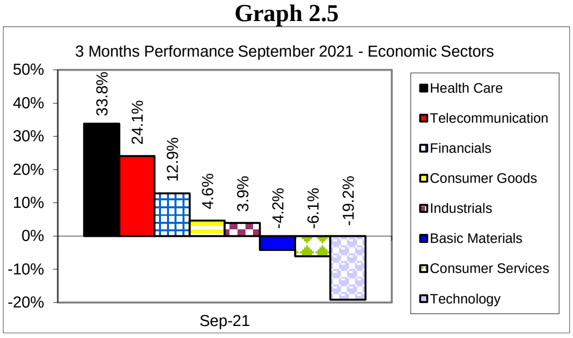
Graph 2.3



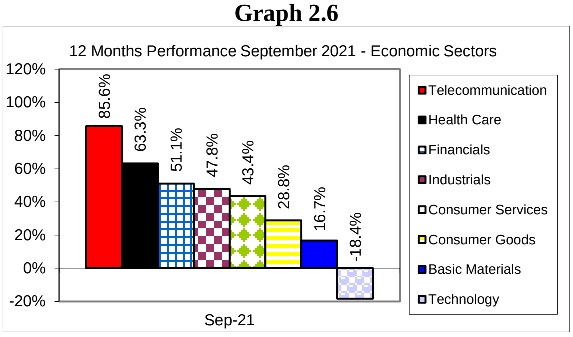
Graph 2.4



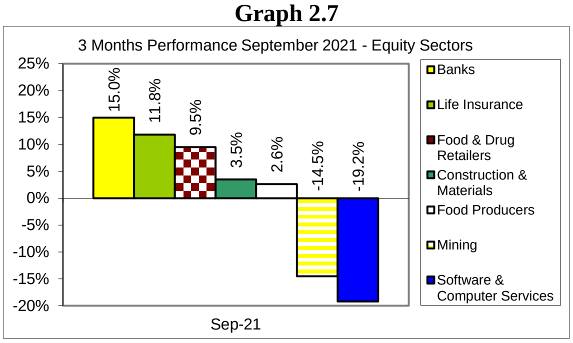
Graph 2.5



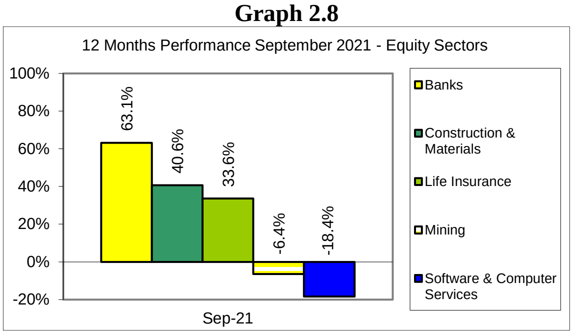
Graph 2.6



Graph 2.7



Graph 2.8



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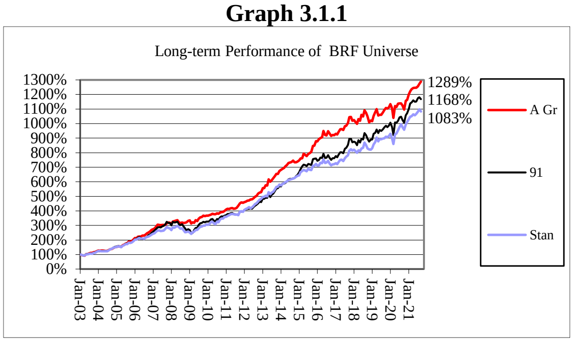
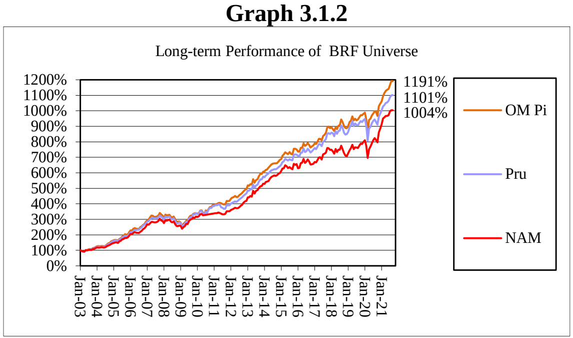
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

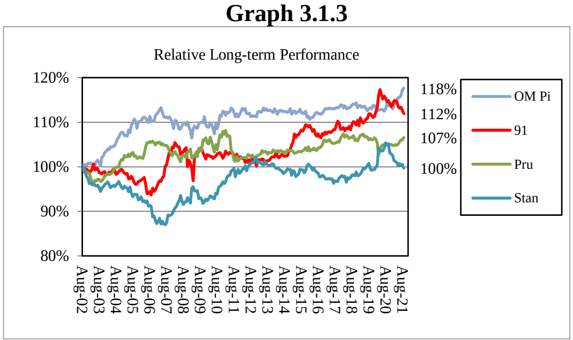
Graph 3.1.1



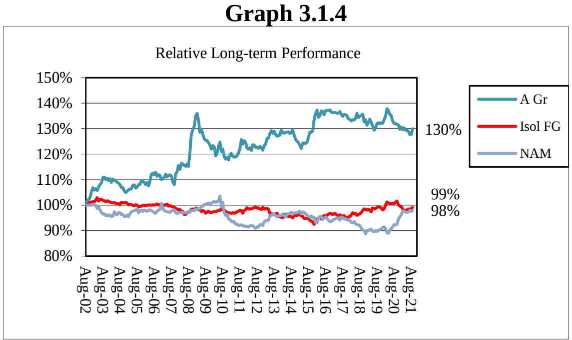
Graph 3.1.2



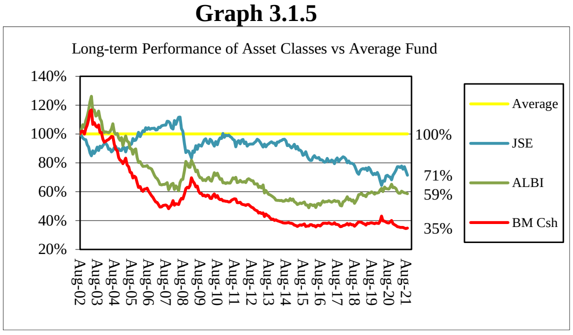
Graph 3.1.3



Graph 3.1.4

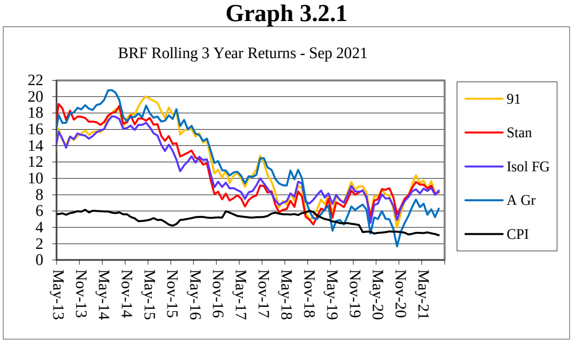


Graph 3.1.5

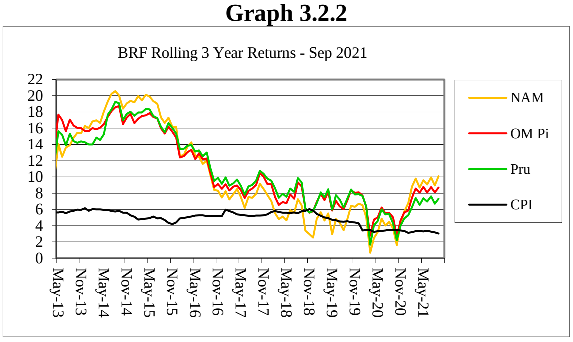


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

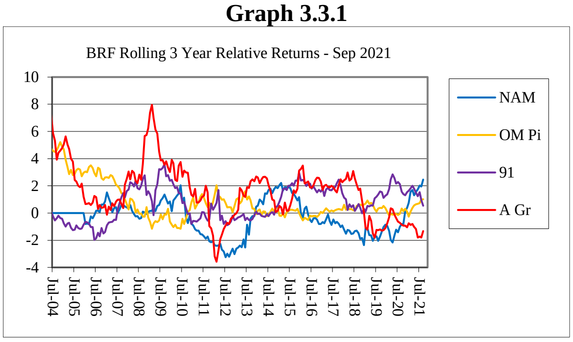


Graph 3.2.2



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

Graph 3.3.1



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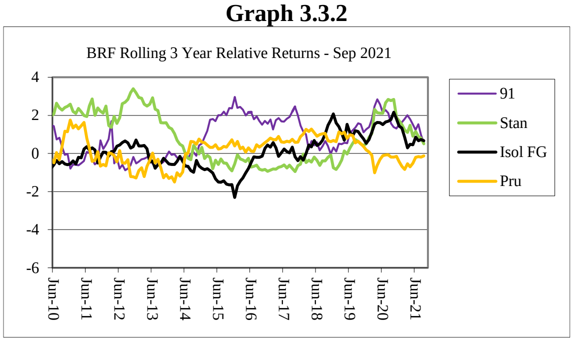
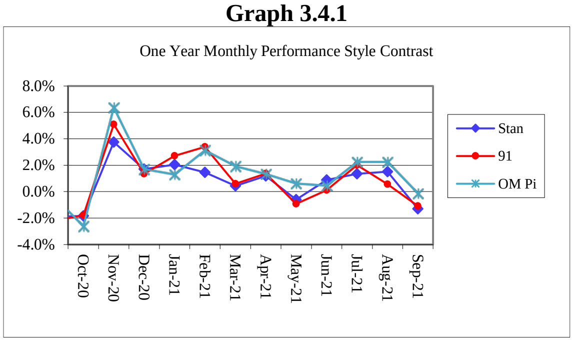
Graph 3.3.2

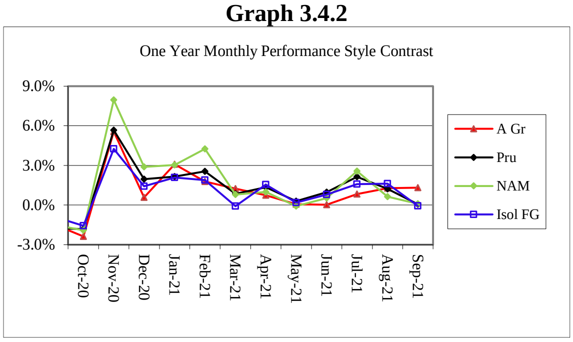


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

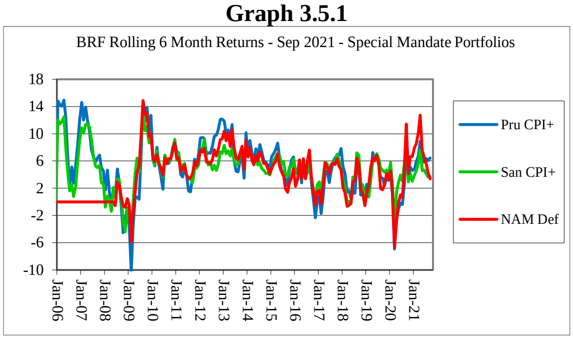


Graph 3.4.2

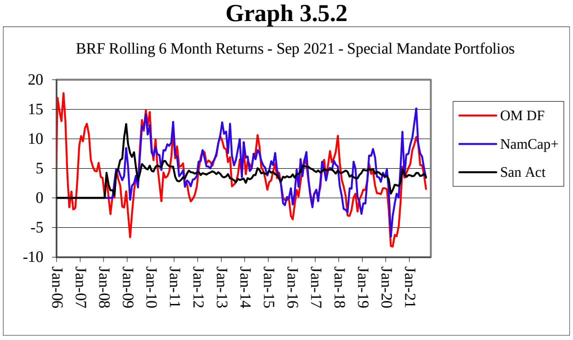


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

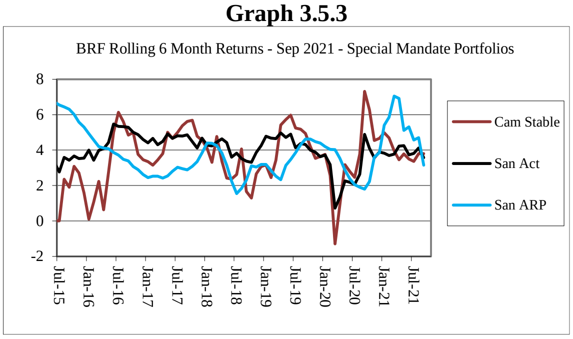
Graph 3.5.1



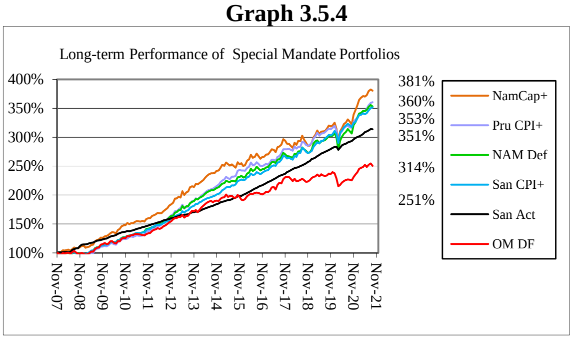
Graph 3.5.2



Graph 3.5.3

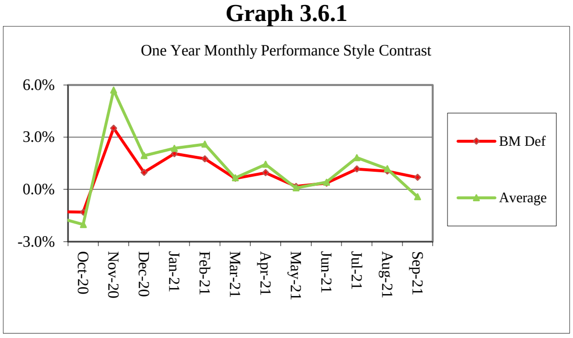


Graph 3.5.4



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

Graph 3.6.1



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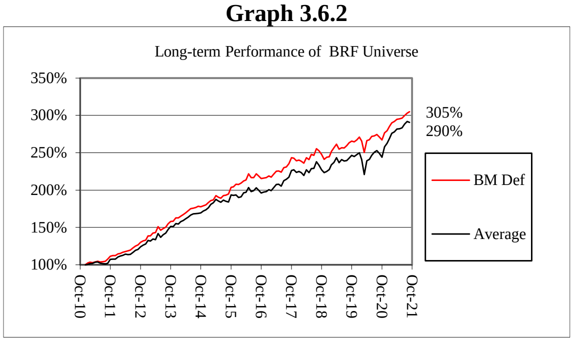
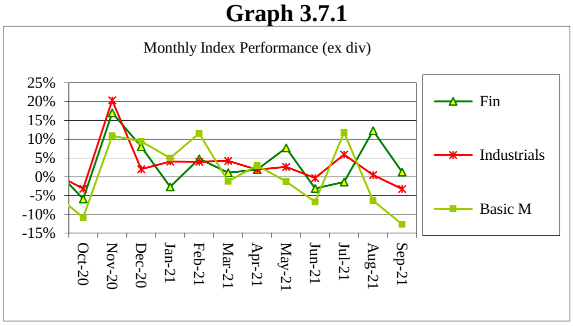
Graph 3.6.2

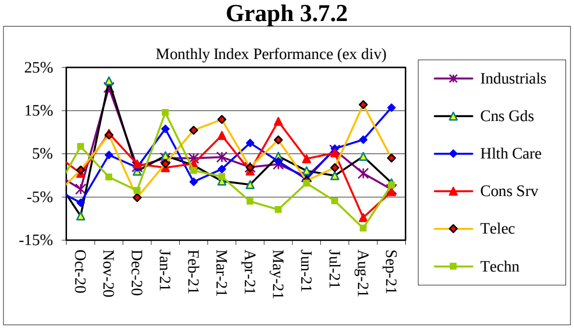


3.7 One-year monthly performance of key indices (excluding dividends)

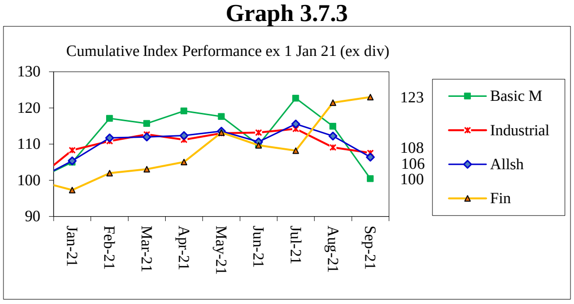
Graph 3.7.1



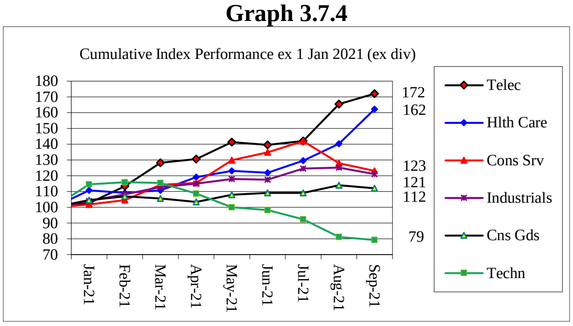
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	6.8	7.8
5-year real return - % p.a.	2.5	3.6
Equity exposure - % of portfolio (qtr end June 2021)	47.1	64.8
Cumulative return ex Jan 2011	205.01	190.49
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.

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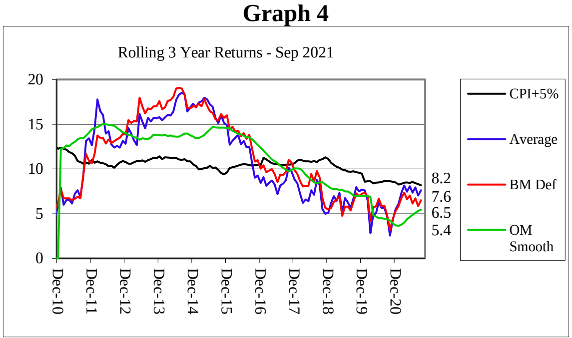
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.25%	3.2%	2.5%
Best annual performance	8.2%	7.4%	8.2%
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	7.6%	6.1%	6.2%

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

Graph 4

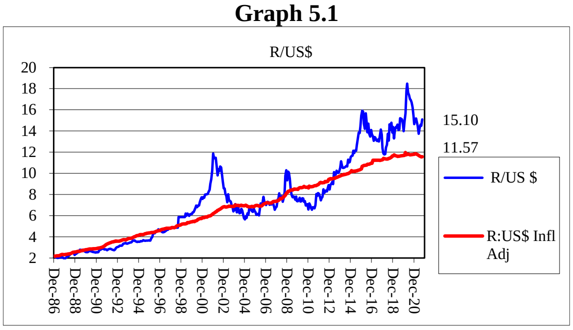


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end September was 6.5%, the average was 7.6% vs CPI plus 5% currently on 8.2%.

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 11.57 to the US Dollar while it actually stood at 15.1 at the end of September. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

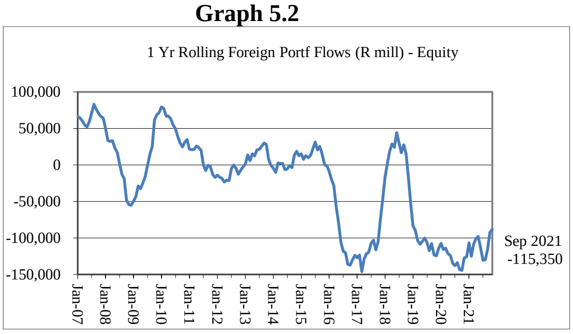


The Rand weakened by 4.11% in September with net foreign investment outflows from bonds and equities of R7.5 bn. Over the past 12 months the Rand strengthened by 9.5%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 187.7 bn (outflow of R 199.0 bn to end of August 2021).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 268.7 bn (August R 261.1 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 115.4 bn at the end of September (outflow of R 129.5 bn year-on-year to end August). The month of September experienced a net outflow of R 1.3 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 372.0 bn (end August net investment outflow of R 370.7 bn). This represents roughly 2.% 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 72.3 bn over the past 12 months to end of September (outflow of R 69.5 bn over the 12 months to end of August). The month of September experienced a net outflow of R 6.2 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 103.3 bn (to August R 109.6 bn).

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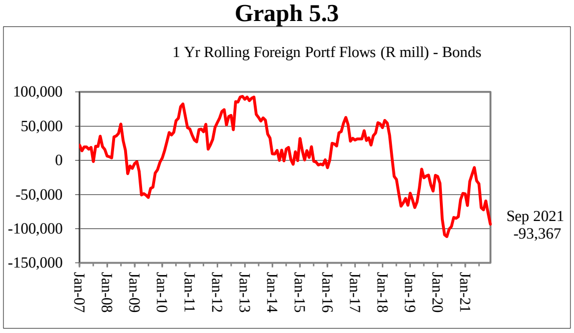
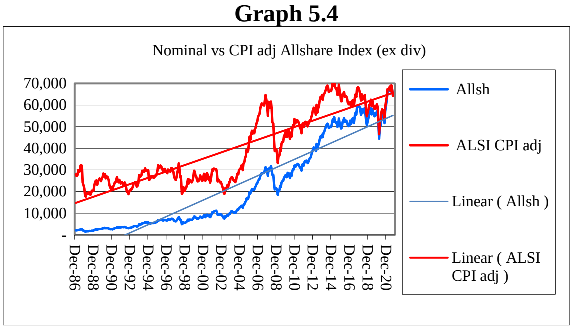
Graph 5.3



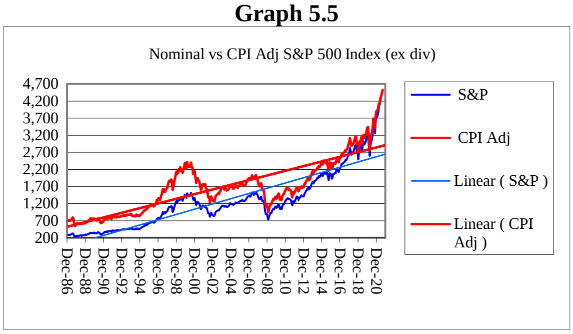
Graphs 5.4 reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.5% per year since January 1987, and this excludes dividends of 3.1%. Namibian inflation over this period of 34 years was 7.7% per 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



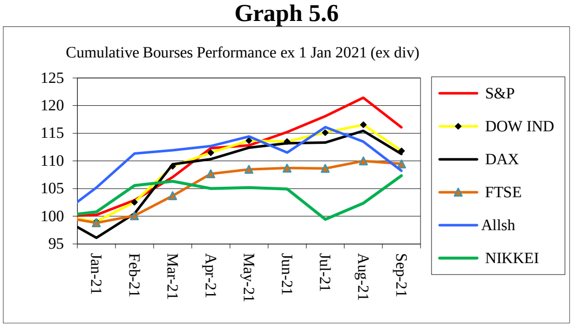
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 8.3% per annum, over this period of 34 years. US inflation over this period was 2.6%. This is equivalent to a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

Graph 5.5



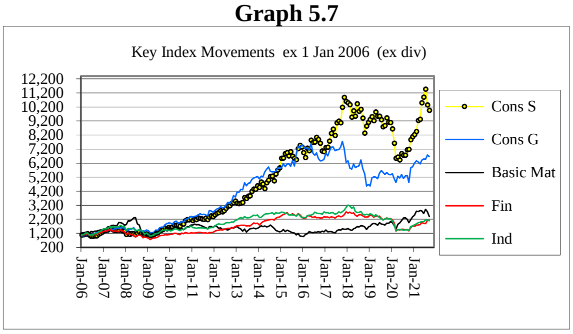
Graph 5.6 provides an interesting overview of some of the major global share indices, showing up the S&P500 as the top performing index since the start of 2021.

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: 15.7%; Consumer Goods: 12.8%; Basic Materials: 5.7%; Financials: 4.9% and Industrials: 4.8%.

Graph 5.7



6. Not being the top performer is not good enough!

By Tilman Friedrich

The Benchmark Default portfolio is currently experiencing a difficult time, investors taking the fund to task for not featuring at the performance table's top end.

Investing is like a sports game, whether it is soccer, rugby, hockey, or whatever, and the investor serves as the coach. His investment is his team; the opponents are the investment market. The coach may take one of two routes, a speculative route or a planned route. Taking the speculative course, the coach would attempt to capitalise on the opponent's weakness as the game progresses, focusing on winning the game. The planned route requires the coach to know his opponents and his team and what result he wants to achieve. This knowledge will determine the strategy he must follow. He may not always want to win each game if that means preserving his team's completeness, fitness, and health for the next game.

Investment is not a one-game matter but rather like winning the league. One can follow similar approaches when investing. The speculative course means that the investor tries to identify opportunities in the market and invest in

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2021

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

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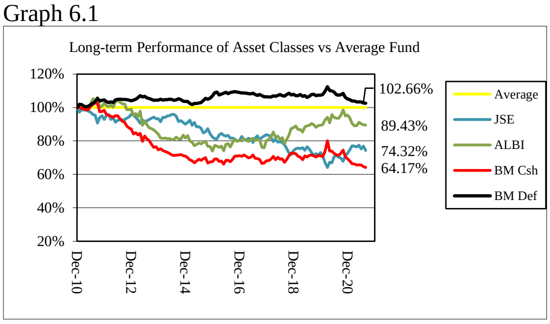
these, focusing on making a killing on the investment. How one identifies opportunities is important. Laypeople would consider what has done well over the recent past and jump onto that band-wagon. Experts would use benchmarks for assessing whether an investment presents an opportunity. Often the benchmark considers the investment relative to other similar investments, the market, or the investment's historical metrics. In a planned approach, the investor would define his ultimate goal and a strategy for achieving this goal.

Pension fund investment is like the investor (fund member) participating in a league that will determine the winner when he retires. Now I hear the typical comments: how long must I bear the pain of my investment not featuring at the table's top end. People get impatient and want the fund to get rid of under-performing managers and switch to outperforming managers. These persons are focusing on winning the game rather than winning the league. I do not consider myself an expert but well-informed. I have tried switching and, without exception, I regretted doing it because there are always two legs when one switches. Firstly it is the switching-out-leg, and then it is the switching-in-leg. The first leg is the easy one because it considers the past. The second leg is tricky because now one must consider the future, which none of us can with any certainty. In fact, most of us will get it wrong. The more often you switch, the poorer the result.

Graph 6.1 depicts the investor's challenge very nicely, so I will explain what it shows. The yellow line is the cumulative performance of the average prudential balanced portfolio and our benchmark for this purpose. The period I chose to measure starts 1 January 2010, when the trustees restructured Default Portfolio and made it less risk-averse, until 31 August 2021. The other lines show their performance relative to our benchmark (the average prudential balanced portfolio). From top to bottom, we see the following:

1. The black line is the Default Portfolio.
2. The green line is the Namibian All-bond index.
3. The blue line is the JSE Allshare index.
4. The red line is the Money Market portfolio.

Graph 6.1



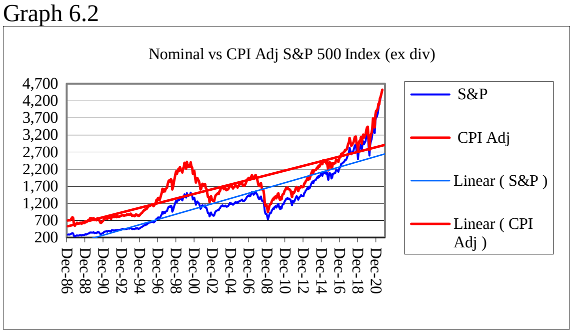
Since the performance of the Default portfolio is currently the bone of contention, I will focus on the black line. For starters, we must understand what this line wants to achieve.

We must also understand what the yellow line wants to accomplish since the black line's and the yellow line's goals are similar. The yellow line must achieve a long-term investment return of inflation plus 4% after fees, and the black line must achieve the same long-term return. Any investor who does not have the same goal must choose a different portfolio depending on his goal. If the goal lies ahead shortly, the goal is often different than if it lies ahead in the distant future. If the investor has more money than he needs to survive, he will have a different goal than the investor whose money is barely sufficient to survive. If an investor does not need any money when he retires and can keep it invested, he will have a different goal to the investor who needs a portion or all his capital to pay off debt. In summary, the investor must know who he is money-wise. (Your broker can help you to define who you are, money-wise.)

Because the yellow line and the black line represent a combination of managers (to diversify risk), they cannot feature at the top of the log, but they will not feature at the bottom of the log.

Now let's look at the black line (the Default Portfolio) over the time shown. The Default portfolio held itself above the average all along. Yes, it was higher up at times but closed the gap, of late, still ending 3% above. We see that it fluctuates more than the straight, yellow line, mainly because it consists of fewer and more conservative managers. To understand its behaviour, we must look at the blue line (JSE Allshare index). The black line is more conservative than the yellow line because it owns fewer shares (as represented by the JSE Allshare index). The result of fewer shares is that when the blue line improves its performance (relative to the yellow line), the black line should do worse than the yellow line and the opposite. The black line's behaviour is very consistent with its expectation when one follows the two lines. While the JSE performed poorly, the Default Portfolio performed better than the average prudential balanced portfolio. Since 2019 fortunes turned around for shares, and now the black line moves down, and the blue line moves up. Why did fortunes turn up for shares? Well, following the COVID 19 market crash, reserve banks pumped huge amounts of money into the global market. The US markets reached dizzy heights, as we can see in graph 6.2, and the US market is driving other markets.

Graph 6.2



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I have no doubt that we will see a reversal, and this reversal will happen when central banks stop flooding markets with money or when they start increasing interest rates. Both events are on the table, and the media speculate widely that this may happen soon. One has already seen the US share market getting into a stuttering mode recently, as depicted in graph 6.3 (by courtesy of Capricorn Asset Management Daily Brief 211013). If you have a different expectation of markets, you must choose other investment managers.

Graph 6.3

Conclusion:
Investment markets globally are in a sensitive phase but less so in the developing economies. Shares likely will experience a down-turn, and interest rates will probably go up soon. When interest rates go up, bonds will decline in value, and it means that the investor will lose on his share and his bond investment. For investors with a long-term horizon, it is advisable to invest cautiously rather than aggressively; in other words, rather invest less in shares and spread the investment more widely. One must select individual shares very carefully rather than investing in a share index in the prevailing conditions. One must focus on shares paying high dividends rather than the shares increasing in value. In line with its goal (as described above), the Default portfolio is positioned well, in my opinion, as it only holds 47% in shares compared to the average prudential balanced portfolio's 65%, and it uses managers known for their stock-picking skills. The Default portfolio is not the right option for all fund members but for most fund members. Those with a different expectation of global financial markets and a shorter investment horizon must not use the Default portfolio.