Volume 17 No. 10
October 2021

# Benchmark Retirement Fund

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 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

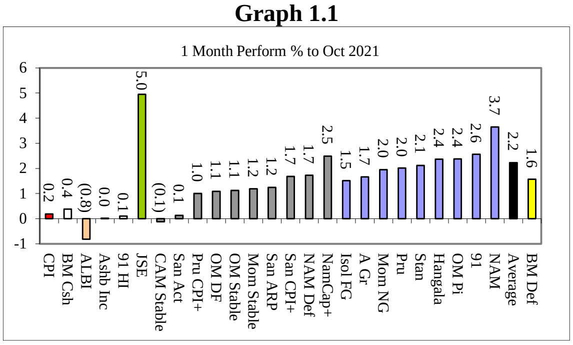
In October 2021, the average prudential balanced portfolio returned 2.2% (September 2021: -0.4%). The top performer is NAM Coronation Balanced Plus Fund with 3.7%, while Investment Solutions Balanced Growth Fund with 1.5% takes the bottom spot. For the 3-months Old Mutual Pinnacle Profile Growth Fund takes the top spot, outperforming the 'average' by roughly 1.5%. Hangala Prescient Absolute Balanced Fund underperformed the 'average' by 2.1% 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**.

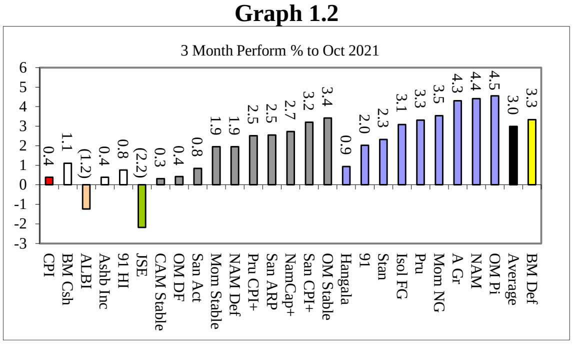
Below is the legend to the abbreviations reflected on the graphs:

| | |
|---|---|
| **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) |

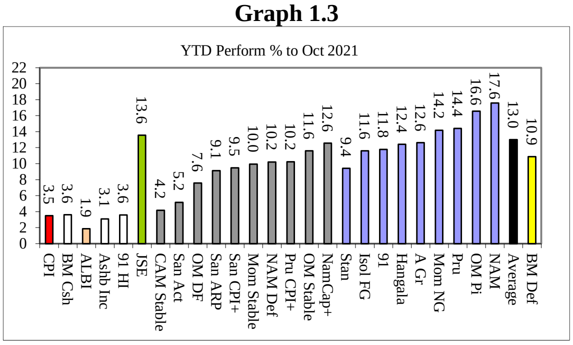
**Graph 1.1**



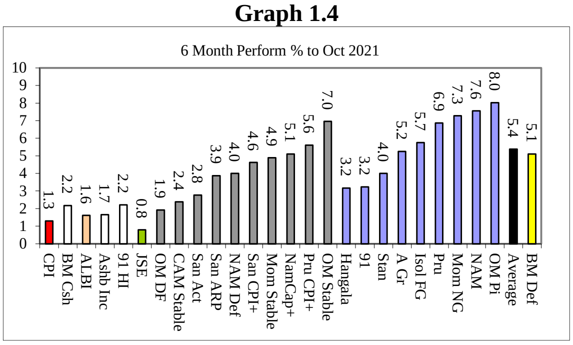

**Graph 1.2**




**Graph 1.3**




**Graph 1.4**



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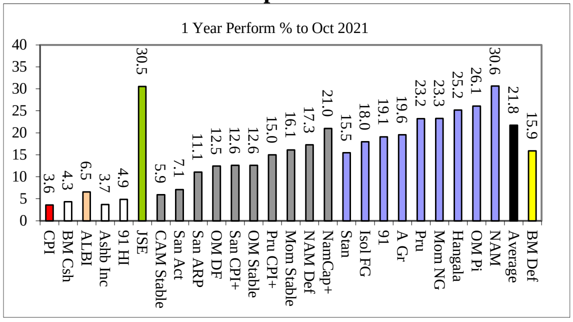
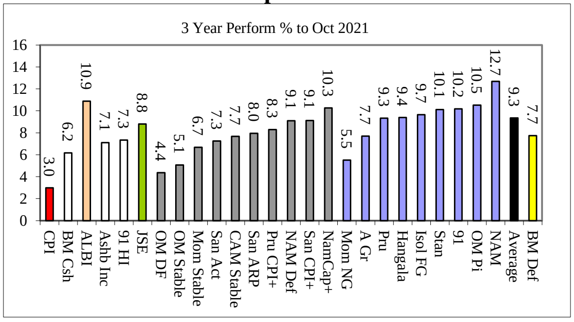
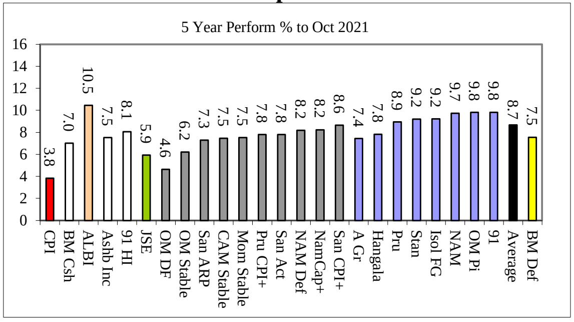
### Graph 1.5



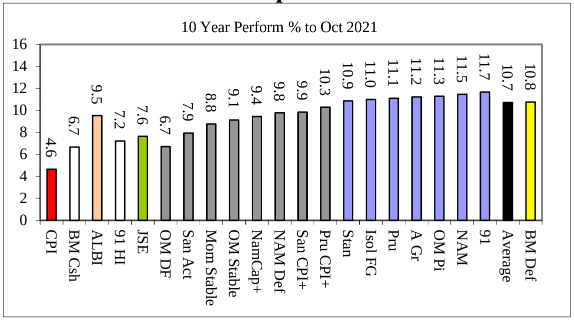

### Graph 1.6



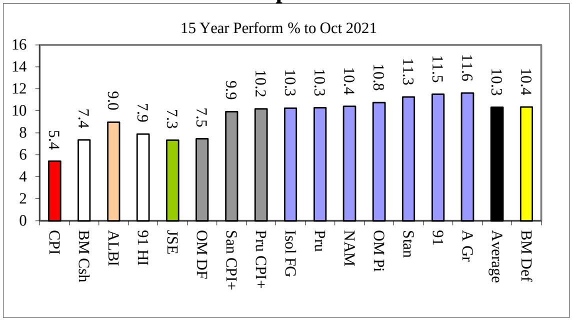

### Graph 1.7



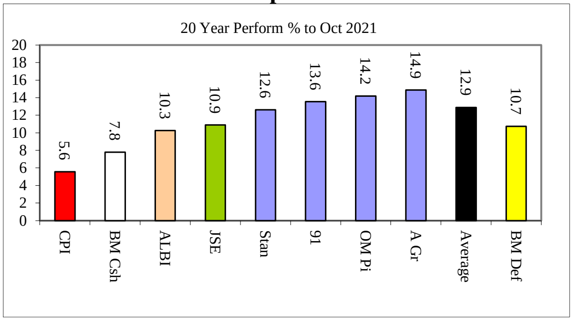

### Graph 1.8



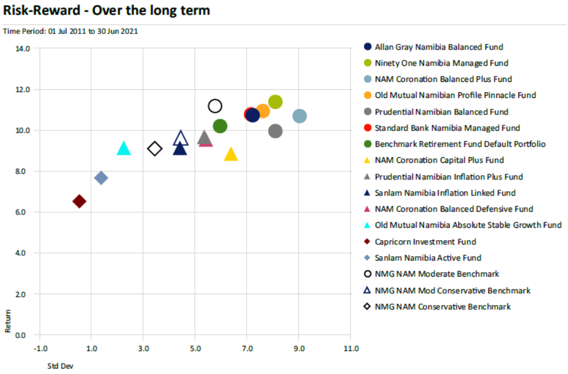

### Graph 1.9

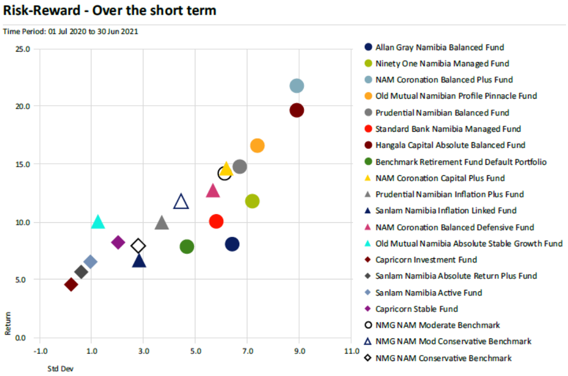



### Graph 1.10




### Risk/ Return



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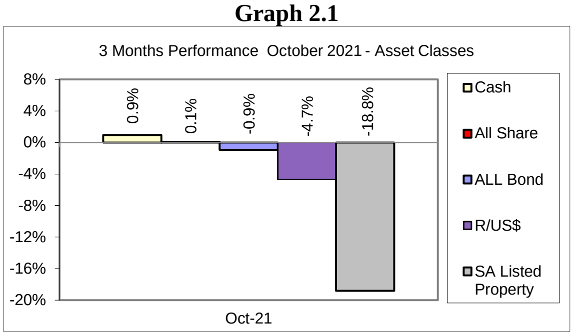
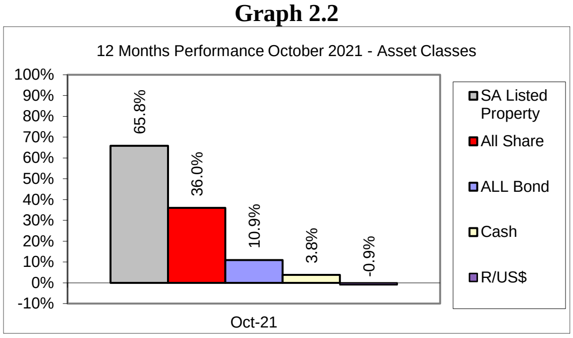
## 2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

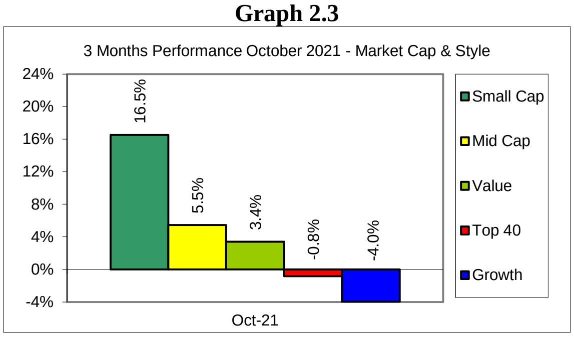
**Graph 2.1**



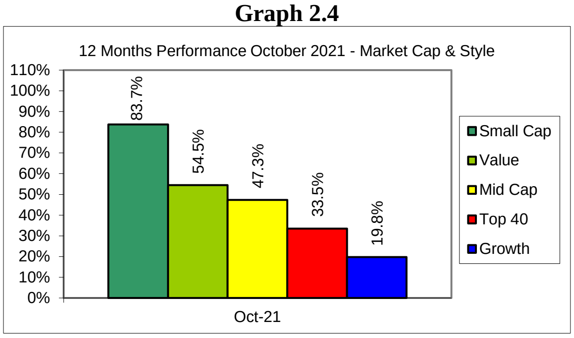

**Graph 2.2**



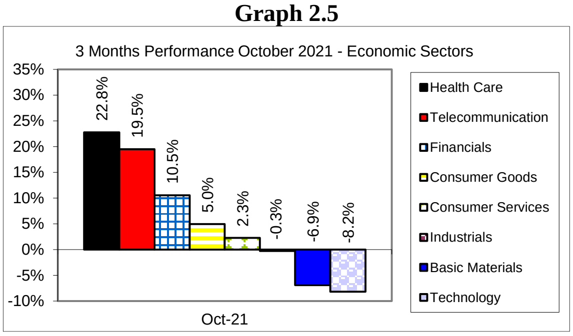

**Graph 2.3**



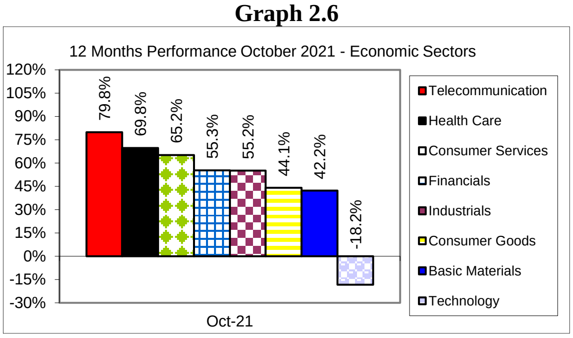

**Graph 2.4**



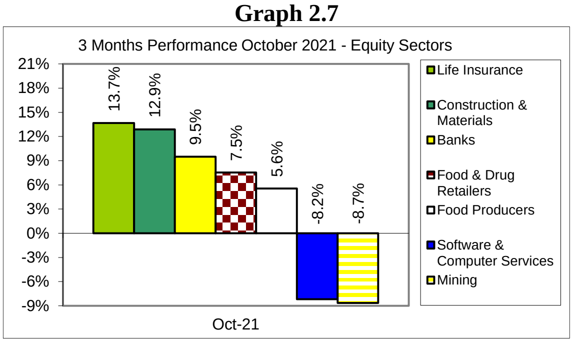

**Graph 2.5**



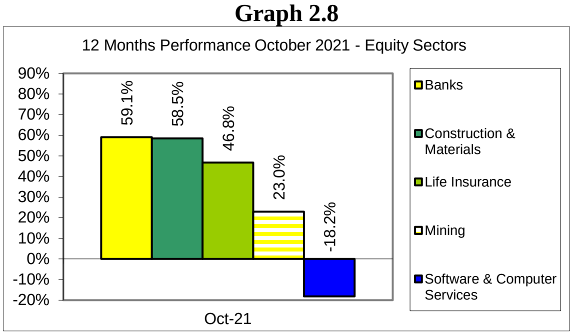

**Graph 2.6**




**Graph 2.7**




**Graph 2.8**



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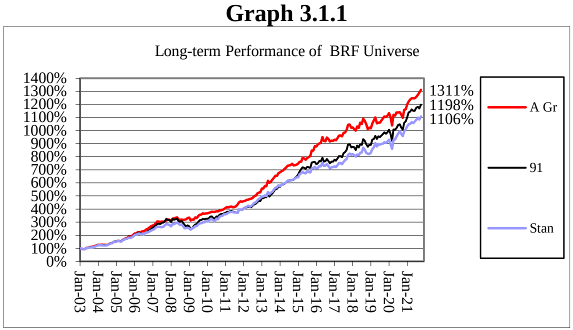
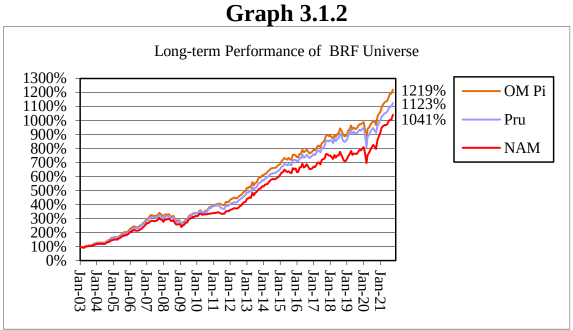
## 3. Portfolio Performance Analysis

### 3.1 Cumulative performance of prudential balanced portfolios

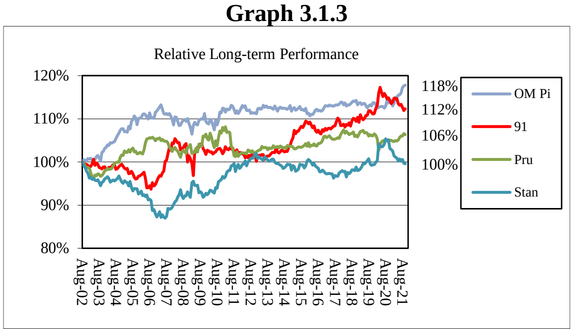
**Graph 3.1.1**



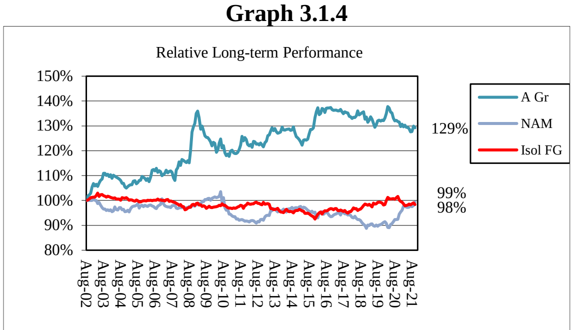

**Graph 3.1.2**



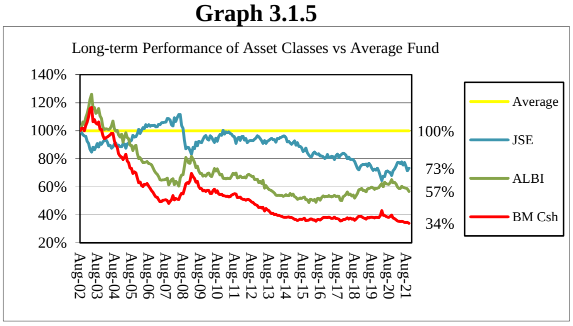

**Graph 3.1.3**




**Graph 3.1.4**

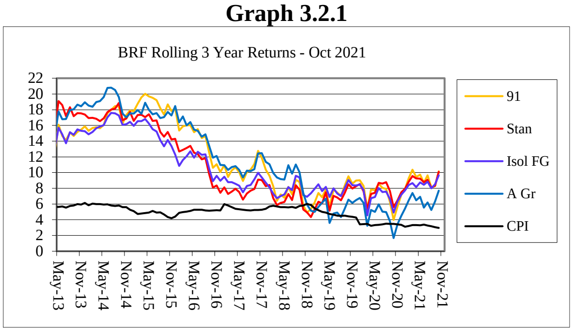



**Graph 3.1.5**

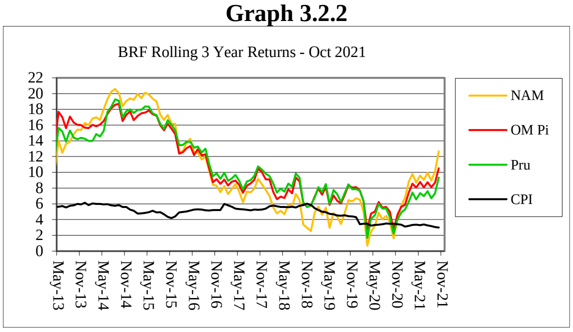



### 3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

**Graph 3.2.1**

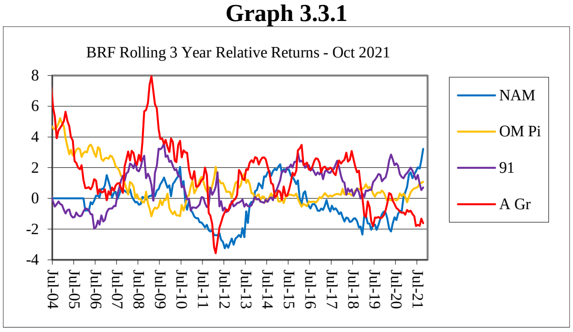



**Graph 3.2.2**




### 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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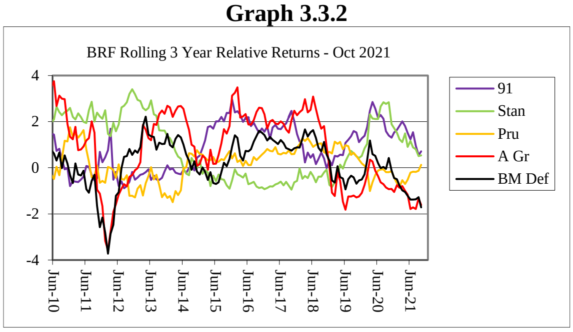
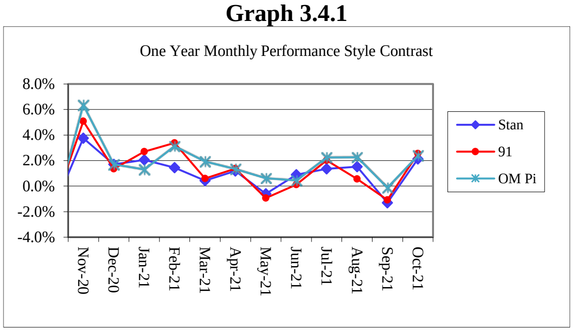
**Graph 3.3.2**

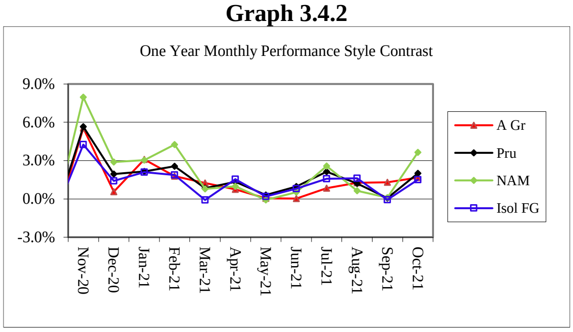



### 3.4 Monthly performance of prudential balanced portfolios

**Graph 3.4.1**

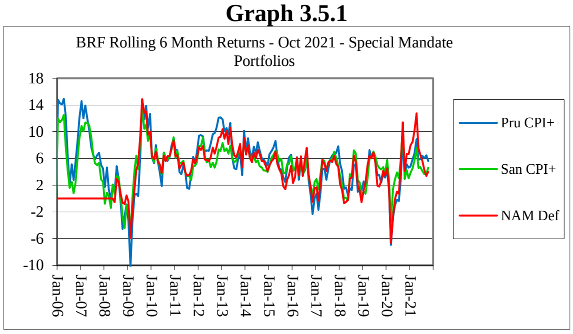



**Graph 3.4.2**

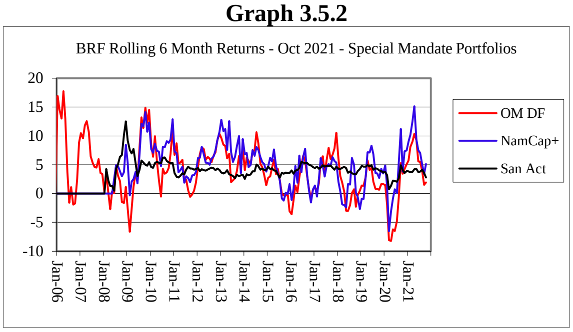



### 3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

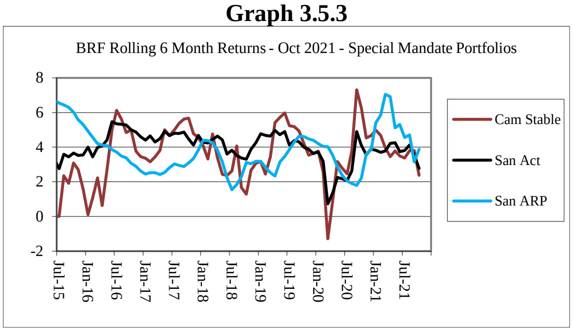
**Graph 3.5.1**



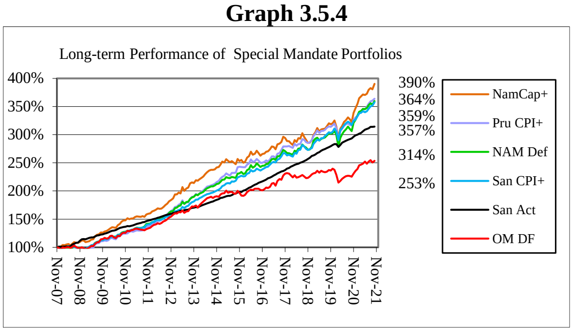

**Graph 3.5.2**




**Graph 3.5.3**

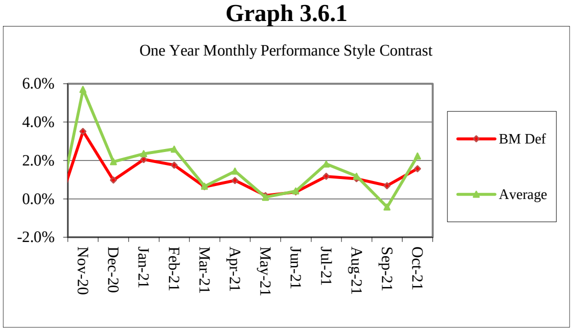



**Graph 3.5.4**




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

**Graph 3.6.1**



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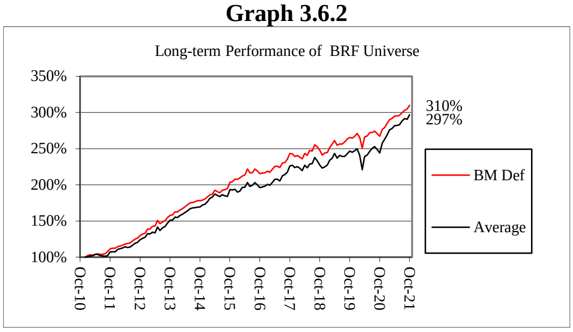
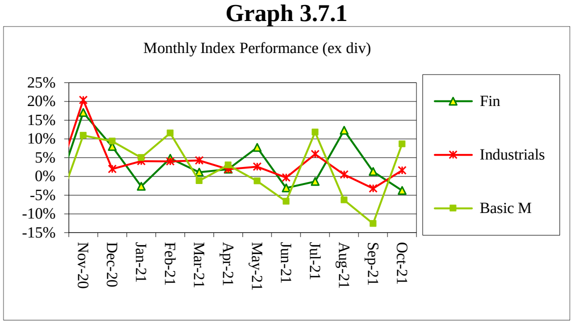
**Graph 3.6.2**

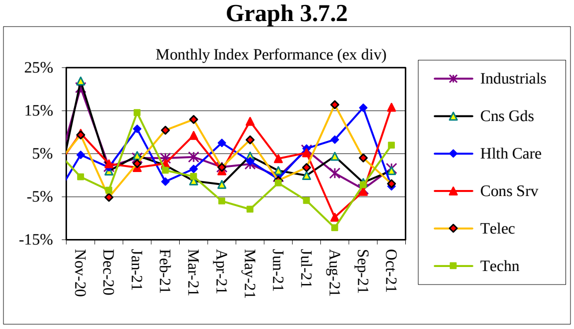



### 3.7 One-year monthly performance of key indices (excluding dividends)

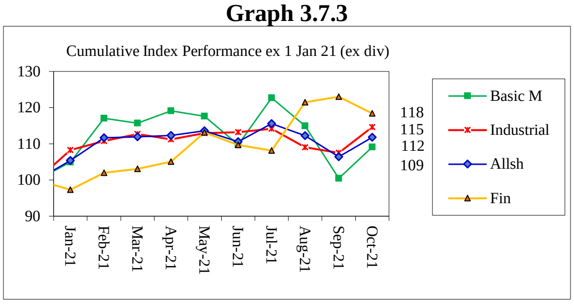
**Graph 3.7.1**



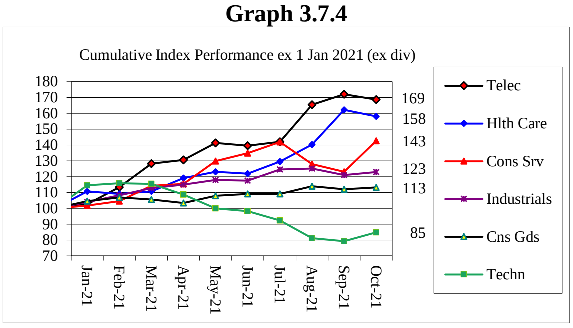

**Graph 3.7.2**




**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. | 7.5 | 8.7 |
| 5-year real return - % p.a. | 3.7 | 4.9 |
| Equity exposure - % of portfolio (qtr end June 2021) | 47.1 | 64.8 |
| Cumulative return ex Jan 2011 | 209.8 | 297.0 |
| 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 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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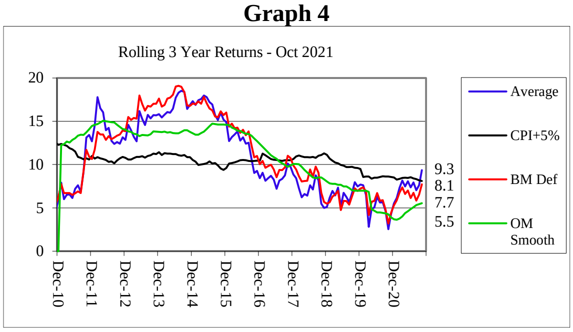
**Table 4.2**

| Measure | Money Market | Default Portf | Average Prud Bal |
|---|---|---|---|
| Worst annual performance | 6.2% | 3.2% | 2.5% |
| Best annual performance | 8.2% | 7.7% | 9.5% |
| 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 | 7.5% | 6.1% | 6.4% |

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

**Graph 4**

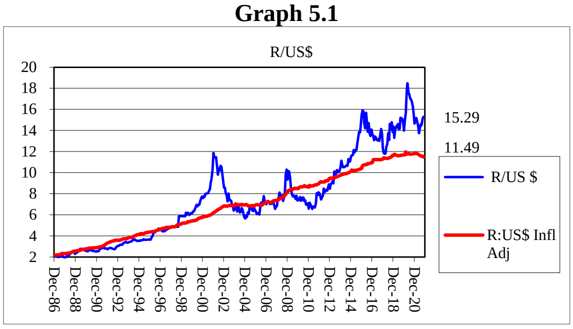



**Graph 4** measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio 3-year return to end October was 7.7%, the average was 9.3% vs CPI plus 5% currently on 8.1%.

### 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 11.49 to the US Dollar while it actually stood at 15.29 at the end of October. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

**Graph 5.1**

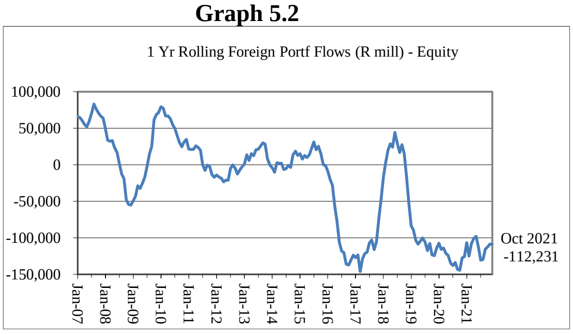



The Rand weakened by 1.26% in October with net foreign investment outflows from bonds and equities of R41.4 bn. Over the past 12 months the Rand strengthened by 5.84%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 192.9 bn (outflow of R 187.7 bn to end of September 2021).

Since the beginning of 2006, total net foreign portfolio outflows amounted to R 310.1 bn (September R 268.7 bn outflows).

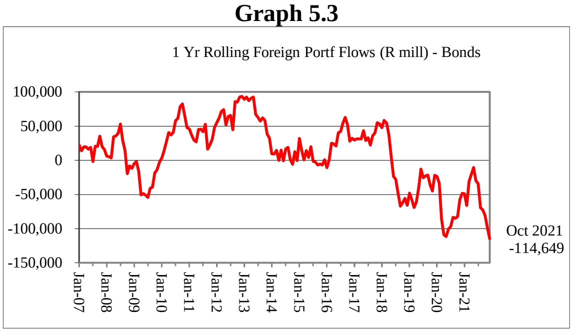
**Graph 5.2** reflects a net outflow of capital from South African equities on a rolling one-year basis, of R 112.2 bn at the end of October (outflow of R 115.4 bn year-on-year to end September). The month of October experienced a net outflow of R 20.1 bn. Since the beginning of 2006, foreign net investment outflows from equities amounts to R 392.1 bn (end September net investment outflow of R 372.0 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 80.7 bn over the past 12 months to end of October (outflow of R 72.3 bn over the 12 months to end of September). The month of October experienced a net outflow of R 21.3 bn. Since the beginning of 2006, foreign net investment in bonds amounts to R 82.1 bn (to September R 103.3 bn).

**Graph 5.3**




**Graphs 5.4** reflects the movement of the JSE since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.7% 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

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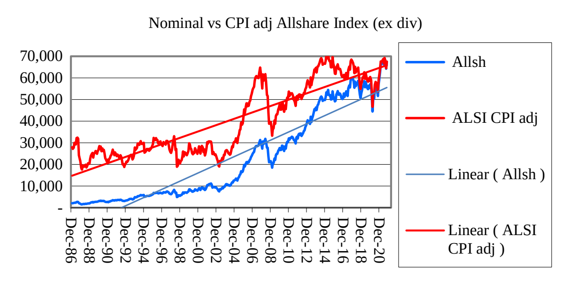
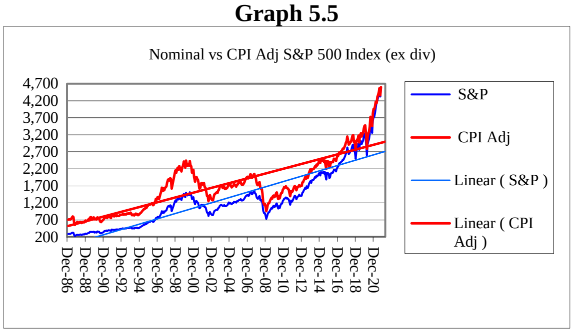
of 3.0% p.a. over this period, excluding dividends, or around 6.1% including dividends.

**Graph 5.4**



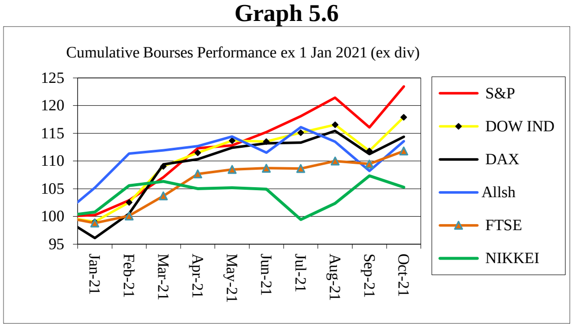

**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and in inflation adjusted terms, with trend lines for these. Since January 1987 the S&P500 Index has grown by 8.4% per annum, over this period of 34 years. US inflation over this period was 2.7%. This is equivalent 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**



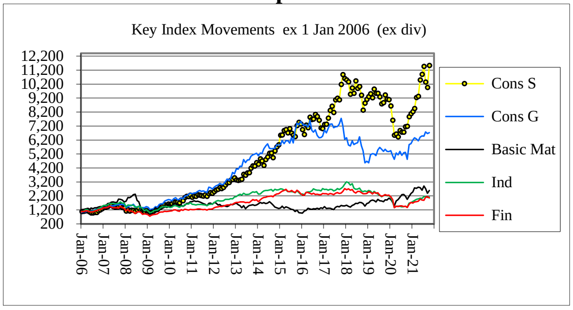

**Graph 5.6** provides an interesting overview of some of the major global share indices, showing up the S&P500 as the top performing index since the start of 2021.

**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: 16.7%; Consumer Goods: 12.8%; Basic Materials: 6.2%; Industrials: 4.9% and Financials: 4.7%.

**Graph 5.7**




## 6. The folly of point-in-time performance measurement

By Tilman Friedrich

Interestingly, most investment performance reports present the performance by way of bar graphs. These bar graphs show the point-in-time investment performance, which is meaningless. It is like looking out of the window and concluding that Namibia must have a very humid climate because it happened to rain at that time. Weather bureaus usually present charts as line charts, or if they are bar charts, each bar will represent a month or a year over a specific time. You cannot judge investment managers' returns by looking at bar chart performance tables. The folly of looking at bar charts becomes more pronounced when markets are very volatile.

To illustrate my point, let's look at the one-year bar chart performance table for April 2020 and April 2021. For the twelve months to March 2020, shares (JSE Allshare Index) produced a negative return of 22.1%. For the following 12 months to March 2021, shares returned 49.4%!

Graph 6.1 shows the Benchmark Default portfolio being the second-best performing prudential balanced portfolio (blue bars) with a negative return of 6.2%, for the year to 31 March 2020, compared to the negative 6.0% of the best performing prudential balanced portfolio (Stanlib). Graph 6.2 now shows the Benchmark Default portfolio being the worst-performing prudential balanced portfolio with a return of 16.6%, for the year to 31 March 2021, compared to the 37.7% of the best performing prudential balanced portfolio (NAM). Stanlib, top-performer to March 2020, dropped to below-average performance to March 2021, while NAM rose from below-average performance to March 2020 to being top-performer to March 2021. As you can see, fortunes can change drastically over a short time.

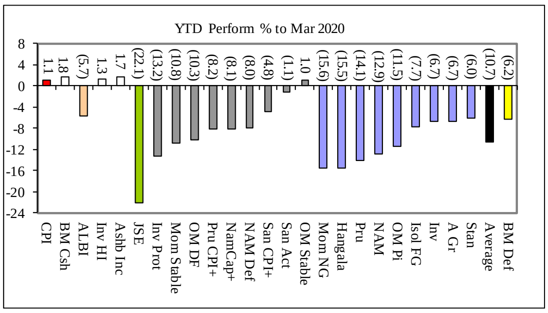
Graph 6.1

# Benchmark Retirement Fund

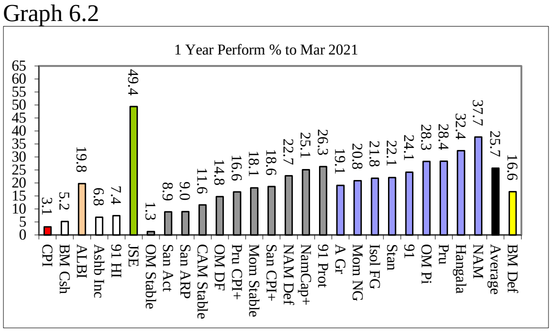
## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2021

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.



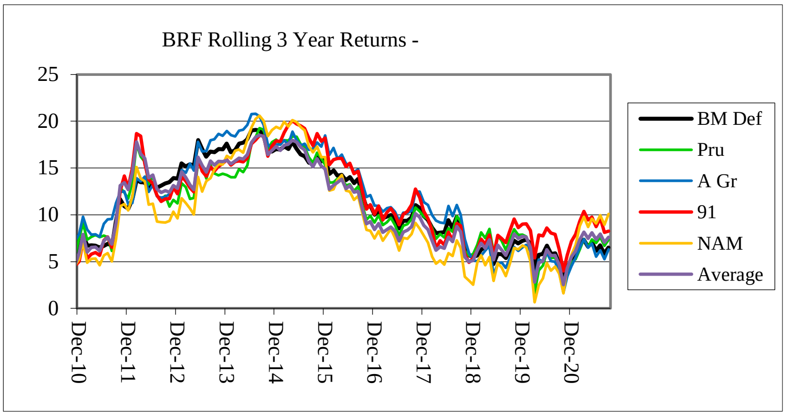

Graph 6.2




Why did the Benchmark Default Portfolio's fortune change so drastically? Its investment in shares was 47% in March 2020, compared to the average prudential balanced portfolio's 62%. By March 2021, these proportions did not change much to 45% and 65%, respectively. It demonstrates that strong performance of shares (March 2021) disadvantages the Default Portfolio as it is currently structured. Poor performance of shares (March 2020) advantages it compared to the average prudential balanced portfolio.

Graph 6.3 reflects rolling three-year returns, and it is a much more insightful reflection of the returns of various portfolios. Each point on a portfolio's performance line represents the average annual performance of the portfolio to that point for the preceding three years. The reader can now trace every portfolio from left to right. He will see that none of the portfolios was above all the other portfolios, and none was below all the others over the period. Tracing the black line representing the Default portfolio, the reader will see that it lies pretty much in the middle of all the portfolios shown

Graph 6.2




### Conclusion

The Benchmark Retirement Fund offers a broad portfolio range, from low volatility to high volatility risk and from high inflation to low inflation risk. The Benchmark Cash portfolio offers the lowest volatility but will not likely beat inflation, and the opposite applies to the prudential balanced portfolios. The Default Portfolio aims to serve the bulk of the Fund's membership appropriately. The typical member profile for the Default portfolio is an employee in the age bracket of 35 to 45 years old who still has at least twenty years until retirement. The Default Portfolio must perform in the middle of the prudential balanced portfolios. Neither the Default Portfolio nor any other portfolio can serve everyone's needs. If one presents the needs of Fund members on a graph, the graph will be a bell curve where the highest number of common needs form the bulge of the bell, and the fewer, unique needs sit on the two edges of the bell. Members with special needs must have a clear idea of how their needs differ from the bulk of the Fund's membership and choose a portfolio or portfolios that serve their needs better than the Default Portfolio. When one plans to change one's portfolios, one must also know what one expects of the investment markets in the future to avoid making a change at the wrong time. Currently, fiscal and monetary policy across the world distorts investment markets. Share markets are high, and interest rates are low. Both are not sustainable, and a correction will happen. The question is whether the correction will occur in a controlled and gradual fashion or not. Fiscal and monetary authorities are already taking gradual steps towards a correction, and we must hope that investment markets will not experience a hard landing.