Volume 17 No. 11
November 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 2021

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

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1. Review of Portfolio Performance

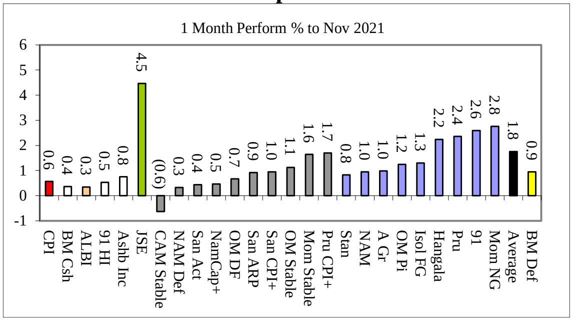
In November 2021, the average prudential balanced portfolio returned 1.8% (October 2021: 2.2%). The top performer is Momentum Namibia Growth Fund with 2.8%, while Stanlib Managed Fund with 0.8% takes the bottom spot. For the 3-months NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 1.1%. Stanlib Managed Fund underperformed the 'average' by 2.0% 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**.

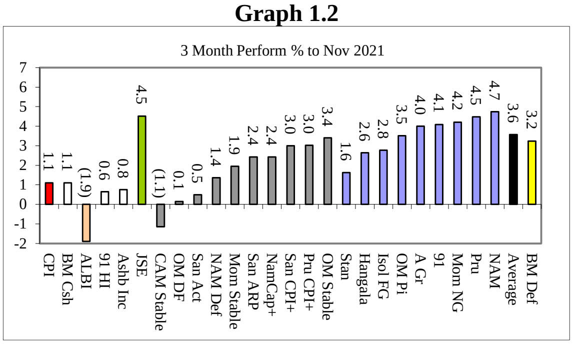
Below is the legend to the abbreviations reflected on the graphs:

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)

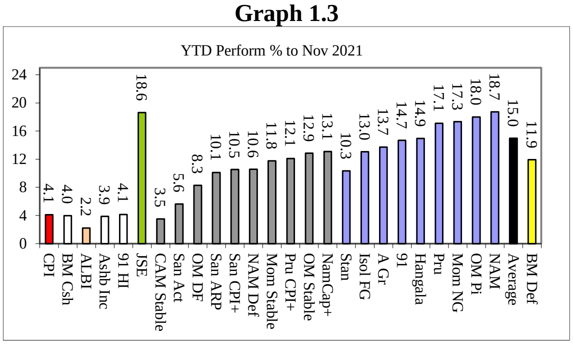
Graph 1.1



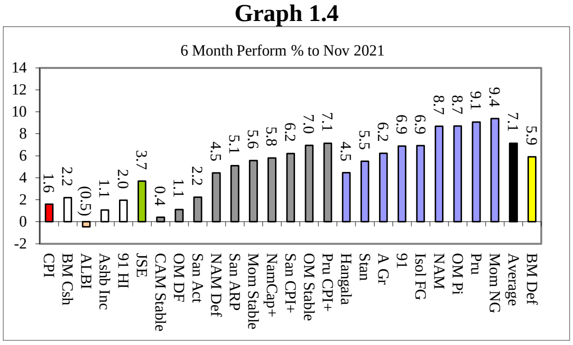
Graph 1.2



Graph 1.3



Graph 1.4



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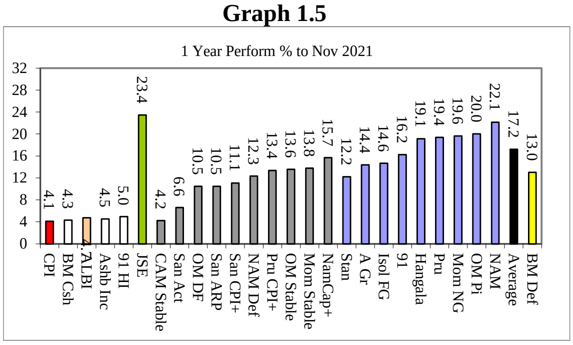
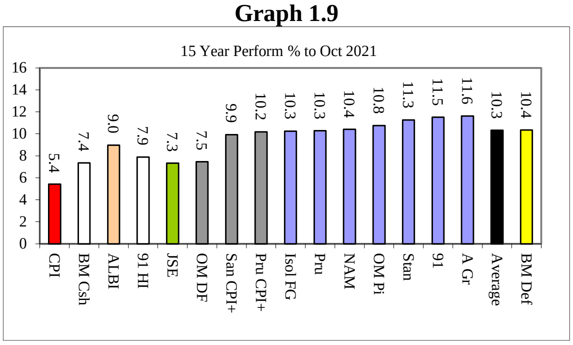
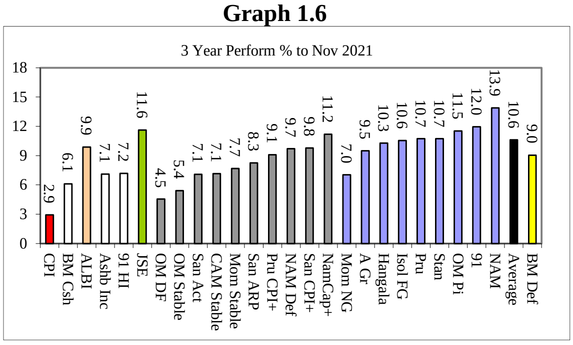
Graph 1.5



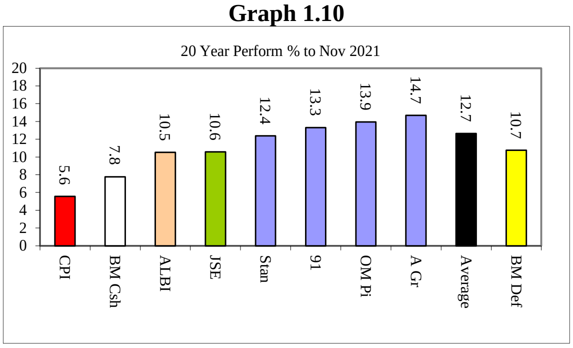
Graph 1.9



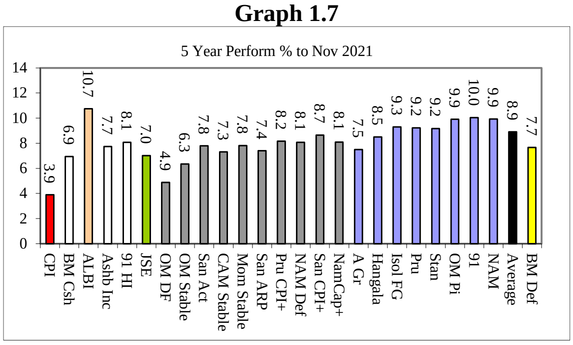
Graph 1.6



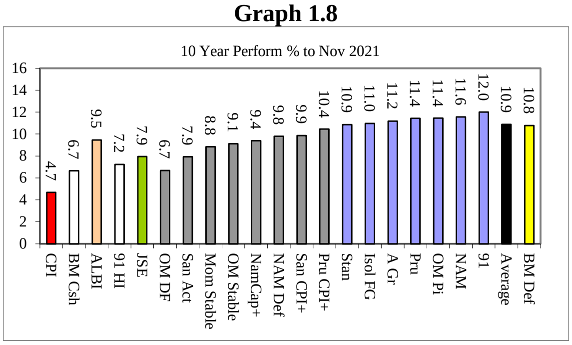
Graph 1.10



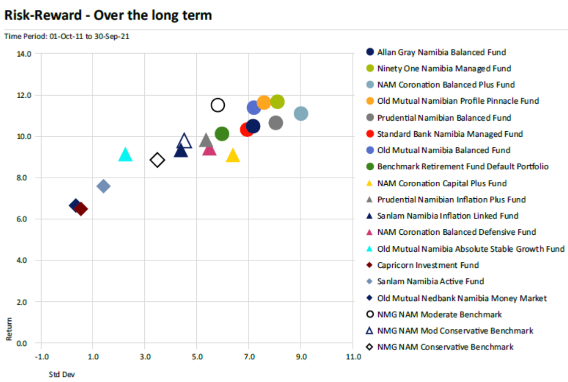
Graph 1.7

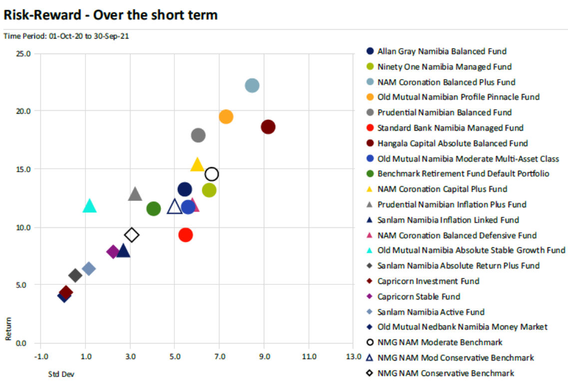


Graph 1.8



Risk/ Return





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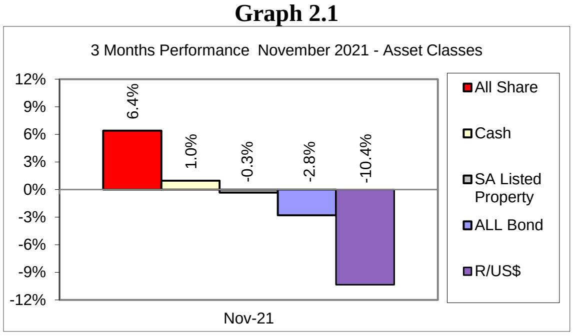
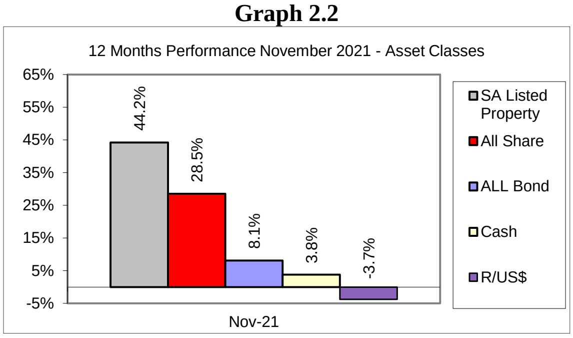
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

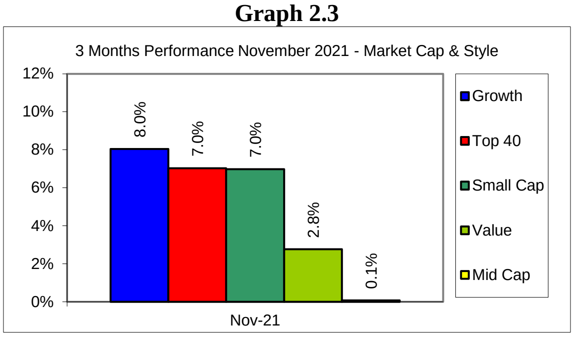
Graph 2.1



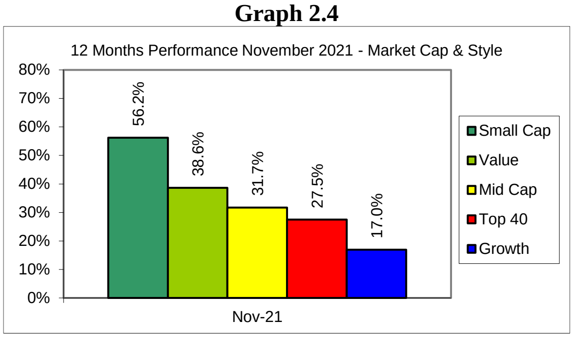
Graph 2.2



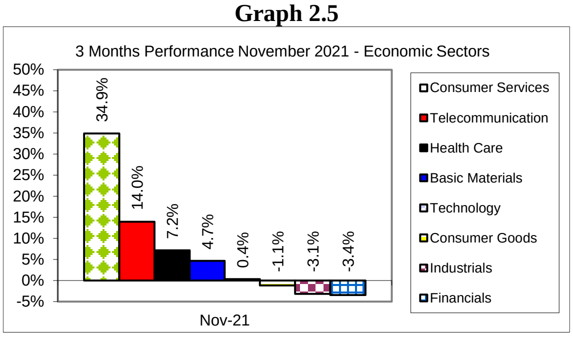
Graph 2.3



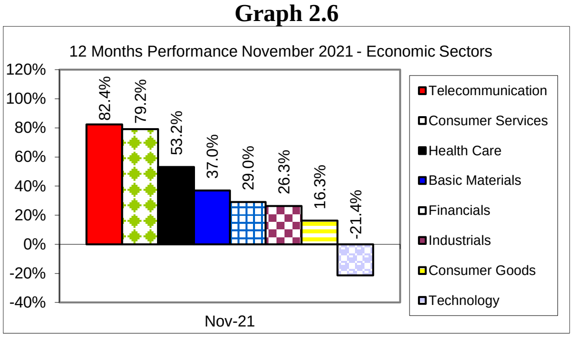
Graph 2.4



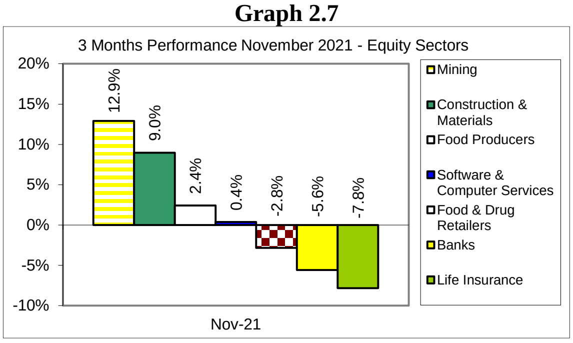
Graph 2.5



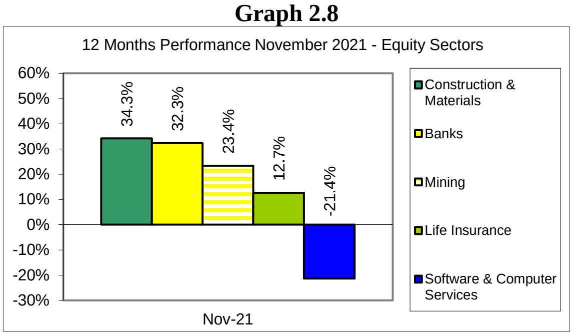
Graph 2.6



Graph 2.7



Graph 2.8



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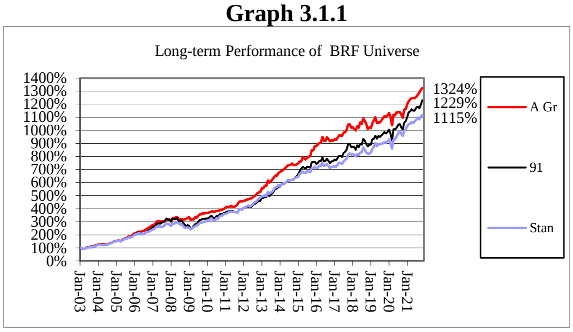
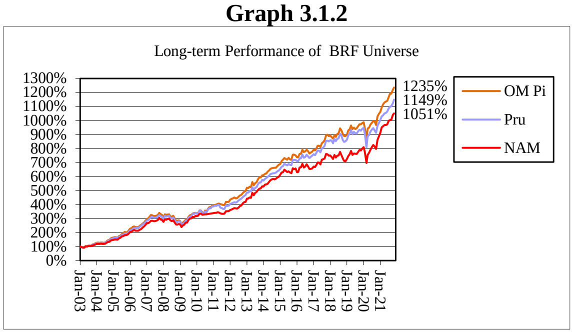
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

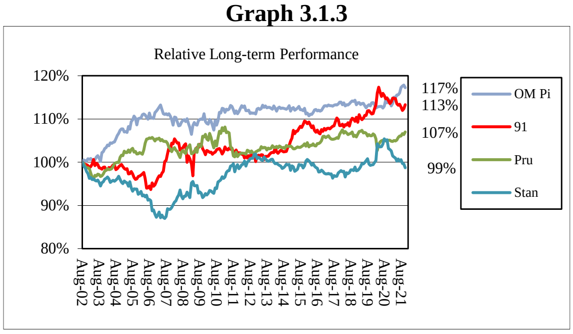
Graph 3.1.1



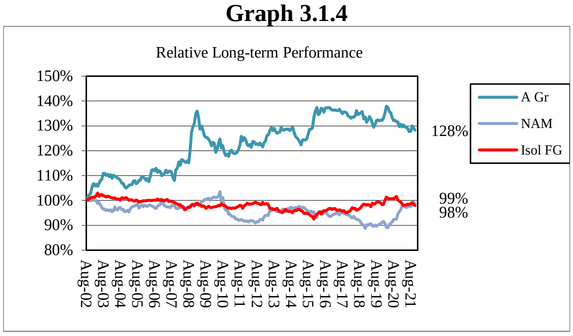
Graph 3.1.2



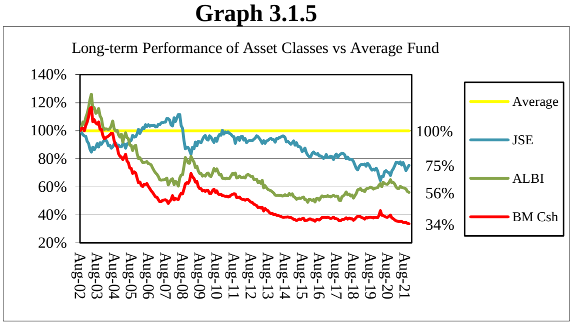
Graph 3.1.3



Graph 3.1.4

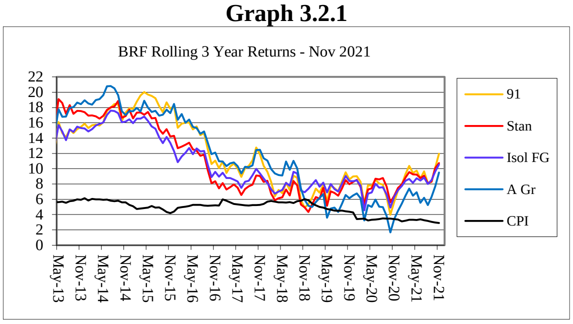


Graph 3.1.5

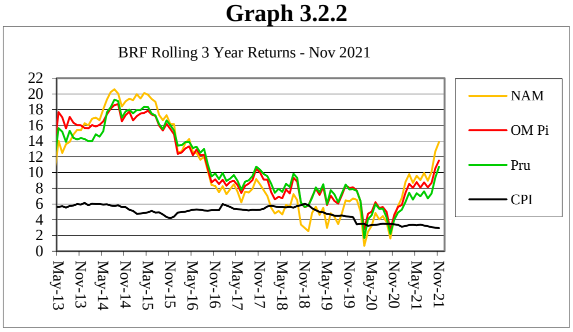


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

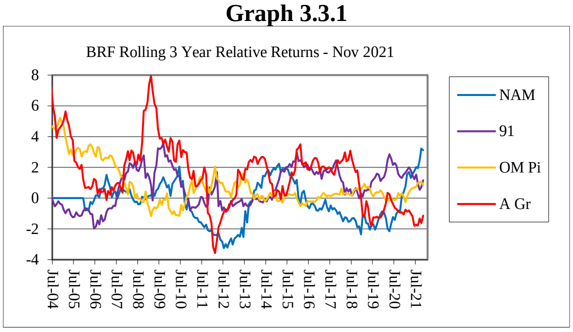


Graph 3.2.2



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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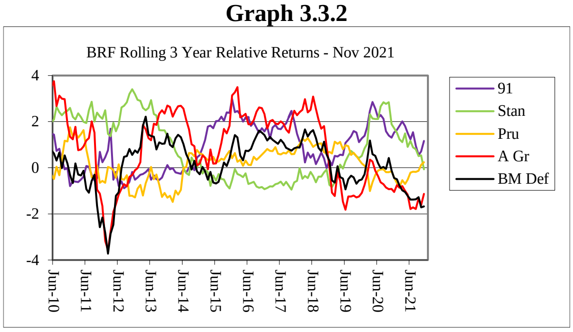
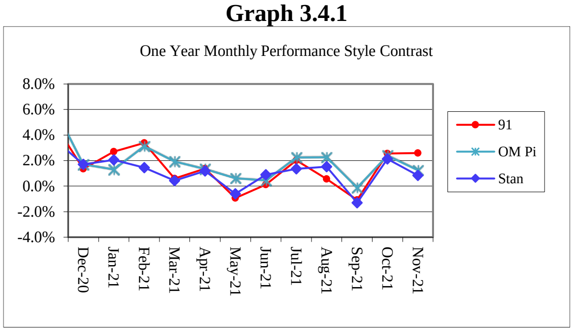
Graph 3.3.2

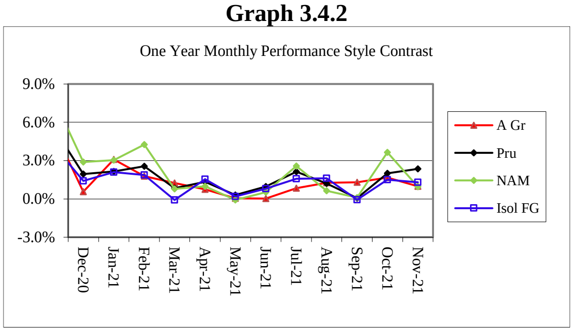


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

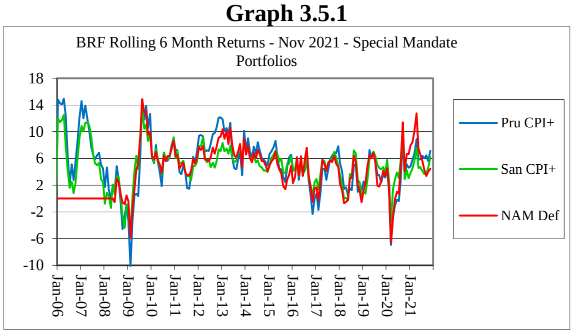


Graph 3.4.2

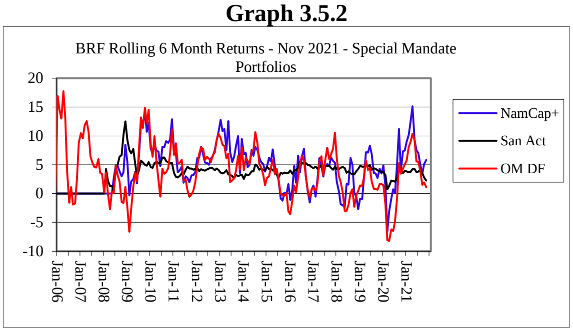


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

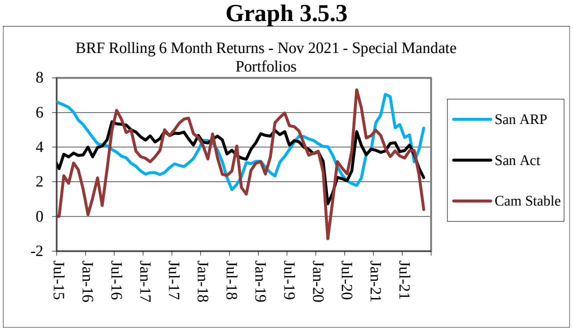
Graph 3.5.1



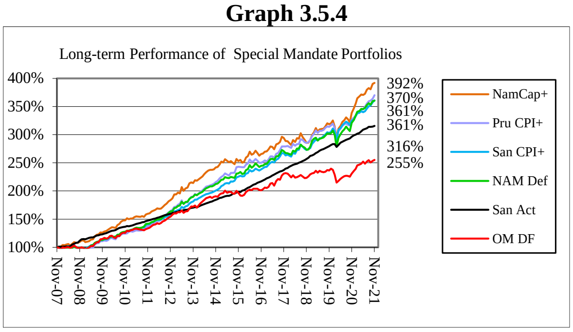
Graph 3.5.2



Graph 3.5.3

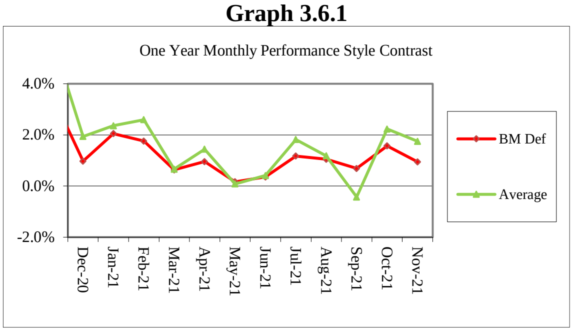


Graph 3.5.4



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

Graph 3.6.1



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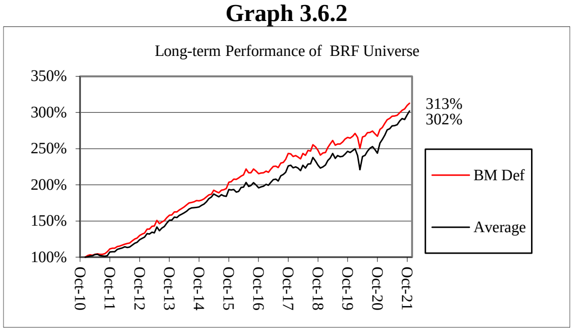
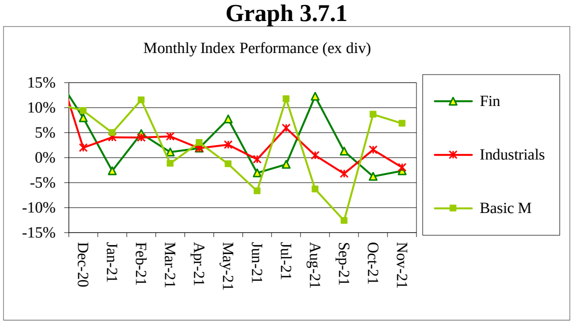
Graph 3.6.2

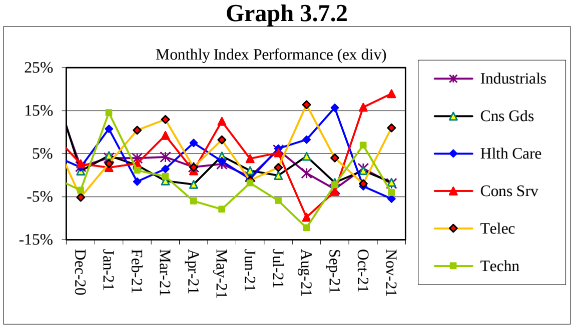


3.7 One-year monthly performance of key indices (excluding dividends)

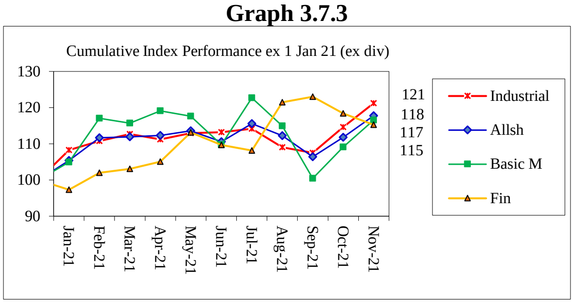
Graph 3.7.1



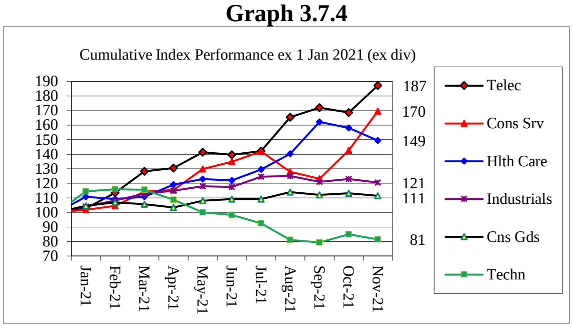
Graph 3.7.2



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.	7.7	8.9
5-year real return - % p.a.	3.8	5.0
Equity exposure - % of portfolio (qtr end June 2021)	46.2	64.5
Cumulative return ex Jan 2011	212.7	202.0
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. Please note that the default portfolio of late underperformed the average prudential balanced portfolio, although still ahead since January 2011, when the trustees restructured by raising the equity exposure. It still has a significantly more conservative structure with an equity exposure of only 46% 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 underperform the average prudential balanced portfolio. Over the past 12 months, due to the further significant increase in central banks' bond-buying activities, equities have performed well. Property outperformed equities, though, recovering from its severe slump due to COVID. Of course, the central banks' interventions distort financial markets cause significant volatility and artificially increased valuations of equities, in particular.

One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

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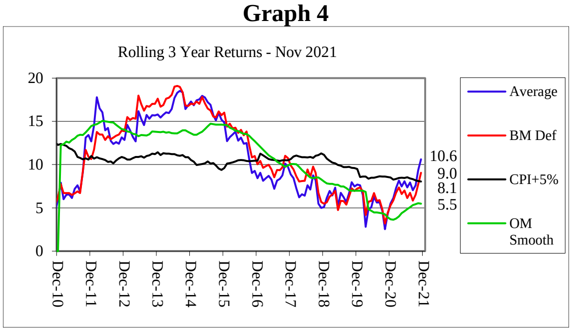
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.1%	3.2%	2.5%
Best annual performance	8.2%	9.1%	10.6%
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 three portfolios over the three years from Deceomber 2018 to November 2021. These statistics show up the performance volatility of these three risk profiles.

Graph 4

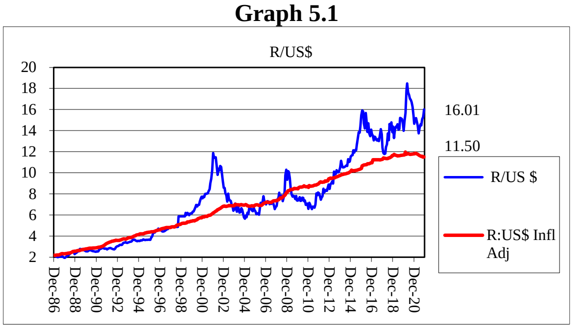


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of November was 9.0%, the average was 10.6% 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's fair value by our measure is 11.50 to the US Dollar while it stood at 16.01 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

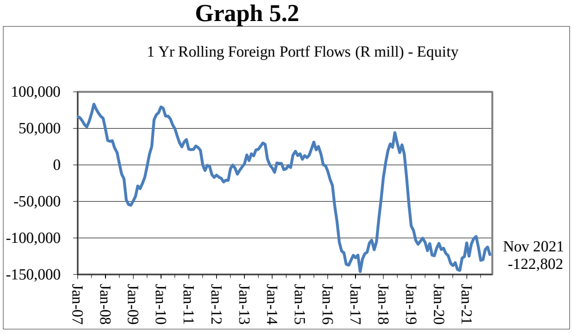


The Rand weakened by 4.68% in November with net foreign investment outflows from bonds and equities of R49.7 bn. Over the past 12 months, the Rand declined by 3.74%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 256.7 bn (outflow of R 192.9 bn to the end of October 2021).

Since 2006, total net foreign portfolio outflows amounted to R 359.8 bn (October R 310.1 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 122.8 bn at the end of November (outflow of R 112.2 bn year-on-year to end October). The month of November experienced a net outflow of R 14.2 bn. Since 2006, foreign net investment outflows from equities amounted to R 406.3 bn (end October net investment outflow of R 392.1 bn). It represents roughly 2.1% 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 133.9 bn over the past 12 months to end of November (outflow of R 80.7 bn over the 12 months to end of October). The month of November experienced a net outflow of R 35.6 bn. Since 2006, foreign net investment in bonds amounted to R 46.5 bn (to October R 82.1 bn).

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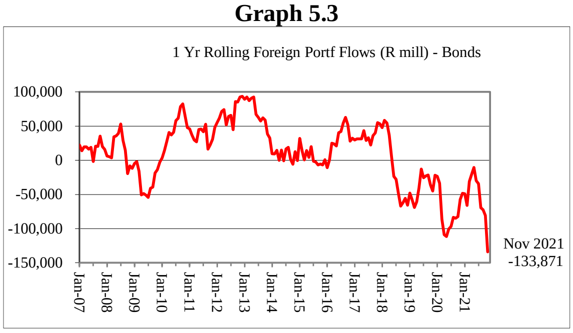
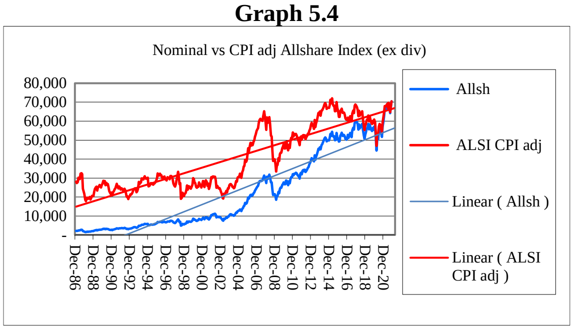
Graph 5.3



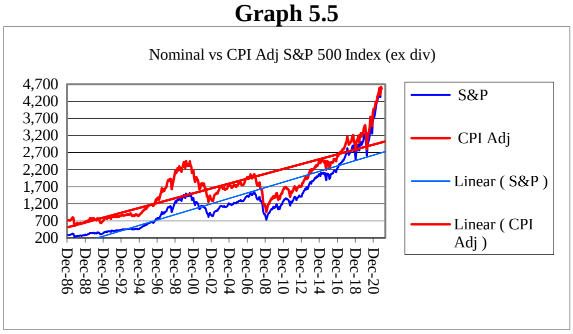
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.8% per year since January 1987, excluding dividends of 3.1%. Namibian inflation over these 34 years was 7.7% per year. It is equivalent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

Graph 5.4



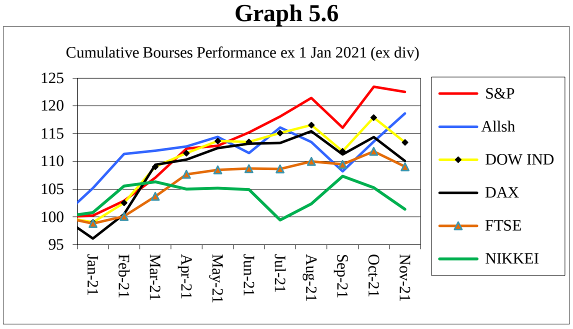
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 34 years since January 1987, the S&P500 Index grew by 8.4% per annum. US inflation over this period was 2.7%. It represents growth in real terms of 5.7% p.a. over 34 years, excluding dividends, or around 7.9% including dividends.

Graph 5.5



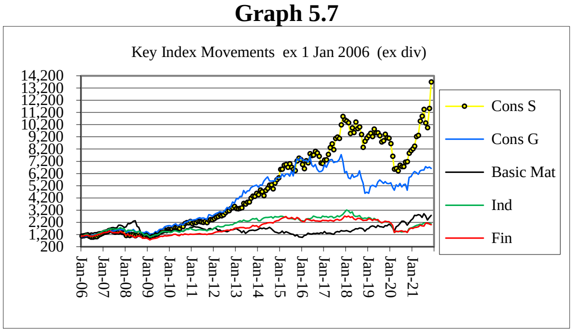
Graph 5.6 provides an interesting overview of some of the big global share indices, showing the S&P500 as the top-performing index since the start of 2021.

Graph 5.6



Graph 5.7 provides an overview of the relative movement of the key equity sectors on the FTSE/JSE since December 2005, when the JSE introduced these indices. From this graph, the investor can deduce which sectors offer greater value and lower value based on fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 17.9%; Consumer Goods: 12.6%; Basic Materials: 6.6%; Industrials: 4.7% and Financials: 4.5%.

Graph 5.7



6. Do not expect the Default Portfolio to outperform

By Tilman Friedrich

The Benchmark Default Portfolio does not aim to outperform the average of the prudential balanced portfolios over the long term. Any long-term outperformance is a coincidence. Yet, since its restructuring at the start of 2010, it beat the average prudential balanced portfolio cumulatively. It was 2.7% ahead of the average at the end of October 2021 after reaching its peak outperformance of 12.4% in March 2020. In March 2020, when COVID hit our markets, the JSE Allshare Index fell 12.8%, from 51,038 to 44,490. In April 2020, the JSE Allshare Index grew by 13.1%, continuing its trajectory to 70,475 at the end of November 2021.

The Benchmark Default Portfolio can underperform and outperform the average prudential balanced portfolio in the short term. It's currently more conservative structure means that it will likely beat the average prudential balanced portfolio when shares perform poorly, and it will lag it when shares perform strongly. Since the end of March 2021, shares performed strongly, and as a result, the Default Portfolio's cumulative outperformance to the end of March 2021 declined steadily.

Volume 17 No. 11
November 2021

Benchmark Retirement Fund

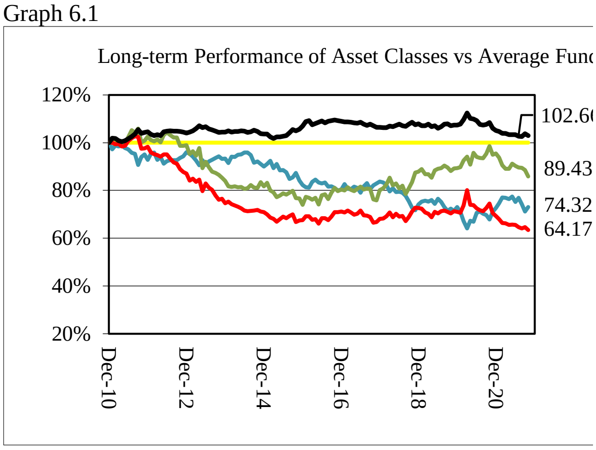
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 2021

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 6.1 illustrates the Default Portfolio's characteristics, as described in the foregoing. The black line in the graph depicts the return of the Default Portfolio relative to the yellow line. The yellow line depicts the average of the prudential balanced portfolios as a constant cumulative return of 100. The blue line (the JSE Allshare Index), the green line (Namibian Allbond Index), and the red line (Namibia Money Market Index) depict their movement relative to the yellow line (average prudential balanced portfolio). As shares are the biggest component of the Default Portfolio and the prudential balanced portfolios, the movement of the JSE Allshare Index has the largest impact on the Default Portfolio's performance relative to the average prudential balanced portfolio's performance.

Graph 6.1



Members who have invested their retirement in the Default Portfolio will wonder whether the black line (the Default Portfolio) will continue moving lower and even below the yellow line? As stated at the outset, it can underperform the yellow line over the short term, particularly when shares do well. So, will shares continue doing well as they did since March 2021? The reason for shares having done well is that central banks pushed lots of money into the financial system and reduced their policy interest rates. An investor now earns very little on interest-bearing investments and sometimes even earns a negative return when considering inflation. The investor can now borrow money very cheaply and invest in shares and other assets, which drives up the price of these assets. Central banks adopted these policies to prop up their economies after the COVID crisis. An economy is in trouble when the consumer stops consuming, and this happens when uncertainty and panic prevail, as we saw when COVID hit us. These central bank policies achieved their objective as high inflation rates in the developed economies indicate.

In response to the strong growth in the inflation rate, the US Federal Reserve has already reduced the monthly amount of money it is pushing into the system as a first step. The ECB is likely to follow. The next step is to start increasing their policy interest rates. Market commentators expect interest rate increases from next year. These central banks' policy changes will likely reduce the return on shares relative to interest-bearing investments. This trend is likely to continue until the risk-adjusted returns of shares and interest-bearing investments reach an equilibrium.

Conclusion

We expect shares not to do as well in the next few years relative to interest-bearing investments, as they did over the past one-and-a-half years. Therefore, the more conservative structure of the Benchmark Default Portfolio should prevent it from dropping below the yellow line (the average prudential balanced portfolio) over any more extended period. Members with a long-term investment horizon should not feel concerned about their investment in the Default Portfolio. Members with a short-term investment horizon of up to five years whose capital is in the Default Portfolio should consider investing in other portfolios, depending on how they plan to use their retirement capital at the end of the short-term horizon. We do point out, though, your retirement in the next five years does not necessarily mean that you have a short-term horizon as you may want to arrange a pension with your retirement capital that is payable for the rest of your life! We advise that you should consult your adviser.