Volume 17 No. 12
December 2021

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 DECEMBER 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

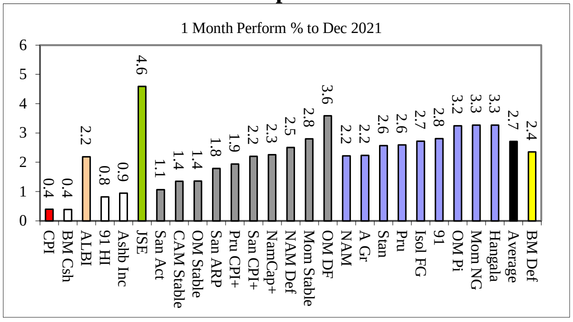
In December 2021, the average prudential balanced portfolio returned 1.8% (November 2021: 1.8%). The top performer is Hangala Prescient Absolute Balanced Fund with 3.3%, while NAM Coronation Balanced Plus Fund with 2.2% takes the bottom spot. For the 3-months Momentum Namibia Growth Plus Fund takes the top spot, outperforming the 'average' by roughly 1.4%. Allan Gray Balanced Fund underperformed the 'average' by 1.8% 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**.

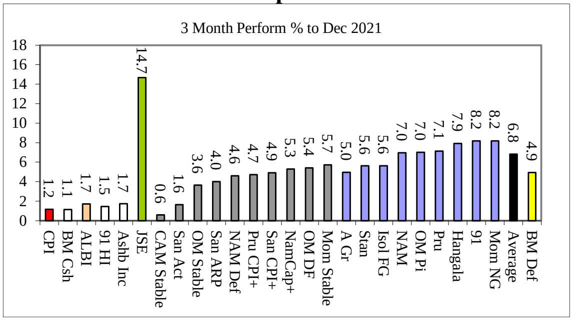
Below is the legend to the abbreviations reflected on the graphs:

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)

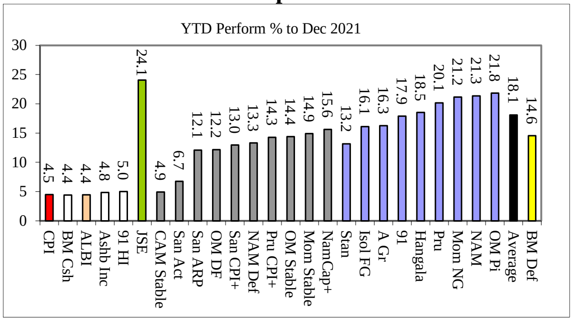
Graph 1.1



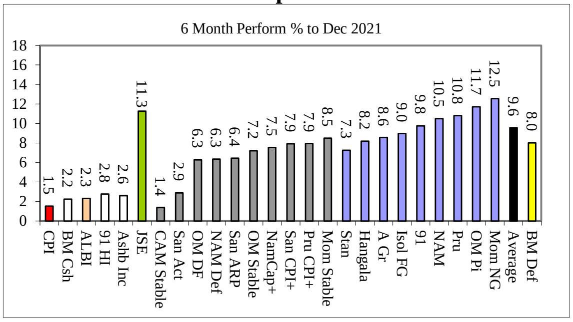
Graph 1.2



Graph 1.3



Graph 1.4



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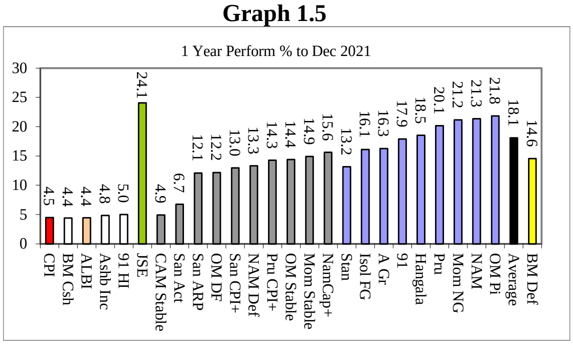
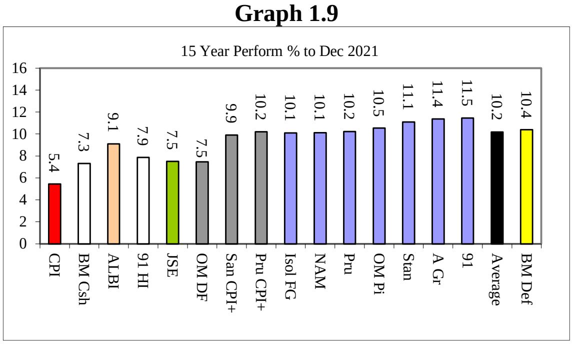
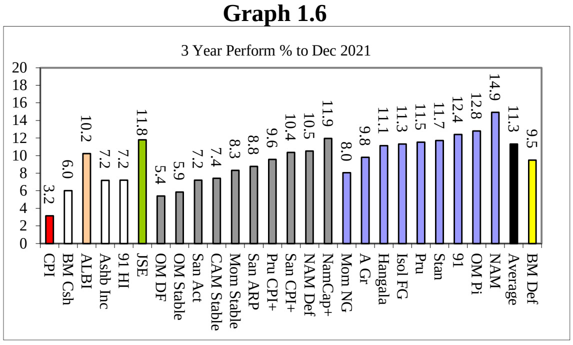
Graph 1.5



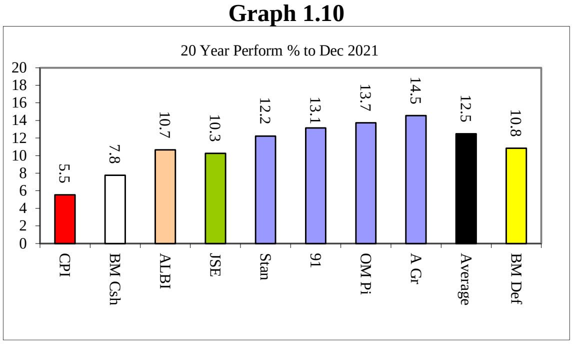
Graph 1.9



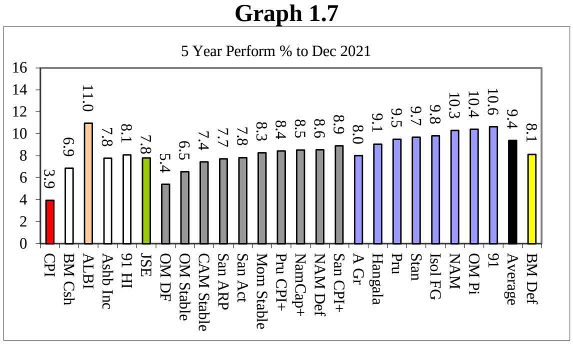
Graph 1.6



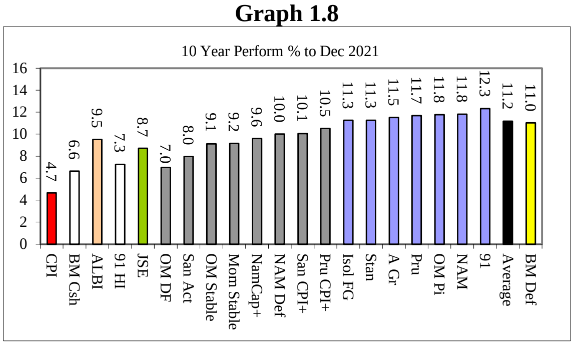
Graph 1.10



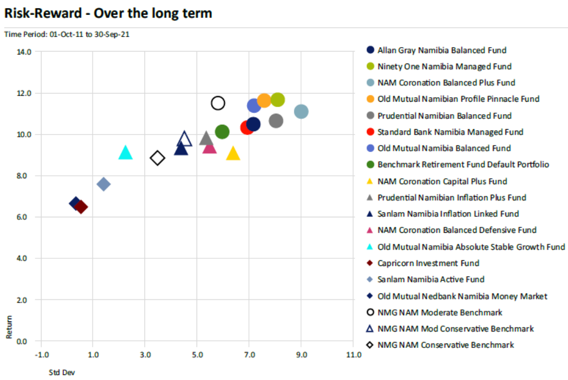
Graph 1.7

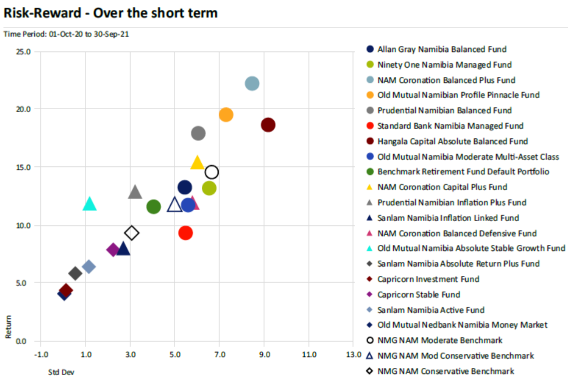


Graph 1.8



Risk/ Return





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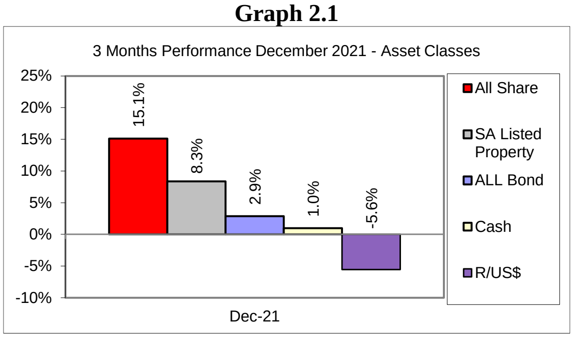
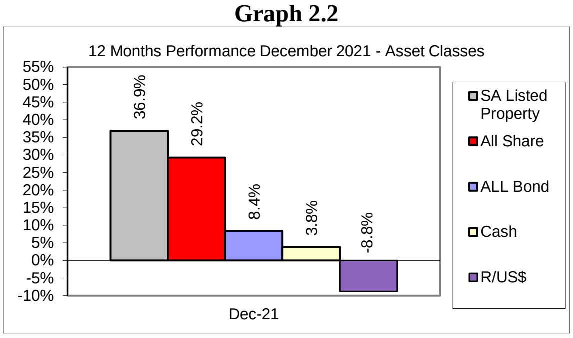
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

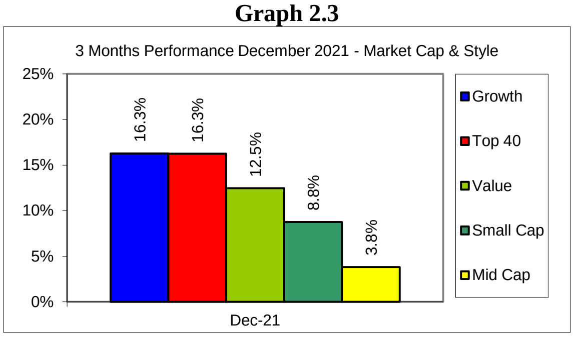
Graph 2.1



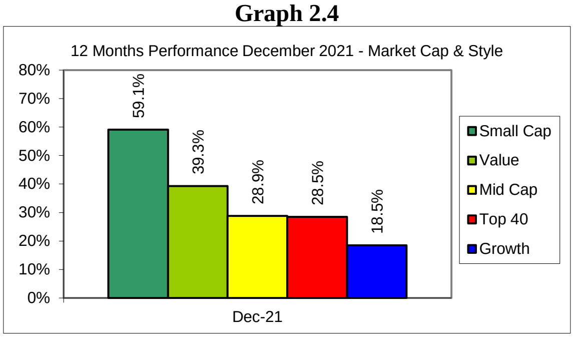
Graph 2.2



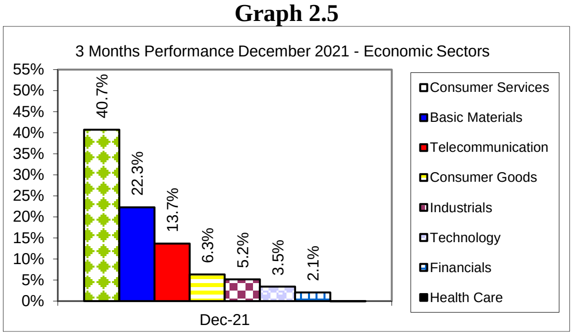
Graph 2.3



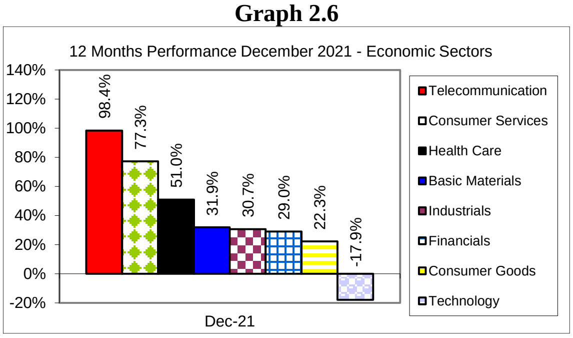
Graph 2.4



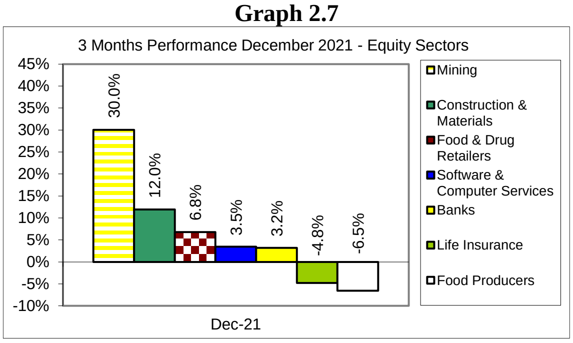
Graph 2.5



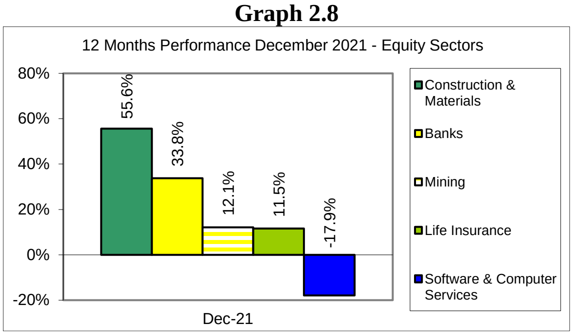
Graph 2.6



Graph 2.7



Graph 2.8



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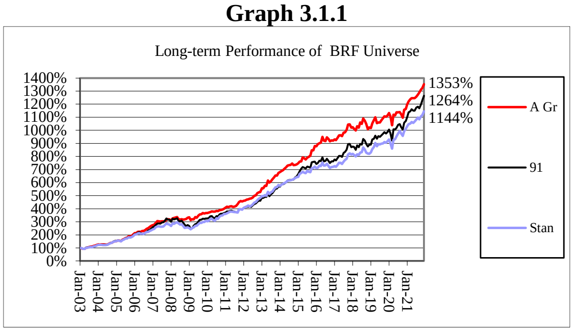
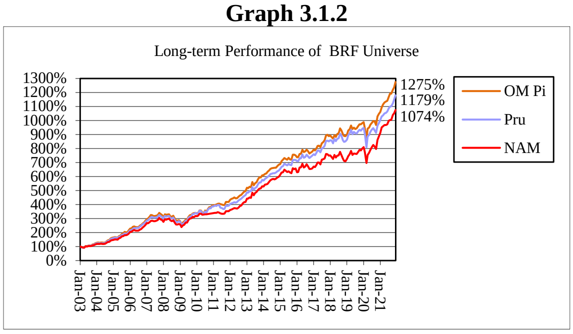
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

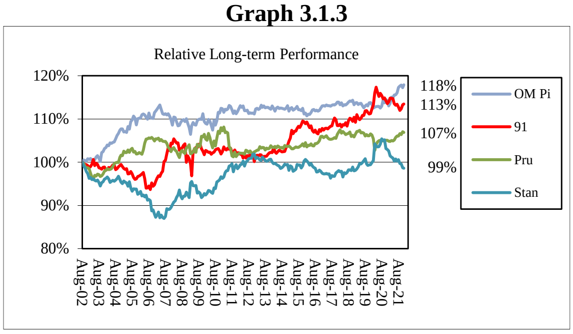
Graph 3.1.1



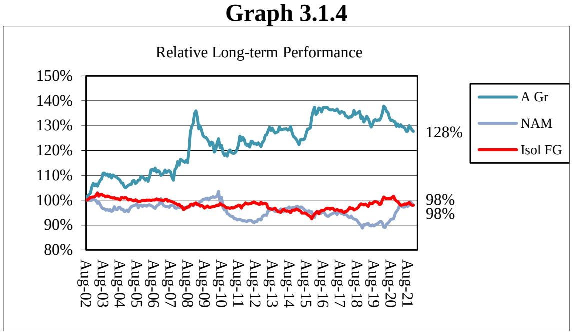
Graph 3.1.2



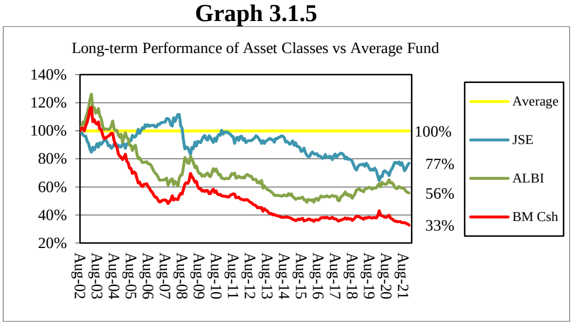
Graph 3.1.3



Graph 3.1.4

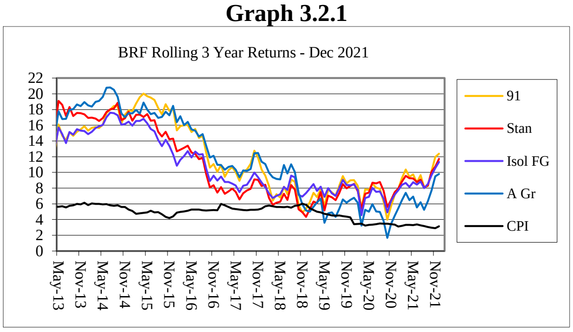


Graph 3.1.5

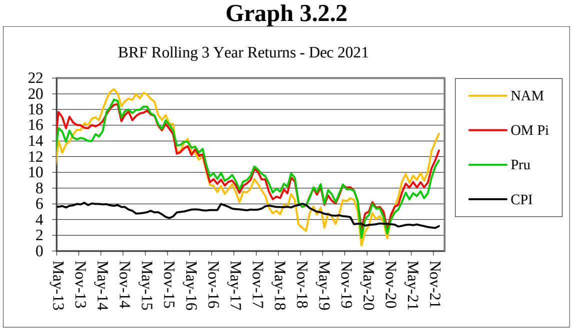


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

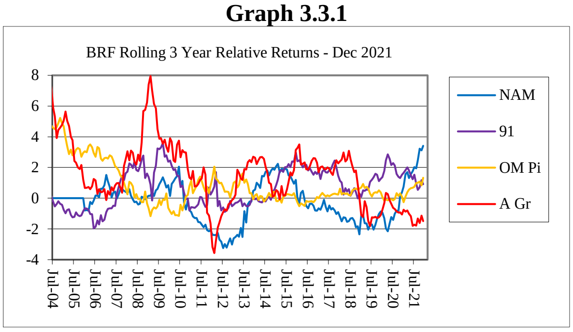


Graph 3.2.2



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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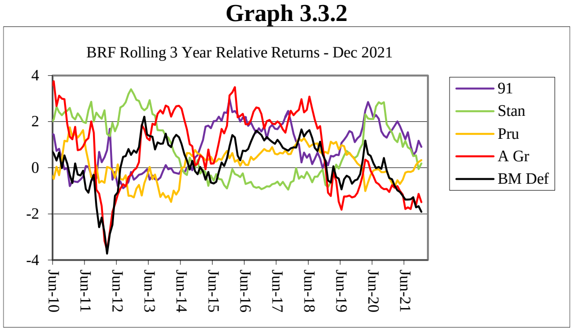
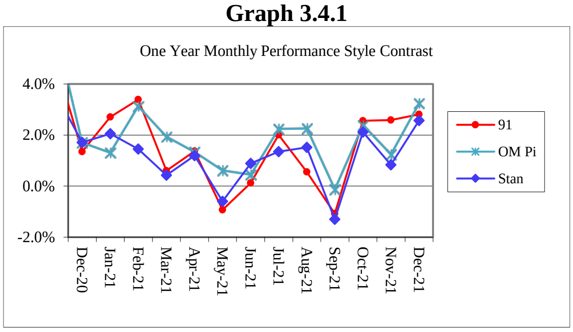
Graph 3.3.2

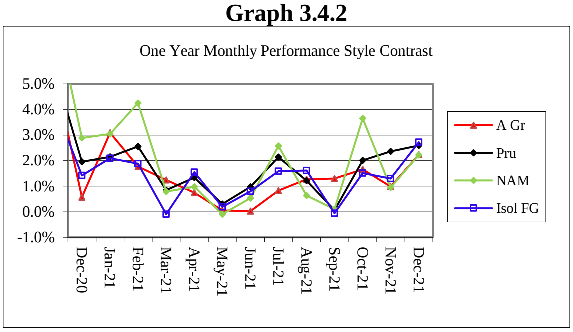


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

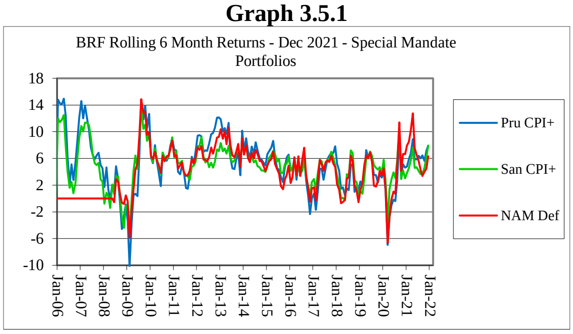


Graph 3.4.2

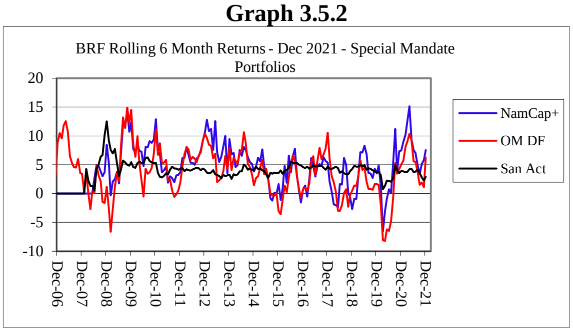


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

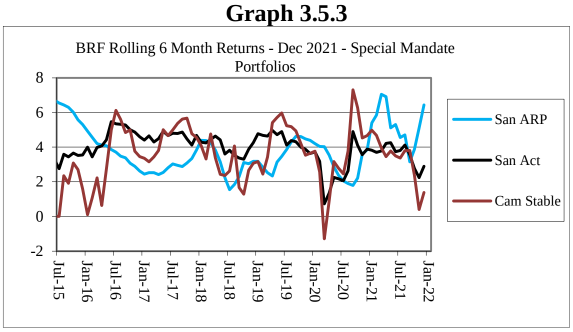
Graph 3.5.1



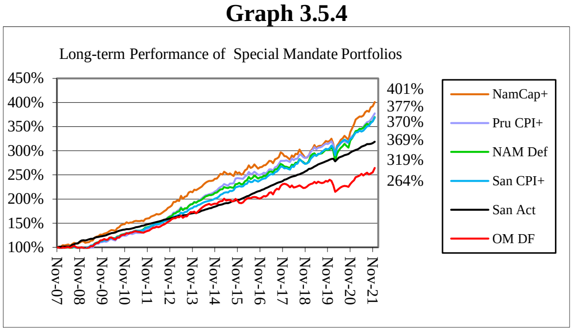
Graph 3.5.2



Graph 3.5.3

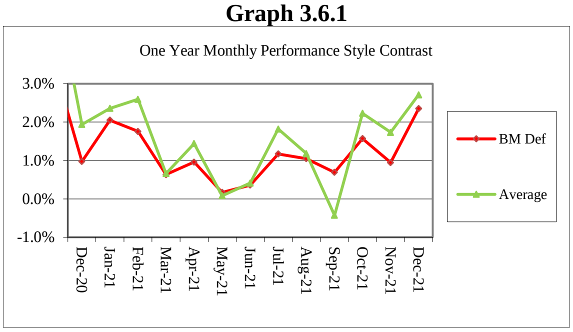


Graph 3.5.4



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

Graph 3.6.1



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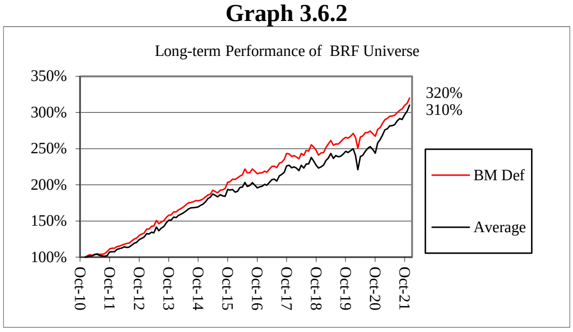
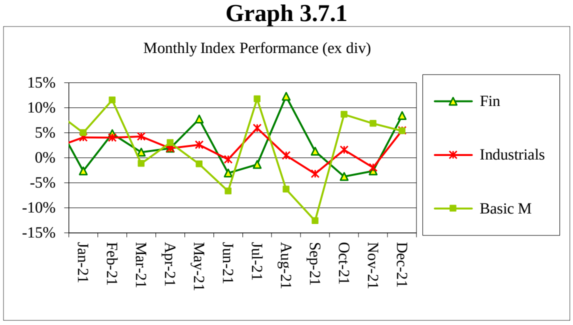
Graph 3.6.2

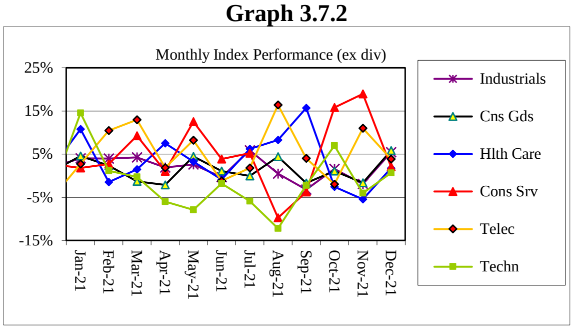


3.7 One-year monthly performance of key indices (excluding dividends)

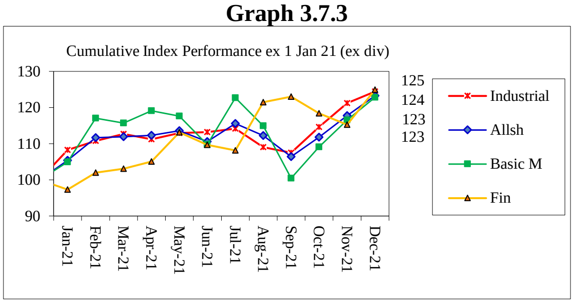
Graph 3.7.1



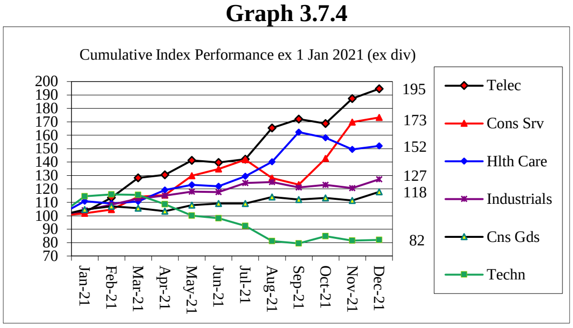
Graph 3.7.2



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.	8.1	9.4
5-year real return - % p.a.	4.2	5.5
Equity exposure - % of portfolio (qtr end September 2021)	46.2	64.5
Cumulative return ex Jan 2011	220.1	210.2
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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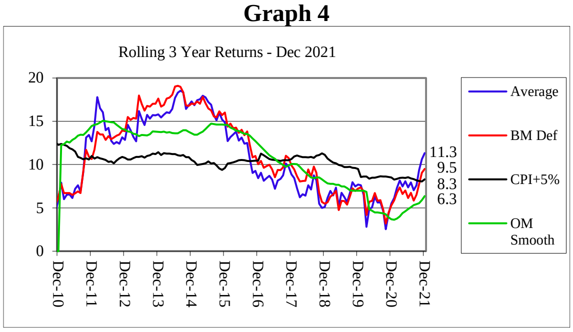
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.0%	3.2%	2.5%
Best annual performance	8.2%	9.5%	11.3%
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	7.4%	6.3%	6.7%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from January 2019 to December 2021. These statistics show up the performance volatility of these three risk profiles.

Graph 4

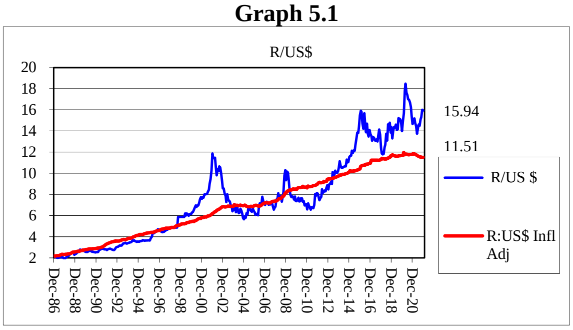


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of December was 9.5%, the average was 11.3% vs. CPI plus 5% currently on 8.3%.

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 11.51 to the US Dollar while it stood at 15.94 at the end of December. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

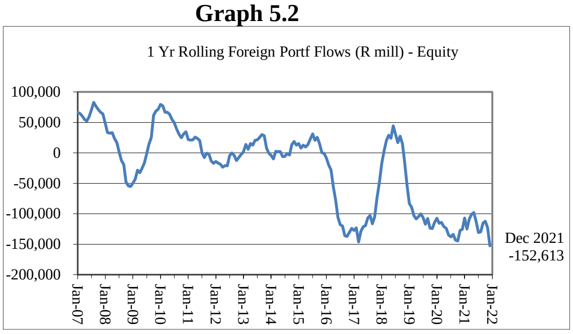


The Rand strengthened by 0.41% in December with net foreign investment outflows from bonds and equities of R39.3 bn. Over the past 12 months, the Rand declined by 8.8%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 312.2 bn (outflow of R 256.7 bn to the end of November 2021).

Since 2006, total net foreign portfolio outflows amounted to R 399.1 bn (November R 359.8 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 152.6 bn at the end of December (outflow of R 122.8 bn year-on-year to end November). The month of December experienced a net outflow of R 29.9 bn. Since 2006, foreign net investment outflows from equities amounted to R 436.2 bn (end November net investment outflow of R 406.3 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 159.6 bn over the past 12 months to end of December (outflow of R 133.9 bn over the 12 months to end of November). The month of December experienced a net outflow of R 9.4 bn. Since 2006, foreign net investment in bonds amounted to R 37.1 bn (to October R 46.5 bn).

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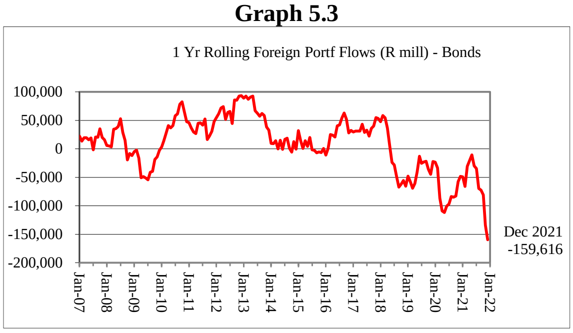
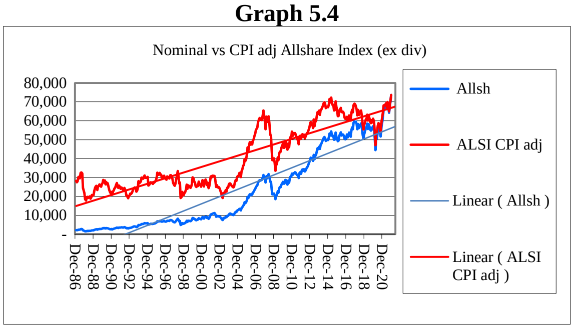
Graph 5.3



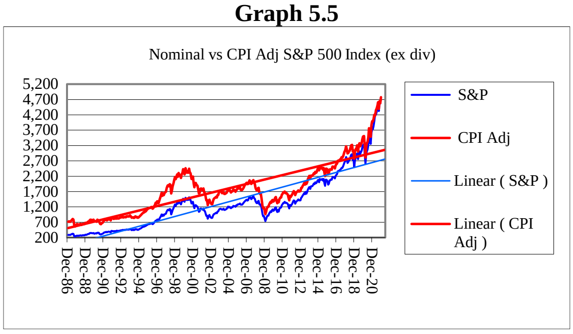
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.9% per year since January 1987, excluding dividends of 3.1%. Namibian inflation over these 34 years was 7.7% per year. It is equivalent to growth in real terms of 3.2% p.a. over this period, excluding dividends, or around 6.3% including dividends.

Graph 5.4



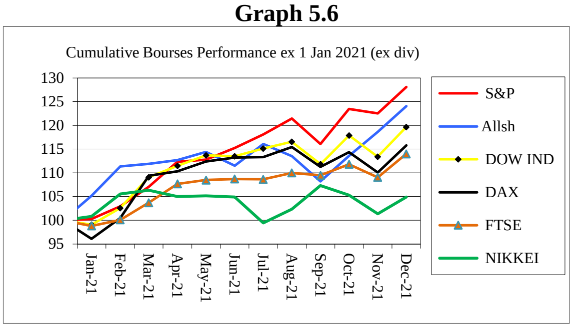
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 34 years since January 1987, the S&P500 Index grew by 8.5% per annum. US inflation over this period was 2.7%. It represents growth in real terms of 5.8% p.a. over 34 years, excluding dividends, or around 8.0% including dividends.

Graph 5.5



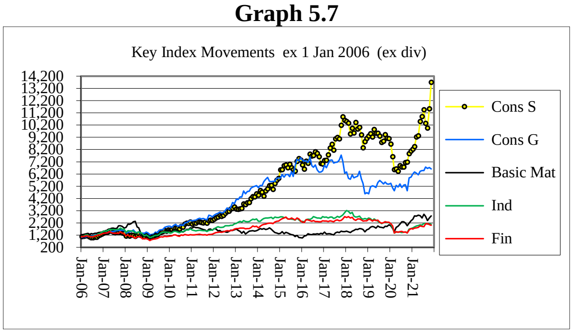
Graph 5.6 provides an interesting overview of some of the big global share indices, showing the S&P500 as the top-performing index since the start of 2021.

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: 6.9%; Industrials: 5.0% and Financials: 5.0%.

Graph 5.7



6. Our outlook for investment markets for 2022

By Tilman Friedrich

The year 2021 produced exceptional returns for pension funds, primarily derived from equities in which funds typically invest between 60% and 65% of their total assets. Graph 6.1 depicts the returns on the various assets classes funds invest in. The average fund produced a return of around 18%, which represents a real return of around 13.5% for the year 2021. My expectation for 2021 was that the average fund would produce a real return of 5%, or a nominal return of 9.5% with an inflation rate of 4.5%. My call on equities was totally wrong. I also cautioned that local bonds yielding between 5% (GC 21) and 13% (GC 50) at the time, will only do this if they are held to maturity. Looking at graph 6.1, the return a fund earned on bonds for 2021 would have only been 8.4%, and this is SA bonds. Namibian bonds in fact only yielded 4.4% (IJG ALBI) in nominal terms, which equals zero % in real terms.

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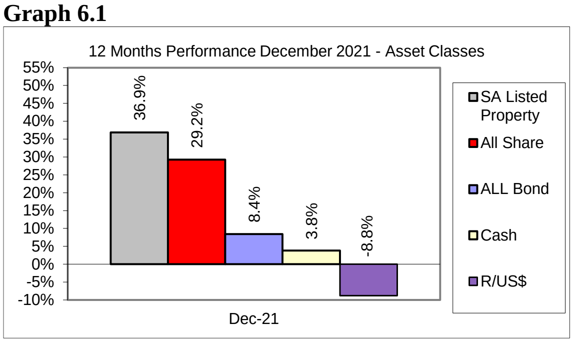
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 DECEMBER 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



The fact that the average prudential balanced portfolio, over most periods, from 1 year to 20 years to 31 December 2021, produced returns of very close to or above the implicit long-term returns of 5.5%, before fees, should comfort pension fund members. Exceptions are the four years (4.9%), six-year period (3.7% p.a.), seven-years (4.3% p.a.), eight-years period (4.6% p.a.), and 15 years period (4.7%). The average prudential balanced portfolio achieved 8.6% p.a. over the two years, 5.5% over the five years, 5.9% p.a. over the nine years, 6.5% p.a. over the ten years, and 7% over the 20 years. Just one good year makes a big difference to the long-term returns!

At the beginning of last year well-known US analyst, John Mauldin, provided well substantiated arguments that the US equity market was at “nosebleed levels”. At the time these levels were reached mainly on the back of the so-called FAAAM (Facebook, Alphabet, Amazon, Apple, Microsoft) shares. For the year 2020, the US S&P 500 was up 18%, while the FAAAM shares plus Netflix were up 55%, contributing 14.4% of the S&P 500’s growth of 18%. John Mauldin conceded that the market still offers pockets of value and suggested that 2021 is about rifle shots rather than a shotgun approach. In other words he thought that good stock picking, rather than index investment, should still produce good returns.

In 2021 the S&P 500 in fact produced a total return of 28.7%, far outperforming 2020’s 18%. 33% of the total return was once again produced by tech giants Apple, Microsoft, Nvidia, Tesla and Google.

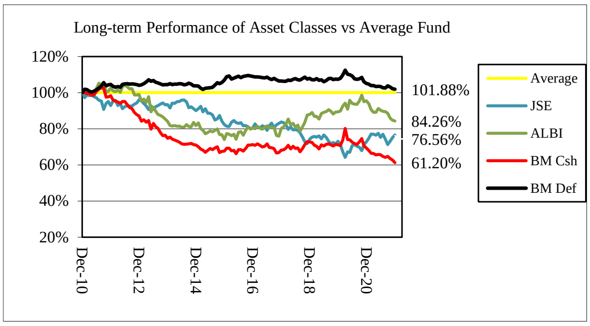
Although there is consensus amongst commentators that an increase in the inflation would lead to a reduction in central bank bond buying and an increase in interest rates, which would in turn negatively impact equity returns, very few expected an increase in inflation at the beginning of last. My view was that inflation would increase and that this would lead to the consequences referred to. One’s expectation in this regard would impact one’s investment strategy. My expectation would have dictated a cautious approach meaning a reduced equity exposure and value- in preference to growth stocks.

Well, 2021 proved me wrong as far as a cautious approach is concerned and the cautious investor would have lost out compared to the aggressive investor. However, my expectation of rising inflation was correct. Inflation rates globally are on the increase, particularly in the US and, as we know, what happens in the US will have a significant impact on developments in the rest of the world. The Federal Reserve, and the ECB, for that matter, commenced reducing their bond purchases and this process will accelerate. The Federal Reserve is now talking of running down its balance sheet and lifting interest rates in 2022. Equity markets are now very volatile, as bulls and bears are weighing up more equally.

I accept that my expectations for last year were premature but believe they will be proven right in 2022, in the light of the prevailing conditions.

As a Benchmark member, I expect the Default portfolio to underperform the average portfolio when it invests more conservatively than the average, to outperform the average slightly when it invests as aggressively and to outperform substantially when it invests more aggressively. Currently the Default portfolio invests more conservatively and I would be comfortable if it underperforms the average. I am also comfortable that it invests more conservatively in the light of the above exposition. However, as graph 6.2 shows, the more conservative Default portfolio actually still outperforms the prudential average portfolio since January 2010, be it only marginally by 1.9%.

Graph 6.2



Conclusion

Considering the state of the global economy and financial markets, it is difficult to achieve the investment returns that are implicit in typical pension fund structures, of around 5.5%, before fees, in real terms, while we move into a phase of readjustment. This is the result of the disruption of financial markets by the intervention of reserve banks after the global financial crisis and now again in response to the COVID crisis. However, there is an end to what reserve banks can do and they are at this stage left with very little ‘fire power’ to stimulate the economy. Since inflation has now set in and cheap money gradually disappears, interest rates will start increasing and equities as an asset class will start declining. Hiding your money under your mattress bears its own risks as does speculation with investments in less common assets where it is difficult to determine a price because of the absence of an active market.

The good old fashioned investment principle still applies. Do not put all your eggs in one basket but diversify your risk by spreading it across assets and asset classes as widely as possible. Equities are a mirror of the real economy and remain the asset class that should generate superior returns in the long run. Economic fundamentals should improve as the COVID-19 hysteria subsides going forward. The time we find ourselves in, however, requires a rifle shot approach of stock picking skills rather than the shot gun approach of index management, and the focus should be on good quality, fairly valued or cheap companies with high dividend yields. The investor should thus be able to expect at least a real dividend yield in excess of 3% if equities just maintain their value. The general expectation is that the global economy will grow by around 3% p.a. for the next few years, which means that dividends should grow at the same rate and that shares should also appreciate in value over the next few years. This may be low in relation to what we have seen in years gone by, however it is still a respectable return on any equity investment. An investment in a typical balanced portfolio should be able to generate a real return of around 5%, or around 10% in the prevailing inflationary environment. Offshore diversification is essential and the strengthening of the Rand once again creates the opportunity for doing so. It is this principle one needs to focus on more than the timing though, as the Rand tends to rise when offshore markets also rise, and vise-versa, often negating the effect of its strengthening or weakening.