Volume 18 No. 1
January 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2022

By Staff Writer – 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.

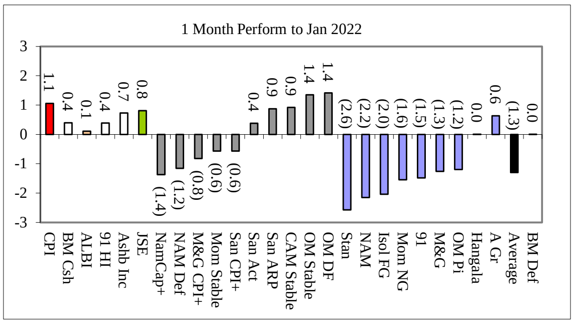
1. Review of Portfolio Performance

In January 2022, the average prudential balanced portfolio returned -1.3% (December 2021: 2.7%). The top performer is Allan Gray Balanced Fund with 0.6%, while Stanlib Managed Fund with -2.6% takes the bottom spot. For the 3-months Hangala Prescient Absolute Balanced Fund takes the top spot, outperforming the 'average' by roughly 2.2%. Stanlib Managed 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.

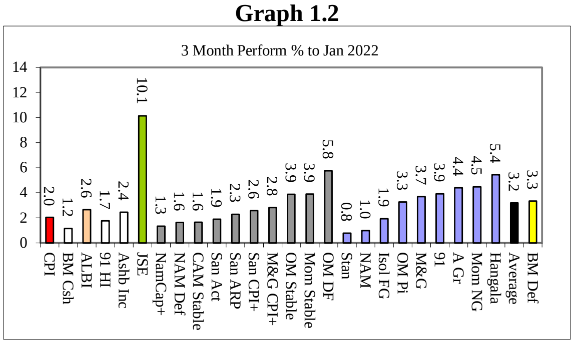
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced 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.

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

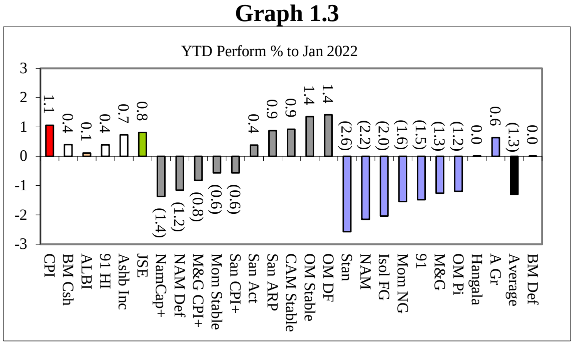
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no color)
NinetyOne High Income (interest 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)



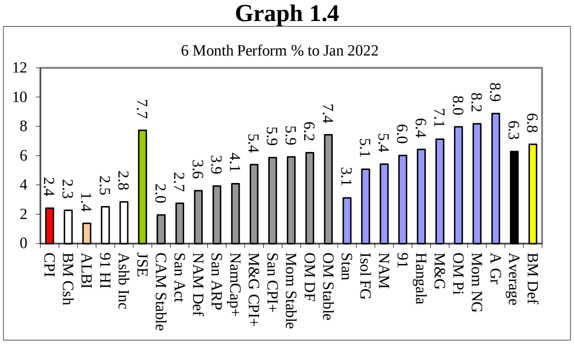
Graph 1.2



Graph 1.3



Graph 1.4



Graph 1.1

Graph 1.5

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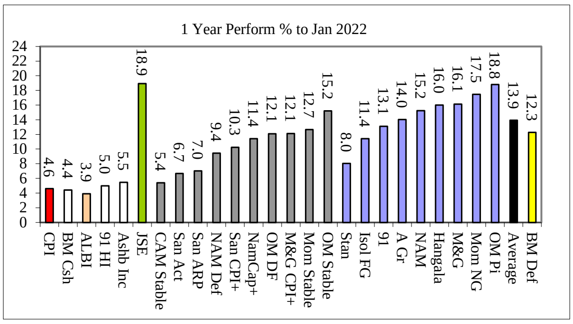
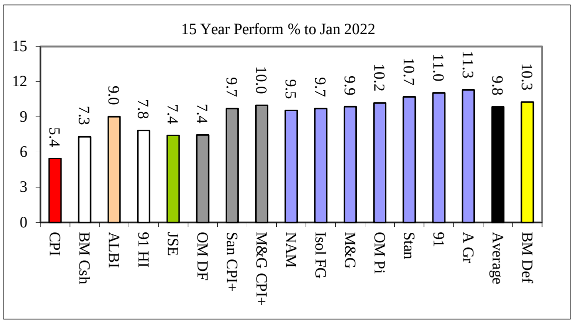
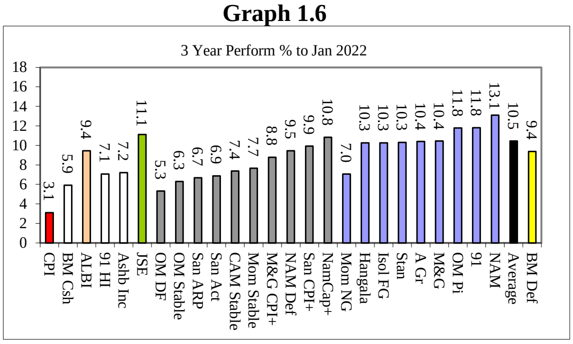


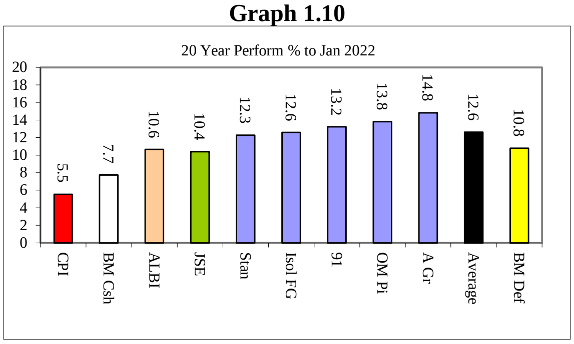
Graph 1.6

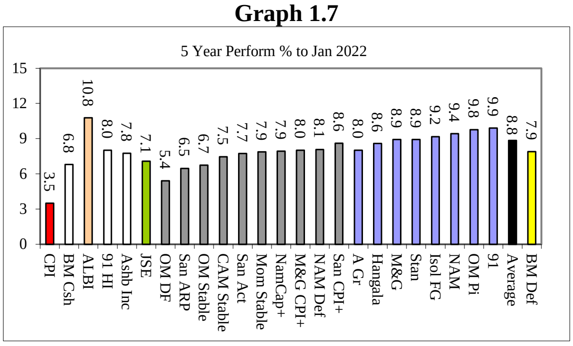


Graph 1.10



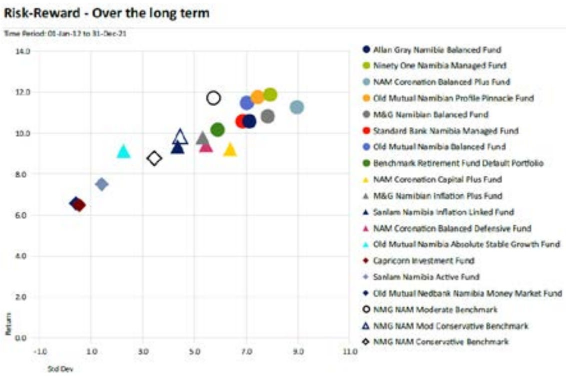
Graph 1.7

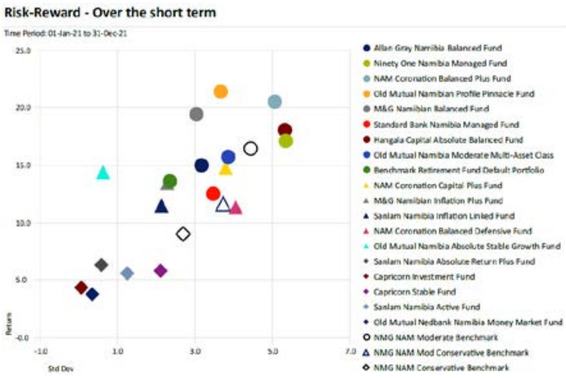


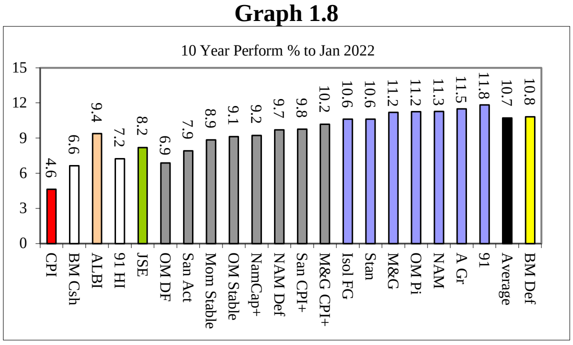


Graph 1.8

Risk/ Return







Graph 1.9

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

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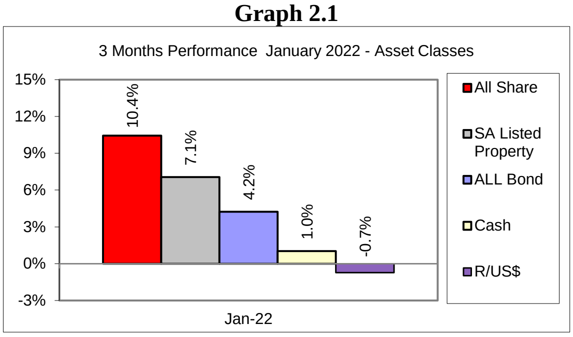
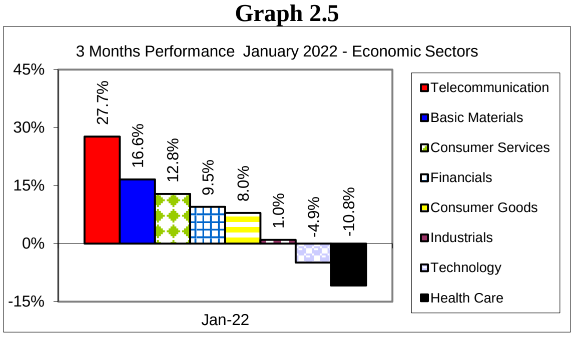
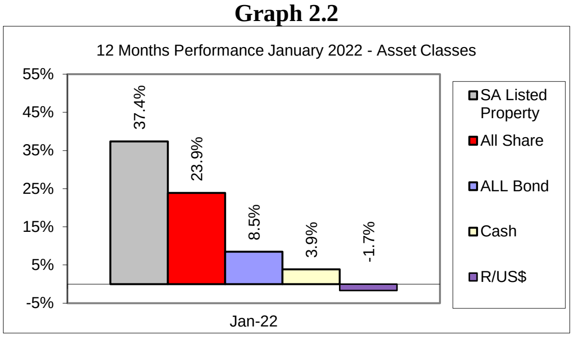
Graph 2.1



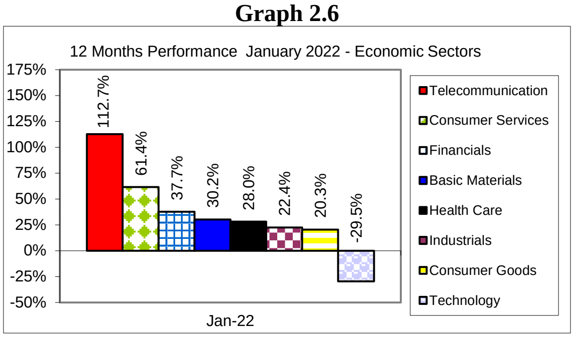
Graph 2.5



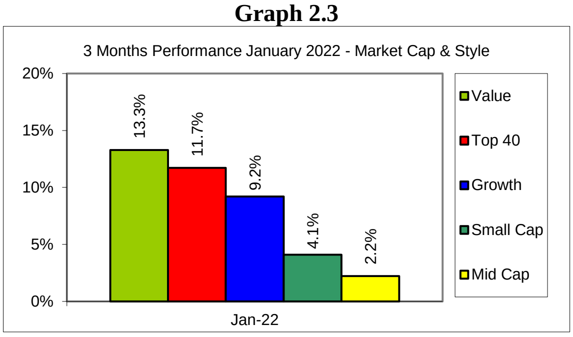
Graph 2.2



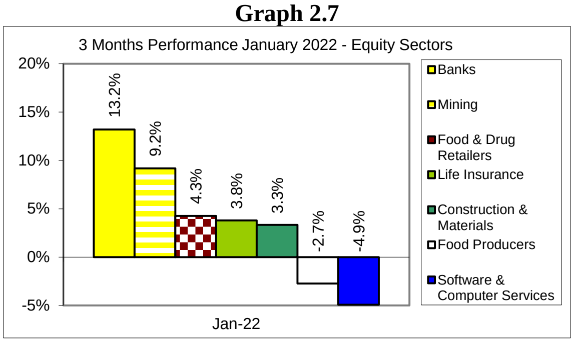
Graph 2.6



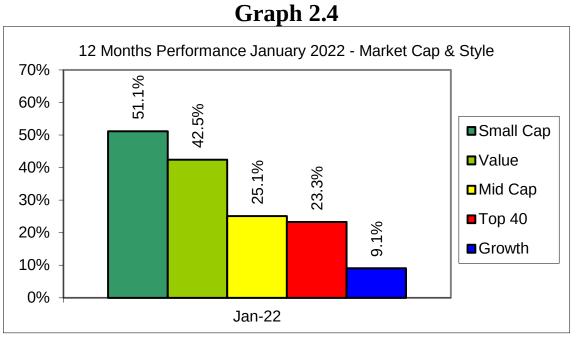
Graph 2.3



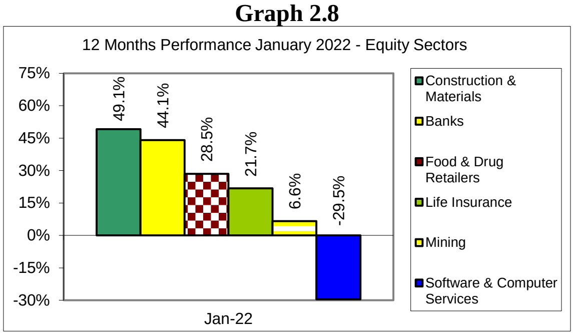
Graph 2.7



Graph 2.4



Graph 2.8



3. Portfolio Performance Analysis

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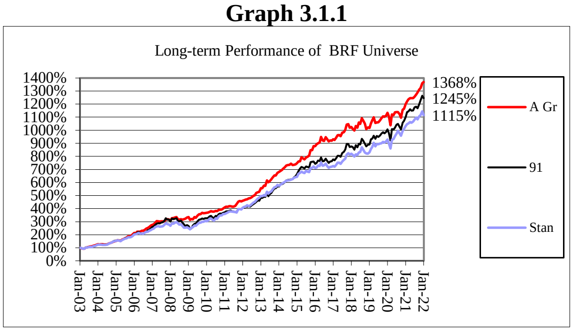
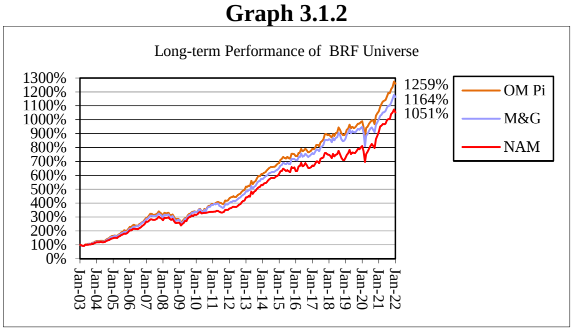
3.1 Cumulative performance of prudential balanced portfolios

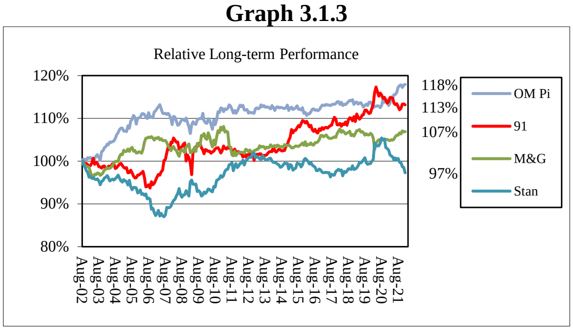
Graph 3.1.1



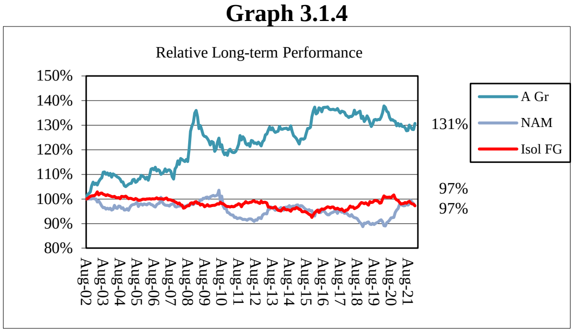
Graph 3.1.2



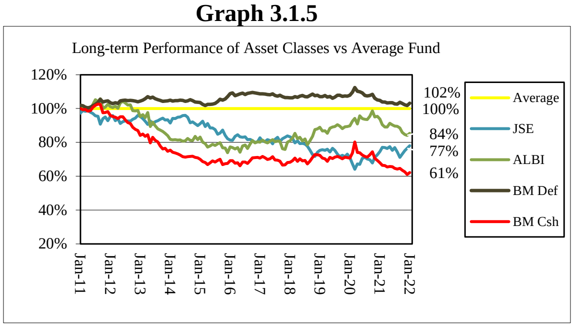
Graph 3.1.3



Graph 3.1.4

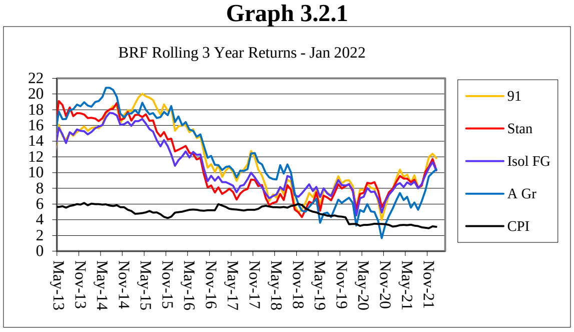


Graph 3.1.5

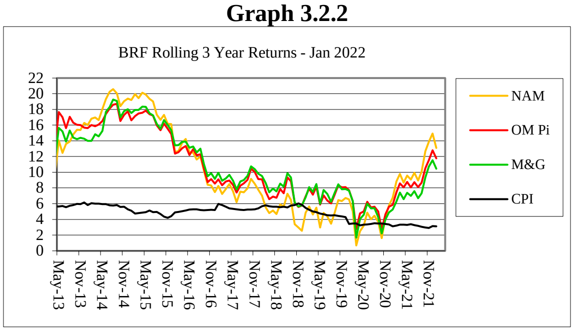


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

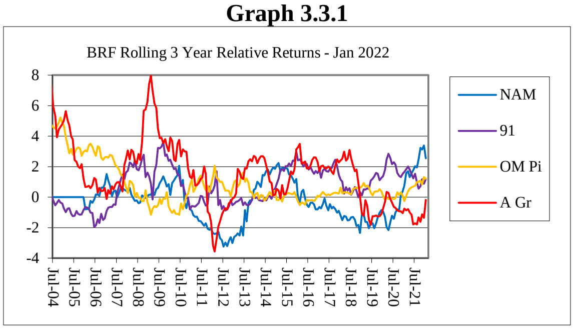


Graph 3.2.2



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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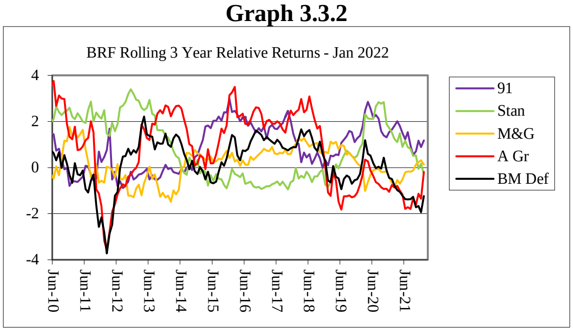
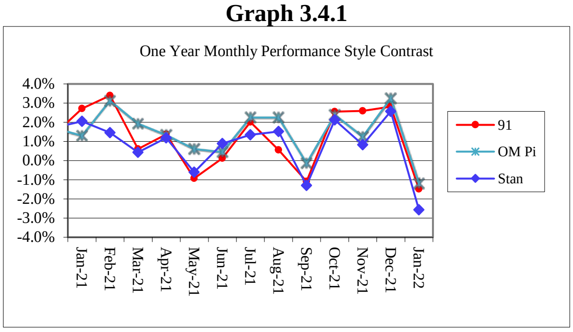
Graph 3.3.2

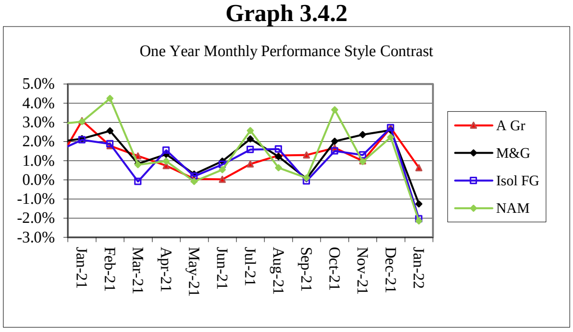


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

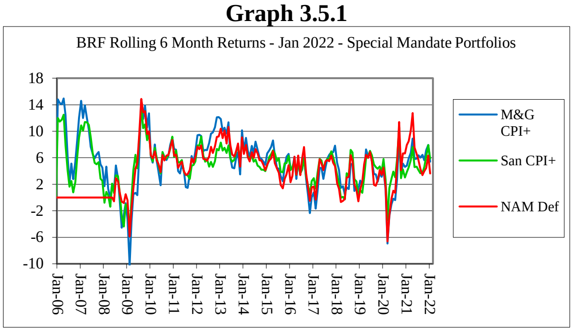


Graph 3.4.2

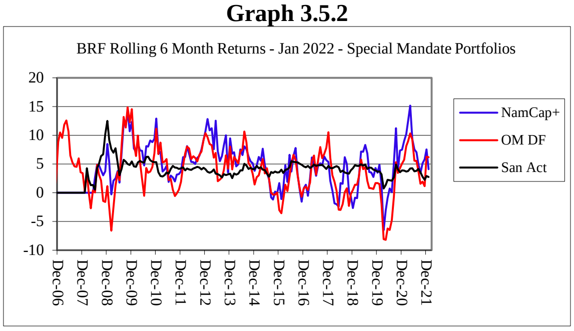


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

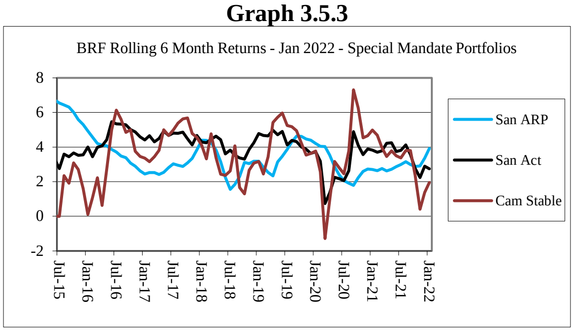
Graph 3.5.1



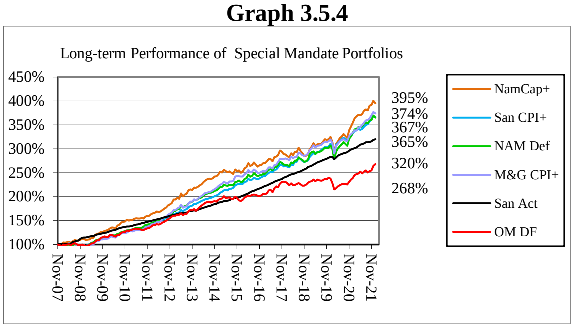
Graph 3.5.2



Graph 3.5.3

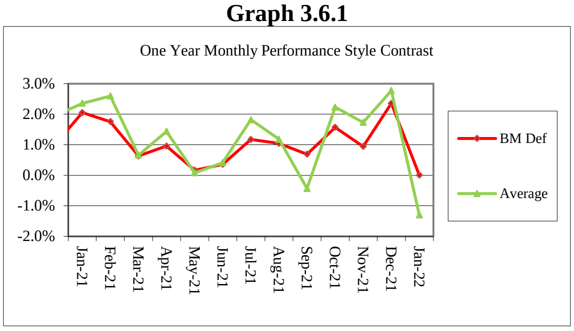


Graph 3.5.4



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

Graph 3.6.1



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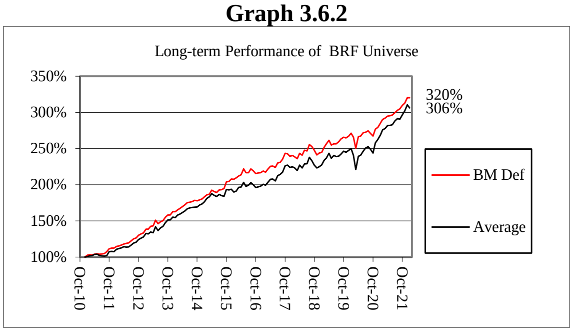
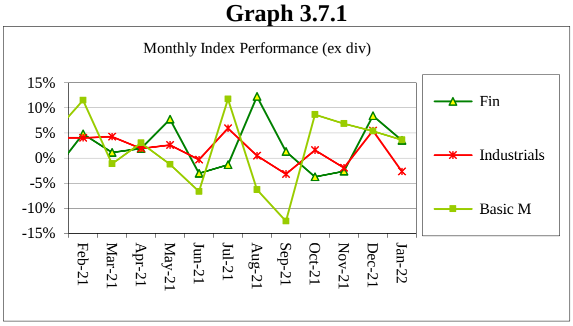
Graph 3.6.2

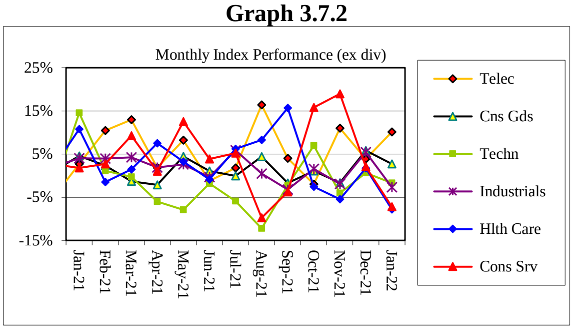


3.7 One-year monthly performance of key indices (excluding dividends)

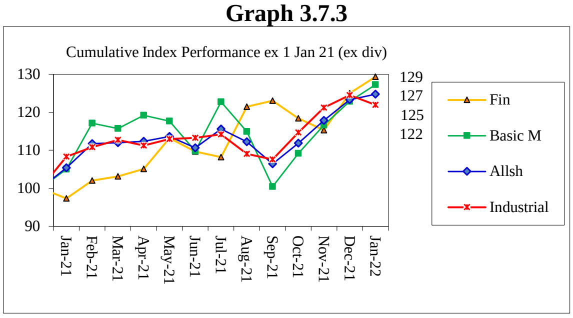
Graph 3.7.1



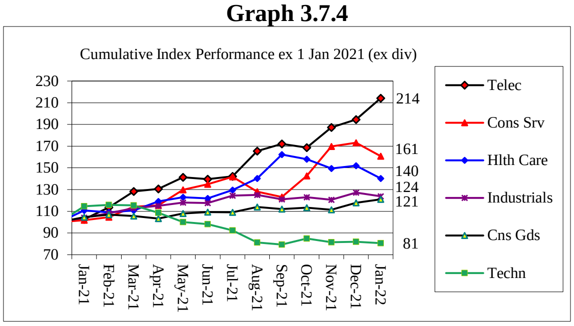
Graph 3.7.2



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.	7.9	8.8
5-year real return - % p.a.	4.4	5.3
Equity exposure - % of portfolio (qtr end December 2021)	47.3	66.1
Cumulative return ex Jan 2011	220.1	206.3
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 47% compared to the average prudential balanced portfolio's exposure of 66%. 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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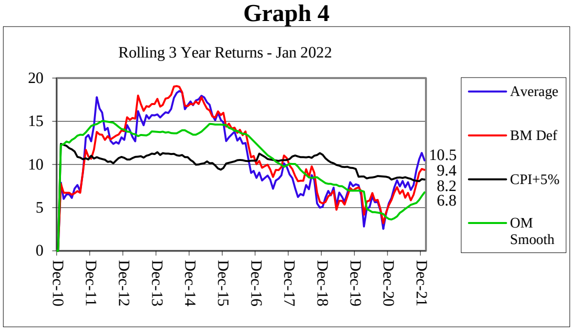
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.9%	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%	6.4%	6.8%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from February 2019 to January 2022. These statistics show up the performance volatility of these three risk profiles.

Graph 4

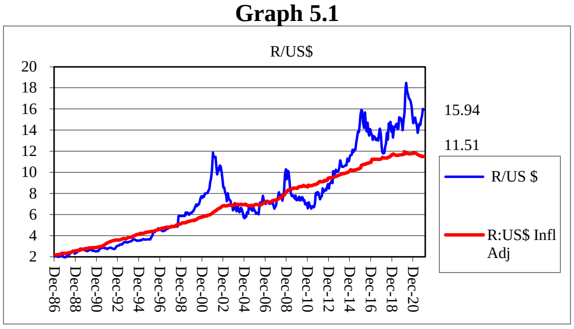


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of January was 9.4%, the average was 10.5% 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's fair value by our measure is 11.51 to the US Dollar while it stood at 15.94 at the end of January. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

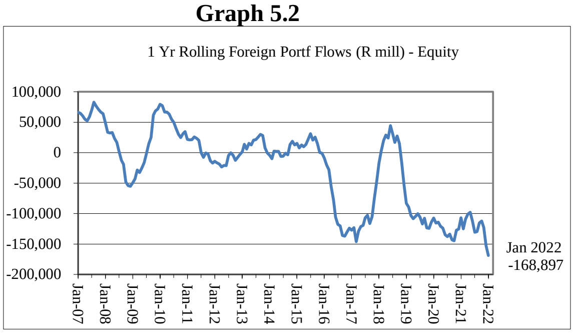


The Rand strengthened by 3.39% in January with net foreign investment outflows from bonds and equities of R2.2 bn. Over the past 12 months, the Rand declined by 1.68%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 331.7 bn (outflow of R 312.2 bn to the end of December 2021).

Since 2006, total net foreign portfolio outflows amounted to R 401.3 bn (December R 399.1 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 168.9 bn at the end of January (outflow of R 152.6 bn year-on-year to end December). The month of January experienced a net outflow of R 5.7 bn. Since 2006, foreign net investment outflows from equities amounted to R 442.0 bn (end December net investment outflow of R 436.2 bn). It represents roughly 2.2% 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 162.8 bn over the past 12 months to end of January (outflow of R 159.6 bn over the 12 months to end of December). The month of January experienced a net outflow of R 5.7 bn. Since 2006, foreign net investment in bonds amounted to R 40.6 bn (to December R 37.1 bn).

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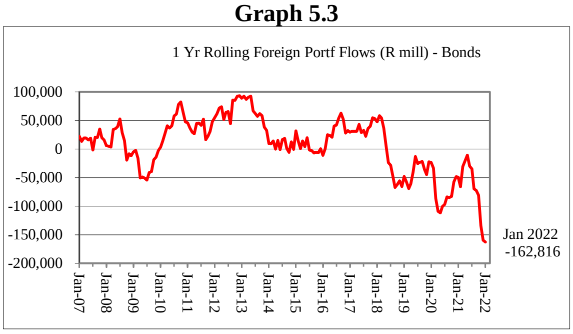
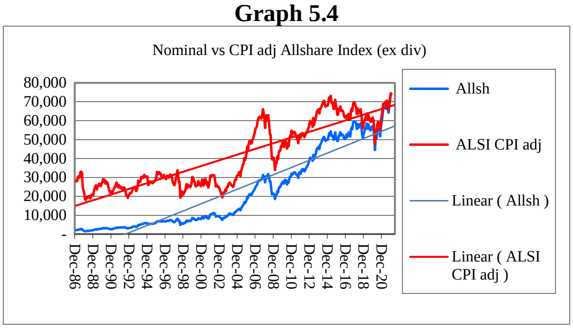
Graph 5.3



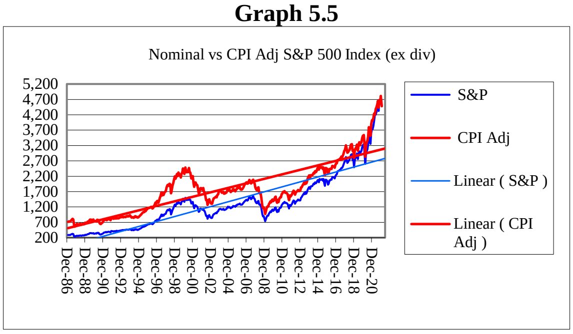
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.9% per year since January 1987, excluding dividends of 3.1%. Namibian inflation over these 34 years was 7.7% per year. It is equivalent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

Graph 5.4



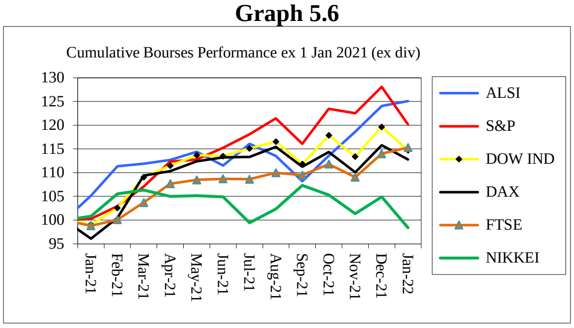
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 34 years since January 1987, the S&P500 Index grew by 8.3% per annum. US inflation over this period was 2.7%. It represents growth in real terms of 5.6% p.a. over 34 years, excluding dividends, or around 7.8% including dividends.

Graph 5.5



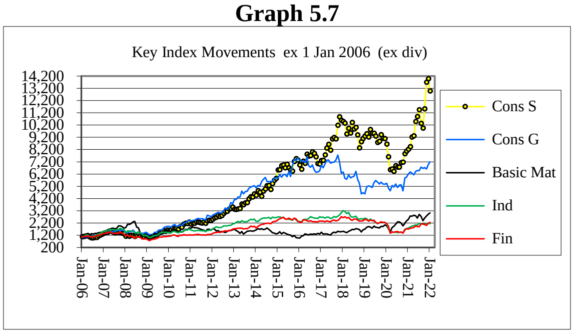
Graph 5.6 provides an interesting overview of some of the big global share indices, showing the JSE All Share (ALSI) as the top-performing index since the start of 2021.

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: 17.3%; Consumer Goods: 13.1%; Basic Materials: 7.1%; Industrials: 4.8% and Financials: 5.2%.

Graph 5.7



6. Forget yesterday's winners, instead find yesterday's loser that my shine tomorrow!

By Tilman Friedrich

At the beginning of 2009, after the global financial crisis (GFC) struck, I often heard members and employers lamenting about poor equity returns and regretting they had not instead invested in cash. The picture in their minds was that reflected in graph 6.1. This graph shows the rolling three-year returns. Notice how cash, represented by the black line, outperformed the average prudential balanced fund (red line) and the JSE Allshare Index (blue line) by between 5% and 10% per year from December 2008 until August 2010. Long before the GFC struck, I cautioned that our share market was high and risky. Unfortunately, I expected a correction about three years too early.

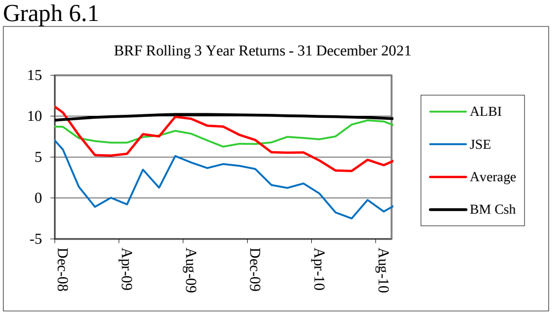
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2022

By Staff Writer – Retirement Fund Solutions Namibia (Pty) Ltd

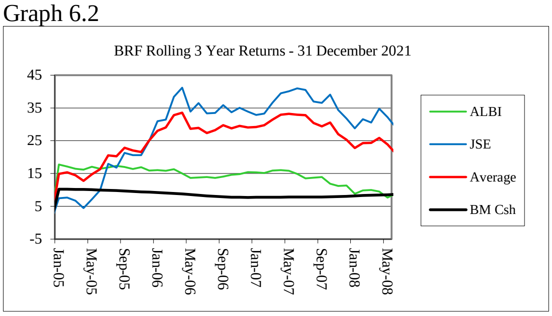
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 6.1



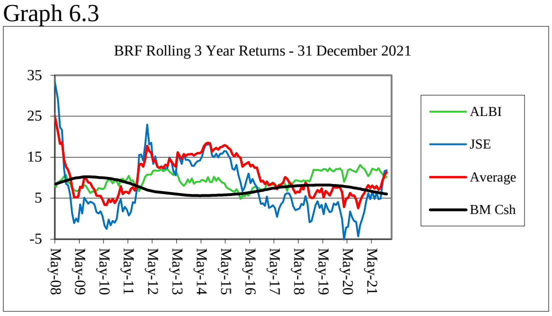
I had the picture of graph 6.2 in my mind when I spoke about our concern that the market was high and waiting for an opportunity for its correction. Also, notice a seven-month time gap between the start of graph 6.1 and the end of graph 6.2. That is all it takes to move from exuberance to despair! No one would have moved out of equities in these seven months. The average prudential balanced fund and equities outperformed cash by more than 20% per year!

Graph 6.2



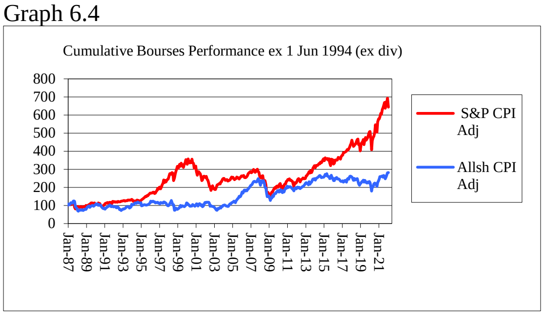
So, where are we today? Graph 6.3 shows that the average prudential balanced fund and equities, in particular, took a deep dive well below cash, which ended in May 2011. Fortunes turned for the average fund and equities to outshine cash for the next three years until the middle of 2015. Again fortunes turned for equities until the end of 2020. We see that equities and the average prudential balanced fund went well past cash on a rolling three-year basis from the middle to 2021. Does this mean equities and the average prudential balanced portfolio are on track to their sustained outperformance of cash?

Graph 6.3



Graph 6.4 shows the JSE Allshare index in blue compared to the S&P 500 in red. We removed the effect of local inflation from the two lines. We note that SA equities did not grow until 2004 when the global commodities bubble developed. It ended with the GFC in 2008. The index after that doubled in real terms but remained at that level, again to the end of 2020. Since 2021 it ticked up again. The red S&P 500 line shows little growth until 1994. It then developed the tech bubble that ended abruptly in March 2000. We note the GFC crisis impacting the red and blue lines in 2008. Since then, the S&P 500 only knew one direction, but look closely at the last month or two. Commentators are referring to this run as the dot.com bubble. Will it burst, or will we see a gradual, drawn-out correction that already set off?

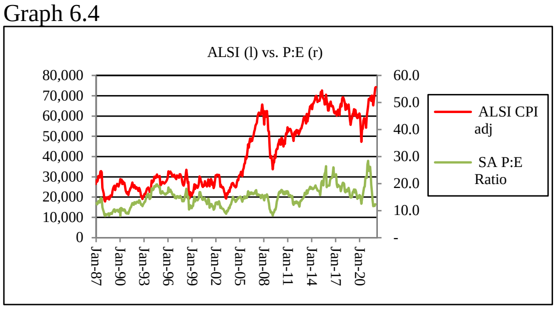
Graph 6.4



A stock index reflects what shareholders are paying for shares. Two factors determine what shareholders will pay for the shares they buy. Firstly, the income the companies generate is commonly referred to as 'earnings.' Secondly, how much the shareholder would invest for the shareholder's income on his investment. So, if you expect an income from an investment of N$ 12,000 per year and you pay N$ 120,000 for the investment, you paid ten times its earnings. We say the price: earnings ratio is ten. When everyone wants to buy the same share, but only a few persons are willing to sell it, the seller will sell the share to the person who offers the highest price. That will push up the price and the price: earnings ratio. Often buyers' sentiment results in an imbalance between the number of shares up for sale and the number of shares people want to buy. That either lifts or reduces the price: earnings ratio.

Returning to stock markets, graph 6.4 reflects the SA Allshare Index and its price: earnings ratio. The index shown as the red line, increased steeply while the price: earnings ratio dropped steeply over the last few months.

Graph 6.4



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Benchmark Retirement Fund

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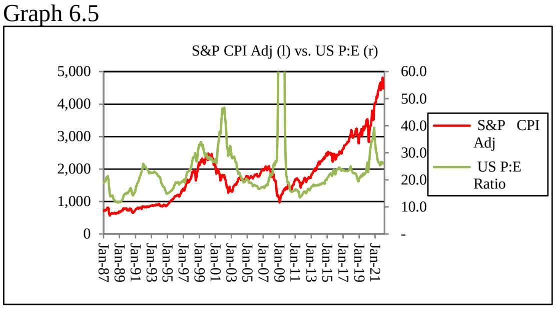
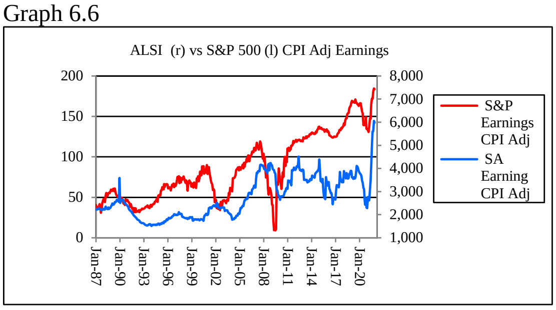
Now, compare the SA Allshare Index with the broader US S&P 500 Index in graph 6.5. Here we see that the S&P 500 increased steeply since the GFC. It only dipped slightly over the last few months. As for the JSE Allshare price: earnings ratio, the S&P 500 price: earnings ratio dropped steeply recently. But consider a crucial difference: the current SA price: earnings ratio of 12.4 is well below its long-term average of 14.9%. The current S&P 500 price: earnings ratio of 26.2 is well above its long-term average of 22.4. The obvious question is: why did the price: earnings ratios of both indices drop so sharply over the recent past? It means one of two things: either the investors do not pay as much as before, or earnings have increased steeply.

Graph 6.5



Graph 6.6 now lifts the secret. See how sharply earnings increased, particularly over the recent past, recovering much more than the loss CORONA caused, and in SA much sharper than in the US. Again we are faced with two questions: what caused the recent sharp increase in earnings and is this increase sustainable? If it is sustainable, the equity markets will continue running, and the converse.

Graph 6.6



Conclusion

Different factors influenced the increase in earnings. For one, low interest rates elevated shares to the main investible alternative, pushing up the investor demand for shares. Fiscal stimulus assisted consumer demand hard hit by the economic impact of COVID. These two factors caused a steep increase in global inflation rates that now threaten the global economy. The disequilibrium in financial markets caused by low interest rates and fiscal stimulus is not sustainable and is up for correction this year. The Federal Reserve and the ECB are reducing their bond-buying programmes and contemplating lifting interest rates. The mere talk of rising interest rates caused the latest dip in the S&P 500. The stock markets produced clear winners and clear losers after the COVID crisis. Yesterday's winners are unlikely to continue their winning streak while yesterday's losers may shine again. I cannot see stock markets continuing their trajectory this year. Maybe I am over-cautious like I was in the run-up to the GFC.

Investors who align with my thinking and expectations should tread carefully. Forget to chase yesterday's winners: instead, find yesterday's losers that will shine tomorrow! If you find the right ones, you should achieve respectable returns on your shares investments this year If you find the right ones, you should achieve respectable returns on your shares investments this year. Diversify your risk by spreading it across assets and asset classes as widely as possible. An investment in a well-diversified, prudential balanced portfolio should generate a real return of around 5% or 10% in the prevailing inflationary environment. Offshore diversification is essential, and the Rand's strengthening once again creates the opportunity for doing so. One needs to focus more on this principle than the timing, though, as the Rand tends to rise when offshore markets also increase, and vice-versa, often negating the effect of its strengthening or weakening.