INVESTMENT NOTES

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Sensitivity of default investment portfolio returns to Naspers share price movements.

Recently, we highlighted the significant impact of Naspers share price movements on the investment returns earned by retirement fund members in South Africa. Naspers shares also impact on default investment portfolios for retirement funds or participating employers in umbrella retirement funds.

Often, members who invest in default investment portfolios do not monitor the investment performance of these portfolios actively, nor do they consider the impact of large investment counters such as Naspers on the value of their investment savings in retirement funds. To put the lower share price into perspective, the impact is a reduction of R541 billion in the company's market capitalisation value compared to Steinhoff International BV's loss of market capitalisation value of R311 billion.

Recently, the investment returns for the growth phase of large default investment portfolios were as follows:

Investment returns to March 2018	Quarter 1 2018 %	1 year % p.a.	3 years % p.a.	5 years % p.a.
Alexander Forbes Investments High Equity	-3.6%	5.4%	4.7%	9.3%
Momentum Lifestage Accumulator	-6.1%	4.6%	4.8%	10.6%
Old Mutual Multi-Manager Inflation Plus 5-7%	-4.0%	6.8%	6.4%	11.6%
Sanlam Lifestage Accumulation	-5.5%	5.6%	4.5%	n/a
Sygnia Signature 70	-5.1%	3.9%	4.5%	11.2%

One such strategy is Sanlam Lifestage that consists of an Accumulation portfolio, a Capital Protection Preservation portfolio, an Inflation-linked Preservation portfolio and an Investment-linked Life Annuity Preservation portfolio.

We visited Mr Danie van Zyl at Sanlam Employee Benefits – Investments, who are the custodians of Sanlam Lifestage. This is what we learned:

Q: Danie, can one isolate the impact of Naspers shares on Sanlam Lifestage's investment returns?

A: Yes, it is possible. We started with the Sanlam Lifestage portfolios and excluded Naspers shares, adjusting the remaining portfolio holdings pro rata to return the portfolio to its original market value. We repeated this on a monthly basis, as the Naspers' weighting in the Sanlam Lifestage portfolios changes as the underlying investment managers buy or sell shares, bonds, etc.

The analysis resulted in two directly comparable portfolios – the actual portfolio containing Naspers shares and the alternative portfolio with no exposure to Naspers shares. The difference in investment returns between the two portfolios is directly attributable to the Naspers exposure.

Q: For which periods should one use this approach? For example, on 30 December 2016, the Naspers closed at R2 014 per share and reached a peak of R4 090 per share on 21 November 2017. Since then it has traded as low as R2 882 per share on 3 April 2018.

A: We performed the calculation for different periods:

1. For the first quarter of 2018, a period when Naspers shares performed poorly;
2. For the 12 months to the end of March 2018, because despite the poor Naspers performance during the first quarter, Naspers still added value over the full 12-month period;
3. Finally, for the calendar year 2017 when Naspers shares doubled in value at one stage.

Q: What conclusions did you draw for the growth portfolio, Sanlam Lifestage Accumulation?

A: The results of our analysis are best shown in the table below:

Impact of Naspers on Accumulation portfolio	Naspers exposure range between 7.7% and 9.6% of the portfolio since January 2017		
	Actual portfolio returns	Returns without Naspers	Naspers value add*
Quarter 1 of 2018	-5.5%	-4.5%	-1.1%
1 year to March 2018	5.6%	4.0%	1.7%
2017 calendar year	15.4%	11.3%	4.2%

**The difference between the actual portfolio's investment return and the return without Naspers is calculated monthly, before being compounded. For this reason, the Naspers impact is not necessarily equal to the mathematical difference between the actual portfolio's investment return and the return without Naspers for the respective periods.*

For the first quarter in 2018, exposure to Naspers resulted in lower performance of approximately 1% for the Accumulation portfolio, but for the 12-month period to March 2018 and for calendar 2017, members benefited considerably from the inclusion of Naspers shares in their investment portfolios.

Q: The default preservation portfolio is the Capital Protection Preservation portfolio. Did your analysis of this portfolio produce similar results?

A: The impact of Naspers on the Capital Protection Preservation portfolio was similar to that on the Accumulation portfolio.

Impact of Naspers on Capital Protection Preservation	Naspers exposure range between 5.4% and 8.8% of the portfolio since January 2017		
	Actual portfolio returns	Returns without Naspers	Naspers value add*
Quarter 1 of 2018	-0.6%	0.6%	-1.2%
1 year to March 2018	8.6%	7.3%	1.3%
2017 calendar year	12.9%	9.3%	3.0%

**The difference between the actual portfolio's investment return and the return without Naspers is calculated monthly, before being compounded. For this reason, the Naspers impact is not necessarily equal to the mathematical difference between the actual portfolio's investment return and the return without Naspers for the respective periods.*

Q: The Sanlam Lifestage Inflation-linked Preservation portfolio does not contain exposure to Naspers shares, does it?

A: No, the Inflation-linked Preservation portfolio has not invested in Naspers shares. It invests in long-dated bonds with the objective to perform in the same way as the purchase price of inflation-linked annuities.

Q: Finally, what was Naspers' impact on the Investment-linked Life Annuity Preservation portfolio?

A: For the Sanlam Lifestage Investment-linked Life Annuity Preservation portfolio, our analysis shows the following results:

Impact of Naspers on ILLA Preservation portfolio	Naspers exposure range between 5.0% and 6.7% of the portfolio since January 2017		
	Actual portfolio returns	Returns without Naspers	Naspers value add*
Quarter 1 of 2018	-2.0%	-1.0%	-1.1%
1 year to March 2018	7.1%	6.1%	1.0%
2017 calendar year	12.2%	9.3%	2.9%

**The difference between the actual portfolio's investment return and the return without Naspers is calculated monthly, before being compounded. For this reason, the Naspers impact is not necessarily equal to the mathematical difference between the actual portfolio's investment return and the return without Naspers for the respective periods.*

In the short term, exposure to Naspers shares resulted to lower investment returns of just more than 1%, but for the 12-month periods, Naspers contributed positively to investment returns.

Sanlam's analysis concludes that although there is lot of debate about Naspers exposure in the JSE's share indices, retirement members have gained handsomely from Naspers shares over the last few years. Sanlam monitors the concentration risk in Naspers continuously and Sanlam Employee Benefits' Institutional Investment Committee considers the matter very carefully, regularly engaging with the underlying portfolio managers. Sanlam is satisfied with the current Naspers exposure in the Sanlam Lifestage investment strategy.

In summary, exposure to Naspers shares:

- detracted approximately 1% from investment performance in the short term;
- added approximately 1.5% to investment returns for the 12 months to March 2018; and
- added as much as 4% to investment returns for 2017.

At Simeka we agree with Sanlam that exposure to Naspers shares should be monitored carefully, but at the same time we realise that having no exposure or not enough exposure to Naspers shares will introduce significant risk of underperformance to the portfolio over longer periods.

This illustrates Simeka's fundamental approach to managing retirement savings: Manage the right risk at the right time!

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