Volume 18 No. 3
March 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 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

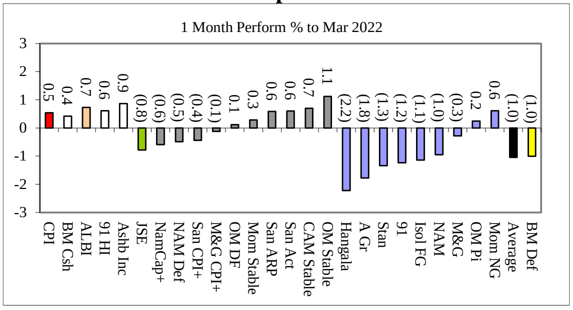
In March 2022, the average prudential balanced portfolio returned -1.0% (February 2021: 1.2%). The top performer is Momentum Namibia Growth Fund with 0.6%, while Hangala Prescient Absolute Balanced Fund with -2.2% takes the bottom spot. For the 3-months Momentum Namibia Growth Fund takes the top spot, outperforming the 'average' by roughly 1.3%. Stanlib Managed Fund underperformed the 'average' by 1.5% 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.

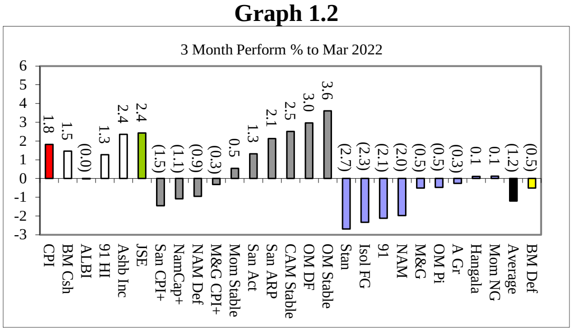
Below is the legend to the abbreviations reflected on the graphs:

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)

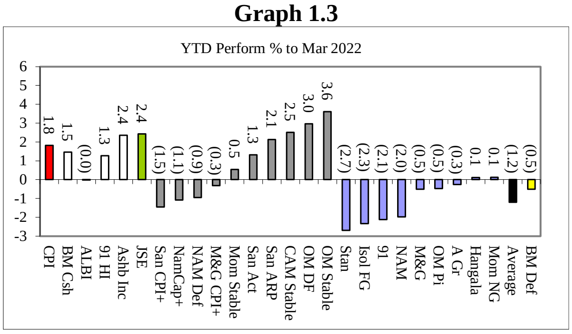
Graph 1.1



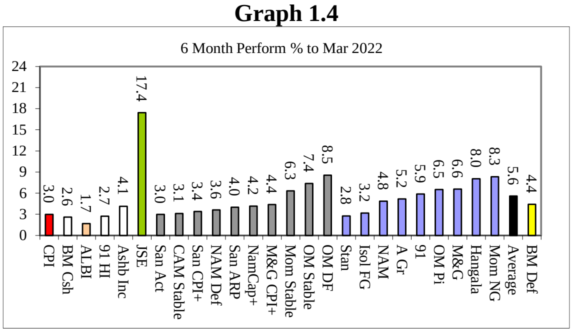
Graph 1.2



Graph 1.3



Graph 1.4



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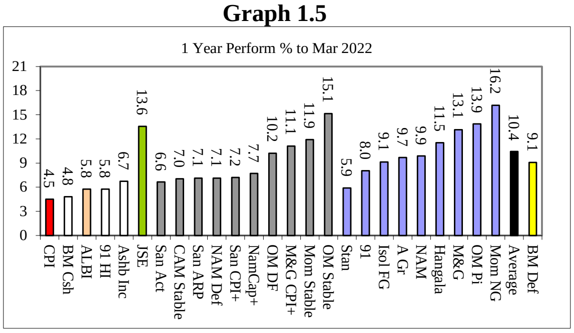
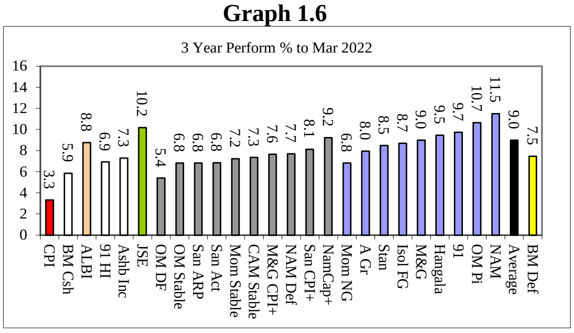
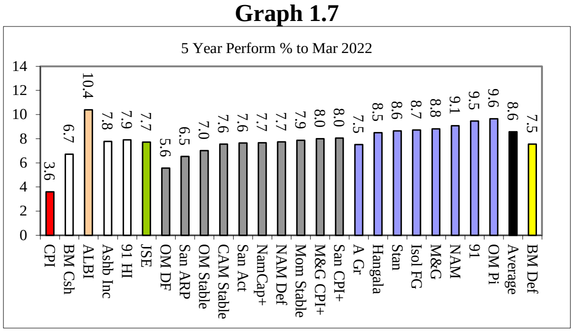
Graph 1.5



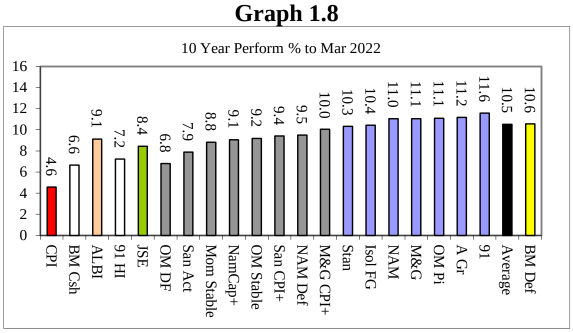
Graph 1.6



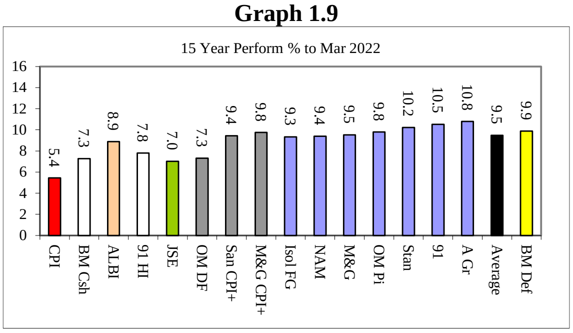
Graph 1.7



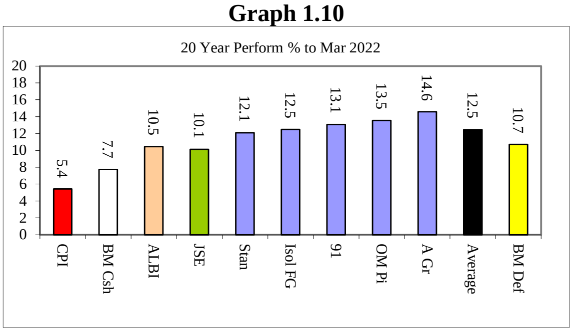
Graph 1.8



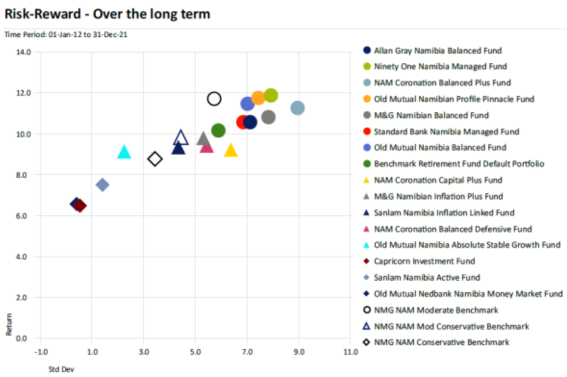
Graph 1.9

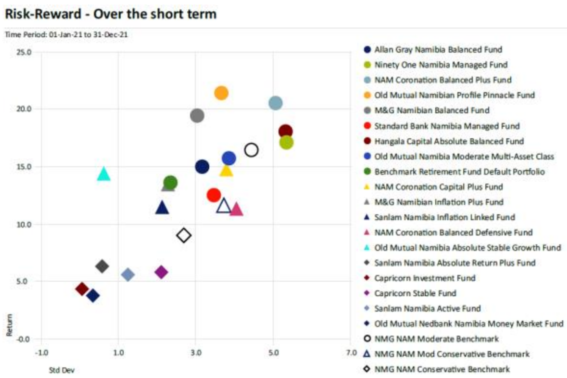


Graph 1.10



Risk/ Return





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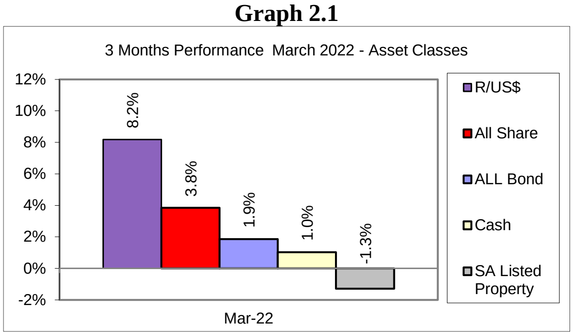
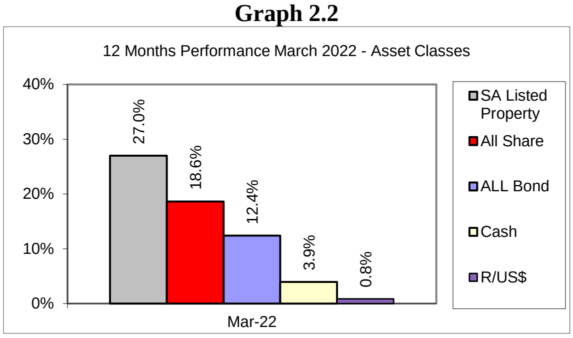
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

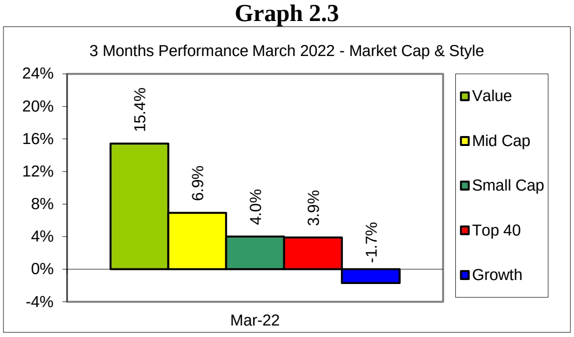
Graph 2.1



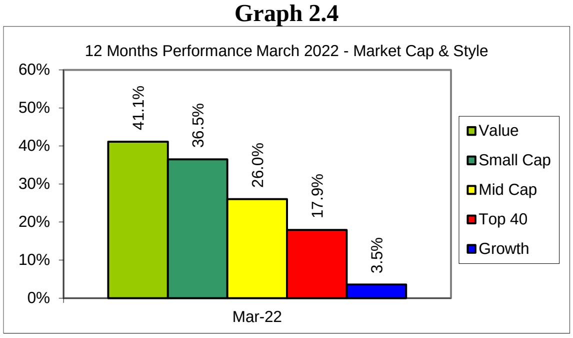
Graph 2.2



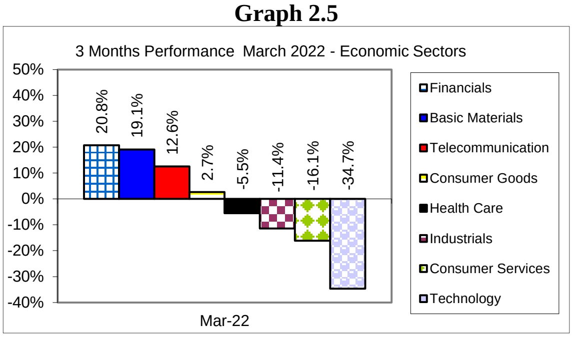
Graph 2.3



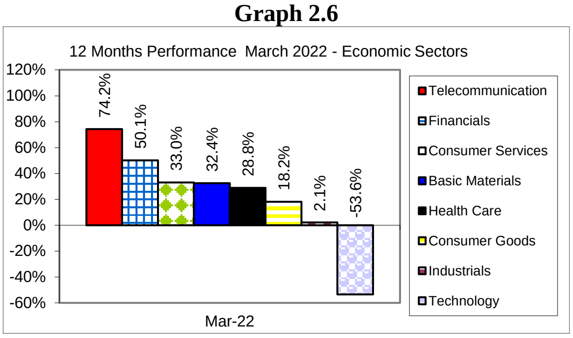
Graph 2.4



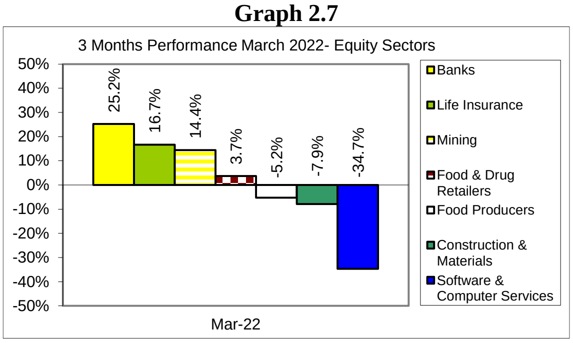
Graph 2.5



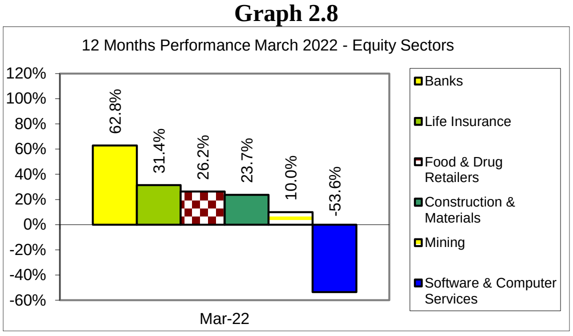
Graph 2.6



Graph 2.7



Graph 2.8



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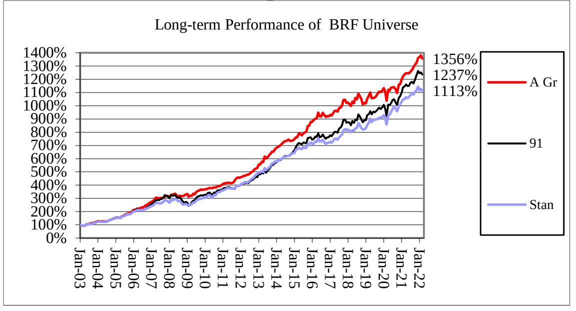
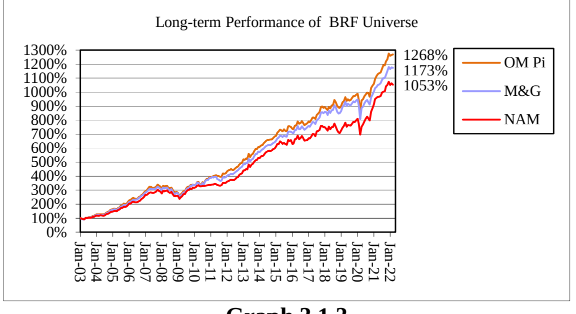
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

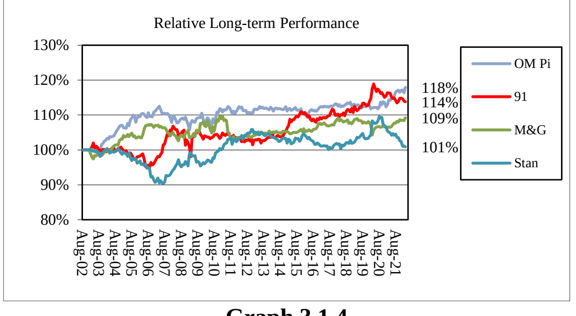
Graph 3.1.1



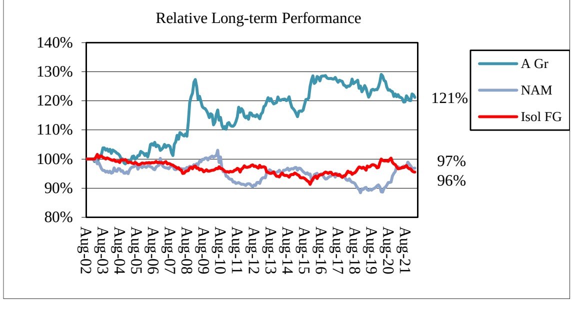
Graph 3.1.2



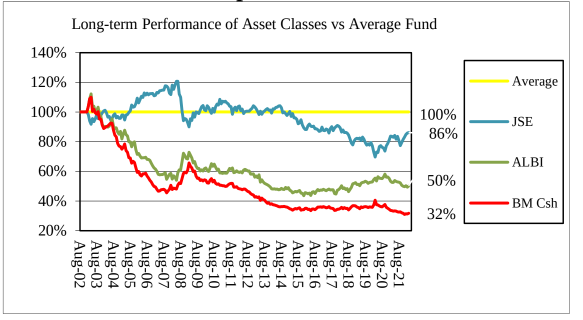
Graph 3.1.3



Graph 3.1.4

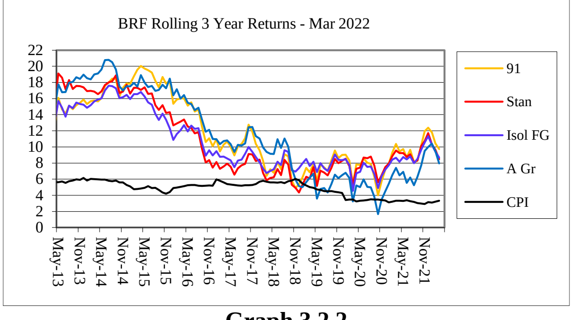


Graph 3.1.5

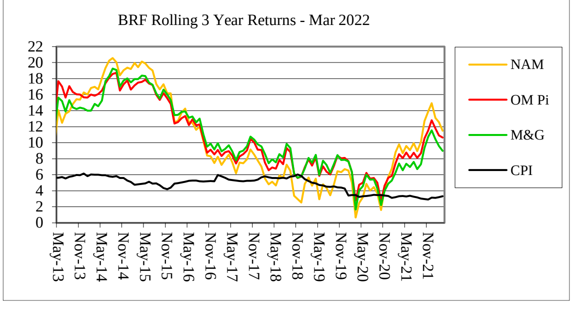


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

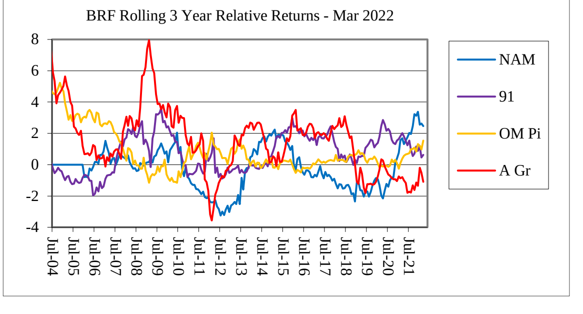


Graph 3.2.2



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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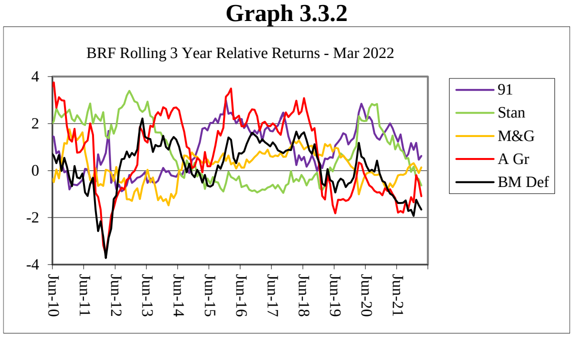
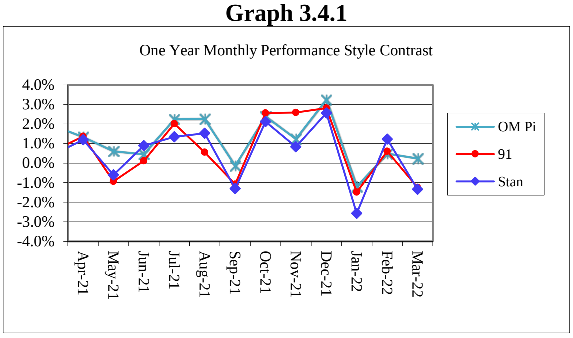
Graph 3.3.2

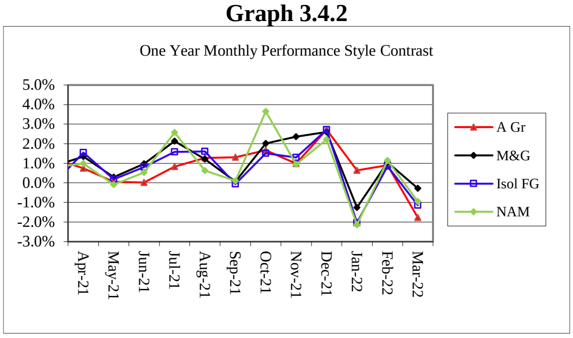


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

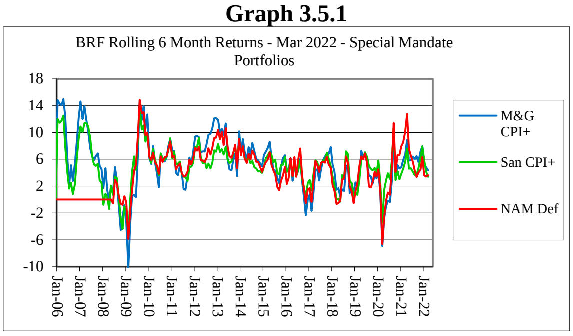


Graph 3.4.2

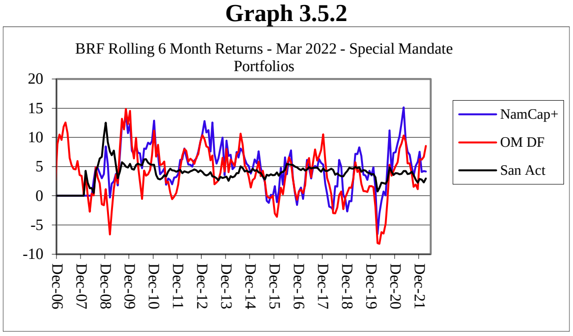


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

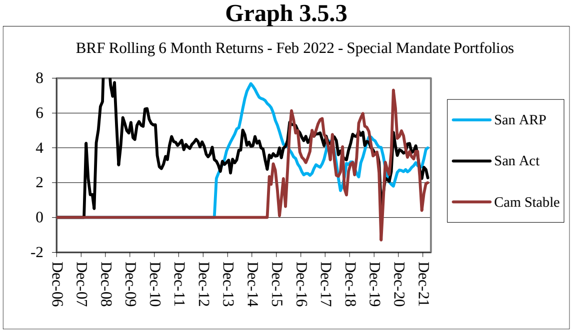
Graph 3.5.1



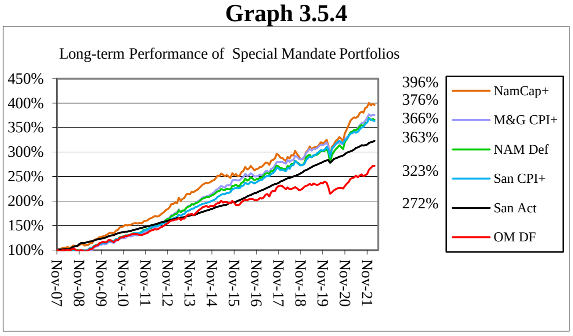
Graph 3.5.2



Graph 3.5.3

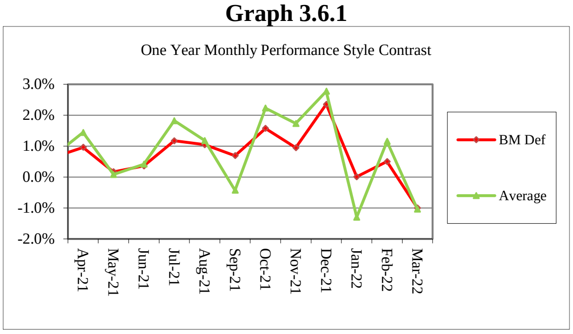


Graph 3.5.4



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

Graph 3.6.1



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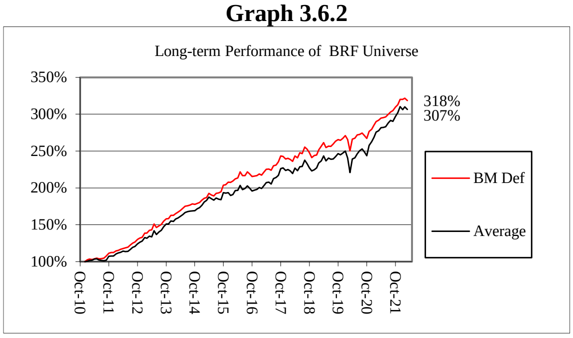
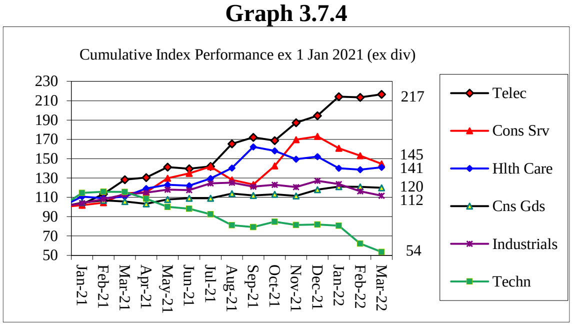
Graph 3.6.2

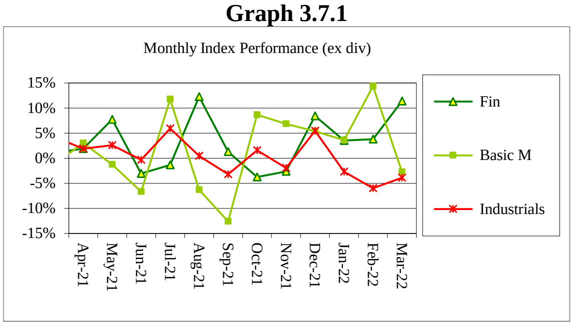


Graph 3.7.4

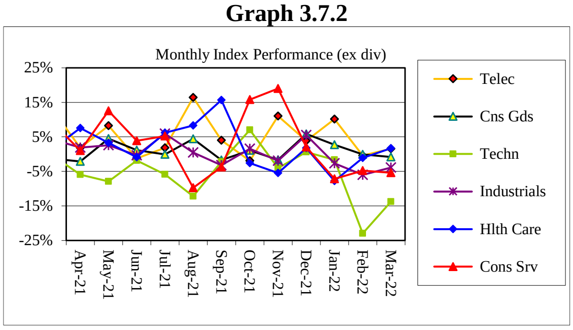


3.7 One-year monthly performance of key indices (excluding dividends)

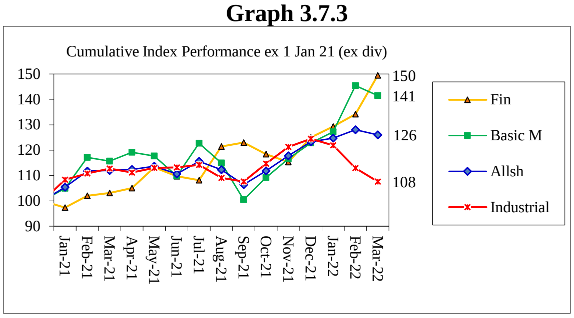
Graph 3.7.1



Graph 3.7.2



Graph 3.7.3



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	8.6
5-year real return - % p.a.	3.9	5.0
Equity exposure - % of portfolio (qtr end December 2021)	47.3	66.1
Cumulative return ex Jan 2011	221.7	209.8
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, causing significant volatility and artificially increased valuations of equities.

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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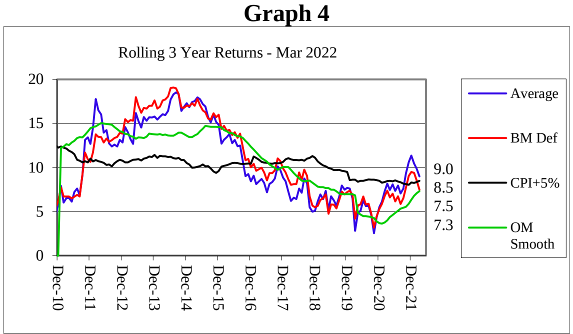
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.9%	3.2%	2.5%
Best annual performance	8.2%	9.5%	11.4%
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	7.2%	6.5%	7.0%

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

Graph 4

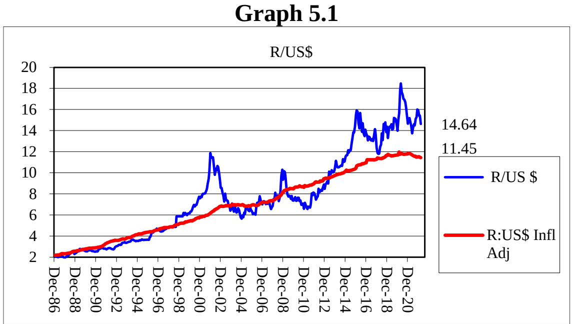


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of March was 7.5%, the average was 9.0% vs. CPI plus 5%, currently on 8.5%.

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 11.45 to the US Dollar, while it stood at 14.64 at the end of March. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

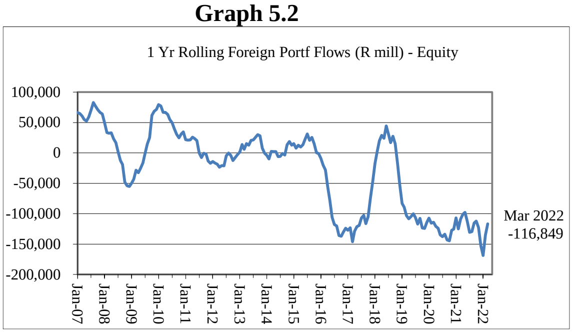


The Rand strengthened by 5.09% in March with a net foreign investment outflow from bonds and equities of R23.4 bn. Over the past 12 months, the Rand strengthened by 0.85%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 293.2 bn (outflow of R 280.7 bn to the end of February 2022).

Since 2006, total net foreign portfolio outflows amounted to R 418.0 bn (February R 394.5 bn outflows).

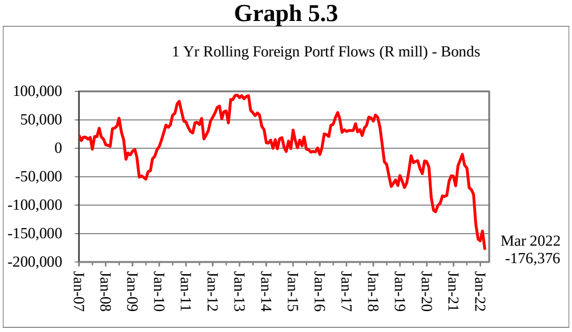
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 116.8 bn at the end of March (outflow of R 135.1 bn year-on-year to the end of February). The month of March experienced a net inflow of R 20.7 bn. Since 2006, foreign net investment outflows from equities amounted to R 408.6 bn (end February net investment outflow of R 429.2 bn). It represents roughly 1.9% 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 176.4 bn over the past 12 months to the end of March (outflow of R 145.6 bn over the 12 months to the end of February). The month of March experienced a net outflow of R 44.1 bn. Since 2006, foreign net investment outflows in bonds amounted to R 9.4 bn (net investment inflows to February R 34.7 bn).

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

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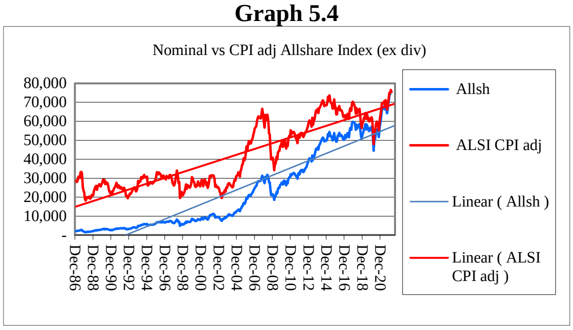
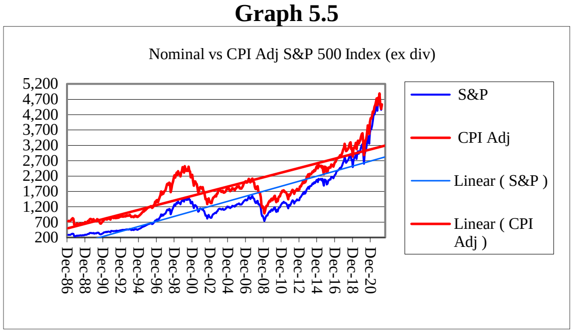
period, excluding dividends, or around 6.2% including dividends.

Graph 5.4



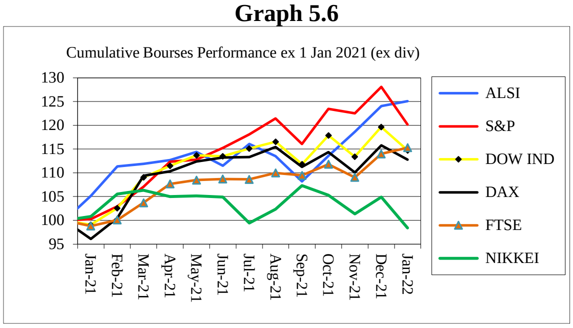
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 8.3% per annum. US inflation over this period was 2.7%. It represents growth in real terms of 5.6% p.a. over 34 years, excluding dividends, or around 7.7% (including dividends).

Graph 5.5



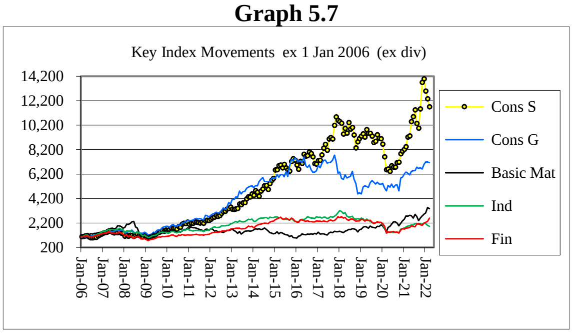
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the JSE All Share (ALSI) as the top-performing index since the start of 2021.

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 better value and poorer value based on fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 16.3%; Consumer Goods: 12.8%; Basic Materials: 7.7%; Financials: 6.1% and Industrials: 4.1%.

Graph 5.7



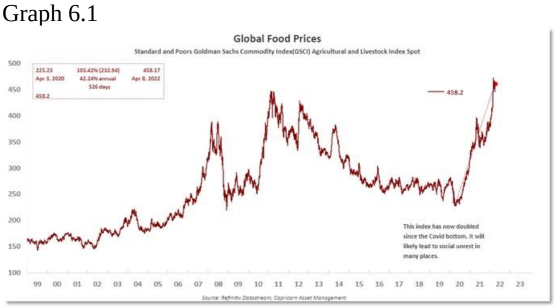
6. How do you invest when a global recession is looming?

By Tilman Friedrich

Corona lock-downs across the world highlighted the flipside of globalisation. The fact that lock-downs disrupted global supply chains made many companies rethink their manufacturing in foreign countries. We still experience electronic components delivery delays to the motor vehicle industry and other tech industries worldwide. The apparent strategic response to these disruptions is to indigenise manufacturing. However, indigenising manufacturing is not that easy, will take time, and negate many globalisation efficiencies. As a result, the cost of goods will increase.

The world now faces the next challenge where the Ukraine conflict badly disrupts the production of staple foods. Food-producing countries are imposing export halts. Again, as a result, food prices are increasing. I coincidentally came across graph 6.1 in CAM Daily Brief of 11 April, showing an extremely steep increase in global food prices since 2020 when COVID struck, and the impact of the Ukraine conflict has not manifested yet!

Graph 6.1



As we know, inflation in the US and the EU has surged beyond 7% and will go higher in the face of what is happening worldwide. The debt depreciation is good for highly indebted governments, provided the real interest rate remains negative.

As graph 6.2 from CAM's Daily Brief of 12 April shows, the 10-year Fed rate is rapidly approaching 3%, after touching a month-end low of 0.53% in July 2020. With the US inflation running at about 8%, an investment in 10-year

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Benchmark Retirement Fund

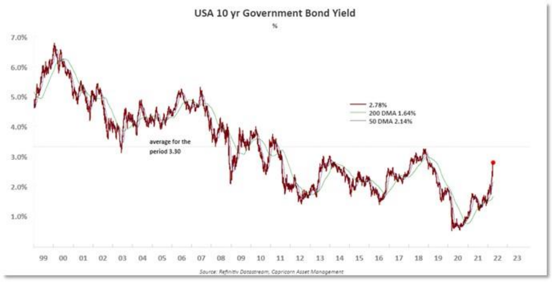
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 2022

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.

US government bonds is depreciating at more than 5% per year and will be worth only half today's value in about 13 years. Unfortunately, interest rates will move in sympathy with US interest rates for the rest of the world. However, only the US has the luxury of setting interest rates at a level affordable to the US economy through being the issuer of the world's only reserve currency.

Graph 6.2



The US Dollar's so-called safe-haven status means that the world will continue investing in US Dollars even if US real rates are negative. In contrast, developing economies will have to offer real interest rates to protect their currencies. Increasing inflation and interest rates in the US will force other economies to follow these trends. To them, the consumer's salary will lag the upward trend in inflation, putting them under severe economic pressure. They will consume less, and it may cause a worldwide recession. Empirical evidence shows that a recession usually follows around 18 months after the stocks yield curve inverts. Quoting from Mauldin Economics 'Smart Money' -"In the US it predicted almost every recession over the past 50 plus years. Last month [in March], the interest rate on the 10-year US bond sank **below** the interest rate on a 2-year bond. This "upside-down" situation is what investors call an *inverted yield curve,* ***a*nd it's typically a reliable sign that something is "off" with the US economy...** It's rare for the yield curve to invert. It's only happened eight times since 1969. It last happened in September 2019. The COVID-19 recession followed seven months later. The time before that, it happened in January 2006. Roughly two years later, we entered the 2008 financial crisis. US stocks cratered 57% in 08–09…"

When economies move into recession because of declining consumer spending, company profit margins and earnings will drop. If the investor is prepared to pay the same multiple for every Dollar a accompany earns, lower earnings produce lower share prices. However, it is unlikely that the investor will want to pay the same multiple but rather pay less because there are fewer investors due to the high interest rates. Suppose the predicted recession happens in the next 18 months; we must expect share prices and share markets to decline.

And quoting from the same commentary: "The yield curve inversion typically warns of a recession over a year in advance. From the time the yield curve first inverts, a recession hits about 18 months later, on average. Eighteen months is a long time. In 18 months, we'll be talking about the next presidential election. Your kids will be two grades older. And in the 18 months, after the yield curve inverts, stocks usually perform well... and sometimes they perform GREAT. The last time the yield curve inverted in 2019, the S&P 500 gained 19% before the COVID crash. When it happened in 2006, the S&P 500 crept up 22% before the onset of the financial crisis. And the time before that, in 1998, stocks soared 55% before peaking. And the Nasdaq jumped 210% to form the infamous dot-com bubble. Not only is there a long lag between this signal flashing red and stocks topping out—you could say a yield curve inversion is a BUY signal for stocks, at least in the short- and medium-term…"

Conclusion

In the short- and medium-term, share markets are not yet threatened by a recession, going by the empirical evidence above. However, the investor must prepare for it to happen. One can follow various strategies to avoid a severe impact on one's share portfolio, such as moving into commodities, basic consumer goods representing life necessities such as food and beverages producers, health care providers, and the energy sector. One can protect your portfolio through hedging strategies, while Gold is always a good store of value in a chaotic world. Owning life necessities-producing assets could also offer opportunities for protecting one's share portfolio. I would also expect an inverted yield curve to offer fixed interest investment opportunities to the astute stock picker.

Furthermore, the relatively strong Rand adds to the opportunity by expatriating capital offshore. This opportunity requires the investor to diversify offshore and be in the market to benefit from the expected market upswing as markets adapt to the Ukraine crisis.

I now repeat last month's statement: Investors who align with my thinking may invest boldly in equities and use the opportunity to move capital offshore. However, patience is required because the situation may still take a while to resolve.
Investors concerned about worst coming to worst would invest at home. Since Namibia and South Africa are commodity-based economies that should be in demand at this time, equities are also an asset class with fair growth prospects.