Volume 18 No. 4
April 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2022

By Staff Writer – RFS Fund Administrators (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

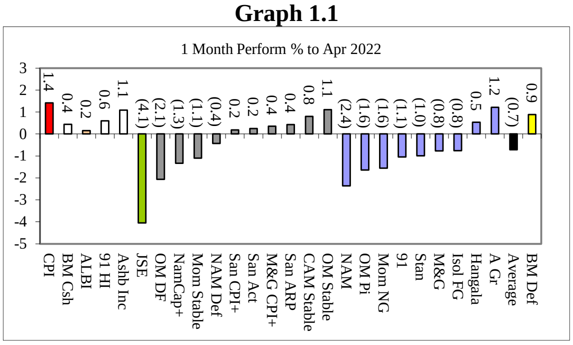
In April 2022, the average prudential balanced portfolio returned -0.7% (March 2022: -1.0%). The top performer is Allan Gray Balanced Fund with 1.2%, while NAM Coronation Balanced Plus Fund with -2.4% takes the bottom spot. For the 3-months Hangala Prescient Absolute Balanced Fund takes the top spot, outperforming the ‘average’ by roughly 1.2%. NAM Coronation Balanced Plus Fund underperformed the ‘average’ by 1.6% 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.

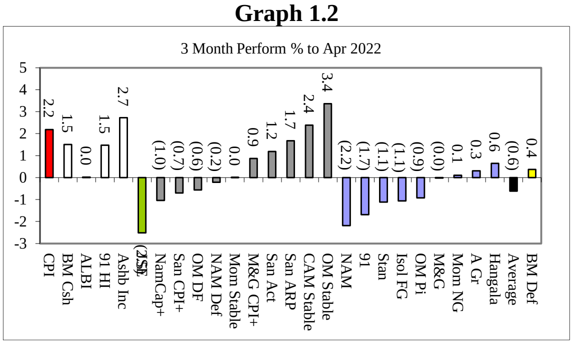
Below is the legend to the abbreviations reflected on the graphs:

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	B.M. Csh (no color)
NinetyOne High Income (interest bearing assets)	91 H.I. (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	O.M. 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	O.M. Pi (blue)
Prudential Managed	Pru (blue)
Stanlib Managed	Stan (blue)

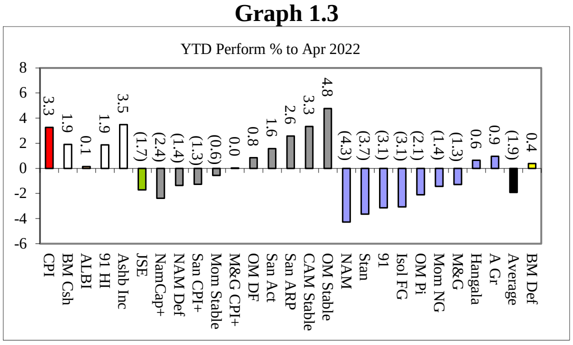
Graph 1.1



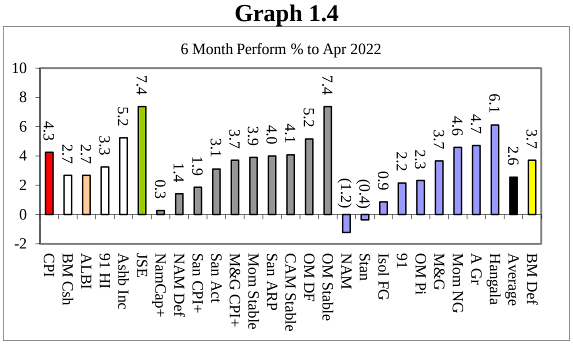
Graph 1.2



Graph 1.3



Graph 1.4



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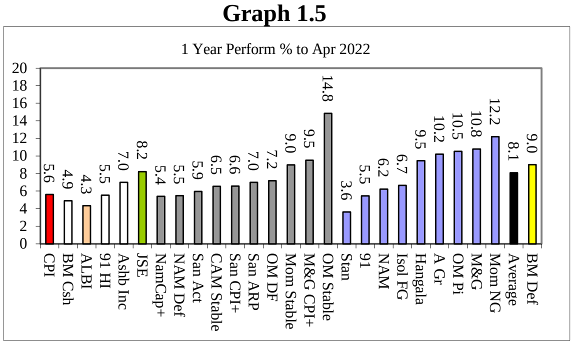
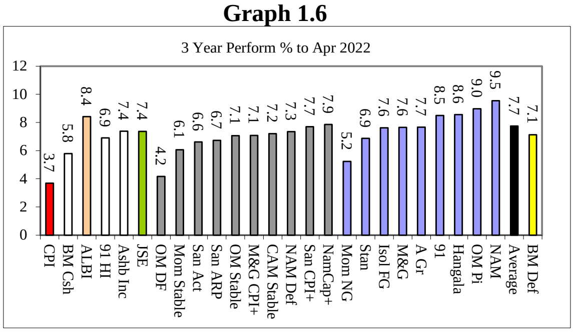
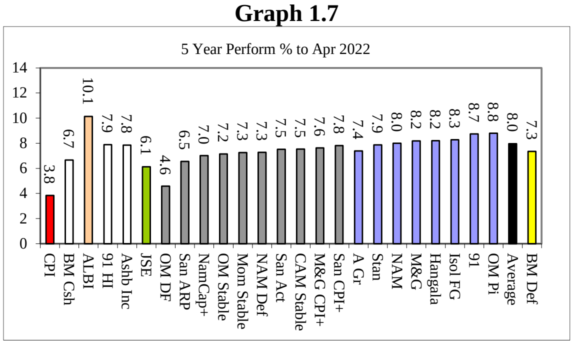
Graph 1.5



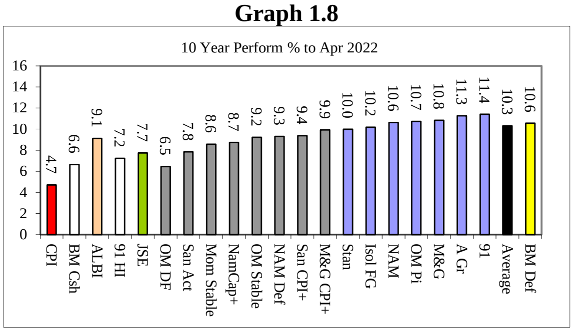
Graph 1.6



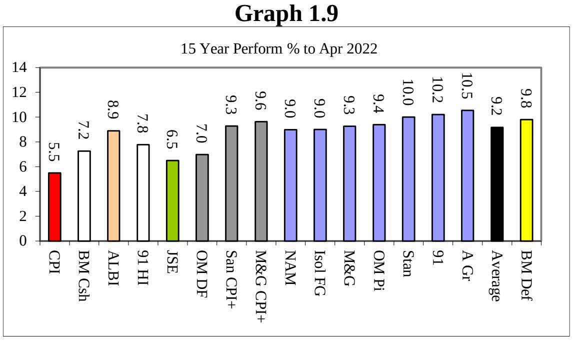
Graph 1.7



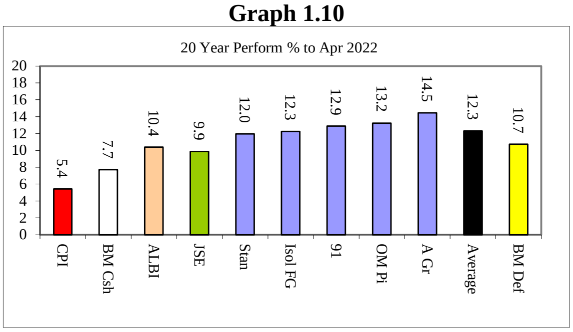
Graph 1.8



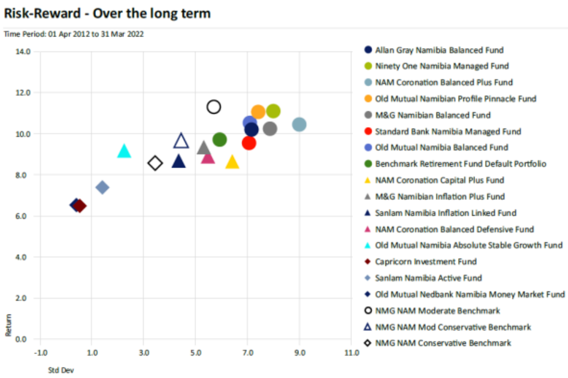
Graph 1.9

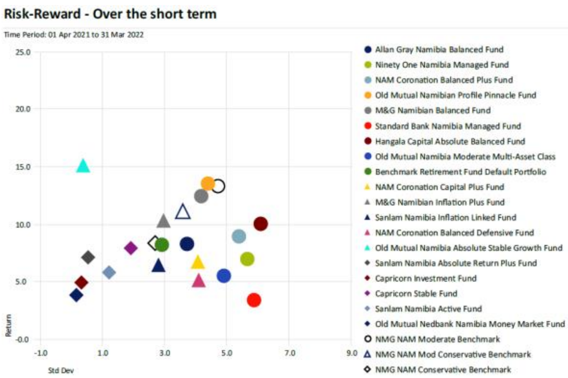


Graph 1.10



Risk/ Return





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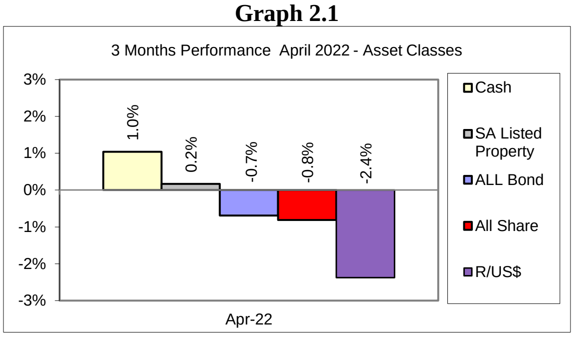
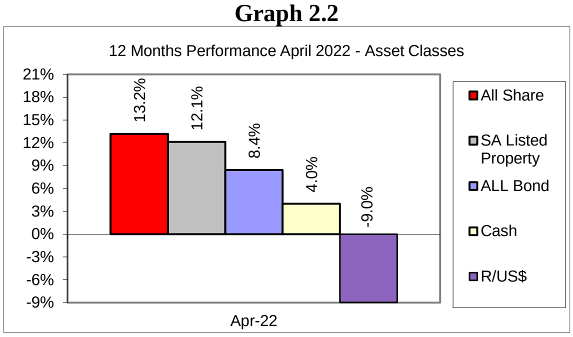
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

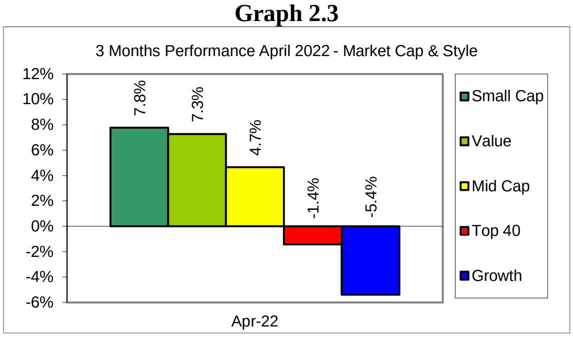
Graph 2.1



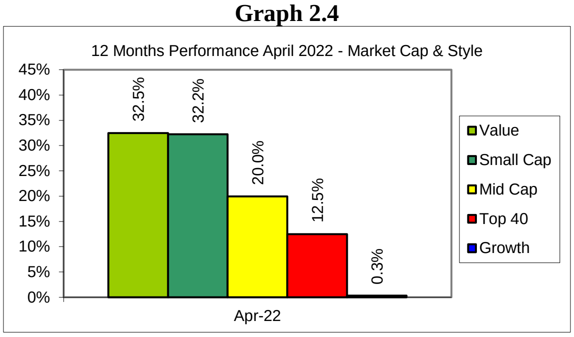
Graph 2.2



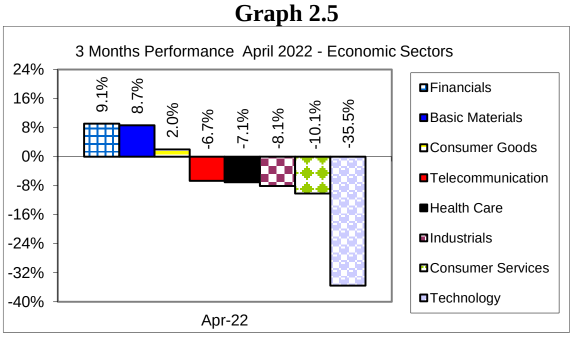
Graph 2.3



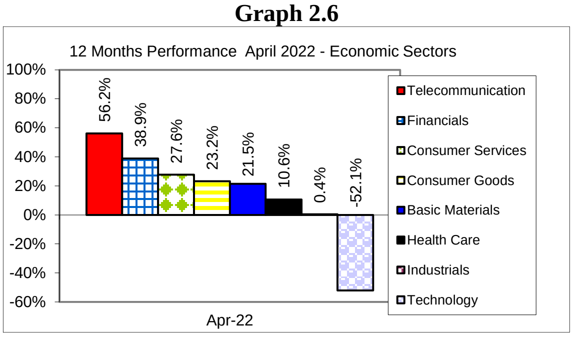
Graph 2.4



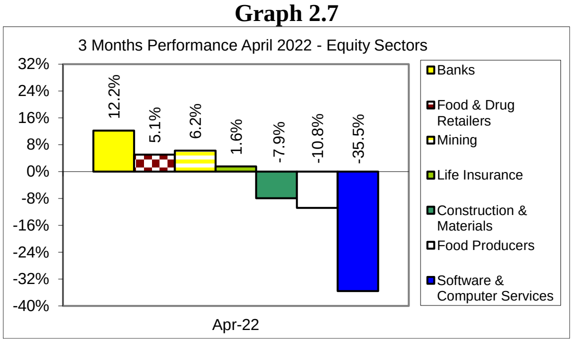
Graph 2.5



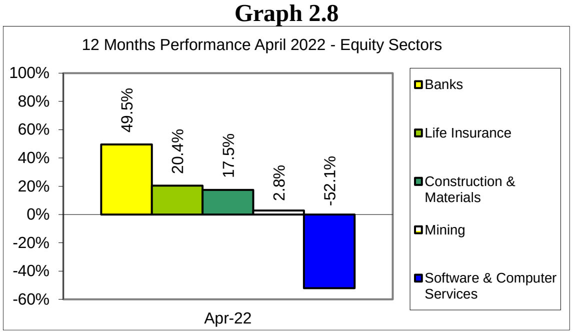
Graph 2.6



Graph 2.7



Graph 2.8



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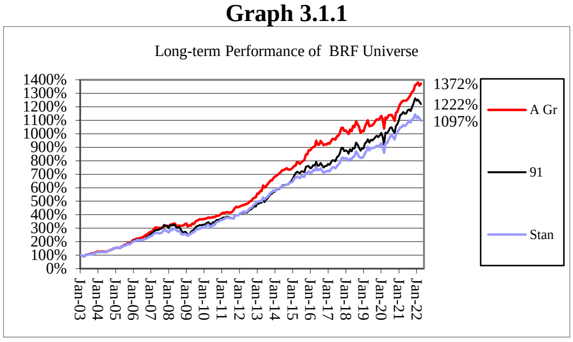
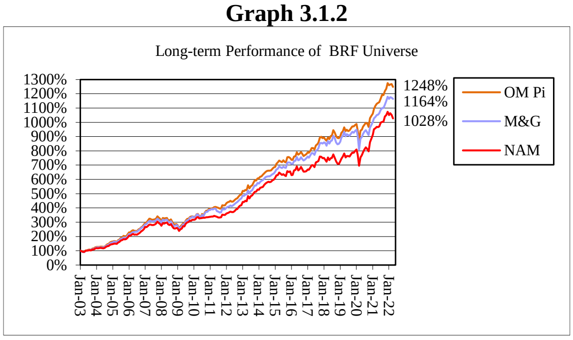
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

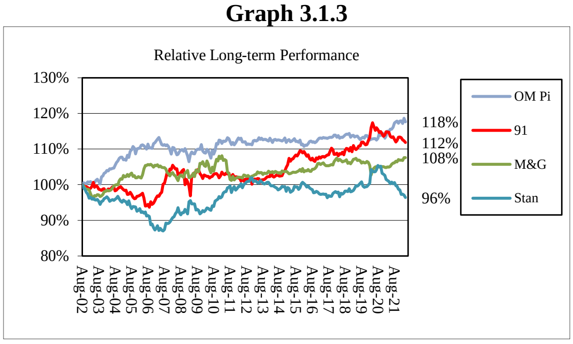
Graph 3.1.1



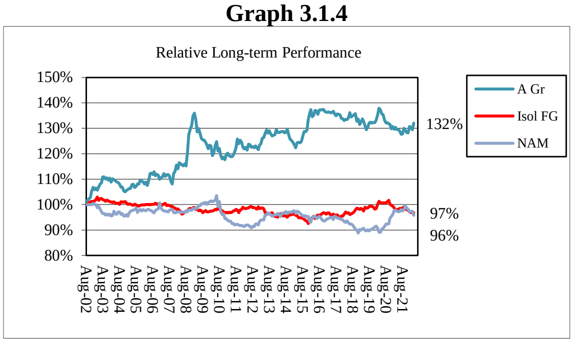
Graph 3.1.2



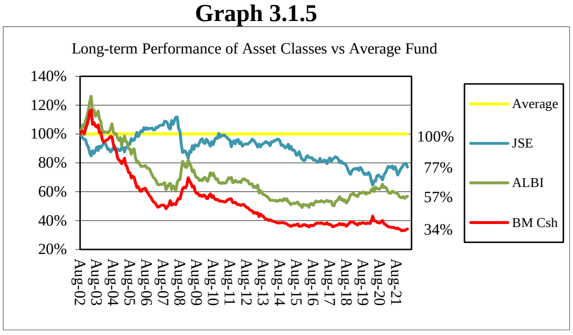
Graph 3.1.3



Graph 3.1.4

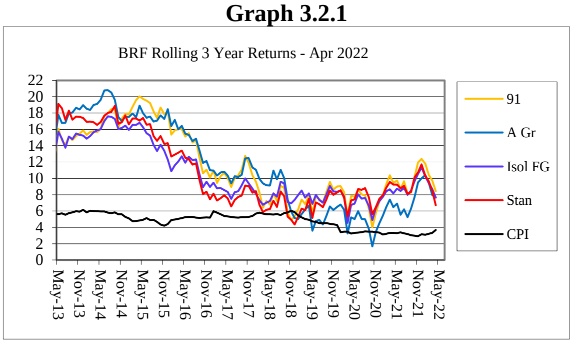


Graph 3.1.5

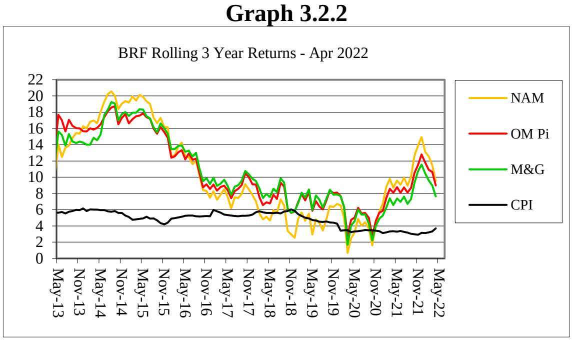


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

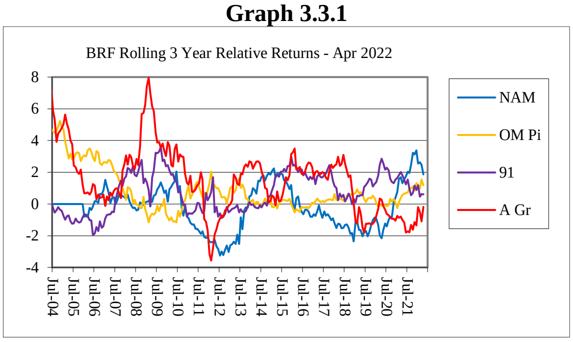


Graph 3.2.2



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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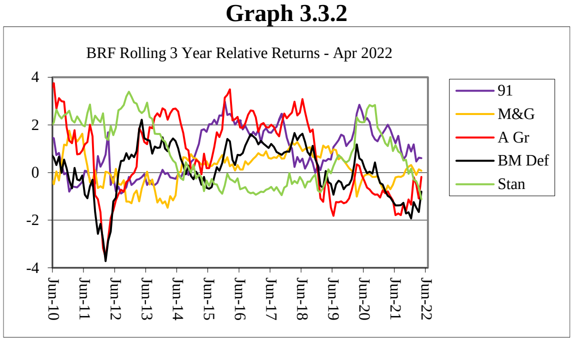
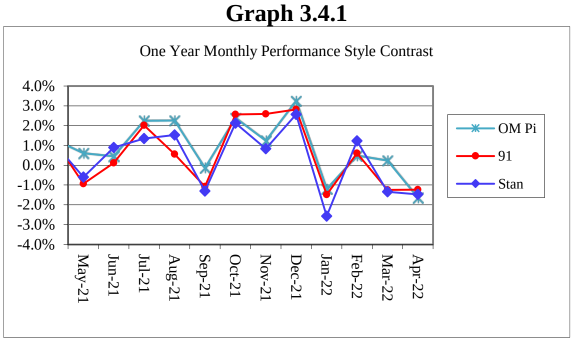
Graph 3.3.2

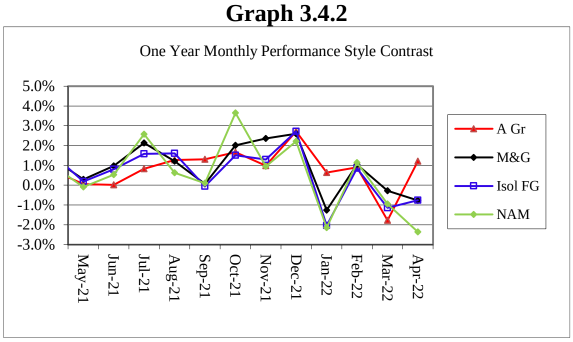


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

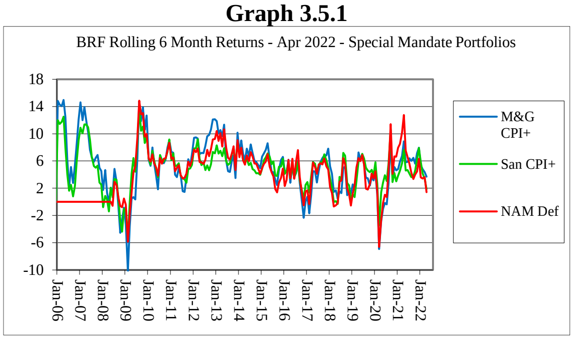


Graph 3.4.2

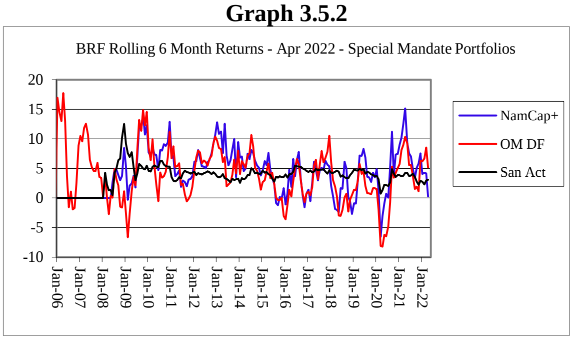


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

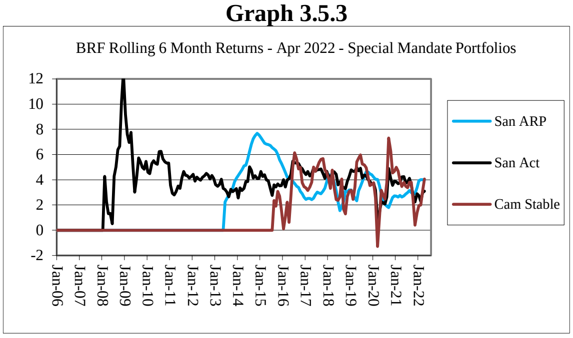
Graph 3.5.1



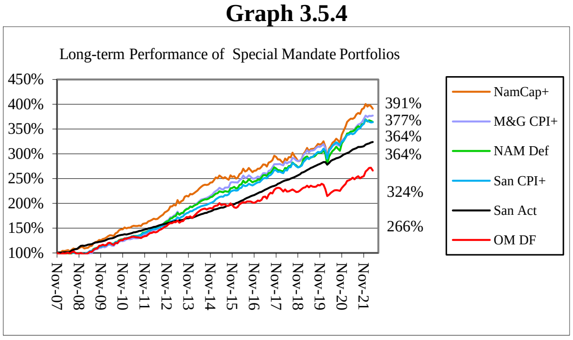
Graph 3.5.2



Graph 3.5.3

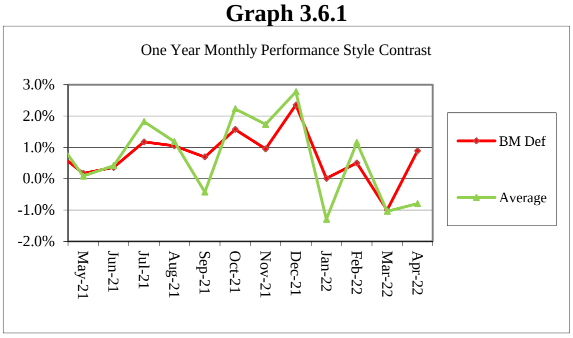


Graph 3.5.4



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

Graph 3.6.1



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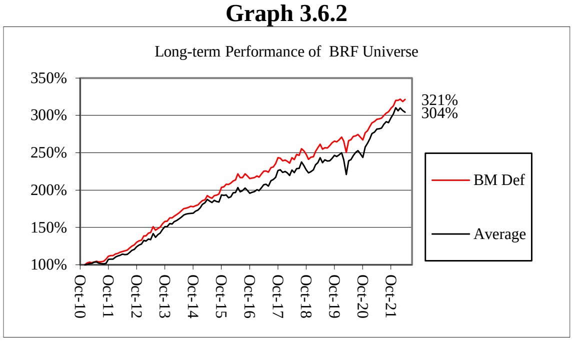
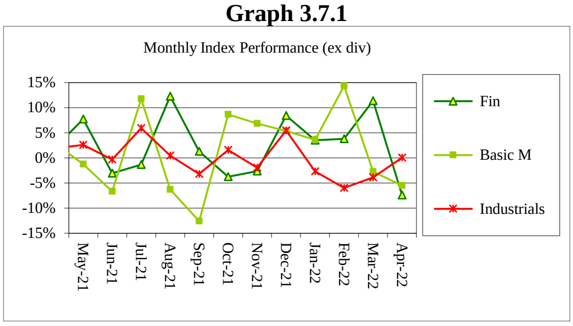
Graph 3.6.2

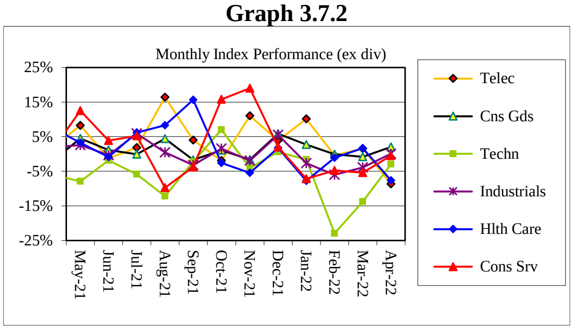


3.7 One-year monthly performance of key indices (excluding dividends)

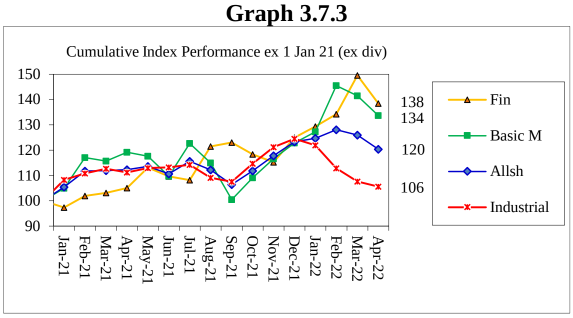
Graph 3.7.1



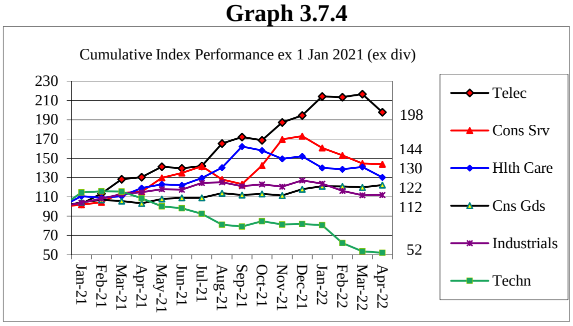
Graph 3.7.2



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.	7.3	8.0
5-year real return - % p.a.	3.5	4.2
Equity exposure - % of portfolio (qtr end March 2022)	45.1	64.8
Cumulative return ex Jan 2011	221.3	204.2
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 45% 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, 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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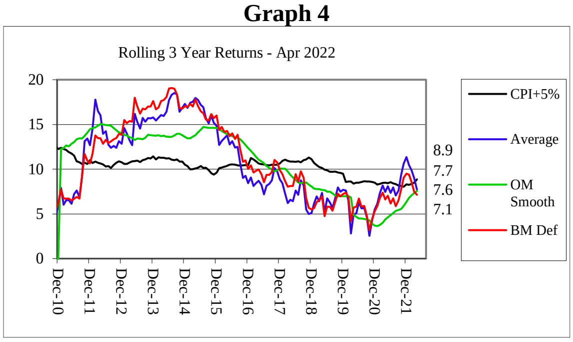
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.8%	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 May 2019 to April 2022. These statistics show up the performance volatility of these three risk profiles.

Graph 4

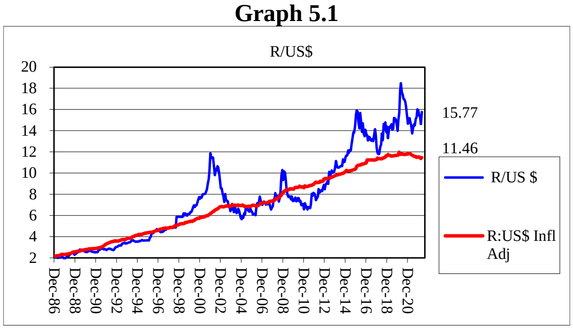


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of April was 7.1%, the average was 7.7% vs. CPI plus 5%, currently on 8.9%.

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 11.46 to the U.S. Dollar, while it stood at 15.77 at the end of April. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

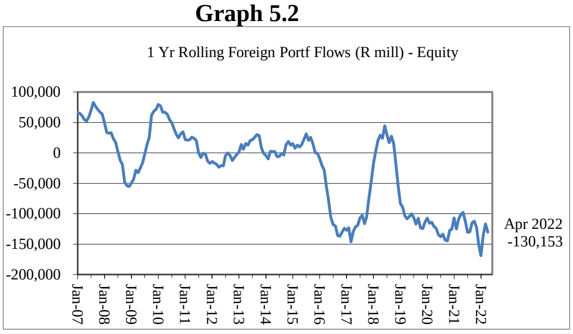


The Rand weakened by 7.72% in April with a net foreign investment outflow from bonds and equities of R20.3 bn. Over the past 12 months, the Rand weakened by 8.97%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 308.1 bn (outflow of R 293.2 bn to the end of March 2022).

Since 2006, total net foreign portfolio outflows amounted to R 438.3 bn (March R 418.0 bn outflows).

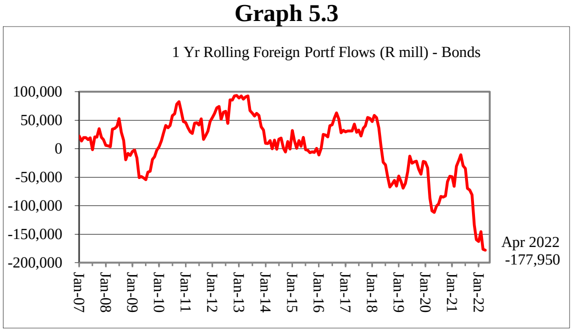
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 130.2 bn at the end of April (outflow of R 116.8 bn year-on-year to the end of March). The month of April experienced a net outfolw of R 13.2 bn. Since 2006, foreign net investment outflows from equities amounted to R 421.8 bn (end March net investment outflow of R 408.6 bn). It represents roughly 2.0% 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 S.A. bonds of R 178.0 bn over the past 12 months to the end of April (outflow of R 176.4 bn over the 12 months to the end of March). The month of April experienced a net outflow of R 7.1 bn. Since 2006, foreign net investment outflows in bonds amounted to R 16.5 bn (net investment outflows to March R 9.4 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 10.7% per year since January 1987, excluding dividends of 3.1%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 3.0% p.a. over this period, excluding dividends, or around 6.1% including dividends.

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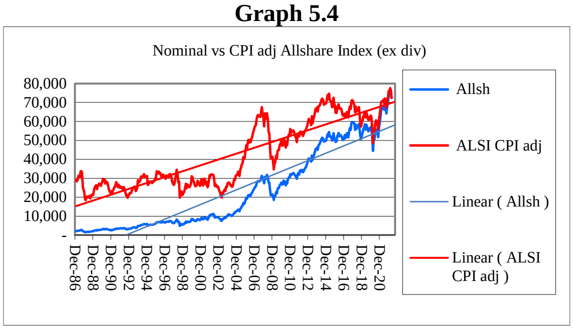
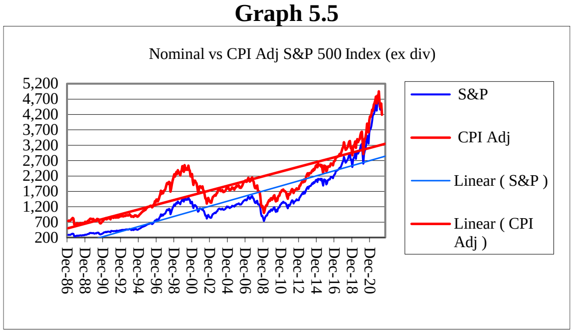
Graph 5.4



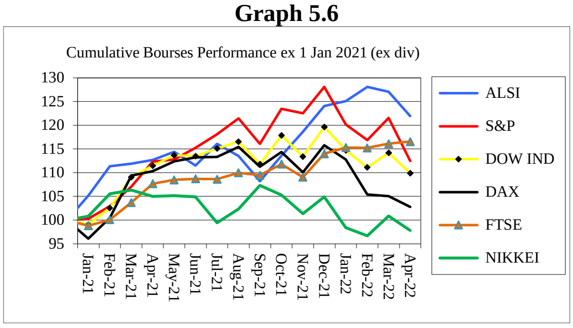
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 8.0% per annum. U.S. inflation over this period was 2.7%. It represents growth in real terms of 5.3% p.a. over 35 years, excluding dividends, or around 7.4% (including dividends).

Graph 5.5



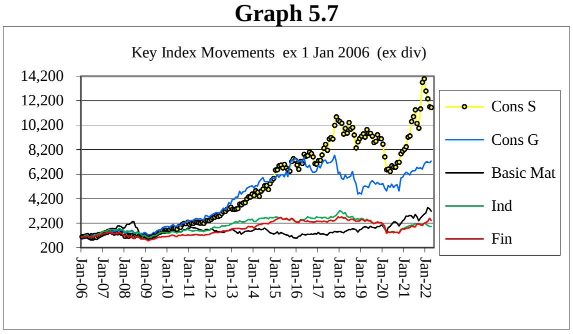
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the JSE All Share (ALSI) as the top-performing index since the start of 2021.

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: 16.2%; Consumer Goods: 12.9%; Basic Materials: 7.3%; Financials: 5.5% and Industrials: 4.1%.

Graph 5.7



6. Invest in what you consume to hedge against inflation

By Tilman Friedrich

Little has changed in global investment markets since last month's commentary. Energy costs, inflation, and international interest rates, including S.A. and Namibia, continue to increase. Food shortages are growing, and the Ukraine crisis shows no sign of remission; instead, it is heating up further.

The Ukraine crisis is just a symptom of politics that investors must understand before investing. Politics constitute the outer framework within which economies and markets operate. As much as one may think that we live in a free-market economy, the market is not really free as the political framework sets it narrow constraints.

The U.S. stated that its goal in Ukraine is to weaken Russia, and it is doing all in its powers to prop up Ukraine with modern weapons and to instigate Europe to do the same. Simultaneously, the U.S. and the E.U. are tightening their economic measures against Russia even though it comes at a hefty price to the E.U. in particular.

The U.S. is the self-proclaimed global hegemon. Its most effective tool for holding on to this position is the U.S. Dollar. Russia's proclaimed goal is a multipolar world, and it shares this goal with China. If world trade is undertaken in multiple currencies, one can achieve a multipolar world. It requires trade partners to trade in currencies other than the U.S. Dollar, and they have taken steps in that direction. Replacing the U.S. Dollar with other currencies poses a threat to the U.S. hegemony and hence the U.S.' resolve to stop Russia from achieving its goal of a multipolar system.

The argument for a U.S. hegemony is that it offers global stability. The economic environment has been pretty stable for a long time, as it promoted U.S. economic interests. Unfortunately, the same has not applied to the political environment. Was the international political instability despite the U.S. military and economic dominance or its result? Should countries prefer economic stability at the cost of their freedom and autonomy? Is the acceptance of U.S. hegemony because of the economic stability it offers to the world not equivalent to accepting an autocratic

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2022
By Staff Writer – RFS Fund Administrators (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.

government system because it avoids political partisanship and the friction it causes in democratic societies?

Whatever one's preferences, many countries prefer their freedom and autonomy even if they cannot say so publicly. As long as this is the case, we will have strife, and we will have many countries quietly resisting and waiting for an opportunity to openly and actively resist. No self-respecting country will accept domination by another country forever. Russia and China are a point in case. The question is whether the U.S. will knock Russia back into submission during the Ukraine crisis. If it is successful, the prevailing upheaval in the global economy should calm down, and markets should become more predictable. If it is not successful, predicting the effect on markets is tough. Uncertainty will prevail for an extended time and will likely increase dramatically until the new multipolar order settles down.

Judging by the U.S. Dollar strength ascribed to the international flight of capital to the 'safe U.S. haven,' investors generally expect the U.S. ideology to prevail. We have witnessed the Rand depreciating to the U.S. Dollar from 14.45 on 25 March 2022 to 16.03 on 6 May 2022. While 16.03 is far off the COVID induced flash fall-out in April 2020, when the Rand briefly hit 19 to the U.S. Dollar, the opportunity for expatriating money offshore is gone. Uncertainty is the order of the day and is evident in the large increase in the US CBOE Volatility Index. It is now twice as high as before the global COVID lock-downs hit markets.

Conclusion

The main theme for investors is the prevailing uncertainty. As inflation and interest rates creep up, a fixed interest investment is a sure way to lose money. In these times, one must stay out of the cross-fire, meaning that one should not invest where there is a risk that the investment may get sucked into the conflict. The developing world is well-advised to stay out of this conflict even if the U.S. is considering those not supporting it to be against the U.S. Developing countries that remain on the sideline are good investment destinations since most of them are commodity-based economies. Commodities should fare well during the conflict we are currently experiencing. Amongst those countries will be Namibia and, hopefully, South Africa too, meaning that "local is lekker"!

As I regularly point out, diversification is the key to successful investment. That does not mean that one should not channel your investments into asset classes and assets less exposed to risk, such as the risks I am referring to above. Under the prevailing environment, commodities, basic consumer goods representing life necessities such as clothing, food and beverages producers, health care providers, and the energy sector should hold out good prospects. Inflation is rising rapidly, but salaries will trail the rise in inflation. As a result, consumers will experience increasing financial pressures. Owning life necessities-producing assets should offer opportunities to hedge one's cost of living against the ravages of inflation.