Volume 18 No. 7
July 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 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

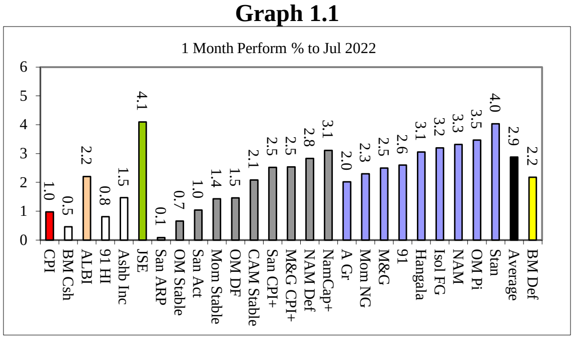
In July 2022, the average prudential balanced portfolio returned 2.9% (June 2022: -3.7%). The top performer is Stanlib Managed Fund with 4.0%, while Allan Gray Balanced Fund with 2.0% takes the bottom spot. For the 3-months Allan Gray Balanced Fund takes the top spot, outperforming the 'average' by roughly 1.2%. Momentum Namibia Growth Fund underperformed the 'average' by 1.9% 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.

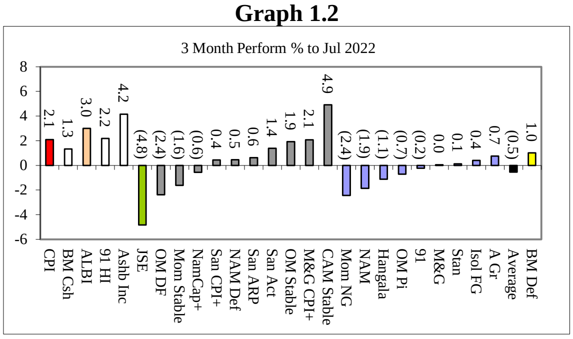
Below is the legend to the abbreviations reflected on the graphs:

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)
M&G Inflation Plus	M&G 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)
M&G Managed	M&G (blue)
Stanlib Managed	Stan (blue)

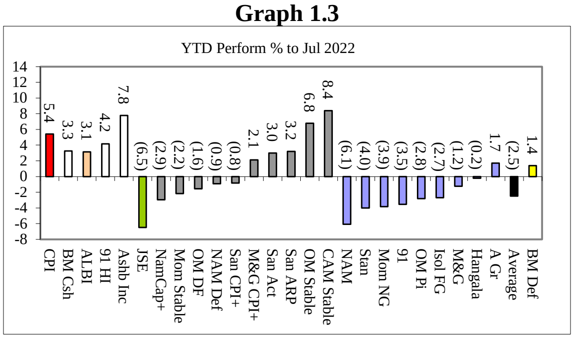
Graph 1.1



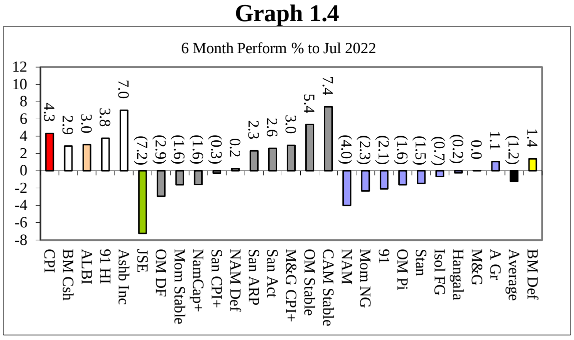
Graph 1.2



Graph 1.3



Graph 1.4



Volume 18 No. 7
July 2022

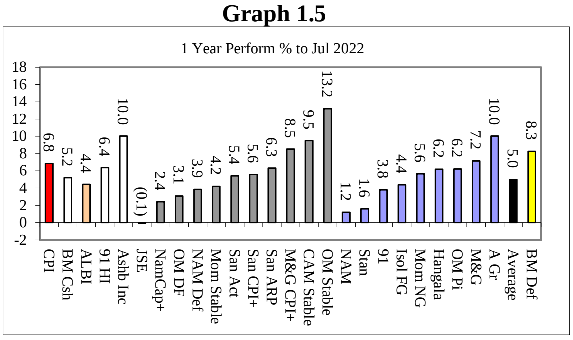
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

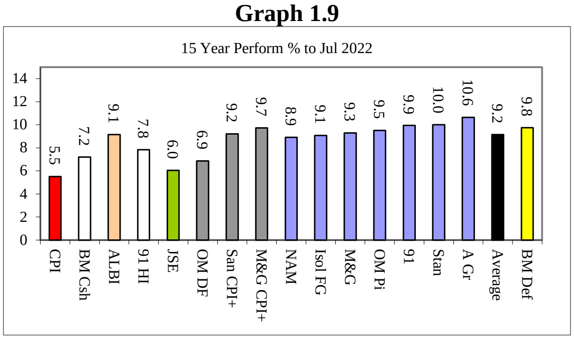
By Staff Writer – RFS Fund Administrators (Pty) Ltd

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

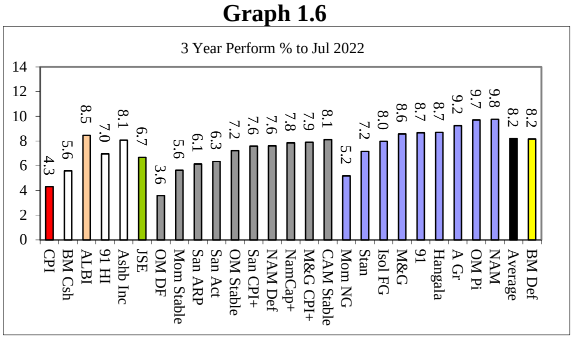
Graph 1.5



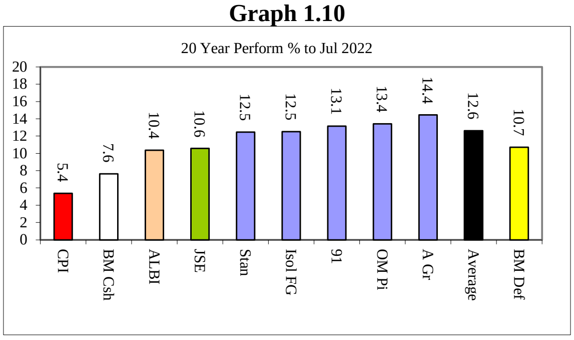
Graph 1.9



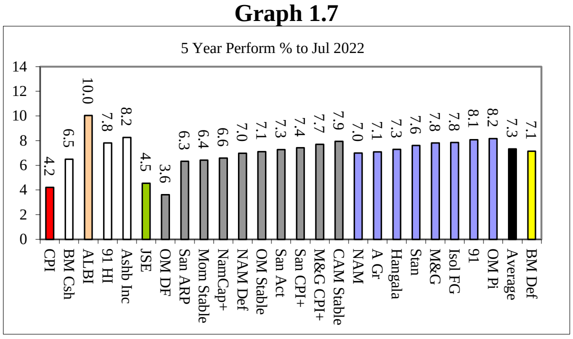
Graph 1.6



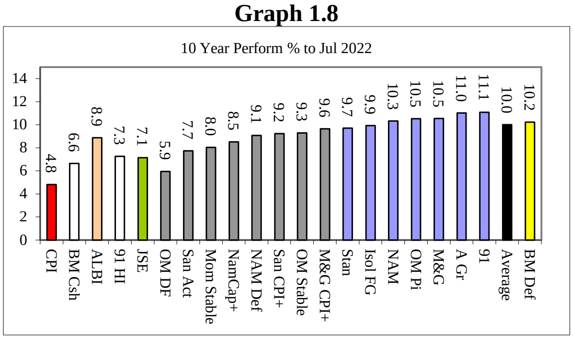
Graph 1.10



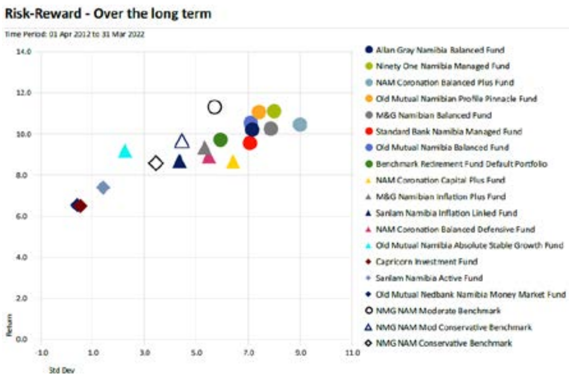
Graph 1.7

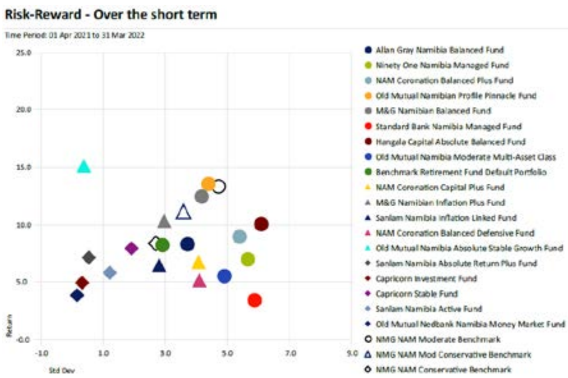


Graph 1.8



Risk/ Return





Volume 18 No. 7
July 2022

Benchmark Retirement Fund

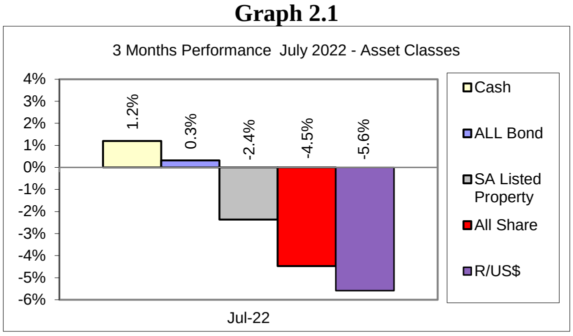
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

By Staff Writer – RFS Fund Administrators (Pty) Ltd

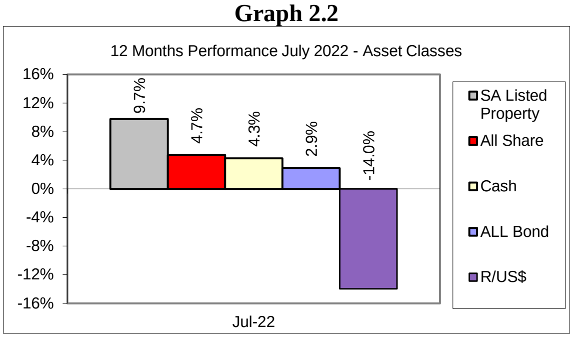
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

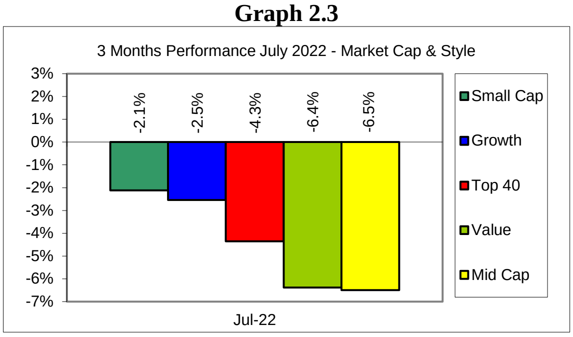
Graph 2.1



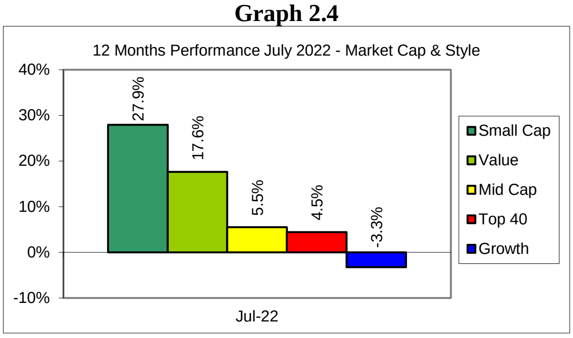
Graph 2.2



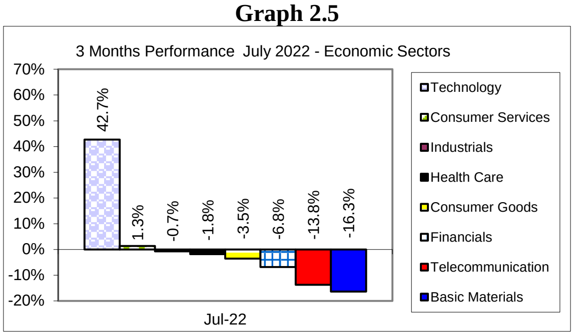
Graph 2.3



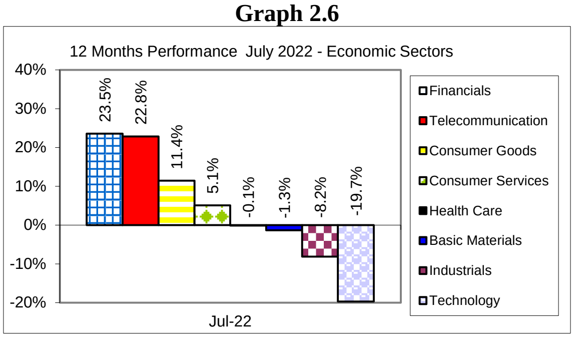
Graph 2.4



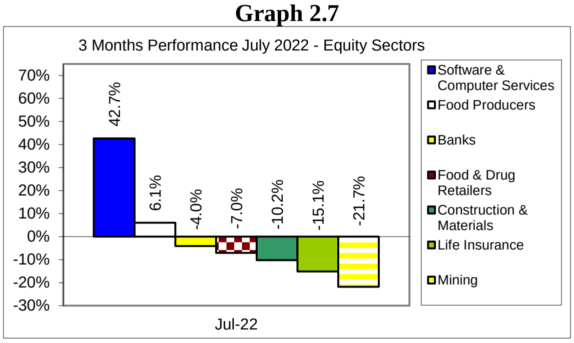
Graph 2.5



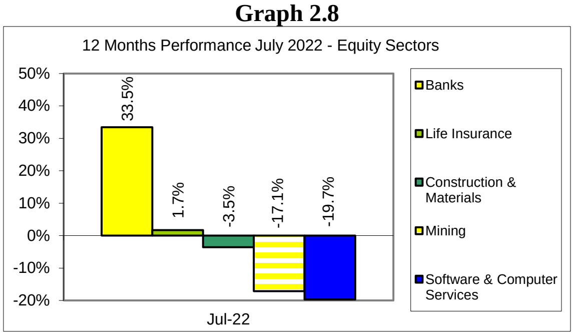
Graph 2.6



Graph 2.7



Graph 2.8



Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

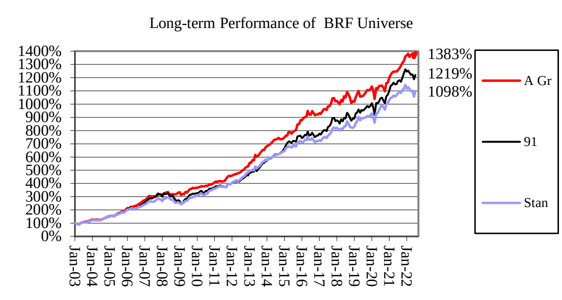
By Staff Writer – RFS Fund Administrators (Pty) Ltd

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

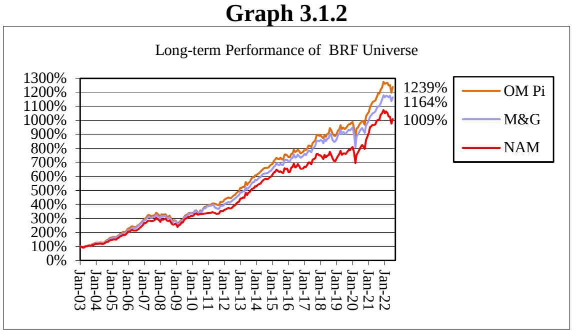
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

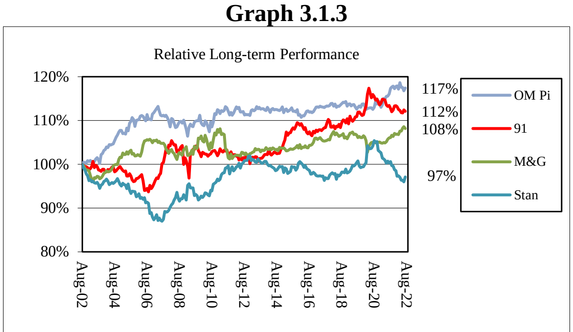
Graph 3.1.1



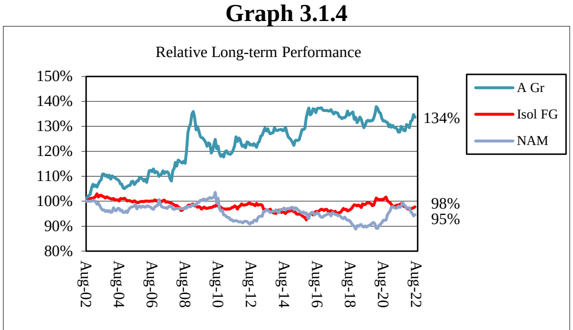
Graph 3.1.2



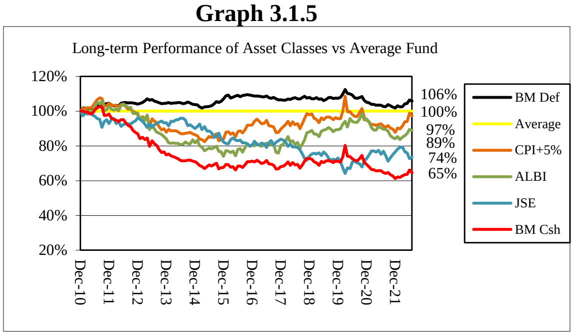
Graph 3.1.3



Graph 3.1.4

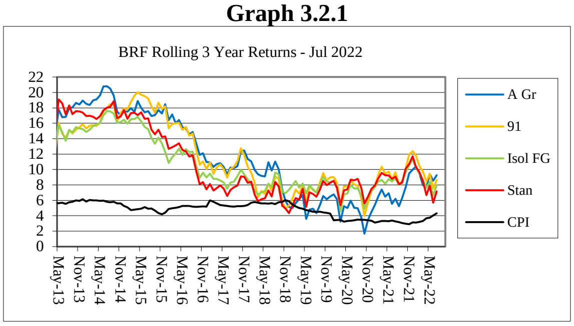


Graph 3.1.5

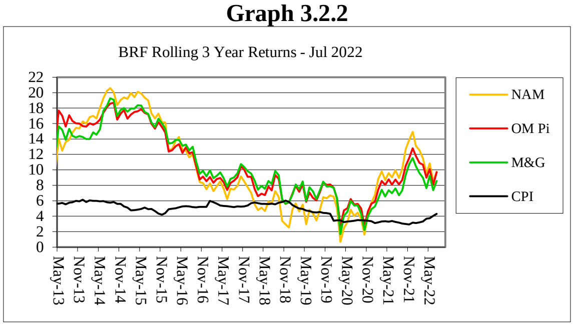


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

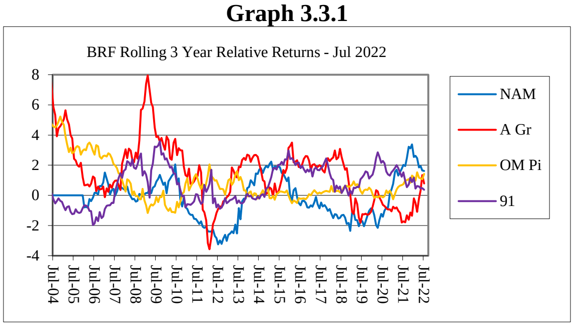


Graph 3.2.2



3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1



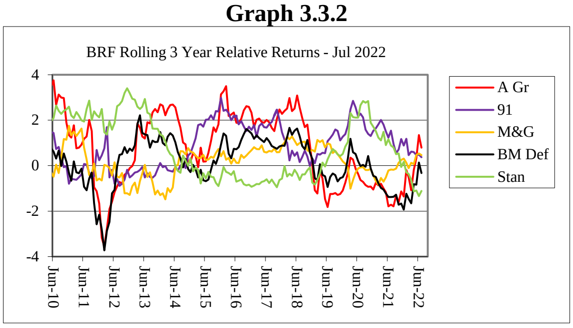
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

By Staff Writer – RFS Fund Administrators (Pty) Ltd

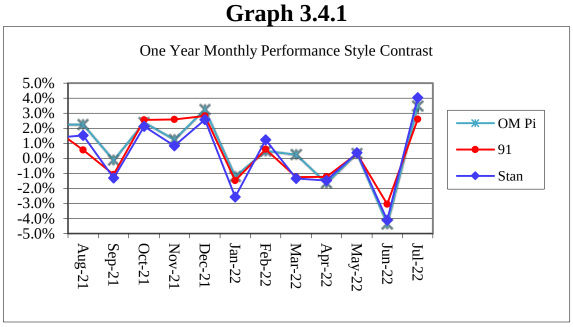
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.3.2

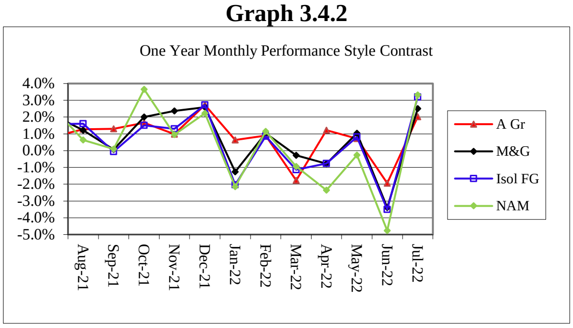


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

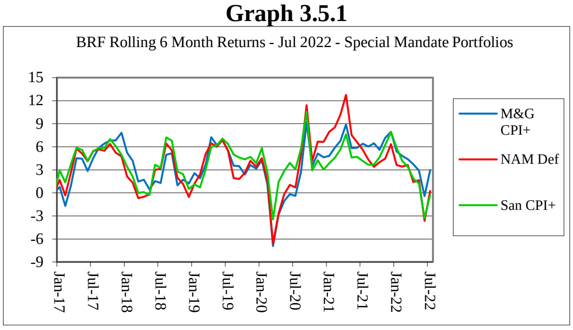


Graph 3.4.2

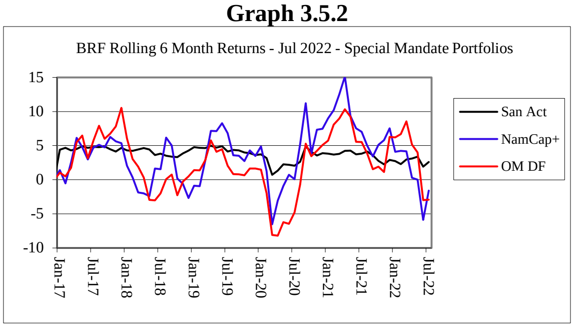


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

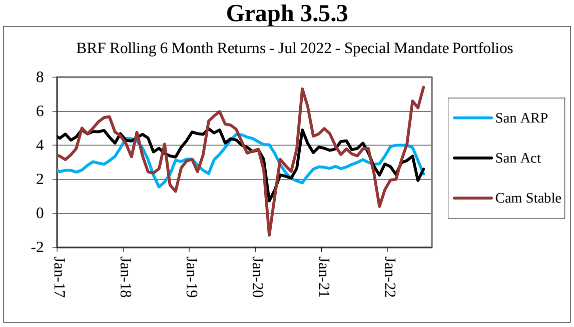
Graph 3.5.1



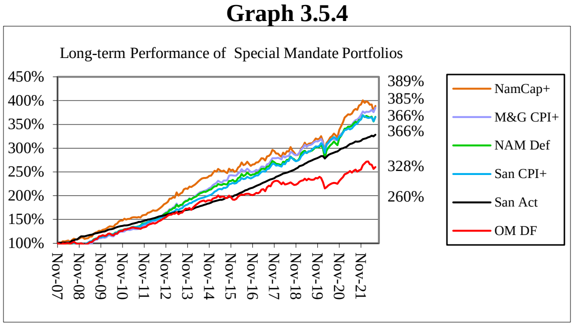
Graph 3.5.2



Graph 3.5.3

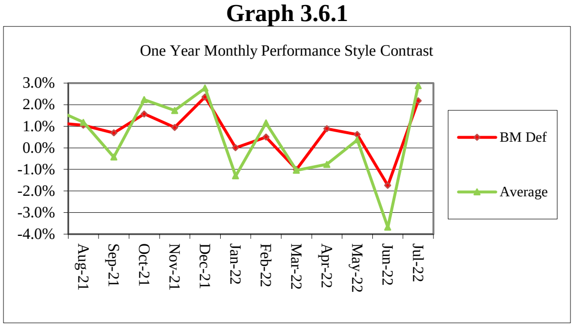


Graph 3.5.4



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

Graph 3.6.1



Volume 18 No. 7
July 2022

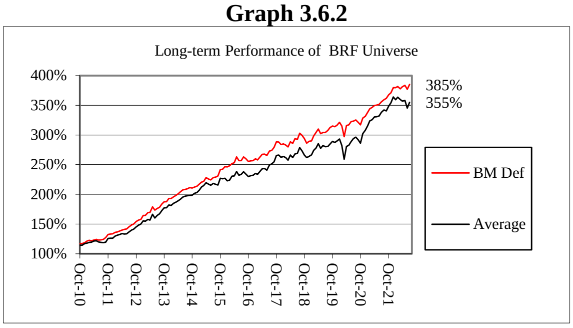
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

By Staff Writer – RFS Fund Administrators (Pty) Ltd

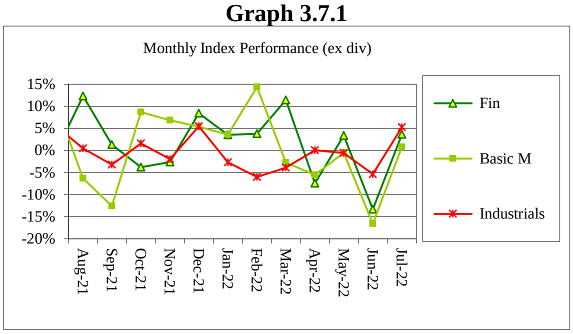
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.6.2

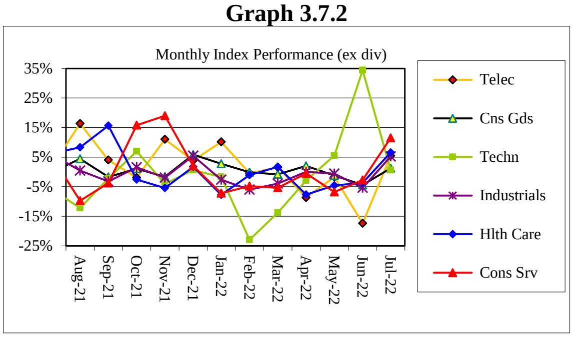


3.7 One-year monthly performance of key indices (excluding dividends)

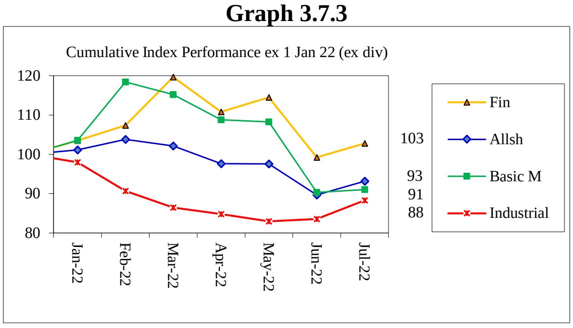
Graph 3.7.1



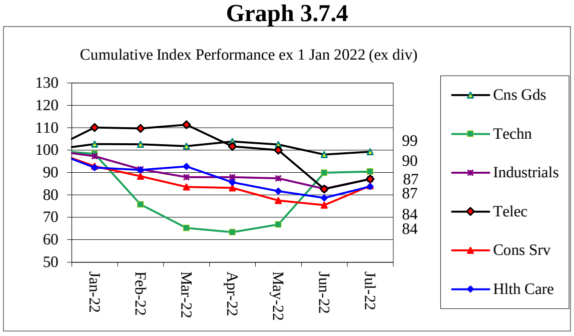
Graph 3.7.2



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.	7.1	7.3
5-year real return - % p.a.	2.9	3.1
Equity exposure - % of portfolio (qtr end March 2022)	45.1	64.8
Cumulative return ex Jan 2011	224.6	202.61
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.

Volume 18 No. 7
July 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

By Staff Writer – RFS Fund Administrators (Pty) Ltd

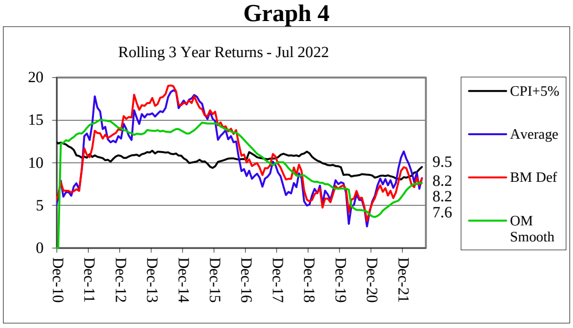
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.6%	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	7.0%	6.7%	7.1%

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

Graph 4



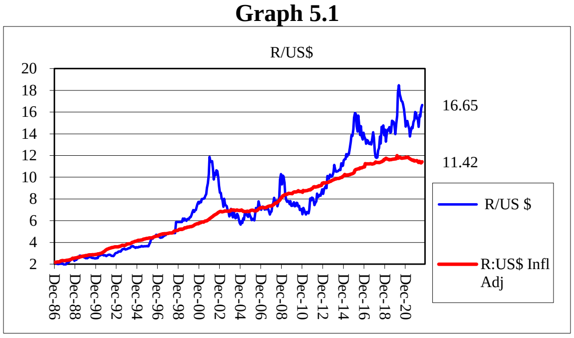
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of July was 8.2%, the average was 8.2% vs. CPI plus 5%, currently on 9.5%.

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 11.42 to the U.S. Dollar, while it stood at 16.65 at the end of July. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

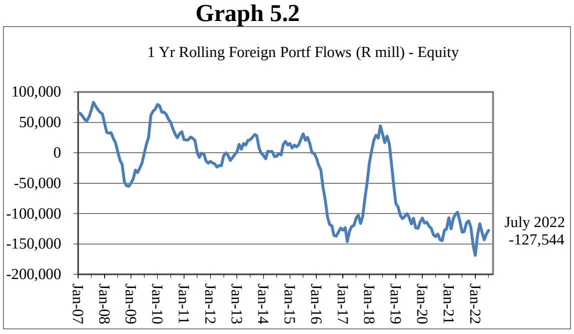


The Rand weakened by 1.76% in July with a net foreign investment outflow from bonds and equities of R40.6 bn. Over the past 12 months, the Rand weakened by 14.0%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 347.2 bn (outflow of R 343.7 bn to the end of June 2022).

Since 2006, total net foreign portfolio outflows amounted to R 550.0 bn (June R 509.4 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 127.5 bn at the end of July (outflow of R 133.9 bn year-on-year to the end of June). The month of July experienced a net outfolw of R 24.1 bn. Since 2006, foreign net investment outflows from equities amounted to R 479.2 bn (end June net investment outflow of R 455.2 bn). It represents roughly 2.4% 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 219.7 bn over the past 12 months to the end of July (outflow of R 209.8 bn over the 12 months to the end of June). The month of July experienced a net outflow of R 16.6 bn. Since 2006, foreign net investment outflows in bonds amounted to R 70.8 bn (net investment outflows to June R 54.2 bn).

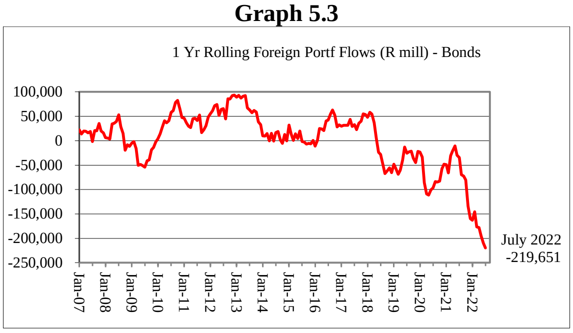
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

By Staff Writer – RFS Fund Administrators (Pty) Ltd

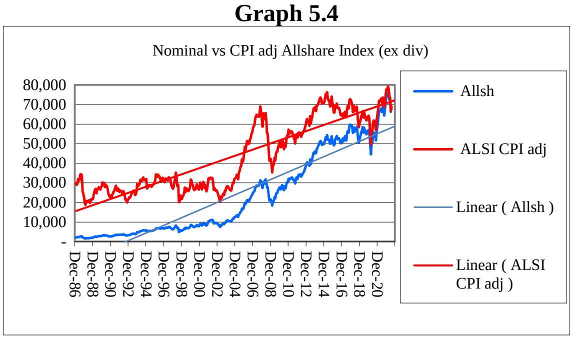
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 5.3



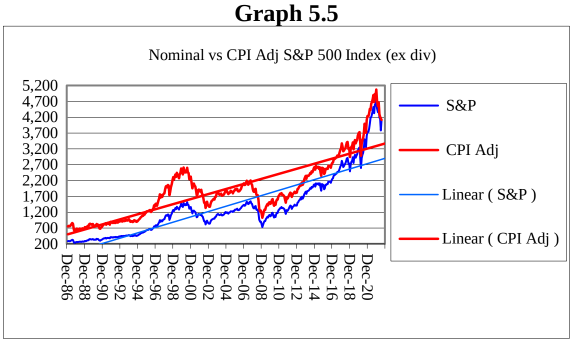
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.5% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 2.8% p.a. over this period, excluding dividends, or around 6.0% including dividends.

Graph 5.4



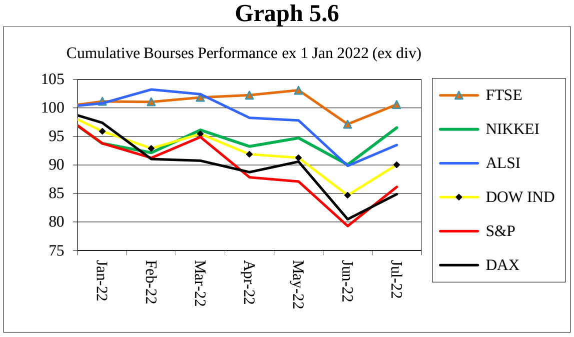
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 7.9% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.1% p.a. over 35 years, excluding dividends, or around 7.2% (including dividends).

Graph 5.5



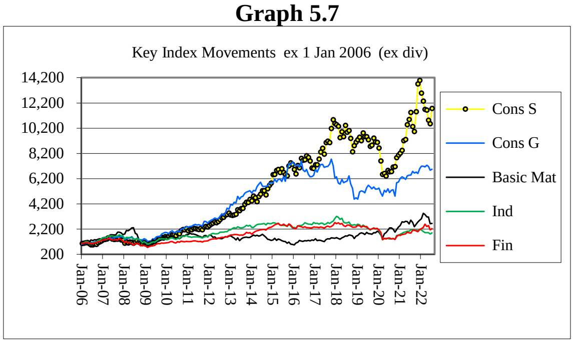
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the FTSE as the top-performing index since the start of 2022.

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: 16.0%; Consumer Goods: 12.4%; Basic Materials: 6.1%; Financials: 5.0% and Industrials: 4.0%.

Graph 5.7



6. We are all in the hands of the Fed

By Tilman Friedrich

When the Global Financial Crisis put financial markets into disarray towards the end of 2008, the Federal Reserve induced a rapid recovery of financial markets with quantitative easing and an ultra-low interest rate. Graph 6.1 shows the dip in the SA Allshare and the US S&P 500 at the beginning of 2009 and how quickly markets recovered. In March 2020 markets took another hit from Covid 19 but recovered even more forcefully, until the beginning of this year. Since December 2015, the Fed was on a path to normalise its policy rate from 0.25% to 2.5% in July 2019 until it quickly had to return to 0.25% to support the economy, when Covid lockdowns were implemented across the world. Since then, inflation started to manifest as the economy eventually started to respond to the ultra-low interest rate and monetary easing. With global supply-line disruptions and Russia invading the Ukraine, global inflation accelerated, forcing the Fed to increase its policy rate more aggressively to its current 2.5%. More hikes are likely, to curb inflation. We are now witnessing a Fed-induced slowing in the US and global economies. One can

Volume 18 No. 7
July 2022

Benchmark Retirement Fund

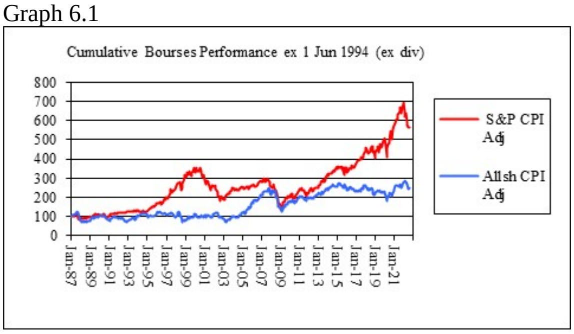
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2022

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.

see the impact of the Fed's manoeuvres on share markets since the start of 2022, from graph 6.1.

Graph 6.1



As investors, we are clearly in the Fed's hands as it is manipulating interest rates and money supply in response to global crises, to prevent a hard landing of the economy. The Fed is now focusing on inflation. Sustained high inflation will result in high interest rates. At the current high global indebtedness, high interest rates spell trouble for governments, the consumer, and the global economy. To avoid too much damage, the Fed likely wants to bring down the inflation rate as quickly as possible. It can do this through reducing the excessive liquidity it created with its monetary easing, and through increasing the interest rate. In the same way as both measures avoided a drawn-out contraction of financial markets, the reversal of these measures will likely lead to financial markets flattening.

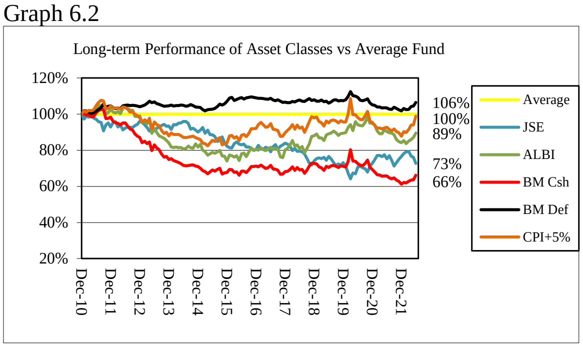
The Fed uses its policy rate to manage inflation. When inflation is high, it pushes up the rate so that consumer demand declines and the opposite. Let us look at history since 1988 and let us break down this history into two periods and the current situation. The first period is up to the global financial crisis in November 2007. The second period is from the start of the Fed's massive intervention to support markets when the global financial crisis struck, until the end of 2020, when the Fed started to revert to normal monetary policy. During the first period, the Fed rate was 1.75% above inflation on average. In the second period, it was 1% above inflation. Currently it is 6% below inflation with inflation at 8.5% and the Fed rate at 2.5%. The Fed considers normal desired inflation to be 2%. If its rate increases manage to reduce inflation to 2%, one would expect its policy rate to further increase by about 1% to around 3.5%. However, one may expect the inflation and the Fed rate to overshoot the long-term target in the short-, to medium term. Conceivably the overshoot of the Fed rate could be between 1% to 2% in the short-to medium term with inflation declining to between 4% and 5% in the medium term. The expectation is then that the Fed rate will be lifted four times by 0.5% in the medium term.

Locally the repo rate was 3.5% above inflation on average during the first period to November 2007 and 1% for the second period to December 2020. Currently it is minus 1.5% with the repo at 5.5% and inflation at 6.9%. The local repo rate is managed in a very similar way to the Fed rate. One would therefore expect our repo rate to move close to the US rate. The expectation is that it will also be lifted four more times by 0.5% to reach 7.5% in the medium term.

The investor cannot foresee any new crisis hitting financial markets nor how and when the Fed will respond to it. Chopping and changing one's investment portfolio in response to what happened in the markets, stands a good chance of wrong timing. Investing is a long-term game. Saving is a short-term game. One must have a long-term strategy for one's investments. One may change one's investment strategy in response to changing personal circumstances and apply short-term tactical measures in the transition process. One should not employ short-term tactical measures to respond to what happened in the markets. The typical prudential balanced portfolio is an ideal vehicle for the long-term investor. It comprises of all the main asset classes and is managed pro-actively based on prevailing and expected market- and economic conditions.

Graph 6.2 depicts how well the prudential balanced portfolios are managed. Its 'point of departure' is the yellow line, which represents the average prudential balanced portfolio. If we look at cash (red line), it shows that cash briefly outperformed the yellow line in early 2011 but then gradually lost out more and more relative to the yellow line, ending 34% below the yellow line by the end of June. A portfolio comprising only of shares and represented by the JSE Allshare index (blue line), never outperformed the yellow line and lost 27% against the yellow line by the end of June. A bond portfolio, represented by the Allbond index (green line) also only briefly outperformed the yellow line in 2011 and 2012 but lost 11% relative to the yellow line by the end of June. The performance benchmark of the typical prudential balanced portfolio (brown line) of CPI plus 5% was also below the yellow line for most of the time and is currently on par with the yellow line. Lastly, the Benchmark Default portfolio (black line) was never below the yellow line ending up 6% ahead by 30 June.

Graph 6.2



Conclusion

We expect higher interest rates and higher inflation for the next year or two. The Fed will gradually increase its policy rate by another 2% over the next year and these increases should bring inflation under control. The fact that the US 2-

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 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.

year bond yield is higher than the 10-year bond yield also indicates that investors expect interest rates to revert to normal in the medium term. It is a foreseeable term and investor's expectations of inflation and interest rates have probably already been priced in. However, the high interest rates will curb consumer demand and may result in a recession over the next two years. In addition, Governments may have to raise taxes to fund the higher interest rates. As the result equity markets will likely not show much growth over the next two years. Coupled with the global political turmoil, local investors must expect foreign investors to withdraw from the local markets for safe havens. Their support of local equities and other assets will remain at low levels, which will impact our local currency negatively, as one has already seen.

Although the general backdrop to investments is negative, investment markets always offer opportunities arising from the political turmoil and shortages resulting from the Ukraine crisis and the sanctions the West instituted against Russia. Interestingly, 'politically correct' investments are likely to fall out of favour creating opportunities with alternatives. Europe, for example, will reduce the focus on climate-neutral energy as it is forced to return to fossil fuels and nuclear power, and scorned military technology industries will regain popularity.

The trick is finding the right investments, which requires stock picking expertise. Index investing will not deliver satisfactory results. Under the prevailing environment, basic consumer goods representing life necessities such as clothing, food and beverages producers, health care providers, the energy, and the military sectors should hold out good prospects.

A weak Rand prohibits investing offshore. At the same time, for the sake of diversification, one should not repatriate foreign capital. For the long-term investor, prudential balanced portfolios are an ideal vehicle. These vehicles obviate the need to speculate on timing investments, on choosing asset classes and exchanges rates and provide peace of mind that they will deliver positive real returns in the long-term.