Volume 18 No. 10
October 2022

Benchmark Retirement Fund

Administered by RFS Fund Administrators

## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 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

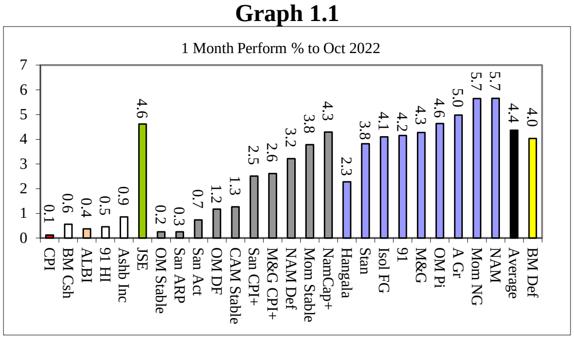
In October 2022, the average prudential balanced portfolio returned 4.4% (September 2022: -2.3%). The top performer is NAM Coronation Balanced Plus Fund with 5.7%, while Hangala Prescient Absolute Balanced Fund with 2.3% takes the bottom spot. For the 3-months Allan Gray Balanced Fund takes the top spot, outperforming the 'average' by roughly 2.1%. Stanlib Managed Fund underperformed the 'average' by 1.8% 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.

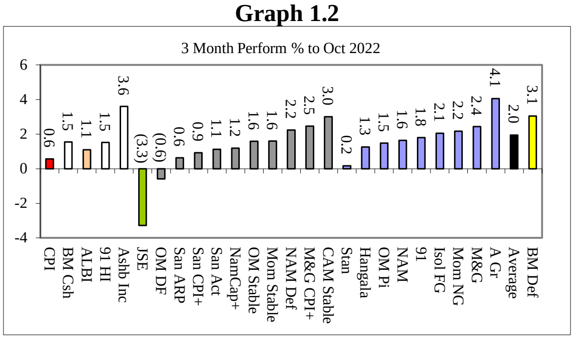
Below is the legend to the abbreviations reflected on the graphs:

| | |
|---|---|
| **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) |

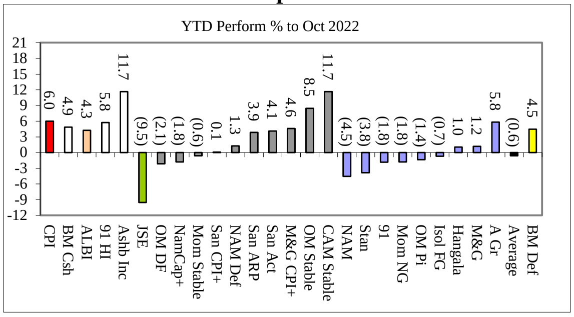
Graph 1.1



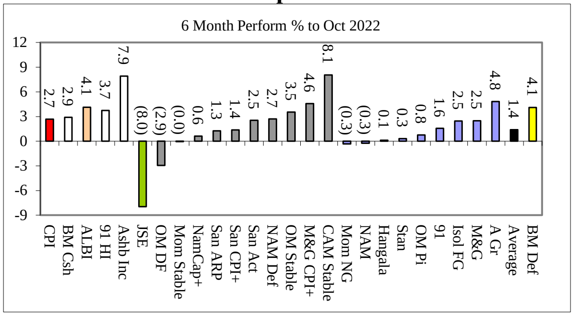

Graph 1.2




Graph 1.3




Graph 1.4



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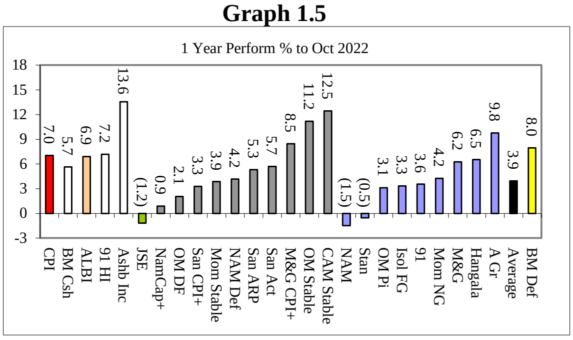
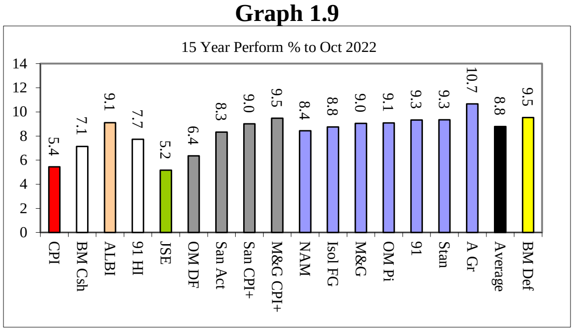
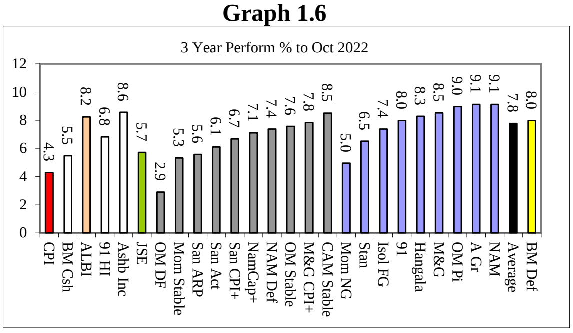
### Graph 1.5



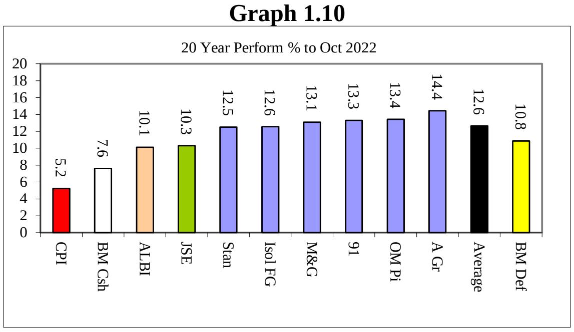

### Graph 1.9



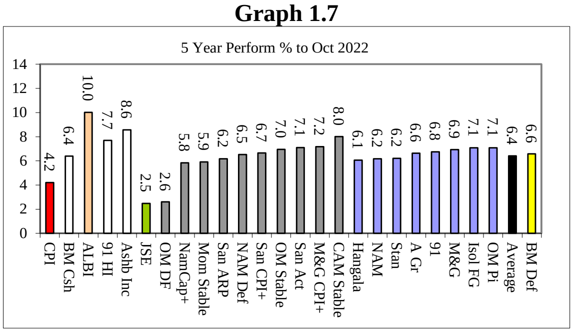

### Graph 1.6



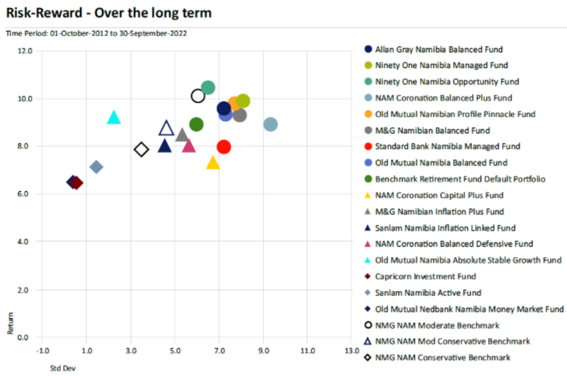

### Graph 1.10



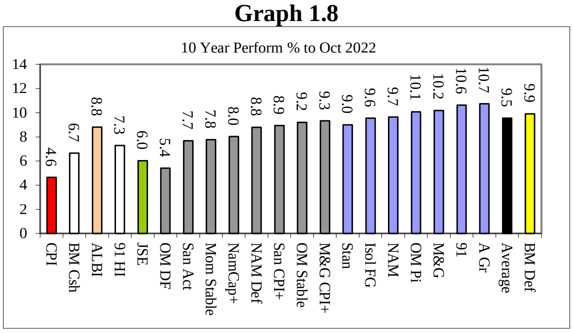

### Graph 1.7

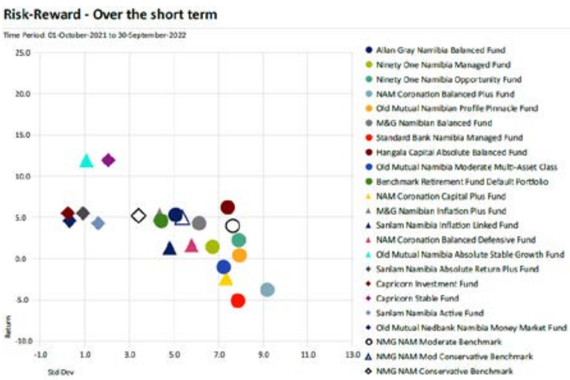



### Risk/ Return




### Graph 1.8



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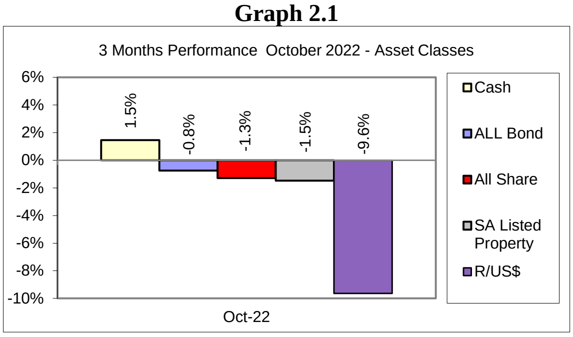
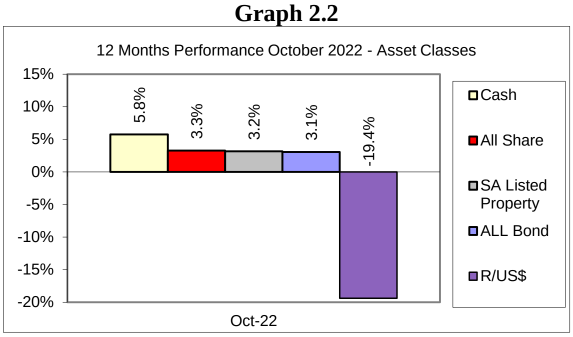
## 2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

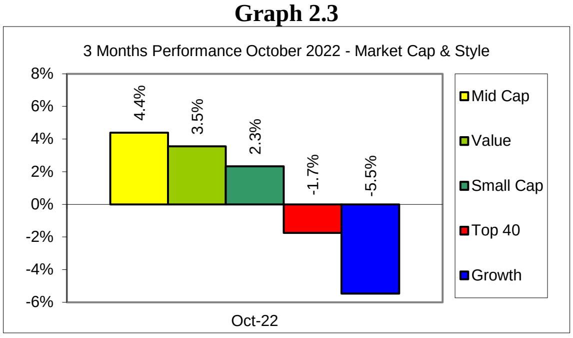
**Graph 2.1**



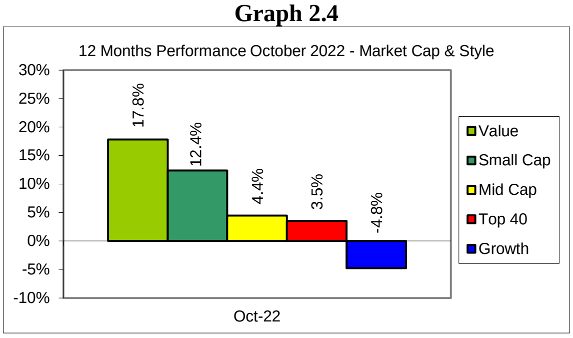

**Graph 2.2**



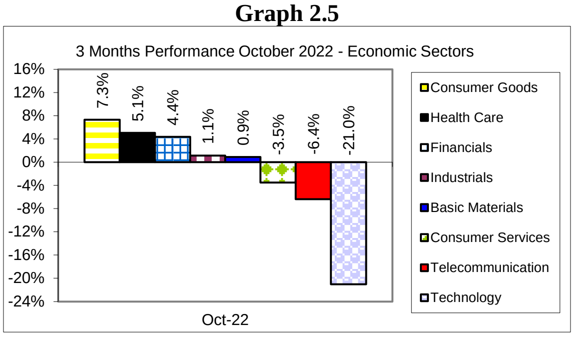

**Graph 2.3**



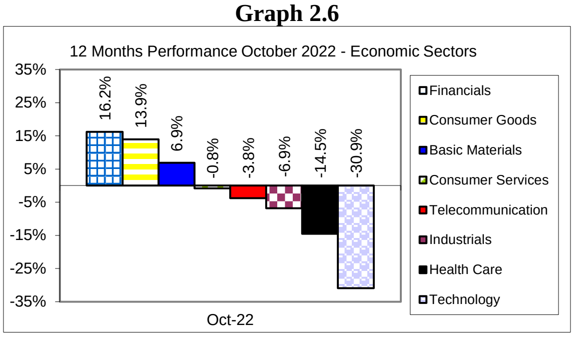

**Graph 2.4**



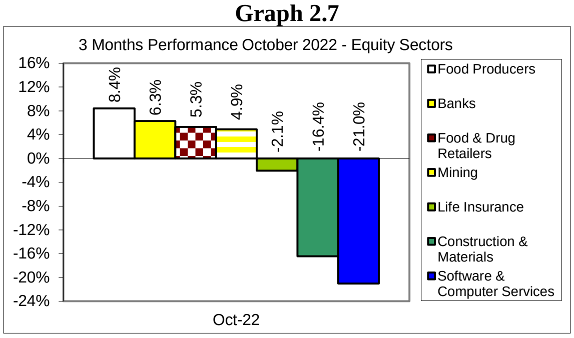

**Graph 2.5**



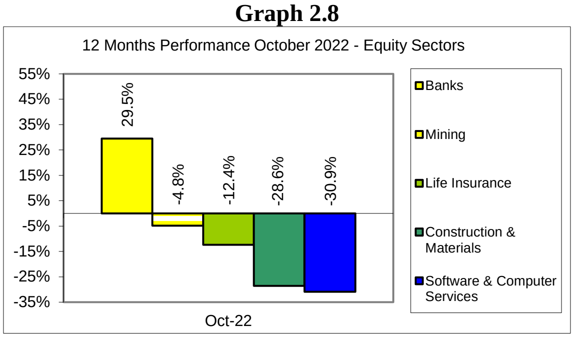

**Graph 2.6**




**Graph 2.7**




**Graph 2.8**



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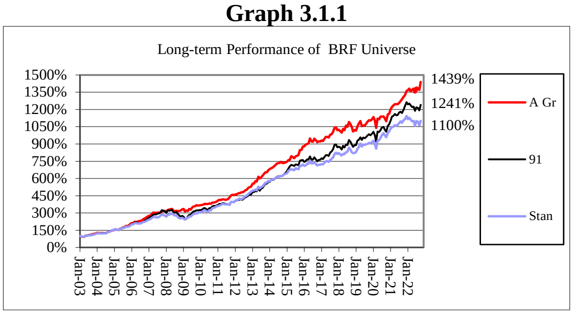
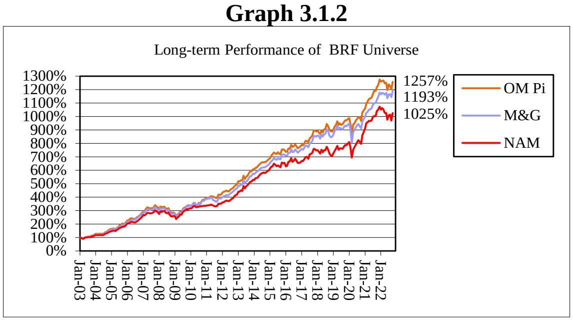
## 3. Portfolio Performance Analysis

### 3.1 Cumulative performance of prudential balanced portfolios

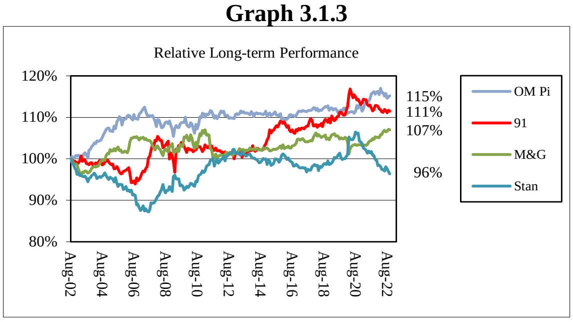
**Graph 3.1.1**



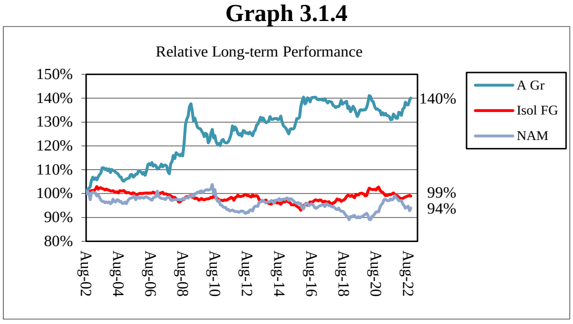

**Graph 3.1.2**



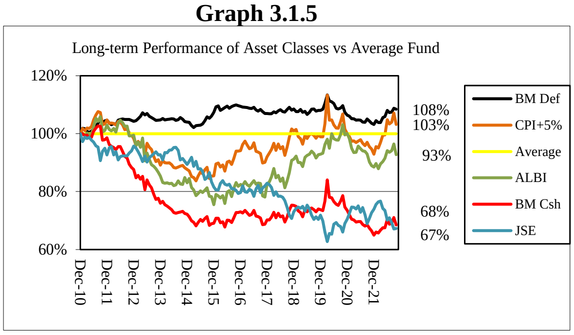

**Graph 3.1.3**




**Graph 3.1.4**

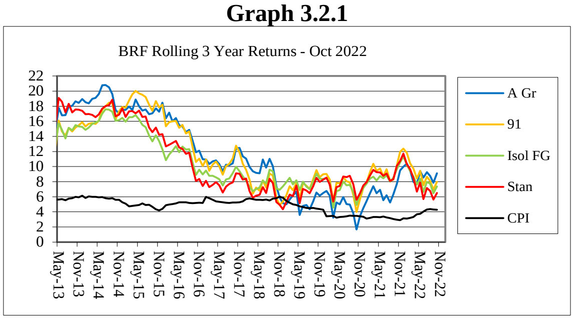



**Graph 3.1.5**

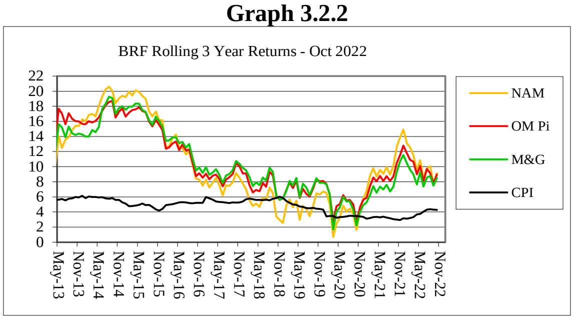



### 3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

**Graph 3.2.1**




**Graph 3.2.2**



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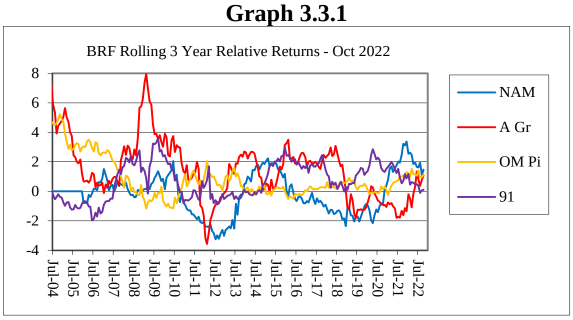
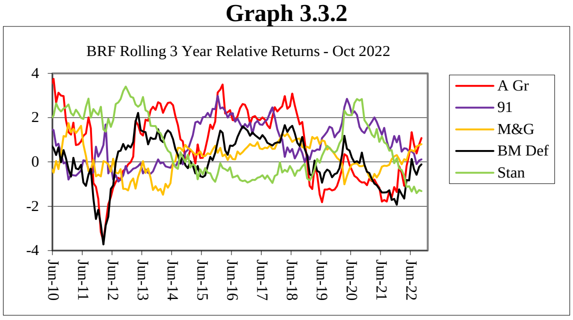
### 3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

**Graph 3.3.1**

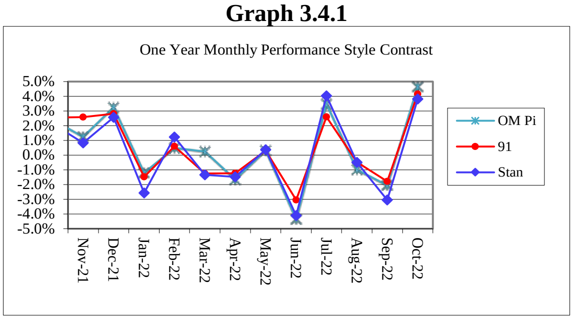



**Graph 3.3.2**

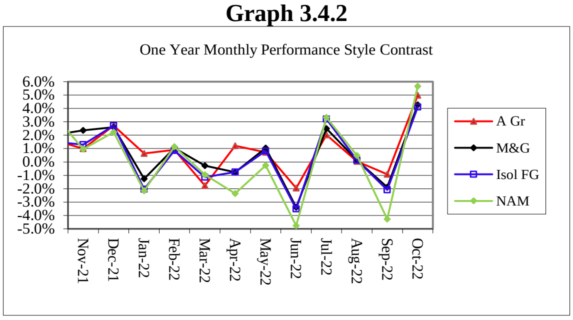



### 3.4 Monthly performance of prudential balanced portfolios

**Graph 3.4.1**

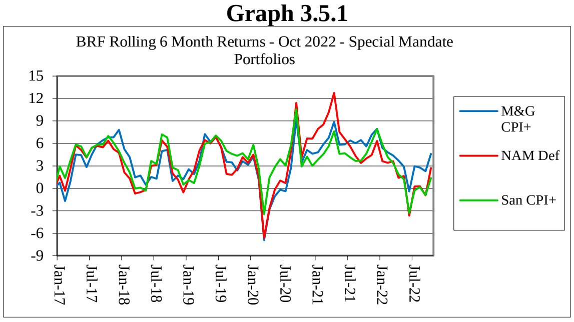



**Graph 3.4.2**

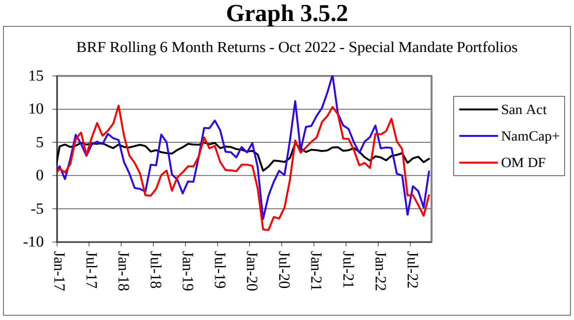



### 3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

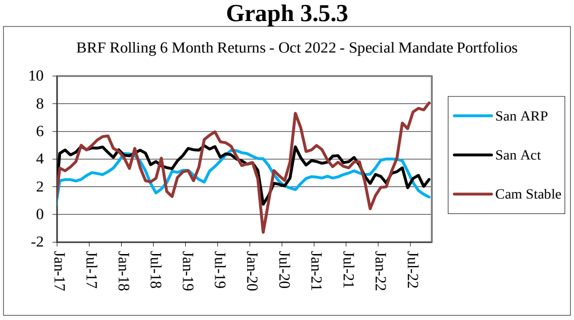
**Graph 3.5.1**



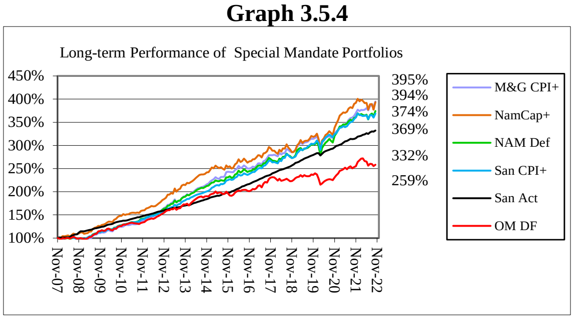

**Graph 3.5.2**




**Graph 3.5.3**




**Graph 3.5.4**



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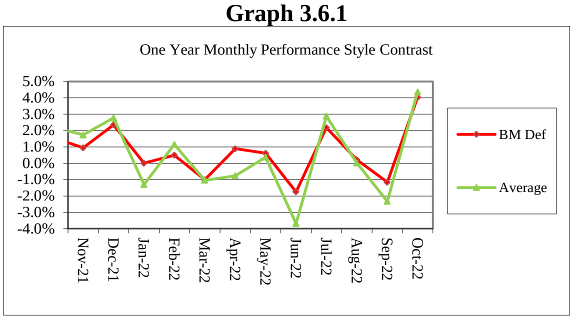
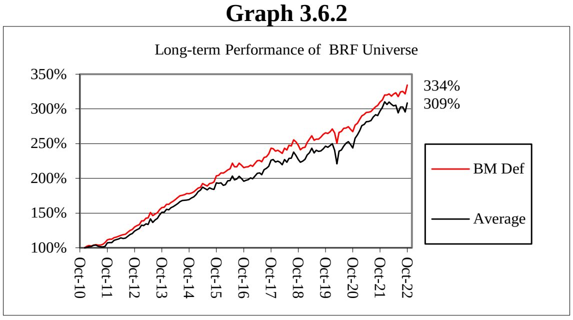
### 3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

**Graph 3.6.1**

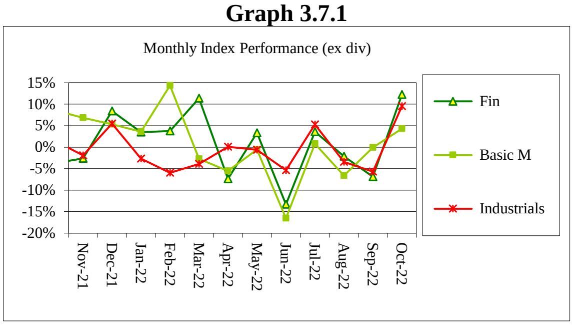



**Graph 3.6.2**

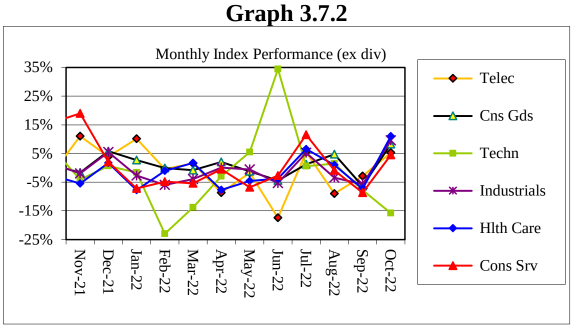



### 3.7 One-year monthly performance of key indices (excluding dividends)

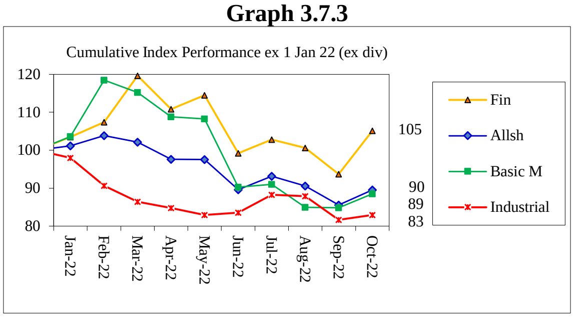
**Graph 3.7.1**



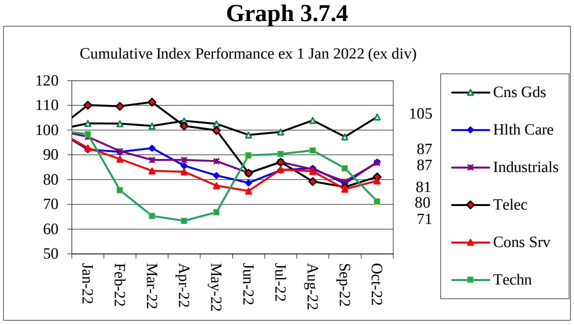

**Graph 3.7.2**




**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. | 6.6 | 6.4 |
| 5-year real return - % p.a. | 2.4 | 2.2 |
| Equity exposure - % of portfolio (quarter end September 2022) | 45.8 | 63.3 |
| Cumulative return ex Jan 2011 | 234.5 | 208.5 |
| 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. The default portfolio of late outperformed the average prudential balanced portfolio by a margin, and is 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 46% compared to the average prudential balanced portfolio's exposure of 63%. 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. Of course, the

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central banks' interventions distort financial markets, causing significant volatility and artificially increased valuations of equities.

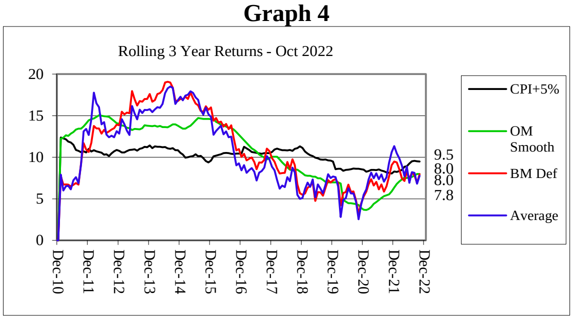
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

**Table 4.2**

| Measure | Money Market | Default Portf | Average Prud Bal |
|---|---|---|---|
| Worst annual performance | 5.5% | 3.2% | 2.5% |
| Best annual performance | 8.1% | 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 | 6.7% | 6.8% | 7.2% |

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

**Graph 4**



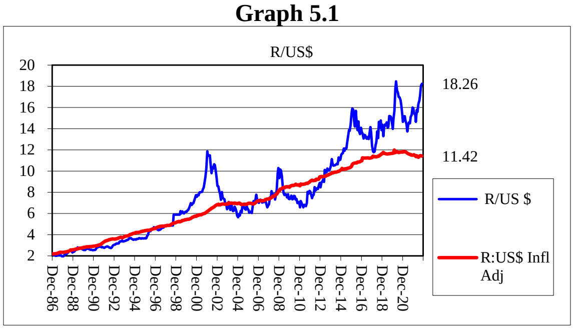

**Graph 4** measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of October was 8.0%, the average was 7.8% 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 18.26 at the end of October. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

**Graph 5.1**

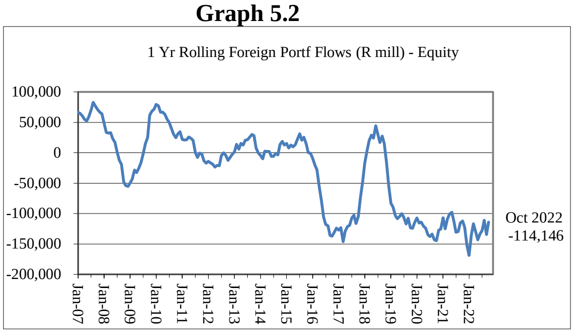



The Rand weakened by 1.01% in October with a net foreign investment outflow from bonds and equities of R 11.8 bn. Over the past 12 months, the Rand weakened by 19.4 % (September Rand weakened by 19.7%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 300.6 bn (outflow of R 330.1 bn to the end of September 2022).

Since 2006, total net foreign portfolio outflows amounted to R 610.6 bn (September R 598.8 bn outflows).

**Graph 5.2** reflects a net outflow of capital from South African equities on a rolling one-year basis of R 114.1 bn at the end of October (outflow of R 134.6 bn year-on-year to the end of September). The month of October experienced a net inflow of R 0.3 bn. Since 2006, foreign net investment outflows from equities amounted to R 506.3 bn (end September net investment outflow of R 506.6 bn). It represents roughly 2.6% of the market capitalization of the JSE.

**Graph 5.2**



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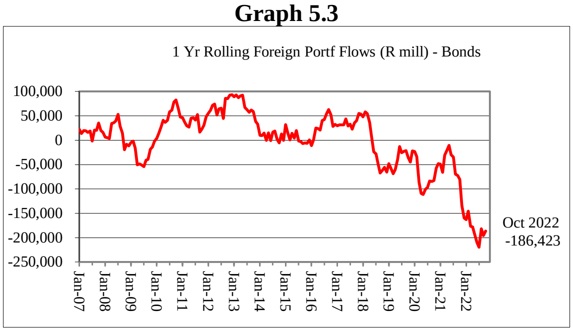
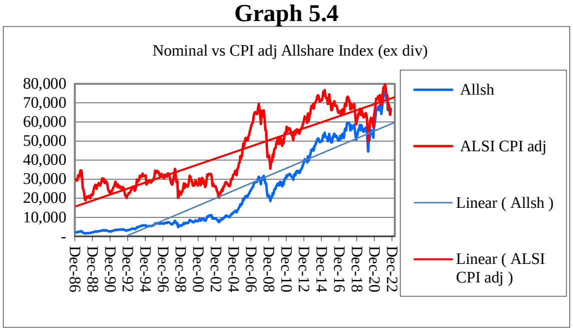
**Graph 5.3** on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 186.4 bn over the past 12 months to the end of October (outflow of R 195.6 bn over the 12 months to the end of September). The month of October experienced a net outflow of R 12.1 bn. Since 2006, foreign net investment outflows in bonds amounted to R 104.4 bn (net investment outflows to September R 92.2 bn).

**Graph 5.3**



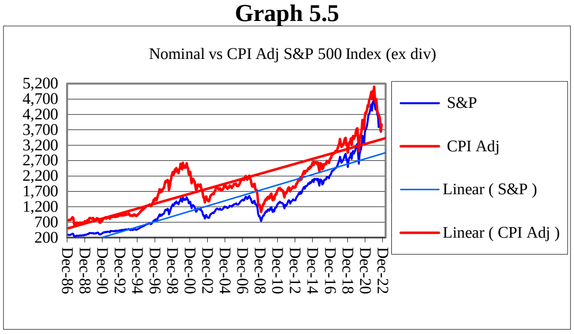

**Graph 5.4** reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.3% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 2.6% p.a. over this period, excluding dividends, or around 5.8% including dividends.

**Graph 5.4**



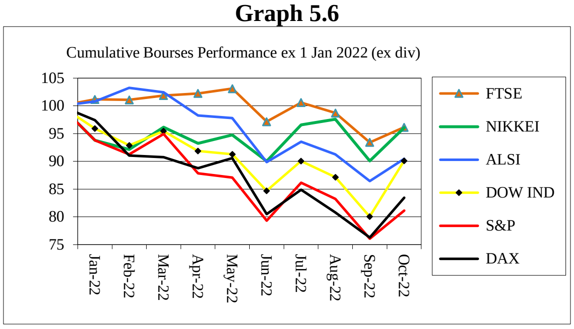

**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 7.7% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 4.9% p.a. over 35 years, excluding dividends, or around 7.0% (including dividends).

**Graph 5.5**



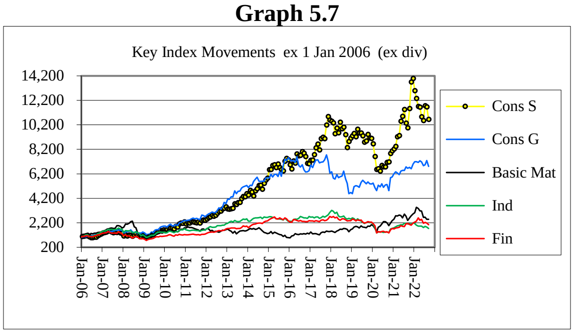

**Graph 5.6** provides an interesting overview of some of the major global share indices, showing the FTSE as the top-performing index since the start of 2022.

**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: 15.4%; Consumer Goods: 12.6%; Basic Materials: 5.8%; Financials: 5.0% and Industrials: 3.9%.

**Graph 5.7**



**MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2022**

By Staff Writer – RFS Fund Administrators (Pty) Ltd

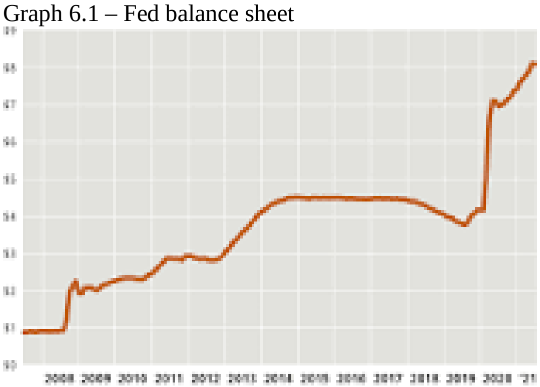
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

### 6. Investment markets have not normalised yet!

By Tilman Friedrich

Since the global financial crisis in 2008, the US Federal Reserve has expanded its balance sheet from US$ 1 trillion to US$ 8 trillion by March 2022. Since then, it started its quantitative tightening and intends to runoff its balance sheet by between US$ 2.2 and US$ 3 trillion over the next three years and by selling off treasuries and mortgage-backed securities of up to US$ 95 billion per month

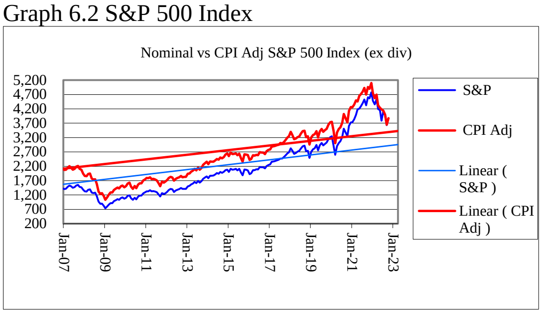
Graph 6.1 – Fed balance sheet



While the Fed expanded its balance sheet 9-fold since 2008, it dropped its policy rate from 5.25% to 0.25%. As of March 2022, it started to raise the policy rate to 4%. The real Fed rate, net of inflation, was an average of 1.8% over 20 years until November 2007, the onset of the global financial crisis. Since then, the real Fed rate averaged minus 1.3% until February 2022 and was minus 3.75% in October 2022.

One may say that we had normal market conditions until the global financial crisis. From then until February 2022, we had artificial markets resulting from the Fed's quantitative easing and zero interest rate policies. These policies were aimed at supporting the US economy and achieved colossal asset price inflation.

Graph 6.2 S&P 500 Index




Graphs 6.1 and 6.2 show how strongly the S&P 500 ran since the global financial crisis, fuelled by the Fed's quantitative easing until December 2021. It took a deep downturn since the beginning of 2022 after inflation manifested and the Fed mooted increasing its policy interest rate.

Although the investment markets have not normalised yet, still experiencing a negative real Fed rate, the Fed is on a drive to revert to normal market conditions. The increased Fed rate already impacted US inflation, declining from over 9% to below 8%. However, the market still has to go some way to return to a positive real Fed rate from its current level of minus 3.75%

Looking at graph 6.2, we see that the S&P 500 in October 2022 was slightly above its CPI-adjusted trendline (straight red line). Once it reaches the straight red line, the impact of quantitative easing will have fully worked itself out of the index. Since the Fed is still planning to remove liquidity from the financial system and increase the Fedrate, I expect the S&P 500 to move primarily sideways for the next two years.

US markets usually set the tone for global markets, and I would expect the other equity markets to move in sympathy with the US market and show little growth over the next two years. Of course, the index does not reveal the status of the underlying shares, some of which will still be expensive and others cheap. A good investment manager should still be able to produce decent returns.

**Conclusion**

We expect higher interest rates and higher inflation for the next year or two. I expect the Fed to gradually increase its policy rate by another 2% over the next year, which should bring inflation under control. 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 on their debt. As a 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 low, impacting our local currency negatively.

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.

Equities remain our preferred asset class. More specifically, we prefer value companies offering a high dividend yield. While the investor should usually diversify globally, prevailing global risks and uncertainties suggest keeping one's investments closer to home. Political risks in Africa

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seem much more sedated than those in Europe and Asia. If one can find value in property, it should also be an appropriate asset class closely tied to the 'real economy.' Regarding local equity sectors, fundamentals indicate that consumer goods, consumer services, and financials are back in favour.

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