Volume 19 No. 01
January 2023

Benchmark Retirement Fund

Income Tax Ref. No.12/1/12/462
Registration No 25/7/7/489

Administered by RFS Fund Administrators

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2023

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

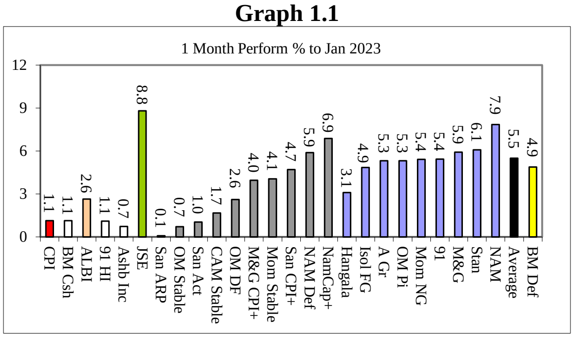
In January 2023, the average prudential balanced portfolio returned 5.5% (December 2022: -0.9%). The top performer is Namibia Coronation Balanced Plus Fund with 7.85%, while Hangala Prescient Absolute Balanced Fund with 3.1% takes the bottom spot. For the three months Namibia Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 1.99%. Hangala Prescient Absolute Balanced Fund underperformed the 'average' by 4.4% 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.

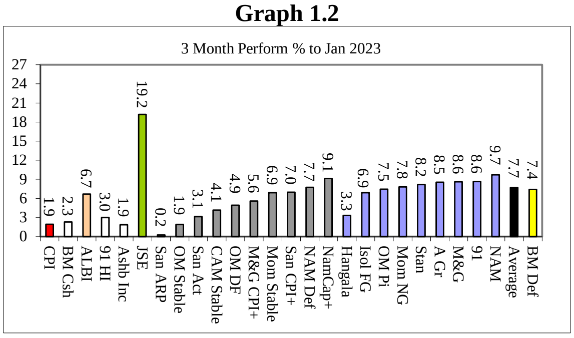
Below is the legend to the abbreviations reflected on the graphs:

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)

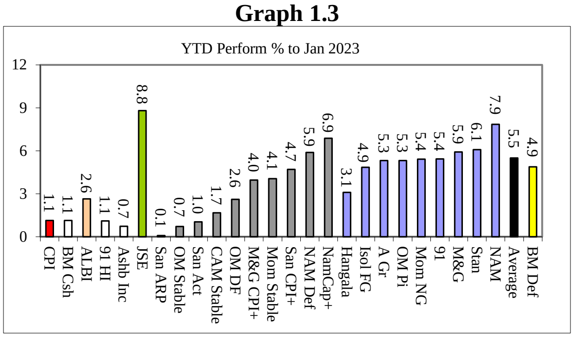
Graph 1.1



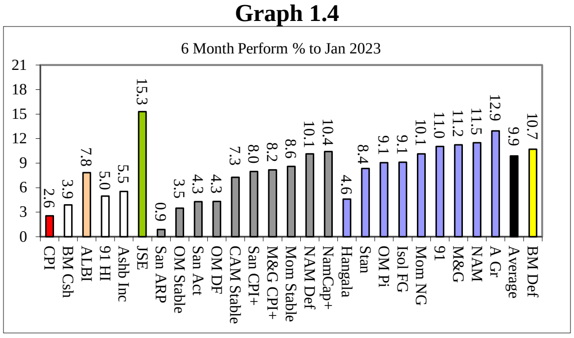
Graph 1.2



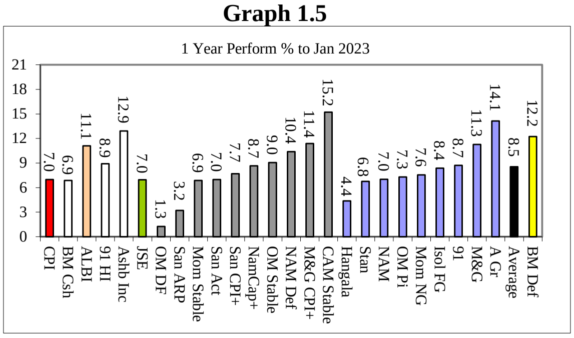
Graph 1.3



Graph 1.4



Graph 1.5



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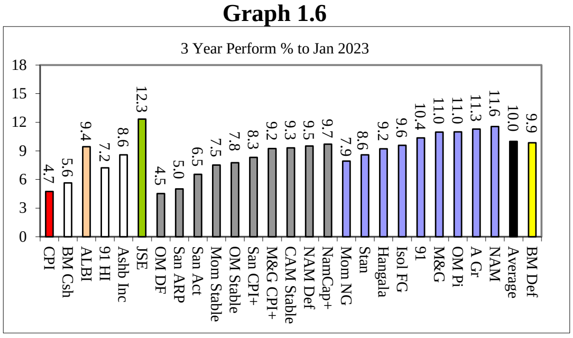
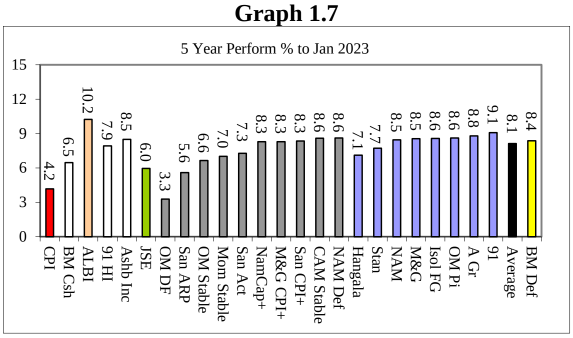
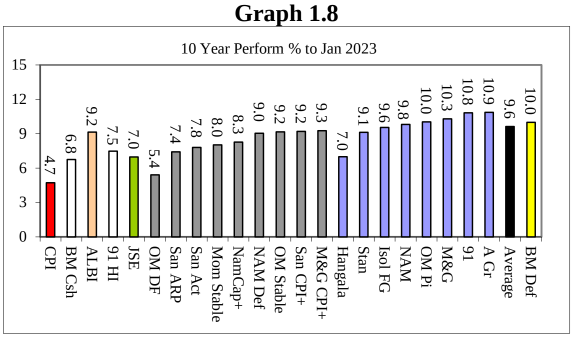
Graph 1.6



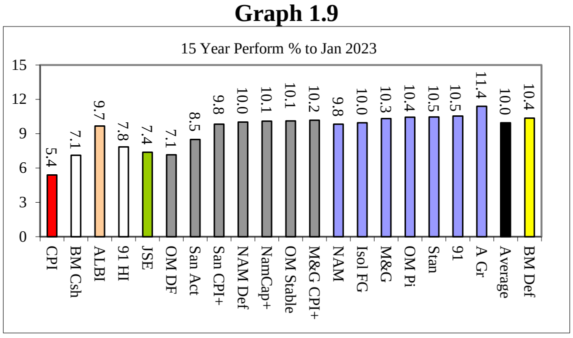
Graph 1.7



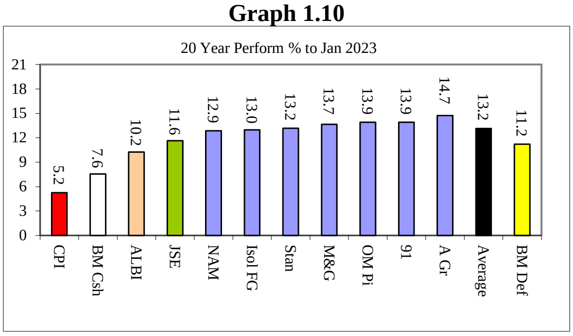
Graph 1.8



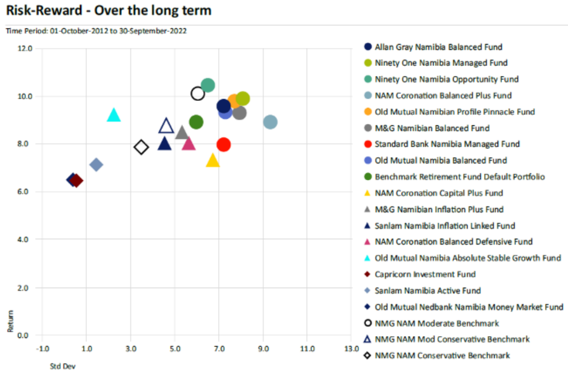
Graph 1.9

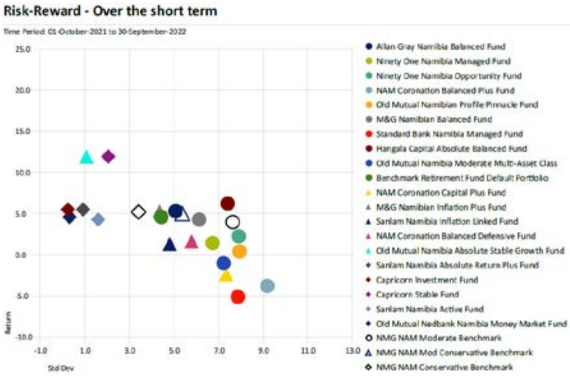


Graph 1.10



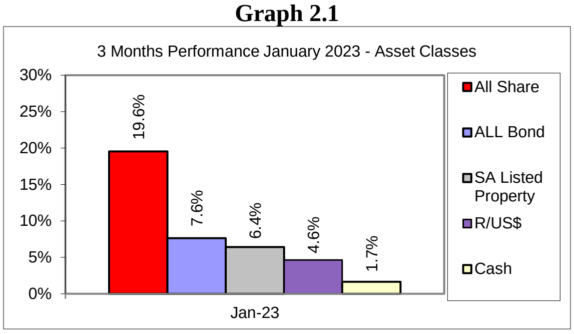
Risk/ Return



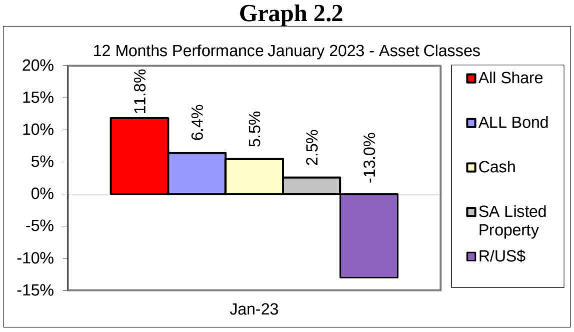


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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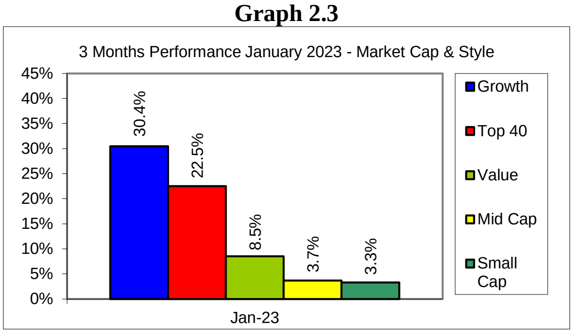
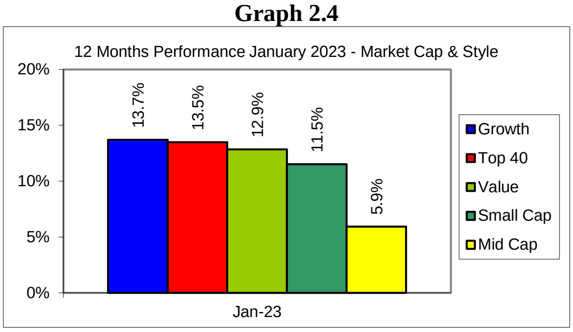
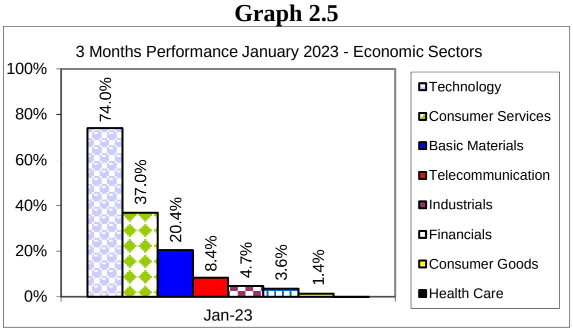
Graph 2.3



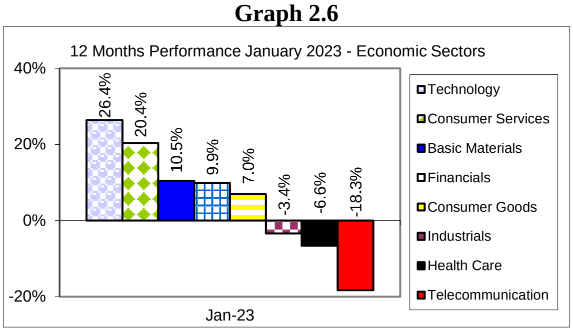
Graph 2.4



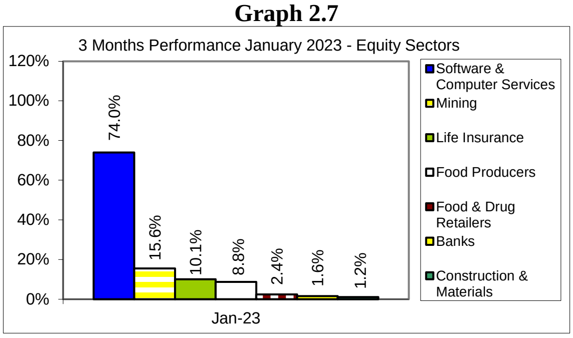
Graph 2.5



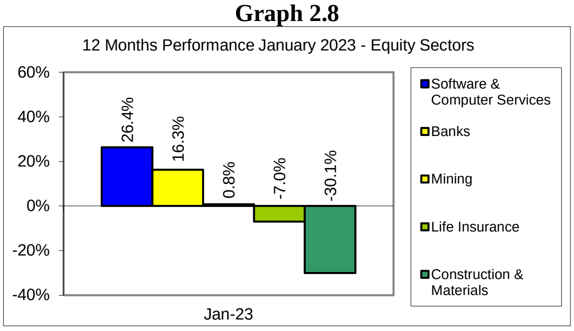
Graph 2.6



Graph 2.7



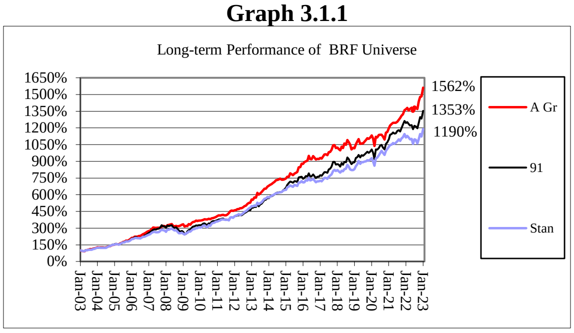
Graph 2.8



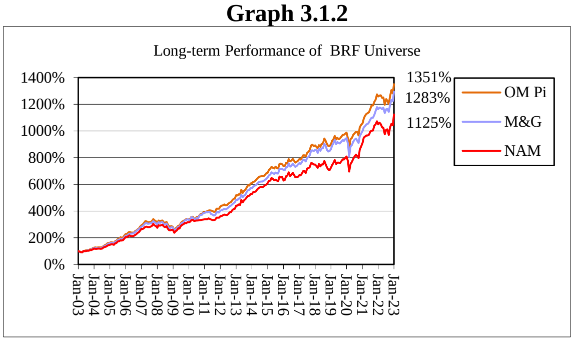
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

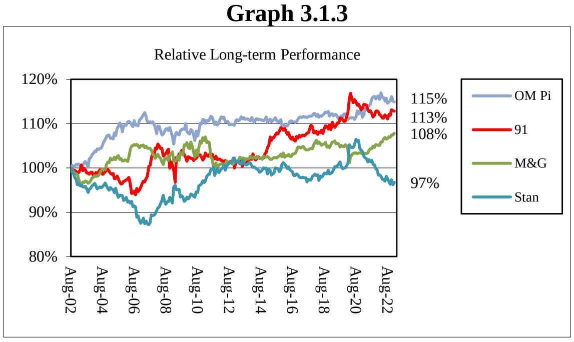
Graph 3.1.1



Graph 3.1.2



Graph 3.1.3



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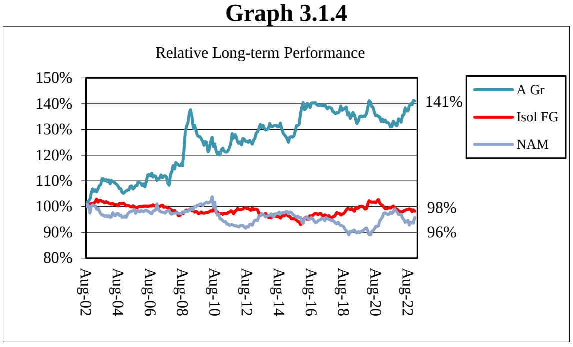
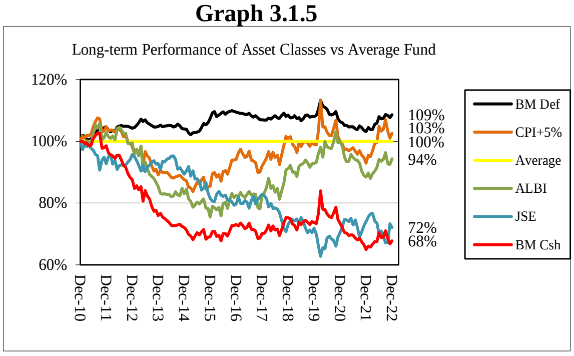
Graph 3.1.4

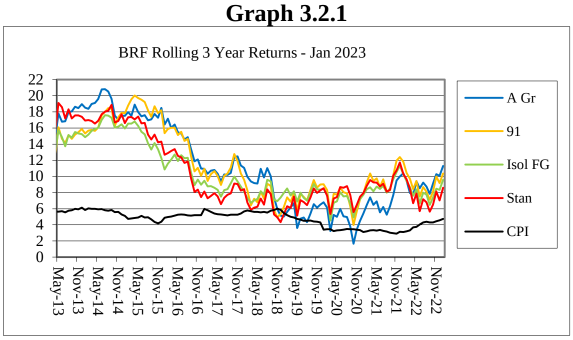


Graph 3.1.5

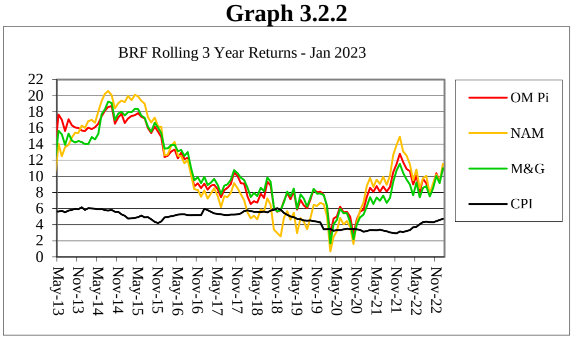


3.1 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

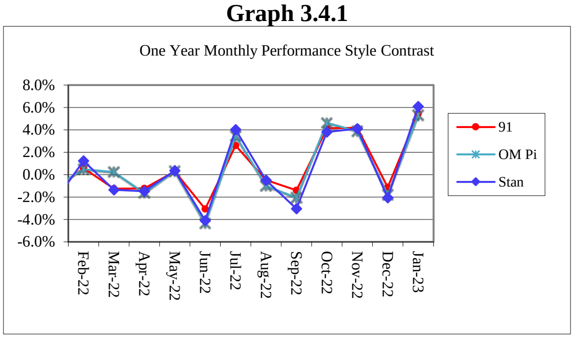


Graph 3.2.2

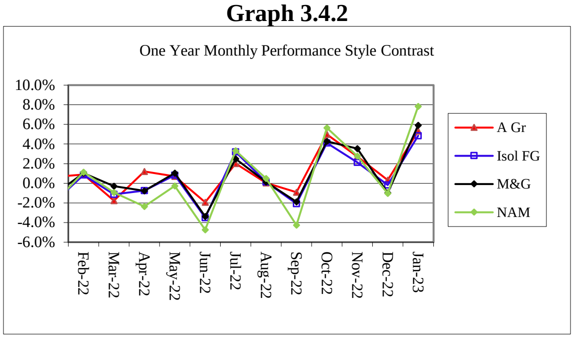


3.2 Monthly performance of prudential balanced portfolios

Graph 3.4.1

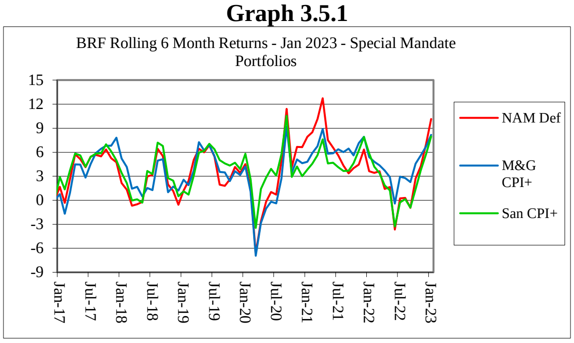


Graph 3.4.2

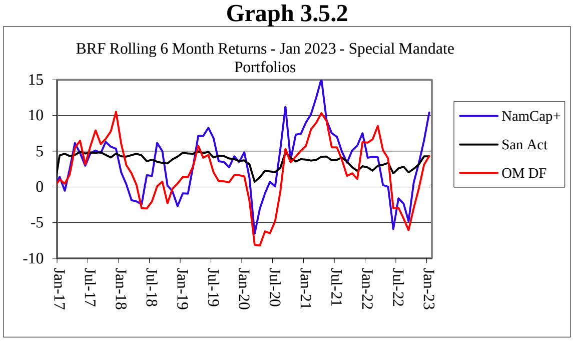


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

Graph 3.5.1



Graph 3.5.2



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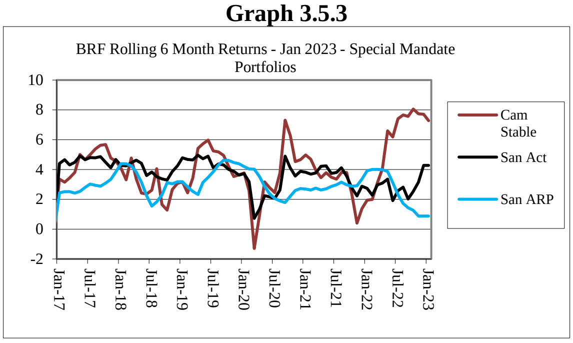
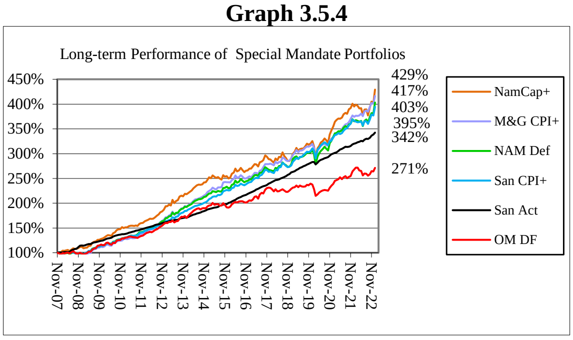
Graph 3.5.3

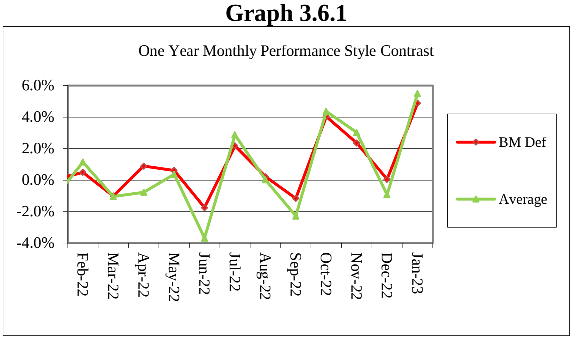


Graph 3.5.4

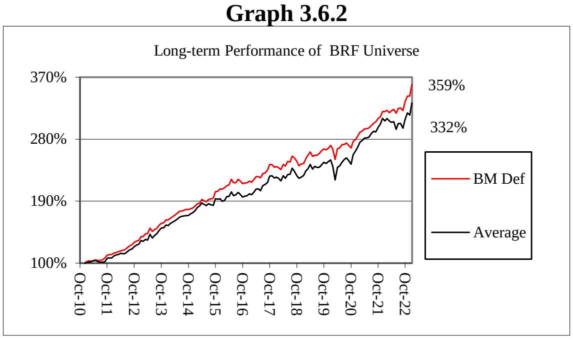


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

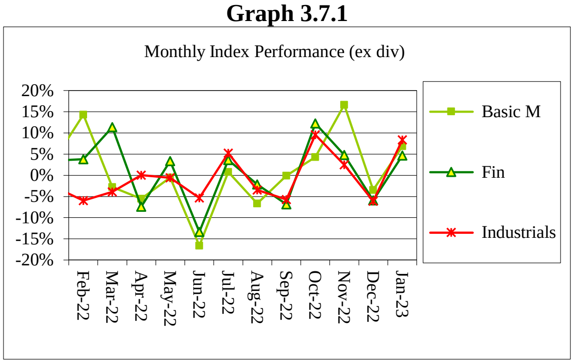


Graph 3.6.2

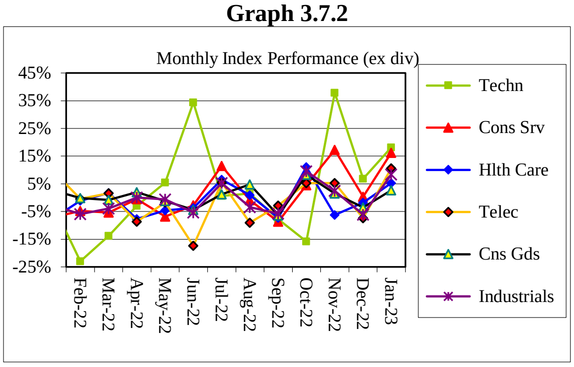


3.7 One-year monthly performance of key indices (excluding dividends)

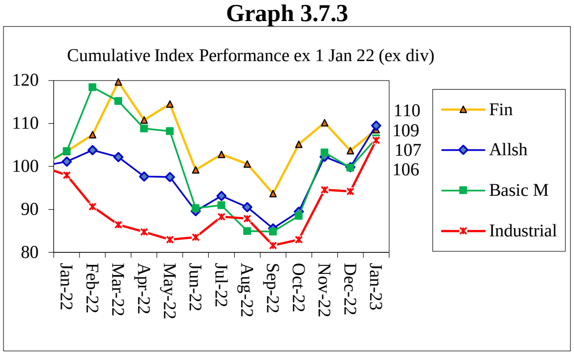
Graph 3.7.1



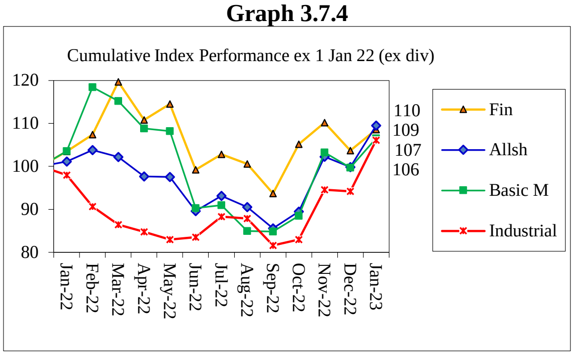
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



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4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	8.4	8.1
5-year real return - % p.a.	4.2	3.9
Equity exposure - % of portfolio (quarter end September 2022)	45.8	63.3
Cumulative return ex Jan 2011	259.3	232.5
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 return of the Default Portfolio versus the target return 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 it 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%.

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	8.0%	9.9%	11.0%
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	6.6%	6.9%	7.3%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from January 2020 to January 2023. These statistics show up the performance volatility of these three risk profiles.

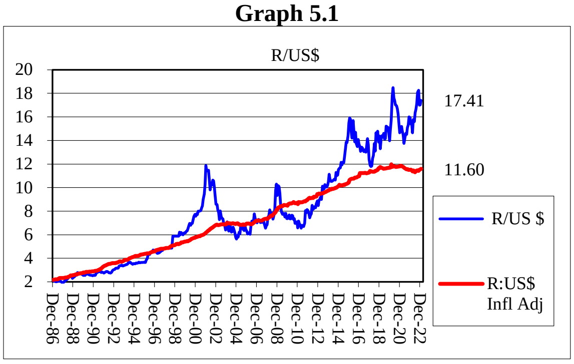
Graph 4

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 January was 9.9%, the average was 10% vs. CPI plus 5%, currently on 10%.

5. Review of Foreign Portfolio Flows and the Rand

Graph 5.1 indicates that the Rand's fair value by our measure is 11.60 to the U.S. Dollar, while it stood at 17.41 at the end of January. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



The Rand weakened by 2.35% in January with a net foreign investment outflow from bonds and equities of R 1.6 bn. Over the past 12 months, the Rand weakened by 13.01 % (12 months to December Rand weakened by 6.7%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 239.2 bn (outflow of R 239.9 bn to the end of December 2022).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 90.5 bn at the end of January (outflow of R 84.8 bn year-on-year to the end of December). The month of January experienced a net outflow of R 11.4 bn. Since 2006, foreign net investment outflows from equities amounted to R 532.4 bn (end December net investment outflow of R 521.0 bn). It represents roughly 2.3% of the market capitalization of the JSE.

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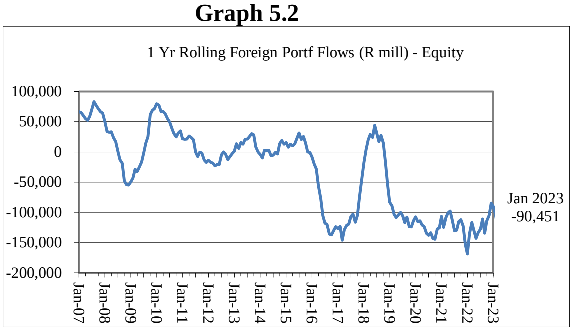
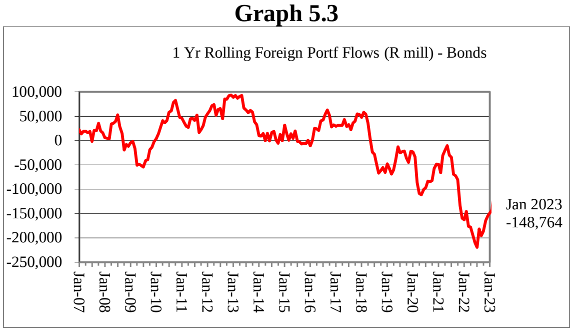
Graph 5.2



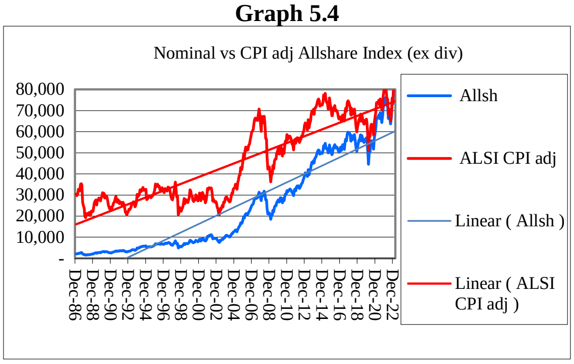
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 148.8 bn over the past 12 months to the end of January (outflow of R 155.0 bn over the 12 months to the end of December). The month of January experienced a net outflow of R 9.8 bn.

Graph 5.3



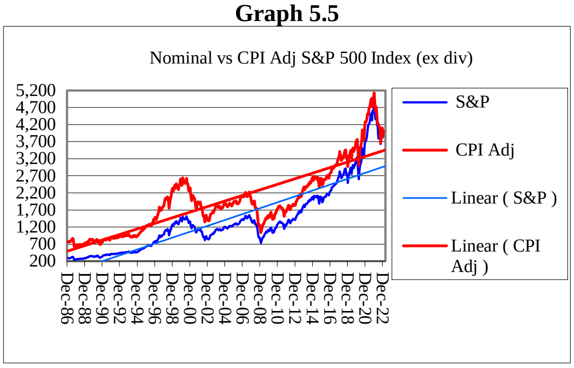
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.8% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 3.1% p.a. over this period, excluding dividends, or around 6.3% including dividends.

Graph 5.4



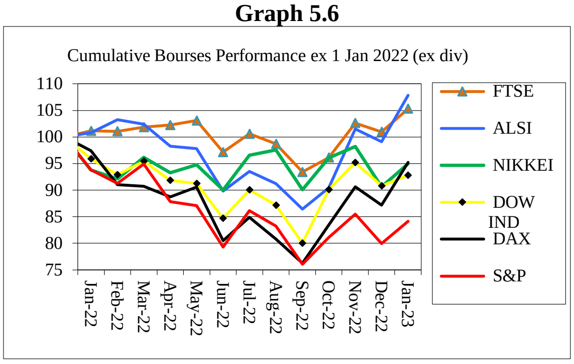
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 7.7% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 4.9% p.a. 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 South African All Share Index (ALSI) 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: 17.3%; Consumer Goods: 12.4%;

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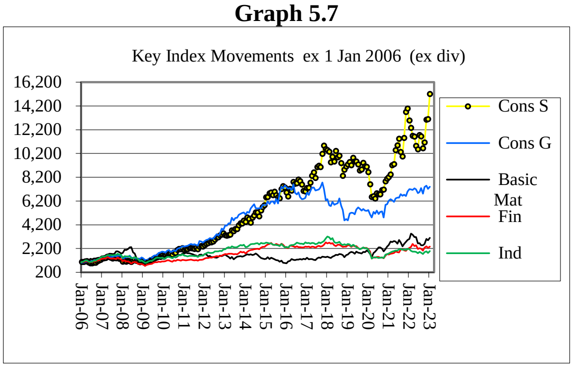
By Staff Writer – RFS Fund Administrators (Pty) Ltd

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

Basic Materials: 6.9%; Financials: 5.1% and Industrials: 4.1%.

Graph 5.7



6. The Default Portfolio is well-positioned for future political developments

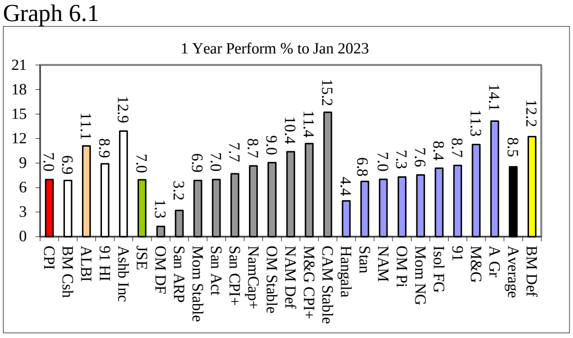
By Tilman Friedrich

The Benchmark Default Portfolio does not aim to outperform the average prudential balanced portfolios over the long term. Any long-term outperformance is a coincidence. However, it does aim to protect better against market declines than the average prudential balanced portfolio at the cost of giving up some market upside.

The Benchmark Default Portfolio return will vary substantially from that of the average prudential balanced portfolio in the short term. Its currently significantly more conservative structure (only 46% in equities, compared to the average of 63%) means that it should beat the average prudential balanced portfolio when shares perform poorly. It will lag it when shares perform strongly. When the returns on the different asset classes are similar, the Default portfolio should perform in line with the average prudential balanced portfolio.

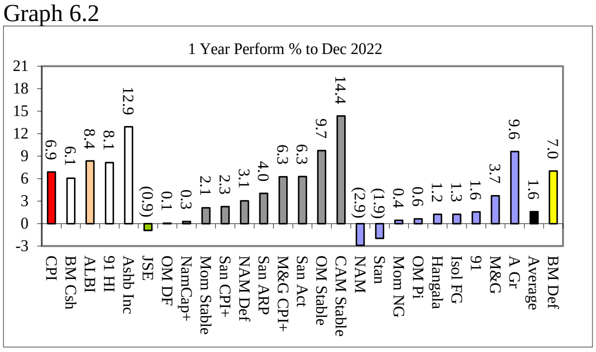
Over the twelve months from February 2022, shares performed roughly in line with the other asset classes. The Default Portfolio should thus perform in line with the average prudential balanced portfolio. Graph 6.1, however, shows that the Default Portfolio produced a return of 12.2%, compared to only 8.5% of the average prudential balanced portfolio. The outperformance must be credited to the Allan Gray portfolio, which makes up around 50% of the Default portfolio, with it outperforming the average prudential balance portfolio by 5.6%!

Graph 6.1



Over the twelve months from February 2021, shares substantially underperformed the other asset classes, as shown in Graph 6.2. The expectation is that the Default portfolio should then outperform the average prudential balanced portfolio due to its lower equity exposure. Graph 6.2 shows that the Default Portfolio indeed outperformed with a return of 7%, compared to only 1.6% of the average prudential balanced portfolio. The outperformance must again be credited to the Allan Gray portfolio, which makes up around 50% of the Default portfolio, with it outperforming the average prudential balance portfolio by a whopping 8%!

Graph 6.2



Graph 6.3 illustrates the Default Portfolio's characteristics, as described above. The black line in the graph depicts the return of the Default Portfolio relative to the yellow line. The yellow line depicts the average of the prudential balanced portfolios as a constant cumulative return of 100 since January 2010. The blue line (the JSE Allshare Index), the green line (Namibian Allbond Index), and the red line (Namibia Money Market Index) depict their movement relative to the yellow line (average prudential balanced portfolio). As shares are the biggest component of the Default Portfolio and the prudential balanced portfolios, the movement of the JSE Allshare Index has the largest impact on the Default Portfolio's performance relative to the average prudential balanced portfolio's performance.

Since its restructuring at the end of 2009, it beat the average prudential balanced portfolio cumulatively. It was 9% ahead of the average (yellow line) at the end of January 2023 after reaching its peak outperformance of 12.4% in March 2020. In March 2020, when COVID hit our markets, the JSE Allshare Index fell 12.8%, from 51,038 to 44,490. In April 2020, the JSE Allshare Index grew by 13.1%, continuing its trajectory to 79,477 by the end of January 2023. An index investor in the Allshare index would have trailed the Default Portfolio by 28% cumulatively since January 2010! An extremely cautious investor whose mission was to avoid another global Financial Crisis experience by investing in the money market (BM Csh), would have been 32% cumulatively worse off than if he had remained invested in the Default Portfolio!

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Benchmark
Retirement Fund

Administered by RFS Fund Administrators

Income Tax Ref. No.12/1/12/462
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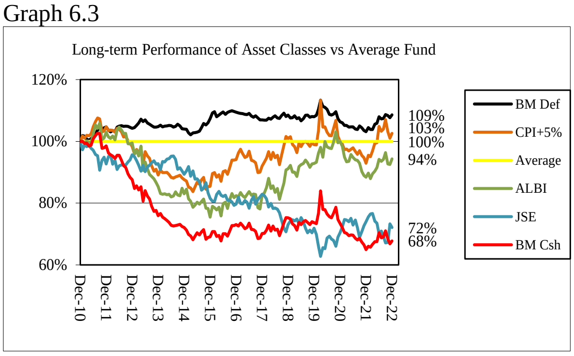
Graph 6.3



In this column of last month's newsletter, I described the Ukraine conflict as the defining event for global markets and economies. Unless the US-led anti-Russia and anti-China alliance prevails in this conflict, the world, its economies, and its markets will look different from todays. We will have a multi-polar world not dominated by the US Dollar and the US financial system. There will be more customs and currency controls and less free global trade and flow of capital. As the result, countries will have to become more self-reliant, and people will experience more shortages in many areas. If the US-led alliance should prevail, we will have a much more dominant and autocratic US advancing its economic and financial interests above everything else. China will not be an economic factor anymore but will be harnessed to advance US interests. In the worst-case scenario, the nuclear powers will use their nuclear arms, which will cause massive disruption in every respect across the world. Under all scenarios, we will experience a lot of uncertainty and volatility. One will find it difficult to invest elsewhere but a home, and it may not be possible to repatriate one's foreign investments

In such a scenario, the cautious structure of the Default portfolio should produce better returns than the average prudential balanced portfolio. As stated at the outset, it can underperform the yellow line over the short term, particularly when shares do well. So, will shares continue doing poorly as they did since the beginning of last year? The reason shares have done poorly is that central banks started to drain liquidity from the financial system and increased their policy interest rates. An investor now earns interest on interest-bearing investments and sometimes even earns a positive real return after inflation. The investor can no longer borrow money cheaply to invest in shares and other assets, which drove up the price of these assets until the end of 2021. Central banks were forced to raise their policy interest rates after inflation shot up dramatically since the start of 2021. Supply chain disruptions resulting from COVID lockdowns and a drastic increase in energy prices because of the Ukraine-Russia conflict, paired with a strong consumer demand recovery after the lifting of COVID lockdowns, led to a rapid increase in inflation.

In response to the strong growth in the inflation rate, the US Federal Reserve and the ECB have already reduced the monthly amount of money they were pushing into the financial this next year. These policy changes will continue to cap the return on shares relative to interest-bearing investments. This trend is likely to continue until the risk-adjusted returns on shares and interest-bearing investments reach an equilibrium.

Conclusion:

Inflation and interest rates are likely to be much higher. Governments may have to raise taxes to fund the conflict and higher interest rates on their debt. Higher interest rates, inflation, and taxes will curb consumer demand and will result in a recession over the next decade until the dust settles. There will be a decoupling of global equity markets, and local equity markets will be driven by local and regional rather than global developments. Because of the global political turmoil, foreign investors will withdraw from the local markets for safe havens. Foreigners' 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 such political turmoil. In times of volatility, the investor should be good at stock-picking and tactical asset allocation rather than index investing, and Allan Gray has shown to be good at that. The objective must be to select companies benefiting from the global political developments. Sectors that should do better on the back of global supply shortages are the energy sector and certain chemical producers, defensive counters in health care and related areas, and consumer goods and services. At the end of the day, whatever happens, we still have to eat, drink and pursue our normal daily chores.

Equities remain our preferred asset class as they represent the real economy. 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 seem much more sedated than those in Europe and Asia. Property is also an appropriate asset class closely tied to the 'real economy.'

The Benchmark Default portfolio is well-positioned to meet the challenges global political developments may present over the next decade or longer, through its well-diversified, cautious structure.

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