Volume 19 No. 02
February 2023

Benchmark
Retirement Fund

Administered by RFS Fund Administrators

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

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 28 FEBRUARY 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

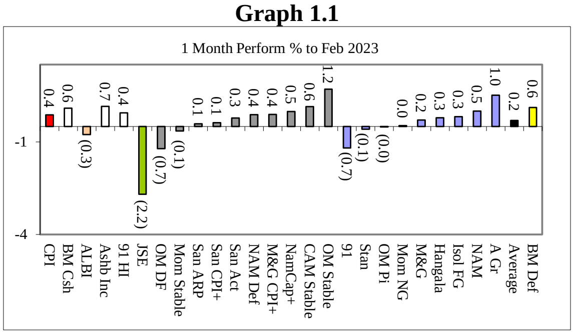
In February 2023, the average prudential balanced portfolio returned 0.2% (January 2023: 5.5%). The top performer is Allan Gray Balanced Fund with 1.0%, while NinetyOne Managed Fund with -0.7% takes the bottom spot. For the three months Namibia Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 2.6%. Hangala Capital Absolute Balanced Fund underperformed the 'average' by 2.1% 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 Allan Gray Namibia Balanced, Ninety-One Namibia Opportunity, M&G Inflation Plus Fund, Sanlam Inflation Linked Fund and 20Twenty Credit Solutions.

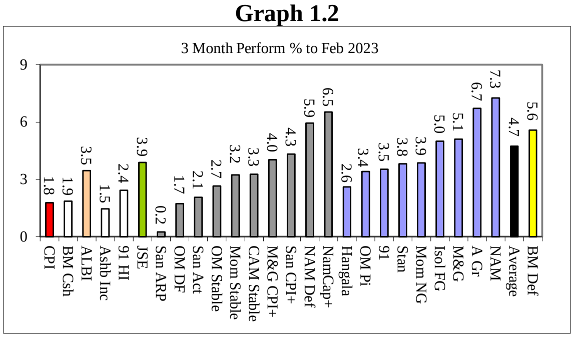
Below is the legend to the abbreviations reflected on the graphs:

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 Capital 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)

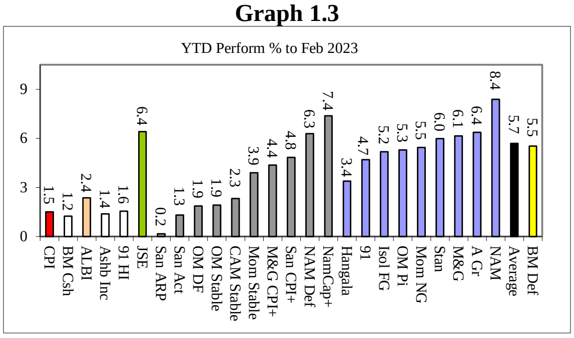
Graph 1.1



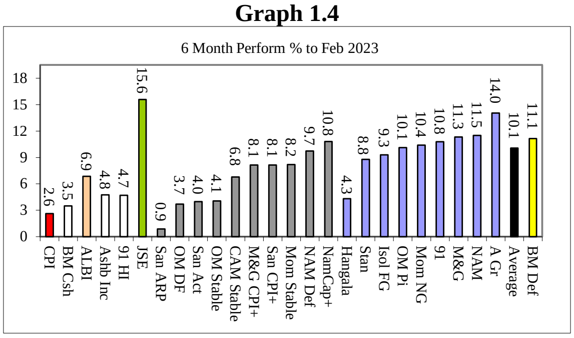
Graph 1.2



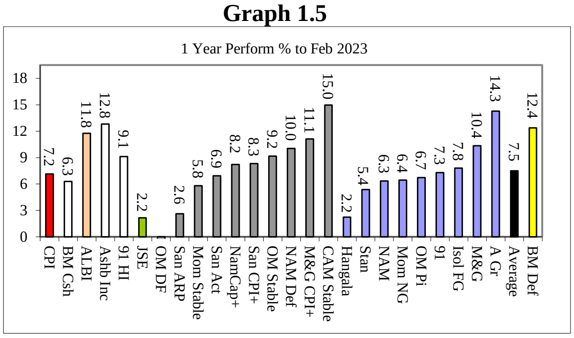
Graph 1.3



Graph 1.4



Graph 1.5



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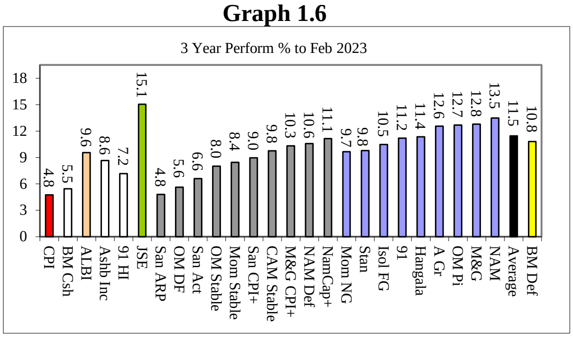
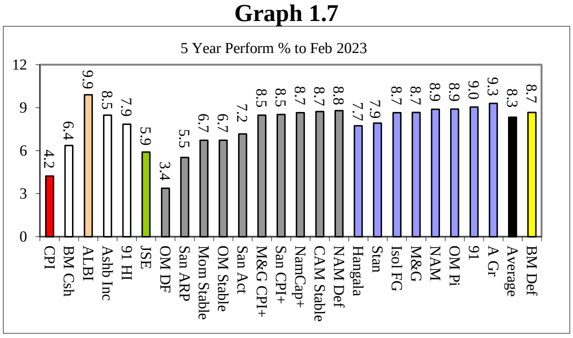
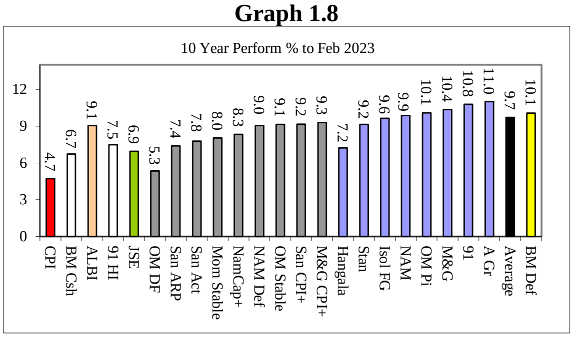
Graph 1.6



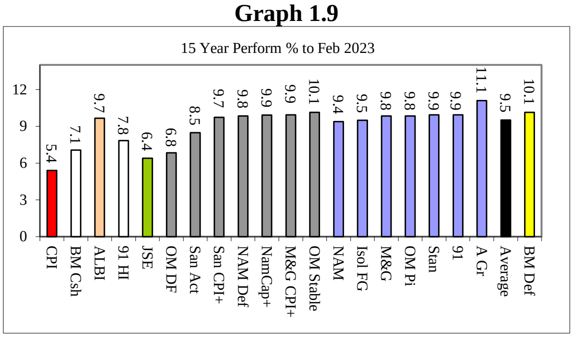
Graph 1.7



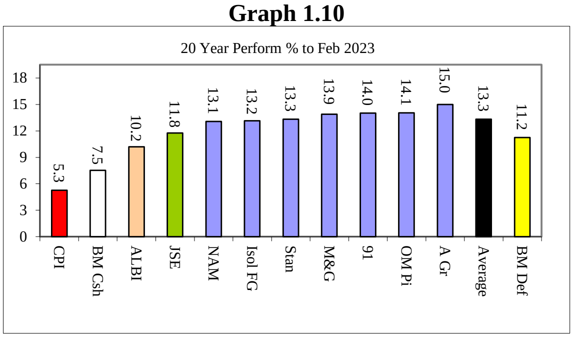
Graph 1.8



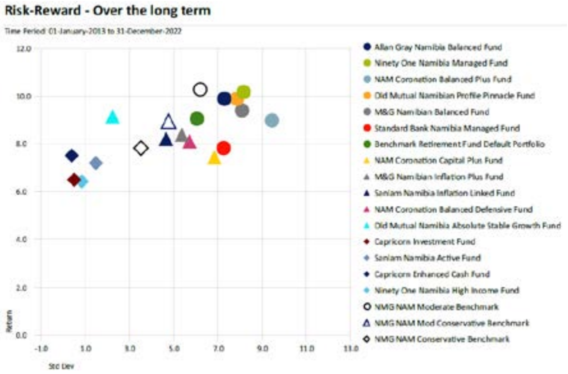
Graph 1.9

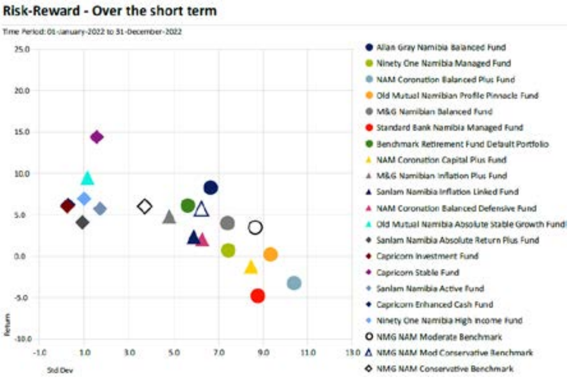


Graph 1.10



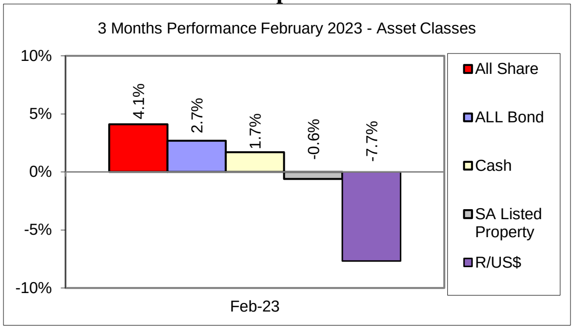
Risk/ Return



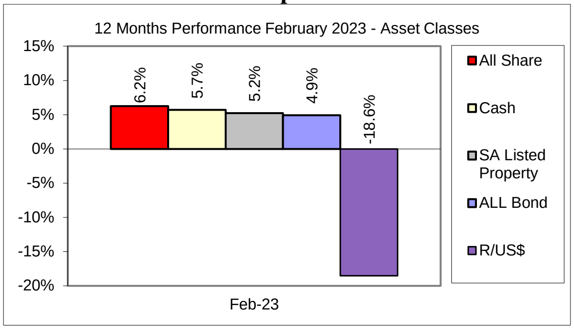


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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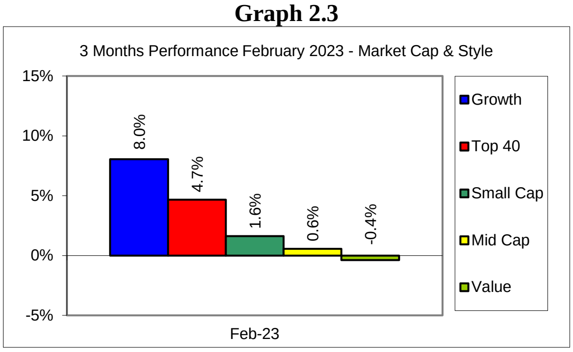
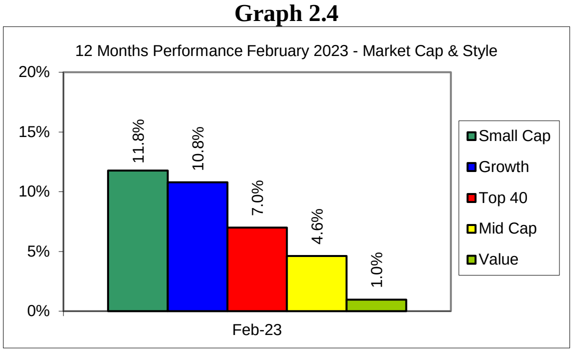
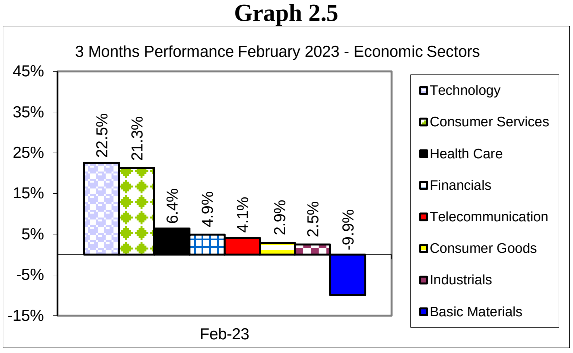
Graph 2.3



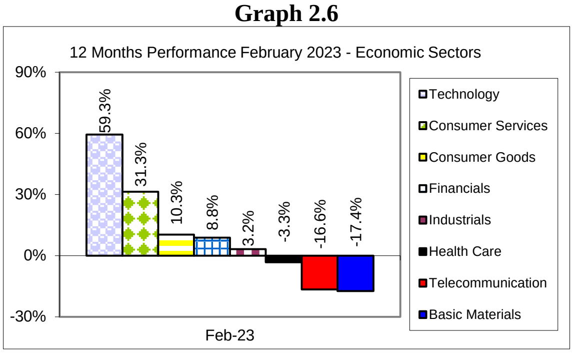
Graph 2.4



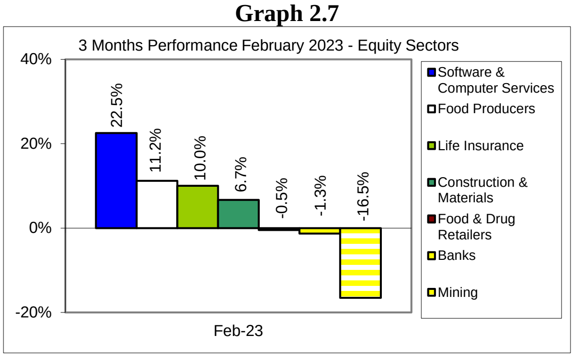
Graph 2.5



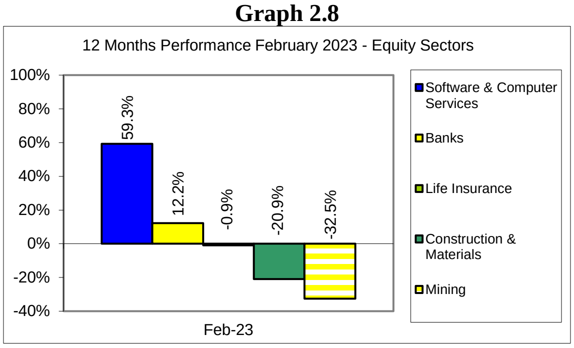
Graph 2.6



Graph 2.7



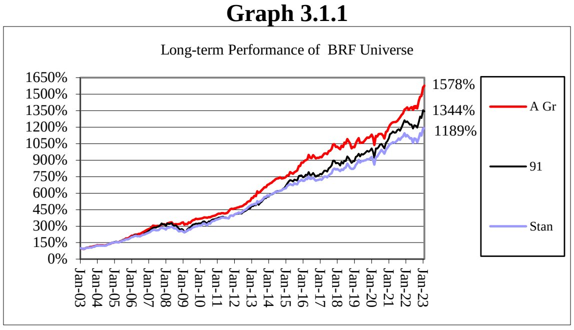
Graph 2.8



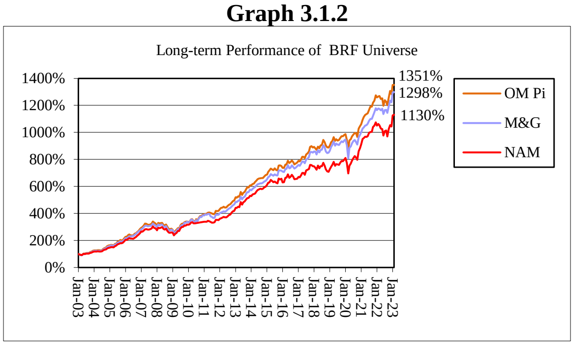
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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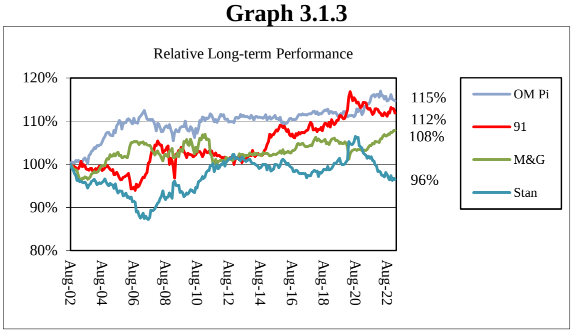
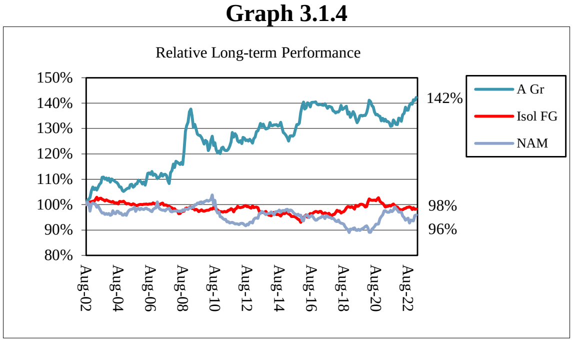
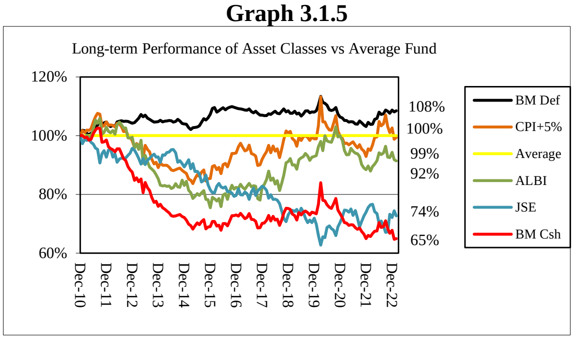
Graph 3.1.3



Graph 3.1.4

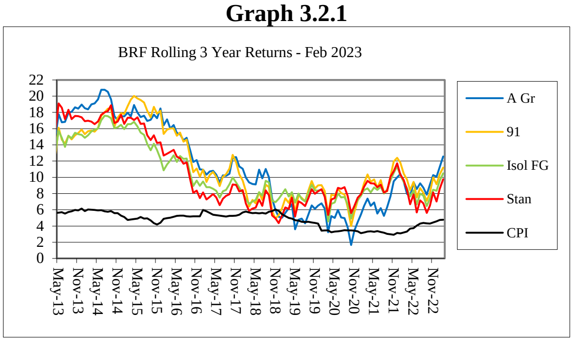


Graph 3.1.5

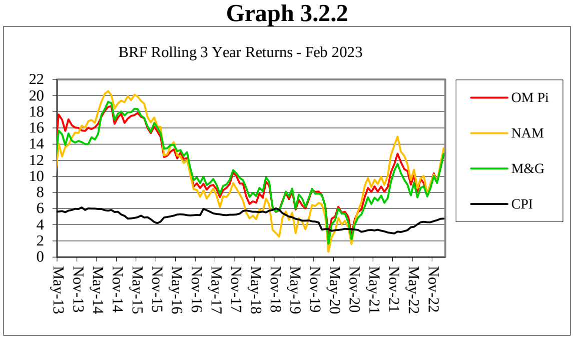


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

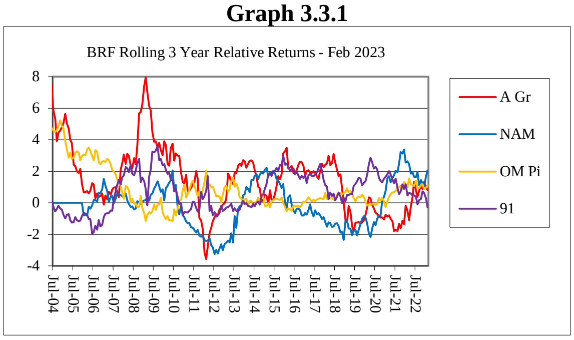


Graph 3.2.2

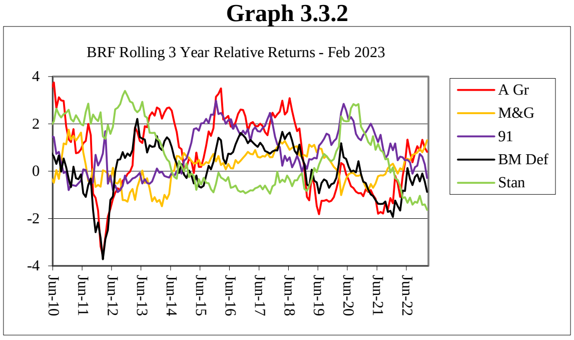


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

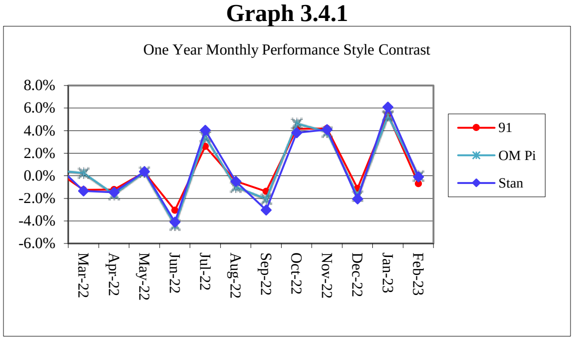


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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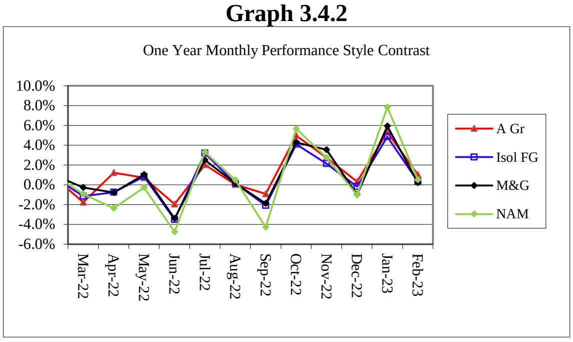
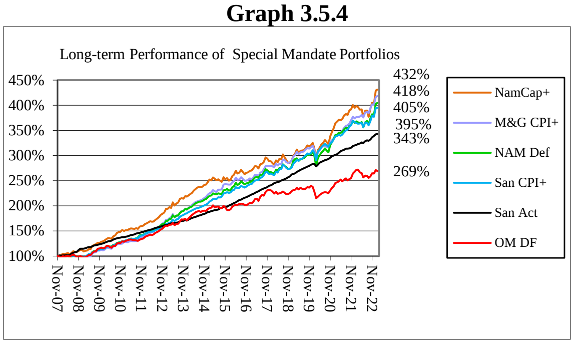
Graph 3.4.2

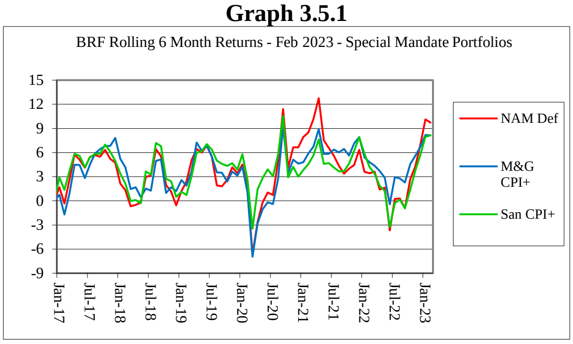


Graph 3.5.4

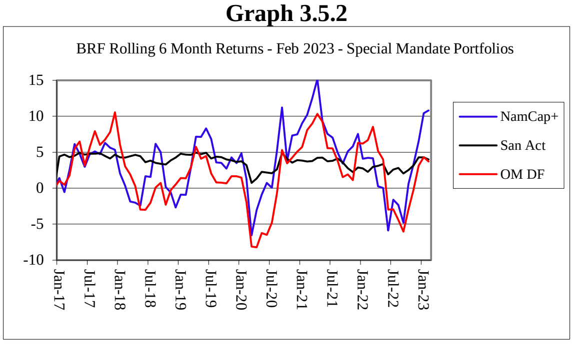


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

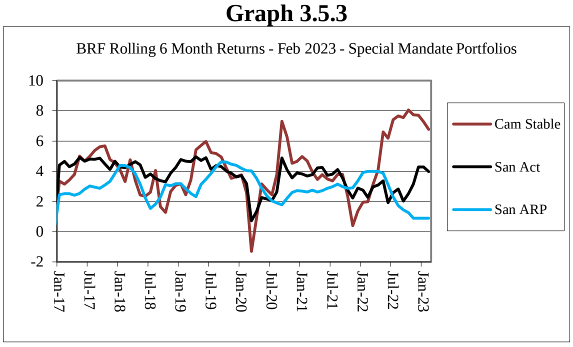
Graph 3.5.1



Graph 3.5.2

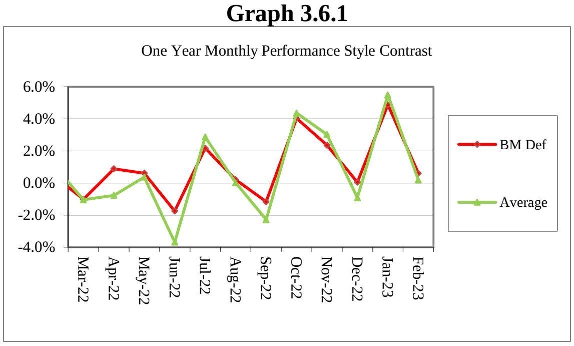


Graph 3.5.3

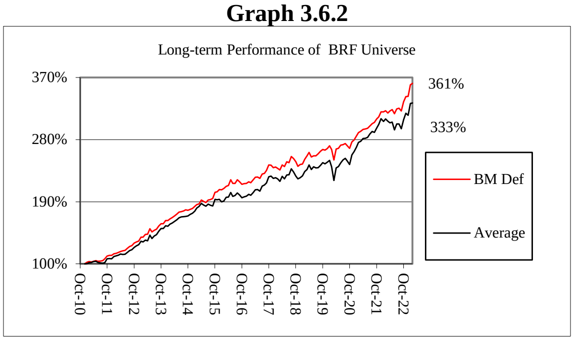


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

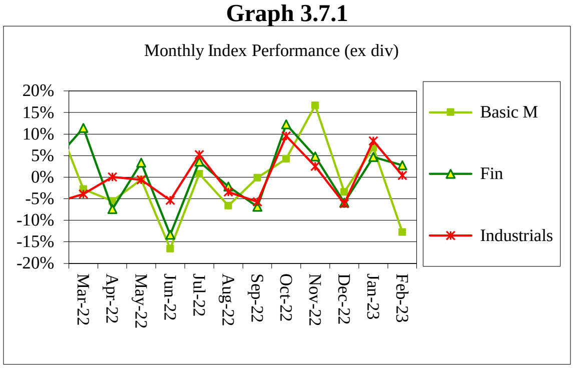


Graph 3.6.2



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

Graph 3.7.1



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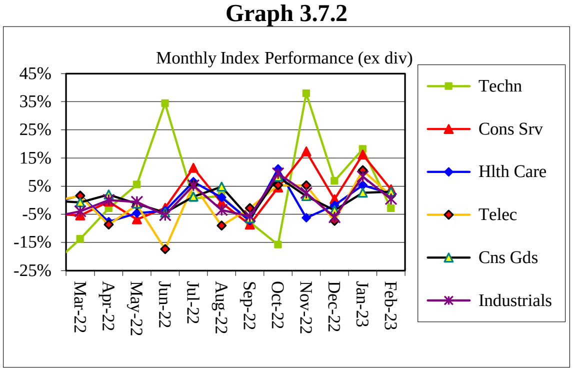
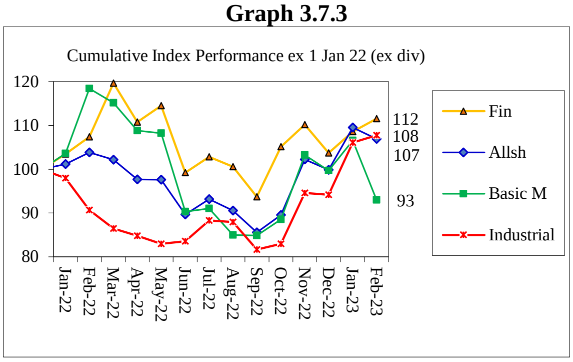
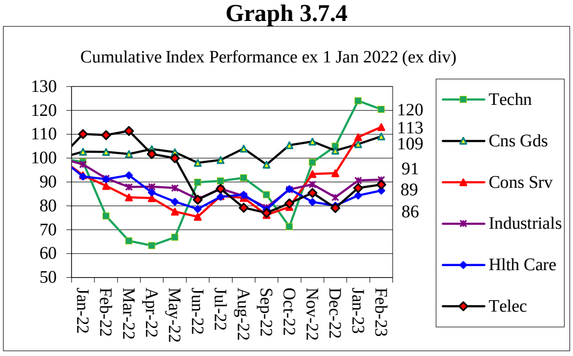
Graph 3.7.2



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.	8.7	8.3
5-year real return - % p.a.	4.5	4.1
Equity exposure - % of portfolio (quarter end December 2022)	47.1	54.6
Cumulative return ex Jan 2011	262.5	233.1
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 47% compared to the average prudential balanced portfolio's exposure of 55%.

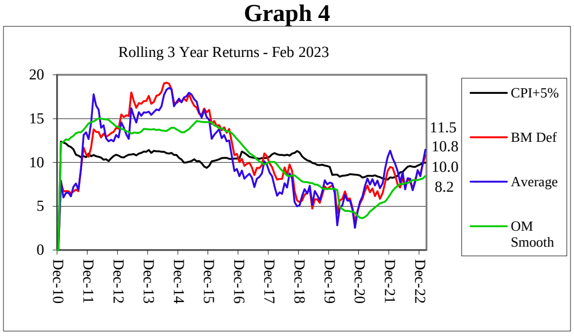
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	3.2%	2.5%
Best annual performance	7.9%	10.8%	11.5%
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	6.5%	7.1%	7.5%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from March 2020 to February 2023. These statistics show 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 February was 10.8%, the average was 11.5% vs. CPI plus 5%, currently on 10%.

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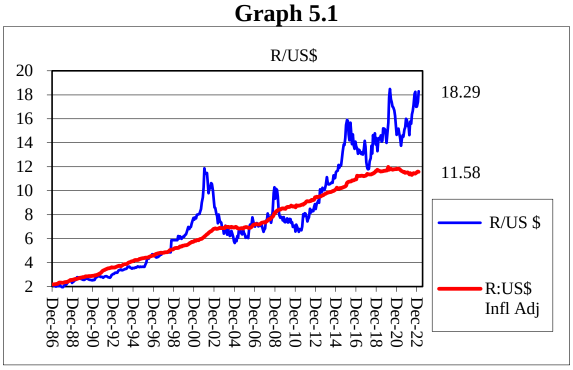
5. Review of Foreign Portfolio Flows and the Rand

Graph 5.1 indicates that the Rand's fair value by our measure is 11.58 to the U.S. Dollar, while it stood at 18.29 at the end of February. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

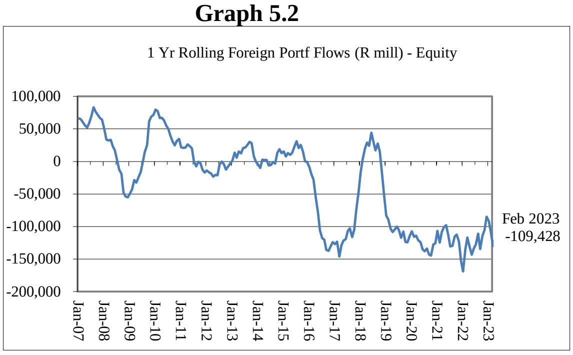
Graph 5.1



The Rand weakened by 5.05% in February with a net foreign investment outflow from bonds and equities of R 50.1 bn. Over the past 12 months, the Rand weakened by 18.6% (12 months to January Rand weakened by 13.0%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 305.7 bn (outflow of R 248.8 bn to the end of January 2023).

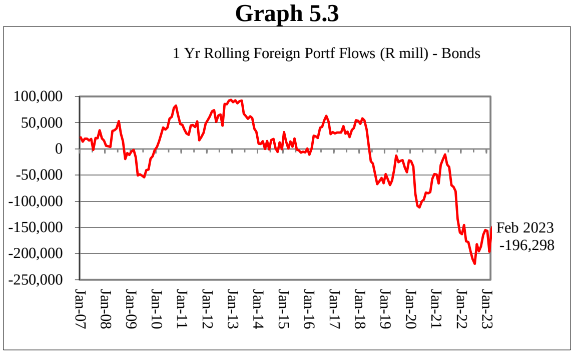
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 109.4 bn at the end of February (outflow of R 91.9 bn year-on-year to the end of January). The month of February experienced a net outflow of R 17.6 bn. Since 2006, foreign net investment outflows from equities amounted to R 538.7 bn (end January net investment outflow of R 533.9 bn). It represents roughly 2.4% of the market capitalization of the JSE.

Graph 5.2



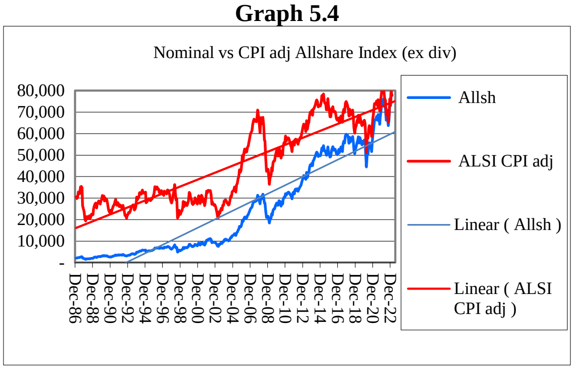
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 196.3 bn over the past 12 months to the end of February (outflow of R 156.9 bn over the 12 months to the end of January). The month of February experienced a net outflow of R 45.3 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 161.6 bn (end January net investment outflow of R 116.3 bn).

Graph 5.3



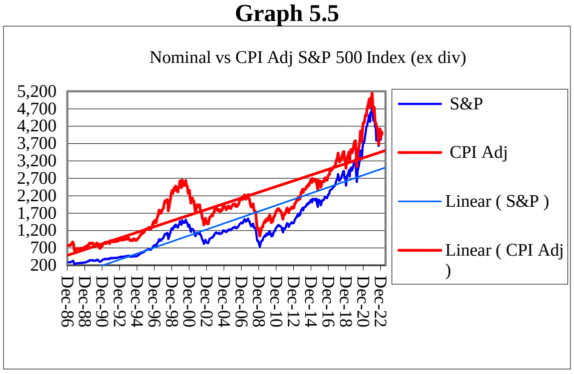
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.7% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.7% per year. It is equivalent 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 36 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 4.7% p.a. over 36 years, excluding dividends, or around 6.8% (including dividends).

Graph 5.5



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

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By Staff Writer – RFS Fund Administrators (Pty) Ltd

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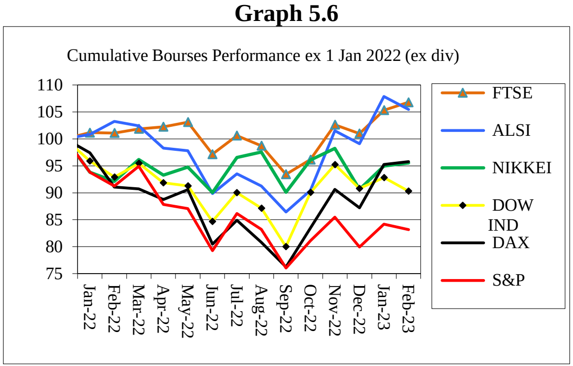
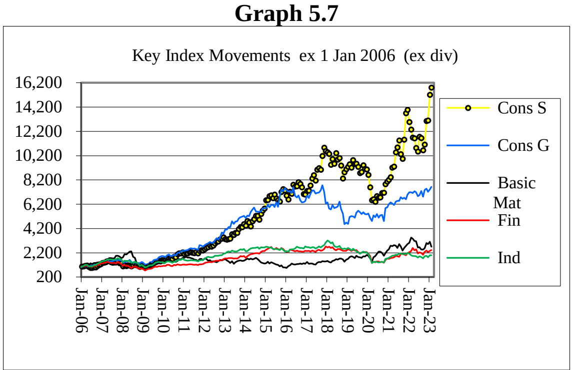
Graph 5.6



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: 17.4%; Consumer Goods: 12.6%; Basic Materials: 6.0%; Financials: 5.3% and Industrials: 4.1%.

Graph 5.7



6. When conventional investment management becomes redundant

By Tilman Friedrich

When the world is facing a major military conflict that could well proliferate into a nuclear confrontation, conventional investment management principles and processes become redundant. The battle lines are drawn between two principally different value systems! The US successfully imposed its unconstrained capitalist system on the world since the end of World War 1. Under this system, we have a unipolar world dancing to the tunes of the US, where the West and NATO are merely tools of the US to cement its hegemony in a one-world order. On the other side is China as an emerging military and economic superpower and Russia as a military superpower who are pursuing their autonomy as a nation and as a global player. Their objective is to maintain a balance between competing global interests. They would need to create the space for such competing interests through a multi-polar world order.

The capitalist system maintains that competition is healthy for business. It makes sense because it mirrors the law of nature. This law of nature should equally apply to an efficient world order. A unipolar world throttles global competition, while a multi-polar world maintains competition.

The West wants to subjugate Russia to start with and then China. The West cannot possibly think that China is so naïve as not to realise it is the West's ultimate target of the current campaign against Russia, riding on the back of Ukraine. China probably knows that it is not ready yet for a full-scale confrontation with the West. The West knows that China is not ready yet and that it spares no effort to get there. For the West, the time is now when China would want to delay the inevitable. China and Russia would ideally want to define a new multi-polar world order. Can one find any wrong with that? The West, on the other hand, might not want to give up its nearly accomplished goal of a one-world order under the US dictate. Of course, the West will argue that China and Russia see their professed multi-polar system as the beginning of the reverse of the US hegemony.

In a conflict where the parties are bristling with nuclear weapons, it would really be suicidal for any party to think it will get away unscathed or will have the upper hand. It would also be naïve to think that Russia or China will not use their nuclear arms when their survival is threatened. If sense prevails, the West will have a self-imposed line it will not cross to avoid a catastrophe. In the same way, China and Russia will have a red line for using nuclear weapons should the West cross it. Hopefully, each side's line is not on the opponent's side of their line. For us as investors and for the opponents in the current confrontation, it will be crucial to know if the opponent's line is closer to you than your line or not. If it is, a catastrophe is unavoidable, and the investor may not have to make any investment decisions for a long time to come.

Since China is not a party to the Ukraine conflict and would likely prefer to stay out of it until its red line is crossed, it is strongly interested in finding a compromise between Russia and the West to avoid the West crossing its red line. China indicated that it would submit a peace proposal. The peace proposal must recognise Russia's legitimate security and national interests, which are: international recognition of the Crimea peninsula as part of Russia, as it accommodates Russia's Black Sea fleet, alternatively granting Russia unfettered access to it. Russia has a national interest in the Russian-speaking population in eastern Ukraine. The right to use the Russian language must, therefore, be guaranteed. Lastly, Ukraine must remain neutral and may not possess nuclear arms. I don't think anyone would think these Russian demands are unreasonable if one applied the same considerations to the US.

Any peace proposal by China has to take into account Russia's demands. If they don't, Russia will not accept the proposals, and it may then end up it being overcome by the West. The consequence of that is that NATO will be stationed in Russia, right on China's border, and it will only be a question of time until China is subjugated. It will not be given the time to get ready! A rejection of China's peace

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proposal by the West will be the writing on the wall that the West is 'out for blood'. China's initial document represented only a list of principles for a new multi-polar global order and did not contain specific proposals for resolving the Ukraine conflict. Perhaps the outcome of President Xi's recent visit to Moscow will be concrete proposals. Investors will have to wait and see and take their clues from it. If China does not present a specific peace proposal along the above lines within the next month or two, it will not bode well for the future. If it does, but the West ignores the proposal, it will not bode well for the future either. The only hope for avoiding a catastrophe is if the Chinese proposal receives the West's serious attention.

Of course, on the road to a final resolution of the current East: West conflict, global markets will continue on their path. Reserve bank governors will continue managing interest rates and money supply to achieve their goals. In this phase, investment markets will behave fairly predictably, and the investor could apply normal investment principles. No one can predict the outcome of the East: West conflict and its timeframe, and it presents a serious risk for the investor. Should one expect the worst outcome and start taking precautionary measures now? If so, what precautionary measures should one take? Unfortunately, an investor must make his own decisions and cannot leave it to someone managing a large pool of investors' money. They cannot pre-empt a worst-case scenario due to the timing risk, and any proactive action could become a 'self-fulfilling prophesy'. They are doomed to be the last to leave the sinking ship.

Conclusion:

In the phase to the final resolution of the East: West conflict, one way or another, 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 economies and financial markets, and local economies and financial markets will be driven by local and regional more than global developments. Because of the global political turmoil, foreign investors will withdraw from the local markets for 'safe havens'. Investors' definition of 'safe havens' will change as investors are likely to onshore or friend-shore their investments even further than they started to do in the aftermath of COVID and global supply change disruptions.

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. Foreigners' support of local equities and other assets will dwindle, impacting our local currency and financial markets negatively. Should the worst-case scenario realise, equity markets will take a deep dive and will not recover before the situation has been resolved, one way or another.

However, economies will not disappear unless their people disappear. As long as there are people, they have needs that the economy must meet, and life will continue. Today's winners may not be tomorrow's, but basic life necessities will always exist. Markets will undergo significant changes, and with it will come a lot of volatility.

In such times of volatility, the investor should be good at stock-picking and tactical asset allocation rather than index investing. The objective must be to select companies benefiting from global political developments. Sectors that should do better on the back of global supply shortages are the energy sector and certain chemicals producers, 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. Of course, if the investor expects a worst-case scenario, they have to act and should not expect their money manager to be proactive, as explained above. It should also be appropriate to only reinvest in the equity market once one has a better view of the future, and the dust has settled somewhat. In the meantime, one should take a risk-off approach in investing one's money. Consider the money market, other fixed-interest assets, and bonds for holding to maturity to avoid market volatility.