Volume 19, No. 04
April 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 30 APRIL 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

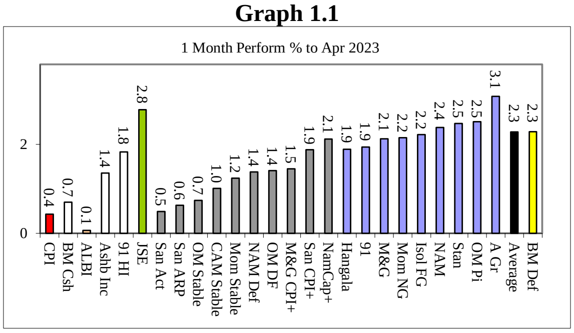
In April 2023, the average prudential balanced portfolio returned 2.3% (March 2023: 0.3%). The top performer is Allan Gray Balanced Fund with 3.1%, while Hangala Capital Absolute Balanced Fund with 1.9% takes the bottom spot. For the three months Allan Gray Balanced Fund takes the top spot, outperforming the 'average' by roughly 2.1%. M&G Managed Fund underperformed the 'average' by 1.6% on the other end of the scale. Note that these returns are before (gross of) asset management fees.

Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced portfolios (black bar), the JSE Allshare Index (green bar), and the CPI (red bar). Benchmark investors should note the performance of the default portfolio (yellow bar), which represents a combination of Allan Gray Namibia Balanced, Ninety-One Namibia Opportunity, M&G Inflation Plus Fund, Sanlam Inflation Linked Fund and 20Twenty Credit Solutions.

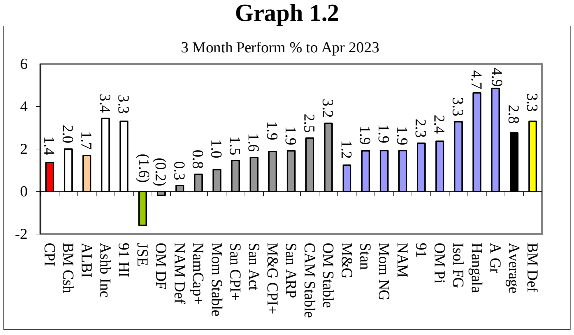
Below is the legend to the abbreviations reflected on the graphs:

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	BM Csh (no color)
NinetyOne High Income (interest bearing assets)	91 HI (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	OM 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	OM Pi (blue)
M&G Managed	M&G (blue)
Stanlib Managed	Stan (blue)

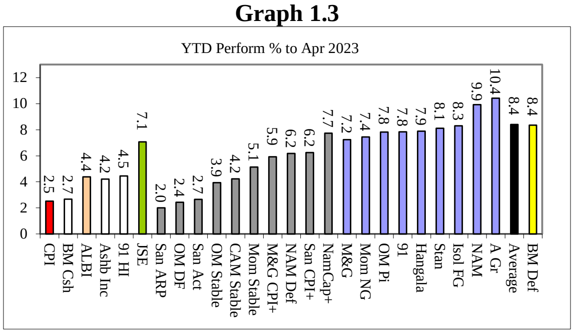
Graph 1.1



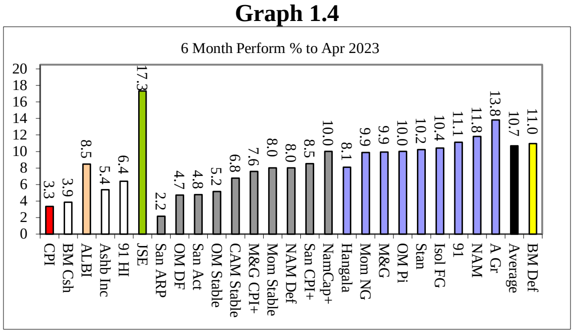
Graph 1.2



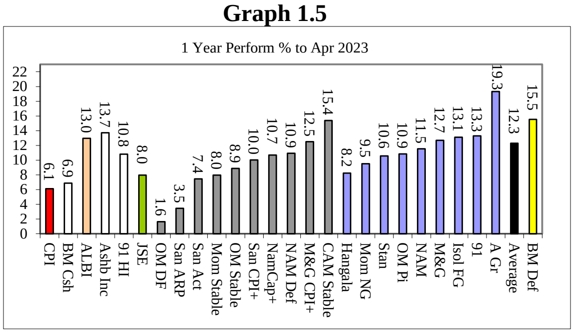
Graph 1.3



Graph 1.4



Graph 1.5



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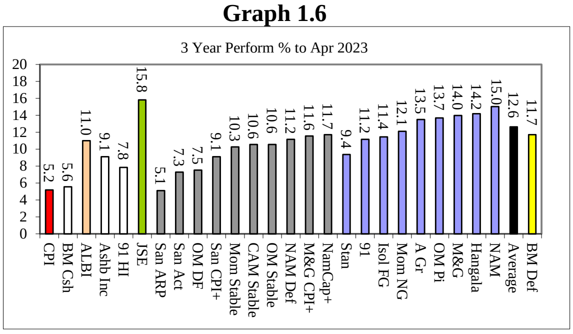
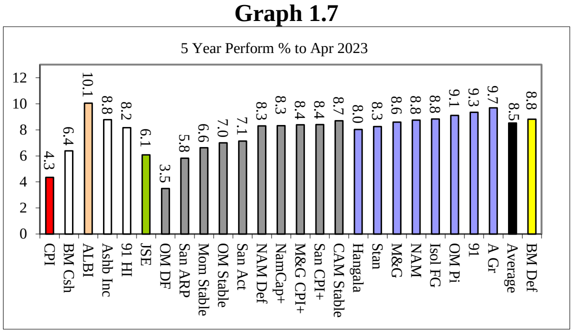
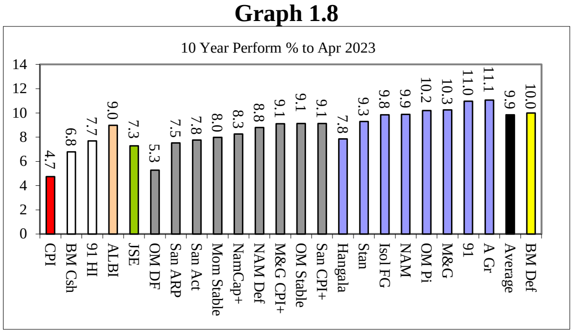
Graph 1.6



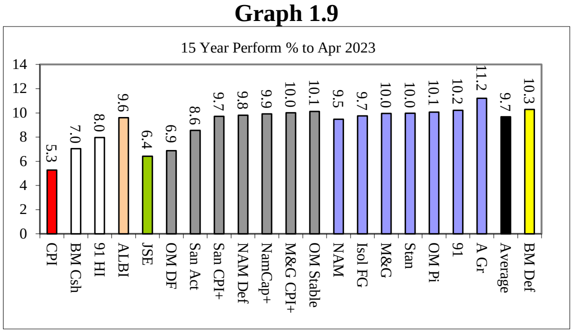
Graph 1.7



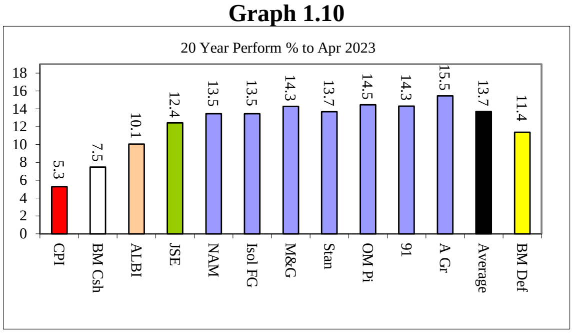
Graph 1.8



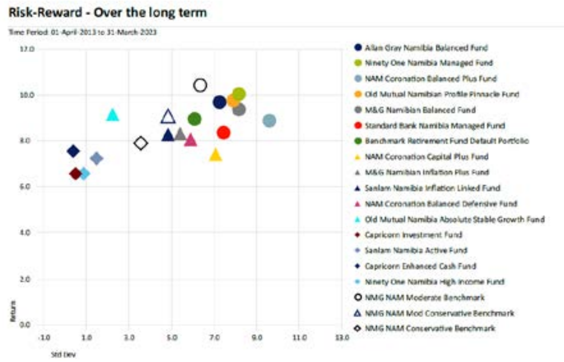
Graph 1.9

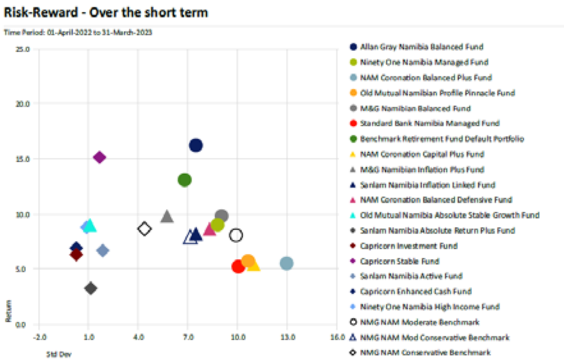


Graph 1.10



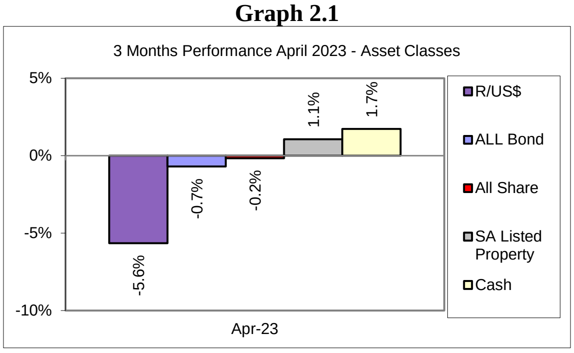
Risk/ Return



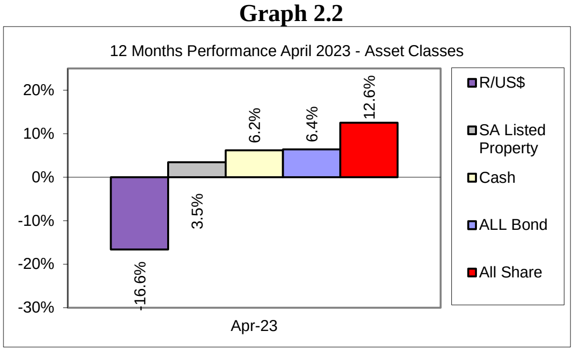


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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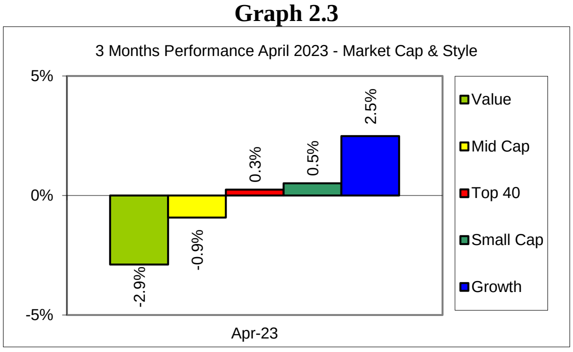
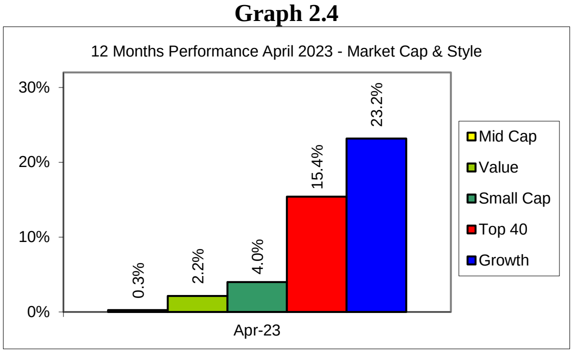
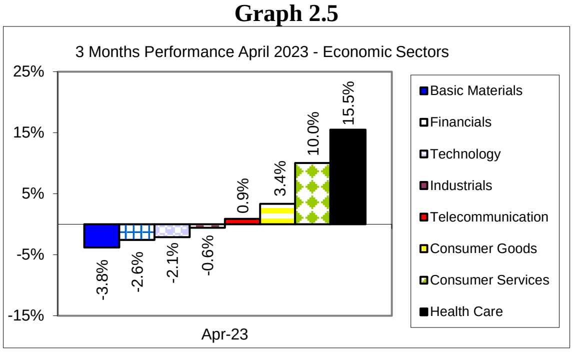
Graph 2.3



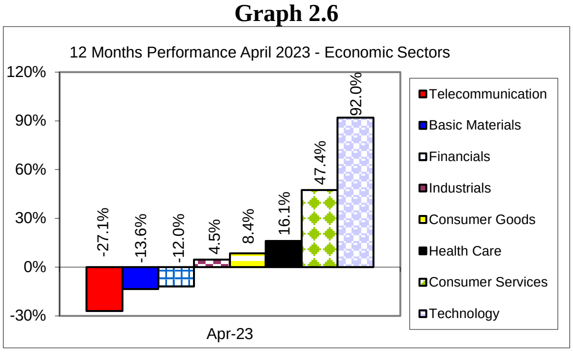
Graph 2.4



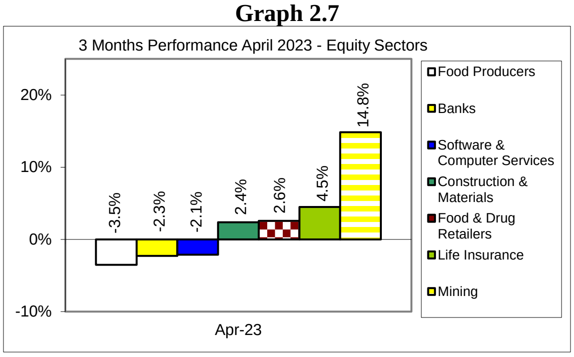
Graph 2.5



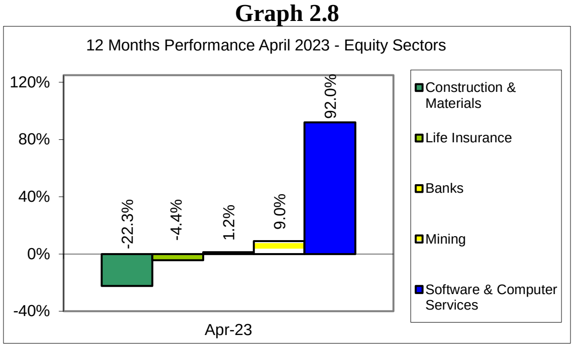
Graph 2.6



Graph 2.7



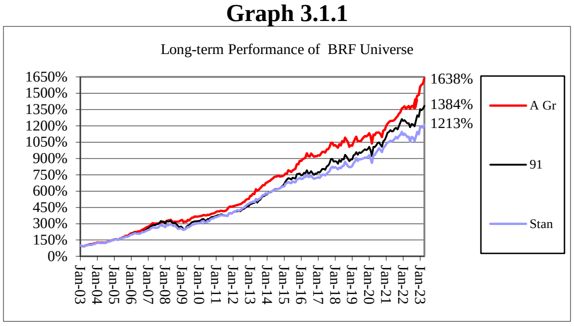
Graph 2.8



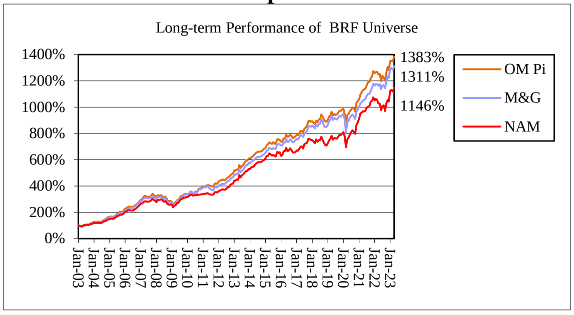
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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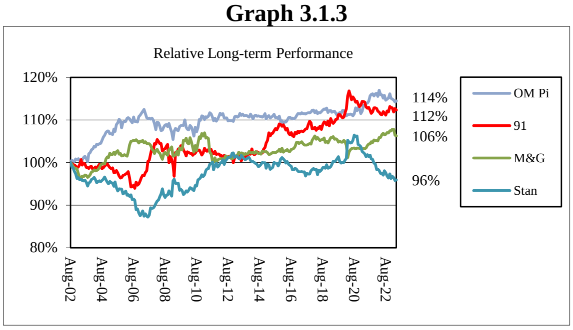
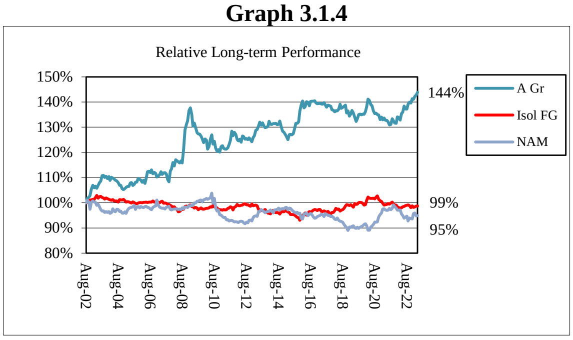
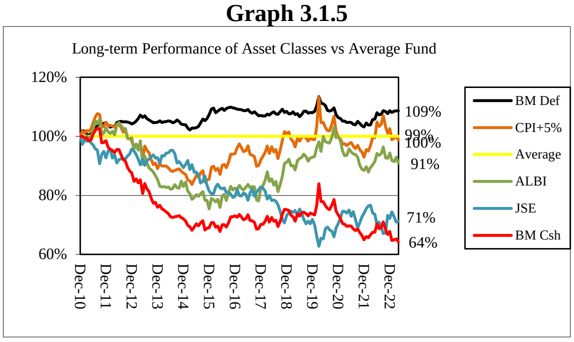
Graph 3.1.3



Graph 3.1.4

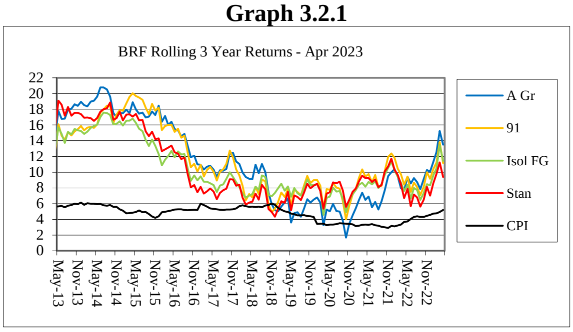


Graph 3.1.5

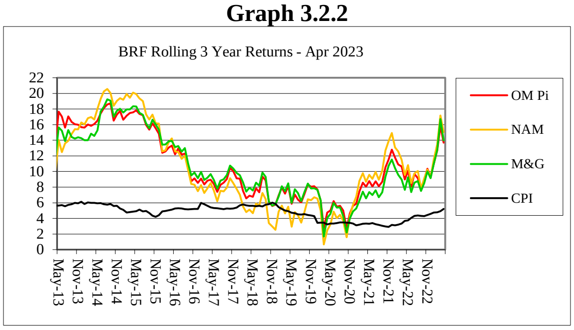


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

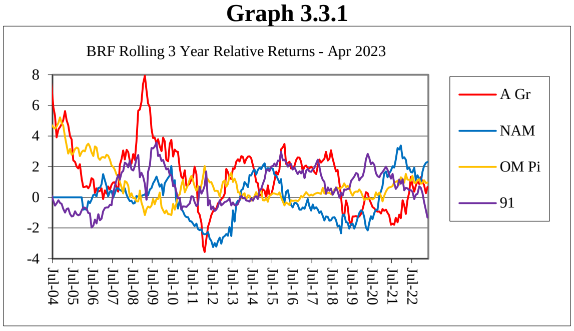


Graph 3.2.2

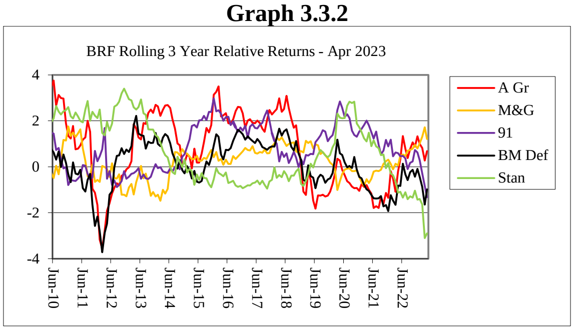


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

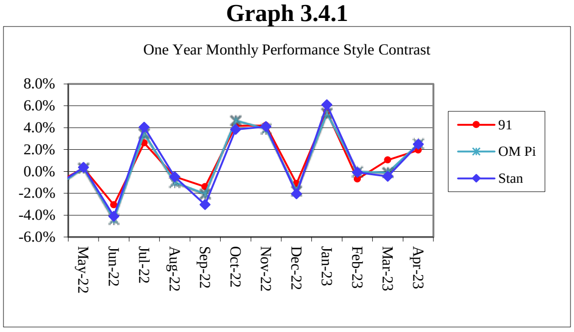


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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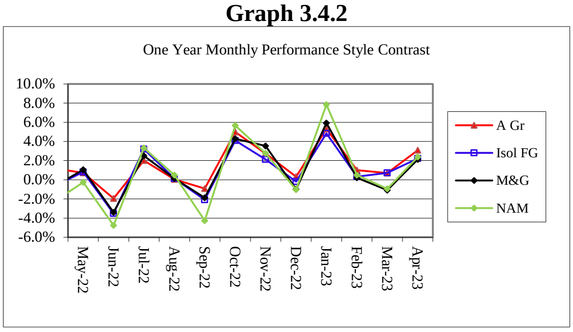
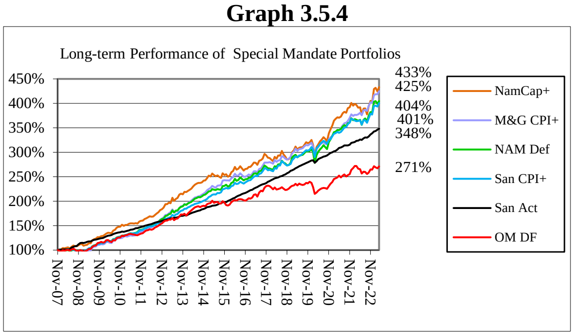
Graph 3.4.2

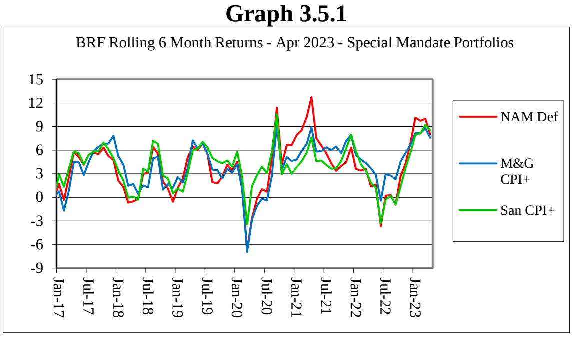


Graph 3.5.4

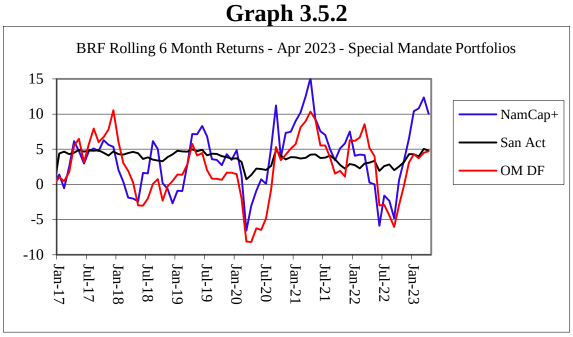


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

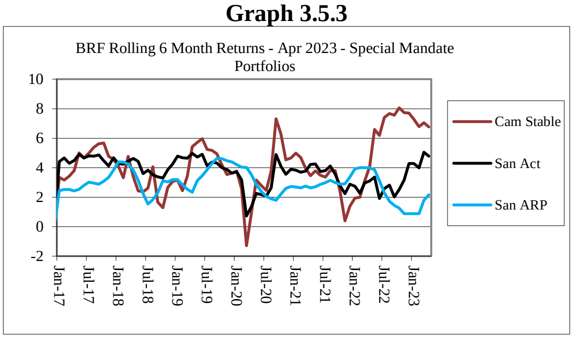
Graph 3.5.1



Graph 3.5.2

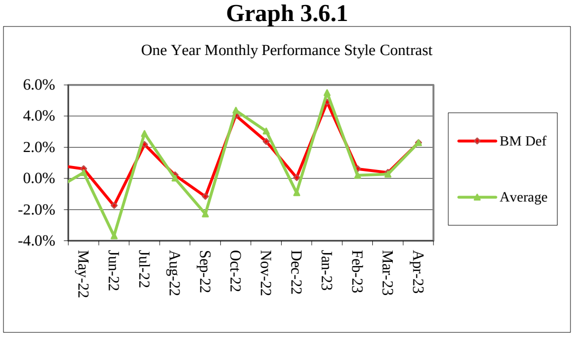


Graph 3.5.3

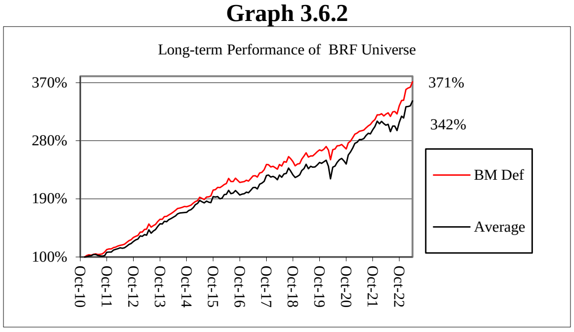


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

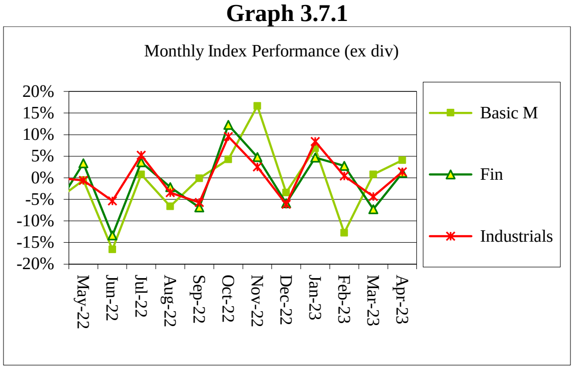


Graph 3.6.2



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

Graph 3.7.1



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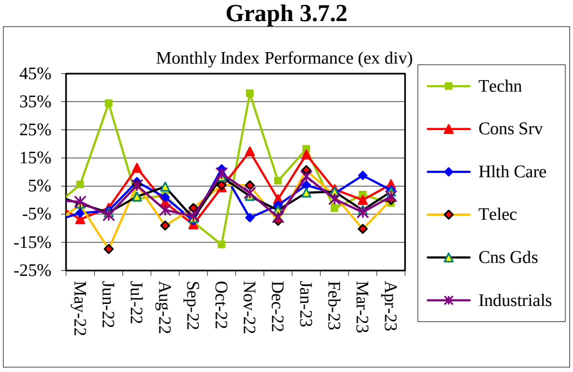
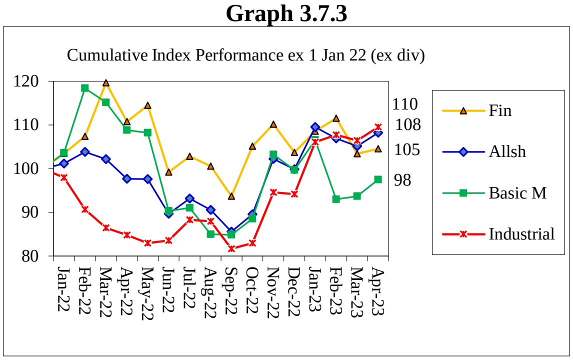
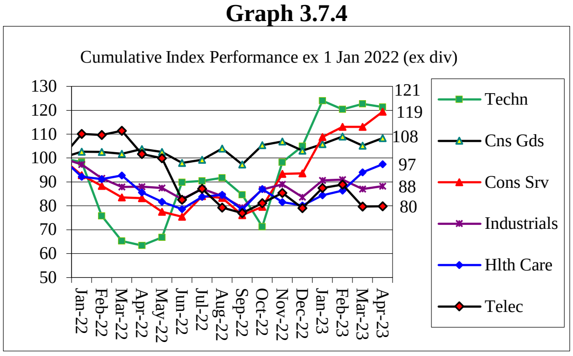
Graph 3.7.2



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.	8.8	8.5
5-year real return - % p.a.	4.5	4.2
Equity exposure - % of portfolio (quarter end March 2023)	45.7	63.5
Cumulative return ex Jan 2011	271.2	241.6
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 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 64%.

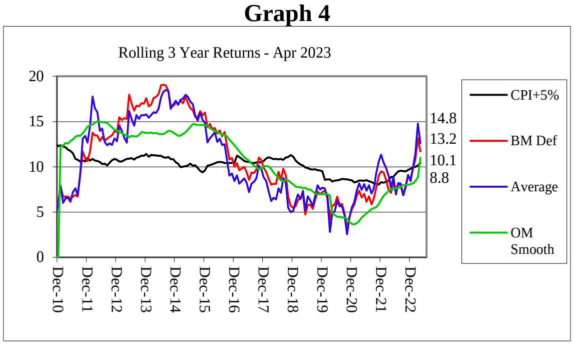
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	3.2%	2.5%
Best annual performance	7.8%	13.2%	14.8%
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	6.3%	7.5%	8.0%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from May 2020 to April 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 April was 13.2%, the average was 14.8% vs. CPI plus 5%, currently on 10.1%.

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 18.39 at the end of April. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

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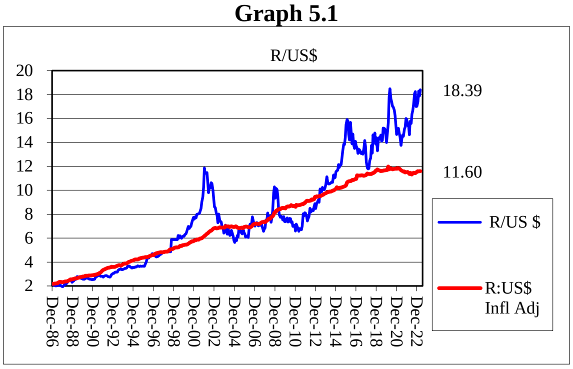
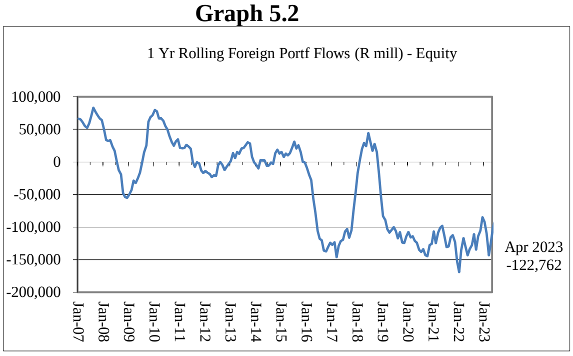
Graph 5.1



The Rand weakened by 2.87% in April with a net foreign investment inflow from bonds and equities of R 1.8 bn. Over the past 12 months, the Rand weakened by 16.6% (12 months to March Rand weakened by 22.1%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 305.5 bn (outflow of R 327.5 bn to the end of March 2023).

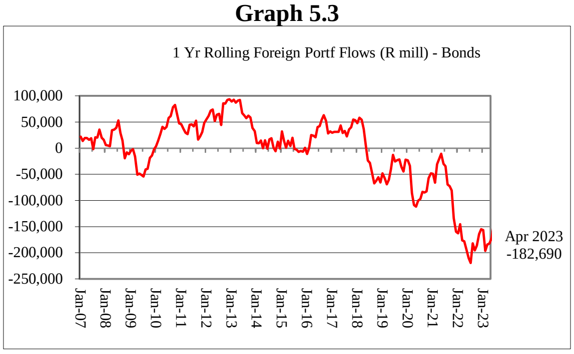
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 122.8 bn at the end of April (outflow of R 143.3 bn year-on-year to the end of March). The month of April experienced a net inflow of R 7.3 bn. Since 2006, foreign net investment outflows from equities amounted to R 544.6 bn (end March net investment outflow of R 551.9 bn). It represents roughly 2.4% of the market capitalization of the JSE.

Graph 5.2



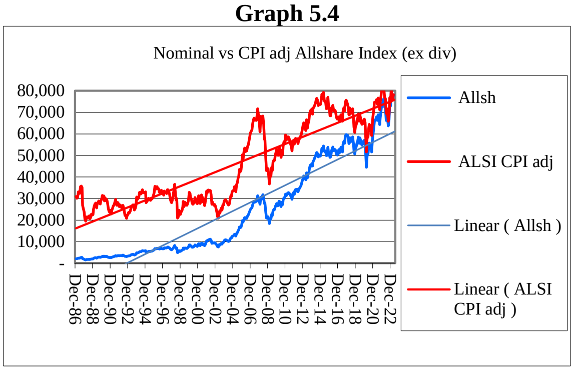
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 182.7 bn over the past 12 months to the end of April (outflow of R 184.2 bn over the 12 months to the end of March). The month of March experienced a net outflow of R 5.6 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 199.2 bn (end March net investment outflow of R 193.6 bn).

Graph 5.3



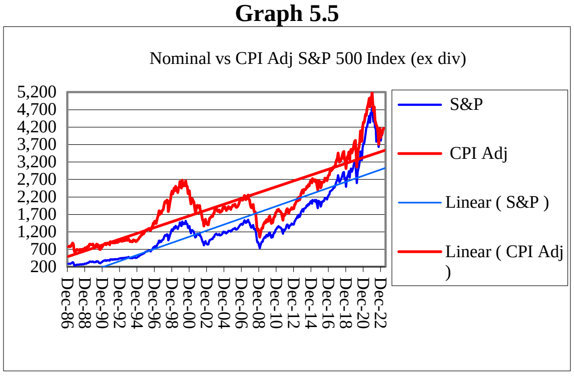
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.6% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.8% per year. It is equivalent 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 7.8% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 4.8% p.a. over 36 years, excluding dividends, or around 6.9% (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.

Volume 19, No. 04
April 2023

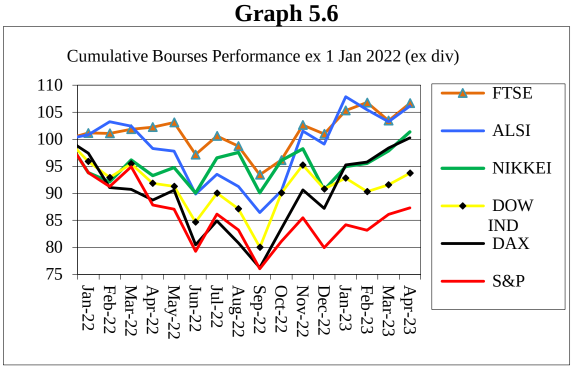
Benchmark Retirement Fund
Income Tax Ref. No.12/1/12/462
Registration No 25/7/7/489

Administered by RFS Fund Administrators

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 2023
By Staff Writer – RFS Fund Administrators (Pty) Ltd

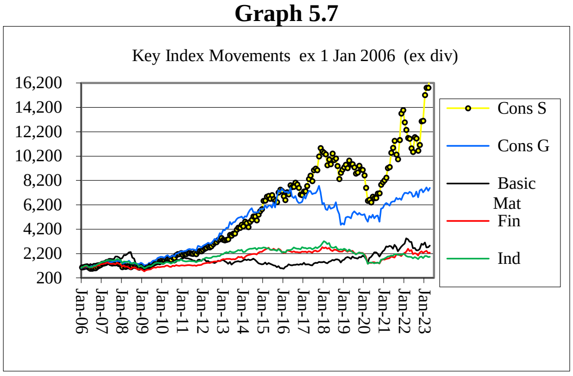
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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: 17.6%; Consumer Goods: 12.4%; Basic Materials: 6.2%; Financials: 4.8% and Industrials: 3.9%.

Graph 5.7



6. Tread carefully until the dust settles

By Tilman Friedrich

In the last few columns, I expressed my concerns about the consequences of the Ukraine conflict, which is just one symptom of bigger global developments. China, Russia, South Africa, Brazil, and a few other countries are trying to break the shackles of the US hegemony. Will the US just be watching these efforts, or will it use all its means, including those of the collective West, to prevent the shackles from being broken? I cannot see the US just watching its global hegemony being dismantled. But how far are its adversaries prepared to go? Russia has shown that it is not prepared to return on its resolve to break the US shackles. South Africa just experienced a serious decline in the Rand exchange rate from 18.39 to 19.31 during the second week of May after rumours that it entered into an arms deal with Russia. Is this a sign of what countries siding with the US adversaries can expect to happen, and will they have the means to withstand the US and the collective West's pressures?

Given these severe global uncertainties, an investor should tread carefully until the dust settles and consider the possibility of a market crash in his investment decisions. There are a few indicators of where we may be heading. For example, the Ukraine is talking about launching a counter-offensive soon. The outcome of this offensive can be either positive for Ukraine, and one would then have to see whether the West will push Ukraine into Russian territory to 'finish the job, once and for all, or it can be negative. In the latter case, it can be foreseen that other Nato countries will be pushed in to support Ukraine. A 'Russian missile incident,' as reportedly occurred on 16 December 2022, could be a trigger event. Another indicator for a change of course in the Ukraine conflict is if China proposes a peace plan which leads to talks between Russia and Ukraine.

If it becomes clear that the collective West relents in its efforts to overthrow the Russian government, accepting China as a peace broker, or itself instead initiating peace talks, market conditions should normalise. However, since we are facing a confrontation between fundamentally opposing economic ideologies, it is unlikely that the collective West will relent and will rather continue its efforts to subjugate Russia and China. At the same time, it will bring economic hardships upon those countries aligning with Russia and China, such as the recent severe depreciation of the Rand. Under this scenario, we will likely face a drawn-out power struggle between the two economic ideologies, dysfunctional financial markets, and high inflation and interest rates.

Conclusion

The world is facing uncertain times, and two possible scenarios can arise.

The worst-case scenario is when the US will forcefully impose its hegemony on China as the last man standing. This scenario would significantly disrupt global trade and investment and expose all offshore investments to severe risks. Inflation and interest rates are likely to increase significantly. In this scenario, one should keep one's assets at, or close to home, e.g., southern Africa and Africa. 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 the 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 essential life necessities will always exist. Markets will undergo significant changes, and with it will come much volatility.

From an investment and business point of view, the best-case scenario is that the West will enter into an understanding with China aimed at appeasing China's security interests while subjugating Russia. Ukraine will become a NATO member. Russia would lose its status as a superpower and its naval base in Crimea, and NATO will contain Russia henceforth. The world will experience a continuing trend of de-globalization and de-dollarisation. The mooted BRICS currency, backed by commodities, would increase commodity prices, fueling inflation and interest rates in industrialised countries. The best-case

Volume 19, No. 04
April 2023

scenario would be pro-global growth, positive for equity in general and cyclical stocks, financials, industrials, and commodities. Commodity-producing countries should be cushioned from those effects and should experience strengthening currencies. Investing offshore should be part of one's investment strategy in this scenario.

While the world can move in either direction, one should adopt a short-term investment strategy for 2023 or until one has a better picture of which direction the world will take and hedge against violent market movements. Keeping your investments close to home in inflation-protected interest-bearing investments, such as inflation-linked bonds. Selective investing in high-yielding stocks could add value to a portfolio. Investors should focus on stock-picking and tactical asset allocation rather than index investing. The objective must be to select companies benefiting from the worst-case 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.