Volume 19, No. 07
July 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 31 JULY 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

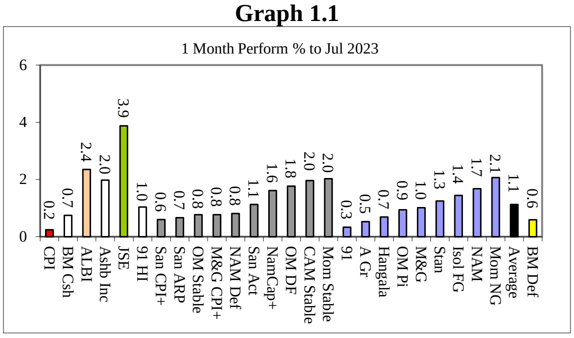
In July 2023, the average prudential balanced portfolio returned 1.1% (June 2023: 2.4%). The top performer is Momentum Namibia Growth Fund with 2.1%, while Ninety One Namibia Managed Fund with 0.3% takes the bottom spot. For the three months NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 2.0%. NinetyOne Managed Fund underperformed the 'average' by 2.3% on the other end of the scale. Note that these returns are before (gross of) asset management fees. (Refer to graph 3.5.1 for a more insightful picture of the rolling long-term performances of the portfolios.)

**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.

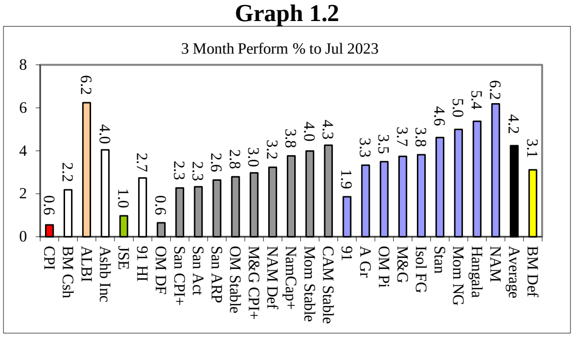
Below is the legend to the abbreviations reflected on the graphs:

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

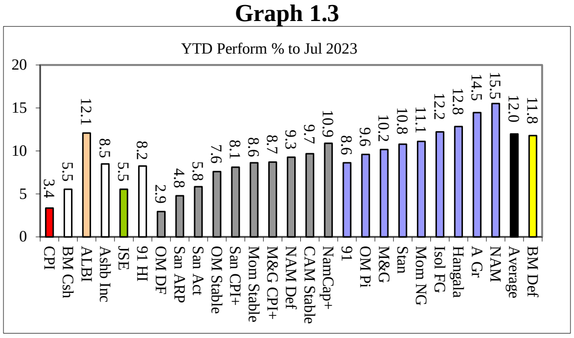
**Graph 1.1**



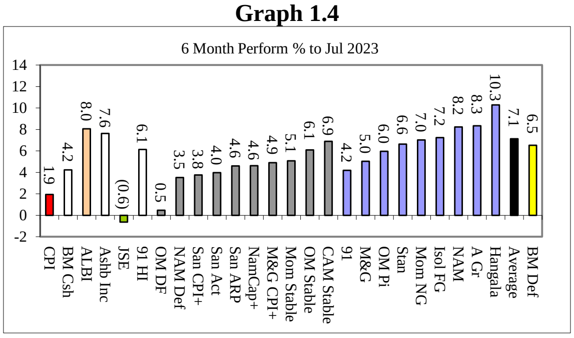

**Graph 1.2**




**Graph 1.3**




**Graph 1.4**



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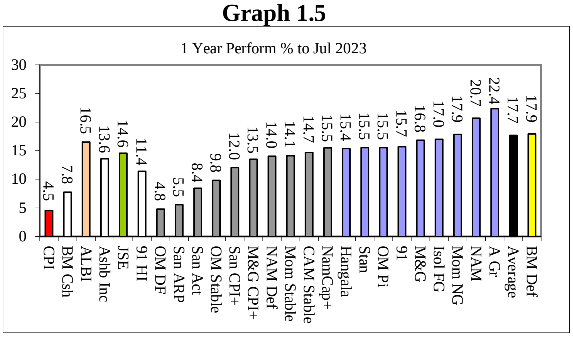
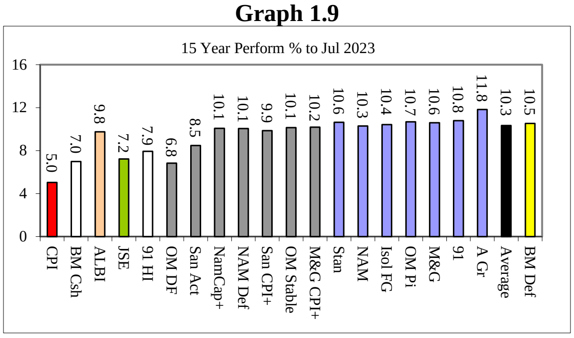
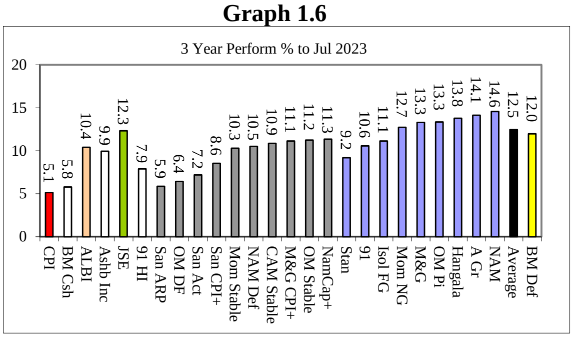
### Graph 1.5



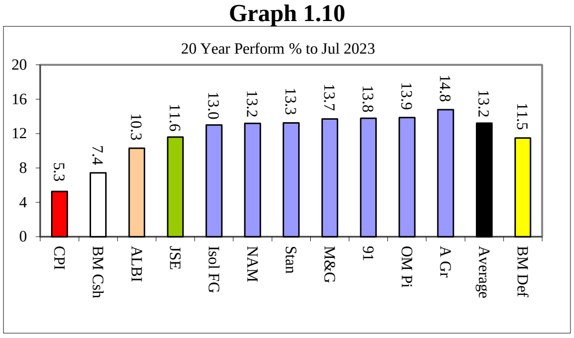

### Graph 1.9



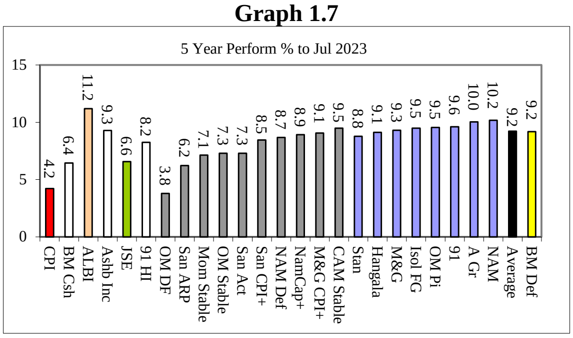

### Graph 1.6



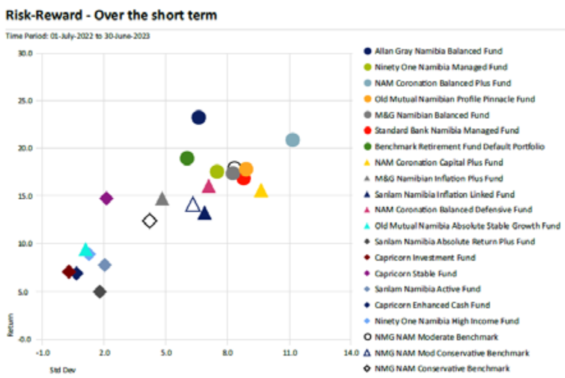

### Graph 1.10



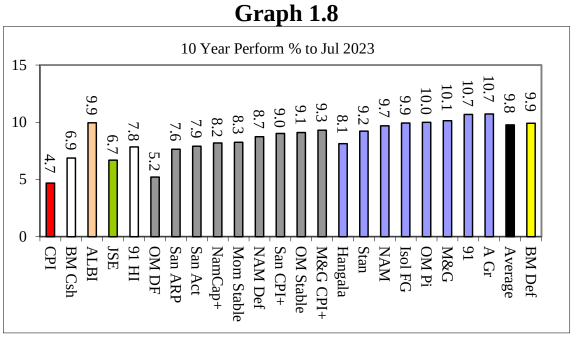

### Graph 1.7




### Risk/ Return


### Graph 1.8



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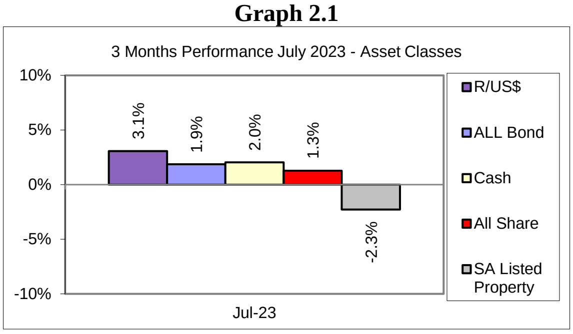
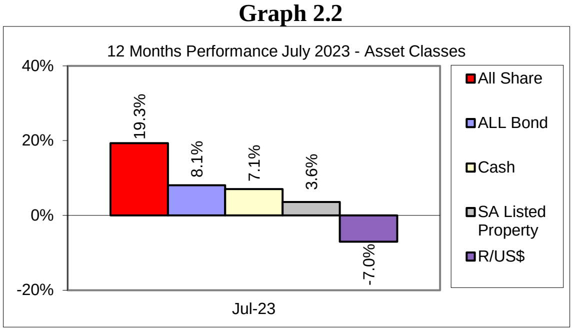
## 2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

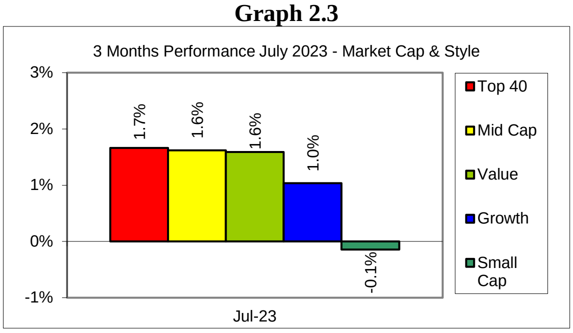
**Graph 2.1**



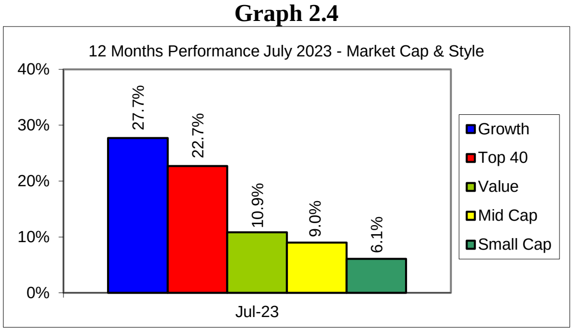

**Graph 2.2**



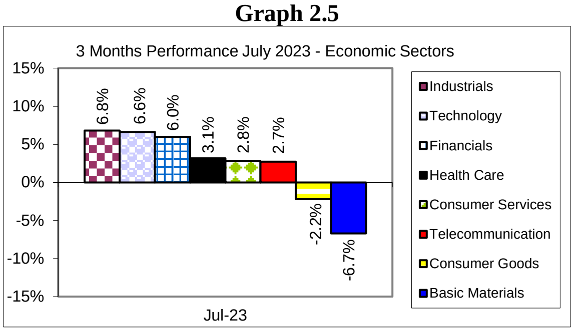

**Graph 2.3**



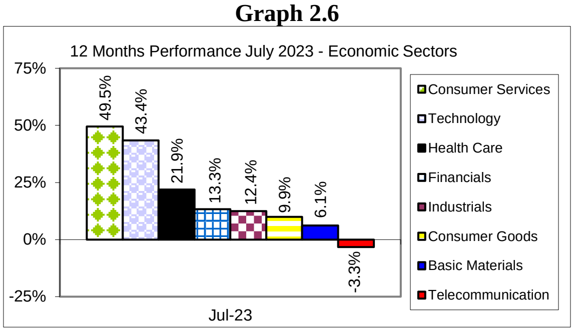

**Graph 2.4**



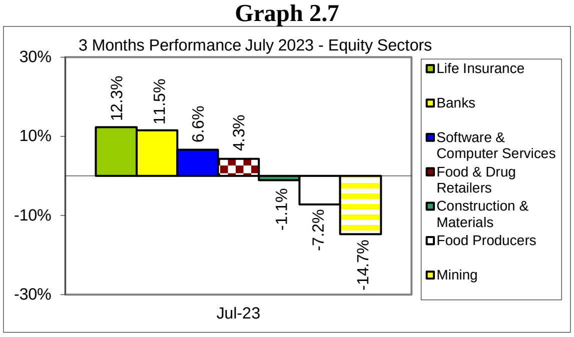

**Graph 2.5**



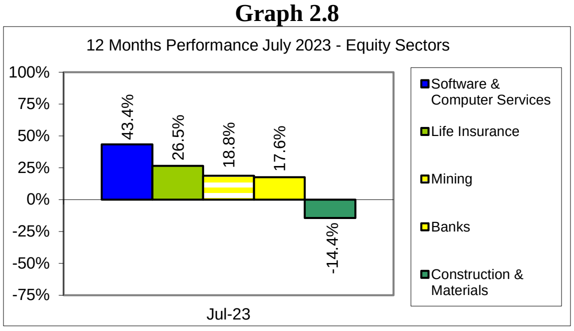

**Graph 2.6**




**Graph 2.7**




**Graph 2.8**



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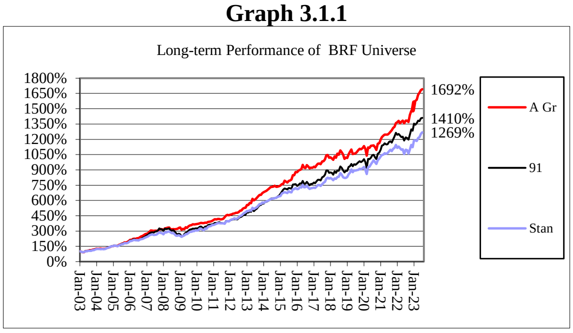
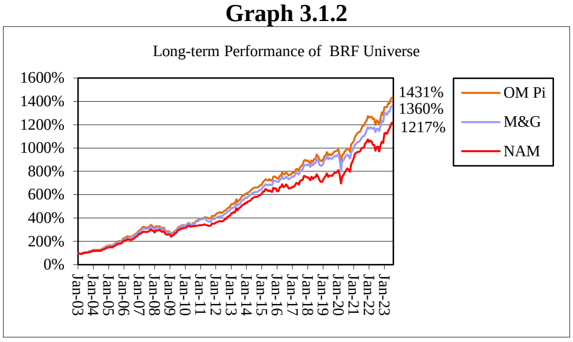
## 3. Portfolio Performance Analysis

### 3.1 Cumulative performance of prudential balanced portfolios

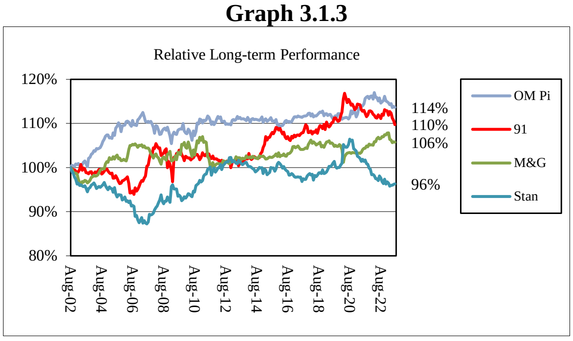
**Graph 3.1.1**



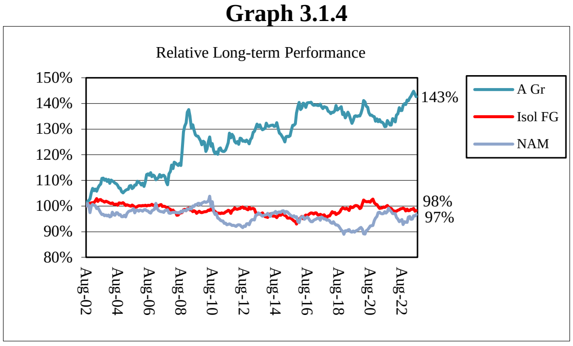

**Graph 3.1.2**



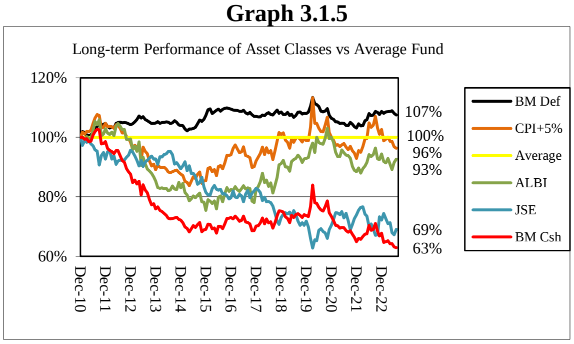

**Graph 3.1.3**




**Graph 3.1.4**

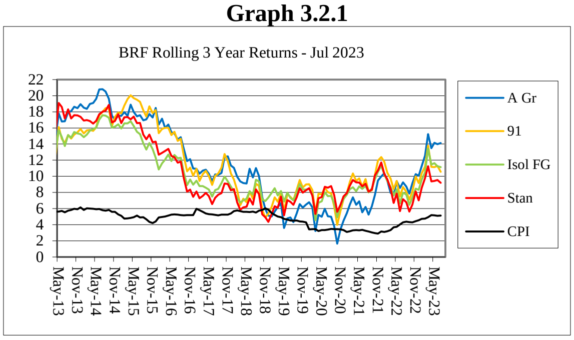



**Graph 3.1.5**

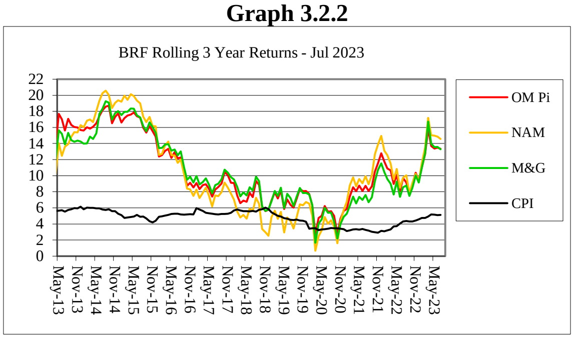



### 3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

**Graph 3.2.1**

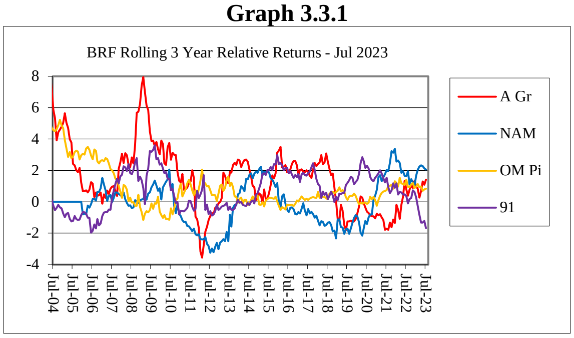



**Graph 3.2.2**




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

**Graph 3.3.1**



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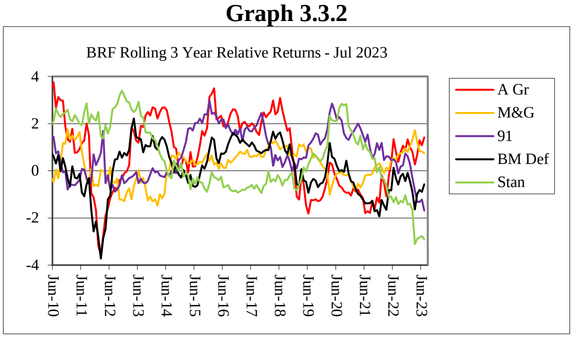
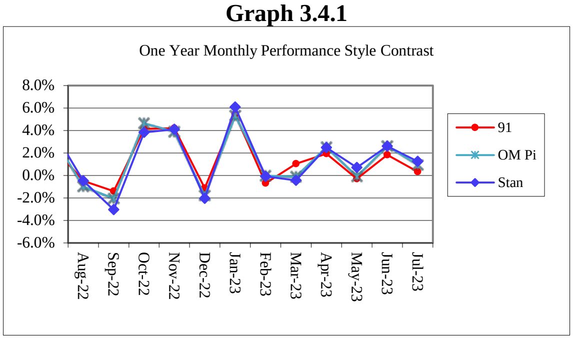
### Graph 3.3.2

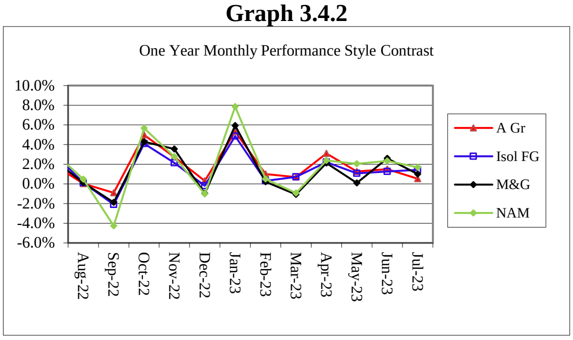



## 3.4 Monthly performance of prudential balanced portfolios

### Graph 3.4.1

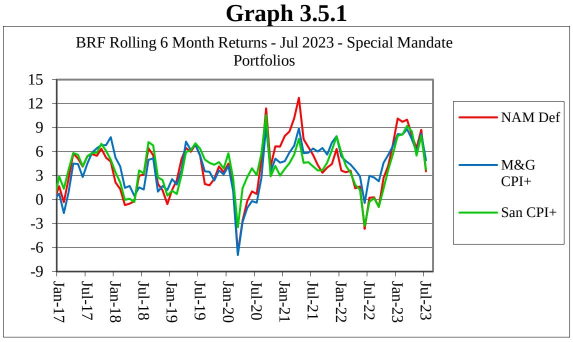



### Graph 3.4.2

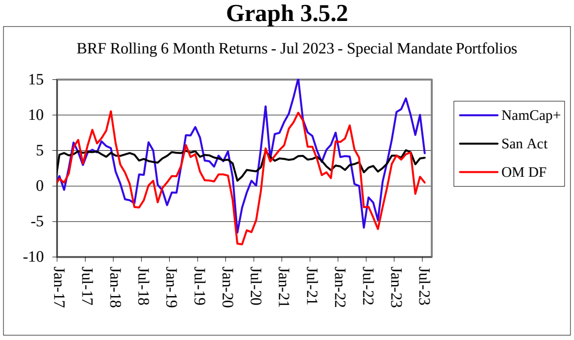



## 3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

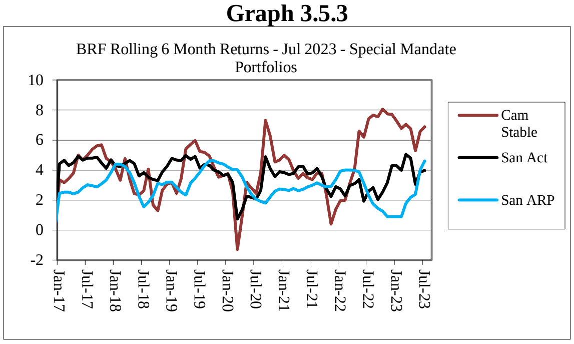
### Graph 3.5.1



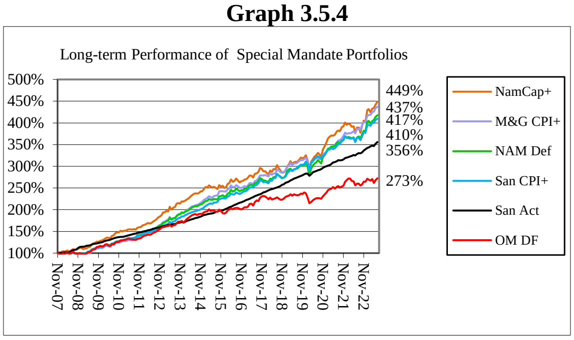

### Graph 3.5.2




### Graph 3.5.3

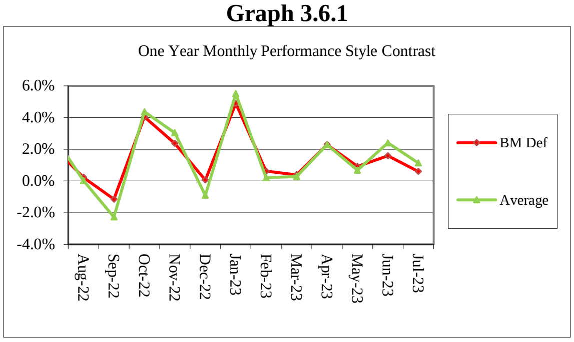



### Graph 3.5.4




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

### Graph 3.6.1



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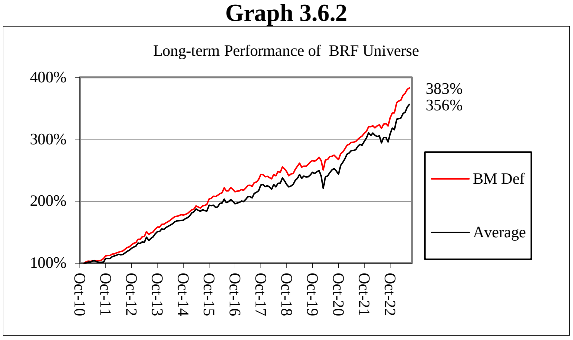
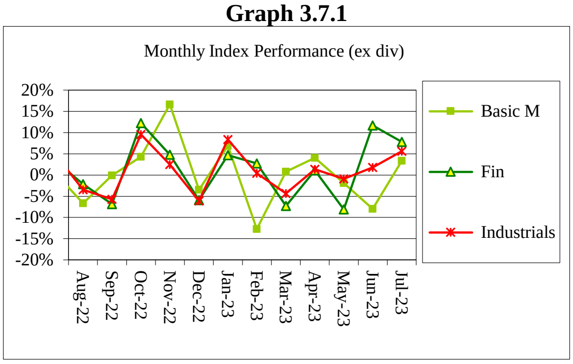
**Graph 3.6.2**

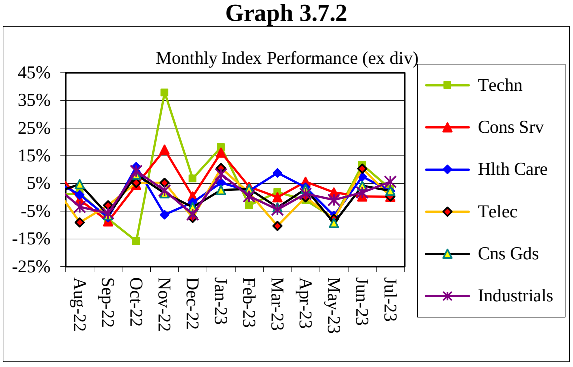



### 3.7 One-year monthly performance of key indices (excluding dividends)

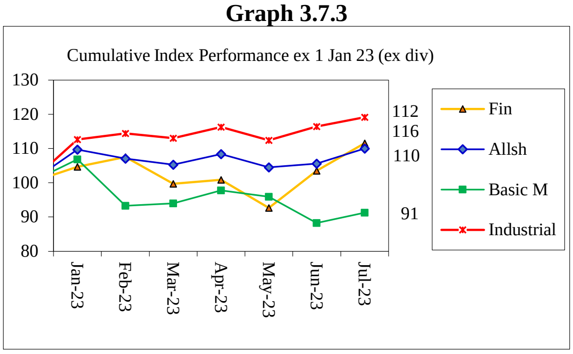
**Graph 3.7.1**



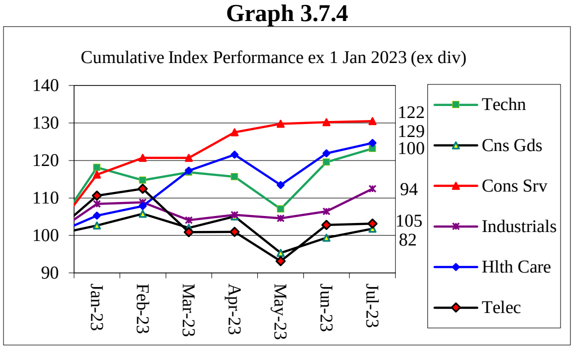

**Graph 3.7.2**




**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. | 9.2 | 9.2 |
| 5-year real return - % p.a. | 5.0 | 5.0 |
| Equity exposure - % of portfolio (quarter end June 2023) | 45.7 | 65.0 |
| Cumulative return ex Jan 2011 | 282.7 | 256.1 |
| 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 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 | 7.5% | 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 | 6.2% | 8.0% | 8.6% |

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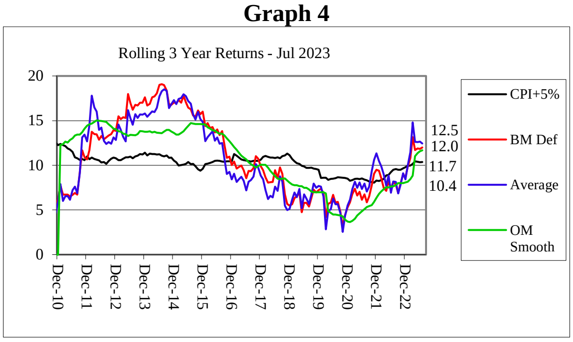
The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from August 2020 to July 2023. These statistics show the performance volatility of these three risk profiles.

**Graph 4**

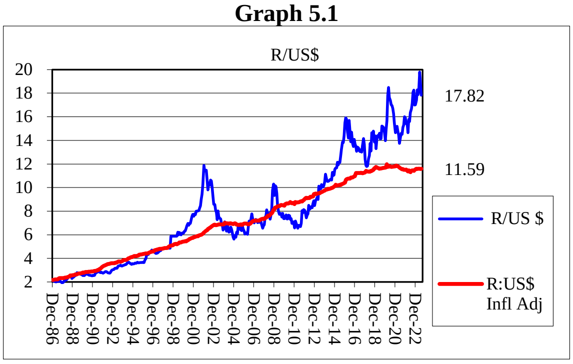



**Graph 4** measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of July was 12.0%, the average was 12.5% vs. CPI plus 5%, currently on 10.4%.

## 5. Review of Foreign Portfolio Flows and the Rand

**Graph 5.1** indicates that the Rand's fair value by our measure is 11.59 to the U.S. Dollar, while it stood at 17.82 at the end of July. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

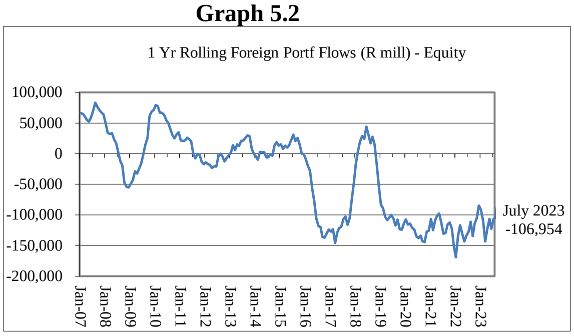
**Graph 5.1**




The Rand strengthened by 5.18% in July with a net foreign investment outflow from bonds and equities of R 12.4 bn. Over the past 12 months, the Rand weakened by 7.1% (12 months to June Rand weakened by 14.9%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 270.6 bn (outflow of R 298.8 bn to the end of June 2023).

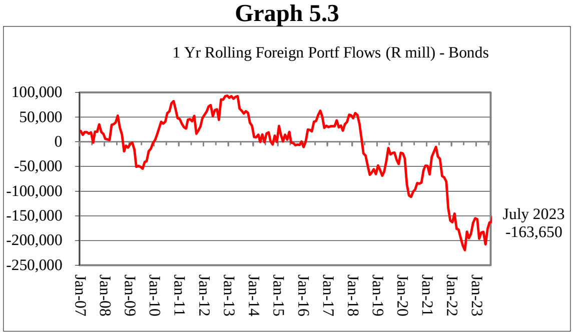
**Graph 5.2** reflects a net outflow of capital from South African equities on a rolling one-year basis of R 107.0 bn at the end of July (outflow of R 122.6 bn year-on-year to the end of June). The month of July experienced a net outflow of R 8.4 bn. Since 2006, foreign net investment outflows from equities amounted to R 586.2 bn (end June net investment outflow of R 577.7 bn). It represents roughly 2.7% of the market capitalization of the JSE.

**Graph 5.2**



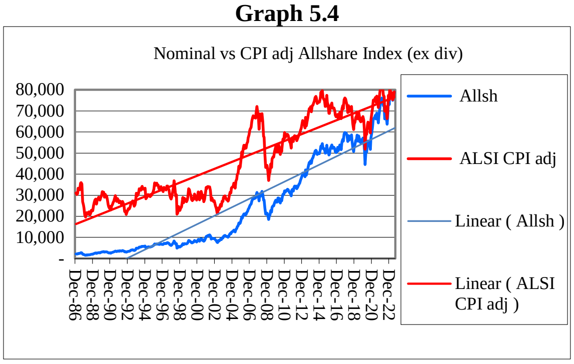

**Graph 5.3** on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 163.7 bn over the past 12 months to the end of July (outflow of R 176.3 bn over the 12 months to the end of June). The month of July experienced a net outflow of R 3.9 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 234.4 bn (end June net investment outflow of R 230.5 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 10.5% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent to growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 5.9% including dividends.

**Graph 5.4**



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Benchmark Retirement Fund

Administered by RFS Fund Administrators

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

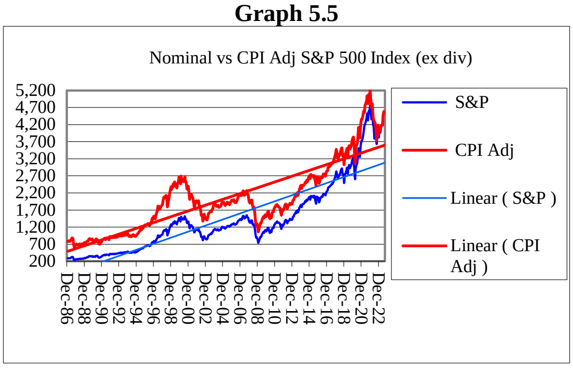
## MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2023

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.

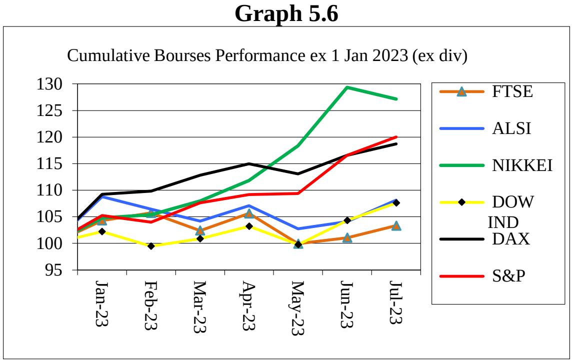
**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 7.9% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.0% p.a. over 36 years, excluding dividends, or around 7.1% (including dividends).

**Graph 5.5**



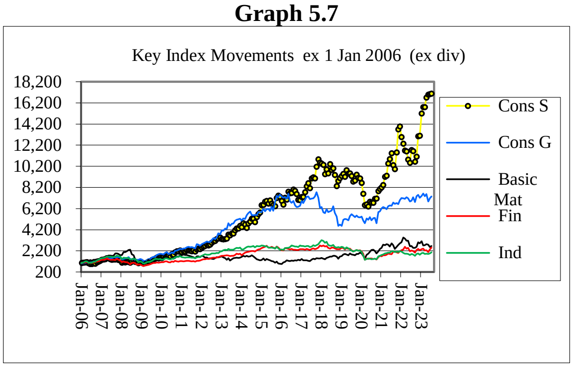

**Graph 5.6** provides an interesting overview of some of the major global share indices, showing the Financial Times Stock Exchange (FTSE) as the top-performing index since the start of 2022.

**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: 17.5%; Consumer Goods: 11.9%; Basic Materials: 5.5%; Financials: 4.9% and Industrials: 3.9%.

**Graph 5.7**




### 6. How will the de-dollarisation impact global financial markets?

By Tilman Friedrich

De-dollarisation is the process of reducing reliance on the U.S. dollar in global transactions and financial systems. It has been a topic of significant debate among experts and economists.

The ongoing trend of de-dollarisation has garnered attention from both developed and emerging economies. While the pace and extent of de-dollarisation can vary across countries, its potential impact on global financial markets is undeniable.

Firstly, de-dollarisation could lead to increased currency and interest rate volatility. As countries diversify their foreign exchange reserves away from the dollar, the demand for other major currencies, such as the euro, yen, and yuan, may rise. This could result in fluctuations in exchange rates, affecting international trade and investment. Countries will use the local interest rate to cushion currency volatility. Companies engaged in cross-border transactions would need to manage increased currency risk, potentially impacting their profitability.

Secondly, the shift away from the dollar could alter the dynamics of sovereign debt markets. Historically, many countries have issued bonds denominated in U.S. dollars to tap into the deep and liquid dollar-denominated markets. A move towards issuing bonds in local currencies or alternative currencies could reshape the global bond landscape. Investors may face challenges in assessing the creditworthiness of sovereigns issuing debt in non-dollar currencies, leading to increased credit risk considerations.

Furthermore, de-dollarisation could influence the role of the U.S. dollar as the world's primary reserve currency. A reduced demand for dollars in global transactions may lead to a decline in the dollar's value and potentially affect its status as a safe-haven asset. Central banks and financial institutions would need to adjust their reserve allocation strategies, which could trigger adjustments in asset prices and capital flows and exchange rates.

In terms of financial markets, de-dollarisation may drive changes in investment patterns. Emerging markets, in particular, might become more attractive as they reduce their reliance on the dollar, potentially leading to increased investment inflows into these markets. Conversely, the U.S. might experience reduced foreign capital inflows, which could impact domestic asset prices and interest rates. The old saying "when the US sneezes, the world catches a cold" will become ever less relevant. Usually, the flight to the US dollar in times of heightened political tension would have hit emerging markets through the decline in their currencies and an increase in the cost of their imports. In the future, investors will not instinctively see the US as the only safe

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haven anymore but rather spread their risks across different currencies.

The BRICS countries and a host of other countries are mulling de-dollarisation after noticing how the US weaponised the dollar against countries that resisted its political and economic agenda and are starting to repatriate their gold reserves from the US and the UK. The US will not be able to reverse the de-dollarisation through coercion and economic favours. While many countries will unlikely reject such approaches by the US out-of-hand, the US' only means to stop the process is to apply force.

Overall, de-dollarisation is a complex phenomenon with multifaceted consequences. While it reflects a desire for greater autonomy and reduced exposure to U.S. monetary policy, its effects on global financial markets are interconnected and require careful consideration. The pace of de-dollarisation and the effectiveness of alternative currency systems will shape the ultimate impact on the stability and functioning of the global financial landscape. For sure, the world is no longer what it was. Investors face increased risks and higher volatility.

**Conclusion**

We will likely experience an evolution to a new bipolar world dominated by the US and China, each with its financial system and hegemonical territory. The two financial systems would likely be linked over time to promote trade and financial flows, but it will not be 'smooth sailing'. It would be prudent to give things another two months or so until one has greater confidence that the dust is settling and the direction the world will move into. After that, the investor should review his investment strategy. Are we heading for a global confrontation with severe consequences - or a pro-growth scenario with a rough ride to an exceptionally rosy outlook for the investor?

With an expectation of a new bipolar world and a global decoupling, international diversification with a focus on equities would be appropriate. Such diversification should consider the expected re-orientation between the two global poles, with Western countries shifting manufacturing, production, and development of goods and services away from China. Where China used to be the global factory for the world, decoupling will result in Western countries' onshoring or 'friendshoring' economic activity, creating investment opportunities in the West and other 'non-aligned' countries. The shifting of manufacturing away from China will go along with an increasing demand for clean energy and expertise in the West. We have already seen a large increase in foreigners' interest in Namibia for its potential in green hydrogen and rare earths.

China would have to replace Western imports with local equivalents and rely more on its vast local market than on exporting. It will have industries getting out of favour and others into vogue because of the global economic shifts, creating investment opportunities. Still, there will also be those that will decline. Western companies with a business base in China would likely suffer due to the decoupling, and one should exercise caution. Effectively, much infrastructure will become redundant, particularly in China, and will have to be replaced with new infrastructure in the West and China. It will allow employing more green technology. The result will be similar to a war, after which the demand for basic materials will increase as economies will be restructured and rebuilt, and it should lead to employment creation.

The expected increase in employment and commodity prices would accelerate inflation and interest rates. Commodity-producing countries should be cushioned from those effects and should experience strengthening currencies. Global diversification of investment should take this into account.