Volume 19, No. 09
September 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 SEPTEMBER 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

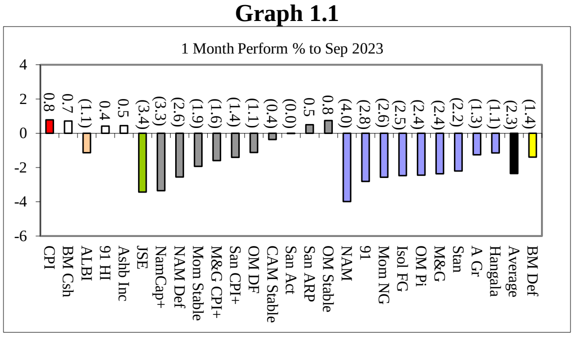
In September 2023, the average prudential balanced portfolio returned -2.3% (August 2023: 0.4%). The top performer is Hangala Capital Absolute Balanced Fund, with -1.1%, while Namibia Coronation Balanced Plus Fund, with -4.0%, takes the bottom spot. For the three months, Allan Gray Namibia Fund takes the top spot, outperforming the 'average' by roughly 1.6%. Ninety One Managed Fund underperformed the 'average' by 1.9% on the other end of the scale. Note that these returns are before (gross of) asset management fees. (Refer to graphs 3.1.3 to 3.1.5 for a more insightful picture of the relative long-term performances of the portfolios and the asset classes.)

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 colour 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.

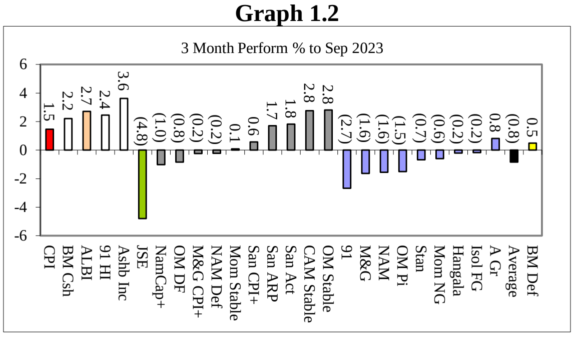
Below is the legend to the abbreviations reflected on the graphs:

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)

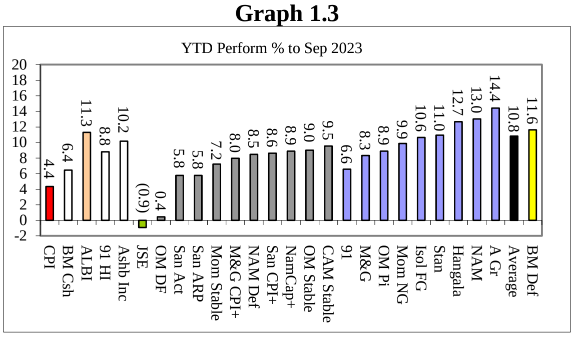
Graph 1.1



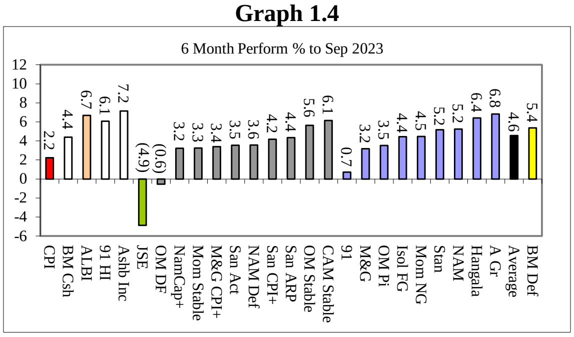
Graph 1.2



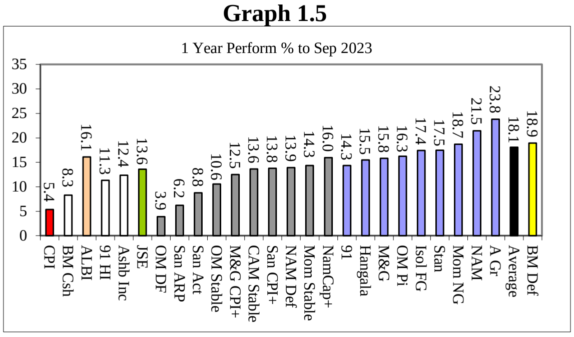
Graph 1.3



Graph 1.4



Graph 1.5



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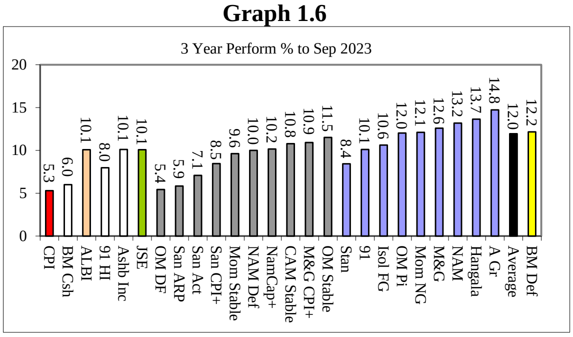
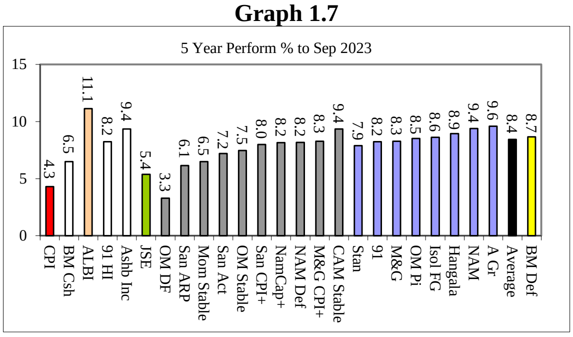
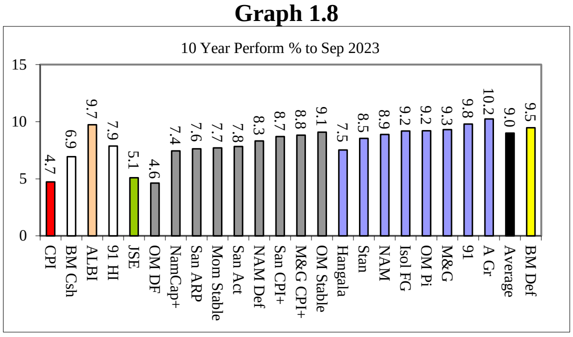
Graph 1.6



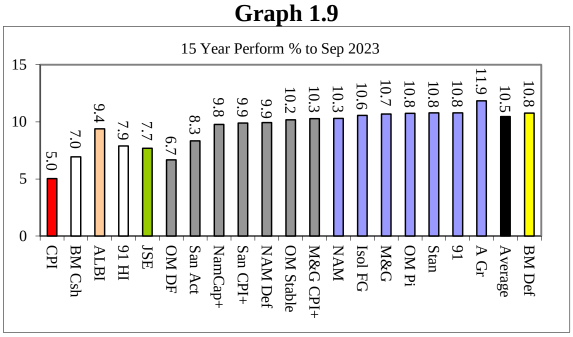
Graph 1.7



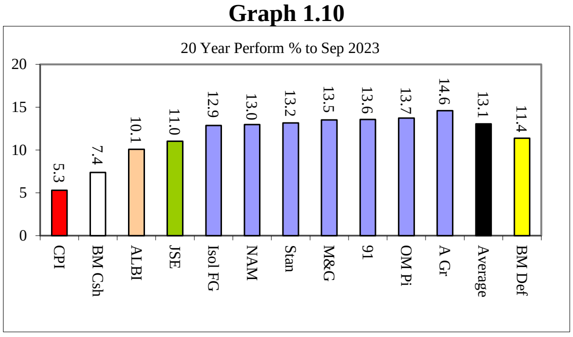
Graph 1.8



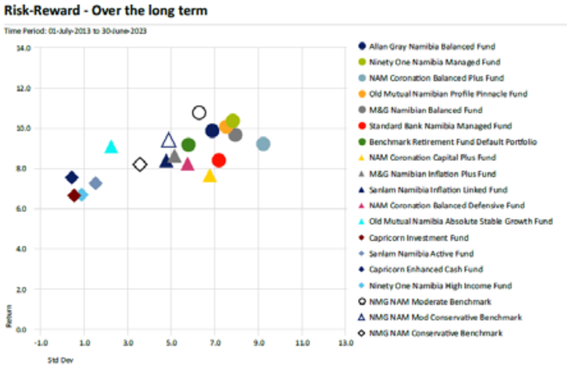
Graph 1.9

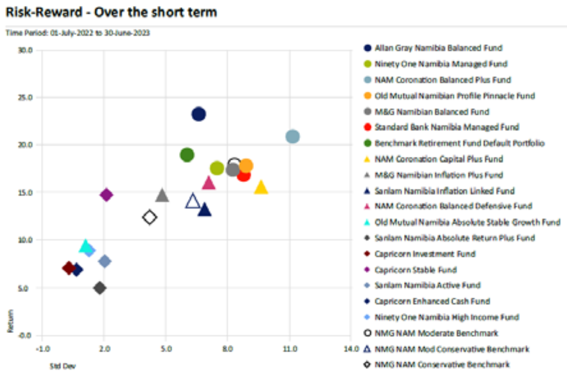


Graph 1.10



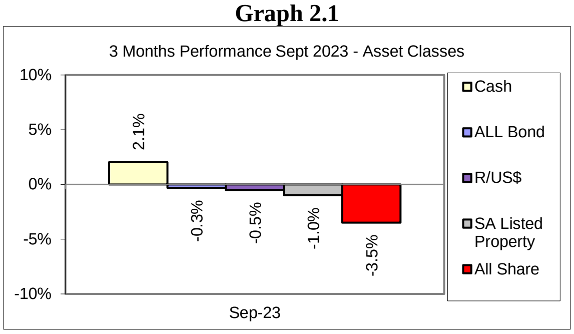
Risk/ Return



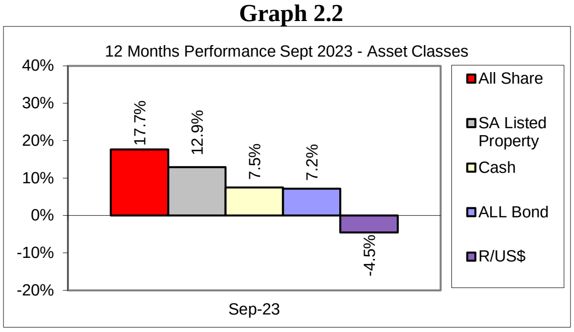


2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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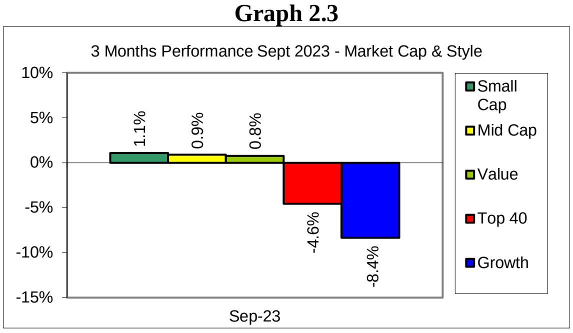
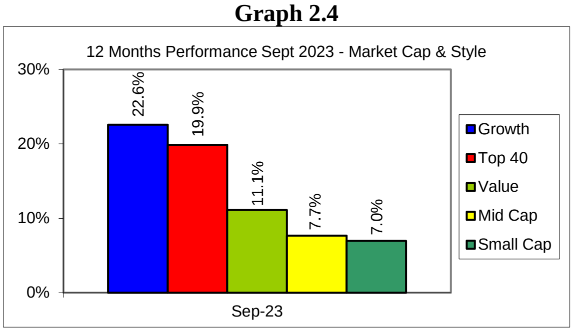
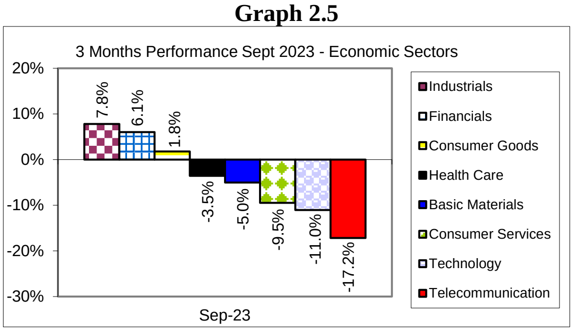
Graph 2.3



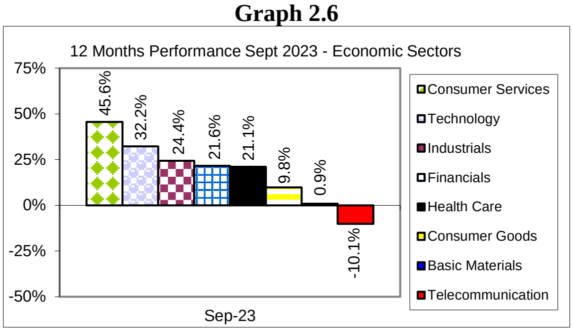
Graph 2.4



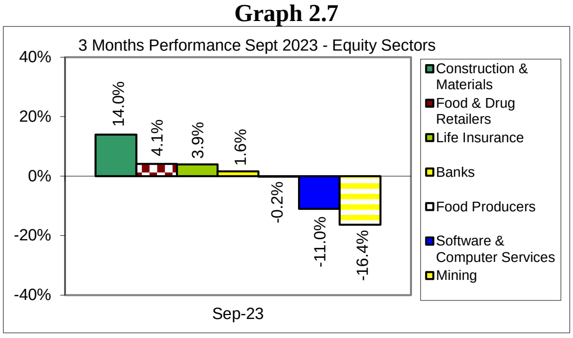
Graph 2.5



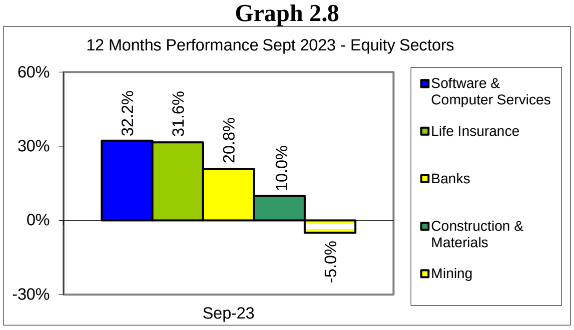
Graph 2.6



Graph 2.7



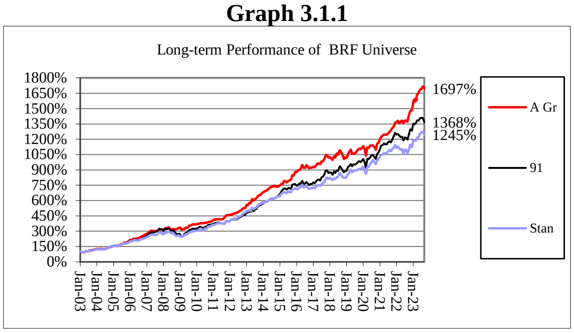
Graph 2.8



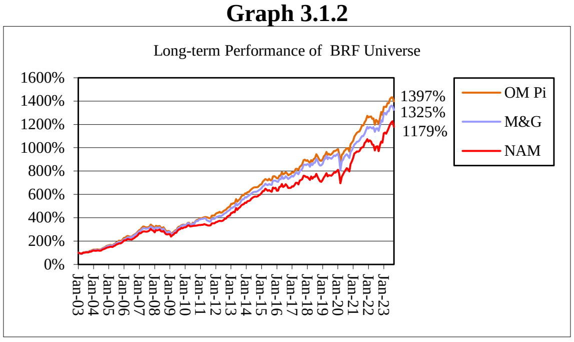
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

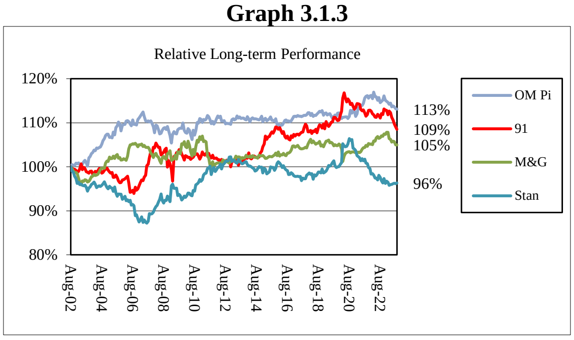
Graph 3.1.1



Graph 3.1.2



Graph 3.1.3



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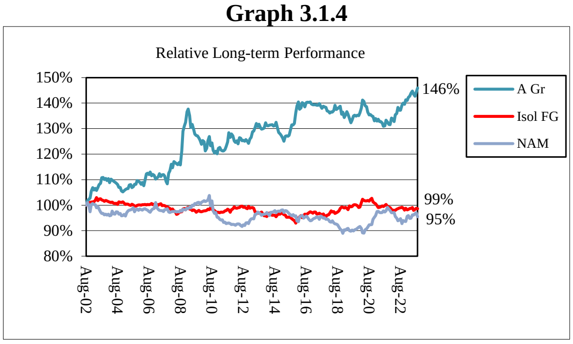
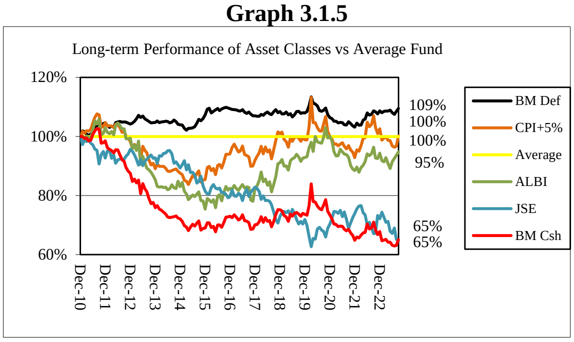
Graph 3.1.4

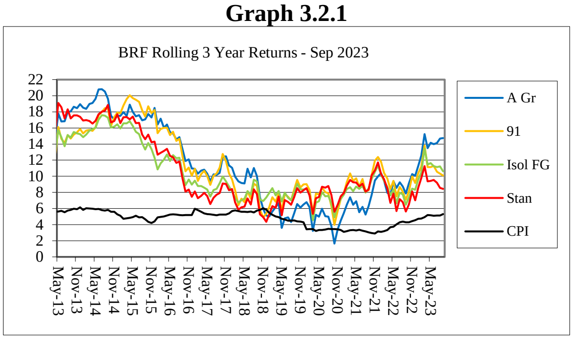


Graph 3.1.5

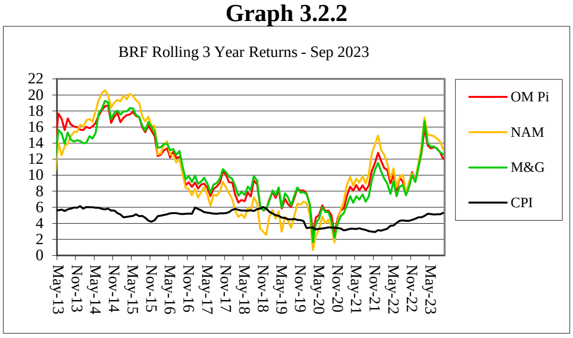


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

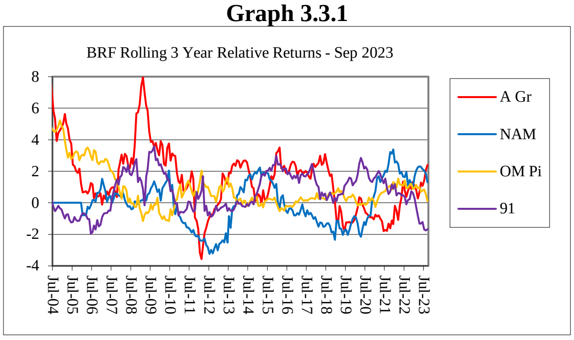


Graph 3.2.2

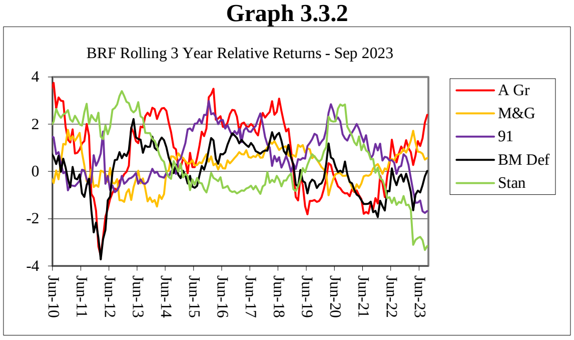


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

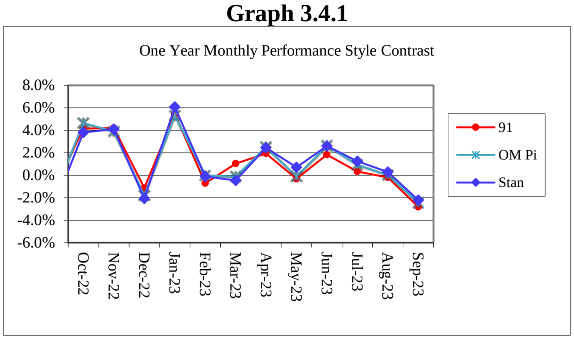


Graph 3.3.2

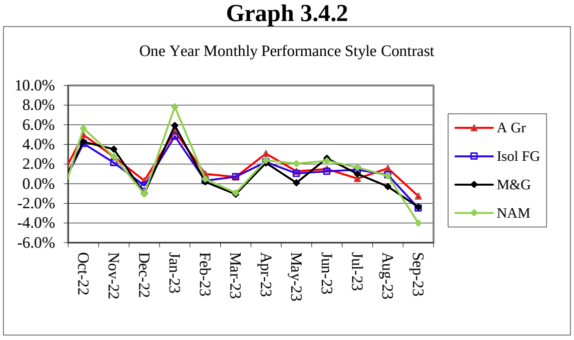


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



Graph 3.4.2



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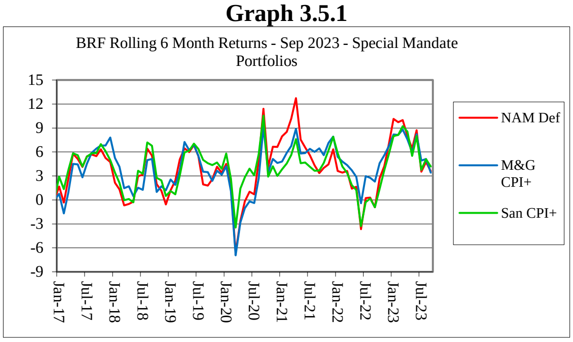
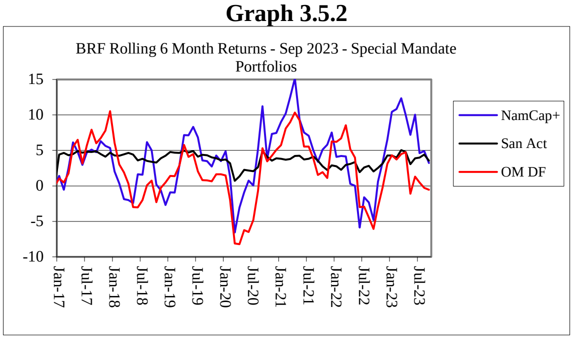
3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

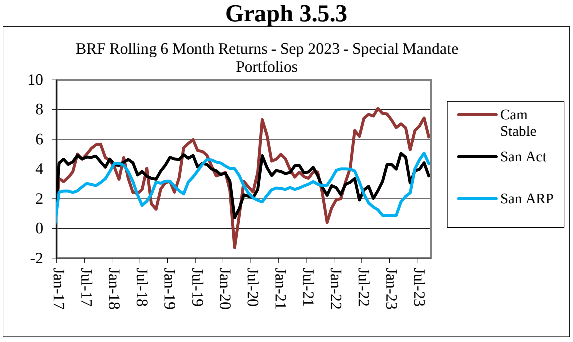
Graph 3.5.1



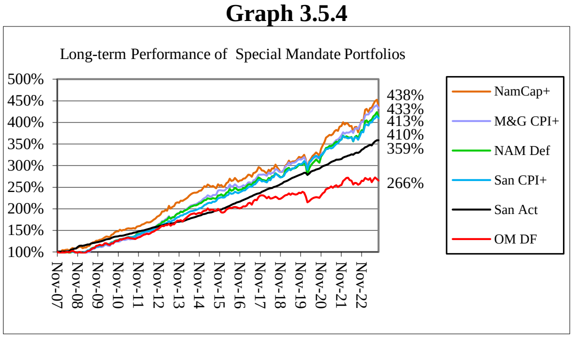
Graph 3.5.2



Graph 3.5.3

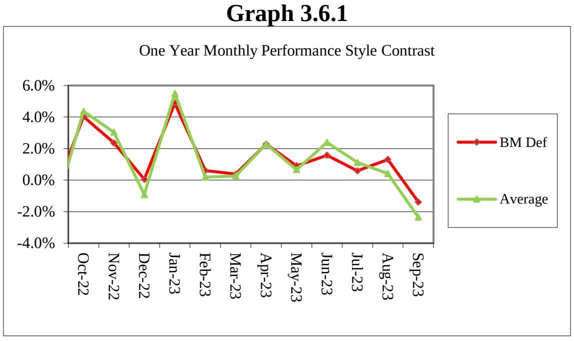


Graph 3.5.4

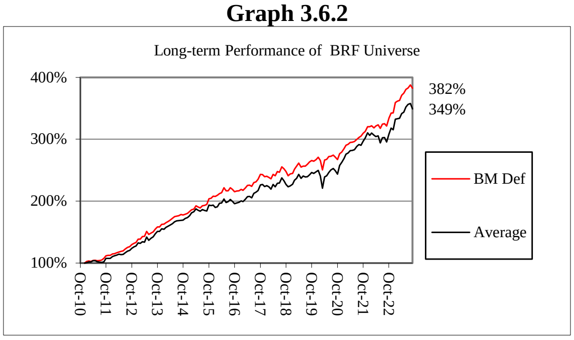


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

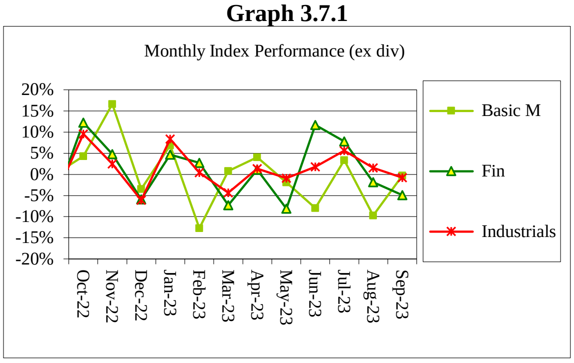


Graph 3.6.2

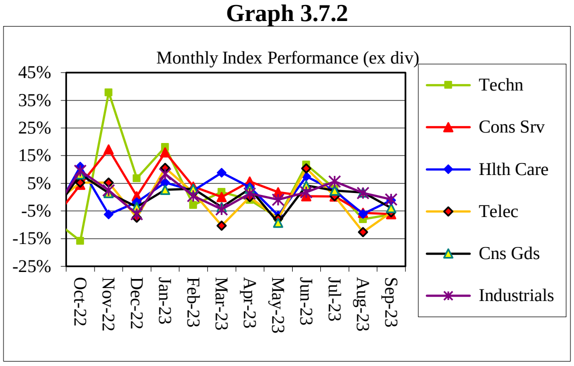


3.7 One-year monthly performance of key indices (excluding dividends)

Graph 3.7.1



Graph 3.7.2



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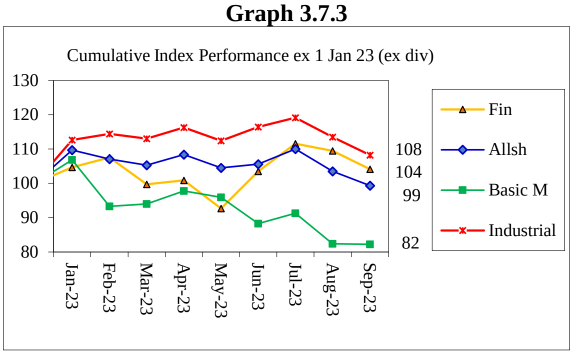
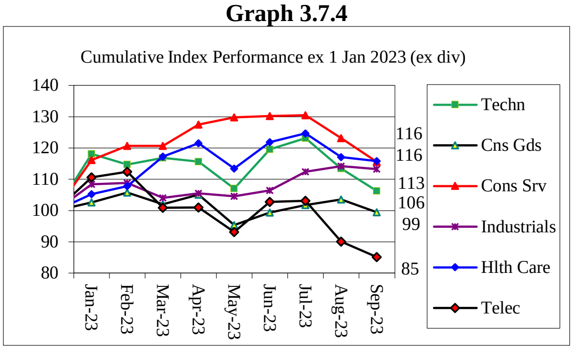
Graph 3.7.3



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	8.4
5-year real return - % p.a.	4.4	4.1
Equity exposure - % of portfolio (quarter end June 2023)	45.7	65.0
Cumulative return ex Jan 2011	282.4	257.6
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 65%.

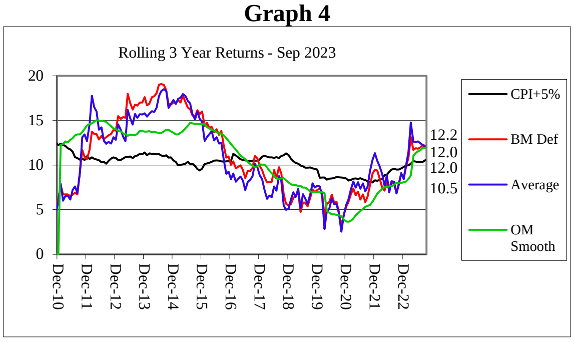
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	3.2%	2.5%
Best annual performance	7.3%	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	6.1%	8.3%	9.0%

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

Graph 4

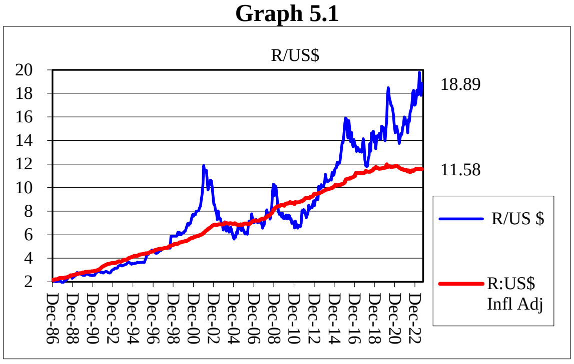


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of September was 12.2%, the average was 12.0% vs. CPI plus 5%, currently on 10.3%.

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

Graph 5.1



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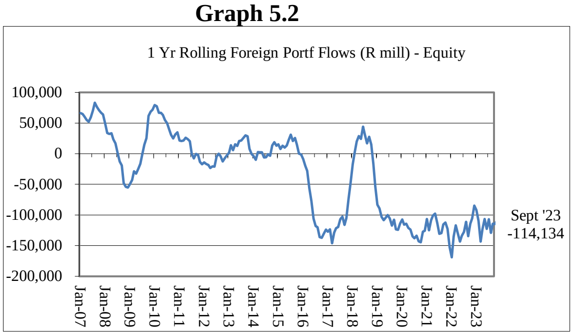
The Rand weakened by 0.26% in September with a net foreign investment outflow from bonds and equities of R 51.9 bn. Over the past 12 months, the Rand weakened by 4.5% (12 months to August Rand weakened by 10.0%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 319.0 bn (outflow of R 311.9 bn to the end of August 2023).

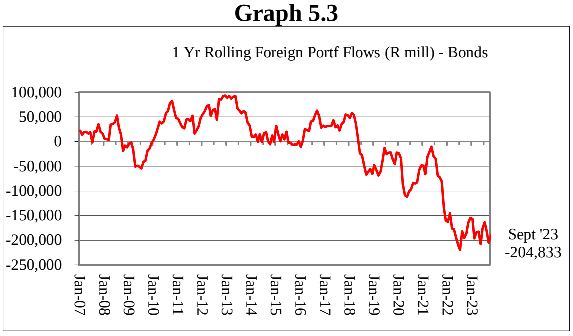
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 114.1 bn at the end of September (outflow of R 129.2 bn year-on-year to the end of August). The month of September experienced a net outflow of R 9.8 bn. Since 2006, foreign net investment outflows from equities amounted to R 620.7 bn (end August net investment outflow of R 610.9 bn). It represents roughly 3.4% of the market capitalisation of the JSE.

Graph 5.2



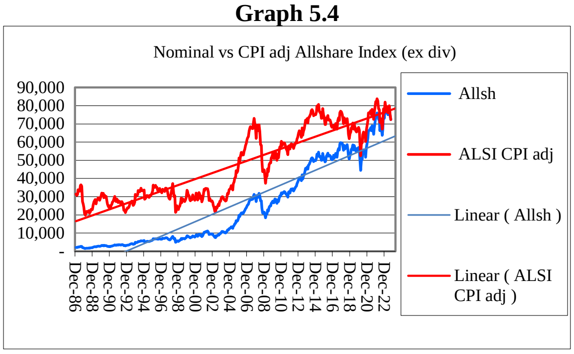
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 204.8 bn over the past 12 months to the end of September (outflow of R 182.7 bn over the 12 months to the end of August). The month of September experienced a net outflow of R 42.2 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 297.1 bn (end August net investment outflow of R 254.9 bn).

Graph 5.3



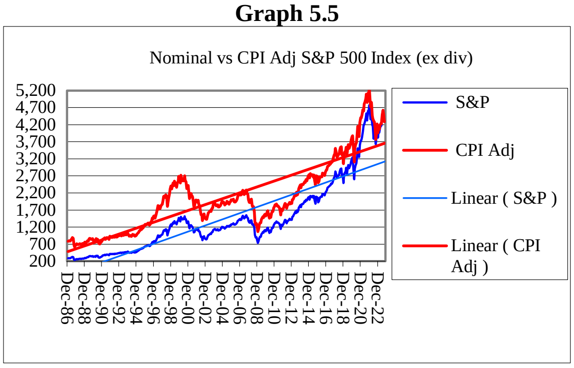
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.3% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent to growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 5.9% including dividends.

Graph 5.4



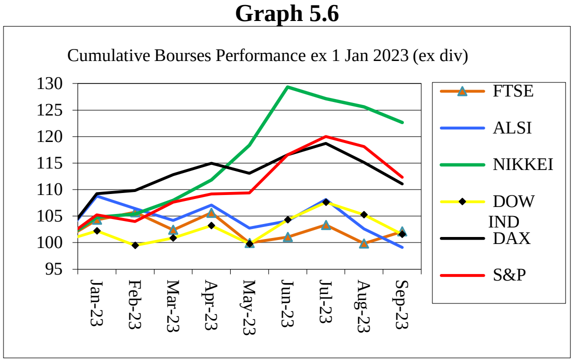
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 7.8% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.0% p.a. 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: 16.5%; Consumer Goods: 11.7%; Basic Materials: 5.0%; Financials: 4.9% and Industrials: 4.2%.

Volume 19, No. 09
September 2023

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

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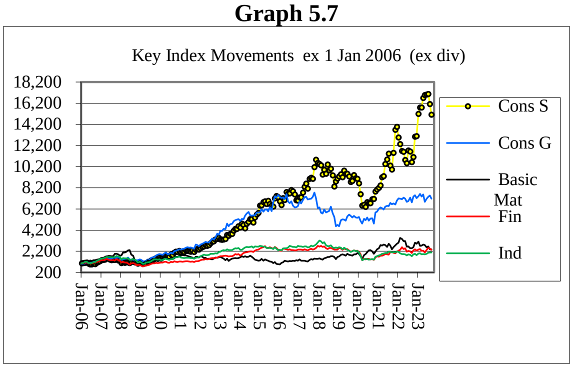
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2023

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 5.7



6. How do you invest when the Namibia Dollar is weak and political risks are high?

By Tilman Friedrich

Investing when the Namibia Dollar is heavily undervalued and global tensions - such as those arising from the Ukraine and Palestine conflicts, and not to forget the Taiwan tensions between the US and China - requires a strategic approach prioritising capital preservation and wealth protection. Diversifying your assets across different currencies and international markets can help mitigate the impact of a Namibia dollar devaluation and economic instability in the Common Monetary Area. Consulting with a financial advisor specialising in international investments may also be beneficial in developing a tailored strategy.

The following key strategies would assist the investor in achieving his goals of capital preservation and wealth protection.

6.1 Diversify Globally:

Consider diversifying your investments across different regions and asset classes. This can help spread risk and reduce your exposure to the political and economic conditions of Namibia and Southern Africa.

6.2 Currency Cost-Averaging:

Implement a Rand/ Namibia dollar cost-averaging strategy. Instead of investing a lump sum all at once, invest a fixed amount of money at regular intervals. This strategy helps reduce the impact of short-term market volatility and currency fluctuations on your investments.

6.3 Opportunistic Investments:

Look for opportunities that arise during periods of extreme currency devaluation or political uncertainty. These moments may present favourable entry points for certain investments, such as assets or stocks in industries that benefit from currency devaluation. Since the end of the Global Financial Crisis, the Rand/ Namibia dollar is heftily undervalued. Since the start of the Global Financial Crisis in 2007, the SA Rand depreciated by 270%! By our measures (refer to graph 5.1 above), Rand's fair value is 11.6 to the US dollar, compared to the official exchange rate of 18.84 at the end of August. Tourists visiting Namibia generally consider their holiday to Namibia as being very cheap, which speaks for a weak Rand/ Namibia dollar. Moving money offshore now could result in a severe loss on conversion should the Rand/ Namibia dollar recover to its fair value. Under these circumstances, it is advisable to invest in companies that import goods, services and capital to deliver products, services and capital to their local market. These companies cover a broad spectrum and include Woolworths, Mr Price, the local motor vehicle manufacturers, the banks and Sasol, who would benefit from higher profit margins. Investing in currencies that are equally undervalued would be a good alternative. Amongst the currently undervalued currencies are the Japanese Yen (30% depreciation since 2007), the Euro (40% depreciation since 2007), the South Korean Won (45% depreciation since 2007), the Indian Rupee (200% depreciation since 2007), and the Brazilian Real (300% depreciation since 2007)

6.4 Short-Term Investments:

Consider short-term investments in foreign currencies or assets expected to appreciate in the short term. This can be a tactical move to take advantage of temporary currency fluctuations.

6.5 Monitor Economic Indicators:

Stay informed about economic indicators and political developments that could impact the Rand/ Nambia Dollar. This includes inflation rates, interest rate changes, government policies, and geopolitical events. Timely awareness can help you make informed investment decisions. Currently, global interest rates are at elevated levels. Yet there may be further interest rate increases in store, led by the US, for others to follow. As a result, currencies will fluctuate in accordance with countries' interest rates relative to the US, posing currency risk. When interest rates turn downwards, emerging economies' currencies, such as the Rand/ Namibia Dollar, should strengthen as they would usually lag US interest rate movements.

6.6 Hedge Against Currency Risk:

Utilise currency hedging strategies when appropriate. For instance, if you anticipate a significant currency devaluation in the Rand/ Namibia Dollar, you might consider hedging by holding assets denominated in stronger foreign currencies.

6.7 Foreign Currency Accounts:

Hold a portion of your savings in stable foreign currencies or foreign currency accounts. This can help protect your wealth from currency devaluation.

6.8 Precious Metals:

Invest in precious metals like gold and silver. These commodities often serve as a hedge against currency devaluation and geopolitical uncertainty.

6.9 Real Assets:

Consider real assets such as real estate or infrastructure investments. These assets can provide a degree of stability and income generation, which can be especially valuable in uncertain times.

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6.10 International Stock Market:

Invest in international stock markets through exchange-traded funds (ETFs) or mutual funds. Look for opportunities in countries with strong economies and stable political environments.

6.11 Dollar-Linked Investments:

Explore investments linked to stable currencies like the U.S. dollar. This can provide a degree of protection against currency devaluation.

6.12 Bonds and Fixed Income:

Invest in bonds issued by stable governments or international organisations. These can offer a fixed income stream and potentially higher safety than equities.

6.13 Cryptoassets (with Caution):

Consider allocating a small portion of your portfolio to cryptocurrencies like Bitcoin and Ethereum. While they are volatile, some investors view them as a store of value and a hedge against economic instability.

6.14 Risk Assessment:

Regularly assess and adjust your investment portfolio based on changing political and economic conditions. Stay informed about global events and their potential impact on your investments.

6.15 Professional Advice:

Consider consulting with a financial advisor or investment professional who specialises in international and emerging market investments. They can provide tailored advice based on your specific circumstances and goals.

6.16 Long-Term Perspective:

Keep a long-term perspective and avoid making impulsive investment decisions based on short-term political developments. Investing for the long haul can help you weather temporary crises.

6.17 Emergency Fund:

Maintain an emergency fund in a stable currency to cover living expenses and unforeseen expenses during times of crisis.

6.18 Regular Monitoring:

Continuously monitor your investments and be prepared to make adjustments if needed. Diversification and active management are essential in managing risk.

6.19 Legal and Tax Considerations:

Be aware of any legal restrictions or tax implications related to investing in foreign assets. Comply with all relevant regulations and seek legal and tax advice if necessary.

Conclusion:

While we were very concerned about a potential proliferation of the Ukraine conflict, we later concluded that Russia's strategy would not give NATO the reasons for entering this foray, resulting in an ‘all or nothing’ result for either side of the conflict. Russia’s strategy is rather aimed at wearing down Ukraine’s resources and resistance. We thought it would usher in a new bipolar World Order and would have a positive outlook for economies and financial markets.

Unfortunately, the Middle East crisis has now evolved and holds the prospect of proliferating and severely unsettling global financial markets. It is unlikely, though, to retard the rise of the new bipolar World Order. But it would lead to panic-driven selling of assets and a flight to the safe haven US Dollar. Until this dust has settled, our previous conclusion of reverting to conventional investment wisdom of globally diversifying one’s investments must be put on hold to avoid mistiming.