Volume 20, No. 07
July 2024

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 2024

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 2024, the average prudential balanced portfolio returned 2.0% (June 2024: 1.7%). The top performer is Allan Gray Balanced Fund, with 3.6%, while NAM Coronation Balanced Fund, with 1.3%, takes the bottom spot. Old Mutual Pinnacle Profile Growth Fund took the top spot for the three months, outperforming the 'average' by roughly 1.2%. NAM Coronation Balanced Fund underperformed the 'average' by 1.5% 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.)

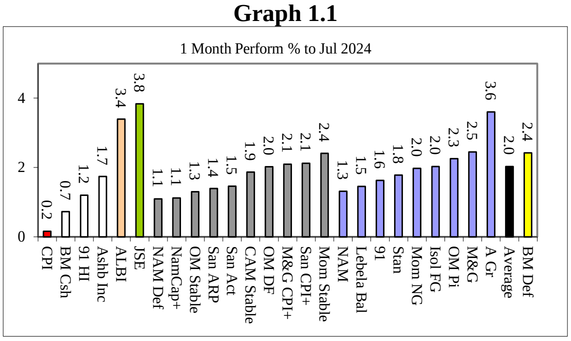
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 for the abbreviations reflected on the graphs:

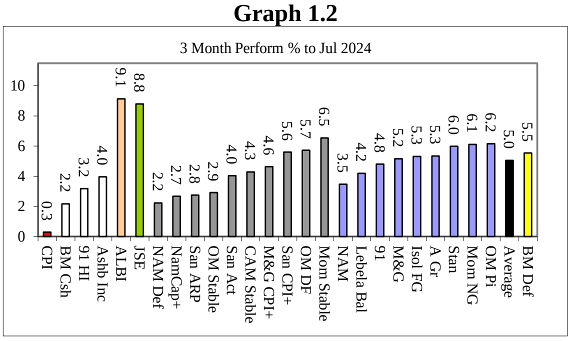
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
NinetyOne High Income (interest-bearing assets)	91 HI (no color)
Ashburton Namibia Income Fund	Ashb Inc (no colour)
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)
Lebela Balanced*	Lebela Bal (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)

*Previously Hangala Absolute Balanced Fund

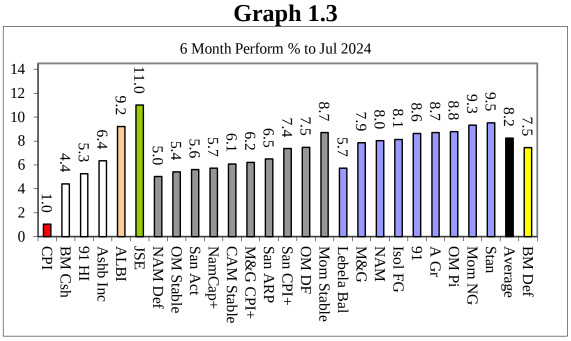
Graph 1.1



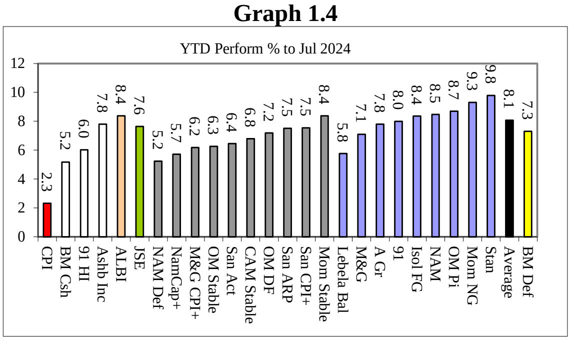
Graph 1.2



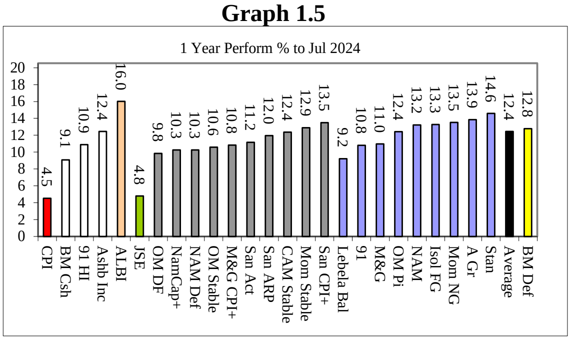
Graph 1.3



Graph 1.4



Graph 1.5



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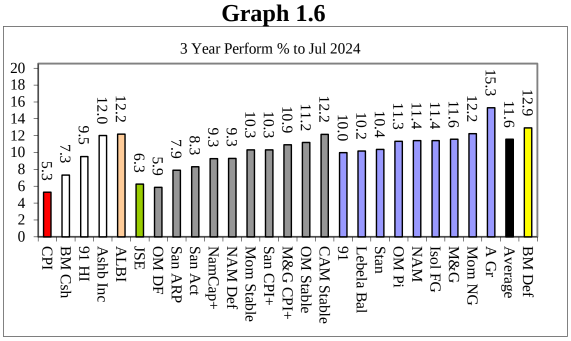
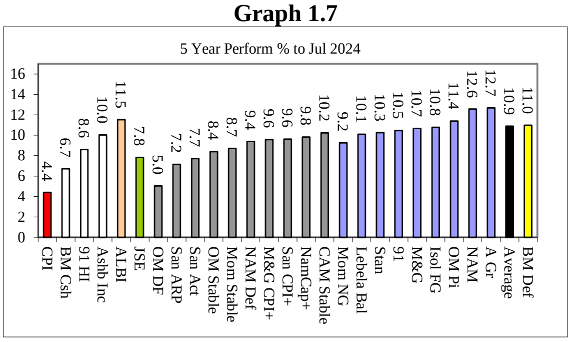
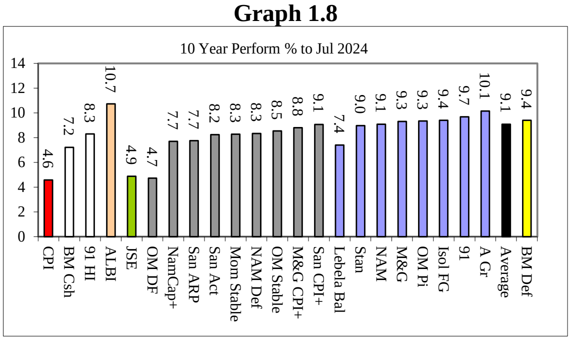
Graph 1.6



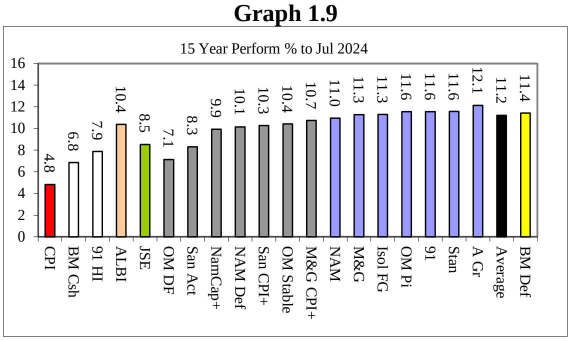
Graph 1.7



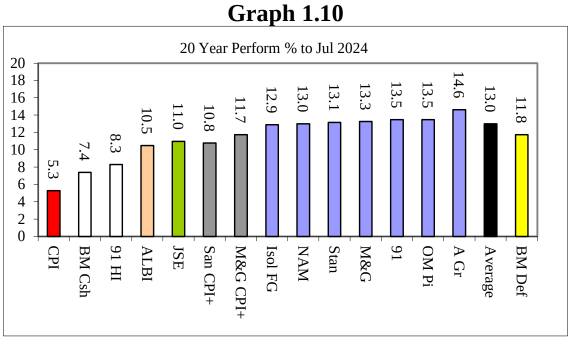
Graph 1.8



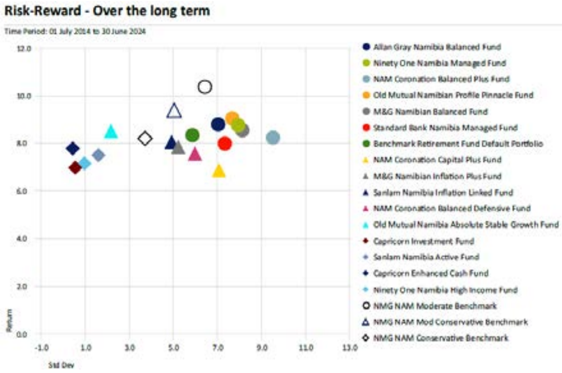
Graph 1.9

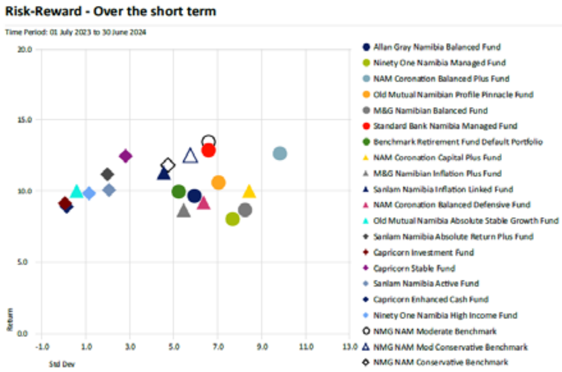


Graph 1.10



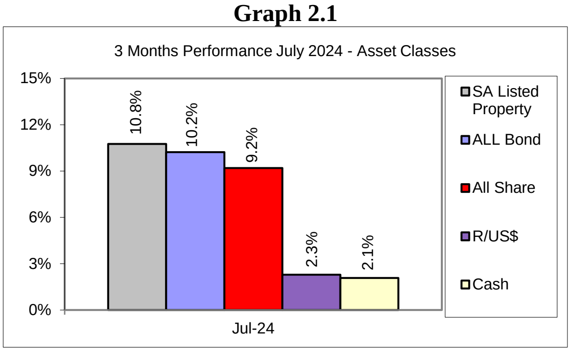
Risk/ Return



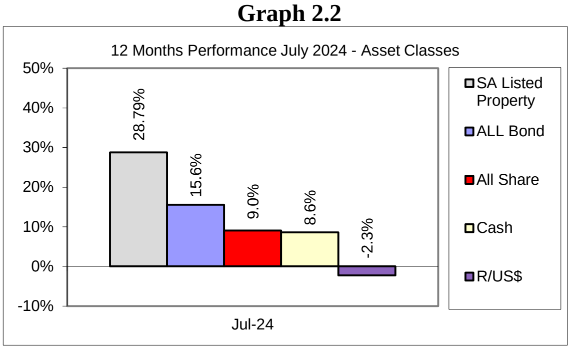


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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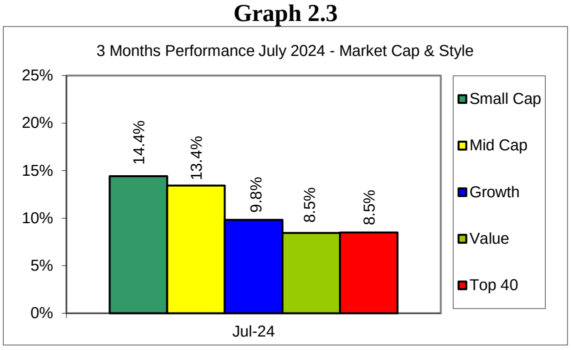
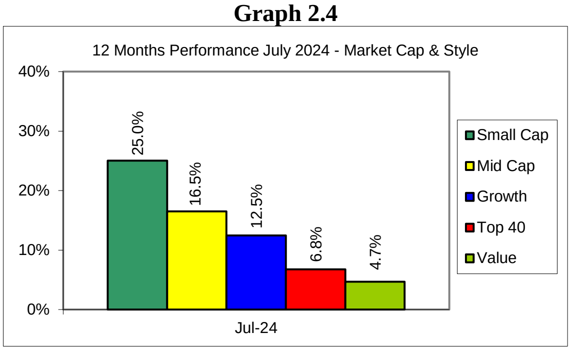
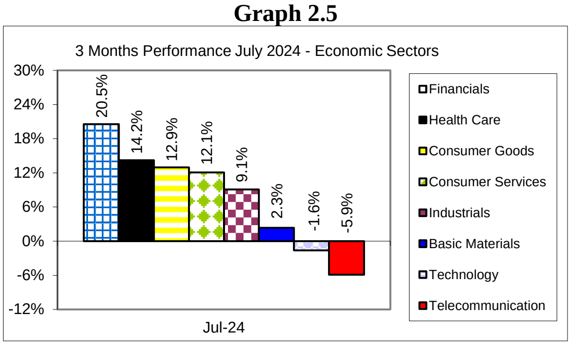
Graph 2.3



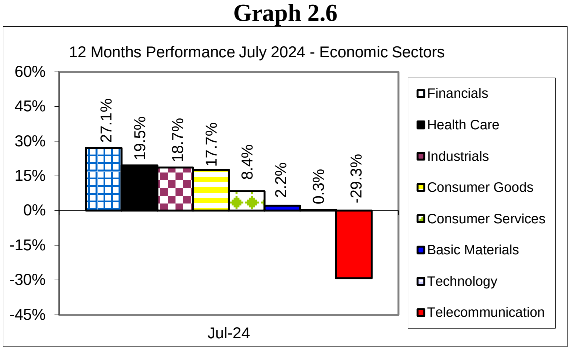
Graph 2.4



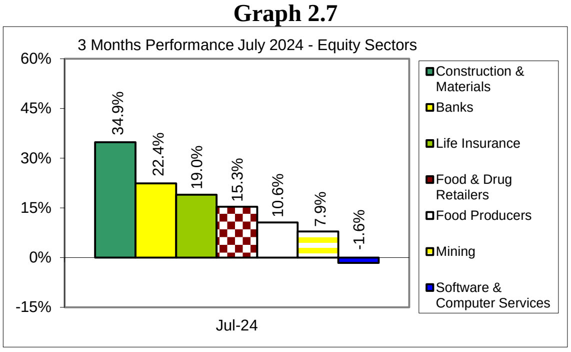
Graph 2.5



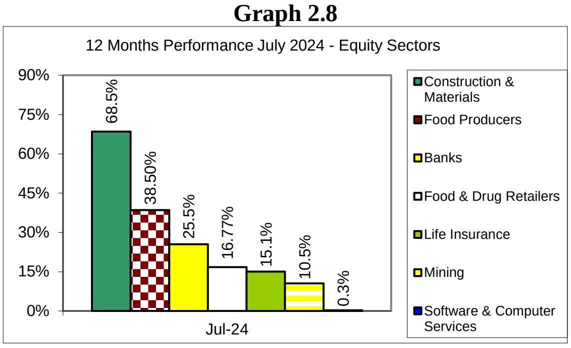
Graph 2.6



Graph 2.7



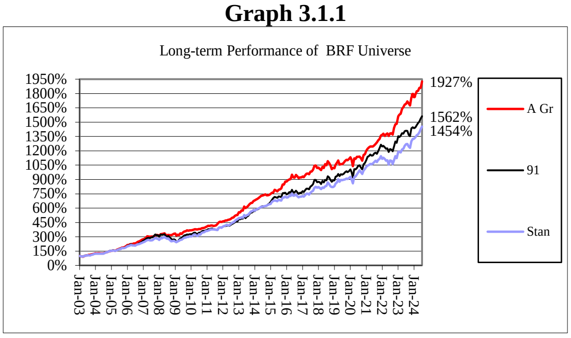
Graph 2.8



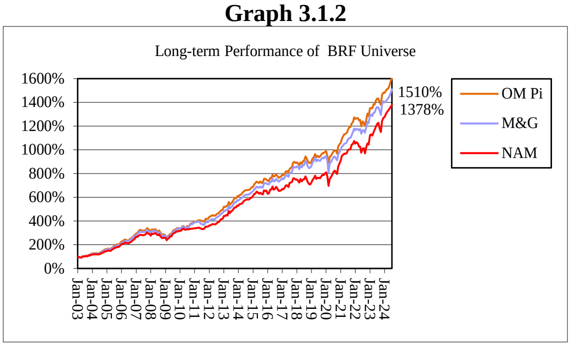
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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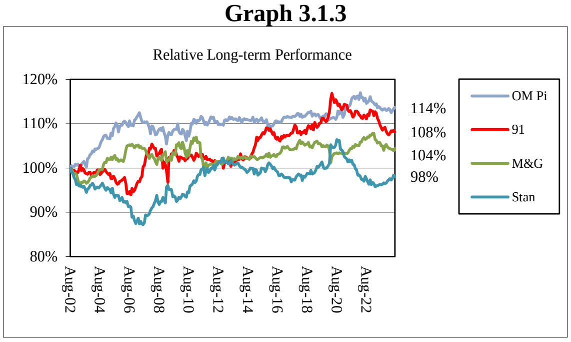
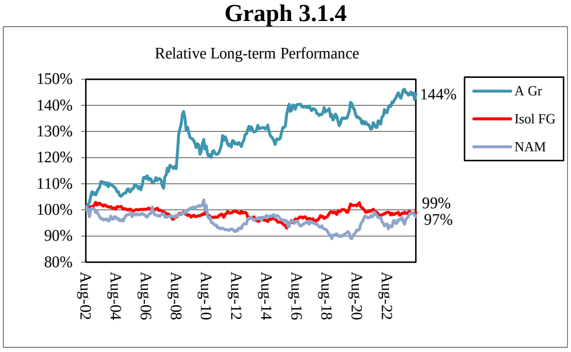
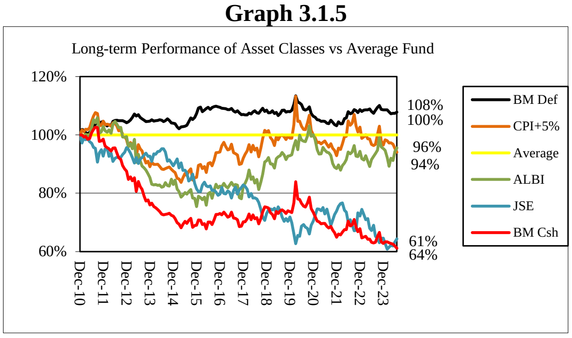
Graph 3.1.3



Graph 3.1.4

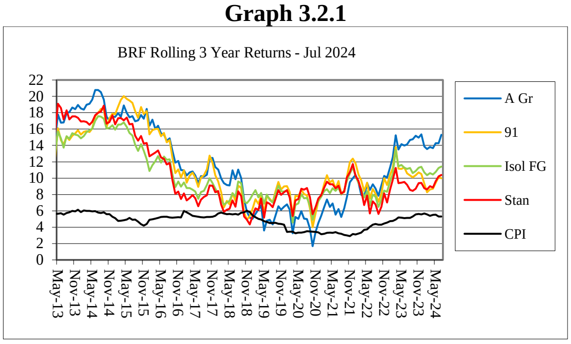


Graph 3.1.5

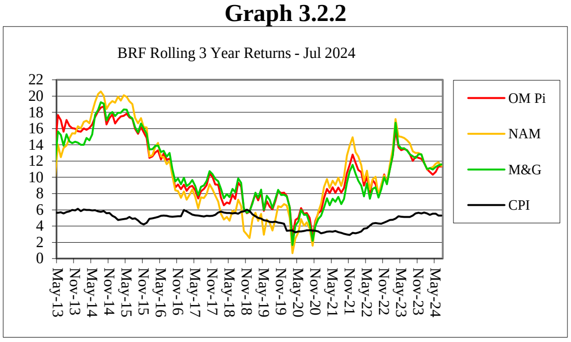


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

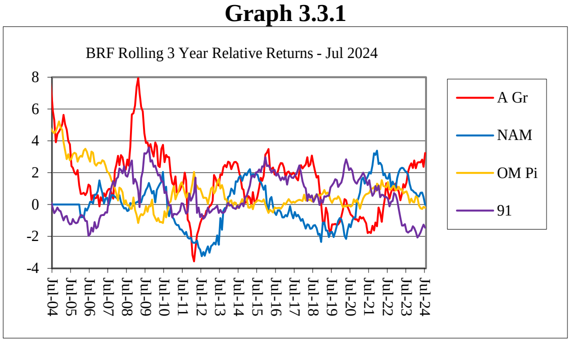


Graph 3.2.2

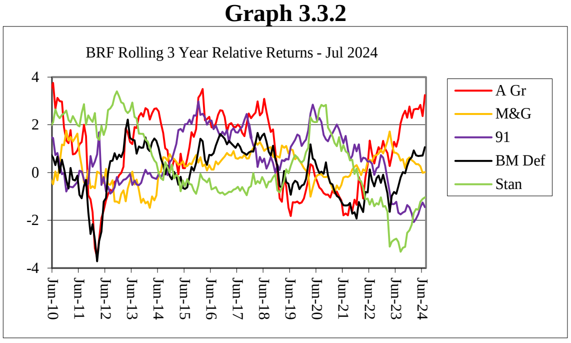


3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

Graph 3.3.1

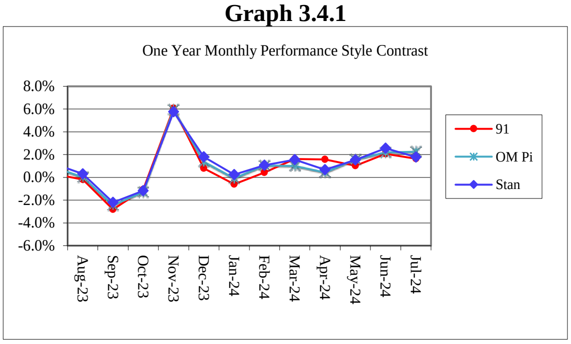


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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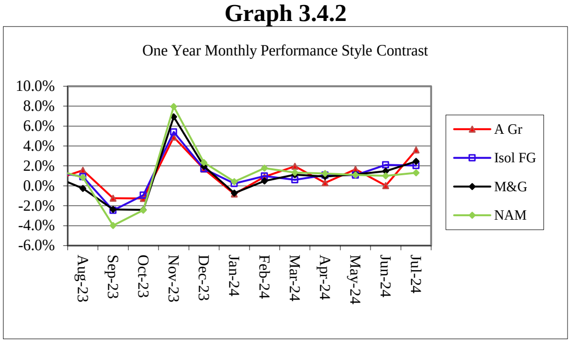
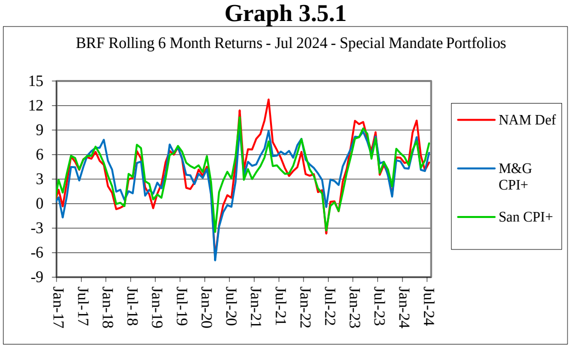
Graph 3.4.2

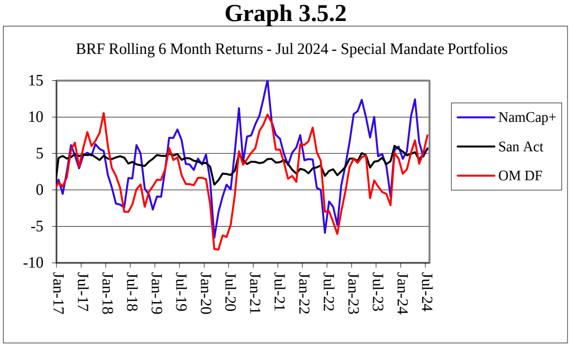


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

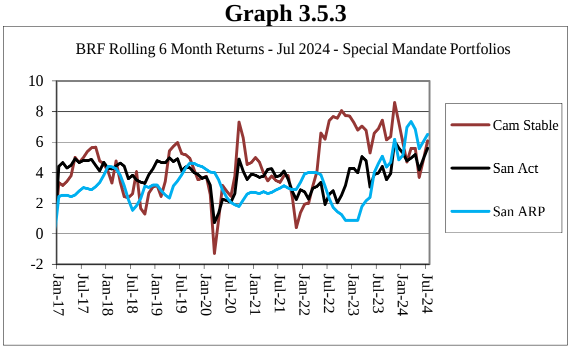
Graph 3.5.1



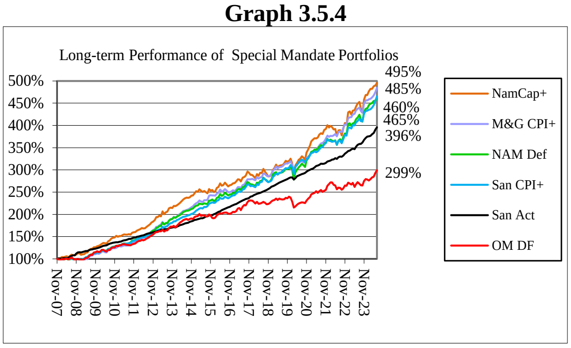
Graph 3.5.2



Graph 3.5.3

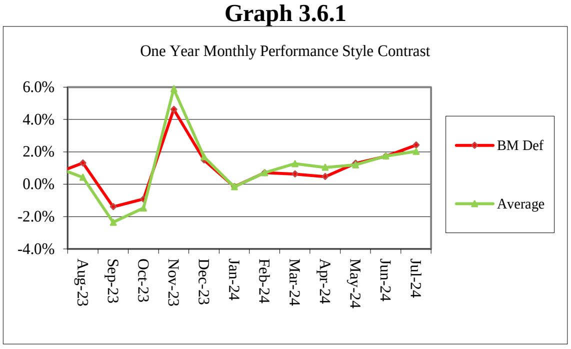


Graph 3.5.4

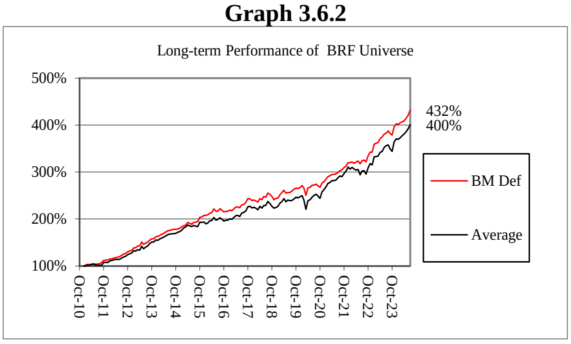


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

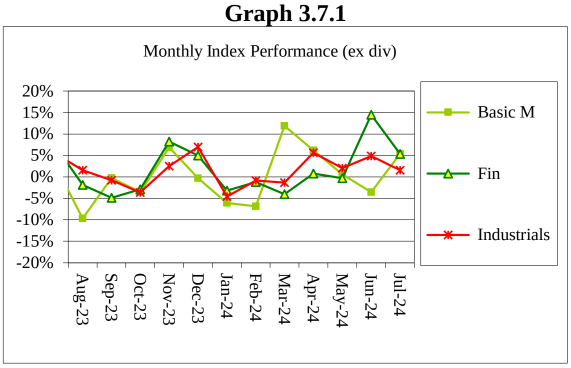


Graph 3.6.2



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

Graph 3.7.1



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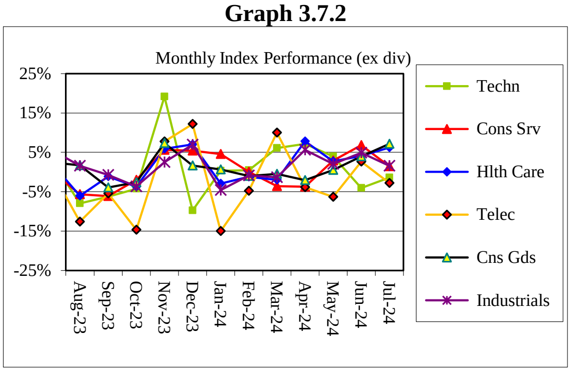
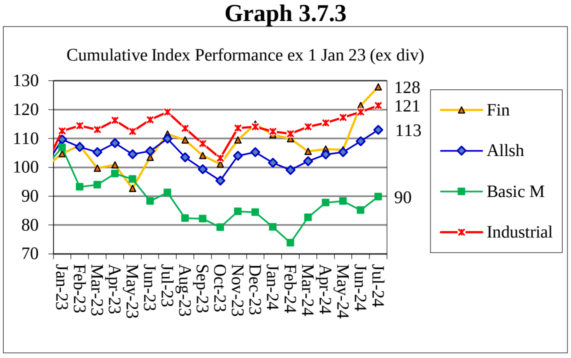
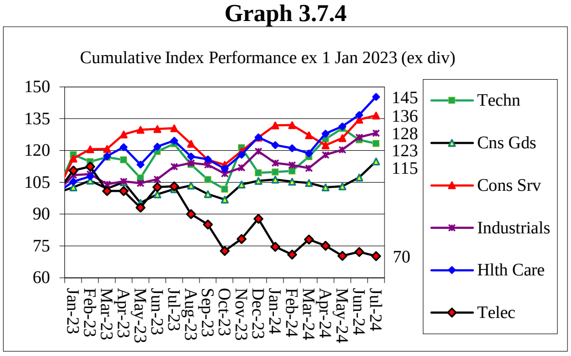
Graph 3.7.2



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.	11.0	10.9
5-year real return - % p.a.	5.6	5.5
Equity exposure - % of the portfolio (quarter ended June 2024)	52.2	60.7
Cumulative return ex Jan 2011	331.7	300.4
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 has been ahead since January 2011, when the trustees restructured it by raising the equity exposure. It still has a more conservative structure with an equity exposure of only 52% compared to the average prudential balanced portfolio's more than 61% exposure.

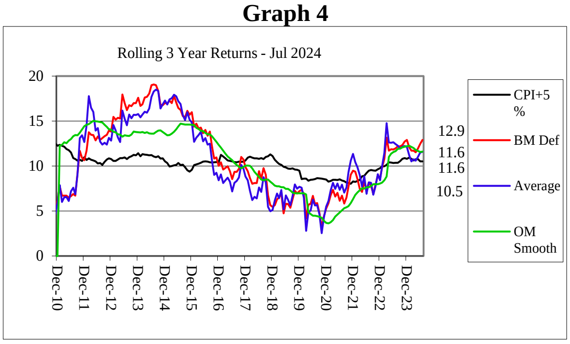
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	5.9%	6.8%
Best annual performance	7.2%	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	6.0%	10.1%	10.3%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from August 2021 to July 2024. 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 12.9%, the average was 11.6% vs. CPI plus 5%, currently on 10.5%.

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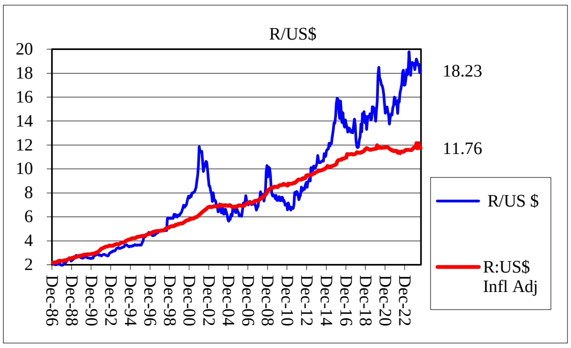
5. Review of Foreign Portfolio Flows and the Rand

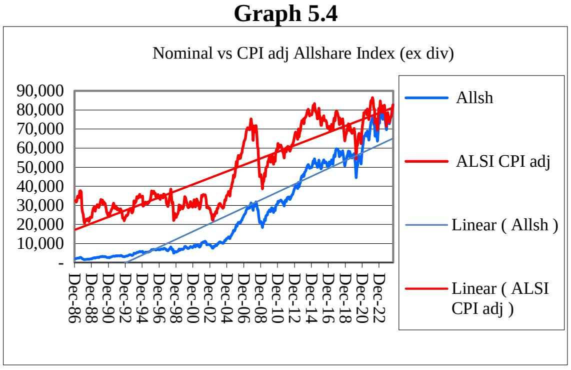
Graph 5.1 indicates that the Rand's fair value by our measure is 11.76 to the US Dollar, while it stood at 18.23 at the end of July. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

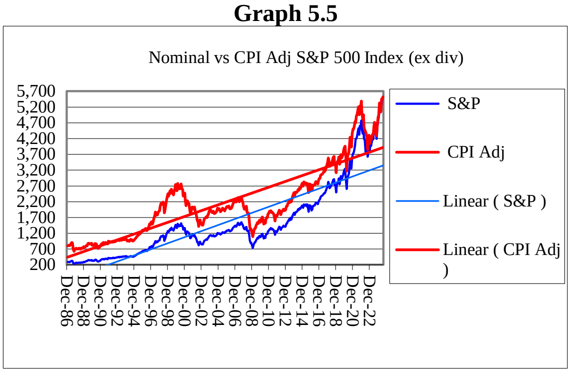
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.5% per year. It is equivalent to growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 5.9%, including dividends.

Graph 5.4



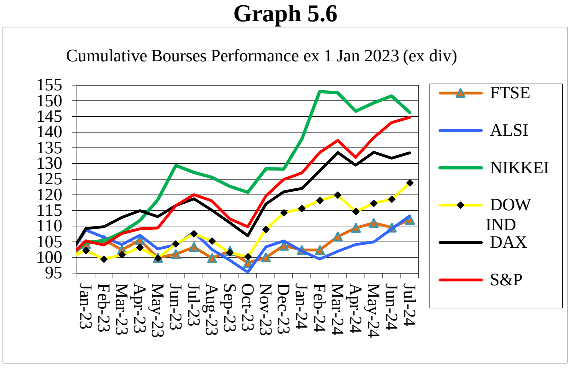
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 37 years since January 1987, the S&P500 Index grew by 8.3% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.4% p.a. over 37 years, excluding dividends, or around 7.5% (including dividends).

Graph 5.5



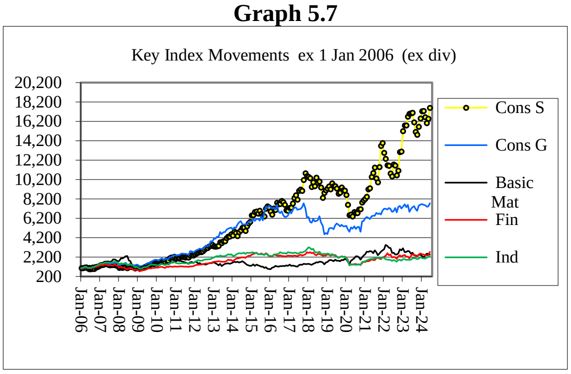
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the NIKKEI as the top-performing index since the start of 2023.

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. The investor can deduce from this graph which sectors offer better and poorer value based on fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 16.8%; Consumer Goods: 12.1%; Financials: 5.9%; Basic Materials: 5.3%; and Industrials: 4.7%.

Graph 5.7



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By Staff Writer – RFS Fund Administrators (Pty) Ltd

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

6. Navigating Investment Decisions Amid Global Uncertainty

By Tilman Friedrich

As a Namibian investor with a diversified portfolio, navigating the complexities of global financial markets has always required a thoughtful approach. However, the current international landscape presents unique challenges and opportunities. With geopolitical tensions escalating and economic conditions fluctuating across different regions, making informed investment decisions more crucial than ever. This article provides strategic guidance for those looking to invest their discretionary assets over the next one to two years and beyond.

Understanding the Current Market Landscape

Before diving into specific investment strategies, it's essential to understand the financial ratios and economic indicators that shape the global markets. Here's a snapshot of the key financial ratios for major bourses:

- **FTSE 100 (UK):** P/E Ratio: 19.6 | Earnings Yield: 3.7% | Dividend Yield: 3.7%
- **DAX (Germany):** P/E Ratio: 18 | Earnings Yield: 2.5% | Dividend Yield: 4.2%
- **Nikkei 225 (Japan):** P/E Ratio: 14.9 | Earnings Yield: 18.2% | Dividend Yield: 1.1%
- **S&P 500 (USA):** P/E Ratio: 20.9 | Earnings Yield: 4.8% | Dividend Yield: 1.35%
- **JSE (South Africa):** P/E Ratio: 10.2 | Earnings Yield: 9.9% | Dividend Yield: 2.2%

South Africa's economy is grappling with significant headwinds, including persistent power shortages, depressed mineral markets, and infrastructure challenges. Conversely, there is rising concern about potential global conflicts involving major Western nations. In such a scenario, the demand for minerals and resources from countries like South Africa, Namibia, and other resource-rich regions in Africa and South America could surge.

Short-Term Strategy: Navigating Uncertainty

1. Defensive Positioning with a Focus on Value

A defensive investment strategy is prudent, given the potential for global conflict and economic downturns. The JSE, with its low P/E ratio of 10.2 and high earnings yield of 9.9%, presents a compelling case for value investing. While the South African economy faces challenges, these valuations may offer a margin of safety, especially if demand for its minerals escalates.

2. Safe-Haven Assets

In times of geopolitical instability, safe-haven assets like gold, US Treasuries, and the Swiss franc have historically performed well. Allocating a portion of your discretionary assets to these instruments can provide a buffer against market volatility. Additionally, consider increasing your cash holdings, giving you flexibility to capitalize on opportunities as they arise.

3. Geographic Diversification

While your non-discretionary pension investments are already spread across South Africa, Namibia, and primarily the US, further diversifying your discretionary assets may be wise. Consider markets less likely to be directly impacted by conflict, such as those in Africa, South America, Switzerland, or even parts of Southeast Asia that are neutral in global politics.

4. Sectoral Rotation

In uncertain times, sectoral rotation towards defensive sectors like utilities, consumer staples, and healthcare can offer stability. These sectors typically have lower volatility and are less sensitive to economic cycles. Additionally, consider increasing exposure to commodities and energy stocks, which could benefit from rising demand for raw materials.

Long-Term Strategy: Positioning for Growth and Recovery

1. Rebalancing and Dynamic Asset Allocation

Regularly review and rebalance your portfolio as the global situation evolves to ensure it aligns with changing market conditions. Dynamic asset allocation—shifting investments between asset classes and regions based on market performance and outlook—will be crucial in navigating the long-term landscape.

2. Growth Opportunities in Emerging Markets

Assuming a best-case scenario where global tensions ease, emerging markets, especially those rich in natural resources, could experience strong growth. Consider increasing your exposure to these regions but focusing on countries with stable governance and favourable economic policies.

3. Technology and Innovation

The US remains a global leader in technology and innovation, sectors that are likely to continue driving long-term growth. Despite the S&P 500's higher P/E ratio (20.9), maintaining exposure to high-growth sectors such as technology, artificial intelligence, and healthcare can provide significant upside potential over the long term.

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Conclusion: A Balanced Approach

In conclusion, investing during times of uncertainty requires a balanced approach that combines defensive strategies with opportunistic investments. While the potential for global conflict and economic downturns poses significant risks, it also presents opportunities for those who can navigate the complexities of the market. By focusing on value, diversifying geographically, and being flexible in your asset allocation, you can position yourself to protect and grow your discretionary assets in future years.

Remember, these strategies should be tailored to your financial situation, risk tolerance, and long-term goals. Consulting with a financial advisor can provide personalized guidance to help you make the best decisions for your portfolio.