Volume 18 No. 2
February 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 FEBRUARY 2022

By Staff Writer – Retirement Fund Solutions Namibia (Pty) Ltd

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

1. Review of Portfolio Performance

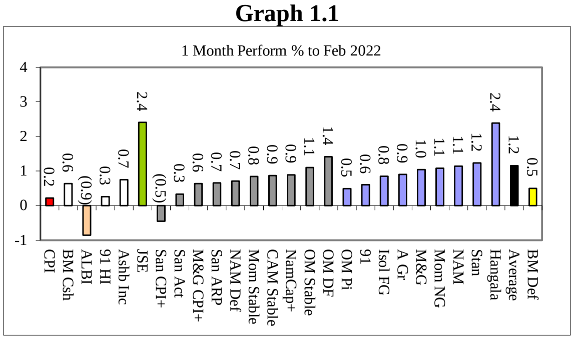
In February 2022, the average prudential balanced portfolio returned 1.2% (January 2021: -1.3%). The top performer is Hangala Prescient Absolute Balanced Fund with 2.4%, while Old Mutual Pinnacle Profile Gowth Fund with 0.5% takes the bottom spot. For the 3-months Hangala Prescient Absolute Balanced Fund takes the top spot, outperforming the 'average' by roughly 3.1%. NAM Coronation Balanced Plus Fund underperformed the 'average' by 1.4% 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 Prudential Namibia Inflation Plus, Sanlam Inflation Linked, and Allan Gray Namibia Balanced Funds.

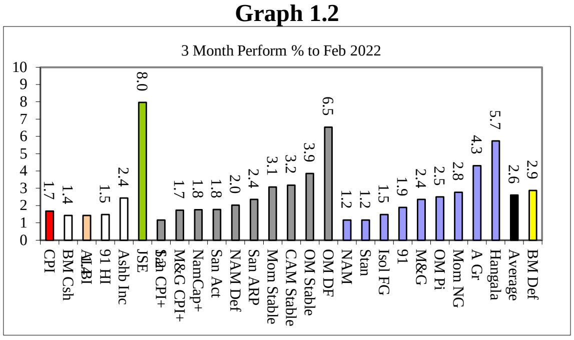
Below is the legend to the abbreviations reflected on the graphs:

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)
Prudential Inflation Plus	Pru 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 Prescient 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)
Prudential Managed	Pru (blue)
Stanlib Managed	Stan (blue)

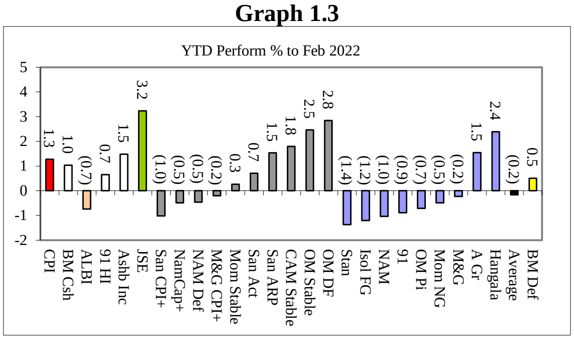
Graph 1.1



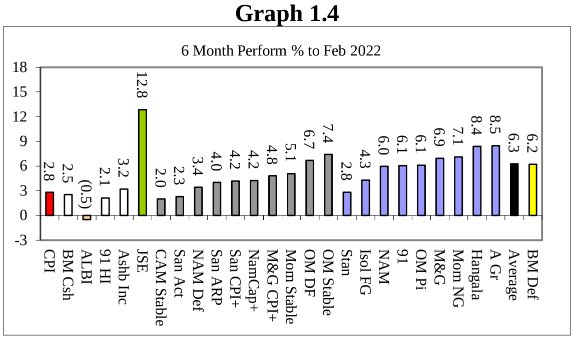
Graph 1.2



Graph 1.3



Graph 1.4



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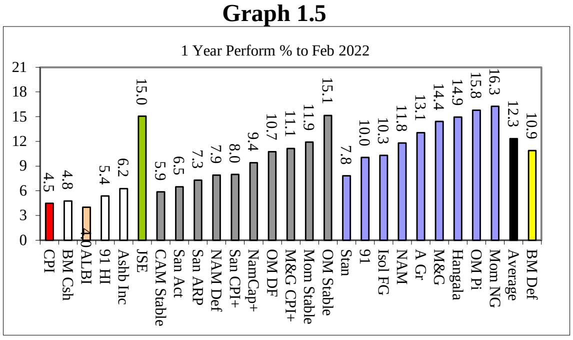
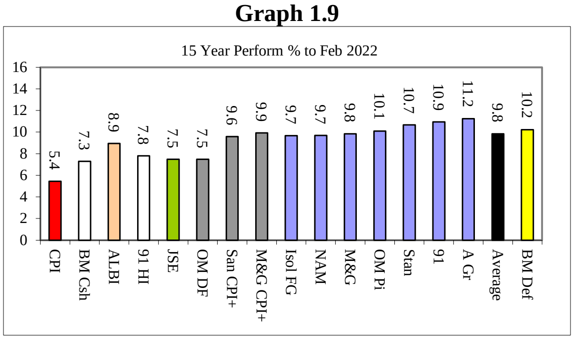
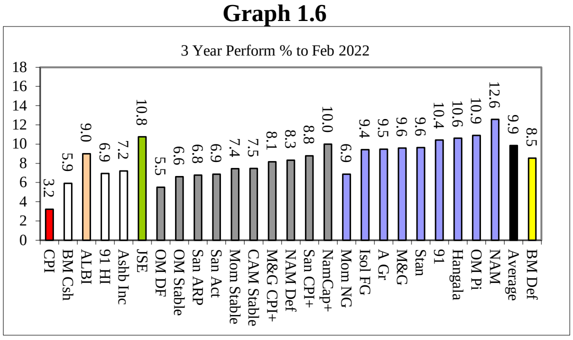
Graph 1.5



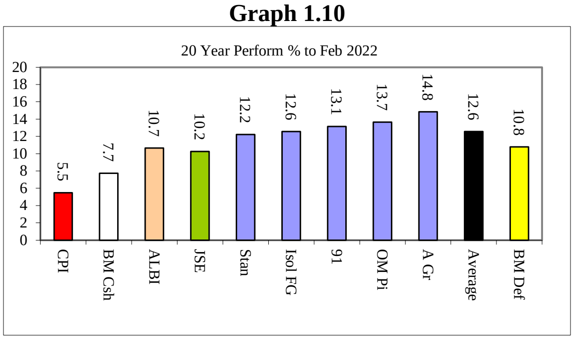
Graph 1.9



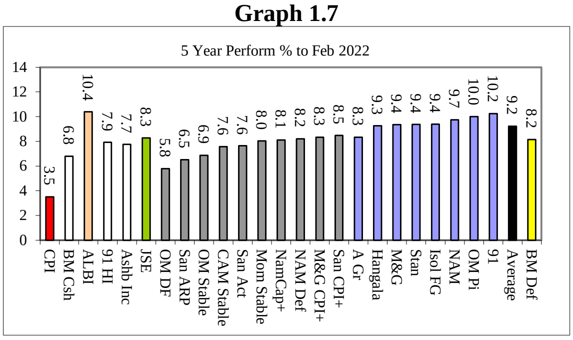
Graph 1.6



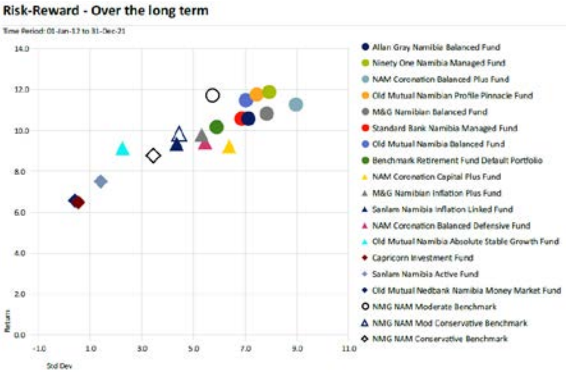
Graph 1.10

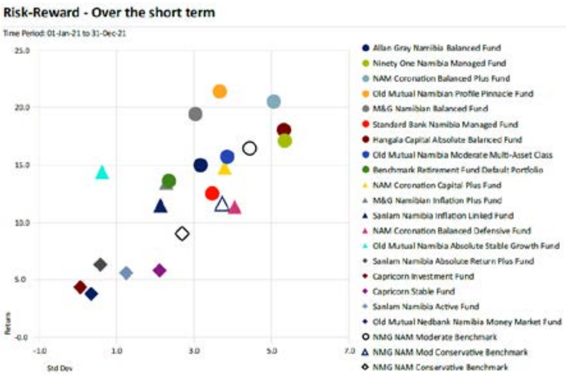


Graph 1.7

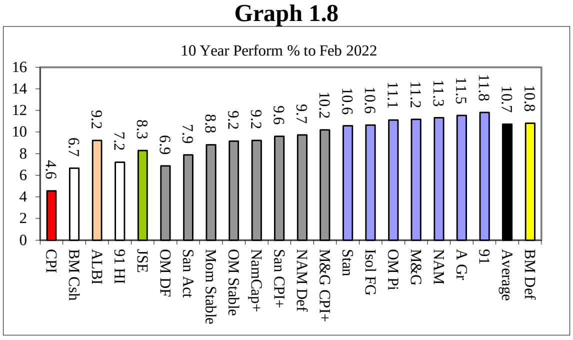


Risk/ Return





Graph 1.8



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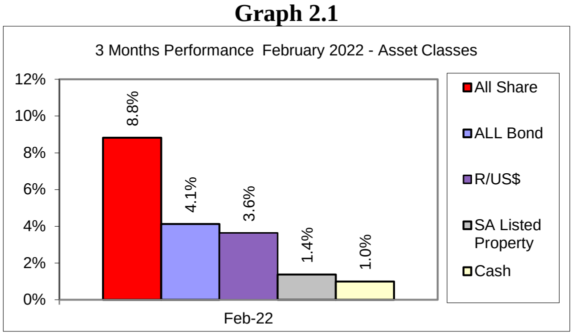
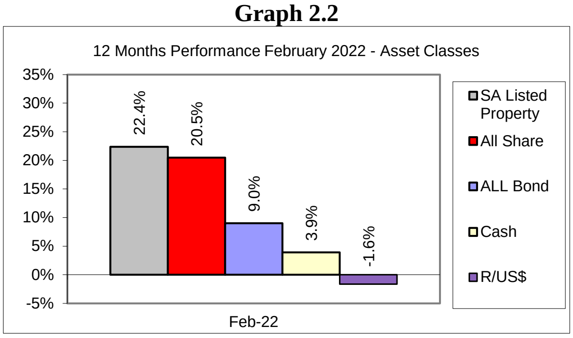
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

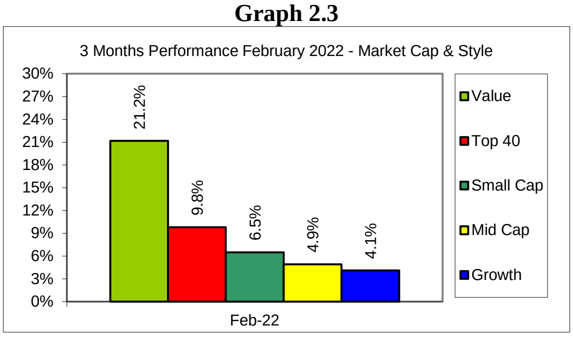
Graph 2.1



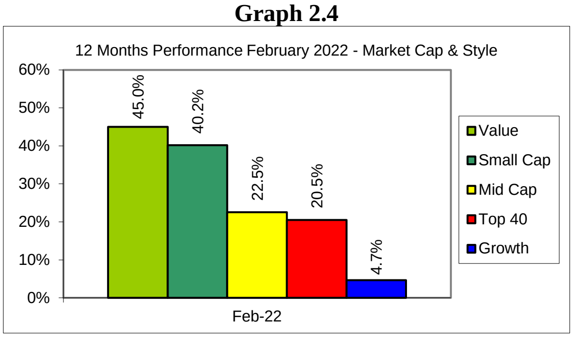
Graph 2.2



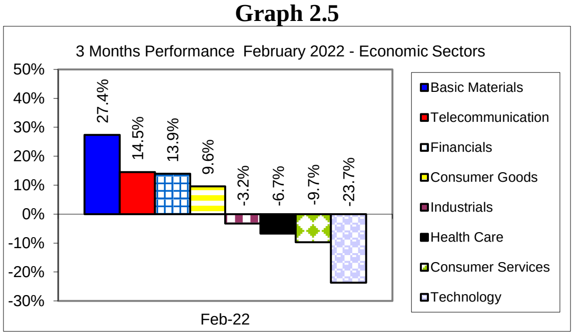
Graph 2.3



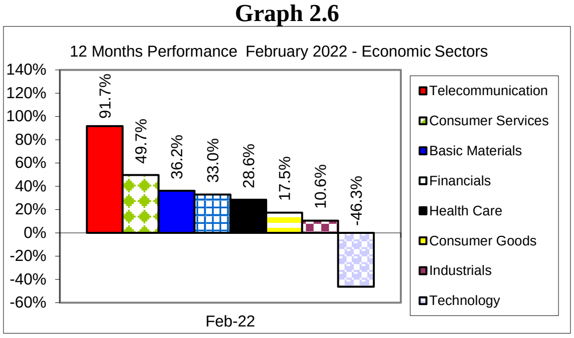
Graph 2.4



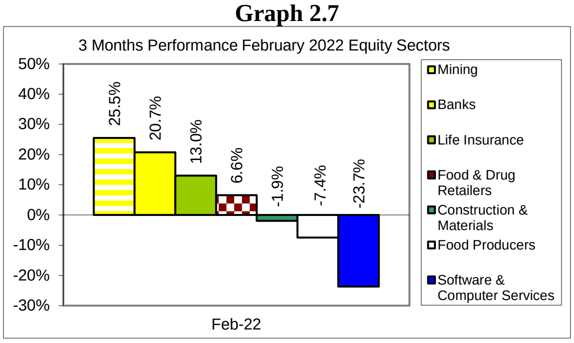
Graph 2.5



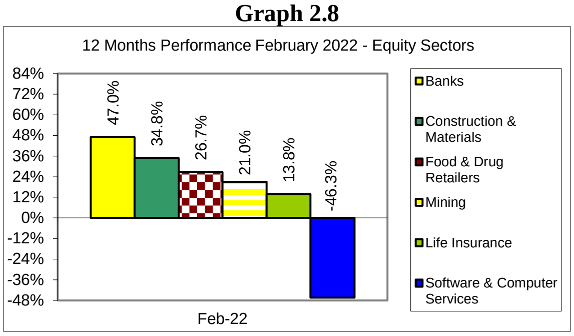
Graph 2.6



Graph 2.7



Graph 2.8



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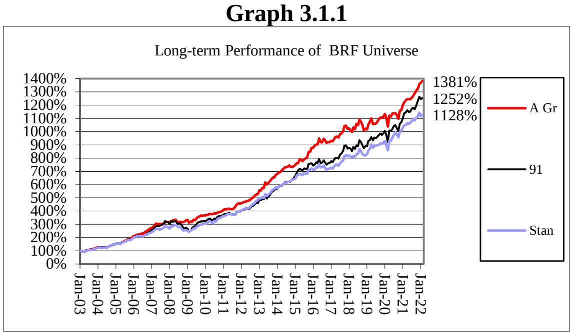
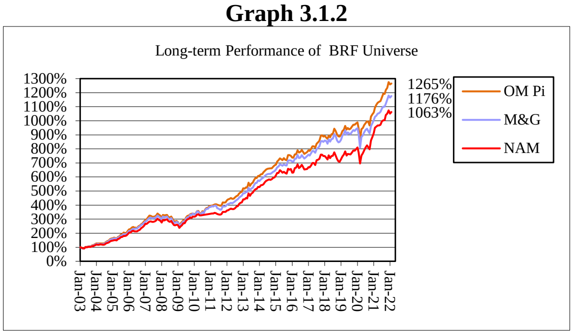
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

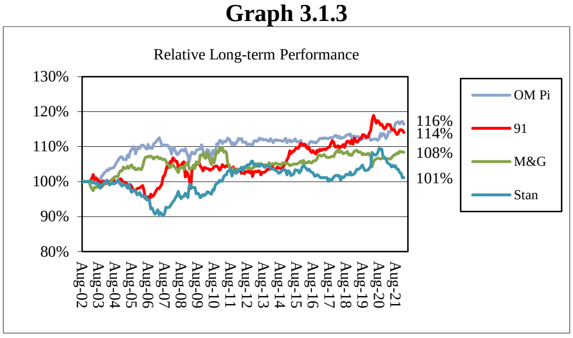
Graph 3.1.1



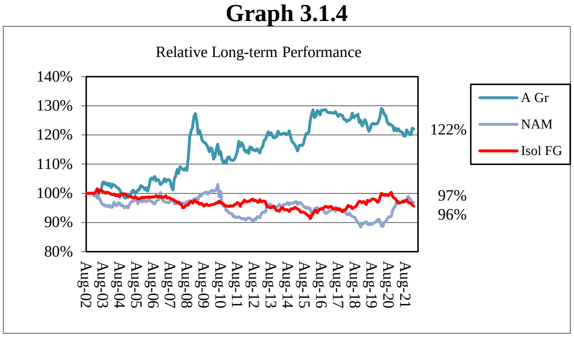
Graph 3.1.2



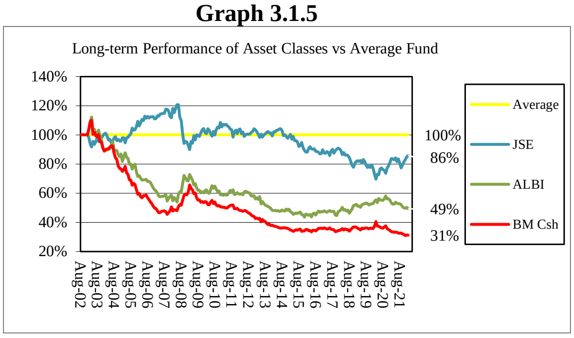
Graph 3.1.3



Graph 3.1.4

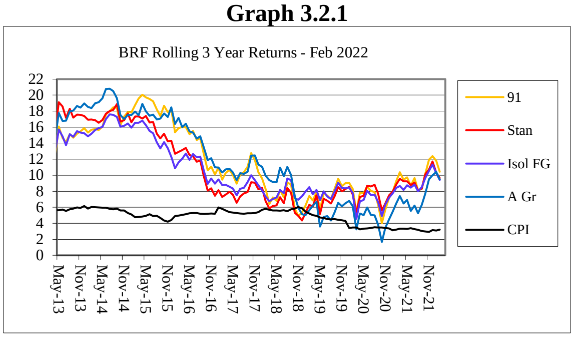


Graph 3.1.5

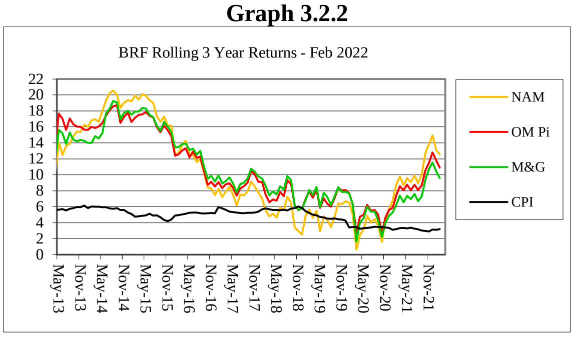


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

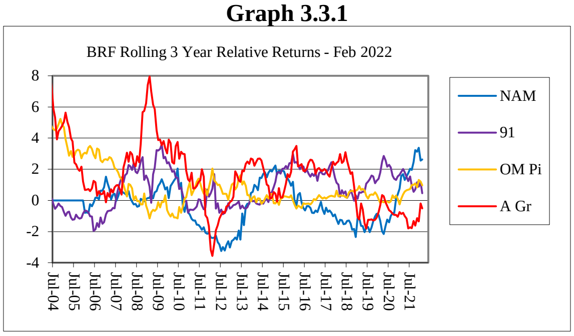


Graph 3.2.2



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

Graph 3.3.1



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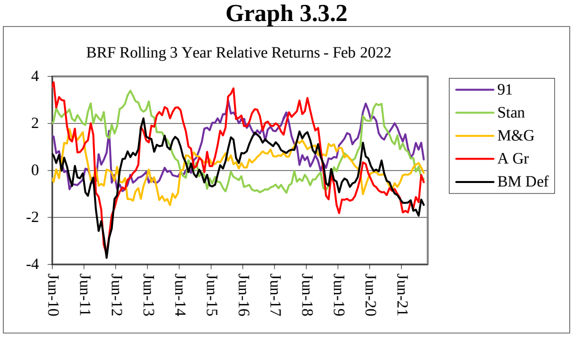
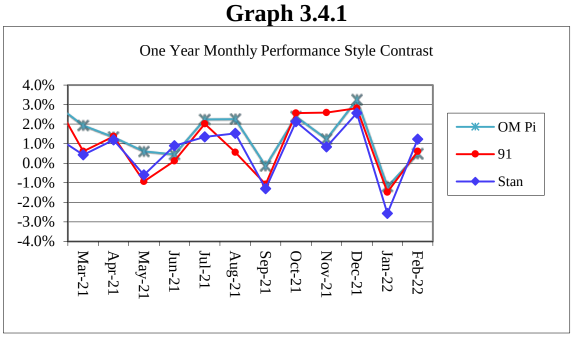
Graph 3.3.2

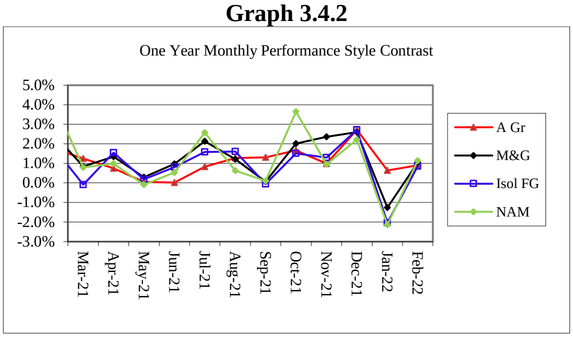


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

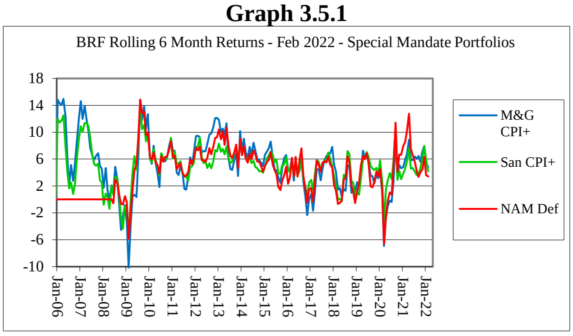


Graph 3.4.2

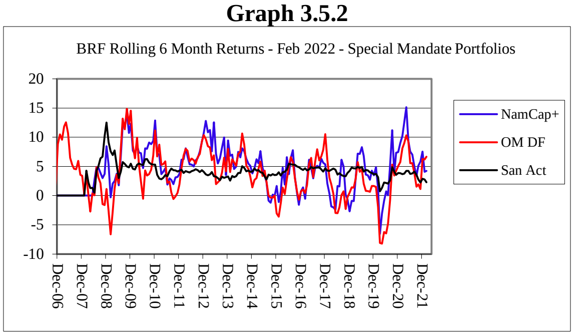


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

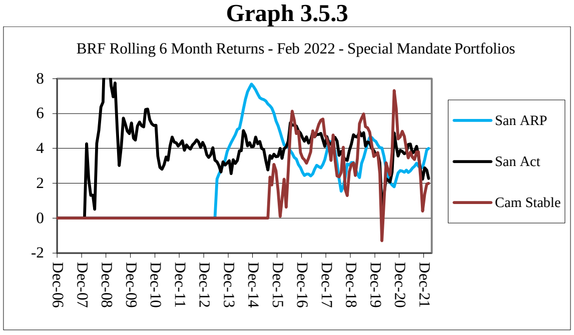
Graph 3.5.1



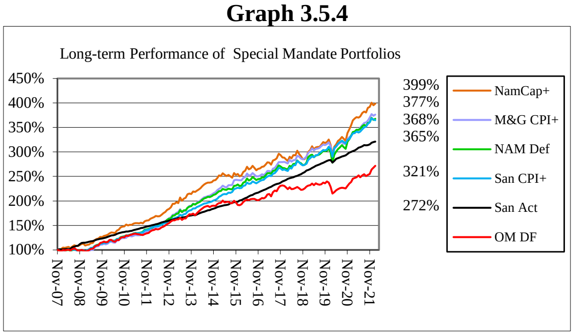
Graph 3.5.2



Graph 3.5.3

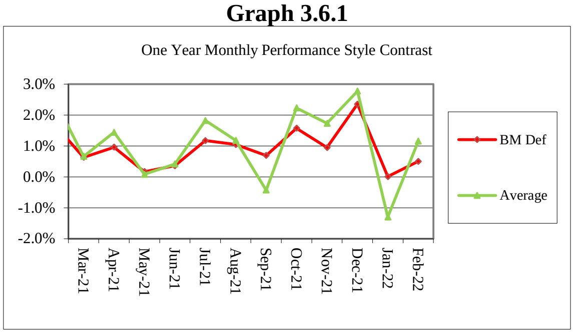


Graph 3.5.4



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

Graph 3.6.1



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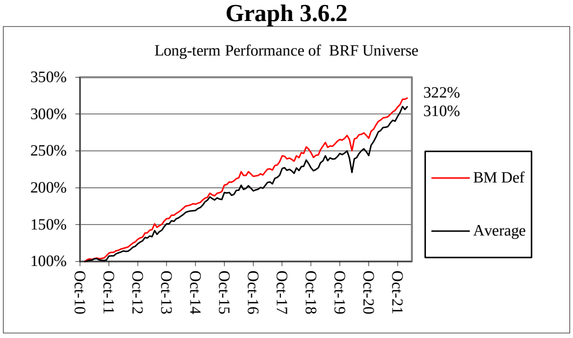
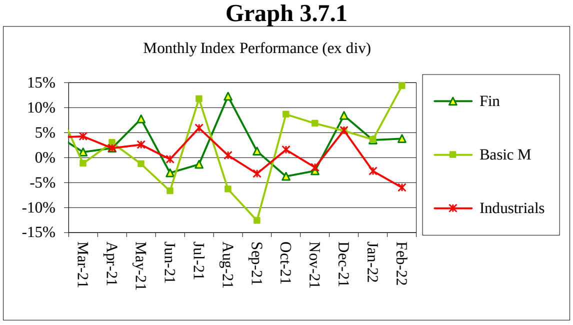
Graph 3.6.2

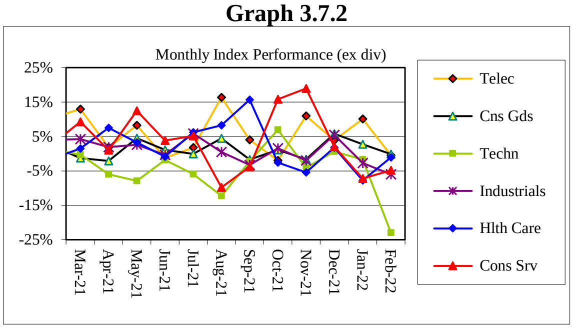


3.7 One-year monthly performance of key indices (excluding dividends)

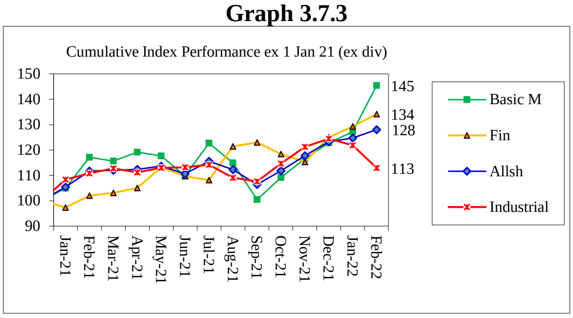
Graph 3.7.1



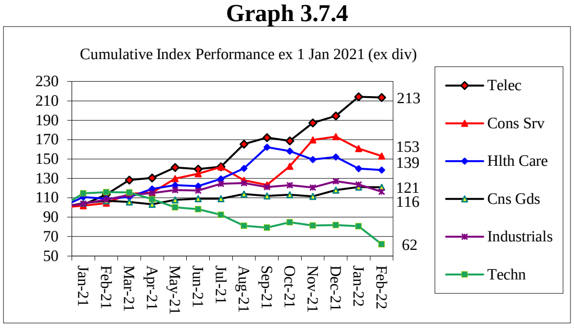
Graph 3.7.2



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.	8.2	9.2
5-year real return - % p.a.	4.7	5.7
Equity exposure - % of portfolio (qtr end December 2021)	47.3	66.1
Cumulative return ex Jan 2011	221.7	209.8
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 returns of the Default Portfolio versus target returns required to produce an income replacement ratio of 2% of salary per year of fund membership that should secure a comfortable retirement income. Please note that the default portfolio of late underperformed the average prudential balanced portfolio, although still ahead since January 2011, when the trustees restructured by raising the equity exposure. It still has a significantly more conservative structure with an equity exposure of only 47% compared to the average prudential balanced portfolio's exposure of 66%. When equities significantly out-perform the other main asset classes, the default portfolio will underperform the average prudential balanced portfolio. Over the past 12 months, due to the further significant increase in central banks' bond-buying activities, equities have performed well. Property outperformed equities, though, recovering from its severe slump due to COVID. Of course, the central banks' interventions distort financial markets cause significant volatility and artificially increased valuations of equities, in particular.

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.

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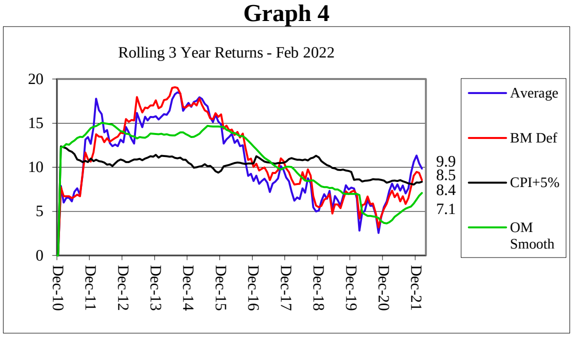
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.9%	3.2%	2.5%
Best annual performance	8.2%	9.5%	11.4%
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	7.3%	6.5%	6.9%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from March 2019 to February 2022. These statistics show up the performance volatility of these three risk profiles.

Graph 4

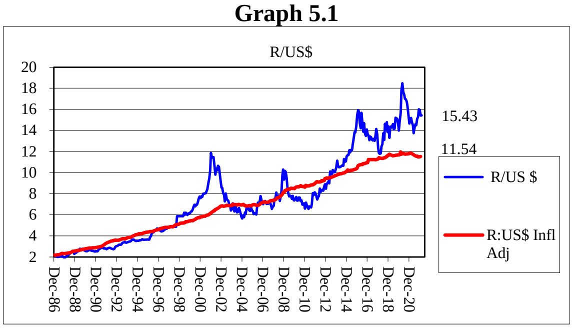


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of February was 8.5%, the average was 9.9% vs. CPI plus 5% currently on 8.4%.

5. Review of Foreign Portfolio Flows and the Rand How is the Rand doing?

Graph 5.1 indicates that the Rand's fair value by our measure is 11.54 to the US Dollar while it stood at 15.43 at the end of February. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

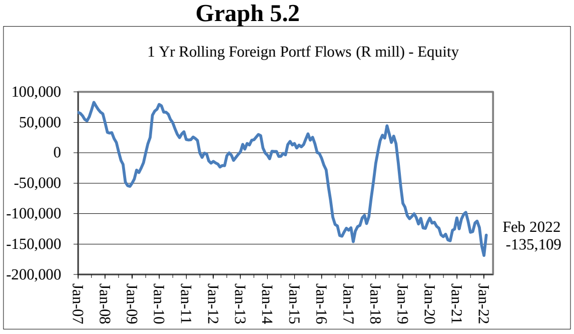


The Rand weakened by 0.14% in February with net foreign investment inflow from bonds and equities of R6.8 bn. Over the past 12 months, the Rand declined by 1.62%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 280.7 bn (outflow of R 331.7 bn to the end of January 2021).

Since 2006, total net foreign portfolio outflows amounted to R 394.5 bn (January R 401.3 bn outflows).

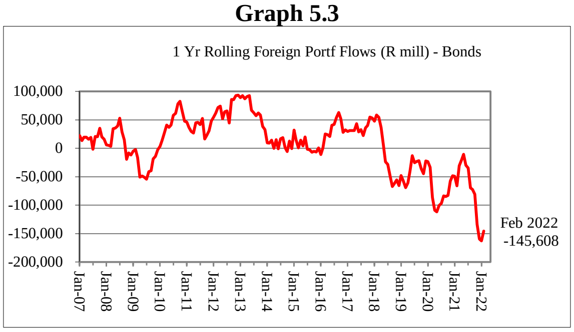
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 135.1 bn at the end of February (outflow of R 168.9 bn year-on-year to end January). The month of February experienced a net inflow of R 12.7 bn. Since 2006, foreign net investment outflows from equities amounted to R 429.2 bn (end January net investment outflow of R 442.0 bn). It represents roughly 2.0% 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 SA bonds of R 145.6 bn over the past 12 months to end of February (outflow of R 162.8 bn over the 12 months to end of January). The month of February experienced a net outflow of R 5.9 bn. Since 2006, foreign net investment in bonds amounted to R 34.7 bn (to January R 40.6 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 10.9% per year since January 1987, excluding dividends of 3.1%. Namibian inflation over these 34 years was 7.7% per year. It is equivalent to growth in real terms of 3.2% p.a. over this period, excluding dividends, or around 6.3% including dividends.

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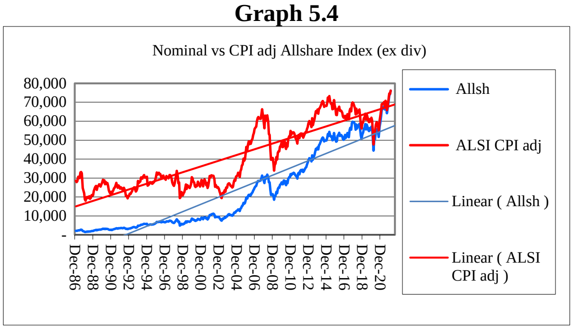
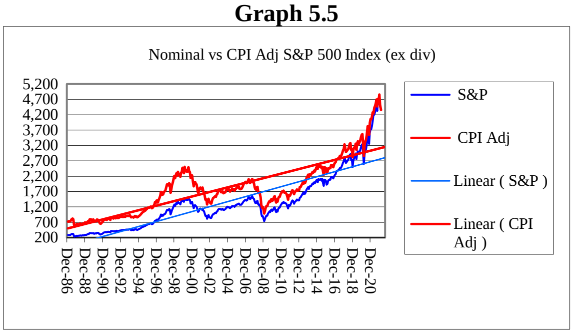
Graph 5.4



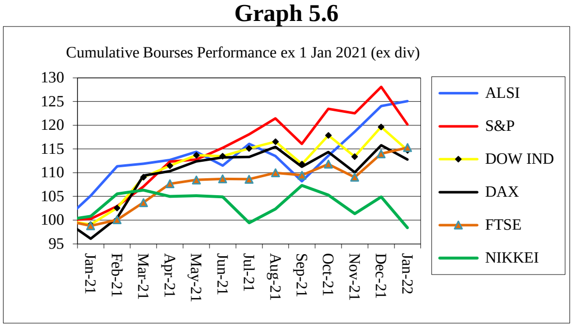
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 34 years since January 1987, the S&P500 Index grew by 8.2% per annum. US inflation over this period was 2.7%. It represents growth in real terms of 5.5% p.a. over 34 years, excluding dividends, or around 7.7% including dividends.

Graph 5.5



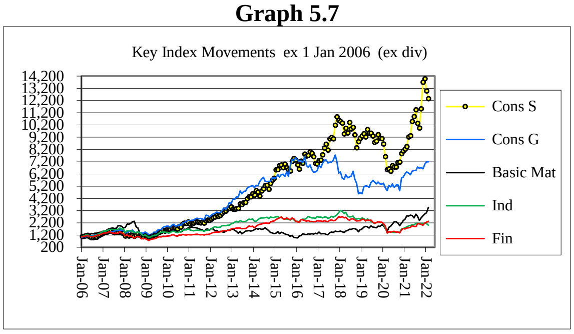
Graph 5.6 provides an interesting overview of some of the big global share indices, showing the JSE All Share (ALSI) as the top-performing index since the start of 2021.

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 greater value and lower value based on fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 16.8%; Consumer Goods: 13.0%; Basic Materials: 8.0%; Financials: 5.4% and Industrials: 4.4%.

Graph 5.7



6. Will China side with Russia, and what could be the implications?

By Tilman Friedrich

George Friedman is a geo-strategist and security expert who has briefed numerous military and government organizations in the United States and overseas and appears regularly as an expert on international affairs, foreign policy, and intelligence in major media. His most recent book, *THE STORM BEFORE THE CALM: America's Discord, the Coming Crisis of the 2020s, and the Triumph Beyond*, published February 25, 2020, describes how "the United States periodically reaches a point of crisis in which it appears to be at war with itself, yet after an extended period it reinvents itself, in a form both faithful to its founding and radically different from what it had been." The decade 2020-2030 is such a period that will bring dramatic upheaval and reshaping of the American government, foreign policy, economics, and culture.

In a recent interview with Ed D'Agostino of Mauldin Economics on the Russia/Ukraine conflict and the current political climate for investors and the world, George Friedman, chief executive officer of Geopolitical Futures, made some interesting comments of which somewhat cynical in my opinion. He believes that President Putin's objective is to move the Russian Federation's borders back to those of the old Soviet Union and that the invasion of Ukraine was a vital and logical move to restore Russia's national security. It makes a great deal of sense says Friedman, but it threatens western security. He points out that everyone, including President Putin and himself, underestimated the power of the American economy and the Dollar as all global trade takes place in Dollars. Anyone without access to Dollars cannot trade internationally. He points out that the talk about a multipolar world is an illusion. The US economy towers over all other economies, and it is still a unipolar world. He points out that it is not a high priority to save President Putin's face to the US. He believes President Putin gambled and lost, and it is more important to demonstrate to the world what it means to challenge the US. The US cannot give President Putin what he wants and has to force him backward. It will achieve this using economic measures instead of any military intervention. Whichever force the west applies will cause

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MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 FEBRUARY 2022
By Staff Writer – Retirement Fund Solutions Namibia (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.

some form of pain, in this case, economic pain, but that is better than seeing soldiers dying.

From this interview of an insider of US strategies and policies, I conclude that the US is ruthless in maintaining the status of a unipolar global economic system. It will do all in its power to prevent any other country from challenging this status quo. It has proven its resolve many times before, and Russia is next in line to taste the US' ruthlessness.

A few years ago, I stated in this column that the US knows the ultimate challenge to its hegemony will come from China. Russia is a vast geographical buffer on the western border of China. Once the US gets Russia onto its side, it will lay bare China's western border and affords the US the means to squeeze China into accepting the unipolar global economic system. This thesis assumes that China is not willing to accept this unipolar system. In the current conflict, Russia under President Putin will not survive without China openly taking the side of Russia. If China takes that step, it will antagonize the US and will feel the wrath of the US, and it may well lead to world war three. As George Friedman points out in his latest book *THE STORM BEFORE THE CALM: America's Discord, the Coming Crisis of the 2020s, and the Triumph Beyond:* "The decade 2020-2030 … will bring dramatic upheaval and reshaping of the American government, foreign policy, economics, and culture." He assumes the US will prevail in this conflict – but will it should worst come to worst?

With this background, what are the implications for the investor? If China does not side with Russia, the US will rope Russia into its hegemony, and China will have to subordinate itself. Any aspirations to become a world power will move very far into the future. The world will return to the status quo, with a Russia toeing the western capitalist line. Our investments will be safe, and those that wrote off their investments in Russia can reinstate them to full value. The prevailing uncertainties and upheaval will fade sooner rather than later, inflation will slow dramatically, and the global economy will bounce back.

Suppose China does side with Russia understanding the threat to its 'backdoor' under a subservient Russia. In that case, the world will move into serious turmoil sooner rather than later for years to come with high commodity prices, commodity shortages, high inflation, capital controls, and high interest rates. The investor must ensure that he stays out of the crossfire! As every war depends on resources, resource-rich countries will be in the crossfire unless they manage to remain neutral, and that will not be easy as both sides will try coercing them onto their side. It will be challenging to buy and sell internationally or receive income from foreign investments. It will be safer to invest at home and produce at home to avoid supply-chain disruptions in such a scenario.

Conclusion

I do not expect China to throw down the gauntlet at the US at this point in history but rather swallow its ambitions and subordinate itself to the US. Russia will back down on Ukraine and get roped in under the US hegemony without its current president and a new US-controlled government (as already happened under Boris Yeltsin). However, there is an odd chance that China may not appreciate the US standing in front of its backdoor.

I do not expect a major military confrontation but that the world economy will revert to 'our normal' within no more than the next three years. Once Russia submits to the US, supply-chain disruptions will fade, high current commodity prices will revert to normal and global bourses will recover. In the meantime, however, inflation and interest rates will increase dramatically. These increases will put pressure on the consumer and dampen economic growth. High inflation is a blessing in disguise (?) for highly indebted countries, including the US, as it will deflate the debt value while increasing tax revenues. Over time, the deflation of the debt burden should reduce the pressure on interest rates, strengthening the consumer's position improving consumption and economic growth prospects.

Equity markets have dropped significantly and are likely to fall further as the impact of high commodity prices manifests in the global economy and will remain subdued for the next three years. Furthermore, the relatively strong Rand adds to the opportunity by expatriating capital offshore. This opportunity requires the investor to diversify offshore and to be in the market to benefit from the expected market upswing. Stock selection can add value but is not so important under these circumstances.

Investors who align with my thinking may invest boldly in equities and use the opportunity to move capital offshore. However, patience is required because the situation may still take a while to resolve.

Investors concerned about worst coming to worst would invest at home; in our case, that includes South Africa, where equities are also the only asset class with fair growth prospects at home.

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