Volume 18 No. 5
May 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2022

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

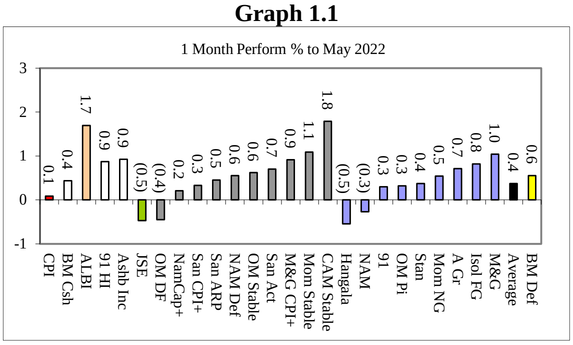
In May 2022, the average prudential balanced portfolio returned 0.4% (April 2022: -0.7%). The top performer is M&G Managed Fund with 1.0%, while Hangala Prescient Absolute Balanced Fund with -0.5% takes the bottom spot. For the 3-months Allan Gray Balanced Fund takes the top spot, outperforming the 'average' by roughly 1.5%. NAM Coronation Balanced Plus Fund underperformed the 'average' by 2.1% 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.

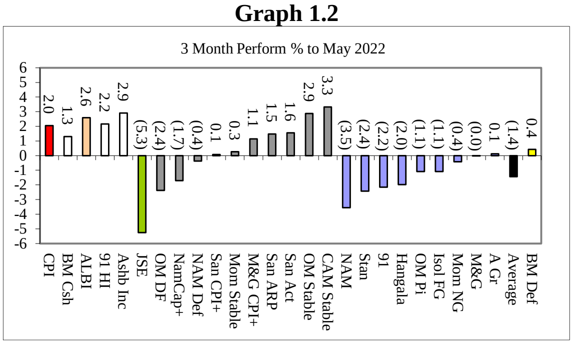
Below is the legend to the abbreviations reflected on the graphs:

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	B.M. Csh (no color)
NinetyOne High Income (interest bearing assets)	91 H.I. (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	O.M. 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	O.M. Pi (blue)
M&G Managed	Pru (blue)
Stanlib Managed	Stan (blue)

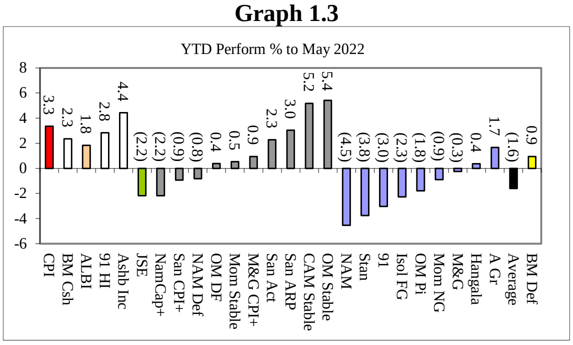
Graph 1.1



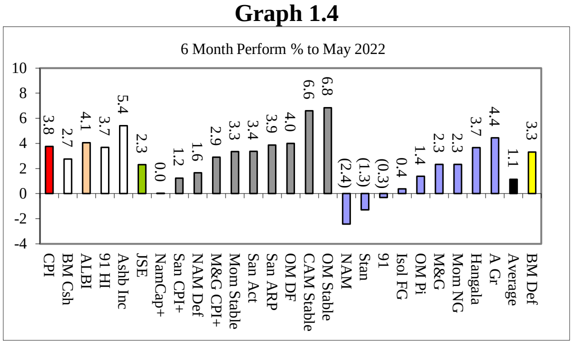
Graph 1.2



Graph 1.3



Graph 1.4



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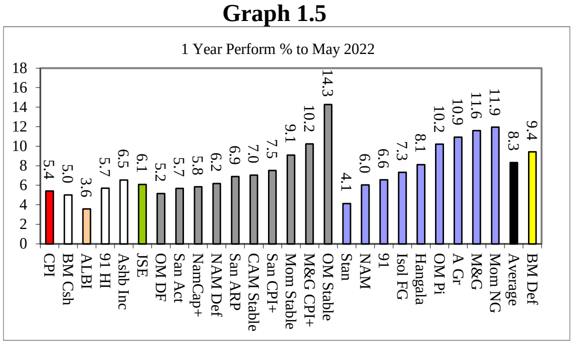
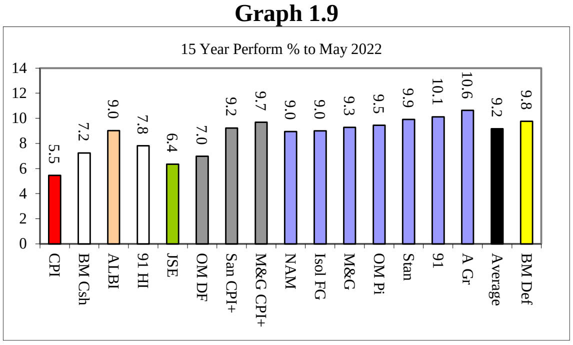
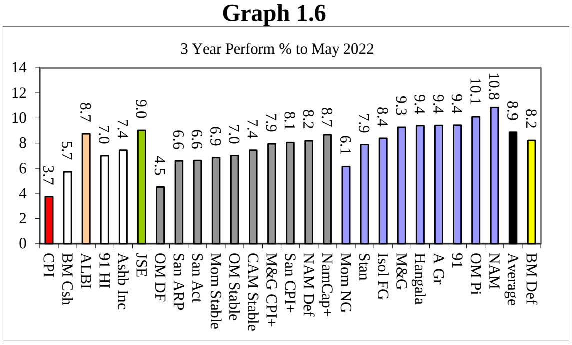
Graph 1.5



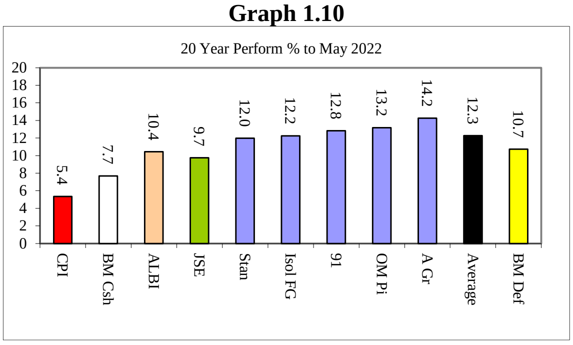
Graph 1.9



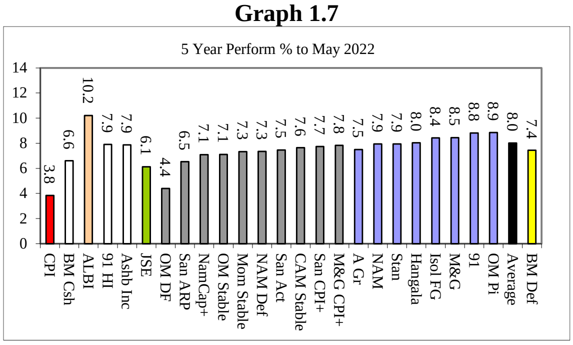
Graph 1.6



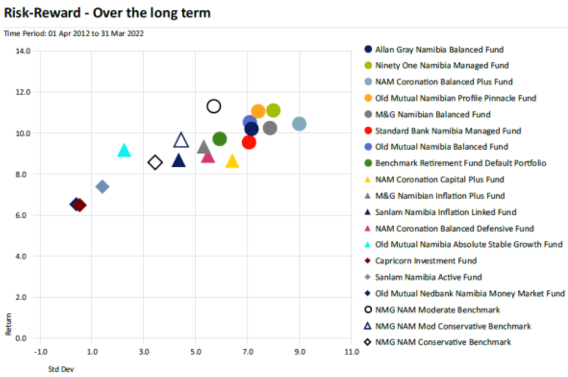
Graph 1.10



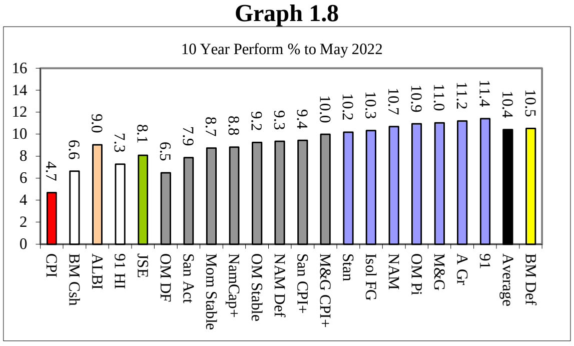
Graph 1.7

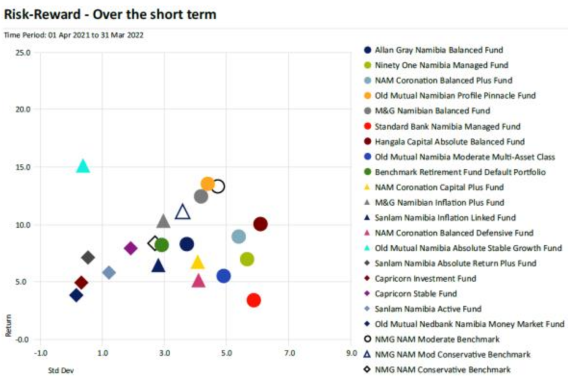


Risk/ Return



Graph 1.8





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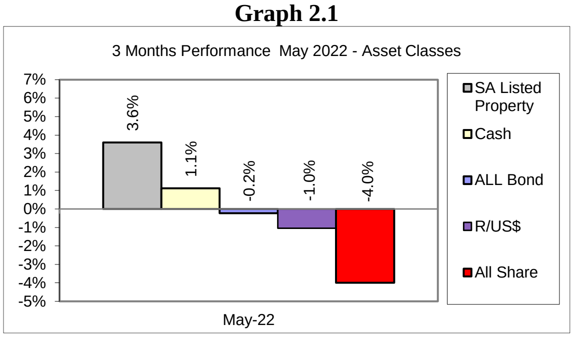
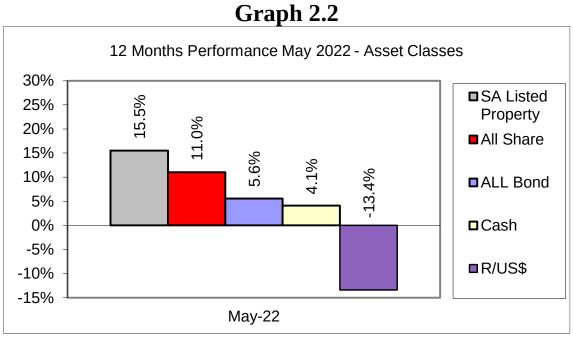
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

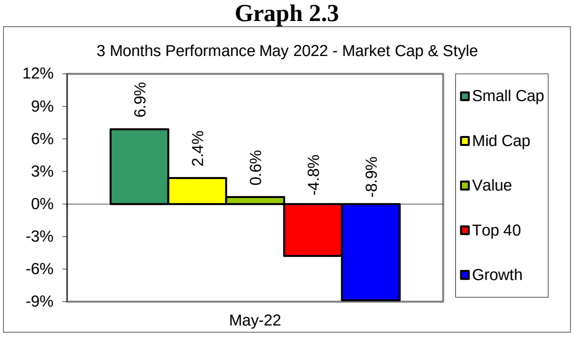
Graph 2.1



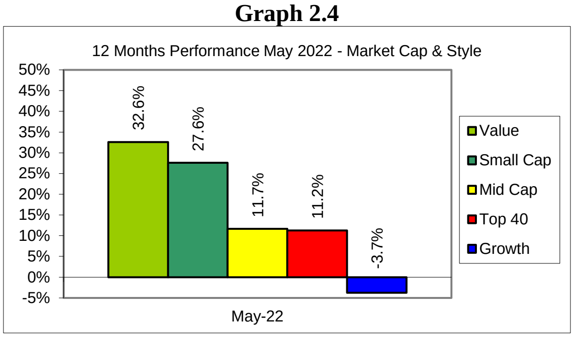
Graph 2.2



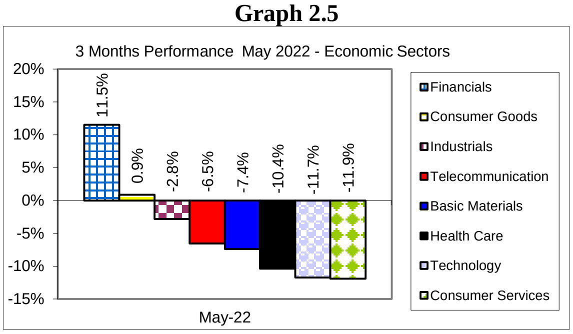
Graph 2.3



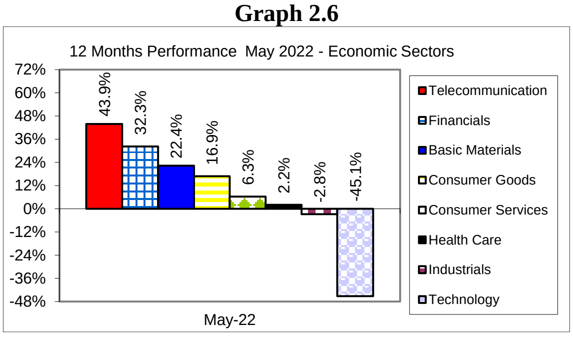
Graph 2.4



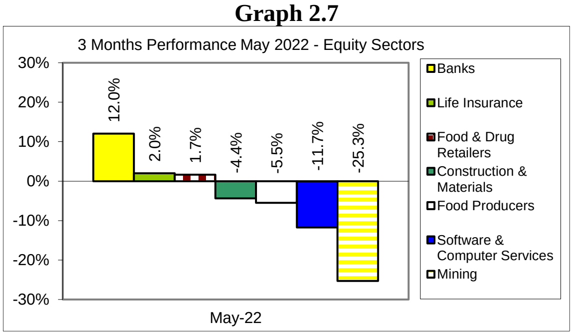
Graph 2.5



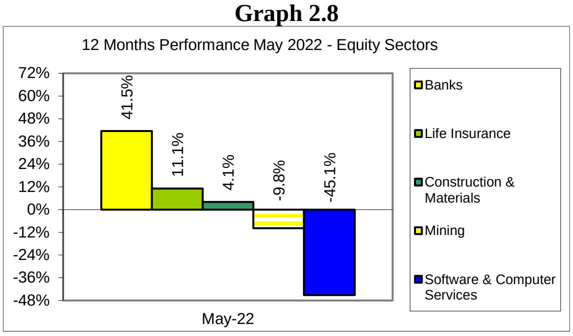
Graph 2.6



Graph 2.7



Graph 2.8



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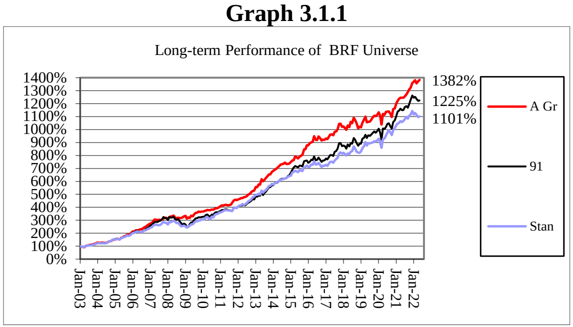
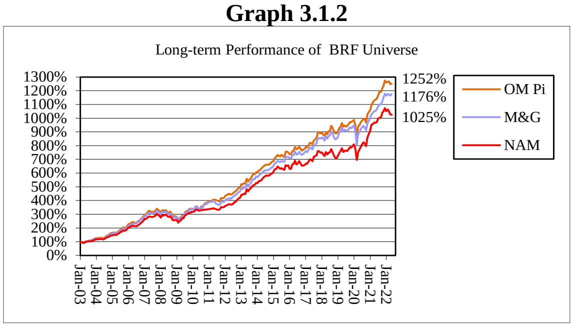
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

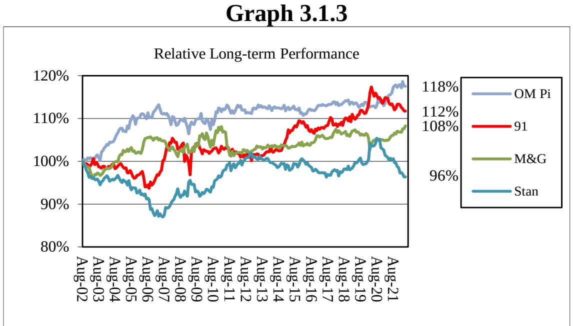
Graph 3.1.1



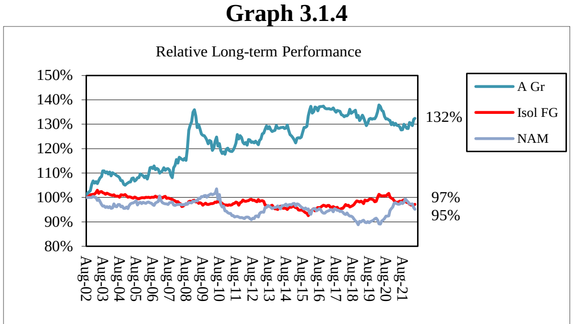
Graph 3.1.2



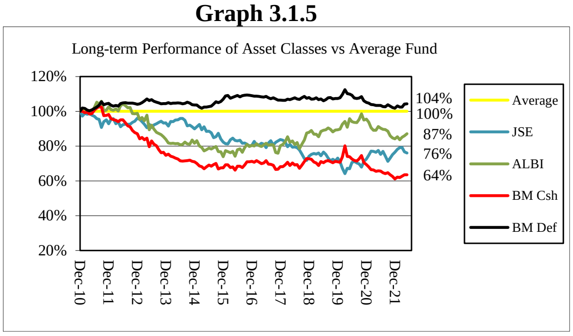
Graph 3.1.3



Graph 3.1.4

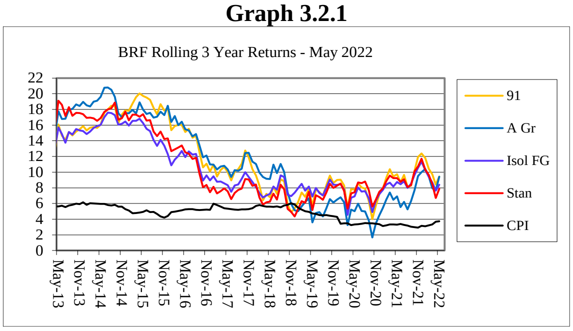


Graph 3.1.5

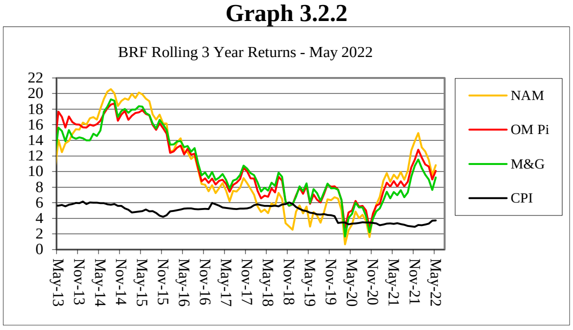


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

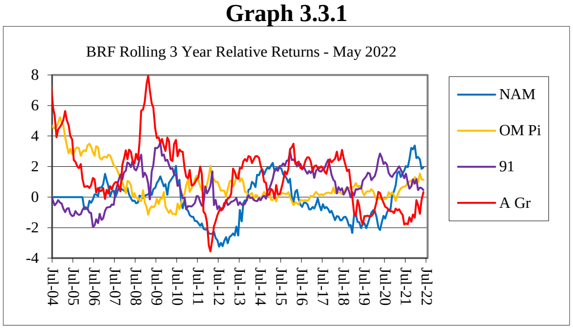


Graph 3.2.2



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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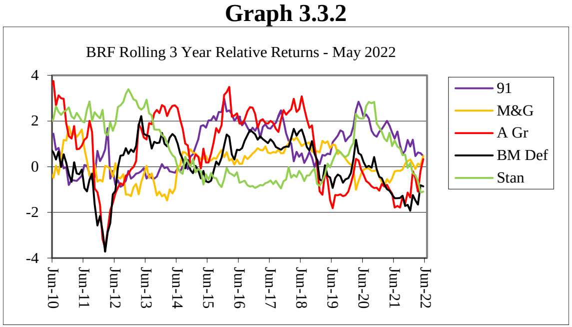
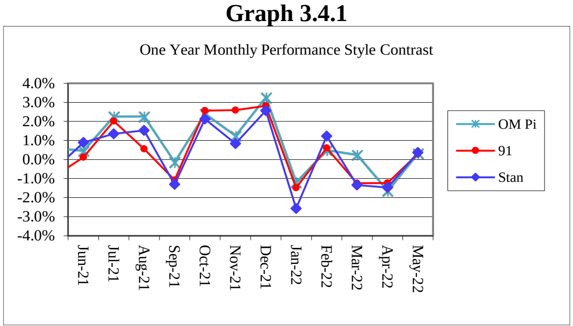
Graph 3.3.2

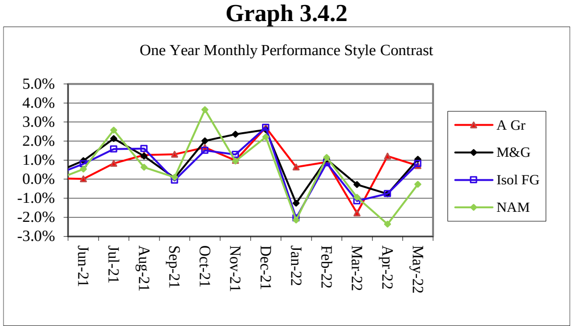


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

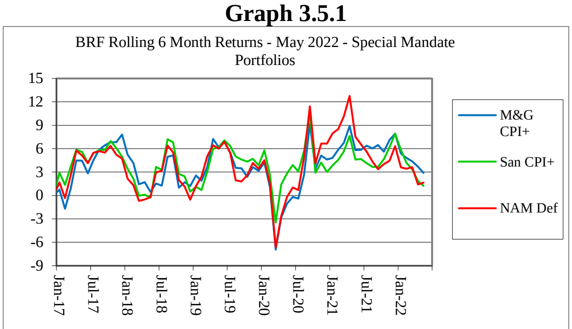


Graph 3.4.2

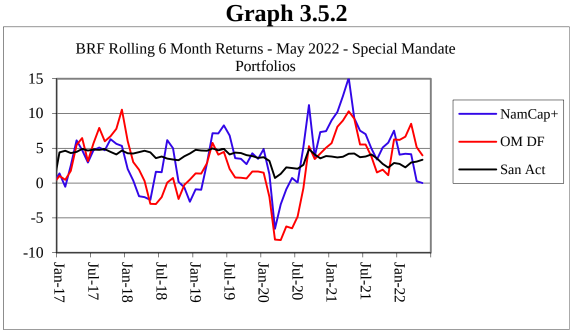


3.5. 6-month rolling and cumulative returns of ‘special mandate’ portfolios

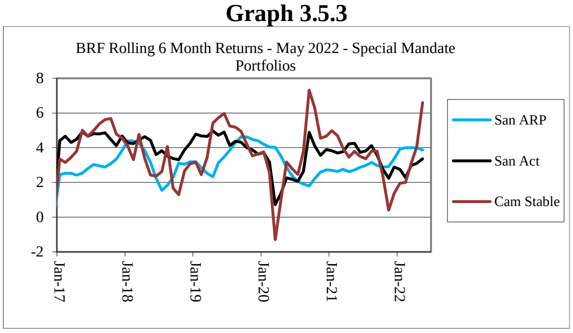
Graph 3.5.1



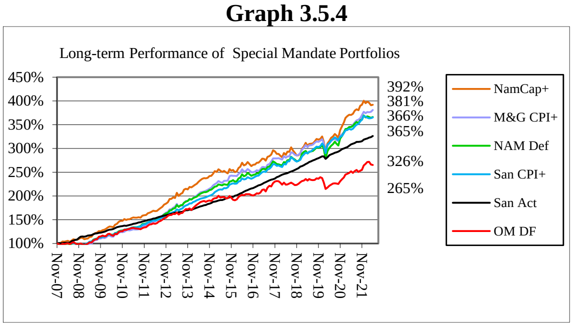
Graph 3.5.2



Graph 3.5.3

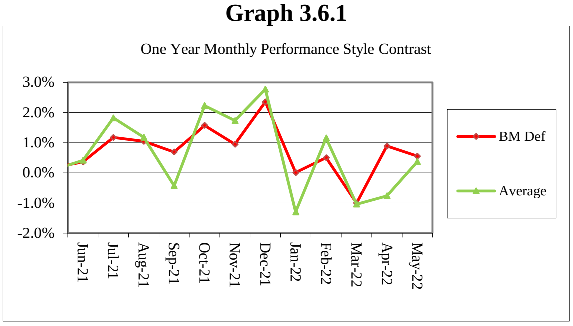


Graph 3.5.4



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

Graph 3.6.1



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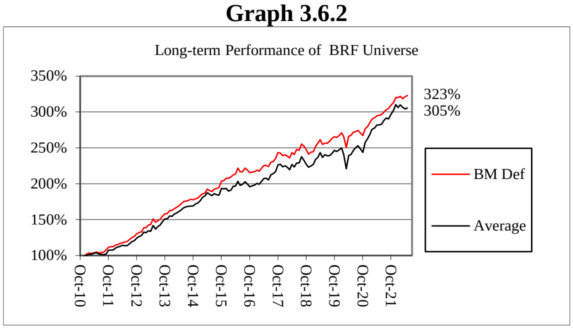
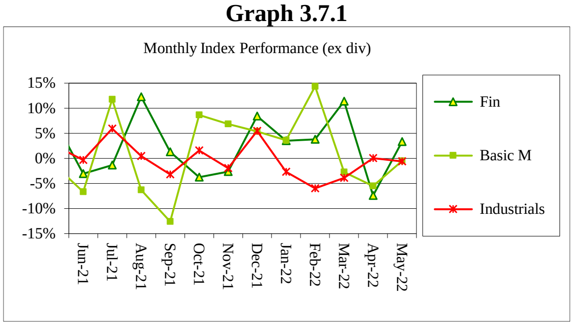
Graph 3.6.2

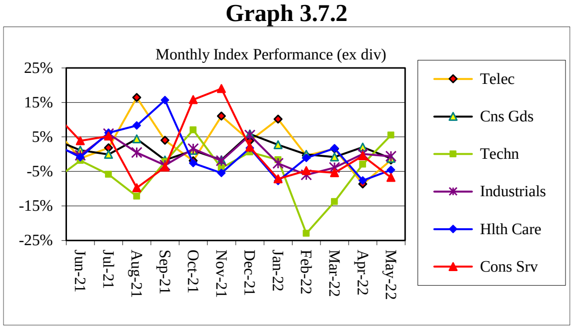


3.7 One-year monthly performance of key indices (excluding dividends)

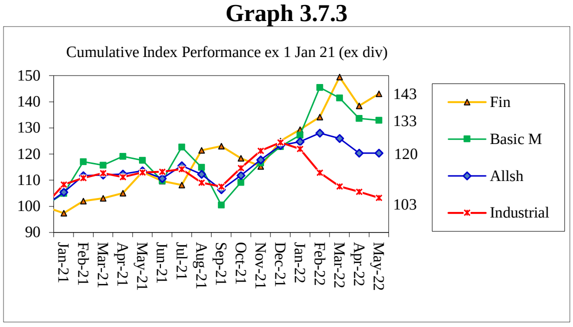
Graph 3.7.1



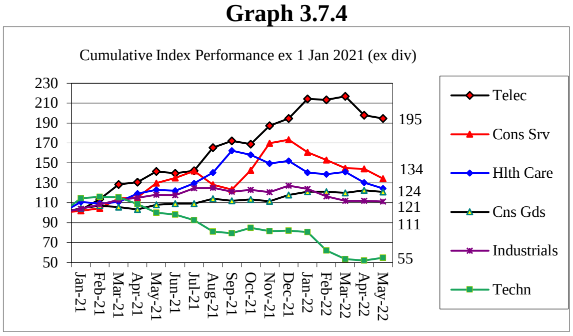
Graph 3.7.2



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.	7.4	8.0
5-year real return - % p.a.	3.6	4.2
Equity exposure - % of portfolio (qtr end March 2022)	45.1	64.8
Cumulative return ex Jan 2011	223.1	205.4
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 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 45% compared to the average prudential balanced portfolio's exposure of 65%. 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, causing significant volatility and artificially increased valuations of equities.

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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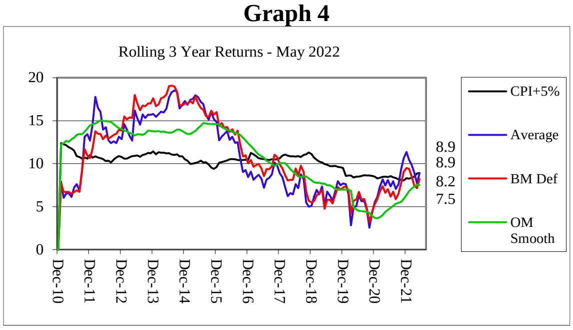
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.7%	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	7.1%	6.6%	7.1%

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

Graph 4

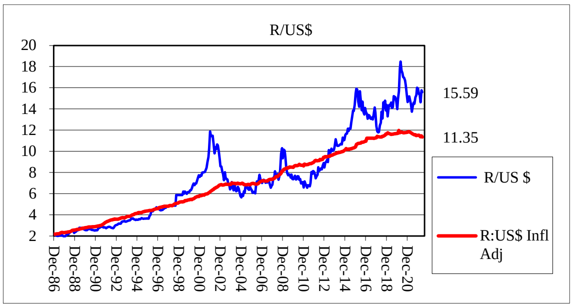


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of May was 8.2%, the average was 8.9% vs. CPI plus 5%, currently on 8.9%.

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 11.35 to the U.S. Dollar, while it stood at 15.59 at the end of May. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

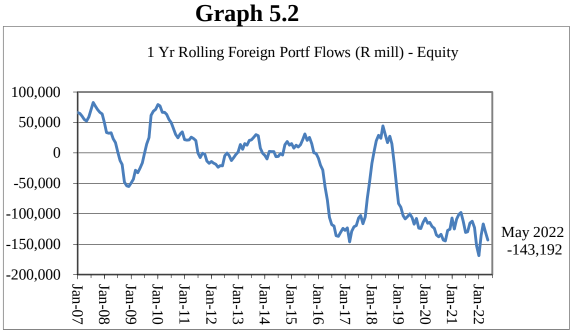


The Rand stregthened by 1.17% in May with a net foreign investment outflow from bonds and equities of R33.6 bn. Over the past 12 months, the Rand weakened by 13.4%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 337.9 bn (outflow of R 308.1 bn to the end of April 2022).

Since 2006, total net foreign portfolio outflows amounted to R 471.9 bn (April R 438.3 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 143.2 bn at the end of May (outflow of R 130.2 bn year-on-year to the end of April). The month of May experienced a net outfolw of R 22.4 bn. Since 2006, foreign net investment outflows from equities amounted to R 444.2 bn (end April net investment outflow of R 421.8 bn). It represents roughly 2.2% 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 194.6 bn over the past 12 months to the end of May (outflow of R 178.0 bn over the 12 months to the end of April). The month of May experienced a net outflow of R 11.2 bn. Since 2006, foreign net investment outflows in bonds amounted to R 27.7 bn (net investment outflows to April R 16.5 bn).

Graph 5.3

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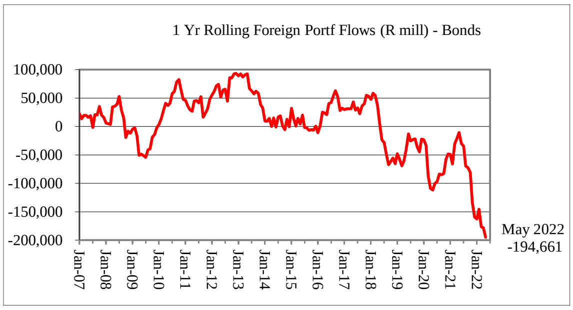
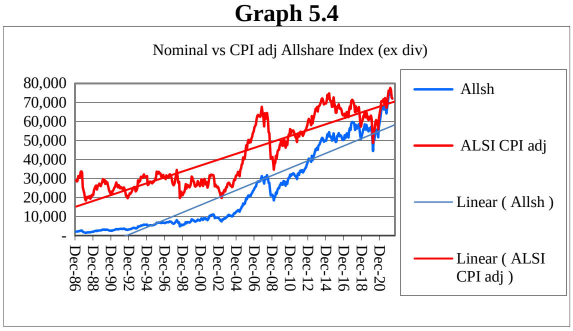


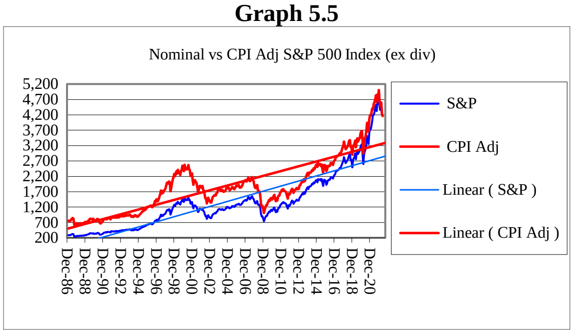
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.7% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 3.0% p.a. over this period, excluding dividends, or around 6.2% including dividends.

Graph 5.4



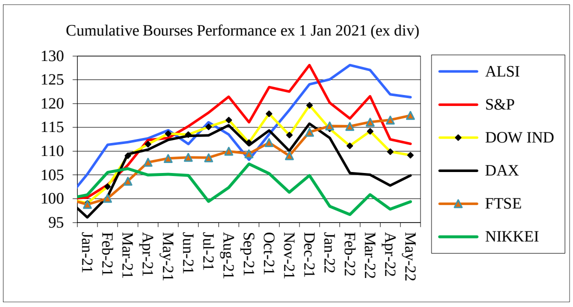
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 8.0% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.2% p.a. over 35 years, excluding dividends, or around 7.3% (including dividends).

Graph 5.5



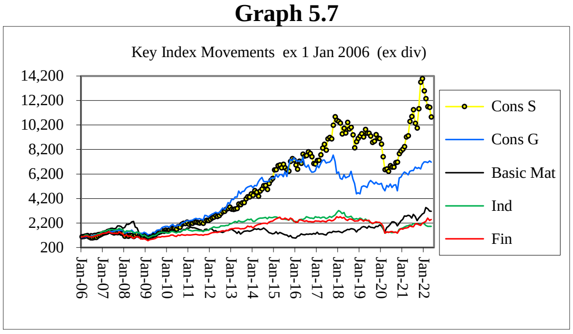
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the JSE All Share (ALSI) as the top-performing index since the start of 2021.

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 better value and poorer value based on fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 15.6%; Consumer Goods: 12.8%; Basic Materials: 7.3%; Financials: 5.7% and Industrials: 4.1%.

Graph 5.7



6. You better stay at home and lock your doors when it is getting rowdy on the streets!

By Tilman Friedrich

A few years ago, I suggested in this column that asset managers must consider the global political environment in their investment decision. I addressed my concern with some of these managers. They responded that it is more important to focus on investment fundamentals as one cannot predict political developments. Once the political upheavals fade, investment fundamentals will prevail once again.

I am not sure one can ignore the political environment but accept that the time horizon impacts one's approach. For investors, the time horizon is 40 years at most. If political upheaval does not settle within that time horizon, the investor may have a serious problem. In such a scenario, the investment principles become irrelevant to the investor.

Today's political system has been established over the past 75 years. Most alive today only know this system and may think it can never change. However, life changes continuously, sometimes slower, sometimes faster. Over the past 75 years, the political system has changed, but

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 2022

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.

generally gradually and in a very controlled fashion, except if one dared to challenge the US hegemony. The steady changes resulted from the US's economic and military dominance, which it employed to set the global political stage and to establish itself as the global hegemon.

By my assessment, however, Russia and China are not content with the US's hegemony. Having been pushed into a corner by the US and Nato, Russia decided to make a stand in Ukraine, for good or for bad. China knows that if Russia falls, it will have the US and Nato at its backdoor with land access. I am convinced that China will not let this happen if it can help it. No doubt this is why President Putin predicts that the current world order will be unhinged and replaced with a multipolar system. The next few years will show whether his prediction is true or whether the West will emerge victoriously to firmly establish US hegemony for the next hundred years. It does not look like the parties to this East-West conflict have any intention to give way and find a compromise which means that we may have world war three. The first possible outcome of the conflict is that we will have a world controlled by the US and dancing to its tunes. This scenario speaks for focusing investments on the US and its allies and withdrawing all exposure to Russia and China as they will suffer for a long time. Another possible outcome is that the conflict will break America's hegemony through a truce or event its total defeat. Under this scenario, a new international order will take long to establish, possibly longer than any investor's long-term horizon. We will experience a lot of uncertainty, but there should be a lot of investment opportunities in the East, while the West will lose its glamour.

The horror scenario of another world war will have significant implications for investors and investments across the globe. How should the investor respond? Well, you better stay at home and lock your doors when it is getting rowdy on the streets. That is a natural response and is equally applicable to your investment considerations. Laws we rely on to protect our wealth and interests will suddenly become irrelevant. If you followed how the West froze Russia's foreign currency reserves, there is now talk of confiscating them to assist Ukraine. Similarly, foreign property of Russian citizens is being confiscated across Europe and America in breach of all international conventions. The world has become unpredictable in every respect, and it can easily impact your foreign investments.

Africa has nothing to do with this East-West conflict and should try to stay out of it. Unfortunately, Africa is endowed with natural resources and may get into the sights of those who need such resources for this conflict.

Conclusion

The main theme for investors is the potential for a major global military conflict between the East and the West. It will be tough for any investor to get away unscathed. Few countries will be spared. Africa and South America are probably well-placed to get away without too much damage, provided they do not allow themselves to get coerced into the conflict. Investors can also consider neutral countries like Switzerland or investment havens like the Bermudas.

As inflation is running red-hot, a fixed interest investment is a sure way to lose money. In these times, one must stay out of the cross-fire, meaning that one should not invest where there is a risk that the investment may get sucked into the conflict. "A bird in the hand is worth two in the bush"! Commodities should fare well during the conflict we are fearful of. Amongst those countries will be Namibia and, hopefully, South Africa too, meaning that "local is lekker"!

As I regularly point out, diversification is the key to successful investment. That does not mean that one should not channel your investments into asset classes and assets less exposed to risk, such as the risks I am referring to above. Under the prevailing environment, commodities, basic consumer goods representing life necessities such as clothing, food and beverages producers, health care providers, and the energy sector should hold out good prospects.