Volume 18 No. 6
June 2022

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 JUNE 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

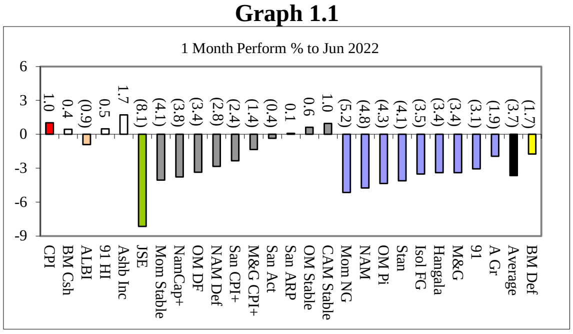
In June 2022, the average prudential balanced portfolio returned -3.7% (May 2022: 0.4%%). The top performer is Allan Gray Balanced Fund with -1.9%, while Momentum Namibia Growth Fund with -5.2% takes the bottom spot. For the 3-months Allan Gray Balanced Fund takes the top spot, outperforming the 'average' by roughly 4.0%. NAM Coronation Balanced Plus Fund underperformed the 'average' by 3.3% 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.

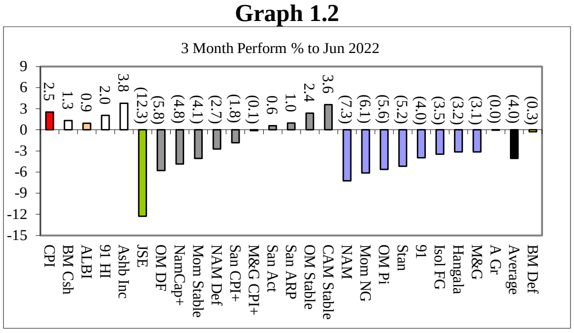
Below is the legend to the abbreviations reflected on the graphs:

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)
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	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	M&G (blue)
Stanlib Managed	Stan (blue)

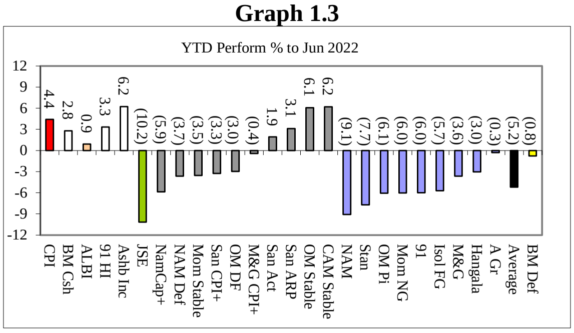
Graph 1.1



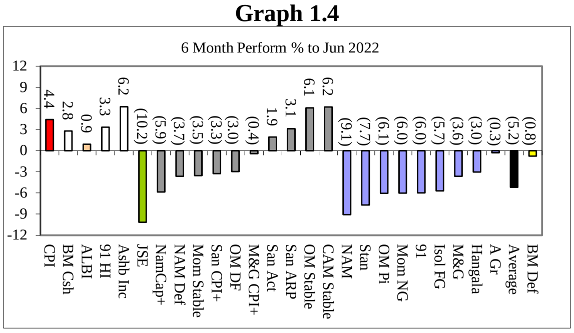
Graph 1.2



Graph 1.3



Graph 1.4



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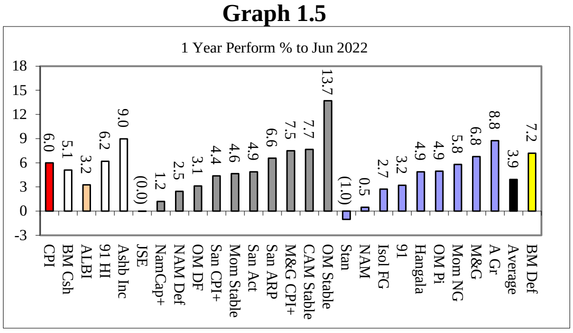
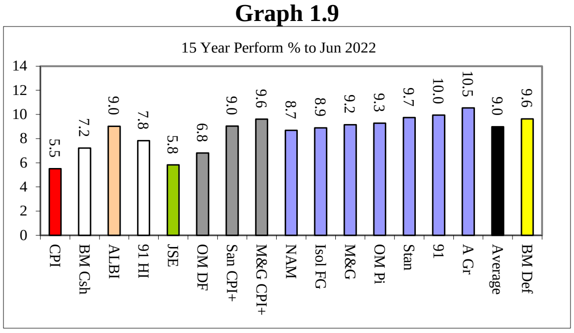
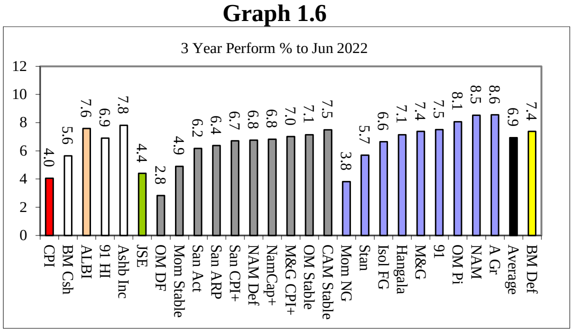
Graph 1.5



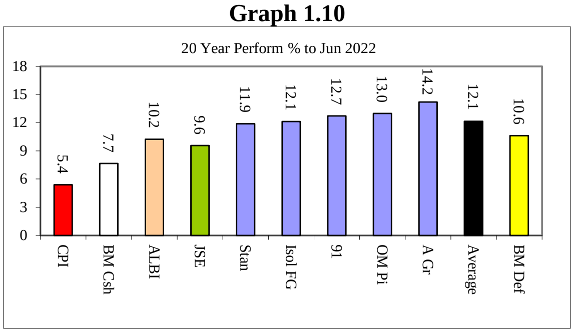
Graph 1.9



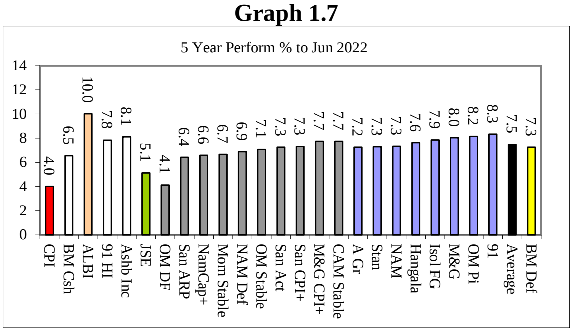
Graph 1.6



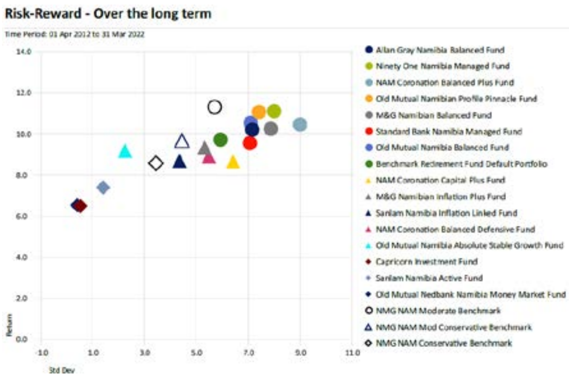
Graph 1.10



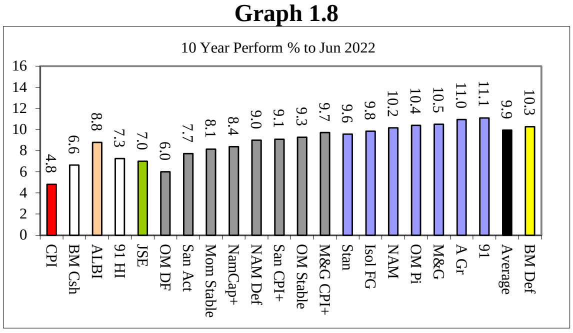
Graph 1.7

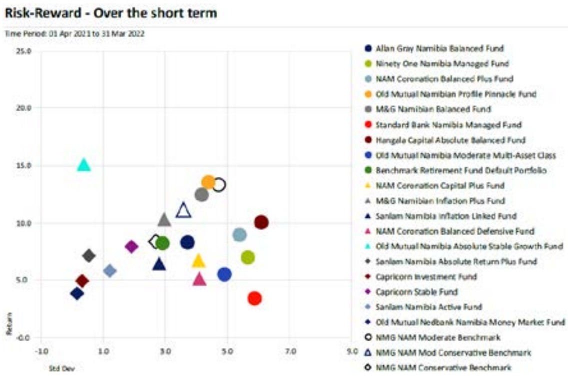


Risk/ Return



Graph 1.8





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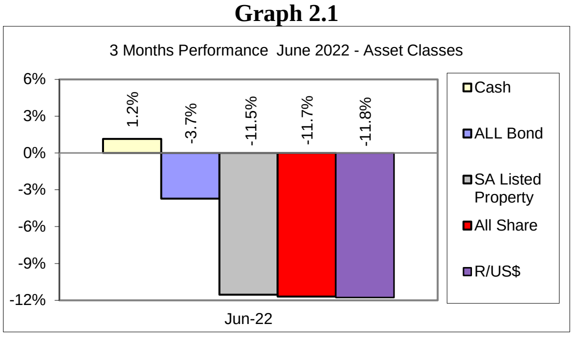
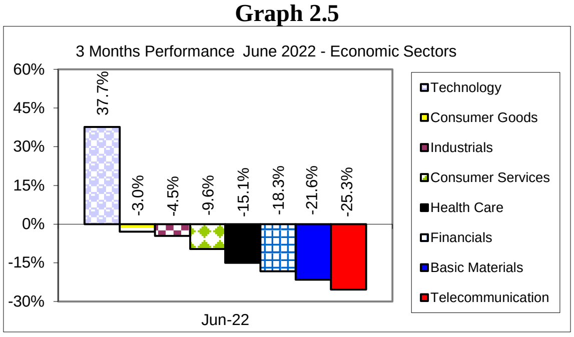
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

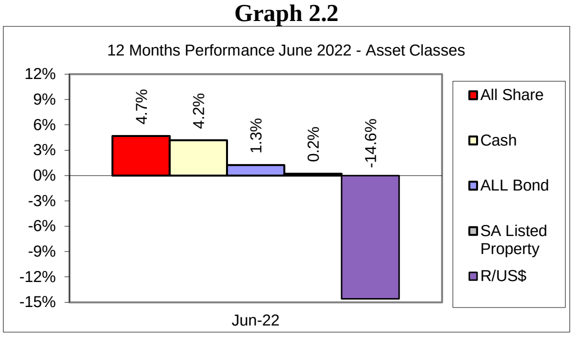
Graph 2.1



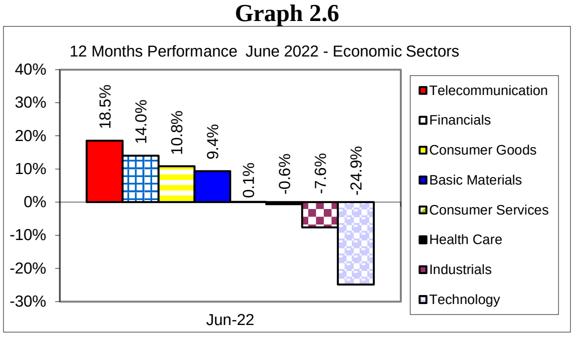
Graph 2.5



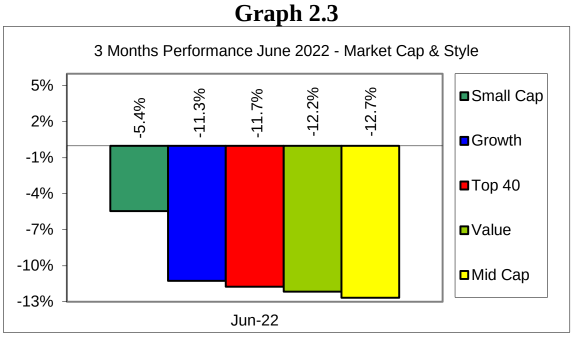
Graph 2.2



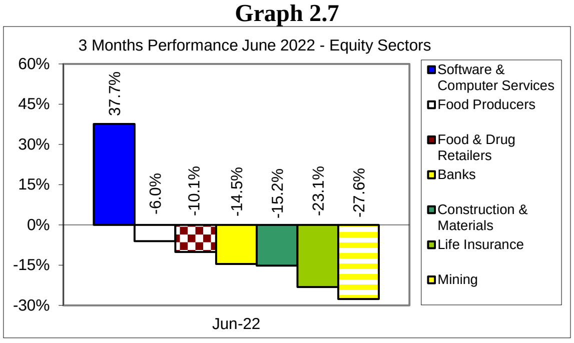
Graph 2.6



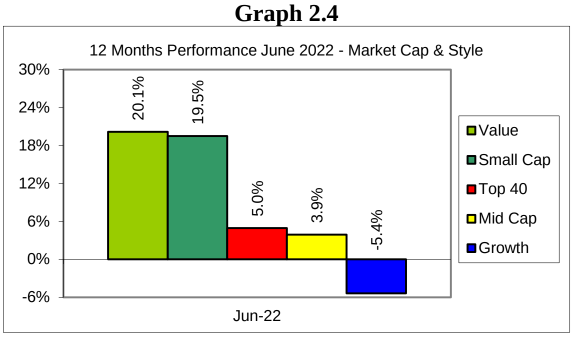
Graph 2.3



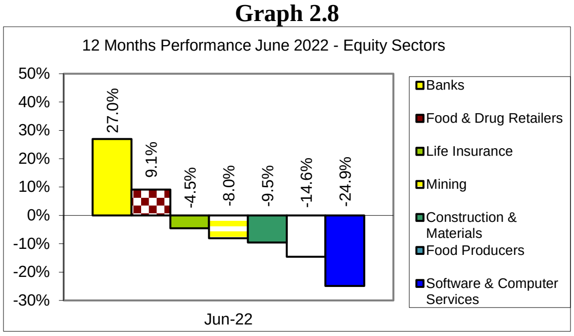
Graph 2.7



Graph 2.4



Graph 2.8



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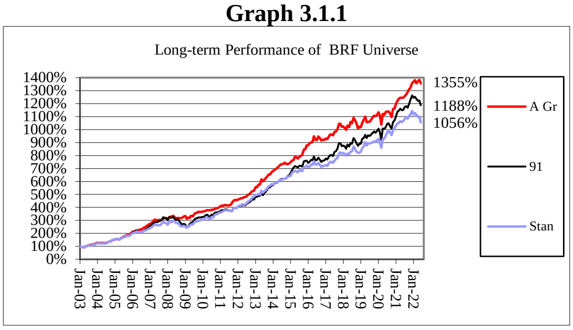
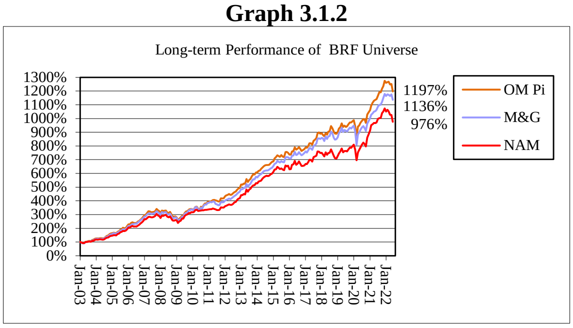
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

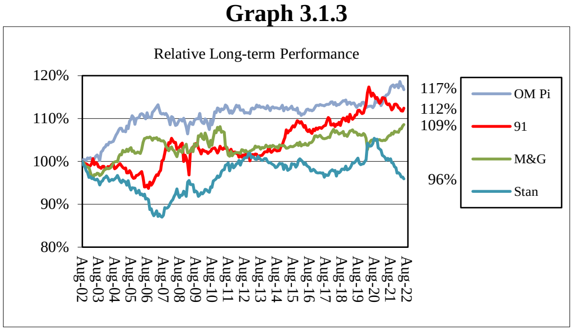
Graph 3.1.1



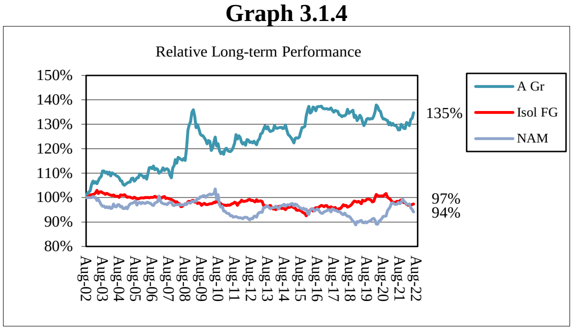
Graph 3.1.2



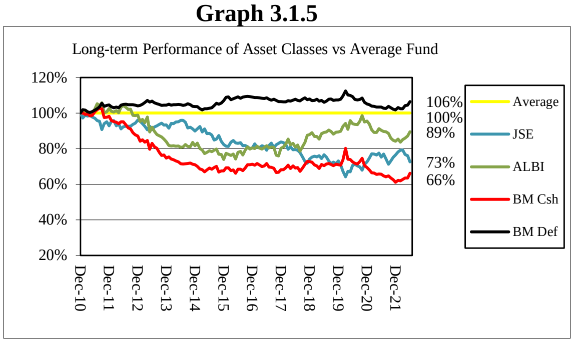
Graph 3.1.3



Graph 3.1.4

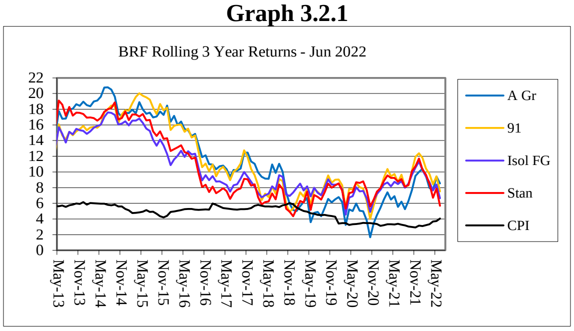


Graph 3.1.5

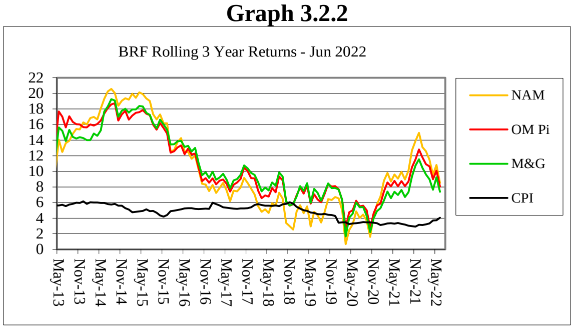


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

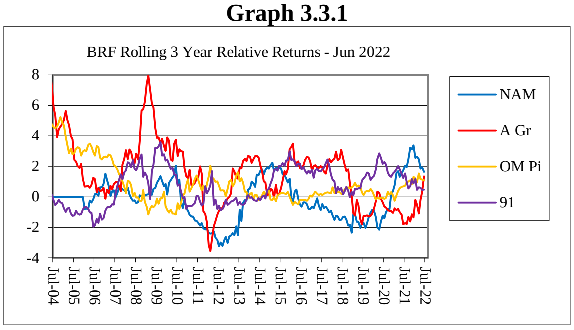


Graph 3.2.2



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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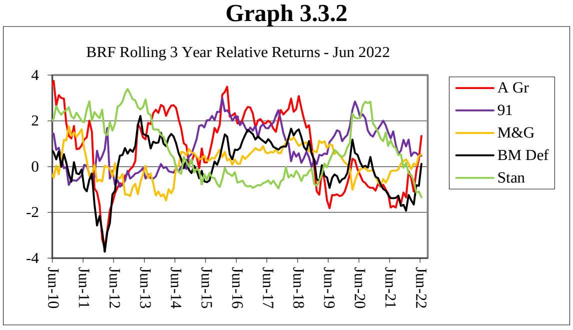
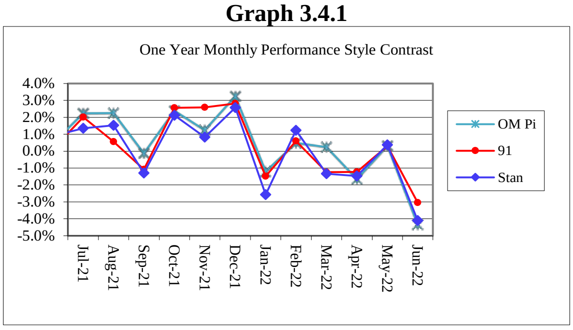
Graph 3.3.2

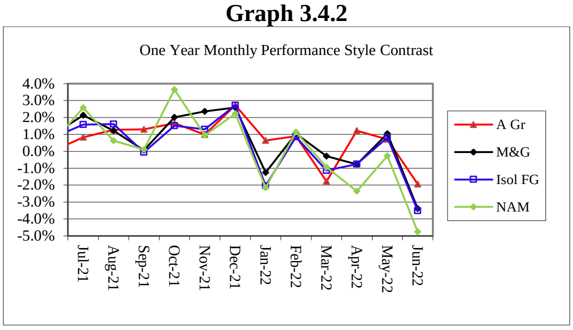


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

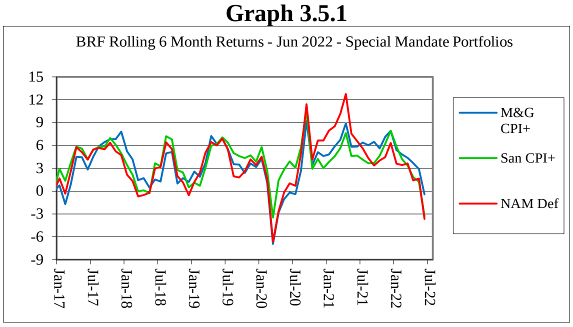


Graph 3.4.2

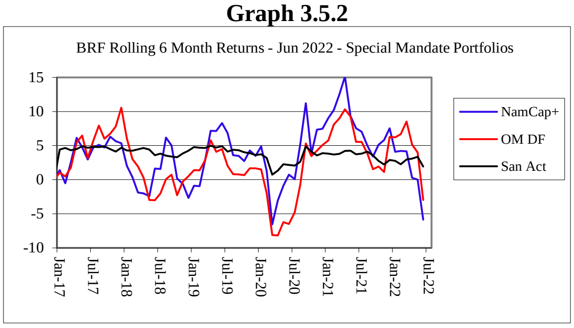


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

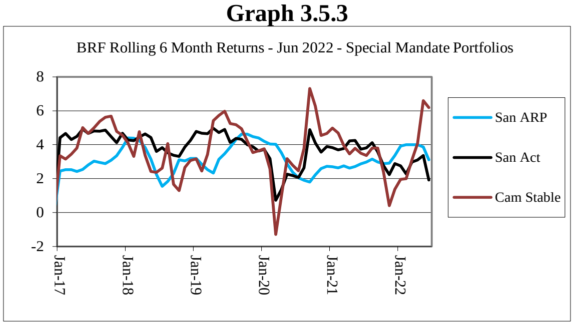
Graph 3.5.1



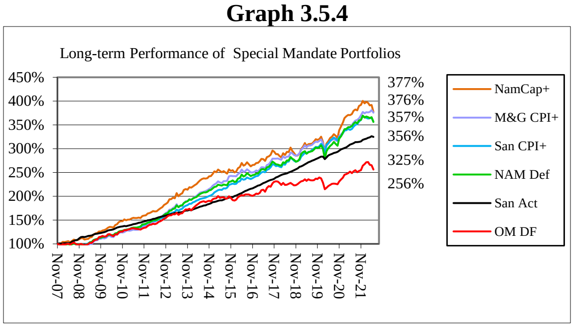
Graph 3.5.2



Graph 3.5.3

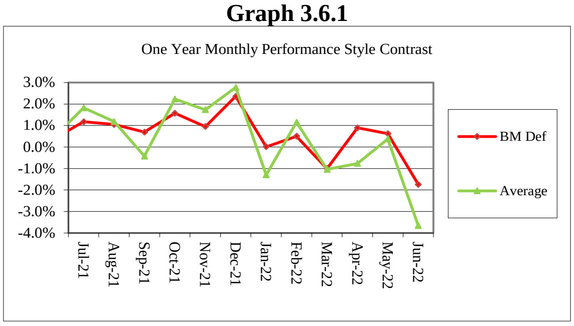


Graph 3.5.4



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

Graph 3.6.1



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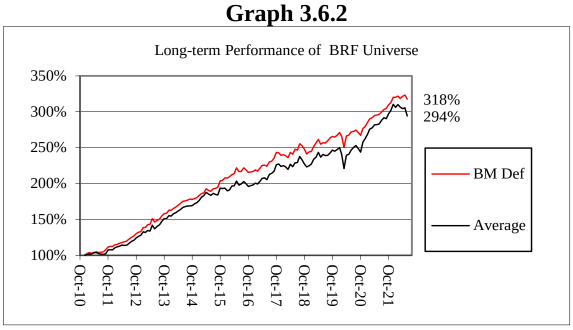
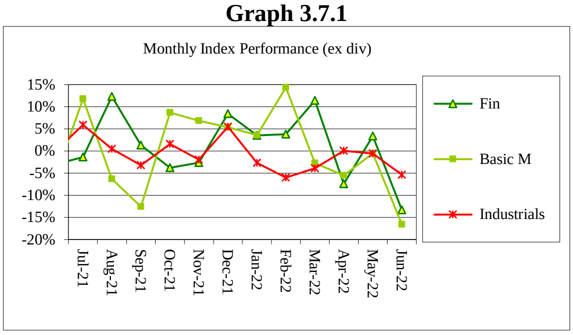
Graph 3.6.2

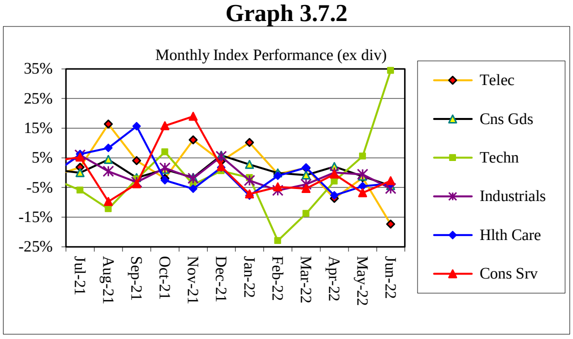


3.7 One-year monthly performance of key indices (excluding dividends)

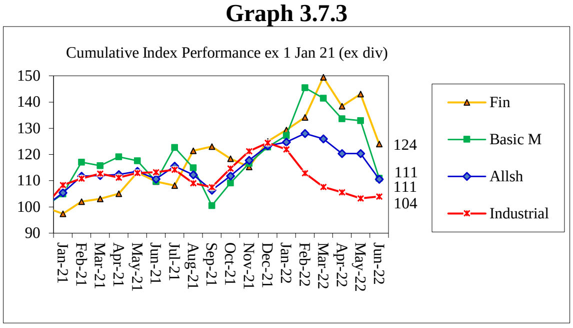
Graph 3.7.1



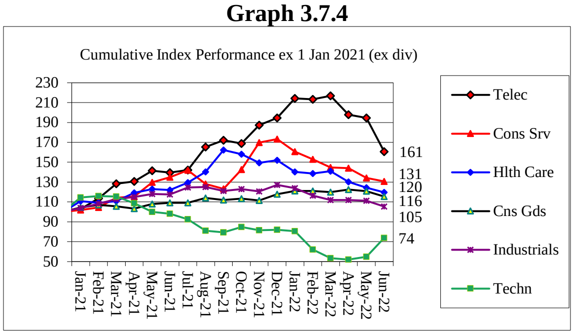
Graph 3.7.2



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.	7.3	7.5
5-year real return - % p.a.	3.3	3.5
Equity exposure - % of portfolio (qtr end March 2022)	45.1	64.8
Cumulative return ex Jan 2011	217.6	194.2
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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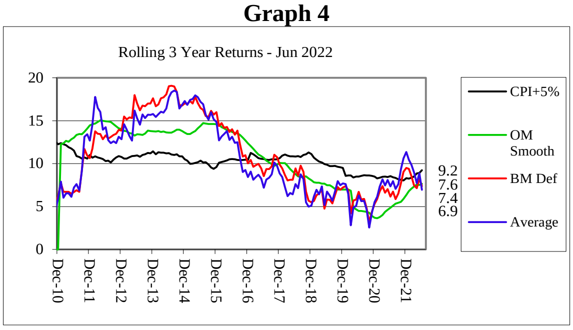
Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.6%	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 July 2019 to June 2022. These statistics show up the performance volatility of these three risk profiles.

Graph 4

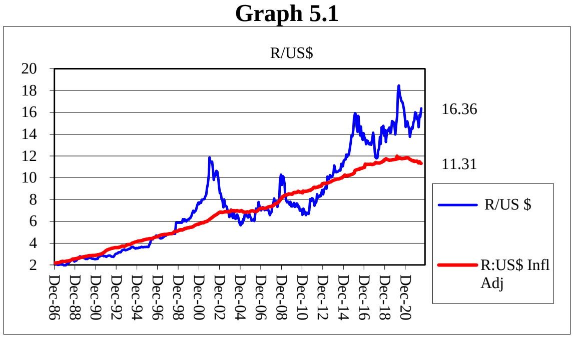


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of June was 7.4%, the average was 6.9% vs. CPI plus 5%, currently on 9.2%.

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 11.31 to the U.S. Dollar, while it stood at 16.36 at the end of June. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

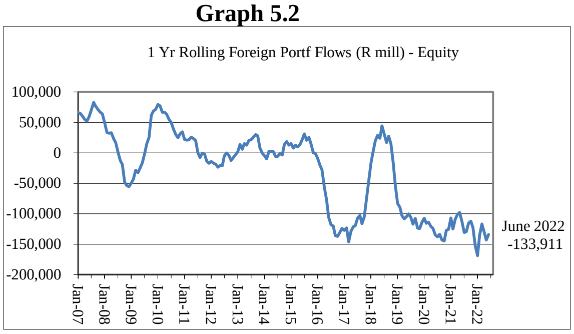


The Rand weakened by 4.99% in June with a net foreign investment outflow from bonds and equities of R37.5 bn. Over the past 12 months, the Rand weakened by 14.59%. Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 343.7 bn (outflow of R 337.9 bn to the end of May 2022).

Since 2006, total net foreign portfolio outflows amounted to R 509.4 bn (May R 471.9 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 133.9 bn at the end of June (outflow of R 143.2 bn year-on-year to the end of May). The month of June experienced a net outfolw of R 11.0 bn. Since 2006, foreign net investment outflows from equities amounted to R 455.2 bn (end May net investment outflow of R 444.2 bn). It represents roughly 2.3% 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 209.8 bn over the past 12 months to the end of June (outflow of R 194.6 bn over the 12 months to the end of May). The month of June experienced a net outflow of R 26.5 bn. Since 2006, foreign net investment outflows in bonds amounted to R 54.2 bn (net investment outflows to May R 27.7 bn).

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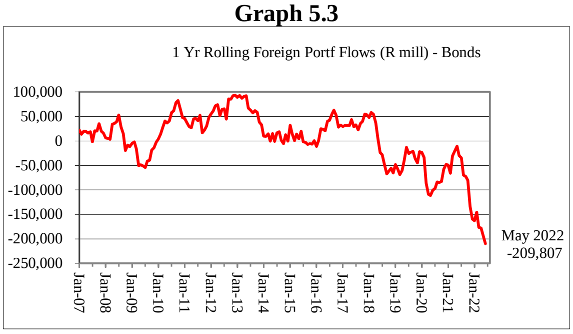
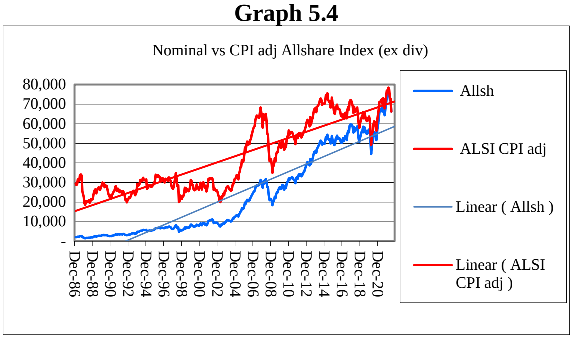
Graph 5.3



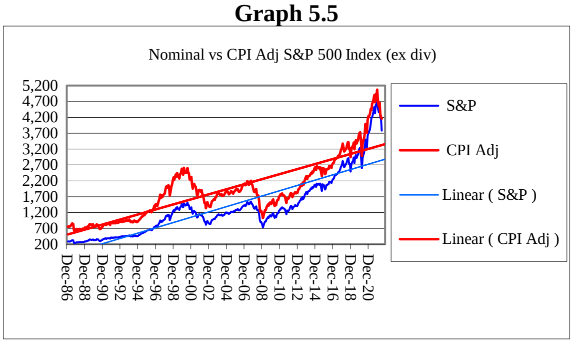
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 5.9% including dividends.

Graph 5.4



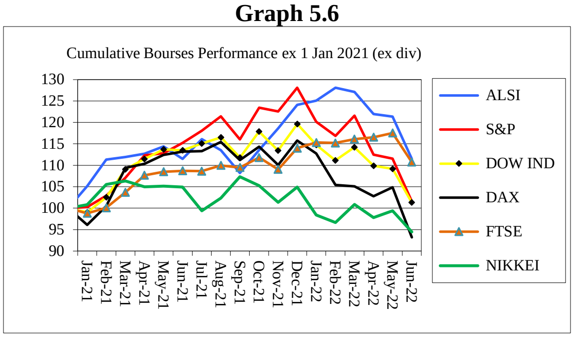
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 7.7% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 4.9% p.a. over 35 years, excluding dividends, or around 7.0% (including dividends).

Graph 5.5



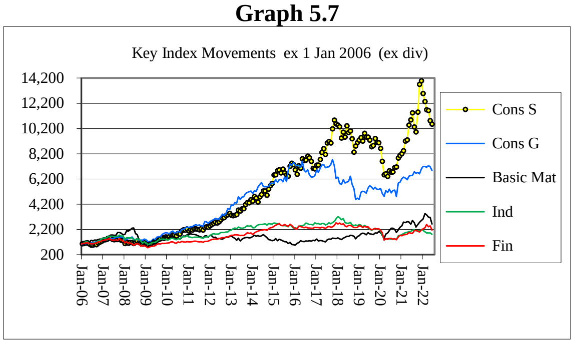
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the JSE All Share (ALSI) as the top-performing index since the start of 2021.

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: 15.4%; Consumer Goods: 12.4%; Basic Materials: 6.0%; Financials: 4.8% and Industrials: 3.7%.

Graph 5.7



6. Global investment markets are not rosy!

By Tilman Friedrich

Dear reader, to write this column, I line up all relevant information I have on the political and economic environment and investment markets once a month. It allows me once a month to clear my mind on what action I should take regarding my investments. Unfortunately, I often do not follow through on my conclusions and have often regretted this. Typically I expect something to happen that eventually happens, but then I notice that my timing was far out. Mostly investment markets keep running for a few more years until, what I expected, happens.

For example, the Fed pushed the U.S. equity market into dizzy heights through money printing and ultra-low interest rate policy since the global financial crisis. Graph 6.1 clearly shows to what extent the US S&P 500 index overshot its mark relative to the SA Allshare index until its peak at the end of December 2021.

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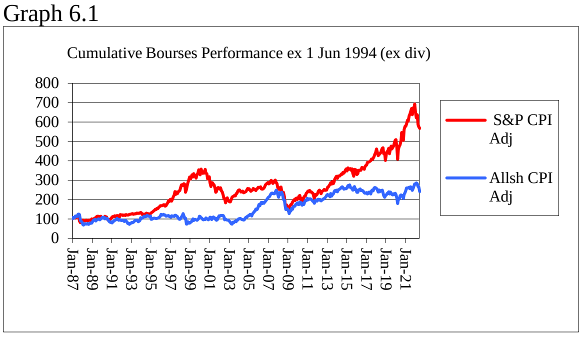
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 JUNE 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.

Graph 6.1

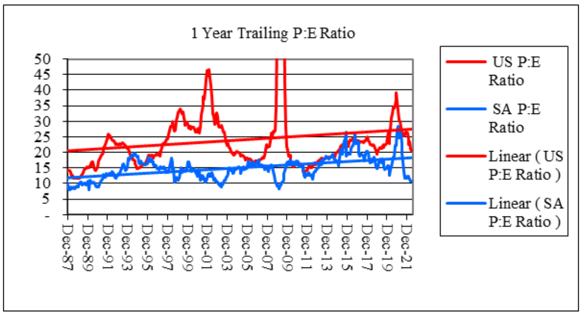


Following the global financial crisis, the S&P 500 index converged towards the Allshare index in July 2009. From January 1987 until July 2009, the Allshare index produced a real return of 2.1% p.a.; the S&P 500 grew 2.9% p.a. over the same period. Moving on to the S&P's peak in December 2021, the S&P's real return was 5.6% compared to the Allshare's 3%. Moving on another six months to June 2022, the S&P's long-term real return declined to 4.8% p.a. compared to the Allshare's 2.5% p.a. In theory, the SA Allshare index should outperform the US S&P 500 index because of the country risk differential. Anyone should have foreseen the S&P 500's decline that started in January 2022. It was also clear that the decline would follow an increase in the U.S. Fed rate, but one could not foresee when that would happen.

Adding 3.2% p.a.diividends to the 2.5% p.a. real return of the SA Allshare index since January 1987, S.A. equities produced a total real return of 5.7%. In the long-term historical context, it is a low return and suggests that S.A. equities are not overvalued.

Another telling metric is the price: earnings ratio. Graph 6.2 depicts the price: earnings ratio of the S&P 500 compared to the Allshare. This graph shows greater volatility in the S&P 500 price: earnings ratio but similar trends.

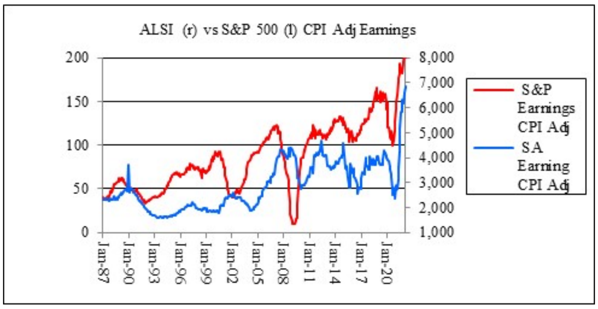
Graph 6.2



In June 2022, the Allshare one-year trailing price: earnings ratio was 10.6 compared to its long-term average of 14.9. For the S&P 500, the current one-year trailing price: earnings ratio is 20.6 compared to its long-term average of 23.8. While both are currently below their long-term averages, the Allshare index is nearly 30% below compared to 13% for the S&P 500. This metric, therefore, also indicates that the S.A. equity market is in sound territory for investment.

Lastly, let's look at graph 6.3. It depicts the S&P 500 and Allshare inflation-adjusted earnings since 1987. The S&P's current (June 2022) inflation-adjusted earnings of 204 are 2.4 times the long-term average. The Allshare's current inflation-adjusted earnings of 6,864 are also 2.4 times the long-term average. Graph 6.3 shows how rapidly earnings increased after the Covid crisis. The S&P increased by 90% compared to the Allshare's increase of 140 %.

Graph 6.3



The growth in the S&P was mainly due to technology shares. The growth in the Allshare index since Covid is primarily due to the increase in global natural resource prices. Both declined significantly since their peak this year. The S&P Global Natural Resources Index increased 140% from its Covid trough to its peak in April but subsequently declined 24%. The Allshare index grew 70% from its Covid trough to its April peak and subsequently dropped 12%. This drop is likely the result of investors already discounting a decline in the global economy and the decline in global natural resource prices.

Global inflation and interest rates are on the way up. As a result, the global economy will decline. We do not know if the expected decline in the global economy and the resulting decline in the demand for natural resources is already fully discounted in their current prices. Graph 6.3 shows, though, that the SA Allshare index has not yet responded to the decline in global resource prices, but this is likely to come through as it manifests in company results.

Conclusion

The prospects for global equity markets, including our local markets, are not rosy. Coupled with the global political turmoil, local investors must expect foreign investors to withdraw from the local markets for safe havens. Their support of local equities and other assets should wane, which will impact our local currency negatively, as one has already seen. At the same time, the increasing global interest rates negatively impact fixed interest assets.

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Allthough the general backdrop to investments is negative, investment markets always offer opportunities arising from the political turmoil and shortages resulting from the Ukraine crisis and the sanctions the West instituted against Russia. Interestingly, 'politically correct' investments are likely to fall out of favour creating opportunities with alternatives. Europe, for example, will reduce the focus on climate-neutral energy as it is forced to return to fossil fuels and nuclear power, and scorned military technology industries will regain popularity.

The trick is finding the right investments, which requires stock picking expertise. Index investing will not deliver satisfactory results. Under the prevailing environment, basic consumer goods representing life necessities such as clothing, food and beverages producers, health care providers, the energy, and the military sectors should hold out good prospects.

A weak Rand prohibits investing offshore. At the same time, for the sake of diversification, one should not repatriate foreign capital