Volume 18 No. 9
September 2022

Benchmark
Retirement Fund

Administered by RFS Fund Administrators

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 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

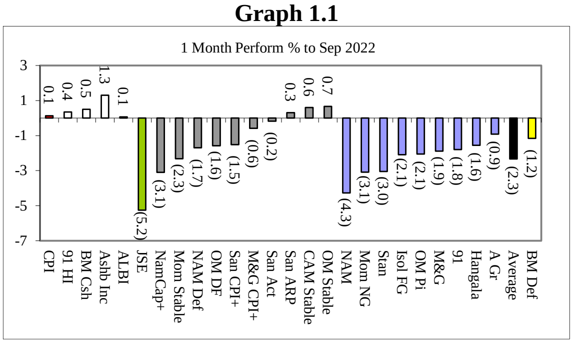
In September 2022, the average prudential balanced portfolio returned -2.3% (August 2022: 0.0%). The top performer is Allan Gray Balanced Fund with -0.9%, while NAM Coronation Balanced Plus Fund with -4.3% takes the bottom spot. For the 3-months Hangala Prescient Absolute Balanced Fund takes the top spot, outperforming the 'average' by roughly 1.5%. Momentum Namibia Growth Fund underperformed the 'average' by 1.6% 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.

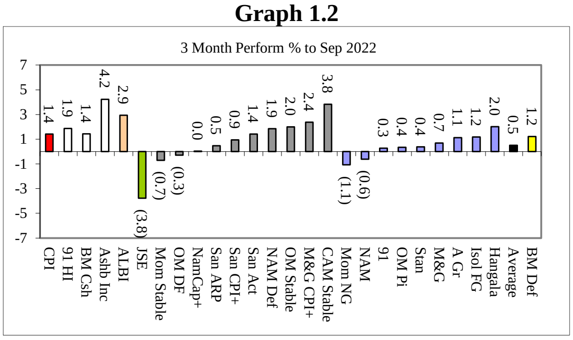
Below is the legend to the abbreviations reflected on the graphs:

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)

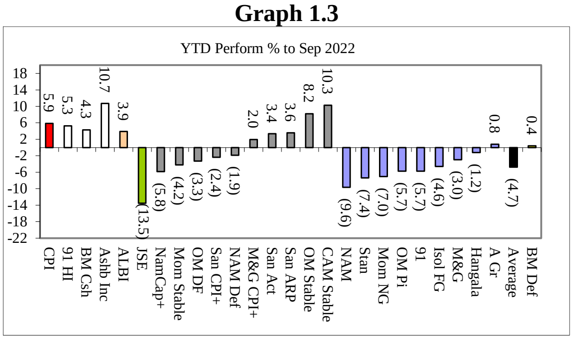
Graph 1.1



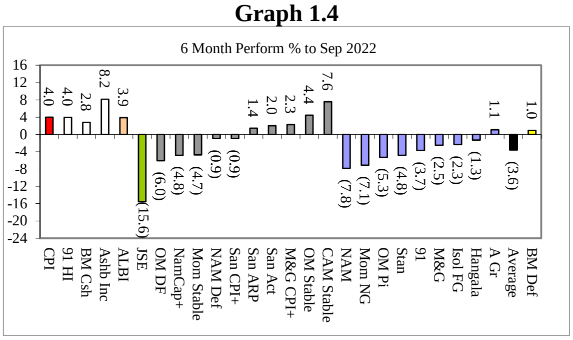
Graph 1.2



Graph 1.3



Graph 1.4



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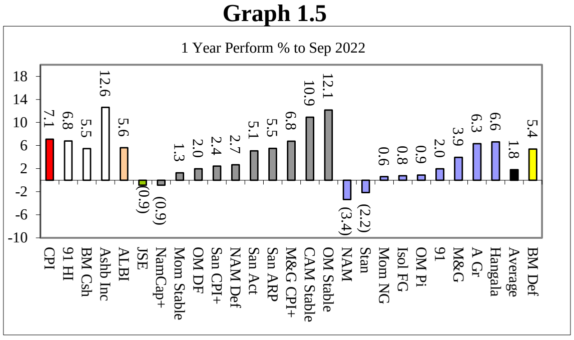
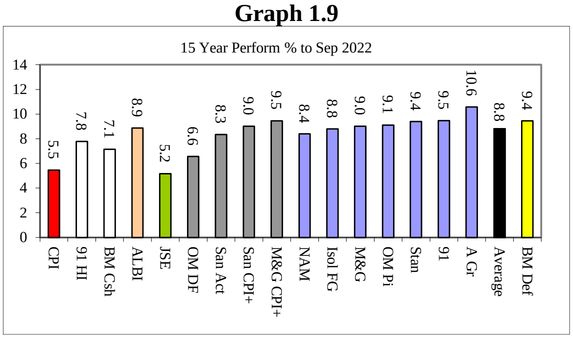
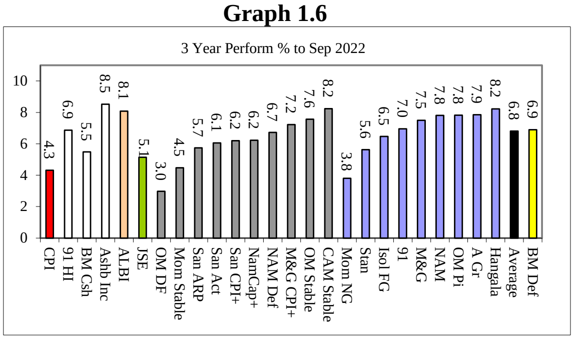
Graph 1.5



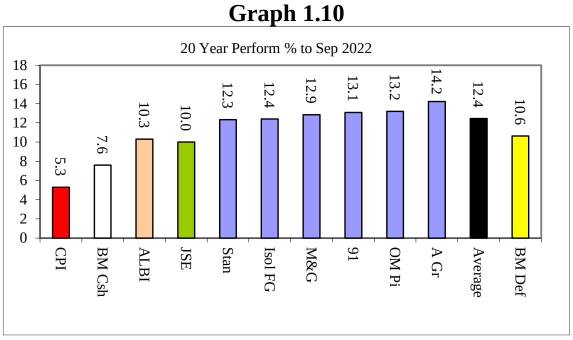
Graph 1.9



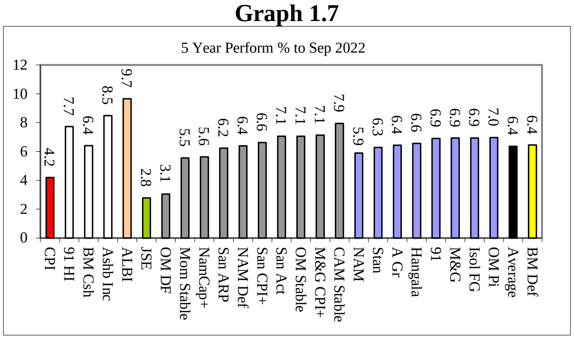
Graph 1.6



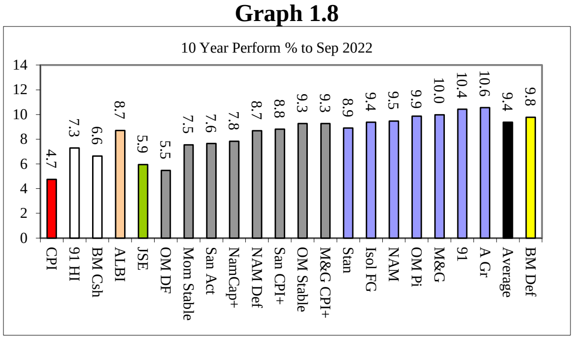
Graph 1.10



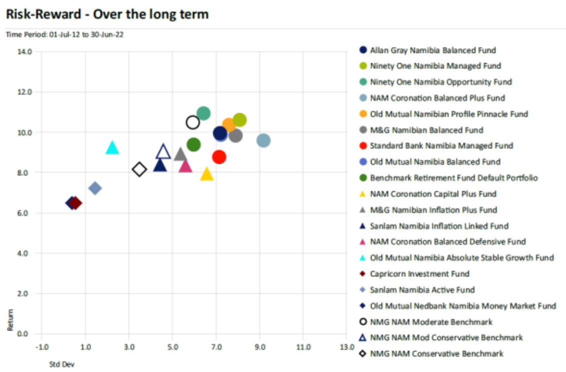
Graph 1.7

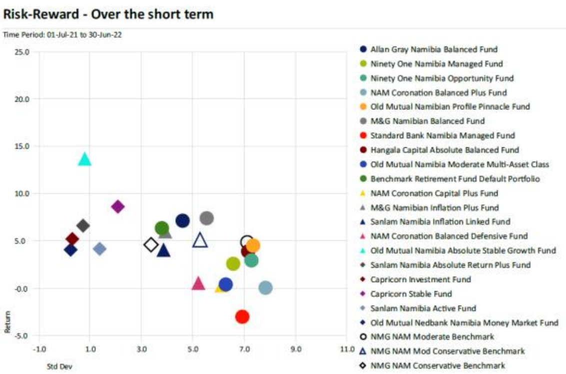


Graph 1.8



Risk/ Return





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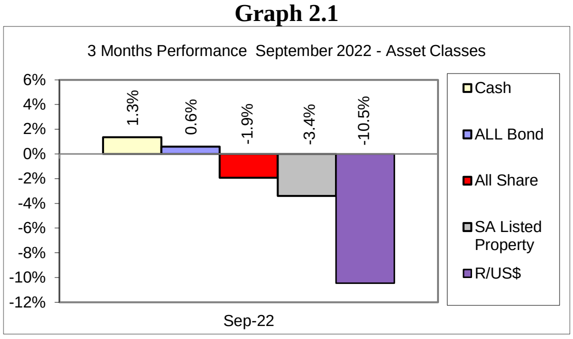
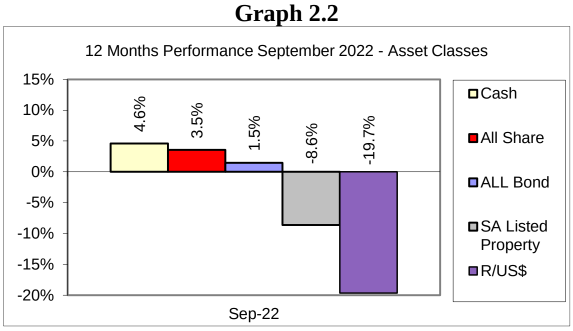
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

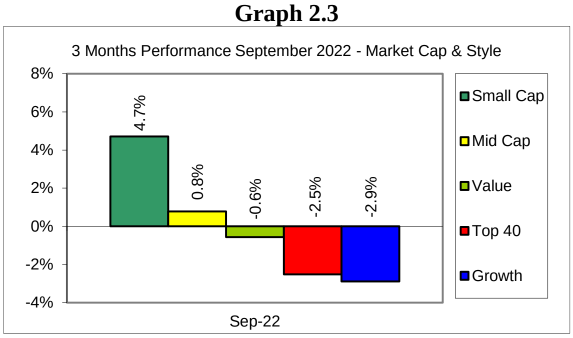
Graph 2.1



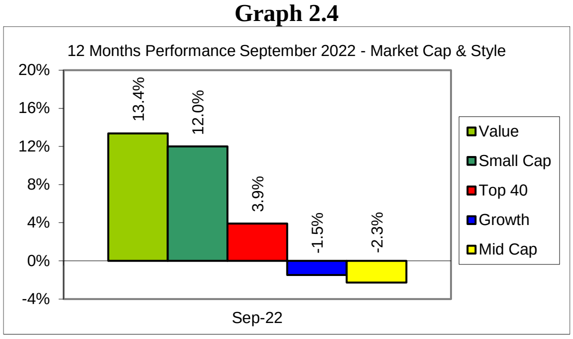
Graph 2.2



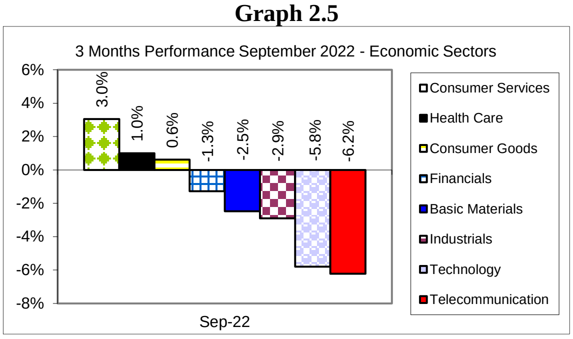
Graph 2.3



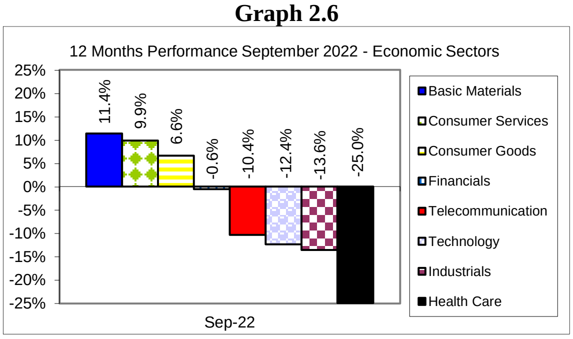
Graph 2.4



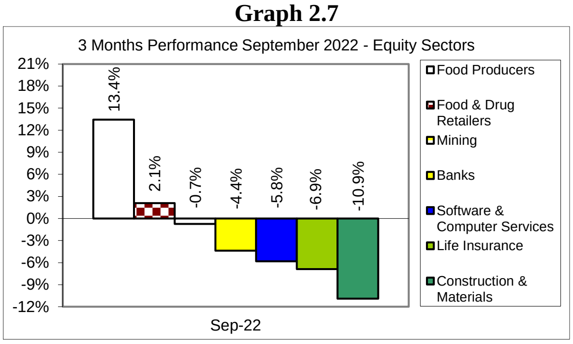
Graph 2.5



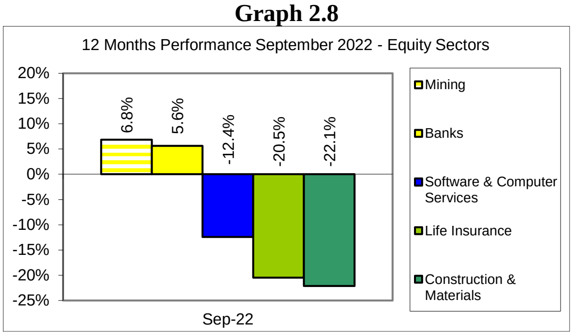
Graph 2.6



Graph 2.7



Graph 2.8



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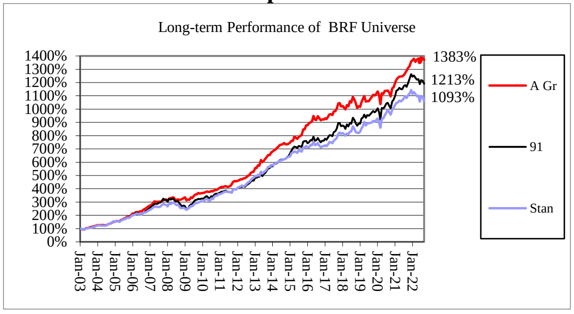
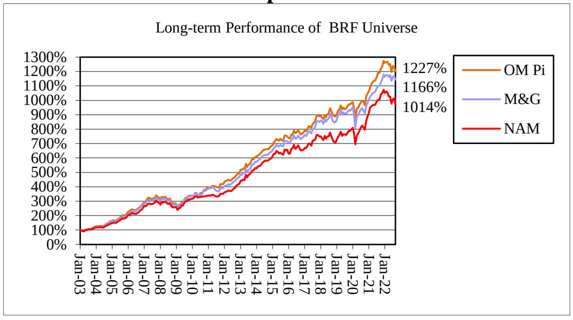
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

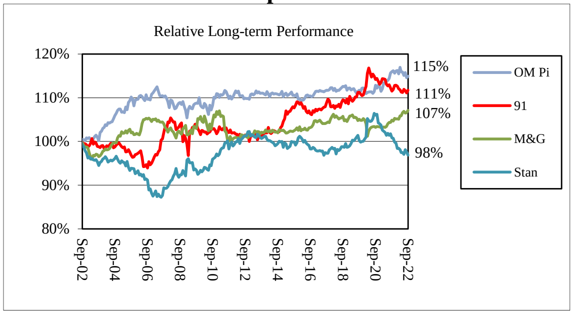
Graph 3.1.1



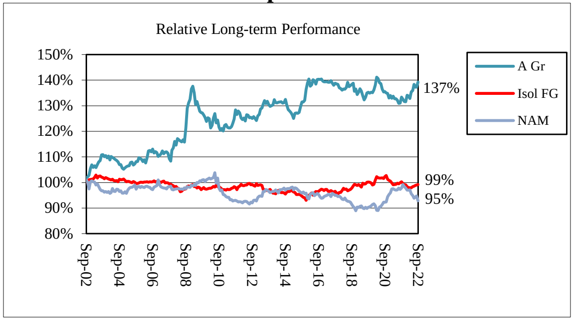
Graph 3.1.2



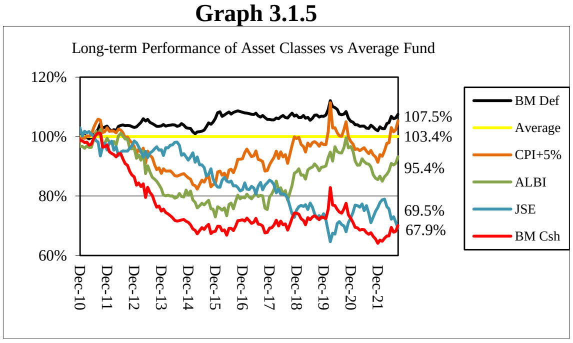
Graph 3.1.3



Graph 3.1.4

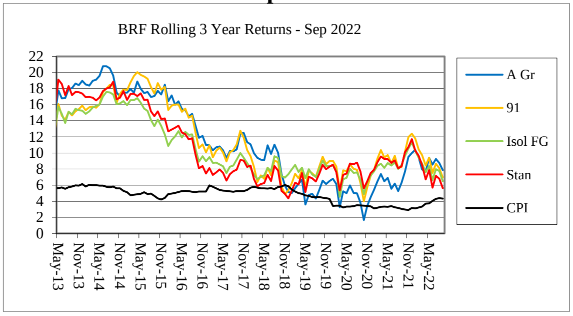


Graph 3.1.5

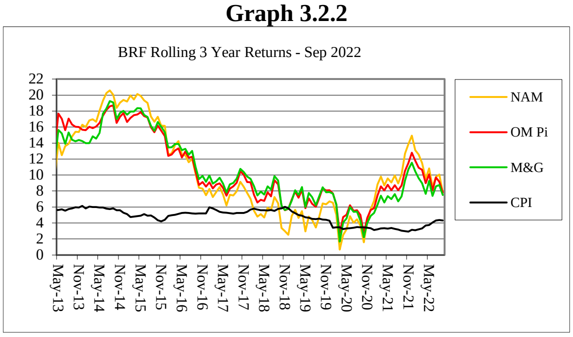


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1



Graph 3.2.2



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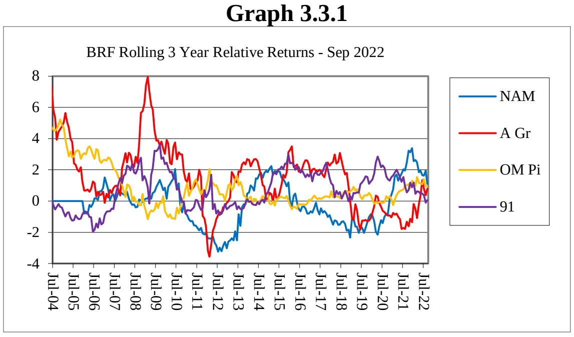
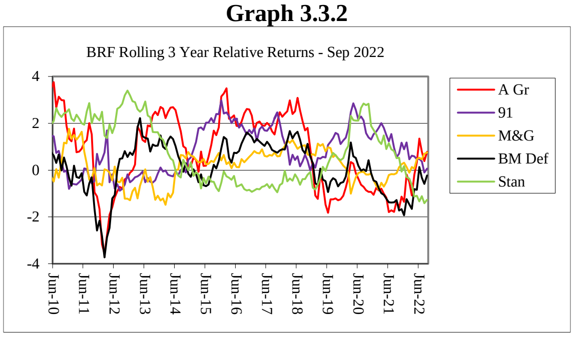
3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

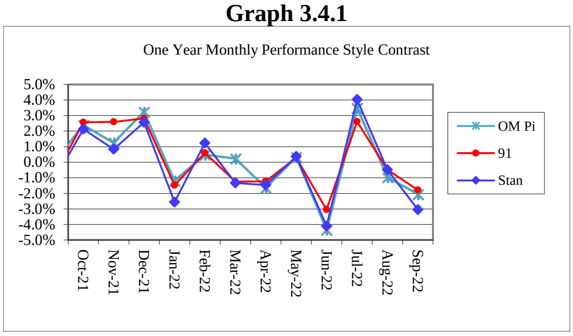


Graph 3.3.2

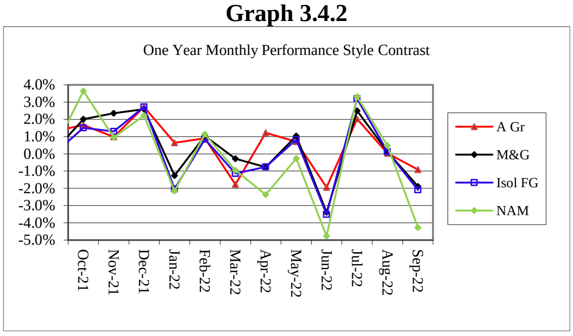


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

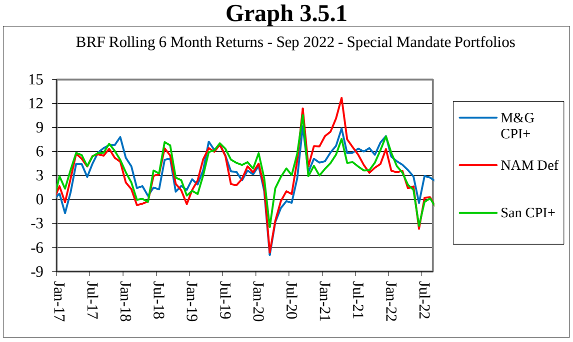


Graph 3.4.2

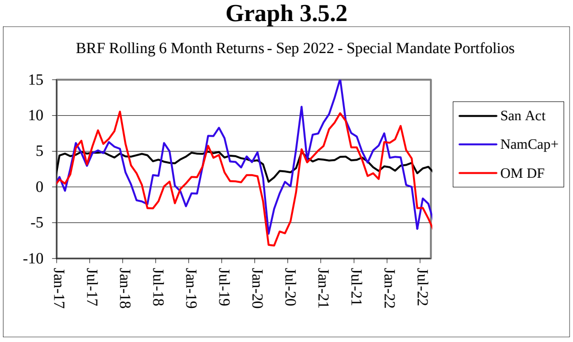


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

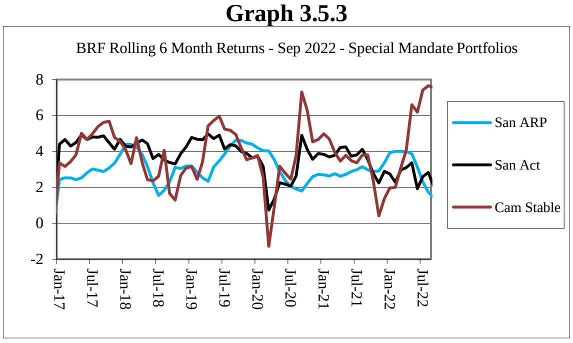
Graph 3.5.1



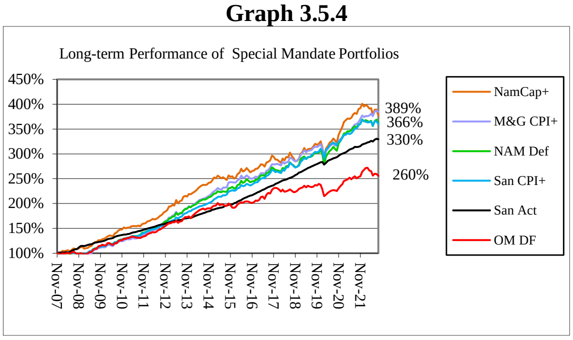
Graph 3.5.2



Graph 3.5.3



Graph 3.5.4



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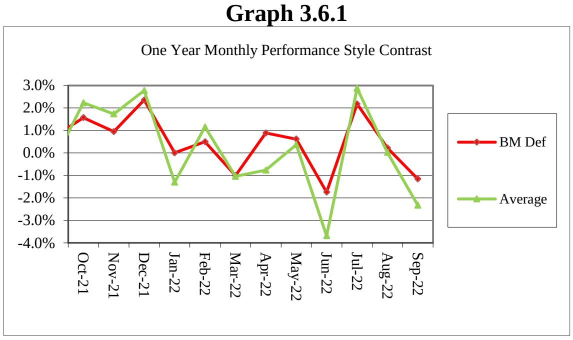
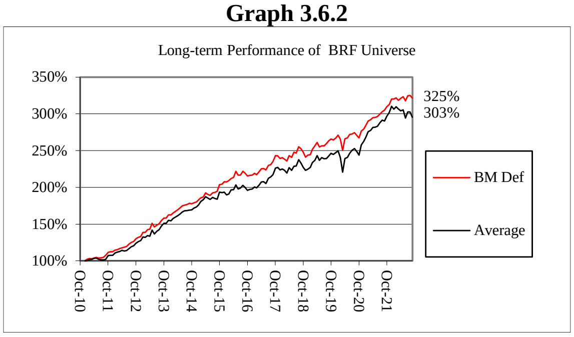
3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

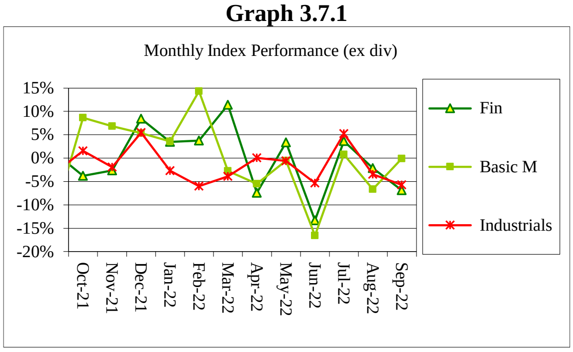


Graph 3.6.2

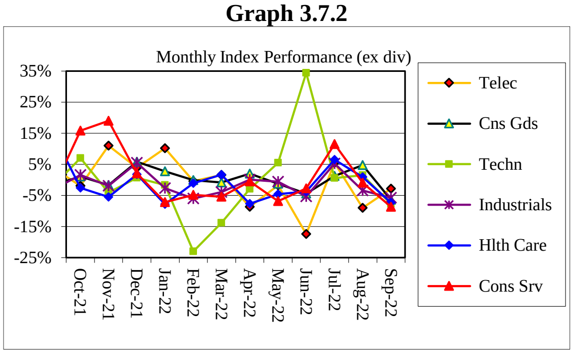


3.7 One-year monthly performance of key indices (excluding dividends)

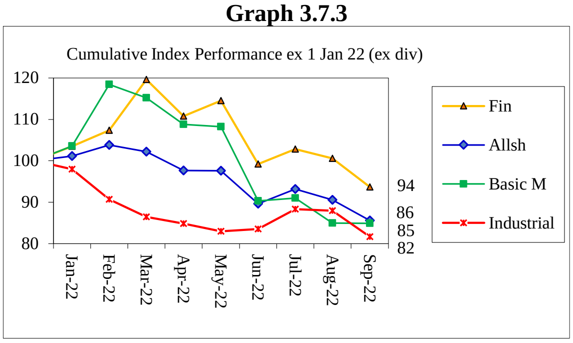
Graph 3.7.1



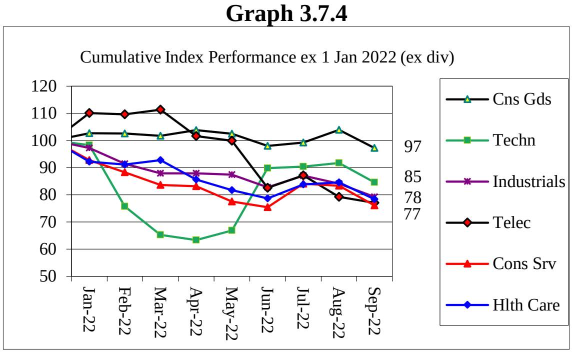
Graph 3.7.2



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.	6.4	6.4
5-year real return - % p.a.	2.2	2.2
Equity exposure - % of portfolio (quarter end June 2022)	46.2	64.0
Cumulative return ex Jan 2011	221.5	195.6
5-year gross real return target - % p.a.	5	6
Target income replacement ratio p.a. - % of income per year of membership	2	2.4
Required net retirement contribution - % of salary	13.0	11.6

The above table reflects the actual 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. The default portfolio of late outperformed the average prudential balanced portfolio by a margin, and is 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 46% compared to the average prudential balanced portfolio's exposure of 64%. 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

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further significant increase in central banks' bond-buying activities, equities have performed well. Of course, the central banks' interventions distort financial markets, causing significant volatility and artificially increased valuations of equities.

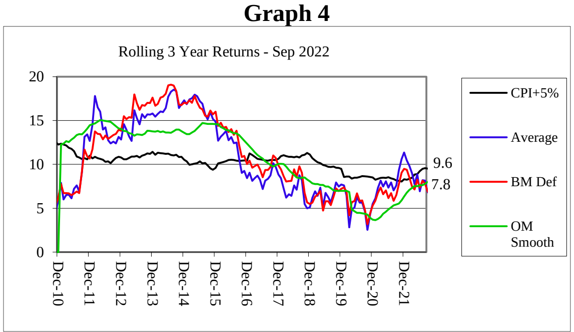
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	3.2%	2.5%
Best annual performance	8.1%	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	6.8%	6.8%	7.2%

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

Graph 4



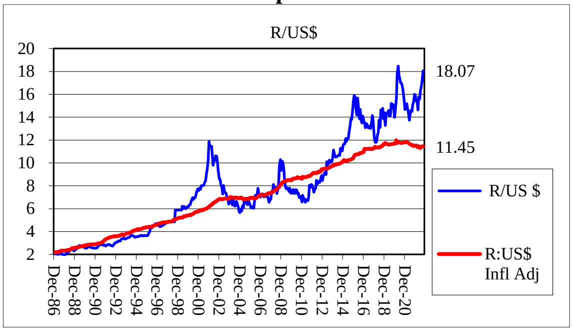
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of September was 6.9%, the average was 6.8% vs. CPI plus 5%, currently on 9.6%.

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 11.45 to the U.S. Dollar, while it stood at 18.07 at the end of September. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

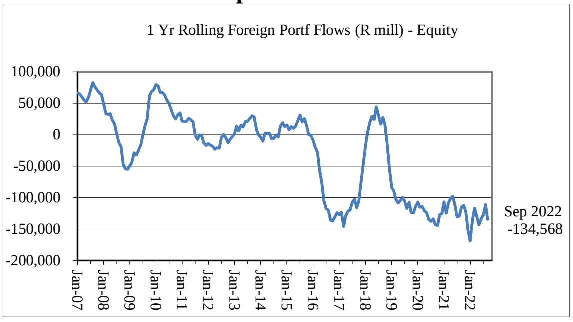


The Rand weakened by 5.50% in September with a net foreign investment outflow from bonds and equities of R 44.8 bn. Over the past 12 months, the Rand weakened by 19.7 % (August Rand weakened by 18.1%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 330.1 bn (outflow of R 292.9 bn to the end of August 2022).

Since 2006, total net foreign portfolio outflows amounted to R 598.8 bn (August R 554.0 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 134.6 bn at the end of September (outflow of R 111.0 bn year-on-year to the end of August). The month of September experienced a net outflow of R 24.8 bn. Since 2006, foreign net investment outflows from equities amounted to R 506.6 bn (end August net investment outflow of R 481.7 bn). It represents roughly 2.7% of the market capitalization of the JSE.

Graph 5.2



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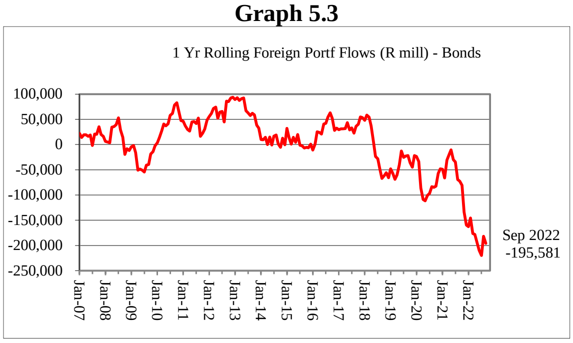
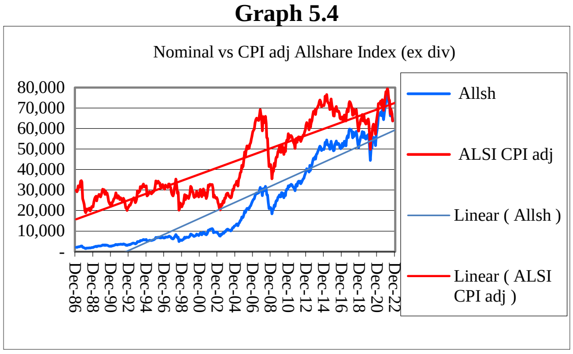
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 195.6 bn over the past 12 months to the end of September (outflow of R 181.9 bn over the 12 months to the end of August). The month of September experienced a net outflow of R 20.0 bn. Since 2006, foreign net investment outflows in bonds amounted to R 92.2 bn (net investment outflows to August R 72.3 bn).

Graph 5.3



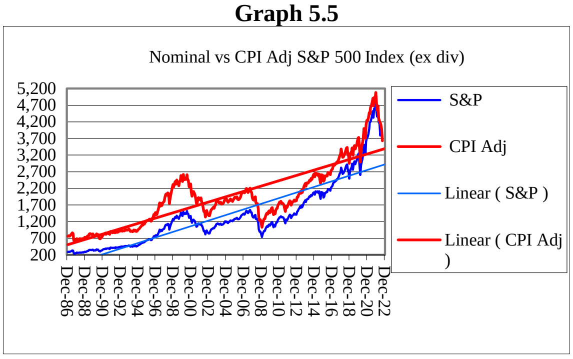
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.2% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 2.5% p.a. over this period, excluding dividends, or around 5.7% including dividends.

Graph 5.4



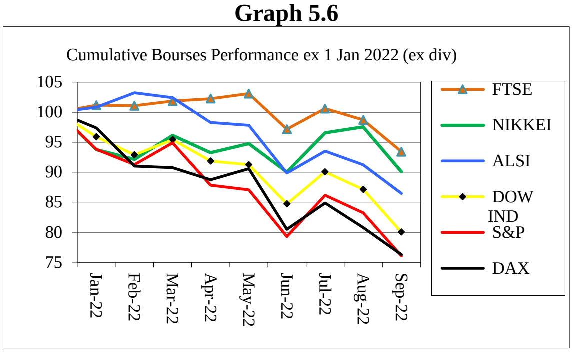
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 7.5% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 4.7% p.a. over 35 years, excluding dividends, or around 6.8% (including dividends).

Graph 5.5



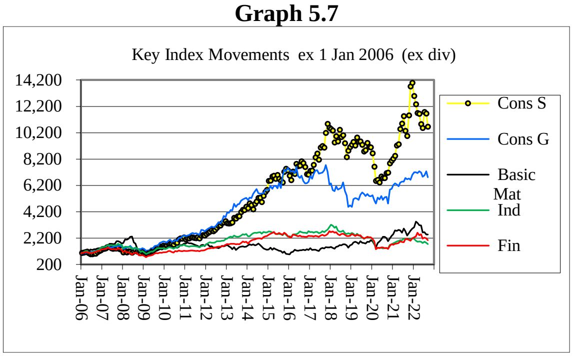
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the FTSE as the top-performing index since the start of 2022.

Graph 5.6



Graph 5.7 provides an overview of the relative movement of the key equity sectors on the FTSE/JSE since December 2005, when the JSE introduced these indices. From this graph, the investor can deduce which sectors offer better value and poorer value based on fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 15.2%; Consumer Goods: 12.1%; Basic Materials: 5.6%; Financials: 4.3% and Industrials: 3.4%.

Graph 5.7



MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2022

By Staff Writer – RFS Fund Administrators (Pty) Ltd

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6. The Benchmark Default portfolio – ideal for the average pension fund member!

By Tilman Friedrich

A well-known investment adviser once remarked, "in a hurricane, even turkeys can fly"! He was talking about investment managers' performance. Since the Covid crisis struck share markets in March 2020, they experienced a hurricane worldwide until the end of 2021. The S&P 500 grew 42%, and the SA Allshare 33% (annualised)! Over this period, the average prudential balanced portfolio produced a return of 21.5%, and the Default portfolio 19.9% (annualized). Table 6.1 reflects the prudential balanced portfolios' point-in-time returns over various periods until December 2021. Over each but one period, the Default portfolio produced worse returns than the average portfolio! Many Default portfolio investors were disappointed and dissatisfied with its performance; one can understand why.

Table 6.1

Period	SA ALSI %	Best % p.a.	Worst % p.a.	Average % p.a.	Default % p.a.
1 month	4.6	3.3	2.2	2.7	2.4
3 months	14.7	8.2	5	6.8	4.9
6 months	11.3	12.5	7.3	9.6	8.0
YTD	24.1	21.8	13.2	18.1	14.6
1 year	24.1	21.8	13.2	18.1	14.6
3 years	11.8	14.9	8.0	11.3	9.5
5 years	7.8	10.6	8	9.4	8.1
10 years	8.7	12.3	11.3	11.2	11.0
15 years	7.5	11.5	10.1	10.2	10.4
20 years	10.3	14.5	12.2	12.5	10.8

The Benchmark Default portfolio is not designed to fly as high in a hurricane (when the Allshare produces double-digit returns) or to win the race over every period. Instead, the Benchmark Default portfolio is designed to protect against severe downturns and to deliver stable returns relative to the prudential balanced portfolios.

However, from the start of 2022 until September, equity markets were in the doldrums. The S&P 500 dropped 24%, and the SA Allshare 14%! Over this period, the average prudential balanced portfolio produced a negative return of 5.1%, and the Default portfolio had a positive return of 0.4% (annualized). Table 6.2 reflects the prudential balanced portfolios' point-int-time returns over various periods to September 2022.

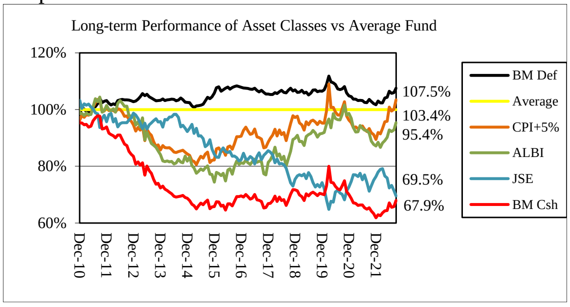
Table 6.2

Period	SA Allshare %	Best % p.a.	Worst % p.a.	Average % p.a.	Default % p.a.
1 month	-5.3	-1.6	-4.3	-2.7	-1.2
3 months	-3.8	2.5	-0.6	0.2	1.2
6 months	-15.6	2.0	-7.8	-3.9	0.9
YTD	-13.5	1.7	-9.7	-5.1	0.4
1 year	-0.9	7.3	-3.4	1.5	5.3
3 years	5.1	8.2	3.8	6.7	6.9
5 years	2.8	7.4	6.3	6.3	6.4
10 years	6.0	10.7	8.9	9.4	9.8
15 years	5.2	10.6	8.4	8.8	9.4
20 years	10.0	14.3	12.3	12.4	10.6

In table 6.1, the SA Allshare never had negative returns, while in table 6.2, it has negative returns over each period up to one year. Interestingly, the Default portfolio outperformed the average portfolio over each period of up to 15 years despite the relatively short period of the SA Allshare being in negative territory. In defense of the Default portfolio's long-term underperformance, one must add that it had a very low equity exposure until the end of 2009.

As one can see, the tables turned in favour of the Default portfolio from table 6.1 to 6.2! It shows that point-in-time performance tables can lead to distorted conclusions. Graph 6.1 reflects the rolling long-term cumulative returns relative to the average prudential balance portfolio (yellow line). It is a more meaningful reflection. It shows that the Default portfolio (black line) outperformed the average portfolio (yellow line) by 7.5% and its inflation plus 5% target by 4.1% (107.5 minus 103.4) since 2010. It also shows that the Default portfolio was never below the average since 2009 when it was structured more aggressively, and it has beaten the main asset classes, hands down!

Graph 6.1



Conclusion

Pension fund members' investments are generally well looked after by prudential balanced portfolio managers, and they should take comfort in these managers' track records. The man-in-the-street will unlikely achieve a better

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performance in the long term. The Default portfolio removes some of the volatility and single manager risks a member faces who is invested only in one prudential balanced portfolio. Even when a member invests in more than one portfolio, he will be tempted to switch between managers from time to time, and likely find that he changed to the wrong manager at the wrong time. Markets are volatile, and the investor must expect times when a typical prudential balanced portfolio will underperform cash.

We expect higher interest rates and higher inflation for the next year or two. The Fed will gradually increase its policy rate by another 2% over the next year, which should bring inflation under control. High interest rates will curb consumer demand and may result in a recession over the next two years. In addition, Governments may have to raise taxes to fund the higher interest rates. As a result, equity markets will likely not show much growth over the next two years. 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 will remain low, impacting our local currency negatively.

Although 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, is reducing the focus on climate-neutral energy as it is forced to return to fossil fuels and nuclear power, and scorned military technology industries are regaining popularity.

Equities remain our preferred asset class. More specifically, we prefer value companies offering a high dividend yield. While the investor should usually diversify globally, prevailing global risks and uncertainties suggest that one should keep one's investments closer to home. Political risks in Africa seem much more sedated than those in Europe and Asia. If one can find value in property, it should also be an appropriate asset class closely tied to the 'real economy.' Regarding local equity sectors, fundamentals indicate that consumer goods, consumer services, and financials are back in favour.

Important notice and disclaimer