Volume 18 No. 11
November 2022

Benchmark Retirement Fund

Administered by RFS Fund Administrators

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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

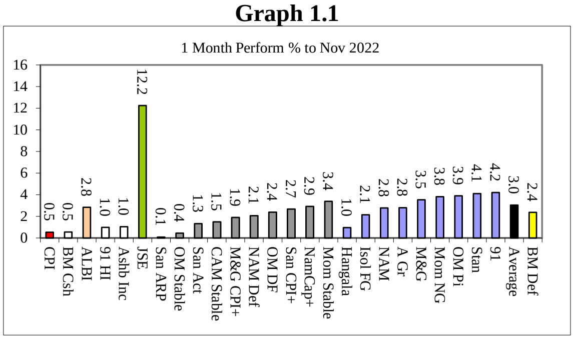
In November 2022, the average prudential balanced portfolio returned 3.0% (October 2022: 4.4%). The top performer is Ninety-One Managed Fund with 4.2%, while Hangala Prescient Absolute Balanced Fund with 1.0% takes the bottom spot. For the 3-months Ninety-One Managed Fund takes the top spot, outperforming the 'average' by roughly 1.9%. Hangala Prescient Absolute Balanced Fund underperformed the 'average' by 3.4% 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.

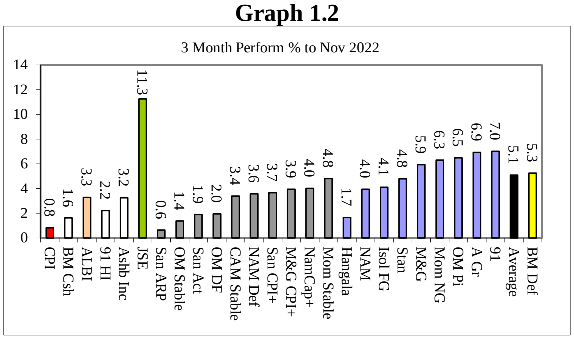
Below is the legend to the abbreviations reflected on the graphs:

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	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)

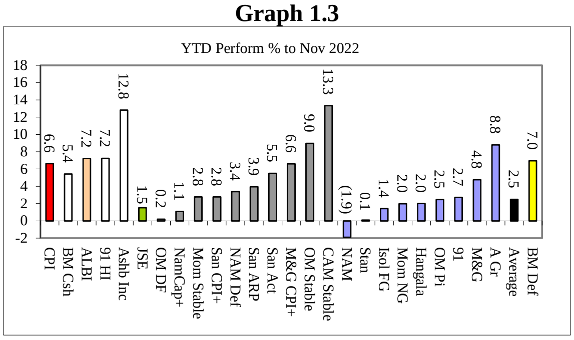
Graph 1.1



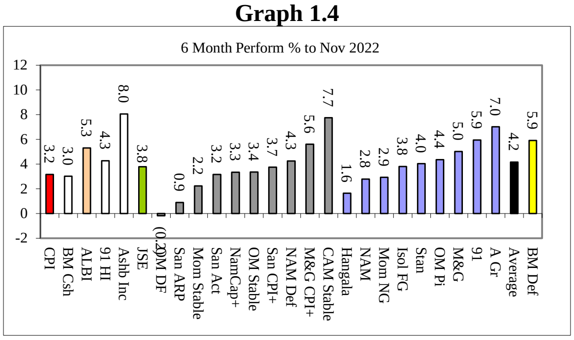
Graph 1.2



Graph 1.3



Graph 1.4



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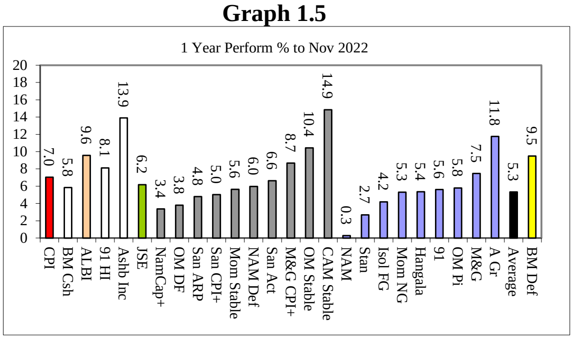
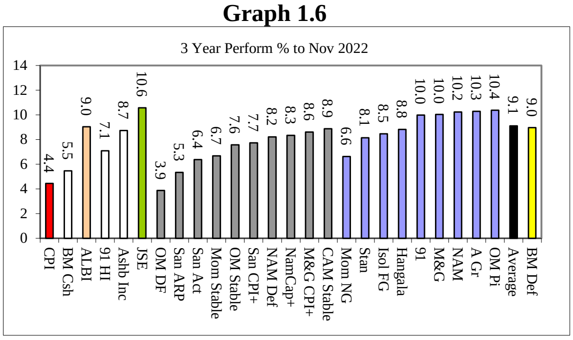
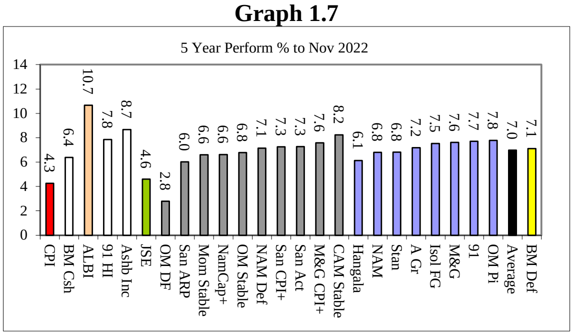
Graph 1.5



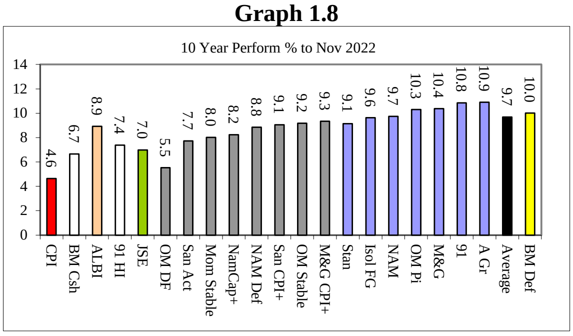
Graph 1.6



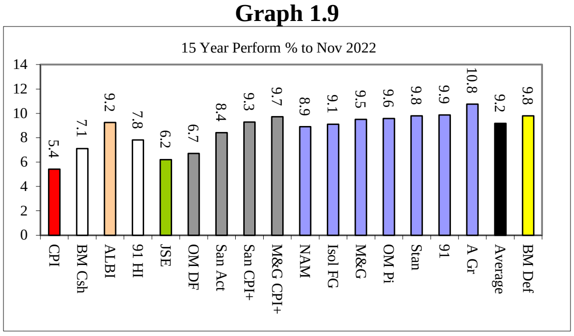
Graph 1.7



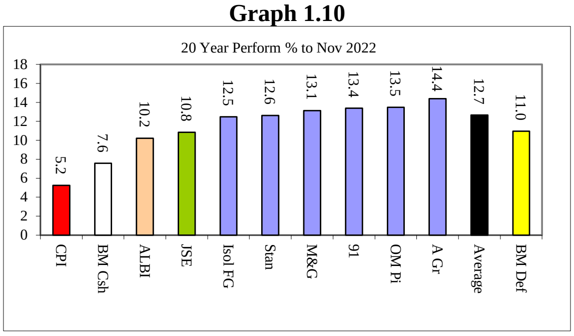
Graph 1.8



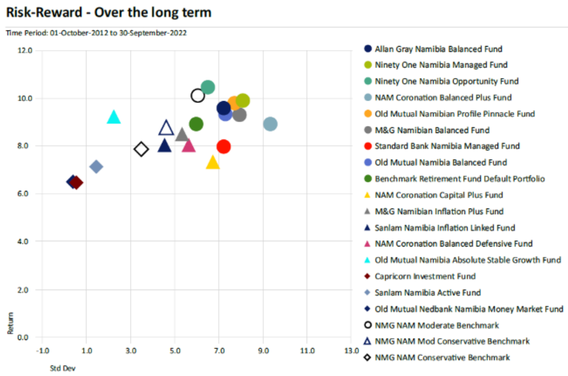
Graph 1.9

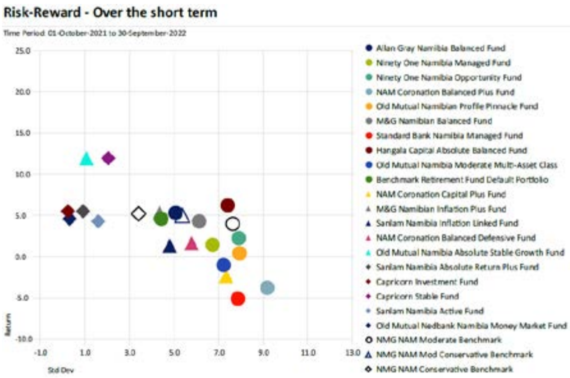


Graph 1.10



Risk/ Return





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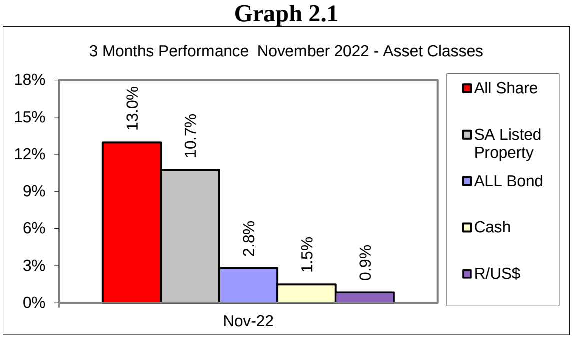
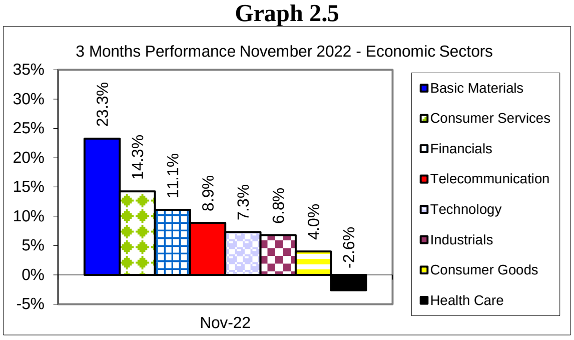
2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

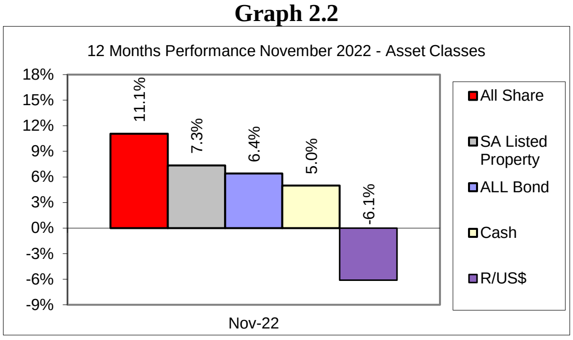
Graph 2.1



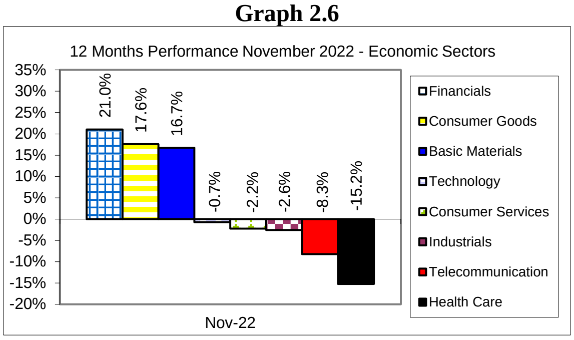
Graph 2.5



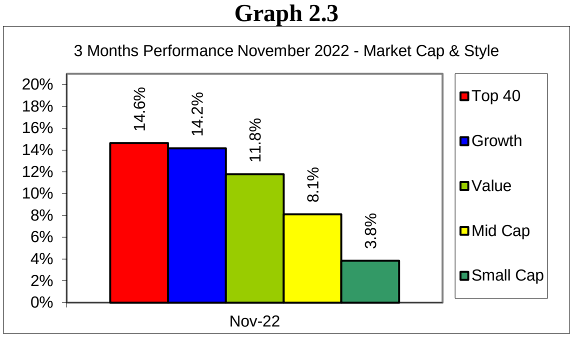
Graph 2.2



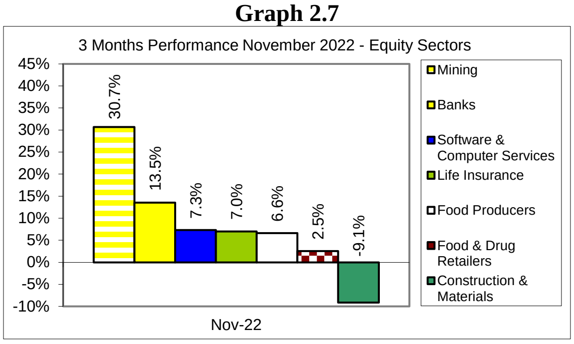
Graph 2.6



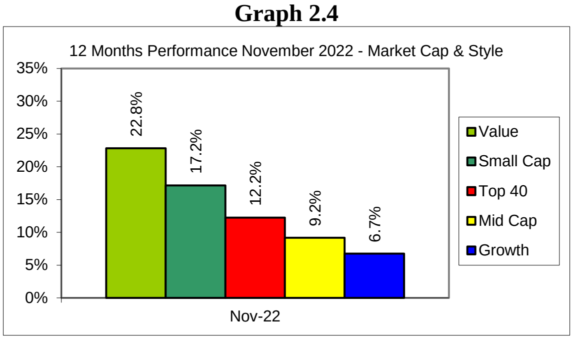
Graph 2.3



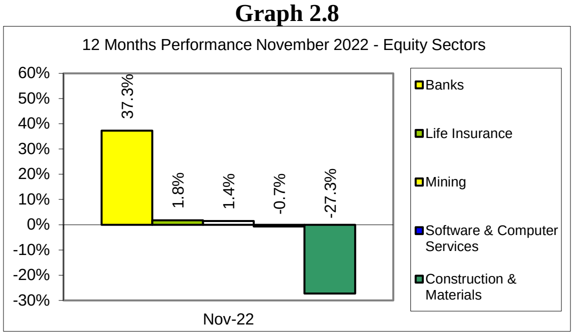
Graph 2.7



Graph 2.4



Graph 2.8



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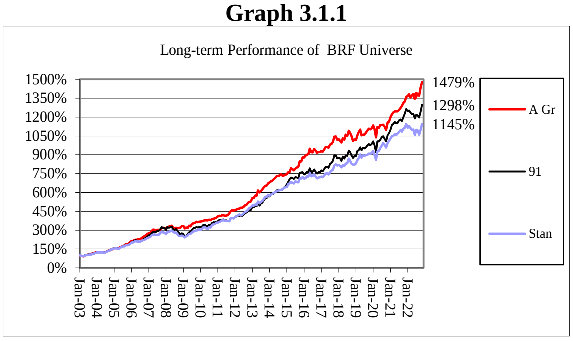
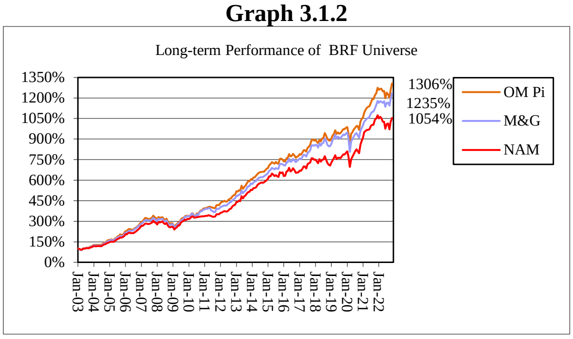
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

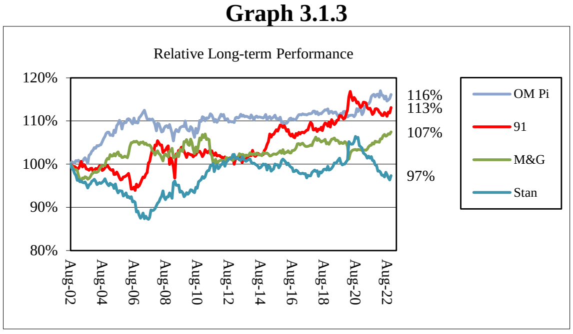
Graph 3.1.1



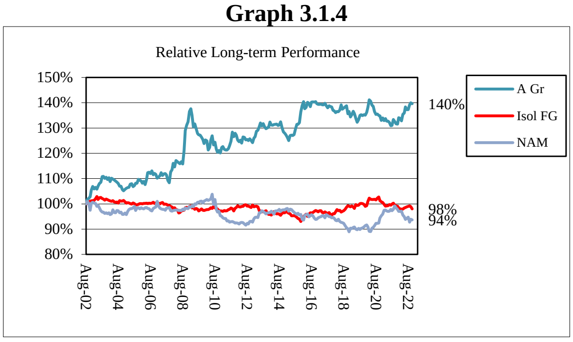
Graph 3.1.2



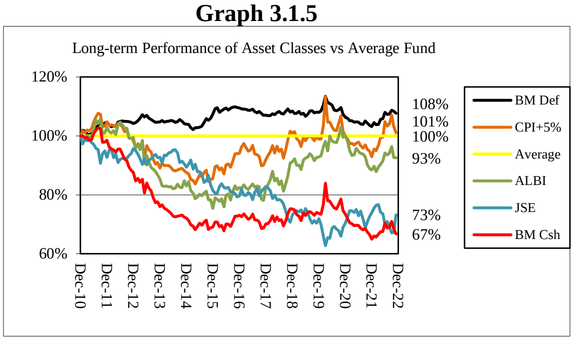
Graph 3.1.3



Graph 3.1.4

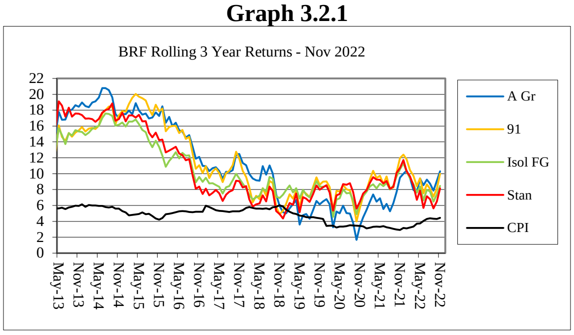


Graph 3.1.5

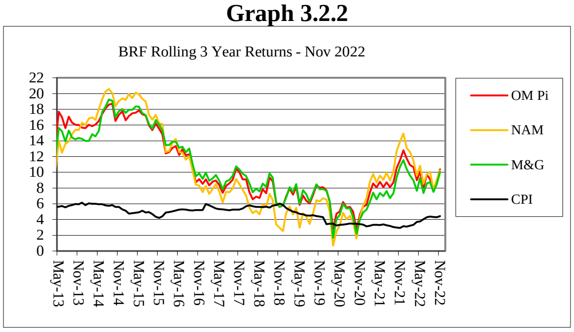


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1



Graph 3.2.2



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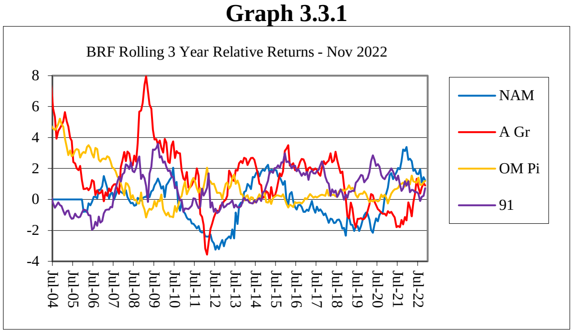
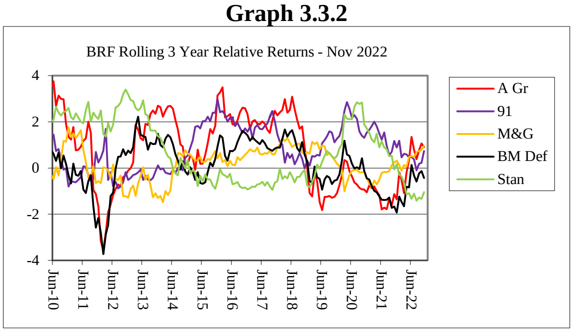
3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

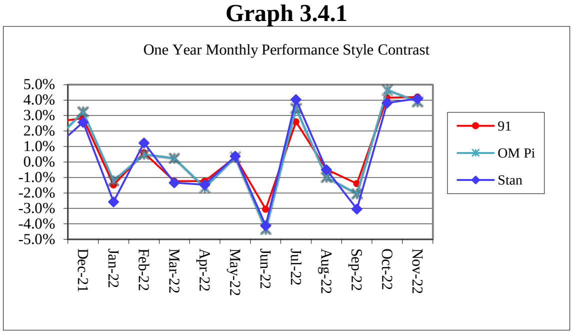


Graph 3.3.2

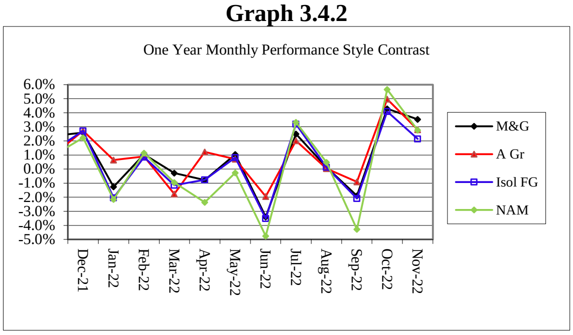


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

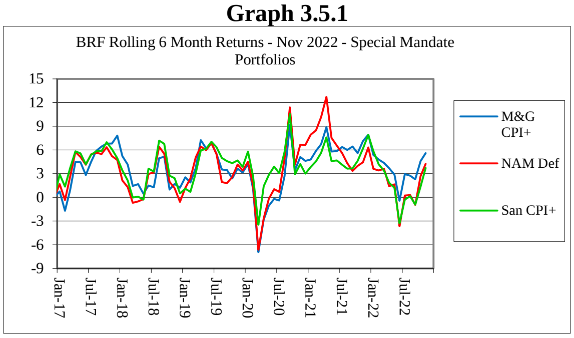


Graph 3.4.2

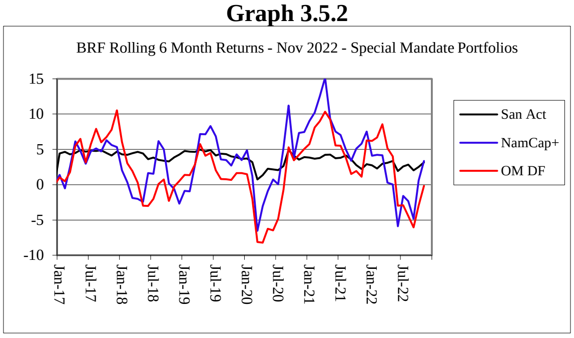


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

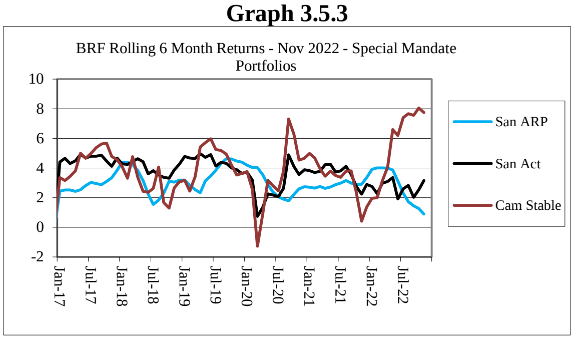
Graph 3.5.1



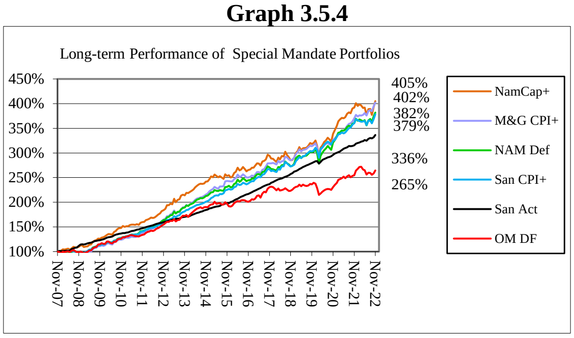
Graph 3.5.2



Graph 3.5.3



Graph 3.5.4



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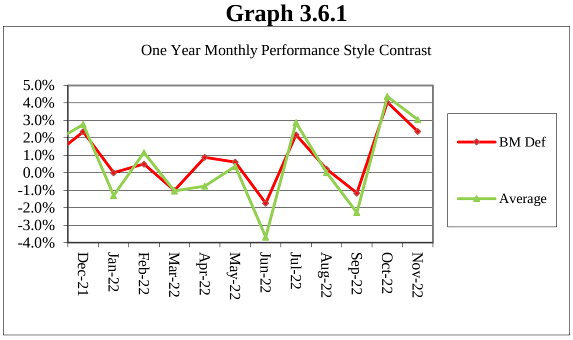
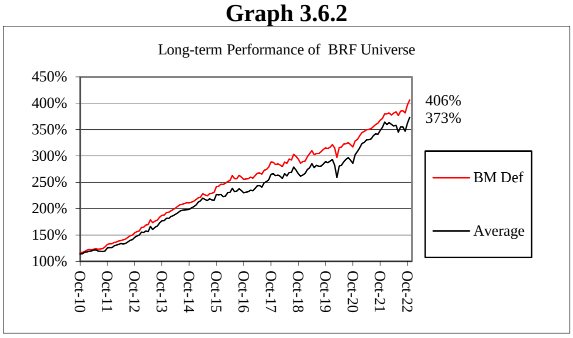
3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

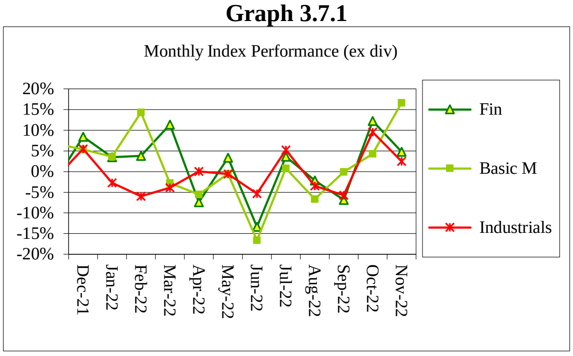


Graph 3.6.2

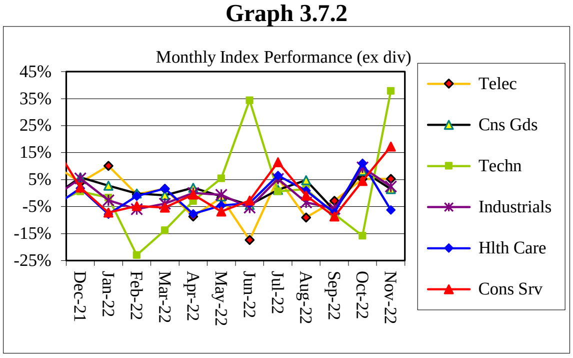


3.7 One-year monthly performance of key indices (excluding dividends)

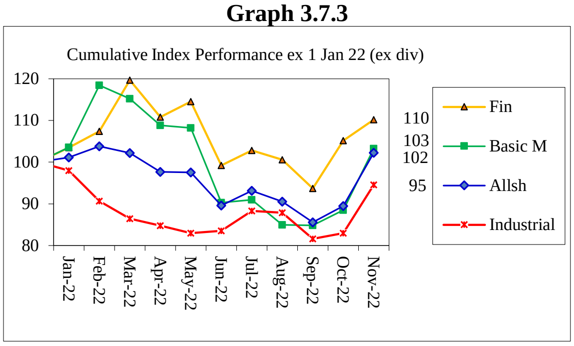
Graph 3.7.1



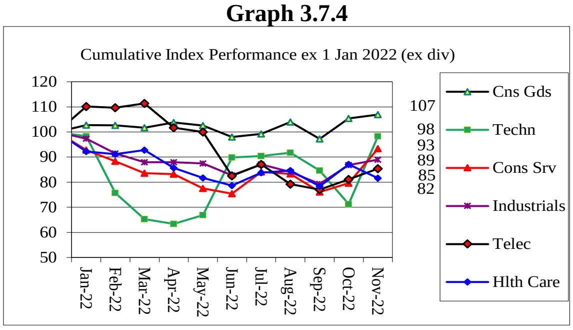
Graph 3.7.2



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.	7.1	7.0
5-year real return - % p.a.	2.8	2.7
Equity exposure - % of portfolio (quarter end September 2022)	45.8	63.3
Cumulative return ex Jan 2011	242.4	218.1
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 63%. When equities significantly out-perform the other main asset classes, the

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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. Of course, the central banks' interventions distort financial markets, causing significant volatility and artificially increased valuations of equities.

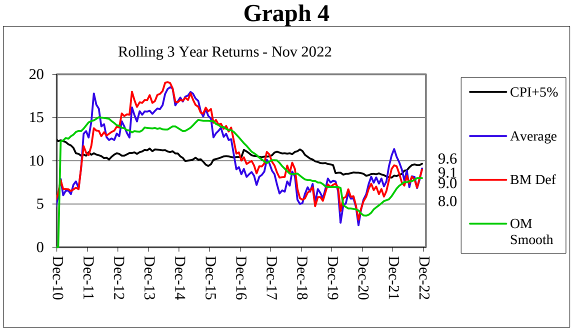
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	3.2%	2.5%
Best annual performance	8.0%	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	6.7%	6.9%	7.2%

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

Graph 4



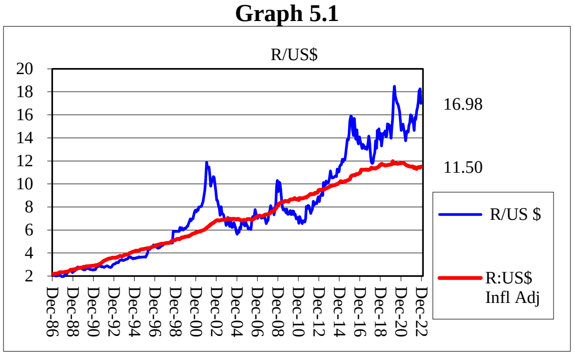
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of November was 9.0%, the average was 9.1% 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 11.50 to the U.S. Dollar, while it stood at 16.98 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

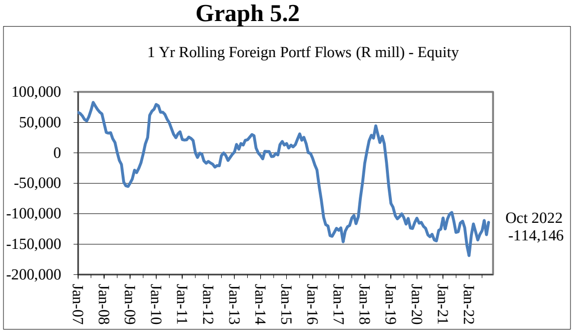


The Rand strengthened by 6.96% in November with a net foreign investment outflow from bonds and equities of R 18.7 bn. Over the past 12 months, the Rand weakened by 6.1 % (October Rand weakened by 19.4%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 269.6 bn (outflow of R 300.6 bn to the end of October 2022).

Since 2006, total net foreign portfolio outflows amounted to R 629.4 bn (October R 610.6 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 105.3 bn at the end of November (outflow of R 114.1 bn year-on-year to the end of October). The month of November experienced a net outflow of R 5.3 bn. Since 2006, foreign net investment outflows from equities amounted to R 511.5 bn (end October net investment outflow of R 506.3 bn). It represents roughly 2.3% of the market capitalization of the JSE.

Graph 5.2



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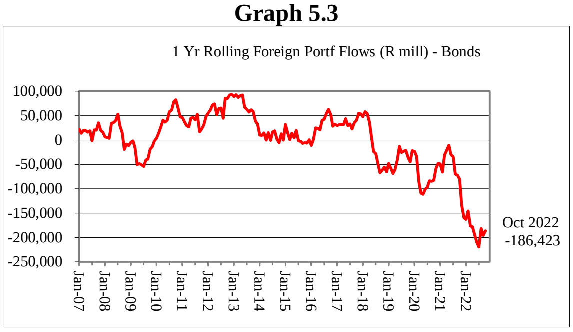
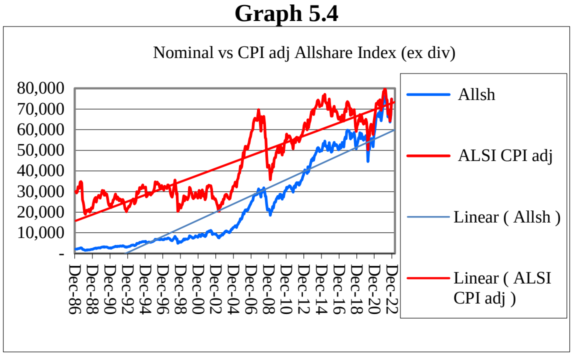
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 164.3 bn over the past 12 months to the end of November (outflow of R 186.4 bn over the 12 months to the end of October). The month of November experienced a net outflow of R 13.4 bn. Since 2006, foreign net investment outflows in bonds amounted to R 117.8 bn (net investment outflows to October R 104.4 bn).

Graph 5.3



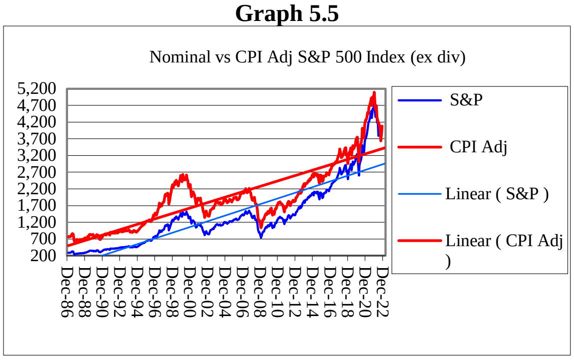
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.6% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.7% per year. It is equivalent to growth in real terms of 2.9% p.a. over this period, excluding dividends, or around 6.1% including dividends.

Graph 5.4



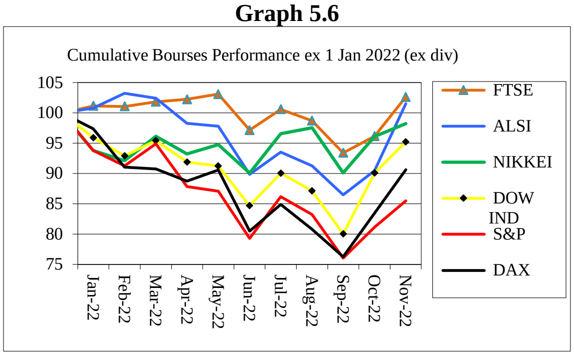
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 7.8% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.0% p.a. over 35 years, excluding dividends, or around 7.1% (including dividends).

Graph 5.5



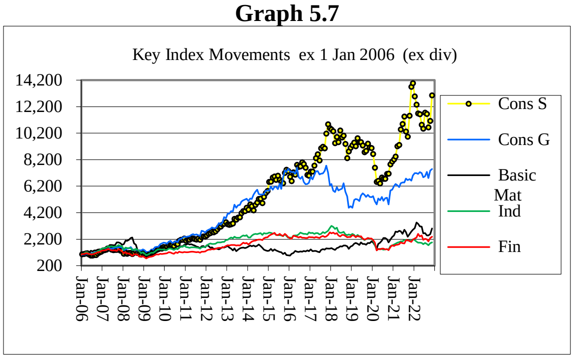
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the FTSE as the top-performing index since the start of 2022.

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: 16.4%; Consumer Goods: 12.6%; Basic Materials: 6.7%; Financials: 5.3% and Industrials: 4.0%.

Graph 5.7



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By Staff Writer – RFS Fund Administrators (Pty) Ltd

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6. A decade of roller coaster markets

By Tilman Friedrich

I listened to a very interesting interview with Felix Zulauf by Ed D'Agostino of Mauldin Economic on 9 December 2022. Felix Zulauf was the global strategist for UBS Bank and was the head of its institutional portfolio management group. He founded Zulauf Asset Management and manages Zulauf Consulting, where he consults to some of the world's largest and most influential institutional investors.

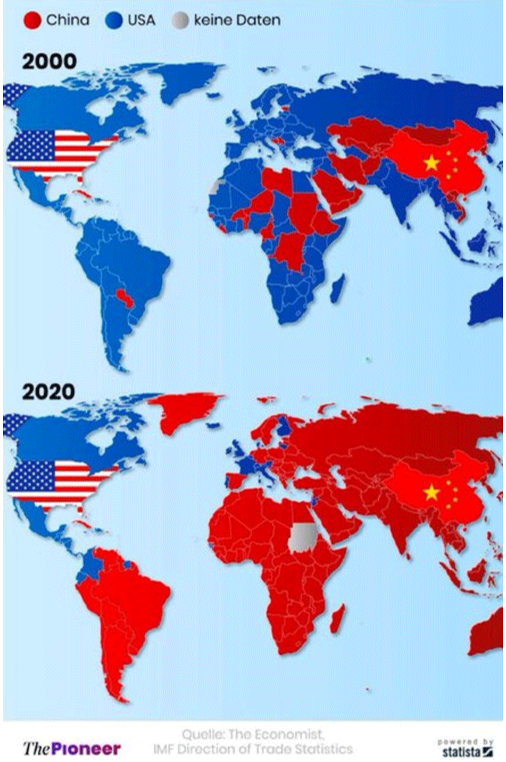
Because the views of Felix Zulauf mirror my views of financial markets and how they will be impacted by global political developments, I will focus on this interview in this column. He, of course, has a much deeper insight and understanding of the subject and throws some light on questions I could not answer for myself.

Since the second world war, the world has become mono-polar, dominated by the US, its economic policies, and by the US Dollar as the reserve currency. It experienced a sustained trend towards globalisation and outsourcing of manufacturing, primarily to China. However, the world has changed a lot over the last two years, particularly since February, when the war in Ukraine broke out.

The US divided the world into two during the Middle East turmoil. Countries that supported the US cause and those that did not were categorised as being against the US. The Biden administration has committed the blunder of using the currency and the SWIFT payment system as a political weapon. Dividing the world into two blocks will push it into another Cold War, if not into a hot confrontation, as Zulauf fears.

Chart 6.1 provides an interesting picture of the spheres of influence of the US and China in 2020 compared to 2000, the red world being in Chinas fold and the blue in the US's.

Chart 6.1



All the countries in red have realised that they potentially risk having their assets frozen in the US Dollar. The Chinese are undertaking a project to create a new currency with some BRICS countries, including Russia, China, Iran, and possibly even Saudi Arabia and Turkey, by the middle of the 2020s. The currency will be backed by commodities these countries produce, in contrast with the US fiat currency, which has no intrinsic or fixed value and can easily be manipulated by the Federal Reserve to advance US interests. Commodities can easily be stored in-country and are thus protected from seizure by any unfriendly country or alliance. These countries will divest from the US Dollar, leading to an accelerating decline in the Dollar.

A stable currency is important for investors. With the envisaged introduction of the new commodity-backed currency and the resulting decline in the US Dollar, more and more countries will not invest their foreign exchange reserves in the Dollar anymore. This development will raise the demand for commodities. Because of a 12-year commodity bear market and low prices, there was underinvestment in commodities over many years. Both factors will lead to a scarcity of products and increased commodity prices. Felix Zulauf relates his personal experience in the US of wanting to buy a washing machine. He was told that there is a waiting time of 12 months for the

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top international brands and 6 months for US brands! He sees crude oil at US$ 200 in 2024.

Zulauf expects a mild recession in the US and very serious recessions in Europe, the UK, and the worst in China. The US recession will not be as severe as that in Europe and the UK as the US is virtually energy independent, unlike the others. The lockdowns are suspected to be a camouflage of China's recession. As a result, China will not be the locomotive for the world economy as it was for the past 15 years. However, even under these circumstances, there will be individual companies doing well, such as defence contractors and energy companies.

For the investor, the essence of the economic environment is that we will go through a decade of roller coaster markets, with ups and downs like probably a whole generation has never experienced before. Under these circumstances, a passive strategy will produce disappointing returns, and one may even lose in real terms. The investor must make important decisions on buying and holding for a certain period and to sell to be liquid and preserve capital for buying again later on or going short on a declining market.

Zulauf believes we are in for the final leg of the decline in the cyclical correction from the peak at the beginning of the year and that the decline will go to new lows. We already had a correction in valuations due to the rise in interest rates. but a correction due to earnings disappointments is still due to happen as corporate profits will come under pressure from the recession and companies currently holding excessive inventories. He expects a big bounce in bond yields for the next six to nine months, which would also be negative for equities. He sees inflation of 10% in the US in 2025, pushing up interest rates. He points out that property is the largest market in the world. Higher inflation and interest rates will weaken the balance sheet health of everybody, and this will create a big crisis. Some currencies will disappear, and we could see currency and capital controls as market corrections will go through the currencies.

In conclusion, Zulauf believes that shares of good companies could decline by 50 to 60%. However, the companies will still be around, and he, therefore, favours productive assets.

(If you want to read the interview's complete transcript of the interview, follow this link. Here's a link to the full video for those who prefer to listen.)

Conclusion

The Fed will gradually increase its policy rate by another 2% over the next year, which should bring inflation under control. However, taking Felix Zulauf's views into consideration, inflation and interest rates may be much higher and for longer than I would expect. Higher interest rates and inflation will curb consumer demand and may result in a recession over the next two years. So will the creation of a new commodities-backed currency under China's leadership, which will lead to scarcity of commodities and higher prices. In addition, Governments may have to raise taxes to fund the higher interest rates on their debt. As a result, equity markets will likely not show much growth over the next two years, and, according to Zulauf, we will see roller coaster markets for the next decade.

Because of the global political turmoil, foreign investors will withdraw from the local markets for safe havens. Foreigners' support of local equities and other assets will remain low, impacting our local currency and equity prices negatively in the next year or two.

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. In times of volatility, the investor should be good at stock-picking and tactical asset allocation rather than index investing. The objective must be to select companies that will benefit from the market turbulence, such as weapons manufacturers and energy producers, and capitalise on market swings.

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 keeping 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.' The looming global recession should put a damper on the economy as a whole in the next year or two. Sectors that should do better on the back of global supply shortages, is the energy sector and certain chemical producers, defensive counters in health care and related areas, and consumer goods and services.

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