Volume 18 No. 12
December 2022

Benchmark
Retirement Fund

Administered by RFS Fund Administrators

Income Tax Ref. No.12/1/12/462
Registration No 25/7/7/489

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 DECEMBER 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

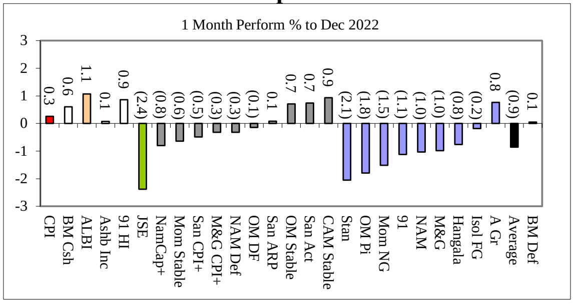
In December 2022, the average prudential balanced portfolio returned -0.9% (November 2022: 3.0%). The top performer is Allan Gray Balanced Fund with 0.8%, while Stanlib Managed Fund with -2.1% takes the bottom spot. For the 3-months Allan Gray Balanced Fund takes the top spot, outperforming the 'average' by roughly 2.1%. Hangala Prescient Absolute Balanced Fund underperformed the 'average' by 4.0% 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.

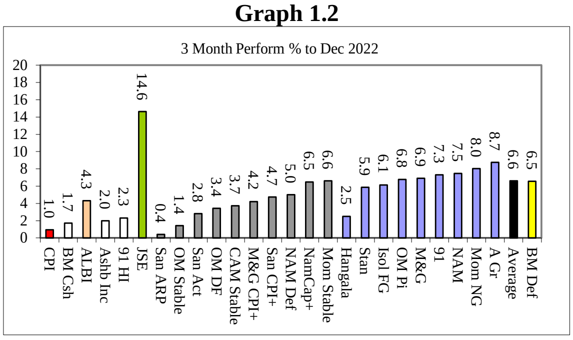
Below is the legend to the abbreviations reflected on the graphs:

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)

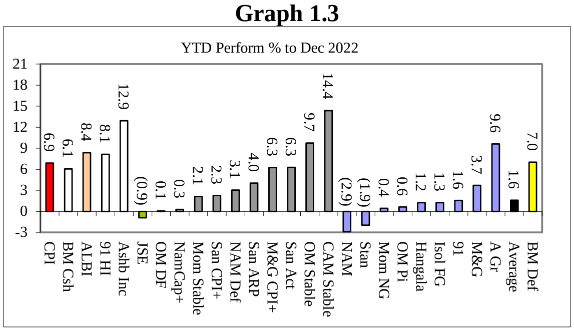
Graph 1.1



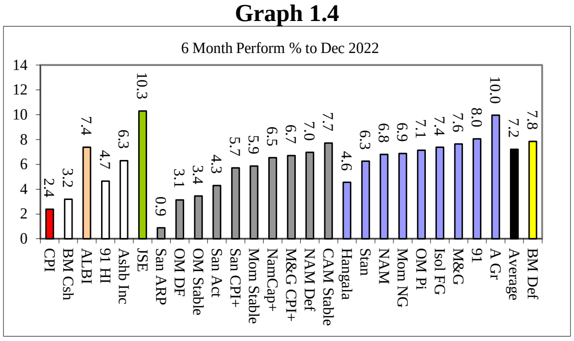
Graph 1.2



Graph 1.3



Graph 1.4



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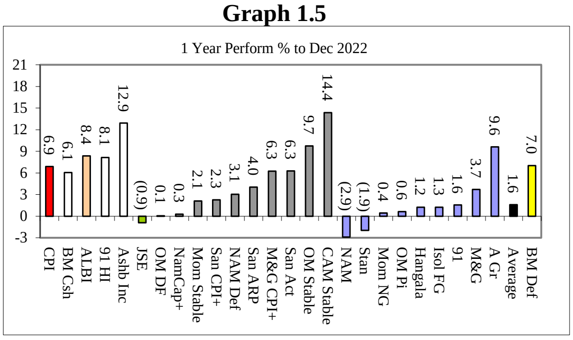
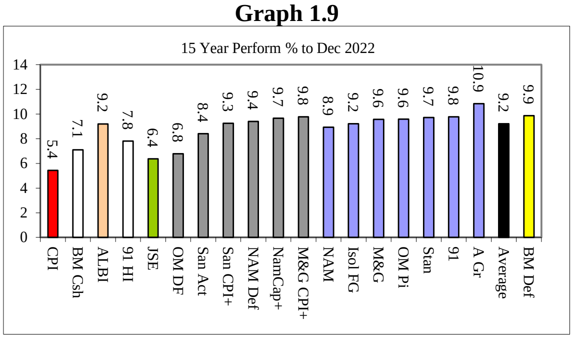
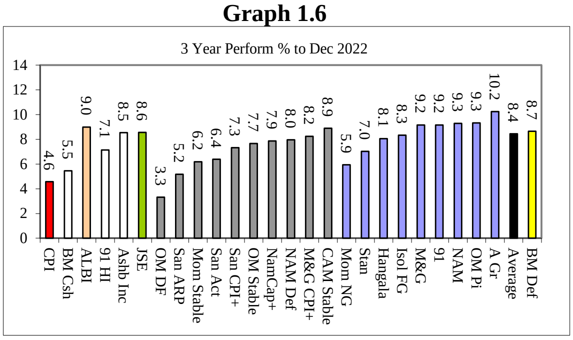
Graph 1.5



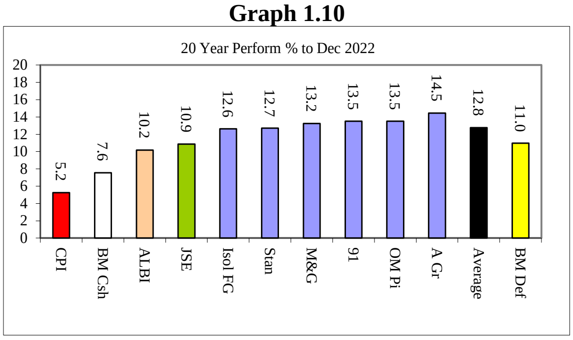
Graph 1.9



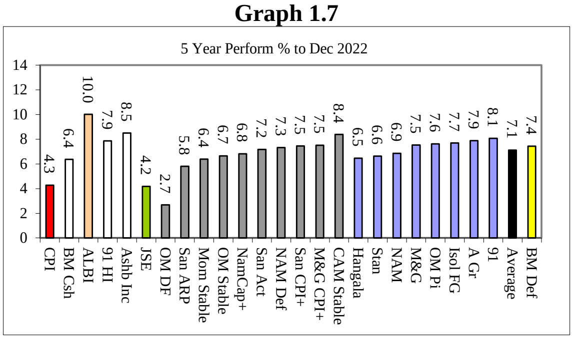
Graph 1.6



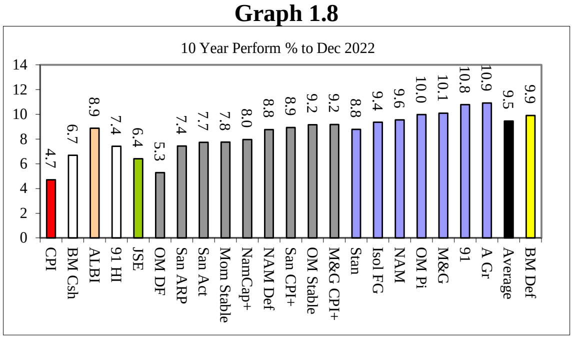
Graph 1.10



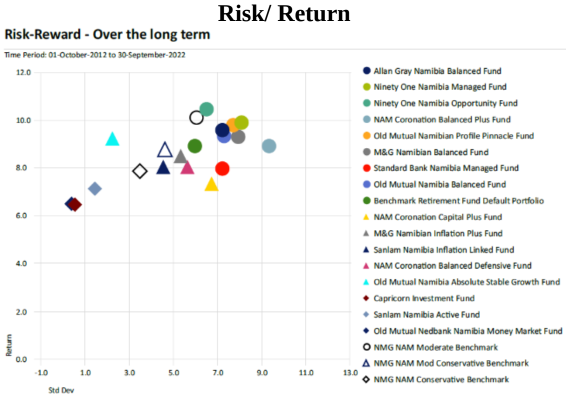
Graph 1.7

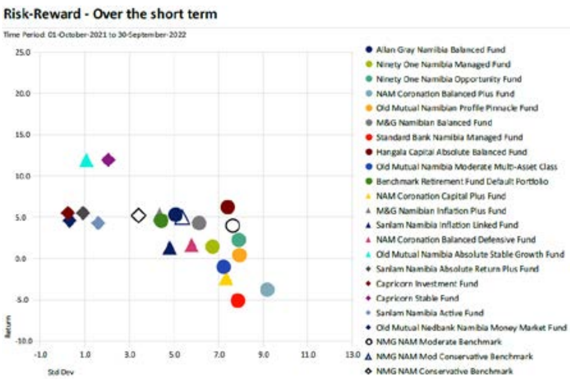


Graph 1.8



Risk/ Return





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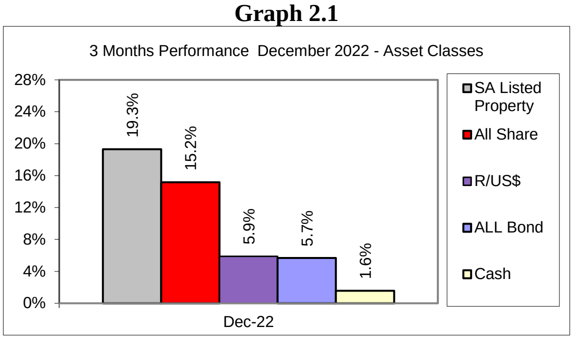
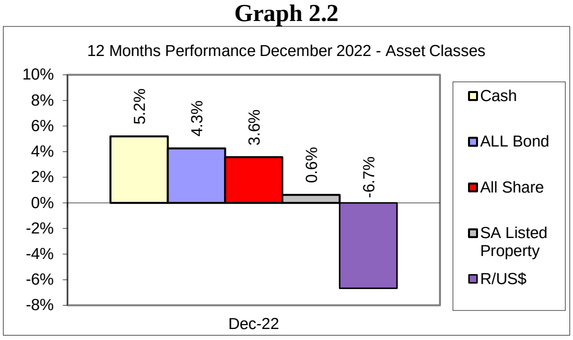
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

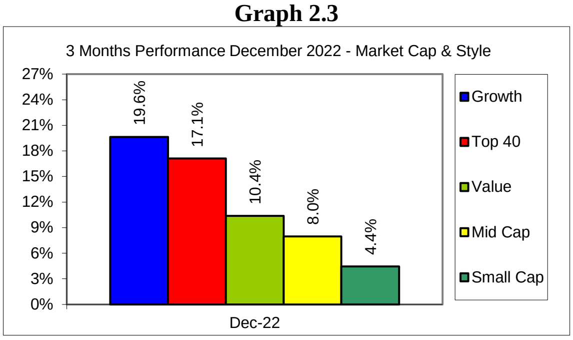
Graph 2.1



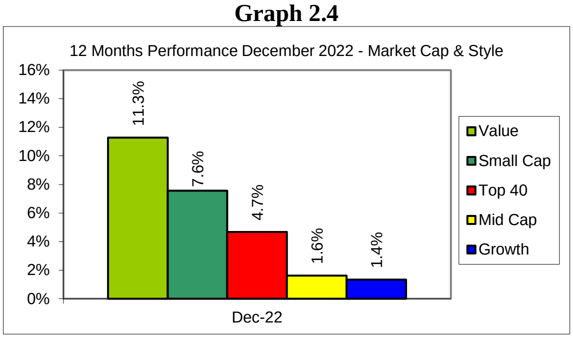
Graph 2.2



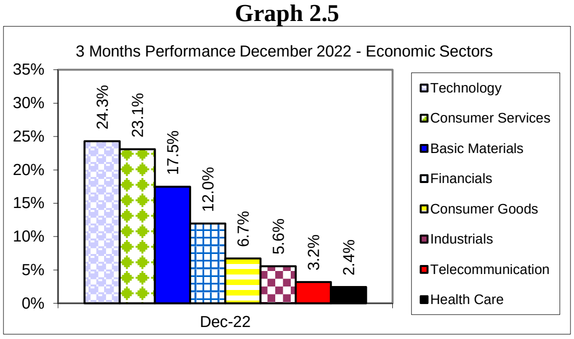
Graph 2.3



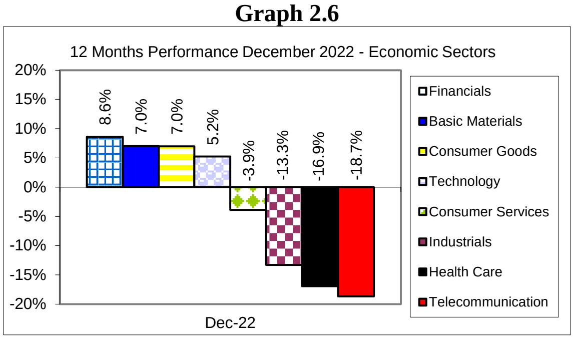
Graph 2.4



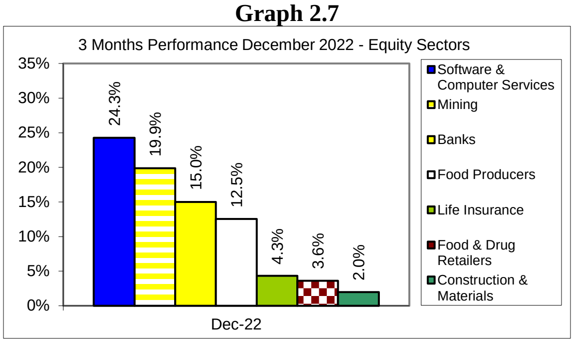
Graph 2.5



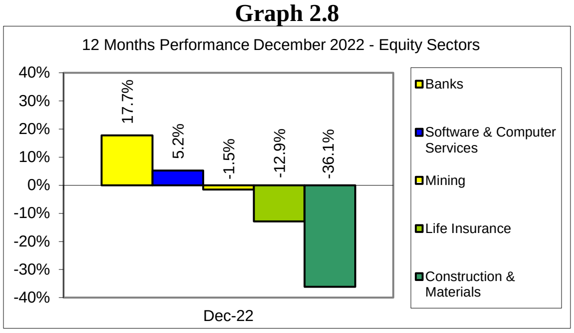
Graph 2.6



Graph 2.7



Graph 2.8



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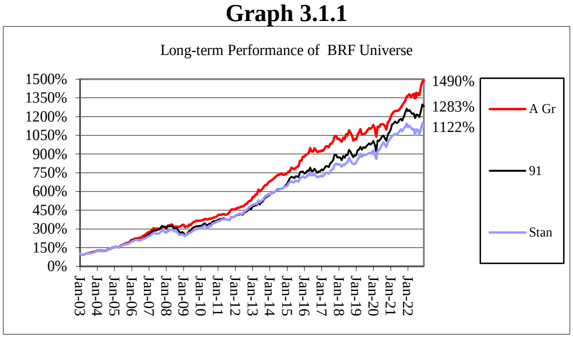
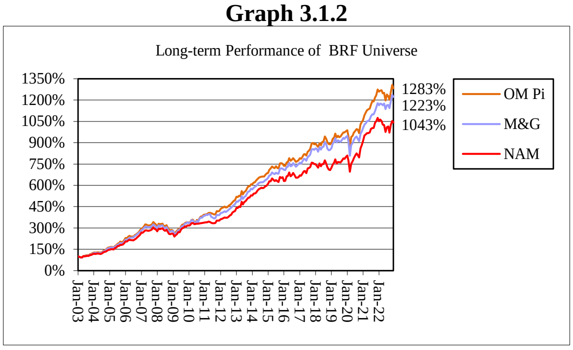
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

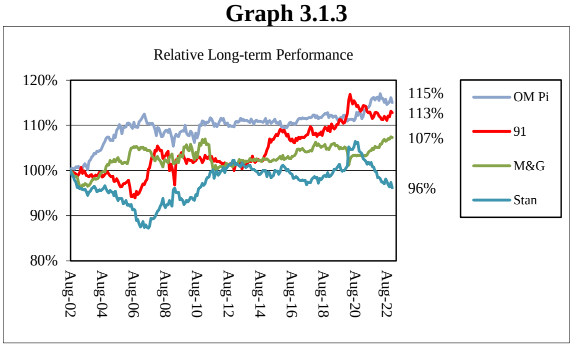
Graph 3.1.1



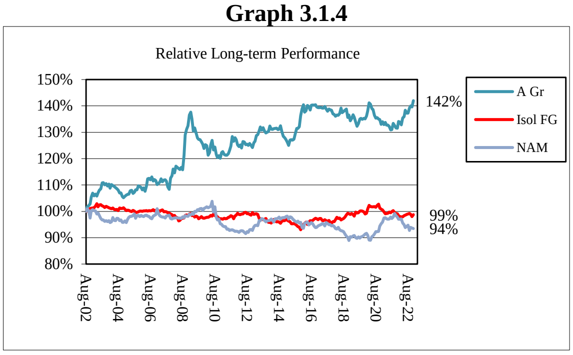
Graph 3.1.2



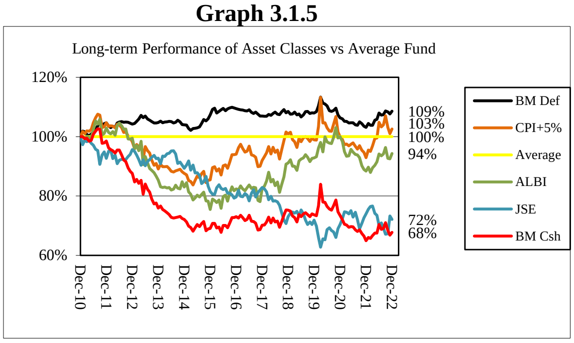
Graph 3.1.3



Graph 3.1.4

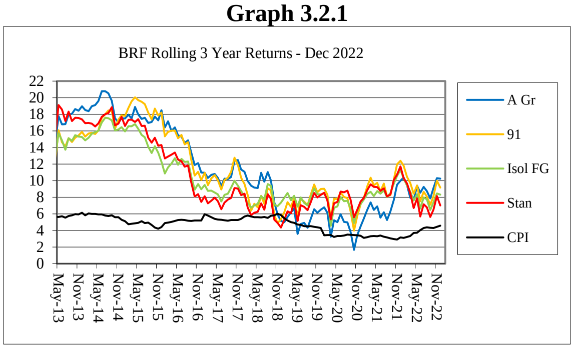


Graph 3.1.5

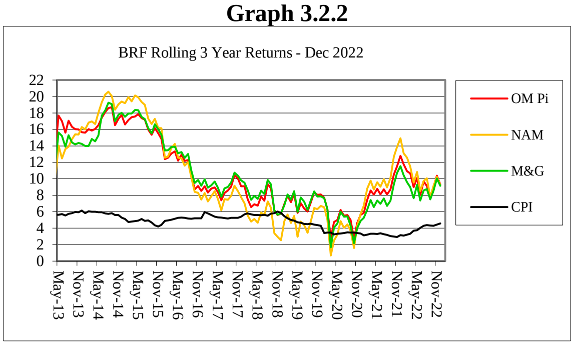


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1



Graph 3.2.2



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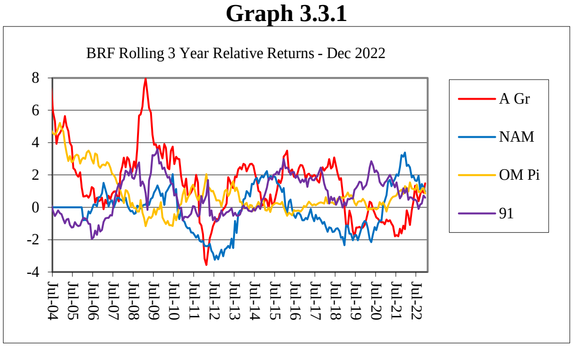
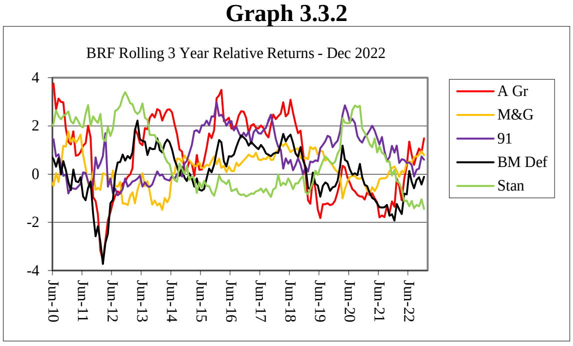
3.3 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

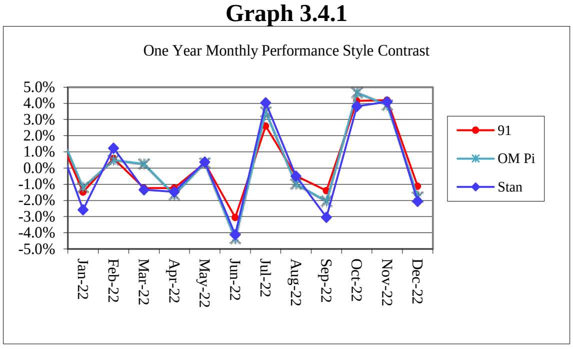


Graph 3.3.2

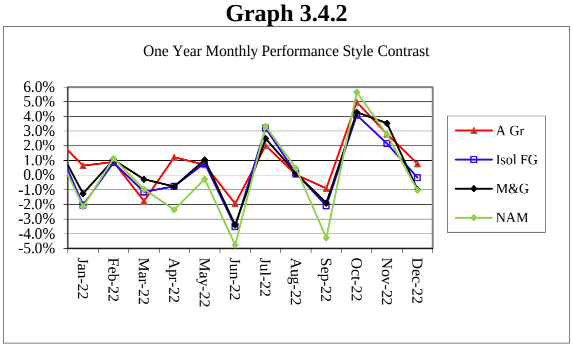


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

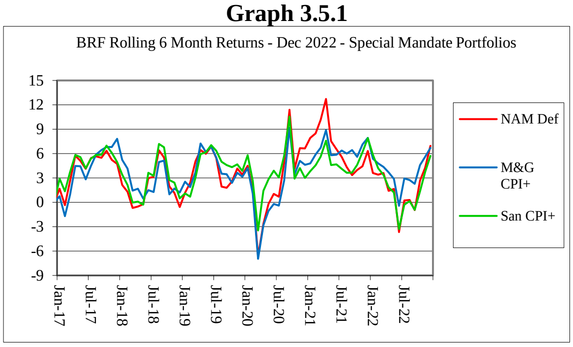


Graph 3.4.2

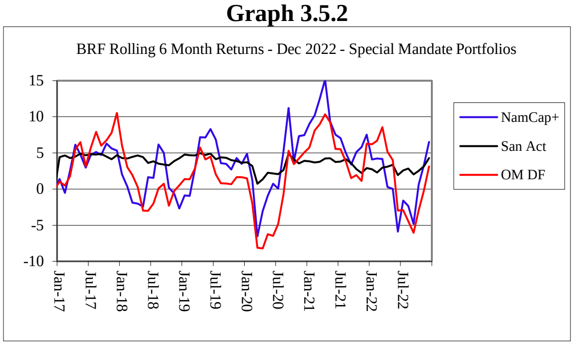


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

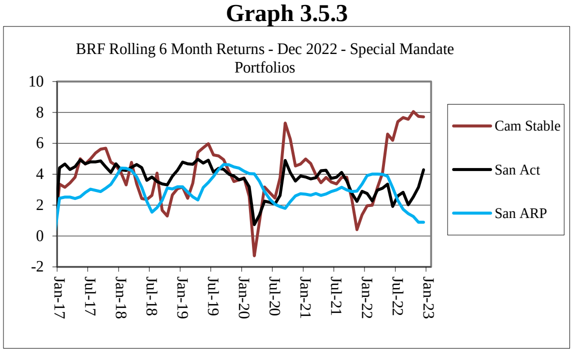
Graph 3.5.1



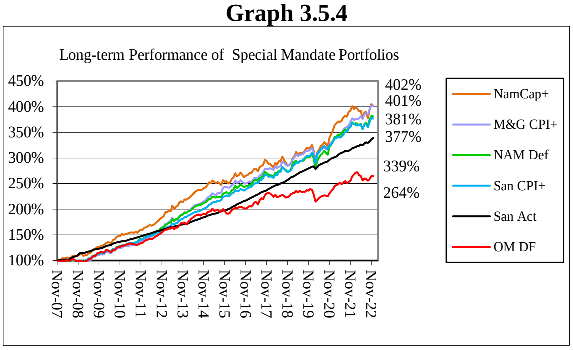
Graph 3.5.2



Graph 3.5.3



Graph 3.5.4



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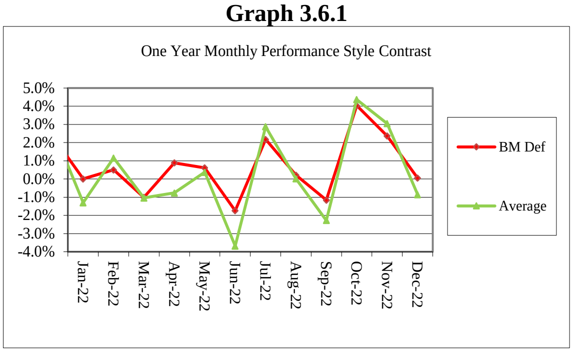
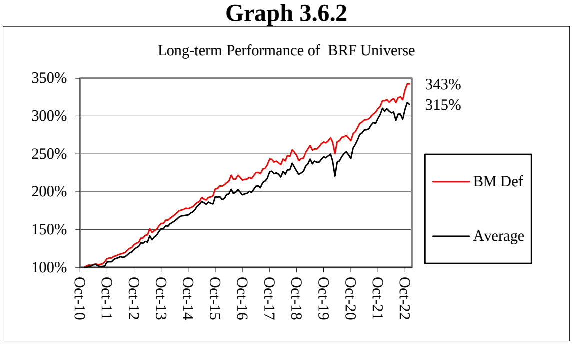
3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

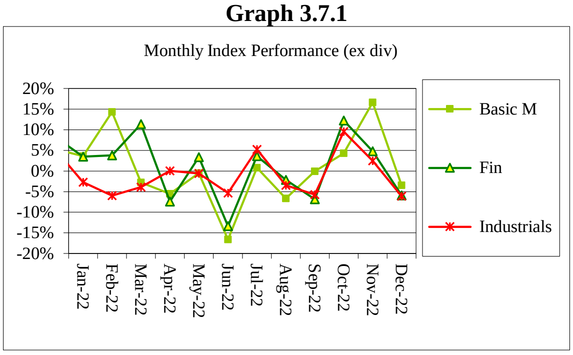


Graph 3.6.2

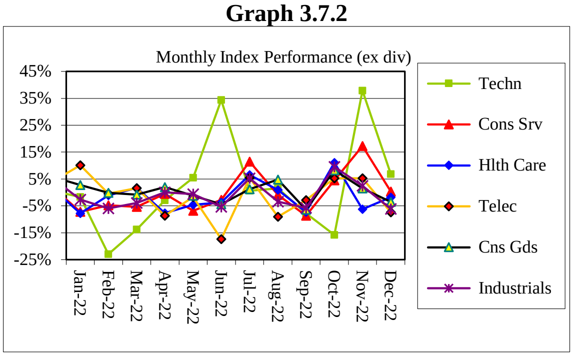


3.7 One-year monthly performance of key indices (excluding dividends)

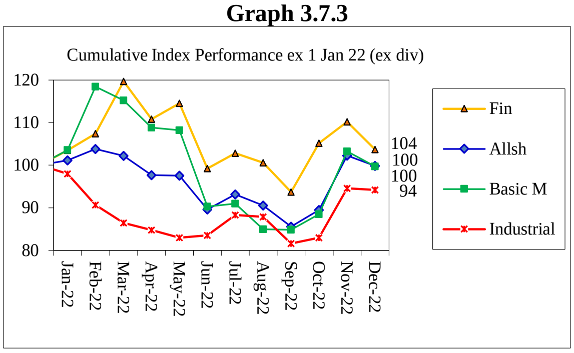
Graph 3.7.1



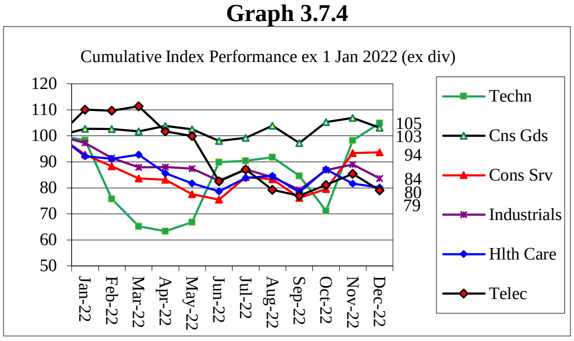
Graph 3.7.2



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.	7.4	7.1
5-year real return - % p.a.	3.1	2.8
Equity exposure - % of portfolio (quarter end September 2022)	45.8	63.3
Cumulative return ex Jan 2011	242.6	215.3
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 default portfolio will underperform the average prudential

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balanced portfolio. Since central banks terminated their large-scale bond-buying spree and started to lift interest rates, foreign equities have not been doing well. Markets are now returning to an equilibrium between various asset classes regarding risk versus return. The equilibrium will be reached once fixed-interest assets earn real yields. Foreign equities have already corrected substantially on their way to the equilibrium but will remain volatile and not do well for the next twelve months. Locally, fixed-interest assets generated positive real returns throughout, and equity returns were not distorted to the extent foreign equities were. However, the local equity markets will not escape any further correction and volatility in foreign equity markets, particularly the US market.

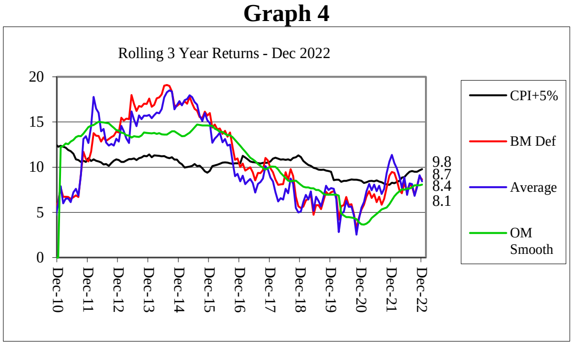
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

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	6.6%	6.9%	7.3%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from January 2020 to December 2022. These statistics show up the performance volatility of these three risk profiles.

Graph 4



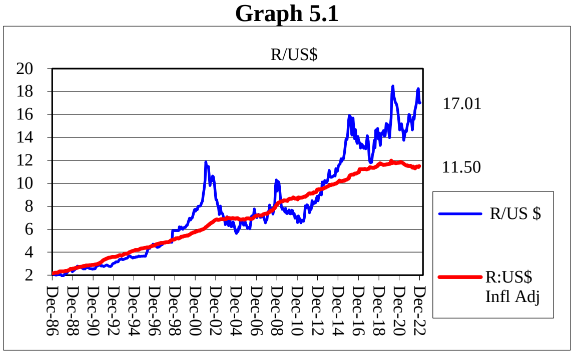
Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of December was 8.7%, the average was 8.4% vs. CPI plus 5%, currently on 9.8%.

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 17.01 at the end of December. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



The Rand weakened by 0.14% in December with a net foreign investment outflow from bonds and equities of R 9.6 bn. Over the past 12 months, the Rand weakened by 6.7 % (November Rand weakened by 6.1%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 239.9 bn (outflow of R 269.6 bn to the end of November 2022).

Since 2006, total net foreign portfolio outflows amounted to R 639.0 bn (November R 629.4 bn outflows).

Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 84.8 bn at the end of December (outflow of R 105.3 bn year-on-year to the end of November). The month of December experienced a net outflow of R 9.5 bn. Since 2006, foreign net investment outflows from equities amounted to R 521.0 bn (end November net investment outflow of R 511.5 bn). It represents roughly 2.4% of the market capitalization of the JSE.

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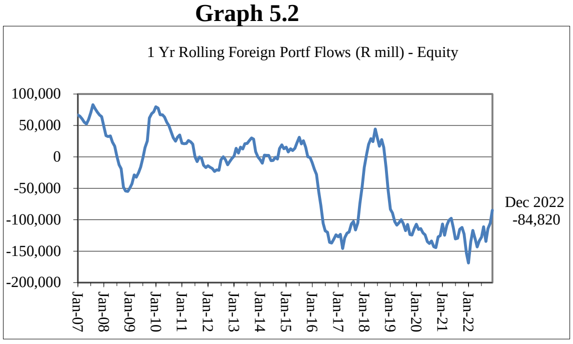
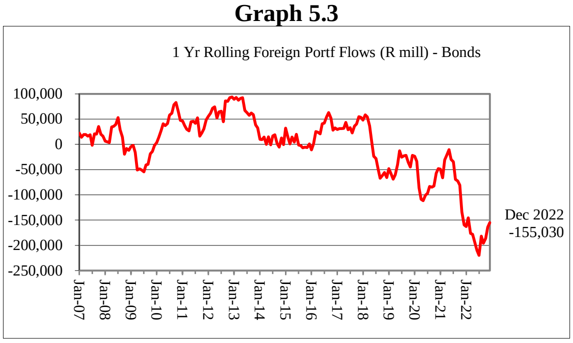
Graph 5.2



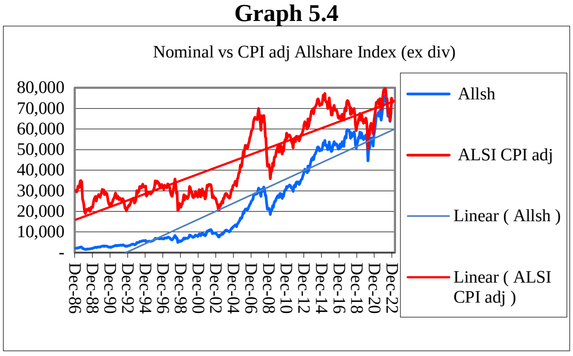
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 155.0 bn over the past 12 months to the end of December (outflow of R 164.3 bn over the 12 months to the end of November). The month of December experienced a net outflow of R 0.1 bn. Since 2006, foreign net investment outflows in bonds amounted to R 117.9 bn (net investment outflows to November R 117.8 bn).

Graph 5.3



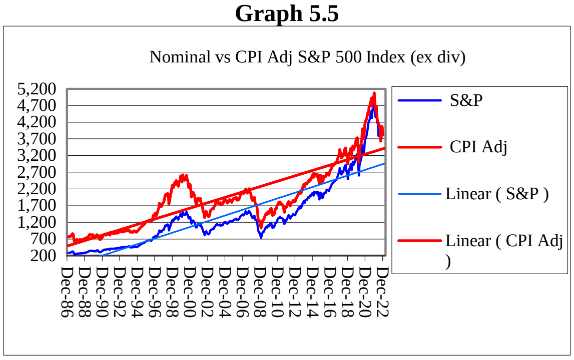
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.5% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 35 years was 7.6% per year. It is equivalent to growth in real terms of 2.9% p.a. over this period, excluding dividends, or around 6.1% including dividends.

Graph 5.4



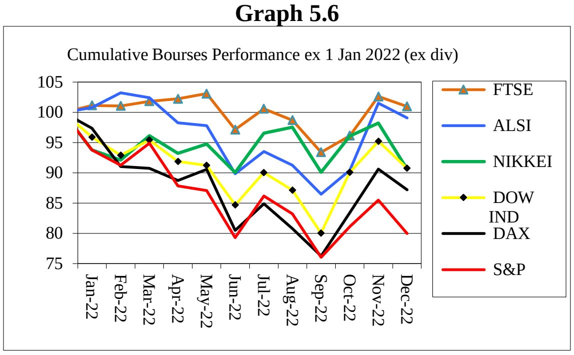
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 35 years since January 1987, the S&P500 Index grew by 7.6% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 4.8% p.a. over 35 years, excluding dividends, or around 6.9% (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: 16.3%; Consumer Goods: 12.3%; Basic Materials: 6.5%; Financials: 4.9% and Industrials: 3.6%.

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Benchmark Retirement Fund

Administered by RFS Fund Administrators

Income Tax Ref. No.12/1/12/462
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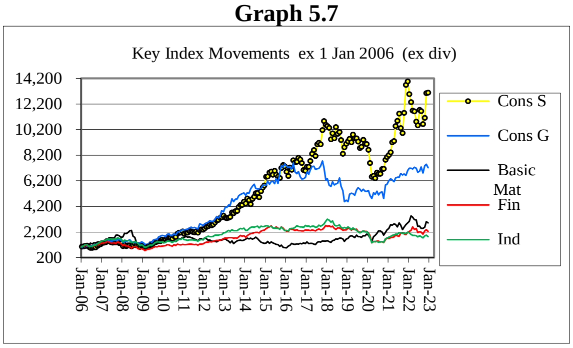
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 DECEMBER 2022

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 5.7



6. The defining development for economies and markets in the next decade

By Tilman Friedrich

In this column of the previous newsletter, I dwelled on an interview with Felix Zulauf, who spoke on global developments and how these would impact economies and markets.

I am fully aligned with the sentiments of Felix Zulauf. I believe that the defining development for economies and markets is the Ukraine-Russia war. Russia and China pose a serious threat to US hegemony and the current world order as defined by the US. This world order produced a fairly predictable investment environment, as we experienced over the past fifty years.

Russia and China have global ambitions, despise being subservient to the US, and resist it wherever possible. Russia, for one, had the audacity to frustrate US attempts to topple President Assad of Syria. China has been taking a more indirect approach to challenging US domination, such as its belt and road project. Many other countries, who simply cherish their autonomy, do not have the means to resist but will take the opportunity of ridding themselves of the US straight jacket.

It seems to me that the US picked Russia as the weaker link in the chain of resistance. At the same time, the fall of Russia to the west would give the west access to China's backdoor. Under former President Jeltzin, the US had nearly achieved its goal, but then came President Putin, whose purpose was and still is to restore the former Soviet Union's position in the world. Subjugating Russia is not a recent US strategy if one considers the colour revolutions all around Russia's periphery. John Bolton, former US ambassador to the UN, proudly acknowledged that the US carried out several regime changes that he was personally involved in. He did not say where, but the fact is that the US uses such tools to cement its hegemony. Henry Kissinger and Angela Merkel are reported to both have acknowledged that the Ukraine conflict is by the design of the west.

I believe the US will not relent on its goal to subjugate Russia as a first step, and China to follow, even if Russia is prepared to offer a compromise. Should Russia get the better of Ukraine, Poland will likely be 'sent to the front', possibly with other former eastern bloc and Nordic countries. If that does not 'do the job', we will likely see a further expansion, another world war. In fact, some political commentators, like US economist, Nouriel Roubini, believe the third world war has already started. Whether it will develop into a full-scale world war will depend on what China will do.

If China joins Russia, knowing that it is the ultimate target, either the west will subjugate both Russia and China, or vice-versa, or we may have a truce. Scenario one is that the west prevails, and the world will have a much more authoritarian western hegemony under US leadership. The west will employ the economic and financial philosophy we have become used to over the past 50 years. Scenario two is that the east prevails, and a new world order driven by the east will evolve over many years to come. Scenario three is that the conflict ends in a stalemate, and we will have a multi-polar world where the smaller countries can choose which pole to align with for their best benefit.

Whichever scenario realises, we will have a decade of roller-coaster markets ahead of us, as Felix Zulauf expects. Markets will swing violently from exuberance to despair. Investment markets will become more predictable only once the 'dust starts to settle'.

Small countries like Namibia and many other African countries will likely try to stay out of the conflict. Their economies should do well and can provide natural resources desperately needed by the parties to the conflict. Any capital invested in any country that is a party to this conflict is at severe risk of total loss. Until the dust has settled sometime in the next decade, it is advisable for investors to take their investments 'out of the line of fire'. The general investment principle of spreading your risk must be narrowed to recognise the consequences of the conflict. Investing at home or closer to home should take the investments out of the line of fire and reduce the risk of global investment.

Conclusion:

I expect the Fed to gradually increase its policy rate by another 2% over this year, which should bring inflation under control. However, if the Ukraine-Russia conflict develops as feared, inflation and interest rates may be much higher and for longer than observers currently expect. Higher interest rates and inflation will curb consumer demand and may result in a recession over the next decade until the dust settles. The creation of a new commodities-backed currency under China's leadership will lead to scarcity of commodities and higher prices. In addition, Governments may have to raise taxes to fund the conflict

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and higher interest rates on their debt. Global equity markets will likely not show much growth over 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 negatively in the next year or two. However, local equity markets should be less exposed to the global conflict and should be less volatile and less risky.

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 are the energy sector and certain chemical producers, defensive counters in health care and related areas, and consumer goods and services.

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