Volume 19, No. 05
May 2023

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 MAY 2023

By Staff Writer – RFS Fund Administrators (Pty) Ltd

The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

1. Review of Portfolio Performance

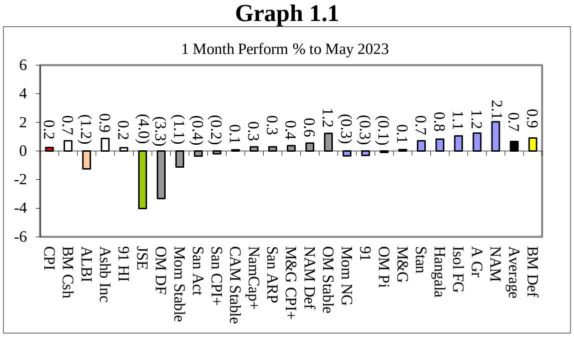
In May 2023, the average prudential balanced portfolio returned 0.7% (April 2023 2.3%). The top performer is NAM Coronation Balanced Fund with 2.1%, while Momentum Namibia Growth Fund with -0.3% takes the bottom spot. For the three months Hangala Absolute Capital Balanced Fund takes the top spot, outperforming the 'average' by roughly 2%. M&G Managed Fund underperformed the 'average' by 2.1% on the other end of the scale. Note that these returns are before (gross of) asset management fees.

Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced portfolios (black bar), the JSE Allshare Index (green bar), and the CPI (red bar). Benchmark investors should note the performance of the default portfolio (yellow bar), which represents a combination of Allan Gray Namibia Balanced, Ninety-One Namibia Opportunity, M&G Inflation Plus Fund, Sanlam Inflation Linked Fund and 20Twenty Credit Solutions.

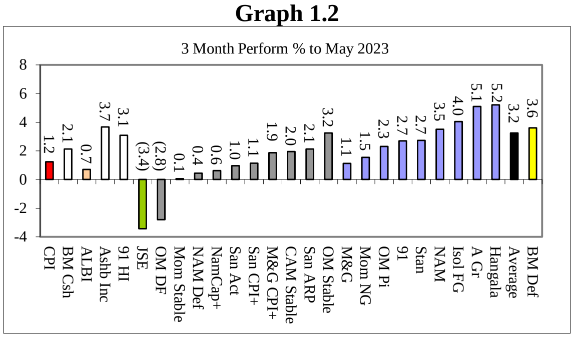
Below is the legend to the abbreviations reflected on the graphs:

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	BM Csh (no color)
NinetyOne High Income (interest bearing assets)	91 HI (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	OM Stable (grey)
Sanlam Absolute Return Plus	San ARP (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Hangala Capital 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	OM Pi (blue)
M&G Managed	M&G (blue)
Stanlib Managed	Stan (blue)

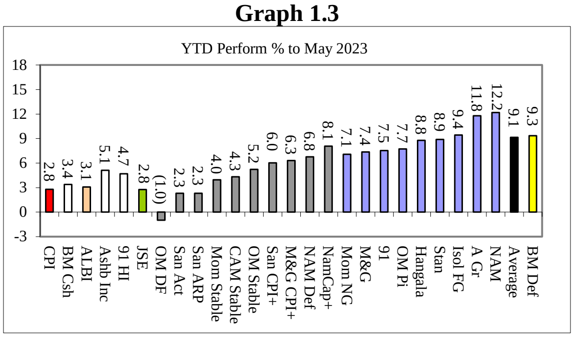
Graph 1.1



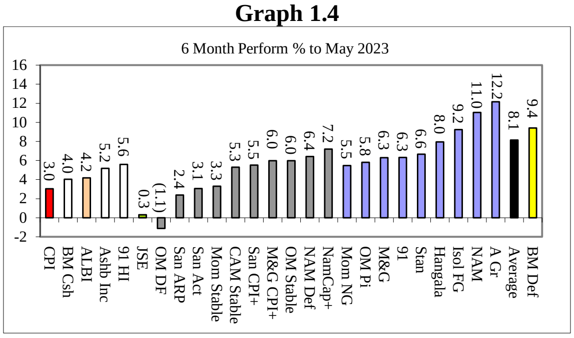
Graph 1.2



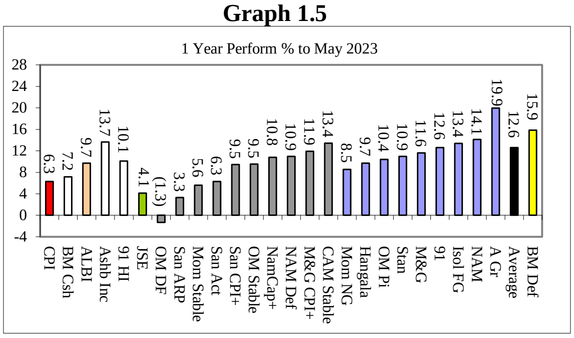
Graph 1.3



Graph 1.4



Graph 1.5



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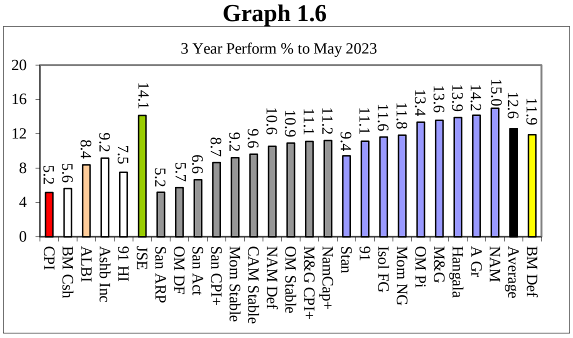
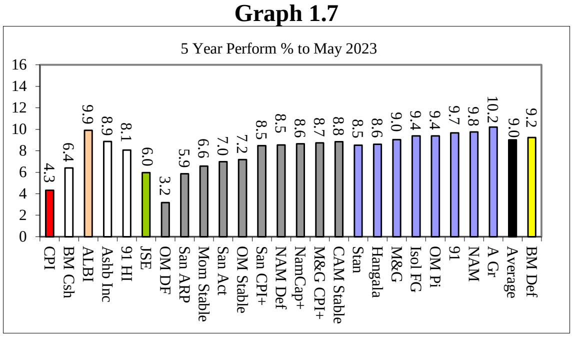
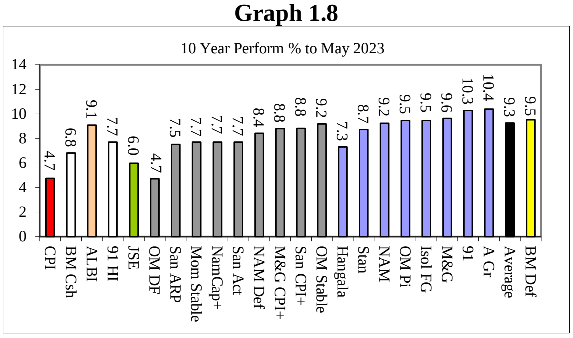
Graph 1.6



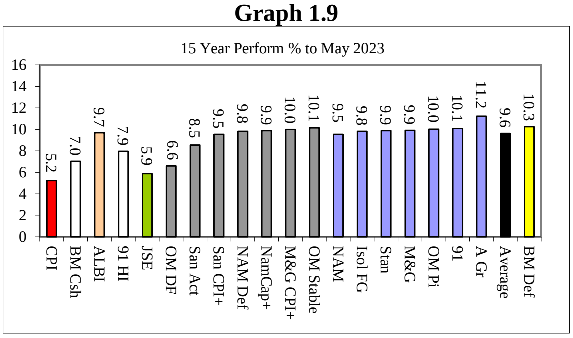
Graph 1.7



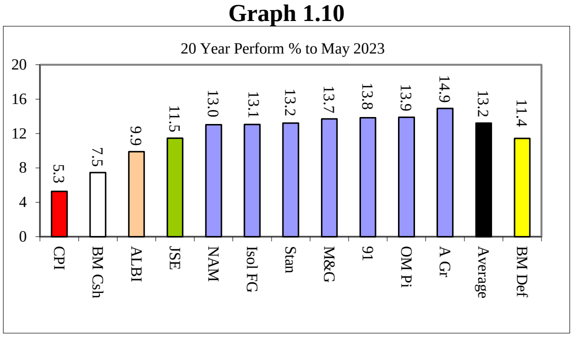
Graph 1.8



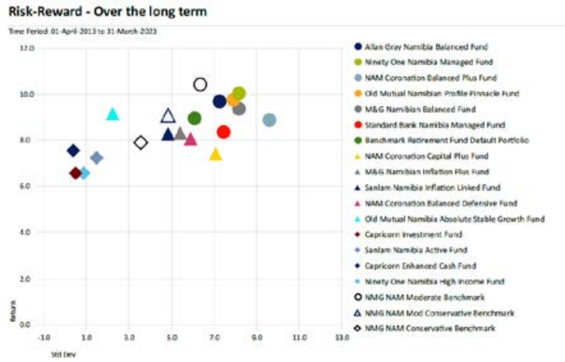
Graph 1.9

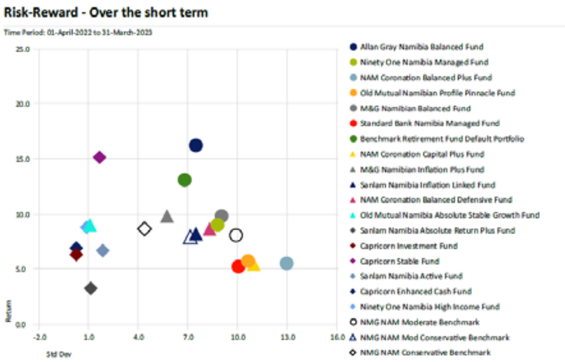


Graph 1.10



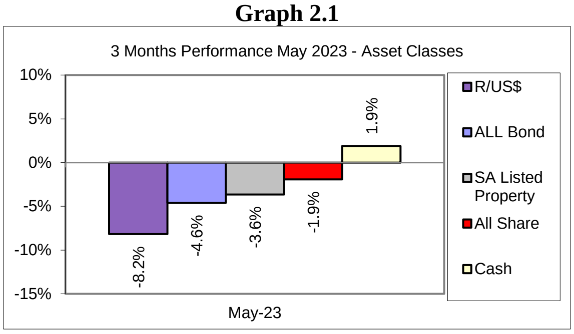
Risk/ Return



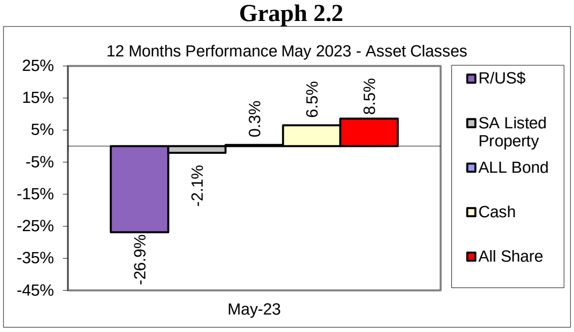


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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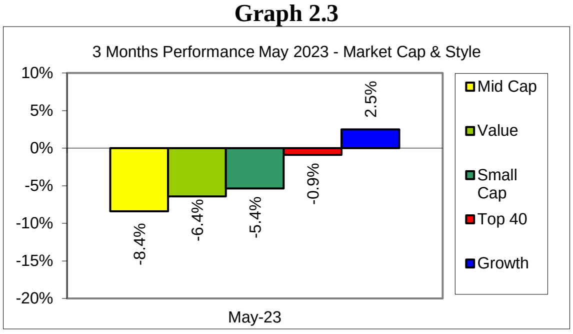
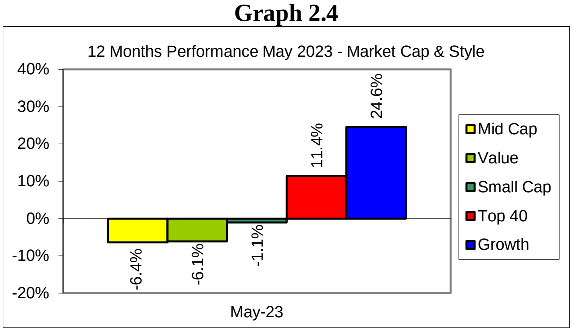
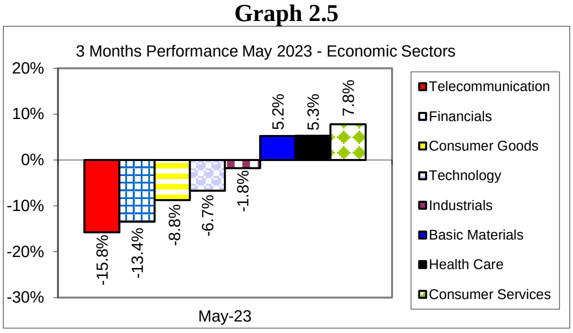
Graph 2.3



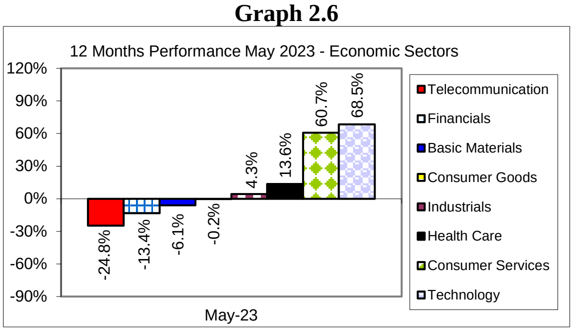
Graph 2.4



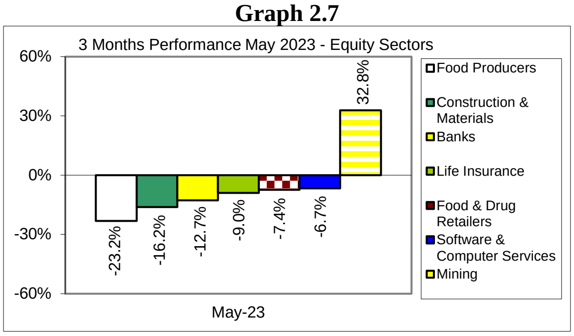
Graph 2.5



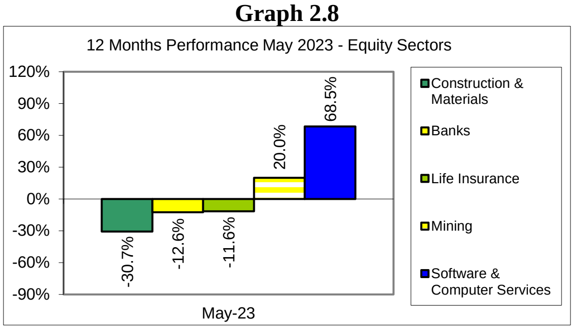
Graph 2.6



Graph 2.7



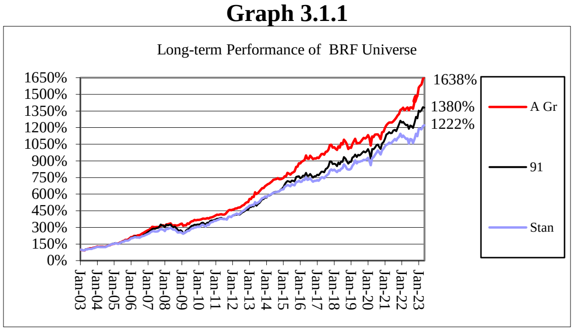
Graph 2.8



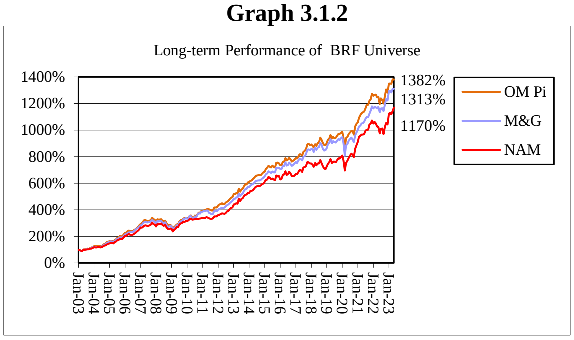
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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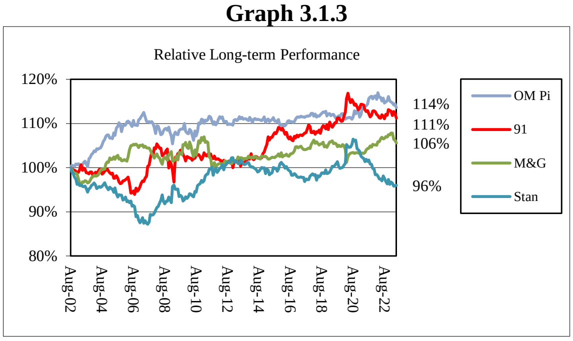
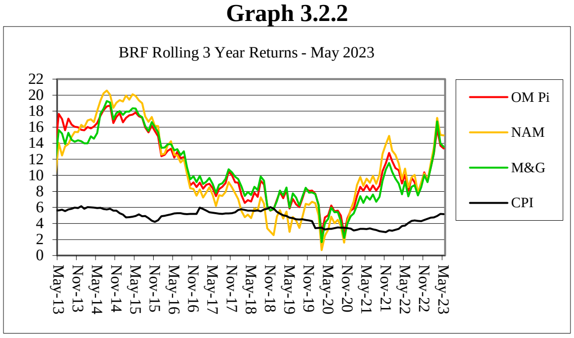
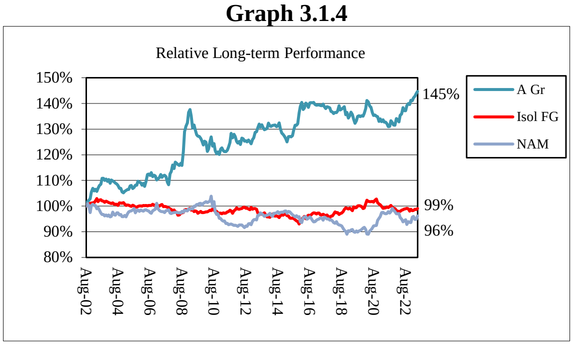
Graph 3.1.3



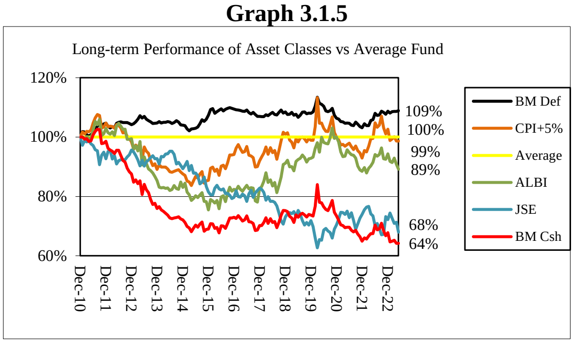
Graph 3.2.2



Graph 3.1.4

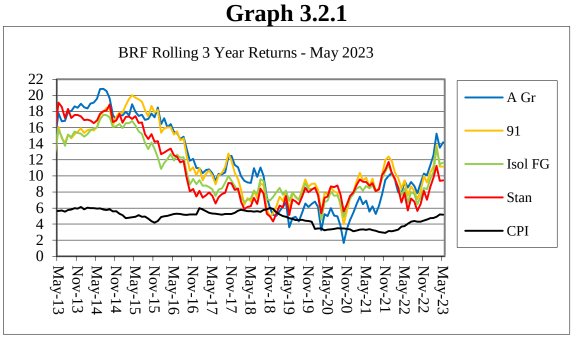


Graph 3.1.5



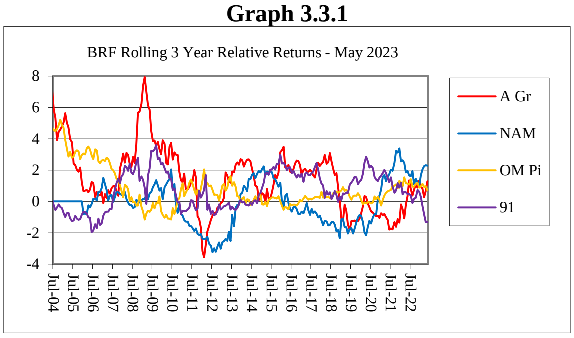
3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

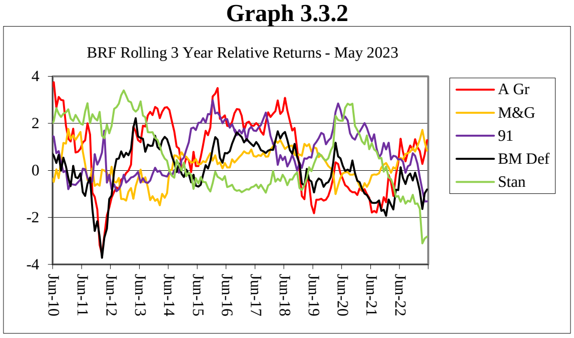


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

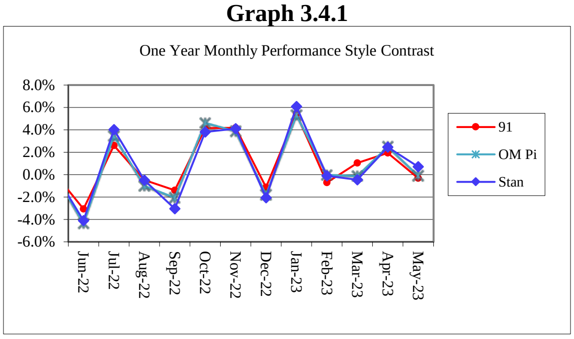


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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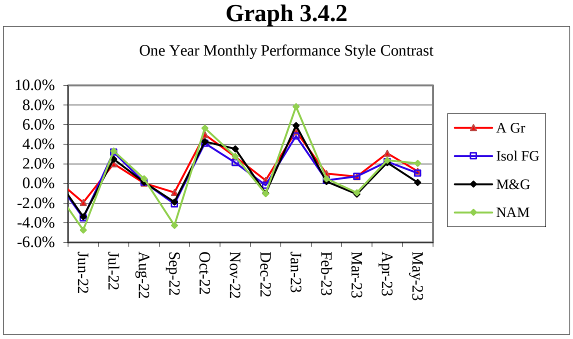
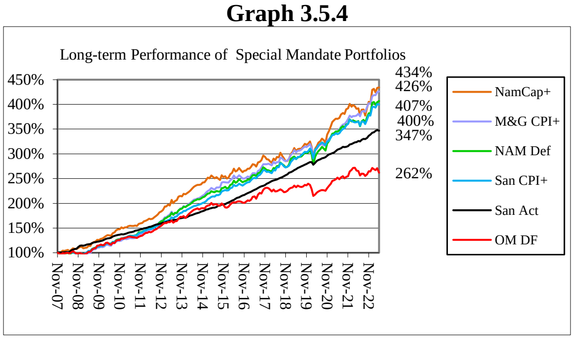
Graph 3.4.2

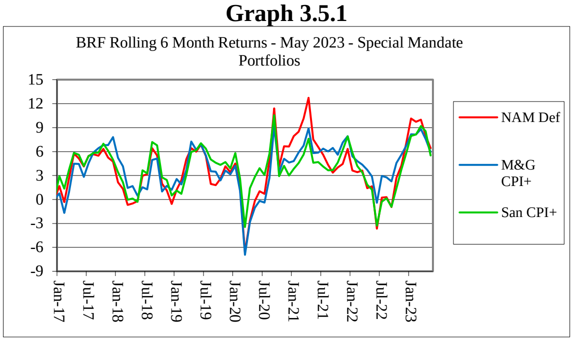


Graph 3.5.4

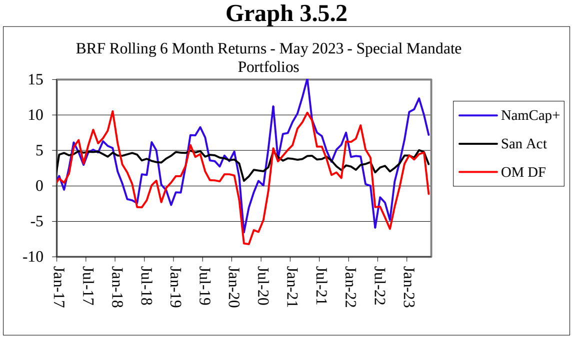


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

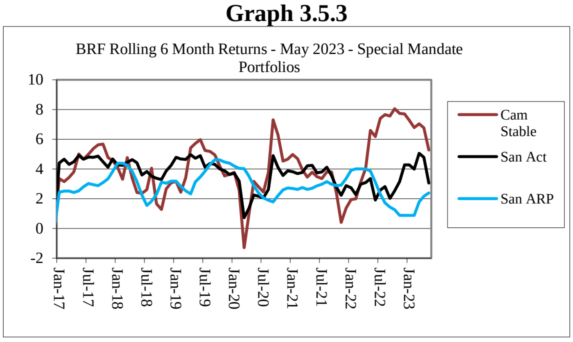
Graph 3.5.1



Graph 3.5.2

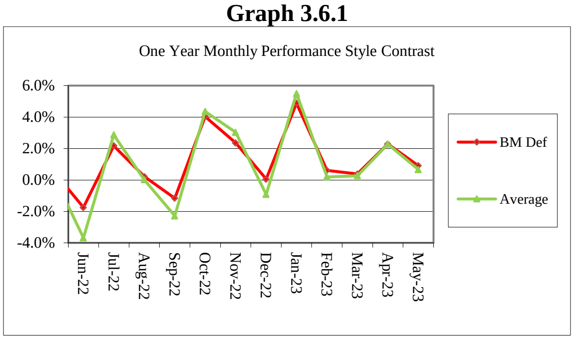


Graph 3.5.3

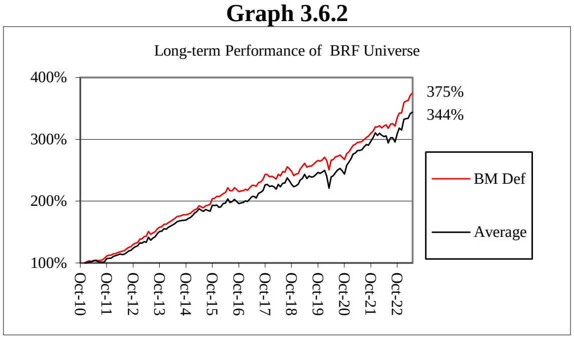


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

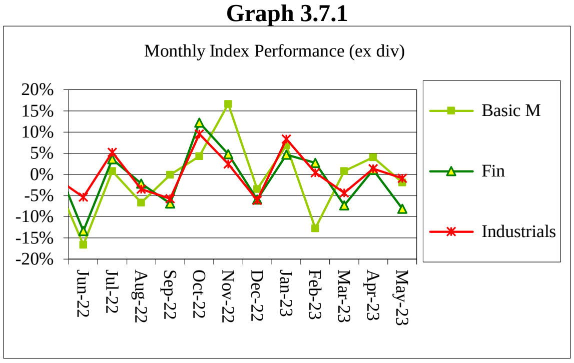


Graph 3.6.2



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

Graph 3.7.1



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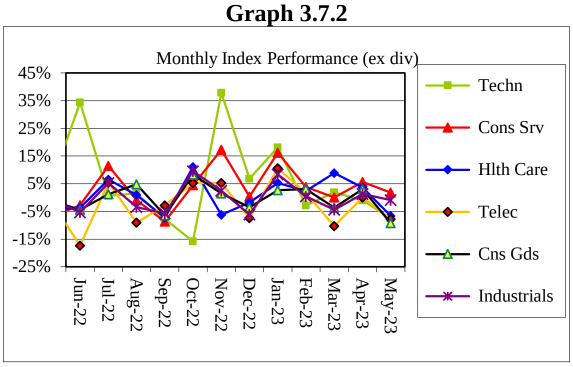
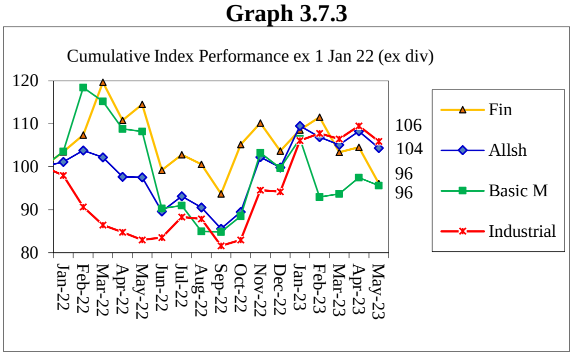
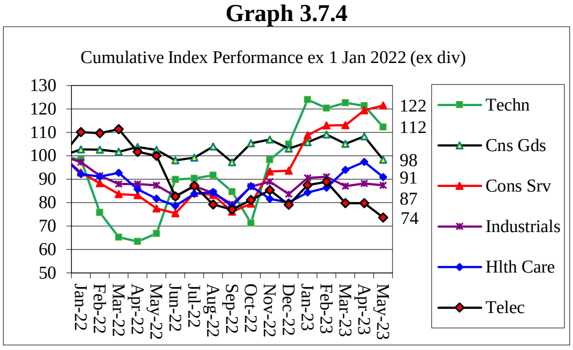
Graph 3.7.2



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.	9.2	9.0
5-year real return - % p.a.	4.9	4.7
Equity exposure - % of portfolio (quarter end March 2023)	45.7	63.5
Cumulative return ex Jan 2011	274.6	243.9
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 return of the Default Portfolio versus the target return 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 outperformed the average prudential balanced portfolio by a margin and is still ahead since January 2011, when the trustees restructured it 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%.

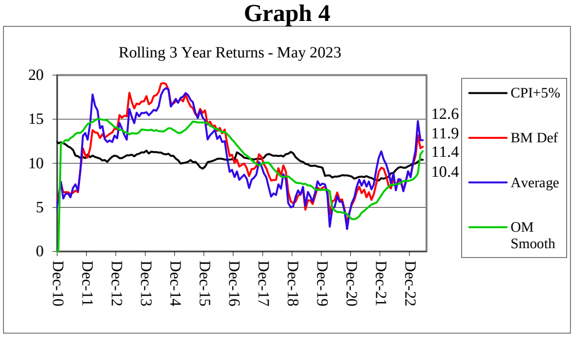
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	3.2%	2.5%
Best annual performance	7.7%	13.2%	14.8%
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	6.3%	7.7%	8.0%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from June 2020 to May 2023. These statistics show the performance volatility of these three risk profiles.

Graph 4



Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of May was 11.9%, the average was 12.6% vs. CPI plus 5%, currently on 10.4%.

5. Review of Foreign Portfolio Flows and the Rand

Graph 5.1 indicates that the Rand's fair value by our measure is 11.60 to the U.S. Dollar, while it stood at 19.78 at the end of May. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

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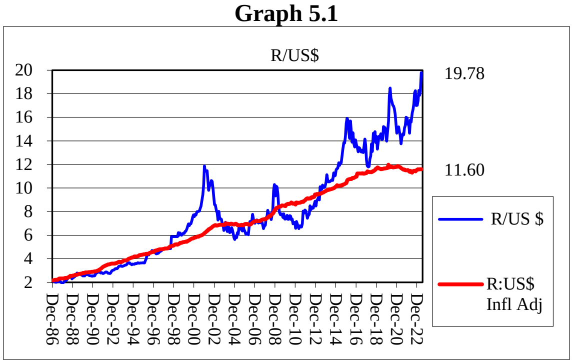
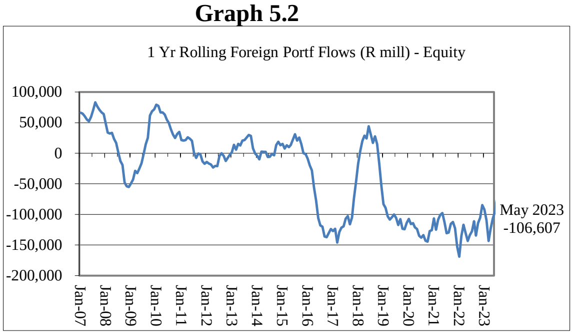
Graph 5.1



The Rand weakened by 7.56% in May with a net foreign investment outflow from bonds and equities of R 42.3 bn. Over the past 12 months, the Rand weakened by 26.9% (12 months to April Rand weakened by 16.6%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 314.2 bn (outflow of R 305.5 bn to the end of April 2023).

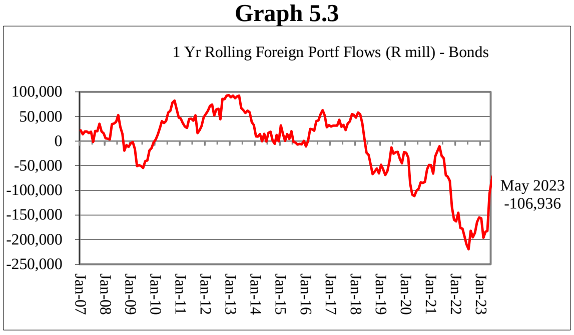
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 106.6 bn at the end of May (outflow of R 122.8 bn year-on-year to the end of April). The month of May experienced a net outflow of R 6.2 bn. Since 2006, foreign net investment outflows from equities amounted to R 550.8 bn (end April net investment outflow of R 544.6 bn). It represents roughly 2.5% of the market capitalization of the JSE.

Graph 5.2



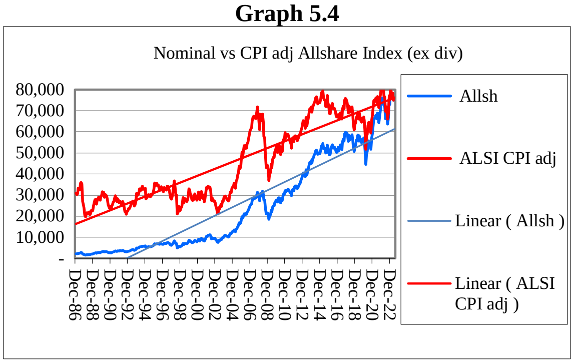
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 207.6 bn over the past 12 months to the end of May (outflow of R 182.7 bn over the 12 months to the end of April). The month of May experienced a net outflow of R 36.1 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 234.3 bn (end April net investment outflow of R 199.2 bn).

Graph 5.3



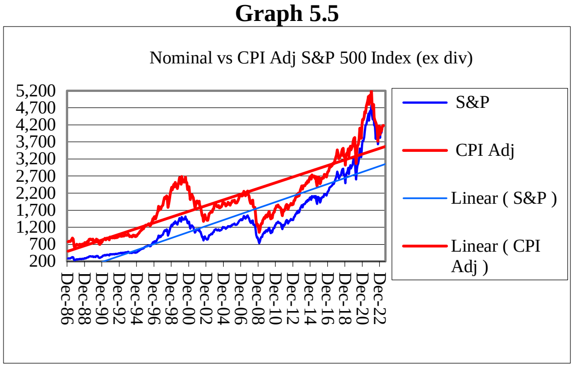
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.5% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent to growth in real terms of 2.9% p.a. over this period, excluding dividends, or around 6.2% including dividends.

Graph 5.4



Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 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 36 years, excluding dividends, or around 7.1% (including dividends).

Graph 5.5



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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 MAY 2023

By Staff Writer – RFS Fund Administrators (Pty) Ltd

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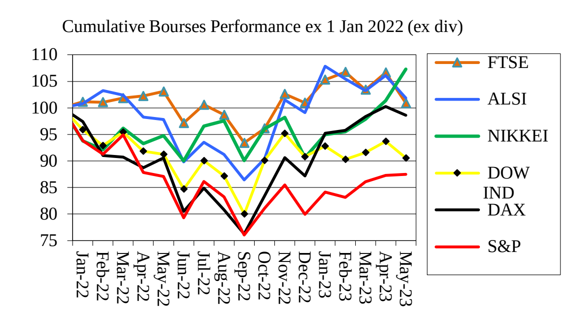
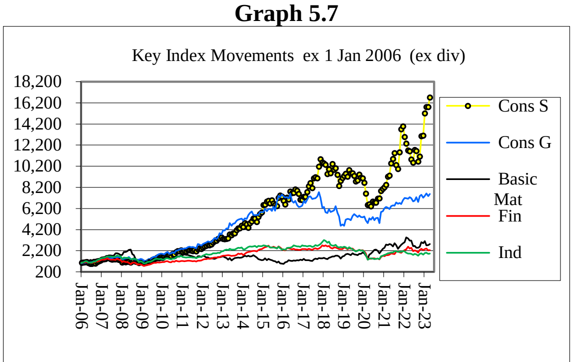
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the Financial Times Stock Exchange (FTSE) as the top-performing index since the start of 2022.

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: 17.7%; Consumer Goods: 11.7%; Basic Materials: 6.1%; Financials: 4.3% and Industrials: 3.8%.

Graph 5.7



6. Is China back in vogue?

By Tilman Friedrich

In the last few columns, I expressed my concerns about the consequences of the Ukraine conflict and its possible impact on global financial markets. This conflict has its roots in Russia having prevented the US from extending its hegemony to Georgia, Syria, and Venezuela through regime change. It is clear that the US wants to rid itself of the Russian threat, in particular, the nuclear threat, which is probably as potent and existentially threatening as the US'. To achieve this goal, the US and its Western allies would have to occupy Russia to physically denuclearise it. However, China would undoubtedly not accept the prospect of having Nato on its border and would not avoid a military confrontation to prevent it. This would be the worst-case scenario for the world economy.

As a result, China has expanded its military capabilities over the last few years. At the same time, the US had adopted a very aggressive posture towards China, using Taiwan as the powder keg it could ignite easily, if expedient. It seemed as if the Hawks, encouraged by the industrial-military complex, had taken over US foreign policy and were quite willing to solve two problems simultaneously: China and Russia. Even European politicians have openly taken sides with the US and became confrontational towards China after having already written off Russia. Has the US now realised that a confrontation with China and Russia simultaneously could overextend its capabilities and would hurt the world economy and, therefore, also its economy?

In the latest diplomatic charm offensive, US foreign secretary adopted a totally different posture towards China during his visit. He did his utmost to flatter China as a global superpower and eye-level partner of the US. This is the same person who was vociferous in his anti-China polemic, the same government that sent high emissaries to Taiwan and made a point of challenging China by sending warships to the South China Sea, imposing sanctions on the export of microchips, edging Huawei out of 5G projects across Western countries, and much more, knowing full well that it would upset the China-US relationship. Even Germany has changed its tone towards China and recently approved China's investment in the Hamburg Container Terminal business. Could it be that the Doves, spurred on by other US commercial business interests, took control of US foreign policy? Or is this just a ploy by the US government to appease China pretending not to present any threat to it, and to secure China's cooperation and support in subjugating Russia (as a first step)?

Since China is currently not in a position to challenge the US militarily, it is likely happy to see the US and the West's change in attitude. China will likely not object to denuclearising Russia but will not accept Nato on its western border. The consequence of a possible new US and Western allies' policy towards China would mean that business will continue as usual for the foreseeable future. The decoupling of the US and Western economies from the Chinese economy would continue because of the nasty awakening after the COVID-induced supply chain interruptions. China would also decouple its economy from the US and Western economies because of its nasty awakening from financial and economic sanctions imposed on it. These sanctions also awakened many other countries who are now seeking ways to decouple the Western financial system. Of course, the US dislikes such moves and will try to prevent them, although it would have to accept China's decoupling, in the same way as it is moving to decouple its economy from the Chinese economy. To be the only country to decouple its financial system from the West's will, of course, not work as China would need other trading partners to also decouple. It would place the US in a difficult position. Yet, the US is already putting pressure on countries such as South Africa, ostensibly for being too closely aligned to Russia, but in reality for aligning with countries wanting to establish a new multipolar world.

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Indications are now, that a global confrontation becomes a more remote possibility and that business as usual would be the more likely scenario, given the global decoupling trend. NATO's objective would likely be to force Russia to withdraw from Ukraine and Crimea, giving up its naval base in Crimea, the beginning of Russia's emasculation. NATO, with China's cooperation and support, would likely raise the economic and military pressure on Russia to the point where it is forced to give up its nuclear weapons, and superpower ambitions and would fall under China's hegemony. The world would then still have two global superpowers - the US and China in a new bipolar world.

Conclusion

In the previous column, investors were cautioned to tread carefully until the dust has settled. It seems that the dust is settling and that the world will be business as usual. However, we would likely experience an evolution to a new bipolar world dominated by the US and China, each with its own financial system and hegemonical territory. It is likely that the two financial systems could be linked to promote trade and financial flows. It would be prudent to give things another two months or so until one has greater confidence that the dust is settling and of the direction the world will move into. Thereafter, the investor should review his investment strategy. This would be a pro-growth scenario with an exceptionally rosy outlook for the investor!

With an expectation of a new bipolar world and a global decoupling but, otherwise, business as usual, global diversification with a focus on equities would be appropriate. There would be a general shift of manufacturing, production, and development of goods and services away from China. Where China used to be the global factory for manufactured goods, decoupling will result in much of economic activity being on shored or 'friendshored', creating investment opportunities in the West.

China would have to replace Western imports with local equivalents and would have to rely more on its huge local market than on exporting. It will have industries getting out of favour and others into favour because of the global economic shifts, and this will create investment opportunities, but there will also be those that will decline. Western companies with a strong business base in China would likely suffer due to the decoupling, and one should exercise caution. Effectively, a lot of infrastructure will become redundant particularly in China and would have to be replaced with new infrastructure in the West and in China. It affords the opportunity to employ more green technology. The result of which will be similar to a war, after which the demand for basic materials increases dramatically as economies would be restructured and rebuilt, which should lead to employment creation. Of course, a commodity-backed new BRICS currency would also boost global commodity demand and prices. In the new bipolar world, we also foresee that tourism should experience a boom.

The expected increase in employment and commodity prices would accelerate inflation and interest rates. Commodity-producing countries should be cushioned from those effects and should experience strengthening currencies. Global diversification of investment should take this into account.