Volume 19, No. 06
June 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 30 JUNE 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

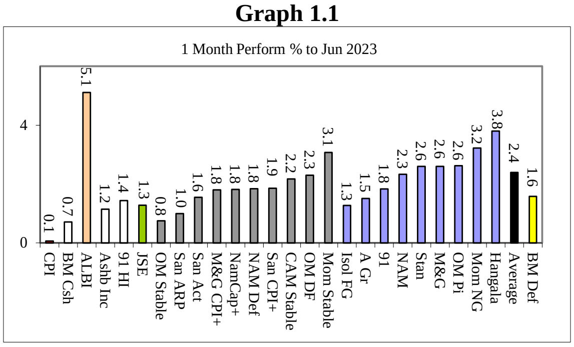
In June 2023, the average prudential balanced portfolio returned 2.4% (May 2023: 0.7%). The top performer is Hangala Absolute Capital Balanced Fund with 3.8%, while Investment Solutions Balanced Growth Fund with 1.3% takes the bottom spot. For the three months NAM Coronation Balanced Plus Fund takes the top spot, outperforming the 'average' by roughly 1.5%. NinetyOne Managed Fund underperformed the 'average' by 1.9% 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.

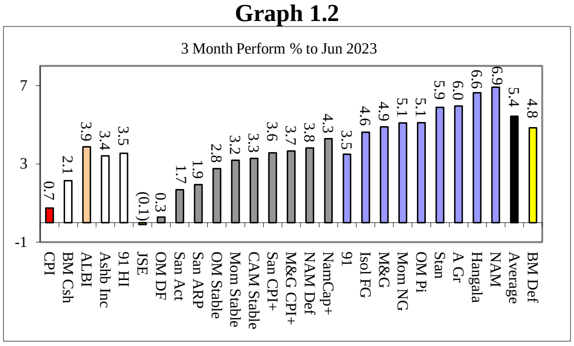
Below is the legend to the abbreviations reflected on the graphs:

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)

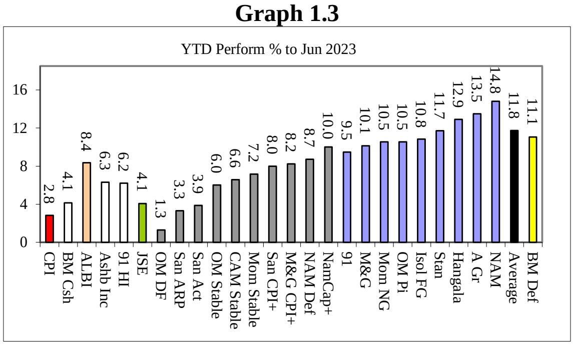
Graph 1.1



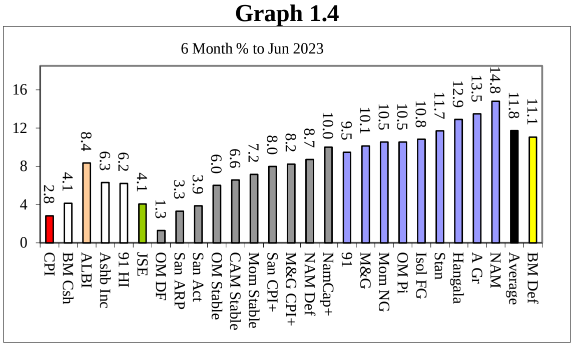
Graph 1.2



Graph 1.3



Graph 1.4



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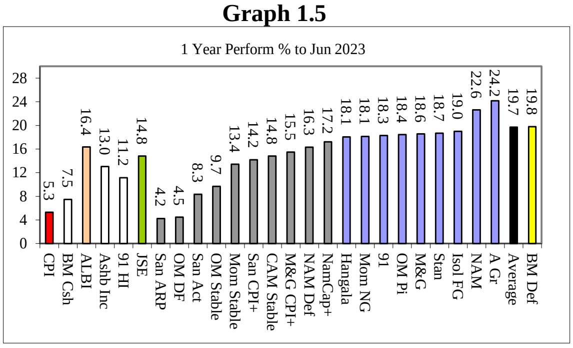
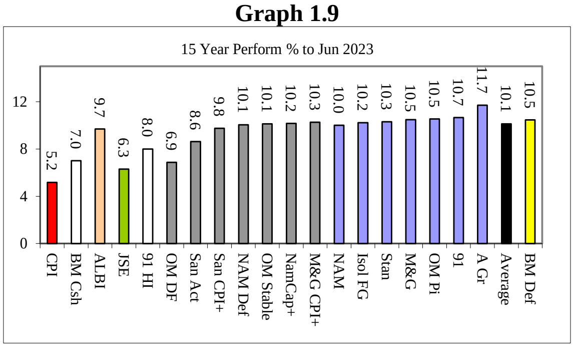
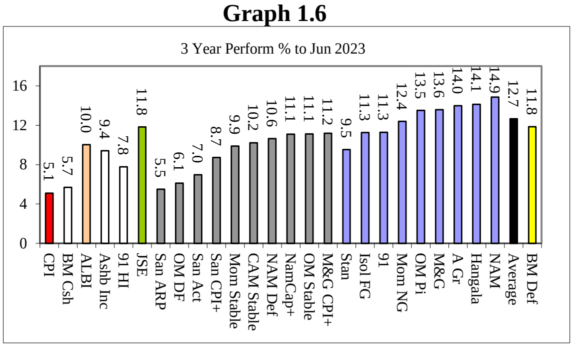
Graph 1.5



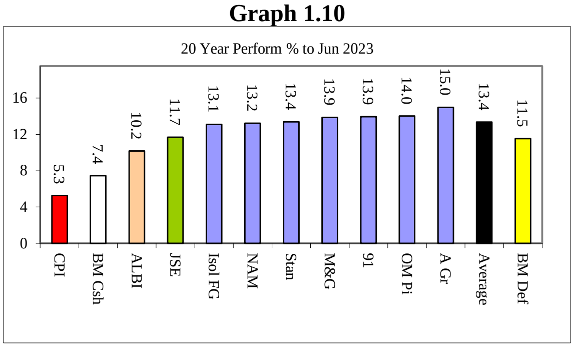
Graph 1.9



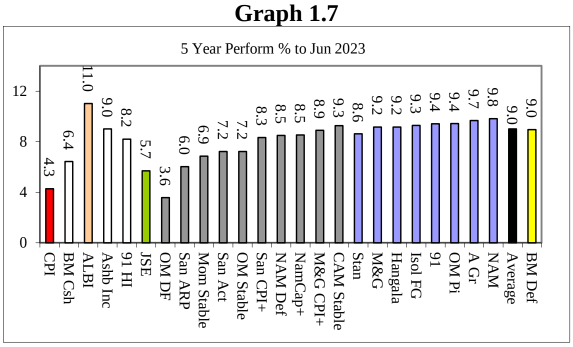
Graph 1.6



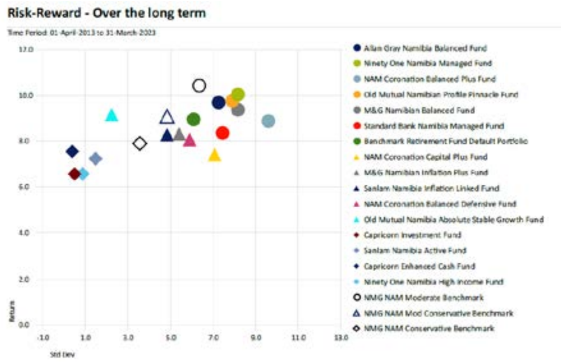
Graph 1.10



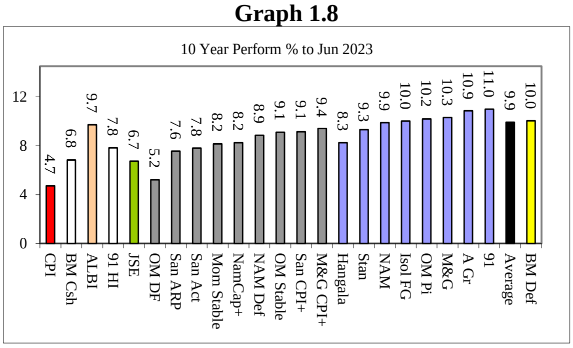
Graph 1.7

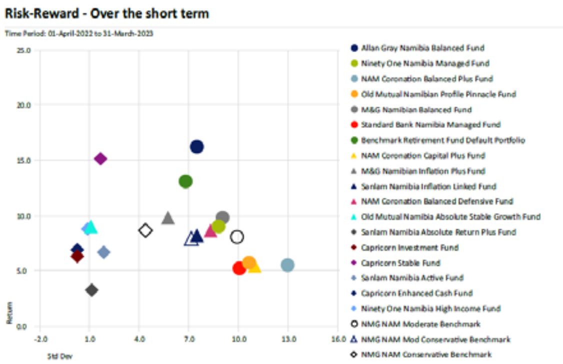


Risk/ Return



Graph 1.8





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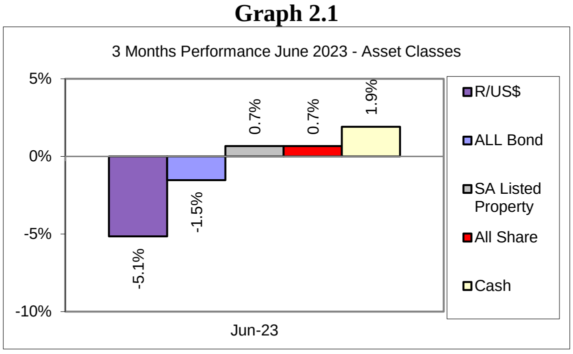
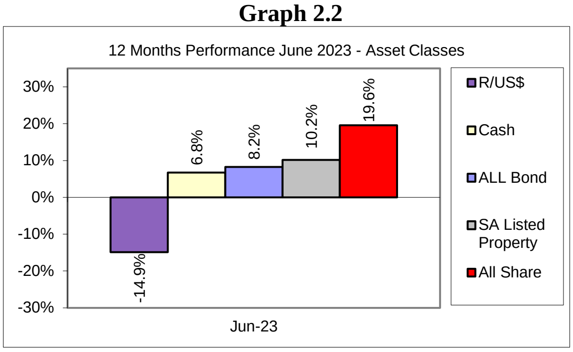
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

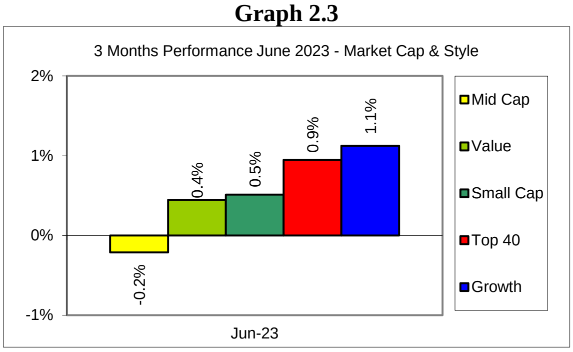
Graph 2.1



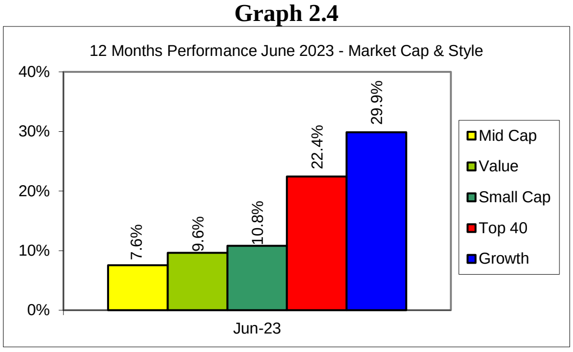
Graph 2.2



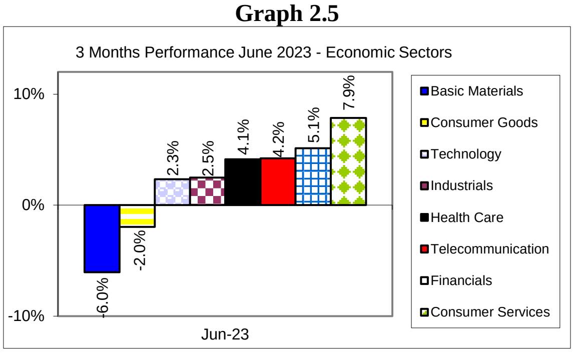
Graph 2.3



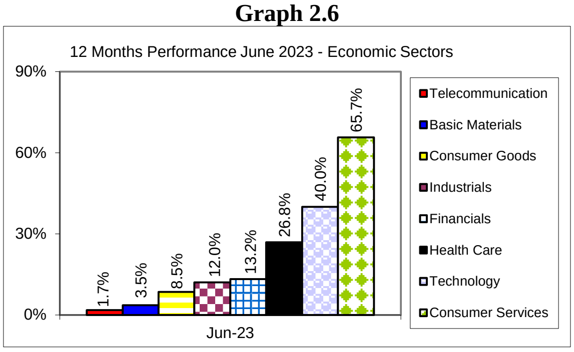
Graph 2.4



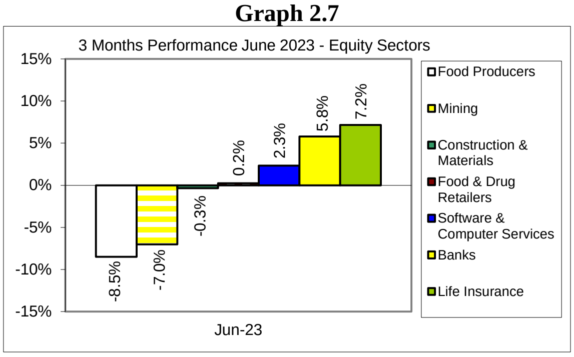
Graph 2.5



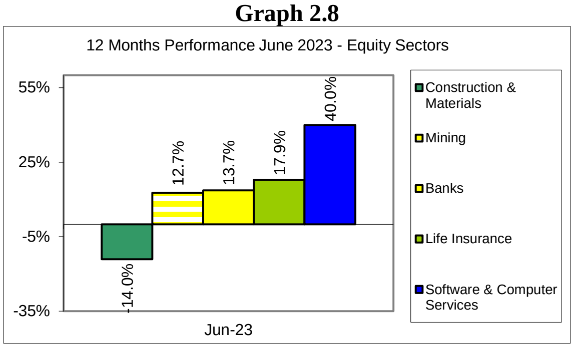
Graph 2.6



Graph 2.7



Graph 2.8



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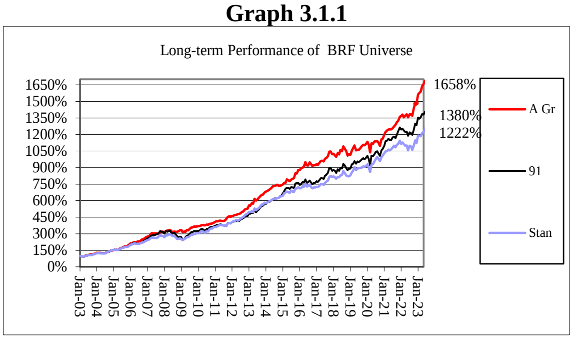
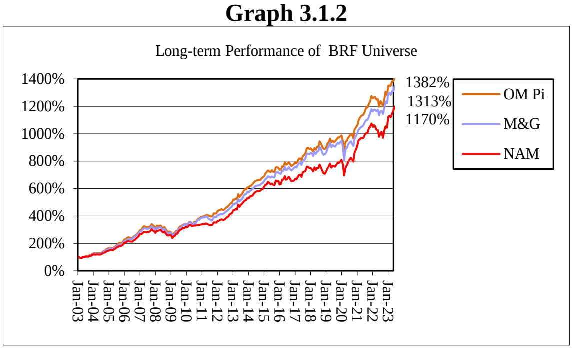
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

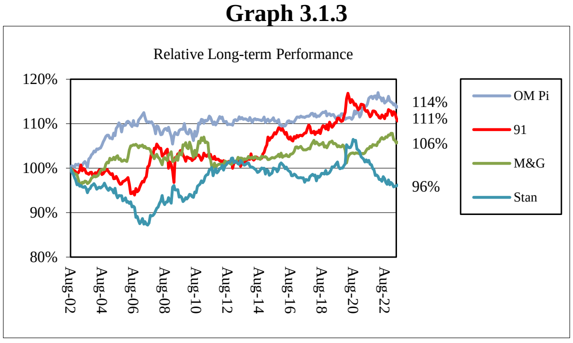
Graph 3.1.1



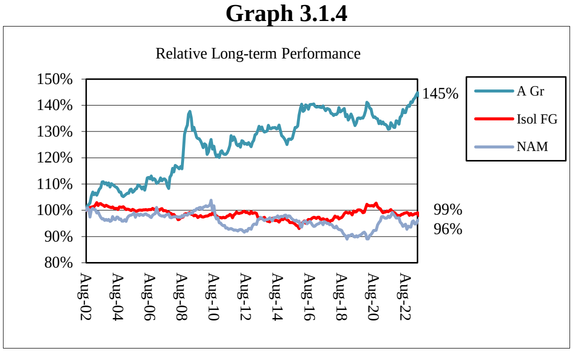
Graph 3.1.2



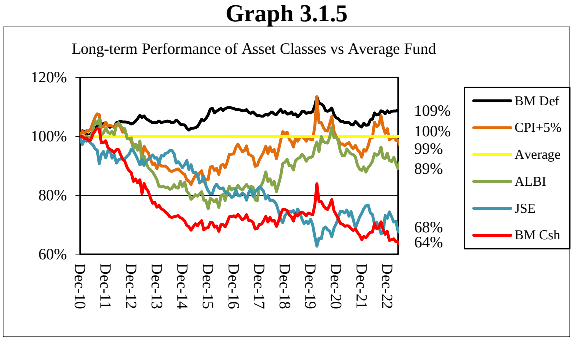
Graph 3.1.3



Graph 3.1.4

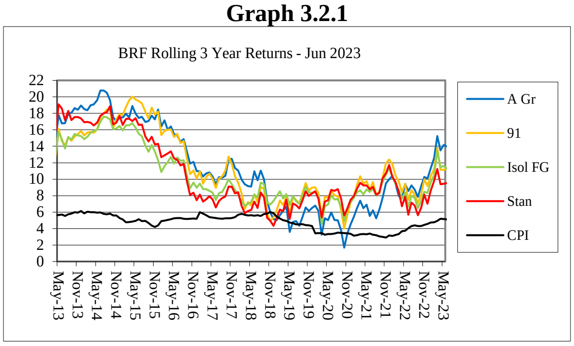


Graph 3.1.5

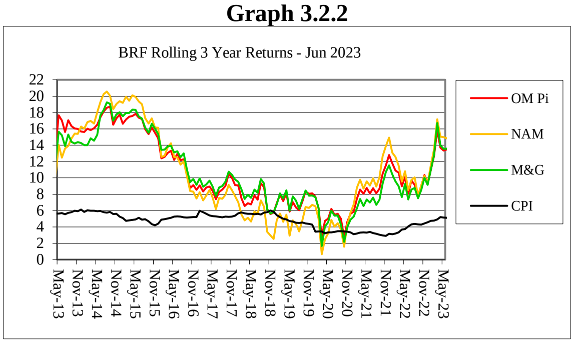


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

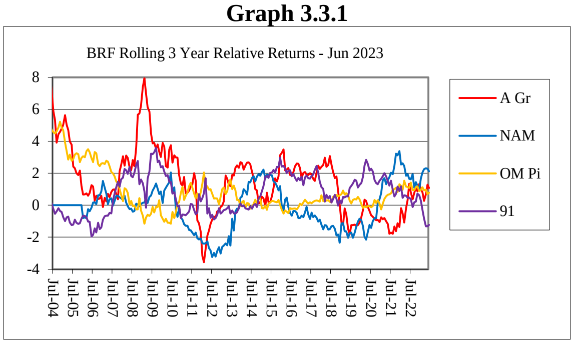


Graph 3.2.2



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

Graph 3.3.1



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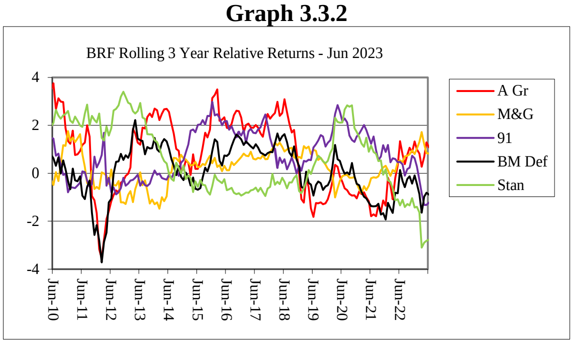
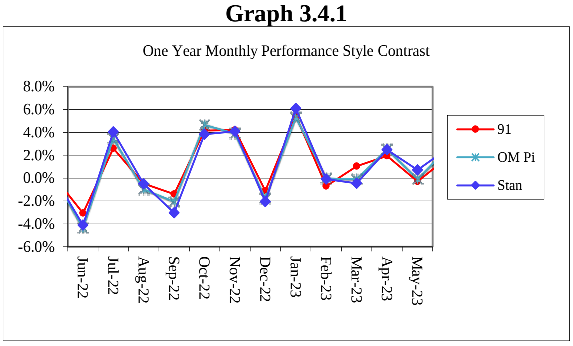
Graph 3.3.2

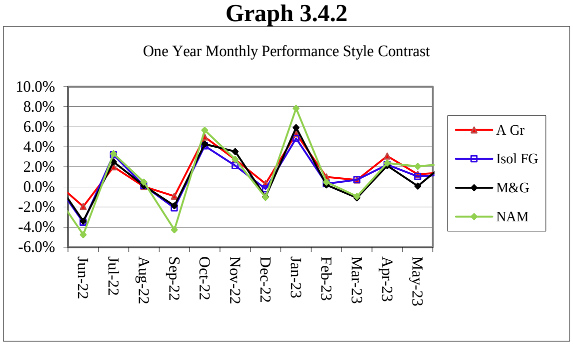


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

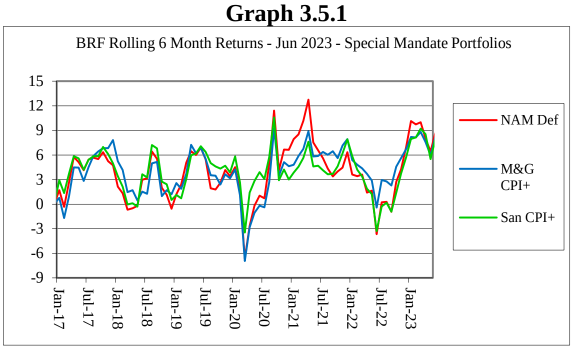


Graph 3.4.2

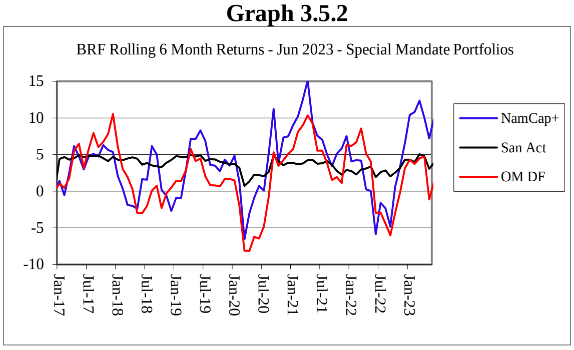


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

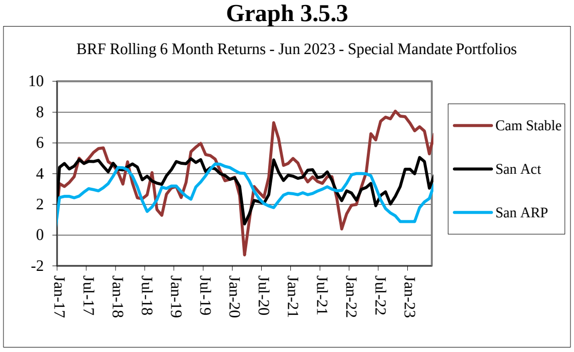
Graph 3.5.1



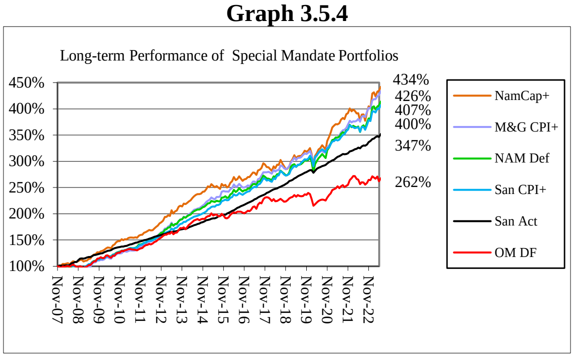
Graph 3.5.2



Graph 3.5.3

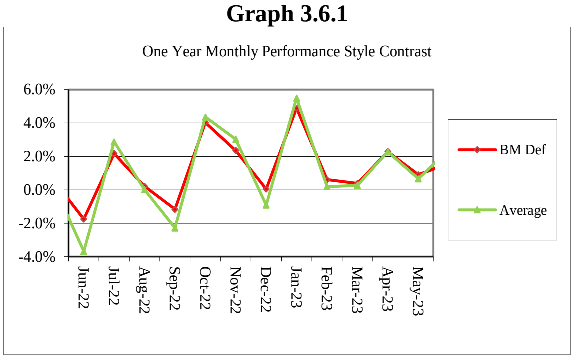


Graph 3.5.4



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

Graph 3.6.1



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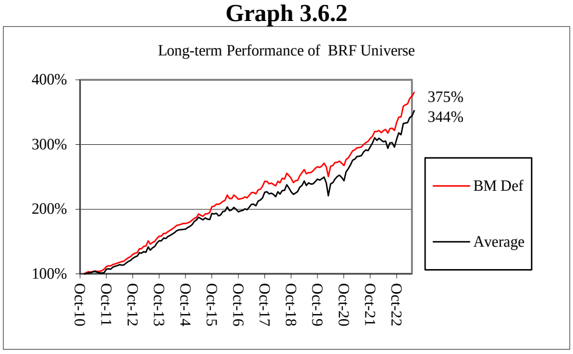
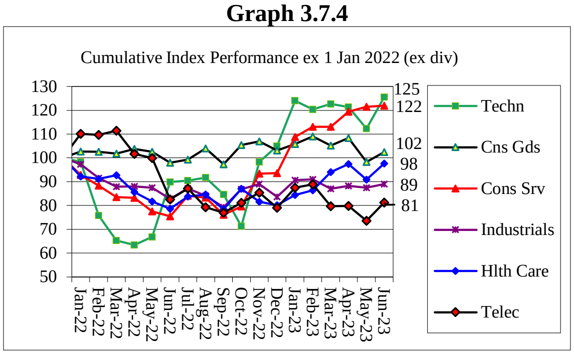
Graph 3.6.2

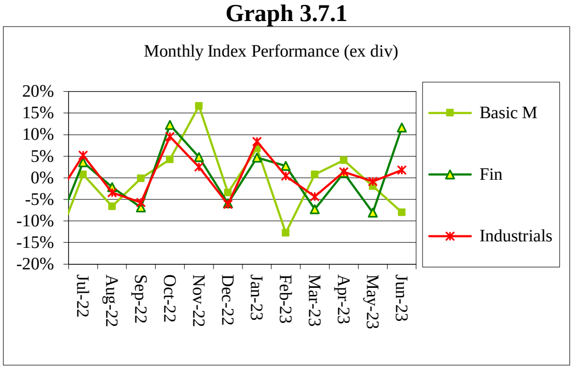


Graph 3.7.4

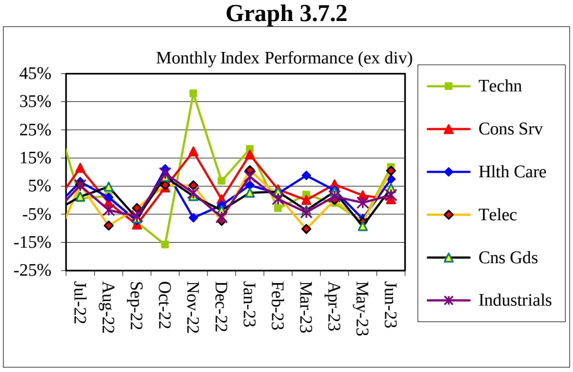


3.7 One-year monthly performance of key indices (excluding dividends)

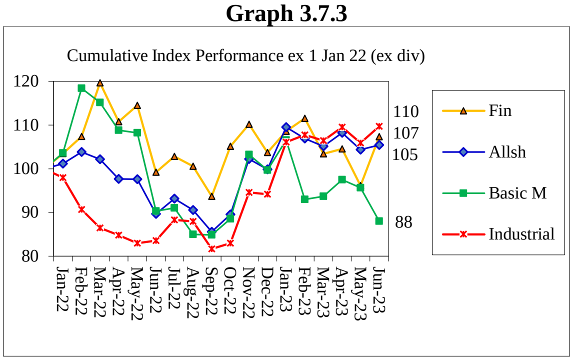
Graph 3.7.1



Graph 3.7.2



Graph 3.7.3



4. The Benchmark Default Portfolio – Facts in figures

Table 4.1

Portfolio	Default portfolio	Average Prud Bal
5-year nominal return - % p.a.	9.0	9.0
5-year real return - % p.a.	4.7	4.7
Equity exposure - % of portfolio (quarter end March 2023)	45.7	63.5
Cumulative return ex Jan 2011	280.5	252.2
5-year gross real return target - % p.a.	5	6
Target income replacement ratio p.a. - % of income per year of membership	2	2.4
Required net retirement contribution - % of salary	13.0	11.6

The above table reflects the actual 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	7.6%	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	6.2%	7.8%	8.4%

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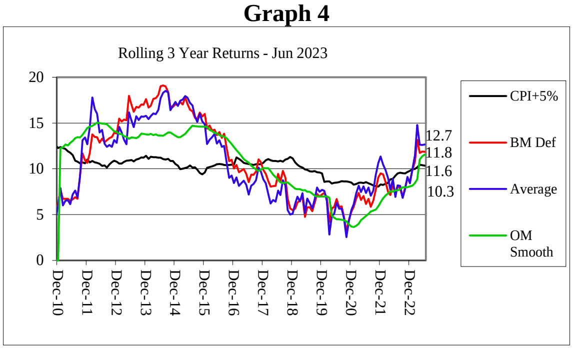
The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from July 2020 to June 2023. These statistics show the performance volatility of these three risk profiles.

Graph 4

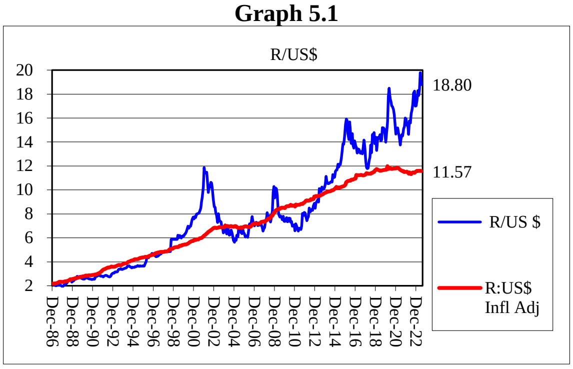


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of June was 11.8%, the average was 12.7% vs. CPI plus 5%, currently on 10.3%.

5. Review of Foreign Portfolio Flows and the Rand

Graph 5.1 indicates that the Rand's fair value by our measure is 11.57 to the U.S. Dollar, while it stood at 18.80 at the end of June. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

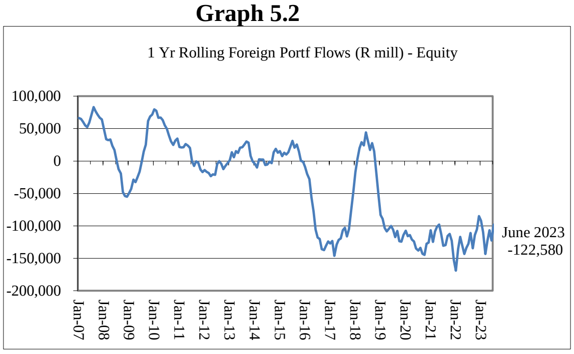
Graph 5.1



The Rand strengthened by 4.97% in June with a net foreign investment outflow from bonds and equities of R 22.2 bn. Over the past 12 months, the Rand weakened by 14.9% (12 months to May Rand weakened by 26.9%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 298.8 bn (outflow of R 314.2 bn to the end of May 2023).

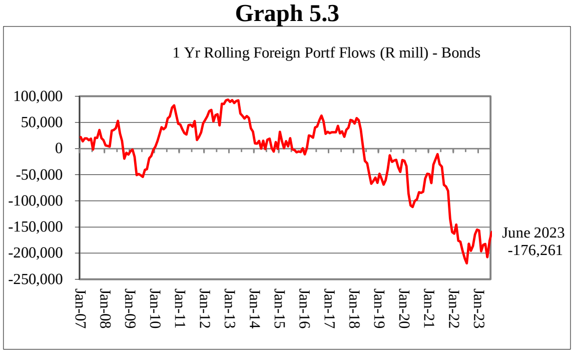
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 122.6 bn at the end of June (outflow of R 106.6 bn year-on-year to the end of May). The month of June experienced a net outflow of R 26.9 bn. Since 2006, foreign net investment outflows from equities amounted to R 577.7 bn (end May net investment outflow of R 550.8 bn). It represents roughly 2.6% of the market capitalization of the JSE.

Graph 5.2



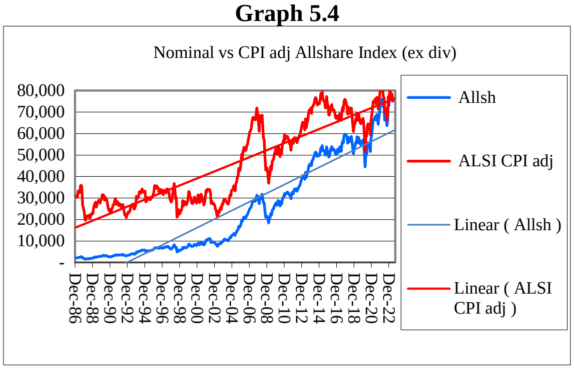
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 176.3 bn over the past 12 months to the end of June (outflow of R 207.6 bn over the 12 months to the end of May). The month of June experienced a net inflow of R 4.8 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 230.5 bn (end May net investment outflow of R 234.3 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 10.5% 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 6.1% including dividends.

Graph 5.4



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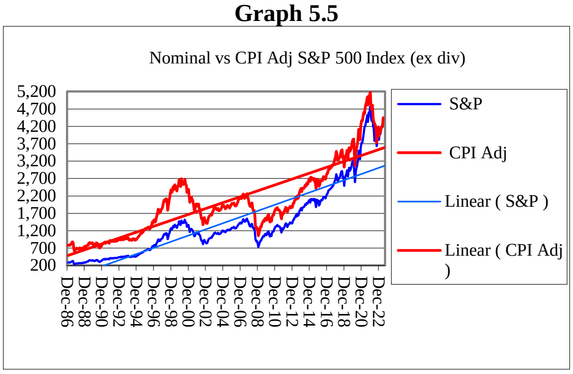
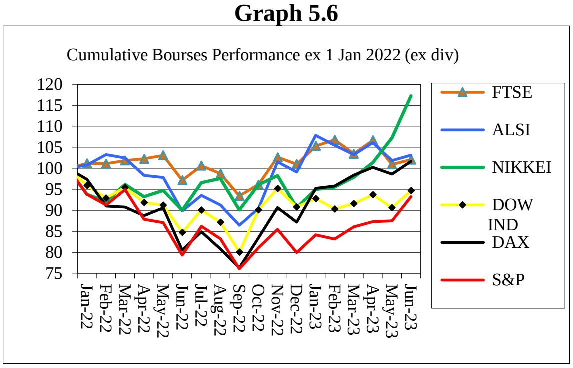
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 7.9% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.1% p.a. over 36 years, excluding dividends, or around 7.2% (including dividends).

Graph 5.5



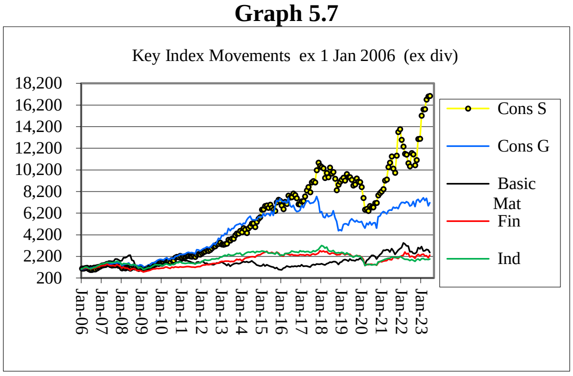
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the Financial Times Stock Exchange (FTSE) as the top-performing index since the start of 2022.

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: 17.6%; Consumer Goods: 11.9%; Basic Materials: 5.5%; Financials: 5.0% and Industrials: 3.9%.

Graph 5.7

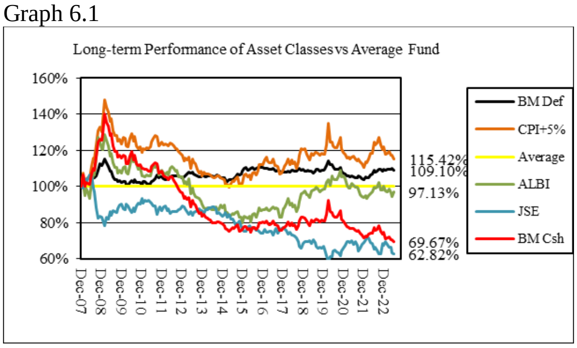


6. Tread carefully, but the point of inflection is nearing!

By Tilman Friedrich

I am an utterly convinced proponent of prudential balanced portfolios. These portfolios are the best investment option for the man on the street. I regularly show graph 6.1 to substantiate why I believe in these portfolios. To me, this is one of the most insightful graphs!

Graph 6.1



Let me explain what this graph tells us. The point of departure is the yellow line at 100%, representing the cumulative return of the average prudential balanced portfolio in the Benchmark universe. The chart covers the period from January 2008, just before the global financial crisis hit markets, until 30 June 2023. Up to 30 June 2023, the brown line ends at the top. It is the CPI plus 5% line, representing the prudential balanced portfolio's expected long-term return. However, the average prudential portfolio (yellow line) produced 15.4% less over the past fifteen and-a-half years, roughly 1% annually, below our long-term expectation.

If one breaks down the prudential balanced portfolio, it comprises, broadly, equities (around 65%), bonds (around 25%), and cash (about 10%). These asset classes are represented in the graph as the blue line (equities), the red line (cash), and the green line (bonds). The general picture is that when the global financial crisis struck in 2008, and the bottom fell out of the equity market, inflation spiked and pulled interest rates up way above the returns the prudential balanced portfolio could produce. As inflation trended lower, interest rates declined, falling below the yellow line (prudential balanced portfolio) from the middle of 2013. Tracking the green, red and yellow lines, only bonds (green line) briefly outperformed the prudential balanced portfolio (yellow line), even though it only invests in the blue, red and green lines. Over the fifteen and-a-half years, bonds, as the best-performing asset class, underperformed the prudential balanced portfolio by 3%, cash by 30% and equities by 37%! Prudential-balanced portfolio managers manage to outperform all their underlying asset classes because they shift their assets between these classes; very successfully, as we can see!

To complete the picture and blow our own bugle, the Benchmark default portfolio (black line) outperformed the average prudential balanced portfolio (yellow line) by 9%.

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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 30 JUNE 2023

By Staff Writer – RFS Fund Administrators (Pty) Ltd

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It only missed its CPI plus 5% target by 0.6% per year and never lingered below the yellow line (average prudential balanced portfolio)!

It is improbable that the man on the street who dares to choose between the three main asset classes would have been as successful as the prudential balanced portfolio manager. However, prudential portfolio managers invest for the long term. Their decisions are based on experience heavily weighted by market behaviour over the past 70 years and assuming that markets will revert to normal following any prospective catastrophe. They might tweak their portfolios but will not make radical changes as it might become a self-fulfilling prophecy.

An individual investor should consider two factors that are not important to the prudential balanced portfolio manager. Firstly, what is long-term for a portfolio manager may not be long-term for an individual investor. The investment horizon of many investors can be substantially shorter, and they should consider any prospective catastrophe. Secondly, the individual investor must consider substantial irregular cash flows, where timing is crucial. Not investing when the market peaks or withdrawing investments when it troughs is common sense. But how does one know when it peaked or bottomed? Going by history provides pointers but no certainty on whereto the market will move. Spreading large cash flows over a period (Nam Dollar-cost averaging) will reduce the risk of getting the timing wrong.

The Ukraine conflict constitutes a prospective catastrophe for the world and investors. This conflict has its roots in the US wanting to preserve its global hegemony against the military and economic threats posed by China and Russia, the prospect of international trade losing its dependence on the US Dollar, and the world moving into a new order not dictated by the US. Weaponising the global financial system against its adversaries has clarified that the US will unlikely stop short of re-entrenching its global hegemony.

Russia cannot hold its ground against a concerted Western campaign without China's support. Although it seems that China is not ready yet to challenge the West, it may consider its chances better to stand together with Russia now than be on its own in a few years.

Where we are today, the global political situation presents a prospective catastrophe. Investors with a time horizon of ten years or less must tread carefully. In my assessment, the world is not far from when it will become evident whether China will make its stand now or delay the 'evil day'. In the latter case, China will contribute to Western efforts to denuclearise Russia without Russia losing its autonomy.

Given the global decoupling trend, a global confrontation becomes a more remote possibility and business as usual would be the more likely scenario. Nato would likely force Russia to withdraw from Ukraine and Crimea, giving up its naval base in Crimea, the beginning of Russia's emasculation. But the world would still have two global superpowers - the US and China in a new bipolar world.

Conclusion

We will likely experience an evolution to a new bipolar world dominated by the US and China, each with its financial system and hegemonical territory. The two financial systems would likely be linked to promoting 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 the direction the world will move. After that, the investor should review his investment strategy. Are we heading for a global confrontation with severe consequences - or 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, international 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 economic activity being onshored or 'friendshored', creating investment opportunities in the West.

China would have to replace Western imports with local equivalents and rely more on its vast local market than on exporting. It will have industries getting out of favour and others into vogue because of the global economic shifts, creating investment opportunities. Still, there will also be those that will decline. Western companies with a 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 will have to be replaced with new infrastructure in the West and China. It will allow employing more green technology. The result will be similar to a war, after which the demand for basic materials will increase as economies will be restructured and rebuilt, and it 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.

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