Volume 19, No. 08
August 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 AUGUST 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

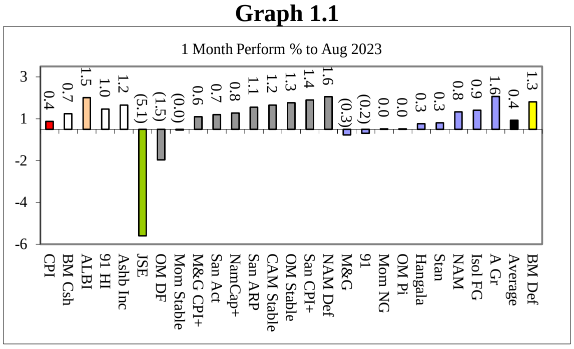
In August 2023, the average prudential balanced portfolio returned 0.4% (July 2023: 1.1%). The top performer is Allan Gray Balanced Fund with 1.6%, while M&G Managed Fund with -0.3% takes the bottom spot. For the three months Momentum Namibia Growth Fund takes the top spot, outperforming the 'average' by roughly 1.4%. NinetyOne Managed Fund underperformed the 'average' by 2.0% on the other end of the scale. Note that these returns are before (gross of) asset management fees. (Refer to graph 3.5.1 for a more insightful picture of the rolling long-term performances of the portfolios.)

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.

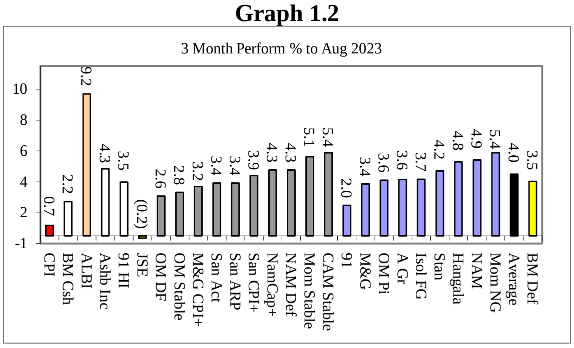
Below is the legend to the abbreviations reflected on the graphs:

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)

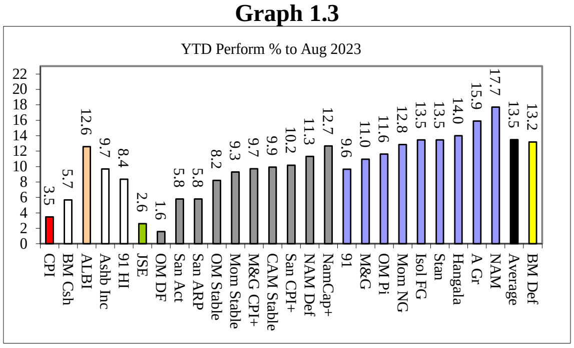
Graph 1.1



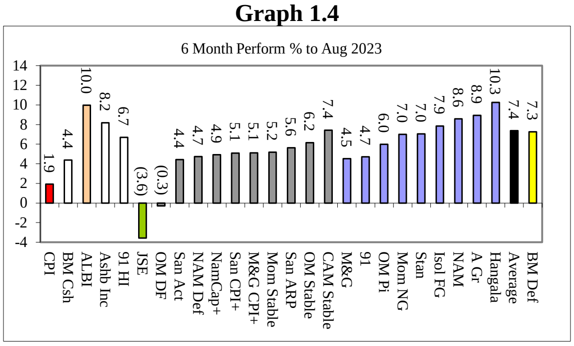
Graph 1.2



Graph 1.3



Graph 1.4



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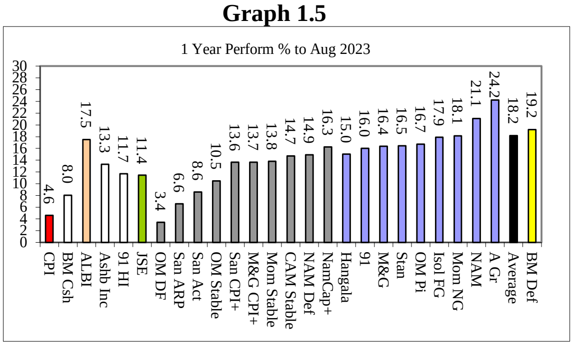
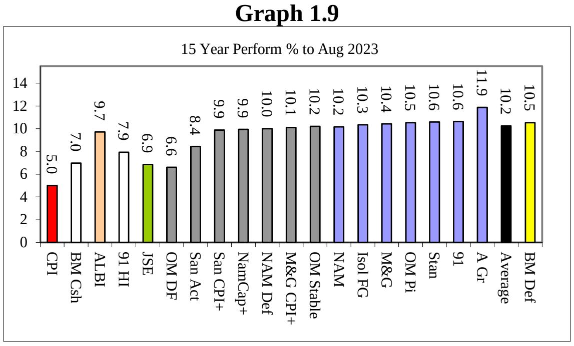
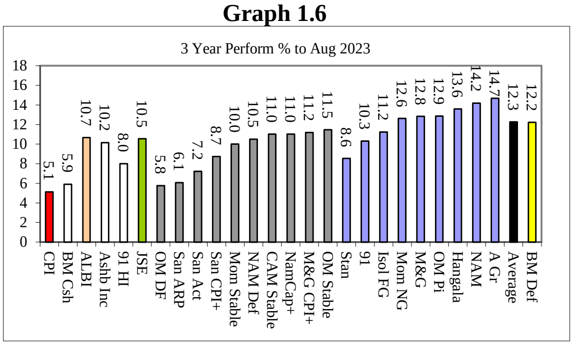
Graph 1.5



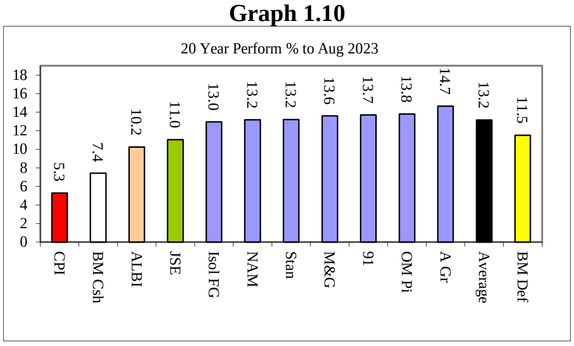
Graph 1.9



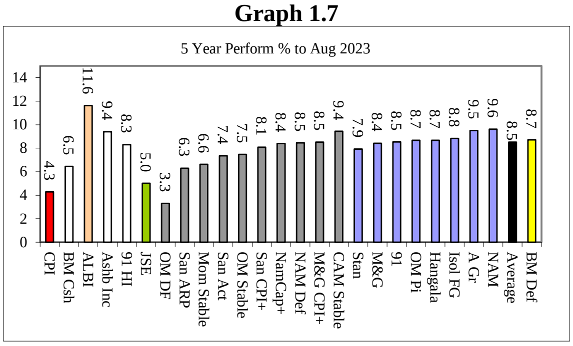
Graph 1.6



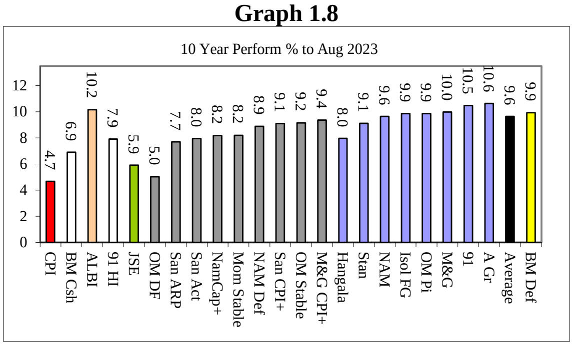
Graph 1.10



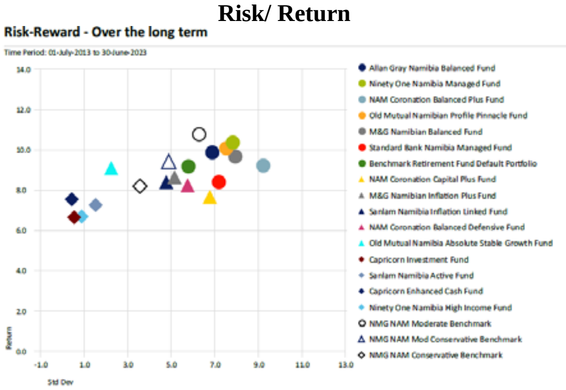
Graph 1.7

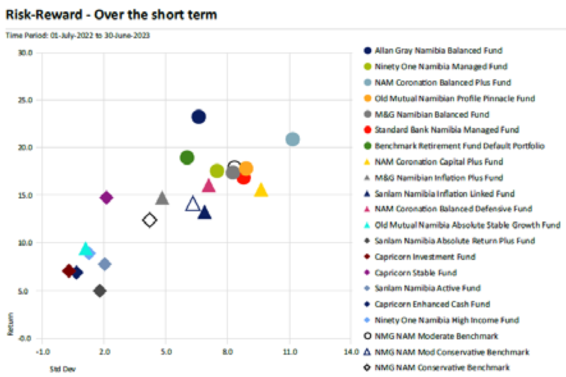


Graph 1.8



Risk/ Return





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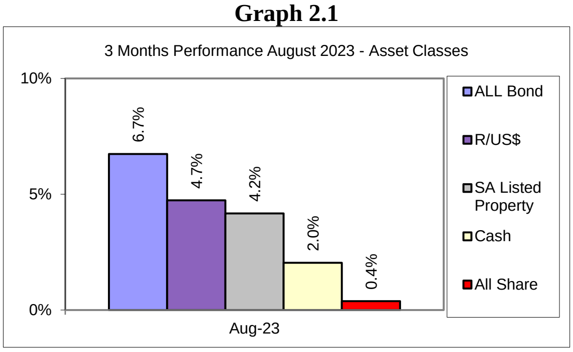
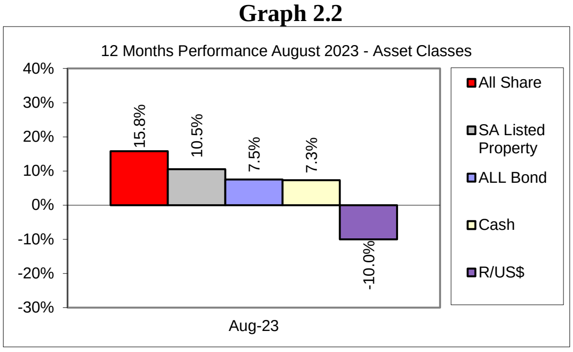
2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

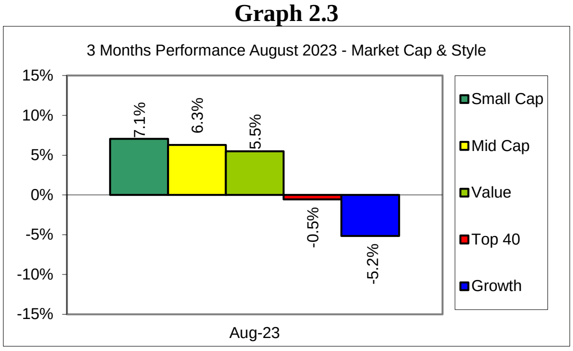
Graph 2.1



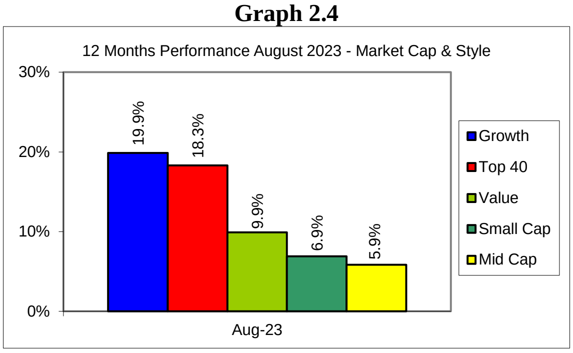
Graph 2.2



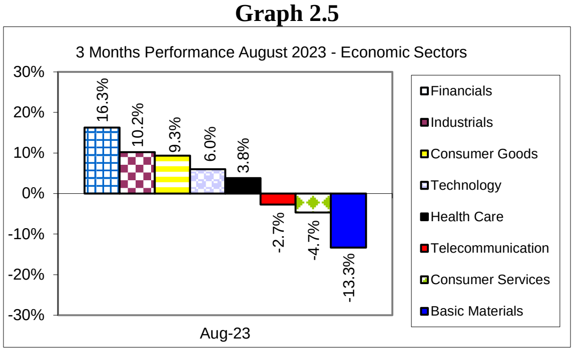
Graph 2.3



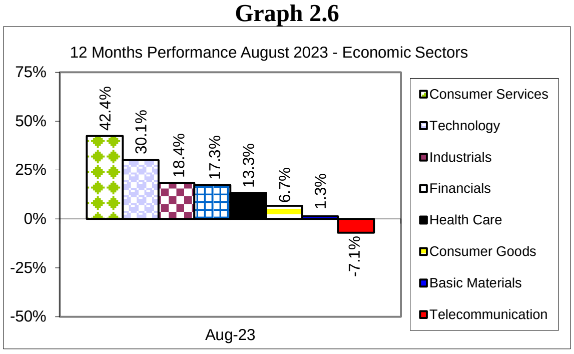
Graph 2.4



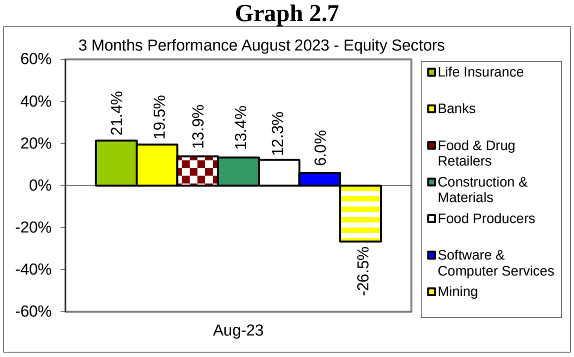
Graph 2.5



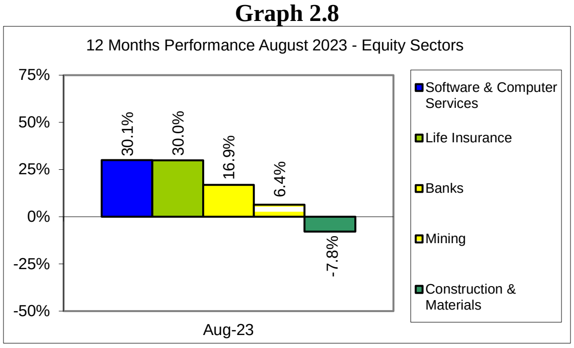
Graph 2.6



Graph 2.7



Graph 2.8



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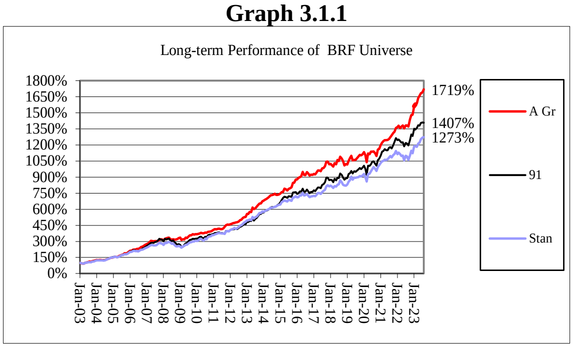
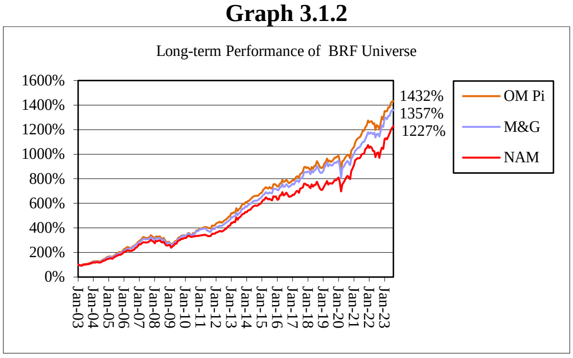
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

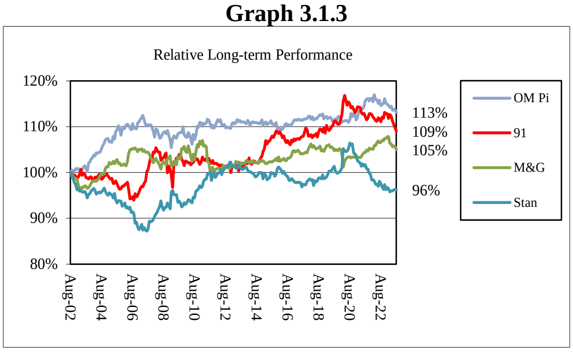
Graph 3.1.1



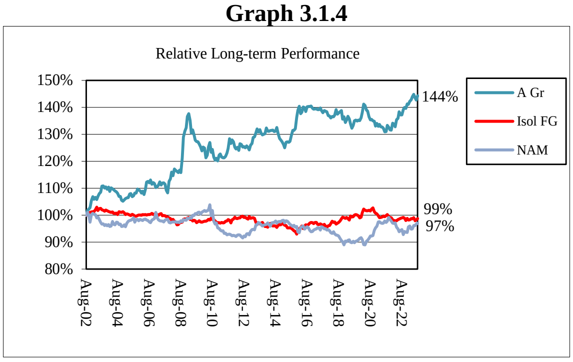
Graph 3.1.2



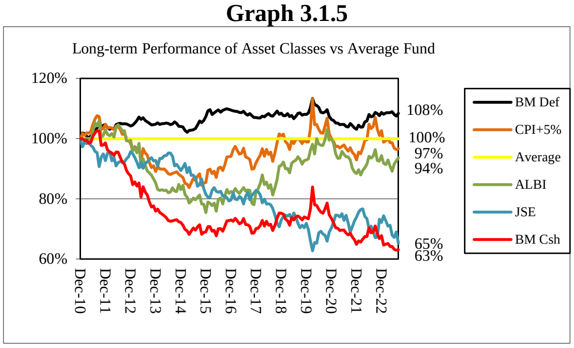
Graph 3.1.3



Graph 3.1.4

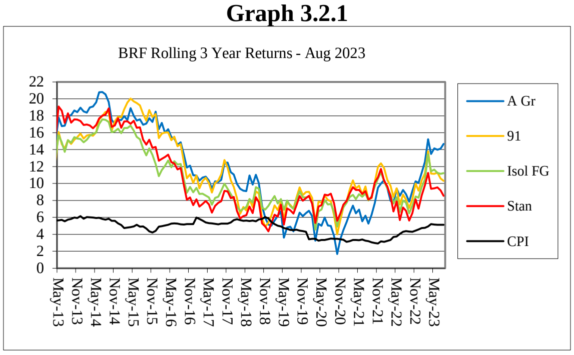


Graph 3.1.5

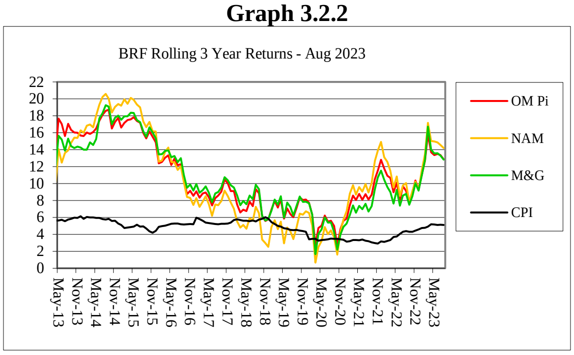


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

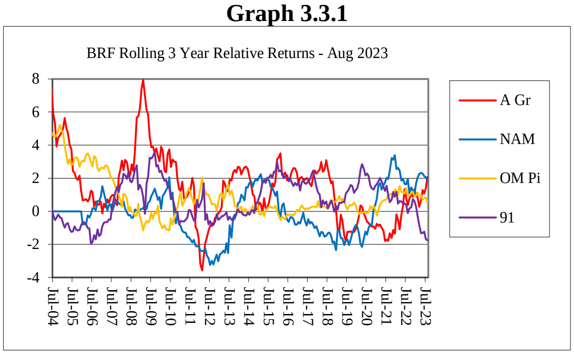


Graph 3.2.2



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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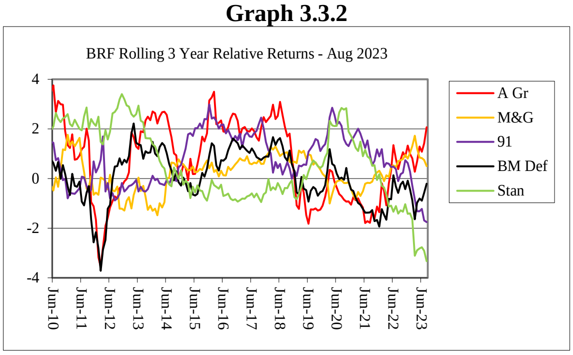
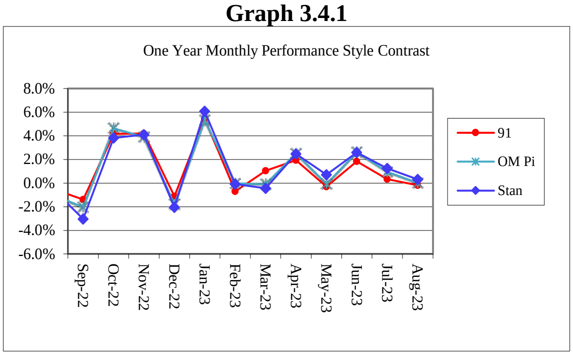
Graph 3.3.2

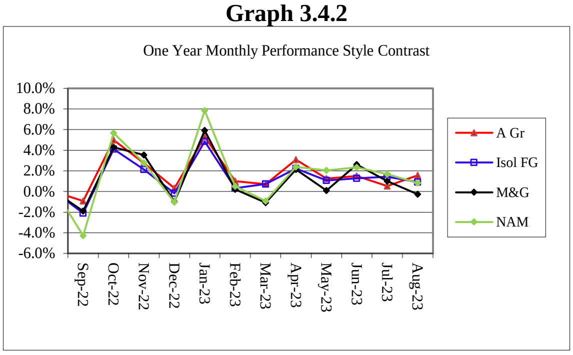


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1

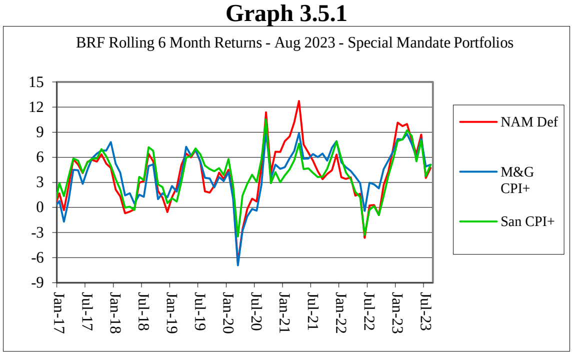


Graph 3.4.2

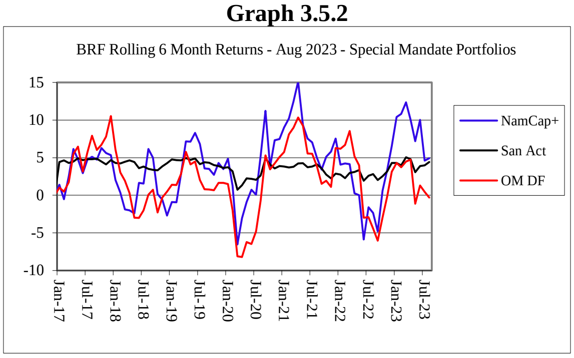


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

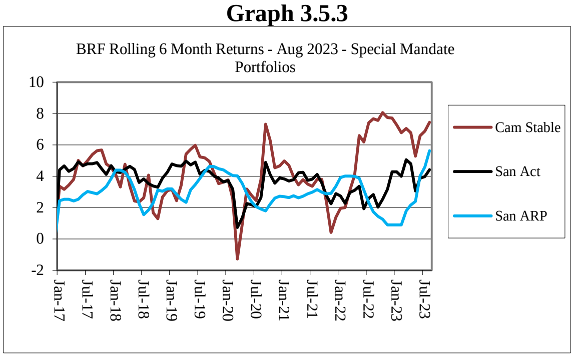
Graph 3.5.1



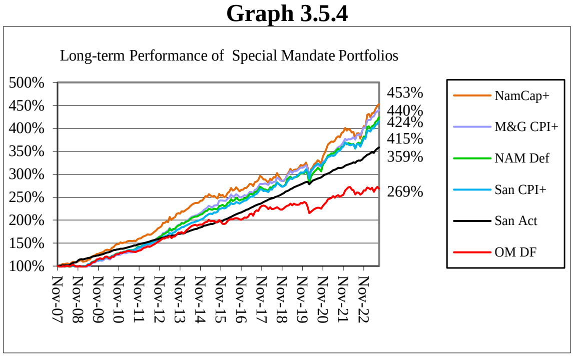
Graph 3.5.2



Graph 3.5.3

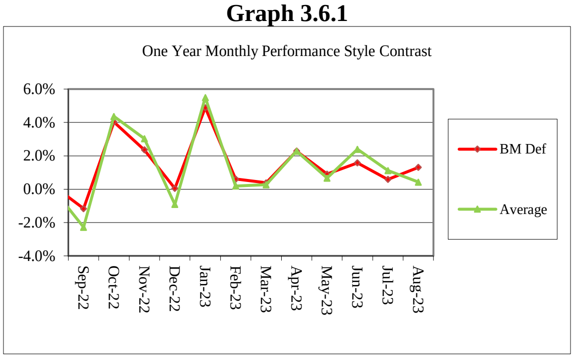


Graph 3.5.4



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

Graph 3.6.1



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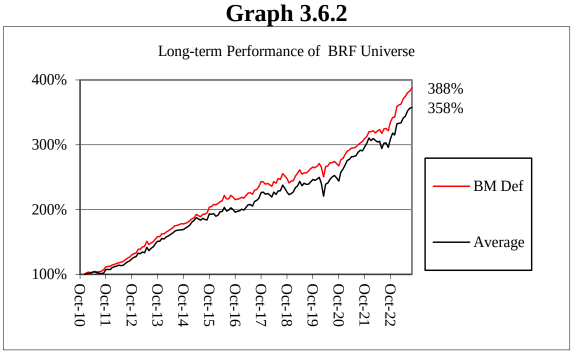
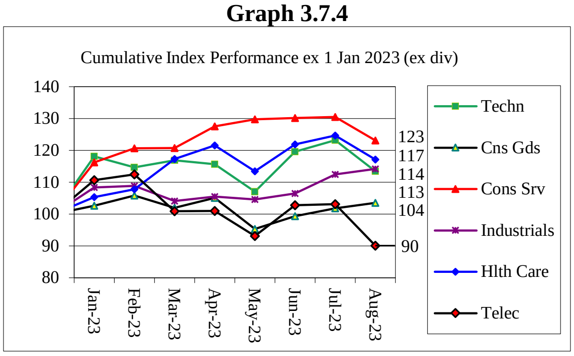
Graph 3.6.2

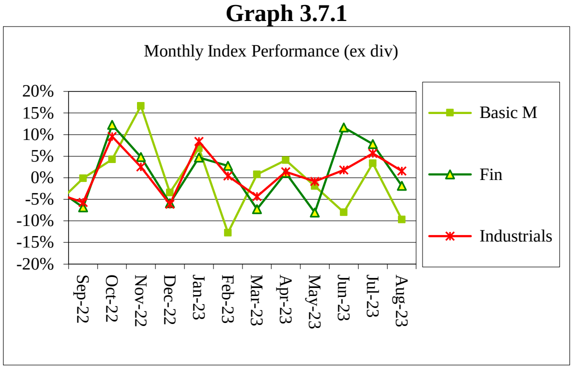


Graph 3.7.4

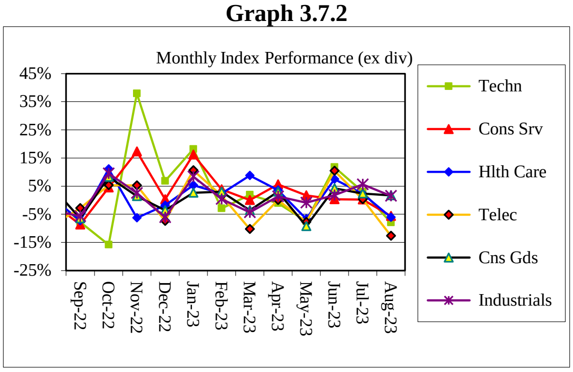


3.7 One-year monthly performance of key indices (excluding dividends)

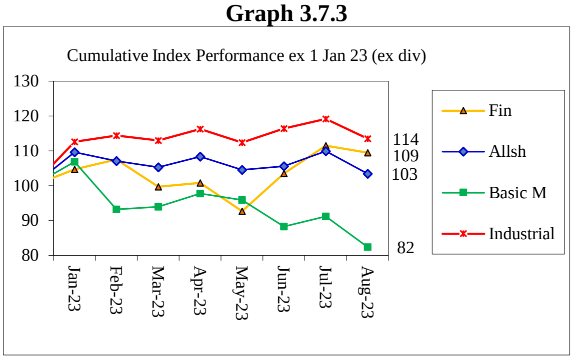
Graph 3.7.1



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.	8.7	8.5
5-year real return - % p.a.	4.4	4.2
Equity exposure - % of portfolio (quarter end June 2023)	45.7	65.0
Cumulative return ex Jan 2011	287.7	257.7
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 65%.

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	7.4%	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	6.1%	8.1%	8.8%

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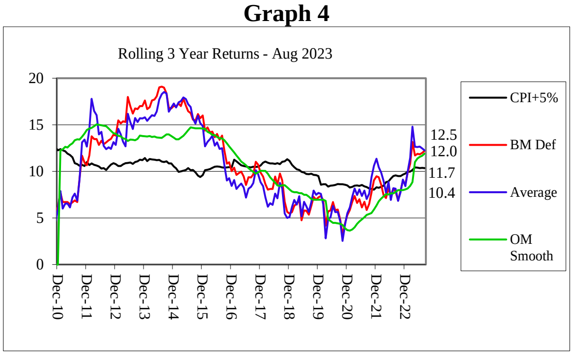
The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from September 2020 to August 2023. These statistics show the performance volatility of these three risk profiles.

Graph 4

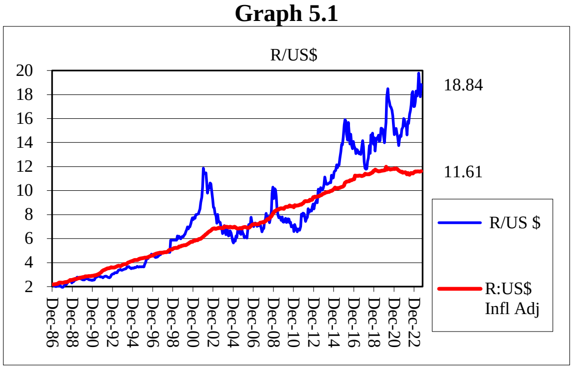


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of August was 12.2%, the average was 12.3% 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 11.61 to the U.S. Dollar, while it stood at 18.84 at the end of August. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

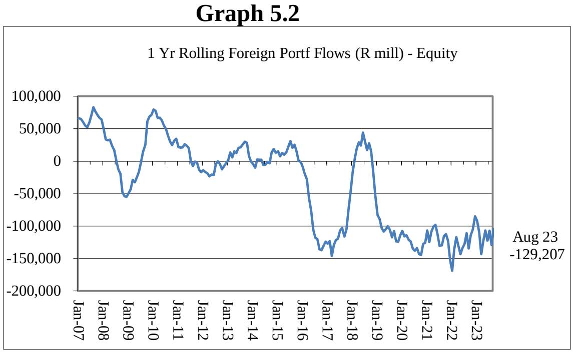
Graph 5.1



The Rand weakened by 5.72% in August with a net foreign investment outflow from bonds and equities of R 45.3 bn. Over the past 12 months, the Rand weakened by 10.0% (12 months to July Rand weakened by 7.1%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 311.9 bn (outflow of R 270.6 bn to the end of July 2023).

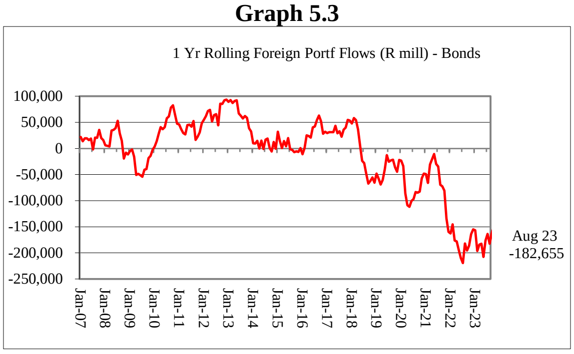
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 129.2 bn at the end of August (outflow of R 107.0 bn year-on-year to the end of July). The month of August experienced a net outflow of R 24.8 bn. Since 2006, foreign net investment outflows from equities amounted to R 610.9 bn (end July net investment outflow of R 586.2 bn). It represents roughly 2.9% of the market capitalization of the JSE.

Graph 5.2



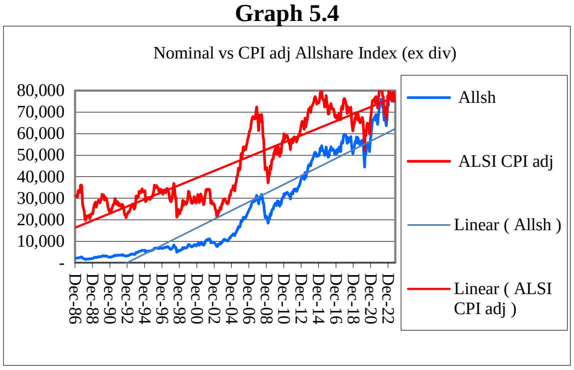
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 182.7 bn over the past 12 months to the end of August (outflow of R 163.7 bn over the 12 months to the end of July). The month of August experienced a net outflow of R 20.5 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 254.9 bn (end July net investment outflow of R 234.4 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 10.4% 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 2.8% p.a. over this period, excluding dividends, or around 6.0% including dividends.

Graph 5.4



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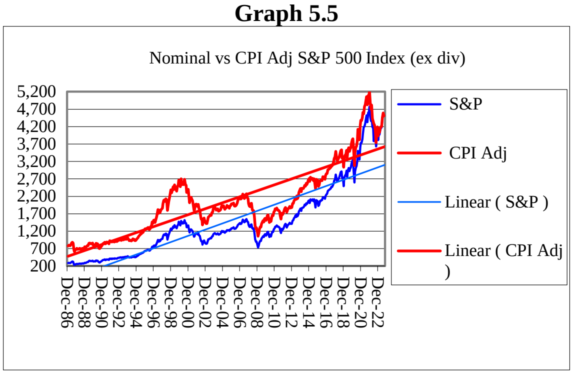
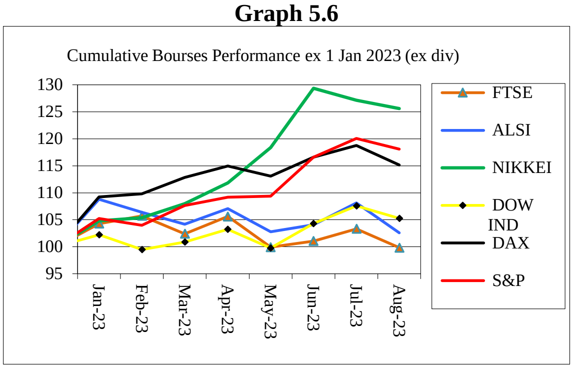
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 7.9% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.0% p.a. over 36 years, excluding dividends, or around 7.1% (including dividends).

Graph 5.5



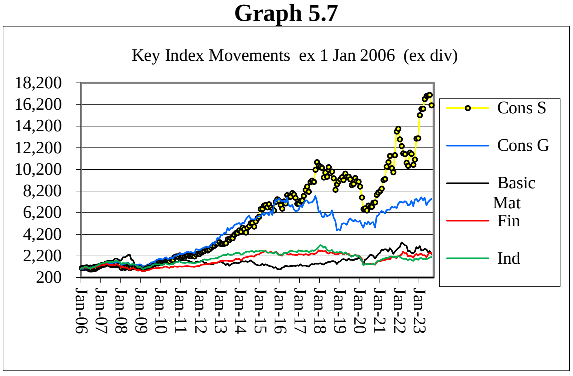
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the Financial Times Stock Exchange (FTSE) as the top-performing index since the start of 2022.

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: 17.0%; Consumer Goods: 12.1%; Basic Materials: 5.1%; Financials: 5.2% and Industrials: 4.3%.

Graph 5.7



6. The bumpy road ahead to a new global economic order

By Tilman Friedrich

The Romans already used the doctrine "divide et impera." Historically, this doctrine has been used to describe a strategy or tactic in which a ruling authority or leader deliberately fosters divisions among the subjugated groups or subjects to maintain control and prevent them from uniting against the ruling power. This has been the US doctrine since the end of the First World War. In most, if not all, conflicts worldwide, the US has a hand which is aimed at weakening or breaking every opposition to its dominance.

Henry Kissinger, who served as US Secretary of State from 1973 to 1977, saw the Iran-Iraq War ending in a stalemate, with neither side gaining a decisive victory. He also said that he believed it was in the US's interest for both sides to lose the war.

Kissinger's views on the Iran-Iraq War were shaped by his belief that the war was a proxy conflict between the United States and the Soviet Union. He saw the war as a way for the two countries to bleed each other dry, and he believed that a stalemate would be the best outcome for the United States. Ultimately, both countries were bled dry economically and in terms of their military personnel.

The Ukraine conflict is also a consequence of the US doctrine of divide et empera. After trying unsuccessfully to prevent a rapprochement between Russia and Germany under Chancellor Merkel, her retirement from politics opened the door for a new regime in Germany. Blowing up the Northstream pipeline severed the umbilical cord between the two countries and made it so much easier for newly elected Chancellor Scholtz to toe the US line. The Ukraine conflict is the ultimate attempt to break Russia and to move right up to the backdoor of China, the US' main global rival.

Russia is probably well aware and will likely turn this arrow against Ukraine. Conceivably, it is intent on strengthening its foothold in eastern Ukraine to secure its land access to Crimea and protect the Donbas's Russian-speaking population. It will also want to avoid Ukraine joining NATO and having NATO nuclear weapons on its border. Russia will not launch an all-out onslaught not to give NATO any justification for sending more countries into the conflict. It will, in turn, try to bleed Ukraine dry economically and militarily until it is prepared to negotiate. Since the US has no interest in relenting on its push against Russia, it will likely be a protracted conflict. A protracted conflict, however, is not in the US strategic interests as it would enable Russia to thwart the US objective of breaking it. The next US president may not be keen to continue funding the war and may be looking for a diplomatic solution that will have to recognise Russia's legitimate interests as a global superpower.

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By Staff Writer – RFS Fund Administrators (Pty) Ltd

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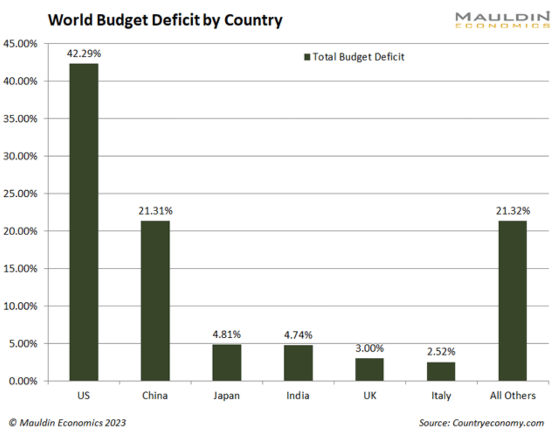
The question is: How will such a protracted conflict impact the global economy and financial markets? Countries supporting Ukraine in this conflict and Russia, on the other side, are running up debt and increasing budget deficits. Graph 6.1 from Mauldin Economics shows the unenviable position the US is in regarding its budget deficit, currently running at around 8% of GDP. See this in the context of the generally accepted cap of 3% of GDP. Ed D' Agostino quotes Louis Gave as saying, "…the US makes roughly 40% of the world's budget deficit. But to "keep the show on the road," as he said, roughly two-thirds of the world's savings needs to float to the US every year. Otherwise, we're going to have problems…"

Graph 6.1



It is unlikely that two-thirds of the world's savings will continue to flow to the US, considering that many countries are moving away from trading their main commodities in US Dollars. Given a successful move away from the US Dollar, local economies will be better shielded against adverse developments in the US and the rest of the world. The US Dollar and US interest rates will be under pressure because of declining capital flows, and it will force the Fed to keep interest rates higher to encourage foreigners to invest in the US. Global economies will continue restructuring from offshoring to onshoring. This trend will put pressure on government revenue and will raise borrowing requirements, which in turn will also put pressure on inflation, interest rates and the currency.

The Ukraine conflict will cause shortages regarding the commodities Russia and Ukraine produce, such as wheat, crude oil and natural gas, fertilisers, wood, petrochemicals, sunflower oil, coal, iron ore and steel. As a result of these shortages, prices of many of the core inputs into global foodstuffs and manufacturing will be rising, again putting pressure on inflation and interest rates.

Conclusion

Where we are now, it does not look as if the Ukraine conflict will escalate into a fully blown war between the US and its allies on the one side and Russia, China and their allies on the other. It means that global financial markets will not be unhinged but will continue fairly orderly, given the impact of global economic restructuring. Another result of the global economic restructuring will be a global hunt for alternative supplies of commodities. This hunt should advance the economic fortunes of commodity-based economies, which are mostly emerging economies such as SA and Namibia.

We will likely experience a transition 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 over time to promote trade and financial flows, but it will not be 'smooth sailing'. Given the dissipation of the great uncertainty that the Ukraine conflict could have resulted in a global confrontation, the investor should review his investment strategy now. Clearly, the global economy will experience a new dawn, offering lots of investment opportunities while at the same time eliminating lots of existing businesses. It will undoubtedly be a rough ride with lots of volatility on the road to the new global order.

The new bipolar world and a global decoupling dictate that one should focus on international diversification. Global equities would be appropriate to counter the impact of rising inflation and interest rates. Such diversification should consider the expected re-orientation between the two global poles, with Western countries shifting manufacturing, production, and development of goods and services away from China. Where China used to be the global factory for the world, decoupling will result in Western countries' onshoring or 'friendshoring' economic activity, creating investment opportunities in the West and other 'non-aligned' countries. The shifting of manufacturing away from China will accompany an increasing demand for clean energy and expertise in the West. We have already seen a large increase in foreigners' interest in Namibia for its potential in green hydrogen and rare earths.

China would have to replace Western imports with local equivalents and rely more on its vast local market than on exporting. Some of its industries will get out of, and others will be in favour because of the global economic shifts, creating investment opportunities. Still, there will also be those that will disappoint. Western companies with a business base in China would likely suffer due to the decoupling, and one should exercise caution. Effectively, much infrastructure will become redundant, particularly in China, and will have to be replaced with new infrastructure in the West and China. It will allow the employment of 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, leading to employment creation.

Some themes are evident in the scenario we envisage, such as green energy, carbon-neutral products, military industries and natural resources. In the US, most manufacturing industries should experience a renaissance as they were previously outsourced to China and will now

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be coming home. China will have to replace its exports to the West by focusing on its internal market and cutting down on imported goods and services from the West. Its main imports are automobiles, automotive parts, hi-tech machinery and equipment, pharmaceuticals and chemicals, and aerospace and aviation products. Europe will want to replace clothing and textiles, electronics and electrical machinery, furniture and household goods, toys and games currently imported from China. A careful investment strategy can deliver exceptional result!