Volume 19, No. 10
October 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 OCTOBER 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

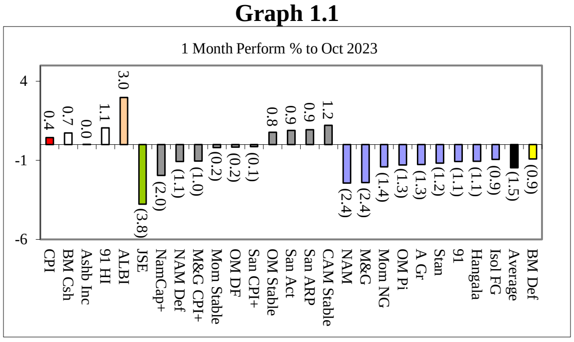
In October 2023, the average prudential balanced portfolio returned -1.5% (September 2023: -2.3%). The top performer is Investment Solutions Bal Growth Fund, with -0.9%, while Namibia Coronation Balanced Plus Fund, with -2.4%, takes the bottom spot. For the three months, Allan Gray Namibia Fund takes the top spot, outperforming the 'average' by roughly 2.4%. Namibia Coronation Balanced Plus 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. (Refer to graphs 3.1.3 to 3.1.5 for a more insightful picture of the relative long-term performances of the portfolios and the asset classes.)

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 colour 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.

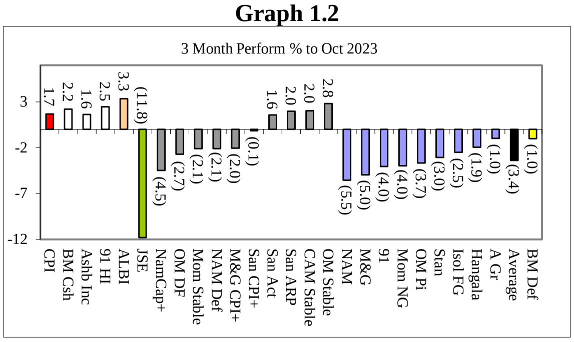
Below is the legend to the abbreviations reflected on the graphs:

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)

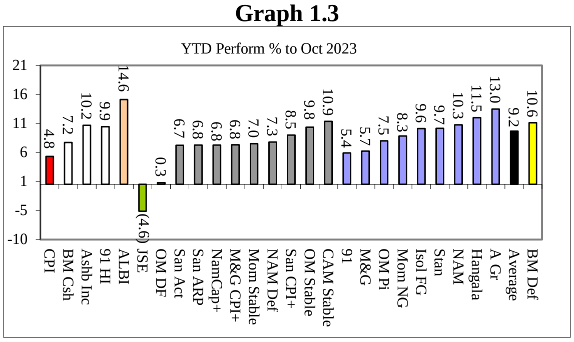
Graph 1.1



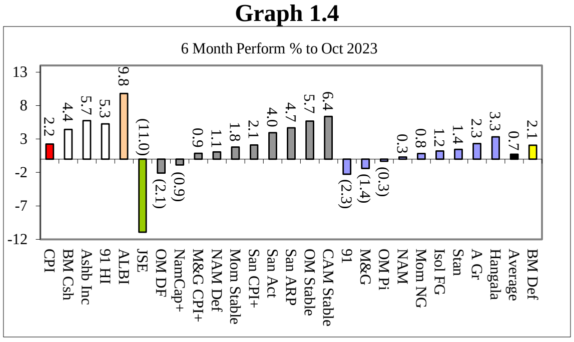
Graph 1.2



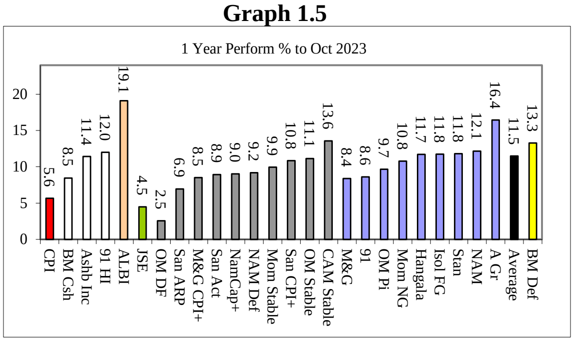
Graph 1.3



Graph 1.4



Graph 1.5



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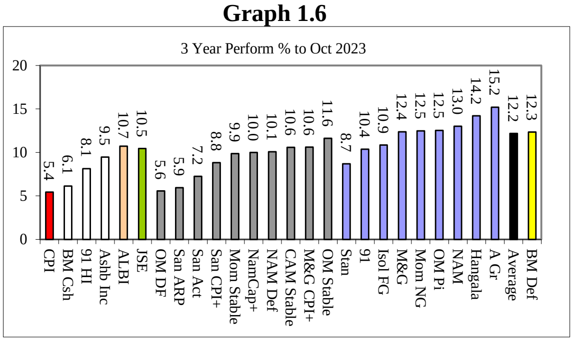
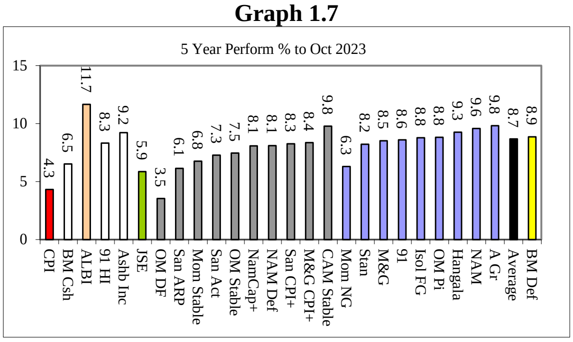
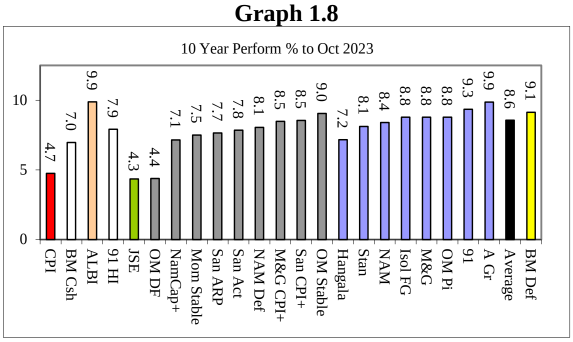
Graph 1.6



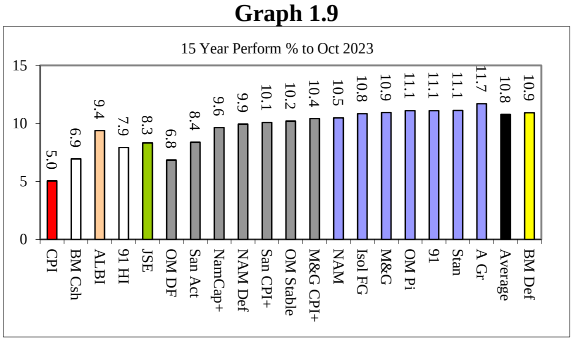
Graph 1.7



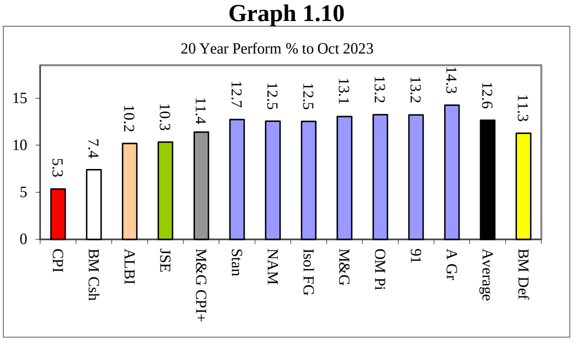
Graph 1.8



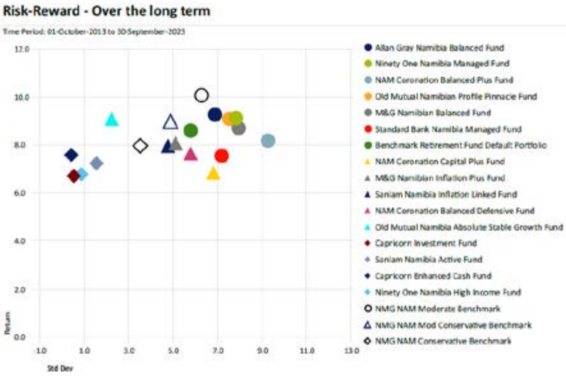
Graph 1.9

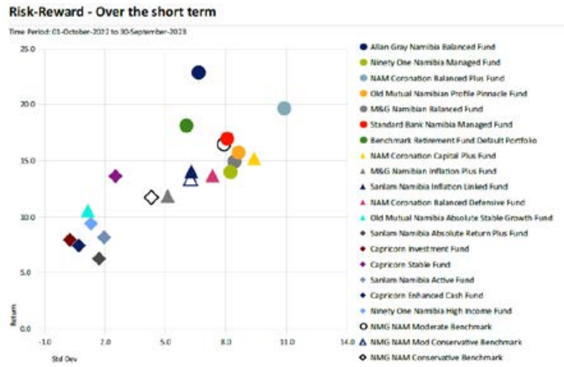


Graph 1.10



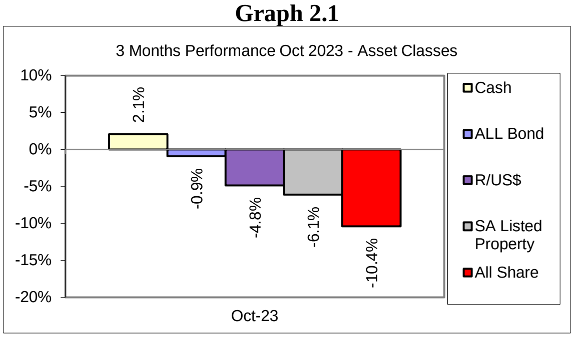
Risk/ Return



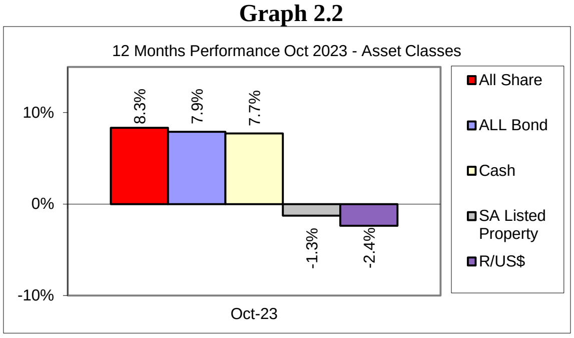


2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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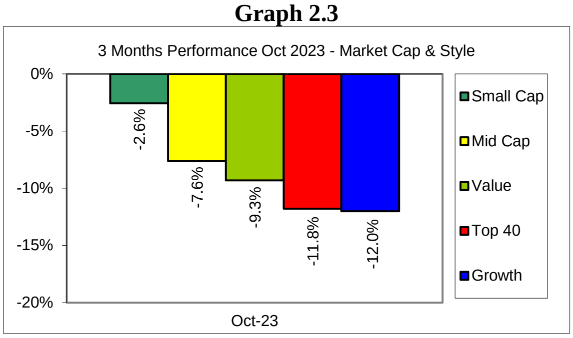
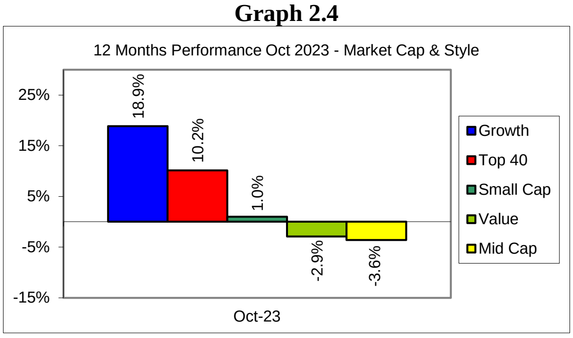
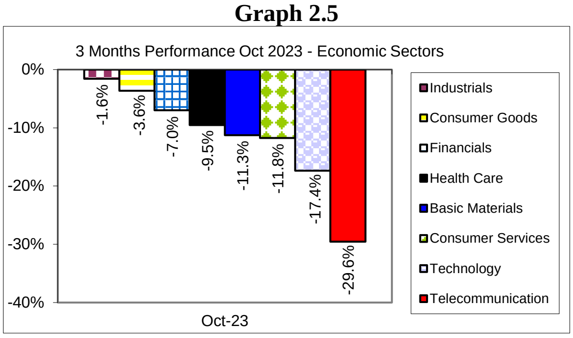
Graph 2.3



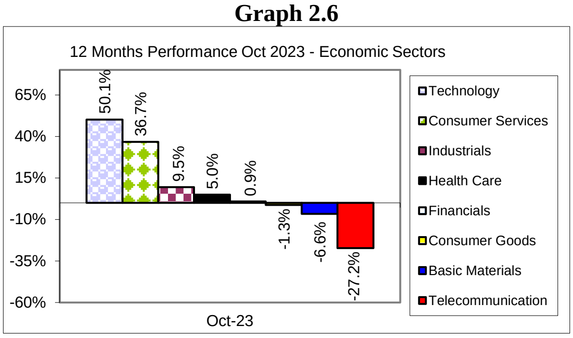
Graph 2.4



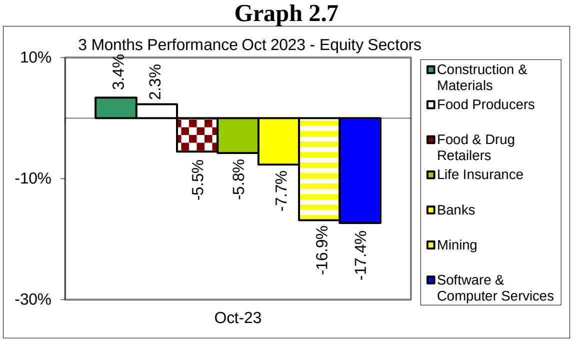
Graph 2.5



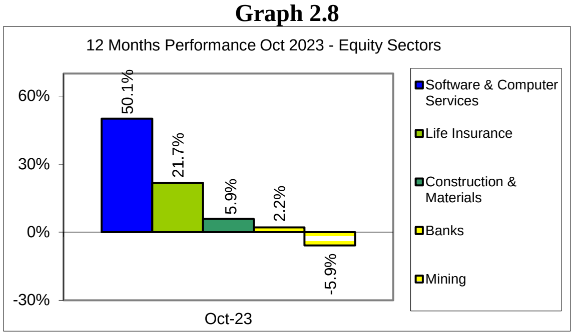
Graph 2.6



Graph 2.7



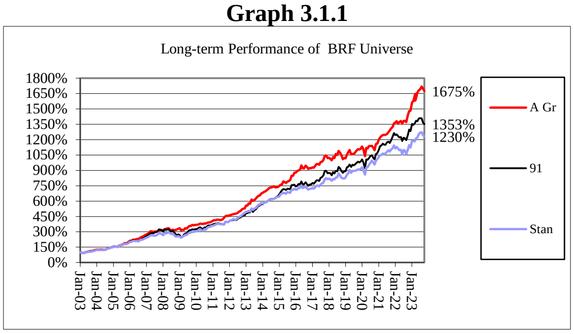
Graph 2.8



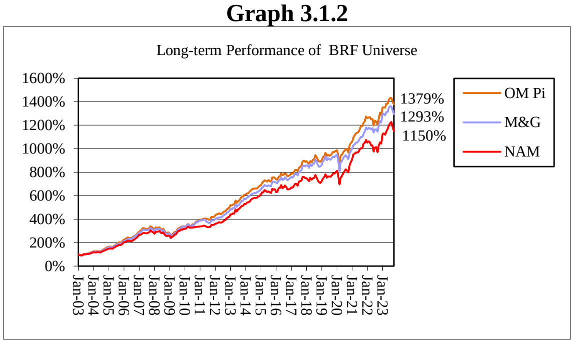
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

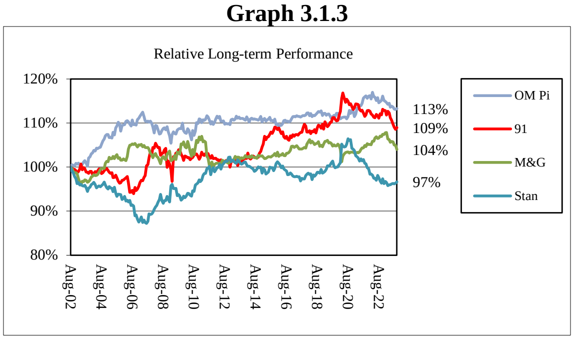
Graph 3.1.1



Graph 3.1.2



Graph 3.1.3



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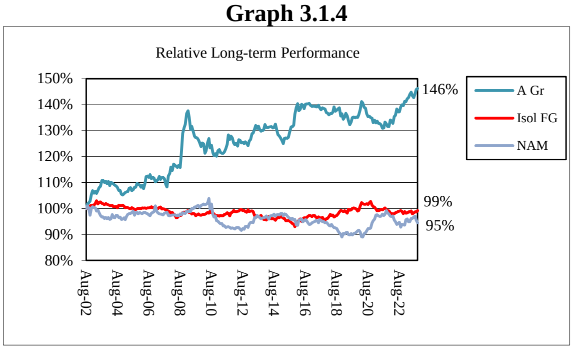
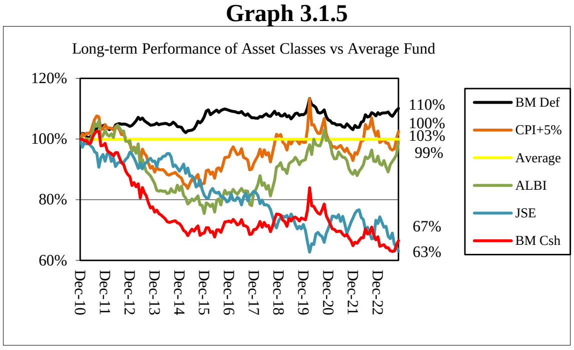
Graph 3.1.4

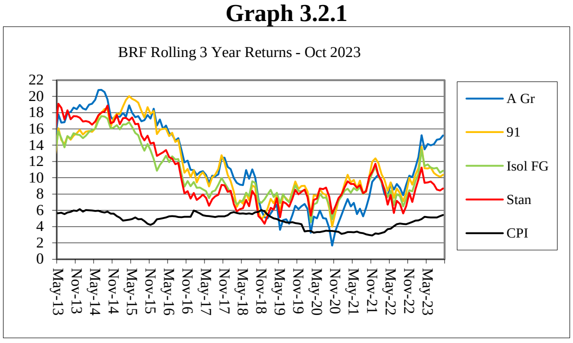


Graph 3.1.5

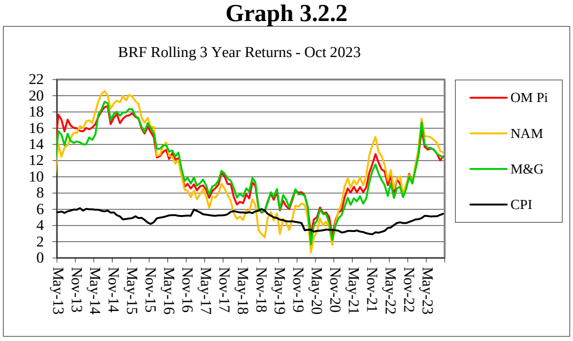


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

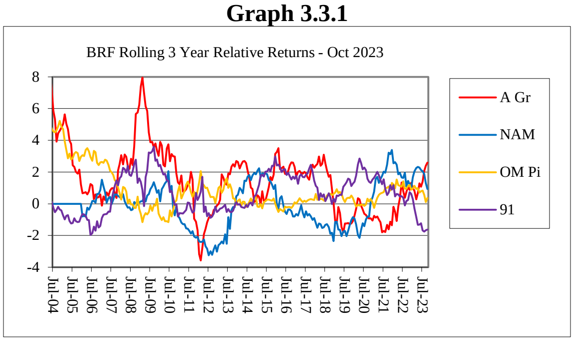


Graph 3.2.2

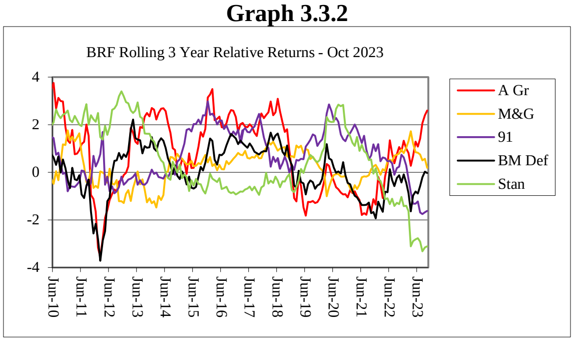


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

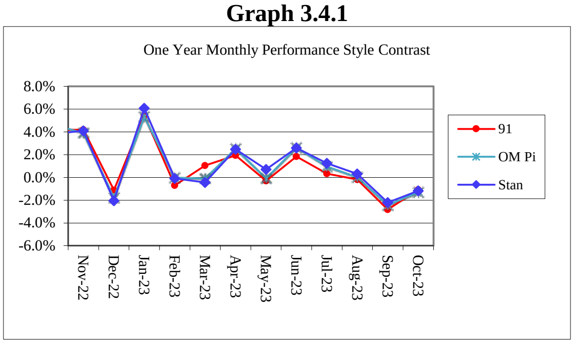


Graph 3.3.2

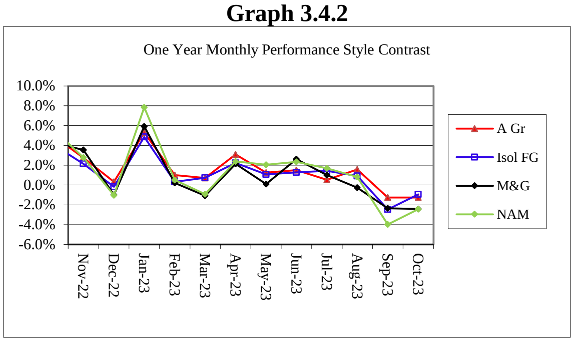


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



Graph 3.4.2



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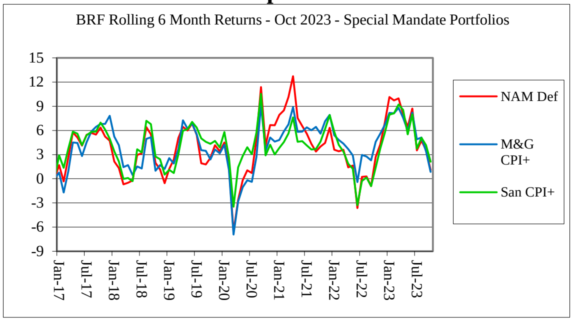
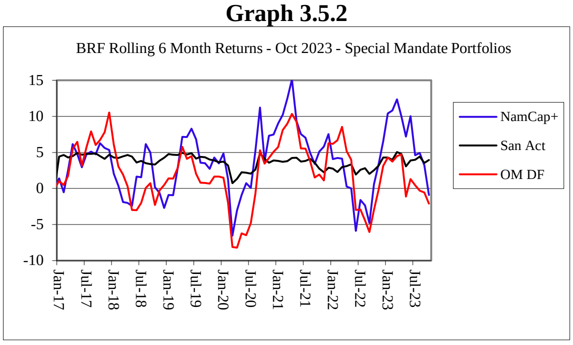
3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

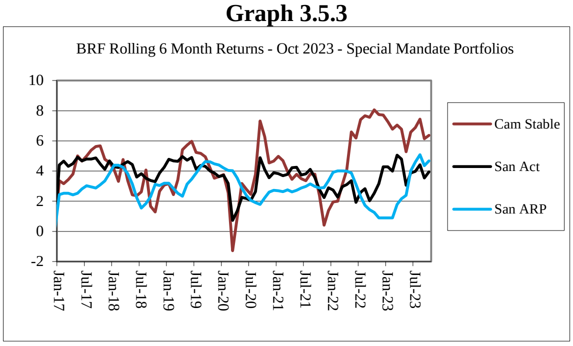
Graph 3.5.1



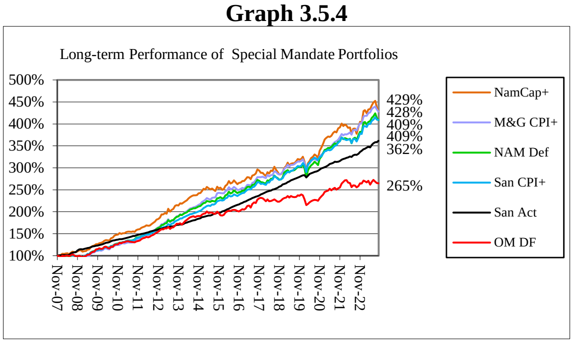
Graph 3.5.2



Graph 3.5.3

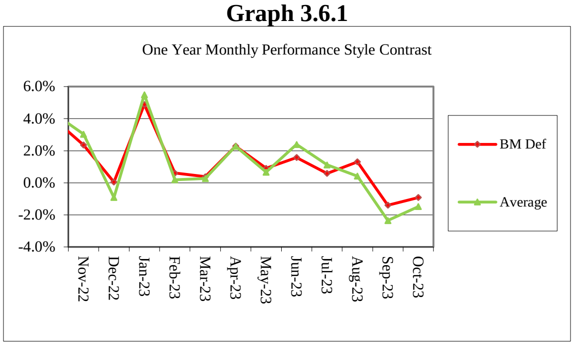


Graph 3.5.4

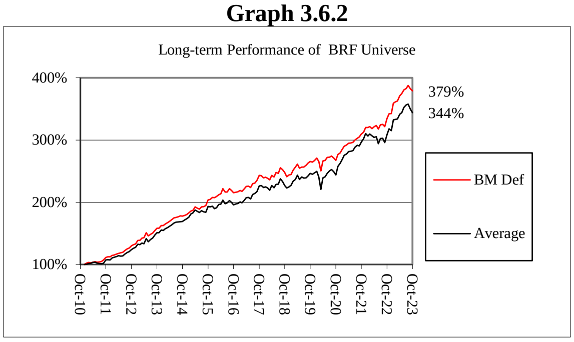


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

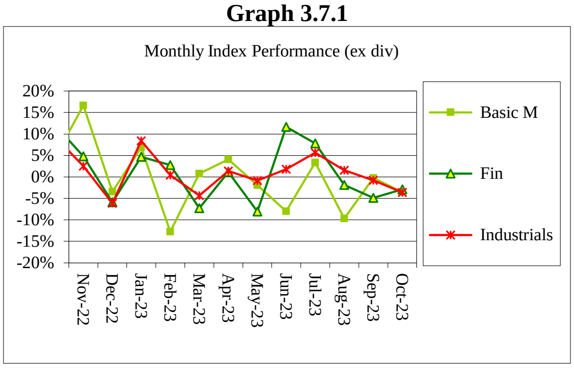


Graph 3.6.2

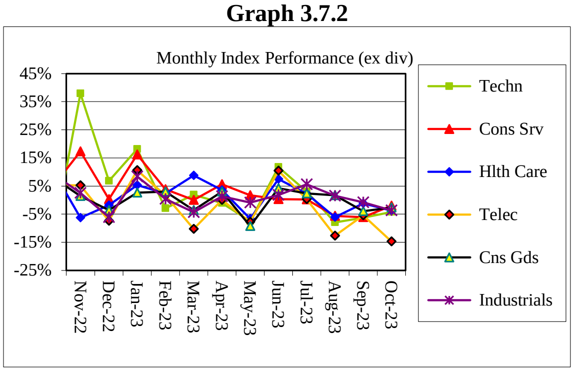


3.7 One-year monthly performance of key indices (excluding dividends)

Graph 3.7.1



Graph 3.7.2



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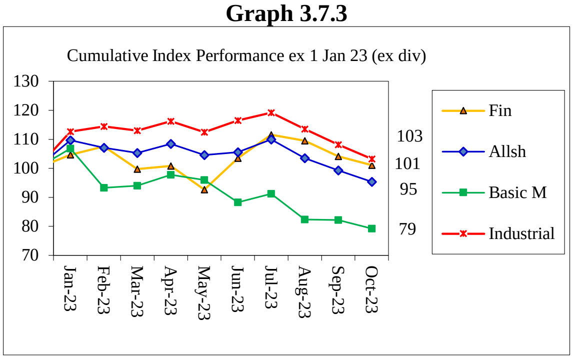
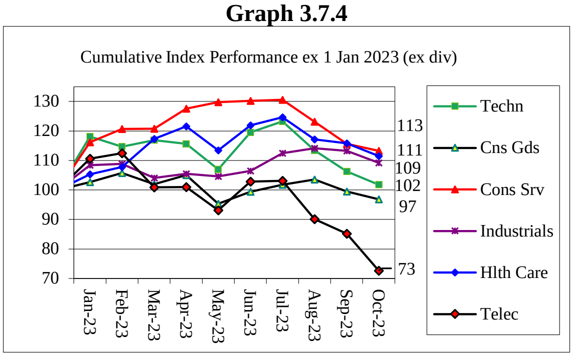
Graph 3.7.3



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.	8.9	8.7
5-year real return - % p.a.	4.6	4.4
Equity exposure - % of portfolio (quarter end September 2023)	40.4	60.2
Cumulative return ex Jan 2011	278.9	244.1
5-year gross real return target - % p.a.	5	6
Target income replacement ratio p.a. - % of income per year of membership	2	2.4
Required net retirement contribution - % of salary	13.0	11.6

The above table reflects the actual 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 40% compared to the average prudential balanced portfolio's exposure of 60%.

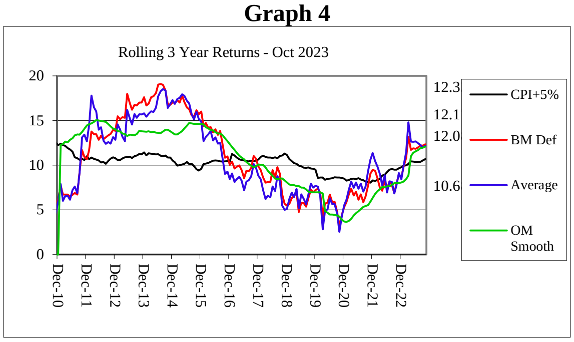
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	4.4%	4.3%
Best annual performance	7.3%	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	6.0%	8.6%	9.2%

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

Graph 4

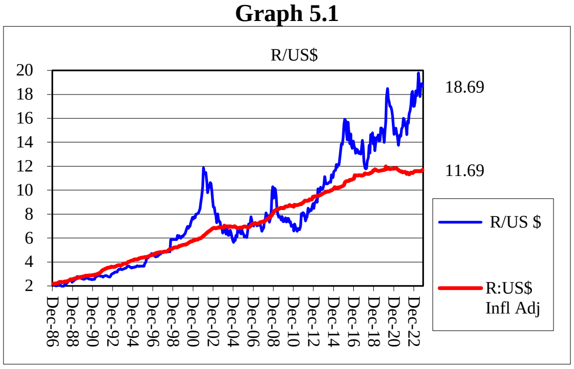


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of October was 12.3%, the average was 12.2% vs. CPI plus 5%, currently on 10.6%.

5. Review of Foreign Portfolio Flows and the Rand

Graph 5.1 indicates that the Rand's fair value by our measure is 11.69 to the U.S. Dollar, while it stood at 18.69 at the end of September. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



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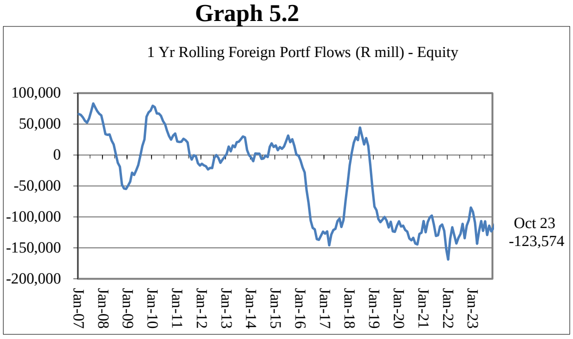
The Rand strengthened by 1.09% in October with a net foreign investment outflow from bonds and equities of R 10.9 bn. Over the past 12 months, the Rand weakened by 2.4% (12 months to September Rand weakened by 4.5%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 318.0 bn (outflow of R 319.0 bn to the end of September 2023).

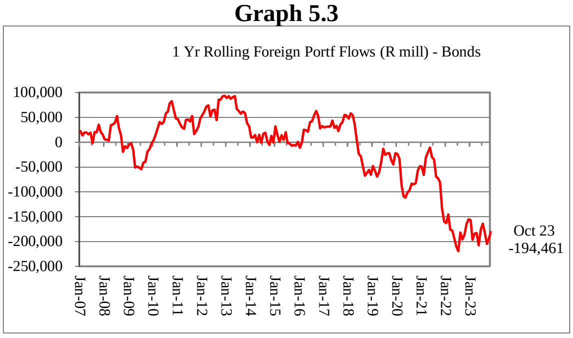
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 123.6 bn at the end of October (outflow of R 114.1 bn year-on-year to the end of September). The month of October experienced a net outflow of R 9.2 bn. Since 2006, foreign net investment outflows from equities amounted to R 629.9 bn (end September net investment outflow of R 620.7 bn). It represents roughly 3.7% of the market capitalisation of the JSE.

Graph 5.2



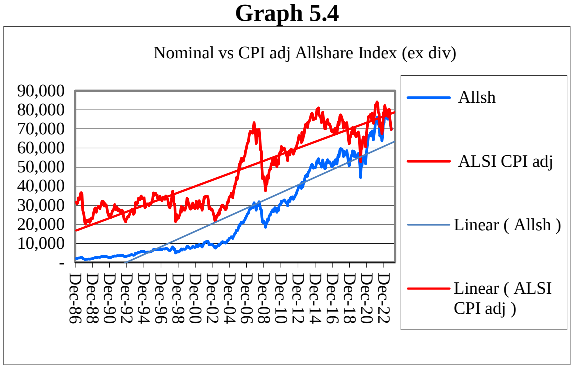
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 194.5 bn over the past 12 months to the end of October (outflow of R 204.8 bn over the 12 months to the end of September). The month of October experienced a net outflow of R 1.8 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 298.8 bn (end September net investment outflow of R 297.1 bn).

Graph 5.3



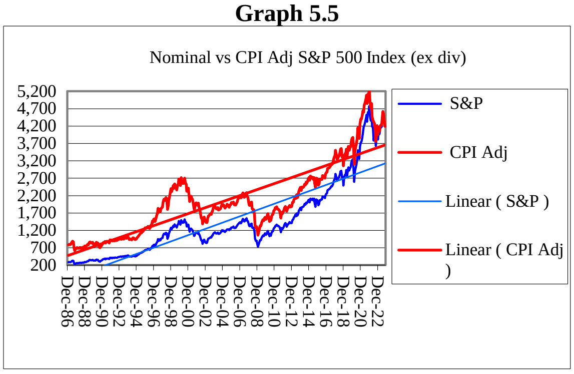
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.1% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent to growth in real terms of 2.5% p.a. over this period, excluding dividends, or around 5.7% including dividends.

Graph 5.4



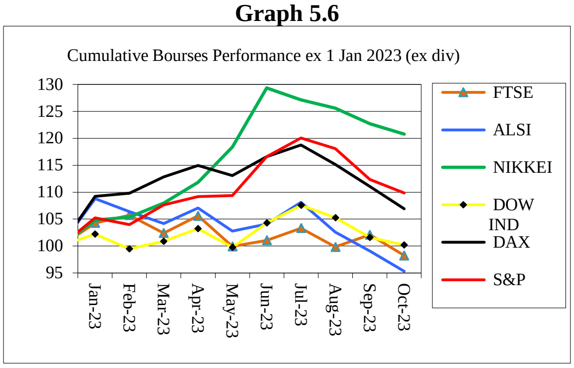
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 7.7% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 4.9% p.a. over 36 years, excluding dividends, or around 7.0% (including dividends).

Graph 5.5



Graph 5.6 provides an interesting overview of some of the major global share indices, showing the NIKKEI as the top-performing index since the start of 2023.

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: 11.5%;

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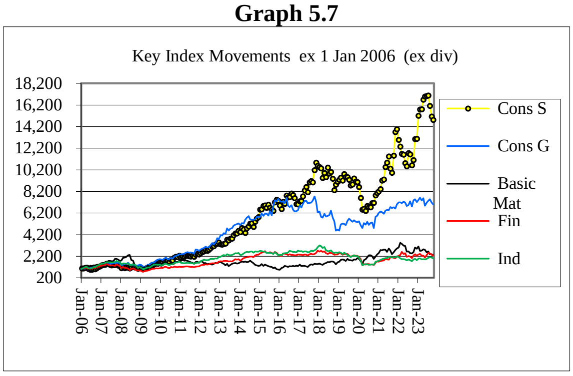
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2023

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.

Basic Materials: 4.8%; Financials: 4.7% and Industrials: 4.0%.

Graph 5.7



6. Navigating the Investment Landscape: A Guide for Residents in the SA Rand Common Monetary Area

By Tilman Friedrich

The global investment landscape constantly shifts, influenced by many factors, including economic trends, geopolitical events, and technological advancements. Residents in the SA Rand common monetary area (CMA) face additional complexities due to the region's unique economic and political dynamics.

In the following discussion, we will examine factors impacting us in the CMA and how we should think about our investments.

Understanding the Global Context

Before making any investment decisions, it is crucial to gain a thorough understanding of the current global economic and political environment. The ongoing conflicts in the Middle East and Ukraine, coupled with the rising tensions in the Indo-Pacific region, have introduced significant uncertainties into the global market.

These geopolitical tensions have the potential to disrupt supply chains, impact energy prices, and exacerbate inflation concerns.

Many countries are now de-risking their supply chains. Manufacturing is brought back home or close to home so that the political risk becomes more predictable and manageable. We have dwelled on the consequence of this global trend in previous commentaries in the column of the Benchtest Performance Review newsletters. It clearly offers exciting new investment opportunities. Conversely, much manufacturing capacity will fall into disuse, resulting in large-scale investment write-downs.

Amidst these global challenges, investors should seek to identify investment opportunities that offer diversification and resilience in the face of potential market volatility.

Balancing Risk and Reward

Investing involves balancing risk and reward. Investors should carefully consider their risk tolerance and financial goals when making investment decisions and should know their investment horizon. For the long-term investor, a diversified portfolio that includes a mix of assets, such as stocks, bonds, and property, can help mitigate risk and enhance long-term returns.

Factoring in the SA Rand

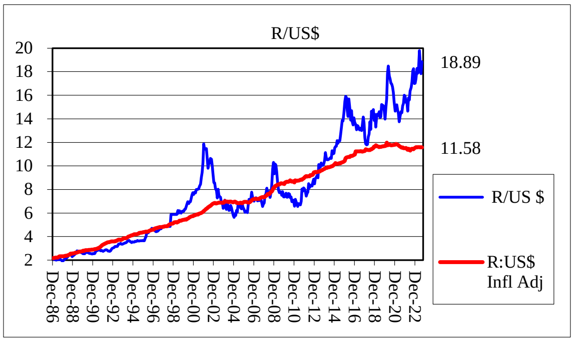
The value of the SA Rand plays a significant role in the investment decisions of CMA residents. Fluctuations in the exchange rate can affect the returns on foreign investments and the purchasing power of domestic investments.

Investors should closely monitor the SA Rand's performance against major currencies and consider currency hedging strategies to protect against potential losses.

Bear in mind that often, it is a matter of investor sentiment, i.e., either risk-on or risk-off. When it's risk-on, our local currencies would strengthen, and markets would increase. As a result, the local investor gets more in foreign currency but pays more for his foreign investment – the so-called zero-sum game.

Sometimes, political causes drive our local currencies. It moves way off its long-term trend line. We believe that Rand currently experiences such a scenario. Graph 6.1 shows how it has been oscillating around the red trend line until the beginning of 2018. Now it is Eskom, BRICS, and South Africa's position on the Ukraine and Palestine crises that have caused the Rand to only know one direction.

Graph 6.1



Emerging Market Opportunities

While the global economy faces headwinds, emerging markets offer potential for growth and diversification. In particular, the West's energy transition and its drive to find alternative supplies for base materials bring new impetus to resource-endowed countries such as South Africa and Namibia, but also to Africa in general and to many other developing countries. CMA residents can explore investment opportunities in emerging market equities and bonds, which may offer higher returns than developed markets.

However, emerging markets also carry higher inherent risks, such as political instability and economic volatility. Investors should conduct thorough due diligence and carefully assess risks before investing in emerging markets.

Seeking Professional Guidance

Making informed investment decisions requires a deep understanding of financial markets and a sound risk assessment framework. CMA residents can seek guidance

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from financial advisors specialising in the region's economic and political landscape.

Professional advisors can provide personalised investment advice tailored to individual risk tolerance and financial goals, helping investors navigate the complexities of the global investment landscape and make strategic decisions that align with their long-term objectives.

Currently, South African assets are trading at relatively low valuations compared to those in developed markets. This suggests that South African companies, bonds, and real estate could offer attractive returns to investors. The Rand is also considered to be significantly undervalued, and there is a strong possibility that it will appreciate once local challenges are overcome and global economic uncertainties subside. This could further boost the value of South African assets and make them even more attractive to foreign investors.

The following are some of the key reasons why South African assets are currently trading at attractive prices:

- **The South African economy is recovering from a period of recession.** The economy is growing, unemployment is declining, and inflation is under control. This is positive news for South African companies, which are likely to see their profits increase in the coming years.
- **Interest rates in South Africa are higher than in many developed markets.** This makes South African bonds more attractive to investors who are looking for a high yield.
- **The Rand is undervalued.** This means that South African assets are cheaper than they would be if the Rand were trading at its fair value.

In addition to these fundamental factors, there are also some short-term factors that have contributed to the current attractiveness of South African assets. These include:

- **The recent global stock market sell-off.** This has caused investors to seek out undervalued assets, and South Africa is one of the few countries that does not currently appear to be overvalued.
- **The uncertainty caused by the war in Ukraine.** This has caused investors to withdraw from riskier assets, and South Africa is seen as a more stable investment destination than many other emerging markets.

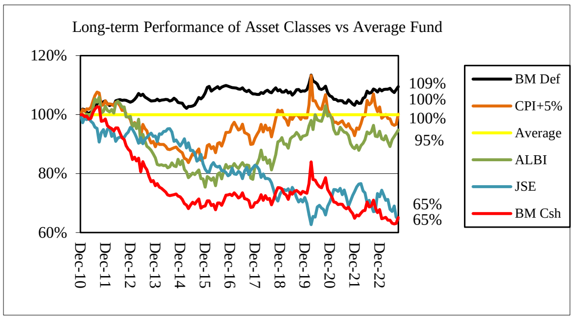
As a result of these factors, many analysts believe that South African assets are currently offering attractive returns to investors. The Rand is also expected to appreciate in the coming years, which would further boost the value of South African assets. This could make South Africa an attractive destination for foreign investment in the near future.

Conclusion

Investing in the SA Rand CMA presents both challenges and opportunities. By carefully considering the global context, understanding SA Rand's dynamics, and seeking professional guidance, investors can make informed decisions that maximise their potential returns while managing associated risks.

The Benchmark Default Portfolio is a globally diversified portfolio appropriate for the average fund member with a long-term investment horizon. Graph 6.2 shows how well the black line of the Default Portfolio stood up against the yellow line of the average prudential balanced portfolio and the various underlying asset classes since 2010.

Graph 6.2



The Fund's board of trustees actively manages it in consultation with NMG, our investment consultants. It is aimed at members and employers who are hesitant to make their own investment decisions.