Volume 19, No. 11
November 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 NOVEMBER 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

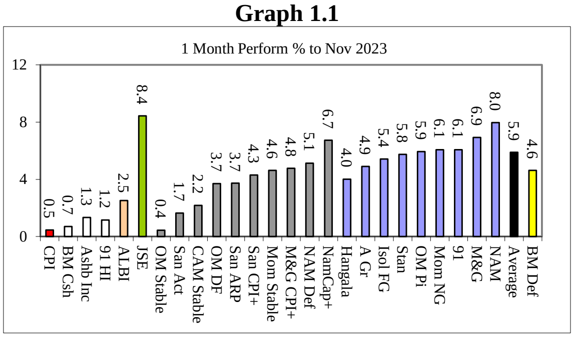
In November 2023, the average prudential balanced portfolio returned 5.9% (October 2023: -1.5%). The top performer is Namibia Coronation Balanced Plus Fund, with 8.0%, while Hangala Capital Absolute Balanced Fund, with 4.0%, takes the bottom spot. For the three months, Allan Gray Namibia Fund takes the top spot, outperforming the 'average' by roughly 0.4%. Namibia Coronation Balanced Plus Fund underperformed the 'average' by 0.8% 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.

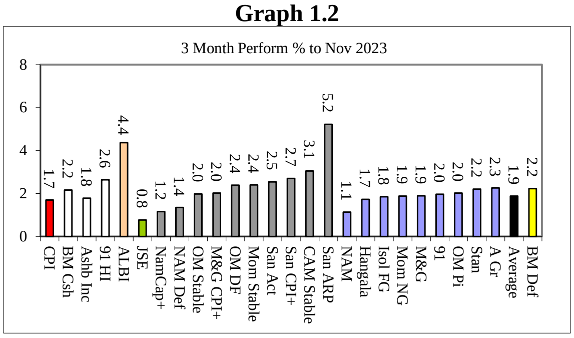
Below is the legend to the abbreviations reflected on the graphs:

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)

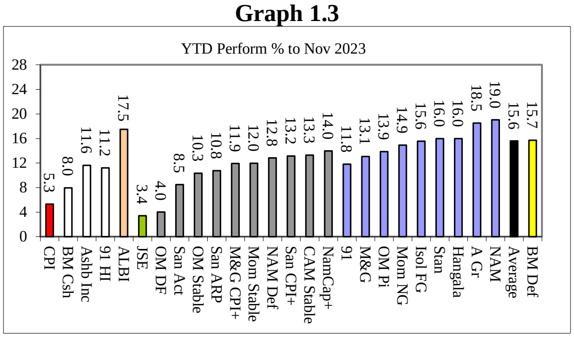
Graph 1.1



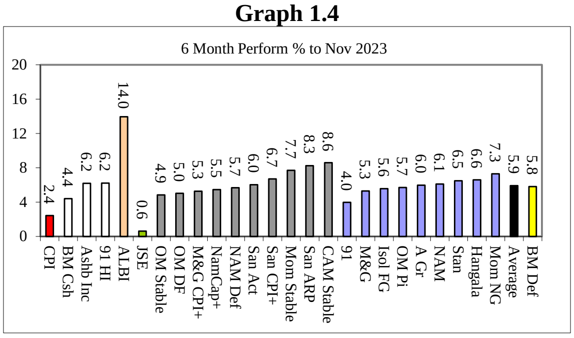
Graph 1.2



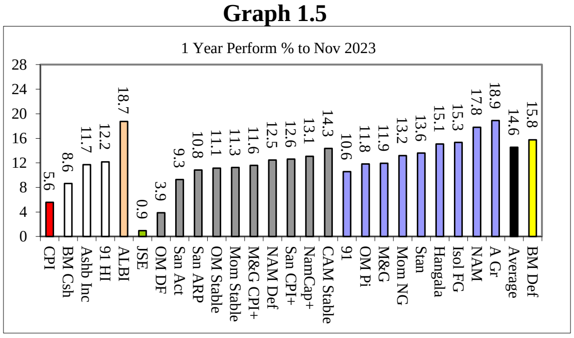
Graph 1.3



Graph 1.4



Graph 1.5



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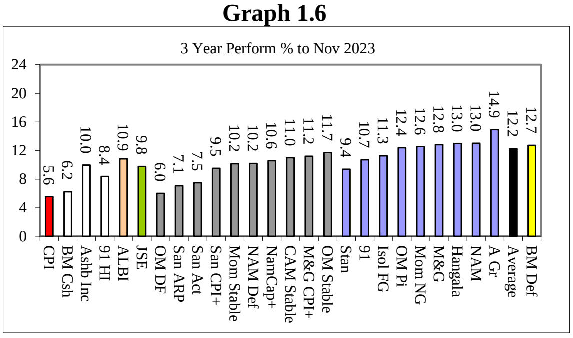
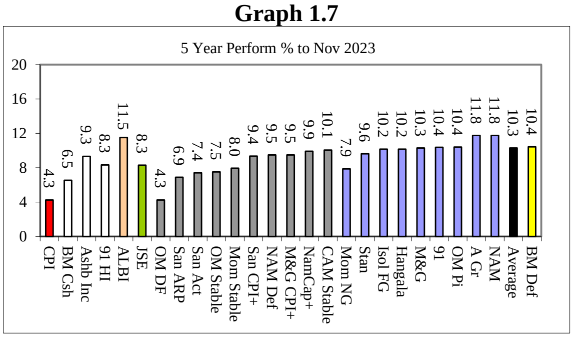
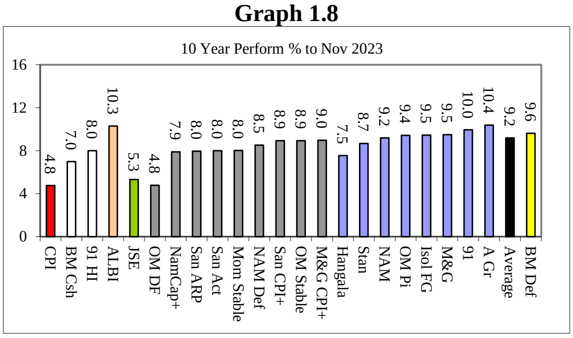
Graph 1.6



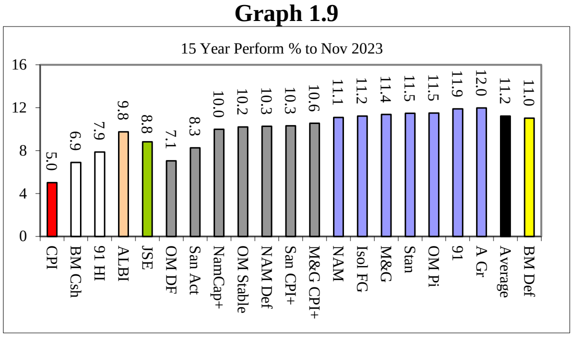
Graph 1.7



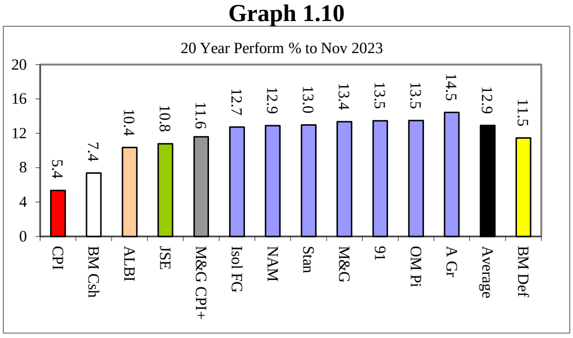
Graph 1.8



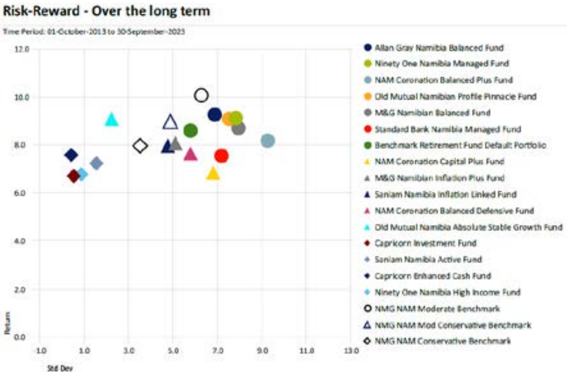
Graph 1.9

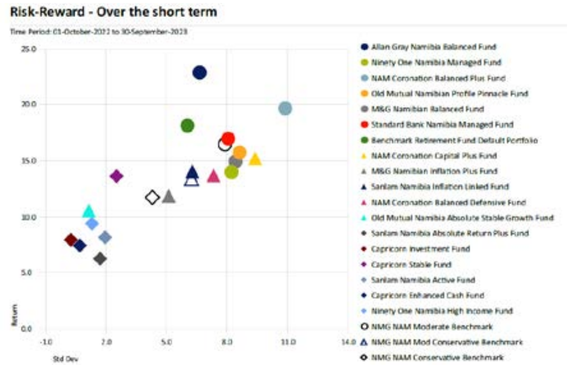


Graph 1.10



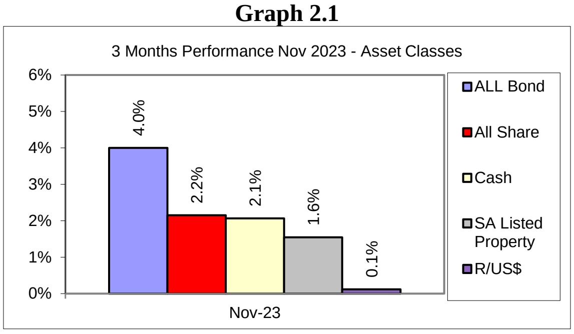
Risk/ Return



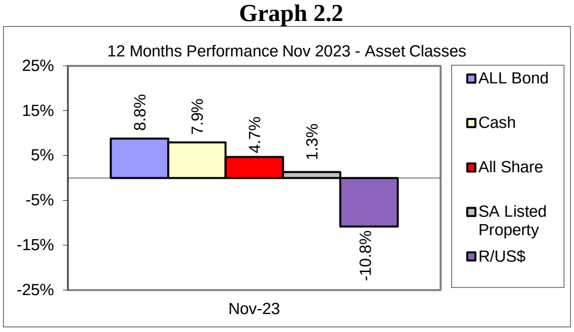


2. **Performance of Key Indices** (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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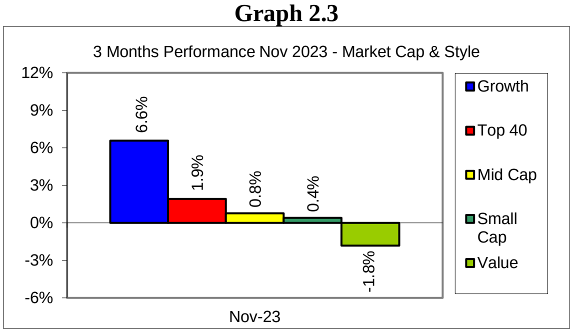
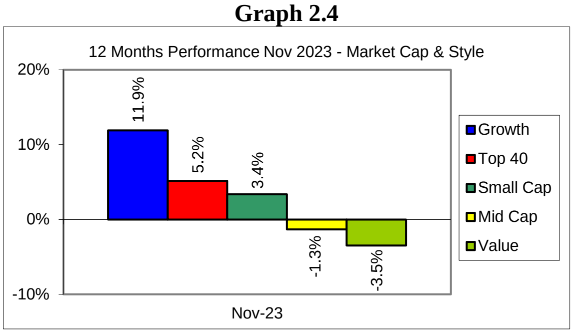
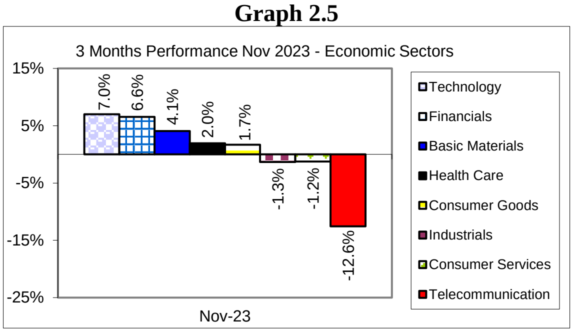
Graph 2.3



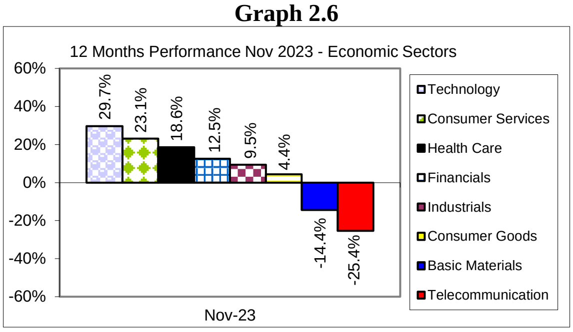
Graph 2.4



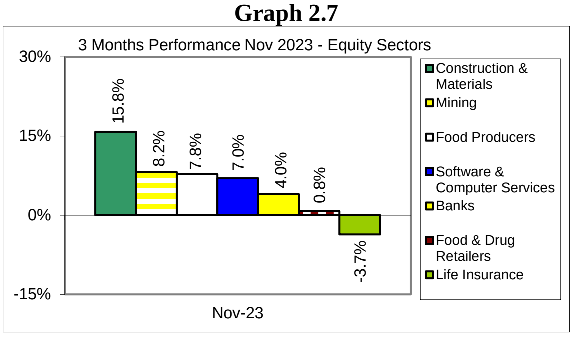
Graph 2.5



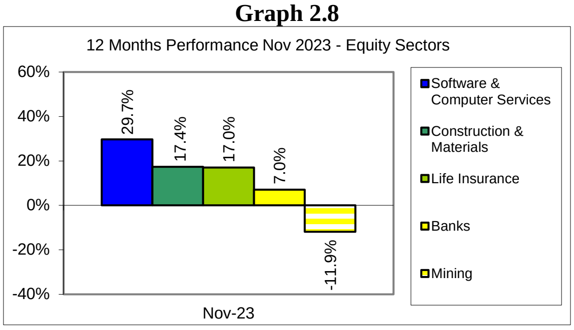
Graph 2.6



Graph 2.7



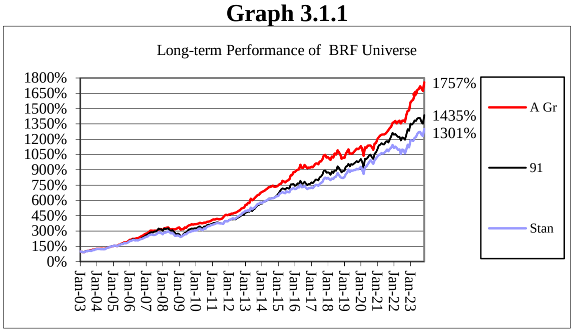
Graph 2.8



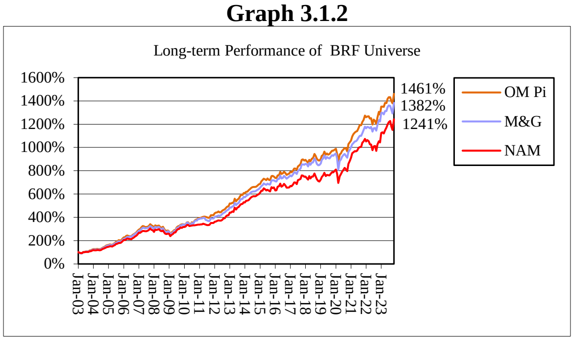
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

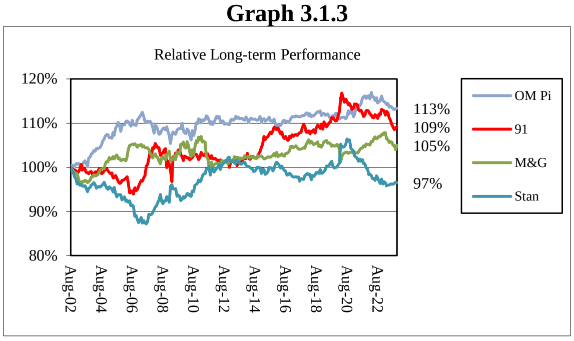
Graph 3.1.1



Graph 3.1.2



Graph 3.1.3



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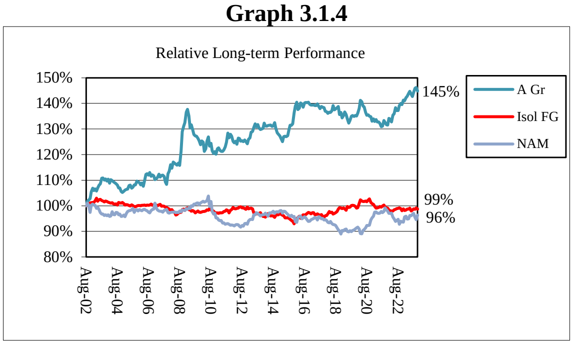
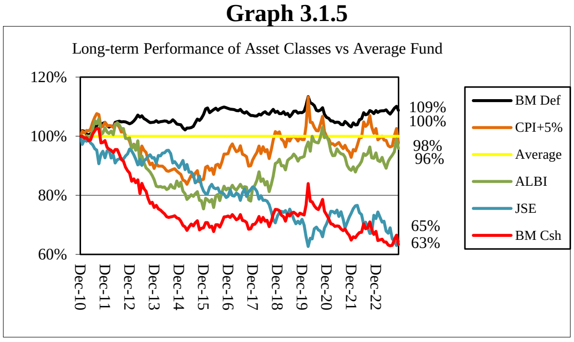
Graph 3.1.4

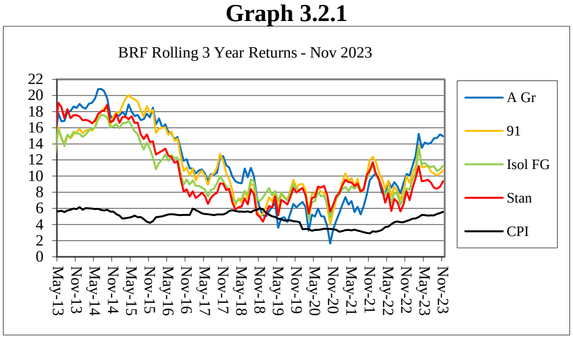


Graph 3.1.5

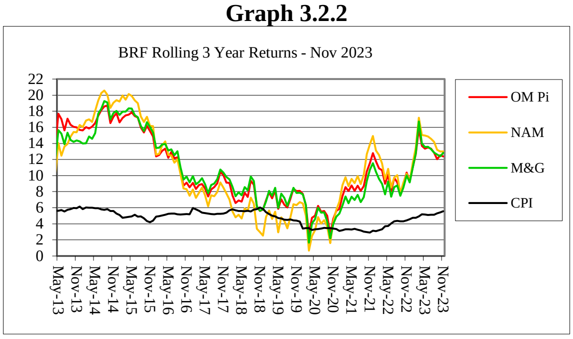


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

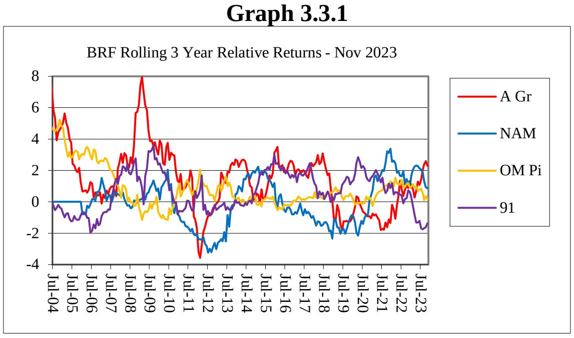


Graph 3.2.2

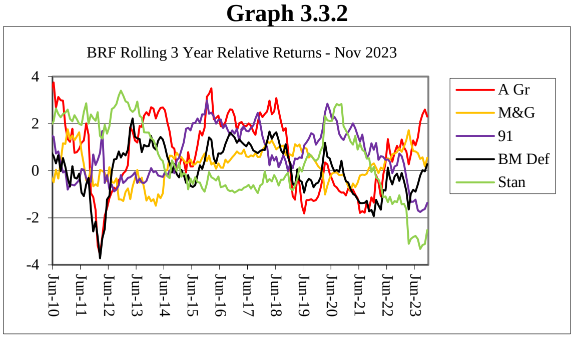


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

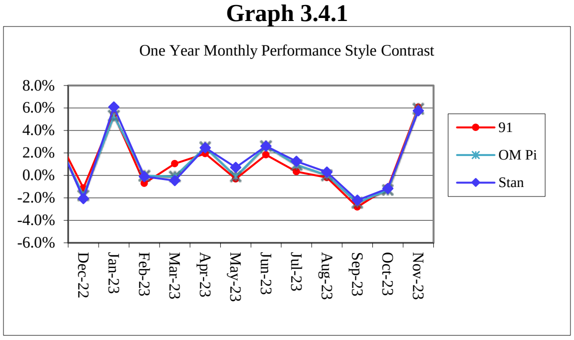


Graph 3.3.2

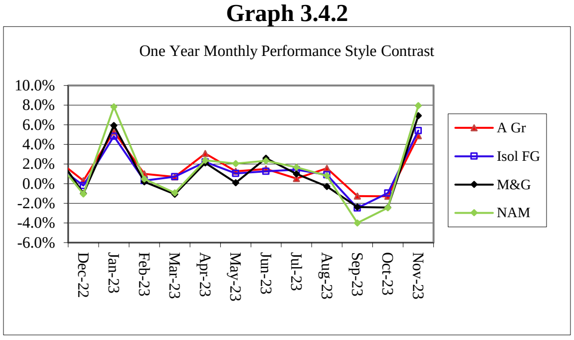


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



Graph 3.4.2



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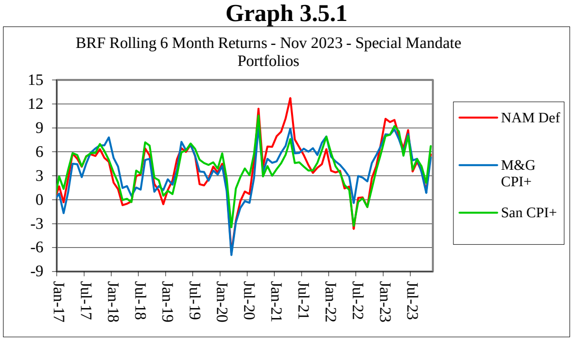
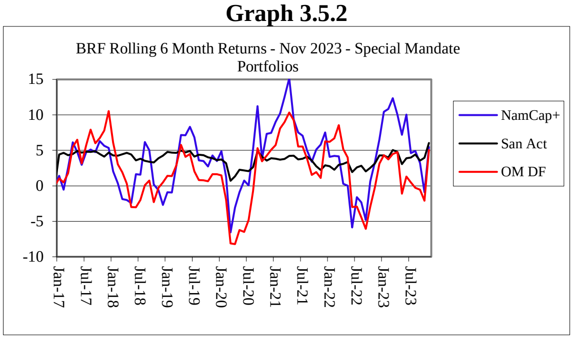
3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

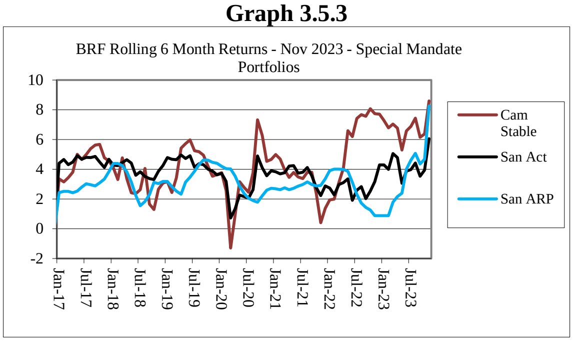
Graph 3.5.1



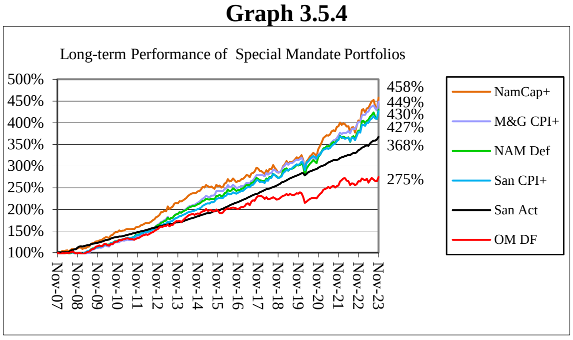
Graph 3.5.2



Graph 3.5.3

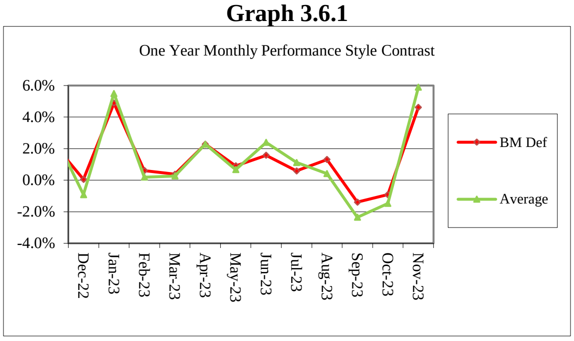


Graph 3.5.4

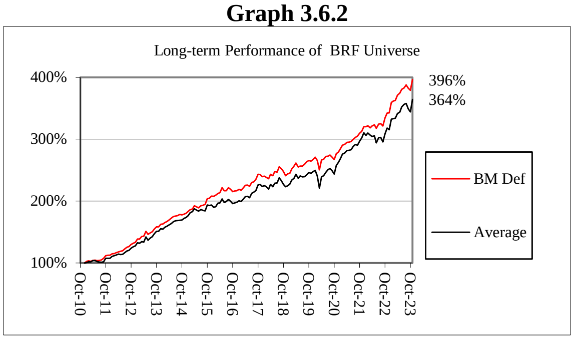


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

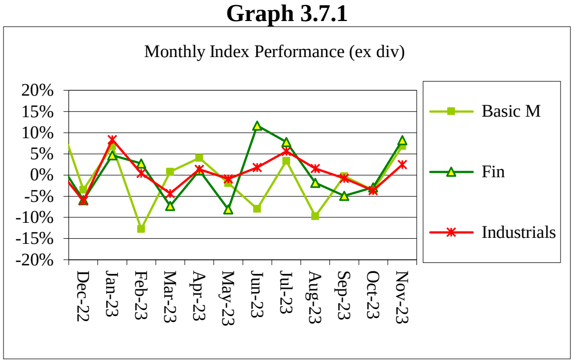


Graph 3.6.2

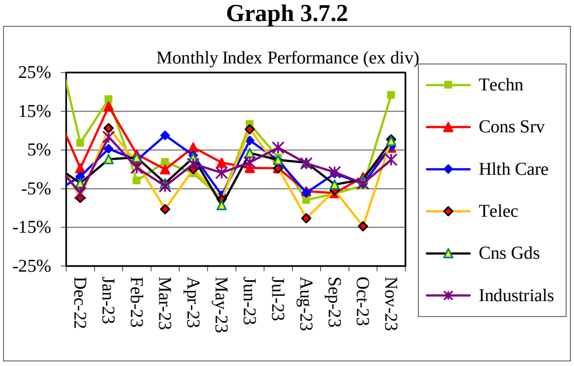


3.7 One-year monthly performance of key indices (excluding dividends)

Graph 3.7.1



Graph 3.7.2



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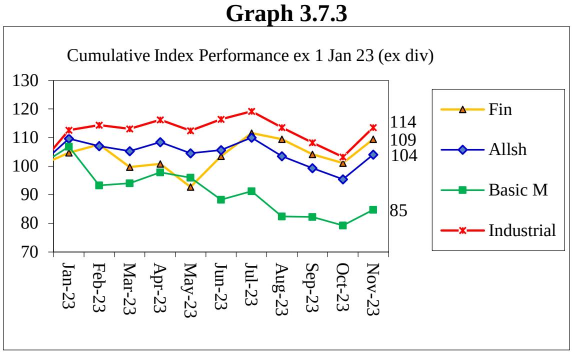
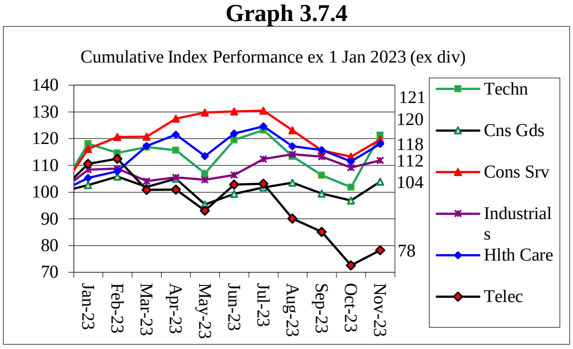
Graph 3.7.3



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.	10.4	10.3
5-year real return - % p.a.	6.1	6.0
Equity exposure - % of portfolio (quarter end September 2023)	40.4	60.2
Cumulative return ex Jan 2011	296.9	264.7
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 40% compared to the average prudential balanced portfolio's exposure of 60%.

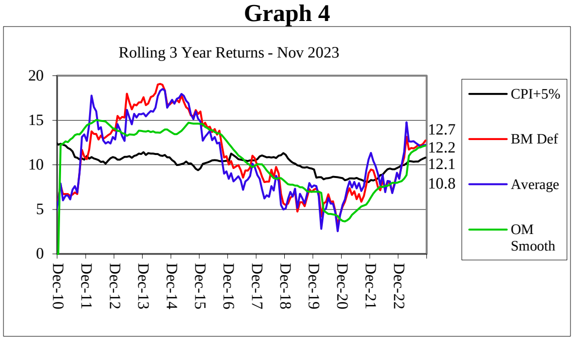
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	5.3%	5.5%
Best annual performance	7.1%	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%	8.8%	9.5%

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

Graph 4

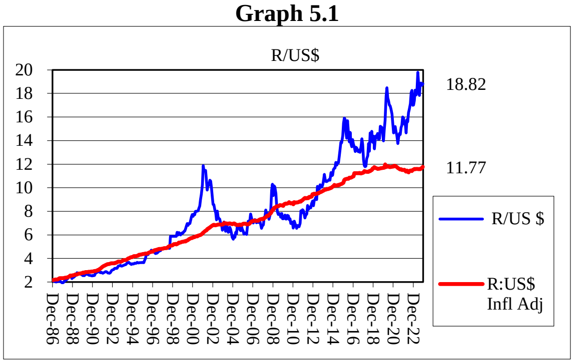


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of November was 12.7%, the average was 12.3% 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 11.77 to the U.S. Dollar, while it stood at 18.82 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



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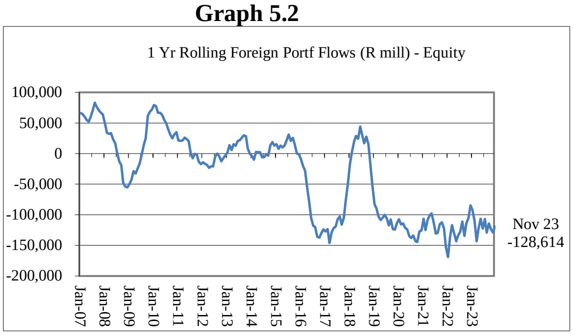
The Rand weakened by 0.71% in November with a net foreign investment outflow from bonds and equities of R 4.8 bn. Over the past 12 months, the Rand weakened by 10.8% (12 months to October Rand weakened by 2.4%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 304.1 bn (outflow of R 318.0 bn to the end of October 2023).

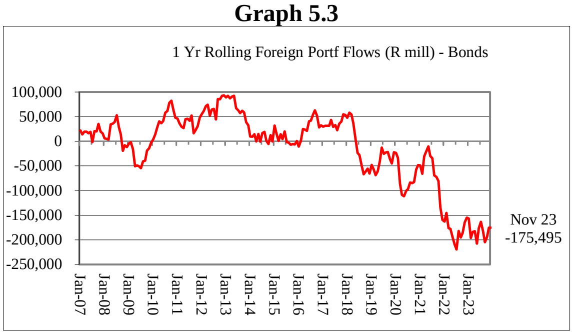
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 128.6 bn at the end of November (outflow of R 123.6 bn year-on-year to the end of October). The month of November experienced a net outflow of R 10.3 bn. Since 2006, foreign net investment outflows from equities amounted to R 640.2 bn (end October net investment outflow of R 629.9 bn). It represents roughly 3.5% of the market capitalisation of the JSE.

Graph 5.2



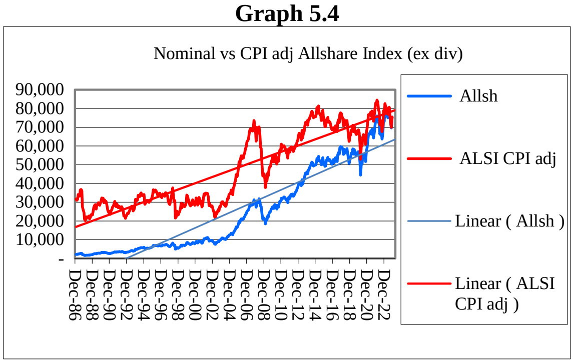
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 175.5 bn over the past 12 months to the end of November (outflow of R 194.5 bn over the 12 months to the end of October). The month of November experienced a net inflow of R 5.5 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 293.3 bn (end October net investment outflow of R 298.8 bn).

Graph 5.3



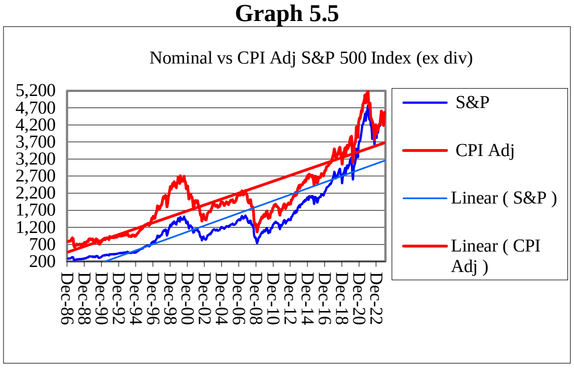
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent to growth in real terms of 2.8% p.a. over this period, excluding dividends, or around 6.0% including dividends.

Graph 5.4



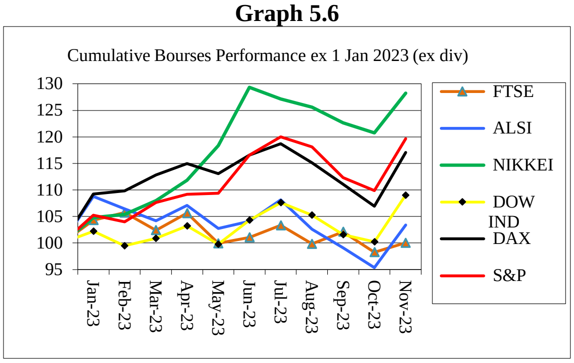
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 7.9% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.1% p.a. 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 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: 16.6%; Consumer Goods: 11.9%; Basic Materials: 5.2%; Financials: 5.2% and Industrials: 4.1%.

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Benchmark Retirement Fund

Administered by RFS Fund Administrators

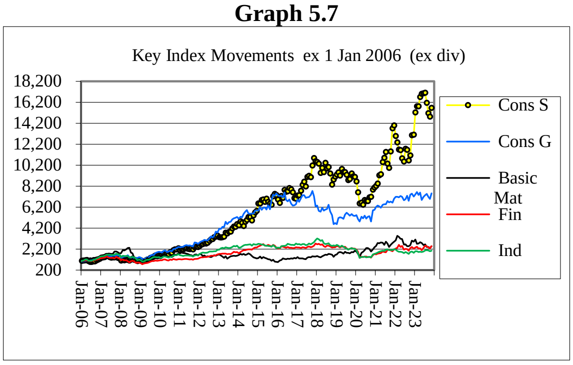
Income Tax Ref. No.12/1/12/462
Registration No 25/7/7/489

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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.

Graph 5.7



6. Navigating the Shifting Economic Landscape

By Tilman Friedrich

As local investors navigate the intricate global economic landscape, one factor stands out prominently—the significant undervaluation of the Rand. This undervaluation, when measured by eliminating the inflation differential between South Africa and the United States since 1987, suggests an exchange rate of 12 compared to the current rate of 20. In this context, investors face critical decisions about offshore exposure, capital repatriation, and the potential impact on investment returns.

Exchange Rate Dynamics: A Key Consideration

The severe undervaluation of the Rand underscores the importance of scrutinizing exchange rate dynamics in investment decisions. Adjusting the current exchange rate to 12, based on the inflation differential, reveals a substantial gap. This variance implies that investments made abroad at the current exchange rate could experience significant depreciation if the Rand were to correct to its perceived fair value.

Capital Repatriation: Seizing the Opportunity

Given the current undervaluation, now may not be the optimal time for local investors to move money offshore. Instead, it presents an opportune moment for capital repatriation. By reducing offshore exposure, investors can capitalise on Rand weakness, safeguarding their investment returns from potential currency depreciation.

Diversification without Sacrificing Principles

While repatriating capital is a strategic move in the current scenario, it is crucial to uphold the principle of diversification. Investors should explore domestic opportunities that align with their risk tolerance and financial goals. Diversifying across various asset classes within the local market can help mitigate risks while capitalizing on the undervalued Rand.

Foreign Investor Risks: Potential Rand Appreciation

Conversely, foreign investors face a unique set of risks associated with the Rand's undervaluation. There's a possibility of the Rand appreciating, which could impact the returns on investments made in South Africa. Foreign investors should carefully weigh the potential risks and rewards, considering currency dynamics alongside other factors influencing the local market.

Attractive Yields in Local Government Bonds

To attract both local and foreign investors, South Africa and Namibia offer government bonds with attractive real yields. Medium-term bonds provide real yields of approximately 3%, while long-term bonds can offer returns of up to 6%. Notably, these returns are tax-free for natural persons in Namibia, adding a layer of appeal for individual investors seeking tax-efficient investment options. Since interest rates are currently at or close to their peak and the likelihood for a slow decline is considered much higher than for a further increase, government bonds hold out the additional prospect for capital appreciation as rates decline. It assumes that one invests in these bonds to hold them to maturity.

Equity Return Expectations and Comparative Analysis

Currently, the return expectation for equities in South Africa hovers around 6%. This return figure should be carefully considered in comparison to the yields offered by government bonds and their prospect of delivering capital appreciation, should interest rates decline, in a buy-to-sell scenario. Investors must weigh the potential returns from equities against the relative safety and fixed returns provided by bonds in a hold-to-maturity scenario, factoring in their risk tolerance and investment horizon.

Balancing Equity and Bond Investments

As investors contemplate their portfolio allocations, balancing equity and bond investments becomes pivotal. The undervaluation of the Rand introduces an element of uncertainty, influencing the risk-reward dynamics. Investors may find merit in maintaining a well-balanced portfolio that combines the potential for capital appreciation through equities with the stability and income-generation capabilities of government bonds.

Tax Efficiency and Real Returns

The tax-free nature of returns on government bonds for natural persons enhances their attractiveness. Investors should leverage tax-efficient investment opportunities to optimize real returns. A careful assessment of after-tax returns can guide decisions on portfolio allocations and contribute to a more effective wealth-building strategy.

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Long-Term Perspective and Risk Management

Investing in an environment marked by currency undervaluation requires a long-term perspective and robust risk management. Investors should align their strategies with their financial goals, considering factors such as investment horizon, risk tolerance, and liquidity needs. A diversified portfolio that incorporates a mix of asset classes can provide resilience in the face of market uncertainties.

Conclusion

In conclusion, the undervaluation of the Rand introduces both challenges and opportunities for Namibian and South African investors. The potential for capital repatriation, attractive yields in government bonds, and the tax efficiency of returns contribute to a complex investment landscape. Careful consideration of exchange rate dynamics, risk-reward profiles, and tax implications is paramount in making informed and strategic investment decisions. As the global economic landscape evolves, savvy investors in Southern Africa can leverage these insights to navigate uncertainties and position themselves for financial success.