Volume 19, No. 12
December 2023

Benchmark Retirement Fund

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

Administered by RFS Fund Administrators

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 DECEMBER 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

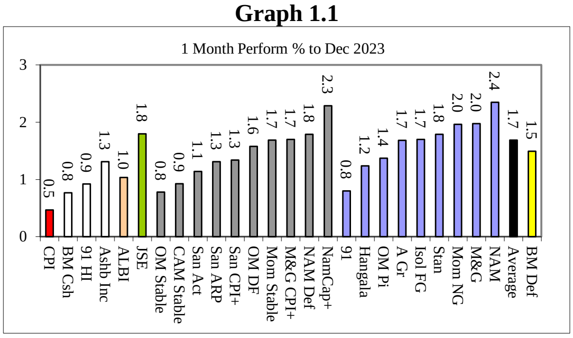
In December 2023, the average prudential balanced portfolio returned 1.70% (November 2023: 5.9%). The top performer is Namibia Coronation Balanced Plus Fund, with 2.4%, while Ninety.One Namibia Managed Fund, with 0.8%, takes the bottom spot. For the three months, Namibia Coronation Balanced Fund takes the top spot, outperforming the 'average' by roughly 1.7%. Hangala Capital Absolute Balanced 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. (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.

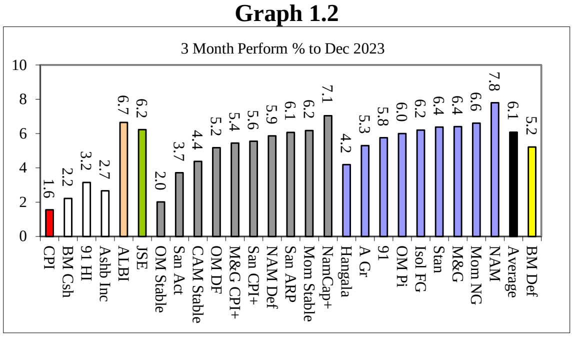
Below is the legend to the abbreviations reflected on the graphs:

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)

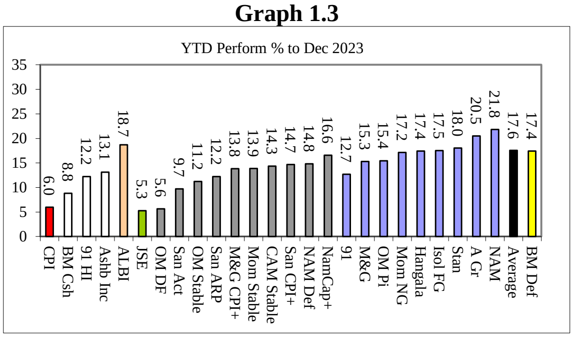
Graph 1.1



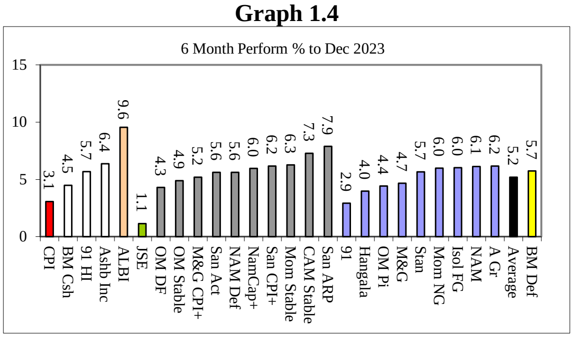
Graph 1.2



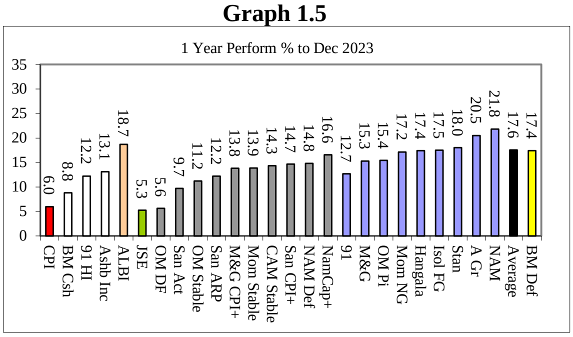
Graph 1.3



Graph 1.4



Graph 1.5



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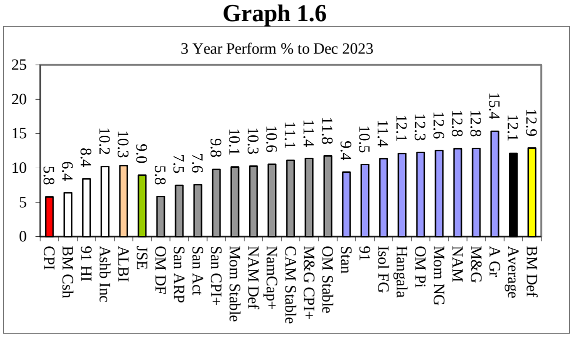
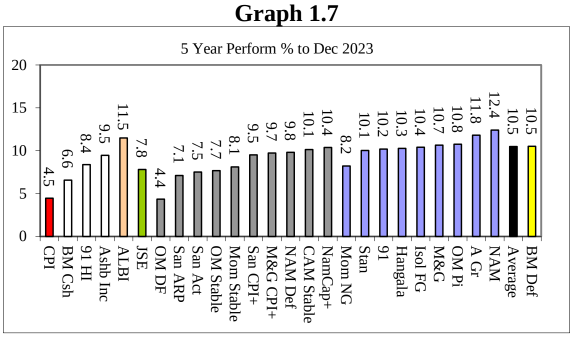
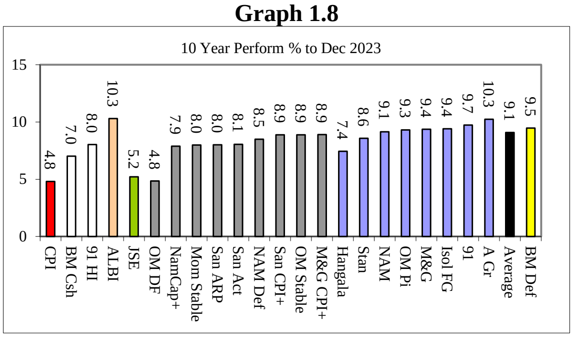
Graph 1.6



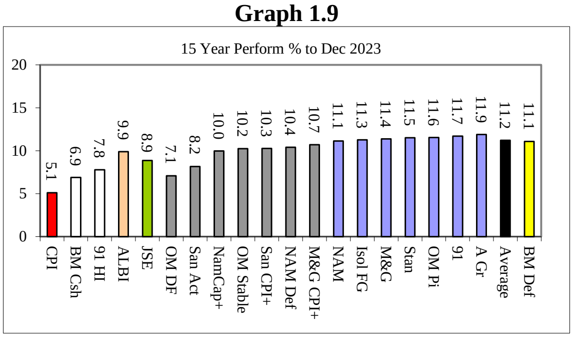
Graph 1.7



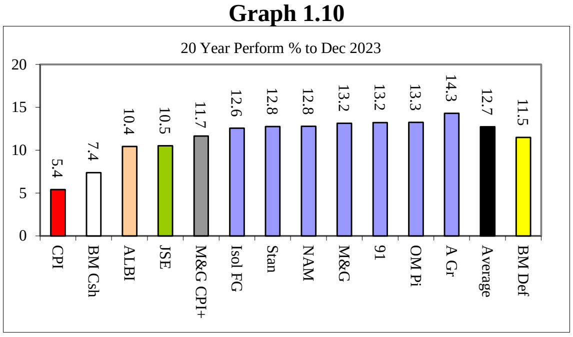
Graph 1.8



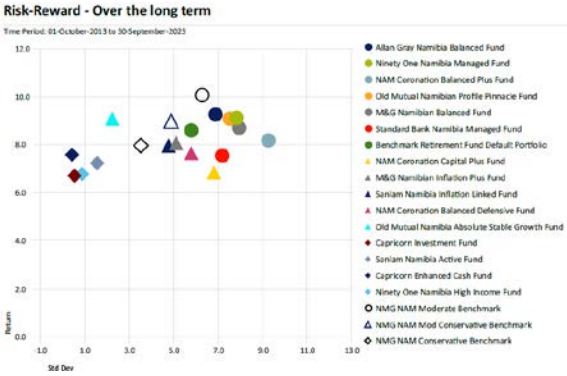
Graph 1.9

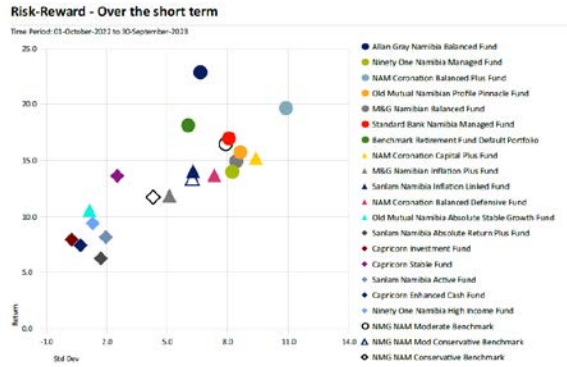


Graph 1.10



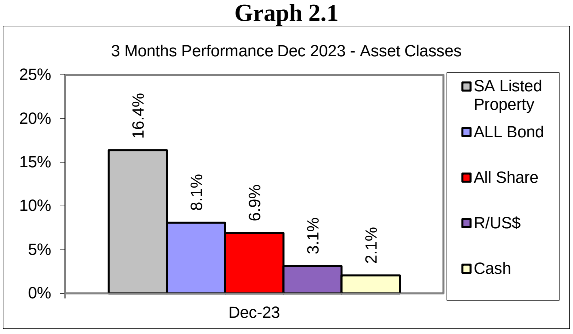
Risk/ Return



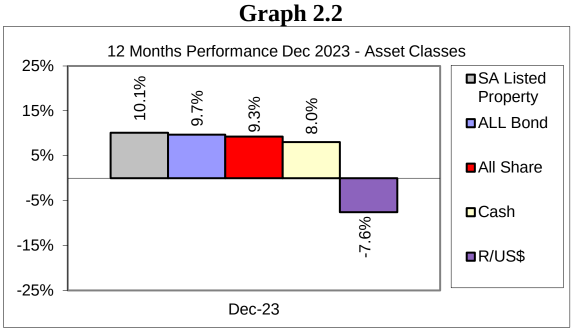


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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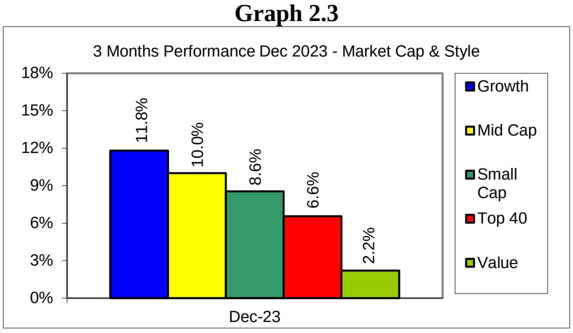
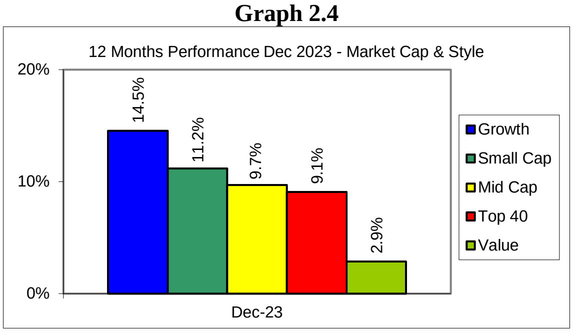
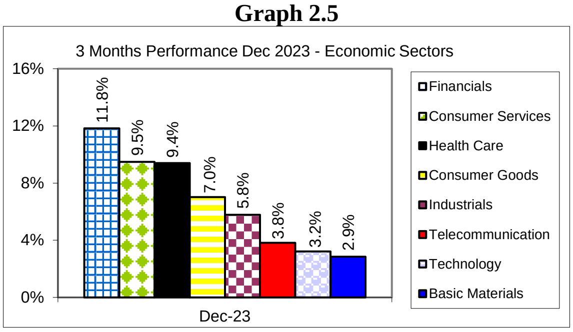
Graph 2.3



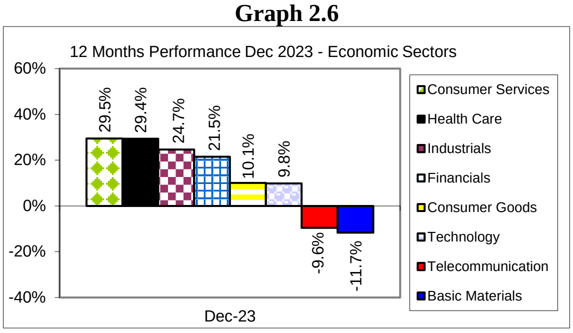
Graph 2.4



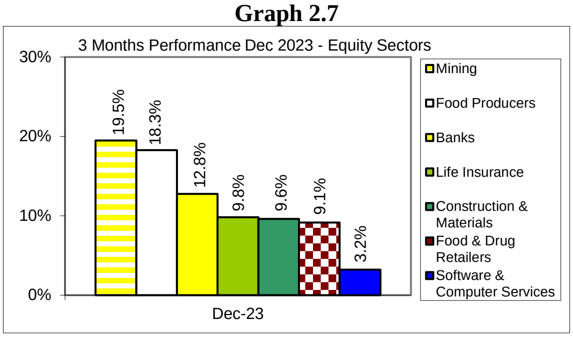
Graph 2.5



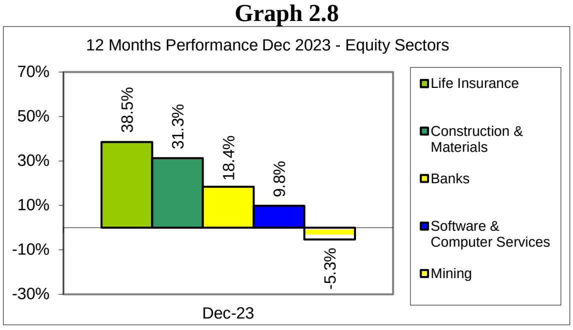
Graph 2.6



Graph 2.7



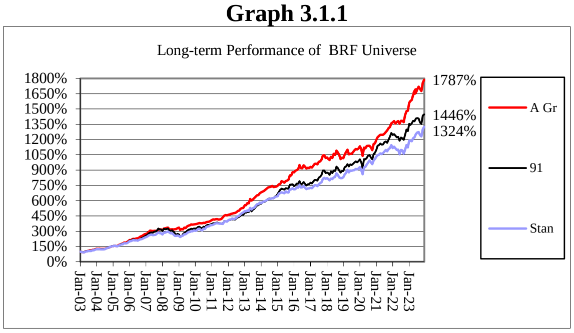
Graph 2.8



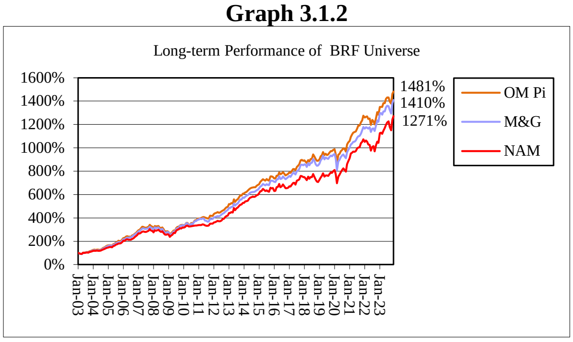
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

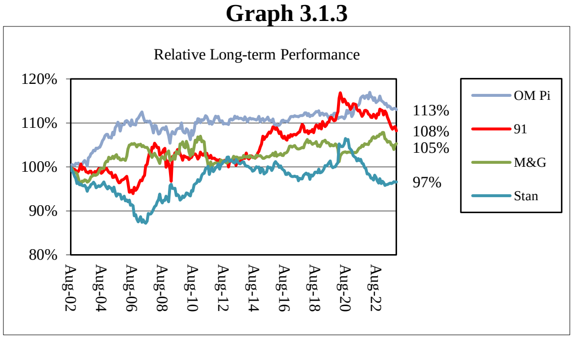
Graph 3.1.1



Graph 3.1.2



Graph 3.1.3



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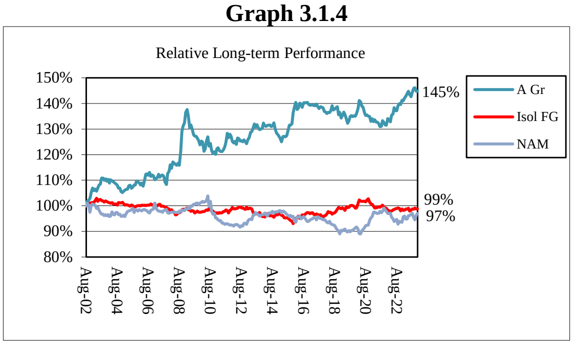
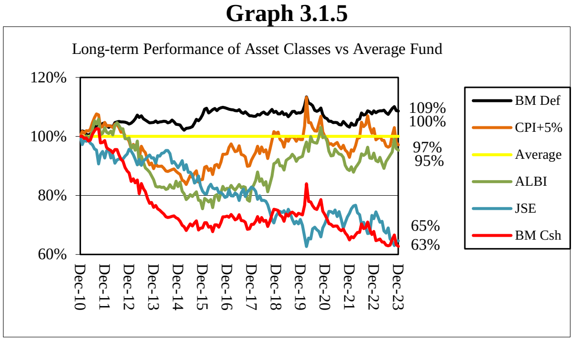
Graph 3.1.4

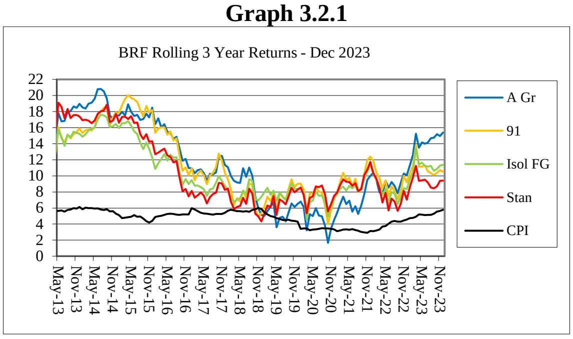


Graph 3.1.5

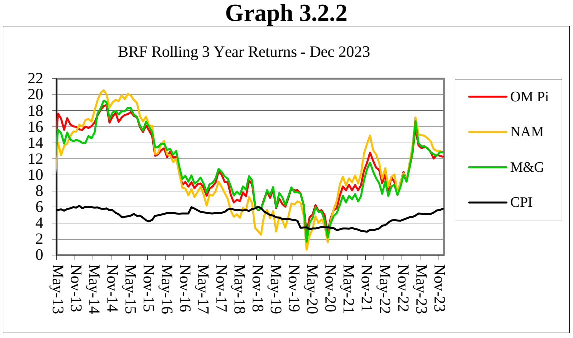


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

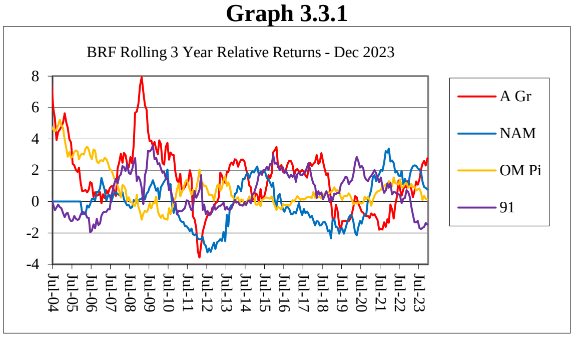


Graph 3.2.2

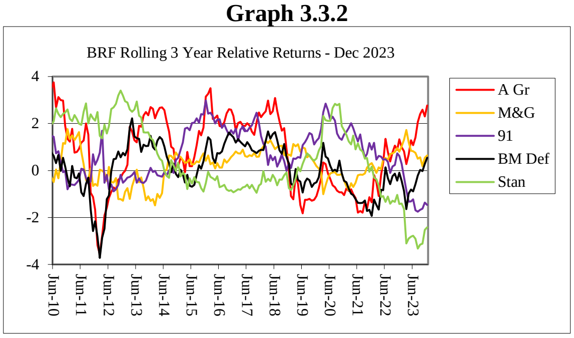


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

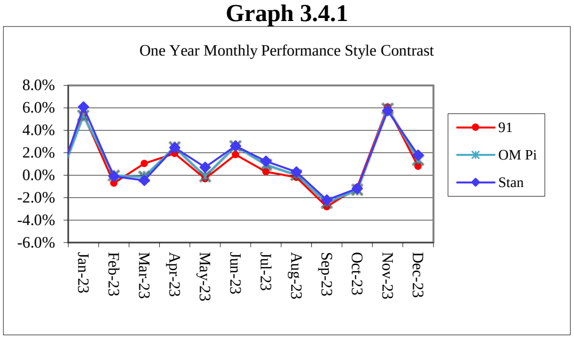


Graph 3.3.2

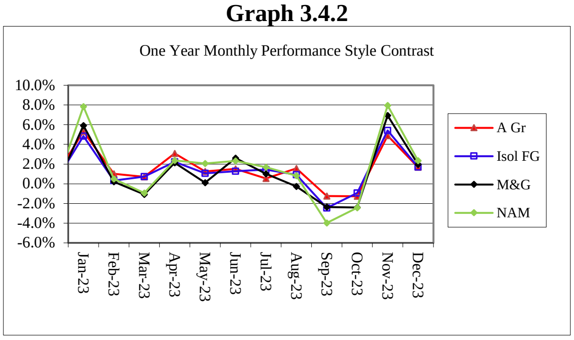


3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



Graph 3.4.2



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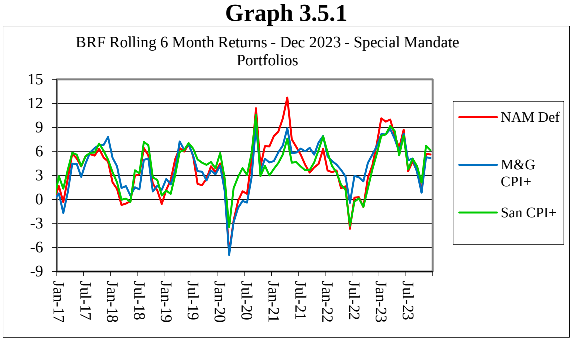
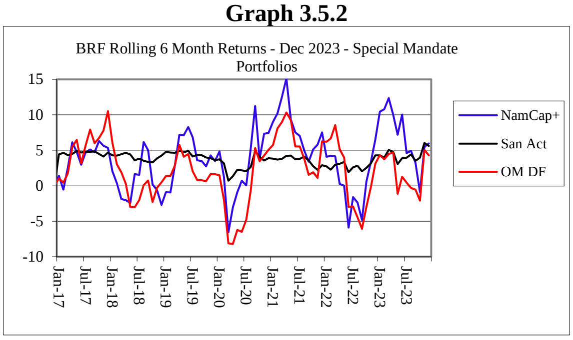
3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

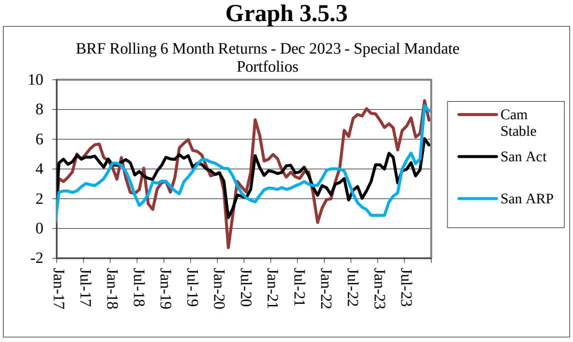
Graph 3.5.1



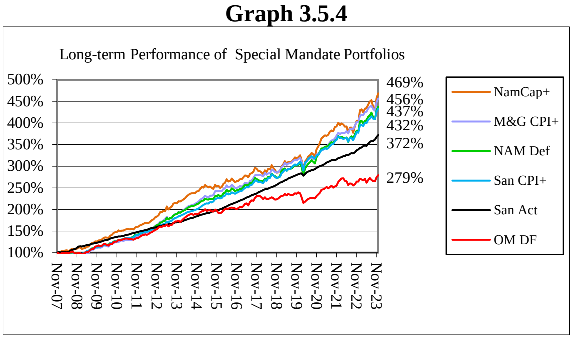
Graph 3.5.2



Graph 3.5.3

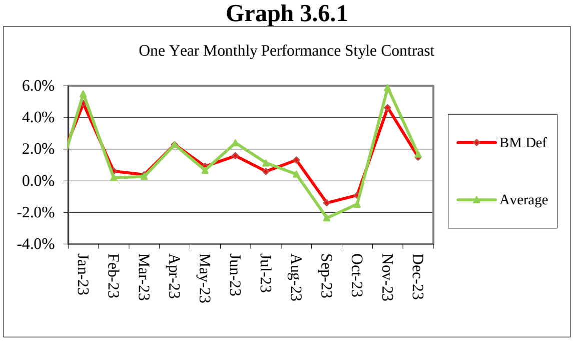


Graph 3.5.4

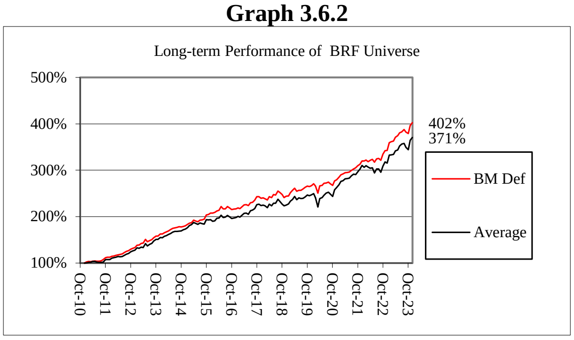


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

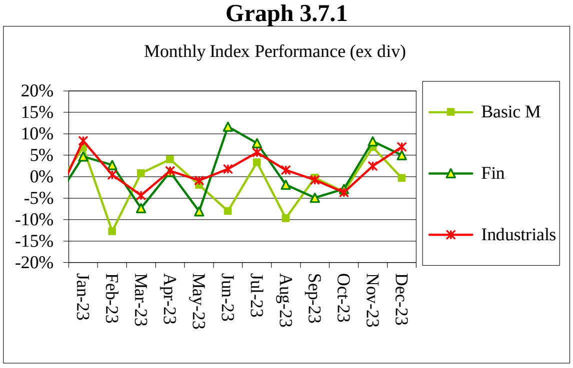


Graph 3.6.2

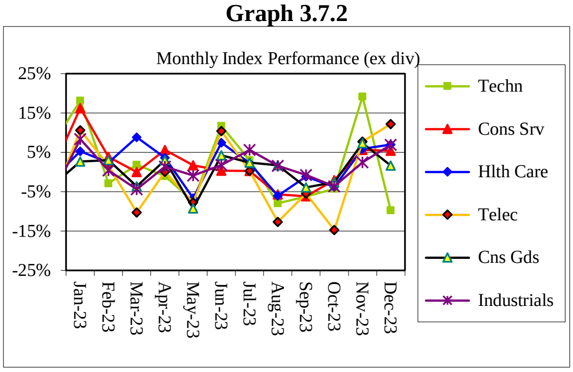


3.7 One-year monthly performance of key indices (excluding dividends)

Graph 3.7.1



Graph 3.7.2



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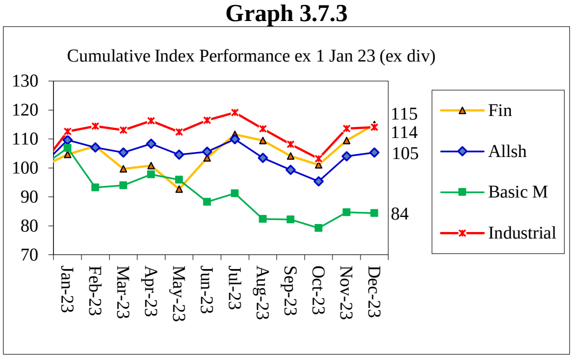
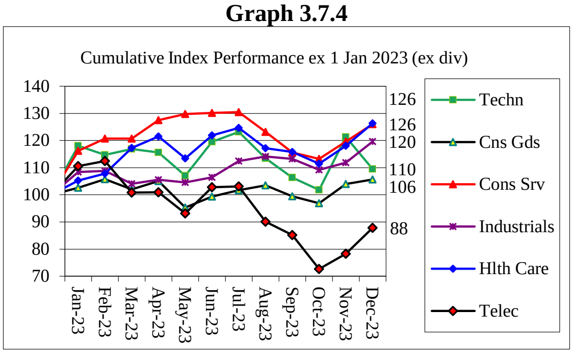
Graph 3.7.3



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.	10.5	10.5
5-year real return - % p.a.	6.0	6.0
Equity exposure - % of portfolio (quarter end September 2023)	40.4	60.2
Cumulative return ex Jan 2011	307.6	279.6
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%.

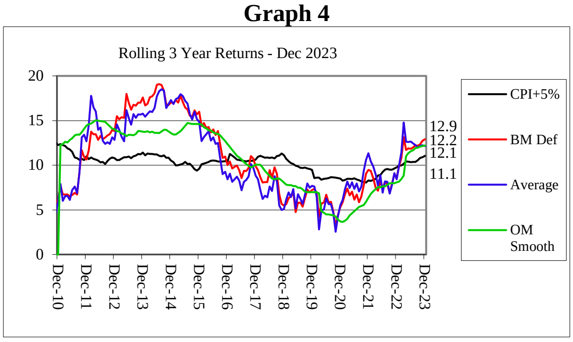
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	5.9%	6.1%
Best annual performance	7.0%	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%	12.9%	12.2%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from January 2021 to December 2023. These statistics show the performance volatility of these three risk profiles.

Graph 4

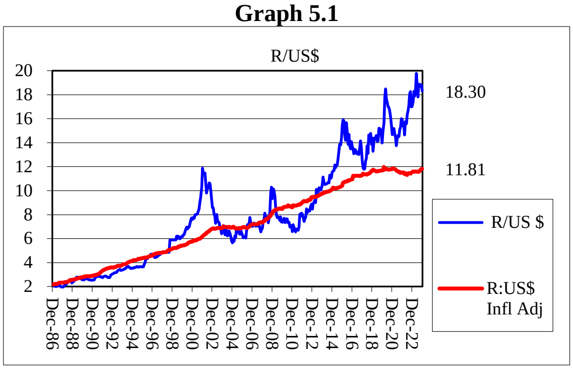


Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5% on a rolling 3-year basis. It also shows rolling 3-year returns of the average prudential balanced portfolio and rolling 3-year CPI. The Benchmark default portfolio's 3-year return to the end of December was 12.9%, the average was 12.1% vs. CPI plus 5%, currently on 10.8%.

5. Review of Foreign Portfolio Flows and the Rand

Graph 5.1 indicates that the Rand's fair value by our measure is 11.81 to the U.S. Dollar, while it stood at 18.30 at the end of December. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



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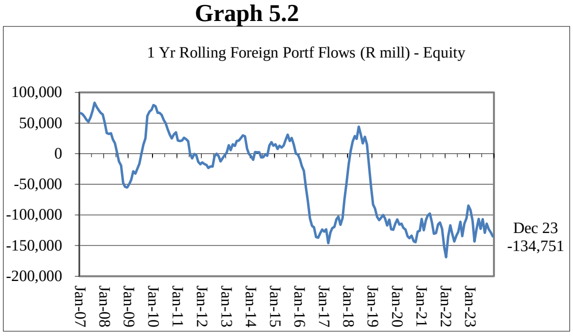
The Rand strengthened by 2.8% in December with a net foreign investment outflow from bonds and equities of R 21.9 bn. Over the past 12 months, the Rand weakened by 7.6% (12 months to November Rand weakened by 10.8%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 316.4 bn (outflow of R 304.1 bn to the end of November 2023).

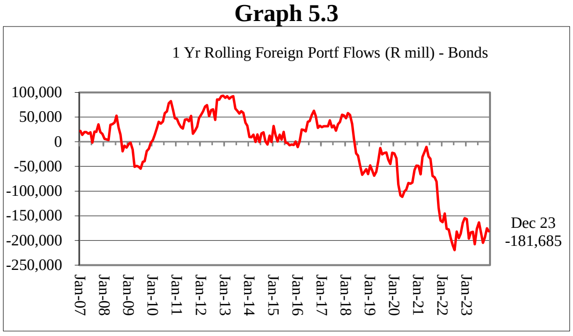
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 134.8 bn at the end of December (outflow of R 128.6 bn year-on-year to the end of November). The month of December experienced a net outflow of R 15.6 bn. Since 2006, foreign net investment outflows from equities amounted to R 655.8 bn (end November net investment outflow of R 640.2 bn). It represents roughly 3.1% of the market capitalisation of the JSE.

Graph 5.2



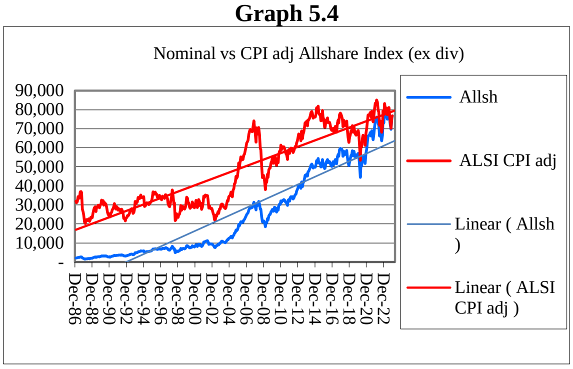
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 181.7 bn over the past 12 months to the end of December (outflow of R 175.5 bn over the 12 months to the end of November). The month of December experienced a net outflow of R 6.3 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 299.6 bn (end November net investment outflow of R 293.3 bn).

Graph 5.3



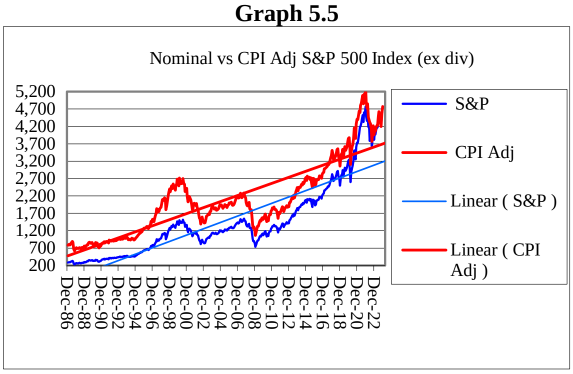
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent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

Graph 5.4



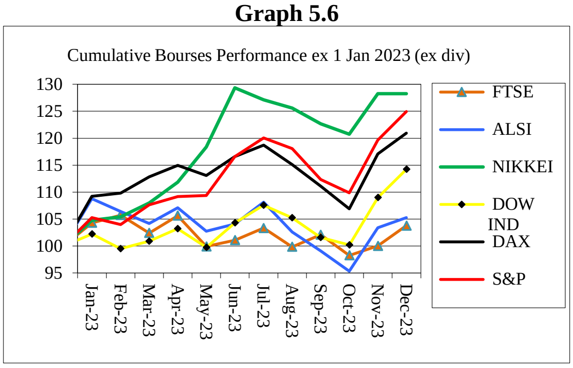
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 8.0% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.2% p.a. over 36 years, excluding dividends, or around 7.3% (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: 16.9%; Consumer Goods: 11.9%;

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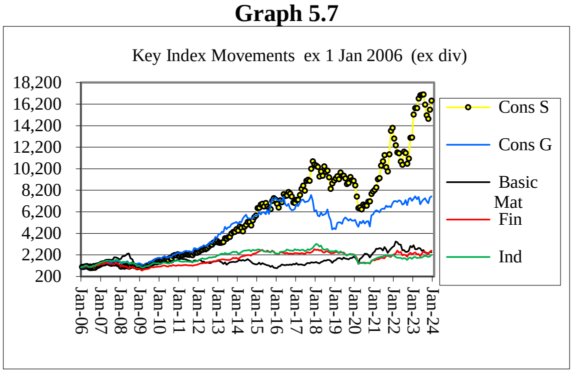
Benchmark Retirement Fund
Administered by RFS Fund Administrators
Income Tax Ref. No.12/1/12/462
Registration No 25/7/7/489

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 DECEMBER 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: 5.1%; Financials: 5.4% and Industrials: 4.5%.

Graph 5.7



6. Is anyone out there concerned about another 'great war'?
By Tilman Friedrich

I am writing these investment market reviews monthly to share my thoughts on global developments, how they might impact our investment markets, and what investment decisions I would make. We all know no crystal ball tells us how developments will pan out. All commentators can only express opinions, and the reader must find his most plausible scenario before making investment decisions.

Peace of mind is the most crucial consideration for an investor and will let him sleep in peace. Making any investment decision contrary to your understanding and gut feeling will cause you stress, and you will be unable to rationalize the outcome of your decision.

I see great global uncertainties that may significantly impact the global economy and investment markets. The rising trend of onshoring or friend-shoring of manufacturing is no news anymore. Mexico has recently overtaken China as America's biggest trading partner as the US looks to import goods closer to home and minimize its reliance on geopolitical rivals. For one, Mexico is much closer to the US, eliminating the supply chain interruption risk. In addition, the average salary in Mexico is only a quarter of that in the US. As a result, much manufacturing capacity and investment will move from China to Mexico and other countries, with severe consequences for investors in China while creating exciting investment opportunities in Mexico. Many jobs will be lost in China and created in Mexico. The tidal wave of economic refugees to the US will likely run out in Mexico, reducing the US' challenges relating to the massive immigration. Of course, the US economy will also benefit from insourcing the production of more sophisticated and strategic goods.

Similar developments are occurring in Europe. Local media have reported on German, Japanese and Arab delegations visiting Namibia to find alternative energy sources and raw materials. There has been no talk of moving manufacturing from the Far East to Africa, which is unfortunate for the continent and can probably be ascribed to labour market impediments. Eastern European and Middle Eastern countries with well-qualified, low-salaried employees will benefit most from the shift in manufacturing capacity.

The global re-orientation by industries and economies will bring about high volatility in investment markets until the dust has settled over the next ten to twenty years. In this re-orientation phase, winners and losers will be difficult to identify up-front because of the interaction of so many factors that impact business. It means that investment markets will pose severe threats and offer great opportunities.

Since the end of World War II, the US has shaped the global political and economic environment to promote and cement its economic interests. It had the benefit of being predictable and consistent for investors. I believe we are reaching the end of this era where the US geopolitical rivals are on a mission to emancipate themselves from the US dominance, having seen how brutally the US uses every measure under its control, such as the global SWIFT payments system, to force diverging countries into submission. In the most recent case in point, the US has been unsuccessful so far with its economic measures and has resorted to military measures by drawing Russia into a proxy war against Ukraine. It was recently reported that Russia and Iran have successfully implemented a fully integrated payment system. It took the two countries quite a while to reach this point, but it will now be so much easier for other countries unwilling to submit to the US to tie up with this alternative. The BRICS initiative will likely be the next group of countries to link up.

Once a viable alternative to the SWIFT system exists in global trade, the US dominance would decline rapidly. With the decline in the US dominance, the US Dollar would lose its global reserve currency status. The US fiscal system will then be exposed to market forces. Negative trade balances and budget deficits will negatively impact the US Dollar and US interest rates, unlike today, where global trade proceeds are hoarded in US Dollars, shielding its currency and interest rates from external forces. It will make policy- and lawmakers' lives much more uncomfortable and challenging. In short, it will end the US' global hegemony.

I observe with trepidation how the US got half the world to firmly tow its line in meeting the concerted challenge to its dominance relating to Russia, the Middle - and Far East. I perceive a vigorous US will to reinforce itself by all means at its disposal. Its economic measures proved to be ineffective against Russia. It has not yet instituted any determined economic measures against China, as it could be a double-edged sword. As for Europe, in the case of Russia, the US prefers to let its European allies carry the costly burden of its economic measures. While there is still too much at stake for sanctioning China, shifting manufacturing away from China will make it easier to put the thumbscrews on China. In the cases of other smaller countries, in particular the smaller BRICS member states, the US will pursue its maxim of 'divide et empera'. The unjustified Rand weakness is a symptom of political pressures placed on 'unruly' countries. Africa has the

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market and the natural resources, though, to withstand any pressure from anywhere, provided it stands together to the motto, ex unitate vires.

The US is now left with one of two options. Either it accepts the establishment of a multipolar world and tries to find its best fit into the new global order, or it embroils all its geopolitical adversaries in a third World War. Reading European media, one must become very concerned about the evident shift from a pacifist tone since World War II to creating a war atmosphere more recently. I believe the stakes for the US are too high to give up its global dominance. It does not seem that its major global adversaries will relent in their challenge of US dominance. Because the Ukraine proxy war is unlikely to subjugate Russia, and because China will unlikely backtrack on its chosen path, the US will only have a chance to maintain its dominance by going to war.

European leaders have stated in unison that Russia may not win this war. It becomes ever more evident that Ukraine will not withstand the Russian pressure for too long. The fact that one reads more regularly about peace initiatives supports the assertion that Ukraine is losing this war. Russia's progress in the war would leave the European leaders with only one face-saving alternative: to get involved actively. If it were left to Ukraine, NATO would have been drawn into the war a long time ago with claims of a Russian missile attack on Poland that later proved to be a Ukrainian missile. Now, Poland wants NATO to help it protect its airspace. In my reading, it is another pretence for drawing NATO into the war, unleashing World War III. It seems governments worldwide believe another great war will be good for the world and solve many problems it is currently facing.

I believe World War III will very likely start within the next year or two, with severe implications for investors. Investment markets will take a deep dive and will not recover for long after the end of the war. Foreign investment will no longer be possible for local investors. Existing foreign investments will not be accessible to them, and many businesses in participating countries will disappear altogether.

Countries with nothing to win from such a war should do everything to stay out of the firing line. South Africa's strategic location and its natural resource abundance would make it difficult not to end up in the firing line. Being a BRICS member would also make refusing Chinese and Russian approaches difficult. Like many other African and developing countries in the southern hemisphere, Namibia would be in a better position if it remained neutral.

Conclusion

Many global developments indicate that another World War in the next two years is possible. Local investors must consider this possibility and its consequences for global investments. Investments in the northern hemisphere would be locked in and are exposed to elimination through hostile actions. At the same time, the Rand is very weak. Under these circumstances, the local investor should consider repatriating his existing investments in the north. In a global military confrontation scenario, capital flows will be restricted. As a result, market forces will be reimposed on global interest rates. It will push up artificially depressed interest rates in the developed world, worsening their debt problems and weakening their currencies. Generally, the developing world seems positioned to survive such a global confrontation relatively unscathed. Because of high real interest rates in modestly indebted developing countries as opposed to the Developed World's high indebtedness, fixed-interest investment in developing countries should present a safe haven for local investors. Conceivably, investors in the global north will conclude similarly and would move capital to the global south with the opposite consequences. In the described scenario, basic consumer goods and services, health care, energy, technology, and natural resources would be sought after. In contrast, financial institutions and property would be shunned by investors. Companies focusing on the African and other developing country markets should pose a lower risk than those with a strong representation in the northern hemisphere.