Volume 20, No. 01
January 2024

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 JANUARY 2024

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

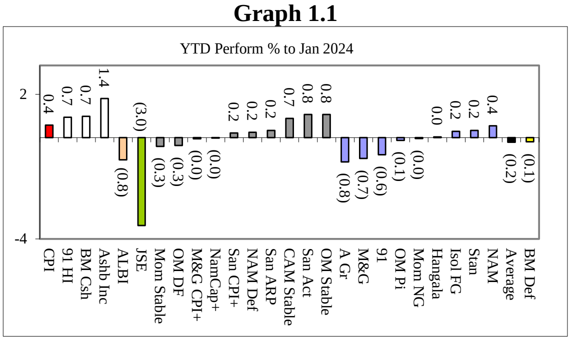
In January 2024, the average prudential balanced portfolio returned -0.2% (December 2023: 1.7%). The top performer is Namibia Coronation Balanced Plus Fund, with 0.4%, while Allan Gray Balanced Fund, with -0.8%, takes the bottom spot. Namibia Coronation Balanced Fund takes the top spot for the three months, outperforming the 'average' by roughly 3.5%. Hangala Capital Absolute Balanced Fund underperformed the 'average' by 2.2% 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.

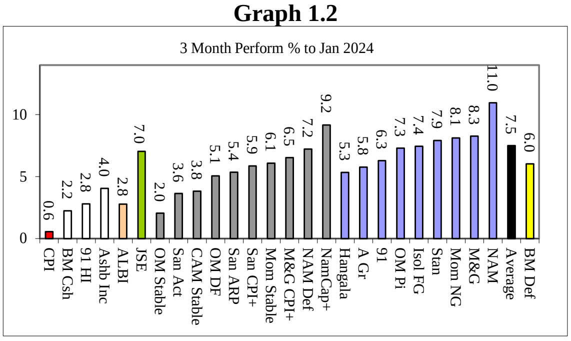
Below is the legend to the abbreviations reflected on the graphs:

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)

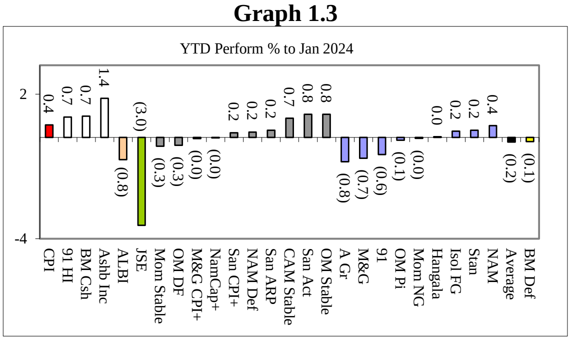
Graph 1.1



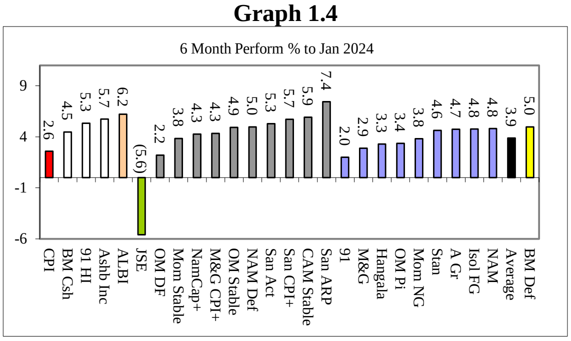
Graph 1.2



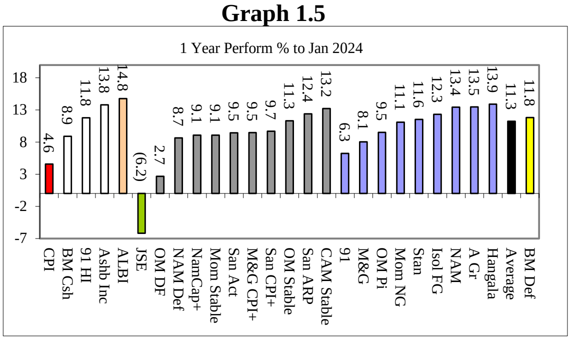
Graph 1.3



Graph 1.4



Graph 1.5



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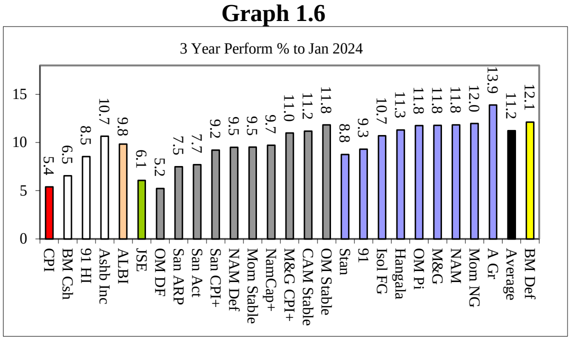
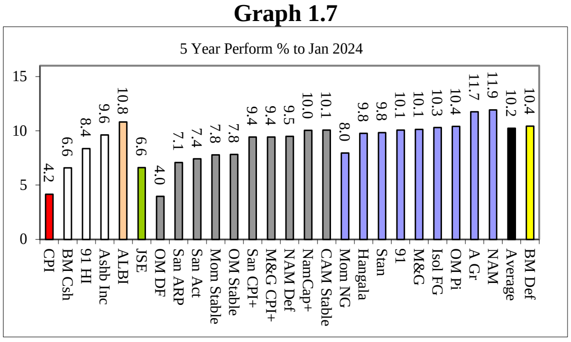
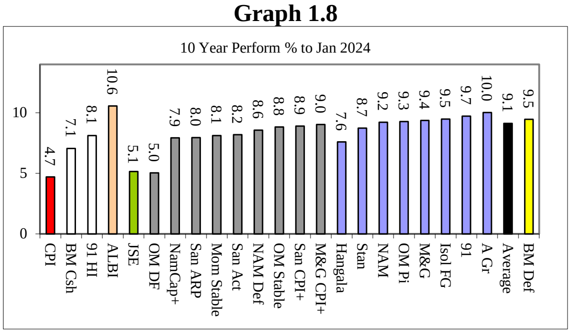
Graph 1.6



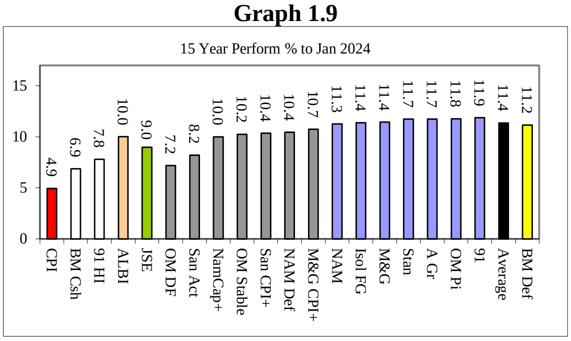
Graph 1.7



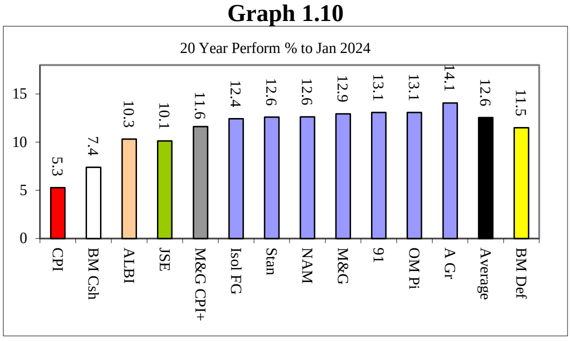
Graph 1.8



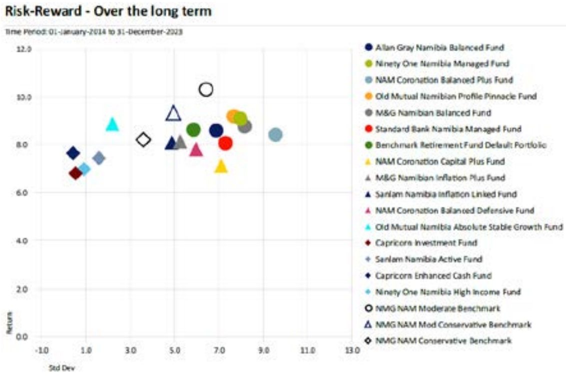
Graph 1.9

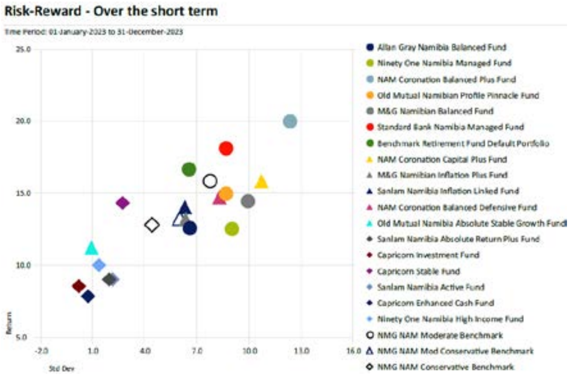


Graph 1.10



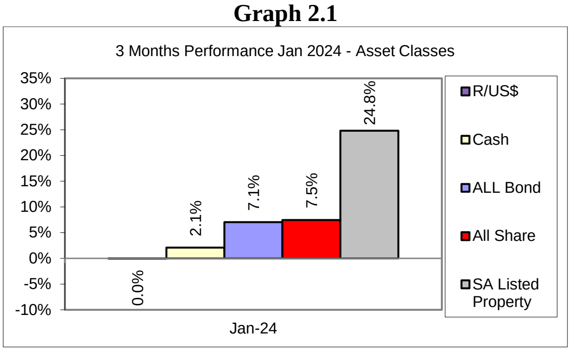
Risk/ Return



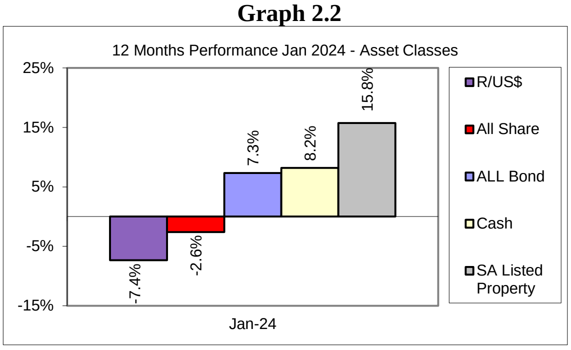


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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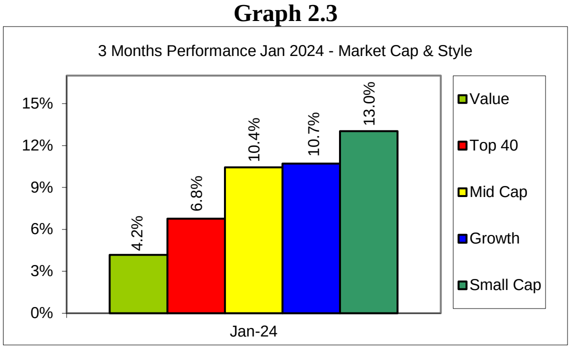
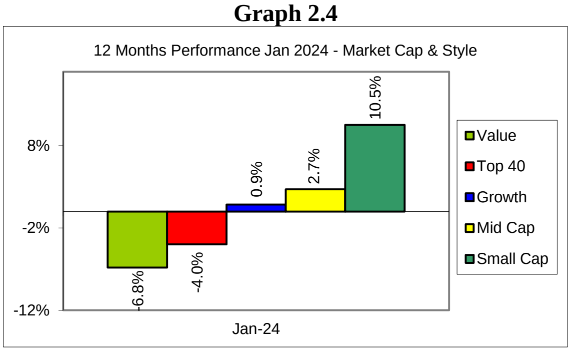
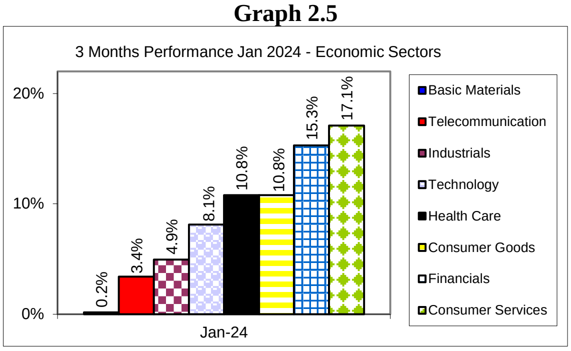
Graph 2.3



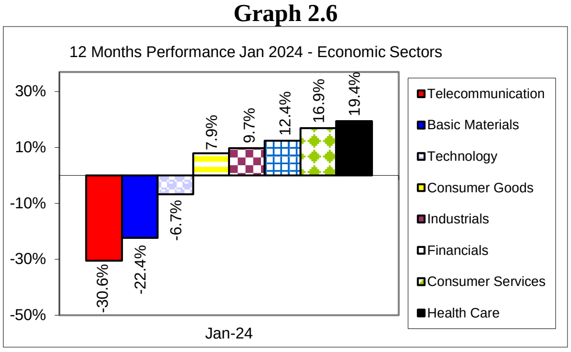
Graph 2.4



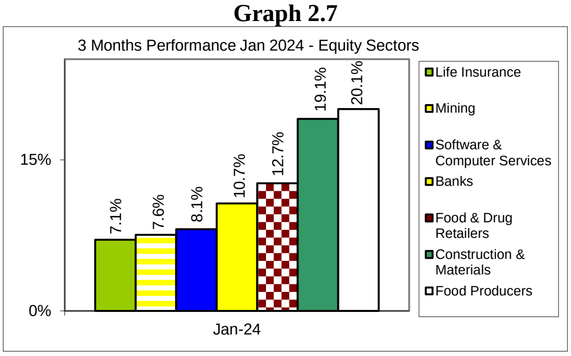
Graph 2.5



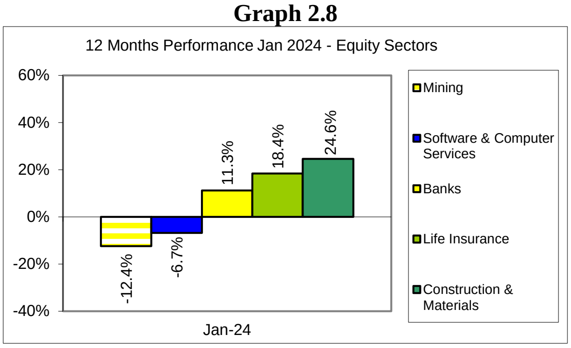
Graph 2.6



Graph 2.7



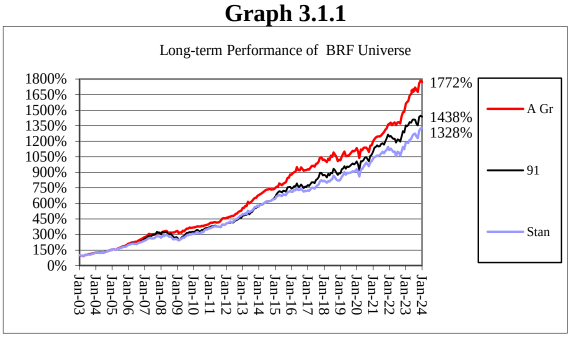
Graph 2.8



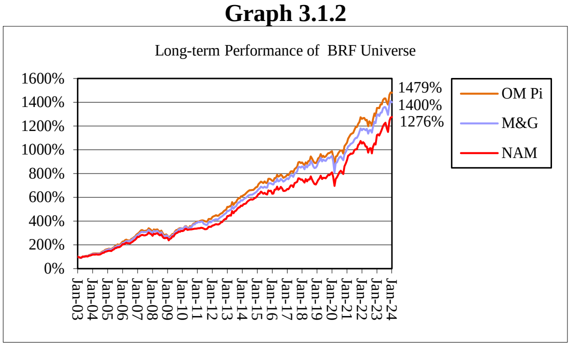
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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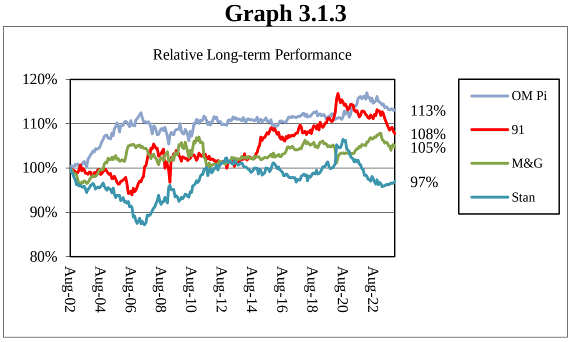
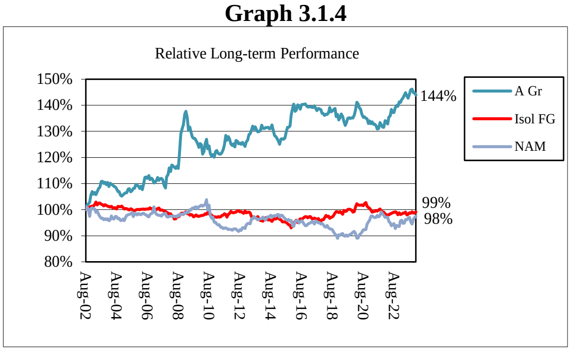
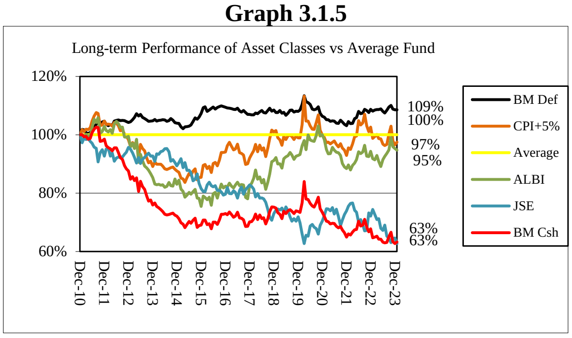
Graph 3.1.3



Graph 3.1.4

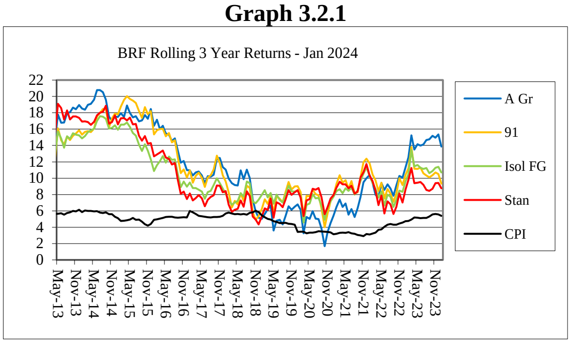


Graph 3.1.5

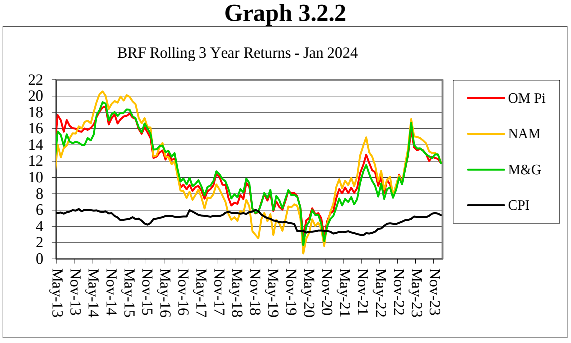


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

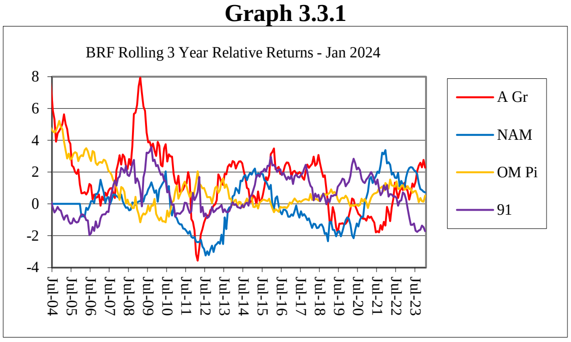


Graph 3.2.2

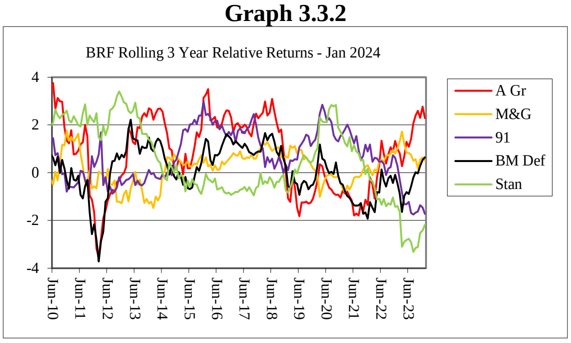


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

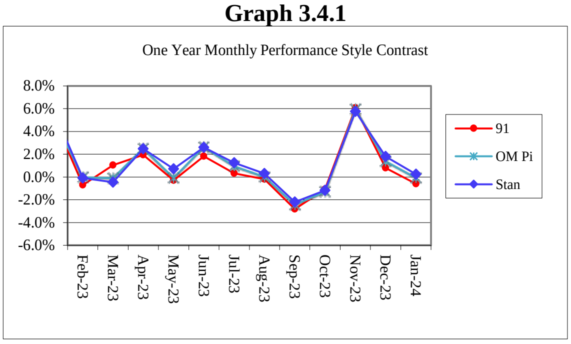


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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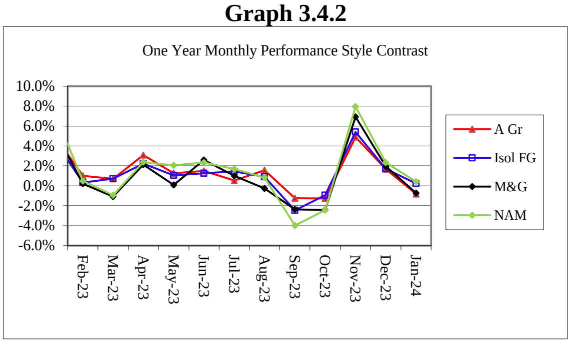
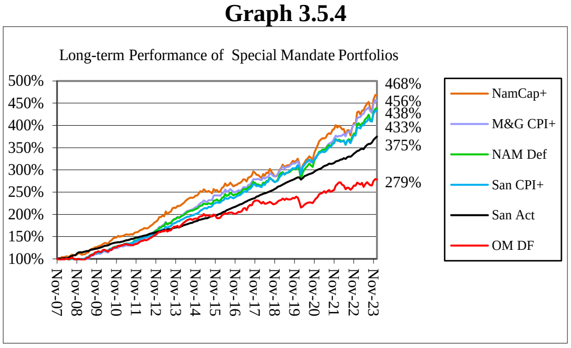
Graph 3.4.2

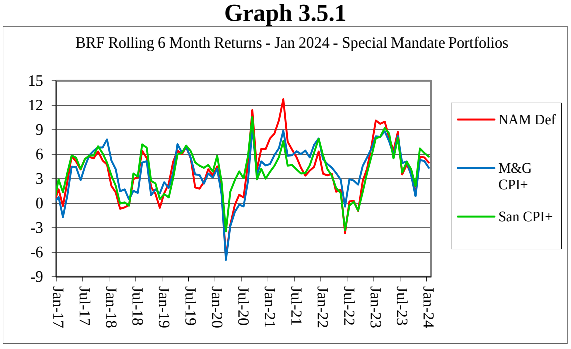


Graph 3.5.4

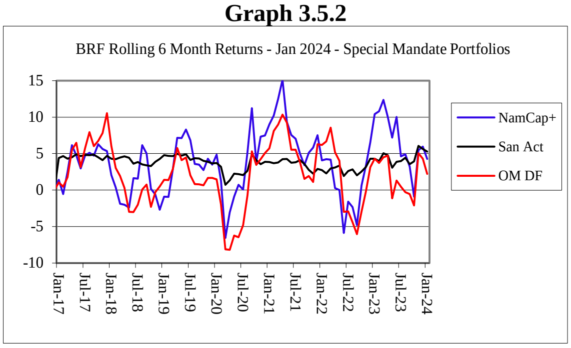


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

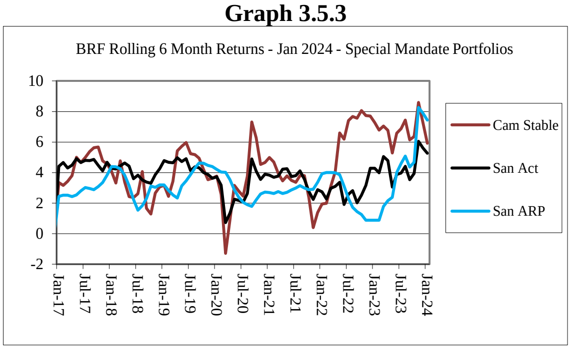
Graph 3.5.1



Graph 3.5.2

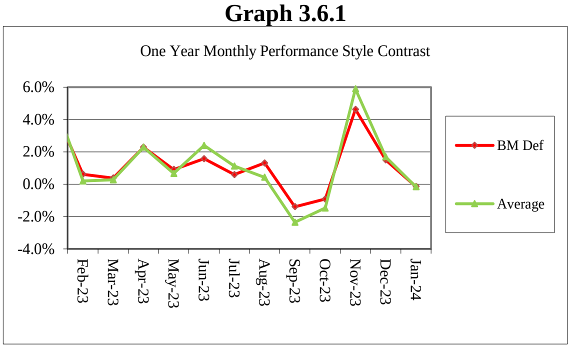


Graph 3.5.3

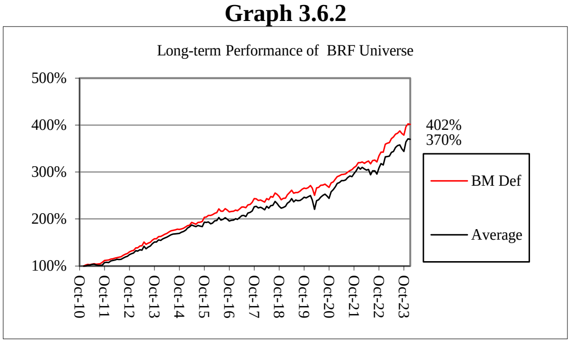


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

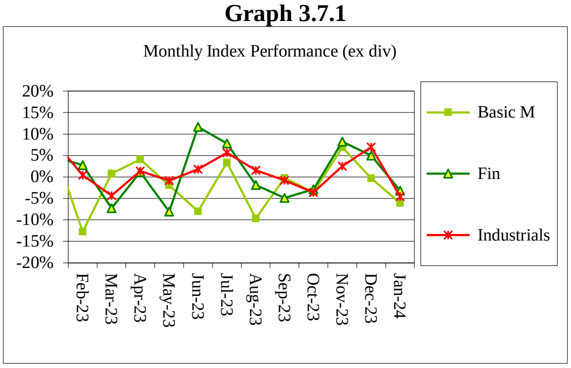


Graph 3.6.2



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

Graph 3.7.1



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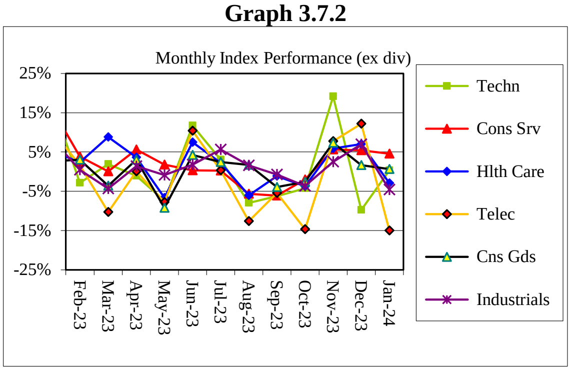
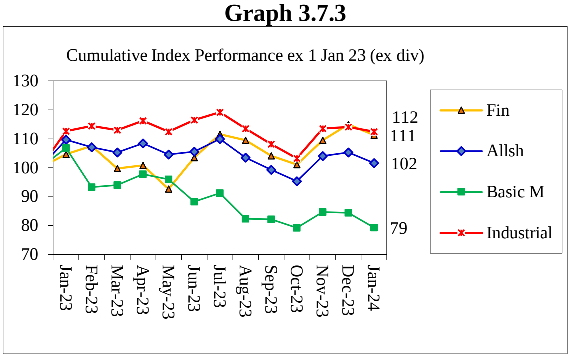
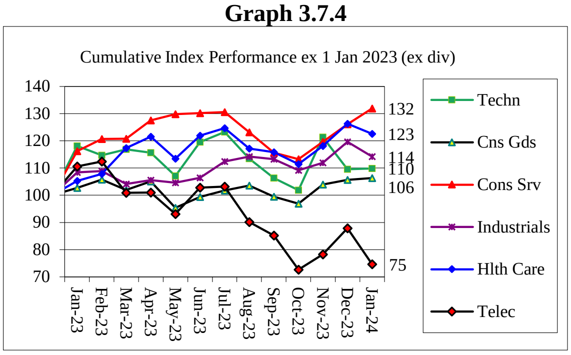
Graph 3.7.2



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	10.2
5-year real return - % p.a.	6.3	6.1
Equity exposure - % of portfolio (quarter end December 2023)	40.5	62.5
Cumulative return ex Jan 2011	301.7	269.9
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 more than 60%.

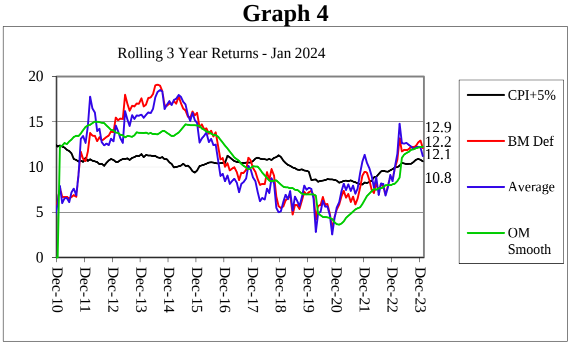
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	5.9%	6.8%
Best annual performance	6.9%	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	6.5%	12.1%	11.2%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from February 2021 to January 2024. 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 January was 12.1%, the average was 11.2% vs. CPI plus 5%, currently on 10.6%.

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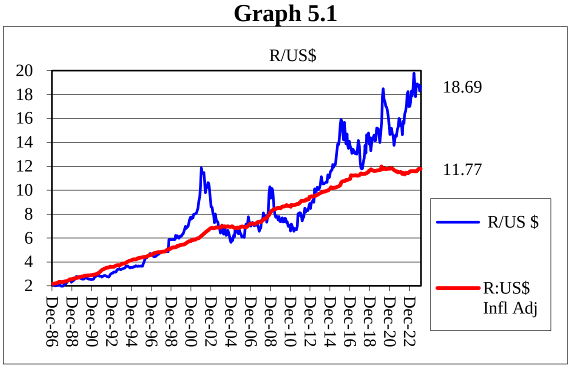
5. Review of Foreign Portfolio Flows and the Rand

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 18.69 at the end of January. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

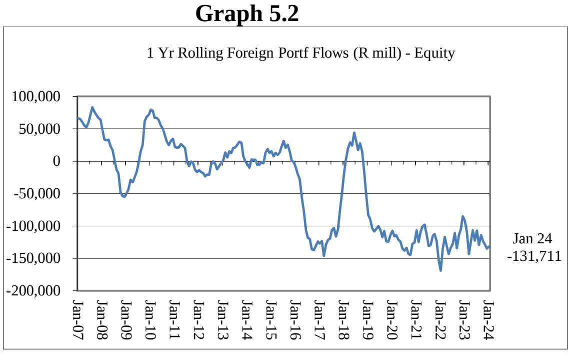
Graph 5.1



The Rand weakened by 2.1% in January with a net foreign investment outflow from bonds and equities of R 1.5 bn. Over the past 12 months, the Rand weakened by 7.4% (12 months to December 2023 Rand weakened by 7.6%). Net outflows of foreign capital from equity and fixed interest securities over the past 12 months amounted to R 306.7 bn (outflow of R 316.4 bn to the end of December 2023).

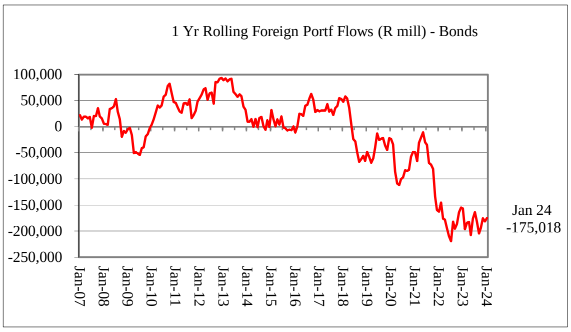
Graph 5.2 reflects a net outflow of capital from South African equities on a rolling one-year basis of R 131.7 bn at the end of January (outflow of R 134.8 bn year-on-year to the end of December 2023). The month of January experienced a net outflow of R 9.8 bn. Since 2006, foreign net investment outflows from equities amounted to R 665.6 bn (end December net investment outflow of R 655.8 bn). It represents roughly 3.6% of the market capitalisation of the JSE.

Graph 5.2



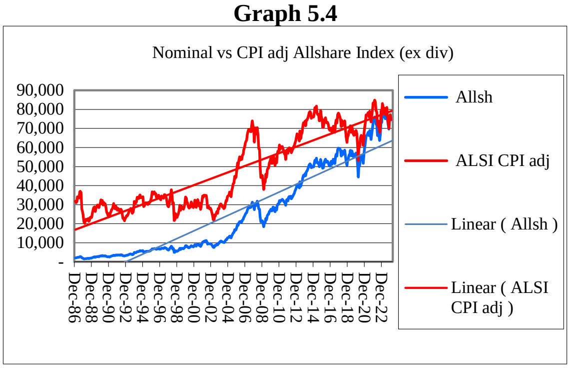
Graph 5.3 on a rolling one-year basis reflects foreign portfolio outflows in respect of S.A. bonds of R 175.0 bn over the past 12 months to the end of January (outflow of R 181.7 bn over the 12 months to the end of December 2023). The month of January experienced a net inflow of R 8.3 bn. Since 2006, foreign net investment outflows from S.A. bonds amounted to R 291.3 bn (end December net investment outflow of R 299.6 bn).

Graph 5.3



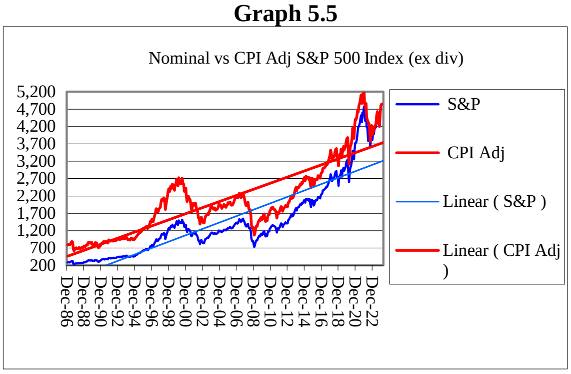
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.3% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent to growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 5.9% 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 8.1% per annum. U.S. inflation over this period was 2.8%. It represents growth in real terms of 5.3% p.a. over 36 years, excluding dividends, or around 7.4% (including dividends).

Graph 5.5



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Benchmark Retirement Fund
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Registration No 25/7/7/489

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MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2024

By Staff Writer – RFS Fund Administrators (Pty) Ltd

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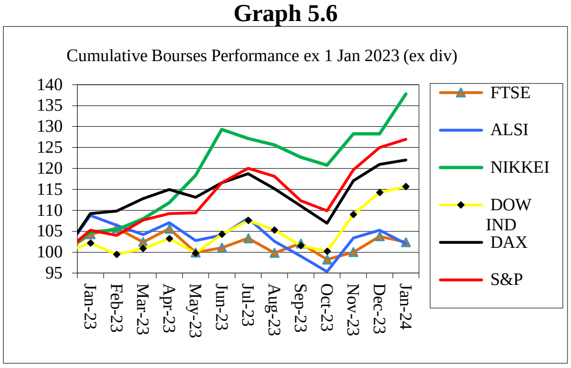
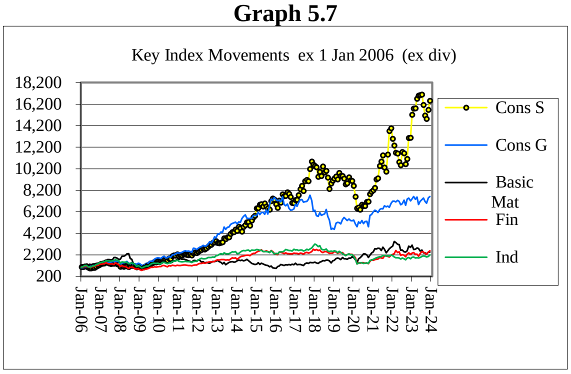
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the NIKKEI as the top-performing index since the start of 2023.

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: 17.1%; Consumer Goods: 11.9%; Financials: 5.2%; Basic Materials: 4.7%; and Industrials: 4.2%.

Graph 5.7



6. The world needs competing financial systems

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 rationalise the outcome of your decision.

For some perspective on investment returns since we started their recording in March 1998, consider the following table:

Table 6.1

Period No	Period	JSE Allshare %	Average Manager %	BRF Default %	CPI %
1	31/3/98 to 31/10/07	16.0	17.9	From 31/12/1999 13.0	7.2
1	**Real return**	**8.2**	**10.0**	**From 31/12/1999 5.4**	**0**
2	31/10/07 to 31/12/23	5.7	9.4	10.1	5.4
2	**Real return**	**0.3**	**3.8**	**4.5**	**0**
3	31/3/98 to 31/12/23	9.4	12.5	From 31/12/1999 11.0	6.1
3	Real return	3.1	6.0	From 31/12/1999 4.6	0

1. Period 1 measures the performance until the Global Financial Crisis (GFC). Note that the average prudential balanced portfolio manager produced a real return of 10% per year compared to the JSE Allshare's 8.2%. The BRF Default Portfolio cannot be compared as it only started on 1 January 2000.
2. Period 2 measures the performance from the GFC until the end of December 2023. Note that the average prudential balanced portfolio manager produced a real return of 3.8% per year compared to the BRF Default Portfolio's 4.5% and the JSE Allshare's 0.3%.
3. Period 3 measures the performance until the end of December 2023. Note that the average prudential balanced portfolio manager produced a real return of 6% per year compared to the JSE Allshare's 3.1%. The BRF Default Portfolio cannot be compared as it only started on 1 January 2000.

These returns illustrate that an investor in the JSE Allshare Index would have underperformed the average prudential balanced retirement fund portfolio.

Now consider the investment returns of the All Bond Index and the Money Market from a common starting date of September 2008 as reflected in the following table:

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Table 6.2

Period No	Period	JSE Allshare %	Average Manager %	Money Market %	All Bond Index %	CPI %
1	31/08/00 to 31/10/07	16.0	19.8	9.2	14.8	6.4
1	**Real return**	**9.0**	**12.6**	**2.6**	**7.9**	**0**
2	31/10/07 to 31/12/23	5.7	9.4	7.2	9.8	5.4
2	**Real return**	**0.3**	**3.8**	**1.7**	**4.2**	**0**
3	31/08/00 to 31/12/23	9.4	12.5	7.8	11.3	5.8
3	**Real return**	**3.4**	**6.3**	**1.9**	**5.2**	**0**

4. Period 1 measures the performance until the GFC. Note that the average prudential balanced portfolio manager produced a real return of 12.6% per year compared to the ALBI's 7.9% and the Money Market's 2.6%.
5. Period 2 measures the performance from the GFC until the end of December 2023. Note that the average prudential balanced portfolio manager produced a real return of 3.8% compared to the ALBI's 4.2% and the Money Market's 1.7% per year.
6. Period 3 measures the performance until the end of December 2023. Note that the average prudential balanced portfolio manager produced a real return of 6% per year compared to the JSE Allshare's 3.1%.

The above tables show that the Money Market was the worst-performing asset class for comparable periods. The ALBI only beat the average manager by 0.4% in real terms over the sixteen years from the GFC until 31 December 2023 but was beaten by the Benchmark Default portfolio by 0.3%. It is unusual for lower-risk fixed-interest assets to outperform equities over such a long time. The reason, of course, was the intervention of reserve banks.

Over the twenty-two years from September 2000 until December 2023, in real terms, the Money Market produced 1.9%, followed by the ALLSHARE's 3.4%, the ALBI's 5.2% and the average prudential balanced portfolio's 6.3%. Although not reflected in Table 6.2, the Benchmark Default Portfolio's real return over this period was 11.1%! The highest real return was achieved up to the GFC but was diluted significantly by the returns achieved since.

Through the manipulation of interest rates and money printing by the Fed-led reserve banks around the globe since the GFC, the world may have avoided a 'financial melt-down', but it has come at a substantial cost to investors since then. Total global pension fund assets are currently estimated at US$ 48 trillion. A very crude calculation (assuming an annual growth of 2% in pension fund assets) suggests that the actual real return of 3.8% since the GFC is 2.2% below expectation, producing a 'loss to pension fund investors worldwide of US$ 13 trillion over the sixteen years. The same crude calculation for Namibia implies a loss to Namibian pension fund investors of N$ 54 billion. This figure represents 26% of one's pension fund assets! Where pension funds aim to replace one's re-retirement income at 2% per year of membership, this loss means that pensioner's pre-retirement income replacement rate has declined to only 1.5%! Reserve bank intervention during the GFC saved delinquent Western lenders too big to fail and short-term pain to the global economy but has showered severe pain on the world's pension fund savers over the past sixteen years, even though our banks never were faced with the issues Western banks faced at the time. And the end is not in sight yet.

In short, the world's pension fund savers saved delinquent Western financial institutions at the Fed's instigation. Now, we are facing another similar situation where the rest of the world is made to pay for the US's resolve to weaken its global adversaries, China, Russia and the BRICS countries of late. If their efforts of decoupling trade from the US Dollar are successful, the US will face severe challenges in funding its trade deficits, exporting inflation and borrowing cheaply from the rest of the world. The US will, therefore, be hell-bent on preventing this from happening and will use its supremacy over the global financial system to hurt its adversaries. Is it possible that the weakness of the Rand is the result of such a concerted effort by the West under US leadership?

The world needs an alternative financial system that is not exposed to US political manoeuvring. The US dollar-based system has lost all credibility after the US and its Western allies effectively froze and confiscated assets of 'insubordinate countries'. During wartime, the warring parties have always confiscated assets of their adversaries through seizure or forced reparations. Nowadays, it is employed against economic and political adversaries in times of peace.

One may believe that an alternative financial system will also attempt to promote the political agenda of its sponsors. However, if the world has a choice between competing systems, the sponsors of both will be under pressure to drop any political agenda. It will be good for the world! It could relieve the artificial pressure on the Rand and interest rates for South Africa and Namibia.

As I alluded to in previous commentaries in this column, the world's unitary US-dominated financial system will likely be complemented by an alternative soon. As much as the US may want to prevent it, I cannot imagine that China, Russia or Iran will relent. While most countries will fear the US's wrath, many will sympathise and try to reduce their dependence on the dollar. The US strategy will likely be to seduce its big adversaries to openly confront it so that it takes the moral high ground with its response, to grind them down through proxy wars or to foment internal social unrest. One has seen the more clandestine approaches being used over the past few years. Listen to

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interview with geopolitical expert and podcaster George Friedman to glimpse US strategy.

Conclusion

I cannot foresee all possible consequences for global economies of an alternative financial system, but it will probably not be a smooth transition. It will be costly, and savers will once again carry the burden. If your savings are outside your reach and control, you can rest assured that you will be 'relieved' of them. Hence, my previous suggestion is to keep your savings closer to home.

Because the Rand is currently badly undervalued by our measures, local investors should consider repatriating their offshore investments. Generally, the developing world seems positioned to survive 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 would bear the brunt of uncertainty and 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.