Volume 20, No. 03
March 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 MARCH 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 March 2024, the average prudential balanced portfolio returned 1.3% (February 2024: 0.7%). The top performer is Allan Gray Balanced Fund, with 2.0%, while Lebela Balanced Fund, with 0.5%, takes the bottom spot. Namibia Coronation Capital Plus Fund takes the top spot for the three months, outperforming the 'average' by roughly 1.7%. Lebela Balanced Fund underperformed the 'average' by 1.6% 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.)

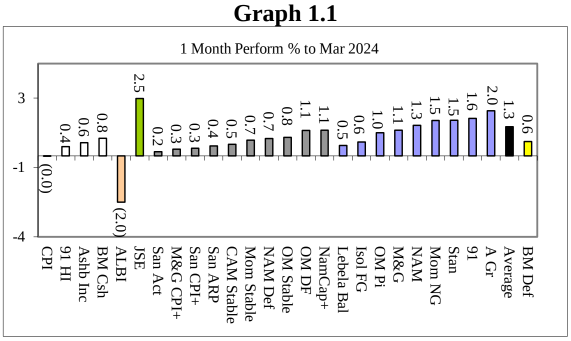
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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:

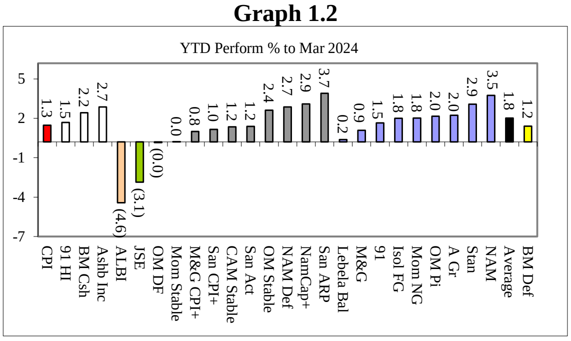
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no color)
NinetyOne High Income (interest 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)
Lebela Balanced*	Lebela Bal (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)

*Previously Hangala Absolute Balanced Fund

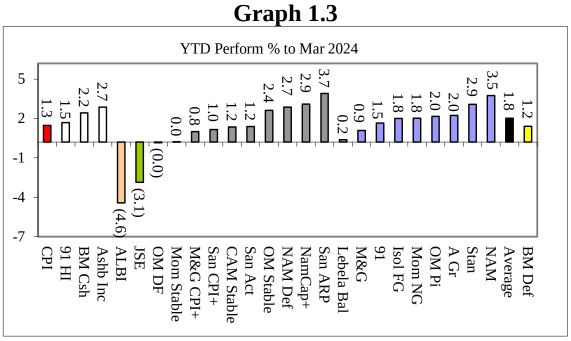
Graph 1.1



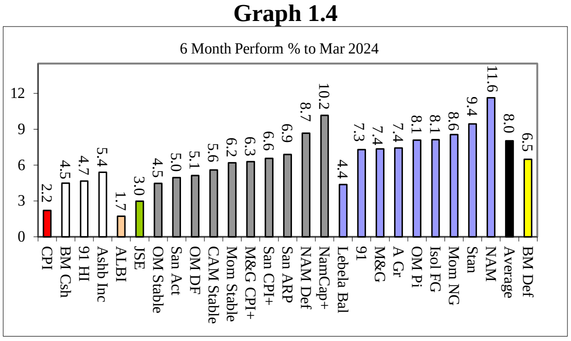
Graph 1.2



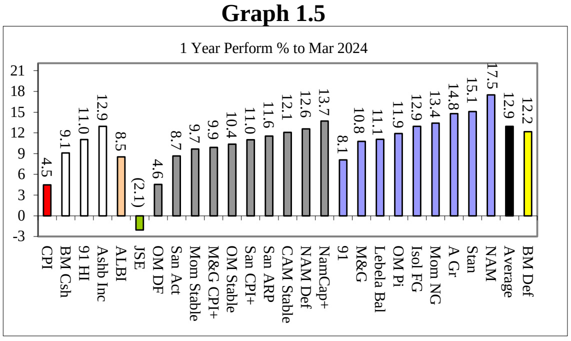
Graph 1.3



Graph 1.4



Graph 1.5



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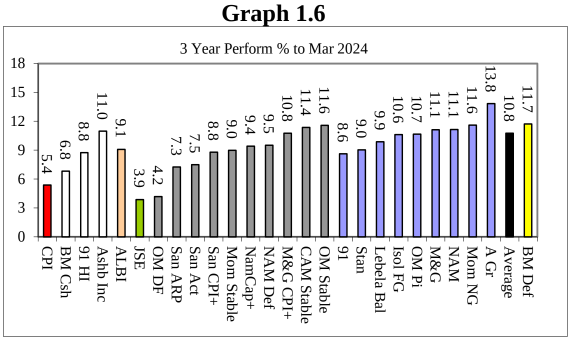
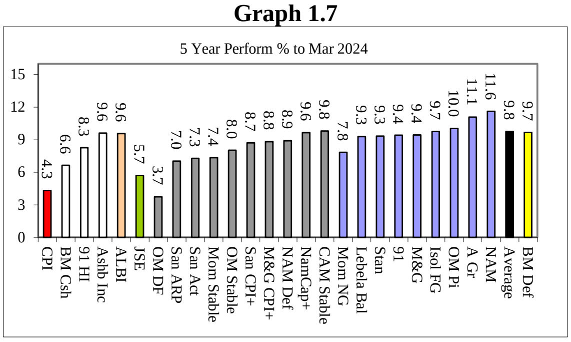
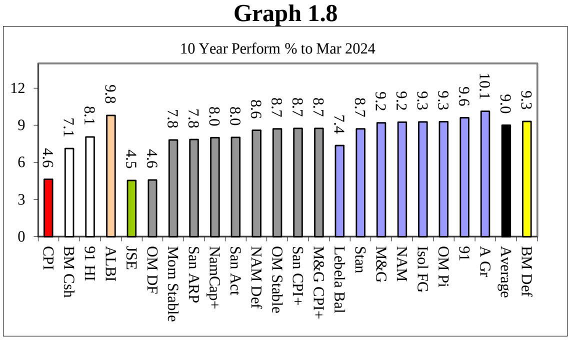
Graph 1.6



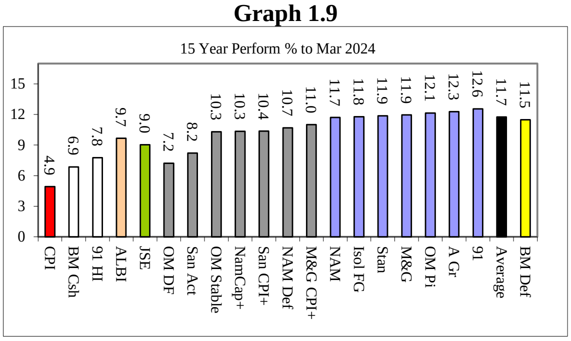
Graph 1.7



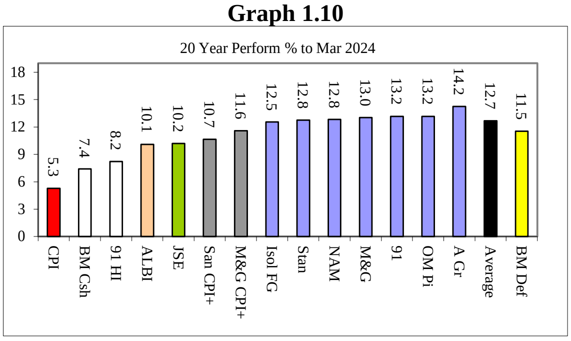
Graph 1.8



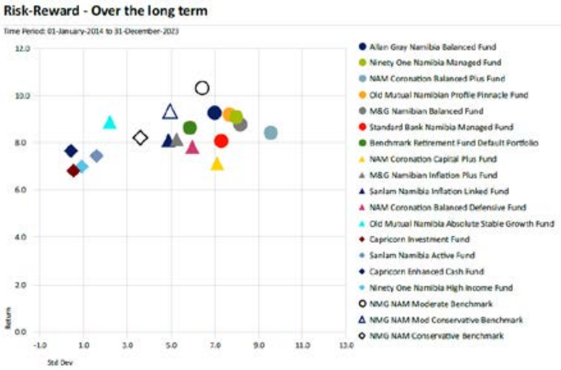
Graph 1.9

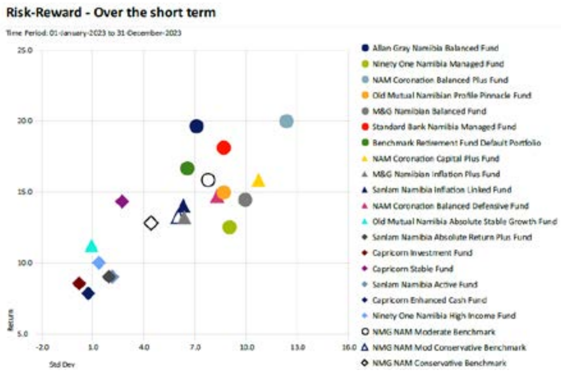


Graph 1.10



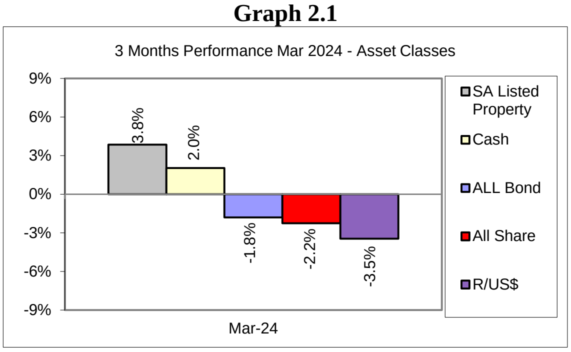
Risk/ Return



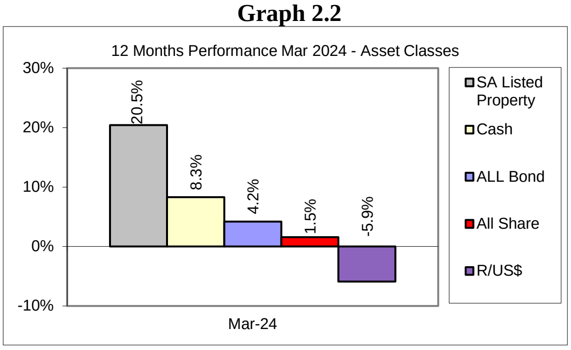


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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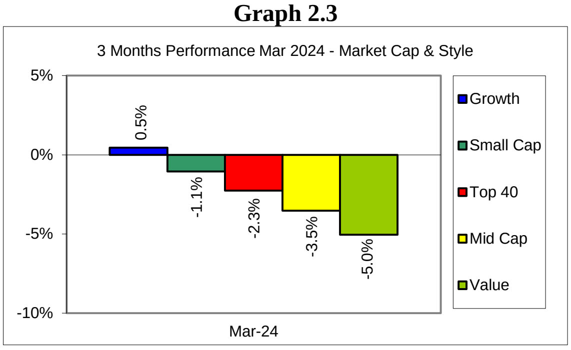
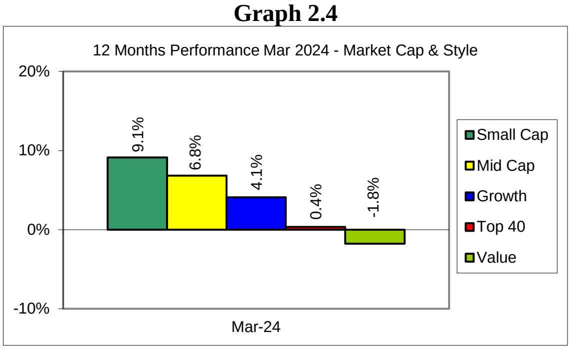
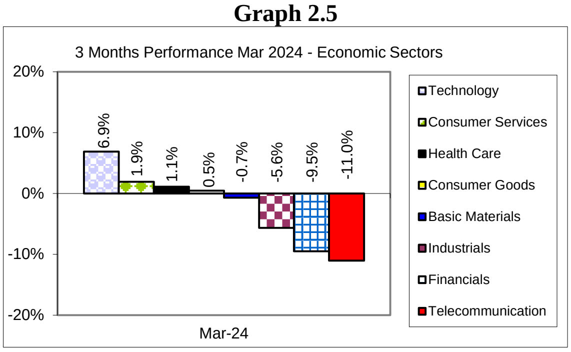
Graph 2.3



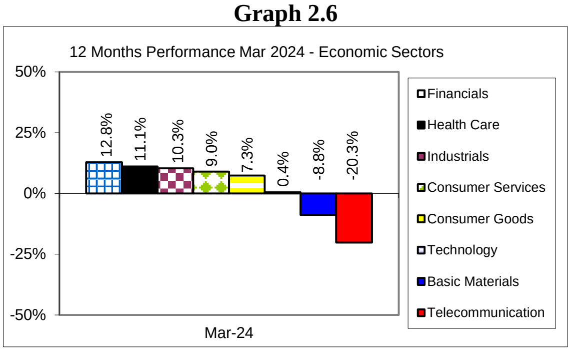
Graph 2.4



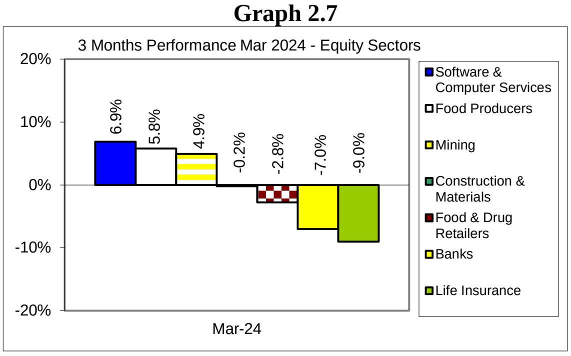
Graph 2.5



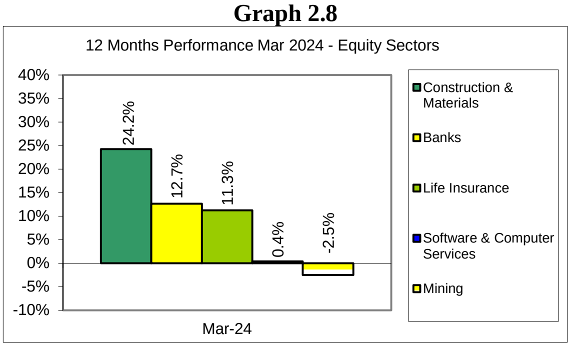
Graph 2.6



Graph 2.7



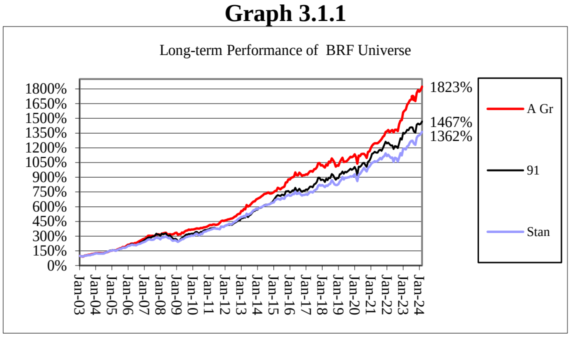
Graph 2.8



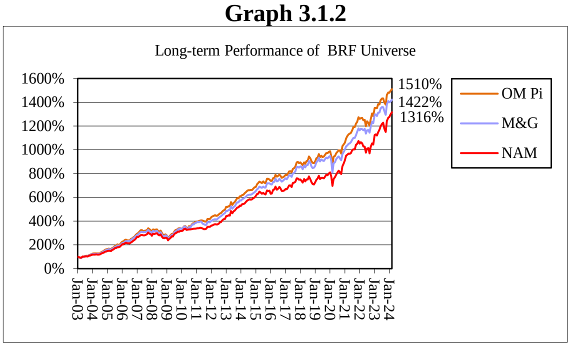
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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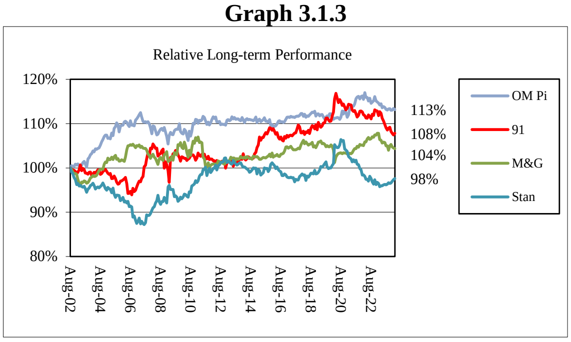
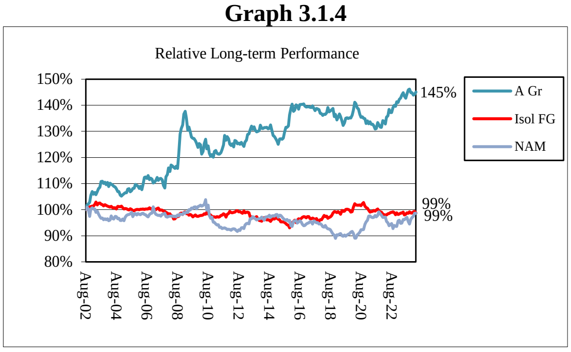
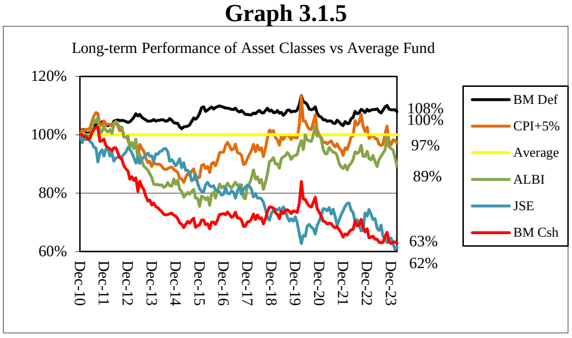
Graph 3.1.3



Graph 3.1.4

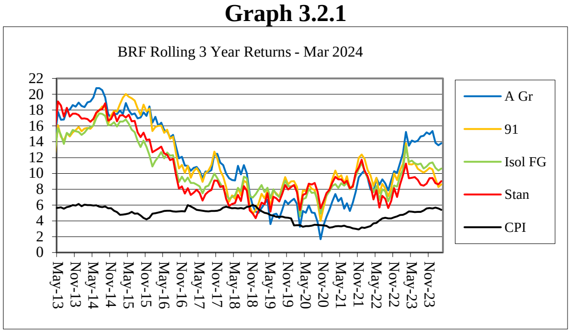


Graph 3.1.5

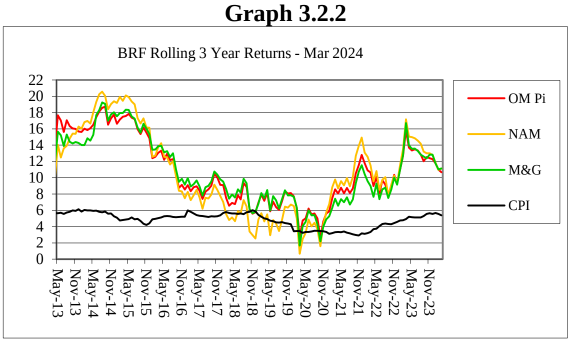


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

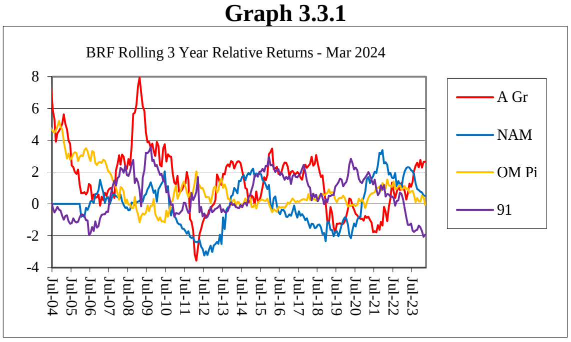


Graph 3.2.2

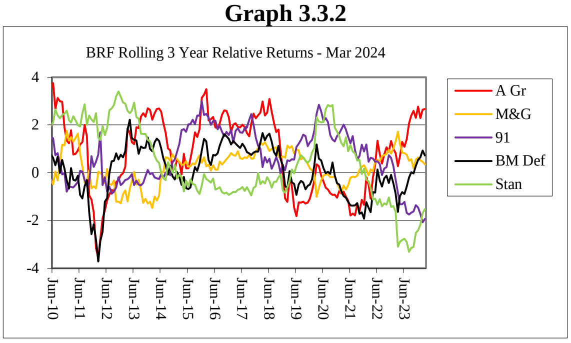


3.3 3-year rolling performance of prudential portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1

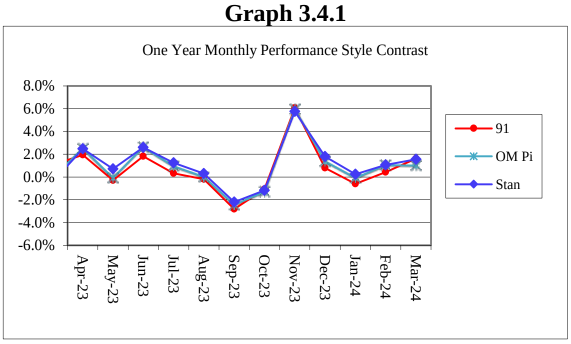


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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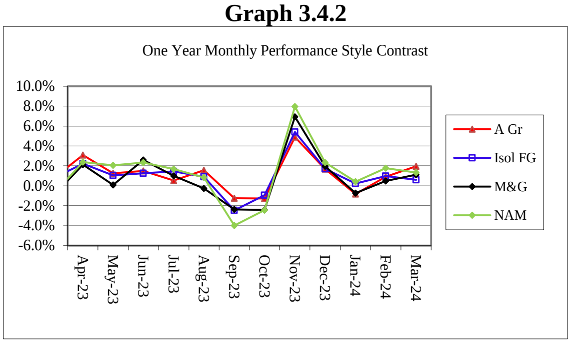
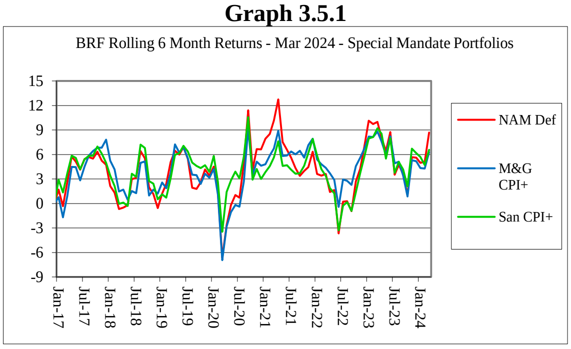
Graph 3.4.2

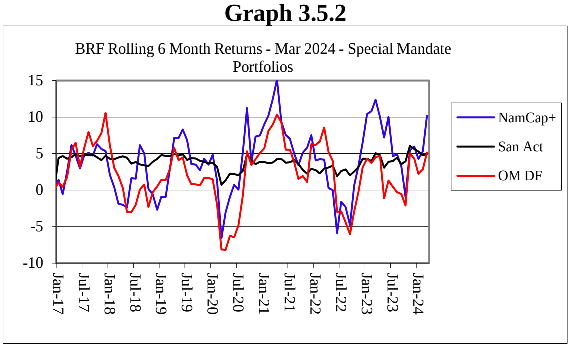


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

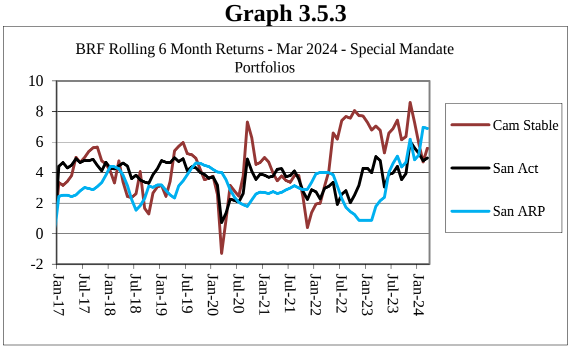
Graph 3.5.1



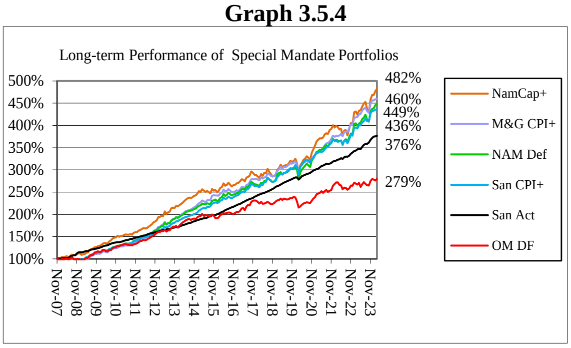
Graph 3.5.2



Graph 3.5.3

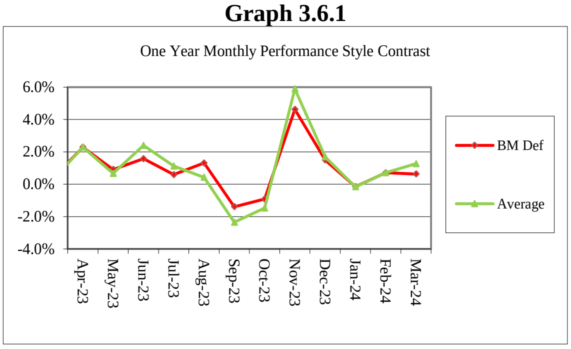


Graph 3.5.4

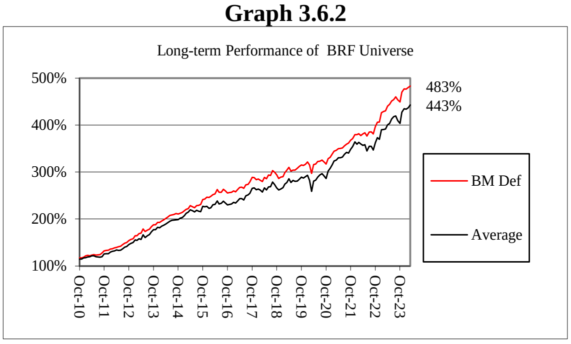


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

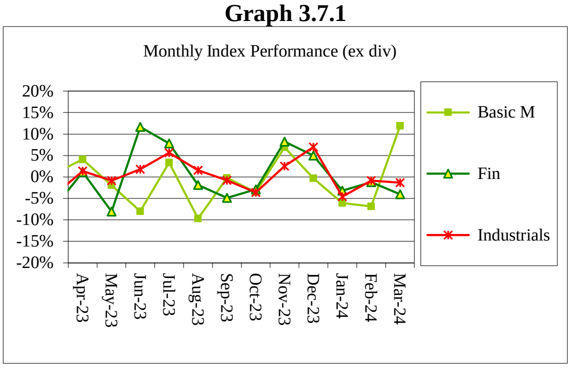


Graph 3.6.2



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

Graph 3.7.1



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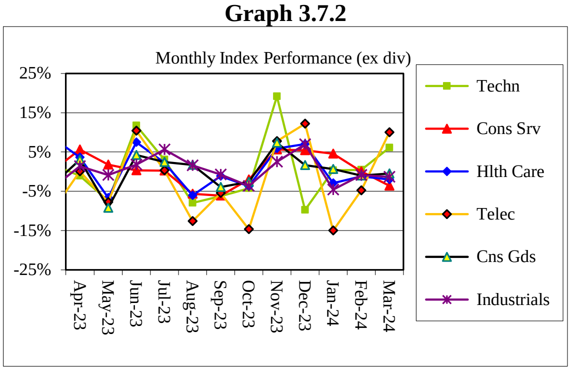
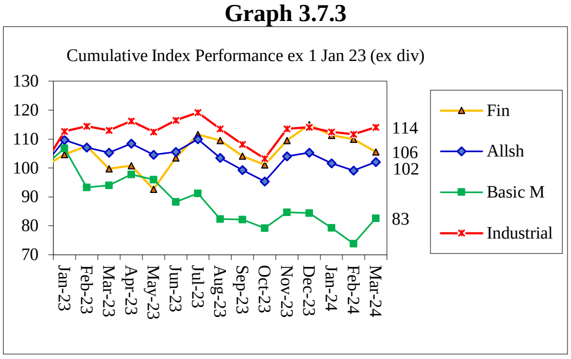
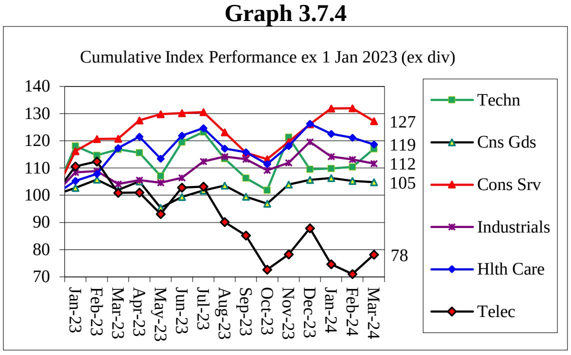
Graph 3.7.2



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.	9.7	9.8
5-year real return - % p.a.	5.4	5.5
Equity exposure - % of portfolio (quarter end December 2023)	40.5	62.5
Cumulative return ex Jan 2011	307.1	277.3
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%.

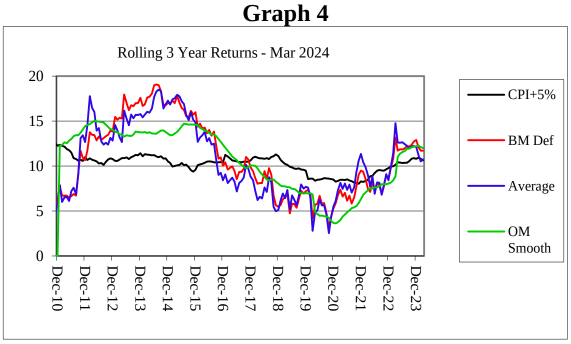
One must read the default portfolio's long-term return in the context of its initially low-risk profile that the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	5.9%	6.8%
Best annual performance	6.8%	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%	9.5%	10.0%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from April 2021 to March 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 March was 11.7%, the average was 10.8% vs. CPI plus 5%, currently on 10.4%.

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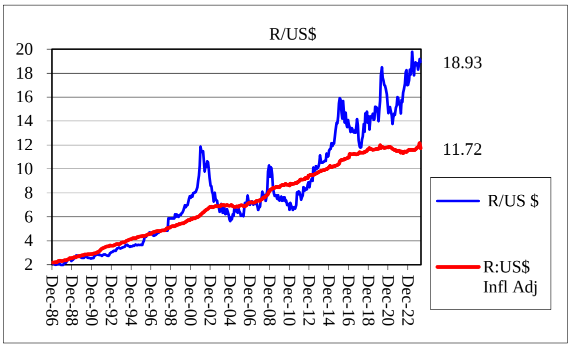
5. Review of Foreign Portfolio Flows and the Rand

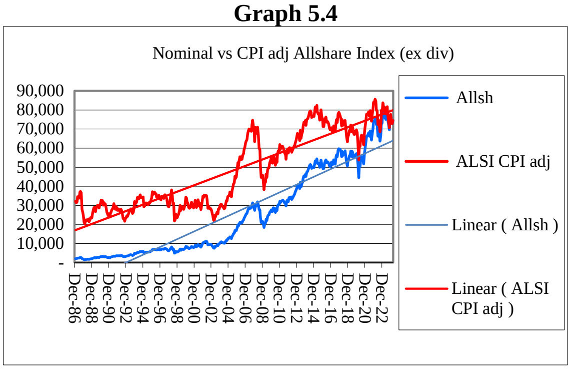
Graph 5.1 indicates that the Rand's fair value by our measure is 11.72 to the US Dollar, while it stood at 18.93 at the end of March. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

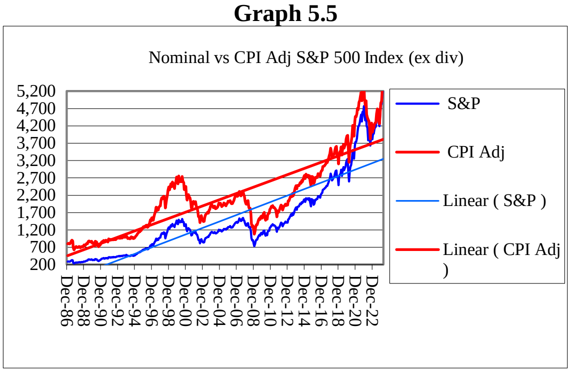
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.2% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent to growth in real terms of 2.6% p.a. over this period, excluding dividends, or around 5.8% including dividends.

Graph 5.4



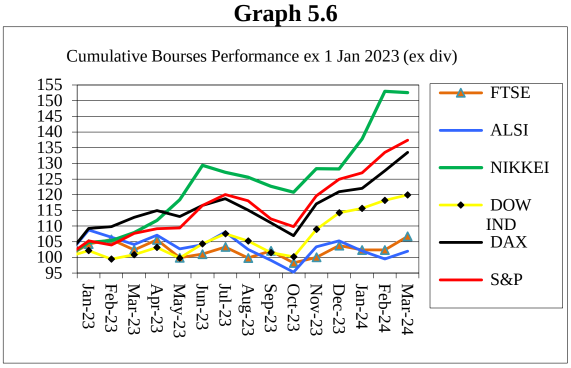
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew at 8.2% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.4% p.a. over 36 years, excluding dividends, or around 7.5% (including dividends).

Graph 5.5



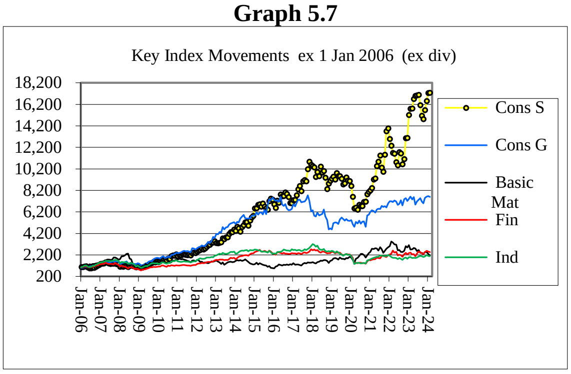
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the NIKKEI as the top-performing index since the start of 2023.

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: 16.7%; Consumer Goods: 11.7%; Financials: 4.9%; Basic Materials: 4.9%; and Industrials: 4.0%.

Graph 5.7



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MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 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.

6. Namibia must avoid contracting the 'Dutch Disease'!

By Tilman Friedrich

I was recently invited to M&G Investments Leonard Krüger's insightful presentation on 'Resource Discovery: best practice and avoiding the resource curse'. Yes, I am sure many readers also noticed how many media commentators are already counting their blessings and awaiting the new dawn in great anticipation of securing personal riches. Leonard's talk aimed to put our newfound riches into perspective to moderate exaggerated expectations and warn that things can go horribly wrong, as they have in many other countries, if Namibia does not promptly establish sustainable resource exploitation policies.

Leonard pointed out that while Namibia is one of the world's 'hottest exploration plays', there were many other significant discoveries worldwide in 2022 and 2023, notably Guyana, Iran, and Namibia only in third place. Namibia's resource represents less than 1% of the global fossil fuel resource. Namibia is competing against many other countries and faces the challenge that its resource is in ultra-deep waters on the edge of what can be exploited economically with current technology, making it very expensive for investors. Deepwater production only represents 7% of global production. Based on international experience, the developers would have to incur capital expenditure on developing our resource of about N$2.5 billion annually for the next ten years and then anticipated to decline to around N$500 million for another 25 years. The best estimate of future potential production expects commencement in 2030 with around 200,000 barrels per day, peaking at around 500,000 for only four years from 2034 to 2038 and declining sharply to only 100,000 by 2048. Namibia would thus only be endowed with this windfall rich for around 18 years!

Leonard used the 'Dutch Disease' as a classic case study of how things could go wrong without sustainable policies. 'Dutch Disease' refers to the negative consequences of the Netherland's approach to its natural gas discovery in 1959. Although the Dutch economy increased its revenues from the export of natural gas, the significant appreciation of its currency from the large influx into the sector resulted in a higher unemployment rate and a decline in its manufacturing industry. The rapid development of the crude oil sector precipitated a decline in other economic sectors due to the substantial increase in its currency, making its products uncompetitive. It made the Dutch economy very vulnerable to price fluctuations in the natural gas price and impeded economic diversification, exacerbating the challenges of changes in global market conditions.

The current tax legislation would result in producers earning roughly 36% of revenue. In comparison, the state coffers would harvest 54% through corporate income tax (35%), royalty fee (5%), additional profit tax (between 5% and 12%) and annual license fees and training levy. Leonard presented Guyana as a showcase for developing its recent discoveries with best practice.

On the positive side, Namibia has reputable partners with long experience and strong balance sheets. He also cited that Namibia's corruption index rating at around 50% was noticeably better than South Africa's and Guyana's 40%, giving it a competitive edge on investors.

Leonard noted potential financial and monetary implications of the resource curse to be wary of as the impact on Namibia's balance of payments, SACU transfers, the Rand-peg, diverging monetary policy and fiscal requirements, the 45% minimum domestic investment requirement, the prevailing low domestic entrepreneurship and the high public wage bill and other structural impediments such as infrastructure, climate change, job opportunities, and education.

In dealing with the windfall revenue from our new resource, Leonard showcased Norway's sovereign wealth fund (SWF), the largest such fund in the world. Norway transfers 100% of its revenue to its SFW and has set up strict fund management rules. The rules are designed to safeguard the fund's assets, maximise its returns and preserve the benefits of Norway's oil wealth for future generations. Its investment mandate supports the government's long-term objectives. The government may spend a maximum of 4% of the fund on its budgetary needs, but it is limited to maintaining the fund's purchasing power. It diversifies across a broad range of domestic and international assets, applies strict ethical guidelines that prohibit investment in tobacco and arms manufacturing, transparency in its management, robust risk management practices to ensure that investment decisions align with its objectives and risk tolerance, and is governed by the Norwegian Ministry of Finance. It was interesting to hear from a delegate of the Bank of Namibia that it has tasked an in-house team to formulate policies and guidelines for Namibia's sovereign wealth fund, which already exists with maiden funding from the MTC windfall. One delegate suggested that Namibia is still a developing country, in contrast to Norway, which has one of the highest per capita incomes in the world. Oil was discovered in Norway's waters in the late 1960s, with significant production starting in the early 1970s. At that time, Norway's per capita income was relatively moderate compared to today's standards. Norway's real per capita income and economic prosperity have grown significantly since the discovery of oil, mainly due to prudent management of oil revenues through the sovereign wealth fund. However, the Norwegian government implemented its fiscal spending rule in the early 2000s. Namibia's oil riches are expected to only last for around 15 years. This short time span makes it so much more important to transfer the windfall into a sovereign wealth fund that systematically and sustainably supports Namibia's economic development over many generations. I believe the much-heralded TIPEEG programme was launched to cushion the effects of the

Volume 20, No. 03
March 2024

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

Administered by RFS Fund Administrators

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global financial crisis while addressing socio-economic challenges and fostering development in the country at the same time. Unfortunately, it produced typical symptoms of Dutch disease. It overburdened our economic capacity. Additional capacity had to be imported, primarily from Eastern countries. Many local businesses went under when this bonanza ended, creating more unemployment. At the same time, the capital that left Namibia no longer circulates within the country to generate taxes and employment.

Concerning investment markets, the global economic and political backdrop remains unchanged since last month's notes. My position on global investment markets and my proposed responses have not changed and are repeated in my conclusion. At the same time, my strategy suggests that an investor should choose investment destinations that are, figuratively speaking, 'out of the line of fire' in the feared conflict. Punting one of the two sides and putting one's money on the one likely to prevail is an alternative and more speculative approach, presenting a 50:50 risk of being wrong but higher prospective returns for being right.

Conclusion

Investors must realise that peer pressure and the fear of incorrect timing will prevent conventional asset managers from acting preemptively. If the world does witness another Great War and your savings are outside your reach and control, you may not be able to take any action to protect them. Hence, my suggestion remains to keep your savings closer to home.

The investor must make a call and take preemptive action based on how he sees global developments and if he is prepared to face a 50:50 risk by punting the prevailing party to the conflict for the prospect of exceptional returns.

The investor must make a call and take preemptive action based on how he sees global developments. As a more cautious investor, I would not punt on who will prevail in the feared great conflict. Because the Rand is currently severely undervalued by our measures, more cautious local investors should consider repatriating their offshore investments. Generally, the feared global conflict will likely not impact the southern hemisphere as much as the northern hemisphere. Countries in the southern hemisphere that keep out of the conflict will likely 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. Although all global markets will take a severe knock when a war breaks out, markets in the unaffected countries in the southern hemisphere should recover more rapidly.

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.

A more assertive investor prepared to punt on one of the two sides should expect markets to take a deep dive when the conflict starts. Rationally, the speculative nature then dictates that one should preemptively transfer money to the punted target market and keep it in cash to pounce on the market upon it taking its deep dive. A recovery will be like a tidal wave in the equity market, obviating the need for stock selection, and maximum equity exposure is advisable. Interest rates are likely to increase sharply and will decline as soon as it becomes evident that the punted side will prevail.

Footnote: 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.