Volume 20, No. 05
May 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 MAY 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 May 2024, the average prudential balanced portfolio returned 1.2% (April 2024: 1.0%). The top performer is Allan Gray Balanced Fund, with 1.7%, while Lebela Balanced Fund, with 0.7%, takes the bottom spot. NinetyOne Managed Fund took the top spot for the three months, outperforming the 'average' by roughly 0.8%. Lebela Balanced Fund underperformed the 'average' by 1.0% 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.)

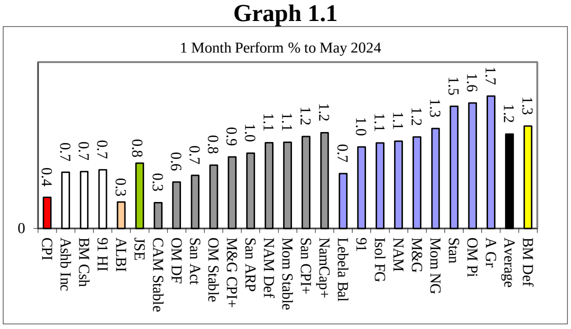
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced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

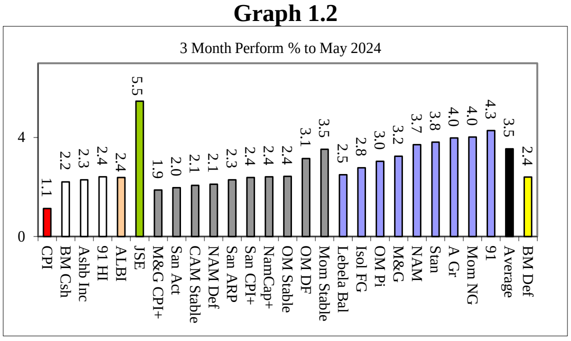
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
NinetyOne High Income (interest-bearing assets)	91 HI (no color)
Ashburton Namibia Income Fund	Ashb Inc (no colour)
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

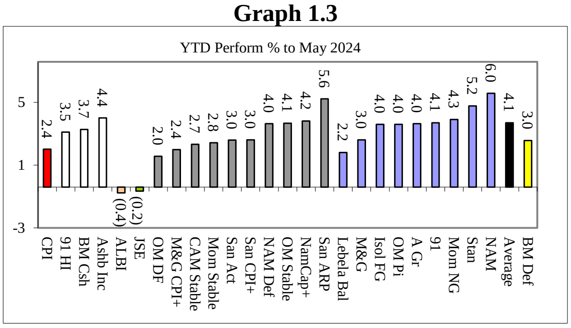
Graph 1.1



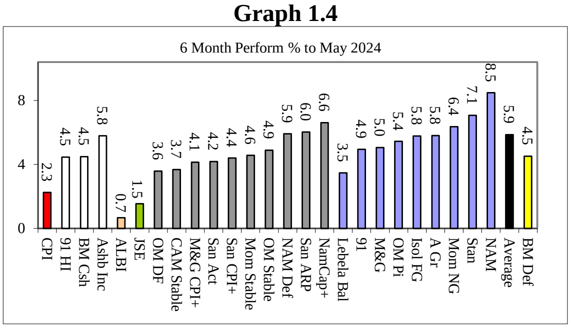
Graph 1.2



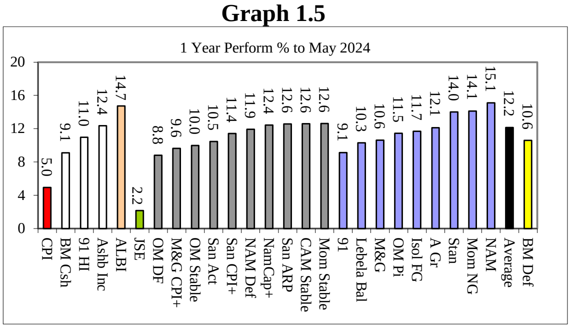
Graph 1.3



Graph 1.4



Graph 1.5



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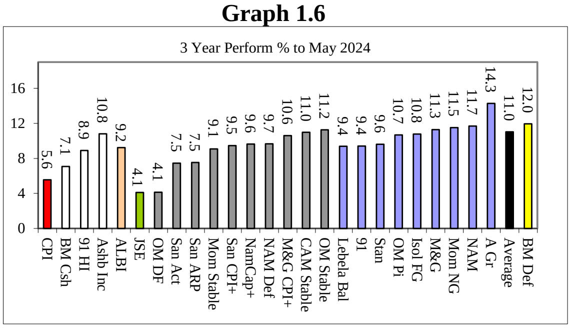
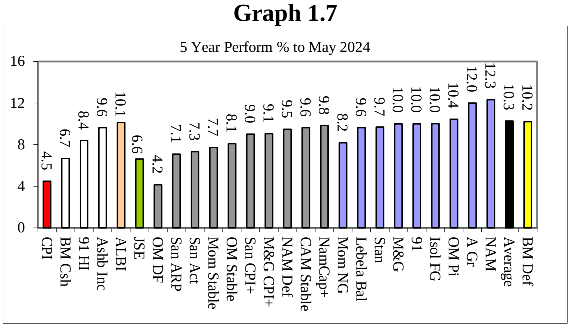
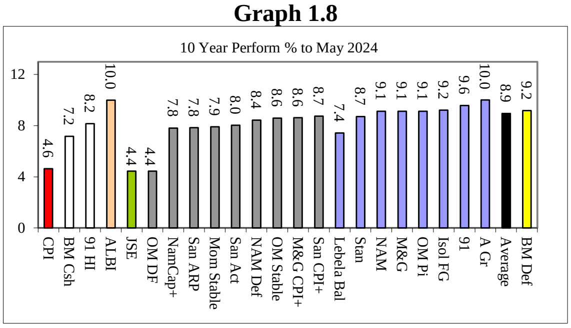
Graph 1.6



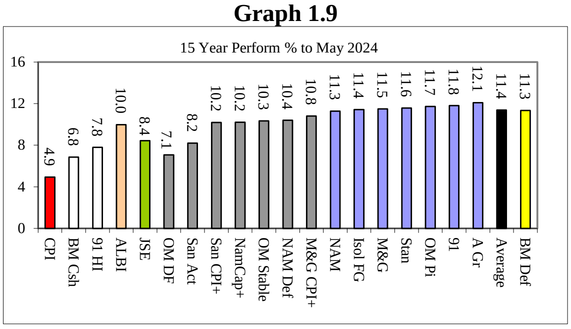
Graph 1.7



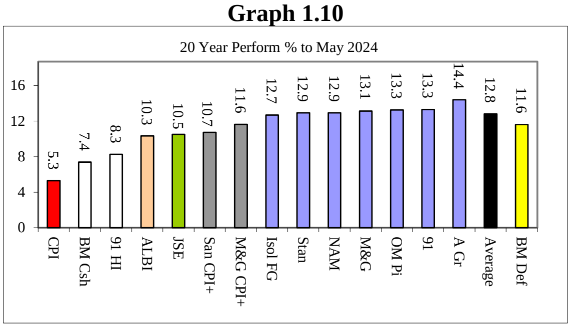
Graph 1.8



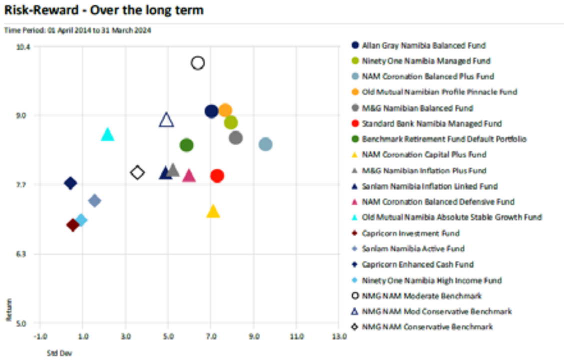
Graph 1.9

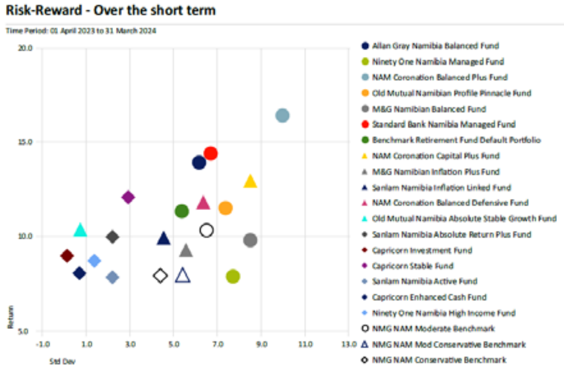


Graph 1.10



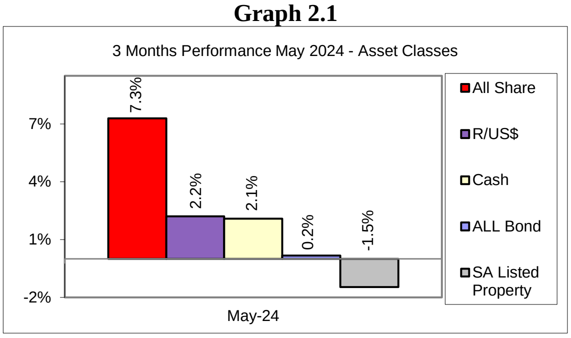
Risk/ Return



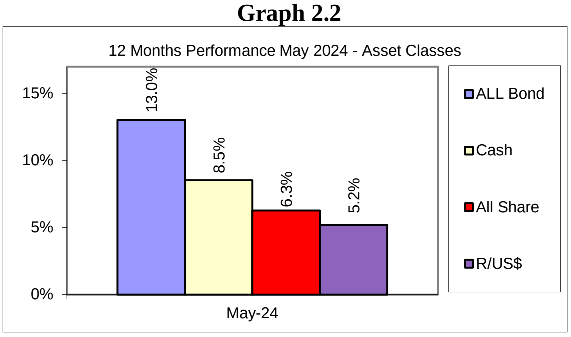


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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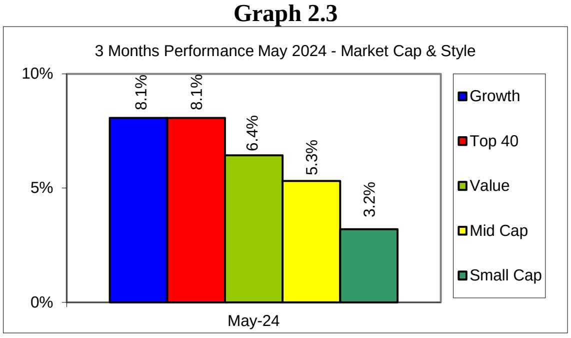
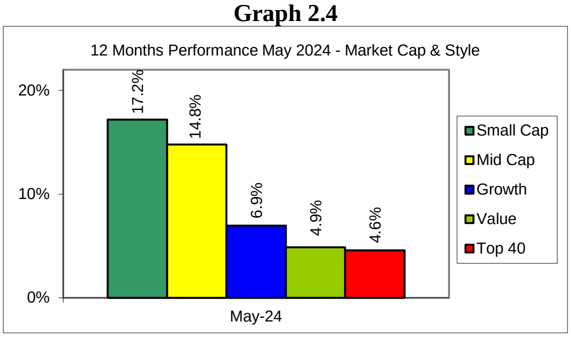
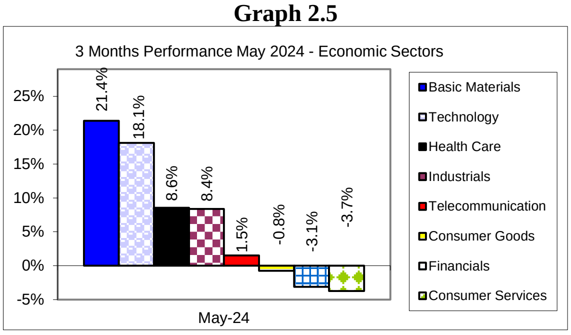
Graph 2.3



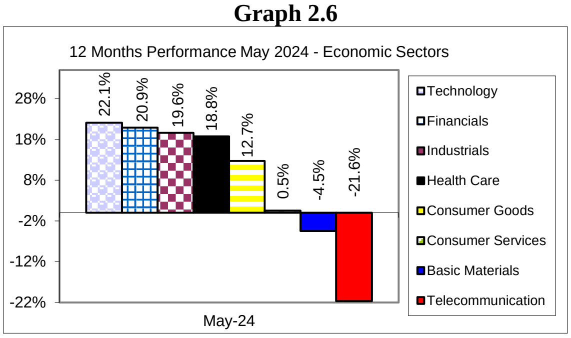
Graph 2.4



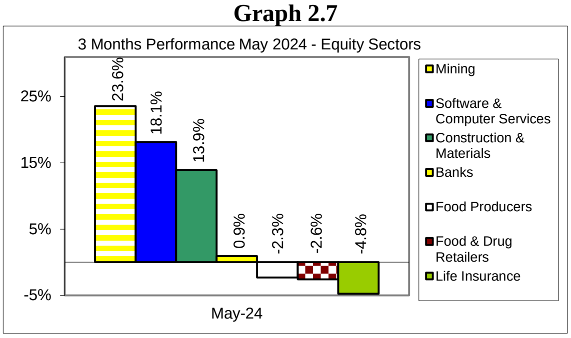
Graph 2.5



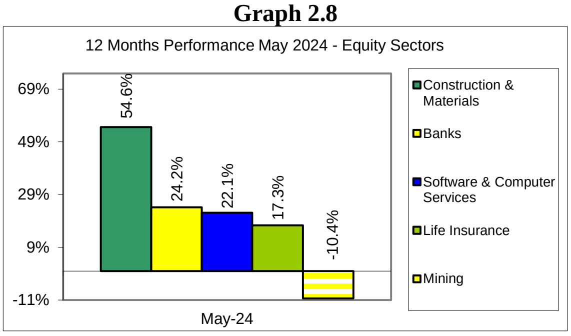
Graph 2.6



Graph 2.7



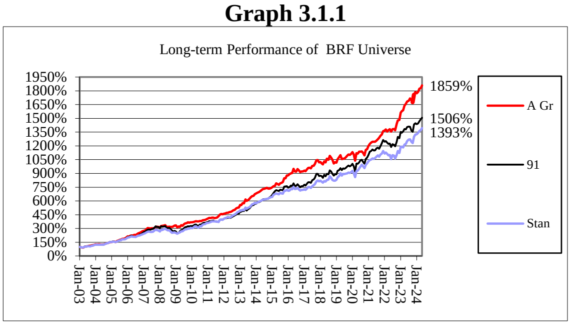
Graph 2.8



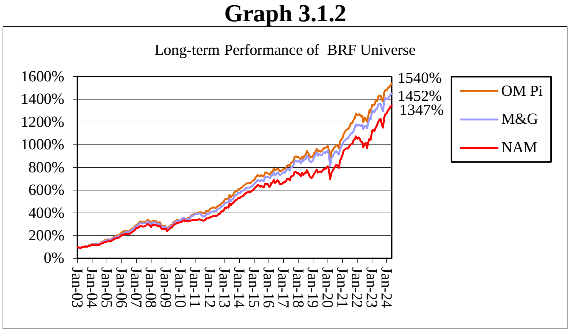
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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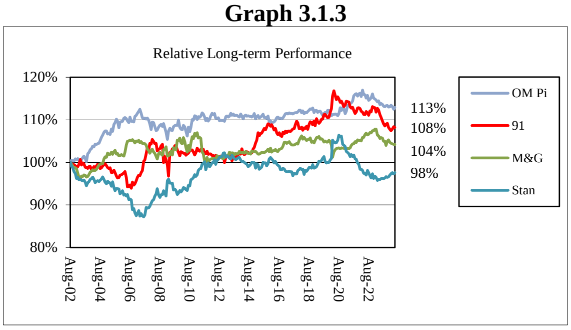
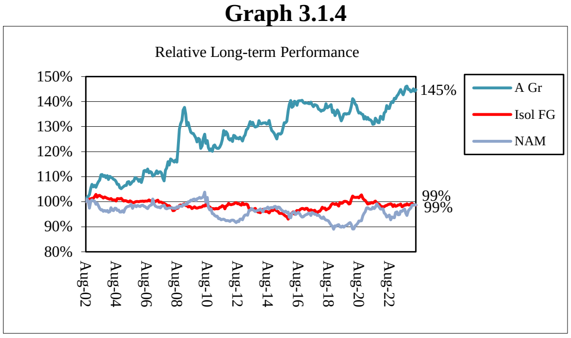
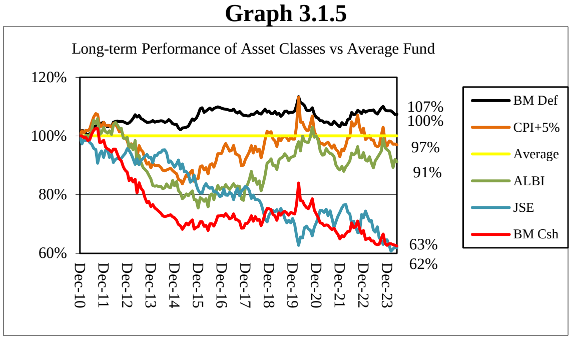
Graph 3.1.3



Graph 3.1.4

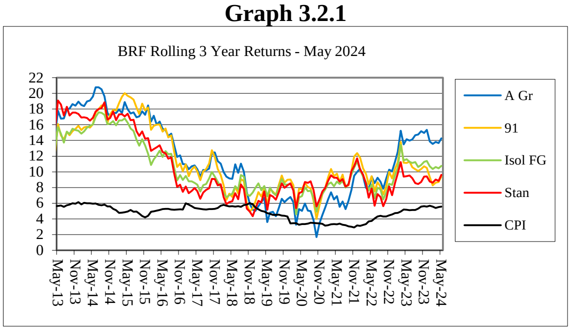


Graph 3.1.5

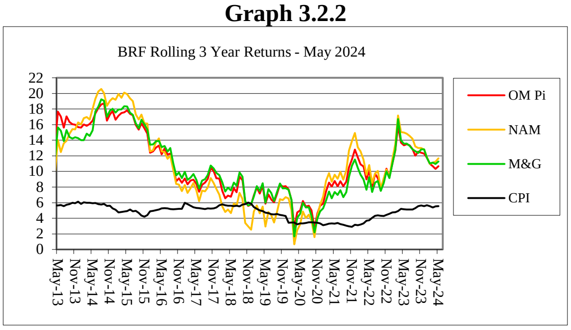


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

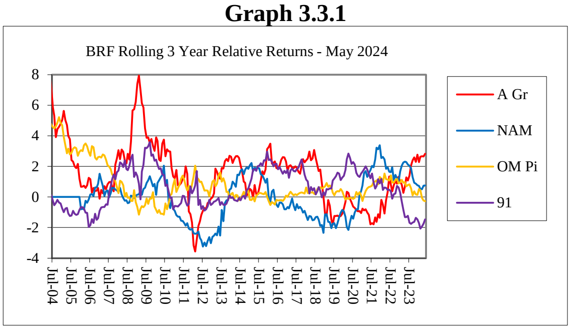


Graph 3.2.2

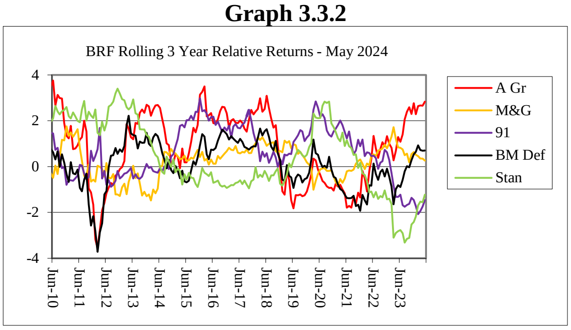


3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

Graph 3.3.1

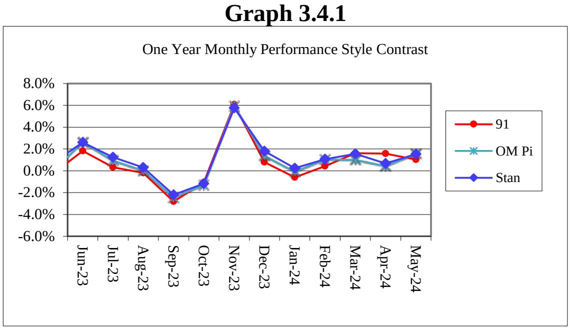


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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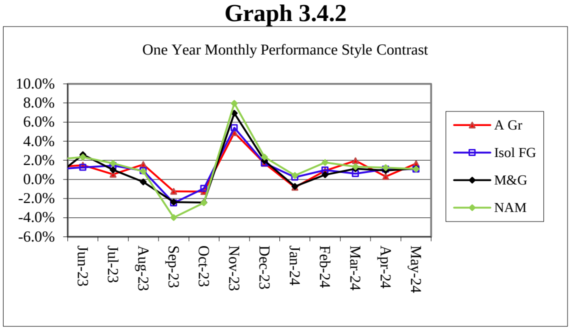
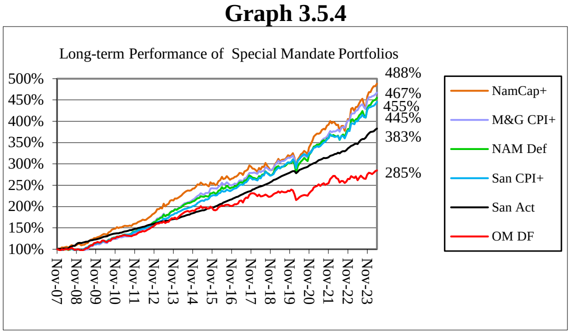
Graph 3.4.2

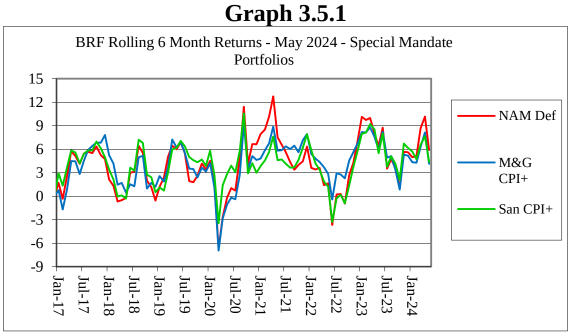


Graph 3.5.4

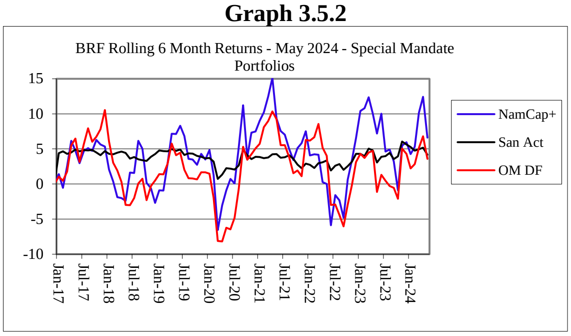


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

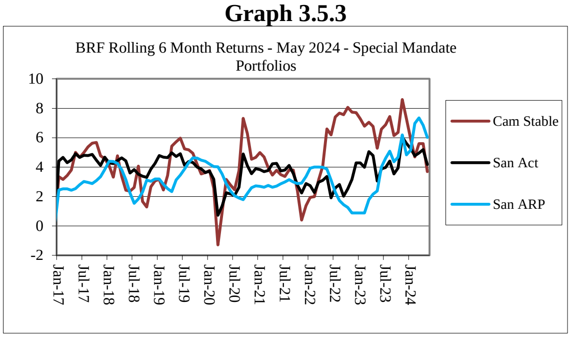
Graph 3.5.1



Graph 3.5.2

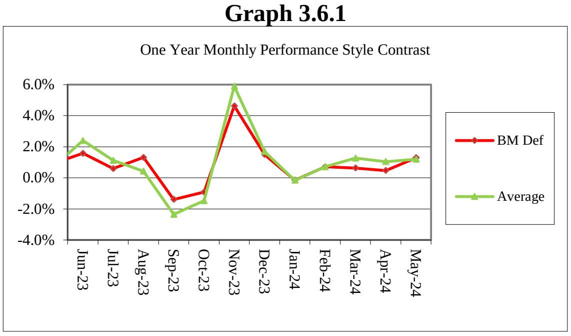


Graph 3.5.3

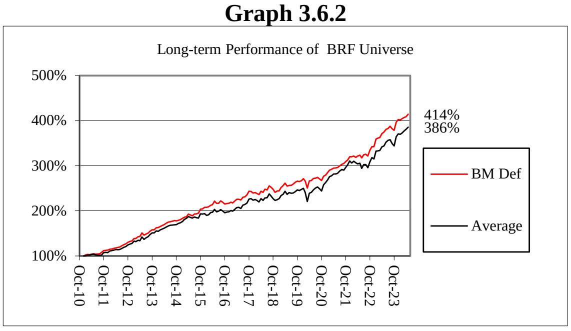


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

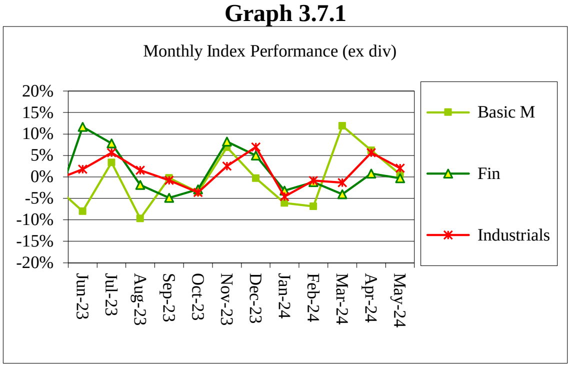


Graph 3.6.2



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

Graph 3.7.1



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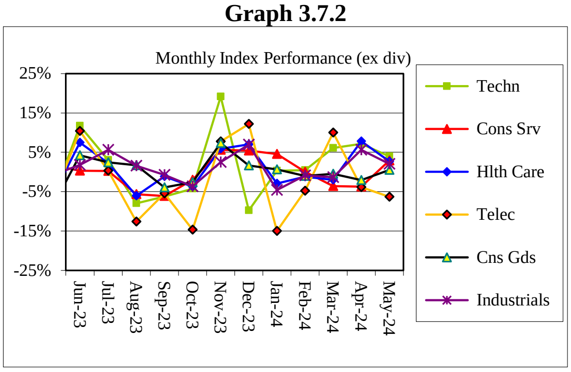
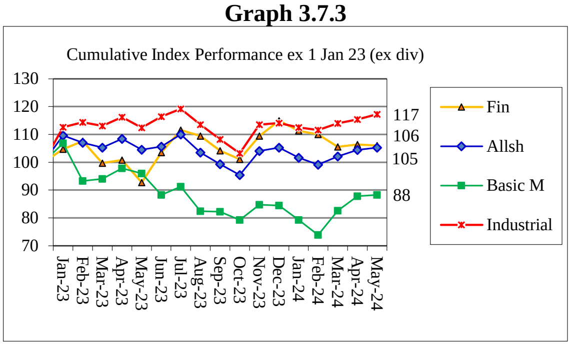
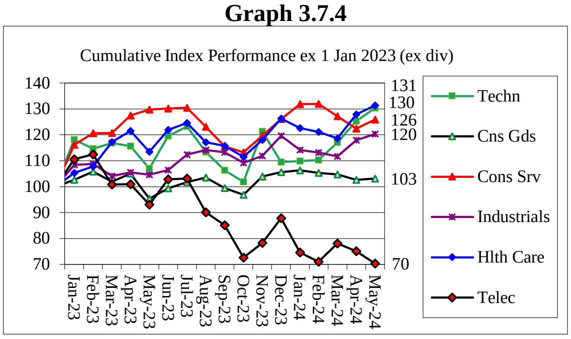
Graph 3.7.2



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.	10.2	10.3
5-year real return - % p.a.	5.7	5.8
Equity exposure - % of the portfolio (quarter ended March 2024)	45.2	52.0
Cumulative return ex Jan 2011	314.3	285.7
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 has been ahead since January 2011, when the trustees restructured it by raising the equity exposure. It still has a more conservative structure with an equity exposure of only 45% compared to the average prudential balanced portfolio's more than 50% exposure.

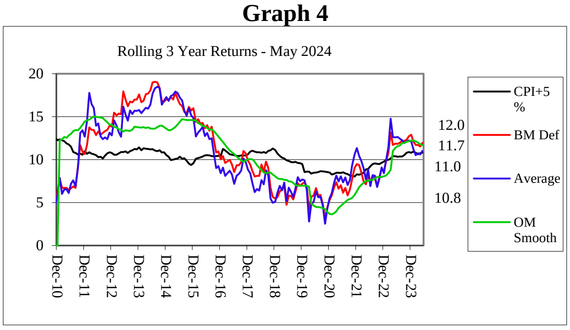
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	5.9%	6.8%
Best annual performance	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%	9.8%	10.1%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from June 2021 to May 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 May was 12.0%, the average was 11.0% vs. CPI plus 5%, currently on 10.8%.

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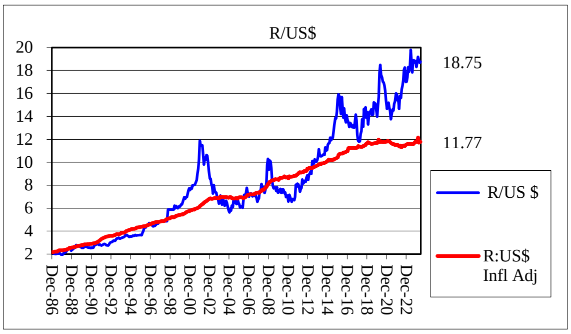
5. Review of Foreign Portfolio Flows and the Rand

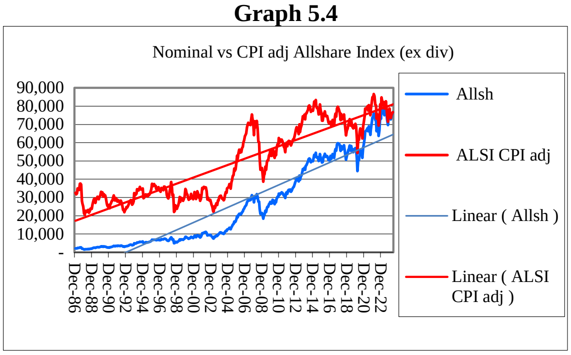
Graph 5.1 indicates that the Rand's fair value by our measure is 11.76 to the US Dollar, while it stood at 18.75 at the end of May. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

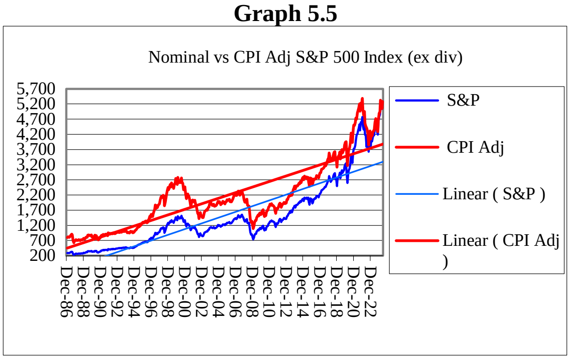
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.2% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.6% per year. It is equivalent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

Graph 5.4



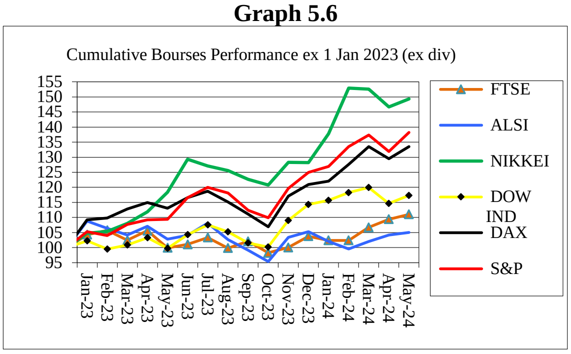
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 36 years since January 1987, the S&P500 Index grew by 8.1% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.3% p.a. over 36 years, excluding dividends, or around 7.4% (including dividends).

Graph 5.5



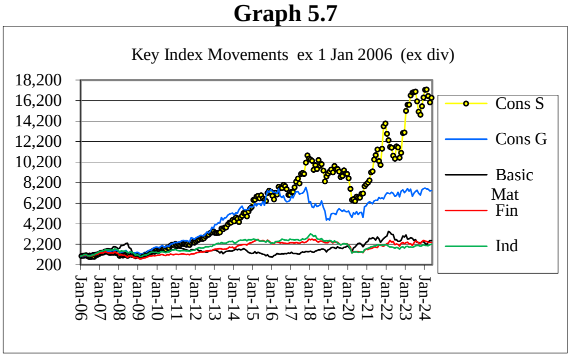
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the NIKKEI as the top-performing index since the start of 2023.

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. The investor can deduce from this graph which sectors offer better and poorer value based on fundamentals. Annualised returns for these indices since the beginning of 2006 were: Consumer Services: 16.3%; Consumer Goods: 11.5%; Financials: 4.9%; Basic Materials: 5.2%; and Industrials: 4.3%.

Graph 5.7



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MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MAY 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. Should you still try to make hay while the sun shines?

By Tilman Friedrich

Would you invest in Europe or the US if you knew that Russia would launch missiles armed with nuclear warheads tomorrow? It is perhaps a hypothetical question now, but it is closer to reality than most people might think.

When we think of investing, we think of Europe, the US and Japan. Every other destination would only be considered hesitantly. Pension fund asset managers' asset allocation reflects the same thinking. Besides their compulsory domestic exposure, most of their funds are invested in Europe, the US and Japan. The investment in other markets is usually well below 10%. I have never seen any Chinese, Indian or Turkish share in their top ten. It is a bit of herd mentality aimed at protecting their interests. They do not want to be the tallest poppy getting its head chopped off.

The West is facing a severe threat to its economic system that dominates the global economy. As a result, many prominent commentators agree that World War III is already raging in Ukraine and now the Middle East. Europe is not ready to enter the war yet. Europe is propping up Ukraine while it gears up to join the war with all its resources. In the meantime, it will push ever more resources into Ukraine, hoping it will last long enough until Europe is ready. Will Russia afford Europe the time to prepare? It is inconceivable as it would drastically weaken Russia's chances of surviving. As things stand, Russia's best bet is to overrun Ukraine before Europe is ready to engage it. However, Russia is facing a dilemma. To close the bag on Ukraine, it should engage all it has, but it also has to hold back enough reserves to face the European members of NATO.

The US will focus on keeping China in check and preventing it from siding openly with Russia. I doubt China is willing or ready to enter this war and would probably try to stay out of it. However, China cannot afford Russia to lose the war and have NATO at its back door through a fallen Russia. Not to alienate the US, China will clandestinely prop up Russia in the hope that the conflict in Europe will end in a stalemate. At the same time, the US will ramp up the pressure on China to openly enter World War III. It will then employ all its resources and those of its Eastern allies such as Japan, Australia, the Philippines, South Korea, and perhaps India.

Eventually, China, conceivably assisted by North Korea and Myanmar and the US, with its Eastern allies, will enter. I believe it is a matter of 'life or death' for both sides of the global conflict. When a country faces a 'life or death' situation, it has two choices. Use all resources at your disposal for a chance to survive or accept certain death. While it may not be the death of the Russian population, it would be the physical demise of Russia and many high-ranking officials, starting with President Putin. That assumes those pushing for a new multipolar world order would lose 'their argument'. However, if that does not happen, we will see the demise of the unipolar US world order and the physical demise of many of their top officials.

While Russia's nuclear arsenal is its most potent deterrent and has prevented it from subjugation to date, NATO seems set to face this deterrent head-on, 'once and for all'. I am convinced that the world will slide into an ever-expanding global war.

I had no reason to change my views over the past two years, although I admit that I thought Europe would stand back to avoid its involvement in another great war at one stage. However, none of that is evident. The Western economic system stands to meet its demise, and its stakeholders stand to lose all their privileges. There is, unfortunately, no compromise in sight.

Concerning the timing of Europe's entry, media reporting indicates that my 'tomorrow' would be in about two years if it was left to Europe to make the call. Because Russia will not wait for Europe to ready itself, I would expect Russia to force Europe to enter before it is ready, probably within the next twelve months.

Returning to my question at the outset, anyone in his right mind would not invest in regions where nuclear-armed missiles will strike tomorrow. The world will change, whatever happens, and yesterday's wisdom will be of no help tomorrow. Namibians must reconsider their investment strategies as investors who are sitting on the sidelines of such a horrific global confrontation.

Conclusion

Investors must realise that peer pressure and the fear of incorrect timing will prevent conventional asset managers from acting pre-emptively. It is too late to act once Europe makes a public statement of its entry into the war against Russia. Europe will immediately introduce capital controls. Savings will then be out of investors' reach and control, exposed to all consequences of war, such as the demise of investee companies and physical assets.

When my expectations materialise, global financial markets will take a deep dive. Europe will first fall, followed by the US, China, Japan, and other Eastern participants, with a delay of one to two years. While markets in all countries involved in the conflict will take very long to recover, I expect other markets to recover much quicker.

I would suggest keeping your savings closer to home, even at the cost of missing the opportunity to still 'make hay' while the sun shines on offshore investments. In our assessment, the Rand is severely undervalued. More cautious local investors should, therefore, consider repatriating their offshore investments. Generally, the inevitable global conflict will likely not impact the southern

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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, many investors in the global North would move their 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 African and other developing countries should pose a lower risk than those with a strong representation in the northern hemisphere.

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. 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.