Volume 20, No. 08
August 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 AUGUST 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 August 2024, the average prudential balanced portfolio returned 1.3% (July 2024: 2.0%). The top performer is Investment Solutions Balanced Fund, with 2.10%, while Allan Gray Namibia Balanced Fund, with 0.40%, takes the bottom spot. Momentum Namibia Growth Fund took the top spot for the three months, outperforming the 'average' by roughly 1.2%. Allan Gray Namibia Balanced Fund underperformed the 'average' by 1.2% 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.)

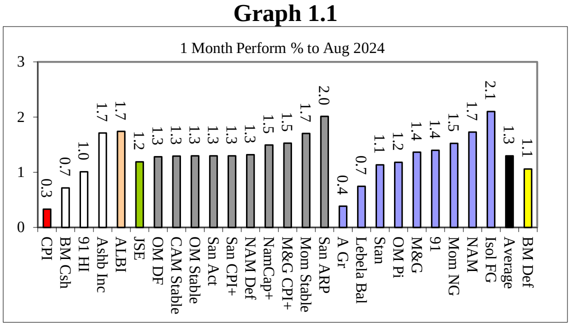
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced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

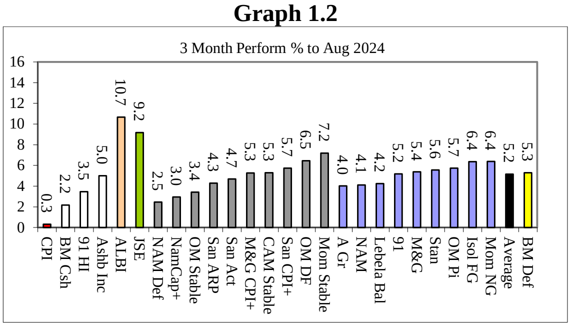
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
NinetyOne High Income (interest-bearing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

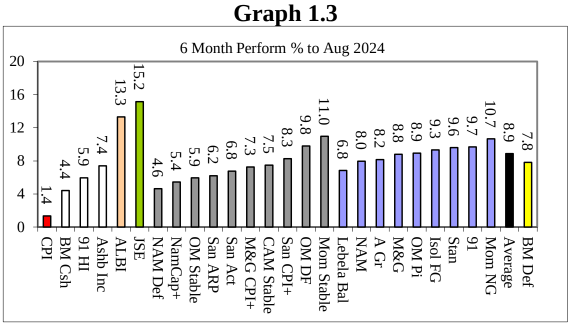
Graph 1.1



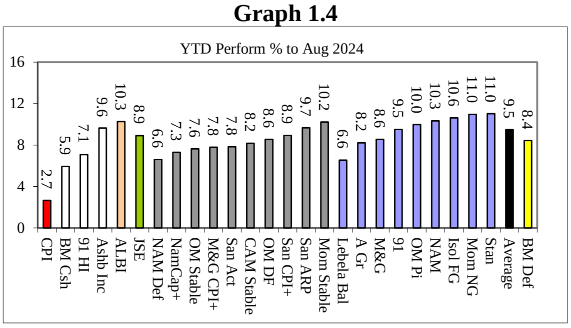
Graph 1.2



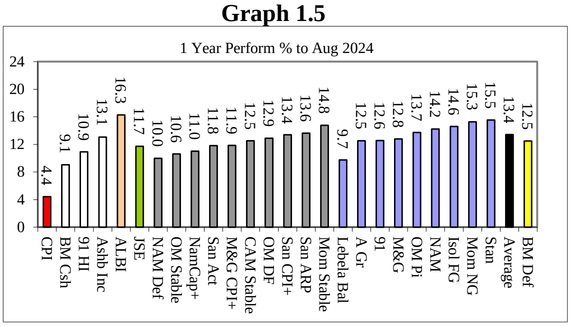
Graph 1.3



Graph 1.4



Graph 1.5



Graph 1.6

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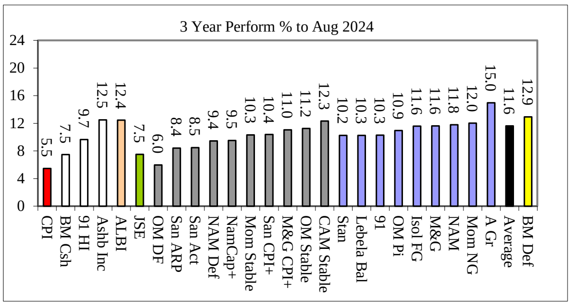
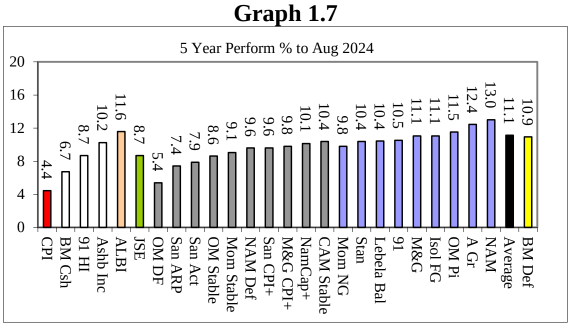
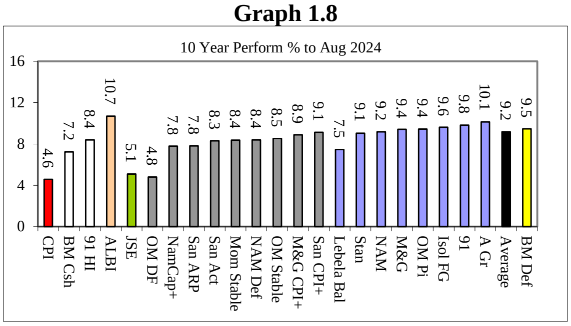


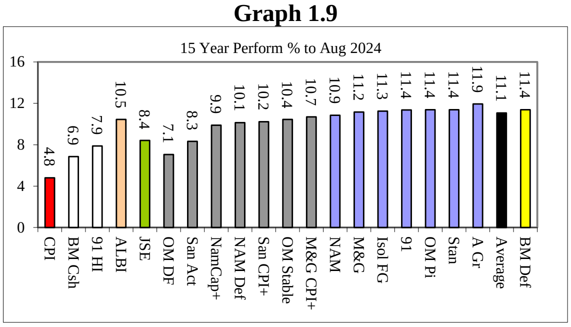
Graph 1.7



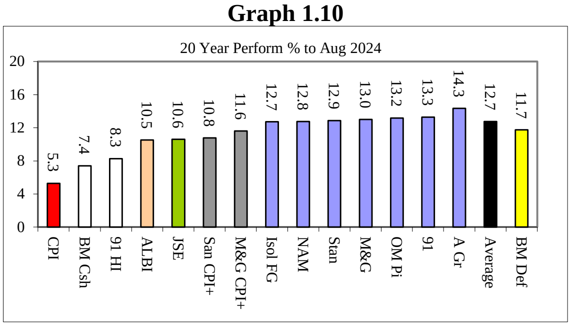
Graph 1.8



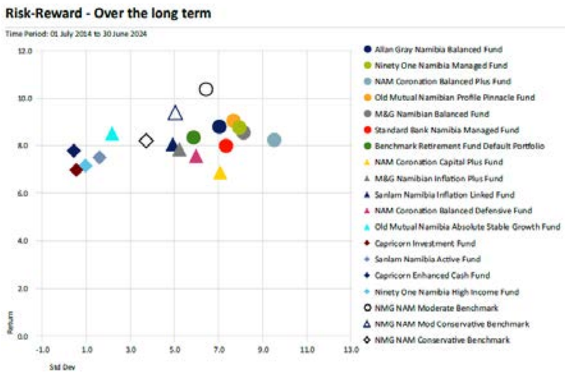
Graph 1.9

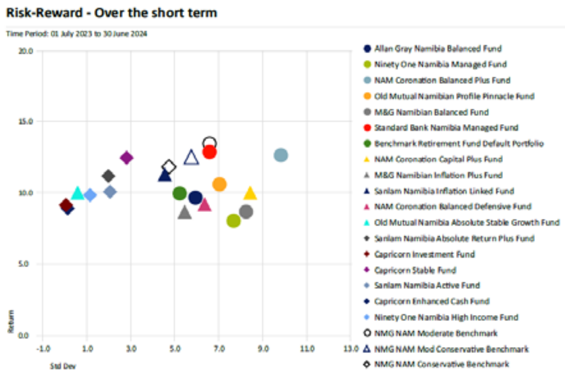


Graph 1.10



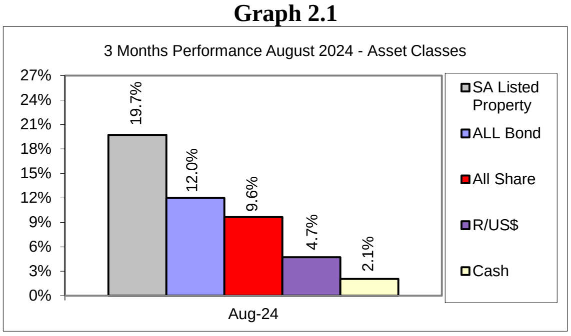
Risk/ Return



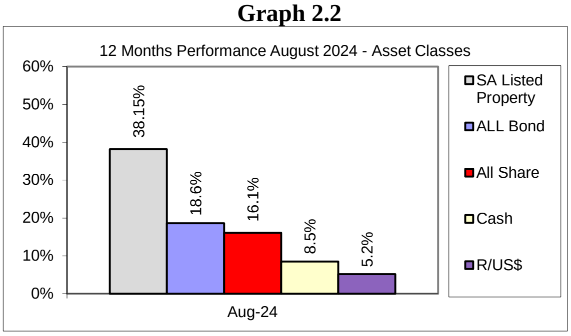


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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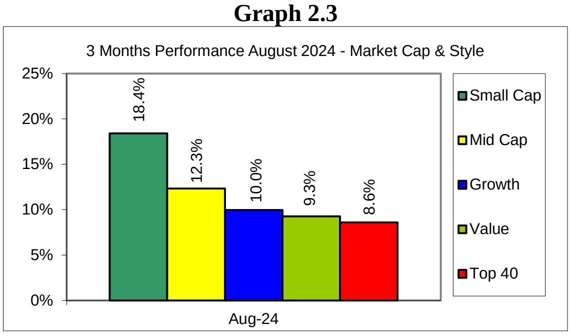
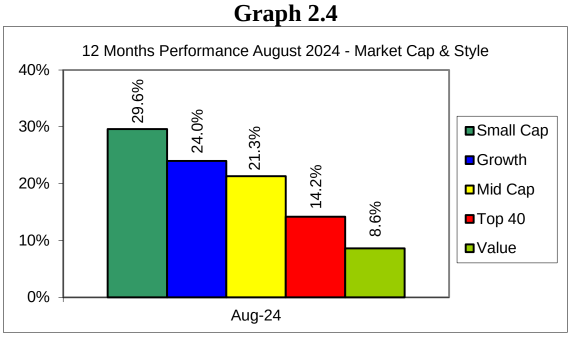
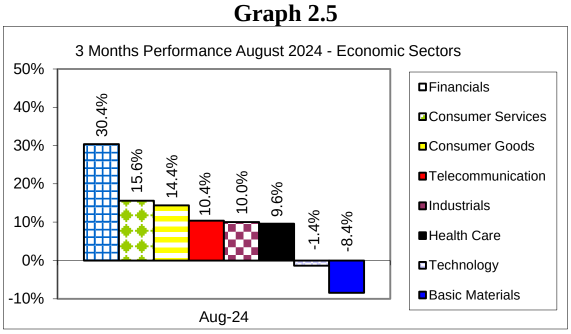
Graph 2.3



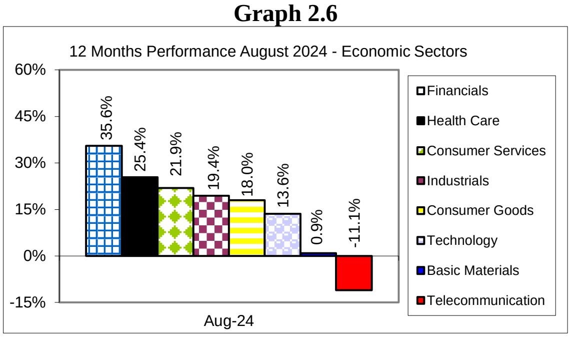
Graph 2.4



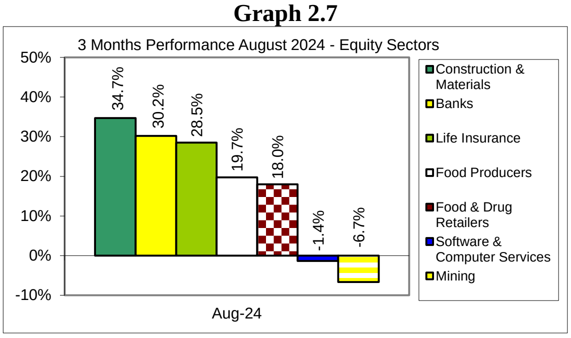
Graph 2.5



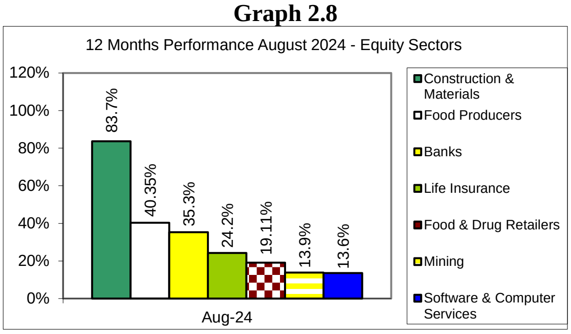
Graph 2.6



Graph 2.7



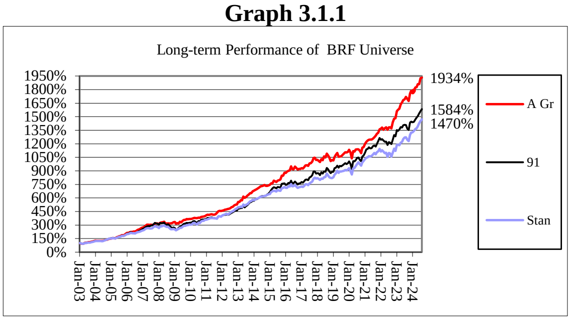
Graph 2.8



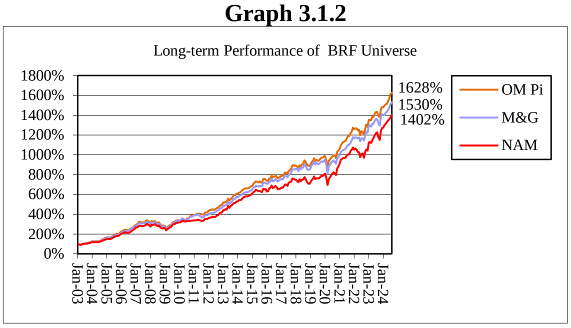
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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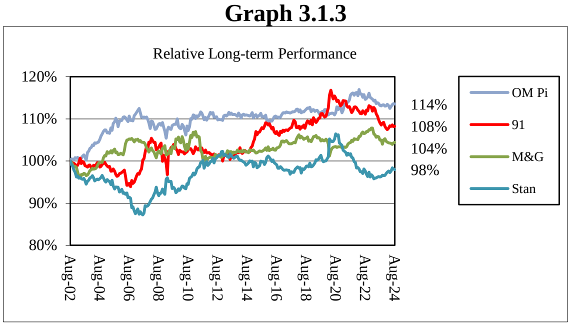
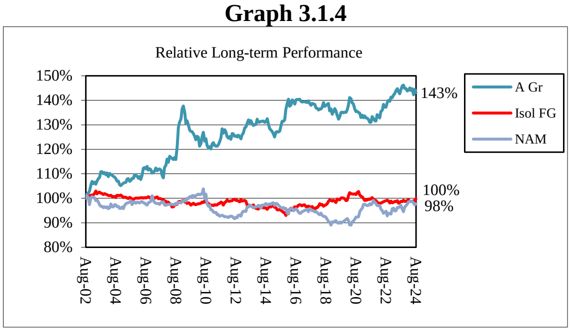
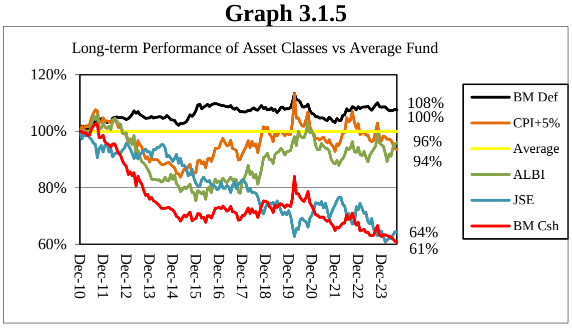
Graph 3.1.3



Graph 3.1.4

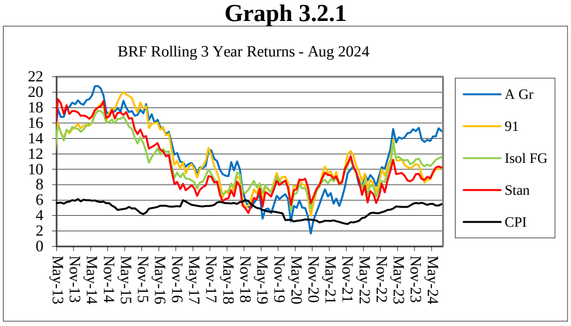


Graph 3.1.5

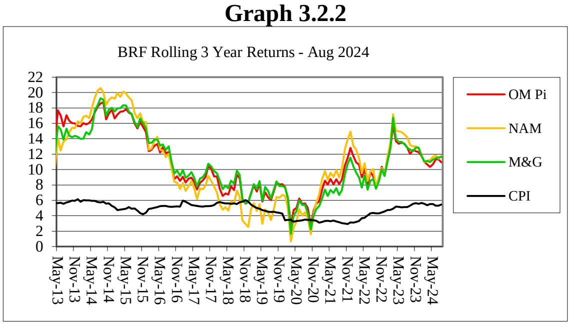


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

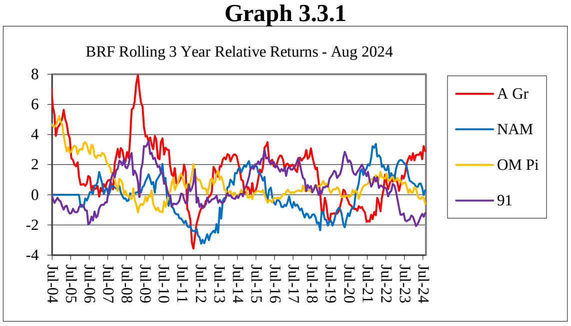


Graph 3.2.2

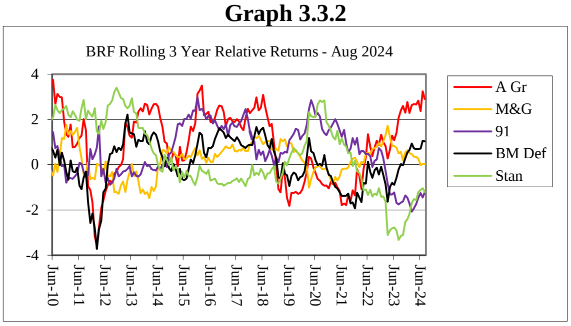


3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

Graph 3.3.1

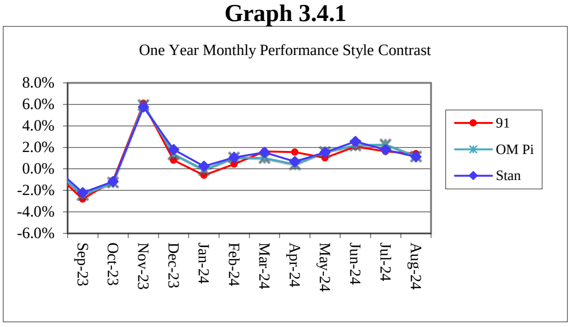


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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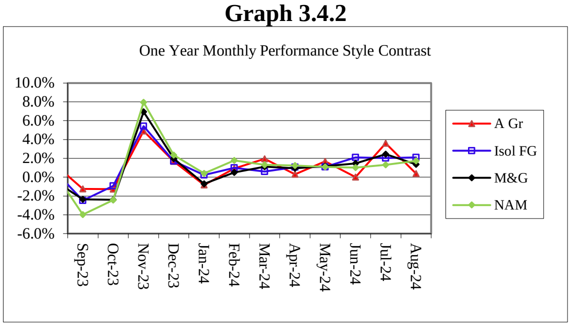
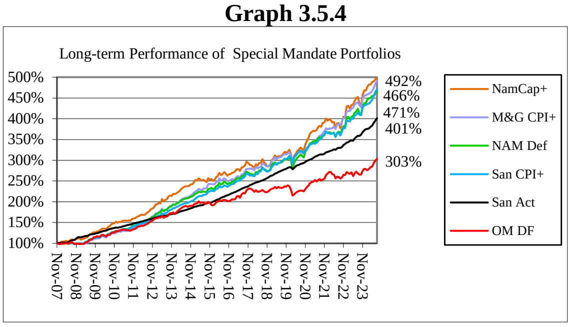
Graph 3.4.2

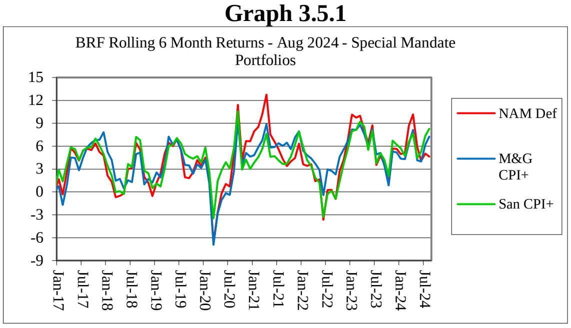


Graph 3.5.4

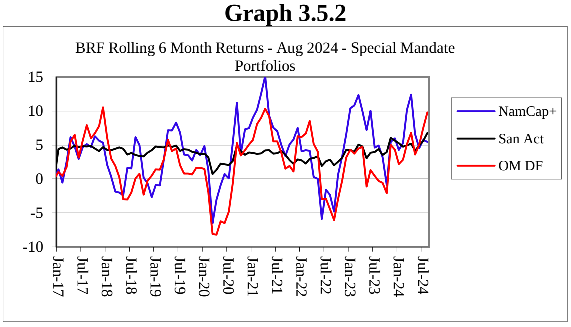


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

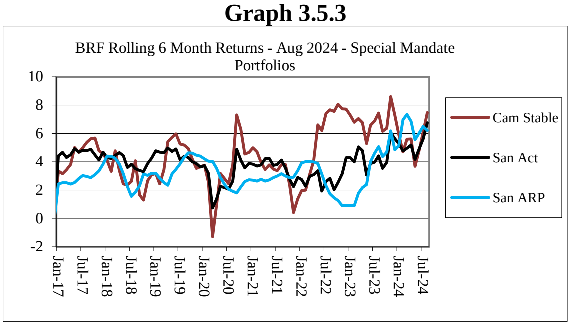
Graph 3.5.1



Graph 3.5.2

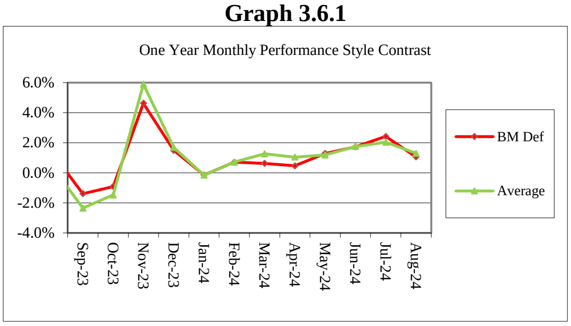


Graph 3.5.3

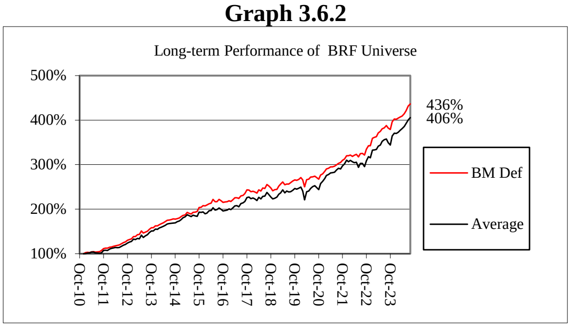


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

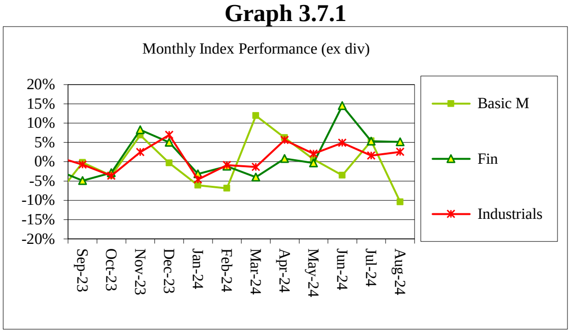


Graph 3.6.2



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

Graph 3.7.1



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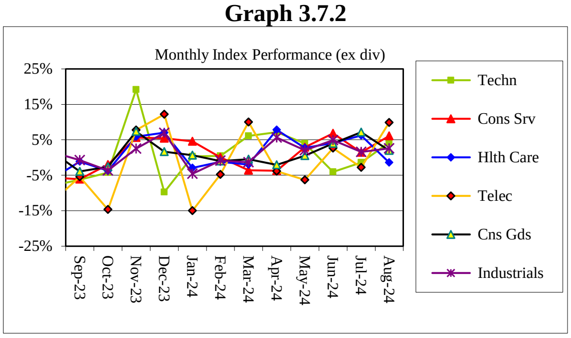
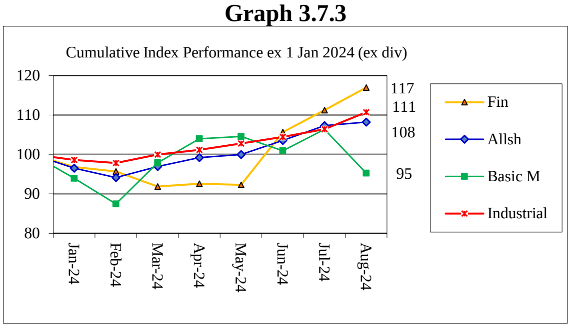
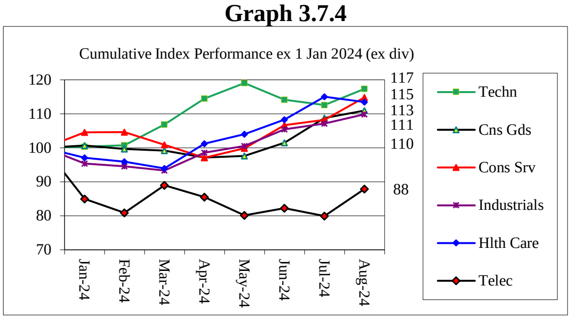
Graph 3.7.2



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.	10.9	11.1
5-year real return - % p.a.	6.7	6.5
Equity exposure - % of the portfolio (quarter ended June 2024)	52.2	60.7
Cumulative return ex Jan 2011	341.9	315.6
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 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 52% compared to the average prudential balanced portfolio's more than 61% exposure.

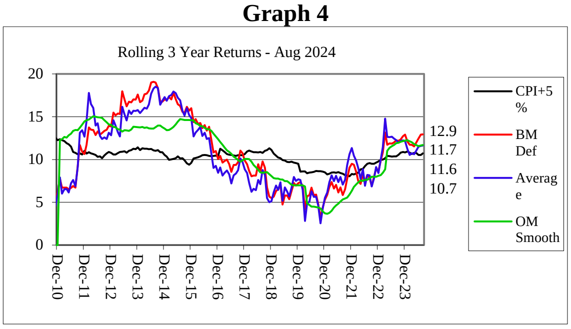
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	6.5%	6.8%
Best annual performance	7.5%	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%	10.3%	10.5%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from September 2021 to August 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 August was 12.9%, the average was 11.6% vs. CPI plus 5%, currently on 10.5%.

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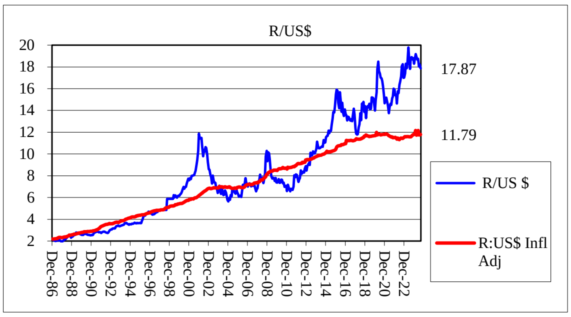
5. Review of Foreign Portfolio Flows and the Rand

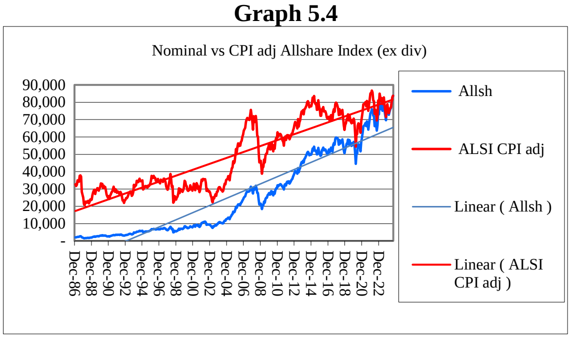
Graph 5.1 indicates that the Rand's fair value by our measure is 11.79 to the US Dollar, while it stood at 17.87 at the end of August. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

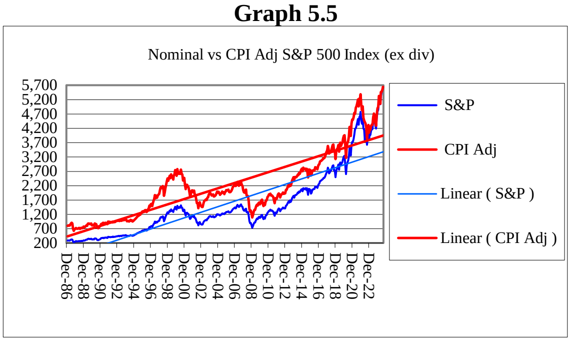
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.5% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.5% per year. It is equivalent to growth in real terms of 2.7% p.a. over this period, excluding dividends, or around 5.9%, including dividends.

Graph 5.4



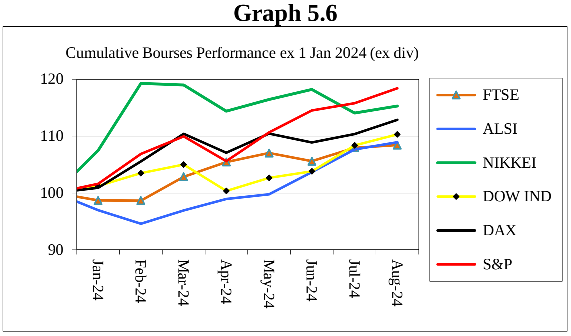
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 37 years since January 1987, the S&P500 Index grew by 8.4% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.4% p.a. over 37 years, excluding dividends, or around 7.5% (including dividends).

Graph 5.5



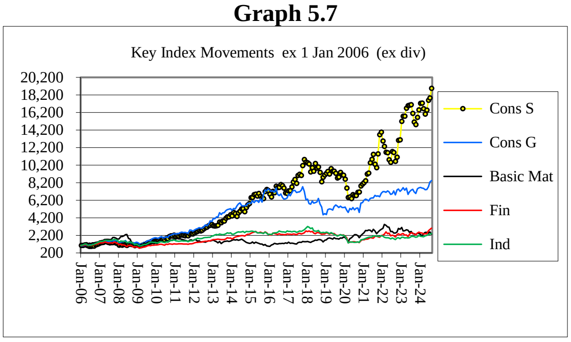
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the S&P as the top-performing index since the start of 2024.

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: 17.1%; Consumer Goods: 12.1%; Financials: 6.1%; Basic Materials: 4.7%; and Industrials: 4.8%.

Graph 5.7



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6. How to hedge your bets on the road to a new world order

By Tilman Friedrich

When the world faces a major military conflict that could escalate into a nuclear confrontation, conventional investment management principles and processes become redundant. The battle lines are drawn between two principally different value systems! The US successfully imposed its unconstrained capitalist system on the world since the end of World War 1. Under this system, we have a unipolar world dancing to the tunes of the US, where the West and NATO are merely tools of the US to cement its hegemony in a one-world order.

The capitalist system maintains that competition is healthy for business. It makes sense because it mirrors the law of nature – the survival of the strongest. This law of nature should equally apply to an efficient world order. A unipolar world throttles global competition, while a multipolar world maintains competition.

On the other side, China, an emerging military and economic superpower, and Russia, a military superpower, are pursuing their autonomy as a nation and global player. Their objective is to maintain a balance between competing global interests. They want to create the space for such competing interests through a multipolar world order.

To prevent a multipolar world order, the US first wants to subjugate Russia, followed by China, as these countries and their allies, like the BRICS countries, pose an existential threat to it. China realises that the US's ultimate target of the Ukraine campaign is itself. China is probably not ready yet for a full-scale confrontation with the US but spares no effort to get there. The time is now for the US, while China would want to delay the inevitable.

The US will not want to give up its nearly accomplished goal of a one-world order under its dictate. The US may suspect that China and Russia see their professed multipolar system as the beginning of the reverse of the US hegemony.

Since China is not a party to the Ukraine conflict and is not ready for a confrontation, it would likely prefer to stay out of it until its red line is crossed. It is intensely interested in finding a compromise between Russia and the US to avoid the US crossing its red line. China, therefore, submitted a 12-point peace proposal for the Ukraine conflict on February 24, 2023, aimed at resolving the war through diplomacy. It could have avoided its red lines being challenged. However, China's peace proposal received the cold shoulder. The US viewed it as an effort to position China as a global peacemaker without taking a strong stance against Russia's actions. It does not accept or respect Russian superpower demands, considering it a second-class power. It will continue ratcheting up the pressure on Russia, hoping that the Russian population will revolt, the economy will implode, or it will be the first to attack a NATO member. Such an attack would then justify NATO directly entering the Ukraine conflict.

Conversely, Russia will try to win time, hoping that Ukraine will surrender or its military or population will revolt. It will match the US's gradual escalation but avoid throwing all it has at this conflict. Winning time is also in China's interests, and it will likely support Russia in drawing out the war and preventing its demise. I suspect the US, through NATO, is under time pressure to achieve its objectives and will soon have to take the next big step by getting directly involved.

In a conflict where the parties are bristling with nuclear weapons, it would be suicidal for any party to think it will get away unscathed or will have the upper hand. It would also be naïve to believe that Russia or China will not use their nuclear arms when their survival is threatened. Unfortunately, China's peace proposals have come to nothing, and any hope of avoiding a major global confrontation has faded. It indicates that the US remains hell-bent on removing the threats to its hegemony.

Of course, on the road to a final resolution of the East: West conflict, global markets will continue on their path. Reserve bank governors will continue managing interest rates and money supply to achieve their goals. In this phase, investment markets will behave predictably, and the investor could apply general investment principles. No one can predict the outcome of the East: West conflict and its timeframe, though, and it presents a severe risk to the investor. Should one expect the worst outcome and start taking preventive measures now? If so, what preventive measures should one take? Unfortunately, an investor must make the right investment decisions and cannot leave it to someone managing a large pool of investors' money. Due to the timing risk, they cannot pre-empt a worst-case scenario, and any proactive action could become a 'self-fulfilling prophesy'. They are doomed to be the last to leave the sinking ship.

Conclusion:

In a global conflict, the dynamics would change drastically. It would severely disrupt international trade, financial flows, economies, and supply chains while reallocating resources towards the war economy and essential services. While global investment diversification is a sound investment principle, keeping your belongings under your control and close to home will be wise, as your foreign assets are likely impaired and inaccessible in a global conflict.

We live in a time between a fainting old and a new world order. One cannot foresee what the new world order would look like. It could be a capitalist autocracy, a more pragmatic multipolar order or a socialist autocracy. The old world order is likely to end within the next five years. The world will then witness a global confrontation, laying the foundation for the future world order. In this interregnum,

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we will experience high levels of market volatility and large swells between out-of-favour and in-favour sectors, but markets generally drifting along. Stock-picking skills will prove superior to index investing. The investor must understand how the feared conflict will impact stocks to select the right stocks.

SECTORS TO BENEFIT:

Basic Materials (Mining and Resources)

Resource security becomes crucial. Precious metals like **gold** would likely surge as investors and governments seek safe-haven assets. Additionally, **strategic materials** such as rare earth minerals and energy resources (e.g., uranium, copper, and other metals essential for weapons manufacturing) would increase demand. With its uranium reserves, Namibia could benefit if nuclear energy becomes a strategic focus.

Defence-Related Industrials

Defence spending would spike, benefiting companies in arms manufacturing, military equipment, aerospace, and engineering. These firms could experience substantial demand for products such as weapons, aircraft, and other military infrastructure. At the same time, some industrial companies outside of defence may struggle due to supply chain issues and reduced global trade.

Health Care

Health care would remain critical as conflicts bring increased casualties and medical needs. Pharmaceutical companies, biotechnology firms, and medical equipment manufacturers would see strong demand, especially for **wound care products**, **trauma treatments**, and **vaccines** in the event of bio-warfare or pandemics.

Telecommunications

Communication infrastructure becomes even more vital during wartime, as governments, militaries, and civilians need reliable systems. Telecommunication companies would see increased demand for secure, resilient communication networks, including **cybersecurity services**. Infrastructure may be targeted, requiring significant investment in defence systems and repairs.

Energy

Energy security becomes paramount in times of war, especially regarding **fuel for military operations** and ensuring consistent energy supplies. Oil and gas producers may benefit from price spikes as supply lines are disrupted and governments prioritise securing energy reserves. Renewable energy companies could also see increased interest due to the need for **self-sufficiency**. However, this sector may become a target in times of conflict.

SECTORS TO LAG:

Consumer Discretionary (Part of Consumer Services)

Consumer spending on non-essential goods would plummet as the focus shifts to survival and basic needs. Leisure, tourism, and luxury goods companies would face significant demand destruction. Retailers offering non-essential goods would likely suffer. However, specific segments, like companies selling **low-cost consumer goods,** may survive as consumers turn to cost-effective options.

Financials

Financial markets typically experience extreme volatility during global conflicts, with a high risk of economic collapse, currency instability, and the potential for **debt defaults**. Banks, insurance companies, and other financial institutions could face liquidity crises, while cross-border transactions and investments may become nearly impossible. Again, there could be a few bright spots, like banks with exposure to **defence contracts** or governments may benefit, but most financial institutions would be vulnerable to systemic shocks.

Real Estate

Real estate markets generally collapse during wartime, especially in conflict zones where property values can plummet due to population destruction, instability, or displacement. Commercial real estate and residential sectors alike would suffer as economic activity slows.

Technology

some technology companies involved in defence and cybersecurity could thrive, but broader technology firms might suffer. Tech hardware manufacturing would face supply chain disruptions, especially given the reliance on semiconductors and rare materials. Consumer technology products like phones, computers, and entertainment services may see reduced demand as priorities shift toward essential goods.

SECTORS WITH MIXED OUTCOMES

Utilities

Utilities are essential, but wartime often destroys infrastructure such as power grids, water supplies, and sewage systems. Maintaining or rebuilding this infrastructure during conflict could be very challenging, impacting utility companies. They may also face regulatory pressures and government control. However, governments would prioritise utility restoration, and companies involved in building or securing critical infrastructure may benefit.

Consumer Staples

The demand for basic necessities like food, beverages, and hygiene products would persist. Companies producing essential consumer goods tend to remain stable in times of crisis, though they may find it difficult to adapt their supply chains, particularly if ports and transport networks are compromised.

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