Volume 20, No. 09
September 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 30 SEPTEMBER 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 September 2024, the average prudential balanced portfolio returned 1.8% (August 2024: 1.3%). The top performer is NAM Coronation Balanced Plus Fund, with 2.7%, while Stanlib Managed Fund, with 1.0%, takes the bottom spot. M&G Managed Fund took the top spot for the three months, outperforming the 'average' by roughly 0.8%. Stanlib Managed Fund underperformed the 'average' by 1.3% 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.)

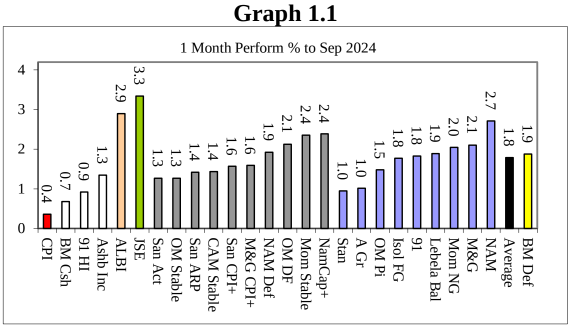
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 Domestic Balanced, Ninety-One Namibia Domestic Balanced, M&G Namibia Domestic Balanced, Sanlam Namibia Domestic Balanced, 20Twenty Credit Solutions, Satrix World Equity Tracker, Satrix Emerging Markets Tracker, Colchester Global Bond Fund and Capricorn Investment Fund.

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

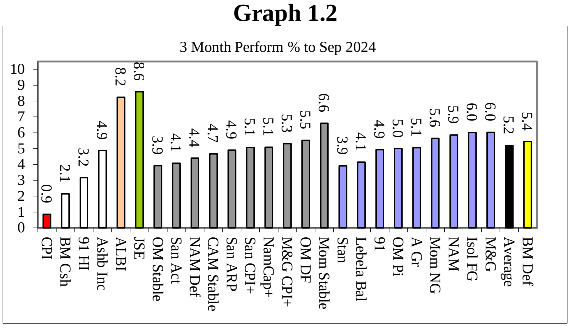
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
NinetyOne High Income (interest-bearing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

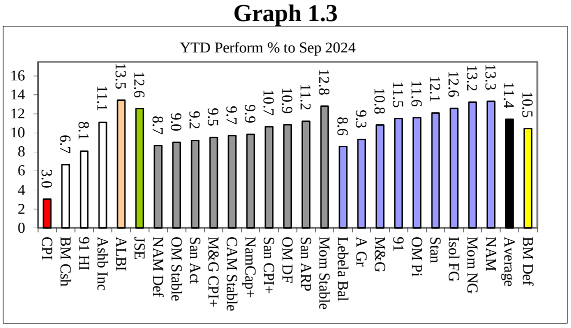
Graph 1.1



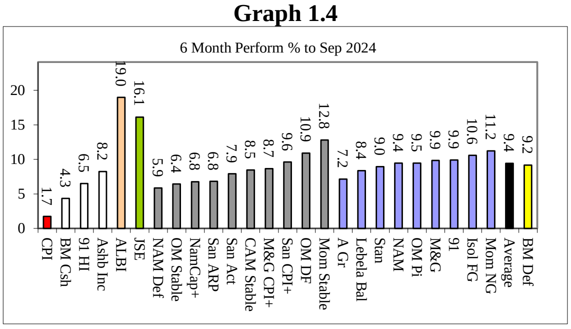
Graph 1.2



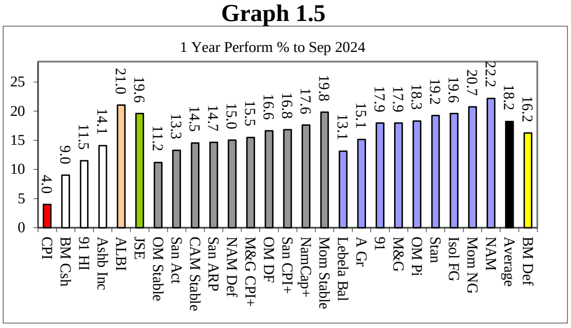
Graph 1.3



Graph 1.4



Graph 1.5



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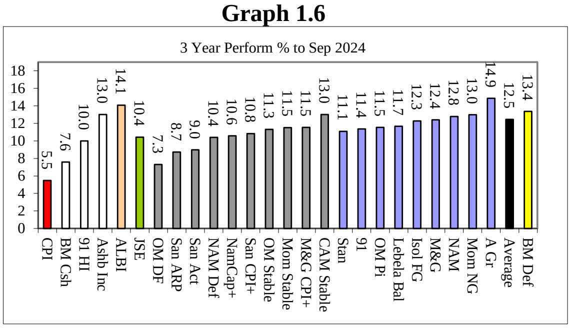
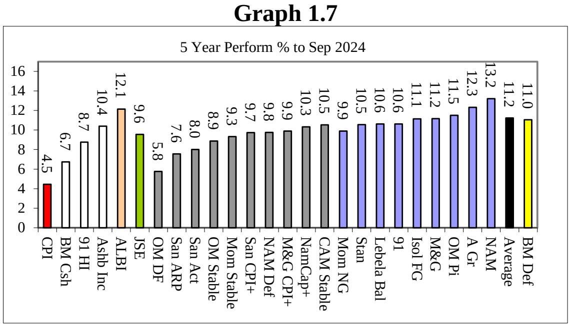
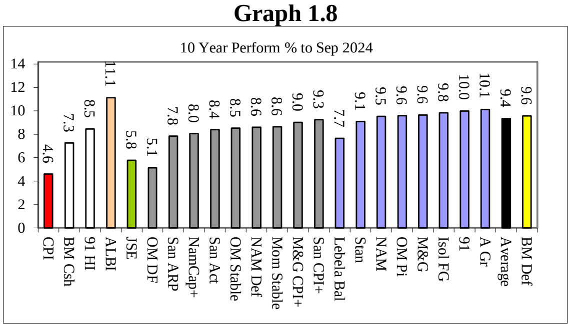
Graph 1.6



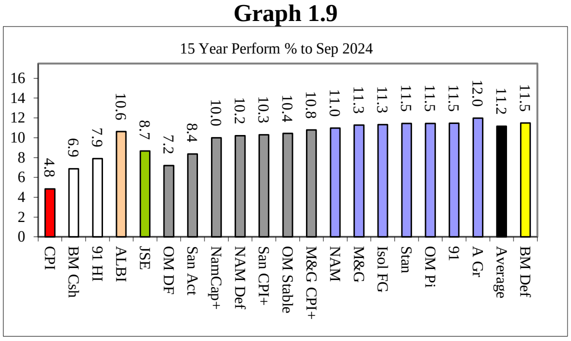
Graph 1.7



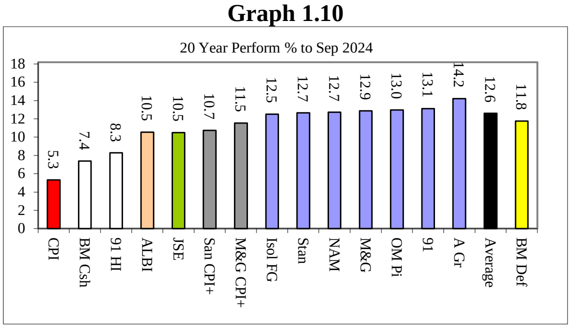
Graph 1.8



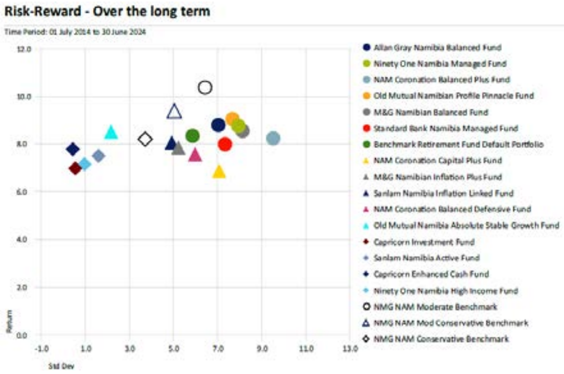
Graph 1.9

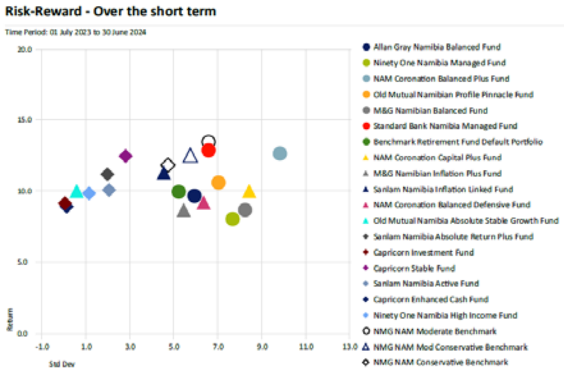


Graph 1.10



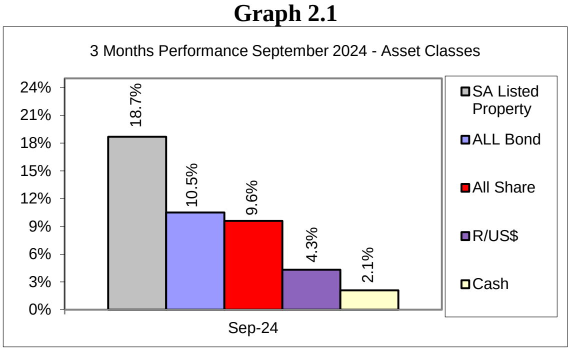
Risk/ Return



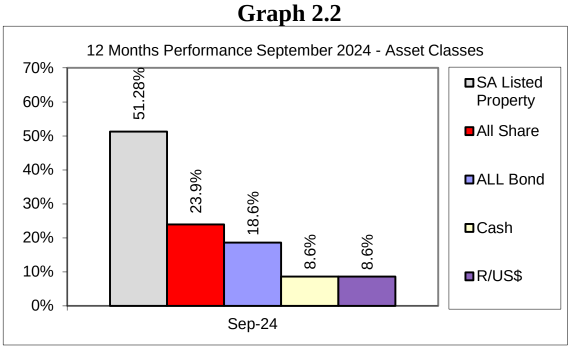


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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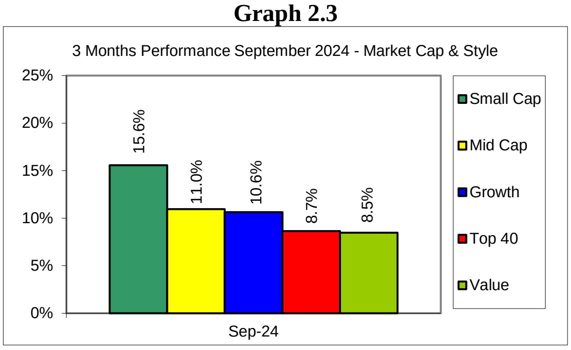
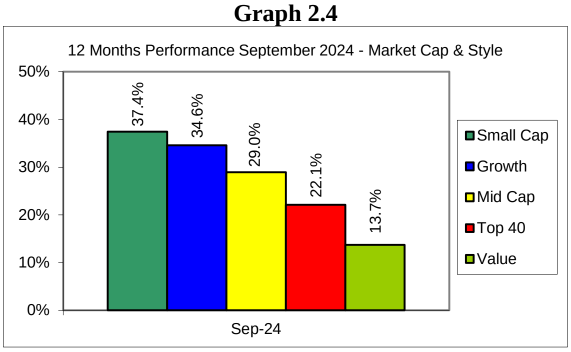
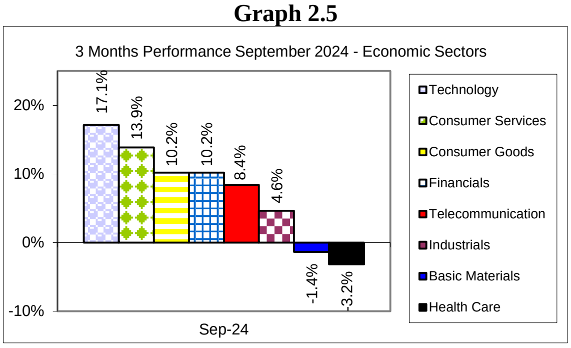
Graph 2.3



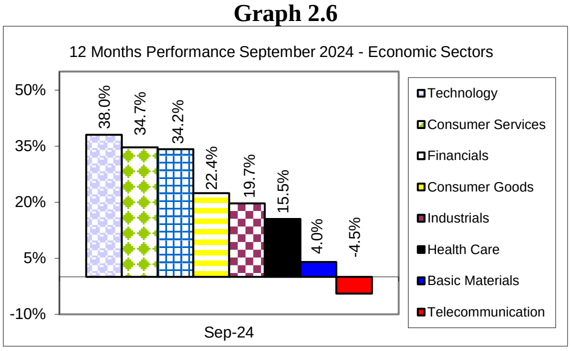
Graph 2.4



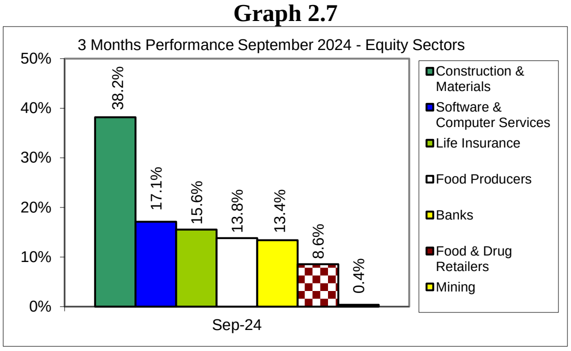
Graph 2.5



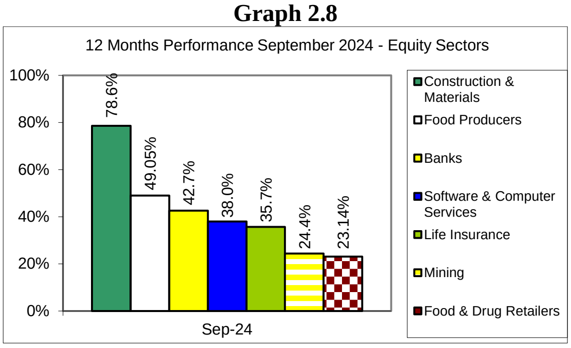
Graph 2.6



Graph 2.7



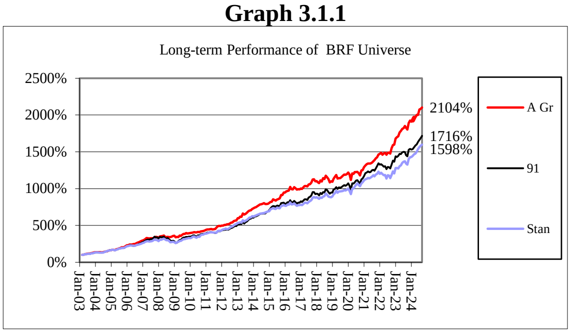
Graph 2.8



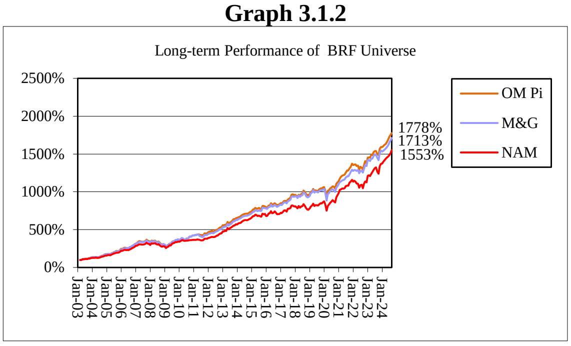
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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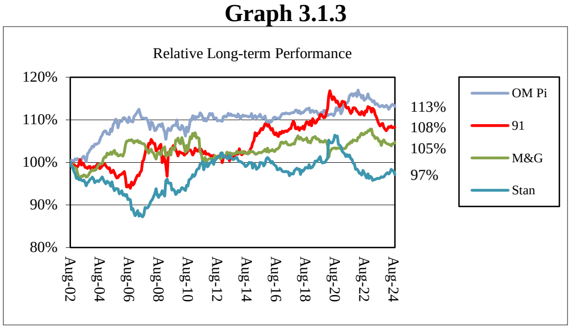
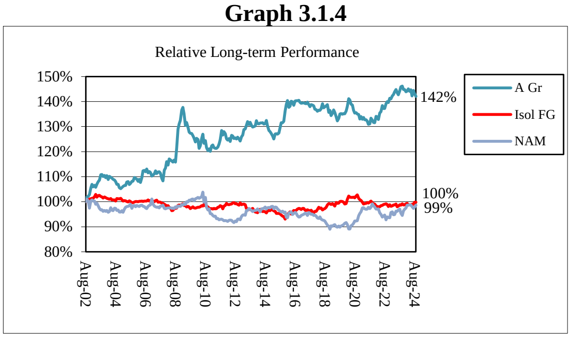
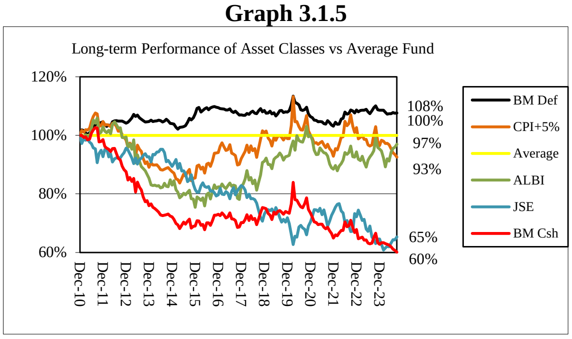
Graph 3.1.3



Graph 3.1.4

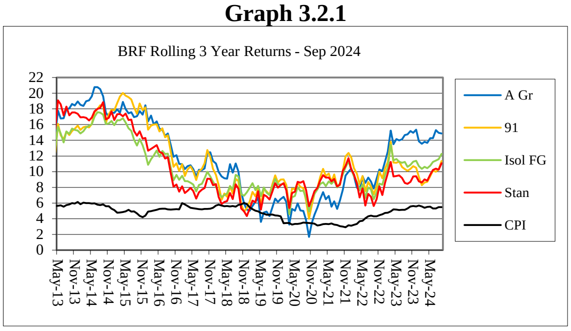


Graph 3.1.5

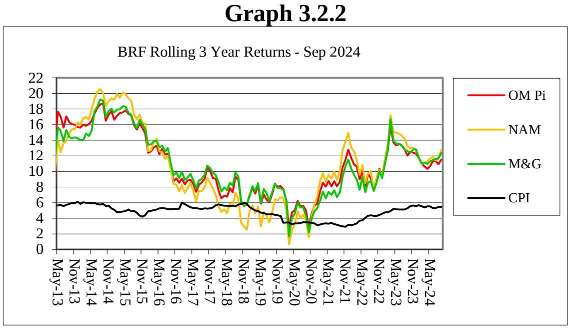


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

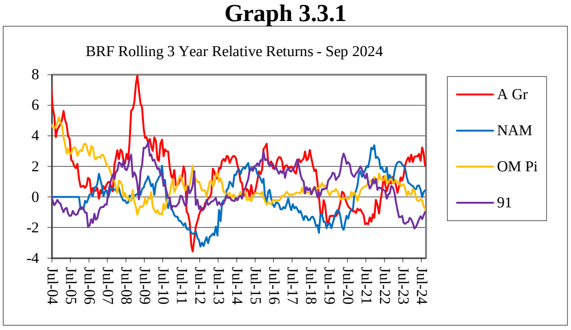


Graph 3.2.2

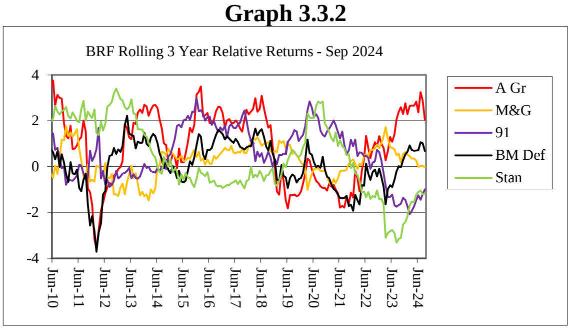


3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

Graph 3.3.1

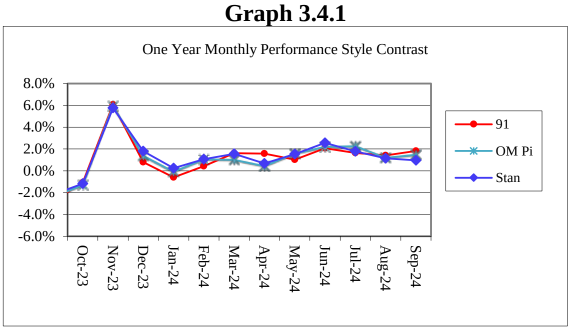


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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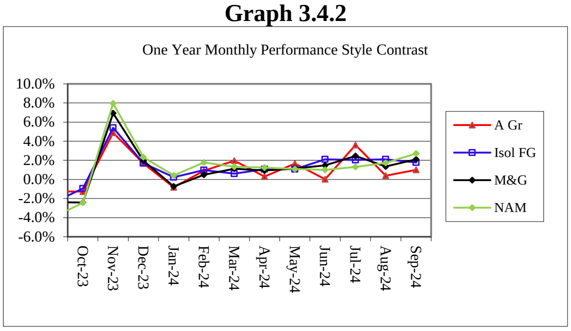
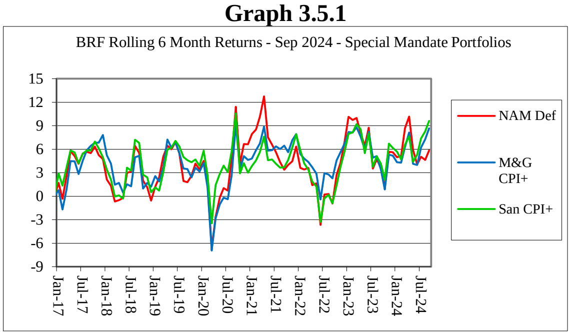
Graph 3.4.2

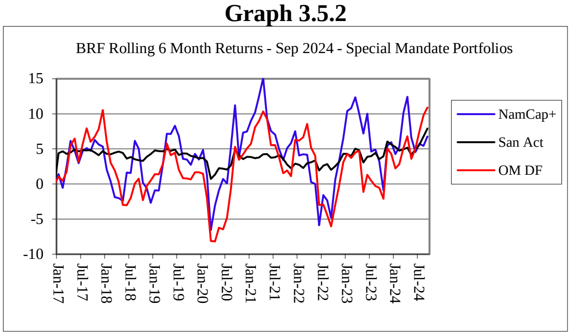


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

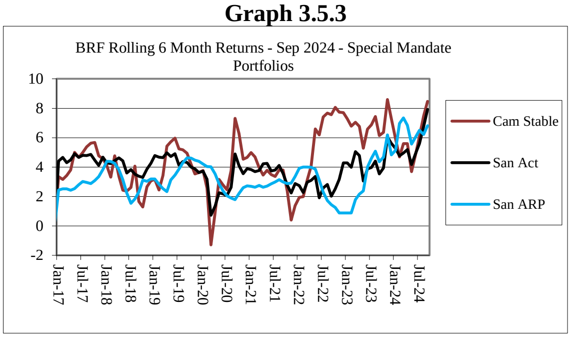
Graph 3.5.1



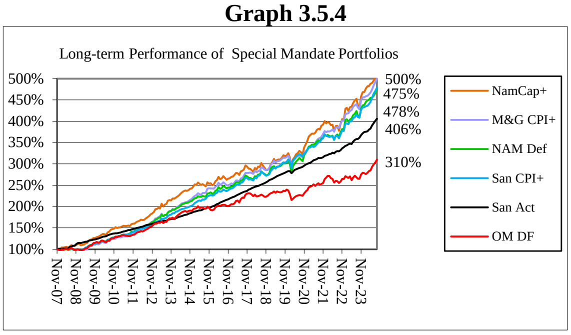
Graph 3.5.2



Graph 3.5.3

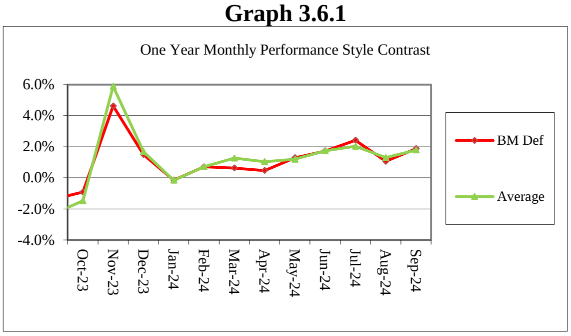


Graph 3.5.4

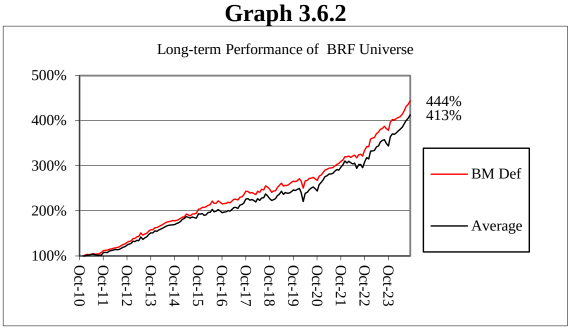


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

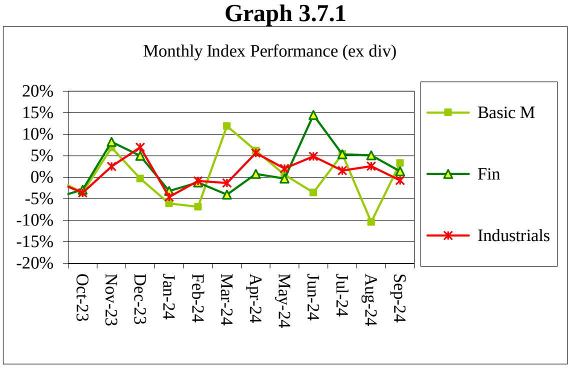


Graph 3.6.2



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

Graph 3.7.1



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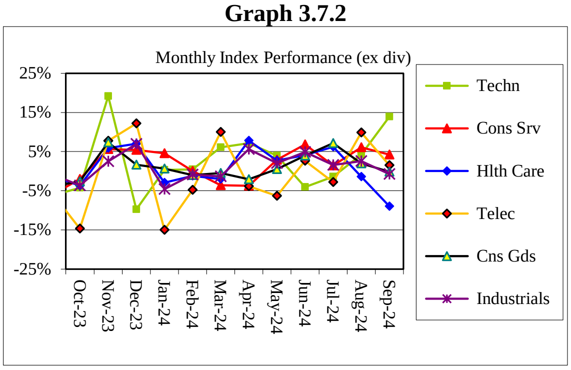
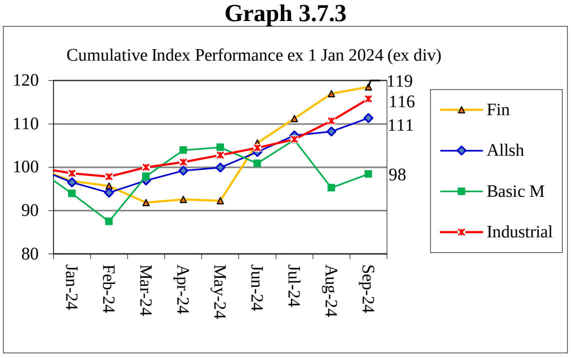
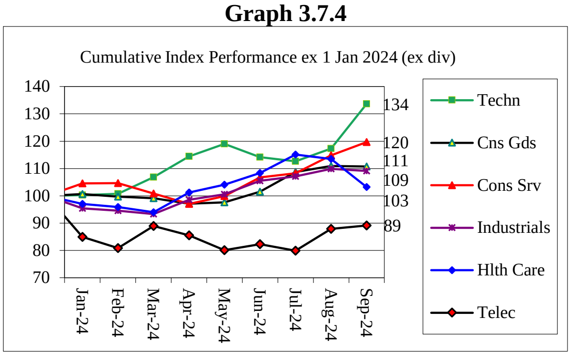
Graph 3.7.2



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.	11.0	11.2
5-year real return - % p.a.	6.5	6.7
Equity exposure - % of the portfolio (quarter ended June 2024)	52.2	66.0
Cumulative return ex Jan 2011	344.4	312.9
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 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 66% exposure.

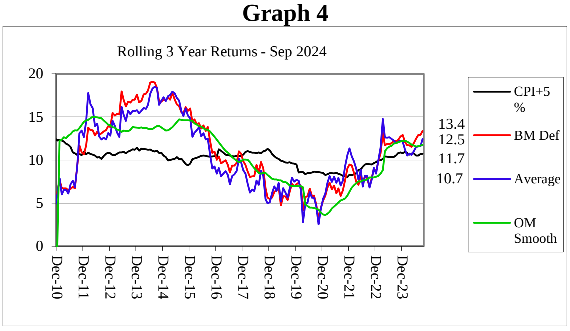
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	6.9%	6.8%
Best annual performance	7.6%	13.4%	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	6.1%	10.5%	10.6%

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 September 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 September was 13.4%, the average was 12.5% vs. CPI plus 5%, currently on 10.7%.

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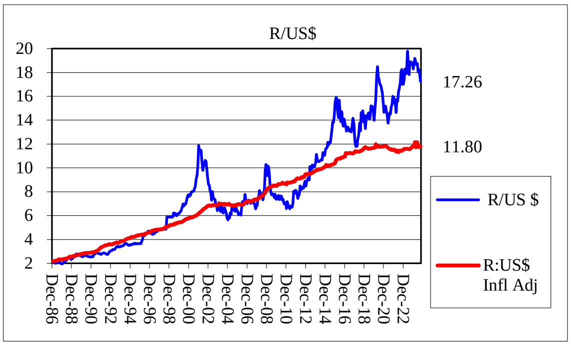
5. Review of Foreign Portfolio Flows and the Rand

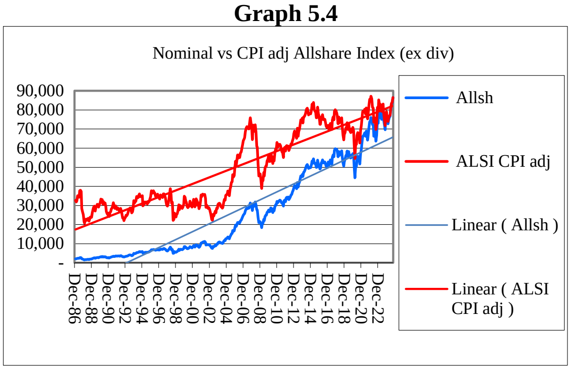
Graph 5.1 indicates that the Rand's fair value by our measure is 11.50 to the US Dollar, while it stood at 17.26 at the end of September. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

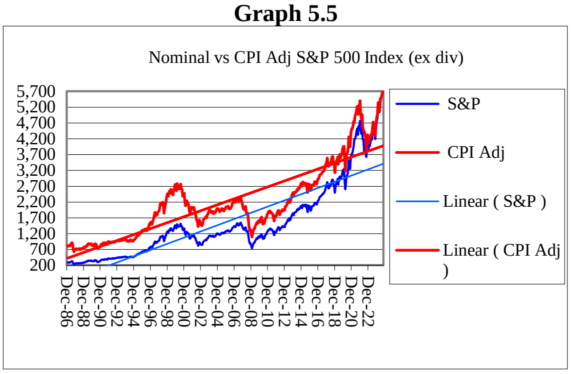
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.5% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.5% per year. It is equivalent to growth in real terms of 2.8% p.a. over this period, excluding dividends, or around 6.0%, including dividends.

Graph 5.4



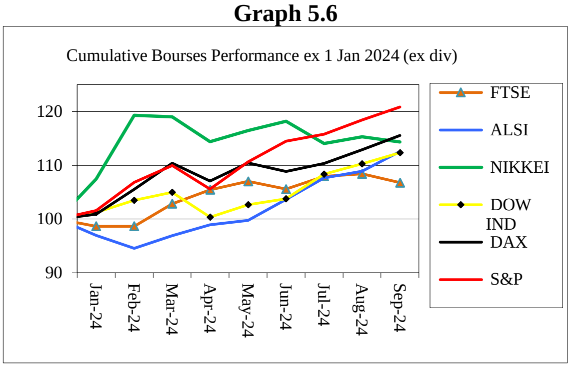
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 37 years since January 1987, the S&P500 Index grew by 8.4% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.4% p.a.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

Graph 5.5



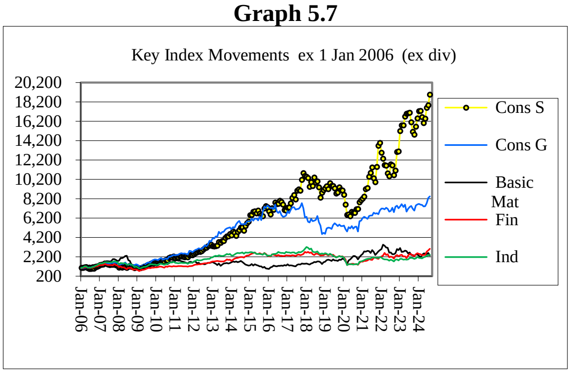
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the S&P as the top-performing index since the start of 2024.

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: 17.3%; Consumer Goods: 12.1%; Financials: 6.2%; Basic Materials: 4.8%; and Industrials: 4.8%.

Graph 5.7



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Registration No 25/7/7/489

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 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. Avoid a permanent loss, but be prepared to give up value

By Tilman Friedrich

If you own something you do not use, chances are you will lose – "use it or lose it" is a rugby rule. It applies to all spheres of life. No one can take what you use from you if we equate 'using' to 'consuming.

This wisdom also applies to your investments. Since you do not use your investments, chances are you will lose. This is not to say that you will permanently lose, but there will be times when you will lose. The best thing you can do is to be prepared for losing at times.

One also needs to distinguish between different types of losses, namely, temporary and permanent losses. You cannot recover a permanent loss as opposed to a temporary loss. To the analogy of a house: if you bought the house for N$ 1 million and the valuator now values the house at N$ 850,000, you made a temporary (or unrealised) loss. The market may pick up again in a year when the home may be worth more than N$ 1 million. However, if you sold the house for N$ 850,000, you made a permanent (or realised) loss. If you own shares in a company listed on the stock exchange and its price declines, it is only a temporary loss. However, it is a permanent loss if the company goes into liquidation (like Steinhoff)

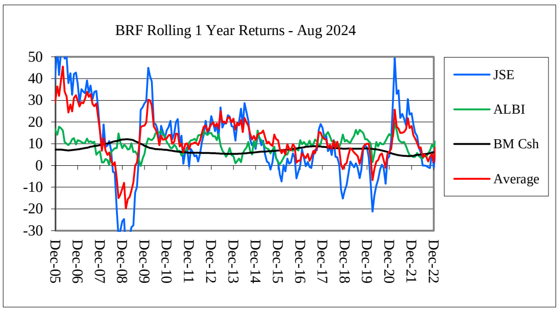
Since we are dealing with pension funds and personal investments, in terms of market conditions, we find ourselves in a situation where we feel we have been on a losing streak for quite some time. But how do you define loss in these circumstances? Is it a loss relative to inflation, or is it a loss relative to the returns one has seen in investment markets until the advent of the financial crisis (GFC) at the end of 2008? I suspect many investors are still clamouring for past returns of 20% and more. Important, however, should only be your real return, with inflation being your bottom line!

Where would you have invested had you anticipated developments in financial markets since the financial crisis? It was not too difficult to predict the impact of quantitative easing, the low interest rate environment, and the COVID-19 stimulus. Still, no one would have expected such a strong recovery for the four years since the GFC, followed by a flattening of financial markets afterwards.
What alternative investments could you possibly have made in anticipation of what was expected - property, life stock, vintage cars or other exotic objects? Well, test them one by one. Property in Namibia would not have been a good idea after the COVID-19 shock. Life stock in Namibia would have been a dull investment. Gold or any other exotic object? Try and sell them when you need money for consumption!

That leaves you with bonds, equity and cash. For an extended period from 2014 until 2016, cash outperformed equities on a rolling one-year basis, and it was pretty standard for investors to say, "I want to be in cash because its returns are, let's say, not worse than those of bonds and equity". So, with that argument, you are concerned about a loss of returns on equity and bonds relative to returns on cash. How about a loss relative to an above-inflation return, i.e. you are not achieving inflation plus 5% as the typical pension fund funding and benefit structures presuppose?

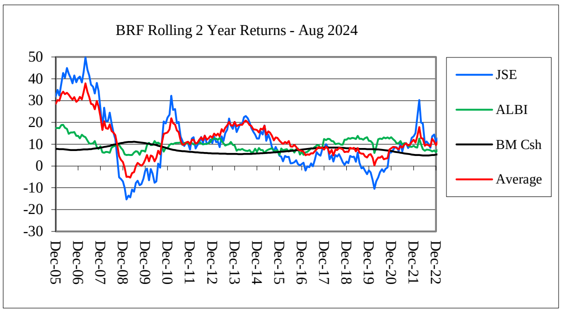
It is a common cause that cash is only for investments with a short-term horizon. Graph 6.1 reflects rolling one-year returns (short-term horizon) of the main asset classes where pension funds typically invest. You will note that cash depicted as the black line is around 7%. The cash interest rate responds to the prevailing inflation rate and should deliver about 1% above inflation in the long term. Compare this to the other asset classes and the average prudential balanced portfolio. You will notice that cash generates very smooth returns while the other lines are very volatile, moving between minus 30% and 50+% on a rolling one-year basis. If you add the number of months the different lines are below the black line, you should find that the other lines are more often above than below the black line.

Graph 6.1



In graph 6.2, I have extended the period measured to rolling two-year returns (still short-term horizon). Note how the volatility decreases to between minus 15% and 50%. Note also that generally, cash returns are lower than those of the other asset classes.

Graph 6.2



Finally, in graph 6.3, I have extended the period measured to rolling three-year returns (medium-term horizon). Note how the volatility decreases further to between minus 5% and 40%. Again, cash returns are mostly lower than those of the other asset classes.

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Benchmark Retirement Fund

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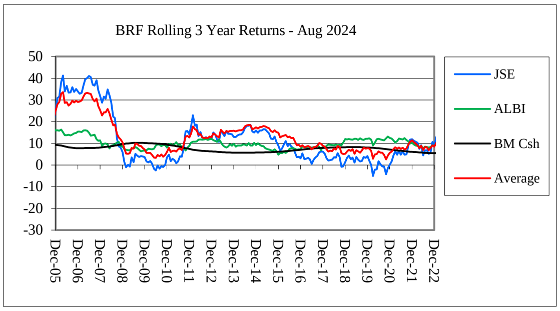
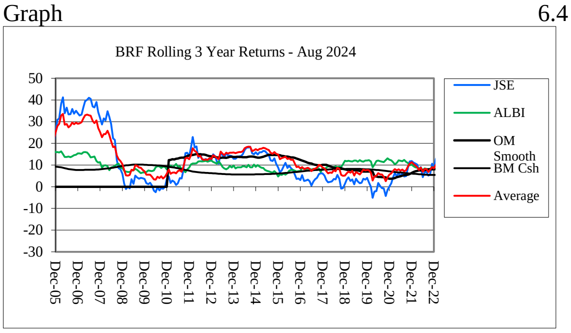
Graph 6.3



Some investors also believe that the smooth bonus portfolios can avoid the downs of investment markets. If you look at graph 6.4 and track the red line (average prudential balanced portfolio, against the dark black line (Old Mutual Smooth Bonus portfolio), you will note that they produce returns that are less volatile but very closely resembling those of the average prudential balanced portfolio. After all, they invest in the same assets as any conventional pension fund portfolio.

Graph 6.4



Conclusion:

Going by the above facts, there is nowhere to hide. The assets you do not use will expose you to the probability of losing. The other assets you use will give you the pleasure of their usage, but you do not know if you are losing or gaining.

It would be best if you tried to avoid a permanent loss of investment at all times but be prepared to give up value occasionally. How do you avoid a permanent loss? It requires you not to put all your eggs in one basket. Spread your investment across different asset classes, continents, and countries. But remember that we may face a global political disruption that may end in a new world order. Know what your investment horizon is and invest accordingly. If your investment horizon is longer than five years, this disruption should not be of great concern. The general investment principles are irrelevant if the investment horizon is shorter than five years, and one must hedge risks. I refer the reader to the previous newsletters on how to deal with the shorter term.

Have a strategy and stick to that, whether it means that you may not time the best moment for moving assets offshore or for buying into assets when it may not have been the ideal moment. You cannot time the market. As often as you may be right, you will be wrong!

On the back of the normalisation of global interest rates, we have seen a significant recovery in equity markets. I believe that the US Fed rate should decline by another 1% above any change in the US inflation rate. The expected 1% decline will provide more impetus to equity markets. These movements are likely to happen in the next five years. The opportunity for growth in equity markets must be weighed against the threat of a global political disruption.

If you have to live off your investments, you must adapt your cost of living to the returns your investments realise, i.e. the net rental income, net dividends and net interest earned. When in a pooled investment vehicle, you should work on a net return of between 4% and 5%.