Volume 20, No. 10
October 2024

Benchmark Retirement Fund

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

Administered by RFS Fund Administrators

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 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 October 2024, the average prudential balanced portfolio returned -0.2% (September 2024: 1.8%). The top performer is NAM Coronation Balanced Plus Fund, with 0.1%, while Allan Gray Namibia Balanced Fund, with -0.5%, takes the bottom spot. NAM Coronation Balanced Plus Fund took the top spot for the three months, outperforming the ‘average’ by roughly 1.7%. Allan Gray Namibia Balanced Fund underperformed the ‘average’ by 2.0% 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.)

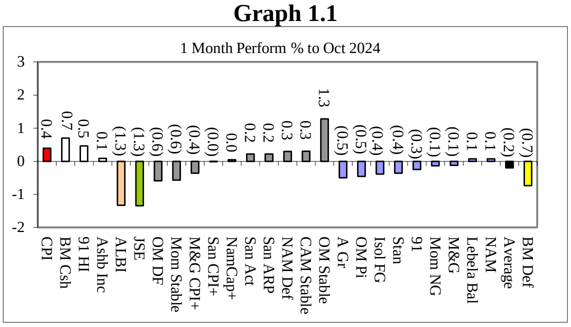
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), ‘special mandate portfolios’ with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced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

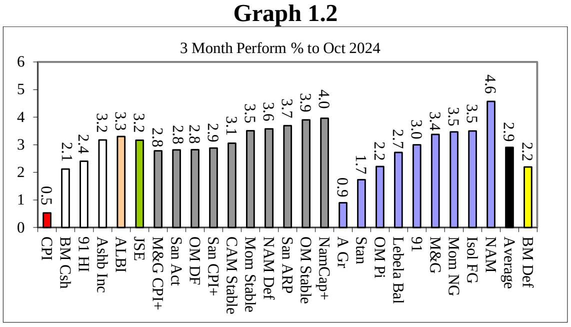
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
NinetyOne High Income (interest-bearing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

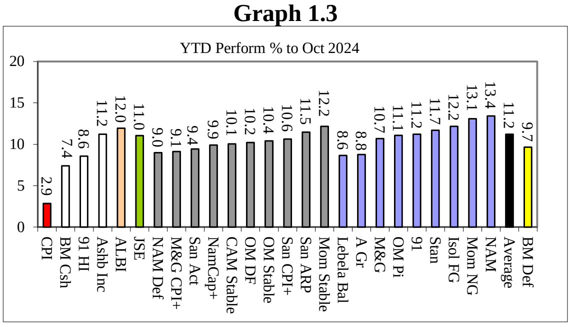
Graph 1.1



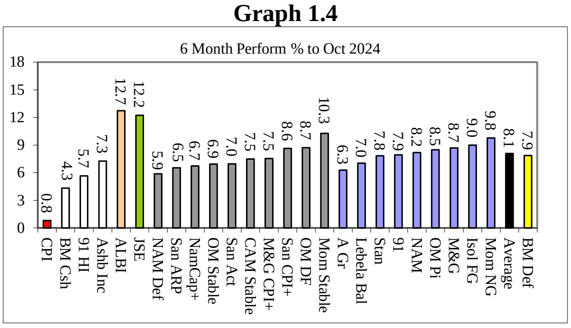
Graph 1.2



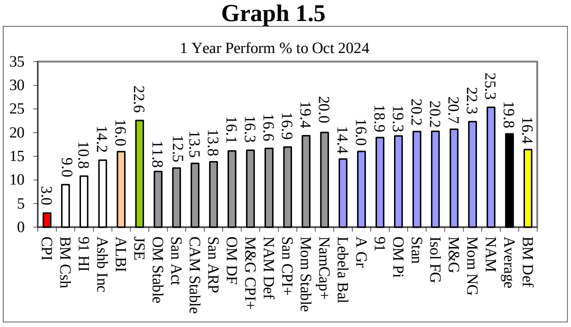
Graph 1.3



Graph 1.4



Graph 1.5



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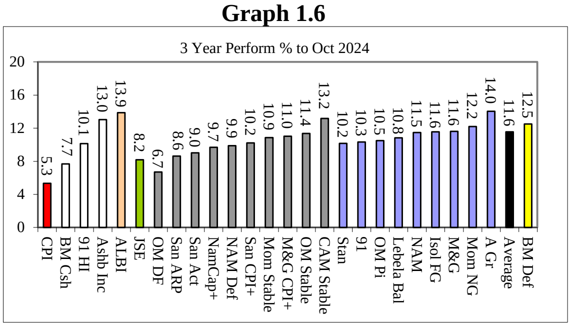
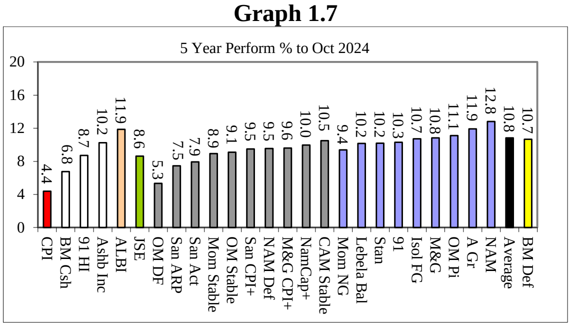
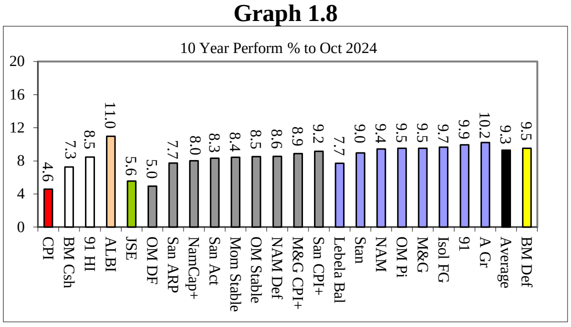
Graph 1.6



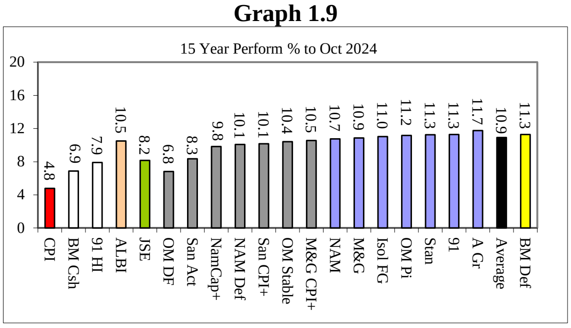
Graph 1.7



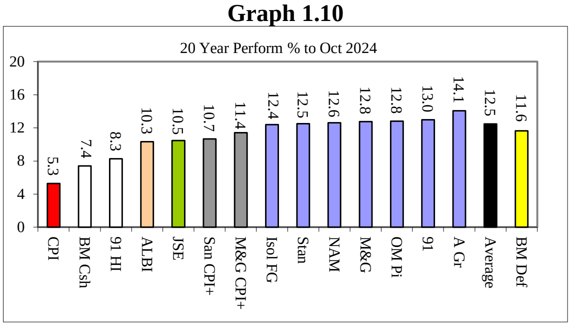
Graph 1.8



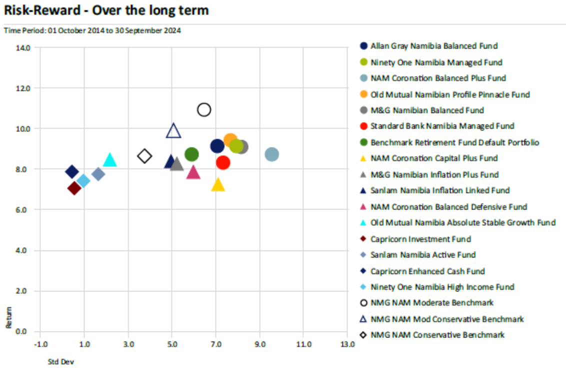
Graph 1.9

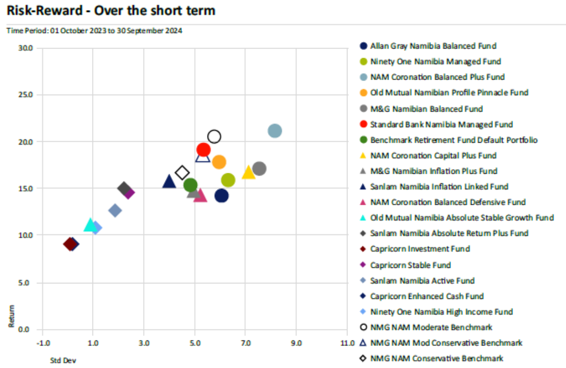


Graph 1.10



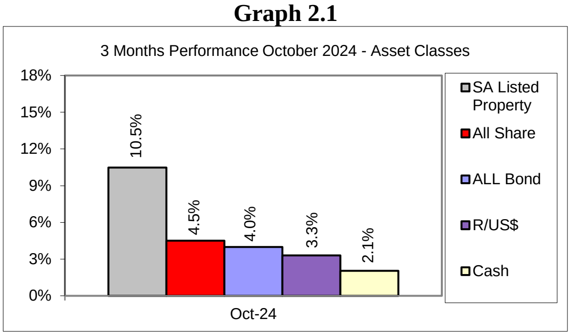
Risk/ Return



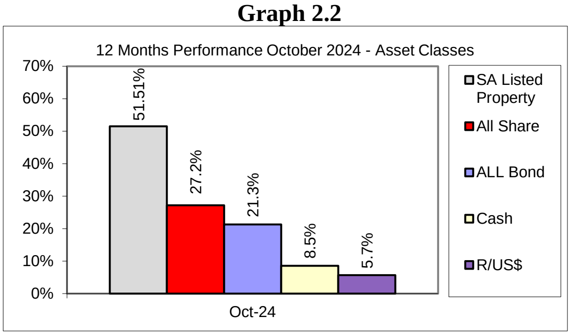


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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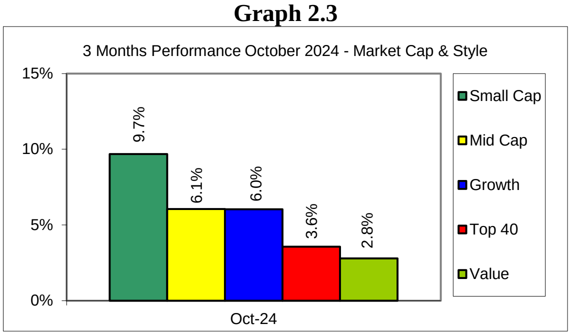
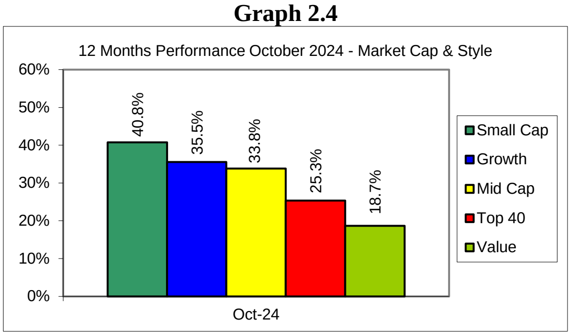
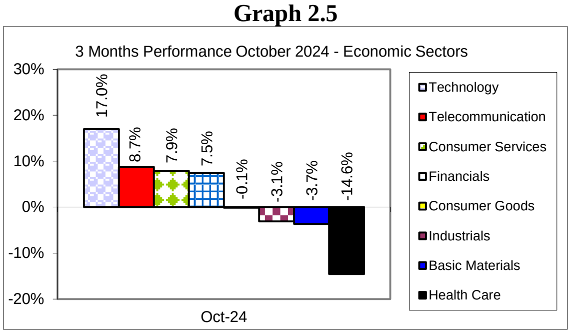
Graph 2.3



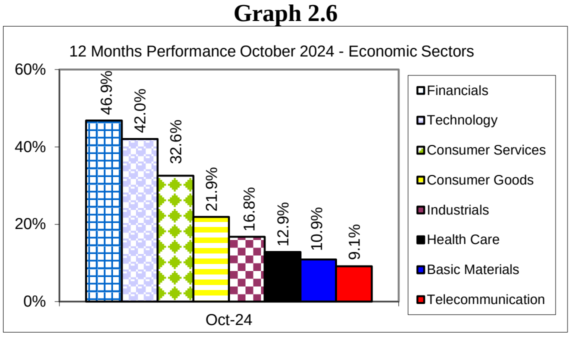
Graph 2.4



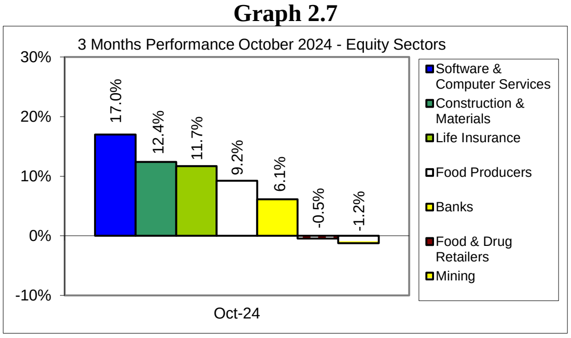
Graph 2.5



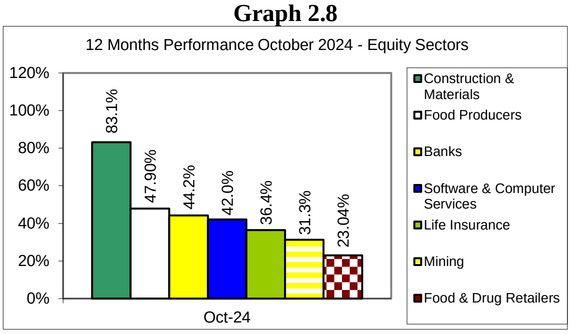
Graph 2.6



Graph 2.7



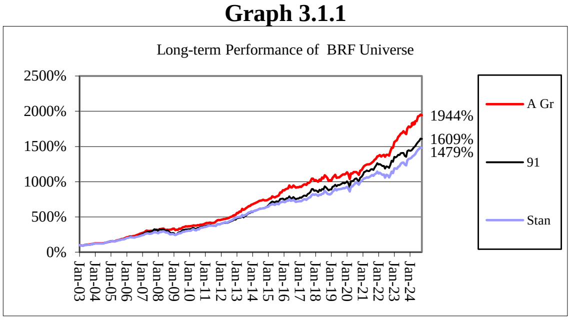
Graph 2.8



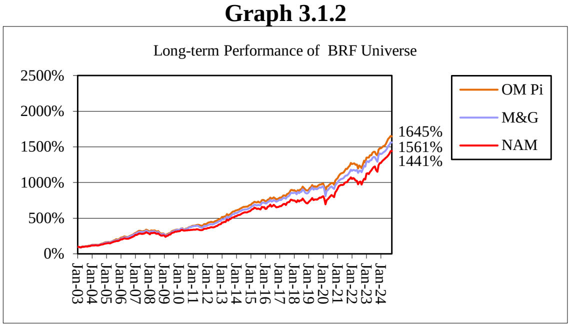
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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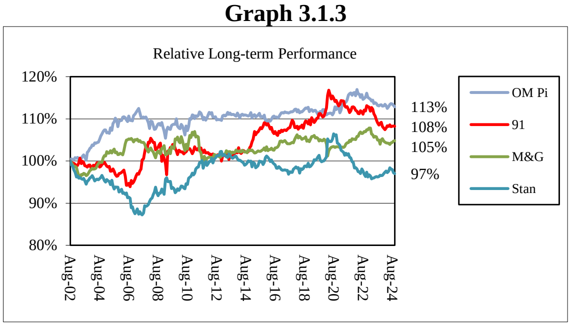
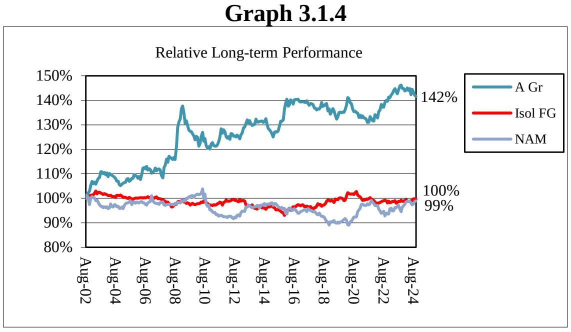
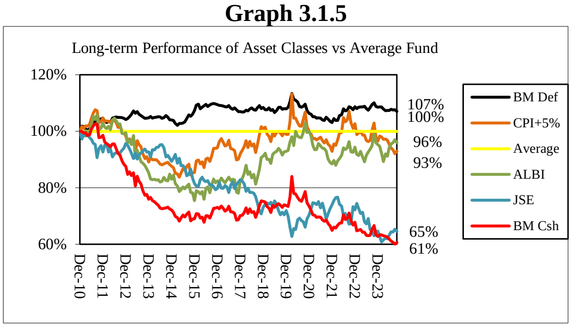
Graph 3.1.3



Graph 3.1.4

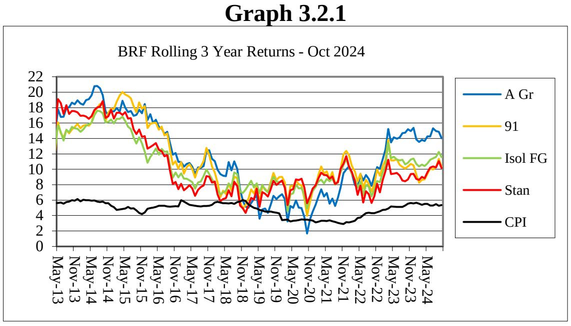


Graph 3.1.5

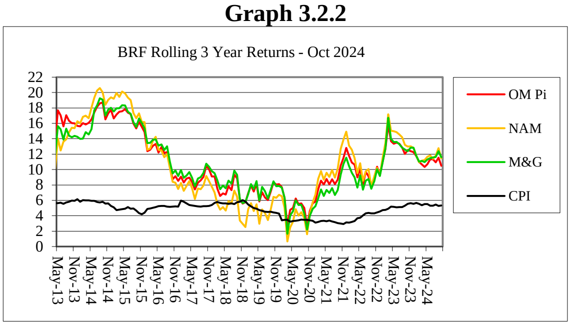


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

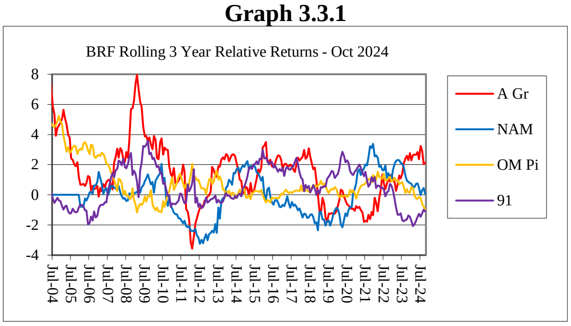


Graph 3.2.2

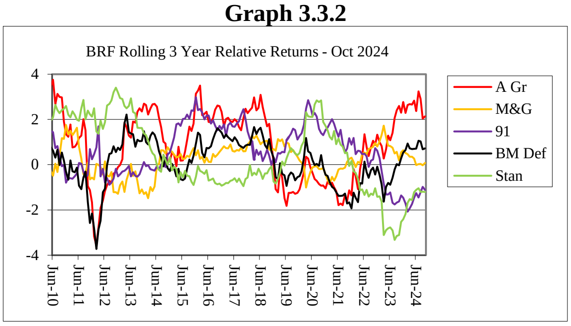


3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

Graph 3.3.1

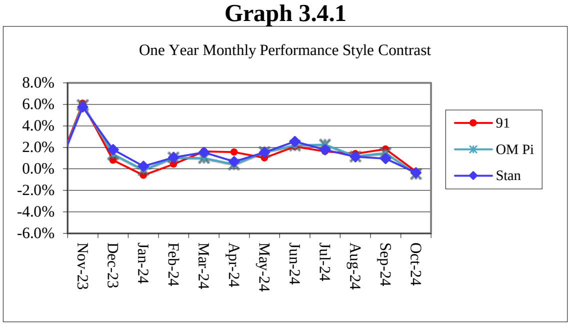


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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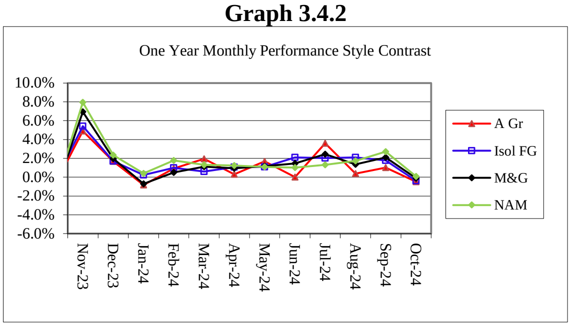
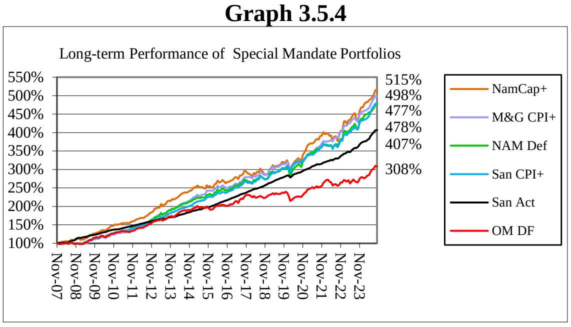
Graph 3.4.2

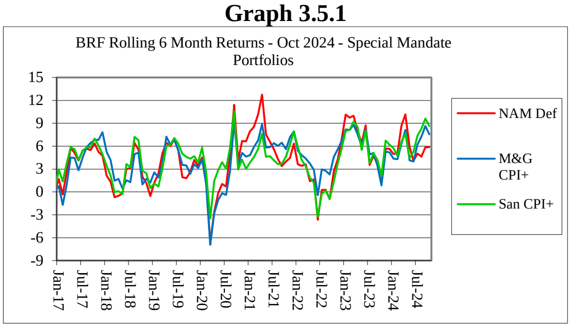


Graph 3.5.4

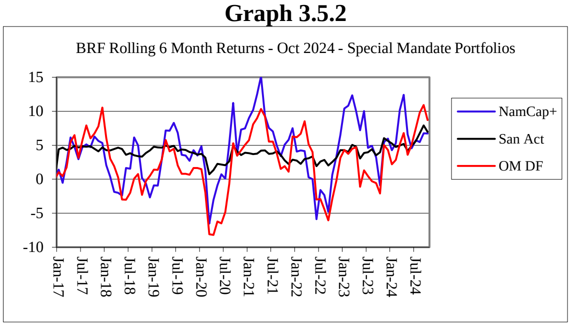


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

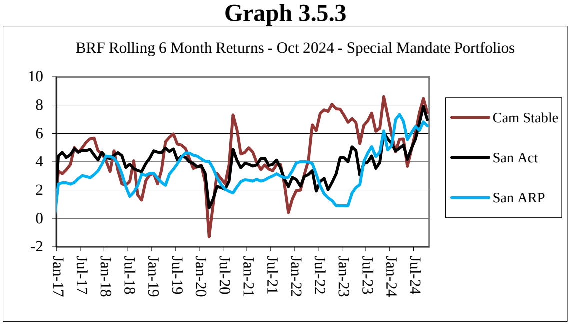
Graph 3.5.1



Graph 3.5.2

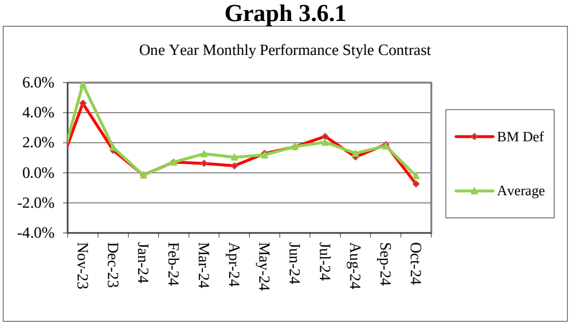


Graph 3.5.3

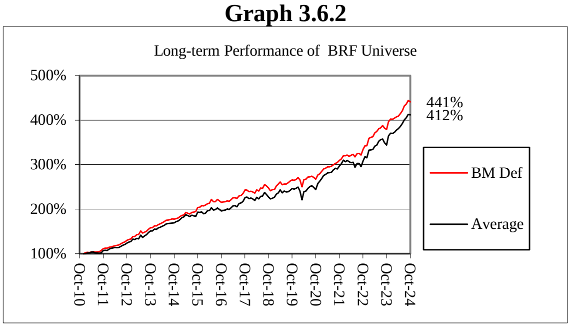


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

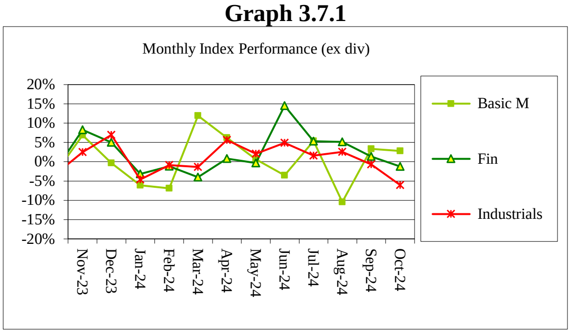


Graph 3.6.2



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

Graph 3.7.1



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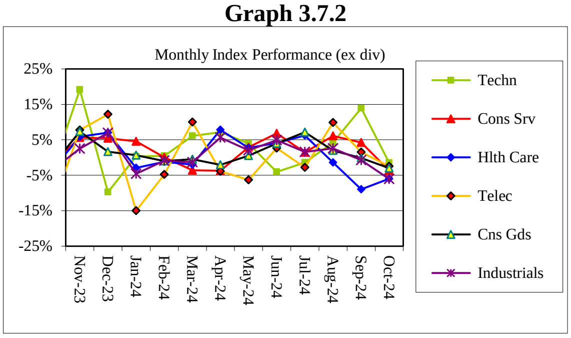
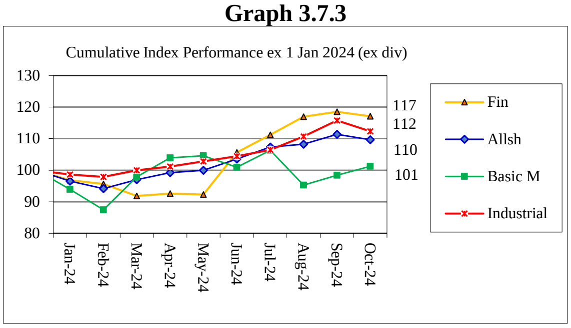
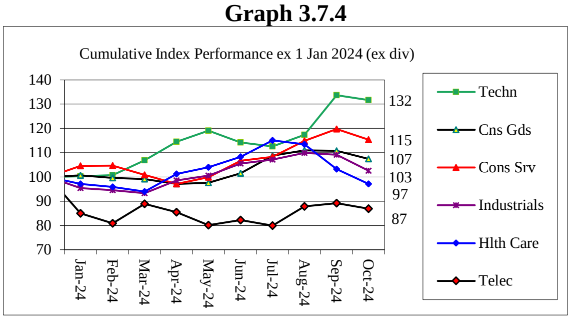
Graph 3.7.2



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.	10.7	10.8
5-year real return - % p.a.	6.3	6.4
Equity exposure - % of the portfolio (quarter ended Sept 2024)	51.3	66.0
Cumulative return ex Jan 2011	346.9	322.1
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.

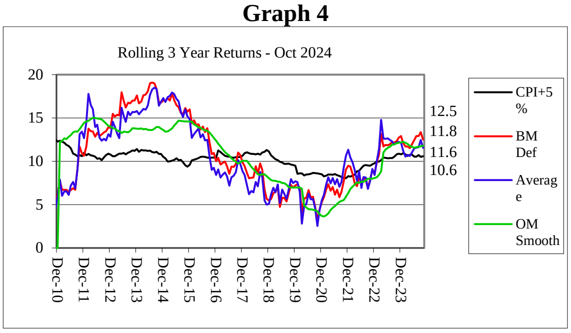
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	6.9%	6.8%
Best annual performance	7.7%	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%	10.6%	10.6%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from October 2021 to October 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 October was 12.5%, the average was 11.6% vs. CPI plus 5%, currently on 10.3%.

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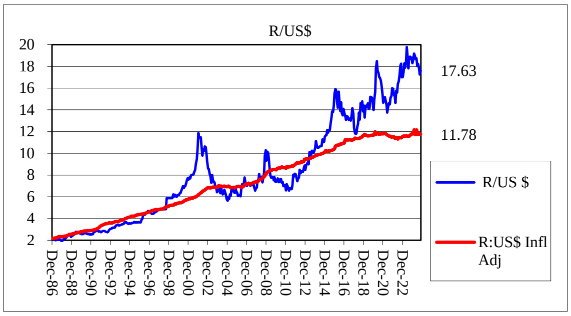
5. Review of Foreign Portfolio Flows and the Rand

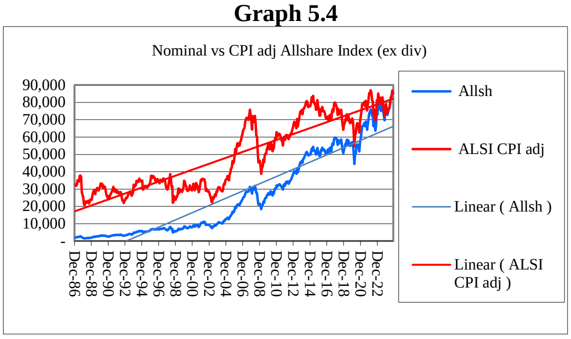
Graph 5.1 indicates that the Rand's fair value by our measure is 11.78 to the US Dollar, while it stood at 17.63 at the end of October. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

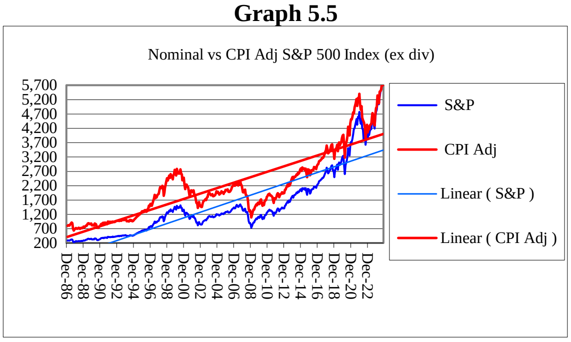
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.5% per year. It is equivalent to growth in real terms of 2.9% p.a. over this period, excluding dividends, or around 6.1%, including dividends.

Graph 5.4



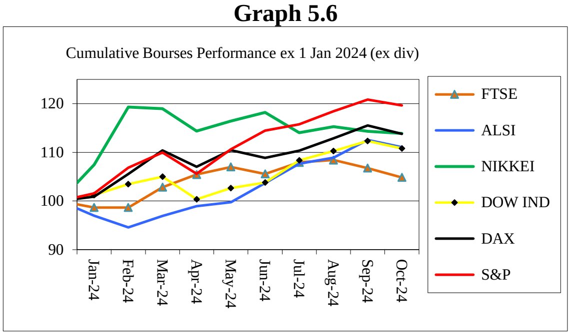
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 37 years since January 1987, the S&P500 Index grew by 8.3% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.5% p.a. over 37 years, excluding dividends, or around 7.6% (including dividends).

Graph 5.5



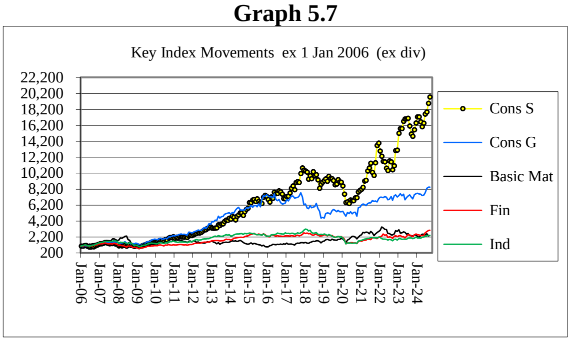
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the S&P as the top-performing index since the start of 2024.

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: 16.9%; Consumer Goods: 11.8%; Financials: 6.0%; Basic Materials: 4.9%; and Industrials: 4.4%.

Graph 5.7



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Administered by RFS Fund Administrators

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 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. A guide for investors through uncertain times

By Tilman Friedrich

When you live in Namibia, the biggest portion of your wealth is invariably in Namibia, a bit in South Africa, and the balance is likely in the traditional offshore investment markets. If you have liquid capital you want to invest, you should be concerned about a major confrontation looming between the 'global West' and the 'global East' as evidenced by the war in Ukraine and the conflict in the Middle East. Should it come to a global conflict between the West and the East, your offshore capital will become inaccessible because of capital controls. Your offshore investment could also face severe impairment from war causes, for being invested in countries that are a party to the global conflict.

Hopefully, southern African countries will not become parties to the global conflict which will likely happen in the next five years. It would conceivably carry on for about five years. The outcome would be -

1. a stalemate between the parties resulting in the establishment of a more balanced new world order not dominated by the US, while global multilateral institutions such as the UN, the IMF and the World Bank would emancipate from the US hegemony;
2. the global West and the US hegemony prevail and would more forcefully impose the capitalist system and the US hegemony on the rest of the world.
3. the global East prevails and would forcefully impose its economic interest on the rest of the world, implying a new global economic order being established over many years as the existing global multilateral institutions would be restructured and re-orientated.

Given the current geopolitical landscape, approaching one's investments focusing on regional stability, defensive asset classes, and sectors that may remain resilient is prudent. The following guideline is aimed at assisting the investor to consider positioning their capital across regions, asset classes, and sectors.

1. Regional Allocation

- **Southern Africa**: Given the stability of southern African countries and the expectation that they might not become directly involved in global conflicts, Namibia and South Africa present an opportunity to concentrate investments domestically and regionally. Diversifying beyond local assets within stable sectors is critical for managing local economic and currency risks.
- **Non-aligned Emerging Markets**: Countries not expected to engage directly in a potential global conflict, particularly those in Southeast Asia (e.g., Malaysia, Singapore, Indonesia, Vietnam) and Latin America (e.g., Brazil, Chile, Mexico), could be good alternatives for preserving capital. These countries often have robust natural resource sectors and growing consumer markets that can sustain value and even grow amid broader global disruptions.
- **China and Allied Eastern Nations**: If you consider the possibility of a new global order with China playing a more significant role, selective exposure to sectors in China and allied nations may provide growth potential. However, direct investments should be made cautiously due to potential political and market instability in times of conflict.
- **US and Europe**: While these regions offer strong economies, they may face heightened volatility and capital restrictions in a conflict scenario, as you mentioned. Therefore, you could focus on defensive sectors within these regions while keeping allocations to a minimum or using alternative methods such as asset-backed securities, which we'll explore later.

2. Asset Classes

- **Real Assets (Real Estate, Infrastructure)**: Real assets, particularly real estate and infrastructure, often perform well in inflationary or volatile environments. Within Namibia and South Africa, you may consider commercial real estate or land investments that align with long-term development needs. Internationally, investing in emerging market infrastructure projects in non-aligned regions could benefit from ongoing industrialization efforts, though they should be evaluated based on their regulatory environment and risk profile.
- **Commodities and Natural Resources**: Commodities, especially essential minerals and metals, often act as a safe haven in conflict situations. Given South Africa's and Namibia's rich resources, you might look into mining equities and even direct commodity exposure. Additionally, agricultural investments or agribusinesses in stable regions could be resilient as global demand for food security persists.
- **Gold and Precious Metals**: Gold remains a traditional hedge against political uncertainty and economic instability. Allocating a portion of your liquid capital to physical gold or gold-related securities provides protection if the dollar weakens or capital controls affect other assets.
- **Defensive Equities**: Consider equities within sectors that tend to perform better in turbulent times—these are often consumer staples, utilities, and healthcare. This approach is feasible within the southern African market and can be extended to non-aligned countries with large, stable companies, providing a sense of security in your investment choices.
- **Cash and Cash Equivalents in Diverse Currencies**: Holding a portion of your liquid

capital in stable currencies such as the Swiss franc, Singapore dollar, or select Scandinavian currencies may be beneficial. These countries are typically considered neutral or minimally impacted by global conflicts, potentially preserving the value of your holdings.

3. Sector-Specific Considerations

- **Resource and Mineral-Based Sectors**: Namibia and South Africa are rich in essential minerals, such as uranium, diamonds, and precious metals. Critical minerals and materials will likely maintain high demand in a global conflict as nations prioritise self-reliance for technology, defence, and infrastructure needs. Carefully selected resource investments may offer both growth and stability.
- **Agriculture and Food Security**: Agriculture and food production are essential in any geopolitical climate. Regions where agricultural investments are accessible and profitable, such as parts of southern Africa and Latin America, could provide opportunities for stable returns. Consider sectors tied to sustainable farming, as they could benefit from increased focus on food security.
- **Energy, Particularly Renewable Energy**: Energy remains a fundamental need, but geopolitical tensions might shift demand between fossil fuels and renewables. Renewable energy in politically neutral or stable countries could offer solid long-term returns, particularly as global energy dynamics shift. In South Africa, investing in solar or wind energy projects aligns with broader goals of diversifying away from coal.
- **Healthcare**: Healthcare is another resilient sector with long-term growth potential. Demand for health services and products remains relatively inelastic even amid conflict. Local investment in southern Africa's healthcare sector, or indirect investments through stable international firms with operations in non-aligned regions, could be worth considering.
- **Defensive Technology (Cybersecurity, Data Infrastructure)**: With global tensions rising, cybersecurity and data management are critical, especially for countries looking to protect domestic information systems from foreign influence. Investments in companies providing these services, especially in emerging markets or non-aligned nations, could offer solid returns as global demand for secure technology infrastructure rises.

4. Investment Structures and Instruments

- **Private Equity and Venture Capital**: While these may seem riskier, private equity in sectors like agriculture, renewable energy, or healthcare within southern Africa or non-aligned emerging markets can provide returns uncorrelated with global public markets. Private equity offers the added benefit of direct ownership, insulating you from potential capital controls on publicly traded assets.
- **Alternative Investments (Commodities, Precious Metals, Cryptocurrencies)**: In addition to physical commodities, alternative investments such as cryptocurrencies could provide liquidity options if capital controls are implemented globally. While cryptocurrencies carry high volatility and risk, a small, carefully managed allocation in non-major currencies might provide useful diversification.
- **Multi-currency Bonds or Currency Hedged ETFs**: Bonds issued in stable currencies by governments of non-aligned countries may offer security against significant global shifts in interest rates. Additionally, currency-hedged ETFs can provide international exposure while limiting currency risks, particularly if you seek growth in emerging markets without direct exposure to volatile currencies.

5. Considerations for Risk Mitigation

- **Adopt a Defensive Stance**: By balancing defensive equities with fixed-income and tangible assets, you can create a portfolio to weather geopolitical and economic storms. Consider lower-volatility strategies and investments with higher liquidity within Namibia and South Africa.
- **Asset Liquidity and Accessibility**: Ensure some assets are highly liquid or accessible even in volatile times. This could mean having a percentage of your portfolio in cash, local bonds, or liquid ETFs.
- **Diversification**: Geographical and sector diversification is essential in mitigating risk. By strategically distributing assets across regions unlikely to be directly involved in the conflict, you limit exposure to any one region's policies or market conditions.
- **Scenario Planning**: Prepare for possible outcomes like a stalemate, West-prevailing capitalism, or East-dominated economic restructuring. Each would uniquely affect different sectors and regions, so identifying how various components of your portfolio might react under each scenario can offer additional insight into allocation strategies.

Conclusion

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In today's unpredictable environment, combining a defensive core with selective growth exposures is prudent. Aligning investments with your view of potential global outcomes will help shape a resilient portfolio. Consider consulting local and international investment advisors who understand the nuances of Namibian markets, the southern African economy, and emerging non-aligned countries to refine this approach, tailoring it to evolving geopolitical and economic landscapes.