Volume 20, No. 11
November 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 NOVEMBER 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 November 2024, the average prudential balanced portfolio returned 1.8% (October 2024: -0.2%). The top performer is NAM Coronation Balanced Plus Fund, with 3.3%, while Momentum Namibia Growth Fund, with 0.8%, takes the bottom spot. NAM Coronation Balanced Plus Fund took the top spot for the three months, outperforming the 'average' by roughly 2.8%. 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.)

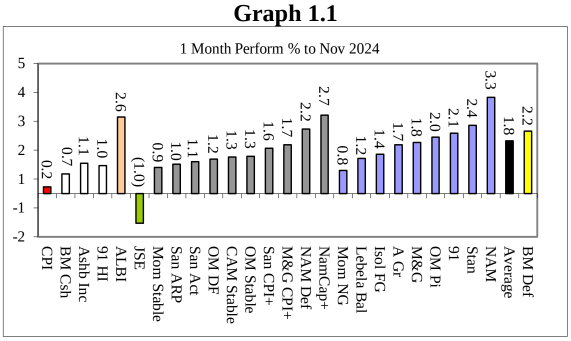
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced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

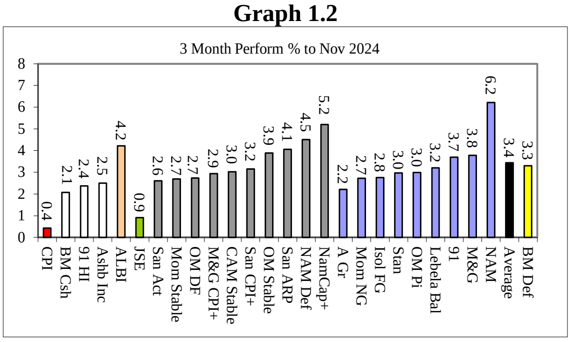
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
NinetyOne High Income (interest-bearing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

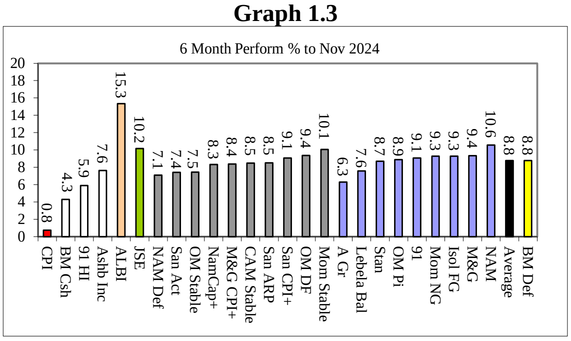
Graph 1.1



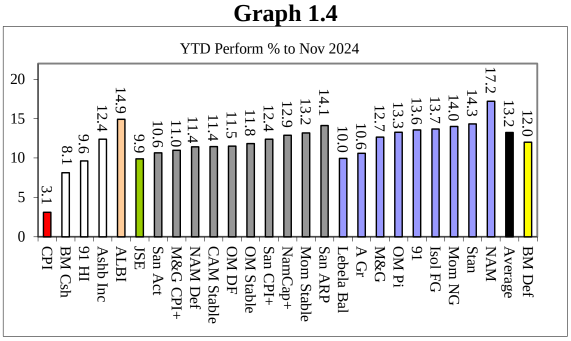
Graph 1.2



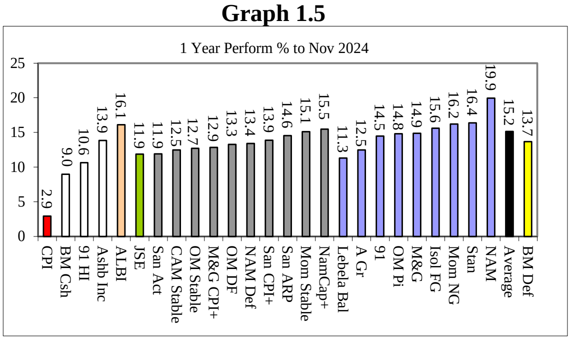
Graph 1.3



Graph 1.4



Graph 1.5



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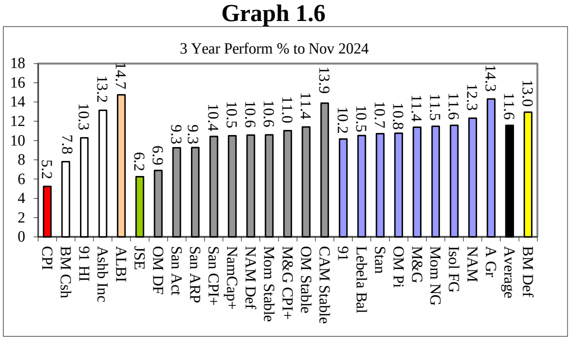
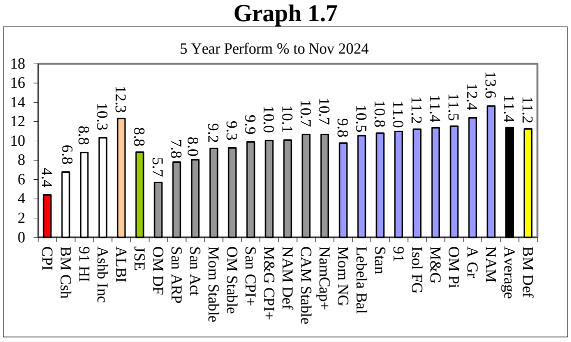
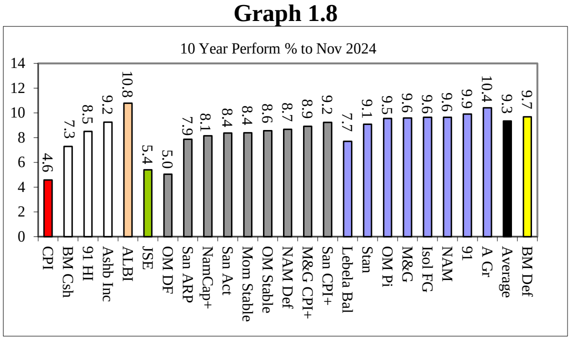
Graph 1.6



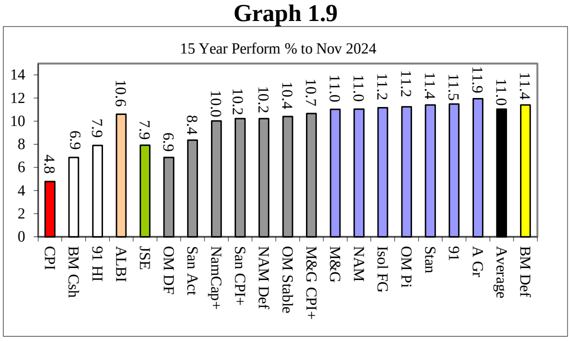
Graph 1.7



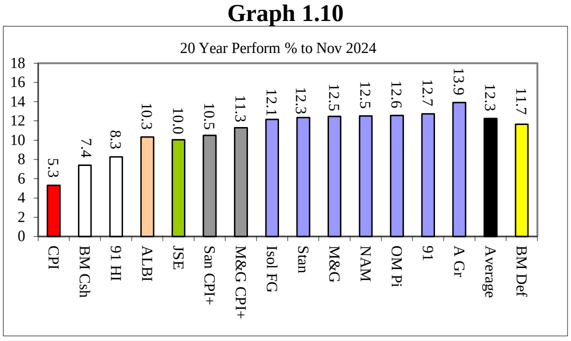
Graph 1.8



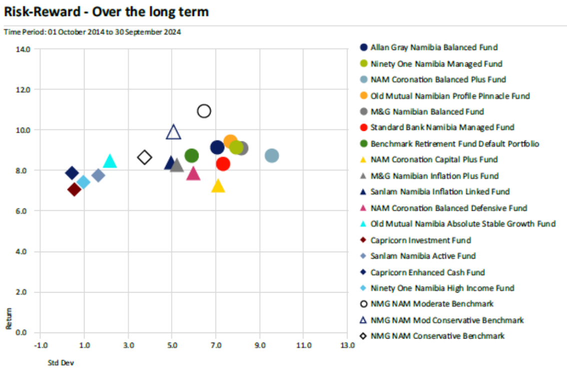
Graph 1.9

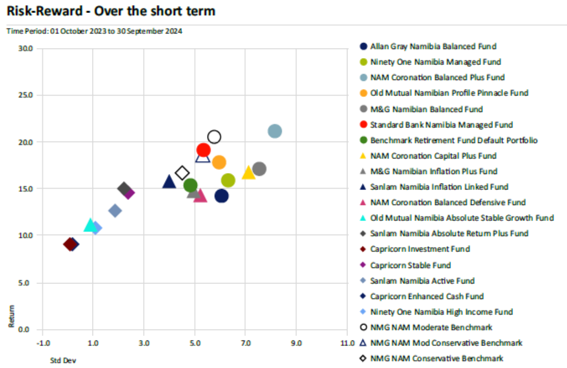


Graph 1.10



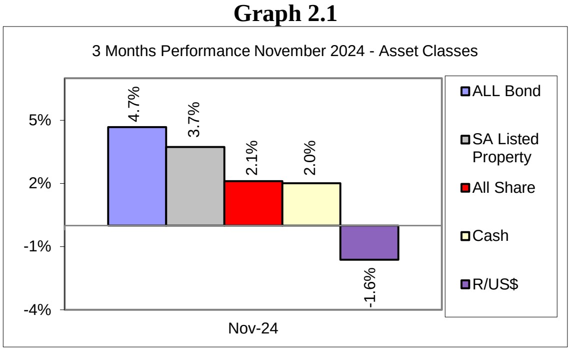
Risk/ Return



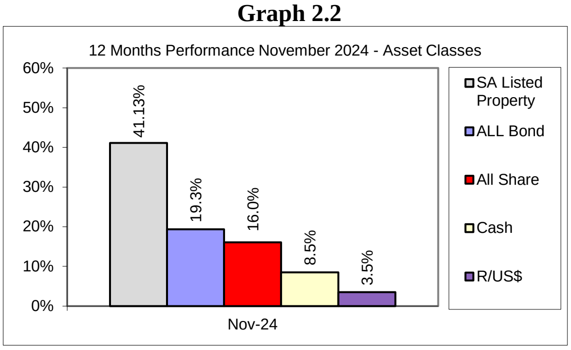


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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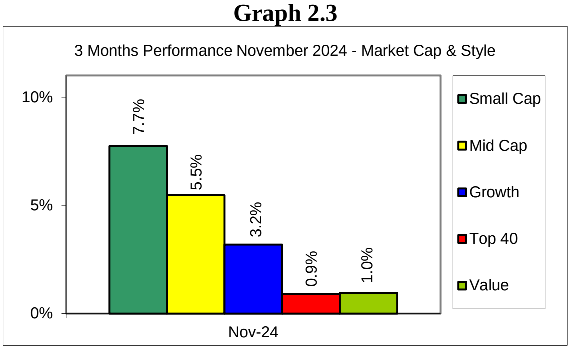
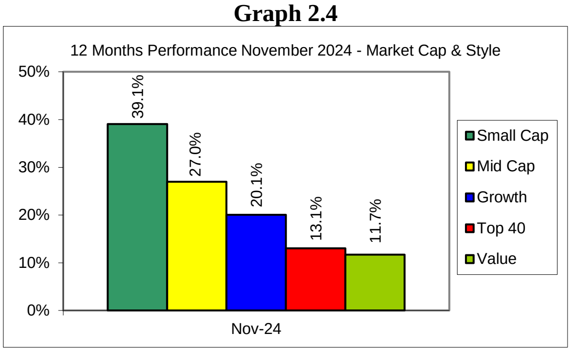
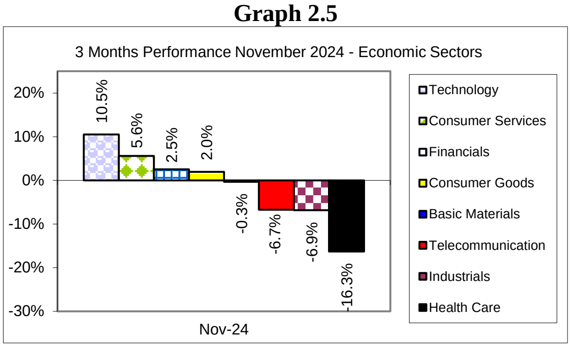
Graph 2.3



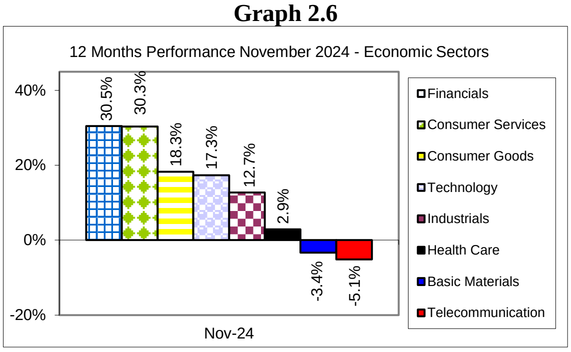
Graph 2.4



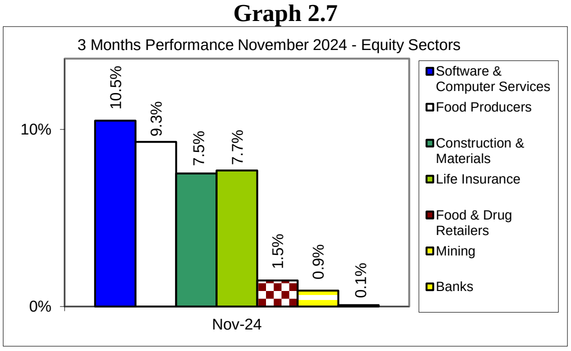
Graph 2.5



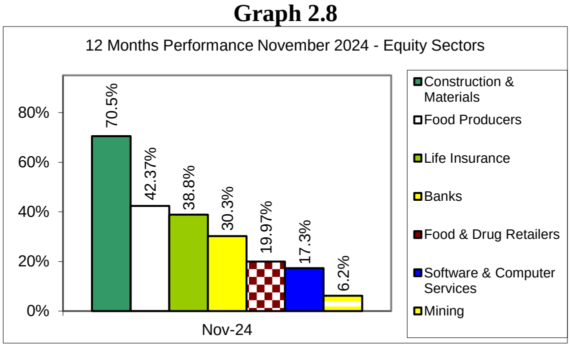
Graph 2.6



Graph 2.7



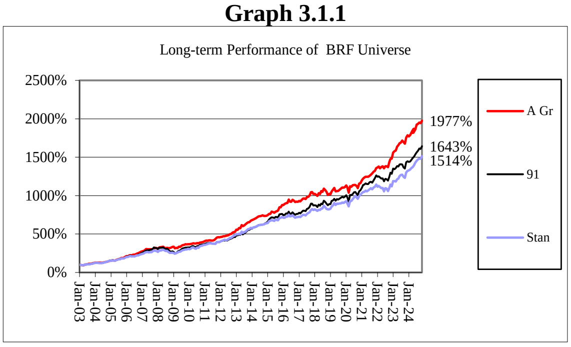
Graph 2.8



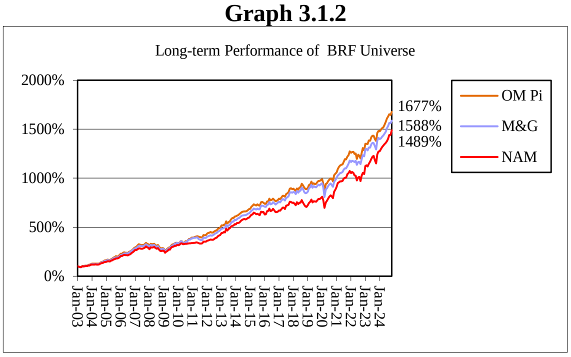
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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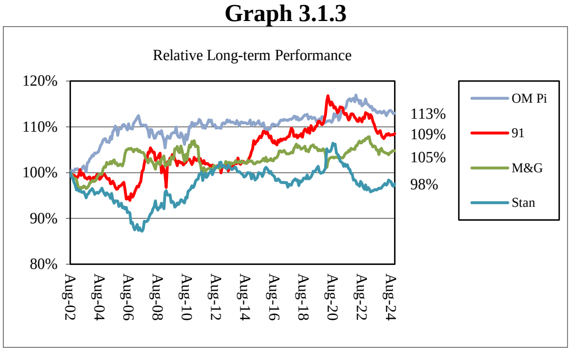
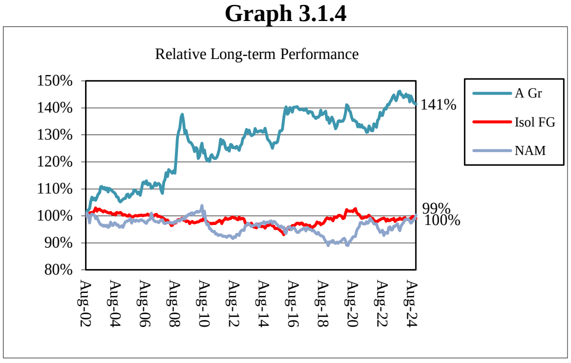
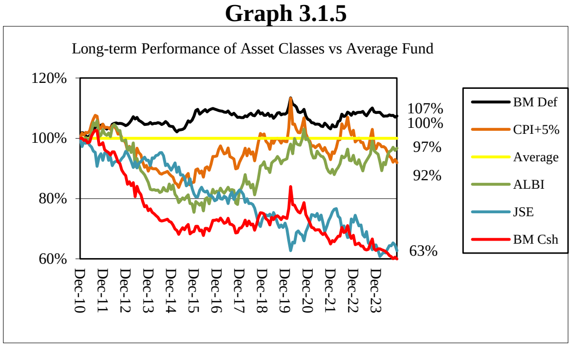
Graph 3.1.3



Graph 3.1.4

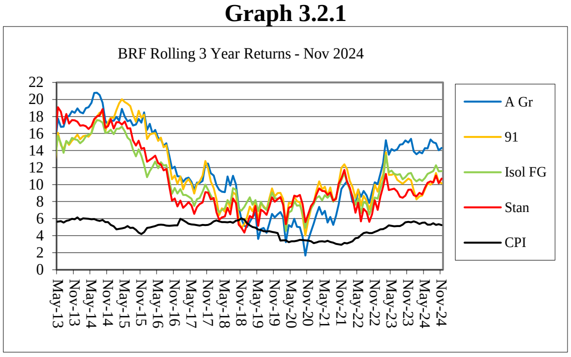


Graph 3.1.5

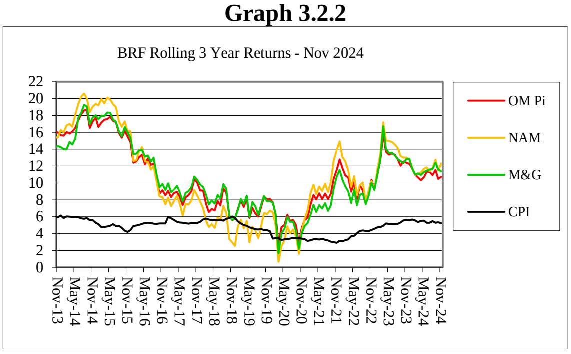


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

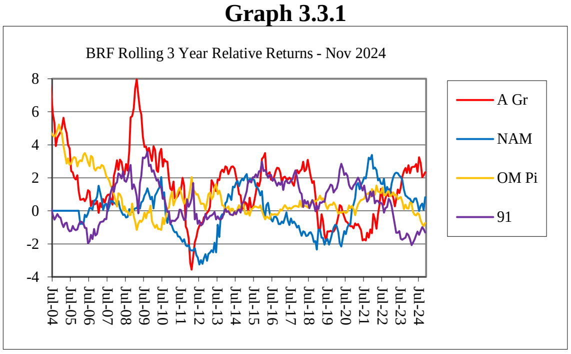


Graph 3.2.2

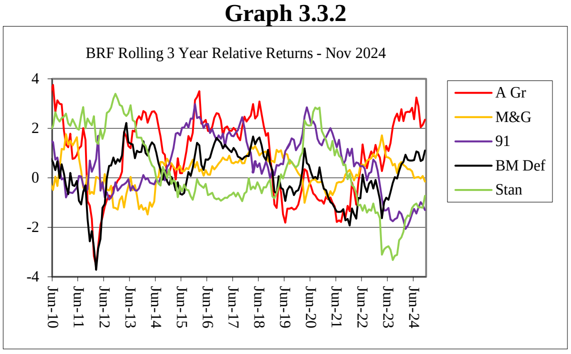


3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

Graph 3.3.1

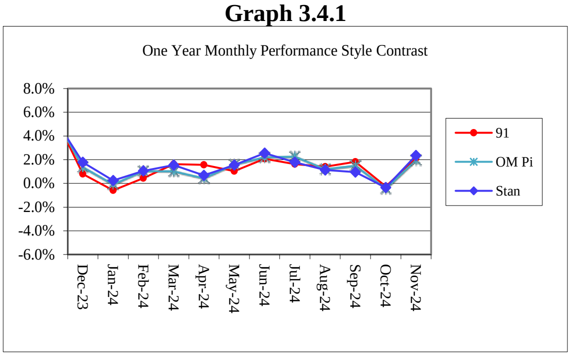


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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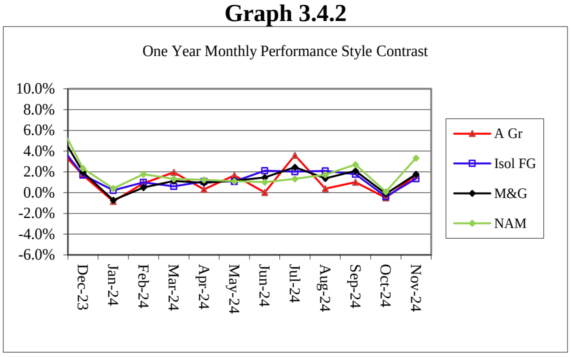
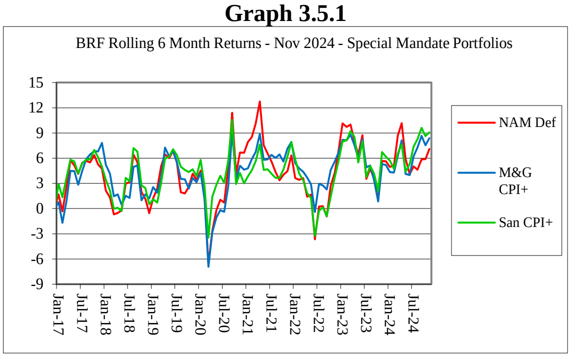
Graph 3.4.2

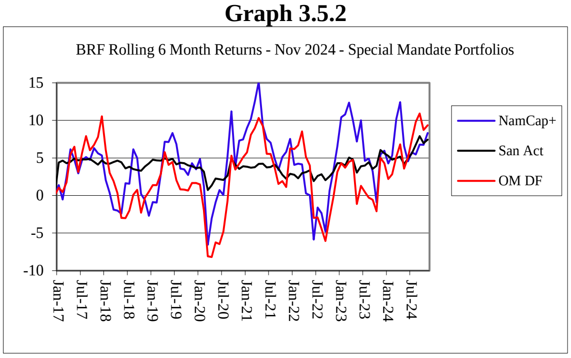


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

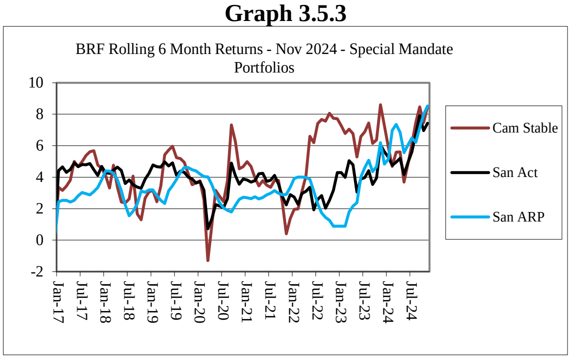
Graph 3.5.1



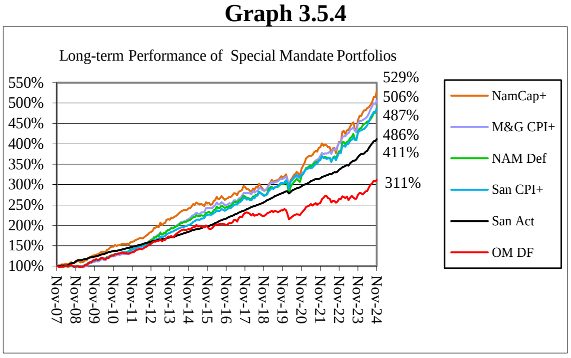
Graph 3.5.2



Graph 3.5.3

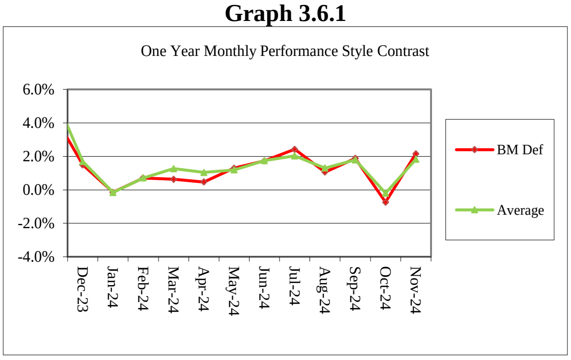


Graph 3.5.4

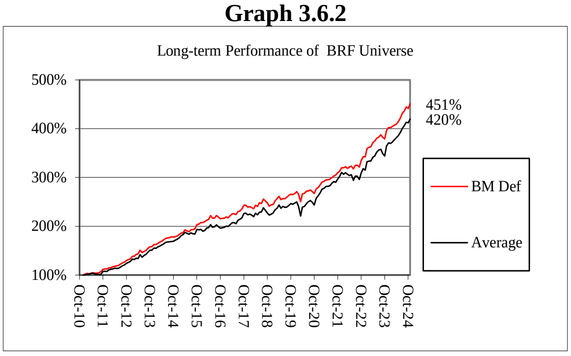


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

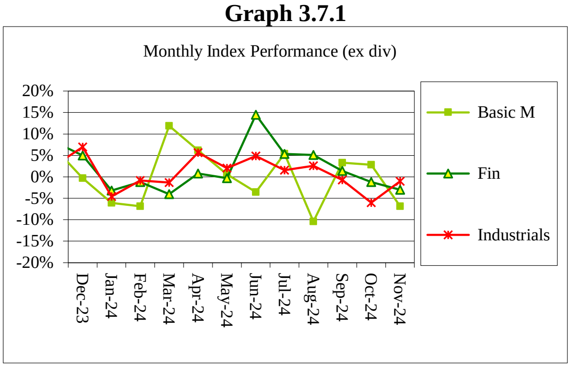


Graph 3.6.2



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

Graph 3.7.1



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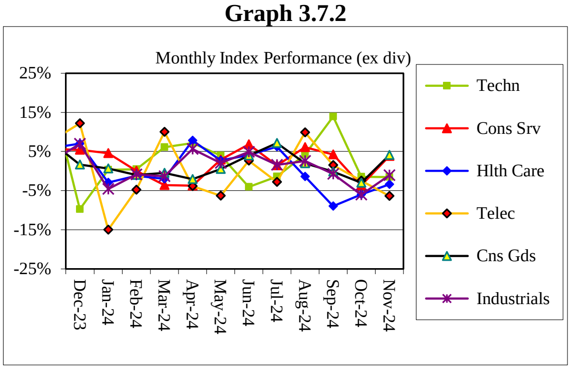
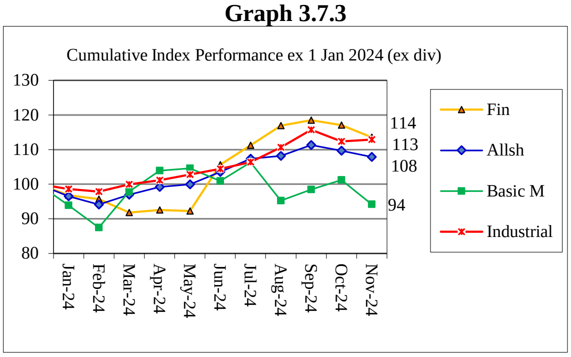
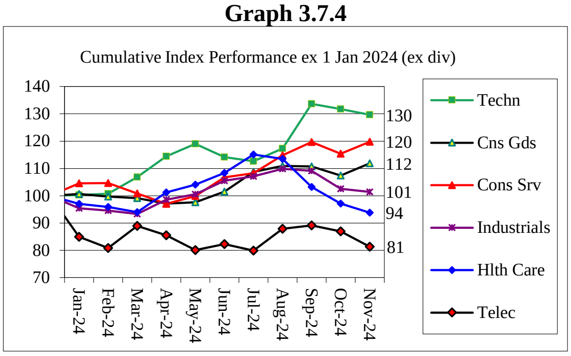
Graph 3.7.2



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.	11.2	11.4
5-year real return - % p.a.	6.8	7.0
Equity exposure - % of the portfolio (quarter ended Sept 2024)	51.3	63.7
Cumulative return ex Jan 2011	350.6	319.6
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 51% compared to the average prudential balanced portfolio's more than 63% exposure.

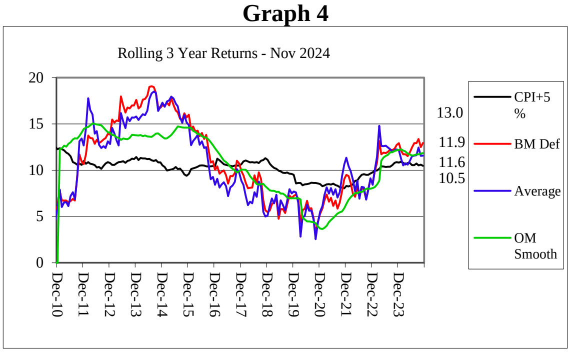
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

Table 4.2

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.5%	6.9%	6.8%
Best annual performance	7.8%	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	6.2%	10.7%	10.7%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from November 2021 to November 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 November was 13.0%, the average was 11.6% vs. CPI plus 5%, currently on 10.5%.

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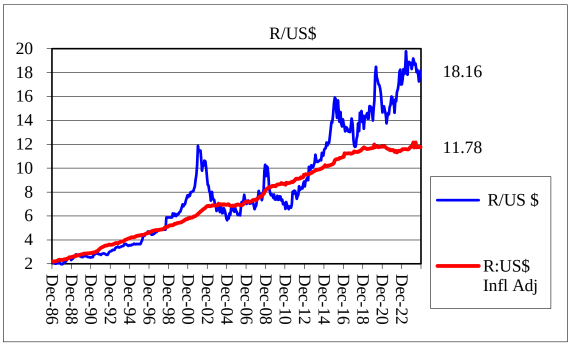
5. Review of Foreign Portfolio Flows and the Rand

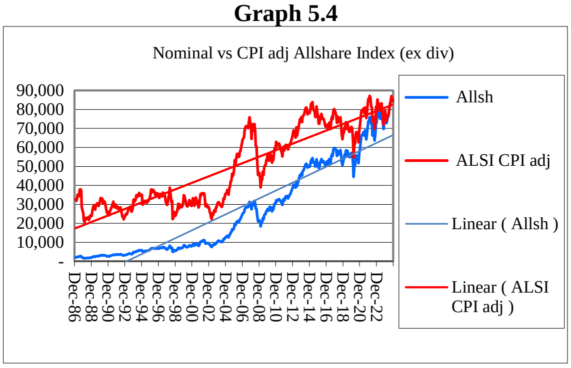
Graph 5.1 indicates that the Rand's fair value by our measure is 11.78 to the US Dollar, while it stood at 18.16 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

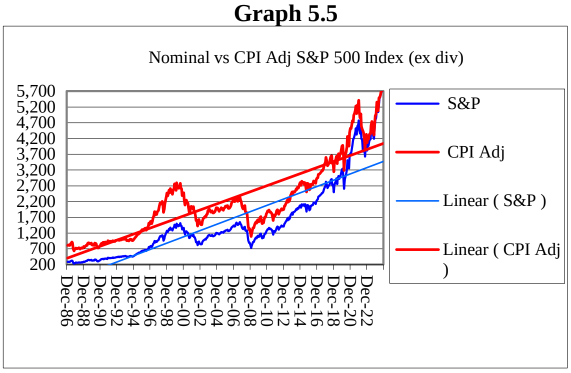
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.5% per year. It is equivalent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

Graph 5.4



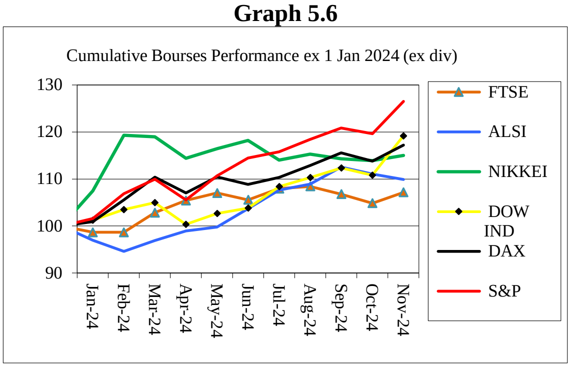
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 37 years since January 1987, the S&P500 Index grew by 8.5% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.7% p.a. over 37 years, excluding dividends, or around 7.8% (including dividends).

Graph 5.5



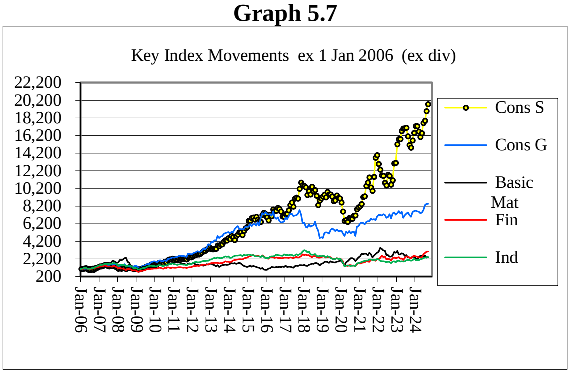
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the S&P as the top-performing index since the start of 2024.

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: 12.0%; Financials: 5.9%; Basic Materials: 4.5%; and Industrials: 4.3%.

Graph 5.7



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By Staff Writer – RFS Fund Administrators (Pty) Ltd

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6. An outlook on the world economy and financial markets in 2025

By Tilman Friedrich

President-elect Donald Trump will be inaugurated as America’s next president in February 2025. His last election campaign credo was ‘America First'. He will introduce policies promoting America's economic interests and benefits. He plans to impose tariffs on Chinese, Mexican and Canadian products. He wants to bring manufacturing back to the US to create jobs in America and wants to support the return with tax incentives. He also wants to reduce the US taxpayers' tax burden. At the same time, he wants to cut the US public expenditure, likely including its military spending, by moving the responsibility to its allies and wants to stop the US from being the world's policeman.

Inflation in the US is now at 2.6%, and the Fed rate is 4.75%. Both are down to the pre-GFC levels. He has stated that he wants to end the Ukraine conflict and was critical of the many wars his predecessors waged. The question in the investor’s mind must be how to navigate the world of investments in anticipation of Donald Trump as the 47th president of the United States of America.

1. Key Policies and Expected Outcomes:

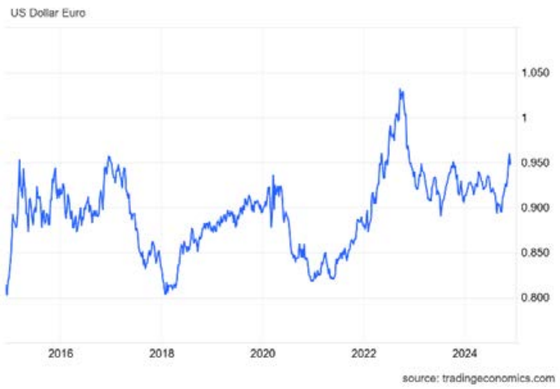
- **Tariffs on Imports**: Imposing tariffs on Chinese, Mexican, and Canadian goods is likely to increase domestic manufacturing but also raises the cost of imports, potentially contributing to inflation.
- **Tax Incentives for Manufacturing**: Incentives aim to create jobs but may take time to materialise substantial economic benefits.
- **Public Spending Cuts**: Reductions in government expenditure, particularly in defence, could slow government-led economic growth.
- **Ending the Ukraine Conflict**: Stabilizing global energy markets could ease pressures on inflation globally.

Impacts on U.S. Economic Metrics:

1. **Stock Market**: A focus on U.S. manufacturing might shift gains from tech giants to industrial and mid-cap sectors. Expensive tech stocks could see corrections.
2. **Inflation**: Likely to increase due to tariffs but moderated by lower energy prices if the Ukraine conflict ends.
3. **Interest Rates**: The Federal Reserve may keep rates steady or lower them further if growth slows, stimulating consumer demand.
4. **Employment**: Job creation in manufacturing could rise but might not offset losses in sectors reliant on global trade.
5. **Consumer Demand**: Lower taxes and incentives could boost spending, though higher import costs might counteract this effect.
6. **Commodities Demand**: Increased U.S. manufacturing could raise demand for metals and minerals, benefiting exporters.

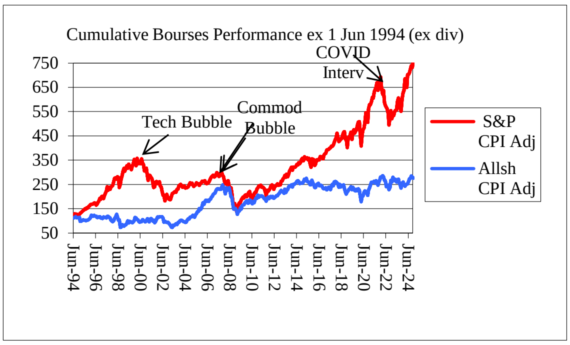
Since the middle of the year the Federal Reserve reduced its policy rate by 0.75%. In contrast, the ECB only reduced its policy rate by only 0.35%. As a result, the US Dollar weakened against the Euro. However, as depicted by graph 6.1, it promptly strengthened by more than 5% after the Republican’s convincing election win, and will likely continue this trend with Donald Trump’s America First policy.

Graph 6.1



The US equity market is relatively expensive compared to other markets. Graph 6.2, shows how far the US equity market outperformed the JSE.

Graph 6.2



However drilling down into the main components of the US equity markets, graph 6.3 shows that the outperformance was driven by the large tech shares, referred to as the ‘Magnificent 7’ (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta Platforms), depicted as the blue line. They comprise roughly 30% of the S&P 500. The red

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line depicts the S&P 500 year-to-date in US Dollars. It is also the red line in graph 6.1, but in Rand.

Graph 6.3

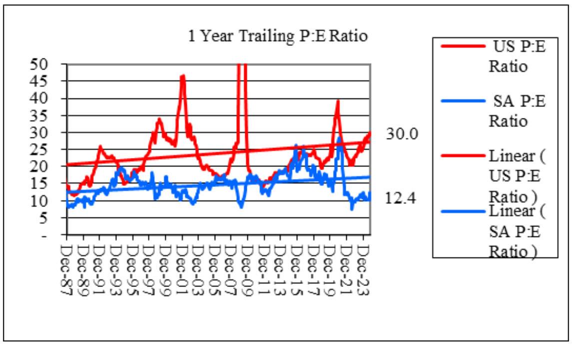
Graph 6.4 depicts the S&P 500 index in US$ (blue line) and its earnings per share (red line) since 1995. The index is closely correlated with its earnings. Both increased by roughly 8% per year, 5.5% above inflation.

Graph 6.4

S&P 500 Earnings - 90 Year Historical Chart

Looking at the price: earnings ratio depicted in graph 6.5, the S&P 500 ratio is now at 30, way above its 30-year average of 25 and the straight red trendline. In contrast the JSE price: earnings ration is now at 12.4, significantly below its 30-year average of 15 and the straight blue trendline

Graph 6.5



These graphs indicate that the US market is relatively expensive while the JSE is relatively cheap in historical context.

Graph 6.6 is an interesting reflection on the impact Barack Obama's and Donald Trump's presidencies had on the market,

Graph 6.6

Given this background, investors will ask themselves what to expect in the next five years.

The economic and market outlook for 2025, considering the policies of Donald Trump's second presidency, will have implications globally and specifically for South Africa and Namibia as commodity-based economies.

Global Context:

1. **US Trade Policies**:
   - Imposing tariffs on Chinese, Mexican, Canadian and BRICS products is likely to intensify trade tensions, potentially triggering retaliatory measures.
   - Reshoring manufacturing and tax incentives could create near-term US growth but may disrupt global supply

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chains, affecting export-dependent economies.

2. **Strong US Dollar**:
   - A strong dollar typically drags down commodity prices, which is advantageous for resource-exporting countries like South Africa and Namibia.
3. **Geopolitical Shifts**:
   - A reduction in US military spending and withdrawal from global conflicts could alter global security dynamics and economic priorities. Ending the Ukraine conflict may stabilise energy markets, indirectly benefiting economies dependent on energy imports, such as Namibia and SA.
4. **US Equity Market and Interest Rates**:
   - Expensive US equity valuations could push investors to explore undervalued markets elsewhere, such as emerging markets. Lower interest rates and inflation may boost global liquidity.

South Africa Outlook:

1. **Commodity Dependence**:
   - South Africa, a major exporter of commodities like platinum and gold, could be disadvantaged by weaker commodity prices driven by a stronger dollar and potential supply chain disruptions. On the other hand, however, the demand for commodities, particularly from the US, will likely increase because of its drive to onshore its manufacturing base.
   - The potential economic stimulus in the US might further support global demand for metals used in manufacturing and renewable technologies.
2. **Export Challenges**:
   - Tariffs on key trading partners could impact Namibian and South African exports indirectly, particularly if global growth slows due to trade disputes.
3. **Domestic Challenges**:
   - Structural issues in Namibia and South Africa, like high unemployment, energy instability and water supply disruptions, remain critical. The global environment may provide a short-term boost, but long-term growth depends on local reforms.
4. **Equity and Bond Markets**:
   - South African equities might attract attention due to their relative undervaluation compared to developed markets. Lower US rates could support emerging market bonds, benefiting South African debt instruments.

Namibia Outlook:

1. **Mining Sector**:
   - Namibia's reliance on diamonds and uranium exports would be disadvantaged through lower commodity prices. A stronger dollar could enhance its export competitiveness.
2. **Tourism and Trade**:
   - A stronger US dollar may encourage tourism from countries with stronger currencies. Still, the sector's growth also depends on global stability, geopolitical conditions and disruptions in local electricity and water supply.
3. **Investment Environment**:
   - Namibia's currency peg to the South African rand ties its economic fate closely to South Africa. Spillover effects from South Africa's challenges and opportunities will be significant.
4. **Domestic Fiscal Policy**:
   - Namibia's government might face pressure to improve its fiscal balance. Reduced global liquidity risks, resulting from US-driven shifts, could constrain Namibia's borrowing capacity unless reforms are made.

Risks and Opportunities:

- **Risks**:
  - Trade conflicts could slow global growth, indirectly affecting exports and capital flows to Africa.
  - Reduced US involvement in global security may destabilise regions vital for African trade and investment.
- **Opportunities**:
  - A diversified global investment landscape could shift capital to underperforming and undervalued markets, benefiting South Africa and Namibia.
  - If decarbonisation trends persist, both countries could leverage their natural resource wealth for renewable technologies.

Conclusion

As we cross into 2025, the world faces many uncertainties that could severely impact economies and the financial market. During 2024, my main theme was that the world might drift into World War III. President-elect Donald

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Trump's election statements on the US waging never-ending costly wars and ending the Ukraine war within 24 hours dim the prospect of a major military confrontation somewhat. My fear is, though, that there are very strong vested interests in driving global conflict. Commentators refer to these interests as the military-industrial complex in the US. Where I would have expected the US war industry to pull back in anticipation of a change of direction by President Donald Trump, I am seeing the opposite happening. Pressure on Russia and its allies is being intensified unrelentingly. Most recently, we had to witness the fresh offensive of Jihadists in Syria and social unrest in several neighbouring countries of Russia. Perhaps the US war industry intends to create facts for the new president that will force him to abandon his plans for America.

In the event of 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 will become impaired and inaccessible.

We live between a fainting old and a new world order, even under Donald Trump, if he has his way of making America great again – at the cost of everyone else! 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 may witness a global confrontation, laying the foundation for the future world order. In this interregnum, 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. Last month's column provides a few specific pointers.