Volume 21, No. 1
January 2025

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 JANUARY 2025

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 January 2025, the average prudential balanced portfolio returned 1.6% (December 2024: 0.4%). The top performer is M&G Managed Fund, with 2.4%, while Stanlib Managed Fund, with 0.9%, takes the bottom spot. NAM Coronation Balanced Plus Fund took the top spot for the three months, outperforming the 'average' by roughly 2.2%. Momentum Namibia Growth Fund underperformed the 'average' by 0.7% 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.)

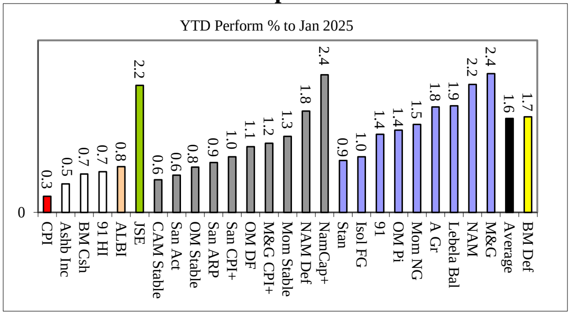
**Graphs 1.1 to 1.10** reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential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

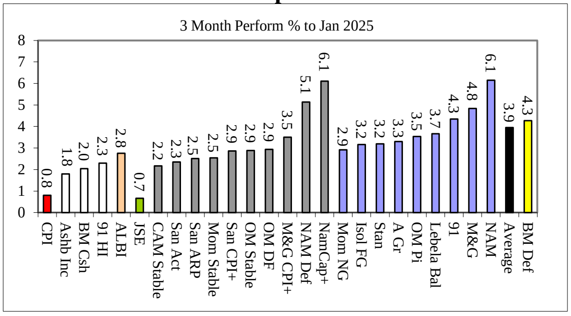
| Benchmarks | |
|---|---|
| Namibian Consumer Price Index | CPI (red) |
| All Bond Index | ALBI (orange) |
| JSE Allshare Index | JSE Cum (green) |
| Benchmark Default Portfolio | BM Def (yellow) |
| Average portfolio (prudential, balanced) | Average (black) |
| **Special Mandate Portfolios** | |
| 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

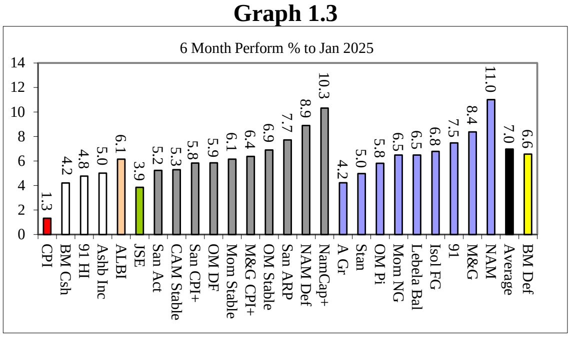
**Graph 1.1**



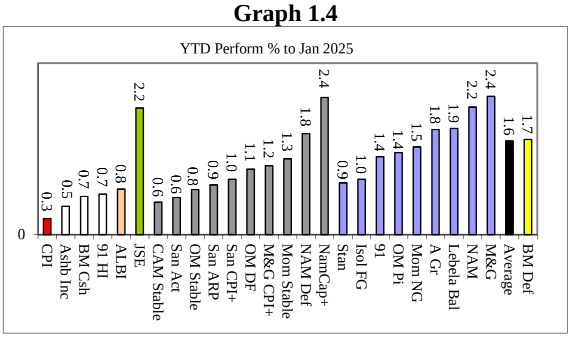

**Graph 1.2**



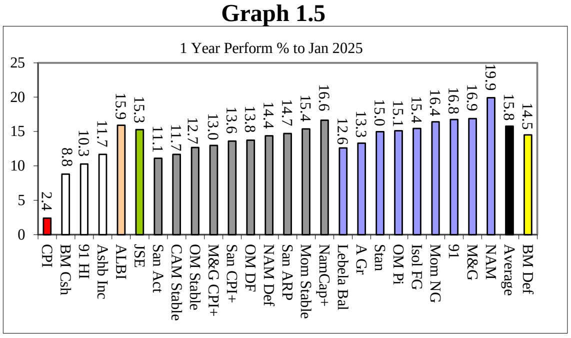

**Graph 1.3**




**Graph 1.4**




**Graph 1.5**



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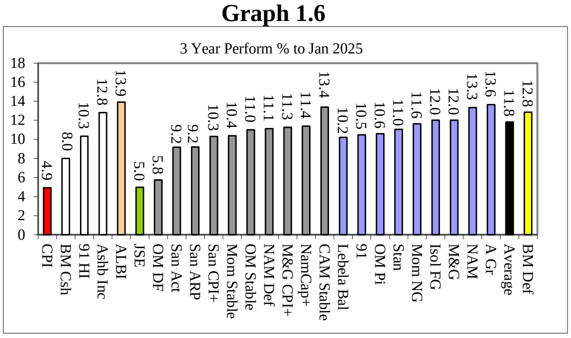
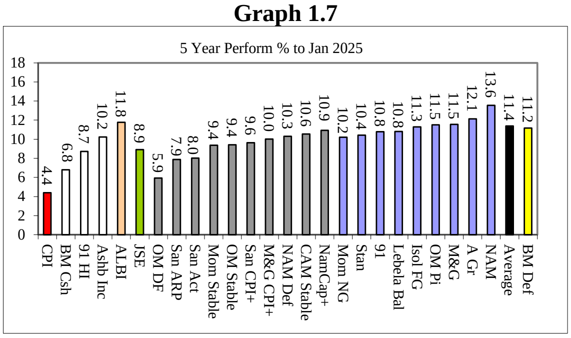
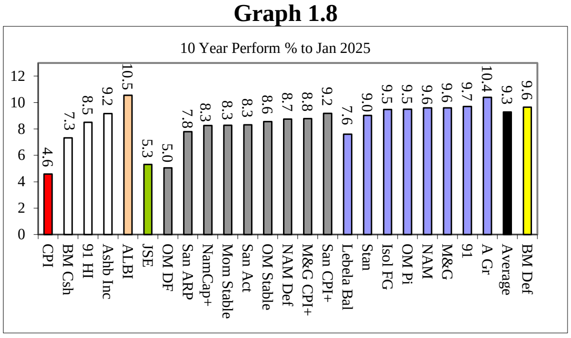
### Graph 1.6



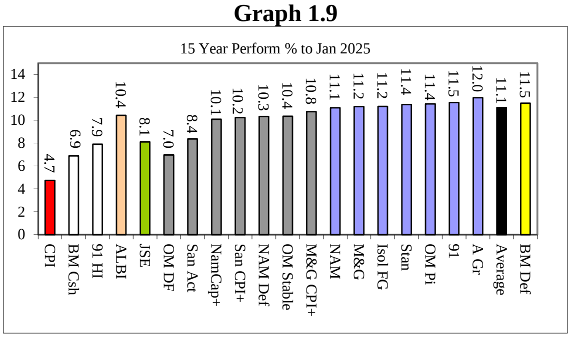

### Graph 1.7



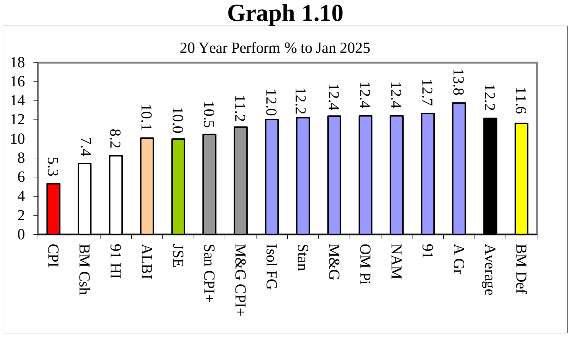

### Graph 1.8



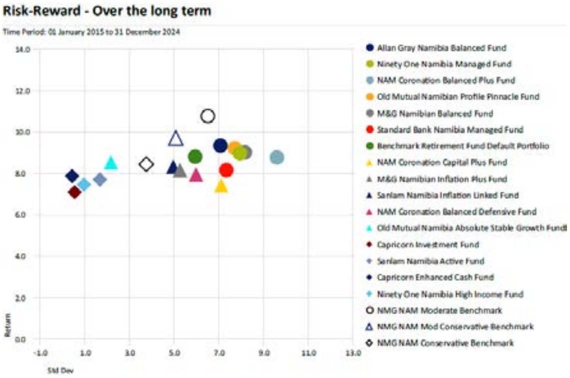

### Graph 1.9

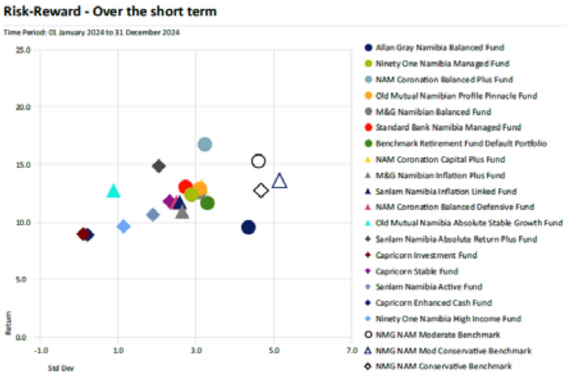



### Graph 1.10



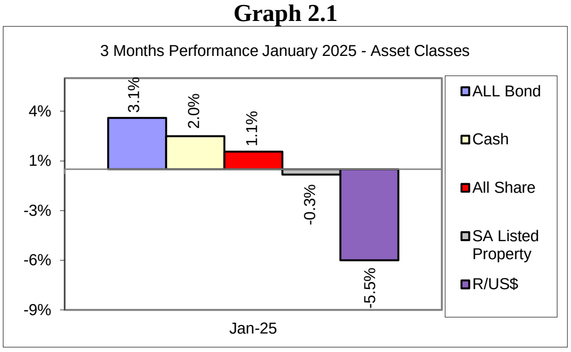

### Risk/ Return



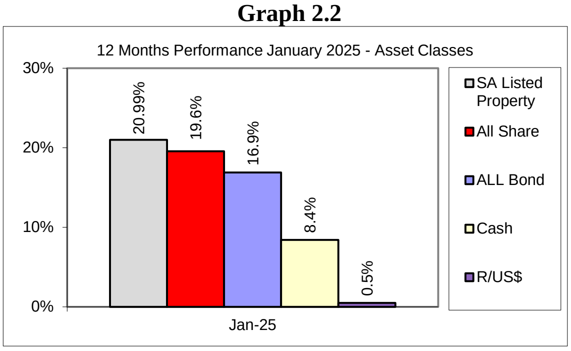




## 2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

### Graph 2.1




### Graph 2.2



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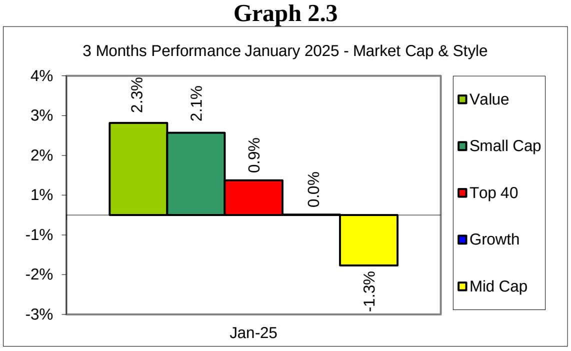
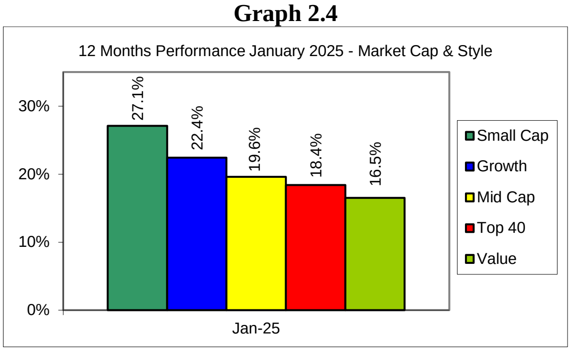
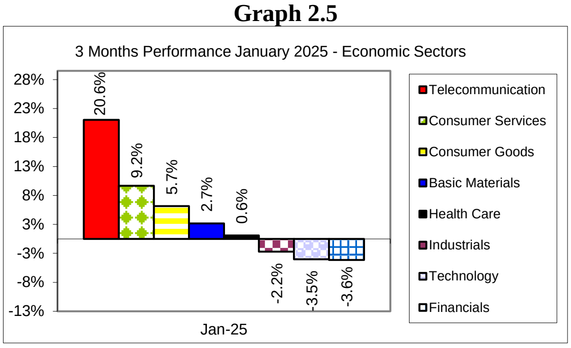
**Graph 2.3**



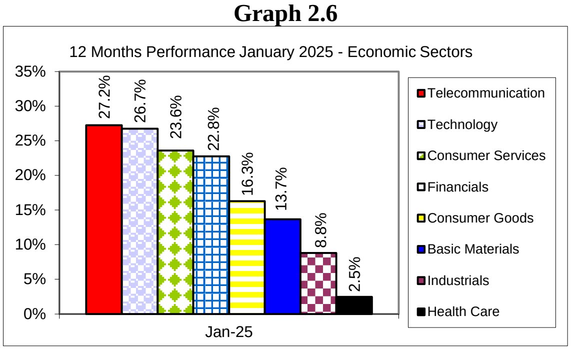

**Graph 2.4**



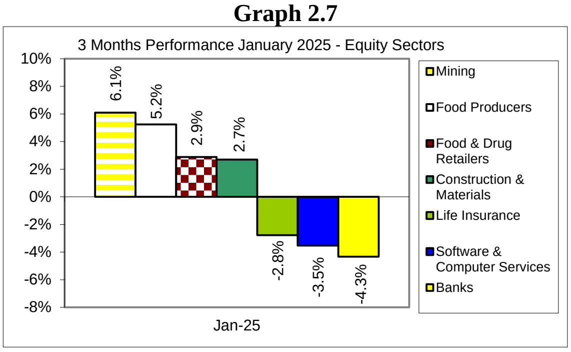

**Graph 2.5**



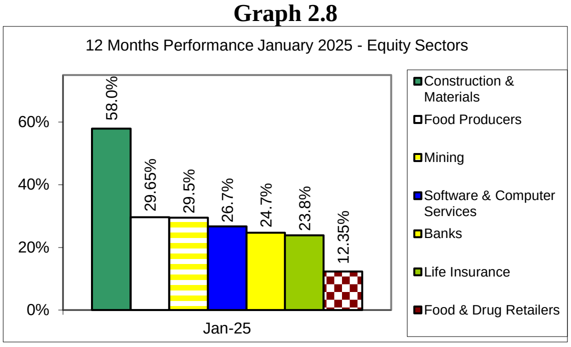

**Graph 2.6**




**Graph 2.7**



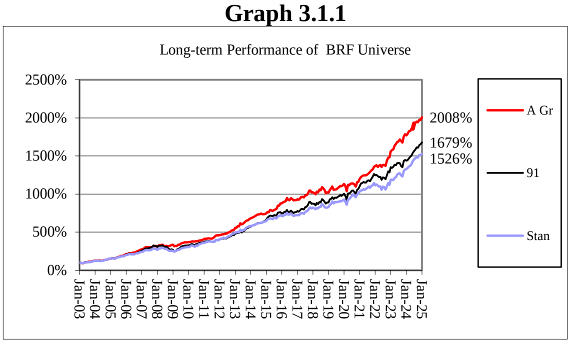

**Graph 2.8**



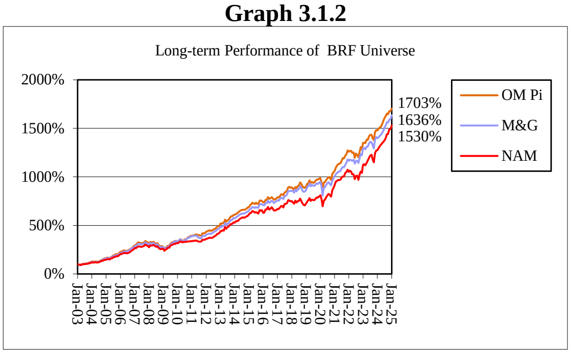

## 3. Portfolio Performance Analysis

### 3.1 Cumulative performance of prudential balanced portfolios

**Graph 3.1.1**




**Graph 3.1.2**



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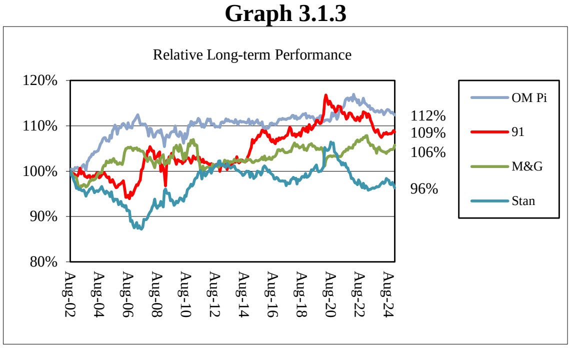
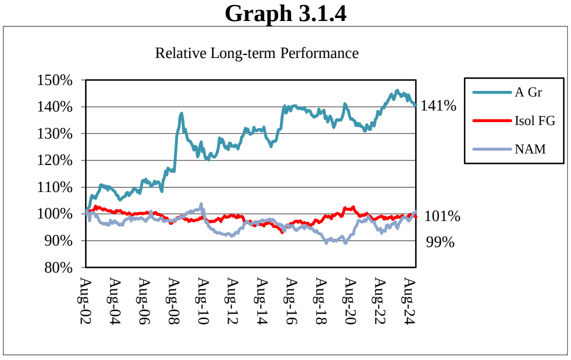
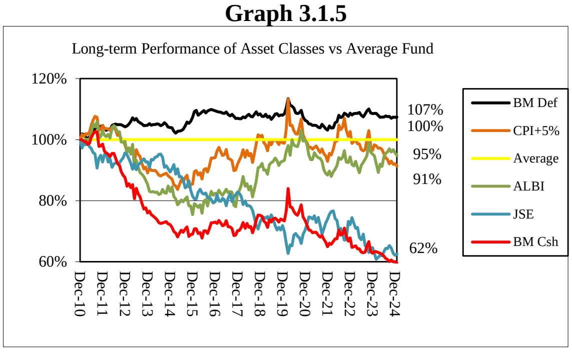
### Graph 3.1.3




### Graph 3.1.4

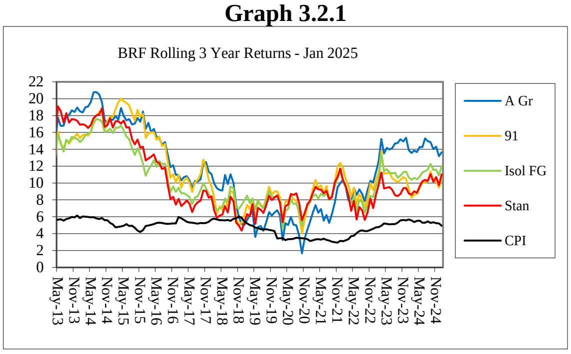



### Graph 3.1.5

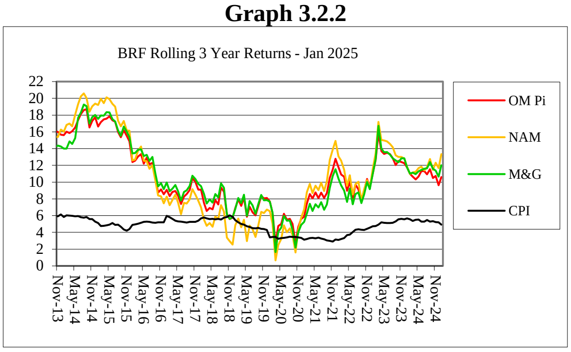



## 3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

### Graph 3.2.1

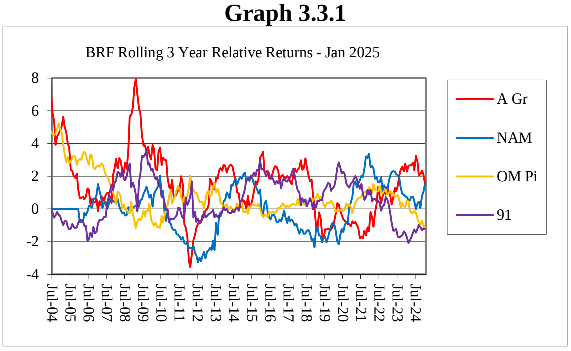



### Graph 3.2.2

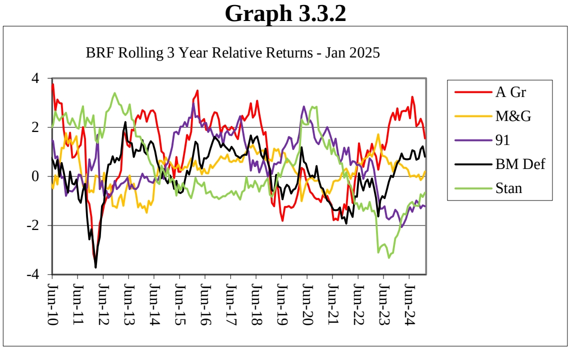



## 3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

### Graph 3.3.1

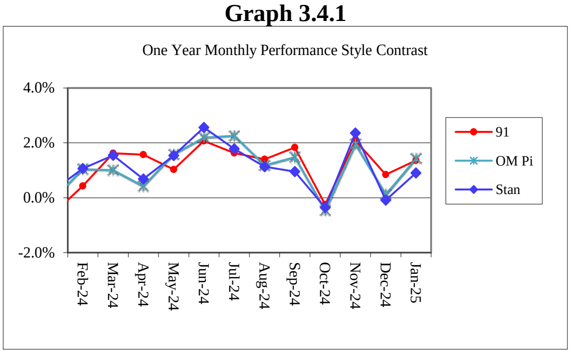



### Graph 3.3.2




## 3.4 Monthly performance of prudential balanced portfolios

### Graph 3.4.1



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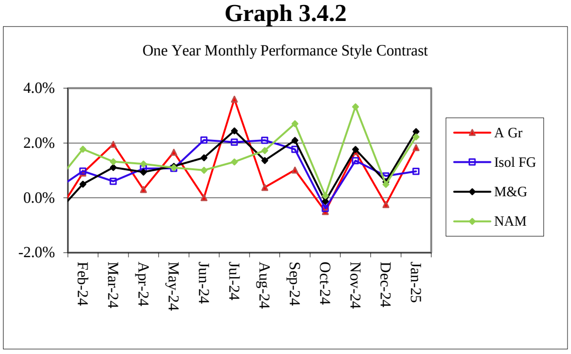
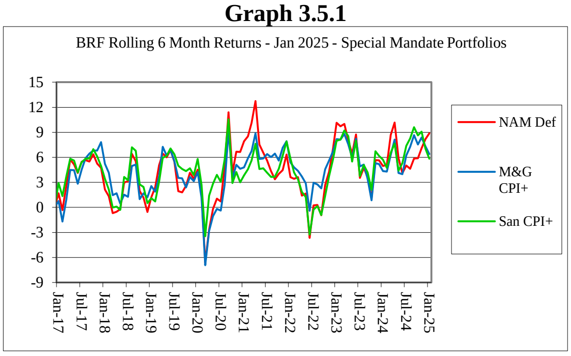
### Graph 3.4.2

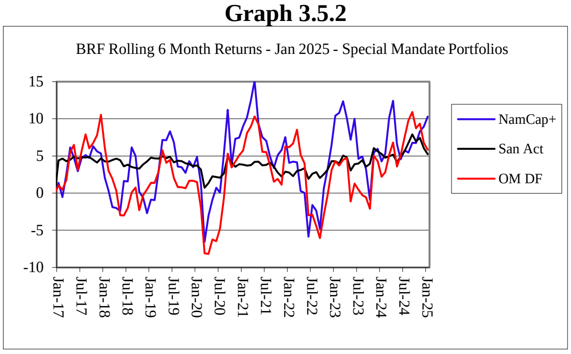



### 3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

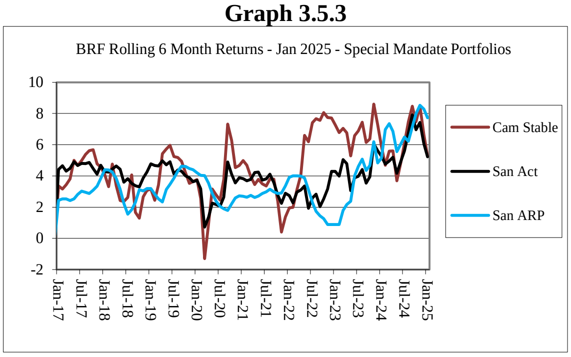
### Graph 3.5.1



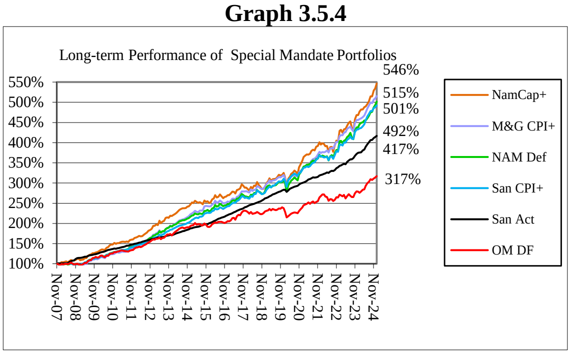

### Graph 3.5.2




### Graph 3.5.3

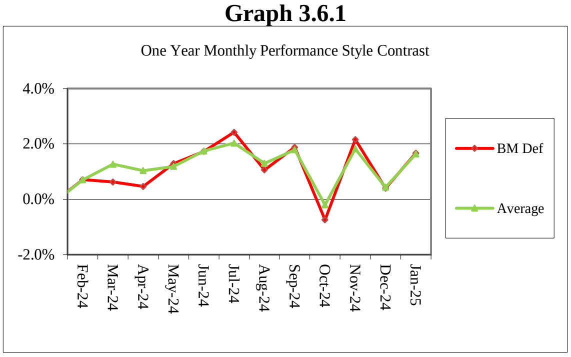



### Graph 3.5.4

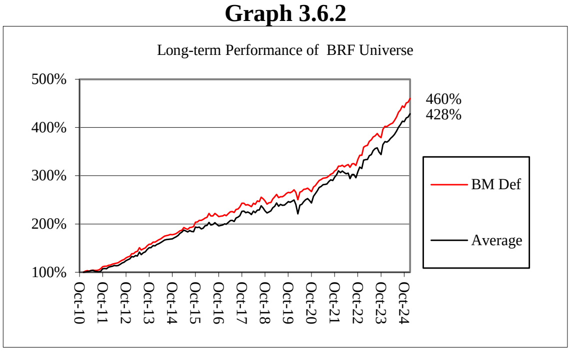



### 3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

### Graph 3.6.1

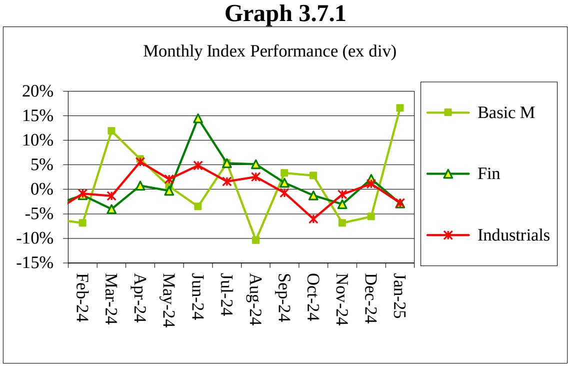



### Graph 3.6.2




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

### Graph 3.7.1



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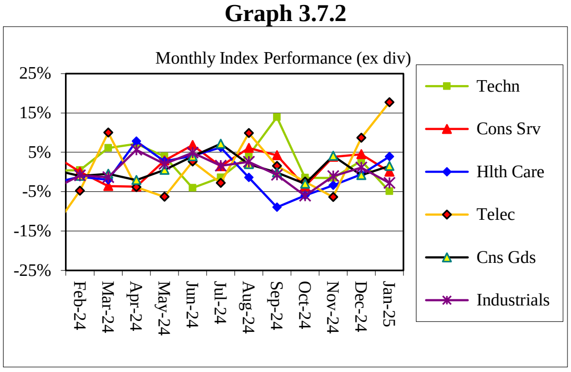
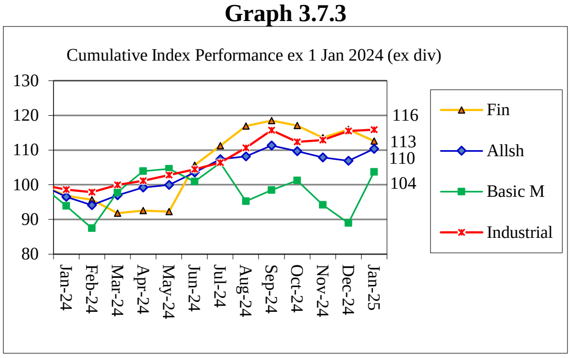
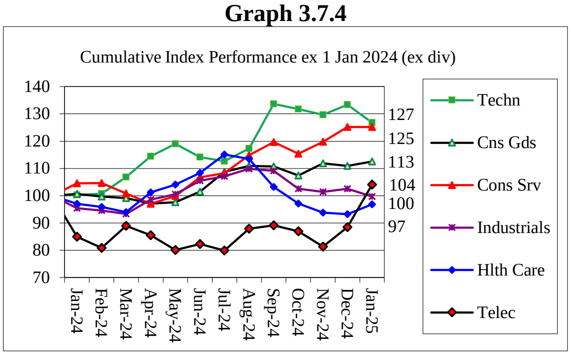
**Graph 3.7.2**




**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 Dec 2024) | 57.0 | 63.4 |
| Cumulative return ex Jan 2011 | 360.0 | 328.3 |
| 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 57% compared to the average prudential balanced portfolio's more than 63% exposure.

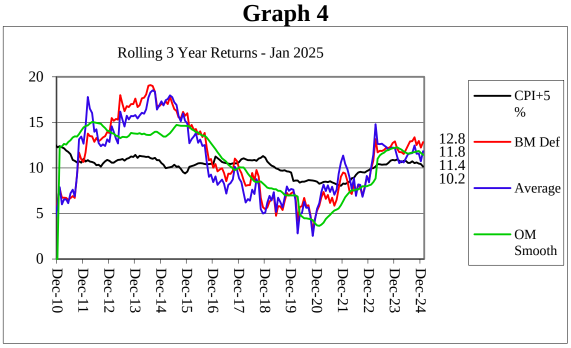
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

**Table 4.2**

| Measure | Money Market | Default Portf | Average Prud Bal |
|---|---|---|---|
| Worst annual performance | 5.5% | 6.9% | 6.8% |
| Best annual performance | 8.0% | 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 | 6.3% | 10.9% | 10.7% |

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from Febraury 2022 to January 2025. 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 December was 12.8%, the average was 11.8% vs. CPI plus 5%, currently on 10.2%.

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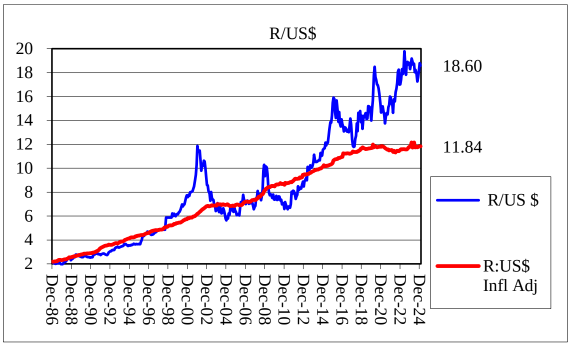
## 5. Review of Foreign Portfolio Flows and the Rand

**Graph 5.1** indicates that the Rand's fair value by our measure is 11.84 to the US Dollar, while it stood at 18.60 at the end of January 2025. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

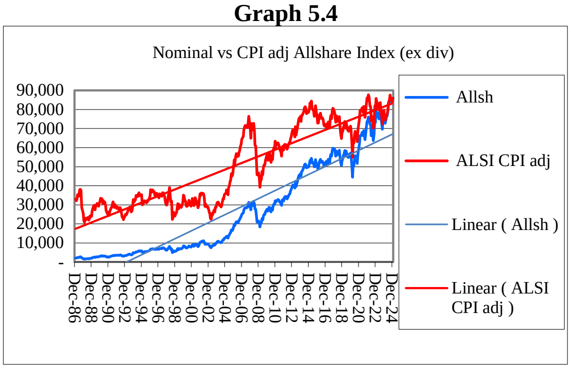



**Graph 5.2 - removed**

**Graph 5.3 - removed**

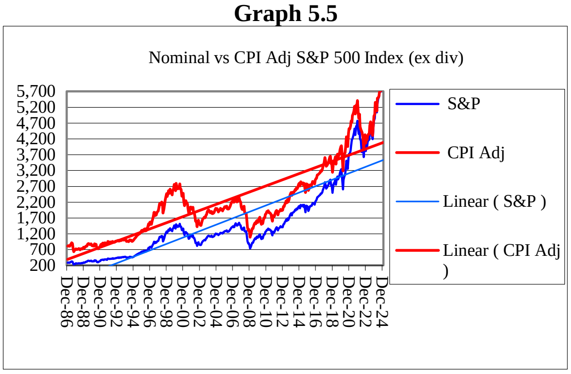
**Graph 5.4** reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.5% per year. It is equivalent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

**Graph 5.4**



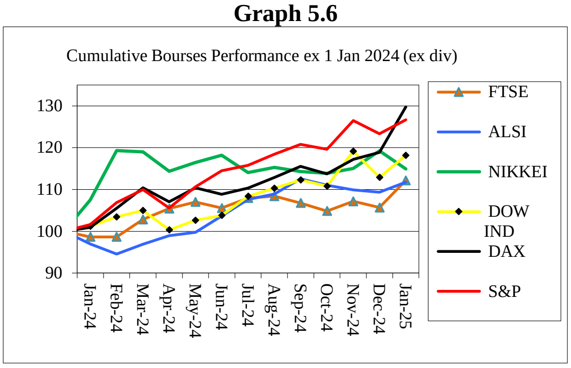

**Graph 5.5** reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 37 years since January 1987, the S&P500 Index grew by 8.5% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.7%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

**Graph 5.5**



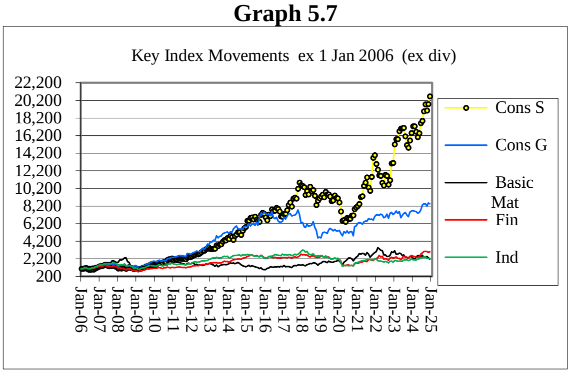

**Graph 5.6** provides an interesting overview of some of the major global share indices, showing the DAX as the top-performing index since the start of 2024.

**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: 17.2%; Consumer Goods: 11.9%; Financials: 5.8%; Basic Materials: 5.0%; and Industrials: 4.2%.

**Graph 5.7**



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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 JANUARY 2025**

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. Market outlook 2025: How to navigate opportunities and risks

As we head into 2025, global markets present a dynamic mix of opportunities and risks. Geopolitical tensions, shifting economic policies, and evolving consumer dynamics reshape the investment terrain. The ability to cut through short-term noise and focus on long-term fundamentals is more important than ever. By adopting a systematic and evidence-based approach, investors can navigate these complexities and position themselves to seize opportunities across asset classes.

**Trump-era Tariffs**

Recent data indicates that the U.S. economy is growing above trend, driven by robust consumer spending, declining political uncertainty as the election cycle stabilises, and a resilient labour market. These factors collectively point to potential upside surprises in U.S. GDP growth for 2025. Despite this acceleration in growth, inflation concerns remain muted. Inflation in the U.S. is largely driven by the Consumer Price Index (CPI) shelter component, which suggests a singular leg of support. This narrow inflation driver could result in positive inflation surprises, particularly as broader price pressures remain contained. However, potential risks to this outlook include the lingering effects of Trump-era tariffs. While tariffs can create short-term price shocks, they are unlikely to trigger sustained inflationary pressures. From a macroeconomic perspective, tariffs tend to exert a one-off impact on price levels rather than influencing long-term inflation dynamics.

Given the above backdrop, the Federal Reserve is poised to approach monetary easing cautiously. While there is room for interest rates to converge toward the natural rate (R-Star) gradually, it is essential to consider that R-Star itself may have risen. Enhanced productivity post-pandemic could allow the U.S. economy to sustain higher rates than pre-COVID levels. Nonetheless, we do not anticipate tariffs as a core driver of higher rates. Supply-side shocks fall outside the Federal Reserve's usual policy focus, centring on demand-driven inflationary trends.

**Risk Assets: Cautious Stance Amid Stretched Valuations**

Despite the optimistic macroeconomic outlook, valuations in risk assets remain a significant concern. In both developed and emerging markets, equity markets grapple with the dual challenges of high valuations and tighter financial conditions. U.S. and European equities have rallied significantly, driven largely by the technology and growth sectors. While these gains reflect strong corporate earnings and economic resilience, they have also pushed valuations to stretched levels. This has prompted investors to reassess their risk exposures, leading us to adopt a moderately negative stance on U.S. and EU equities.

Emerging market equities present a more nuanced picture. While certain regions benefit from favourable commodity prices and reform agendas, others face headwinds such as geopolitical tensions and structural challenges. China, for example, contends with weak demographics, a struggling property sector, and trade policies that could face renewed pressure under a Trump presidency. Overall, we remain neutral on emerging market equities, emphasising selective exposure based on regional fundamentals.

In contrast, South African equities stand out as a relatively attractive opportunity. Moderate valuations and improving investor sentiment support a positive outlook for this asset class, particularly when compared to developed markets.

On the fixed-income front, we take a nuanced approach. We maintain a moderately negative view on US Bonds, mostly due to the inverted yield curve, lack of term premium, and limited demand for safe-haven assets in a positive macro environment. For South African Bonds, however, sentiment in South Africa has shifted positively, and term premium remains available. This supports a neutral stance, with the potential for attractive returns over the coming months.

On the currency front, we are strongly positive on the South African rand. Several factors underpin this view: Firstly, the rand remains undervalued, presenting an attractive opportunity for long-term investors. Secondly, the global economy's favourable stance toward carry trades supports high-yielding currencies like the rand. Thirdly, improving Sentiment: Positive shifts in local and global sentiment further bolster the rand's prospects.

To navigate currency risks, we advocate for systematic hedging strategies. Separating currency exposure from asset class performance enhances the overall risk-return profile of an investment portfolio.

**Note**: This article was written by Bastian Teichgreeber and appeared in Cover, January 2025 edition. It largely mirrors our views on the market outlook for 2025 as per this column in our previous circular.

**Conclusion**

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.

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