Volume 21, No. 2
February 2025

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 28 FEBRUARY 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 February 2025, the average prudential balanced portfolio returned minus 0.2% (January 2024: 1.6%). The top performer is the Allan Gray Balanced Fund, with 0.5%, while the Lebela Balanced Fund, with minus 0.8%, takes the bottom spot. NAM Coronation Balanced Plus Fund took the top spot for the three months, outperforming the ‘average’ by roughly 0.8%. The Stanlib Managed Fund underperformed the ‘average’ by 1.4% 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.)

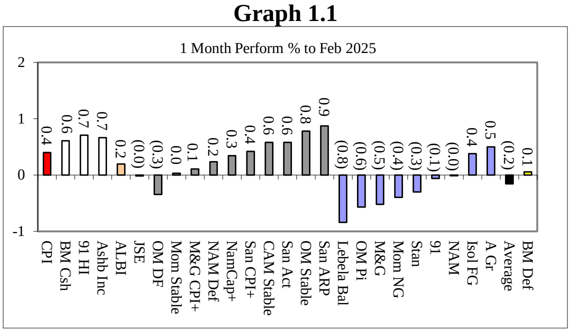
Graphs 1.1 to 1.10 reflect the performance for periods from 1 month to 20 years of a number of the most prominent prudential balanced portfolios (blue bars), ‘special mandate portfolios’ with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 four prominent local managers with a domestic balanced mandate, specialist 20Twenty Credit Solutions, two foreign equity index trackers, a foreign global bond manager and a local money market fund.

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

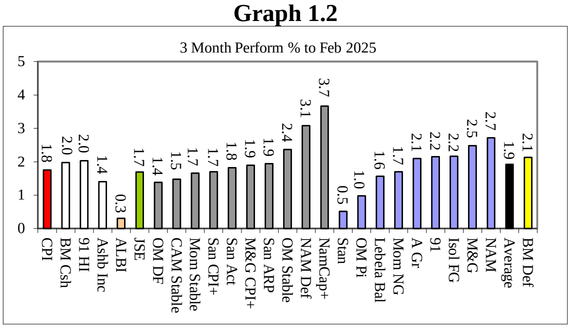
Benchmarks	
Namibian Consumer Price Index	CPI (red)
All Bond Index	ALBI (orange)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average portfolio (prudential, balanced)	Average (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
NinetyOne High Income (interest-bearing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

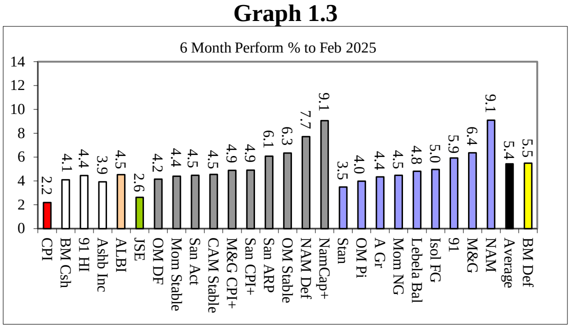
Graph 1.1



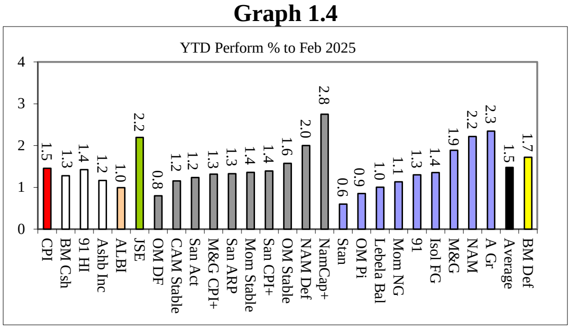
Graph 1.2



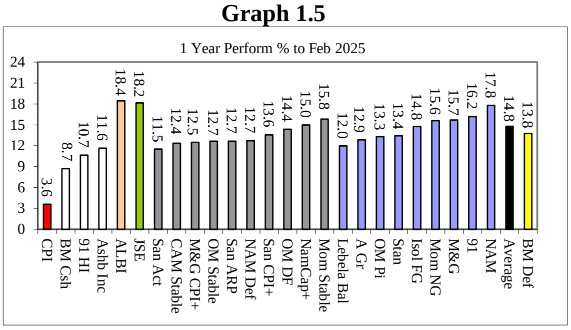
Graph 1.3



Graph 1.4



Graph 1.5



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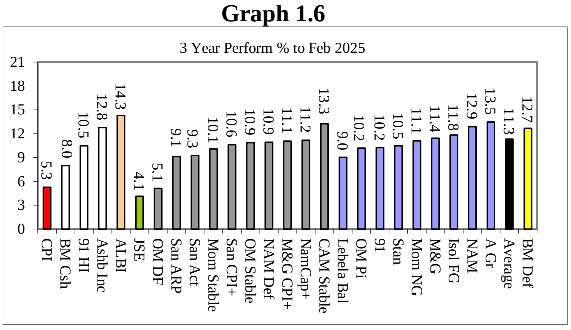
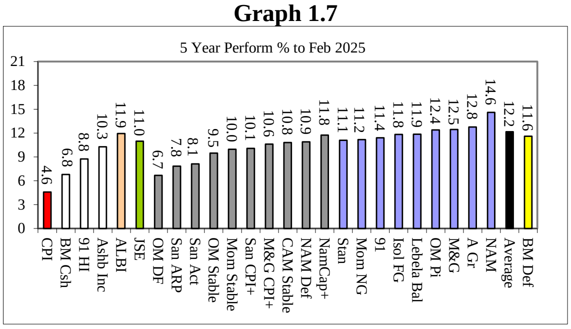
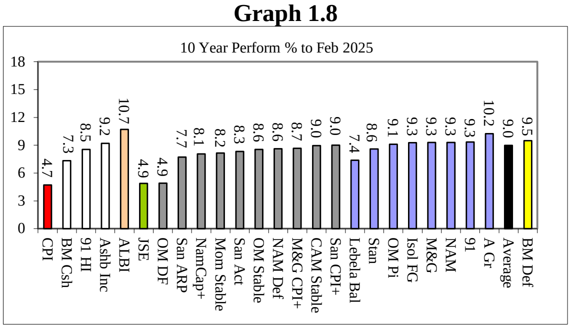
Graph 1.6



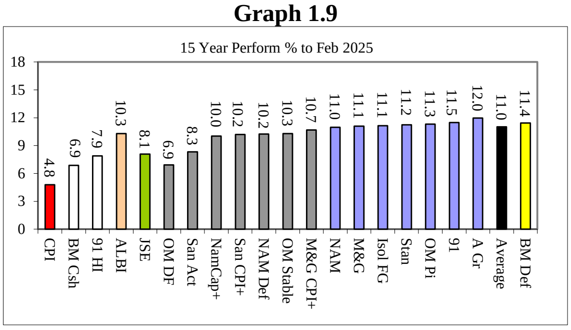
Graph 1.7



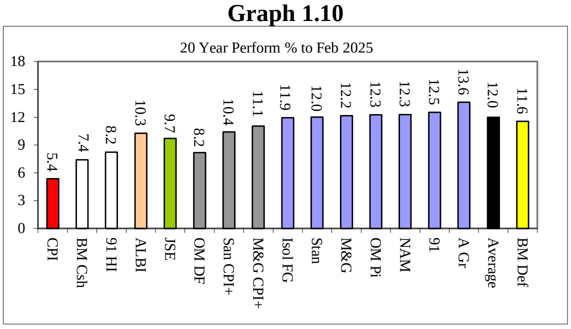
Graph 1.8



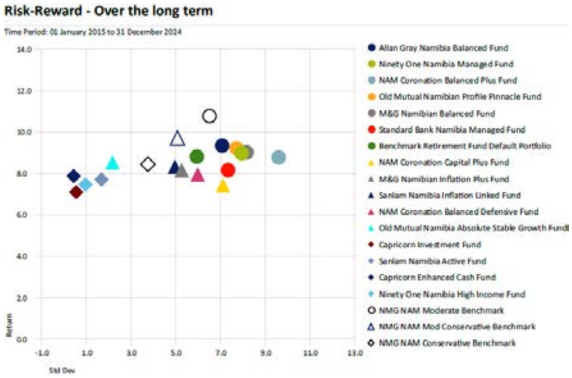
Graph 1.9

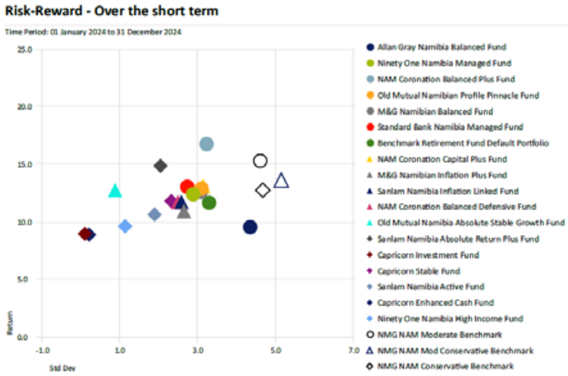


Graph 1.10



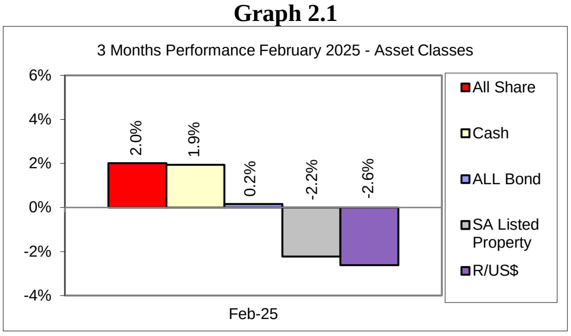
Risk/ Return



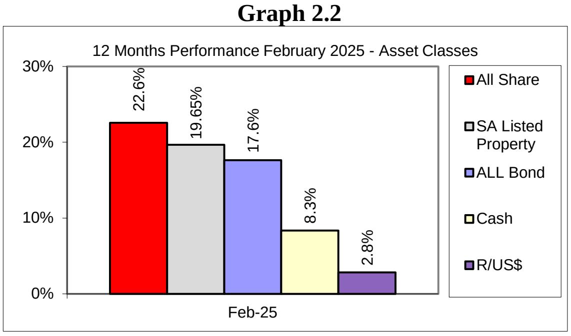


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.2



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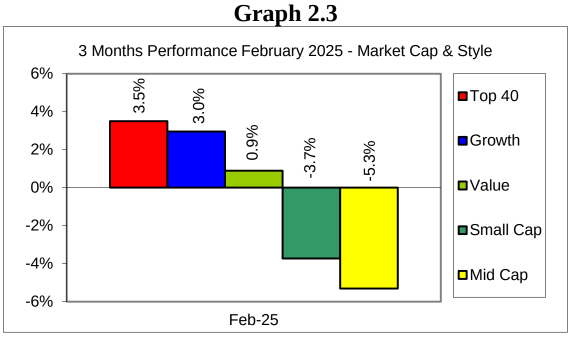
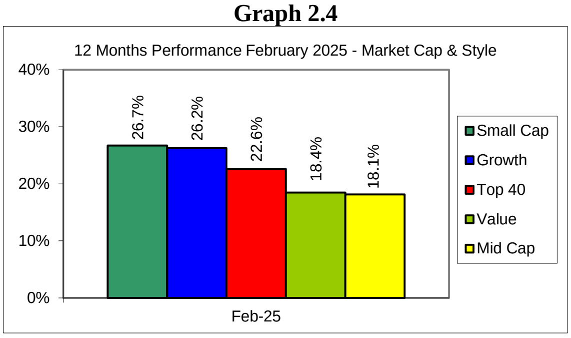
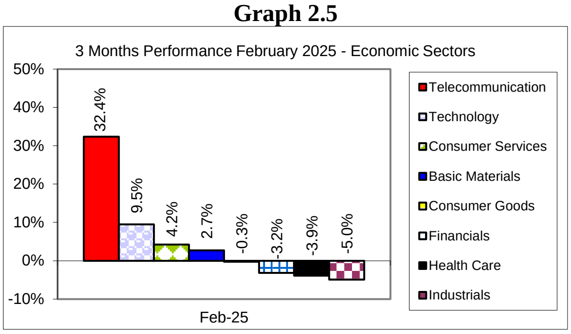
Graph 2.3



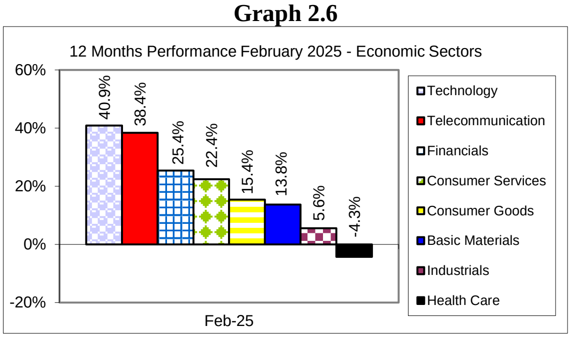
Graph 2.4



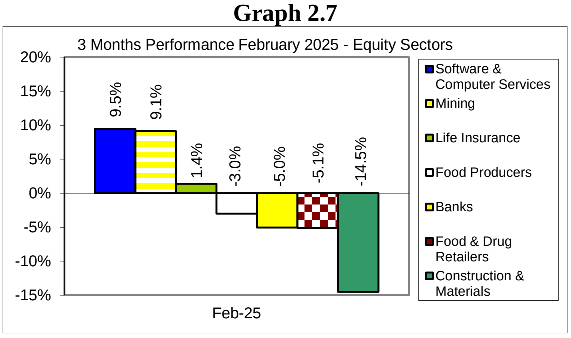
Graph 2.5



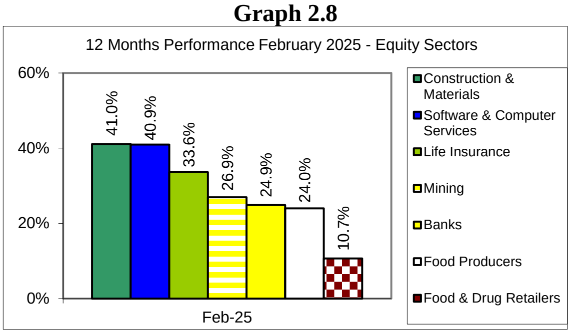
Graph 2.6



Graph 2.7



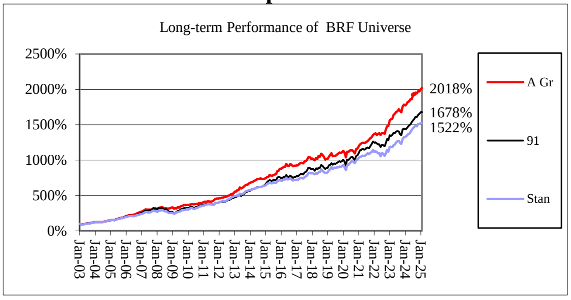
Graph 2.8



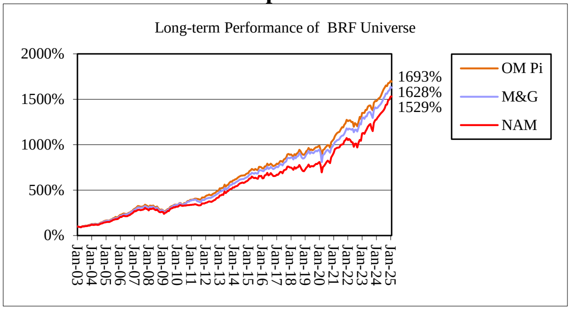
3. Portfolio Performance Analysis

3.1 Cumulative performance of prudential balanced portfolios

Graph 3.1.1



Graph 3.1.2



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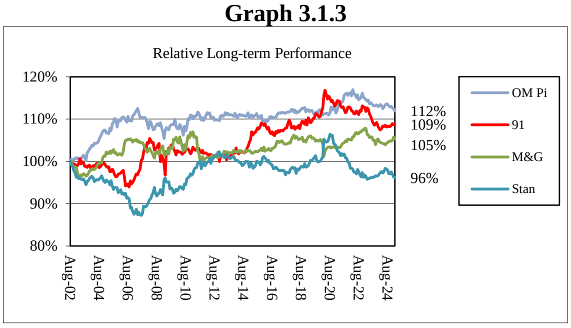
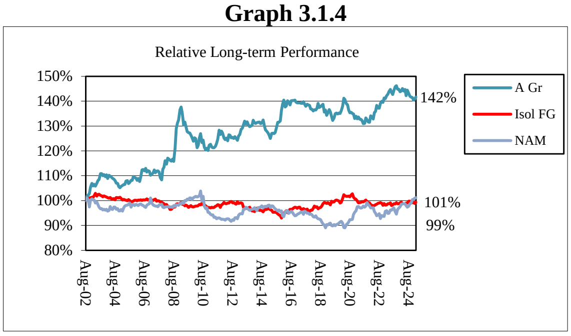
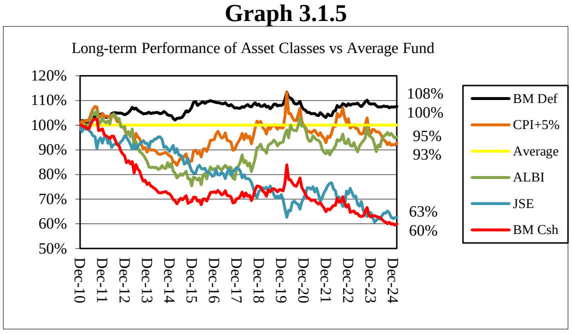
Graph 3.1.3



Graph 3.1.4

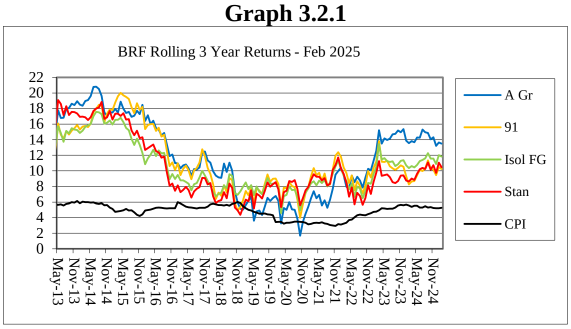


Graph 3.1.5

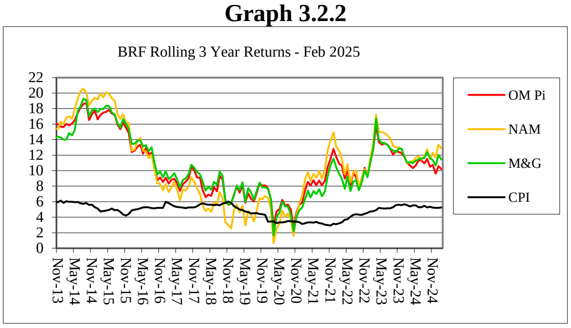


3.2 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

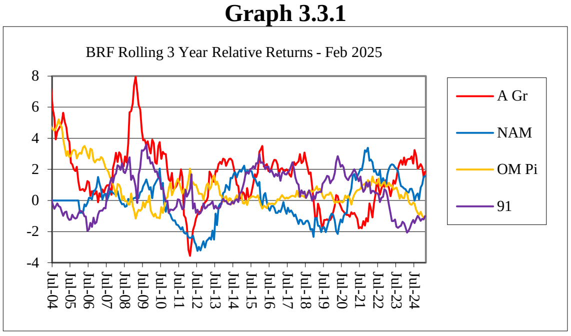


Graph 3.2.2

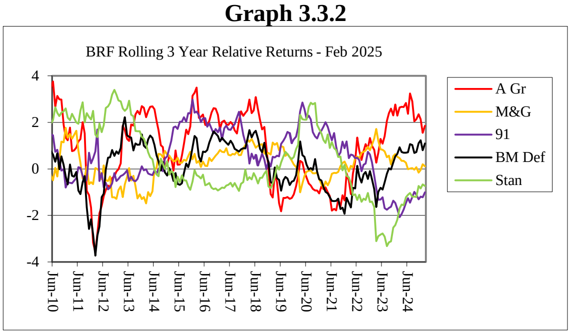


3.3 3-year rolling performance of prudential portfolios relative to the average prudential balanced portfolio on zero

Graph 3.3.1

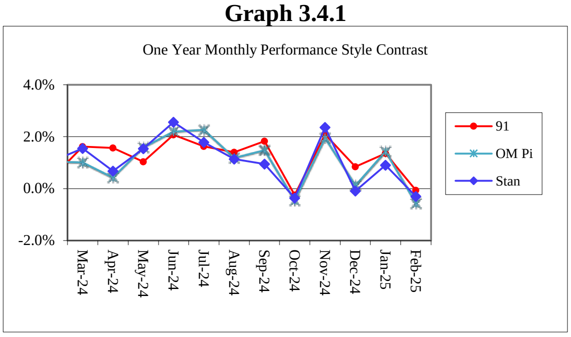


Graph 3.3.2



3.4 Monthly performance of prudential balanced portfolios

Graph 3.4.1



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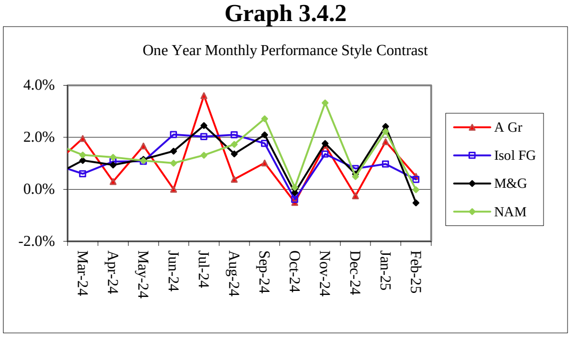
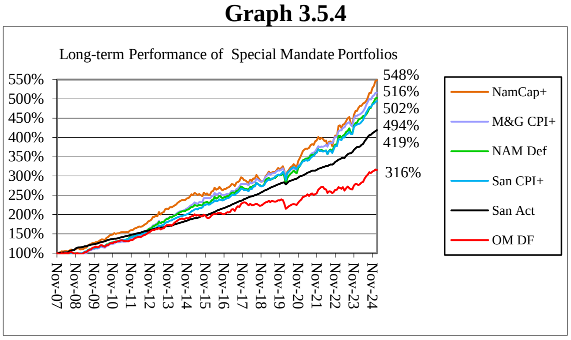
Graph 3.4.2

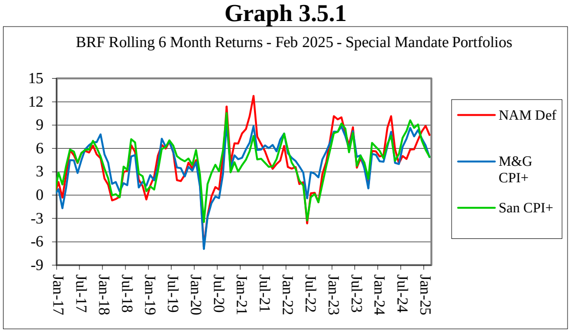


Graph 3.5.4

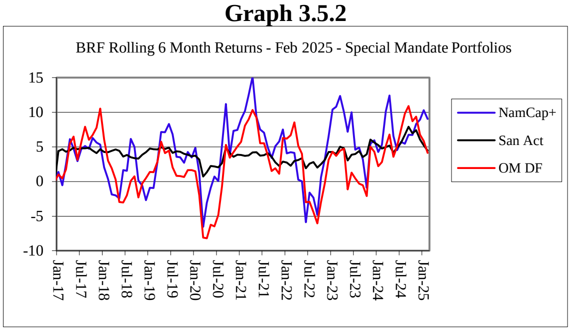


3.5. 6-month rolling and cumulative returns of 'special mandate' portfolios

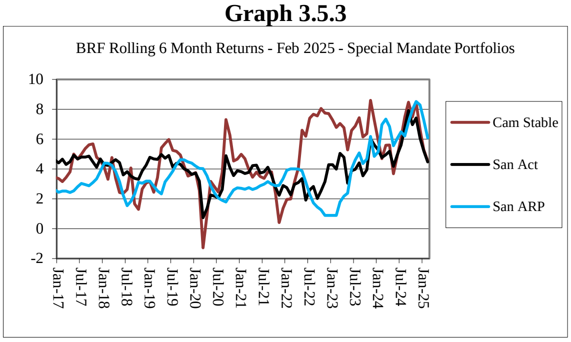
Graph 3.5.1



Graph 3.5.2

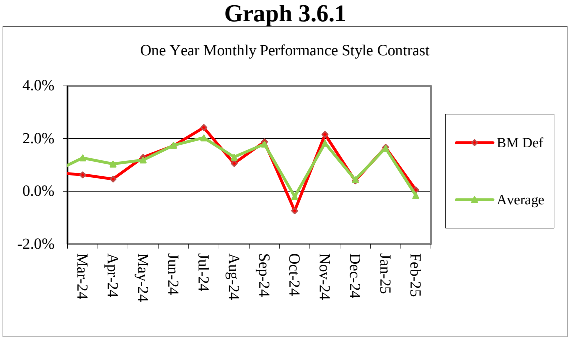


Graph 3.5.3

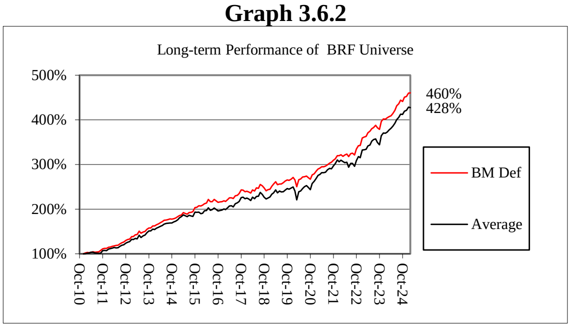


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

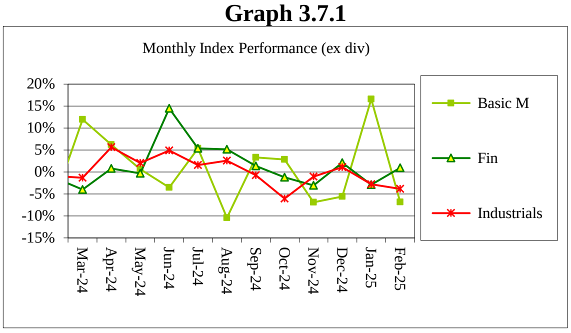


Graph 3.6.2



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

Graph 3.7.1



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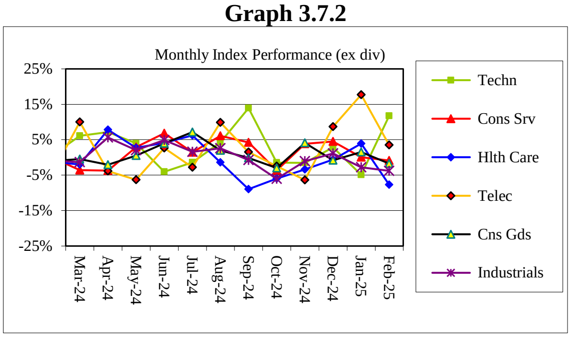
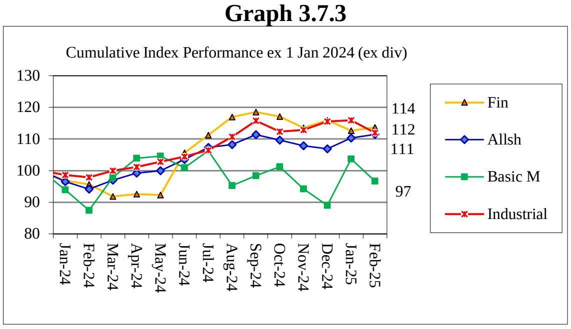
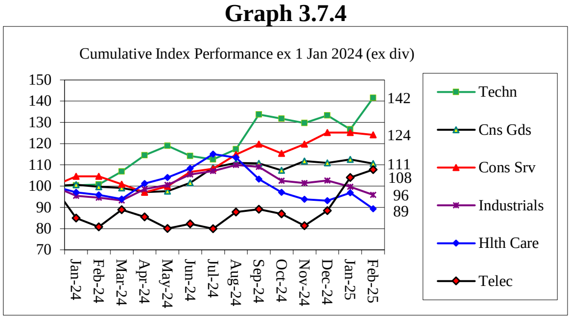
Graph 3.7.2



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.	11.6	12.2
5-year real return - % p.a.	7.0	7.6
Equity exposure - % of the portfolio (quarter ended Dec 2024)	57.0	63.4
Cumulative return ex Jan 2011	366.3	338.13
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.

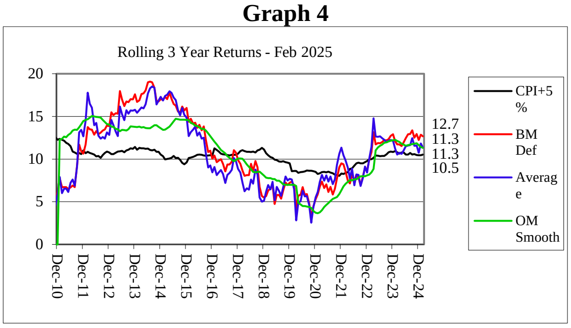
One must read the default portfolio's long-term return in the context of its initially low-risk profile, which the trustees only changed from the beginning of 2011 when they replaced the Metropolitan Absolute Return fund with the Allan Gray balanced portfolio.

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	6.4%	11.0%	10.7%

The table above presents one-year performance statistics. It highlights the performance differences between the three portfolios over the three years from March 2022 to February 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 February was 12.7%, the average was 11.3% vs. CPI plus 5%, currently on 10.5%.

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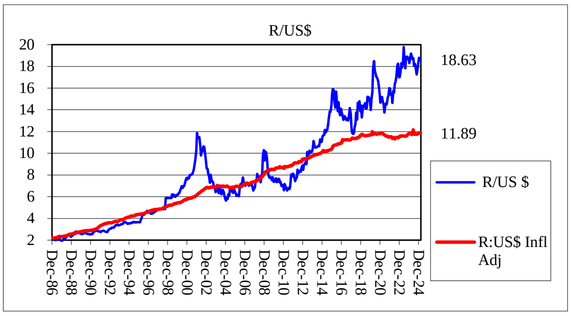
5. Review of Foreign Portfolio Flows and the Rand

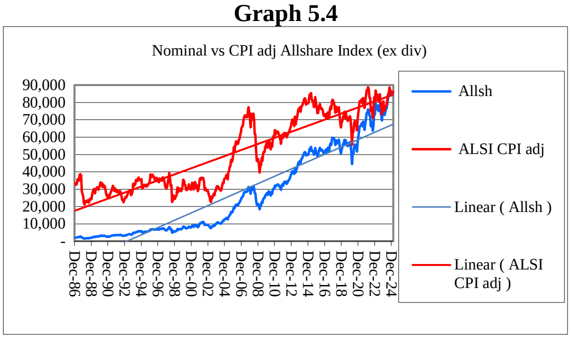
Graph 5.1 indicates that the Rand's fair value by our measure is 11.89 to the US Dollar, while it stood at 18.63 at the end of February 2025. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.



Graph 5.2 - removed
Graph 5.3 - removed

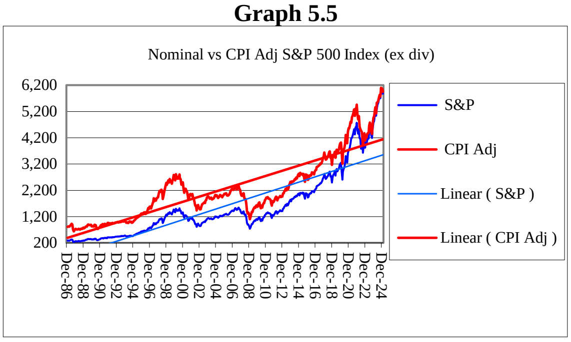
Graph 5.4 reflects the movement of the JSE since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. In nominal terms, the JSE grew by 10.4% per year since January 1987, excluding dividends of 3.2%. Namibian inflation over these 36 years was 7.5% per year. It is equivalent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

Graph 5.4



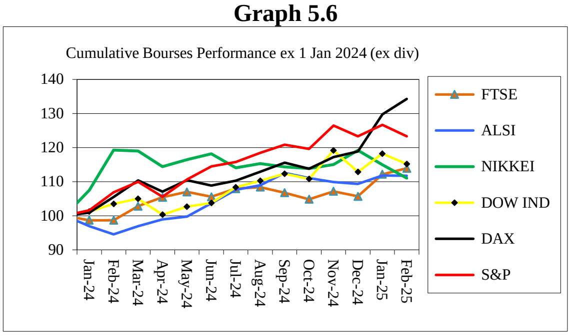
Graph 5.5 reflects the movement of the S&P500 Index since January 1987 in nominal and inflation-adjusted terms, with trend lines for these. Over 37 years since January 1987, the S&P500 Index grew by 8.4% per annum. US inflation over this period was 2.8%. It represents growth in real terms of 5.6% p.a. over 37 years, excluding dividends, or around 7.7% (including dividends).

Graph 5.5



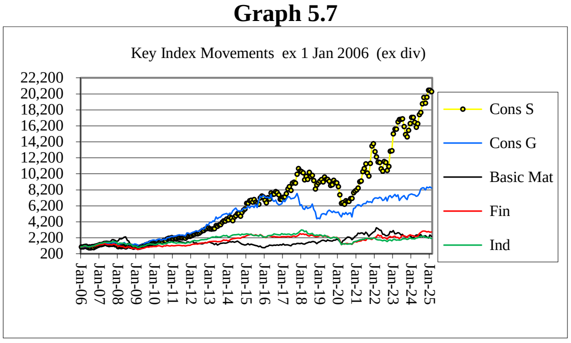
Graph 5.6 provides an interesting overview of some of the major global share indices, showing the DAX as the top-performing index since the start of 2024.

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: 16.99%; Consumer Goods: 11.7%; Financials: 5.8%; Basic Materials: 4.6%; and Industrials: 4.0%.

Graph 5.7



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6. The new world order and your investments

By Tilman Friedrich

The term "new world order" gained prominence during President George H.W. Bush's administration, particularly in the post-Cold War era and the Gulf War. In his 1991 State of the Union Address, President Bush shared his noble vision for this new order, emphasising a world where diverse nations collaborate to achieve universal aspirations such as peace, security, freedom, and the rule of law.

This envisioned order was characterised by strengthened international cooperation, collective security measures, and a commitment to resolving conflicts diplomatically. The aim was to move beyond the bipolar tensions of the Cold War, fostering a global environment where nations work together to uphold shared values and address common challenges.

In contrast, the new Trump administration's philosophy departs from this vision. President Trump's recent address to Congress highlighted a shift towards nationalism and a focus on American sovereignty. The administration's policies reflect a preference for bilateral agreements over multilateral institutions, emphasising "America First" principles. This approach includes reassessing traditional alliances and international commitments, protecting U.S. interests, reducing involvement in global governance structures, and unwinding all ‘woke’ practices and policies. At the recent Munich Security Conference, Vice President JD Vance gave further insight into the Trump administration’s new noble values, criticising the European allies about their lack of democracy, suppression of free speech, failure to control mass migration and the resulting internal security challenges, practices of marginalising populist movements and restricting genuine democratic choice.

Considering the wars the US waged during and after George HW Bush’s administration, it is clear that the noble vision of universal aspirations of peace, security, freedom, and the rule of law was only lip service. The ‘rules-based’ global system was meant to be the US’ rules. It offered little leeway to global superpowers China and Russia. Instead, it used the US control over the international financial system to sanction and suppress all countries unwilling to conform to the US rules-based system.

The Trump administration will pursue its professed beliefs and try to transform the old ‘new order’ to its ‘new world order’. It is already apparent that it will meet fierce resistance from its European partners. Will one presidential term give it enough time to achieve its goal? Behind every US administration is its security establishment that manages the US global hegemonial strategy. The long-term global strategy must be aimed at cementing the US’ global dominance. It is unlikely to change from one administration to the next. However, a new administration can temper and refocus the security establishment by a few key appointments in critical positions. We have seen many non-establishment appointments at the top government level. It will undoubtedly cascade down to lower levels and achieve a tempering and refocusing of the security establishments’ strategies.

Looking at developments in the US, it appears that the Trump administration is pursuing a quiet revolution of the US economic and political system. It is unlikely to give up its position of world hegemon and will have to get its Western partners to toe its line. China was seen as the US’s biggest adversary by successive administrations and is still seen the same way by the new administration. The position towards Russia has changed significantly, though, much to the dismay of many Western partners.

The approach towards Russia by successive US administrations since the fall of the Iron Curtain, despite many prominent cautionaries, was hard to follow and substantiates the assertion that new administrations can temper and refocus the security establishment’s long-term strategic direction. Henry Kissinger, former National Security Adviser (and Secretary of State) and probably the most prominent and respected adviser to various US administrations, warned in an interview by the Economist in 2022, “*Breaking Russia has become an objective; the long-term purpose should be to integrate it into a European order. If we treat Russia as an outlaw forever, we will force it into a permanent alliance with China.*” In ‘The Grand Chessboard’, the predecessor Naional Security Adviser, Zbigniew Brzezinski, stated in 1997 “, *The most dangerous scenario would be a grand coalition of China and Russia, united not by ideology but by complementary grievances. Our strategy should prevent their deep alignment.*” Yet, this is exactly where the world is today.

The Trump administration’s fresh overtures towards Russia could have their origin in the concern of Russia aligning with China. Will Russia cave in to these overtures without realising its strategic priorities? Unlikely. After its bad experience of the years since the fall of the Iron Curtain, Russia will be totally focused on its security interests, currently its western borders. Having Ukraine as a solid and secure buffer between NATO and Russia may ally its security fears. It will also require protecting the Russian minority’s civil rights and the removal of all trade restrictions before it might consider staying its China approach. The US administration’s challenge is to align Europe after the Biden administration united the West against Russia on a ‘very different ticket.’ Western politicians will be concerned about their credibility with their electorate and the world due to any dramatic change in direction and hence their resistance to the change.

President Trump has also criticised Europe for not carrying its fair share of its security. He intimated that the US might reduce its role in Europe and NATO. A possible reason might be that the US now wants to focus its efforts on containing China and leave Europe to its own devices, including its dealings with Russia. The Ukraine conflict has

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shown Europe how dependent it is on the US. Being left to its own devices concerning its security, Europe now wants to invest massively in its military capacity and capabilities. For one, the incoming German government now wants to discard its constitutional debt ceiling for taking up massive debt for this purpose.

An end to the Ukraine conflict will also lead to Western economies needing to adjust after they have massively ramped up their arms manufacturing capacity to prop up Ukraine. Ukraine imported nearly 9% of global arms exports, a massive share of global arms manufacturing. Now, Ukraine's infrastructure has to be rebuilt at a huge cost. In capitalising on this opportunity, European economies must now refocus to support the reconstruction of Ukraine. At the same time, Europe will increase its military spending and substantially lift its debt levels.

The demand for commodities will consequently remain high. The high demand will support global commodity prices and provide an economic underpin for countries like Namibia and South Africa. The increased military spending and indebtedness will lead to rising interest rates, eventually leading to increased inflation. Being an unproductive expenditure at the taxpayers' cost, it may induce a recession in Europe. Economic commentators also expect the US to face a recession from the imposition of tariffs. They believe higher tariffs will lead to higher prices and declining consumer spending. Because the US has been running a negative trade balance for many years, tariffs may improve it. They will cap demand for imported goods subject to foreign tariffs more than foreign demand for US in favour of home-made goods. In the meantime, the prevailing policy uncertainty has weakened the US Dollar. A weaker Dollar will promote the US's competitiveness in global markets and stimulate local production and job creation. To contain rising interest and inflation rates, the Trump administration, through the DOGE department, will try to reduce government expenditure and debt.

As a Namibian investor with a diversified portfolio, navigating the complexities of global financial markets has always required a thoughtful approach. However, the current international landscape presents unique challenges and opportunities. Despite geopolitical tensions abating somewhat, volatile economic conditions across different regions make informed investment decisions more crucial than ever. Investing is a train journey. While market conditions may be unpredictable, remaining focused on the long term is the key to success.

The following principles are key to managing market volatility.

1. Uncertainty is Inevitable
   - The global political and economic landscape is always shifting (e.g., Trump's policies, geopolitical tensions, market crashes).
   - Investors must accept and manage uncertainty rather than try to predict the future.
2. Volatility Creates Opportunities
   - Market swings are part of investing - share prices wouldn't increase without movement.
   - Short-term losses can be painful, but long-term growth often outweighs them.
   - After major downturns (e.g., Dotcom bubble, 2008 GFC), markets have historically rebounded significantly.
3. Avoid Panic Selling During Market Crashes
   - Selling in a downturn locks in losses and prevents participation in the recovery.
   - Successful investors see downturns as opportunities to buy discounted-quality assets.
4. Rules for Long-Term Investing
   - Buy quality stocks - companies with strong revenue growth and reinvestment.
   - Hold investments for the long term - avoid reacting to short-term fluctuations.
   - Monitor your portfolio - business environments change, and even great companies can decline over time (e.g., Kodak, Nokia).
   - Diversify wisely - Keep a core portfolio (90%) for stable, long-term investments and a smaller portion (10%) for higher-risk opportunities.
5. Stay Focused on the Long-Term Goal
   - Don't get distracted by daily market noise (like Trump's policies or sudden crashes).
   - Reinvest dividends instead of spending them.
   - Look for opportunities when fear drives prices down - market volatility can be a chance to buy quality stocks at better prices.

While focusing on the long term is critical in managing your investments and will help you overcome unpredictable, volatile market conditions, a short-term investment horizon would call for further measures. The investor must understand his needs and how unpredictable, volatile, and short-term market conditions might impact them. Here are important short-term investment considerations:

1. Defensive Positioning with a Focus on Value
   - A defensive investment strategy is prudent, given the potential for global conflict and economic downturns. The JSE, with its trailing P/E ratio of around 15 and high earnings yield of 6.6%, offers fair value investing relative to its long-term average P/E ratio of 14.6 and earning yield of 7.2%. While the South African economy faces challenges, these valuations may offer a margin of safety, especially if demand for its minerals escalates.

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2. Safe-Haven Assets
   - In times of geopolitical instability, safe-haven assets like gold, US Treasuries, and the Swiss franc have historically performed well. Allocating a portion of your discretionary assets to these instruments can provide a buffer against market volatility. Additionally, consider increasing your cash holdings, giving you flexibility to capitalise on opportunities as they arise.
3. Geographic Diversification
   - While your non-discretionary pension investments are already spread across South Africa, Namibia, and primarily the US, further diversifying your discretionary assets may be wise. Consider markets less likely to be directly impacted by conflict, such as those in Africa, South America, Switzerland, or even parts of Southeast Asia that are neutral in global politics.
4. Sectoral Rotation
   - In uncertain times, sectoral rotation towards defensive sectors like utilities, consumer staples, and healthcare can offer stability. These sectors typically have lower volatility and are less sensitive to economic cycles. Additionally, increasing exposure to commodities and energy stocks could benefit from the rising demand for raw materials.

Conclusion:

Market volatility is normal and should not derail a well-planned long-term investment strategy. Investors can navigate the ups and downs by staying the course, focusing on long-term growth, and taking advantage of market dips. Investors must know their needs and adapt their investment strategy to short-term needs.

Investing during times of uncertainty requires a balanced approach that combines defensive strategies with opportunistic investments. While the potential for global conflict and economic downturns poses significant risks, it also presents opportunities for those who can navigate the complexities of the market. By focusing on value, diversifying geographically, and being flexible in your asset allocation, you can position yourself to protect and grow your discretionary assets in future years.

These strategies should be tailored to your financial situation, risk tolerance, long-term goals and investment horizon. Consulting with a financial advisor can provide personalised guidance to help you make the best decisions for your portfolio.