RFLAUN

Retirement Fund for Local Authorities and Utility Services in Namibia

NEWSLETTER

MARCH 2023

EDITOR'S DESK

WE would like to welcome all our loyal readers to the first edition of the newsletter for 2023. We are looking forward to engaging you once again during the course of this year via this platform.

Join me in congratulating RFLAUN on its 31st anniversary.

On 1 March 2023, RFLAUN celebrated its 31 years anniversary in existence, and we aim to continue offering our members and their dependants with peace of mind in order for you to one day retire with dignity and enjoy your old-age in a manner that you can still maintain your living standards.

Here are some of the milestones achieved over these 31 years:

- With assets under management of over N$6.3 billion, RFLAUN is the second largest Fund in Namibia but the biggest Defined Contribution Fund in Namibia.
- Since 2013, RFLAUN has been committing 45% of its assets under management in the development and economic stimulus of Namibia.
- Currently the Fund has 51 participating employers under its umbrella including the majority of Local Authorities, CENORED and RFLAUN itself.
- RFLAUN embraced the digital inclusivity by introducing the online member portal via the Fund's website and the social media platforms as efficient communication mediums.
- We have been receiving Unqualified Audit Reports consecutively and awarded the Diamond Arrow PMR award for the past 6 years.
- The ship of RFLAUN also had its rough days at sea. In 2018, for the first time in its illustrious history, the Fund`s market value portfolio returned -0.8%. This after consecutive years of positive returns which is just evident again that we are all part of the Global village and that we are not immune to geo-political events that impacts on market performances.

Mr. Julianus Rukamba
Senior Officer: Information and Marketing

Keep a look out for the Member Alert Communications that we publish during the course of the year. The Member Alert is a tool that provides instant communication to the members and it also serves as a tool that is informative as well as educational.

We hope that you enjoy the publication, and we urge you to keep an eye on the next communication from the Fund. We have exciting developments coming your way.

ANNUAL INVESTMENT RETURNS

The Funds' total assets as at 31 December 2022 amounted to **N$6,326,555,285** which comprises of the portfolios below:

Market Value Portfolio N$5,625,049,517

Capital Protection Portfolio (CPO 1) (Old Mutual) N$37,487,176

Capital Protection Portfolio (CPO 2) (Sanlam, Old Mutual, Momentum & Standard Bank) N$664,018,592

The table below provides an indication of the monthly investment returns earned on the respective portfolios for the Fund year from 1 January 2022 to 31 December 2022.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year 2022
Market Value Portfolio	-1.0	0.6	-1.1	-0.7	0.4	-3.3	2.6	0.0	-2.0	4.5	3.5	-0.8	**2.4%**
CPO 1	1.1	0.9	4.1	0.5	0.5	0.6	0.5	0.5	0.5	0.2	0.5	0.5	**10.8%**
CPO 2	0.7	0.6	1.3	0.5	0.5	0.5	0.3	0.5	0.5	0.3	0.4	0.6	**7.1%**

MARKET COMMENTARY Q4 2022

As we started a new year with new expectations and hopes we unfortunately once again have to first pause and look back over yet another very challenging year that was 2022. In 2020 and 2021 we faced the challenges brought about by Covid and the disruption it had in terms of our daily lives and livelihood. Unfortunately we also experienced losses of lives during these unprecedented periods as the virus kept on mutation and struck the world population in consecutive waves.

Most of us probably started 2022 with a sense of optimism considering that it appeared that the worst of the virus were behind us and that we could continue with our daily lives as before without the restrictions that were imposed during the pandemic. Said optimism was however short-lived with the invasion of Ukraine by Russia towards the end of February 2022. The immediate impact as a result of the invasion was that oil prices increased to over U$ 120 a barrel and, considering that between Russia and Ukraine they are responsible for 30% of the World`s wheat production and 25% of the World`s fertiliser production, we then also saw the prices of these and other commodities increasing substantially as a result.

These events in Ukraine, plus the fact that inflation was already on the rise from early 2021 due to the massive stimulus packages that were made available by Central Banks during the Covid lockdown periods, as well as global supply chain constraints further fuelled the inflation fires in 2022 where it is currently now the single biggest challenge being faced by Countries in the World. What is especially of concern is that food and energy prices have risen sharply over the last couple of months and are currently at record high levels. These basic items like bread, maizemeal, sunflower oil etc are what we all use on a daily basis and in terms of the petrol price we have seen it increased from about N$ 12 per litre less than 18 months ago to close to N$ 22 per litre at the moment.

Interest rates then have also risen sharply since the beginning of 2022 as Central Banks tried and curb the upward trajectory of inflation. In Namibia the current Repo rate stands at 6.75% but there are expectations that it will increase by another between 50bp and 75bp by Q2 of 2023 as Central Banks world-wide want to make absolutely sure that inflation is under control and within its targeted ranges. This will leave us as already vulnerable consumers under even more pressure to make ends meet.

A further major influence during 2022 was China. Where Russia only makes up about 3% of the Word economy, China is currently the second largest economy in the World and therefore events and developments within China needs to be closely monitored as it will have massive implications for global growth. As an example of their importance from an economic perspective approximately 40% of the goods being used globally are either produced or manufactured in China. Here on the southern tip of Africa we are especially vulnerable considering that most of our resources are exported to China.

Challenges out of China were their zero Covid policy (which has at least been relaxed since the beginning of the year), reforms and restrictions being imposed with regards to the technology and education sectors and also their massive infrastructure expenditure over the last couple of decades that is just not sustainable and where we have now started to see massive selloffs and construction companies needing financial bailouts from the Chinese government.

The supply disruptions of the past year are coming to an end and the global economy, with the notable exception of China, is entering a new post-pandemic normality. Following wide-spread public protest against its policy of controlling the pandemic using draconian quarantines, China has now adopted the strategy, which has proved effective elsewhere, of relying on vaccination and allowing herd immunity to develop.

From an economic perspective 2022 was unfortunately not a rosy picture. There were a lot of uncertainty especially from a geo-political perspective which resulted in huge market volatility and one will have to go back to the 1960`s when markets faced similar challenges. Fortunately the Fund have a diversified strategy whereby not all of its assets are invested in one geographical area and also not only in one specific asset class. The Fund`s assets are further managed by different styles of managers with different investment philosophies and strategies. This investment strategy and approached enabled the Fund to "weather the storm" to a large extent.

It is unfortunately too early to tell whether the worse are now behind us but at least there are positive signs that we might have turned the corner. The two main factors that will determine whether we are going to get out of the woods, and stay out, are inflation to come down within its targeted ranges which will result in interest rates being reduced, as well as geo-political stability without any further escalations in existing, or new conflicts. The say further interest rate hikes will be necessary to bring inflation under control and rates will remain high for longer than the markets currently expect. The markets are more sanguine because the are pricing in a significant slowdown and possibly a recession in 2023.

A recession is what is required to bring inflation under control and that is what many market participants expect. However, present times are very unusual and there is a wide range of expectations regarding the prospects for 2023. The simple truth is no one knows. At least 2023 started on a positive note as markets reacted favourable as it appears that inflation has peaked and are starting to level off and the fact that China has started easing its rigid Covid restrictions that were enforced the last three years.

Loadshedding and its impact not only on the South African economy, but impact on potential social stability, is however one of the main concerns for the region considering our heavy dependence of South Africa from an economic perspective. NERSA`S recent approval of an 18% increase in electricity tariffs will unfortunately not assist in reigning in inflation, which was showing signs of coming down. High unemployment levels both in Namibia as well as South Africa are further reason for concern and needs to be addressed by both Governments as a matter of utmost urgency and importance.

NAMIBIAN AND SOUTH AFRICAN ECONOMY

South Africa and Namibia are also entering a new normality. One sector which has been slow to recover from the pandemic is Tourism and Hospitality, which is an important source of employment. Last year, Europe grew much faster than expected due to a record summer tourism season. South Africa and Namibia are now benefiting similarly. However, in an environment of a global slowdown, it will be difficult for both countries to escape from their current stagnation in 2023.

The implosion of Eskom is seriously damaging the South African economy and could potentially also negatively affect Namibia. During the past quarter, loadshedding reached record levels in South Africa. It seems that, as a consequence of years of mismanagement and corruption, the system is decaying faster than it can be fixed. The resignation of the CEO in response to intense political pressure is concerning. However, some clouds have a silver lining. The solution to the electricity availability problem lies in a significant investment by the private sector to get off the grid. This investment should have a positive impact on the economy over the next two years.

Both Namibian and South African consumer price index remain elevated. In November, South African inflation was 7.4%, only marginally lower than the peak of 7.8% in July. In Namibia, inflation in November was 7% and has also marginally subsided from its August peak of 7.3%. Food inflation at 9.4% in Namibia and 12.5% in South Africa is however a course for concern. Food has a disproportionate impact on wage inflation and can trigger a wage price spiral. Namibian In the first three quarters of 2022, Namibia's real GDP expanded marginally and is almost back to its pre-pandemic level. The improvement is still being driven by overall mining output after production rose.

With the worldwide downturn that would affect export demand, notably for the diamond mining and manufacturing industries, Namibia's real GDP growth is expected to drop to 2.6% in 2023 from an expansion of 3.9% in 2022, while the rebound in tourism. Namibia's headline inflation rate decreased by 0.1 percentage points to 6.9% y/y in December 2022, continuing to fall from its peak of 7.3% y/y in August 2022 and from 7.0% y/y the previous month. Lower transportation costs, which partially offset the increase in food and non-alcoholic beverage prices, were the key factor in the price deceleration. The annual rate of inflation for all transport prices decreased further to 14.8% from 18.3% in November 2022. In the meantime, increasing prices for bread and cereals drove food and non-alcoholic beverage inflation to a 5-year high of 11.8% y/y from 9.4% in the previous month.

As a result, Namibia is able to maintain the required reserves to secure the peg by limiting capital outflows. We anticipate that the central bank will follow the SARB's lead and increase its repo rate by 25 basis points, bringing Namibia's repo rate to 7% in February 2023. Following that, we anticipate Namibia's repo rate to stay unchanged for the remainder of 2023 as long as inflation stays over the inflation target's 4.5% midpoint.