NAPOTEL
PENSION FUND

NEWSLETTER

JUNE 2022

INVESTMENTS

Q1 2022 has been characterised by uncertainty was seen in the global financial markets, which was mainly driven by geo-political tensions between Russia and Ukraine, multi-decade high inflation, interest rate hikes and global supply chain challenges. This led to a decline in global equities. The heavy sanctions that the West imposed on Russia has caused inflation concerns and high commodity prices such as oil and wheat to rise globally. US economy contracted by an annualised 1.4% during Q1 2022. This is the first decline since the Q2 2020. Net exports declined at an accelerating pace as imports continued to climb on high demand, private inventories decreased, and the withdrawal of fiscal spending all combined to offset continued strength in consumer and businesses

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outlays. US inflation is rose to 8.6% and the core CPI (excluding volatile food and energy prices) rose 6.0% in May 2022. Energy prices broadly rose 34.6%, food prices climbed 10.1% and shelter costs increased 5.5% year on year (YoY). The Federal Reserve (Fed) in May 2022 raised its benchmark interest rate by 0.50% and it is expected to raise this rate again in June 2022 by more than 0.50% because of soaring inflation. Geopolitical tensions, high energy costs, high inflation and low consumer sentiment might trigger the US economy into recession.

South Africa GDP for Q1 2022 accelerated by annualised 1.9%. The manufacturing industry increased by 4.9% in Q1 2022, contributing 0.6% to GDP growth. Growth was detracted from the mining and construction sectors. Mining production declined 1.1% and construction sector contracted 0.7% in the quarter. South Africa South African inflation rose to 5.9% YoY in April 2022, which was largely driven by transport

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inflation (oil prices) which has brought food inflation into the mix as well. The South African Reserve Bank (SARB) increased its base interest rate by 0.50% to bring the repo rate to 4.75%, at the Monetary Policy Committee (MPC) meeting in May 2022.

Moody's downgraded the long-term issuer and senior unsecured ratings of the Government of Namibia to B1 from Ba3 with an outlook changed to stable from negative. The reasons for the downgrade was debt to GDP which is forecasted to increase from 67.3% of GDP to reach 75% in the next three years. Amid of debt servicing interest payments which are at 15.5% of revenue, reflecting increased borrowing costs. Moody's noted that stagnating trend growth and income levels point to persistent social spending pressures, higher food and energy prices triggered by the Russian invasion of Ukraine, are increasing the risk of fiscal slippages. Namibia inflation rate rose to 5.6% Prices in the overall NCPI basket rose by 1.4% month on month, the largest monthly increase since January 2018. Prices for goods increased by 7.5% while prices for services increased by 3.1% on 12 month. Drivers of inflation was transport which was up 9.8% and Food & non-alcoholic beverages was up 5.7% YoY.

MARKETS

ASSET CLASS	Q1 2022	2021	2020	2019	2018	1 YEAR	3 YEAR	5 YEAR
Nam Equities (Overall)	21.2%	4.5%	4.6%	-2.0%	33.9%	47.7%	17.6%	16.8%
Nam Equities (Local)	-2.1%	7.2%	3.0%	-22.2%	21.6%	21.5%	-2.3%	2.0%
Nam Property	18.6%	6.2%	8.5%	-25.1%	-30.2%	-7.7%	-13.7%	-6.0%
Nam Bonds	0.0%	11.0%	12.1%	14.4%	4.4%	5.8%	8.8%	10.4%
Nam Cash	1.2%	7.8%	7.5%	5.8%	4.2%	4.4%	5.6%	6.5%
SA Equties	3.8%	-8.5%	12.0%	7.0%	29.2%	18.6%	14.2%	11.4%
SA Property	-1.6%	-25.0%	-0.4%	-35.5%	38.6%	26.3%	-4.7%	-5.7%
SA Bonds	1.9%	7.7%	10.3%	8.7%	8.4%	12.4%	8.4%	8.9%
SA Cash	1.0%	7.2%	7.3%	5.4%	3.8%	3.9%	5.2%	6.1%
Offshore Equities	-13.2%	6.1%	24.1%	21.7%	32.4%	9.0%	15.5%	14.4%
Offshore Property	-11.5%	8.0%	19.5%	-2.5%	33.2%	11.3%	6.2%	8.9%
Offshore Bonds	-12.7%	19.1%	4.6%	11.5%	6.2%	-4.6%	1.7%	4.0%
Offshore Cash	-8.4%	19.3%	-0.1%	6.4%	9.0%	-0.8%	1.6%	3.4%
NCPI	**1.8%**	**5.1%**	**2.6%**	**2.4%**	**4.5%**	**4.5%**	**3.3%**	**3.6%**
Namibia Average	**7.8%**	**7.3%**	**7.1%**	**-5.8%**	**6.8%**	**14.3%**	**3.2%**	**5.9%**
Average (NAM, SA & Offshore)	**-0.1%**	**5.4%**	**8.7%**	**-0.5%**	**15.0%**	**11.4%**	**4.9%**	**6.2%**

Source: Morningstar; NMG Consulting June 2022

The offshore equities were down -13.2%, Namibian equities (local) were down -2.1%, whilst South African equities and Namibian equities (overall) were up 3.8%. and 21.24.6%, respectively. Emerging Market (EM) equities outperformed Developed Markets (DM) equities. This is because of elevated valuations and mispricing of developed markets and weakening of the US dollar against the Namibian dollar and other EM currencies. Commodities shares were supported by the geopolitical risks and supply chain constraints especially in the Black Sea and China. Most asset classes performed poorly, especially the offshore asset classes which had an average return of -11.4% in Q1 2022, followed by the South African asset classes which had an average return of 1.3%. Then Namibian asset

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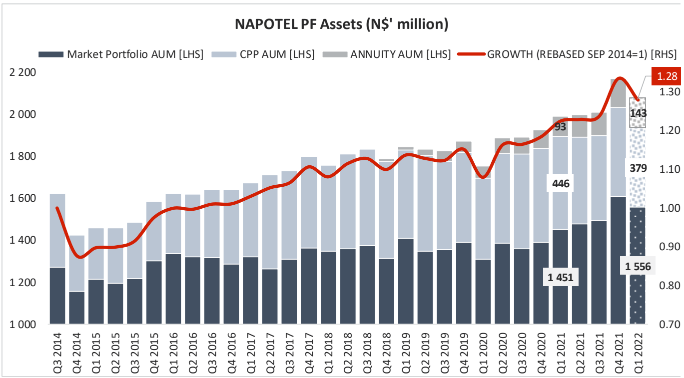
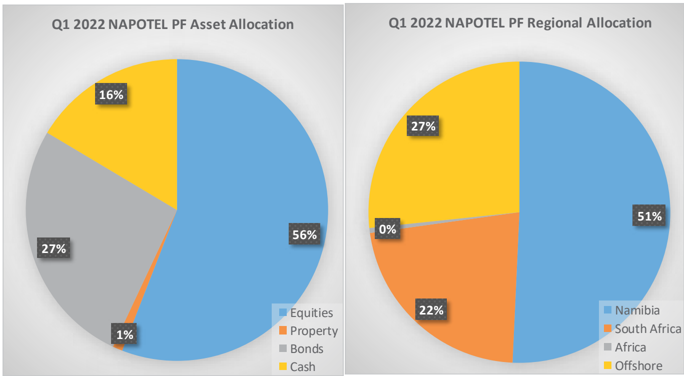
classes performed well. Their Q1 2022 return average, excluding Namibian equities (overall) was 4.4%. Generally, the Q1 2022 returns of most asset classes were below Q1 2022 inflation rate, 1.8%. Q1 2022 was mainly characterised by selloffs in US, UK, European and mainland Chinese equities. Growth oriented equities tumbled by considerably more than value-oriented shares. Steepness of bond curves continued across all maturities in the US, UK, Eurozone, South Africa and Namibia in Q1 2022. Generally, longer-term rates increased by more than short-term rates, resulting in steeper yield curves and partially reversing the flattening and in the case of US Treasuries it reversed inversion. Bonds were universally negative in Q1 2022, except for South Africa as interest rates rose.

FUND ASSETS AND ALLOCATION

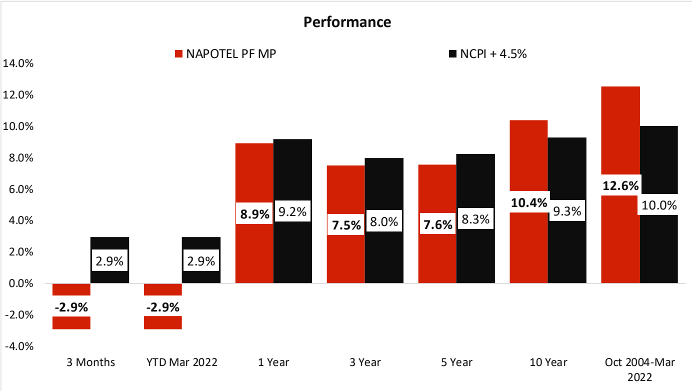


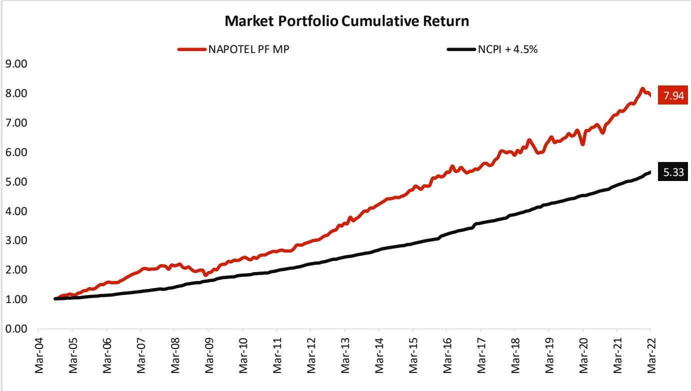


Source: Various Asset Managers; NMG Consulting June 2022

The Fund's total assets increased by 4.5% QoQ to N$2 078.3 million, despite a pullback in Q1 2022 returns. The Market Portfolio had a net cashflow of -N$6.3 million and the net cashflow for the Capital Protection Portfolio was -N$29.2 million. There was a positive cashflow in the Living Annuities of N$10.7 million. The total assets decreased by N$90.8 million from Q4 2021 to Q1 2022 due to negative return recorded in the quarter. NinetyOne Namibia lost N$44.6 million, the most of all the underlying managers. Allan Gray Namibia and M&G Investments Namibia lost N$5.4 million and N$3.3 million, respectively. 56% of the total assets are invested in equities, an asset class that was so volatile in Q1 2022. On regional asset allocation, 51% of the total assets are invested in Namibia. The Fund is required to invest at least 45% of its total assets in Namibia despite illiquidity risk and less opportunities in the Namibia landscape compared to offshore and South Africa.

MARKET PORTFOLIO RETURNS

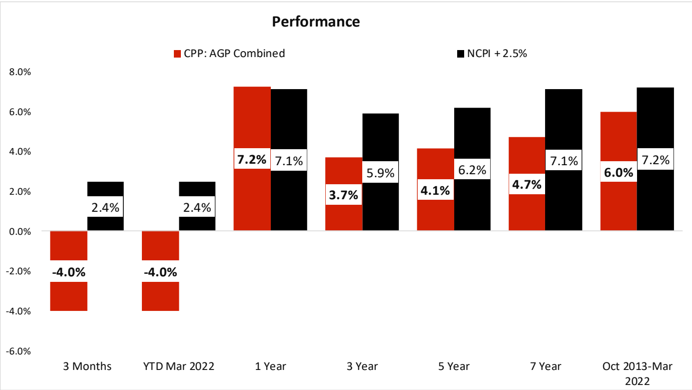


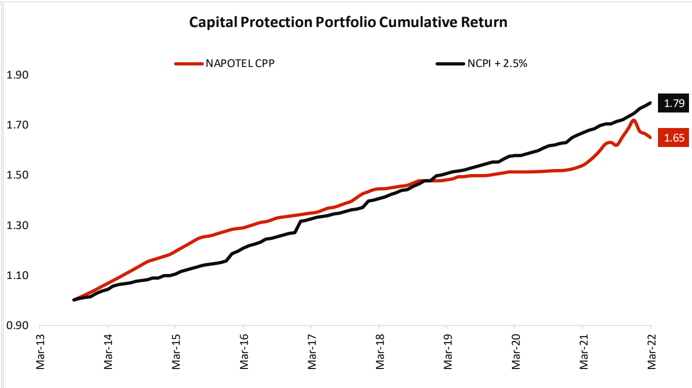


Source: Various Asset Managers; NMG Consulting June 2022

The Market Portfolio underperformed the benchmark, NCPI + 4.5%, over the quarter under review, by 5.7%. The 1-year returns 8.9% vs benchmark with 9.2%. The 1-year returns are 4.2% above inflation. The Fund has also marginally underperformed medium-term periods (3-, and 5-years when comparing the, NCPI + 4.5%) by 0.4%, and 0.6%, respectively. Over long term (10-years and since October 2004 to March 2022), the Fund has outperformed the benchmark by 1.0% and 2.3%, respectively. Accordingly, the valuations for Namibia and South Africa shares versus global stocks remain quite attractive as well as bonds. The offshore exposure was the main reason for underperformance.

CAPITAL PROTECTION PORTFOLIO RETURNS



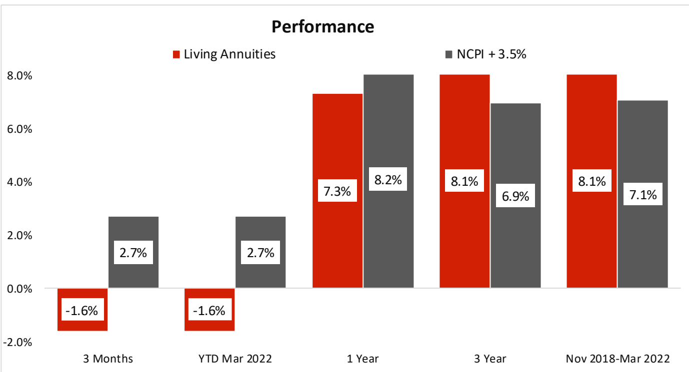


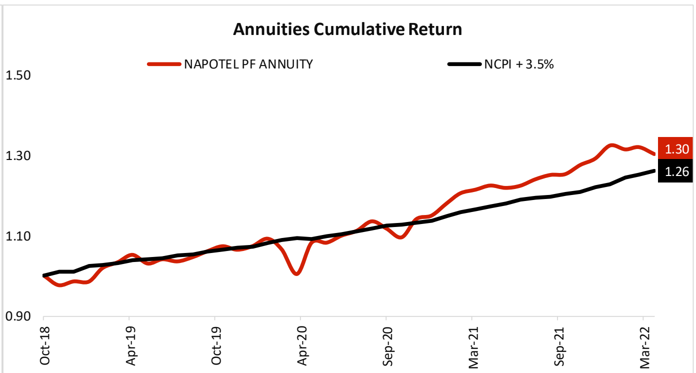
Source: Various Asset Managers; NMG Consulting June 2022

Over 5 years, (ending March 2022), the Capital Protection Portfolio had annualised returns of 4.1% and its benchmark NCPI + 2.5% had returns of 6.2%. Although the returns are below the benchmark by 2.1%, the Fund outperformed the benchmark by an annualised 0.4% over 5 years. Since Q3 2021, the Capital Protection Portfolio returns have improved, though the performance is still below the benchmark. In Q1 2021 the 5-year annualised return was 3.6% whilst inflation was 4.2% (hence, the returns below inflation by 0.6%). Improvement in the returns were mainly driven by migrating from Old Mutual AGP Secure to Ninety-One Namibia Opportunity and Capricorn Investment Fund.

LIVING ANNUITIES RETURNS

Living annuities have recorded an annualised return of 8.1% whilst the benchmark, NCPI + 3.5%, had a return of 7.1% since inception (November 2018) to March 2022. Living annuities also outperformed the benchmark on a 3-year annualised by 1.2%. However, over short term, the annuities underperformed by 4.2% and 0.8% in Q1 2022 and over 1 year ending March 2022.





Source: Various Asset Managers; NMG Consulting June 2022

BENEFIT AND PROJECTION STATEMENTS

The Napotel Pension Fund has issued the annual benefit statements as well as projection statements to our members.

The annual benefit statements will be issued as at 31 October and not at Fund year-end, which is 30 September, going forward. The statements will therefore now be distributed annually in January and not in December, as was the norm.

The reason for the change is to provide the members with up to date information with reference to the risk benefits.

1. The risk benefits issued by the Fund are renewed annually effective 1 October and so the benefits reflected in the previous benefit statements, which were as at 30 September, were relevant to the prior year.
2. The risk benefits referred to are the death, funeral and disability benefits offered by the Fund.

Your benefit statement provides you with the total savings (your Fund Credit) which you have accumulated within the Fund so far. However, you may want to know not only what you have saved, but also how much your savings could grow until you retire, or what level of income these savings can provide you in retirement.

The projection statement shows you what your pension at retirement might be, in terms of today's money, as well as how much you need to save for a reasonable pension.

It is a useful tool for your retirement planning because it shows you whether you are saving and investing enough. You can then use this information to plan if you feel that you do not have enough retirement savings for the pension you want.

The projections are based on various assumptions and investment growth scenarios, as well as on your current Fund Credit, current pensionable salary, net contributions and your normal retirement age.

Remember the projections are potential outcomes - not guaranteed outcomes.

PROPOSED REGULATION REGARDING COMPULSORY PRESERVATION OF RETIREMENT BENEFITS

We refer to the announcement of 13 May 2022 regarding the proposed Financial Institutions and Markets Act (FIMA) regulation with regard to compulsory preservation of retirement benefits.

Please note that The Ministry of Finance has issued a public notice for the postponement of compulsory preservation of retirement benefits, to allow adequate time for broader consultations on the envisaged regulation.

We are informed that the procedure on how the consultations will be undertaken will be announced in due course. The Trustees will continue to monitor developments and will communicate with members as and when further material developments regarding the proposed regulation happen.

Please contact the Principal Officer, Ms. Getrud Baisako, at email **baisakog@telecom.na** should you have any questions and queries.