Volume 7, No. 1, January 2011

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2011

By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (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.

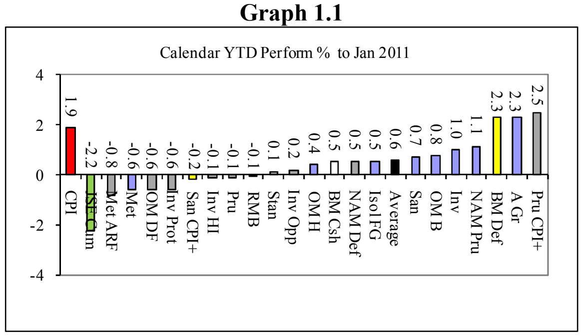
1. Review of Portfolio Performance

In **January** the **average prudential balanced portfolio** returned 0.57% (December 2.62%). Top performer is Allan Gray (2.29%), while Metropolitan (minus 0.62%) takes bottom spot. In very broad terms, Allan Gray relative to the average prudential balanced portfolio, had 8% lower exposure to onshore equities and a 4% lower exposure to onshore bonds, with a compensating 11% higher exposure to offshore assets. Purely the weakening of the Rand in the course of January 2011 should thus have lifted Allan Gray's relative performance by around 1.1%. Metropolitan relative to the average prudential balanced portfolio, was 12% overweight onshore equities with a compensating underweight in onshore cash.

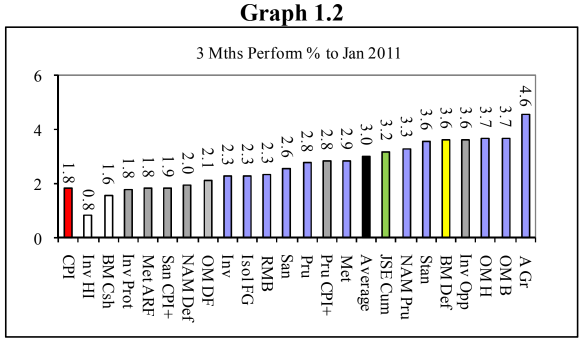
Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced portfolios (black bar), the JSE Allshare Index (green bar), and the CPI (red bar). Benchmark investors should take note of the performance of the default portfolio (yellow bar), which now represents a combination of Prudential Namibia Inflation Plus and Allan Gray. Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer Price Index	CPI Cum (red)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Aver (black)
Special Mandate Portfolios	
Money market	BM Csh (no colour)
Investec High Income (interest bearing assets)	Inv HI (no colour)
Investec Protector	Inv Prot (grey)
Investec Opportunity Fund	Inv Opp (grey)
Metropolitan Absolute Return	Met ARF (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Sanlam Inflation Plus	San CPI+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Inv (blue)
Investment Solutions Bal Growth, prev. Focused Growth (multimanager)	Isol FG (blue)
Prudential Managed	Prud (blue)
Metropolitan Managed	Met (blue)
NAM Prudential Balanced	NAM (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
RMB Managed	RMB (blue)
Sanlam Managed	San (blue)
Stanlib Managed	Stan (blue)

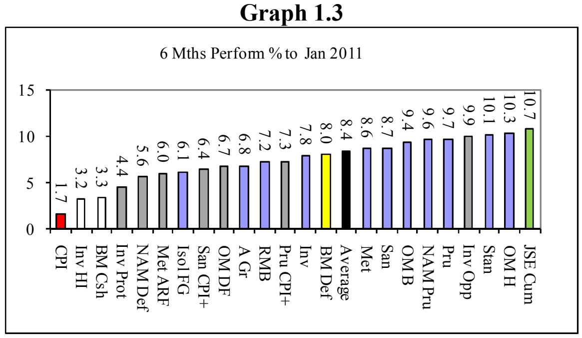
Graph 1.1



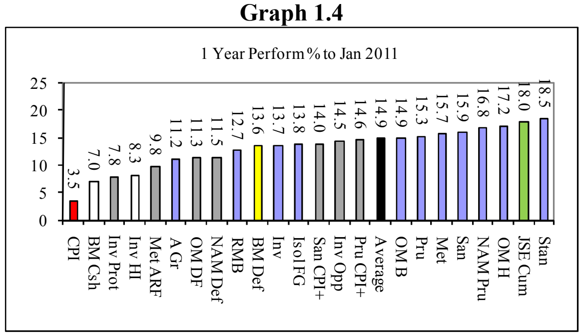
Graph 1.2



Graph 1.3



Graph 1.4



Volume 7, No. 1, January 2011

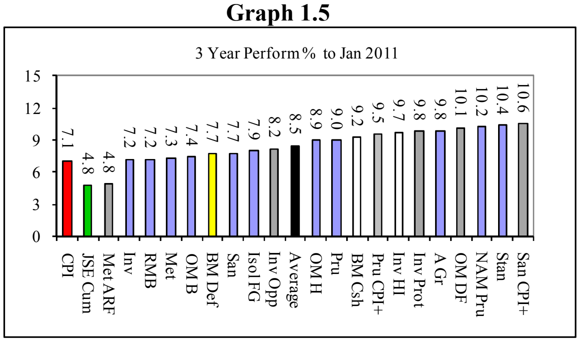
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2011

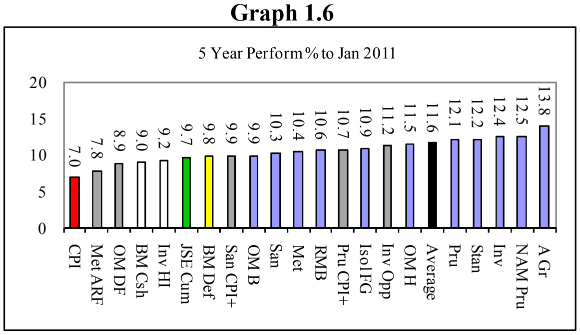
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

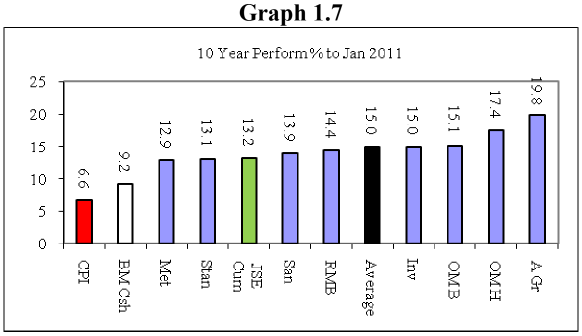
Graph 1.5



Graph 1.6

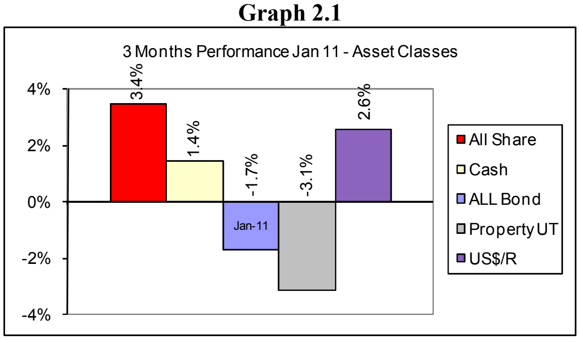


Graph 1.7

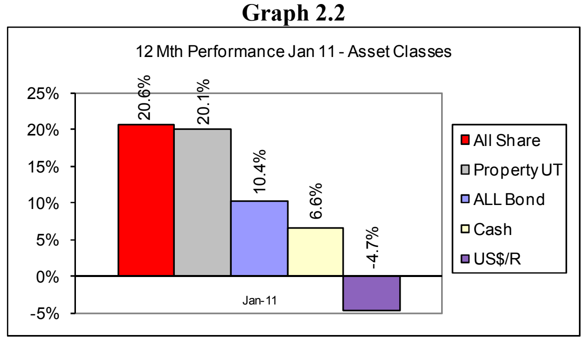


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

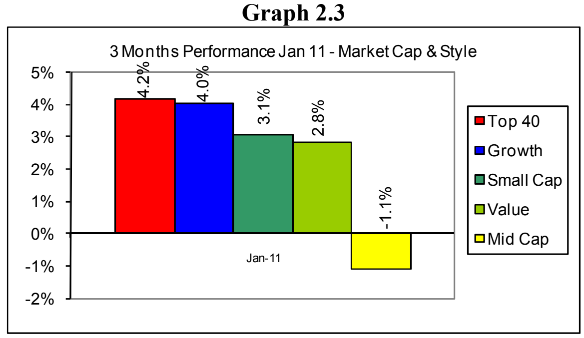
Graph 2.1



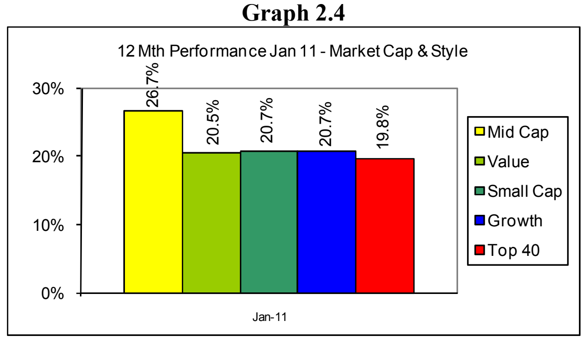
Graph 2.2



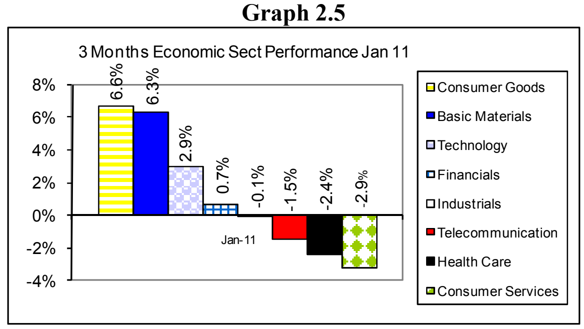
Graph 2.3



Graph 2.4



Graph 2.5



Volume 7, No. 1, January 2011

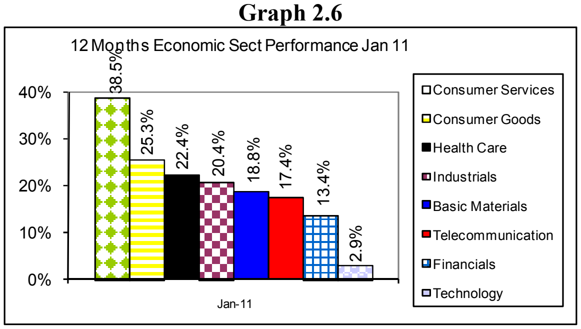
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2011

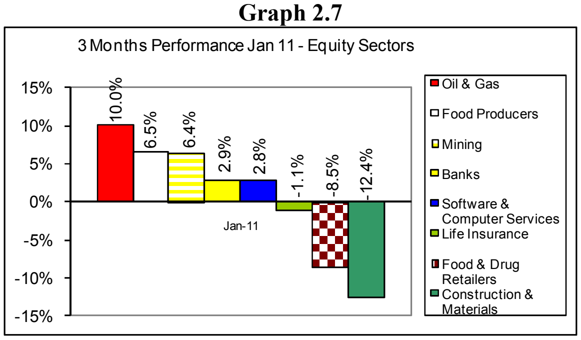
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

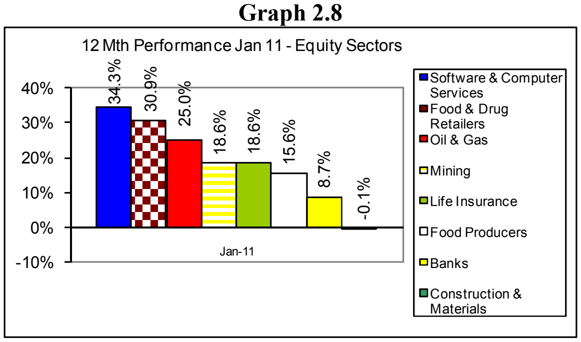
Graph 2.6



Graph 2.7



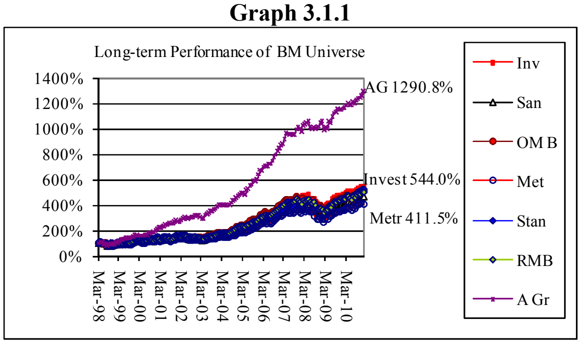
Graph 2.8



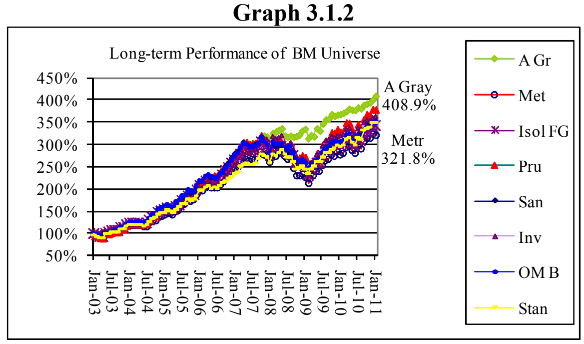
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

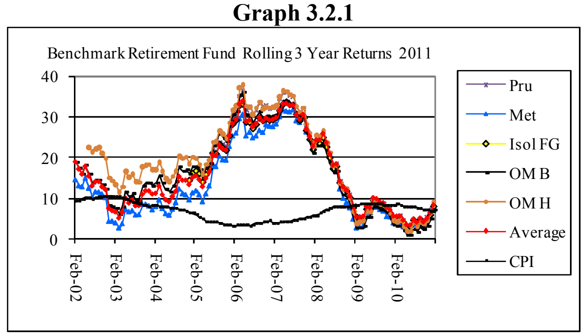


Graph 3.1.2

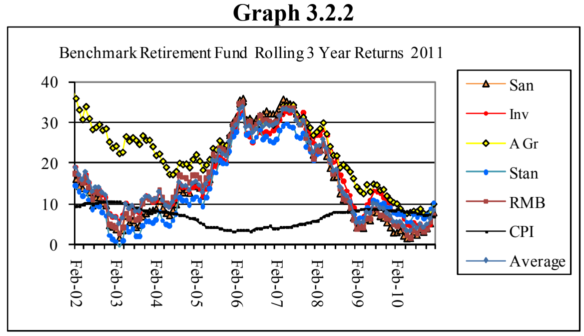


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1



Graph 3.2.2



Benchmark Retirement Fund

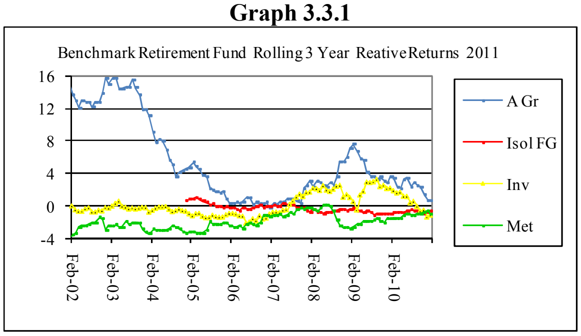
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2011

By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

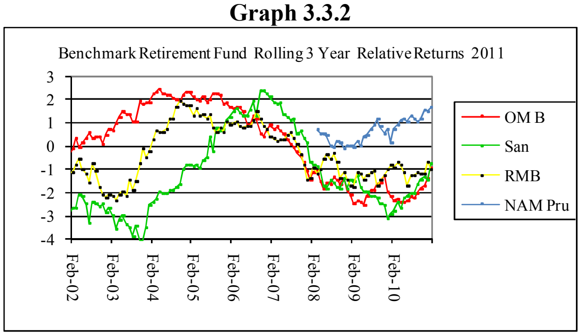
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

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

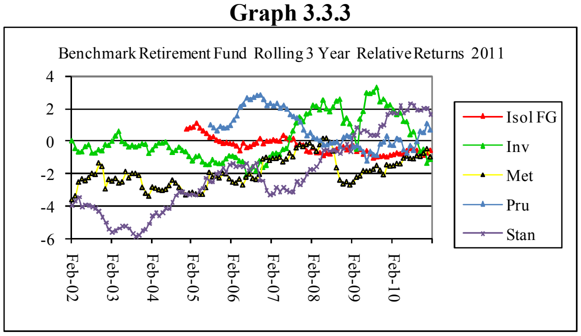
Graph 3.3.1



Graph 3.3.2

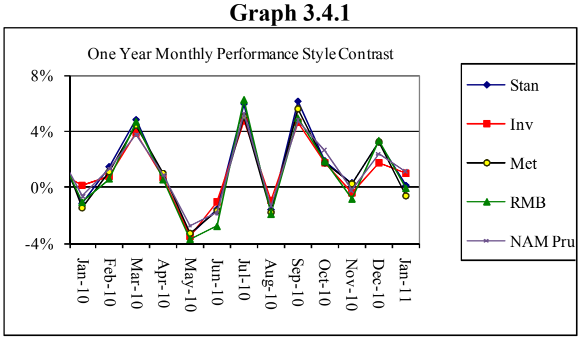


Graph 3.3.3

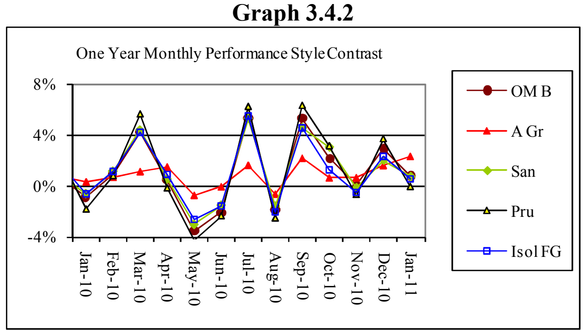


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

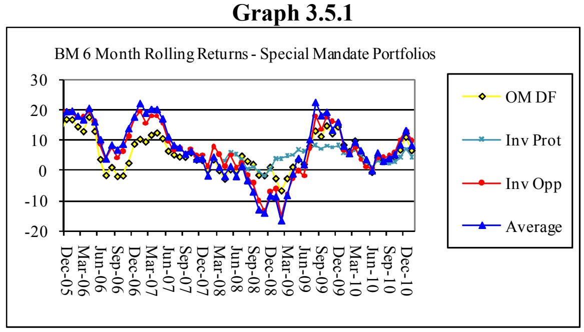


Graph 3.4.2

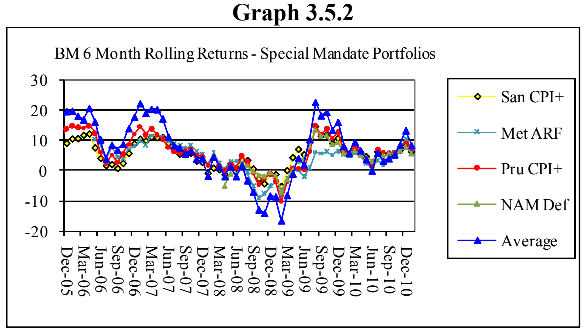


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1



Graph 3.5.2



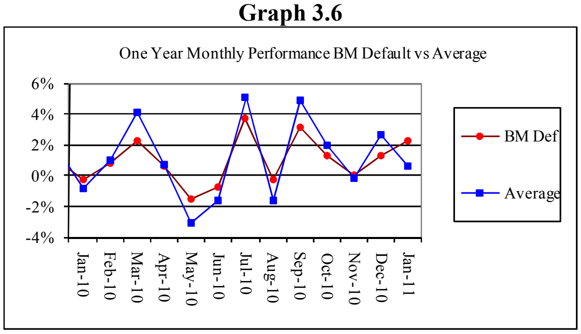
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2011

By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (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.

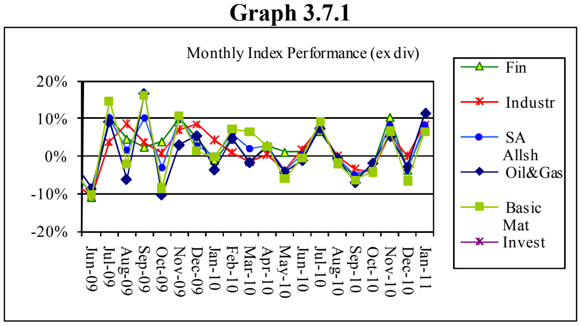
3.6 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 3.6

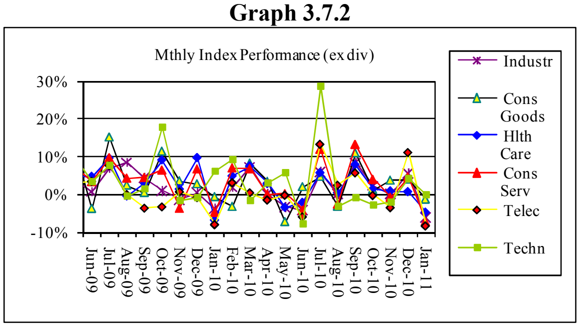


3.7 Monthly and one year cumulative performance of key indices (excluding dividends)

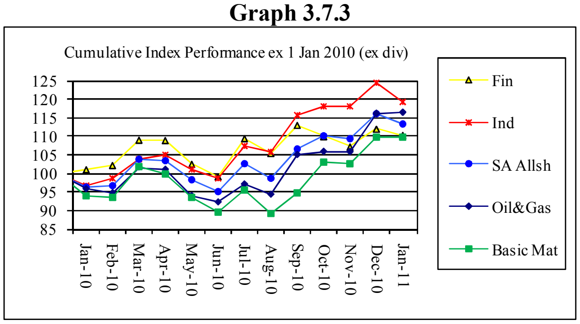
Graph 3.7.1



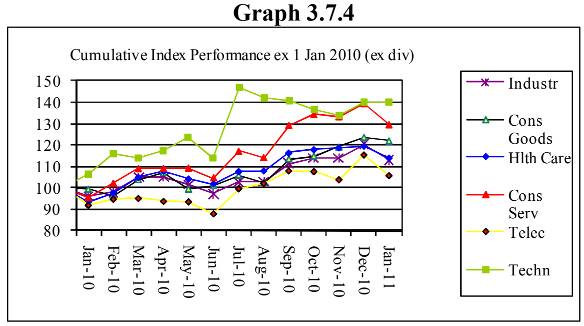
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 11.6% p.a. in nominal terms, or 4.6% p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 9.8% p.a. in nominal terms, or 2.8% p.a. in real terms. We would expect the average prudential balanced portfolio to deliver a real return before management fees (typically 0.75%), of roughly 6% per year and the Default portfolio to sacrifice around 2% to 3% for the benefit of lower volatility, thus an expected real return before management fees (typically 0.75%), of around 4% per year.

The performance of the prudential balanced portfolios is significantly more volatile than that of the Default portfolio, which produces significantly more volatile performance than the Money Market portfolio. The table below presents one year performance statistics over the 3 years February 2008 to January 2011:

Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	7.0%	- 8.0%	- 19.1%
Best annual performance	12.1%	16.2%	29.7%
No of negative 1 year periods	n/a	10	11
Average of negative 1 year periods	n/a	- 3.7%	- 10.3%
Average of positive 1 year periods	9.8 %	9.7%	13.2%

This table represents the different characteristics of the three types of portfolio quite well. The Default portfolio is a more conservative investment aimed at minimising negative returns and with a long-term return objective of inflation plus 4% before fees and roughly 3.3% after fees.

It is also important to realize that at this rate of return, the net contribution towards retirement by both, member and employer should be roughly 15% of remuneration, in order to achieve a reasonable income replacement ratio of 2% per year of service. In contrast, the expected long term net rate of return of 5.3% that the average prudential balanced portfolio should achieve, should produce an income replacement ratio of roughly 3% per year of service.

It is very important that employers invested in the Default portfolio are comfortable with these investment characteristics and that they should be able to create comfort amongst their employees as well!

5. What We Expect Of The Next 12 Months

As at the end of January, the Allshare Index was only 2% below its peak at the end of May 2008. For 2010, this index returned 21%, very much in line with the MSCI Emerging Markets Index (22.8%), in US Dollar terms. The MSCI World Free Index returned 19.8% in US Dollar terms, the Dax 20 24.5%, the Nikkei 225 11.1%, the Dow Jones 21.3% and the S&P 500 22.2%, all these in US Dollar terms. The Rand strengthened by 5% against the US Dollar, 7% against the Euro and 4% against the British Pound in the course of 2010. Over the past 10 years, the Allshare Index returned 13.2% p.a. compared to a flat performance of developed market indices. In terms of price: earnings ratios, the 1 year trailing SA p:e stands at 16.8, versus the US S&P 500 p:e's 15.4. However, considering the relative position of these two economies, we would expect the US market to outperform the South African market over the medium term.

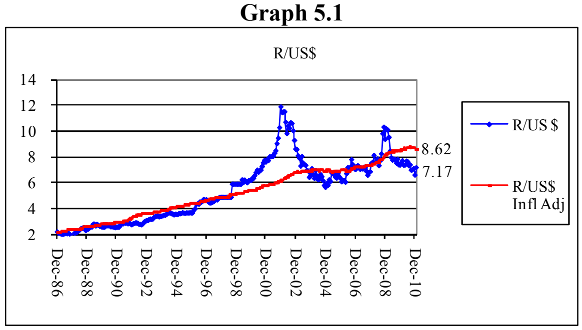
The US Federal Reserve extended its 'quantitative easing' measures while tax cuts introduced by George Bush have also been extended. After two years in the doldrums, it appears as if the US economy is now slowly recovering although we expect this recovery to be rather protracted as fiscal and monetary stimuli will be reversed over time, synchronous with the recovery of the economy.

A recovery is also evident in the EU and Germany in particular. Global consumer demand should thus start improving in 2011. Global interest rates are likely to turn as well. This should in turn result in the reversal of capital flows from emerging markets to the developed markets over the course of the next 12 months and in a weakening of the currencies of emerging economies.

The heating up of equity markets that we have seen over the past 2 years, particularly in emerging commodity based economies, is likely to fizzle out. We ascribed this to an oversupply of money from developed economies at an institutional level rather than to a healthy diversified demand, and therefore believe that this is unlikely to continue over the course of 2011.

Graph 5.1 indicates that the Rand is fairly valued at 8.62 to the US Dollar. This is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1



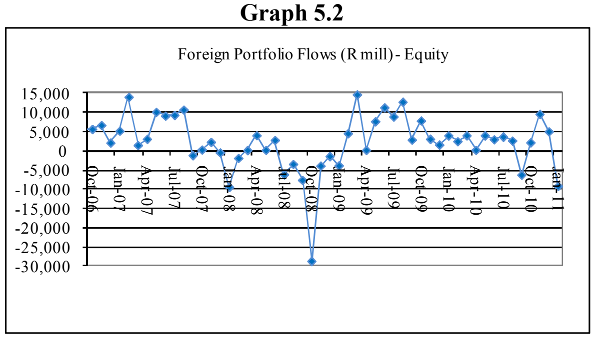
Graphs 5.2 and **5.3** now start to reflect an ebbing of the flow of capital into South Africa, particularly into fixed interest area as the result of the declining opportunity for interest arbitrage.

We expect that the demand in SA's and Namibia's main export markets and a wekening Rand should advance our export performance in the course of 2011, while more expensive imports should result in our local industries becoming more competitive. This should in turn advance local consumer sentiment over the course of the next 2 years.

All things being equal, we expect these trends to manifest over the next 12 to 24 months. In the mean time, equity markets are likely to move sideways while local interest rates are likely to start moving up towards the end of 2011. Latest social upheaval in various Middle East countries and the steep increase in crude prices may very well still derail these trends.

For the 12 months to end of January, the FTSE/JSE still experienced a net inflow of only R 21 billion (R 35 billion, 12 months to end December), compared to a net inflow of R 79 billion for the 12 months to end January 2010 (net inflow of R 72 billion, 12 months to end December 2009).

Graph 5.2

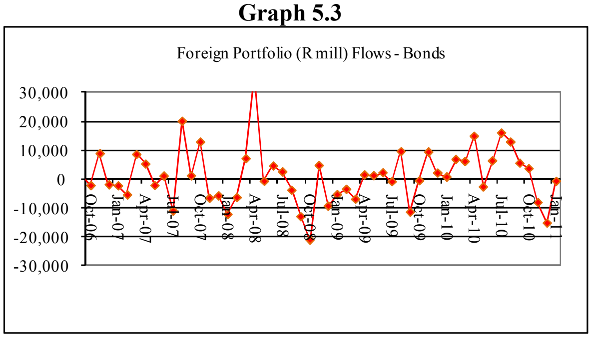


Graph 5.3 also reflects strong but declining net flows into fixed interest instruments, which amounted to R 46 billion

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2011
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (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.

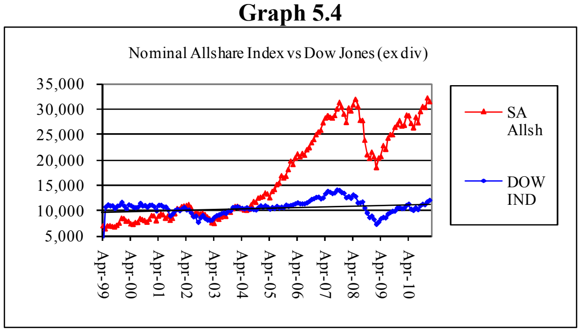
for the 12 months to end January (R 48 billion for the 12 months to end December), compared to an inflow of R 4 billion for the 12 months to end January 2010 (R 2 billion outflow for the 12 months to end December 2009).

Graph 5.3

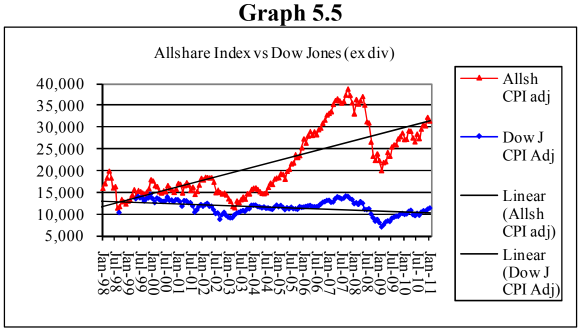


Graph 5.4 shows to what extent equity markets have recovered in nominal terms since their low at the end of February 2009.
Graph 5.5 reflects the same statistics but adjusted for US and SA inflation respectively.

Graph 5.4

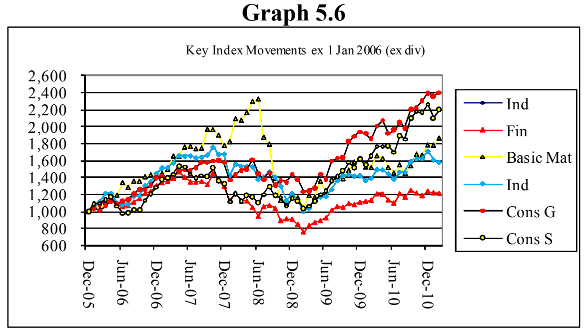


Graph 5.5



Graph 5.6 provides an interesting overview of relative movement of the key equity sectors on the FTSE/JSE since December 2005 when these indices were first introduced. From this the investor should be able to deduce which sectors offer greater value and which one's offer less value on the basis of fundamentals.

Graph 5.6



6. Conclusion

Global equity markets are still fairly valued, but are likely to produce pedestrian growth for the next 12 months and longer. While some global interest rates have already been raised they will remain at low levels for a while, to start picking up once consumer demand picks up meaningfully. This may though be retarded by political events in the Middle East, while high oil prices will accelerate inflation if the crisis persists for longer.

We expect the Rand to trend weaker towards the end of 2011 and into 2012. Volatility should subside and revert to normal levels as global economies start picking up steam and distorting fiscal and monetary stimuli are withdrawn.

Our local equity markets also remain fairly valued although not at very competitive levels compared to other global bourses, with a significant risk posed by a possible depreciation of our local currencies. In terms of local equity sectors, **graph 5.6** indicates that consumer goods and consumer services had a good run. We do not expect too much more joy out of these sectors anymore and these should hence be underweight. This view is however very much dependent on political stability returning to the Middle East
On the basis of fundamentals, one should be overweight financials and Rand hedge shares locally, while commodities should be neutral to underweight. We believe that the performance of most conventional asset classes will be muted. We expect equities in general to perform sluggishly but stock picking can add value. Property currently is a high yielding asset class but this is unlikely to persist once the interest rate cycle turns. Shorter dated local bonds may also still produce fair returns in the short term only.

A lack of sparkling local investment opportunities and the current Rand strength suggests that one should be overweight offshore assets and moving the focus to equities in Europe and the US, in particular.

For pension funds, an assertive balanced portfolio with a fair spread across equities, bonds and property and a high foreign equity exposure is our call for 2011.

7. Important notice and disclaimer

Whilst we have taken all reasonable measures to ensure that the results reflected herein are correct, Benchmark Retirement Fund and Retirement Fund Solutions Namibia (Pty) Ltd do not accept any liability for the accuracy of the information and no decision should be taken on the basis of the information contained herein before having confirmed the detail with the relevant portfolio manager. The views expressed herein are those of the author and not necessarily those of Benchmark Retirement Fund or Retirement Fund Solutions.