Volume 3, No. 2, February 2007

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 28 February 2007

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 now also available on our website at www.rfsol.com.na.

1. Investment Portfolios Performance (consult table below for full name of portfolio)

In February the average prudential balanced portfolio returned 1.32% (January 3.28%). Best and worst performance **for the month** was delivered by Investec (1.98%) and Namibia Harvest (0.68%), respectively. **For the 3 months** ended February 2007 (graph 9), best and worst performance was delivered by Investec (10.8%) and Allan Gray (7.3%), respectively, the average portfolio delivering 8.7 %. **For the 12 months** ended February 2007 (graph 11), best performance was delivered by Prudential (33.9%) and worst performance again by Stanlib (21.7%), the average portfolio delivering 29.1%. Graphs 10, 12 and 13 reflect the performances for the 6 months, 3 years and 5 years to 28 February 2007, respectively.

Cumulative long term performance of prudential balanced portfolios is reflected in graphs 14 and 15. Take note that Graph 14 has March 1998 as starting point while graph 15 reflects cumulative performance starting January 2003. Over the long-term Allan Gray is miles ahead while over the shorter term it is still ahead, but only by a very small margin. Graphs 16 and 17 present the performance of these portfolios and the CPI over rolling 3 year periods since September 2001. Consider that the performance objective of these portfolios is to outperform CPI by between 3% and 5% over the long-term, we are still on dangerous ground despite a slight downturn.

Graphs 18 and 19 provide a more in depth look at the monthly performance of these portfolios. There are some glaring deviations from the 'norm' and if any of these is your manager, have this explained by your manager, determine whether it makes sense and whether this is indicative of what you should expect going forward. Does this make sense relative to the monthly returns of the main equity sectors in graphs 21 and 22 over the same period? Which sectors seem to impact on your manager's performance consistently? Is this consistent with its asset and sector allocation (refer to our Manager Review at 31 December 2006)?

2. Special Mandate Portfolio Performance

If you are as concerned about the local equity market as we are and you want to hedge your investment against an unexpected negative development, consider the special mandate portfolios, whose rolling 6 month returns are reflected in Graph 20, relative to the average prudential balanced portfolio. Track each one's performance against the average to get a feel for the behaviour of these portfolios in relation to the typical prudential balanced fund.

3. Asset Class Performance

Graphs 1 and 2 reflect the performance of the main asset classes for the 3 months and the 12 months ended February 2007. For the 3 months, Property UT* (13%) again outperformed all other asset classes, coming in second best over 12 months at a much more modest 14%. The Allshare* index was the next best performing asset class over 3 months (8.1%) but far out performed all others over 12 months (38.6%). Worst performing asset classes over the past 3 months were Bonds* (1.3%) beaten even by cash (2.2%). Over 12 months bonds and cash also produced the lowest return of 10.4% and 8.3%, respectively. For the purpose of doing more in depth analyses, graphs 23 and 24 reflect the performance build up of various indices from 1 January 2006 to date.

4. Investment Style and Market Capitalization

Graphs 3 and 4 show that 'Value'* companies significantly outperformed 'Growth'* companies for the 3 months (10.4% versus 5.7%) but lag the latter for the 12 months (35.9% versus 39%). Again, this is not mirrored at all in the 3 month and 12 month performance figures of the portfolios, where Allan Gray, Prudential and Sanlam have a value bias! Looking at market capitalization, 'large caps' (Top 40* - 6.9%) significantly under performed 'Mid*' (15.4%) - and 'Small Caps*' (17.3%) over 3 months, while the difference over 12 months is much smaller.

The following abbreviations are used in the graphs below:

Benchmarks	
Namibian Cons Price Index	CPI Cum
JSE Allshare Index	JSE Cum
Average Portfolio (prudential, balanced)	Aver
Special Mandate Portfolios	
Sanlam Cash	BM Cash
Investec High Income (IBA)	Inv High
Metropolitan Absolute Return	Metr ARF
Prudential Inflation Plus	Pru Infl+
Old Mutual Dynamic Floor	OM DF
Sanlam Inflation Plus	Sanl Infl+

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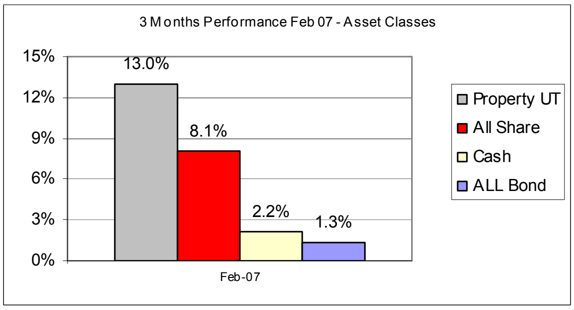
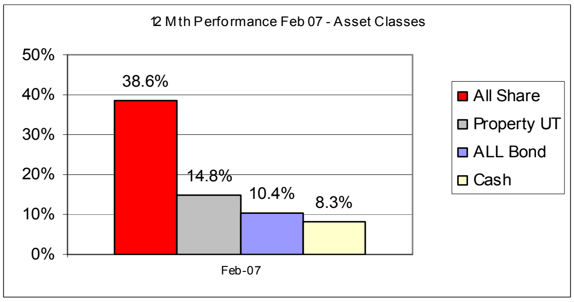
Market related portfolios	
Allan Gray Balanced	A Gr
Investec Managed	Invest
Investment Solutions Focused Growth (multi manager)	Isol FG
Prudential Managed	Prudential
Metropolitan Managed	Metr
Namibia Harvest Platinum Balanced	NAM
Old Mutual Profile Balanced	OM B
Old Mutual Profile Growth	OM H
RMB Managed	RMB
Sanlam Managed	Sanl
Stanlib Managed	Stan

Index performances, by courtesy of Deutsche Securities, an associate of IJG and IJG (bonds and cash), include dividends.

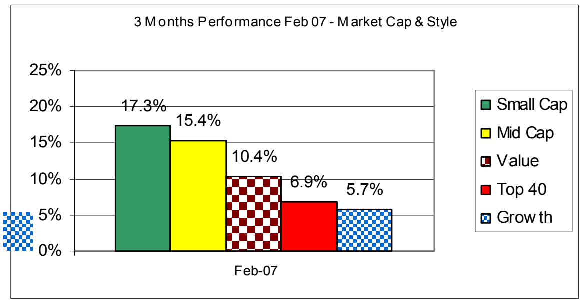
Graph 1



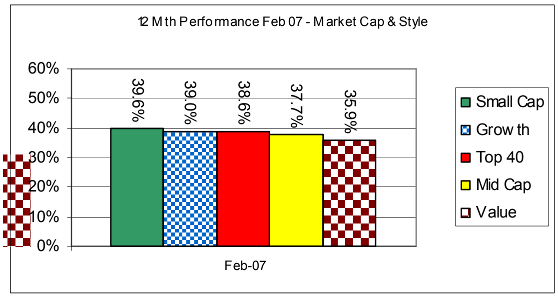
Graph 2



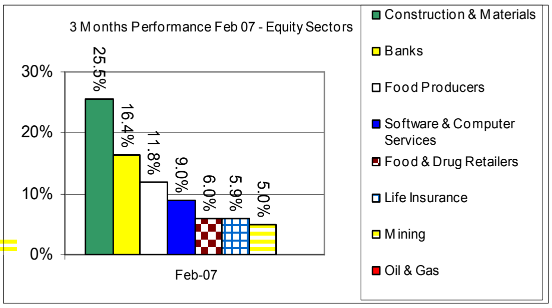
Graph 3



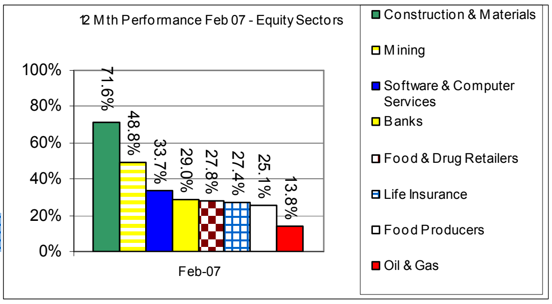
Graph 4



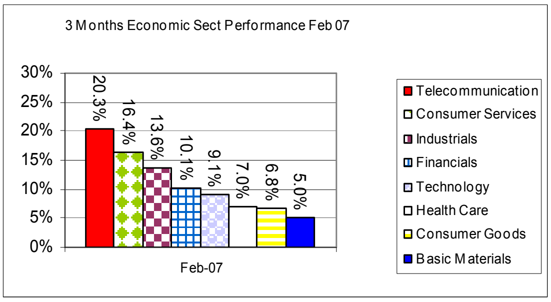
Graph 5



Graph 6



Graph 7



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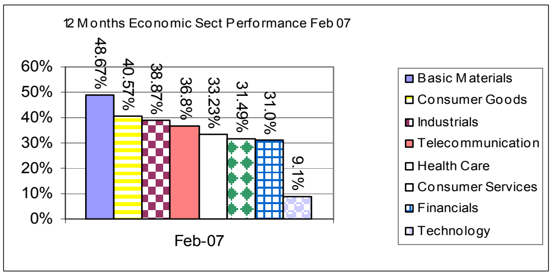
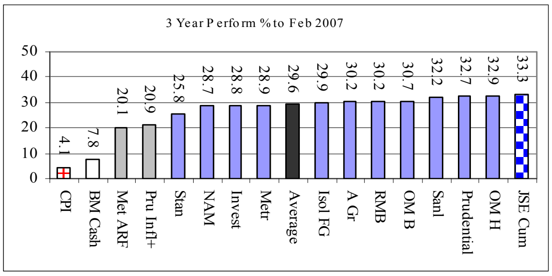
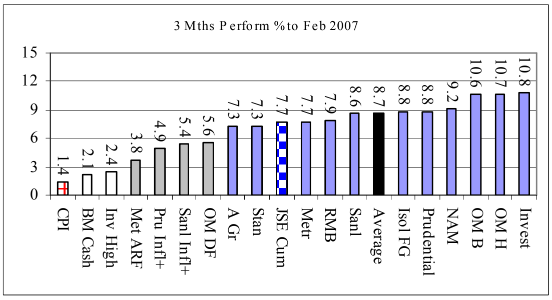
Graph 8



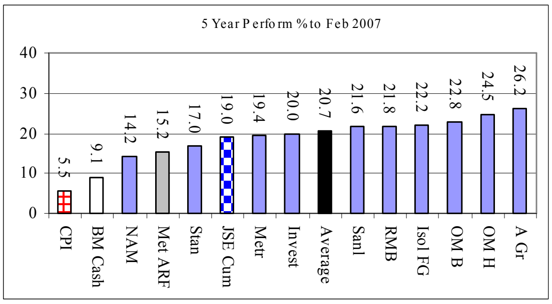
Graph 12



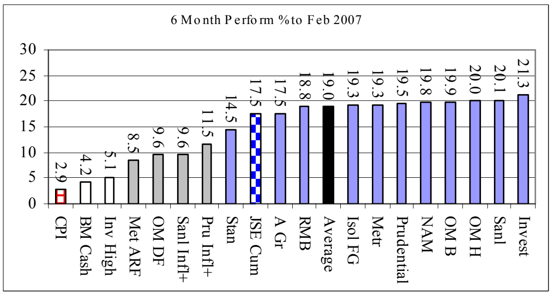
Graph 9



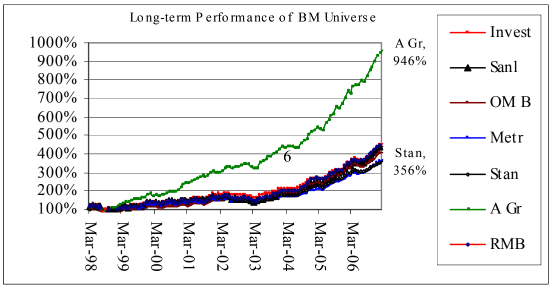
Graph 13



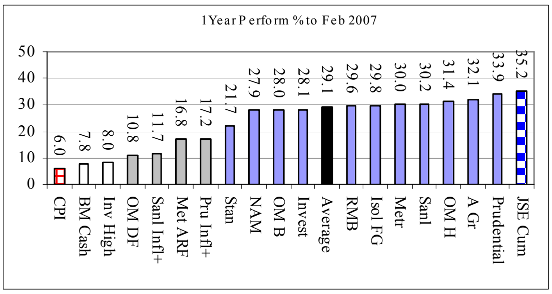
Graph 10



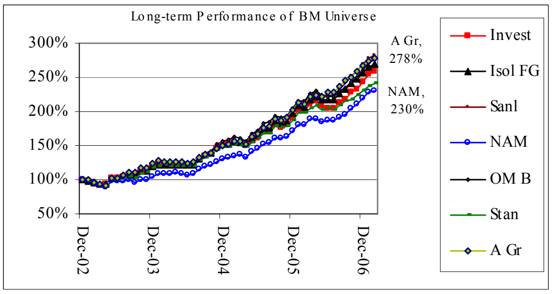
Graph 14



Graph 11



Graph 15



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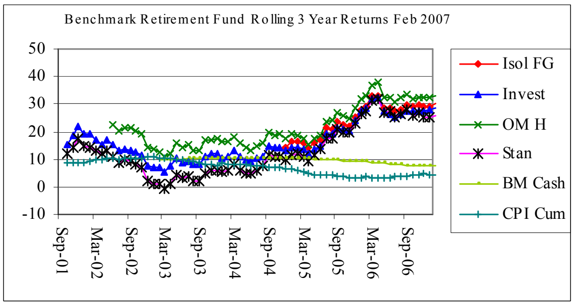
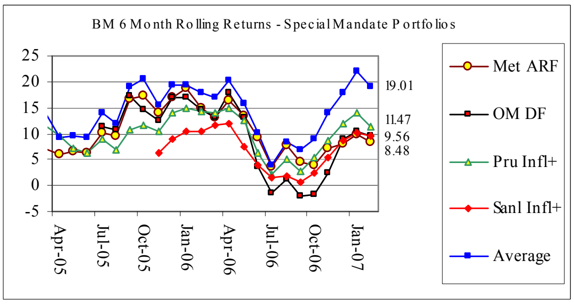
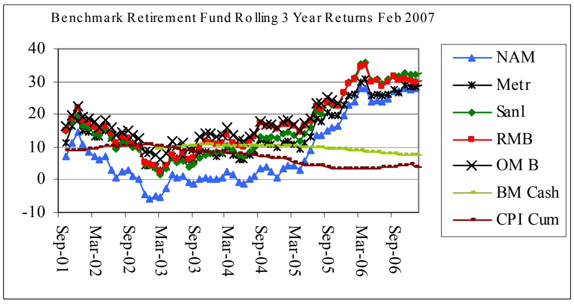
Graph 16



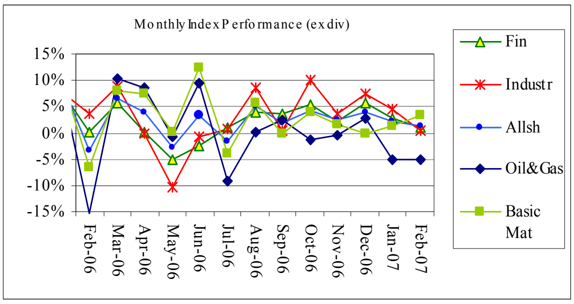
Graph 20



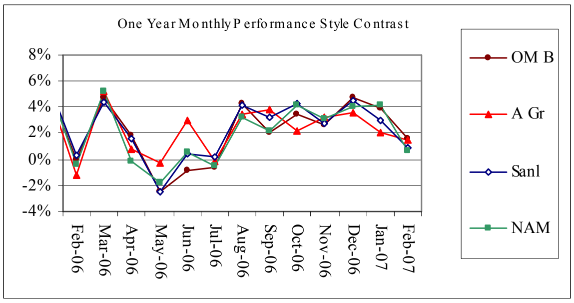
Graph 17



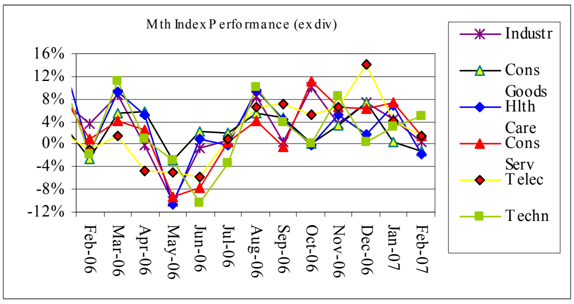
Graph 21



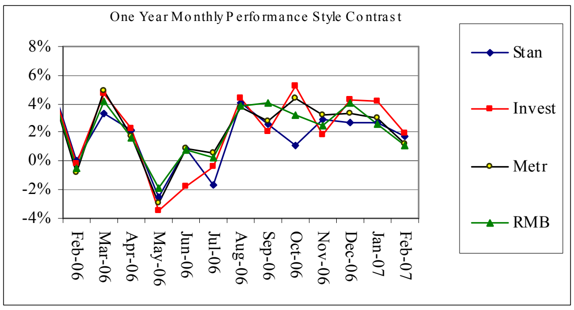
Graph 18



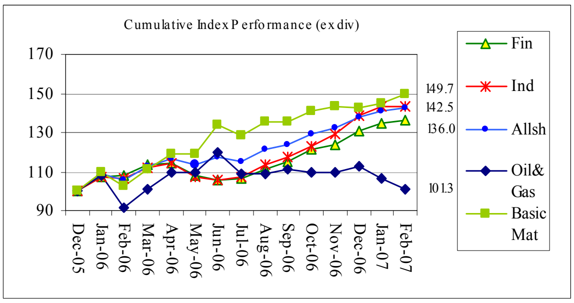
Graph 22



Graph 19



Graph 23



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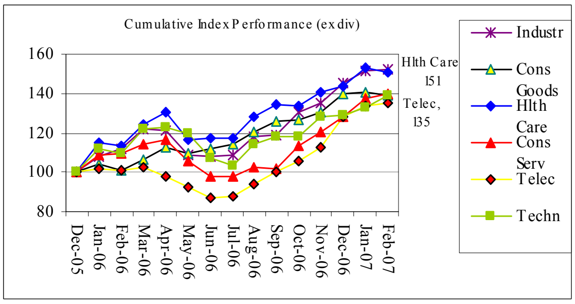
Graph 24



5. Preview for the next 6 months

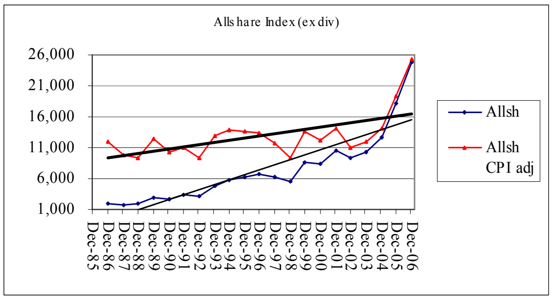
Factors presenting negative potential for global financial markets for one, are the geo-political tensions that have not improved since our previous newsletter. Then there is currently a lot of talk about the 'sub-prime mortgage market' in the US and the negative potential this holds in for the US market. China is seemingly making efforts to cool off its economy, having raised its interest rates recently.

Potentially supportive factors are the high oil prices that continue to cause a glut of money flowing to oil producing countries who in turn have to find suitable investment avenues for these windfall profits, extremely low interest rates in Japan and the decision by China to diversify the investment of its huge foreign reserves.

Closer to home consumer demand is showing some tapering off although still unexpectedly buoyant despite interest rate hikes in the second half of last year. The current account deficit widened to R 35 bn in quarter 4 from R 29 bn in quarter 3, now standing at 7.8% of GDP. In addition, emerging markets experience a strong outflow of funds this year to date, but more particularly since the beginning of February with a year to date outflow of some $ 3.7 bn, compared to inflows of around $ 20 bn for each of the previous two years. Does this explain the weakness in the Rand/Namibia Dollar we have seen more recently? These developments are once again raising the possibility of another interest rate hike in the near future.

Our local markets being at the level they currently are, are definitely cause for concern to us by any measure. Graph 25 below illustrates our concern. It depicts the FTSE/JSE Allshare Index since 1986 in nominal terms (black line) and in real terms, i.e. adjusted for the change in CPI over the same period (red line). Of course, investment managers by and large will always try to talk up markets because they would otherwise deliver a self-fulfilling prophecy.

Graph 25



Assuming that the Allshare Index is representative of the SA economy and assuming the SA economy managed to grow at a real 3% per annum over the past 20 years, the index should now stand at around 21,700 or around 80% of its current level of 26,500.

6. Conclusion

We cannot help but conclude that our local markets are just waiting for an excuse to down rate and there certainly is enough potential for this to happen. Under these circumstances hedging against this threat and moving into high income yielding investments is our preferred strategy. The Rand/Namibia Dollar similarly faces more potentially bad than good news on various fronts and we would consequently also maximise our offshore exposure to diversify risk.

This has been our call since March last year and it would have hurt our faithful readers as it hurt those believing in Allan Gray's philosophy, which was and still is the only manager that has been hedging its equity exposure for the past year or so. But after all these good years, does it harm to take a breather and to settle for cash or slightly higher returns?

7. Important notice and disclaimer