Volume 8, No. 8, Aug 2012

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2012

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.

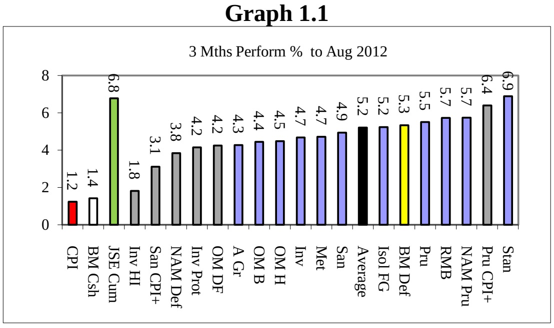
1. Review of Portfolio Performance

In **August** our **average prudential balanced portfolio** returned 2.3% (July 2.37%). Top performer is Namibia Asset Management/Coronation (3.04%), Old Mutual (1.8%) takes bottom spot.

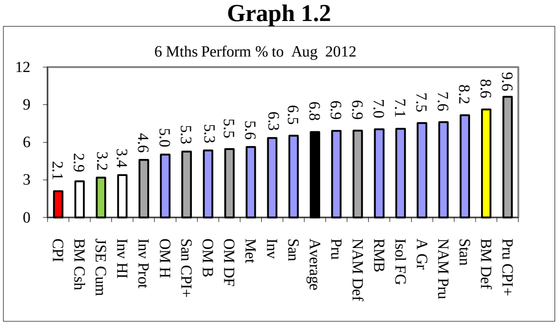
Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced 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 color)
Investec High Income (interest bearing assets)	Inv HI (no color)
Investec Protector	Inv Prot (grey)
Investec Opportunity Fund	Inv Opp (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, (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)

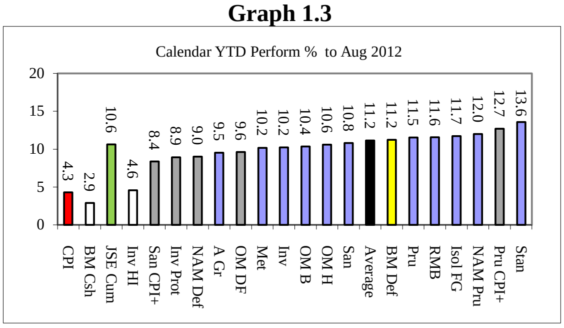
Graph 1.1



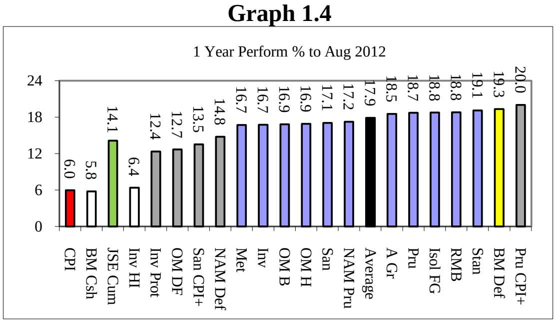
Graph 1.2



Graph 1.3



Graph 1.4



Volume 8, No. 8, Aug 2012

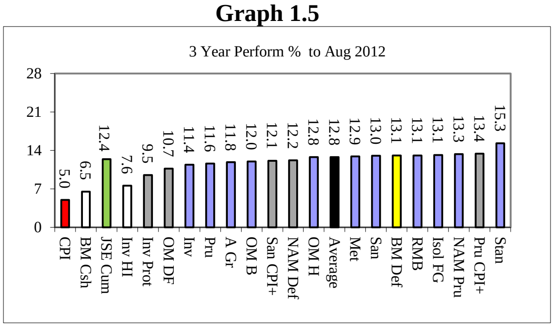
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2012

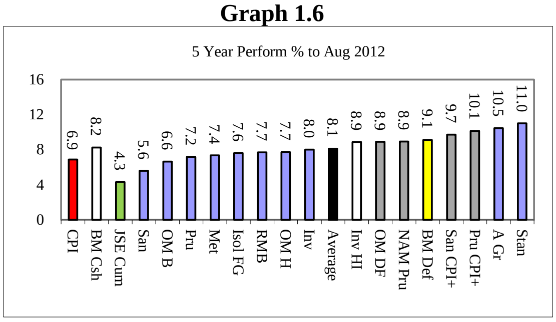
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

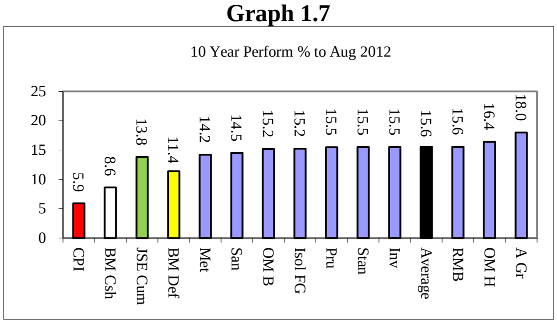
Graph 1.5



Graph 1.6

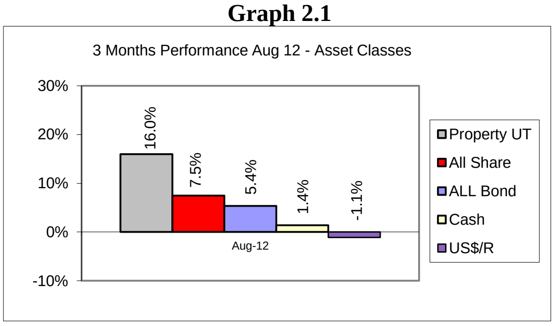


Graph 1.7

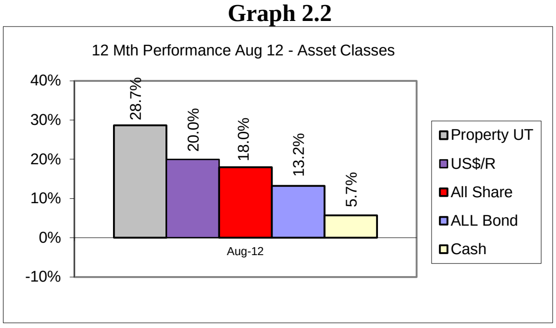


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

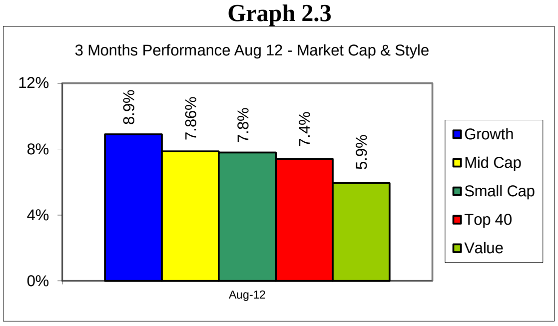
Graph 2.1



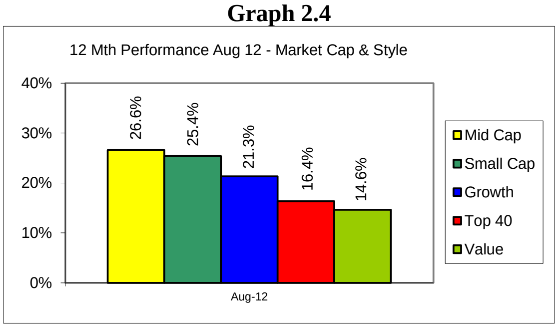
Graph 2.2



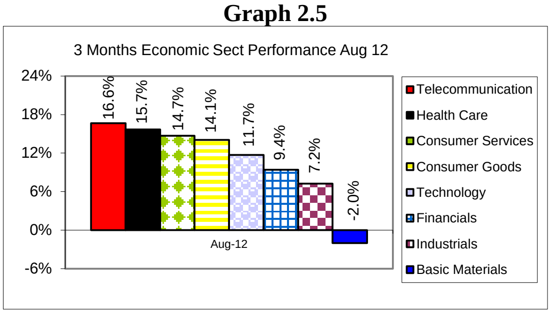
Graph 2.3



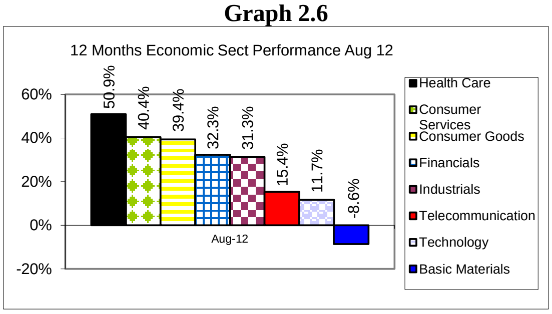
Graph 2.4



Graph 2.5



Graph 2.6



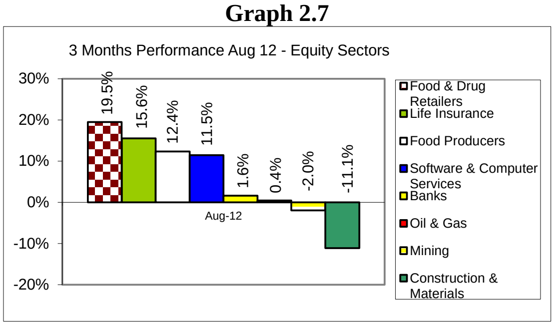
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2012

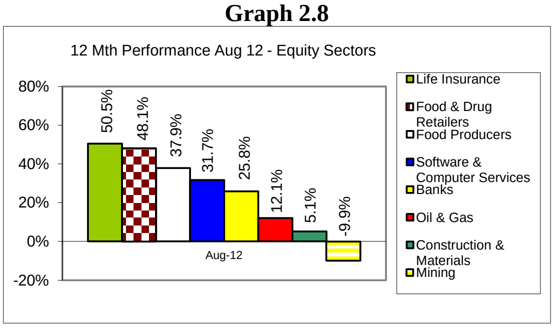
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

Graph 2.7



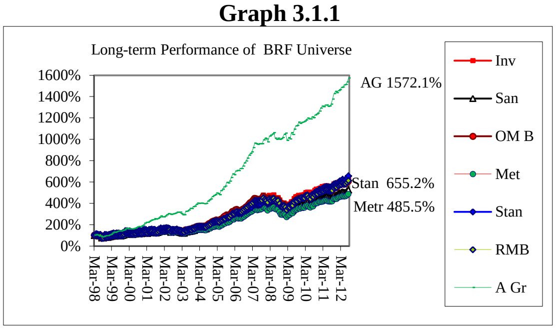
Graph 2.8



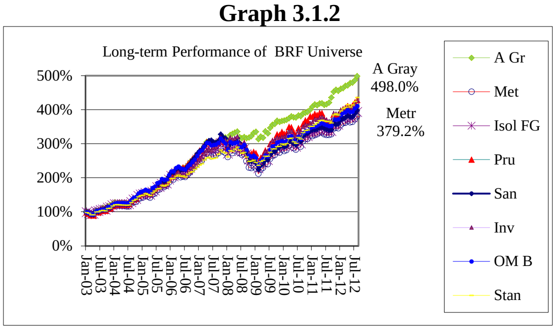
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

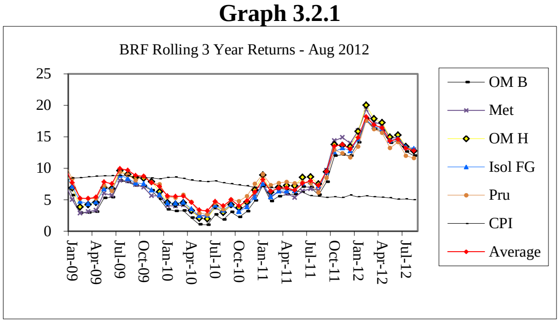


Graph 3.1.2

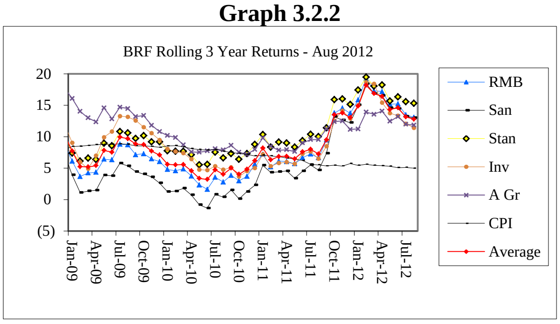


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

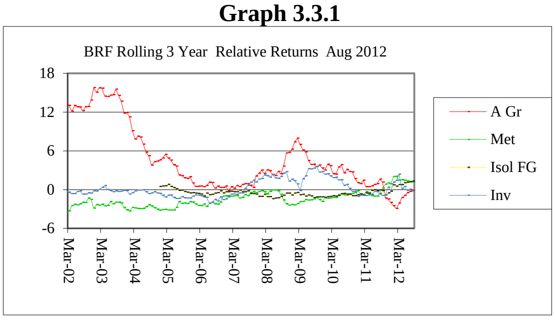


Graph 3.2.2

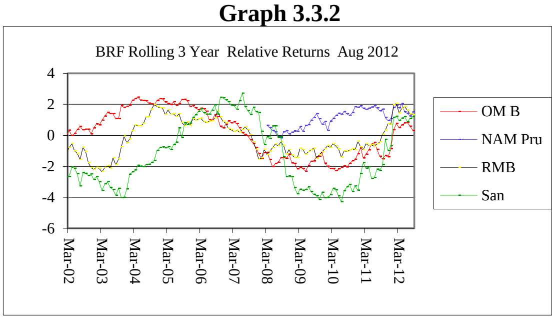


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1



Graph 3.3.2



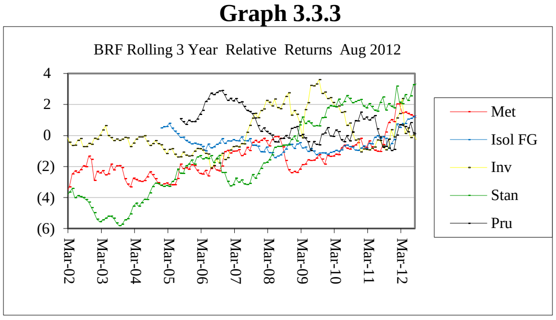
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2012

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

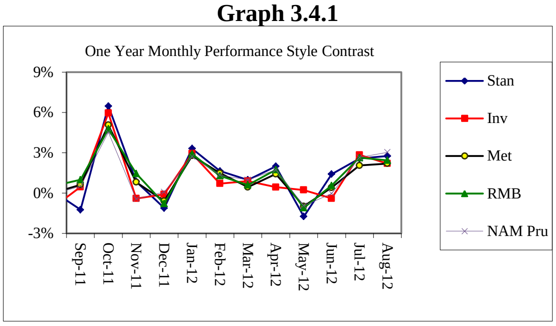
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.3.3

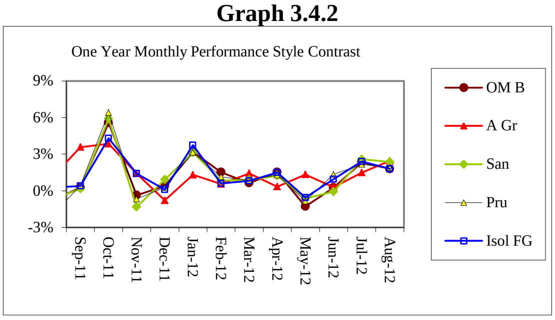


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

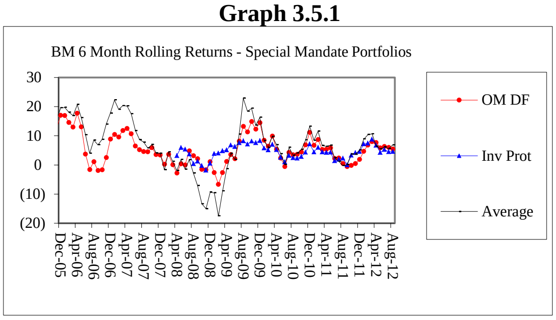


Graph 3.4.2

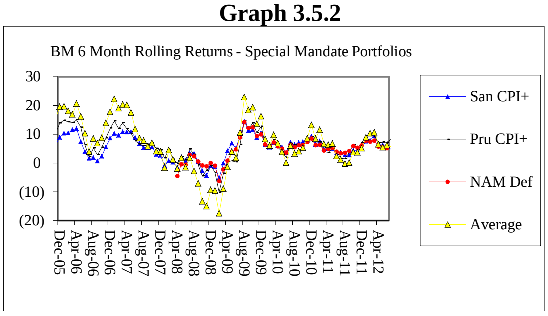


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

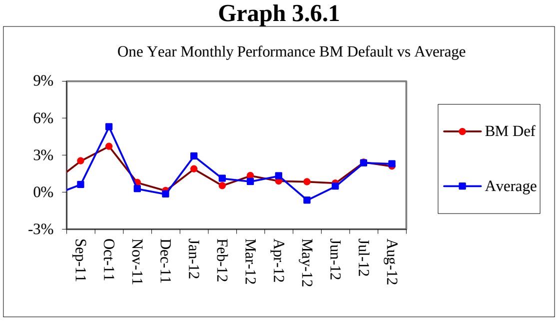


Graph 3.5.2

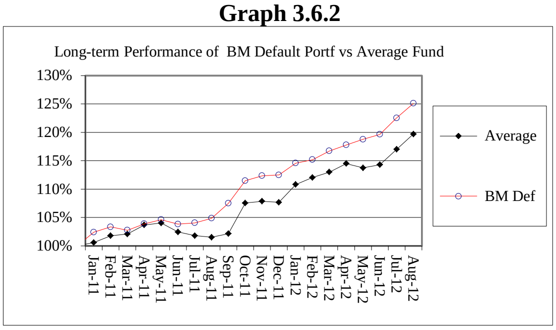


3.6 Monthly and cumulative performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

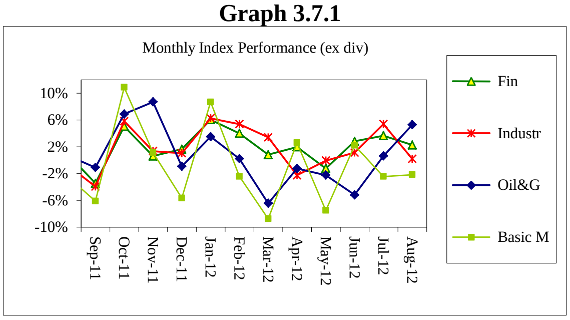


Graph 3.6.2



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

Graph 3.7.1



Volume 8, No. 8, Aug 2012

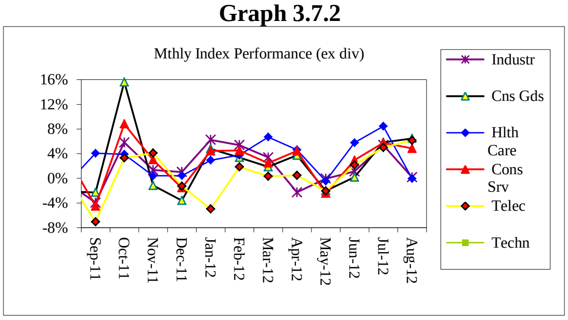
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2012

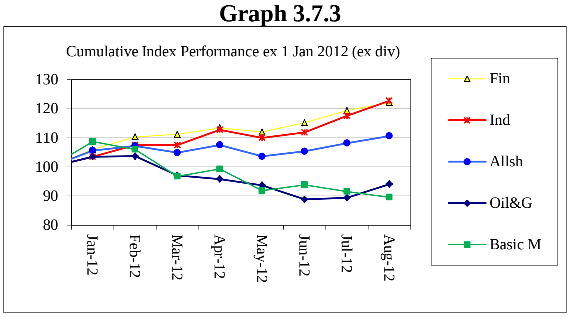
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

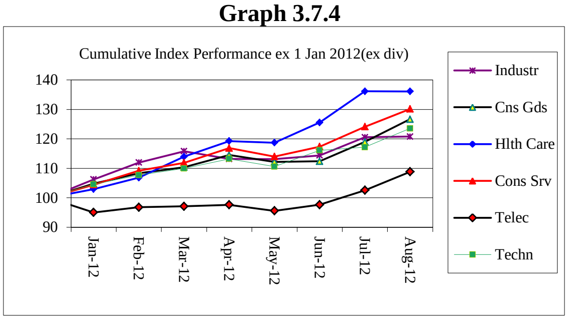
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 8.1% p.a. in nominal terms, or 1.2 % p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 9.1% p.a. in nominal terms, or 2.2% p.a. in real terms. Considering that the average prudential balanced portfolio should deliver a real return before management fees (typically 0.75%), of roughly 6% per year, these portfolios are currently trailing the expected long-term goal significantly over the past 5 years.

Having raised the risk profile of the Default portfolio effective the start of 2011, by replacing Metropolitan ARF with Allan Gray, we would expect the Default portfolio to sacrifice around 1% for the benefit of lower volatility, thus an expected real return before management fees (typically 0.75%), of around 5% per year. Since this change was effected, the default portfolio returned a cumulative 25.1% compared to 19.7% for the average prudential balanced portfolio over this 17 month period.

Relative to the default portfolio, the performance of the prudential balanced portfolios should be more volatile due to a significantly higher equity exposure and its performance should be much closer correlated to that of the overall equity market. The default portfolio should produce a significantly more volatile performance than the money market portfolio. The table below presents one year performance statistics over the 3 years September 2009 to August 2012:

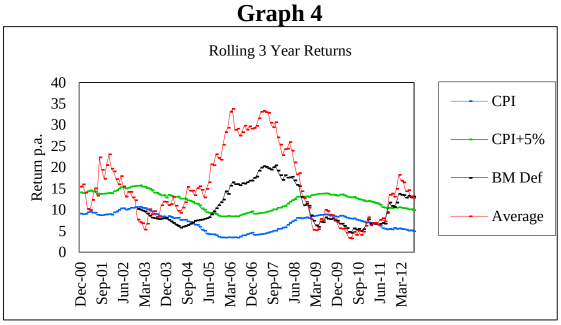
Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.8%	5.4%	6.7%
Best annual performance	10.4%	19.3 %	30.2%
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	7.1%	12.3%	14.4 %

The Benchmark Default portfolio is a more conservative investment aimed at reducing negative returns and with a long-term return objective of inflation plus 5% before fees and roughly 4.3% after fees.

At this rate of return, the net contribution towards retirement by both, member and employer should be roughly 13% of remuneration, in order to achieve a reasonable income replacement ratio of 2% 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.

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. It shows that since September 2008, both the Benchmark Default portfolio as well as the average prudential balanced portfolio were lagging inflation plus 5% and at times even inflation but have surpassed inflation plus 5% since October 2011.

5. Review of Foreign Portfolio Flows and the Rand

How is the Rand doing?

Graph 5.1 indicates that the Rand by our measure is

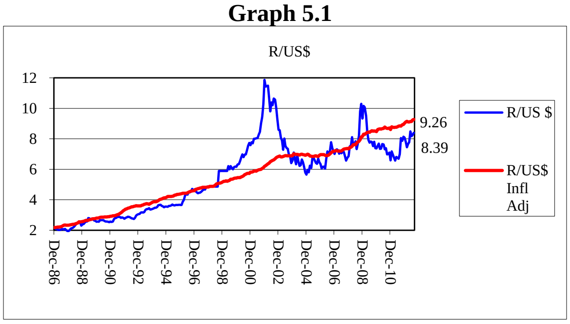
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2012

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.

fairly valued at 9.26 to the US Dollar while it actually stood at 8.39 at the end of August. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

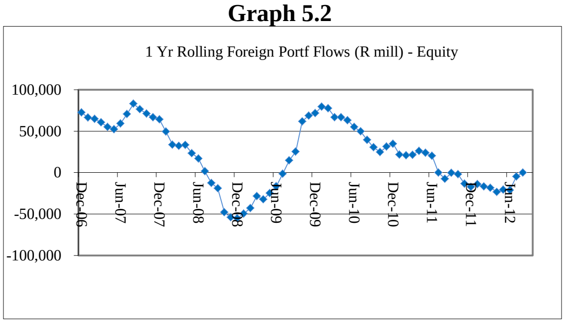


Support of the Rand from foreign capital flows continues, mainly through bond purchases

Graph 5.2 reflects a more steady but still slightly negative flow of capital out of South African equities on a rolling one year basis, with a net outflow of R 40 mn on a year-on-year basis at the end of August (outflow of 4.8 bn to end July), the trend having been downward since peaking in January 2010 with a one year inflow of R 79.5 billion. Since the beginning of 2006, foreign net investment in equities amounts to N$ 170 billion. This represents roughly 2.5% of the market capitalization of the JSE.

The fiscal easing measures of the Eurozone and once again by the US are likely to provide an artificial underpin to the Rand through continued foreign inflows into local financial markets, more specifically into the bond market though.

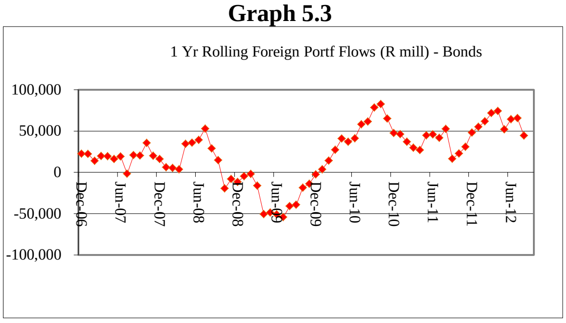
Graph 5.2



Graph 5.3 on a rolling one year basis, reflects a much more volatile foreign portfolio flow into bonds of R 44.6 bn over the past 12 months to end of August (R 65.7 billion over the 12 months to end of July), well below the previous peak of R 82.6 billion in October 2010. Since the beginning of 2006, foreign net investment in bonds amounts to N$ 183 billion.

As we suggested in the previous newsletter it is interesting to see what the impact of the recent 0.5% reduction of the repo rate by SA Reserve Bank has been on these flows.

Graph 5.3

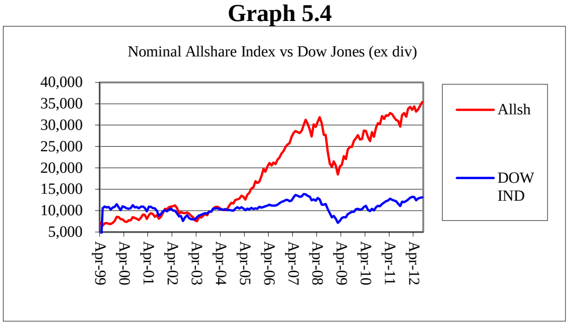


The net inflow of foreign capital into equity and fixed interest assets was R 45 bn for the 12 months to end August (inflow of R 61 bn to end July), compared to R 45 bn for the 12 months to end August 2011 (R 41 bn to end July 2011). Total net foreign portfolio flows amount to N$ 353 billion since the beginning of 2006.

Graph 5.4 reflects the movement of the JSE and the DOW Jones since May 1999, the financial crisis being clearly visible. In nominal terms the JSE passed its month end peak of before the financial crisis, while the DOW Jones is still substantially below its previous peak. In nominal terms, the JSE grew by 13.7% per year, while the DOW Jones only grew by 1.6% per year, over this period of just over 13 years, dividends excluded. Namibian inflation over this period was 7% per year in contrast with US inflation of 2.5%.

Graph 5.5 reflects the same statistics but adjusted for US and SA inflation respectively. Since May 1999 the JSE Allshare Index has grown by 6.7% per year above inflation, over this period of just over 13 years, and this excludes dividends of somewhere in the region of 2% to 4%. In contrast, the DOW Jones declined by 0.9% per year above inflation over this period, also excluding dividends.

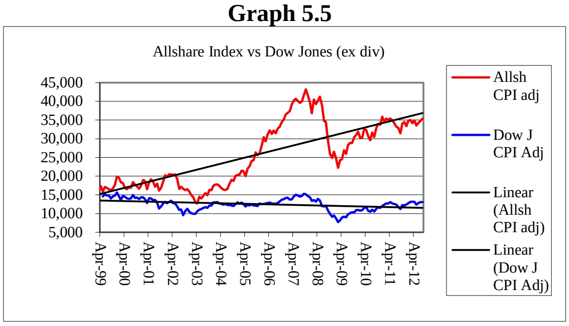
Graph 5.4



MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 AUGUST 2012
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

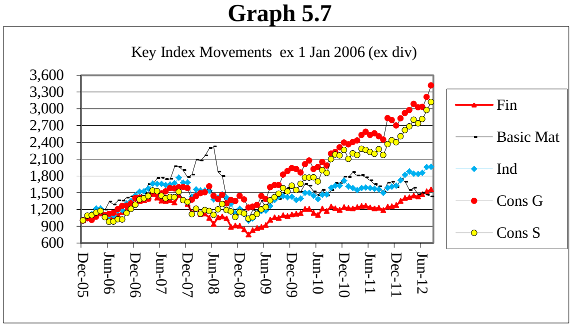
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 5.5



Graph 5.7 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 5.7



6. Conclusion

A week or so ago, the US Fed announced further monetary stimulus programme of buying mortagage bonds to the tune of US$ 40 billion a month for as long as may be necessary to get the US economy growing and creating jobs again. With all previous stimulus packages consumer sentiment has shown little signs of improvement in the US while it is still in reverse gear in Europe. Being highly dependent on export to Europe and the US, China has experienced a significant decline in economic growth to an official 7.6% for the latest quarter. China provided a significant impetus to our local economies having been a major buyer of our commodities. We will no doubt start feeling the consequences of a cooling Chinese economy.

These developments are likely to lead to further repo rate reductions by the SA Reserve Bank and a further decline in general interest rates. Despite the latest US stimulus package, we believe that inflow of foreign capital both into equities and bonds is likely to ebb, which should lead to a weaker Rand. As the result our equity markets are unlikely to show any significant growth over the next year or even longer but should still produce inflation beating returns. Stocks that will benefit from a weakening Rand such as industrials and Rand hedge companies should outperform the Alsi. With our expectation of a further decline in interest rates, bonds should benefit in the medium term, while cash returns will be zero, more likely negative in real terms. Property under current circumstances is also likely to produce respectable returns for the medium term.

Offshore equity markets that were particularly hard hit by negative sentiment rather than economic fundamentals offer compelling investment opportunities. Very interesting statistics published by 1741 Asset Management (previously Wegelin Asset Management), the MSCI Europe currently offers a discount to fair value of 22%, compared to a discount of 9% of the MSCI World, and a premium of 18% of the US MSCI. Worst hit bourse of all was Italy with a discount of 60% of the MSCI Italy, all values as at end of August.

Having been cautious about the significant growth of the SA Consumer Goods and Consumer Services indices, it is interesting that they keep on steaming ahead at 20.2% and 18.6%, respectively per year since January 2006, making us even more concerned about what appears to be a bubble. We do not expect too much more joy out of Consumer Goods and Consumer Services anymore though, and these should hence be underweight.

On the basis of fundamentals, one should be overweight position in local Industrials and Financials that have not seen the growth of the consumer sectors. Basic Materials should offer some buying opportunities although as a sector we do not foresee it showing any significant recovery in the medium term. With the prospect of declining interest rates, property should also offer fair returns in the medium term.

We believe an assertive balanced portfolio with an overweight in equities and property and underweight bonds and cash should be appropriate under current circumstances. A high foreign equity exposure to particularly Eurozone countries where markets experienced a dramatic decline as the result of negative investor sentiment, is our call for the next year.

7. Important notice and disclaimer