Volume 8, No. 11, Nov 2012

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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.

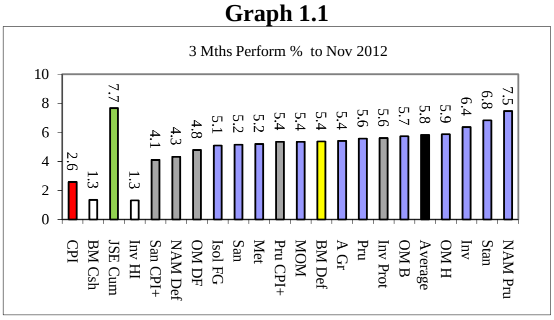
1. Review of Portfolio Performance

In **November** our **average prudential balanced portfolio** returned 1.8% (October 2.79%). Top performer is Stanlib (2.70%), Allan Gray (1.21%) takes bottom spot.

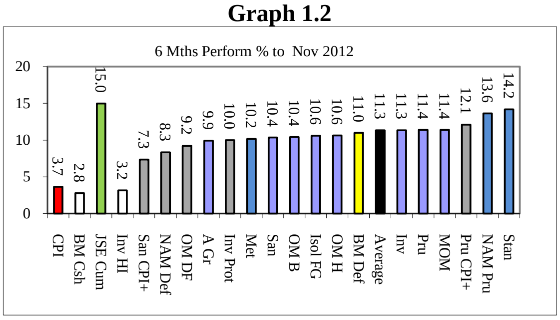
Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced 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)

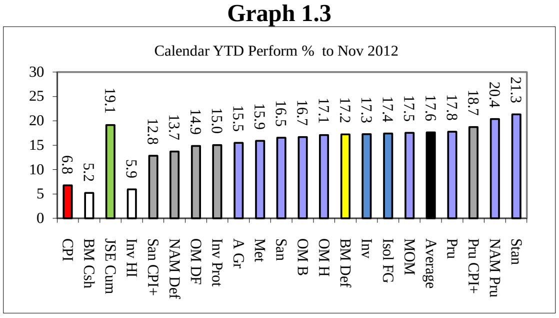
Graph 1.1



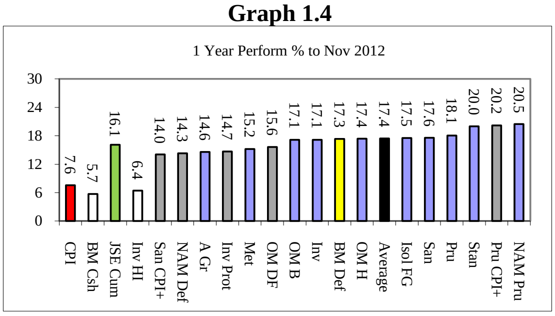
Graph 1.2



Graph 1.3



Graph 1.4



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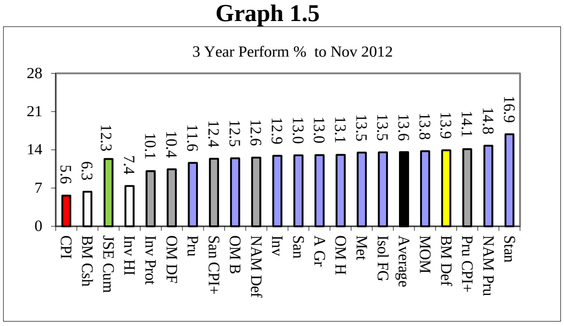
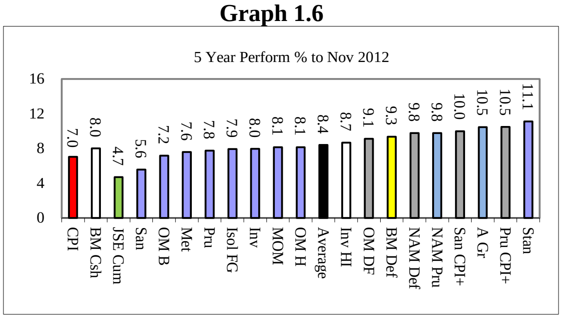
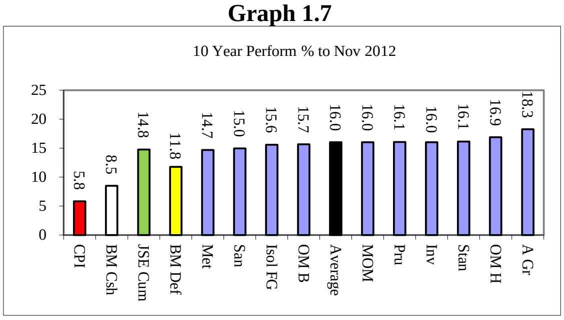
Graph 1.5



Graph 1.6

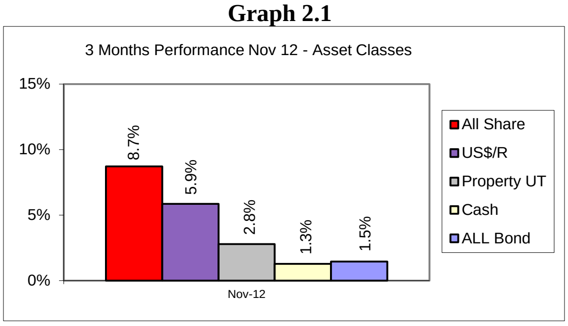


Graph 1.7

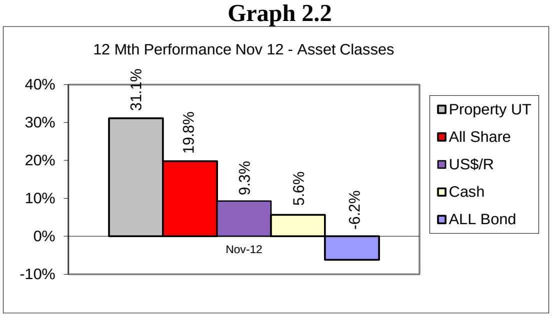


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

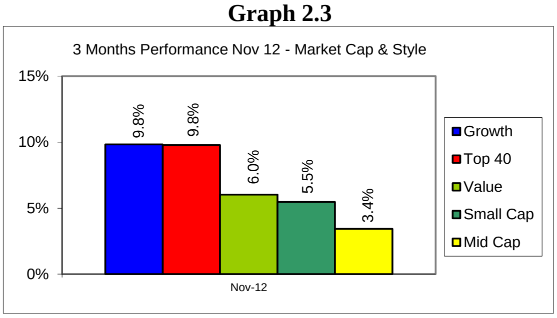
Graph 2.1



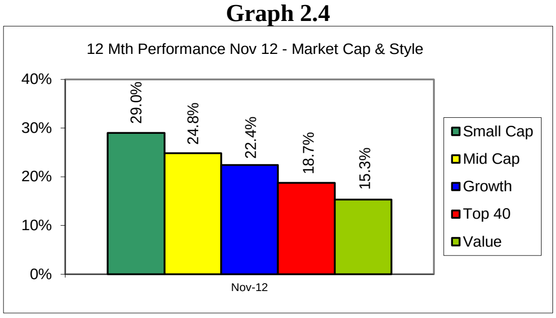
Graph 2.2



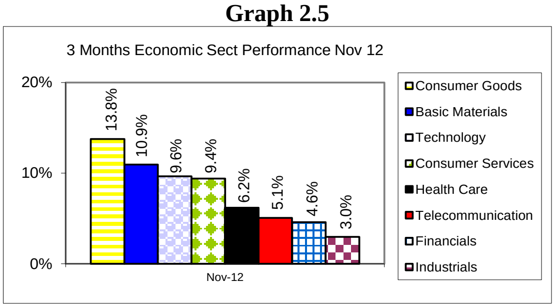
Graph 2.3



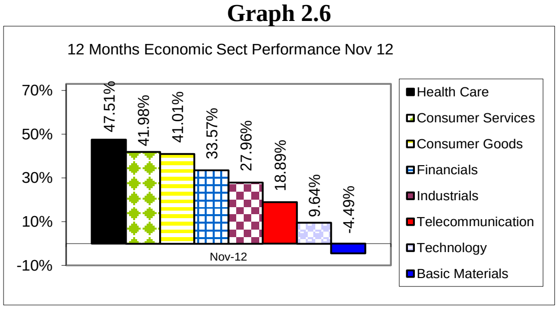
Graph 2.4



Graph 2.5



Graph 2.6



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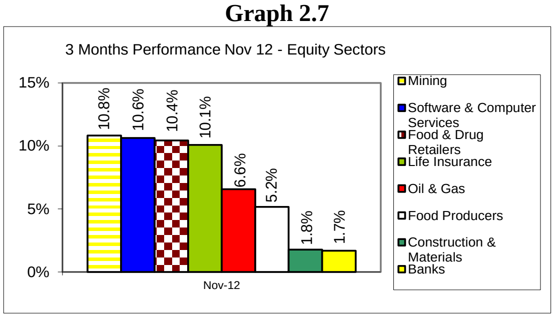
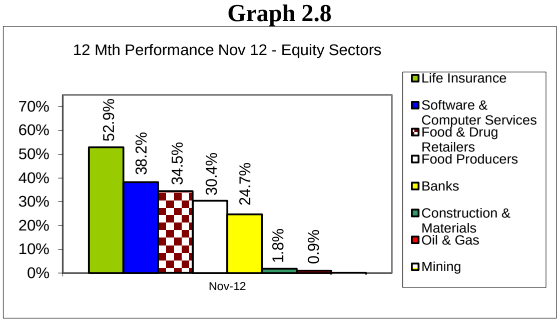
Graph 2.7



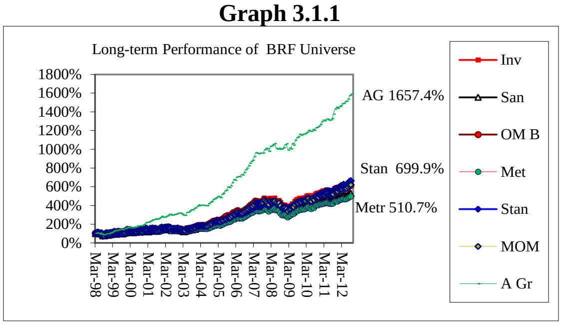
Graph 2.8



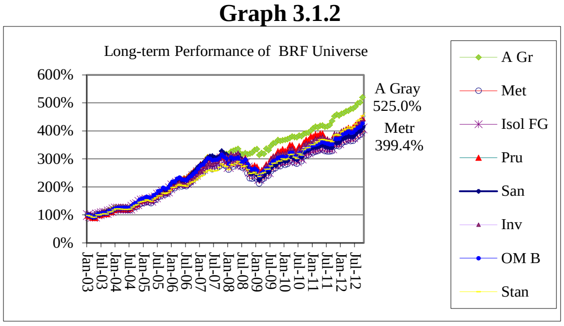
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

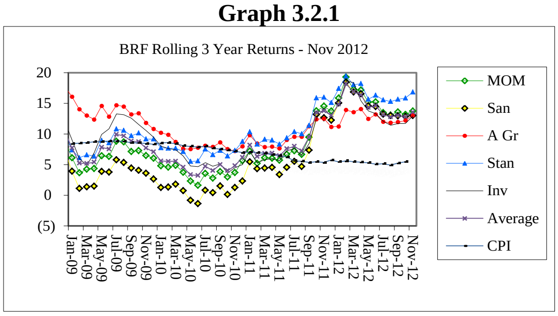


Graph 3.1.2

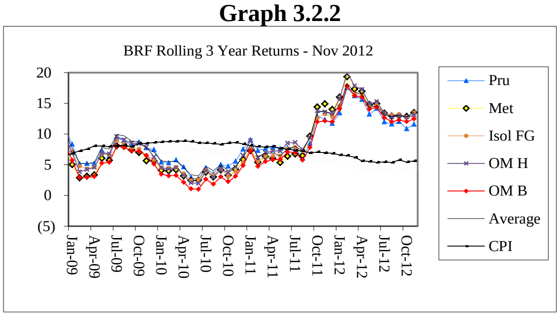


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

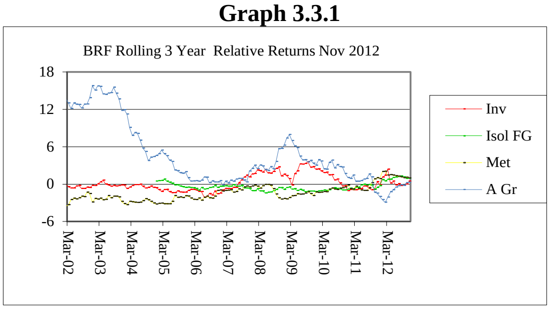


Graph 3.2.2

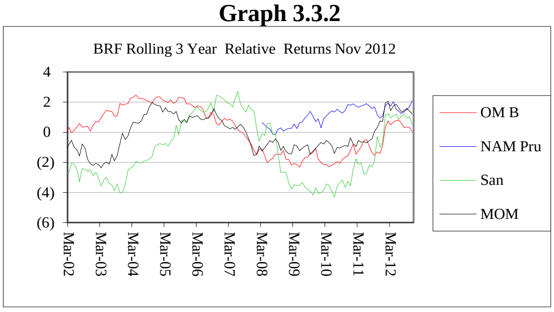


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1



Graph 3.3.2



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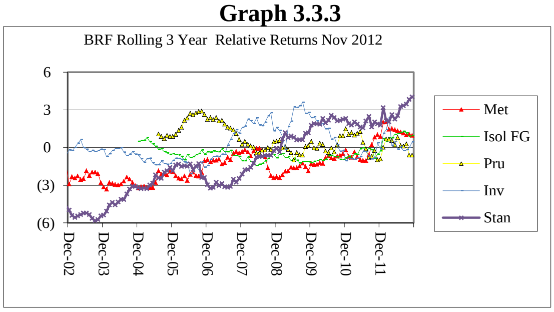
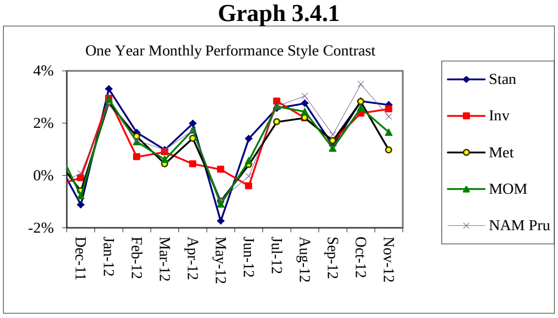
Graph 3.3.3

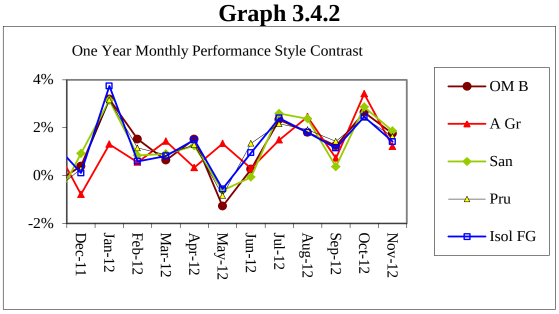


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

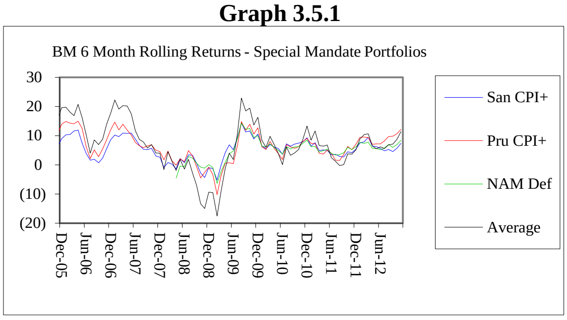


Graph 3.4.2

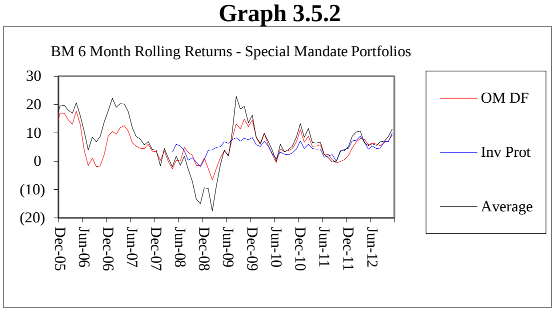


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

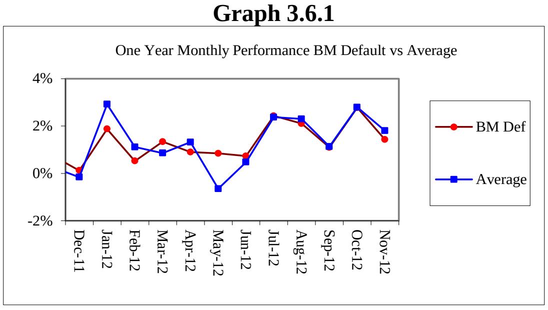


Graph 3.5.2

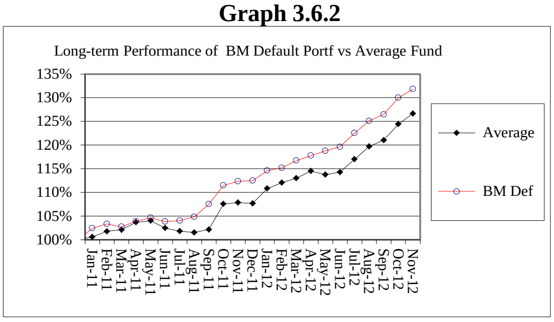


3.6 Monthly and cumulative performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

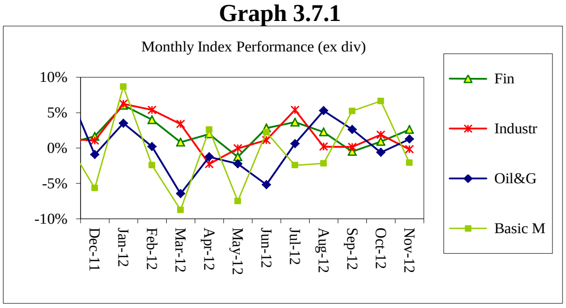


Graph 3.6.2



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

Graph 3.7.1



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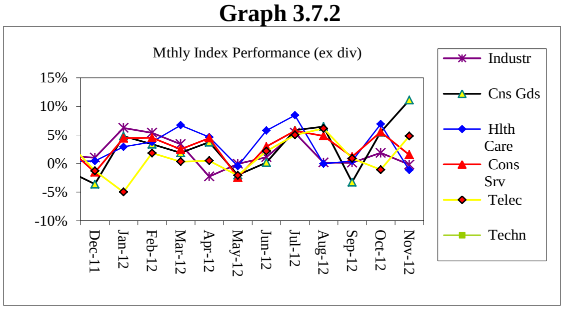
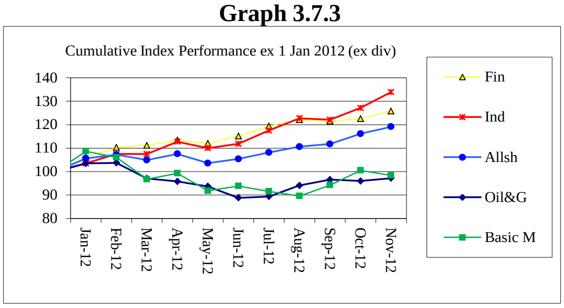
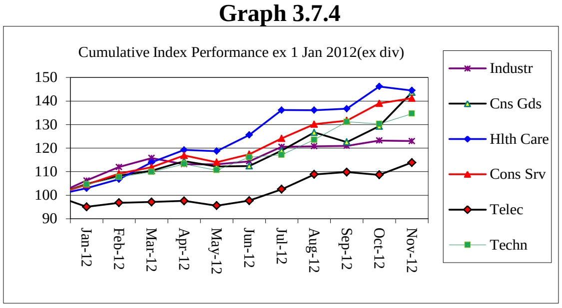
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 8.4 % p.a. in nominal terms, or 1.4 % p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 9.3% p.a. in nominal terms, or 2.3% p.a. in real terms. This outperformance of the average manager by the Benchmark Default portfolio is quite remarkable considering its substantially lower equity exposure (44.9% vs 59.5% as at the end of September).

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 31.8% compared to 26.6% for the average prudential balanced portfolio over this 23 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 December 2009 to November 2012:

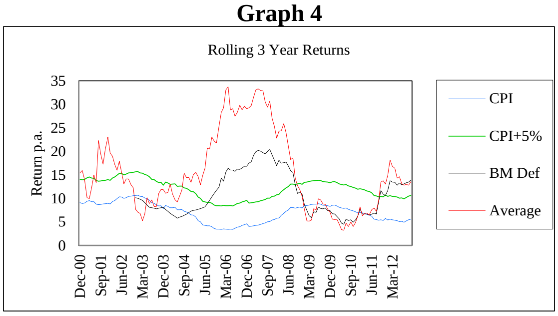
Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.7%	8.6%	6.7%
Best annual performance	9.1%	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	6.7%	13.0%	14.6 %

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 have surpassed inflation plus 5% since October 2011, Benchmark default portfolio currently on 13.9%, the

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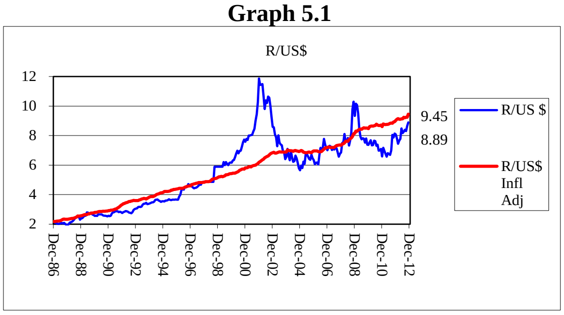
average on 13.6% vs CPI plus 5% currently on 10.6%.

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 fairly valued at 9.45 to the US Dollar while it actually stood at 8.89 at the end of November. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

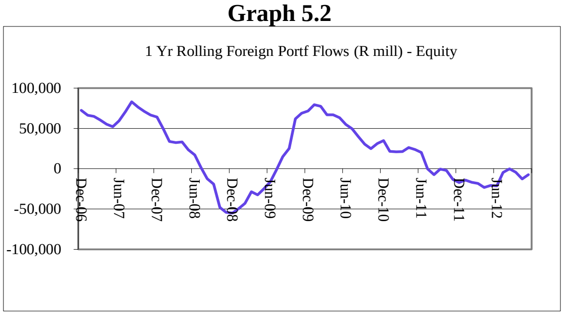


Support of the Rand from foreign capital flows continues, mainly through bond purchases

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 7.4 bn on a year-on-year basis at the end of November (outflow of R 12.1 bn to end October). Since the beginning of 2006, foreign net investment in equities amounts to N$ 162 billion (end October R 159 billion). This represents roughly 2% of the market capitalization of the JSE.

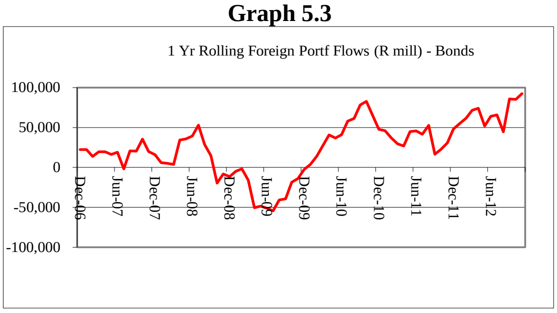
The fiscal easing measures of the Eurozone and again by the US are likely to provide an artificial underpin to the Rand through continued foreign inflows into local financial markets, more specifically into the bond market though.

Graph 5.2



Graph 5.3 on a rolling one year basis, reflects a much more volatile foreign portfolio flow into bonds of R 92.5 bn over the past 12 months to end of November (R 83.2 billion over the 12 months to end of October). Since the beginning of 2006, foreign net investment in bonds amounts to R 211 bn (October N$ 203 bn).

Graph 5.3

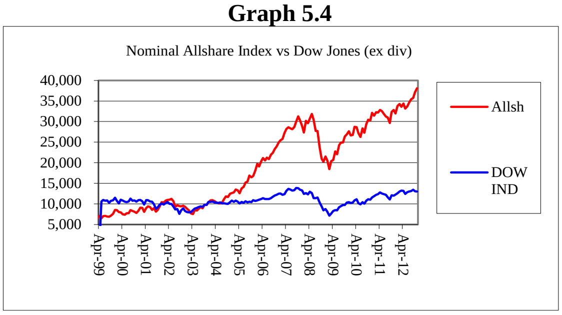


The net inflow of foreign capital into equity and fixed interest assets was R 85 bn for the 12 months to end November (inflow of R 73 bn to end October), compared to R 17 bn for the 12 months to end November 2011 (R 21 bn to end October 2011). Total net foreign portfolio flows amount to N$ 373 billion since the beginning of 2006 (October R 362 bn).

Graph 5.4 reflects the movement of the JSE and the DOW Jones since May 1999. In nominal terms the JSE passed its month end peak of before the financial crisis of 31,841 (May 2008), while the DOW Jones is still substantially below its previous peak of 13,896 (Sep 2007). In nominal terms, the JSE grew by 13.8% 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 6.8% 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



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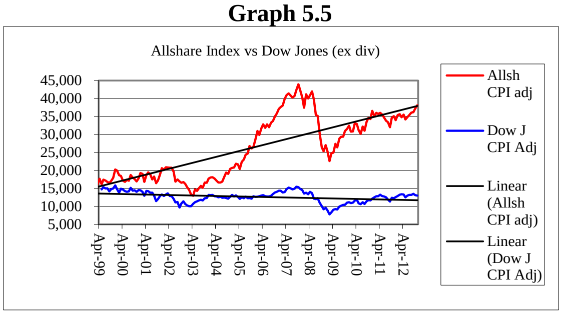
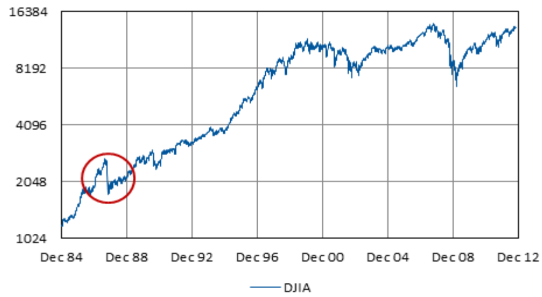


Graph 5.6

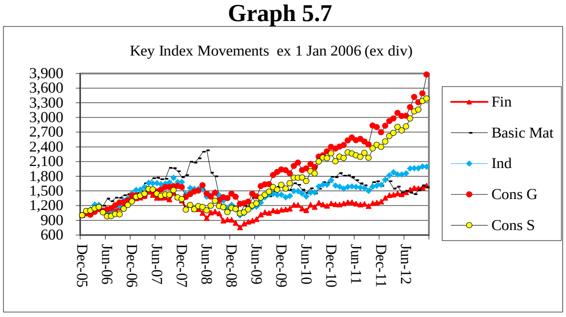
The Dow Jones Industrial Index, over the longer term:



Graph 5.6 places the data as per graph 5.5 into a better perspective, showing that graph 5.5 actually starts measuring the DOW Jones just after it had reached a peak around 1998.

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

Since our previous newsletter no significant changes have occurred in global financial markets that would make us change our views on investment strategy. In our view, we are experiencing artificial market conditions that underpin global equity markets at a cost still to be amortised in future at the expense of the man in the street. While these conditions prevail, equities will do well. These conditions will only change once global consumer sentiment has turned positive, which is likely to still take a while.

Under these circumstances the investor will have to ask himself, will I be cautious and continue suffering from underperformance for the sake of greater peace of mind, while still earning respectable inflation beating returns or should I rather trust in the current artificial environment prevailing for the foreseeable future and therefore drop my cautious position?

On the basis of fundamentals and the prevailing economic environment, foreign equities should outperform foreign bonds and property and in addition, a number of foreign bourses offer high discounts on fair value for political reasons that should fade away. In the face of a depreciating Rand, such investments would of course experience that benefit as well. Locally we would expect equity to remain the top performing asset class, followed by property, bonds and cash over the next one to two years. Bonds and cash face the real prospect of negative returns should interest rates be raised over the next 1 to 2 years.

In terms of local equity sectors, we remain concerned about the significant growth SA Consumer Goods and Consumer Services have seen, returning 19.8% and 19.0 % per year, respectively, since December 2005, excluding dividends. Similar returns were generated by the Health Care and Technology sectors. We do not believe this is sustainable but it is likely to also continue until the tide turns. Financials and Industrials have returned much more modest growth rates of 6.7% and 10.5%. Over the same period, the Namibian CPI grew by 6.8% per annum. Basic Materials that have grown by a meagre 7.1% per year since the beginning of 2006, should also offer some buying opportunities although as a sector we do not foresee it showing any significant recovery in the medium term.

We believe an assertive balanced portfolio with an overweight in equities, neutral 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

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.