Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

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

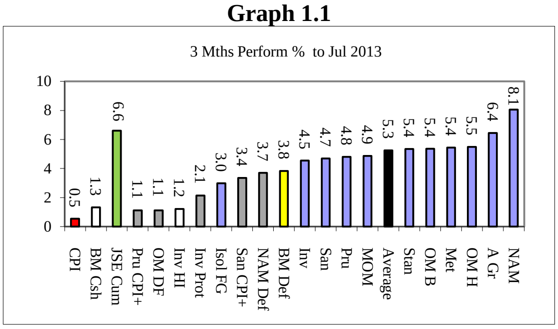
In **July** the **average prudential balanced portfolio** returned 2.70% (June: -3.42%). Top performer is Namibia Asset Managers (3.54%), Allan Gray (1.69%) takes bottom spot.

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.

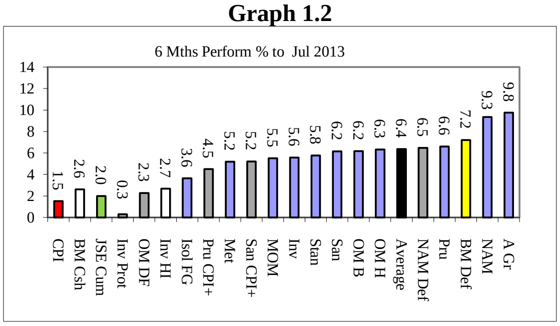
Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer Price Index	CPI (red)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Average (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)
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	Pru (blue)
Metropolitan Managed	Met (blue)
NAM Prudential Balanced	NAM (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
Momentum Managed	MOM (blue)
Sanlam Managed	San (blue)
Stanlib Managed	Stan (blue)

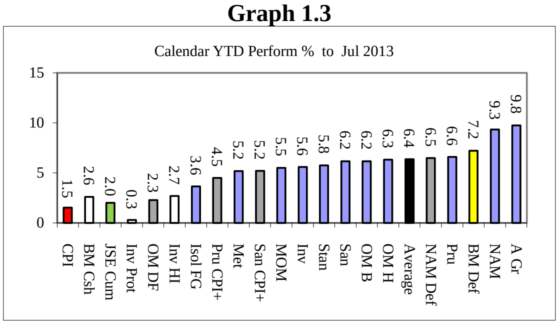
Graph 1.1



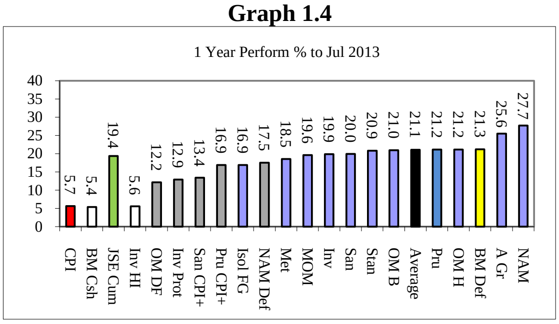
Graph 1.2



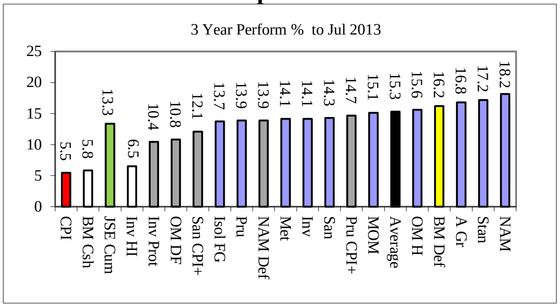
Graph 1.3



Graph 1.4



Graph 1.5

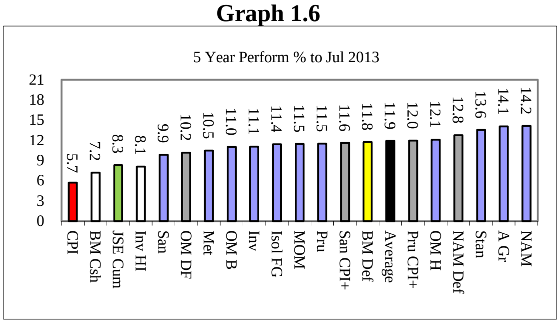


MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

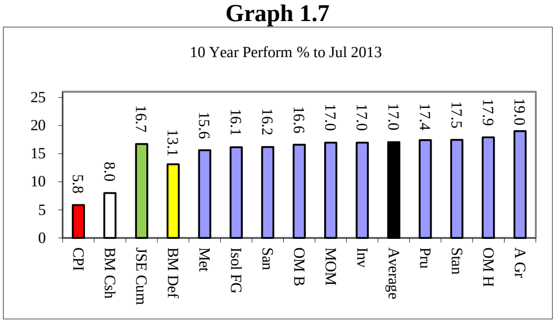
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

Graph 1.6

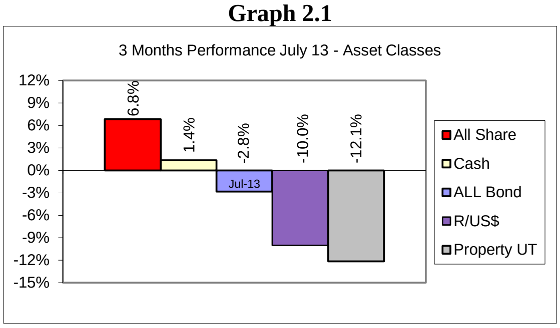


Graph 1.7

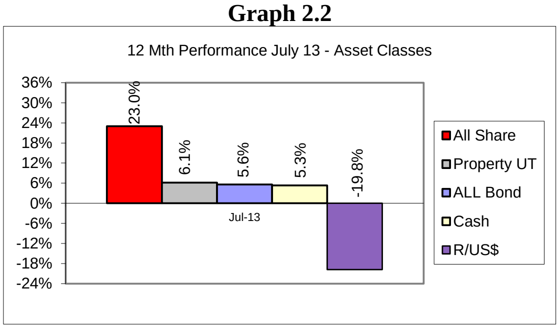


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

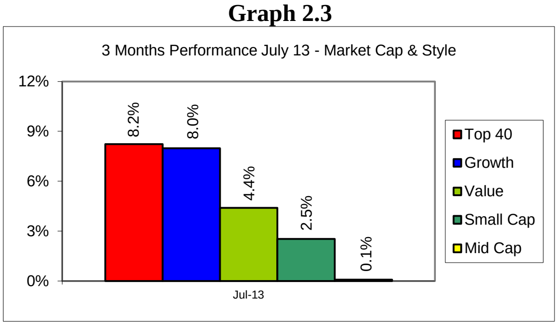
Graph 2.1



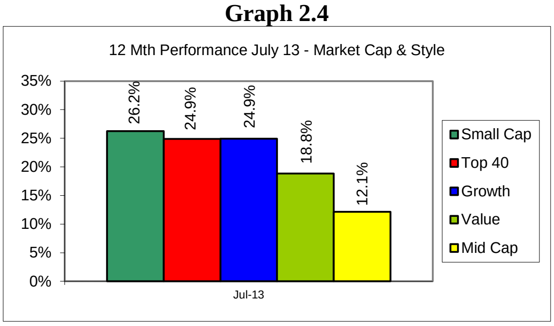
Graph 2.2



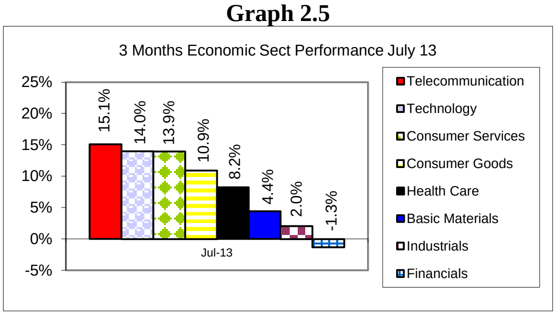
Graph 2.3



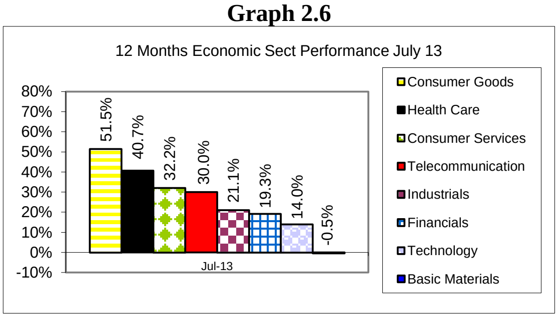
Graph 2.4



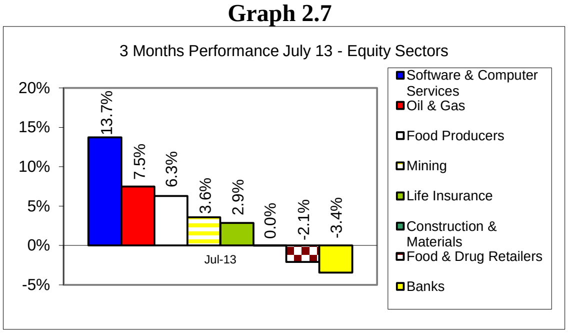
Graph 2.5



Graph 2.6



Graph 2.7



Volume 9, No. 7, July 2013

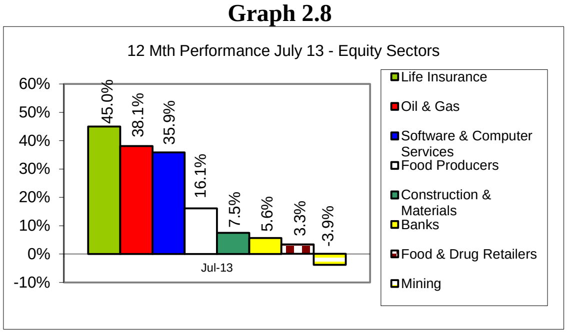
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

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.

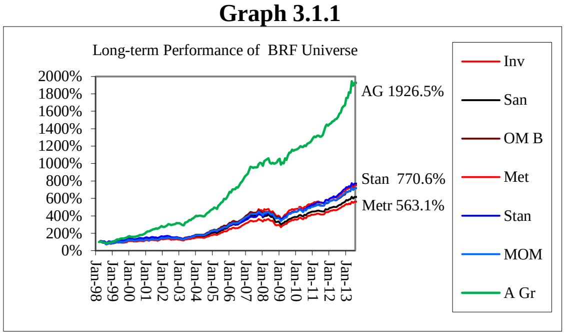
Graph 2.8



3. Portfolio Performance Analysis

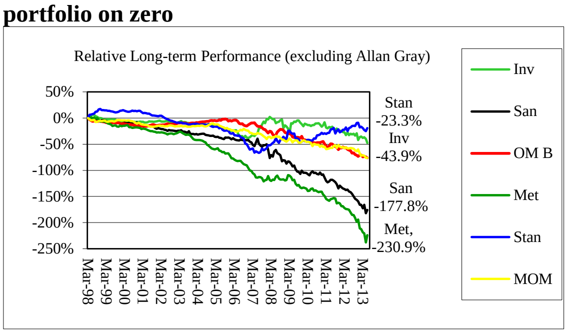
3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

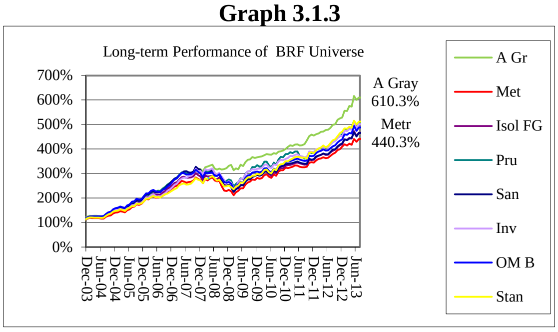


Graph 3.1.2

Cumulative performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

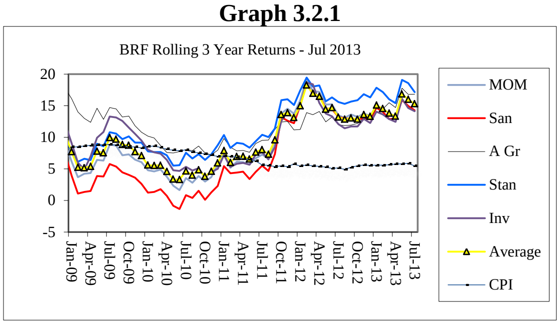


Graph 3.1.3

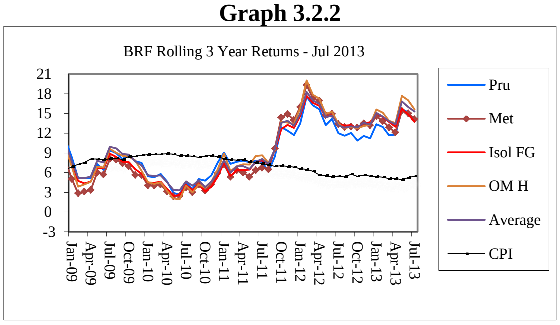


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

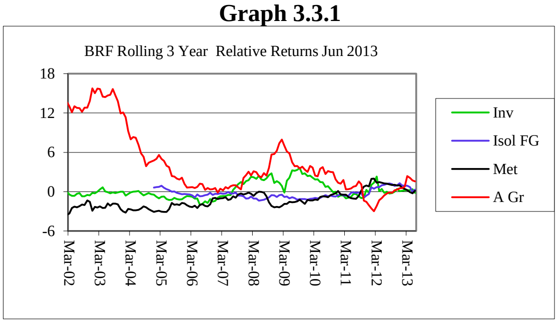


Graph 3.2.2

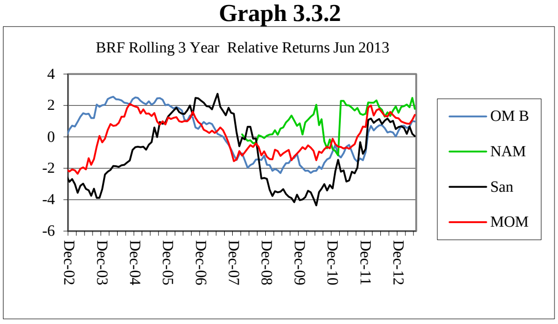


3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1



Graph 3.3.2



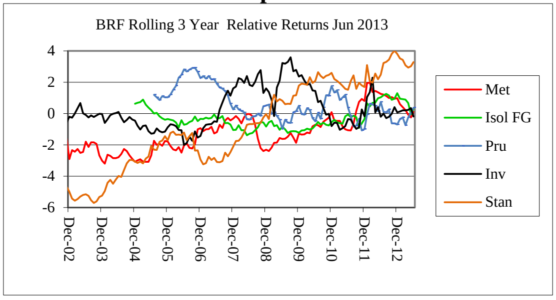
Volume 9, No. 7, July 2013

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

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

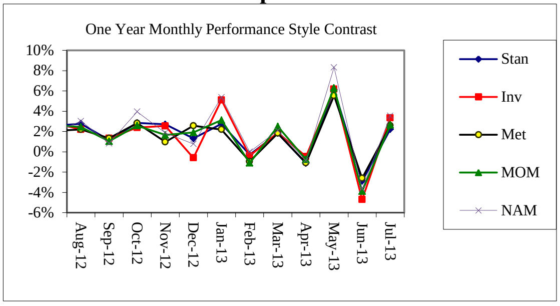
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 3.3.3

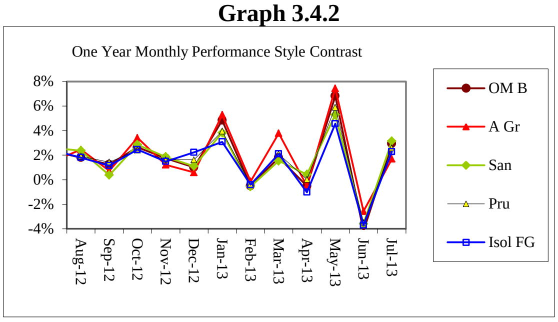


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

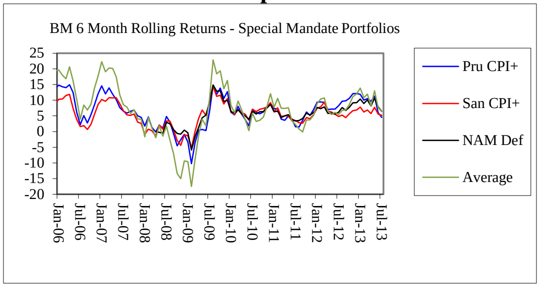


Graph 3.4.2

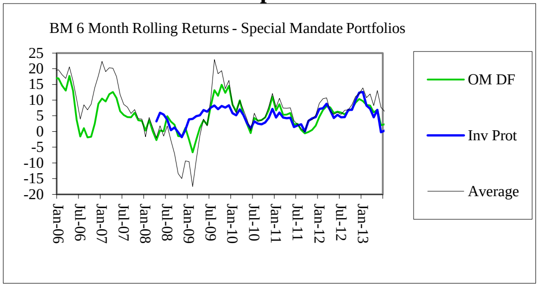


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

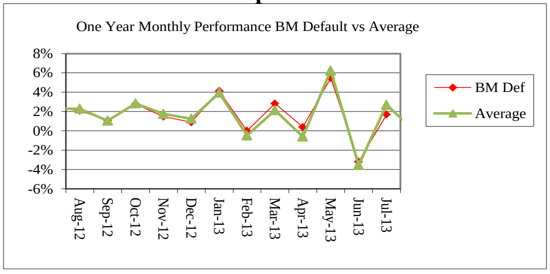


Graph 3.5.2

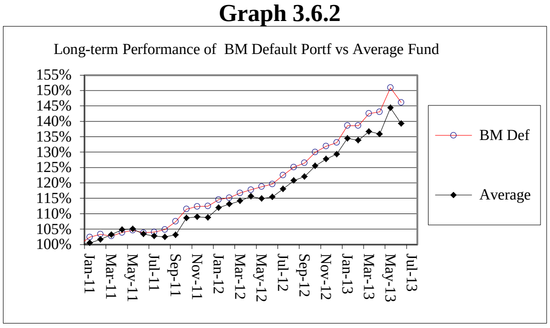


3.6 Monthly and cumulative performance of 'Benchmark Default' portfolio relative to average prudential balanced portfolio

Graph 3.6.1

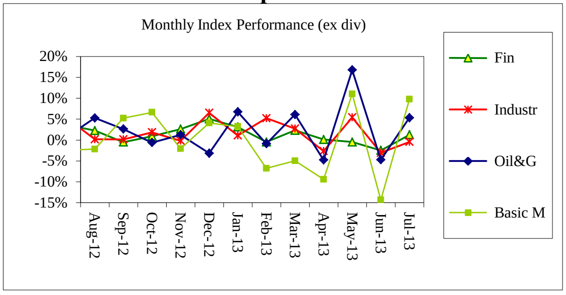


Graph 3.6.2



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

Graph 3.7.1



Income Tax Ref. No.12/1/12/462
Registration No 25/7/7/489

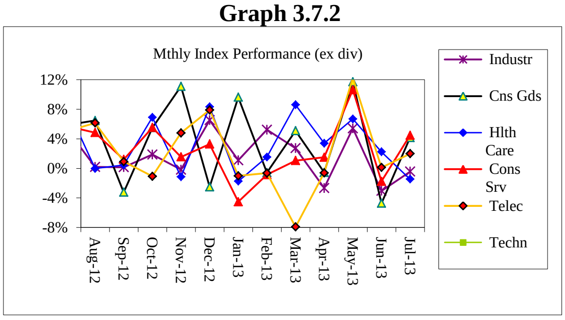
Volume 9, No. 7, July 2013

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

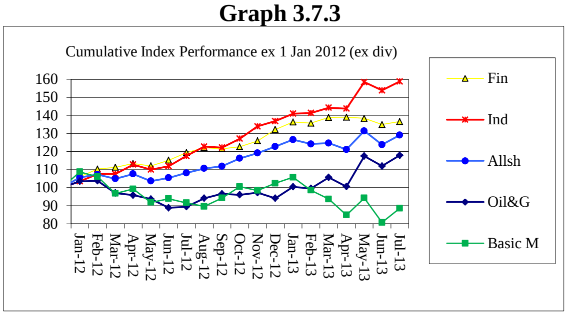
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

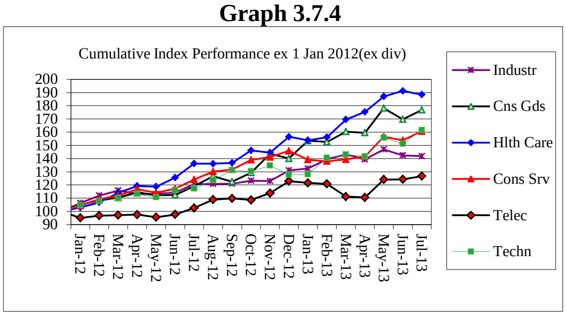
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 11.9% p.a. in nominal terms, or 6.2% p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 11.8% p.a. in nominal terms, or 6.1% p.a. in real terms. The fact that the performance of the Benchmark Default portfolio is on par with the average manager, is quite remarkable considering its significantly lower equity exposure (48.3% vs 59.8% as at the end of July 2013) and the lower risk it consequently entails for the investor.

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 just exceeding the expected long-term goal over the past 5 years.

Having raised the risk profile of the Default portfolio effective the start of 2011, by replacing Metropolitan ARF with the Allan Gray Investment Trust, we would expect the Default portfolio to sacrifice around 1% return for the benefit of lower volatility compared to the average prudential balanced portfolio, thus an expected real return before management fees (typically 0.75%), of around 5% per year. Over the past 5 years this performance objective was achieved. Since this change was effected, the default portfolio returned a cumulative 48.6% compared to 39.7% for the average prudential balanced portfolio over this 31 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 August 2010 to July 2013:

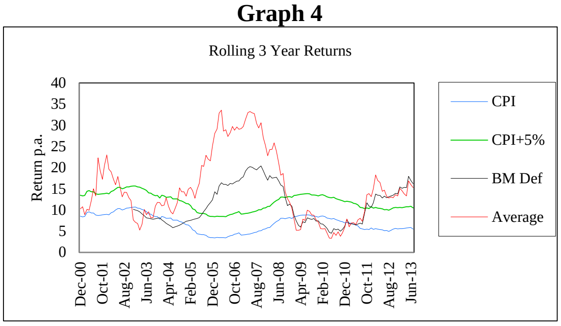
Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	5.4%	9.2%	7.4%
Best annual performance	7.4%	27.1 %	25.6%
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	6.2%	15.1%	14.3%

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

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

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.

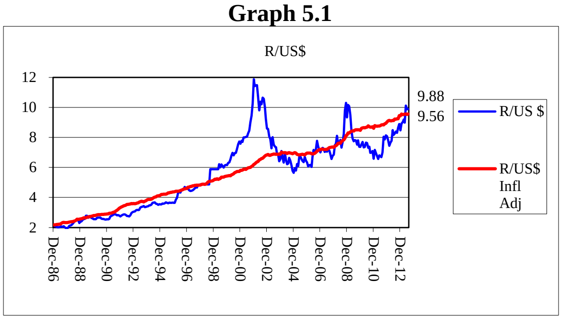
shows that since September 2008, both the Benchmark Default portfolio as well as the average prudential balanced portfolio were lagging inflation plus 5% and have surpassed inflation plus 5% since October 2011, Benchmark default portfolio currently on 16.2%, the average on 15.3% vs CPI plus 5% currently on 10.5%.

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 9.56 to the US Dollar while it actually stood at 9.88 at the end of July. Our measure is based on adjusting the two currencies by the respective domestic inflation rates.

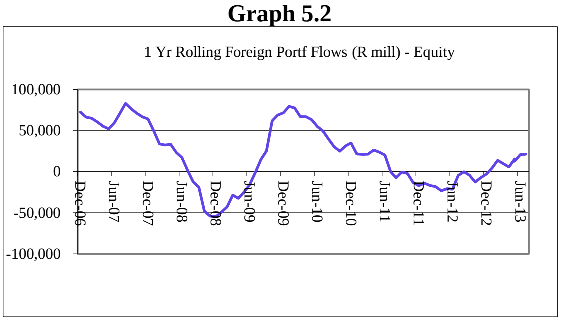
Graph 5.1



Rand under pressure due to foreign capital flows

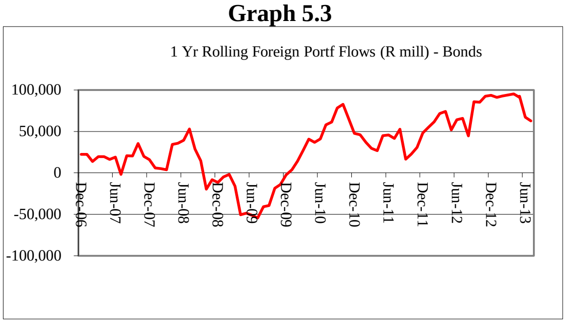
Graph 5.2 reflects a steady positive flow of capital into South African equities on a rolling one year basis, with a net inflow of R 21.3 bn on a year-on-year basis at the end of July (inflow of R 20.8 bn to end June). Since the beginning of 2006, foreign net investment in equities amounts to R 191 billion (end June R 191 billion). This represents roughly 2.1% of the market capitalization of the JSE.

Graph 5.2



Graph 5.3 on a rolling one year basis, reflects a sharp decrease of foreign portfolio flow into bonds of R 62.8 bn over the past 12 months to end of July (R 67.1 billion over the 12 months to end of June). Since the beginning of 2006, foreign net investment in bonds amounts to just above R 243 bn (to June just above R 234 bn).

Graph 5.3

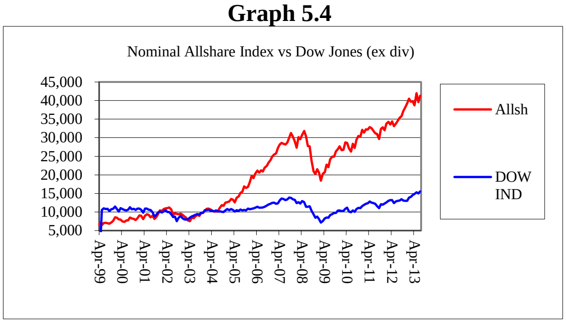


The net inflow of foreign capital into equity and fixed interest assets was down to R 84.1 bn for the 12 months to end July 2013 (inflow of R 87.8 bn to end June 2013), compared to R 61 bn for the 12 months to end July 2012 (R 43 bn to end June 2012). Since the beginning of 2006, total net foreign portfolio flows amounted to R 435 billion (June R 425 bn).

Graph 5.4 reflects the movement of the JSE and the DOW Jones since May 1999. In nominal terms, the JSE grew by 13.4% per year, while the DOW Jones only grew by 2.4% per year, over a period of just over 14 years, dividends excluded. Namibian inflation over this period was 6.9% per year in contrast with US inflation of 2.4%.

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 6.5% per year above inflation, over this period of close to 14 years, and this excludes dividends of somewhere in the region of 2% to 4%. In contrast, the DOW only managed to match inflation over this period, also excluding dividends.

Graph 5.4



Volume 9, No. 7, July 2013

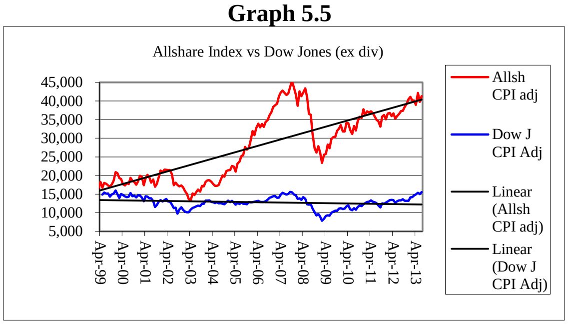
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

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

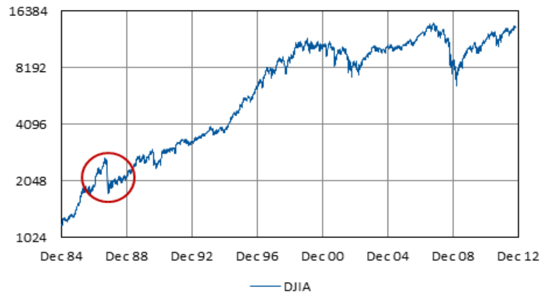
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

Graph 5.5



Graph 5.6

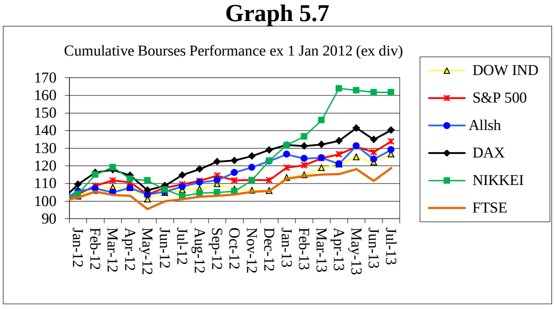
The Dow Jones Industrial Index, over the longer term:



Graph 5.6 places the data as per graph 5.4 into a better perspective, showing that graph 5.4 actually starts measuring the DOW Jones just after it had reached a peak around 1998.

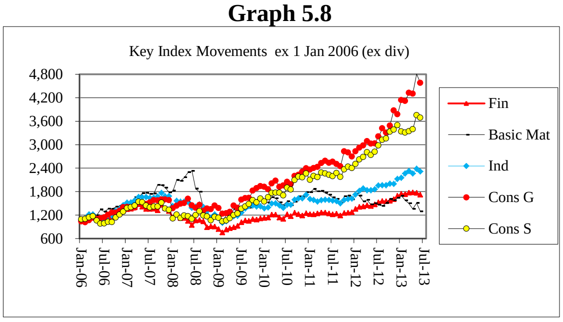
Graph 5.7 provides an interesting overview of some of the major global share indices, showing up the NIKKEI and the DAX as the top performing share indices.

Graph 5.7



Graph 5.8 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 5.8



6. Conclusion

Since the steep fall in global financial markets in June, in consequence of a comment by Fed Chairman Bernanke of a tapering of the Fed's large scale asset purchase (LASP) programme, nervousness in markets has subsided. However, traders and investors have taken a cue and are a lot more cautious. This manifests more prominently in the fixed interest markets where interest rates have moved off their lows already. US benchmark 10 year notes are currently hovering around 2.4%, off a low of 1.65%. This may not seem much in absolute terms, however for the investor this represents a capital loss of 32%! Equity markets are currently wavering between fear and the hope that the Fed's LASP programme will continue.

The question in the investor's mind will be when the Fed will start tapering its LSAP programme. Until such time as this becomes clearer, equity markets are likely to remain volatile, fertile ground for the speculator but a time where a long-term investor needs to sit tight and 'turn a blind eye' to any downturn in the markets. At this stage, the Fed is unlikely to change direction until a new board of governors under a new chairperson has taken the reigns and has settled in. This will possibly only be early next year, while chairman Bernanke is likely to be replaced in the next 2 months or so.

Local indicators also evidence the expectation of a tapering of the LSAP programme. Interest rates have started to tick up in the face of declining foreign flows into local bonds. Foreign investment flows into local equities have virtually dried up with an inflow in July of a mere N$ 463 million. These developments have no doubt also contributed to the weakening of the Rand.

Are we now moving into the 'muddle through' phase of global economies? Despite some positive economic indicators coming out of the US and Europe, it is unlikely that we will see a dramatic improvement of global economies. There will likely be a slow shift of investment flows from equity markets to bond markets as investors see value in higher interest levels and try to capitalise on mispricing of assets that is likely to occur. A concerted global recovery will most likely only happen in a year or two and is likely to be slow.

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 2013

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.

The general expectation of commentators is that deleveraging of bloated balance sheets will happen through inflation, i.e. asset values blown up through excessive money supply will depreciate in real terms, through inflation. The article 'The pressing need to deleverage raises spectre for deflation' in this link, hints towards another scenario for deleveraging. The last time this happened was long before most of us were born and we would therefore find it difficult to relate to such a scenario. Deflation would imply negative inflation coupled with very low interest rates, rather than high inflation coupled with high interest rates, i.e. the value of assets and incomes would decline, the end result being the same though. Psychologically, deflation is likely to be perceived much more negatively than inflation and the impact on consumption and the economy is likely to be much worse than in an inflationary environment.

The measures thought up by central bankers in response to the financial crisis, namely wholesale money supply, or money printing, or quantitative easing or LASP programmes or by whatever other name it may have become known, are a historic experiment of which we will really only know the end result when we look back in 20 or 30 years' time, possibly longer. What is certain, it will be different – but so what things would have been different in any event.

Despite of a strong growth in foreign bourses since the financial crisis, 1741 AM Fair Value indices still indicate great buying opportunities in foreign equity markets, primarily EMU markets (Austria -54%, Italy –57%, Portugal -31%, Spain -38%) but also Japan on -31%. The US is considered overvalued by 35%. A weak Rand, and by our measure undervalued at its current value around 10 to the US versus fair value at around 9.6, suggests that one should now hold back on investing offshore though. South Africa like a number of other emerging economies stretching from Turkey to Brazil to India, are under increasing pressure to raise interest rates in order to protect their currencies that have fallen steeply in the more recent past.

Based on the above deliberation, we expect global commodity and equity markets including local markets, to move sideways and that the investor should really only expect returns equal to the dividend yield. With very little or no capital appreciation. Ignoring the scenario of deflation, interest rates will rise slowly and buying opportunities will arise provided one invests to maturity.

A globally well diversified portfolio, comprising of value companies in the industrial, financial and technology sectors with strong cash flows and high dividend yields, some high yielding property exposure with low gearing are really the asset classes we believe can deliver satisfactory returns over the next one to two years. In terms of the weighting of the equity exposure we believe that foreign equity should be overweight relative to local equity, considering that local investors will hold the major portion of their assets locally.

The article titled 'The Prospects of Local Equity' by Mike Browne of Seed Investment in this link, provides an interesting view on the relative value of local asset classes that prospective investors may find illuminating.

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.