BENCHTEST
Volume 3, No. 9, Sep 2007

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 September 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 Portfolio Performance (consult table below for full name of portfolio)

In September the average prudential balanced portfolio returned 1.93% (August 0.5%). Best and worst performance **for the month** was delivered by Stanlib (4.06%) and Allan Gray (0.06%), respectively.

For the 3 months ended September 2007 (**graph 9**), best and worst performance was delivered by Investec (7.2%) and Allan Gray (0.6%), respectively, the average portfolio delivering 3.2% (August minus 0.2%). **For the 12 months** ended September 2007 (**graph 12**), best performance was delivered by Investec (38.2%) and worst performance by Allan Gray (23%), the average portfolio delivering 29.1% (August 28%). **Graphs 10, 11, 13** and **14** reflect the performances for the **6 months, year-to-date, 3 years and 5 years** to 30 September 2007, respectively.

Cumulative long-term performance of prudential balanced portfolios is reflected in **graphs 15 and 16**. Take note that graph 15, that reflects a massive out performance by Allan Gray, has March 1998 as starting point while graph 16 reflects cumulative performance starting January 2003. Here too Allan Gray comes out on top albeit with a very narrow margin, out performing Namibia Asset Management at the bottom of the log, by 26.2% p.a. vs 20.6% p.a..

Graphs 19 and 20 provide a more in depth look at the **monthly performance of these portfolios** over the past 12 months. Interestingly, portfolios in graph 19 perform much more in tandem than those in graph 20, and this has been the case for quite some time now. Check your manager's performance relative to the others and to the monthly **returns of the main equity sectors** in **graphs 23 and 24** over the same period. Is this consistent with its asset and sector allocation (refer to our Manager Review at 30 June 2007 on our website)?

2. Special Mandate and Default Portfolio Performance

Over the past 9 months markets have been extremely volatile and for once the special mandate portfolios clearly show their advantages and why the cautious and conservative investor should consider these portfolios. **Rolling 6 month returns** of these portfolios are reflected in **graph 21**, relative to the average prudential managed portfolio. Benchmark investors should take note that as from July, the fund's default portfolio comprises of Metropolitan Absolute Return and Prudential Inflation Plus funds in approximately equal shares. This should reduce performance volatility and risk even further and monthly comparative performance of the default portfolio and the average portfolio is reflected in **graph 22**.

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 September 2007. The Allshare* index outperformed all other asset classes over 3 months at 6.7%, followed by Property UT* on a very respectable 5.1%, Cash*on 2.4% and All Bonds* on 2.3%. Property UT* won the race over 12 months (39.1%), followed by the All Share* index on 37.4%, All Bonds* on 12% and Cash* on 9%. For the purpose of doing more in depth analyses, **graphs 25 and 26** reflect the **performance build up of various indices** from 1 January 2007 to date.

4. Investment Style and Market Capitalization

Graphs 3 and 4 show that '**Growth**'* and '**Value**'* companies returned 10.9% and 2.9%, respectively, over 3 months, and 41.1%, respectively 33.8%, over 12 months. These results certainly appear to have had a bearing on the performance of value versus growth biased managers. Looking at **market capitalization**, 'Small Caps'* produced 2.1% and 59.4% over 3 and 12 months, compared to 'Mid Caps*' (0.6% and 41.1%) and 'Top 40's*' (7.7% and 36.4%). The following abbreviations are used in the graphs below:

Benchmarks	
Namibian Cons Price Index	CPI Cum
JSE Allshare Index	JSE Cum
Benchmark Default Portfolio	BM Def
Average Portfolio (prudential, balanced)	Aver
Special Mandate Portfolios	
Sanlam Cash	BM Cash (no colour)
Investec High Income (IBA)	Inv High (no colour)
Metropolitan Absolute Return	Metr ARF (grey)
Prudential Inflation Plus	Pru Infl+ (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Sanlam Inflation Plus	Sanl Infl+ (grey)

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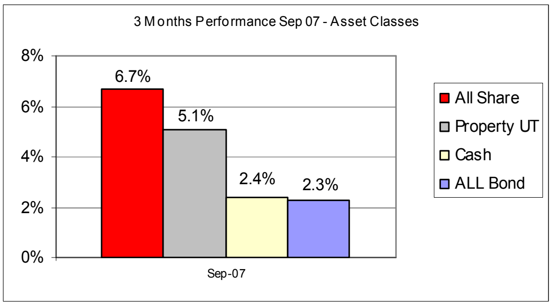
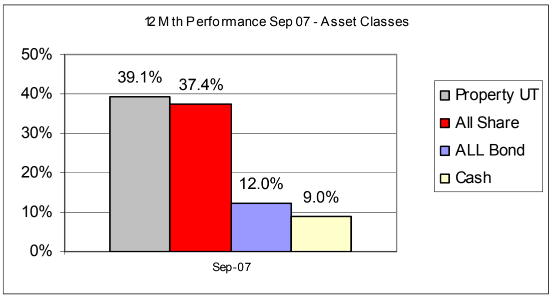
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Namibia Harvest Platinum Balanced	NAM (blue)
Old Mutual Profile Balanced	OM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

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

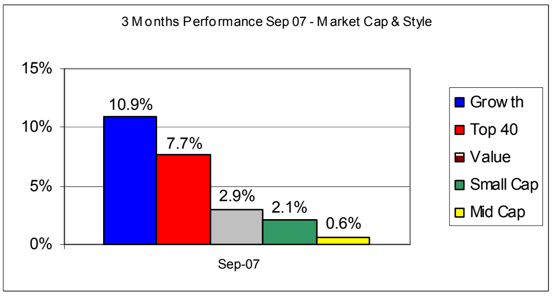
Graph 1



Graph 2



Graph 3



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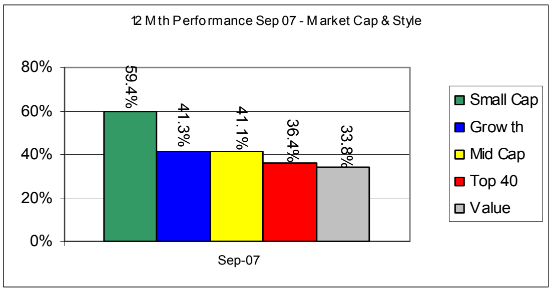
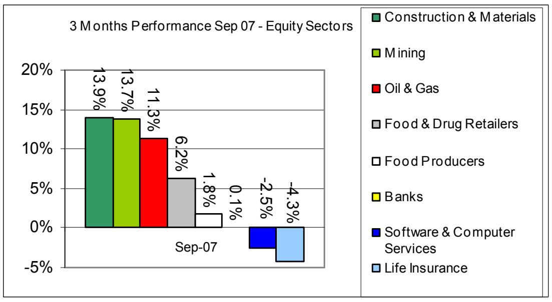
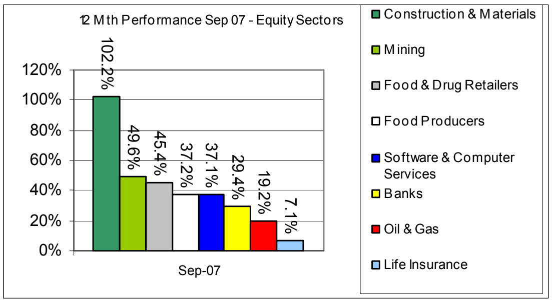


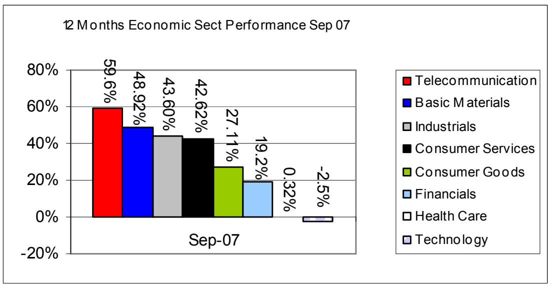
Graph 5



Graph 6



Graph 7



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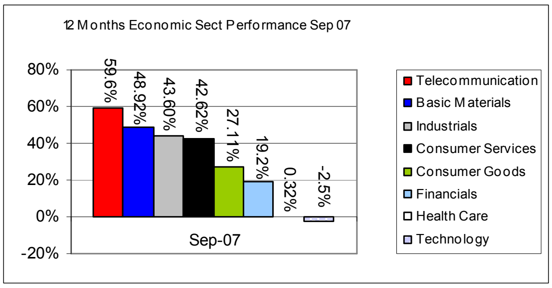
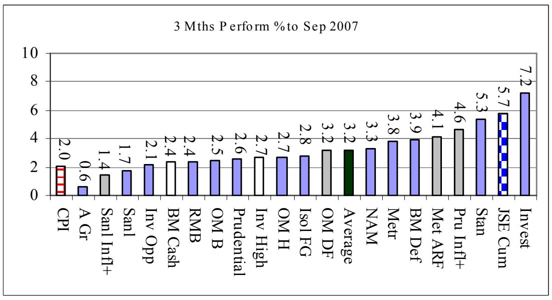
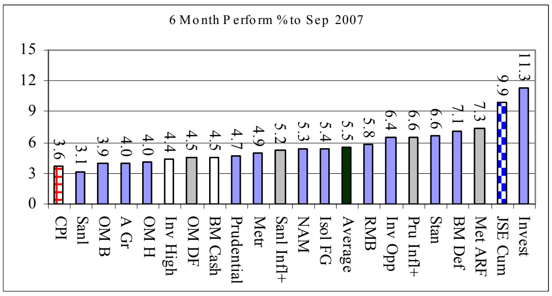
Graph 8



Graph 9



Graph 10



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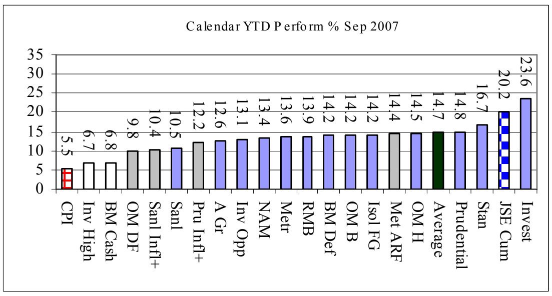
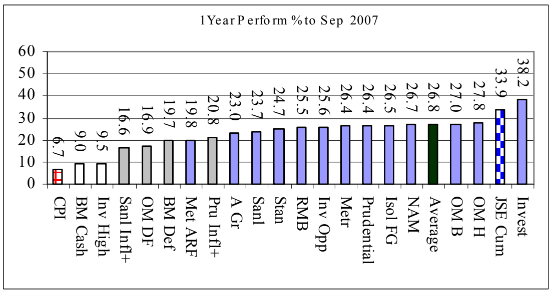


Graph 12



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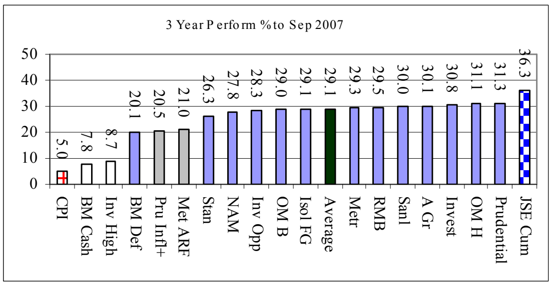

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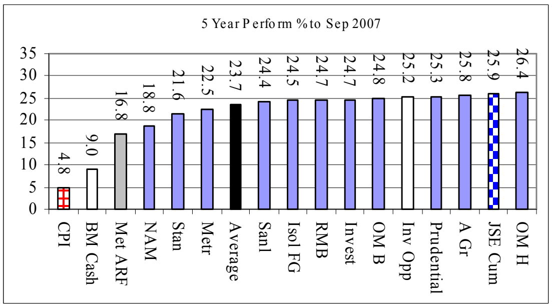
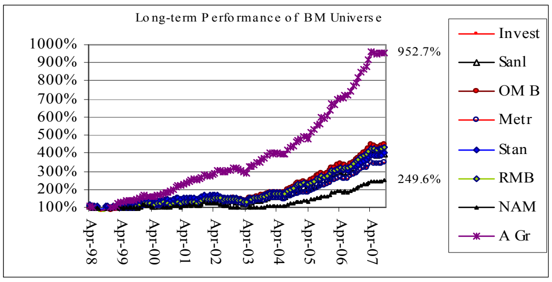


Graph 15



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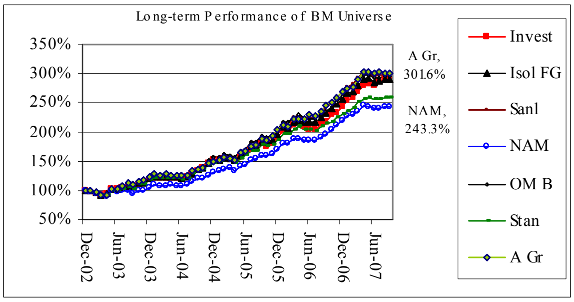
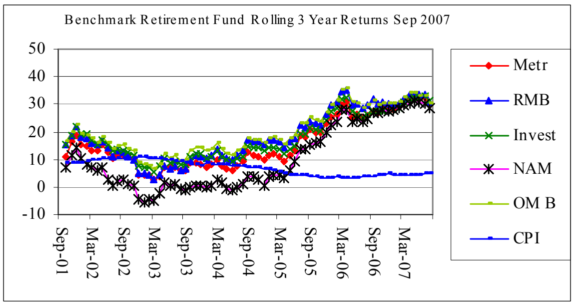
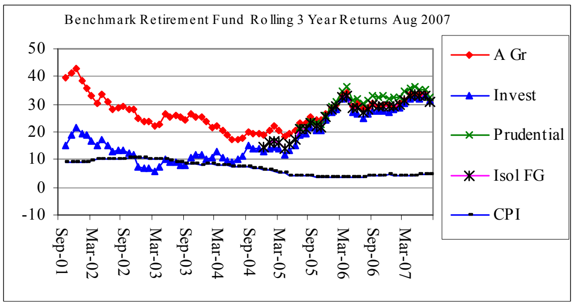
Graph 16



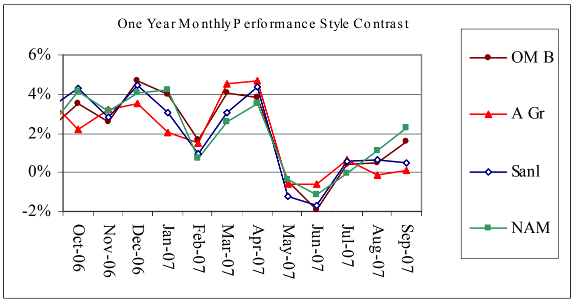
Graph 17



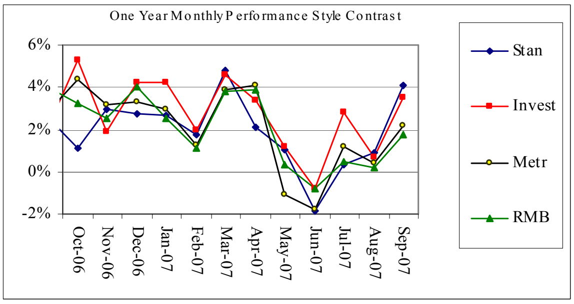
Graph 18



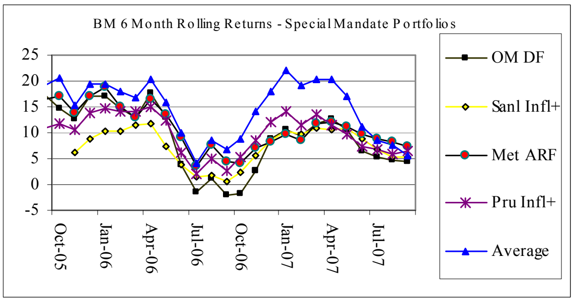
Graph 19



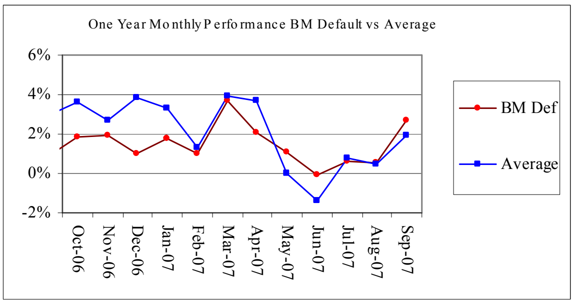
Graph 20



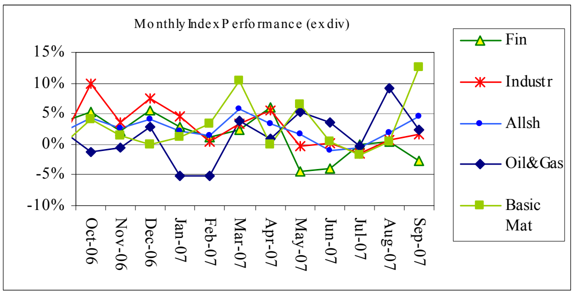
Graph 21



Graph 22



Graph 23



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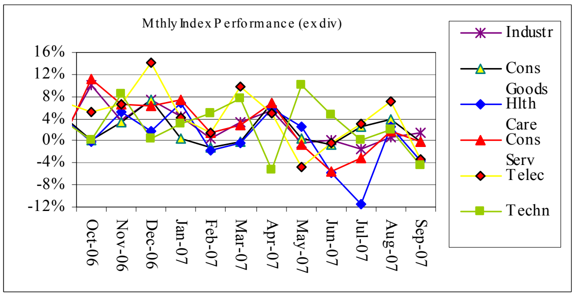
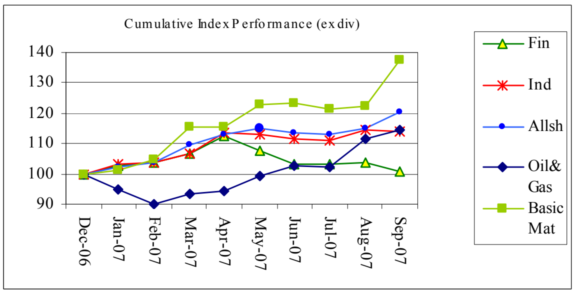
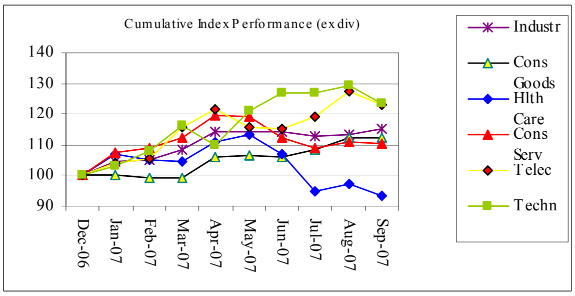
Graph 24



Graph 25



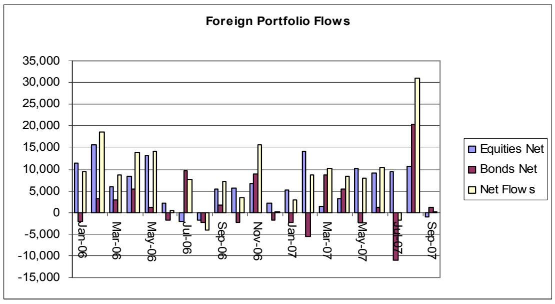
Graph 26



5. A Controversial preview for the next 6 months

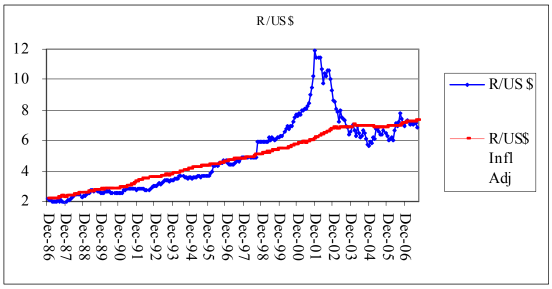
We pointed out before that a key factor for continued bullish sentiment towards local equities and the strength of the Rand/Namibia Dollar has been significant foreign interest and portfolio investment, and this seems to still persist, although graph 27 indicates a declining trend, barring a huge spike of foreign buying, of SA bonds in particular, in August. We would expect this decline to continue, considering that SA is approaching the peak of the interest rate cycle and other global issues such as the sub prime crisis in the US, exceptionally low interest rates in Japan and the weakening US$, China's attempts to check the pace of its economic growth and tensions in the middle east.

Graph 27



This is likely to exert pressure on and to make the Rand/Namibia Dollar more volatile, particularly in view of a large current account deficit, although graph 28 indicates, that the Rand, adjusted for the differential in US and SA CPI, respectively, is currently fairly valued against the US$. A renewed concern about global markets that require increased caution is the sabre rattling towards Iran. Such uncertainty will push up the crude price and is likely to also impact positively on global resources prices that should benefit the South African economy. For the short term this will strengthen the Rand and benefit resource companies and importers.

Graph 28



Looking at graph 29, the South African market started to depart from it US peer with serious conviction in the second half of 2004, the time when the crude price started heading north, to an extent a viewer will be forgiven for getting dizzy – while commentators find reasons to rationalize this! Since the ALSI is heavily weighted towards resources it is evident that there is a strong correlation between the price of crude and that of resources. It is not clear what keeps crude at the current levels, particularly considering that production costs (around US$ 15 per barrel) are only a fraction of its price. Surely, this cannot be sustainable and there must be a significant risk that market forces will make it returns to normal levels. This is likely to lead to resource prices declining substantially, with a resulting negative impact on the FTSE/JSE.

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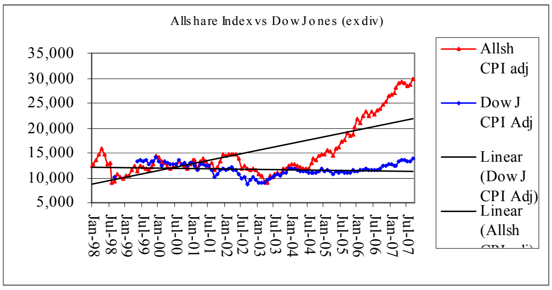
Graph 29



The current price earnings ratio of the ALSI at around 15 at end September, has declined noticeably from previous levels of around 18, to a much more competitive level vis-à-vis global bourses, which implies an earnings growth of around 30% over the past 8 months, certainly proving our earlier skepticism wrong and rationalizing the high level of the FTSE/JSE. It is just very difficult to grasp how the stock exchange can outperform the overall economy by leaps and bounds as it has done over the past 3 years, in particular, but even over the past 9 years. The Allshare index grew by an average of more than 17% over the past 9 years. Inflation has been around 7.5% over the same period. This means that it had a real growth of 10% per annum! This must be due to some distortion. Experience has it that whenever something appears to defy logic and one is about to accept the illogical, logic suddenly exerts itself once again.

Our pet theme about the crude windfall of some US$ 2 trillion per annum, viewed in relation to total global market capitalization of around US$ 40 trillion, is likely also not without blame in distorting global financial markets to an extent that it is extremely difficult to foresee how markets may unravel.

The question now is, whether a gradual global unraveling will continue or whether we have seen the bottom of it already? For the time being, the intervention by central banks around the globe has contained a panic flight out of equities. The natural urge of someone who has burnt his or her fingers, to heal the wounds suffered, in our view is likely to put a cap on sentiment for a while though. In addition, consumer confidence appears to be receding in the developed world as well as in South Africa, which should result in less equity exuberance. The sub-prime mortgage problem in the US has not been resolved by any means and it is likely to take quite some time, patience and pain before it will have worked itself out of the system, producing lots of market volatility in the mean time.

6. Conclusion

At this stage we believe there is considerable negative potential and risk in the markets and prefer a more conservative strategy. We are comfortable under these circumstances to settle for a return of inflation plus say 5% or about 12% p.a., which is still quite ambitious for a long term goal. Property, bonds with a little equity tweaking should produce the desired returns. Yes, chances are that one will miss out on further upside, but then it becomes ever riskier to time your exit.

A clear investment objective is essential. If you invest for the long-term you should ignore short-term movements as you are otherwise likely to experience that what you have gained on the swings you will loose (or even more!) on the roundabouts. In the long-term you should not expect more than inflation plus 5% on your retirement capital, which implies an acceptable level of risk with an equity allocation of not more than 75% and a wide spread across asset classes and individual script. If you invest with a shorter term horizon, this in our view is certainly not the time to get into the market.

Since our market has recovered nicely to the end of September it is a good time to offload some equity exposure for the investor wishing to follow a more cautious strategy or who intends to access retirement capital within the next 12 months.

7. Important notice and disclaimer