BENCHTEST
Volume 3, No. 12, Dec 2007

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 December 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 December the average prudential balanced portfolio returned minus 1.32% (November minus 2.33%). Best and worst performance **for the month** was delivered by Investec (0.33%) and Old Mutual (minus 2.12%), respectively.

For the 3 months ended December 2007 (**graph 9**), best and worst performance was delivered by Allan Gray (4.7%) and Prudential (minus 0.9%), respectively, the average portfolio delivering 0.8% (November 4.1%). **For the 12 months** ended December 2007 (**graph 12**), best performance was delivered by Investec (27.7%) and worst performance by Sanlam (11.1%), the average portfolio delivering 15.6% (November 21.7%). **Graphs 10, 11, 13, 14 and 15** reflect the performances for the **6 months, year-to-date, 3 years, 5 years** and now, for the first time, **10 years** to 31 December 2007, respectively.

Cumulative long-term performance of prudential balanced portfolios is reflected in **graphs 16 and 17**. Take note that graph 16 reflects a massive out performance by Allan Gray of 26.6% p.a. over this period of close to 10 years compared to bottom of the log Metropolitan, returning 13.8% p.a. since March 1998. Graph 17 reflects cumulative performance starting January 2003. Here too Allan Gray comes out on top albeit with a very narrow margin, out performing Stanlib at the bottom of the log, by 25.8% p.a. vs 22.2% p.a..

Graphs 20 and 21 provide a more in depth look at the **monthly performance of these portfolios** over the past 12 months. Check your manager's performance relative to the others and to the monthly **returns of the main equity sectors** in **graphs 24 and 25** over the same period. Is this consistent with its asset and sector allocation (refer to our Manager Review at 30 September 2007 on our website)?

2. Special Mandate and Default Portfolio Performance

Over the past year, 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 22**, 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, over the past 12 months, is reflected in **graph 23**.

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 December 2007. Property UT* and Cash* outperformed all other asset classes over 3 months at 2.4%, followed by All Bonds* on 1.2% and the Allshare* on minus 3%. The Property UT* index won the race over 12 months (22.7%), followed by All Share* index on 19.2%, Cash* on 9.3% and All Bonds* on 7.5%. For the purpose of doing more in depth analyses, **graphs 26 and 27** 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 '**Value**'* and '**Growth**'* companies returned 0.6% and minus 9%, respectively, over 3 months, and 15.3%, respectively 19.9%, over 12 months. Looking at **market capitalization**, 'Small Caps'* produced 0.6% and 34% over 3 and 12 months, respectively, compared to 'Mid Caps*' (minus 0.2% and 17.6%) and 'Top 40's*' (minus 9% and 19%). 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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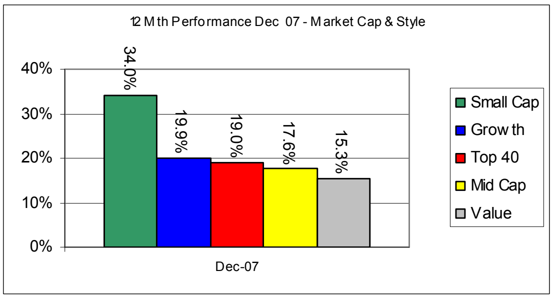
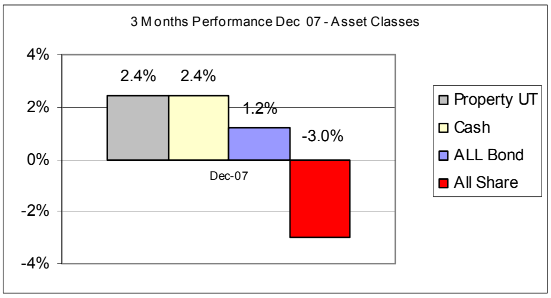
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Namibia Harvest Platinum Balanced	NAM (blue)
Old Mutual Profile Balanced	OM 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.

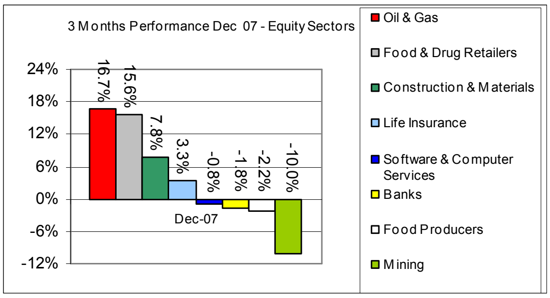
Graph 4



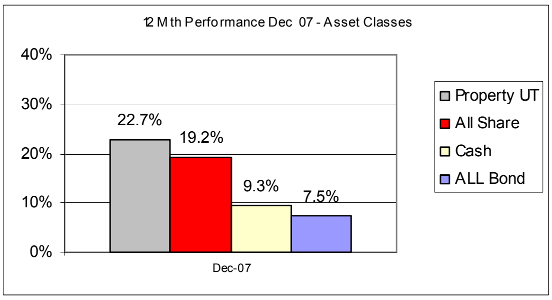
Graph 1



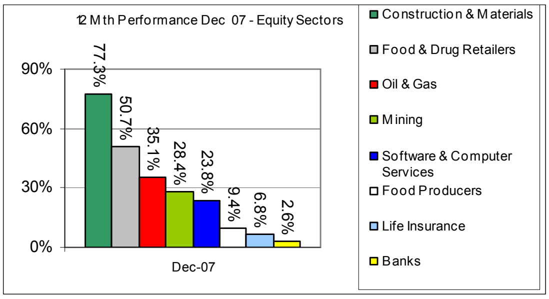
Graph 5



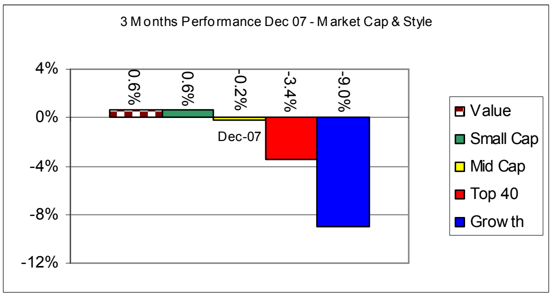
Graph 2



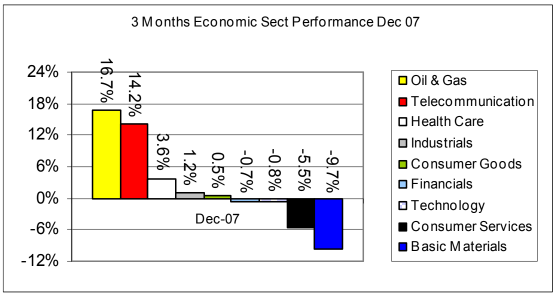
Graph 6



Graph 3



Graph 7



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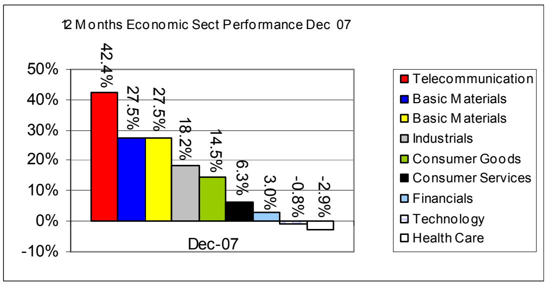
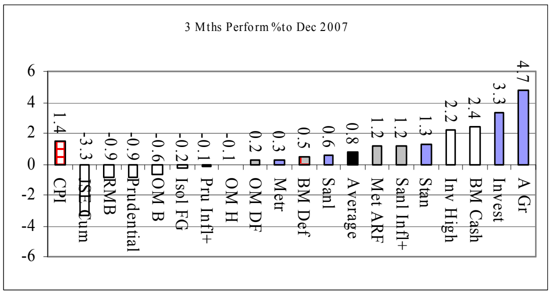
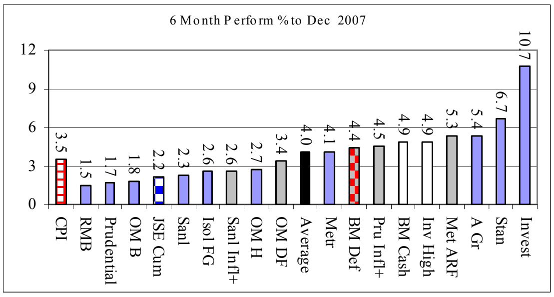
Graph 8



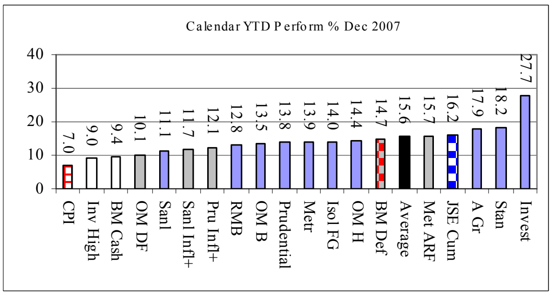
Graph 9



Graph 10



Graph 11



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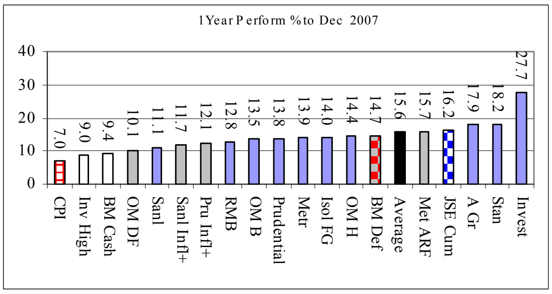

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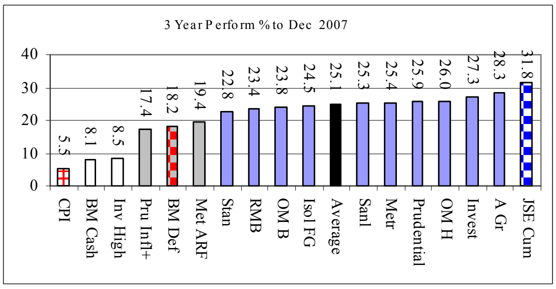

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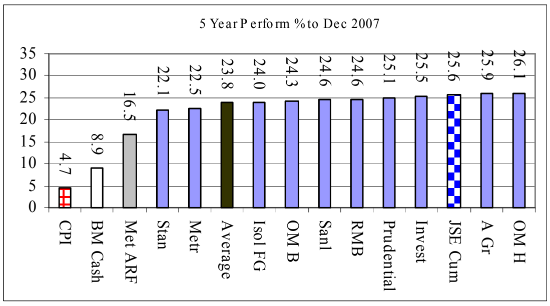

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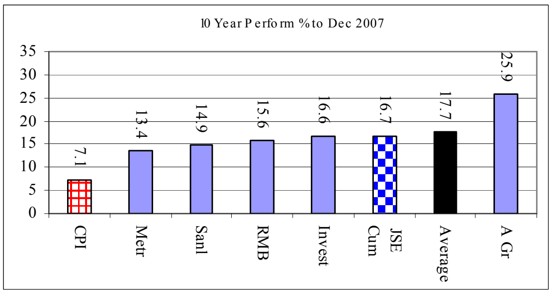

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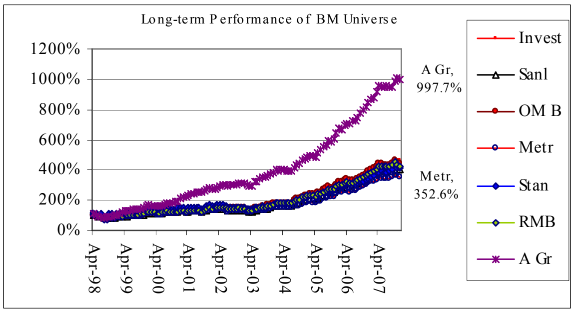
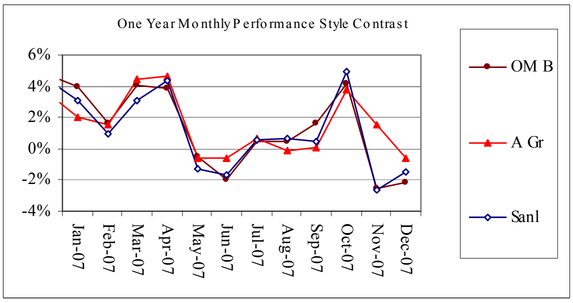
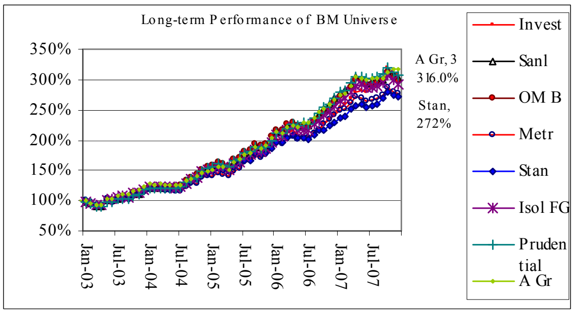
Graph 16



Graph 20



Graph 17



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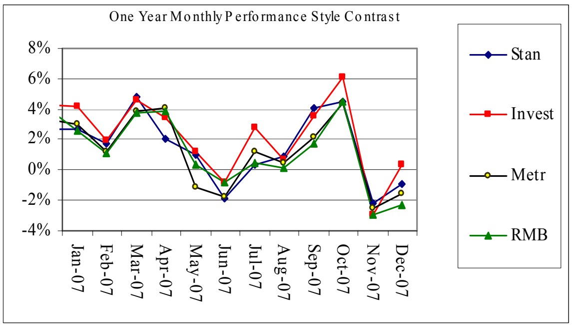

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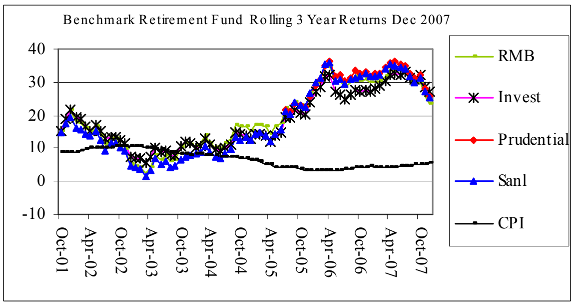
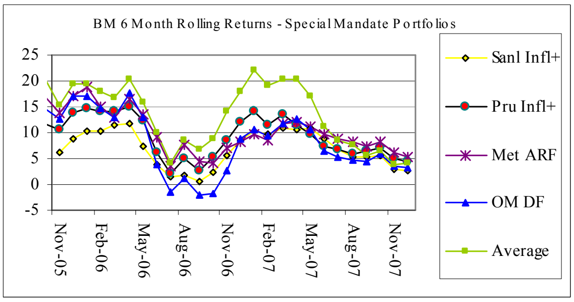


Graph 22



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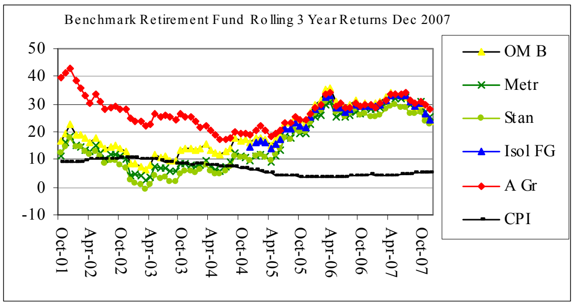
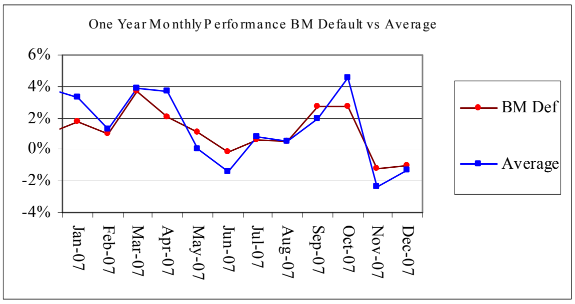


Graph 23



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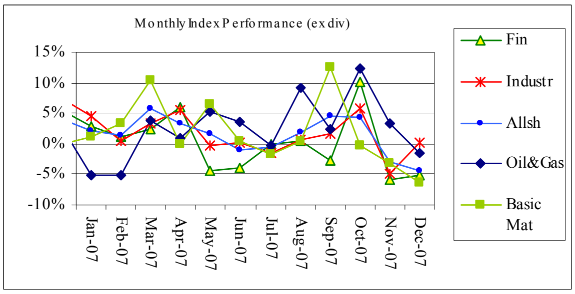
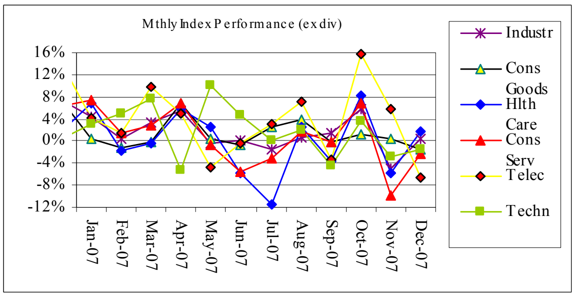
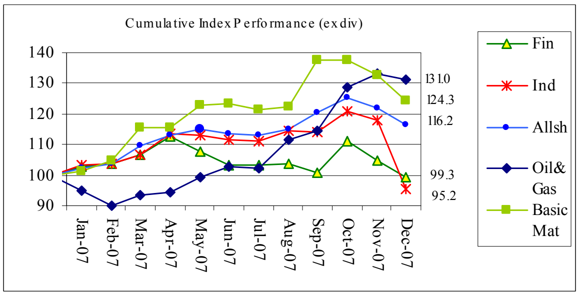
Graph 24



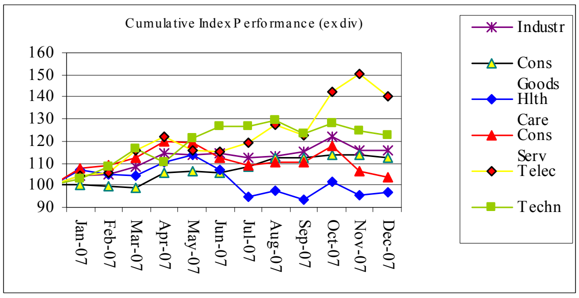
Graph 25



Graph 26



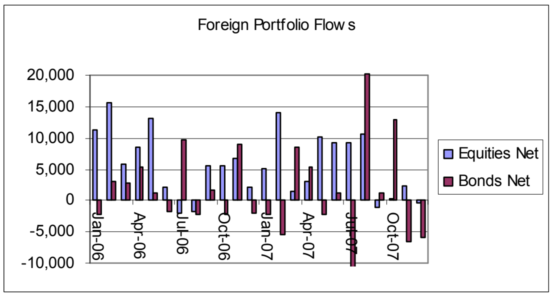
Graph 27



5. A Preview Of The Next 12 Months

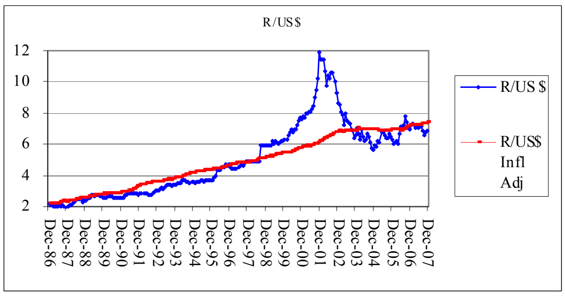
We pointed out before that a key factor for continued bullish sentiment towards local equities and the strength of the Rand/Namibia Dollar has been significant foreign interest and portfolio investment. The answer to the question where all this money came from appears to be unfolding slowly. Americans, in particular used the spiral of cheap credit and inflated house prices to fund their investment and spending spree. So where all of a sudden, did this massive funding come from? Well, there was really only one event of global proportions over the past 4 years, and that is the oil price which is currently generating windfall profits in excess of US$ 2 trillion per year (market capitalization of global equity markets estimate at US$ 40 trillion)! Was all this money stuffed into each and every nook and cranny it could find, by hook and by crook? What caused the irrational increase in the price of oil, is a subject on its own, considering that supply and demand is in balance and that it only costs about US$ 15 to extract one barrel of oil. Graph 28, indicates a declining trend in foreign equity purchases. We expect this decline to continue and it seems that recent Rand weakness and the significant drop in the FTSE/JSE is the result of foreign selling.

Graph 28



Graph 29 indicates that on the basis of fundamentals, the Rand was overvalued in US$ terms. At that point it stood at 6.85, fair value being 7.36. Currently the Rand stands at around 7.1 after weakening to over close on 7.3 recently. This probably reflects less strength of the Rand, but rather weakness of the US$.

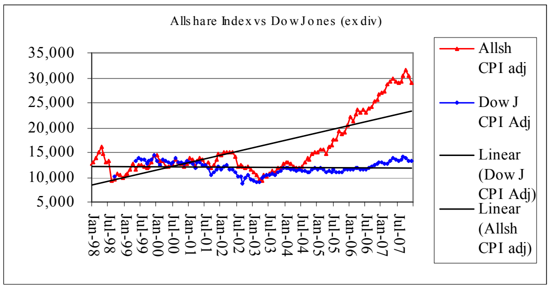
Graph 29



Graph 30 shows clearly to what extent the South African share market has departed from the US market. At end of December the Allshare stood at 28,960. At the end of 'black Monday' 22 January, it stood at around 25,000, closing the gap a little bit but still far off its US peer.

Clearly there are severe imbalances in the global financial system that will have to correct. Such correction is likely to be a combination of a decline in the prices of oil and resources and an increase in general price levels of products and services through inflation. Such developments will impact negatively on the consumer and on his/her appetite for equities. For South Africa and Namibia this should have the effect of higher inflation, higher interest rates, eventually higher taxes and a weaker currency, which in turn feeds inflation. We had all these factors working for us over the past couple of years, but it seems the party is over, or will soon be!

Graph 30



6. Conclusion

Did you foresee the recent blood-letting in global financial markets? We didn't exactly either, but for the past two years we were adamant that, certainly our local markets, had grown inexplicably, way out of line with inflation and economic growth, and seemingly tracking the increase in the price of oil.

Our immediate advice is:

- Hold your pension fund portfolio.
- If you have sold, there may soon be an excellent window of opportunity to buy back in.
- Assess your portfolio performance on a minimum of 12 months from this point on.

By the start of the last week of January, the Allshare declined by close on 20% since its high in October and the ALSI 40 by around 15%! If you have been carried along with the slump, it is too late to get out now. Yes, you might still avoid a further sentiment driven decline, but when are you going to move back in? Probably too late once again and you will then find that what you have gained on the 'swings' you will have lost on the 'roundabouts'!

Being in the pensions industry, we promote the pension portfolio because it remains our conviction that balanced portfolios are a sound investment for the cautious long-term investor.

What should you, as a pension fund member, expect of your retirement investment?

Until 22 January, we would expect the average prudential balanced portfolio, as is typically employed by pension funds, to have declined by 'only' around 11% since the peak at the end of October 2007. This represents an 'out performance' of the ALSI 40 of around 4%, and of the Allshare of around 9% over this relatively short period of only 3 months.

Measuring a 12 month period to Monday 22 January, your pension portfolio should still return a positive 3% for the year.

Of course you would have done a lot better in cash, over this period. But would you have earned 14.5% p.a. over the past two years, as the typical pension portfolio would have produced?

If this does not convince you of the wisdom of the typical pension portfolio, consider the calendar years since 1978. Over this 30 year period, the average pension portfolio incurred negative returns in only 2 years, namely 1998 (minus 1%) and 2002 (minus 3.6%). The Allshare index in contrast, experienced 6 years of negative returns ranging between minus 2% and minus 10%. On the positive side, the average pension portfolio returned close on 20% per annum over the 30 year period!

Taking our statistics as far back as we can track the Allshare index (January 1998), a normalized starting point for the Allshare index is May 1999 when it stood at 6,500 while it stands at 25,500 early the week of 22 January, down from a high of just over 31,000 at the end of October 2007. This represents an annualized growth of 17.1% compared to inflation of 7% p.a. over the same period.

A normalized starting point for the ALSI 40 is April 1989 when it stood at 2,600 while it stands at 24,100 early the week of 22 January, down from 28,400 at the end of October 2007. This represents an annualized growth of 12.6% compared to inflation of 8.7% p.a. over the same period. This index grew by 18.1% p.a. from 5,700 in May 1999.

Had the economy grown by 3% p.a. since April 1989 and had the top 40's kept pace with the growth of the economy, the ALSI 40 should now be at 20,700. Had the economy grown by 4% the index should now be at 24,500.

In our view markets are still a bit high for those who want to invest, and an ALSI 40 level of around 22,000 and Allshare level of around 25,000 would be more comfortable for re-entering. There is a fair chance though of sentiment driving the markets down even further from current levels, to present really good buying opportunities.

Our advice is not to sell out now if you have not done so a while ago. If you have, the time is nearing to consider moving back in and if you believe in 'Dollar cost averaging', now is not a bad time to start moving. We would also advise that you extend the time horizon for measuring your portfolio performance to nothing less than 12 months for a much less blurred perspective.

Finally, if you are a speculator investing for the short-term, you should not cry over what has happened. Investing for the short-term is certainly not for the faint hearted. If you are not a speculator, do not try to speculate but rather stick to the principle of investing for the long-term and do consider investing, or remaining invested, in the typical pension portfolio!

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.