BENCHTEST
Volume 4, No. 1, Jan 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 January 2008

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 January the average prudential balanced portfolio returned minus 4.77% (December minus 1.32%). Best and worst performance **for the month** was delivered by Allan Gray (minus 2.76%) and Sanlam (minus 6.68%), respectively.

For the 3 months ended January 2008 (**graph 9**), best and worst performance was delivered by Allan Gray (minus 1.9%) and Sanlam (minus 10.5%), respectively, the average portfolio delivering minus 8.1% (December 0.9%). **For the 12 months** ended January 2008 (**graph 12**), best performance was delivered by Investec (16.4%) and worst performance by Old Mutual (2.7%), the average portfolio delivering 6.8% (December 15.6%). **Graphs 10, 11, 3, 14 and 15** reflect the performances for the **6 months, year-to-date, 3 years, 5 years** and **10 years** to 31 January 2008, 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 11.5% p.a. over this period of close to 10 years compared to bottom of the log Metropolitan, returning 13.3% p.a. since March 1998. Graph 17 reflects cumulative performance starting January 2003. Here too Allan Gray comes out on top albeit with a narrow margin, out performing Stanlib's 20.8% p.a., at the bottom of the log, by 3.3% 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 January 2008. Cash* on 2.4% outperformed all other asset classes over 3 months, followed by All Bonds* on minus 0.3%, the Allshare* on minus 12.6% and Property UT* on minus 16.6%. Over 12 months ended January 2008, the All Share* index on 10.1% just managed to beat Cash* on 9.4%, followed by All Bonds* on 6.4% and Property UT* on minus 1.8%. 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 '**Growth**'* and '**Value**'* companies returned minus 11.6% and minus 12%, respectively, over 3 months, and 15.5%, respectively 3.7%, over 12 months. Looking at **market capitalization**, 'Small Caps'* produced minus 17.6% and 10.1% over 3 and 12 months, respectively, compared to 'Mid Caps*' (minus 19.2% and minus 5.1%) and 'Top 40's*' (minus 11.6% and 12.1%). 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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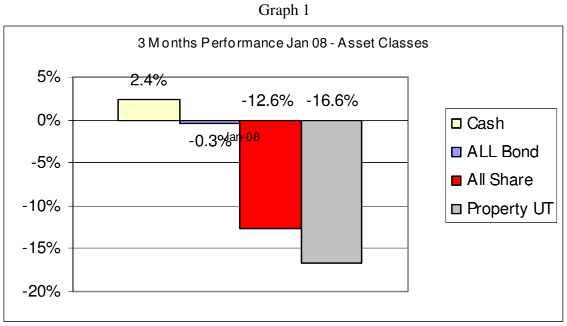
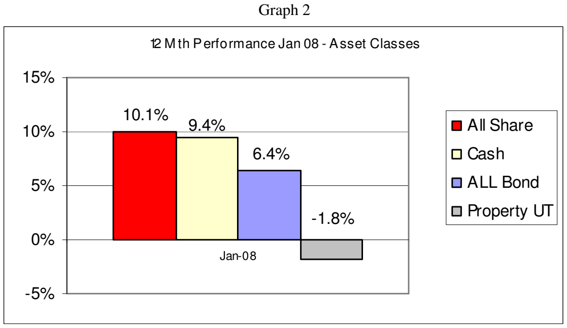
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
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.

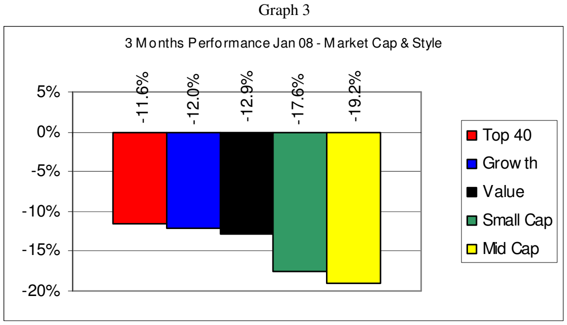
Graph 1



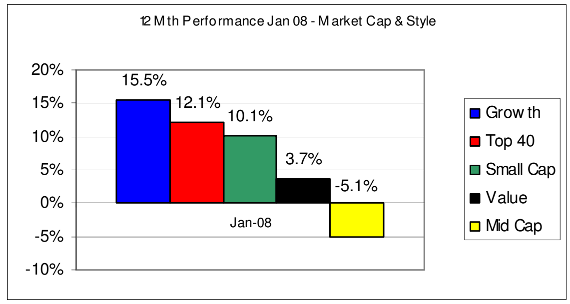
Graph 2



Graph 3



Graph 4



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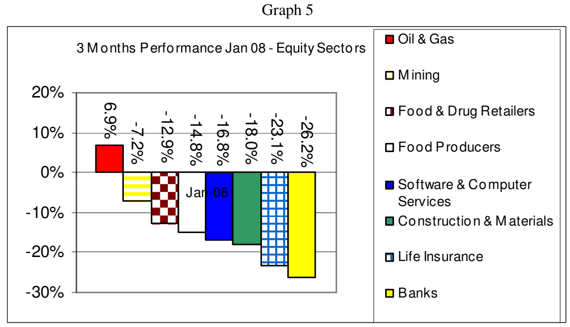

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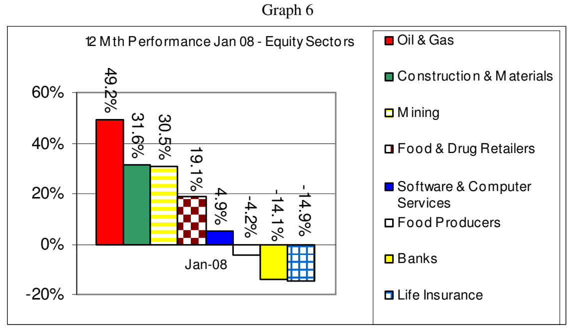
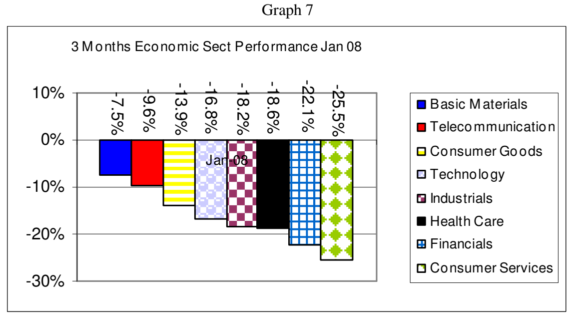


Graph 7



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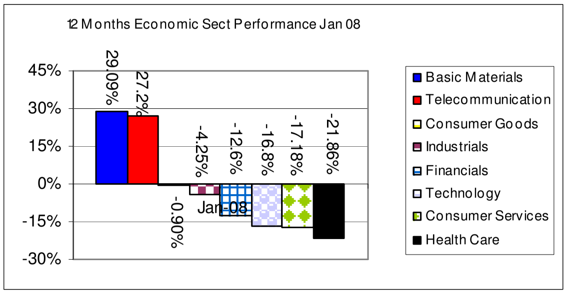
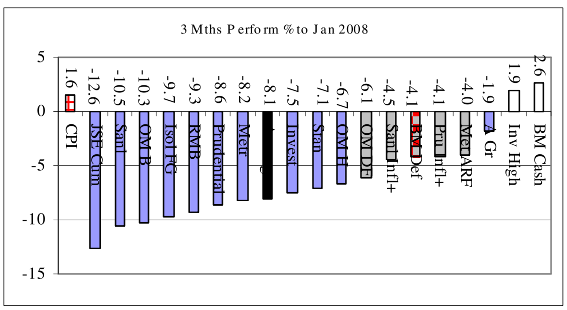
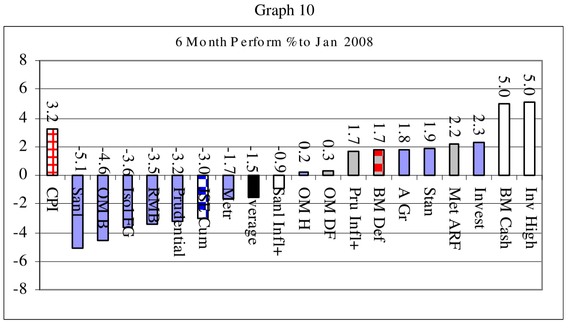
Graph 8



Graph 9



Graph 10



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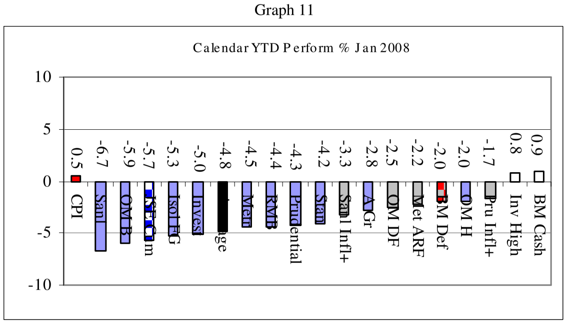

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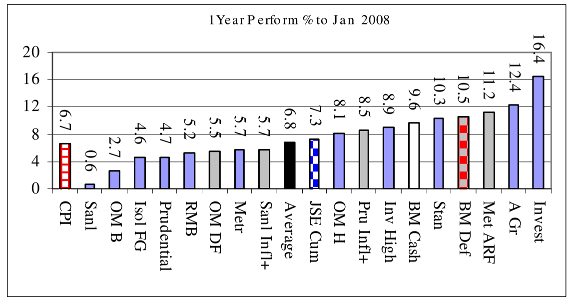

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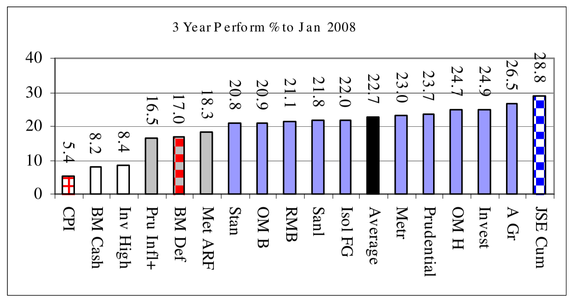

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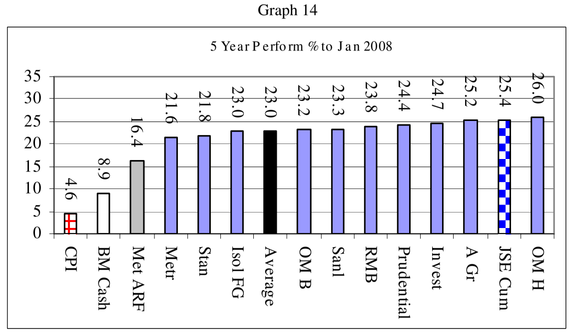

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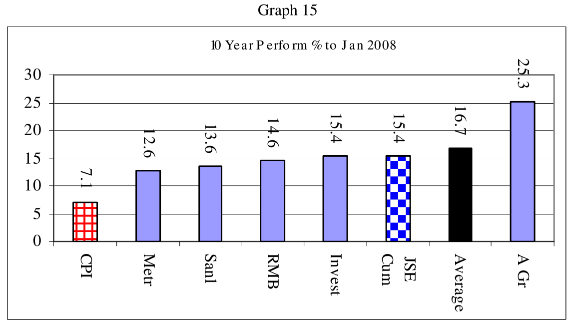

BENCHMARK Retirement Fund

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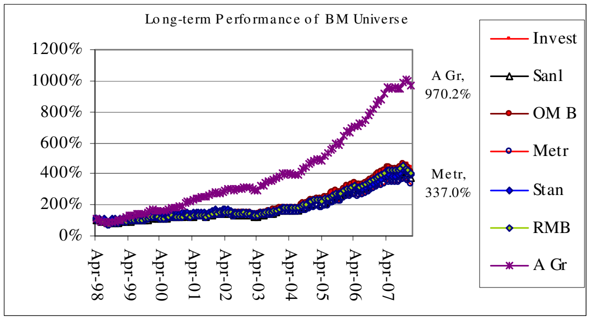
Graph 16



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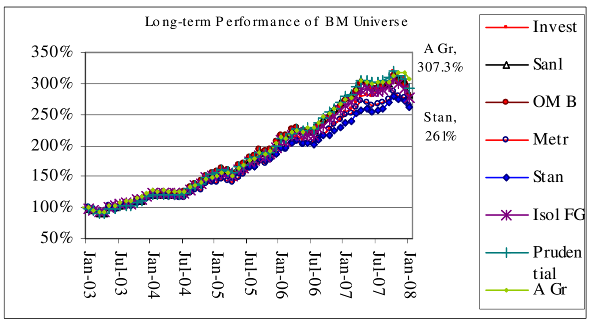

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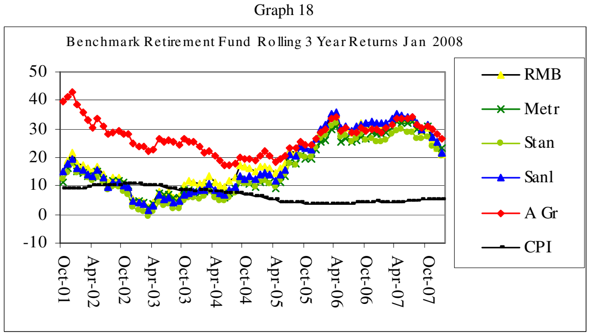

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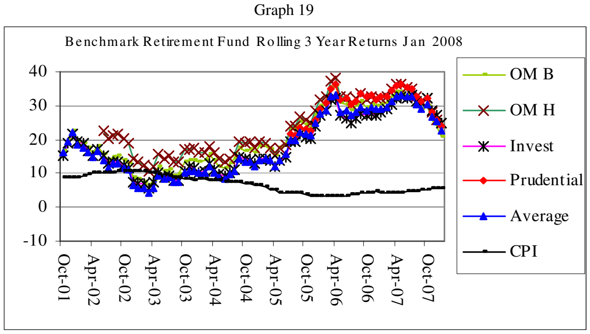

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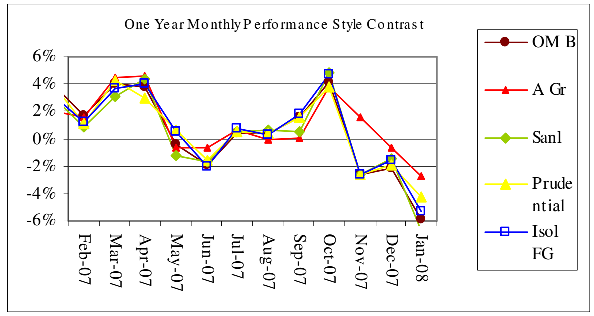

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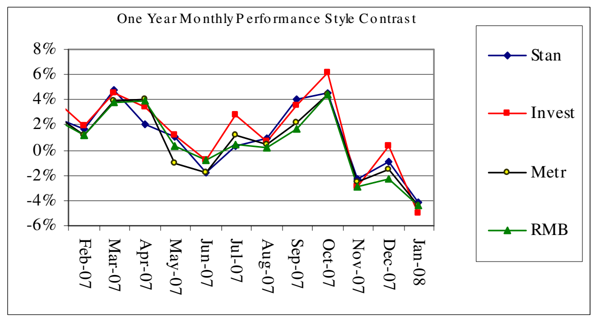

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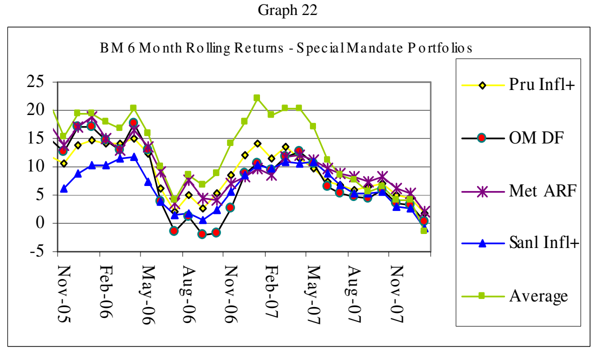
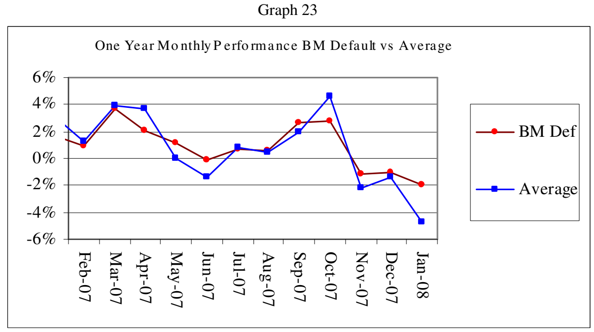


Graph 23



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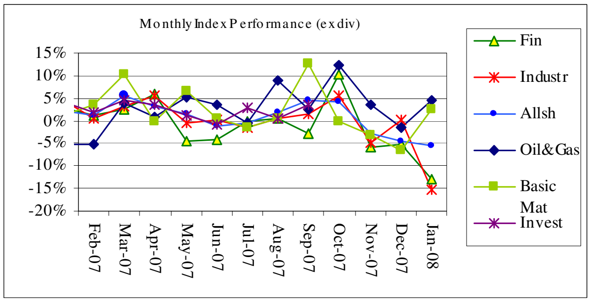
Graph 24



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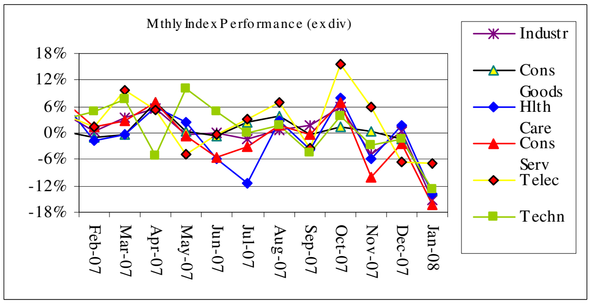
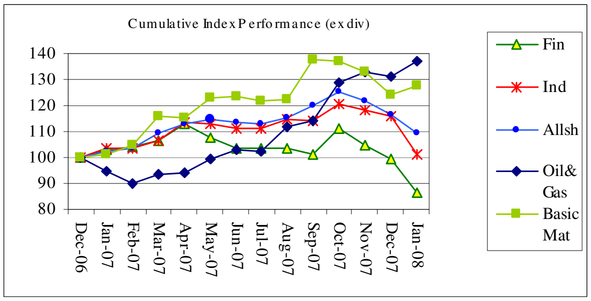
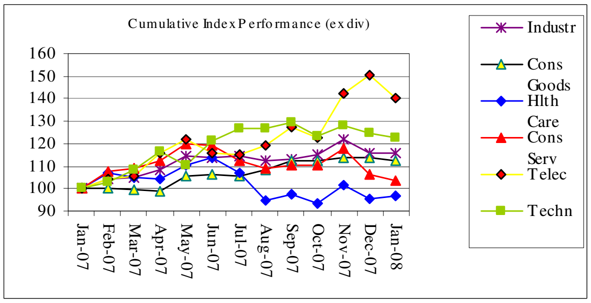


Graph 26



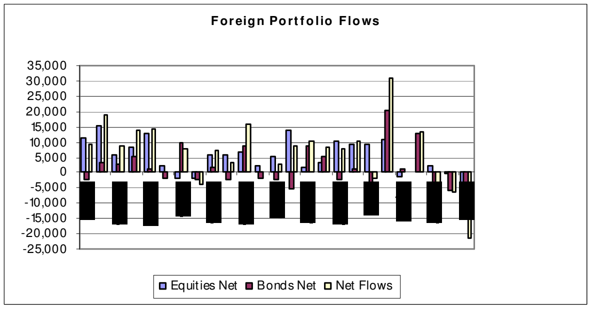
Graph 27



5. A Preview Of The Next 12 Months

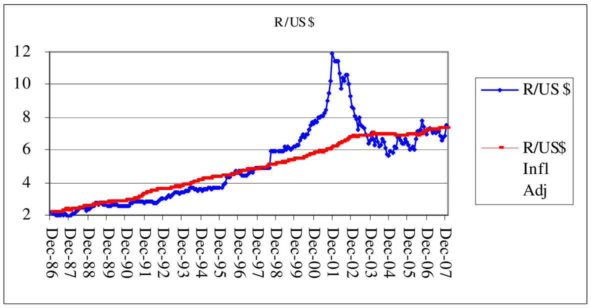
Foreign interest and portfolio investment has been a key support factor for continued bullish sentiment towards local equities and the strength of the Rand/Namibia Dollar. Americans, in particular used the spiral of cheap credit and inflated house prices to fund their investment and spending spree. Although the Federal Reserve Bank has been propping up financial markets through artificially low interest rates, the average American, personally or through someone he or she knows well, would have experienced the nasty awakening of foreclosure or abandoning his house and is now likely to try to consolidate his financial position by selling investments and redeeming his debt. Graph 28, indicates that foreigners are now selling their offshore holding in SA. 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 since 2003, probably driven by high commodity prices and high foreign portfolio flows. Currently the Rand stands at around 7.6 after weakening even further recently, mainly as the result of a slight strengthening of the US$, fair value per graph 29 shown as 7.37.

Graph 29



Graph 30 shows clearly to what extent the South African share market has departed from the US market, despite the recent correction. At end of January the Allshare stood at 27,317. 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.

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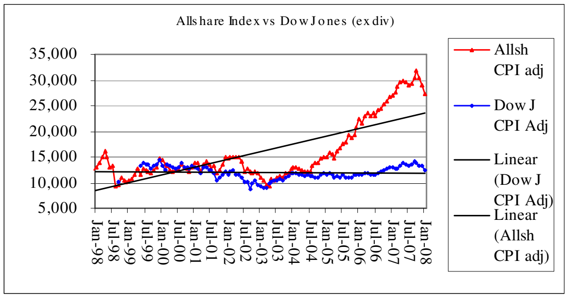
Graph 30



Clearly there are large imbalances in the global financial system that will have to correct, in our opinion. 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. The electricity supply situation was not foreseen by anyone just a year ago and will only add to our woes!

6. Conclusion

We remain convinced of the wisdom of prudentially managed portfolios, those typically employed by pension funds.

Measuring a 12 month period to end January, the average prudential balanced pension portfolio returned only 6.8% compared to 9.6% a cash investment would have earned. This is even less than the inflation over the same period if one accounts for costs. Not really complimentary for the average prudential portfolio, you may conclude. But just extend your investment horizon to 2 years, where you would have earned 16.4% p.a. in the typical pension portfolio as opposed to only 8.6% p.a. that cash would have generated and an inflation of 6.3% p.a.! A real return of 10% p.a and something you will not see too often!

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 to end December 2007, 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, skewed of course by the exceptional returns over the past 5 years!

Taking our statistics as far back as we 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 27,317 at the end of January, down from a high of just over 31,000 at the end of October 2007. This represents an annualized growth of 17.8% 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 25,118 at the end of January, down from 28,400 at the end of October 2007. This represents an annualized growth of 12.9% compared to inflation of 8.7% p.a. over the same period. This index grew by 18.7% 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 our local stock markets currently represent fair value, based on these parameters. Those waiting for buying opportunities are likely to still have their day though, in view of global economic factors with predominantly negative potential for investor sentiment.

If we were to risk a prognosis for 2008, firstly, we do not see equities out performing the other asset classes significantly, if at all, the risk being a sentiment imputed decline in equities. This means that, at best, we are likely to see returns resembling those on cash and other interest bearing assets. We believe that large caps will outperform mid and small caps and favour exporters and Rand hedge shares, in view of our expectation of a weaker Rand, weaker consumer sentiment and increasing inflation. Latter, we believe prevent interest rates from declining to any significant extent. With this view on financial markets, there is little purpose in high equity exposure and we consequently favour very conservatively structured portfolios.

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.