Volume 4, No. 10, October 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 October 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.

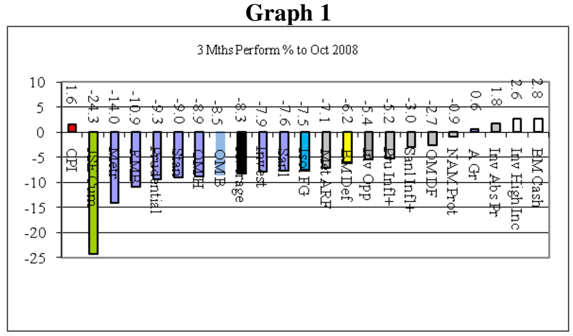
1. Review of Portfolio Performance

In October the average prudential balanced portfolio returned minus 5.03% (September minus - 5.05%). Best and worst performance **for the month** was delivered by Allan Gray (0.66%) and Metropolitan (minus 7.41%), respectively. Metropolitan's under performance was explained to be due to mark-to-market pricing of its offshore structure that has produced aggregate under performance for the quarter in excess of 2%. Allan Gray added some 2% through a 13% underweight of local equities and roughly 2% through a 20% overweight to offshore assets.

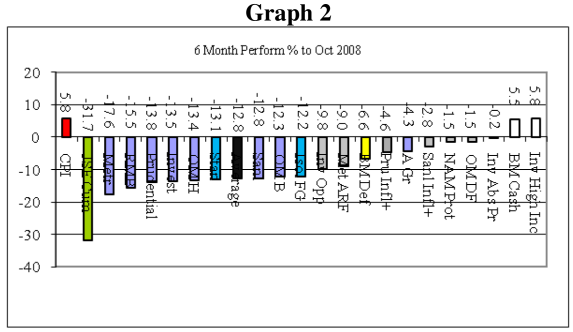
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced portfolios (black bar) and the CPI (red bar). Benchmark investors should take note of the performance of the default portfolio (yellow bar), which represents a combination of Prudential Inflation Plus and Metropolitan Absolute Return. Here is the legend to the abbreviations reflected on the graphs:

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)
Investec Absolute Protector	Inv Abs (grey)
Investec Opportunity Fund	Inv Opp (grey)
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)
Namibia Asset Management	NAM (grey)
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)

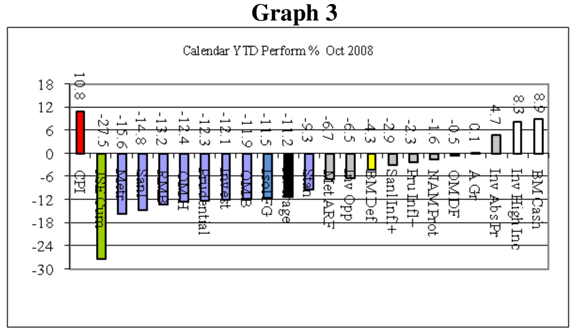
Graph 1



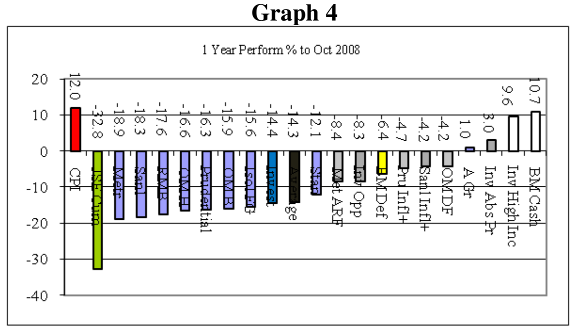
Graph 2



Graph 3



Graph 4

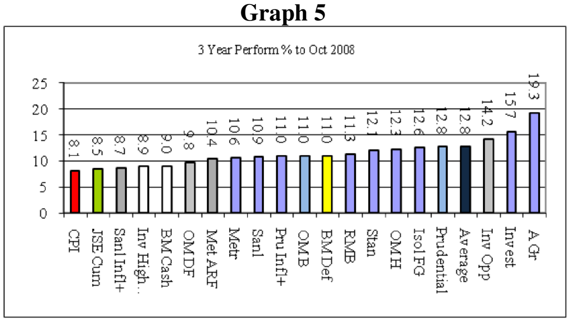


MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 October 2008

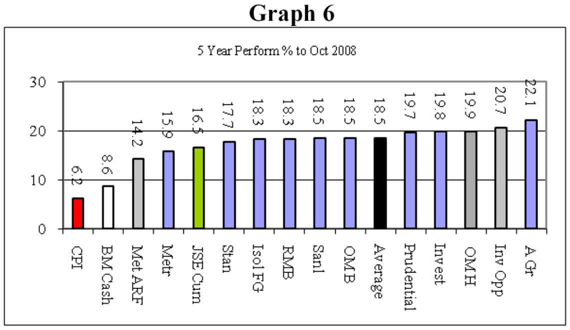
By T H Friedrich – Managing Director Retirement Fund Solutions Namibia (Pty) Ltd

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

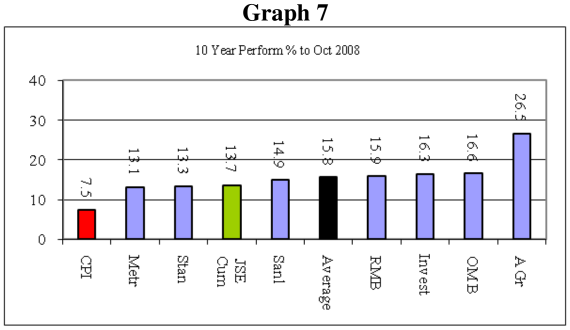
Graph 5



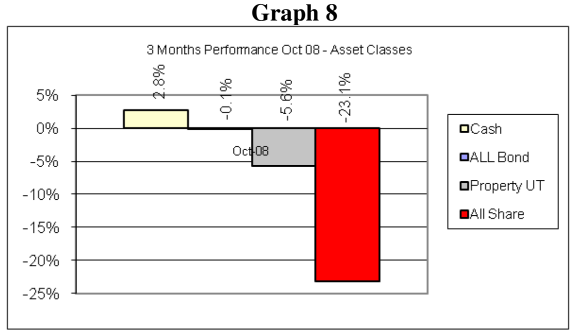
Graph 6



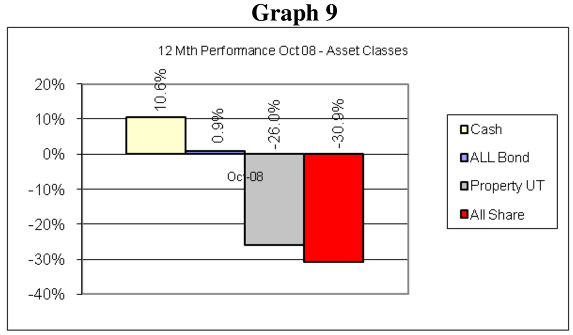
Graph 7



Graph 8



Graph 9

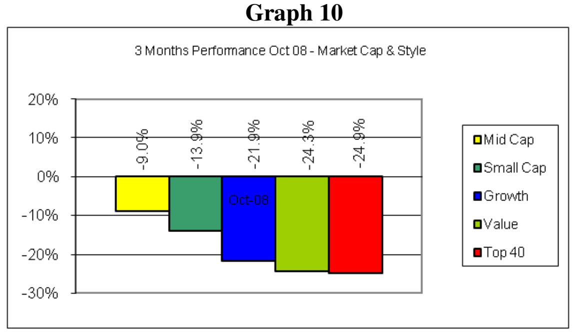


2. Review of Performance of Key Indices (index performance by courtesy from pointBreak/Deutsche Securities)

Graph 8 and **graph 9** show that Cash was best performing asset class over 3 and 12 months, followed by Bonds*, Property UT*and equity. Only cash produced positive returns over 3 and 12 months. Take note of the JSE Allshare* performance of minus 23.1% and minus 30% over 3 and 12 months respectively, compared to the average prudential balanced portfolio that produced minus 8.3% and minus 11.2% over 3 and 12 months, respectively.

Graph 10 and **graph 11** now more consistent performance and rankings, over 3 and 12 months, of type of company and market capitalization, occasioned by the much reduced volatility. Since our large caps are predominantly resource companies, the decline in the resources indices is reason for the more recent under performance of the large caps.

Graph 10



BENCHTEST

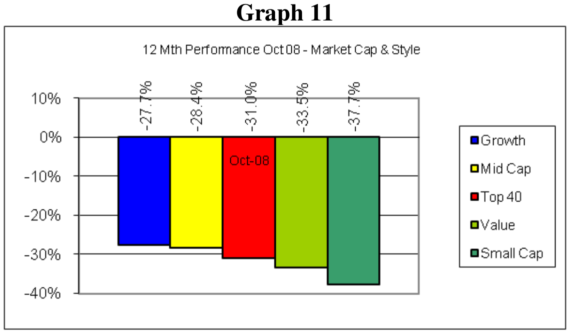
Volume 4, No. 10, October 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 October 2008

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

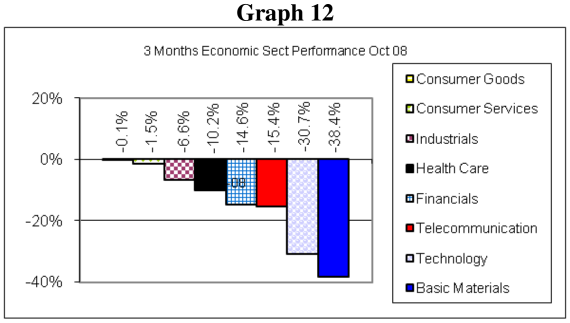
The monthly review of portfolio performance, as set out in this issue, is now also available on our website at www.rfsol.com.na.

Graph 11

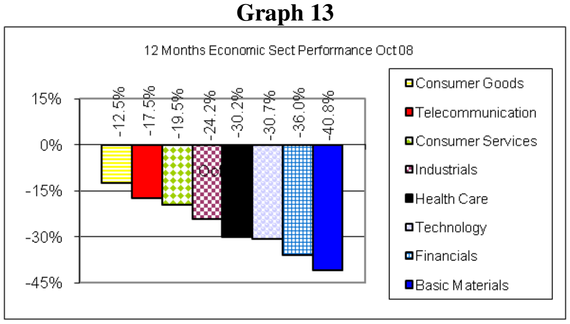


Graph 12 and **graph 13** depict the performance of the main equity sectors. Here too, barring a strong improvement of the ranking of financials, rankings of the other sectors have not changed materially over 3 and 12 months. Basic Materials* retained its position as poorest performing sector for the 12 months and latest quarter.

Graph 12

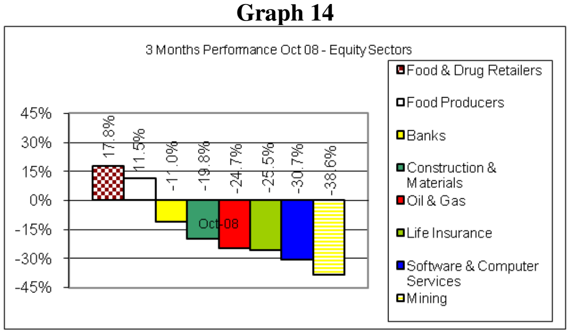


Graph 13

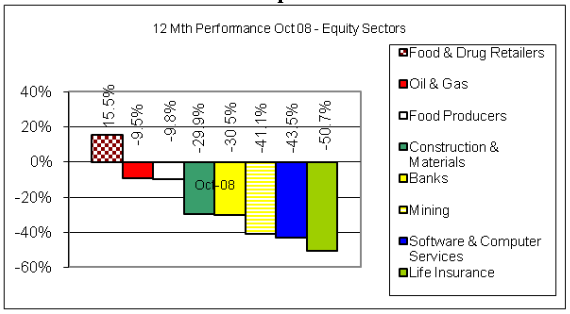


Drilling down one level into the main equity sectors, **graph 14** and **graph 15** show that Mining* has moved to the bottom of the log over the latest quarter. In the Financials* sector, Banks and Insurance Companies swopped position in the rankings but once again lower volatility has produced much more consistent rankings over 3 and 12 months.

Graph 14



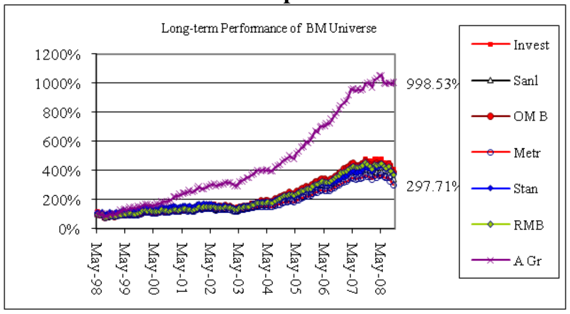
Graph 15



3. Portfolio Performance Analysis

Namibian prudential balanced portfolios essentially only acquired their own identity in 1998 when changes were brought about by regulation 28. **Graph 16** and **graph 17** reflect cumulative performance of these portfolios since April 1998 and since January 2003, respectively. The conclusions should be self evident. Take note of the decline in returns since May 2008. Allan Gray reflects quite a different performance pattern over the last few months.

Graph 16

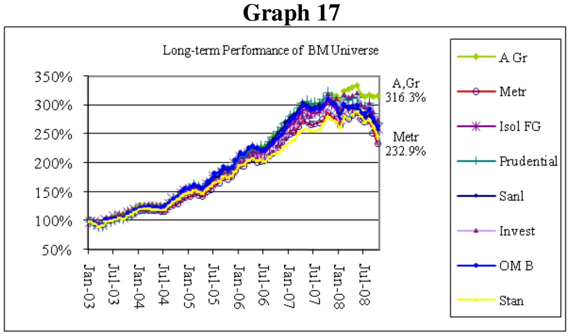


MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 October 2008

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

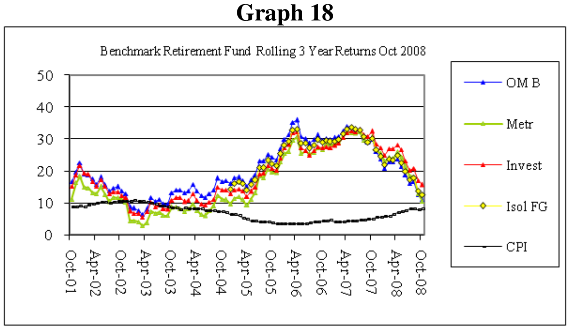
The monthly review of portfolio performance, as set out in this issue, is now also available on our website at www.rfsol.com.na.

Graph 17

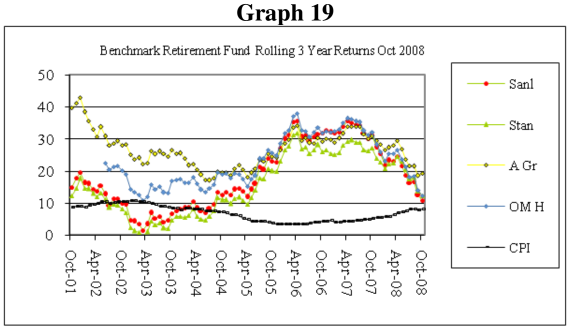


Graphs 18 and graph 19 reflect rolling 3 year returns since October 1998. For long-term projection and planning purposes the general assumption is that prudential balanced portfolios should outperform the CPI by between 3% and 5%, which has over this period only been achieved throughout by Allan Gay. Evidently the gap has closed and is now in more sustainable territory of between 2.5% and 11.2%.

Graph 18

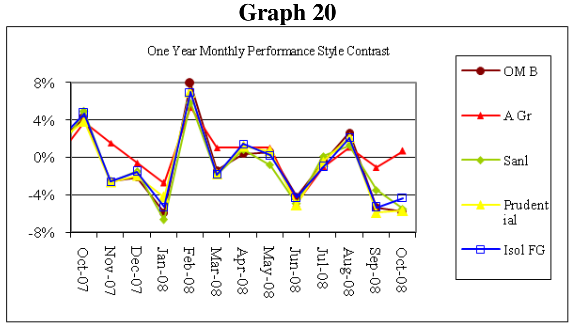


Graph 19

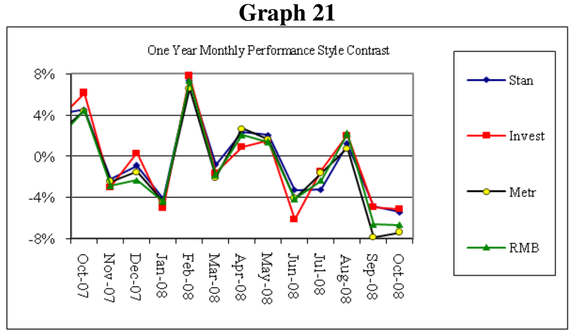


Graph 20 and **graph 21** depict the monthly performance of the prudential balanced portfolios in this survey. It shows that managers do generally perform very similarly but it also affords the opportunity to identify odd trends for further investigation and for drawing conclusions about expected future performance and historic skills of the managers. Allan Gray appears to be back on a more familiar trend of cutting the peaks and troughs.

Graph 20

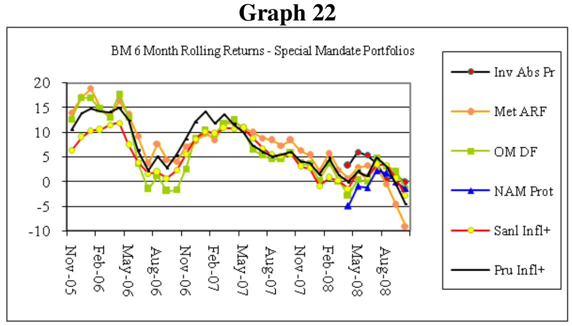


Graph 21



Graph 22 puts some focus on the 'special mandate portfolios' in relation to the average prudential balanced portfolio, in terms of 6 month rolling returns. **Graph 23** depicts the monthly performance of the Benchmark default portfolio in relation to the average prudential balanced portfolio. These graphs should give the investor a pretty good feel for what he can expect in terms of performance volatility and relative performance over the long term from the 'special mandate portfolios' vis-à-vis the average prudential balanced portfolio. In essence these portfolios have around 20% lower equity exposure for the benefit of less volatile but in the long term, in theory, around 2% lower returns. Over 3 years, the Default Portfolio produced an annualized return of 11%, 1.8% below the average prudential balanced portfolio's performance of 12.8%.

Graph 22



BENCHTEST

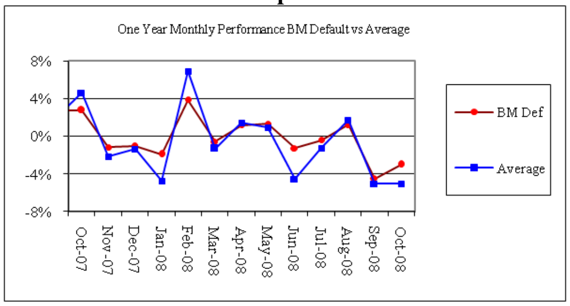
Volume 4, No. 10, October 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 October 2008

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

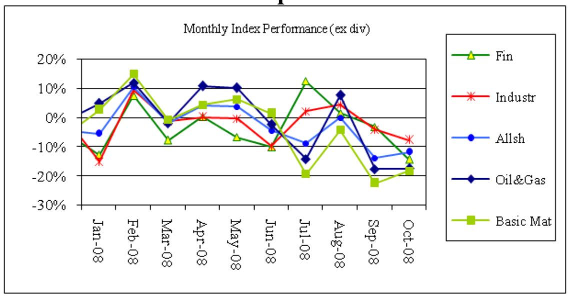
The monthly review of portfolio performance, as set out in this issue, is now also available on our website at www.rfsol.com.na.

Graph 23

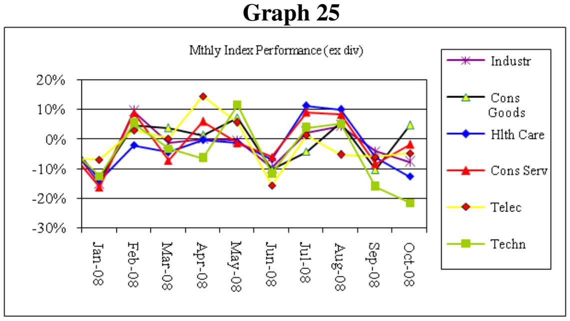


Graph 24 and **graph 25** afford the investor the opportunity to compare managers' monthly performance (as depicted in graph 20 and graph 21) against various equity sectors and to draw his conclusions regarding a manager's investment style and philosophy. **Graph 26** and **graph 27** serve a similar purpose, but with regard to cumulative performance since January 2008.

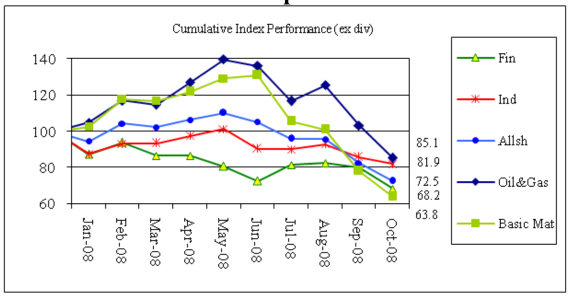
Graph 24



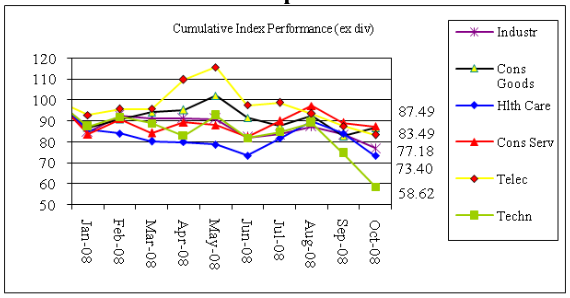
Graph 25



Graph 26



Graph 27



4. A Contrarian Preview Of The Next 12 Months

After it dropped from close to US$ 150 to below US$ 50 per barrel, the oil price has now lost its long standing status as defining factor in the global economy. Recent developments have proven that the oil price and commodities were driven by speculation, the result of excessive legislative leeway granted to financial institutions. Hopefully governments across the globe will take urgent steps to put a lid on such unchecked speculation. Will we see the emergence of new accounting conventions based on actuarial principles rather than 'mark-to-market', or fair value accounting, for certain financial institutions and instruments? It will be interesting to see how global financial systems will be re-engineered. In our view, the wisdom of denominating global trade in a single currency defies all principles of risk diversification and is one of the areas that require some consideration.

We believe that the oil price has entered a new era and is likely to fluctuate somewhere between US$ 35-US$ 50 per barrel, based on rational economic principles. At its current level of around US$ 50 per barrel, margins for producers have declined to a manageable US$ 650 billion per annum (roughly 4% of US GDP or 0.9% of world GDP), assuming production costs in the region of US$ 30 per barrel. What we have seen over the past few months, is the great ebb of capital being sucked back into the US resulting from rapid deleveraging by financial institutions. This weakened all currencies other than the US Dollar. For our domestic

BENCHTEST

Volume 4, No. 10, October 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 October 2008

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

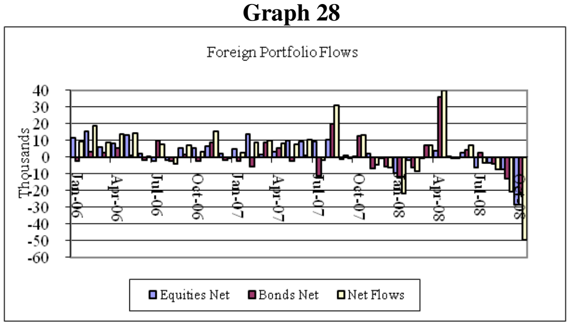
The monthly review of portfolio performance, as set out in this issue, is now also available on our website at www.rfsol.com.na.

economies, what they lost through the high oil price, they should, by and large, have gained through the commodity boom and we should thus once again be on an 'even keel'. With an Allshare Index of between 16,000 and 18,000, effectively, the oil price surge and the commensurate commodity boom never happened as far as our local markets are concerned. In the mean time the weak Rand/Namibia Dollar should provide positive impetus to local manufacturing and exporters, which in turn should promote job creation to the benefit of the domestic consumer over time.

Due to a global flight of capital back into the US and the commensurate depreciation of other currencies, including the Rand/Namibia Dollar, the positive impact of a lower oil price is negated by the higher cost of imports. Due to the low interest rates in the US, we expect capital to start flowing out of the US again in search for higher yielding assets, once reason is starting to return to global financial market. This should strengthen our currencies over the next 6 to 12 months, which should lead to reduced inflation in SA and Namibia. The consumer, particularly in the US, will be under pressure for a while and this should put a lid on consumption and more specifically on global demand for resources, as we have started to experience. This should lead to greater stability and predictability returning to global financial markets. We do believe that over the next 12 months consumer sentiment in the US should improve as the result of the significantly lower oil price and low interest rates. The recent sell off by foreign investors is clearly evident from **Graph 28**. Interestingly, cumulative total net foreign portfolio flows into South Africa reached a high of R 200 billion at the end of June 2008 and are now down to R 120 billion by the end of October 2008.

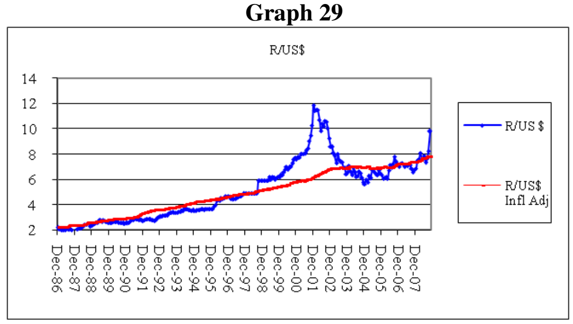
We do not expect interest rates to be hiked in the US soon. With a strengthening US Dollar, we do not expect local interest rates to be lowered as yet, but prospects for this are improving. We expect inflation to start receding from its current levels on the basis of a substantially lower oil price and a strengthening of the Rand following the end of panic selling of local assets by foreigners. This should lead to the decline of interest rates over the next 6 to 12 months.

Graph 28



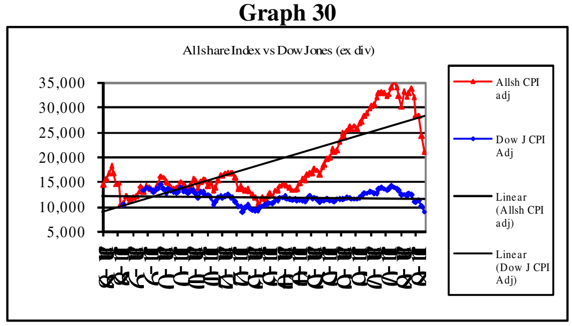
Graph 29 indicates that at its current rate of 10 to the US Dollar, the Rand is grossly undervalued. This should correct over the next 6 to 12 months to a level of between 8 and 9 to the US$.

Graph 29



Graph 30 shows clearly to what extent the South African share market had departed from the US market. Having touched 18,000 just a few days ago, it's now back to around 20,000 by the time of writing, this departure has corrected substantially although there is still downward potential.

Graph 30



MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 October 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.

5. Conclusion

We believe that volatility in share markets will remain for a while fueled by fear and sentiment. On the basis of fundamentals, it would seem that our local markets are now in more sustainable territory.

In view of our expectation of declining inflation and our expectation of a reduction in interest rates over the next 6 to 12 months, bonds should become a more attractive asset class on the basis of fundamentals. Local industrial and commercial property should offer fair returns in times of higher inflation. We see no value in cash other than as short term protection against further market volatility.

With the steep correction of equity markets, we believe the time has approached when one should selectively consider investment in equity again, specifically local manufacturing and exporters. Commodities should also start offering opportunities on a selective basis again.

Taking our view of a significantly undervalued Rand, we would not raise the offshore exposure at this stage. A correction though should encourage a fair spread of investment in global equity.

6. Important notice and disclaimer