BENCHTEST

Volume 4, No. 11, November 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 November 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.

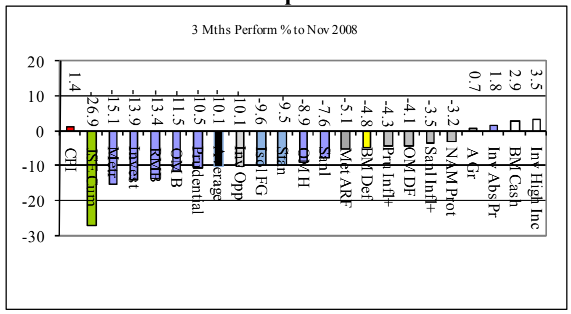
1. Review of Portfolio Performance

In November the average prudential balanced portfolio returned minus 0.32% (October minus 5.03%). Best and worst performance **for the month** was delivered by Sanlam (1.29%) and Investec (minus 4.58%), respectively. Comparing the composition of these two portfolios, it would appear that Investec was punished for being underweight Bonds and 'Industrials' and 'Consumer Services', latter both sectors that performed particularly poorly over 1 and 3 months to end November, while Sanlam benefited being overweight Bonds and 'Financials', latter a sector that did very poorly for a while but picked up nicely over the month and the quarter.

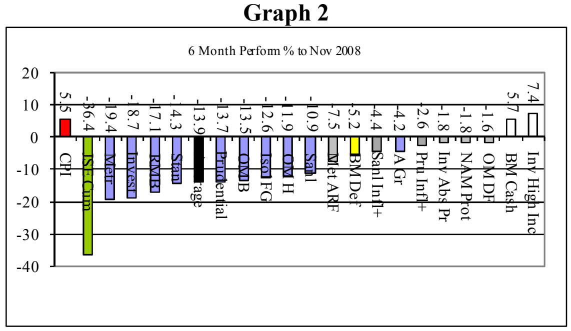
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced portfolios (black bar), 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 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 (red)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Aver (black)
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)

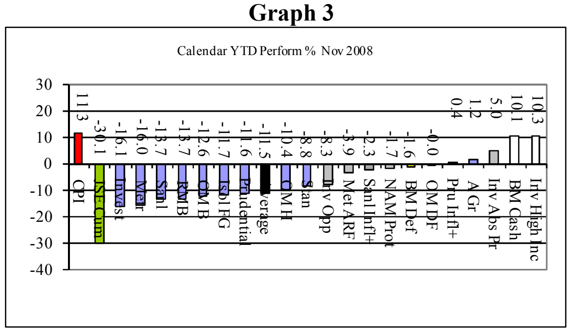
Graph 1



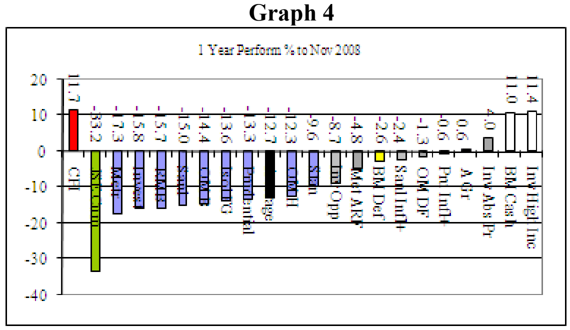
Graph 2



Graph 3



Graph 4



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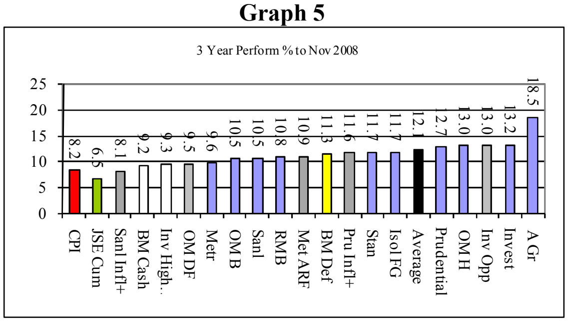
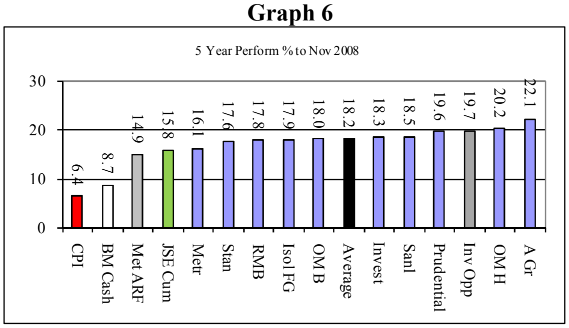
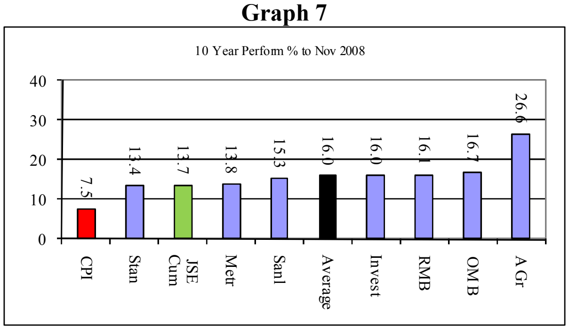
Graph 5



Graph 6



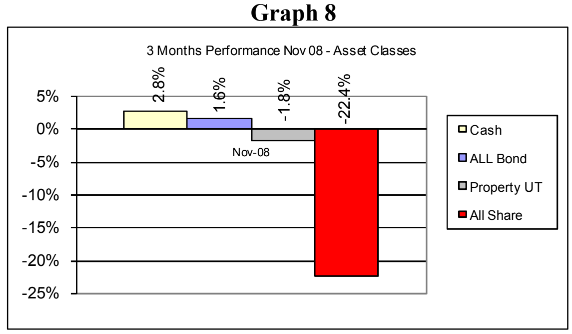
Graph 7



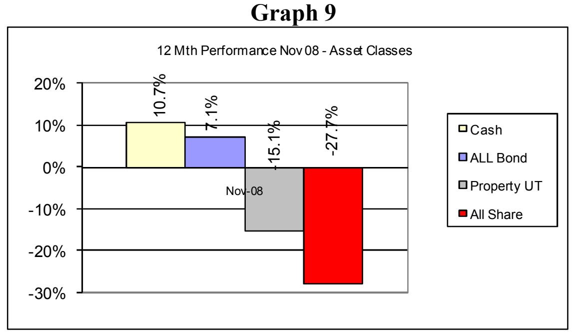
2. Review of Performance of Key Indices (index performance by courtesy from pointBreak/Deutsche Securities)

Graph 8 and **graph 9** show that the 'fortunes' of Property UT* improved considerably from 12 months to the last quarter and to best performing asset class over the latest month with a return of 8.8% compared to 0.9% produced by cash in second position for the month. Over 12 and 3 months, cash remains king though, with Bonds in second position. The Allshare index was the worst performer for the latest quarter and for the 12 months.

Graph 8

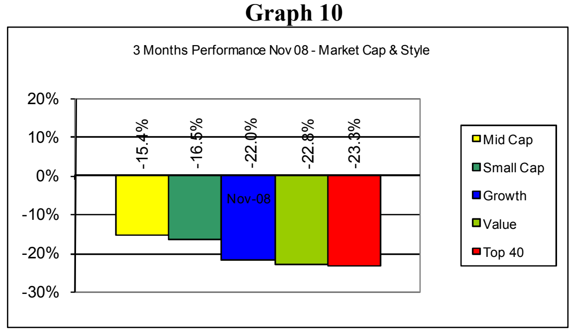


Graph 9



Graph 10 and **graph 11** reflect rankings, over 3 and 12 months, of type of company and market capitalization. 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. Interestingly, Small Caps improved their relative ranking, while Growth companies' relative ranking declined from 12 month to 3 month position indicating that these are more sensitive to investor sentiment.

Graph 10



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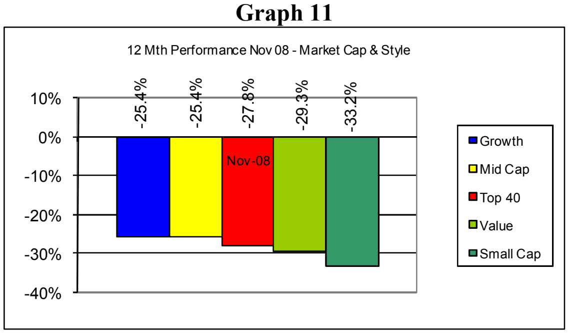
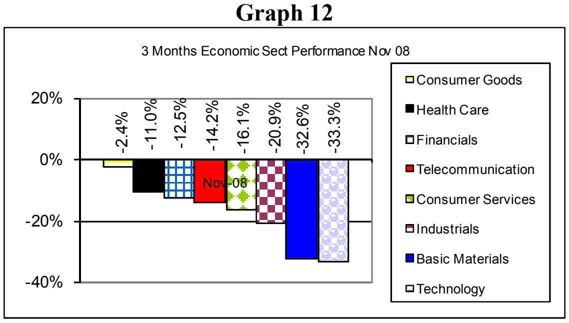
Graph 11

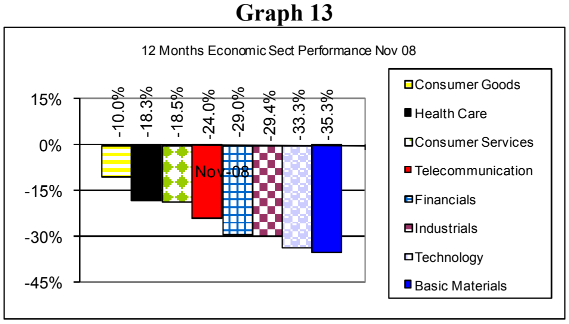


Graph 12 and **graph 13** depict the performance of the main equity sectors. Evidently, there was very little change in the rankings. Amongst the 'heavy weight' sectors, Basic Materials* retained its position as poorest performing sector for the 12 months and 3 months.

Graph 12

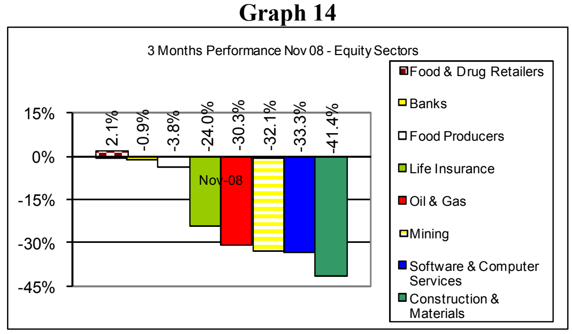


Graph 13

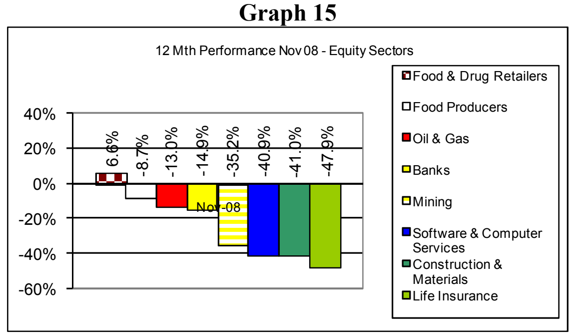


Drilling down one level into the main equity sectors, **graph 14** and **graph 15** changes in rankings between 12 month and 3 month performance are more evident. More significantly, 'Life Insurance' improved its position while 'Oil and Gas' and 'Construction Materials' dropped in ranking from 12 months to 3 months.

Graph 14



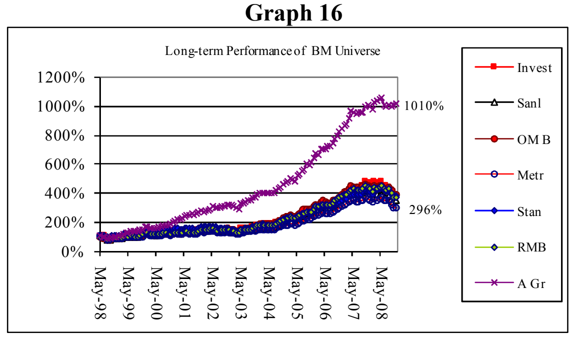
Graph 15



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.

Graph 16



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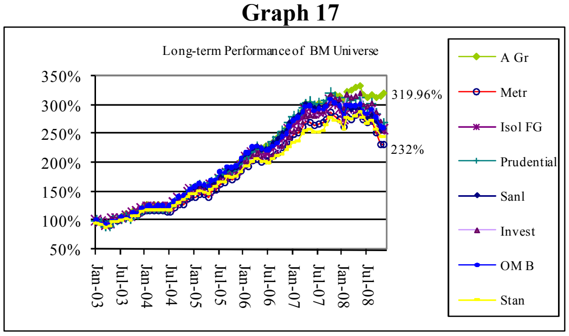
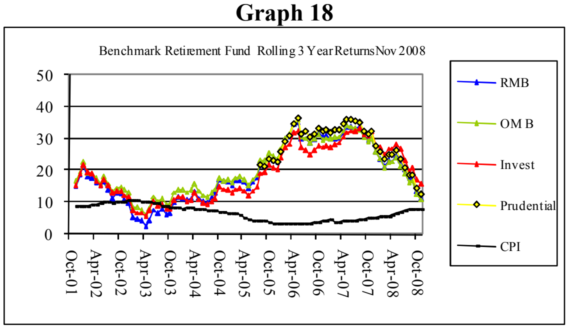
Graph 17

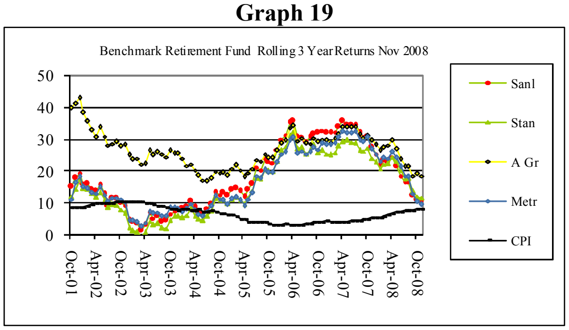


Graphs 18 and graph 19 reflect rolling 3 year returns since October 1998. For long-term projection and planning purposes the general assumption is that prudential balanced portfolios should outperform the CPI by between 3 and 5%. The latest position reflects outperformance of the CPI between 1.4% (Metropolitan) and 10.3% (Allan Gray), and has over this period only been achieved throughout by Allan Gay. The gap has closed and we are back into more sustainable territory.

Graph 18

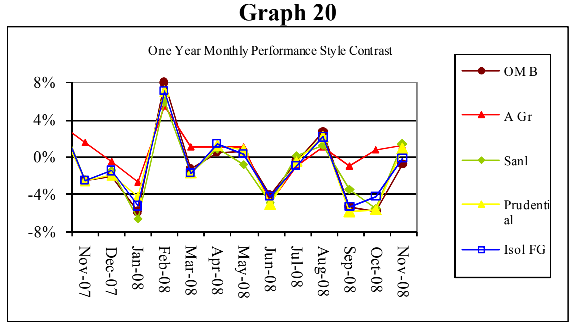


Graph 19

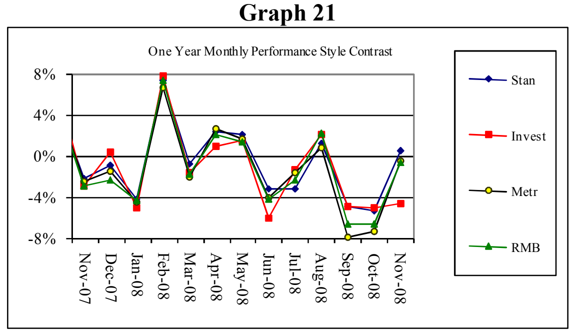


Graph 20 and **graph 21** depict the monthly performance of the prudential balanced portfolios in this survey. It shows that managers do generally perform very similarly but it also affords the opportunity to identify odd trends for further investigation and for drawing conclusions about expected future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

Graph 20

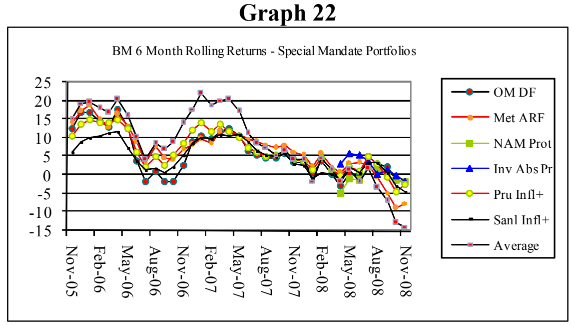


Graph 21



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.

Graph 22



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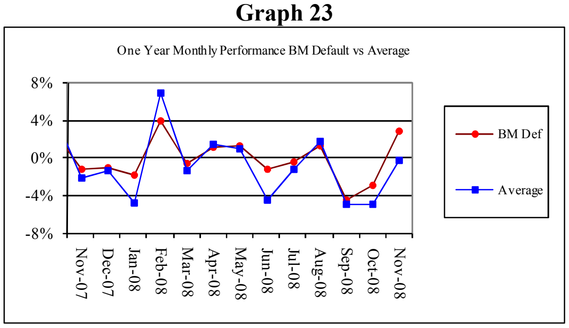
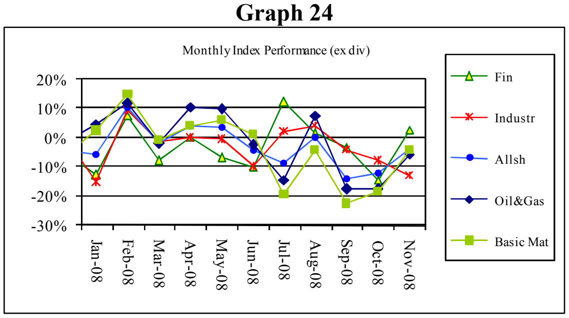
Graph 23

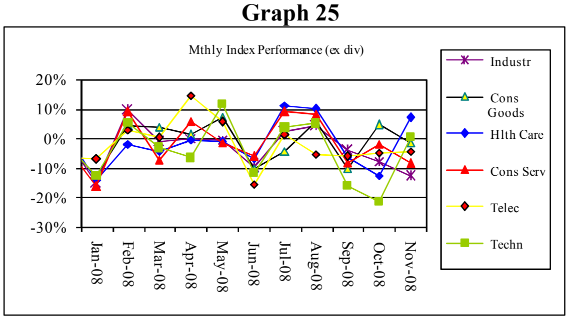


Graph 24 and **graph 25** afford the investor the opportunity to compare managers' monthly performance (as depicted in graph 20 and graph 21) against various equity sectors and to draw his conclusions regarding a manager's investment style and philosophy. **Graph 26** and **graph 27** serve a similar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

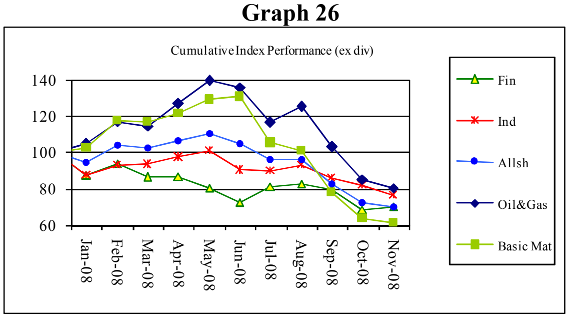
Graph 24



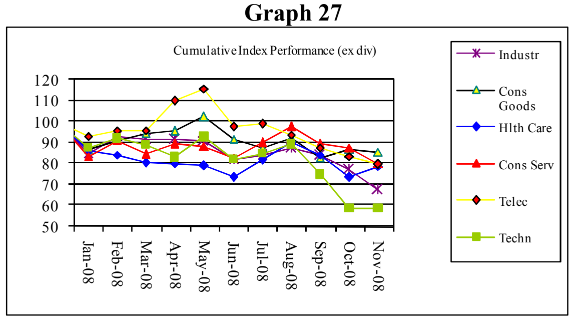
Graph 25



Graph 26



Graph 27



4. A Contrarian Preview Of The Next 12 Months

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, although we are not aware that any concrete steps have been taken yet. 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 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.

It is likely to still take a while before a lower oil price will start impacting positively on rising price levels globally. In

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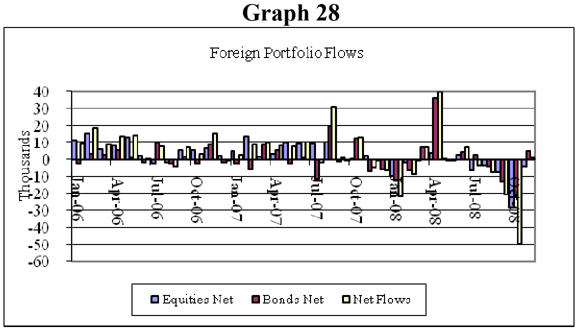
addition it appears that inflation has been chosen as the preferred approach for achieving equilibrium. Consequently, inflation and negative real interest rates are likely to be around for some time. The consumer, particularly in the US, will be under pressure for a while and this should put a lid on 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. Inflation and negative real interest rates should benefit property and equity at the expense of cash.

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 significantly soon either, despite the unexpected reduction by 0.5% earlier this month. The increase in imported inflation through the weaker Rand has so far been counter acted by the declining oil price and we would expect this situation to improve as the Rand regains some strength following the current sell off by foreign investors as 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 November 2008.

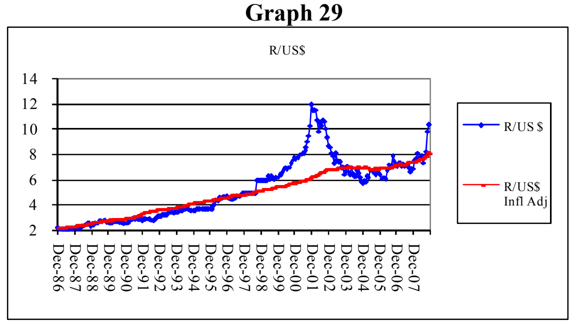
For the local economies we expect that interest rates will be maintained for a while. We expect inflation to start receding from its current levels on the basis of a substantially lower oil price and a strengthening of the Rand following the end of panic selling of local assets by foreigners. This should lead to the decline of interest rates over the next 6 to 12 months.

Graph 28



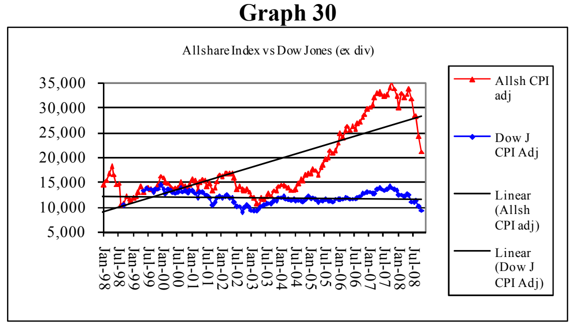
Graph 29 indicates that at its current rate of 10.3 to the US Dollar, the Rand is grossly undervalued. This should correct over the next 6 to 12 months to a level of between 8 and 9 to the US$.

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



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 the repo rate 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 and an environment of negative real interest rates. 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

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.