BENCHTEST

Volume 5, No. 1, January 2009

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JANUARY 2009

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.

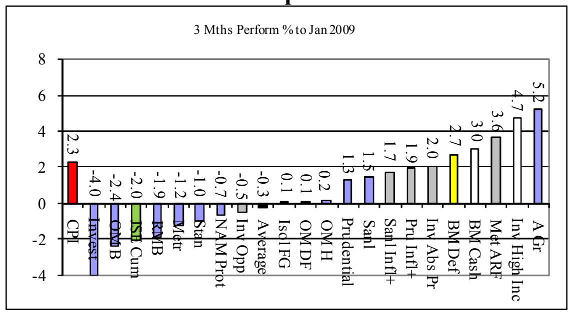
1. Review of Portfolio Performance

In January the average prudential balanced portfolio returned minus 1.65% (December 1.72%). Best and worst performance **for the month** was delivered by Allan Gray (1.06%) and Stanlib (minus 2.67%), respectively. An analysis of the difference in performance between these managers, based on the latest portfolio details at our disposal does not provide any meaningful insight.

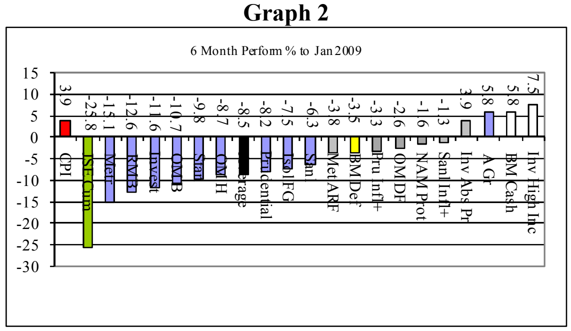
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 (Interest bearing assets)	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)

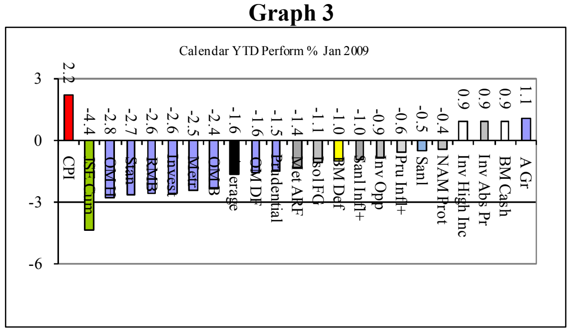
Graph 1



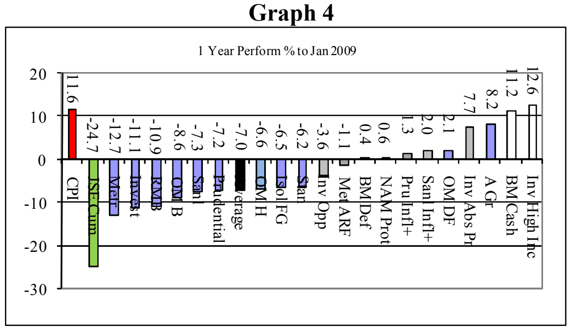
Graph 2



Graph 3



Graph 4



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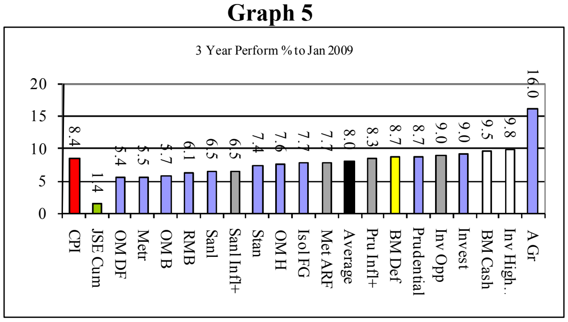
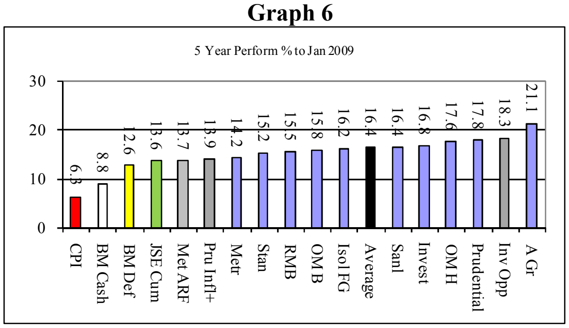
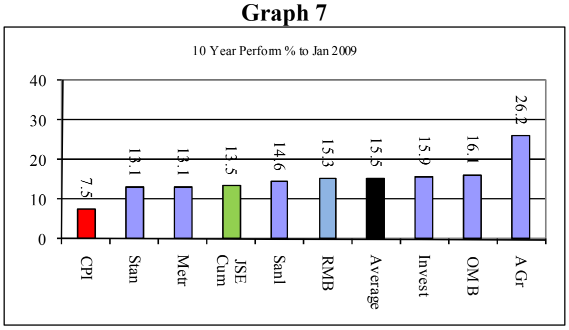
Graph 5



Graph 6

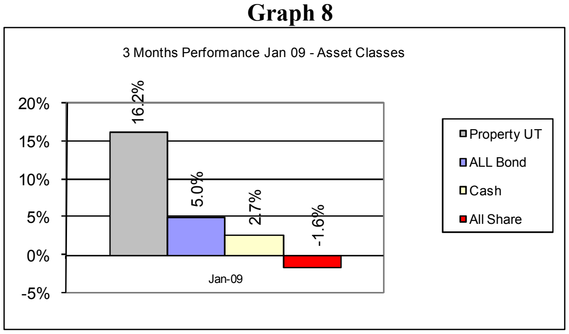


Graph 7

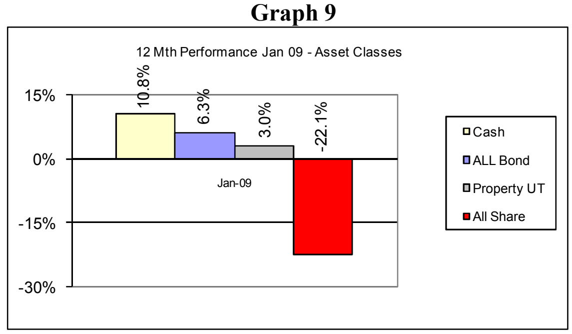


2. Performance of Key Indices (index performance by courtesy from pointBreak/Deutsche Securities)

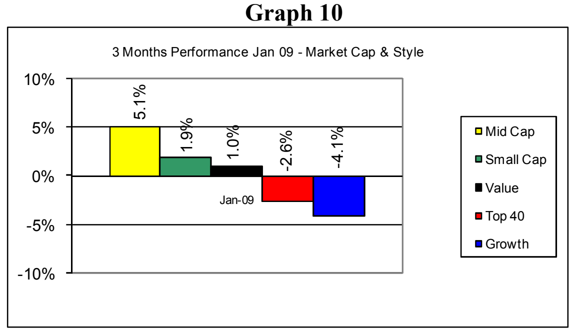
Graph 8



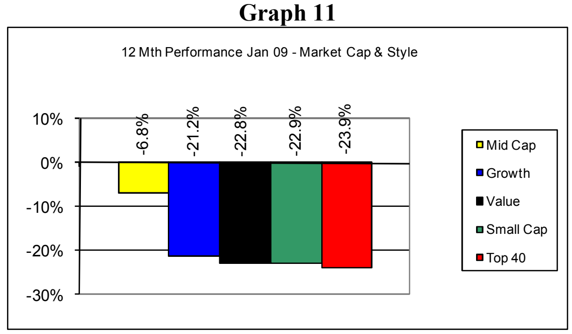
Graph 9



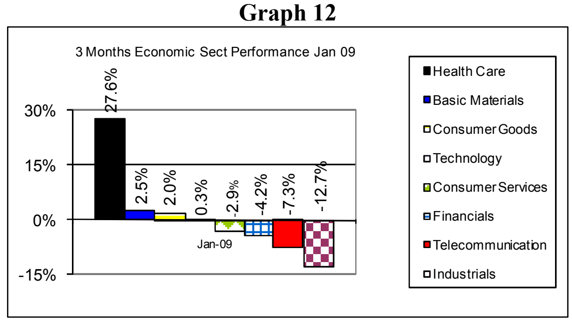
Graph 10



Graph 11



Graph 12



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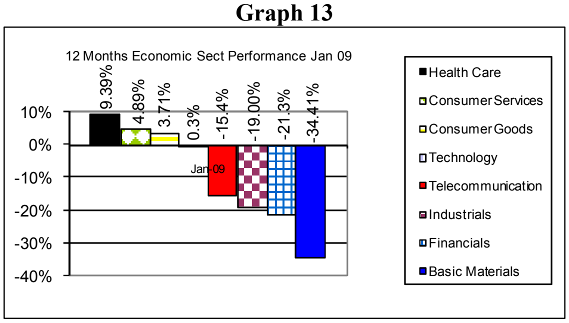
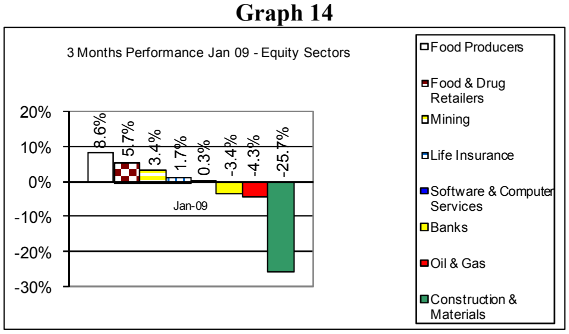
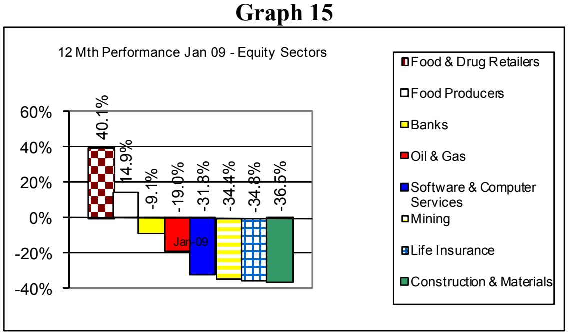
Graph 13



Graph 14



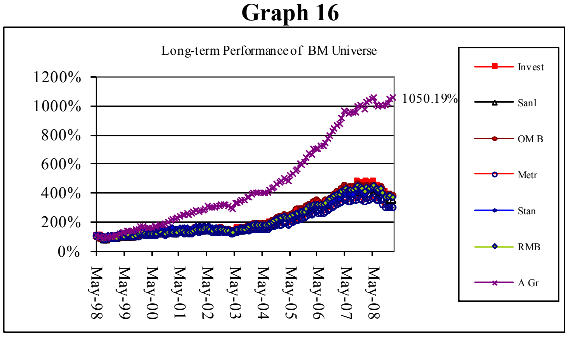
Graph 15



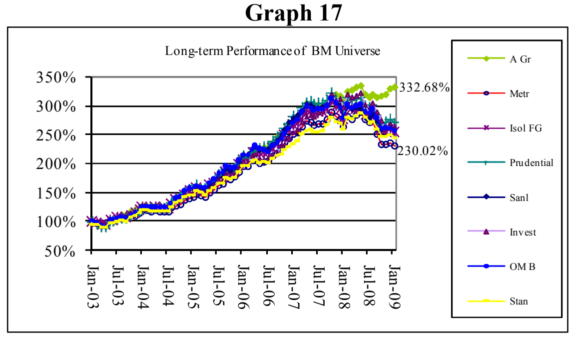
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 16

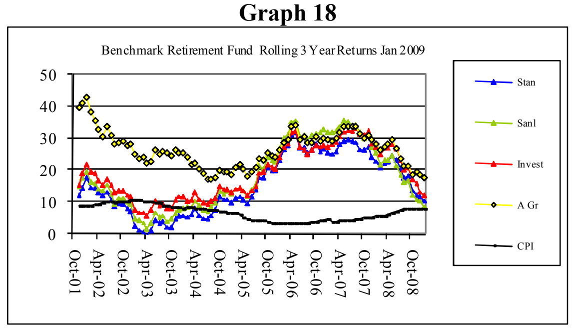


Graph 17

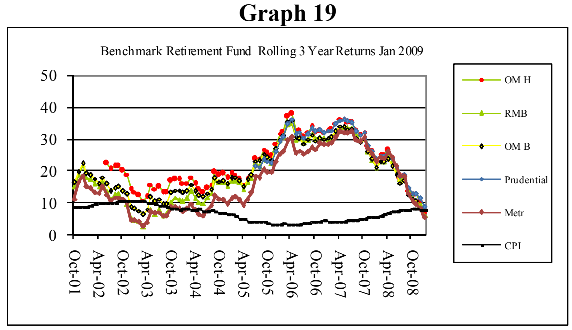


3.2. 3 year rolling performance of prudential balanced portfolios relative to CPI

Graph 18



Graph 19



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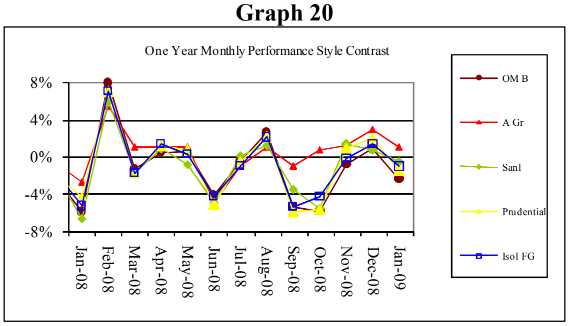
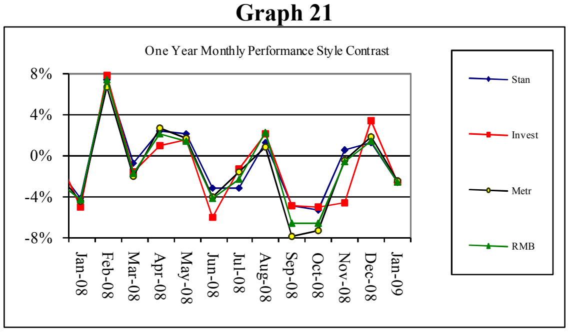
3.3. Monthly performance of prudential balanced portfolios

Graph 20

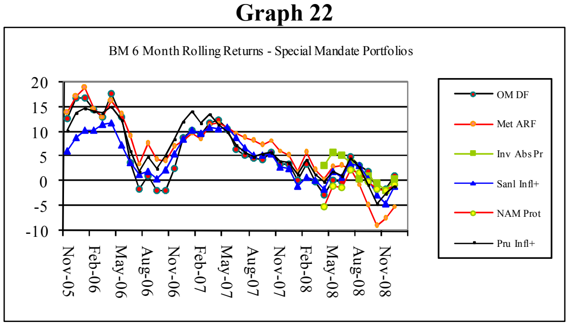


Graph 21



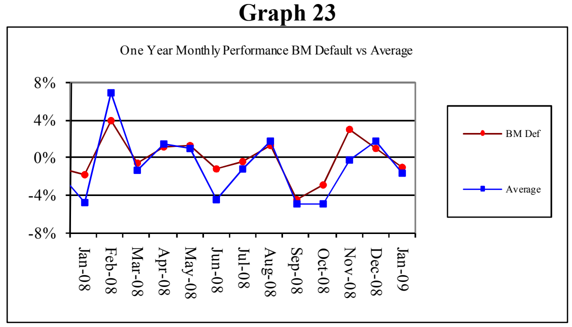
3.4. 6 Month rolling returns of 'special mandate' portfolios

Graph 22



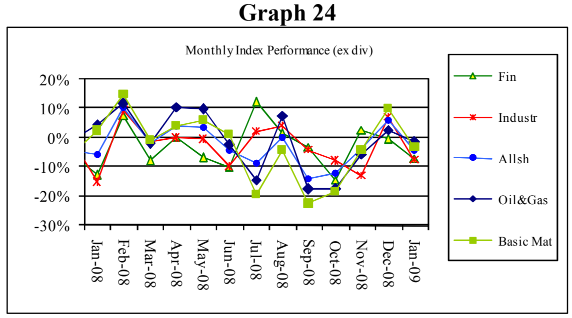
3.5. Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 23

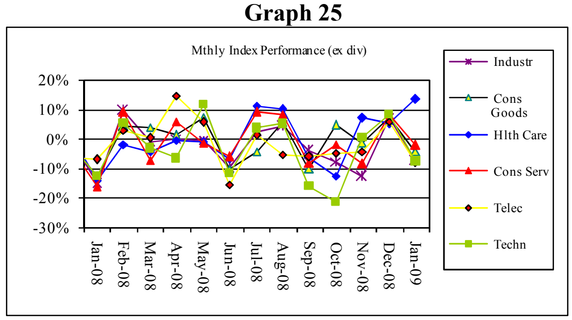


3.6. Monthly and one year cumulative performance of key indices (excluding dividends)

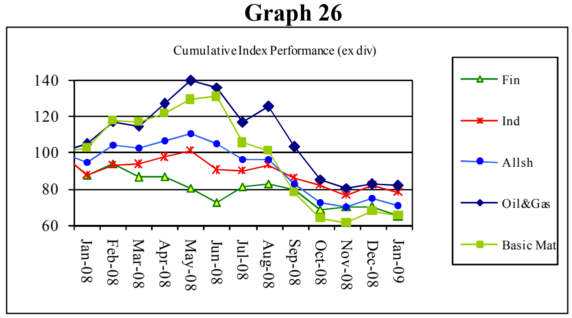
Graph 24



Graph 25



Graph 26



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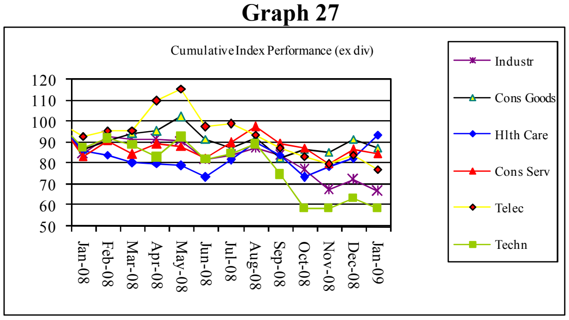
Graph 27



4. A Contrarian Preview Of The Next 12 Months

Since our December preview nothing much has changed to require us reconsidering our views and for the benefit of any reader that has not read our December 2008 report we repeat it once again:

"So, with all these rather depressing trends and results", we have been asked, "why haven't you warned us and why haven't you advised us to invest in cash?" Not an easy question to answer, we admit. Of course we have warned for nearly 3 years that in our view, the market was unsustainably high. Those that followed our advice would have been highly upset with us for the next one-and-a-half years, because the market forged ahead from around 20,000 in March 2006, to 33,000 in October 2007, the average prudential balanced portfolio still picking up another 42% over this period, while our more conservative portfolio only managed to grow another 29%. Taking this comparison further to end December 2008, the average prudential balanced portfolio produced 23% compared to our more conservative portfolio's 25%, and guess what, cash delivered 28% over the same period. Does this validate the view of rather investing in cash? We would like to sketch an analogy of a prospective farming venture. Should the prospective farmer be advised to buy a farm in the Namib desert, because for that area you can be pretty certain that it is not going to rain, rather than buying in the Omaheke region for the risk of there going to be years of drought? The past 30 years or longer for those with longer memories, have proven that the Namib is dry and Omaheke not, but who dares to say that the Namib is not going to get rain in the next 3 years while Omaheke region is going to experience a drought? The past 30 years have also shown that cash will not out perform inflation, in other words it's not going to grow, while equities will, but who dares to say it's not going to do better than equities over the next 3 years? Would you prefer to farm in the Namib? If you are, conventional investment 'wisdom' is not for you!

As we concluded previously the oil price and commodities were driven by speculation, the result of excessive legislative leeway granted to financial institutions. Legislators were 'naughty' to grant this leeway and bankers were 'naughty' in the way they used the leeway to dispose of the flood of money taken from the pockets of the man in the street to be stuffed into the pockets of a relatively small number of beneficiaries of this speculative boom. Financial institutions are sitting with fixed liabilities and assets valued at a fraction of their book value. We suggest that there are essentially only two ways to deleverage these institutions, the swift very painful way that will punish the culprits more directly, and the drawn out but less painful way that will punish everybody including the poorest who already suffered disproportionately from high commodity prices.

The chosen route at this stage appears to be the drawn out process of deleveraging. This requires the re-inflation of asset values and the deflation of liabilities by means of inflation and low interest rates, in the US in particular as main destination of global capital flows.

Based on this view, we will see low, probably even negative real interest rates and increasing inflation in the developed world with sideways movement in global equity markets for an extended period of time of between 3 and five years. Volatility will remain in financial markets for probably another year until all surprises are out of the global financial system.

Locally, we believe that the exodus of foreign investment flows into equities should be largely behind us, as evident from **Graph 28**, so that one may expect sentiment driven negative swings soon no longer to be a serious threat for the investor. In the mean time we expect local inflation and local interest rates to continue declining in measured fashion to cushion the negative impact on the Rand, but the Rand will remain under pressure for a while. **Graph 29** indicates that the Rand is oversold at 9.30 to the US$ at end of December, and should be around 8.20, on a relative inflation adjusted basis. The weaker Rand should be beneficial for local manufacturing while declining inflation and interest rates should be beneficial for local consumption, particularly with regard to food and clothing and of course for property investments.

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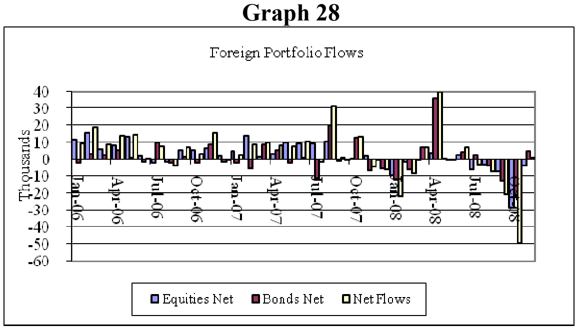
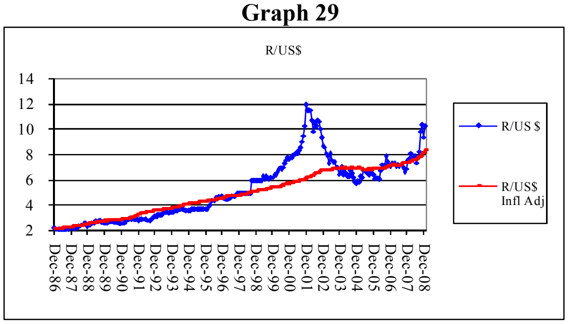
Graph 28

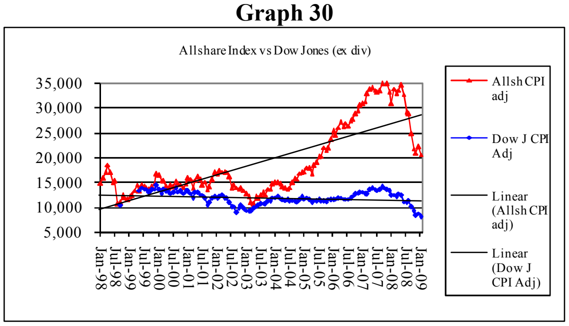


Graph 29



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 weeks ago, it's now back to around 20,000 by the time of writing, this departure has corrected substantially in nominal values. Interestingly, both the Dow Jones and the SA Allshare Index are now around 15% below the CPI adjusted trend line.

Graph 30



5. Conclusion

We believe that volatility in global equity markets will remain for a while, but with a declining tendency. On the basis of fundamentals, it would seem that global markets are now in more sustainable territory. Globally, we expect to see significantly lower returns on all asset classes than we have seen over the past 5 years and it should be quite difficult to achieve real returns over the next 2 to 5 years.

In view of our expectation of declining inflation and interest rates locally, bonds should be a more attractive asset class on the basis of fundamentals although current yields render bonds rather unattractive. 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, consumer goods and services, local manufacturing and exporters. Commodities should also start offering opportunities on a selective basis again. The focus should be on stock selection and dividend yield.

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.

To conclude, exceptional times as we are currently experiencing, require exceptional approaches. We have asked the question before - should the individual really be concerned if the market value of his property has declined? Surely the utility value remains unchanged? In other words, is it not a good time now to use one's pension capital to invest in residential property that offers a utility value in excess of the market returns, considering that it may not be possible to achieve real returns on conventional investments? We have also suggested before that an investment in the member's or his children's education now may well generate better returns in the long-term than conventional investments will. This would require changes to our current legislation though and our legislators should seriously consider these exceptional approaches.

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.