BENCHTEST

Volume 5, No. 7, July 2009

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 JULY 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 also available on our website at www.rfsol.com.na.

1. Review of Portfolio Performance

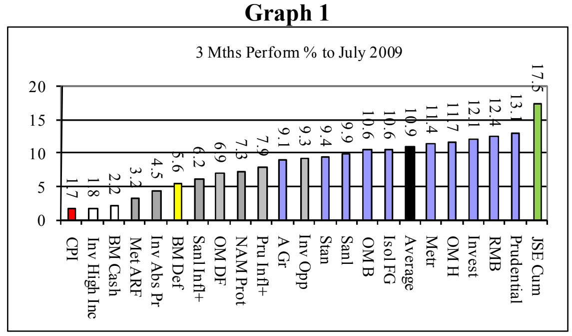
In **July** the **average prudential balanced portfolio** returned **6.36%** (minus 0.25% in June). Best and worst performance **for the month** was delivered by Prudential (8.22%) and Allan Gray (4.84%), respectively. Here is an analysis of performance of the best and worst performing manager based on our asset and sector allocation information as at 30 June 2009:

Asset Class	Average		Allan Gray		Prudential	
	Asset alloc	Perfor	Asset alloc	Perfor	Asset alloc	Perfor
Local Eq	53.5%	9.8%	46.2%	10.3%	49.1%	10.6%
Local Bnds	10.7%	1.3%	5.0%	1.3%	8.8%	1.3%
Local Csh	16.8%	0.6%	16.9%	0.6%	12.9%	0.6%
Local Prop	2.5%	6.5%	1.0%	6.5%	4.2%	6.5%
Intern Eq	9.3%	8.6%	3.0%	8.6%	18.3%	8.6%
Intern Other	8.0%	3.5%	26.9%	3.5%	6.7%	3.5%
Projected Perf		**6.7%**		**6.2%**		**7.5%**
Proj error		-0.3%		-1.4%		+0.7%
Actl Perf		**6.4%**		**4.8%**		**8.2%**

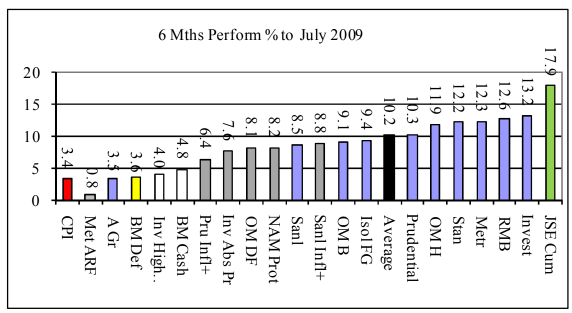
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 Namibia Inflation Plus and Metropolitan Namibia Absolute Return. Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer 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 Pr (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 Prot (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Balanced Growth, prev. 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)

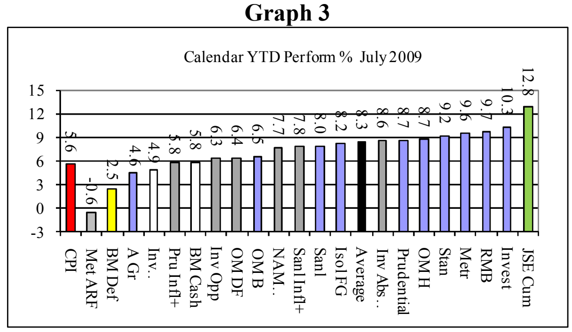
Graph 1



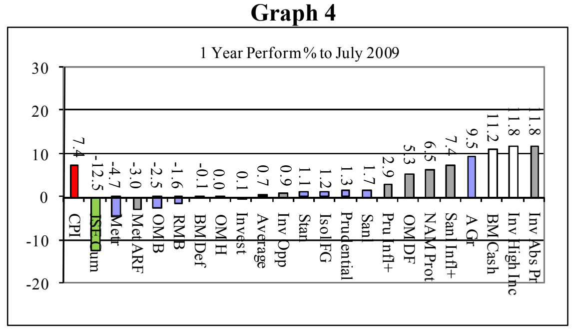
Graph 2



Graph 3



Graph 4



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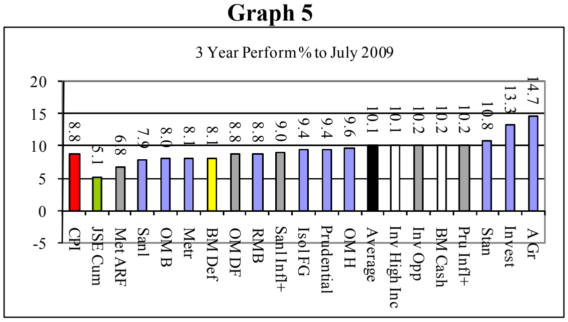
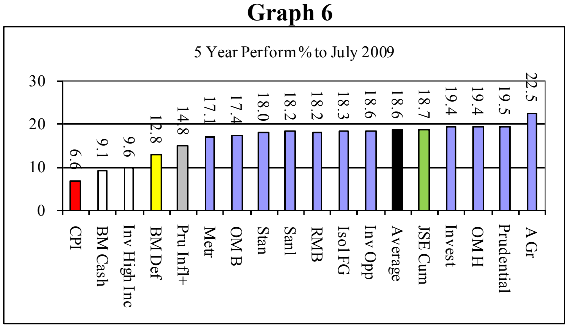
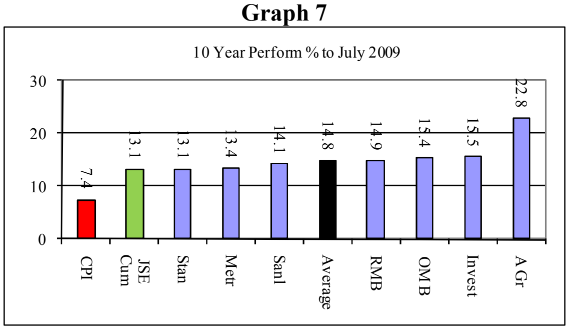
Graph 5



Graph 6

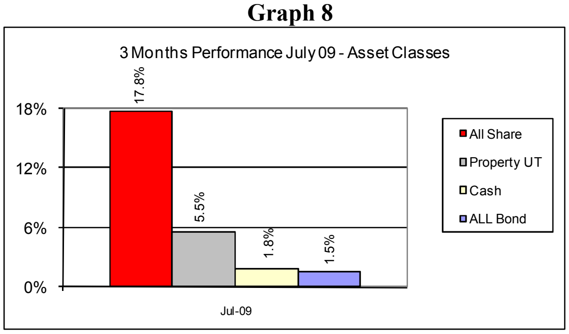


Graph 7

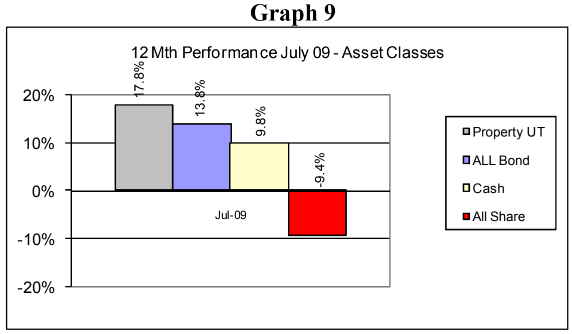


2. Performance of Key Indices (index performance by courtesy from pointBreak/Deutsche Securities)

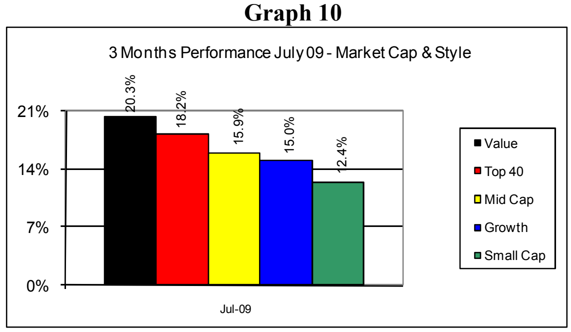
Graph 8



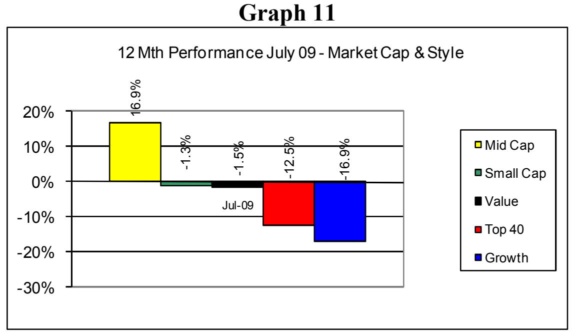
Graph 9



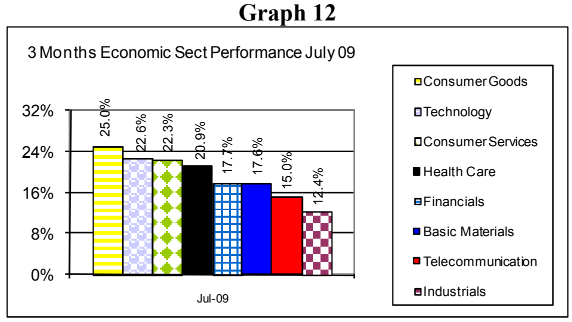
Graph 10



Graph 11



Graph 12



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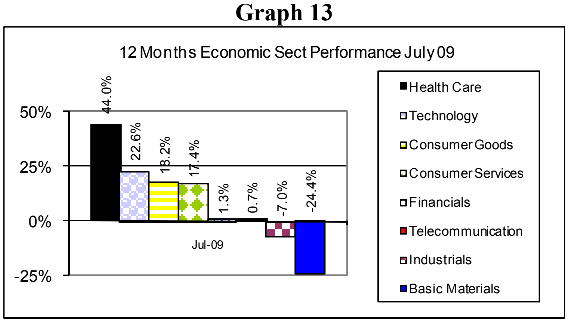
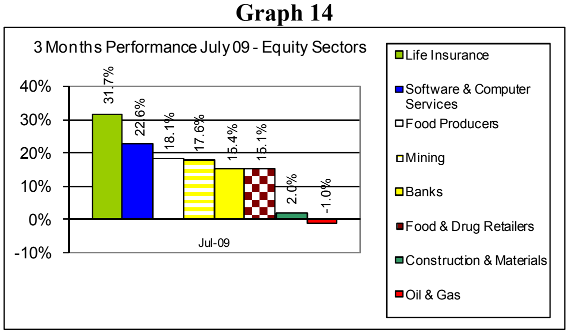
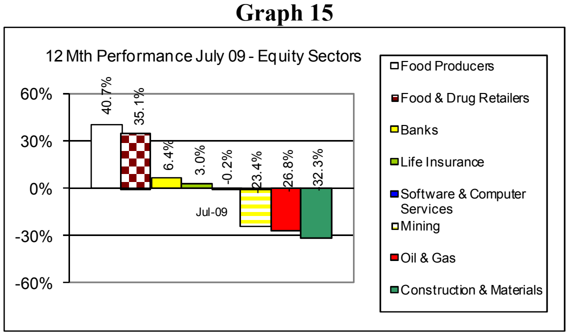
Graph 13



Graph 14



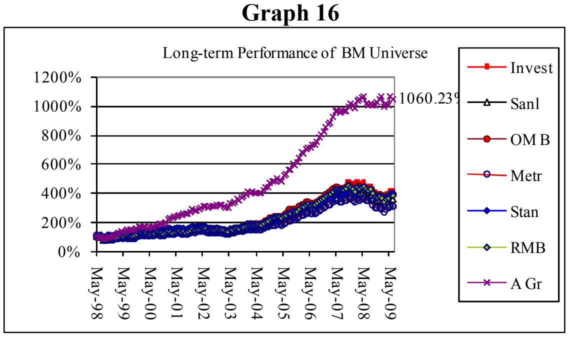
Graph 15



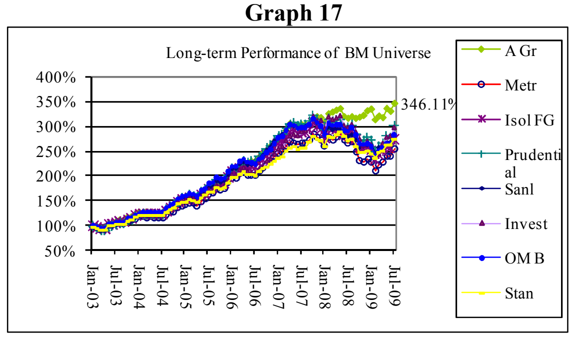
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 16

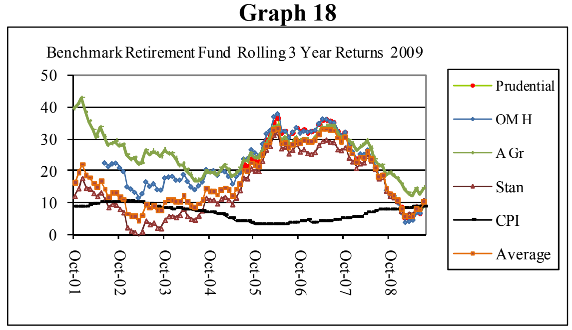


Graph 17

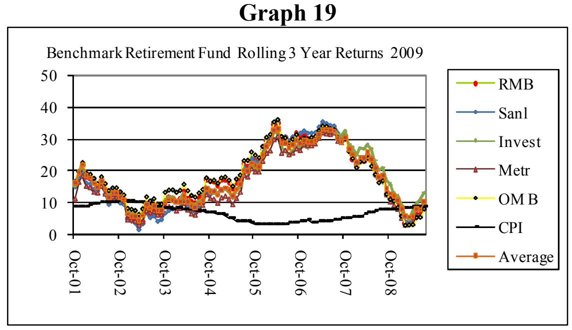


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 18

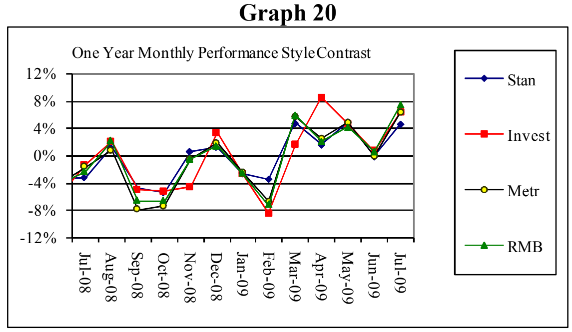


Graph 19



3.3. Monthly performance of prudential balanced portfolios

Graph 20



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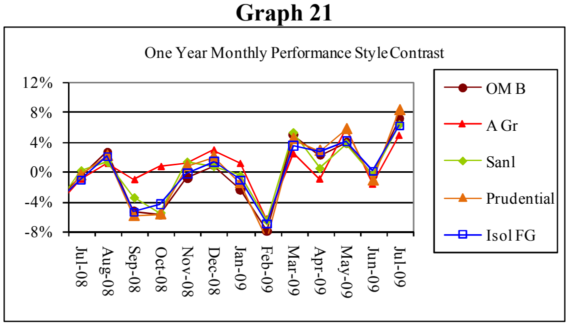
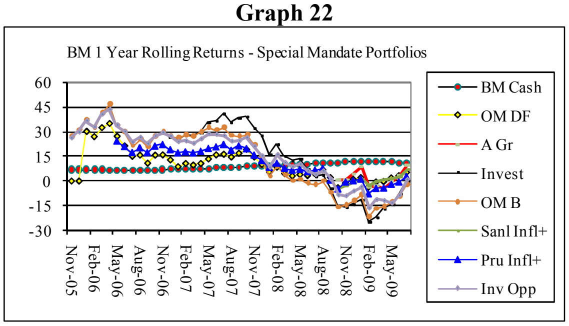
Graph 21



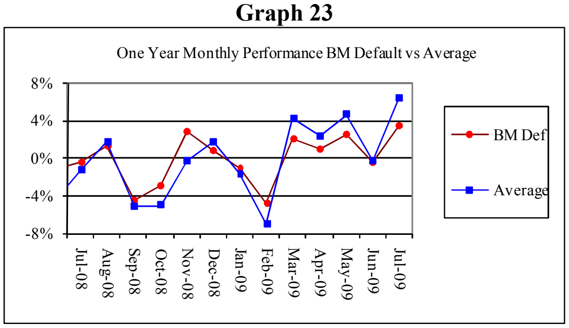
3.4. 6-month rolling returns of 'special mandate' portfolios

Graph 22



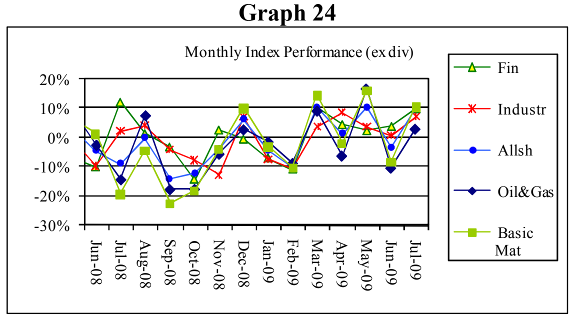
3.5 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 23

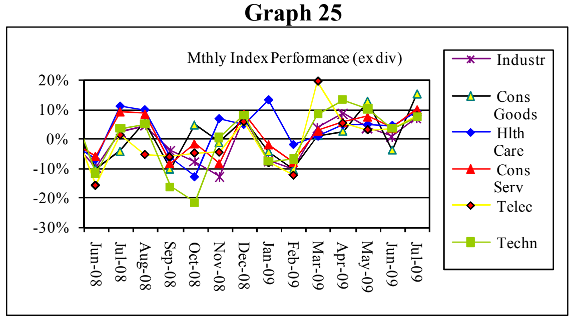


3.6 Monthly and one year cumulative performance of key indices (excluding dividends)

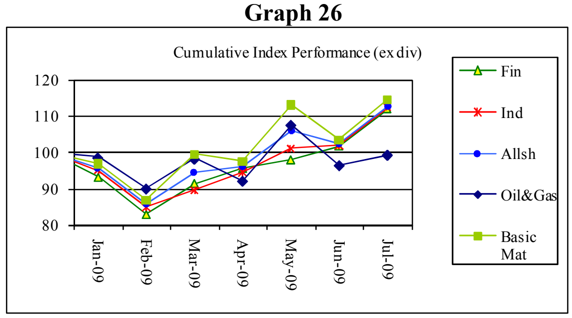
Graph 24



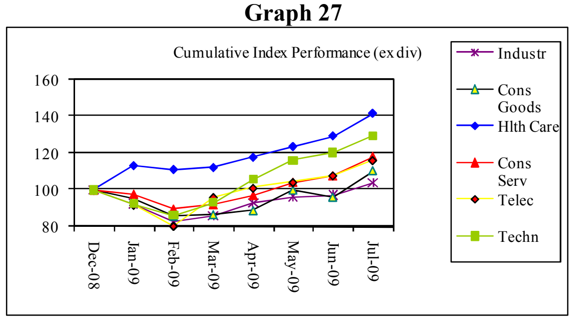
Graph 25



Graph 26



Graph 27



4. A Contrarian Preview Of The Next 12 Months

What financial crisis, one may ask, judging by latest media reporting? Whilst we took an unfounded, positive view to assume that the coordinated global approach to address this crisis will produce positive results, we still expect there to be some tough times ahead. The measures taken by

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governments not only prevented panic and effectively underpinned investor confidence, this in fact has turned unfoundedly exuberant in our view. The huge amounts that have been allocated to address the global financial crisis, remain a concern. We would expect these creating yet unknown stresses in the global financial system, the consequences of which cannot be foreseen yet but are bound to be severe.

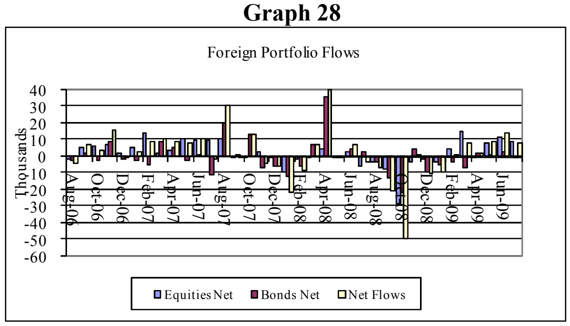
Graph 5 shows that the average prudential balanced portfolio returned 18.6% in nominal terms, or 12% in real terms, over the past 5 years while the Benchmark Default portfolio returned 12.8% in nominal terms, or 6.2% in real terms. This is a significant underperformance at first sight. The question is whether the past 5 years are representative of what the investor may expect in the long-term. **Graph 30** reflects the performance of the ALSI over the past 20 odd years, in real terms. This shows that the recent trough has not been quite as low as the one in 2003 and that the starting point 5 years ago of 12,800 was still lower than the lowest point of 13,459 in February this year. Over the past 5 years, these indices produced a real return of around 5% p.a. This is still slightly above the long-term growth of only 3.4% since 1960. This indicates that the performance differential between the Default portfolio and the average prudential balanced portfolio is skewed by between 2% and 4% in favour of latter portfolio. From these statistics one may conclude that the pain on the downside will be lower for investors in the Default portfolio as will the pleasure on the upside, by between 2% and 4% per annum.

The oil price being back over US$ 70 a barrel again, we estimate that 'windfall' profits of around US$ 100 billion a month or US$ 3.3 billion a day (assuming cost of production of US$ 30) are 'transferred' from the global consumer to the custodians of the beneficiaries' wealth, presumed to be largely US financial institutions. These financial institutions appear to be looking for investment opportunities globally again, as is borne out by the return of foreign capital flows into South Africa (see **Graph 28)**. This situation will have to be monitored closely as it may have a major effect on global financial markets.

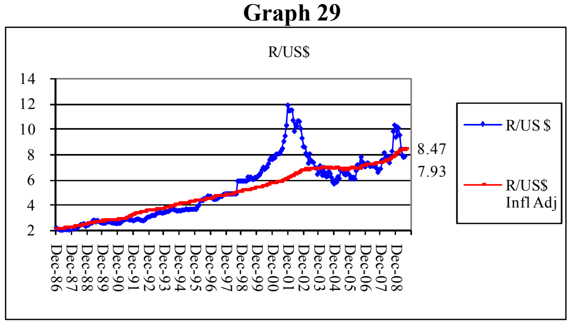
Unless legislation is put in place soon to prevent a recurrence of unchecked speculation and leveraging, we expect a rapid recovery of all speculative assets and equities more specifically as we have started seeing already. This is the more unlikely scenario though. The more likely scenario is that legislators globally will indeed put measures in place and that there will then be a consumer driven, gradual recovery of global financial markets.

The first signs of a recovery in global economies now surfacing, we would expect global asset prices to start recovering. We also expect global interest rates to have reached their bottom and to start turning upwards. Both these developments should put pressure on global inflation and interest rates in the medium term. This environment will not entice foreign investment in local bonds as the result of which we would expect lower exchange rate volatility. As far as exchange rate is concerned, **Graph 29** indicates that the Rand is fairly valued at 8.47 to the US$. At its current level of around 7.93, it is slightly overvalued by this measure.

Graph 28



Graph 29



Graph 30 indicates that equity markets seem to have bottomed. The S&P 500 1 year lagging P:E ratio increased dramatically from 28.4 at the end of March to 145 the end of July as the result of collapsed earnings. The 1 year lagging SA Allshare P:E gained 3.7 points to 11.9 from its bottom of 8.2 at the end of February.

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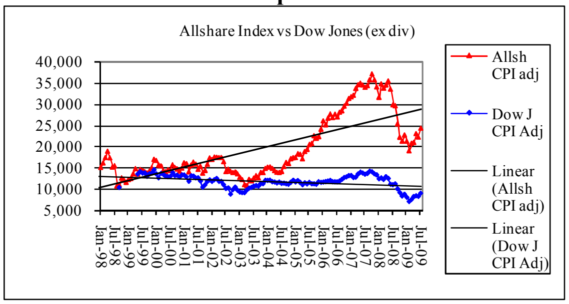
Graph 30



5. Conclusion

On the basis of fundamentals, it would seem that global markets are now in more stable and sustainable territory. It would seem that the measures taken by governments to counter the financial crisis have been more effective than what was generally expected. As the result we expect equities to return to the top of all asset classes in terms of performance over the next year even if this is likely to be by a much smaller margin than what one has become used to. An expected incline in global interest rates in the medium term will be negative for all interest bearing assets and for property for a while. In terms of equity sectors, our shorter term view would indicate on the basis of fundamentals, that consumer goods and services and basic materials should be overweight in one's portfolio. This obviously depends on one's investment horizon.

As was pointed out above, based on a long-term investment horizon, we have moved back from the more conservative absolute return portfolio to the prudential balanced portfolio. Typically retirement funds have a long-term investment horizon with respect to their membership and should hence consider taking on more risk now. Since we are of the opinion that equities should outperform fixed interest investments over the next year, only a very short term investment horizon of a few months would justify investment in cash.

Taking our view of a Rand now being overvalued, it offers an opportunity to continue raising one's offshore exposure again in order to achieve 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.