

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 JUNE 2011

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.

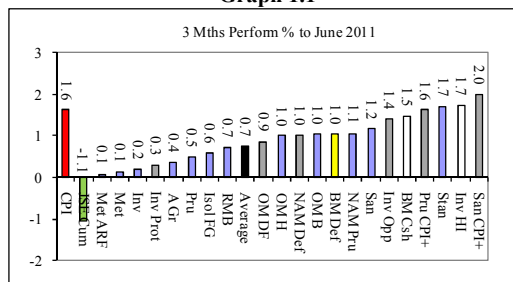
1. Review of Portfolio Performance

In June our average prudential balanced portfolio returned minus 1.15% (May 0.36%). Top performer is Stanlib (minus 0.48%), while Investec (minus 1.76%) takes bottom spot.

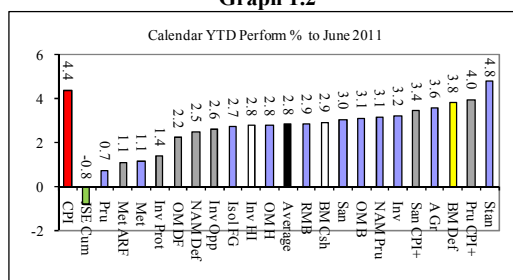
Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), ‘special mandate portfolios’ with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 now represents a combination of Prudential Namibia Inflation Plus and Allan Gray. 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	
Money market	BM Csh (no colour)
Investec High Income (interest bearing assets)	Inv HI (no colour)
Investec Protector	Inv Prot (grey)
Investec Opportunity Fund	Inv Opp (grey)
Metropolitan Absolute Return	Met ARF (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Sanlam Inflation Plus	San CPI+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Inv (blue)
Investment Solutions Bal Growth, (multimanager)	Isol FG (blue)
Prudential Managed	Prud (blue)
Metropolitan Managed	Met (blue)
NAM Prudential Balanced	NAM (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
RMB Managed	RMB (blue)
Sanlam Managed	San (blue)
Stanlib Managed	Stan (blue)

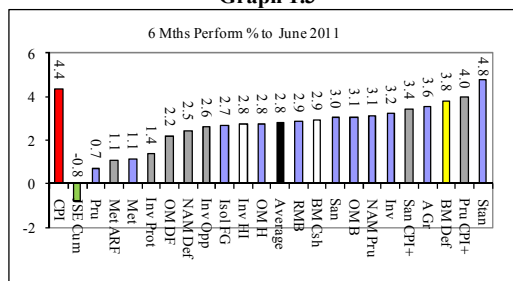
Graph 1.1



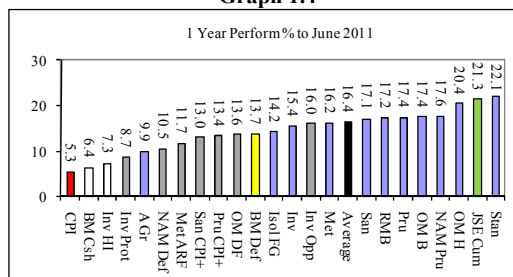
Graph 1.2



Graph 1.3



Graph 1.4





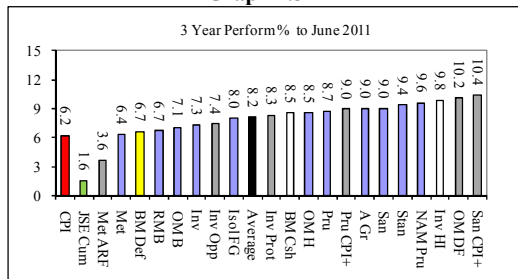
Benchmark Retirement Fund

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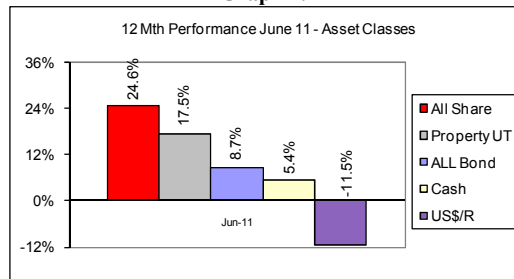
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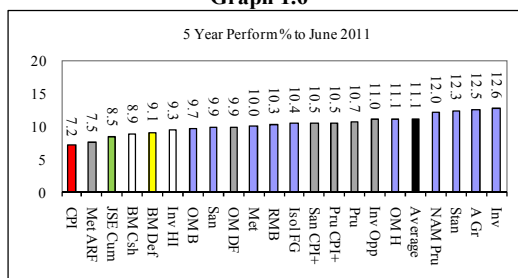
Graph 1.5



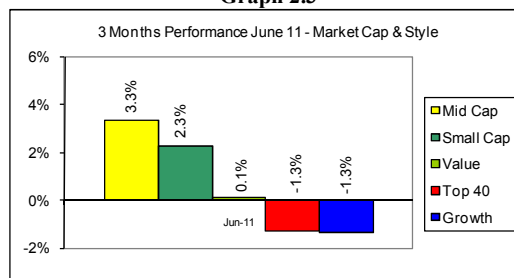
Graph 2.2



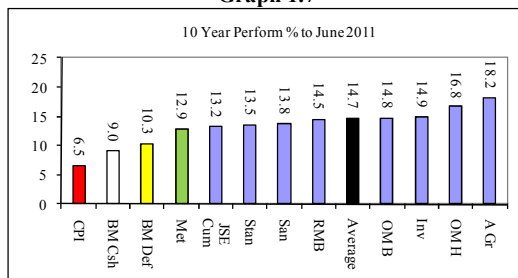
Graph 1.6



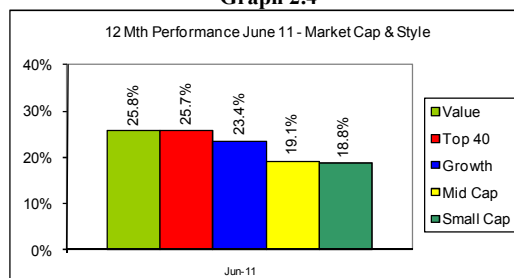
Graph 2.3



Graph 1.7

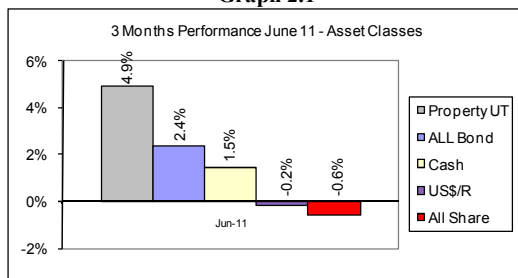


Graph 2.4

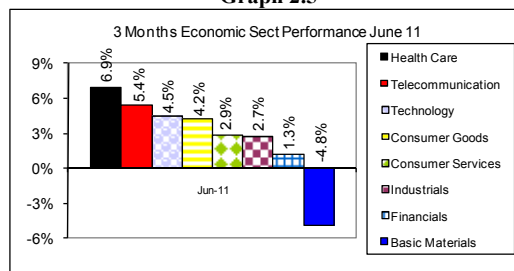


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.5





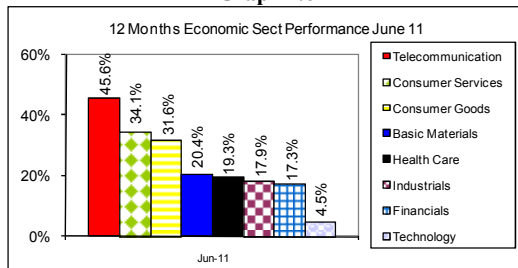
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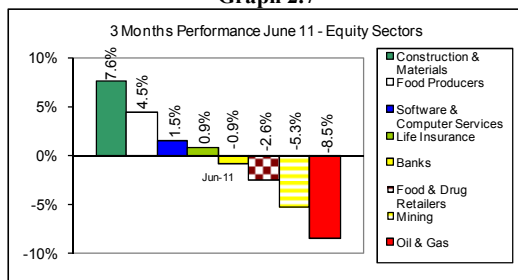
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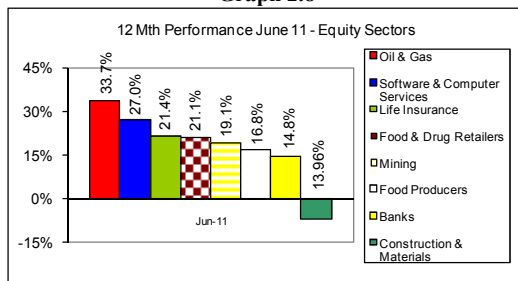
Graph 2.6



Graph 2.7



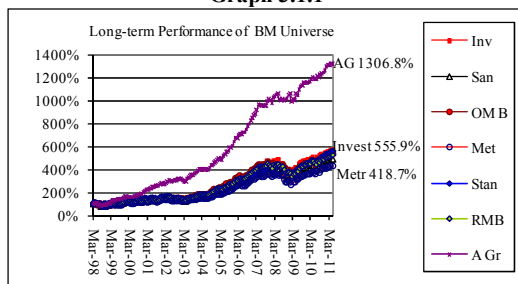
Graph 2.8



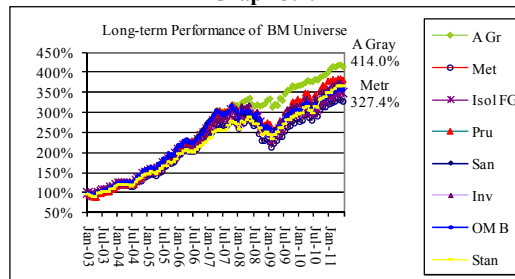
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

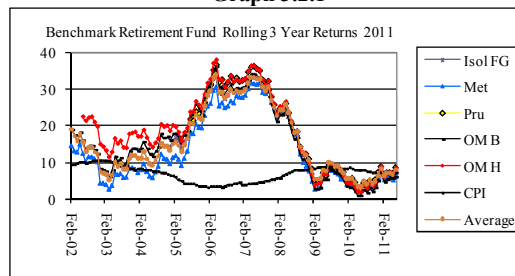


Graph 3.1.2

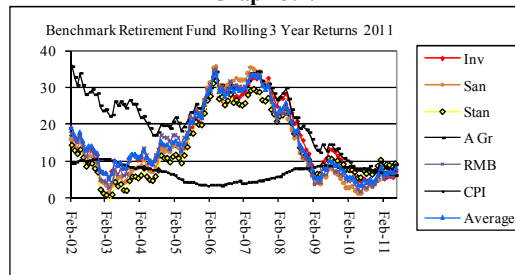


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

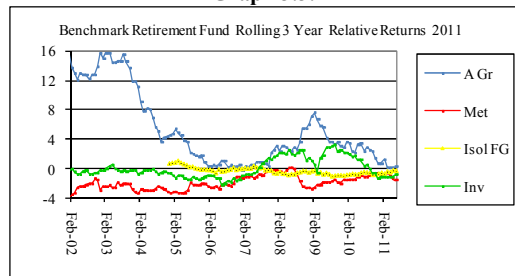


Graph 3.2.2



3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

Graph 3.3.1





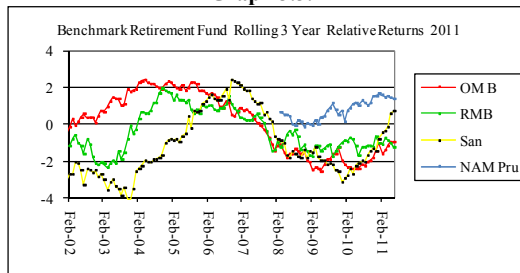
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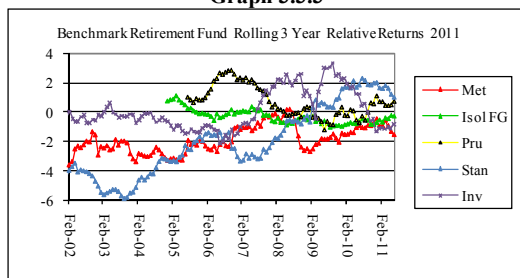
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Graph 3.3.2

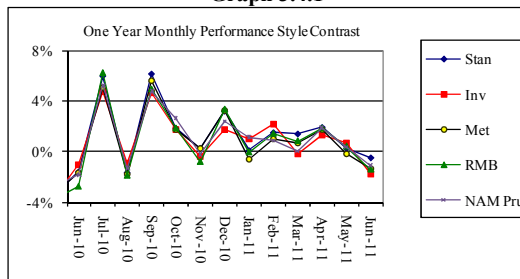


Graph 3.3.3

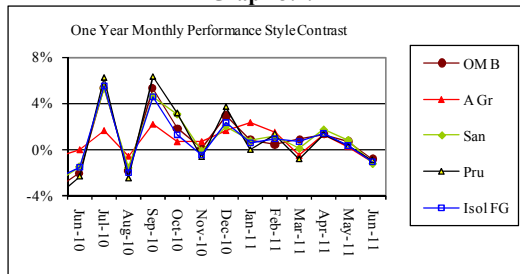


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

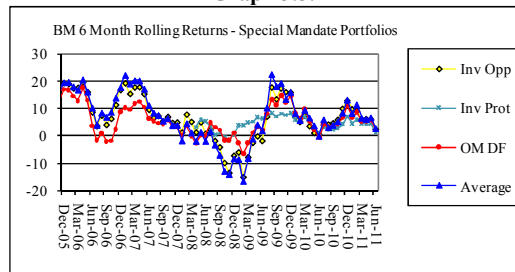


Graph 3.4.2

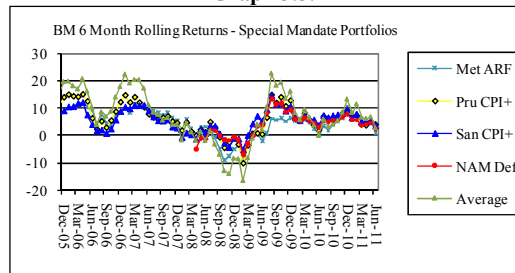


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

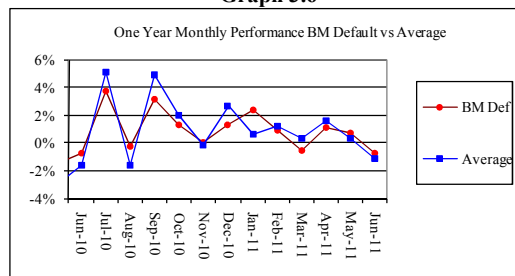


Graph 3.5.2



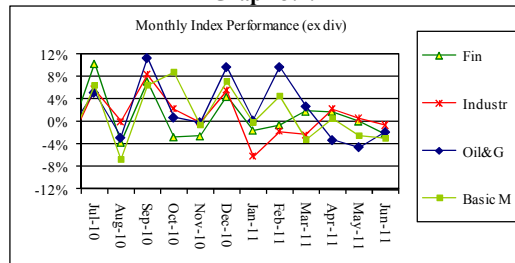
3.6 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 3.6



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

Graph 3.7.1





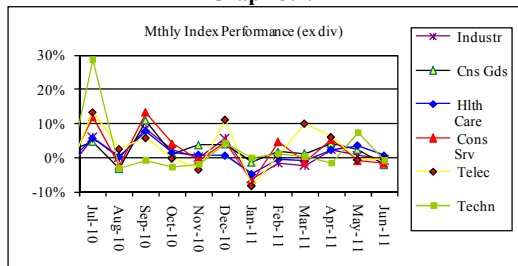
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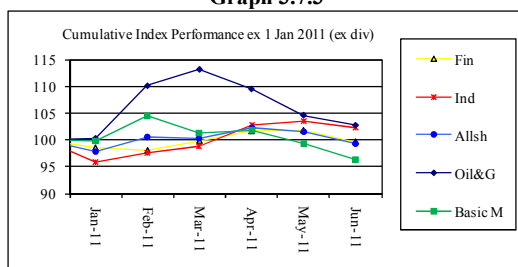
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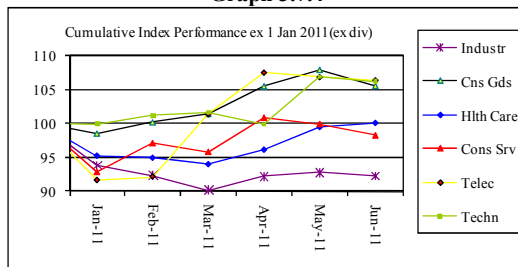
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 11.1% p.a. in nominal terms, or 3.9% p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 9.1% p.a. in nominal terms, or 1.9% p.a. in real terms. Considering that the average prudential balanced portfolio should deliver a real return before management fees (typically 0.75%), of roughly 6% per year, these portfolios are currently trailing the expected long-term goal significantly over the past 5 years. Having raised the risk profile of the default portfolio since the beginning of 2011 by replacing Metropolitan ARF with Allan Gray we would expect the default portfolio to sacrifice around 1% for the benefit of lower volatility, thus an expected real return before management fees (typically 0.75%), of around 5% per year. Since this change was effected, the default portfolio returned 3.8% compared to 2.8% for the prudential balanced portfolio.

The performance of the prudential balanced portfolios should be more volatile than that of the default portfolio, which produces significantly more volatile performance than the money market portfolio. The table below

presents one year performance statistics over the 3 years July 2008 to June 2011:

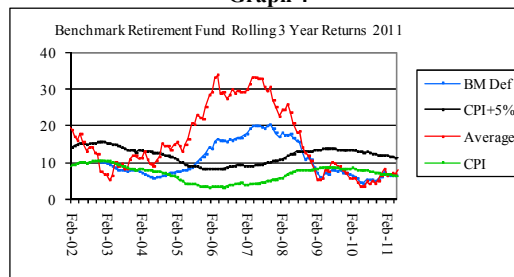
Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.4%	- 8.0%	- 19.1%
Best annual performance	12.1%	16.2%	29.7%
No of negative 1 year periods	n/a	10	11
Average of negative 1 year periods	n/a	- 3.7%	- 10.3%
Average of positive 1 year periods	9.3 %	10.3%	14.7%

The Benchmark Default portfolio is a more conservative investment aimed at minimising negative returns and with a long-term return objective of inflation plus 5% before fees and roughly 4.3% after fees.

At this rate of return, the net contribution towards retirement by both, member and employer should be roughly 13% of remuneration, in order to achieve a reasonable income replacement ratio of 2% per year of service. It is very important that employers invested in the default portfolio are comfortable with these investment characteristics and that they should be able to create comfort amongst their employees as well.

Graph 4



Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. It shows that since September 2008, both the Benchmark Default portfolio as well as the average prudential balanced portfolio have lagged inflation plus 5% and at times even inflation and are currently on par with inflation over the latest 3 year period.

5. What We Expect Of The Next 12 Months

The global back drop

Consumer sentiment is starting to improve in the developed world. Inflation continues to trend upwards, that of the US for June year-on-year standing at 4.1% (May 4%), Euroland at 2.7% (May 2.7%), China at 5.5% (May 5.5%), SA at 4.9% (May 4.6%) and Namibia at 6.4% (May 5.2%). The Federal Reserve will not renew





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its quantitative easing measures which ended at the end of June.

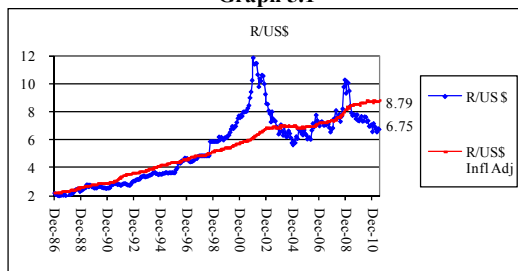
A persistently high crude price of at least double its cost of production continues to funnel capital flows into a few assets, such as US government bonds, commodities, precious metals and property. This undermines any broad based return of investors to the financial markets and is probably fuelling speculative bubbles in these areas, rather than supporting sustainable growth. To put this into perspective once again, the windfall profits generated by the high crude price amount to roughly US\$ 2 trillion per year, which approximates 3% of global GDP or 13% of US\$ GDP. High oil prices are fueling inflation across the globe as is evident in global food prices.

While we still see massive government intervention in developed countries - witness the US and Europe in particular with their unsustainably low interest rates and their debt crises, the free market mechanism appears dislodged and it is impossible to comprehend the medium to long-term implications of these. A nightmare for any investor. Will Europe's bail out of Greece really solve its debt crisis, or is it simply a matter of strengthening Greece while weakening the larger Europe? Isn't the larger Europe over indebted already in any case?

How is the Rand doing?

Graph 5.1 indicates that the Rand is fairly valued at 8.79 to the US Dollar while it actually stood at 6.75. This is based on adjusting the two currencies by the respective domestic inflation rates. Our conclusion from this graph is that the likelihood of the Rand depreciating is significantly greater than the opposite.

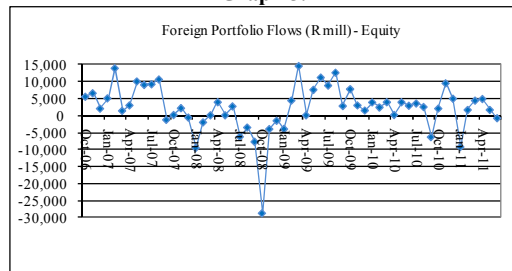
Graph 5.1



At this stage there is strong support from foreign capital flows

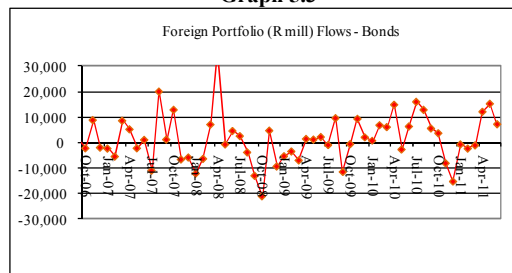
Graph 5.2 reflects a declining trend in the flow of capital into South African equities. For the 12 months to end of June, the FTSE/JSE still experienced a fairly strong net inflow though of R 20.2 billion (R 23.9 billion, 12 months to end May 2011), compared to a net inflow of R 54.9 billion for the 12 months to end June 2010 (net inflow of R 63.2 billion, 12 months to end May 2010).

Graph 5.2



Graph 5.3 also appears to reflect a declining trend in net flows into fixed interest instruments, which amounted to R 45.8 billion for the 12 months to end June (R 44.9 billion for the 12 months to end May), compared to an inflow of R 41.0 billion for the 12 months to end June 2010 (R 36.9 billion for the 12 months to end May 2010). This trend of course support the Rand.

Graph 5.3

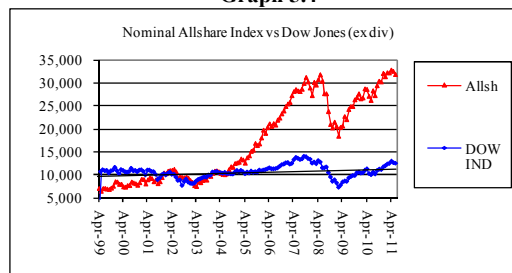


The net flow of foreign capital into equity and fixed interest assets was R 66 bn for the 12 months to end June (R 68.8 bn to end May), compared to R 95.9 bn for the 12 months to end June 2010 (R 100.1 bn to end May 2010). This still lends strong support to the Rand.

Graph 5.4 shows to what extent equity markets have recovered in nominal terms since their low at the end of February 2009.

Graph 5.5 reflects the same statistics but adjusted for US and SA inflation respectively.

Graph 5.4





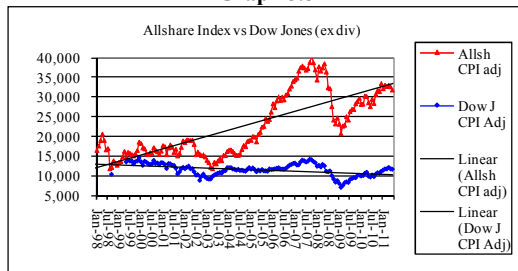
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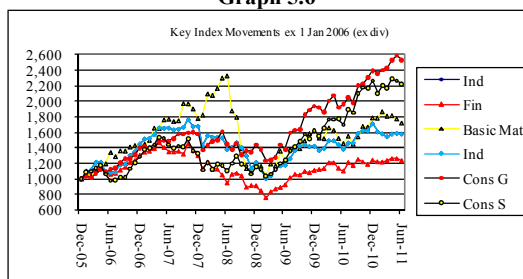
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Graph 5.5



Graph 5.6 provides an interesting overview of relative movement of the key equity sectors on the FTSE/JSE since December 2005 when these indices were first introduced. From this the investor should be able to deduce which sectors offer greater value and which one's offer less value on the basis of fundamentals.

Graph 5.6



6. Conclusion

In our view, the Rand has been experiencing tail winds in all regards for quite some time, resulting in its prolonged strength in historical context. This will not continue for too much longer but while it persists, investors in local assets are doing well while the more cautious investor spreading his investments globally, is having a tough time. An overweight in local assets in our view, is taking a very speculative position and requires good timing to avoid the impact of a likely reversal of the fate of the Rand.

On balance we believe that we are now entering a prolonged period of slow economic growth, rising interest rates, rising inflation and sluggish bourses. It will be difficult to find any investments delivering high yields and investors are therefore likely to continue investing in precious metals.

Graph 5.6 indicates that local consumer goods and consumer services had an excellent run over this period of more than 5 years. We do not expect too much more joy out of these sectors anymore and these should hence be underweight.

On the basis of fundamentals, one should now move to an overweight position in local industrials and financials, a neutral position in local basic materials and an

underweight position in local consumer goods and consumer services. An expected depreciation of the Rand in the medium term would favour exposure to Rand hedge shares locally.

Investing in equities should ensure that the value of the investment will at least keep pace with higher trending inflation in the medium to long-term, and should also produce a real return in excess of inflation in the medium to long-term. Equities in general should outperform the other conventional asset classes such as cash, bonds and property. Companies with a low gearing, high dividend yield and those offering a hedge against a depreciating Rand would be our preferred targets.

For pension funds, an assertive balanced portfolio with a fair spread across equities, bonds and property and a high foreign equity exposure remains our call for now.

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. The views expressed herein are those of the author and not necessarily those of Benchmark Retirement Fund or Retirement Fund Solutions.

