Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 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.

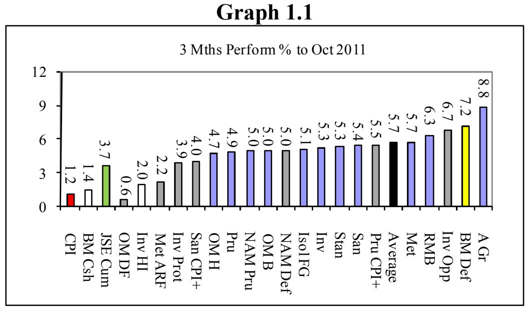
1. Review of Portfolio Performance

In **October** our **average prudential balanced portfolio** returned 5.31% (September 0.56%). Top performer is Prudential (6.61%), while Allan Gray (3.84%) once again takes bottom spot.

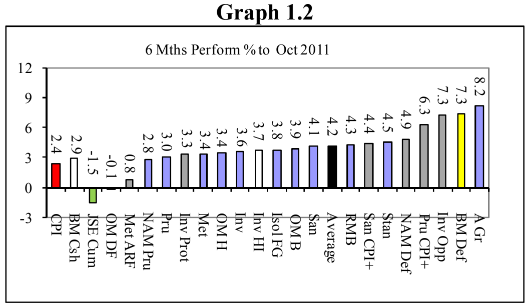
Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced 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 color)
Investec High Income (interest bearing assets)	Inv HI (no color)
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)

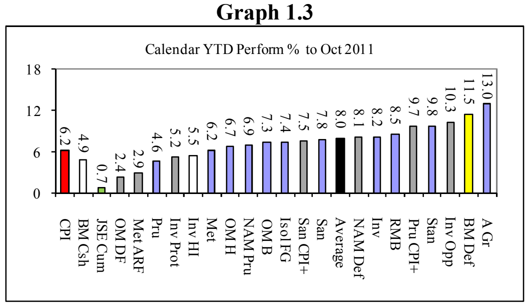
Graph 1.1



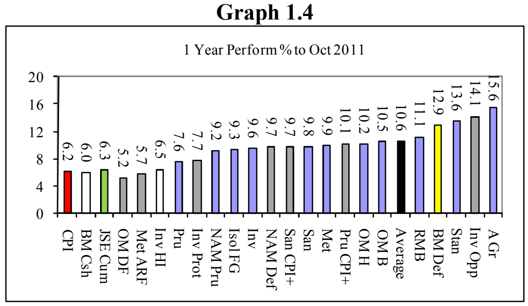
Graph 1.2



Graph 1.3



Graph 1.4



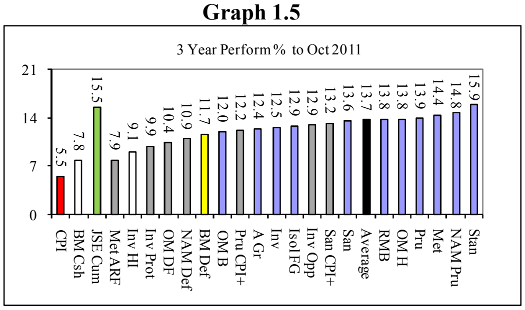
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2011

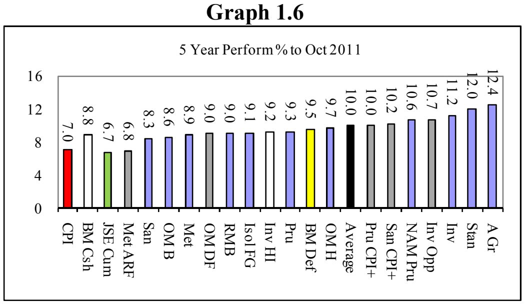
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

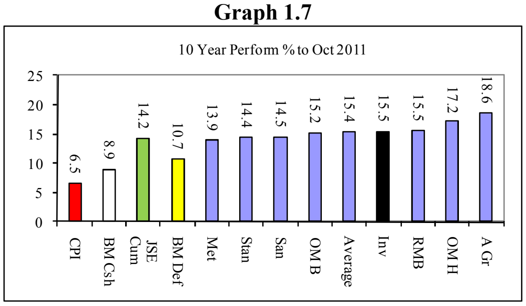
Graph 1.5



Graph 1.6

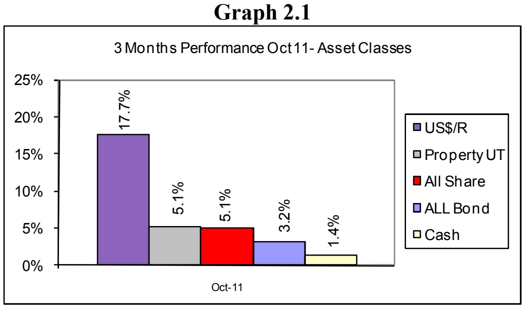


Graph 1.7

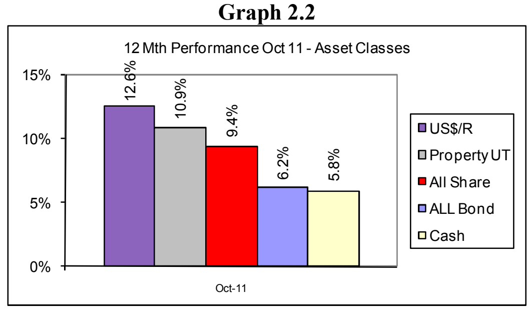


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

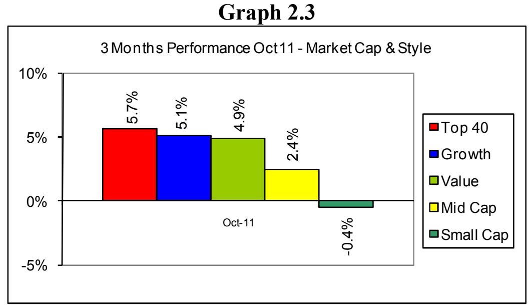
Graph 2.1



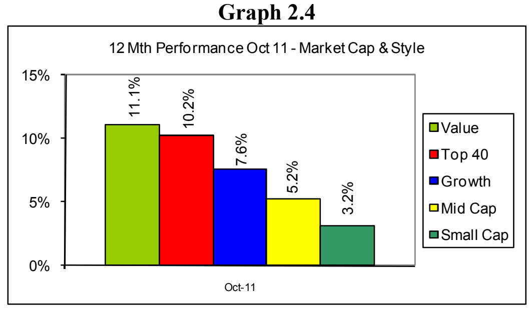
Graph 2.2



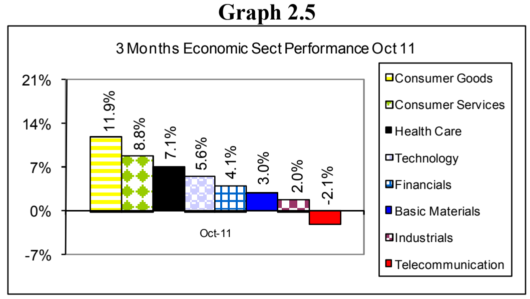
Graph 2.3



Graph 2.4



Graph 2.5

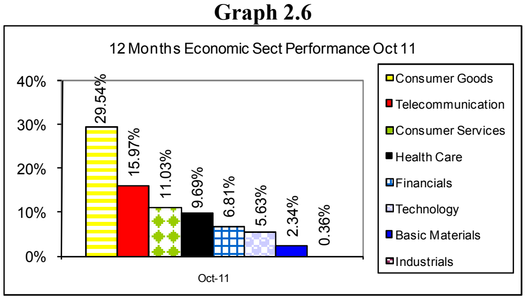


MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2011

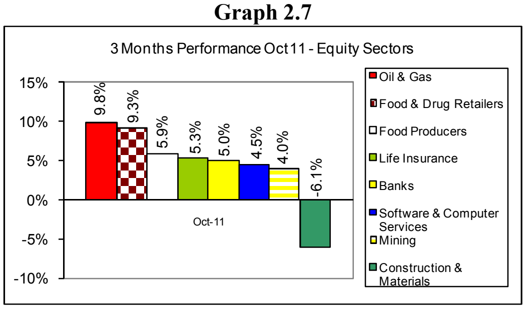
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

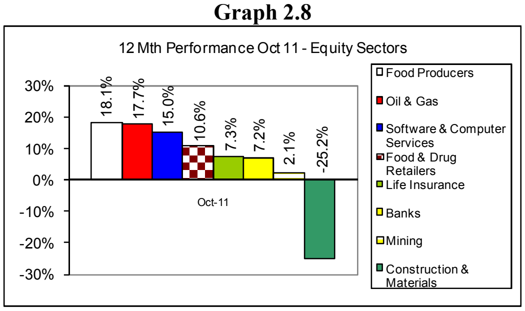
Graph 2.6



Graph 2.7



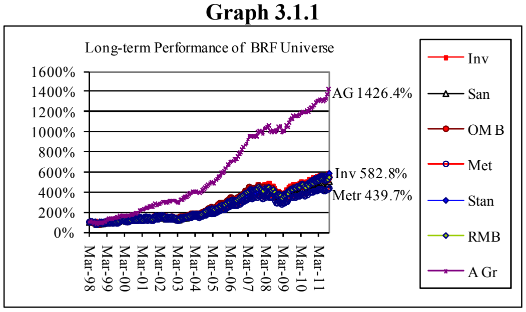
Graph 2.8



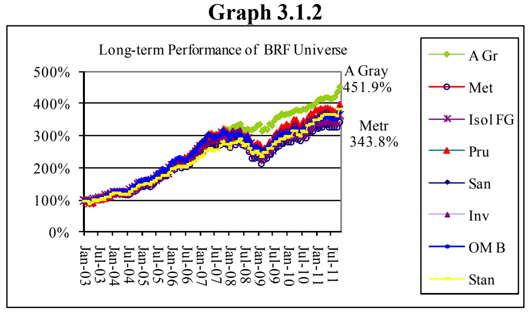
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

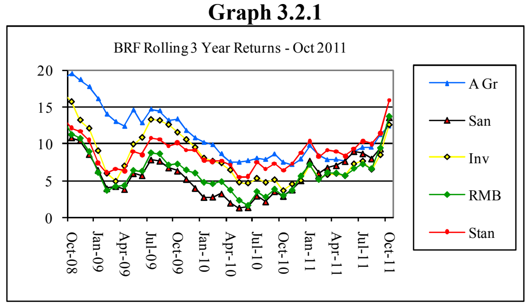


Graph 3.1.2

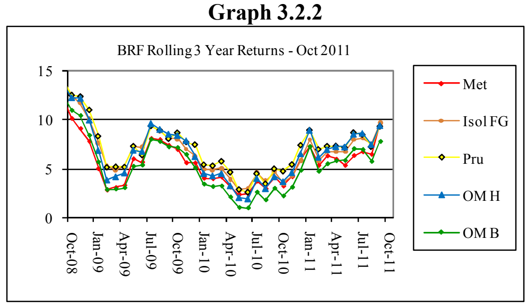


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

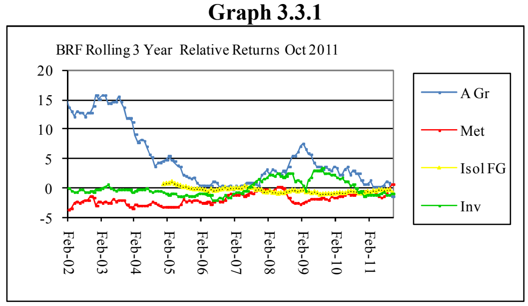


Graph 3.2.2



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

Graph 3.3.1



Volume 7, No. 10, Oct 2011

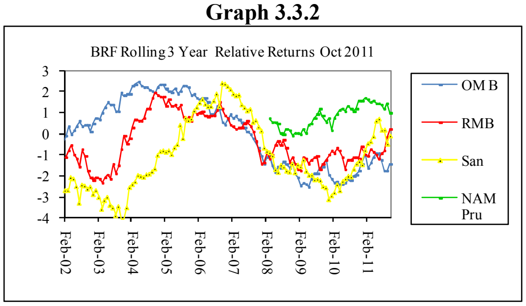
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2011

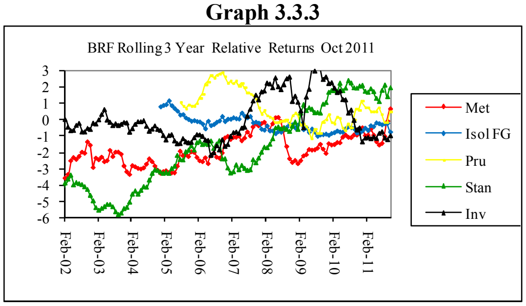
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

Graph 3.3.2

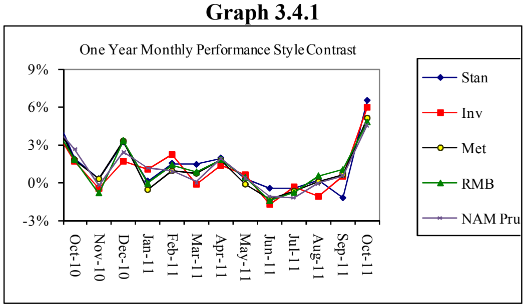


Graph 3.3.3

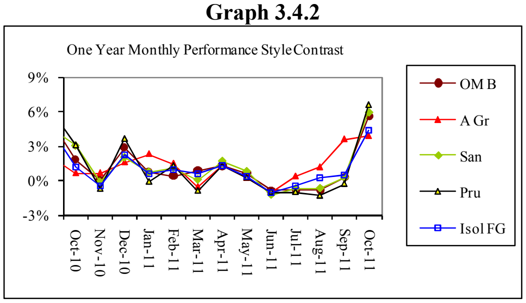


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

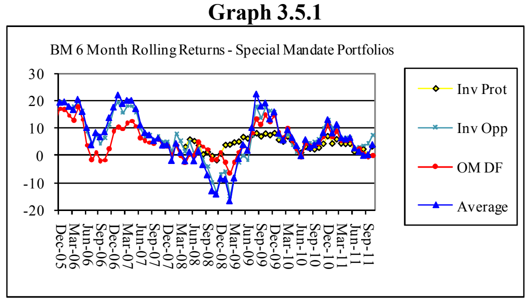


Graph 3.4.2

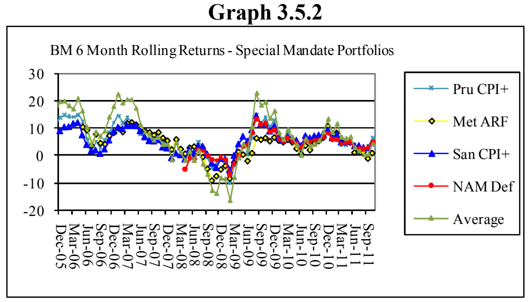


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

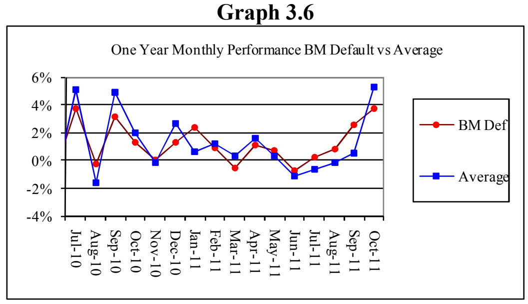


Graph 3.5.2



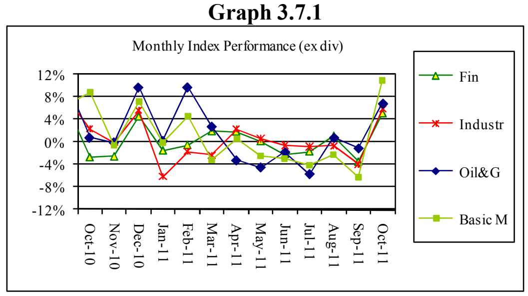
3.6 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 3.6



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

Graph 3.7.1



Volume 7, No. 10, Oct 2011

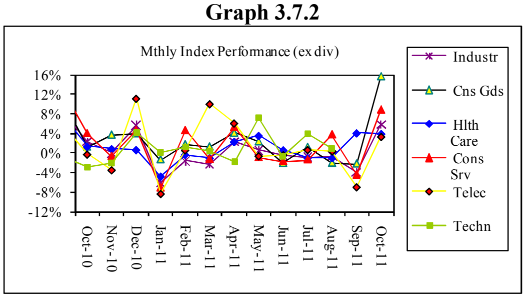
Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2011

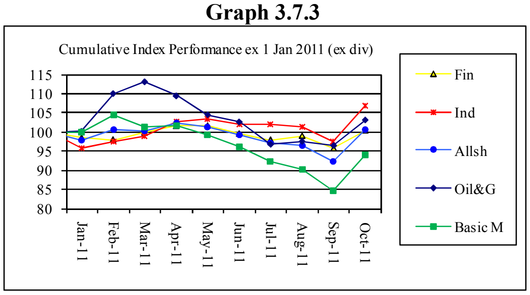
By T H Friedrich – Managing Director, Retirement Fund Solutions Namibia (Pty) Ltd

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

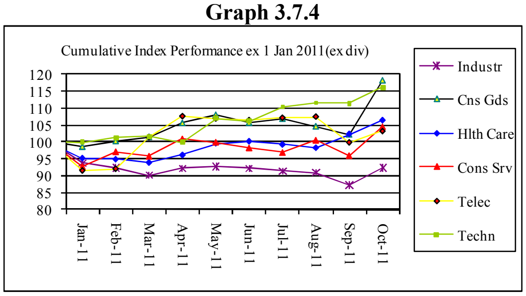
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 10% p.a. in nominal terms, or 3% p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 9.5% p.a. in nominal terms, or 2.5% 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.

Participating employers who are invested in the Benchmark default portfolio will be aware that we have raised the risk profile of the default portfolio since the beginning of 2011 by replacing Metropolitan ARF with Allan Gray. With this combination, its risk profile is still considerably lower than that of the average prudential balanced portfolio. We would therefore 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 11.5% compared to 8% for the average 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 November 2008 to October 2011:

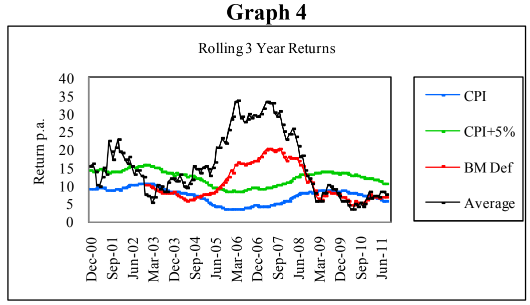
Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.0%	- 8.0%	- 19.1%
Best annual performance	12.1%	16.2%	29.7%
No of negative 1 year periods	n/a	8	8
Average of negative 1 year periods	n/a	- 3.8%	- 11.7%
Average of positive 1 year periods	8.7 %	10.7%	14.5%

The Benchmark Default portfolio is a more conservative investment aimed at reducing 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 are lagging inflation plus 5% and at times even inflation and are currently just ahead of inflation over the latest 3 year period.

5. What We Expect Of The Next 12 Months

The global back drop

Financial markets particularly in Europe are still in great turmoil. Markets are hoping that a viable solution can be worked out that removes all uncertainty and all eyes are on Germany to be the white knight. The general expectation of these troubled economies is that the introduction of a Eurobond will reduce their interest rates. Even if this were to happen, not without an increase of German interest rates though, these countries already were in trouble before the recent steep increase in interest rates. The situation is therefore unlikely to improve meaningfully until these economies manage to significantly reduce their debt to sustainable levels. The austerity measures that have been taken by these countries on the southern periphery of the EZ will worsen their debt situation as they impact negatively on their GDP and state revenue.

People have simply been living way above their means on the wave of cheap money that has been flooding markets while equity markets just knew one direction and that was up. Deleveraging is required, but how? Usually this can be achieved in one of two ways, either by a lift of asset values, or by way of a depreciation of debt. Former alternative is very much unlikely to happen for a while and only once the economies start showing real growth again. So the only alternative left is a swift depreciation of the debt and this can only be attained through inflation. Is this what lies ahead for citizens of the EZ now?

In the US and the UK things are a bit different and are actually starting to look up now. As the result, there appears to be a de-coupling of consumer sentiment between the US on the one side and the Euro Zone on the other side.

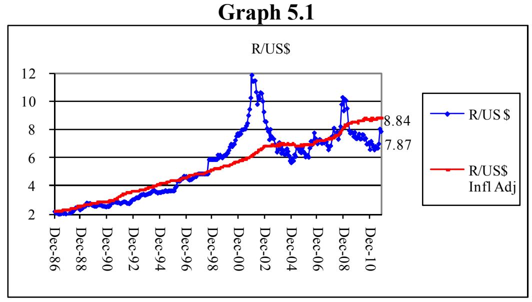
Global inflation appears to have peaked for the time being, that of the US for October year-on-year standing at 3.4% (September 3.5%), Euroland at 3% (September 3%), China at 5.5% (September 6.1%). We do believe though, that this is a short-term lull and that inflation will pick up again as consumption starts gaining steam.

Local inflation, however, is already taking the opposite direction. SA's now stands at 6.1% (September 5.7%) and Namibia's at 6.2% (September 5.3%) and the weakening of the Rand will no doubt reinforce this trend for the next year or two.

How is the Rand doing?

Graph 5.1 indicates that the Rand is fairly valued at 8.86 to the US Dollar while it actually stood at 7.87 at the end of October. 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 and, it has of course already depreciated to around 8.4 since the end of October.

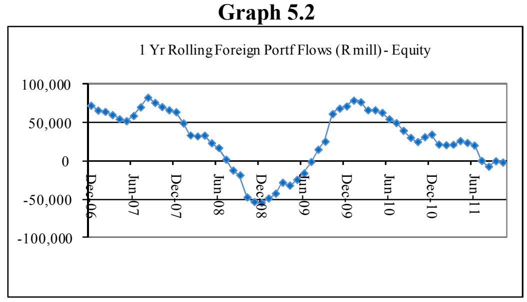
Graph 5.1



At this stage the support from foreign capital flows appears to be fading

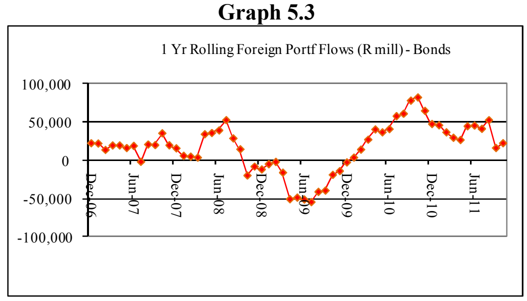
Graph 5.2 reflects a significant decline in the flow of capital into South African equities to around zero on a year-on-year basis at the end of October, the trend having been downward since peaking in January 2010 with a one year inflow of R 79.5 billion.

Graph 5.2



Graph 5.3 also reflects a declining trend of foreing portfolio flows into bonds to R 22.7 billion year-on-year at the end of October, from a peak of R 82.6 billion in October 2010.

Graph 5.3



The net flow of foreign capital into equity and fixed interest assets was R 20.6 bn for the 12 months to end October (R 16 bn to end September), compared to R 107.5 bn for the 12 months to end October 2010 (R 109 bn to end September 2010).

Graph 5.4 reflects the movement of the JSE and the DOW Jones since December 1997, the financial crisis being clearly visible.

Graph 5.5 reflects the same statistics but adjusted for US and SA inflation respectively. The JSE has accordingly grown by 5.1% per year above inflation over this period

Volume 7, No. 10, Oct 2011

Benchmark Retirement Fund

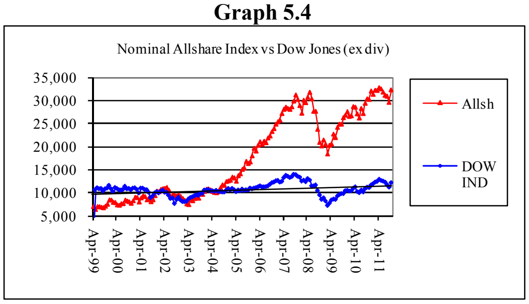
MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 OCTOBER 2011

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

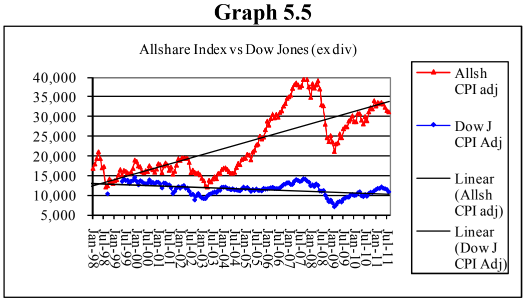
The monthly review of portfolio performance, as set out in this issue, is also available on our website at www.rfsol.com.na.

of nearly 14 years, and this excludes dividends of somewhere in the region of 2% to 4%. In contrast, the DOW Jones declined by 1.2% per year above inflation over a slightly shorter period of 12.5 years, also excluding dividends.

Graph 5.4

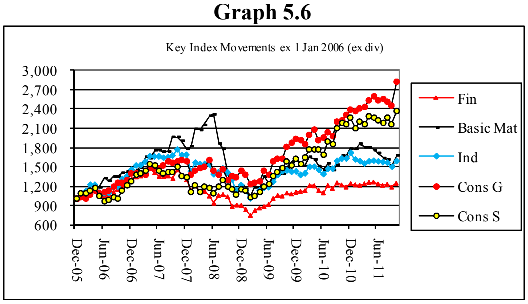


Graph 5.5



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

The tail winds that have supported a strong Rand in many respects for a long time have started to fade. We have seen a reversal in its fortunes more recently and expect this trend to continue, raising the risk of retaining one's investment capital in local markets and suggesting greater offshore diversification.

We foresee declining long-term interest rates, declining inflation and sluggish bourses and economies, particularly in the developing world for the medium term. We expect to see more productive investment, particularly in infrastructure and productive capacity in the US. This should benefit industrial and financial counters, particularly in the industrialized world.

Graph 5.6 indicates that local consumer goods and consumer services had an excellent run over this period of nearly 6 years. Consumer Goods rose by 19.2% and Consumer Services by 15.6% per year, before dividends, over this period. Basic Materials, Industrials and Financials, in contrast, produced relatively pedestrian returns of 9.1%, 8% and 4% per year, before dividends, over this period. We do not expect too much more joy out of Consumer Goods and Consumer Services 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 that have not seen the growth of the consumer sectors. Industrials should, of course, also benefit from a weaker Rand. Basic Materials should also benefit from a weaker Rand and now offer some buying opportunities. An expected further depreciation of the Rand in the medium term would favor exposure to Rand hedge shares locally and an increase in foreign holdings.

With a medium- to long-term investment horizon, equities should ensure that the value of the investment will at least keep pace with higher trending inflation in the medium to longer-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 and bonds. Property on the other hand should benefit from low long-term interest rates. Companies with a low gearing, high dividend yield and those offering a hedge against a depreciating Rand would be our preferred targets.

In view of prevailing uncertainties, we still prefer a conservative balanced portfolio with a fair spread across equities, bonds and property, but moving towards a more assertive position over the next year. A high foreign equity exposure, particularly to industrialized western countries is our call for the next few years.

7. Important notice and disclaimer