BENCHTEST

Volume 3, No. 3, March 2007

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 March 2007

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. Investment Portfolios Performance (consult table below for full name of portfolio)

In March the average prudential balanced portfolio returned 3.91% (February 1.32%). Best and worst performance **for the month** was delivered by Stanlib (4.79%) and Namibia Harvest (2.59%), respectively. **For the 3 months** ended March 2007 (graph 9), best and worst performance was delivered by Investec (11.1%) and Sanlam (7.2%), respectively, the average portfolio delivering 8.4 %. **For the 12 months** ended March 2007 (graph 11), best performance was delivered by Prudential (34.2%) and worst performance again by Stanlib (23.5%), the average portfolio delivering 28.4%. Graphs 10, 12 and 13 reflect the performances for the 6 months, 3 years and 5 years to 28 March 2007, respectively.

Cumulative long term performance of prudential balanced portfolios is reflected in graphs 14 and 15. Take note that graph 14 has March 1998 as starting point while graph 15 reflects cumulative performance starting January 2003. Over the long-term Allan Gray is miles ahead while over the shorter term it is still ahead, but only by a very small margin. Graphs 16 and 17 present the performance of these portfolios and the CPI over rolling 3 year periods since September 2001. Consider that the performance objective of these portfolios is to outperform CPI by between 3% and 5% over the long-term, we are on dangerous ground.

Graphs 18 and 19 provide a more in depth look at the monthly performance of these portfolios. Does your manager's performance make sense relative to the monthly returns of the main equity sectors in graphs 21 and 22 over the same period? Which sectors seem to impact on your manager's performance consistently? Is this consistent with its asset and sector allocation (refer to our Manager Review at 31 December 2006)?

2. Special Mandate Portfolio Performance

If you are as concerned about the local equity market as we are and you want to hedge your investment against an unexpected negative development, consider the special mandate portfolios, whose rolling 6 month returns are reflected in graph 20, relative to the average prudential balanced portfolio. Track each one's performance against the average to get a feel for the behaviour of these portfolios in relation to the typical prudential balanced fund. Take note that we added Investec Opportunity Fund. Take note that these portfolios reflect in grey.

3. Asset Class Performance

Graphs 1 and 2 reflect the performance of the main asset classes for the 3 months and the 12 months ended March 2007. For the 3 months, Property UT* (15.8%) again outperformed all other asset classes, coming in second best over 12 months at a modest 11.9%. The Allshare* index was the next best performing asset class over 3 months (10.4%) but far out performed all others over 12 months (37.6%). Worst performing asset classes over the past 3 months were Cash* (2.1%) and Bonds* (3.7%). Over 12 months bonds and cash also produced the lowest return of 11.7% and 8.4%, respectively. For the purpose of doing more in depth analyses, graphs 23 and 24 reflect the performance build up of various indices from 1 January 2006 to date. Take note of the movement since the start of this year.

4. Investment Style and Market Capitalization

Graphs 3 and 4 show that 'Value'* and 'Growth'* companies performed quite similarly for the 3 months (10.8 % versus 10%). Over the 12 months 'Growth'* companies handsomely beat 'Value'* (39.3% versus 33.9%). Again, this is not mirrored at all in the 12 month performance figures of the portfolios, where Allan Gray, Prudential and Sanlam have a value bias! Looking at market capitalization, 'large caps' (Top 40* - 9.7%) significantly under performed 'Mid*' (13.9%) - and 'Small Caps*' (17.4%) over 3 months, while the difference over 12 months is much smaller.

The following abbreviations are used in the graphs below (note that some abbreviations were truncated in the conversion process; rather focus on colours):

Benchmarks	
Namibian Cons Price Index	CPI Cum
JSE Allshare Index	JSE Cum
Average Portfolio (prudential, balanced)	Aver
Special Mandate Portfolios	
Sanlam Cash	BM Cash (no colour)
Investec High Income (IBA)	Inv High (no colour)
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)
Investec Opportunity Fund	Inv Opp (grey)

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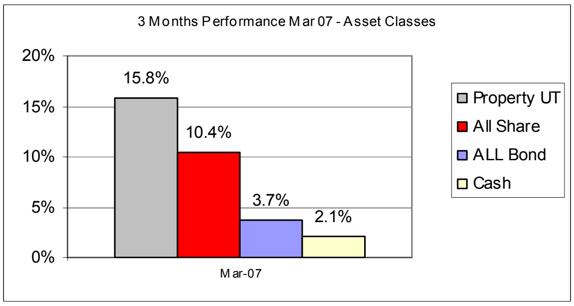
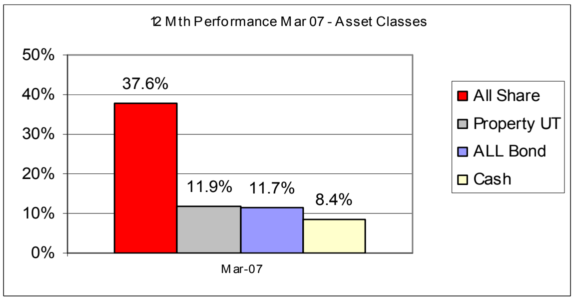
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Namibia Harvest Platinum Balanced	NAM (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
RMB Managed	RMB (blue)
Sanlam Managed	Sanl (blue)
Stanlib Managed	Stan (blue)

*Index performances, by courtesy of Deutsche Securities, an associate of IJG and IJG (bonds and cash), include dividends.

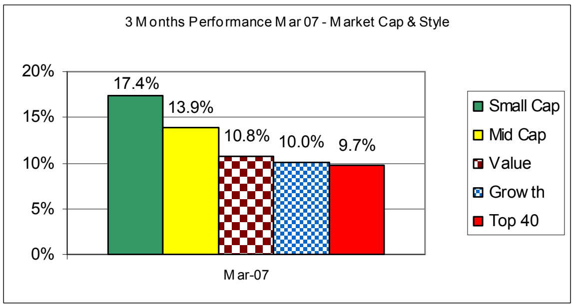
Graph 1



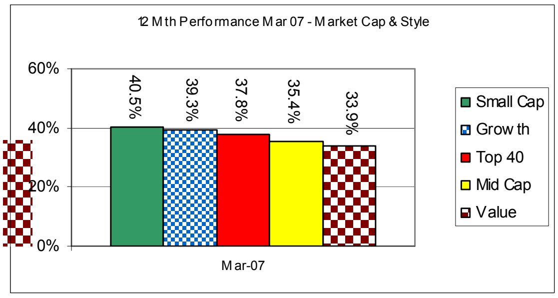
Graph 2



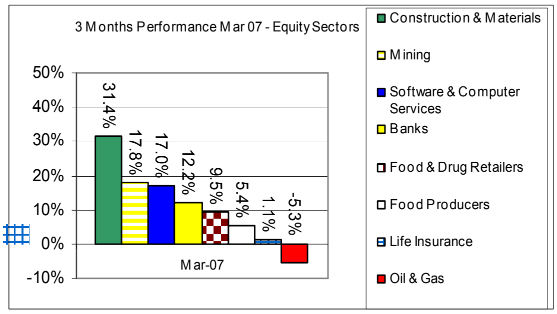
Graph 3



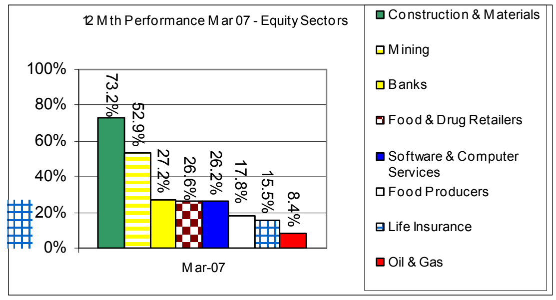
Graph 4



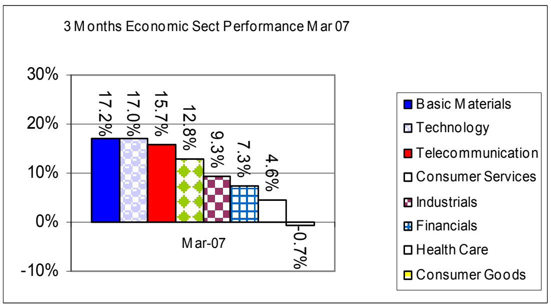
Graph 5



Graph 6



Graph 7



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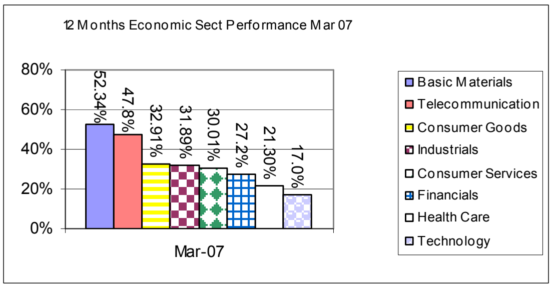
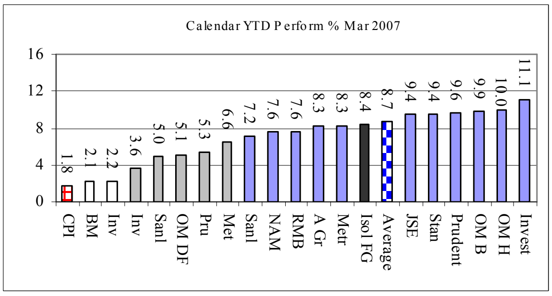
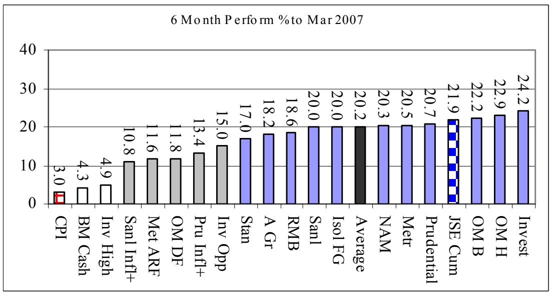
Graph 8



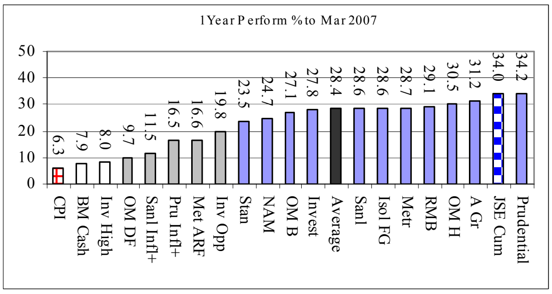
Graph 9



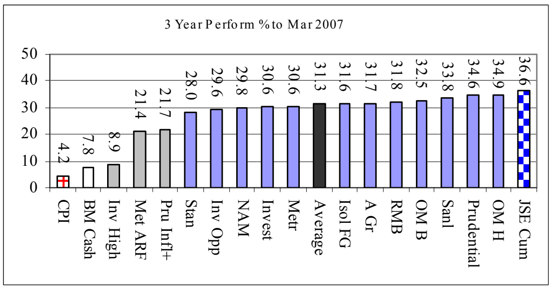
Graph 10



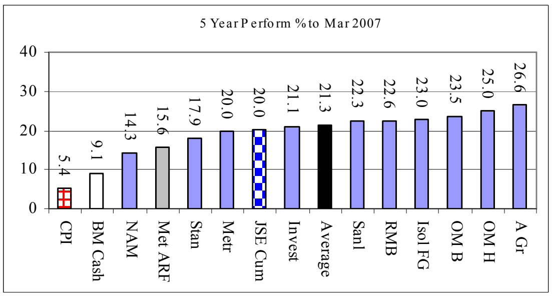
Graph 11



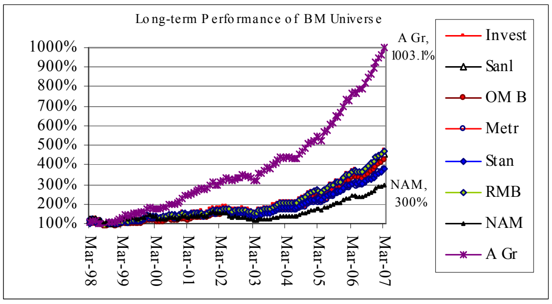
Graph 12



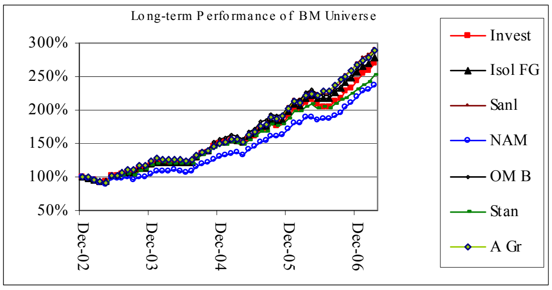
Graph 13



Graph 14



Graph 15



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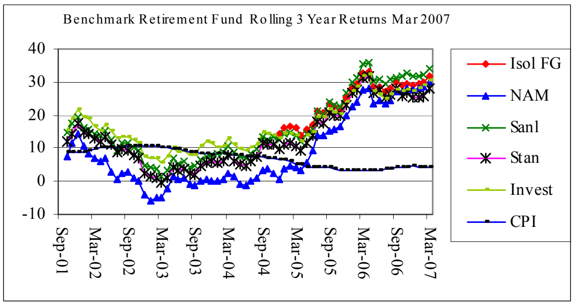
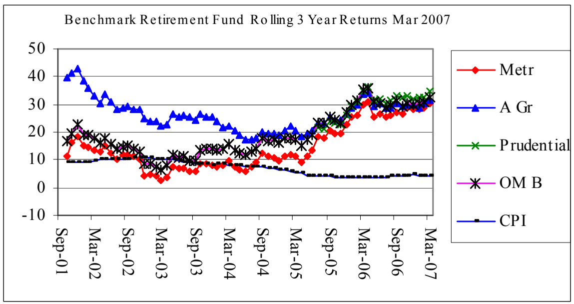
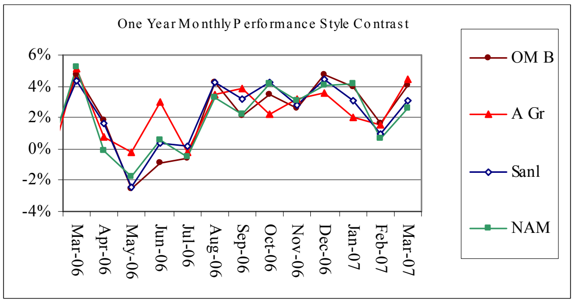
Graph 16



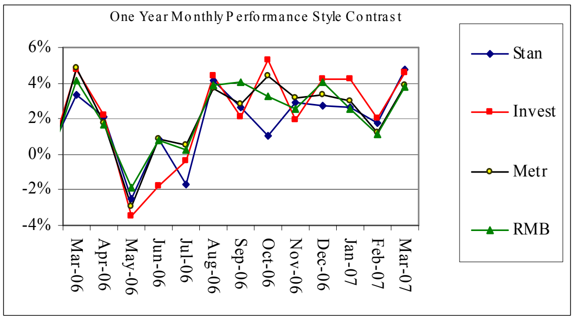
Graph 17



Graph 18



Graph 19



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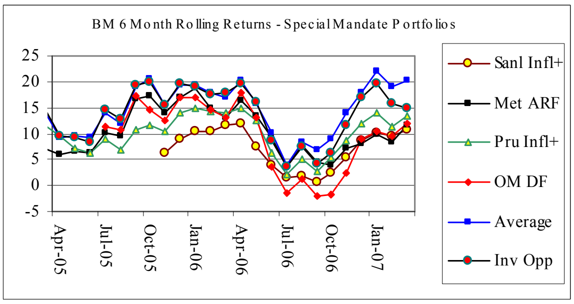
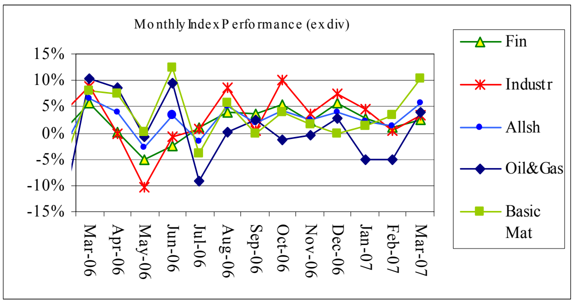
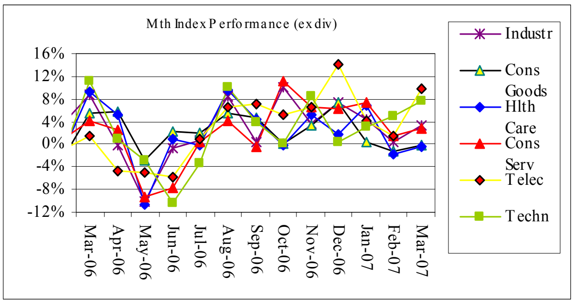


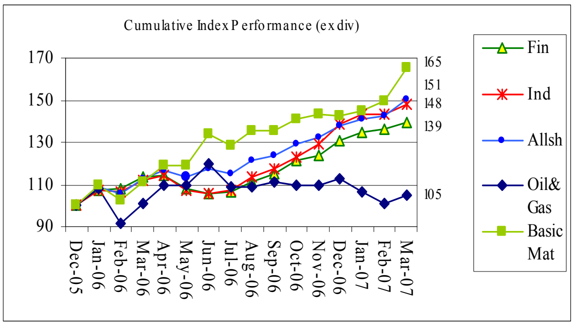
Graph 21



Graph 22



Graph 23



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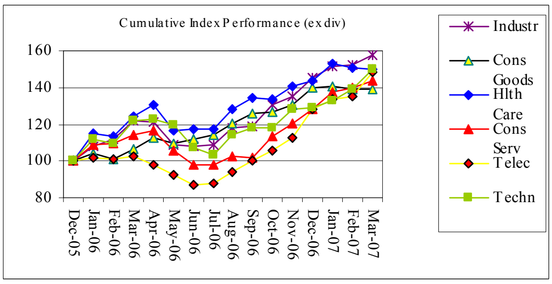
Graph 24



5. Preview for the next 6 months

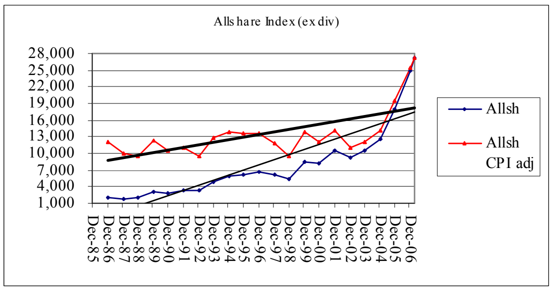
Factors presenting negative potential for global financial markets for one, are the geo-political tensions that have not improved since our previous newsletter. Then there is currently a lot of talk about the 'sub-prime mortgage market' in the US and the negative potential this holds in for the US market. China is seemingly making efforts to cool off its economy, having raised its interest rates recently.

Potentially supportive factors are the high and once again, rising, oil prices that continue to cause a glut of money flowing to oil producing countries who in turn have to find suitable investment avenues for these windfall profits, extremely low interest rates in Japan and the decision by China to diversify the investment of its huge foreign reserves. The question arising here, how will this pan out, or, how will an equilibrium come about once again?

Closer to home consumer demand is showing some tapering off although still unexpectedly buoyant despite interest rate hikes in the second half of last year. The current account deficit widened to R 35 bn in quarter 4 from R 29 bn in quarter 3, last standing at 7.8% of GDP. This is only sustainable without weakening our currency, if commodity prices and/or capital inflows remain on a high level.

Our local market (FTSE/JSE) does not seem to loose any steam, having increased by another 1,000 points over one month to close to 28,000. We believe that much of this is on the back of what happened on foreign bourses, the question being for how much longer this 'swing by' effect will continue. It definitely is cause for concern to us by any measure. Graph 25 below illustrates our concern. It depicts the FTSE/JSE Allshare Index since 1986 in nominal terms (black line) and in real terms, i.e. adjusted for the change in CPI over the same period (red line). Of course, investment managers by and large will always try to talk up markets because they would otherwise deliver a self-fulfilling prophecy.

Graph 25



Assuming that the Allshare Index is representative of the SA economy and assuming the SA economy managed to grow at a real 3% per annum over the past 20 years, the index should now stand at around 21,700 or around 80% of its current level of 27,800.

6. Conclusion

We cannot help but conclude that our local markets are just waiting for an excuse to down rate and there certainly is enough potential for this to happen. Under these circumstances hedging against this threat and moving into high income yielding investments remains our preferred strategy. The Rand/Namibia Dollar similarly faces more potentially bad than good news on various fronts and we would consequently also maximise our offshore exposure to diversify risk. After all these good years, does it harm to take a breather and to settle for cash or slightly higher returns?

7. Important notice and disclaimer