BENCHTEST

Volume 3, No. 5, May 2007

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 May 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 May the average prudential balanced portfolio returned 0.14% (April 3.68%). Best and worst performance **for the month** was delivered by Investec (1.17%) and Sanlam (- 1.24%), respectively. Both managers held 63% in equity. Investec's performance can be reconstructed quite accurately as point of departure. Comparing these two managers Sanlam lost 0.6% on 'basic materials' with an exposure of 12% (Investec held 27%) and a sector return of 6.6%. Sanlam lost another 0.4% on 'telecoms' with an exposure of 15% (Investec held 3%) and a sector return of - 4.8%. It lost another 0.2% on 'financials' with an exposure of 39% (Investec held 30%) and a sector return of - 3.9%. This explains an under performance of 1.2%, leaving further under performance of 1.2% that cannot be explained readily and would require further investigation.

For the 3 months ended May 2007 (**graph 9**), best and worst performance was delivered by Investec (9.4%) and NAM (5.9%), respectively, the average portfolio delivering 7.7% (April 9.2 %). **For the 12 months** ended May 2007 (**graph 12**), best performance was delivered by Prudential (35.8%) and worst performance again by Stanlib (27.9%), the average portfolio delivering 33.6% (April 30.9%). **Graphs 10, 11, 13** and **14** reflect the performances for the **year-to-date, 6 months, 3 years and 5 years** to 31 May 2007, respectively.

Cumulative long term performance of prudential balanced portfolios is reflected in **graphs 15 and 16**. Take note that graph 15 has March 1998 as starting point while graph 16 reflects cumulative performance starting January 2003.

Graphs 19 and 20 provide a more in depth look at the **monthly performance of these portfolios** over the past 12 months. Does your manager's performance make sense relative to the monthly **returns of the main equity sectors** in **graphs 22 and 23** 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 March 2007 on our website)?

2. Special Mandate Portfolio Performance

For the more cautious and conservative investor, consider the special mandate portfolios, whose **rolling 6 month returns** are reflected in **graph 21**, relative to the average prudential balanced portfolio. Take note that these portfolios reflect in grey in the performance graphs. Benchmark investors should take note that as from July, the fund's default portfolio will comprise of Metropolitan Absolute Return and Prudential Inflation Plus funds in approximately equal shares. This should reduce performance volatility and risk even further.

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 May 2007. The Allshare* index outperformed all other asset classes (12% and 42.9%, respectively). The Property UT* was the next best performing asset class (5.1% and 21.2%), respectively. Worst performing asset classes over the past 3 and 12 months were Bonds* (3.2% and 11.2%, respectively) and lastly Cash* (2.1% and 8.6% respectively). For the purpose of doing more in depth analyses, **graphs 24 and 25** 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 returned 9.6 % respectively 14.4% over 3 months, and 41.4% respectively 43.2% over 12 months. Looking at **market capitalization**, 'small caps' produced 19.3% and 63.3% over 3 and 12 months, compared to 'Mid Caps*' (11% and 50.9%) and 'Top 40's*' (11.9% and 41.2%). The following abbreviations are used in the graphs below:

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)

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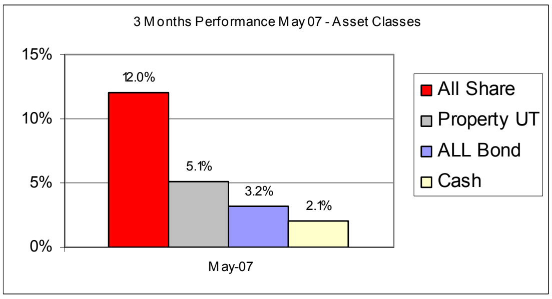
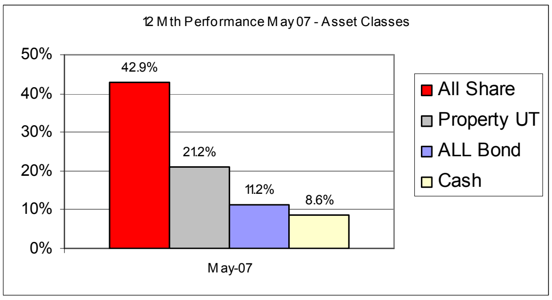
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Namibia Harvest Platinum Balanced	NAM (blue)
Old Mutual Profile Balanced	OM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

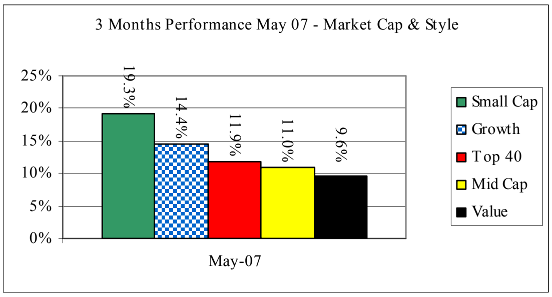
Graph 1



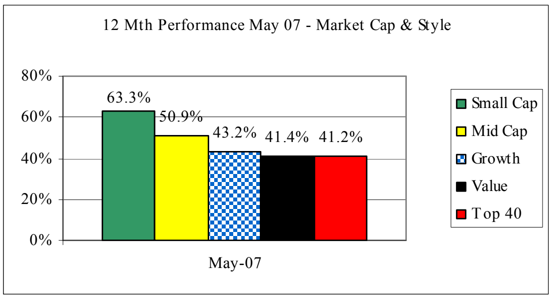
Graph 2



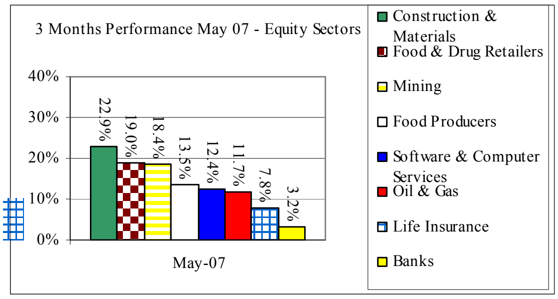
Graph 3



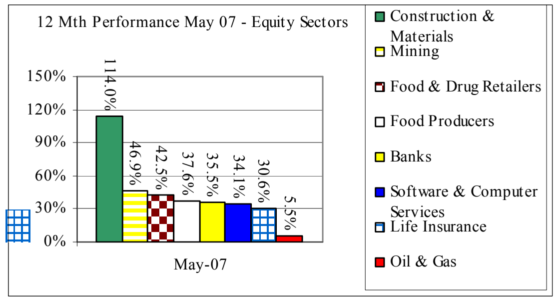
Graph 4



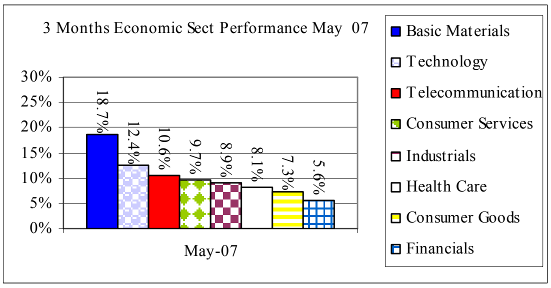
Graph 5



Graph 6



Graph 7



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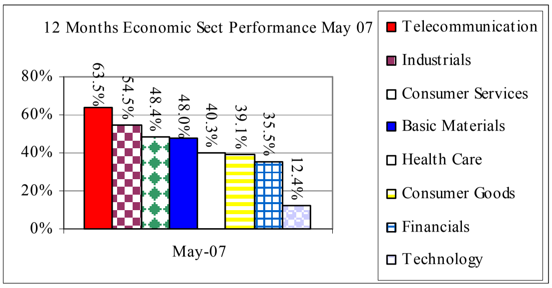
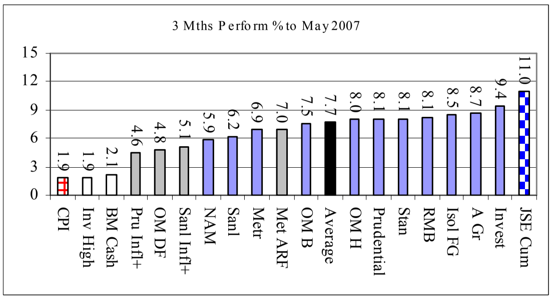
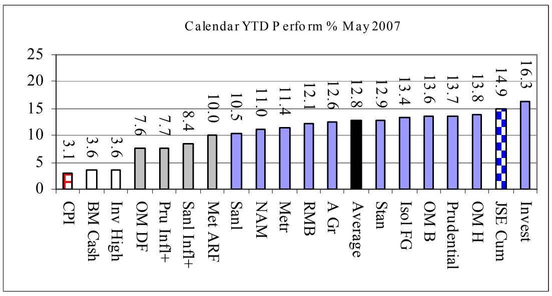
Graph 8



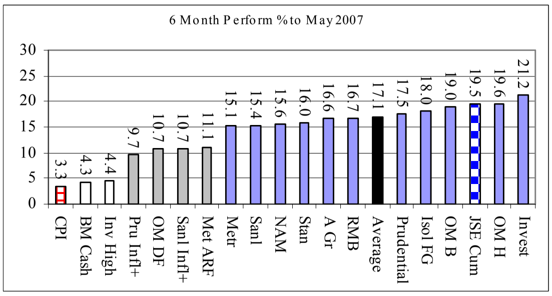
Graph 9



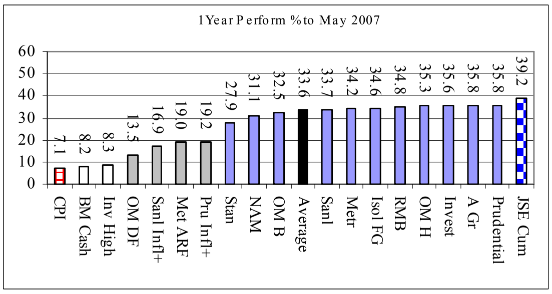
Graph 10



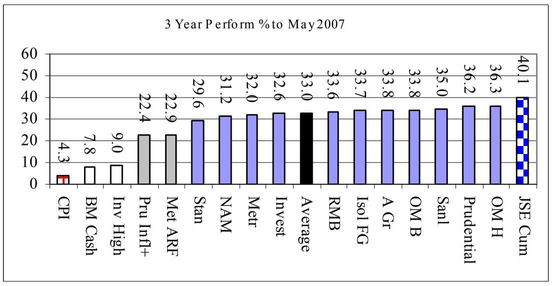
Graph 11



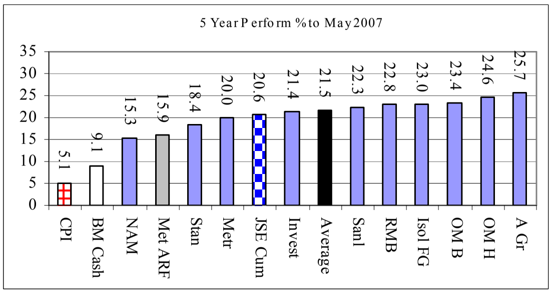
Graph 12



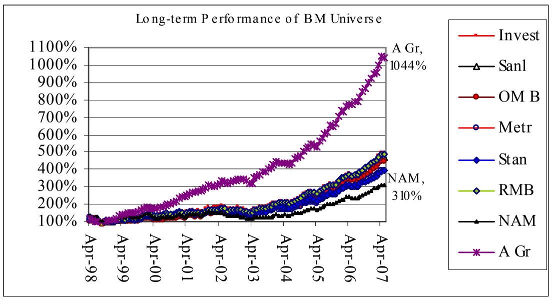
Graph 13



Graph 14



Graph 15



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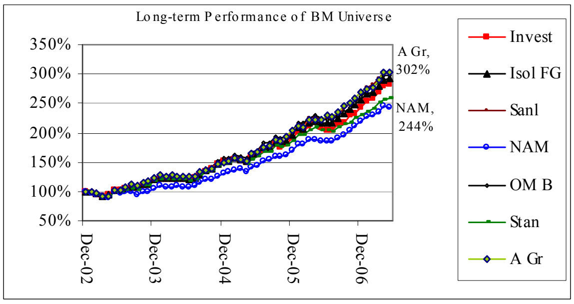
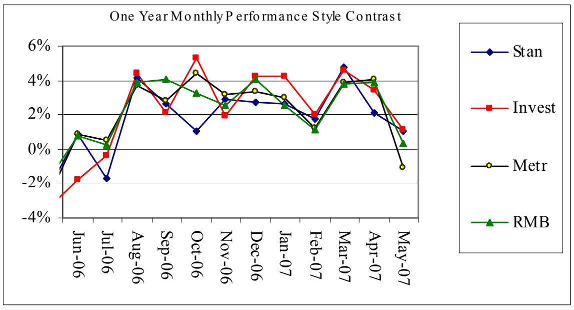
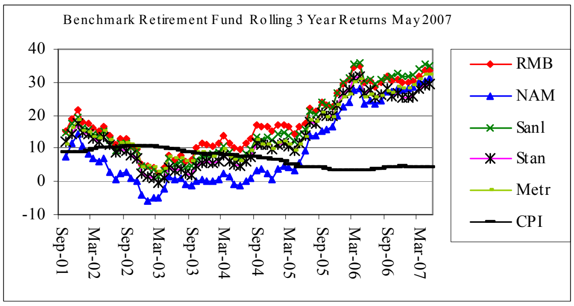
Graph 16



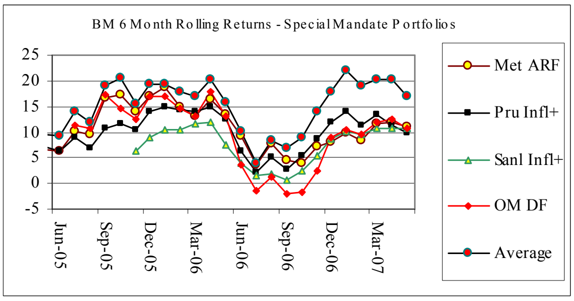
Graph 20



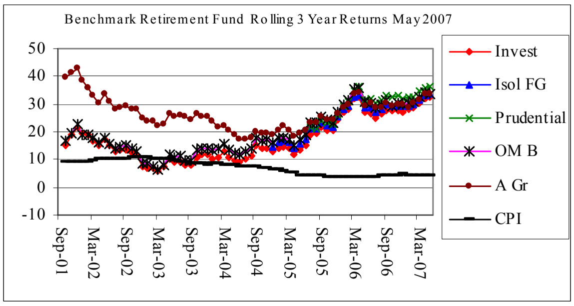
Graph 17



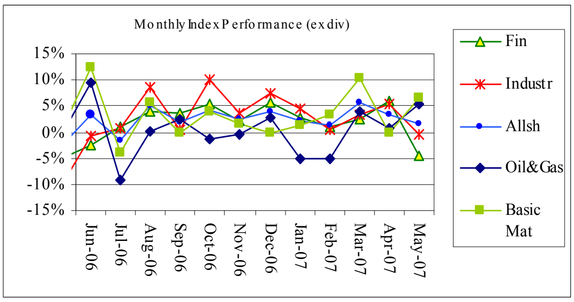
Graph 21



Graph 18



Graph 22



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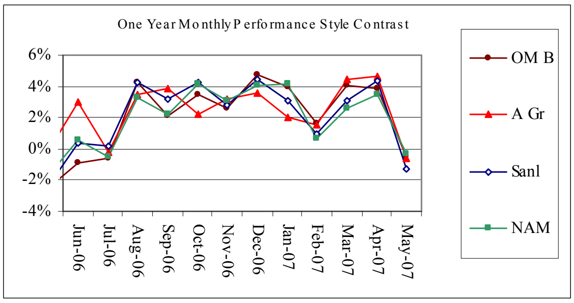
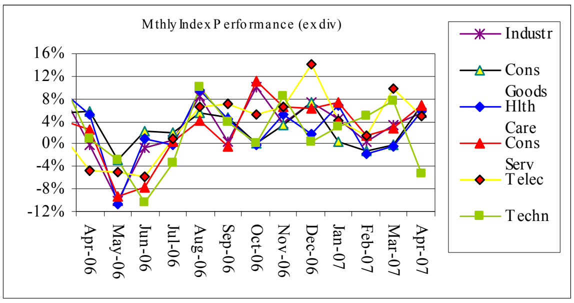


Graph 23



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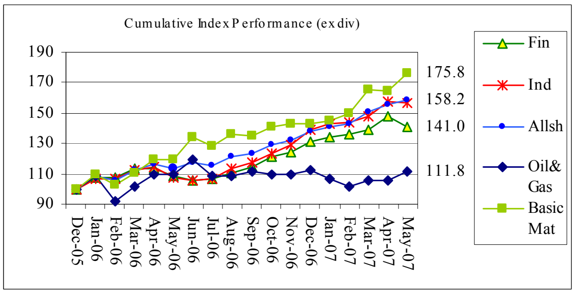
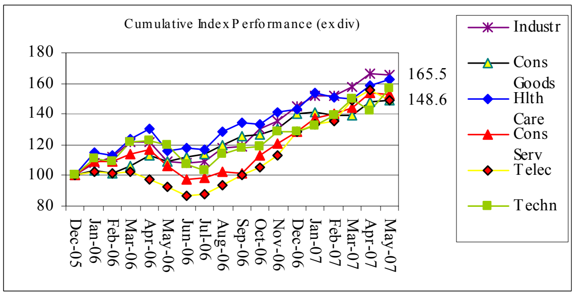
Graph 24



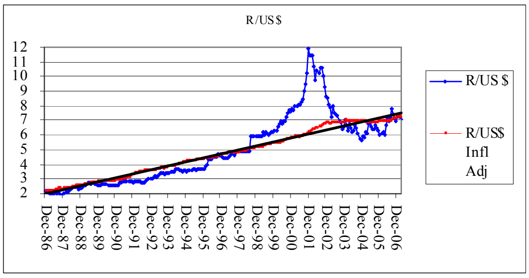
Graph 25



5. Preview for the next 6 months

A key factor for continued bullish sentiment towards local equities appears to be significant foreign interest and a steady built up of foreigners holdings in local equities over the past 5 years although more recently this interest appears to be receding somewhat. This could make the Rand./Namibia Dollar more volatile and more sensitive, although graph 26 indicates, that the Rand, adjusted for the differential in US and SA CPI, is currently fairly valued against the US$.

Graph 26

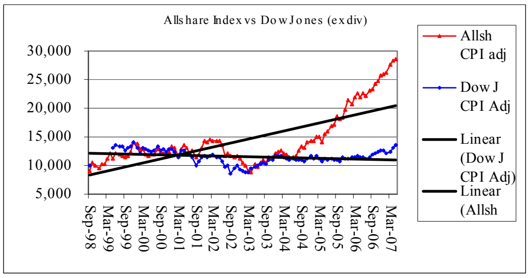


Despite high earnings over the past few years that are unlikely to be sustainable, the bull run of our local markets produced exceptional returns over the past 3 years and a historically high price: earnings ratio of currently around 17. Analysts make us believe though that another year of earnings, expected to be around 40% should reduce this ratio down to just over 12, very much in line with the MSCI emerging market index. Will the foreign interest persist and continue to underpin our local markets and can our economy produce earnings growth of 40%? We are skeptical and concerned about the levels these have reached over a very short period.

2007 year-to-date foreigners were net buyers of local equities to the tune of R/N$ 34 bn, substantially lower than the R/N$ 54 bn for the same period in 2006. Statistics indicate that global emerging market fund weightings in SA are currently around 8%, still slightly below a neutral weighting of 8.5%. Higher local real interest rates, steady inflation, the steady Rand/Namibia Dollar and strong commodity prices have probably made their contribution towards foreigners' positive sentiment. Interestingly, the latest increase in the Repo rate this month seems to have had the opposite effect on our currency to what one would have expected and what we have seen in the past. Instead of strengthening, the Rand/Nam Dollar actually weekend.

Graph 27 below gives an interesting view of the DOW Jones and the SA Allshare indices, both CPI adjusted since 1998 and does give one reason to be concerned about the current level of our local markets.

Graph 27



6. Conclusion

To allow local earnings to catch up with current price levels in order to produce a more internationally competitive price: earnings ratio of around 12, our local markets should take a breather for the next 12 months but still present potential for down rating. Under these circumstances hedging against possible political shocks or unexpected down rating we prefer a higher level of protection and thus high income yielding investments. 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.

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.