BENCHTEST

Volume 3, No. 6, Jun 2007

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 June 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 June the average prudential balanced portfolio returned minus 1.42% (May 0.14%). Best and worst performance **for the month** was delivered by Allan Gray (- 0.64%) and Investment Solutions (-1.99%), respectively. Based on Allan Gray's portfolio composition at end of March, it should have under performed the average portfolio by 0.2% as the result of its 'Financials' allocation exceeding that of the average fund by 5%. This sector had a very poor month delivering a return of minus 4%. Investment Solutions does not provide any details and its performance cannot be analysed as the result. However, going by its own proclamations, this portfolio should perform around the average manager. Both managers' performance is thus inexplicable in relation to the average manager and warrants enquiry and more detailed investigation.

For the 3 months ended June 2007 (**graph 9**), best and worst performance was delivered by Investec (3.8%) and Metropolitan (1.1%), respectively, the average portfolio delivering 2.2% (May 7.7 %). **For the 12 months** ended June 2007 (**graph 12**), best performance was delivered by RMB (32.7%) and worst performance again by Stanlib (24.4%), the average portfolio delivering 31% (May 33.6%). **Graphs 10, 11, 13** and **14** reflect the performances for the **year-to-date, 6 months, 3 years and 5 years** to 30 June 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. The difference in volatility is quite apparent. 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 June 2007. The Allshare* index outperformed all other asset classes over 3 months at 12%, followed by Cash* on 2.1%, All Bond* on 1% and Property UT* on minus 1.6%. Property UT* won the race over 12 months (41.6%), followed by All Share* on 36.9%, All Bond* on 12.5% and Cash* on 8.7%. 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 '**Growth**'* and '**Value**'* companies returned 8 % and 0.6%, respectively, over 3 months, and 37.5%, respectively 35.6%, over 12 months. Looking at **market capitalization**, 'Small Caps'* produced 11% and 71.3% over 3 and 12 months, compared to 'Mid Caps*' (2.9% and 54%) and 'Top 40's*' (4.3% and 34.1%). 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)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)

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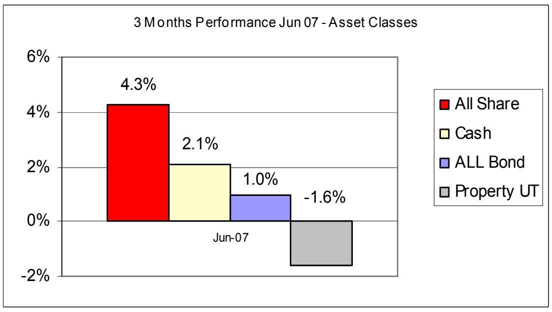
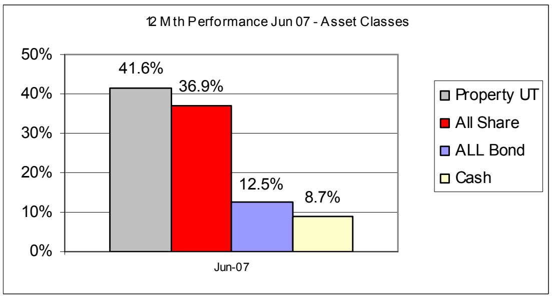
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Namibia Harvest Platinum Balanced	NAM (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
RMB Managed	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.

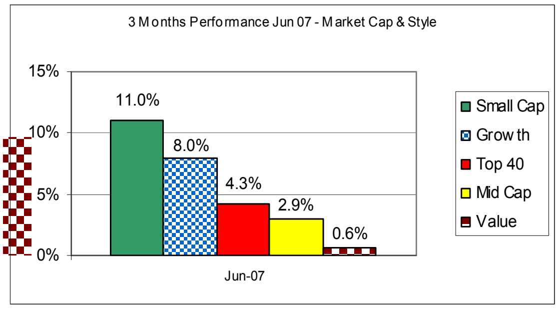
Graph 1



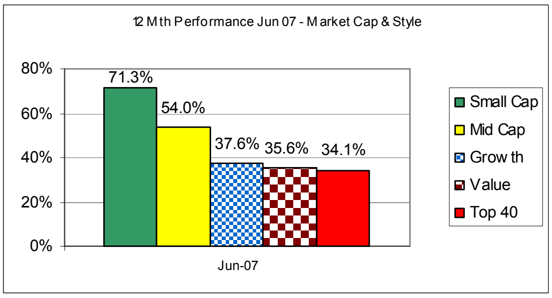
Graph 2



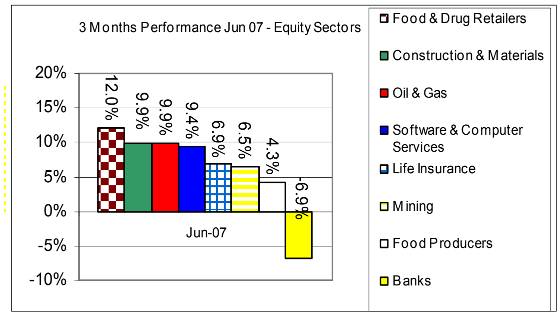
Graph 3



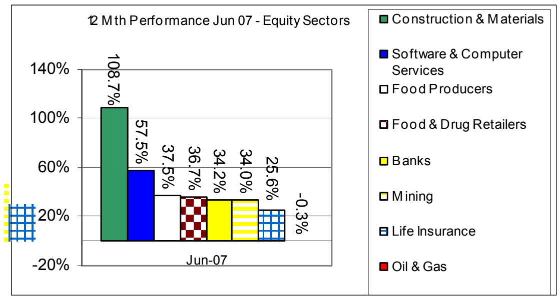
Graph 4



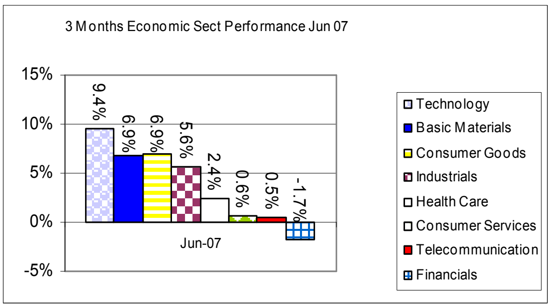
Graph 5



Graph 6



Graph 7



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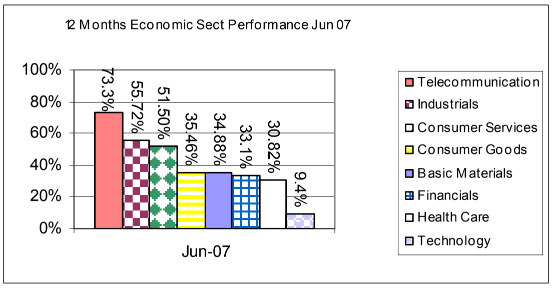
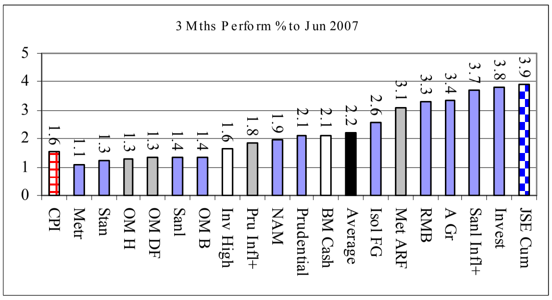
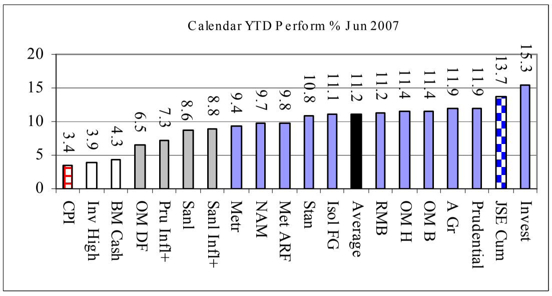
Graph 8



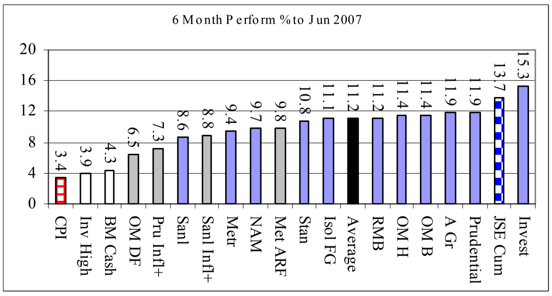
Graph 9



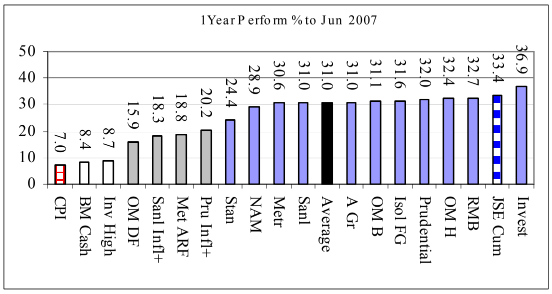
Graph 10



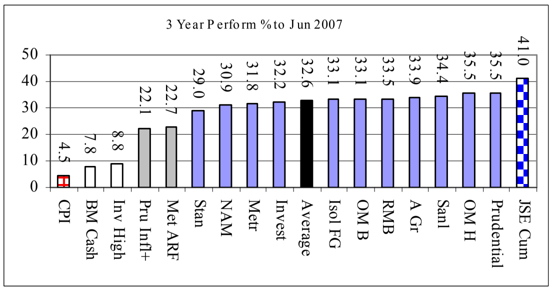
Graph 11



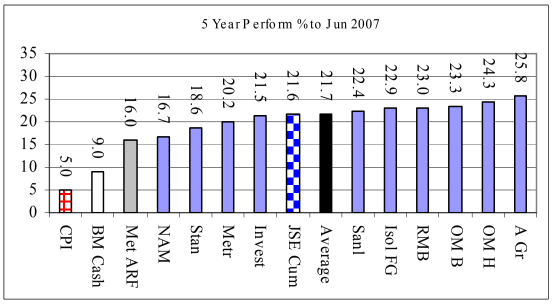
Graph 12



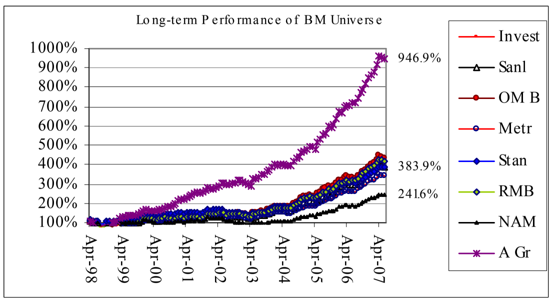
Graph 13



Graph 14



Graph 15



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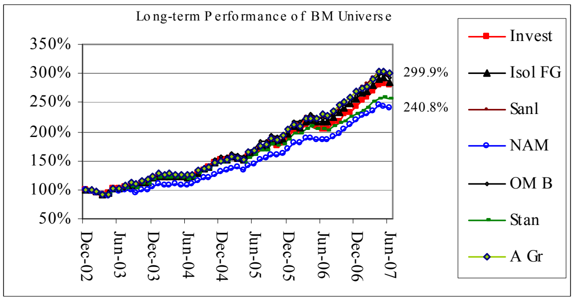
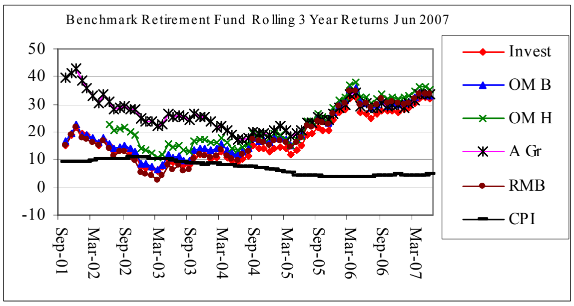
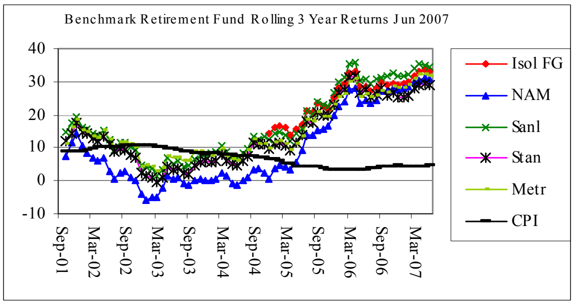
Graph 16



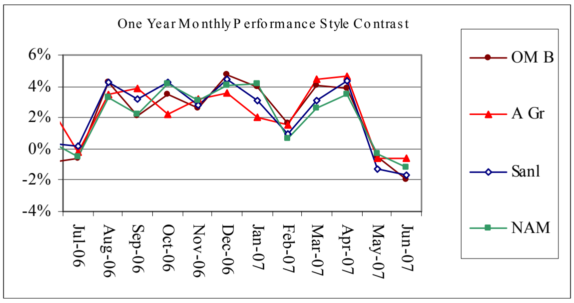
Graph 17



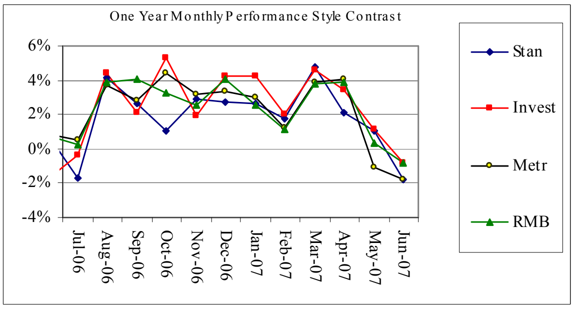
Graph 18



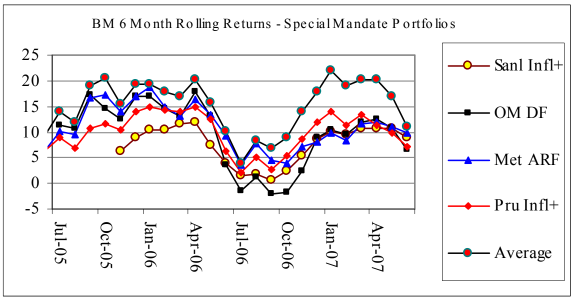
Graph 19



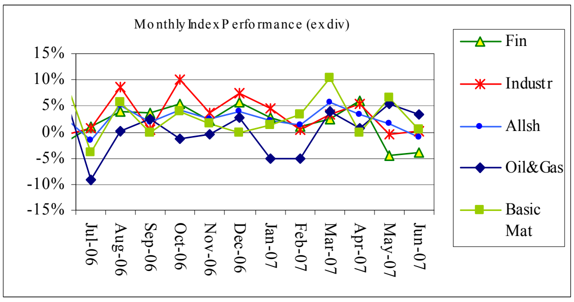
Graph 20



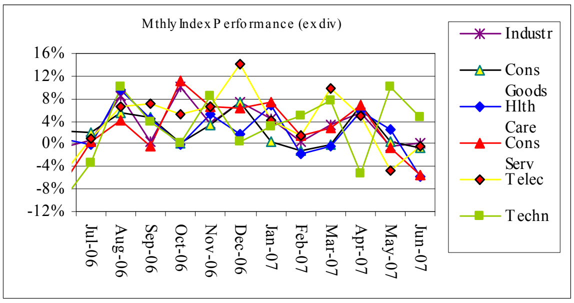
Graph 21



Graph 22



Graph 23



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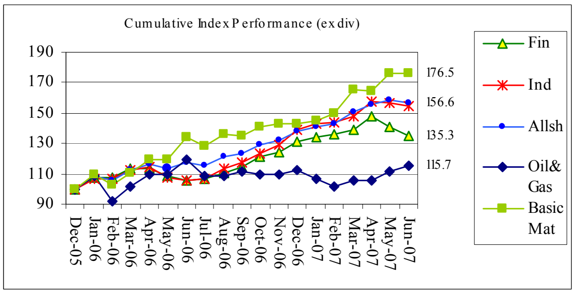
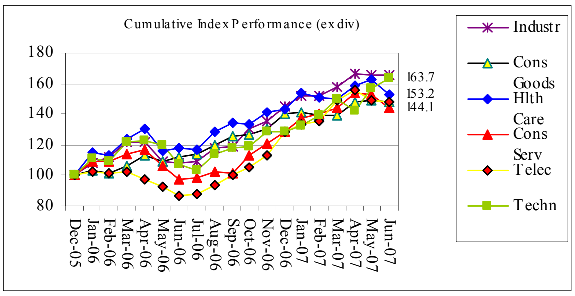
Graph 24



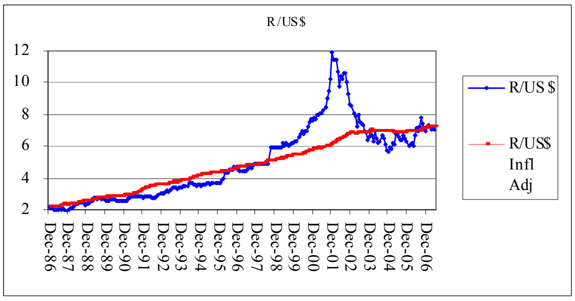
Graph 25



5. A Controversial 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$, if slightly overvalued.

Graph 26



The question one may well ask is, what drives this bullish sentiment of foreign buyers of local equities, particularly after the bull run over the past 3 years has driven up the price: earnings ratio to around 18? Analysts make us believe though that the one year forward p:e is really what is important and they expect this to decline to around 12, then very much in line with the MSCI emerging markets index. This implies that earnings for the next 12 months need to grow by around 40% while prices should move sideways, a tall order in our view. Clearly, there is something behind this 'madness' that cannot be explained through conventional wisdom. Perhaps our old theme on the crude windfall needs to be raised again, the only truly change of global significance that can explain the otherwise inexplicable? Consider global crude consumption of 80 mill barrels per day at a production cost of below US$ per barrel. This should produce an annual windfall of around US$ 2 trillion. With a global market capitalization of around US$ 40 trillion, surely this can move global markets? Are we seeing these huge capital flows seeking global equilibrium? If this is the case, one can expect our local equity markets to continue steaming ahead. The SA economy being a commodity based economy is then likely to benefit more than many others. This also means that the Rand/Namibia Dollar should, to use a popular phrase, be stronger for longer.

However, if this is not what is behind the current 'madness', then our local markets definitely are in dangerous territory and the Rand/Namibia Dollar is under threat to depreciate as foreign portfolio flows recede.

6. Conclusion

In our view, current market conditions are at the crossroads. If our theme on the crude trillions has any relevance, one should be invested fully in local equities. This is the theme for the less risk averse investor. If is does not have relevance one should hedge against the downside in the local markets and a weakening of the Rand/Namibia Dollar with a concomitant negative impact on the consumer, our economy and interest rates, through maximum offshore exposure. This scenario is for the more risk averse investor. So where do you stand? You should look at your overall position to determine you investment objectives and to conclude on your investment strategy. For the prudent investor with a long-term horizon, rather not be caught on the wrong foot. The prudential balanced portfolio typically employed by pension funds can only provide a slight tilt to one scenario or the other. Does your manager understand which scenario he is betting on?

7. Important notice and disclaimer

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