Volume 3, No. 7, Jul 2007

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 July 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 July the average prudential balanced portfolio returned 0.69% (June minus 1.42%). Best and worst performance **for the month** was delivered by Investec (2.83%) and Sanlam (minus 0.18%), respectively. Based on these two managers' portfolio composition at end of June, they should have had very similar returns and very close to the average portfolio, yet Investec out performed the average by 2.1% while Sanlam under performed the average by 0.9%. Both managers' performance is thus inexplicable in relation to the average manager and each other and warrants detailed investigation in the form of an attribution analysis. Our guess is that Investec correctly punted 'Mid-*' and 'Small Caps*'.

For the 3 months ended July 2007 (**graph 9**), best and worst performance was also delivered by Investec (3.2%) and Sanlam (minus 3.1%), respectively, the average portfolio delivering minus 0.7% (June 2.2 %). **For the 12 months** ended July 2007 (**graph 12**), best performance was delivered by Investec (41.3%) and worst performance by Stanlib (26.9%), the average portfolio delivering 32.3% (May 31%). **Graphs 10, 11, 13** and **14** reflect the performances for the **year-to-date, 6 months, 3 years and 5 years** to 31 July 2007, respectively.

Cumulative long-term performance of prudential balanced portfolios is reflected in **graphs 15 and 16**. Take note that graph 15, that reflects a massive out performance by Allan Gray, has March 1998 as starting point while graph 16 reflects cumulative performance starting January 2003. Here too Allan Gray comes out on top albeit with a very narrow margin.

Graphs 19 and 20 provide a more in depth look at the **monthly performance of these portfolios** over the past 12 months. Interestingly, portfolios in graph 19 perform much more in tandem than those in graph 20, and this has been the case for quite some time now. Check your manager's performance relative to the others and to the monthly **returns of the main equity sectors** in **graphs 22 and 23** over the same period. Is this consistent with its asset and sector allocation (refer to our Manager Review at 30 June 2007 on our website)?

2. Special Mandate Portfolio Performance

Over the past 3 months markets have been extremely volatile and for once the special mandate portfolios clearly show their advantages and why the cautious and conservative investor should consider these portfolios. **Rolling 6 month returns** of these portfolios are reflected in **graph 21**, relative to the average prudential managed portfolio. Benchmark investors should take note that as from July, the fund's default portfolio comprises 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 July 2007. Cash* outperformed all other asset classes over 3 months at 2.2%, followed by he Allshare* index on 1.7%, All Bond* on minus 1.5% and Property UT* on minus 11.3%. Property UT* won the race over 12 months (41.4%), followed by All Share* on 40.2%, All Bond* on 10.7% and Cash* on 8.8%. 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 7.1% and minus 3.6%, respectively, over 3 months, and 43%, respectively 36.7%, over 12 months. Looking at **market capitalization**, 'Small Caps'* produced minus 0.1% and 65.3% over 3 and 12 months, compared to 'Mid Caps*' (minus 4.8% and 50.1%) and 'Top 40's*' (2.7% and 38.4%). 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)

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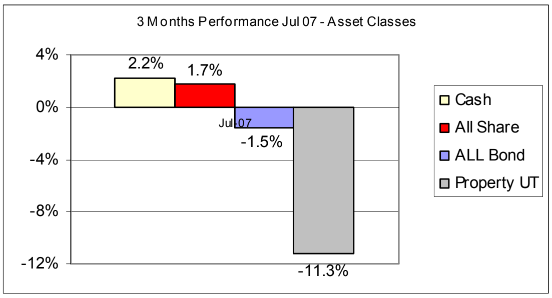
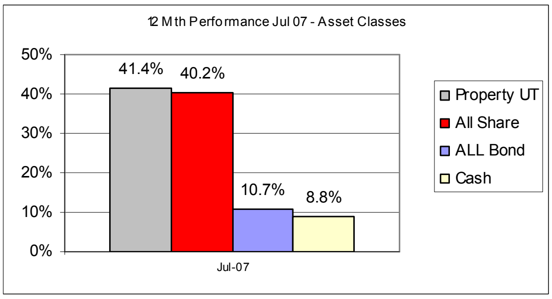
Sanlam Inflation Plus	Sanl Infl+ (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Namibia Harvest Platinum Balanced	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.

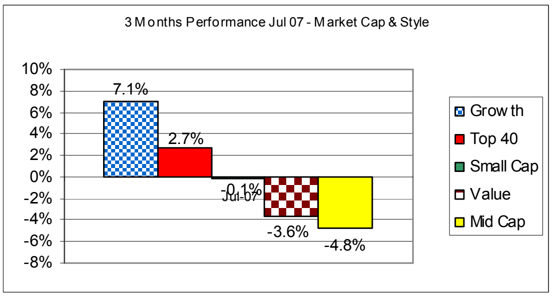
Graph 1



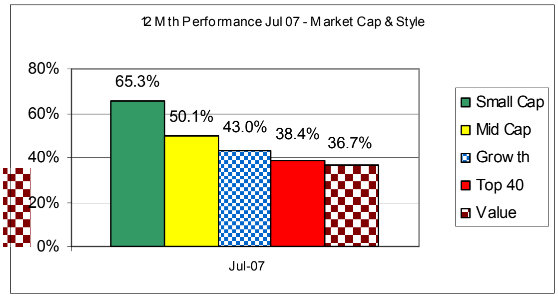
Graph 2



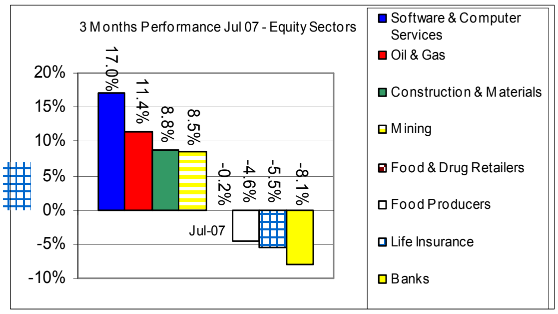
Graph 3



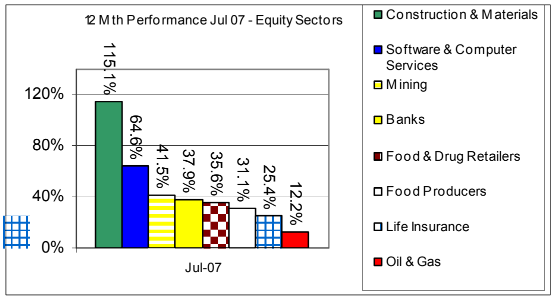
Graph 4



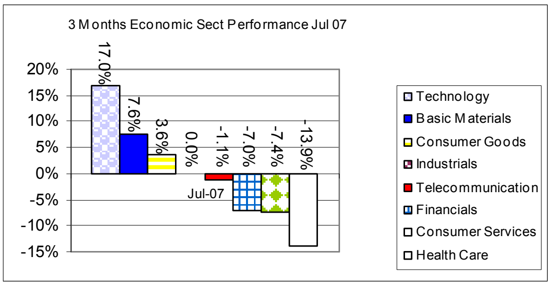
Graph 5



Graph 6



Graph 7



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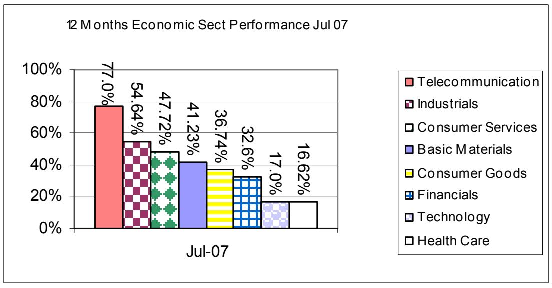
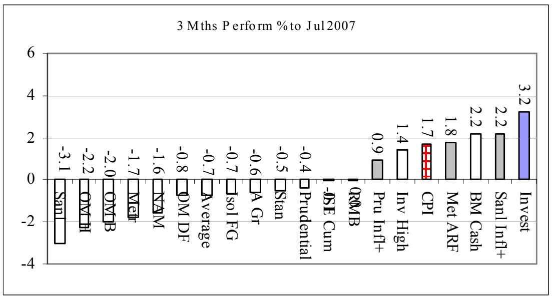
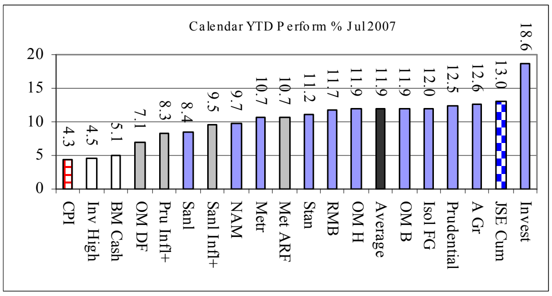
Graph 8



Graph 9



Graph 10



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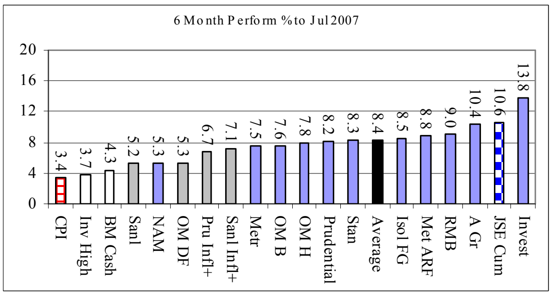
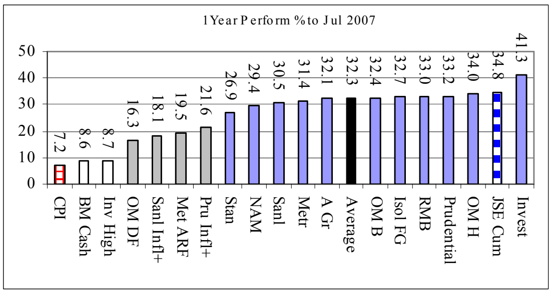


Graph 12



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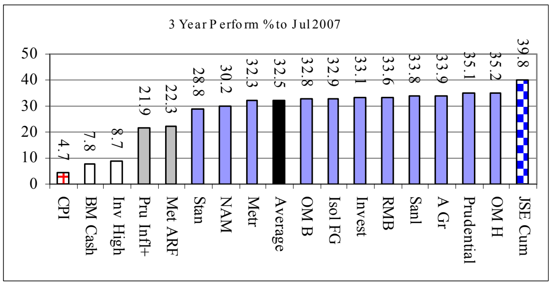

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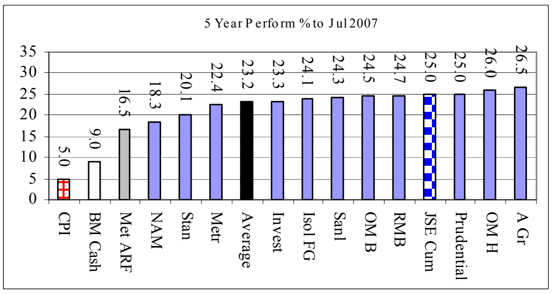
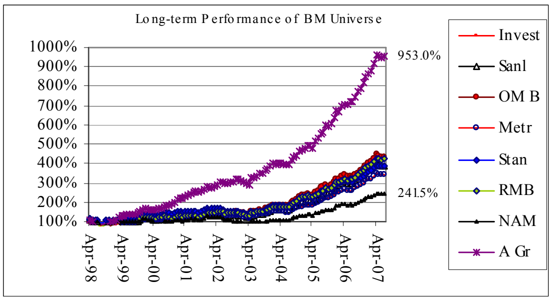


Graph 15



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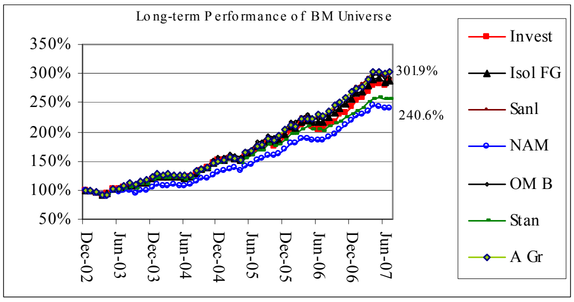
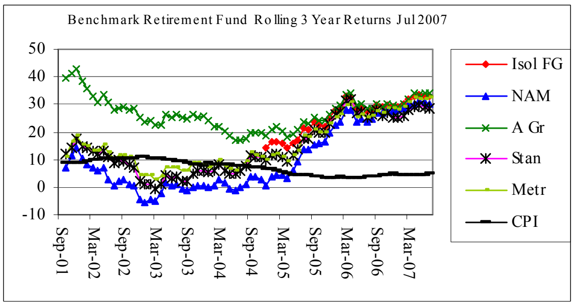
Graph 16



Graph 17



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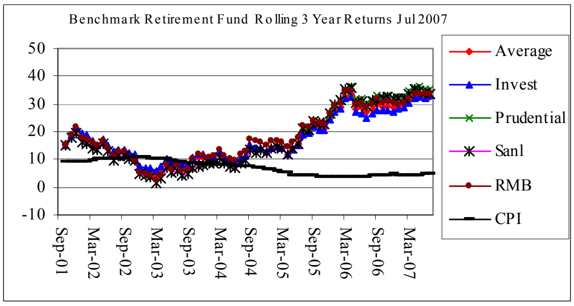
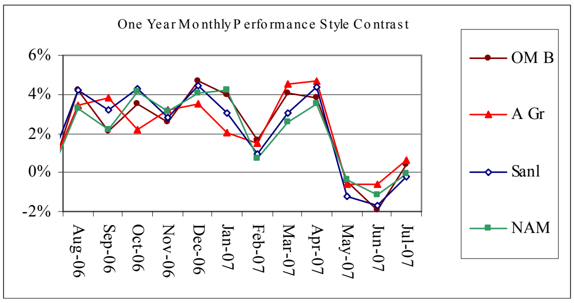
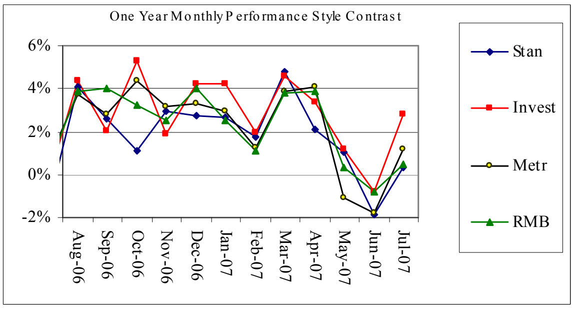


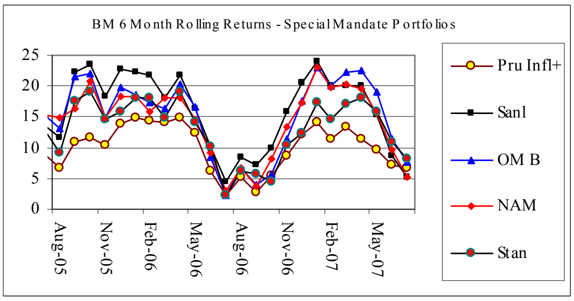
Graph 19



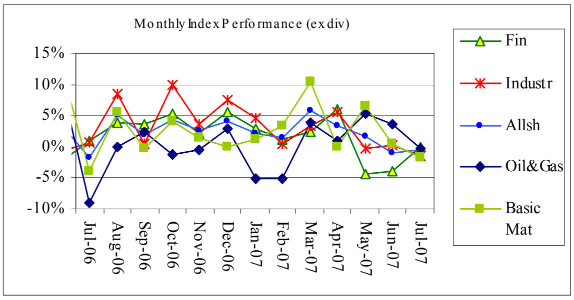
Graph 20



Graph 21



Graph 22



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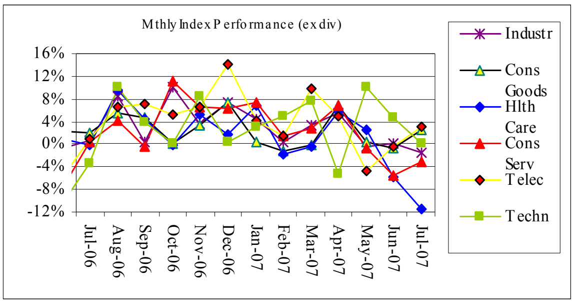

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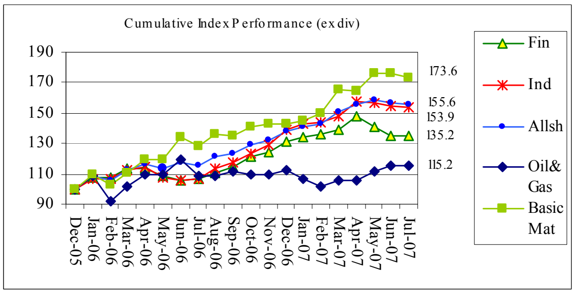
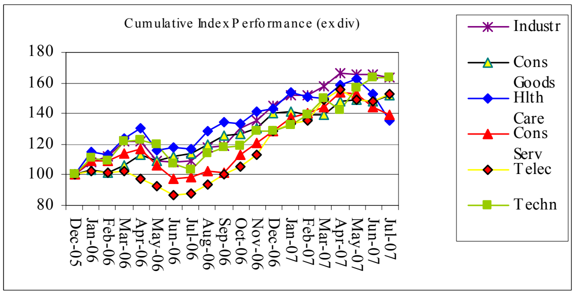
Graph 24



Graph 25

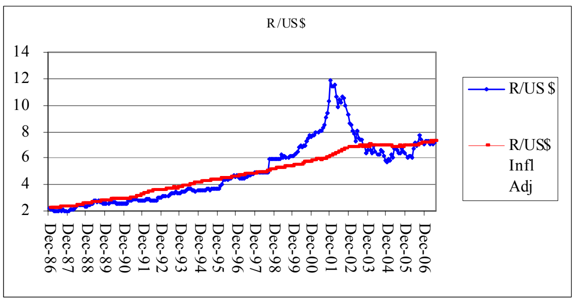


5. A Controversial preview for the next 6 months

We pointed out before that a key factor for continued bullish sentiment towards local equities has been significant foreign interest. With the 'sub-prime mortgage' issue now on top of every one's mind, and its spill over effects on the so-called carry trade caused by the extremely low interest rates in Japan, we would expect some realignment in the investment portfolios of foreign private investors, in an effort to reduce risk and debt and to recapitalise.

This is likely to exert pressure on and to make the Rand/Namibia Dollar more volatile, 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 under valued.

Graph 26



Last month we suggested that our markets might be at the cross roads. We pointed out that a current price earnings ratio of 18 was demanding and that we were not convinced that earnings for the next 12 months, required to be in the region of 40%, would justify a more competitive forward ratio of 12 (relative to the MSCI emerging market index), as we were made to believe by many local analysts. In the light of this skepticism, we could not understand the bullish sentiment towards local equities. The recent unraveling of the global investment hype in consequence of the 'sub-prime mortgage' issue, seems to hint at what was behind all this bullish sentiment. Our pet theme about the crude windfall of some US$ 2 trillion per annum, viewed in relation to total global market capitalization of around US$ 40 trillion, was probably also not without blame in blowing up the global asset bubble.

The question now is, whether the global unraveling will continue or whether we have seen the bottom of it already? For the time being, the intervention by central banks around the globe has contained a panic flight out of equities. The natural urge of someone who has burnt his or her fingers, to heal the wounds suffered, in our view is likely to put a cap on sentiment for a while though. The sub-prime mortgage problem in the US has not been resolved by any means and it is likely to take quite some time, patience and pain before it will have worked itself out of the system.

6. Conclusion

At this stage we believe there is still some negative potential in the markets and prefer a more conservative portfolio with reduced equity exposure. If you have suffered pain over the last couple of days, now certainly is not the time to get out. Remember that our typical prudential balanced portfolios give you a pretty wide spread of assets, but at times of panic as we have experienced now, all assets, barring cash, will loose value until sense returns to markets. You have to be clear on your investment objective. If you invest for the long-term you should ignore short-term movements as you are otherwise likely to experience that what you have gained on the swings you will loose (or even more!) on the roundabouts. We are dealing with pension money and this is generally invested for the long-term. If you are about to retire your investment of your one-third cash commutation might be for the short-term, the balance is still there to provide you with an income in the long-term.

7. Important notice and disclaimer