Volume 4, No. 2, Feb 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 29 February 2008

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

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

In February the average prudential balanced portfolio returned 6.89% (January minus 4.77%). Best and worst performance **for the month** was delivered by Old Mutual (7.88%) and Allan Gray (5.35%), respectively.

For the 3 months ended January 2008 (**graph 9**), best and worst performance was delivered by Investec (2.7%) and Sanlam (minus 2.7%), respectively, the average portfolio delivering 0.4% (January minus 8.1%). **For the 12 months** ended February 2008 (**graph 12**), best performance was delivered by Investec (23%) and worst performance by Sanlam (5.5%), the average portfolio delivering 12.6% (January 6.8%). **Graphs 10, 11, 13, 14 and 15** reflect the performances for the **6 months, year-to-date, 3 years, 5 years** and **10 years** to 29 February 2008, respectively.

Cumulative long-term performance of prudential balanced portfolios is reflected in **graphs 16 and 17**. Take note that graph 16 reflects a massive out performance by Allan Gray of 12.8% p.a. over this period of close to 10 years compared to bottom of the log Metropolitan, returning 13.9% p.a. since 1 April 1998. Graph 17 reflects cumulative performance starting January 2003. Here too Allan Gray comes out on top albeit with a narrow margin, out performing Stanlib's 22% p.a., at the bottom of the log, by 3.5% p.a.

Graphs 20 and 21 provide a more in depth look at the **monthly performance of these portfolios** over the past 12 months. Check your manager's performance relative to the others and to the monthly **returns of the main equity sectors** in **graphs 24 and 25** over the same period. Is this consistent with its asset and sector allocation (refer to our Manager Review at 31 March 2008 on our website)?

2. Special Mandate and Default Portfolio Performance

Over the past year, 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 22**, relative to the average prudential managed portfolio. Benchmark default portfolio comprises of Metropolitan Absolute Return and Prudential Inflation Plus funds in approximately equal shares. The performance of the default portfolio and that of the average prudential balanced portfolio, over the past 12 months, is reflected in **graph 23**.

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 February 2008. Cash* on 2.4% outperformed all other asset classes over 3 months, followed by the Allshare* on 1.5%, All Bonds* on minus 1.5% and Property UT* on minus 7.9%. Over 12 months ended February 2008, the All Share* index on 21.9% beat second best performer Cash* on 9.5%, followed by All Bonds* on 2.9% and Property UT* on 1.3%. For the purpose of doing more in depth analyses, **graphs 26 and 27** reflect the **performance build up of various indices** from 1 January 2007 to date.

4. Investment Style and Market Capitalization

Graphs 3 and 4 show that '**Growth**'* and '**Value**'* companies returned 7.1% and minus 1.6%, respectively, over 3 months, and 33.5%, respectively 12.1%, over 12 months. Looking at **market capitalization**, 'Small Caps'* produced minus 7.7% and 12.8% over 3 and 12 months, respectively, compared to 'Mid Caps*' (minus 7.2% and minus 0.1%) and 'Top 40's*' (2.9% and 25.3%). The following abbreviations are used in the graphs below:

Benchmarks	
Namibian Cons Price Index	CPI Cum
JSE Allshare Index	JSE Cum
Benchmark Default Portfolio	BM Def
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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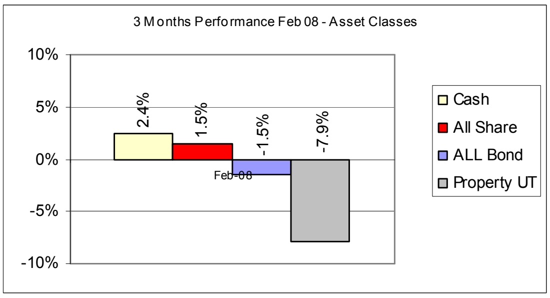
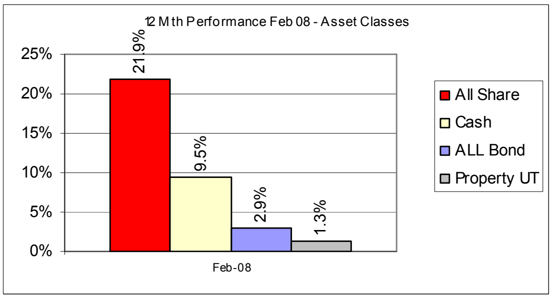
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Focused Growth (multi manager)	Isol FG (blue)
Prudential Managed	Prudential (blue)
Metropolitan Managed	Metr (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
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.

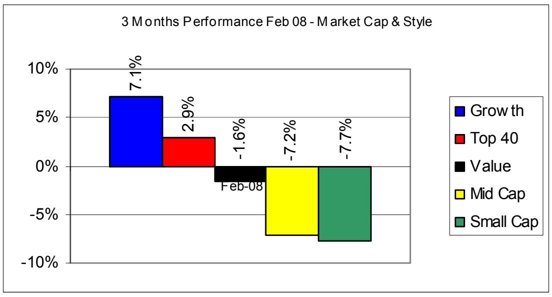
Graph 1



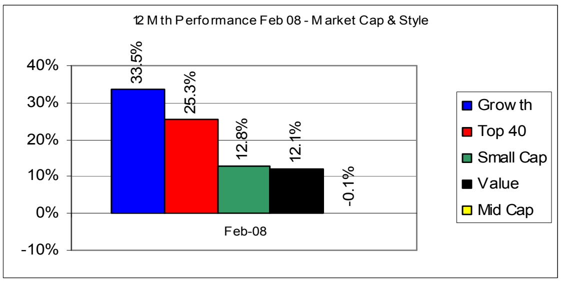
Graph 2



Graph 3



Graph 4



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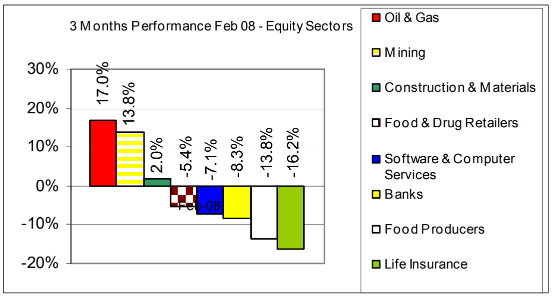

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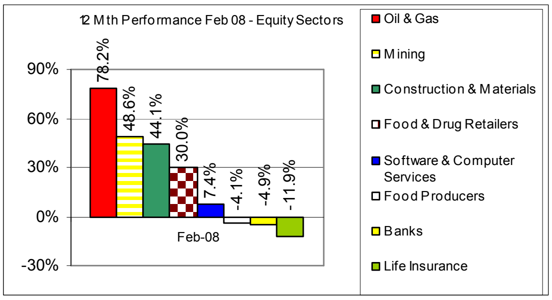
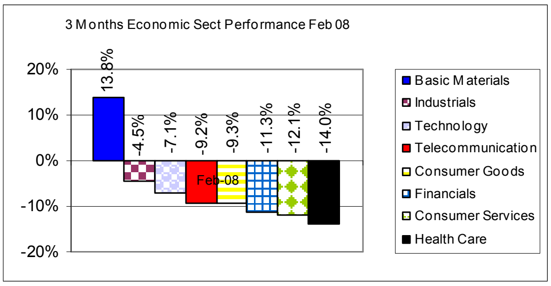


Graph 7



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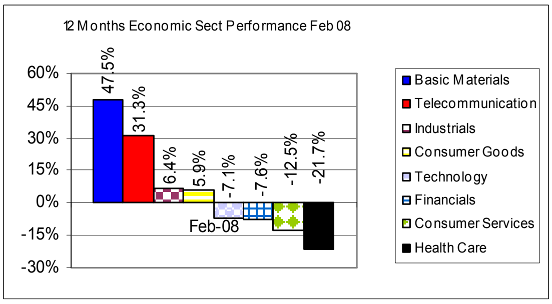
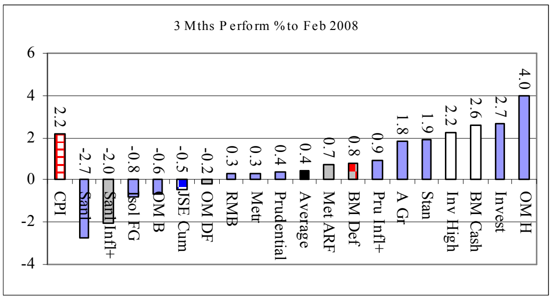
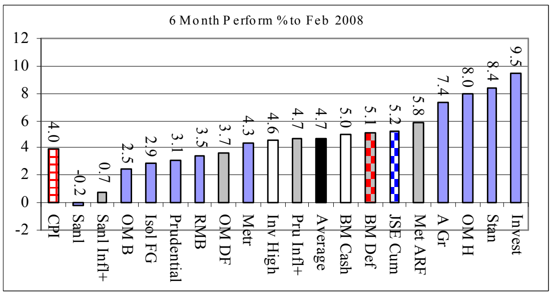
Graph 8



Graph 9



Graph 10



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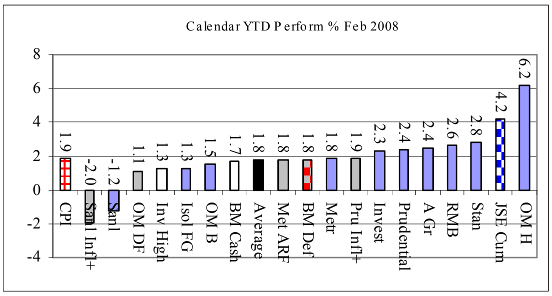
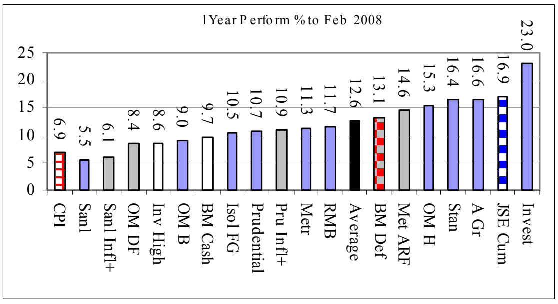
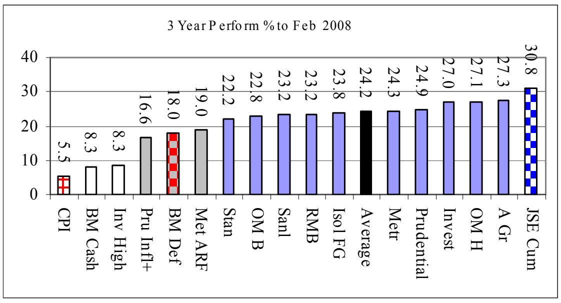


Graph 12



Graph 13



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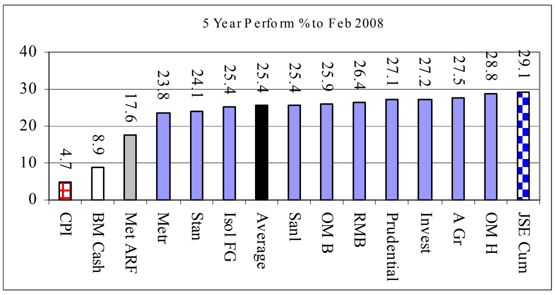
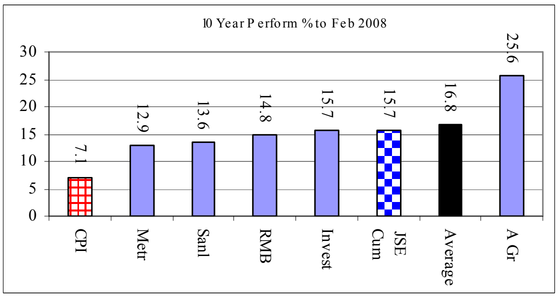


Graph 15



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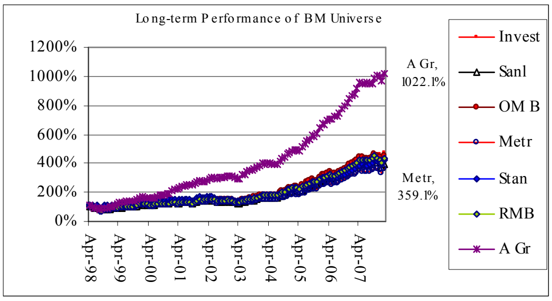
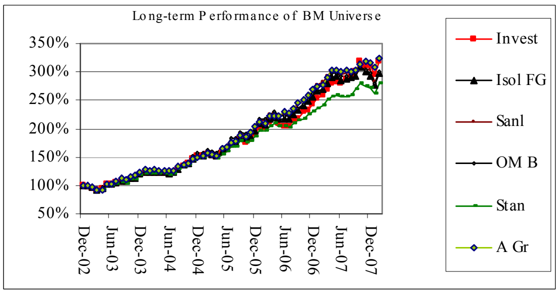
Graph 16



Graph 17



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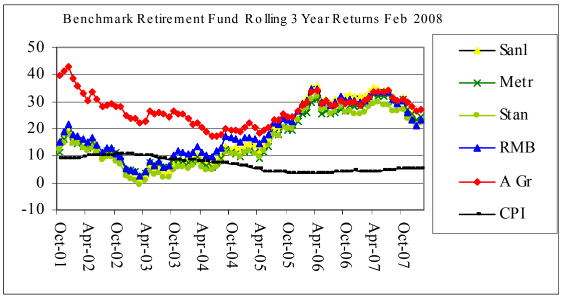

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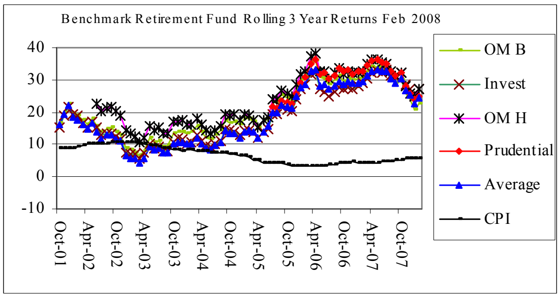
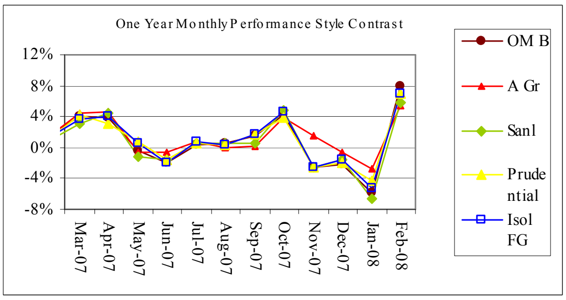
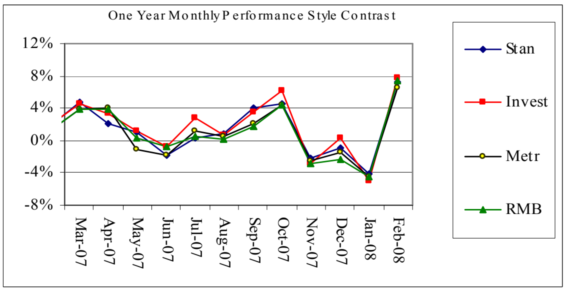


Graph 20



Graph 21



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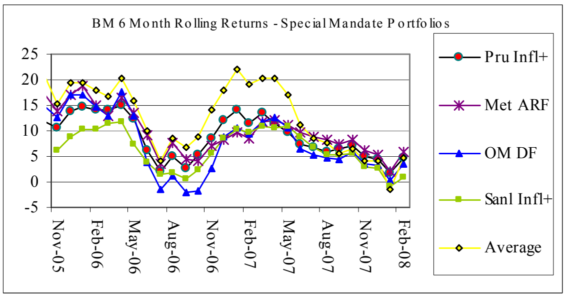
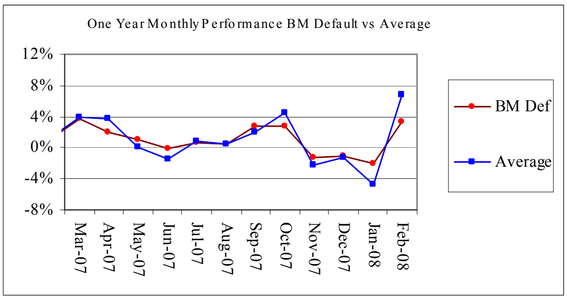


Graph 23



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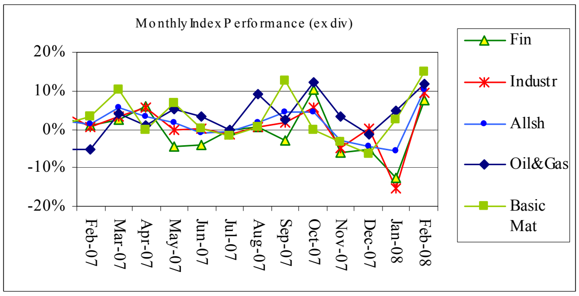
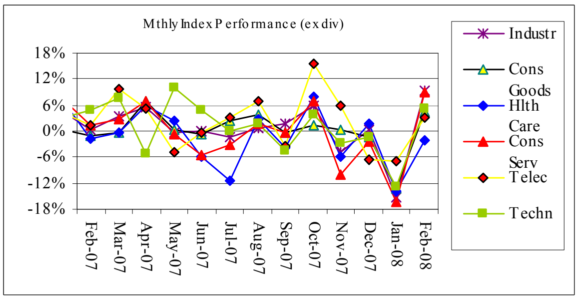
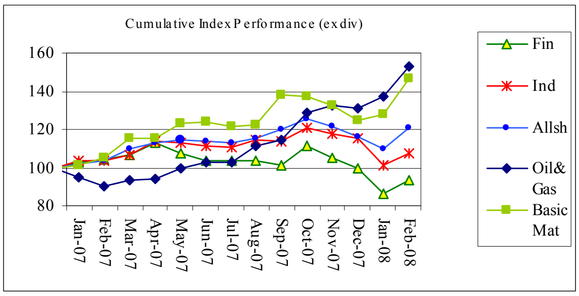
Graph 24



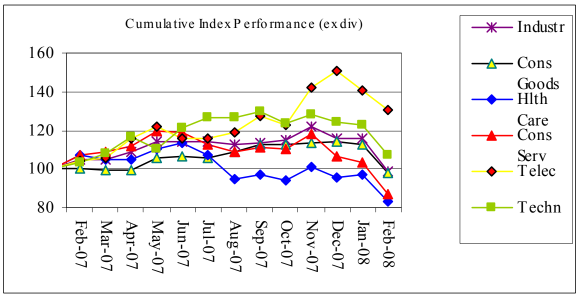
Graph 25



Graph 26



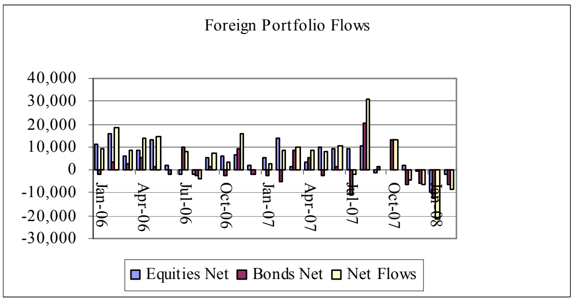
Graph 27



5. A Preview Of The Next 12 Months

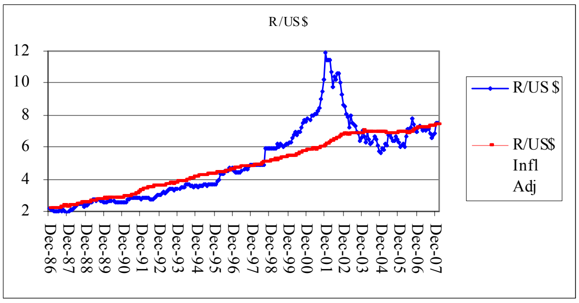
Foreign interest and portfolio investment has been a key support factor for continued bullish sentiment towards local equities and the strength of the Rand/Namibia Dollar. Americans, in particular used the spiral of cheap credit and inflated house prices to fund their investment and spending spree. Although the Federal Reserve Bank has been propping up financial markets through artificially low interest rates, the average American, personally or through someone he or she knows well, would have experienced the nasty awakening of foreclosure or abandoning his house and is now likely to try to consolidate his financial position by selling investments and redeeming his debt. Graph 28, indicates that foreigners are now selling their offshore holding in SA. We expect this decline to continue and it seems that recent Rand weakness and the significant drop in the FTSE/JSE is the result of foreign selling.

Graph 28



Graph 29 indicates that on the basis of fundamentals, the Rand was overvalued in US$ terms since 2003, probably driven by high commodity prices and high foreign portfolio flows. Currently the Rand stands at around 8 after weakening even further recently, mainly as the result of a slight weakening of the US$, fair value per graph 29 shown as 7.48.

Graph 29



Graph 30 shows clearly to what extent the South African share market has departed from the US market, despite the recent correction, far off its US peer.

Graph 30

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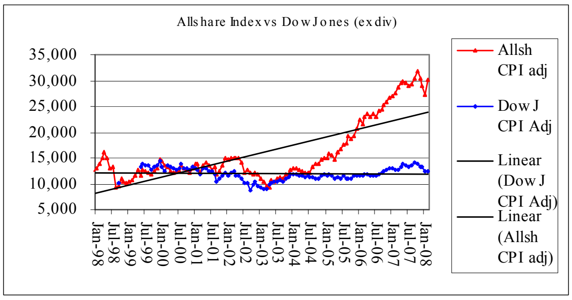

Clearly there are large imbalances in the global financial system that will have to correct, in our opinion. Such correction is likely to be a combination of a decline in the prices of oil and resources and an increase in general price levels of products and services through inflation. Such developments will impact negatively on the consumer and on his/her appetite for equities. For South Africa and Namibia this should have the effect of higher inflation, higher interest rates, eventually higher taxes and a weaker currency, which in turn feeds inflation. We had all these factors working for us over the past couple of years, but it seems the party is over, or will soon be. The electricity supply situation was not foreseen by anyone just a year ago and will only add to our woes!

6. Conclusion

We remain convinced of the wisdom of prudentially managed portfolios, those typically employed by pension funds.

Measuring a 12 month period to end February, the average prudential balanced pension portfolio returned 12.6% (to January 6.8%) compared to 9.6% a cash investment would have earned. This just shows how quickly fortunes can change between these two asset classes on either side of the risk spectrum! If one extends the investment horizon to 2 years, one would have earned 20.6% p.a. in the typical pension portfolio as opposed to only 8.7% p.a. cash would have generated and an inflation of 7% p.a.! A real return of 14% p.a and something you will not see too often!

If this does not convince you of the wisdom of the typical pension portfolio, consider the calendar years since 1978. Over this 30 year period to end December 2007, the average pension portfolio incurred negative returns in only 2 years, namely 1998 (minus 1%) and 2002 (minus 3.6%). The Allshare index in contrast, experienced 6 years of negative returns ranging between minus 2% and minus 10%. On the positive side, the average pension portfolio returned close on 20% per annum over the 30 year period, skewed of course by the exceptional returns over the past 5 years!

Taking our statistics as far back as we track the Allshare index (January 1998), a normalized starting point for the Allshare index is May 1999 when it stood at 6,500 while it stands at 30,164 at the end of February. This represents an annualized growth of 17% compared to inflation of 6.3% p.a. over the same period.

A normalized starting point for the ALSI 40 is April 1989 when it stood at 2,600 while it stands at 27,816 at the end of February. This represents an annualized growth of 13.4% compared to inflation of 8.8% p.a. over the same period. This index grew by 17.6% p.a. from 5,700 in May 1999.

Had the economy grown by real 3% p.a. since April 1989 and had the top 40's kept pace with the growth of the economy, the ALSI 40 should now be at 21,200. Had the economy grown by 4% the index should now be at 25,100.

In our view our local stock markets are currently slightly expensive based on these parameters. Those waiting for buying opportunities are likely to still have their day though, in view of global economic factors with predominantly negative potential for investor sentiment.

If we were to risk a prognosis for 2008, firstly, we do not see equities out performing the other asset classes significantly, if at all, the risk being a sentiment imputed decline in equities. This means that, at best, we are likely to see returns resembling those on cash and other interest bearing assets. We believe that large caps will outperform mid and small caps and favour exporters and Rand hedge shares, in view of our expectation of a weaker Rand, weaker consumer sentiment and increasing inflation. Latter, we believe prevent interest rates from declining to any significant extent. With this view on financial markets, there is little purpose in high equity exposure and we consequently favour very conservatively structured portfolios.

7. Important notice and disclaimer