BENCHTEST

Volume 4, No. 6, June 2008

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 JUNE 2008

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.

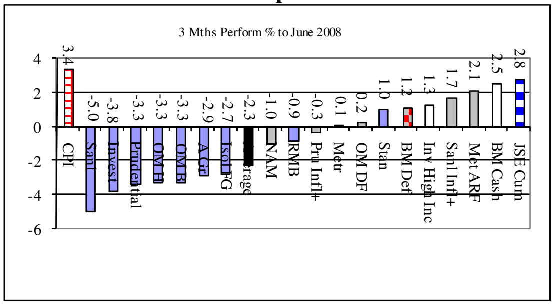
1. Review of Portfolio Performance

In June the average prudential balanced portfolio returned minus 4.57% (May 0.92%). Best and worst performance **for the month** was delivered by Stanlib (minus 3.27%) and Investec (minus 6.11%), respectively.

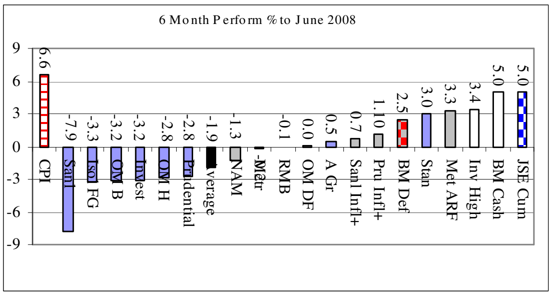
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced portfolios (black bar) and the CPI (red checked bar). Amongst the prudential balanced portfolios, Allan Gray, Prudential and Sanlam are said to have a value bias, the other are more style neutral portfolios. Benchmark investors should take note of the performance of the default portfolio (red and grey bar), which represents a combination of Prudential Inflation Plus and Metropolitan Absolute Return. Here is the legend to the abbreviations reflected on the graphs:

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)
Namibia Asset Management	NAM (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)
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)

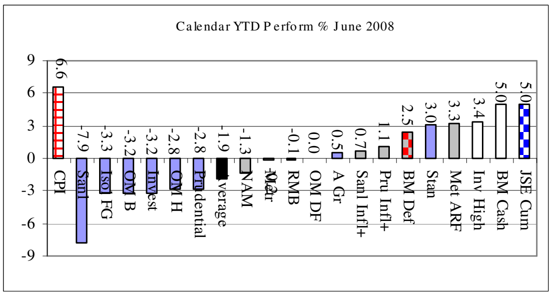
Graph 1



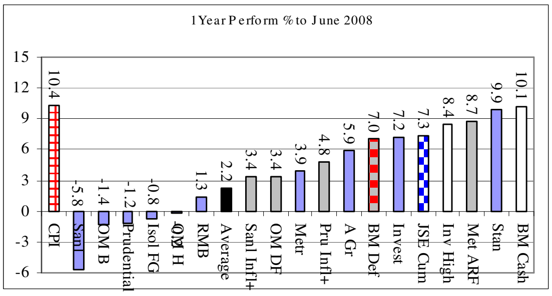
Graph 2



Graph 3



Graph 4



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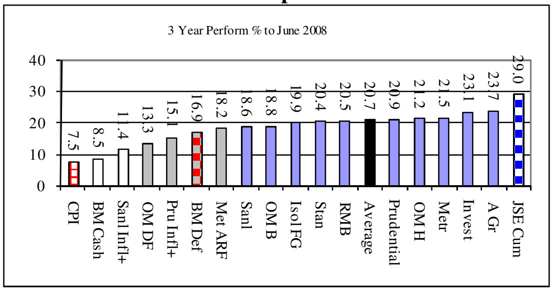
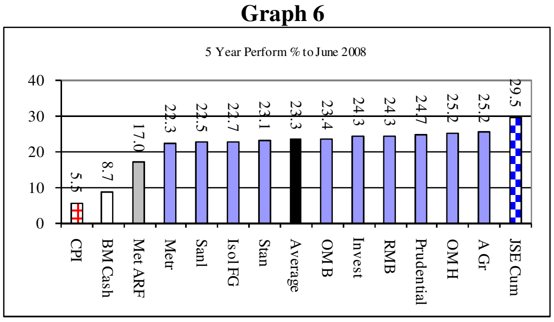
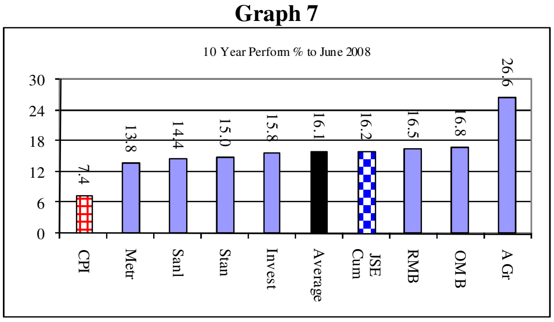
Graph 5



Graph 6



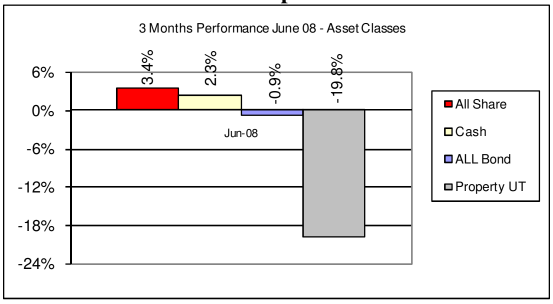
Graph 7



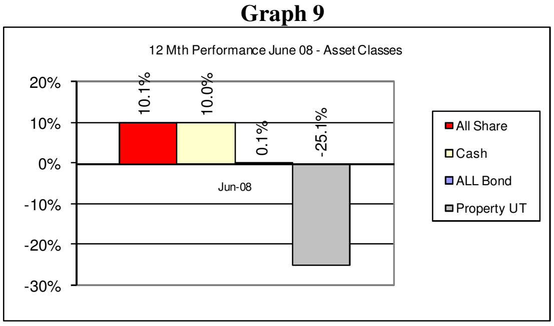
2. Review of Performance of Key Indices (index performance by courtesy from pointBreak/Deutsche Securities)

Graph 8 and **graph 9** once again show the same order of asset classes in terms of performance, including dividends, over the quarter and the 12 months. The poor performance of bonds and property can be ascribed to recent increases of the Repo rate by the SARB. Despite difficult conditions, equities still out performed all other asset classes.

Graph 8

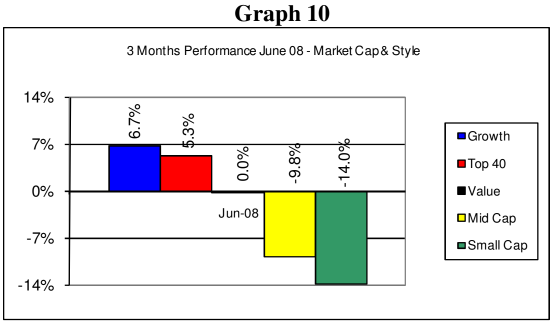


Graph 9



As for the above graphs, **graph 10** and **graph 11** reflect the same order, over 3 and 12 months, of type of company and market capitalization. In times of uncertainty and volatility, one would expect large cap companies to do better than the smaller companies, as borne out by these graphs, and one would expect the top performers and the bottom performers to switch position from one quarter to the next.

Graph 10



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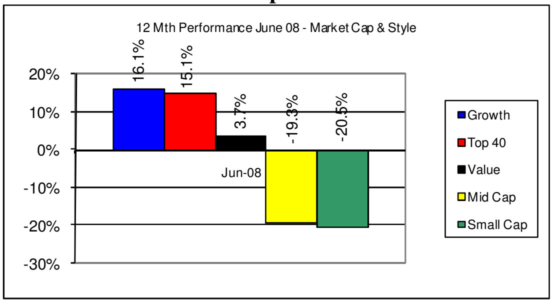
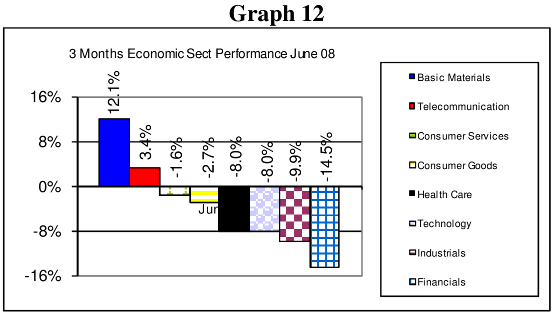
Graph 11

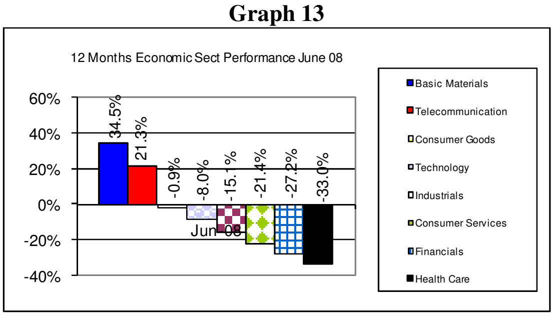


Graph 12 and **graph 13** depict the performance of the main equity sectors. Of the sectors with the highest weights, only basic materials managed to out perform cash over 3 and 12 months, the others being industrials, consumer goods, financials and consumer services, all producing negative performance over 3 and 12 months.

Graph 12

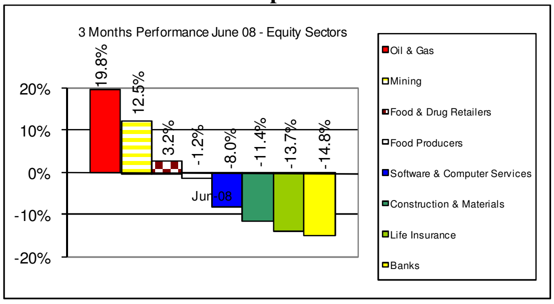


Graph 13

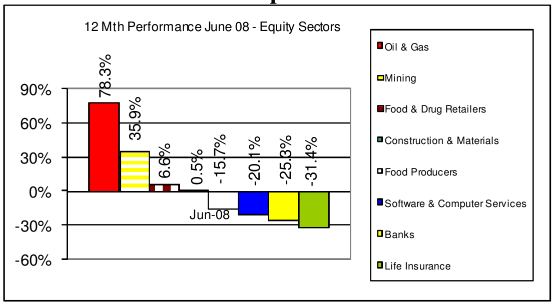


Drilling down one level into the main equity sectors, **graph 14** and **graph 15** shows that resources are still experiencing a bull run, in tandem with the oil price. The construction sector has run out of steam now, producing negative returns for the quarter and over the past 12 months.

Graph 14



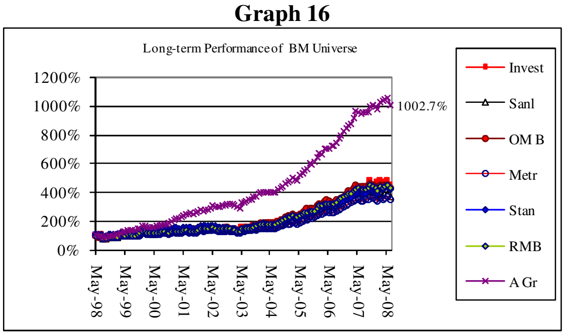
Graph 15



3. Portfolio Performance Analysis

Namibian prudential balanced portfolios essentially only acquired their own identity in 1998 when changes were brought about by regulation 28. **Graph 16** and **graph 17** reflect cumulative performance of these portfolios since April 1998 and since January 2003, respectively. The conclusions should be self evident.

Graph 16



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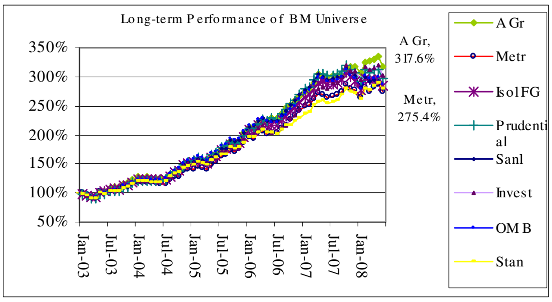
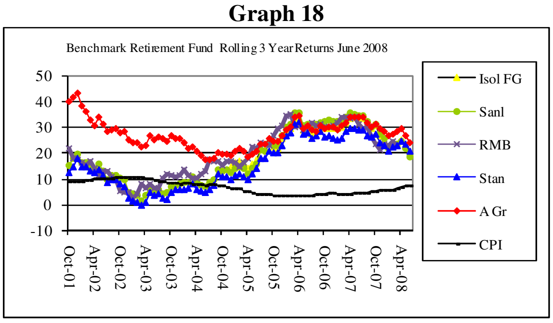
Graph 17

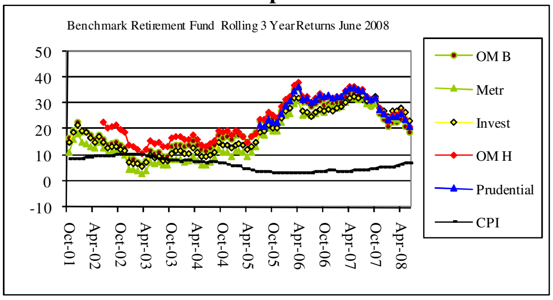


Graphs 18 and graph 19 reflect rolling 3 year returns since October 1998. For long-term projection and planning purposes the general assumption is that prudential balanced portfolios should outperform the CPI by between 3% and 5%, which has over this period only been achieved throughout by Allan Gay.

Graph 18

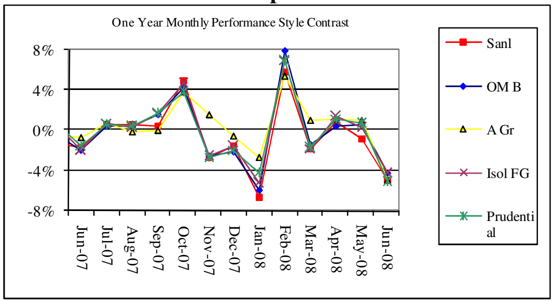


Graph 19

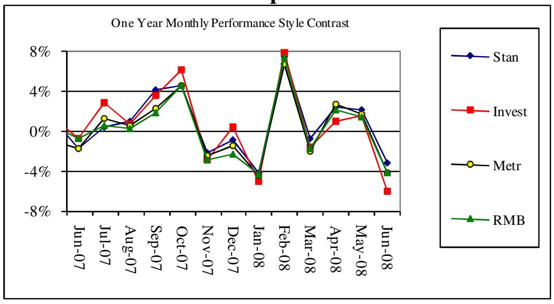


Graph 20 and **graph 21** depict the monthly performance of the prudential balanced portfolios in this survey. What it shows is that managers do generally perform very similarly but it also affords the opportunity to identify odd trends for further investigation and for drawing conclusions about expected future performance and historic skills of the managers. Allan Gray appears to return to a more familiar trend of cutting the peaks and troughs.

Graph 20

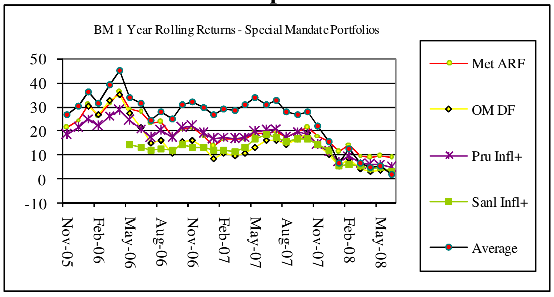


Graph 21



Graph 22 puts some focus on the 'special mandate portfolios' in relation to the average prudential balanced portfolio, in terms of 1 year rolling returns. **Graph 23** depicts the monthly performance of the Benchmark default portfolio in relation to the average prudential balanced portfolio. These graphs should give the investor a pretty good feel for what he can expect in terms of performance volatility and relative performance over the long term from the 'special mandate portfolios' vis-à-vis the average prudential balanced portfolio.

Graph 22



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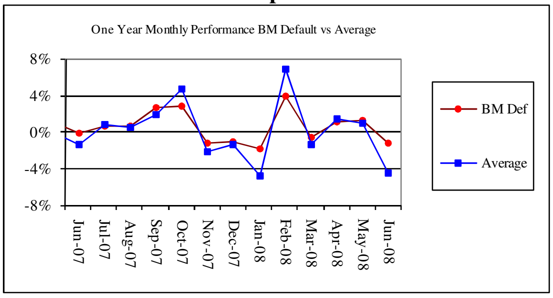
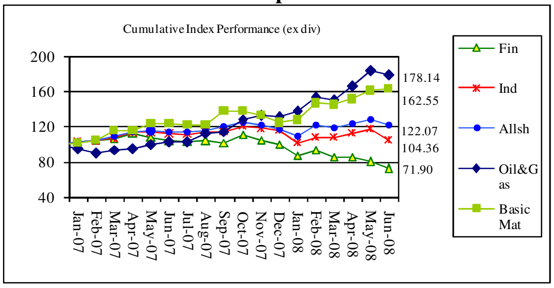
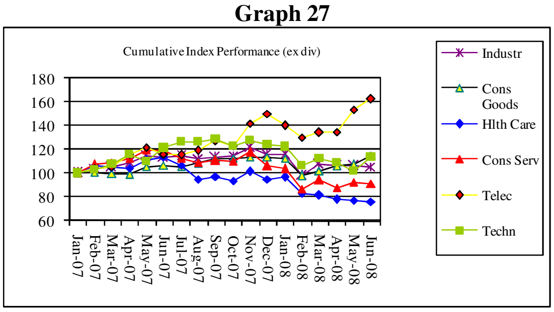
Graph 23



Graph 26

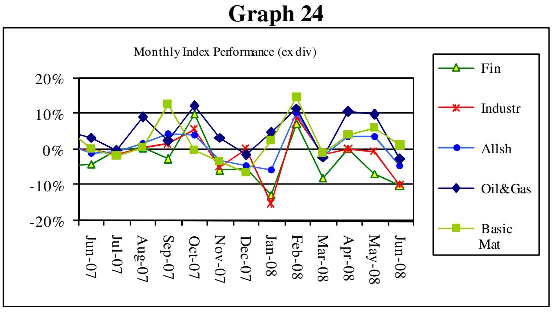


Graph 27

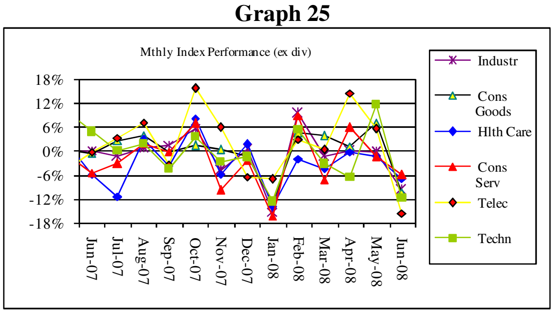


Graph 24 and **graph 25** afford the investor the opportunity to compare managers' monthly performance (as depicted in graph 20 and graph 21) against various equity sectors and to draw his conclusions regarding a manager's investment style and philosophy. **Graph 26** and **graph 27** serve a similar purpose, but with regard to cumulative performance since January 2007.

Graph 24



Graph 25



4. A Contrarian Preview Of The Next 12 Months

Some readers may expect to read something new and different about our views in every edition which of course only be the case if circumstances changed. Over the past month nothing much has changed, although for the first time we have now seen significant drops in the price of oil after a long streak of continuous increases. The oil price currently being the major upsetting factor in the global economy in our view, our expectations are significantly dependent on how it will behave going forward. We side with those commentators that believe the oil price has been driven by speculation. Evidently, speculation was pretty much unchecked and probably the result of excessive legislative leeway. Sooner or later 'the voice of the people' has to be given cognizance by legislators and we believe that US legislators are taking an interest in this subject already. Does this explain the recent trend reversal?

Should the oil price enter a new era of lower levels, it should produce a stronger US Dollar which in turn will result in a weaker Rand/Namibia Dollar. It will, however, take a long time before a lower oil price will start impacting positively on rising price levels globally. Inflation, and hence higher interest rates, are likely to be around for quite some time. The consumer will still be under pressure for a while and this should put a lid on global demand for resources. In such event we would expect greater stability and predictability to return to global financial markets. The converse will be the case should the oil price continue on its past trajectory.

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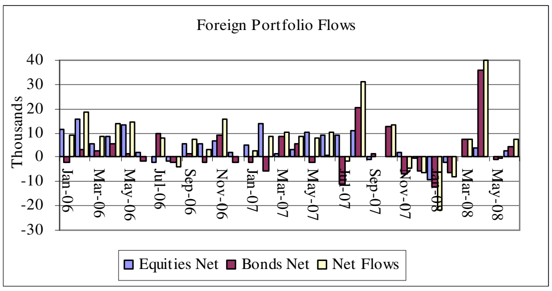
The 'sub-prime crisis' and its knock-on effects, including the impact on sentiment, are still very much with us and will be felt for some time to come. The US Federal Reserve lending rate is currently at 2% after a bout of reductions. Recent remarks by the Federal Reserve, however, indicate that the next move in interest rates will be upward rather than any further reduction in view of inflation picking up pace in the US. This should strengthen the US Dollar and indicates that it is probably around its trough at present. Higher US interest rates should result in a weaker Rand/Namibia Dollar unless it coincides with further rate increases locally.

While the uncertainty in global financial markets persists, the 'small investor' can really only hope to swim with the 'big fish', or simply sit back and wait for markets to return to normality. There will be opportunities to make huge gains, but also huge losses depending on where you enter and exit a bubble. Try and identify the next bubble in the making, set your return objective, get out when you have achieved this and never look back, for better or for worse! The speculator should look at commodities and precious metals. For the conservative investor obvious ones must be alternative energy sources, industrial metals and minerals, new compound materials, energy saving technology and property.

In South Africa we have seen equity markets, and other asset classes for that matter having been boosted by massive inflow of foreign capital which also lent support to the Rand, despite SA's pretty significant current account deficit. **Graph 28** shows that the interest of foreign investors in local equities has all but faded away. Evidently the flow into bonds is highly volatile and is purely a function of interest rate arbitrage and produces high exchange rate volatility.

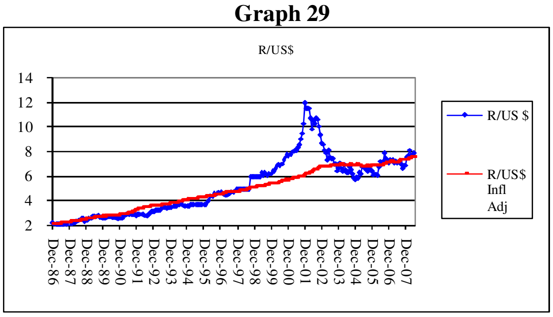
Graph 28



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 chasing primarily our resources stocks. Currently the Rand stands at around 7.55, representing a slight overvaluation against an inflation adjusted 7.61 per **graph 29**. At the current inflation differential between the US and SA, i.e. 4% vs 10%, the Rand should weaken slightly from its current level to 7.76 by the end of the year.

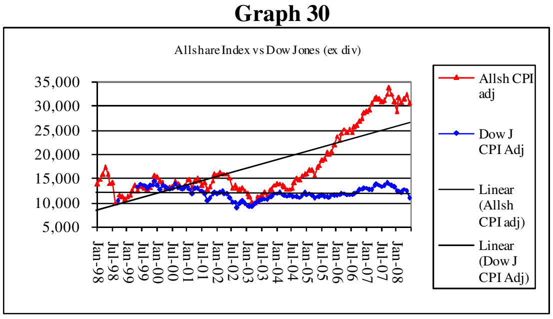
We would expect inflation in SA and Namibia to outpace inflation in the developed economies which will cause the Rand to depreciate in the medium term.

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. Does this represent one of the bubbles that are waiting to burst or does it simply represent one asset category that has moved towards price equilibrium more instantaneously? Many analysts do not believe this to be a bubble though and we would agree, provided the oil price will remain stable or continue to rise.

Graph 30



5. Conclusion

In our opinion, the higher inflation era we have entered is here to stay for quite some time and more so in developing countries. We believe that the Rand and interest rates are likely to remain fairly stable from here on with some upward potential still, although we expect the higher local inflation rate to result in ongoing slow depreciation of the Rand. We also believe that high volatility in markets will remain for the time being. In this environment, the pressure on consumers will remain. Given the uncertainty whether the oil price will continue on its current trajectory, remain stable or whether it will return to more rational cost based levels, being conservative and taking a long-term view such as the typical pension fund should take, we would invest in real assets such as property, deep value and inflation hedged and Rand hedged shares.

Cash currently hardly produces any real return, in Namibia at least, and has lost much of its attraction. In view of our expectation for inflation to remain at its recently found levels, with a slight risk of it still trending upward and fairly stable interest rates going forward, bonds in our view start becoming more attractive. Property has been punished over the past year but represents a real asset and should do well as an inflation hedge, given that it may still experience a short-term negative impact should interest rates increase. Weighing up foreign markets against local markets, we expect our markets to bear more negative potential than foreign markets, excepting commodities that are likely to track the movement in the oil price. Developing countries should experience the increase in energy and food prices more negatively than developed countries where in the latter case, a smaller portion of disposable income is applied to consumption. A logical consequence of these expectations is that one should be fully invested offshore. Locally, these expectations would favour selective high yielding equity, property (industrial) and some exposure to bonds.

6. 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.