BENCHTEST

Volume 5, No. 2, February 2009

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 28 FEBRUARY 2009

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.

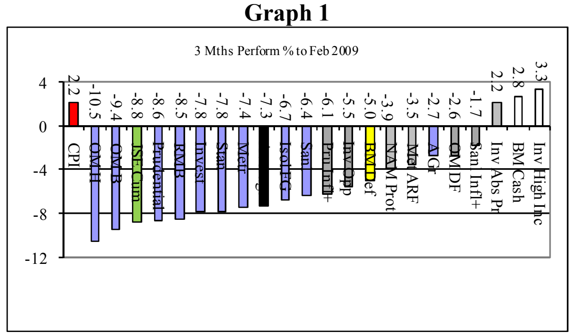
1. Review of Portfolio Performance

In February the average prudential balanced portfolio returned minus 7.3% (minus 1.65% in January), the second worst month since January 1998, August 1998 having delivered minus 18.2%! Best and worst performance **for the month** was delivered by Allan Gray (minus 6.45%) and Prudential (minus 9.08%), respectively. An analysis of the difference in performance between these managers, based on the latest portfolio details at our disposal does not provide conclusive insight. Fact is that all asset classes except cash (plus 0.8%) produced negative returns viz. – equity - 4.9%, bonds - 2.5%, property - 2.9%, international - 11% and international fixed interest - 0.6%.

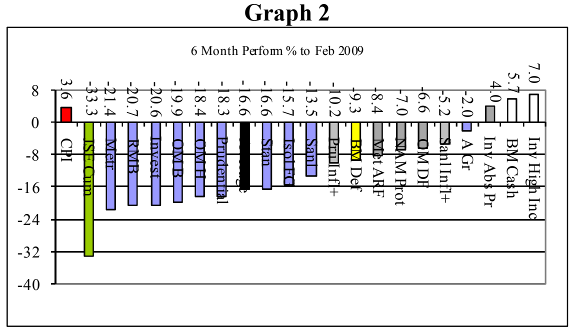
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced portfolios (black bar), the JSE Allshare Index (green bar), and the CPI (red bar). Benchmark investors should take note of the performance of the default portfolio (yellow 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 (red)
JSE Allshare Index	JSE Cum (green)
Benchmark Default Portfolio	BM Def (yellow)
Average Portfolio (prudential, balanced)	Aver (black)
Special Mandate Portfolios	
Sanlam Cash	BM Cash (no colour)
Investec High Income (Interest bearing assets)	Inv High (no colour)
Investec Absolute Protector	Inv Abs (grey)
Investec Opportunity Fund	Inv Opp (grey)
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)

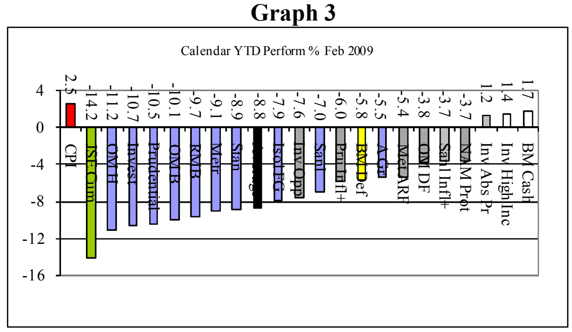
Graph 1



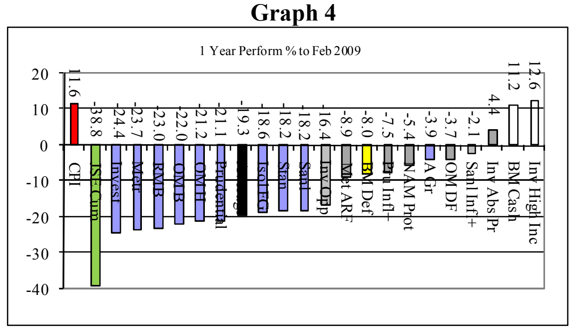
Graph 2



Graph 3



Graph 4



BENCHMARK Retirement Fund

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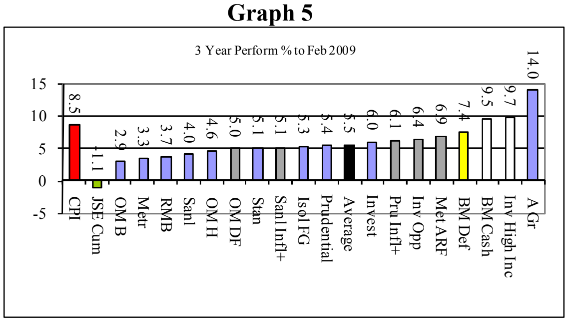
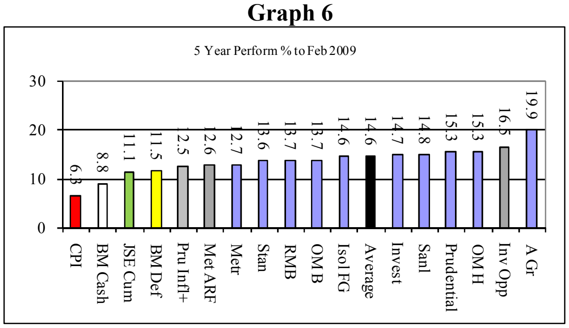
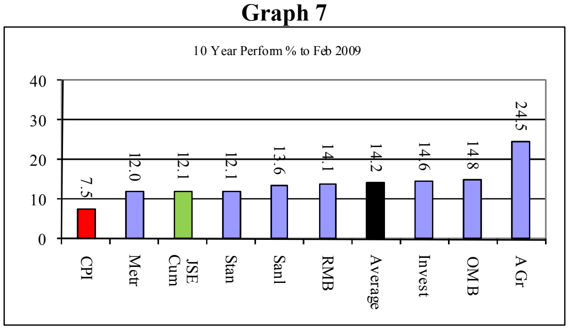
Graph 5



Graph 6

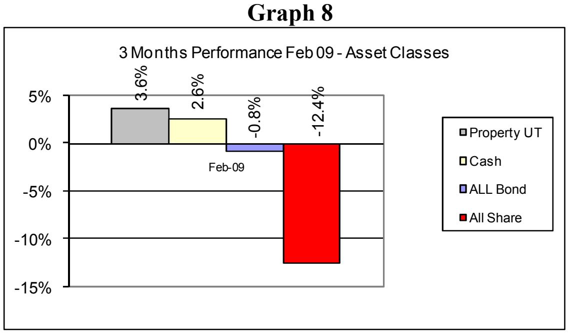


Graph 7

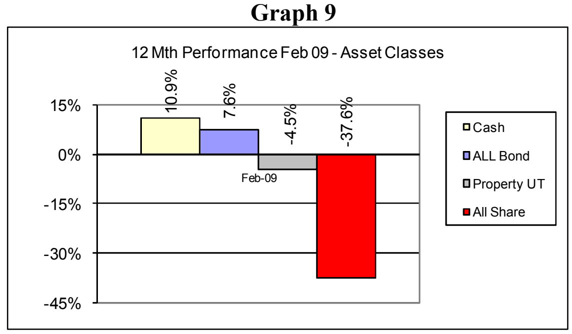


2. **Performance of Key Indices** (index performance by courtesy from pointBreak/Deutsche Securities)

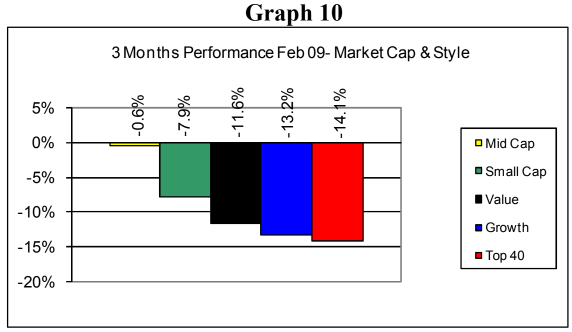
Graph 8



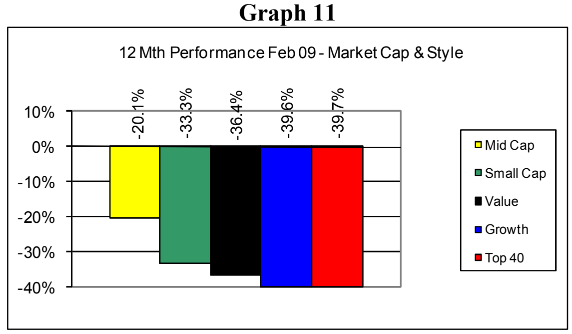
Graph 9



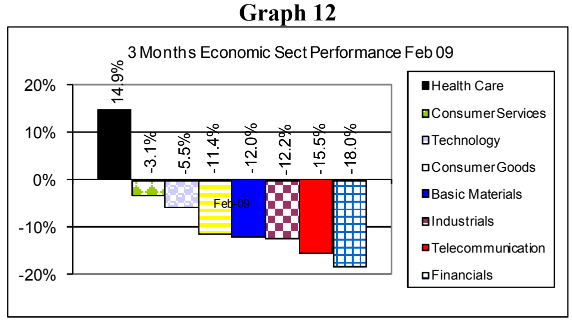
Graph 10



Graph 11



Graph 12



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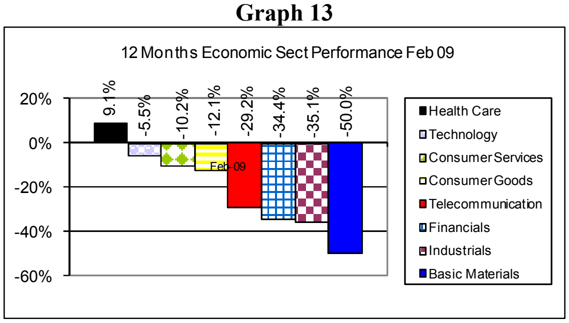
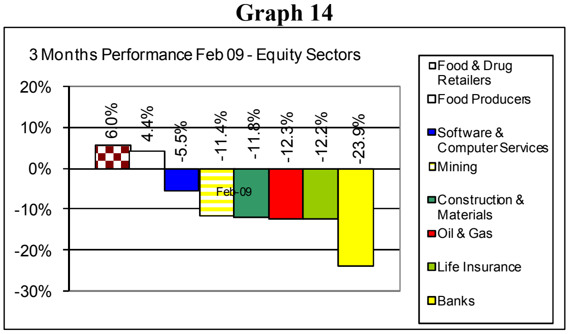
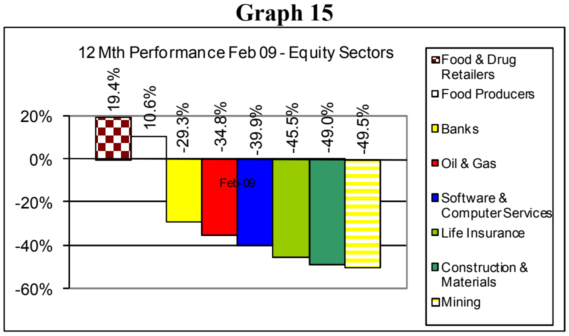
Graph 13



Graph 14



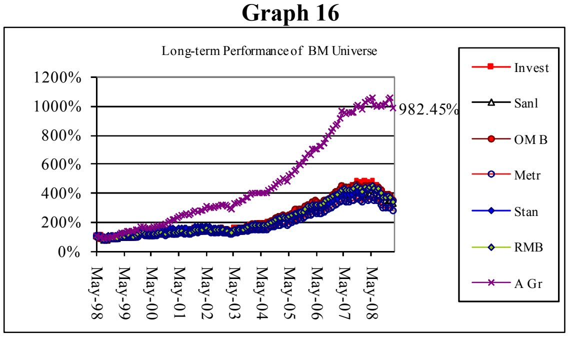
Graph 15



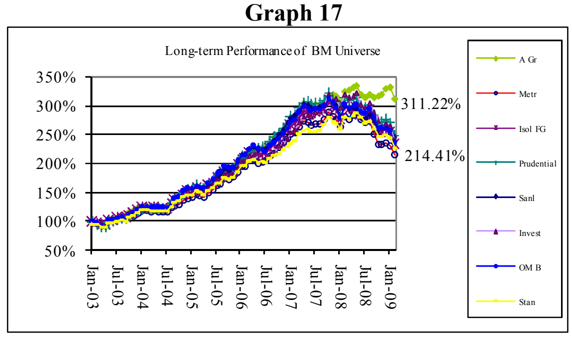
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 16

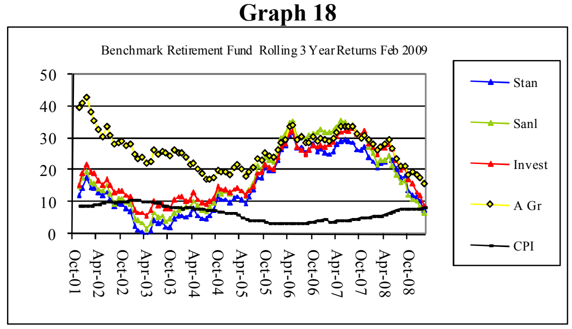


Graph 17

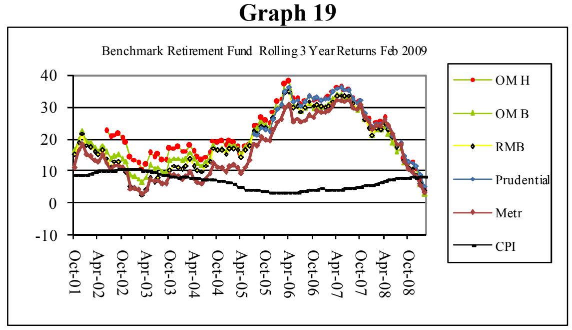


3.2. 3 year rolling performance of prudential balanced portfolios relative to CPI

Graph 18



Graph 19



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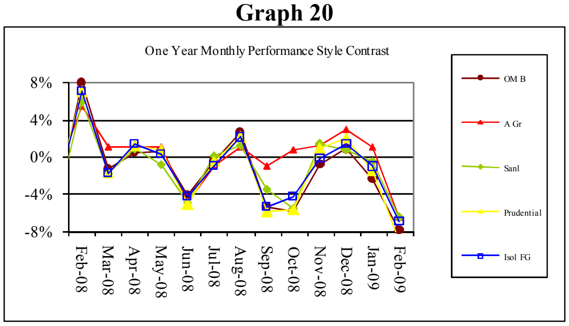
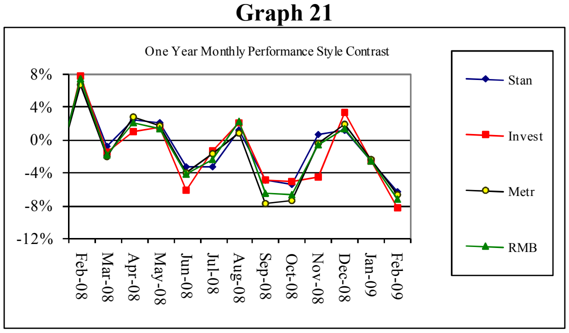
3.3. Monthly performance of prudential balanced portfolios

Graph 20

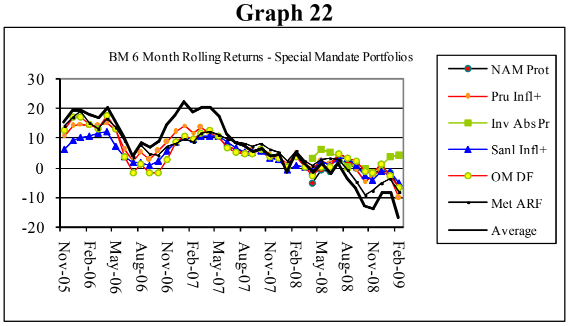


Graph 21



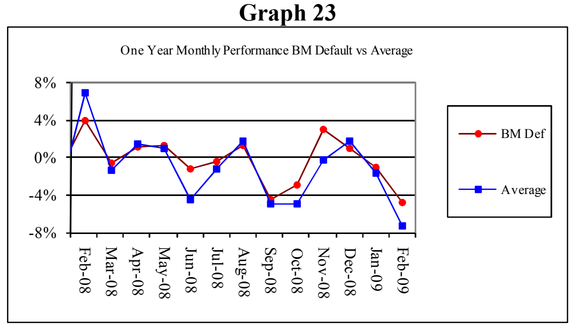
3.4. 6 Month rolling returns of 'special mandate' portfolios

Graph 22



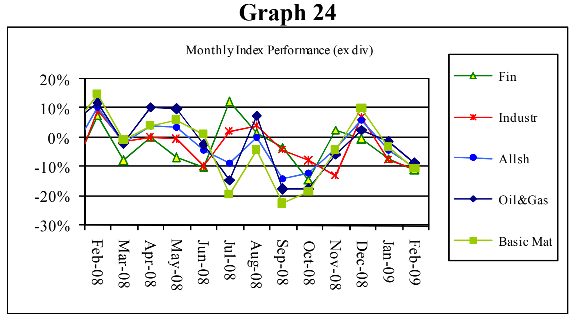
3.5. Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 23

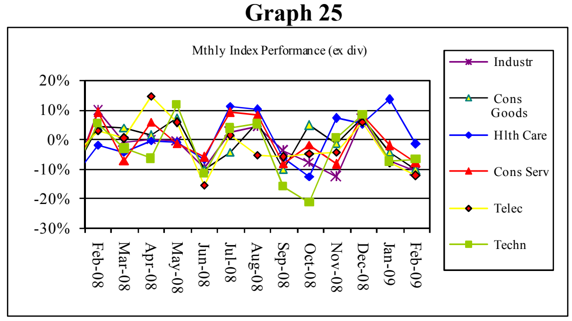


3.6. Monthly and one year cumulative performance of key indices (excluding dividends)

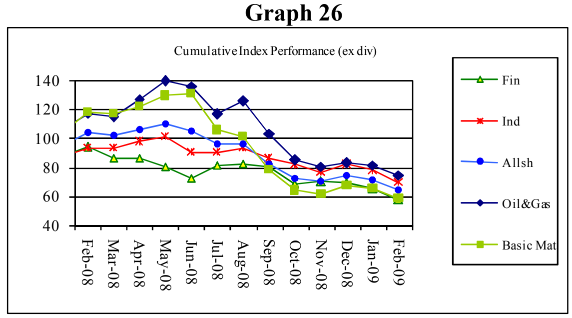
Graph 24



Graph 25



Graph 26



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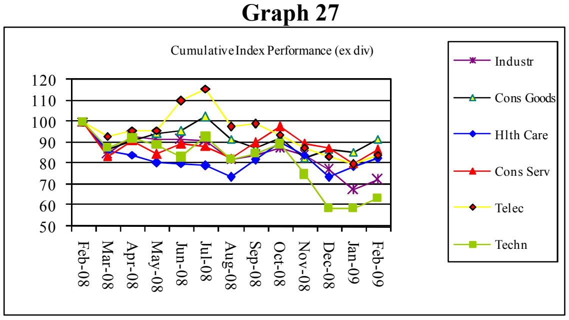
Graph 27



4. A Contrarian Preview Of The Next 12 Months

Since the oil price commenced its speculative trajectory in 2003, closely tracked by resources and global financial markets, our very crude estimate suggests that over this 5 year period, global wealth, equivalent to around 20% of global GDP (roughly equal to US GDP) was ‘redistributed’, proportionately most, from the poorest to the richest. In US$ this is roughly 14 trillion! Are we now on course to let this flood wave reverse its flow through seepage (inflation and negative real interest rates)? The chosen route at this stage appears to be the drawn out process of deleveraging. This requires the re-inflation of asset values through demand stimulation, and the deflation of liabilities by means of inflation and low interest rates, in the US in particular as main destination of global capital flows.

Since March 2006, when we considered market to be at unsustainable levels and moved to more conservative investment vehicles, the SA ALSI forged ahead from around 20,000 in March 2006, to 33,000 in October 2007. Over this period, the average prudential balanced portfolio picked up another 42% over this period, while our more conservative default portfolio only managed to grow another 29%.

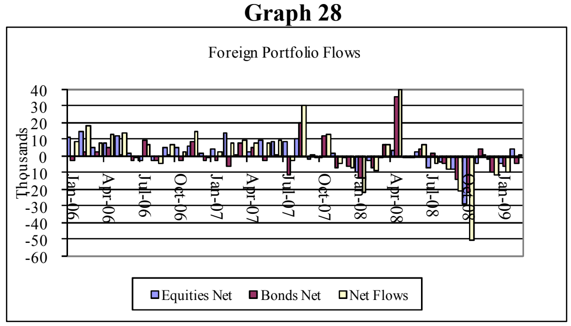
Taking this comparison further to end February 2009, the average prudential balanced portfolio produced a total return of 12.2% (4% p.a.) compared to our more conservative portfolio’s 17.8% (5.8% p.a.), Allan Gray on top of the log of prudential balanced portfolios, with 40.7% (12.4% p.a.) and OMIGNAM’s Profile Balanced portfolio at the bottom with a total return of 4% (1.4% p.a.)! And guess what, cash delivered a total return of 30.6% (9.6% p.a.) over the same period. Inflation increased by 27.2% (8.6% p.a.) over this period.

Based on our expectation of a long drawn out process of market correction, we will see low, probably even negative real interest rates and increasing inflation in the developed world with sideways movement in global equity markets for an extended period of time of between 3 and five years.

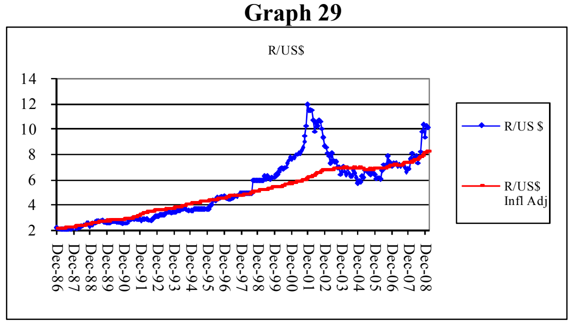
Volatility will remain in financial markets for probably another year until all surprises are out of the global financial system. Stock picking the right shares should prove to be a skill that will produce superior returns.

Locally, we believe that the exodus of foreign investment flows into equities should be largely behind us, as evident from **Graph 28**, so that one may expect sentiment driven negative swings soon no longer to be a serious threat for the investor. In the mean time we expect local inflation and local interest rates to continue declining in measured fashion to cushion the negative impact on the Rand, but the Rand will remain under pressure for a while. **Graph 29** indicates that the Rand is oversold at 10 to the US$ at end of February, and should be around 8.30, on a relative inflation adjusted basis. The weaker Rand should be beneficial for local manufacturing while declining inflation and interest rates should be beneficial for local consumption, particularly with regard to food and clothing and of course for property investments.

Graph 28



Graph 29



Graph 30 shows clearly to what extent the South African share market had departed from the US market. At the end of February both the Allshare Index and the Dow Jones were down roughly 50% from their inflation adjusted peak in October 2007. The gap between these two indices however, closed considerably from 22,000 point in October 2007 to 11,400 points at the end of February. Both the Dow Jones and the SA Allshare Index are now around 35% below the CPI adjusted trend line.

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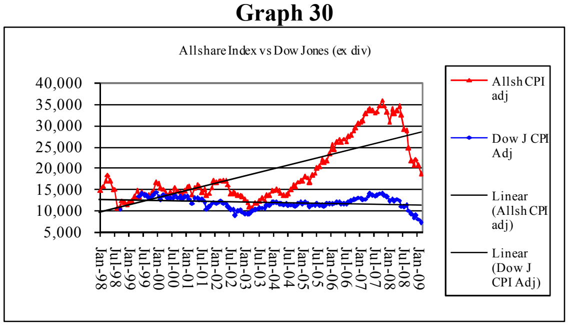
Graph 30



5. Conclusion

We believe that volatility in global equity markets will remain for a while, but with a declining tendency. On the basis of fundamentals, it would seem that global markets are now in more sustainable territory. Globally, we expect to see significantly lower returns on all asset classes than we have seen over the past 5 years and it should be quite difficult to achieve real returns over the next 2 to 5 years.

In view of our expectation of declining inflation and interest rates locally, bonds should be a more attractive asset class on the basis of fundamentals. Local industrial and commercial property should offer fair returns in times of higher inflation and an environment of negative real interest rates. We see no value in cash other than as short term parking to protect against further market volatility.

With the steep correction of equity markets, we believe the time has approached when one should selectively consider investment in equity again, specifically, consumer goods and services, local manufacturing and exporters. Commodities should also start offering opportunities on a selective basis again. The focus should be on stock selection and dividend yield.

Taking our view of a significantly undervalued Rand, we would not raise the offshore exposure at this stage. A correction though should encourage a fair spread of investment in global equity.

To conclude, exceptional times as we are currently experiencing, require exceptional approaches. We have asked the question before - should the individual really be concerned if the market value of his property has declined? Surely the utility value remains unchanged? In other words, is it not a good time now to use one's pension capital to invest in residential property that offers a utility value in excess of the market returns, considering that it may be difficult to achieve real returns on conventional investments? We have also suggested before that an investment in the member's or his children's education now may well generate better returns in the long-term than conventional investments will. This would require changes to our current legislation though and our legislators should seriously consider these exceptional approaches.

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.