BENCHTEST

Volume 5, No. 3, March 2009

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 31 MARCH 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.

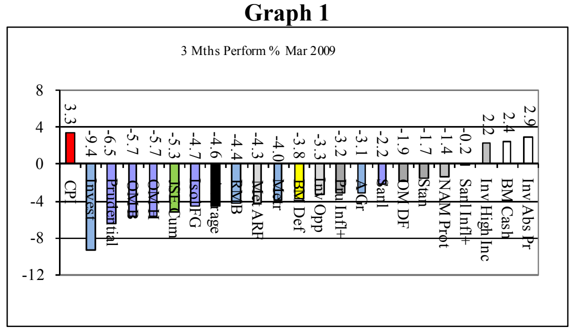
1. Review of Portfolio Performance

In February the average prudential balanced portfolio returned 4.24% (minus 7.3% in March). Best and worst performance **for the month** was delivered by RMB (5.88%) and Investec (1.55%), respectively. An analysis of the difference in performance between these managers, based on the latest portfolio details at our disposal RMB added 0.7% through a slightly above average equity allocation and a further 0.5% through a slightly above average Basic Materials and Financials allocation. An investigation revealed that Investec's performance for March should have been 4.67% and this was corrected in April.

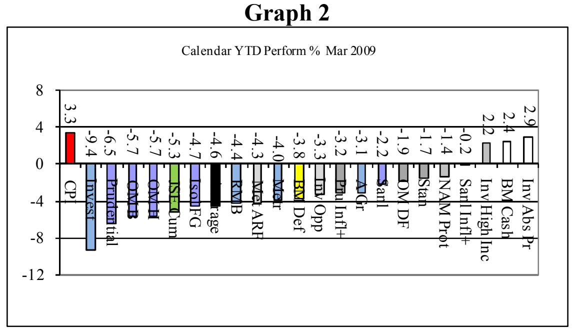
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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)

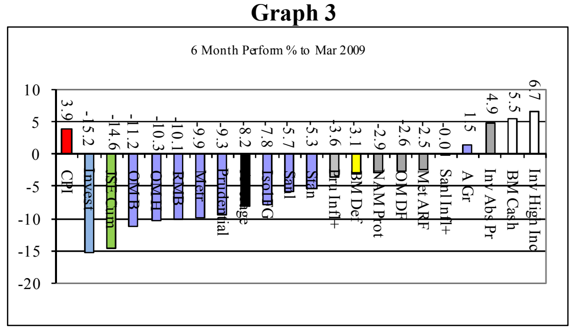
Graph 1



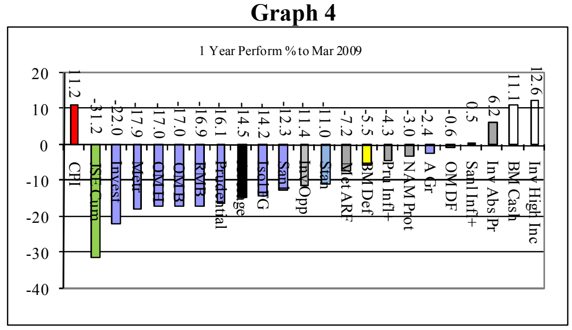
Graph 2



Graph 3



Graph 4



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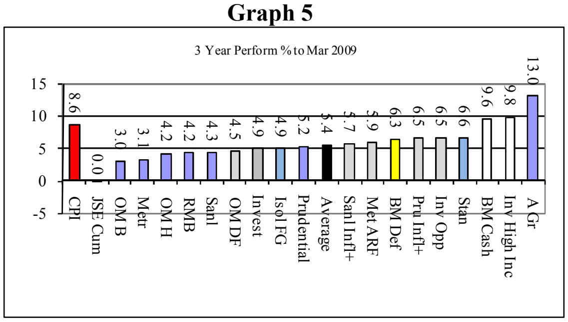
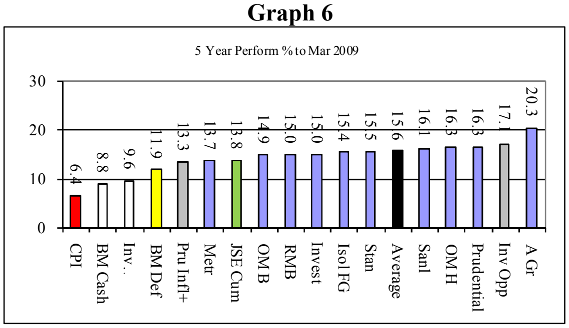
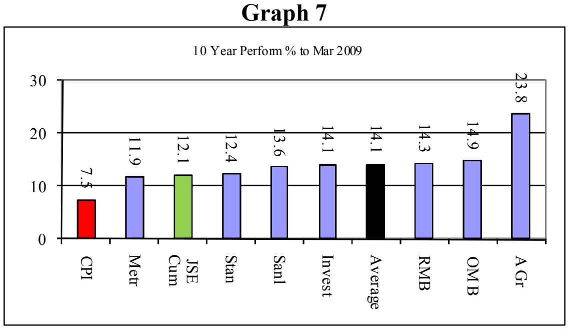
Graph 5



Graph 6

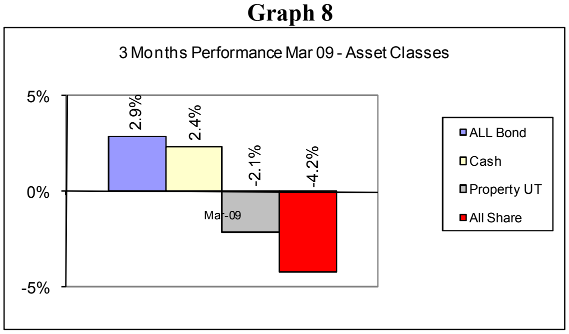


Graph 7

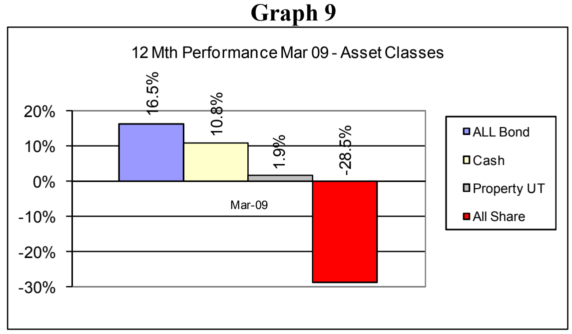


2. **Performance of Key Indices** (index performance by courtesy from pointBreak/Deutsche Securities)

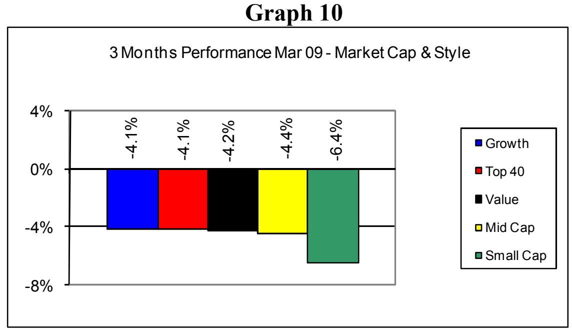
Graph 8



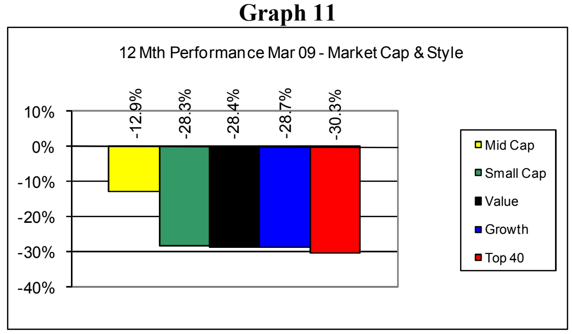
Graph 9



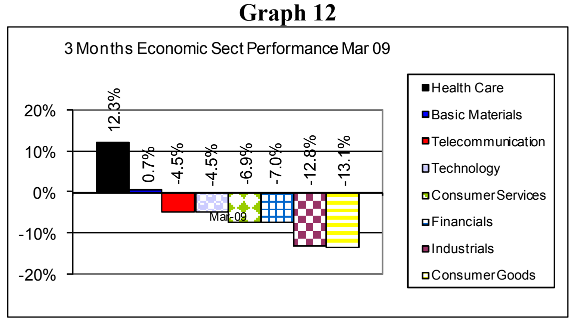
Graph 10



Graph 11



Graph 12



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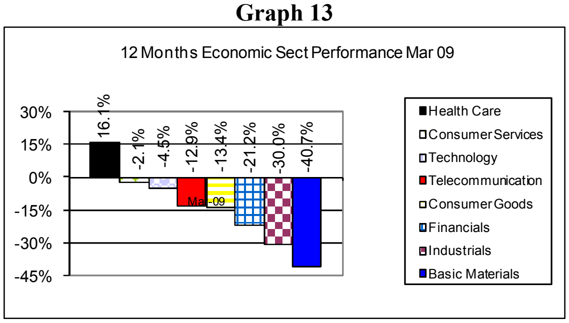
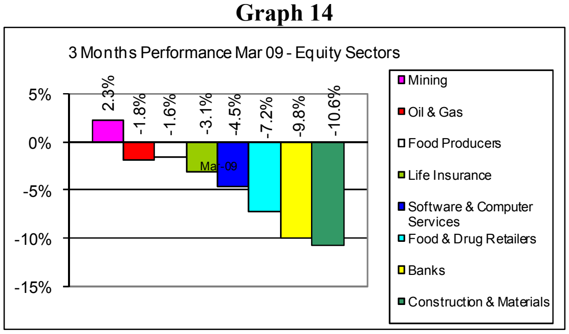
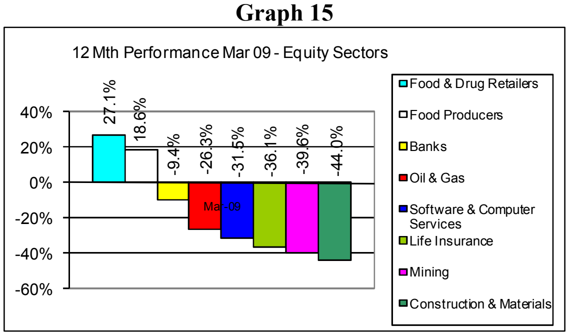
Graph 13



Graph 14



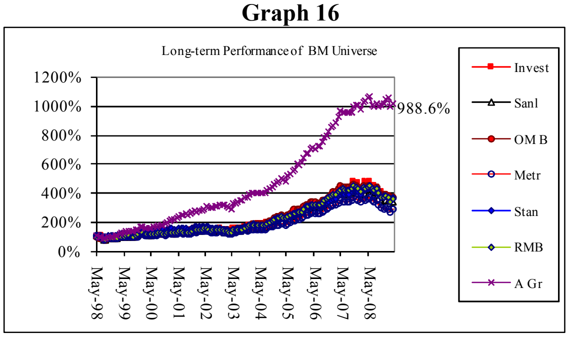
Graph 15



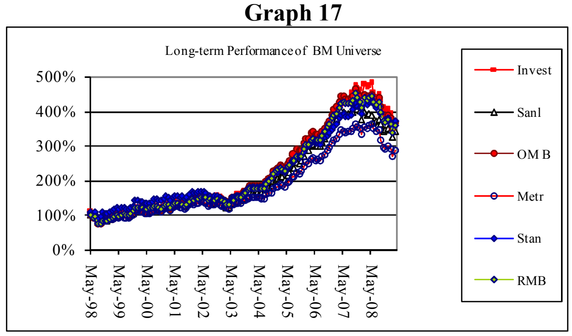
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 16

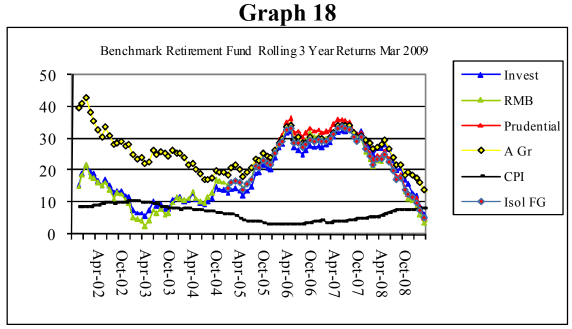


Graph 17

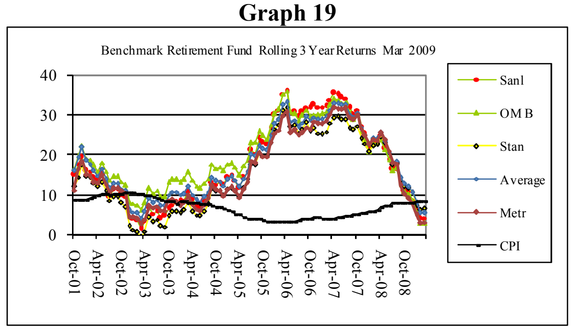


3.2. 3 year rolling performance of prudential balanced portfolios relative to CPI

Graph 18

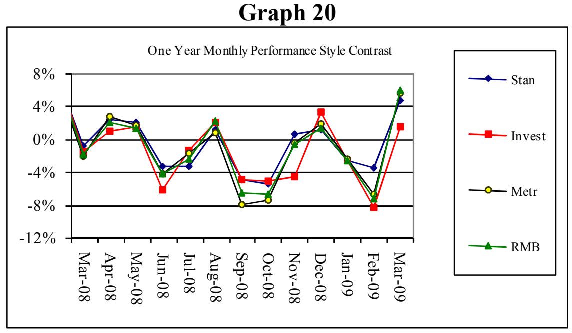


Graph 19



3.3. Monthly performance of prudential balanced portfolios

Graph 20



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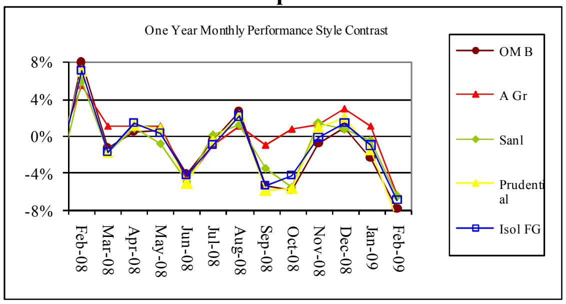
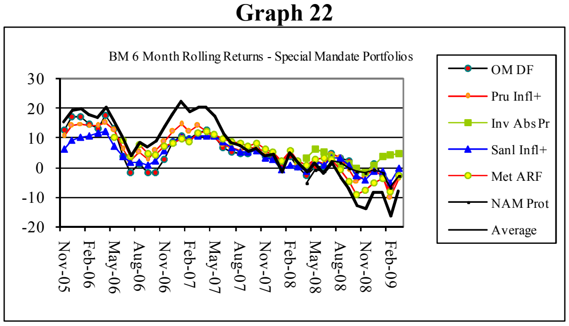
Graph 21



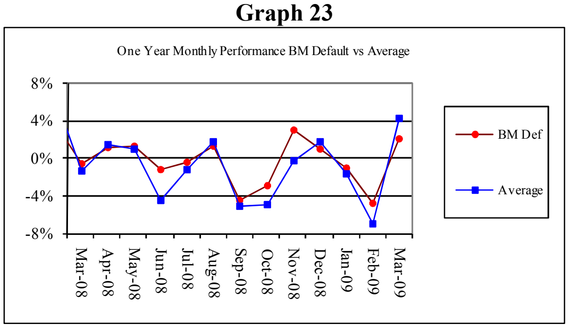
3.4. 6 Month rolling returns of 'special mandate' portfolios

Graph 22



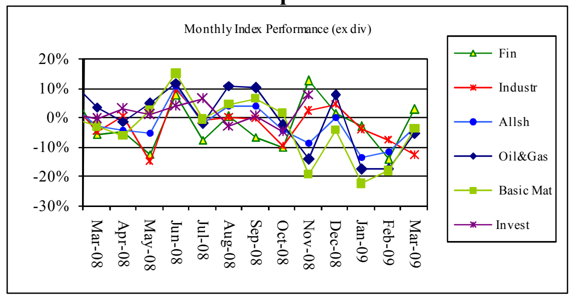
3.5. Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 23

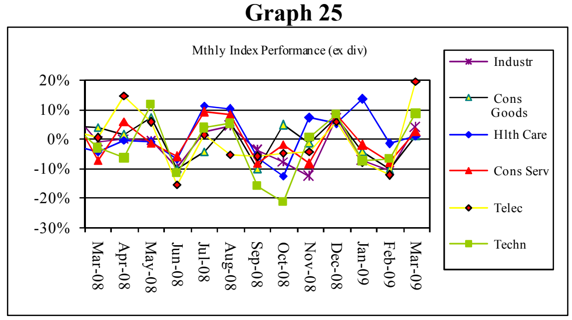


3.6. Monthly and one year cumulative performance of key indices (excluding dividends)

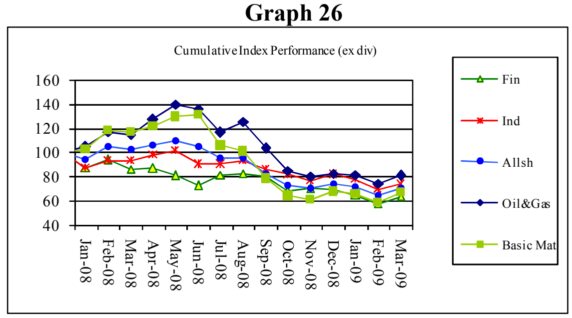
Graph 24



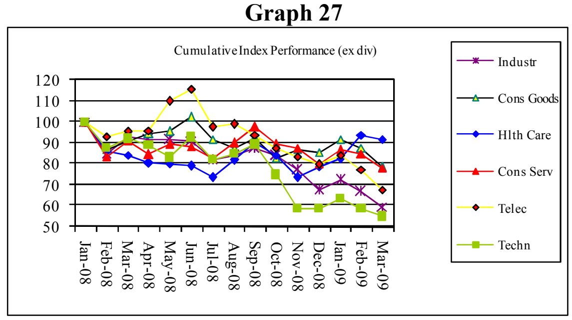
Graph 25



Graph 26



Graph 27



4. A Contrarian Preview Of The Next 12 Months

Since the beginning of March 2006, when we considered markets 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,

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while our more conservative default portfolio only managed to grow another 29%.

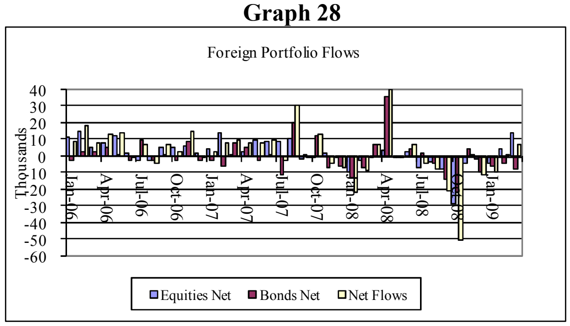
Taking this comparison further to end March 2009, the average prudential balanced portfolio produced a total return of 22.5% (6.8% p.a.) compared to our more conservative Benchmark Default portfolio's 26.6% (7.9% p.a.), Allan Gray on top of the log of prudential balanced portfolios, with 51.8% (14.5% p.a.) and OMIGNAM's Profile Balanced portfolio at the bottom with a total return of 14.2% (4.4% p.a.)! Cash delivered a total return of 32.4% (9.5% p.a.) over the same period. Inflation increased by 28.6% (8.5% p.a.) over this period.

In earlier editions of this newsletter we questioned the wisdom of denominating global trade in a single currency. Interestingly, the Chinese raised this very issue at the recent G 20 summit in London. We also questioned the mark-to-market principle for certain financial institutions. This is apparently what the FASB is now looking at. So we are likely to experience major changes in global conventions over the next few years. The steps governments have now taken to address the global financial crisis aimed at pumping billions into the financial systems in order to stimulate demand will have medium to long term consequences that we cannot foresee at this stage. We do expect that they will impact positively on global financial markets though and our short- to medium term views are based on this assumption.

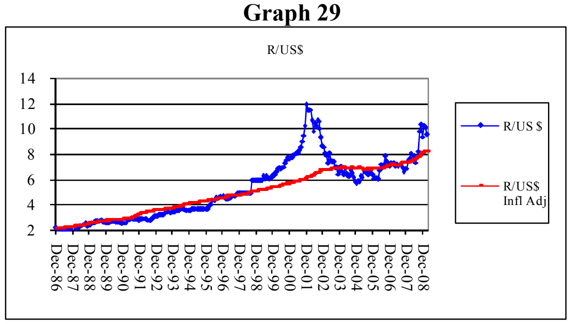
We maintain our view of low, probably even negative real interest rates, increasing inflation in the developed world and sideways movement in global equity markets for an extended period of time of between 3 and five years. Volatility will remain in financial markets for probably another year until all surprises are out of the global financial system. A 'bottom up' approach to portfolio construction based on stock picking 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 still somewhat oversold at 9 to the US$ currently, and should be around 8.37, on a relative inflation adjusted basis. Declining inflation and interest rates should be beneficial for local consumption, particularly with regard to food and clothing and of course for property investments. The much stronger Rand will impact negatively on local manufacturing but should be positive for the consumer reducing the prices of imported goods.

Graph 28

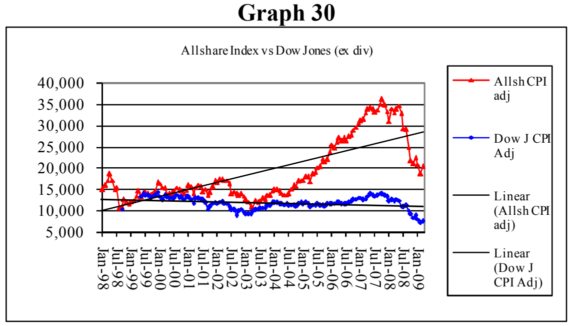


Graph 29



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 12,800 points at the end of March. Both the Dow Jones and the SA Allshare Index are now around 35% below the CPI adjusted trend line. Over this period, the Allshare Index gained 61%, while the Dow Jones lost 18%. At the end of March, the P:E ratio of the S&P 500 was at 16.3, compared to 9.7 for the South African Allshare.

Graph 30



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5. Conclusion

We believe that volatility in global equity markets will still 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 Rand approaching fair value, it offers an opportunity to raise the offshore exposure again in order to achieve a fair spread of investment in global equity.

We repeat our observation in the previous newsletter - Exceptional times as we are currently experiencing, require exceptional approaches. 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.