BENCHTEST

Volume 5, No. 4, April 2009

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 APRIL 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 also available on our website at www.rfsol.com.na.

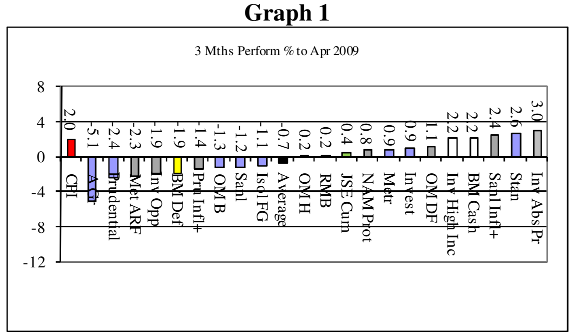
1. Review of Portfolio Performance

In **April** the **average prudential balanced portfolio** returned **2.33%** (4.24% in March). Best and worst performance **for the month** was delivered by Investec (8.45%) and Allan Gray (minus 1.02%), respectively. Note that during March, Investec reported an incorrectly low return of 1.55% which was corrected during April, explaining the large return for the month. Ignoring Investec's return, the best performer for April would have been Prudential with 2.80%.

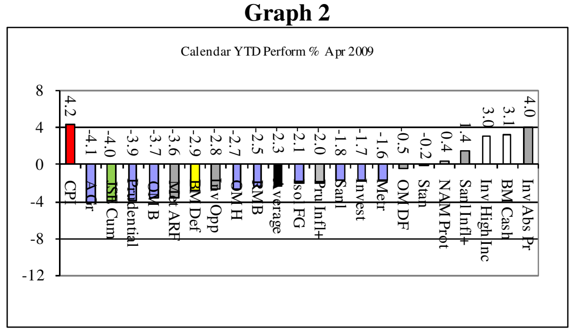
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 Namibia Inflation Plus and Metropolitan Namibia Absolute Return. Below is the legend to the abbreviations reflected on the graphs:

Benchmarks	
Namibian Consumer 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 Pr (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 Prot (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Invest (blue)
Investment Solutions Balanced Growth, prev. 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)

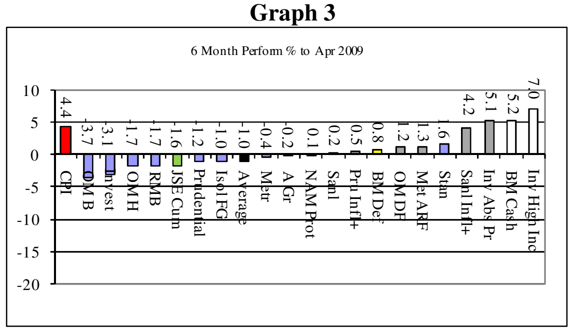
Graph 1



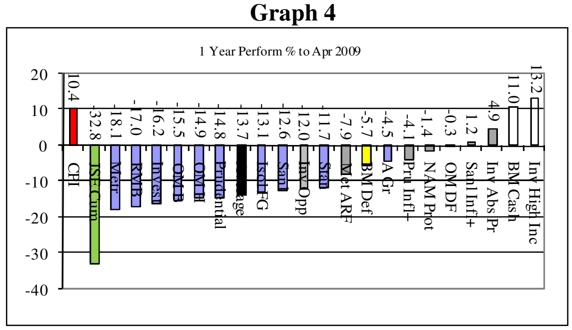
Graph 2



Graph 3



Graph 4



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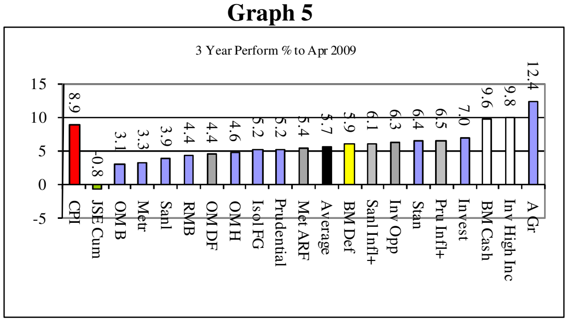
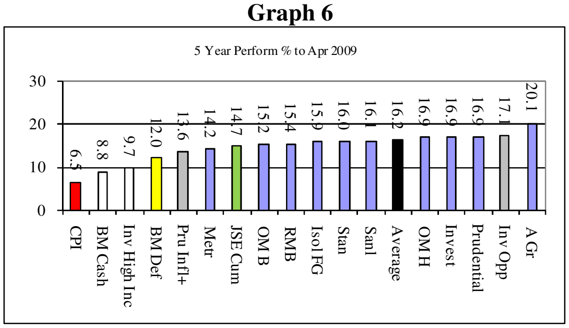
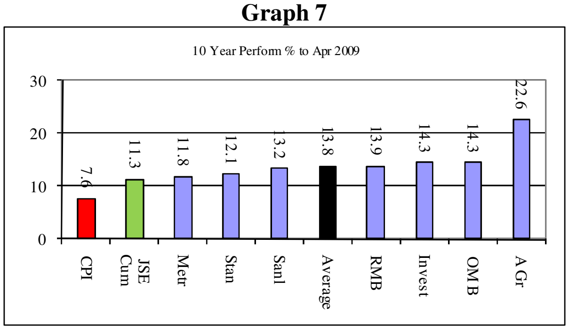
Graph 5



Graph 6

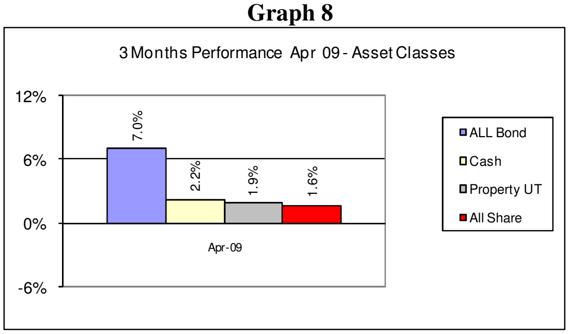


Graph 7

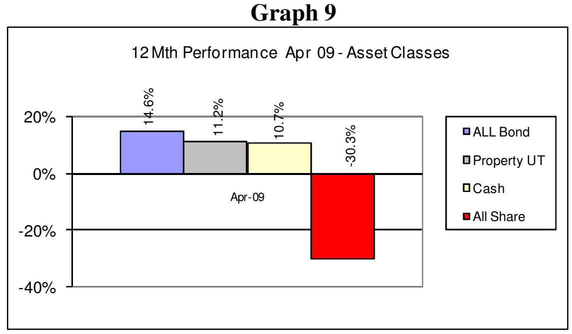


2. Performance of Key Indices (index performance by courtesy from pointBreak/Deutsche Securities)

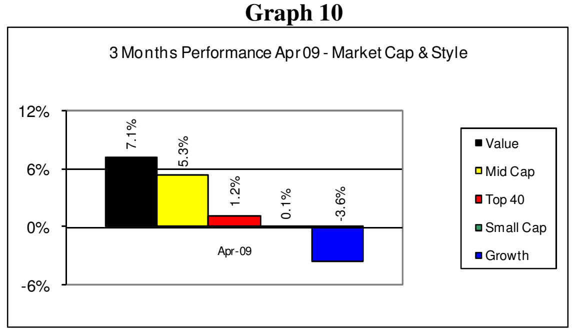
Graph 8



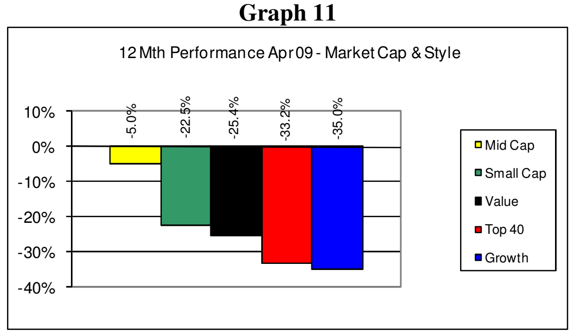
Graph 9



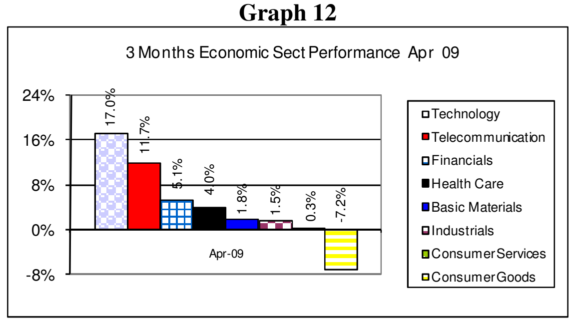
Graph 10



Graph 11



Graph 12



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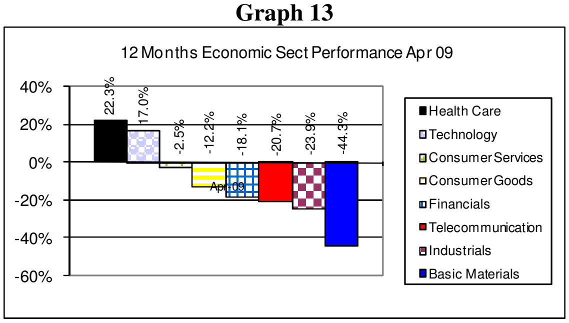
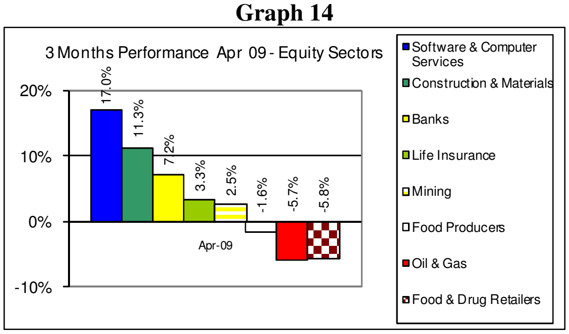
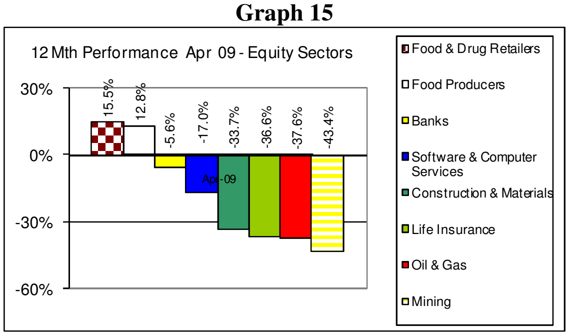
Graph 13



Graph 14



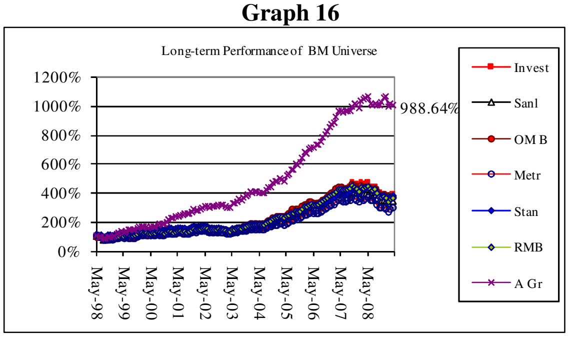
Graph 15



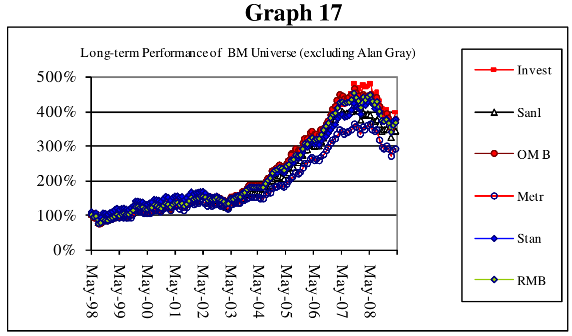
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 16

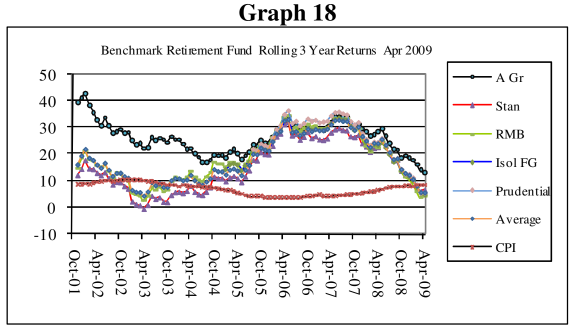


Graph 17

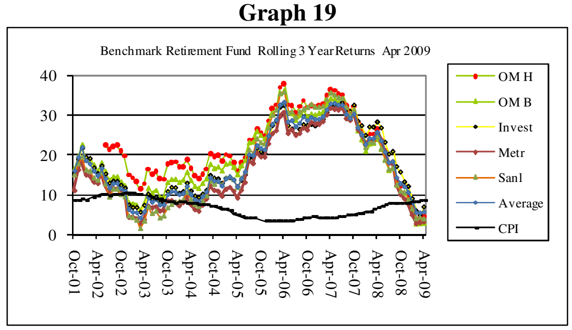


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 18

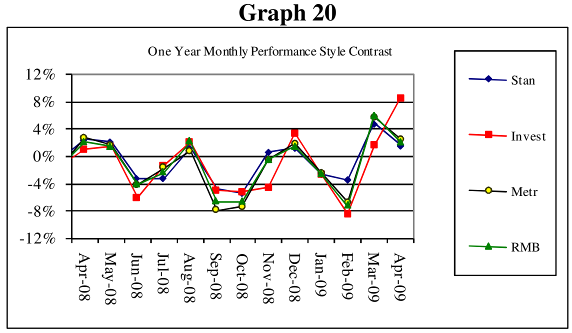


Graph 19



3.3. Monthly performance of prudential balanced portfolios

Graph 20



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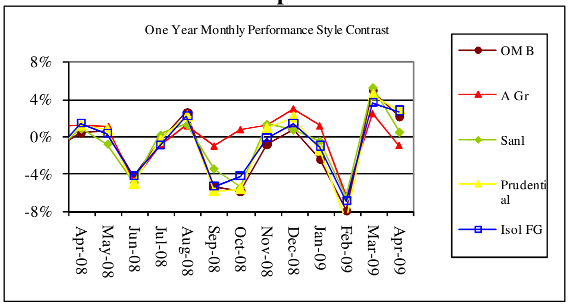
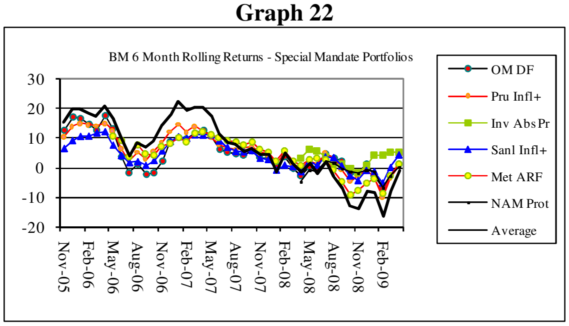
Graph 21



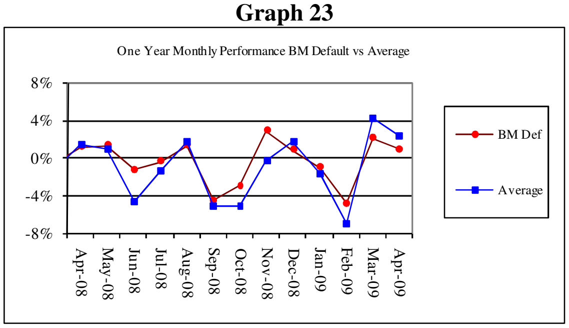
3.4. 6-month rolling returns of 'special mandate' portfolios

Graph 22



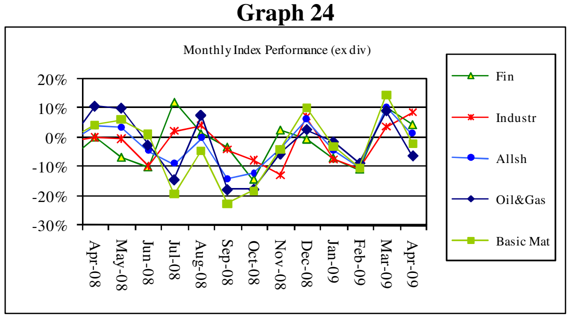
3.5 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 23

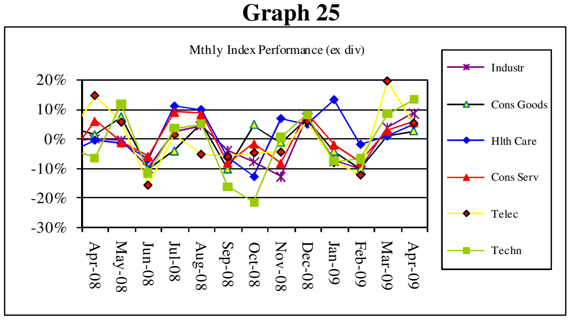


3.6 Monthly and one year cumulative performance of key indices (excluding dividends)

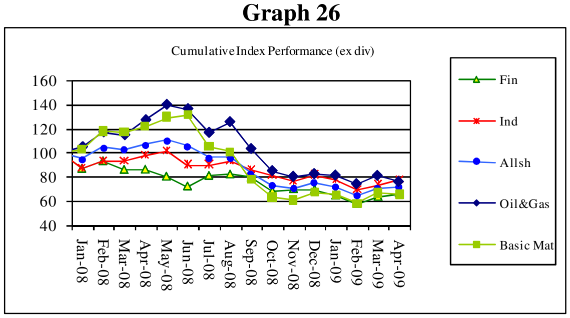
Graph 24



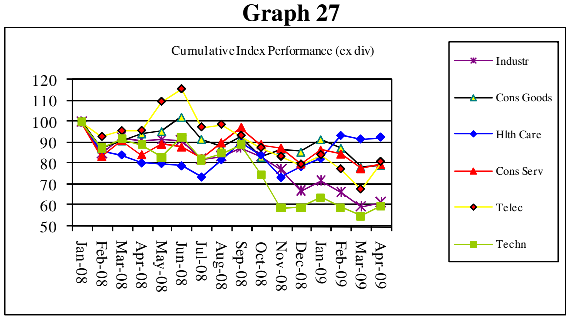
Graph 25



Graph 26



Graph 27



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4. A Contrarian Preview Of The Next 12 Months

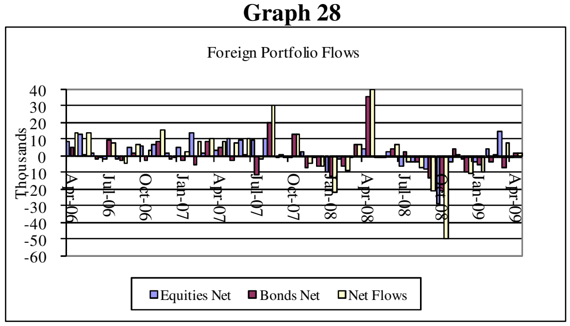
At the beginning of March 2006, we considered markets to be at unsustainable levels and moved to more conservative investment vehicles. At the end of April 2009, we have moved back into the prudential balanced portfolios in the belief that markets have corrected and should be around the trough. Over this period, the average prudential balanced portfolio grew by 5.7% p.a, our more conservative default portfolio grew by 5.9% p.a., while cash grew by 9.6% p.a. Allan Gray on top of the log of prudential balanced portfolios grew by 12.4% p.a. and Old Mutual at the bottom with a total return of 3.1% p.a. Over the same period, inflation increased by 8.9% p.a.

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 International Accounting Standards Board (IASB) 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 view is based on this assumption.

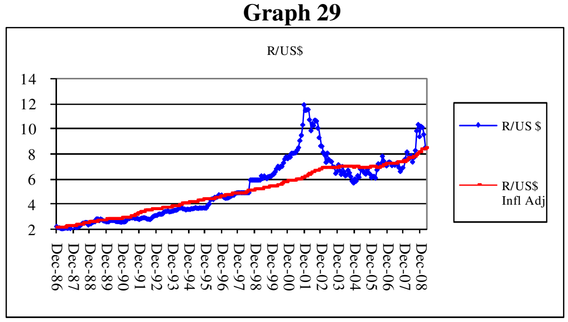
We maintain our view of low, probably even negative real interest rates, increasing inflation in the developed world and sideways movement in global equity markets for an extended period of time of between three and five years. Volatility will remain in financial markets for probably the balance of this 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. **Graph 29** indicates that the Rand is fairly valued at 8.43 to the US$ currently, 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 and mining but should be positive for the consumer reducing the prices of imported goods.

Graph 28

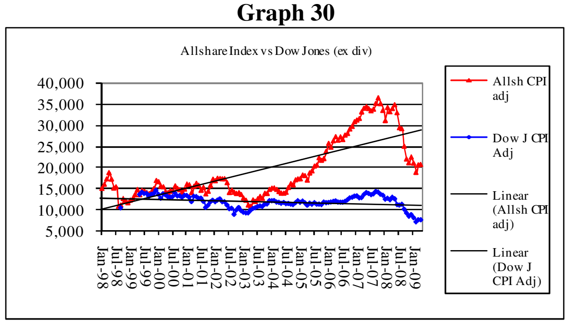


Graph 29



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 points in October 2007 to 12,500 points at the end of April 2009. Both the Dow Jones and the SA Allshare Index are now around 43% below the CPI adjusted trend line. Since May 1999, the Allshare Index gained 54% local-CPI adjusted (218% in absolute terms), while the Dow Jones lost 39% US-CPI adjusted (23% in absolute terms). At the end of April, the P:E ratio of the S&P 500 was at 19.3, compared to 9.8 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.

As was pointed out above, based on a long-term investment horizon, we have moved back from the more conservative absolute return portfolio to the prudential balanced portfolio. Typically retirement funds have a long-term investment horizon with respect to their membership and should hence consider taking on more risk now.

This is not necessarily the appropriate action for every fund member though. Fund members who may choose their investment portfolio, firstly need to consider the time horizon until retirement and what they intend doing with their capital at retirement before they take a decision. They also need to assess whether accumulated retirement capital is sufficient to meet their income needs after retirement. To get a very broad idea, one may simply divide one's capital by 120 to determine roughly what monthly income one's capital would provide on a sustainable basis, if one were to retire now.

If this is sufficient, one would probably play safe and move to or remain in a more conservative investment portfolio. If the choice is between a 'market linked' prudential balanced portfolio and a smooth bonus portfolio, one needs to be aware that the smooth bonus portfolio option is actually not too much different from the 'market linked' prudential balanced option. It is a lot less volatile, which is achieved through cross-subsidisation between different 'generations' but a significant portion of the portfolio is still in the market. In essence it prolongs 'pain' (poor returns) at a reduced level of severity and it retards 'pleasure' (good returns) at a reduced level of excitement, all this at a cost to the investor.

Members who are dependent on investment returns to get to the point of their capital providing sufficient income replacement, need to be more aggressive and stay in the market as one alternative. This means that they run a higher risk in terms of market volatility. In this consideration it is also important to be conscious of one's investment horizon. At age 65 the statistical life expectancy is something like 13 years, thus still favouring a long-term horizon.

How the market is going to perform from now on is anybody's guess. What can be said is that we experienced a significant global down-turn in a historic perspective and one would expect that there is not too much downside potential, but it is possible that there may be further negative movement. Timing the market is impossible. A rational approach is to move out of the market on the way up before, or just after it reaches the top. Conversely, one should enter the market on the way down or just after it turned. Of course one will never know when it has reached the top or the bottom. All we do know is that the market has turned down. It may already be past the bottom or it may still go down further, but from the principle one should now move into the market, rather than out of the market.

Taking our view of a Rand now being at fair value, it offers an opportunity to raise the offshore exposure again in order to achieve a fair spread of investment in global equity.

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.