Volume 5, No. 9, September 2009

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 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 **September** the **average prudential balanced portfolio** returned **0.49%** (3.34% in August). Best and worst performance **for the month** was delivered by Metropolitan (1.17%) and Stanlib (0.18%), respectively. Here is an analysis of performance of the best and worst performing manager based on our asset and sector allocation information as at 30 June 2009:

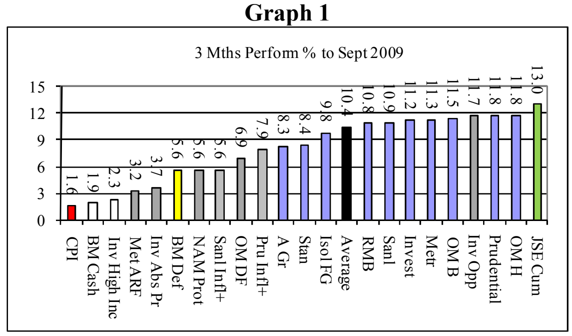
Asset Class	Average		Metropolitan		Stanlib	
	Asset alloc	Perfor	Asset alloc	Perfor	Asset alloc	Perfor
Local Eq	54.10%	0.3%	60.3%	0.6%	46.3%	0.3%
Local Bnds	10.7%	0.1%	13.4%	0.1%	6.8%	0.1%
Local Csh	15.2%	0.1%	2.7%	0.0%	42.0%	0.2%
Local Prop	2.1%	0.0%	6.6%	0.0%	0.0%	0.0%
Intern Eq	12.7%	0.0%	11.2%	0.0%	2.6%	0.0%
Intern Other	4.8%	-0.1%	5.8%	-0.2%	2.3%	-0.1%
Projected Perf		**0.4%**		**0.5%**		**0.5%**
Proj error		0.1%		0.7%		-0.3%
Actl Perf		**0.5%**		**1.2%**		**0.2%**

'Perfor' = asset class weighted performance

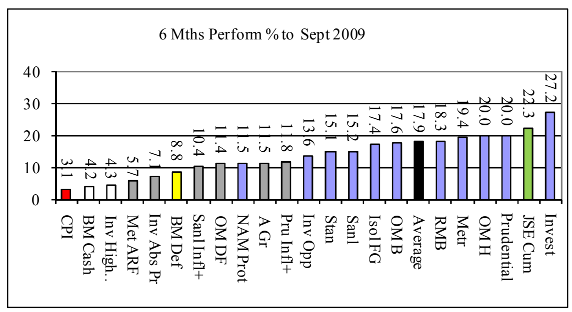
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced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

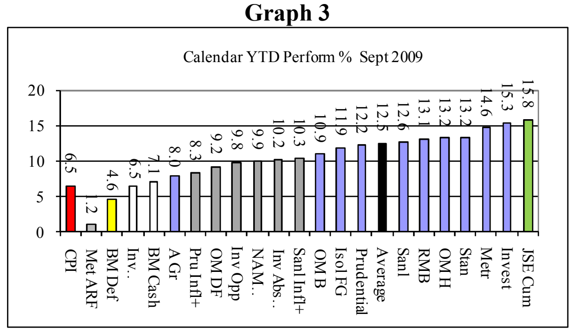
Graph 1



Graph 2



Graph 3



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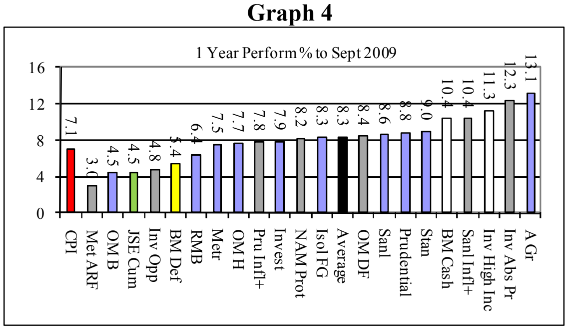
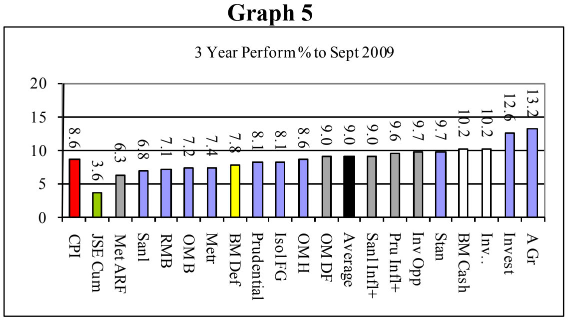
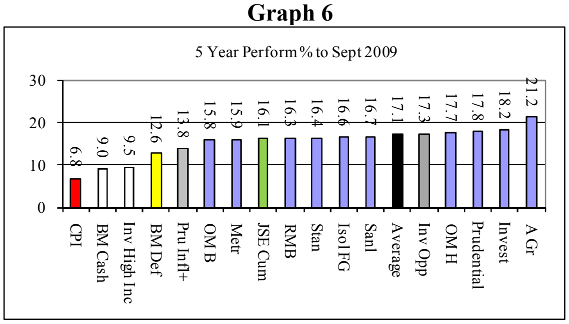
Graph 4



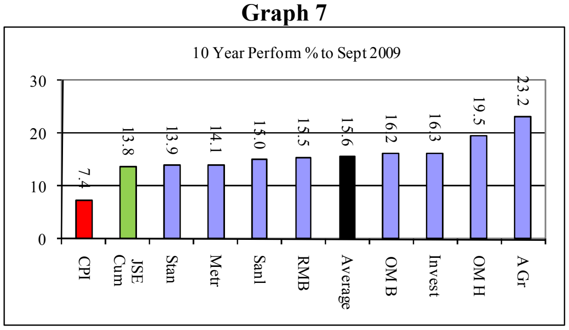
Graph 5



Graph 6

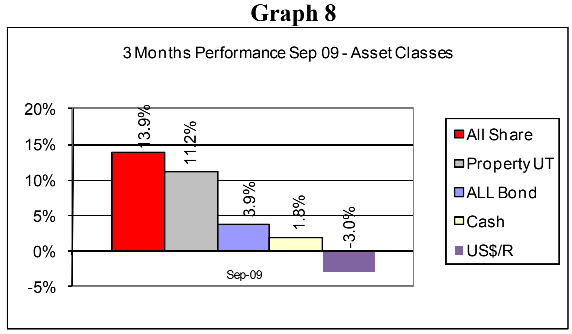


Graph 7

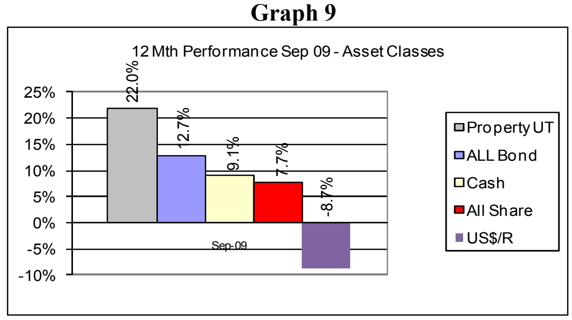


2. **Performance of Key Indices** (index performance by courtesy from pointBreak/Deutsche Securities)

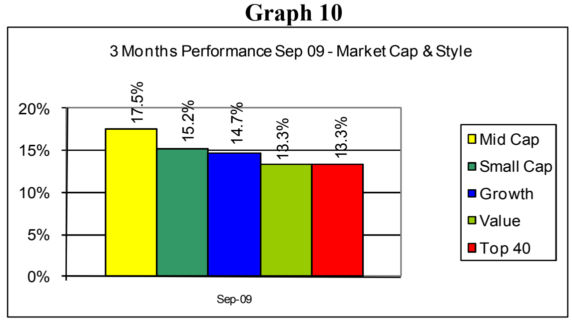
Graph 8



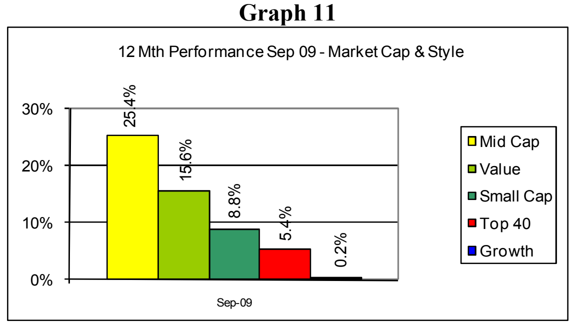
Graph 9



Graph 10



Graph 11



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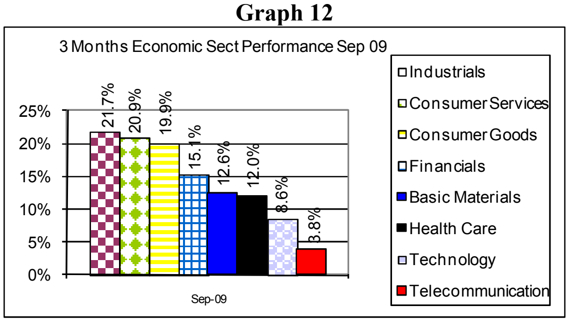
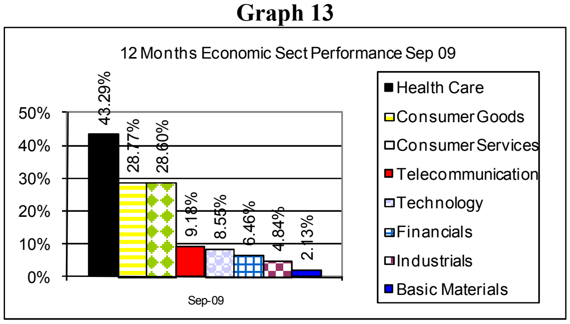
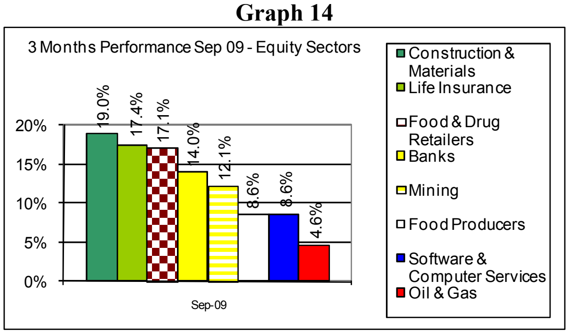
Graph 12



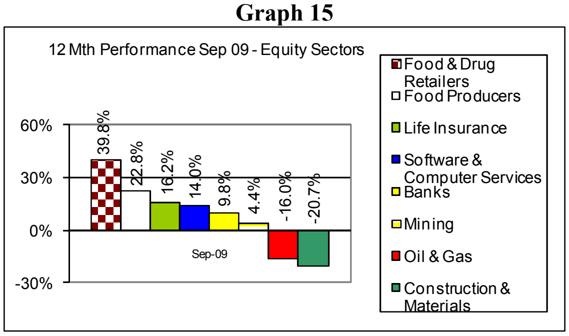
Graph 13



Graph 14



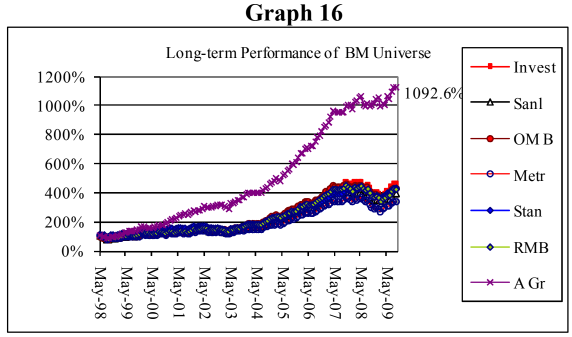
Graph 15



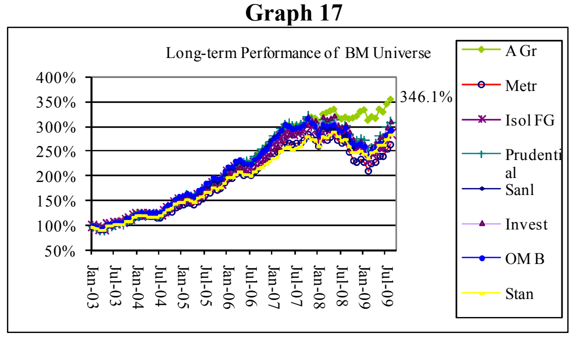
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 16

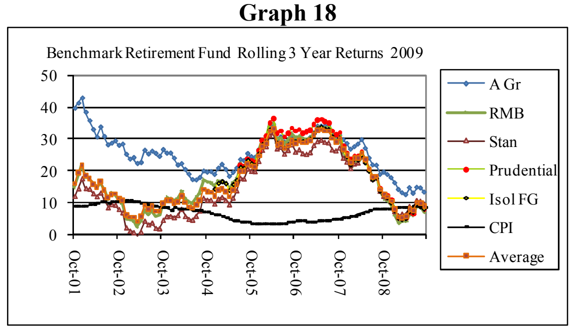


Graph 17

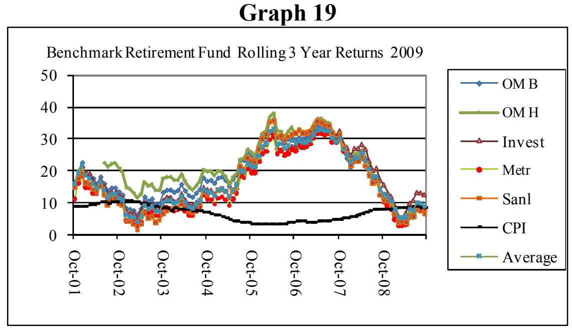


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 18



Graph 19



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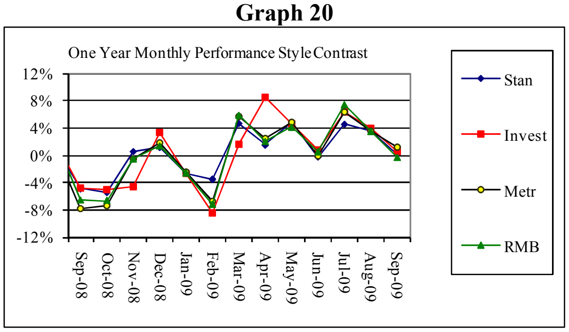
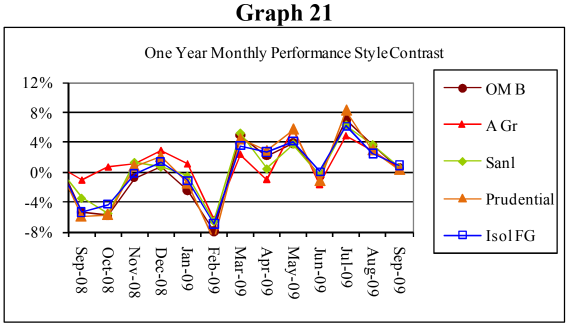
3.3. Monthly performance of prudential balanced portfolios

Graph 20

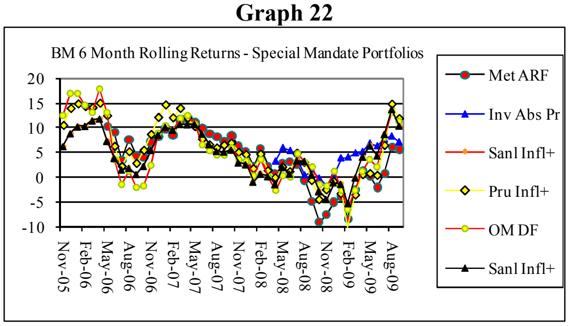


Graph 21



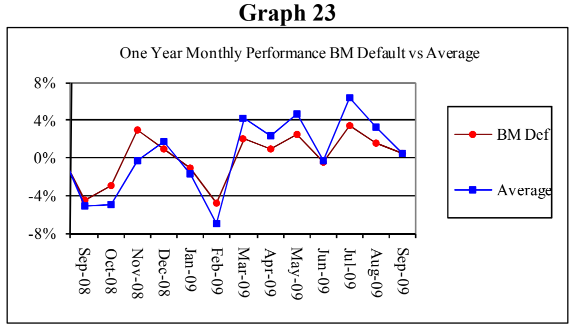
3.4. 6-month rolling returns of 'special mandate' portfolios

Graph 22



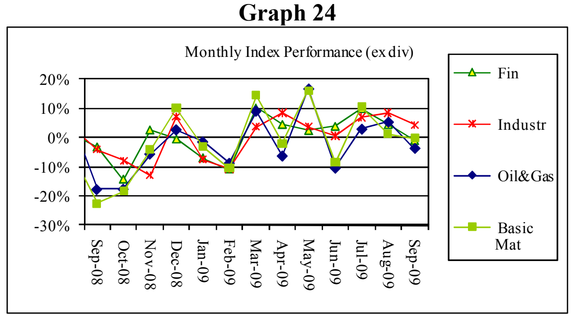
3.5 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 23

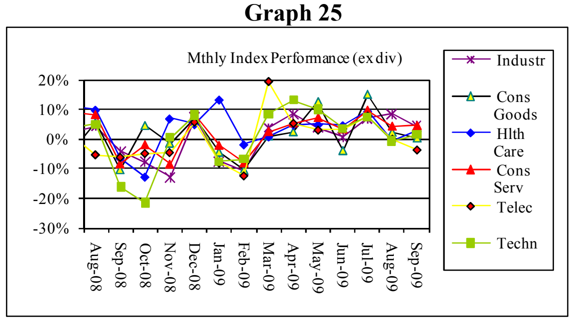


3.6 Monthly and one year cumulative performance of key indices (excluding dividends)

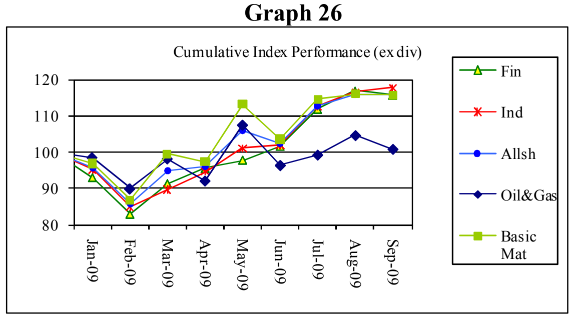
Graph 24



Graph 25



Graph 26



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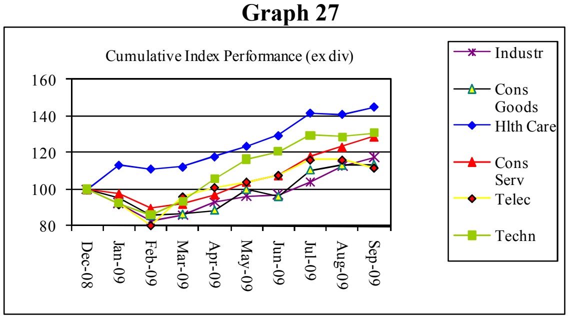
Graph 27



4. The Benchmark Default Portfolio

Graph 6 shows that the average prudential balanced portfolio returned 17.1% in nominal terms, or 10.3% in real terms, over the past 5 years while the Benchmark Default portfolio returned 12.6% in nominal terms, or 5.8% in real terms. We believe that the past 5 years are not representative of the expected long-term performance differential between the Default portfolio and the average prudential balanced portfolio, but is skewed by between 2% and 4% in favour of latter portfolio. We would expect the average prudential balanced portfolio to deliver a real return of roughly 6% per year and the Default portfolio to sacrifice around 2% for the benefit of lower volatility, thus an expected real return of around 4% per year.

The Default portfolio returned 5.4%, gross for the one year to end September. The more 'risky' average prudential balanced portfolio returned 8.3% gross over this period. A fee of roughly 0.75% p.a. still has to be deducted.
The performance of the latter portfolios is significantly more volatile than that of the Default portfolio. The table below presents one year statistics over the 3 years October 2006 to September 2009:

Measure	Default portfolio	Average Prud Balanced
Worst annual performance	- 8.0%	- 19.1%
Best annual performance	21.0%	33.4%
No of negative 1 year periods	10	10
Average of negative 1 year periods	- 3.7%	- 11.4%
Average of positive 1 year periods	13.5%	18.3%

This table represents the different characteristics of the two types of portfolio quite well. The Default portfolio is a more conservative investment aimed at minimising negative returns and with a long-term return objective of inflation plus 4%.

Having said this, the Trustees have become concerned about one of the managers in this portfolio and have called them in recently. The Trustees were assured that this manager did recognise they made some wrong investment decisions that produced some disappointing results over the short term, and a convicing argument was put forward that things should improve.

It is very important, though, that employers invested in the Default portfolio are comfortable with these investment characteristics and that they should be able to create comfort amongst their employees as well!

5. A Contrarian Preview Of The Next 12 Months

As shown in **Graph 27** the main indices on local markets have produced somewhere between 12% ('Telecoms') and 45% ('Healthcare') year-to-date, excluding dividends, and most international markets have also returned similar results. We believe that we are more likely to see a downward correction to the end of the year, than further growth in global financial markets, this depending on what the oil price does though, which seems to be the target for speculators and which sets the pace for international commodities.

The crude price now approaching US$ 80 again could set the scene for a change in direction of global financial markets. Certainly this is thé global accelerator for the velocity of money and consequently of global GDP. Consider the extent of this Zunami of money of around US$ 7 billion a day (or US$ 2.6 trillion a year, or 17% of US GDP or 4% of global GDP!) billowing into the delivery chain of this commodity. So what was the problem when the bubble burst in 2007, one may ask? Was it that too little flowed back into the pockets from where it came and instead was pumped into unproductive capacity?

We are clearly too simple minded to understand the global dynamics of a crude price at current levels, but what we can say is that this Zunami will not go unnoticed by global financial markets.

Before all seemed to be agreed that the problem was speculation, hedge funds, bad bankers and …what else? One hasn't heard much about controlling this spook lately and on that basis our bet is on global financial markets producing the so-called 'V shape'.

Global investors have forgotten about the financial crisis and are creeping out of their shells again, and consider September as an odd quirk. They are once again looking for global investment opportunities, more specifically in commodity rich economies, as is borne out by the return of foreign capital flows into South Africa (see **Graph 28)**.

The first signs of a recovery in global economies now surfacing, we would expect global asset prices to start recovering. We also expect global interest rates to have reached their bottom and to start turning upwards. Both

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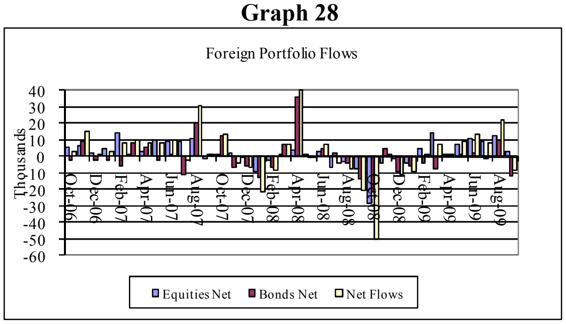
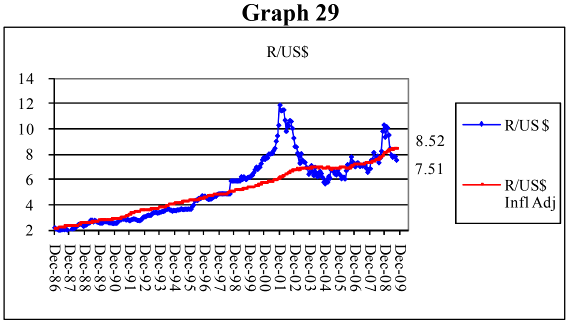
these developments should put pressure on global inflation and interest rates in the medium term, especially if markets do produce the 'V shape', which should generate consumer demand once again. As far as exchange rate is concerned, **Graph 29** indicates that the Rand is fairly valued at 8.50 to the US$. At its current level of around 7.50, it is overvalued by this measure. A commodity driven recovery is likely to keep the Rand stronger for longer while the SA Government might consider countering the Rand strength by a downward adjustment of interest rates to support local manufacturers and to support job creation.

Graph 30 indicates that equity markets seem to have bottomed. The 1 year lagging SA Allshare P:E gained 6.3 points to 14.5 from its bottom of 8.2 at the end of February.

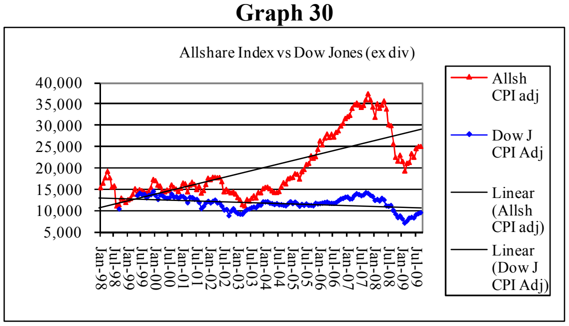
Graph 28



Graph 29



Graph 30



5. Conclusion

It would seem that global markets are now in more stable and sustainable territory. We foresee two possible scenarios, one based on a sustainable oil price of between US$ 45 and US$ 60, the second based on an oil price above US$ 60.

In the former scenario, markets have probably run ahead of themselves and are likely to take a breather for the next 6 to 12 months. Interest rates will remain stable, and consumer demand subdued for the next 6 to 12 months while the Rand should start weakening in soon.

In the latter scenario we will see a 'V shape' in global markets, in which case we expect equities to continue rising, consumer demand picking up and interest rates rising over the next 6 to 12 months. In that scenario we expect SA and our interest rates and inflation to initially move in the opposite direction for about 6 months before following global trends. The Rand will in the mean time maintain a pretty strong profile before weakening as interest rates start moving up.

Both scenarios will be neutral to positive for equities, which we expect to be one of the top performing asset classes for the next 6 to 12 months. Property should do reasonably well relative to bonds over the next year under both scenarios. An expected incline in global interest rates in the medium term will be negative for all interest bearing assets for a while. In terms of equity sectors, our shorter term view would indicate on the basis of fundamentals, that consumer goods and services should be overweight to neutral in one's portfolio, while commodities should be neutral to overweight under the two scenarios, respectively. We expect financials to return to the higher quartiles over the next year. Industrials are expected to experience rather tough times over the next 12 months.

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. Since we are of the opinion that equities should outperform fixed interest investments over the next year, only a very short term investment horizon of a few months would justify investment in cash.

Taking our view of a Rand now being significantly overvalued, it offers a major opportunity to continue raising one's offshore exposure again in order to achieve a fair spread of investment in global equity.

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

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.