Volume 5, No. 11, November 2009

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 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 **October** the **average prudential balanced portfolio** returned minus **0.31%** (3.34% in October). Best and worst performance **for the month** was delivered by Old Mutual Profile Balanced (0.58%) and Allan Gray (minus 0.99%), 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 September 2009:

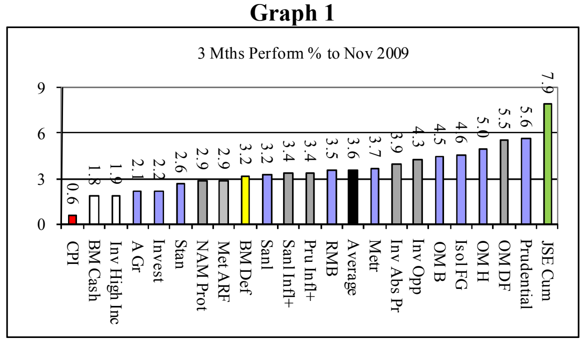
Asset Class	Average		OM Profile Bal		Allan Gray	
	Asset alloc	Perfor	Asset alloc	Perfor	Asset alloc	Perfor
Local Eq	57.1%	0.5%	49.5%	0.4%	47.0%	0.0%
Local Bnds	10.2%	0.0%	9.3%	0.0%	4.8%	0.0%
Local Csh	13.1%	0.1%	14.2%	0.1%	18.4%	0.1%
Local Prop	2.2%	0.0%	5.9%	0.1%	1.1%	0.0%
Intern Eq	12.4%	- 0.3%	17.8%	- 0.3%	13.6%	- 0.2%
Intern Other	4.9%	- 0.2%	2.2%	- 0.1%	13.9%	- 0.7%
Projected Perf		**0.1%**		**0.2%**		**- 0.8%**
Proj error		-0.4%		0.4%		- 0.2%
Actl Perf		**- 0.3%**		**0.6%**		**- 1.0%**

'Perfor' = asset class weighted performance

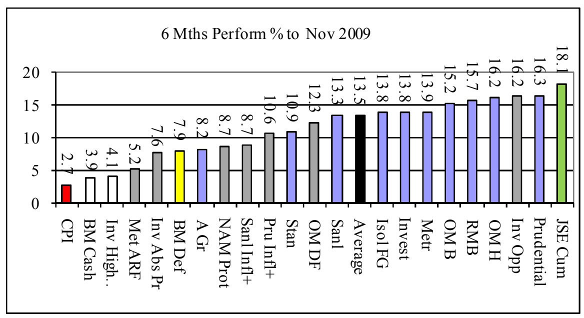
Graphs 1 to 7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced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

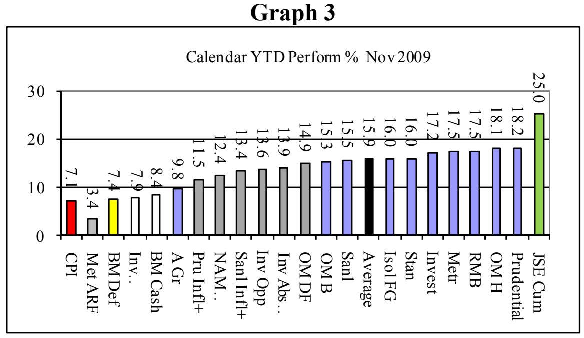
Graph 1



Graph 2



Graph 3



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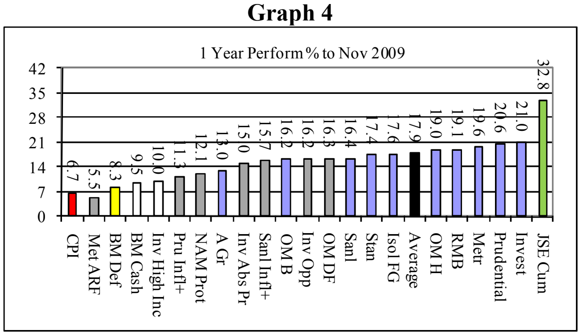
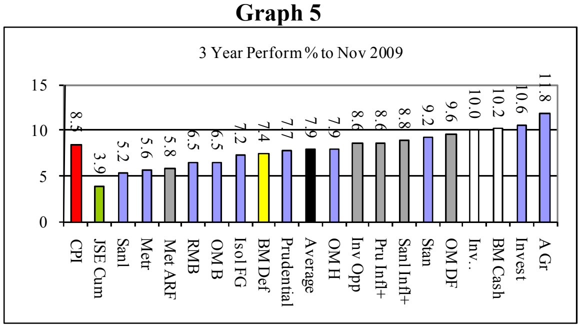
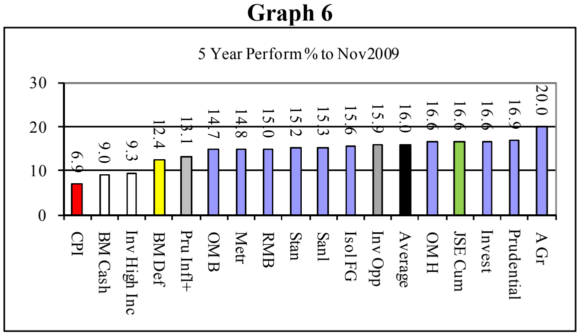
Graph 4



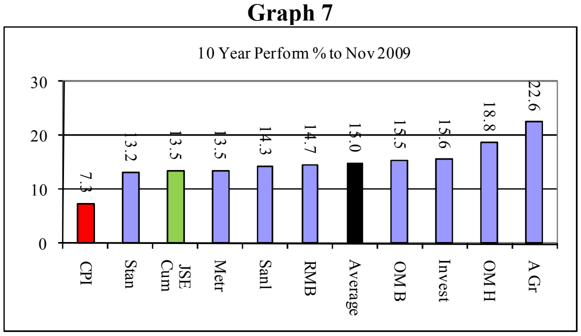
Graph 5



Graph 6

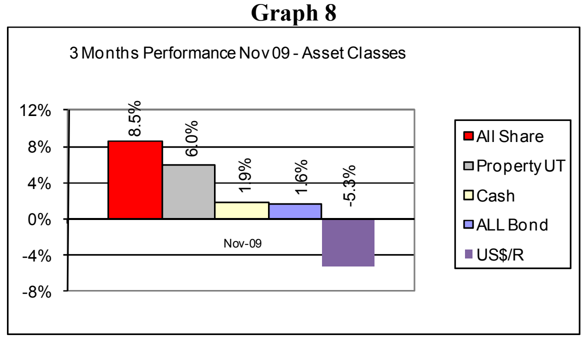


Graph 7

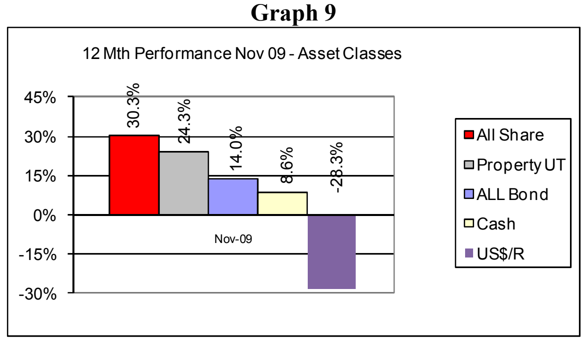


2. **Performance of Key Indices** (index performance by courtesy from pointBreak/Deutsche Securities)

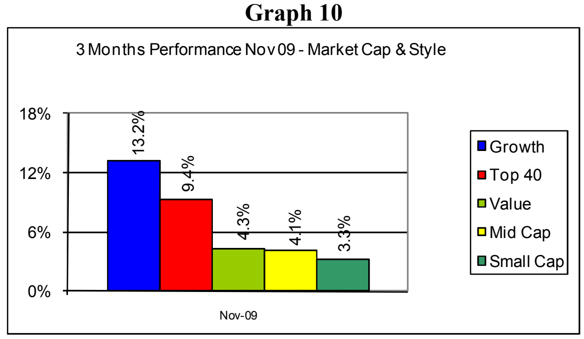
Graph 8



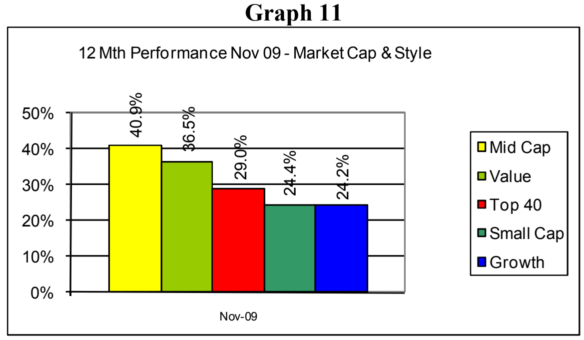
Graph 9



Graph 10



Graph 11



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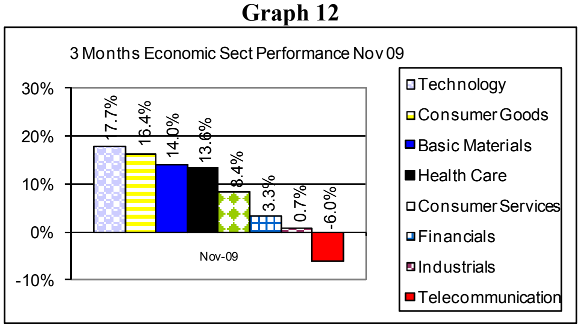
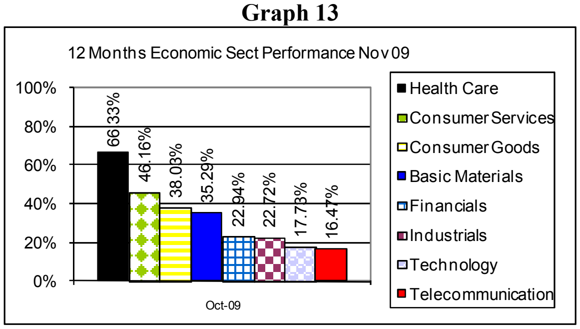
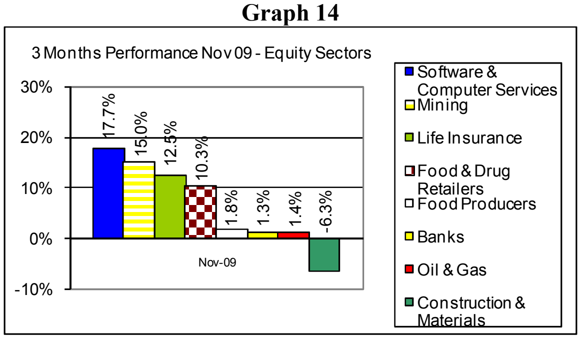
Graph 12



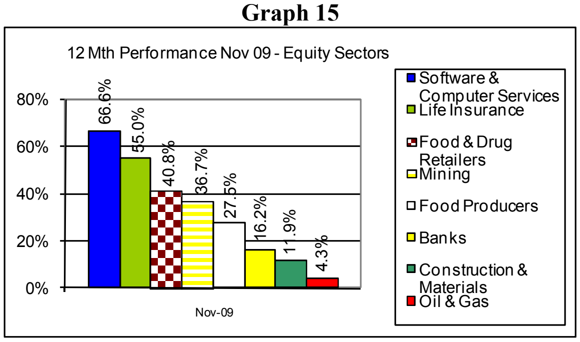
Graph 13



Graph 14



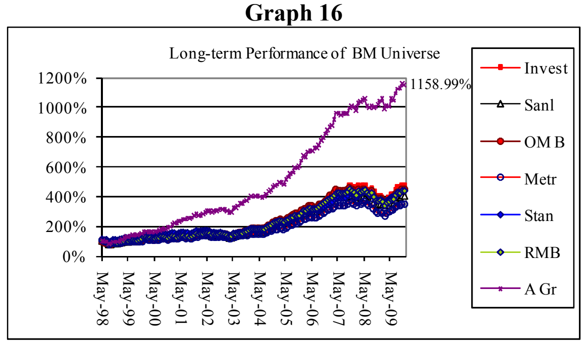
Graph 15



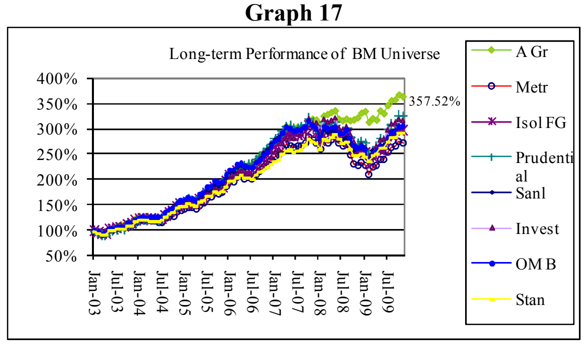
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 16

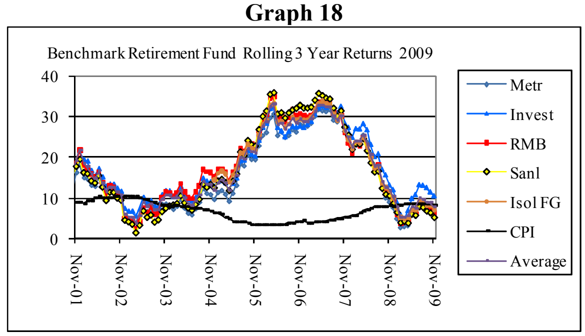


Graph 17



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

Graph 18



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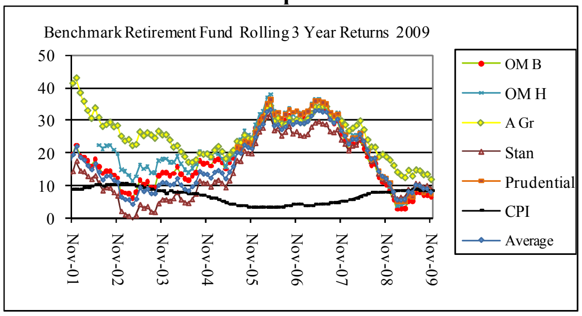
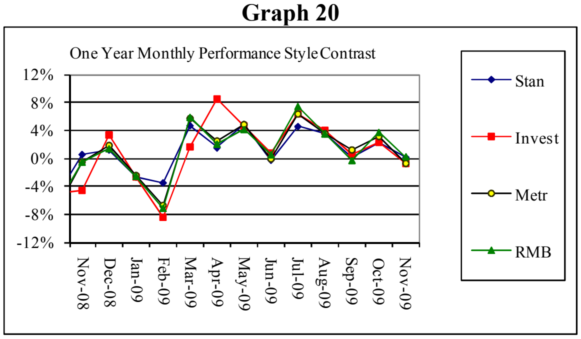
Graph 19

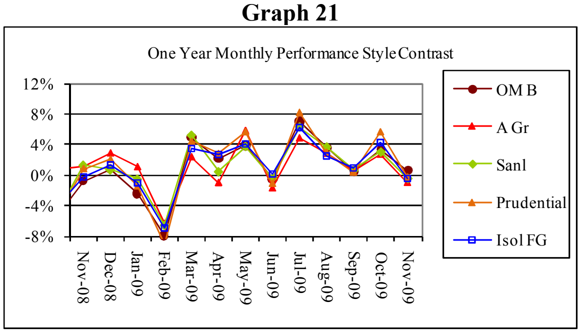


3.3. Monthly performance of prudential balanced portfolios

Graph 20

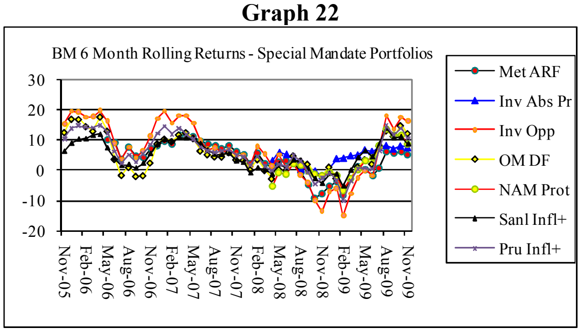


Graph 21



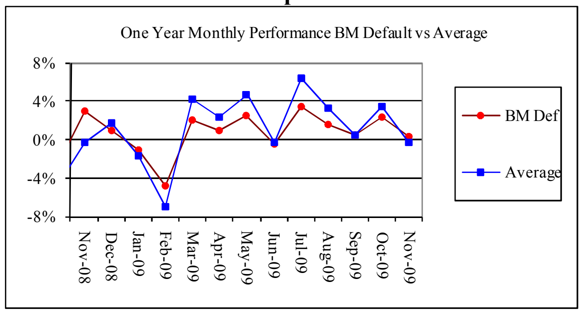
3.4. 6-month rolling returns of 'special mandate' portfolios

Graph 22



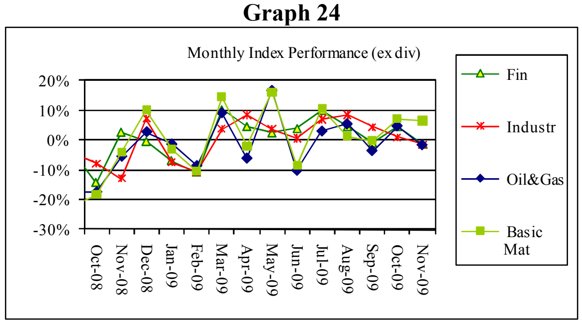
3.5 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 23

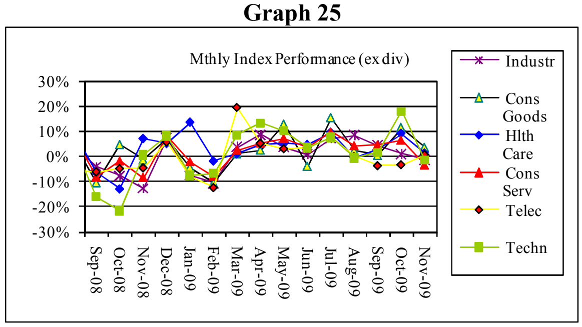


3.6 Monthly and one year cumulative performance of key indices (excluding dividends)

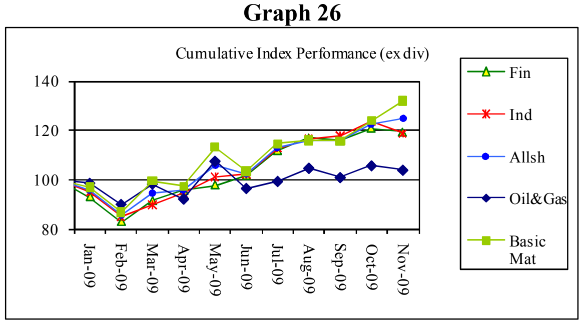
Graph 24



Graph 25



Graph 26



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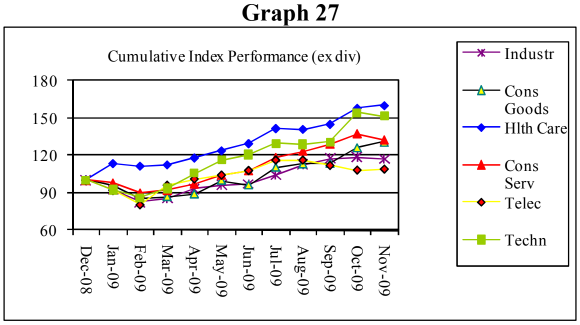
Graph 27



4. The Benchmark Default Portfolio

Graph 6 shows that the average prudential balanced portfolio returned 16.0% in nominal terms, or 9.1% in real terms, over the past 5 years while the Benchmark Default portfolio returned 12.4% in nominal terms, or 5.5% in real terms. We believe that the past 5 years are now much more representative of the expected long-term performance differential between the Default portfolio and the average prudential balanced portfolio, probably still slightly skewed 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 Money Market portfolio returned 9.5% and the Default portfolio returned 8.3%, gross for the one year to end November. The more 'risky' average prudential balanced portfolio returned 17.9% gross over this period. A fee of roughly 0.75% p.a. still has to be deducted from all but the Money Market Portfolio. The performance of the prudential balanced portfolios is significantly more volatile than that of the Default portfolio, which produces significantly more volatile performance than the Money Market portfolio. The table below presents one year statistics over the 3 years December 2006 to November 2009:

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	7.4%	- 8.0%	- 19.1%
Best annual performance	12.1%	20.8%	33.4%
No of negative 1 year periods	0	10	10
Average of negative 1 year periods	0%	- 3.7%	- 11.4%
Average of positive 1 year periods	10.0%	12.7%	17.2%

This table represents the different characteristics of the three 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%.

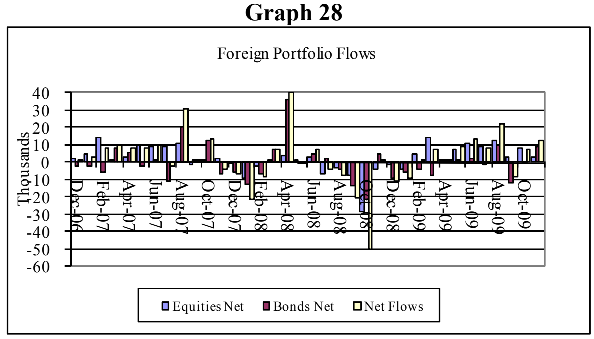
It is very important, though, that employers invested in the Default portfolio are comfortable with these investment characteristics and that they should be able to create comfort amongst their employees as well!

5. A Contrarian Preview Of The Next 12 Months

As shown in **Graphs 26 and 27** the main indices on local markets have produced somewhere between 4% ('Oil & Gas') and 60% ('Healthcare') year-to-date, excluding dividends, and most international markets have also returned similar results. We maintain our view 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 has now declined by just under US$ 10 to around US$ 70. This is a positive sign for a prospective normalization of global financial markets. Should the price remain stable at this level, we believe that focus will slowly shift from commodities to the consumer. Consumer sentiment seems to be recovering slowly in the US and other economies are likely to follow. This is likely to lead to a reversal of zero or low interest rate policies and should take some steam out of equity markets. If this happens, the Rand is likely to weaken from its current level of around 7.4 to the US$. **Graph 29** indicates that the Rand is fairly valued at 8.50 to the US$. **Graph 28** indicates that foreign equity purchases in SA have receded significantly and given our outlook this is likely to persist for an extended period of time.

Graph 28



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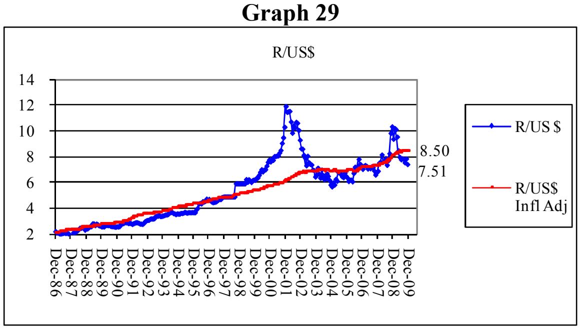
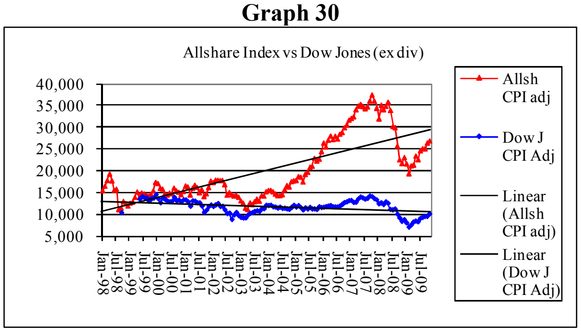
Graph 29



Graph 30 indicates that equity markets seem to have bottomed. The 1 year lagging SA Allshare P:E gained 8.4 points to 16.6 from its bottom of 8.2 at the end of February.

Graph 30



5. Conclusion

It would seem that global markets are now in more stable territory. We foresee two possible scenarios, one based on a sustainable oil price of between US$ 45 and US$ 70, the second based on an oil price above US$ 70. Our bet is on the former scenario.

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 for another 6 months to start picking up from thereon, and consumer demand subdued, but improving slowly for the next 6 to 12 months, while the Rand should start weakening 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 underweight under the more likely scenario. 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.

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. Typically retirement funds have a long-term investment horizon with respect to their membership and should hence consider taking on more risk for the benefit of higher returns in the long-term.

Taking our view of a Rand now being significantly overvalued, it still offers a window opportunity for a short while, to continue raising one's 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.