Volume 6, No. 11,November 2010

Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 NOVEMBER 2010

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.

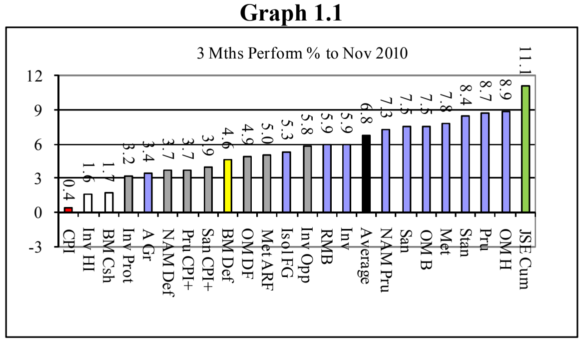
1. Review of Portfolio Performance

In **November** the **average prudential balanced portfolio** returned minus 0.17% (October 1.99%). Top performer is Allan Gray (0.64%), last month's log trailer, while Prudential (- 0.72%) and RMB (- 0.86%) take bottom spots. In very broad terms, Allan Gray had around 9% lower exposure to onshore equities and a 5% lower exposure to bonds, with a compensating 9% higher exposure to offshore assets and a 5% higher exposure to cash, relative to the average manager. This only explains roughly 0.1% of it's out performance, the remainder of around 0.7% requiring a more detailed investigation.

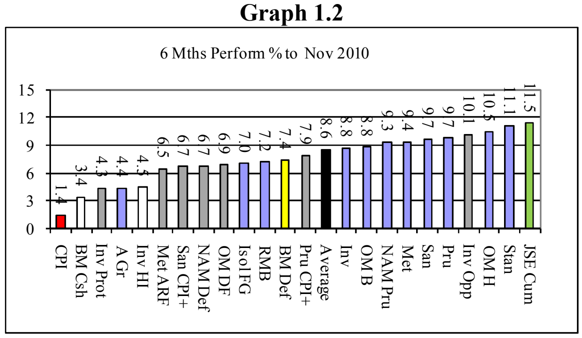
Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no colour bars), the average of prudential balanced 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 Csh (no colour)
Investec High Income (interest bearing assets)	Inv HI (no colour)
Investec Protector	Inv Prot (grey)
Investec Opportunity Fund	Inv Opp (grey)
Metropolitan Absolute Return	Met ARF (grey)
Prudential Inflation Plus	Pru CPI+ (grey)
Old Mutual Dynamic Floor	OM DF (grey)
Sanlam Inflation Plus	San CPI+ (grey)
NAM Coronation Balanced Def	NAM Def (grey)
Market related portfolios	
Allan Gray Balanced	A Gr (blue)
Investec Managed	Inv (blue)
Investment Solutions Bal Growth, prev. Focused Growth (multimanager)	Isol FG (blue)
Prudential Managed	Prud (blue)
Metropolitan Managed	Met (blue)
NAM Prudential Balanced	NAM (blue)
Old Mutual Profile Balanced	OM B (blue)
Old Mutual Profile Growth	OM H (blue)
RMB Managed	RMB (blue)
Sanlam Managed	San (blue)
Stanlib Managed	Stan (blue)

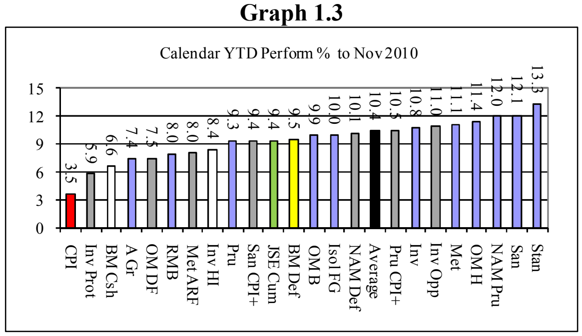
Graph 1.1



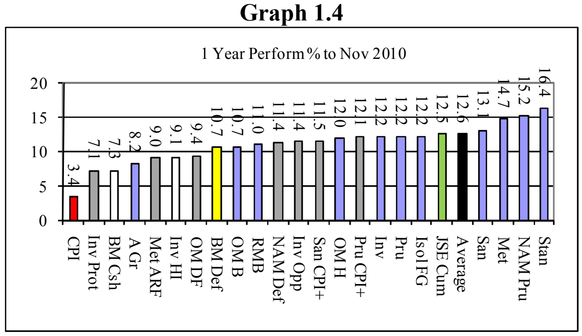
Graph 1.2



Graph 1.3



Graph 1.4



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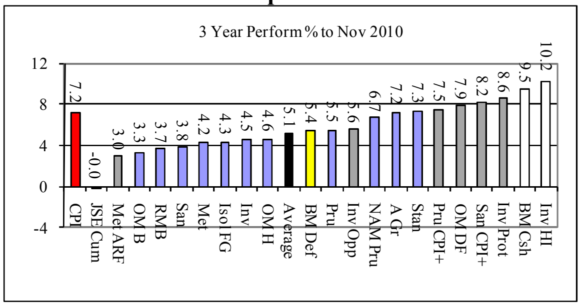
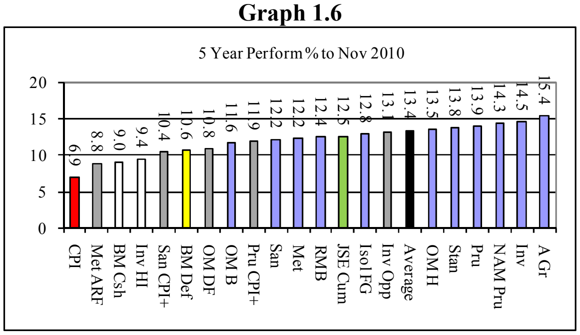
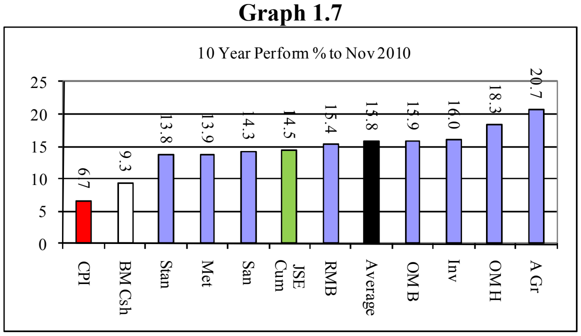
Graph 1.5



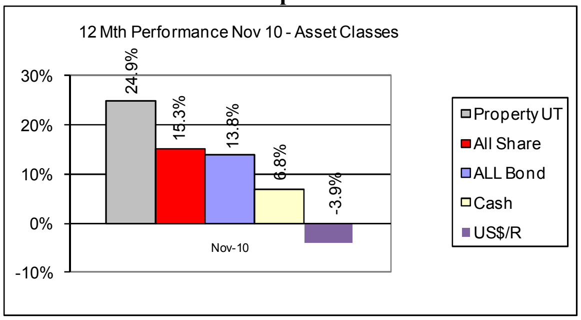
Graph 1.6



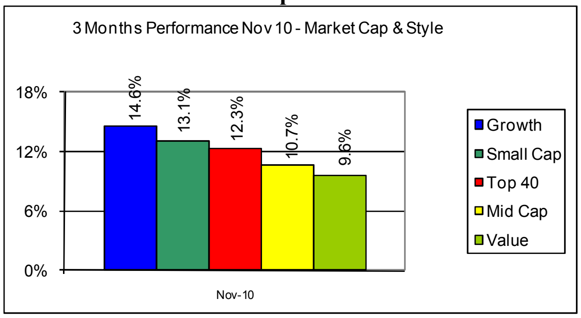
Graph 1.7



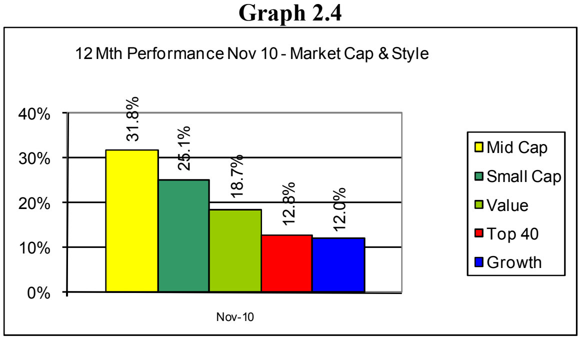
Graph 2.2



Graph 2.3

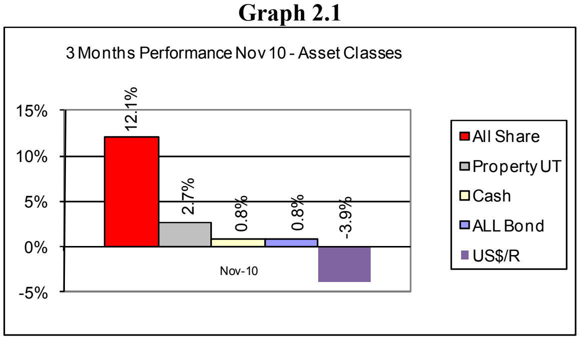


Graph 2.4

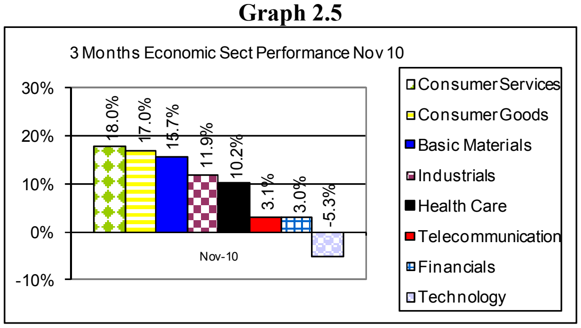


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.5



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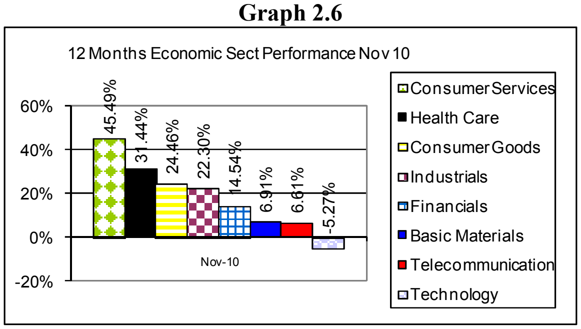
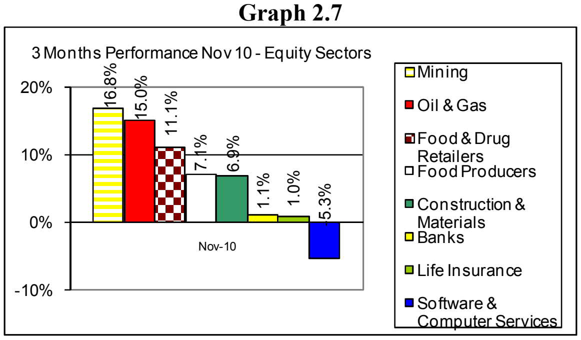
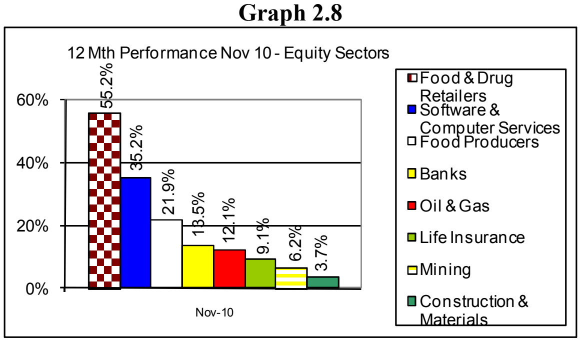
Graph 2.6



Graph 2.7



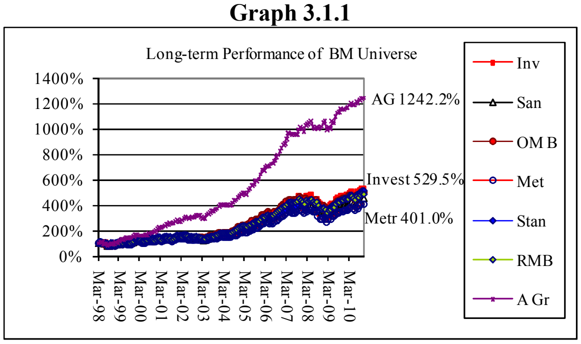
Graph 2.8



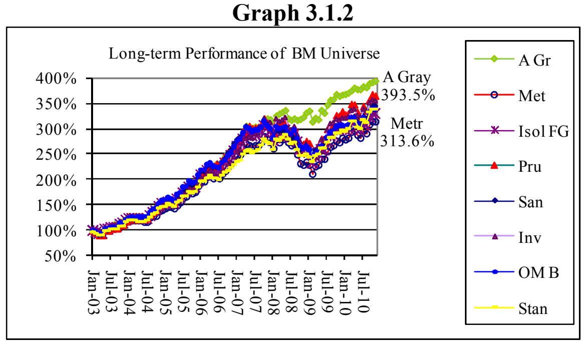
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

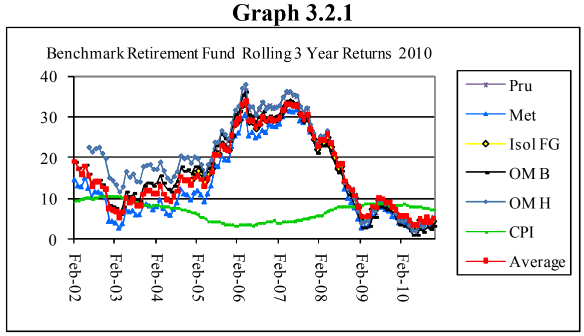


Graph 3.1.2

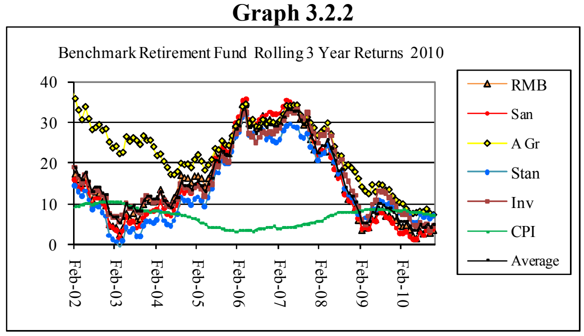


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1



Graph 3.2.2



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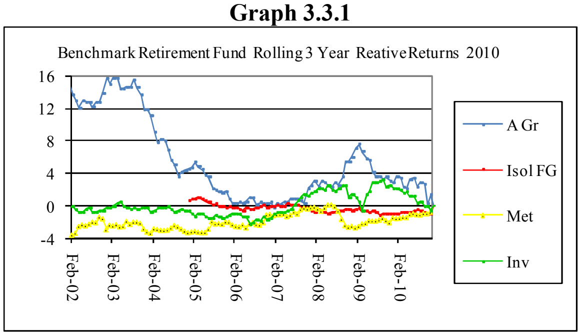
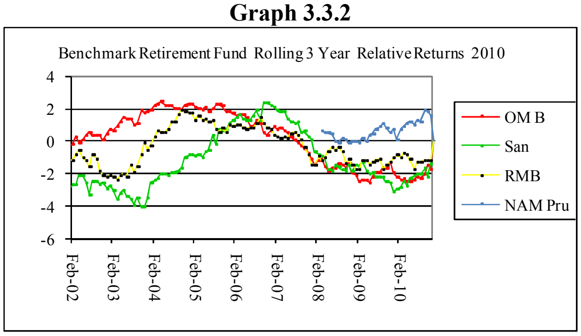
3.3. 3-year rolling performance of prudential balanced portfolios relative to average prudential balanced portfolio on zero

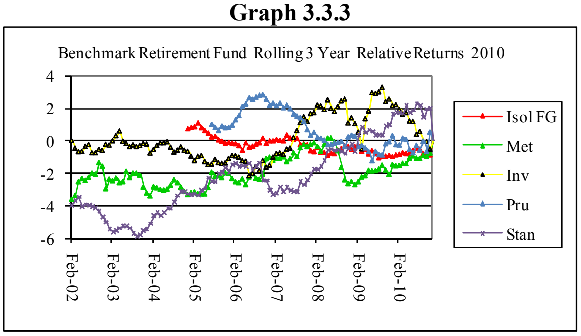
Graph 3.3.1



Graph 3.3.2

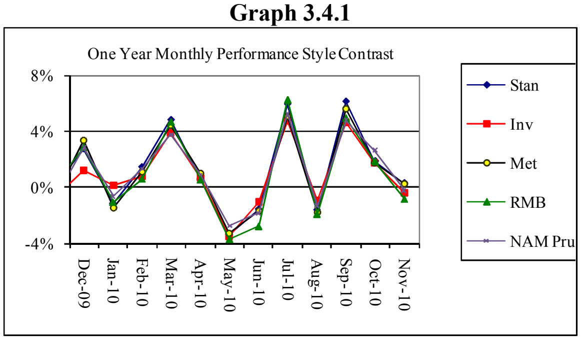


Graph 3.3.3

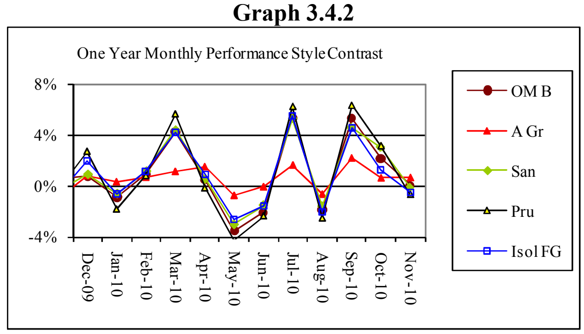


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

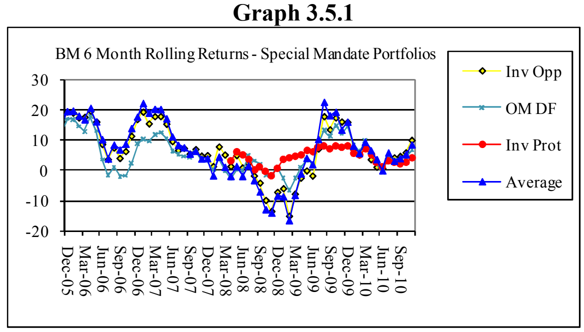


Graph 3.4.2

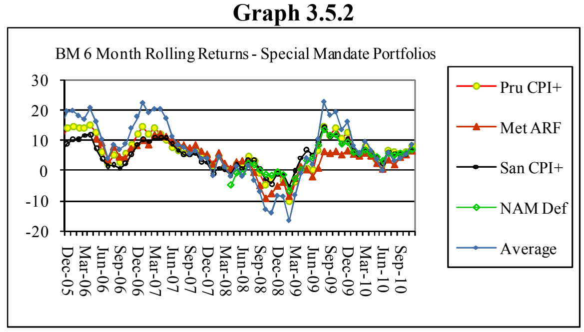


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1



Graph 3.5.2



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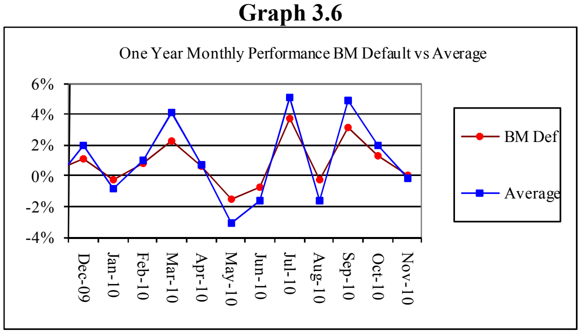
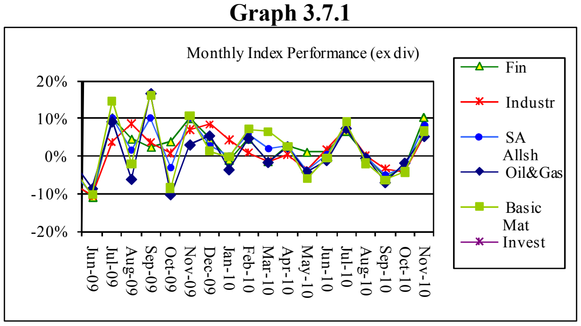
3.6 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 3.6

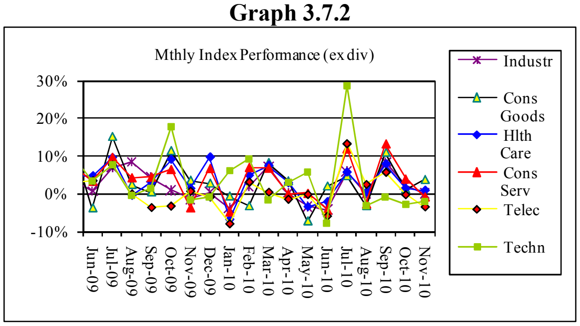


3.7 Monthly and one year cumulative performance of key indices (excluding dividends)

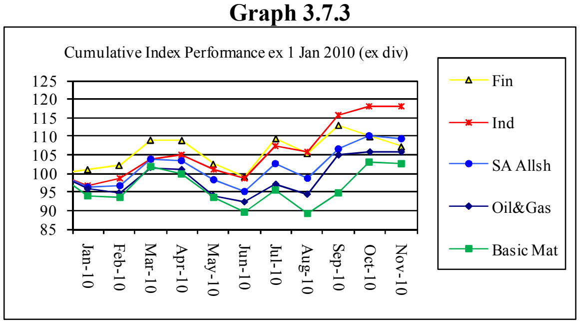
Graph 3.7.1



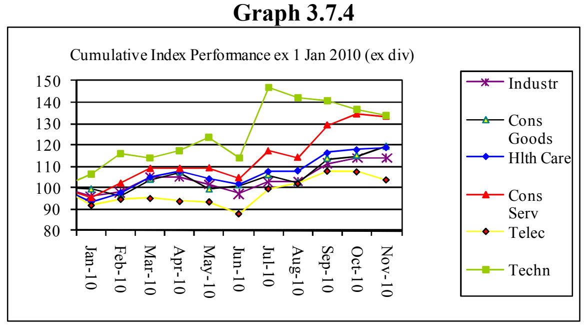
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 13.4% p.a. in nominal terms, or 6.5% p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 10.6% p.a. in nominal terms, or 3.7% p.a. in real terms. We would expect the average prudential balanced portfolio to deliver a real return before management fees (typically 0.75%), of roughly 6% per year and the Default portfolio to sacrifice around 2% to 3% for the benefit of lower volatility, thus an expected real return before management fees (typically 0.75%), of around 4% per year.

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 performance statistics over the 3 years December 2007 to November 2010:

Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	7.3%	- 8.0%	- 19.1%
Best annual performance	12.1%	16.2%	29.7%
No of negative 1 year periods	n/a	10	11
Average of negative 1 year periods	n/a	- 3.7%	- 10.3%
Average of positive 1 year periods	9.9 %	9.7%	13.0%

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% before fees and roughly 3.3% after fees.

It is also important to realize that at this rate of return, the net contribution towards retirement by both, member and employer should be roughly 16% of remuneration, in order to achieve a reasonable income replacement ratio of 2% per year of service. In contrast, the expected long term net rate

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of return of 5.3% that the average prudential balanced portfolio should achieve, should produce an income replacement ratio of roughly 3% per year of service.

It is very important 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

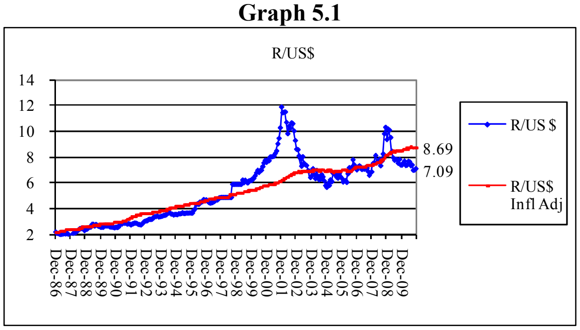
The US Federal Reserve extended its 'quantitative easing' measures while tax cuts introduced by George Bush are now in the process of being extended despite earlier pronouncements to the opposite by President Obama. After two years in the doldrums, it appears as if the US economy is now slowly turning up again.

This trend is also evident in the EU and Germany in particular. Global consumer demand should thus start improving in 2011. This will be the time for fiscal and monetary easing measures to start being withdrawn from the global system slowly, effectively placing a damper on the resurgence of consumer demand though. Global interest rates are then likely to turn as well. This should in turn result in the reversal of capital flows from emerging markets to the developed markets over the course of the next 12 months and to a weakening of the currencies of emerging economies.

The heating up of equity markets that we have seen over the past 2 years, particularly in emerging commodity based economies, is likely to fizzle out. We ascribed this to an oversupply of money from developed economies at an institutional level rather than to a healthy diversified demand, and therefore believe that this is unlikely to continue over the course of 2011.

Graph 5.1 indicates that the Rand is fairly valued at 8.69 to the US Dollar. This is based on adjusting the two currencies by the respective domestic inflation rates.

Graph 5.1

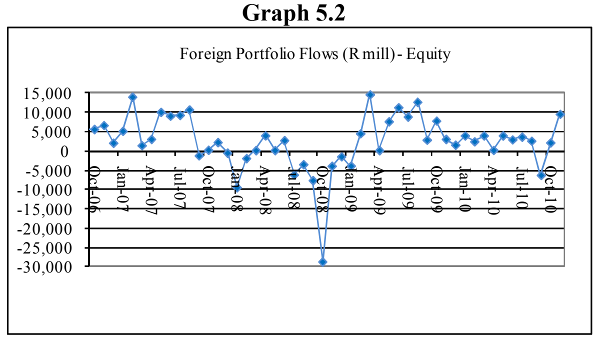


Graphs 5.2 and **5.3** now start to reflect an ebbing of the flow of capital into South Africa, particularly into fixed interest area as the result of the declining opportunity for interest arbitrage. We expect that the demand in SA's and Namibia's main export markets and a wekening Rand should advance our export performance in the course of 2011, while more expensive imports should result in our local industries becoming more competitive. This should in turn advance local consumer sentiment over the course of the next 2 years.

We expect these trends to manifest over the next 12 to 24 months. In the mean time, equity markets are likely to move sideways while local interest rates are likely to start moving up towards the end of 2011.

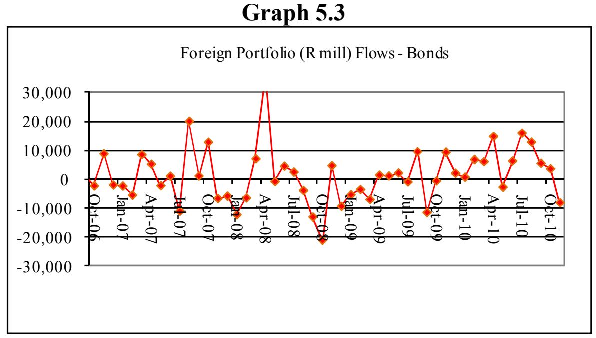
For the year to end of November, the FTSE/JSE still experienced a strong but declining net inflow of R 31 billion (R 25 billion, 12 months to end October), compared to a net inflow of R 69 billion for the year to end November 2009 (net inflow of R 62 billion, year to end October 2009).

Graph 5.2



Graph 5.3 also reflects very strong but declining the net flows into fixed interest instruments, which amounted to R 65 billion for the 12 months to end November (R 83 billion for the 12 months to end October), compared to an outflow of R 14 billion for the 12 months to end November 2009 (R 19 billion outflow for the 12 months to end October 2009).

Graph 5.3



Graph 5.4 shows to what extent equity markets have recovered in nominal terms since their low at the end of February 2009.

Graph 5.5 reflects the same statistics but adjusted for US and SA inflation respectively.

Graph 5.4

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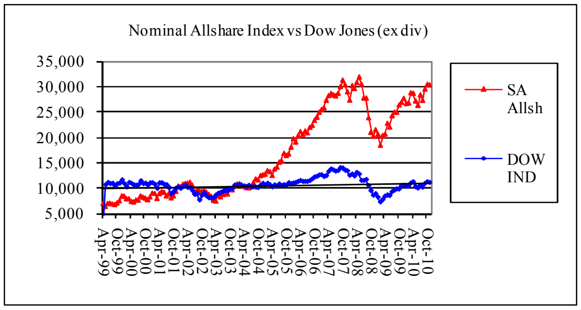
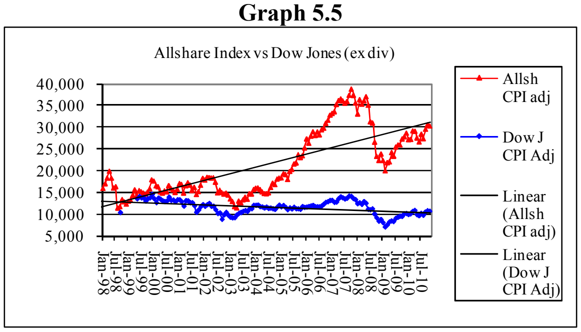
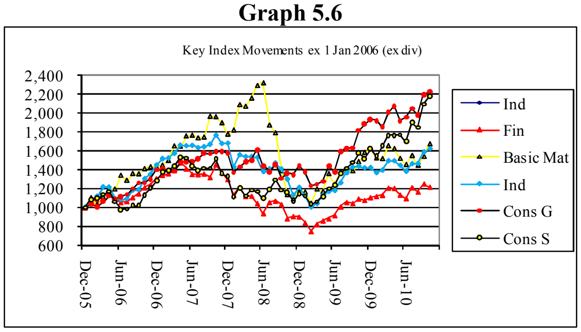


Graph 5.5



Graph 5.6 provides an interesting overview of relative movement of the key equity sectors on the FTSE/JSE since December 2005 when these indices were first introduced. From this the investor should be able to deduce which sectors offer greater value and which one's offer less value on the basis of fundamentals.

Graph 5.6



6. Conclusion

Global equity markets are still fairly valued, but are likely to produce pedestrian growth for the next 12 months and longer. While some global interest rates have already been raised they will remain at low levels for a while, to start picking up once consumer demand picks up meaningfully. This we expect to happen within the next 12 to 24 months. We expect the Rand to trend weaker towards the end of 2011 and into 2012. Volatility should subside and revert to normal levels as global economies start picking up steam.

Our local equity markets also remain fairly valued although not at very competitive levels compared to other global bourses. In terms of local equity sectors, **graph 5.6** indicates that consumer goods and consumer services had a good run. We do not expect too much joy out of these sectors anymore and these should hence be underweight. On the basis of fundamentals, one should be overweight financials and industrials locally, while commodities should be neutral to underweight. We believe that the performance of most conventional asset classes will be muted. We expect equities in general to perform sluggishly but stock picking can add value. Property currently is a high yielding asset class but this is unlikely to persist once the interest rate cycle turns. Shorter dated local bonds may also still produce fair returns in the short term only.

A lack of sparkling local investment opportunities and the current Rand strength suggests that one should be overweight offshore assets and moving the focus to equities in Europe and the US, in particular.

For pension funds, an assertive balanced portfolio with a fair spread across equities, bonds and property and a high foreign equity exposure is our call for 2011.

7. 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. The views expressed herein are those of the author and not necessarily those of Benchmark Retirement Fund or Retirement Fund Solutions.