BENCHTEST

Volume 3, No 1, March 2007

A REVIEW OF INVESTMENT MANAGERS – 31 MARCH 2007

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. Introduction

BENCHTEST is a unique technical analysis of popular Namibian retirement fund investment portfolios, produced on behalf of the Benchmark Retirement Fund by Nambian niche fund administrator, Retirement Fund Solutions Namibia (Pty) Ltd. It reflects only extracts from an extensive data base that is available to interested parties who have a need for detailed information to assist them in taking decisions concerning their fund's investments.

2. An Analysis Of Performance and Portfolio Structures

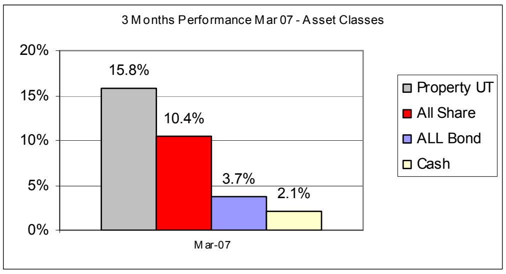
Why does some managers' performance make sense, others not?

(*This information is provided by Deutsche Securities and local associate, IJG.)

Quarter 1 of 2007

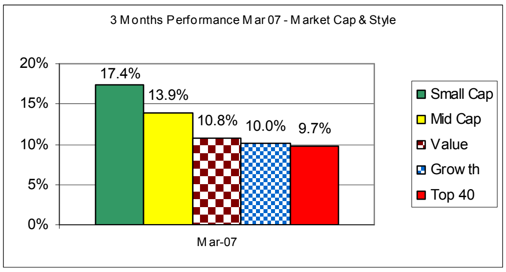
Graph 1 below reveals that for the 1st quarter of 2007, the best performing asset class was property as measured by the 'Property UT*' index with a total return of 15.8%, followed by equity ('All Share*' index) at 10.4%, bonds with 3.7% ('All Bond*' index) and cash on 2.1%.

Graph 1



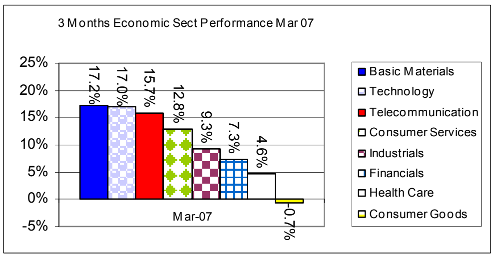
Graph 2 reveals that within equities 'value*' companies just beat 'growth*' companies with returns of 10.8% and 10%, respectively, while 'Small Cap*' and 'Mid Cap*' companies, on 17.4% and 13.9%, respectively, out performed large companies ('Top 40*') that produced 'only' 9.7%.

Graph 2



Graph 3 below, in turn, reveals that the various economic sectors within equities delivered the following returns: 'Basic Materials*' 17.2%, 'Technology*' 17%, 'Telecoms*' 15.7%, 'Consumer Services*' 12.8%, 'Industrials*' 9.3%, 'Financials*' 7.3%, 'Health Care*' 4.6%, and 'Consumer Goods*' at the bottom on 2.7%.

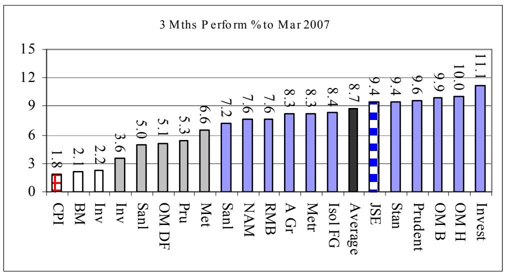
Graph 3



Does this mean that the managers who outperformed this quarter per graph 4 below were overweight 'Basic Materials*' and the 'Technology*' and/ or under weight the 'Consumer Goods*' and 'Health Care*' sectors?

So lets first look at the performances for the quarter as per graph 4 below:

Graph 4



BENCHTEST

Volume 3, No 1, March 2007

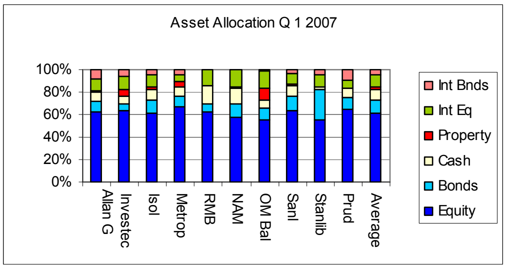
A REVIEW OF INVESTMENT MANAGERS – 31 MARCH 2007

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

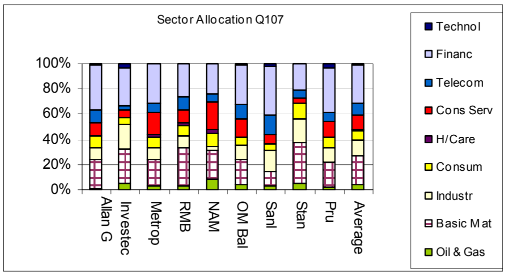
Graph 5 below reflects the asset allocation of the prudential, managed portfolios in our survey, as at 31 March 2007 (effective exposure where ever the information was made available by the manager):

Graph 5



Graph 6 below, reflects the sector allocation of the prudential, managed portfolios in our survey, as at 31 March 2007:

Graph 6



At this point in time equity exposure should have the largest impact on a manager's performance by far, due to its disproportionately high weighting. Weighting the sector allocation by the manager's equity allocation, property despite it producing the highest return for the quarter, should only have a very small impact on performance due to the average exposure to this asset class being only between 0% and 10%. Focusing on the two best performing and two worst performing equity sectors with typically the highest weighting in this type of portfolio, namely 'Basic Materials*' and 'Consumer Services*' for adding value, while 'Industrials*', 'Financials*' would have lost value over this quarter, Table 1 below reflects the 3 managers with the highest average exposure to equity and more specifically to 'Basic Material*', 'Industrials*', 'Consumer Services*' and 'Financials*' (blue added value, red lost):

Table 1

Asset Class	Position 1 % holding	Position 2 % holding	Position 3 % holding
Equity	Metrop – 67.2	Prudent – 64.5	Sanlam – 63.4
Basic Materials	Stanlib – 32.7	RMB – 29.6	Investec – 27.3
Industrials	Investec – 19.7	Stanlib – 18.3	Sanlam – 16.2
Consumer Services	Stanlib – 12.8	NAM – 9.6	Allan G – 8.7
Financials	Sanlam – 39.0	Prudent – 35.7	Allan G – 34.8

Looking at this, in relation to the performance ranking for the quarter in graph 4 above, we see that Investec (only manager that appears twice in blue) produced highest return of 11.1% for the quarter. Stanlib and Sanlam (both appear twice in blue and once in red) produced returns of 9.4% (above average) and 7.2% (below average), respectively. Metropolitan and RMB (both appear once in blue) produced below average returns of 8.3% and 7.6% respectively. Prudential (appears once in blue and once in red) produced above average 9.6%, while NAM (appears once in red) produced second lowest return of 7.6% for the quarter. Allan Gray (appears twice in red) produced below average 8.3%. Although this analysis is indicative of a manager's performance it is evident that the information is still insufficient to conclusively explain differences in performance, despite the fact that it covers roughly one-half of a manager's total portfolio.

Graph 7 below now gives a more holistic view reflecting the performance projected, actual performance and 'projection error' for each manager for quarter 1 of 2007, based on its actual portfolio composition in terms of asset and equity sector allocation. High projection errors, should be cause for concern and would require further analysis.

BENCHTEST

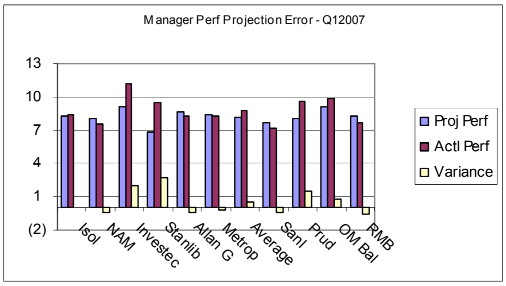
Volume 3, No 1, March 2007

A REVIEW OF INVESTMENT MANAGERS – 31 MARCH 2007

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

Graph 7



Can one reconstruct manager's performance to see where they had actually gone wrong ?
Table 2 below reflects the average exposure and the projected performance for the 1st quarter of 2007 for the average prudential, managed portfolio in our analysis and is a good benchmark for measuring the performance of your manager/s:

Table 2

Asset Class	**Expos %**	**Perf %**	**Weighted Perf %**
Equity	61.3	10.1	6.2
Bonds	12.0	3.7	0.4
Cash	9.1	2.1	0.2
Property	2.4	15.8	0.4
Intern Eq	11.1	6.9	0.8
Intern IB	4.1	4.8	0.2
Total	**100**		**8.2**

The projected performance of the average portfolio for the quarter, of 8.2%, represents quite an acceptable 'projection error' on actual performance of 8.7% per graph 4, of only 0.5%.

Drilling down further into equities as the asset class with the biggest impact on performance by far, our average manager presents the benchmark for measuring your manager/s, as per Table 3 below (average exposure):

Table 3

Equity Sector	**Exposure %**	**Perf %**	**Weighted Perf %**
Oil & Gas	3.8	- 5.3	- 0.2
Basic Mat	22.1	17.2	3.8
Industrials	12.3	9.3	1.1
Cons Goods	8.2	- 0.7	- 0.1
H/care	1.0	4.6	0.1
Cons Serv	12.6	12.8	1.6
Telecoms	8.6	15.7	1.4
Financials	29.7	7.3	2.2
Technol	1.4	17.0	0.2
Total	**100.00**		**10.1**

Graph 4 above shows that top performing Investec out performed the average manager by roughly 2.4% for the quarter, while bottom ranking Sanlam under performed by 1.5%. Our 'projection error' on these two managers for the quarter is plus 2% and minus 0.5%, respectively. This indicates that Investec' out performance cannot be reconstructed accurately while most other managers can, as is evident from the 'projection error' of the average portfolio in Table 2 and the results over the past 3 quarters per Table 4. Unfortunately not all managers provide us with sufficient detail on their sector allocation and this could also lead to projection errors. In all cases the relevant manager should answer to any question in this regard.

Based on the portfolio structure of the managers, graph 8 shows where the manager has added/subtracted value through asset allocation relative to the projected performance of the average manager in our survey, while graph 9 shows a similar result with regard to sector allocation. This plus the projection error as also overlaid in graph 10, produces the actual performance of the manager for the quarter.

Adding value through asset and sector allocation is a function of correctly predicting cycles and represents a different skill from adding value thorough stock picking, latter being a function of superior analytical skills. The former is usually the result of the 'top – down' approach to portfolio structuring while latter is the result of a

BENCHTEST

Volume 3, No 1, March 2007

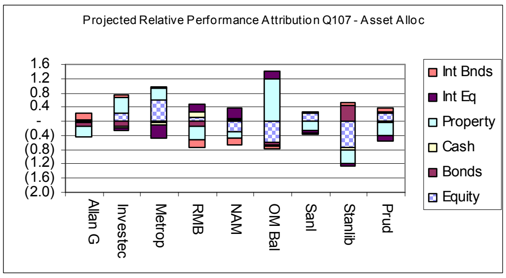
A REVIEW OF INVESTMENT MANAGERS – 31 MARCH 2007

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

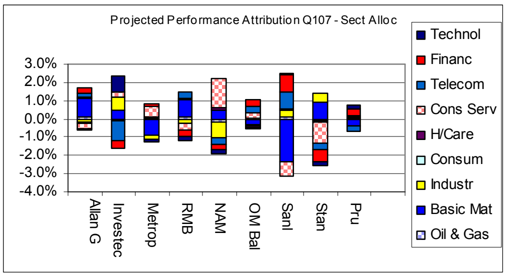
The monthly review of portfolio performance, as set out in this issue, is now also available on our website at www.rfsol.com.na

'bottom – up' approach. Some managers proclaim to have a two directional approach while other proclaim to be 'bottom – up' managers only.

Graph 8



Graph 9



Looking at Investec, the top performer for the quarter, it has added very 0.5% through asset allocation, as depicted in graph 8 and another effective 0.4% through sector allocation, while a further 2% performance cannot be explained through our analyses, and must be explained by Investec.

How predictable is the managers' performance?

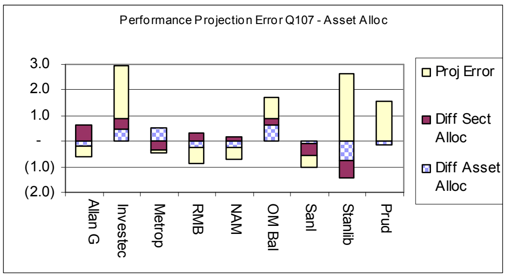
Table 4 shows our 'projection error' over the past 3 quarters and should give some food for thought for when a board of trustees reviews its current managers or intends to employ other manager/s:

Table 4

Manager	Q 3 2006	Q 4 2006	Q 1 2007
NAM	(1.44)	1.51	(0.46)
Investec	(0.35)	0.88	2.02
Stanlib	(1.80)	-0.96	2.66
Allan G	0.27	0.50	(0.39)
Metrop	0.51	-0.38	(0.13)
Average	**(0.39)**	**0.49**	**0.55**
Sanl	(0.20)	0.31	(0.47)
Prud	(0.81)	0.56	1.54
OM Bal	(0.35)	0.11	0.82
RMB	0.16	1.07	(0.61)

Graph 10 below reflects the actual out- and under performance of the managers against the average manager, built up by value added/subtracted through asset allocation and sector allocation and projection error. At this stage only Old Mutual and Investment Solutions do not provide full information to allow an accurate analysis and our information on these two managers must be viewed with caution. Projections errors as revealed below can, result from the use of derivatives, stock picking but also from material portfolio restructuring through the course of a quarter by the manager, or even from valuation problems and should in any event be subject to further enquiry.

Graph 10



What shares to our managers actually invest in?

Table 5 reflects the shares our 9 managers being surveyed, most frequently invest in, in order of frequency ('**Count**'). The FTSE/JSE produces a 'style' index where shares are rated according to their growth ('G'), value ('V') or mixed ('V/G') characteristics. This rating is reflected in the '**Classif**' column (information by courtesy of

A REVIEW OF INVESTMENT MANAGERS – 31 MARCH 2007

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

Old Mutual), while the '**Ø Exp'** column reflects the average percentage exposure, of its total onshore equity exposure, of those our 9 managers that have invested in this share. The first subtotal line **'% in Top 10'** reflects the average exposure to the common top 10 shares of our 9 managers. The next line **'# in Top 10'** reflects the average number of shares of our 9 managers in the common top 10, and the average percentage exposure of the 9 managers to their top 10 equity holdings is reflected in '**Total %**'. Finally the table reflects the average number of shares our 9 managers invest in, in '**# of shares'.** See how your managers compare and whether their ascribed style actually matches their share holdings.

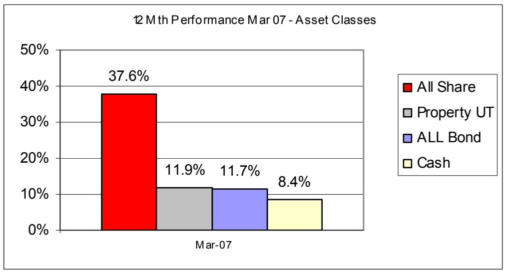
Table 5

Counter	**Classif**	**Ø Exp**	**Count**
Standard B	**V**	**8.3**	8
MTN	**G**	**8.4**	7
Implats	**V**	**5.2**	7
First Rand	**V**	**4.3**	6
BHP Billiton	**G**	**6.0**	6
Sasol	**V**	**5.3**	5
Anglo Am	**G/V**	**5.2**	5
Richemont	**G**	**4.7**	4
Nedbank	**V**	**4.4**	4
Naspers	**G**	**4.4**	4
% in Top 10		**36.7**	9
# in Top 10		**6.2**	9
Total %		**55.5**	9
# of shares		**59**	9

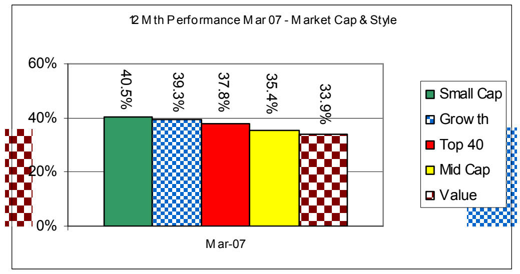
The year to 31 March 2007

Graphs 11, 12 and 13 below reflect the performance of the asset classes, of companies by size and type and of the equity sectors. It is evident that one should have been fully invested in equities, with an overweight in 'Basic Materials*' and Telecoms*' and an under weight in 'Technology*'' and 'Health Care*'. Tracking the development of the various sectors over the course of the year as reflected in graph 14, however, 'Basic Materials*' had most its run over the first first few months of this year while 'Industrials*' and 'Financials*' had their run over the second half of last year but some cooling off this year. Interestingly our value managers, Allan Gray and Prudential had amongst the highest exposure to the resources sectors last year while both have since then substantially reduced their exposure and have consequently lost out on the run over the past few months.

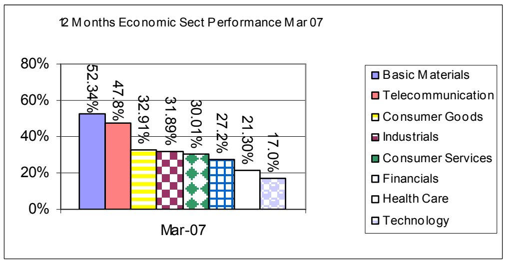
Graph 11



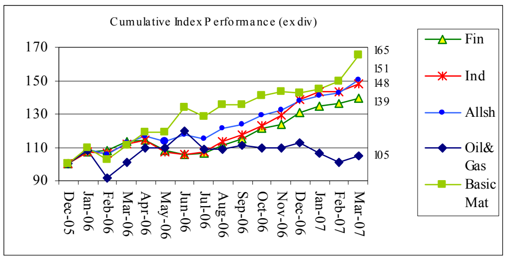
Graph 12



Graph 13



Graph 14



Volume 3, No 1, March 2007

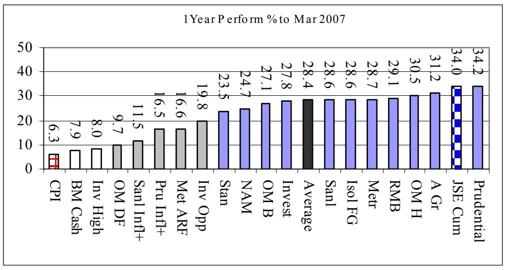
A REVIEW OF INVESTMENT MANAGERS – 31 MARCH 2007

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

Graph 15 below, reflects the performances of all managers in our survey for the year ended 31 March 2007:

Graph 15



The projected performance of the average prudential, managed portfolio was derived at as set out in the table below. With an actual performance of the average prudential balanced portfolio of 29.2% the below projection reflects a 'projection error' of 0.8% on actual average manager performance for the year of 28.4%.

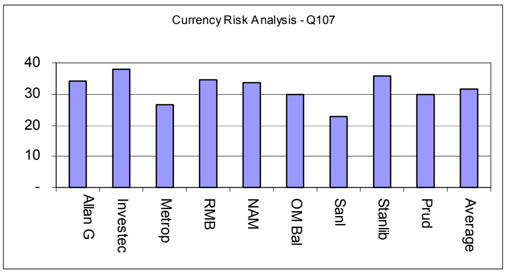
Table 6

Asset Class	Exposure %	Perform %	Weighted Perform %
Equity	61.9	34.9	21.6
Bonds	12.2	11.7	1.4
Cash	9.3	8.4	0.8
Property	2.2	11.9	0.2
Intern Eq	10.4	37.5	3.9
Intern IB	4.1	30.7	1.3
Total	**100**		**29.2**

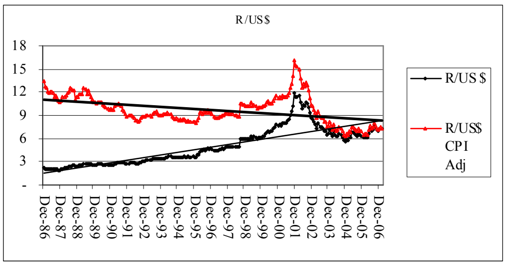
Currency risk analysis – how will the investor be effected by a change in the exchange rate?

Graph 16 provides an indication of the currency risk to which the portfolios are exposed. Currency risk here is measured as a function of effective offshore and basic materials exposure. Evidently Investec now presents the highest risk on that basis, close to 38% of its total assets being exposed to exchange rate fluctuation. Sanlam on the other end of the scale presents a risk of only around 23%.

Graph 16



Graph 17



Graph 17 above depicts the position of the Rand versus the US$. Evidently the long-term trend line seems to indicate that the Rand is now back, below the trend line and thus too strong by this measure, with a risk of weakening again. The Namibian CPI adjusted trend line indicates that the Rand actually appreciated by close to 3% per year since 1986, if one eliminates the effect of local inflation. This line should actually be tempered by the US inflation rate for a more accurate picture.

Special mandate portfolios as an alternative for the conservative investor?

The Benchmark Retirement Fund offers a number of special mandate portfolios and for this reason we also keep an eye on a number of such portfolios. Graphs 18 and 19 depict rolling 6 month returns, and the Two Year Monthly returns of the special mandate portfolios, compared to that of the average prudential, managed portfolio.

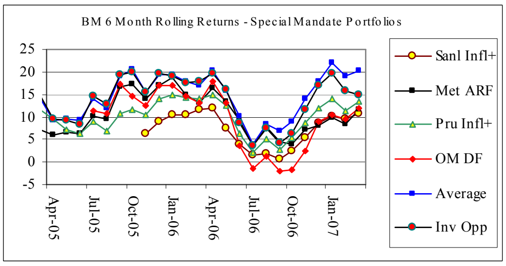
Any conservative investor who wants to minimize negative returns should seriously consider these as an alternative to the more volatile prudential, managed portfolios.

A REVIEW OF INVESTMENT MANAGERS – 31 MARCH 2007

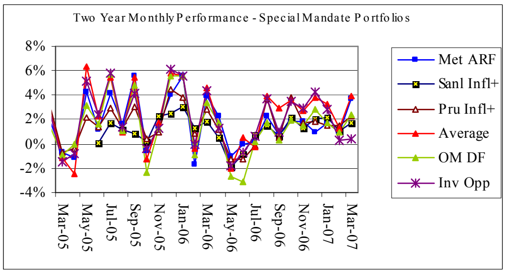
By T H Friedrich – Managing Director Retirement Fund Solutions Namibia (Pty) Ltd

The monthly review of portfolio performance, as set out in this issue, is now also available on our website at www.rfsol.com.na

Graph 18



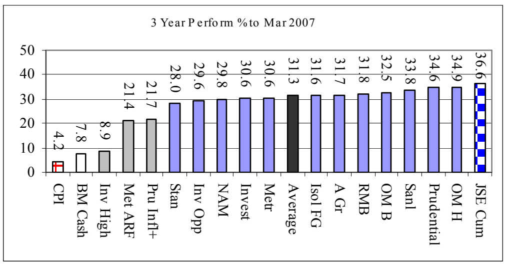
Graph 19



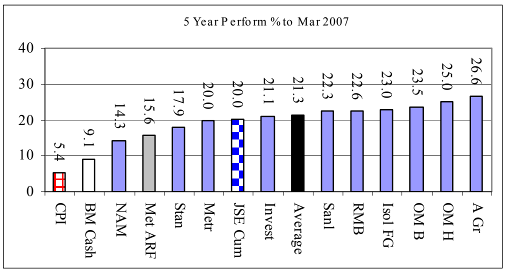
Long-term performances

To complete our performance review, graphs 20 and 21 depict the 3 and 5 year performance of the various portfolios to 31 March 2007. Evidently performance of all portfolios, barring cash, exceeds inflation ('CPI Cum') by significantly more than the long-term out performance objective of around 5%, and this trend will definitely not continue for much longer, in our view.

Graph 20



Graph 21



3. Conclusion

Preview for 2007

For our view on what is to be expected over the next 6 to 12 months, the reader is invited to consult our monthly Benchtest Performance Review, the latest issue being for March 2007, which is available on our website at. April 2007 will also be posted in due course. www.rfsol.com.na.

Who To Contact

For further information, analyses or interpretations, please contact Tilman Friedrich, Mark Gustafsson, Marthinuz Fabianus or Hannes van Tonder at Retirement Fund Solutions tel 061-231590.

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 and without consulting an expert.

Errors and omissions excluded