Volume 3, No 2, Jun 2007

A REVIEW OF INVESTMENT MANAGERS – 30 JUNE 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

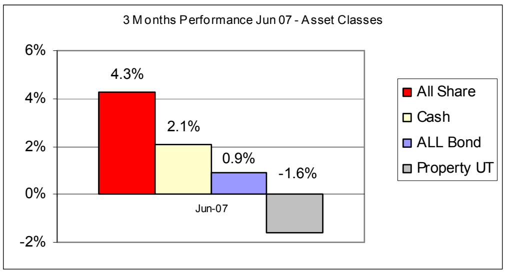
Why does some managers' performance make sense, others not?

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

Quarter 2 of 2007

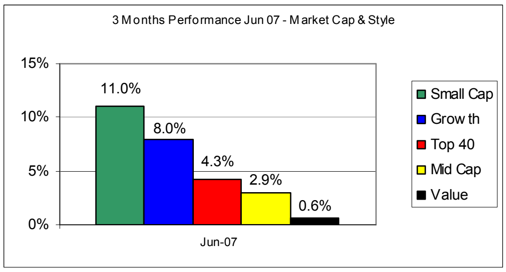
Graph 1 below reveals that for the 2nd quarter of 2007, the best performing asset class was equity ('All Share*' index) at 2.2%, followed by cash at 2.1%, bonds ('All Bond*' index) at 0.9%, and property as measured by property 'Property UT*' index with a total return of minus 1.6%.

Graph 1



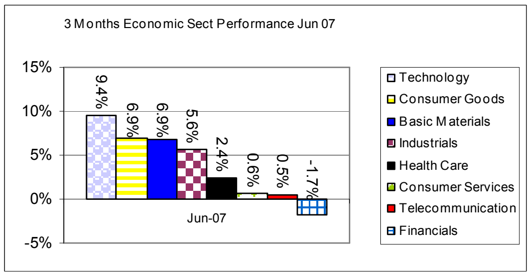
Graph 2 reveals that within equities, 'growth*' companies (8% return) significantly out performed 'value*' companies (0.6% return). In terms of market capitalisation 'Small Caps*' produced 11% followed by 'Top 40' with a return of 4.3% and 'Mid Caps*' with a return of only 2.9% for the quarter.

Graph 2



Graph 3 below, in turn, reveals that the returns of the main economic sectors within equities were as follows: 'Technology*' 9.4%, 'Basic Materials*' and 'Consumer Goods*' both on 6.9%, 'Industrials*' on 5.6%, 'Health Care*' on 2.4%, 'Consumer Services*' on 0.6%, 'Telecoms*' on 0.5%, and 'Financials*' at the bottom on minus 1.7%.

Graph 3



Does this mean that the managers who outperformed this quarter per graph 4 below were overweight equities and more specifically 'Basic Materials*', and 'Consumer Goods*' while being under weight 'Financials*' and 'Consumer Services*'?

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

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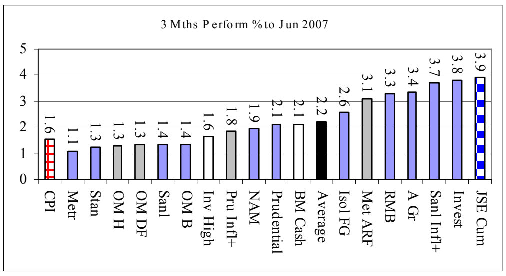
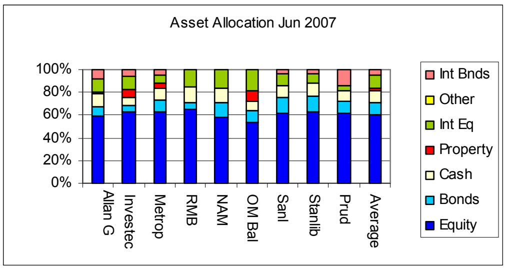
Graph 4



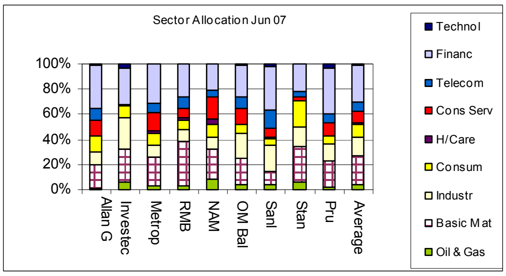
Graph 5 reflects the following asset allocation of the prudential, managed portfolios in our survey, as at 30 June 2007 (effective exposure where ever the information was made available by the manager):

Graph 5



Graph 6 reflects the following sector allocation of the prudential, managed portfolios in our survey, as at 30 June 2007:

Graph 6



Due to its disproportionately high weighting, equity exposure should have the largest impact on a manager's performance by far. Property despite it producing the lowest return for the quarter, should only have a relatively small impact on performance due to the exposure to this asset class being only between 0% and 9%. Focusing on the two best performing and two worst performing equity sectors with typically the highest weightings in this type of portfolio, namely 'Basic Materials*' and 'Consumer Goods*' for adding value this quarter, while 'Consumer Services*', 'Financials*' would have subtracted value over this quarter, Table 1 below reflects the 3 managers with the highest average exposure to equity and more specifically to 'Basic Material*', 'Consumer Goods*', 'Consumer Services*' and 'Financials*' (blue added value, red subtracted):

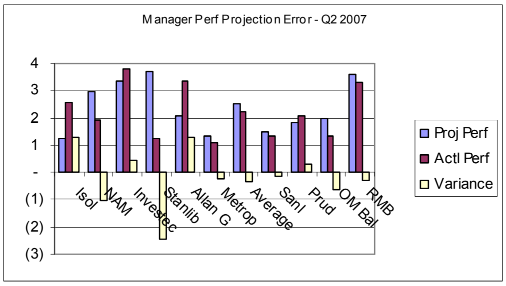
Table 1

Asset Class	Position 1 % holding	Position 2 % holding	Position 3 % holding
Equity	MET 65.3	RMB 63.5	PRU 63.2
Basic Materials	RMB 31.8	STAN 30.5	INV 26.4
Consumer Goods	STAN 16.7	ALLAN GR 10.7	NAM 9.9
Consumer Services	NAM 19.6	OM 13.5	ALLAN GR 12.7
Financials	SAN 37.1	PRU 36.0	ALLAN GR 34.3

Looking at this in relation to the performance ranking for the quarter in graph 4 above, on the basis of a simple 'bean count', we suggest that Stanlib and RMB (both appears twice in blue) should have produced the highest returns. Stanlib in fact produced second lowest return of 1.3% for the quarter, while RMB came in third at 3.3%. Investec and Metropolitan (appear once in blue each) with Investec producing top performance of 3.8% while Metropolitan in turn produced the poorest return of 1.1% for the quarter. Prudential and NAM (both appear once in blue once in red) performed around the average and close to each other at 2.1% and 1.9% respectively. On the other end of the spectrum, Allan Gray (appears twice in red once in blue), Old Mutual and Sanlam (once in red each) should have produce the worst performance and did in fact come out below average on 1.4%. 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 reflects the results of projected performance based on equity sector and asset allocation of each portfolio, its actual performance and 'projection error' (difference between projected and actual performance) for quarter 2 of 2007. This more detailed analysis also indicates that Stanlib should have produced top performance but shows a huge projection error of 2.4%. Both next highest projected performances being RMB and Investec actually produced quite low projection errors. High projection errors, should be cause for concern and would require further analysis:

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 2nd 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	61.1	3.1	1.9
Bonds	11.0	0.9	0.1
Cash	9.8	2.1	0.2
Property	2.4	- 1.6	-0.0
Intern Eq	11.3	3.8	0.4
Intern Other	4.4	- 1.4	- 0.1
Total	**100.0**		**2.5**

The projected performance of the average portfolio for the quarter, of 2.5%, represents quite an acceptable 'projection error' on actual performance of 2.2% per graph 4, of only 0.3%.

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	4.1	9.9	0.4
Basic Mat	22.8	6.9	1.6
Industrials	13.5	5.6	0.8
Cons Goods	8.9	6.9	0.6
H/care	0.9	2.4	0.0
Cons Serv	10.6	0.6	0.1
Telecoms	8.0	0.5	0.0
Financials	29.5	- 1.7	- 0.5
Technol	1.4	9.4	0.1
Other	0.3		0.0
Total	**100.0**		**3.1**

Graph 4 above shows that top performing Investec out performed the average manager by roughly 1.6% for the quarter, while bottom ranking Metropolitan under performed by 1.1%. Our 'projection error' on these two managers for the quarter is plus 0.4% and minus 0.3%, respectively. This indicates that both managers' performance can be reconstructed accurately.

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

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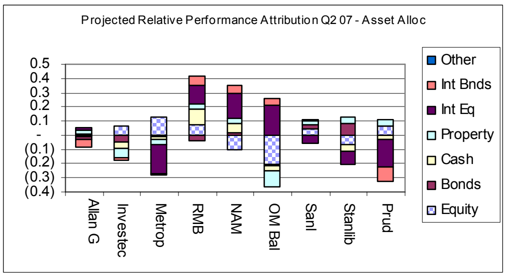
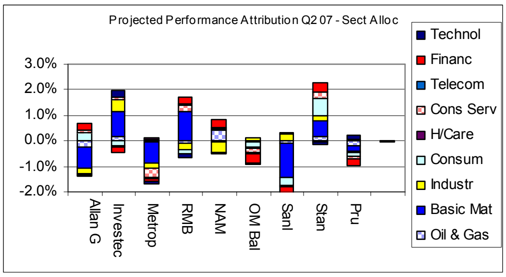
Graph 8



Graph 9



So what did Investec do right and Metropolitan do wrong? Firstly, Investec held approximately 5% more 'Basic Materials', with a sector performance of 6.9%, at the cost of 5% under weight 'Telecoms' that returned only 0.5%. Investec's 5% over weight was concentrated in 'General Mining' with a holding of 17.7% vs Metropolitan's 9.1%. This was the best performing sector with a return of 12.5%. Metropolitan in turn held 5% more in 'Gold Mining', the worst performing sector with a return of minus 14.4%. Secondly, Investec held approximately 12% more 'Industrials' that returned 5.6% at the cost of 12% under weight 'Consumer Services' that returned only 0.6%. This explains 2.8% difference in equity performance between these two managers or nearly 2% for the total portfolio return.

How predictable is the managers' performance?

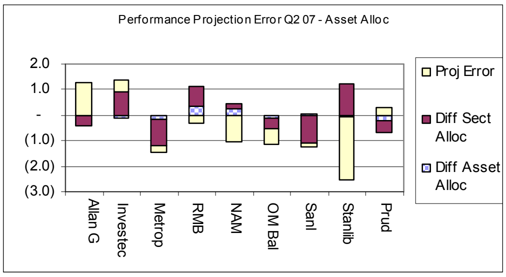
Table 4 shows our 'projection error' over the past 3 quarters and should give some food for thought for when a board of trustees reviews its current managers or intends to employ other manager/s:

Table 4

Manager	Q 3 2006	Q 4 2006	Q 1 2007
NAM	1.51	(0.46)	(1.02)
Investec	0.88	2.02	0.44
Stanlib	-0.96	2.66	**(2.44)**
Allan G	0.50	(0.39)	1.29
Metrop	-0.38	(0.13)	(0.26)
Average	**0.49**	**0.55**	**(0.32)**
Sanl	0.31	(0.47)	**(0.15)**
Prud	0.56	1.54	0.28
OM Bal	0.11	0.82	(0.62)
RMB	1.07	(0.61)	(0.31)

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 does not provide full information to allow an accurate analysis and our information on this managers must be viewed with caution. Projections errors as revealed below can result from the use of derivatives, stock picking, and also from significant 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 Old Mutual), while the '**Ø Exp**' column reflects

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the average percentage exposure, of its total onshore equity exposure, of those 9 managers that have invested in this share. The first subtotal line '**<u>% in Top 10'</u>** reflects the average exposure to the common top 10 shares of our 9 managers. The next line '**<u># in Top 10'</u>** 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.

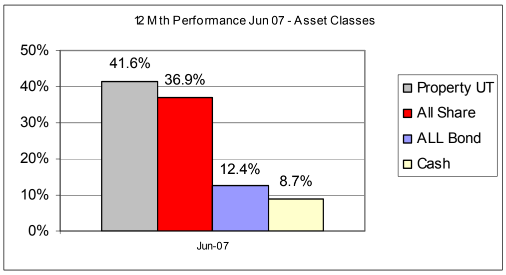
Table 5

Counter	Classif	Ø Exp	Count
Standard B	**V**	**7.8**	8
Sasol	**V**	**4.8**	7
MTN	**G**	**7.9**	6
First Rand	**V**	**4.0**	6
BHP Billiton	**G**	**6.9**	6
Richemont	**G**	**3.9**	5
Anglo Am	**G/V**	**5.6**	5
Remgro	**V/G**	**6.0**	4
Nedbank	**V**	**4.1**	4
Naspers	**G**	**4.6**	4
<u>% in Top 10</u>	**_**	**<u>35.0</u>**	<u>9</u>
<u># in Top 10</u>	**_**	**<u>6.1</u>**	<u>9</u>
Total %		**53.3**	**9**
# of shares		**58**	**9**

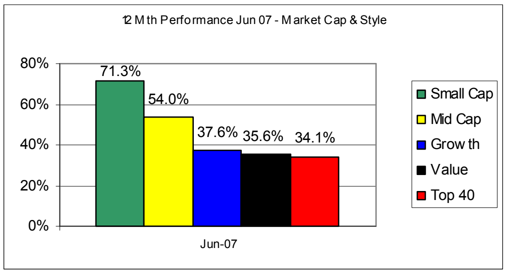
The year to 30 June 2007

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 property and equity, overweight in 'Telecoms*', 'Industrials*' and 'Consumer Services*", and under weight 'Technology*' and 'Health Care*' and 'Financials*'.

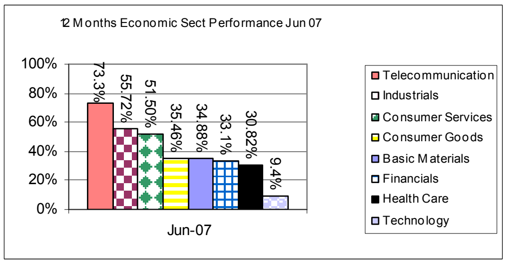
Graph 11



Graph 12

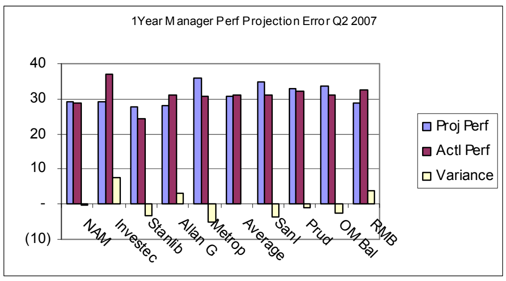


Graph 13



Graph 14 reflects projected performance, actual performance and the resulting projection error for these portfolios over the year. It will be noted that the projection error is generally higher over the year as our projections assume a smooth change is asset and sector allocation over the year which is likely not to be accurate.

Graph 14



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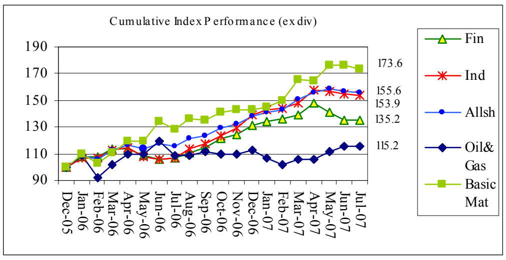
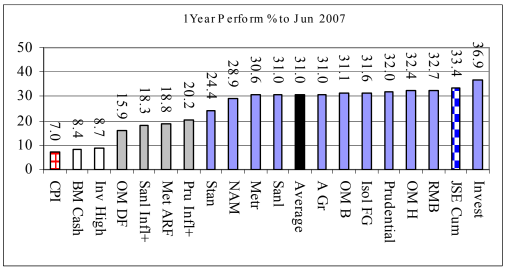
Graph 15 allows tracking the development of the various sectors since the start of last year for a more detailed analysis of your manager's performance vs these indices.

Graph 15



Graph 16 below, reflects the performances of all managers in our survey for the year ended 30 June 2007.

Graph 16



The projected performance of the average prudential, managed portfolio was derived at as set out in Table 6 below. With an actual performance of the average prudential balanced portfolio of 31%, the below projection reflects a 'projection error' of 0.2% on actual average manager performance for the year.

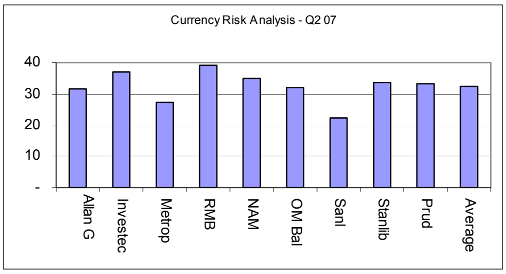
Table 6

Asset Class	Exposure %	Perform %	Weighted Perform %
Equity	61.4	40.6	25.0
Bonds	12.0	12.4	1.5
Cash	9.3	8.7	0.8
Property	2.1	43.3	0.9
Intern Eq	10.9	21.1	2.3
Intern Other	4.3	7.0	0.3
Total	**100**		**30.8**

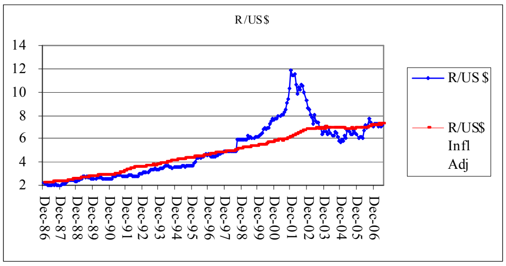
Currency risk analysis – how will the investor be effected by a change in the exchange rate?

Graph 17 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 RMB now presents the highest risk on that basis, 39% of its total assets being exposed to exchange rate fluctuation. Sanlam on the other end of the scale presents a risk of only around 22%.

Graph 17



Graph 18



Graph 18 above depicts the position of the Rand versus the US$, both adjusted by the change in its domestic CPI. Evidently the long-term trend line seems to indicate that the Rand is now back to just below this trend line and thus fairly valued by this measure.

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 19 and 20 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.

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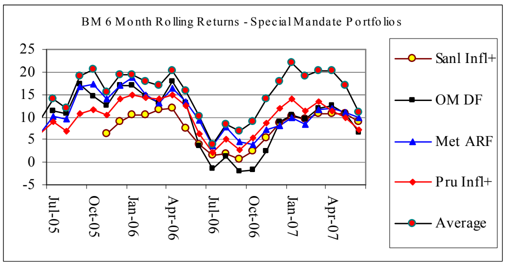
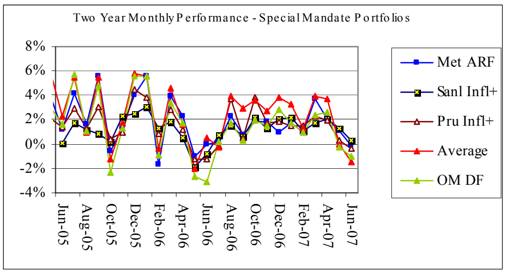
Any conservative investor who wants to minimize negative returns should seriously consider these as an alternative to the more volatile prudential, managed portfolios.

Graph 19



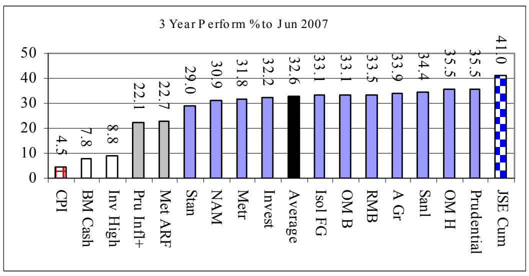
Graph 20



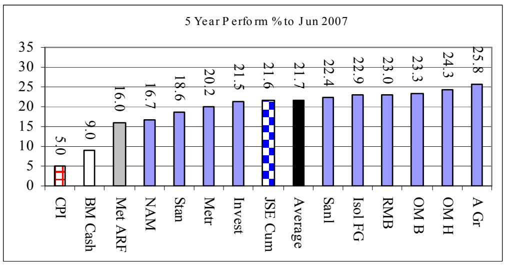
Long-term performances

To complete our performance review, graphs 21 and 22 depict the 3 and 5 year performance of the various portfolios to 30 June 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 21



Graph 22



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 June 2007, which is available on our website at www.rfsol.com.na.

Who To Contact

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