

A REVIEW OF INVESTMENT MANAGERS – 31 March 2008

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 Namibian 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. Review of Asset Class and Sector Performance

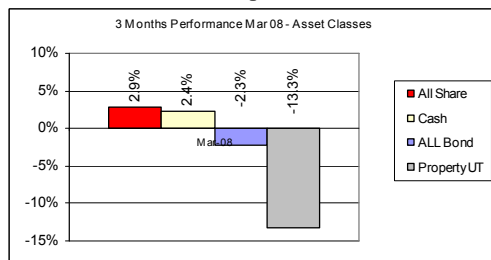
Why does some managers' performance make sense, others not?

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

Quarter 1 of 2008

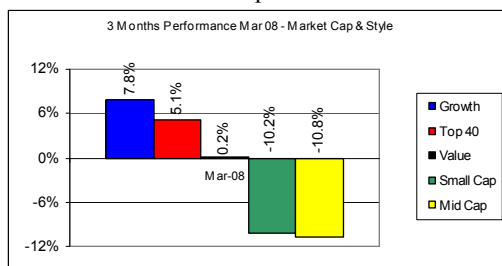
Graph 1 below reflects the returns of the various asset classes, which pension fund investment portfolios typically comprise of.

Graph 1



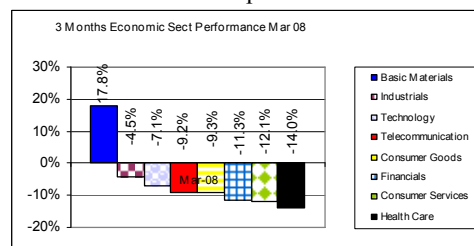
Graph 2 reflects the performance of companies classified by market capitalization, e.g. large companies ('Top 40*'), medium sized ('Mid Cap*') and small listed companies ('Small Caps*') and classified by type of company, e.g. growth and value companies.

Graph 2



Graph 3 below reflects the returns of the main economic sectors

Graph 3



When considering graph 1, equity was seemingly the best performing asset class over the quarter. Graph 3 shows though, that only one economic sector, 'Basic Materials*' actually produced a positive return.

Does this mean that the managers who outperformed this quarter per graph 4 below were overweight equities, as the largest asset class by far. More specifically the sectors that should have impacted on performance most in terms of weight and performance deviation were 'Basic Materials*' on the upside and 'Consumer Goods*' and 'Financials*' on the downside and we will investigate further on whether this has impacted on our portfolios' performance. Offshore equities and interest bearing investments represented an average exposure of 11%, respectively 4.7%, and produced 8%, respectively 30%, thus key contributors of performance this quarter.

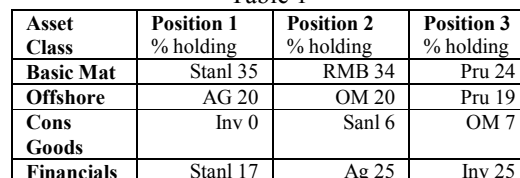
3. Analysis of Manager Portfolio Composition

Graph 4 reflects the asset allocation of the prudential balanced portfolios, also distinguishing between onshore and offshore assets. Clearly, the best performer for the quarter, Allan Gray, holds the lowest onshore equity exposure of 52% versus the average of 59%, evidently an important reason for its out performance, as offshore assets generally outperformed local asset classes by a significant margin.

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Table 1



Looking at this in relation to the performance ranking for the quarter in Graph 4 above, on the basis of a simple 'bean count' the following picture emerges in order of positions held above:

- Stanlib appears 2 times (performance 2/8)
- Allan Gray appears 2 times (performance 1/8)
- Investec appears 2 times (performance 4/8)
- Old Mutual appears twice (performance 6/8).
- Prudential appears 2 times (performance 5/8)
- RMB appears once (performance 3/8)
- Sanlam appears once (performance 8/8)

This is obviously a very crude method and the distortions are particularly evident when one compares RMB and Sanlam who both appear only once yet RMB occupies position 3 and Sanlam position 8 on the log.

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 1 of 2008. This analysis indicates that Allan Gray and Stanlib should have and have produced top performance. With a positive projection error of 0.8% Allan Gray comes out on top with its return of 3.5%, while Stanlib with a negative projection error of 0.3%, ends up in 2nd position with 2% return. On the opposite side of the performance graph for the quarter, Sanlam produced **minus 3.1%** with a projection error of 0.9%. High projection errors should be caused by good or poor stock selection and should be cause for concern that would require further analysis:



Graph 6 reflects the performance for quarter 1 of 2008 of the prudential balanced portfolios (blue shaded bars) in our survey, all others carrying special mandates:

Graph 6

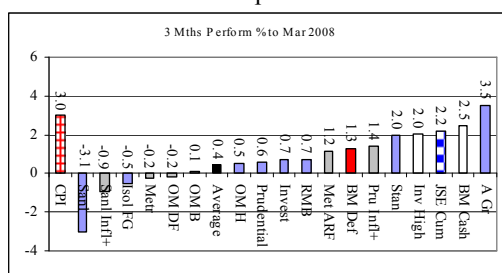


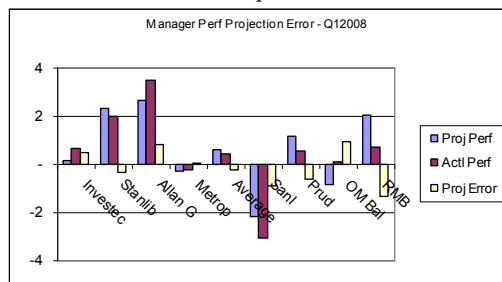
Table 1 below reflects the 3 managers with the highest average exposure to equity and more specifically highest ‘Basic Materials*’ and international interest bearing asset exposure on the upside and lowest ‘Consumer Goods*’ and ‘Financials*’ on the downside, for the purpose of analyzing out performance:

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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 2008 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	58.6	- 2.5	- 1.5
Bonds	10.6	- 2.3	- 0.2
Cash	12.4	2.4	0.3
Property	2.4	- 13.3	- 0.3
Gold	0.1	9.8	0.0
Intern Eq	11.2	8.3	0.9
Intern Other	4.7	30.4	1.4
Total	100		0.6

The projected performance of the average portfolio for the quarter, of 0.6%, represents a positive projection error of 0.2% on the actual performance of 0.4 % per graph 4.

Table 3 drills 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 (average exposure):

Table 3

Equity Sector	Exposure %	Perf %	Weighted Perf %
Oil & Gas	5.7	14.6	0.8
Basic Mat	21.7	17.8	3.9
Industrials	16.2	- 8.0	- 1.3
Cons Goods	9.8	- 5.6	- 0.6
H/care	0.8	- 19.7	- 0.2
Cons Serv	6.9	- 14.8	- 1.0
Telecoms	8.2	- 4.2	- 0.3
Financials	29.2	- 12.8	- 3.8
Technol	0.9	- 10.2	- 0.1
Other	0.6	2.9	0.0
Total	100		- 2.5

Graph 4 above shows that top performing Allan Gray out performed the average manager by roughly 3% for the quarter, while bottom ranking Sanlam under performed by 3.5%.

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.

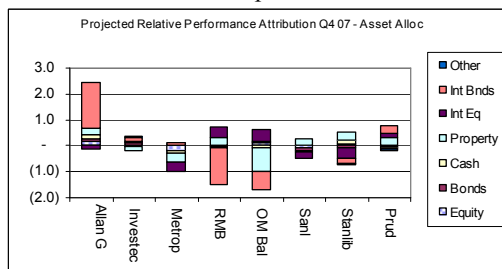
Adding value through asset and sector allocation is a function of correctly predicting cycles and represents a different skill from adding value through stock picking, latter being a function of superior analytical skills. The former is usually the result of the 'top – down' approach to portfolio structuring 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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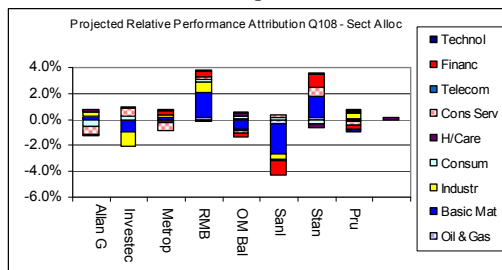
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Graph 8



Graph 9



So how did top performing Allan Gray (3.5% return for the quarter) manage to out perform Sanlam (minus 3.1%) at the bottom of the log by 6.6% over the quarter. As usual, the bulk of the difference is derived from equities where Allan Gray's projected performance is minus 3.1%, compared to minus 6.7% projected for Sanlam. Here Sanlam held 4.3% less in heavy weight 'Basic Materials', more specifically 18% less in 'Platinum', which returned 29% for the quarter, thereby losing around 2.7% against Allan Gray. This was the only heavy weight sector that produced positive returns for the quarter. Sanlam in turn held 10% more in 'Industrials', which returned minus 13% thereby losing another 1% against Allan Gray. Sanlam gained 0.8% through a 5% lower allocation to 'Consumer Services' which returned minus 14.8%. Through a 9% lower equity allocation, Allan Gray out performed Sanlam effectively by 2.5% on equities. Allan Gray's out performance was enhanced by a 6% higher allocation to international interest bearing investments that should have produced around 30% for the quarter, for an out performance of around 1.8%. The balance of around 1.7% comprises largely of a positive projection error of 0.8% on Allan Gray

and a negative projection error of 0.9% on Sanlam.

How predictable is the managers' performance?

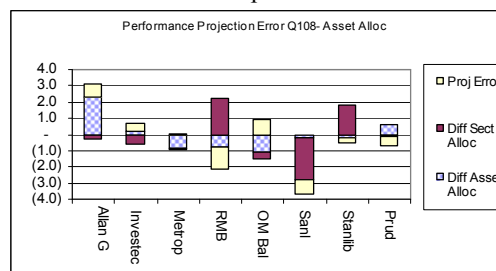
Table 4 shows our 'projection error' over the past 3 quarters and should give some food for thought for when a board of trustees reviews its current managers or intends to employ other manager/s. High projection errors would require a more detailed analysis:

Table 4

Manager	Q 3 2007	Q 4 2007	Q 1 2008
Investec	3.20	2.86	0.52
Stanlib	0.95	0.87	(0.32)
Allan G	(2.16)	3.62	0.82
Metrop	0.80	0.77	0.05
Average	(0.02)	0.90	(0.21)
Sanl	(0.34)	(0.22)	(0.88)
Prud	(0.42)	(0.07)	(0.62)
OM Bal	(0.41)	(0.05)	0.96
RMB	(2.02)	0.05	(1.33)

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 manager must be viewed with caution. Projection 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



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What shares do our managers actually invest in?

Table 5 reflects the shares our 8 portfolios 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 the average percentage exposure, of its total onshore equity exposure, of those 8 portfolios 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 8 managers. The next line '**# in Top 10**' reflects the average number of shares of our 8 portfolios in the common top 10, and the average percentage exposure of the 8 portfolios to their top 10 equity holdings is reflected in '**Total %**'. Finally the table reflects the average number of shares our 8 portfolios 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
MTN	G	7.0	8
Sasol	V	5.9	8
Standard B	V	5.6	6
Richemont	G	5.8	5
Implats	V	4.9	5
First Rand	V	3.4	4
BHP Billiton	G/V	7.5	4
Anglo Am	G/V	6.5	4
Remgro	G/V	5.1	4
Nedbank	V	3.4	3
Subtotal - Top 10	-	36.3	8
Number in Top 10	-	6.4	8
Total %		53.3	8
# of shares		56	6

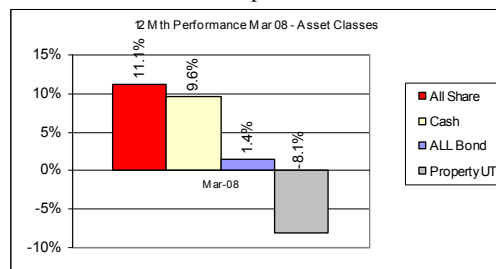
5. One Year Performance Analysis

The year to 31 March 2008

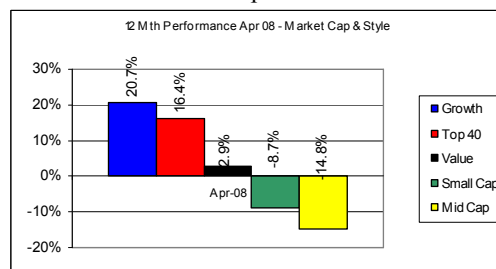
Graphs 11, 12 and 13 below reflect the performance of the asset classes, of companies by size and type and of the equity sectors. It is evident that one should have been overweight

'Basic Materials*', and under weight 'Consumer Services*', and 'Financials*' considering the 'heavy weight' sectors.

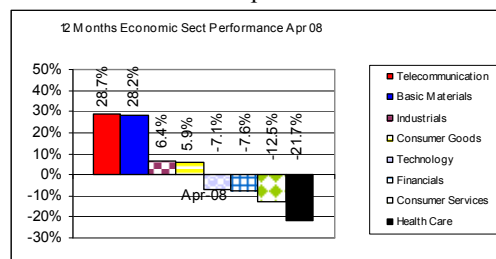
Graph 11



Graph 12



Graph 13



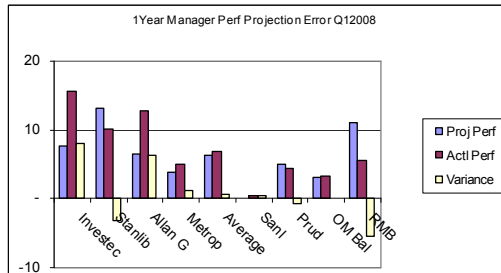
Graph 14 reflects projected performance, actual performance and the resulting projection error for the prudential balanced portfolios over the year. The projection error is generally higher over a 12 month period, as our projections assume a smooth change in asset and sector allocation over the year which is likely not to be accurate.

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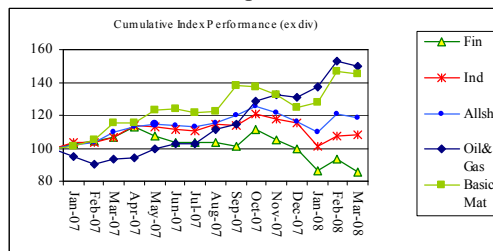
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Graph 14



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 twelve months to 31 March 2008.

Graph 16

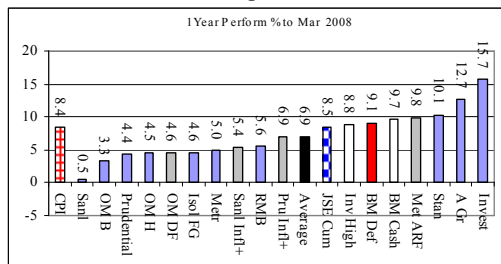


Table 6 below, reflects the projected performance of the average prudential, managed portfolio. With an actual performance of the average prudential balanced portfolio of 6.9%, the below projection reflects a positive 'projection error' of 0.6% on actual average manager performance for the year.

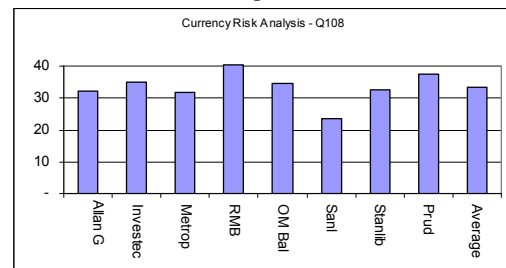
Table 6

Asset Class	Exposure %	Perform %	Weighted Perform %
Equity	59.7	4.8	2.9
Bonds	10.8	1.4	0.1
Cash	11.3	9.6	1.1
Property	2.5	- 8.1	- 0.2
Intern Eq	11.6	8.3	1.0
Intern Other	4.1	33.9	1.4
Total	100		6.3

6. Analysis of Currency Sensitivity

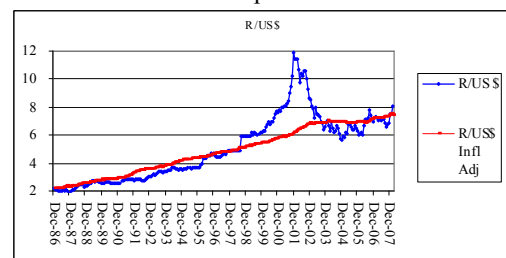
Graph 17 provides an indication of the currency risk to which the portfolios are exposed. Currency risk here is measured as a function of effective offshore and 'Basic Materials*' exposure. Evidently RMB again presents the highest risk on that basis, 40% of its total assets being exposed to exchange rate fluctuation. Sanlam on the other end of the scale presents a risk of only around 24%.

Graph 17



Graph 18 below 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 was back to just above this trend line, indicating a slight under valuation by this measure.

Graph 18



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7. Analysis of Special Mandate Portfolio Performance

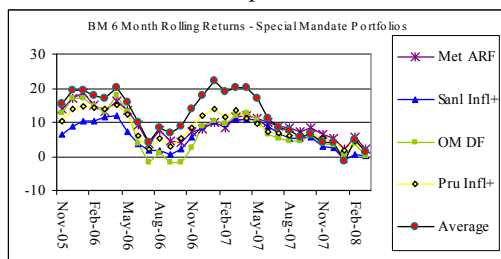
Special mandate portfolios as an alternative for the conservative investor?

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.

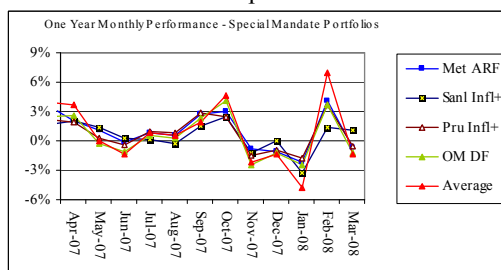
Graphs 19 and 20 depict rolling 6 month returns, and the one Year Monthly returns of the special mandate portfolios, compared to that of the average prudential, managed portfolio. Evidently, most special mandate portfolios typically reflect lower volatility, at the cost of lower returns over the longer term.

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

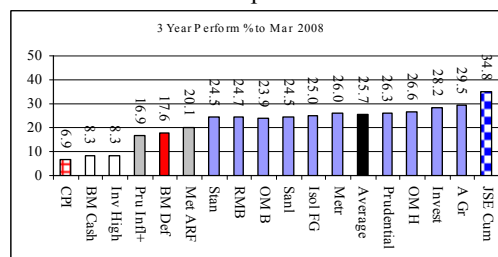


8. Long-term Performances

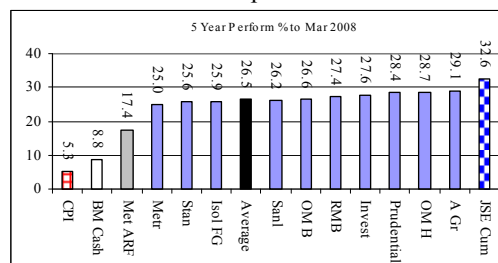
To complete our performance review, graphs 21 and 22 depict the 3 and 5 year performance of the various portfolios to 31 March 2008. Evidently performance of all portfolios, barring cash and Investec High Income portfolios exceed inflation ('CPI Cum') by significantly more than the long-term out performance objective of

around 5%, and this trend will definitely not continue for much longer, in our view.

Graph 21



Graph 22



9. Conclusion

Preview for remainder of 2008

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 April 2008, which is available on our website at 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