BENCHTEST

Volume 4, No 3, Sep 2008

A REVIEW OF INVESTMENT MANAGERS – 30 September 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

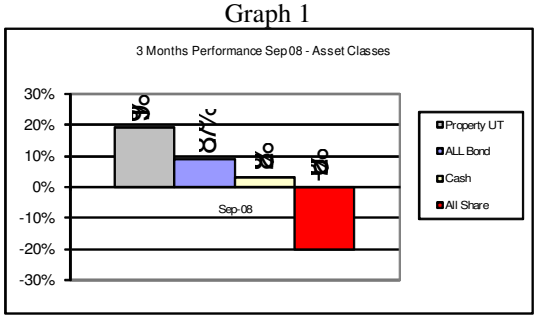
BENCHTEST is a unique technical analysis of popular Namibian retirement fund investment portfolios, produced on behalf of the Benchmark Retirement Fund by Nambian niche fund administrator, Retirement Fund Solutions Namibia (Pty) Ltd. It reflects only extracts from an extensive data base that is available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

2. Review of Asset Class and Sector Performance

Quarter 3 of 2008

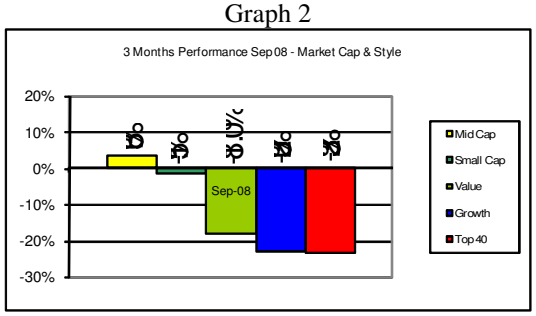
Graph 1 below reflects the returns of the various asset classes, which pension fund investment portfolios typically comprise of.

Graph 1



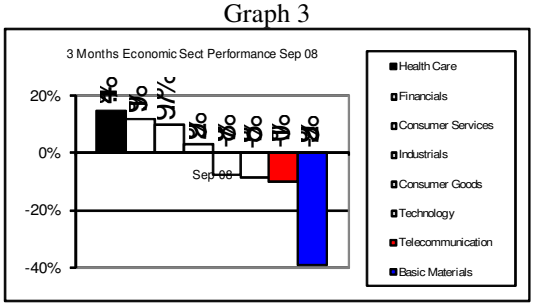
Graph 2 reflects the performance of companies classified by market capitalization, e.g. large companies ('Top 40*), medium sized ('Mid Cap*) and small listed companies ('Small Caps*') and classified by type of company, e.g. growth and value companies.

Graph 2



Graph 3 below reflects the returns of the main economic sectors

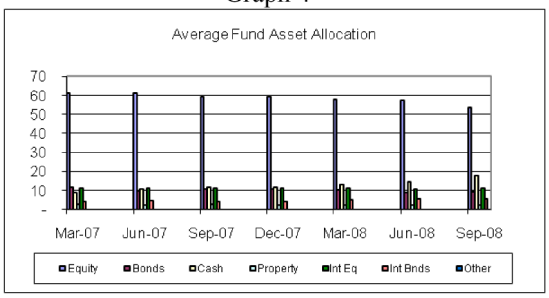
Graph 3



3. Analysis of Manager Portfolio Composition

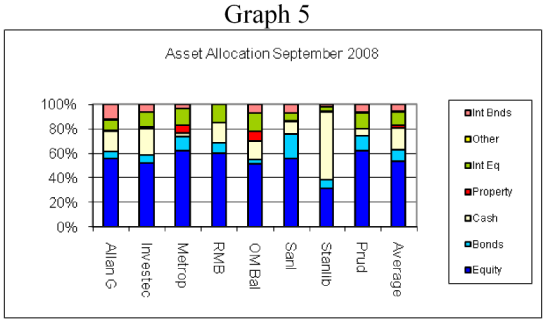
Graph 4 provides an overview how the asset allocation of the average prudential balanced portfolio changed over the course of the 7 quarters.

Graph 4



Graph 5 reflects the asset allocation of the prudential balanced portfolios, also distinguishing between onshore and offshore assets.

Graph 5



Graph 6 provides an overview how the sector allocation of the average prudential balanced portfolio changed over the course of the 7 quarters.

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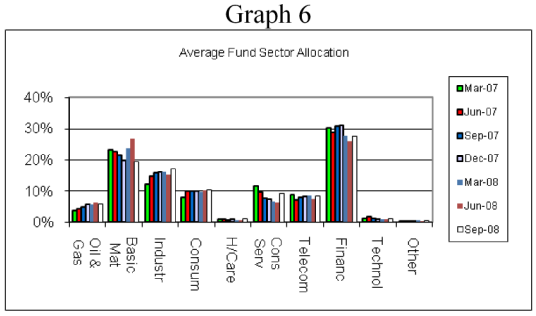
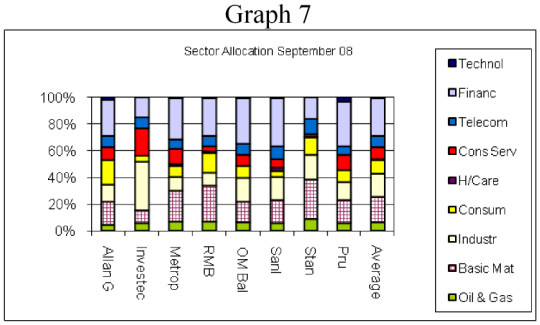
Graph 6



Graph 7 reflects the sector allocation within the equity allocation of the prudential balanced portfolios.

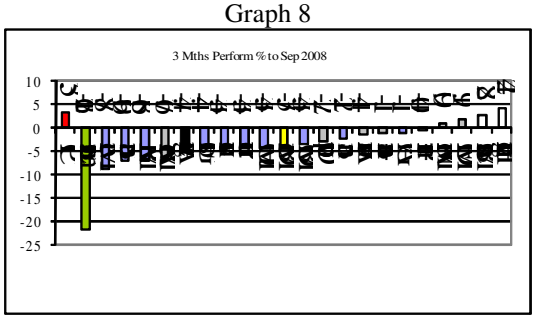
Graph 7



4. Analysis of Manager Performance

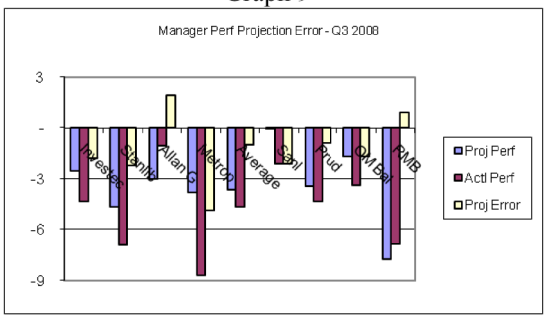
Graph 8 reflects the performance for quarter 3 of 2008 of the prudential balanced portfolios (blue shaded bars) in our survey, all others carrying special mandates:

Graph 8



Graph 9 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 3 of 2008. High projection errors should be caused by good or poor stock selection or portfolio restructuring and should require further analysis.

Graph 9



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 3rd 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	55.7	- 7.7	- 4.3
Bonds	9.4	8.7	0.8
Cash	16.3	2.8	0.5
Property	2.1	19.1	0.4
Gold	11.0	- 10.7	- 1.2
Intern Eq	5.7	2.6	0.2
Intern Other	0.1	0.3	0.0
Total	**100**		**- 3.7**

The projected performance of the average portfolio for the quarter, of minus 3.7%, represents a negative projection error of 1% on the actual performance of minus 4.7 % per graph 8.

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):

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Table 3

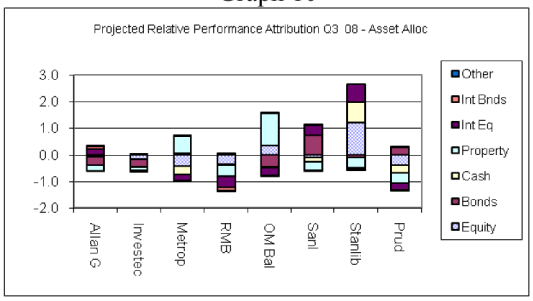
Equity Sector	Exposure %	Perf %	Weighted Perf %
Oil & Gas	6.0	- 24.2	- 1.4
Basic Mat	25.2	- 39.3	- 9.0
Industrials	15.7	2.9	0.5
Cons Goods	9.9	- 7.8	- 0.8
H/care	0.7	14.4	0.1
Cons Serv	6.4	9.7	0.7
Telecoms	7.9	- 10.1	- 0.8
Financials	26.8	11.9	3.2
Technol	0.9	- 8.5	- 0.1
Other	0.5	- 20.6	- 0.1
Total	**100**		- **7.7**

Graph 8 above shows that top performing Allan Gray outperformed the average manager by roughly 4.6% for the quarter, while bottom ranking Metropolitan under performed by 4%.

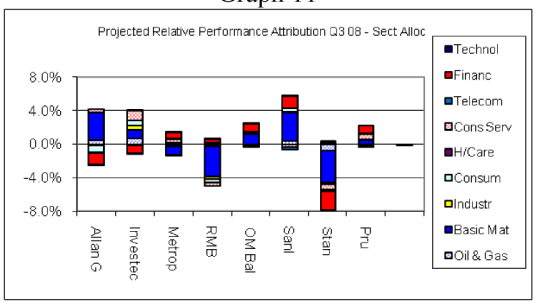
Based on the portfolio structure of the managers, **graph 10** shows where the manager has added/subtracted value through asset allocation relative to the projected performance of the average manager in our survey, while **graph 11** shows a similar result with regard to sector allocation. This plus 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.

Graph 10



Graph 11



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 1 2008	Q 2 2008	Q 3 2008
Investec	0.52	(1.21)	(1.80)
Stanlib	(0.32)	(0.03)	(2.21)
Allan G	0.82	(0.28)	1.93
Metrop	0.05	2.75	**(4.90)**
Average	**(0.21)**	**(0.50)**	**(1.02)**
Sanl	(0.88)	(0.97)	(2.14)
Prud	(0.62)	(1.40)	(0.90)
OM Bal	0.96	0.29	(1.68)
RMB	(1.33)	(1.71)	**0.93**

Graph 12 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. Projection errors as revealed below can result from the use of derivatives, stock picking, and also from significant portfolio restructuring through the

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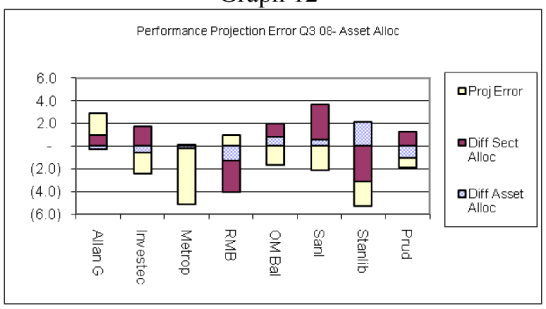
course of a quarter by the manager, or even from valuation problems and should in any event be subject to further enquiry.

Graph 12



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 ‘**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’**..

Table 5

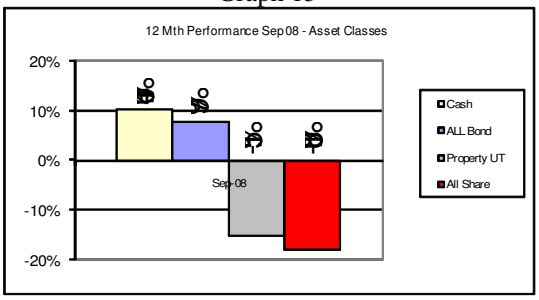
Counter	Ø Exp	Count
MTN	**67**	8
Sasol	**5.5**	7
Standard B	**6.0**	7
Anglo Am	**5.3**	6
First Rand	**3.3**	5
Richemont	**5.6**	4
BHP Billiton	**7.0**	4
Remgro	**5.2**	4
Aveng	**5.5**	3
ABSA	**.3**	3
Subtotal - Top 10	**35.0**	**8**
Number in Top 10	**6.4**	**8**
Total %	**50.0**	8
# of shares	**56**	8

5. One Year Performance Analysis

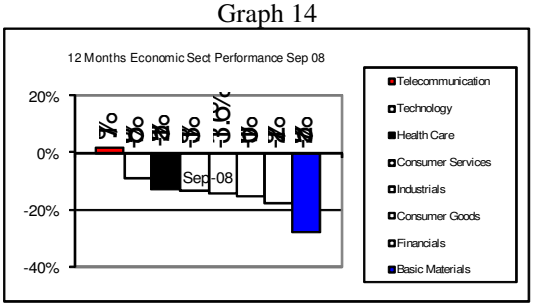
The year to 30 September 2008

Graphs 13, 14 and 15 below reflect the performance of the asset classes, of companies by size and type and of the equity sectors. Take note that the heavy weight equity sectors that will have an impact on returns are ‘Basic Materials*’, ‘Consumer Services*’, ‘Consumer Goods*’, ‘Industrials*’ and ‘Financials*’.

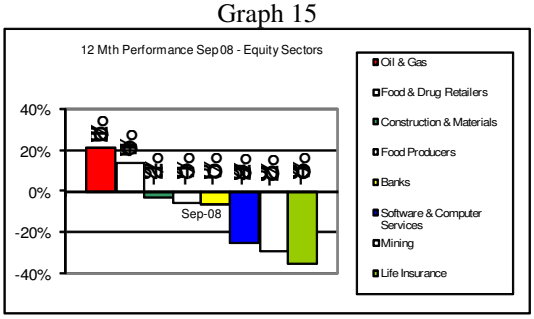
Graph 13



Graph 14



Graph 15



Graph 16 reflects projected performance, actual performance and the resulting projection error for the prudential balanced portfolios over the past year. The projection error is generally higher over a 12 month period, as our projections assume a smooth change is asset and sector allocation over the year which is likely not to be accurate.

Graph 16

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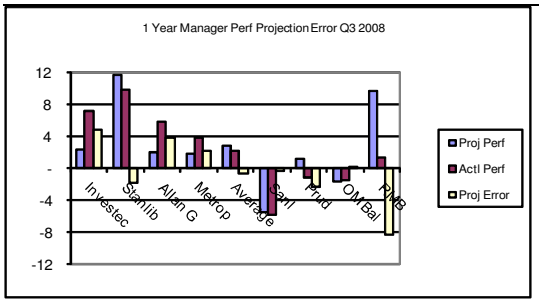
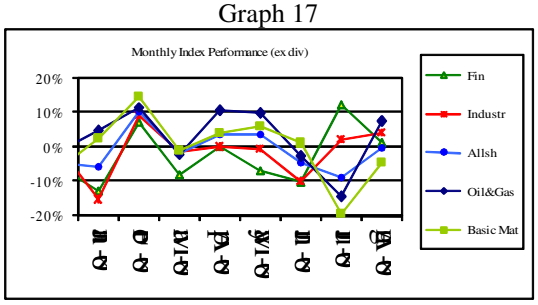


Graph 17 allows tracking the development of the various sectors since the start of the year for a more detailed analysis of your manager's performance vs these indices. Please refer to graphs 28 to 31 for an analysis of our prudential balances portfolio's monthly performance.

Graph 17



Graph 18 below, reflects the performances of all managers in our survey for the twelve months to 30 September 2008.

Graph 18

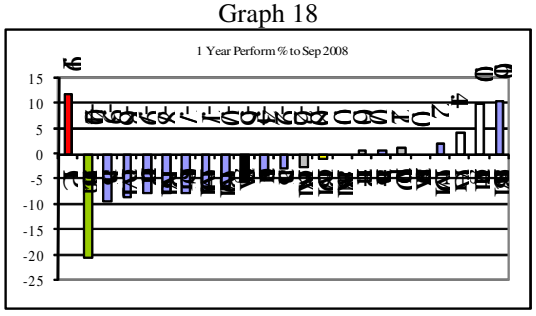


Table 6 below, reflects the projected performance of the average prudential, managed portfolio for the 12 month period. The actual performance of the average prudential balanced portfolio of minus 5.7%, represents a positive 'projection error' of 0.9% on the projected performance of the average prudential balanced portfolio for the year, of minus 6.5%.

Table 6

Asset Class	Exposure %	Perform %	Weighted Perform %
Equity	57.5	- 14.9	- 8.6
Bonds	10.0	7.9	0.8
Cash	13.8	10.4	1.4
Property	2.3	- 15.1	- 0.3
Intern Eq	11.4	- 10.8	- 1.2
Intern Other	4.7	27.9	1.3
Gold	0.1	42.2	0.1
Total	**100**		**- 6.5**

Table 7 below, reflects the projected equity performance of the average prudential, managed portfolio for the 12 month period.

Table 7

Equity Sector	Exposure %5.7	Perf %	Weighted Perf %
Oil & Gas	5.7	21.6	1.2
Basic Mat	22.2	- 27.5	- 6 .1
Industrials	16.1	- 13.6	- 2.2
Cons Goods	10.0	- 15.0	- 1.5
H/care	0.8	- 12.5	- 0.1
Cons Serv	7.3	- 13.1	- 1.0
Telecoms	8.0	1.7	0.1
Financials	28.6	- 17.2	- 4.9
Technol	1.0	- 24.9	- 0.3
Other	0.4	- 18.0	- 0.1
Total	**100**		**- 14.9**

Based on the portfolio structure of the managers, **graph 19** 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 20** shows a similar result with regard to sector allocation, over the past 12 month. This plus the projection error as also overlaid in graph 16, produces the actual performance of the manager for the 12 months.

Graph 19

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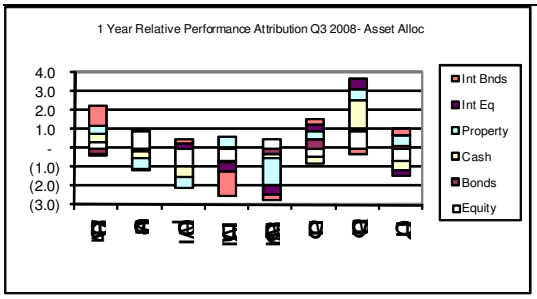
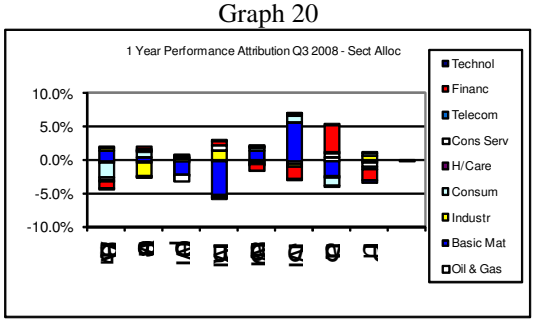


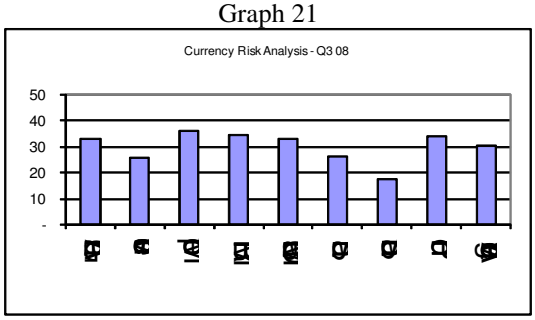
Graph 20



6. Analysis of Currency Sensitivity

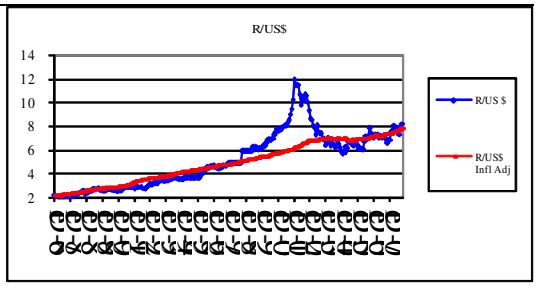
Graph 21 provides an indication of the currency risk to which the portfolios are exposed. Currency risk here is measured as a function of effective offshore and 'Basic Materials*' exposure.

Graph 21



Graph 22 below depicts the position of the Rand versus the US$ up to end of September 2008, 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 22



7. Analysis of Special Mandate Portfolio Performance

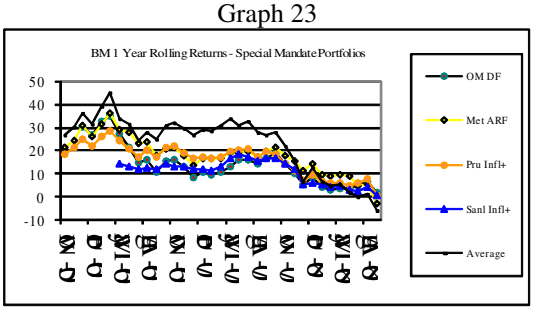
Special mandate portfolios as an alternative for the conservative investor?

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 23 and 24 depict rolling one year 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. Also refer to graphs 31 to 34 for a more vivid view of monthly performances over the past 12 months.

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

Graph 23



Graph 24

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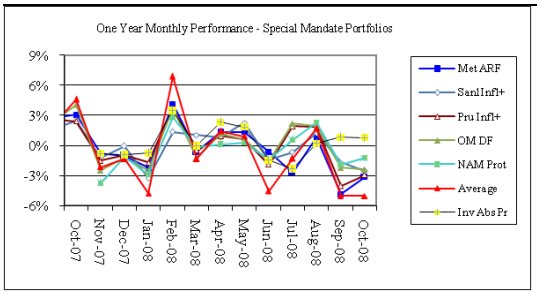


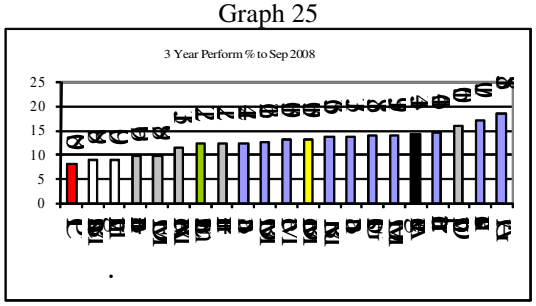
8. Performance Statistics

To complete our performance review, **graphs 25 to 27** depict the 3 year, 5 year and 10 year performance of the various portfolios to 30 September 2008. For financial planning purposes, you should be aware that prudential balanced portfolios should outperform CPI in the long-term by around 5%.

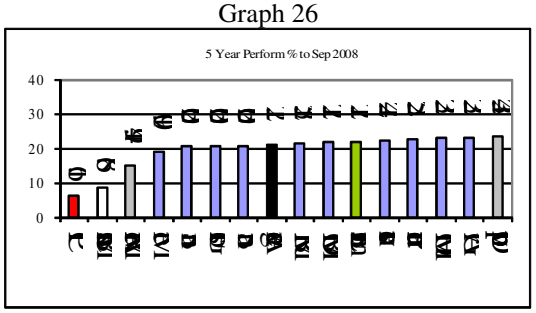
Graphs 27 to 31 provide an overview of monthly performance over the past 12 months, of the prudential balanced portfolio in our survey.'

Graphs 32 to 34 finally reflect the monthly performance over the past 12 months, of the special mandate portfolios in our survey.

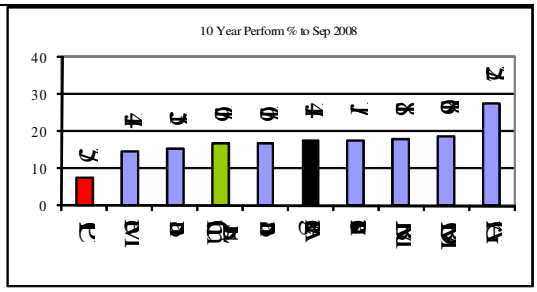
Graph 25



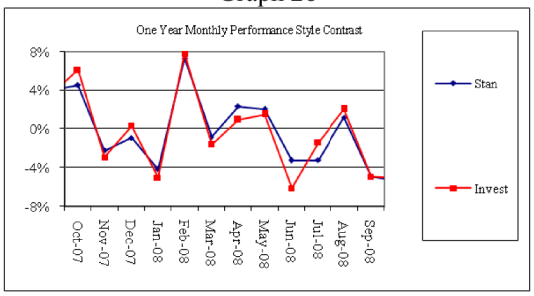
Graph 26



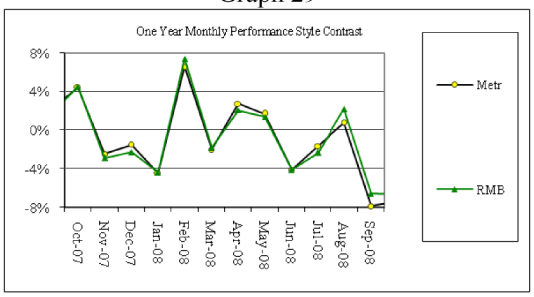
Graph 27



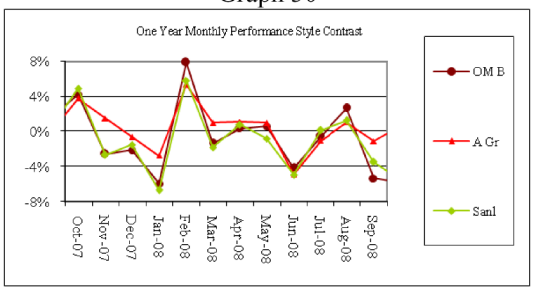
Graph 28



Graph 29



Graph 30



Graph 31

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

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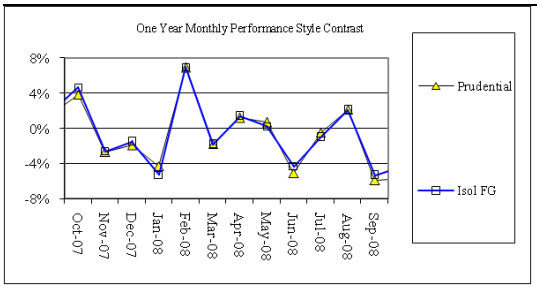
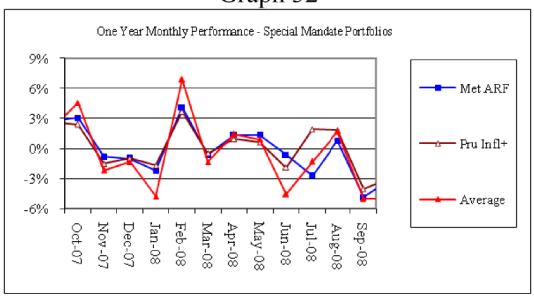
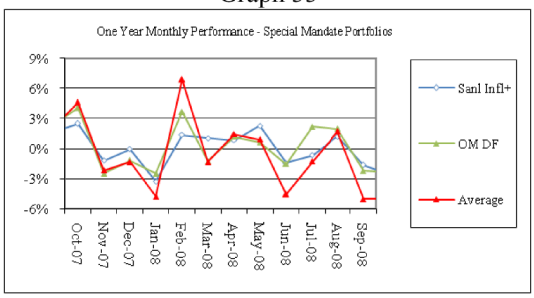


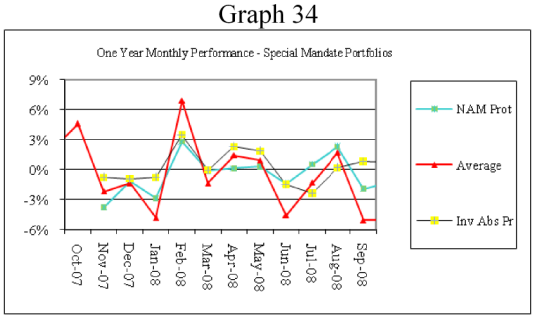
Graph 32



Graph 33



Graph 34



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 October 2008, which is available on our website at www.rfsol.com.na.

Who to Contact

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