



Benchmark Retirement Fund

MONTHLY REVIEW OF PORTFOLIO PERFORMANCE TO 30 SEPTEMBER 2011

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.

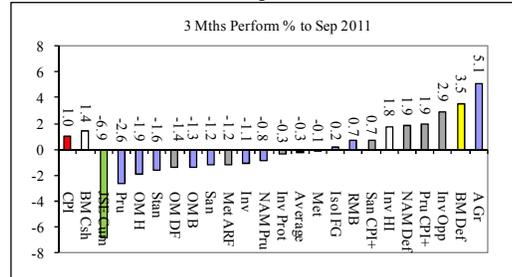
1. Review of Portfolio Performance

In September our average prudential balanced portfolio returned 0.56% (August minus 0.2%). Top performer once again is Allan Gray (3.57%), while longer term log leader Stanlib (minus 1.24%) takes bottom spot.

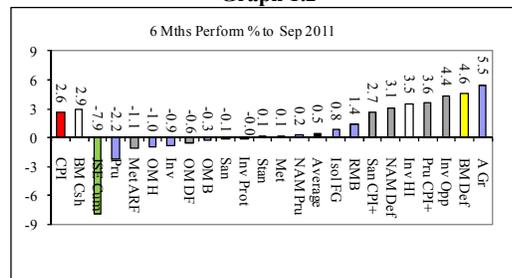
Graphs 1.1 to 1.7 reflect the performance for periods from 3 months to 10 years of a number of the most prominent prudential balanced portfolios (blue bars), 'special mandate portfolios' with lower volatility risk (grey bars), fixed interest portfolios (no color bars), the average of prudential balanced 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 now represents a combination of Prudential Namibia Inflation Plus and Allan Gray. 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 color)
Investec High Income (interest bearing assets)	Inv HI (no color)
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, (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)

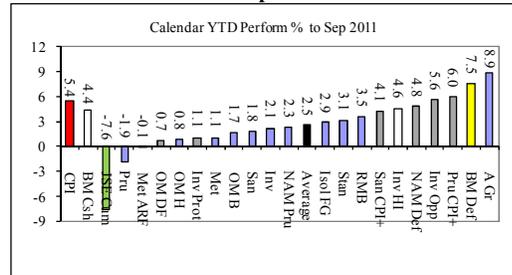
Graph 1.1



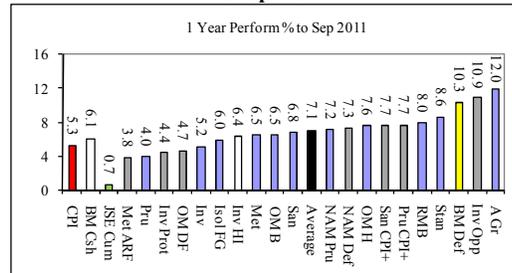
Graph 1.2



Graph 1.3



Graph 1.4





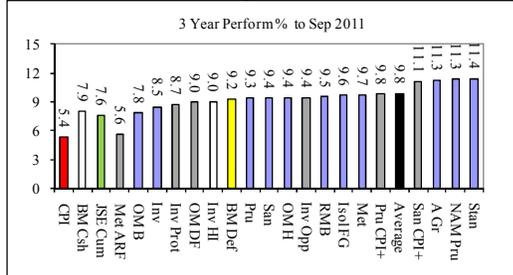
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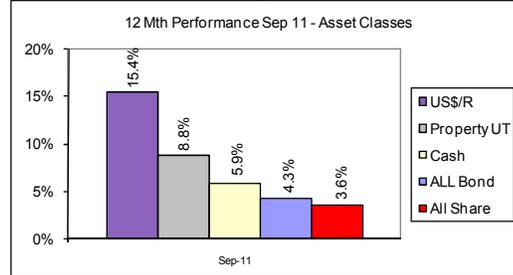
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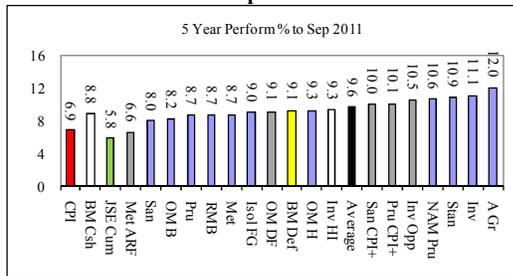
Graph 1.5



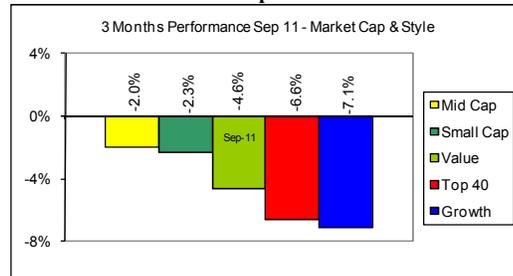
Graph 2.2



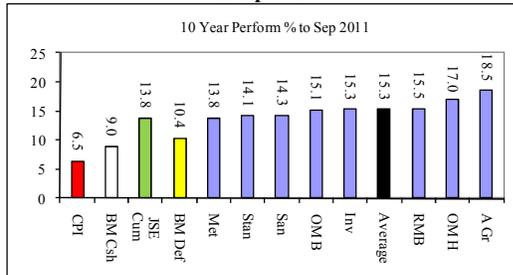
Graph 1.6



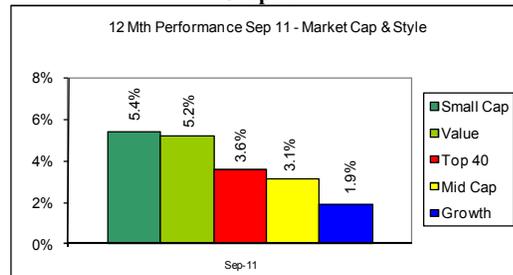
Graph 2.3



Graph 1.7

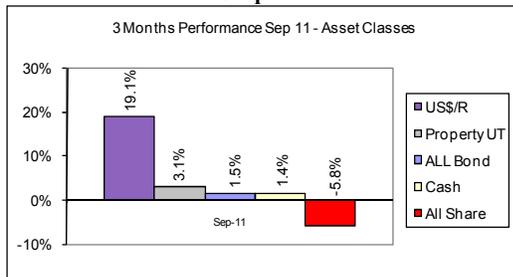


Graph 2.4

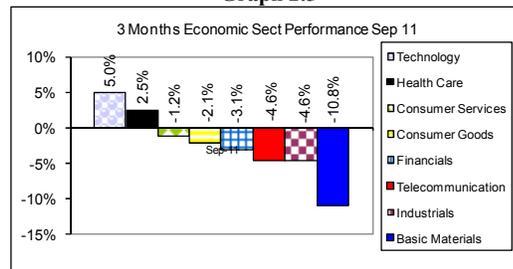


2. Performance of Key Indices (index performance by courtesy of IJG/Deutsche Securities)

Graph 2.1



Graph 2.5





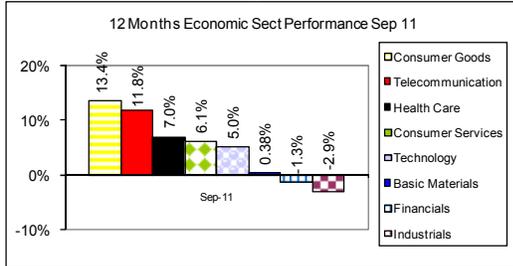
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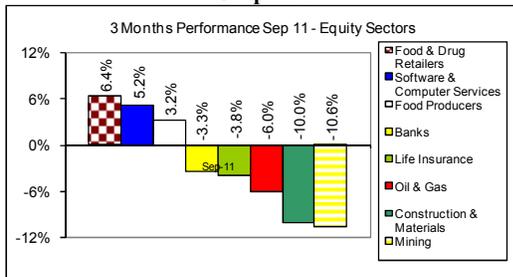
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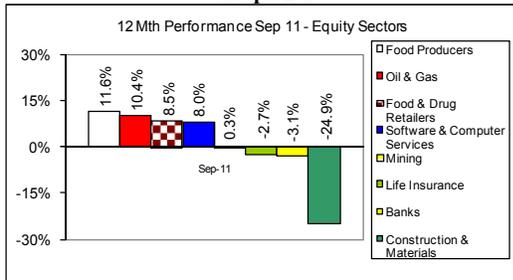
Graph 2.6



Graph 2.7



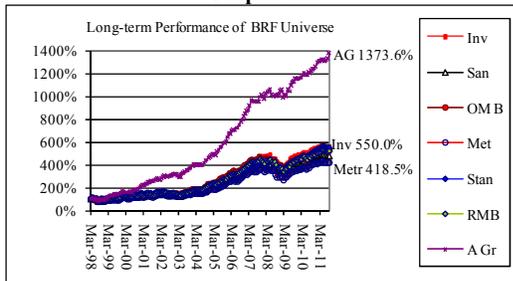
Graph 2.8



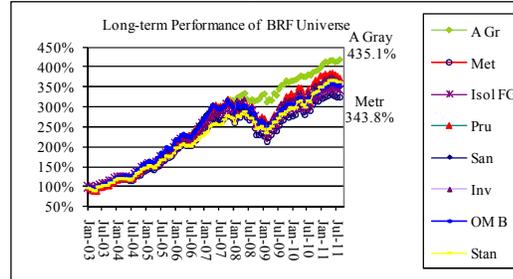
3. Portfolio Performance Analysis

3.1. Cumulative performance of prudential balanced portfolios

Graph 3.1.1

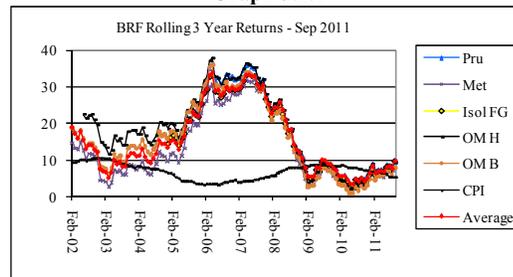


Graph 3.1.2

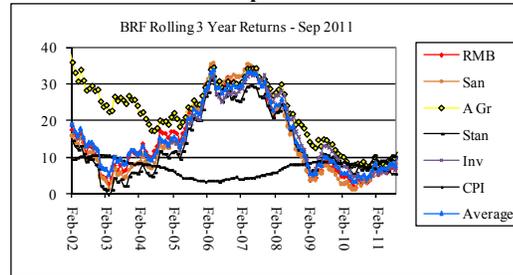


3.2. 3-year rolling performance of prudential balanced portfolios relative to CPI

Graph 3.2.1

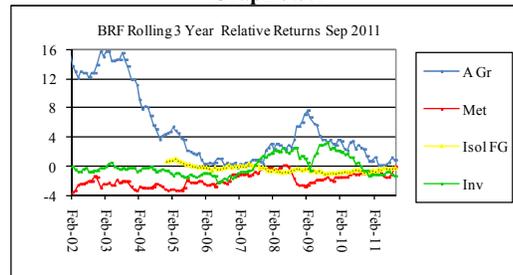


Graph 3.2.2



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

Graph 3.3.1





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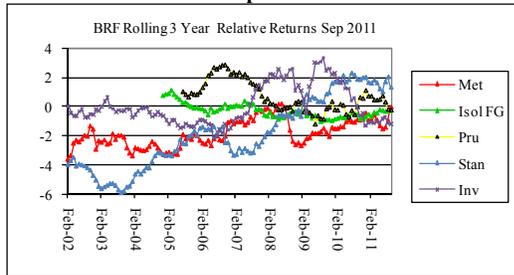
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Graph 3.3.2

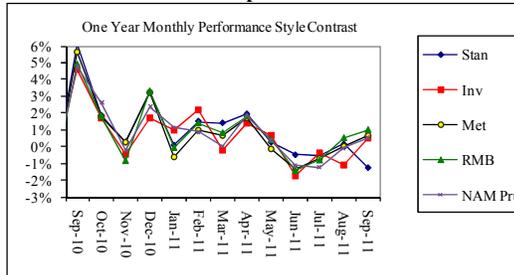


Graph 3.3.3

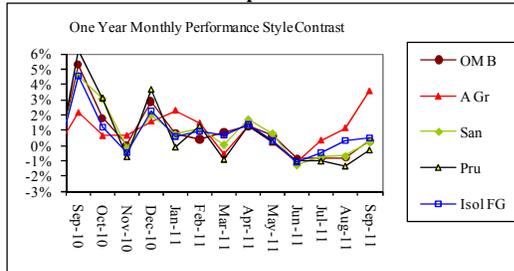


3.4. Monthly performance of prudential balanced portfolios

Graph 3.4.1

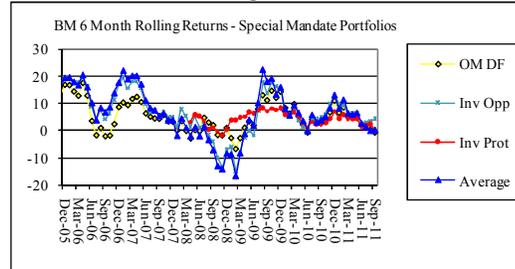


Graph 3.4.2

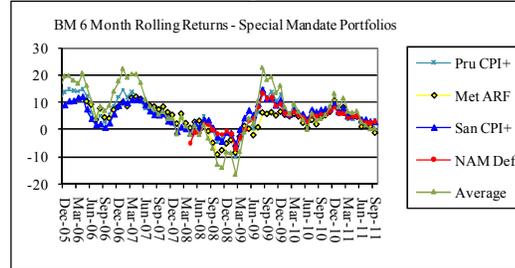


3.5. 6-month rolling returns of 'special mandate' portfolios

Graph 3.5.1

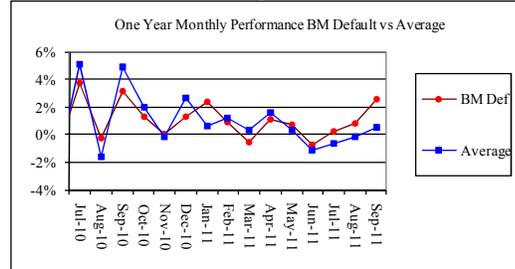


Graph 3.5.2



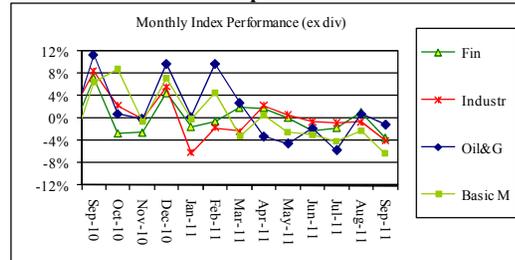
3.6 Monthly performance of 'Default' portfolio relative to average prudential balanced portfolio

Graph 3.6



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

Graph 3.7.1





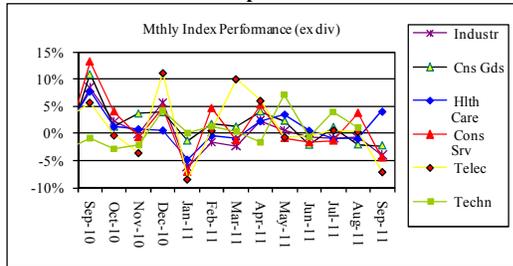
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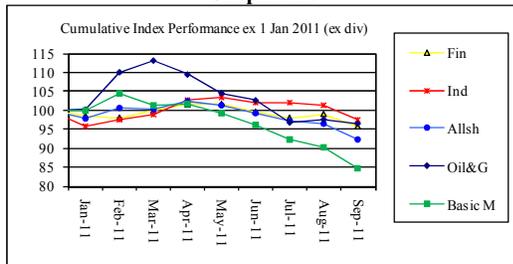
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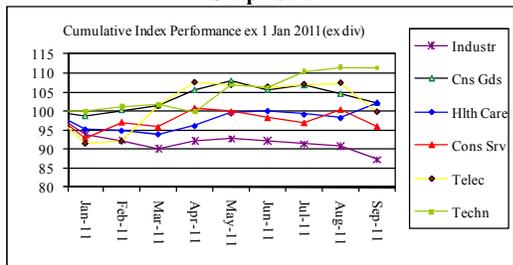
Graph 3.7.2



Graph 3.7.3



Graph 3.7.4



4. The Benchmark Default Portfolio

Graph 1.6 shows that the average prudential balanced portfolio returned 9.6% p.a. in nominal terms, or 2.7% p.a. in real terms, over the past 5 years while the Benchmark Default portfolio returned 9.1% p.a. in nominal terms, or 2.2% p.a. in real terms. Considering that the average prudential balanced portfolio should deliver a real return before management fees (typically 0.75%), of roughly 6% per year, these portfolios are currently trailing the expected long-term goal significantly over the past 5 years.

Participating employers who are invested in the Benchmark default portfolio will be aware that we have raised the risk profile of the default portfolio since the beginning of 2011 by replacing Metropolitan ARF with Allan Gray. With this combination, its risk profile is still considerably lower than that of the average prudential balanced portfolio. We would therefore expect the default portfolio to sacrifice around 1% for the benefit of lower volatility, thus an expected real return before management fees (typically 0.75%), of around 5% per year. Since this change was effected, the default portfolio returned 7.5% compared to 2.5% for the average prudential balanced portfolio.

The performance of the prudential balanced portfolios should be 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 October 2008 to September 2011:

Table 4.1

Measure	Money Market	Default Portf	Average Prud Bal
Worst annual performance	6.1%	-8.0%	-19.1%
Best annual performance	12.1%	16.2%	29.7%
No of negative 1 year periods	n/a	9	9
Average of negative 1 year periods	n/a	-4.1%	-12.0%
Average of positive 1 year periods	8.9%	10.6%	14.7%

The Benchmark Default portfolio is a more conservative investment aimed at minimising negative returns and with a long-term return objective of inflation plus 5% before fees and roughly 4.3% after fees.

At this rate of return, the net contribution towards retirement by both, member and employer should be roughly 13% of remuneration, in order to achieve a reasonable income replacement ratio of 2% 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.

Graph 4



Graph 4 measures the success of the Benchmark Default portfolio in achieving its long-term gross investment return objective of inflation plus 5%, on a rolling 3 year basis. It also shows rolling 3 year returns of the average prudential balanced portfolio and rolling 3 year CPI. It shows that since September 2008, both the Benchmark Default portfolio as well as the average prudential balanced portfolio are lagging inflation plus 5% and at times even inflation and are currently just ahead of inflation over the latest 3 year period.





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5. What We Expect Of The Next 12 Months

The global back drop

Financial markets particularly in Europe are still in great turmoil and will remain so until a viable solution can be worked out that removes all uncertainty. In the mean time it appears that things are starting to look up in the US. As the result, there appears to be a de-coupling of consumer sentiment between the US on the one side and Europe on the other side. It appears US economic indicators and sentiment is turning up while sentiment in Europe appears to take the opposite direction. Global inflation appears to have peaked for the time being, that of the US for July year-on-year standing at 3.5% (August 3.8%), Euroland at 3% (August 2.5%), China at 6.1% (August 5.3%), SA at 5.7% (August 5.3%) and Namibia at 5.3% (August 5.4%). We do believe though, that this is a short-term lull and that inflation will pick up again as consumption starts gaining steam.

The decision by the Federal Reserve to stimulate the US economy, was to exchange some of its short dated bond holdings of up to 3 years, with longer dated bonds to the tune of some US 400 bn until June next year. This is likely to depress long-term interest rates in the US which is good for the borrower but bad for the saver and investor. Yields on long dated bonds already came down to below 3%, representing a negative real return of 0.5%. The yield on the US 10 year government bond declined from 3.28% at the end of December 2010 to 1.93% at the end of September 2011, a negative real return of 1.6%.

Conversely we would expect yields on shorter dated stock to increase. Since less short-term and more long-term capital will be seeking higher yielding alternative investment avenues, we would expect speculation in and volatility of financial markets to subside. It should reduce the flow of speculative monies into developing economies which in turn should weaken their currencies and put a lid on their bourses and on commodities. In the medium to longer term this should lead to more productive investment, job creation and an improvement in consumer sentiment in the US.

Global economies should by now have adapted to a new reality of higher oil prices. With our expectation of receding speculation, we would expect the price of oil and other commodities to be much more stable going forward and hence inflation to stabilize over the medium term.

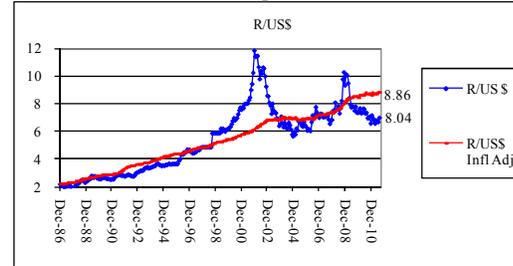
We believe that now that market forces are 'left to their own devices', they should become much more predictable and more recent experience appears to bear this out.

How is the Rand doing?

Graph 5.1 indicates that the Rand is fairly valued at 8.86 to the US Dollar while it actually stood at 8.04. This is based on adjusting the two currencies by the respective domestic inflation rates. Our conclusion from this graph

is that the likelihood of the Rand depreciating is significantly greater than the opposite. An apparent rerating that occurred more recently has seen the Rand hovering around 8 for the last few weeks.

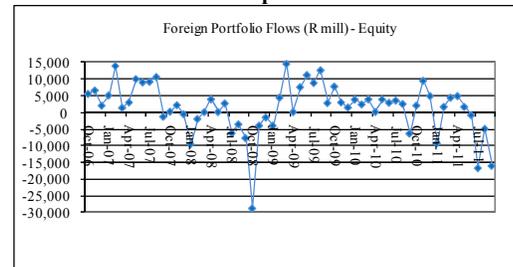
Graph 5.1



At this stage the support from foreign capital flows appears to be fading

Graph 5.2 reflects a significant decline in the flow of capital into South African equities. For the 12 months to end of September, the FTSE/JSE experienced a net outflow of R 17.2 billion (R 7.5 billion net outflow, 12 months to end August 2011), compared to a net inflow of R 30.5 billion for the 12 months to end September 2010 (net inflow of R 39.6 billion, 12 months to end August 2010).

Graph 5.2



Graph 5.3 reflects no clear trend but very high volatility in net flows into fixed interest instruments, which amounted to R 36 billion for the 12 months to end September (R 52.6 billion for the 12 months to end August), compared to an inflow of R 78.4 billion for the 12 months to end September 2010 (R 61.3 billion for the 12 months to end August 2010). These inflows of course still provided some support to the Rand. Our view however is, that the flow into local bonds will not continue and the level of support to the Rand from this source is likely to reduce significantly over the medium term as became evident in the month of September.





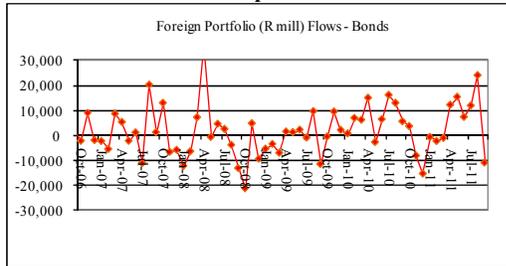
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Graph 5.3

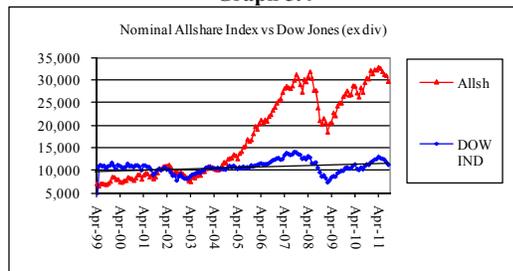


The net flow of foreign capital into equity and fixed interest assets was R 18.8 bn for the 12 months to end September (R 45.1 bn to end August), compared to R 108.9 bn for the 12 months to end September 2010 (R 100.9 bn to end August 2010).

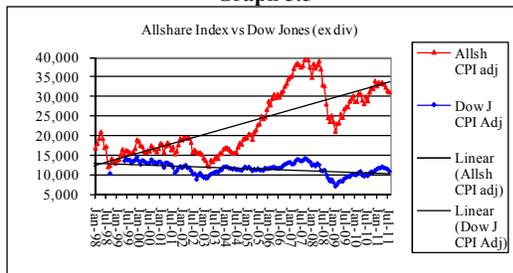
Graph 5.4 shows to what extent equity markets have recovered in nominal terms since their low at the end of February 2009, however tapering off of late.

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

Graph 5.4

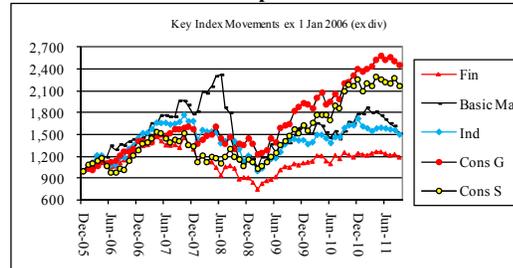


Graph 5.5



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

The tail winds that have supported a strong Rand in many respects for a long time have started to fade. We have seen a reversal in its fortunes more recently and expect this trend to continue, raising the risk of retaining one's investment capital in local markets and suggesting strongly greater offshore diversification.

We have changed our views on interest rates in the light of latest policy decisions taken by the US Federal Reserve and now foresee declining long-term interest rates, declining inflation and sluggish bourses and economies, particularly in the developing world for the medium term. We expect to see more productive investment, particularly in infrastructure and productive capacity. This should benefit industrial and financial counters, particularly in the industrialized world.

Graph 5.6 indicates that local consumer goods and consumer services had an excellent run over this period of more than 5 years and they appear to be turning down now. We do not expect too much more joy out of these sectors anymore and these should hence be underweight.

On the basis of fundamentals, one should now move to an overweight position in local industrials and financials that have not seen the growth of the consumer sectors but have declined much less steeply in the recent past. This view suggests an underweight position in basic materials and a neutral position in local consumer goods and consumer services. An expected depreciation of the Rand in the medium term would favor exposure to Rand hedge shares locally and an increase in foreign holdings.

Investing in equities should ensure that the value of the investment will at least keep pace with higher trending inflation in the medium to longer-term, and should also produce a real return in excess of inflation in the medium to long-term. Equities in general should outperform the other conventional asset classes such as cash and bonds. Property on the other hand should benefit from low long-term interest rates. Companies with a low gearing, high dividend yield and those offering a hedge against a depreciating Rand would be our preferred targets.

In view of prevailing uncertainties, we still prefer a conservative balanced portfolio with a fair spread across equities, bonds and property, but moving towards a more





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assertive position over the next year. A high foreign equity exposure, particularly to industrialized western countries is our call for the next few years.

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.

