FLEXIPORTFOLIO

PERFORMANCE REPORT

1 FEBRUARY 2015

SOUTH AFRICAN ECONOMIC REVIEW

- Locally, the key focus over the past month were attempts to figure out the net benefit to the economy of the lower oil price versus the disruptive effect of Eskom's more regular load shedding in coming months.
- As far as oil is concerned, it now seems pretty likely that inflation will drop to below 3.5% by April, the current account deficit could narrow by more than 2% of GDP this year and consumers will get a windfall of more than R20 billion a as a result of lower petrol prices (even if government were to take a bit back through higher fuel taxes). So there is no question that the lower oil price offers considerable benefits to the economy in the short term and, if the price were to remain at the lower levels, these benefits could become more lasting.
- Against this, Eskom seems to be in more trouble than was previously thought, with as much as 25% of their generating capacity offline on a pretty much permanent basis. This implies that rolling load shedding will become a permanent feature for much of the first half of this year. This will unquestionably damage the production side of the economy and, in the process, continue to place a serious constraint on the growth potential of the economy, as well as restrain this year's cyclical growth acceleration.
- While the Eskom news flow is undeniably bad, if not downright shocking, there is at least a hint of silver lining to an otherwise very dark cloud. The upside is that Eskom finally seems to be putting maintenance ahead of 'keeping the lights on at all costs' with this policy of neglecting regular maintenance evidently doing great harm to the existing generating capacity. While load shedding is a huge constraint on the economy in the short term, business will find ways to deal with it and will likely even prefer additional short-term interruptions in the interests of a more stable, reliable system in the longer term. The simple fact is that an unreliable, fragile electricity system is a great constraint on the growth potential of the economy, something that has to be put right now if this economy is to grow structurally faster and create more jobs.
- Other news flow during the month was reasonably good, mostly reflecting the early benefits of the lower oil price: inflation fell to 5.3% in December 2014, down from 5.8% in November and a cyclical peak of 6.6% in June 2014; the trade balance recorded a surplus in December as oil imports started to decline, and the South African Reserve Bank (SARB) kept the repo rate unchanged as the inflation outlook brightened.
- The interest rate outlook continues to soften. Apart from the anticipated sharp fall in inflation and improvement in the foreign trade numbers, the round of policy easing that swept the world in January makes the financing environment for SA's relatively large (albeit narrowing) current account deficit easier. This brightens the prospects for a relatively stable rand during the course of 2015. Together with a sustained lower oil price and the surprise on inflation may well turn out to result in stronger beneficial second-round inflation effects and lower inflation expectations. Against this backdrop, chances are growing that interest rates will remain unchanged in 2015. While we cannot completely rule out a rate cut, I think it is unlikely unless the second round benefits do materialise relatively quickly and convincingly.

The lower oil price continues to have a material impact on prospects for the SA economy. It will lower inflation, relieve financial pressure on consumers and may well result in the SARB leaving interest rates unchanged throughout 2015.

MARKET PERFORMANCE INCLUDING DIVIDENDS

	LAST MONTH (%)	YEAR TO DATE (%)	1 YEAR (% P.A.)	3 YEARS (% P.A.)	5 YEARS (% P.A.)	8 YEARS (% P.A.)	10 YEARS (% P.A.)
JSE All Share	3.1	17.1	17.1	18.5	17.3	12.3	18.2
JSE Fin & Ind	3.5	30.5	30.5	29.3	25.2	16.7	21.0
JSE All Gold	32.2	17.6	17.6	-18.8	-6.1	-6.4	0.8
All Bond	6.5	21.2	21.2	10.3	11.3	9.4	9.1
Total Cash	0.4	5.1	5.1	4.8	5.0	6.7	6.6
ALSI 40	2.6	14.5	14.5	17.8	16.7	11.9	17.8
INDI 25	3.2	27.2	27.2	32.6	28.4	19.8	23.7

RETIREMENT ANNUITIES TO 01/01/2015 (REFER NOTES)

	PERFORMANCE PROFITS									SMOOTHED BONUS			STABLE FUND			CPI
	Equity %			Balanced %			Select %			%			%			
Period	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	%
1 Year	11.6	15.2	15.2	12.8	13.2	13.2	15.5	14.0	14.0	13.4	13.9	13.9	4.9	4.5	4.5	4.4
2 Years	16.5	16.7	17.4	14.4	14.0	14.4	15.7	14.6	14.8	14.6	15.1	15.6	4.3	4.1	4.0	5.1
3 Years	18.6	17.9	18.8	15.6	14.9	15.6	16.5	15.5	16.3	14.8	14.7	14.4	4.1	4.0	3.9	5.2
5 Years	17.2	16.3	15.5	14.4	13.7	13.1	15.0	14.1	13.3	13.4	13.1	11.9	4.0	4.1	4.2	5.1
8 Years	13.7	13.4	9.4	11.9	11.6	9.3	12.2	11.9	9.0	11.7	11.6	11.0	4.7	4.8	5.5	6.1
10 Years	13.1	13.4	14.6	11.5	11.5	12.4	11.8	11.8	12.6	12.0	12.1	13.1	5.0	5.1	5.5	5.9
15 Years	13.9	13.5	12.2	11.9	11.6	10.9	12.9	12.6	12.3	12.0	11.9	11.6	5.4	5.4	5.6	5.7
20 Years	13.2	13.1	12.4	11.6	11.4	11.2	-	-	-	11.6	11.6	11.6	6.0	6.1	7.4	5.9
25 Years	13.5	13.5	13.4	11.8	11.8	12.0	-	-	-	12.0	12.0	12.8	-	-	-	7.1
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.428% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/01/2015 (REFER NOTES)

	PERFORMANCE PROFITS									SMOOTHED BONUS			STABLE FUND			CPI
	Equity %			Balanced %			Select %			%			%			
Period	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	%
1 Year	10.3	13.8	13.8	11.2	11.6	11.6	13.3	12.2	12.2	11.9	12.4	12.4	2.8	2.6	2.6	4.4
2 Years	15.6	16.1	17.1	12.8	12.5	12.9	14.4	13.6	14.2	13.1	13.6	14.1	2.4	2.2	2.1	5.1
3 Years	17.7	17.2	18.1	13.9	13.4	14.1	15.3	14.4	15.1	13.3	13.2	12.9	2.2	2.2	2.1	5.2
5 Years	16.6	15.8	15.1	13.0	12.3	11.6	14.2	13.3	12.5	12.0	11.7	10.5	2.2	2.2	2.3	5.1
8 Years	13.1	12.8	8.7	10.4	10.1	7.9	11.3	11.1	8.2	10.4	10.3	9.7	2.8	2.9	3.7	6.1
10 Years	12.5	12.7	13.9	10.0	10.1	11.0	10.9	10.9	11.6	10.7	10.8	11.8	3.2	3.2	3.8	5.9
15 Years	13.0	12.6	11.2	10.5	10.3	9.7	11.8	11.5	11.2	10.8	10.8	10.6	3.8	3.8	4.4	5.7
20 Years	12.3	12.1	11.3	10.3	10.2	9.8	-	-	-	10.6	10.6	10.7	4.7	4.8	6.1	5.9
25 Years	12.5	12.5	12.3	10.5	10.5	10.5	-	-	-	11.0	11.0	11.7	-	-	-	7.1
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.255% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE) 3.60% p.a. (0.295% p.m.)

EQUIVALENT RETURN at the tax rate of 18% 4.39% p.a. (0.359% p.m.)

at the tax rate of 40% 6.00% p.a. (0.487% p.m.)

PORTFOLIO ASSET SPLIT

	RETIREMENT ANNUITIES						ENDOWMENTS/LIFE					
	PP Equity %	PP Balanced %	PP Select %	Smoothed Bonus %	WW Equity %	WW Balanced %	PP Equity %	PP Balanced %	PP Select %	Smoothed Bonus %	WW Equity %	WW Balanced %
Interest-bearing	0 (0)	24 (2)	16 (2)	24 (0)	0 (0)	27 (27)	0 (0)	23 (0)	16 (2)	24 (0)	0 (0)	27 (27)
Ordinary Shares	100 (24)	67 (29)	75 (23)	67 (24)	100 (85)	73 (58)	100 (24)	68 (31)	75 (23)	67 (24)	100 (84)	73 (58)
Property	0	7	9	7	0	0	0	7	9	7	0	0
Other	0	2	0	2	0	0	0	2	0	2	0	0

Figures in brackets — international portion of sector weighting

TOP EQUITY HOLDINGS (SA)

NAME		% SPLIT	SECTOR
1.	Naspers Ltd	12.0	Media
2.	MTN	5.9	Telecommunications
3.	British American Tobacco	4.6	Consumer Goods
4.	Sasol	4.1	Oil & Gas
5.	Standard Bank	4.0	Banks
6.	FirstRand	3.7	Banks
7.	Steinhoff International Holdings Ltd	3.6	Industrials
8.	Anglo American plc	3.2	Basic Resources
9.	SABMiller plc	2.8	Consumer Goods
10.	Remgro	2.5	Industrials

GLOBAL ECONOMIC OVERVIEW

- The international highlight in January 2015 was another round of monetary policy easing by a number of central banks, not including the US. The most important was the European Central Bank (ECB's) long-expected announcement of an extensive quantitative easing programme. This programme will see the Bank purchase €60 billion of various kinds of bonds, starting in March through to September 2016 (although they indicated that they may extend buying programme if deemed necessary). Apart from the ECB's action, a number of other central banks cut interest rates over the past few weeks, including Canada, Denmark, Norway, Switzerland (which also dropped a bombshell by abandoning the Swiss Franc's peg to the euro), India and Turkey. These policy moves were in reaction to mounting concerns of a renewed loss of growth momentum and a growing risk of deflation in a number of countries, spurred on by the collapse of the oil price.
- Mounting global growth concerns came to the fore when the International Monetary Fund (IMF) cut their global growth forecasts for 2015 to 3.5%, down from the 3.8% forecast they made in October. This downgrade came despite the sharply lower oil price since October. The IMF effectively argued that slower-than-previously estimated growth in the Eurozone, China and Japan would more than offset the benefit of the lower oil price. It is widely estimated that every US$10 a barrel drop in the oil price, if sustained over a full year, will have the net benefit of a 0.1% addition to overall global growth.
- Oil prices fell further in January, ending the month just below US$50 a barrel, down from around US$110 in October last year. It would appear as if the oil price has started to stabilise over the course of the month at around the US$50 a barrel level. Yet, considerable uncertainty exists over the direction of the oil price in the coming months and some rebound after the severe slump experienced during the past six months is indeed very possible. Looking further out, most analysts still believe that oil will remain relatively depressed over the next year or two as OPEC is intent on slowing supply growth from elsewhere around the world by keeping prices relatively low.
- As I mentioned last month, there are winners and losers when there are big commodity price moves. The obvious losers are the oil producers. Other losers include companies that supply the oil industry and substitute industries, such as shale gas producers and exploration companies. The winners are also pretty obvious: global oil-consuming countries.
- On balance, global growth remains pretty slow, and even the solidly growing US economy started to show some signs of slowdown over the past month – as the effects of the stronger dollar and slowing activity in oil-related industries began to show up in high-frequency data.

We still believe that global growth will accelerate handsomely in 2015, driven by solid growth in the US, more policy stimulus in the Eurozone and China and the sharply lower oil price. However, as is always the case, 2015 will, in all likelihood, have its own share of concerns and scares, triggering volatility in global financial markets.

GLOBAL MARKET PERFORMANCES IN RAND TERMS

	LAST MONTH (%)	YEAR TO DATE (%)	1 YEAR (% P.A.)	3 YEARS (% P.A.)	5 YEARS (% P.A.)	8 YEARS (% P.A.)	10 YEARS (% P.A.)
MSCI World	-1.3	12.0	12.0	29.7	21.4	10.5	14.0
JP Morgan	0.9	3.5	3.5	12.9	11.3	10.9	10.7
S&P 500	-2.5	19.0	19.0	34.2	26.0	12.7	14.8
FTSE 100	-0.4	2.2	2.2	23.4	17.6	7.6	12.0
Nikkei Index	3.9	7.1	7.1	24.8	15.6	6.7	10.3
Rand/Dollar	0.5	4.1	4.1	14.3	9.0	6.1	6.9

WORLDWIDE FUNDS: PERFORMANCE IN RAND TERMS - REFER NOTES

	WW EQUITY %						WW BALANCED %					
	Retirement Annuities			Endowments/Life			Retirement Annuities			Endowments/Life		
Period	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.	M.P.	A.P.	S.P.
1 Year	7.8	6.9	6.9	7.1	5.8	5.8	6.1	4.6	4.6	5.3	3.3	3.3
2 Years	15.2	15.5	19.2	14.5	15.4	19.4	12.6	12.5	16.0	12.0	12.4	16.4
3 Years	20.3	19.0	21.7	19.5	18.5	20.9	16.9	15.7	18.3	16.3	15.4	17.8
5 Years	19.0	17.0	15.5	18.5	16.6	15.0	16.4	14.7	13.5	16.0	14.4	13.3
8 Years	12.6	11.4	5.7	12.0	10.9	5.1	11.4	10.4	6.6	11.0	10.1	6.2
10 Years	10.8	10.6	10.1	10.0	9.8	9.3	10.4	10.2	10.6	9.9	9.7	9.7
15 Years	8.5	8.0	5.5	7.6	7.1	4.4	8.5	8.1	6.1	7.8	7.4	5.4

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	10.9	15.5	-4.6	16.9	37.7	-20.9
Japan	9.5	7.4	2.0	5.1	16.0	-10.9
Europe ex UK	16.8	15.4	1.4	36.8	29.3	7.5
United Kingdom	29.0	38.3	-9.3	11.8	6.6	5.2
SE Asia & Canada	11.1	7.9	3.2	18.5	8.0	10.5
South Africa	14.7	0.0	14.7	0.0	0.3	-0.3
Other	8.0	15.4	-7.4	10.9	2.1	8.8
Total	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**	**0.0**

EQUITY SECTOR SPREAD

	Fund	MSCI	US	JAPAN	UK	Europe ex UK
Cash	1.9	0.0	0.2	0.2	0.6	0.4
Consumer Discretionary	11.1	12.2	1.4	1.2	3.7	2.2
Consumer Staples	6.2	10.0	0.8	0.7	2.1	1.2
Energy	4.1	7.7	0.5	0.4	1.4	0.8
Financials	18.5	21.1	2.4	2.1	6.2	3.6
Healthcare	10.4	12.0	1.3	1.1	3.6	2.0
Industrials	11.0	10.5	1.4	1.2	3.7	2.2
Information Technology	14.1	13.8	1.8	1.6	4.8	2.8
Materials	3.8	5.4	0.5	0.4	1.3	0.7
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.6	3.9	0.3	0.3	0.9	0.5
Utilities	1.7	3.5	0.2	0.2	0.6	0.3
SA Rand Hedge	14.7	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME	SECTOR
1. Oracle Corporation	Information Technology
2. Wells Fargo & Co	Financials
3. JPMorgan Chase & Co	Financials
4. Delphi Automotive plc	Industrials
5. Novartis AG Reg	Pharmaceuticals
6. China Mobile Ltd	Telecommunications
7. Royal Dutch Shell Plc	Energy
8. Daimler AG Registered Shares	Industrials
9. DBS Group Holdings Ltd	Financials
10. Taiwan Semiconductor	Industrials

NOTES

1. The performance figures in the tables represent the returns earned on premiums allocated. The returns on premiums actually paid will be lower than this because they take the policy specific charges into account.

2. All returns are quoted net of investment fund charges and tax.

3. The Smoothed Bonus declaration is made up of a vesting bonus and a claim bonus. The vesting bonus portion of the total bonus cannot be removed on death or maturity of the policy. The claim bonus portion is not guaranteed and could be adjusted should investment conditions dictate.

4. M.P. = monthly premium, A.P. = annual premium, S.P. = single premium.

5. The Flexi range of products was launched on 1 September 1984. Returns for the periods starting before this date apply to policies available before the introduction of the Flexi range of products.

6. The Property Portfolio and the OMD Top 40 Index Fund returns are available at any time.

7. The MSCI World Index is the benchmark for the Worldwide Equity portion. The benchmark figures for the Worldwide Bond portion consist of 70% JP Morgan Bond Index and 30% Barclays Capital Global Bond Index.

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