FLEXIPORTFOLIO
PERFORMANCE REPORT

1 APRIL 2016

SOUTH AFRICAN ECONOMIC REVIEW

- Developments over the past month confirmed that 2016 will remain a difficult year for South Africa. Apart from the fiscal policy tightening outlined in February's Budget Speech, the South African Reserve Bank (SARB) raised interest rates yet again at its March meeting – bringing the total increase since the start of the tightening cycle in January 2014 to 200 basis points.
- Moreover, data released by the SARB during the course of the month confirmed that domestic demand growth has slowed to a crawl, with real consumption growth by households rising by a mere 1.5% over the year to the end of 2015.
- With the tightening of both fiscal and monetary policies this year, growth in domestic demand is set to slow even further, with a knock-on effect on production. As a result, total economic production in the economy, or GDP, is now widely expected to struggle to record even positive growth this year, the weakest performance since the economy's 1.5% contraction during 2009 after the global financial crisis. Indeed, with the economy stalling, institutions like the IMF have warned that the country could easily tip into a full-blown recession during the course of 2016. While this is not our base case, the risk cannot be ignored by investors, as it would have significant negative consequences for corporate profitability.
- In addition to the stalling economy, data from the SARB also showed that the current account deficit remains large, having widened to 5.1% of GDP in the fourth quarter of 2015 (from 4.3% in the third quarter). While the overall deficit has narrowed from 5.4% of GDP in 2014 to 4.4% in 2015, more than US$1 billion in capital inflows a month is still required to finance it. This is especially concerning in a world where capital flows to emerging markets have slowed sharply. Narrowing the current account shortfall in a world of low commodity prices and weak foreign demand implies that South Africa's extremely robust demand for imports will have to be curbed. This will have to occur through a combination of higher import prices, via the weak rand, and higher interest rates. We remain hopeful that the deficit will indeed narrow again this year, but for now the size of the required offshore funding to finance the shortfall will keep the rand vulnerable.
- Over and above the weak economy and still large foreign trade shortfall, inflation is now rising pretty strongly. At 7% year-on-year in February, it is well above the SARB's 3% to 6% target range and vindicates the Bank's decision to raise the repo rate again. Food inflation is now rising strongly, and consumers face further price hikes in the months to come, as a result of a petrol price hike and a 9% increase in electricity tariffs. This will probably prompt the SARB to raise the repo rate again in the next few months to ensure that inflation expectations do not become unanchored, a dangerous development for medium-term inflation prospects.
- On a more positive note, the rand benefited from the moderate improvement in global economic conditions over the past month, firming from its weakest level of R16.74 to the US dollar reached in mid-January to R14.75 by the end of March.
- The bottom line of all of the above is that prospects for 2016 look pretty bleak and the rand, despite the fact that it has firmed notably over the past two months, remains vulnerable. Looking through 2016 into 2017, in the absence of confidence-building, growth-enhancing macro-economic reforms, at this stage it is difficult to see much improvement. In the absence of such reforms, the only hope for a better economic performance in 2017 rests on the beneficial effects of the weak rand and hope that the world economy and commodity prices are more supportive in 2017.

Data releases over the past month confirm that 2016 will be a difficult year for SA, characterised by rising inflation, tighter economic policy and weak economic growth. Conditions are unlikely to change before 2017.

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	6.4	3.9	3.2	12.8	13.6	10.6	13.1
JSE Fin & Ind	6.7	1.3	6.3	18.6	21.9	18.1	17.0
JSE All Gold	-2.1	92.8	66.7	4.1	-4.6	-1.6	-2.4
All Bond	2.6	6.6	-0.6	4.0	7.8	8.7	7.5
Total Cash	0.5	1.6	5.7	5.2	5.0	6.1	6.6
ALSI 40	6.1	1.5	3.3	12.7	13.0	9.8	12.8
INDI 25	4.7	-0.7	10.5	21.1	24.6	20.5	20.2

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RETIREMENT ANNUITIES TO 01/04/2016 (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	5.2	2.5	2.5	6.4	5.3	5.3	2.0	1.0	1.0	9.8	10.5	10.5	5.4	5.2	5.2	6.3
2 Years	6.3	6.4	8.2	7.6	7.9	9.1	6.0	6.2	8.6	11.1	11.6	12.1	5.2	5.1	5.0	5.2
3 Years	9.5	10.2	13.4	9.5	9.9	11.7	8.5	8.9	11.2	12.2	12.7	13.6	4.9	4.8	4.5	5.5
5 Years	13.3	12.7	13.2	11.9	11.6	12.1	11.5	11.1	11.7	12.9	12.9	12.6	4.5	4.4	4.2	5.7
8 Years	13.3	12.7	9.0	11.5	11.2	8.9	11.4	11.0	8.6	11.9	11.7	10.6	4.6	4.7	5.3	5.7
10 Years	11.5	11.4	10.3	10.5	10.3	9.6	10.3	10.1	9.4	11.5	11.6	12.0	4.9	5.0	5.4	6.3
15 Years	13.1	13.2	13.2	11.4	11.4	11.3	11.9	12.0	12.6	11.9	11.9	11.4	5.3	5.3	5.6	5.7
20 Years	12.7	12.5	11.5	11.2	11.0	10.5	-	-	-	11.5	11.5	11.3	5.7	5.8	6.9	6.0
25 Years	13.0	13.0	13.5	11.4	11.4	12.2	-	-	-	11.8	11.8	12.3	6.8	7.0	8.5	6.8
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.452% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/04/2016 (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	3.8	2.2	2.2	4.7	4.1	4.1	0.8	0.3	0.3	8.3	9.0	9.0	3.2	3.1	3.1	6.3
2 Years	5.3	5.7	7.3	6.1	6.5	7.6	4.6	5.0	7.2	9.6	10.1	10.6	3.1	3.0	2.9	5.2
3 Years	8.6	9.6	13.0	8.0	8.5	10.3	7.3	7.9	10.4	10.7	11.2	12.1	2.8	2.7	2.5	5.5
5 Years	12.6	12.1	12.8	10.4	10.2	10.8	10.4	10.1	11.0	11.4	11.4	11.1	2.5	2.5	2.3	5.7
8 Years	12.7	12.1	8.3	10.0	9.7	7.3	10.5	10.1	7.6	10.5	10.3	9.2	2.7	2.7	3.4	5.7
10 Years	10.9	10.8	9.7	9.0	8.9	8.1	9.4	9.1	8.3	10.2	10.3	10.7	3.0	3.1	3.6	6.3
15 Years	12.3	12.3	12.3	10.0	10.0	10.0	10.8	10.9	11.5	10.7	10.7	10.4	3.6	3.6	4.2	5.7
20 Years	11.8	11.6	10.6	9.9	9.8	9.2	-	-	-	10.5	10.5	10.4	4.3	4.4	5.6	6.0
25 Years	12.1	12.1	12.5	10.1	10.1	10.8	-	-	-	10.7	10.8	11.3	5.3	5.4	7.0	6.8
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.278% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		4.60% p.a. (0.375% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	5.61% p.a. (0.456% p.m.)
	at the tax rate of 40%	7.67% p.a. (0.617% 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)	27 (2)	28 (0)	25 (0)	0 (0)	27 (27)	0 (0)	26 (0)	28 (0)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (25)	64 (29)	67 (23)	66 (24)	100 (85)	73 (58)	100 (25)	66 (31)	67 (23)	66 (24)	100 (85)	73 (58)
Property	0	7	5	7	0	0	0	6	5	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	15.6	Media
2.	Steinhoff	5.0	Industrials
3.	British American Tobacco	4.9	Consumer Goods
4.	Sasol	4.0	Oil & Gas
5.	MTN	3.9	Telecommunications
6.	FirstRand	3.8	Banks
7.	Old Mutual	3.3	Life Insurance
8.	SABMiller plc	3.3	Consumer Goods
9.	Remgro	2.9	Industrials
10.	Standard Bank	2.3	Banks

GLOBAL ECONOMIC OVERVIEW

- The strong rally in global equity markets that started around the middle of February was sustained through March. The US S&P 500 Index rose 6.5% during March and was 12.5% up from the low reached around the middle of February.
- As discussed last month, the sharp sell-off in January and the early part of February was largely driven by mounting concerns over the health of the world economy and a growing view that central banks have no effective ammunition left to counter a threatening global recession. The subsequent equity market rally was sparked by somewhat better global macro-economic data, but, in particular, expectations of further policy support from global central banks. Indeed central banks did not disappoint markets in March. Firstly, the European Central Bank (ECB) surprised markets by announcing a large expansion in their bond purchasing programme and also cut both deposit and lending rates. The deposit rate now stands at -0.4%. Secondly, the US Federal Reserve's policy arm released a very dovish statement after their mid-month meeting and lowered the envisaged rate hike profile from four hikes of 25 basis points each this year to only two hikes.
- In addition to global central bank actions, incoming data from around the world indicated that activity may be starting to stabilise, and possibly even improving a bit. Importantly, earlier concerns that the global slowdown was starting to filter through to the US eased a bit as a number of regional activity surveys bounced back solidly and yet another sizeable gain in employment was recorded during March. Moderately better numbers were also recorded in China and the Eurozone, reversing earlier fears that global growth continues to decelerate and that the world economy might actually run a considerable threat of outright recession.
- Recent events have also eased pressures on emerging markets through a softer US dollar, a moderate bounce in commodity prices and a firming of exchange rates.
- While recent dataflow regarding global economic conditions have slightly improved, global economic activity still remains undeniably soft and global growth forecasts continue to be lowered. With the world economy still facing considerable structural headwinds, global economic policy settings are likely to remain highly expansionary until such time as global growth has started to accelerate convincingly. For now, central banks have little to fear from inflation, as global demand remains soft, commodity prices low and the overall global environment highly competitive.
- We ended the past few months' commentaries stating that it is difficult to see much improvement in global economic conditions through the course of 2016. The past month's events suggested, for the first time in a while, that there may be light at the end of the tunnel after all, even though a sharp acceleration in global economic activity remains highly unlikely in the near term.

Global equity markets have rallied strongly since the middle of February, on the back of more policy support from the world's key central banks and some tentative signs that global growth is stabilising, possibly even perking up. Still, the global economy remains relatively weak and downside risks have not disappeared altogether.

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	-0.4	-5.3	17.9	25.7	25.1	12.6	14.4
JP Morgan	-4.7	1.3	28.5	18.1	18.6	10.2	14.0
S&P 500	-0.5	-3.8	23.6	30.9	30.4	16.2	16.5
FTSE 100	-2.2	-7.4	11.3	17.7	19.6	8.4	11.4
Nikkei Index	-2.2	-10.6	13.0	21.9	22.5	10.0	9.4
Rand/Dollar	-6.8	-5.1	21.4	17.0	16.8	7.7	9.1

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	12.3	13.4	13.4	10.7	12.8	12.8	15.5	16.1	16.1	14.1	15.0	15.0
2 Years	15.0	14.6	15.1	13.8	13.7	14.0	16.1	15.2	14.8	14.8	13.9	13.4
3 Years	16.1	17.0	18.9	15.0	16.4	18.7	16.0	16.4	17.5	14.8	15.7	17.2
5 Years	19.6	18.7	18.5	18.8	18.1	18.0	18.1	17.6	17.4	17.3	16.9	16.8
8 Years	16.0	14.7	7.4	15.3	14.1	6.6	14.8	13.7	7.7	14.2	13.2	7.2
10 Years	12.7	12.2	9.3	12.0	11.4	7.7	12.3	11.9	10.2	11.7	11.3	9.5
15 Years	10.2	9.9	7.3	9.3	9.1	6.1	10.3	10.0	7.7	9.5	9.3	6.9

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	41.5	53.2	-11.7	29.2	37.9	-8.7
Japan	6.5	7.5	-1.0	6.7	17.6	-10.9
Europe ex UK	17.2	15.9	1.3	29.5	28.9	0.7
United Kingdom	6.4	6.5	-0.1	10.8	5.8	5.0
SE Asia & Canada	10.0	10.9	-0.9	16.8	8.1	8.7
South Africa	15.1	0.0	15.1	0.0	0.2	-0.2
Other	3.4	6.0	-2.6	6.9	1.5	5.4
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	1.3	0.0	0.6	0.1	0.1	0.3
Consumer Discretionary	9.6	12.9	4.7	0.7	0.7	1.9
Consumer Staples	6.9	10.7	3.4	0.5	0.5	1.4
Energy	4.4	6.5	2.2	0.3	0.3	0.9
Financials	17.8	20.4	8.7	1.4	1.3	3.6
Healthcare	10.4	11.7	5.1	0.8	0.8	2.1
Industrials	14.5	10.5	7.1	1.1	1.1	2.9
Information Technology	11.7	15.0	5.7	0.9	0.9	2.4
Materials	4.4	4.8	2.1	0.3	0.3	0.9
Other	0.6	0.0	0.3	0.0	0.0	0.1
Telecoms Services	2.6	4.0	1.3	0.2	0.2	0.5
Utilities	0.8	3.5	0.4	0.1	0.1	0.2
SA Rand Hedge	15.1	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME	SECTOR
1. Wells Fargo & Co	Financials
2. Oracle Corporation	Information Technology
3. CRH Plc	Industrials
4. Taiwan Semiconductor	Industrials
5. DS Smith plc	Industrials
6. Delphi Automotive plc	Industrials
7. Deutsche Boerse	Financials
8. Citigroup Inc	Banks
9. Medtronic plc	Healthcare
10. JPMorgan Chase & Co	Financials

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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