FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 APRIL 2017

SOUTH AFRICAN ECONOMIC REVIEW

After ending 2016 at R13.69 to the US dollar, which was a sharp firming from the almost R17.00/US$ reached at the beginning of last year in the aftermath of the firing of then Finance Minister Nene, the rand strengthened further during the opening months of 2017, dropping to R12.30/US$ at one stage late in March.

However, the rand then reversed direction sharply as the President recalled the Finance Minister and his deputy from an international investor trip underway with local business and labour leaders. Shortly afterwards, the President reshuffled his cabinet, replacing both the ministers. Ratings agency Standard & Poor's responded by downgrading both South Africa's foreign and local currency ratings. The rand quickly slumped to almost R13.75 a US dollar at the time of writing early in April, while government bond yields, or the interest rate at which government borrows money, spiked sharply higher to over 9%.

The President's decision was heavily criticised as it largely undid the a year's efforts by the CEO grouping, National Treasury, previous Finance Minister Gordhan and labour leaders to help stabilise the economy, ease fiscal pressures and protect SA's investment grade rating.

The President's ill-conceived action has undeniably changed the economic landscape and outlook for the worse through various transmission mechanisms. While a weaker rand, higher borrowing costs for government and likely less inflation and interest rate relief over the remainder of the year are the most obvious channels, the shock dealt to business-, consumer and investor confidence is of even greater concern.

South Africa has now effectively labelled itself a country that places little value on policy stability and predictability – key ingredients in making a country an attractive investment destination – and one where the political leadership appears unconcerned with the economic fallout and hardship caused by politically expedient decisions.

Following the dramatic events early in April, the outlook for the remainder of the year has suddenly become very uncertain again. The behaviour of the rand, as the key macro-economic absorber of such shocks, and the impact on consumer-, business- and investor confidence will drive macro outcomes. The immediate concern is that a sustained weakening in the rand will obstruct the pre-shock, widely expected decline in inflation and thus rule out any interest rate relief during the second half of the year. Should the rand weaken sharply further, the Reserve Bank may have little choice but to increase rates again.

Looking further out, medium-term prospects have also become considerably more uncertain, as the removal of Mr Gordhan and his deputy leaves fiscal policy at risk of a much more populist approach by the new ministers. Such an outcome would seriously further dampen South Africa's image as an international investment destination and crush confidence further, with very negative consequences for the economy.

In short, the events late in March and early-April have completely drowned out all other economic newsflow and events over the past month. Over the next few months political developments, the behaviour of the rand and the extent of the shock to confidence will have to be monitored before recalibrating forecasts of all key macro-economic variables.

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	2.7	5.2	1.6	6.0	12.5	15.7	9.8
JSE Fin & Ind	2.6	0.7	1.7	9.9	17.3	21.3	13.8
JSE All Gold	6.0	26.0	-34.0	-0.4	-9.3	-7.2	-6.1
All Bond	0.4	14.4	2.8	7.5	7.4	8.4	8.1
Total Cash	0.6	6.8	3.4	5.9	5.4	5.5	6.5
ALSI 40	3.3	1.8	0.8	4.7	12.1	15.0	9.3
INDI 25	4.7	-1.6	1.3	10.3	19.6	23.6	16.6

RETIREMENT ANNUITIES TO 01/04/2017 (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	-0.8	-0.6	-1.8	1.9	2.5	0.0	0.2	1.0	-1.2	8.1	8.2	3.9	6.4	6.3	3.1	3.5
2 Years	0.8	0.4	0.9	3.4	3.4	3.9	1.1	1.0	1.0	8.7	9.1	9.5	6.1	6.0	5.8	6.2
3 Years	2.4	2.9	5.2	4.7	5.2	6.8	3.2	3.6	6.1	9.6	10.1	10.9	5.8	5.7	5.5	5.5
5 Years	7.7	8.1	11.6	8.1	8.5	11.0	7.2	7.5	10.4	11.4	11.6	12.5	5.2	5.1	4.7	5.7
8 Years	10.6	11.0	14.1	9.9	10.1	11.6	9.4	9.6	11.8	11.5	11.4	10.8	4.9	4.9	4.8	5.5
10 Years	9.9	9.6	7.5	9.4	9.2	8.0	8.9	8.7	7.3	11.0	11.0	10.7	5.0	5.1	5.5	6.3
15 Years	11.7	11.8	11.4	10.5	10.5	10.1	10.6	10.7	11.1	11.7	11.7	11.4	5.4	5.4	5.6	5.7
20 Years	11.8	11.7	11.3	10.6	10.5	10.4	-	-	-	11.4	11.3	10.9	5.6	5.7	6.5	5.8
25 Years	12.2	12.2	12.5	10.8	10.8	11.2	-	-	-	11.5	11.5	12.0	6.6	6.7	8.1	6.4
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.404% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/04/2017 (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	-1.3	-1.2	-1.7	1.4	1.9	0.0	-0.3	0.2	-1.2	6.6	6.7	3.2	3.7	3.7	1.8	3.5
2 Years	0.1	-0.1	0.5	2.5	2.6	3.0	0.2	0.3	0.3	7.2	7.6	8.0	3.6	3.5	3.4	6.2
3 Years	1.7	2.2	4.4	3.8	4.2	5.6	2.1	2.6	4.8	8.1	8.5	9.4	3.4	3.3	3.2	5.5
5 Years	7.0	7.5	10.9	6.9	7.3	9.6	6.1	6.5	9.2	9.9	10.1	11.0	3.0	3.0	2.7	5.7
8 Years	10.0	10.3	13.4	8.6	8.7	10.0	8.4	8.7	10.9	10.0	9.9	9.5	2.8	2.8	2.9	5.5
10 Years	9.3	9.0	6.8	8.0	7.9	6.7	8.0	7.8	6.4	9.6	9.6	9.3	3.0	3.1	3.6	6.3
15 Years	10.9	10.9	10.4	9.1	9.1	8.9	9.5	9.6	10.1	10.4	10.4	10.3	3.5	3.5	4.1	5.7
20 Years	10.9	10.8	10.3	9.3	9.2	9.2	-	-	-	10.3	10.3	10.0	4.1	4.1	5.3	5.8
25 Years	11.3	11.2	11.5	9.6	9.5	9.9	-	-	-	10.5	10.5	10.9	5.0	5.1	6.5	6.4
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.228% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		4.70% p.a. (0.383% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	5.73% p.a. (0.466% p.m.)
	at the tax rate of 41%	7.97% p.a. (0.641% 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 (1)	16 (2)	25 (0)	0 (0)	26 (26)	0 (0)	27 (1)	16 (2)	25 (0)	0 (0)	26 (26)
Ordinary Shares	100 (25)	65 (30)	74 (24)	66 (24)	100 (85)	74 (60)	100 (25)	65 (30)	74 (24)	66 (24)	100 (85)	74 (60)
Property	0	7	10	7	0	0	0	7	10	7	0	0
Other	0	1	0	2	0	0	0	1	0	2	0	0

Figures in brackets — international portion of sector weighting

TOP EQUITY HOLDINGS (SA)

	NAME	% SPLIT	SECTOR
1.	Naspers Ltd	18.1	Media
2.	British American Tobacco	4.4	Consumer Goods
3.	Sasol	4.2	Oil & Gas
4.	Steinhoff Int Holdings	3.8	Industrials
5.	Standard Bank Group	3.1	Banks
6.	Old Mutual	2.9	Life Insurance
7.	MTN	2.8	Telecommunications
8.	Remgro	2.5	Industrials
9.	Aspen Pharmacare Holdings Ltd	2.3	Pharmaceuticals
10.	Barclays Africa	2.2	Banks

GLOBAL ECONOMIC OVERVIEW

As expected, the US Federal Reserve (Fed) increased its benchmark interest rate by 25 basis points (bps) in March as confidence in the US economy gathered pace. That brings the Fed Funds rate to 1% from 0.75%, setting the Fed on a likely path of further tightening. A more hawkish Fed judged that the US economy was operating at, or near maximum, employment and that core inflation, which currently stands at 1.8%, was edging closer towards the Fed's target of 2%. The hotly contested topic of winding down the Fed's $4.5tn balance sheet was discussed at the meeting, with most members agreeing that a change to the Committee's reinvestment policy would likely be appropriate later this year. There appears to be a growing scepticism about Trump's ability to push through a large fiscal stimulus package, which has manifested itself in the dollar continuing to trade broadly sideways. Although fiscal stimulus is still likely to implemented, the shared view is that nothing meaningful is anticipated for 2017 and will most likely only begin in early 2018.

Market participants are increasingly concerned that the more hawkish March statement, backed up a few weeks later by the hawkish tone of the minutes of that meeting, is pointing to an accelerated pace of tightening over the remainder of this year compared to what has been expected up to now. However, the weak payroll data for March and still contained wage growth does suggest that there is no urgency for the Fed to dial up its hawkish tone. Moreover, the unexpected slump in US car sales in March suggest there is reason for the Fed to be cautious. While car sales are volatile on a monthly basis, the 1.6% decline in March did come as a surprise and made analysts wonder if it is pointing to early signs of a slowdown. At this stage, US 2017 first quarter GDP is tracking only about 1.2%. While the first quarter GDP has a tendency to be weak, it is worth keeping an eye on.

In Europe, even after dodging a PVV win in the Netherlands, political uncertainty continues to weigh on the Euro, with the French presidential elections now taking centre stage. Aside from the political overhang, more recent data suggests that growth is picking up at a solid pace in Europe. Both manufacturing and services PMI reveal that all of the European countries are seeing an expansion in activity, with Germany, France and Italy picking up the fastest. Although the solid traction in activity is likely to impose pressure on the European Central Bank (ECB) to relook their stimulus measures, last month's unexpected decline in inflation should ease those concerns. As it stands, the ECB is buying €60bn a month worth of mostly government bonds under its quantitative easing programme and it plans to do so at least until the end of this year. This course is only likely to change if inflation, currently at 1.5%, returns durably towards their 2%.

This global backdrop continues to bode well for emerging markets, specifically countries such as Brazil and Russia, which are starting to see inflation falling sharply, allowing their Central Banks to cut rates to support their weak economies. The pick-up in global activity has also begun to benefit emerging market (EM) trade as EM exports returned to positive territory last month on the back of stronger commodity prices and a softer dollar.

The global economy appears to have ended the first quarter on a solid footing and confidence is growing that the world has finally entered a period of synchronised, even though still sub-par, growth. Nevertheless, there are still a number of risks that cannot be ignored, the most important of which are the mounting debt problems in China and a flare-up in geopolitical tensions.

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	3.7	-0.2	5.9	15.1	23.0	19.0	11.4
JP Morgan	2.6	-8.8	-9.3	7.8	11.5	6.7	9.9
S&P 500	2.6	2.2	7.4	19.7	26.7	22.1	14.2
FTSE 100	4.2	-7.6	1.5	5.9	15.9	15.1	7.1
Nikkei Index	1.8	-5.8	1.9	14.5	19.3	14.3	7.9
Rand/Dollar	2.5	-10.9	-2.5	8.4	11.8	4.4	6.3

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	-1.7	-1.3	0.6	-1.6	-0.9	0.6	-7.1	-5.7	-3.0	-6.7	-5.6	-2.4
2 Years	2.0	3.5	5.8	1.9	3.6	5.8	-0.9	1.2	4.6	-1.1	1.0	4.2
3 Years	5.8	6.6	9.3	5.6	6.4	8.8	4.2	5.1	8.5	3.7	4.5	7.7
5 Years	11.8	12.3	16.0	11.4	12.0	15.5	10.1	10.7	14.4	9.4	10.1	13.7
8 Years	13.8	13.3	13.4	13.3	12.9	12.9	12.1	11.7	11.3	11.6	11.2	10.9
10 Years	11.3	10.6	6.1	10.9	10.2	5.6	10.3	9.8	6.9	9.9	9.3	6.5
15 Years	9.5	9.1	4.9	8.8	8.4	3.8	9.3	9.0	5.2	8.6	8.3	4.5

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	44.7	53.4	-8.7	32.6	38.7	-6.1
Japan	3.6	7.7	-4.1	4.0	17.9	-14.0
Europe ex UK	17.7	15.3	2.3	31.8	27.3	4.5
United Kingdom	6.9	5.9	1.1	7.6	5.6	2.0
SE Asia & Canada	8.9	11.5	-2.6	17.6	8.4	9.2
South Africa	14.8	0.0	14.8	0.0	0.2	-0.2
Other	3.5	6.3	-2.8	6.4	1.7	4.6
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	4.5	0.0	2.3	0.2	0.4	0.9
Consumer Discretionary	8.5	12.2	4.5	0.4	0.7	1.8
Consumer Staples	7.4	9.5	3.9	0.3	0.6	1.5
Energy	3.9	6.6	2.0	0.2	0.3	0.8
Financials	16.1	18.4	8.4	0.7	1.3	3.3
Healthcare	10.2	11.1	5.4	0.4	0.8	2.1
Industrials	12.1	10.7	6.4	0.5	1.0	2.5
Information Technology	12.4	16.4	6.5	0.5	1.0	2.6
Materials	5.7	5.3	3.0	0.2	0.5	1.2
Other	0.1	0.0	0.1	0.0	0.0	0.0
Telecoms Services	1.5	3.4	0.8	0.1	0.1	0.3
Utilities	1.4	3.2	0.7	0.1	0.1	0.3
SA Rand Hedge	14.8	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME	SECTOR
1. JPMorgan Chase & Co	Financials
2. Oracle Corporation	Information Technology
3. CRH Plc	Materials
4. Alphabet Inc	Information Technology
5. Citigroup Inc	Financials
6. Moody S Corp	Financials
7. Fiat Chrysler Automobiles	Consumer Discretionary
8. FMC Corp	Materials
9. Apple Inc	Information Technology
10. Owens Corning	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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