FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 AUGUST 2017

SOUTH AFRICAN ECONOMIC REVIEW

The widely anticipated ANC National Policy Conference took place in early July. Even though the National Development Plan (NDP) was affirmed as the governing party's growth policy guide, very little was actually decided at the conference. However, it is probably positive that relatively moderate views prevailed and that there did not seem to be a lot of appetite for radical policy changes.

Mid-July saw Finance Minister Malusi Gigaba release Government's Inclusive Growth Action Plan, with the key focus areas addressing:

1) Weak growth and the impact on the fiscal framework;
2) Rising government debt;
3) The state of the state-owned companies and risks to contingent liabilities; and
4) Policy uncertainty and low confidence levels.

While the plan's focus areas are on target, it is difficult to be overly optimistic on implementation – as this is where previous plans also fell short. Nevertheless, it seems that Minister Gigaba and his Treasury colleagues are agreeing on the big issues and risks for the SA economy – and have convinced the ANC to support this plan.

In a further positive development, the Minister of Mineral Resources had to suspend the implementation of the new Mining Charter after severe criticism from the Chamber of Mines, the ANC and the National Union of Mineworkers, among others.

Moving on to an area we have highlighted a few times over the past several months: the need for lower interest rates. Ever since May 2016, we have warned that inflation will fall sharply during the course of 2017. This trend, combined with a weak economy and a more stable currency, as well as a lower current account deficit (thanks to a much more supportive global economy), should provide the South African Reserve Bank (SARB) – we said at the time - with the opportunity to cut interest rates during the second half of 2017. The need for lower rates became even more pronounced when the economy dipped into recession during the first quarter of this year, inflation slowed more rapidly than even we expected (we now expect a rate of around 4.6% for July) and even the current account deficit surprised on the positive side. As the Reserve Bank governor of continued with very hawkish comments in the lead-up to the July policy meeting, we noted that the Bank was running the risk of making a policy error.

However, SARB then surprised the market with a rate cut after markedly lowering their inflation and growth forecasts. Even though the usual political, policy and credit ratings risks remain, we expect another three 25 basis point rate cuts in this cycle – another one later this year with a further two cuts forecast for the first half of 2018.

I probably don't need to remind you that the economy was in a recession during the last quarter of 2016 and the first quarter of this year. At the time of the release of the first quarter GDP data, we noted that the widespread nature of the weakness (with only the mining and agricultural sectors recorded positive growth) was totally unexpected and that perhaps the economy would rebound after likely seasonal distortions. The high frequency data that is available for the second quarter allows us to start building a forecast of better, and quite likely, positive GDP growth. An example of some of the available data: mining production at +5.7%, manufacturing production +6.7%, electricity production +12.1%, retail sales +7.7% and freight transport +8.4% (all numbers quoted are quarter-on-quarter annualised growth rates). Of these sectors, retail sales, manufacturing production and electricity production all recorded negative growth during the first quarter. With some June data still outstanding, we expect total second quarter GDP growth to come in around +2.5% annualised growth, up from the -0.3% recorded in the first quarter.

Although this means an end to the recession, growth is clearly still weak and a mild interest rate cycle will, at best, help lift confidence a bit. Political and policy reform remains key to lift confidence and growth.

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	7.0	10.6	7.6	5.5	13.1	14.1	10.0
JSE Fin & Ind	5.5	11.4	7.0	9.4	17.1	19.0	14.2
JSE Resources	13.3	8.1	10.7	-13.2	-2.3	0.1	-1.5
ALSI 40	7.6	12.9	9.4	4.9	13.2	13.7	9.6
All Bond	1.5	5.6	7.2	7.3	6.1	8.6	8.5
Cash	0.6	4.4	7.6	7.0	6.3	6.3	7.2

RETIREMENT ANNUITIES TO 01/08/2017 (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	8.1	2.1	2.1	7.1	3.9	3.9	6.4	1.6	1.6	7.7	7.9	7.9	6.4	6.5	6.5	5.1
2 Years	5.1	3.0	3.4	5.7	4.7	5.1	4.2	2.2	2.4	8.2	8.5	8.8	6.2	6.2	6.0	5.7
3 Years	4.5	3.7	4.4	5.7	5.5	6.2	4.3	3.8	5.3	8.9	9.4	10.1	6.0	5.9	5.6	5.4
5 Years	7.9	8.7	12.3	8.1	8.6	11.1	7.2	7.8	10.9	10.8	11.0	12.2	5.4	5.3	4.9	5.6
8 Years	10.6	11.0	12.3	9.9	10.1	10.8	9.3	9.6	10.5	11.2	11.2	10.9	5.0	5.0	4.8	5.4
10 Years	10.4	10.0	7.7	9.6	9.5	8.0	9.2	9.0	7.5	10.9	10.8	10.4	5.1	5.1	5.5	6.2
15 Years	11.8	12.0	12.7	10.5	10.6	10.9	10.6	10.8	11.6	11.6	11.5	11.5	5.4	5.4	5.7	5.8
20 Years	11.9	11.8	11.1	10.6	10.6	10.1	-	-	-	11.3	11.3	10.8	5.6	5.7	6.3	6.3
25 Years	12.1	11.9	12.3	10.8	10.8	11.2	-	-	-	11.4	11.4	11.9	6.5	6.6	7.9	6.7
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.515% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/08/2017 (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	4.6	0.3	0.3	5.6	2.7	2.7	4.0	0.4	0.4	6.2	6.4	6.4	3.7	3.7	3.7	5.1
2 Years	2.7	1.3	1.9	4.3	3.5	3.9	2.4	0.9	1.1	6.7	7.0	7.3	3.6	3.6	3.5	5.7
3 Years	2.7	2.3	3.2	4.5	4.3	5.0	2.7	2.3	3.8	7.4	7.9	8.6	3.5	3.4	3.3	5.4
5 Years	6.5	7.4	11.2	6.7	7.3	9.6	5.7	6.4	9.5	9.2	9.5	10.7	3.1	3.1	2.7	5.6
8 Years	9.6	10.1	11.6	8.5	8.7	9.3	8.1	8.4	9.5	9.8	9.7	9.5	2.8	2.8	2.8	5.4
10 Years	9.5	9.1	6.8	8.2	8.1	6.6	8.1	7.9	6.6	9.5	9.4	9.0	3.0	3.1	3.6	6.2
15 Years	10.8	11.0	11.5	9.1	9.2	9.6	9.4	9.6	10.6	10.3	10.2	10.4	3.5	3.5	4.0	5.8
20 Years	10.9	10.8	10.0	9.3	9.2	8.9	-	-	-	10.2	10.2	9.9	4.0	4.1	5.1	6.3
25 Years	11.0	10.9	11.3	9.5	9.5	9.9	-	-	-	10.3	10.4	10.8	4.9	5.0	6.4	6.7
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.300% 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 (2)	16 (0)	25 (0)	0 (0)	27 (27)	0 (0)	26 (2)	16 (0)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (25)	65 (30)	74 (28)	66 (24)	100 (85)	73 (58)	100 (25)	66 (30)	74 (28)	66 (24)	100 (86)	73 (58)
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	13.7	Media
2.	British American Tobacco	4.7	Consumer Goods
3.	Sasol	4.3	Oil & Gas
4.	Steinhoff International Holdings	4.2	Industrials
5.	Standard Bank	3.3	Banks
6.	Barclays Africa	2.8	Banks
7.	Old Mutual	2.8	Life Insurance
9.	MTN	2.6	Telecommunications
8.	Remgro	2.5	Industrials
10.	FirstRand Bank Holdings	2.5	Banks

GLOBAL ECONOMIC OVERVIEW

While the global economy ended the second quarter on a solid footing, supporting investor sentiment, a stream of more hawkish comments by a number of central banks served as a reminder that the extended period of broad-based and extreme monetary support is coming to an end.

Another global feature has been the relentless weakening of the US dollar, despite the US Federal Reserve (Fed) leading the global policy normalisation cycle. A soft US dollar is, of course, a boon to emerging markets as it tends to support commodity prices and reduce pressure on emerging market currencies. As a result, capital flows into developing countries have remained buoyant in recent months. The key factors undermining the US dollar are the political gridlock in Washington (raising concerns over the timing and size of the long-awaited stimulatory tax reform), reduced concern over a more aggressive Fed (as US inflation remains tame amid a tight labour market), and the European Central Bank (ECB) indicating that it, too, is considering tapering asset purchases perhaps from early next year.

It's no secret that US President Donald Trump has had a disappointing start to his presidential term, with the failure of the latest Obamacare repeal raising doubts as to whether the administration will, in fact, be able to implement much of its promised policies, particularly on the fiscal policy front. The US dollar surge late last year was mainly on the back of the perceived positive impact that proposed fiscal stimulus would have on both growth and company earnings, as analysts made upward revisions to their US growth forecasts. Consequently, as optimism over tax reform faded, the US dollar came under pressure.

The US dollar was also negatively affected by growing doubt over whether the Fed will raise interest rates again this year. A combination of the Fed's plan to start slowing asset purchases later in the year and subdued macroeconomic data are driving the softening interest rate view. With the closely-watched core PCE deflator measure (i.e. inflation excluding food and energy) at only 1.4%, weak US inflation implies that the Fed is not achieving its 2% inflation target. In addition, annualised GDP growth during the first half of 2017 was just less than 2%, indicating that the economy is not overheating – warranting a less aggressive Fed. With the unemployment rate at a historically low 4.4%, it appears that the labour market is the only strong signal at present keeping the Fed on course to hike rates one more time this year – even though labour market strength has not convincingly translated into a pick-up in wage growth and consumer demand. Retail sales have been flat since the start of the year and vehicle sales have been trending weaker in recent months. If the market is right about the Fed's likely course of action, then the key case for a strong US dollar (i.e. rising interest rates) is considerably weakened.

Growing expectations that the ECB will soon announce plans to begin paring back monetary stimulus in January 2018 has also played a role in explaining the US dollar's recent weakness. The underlying improvement in the Eurozone economy is clearly reflected in the June unemployment rate falling to an eight-year low of 9.1%. While the Eurozone remains on a recovery path, inflation is pretty subdued, with the core CPI hovering around 1.2% for July and well below the ECB's 2% target. Still, the firming and spreading Eurozone recovery is paving the way for the ECB to follow the US Fed in starting to roll back monetary stimulus through a slowdown in the pace of asset purchases.

We ended last month's review with the conclusion that a better Europe and a less aggressive US Fed would bode well for emerging markets through a softer US dollar – a view that we have held for some time now. While this view is clearly playing out, market focus is shifting to the inevitable tightening in global liquidity conditions – as first the US Fed and then the ECB starts to wind down asset purchases in coming months. While this indeed holds risks to relatively elevated asset prices, we do not think it portends a premature end to the global equity bull market, largely because global growth is firming, which will support corporate profitability.

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	3.1	9.7	11.1	14.9	23.4	18.5	11.8
JP Morgan	2.4	2.1	-8.0	7.6	10.0	9.1	10.3
S&P 500	2.8	7.7	10.4	18.8	26.2	22.2	14.5
FTSE 100	3.1	8.7	7.7	5.7	16.3	14.1	7.4
Nikkei Index	1.8	6.2	6.2	13.5	21.1	13.7	8.7
Rand/Dollar	0.7	-3.5	-4.8	7.2	9.9	6.7	6.4

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	14.3	8.4	8.4	11.6	6.4	6.4	9.6	3.4	3.4	7.3	1.7	1.7
2 Years	8.4	8.3	8.3	7.0	7.1	7.5	4.7	5.8	6.9	3.4	4.5	5.8
3 Years	9.5	9.5	10.5	8.4	8.5	9.7	7.4	7.9	9.8	6.1	6.7	8.6
5 Years	13.0	14.3	18.3	12.0	13.2	17.4	11.2	12.3	15.9	10.0	11.1	14.9
8 Years	14.8	15.1	14.3	14.1	14.3	13.6	13.1	13.4	12.7	12.3	12.5	12.0
10 Years	12.7	12.3	6.8	12.0	11.6	6.1	11.5	11.3	7.5	10.8	10.6	6.9
15 Years	10.4	10.2	7.8	9.5	9.3	6.3	10.1	10.0	7.5	9.2	9.1	6.3

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	43.0	52.3	-9.2	33.1	38.3	-5.2
Japan	3.8	7.7	-3.9	3.5	17.1	-13.7
Europe ex UK	19.1	15.9	3.2	34.8	28.6	6.3
United Kingdom	6.2	5.9	0.3	8.9	5.5	3.4
SE Asia & Canada	9.8	12.0	-2.2	17.3	8.5	8.9
South Africa	14.6	0.0	14.6	0.0	0.2	-0.2
Other	3.4	6.2	-2.8	2.3	1.7	0.6
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	3.0	0.0	1.5	0.1	0.2	0.7
Consumer Discretionary	8.7	12.1	4.4	0.4	0.6	2.0
Consumer Staples	6.4	9.1	3.2	0.3	0.5	1.4
Energy	4.1	6.2	2.1	0.2	0.3	0.9
Financials	16.4	18.8	8.3	0.7	1.2	3.7
Healthcare	10.7	11.1	5.4	0.5	0.8	2.4
Industrials	11.9	10.7	6.0	0.5	0.9	2.7
Information Technology	14.2	17.2	7.1	0.6	1.0	3.2
Materials	4.8	5.3	2.4	0.2	0.3	1.1
Other	0.3	0.0	0.2	0.0	0.0	0.1
Telecoms Services	1.6	3.3	0.8	0.1	0.1	0.4
Utilities	1.5	3.1	0.8	0.1	0.1	0.3
SA Rand Hedge	14.6	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. Alphabet Inc	Information Technology
4. Moody S Corporation	Financials
5. Owens Corning	Industrials
6. Apple Inc	Information Technology
7. Fiat Chrysler Automobiles	Consumer Discretionary
8. Wells Fargo & Co	Financials
9. DS Smith Plc	Industrials
10. Bank of America	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.

OLDMUTUAL