FLEXIPORTFOLIO

PERFORMANCE REPORT

1 DECEMBER 2015

SOUTH AFRICAN ECONOMIC REVIEW

- Local economic news flow remains depressing. Following the 1.3% annualised contraction in GDP in the second quarter, the economy rebounded weakly in the third quarter, recording an annualised growth rate of only 0.7%. Moreover, incoming data for the fourth quarter has remained decidedly weak, pointing to yet another quarter of little, if any, growth.
- As a result of the weak data, consensus growth forecasts for this year and 2016 continue to be revised downwards and, more importantly, concerns over the medium- to longer-term growth potential of the economy have spiked. As far as this year and next are concerned, growth forecasts have generally been cut to little over 1% for both years, with risks skewed to the downside. Of far greater concern, though, are the mounting fears that the SA economy will struggle to grow much faster than this tepid pace over the medium term. The key obstacles to faster growth are the electricity bind, a weak world economy and a lack of growth-enhancing economic reforms on the part of government.
- Against this backdrop, concerns are relentlessly mounting that SA will lose its investment grade status in the not-too-distant future – an event that could have a further dire negative impact on the already weak growth potential of the economy and could, if effected, cause significant economic and market turmoil in the short term. Indeed, early in December, rating agency Standard & Poor's handed South Africa a strong warning in this regard, by lowering the "outlook" on our rating (which is already at their lowest investment grade level) from "stable" to "negative". The change in the outlook implies that unless SA acts soon to raise the growth potential and effect fiscal consolidation, the latter (which has been consistently postponed over the past two years), a downgrade to junk over the next year to eighteen months, looms large.
- Looking into 2016, it is difficult at this stage to find much reason for optimism. While the rand is more competitive and should provide a boost to exporters and companies competing with imports, local business and consumer confidence remain extremely depressed. As the a strong recovery in the world economy is unlikely to pull SA out of its growth malaise, it is really up to government to install greater confidence in the economy by creating a more business friendly operating environment. Unfortunately, the implementation of such policies, as contained in Government's National Development Plan, remains hamstrung by ideological differences within the ruling alliance.
- Over and above a weak world and policy paralysis on the part of our government, SA also faces higher inflation, tighter monetary policy, a likely further increase in tax rates in 2016 and also uncertainty as to how long the drought will continue. Against this backdrop, SA will fare well to escape a full-blown recession in 2016.
- The bottom line of all of the above is that prospects for 2016 indeed look pretty bleak and that the rand, as a result and despite the fact that it is already very weak, remains extremely vulnerable. The vulnerability of the rand is further highlighted by the fact that SA's foreign trade shortfall remains large, requiring more than US$1 billion a month in capital inflows to finance. A renewed slump in the rand could potentially trigger a far more significant rise in inflation and interest rates than currently forecast, and further dampen prospects for 2016.
- We ended the past two month's review with a warning that the still mounting problems and headwinds facing the South African economy require urgent action on the part of government to improve our economic fortunes and that failing to do so will result in a relentless build-up of social and fiscal pressures. This warning was aptly demonstrated in the recent widespread student demonstrations and was now reinforced with the downgrades SA suffered at the hands of the ratings agencies. Unfortunately, there is still very little indication that government is taking the message seriously, let alone acting decisively to address our economic challenges. So, as already mentioned, the rand remains extremely vulnerable to yet another major sell-off as investors become increasingly disillusioned with the failure of Government to fundamentally improve our economic prospects.

Given a sluggish world economy, the slump in commodity prices and a failure on the part of government to decisively implement growth-enhancing economic reforms, SA's short- and medium-term growth prospects continue to deteriorate. Although it may already be very cheap, the rand therefore remains extremely vulnerable to another major sell-off.

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	-3.9	7.0	6.8	14.1	14.7	10.1	15.2
JSE Fin & Ind	-1.8	14.4	15.5	22.5	23.3	16.5	19.5
JSE All Gold	-14.6	-21.6	-15.7	-27.2	-18.5	-11.7	-8.0
All Bond	-1.0	2.9	1.3	5.3	7.9	8.6	8.0
Total Cash	0.5	4.9	5.4	4.9	4.9	6.3	6.6
ALSI 40	-3.9	8.7	8.2	14.4	14.9	9.8	14.9
INDI 25	-1.0	18.0	19.3	24.9	26.4	19.5	22.5

RETIREMENT ANNUITIES TO 01/12/2015 (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	7.2	8.6	8.6	8.6	9.7	9.7	9.2	12.2	12.2	9.6	9.9	9.9	5.1	5.1	5.1	4.8
2 Years	9.2	10.9	12.0	9.8	10.8	11.2	11.1	12.2	12.2	11.1	11.6	12.3	4.9	4.8	4.6	5.3
3 Years	12.7	14.0	16.5	11.6	12.4	13.8	12.7	13.6	14.8	12.4	12.8	13.8	4.6	4.5	4.2	5.3
5 Years	15.0	15.0	14.3	13.0	12.9	12.3	13.8	13.8	12.9	12.8	12.7	12.2	4.3	4.3	4.1	5.5
8 Years	13.8	13.3	8.6	11.9	11.5	8.7	12.5	12.0	8.5	11.6	11.4	10.4	4.6	4.7	5.3	5.9
10 Years	12.2	12.4	12.2	10.9	11.0	10.9	11.3	11.4	11.3	11.5	11.6	12.3	4.9	5.0	5.4	6.1
15 Years	13.6	13.5	13.1	11.6	11.6	11.3	12.6	12.6	12.9	11.8	11.8	11.4	5.3	5.3	5.6	5.7
20 Years	13.0	13.1	12.3	11.4	11.5	11.1	-	-	-	11.5	11.5	11.4	5.8	5.9	7.0	6.0
25 Years	13.3	13.5	14.0	11.6	11.8	12.4	-	-	-	11.8	11.8	12.4	7.0	7.1	8.7	6.8
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.423% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/12/2015 (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	7.3	8.1	8.1	7.7	8.4	8.4	8.1	10.6	10.6	8.1	8.4	8.4	3.0	3.0	3.0	4.8
2 Years	8.8	10.2	11.1	8.6	9.4	9.9	9.7	10.7	10.7	9.5	10.1	10.8	2.9	2.7	2.6	5.3
3 Years	12.2	13.4	16.0	10.3	11.1	12.5	11.5	12.3	13.7	10.9	11.3	12.3	2.6	2.5	2.3	5.3
5 Years	14.5	14.5	13.9	11.6	11.6	11.2	12.8	12.8	12.2	11.3	11.2	10.7	2.4	2.3	2.2	5.5
8 Years	13.4	12.8	8.1	10.5	10.1	7.4	11.6	11.1	7.7	10.2	10.1	9.0	2.7	2.8	3.5	5.9
10 Years	11.7	11.9	11.6	9.5	9.6	9.5	10.4	10.5	10.3	10.1	10.2	11.0	3.0	3.1	3.6	6.1
15 Years	12.8	12.7	12.2	10.3	10.3	10.1	11.5	11.5	12.0	10.7	10.6	10.4	3.6	3.7	4.3	5.7
20 Years	12.1	12.2	11.3	10.1	10.2	9.8	-	-	-	10.5	10.5	10.5	4.4	4.5	5.8	6.0
25 Years	12.3	12.5	13.0	10.3	10.5	11.1	-	-	-	10.7	10.8	11.3	5.5	5.6	7.1	6.8
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.250% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		3.80% p.a. (0.311% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	4.63% p.a. (0.378% p.m.)
	at the tax rate of 40%	6.33% p.a. (0.513% 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)	26 (2)	21 (1)	25 (0)	0 (0)	26 (26)	1 (0)	22 (0)	21 (1)	25 (0)	0 (0)	26 (26)
Ordinary Shares	100 (28)	65 (31)	73 (23)	66 (24)	100 (86)	74 (60)	99 (28)	69 (35)	73 (23)	66 (24)	100 (86)	74 (59)
Property	0	6	6	7	0	0	0	6	6	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	15.4	Media
2.	British American Tobacco	5.7	Consumer Goods
3.	Steinhoff International	4.9	Industrials
4.	SABMiller plc	4.3	Consumer Goods
5.	FirstRand	3.9	Banks
6.	MTN	3.8	Telecommunications
7.	Sasol	3.6	Oil & Gas
8.	Old Mutual	3.5	Life Insurance
9.	Remgro	3.1	Industrials
10.	Standard Bank	2.6	Banks

GLOBAL ECONOMIC OVERVIEW

- The US S&P 500 Index ended the month of November unchanged from the closing level at the end of October. However, intra-month volatility was considerable, as the market slumped by more than 4% during the first half of the month, only to recover all of the losses over the second half of the month.

- Stock market weakness was mostly driven by US Federal Reserve Chair Janet Yellen's comments during a congressional testimony that the US Fed is likely to raise rates before the end of the year. However, the turnaround during the second half of the month was spurred by the release of the minutes from the US Fed's late-October FOMC meeting. They indicated that while the bar for raising the policy rate at the December meeting was indeed quite low, they expected to raise rates only slowly in this cycle and that the peak in the interest rate cycle will be lower than in past cycles. This gave investors' confidence that the US Fed will take a cautious approach to policy normalisation and will not seriously threaten the US economy or global financial markets.

- Fears over a hard landing in China returned over the past month, as incoming data remained soft. The combination of growing certainty that the US Fed will start to raise rates in December and ongoing weakness in China's economy, caused a renewed sell-off in commodity prices and in some developing country currencies.

- Looking forward to 2016, it is difficult to see much of an improvement in global economic conditions. While a moderate acceleration in global growth is widely expected, there are a number of considerable headwinds and risks that could upset these expectations. Most important is the potential implications of a renewed strengthening of the US dollar as the US Fed starts to raise interest rates. This could not only cause already weak commodity prices to fall further, thereby further undermining the already poor growth prospects for commodity producers, but could also start to negatively affect the US economy as profits earned abroad by US companies are eroded by the firming currency.

- Another headwind to global prospects for 2016 is the continued relatively weak performance of China's economy. While headline reported GDP growth has remained close to the government's 7% target for this year, private analysts are increasingly sceptical of these growth numbers and think the economy could be growing notably slower. In addition, with China's economy in the process of transforming from an investment/export growth model to a consumption/services model, the demand for commodities has slumped and there seems little hope for much of an improvement anytime soon.

- Against this backdrop of policy tightening in the US, the possibility of a renewed firming of the dollar, continued downside growth surprises in China, pressures on emerging markets as capital flows dry up and commodity prices slumping, prospects for 2016 look decidedly uncertain. Consequently, financial market volatility is likely to remain high as we enter the New Year.

The outlook for 2016 is very uncertain in the wake of the imminent start of policy normalisation by the US Fed, ongoing sluggish growth in China and severe pressures on emerging markets as commodity prices have slumped and capital inflows have dried up.

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	4.0	26.4	30.3	31.1	26.9	13.6	14.8
JP Morgan	2.5	20.4	25.6	14.3	15.8	12.6	12.5
S&P 500	4.8	28.4	34.1	36.4	31.8	17.0	16.3
FTSE 100	2.1	20.8	23.1	22.6	22.1	9.5	12.6
Nikkei Index	5.8	37.2	42.1	31.4	22.4	11.6	11.2
Rand/Dollar	4.4	24.6	30.5	17.5	15.2	9.9	8.4

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	25.2	22.9	22.9	24.7	22.2	22.2	25.1	22.2	22.2	24.3	21.0	21.0
2 Years	19.5	19.1	17.5	18.8	18.1	16.4	18.3	17.9	16.0	17.3	16.5	14.6
3 Years	20.8	21.8	23.9	20.1	21.0	23.3	18.7	19.3	20.4	17.9	18.4	19.9
5 Years	21.7	21.0	19.4	21.1	20.5	19.0	19.2	18.5	17.4	18.6	18.0	17.1
8 Years	16.3	15.3	8.0	15.8	14.8	7.4	14.7	13.8	8.7	14.2	13.4	8.3
10 Years	13.1	12.8	10.0	12.4	12.1	8.6	12.4	12.1	10.6	11.9	11.6	9.8
15 Years	10.3	10.1	6.4	9.5	9.3	5.2	10.2	10.0	6.9	9.5	9.3	6.1

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	41.8	53.5	-11.6	27.7	39.0	-11.2
Japan	8.3	8.0	0.3	5.2	16.2	-11.0
Europe ex UK	17.2	16.1	1.0	32.8	28.3	4.5
United Kingdom	6.5	6.8	-0.4	12.8	6.3	6.5
SE Asia & Canada	8.8	10.1	-1.3	16.2	8.2	8.0
South Africa	13.7	0.0	13.7	0.0	0.2	-0.2
Other	3.7	5.5	-1.8	5.2	1.8	3.5
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	10.3	13.0	5.0	1.0	0.8	2.1
Consumer Staples	5.5	10.1	2.7	0.5	0.4	1.1
Energy	4.9	6.7	2.4	0.5	0.4	1.0
Financials	21.0	21.5	10.2	2.0	1.6	4.2
Healthcare	9.9	12.1	4.8	1.0	0.7	2.0
Industrials	13.5	10.4	6.6	1.3	1.0	2.7
Information Technology	11.7	14.7	5.7	1.1	0.9	2.3
Materials	4.2	4.6	2.1	0.4	0.3	0.8
Other	0.7	0.0	0.3	0.1	0.1	0.1
Telecoms Services	2.1	3.7	1.0	0.2	0.2	0.4
Utilities	1.1	3.1	0.6	0.1	0.1	0.2
SA Rand Hedge	13.7	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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