FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 FEBRUARY 2018

SOUTH AFRICAN ECONOMIC REVIEW

Following the election of Cyril Ramaphosa as ANC president at the party's elective conference in December, the rand firmed sharply, bond yields declined and shares tied to the local economy spiked.

While these market moves priced in a fundamental improvement in the medium-term prospects for the SA economy under a Ramaphosa-led government, a key short-term challenge for the new ANC leadership was to find a way to replace Jacob Zuma as President of the country with Mr Ramaphosa. At the time of drafting this report in early February, Mr Zuma was still refusing to resign as president. Should the ANC indeed not have Mr Zuma replaced relatively soon, the excitement over Mr Ramaphosa's win might fade out and more negative perceptions around politics and policy reform prospects may take hold again.

As the country awaits the outcome of the struggle to have Mr Zuma removed, focus has returned to incoming news and data flows. Fortunately, most of the incoming data has been relatively good, painting a picture of an ongoing slow expansion of the local economy, subdued inflation pressures, a narrowing foreign trade shortfall and no further deterioration in the fiscal situation (as tax revenues are meeting the revised estimates presented in the October 2017 budget update). On the news flow front, a new Eskom Board sent a strong signal that the incoming Ramaphosa administration will take tough action on management issues at the state-owned enterprises.

Without going into detail, incoming fourth-quarter data on manufacturing and mining production, electricity generation and retail and car sales indicate that the economy expanded by a further annual rate of around 2% in the last quarter of 2017. Such an outcome will leave growth for the full calendar year at 0.9%, notably better than the 0.5% growth predicted by the consensus until recently. The Ramaphosa win has also resulted in notable upgrades to growth forecasts for 2018, from around 1% to 1.5%, essentially on account of an expected recovery in confidence and the possibility of a renewed cycle of rate cuts by the SA Reserve Bank (SARB). While this better growth outcome will be welcome, it still falls far short of the growth pace required to merely stabilise the already shockingly high unemployment rate of 27%.

Further good news over the past month came in the form of good inflation numbers, with the core rate of inflation (i.e. excluding the volatile food and energy components) dropping to 4.2% and the headline inflation rate (including those two components) edging up to a still relatively low 4.7%. Good inflation numbers, combined with the strong rand, have raised hopes that the SARB may cut the repo rate again, possibly as soon as March, especially if the National Budget in February is tight, as we expect it will be.

In addition to good inflation numbers, December trade numbers produced another large surplus, which indicates that the fourth quarter overall current account deficit may have contracted to 1.5% of GDP, or even less.

The lack of cyclical constraints in the form of inflation pressures or a big current account shortfall are undeniably strong positives when considering the outlook for 2018.

Over the next few weeks, the focus will strongly be on the upcoming Budget and Moody's decision on South Africa's local currency bond rating. While a tight budget, strongly focusing on fiscal consolidation, is certainly vitally important to prevent a Moody's downgrade, it will be painful for households – as the only real option to narrow the deficit is through personal tax hikes, as VAT remains politically untouchable and companies are struggling under the slow-growing economy.

Thus, while there are still many uncertainties, it seems reasonably clear that the improved political backdrop provides for a slightly more positive outlook for 2018 than before.

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	0.1	0.1	16.1	8.2	11.2	13.8	11.3
JSE Fin & Ind	-0.7	-0.7	18.1	8.4	14.7	18.6	16.5
JSE Resources	3.2	3.2	9.9	0.6	-3.0	0.3	-1.0
ALSI 40	0.2	0.2	17.8	8.3	11.0	13.5	10.8
All Bond	1.9	1.9	10.8	5.3	6.6	9.0	8.8
Cash	0.6	0.6	7.5	7.2	6.5	6.3	7.1

RETIREMENT ANNUITIES TO 01/02/2018 (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	10.9	10.6	10.6	8.1	8.1	8.1	12.0	9.9	9.9	10.5	10.7	10.7	6.1	6.2	6.2	4.7
2 Years	8.1	8.9	8.1	6.9	7.3	6.9	8.6	8.8	8.2	10.2	10.0	9.7	6.2	6.2	6.2	5.7
3 Years	6.3	7.1	5.5	6.2	6.6	6.0	6.5	7.1	5.6	10.1	10.1	10.2	6.1	6.0	5.8	5.6
5 Years	7.6	8.4	10.1	7.6	7.9	9.3	7.6	8.0	9.2	11.0	11.3	12.4	5.7	5.6	5.1	5.5
8 Years	10.5	10.5	11.6	9.6	9.5	10.4	9.7	9.6	10.3	11.6	11.6	11.3	5.1	5.1	4.8	5.3
10 Years	10.8	10.7	9.0	9.7	9.6	8.6	9.8	9.7	8.8	11.3	11.2	10.4	5.1	5.2	5.5	5.9
15 Years	11.7	11.7	13.5	10.3	10.3	11.6	10.6	10.6	12.2	11.7	11.7	11.9	5.4	5.4	5.7	5.7
20 Years	12.0	11.8	12.1	10.5	10.4	10.7	-	-	-	11.5	11.4	11.0	5.6	5.6	6.1	6.2
25 Years	12.0	12.0	13.2	10.7	10.7	11.7	-	-	-	11.4	11.5	11.8	6.4	6.5	7.7	6.6
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.465% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/02/2018 (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	8.8	8.1	8.1	7.3	7.1	7.1	9.8	7.6	7.6	9.0	9.2	9.2	3.5	3.6	3.6	4.7
2 Years	6.1	6.6	5.8	5.9	6.1	5.6	6.7	6.6	6.1	8.7	8.5	8.2	3.6	3.6	3.6	5.7
3 Years	4.6	5.3	4.2	5.2	5.5	5.0	4.9	5.3	4.1	8.6	8.6	8.7	3.5	3.5	3.4	5.6
5 Years	6.3	7.1	9.2	6.4	6.7	8.1	6.1	6.5	8.0	9.5	9.8	10.9	3.3	3.2	2.9	5.5
8 Years	9.5	9.5	10.9	8.3	8.3	9.1	8.4	8.3	9.3	10.1	10.1	9.9	2.9	2.9	2.7	5.3
10 Years	9.9	9.7	8.2	8.4	8.2	7.2	8.6	8.5	7.7	9.8	9.7	9.0	3.0	3.0	3.5	5.9
15 Years	10.7	10.7	12.4	9.0	8.9	10.3	9.4	9.4	11.1	10.4	10.4	10.7	3.4	3.5	3.9	5.7
20 Years	10.9	10.8	11.1	9.3	9.2	9.6	-	-	-	10.3	10.3	10.1	3.9	4.0	4.9	6.2
25 Years	10.9	10.9	12.1	9.4	9.4	10.4	-	-	-	10.4	10.4	10.8	4.8	4.9	6.2	6.6
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.265% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		4.90% p.a. (0.375% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	5.61% p.a. (0.465% p.m.)
	at the tax rate of 41%	7.80% p.a. (0.628% 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 (3)	0 (0)	25 (0)	0 (0)	27 (27)	0 (0)	26 (2)	12 (0)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (24)	65 (29)	78 (25)	66 (24)	100 (85)	73 (58)	100 (23)	67 (30)	78 (25)	66 (24)	100 (85)	73 (58)
Property	0	7	10	7	0	0	0	6	0	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	12.3	Media
2.	Sasol	4.9	Oil & Gas
3.	British American Tobacco	4.8	Consumer Goods
4.	Standard Bank	4.7	Banks
5.	FirstRand	3.6	Banks
6.	Barclays Africa	3.6	Banks
7.	Old Mutual	3.3	Financials
8.	Anglo American Plc	3.1	Basic Resources
9.	MTN Group	3.0	Telecommunications
10.	Remgro	2.5	Financials

GLOBAL ECONOMIC OVERVIEW

2018 growth kicked off on a solid footing, with consensus views of better growth in 2018, albeit only moderately more so than 2017. January's global manufacturing purchasing managers' index (PMI) data confirmed this view, with rates of growth in both production and new orders remaining in line with December's highs. The International Monetary Fund (IMF) recently raised its global growth forecast for 2018 and 2019 to 3.9% for both years – the highest since 2011. This forecast was largely driven by the impact of the US tax cuts and, even more so, the stronger growth expected in Europe. This faster growth in Europe was one of the key drivers behind the US dollar weakness in 2017, which was positive for commodity prices and hence emerging market economies.

One of the key risks that we flagged in last month's review – that of a stronger rise in US wage growth and/or a stronger rise in US inflation – has begun to rattle investors, as seen in the US 10-year Treasury yield rising to above 2.8%, its highest level since January 2014. This sell-off in US government bonds indicates that investors are worried that the long-dormant inflation may be returning at a stronger pace than expected. This could cause the US Federal Reserve (Fed) to tighten more aggressively, triggering a renewed rally in the US dollar. The Fed's recent Beige Book (an anecdotal summary of current economic conditions across the 12 Federal Reserve districts) reported steady growth in overall business conditions, with some firms expecting wages to increase in the months ahead, given the ongoing shortage of skilled labour. These firms' concerns were confirmed in the latest employment data, where unemployment remained low (at 4.1%) and, more importantly, average hourly wages increased 2.9% year-on-year, its highest increase since 2009. This suggests that the tight labour market is finally beginning to lead to some wage pressures.

These two key developments – more US firms expecting wages to increase and January wages actually increasing – were enough for the market to start pricing in the three interest rate hikes that the Fed indicated for 2018 in their dot plot. Whether the Fed will have to do more is highly dependent on next month's employment data. While it is difficult to see wage growth returning to the Fed's preferred level of 4% a year, the underlying trend does point to some modest acceleration, which, in our view, will see the Fed hiking in line with consensus. The risk, of course, is that wages surge more than we expect, leading to a stronger rise in inflation, in which case the Fed would have to be more aggressive – triggering a renewed rally of the US dollar, which would be negative for emerging markets.

Inflation in the euro area, on the other hand, slowed at the start of the year to 1.3%, from 1.4% percent in December 2017, highlighting the limited inflationary pressures that exist in Europe. Rising energy prices could provide an uplift to headline inflation in the coming months. However, with a stronger euro and relatively high unemployment in much of southern Europe, inflation is likely to only gradually rise to the European Central Bank (ECB)'s goal of 2%. This soft inflation outlook would justify continued ECB stimulus, which should be supportive for growth this year.

While most of this monetary policy divergence in Europe and the US appears to be priced in by the market, a more aggressive US Fed could be negative for emerging market economies, which are currently enjoying a favourable environment of stable commodity prices and increased external demand. Thus, the risk of stronger inflation is the US will be the key focus for the markets in 2018.

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	1.0	1.0	11.4	13.2	18.9	18.3	12.1
JP Morgan	-2.8	-2.8	-5.5	2.9	6.8	8.1	7.6
S&P 500	1.4	1.4	11.3	15.4	22.7	22.0	14.8
FTSE 100	-1.2	-1.2	9.9	6.6	11.5	13.3	7.8
Nikkei Index	0.4	0.4	10.2	12.8	18.2	14.5	10.1
Rand/Dollar	-4.1	-4.1	-11.9	0.7	5.9	5.8	4.7

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	10.2	11.8	11.8	8.0	9.7	9.7	3.7	6.6	6.6	3.1	5.5	5.5
2 Years	8.9	7.9	6.0	7.3	6.3	4.7	3.1	2.8	0.9	2.4	1.9	0.2
3 Years	8.9	9.7	11.2	7.6	8.4	10.2	4.7	5.8	8.5	3.9	4.8	7.5
5 Years	11.2	11.7	14.4	10.2	10.7	13.8	8.6	8.9	12.1	7.7	8.1	11.6
8 Years	14.4	13.8	13.9	13.6	13.0	13.2	12.1	11.5	12.0	11.3	10.8	11.5
10 Years	13.1	12.3	8.3	12.3	11.5	7.5	11.2	10.5	8.1	10.5	9.8	7.5
15 Years	10.5	10.2	9.1	9.7	9.3	8.2	9.9	9.5	8.8	9.1	8.8	7.8

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	43.4	52.2	-8.8	35.4	37.6	-2.3
Japan	3.7	7.8	-4.1	4.1	17.0	-12.9
Europe ex UK	17.7	15.7	2.1	29.5	29.4	0.1
United Kingdom	6.8	5.7	1.1	8.9	5.7	3.2
SE Asia & Canada	9.7	12.2	-2.5	14.4	8.5	5.8
South Africa	14.5	0.0	14.5	0.0	0.0	0.0
Other	4.1	6.4	-2.3	7.8	1.8	6.0
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	3.4	0.0	1.7	0.1	0.3	0.7
Consumer Discretionary	9.1	12.3	4.6	0.4	0.7	1.9
Consumer Staples	7.6	8.4	3.9	0.3	0.6	1.6
Energy	5.1	6.3	2.6	0.2	0.4	1.0
Financials	17.0	19.0	8.7	0.7	1.4	3.5
Healthcare	10.5	10.7	5.3	0.5	0.8	2.2
Industrials	9.9	10.9	5.0	0.4	0.8	2.0
Information Technology	14.0	18.4	7.1	0.6	1.1	2.9
Materials	4.9	5.5	2.5	0.2	0.4	1.0
Other	0.3	0.0	0.1	0.0	0.0	0.1
Telecoms Services	0.5	2.9	0.3	0.0	0.0	0.1
Utilities	2.0	2.7	1.0	0.1	0.2	0.4
SA Rand Hedge	14.5	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME		SECTOR
1.	JPMorgan Chase & Co	Financials
2.	Moody's Corporation	Financials
3.	Fiat Chrysler Automobiles	Consumer Discretionary
4.	Pepsico Inc	Consumer Staples
5.	Keyence Corporation	Information Technology
6.	Bank of America Corporation	Financials
7.	DS Smith Plc	Materials
8.	Alphabet Inc	Information Technology
9.	Mastercard Inc	Information Technology
10.	Johnson & Johnson	Healthcare

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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