FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 JANUARY 2016

SOUTH AFRICAN ECONOMIC REVIEW

- December 2015 will be remembered for South Africa having three Finance Ministers in less than one week. The now well-known and intensely debated shock dismissal of respected Finance Minister Nhlanhla Nene, replaced with little-know David van Rooyen, only to be replaced within days by previous Finance Minister Pravin Gordhan caused a public uproar, a slump in the rand and a surge in bond yields. While the reinstatement of Gordhan brought some calm to markets, permanent damage has been done as far as concerns over the broad policy direction of the government is concerned. These concerns will likely spill over into the economy over the medium term through more depressed business and consumer confidence, the former further undermining already weak business investment, the cornerstone of economic growth and job creation over the medium term. South African businesses, already searching for more opportunities outside of South Africa in recent times, will now likely intensify this trend.
- The damage from the Finance Minister musical chairs will also have a negative impact in the shorter term in that the failure of the rand to retrace its losses will result in higher inflation in 2016 than forecast up to now, with, inevitably, more interest rate increases than predicted before. In addition, the surge in bond yields and deteriorating growth outlook will further pressure the fiscal situation and will likely force Minister Gordhan to raise taxes by even more than was likely before the drama in early-December.
- In short, this ill-conceived decision by the President to replace Minister Nene with a little-known novice, even though it lasted only four days, did the economy considerable damage in both the short and longer term and it will likely take some time to assess the full impact of the drama – much the same as it took months to fully assess the devastating impact on foreign tourism of the ill-conceived visa-rule changes of last year. Moreover, with concerns over policy direction escalating and even greater difficulty now in stabilising the fiscal situation, given higher bond yields and weaker growth flowing from the inevitable further tightening in monetary and fiscal policy, the President has made an already difficult economic situation infinitely worse. Minister Gordhan now indeed has a very daunting task in winning back the confidence of local and foreign investors and the price that will have to be paid in terms of growth and jobs might be painfully high. Another brewing "own-goal" in economic terms loomed towards year-end as SA failed to reach agreement with the US over the opening of the SA market to certain meat imports from the US. This risks SA agricultural exports losing duty-free access to US markets, as contained in the Agoa agreement, something SA can ill afford given the already pressured balance of payments position.
- Meanwhile, the economic news flow has been depressing even before the "Finmin" drama. 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. The intensifying drought towards year-end and consequent surge in grain prices has further bleakened the economic outlook for 2016.
- As a result of the weak data, consensus growth forecasts for 2015 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 2015 and 2016 are concerned, growth forecasts have generally been cut to around 1% for both years, with risks perceived to be 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 an even longer time horizon. The key obstacles to faster growth remain the electricity bind, a growing water constraint, 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, December, the three key rating agencies all handed South Africa a strong warning in this regard: S&P by lowering the "outlook" on our rating (which is already at their lowest investment grade level) from stable to negative, Fitch downgrading SA's sovereign rating to one level above junk (same as S&P) and Moody's lowering their "outlook" on SA's rating (two levels above junk) to negative. These changes strongly signal 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.
- So, against this background, it is difficult at this stage to find much reason for optimism in the outlook for 2016. 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 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, government did exactly the opposite in December and the damage will be very hard to reverse.
- 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, 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.

The drama in December around the firing of Finance Minster Nene has done permanent damage to the economy over both the short- and medium term. With higher inflation and interest rates now looming, as well as tighter fiscal policy, economic prospects for 2016 and beyond have taken yet another turn for the worse.

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

DO GREAT THINGS | OLDMUTUAL

RETIREMENT ANNUITIES TO 01/01/2016 (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	3.4	6.5	6.5	6.2	7.9	7.9	1.7	8.2	8.2	11.5	11.5	11.5	5.1	5.0	5.0	5.2
2 Years	7.0	9.0	10.1	8.4	9.3	10.0	7.2	9.3	9.7	12.3	12.5	13.0	5.0	4.8	4.7	5.3
3 Years	10.9	12.2	14.9	10.5	11.3	13.0	9.9	11.2	12.8	13.3	13.6	14.5	4.7	4.5	4.3	5.3
5 Years	14.0	13.8	13.4	12.4	12.3	11.9	12.3	12.2	11.9	13.4	13.2	12.6	4.3	4.3	4.1	5.5
8 Years	13.4	12.6	8.5	11.7	11.1	8.7	11.7	11.1	8.2	12.0	11.8	10.5	4.6	4.7	5.3	5.8
10 Years	11.8	11.7	11.5	10.6	10.6	10.3	10.6	10.5	10.4	11.8	11.9	12.5	4.9	5.0	5.4	6.1
15 Years	13.3	13.0	12.8	11.5	11.3	11.1	12.1	11.9	12.3	12.0	12.0	11.5	5.3	5.3	5.6	5.7
20 Years	12.8	12.8	12.0	11.2	11.3	10.9	-	-	-	11.6	11.6	11.4	5.8	5.9	7.0	5.9
25 Years	13.2	13.3	14.1	11.5	11.7	12.4	-	-	-	11.9	11.9	12.5	6.9	7.1	8.6	6.8
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.423% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/01/2016 (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	3.6	6.1	6.1	5.7	7.1	7.1	1.3	6.9	6.9	10.0	10.0	10.0	3.0	2.9	2.9	5.2
2 Years	6.6	8.3	9.3	7.5	8.2	8.7	6.1	7.9	8.4	10.8	11.0	11.5	2.9	2.8	2.7	5.3
3 Years	10.5	11.7	14.5	9.4	10.1	11.8	8.9	10.2	12.1	11.8	12.1	13.0	2.7	2.6	2.3	5.3
5 Years	13.5	13.4	13.2	11.2	11.1	10.9	11.3	11.4	11.2	11.9	11.8	11.2	2.4	2.4	2.2	5.5
8 Years	12.9	12.2	8.0	10.3	9.8	7.3	10.8	10.3	7.5	10.6	10.4	9.2	2.7	2.8	3.5	5.8
10 Years	11.3	11.2	10.9	9.3	9.3	9.0	9.7	9.7	9.4	10.4	10.5	11.2	3.0	3.1	3.6	6.1
15 Years	12.5	12.2	11.8	10.2	10.0	9.9	11.1	10.9	11.3	10.9	10.8	10.5	3.6	3.6	4.2	5.7
20 Years	11.9	11.9	11.0	10.0	10.0	9.6	-	-	-	10.6	10.6	10.6	4.4	4.5	5.7	5.9
25 Years	12.2	12.3	13.0	10.3	10.4	11.0	-	-	-	10.8	10.9	11.4	5.4	5.5	7.1	6.8
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.251% 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)	23 (0)	25 (0)	0 (0)	26 (26)	1 (0)	22 (0)	23 (0)	25 (0)	0 (0)	26 (26)
Ordinary Shares	100 (28)	65 (31)	71 (26)	66 (24)	100 (86)	74 (60)	99 (28)	69 (35)	71 (26)	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	15.8	Media
2.	British American Tobacco	5.9	Consumer Goods
3.	SABMiller Plc	4.7	Consumer Goods
4.	Steinhoff	4.7	Industrials
5.	Sasol	3.9	Oil & Gas
6.	FirstRand	3.5	Banks
7.	MTN	3.5	Telecommunications
8.	Old Mutual	3.3	Life Insurance
9.	Remgro	3.0	Industrials
10.	Standard Bank	2.3	Banks

GLOBAL ECONOMIC OVERVIEW

- Amidst considerable intra-month volatility, the US S&P 500 Index ended December some 1.8% lower compared with the end of November. Compared with the end of 2014, the Index was around 1% lower, but was some 4% down on the high for 2015, recorded around the middle of July. Last year's poor performance followed Index gains of 13%, 31% and 12% over the previous three years. This performance reflected a deterioration in investor sentiment on account of nearing the start of policy tightening by the US Federal Reserve, slowing corporate earnings growth and downside risks to the growth outlook for the US economy under the impact of weak global growth, higher US interest rates and the stronger US dollar.
- As was widely expected, the US Fed raised the federal funds rate in mid-December by 25 basis points, the first hike in US short rates in more than nine years. With the debate around the starting date of the upcycle in US interest rates settled, market attention quickly shifted to how fast the Fed will raise the policy rate over the next two years and how high the peak in the rate cycle will be. The former issue still holds significant market risks as consensus views are considerably more dovish than individual Fed members' own predictions, contained in the so-called 'dot-plot', which tracks the median of individual Fed members' policy rate forecasts.
- Over and above the Fed's rate hike in December, investors remained concerned over the state of the world economy, with no convincing sign of recovery coming out of China and commodity prices falling further towards the end of 2015. While falling commodity prices benefit commodity consumers, the negative economic impact on commodity producing countries, and therefore the entire world economy, via lower export earnings, weaker currencies and, in some cases, higher interest rates, may have been underestimated.
- Incoming data over the course of the month indeed reinforced the view that global growth remains soggy, with the exception of the US, where activity is still expanding at a reasonable pace. China's data remained pretty weak, even though there are tentative indications of a stabilisation in activity, and the same goes for much of the rest of the world. Indeed, activity growth in commodity-producing countries and countries heavily reliant on trade with China continued to slow and the renewed weakness in commodity prices and another wave of emerging markets currency weakness intensified concerns over the outlook for these economies.
- Looking forward to 2016, it is difficult to see much 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 continues 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 2015, 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 inflows slow 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.

Weak economic data out of China and ongoing concerns over the impact of the start of the rise in US interest rates continued to depress global market sentiment during the month. The combination of these two forces continued to put downward pressure on commodity prices and emerging market currencies and has, over the past month, also triggered a further bout of weakness in global equity markets.

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	5.6	33.5	33.5	34.7	28.3	14.5	15.4
JP Morgan	8.4	30.4	30.4	19.6	19.0	13.7	13.5
S&P 500	5.8	35.8	35.8	40.7	33.5	17.8	17.1
FTSE 100	3.4	24.9	24.9	25.0	22.8	10.3	12.9
Nikkei Index	6.1	45.6	45.6	34.0	24.1	12.8	11.0
Rand/Dollar	7.5	33.9	33.9	22.2	18.6	10.8	9.3

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	32.0	27.8	27.8	30.8	26.8	26.8	33.4	27.9	27.9	31.4	26.0	26.0
2 Years	23.2	21.4	18.7	22.2	20.2	17.5	22.7	20.7	17.7	21.2	19.0	16.1
3 Years	22.8	24.0	25.9	21.9	23.1	25.2	21.3	22.0	22.9	20.1	20.8	22.2
5 Years	23.0	22.7	20.8	22.3	22.0	20.3	20.8	20.6	19.2	20.0	19.7	18.7
8 Years	17.3	16.4	8.7	16.7	15.8	8.0	15.8	15.1	9.6	15.2	14.6	9.1
10 Years	13.9	13.6	10.4	13.1	12.8	8.9	13.2	13.1	11.1	12.6	12.5	10.3
15 Years	10.9	10.5	7.0	10.0	9.6	5.8	10.8	10.4	7.4	10.0	9.7	6.7

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	40.9	53.1	-12.2	27.0	38.7	-11.7
Japan	8.7	8.1	0.6	5.9	16.6	-10.7
Europe ex UK	17.6	16.2	1.4	31.5	28.6	3.0
United Kingdom	6.5	6.7	-0.2	12.5	6.2	6.3
SE Asia & Canada	9.0	10.3	-1.3	16.8	8.1	8.7
South Africa	13.7	0.0	13.7	0.0	0.2	-0.2
Other	3.6	5.6	-2.1	6.4	1.7	4.7
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	0.9	0.0	0.4	0.1	0.1	0.2
Consumer Discretionary	9.3	13.0	4.4	0.9	0.7	1.9
Consumer Staples	6.2	10.2	2.9	0.6	0.5	1.3
Energy	4.7	6.2	2.2	0.5	0.4	1.0
Financials	21.1	21.5	10.0	2.1	1.6	4.3
Healthcare	10.2	12.5	4.8	1.0	0.8	2.1
Industrials	13.8	10.3	6.5	1.4	1.0	2.8
Information Technology	11.9	14.9	5.6	1.2	0.9	2.4
Materials	4.4	4.5	2.1	0.5	0.3	0.9
Other	0.6	0.0	0.3	0.1	0.0	0.1
Telecoms Services	2.0	3.7	1.0	0.2	0.2	0.4
Utilities	1.2	3.2	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.

OLDMUTUAL