FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 JANUARY 2017

SOUTH AFRICAN ECONOMIC REVIEW

- Following the welcomed news early in December that all three major credit ratings agencies left South Africa's sovereign rating unchanged at investment grade, the rest of the month was relatively uneventful. As a result, the rand traded in a narrow band and ended the year at around R13.70 to the US dollar, which still represented a sharp firming from the almost R17/US$ reached in mid-January 2016 in the aftermath of the President removing the then Finance Minister Nene.
- In contrast to the stronger rand, looking back at the economy in 2016 clearly reveals a year of considerable disappointment. At the beginning of the year consensus growth forecasts called for a 1.5% expansion in 2016, slightly better than the 1.3% recorded in 2015. However, as the year progressed, deeply depressed business confidence, increased financial pressure on households, a still weak export performance and a severe drought undermined the growth momentum of the economy. It now seems as if growth will only be about 0.5% in 2016 – a considerably worse outcome than was expected at the beginning of the year.
- Inflation also remained sticky, with the latest reading of 6.4% for November still above the top end of the 3% - 6% inflation target range. The sustained elevated inflation numbers left the South African Reserve Bank with no choice but to maintain interest rates at relatively high levels in the face of the slowing economy. In addition, the Finance Minister warned in his October medium-term budget review that fiscal policy will have to be tightened notably in the February 2017 Budget in order to ensure that fiscal consolidation (i.e. the narrowing of the annual budget deficit and stabilisation of overall government debt) is to be achieved over the next few years – a key requirement for maintaining our investment grade rating.
- Looking forward to 2017, and despite the overall relatively poor performance of the economy in 2016, we repeat our caution of last month to guard against over-pessimism about the outlook for the economy. While considerable risks still cloud the outlook, including the possible impact of further interest rate increases in the US, local political uncertainties and risks, and the still deeply depressed consumer and business confidence, it is important to remember that a number of shocks that hit the economy over the past few years are now fading or have disappeared altogether. Some of these include electricity load shedding, the commodity price collapse, the rand slump and consequent inflation and interest rate increases, a debilitating drought and consequent surging food prices, and an abrupt end to the consumer credit boom. Most of these adverse forces are now fading and so are becoming less of a drag on the economy.
- It is even possible that some of these headwinds might turn into tailwinds in 2017, especially lower inflation and interest rates, better conditions in mining and agriculture and keener foreign demand for SA's exports. Should these cyclical improvements be backed up by a less traumatic political environment and possibly even some growth-enhancing economic reforms, the deeply depressed consumer and business confidence might lift notably and thereby support a long-awaited recovery in economic growth.

The bottom line is that, despite the ongoing weakness in the economy and numerous risks in the outlook, there are some rays of sunshine finally starting to appear. With some fortune and a lot of nurturing, these rays could lead to spring for the economy – an outcome most currently find very difficult to believe.

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	1.0	2.6	2.6	6.2	13.0	14.6	10.5
JSE Fin & Ind	2.4	-3.1	-3.1	9.2	18.9	19.4	14.1
JSE All Gold	-4.0	30.4	30.4	11.3	-12.6	-5.0	-6.4
All Bond	1.5	15.4	15.4	6.9	7.3	7.4	8.0
Total Cash	0.6	6.8	6.8	5.8	5.3	5.6	6.6
ALSI 40	0.5	-1.6	-1.6	4.9	12.3	13.8	9.9
INDI 25	1.8	-8.5	-8.5	8.1	20.4	21.1	16.4

RETIREMENT ANNUITIES TO 01/01/2017 (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	-3.8	-1.6	-1.6	1.0	2.3	2.3	-1.9	-0.3	-0.3	7.5	7.5	7.5	6.4	6.2	6.2	6.7
2 Years	-0.9	1.0	2.3	3.0	4.2	5.1	-0.3	2.0	3.1	8.6	8.9	9.5	5.9	5.8	5.6	5.9
3 Years	2.0	3.6	6.0	4.9	5.8	7.4	2.8	4.2	6.3	9.7	10.1	11.1	5.6	5.5	5.2	5.7
5 Years	8.0	8.9	12.3	8.7	9.2	11.5	7.5	8.2	11.0	11.5	11.7	12.5	5.1	5.0	4.6	5.7
8 Years	10.9	10.8	12.7	10.2	10.0	10.4	9.6	9.5	10.7	11.4	11.3	10.7	4.8	4.8	5.0	5.5
10 Years	9.8	9.6	8.0	9.4	9.3	8.6	8.9	8.7	7.9	11.0	11.0	10.8	5.0	5.1	5.6	6.2
15 Years	11.7	11.5	11.4	10.6	10.4	10.1	10.7	10.5	11.1	11.7	11.6	11.2	5.3	5.4	5.6	5.8
20 Years	11.8	11.9	11.6	10.6	10.7	10.7	-	-	-	11.3	11.3	11.0	5.7	5.7	6.6	5.8
25 Years	12.3	12.3	12.5	10.9	11.0	11.2	-	-	-	11.5	11.6	12.0	6.6	6.7	8.2	6.4
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.404% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/01/2017 (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	-4.4	-2.7	-2.7	-0.1	0.9	0.9	-2.3	-1.3	-1.3	6.0	6.0	6.0	3.7	3.6	3.6	6.7
2 Years	-1.6	0.2	1.6	1.9	3.0	3.9	-0.9	1.0	2.1	7.1	7.4	8.0	3.5	3.4	3.3	5.9
3 Years	1.3	2.8	5.2	3.8	4.6	6.1	1.9	3.1	5.1	8.2	8.6	9.6	3.3	3.2	3.0	5.7
5 Years	7.3	8.1	11.6	7.3	7.9	10.1	6.4	7.2	10.1	10.0	10.2	10.9	2.9	2.8	2.6	5.7
8 Years	10.3	10.2	12.0	8.8	8.7	9.0	8.7	8.6	9.7	10.0	9.9	9.3	2.7	2.8	3.0	5.5
10 Years	9.2	9.0	7.5	8.1	8.0	7.2	8.0	7.9	7.1	9.6	9.6	9.4	3.0	3.1	3.6	6.2
15 Years	10.9	10.7	10.4	9.2	9.0	8.9	9.6	9.5	10.1	10.4	10.4	10.1	3.5	3.5	4.1	5.8
20 Years	10.9	11.0	10.7	9.4	9.4	9.5	-	-	-	10.3	10.3	10.1	4.1	4.2	5.3	5.8
25 Years	11.3	11.4	11.5	9.6	9.7	9.9	-	-	-	10.5	10.5	11.0	5.1	5.2	6.6	6.4
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.228% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		4.60% p.a. (0.375% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	5.61% p.a. (0.456% p.m.)
	at the tax rate of 41%	7.67% p.a. (0.617% 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)	29 (1)	16 (2)	25 (0)	0 (0)	26 (26)	0 (0)	28 (1)	16 (2)	25 (0)	0 (0)	26 (26)
Ordinary Shares	100 (24)	63 (20)	74 (24)	66 (24)	100 (86)	74 (60)	100 (24)	65 (20)	74 (24)	66 (24)	100 (85)	74 (59)
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	16.73	Media
2.	British American Tobacco	3.87	Consumer Goods
3.	Sasol	3.82	Oil & Gas
4.	Standard Bank	3.73	Banks
5.	Steinhoff Int Holdings	3.58	Industrials
6.	Old Mutual	2.91	Life Insurance
7.	Anglo American Plc	2.90	Basic Recources
8.	MTN	2.72	Telecommunications
9.	Remgro	2.67	Industrials
10.	Barclays Africa	2.62	Banks

GLOBAL ECONOMIC OVERVIEW

- The rally in the US equity market that started shortly after the US Presidential election, continued into the opening two weeks of December. By the middle of the month the S&P 500 Index had gained 9% from the four-month low reached early in November. The rally was essentially driven by a reassessment of the macroeconomic implications of a Trump presidency. This revised view concluded that serious global growth-damaging trade restrictions were unlikely to materialise and that decent fiscal stimulus would lend solid support to the economy without forcing the US Federal Reserve (Fed) to tighten policy much more, if at all, than was expected before the election.
- Despite this revised view, at the conclusion of its meeting on 14 December, the US Fed cast considerable uncertainty over the outlook for monetary policy over the next year or two as their statement and press comments were considerably more hawkish than was expected. Over and above the widely expected 25 basis point hike in the federal funds rate, the individual Fed members' median forecast path for the federal funds rate changed from predicting two hikes of 25 basis points each in 2017, to three hikes. A further three hikes are currently foreseen in both 2018 and 2019. Over and above this, the Fed indicated that it did not take into account any changes to fiscal policy, as the outlook was still too uncertain. This implied that should fiscal policy indeed be eased notably, the Fed might become even more hawkish in 2017.
- However, there were additional reasons for markets to become more concerned over the outlook for US interest rates in 2017. Importantly, the economy grew at an upwardly revised, solid 3.5% annualised pace in the third quarter of 2016 and incoming data point to another solid expansion of about 2.5% in the fourth quarter. In addition, inflation has been drifting higher in recent months and wage settlements have also been rising as the labour market remains very tight.
- As greater uncertainty set in over the outlook for US interest rates, the US equity market took a breather towards month-end and closed little changed from the all-time peak reached at mid-month. Nevertheless, we continue to hold the view that the normalisation of US bond yields and of short-term interest rates in the US are actually positive signals for financial markets as they indicate that the long-awaited improvement in underlying economic conditions is finally materialising. The 10-year Treasury yield ended the year at 2.55%, the highest since September 2014 and sharply up from the multi-decade low of 1.4% recorded early in July 2016. (Bond prices generally fall when interest rates rise and bond yields move inversely to bond prices.)
- Elsewhere around the world incoming data has also been better recently – pointing to a more synchronised global recovery, even if it still relatively moderate.

We have for some time now been cautiously optimistic that global growth would improve moderately in 2017 as monetary policy stimulus continues to gain more traction. Not only is this starting to unfold, but the prospect of more expansionary fiscal policy in the US, and possibly elsewhere too, adds to our optimism over the outlook for the world in 2017. We also do not think that an aggressive counter monetary policy reaction will bring a premature end to the long-awaited, and much needed, global economic improvement.

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	-0.1	-4.6	-4.6	14.1	23.4	16.9	11.6
JP Morgan	-3.1	-10.4	-10.4	9.1	10.3	6.5	10.4
S&P 500	-0.6	-1.2	-1.2	19.0	27.4	20.1	14.1
FTSE 100	1.6	-11.9	-11.9	4.9	15.8	13.5	7.4
Nikkei Index	-0.6	-8.6	-8.6	11.3	20.4	12.0	8.2
Rand/Dollar	-2.5	-11.7	-11.7	9.3	11.1	5.0	6.8

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	-5.2	-6.5	-6.5	-4.5	-6.2	-6.2	-10.1	-8.3	-8.3	-9.4	-8.1	-8.1
2 Years	2.8	3.0	7.6	2.9	3.1	7.5	1.0	3.0	8.3	0.8	2.5	7.6
3 Years	6.4	6.5	9.6	6.3	6.2	9.0	5.6	6.4	9.4	5.1	5.6	8.4
5 Years	13.0	13.7	17.1	12.6	13.3	16.6	11.6	12.3	15.1	11.0	11.6	14.4
8 Years	14.1	13.6	12.1	13.7	13.1	11.4	12.7	12.2	10.5	12.2	11.7	10.0
10 Years	11.3	11.0	6.7	10.9	10.5	6.1	10.6	10.4	7.5	10.2	9.9	7.0
15 Years	9.4	9.1	4.7	8.7	8.4	3.5	9.4	9.2	4.9	8.7	8.5	4.2

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	43.1	53.8	-10.7	33.0	39.1	-6.0
Japan	3.5	7.8	-4.3	3.9	17.5	-13.7
Europe ex UK	18.1	15.1	3.0	30.1	27.6	2.5
United Kingdom	7.9	5.9	1.9	8.6	5.6	3.0
SE Asia & Canada	8.8	11.1	-2.3	19.5	8.3	11.2
South Africa	15.1	0.0	15.1	0.0	0.2	-0.2
Other	3.5	6.2	-2.7	4.9	1.7	3.3
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	0.5	0.0	0.1	0.2
Consumer Discretionary	8.4	12.1	4.3	0.3	0.8	1.8
Consumer Staples	7.6	9.5	3.8	0.3	0.7	1.6
Energy	5.0	7.3	2.5	0.2	0.5	1.1
Financials	17.2	18.7	8.7	0.7	1.6	3.7
Healthcare	10.5	11.1	5.4	0.4	1.0	2.2
Industrials	14.0	10.6	7.1	0.6	1.3	3.0
Information Technology	12.3	15.5	6.2	0.5	1.1	2.6
Materials	5.6	5.3	2.9	0.2	0.5	1.2
Other	0.0	0.0	0.0	0.0	0.0	0.0
Telecoms Services	1.3	3.6	0.7	0.1	0.1	0.3
Utilities	0.8	3.2	0.4	0.0	0.1	0.2
SA Rand Hedge	15.1	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME		SECTOR
1.	JPMorgan Chase & Co	Financials
2.	CRH Plc	Industrials
3.	Oracle Corporation	Information Technology
4.	Citigroup Inc	Healthcare
5.	Alphabet Inc	Information Technology
6.	Moody's Corp	Financials
7.	Bank Of America	Banks
8.	Spirit Aerosystems Holdings	Industrials
9.	Pepsico Inc	Consumer Goods
10.	Taiwan Semiconductor	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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