FLEXIPORTFOLIO

PERFORMANCE REPORT

1 JANUARY 2018

SOUTH AFRICAN ECONOMIC REVIEW

Within a broad negative trend, induced by negative political sentiment over the past year and longer, the South African economy experienced large swings during the last few months of 2017.

In October, the shocking Medium-Term Budget Policy Statement (MTBPS) that effectively put paid to fiscal consolidation led to Standard & Poor's (S&P) downgrading South Africa's local government bonds to sub-investment grade. While Moody's kept its investment grade rating unchanged, it placed South Africa on credit watch – meaning a downgrade decision within three months could still lead to SA's expulsion from Citigroup's World Government Bond Index – an outcome that could trigger large scale capital outflows and a severe hit on the rand.

In November, the worst fears faded a bit, causing the rand to retrace quite sharply to around R13.50/US$ by early December – from above the R14.50/US$ level at one point after the MTBPS. Similarly, bond yields eased back to below 9.20% (from a post-MTBPS level of around 9.50%), although still well above the 8.5% before the medium-term budget review. Better growth numbers and some retracement from the bad MTBPS seemed to be the major reasons behind these moves.

Then came the widely anticipated ANC elective conference in December. Despite some delays and worries around the voting process, markets took heart in the election of Cyril Ramaphosa as party president. Even before the conference, markets began to partly price in the election of Mr Ramaphosa. The rand moved from R13.50/US$ early in December to R13.22/US$ on the eve of the conference and then to R12.71/US$ by the end of the conference. The currency strengthened further to R12.38/US$ at the end of 2017.

Despite continued uncertainty around the ability of Mr Ramaphosa to unite the ANC behind him – the top six leaders and the National Executive Committee (NEC) seems fairly evenly split between backers of the new ANC president and those that supported his opponent – markets seem to think that he will be able to gradually bring the NEC around and that the SA economy will benefit from his leadership.

While we agree that the ANC's elective conference was probably a divide between "bad politics" and "better politics" and will likely lead to, at the very least, a temporary improvement in confidence, we are also mindful of the many challenges that still abound.

Clearly, the new ANC president presents a break with the past, as Mr Ramaphosa has strong business experience and was heavily involved in the creation of the acclaimed National Development Plan (NDP). Thus, it is more likely now that the ANC will return to their more pragmatic policies. Within such an environment – coupled with likely sustained improvement in business and consumer confidence – we do expect better economic growth for 2018. There might even be some upside to our already above-consensus 1.5% GDP growth forecast for 2018. This is a decent uplift from the 0.3% GDP growth in 2016 and the expected 0.9% growth in 2017.

However, we remain cautious of becoming too optimistic. Although he is now the leader of the governing party, Mr Ramaphosa is not yet president of the country as President Zuma's term lasts until the 2019 elections – unless the new ANC leadership decides to replace President Zuma with Mr Ramaphosa. Crucially, the February 2018 budget also needs to follow through in terms of strong fiscal consolidation. It thus remains a risk that Moody's might still downgrade SA's local currency bonds to non-investment grade.

However, should politics continue to improve and the budget marks a return to fiscal consolidation, Moody's might be willing to postpone a downgrade and the rand could hold on to its gains. Under such circumstances, inflation is likely to remain low – and possibly lower that the South African Reserve Bank's (SARB) forecast. Our own inflation forecast of 4.8% average for 2018 – already below consensus – could turn out to be conservative. This, combined with tighter fiscal policy, could lead to circumstances where the SARB could consider restarting its cutting cycle.

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	-0.3	21.0	21.0	9.3	11.9	13.3	10.7
JSE Fin & Ind	-0.3	21.9	21.9	9.9	15.6	18.5	15.0
JSE Resources	-0.5	17.9	17.9	-0.1	-2.9	-0.9	-1.0
ALSI 40	-1.3	23.1	23.1	9.2	11.8	12.9	10.3
All Bond	5.7	10.2	10.2	6.9	6.3	8.8	8.6
Cash	0.6	7.6	7.6	7.1	6.5	6.3	7.1

RETIREMENT ANNUITIES TO 01/01/2018 (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	11.1	12.4	12.4	7.7	8.7	8.7	13.7	12.8	12.8	11.0	11.0	11.0	6.2	6.3	6.3	4.6
2 Years	7.6	7.5	5.1	6.4	6.5	5.5	8.9	8.2	6.0	10.3	10.1	9.7	6.3	6.2	6.2	5.6
3 Years	6.0	6.5	5.6	6.0	6.4	6.3	6.7	7.2	6.3	10.2	10.2	10.3	6.1	6.0	5.8	5.3
5 Years	7.7	8.5	10.9	7.5	8.1	9.9	7.9	8.5	10.1	11.2	11.4	12.6	5.6	5.5	5.0	5.4
8 Years	10.5	10.5	11.3	9.6	9.6	10.2	9.8	9.8	10.2	11.7	11.6	11.3	5.1	5.1	4.8	5.3
10 Years	10.8	10.4	7.8	9.7	9.4	8.0	9.9	9.6	7.8	11.3	11.2	10.4	5.1	5.2	5.5	5.9
15 Years	11.7	11.6	13.1	10.3	10.3	11.4	10.8	10.6	12.1	11.7	11.8	11.9	5.4	5.4	5.7	5.6
20 Years	12.0	12.0	12.2	10.5	10.5	10.8	-	-	-	11.5	11.4	11.0	5.6	5.6	6.2	6.2
25 Years	12.0	12.2	13.4	10.7	10.8	11.8	-	-	-	11.5	11.5	11.9	6.4	6.5	7.8	6.6
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.482% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/01/2018 (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	8.5	9.5	9.5	6.7	7.6	7.6	11.0	10.0	10.0	9.5	9.5	9.5	3.6	3.6	3.6	4.6
2 Years	5.4	5.3	3.2	5.3	5.3	4.2	6.8	6.1	4.2	8.8	8.6	8.2	3.6	3.6	3.6	5.6
3 Years	4.2	4.7	4.2	4.9	5.2	5.2	5.0	5.3	4.6	8.7	8.7	8.8	3.5	3.5	3.4	5.3
5 Years	6.3	7.1	9.9	6.3	6.8	8.7	6.3	6.9	8.9	9.7	9.9	11.1	3.3	3.2	2.8	5.4
8 Years	9.5	9.5	10.6	8.3	8.3	8.9	8.5	8.5	9.2	10.2	10.2	9.9	2.9	2.9	2.7	5.3
10 Years	9.8	9.4	7.0	8.3	8.1	6.7	8.7	8.4	6.8	9.9	9.8	9.0	3.0	3.0	3.5	5.9
15 Years	10.7	10.6	12.0	9.0	8.9	10.1	9.5	9.4	11.0	10.4	10.4	10.7	3.4	3.5	4.0	5.6
20 Years	10.9	10.9	11.2	9.2	9.3	9.7	-	-	-	10.3	10.3	10.1	3.9	4.0	4.9	6.2
25 Years	10.9	11.1	12.3	9.4	9.5	10.5	-	-	-	10.4	10.4	10.8	4.8	4.9	6.2	6.6
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.277% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		4.90% p.a. (0.399% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	5.98% p.a. (0.485% p.m.)
	at the tax rate of 41%	8.31% p.a. (0.667% 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 (3)	15 (0)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (25)	66 (30)	75 (27)	66 (24)	100 (85)	73 (58)	100 (25)	67 (30)	75 (27)	66 (24)	100 (86)	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	12.8	Media
2.	British American Tobacco	4.9	Consumer Goods
3.	Sasol	4.7	Oil & Gas
4.	Standard Bank	4.6	Banks
5.	Barclays Africa Ltd	3.7	Banks
6.	FirstRand	3.3	Banks
7.	Old Mutual	3.1	Financials
8.	MTN	3.1	Telecommunications
9.	Remgro	2.5	Financials
10.	Anglo American plc	2.4	Basic Resources

GLOBAL ECONOMIC OVERVIEW

As we enter 2018, looking back at all the events, concerns and market moves in 2017 makes for interesting reading, as the year certainly had no lack of surprises.

As 2017 kicked off, the global economy was entering its eighth consecutive year of recovery. Even though it has been sub-par in strength compared with past periods of global expansion, there were growing concerns over the performance of the world economy in 2017 – especially against the background of the US Federal Reserve (Fed) clearly signalling its intention to tighten policy further over the course of the year, the threat to global trade from the Trump Administration, concerns over the outlook for emerging markets emanating from Fed tightening and possible renewed strength of the US dollar, and the risk of a surge in wage growth in the US as the unemployment rate dropped to cyclical lows. In the event, the worst fears over global growth not only failed to materialise, but global growth actually accelerated and broadened, turning into the best year for the global economy since 2014 and, even more importantly, growth projections for 2018 are now equally rosy.

Importantly, the feared negative impacts from further US Fed tightening and the possibility of a stronger US dollar failed to materialise, as did the Trump Administration's threats to global trade. In fact, the US dollar weakened over the course of 2017, easing pressures on the developing world in general, while the Fed's tightening also failed to cause wider damage, as sustained downside surprises in US inflation, despite an ever-tightening labour market, kept Fed rate hikes within already well-signalled expectations (three 25 basis point hikes effected in 2017). With global monetary policy settings thus remaining very supportive amidst a general lack of inflation pressures, the developing world became a magnet for capital flows, supporting overall economic conditions and allowing them to join the global expansion on a more sure-footed basis.

Apart from upside global growth surprises and a lack of outright policy shocks, the sustained deflationary nature of the world economy, despite it being in its eighth year of recovery, was perhaps one of the key macroeconomic surprises of 2017. Key here was the almost unbelievable lack of upward pressure on wage growth in the US, despite unemployment rate plummeting to multi-decade lows. The broad conclusion of both analysts and policy makers seems to be that the intensity of global deflationary forces, including on wage growth, have not only been grossly underestimated, but may well turn out to be a more structural phenomenon than was previously thought. So, even though inflation is expected to rise cyclically in 2018, inflation is not seen as a major threat, so adding to the more upbeat view on the world economy in 2018.

Geopolitics was certainly also not a sleeping giant in 2017 either. Tension on the Korean peninsula ratcheted up dramatically and remains a threat as we enter 2018, although trade tensions between the US and China appeared to have thawed as the year progressed.

The global environment described above – namely, stronger and broader growth, low inflation and predicable policy normalisation by the US Fed – kept markets on a roll, with equity markets across the globe performing generally very well, despite perennial concerns over a host of issues.

Looking into 2018, consensus views call for an even better growth year in 2018 (albeit only moderately better than in 2017), a moderate rise in global inflation (although not enough to trigger a more aggressive policy response from what is currently expected to be another year of very gradual policy normalisation) and another year of good performance from investment markets. While it is difficult to argue with this broad view, we are sure that 2018 will see its own share of concerns. Indeed, we would list the key factors to watch for a possible derailment of the good global economic and market outlook for 2018 to be the risk of a stronger rise in wage growth in the US and/or a stronger rise in US inflation – both of which could cause the US Fed to tighten more aggressively and triggering a renewed rally of the US dollar. Another concern would be that the Trump Administration turns its focus back to what it sees as an unfair global trade dispensation towards the US, an outcome that could have very negative consequences for the world economy. While geopolitical shocks are largely unpredictable, the tensions on the Korean peninsula need to be monitored closely too.

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	-8.0	11.4	11.4	12.4	21.1	17.9	12.1
JP Morgan	-9.1	-3.3	-3.3	4.2	8.2	8.9	9.3
S&P 500	-8.2	10.3	10.3	14.0	24.9	21.6	15.0
FTSE 100	-4.8	11.0	11.0	6.9	13.8	13.1	7.9
Nikkei Index	-9.7	11.6	11.6	14.1	19.7	14.7	10.3
Rand/Dollar	-9.3	-9.5	-9.5	2.3	7.8	6.7	6.1

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	6.7	12.9	12.9	4.9	10.6	10.6	2.2	8.3	8.3	1.6	6.7	6.7
2 Years	6.3	6.0	2.7	5.0	4.7	1.8	1.6	2.5	-0.4	1.0	1.6	-1.0
3 Years	7.5	7.8	9.3	6.4	6.7	8.5	4.2	5.5	8.3	3.4	4.6	7.3
5 Years	10.7	11.8	16.0	9.7	10.9	15.2	8.5	9.7	13.7	7.6	8.8	13.0
8 Years	14.0	13.9	13.4	13.2	13.1	12.8	11.9	12.0	11.8	11.2	11.2	11.3
10 Years	12.7	12.2	7.5	11.9	11.4	6.8	11.0	10.7	7.8	10.3	10.1	7.3
15 Years	10.3	10.2	8.6	9.4	9.3	7.6	9.8	9.7	8.4	9.0	8.9	7.5

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	40.5	52.2	-11.7	36.3	38.6	-2.3
Japan	3.8	7.9	-4.1	3.5	16.7	-13.2
Europe ex UK	20.4	15.6	4.8	31.8	28.7	3.1
United Kingdom	7.1	5.8	1.2	8.9	5.6	3.2
SE Asia & Canada	9.8	12.2	-2.4	14.9	8.6	6.3
South Africa	14.5	0.0	14.5	0.0	0.0	0.0
Other	3.9	6.3	-2.4	4.7	1.8	2.9
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	3.6	0.0	1.7	0.2	0.3	0.9
Consumer Discretionary	8.9	12.0	4.2	0.4	0.7	2.1
Consumer Staples	7.1	8.7	3.4	0.3	0.6	1.7
Energy	5.0	6.4	2.4	0.2	0.4	1.2
Financials	17.0	18.7	8.1	0.8	1.4	4.1
Healthcare	10.4	10.7	4.9	0.5	0.9	2.5
Industrials	10.1	10.9	4.8	0.5	0.8	2.4
Information Technology	13.8	18.1	6.5	0.6	1.1	3.3
Materials	5.0	5.5	2.4	0.2	0.4	1.2
Other	0.4	0.0	0.2	0.0	0.0	0.1
Telecoms Services	0.6	3.0	0.3	0.0	0.0	0.1
Utilities	2.1	2.9	1.0	0.1	0.2	0.5
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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