FLEXIPORTFOLIO

PERFORMANCE REPORT

1 JULY 2015

SOUTH AFRICAN ECONOMIC REVIEW

- News on the economic front was mixed during June, although news flow was skewed to the negative. On the positive side, data releases by the South African Reserve Bank (SARB) indicated that the current account deficit narrowed further from 5.1% of GDP in the fourth quarter of 2014 to 4.8% in the first quarter of 2015. This was a greater improvement than was generally expected, but the deficit remains large and a further contraction will be required in the months to come to reduce pressure on the rand.
- A further important positive was that rating agencies, Fitch and S&P, put out scheduled reviews of South Africa's ratings in June and both kept their respective ratings unchanged. However, the ratings reviews were not without warnings. Specific issues South Africa was cautioned to pay urgent attention to was continued fiscal consolidation and effecting growth-enhancing economic reforms. Failing on these fronts will eventually result in ratings downgrades.
- On the negative front, inflation rose to 5.5% in May, up from the cyclical low of 3.9% recorded in February this year. Moreover, inflation is set to rise further in the months to come and is expected to breach the upper end if SARB's 3% - 6% target range towards year end. We also experienced a considerable amount of load shedding by Eskom in June, which will negatively affect the already struggling production side of the economy. Indeed, first-quarter data released by the SARB over the past month indicates that the economy continues to struggle on all fronts as production, fixed investment and consumer spending remain relatively depressed. As a result, growth forecasts for 2015 continue to be revised downwards, with consensus forecasts now at about 2%, representing the fourth successive year of growth disappointment.
- A further key development over the past month, that can be viewed both positively and negatively, is that the government reached a three-year wage deal with public servants. The positive side of the deal is that it was reached without a strike by public sector unions, but the negative side is that it will be very expensive to National Treasury. The deal will cost government about R66 billion extra over the next three years, fully absorbing the R65 billion "contingency reserve" Treasury has set aside in the last budget for unforeseen expenses. This leaves Treasury with no room to manoeuvre within the set budget deficit targets in case of some unforeseen expenses or underperformance on the tax revenue side.
- Against the background sketched above, it is no surprise that the SARB continues to make hawkish comments, warning that interest rates will have to rise in the near future to counteract mounting inflation pressures. The past month indeed gave the SARB yet more reason to maintain its hawkish stance. Apart from the worsening short-term inflation outlook, inflation expectations remain anchored at the top end of the inflation target range, government's wage deal sets a bad example for other upcoming wage negotiations in the private sector and the rand remains at risk from the imminent policy tightening by the US Fed. Based on these factors, chances are high that the SARB will lift rates before the end of the year, possibly as early as the upcoming MPC meeting in July.

Rising inflation, above-inflation wage settlements and a still vulnerable rand has raised the chances that the SARB will raise rates before the end of the year, possibly already as early as the upcoming July MPC meeting

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	-0.8	5.6	4.8	19.0	18.0	11.0	17.1
JSE Fin & Ind	0.3	7.7	15.9	27.0	25.8	16.4	20.6
JSE All Gold	-8.1	-10.4	-28.8	-23.2	-15.8	-9.5	-4.4
All Bond	-0.2	1.5	8.2	6.6	9.1	8.8	8.2
Total Cash	0.5	2.6	5.2	4.8	4.9	6.5	6.6
ALSI 40	-0.2	6.4	3.4	19.4	18.0	10.7	16.8
INDI 25	0.9	8.1	14.7	30.4	29.2	19.5	23.3

RETIREMENT ANNUITIES TO 01/07/2015 (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	8.1	8.7	8.7	8.5	9.3	9.3	11.1	11.1	11.1	9.4	10.9	10.9	4.9	4.9	4.9	4.7
2 Years	12.8	16.2	19.4	11.3	13.4	15.2	13.0	15.0	16.7	11.7	12.7	13.4	4.6	4.5	4.3	5.7
3 Years	16.0	18.1	19.7	13.3	14.7	15.8	14.6	16.1	17.1	13.0	13.3	13.8	4.3	4.3	4.1	5.6
5 Years	16.4	17.2	16.7	13.6	14.1	13.6	14.5	15.0	14.2	12.8	12.6	11.8	4.1	4.1	4.1	5.5
8 Years	13.9	13.5	8.7	11.8	11.7	8.7	12.4	12.2	8.6	11.4	11.3	10.6	4.6	4.7	5.4	6.1
10 Years	12.7	13.1	13.8	11.1	11.3	11.7	11.5	12.0	12.2	11.6	11.7	12.6	5.0	5.0	5.5	6.1
15 Years	13.8	13.9	13.1	11.7	11.8	11.4	12.7	12.9	12.8	11.8	11.8	11.4	5.3	5.3	5.6	5.7
20 Years	13.2	13.0	12.7	11.4	11.4	11.4	-	-	-	11.4	11.4	11.5	5.9	6.0	7.2	6.0
25 Years	13.5	13.3	13.1	11.7	11.6	11.7	-	-	-	11.8	11.9	12.5	-	-	-	7.0
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.397% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/07/2015 (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	7.4	7.9	7.9	7.2	8.1	8.1	9.4	9.3	9.3	7.9	9.4	9.4	2.8	2.8	2.8	4.7
2 Years	11.8	15.2	18.4	9.8	11.6	13.1	11.5	13.9	15.9	10.2	11.2	11.9	2.6	2.5	2.4	5.7
3 Years	15.2	17.3	18.9	11.7	13.0	14.1	13.4	14.9	15.7	11.5	11.8	12.3	2.4	2.4	2.2	5.6
5 Years	15.8	16.5	16.2	12.1	12.5	12.1	13.5	14.1	13.5	11.3	11.1	10.4	2.2	2.3	2.2	5.5
8 Years	13.3	12.9	8.0	10.3	10.2	7.3	11.5	11.3	7.8	10.0	10.0	9.2	2.7	2.8	3.6	6.1
10 Years	12.1	12.5	13.1	9.6	9.9	10.3	10.6	11.0	11.2	10.2	10.4	11.4	3.1	3.2	3.7	6.1
15 Years	12.9	13.0	12.1	10.4	10.5	10.3	11.7	11.8	11.7	10.6	10.6	10.5	3.7	3.7	4.4	5.7
20 Years	12.2	12.1	11.7	10.2	10.1	10.1	-	-	-	10.5	10.5	10.6	4.5	4.6	5.9	6.0
25 Years	12.5	12.3	12.0	10.4	10.3	10.2	-	-	-	10.8	10.8	11.4	-	-	-	7.0
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.233% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		3.60% p.a. (0.295% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	4.39% p.a. (0.359% p.m.)
	at the tax rate of 40%	6.00% p.a. (0.487% 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)	25 (1)	27 (1)	25 (0)	0 (0)	27 (27)	1 (0)	24 (0)	27 (1)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (25)	66 (28)	66 (23)	66 (24)	100 (86)	73 (58)	99 (25)	68 (31)	66 (23)	66 (24)	100 (85)	73 (58)
Property	0	7	7	7	0	0	0	6	7	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	12.5	Media
2.	MTN	6.3	Telecommunications
3.	Steinhoff International Holdings Ltd	4.3	Industrials
4.	British American Tobacco	4.2	Consumer Goods
5.	FirstRand	4.1	Banks
6.	Sasol	4.1	Oil & Gas
7.	Standard Bank	3.6	Banks
8.	Remgro	3.0	Consumer Goods
9.	SABMiller Plc	2.9	Consumer Goods
10.	Old Mutual	2.6	Life Insurance

GLOBAL ECONOMIC OVERVIEW

- Over the past month, investors' focus was on two key issues: escalating tensions and uncertainties around Greece's debt situation and the continued debate about the timing, speed and extent of policy tightening by the US Federal Reserve (the Fed).
- These two factors, particularly the situation in Greece, negatively affected financial markets globally. The US S&P500 ended June almost 2% lower, with other markets around the world following suit. But the sell-off in June was not limited to equity markets as bond markets also experienced a sharp sell-off and a consequent sharp rise in bond yields.
- As far as the Fed is concerned, incoming high frequency data indicates that the US economy gathered considerable momentum in the second quarter and it is estimated that growth accelerated to about 3% annualised, more than offsetting the 0.7% contraction in the first quarter. More important, especially for the Fed, is that the labour market continued to tighten as job growth accelerated, with wage growth showing more signs of life and jobless claims remaining at multi-year lows. As a result, investors concluded that chances of the Fed raising rates in September this year are high. It will be the first rate hike by the Fed since June 2006. The fact that Fed members downscaled their estimates at the June Federal Open Market Committee (FOMC) meeting about the speed and extent rates will rise over the next few years, did little to improve market sentiment.
- The big focus over the past month, though, was Greece and, more specifically, negotiations around the release of the last tranche under the current bailout programme due to expire at the end of June. While Greece's EU creditors were pushing hard for more economic reforms and austerity around government spending, Prime Minister Alexis Tsipras, leader of the Syriza party, was pushing for less austerity, as per their election promises. At stake was the ability of Greece to repay some €1.6 billion to the International Monetary Fund (IMF) by the end of June, with further payments of some €7 billion due to the European Central Bank (ECB) during the course of July and August. Towards the end of June, investors were becoming optimistic that a deal would be reached, but at month-end the Greek prime minister made a shock announcement that a referendum on the issue would be held on 5 July. This put paid to a deal being reached, Greece missed their scheduled payment to the IMF, the ECB froze liquidity assistance to Greek banks, forcing Greece to shut their banks and stock market, and implement capital controls. The outcome of the Greek referendum will be deciding as to Greece's future membership of the currency union.
- On the economic growth front, apart from the US, there are growing signs that Eurozone growth is gathering momentum and, even more encouragingly, that the acceleration is spreading across a broader front within the 19-member single-currency block. However, against this, economic activity in China continues to slow, so overall global growth remains relatively modest. We remain of the opinion that overall global growth will at least match last year's 2.7% and should be marginally better.
- In the meantime, global inflation remains subdued, with low oil and other commodity prices, soggy demand and the efforts by many countries to gain a competitive advantage over their competitors via currency depreciation keeping a strong lid on consumer and producer prices globally. With these conditions likely to persist for some time, it is hard to see inflation becoming a threat any time soon.

Greece dominated the past month's events and their future in the currency union is heavily dependent on the outcome of the referendum on 5 July. In the meantime, the US Fed seems set to raise rates in September, the first US interest rate increase in more than nine years.

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	-2.5	8.0	16.3	31.1	24.7	11.0	13.6
JP Morgan	-0.6	1.3	5.6	11.6	11.1	11.3	9.7
S&P 500	-2.2	6.2	22.6	33.8	28.6	13.6	14.3
FTSE 100	-3.8	7.3	5.2	24.7	21.4	7.6	11.3
Nikkei Index	-0.4	19.2	26.1	29.5	19.8	8.6	11.1
Rand/Dollar	-0.2	4.9	14.1	14.1	9.6	7.0	6.2

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	18.3	14.9	14.9	17.3	14.2	14.2	14.2	11.4	11.4	13.0	10.5	10.5
2 Years	17.5	19.5	21.5	16.0	18.2	19.9	13.9	15.6	17.4	12.3	14.5	16.2
3 Years	21.2	23.0	25.5	20.3	21.8	24.5	17.1	18.5	20.7	16.2	17.5	19.9
5 Years	20.8	20.7	18.7	20.2	20.0	18.2	17.5	17.5	15.9	16.9	16.9	15.6
8 Years	14.6	13.8	6.2	14.0	13.2	5.5	12.8	12.3	7.1	12.3	11.8	6.6
10 Years	12.1	11.8	9.6	11.2	11.0	8.4	11.1	11.0	9.9	10.6	10.5	9.1
15 Years	9.5	9.3	5.8	8.6	8.3	4.7	9.2	9.0	6.3	8.5	8.3	5.6

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.3	15.5	-4.1	19.8	38.1	-18.3
Japan	9.2	7.9	1.2	5.2	15.8	-10.6
Europe ex UK	17.0	15.3	1.7	34.7	29.0	5.7
United Kingdom	29.5	38.2	-8.7	11.7	6.5	5.2
SE Asia & Canada	9.6	7.9	1.6	19.8	8.4	11.4
South Africa	14.4	0.0	14.4	0.0	0.3	-0.3
Other	9.1	15.2	-6.1	8.7	2.0	6.8
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	1.4	0.0	0.2	0.1	0.5	0.3
Consumer Discretionary	10.4	12.7	1.4	1.1	3.6	2.1
Consumer Staples	5.3	9.5	0.7	0.6	1.8	1.0
Energy	4.3	7.4	0.5	0.5	1.5	0.8
Financials	19.1	21.9	2.6	2.1	6.5	3.8
Healthcare	10.8	12.3	1.4	1.2	3.8	2.2
Industrials	12.5	10.3	1.7	1.3	4.3	2.5
Information Technology	12.9	13.8	1.7	1.4	4.5	2.6
Materials	4.7	5.3	0.6	0.5	1.6	0.9
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.4	3.7	0.3	0.3	0.8	0.5
Utilities	1.6	3.1	0.2	0.2	0.5	0.3
SA Rand Hedge	14.4	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME		SECTOR
1.	Oracle Corporation	Information Technology
2.	Wells Fargo & Co	Financials
3.	China Mobile Ltd	Telecommunications
4.	JPMorgan Chase & Co	Financials
5.	Taiwan Semiconductor	Industrials
6.	DBS Group Holdings Ltd	Telecommunications
7.	Delphi Automotive plc	Industrials
8.	Citigroup Inc	Banks
9.	Medtronic plc	Healthcare
10.	Novartis AG	Pharmaceuticals

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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