FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 JULY 2016

SOUTH AFRICAN ECONOMIC REVIEW

- South Africa will not escape any negative fall out for the world economy as a result of the UK's decision to leave the EU. Still, while the local equity market tracked overseas markets in the aftermath of the decision, the initial reaction of the rand to the news was rather surprising given consensus expectations of a sharp weakening in the event of a 'leave' decision by UK voters. While the rand did weaken initially, it was not only far less than expected, but it quickly recovered those losses. Stronger precious metal prices and the attractiveness of SA's relatively high capital market interest rates were probably key to the currency's rather surprising firmness. As a result, the rand ended July at R14.70, only moderately weaker than the R14.55 it traded at the day before the British vote.
- During June, two pieces of promising local economic news came through. First, inflation surprised on the downside, easing to 6.1% in May, from 6.2% in April and a consensus expectation of 6.4%. A decline in food inflation from 11.3% to 10.8% was largely responsible for the downside overall inflation surprise. While we expect inflation to drift higher again in coming months to around 7% by year-end, this will largely be driven by base effects, as the second half of 2015 saw a number of very low monthly inflation readings due to successive cuts in the petrol price, an occurrence that will not be repeated this year.
- Still, with the rand seemingly more stable; the oil price stuck around $50 per barrel; grain prices moving sideways, albeit at still elevated levels; a significant tightening in monetary policy by the SA Reserve Bank early in 2016 and weak domestic demand, we are confident that the peak in inflation will be reached towards the end of 2016.
- The second piece of good news was the large trade surplus of some R18bn in May. Following on April's small surplus, and assuming no sharp reversal in June, the overall trade balance should shrink materially in the second quarter of 2016. This should lead to a notably smaller overall current account deficit (ie taking into account the deficit on the services and income accounts) compared to the deficit of 5.0% of GDP in the first quarter. A narrower current account deficit is in our view a key, although not necessarily a sufficient, requirement for the stabilisation of the rand over the medium term. While the latest trade numbers are indeed very encouraging, more good trade numbers are needed to confirm that the deficit is finally narrowing to more sustainable levels.
- The past month saw little new news on the state of the economy, so the overall picture of an economy on the brink of a full-blown recession remains very much in place. While we still think a technical recession, or two successive quarters of negative overall GDP growth, will be avoided, it is difficult to see the performance of the economy improving much over the remainder of the year. Importantly, the squeeze on consumers continues relentlessly, depressed business confidence has caused business investment to start to contract in real terms from the middle of last year and government is not lending much support to domestic demand, given the fiscal consolidation process currently under way.
- An important lesson from Brexit is that the now increased downside risks to the world economy means that SA cannot rely on a global growth spurt to pull us out of our own slow growth rut. Growth- and confidence-enhancing broad macro-economic reforms remain a key, but so far absent, ingredient to a brighter local economic outlook over the medium- to longer-term.
- The bottom line of all of the above is that prospects for 2016 still look pretty bleak, although rising hope of a current account adjustment and the peak in the inflation cycle coming into sight implies that the Reserve Bank is now likely to hold interest rates at current levels for an extended period of time. In fact, should the rand remain around current levels and the inflation environment play out as described above, we think we may also have reached the peak in the local interest rate cycle, even though rates are unlikely to be cut any time soon.

The impact of the UK's decision to leave the EU will also be felt in SA. However, two pieces of good news on the local front may well imply that interest rates are now at the peak in the cycle, although a lowering of rates is still a long way off.

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	-3.0	4.3	3.8	13.0	13.8	10.2	12.6
JSE Fin & Ind	-3.1	0.5	4.8	16.6	21.0	19.0	17.6
JSE All Gold	23.7	124.5	133.3	25.4	1.1	0.9	-2.2
All Bond	4.0	11.2	5.2	6.3	7.9	9.9	8.4
Total Cash	0.0	2.7	5.5	5.2	5.0	5.9	6.6
ALSI 40	-4.1	1.6	2.6	12.8	13.4	9.1	12.0
INDI 25	-4.0	-0.3	8.7	18.2	23.7	20.8	20.8

RETIREMENT ANNUITIES TO 01/07/2016 (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	1.7	1.2	1.2	4.2	4.7	4.7	0.8	1.1	1.1	8.6	9.5	9.5	5.7	5.5	5.5	6.3
2 Years	3.1	3.7	4.9	5.6	6.2	7.0	3.6	4.4	6.0	10.0	10.7	11.2	5.4	5.3	5.2	5.5
3 Years	6.5	8.7	13.0	7.7	9.1	11.6	6.4	8.1	11.2	11.2	11.8	12.8	5.1	5.0	4.7	5.9
5 Years	11.5	12.3	13.5	10.8	11.3	12.1	10.2	10.8	11.8	12.5	12.5	12.5	4.7	4.6	4.3	5.7
8 Years	12.6	12.3	9.2	11.1	11.1	9.2	10.9	10.9	9.1	11.7	11.6	10.6	4.6	4.7	5.2	5.6
10 Years	10.9	10.9	9.9	10.1	10.2	9.4	9.8	10.1	10.0	11.3	11.4	11.6	4.9	5.0	5.5	6.2
15 Years	12.7	12.8	12.3	11.1	11.1	10.7	11.5	11.7	11.8	11.9	11.8	11.4	5.3	5.3	5.6	5.7
20 Years	12.4	12.2	11.7	11.0	10.9	10.7	-	-	-	11.5	11.4	11.2	5.7	5.8	6.8	5.9
25 Years	12.8	12.7	13.1	11.2	11.2	11.8	-	-	-	11.7	11.7	12.2	6.8	6.9	8.4	6.7
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.492% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/07/2016 (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	0.0	0.5	0.5	3.0	3.8	3.8	-0.8	-0.1	-0.1	7.1	8.0	8.0	3.4	3.3	3.3	6.3
2 Years	2.1	2.9	4.1	4.4	5.2	5.9	2.1	3.0	4.5	8.5	9.2	9.7	3.2	3.1	3.1	5.5
3 Years	5.5	7.8	12.1	6.4	7.7	9.9	5.0	6.9	10.3	9.7	10.3	11.3	3.0	2.9	2.7	5.9
5 Years	10.7	11.5	12.8	9.4	9.9	10.7	9.0	9.8	11.1	11.0	11.0	11.1	2.7	2.6	2.4	5.7
8 Years	11.9	11.6	8.5	9.7	9.6	7.6	9.9	9.9	8.1	10.3	10.2	9.3	2.7	2.8	3.3	5.6
10 Years	10.3	10.3	9.3	8.7	8.8	8.0	8.9	9.1	8.7	10.0	10.0	10.3	3.0	3.1	3.7	6.2
15 Years	11.8	11.8	11.3	9.7	9.8	9.4	10.4	10.6	10.8	10.6	10.6	10.3	3.5	3.6	4.1	5.7
20 Years	11.5	11.3	10.7	9.7	9.6	9.5	-	-	-	10.4	10.4	10.3	4.2	4.3	5.5	5.9
25 Years	11.8	11.7	12.0	9.9	9.9	10.5	-	-	-	10.7	10.7	11.1	5.3	5.4	6.8	6.7
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.299% 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 40%	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)	28 (1)	22 (0)	25 (0)	0 (0)	27 (27)	0 (0)	24 (0)	22 (0)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (24)	63 (28)	68 (23)	66 (24)	100 (85)	73 (57)	100 (23)	67 (32)	68 (23)	66 (24)	100 (85)	73 (57)
Property	0	7	10	7	0	0	0	7	10	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	16.9	Media
2.	British American Tobacco	5.3	Consumer Goods
3.	Steinhoff International Holdings	4.1	Industrials
4.	MTN	4.0	Telecommunications
5.	Sasol	3.9	Oil & Gas
6.	Old Mutual	2.9	Life Insurance
7.	Remgro	2.9	Industrials
8.	SABMiller plc	2.5	Consumer Goods
9.	FirstRand	2.5	Banks
10.	Standard Bank	2.5	Banks

GLOBAL ECONOMIC OVERVIEW

- June will be remembered for the month in which the British public unexpectedly voted to leave the European Union (EU), after having been a member for 43 years. Equity markets, already facing slow economic growth, earnings pressures and the prospect of further interest rate hikes by the US Federal Reserve, initially reacted very negatively as the UK's decision will not only have an overall negative impact on the world economy over the next year or more, but it added to global macro-economic uncertainties and again raised concerns over more countries leaving the EU, or even the Eurozone (EU members that use the Euro as their currency).
- Following the initial sharp sell-off after the Brexit decision, markets quickly recovered on the realisation that the UK's exit will likely be a drawn out process and that the inherent downside risks it poses to the world economy would more than likely result in more monetary stimulus from the key global central banks. Most importantly, it probably implies that the US Fed will postpone the next rate increase to September at the earliest, or more likely, to the scheduled December meeting.
- Following the decision, considerable political turmoil ensued in the UK. The exit process, which only begins when the British Parliament triggers the so-called Article 50 exit clause, is unlikely to happen before late in the year. From the moment of notifying the EU of the decision to leave, the exit negotiations can run over a period of a maximum two years.
- The full impact on the world economy remains uncertain and will likely be shaped by whether the UK's decision results in similar pressures for other EU member countries to leave; the nature, extent and effectiveness of policy reactions and the behaviour of financial markets during the uncertain period ahead. As macro-economic outcomes remain highly uncertain, markets will likely remain very volatile for some time to come.
- In the meantime, incoming macro-economic data from around the world remains pretty soft, with no sign yet of any material improvement in global economic conditions. As a result, with economies soft and considerable risks and uncertainties clouding the outlook for the world economy over the remainder of the year and into 2017, global policy settings will remain very expansionary.

June 2016 will be remembered as the month UK citizens voted to leave the European Union. Even though the polls pointed to a close race, the vote to leave still came as a shock and cast a dark cloud over global economic prospects for the remainder of 2016 and 2017.

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	-7.9	-4.5	18.0	22.4	25.1	13.4	12.9
JP Morgan	-3.5	4.5	34.6	17.5	18.5	11.8	12.4
S&P 500	-6.6	-1.9	25.5	27.1	30.8	17.5	15.3
FTSE 100	-10.4	-8.6	6.5	15.0	18.8	8.8	9.1
Nikkei Index	-9.0	-9.3	10.8	17.6	22.0	10.6	8.7
Rand/Dollar	-6.9	-5.5	20.7	13.8	16.7	8.1	7.5

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	1.0	7.4	7.4	2.0	8.0	8.0	5.0	12.5	12.5	4.5	11.8	11.8
2 Years	8.6	9.9	11.1	8.9	10.1	11.1	11.1	12.1	11.9	10.3	11.4	11.2
3 Years	11.3	13.6	16.6	11.0	13.2	15.8	12.4	14.1	15.8	11.3	13.2	14.7
5 Years	16.9	17.5	18.3	16.6	17.2	18.1	16.0	16.6	17.3	15.3	15.9	16.8
8 Years	15.1	14.5	7.3	14.7	14.1	6.8	14.1	13.7	7.9	13.6	13.2	7.4
10 Years	11.9	11.7	7.9	11.4	11.1	6.3	11.7	11.5	8.8	11.2	11.0	8.2
15 Years	9.8	9.6	7.0	9.1	8.8	5.8	10.0	9.8	7.5	9.3	9.1	6.7

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	41.0	53.6	-12.6	28.2	37.4	-9.2
Japan	6.5	7.6	-1.2	7.3	19.1	-11.8
Europe ex UK	16.1	15.1	1.0	27.4	28.0	-0.6
United Kingdom	6.9	6.4	0.5	10.9	5.7	5.3
SE Asia & Canada	10.4	11.1	-0.7	18.5	8.1	10.4
South Africa	15.1	0.0	15.1	0.0	0.2	-0.2
Other	4.0	6.2	-2.2	7.7	1.6	6.1
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	2.8	0.0	1.4	0.2	0.2	0.5
Consumer Discretionary	9.0	12.3	4.4	0.7	0.7	1.7
Consumer Staples	7.1	11.0	3.4	0.5	0.6	1.4
Energy	5.3	7.0	2.6	0.4	0.4	1.0
Financials	16.9	19.7	8.2	1.3	1.4	3.2
Healthcare	11.3	12.2	5.5	0.9	0.9	2.2
Industrials	13.3	10.4	6.4	1.0	1.1	2.5
Information Technology	10.8	14.9	5.2	0.8	0.9	2.1
Materials	4.8	4.9	2.3	0.4	0.4	0.9
Other	0.0	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.6	4.0	1.3	0.2	0.2	0.5
Utilities	1.0	3.6	0.5	0.1	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. Oracle Corporation	Information Technology
2. CRH plc	Industrials
3. Wells Fargo & Co	Financials
4. DS Smith plc	Industrials
5. Moody Corporation	Financials
6. JPMorgan Chase & Co	Financials
7. Owens Corning	Industrials
8. Taiwan Semiconductor	Industrials
9. Citigroup Inc	Healthcare
10. Imperial Brands plc	Consumer Goods

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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