FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 JUNE 2015

SOUTH AFRICAN ECONOMIC REVIEW

- News on the economic front has not been encouraging over the past month. Apart from a surge in load shedding in May as Eskom performed maintenance ahead of winter, first quarter GDP growth slowed to only 1.3% year-on-year, down from over 4% in the final quarter of last year. While a number of temporary factors dragged down the first quarter growth number, most of which should at least partially reverse in the second quarter, the numbers once again highlighted how weak and fragile the local economic growth picture is. Indeed, growth forecasts are again being revised down to around 2% for the full year, barely better than the 1.5% recorded in 2014.
- The latest data is even more depressing, given the release of the first quarter's unemployment numbers showing an unemployment rate of over 26%: 5.5 million people unemployed and a further 2.4 million having given up on trying to find work. These numbers continue to highlight the urgency of government implementing growth-enhancing economic reforms, something for which there appears to be little appetite, for fear of alienating the politically-affiliated trade unions.
- Inflation rose in April to 4.5%, up from the recent cyclical low of 3.9% in February. Hopes that the lower petrol price would induce a more structural shift in inflation – closer to the middle of the target range – was quickly squashed by the heavy petrol tax hike in the budget, the rebound in the oil price, the renewed weakening of the rand, Eskom's request for a gigantic increase in electricity tariffs, sustained "far-in-excess-of-inflation" wage settlements and a surge in the maize price because of a drought-induced slump in production. So, hopes of an improved medium-term outlook for inflation very quickly gave way to concerns that inflation might spike to well outside of the South African Reserve Bank (SARB's) inflation target range by early next year.
- Against this background, the SARB's post-Monetary Policy Committee meeting statement was exceptionally hawkish, indicating their readiness to raise rates – as they have long been indicating is necessary. As a result of the drastically changed inflation outlook and the hawkish SARB, we have changed our interest rate forecast from seeing rate hikes only in 2016 to at least two 25 basis point hikes before the end of 2015, with possibly more to come if the inflation outlook was to deteriorate further.
- The deterioration in the growth and inflation outlook, government seemingly in no reform frame of mind and with an increasingly threatening global environment, chances are that rating agency Fitch will also downgrade South Africa's sovereign rating early in June. While such a downgrade will come as no surprise, it will leave SA with two ratings at the lowest investment grade level – the other being from Standard & Poor's. SA can no longer afford to allow its macro-economic prospects to continue deteriorating: government action is urgently required to stabilise the labour environment, to instil confidence among foreign and local business through greater policy certainty and a reduced regulatory burden, and by taking a tough line on underperforming state institutions. Failing an improved macro-economic outlook, SA's investment grade rating will eventually be taken away, an event that will make the already poor economic outlook even worse.

Cyclical and structural economic growth prospects continue to get bleaker, a trend that may ultimately threaten South Africa's investment-grade rating. There are unfortunately no simple solutions, so the pressures for market-friendly, growth-enhancing economic reforms continue mounting relentlessly.

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	-4.0	6.4	8.5	20.0	17.5	11.0	17.6
JSE Fin & Ind	-3.7	7.4	18.4	27.8	25.1	16.0	21.0
JSE All Gold	-17.9	-2.5	-17.0	-23.6	-14.4	-9.4	-3.0
All Bond	-0.8	1.7	9.4	7.9	9.2	8.6	8.5
Total Cash	0.4	2.1	5.2	4.8	4.9	6.5	6.6
ALSI 40	-4.0	6.7	6.8	20.1	17.3	10.7	17.1
INDI 25	-3.1	7.1	16.8	30.9	28.3	19.2	23.7

RETIREMENT ANNUITIES TO 01/06/2015 (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	12.4	12.0	12.0	10.8	11.5	11.5	16.9	14.7	14.7	10.0	11.5	11.5	4.8	4.8	4.8	4.6
2 Years	15.4	15.1	16.4	12.7	12.4	12.9	16.0	14.6	14.6	12.2	13.1	13.9	4.5	4.4	4.2	5.6
3 Years	18.0	18.0	20.3	14.3	14.4	16.1	16.7	16.4	17.8	13.4	13.6	13.9	4.3	4.2	4.0	5.6
5 Years	17.4	17.0	16.6	14.1	13.9	13.5	15.6	15.2	14.6	12.9	12.7	11.9	4.1	4.1	4.1	5.4
8 Years	14.3	13.3	8.7	12.0	11.5	8.6	12.9	12.2	8.5	11.5	11.4	10.7	4.6	4.7	5.4	6.2
10 Years	13.2	13.2	14.2	11.3	11.3	12.0	12.0	12.0	12.6	11.7	11.8	12.7	5.0	5.0	5.5	6.0
15 Years	14.1	13.9	13.5	11.9	11.8	11.5	13.1	13.0	13.1	11.8	11.8	11.4	5.3	5.3	5.6	5.7
20 Years	13.3	13.1	12.8	11.5	11.4	11.5	-	-	-	11.5	11.5	11.5	5.9	6.0	7.3	5.9
25 Years	13.6	13.5	13.4	11.8	11.7	11.9	-	-	-	11.8	11.9	12.6	-	-	-	7.1
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.372% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/06/2015 (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	11.0	10.6	10.6	9.6	10.0	10.0	14.6	12.5	12.5	8.5	10.0	10.0	2.8	2.8	2.8	4.6
2 Years	14.1	14.5	16.1	11.2	11.0	11.4	14.2	13.4	13.8	10.7	11.6	12.4	2.6	2.5	2.3	5.6
3 Years	17.0	17.2	19.4	12.8	12.9	14.4	15.3	15.0	16.3	11.9	12.0	12.4	2.3	2.3	2.2	5.6
5 Years	16.7	16.4	16.2	12.7	12.4	12.1	14.6	14.2	13.8	11.4	11.3	10.5	2.2	2.2	2.2	5.4
8 Years	13.7	12.7	8.0	10.5	10.0	7.2	12.0	11.3	7.7	10.1	10.0	9.3	2.7	2.9	3.6	6.2
10 Years	12.5	12.5	13.4	9.9	9.9	10.6	11.0	11.0	11.5	10.3	10.5	11.4	3.1	3.2	3.7	6.0
15 Years	13.2	13.0	12.4	10.5	10.4	10.4	12.0	11.9	12.0	10.7	10.7	10.5	3.7	3.8	4.4	5.7
20 Years	12.4	12.2	11.8	10.3	10.2	10.2	-	-	-	10.5	10.5	10.6	4.6	4.7	6.0	5.9
25 Years	12.6	12.4	12.3	10.5	10.4	10.4	-	-	-	10.8	10.9	11.5	-	-	-	7.1
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.215% 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)	25 (1)	25 (0)	0 (0)	27 (27)	0 (0)	23 (0)	25 (1)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (26)	67 (29)	68 (24)	66 (24)	100 (86)	73 (59)	100 (26)	69 (31)	68 (24)	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	11.8	Media
2.	MTN	6.0	Telecommunications
3.	British American Tobacco	4.3	Consumer Goods
4.	FirstRand	4.1	Banks
5.	Steinhoff International Holdings	4.1	Industrials
6.	Sasol	4.1	Oil & Gas
7.	Standard Bank	3.8	Banks
8.	SABMiller plc	3.0	Consumer Goods
9.	Remgro	2.8	Consumer Goods
10.	Old Mutual	2.7	Life Insurance

GLOBAL ECONOMIC OVERVIEW

- As the first half of 2015 progressed, investors' focus intensified on when the US Federal Reserve (the Fed) will start raising interest rates. As the US economy and the labour market have healed, the Fed has gradually been removing its policy stimulus: first through the winding down of asset purchases (completed by the end of 2014) and, more recently, by preparing markets, through its forward guidance, for the eventual first hike in US interest rates.
- While US interest rates have so far remained unchanged, the tightening of financial conditions in the US continued through the sharp appreciation of the dollar in anticipation of the eventual rise in US rates. The stronger dollar acts as a brake on US economic growth by undermining the competitiveness of US producers, while also lowering the dollar earnings of offshore US companies' earnings.
- As investor focus intensified on the timing of the first hike in US rates, the Fed's task has been complicated by a sudden slowdown in US economic activity, which actually saw GDP contract by 0.7% year-on-year in the first quarter of 2015. As a result, US interest rate expectations softened in April and the dollar ran out of steam. However, the month of May saw US rate expectations harden again on account of two issues: incoming US data indicates a notable firming of US economic activity, and core inflation (inflation excluding the volatile food and energy components) recorded its biggest monthly gain in two years. These two developments firmed expectations that the Fed will indeed start raising rates later this year, likely in September. As a result of hardening rate expectations, bond yields started to rise and concerns mounted about a possible sell-off in global risk assets and emerging market currencies came under increased pressure as the month drew to a close.
- Another issue of increasing concern to financial markets during May was the inability of Greece to come to an agreement with its European Union creditors on the extension of its current bailout arrangements. The newly elected Greek Government has a strong mandate from its supporters to push for more lenient terms, but as the month drew to a close the parties were stuck, with little sign of an agreement within reach. Failure to reach an agreement soon may result in Greece defaulting on several scheduled debt repayments to the International Monetary Fund (IMF) in June, an event that may cause considerable panic in financial markets.
- In the meantime, economic news from the rest of the world remains mixed. Incoming data from the Eurozone is more encouraging, but the reverse is true for China, where growth continues to slow. So while the US Fed is marching closer to tightening policy, most countries in the rest of the world are, in fact, still leaning towards further policy easing.

As the US Fed is getting closer to a hike in interest rates, financial markets have become more volatile and emerging market currencies have come under pressure. The next few months could potentially see considerably more volatility as markets try to come to grips with the first rate hike by the Fed in 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	2.2	10.8	22.2	32.4	24.4	11.2	13.8
JP Morgan	-0.4	1.9	7.5	10.1	11.6	11.1	9.6
S&P 500	3.1	8.6	28.5	34.6	27.7	13.6	14.5
FTSE 100	1.8	11.5	10.6	27.3	21.7	8.2	11.8
Nikkei Index	3.4	19.7	32.5	29.3	19.6	8.6	11.1
Rand/Dollar	1.8	5.2	15.0	12.4	9.6	6.9	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	22.0	18.5	18.5	20.4	17.1	17.1	16.9	14.4	14.4	15.3	13.1	13.1
2 Years	19.2	17.6	17.3	17.6	17.4	17.6	15.2	14.1	14.0	13.6	13.9	14.3
3 Years	22.8	22.0	25.2	21.7	21.3	24.1	18.3	17.6	20.4	17.3	17.1	19.5
5 Years	21.5	20.3	19.2	20.8	19.7	18.5	18.1	17.1	16.3	17.4	16.6	15.9
8 Years	14.8	13.5	6.0	14.1	12.9	5.3	12.9	12.0	6.9	12.4	11.6	6.4
10 Years	12.2	11.8	9.9	11.4	10.9	8.8	11.3	11.0	10.1	10.7	10.5	9.3
15 Years	9.6	9.1	5.9	8.6	8.2	4.8	9.3	8.9	6.3	8.6	8.3	5.6

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.3	15.4	-4.1	18.8	38.3	-19.5
Japan	9.5	7.9	1.6	5.1	15.6	-10.5
Europe ex UK	16.9	15.4	1.5	37.0	29.0	8.0
United Kingdom	29.5	38.1	-8.6	10.5	6.4	4.1
SE Asia & Canada	9.9	7.9	2.0	19.8	8.4	11.4
South Africa	14.2	0.0	14.2	0.0	0.3	-0.3
Other	8.7	15.2	-6.6	8.7	2.0	6.7
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	1.1	0.0	0.1	0.1	0.4	0.2
Consumer Discretionary	10.5	12.4	1.4	1.2	3.6	2.1
Consumer Staples	5.5	9.5	0.7	0.6	1.9	1.1
Energy	4.1	7.6	0.5	0.5	1.4	0.8
Financials	18.7	21.6	2.5	2.1	6.3	3.7
Healthcare	10.7	12.2	1.4	1.2	3.7	2.1
Industrials	12.6	10.5	1.7	1.4	4.3	2.5
Information Technology	14.0	14.1	1.8	1.5	4.8	2.7
Materials	4.5	5.4	0.6	0.5	1.5	0.9
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.5	3.7	0.3	0.3	0.9	0.5
Utilities	1.6	3.2	0.2	0.2	0.5	0.3
SA Rand Hedge	14.2	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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