FLEXIPORTFOLIO

PERFORMANCE REPORT

1 JUNE 2018

SOUTH AFRICAN ECONOMIC REVIEW

South Africa did not escape the fallout from mounting global economic and market concerns during June. It also felt the effect of South Africa-specific concerns that have been slowly gathering pace since the beginning of the second quarter and escalated further during the month.

The darkening global and local conditions saw the rand slide from its May post-Ramaphosa strongest point of R11.50 per USD, to end June at R13.75/$. The yield on long-term government bonds was also knocked back, with yields rising to 9.30% from just over 8.0% late in May. While yields have subsequently recovered slightly, the late-June level was as weak as last seen in December last year in the midst of the then deep concern over the ANC's elective conference outcome

The key, and still mounting, local concern is that the economy fails to recover cyclically and, more importantly, remains structurally depressed. This would disappoint the renewed hopes earlier this year of a short- to longer term economic recovery.

A few factors contributed to the deteriorating local economic outlook, some of which were:

- Little evidence early in the second quarter of any material improvement in economic activity after the first quarter's unexpectedly sharp contraction in GDP;
- An increasingly difficult global environment, specifically recent commodity price weakness and capital outflows from developing countries. In SA's case, foreigners were heavy sellers of SA government bonds in May and June;
- Concerns over sustained depressed business confidence, and hence sustained depressed private investment, as the latest readings remained in net-pessimistic territory;
- Deep concerns over land reform and, especially, the prospect that land could be expropriated without compensation in the future
- Sustained policy uncertainty as the new mining charter is generally seen as unlikely to revive investment in the sector and the National Health Insurance Scheme policy proposals are seen as potentially damaging to the generally well-functioning private health care system.

On more positive note, inflation continues to surprise on the downside, even if on a generally rising trend. May's 4.4% inflation number, albeit up on the 3.8% low reached in March, was still lower than market expectations. This was not only a sign that the pass through from the increase in VAT has been relatively muted, but also probably indicates that companies find it relatively hard to raise prices in the sustained weak domestic economic environment. This situation is aggravated by the pressure on households' spending power from the surge in the petrol price and related transport costs.

Looking forward, the much weaker first quarter GDP growth meant that growth forecasts for calendar 2018 have generally been slashed and we have done the same, cutting our forecast for 2018 from 2.1% to 1.8% and for 2019 from 2.5% to 2.2%. However, we have not given up hope on a longer term revival of the economy. The Ramaphosa administration has already implemented a number of reforms, the importance of which may not have been fully appreciated by analysts and the public at large. Government has made material progress in improving governance at most of the state-owned enterprises and we do not believe that the outcome of the land reform review or changes to the health system will ultimately be negative game changers for the economy in the longer term.

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	-3.5	-4.4	8.0	5.4	9.2	12.8	9.0
JSE Fin & Ind	-5.5	-7.7	2.7	4.5	10.9	16.9	14.6
JSE Resources	4.0	8.6	30.0	1.9	-0.5	0.9	-2.9
ALSI40	-3.1	-4.0	8.6	5.4	8.9	12.7	8.3
All Bond	-2.0	5.2	10.4	8.1	7.3	8.8	9.7
Cash	0.6	3.0	7.4	7.3	6.7	6.3	7.0

RETIREMENT ANNUITIES TO 01/06/2018 (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	-4.9	-0.2	-0.2	-0.2	2.6	2.6	-1.0	3.8	3.8	8.8	9.5	9.5	6.0	6.1	6.1	4.5
2 Years	0.6	-0.3	-0.4	2.9	2.4	2.3	2.6	2.3	1.5	9.5	9.5	9.5	6.2	6.2	6.3	4.9
3 Years	1.6	0.7	1.6	3.7	3.3	4.1	2.9	2.3	2.2	9.5	9.7	9.8	6.1	6.1	6.0	5.4
5 Years	3.9	4.0	7.3	5.5	5.6	7.6	4.8	4.8	7.0	10.4	10.7	11.7	5.8	5.7	5.3	5.3
8 Years	8.2	8.3	10.8	8.3	8.4	9.9	7.9	8.0	9.8	11.4	11.3	11.3	5.2	5.2	4.8	5.4
10 Years	9.3	8.8	7.1	8.9	8.6	7.8	8.6	8.3	7.5	11.1	11.0	10.4	5.2	5.2	5.4	5.6
15 Years	10.3	10.6	13.2	9.6	9.7	11.5	9.6	9.8	12.0	11.5	11.6	11.9	5.4	5.4	5.6	5.7
20 Years	11.2	11.0	10.8	10.1	10.0	9.9	-	-	-	11.4	11.4	11.1	5.6	5.6	6.0	6.1
25 Years	11.3	11.3	12.5	10.3	10.3	11.3	-	-	-	11.3	11.4	11.7	6.3	6.4	7.6	6.5
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.485% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/06/2018 (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	-4.0	-0.9	-0.9	0.1	2.3	2.3	-0.7	2.9	2.9	7.3	8.0	8.0	3.4	3.5	3.5	4.5
2 Years	0.0	-1.1	-1.2	2.6	2.0	1.8	1.9	1.4	0.7	8.0	8.0	8.0	3.5	3.6	3.6	4.9
3 Years	0.8	-0.1	0.9	3.1	2.7	3.3	2.0	1.3	1.3	8.0	8.2	8.3	3.5	3.5	3.5	5.4
5 Years	3.0	3.3	6.7	4.6	4.7	6.5	3.7	3.8	6.1	8.9	9.2	10.2	3.3	3.3	3.0	5.3
8 Years	7.4	7.6	10.2	7.2	7.2	8.7	6.8	6.9	8.9	9.9	9.8	9.8	3.0	3.0	2.7	5.4
10 Years	8.5	8.1	6.5	7.6	7.4	6.4	7.6	7.3	6.5	9.7	9.6	9.0	3.0	3.0	3.4	5.6
15 Years	9.5	9.8	12.2	8.3	8.4	10.2	8.4	8.7	11.0	10.2	10.2	10.7	3.4	3.4	3.8	5.7
20 Years	10.2	10.0	9.8	8.9	8.8	8.7	-	-	-	10.2	10.2	10.1	3.8	3.9	4.8	6.1
25 Years	10.3	10.3	11.5	9.0	9.1	10.1	-	-	-	10.3	10.3	10.7	4.7	4.8	6.1	6.5
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.279% 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)	26 (2)	0 (0)	25 (0)	0 (0)	27 (27)	0 (0)	24 (2)	12 (0)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (28)	65 (31)	78 (26)	66 (24)	100 (86)	73 (58)	100 (28)	68 (33)	78 (26)	66 (24)	100 (86)	73 (58)
Property	0	7	10	7	0	0	0	7	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	10.5	Media
2.	Sasol	5.6	Oil & Gas
3.	Standard Bank	5.2	Banks
4.	British American Tobacco	4.7	Consumer Goods
5.	Old Mutual	3.7	Financials
6.	FirstRand	3.4	Banks
7.	Barclays Africa	3.2	Banks
8.	BHP Billiton Plc	3.0	Basic Resources
9.	MTN Group	2.7	Telecommunications
10.	Sanlam	2.5	Financials

GLOBAL ECONOMIC OVERVIEW

As was the case in May, June was also characterised by a stream of concerning news for global investors, causing further volatility in equity, currency and bond markets – a trend that has been in place since around mid-January.

The concerns during the course of June were largely centred on escalating global trade tensions; the seemingly increasingly unbalanced nature of the current global economic expansion and troublesome transmission mechanisms that resulted in money flowing out of developing countries.

Global trade tensions unquestionably took centre stage over the past month as threats of tariffs and counter-tariffs between the US and all its main trading partners ramped up. The US, which had earlier implemented tariffs on a select group of products, including washing machines, steel and aluminium, imposed tariffs on $50bn of Chinese imports. The Chinese responded with a similar tariff increase on the equivalent amount of goods imports from the US. President Trump, upset about the Chinese counter-measures, then threatened to impose tariffs on an additional up to $400bn in Chinese imports (as a reminder, Chinese exports to the US totalled $505bn in 2017, so tariffs on a total $450bn of Chinese imports would cover some 90% of Chinese exports to the US - far more material than the $50bn of exports already affected). President Trump then went further and threatened to impose tariffs on all vehicle imports to the US, irrespective of the source, and labelled the European Union, historically the US's closest geopolitical ally, as an even worse practitioner of unfair trade practices than China.

While polls among economists in the US continue to signal that the trade noise is unlikely to degenerate into a much more intense actual 'trade war', a growing list of companies have warned about the potential impact on earnings of the additional tariffs already imposed. As a result, and with the threats from both sides not showing any signs of cooling off, markets have, understandably, become very jittery.

A second concern for markets is the increasingly unbalanced nature of the current global expansion and the implications of this. While overall global growth remains pretty firm, growth in the US has seemingly accelerated quite sharply into the second quarter, while growth elsewhere has either remained static, or has slowed. The outcome of these diverging relative growth trends is a stronger US dollar which, in turn, is putting downward pressure on commodity prices and currencies of developing economies in particular, a number of which have been forced to raise interest rates over the past few months.

Adding to concerns is that markets are still faced with rising interest rates in the US and tightening global liquidity conditions as central banks continue to reverse quantitative expansion. In the US, with the labour market extremely tight, wage pressures increasing and all measures of inflation now at or above the Fed's 2% target, there is also little hope of the Fed 'holding off' on tightening, and so providing some relief to investor concerns. To top it all, oil prices remain elevated, piling more pressure on oil importing countries.

It is thus understandable that global equity markets ended the month lower, with the Chinese market particularly hard hit, commodity prices generally weaker and the US 10-year Treasury yield falling back to 2.85% from the 3.10% reached around the middle of May.

We have held a broadly upbeat view of the world economy through to 2019, so the inevitable question is: Do these developments mean the outlook has deteriorated materially, with a far greater risk of a global recession sooner rather than later than anticipated up to now? While the risk cannot be denied, we maintain our optimism for the global economy, based on the crucial assumption that the recent spate of trade tensions and market risks do not tip the world economy into a full-blown downturn.

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	0.1	4.5	4.5	0.2	3.7	3.7	-1.8	2.1	2.1	-1.0	1.8	1.8
2 Years	4.9	1.9	0.6	4.1	1.6	0.5	1.6	-1.2	-2.9	1.5	-1.3	-2.8
3 Years	5.3	4.3	6.4	4.5	3.8	5.9	2.4	2.0	5.0	2.0	1.7	4.5
5 Years	8.2	8.0	10.6	7.4	7.6	10.4	6.3	6.3	9.1	5.6	5.9	8.9
8 Years	12.8	12.5	14.2	12.1	11.9	13.6	10.8	10.6	12.3	10.2	10.1	11.9
10 Years	12.3	11.5	6.6	11.6	10.9	6.0	10.5	10.0	6.7	9.9	9.5	6.3
15 Years	9.9	9.6	8.7	9.1	8.8	8.0	9.3	9.1	8.6	8.7	8.5	7.7

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	**MSCI**	**Difference**	**Fund**	**Benchmark[7]**	**Difference**
United States	45.3	53.3	-8.0	38.4	38.2	0.2
Japan	4.2	7.9	-3.8	3.9	17.6	-13.6
Europe ex UK	17.2	14.8	2.4	31.3	28.2	3.1
United Kingdom	6.9	5.8	1.1	7.3	5.5	1.8
SE Asia & Canada	8.5	12.2	-3.7	12.5	8.6	3.9
South Africa	14.3	0.0	14.3	0.0	0.0	0.0
Other	3.7	6.4	-2.4	6.6	1.9	4.7
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	3.3	0.0	1.7	0.2	0.3	0.7
Consumer Discretionary	9.7	12.4	5.1	0.5	0.8	1.9
Consumer Staples	6.7	7.9	3.5	0.3	0.5	1.3
Energy	6.3	6.7	3.3	0.3	0.5	1.3
Financials	14.3	17.8	7.6	0.7	1.1	2.9
Healthcare	11.6	10.8	6.2	0.6	0.9	2.3
Industrials	10.1	10.7	5.3	0.5	0.8	2.0
Information Technology	14.2	19.7	7.5	0.7	1.1	2.9
Materials	4.9	5.4	2.6	0.2	0.4	1.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Telecoms Services	0.4	2.7	0.2	0.0	0.0	0.1
Utilities	2.7	2.9	1.4	0.1	0.2	0.5
SA Rand Hedge	14.3	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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