FLEXIPORTFOLIO

PERFORMANCE REPORT

1 MARCH 2018

SOUTH AFRICAN ECONOMIC REVIEW

February was an eventful month. In our previous commentary, we cautioned investors on being too optimistic about Cyril Ramaphosa's election as ANC president as there were some key changes in Government that needed to happen in order for us to be convinced that the prospects of policy reform would indeed take hold. The first required change was the replacement of Jacob Zuma as the country's president. To get the country back on a sustainable growth path, key ministers needed to be replaced and Cyril Ramaphosa would not be able to effect this without being the president of the country. In a surprise statement late on the 14th of February, Jacob Zuma announced his resignation and a day later Cyril Ramaphosa was sworn in as the President of South Africa. In our view, this was a big positive of a market friendly shift in politics.

The second key change that we were eager to witness was the replacement of the Finance Minister in order to restore some credibility in National Treasury. While the ratings agencies are sympathetic to our growth challenges, it didn't help us having a deterioration in leadership at National Treasury – a key institution that previously contributed to our prized investment grade rating. This change has now also happened, with Malusi Gigaba being replaced by former finance minister, Nhlanhla Nene. Nene was axed by Zuma in December 2015, an act that precipitated the domino effect of multiple downgrades by ratings agencies Fitch, S&P and Moody's. The return of Nene provides the reassurance that National Treasury will continue on the path of fiscal consolidation, as outlined in the National Budget.

Other recent ministerial changes include the appointments of Gwede Mantashe, Pravin Gordhan and Jeff Radebe in three key ministries, namely the Ministry of Mineral Resources, Ministry of Public Enterprises and the Ministry of Energy, respectively. In our view, this cabinet shake-up, along with a return of tighter fiscal policy, has removed the possibility of a Moody's downgrade in March, and with it the eminent risk of an exclusion from Citi's World Government Bond Index (WGBI). We believe that Moody's will remove their negative watch and still maintain their negative outlook on South Africa. A shift to a stable outlook by Moody's will be positive for the rand, which has already firmed sharply since Ramaphosa's win at the ANC December elective conference.

A firm and stable rand will aid in keeping inflation pressures low. Last month's headline inflation dropped to a low of 4.4%, which is just below the mid-point of the South African Reserve Bank (SARB)'s inflation target range of 3% to 6%. A continuation of this trend, and the combination of tighter fiscal policy, has raised the prospects of the SARB cutting the repo rate as early as March. Where we originally had only forecasted two interest rate cuts for this year, we believe that the favourable environment will allow the SARB to cut at least three times (that is, a cumulative cut of 75 basis points in 2018). Following the one percentage point VAT increase announcement in the Budget, we've had to revise our 2018 average inflation forecast marginally higher from 4.4% to 4.6%. However, we still believe that the SARB will look through the VAT-induced higher inflation for 2018 and still cut rates from March.

Lower inflation and lower interest rates should boost consumption, which we believe will drive growth for this year through a pick-up in real disposable income. The lower income decile group should continue to benefit the most in this environment, where inflation has been averaging 2% and lower. The upside surprise to growth could very well come from a renewed boost in household credit extensions, which has been depressed for quite some time. A combination of lower interest rates and local banks that are now willing to extend credit as a result of an improved macroeconomic environment, should pave the way for a rebound in household credit extensions. Another upside surprise to growth could come in the form of a rebound in private investment. In the Bureau of Economic Research Business Confidence survey, more than 80% of respondents pointed to politics as being a key constraint to investment. Now that we are seeing incremental improvements in the political environment, business confidence could very well return and lead to an increase in real private investment. One anecdotal event supporting for our assertion is the Chamber of Mines' recent suspension of its court review of the Mining Charter, as they are now having progressive engagements with the presidency. A continuation of such engagements, and clearer policies going forward, will create a pro-investment environment and hence boost growth.

While the improved political backdrop provides for a slightly more positive outlook for 2018, the long-term structural story still remains uncertain and will require some strong policy implementation to revitalise depressed sectors, such as mining and manufacturing, in order to absorb the large number of unemployed individuals in South Africa. Persistent sub-trend economic growth will do us no favours in terms of the fisus and hence a reassertion by government of the National Development Plan is something we will continue to watch.

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	-2.0	-1.9	17.4	6.1	11.2	13.5	9.8
JSE Fin & Ind	-1.2	-1.9	17.9	6.9	14.5	18.2	15.5
JSE Resources	-4.8	-1.8	16.1	-3.7	-2.6	-0.1	-3.1
ALSI 40	-2.3	-2.1	19.8	5.9	11.0	13.2	9.2
All Bond	3.9	5.9	14.3	7.7	7.3	9.3	9.3
Cash	0.5	1.1	7.5	7.2	6.6	6.3	7.1

RETIREMENT ANNUITIES TO 01/03/2018 (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	7.2	11.2	11.2	6.1	8.6	8.6	8.2	10.2	10.2	10.0	10.4	10.4	6.1	6.2	6.2	4.4
2 Years	6.4	8.7	7.6	5.9	7.3	6.6	6.8	8.4	7.5	10.0	9.9	9.7	6.2	6.3	6.3	5.5
3 Years	5.3	6.3	4.0	5.6	6.3	5.3	5.5	6.3	4.4	9.9	10.0	10.1	6.1	6.1	5.9	5.7
5 Years	6.9	8.0	10.4	7.1	7.8	9.6	6.9	7.7	9.4	10.9	11.1	12.2	5.7	5.6	5.1	5.5
8 Years	10.0	10.2	11.5	9.3	9.4	10.3	9.2	9.3	10.1	11.6	11.5	11.3	5.2	5.1	4.8	5.3
10 Years	10.5	10.6	8.0	9.5	9.6	8.1	9.5	9.6	7.9	11.2	11.1	10.4	5.1	5.2	5.5	5.8
15 Years	11.4	11.6	13.9	10.2	10.3	12.0	10.4	10.5	12.5	11.7	11.7	11.9	5.4	5.4	5.6	5.6
20 Years	11.8	11.7	11.6	10.4	10.3	10.3	-	-	-	11.4	11.4	11.0	5.6	5.6	6.1	6.2
25 Years	11.8	11.8	12.9	10.6	10.6	11.5	-	-	-	11.4	11.4	11.8	6.4	6.5	7.7	6.6
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.465% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/03/2018 (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	5.5	8.3	8.3	5.4	7.4	7.4	6.6	7.8	7.8	8.5	8.9	8.9	3.5	3.6	3.6	4.4
2 Years	4.6	6.4	5.4	5.0	6.0	5.3	5.2	6.4	5.7	8.5	8.4	8.2	3.6	3.6	3.6	5.5
3 Years	3.7	4.6	2.9	4.7	5.2	4.3	4.0	4.7	3.1	8.4	8.5	8.6	3.5	3.5	3.4	5.7
5 Years	5.6	6.7	9.5	6.0	6.6	8.3	5.4	6.3	8.3	9.3	9.6	10.7	3.3	3.2	2.9	5.5
8 Years	9.0	9.2	10.7	8.1	8.2	8.9	8.0	8.1	9.1	10.1	10.0	9.9	2.9	2.9	2.7	5.3
10 Years	9.6	9.7	7.2	8.2	8.2	6.7	8.3	8.4	6.8	9.8	9.7	9.0	3.0	3.0	3.4	5.8
15 Years	10.5	10.6	12.8	8.8	8.9	10.6	9.2	9.3	11.4	10.3	10.4	10.7	3.4	3.5	3.9	5.6
20 Years	10.7	10.6	10.6	9.2	9.1	9.2	-	-	-	10.3	10.3	10.1	3.9	4.0	4.9	6.2
25 Years	10.7	10.8	11.9	9.3	9.3	10.3	-	-	-	10.4	10.4	10.8	4.8	4.8	6.1	6.6
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.265% 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. (0.465% p.m.)
	at the tax rate of 41%	7.80% p.a. (0.628% 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 (2)	0 (0)	25 (0)	0 (0)	27 (26)	0 (0)	26 (2)	13 (0)	25 (0)	0 (0)	27 (26)
Ordinary Shares	100 (23)	64 (28)	77 (24)	66 (24)	100 (85)	73 (59)	100 (23)	66 (29)	77 (24)	66 (24)	100 (85)	73 (59)
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	12.3	Media
2.	Sasol	4.9	Oil & Gas
3.	British American Tobacco	4.8	Consumer Goods
4.	Standard Bank	4.7	Banks
5.	FirstRand	3.6	Banks
6.	Barclays Africa	3.6	Banks
7.	Old Mutual	3.3	Financials
8.	Anglo American Plc	3.1	Basic Resources
9.	MTN Group	3.0	Telecommunications
10.	Remgro	2.5	Financials

GLOBAL ECONOMIC OVERVIEW

The correction in global equity markets was the big news in February. Concerns about US inflation and the consequent pace of US interest rates were the main driving forces. The US 10-year bond yield had already moved substantially higher from a year ago (from 2.44% at the start of 2017 to 2.85% by early February 2018) when their labour market report in early February showed an acceleration of wage growth to 2.9% (the pace over the past year was in the range of 2.0% to 2.5%). This raised fears that US inflation was about to take off and that the Federal Reserve Board (the Fed) was behind the curve.

The Fed's so-called "dot-plot" (reflecting the forecasts of the individual members of the Fed's policy setting committee the Federal Open Market Committee, or FOMC) had shown three interest rate hikes of 25 basis points each this year. However, the market consensus was that the Fed will actually only hike rates twice in 2018. Thus the markets were suddenly faced with the distinct possibility that the Fed might hike rates not twice, but four times in 2018. However, we believe this market reaction to be a short-term correction and, for reasons discussed below, not the start of an equity bear market.

Optimism over the short-term outlook for the global economy has continued to rise. Global growth is still strong and more synchronised than at any time since the global financial crisis. Consensus growth forecasts for 2018 for the three major areas (the US, Eurozone and China), as measured by the Economist magazine's monthly survey of economists across the globe, have moved from 2.3% last July to 2.7% currently in the case of the US, from 1.7% to 2.4% for the Euro area and from 6.3% to 6.5% for China. Within the US, the fiscal boost from both the Tax Cuts and Jobs Act and the Bipartisan Budget Act will likely lead to further growth upgrades for the country. The buoyant labour market and strong services sector sentiment in the Euro area will continue to support growth there. Japan's economy continues on a recovery path and China is still supported by the favourable external environment.

However, in tandem with strong and synchronised global growth, inflationary pressures have increased. This is no surprise as it is rare for inflation to stay subdued in the face of such robust and widespread growth. The perceptions of risk are thus busy shifting in the global economy. While the positive feedback loop between activity, sentiment and financial conditions is a key driver of growth, the issue at hand is now whether this shift in risk perception will hurt sentiment or tighten financial conditions enough to hurt growth prospects. While we do expect higher core inflation in the key regions over the course of the year, we do expect that it will be contained below targets. Central banks will be cautious as they will not want to hurt the underlying economy. Already there are signs that higher mortgage interest rates in the US are having some impact on consumer sentiment and on the housing market.

Another risk that has become somewhat more elevated recently is that of a trade war. Recent trade tariffs announced by the US – whilst small in terms of impact on US GDP or global trade – might open the door to retaliation that might potentially have more serious impacts on the global growth picture. For now, though, we are of the opinion that strong, synchronised growth is set to last a while still, that core inflation will rise further (but not blow out) and that central banks will continue with gradual policy normalisation. This gradual pace might have to include four interest rate hikes in the US this year as the new Fed Chair, Jerome Powell, seems to have alluded to in his recent Congressional testimony. We are mindful, though, that central banks do not want to hurt their economies, but need to balance the growth/inflation trade off.

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	-4.7	-3.7	6.5	9.3	17.6	17.1	11.2
JP Morgan	-1.3	-4.1	-4.3	2.8	6.7	7.7	6.8
S&P 500	-4.3	-2.9	5.7	11.6	21.2	20.6	14.3
FTSE 100	-7.0	-8.0	3.4	1.9	10.4	12.3	6.6
Nikkei Index	-2.8	-2.4	9.2	10.0	16.8	13.7	9.2
Rand/Dollar	-0.6	-4.7	-9.8	0.4	5.6	5.5	4.3

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	-3.4	8.8	8.8	-3.6	7.1	7.1	-6.8	5.0	5.0	-6.4	4.0	4.0
2 Years	2.3	5.3	3.7	1.6	4.4	3.1	-2.0	1.1	-0.9	-2.2	0.5	-1.3
3 Years	4.1	6.4	7.4	3.4	5.7	6.9	0.8	3.4	5.6	0.4	2.8	4.9
5 Years	8.2	9.9	13.8	7.5	9.3	13.5	6.1	7.6	11.7	5.3	7.0	11.4
8 Years	12.7	12.5	12.7	12.0	11.9	12.2	10.6	10.5	11.0	9.9	9.9	10.5
10 Years	11.8	11.5	6.8	11.2	10.8	6.1	10.1	9.8	6.8	9.5	9.2	6.3
15 Years	9.7	9.7	9.4	9.0	9.0	8.6	9.2	9.2	9.1	8.5	8.4	8.1

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	44.0	52.5	-8.5	36.2	37.4	-1.2
Japan	3.8	8.0	-4.2	5.8	17.6	-11.9
Europe ex UK	17.8	15.4	2.3	28.7	29.1	-0.3
United Kingdom	6.6	5.5	1.1	8.8	5.6	3.2
SE Asia & Canada	9.2	12.1	-2.8	14.2	8.5	5.7
South Africa	14.9	0.0	14.9	0.0	0.0	0.0
Other	3.7	6.4	-2.8	6.3	1.8	4.5
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	3.4	0.0	1.8	0.2	0.3	0.7
Consumer Discretionary	9.8	12.4	5.1	0.4	0.8	2.1
Consumer Staples	7.5	8.2	3.9	0.3	0.6	1.6
Energy	4.9	6.0	2.5	0.2	0.4	1.0
Financials	15.3	19.0	7.9	0.7	1.2	3.2
Healthcare	10.4	10.6	5.4	0.5	0.8	2.2
Industrials	10.4	10.9	5.4	0.5	0.8	2.2
Information Technology	14.5	19.0	7.5	0.7	1.1	3.0
Materials	4.7	5.5	2.4	0.2	0.4	1.0
Other	0.3	0.0	0.2	0.0	0.0	0.1
Telecoms Services	0.5	2.9	0.2	0.0	0.0	0.1
Utilities	2.3	2.7	1.2	0.1	0.2	0.5
SA Rand Hedge	14.9	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME		SECTOR
1.	Moody's Corporation	Financials
2.	Alphabet Inc	Information Technology
3.	Mastercard Inc	Financials
4.	Apple Inc	Information Technology
5.	Microsoft Corporation	Information Technology
6.	Keyence Corporation	Information Technology
7.	Pepsico Inc	Consumer Staples
8.	Taiwan Semiconductor	Materials
9.	Jpmorgan Chase & Co	Financials
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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