FLEXIPORTFOLIO

PERFORMANCE REPORT

1 NOVEMBER 2015

SOUTH AFRICAN ECONOMIC REVIEW

- Local economic news flow remains depressing. Following the 1.3% annualised contraction in GDP in the second quarter, incoming data subsequently points to, at best, a very moderate recovery in the third quarter, although little data is yet available. As a result, GDP forecasts for both this year and next are still being revised downwards, with consensus predictions now at less than 1.5% growth for this year and next, compared with the far more optimistic forecasts at the beginning of the year of 25% and 3%, respectively, for these two years.
- South Africa's poor growth performance is becoming an increasing source of concern from a number of different perspectives, including sustained high unemployment, mounting pressure on the fiscus, a growing risk of social instability as joblessness and poverty remain rife, growing concerns about a drift to more populist policies and the risk of eventually losing our investment grade status. These concerns were starkly highlighted over the past month by the Minister of Finance being forced to raise the budget deficit targets for the next two fiscal years by about half a percentage point of GDP each year. This was on account of weaker revenue growth prospects and the widespread student protests over university fees. The latter culminated in the government waiving fee increases for next year, but in the process left National Treasury with the headache of not only having to find R3 billion in funding for universities for 2016 to replace the loss of revenue from the planned student fee increase, but also finding means to allocate far more funds in future to assist needy tertiary education students.
- In addition to the already mounting concerns mentioned above, the drought-related water crisis across much of the country came into even starker focus over the past month. With dams at extremely low levels, concerns are mounting not only over the impact on commercial and subsistence agriculture (yet more pressure on the fiscus for drought relief), but also over the broader impact on the entire economy as water is heavily used in key sectors, such as industry, mining and construction. The dire need for more infrastructure investment in SA's water system is thus not only another source of pressure on the fiscus, but increasingly also another drag on economic growth.
- However, there was also a bit of good news over the past month. Government, after much pressure, finally relaxed the controversial new visa rules it put in place a year ago. Unfortunately, a lot of damage was done in the process to one of the very few sectors in the economy that was not only growing strongly before the new rules were introduced, but should by now have been booming on account of the weaker rand. Sadly, the ill-considered rules did a lot of damage and it will likely take a considerable time to recover the lost ground.
- Two further pieces of good news over the past month was that inflation remains reasonably well under control despite the weak rand and the trade deficit narrowed quite sharply in September after a large deficit in August.
- CPI inflation remained unchanged at 4.6% in September and there is still little sign of much inflation pass-through of the weaker rand. Still, we still expect inflation to continue to move higher over the next few months on account of some rand-related inflation effects and the recent drought-related surge in local grain prices.
- The trade balance narrowed from a large R10 billion deficit in August to R1 billion in September. While the narrower deficit was welcome, the overall trade balance still deteriorated from a surplus of R9 billion in the second quarter to a deficit of R12 billion in the third quarter. This implies a wider overall current account deficit (that is, adding in trade in services) in the third quarter of about 4% of GDP. A deficit of this size still implies that South Africa requires capital inflows of around US$12 billion a year to finance the shortfall. In a more difficult international financing environment, this continues to keep the rand very vulnerable.
- We ended last month's review with a warning that the still mounting problems and headwinds facing the South African economy requires urgent action on the part of government to improve SA's economic fortunes and that failing to do so will result in a relentless build-up of social and fiscal pressures. This warning became almost prophetic over the past month, as clearly demonstrated in the further slippage of the long-promised fiscal consolidation and street troubles with disgruntled students. Unfortunately, there is still very little indication that government is taking the message seriously, let alone acting decisively to address our economic challenges. So, in the meantime, the rand remains extremely vulnerable to yet another major sell-off as investors become increasingly disillusioned with the failure of Government to fundamentally improve our economic prospects.

The further postponement of decisive fiscal consolidation in the medium-term fiscal review and widespread demonstrations by disgruntled students turned our warning of last month of rising fiscal and social troubles unless government acts decisively to improve SA's economic fortunes, almost prophetic. Only speedy and deep-seated market-friendly growth-enhancing reforms will brighten SA's current very dour medium- to longer-term economic prospects. In the meantime, the rand remains extremely vulnerable to a renewed sell-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	7.6	11.3	11.6	16.6	15.5	10.2	15.9
JSE Fin & Ind	7.8	16.5	20.4	25.1	23.6	16.2	19.9
JSE All Gold	11.5	-8.2	9.9	-23.3	-15.6	-9.5	-5.6
All Bond	1.3	4.0	4.8	6.0	7.7	8.5	8.3
Total Cash	0.4	4.4	5.3	4.9	4.9	6.3	6.6
ALSI 40	7.9	13.2	12.3	17.0	15.7	9.9	15.6
INDI 25	8.5	19.2	22.8	27.8	26.6	19.4	22.7

RETIREMENT ANNUITIES TO 01/11/2015 (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	9.9	13.0	13.0	10.1	12.0	12.0	11.6	16.3	16.3	9.7	10.3	10.3	5.1	5.0	5.0	4.7
2 Years	10.6	12.4	12.2	10.5	11.5	11.2	12.0	13.4	12.2	11.3	11.9	12.6	4.9	4.7	4.6	5.3
3 Years	13.9	15.0	17.2	12.3	13.0	14.3	13.5	14.4	15.2	12.7	13.0	13.9	4.6	4.4	4.2	5.4
5 Years	15.6	15.4	14.6	13.3	13.1	12.4	14.2	14.1	13.1	12.9	12.7	12.1	4.3	4.2	4.1	5.5
8 Years	14.0	13.3	8.0	12.0	11.4	8.4	12.6	12.0	8.0	11.6	11.5	10.4	4.6	4.7	5.3	5.9
10 Years	12.4	12.6	12.7	11.0	11.0	11.1	11.5	11.5	11.6	11.5	11.6	12.4	4.9	5.0	5.4	6.1
15 Years	13.7	13.7	13.1	11.7	11.7	11.3	12.7	12.8	13.0	11.9	11.8	11.4	5.3	5.3	5.6	5.7
20 Years	13.1	13.3	12.7	11.4	11.6	11.4	-	-	-	11.5	11.5	11.4	5.8	5.9	7.1	6.0
25 Years	13.4	13.7	13.9	11.7	11.8	12.2	-	-	-	11.8	11.8	12.4	7.0	7.1	8.7	6.9
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.425% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/11/2015 (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	9.8	12.1	12.1	9.0	10.5	10.5	10.2	14.2	14.2	8.2	8.8	8.8	3.0	2.9	2.9	4.7
2 Years	10.0	11.5	11.3	9.3	10.1	9.9	10.5	11.8	10.7	9.8	10.4	11.1	2.8	2.7	2.6	5.3
3 Years	13.4	14.3	16.5	10.9	11.6	12.9	12.2	13.0	14.0	11.2	11.5	12.4	2.6	2.5	2.3	5.4
5 Years	15.0	14.9	14.4	11.9	11.8	11.2	13.2	13.1	12.4	11.4	11.2	10.7	2.4	2.3	2.2	5.5
8 Years	13.5	12.8	7.5	10.6	10.0	7.0	11.7	11.1	7.2	10.2	10.1	9.1	2.7	2.8	3.5	5.9
10 Years	11.9	12.0	12.1	9.6	9.6	9.7	10.5	10.6	10.5	10.2	10.3	11.1	3.1	3.1	3.6	6.1
15 Years	12.9	12.9	12.2	10.4	10.4	10.0	11.6	11.7	12.0	10.7	10.7	10.4	3.6	3.7	4.3	5.7
20 Years	12.2	12.4	11.7	10.2	10.3	10.1	-	-	-	10.5	10.5	10.5	4.4	4.5	5.8	6.0
25 Years	12.4	12.7	12.9	10.4	10.5	10.9	-	-	-	10.8	10.8	11.3	5.5	5.6	7.1	6.9
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.252% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		3.80% p.a. (0.311% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	4.63% p.a. (0.378% p.m.)
	at the tax rate of 40%	6.33% p.a. (0.513% 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)	21 (1)	25 (0)	0 (0)	26 (26)	1 (0)	24 (0)	21 (1)	25 (0)	0 (0)	26 (26)
Ordinary Shares	100 (26)	65 (29)	73 (23)	66 (24)	100 (85)	74 (59)	99 (26)	68 (32)	73 (23)	66 (24)	100 (84)	74 (59)
Property	0	7	6	7	0	0	0	6	6	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	13.9	Media
2.	British American Tobacco	5.3	Consumer Goods
3.	Steinhoff International Holdings Ltd	4.7	Industrials
4.	FirstRand	4.1	Banks
5.	SABMiller plc	4.1	Consumer Goods
6.	MTN	4.1	Telecommunications
7.	Sasol	3.9	Oil & Gas
8.	Old Mutual	3.3	Life Insurance
9.	Remgro	3.2	Industrials
10.	Standard Bank	2.8	Banks

GLOBAL ECONOMIC OVERVIEW

- The concerns that caused a sharp sell-off in equity markets in August, and continued to plague investment markets in September, faded sharply over the last month. As a result, the US S&P 500 Index rallied in October, ending the month more than 8% up (in US dollar terms) compared with the end of September.
- Key to the sharp turnaround in investor sentiment in October was the decision by the US Federal Reserve (Fed) at its mid-September meeting to leave interest rates unchanged – citing growing uncertainty over growth prospects for the world economy. Markets were initially uncertain as to how to interpret the Fed's decision, causing a severe bout of volatility in the days following the meeting. However, they finally made up their collective mind that the Fed's decision implied that, even if rates were still to rise before the end of 2015, the coming up-cycle in US interest rates will be slow, well-signalled and unlikely to pose a serious threat to the US economy, as long as inflation stayed low. Soft US employment data for September (released in early October) and continued muted inflation data reinforced the view of a cautious Fed, strongly supporting market sentiment.
- Fears over a hard landing in China also faded over the past month. Not only did China's third quarter year-to-year GDP growth come in at 6.9%, close to the government's 7.0% target, but high frequency data out of China is starting to indicate that the pace of growth deceleration is slowing and there are even some tentative signs of an improvement in some areas. In addition, around the middle of the month the Chinese Central Bank cut the lending rate and banks' reserve ratio requirements (the amount of cash banks have to hold with the central bank, so inhibiting their ability to make loans) – and in so doing delivering another boost to global market sentiment.
- A third piece of good news for markets over the past month was a clear signal from the European Central Bank that it intends adding more stimulus before year-end to its already expansive quantitative easing programme.
- Meanwhile, incoming data over the course of the month reinforced the view that global growth remains soggy, with the exception of the US, where activity is still expanding at a reasonable pace. While China's headline GDP data was close to the government's 7% target, industrial sector activity, investment spending and foreign trade remained weak – keeping pressure on commodity prices and countries reliant on exports to China. Rapid growth is being experienced in the services sectors of the Chinese economy, but these sectors have a far smaller stimulatory impact on the rest of the world than manufacturing, investment and trade.
- Returning to the Fed and prospects for US interest rates. The central bank surprised markets at its end-October policymaking meeting by omitting the reference to the risks posed by the weak global economic situation contained in the September statement, and adding a sentence indicating the Fed will indeed consider raising the Fed Funds rate at its mid-December meeting. While both these statement changes pointed to a less dovish Fed than markets assumed after the September meeting, financial markets largely ignored the Fed's changed message and instead continued to focus on longer-term prospects for US interest rates (which still seem to be fairly dovish) and incoming economic data suggesting the US economy continues to grow at a reasonably healthy pace and that corporate earnings are not immediately at risk from an overly aggressive Fed or a weakening economy.
- Still, whether the Fed still hikes this year or only in 2016, it is marching closer to its first interest rate increase since June 2006, an event that may yet bring renewed global financial market turmoil in spite of investors largely ignoring the Fed's changed message towards the end of October.

Fading concerns over economic conditions in China, policy easing by the Chinese Central Bank and a hint of more stimulus to come by the European Central Bank, sent equity markets soaring over the past month. Yet, a considerable hurdle still lies ahead as the US Fed is moving ever closer to its first interest rates hike since mid-2006.

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	7.8	21.6	27.9	30.9	25.9	13.0	14.4
JP Morgan	-0.3	17.4	22.0	14.1	14.6	13.2	11.7
S&P 500	8.3	22.6	31.5	35.5	31.1	16.3	15.7
FTSE 100	7.1	18.3	21.6	23.1	20.8	9.1	12.0
Nikkei Index	8.8	29.7	35.0	31.0	22.4	11.0	10.8
Rand/Dollar	-0.1	19.3	25.0	16.6	14.7	9.8	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	23.0	24.0	24.0	23.1	23.5	23.5	23.8	22.5	22.5	22.2	20.8	20.8
2 Years	18.0	19.9	18.2	17.5	18.8	16.8	17.3	18.4	16.7	15.8	16.6	14.8
3 Years	20.1	22.1	23.7	19.7	21.3	23.2	18.2	19.5	20.3	17.2	18.2	19.6
5 Years	21.1	20.9	19.1	20.6	20.5	18.8	18.8	18.5	17.1	18.1	17.8	16.8
8 Years	15.8	14.8	7.2	15.3	14.3	6.7	14.3	13.4	8.3	13.8	12.9	7.9
10 Years	12.7	12.4	10.0	12.0	11.7	8.6	12.1	11.8	10.5	11.5	11.2	9.7
15 Years	10.1	9.8	6.2	9.2	9.0	5.1	10.0	9.7	6.8	9.3	9.0	6.0

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	40.8	52.9	-12.1	22.5	38.5	-16.0
Japan	8.2	7.9	0.3	5.4	16.2	-10.8
Europe ex UK	17.2	16.2	1.0	34.7	28.9	5.8
United Kingdom	6.3	7.0	-0.6	11.2	6.4	4.8
SE Asia & Canada	8.7	10.3	-1.6	18.2	7.9	10.3
South Africa	14.8	0.0	14.8	0.0	0.2	-0.2
Other	4.0	5.6	-1.6	7.9	1.8	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	1.9	0.0	0.9	0.2	0.1	0.4
Consumer Discretionary	11.4	13.0	5.5	1.1	0.8	2.3
Consumer Staples	5.6	10.2	2.7	0.5	0.4	1.1
Energy	4.5	6.7	2.2	0.4	0.3	0.9
Financials	18.2	21.5	8.7	1.8	1.3	3.7
Healthcare	10.8	12.3	5.2	1.0	0.8	2.2
Industrials	11.6	10.3	5.5	1.1	0.9	2.3
Information Technology	12.5	14.3	6.0	1.2	0.9	2.5
Materials	4.2	4.7	2.0	0.4	0.3	0.8
Other	0.3	0.0	0.1	0.0	0.0	0.1
Telecoms Services	2.6	3.8	1.3	0.3	0.2	0.5
Utilities	1.6	3.2	0.8	0.1	0.1	0.3
SA Rand Hedge	14.8	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME		SECTOR
1.	Wells Fargo & Co	Financials
2.	Oracle Corporation	Information Technology
3.	DS Smith plc	Industrials
4.	Taiwan Semiconductor SP	Industrials
5.	Delphi Automotive plc	Industrials
6.	Deutsche Boerse AG	Financials
7.	Citigroup Inc	Banks
8.	China Mobile Ltd	Telecommunications
9.	DBS Group Holdings Ltd	Telecommunications
10.	Teva Pharmaceutical SP	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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