FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 OCTOBER 2015

SOUTH AFRICAN ECONOMIC REVIEW

- August saw the release of second quarter GDP numbers, showing that overall domestic production, or GDP, contracted in the second quarter of the year, albeit by a relatively small annualised 1.3%. High frequency data released so far for the third quarter has been very mixed, with no clear indication of much of an improvement. While manufacturing and mining production and retail sales improved early in the third quarter, car sales and electricity production were decidedly weak. As a result, the risk of a technical recession, or two successive quarters of overall GDP declines, remains very much alive, even though we remain hopeful that we will be able to avoid such an outcome. Data to be released over the coming month should provide a clearer picture as to the performance of the economy in the third quarter.
- While speculation of a technical recession remains rife, the more fundamental issue is that overall growth prospects for the economy remains poor and there is little hope for much of an acceleration soon and possibly even in the medium term. Importantly, key sectors of the economy continue to struggle: mining as a result of falling commodity prices; construction due to declining private business investment; agriculture because of the severe drought; tourism as a result of the ill-conceived new visa rules; manufacturing in the face of weak demand and surging input costs and then there are also the broader headwinds of tightening monetary and fiscal policy and deeply depressed consumer and business confidence.
- A third piece of rather negative news during the month was a renewed, and unexpected, sharp widening in the monthly trade deficit in August to a rather sizeable R10bn. This large deficit followed several months of good numbers, which saw the overall current account balance narrowing to only 3.1% of GDP in the second quarter. The August numbers not only point to a notably wider current account deficit in the third quarter, but it is of particular concern that the bulk of the worsening was because of a renewed decline in exports.
- Fortunately, there was also some good news during the past month. Rating agency Standard & Poor's unexpected downgrade of Brazil's rating to junk status quickly prompted intense speculation that S&P would soon dish out the same medicine to South Africa, given the poor prospects for growth, sustained large current account deficit, lack of growth-enhancing policy reforms and concerns that the slowing economy will stump the intended fiscal consolidation. However, S&P quickly responded by indicating that a downgrade was not imminent and that SA has about 18 to 24 months to sort these problems out. While these comments do not completely rule out the chance of a downgrade in the near future, it does provide SA with some breathing space and more time to address our pressing economic problems.
- A further piece of good news was that inflation fell back from 5.0% in July to 4.6% in August. While lower fuel prices were a key driver of this decline, the less volatile 'core' inflation rate, which excludes food and energy, also eased from 5.5% in July to 5.3% in August; this compared to a peak of 5.8% in February.
- The problems and headwinds facing the South African economy continue to mount and confidence is deeply depressed. While much more difficult, and largely inescapable, global conditions are unquestionably part of the problem, the growth slowdown and structural headwinds facing the economy highlight the need for government to take urgent action to improve SA's economic fortunes. Failing to do so will result in a relentless buildup of social and fiscal pressures, something South Africa can ill afford.

Following the contraction in GDP during the second quarter, the economy is teetering on the brink of recession. While more difficult global conditions are partly to blame, it is becoming more critical, by the day, that government urgently act in various ways to address SA's deep underlying structural economic ills.

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	1.0	3.4	4.8	15.4	14.6	9.8	14.8
JSE Fin & Ind	2.5	8.1	16.7	23.4	21.9	16.2	18.8
JSE All Gold	-4.9	-17.7	-25.4	-26.1	-17.1	-11.4	-7.0
All Bond	-0.1	2.7	7.0	5.3	7.7	8.6	8.2
Total Cash	0.4	4.0	5.3	4.9	4.9	6.4	6.6
ALSI 40	2.0	4.9	4.9	15.9	14.8	9.5	14.4
INDI 25	5.0	9.9	17.8	26.3	25.0	19.1	21.3

RETIREMENT ANNUITIES TO 01/10/2015 (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	-2.9	3.7	3.7	2.8	6.4	6.4	1.4	8.7	8.7	8.0	9.2	9.2	5.1	5.0	5.0	4.6
2 Years	4.3	8.0	9.9	7.0	8.9	10.1	6.8	9.5	9.9	10.4	11.3	12.2	4.8	4.7	4.5	5.3
3 Years	9.9	12.3	15.8	10.1	11.5	13.6	10.2	12.0	14.1	12.0	12.4	13.4	4.5	4.4	4.1	5.5
5 Years	13.1	14.0	13.7	11.9	12.4	12.0	12.2	12.8	12.2	12.4	12.3	11.8	4.2	4.2	4.1	5.5
8 Years	12.5	12.0	7.6	11.1	10.8	8.2	11.3	10.9	7.9	11.3	11.2	10.3	4.6	4.7	5.4	6.0
10 Years	11.3	11.4	11.7	10.4	10.5	10.5	10.5	10.7	10.7	11.3	11.5	12.3	4.9	5.0	5.4	6.0
15 Years	13.0	13.1	12.2	11.3	11.4	10.8	12.1	12.2	12.0	11.7	11.7	11.3	5.3	5.3	5.6	5.7
20 Years	12.6	12.9	12.4	11.1	11.3	11.2	-	-	-	11.4	11.4	11.3	5.8	5.9	7.1	6.0
25 Years	13.0	13.2	13.2	11.5	11.5	11.7	-	-	-	11.7	11.8	12.4	7.03	7.16	8.77	6.9
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.433% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/10/2015 (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	-1.7	3.9	3.9	2.4	5.7	5.7	0.9	7.3	7.3	6.5	7.7	7.7	3.0	2.9	2.9	4.6
2 Years	4.4	7.6	9.3	6.1	7.9	8.9	5.7	8.4	8.9	8.9	9.8	10.7	2.8	2.7	2.5	5.3
3 Years	9.9	11.9	15.5	9.0	10.2	12.3	9.3	10.9	13.0	10.5	10.9	11.9	2.5	2.5	2.3	5.5
5 Years	12.9	13.8	13.6	10.7	11.1	10.9	11.3	12.0	11.6	10.9	10.8	10.4	2.3	2.3	2.2	5.5
8 Years	12.1	11.6	7.2	9.8	9.5	6.9	10.5	10.1	7.2	9.9	9.8	9.0	2.7	2.8	3.5	6.0
10 Years	10.9	11.0	11.1	9.0	9.1	9.2	9.6	9.7	9.7	10.0	10.1	11.1	3.1	3.1	3.6	6.0
15 Years	12.2	12.3	11.2	10.0	10.0	9.6	11.1	11.2	11.1	10.5	10.5	10.4	3.6	3.7	4.3	5.7
20 Years	11.7	12.0	11.4	9.9	10.1	10.0	-	-	-	10.4	10.4	10.5	4.4	4.5	5.8	6.0
25 Years	12.1	12.2	12.2	10.2	10.2	10.3	-	-	-	10.7	10.7	11.3	5.53	5.64	7.18	6.9
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.257% 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)	27 (2)	22 (1)	25 (0)	0 (0)	27 (27)	1 (0)	23 (0)	22 (1)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (26)	64 (28)	71 (23)	66 (24)	100 (85)	73 (58)	99 (26)	68 (32)	71 (23)	66 (24)	100 (84)	73 (58)
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	12.3	Media
2.	British American Tobacco	5.2	Consumer Goods
3.	MTN Group	5.1	Telecommunications
4.	Steinhoff International Holdings Ltd	5.0	Industrials
5.	FirstRand	4.1	Banks
6.	SABMiller plc	3.9	Consumer Goods
7.	Sasol	3.7	Oil & Gas
8.	Standard Bank	3.2	Banks
9.	Remgro	3.1	Industrials
10.	Old Mutual	3.1	Life Insurance

GLOBAL ECONOMIC OVERVIEW

- The concerns that caused a sharp sell-off in equity markets in August continued to plague investment markets in September. The US's S & P 500 Index ended the month more than 2.5% lower than the end of August, although the closing level was almost 3% higher than the daily low hit a few days before the August month-end. Nevertheless, the month saw considerable volatility in practically all financial markets around the world and the overall picture was one of equity market weakness, further declines in emerging market currencies, lower commodity prices and lower bond yields in the developed world as investors moved into safer havens.
- At the heart of the trouble in financial markets were the same factors that plagued investors in August, namely deepening concerns over the state of the Chinese economy, and, in fact, the entire world economy, and the approaching first interest rate hike by the US Federal Reserve (Fed) in more than nine years.
- The Fed's mid-month meeting resulted in no hike in the Fed Funds rate. While this decision itself was not a big surprise to market participants – opinions as to whether the Fed would hike or not were split down the middle in the run up to the meeting – the Fed's main reason for not hiking, namely concern over weakness in the rest of the world and the potential impact it could have on the US economy, left markets decidedly jittery over prospects for global growth and, with it, concerns over the outlook for corporate profit growth.
- 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. China's data remained pretty weak, even though there are tentative indications of a stabilisation in activity, and the same goes for much of the rest of the world. Indeed, activity growth in commodity-producing countries and countries heavily reliant on trade with China continued to slow and the renewed weakness in commodity prices and another wave of EM currency weakness intensified concerns over the outlook for these economies.
- As far as the US Fed is concerned, incoming data on the real economy continues to support the case for them lifting rates, possibly still before the end of the year. Importantly, US GDP expanded at an annual rate of 3.7% in the second quarter and the labour market continues to tighten as jobless claims remain at multi-year lows. However, complicating the Fed's position is the fact that inflation remains very low (headline inflation is only 0.2% and a broad measure of inflation, excluding the volatile food and energy components, is stuck at little over 1%) and wage growth remains low despite the tightening labour market. As a result of the ongoing concerns over global economic weakness, especially given the Fed's decision to not hike rates for fear of aggravating the situation, analysts are increasingly doubtful that the Fed will still hike rates this year, irrespective comments to the contrary by a number of Fed regional presidents.
- Still, whether the Fed still hikes this year or only in 2016, the Fed is marching closer to the beginning of the hiking cycle, an event that may bring renewed global financial market turmoil.

Weak economic data out of China and ongoing concerns over the impact of the start of the rise in US interest rates continued to depress global market sentiment during the month. . The combination of these two forces continued to put downward pressure on commodity prices and emerging market currencies and has, over the past month, also triggered a further bout of weakness in global equity markets.

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	0.4	12.8	16.8	29.7	24.9	11.6	13.8
JP Morgan	5.2	17.8	19.5	15.9	14.9	12.7	12.1
S&P 500	1.7	13.2	21.6	33.5	30.0	14.6	15.2
FTSE 100	-0.3	10.5	8.5	22.7	20.0	8.2	11.5
Nikkei Index	-2.9	19.2	20.5	28.7	20.7	9.0	10.2
Rand/Dollar	4.2	19.5	22.4	18.8	14.7	9.1	8.1

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	8.8	9.6	9.6	10.3	10.3	10.3	13.9	11.1	11.1	13.6	10.7	10.7
2 Years	11.2	13.0	14.4	11.4	12.4	13.3	12.6	13.1	13.9	11.7	11.8	12.3
3 Years	16.1	18.5	22.7	16.1	18.0	22.2	15.5	17.1	20.2	14.9	16.1	19.5
5 Years	18.5	19.3	18.2	18.4	19.0	18.0	17.1	17.3	16.5	16.6	16.8	16.2
8 Years	14.0	13.2	6.1	13.7	12.8	5.6	13.1	12.5	7.4	12.7	12.1	7.1
10 Years	11.4	11.1	9.2	10.8	10.5	7.9	11.2	11.0	10.0	10.8	10.5	9.2
15 Years	9.2	9.1	5.8	8.5	8.3	4.7	9.4	9.2	6.5	8.7	8.5	5.8

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.7	15.8	-4.1	22.5	38.5	-16.0
Japan	9.2	7.8	1.4	5.4	16.2	-10.8
Europe ex UK	17.1	15.6	1.4	34.7	28.9	5.8
United Kingdom	30.5	39.0	-8.6	11.2	6.4	4.8
SE Asia & Canada	9.0	7.3	1.7	18.2	7.9	10.3
South Africa	14.7	0.0	14.7	0.0	0.2	-0.2
Other	7.9	14.3	-6.5	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	2.1	0.0	0.3	0.2	0.7	0.4
Consumer Discretionary	11.6	13.0	1.6	1.2	4.1	2.3
Consumer Staples	5.8	10.3	0.8	0.6	2.1	1.2
Energy	4.6	6.6	0.6	0.5	1.7	0.9
Financials	17.2	21.6	2.4	1.9	6.1	3.4
Healthcare	11.3	12.3	1.5	1.2	4.1	2.2
Industrials	10.9	10.3	1.5	1.2	3.9	2.2
Information Technology	13.0	14.2	1.7	1.4	4.7	2.6
Materials	4.3	4.7	0.6	0.5	1.5	0.9
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.8	3.8	0.4	0.3	1.0	0.6
Utilities	1.7	3.3	0.2	0.2	0.6	0.3
SA Rand Hedge	14.7	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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