FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 OCTOBER 2016

SOUTH AFRICAN ECONOMIC REVIEW

- Locally, September was relatively quiet as concerns over the position of the Finance Minister faded a bit and macroeconomic data did not yield any major surprises. This was certainly welcome, following the past few months of high levels of concern over politics and concerns over the overall state of the economy.
- On the back of a lack of any meaningful" bad news" during September, the rand firmed notably, trading below R14.00/US$ as September drew to a close.
- On the macroeconomic front, the release of the South African Reserve Bank (SARB's) Quarterly Bulletin confirmed the narrowing of the current account deficit to 3.2% of GDP in the second quarter, from 5.3% in the first quarter. Although the narrowing was welcome, and was driven by a notable improvement in the balance on SA's physical trade with the rest of the world, it was less than the consensus view (as the hoped for improvement in the deficit on the services account failed to materialise). In this regard, the sharp decline in income on SA's investments from abroad over the past several quarters did not improve, as was anticipated. Moreover, while the second quarter deficit was much smaller than in the first quarter, the average for the first half of the year was 4.3% of GDP, exactly the same as the deficit recorded in all of 2015. This implies that a good second-half physical trade performance is required to confirm that our structurally large current account deficit has finally started to narrow.
- Inflation also remains reasonably well contained, despite still being stuck at the top end of the SARB's inflation target range. Still, over the past few months, inflation has generally surprised on the downside by not rising as much as was generally expected. As we said last month, we remain confident that the cyclical peak in inflation is behind us, namely the 7.0% recorded in February this year. The recent firmer rand, declining grain prices and stable oil price strengthens our view that, despite a likely rise in inflation over the next several months for "base effect" reasons, inflation should drift lower from late this year and through 2017.
- The best piece of news over the past month came from the SARB itself, as the Bank indicated that, on the back of the improved inflation outlook, interest rates may be close to, or already at, the peak in the cycle. We have held the view for some months now that the SARB will not raise rates again in this cycle, barring an unexpected renewed slump of the rand. While the peak in the rate cycle may indeed have been reached, the Bank indicated that the bar for a rate cut is high. Lower rates will only be possible if and when inflation falls convincingly into the inflation target range and inflation expectations follow. This implies that rates are unlikely to be lowered before deep into 2017, unless inflation surprises notably on the downside earlier.
- Despite some positive developments on the financial side of the economy, the real economy continues to struggle. While the solid 3.3% annualised expansion in GDP in the second quarter was indeed welcome, early data for the third quarter indicate that this was not sustained – although it is still very early and much can change. Still, it is difficult to see what will sustain a strong growth pace in the second half of the year, as consumers remain under considerable financial pressure, private fixed investment is contracting on account of deeply depressed confidence and weak demand, and government consumption is only growing slowly as the spending ceiling imposed by National Treasury is doing its job in containing the fiscal situation.
- In summary, while headline macroeconomic news was generally reasonably good over the past two months, developments in the political sphere remain a major concern, not only to the ratings reviews due out at the end of the year, but also to the already deeply depressed consumer and business confidence. Without a major turnaround in both, a sustained economic recovery will be difficult, if not impossible, to achieve.
- As I said last month, the bottom line is that, despite some rays of economic sunshine appearing over the past few months, very dark clouds remain in place over prospects for the remainder of 2016 and 2017 and even beyond.

The past month was a lot quieter on the political front and macroeconomic data was generally reasonably favourable. Still, no major improvement in SA's macroeconomic fortunes is likely in the absence of growth-enhancing macroeconomic reforms and unless political risks fade further.

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	-0.9	4.8	6.6	8.8	15.3	13.5	12.0
JSE Fin & Ind	-2.2	-0.8	3.2	12.4	21.5	18.7	16.2
JSE All Gold	-8.7	102.1	128.7	21.2	-4.5	2.8	-1.7
All Bond	3.0	15.0	7.6	6.8	8.0	8.8	8.5
Total Cash	0.6	5.0	6.5	5.6	5.2	5.8	6.6
ALSI 40	-1.2	1.4	4.0	7.9	14.9	12.8	11.3
INDI 25	-4.1	-3.3	3.8	12.7	23.8	21.2	19.1

RETIREMENT ANNUITIES TO 01/10/2016 (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	8.2	8.2	5.5	8.2	8.2	4.2	6.4	6.4	7.8	8.5	8.5	6.1	5.8	5.8	6.1
2 Years	4.1	6.7	5.9	6.1	7.5	7.3	4.5	7.2	7.6	9.2	9.8	10.3	5.7	5.6	5.4	5.4
3 Years	6.0	8.1	9.3	7.3	8.5	9.4	6.3	8.0	8.7	10.4	10.9	12.0	5.4	5.3	5.0	5.5
5 Years	11.1	12.4	14.8	10.5	11.2	12.8	10.0	11.0	12.9	12.0	12.1	12.5	4.9	4.8	4.4	5.6
8 Years	12.6	12.4	11.8	11.2	11.0	10.4	11.0	10.8	10.3	11.6	11.5	10.7	4.7	4.8	5.1	5.4
10 Years	10.9	10.8	9.3	10.1	10.1	9.1	9.9	10.0	9.4	11.2	11.2	11.2	5.0	5.0	5.5	6.1
15 Years	12.6	12.8	13.4	11.1	11.2	11.4	11.4	11.6	12.4	11.8	11.7	11.3	5.3	5.3	5.6	5.8
20 Years	12.4	12.6	12.0	11.0	11.1	10.9	-	-	-	11.4	11.4	11.1	5.7	5.7	6.7	5.9
25 Years	12.7	12.9	12.8	11.2	11.3	11.5	-	-	-	11.6	11.6	12.1	6.7	6.8	8.3	6.6
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.396% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/10/2016 (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	2.0	6.0	6.0	3.7	6.3	6.3	2.5	4.5	4.5	6.3	7.0	7.0	3.6	3.5	3.5	6.1
2 Years	2.9	5.3	4.9	4.6	6.1	6.0	3.0	5.5	5.9	7.7	8.3	8.8	3.4	3.3	3.2	5.4
3 Years	4.8	6.8	8.2	5.9	7.1	8.0	4.8	6.5	7.4	8.9	9.4	10.5	3.2	3.1	2.9	5.5
5 Years	10.1	11.4	14.0	9.0	9.7	11.3	8.7	9.8	11.9	10.5	10.6	11.0	2.8	2.7	2.5	5.6
8 Years	11.9	11.6	11.0	9.7	9.5	8.8	10.0	9.8	9.2	10.1	10.0	9.3	2.7	2.8	3.2	5.4
10 Years	10.2	10.1	8.5	8.7	8.6	7.6	8.9	8.9	8.2	9.8	9.8	9.9	3.0	3.1	3.7	6.1
15 Years	11.7	11.9	12.5	9.6	9.7	10.1	10.3	10.5	11.3	10.5	10.5	10.2	3.5	3.6	4.1	5.8
20 Years	11.4	11.6	11.0	9.7	9.8	9.7	-	-	-	10.3	10.3	10.2	4.2	4.3	5.4	5.9
25 Years	11.7	11.9	11.8	9.9	10.0	10.2	-	-	-	10.6	10.6	11.1	5.2	5.3	6.7	6.6
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.219% 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. (0.456% 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 (1)	16 (2)	25 (0)	0 (0)	27 (27)	0 (0)	28 (0)	16 (2)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (24)	64 (29)	72 (21)	66 (24)	100 (85)	73 (58)	100 (24)	65 (31)	72 (21)	66 (24)	100 (85)	73 (59)
Property	0	7	12	7	0	0	0	7	12	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	18.3	Media
2.	British American Tobacco	4.6	Consumer Goods
3.	Steinhoff International	4.0	Industrials
4.	Sasol	3.7	Oil & Gas
5.	Standard Bank	3.1	Banks
6.	MTN	2.9	Telecommunications
7.	Old Mutual	2.8	Life Insurance
8.	Remgro	2.6	Industrials
9.	FirstRand	2.2	Banks
10.	Barclays Africa	2.2	Banks

GLOBAL ECONOMIC OVERVIEW

- The past month was largely characterised by a heavy focus on the policy intentions of the US Federal Reserve (the Fed), causing considerable volatility in the US and in global equity markets. In the event, the US S&P 500 Index ended September pretty much unchanged compared with the end of August, with the sell-off earlier in the month being followed by a strong rebound.
- The early sell-off was caused by dented risk appetite as a number of Fed officials indicated that macroeconomic conditions supported another hike in the Fed Funds rate over the next few months. These comments were supported by a sustained expansion of the US economy, albeit relatively pedestrian; data confirmation that the labour market remains tight; and an upside surprise in inflation for the month of August. While consensus expectations were pretty unanimous that the Fed would not raise rates at the end of its two-day meeting on 21 September, markets strongly concluded from pre-meeting Fed comments that not only was an interest rates hike before year-end still highly likely, but it raised some concerns over the Fed's policy intentions through 2017. This caused a wave of risk-off sentiment, causing the sell-off of a cumulative 3% in the early part of September.
- As expected, the Fed left rates unchanged and actually delivered a positive surprise to markets as the median forecast of the individual Federal Open Market Committee (FOMC) members' perceived path for the Fed Funds rate through 2018 was substantially lowered. This allayed market fears that the expected hike before year-end will mark the start of a much more aggressive hiking cycle by the Fed. The current median forecast indicates only two 25 basis point hikes in 2017, about half the previous median forecast. On the back of this news, markets rallied quite strongly, wiping out the earlier losses.
- Incoming data during September does not reflect any material change to the broad global macroeconomic environment that has been in place so far this year. The most positive comment is probably that global growth appears to be stable, albeit still very slow – with China showing more signs that policy stimulus over the past year has stabilised the growth pace (although there is not yet any convincing signs of a meaningful acceleration).
- Emerging markets, and commodity producers in particular, continue to enjoy easier conditions, brought about by a moderately softer US dollar, somewhat higher commodity prices and a still relatively favourable financing environment.
- Looking into 2017, we remain of the opinion that global growth will improve moderately, as monetary policy stimulus gains a bit more traction. The outlook will decidedly improve further should the much debated need for global fiscal stimulus actually materialise.

The Fed is carefully preparing markets for its next interest rate increase, likely before year-end. Markets are better prepared for a hike and concerns over the possible impact of Fed tightening over the medium term have eased a bit over the past few weeks.

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	-6.0	-5.9	11.4	18.1	25.0	14.7	11.2
JP Morgan	-6.0	-1.7	8.9	13.6	12.5	10.5	10.6
S&P 500	-6.5	-4.3	14.8	23.4	29.6	17.6	13.4
FTSE 100	-5.6	-10.7	1.0	9.3	18.2	10.9	7.5
Nikkei Index	-7.0	-8.9	11.3	14.6	19.7	12.4	7.7
Rand/Dollar	-6.5	-11.3	-0.5	11.0	11.3	6.5	5.9

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	-2.6	9.5	9.5	-2.9	8.1	8.1	-3.9	7.8	7.8	-5.0	6.0	6.0
2 Years	6.1	9.5	9.5	5.8	8.8	9.1	6.9	10.0	11.1	5.6	8.7	9.9
3 Years	8.9	11.2	12.7	8.4	10.3	11.5	9.7	11.6	12.9	8.3	10.0	11.2
5 Years	15.2	16.7	19.1	14.6	16.0	18.7	14.5	15.6	17.1	13.5	14.5	16.4
8 Years	14.9	14.2	9.3	14.3	13.6	8.5	13.9	13.5	9.5	13.2	12.7	8.8
10 Years	11.7	11.3	6.9	11.2	10.7	5.8	11.5	11.2	7.8	10.8	10.6	7.2
15 Years	9.7	9.6	7.5	8.9	8.8	6.4	9.9	9.8	7.7	9.1	9.0	6.9

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	41.5	52.7	-11.3	28.5	37.4	-8.9
Japan	4.1	7.9	-3.8	4.4	18.9	-14.5
Europe ex UK	17.9	15.3	2.6	29.4	28.1	1.3
United Kingdom	7.5	6.3	1.2	10.6	5.6	5.0
SE Asia & Canada	10.2	11.5	-1.4	19.7	8.2	11.5
South Africa	15.1	0.0	15.1	0.0	0.2	-0.2
Other	3.8	6.3	-2.5	7.4	1.6	5.8
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	2.8	0.0	1.4	0.1	0.2	0.6
Consumer Discretionary	9.2	12.3	4.5	0.4	0.8	1.9
Consumer Staples	7.1	10.4	3.4	0.3	0.6	1.5
Energy	4.6	6.8	2.2	0.2	0.4	1.0
Financials	16.1	16.9	7.9	0.8	1.4	3.4
Healthcare	1.1	3.3	0.5	0.1	0.1	0.2
Industrials	10.8	11.7	5.3	0.5	1.0	2.3
Information Technology	13.1	10.4	6.4	0.6	1.1	2.8
Materials	12.7	15.9	6.2	0.6	1.1	2.7
Other	5.0	5.1	2.4	0.2	0.4	1.0
Telecoms Services	0.0	0.0	0.0	0.0	0.0	0.0
Utilities	1.7	3.8	0.8	0.1	0.1	0.4
SA Rand Hedge	15.1	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME	SECTOR
1. Oracle Corporation	Information Technology
2. CRH plc	Industrials
3. Amazon.Com	Information Technology
4. JPMorgan Chase & Co	Financials
5. Moody's Corporation	Financials
6. Wells Fargo & Co	Financials
7. Taiwan Semiconductor	Industrials
8. Owens Corning	Industrials
9. Alphabet Inc	Technology
10. Apple Inc	Information Technology

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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