FLEXIPORTFOLIO

PERFORMANCE REPORT

1 SEPTEMBER 2015

SOUTH AFRICAN ECONOMIC REVIEW

- The key focus over the past month was confirmation of earlier indications from high frequency data that the economy weakened sharply in the second quarter. GDP contracted by an annualised 1.3% in the second quarter, fully cancelling out the 1.3% gain in the first quarter. Compared with the same quarter in 2014, GDP was only 1.6% higher, indicating that economic growth is grinding to a complete halt. Disconcertingly, the key mining and manufacturing sectors both contracted by no less than 6% annualised, while agriculture, hurt by a serious drought, contracted at an annual rate of over 17%.
- These weak numbers reflect the building headwinds of falling commodity prices, disruptive electricity interruptions, rising interest rates, higher tax rates and deeply depressed consumer and business confidence. Since the end of the quarter, nothing has happened to lift the extremely depressed confidence or improve prospects. As a result, chances are slim of any improvement in the second half of the year and the risks of SA entering a full-blown technical recession – defined as two successive quarters of GDP contraction – now looms large.
- As a result of the rather shocking second quarter growth numbers, growth forecasts for this year and next have been revised sharply lower, with consensus now forecasting about 1.5% growth for the full calendar year, with much the same prediction for 2016. If anything, the risks to these forecasts are skewed to the downside.
- Fortunately, there was some good news over the past month. While the headline inflation rate rose to 5.0% in July from 4.7% in June, the core inflation rate – excluding the volatile food and energy components – eased to 5.4%, down from a peak of 5.8% in February. While headline inflation is expected to rise further over the remainder of the year, and looks set to breach the upper end of the 3% - 6% target range around year-end, inflation forecasts have generally been revised lower for this year and next. This is largely on account of the drop in the oil price from around the mid-US$60 a barrel in May to around US$50 by the end of August, the still weak pass-through to inflation from the weaker rand (likely given weak domestic demand), and the failure to grant Eskom's additional tariff hike for this year.
- The second piece of good news is that the trade balance continues to narrow. Although the balance slipped into deficit again in July, the deficit was small, at less than R500 million. More importantly, the cumulative deficit for the first seven months of the year came to R24.3 billion, substantially down from the R55.3 billion over the comparable period in 2014. This improvement occurred despite the decline in commodity prices so far this year, and is therefore largely attributable to sharply lower oil imports on the back of the lower oil price, and a strong rise in manufactured exports, led by vehicles and machinery.
- 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 the recent wave of retrenchment announcements across various sectors highlight the need for government to take urgent action to improve SA's economic fortunes.
- What is required is a decided turn towards less regulation; much improved policy certainty; drastic measures to improve the functioning of public sector institutions; decisive action to ensure less labour disruptions; a sharp focus on improving the energy situation as soon as possible, and tough action on the seemingly growing wave of organised crime spreading the across the country, exacting a huge cost on businesses and the population at large. Closer co-operation and a generally better relationship with the private sector is a necessary precondition for SA's economic prospects, as is a leadership less involved in our current state of messy politics and, instead, solely focused on addressing SA's pressing problems and headwinds.

Following the contraction of GDP in 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	-3.6	2.4	1.1	15.6	16.4	10.4	15.7
JSE Fin & Ind	-4.0	5.4	12.3	22.4	23.5	15.7	19.2
JSE All Gold	23.6	-13.5	-35.3	-22.8	-16.0	-9.1	-4.0
All Bond	0.1	2.7	5.4	5.7	7.9	8.9	8.3
Total Cash	0.5	3.5	5.3	4.9	4.9	6.4	6.6
ALSI 40	-4.3	2.9	0.2	15.9	16.3	9.9	15.4
INDI 25	-4.6	4.6	10.7	24.1	26.2	18.3	21.7

RETIREMENT ANNUITIES TO 01/09/2015 (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	0.1	3.4	3.4	4.4	6.4	6.4	5.8	9.1	9.1	8.4	9.8	9.8	5.0	5.0	5.0	4.6
2 Years	6.8	10.3	13.3	8.3	10.2	11.9	9.4	11.6	12.8	10.8	11.7	12.6	4.8	4.6	4.5	5.5
3 Years	11.8	13.7	16.5	11.1	12.2	13.9	12.1	13.5	15.1	12.4	12.7	13.5	4.5	4.4	4.1	5.8
5 Years	14.2	15.3	15.5	12.5	13.0	13.0	13.2	14.0	13.7	12.5	12.4	11.8	4.2	4.2	4.1	5.6
8 Years	12.9	12.3	8.5	11.3	11.0	8.6	11.8	11.4	8.5	11.3	11.2	10.4	4.6	4.7	5.4	6.1
10 Years	11.7	11.9	12.7	10.6	10.7	11.1	11.0	11.2	11.4	11.4	11.5	12.4	4.9	5.0	5.4	6.1
15 Years	13.3	13.1	11.9	11.5	11.4	10.9	12.4	12.4	12.2	11.7	11.7	11.4	5.3	5.3	5.6	5.7
20 Years	12.8	12.9	12.5	11.2	11.4	11.3	-	-	-	11.4	11.4	11.4	5.9	6.0	7.2	6.0
25 Years	13.2	13.2	12.9	11.5	11.5	11.7	-	-	-	11.7	11.8	12.5	7.06	7.19	8.81	7.0
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.433% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/09/2015 (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	0.7	3.4	3.4	3.8	5.7	5.7	4.6	7.6	7.6	6.9	8.3	8.3	2.9	2.9	2.9	4.6
2 Years	6.5	9.6	12.4	7.2	9.0	10.6	8.0	10.2	11.4	9.3	10.2	11.1	2.7	2.6	2.5	5.5
3 Years	11.5	13.1	15.9	9.8	10.9	12.4	10.9	12.2	13.9	10.9	11.2	12.0	2.5	2.4	2.2	5.8
5 Years	13.8	14.9	15.3	11.2	11.7	11.7	12.3	13.0	12.9	11.0	10.9	10.4	2.3	2.3	2.2	5.6
8 Years	12.5	11.8	8.0	9.9	9.6	7.3	10.9	10.5	7.7	9.9	9.9	9.1	2.7	2.8	3.5	6.1
10 Years	11.3	11.4	12.0	9.2	9.3	9.7	10.1	10.2	10.4	10.1	10.2	11.2	3.1	3.1	3.7	6.1
15 Years	12.5	12.3	10.9	10.1	10.1	9.7	11.3	11.3	11.1	10.6	10.6	10.4	3.7	3.7	4.3	5.7
20 Years	11.9	12.0	11.6	10.0	10.1	10.1	-	-	-	10.4	10.4	10.5	4.5	4.6	5.9	6.0
25 Years	12.2	12.2	11.9	10.3	10.2	10.4	-	-	-	10.7	10.8	11.3	5.56	5.67	7.22	7.0
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)	26 (2)	22 (1)	25 (0)	0 (0)	27 (27)	1 (0)	24 (0)	22 (1)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (26)	65 (29)	71 (23)	66 (24)	100 (86)	73 (59)	99 (26)	68 (31)	71 (23)	66 (24)	100 (85)	73 (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	11.5	Media
2.	MTN Group	5.0	Telecommunications
3.	British American Tobacco	4.7	Consumer Goods
4.	Steinhoff International Holdings Ltd	4.6	Industrials
5.	FirstRand	4.4	Banks
6.	Sasol	4.0	Oil & Gas
7.	Standard Bank	3.4	Banks
8.	Remgro	3.1	Consumer Goods
9.	Old Mutual	3.0	Life Insurance
10.	SABMiller plc	3.0	Consumer Goods

GLOBAL ECONOMIC OVERVIEW

- August was a troublesome month for global financial markets, as a combination of surging concerns over the state of the Chinese economy and the approaching first interest rate hike by the US Federal Reserve (Fed) in more than nine years, sparked a sharp sell-off during the latter half of August. The US S&P 500 Index ended the month more than 6% down, after shedding more than 11% at one stage.
- The sell-off was initially sparked by two events in China: the release of very weak manufacturing data in August and a decision by the Chinese central bank to allow the Yuan to weaken. The Markit manufacturing PMI survey of manufacturing conditions dropped to its lowest level in more than four years. The weak manufacturing data was perceived by market participants as indicating that the underlying conditions in China are likely worse than headline official GDP data would suggest. While the Chinese central bank has spent billions of dollars in recent months to prop up the yuan, the decision to reduce currency support and allowing the yuan to weaken was actually both an acknowledgement of the weakening economic conditions and an effort by the Chinese authorities to lend support to the flagging economy. A further reflection of the mounting concerns over the Chinese economy was a 12.5% slump in China's main stock market index in August, bringing the cumulative decline from mid-June to almost 40%.
- Late in the month, in reaction to the weak incoming data, the Chinese authorities cut interest rates and the reserve ratio requirement of the banks (the amount of cash reserves banks are obliged to hold with the central bank, so limiting their ability to lend to customers), which saw panic spread even further over the state of the economy. While the policy reaction was generally welcomed, there is deep scepticism over whether these rather moderate measures are enough to stabilise the Chinese economy, let alone generating a recovery.
- The developments in China also cast a further dark cloud over prospects for emerging markets, in general, through three transmission mechanisms: a further slump in commodity prices, weak demand in China for imports and increased competition from Chinese producers owing to the weaker yuan. As a result, currencies of a number of developing countries experienced yet another bout of weakness and growth forecasts are generally being revised lower.
- 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 by an annual rate of 3.7% in the second quarter, up from 2.4% in the first quarter, and the labour market continues to tighten as job growth remains buoyant and jobless claims are 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 only 1.2%) and wage growth remains low despite the tightening labour market. As a result of the wave of global panic over the past month, doubts were cast over the timing of the first hike in US interest rates, with many arguing that the past month's events may well result in the start of the US rate "lift-off" being postponed to October or December or possibly even March next year, rather than September. Still, the Fed is marching closer to the beginning of the hiking cycle and markets remain unnerved by the potential ramifications of raising US rates, especially given the vulnerabilities and weak growth elsewhere in the world that were starkly highlighted in August.

Global market sentiment was hit over the past month by events in China and ongoing concerns over the impact of the start of the rise in US interest rates. The combination of these two forces is putting downward pressure on commodity prices and emerging market currencies and has, over the past month, also triggered a sharp sell-off 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	-1.8	12.3	20.2	29.8	25.6	11.7	13.9
JP Morgan	5.6	11.9	17.0	13.6	13.0	11.8	11.1
S&P 500	-1.2	11.3	25.3	33.0	30.3	14.3	15.0
FTSE 100	-2.6	10.8	9.7	22.9	20.8	8.2	11.6
Nikkei Index	-1.4	22.8	30.9	29.5	21.7	9.2	11.1
Rand/Dollar	5.1	14.7	24.7	16.3	12.5	8.0	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	9.7	11.4	11.4	10.9	11.8	11.8	12.0	11.5	11.5	12.1	11.1	11.1
2 Years	12.1	14.6	15.9	11.9	13.6	14.5	11.9	13.2	13.9	11.1	11.8	12.1
3 Years	17.0	18.8	22.1	16.8	18.1	21.5	15.3	16.4	18.9	14.8	15.5	18.4
5 Years	18.9	20.0	19.1	18.7	19.6	18.8	16.8	17.4	16.7	16.5	16.9	16.5
8 Years	14.0	13.3	6.3	13.6	12.9	5.7	12.7	12.3	7.3	12.4	11.9	6.9
10 Years	11.4	11.4	9.4	10.8	10.7	8.2	11.0	11.0	10.0	10.6	10.5	9.2
15 Years	9.2	9.0	5.6	8.4	8.2	4.5	9.2	9.0	6.3	8.6	8.4	5.6

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.7	15.7	-4.0	22.5	38.4	-15.9
Japan	9.2	8.0	1.2	5.3	16.1	-10.8
Europe ex UK	17.5	15.8	1.7	34.8	28.9	5.9
United Kingdom	30.4	38.8	-8.4	12.1	6.4	5.6
SE Asia & Canada	8.8	7.1	1.6	19.2	8.0	11.2
South Africa	14.1	0.0	14.1	0.0	0.2	-0.2
Other	8.3	14.5	-6.2	6.1	1.9	4.2
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	1.8	0.0	0.2	0.2	0.6	0.4
Consumer Discretionary	11.3	12.8	1.5	1.2	4.0	2.3
Consumer Staples	5.5	9.9	0.7	0.6	2.0	1.1
Energy	4.2	6.9	0.5	0.4	1.5	0.8
Financials	17.9	21.6	2.5	1.9	6.3	3.6
Healthcare	11.7	12.7	1.5	1.3	4.2	2.4
Industrials	12.0	10.4	1.7	1.3	4.2	2.5
Information Technology	12.5	13.9	1.7	1.3	4.4	2.5
Materials	4.5	4.9	0.6	0.5	1.6	0.9
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.7	3.9	0.4	0.3	1.0	0.6
Utilities	1.7	3.2	0.2	0.2	0.6	0.4
SA Rand Hedge	14.1	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.	JPMorgan Chase & Co	Financials
4.	Taiwan Semiconductor	Industrials
5.	DS Smith plc	Industrials
6.	Citigroup Inc	Banks
7.	Teva Pharmaceuticals	Pharmaceuticals
8.	Medtronic plc	Healthcare
9.	DBS Group Holdings Ltd	Telecommunications
10.	Novartis AG	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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