# FLEXI**PORTFOLIO**

## PERFORMANCE REPORT

1 SEPTEMBER 2017

## **SOUTH AFRICAN ECONOMIC** REVIEW

On a macroeconomic front, August was a good month for South Africa. The equity market rose to a new all-time high, inflation fell to the middle of the target range (the lowest level in almost two years), another sizeable trade surplus was recorded and the rand firmed back to below R13.00 to the US dollar by month-end.

In addition to the relatively good news on the financial side of the economy over the past month, the real economy also delivered a pleasant surprise… officially exiting the recession in the second quarter. Over the past few months we have highlighted the fact that high frequency data was pointing to a solid recovery in economic activity during the second quarter. This after the shock 0.7% annualised contraction of the first quarter, which officially put the economy into a recession (a recession is defined as two successive quarters of GDP contraction). Early in September, StatsSA released the first estimate of the GDP numbers for the second quarter, which came in a 2.5% annualised – not only surprising analysts' estimates to the upside, but more than reversing the cumulative contraction over the previous two quarters.

Put differently, while we remain concerned about the slow pace of growth in economic activity, the total level of economic activity has risen to a new all-time high.

On a more sobering note, while the second quarter expansion was very welcome, we remain concerned about the sustainability of the second quarter performance. In fact, we fully expect growth to slow again in the second half of the year and our long-standing forecast of 0.8% GDP growth for the full calendar year has consequently remained unchanged. Moreover, a deeper analysis of the GDP numbers indicate that private fixed investment continues to contract and was by the second quarter no less than 15% lower than the peak reached in the final quarter of 2014. The consistent contraction in private investment reflects businesses' pessimism regarding the outlook for the economy and growing concern over policy direction – and certainty. The implication is that South Africa remains in a structural slow growth trap and will not escape it until greater policy certainty and predictability helps business confidence to recover.

Since the middle of 2016, we have held a very out-of-consensus view that the South African Reserve Bank would cut interest rates during the second half of 2017, a prediction that came true in July. Given the further drop in inflation in recent months, the stable rand and the still weak underlying economy, we expect the Bank to lower the repo rate by a further 25 bps at its 21 September meeting. Looking further ahead, we have pencilled in two more rate cuts in 2018, assuming the rand remains broadly stable and inflation remains anchored well into the 3% - 6% inflation target range.

Despite the relatively good macro news flow over the past month, the one area that is rapidly moving in the other direction is the fiscal situation. With tax revenues badly lagging budget projections during the first four months of the fiscal year, it seems as if the budget deficit for the full year might exceed the budget target of 3.1% of GDP by about half percent of GDP. In addition, the state owned enterprises remain a big concern, with many running deficits that have to be covered by the fiscus. The Medium Term Budget Policy Statement in October will provide a clearer picture of the likely outcome for the full year, but markets will also closely watch what actions new Finance Minister Gigaba takes to keep the fiscal situation under control.

## **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 | 2.6 | 13.6 | 10.2 | 6.6 | 13.1 | 14.0 | 10.2 |
| JSE Fin & Ind | 2.0 | 13.7 | 8.5 | 9.7 | 16.6 | 18.7 | 14.2 |
| JSE Resources | 5.1 | 13.6 | 17.3 | -10.1 | -1.2 | 0.5 | -0.9 |
| ALSI 40 | 2.6 | 15.8 | 10.9 | 6.1 | 13.1 | 13.7 | 9.8 |
| All Bond | 1.0 | 6.7 | 10.2 | 6.7 | 6.3 | 8.5 | 8.6 |
| Cash | 0.6 | 5.0 | 7.6 | 7.0 | 6.4 | 6.3 | 7.2 |

## RETIREMENT ANNUITIES TO 01/09/2017 (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 | 9.5 | 2.3 | 2.3 | 7.8 | 3.7 | 3.7 | 8.1 | 2.5 | 2.5 | 7.6 | 7.8 | 7.8 | 6.4 | 6.4 | 6.4 | 4.6 |
| 2 Years | 5.7 | 4.4 | 5.3 | 5.9 | 5.4 | 6.1 | 5.0 | 3.6 | 4.0 | 8.1 | 8.4 | 8.7 | 6.3 | 6.2 | 6.1 | 5.3 |
| 3 Years | 4.9 | 4.5 | 4.7 | 5.8 | 5.8 | 6.2 | 4.6 | 4.7 | 5.7 | 8.8 | 9.2 | 9.9 | 6.0 | 5.9 | 5.7 | 5.2 |
| 5 Years | 7.8 | 8.7 | 11.9 | 8.0 | 8.5 | 10.7 | 7.2 | 7.9 | 10.5 | 10.6 | 10.9 | 12.1 | 5.5 | 5.4 | 4.9 | 5.7 |
| 8 Years | 10.6 | 11.1 | 11.6 | 9.8 | 10.1 | 10.4 | 9.3 | 9.7 | 10.0 | 11.2 | 11.1 | 10.9 | 5.0 | 5.0 | 4.8 | 5.3 |
| 10 Years | 10.5 | 10.1 | 7.9 | 9.6 | 9.4 | 8.1 | 9.3 | 9.1 | 7.6 | 10.8 | 10.8 | 10.3 | 5.1 | 5.1 | 5.5 | 6.1 |
| 15 Years | 11.8 | 11.9 | 12.8 | 10.5 | 10.5 | 11.1 | 10.6 | 10.7 | 11.7 | 11.5 | 11.5 | 11.5 | 5.4 | 5.4 | 5.7 | 5.8 |
| 20 Years | 11.9 | 12.0 | 11.2 | 10.6 | 10.7 | 10.2 | - | - | - | 11.3 | 11.2 | 10.8 | 5.6 | 5.7 | 6.3 | 6.2 |
| 25 Years | 12.1 | 12.1 | 12.5 | 10.8 | 10.9 | 11.3 | - | - | - | 11.4 | 11.4 | 11.8 | 6.5 | 6.6 | 7.9 | 6.7 |
| INTERIM RATES | | | | | | | | | | 9.50% p.a. (0.759% p.m.) | | | 0.513% p.m. | | | |

## ENDOWMENTS/LIFE PORTFOLIOS TO 01/09/2017 (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 | 6.1 | 0.5 | 0.5 | 6.3 | 2.8 | 2.8 | 5.3 | 1.1 | 1.1 | 6.1 | 6.3 | 6.3 | 3.7 | 3.7 | 3.7 | 4.6 |
| 2 Years | 3.3 | 2.5 | 3.5 | 4.6 | 4.1 | 4.8 | 3.0 | 2.0 | 2.5 | 6.6 | 6.9 | 7.2 | 3.6 | 3.6 | 3.5 | 5.3 |
| 3 Years | 3.1 | 3.0 | 3.4 | 4.6 | 4.6 | 5.1 | 2.9 | 3.1 | 4.1 | 7.3 | 7.7 | 8.4 | 3.5 | 3.5 | 3.3 | 5.2 |
| 5 Years | 6.4 | 7.3 | 10.8 | 6.6 | 7.2 | 9.3 | 5.7 | 6.4 | 9.2 | 9.1 | 9.4 | 10.6 | 3.2 | 3.1 | 2.8 | 5.7 |
| 8 Years | 9.5 | 10.1 | 10.9 | 8.4 | 8.7 | 8.9 | 8.1 | 8.5 | 9.0 | 9.7 | 9.7 | 9.5 | 2.8 | 2.8 | 2.8 | 5.3 |
| 10 Years | 9.5 | 9.2 | 7.1 | 8.2 | 8.1 | 6.8 | 8.1 | 7.9 | 6.6 | 9.4 | 9.4 | 8.9 | 3.0 | 3.1 | 3.5 | 6.1 |
| 15 Years | 10.8 | 10.8 | 11.6 | 9.1 | 9.1 | 9.7 | 9.4 | 9.5 | 10.6 | 10.2 | 10.2 | 10.4 | 3.5 | 3.5 | 4.0 | 5.8 |
| 20 Years | 10.9 | 10.9 | 10.1 | 9.3 | 9.4 | 9.0 | - | - | - | 10.2 | 10.1 | 9.9 | 4.0 | 4.1 | 5.1 | 6.2 |
| 25 Years | 11.0 | 11.0 | 11.5 | 9.5 | 9.6 | 10.1 | - | - | - | 10.3 | 10.3 | 10.8 | 4.9 | 5.0 | 6.3 | 6.7 |
| INTERIM RATES | | | | | | | | | | 8.00% p.a. (0.643% p.m.) | | | 0.299% p.m. | | | |

| | | |
|---|---|---|
| **GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)** | | 4.70% p.a. (0.383% p.m.) |
| **EQUIVALENT RETURN** | at the tax rate of 18% | 5.73% p.a. (0.466% p.m.) |
| | at the tax rate of 41% | 7.97% p.a. (0.641% 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) | 16 (0) | 25 (0) | 0 (0) | 27 (27) | 0 (0) | 27 (2) | 16 (0) | 25 (0) | 0 (0) | 27 (27) |
| Ordinary Shares | 100 (24) | 65 (30) | 74 (28) | 66 (24) | 100 (85) | 73 (58) | 100 (25) | 66 (30) | 74 (28) | 66 (24) | 100 (85) | 73 (58) |
| Property | 0 | 6 | 10 | 7 | 0 | 0 | 0 | 6 | 10 | 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 | 12.8 | Media |
| 2. | British American Tobacco | 4.7 | Consumer Goods |
| 3. | Sasol | 4.2 | Oil & Gas |
| 4. | Steinhoff International Holdings | 4.0 | Industrials |
| 5. | Standard Bank | 3.4 | Banks |
| 6. | Barclays Africa | 3.3 | Banks |
| 7. | Old Mutual | 2.9 | Life Insurance |
| 8. | FirstRand | 2.7 | Banks |
| 9. | Remgro | 2.5 | Industrials |
| 10. | MTN | 2.5 | Telecommunications |

## GLOBAL ECONOMIC OVERVIEW

While growing tensions between the US and North Korea have been causing some market jitters, particularly across Asia, the primary focus has been more on the global economy and central banks than on politics. It's not so much that the market is being complacent and discounting the possibility of the tensions escalating into war, but rather because investors cannot ignore just how well the global economy has been performing over the past 18 months – and hence wonder whether Trump's focus on imposing sanctions is temporarily distracting him from focusing on implementing key fiscal measures to drive US growth.

On the economy front, second quarter global GDP growth was an annualised 3.8%, with most regions outperforming expectations. Notable mentions are the US, the Eurozone, Japan and Canada where growth rose to 3.0%, 2.2%, 4.0% and 4.5%, respectively. Emerging markets, on the other hand, grew at 4.8% – with some economies (including Brazil) coming out of a recession.

It's currently a "Goldilocks" economy, not too hot to cause inflation and not too cold to cause a recession. We cannot talk about inflation without focusing on central banks.

At its July meeting, the US Federal Reserve (Fed's) major concern was the inflation rate, or rather, the lack thereof. It stated that it was now expecting US inflation to remain below the 2% target in the medium term. Following weaker than expected employment data in August, the Fed Fund Futures market is not expecting a rate hike in September and now places only a 37% probability for a December hike. This means the market appears to be discounting another rate hike in 2017, which means that the focus will be on the US Fed's expected announcement at its next meeting to start unwinding its US$4.5 trillion balance sheet. Of course, a less hawkish Fed, as we mentioned in last month's review, means that the key lever for a stronger US dollar (i.e. rising interest rates) falls away.

Japan's second quarter GDP growth of 4% came off strong private consumption and a pickup in business investment – giving the market some hope that it will generate sustained inflation. However, in a statement from Jackson Hole, the Bank of Japan (BOJ) cautioned that the growth spurt was an anomaly. With July's inflation of 0.4% being far from the 2% target, we continue to hold our view that the BOJ will keep monetary policy extremely accommodative.

The Eurozone's economic recovery makes it more difficult for the European Central Bank (ECB) to justify buying more bonds in its quantitative easing programme – which is why the market is growing increasingly confident that the ECB will announce plans to pare back the monetary stimulus in January 2018. This is expected to be debated at its September meeting; however the strong euro – which breached the US$1.20 mark this month – is likely to keep inflation low (by driving import costs down) and hence pushing out the likelihood of lifting interest rates at all in 2018.

With global monetary policy remaining largely accommodative, global growth should remain solid in the third quarter. August's Manufacturing PMI data and a set of confidence surveys are already pointing to a strong start to the quarter. This, along with a weaker US dollar, continues to create a sweet spot for emerging 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 | -1.3 | 8.3 | 3.2 | 13.9 | 21.8 | 17.8 | 11.5 |
| JP Morgan | -0.4 | 1.7 | -12.9 | 7.5 | 9.3 | 8.8 | 10.0 |
| S&P 500 | -1.2 | 6.4 | 2.7 | 17.1 | 24.7 | 21.6 | 14.1 |
| FTSE 100 | -2.1 | 6.4 | -1.0 | 5.1 | 14.5 | 13.1 | 7.1 |
| Nikkei Index | -2.5 | 3.5 | -3.4 | 13.7 | 19.5 | 12.9 | 8.5 |
| Rand/Dollar | -1.5 | -5.0 | -11.7 | 6.9 | 9.0 | 6.6 | 6.1 |

## 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 | 13.5 | 5.6 | 5.6 | 10.9 | 4.4 | 4.4 | 10.5 | 1.3 | 1.3 | 8.3 | 0.8 | 0.8 |
| 2 Years | 8.0 | 8.6 | 10.0 | 6.5 | 7.3 | 8.6 | 4.9 | 5.7 | 7.7 | 3.5 | 4.5 | 6.3 |
| 3 Years | 9.0 | 9.6 | 10.4 | 7.9 | 8.5 | 9.6 | 7.3 | 8.0 | 10.0 | 6.0 | 6.8 | 8.9 |
| 5 Years | 12.4 | 13.5 | 17.1 | 11.5 | 12.4 | 16.2 | 10.9 | 11.8 | 15.0 | 9.8 | 10.5 | 14.0 |
| 8 Years | 14.6 | 15.0 | 13.6 | 13.9 | 14.3 | 12.9 | 13.0 | 13.3 | 12.1 | 12.2 | 12.4 | 11.5 |
| 10 Years | 12.7 | 12.2 | 7.0 | 12.0 | 11.5 | 6.3 | 11.5 | 11.3 | 7.7 | 10.8 | 10.5 | 7.1 |
| 15 Years | 10.3 | 10.0 | 7.3 | 9.5 | 9.2 | 6.1 | 10.1 | 9.8 | 7.0 | 9.3 | 9.0 | 6.0 |

## GEOGRAPHICAL SPREAD

| | EQUITY PORTION % | | | BOND PORTION % | | |
|---|---|---|---|---|---|---|
| | Fund | MSCI | Difference | Fund | Benchmark[7] | Difference |
| United States | 42.0 | 52.1 | -10.0 | 33.6 | 38.3 | -4.8 |
| Japan | 3.9 | 7.7 | -3.8 | 4.4 | 17.2 | -12.8 |
| Europe ex UK | 19.0 | 16.1 | 3.0 | 35.1 | 28.6 | 6.5 |
| United Kingdom | 6.2 | 5.6 | 0.6 | 8.6 | 5.4 | 3.2 |
| SE Asia & Canada | 10.2 | 12.1 | -1.9 | 14.3 | 8.5 | 5.8 |
| South Africa | 15.2 | 0.0 | 15.2 | 0.0 | 0.2 | -0.2 |
| Other | 3.5 | 6.4 | -2.9 | 4.0 | 1.8 | 2.2 |
| **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 | 3.1 | 0.0 | 1.5 | 0.1 | 0.2 | 0.7 |
| Consumer Discretionary | 8.5 | 11.9 | 4.2 | 0.4 | 0.6 | 1.9 |
| Consumer Staples | 6.3 | 9.0 | 3.1 | 0.3 | 0.5 | 1.4 |
| Energy | 4.0 | 6.0 | 2.0 | 0.2 | 0.3 | 0.9 |
| Financials | 16.2 | 18.5 | 8.0 | 0.7 | 1.2 | 3.6 |
| Healthcare | 10.7 | 11.2 | 5.3 | 0.5 | 0.8 | 2.4 |
| Industrials | 11.5 | 10.7 | 5.7 | 0.5 | 0.8 | 2.6 |
| Information Technology | 14.4 | 17.6 | 7.1 | 0.7 | 1.1 | 3.2 |
| Materials | 4.4 | 5.4 | 2.2 | 0.2 | 0.3 | 1.0 |
| Other | 0.9 | 0.0 | 0.4 | 0.0 | 0.1 | 0.2 |
| Telecoms Services | 1.6 | 3.2 | 0.8 | 0.1 | 0.1 | 0.4 |
| Utilities | 1.6 | 3.2 | 0.8 | 0.1 | 0.1 | 0.3 |
| SA Rand Hedge | 15.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## TOP EQUITY HOLDINGS (GLOBAL)

| NAME | SECTOR |
|---|---|
| 1. JPMorgan Chase & Co | Financials |
| 2. Oracle Corporation | Information Technology |
| 3. Alphabet Inc | Information Technology |
| 4. Moody S Corporation | Financials |
| 5. Owens Corning | Industrials |
| 6. Apple Inc | Information Technology |
| 7. Fiat Chrysler Automobiles | Consumer Discretionary |
| 8. Wells Fargo & Co | Financials |
| 9. DS Smith Plc | Industrials |
| 10. Bank of America | Financials |

# 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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