FLEXIPORTFOLIO

PERFORMANCE REPORT

1 AUGUST 2015

SOUTH AFRICAN ECONOMIC REVIEW

- The main event on the local front over the past month was the decision by the South African Reserve Bank (SARB) to raise the repo rate by 25 basis points to 6.0%, with the banks' prime rate following suit and rising to 9.50%. While the SARB has been warning for some time that interest rates will have to rise further to counterbalance building underlying inflation pressures (emanating from the weaker rand and above-inflation wage settlements), the timing of the hike was not fully expected by market participants. This was largely because of increased expectations that the US Federal Reserve will delay the start of their hiking cycle to later than September, weak incoming local macro-economic data, a downside inflation surprise in June and a renewed decline in the oil price. Nevertheless, having warned endlessly about the need for higher local rates and concern over the impact on SA's ability to finance the still large current account deficit in the face of increasingly difficult global financing conditions, the SARB likely raised rates as both a pre-emptive measure and to protect its own credibility.
- News on the economic front was mixed during June. On the positive side, the trade deficit recorded a second consecutive monthly surplus in June and while inflation rose from 4.6% in May to 4.7% in June, the rise was notably less than the 5.0% expected by market consensus. On the negative side, indicators of real economic activity remained soft with credit demand, especially from households, remaining very slow, car sales fell further and the Reserve Bank's leading indicator index weakened further – pointing to little chance of any acceleration in economic growth anytime soon. Indeed, growth forecasts for 2015 and 2016 continue to be revised downwards. As an example, the Reserve Bank now forecasts 2.1% GDP growth for 2015, down from its forecast of 2.5% made in December 2014. Similarly, their 2016 GDP growth forecast was cut from 2.9% to 2.1% over the same period. If anything, risks to these forecasts, which are in line with current market consensus forecasts, are skewed to the downside.
- Returning to the trade balance, the improvement over the past few months is indeed comforting. We estimate that the recent improvement implies that the current account deficit could narrow to about 3.5% of GDP in the second quarter, down from 4.8% in the first quarter and 5.5% in 2014. While the smaller deficit indicates that SA's foreign trade position is finally starting to improve, the problem is that even a smaller deficit might be hard to finance if global financing conditions were to tighten further when the US Fed starts to raise interest rates. Indeed, the release of the favourable June trade balance had little favourable impact on the rand in the days following its release. This highlights the ongoing vulnerability of the rand in the current difficult global circumstances of falling commodity prices and tightening global liquidity.

Looking forward, we expect the SARB to raise interest rates again later in the year. The timing of such a move is hard to predict as the Reserve Bank made it clear after the July Monetary Policy Committee meeting that future decisions around interest rates are highly data dependent. Still, with the rand still under pressure, inflation likely to rise further through the remainder of the year, inflation expectations anchored at the top end of the target range and wage settlements well above the going rate of inflation, we would, at this stage, expect the SARB to raise rates at one of its remaining scheduled meetings in September and November. The actual timing will be highly dependent on incoming data. As far as 2016 is concerned, the trajectory of rates will also be highly dependent on the unfolding inflation outlook, with the rand, oil price and food inflation the key drivers in this regard.

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	0.5	6.2	4.4	18.1	16.4	11.0	16.4
JSE Fin & Ind	1.9	9.8	18.6	25.8	24.0	16.6	19.9
JSE All Gold	-21.9	-30.0	-45.8	-30.0	-18.3	-12.9	-6.2
All Bond	1.0	2.6	8.2	5.6	8.5	9.0	8.2
Total Cash	0.4	3.0	5.3	4.8	4.9	6.4	6.6
ALSI 40	0.9	7.4	3.8	18.8	16.4	10.7	16.1
INDI 25	1.4	9.7	17.9	28.5	27.2	19.5	22.5

RETIREMENT ANNUITIES TO 01/08/2015 (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	6.5	6.4	6.4	8.4	8.4	8.4	11.7	11.2	11.2	8.8	10.4	10.4	5.0	4.9	4.9	5.0
2 Years	11.1	13.5	16.6	10.8	12.0	13.5	12.8	14.0	15.2	11.3	12.2	13.0	4.7	4.5	4.4	5.7
3 Years	14.8	16.3	17.9	11.4	13.8	15.3	14.5	15.6	16.9	12.7	13.0	13.7	4.4	4.3	4.1	5.9
5 Years	15.8	16.1	15.2	13.4	13.6	12.9	14.5	14.6	13.4	12.6	12.5	11.8	4.2	4.2	4.1	5.6
8 Years	13.8	13.0	8.8	11.8	11.5	8.8	12.5	11.1	8.8	11.4	11.3	10.5	2.7	4.7	5.4	6.2
10 Years	12.5	12.7	13.0	11.0	11.2	11.3	11.6	11.8	11.7	11.5	11.6	12.5	5.0	5.0	5.4	6.1
15 Years	13.7	13.9	13.0	11.7	11.8	11.3	12.8	12.9	12.8	11.8	11.7	11.4	5.3	5.3	5.6	5.7
20 Years	12.1	13.0	12.7	11.4	11.4	11.4	-	-	-	10.4	11.4	11.4	4.5	6.0	7.2	6.0
25 Years	13.4	13.3	13.2	11.7	11.6	11.9	-	-	-	11.8	11.8	12.5	7.10	7.23	8.85	7.1
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.418% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/08/2015 (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	6.0	5.8	5.8	7.2	7.4	7.4	9.9	9.3	9.3	7.3	8.9	8.9	2.9	2.9	2.9	5.0
2 Years	10.1	12.6	15.5	9.4	10.6	12.1	11.1	12.6	14.0	9.7	10.7	11.5	2.7	2.6	2.4	5.7
3 Years	14.1	15.5	17.9	11.4	12.3	13.7	13.1	14.1	15.4	11.2	11.5	12.2	2.4	2.4	2.2	5.9
5 Years	15.2	15.5	15.0	12.0	12.2	11.6	13.5	13.6	12.6	11.2	11.0	10.4	2.3	20.8	2.2	5.6
8 Years	11.8	12.5	8.1	10.3	10.0	7.4	11.6	11.1	8.8	10.0	9.9	9.2	2.7	2.8	3.6	6.2
10 Years	11.9	12.1	12.3	9.6	9.7	9.9	12.5	10.8	10.7	10.1	10.3	11.3	3.1	3.2	3.7	6.1
15 Years	12.8	12.9	12.0	10.3	10.4	10.1	11.7	13.9	13.0	10.6	14.6	14.5	3.7	3.7	4.3	5.7
20 Years	12.1	12.1	11.7	10.2	13.2	10.1	-	13.05	-	10.4	10.4	10.6	4.5	4.6	5.9	6.0
25 Years	12.4	9.4	9.7	10.4	13.3	13.2	-	-	-	0.0	10.8	11.4	5.60	5.71	7.26	7.1
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.247% 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)	25 (2)	23 (1)	25 (0)	0 (0)	27 (27)	1 (0)	24 (1)	23 (1)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (26)	66 (28)	70 (23)	66 (24)	100 (86)	73 (58)	99 (26)	68 (31)	70 (23)	66 (24)	100 (85)	73 (58)
Property	0	7	7	7	0	0	0	6	7	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	11.8	Media
2.	MTN	5.9	Telecommunications
3.	British American Tobacco	4.8	Consumer Goods
4.	FirstRand	4.3	Banks
5.	Steinhoff International Holdings	4.3	Industrials
6.	Sasol	4.0	Oil & Gas
7.	Standard Bank	3.5	Banks
8.	Remgro	3.0	Consumer Goods
9.	SABMiller plc	3.0	Consumer Goods
10.	Old Mutual	2.8	Life Insurance

GLOBAL ECONOMIC OVERVIEW

- Over the past month, investors' focus was on three key issues: tensions and uncertainties around Greece's debt situation; the continued debate about the timing, speed and extent of US Federal Reserve (the Fed) policy tightening; and growing concerns over the state of the world economy. This as incoming data was generally on the weak side and concerns over the slowdown in China mounted sharply.
- Despite the Greek population voting overwhelmingly in favour of rejecting more austerity in their early-July referendum, shortly thereafter, the Greek government was effectively forced into accepting such austerity in exchange for more financial support from the European Union. The choice for Greece was simple: accept the terms for financial support or leave the Eurozone. With the pain of closed banks and intensifying damage to the already severely depressed economy mounting rapidly, the Greek government accepted the terms for more financial support. So, towards the end of July concerns over the immediate risks to global financial markets over the risk of Greece exiting the common currency block and defaulting on large debt payments faded. Yet, while the situation around Greece has calmed down for now, the problem has by no means been solved. Ultimately, Greece will require considerable debt relief in order to make their debt situation sustainable. So, the Greek debt problem will likely raise its head again sometime in future. Also of concern is whether Greece will honour its reform commitments – something they have been rather poor at so far.
- As far as the Fed is concerned, incoming data on the real economy continues to support the case for the Fed lifting rates before the end of the year. More important, especially for the Fed, is that the labour market continued to tighten as job growth accelerated, with wage growth showing more signs of life and jobless claims remaining at multi-year lows. However, as the month drew to a close, the closely watched employment cost index, which covers both wages and benefits, slumped sharply in the second quarter, indicating that overall remuneration growth remains relatively weak. As a result, doubts were cast over the timing of the first hike in US interest rates, with many arguing that the latest data may well result in the start of the US rate "lift-off" being postponed to October or December, 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.
- In the meantime, the news out of China remains poor as incoming data points to a renewed loss of growth momentum over the past few months. Indeed, a survey among mostly private sector manufacturers found that sentiment has slumped to the lowest level in two years, raising concern that the policy measures implemented so far this year have had little effect in arresting the slowdown. Concerns consequently mounted that the economy is heading for a harder landing than expected up to now.
- Concerns over rising US interest rates, prospects for a renewed bout of strength of the US dollar and the slowdown in China had a very negative effect on commodity prices over the past month and prices slumped over a broad front. Against this background, it is difficult to see much of a recovery anytime soon.

Global market sentiment is being dominated by the imminent start of the rise in US interest rates, as well as the economic slowdown in China. The combination of these two forces is putting downward pressure on commodity prices and emerging market currencies, causing more difficult conditions for many developing countries.

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	5.8	14.3	24.2	32.8	25.3	12.0	14.0
JP Morgan	4.6	6.0	10.5	12.7	12.4	11.4	10.5
S&P 500	6.1	12.7	30.9	35.7	29.7	14.8	14.8
FTSE 100	6.0	13.7	12.2	26.5	21.2	8.6	12.0
Nikkei Index	4.4	24.5	28.8	31.8	21.1	9.3	11.6
Rand/Dollar	3.9	9.1	17.7	15.4	11.6	7.4	6.7

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	18.1	15.1	15.1	17.2	14.2	14.2	15.6	12.4	12.4	14.3	11.3	11.3
2 Years	16.8	18.2	19.5	15.4	16.6	17.6	14.0	15.2	16.4	12.5	13.5	14.4
3 Years	20.5	22.4	25.5	19.6	21.1	24.5	17.0	18.6	21.1	16.1	17.3	20.3
5 Years	20.7	20.8	18.8	20.0	20.1	18.3	17.7	17.9	16.3	17.0	17.2	16.0
8 Years	14.8	14.1	6.5	14.1	13.4	5.8	13.0	12.7	7.3	12.6	12.2	6.8
10 Years	12.1	12.0	9.5	11.3	11.1	8.2	11.3	11.4	9.9	10.8	10.8	11.8
15 Years	9.6	9.5	6.0	9.3	8.5	4.8	9.3	9.3	6.5	8.6	8.6	5.7

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.4	15.6	-4.2	22.2	38.4	-16.1
Japan	9.4	7.9	1.4	5.2	15.6	-10.5
Europe ex UK	17.5	15.8	1.8	34.7	29.1	5.6
United Kingdom	29.8	38.5	-8.7	12.0	6.5	5.5
SE Asia & Canada	8.9	7.4	1.5	19.3	8.2	11.2
South Africa	14.2	0.0	14.2	0.0	0.3	-0.3
Other	8.8	14.7	-6.0	6.5	1.9	4.5
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	1.1	0.0	0.2	0.1	0.4	0.2
Consumer Discretionary	10.7	12.8	1.4	1.2	3.7	2.2
Consumer Staples	5.4	9.8	0.7	0.6	1.9	1.1
Energy	4.2	6.9	0.5	0.5	1.5	0.8
Financials	19.0	21.9	2.6	2.1	6.5	3.9
Healthcare	11.7	12.7	1.5	1.3	4.1	2.4
Industrials	12.2	10.2	1.7	1.3	4.2	2.5
Information Technology	12.7	13.8	1.7	1.4	4.5	2.6
Materials	4.6	5.0	0.6	0.5	1.6	0.9
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.5	3.8	0.3	0.3	0.9	0.5
Utilities	1.6	3.1	0.2	0.2	0.6	0.3
SA Rand Hedge	14.2	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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