FLEXIPORTFOLIO

PERFORMANCE REPORT

1 JANUARY 2015

SOUTH AFRICAN ECONOMIC REVIEW

- News flow during December 2014 was a little better, but not universally so. While we saw no more load shedding by Eskom, largely because of seasonally low demand from industrial users, industry experts continued to warn that further load shedding will be hard to avoid – at least in the first half of 2015. Even more worrying is the growing realisation that the electricity bind is going to constrain the economy for far longer than previously anticipated. Eskom indicated that even if Medupi comes on line as planned, albeit more than two years late, the electricity supply will remain restricted for at least another two years. This is because extensive maintenance is required at existing power stations and will have to be done as soon as Medupi's additional capacity becomes available.
- This again starkly highlighted the considerable constraint being placed on the economy – not only dampening growth in the short term, but also acting as a serious constraint on the country's medium-term growth potential. As a result of this and other structural headwinds, both the South African Reserve Bank (SARB) and the International Monetary Fund (IMF) now reckon the economic growth potential has dropped to only 2.5% for 2015, far below the rate needed to absorb new entrants into the labour market, let alone make a dent in the already huge pool of unemployed people.
- On a more positive note, the implications of the sharply lower oil price came into focus over the past month as the oil price dropped further. Apart from a considerable saving for households and forecasts of sharply lower inflation into 2015, with a cyclical low of around 4.5% possible if the oil price and the rand hold at current levels, the foreign trade balance should also benefit as oil imports account for about 9% of SA's total imports of goods and services.
- Moreover, with prospects for inflation and the trade balance both improving on the back of the lower oil price, the SARB kept interest rates unchanged at its November monetary policy committee (MPC) meeting. Looking forward, chances have improved that the further interest rate increases repeatedly stated as necessary by the SARB, will be postponed into the second half of 2015 and there may also be less than expected. If Finance Minister Nene follows through in the February 2015 National Budget with the tighter fiscal policy he promised in the Medium Term Budget Policy Statement, the outlook for interest rates may brighten even further.
- A further piece of good news was the release of healthy fiscal numbers for November, as tax revenues bounced sharply and spending held close to government targets. With a few months of the fiscal year left, chances have improved that the 2014/15 fiscal targets will be met, despite sharply slower growth over the course of 2014 than foreseen at the time of the National Budget in February 2014.
- Another welcome piece of news in December was that both Fitch and Standard & Poor's rating agencies decided to keep South Africa's ratings and the related 'outlooks' unchanged for now.
- Looking into 2015, we continue to expect a moderate acceleration in economic growth to about 2.5%, up from the estimated 1.4% in 2014. A more supportive global environment, the lower oil price and the weaker rand should all help to produce a better growth performance in 2015. However, the economy also still faces a number of headwinds, including a need for fiscal and monetary tightening; ongoing electricity constraints and the growing unwillingness of the private sector to invest in new capacity due to poor economic prospects.

The lower oil price has also had a material impact on prospects for the SA economy. It will lower inflation, relieve financial pressure on consumers and may well result in the SARB postponing the next interest rate increase to late 2015.

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	-0.2	10.9	10.9	19.5	15.8	12.2	18.0
JSE Fin & Ind	0.9	19.5	19.5	29.7	24.0	16.7	20.5
JSE All Gold	7.6	13.5	13.5	-25.1	-12.8	-10.1	-2.1
All Bond	-1.5	10.1	10.1	8.7	10.0	8.6	8.5
Total Cash	0.5	5.1	5.1	4.8	5.0	6.7	6.6
ALSI 40	-0.5	9.2	9.2	19.1	15.2	11.7	17.6
INDI 25	1.1	17.2	17.2	32.8	26.8	19.8	23.2

RETIREMENT ANNUITIES TO 01/01/2015 (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	11.3	13.8	13.8	11.4	12.1	12.1	13.2	12.9	12.9	9.5	9.5	9.5	4.7	4.4	4.4	5.5
2 Years	16.8	17.7	19.4	14.0	14.6	15.6	14.8	15.1	16.0	11.6	12.2	13.4	4.2	4.0	3.9	5.5
3 Years	18.7	18.7	19.5	15.3	15.3	15.9	15.9	15.9	16.5	12.4	12.5	12.8	4.0	4.0	3.9	5.5
5 Years	17.1	16.2	14.8	14.1	13.6	12.6	14.6	13.9	12.6	11.8	11.7	10.9	4.0	4.0	4.2	5.2
8 Years	13.5	13.0	9.5	11.6	11.3	9.5	11.8	11.4	9.1	10.7	10.7	10.5	4.7	4.8	5.5	6.3
10 Years	13.1	13.2	14.6	11.4	11.4	12.3	11.6	11.5	12.4	11.3	11.5	12.6	5.0	5.1	5.5	6.0
15 Years	13.9	13.5	12.6	11.8	11.5	10.8	12.7	12.4	12.1	11.5	11.5	11.2	5.4	5.4	5.5	5.8
20 Years	13.2	13.1	12.3	11.5	11.5	11.1	-	-	-	11.2	11.2	11.4	6.1	6.2	7.5	6.0
25 Years	13.5	13.7	13.6	11.8	11.9	12.2	-	-	-	11.7	11.8	12.6	-	-	-	7.2
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.413% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/01/2015 (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	10.6	12.7	12.7	10.0	10.5	10.5	11.6	11.4	11.4	8.0	8.0	8.0	2.7	2.4	2.4	5.5
2 Years	16.3	17.1	18.9	12.5	13.0	14.2	13.9	14.3	15.6	10.1	10.7	11.9	2.3	2.2	2.0	5.5
3 Years	18.1	18.1	18.8	13.7	13.8	14.4	15.0	15.1	15.7	10.9	11.0	11.3	2.2	2.1	2.1	5.5
5 Years	16.7	15.9	14.6	12.7	12.3	11.2	13.8	13.2	12.0	10.4	10.2	9.5	2.1	2.2	2.3	5.2
8 Years	13.0	12.5	9.0	10.2	9.9	8.1	11.1	10.7	8.4	9.4	9.3	9.2	2.9	3.0	3.7	6.3
10 Years	12.6	12.7	13.9	9.9	10.0	11.0	10.7	10.7	11.4	10.0	10.1	11.4	3.2	3.3	3.8	6.0
15 Years	13.0	12.7	11.6	10.4	10.2	9.6	11.7	11.5	11.1	10.4	10.4	10.3	3.8	3.8	4.4	5.8
20 Years	12.3	12.2	11.2	10.2	10.2	9.7	-	-	-	10.3	10.3	10.5	4.7	4.8	6.1	6.0
25 Years	12.5	12.6	12.5	10.5	10.6	10.8	-	-	-	10.7	10.8	11.5	-	-	-	7.2
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.244% p.m.			

GUARANTEED CAPITAL FUND (CURRENT AFTER-TAX RATE)		3.60% p.a. (0.295% p.m.)
EQUIVALENT RETURN	at the tax rate of 18%	4.39% p.a. (0.359% p.m.)
	at the tax rate of 40%	6.00% p.a. (0.487% 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	1 (0)	23 (2)	16 (2)	23 (1)	0 (0)	27 (27)	1 (0)	22 (1)	16 (2)	23 (1)	0 (0)	27 (27)
Ordinary Shares	99 (25)	68 (31)	76 (24)	68 (25)	100 (86)	73 (59)	99 (25)	69 (32)	76 (24)	68 (25)	100 (85)	73 (59)
Property	0	7	8	7	0	0	0	7	8	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	11.1	Media
2.	MTN	6.5	Telecommunications
3.	British American Tobacco	4.6	Consumer Goods
4.	Sasol	4.4	Oil & Gas
5.	Standard Bank	3.9	Banks
6.	Steinhoff International Holdings Ltd	3.7	Industrials
7.	FirstRand	3.6	Banks
8.	Anglo American plc	3.6	Basic Resources
9.	SABMiller plc	2.8	Consumer Goods
10.	Richemont	2.7	Consumer Goods

GLOBAL ECONOMIC OVERVIEW

- The international highlight in December 2014 was the continued slide in global oil prices. After having fallen from US$110 to US$85 during October, the price slid further to below US$75 by the end of November and then slumped further to US$57 by the end of December. While the initial slide was triggered by downward revisions to global oil demand, a stronger dollar and easing supply/demand conditions as energy output around the world rose sharply, the sharp slump in December was caused by OPEC's decision late in November not to rein in oil production in order to try to support prices. With this decision, OPEC clearly signalled that it was willing to accept lower prices in order to squeeze out growing production elsewhere around the world. So, initial assessments that the falling oil price would be modest and relatively short lived quickly proved to be wrong and latest assessments are that oil prices may remain at current low levels for far longer than initially thought.

- As is always the case with big commodity price moves, there are winners and losers. The obvious losers in this case are the oil producers and the exchange rates of a number of these countries tumbled further in December. Other losers include companies that supply the oil industry and substitute industries, such as shale gas producers and exploration companies. The key winners are also pretty obvious: Global oil-consuming countries. On balance, the sharply lower oil price is a net gain for the world economy as it acts like a tax cut for oil consumers. It is commonly estimated that a US$10 drop in the oil price, sustained over a full year, should raise overall global growth by about one tenth of a percent. This implies a boost of about 0.5% to global growth over the next year or so, provided oil stays around US$60.

- In the meantime, global growth remains pretty slow, except in the US, where the growth momentum remains solid. Indeed, after an unexpected contraction of 2.1% at an annual rate in the first quarter of this year, US GDP growth bounced back strongly to 4.6% in the second quarter and 5.0% in quarter three. Moreover, high frequency indicators suggest that the growth momentum remained solid in the fourth quarter, tracking an annual rate of around 3%.

We remain of the opinion that global growth will accelerate handsomely in 2015, driven by solid growth in the US, more policy stimulus in the Eurozone and China and the sharply lower oil price. However, as is always the case, 2015 will, in all likelihood, have its own share of concerns and scares, causing volatility in global financial 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	3.1	16.5	16.5	30.9	21.3	11.2	14.6
JP Morgan	4.3	11.2	11.2	11.7	11.8	11.0	11.1
S&P 500	4.5	25.6	25.6	35.8	26.4	13.7	15.5
FTSE 100	1.9	4.8	4.8	23.6	17.0	8.0	12.6
Nikkei Index	3.6	3.7	3.7	23.8	15.1	6.5	10.3
Rand/Dollar	4.7	10.5	10.5	12.7	9.5	6.4	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	14.8	13.7	13.7	13.4	11.9	11.9	11.9	11.6	11.6	10.6	9.9	9.9
2 Years	20.1	23.1	26.9	19.0	22.0	26.1	16.6	19.1	22.3	15.9	18.5	22.1
3 Years	23.3	23.6	24.0	22.3	22.6	23.1	19.3	19.6	19.9	18.7	18.9	19.3
5 Years	20.4	19.5	15.9	19.8	18.9	15.4	17.6	17.0	14.0	17.2	16.6	13.8
8 Years	13.2	12.7	6.5	12.6	12.0	5.7	12.0	11.6	7.4	11.6	11.2	6.8
10 Years	11.4	11.5	10.6	10.6	10.7	9.8	10.9	11.1	11.1	10.4	10.5	10.1
15 Years	8.8	8.5	5.5	7.9	7.6	4.4	8.8	8.5	6.2	8.1	7.9	5.5

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.4	15.7	-4.3	15.5	36.8	-21.3
Japan	9.5	7.2	2.3	4.8	15.6	-10.8
Europe ex UK	15.3	15.0	0.2	38.6	30.6	8.0
United Kingdom	30.2	38.8	-8.5	11.2	6.5	4.6
SE Asia & Canada	10.9	7.6	3.4	21.3	8.1	13.2
South Africa	14.0	0.0	14.0	0.0	0.3	-0.3
Other	8.7	15.7	-7.0	8.6	2.1	6.5
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	1.0	0.0	0.1	0.1	0.3	0.2
Consumer Discretionary	11.0	12.1	1.5	1.2	3.9	2.0
Consumer Staples	6.3	9.7	0.8	0.7	2.3	1.1
Energy	4.7	8.0	0.6	0.5	1.7	0.8
Financials	19.1	21.8	2.6	2.1	6.7	3.4
Healthcare	10.5	11.6	1.3	1.2	3.7	1.9
Industrials	10.8	10.5	1.5	1.2	3.8	1.9
Information Technology	14.4	13.9	1.9	1.6	5.1	2.6
Materials	3.7	5.4	0.5	0.4	1.3	0.7
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	1.7	3.4	0.2	0.2	0.6	0.3
SA Rand Hedge	14.0	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

NAME		SECTOR
1.	Oracle Corporation	Information Technology
2.	JPMorgan Chase + Co	Financials
3.	Wells Fargo + Co	Financials
4.	Royal Dutch Shell plc	Energy
5.	Delphi Automotive plc	Industrials
6.	Novartis AG	Pharmaceuticals
7.	Citigroup Inc	Financials
8.	DBS Group Holdings Ltd	Financials
9.	Taiwan Semiconductor	Industrials
10.	China Mobile Ltd	Telecommunications

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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