FLEXIPORTFOLIO

PERFORMANCE REPORT

1 MARCH 2015

SOUTH AFRICAN ECONOMIC REVIEW

- Locally, the key focus over the past month was undeniably Finance Minister Nhlanhla Nene's first official Budget presentation. He was expected to announce convincing fiscal tightening to ensure the lowering of the budget deficit to the 3.6% of GDP predicted in the October Medium Term Budget Policy Statement (MTBPS). There was much speculation about which taxes the Minister would raise to obtain the additional R12bn in revenues targeted in the MTBPS. In the end, he unfortunately did not meet these expectations. The combination of tax increases of 'only' R8bn, and the negative impact of the slower growing economy on tax revenues, saw the deficit target widen to 3.9% of GDP for 2015/16. Market reaction was generally negative and rating agency Fitch expressed disappointment at the budget outcome. Both Fitch and Standard & Poor's will review SA's sovereign rating in June and concerns are mounting that Fitch will downgrade SA to match S & P's current lowest level investment grade. In our opinion, the Minister unfortunately missed an ideal opportunity to cement SA's investment grade rating by instituting more convincing fiscal tightening.
- News on the economic front was mixed during February. On the positive side, GDP growth accelerated sharply to 4.1% at an annual rate in the fourth quarter, beating market expectations, but it still left growth for the full 2014 calendar at only 1.5%. While we remain optimistic that growth will accelerate in 2015 on the back of a more supportive global environment, the lower oil price and hopefully less disruptive strike action, Eskom's increased load shedding holds an undeniably meaningful downside risk to our relatively optimistic 2.5% GDP growth forecast for this year. Indeed, the manufacturing Purchasing Manager's Index, a survey of manufacturer's business conditions, slumped significantly in February, signalling that load shedding is indeed harming this key sector of the economy.
- While the Eskom news flow remains generally bad, there is at least a hint of a silver lining to an otherwise very dark cloud. The upside is that Eskom finally seems to be putting maintenance ahead of 'keeping the lights on at all costs', with this policy of neglecting regular maintenance evidently having done great harm to the existing generating capacity. While load shedding is a huge short-term constraint on the economy, business will find ways to deal with it and will likely even prefer additional short-term interruptions in the interests of a more stable, reliable system in the longer term. The simple fact is that an unreliable, fragile electricity system is a great constraint on the growth potential of the economy, something that has to be put right now if this economy is to grow structurally faster and create more jobs. At the end of February there was more promising news: the first unit of Medupi started to deliver electricity to the grid, even though this supply is still intermittent and a constant net addition to the grid will only occur in about three months' time.
- Other news flow during the month was also mixed. On the more positive side, inflation fell to 4.4% in January, down from 5.8% in November and a cyclical peak of 6.6% in June 2014. However, a huge negative was a renewed slump in the foreign trade balance from the R6.6bn surplus in December 2014 to a R24bn deficit in January. Sharply lower export receipts, driven by lower commodity prices, were the key culprit, although the trade balance is yet to see much benefit from the lower oil price, as oil import volumes surged as government likely also used the lower price to build reserves.
- The interest rate outlook has become a little more uncertain again over the past month. Not only did the rand weaken following the disappointing budget, but the big increases in the petrol price, partly as a result of fuel levies and partly the higher rand oil price during the month, will likely cause inflation to bottom out at a higher level than was generally thought a month ago. Moreover, inflation will probably also bounce back more strongly in the second half of the year than we foresaw a month ago. For now, we still think chances are the SARB will leave rates unchanged this year, but the risks of a hike later in the year have, on balance, increased over the past month.

The interest rate outlook has become slightly more uncertain again over the past month as a weaker rand, a higher oil price and a sharp hike in fuel levies are likely to make inflation bounce back more strongly in the second half of the year than we thought before.

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	4.1	16.1	16.1	19.4	18.2	12.7	18.0
JSE Fin & Ind	3.1	28.0	28.0	28.9	25.6	17.1	21.0
JSE All Gold	-8.7	-5.7	-5.7	-19.4	-7.7	-7.2	-0.4
All Bond	-2.8	15.0	15.0	9.2	10.3	8.8	8.5
Total Cash	0.4	5.1	5.1	4.8	5.0	6.6	6.6
ALSI 40	4.5	13.6	13.6	19.0	17.7	12.3	17.6
INDI 25	3.2	24.9	24.9	32.3	28.9	20.3	23.7

RETIREMENT ANNUITIES TO 01/02/2015 (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	15.7	15.7	15.7	13.9	13.4	13.4	18.1	15.4	15.4	12.4	13.3	13.3	4.9	4.7	4.7	3.1
2 Years	18.5	19.4	20.9	14.9	15.4	16.3	16.9	16.9	17.5	14.0	14.6	15.1	4.4	4.2	4.0	4.5
3 Years	19.8	19.3	19.3	15.8	15.7	15.9	17.3	16.8	16.7	14.4	14.4	14.2	4.2	4.1	4.0	4.9
5 Years	18.0	17.3	16.2	14.6	14.2	13.3	15.6	14.9	13.6	13.3	13.0	11.9	4.1	4.1	4.2	4.9
8 Years	14.3	14.2	9.5	12.1	12.0	9.2	12.6	12.4	9.0	11.6	11.6	10.9	4.7	4.8	5.5	6.1
10 Years	13.5	13.8	14.5	11.6	11.7	12.2	12.0	12.1	12.5	11.9	12.1	13.0	5.0	5.0	5.5	5.9
15 Years	14.2	13.9	12.6	12.0	11.8	11.0	13.0	12.9	12.6	11.9	11.9	11.5	5.4	5.4	5.6	5.7
20 Years	13.4	13.2	12.8	11.6	11.5	11.4	-	-	-	11.5	11.6	11.6	6.0	6.1	7.4	5.9
25 Years	13.7	13.7	13.3	11.9	11.8	11.8	-	-	-	11.9	12.0	12.7	-	-	-	7.1
INTERIM RATES										**9.50% p.a. (0.759% p.m.)**			**0.422% p.m.**			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/02/2015 (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	13.8	14.1	14.1	12.1	11.6	11.6	15.3	13.3	13.3	10.9	11.8	11.8	2.9	2.7	2.7	3.1
2 Years	17.2	18.4	20.3	13.1	13.7	14.6	15.3	15.6	16.7	12.5	13.1	13.6	2.5	2.3	2.1	4.5
3 Years	18.7	18.4	18.4	14.1	14.0	14.3	15.8	15.5	15.3	12.9	12.9	12.7	2.3	2.2	2.1	4.9
5 Years	17.3	16.6	15.7	13.2	12.7	11.8	14.6	13.9	12.8	11.8	11.6	10.5	2.2	2.2	2.3	4.9
8 Years	13.6	13.5	8.8	10.6	10.4	7.8	11.7	11.5	8.1	10.3	10.2	9.6	2.8	2.9	3.7	6.1
10 Years	12.8	13.1	13.7	10.1	10.2	10.9	11.1	11.1	11.5	10.6	10.7	11.7	3.2	3.2	3.8	5.9
15 Years	13.2	13.0	11.5	10.6	10.4	9.8	11.9	11.8	11.5	10.8	10.8	10.6	3.8	3.8	4.4	5.7
20 Years	12.4	12.2	11.7	10.3	10.2	10.1	-	-	-	10.6	10.6	10.7	4.7	4.7	6.1	5.9
25 Years	12.6	12.6	12.2	10.5	10.5	10.4	-	-	-	10.9	11.0	11.6	-	-	-	7.1
INTERIM RATES										**8.00% p.a. (0.643% p.m.)**			**0.250% 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	0 (0)	24 (2)	17 (3)	24 (0)	0 (0)	26 (26)	0 (0)	23 (0)	17 (3)	24 (0)	0 (0)	26 (26)
Ordinary Shares	100 (25)	67 (29)	75 (23)	67 (24)	100 (85)	74 (59)	100 (25)	68 (31)	75 (23)	67 (24)	100 (85)	74 (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	11.8	Media
2.	MTN Group	5.6	Telecommunications
3.	British American Tobacco	4.7	Consumer Goods
4.	Steinhoff International Holdings Ltd	4.0	Industrials
5.	Standard Bank	3.9	Banks
6.	Sasol	3.8	Oil & Gas
7.	FirstRand	3.7	Banks
8.	Anglo American Plc	3.4	Basic Resources
9.	SABMiller Plc	2.8	Consumer Goods
10.	Remgro	2.7	Industrials

GLOBAL ECONOMIC OVERVIEW

- Following three months of broadly sideways movement, the US S&P 500 Index rose to a new record in February, before ending the month slightly below its all-time peak. Several factors contributed to the renewed up leg in US equity prices, including a good earnings reporting season for the fourth quarter of last year and still generally dovish comments from the US Federal Reserve, even though the Fed is still gradually preparing markets for the start of the interest rate hiking cycle, somewhere in the second half of 2015.
- February also saw a continuation of the round of policy easing that swept the world in January, as more countries lowered interest rates. These included Australia, Sweden, Denmark, Indonesia and Romania, while the Chinese Central Bank reduced the reserve ratio requirement; provided additional liquidity to local lending institutions and lowered interest rates at the end of the month.
- On the economic growth front, there was rising optimism that the global recovery is gathering some momentum and may be spreading over a broader front. Encouragingly, consumer confidence increased over a fairly broad front during February - supported by lower energy prices and increasingly supportive economic policy settings. Data being released in the Eurozone is starting to look better and the US economy continues to expand at a steady pace. Our long-held view that overall global growth will firm in 2015 looks on track.
- During the month, there was also good news for global central banks, with inflation being dragged lower by the lower oil price. Indeed, both the US and the Eurozone recorded negative headline inflation rates for January, while inflation in China dropped to a five-year low of only 0.8%. Elsewhere inflation is also trending down for the most part. While central banks generally fear deflation, or falling prices, the latest negative inflation numbers in the US and Eurozone are not of too great a concern, as they effectively reflect the lower oil price and act as a considerable tax cut for oil-consuming nations, even though it drags headline inflation rates into negative territory in some cases.
- But, while most of the global data flow and events over the past month were positive for investor sentiment, markets did worry for a while about the standoff between Greece's newly elected government, which was elected on the basis of its commitment to end austerity, and the European Union, which extended credit to Greece on condition of ongoing structural adjustments and austerity. In the end, Greece made sufficiently acceptable proposals to the EU to obtain a four-month extension of their current agreement, pending the negotiation of a new agreement. So, while concerns around Greece's ongoing membership of the Eurozone faded towards month-end, the issue will likely rear its head again in a few months' time.
- Lastly, oil prices, which had fallen sharply between October 2014 and January 2015, rebounded in February from an average of little more than $50 a barrel in January to around $60 a barrel by the end of the month. The rebound appears to have been driven by a view that oil had become oversold, some signs of stronger demand (still uncertain, though, as to whether this reflects stronger end-demand or merely opportunistic inventory building at the lower price) and mounting optimism about a firming global recovery.

Global growth appears to be gaining moderate momentum, supported by lower oil prices and still very expansionary policy settings. A number of central banks implemented additional stimulus measures over the past month, buoying investor sentiment. However, as is always the case, 2015 will, in all likelihood, have its own share of concerns and scares, triggering 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	6.1	17.6	17.6	32.2	22.1	11.4	14.7
JP Morgan	-1.1	5.1	5.1	14.6	10.7	10.4	10.9
S&P 500	5.9	25.3	25.3	37.0	26.3	13.8	15.6
FTSE 100	6.5	5.7	5.7	25.9	19.0	8.5	12.5
Nikkei Index	4.7	17.3	17.3	27.0	16.0	6.8	10.9
Rand/Dollar	0.2	8.5	8.5	16.1	8.7	6.1	7.2

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	15.2	11.4	11.4	14.0	10.0	10.0	11.0	8.3	8.3	9.5	6.8	6.8
2 Years	18.1	20.4	24.1	17.0	20.0	24.2	14.3	16.4	19.8	13.1	16.2	20.1
3 Years	22.1	22.1	23.4	21.1	21.4	22.5	17.9	18.3	19.8	17.0	17.8	19.1
5 Years	20.3	18.7	16.0	19.7	18.1	15.5	17.1	16.0	13.7	16.6	15.6	13.4
8 Years	13.5	12.7	6.0	12.9	12.1	5.3	11.9	11.3	6.8	11.5	10.9	6.4
10 Years	11.5	11.5	10.3	10.6	10.6	9.5	10.8	10.8	10.8	10.2	10.3	9.8
15 Years	8.9	8.8	5.9	8.0	7.9	4.7	8.8	8.6	6.4	8.1	8.0	5.7

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.2	15.5	-4.3	16.5	37.6	-21.1
Japan	9.3	7.5	1.9	5.0	15.9	-10.9
Europe ex UK	17.3	15.5	1.8	37.5	29.5	8.0
United Kingdom	29.4	38.4	-9.0	11.3	6.3	4.9
SE Asia & Canada	10.4	7.6	2.8	18.9	8.1	10.7
South Africa	14.6	0.0	14.6	0.0	0.3	-0.3
Other	7.7	15.5	-7.8	10.7	2.1	8.6
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	1.9	0.0	0.2	0.2	0.7	0.4
Consumer Discretionary	11.2	12.3	1.5	1.2	3.8	2.3
Consumer Staples	5.7	9.8	0.7	0.6	2.0	1.2
Energy	4.3	7.7	0.5	0.5	1.5	0.9
Financials	17.7	21.3	2.4	1.9	6.0	3.6
Healthcare	10.7	11.9	1.3	1.2	3.7	2.2
Industrials	11.7	10.5	1.6	1.3	4.0	2.4
Information Technology	13.6	14.0	1.7	1.5	4.7	2.8
Materials	4.1	5.5	0.5	0.4	1.4	0.8
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.7	3.8	0.4	0.3	0.9	0.5
Utilities	1.6	3.2	0.2	0.2	0.5	0.3
SA Rand Hedge	14.6	0.0	0.0	0.0	0.0	0.0

TOP EQUITY HOLDINGS (GLOBAL)

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