FLEXI**PORTFOLIO**

PERFORMANCE REPORT

1 MAY 2015

SOUTH AFRICAN ECONOMIC REVIEW

- News on the economic front has not been encouraging over the past month. Incoming high frequency data point to a sharp slowdown in economic growth in the first quarter, with surprising weakness in mining and manufacturing production in the opening months of the year; confirmation that this year's maize crop will be about a third smaller than last year and latest tourism data indicating a sharp slump over the course of last year (likely the combined effect of Ebola fears and new visa rules for travelling to South Africa). To make matters worse, Eskom embarked on a wave of load shedding again in April, following relatively few power interruptions in March.
- The weak incoming data has again prompted analysts to downgrade SA's growth forecasts for this year, with the IMF leading the pack as they slashed SA's growth forecast to a below-consensus 2.0%. While we still think growth could moderately exceed 2% this year – up from 1.5% in 2014 - risks are clearly skewed towards the likelihood of the IMF's forecast indeed being the most accurate.
- The recent spate of negative news and growth downgrades, albeit relatively moderate so far, have raised a more fundamental question, namely whether the generally hoped cyclical and structural revival of South Africa's economic growth prospects are nothing but a pipe dream. While it is generally not wise to jump to such strong conclusions on the back of a few bad data releases, it is indeed worrisome that the struggling mining and manufacturing sectors seem to have benefited so little from the sharp depreciation of the real exchange rate of the rand over the past few years. Moreover, the ongoing slowdown in fixed investment by the private sector - and relentless efforts to limit employment to the bare minimum (preferring mechanisation wherever possible) - indicate that South Africa's fundamental problems may well be far more deeply ingrained than previously believed. The sustained high levels of imports, despite slow growth and a sharply depreciated currency, also raises more fundamental questions about corporate South Africa's international competitiveness. Against this backdrop, pressures for market-friendly, growth-enhancing economic reforms keep building relentlessly. Unless significant progress is made on this front in the near future, medium- to longer-term prospects will continue to become bleaker, ultimately threatening SA's investment grade status.
- Whilst the debate about SA's longer term economic outlook continues to intensify, shorter term problems are also mounting. A particular concern is the very sudden and sharp reversal in the outlook for inflation, driven by government's sharp increase in petrol taxes in the Budget, a rebound in the oil price and a looming, sharp further rise in electricity tariffs. Against the background sketched above, it came as no surprise that the Reserve Bank's Monetary Policy Committee put out a fairly hawkish statement after its March meeting and nothing has happened over the past month to allay these fears.

SA's cyclical and structural economic growth prospects continue to get bleaker, a trend that may ultimately threaten SA's investment-grade rating. There are unfortunately no simple solutions, so the pressures for market-friendly, growth-enhancing economic reforms continue mounting relentlessly.

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	4.7	14.8	14.8	20.1	17.2	11.8	19.2
JSE Fin & Ind	4.1	27.7	27.7	28.5	24.9	16.3	22.2
JSE All Gold	10.3	-11.8	-11.8	-14.4	-9.8	-8.0	0.8
All Bond	-0.4	11.6	11.6	8.2	9.3	8.6	8.6
Total Cash	0.4	5.2	5.2	4.8	4.9	6.6	6.6
ALSI 40	5.2	13.3	13.3	20.2	16.8	11.5	18.8
INDI 25	4.3	26.7	26.7	31.3	28.2	19.5	25.1

RETIREMENT ANNUITIES TO 01/05/2015 (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	19.1	16.4	16.4	14.5	13.8	13.8	22.3	17.7	17.7	10.7	12.1	12.1	4.8	4.8	4.8	4.5
2 Years	19.4	20.7	22.4	14.8	15.8	16.7	18.7	18.6	19.0	12.8	13.6	14.3	4.5	4.4	4.1	5.3
3 Years	20.5	20.6	20.5	15.7	16.1	16.4	18.5	18.1	17.6	13.7	13.8	14.0	4.2	4.2	4.0	5.5
5 Years	18.7	17.7	15.9	14.8	14.3	13.0	16.5	15.6	13.8	13.0	12.8	11.9	4.1	4.1	4.1	5.4
8 Years	15.0	14.1	9.1	12.3	11.9	8.8	13.3	12.6	8.6	11.5	11.5	10.8	4.6	4.7	5.5	6.2
10 Years	13.8	14.0	15.5	11.6	11.8	12.9	12.5	12.4	13.5	11.7	11.9	12.8	5.0	5.0	5.5	6.0
15 Years	14.4	14.5	13.5	12.1	12.1	11.5	13.3	13.4	13.1	11.9	11.8	11.5	5.3	5.4	5.6	5.8
20 Years	13.6	13.4	13.1	11.7	11.6	11.6	-	-	-	11.5	11.5	11.5	6.0	6.1	7.3	5.9
25 Years	13.8	13.7	13.2	11.9	11.8	11.6	-	-	-	11.9	11.9	12.6	-	-	-	7.1
INTERIM RATES										9.50% p.a. (0.759% p.m.)			0.373% p.m.			

ENDOWMENTS/LIFE PORTFOLIOS TO 01/05/2015 (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	16.7	14.6	14.6	12.8	12.1	12.1	19.3	15.4	15.4	9.2	10.6	10.6	2.8	2.8	2.8	4.5
2 Years	17.6	19.6	21.7	13.1	14.1	15.0	16.9	17.3	18.1	11.3	12.1	12.8	2.5	2.4	2.2	5.3
3 Years	19.2	19.6	19.5	14.0	14.4	14.7	16.9	16.7	16.2	12.2	12.3	12.5	2.3	2.3	2.2	5.5
5 Years	17.8	16.9	15.4	13.3	12.8	11.6	15.4	14.6	13.0	11.6	11.4	10.5	2.2	2.2	2.3	5.4
8 Years	14.2	13.4	8.4	10.8	10.4	7.4	12.3	11.7	7.7	10.2	10.1	9.4	2.8	2.9	3.6	6.2
10 Years	13.0	13.2	14.7	10.2	10.3	11.5	11.4	11.4	12.4	10.4	10.6	11.5	3.1	3.2	3.7	6.0
15 Years	13.5	13.5	12.4	10.7	10.7	10.3	12.2	12.2	12.0	10.7	10.7	10.5	3.7	3.8	4.4	5.8
20 Years	12.6	12.4	12.0	10.4	10.3	10.3	-	-	-	10.5	10.5	10.7	4.6	4.7	6.0	5.9
25 Years	12.8	12.6	12.1	10.6	10.5	10.2	-	-	-	10.9	10.9	11.5	-	-	-	7.1
INTERIM RATES										8.00% p.a. (0.643% p.m.)			0.216% 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 (1)	23 (3)	25 (0)	0 (0)	27 (27)	0 (0)	24 (0)	23 (3)	25 (0)	0 (0)	27 (27)
Ordinary Shares	100 (25)	67 (29)	69 (23)	66 (24)	100 (85)	73 (58)	100 (24)	68 (30)	69 (23)	66 (24)	100 (85)	73 (58)
Property	0	7	8	7	0	0	0	6	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	12.0	Media
2.	MTN	6.2	Telecommunications
3.	FirstRand	4.3	Banks
4.	Sasol	4.1	Oil & Gas
5.	British American Tobacco	4.1	Consumer Goods
6.	Standard Bank	4.0	Banks
7.	Steinhoff International Holdings Ltd	3.8	Industrials
8.	Remgro	2.9	Consumer Goods
9.	SABMiller plc	2.8	Consumer Goods
10.	Anglo American plc	2.7	Basic Resources

GLOBAL ECONOMIC OVERVIEW

- As the first half of 2015 progressed, investors' focus intensified on when the US Federal Reserve will start raising interest rates. As the US economy and the labour market have healed, the Fed has gradually been removing its policy stimulus, first through the winding down of asset purchases (completed by the end of 2014) and more recently by preparing markets, through its forward guidance, for the eventual first hike in US interest rates. While interest rates have so far remained unchanged, the tightening of financial conditions in the US continued through the sharp appreciation of the dollar in anticipation of the eventual rise in US rates. The stronger dollar acts as a brake on US economic growth by undermining the competitiveness of US producers, while it also lowers the dollar earnings of offshore earnings of US companies.
- However, as investor focus intensified on the timing of the first hike in US rates, the Fed's task has been complicated by a sharp slowdown in US economic growth in the first quarter to a mere 0.2% year-on-year, compared to more than 2% during the fourth quarter of last year and almost 5% during the middle quarters of 2014. Nevertheless, it is commonly accepted that the sharp slowdown in first quarter growth was partly due to temporary factors - such as adverse weather and a dock workers' strike on the US's west coast. As such, growth is expected to rebound again in the second quarter and, in fact, for the remainder of 2015. So consensus views have not changed much when it comes to the Fed beginning to raise rates during the second half of the year, most probably at the September meeting of the Fed's policy making arm. While the Fed indicated that it would consider a rate hike already at the next meeting in June, it is unlikely that the Fed will raise rates then given the recent soft patch in the economy. A June hike would probably only be effected if incoming data is particularly strong in the run-up to the June meeting.
- But the debate around the Fed goes further than interest rate consideration. Two further focus areas are how fast the Fed will raise rates and how far rates will rise during the cycle. Against this backdrop, investors have become more wary about the potential impact a tightening cycle could have on financial markets and the dollar. In this environment of uncertainty financial market volatility is likely to be elevated.
- Still, it is unlikely that rising rates will pose a major threat to financial markets. Importantly, US inflation remains tame, implying the Fed could normalise rates gradually. Moreover, the Fed would not want to cause an unwanted and unnecessary slowdown in the US economy thereby undermining corporate earnings. Indeed, history has shown that equities tend to rise well into an up cycle in interest rates and only begin to retrace once investors start fearing a sharp downturn in the economy. So, while markets are likely to become more volatile in the months to come and investment returns are likely to be lower, we see little macro reason for a major upheaval in global financial markets.
- In the meantime, economic news from the rest of the world remains mixed. Incoming date from the Eurozone is more encouraging, but the reverse is true for China, where growth continues to slow. So while the US Fed is marching closer to tightening policy, most countries in the rest of the world are, in fact, still leaning towards further policy easing.

As the US Fed is getting closer to its first hike in interest rates in nine years', financial markets have become more volatile. A gradual and well-signalled normalisation of US interest rates should not pose a major threat to financial markets as long as the Fed does not engineer a renewed downturn in the economy.

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	1.0	22.6	22.6	31.9	22.5	11.4	15.0
JP Morgan	-0.6	8.9	8.9	13.9	12.5	11.1	10.6
S&P 500	-0.4	28.3	28.3	34.9	26.0	13.8	15.7
FTSE 100	5.4	9.9	9.9	25.5	19.6	8.3	12.7
Nikkei Index	0.5	32.2	32.2	28.3	17.6	8.4	11.8
Rand/Dollar	-1.3	13.5	13.5	15.5	10.2	6.9	7.0

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	19.9	17.4	17.4	18.4	16.0	16.0	15.1	13.1	13.1	13.4	11.5	11.5
2 Years	18.8	22.1	24.1	17.3	21.7	24.0	14.9	17.9	19.9	13.3	17.4	19.9
3 Years	22.6	23.6	24.7	21.5	22.9	23.7	18.1	19.5	20.7	17.2	18.8	19.9
5 Years	21.1	19.9	16.8	20.4	19.3	16.2	17.7	17.1	14.7	17.1	16.6	14.3
8 Years	14.3	13.5	6.1	13.6	12.9	5.4	12.6	12.1	7.0	12.1	11.6	6.5
10 Years	12.0	12.0	10.8	11.1	11.1	9.9	11.1	11.3	11.1	10.6	10.7	10.1
15 Years	9.3	9.2	5.7	8.4	8.3	4.6	9.1	9.1	6.2	8.4	8.3	5.5

GEOGRAPHICAL SPREAD

	EQUITY PORTION %			BOND PORTION %		
	Fund	MSCI	Difference	Fund	Benchmark[7]	Difference
United States	11.1	15.2	-4.0	17.8	37.6	-19.8
Japan	9.3	7.8	1.5	5.2	15.9	-10.6
Europe ex UK	16.9	15.6	1.3	38.8	29.6	9.3
United Kingdom	29.0	37.6	-8.5	10.8	6.3	4.5
SE Asia & Canada	10.4	8.1	2.3	19.8	8.4	11.4
South Africa	14.6	0.0	14.6	0.0	0.3	-0.3
Other	8.7	15.7	-7.1	7.4	2.0	5.5
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	1.2	0.0	0.1	0.1	0.4	0.2
Consumer Discretionary	10.5	12.4	1.4	1.1	3.6	2.1
Consumer Staples	5.3	9.5	0.7	0.6	1.8	1.0
Energy	4.1	8.0	0.5	0.4	1.4	0.8
Financials	18.5	21.7	2.5	2.0	6.2	3.6
Healthcare	10.4	11.8	1.3	1.1	3.6	2.0
Industrials	13.0	10.4	1.7	1.4	4.4	2.6
Information Technology	13.9	13.8	1.8	1.5	4.8	2.7
Materials	4.3	5.4	0.6	0.5	1.5	0.9
Other	0.1	0.0	0.0	0.0	0.0	0.0
Telecoms Services	2.7	3.7	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.	China Mobile Ltd	Telecommunications
4.	JPMorgan Chase & Co	Financials
5.	Taiwan Semiconductor	Industrials
6.	DBS Group Holdings Ltd	Telecommunications
7.	Delphi Automotive plc	Industrials
8.	Citigroup Inc	Banks
9.	Medtronic plc	Healthcare
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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