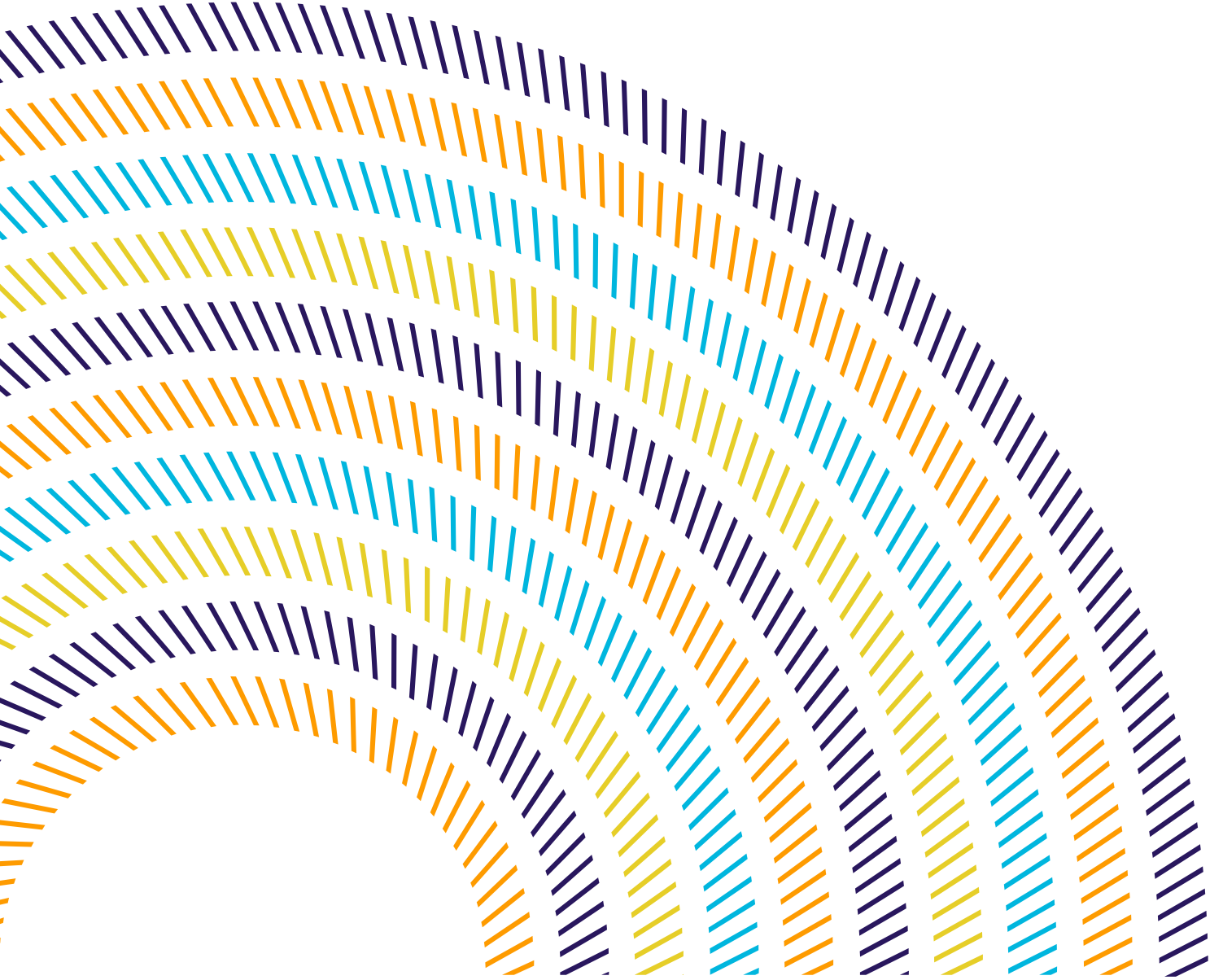


ACS/S



Acsis' Quarterly Investment Report

Alliance Midmed Medical Scheme
End-March 2017

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1. Introduction

The purpose of this document is to monitor and evaluate the performance of the underlying assets of the Scheme as at 31 March 2017.

2. Investment Strategy Statement

The Trustees are ultimately responsible for achieving the investment objectives of the Scheme. The Trustees have outsourced the functions of achieving the investment objectives to Acsis Limited who invest the funds with the following purpose and philosophy, but not limited to, in mind:

2.1. Purpose

In the interest of good corporate governance, it is important for Alliance Midmed Medical Scheme ('Scheme') to formalise an investment policy document.

This document is a formal statement of the main principles underlying the investment policy of the Board of Trustees ('BoT') of the Scheme. It is intended to provide a framework for investment of the assets of the Scheme.

The BoT has full discretion in the management of the assets of the Scheme, and will undertake such decisions within the framework of this Investment Policy Document.

2.2 Philosophy

- Prudent investment portfolio
- Objectives are considered as a whole
- Seek real returns as measured by cpi
- Ensure liquidity
- Preservation of capital is a primary priority
- Ensure compliance
- Risk profile includes low investment risk only

2.3 Risk Tolerance

The most important financial objective of the scheme is to provide for benefit payments and expenses as they fall due. The major components of the **liabilities** are therefore **short term** in nature and the risk tolerance for short term volatility is very low.

3. Asset Liability Matching

3.1. Scheme Facts as at 31 March 2017

Investment Status

Total assets: Risk (Mar 2017)	R51.5m
Total assets: Savings (Mar 2017)	R28.9m
Investment income (YTD Mar 2017)	R1.0m

Cash Flow Analysis

Solvency (Mar 2017)	40.04%
Budgeted Annual contributions (2017)	R85.9m
Budgeted Annual claims (2017)	R79.4m
Budgeted Annual non-healthcare expenditure (2017)	R6.3m
Savings liability (Mar 2017)	R28.8m
Provision for outstanding claims (Mar 2017)	R3.7m

Membership Data

Number of Members (Mar 2017)	1 844
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3.2. Reserve Levels

3.2.1. Statutory reserve levels

The Medical Schemes Act requires medical schemes to maintain accumulated reserves, expressed as a percentage of contributions, of no less than 25% for the accounting period under review. Based on the budgeted contributions for 2017, the statutory reserve requirement would be **R21.5m**.

3.2.2. Liquidity

In order to manage liquidity risk, the medical schemes should typically have sufficient liquid assets available at all times to meet claims and expenses for **two months**. This amounts to **R16.3m** based on average actual expenses for 1Q17.

3.2.3. Solvency assets and surplus assets

1. In determining the value of the legislated assets, the following principle applies. In terms of Regulation 30(1) and 30(2), a medical scheme is required to hold assets of not less than the sum of :
 - The fair value of the Scheme's liabilities ; PLUS
 - The minimum statutory accumulated funds required in terms of 29(2) - 25% of gross annual contributions

This amount can be referred to as the solvency assets and the balance will be referred to as excess assets. The valuations are:

	March 2017 (R)
Required solvency	21,471,257
Savings plan liability	28,857,991
Accounts payable	3,009,487
Provision for outstanding claims	3,695,572
Legislated assets	57,034,307
Surplus assets	23,311,496
Total Investments including savings	80,345,803

3.2.4 Tax

Registered Medical Schemes are exempt from tax in terms of Section (1) (d) of the Income Tax Act. Medical Schemes are also exempt from Capital Gains Tax.

4. Return Objective Analysis

4.1 Return Objective

The return objective of the long term assets is **CPI+4%**.

4.2 Analysis of Medical Inflation

4.2.1 Components of Medical Inflation

Medical inflation is monitored by Statistics SA and is made up of the following components:

Medical products	
Pharmaceutical products	36.5%
Pharmaceutical products-dispensing fees	1.4%
Out Patient Services	
Medical services	45.3%
Dental services	6.1%
Hospital Services	
Hospital services	10.8%

Please note: medical inflation represents approximately 1.48% of the CPI from January 2009.

4.2.2 Medical Inflation vs Return Objective

% YoY	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016
CPI	3.6	5.8	9.0	9.5	6.3	3.5	6.1	5.7	5.4	5.3	5.2	6.8
Medical	7.0	6.5	5.8	6.9	10.5	7.3	5.2	5.4	4.5	5.6	6.3	5.7
CPI plus 4%	7.6	9.8	13.0	13.5	10.3	7.5	10.1	9.7	9.4	9.3	9.3	10.8

5. Risk/Return Analysis

April 2017 Asset Class/Index	Quarter	Annualised Return			Volatility
		1 yr pa	3 yrs pa	5 yrs pa	3 yrs
Cash / SteFi Comp	1.8%	7.6%	6.8%	6.2%	0.2%
Bonds / ALBI	2.6%	10.6%	7.9%	7.3%	8.2%
Property/SAPY	0.2%	0.2%	13.8%	15.3%	11.9%
Equity /JSE ALSI	3.1%	4.5%	6.3%	12.7%	9.9%
CPI (Mar 2017))	2.3%	6.1%	5.5%	5.7%	-
Medical Inflation (Mar 2017)	4.7%	6.1%	6.2 %	5.7%	-

Source: Statistics SA, Reuters and I-net

6. Market Overview 1Q2017

Synopsis:

Global equities positive in March, with emerging markets outperforming

Commodity prices generally weaker, but still well above 2016 lows.

Political turmoil knocked rand and interest-rate sensitive assets, but JSE benefited from rand-hedges.

Global

Developed market equities (MSCI World Index) returned 1.1% in US dollars in March, supported by a weaker dollar and strong performance from European equities. Since the start of the year, the US dollar lost 2.7% against the euro and 6.3% against the yen.

The Eurostoxx 600 index returned 3.4% in March, lifting first quarter returns to 6.3% in euros, and 12 month returns to 17%. The UK FTSE 100 returned 1.12% in March, shrugging off the official start of the Brexit process. The FTSE benefits from a weak pound, and returned 23% in Sterling over the past year.

The US market was flat in March, but the S&P is still up 6% in the first quarter and 17% over 12 months.

Japan's Nikkei 225 lost 0.4% in March, weighed down by a stronger yen. Over 12 months, it is up 15% in yen.

Among the MSCI World sectors, cyclicals generally outperformed defensives. The best performing sector was IT followed by consumer discretionary, while only financials were negative.

Emerging market equities had another strong month, with the MSCI Emerging Market Index returning 2.5% in US dollars in March and 11.5% in the first quarter, the strongest start to a New Year since 2012. Over the past 12 months the emerging markets have outperformed developed markets by 17.7% against 15.4%. Among emerging markets, Korea, China and India posted solid dollar returns in March.

Combining emerging and developed markets, the MSCI All Countries World Index returned 1.3% in March and 15.7% over 12 months in US dollar terms.

Global bonds suffered sharp losses between August and December last year and the Citigroup World Government Bond Index lost 2.2% in US dollars over 12 months to March. However, bonds have stabilised this year. Year-to-date, global bonds returned 2% and were flat in March. The 10-year US Treasury yield started the year at 2.45% and ended the first quarter marginally lower at 2.42%. The equivalent German bond yields moved from 0.27% to 0.33% and the Japanese 10-year yield hovered above the Bank of Japan's target of 0%, ending the quarter at 0.06%.

Global property was negative in March in US dollars, with the FTSE EPRA/Nareit Developed index losing 1.4%. Year-to-date, global property returned 2.3% and over 12 months, 1.9%.

Commodities were generally negative in March, with a few important exceptions. Platinum lost 7.2% in the month, dragging the one-year change into negative territory. Gold was flat in March and only up 1.3% over 12 months. Among industrial commodities, iron ore, nickel and copper were negative in March amid signs of dampened demand from China as authorities there aim to cool the housing markets. However, they still well above the lows of 12 months ago. The oil price pulled back 4% in March following a strong increase in US production and rising stockpiles. At \$52 dollars per barrel, the price of Brent crude oil was still 31% higher than a year ago.

Local

The FTSE/JSE All Share Index (Alsi) had a positive month despite the political shock that hit local markets on the last trading day of the month. The Alsi returned 2.7% in March and 3.8% in the first quarter. However, a strong performance in March 2016 has created a high base, and 12-month returns were only 2.5% (basically only dividends). The FTSE/JSE Shareholders Weighted Index (SWIX) returned 2.2% in March, but the Capped SWIX, which limits Naspers' weight, only returned 1.5%. Naspers returned 10% in March.

The top performing sector in the month and quarter was Industrials (4.2% and 6.6% respectively). Over one year, the Industrials index was flat. Some of the mega-cap rand-hedge shares – notably Richemont, British American Tobacco and Naspers - had a very strong month, while Telkom posted a double-digit return. Retailers, however, sold-off with other interest rate-sensitive assets after the Cabinet reshuffle.

Resources returned 2.9% in March, lifting first quarter returns out of negative territory to 2.7%. Over one year, Resources returned 16.7%, leading the other two main sectors. Within Resources, chemicals (Sasol, with a return of 5.4%), gold mining (5.9%), paper and forestry (7.4%) and coal mining (9.2%) had a strong month. Coal mining returned 31% in the first quarter. Platinum mining had a negative month, but still returned 7.8% in the first quarter.

Financials were negative in March and the first quarter, with the political developments weighing on banks in particular. Banks lost 1.43% in March and 6.2% in the first quarter. Life insurers were also negative in March but non-life insurers had a strong month and first quarter.

Listed property was flat in March, and up 1.4% in the first quarter. The return over 12 months is also a subdued 1.5%.

Bonds returned 0.4% in March, with the last day's trading wiping out most of the month's returns. The All Bond Index returned 2.4% in the first quarter. The 10-year South African government bond yield started the month at 8.8% and declined (i.e. bonds rallied) to 8.3%. However, when news broke that Gordhan was recalled from his international roadshow, yields increased and ended the month at 8.85%.

The rand was on the front foot for most of March. It started the month at R13.08 against the US dollar and appreciated to R12.31 on the eve of the political upheaval, selling off to R13.49 at the end of the month. This amounted to a 2.3% depreciation against the dollar during March, but was still 2.3% stronger year-to-date and 10% over 12 months. The rand lost 3.6% against the pound and 2.9%

against the euro in March, but is still 25% stronger against Sterling over one year and 17% against the European single currency.

Over the past 12 months, the All Bond Index returned 11% and cash 7.5%. Bonds and cash therefore outperformed property and equities over the past year. Despite its recent volatility, the rand has appreciated over the past year, and this has eroded offshore returns for domestic investors. Therefore, overall returns from a balanced portfolio over this period are muted.

Sources: I-Net, Datastream, SARB, StatsSA, JP Morgan, Deutsche Bank

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7. Allocation of Assets

7.1 Mandate/ Asset Allocation (Mar 2017)

Assets are allocated to the following mandates and managers.

Risk

Investment Portfolio	Cash		Bonds		Property		Equity		Other		Total
	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	
Acxis Cash Portfolio plus current account	14.30	100.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	14.30
Coronation Medical Schemes Portfolio	4.74	27.9%	4.31	25.4%	1.69	9.9%	6.22	36.6%	0.02	0.1%	16.98
Prudential Inflation Plus 5%	2.31	11.5%	9.76	48.4%	1.97	9.8%	6.06	30.0%	0.08	0.4%	20.18
Total	21.35	41.5%	14.07	27.3%	3.66	7.1%	12.27	23.9%	0.10	0.2%	51.45

In relation to the scheme financials, the amount allocated to Investments as at 31 Mar 2017 is:

Cash and cash equivalents:	R 14,301,729
Investments:	<u>R 37,152,069</u>
Total:	<u>R 51,453,798</u>

Savings

Investment Portfolio	Cash		Bonds		Property		Equity		Other		Total
	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	
Acxis Cash Portfolio plus current account	28.9	100%	-	-	-	-	-	-	-	-	28.9
Total	28.9	100%	-	-	-	-	-	-	-	-	28.9

8. Cashflow Analysis and Valuations

8.1 Cashflow

Cashflow (R)	2Q16	3Q16	4Q16	1Q17
Acsis Treasury: Risk	-	-2,000,000	-1,000,000	-
Acsis Treasury: Savings	-	-	-	-
Coronation Medical Schemes Portfolio	-	-	-	-
Prudential Medical Schemes Portfolio	-	+2,000,000	+1,000,000	-

Valuation: 2016 (excluding savings)

Portfolio Name (R)	31/03/2016	30/06/2016	30/09/2016	31/12/2016
Acsis Cash Portfolio plus current account	17,602,600	16,102,689	14,235,269	15,331,244
Coronation Medical Schemes Portfolio	15,910,139	16,279,927	16,549,315	16,561,726
Prudential Inflation Plus 5%	16,291,424	16,568,984	18,869,649	19,742,972
Total	49,804,163	48,948,600	49,654,233	51,635,942
Growth/Burn Rate	3,584,030	-855,563	705,633	1,981,709

During the calendar year, the asset base of the scheme increased by R5.4m.

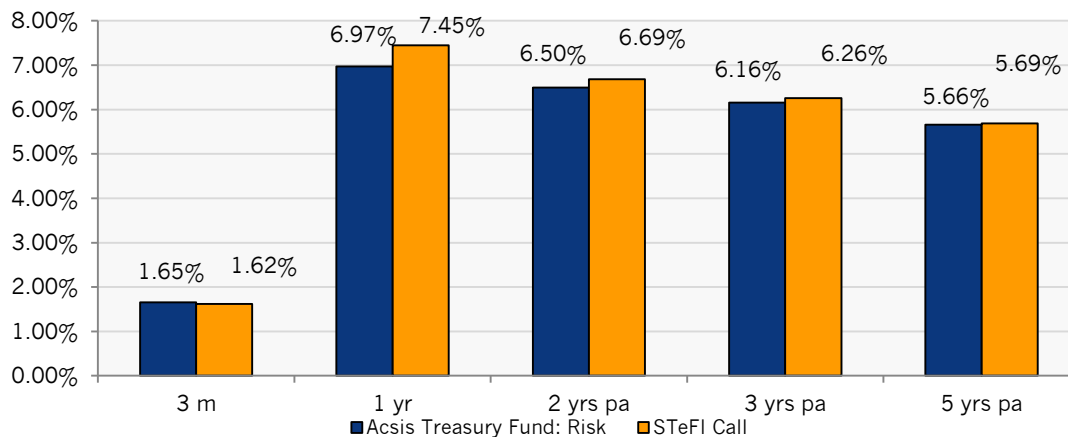
8.2 Valuation: 2017 (excluding savings)

Portfolio Name (R)	31/03/2017	30/04/2017	30/09/2017	31/12/2017
Acsis Cash Portfolio plus current account	14,301,729	14,470,319		
Coronation Medical Schemes Portfolio	16,977,037	17,182,560		
Prudential Inflation Plus 5%	20,175,033	20,432,438		
Total	51,453,799	52,085,317		
Growth/Burn Rate	-182,143	631,518		

For the first 4 months of 2017, the asset base of the scheme increased by R0.4 million.

9. Return Analysis to Benchmark (after fees)

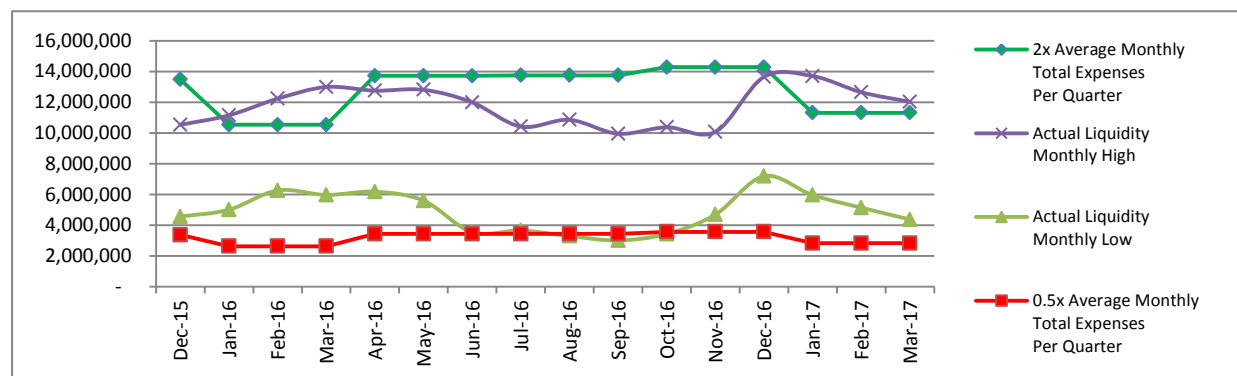
9.1 Acsis Treasury: Risk



Performance after fees as at 30 April 2017

The primary purpose of this fund is to sweep the current account daily, fund claims and expenses as they fall due and maximise the return. The investment strategy is to keep 2 times monthly outflows on call and to increase the average duration by shifting assets along the curve to take advantage of the positive slope.

The liquidity strategy is to ensure a “high” level at 2 times averages monthly outflows “after contributions/before outflows” and similarly a “low” level, which is not less than 0.5 times average monthly outflows, “after outflows/before contributions”.



Liquidity Measurement:

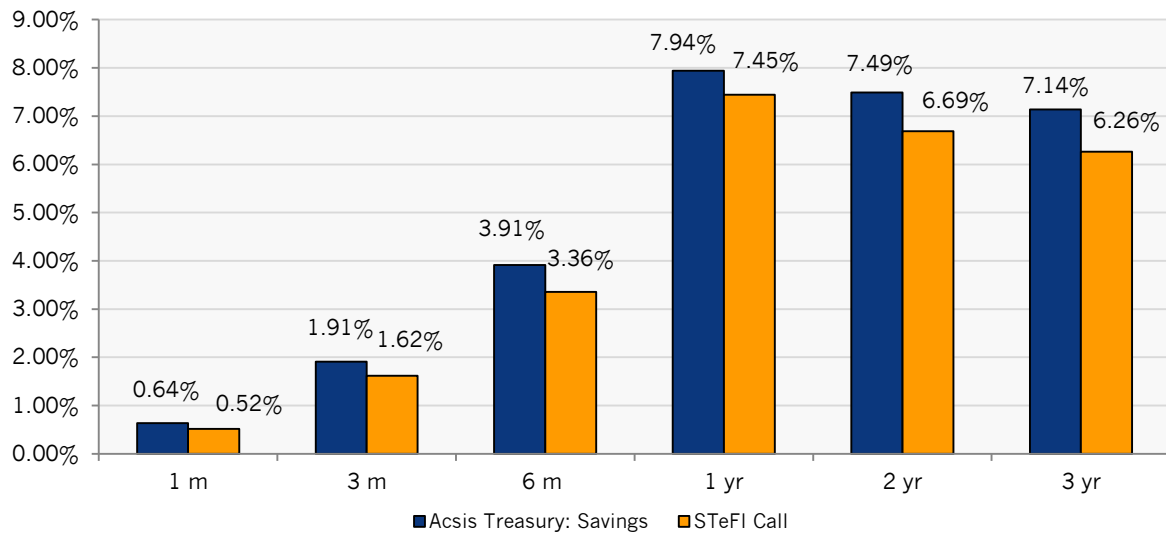
The Schemes required liquidity levels for the quarter is **R16.3m/R4.0m** and the actual high/low of Mar 2017. was **R12.0m/R4.3m** with a closing balance of **R11.7m** as at 31 Mar 2017. The liquidity levels of the scheme is sufficient to cover claims and expenses, however it is running a very short duration.

Fixed Deposits

Investments in fixed deposits amounted to **R2.25m** as at 31 Mar 2017. This includes **R1.5m** used on 7-day fixed deposits and repo's to take advantage of the attractive rates.

Fund Manager : Leon Nel
Fund Size : R13.97 million
Average Duration : 3 days

9.2 Acsis Treasury: Savings:



Performance after fees as at 30 April 2017

	30/06/2015	30/09/2015	31/12/2015	31/03/2016	30/06/2016	30/09/2016	31/12/2016	31/03/2017	30/04/2017
Gross yield (p.a.)	6.852%	6.935%	7.026%	7.459%	7.739%	7.897%	8.039%	8.068%	8.052%
Fee (p.a.)	0.285%	0.285%	0.285%	0.285%	0.285%	0.285%	0.285%	0.285%	0.285%
Net Yield (p.a.)	6.567%	6.650%	6.741%	7.174%	7.520%	7.612%	7.754%	7.779%	7.767%

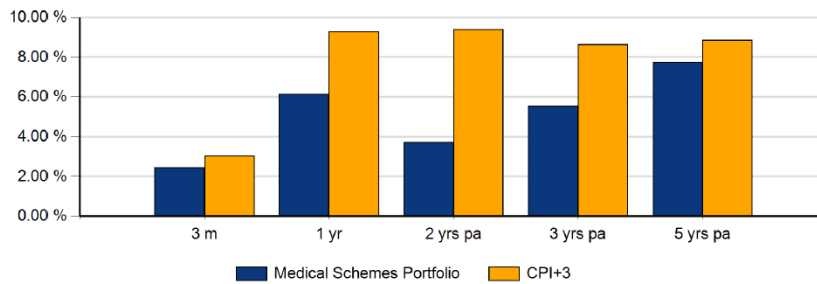
Investments in call accounts were **R5.2m** as at 31 Mar 2017.

Investments in fixed deposits amounted to **R24.5m** as at 31 Mar 2017. This includes **R2.2m** of liquidity funds that were used on 14 day fixed deposits and repo's to take advantage of the attractive rates.

Fund Manager : Leon Nel
Fund Size : R29.7million
Average Duration : 143 days

9.3 Coronation Medical Schemes Portfolio (R17,182,560)

performance analysis



The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	3 m	1 yr	2 yrs pa	3 yrs pa	5 yrs pa
Fund	2.45%	6.15%	3.72%	5.54%	7.75%
CPI+3	3.06%	9.30%	9.39%	8.63%	8.85%

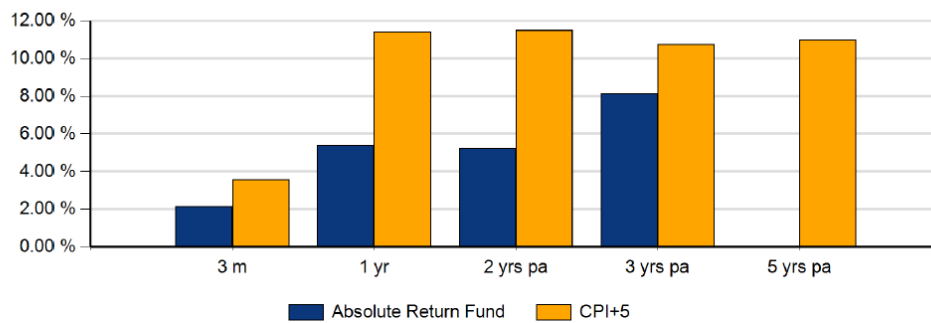
Performance as at 30 April 2017

transaction history

traded	transaction type	value (R)
02-Dec-2015	sales	2,000,000
25-Aug-2011	purchases	12,000,000

9.4 Prudential Medical Schemes Portfolio (R20,432,438)

performance analysis



The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	3 m	1 yr	2 yrs pa	3 yrs pa	5 yrs pa
Fund	2.14%	5.39%	5.22%	8.14%	
CPI+5	3.56%	11.43%	11.51%	10.74%	10.97%

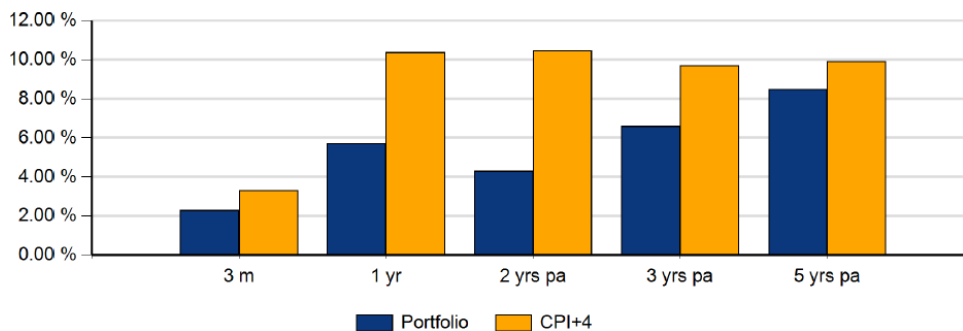
Performance as at 30 April 2017

transaction history

traded	transaction type	value (R)
18-Oct-2016	purchases	1,000,000
13-Sep-2016	purchases	1,000,000
24-Aug-2016	purchases	1,000,000
04-Dec-2015	purchases	2,000,000
30-Nov-2012	purchases	10,000,000

9.5 Growth Assets: Actual Return vs Objective (R 37,614,998)

performance analysis



The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	3 m	1 yr	2 yrs pa	3 yrs pa	5 yrs pa
Portfolio	2.28%	5.73%	4.29%	6.59%	8.49%
CPI+4	3.31%	10.37%	10.45%	9.69%	9.91%

Performance as at 30 April 2017

10. Top 10 Equity Holdings as at 31 Mar 2017

Share Name	% of Total Investment	3 month return Mar 2016	12 month return Mar 2016
Naspers Ltd	2.39%	14.94%	12.32%
British American Tobacco	1.31%	13.21%	2.42%
MTN Group Ltd	1.17%	-3.31%	-9.76%
Standard Bank Group Ltd	1.12%	-5.27%	8.51%
Old Mutual Plc	1.09%	-2.21%	-17.81%
Firstrand Ltd	0.94%	-12.81%	-4.16%
Anglo American Plc	0.72%	4.59%	76.64%
Sasol Ltd	0.70%	-2.08%	-11.54%
Compagnie Fin Richemont SA	0.54%	16.84%	8.75%
Steinhoff International Holdings Ltd	0.52%	-9.97%	-33.74%

11. Actual vs Strategic Asset Allocation

	Actual Asset Allocation		Strategic Asset Allocation	Variance to Midpoint
	R (million)	%	%	%
Cash	21.4	41.5	30-50	+1.5
Bonds	14.2	27.5	20-40	-2.5
Equity (including property)	15.9	31.0	25-35	1.0
Total	51.5	100.0	100.0	0.0

12. Compliance Analysis and Measurement

Acsis has analysed the Scheme's investments as at 31 March 2017 in relation to Annexure B of the Medical Schemes Act of 1998 and Circular 23. The Scheme's investments were compliant in all items.

Annexure B:

Requirements:

Compliance to Annexure B of the Medical Schemes includes:

Cash	No more than 35% to any major bank in S.A. No more than 15% offshore
Bonds	Up to 100% in government bonds No more than 20% to Eskom, Transnet, Landbank etc
Property	No more than 10%.
Equity	No more than 40% and no more than 7.5% per each equity No offshore exposure

Circular 23

Circular 23 was issued by the Council on 19 June 2012. It requires that medical schemes hold cash deposits directly with banks of at least 20%. As at end March 2017, this measured 27.8% for Alliance Midmed Medical Scheme. The Scheme is therefore compliant.

13. Considerations

1. Cash Management: Oct to December 2016

Acsis provides a cash management service whereby:

- all funds in the current account above a buffer (currently: R250 000) are swept out and invested.
- the current account is viewed daily by Acsis.
- the required withdrawal amounts are paid back to the current account on the day that expenses/claims are paid out.
- the funds are invested in the Top 5 banks only.
- the funds are invested to comply with Regulation 30 on a daily basis. (Maximum exposure: 35% per bank).
- the funds fulfil the requirements of Circular 23 in terms of direct exposure to banks.
- the current rate of return on the current account is: 6.60% p.a.
- the current rate of return on the Acsis **risk** portfolio is:
 - 7.05% p.a. (before fees)
 - 0.28% p.a. (fees)
 - 6.76% p.a. (after fees)**
- the current rate of return on the Acsis **savings** portfolio is:
 - 8.06% p.a. (before fees)
 - 0.28% p.a. (fees)
 - 7.78% p.a. (after fees)**

Activity	Oct 2016	Nov 2016	Dec 2016
Number of movement from the current account	4	8	6
Number of movements to the current account	12	10	10
Total funds moved from the current account	R7,760,000	R5,630,000	R7,780,000
Total funds moved to the current account	R8,612,627	R6,522,627	R4,762,627

2. Long term investment performance

The long term assets are invested in the Prudential Medical Schemes Portfolio which has a CPI + 5 benchmark and Coronation Medical Schemes Portfolio which has a CPI + 3 benchmark. These are both portfolios that are compliant with the medical schemes Act. They are both reflected in the typical medical scheme surveys, which typically show gross returns.

Gross return as at Jan 2017	3 months	1 year	3 year p.a.
Prudential	2.24%	8.33%	10.08%
Coronation	2.53%	10.06%	7.00%

3. Index investments

I have been asked about index based investments for institutional funds. Sygnia provides such investments. However, they do not provide a pooled fund which is compliant with Regulation 30 (at this stage).

Disclaimer: Although every care is taken in compiling this document and the information herein, Acsis Limited ("Acsis"), its associated companies and the various asset managers do not guarantee the accuracy thereof. The value of the investments may go down as well as up and past performance is not necessarily a guide to the future. No guarantees are offered in respect of investment returns and/or capital invested.

Acsis Limited Reg. No. 1999/008036/06 Old Mutual Square, 93 Grayston Drive, Sandton. PO Box 2444, Saxonworld, 2132, South Africa

Tel:+27 (11) 217 1000 Fax: +27 (11) 217 2444 email: help@Acsis.co.za www.Acsis.co.za

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