Acsis' Quarterly Investment Report

Alliance Midmed Medical Scheme

End-September 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 30 September 2017.

2. Investment Policy 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

Investment Status

Total assets: Risk (Sep 2017)	R51.4m
Total assets: Savings (2017)	R31.6m
Investment income (YTD Sep 2017)	R3.0m

Cash Flow Analysis

Solvency (Sep 2017)	38.9%
Budgeted Annual contributions (2017)	R85.9m
Budgeted Annual claims (2017)	R79.4m
Budgeted Annual non-healthcare expenditure (2017)	R6.3m
Savings liability (Sep 2017)	R30.8m
Provision for outstanding claims (Sep 2017)	R3.7m

Membership Data

Number of Members (Sep 2017)	1 857

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 **R16.1m** based on average actual expenses for 3Q17.

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:

	September 2017 (R)
Required solvency	21,471,257
Savings plan liability	30,827,757
Accounts payable	4,610,622
Provision for outstanding claims	3,725,452
Legislated assets	**60,635,088**
Surplus assets	22,404,617
Total Investments including savings	**83,039,705**

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

September 2017	Annualised Return				Volatility
Asset Class/Index	**Quarter**	**1 yr pa**	**3 yrs pa**	**5 yrs pa**	**3 yrs**
Cash / SteFi Comp	1.8%	7.6%	7.0%	6.4%	0.2%
Bonds / ALBI	3.7%	8.2%	7.6%	6.3%	8.1%
Property/SAPY	5.7%	9.5%	12.7%	12.7%	11.8%
Equity /JSE ALSI	8.9%	10.2%	7.2%	12.5%	10.8%
CPI (Aug 2017)	0.6%	4.8%	5.1%	5.6%	-
Medical Inflation (Aug 2017)	0.2%	7.0%	6.1%	5.7%	-

Source: Statistics SA, Reuters and I-net

6. Market Overview 2Q2017

Synopsis

- **Central banks back in the spotlight amid concerns of premature tightening.**
- **European economy appears to be firing on all cylinders.**
- **Local economy in technical recession with confidence falling.**

Global

Monetary policy is firmly back in the spotlight. The US Federal Reserve hiked rates for the fourth time in the current cycle, taking the fed funds target range to 1% to 1.25%. Its projection for future rate hikes (the so-called dot plots) remained unchanged, showing that the fed funds rate is expected to eventually settle at 3%. However, while unemployment has declined substantially, wage growth has not accelerated and inflation remains subdued. In fact, the last few months have seen a run of weakening inflation numbers, calling into question whether the Fed will persist with its planned hikes. If it does, it might be making a costly error. While US households have been reducing debt for the past ten years, debt levels remain high and potentially vulnerable to higher rates. In the meantime, though, consumer confidence is high and spending fairly robust.

European Central Bank president Mario Draghi caused a stir when he noted in a speech that “reflation” was replacing deflation thanks to a much stronger Eurozone economy. Markets seized on these comments, viewing them as a signal that reduced bond buying lay ahead (echoing 2013’s “taper tantrum” when then Fed Chair Ben Bernanke suggested quantitative easing could be pared back). Bonds sold off and the euro rallied against the dollar. While the Eurozone economy is certainly doing quite well at the moment – with a broad range of confidence measures at multi-year highs – there is also very little actual inflation. And as in the US, the most recent inflation prints have been declining, not rising. As in the US, unemployment has declined substantially without much upward pressure on wages (though the Eurozone unemployment rate at 9% is still more than twice that of America, suggesting plenty of slack in the labour market).

Chinese data show that the economic growth remains fairly robust, despite steps taken by monetary authorities in recent months to clamp down on excessive credit growth.

Part of the disinflationary story of recent months is the oil price, which declined by 14% since the start of the year. The oil price has been extremely volatile, squeezed by OPEC’s production cuts on the one hand and rising American shale production on the other. While the price declined 4% in June, it surged by 7% in the last week of the month as data showed the first dip in US output. The gold price reflects a disinflationary view of the world, having declined 2% in June and 6% over 12 months. Platinum prices also fell by 2.4% in June. Other commodity prices seemingly benefited from a weaker dollar, with the copper price jumping 4.7% and the iron ore price 12%. Year-to-date, "Dr. Copper" (often seen as a barometer of global economic health) is up 7% but the iron ore price has declined 20%.

Local

The South African economy unexpectedly declined in real terms at an annualised rate of 0.7% quarter-on-quarter in the first quarter of 2017. This means the local economy is in a technical recession, having declined in the last quarter of 2016 too. The weakness of the domestic economy should not be understated, and certainly there is an urgent need for policy makers to step up with the right measures and reforms to get the economy going again. An end to political and policy uncertainty will help tremendously. At the same time, investors should guard against overstating domestic economic weakness. The actual (unannualised) decline in real GDP over the two quarters was hardly deep at just 0.25%. Compared to the first quarter of 2016, the economy grew by 1% in real terms, the fastest growth rate in seven quarters.

The GDP data, compiled by StatsSA, show that the primary sectors of the economy (mining and agriculture) rebounded strongly in the first quarter. The 22% rebound in agriculture follows eight consecutive negative quarters. The secondary sector declined with manufacturing contracting by 3.7% and construction by 1.3%. The tertiary (services) sectors declined by 2% in the quarter, unusually so. Unlike the volatile primary and secondary sectors, services are normally quite steady.

After a one notch credit ratings downgrade by Moody's, South Africa's local currency ratings remain investment grade on average. This means local government bonds remain part of key global indices, and there is no risk of forced selling (for now). On the policy side of things, markets responded negatively to the new mining BEE charter and public protector's recommendation that the clause in the Constitution on the Reserve Bank's mandate be changed. If implemented in current form, both the charter and the public protector's recommendation would have undesirable consequences, but this is unlikely since the Reserve Bank, the Chamber of Mines and Parliament have indicated they are heading to court.

Amid all the bad news around the local economy, downgrades and politics, various measures of business confidence have unsurprisingly declined. The BER/RMB Business Confidence Index slumped to its lowest level since 2009 in the second quarter, with a reading of 29 index points (with 50 being the cut-off between net positive and net negative). This long-standing survey of business sentiment has only been lower in 41 out of 171 quarters. All five sub-indices - covering the cyclically sensitive sectors of manufacturing, retail, wholesale, motor trade and construction - declined during the quarter (this has happened only 12 times before) and are in net negative territory. The BER's Absa manufacturing purchasing managers' index (PMI) declined to 46.7 index points in June, once again below the 50 neutral line. Similarly, Markit's Standard Bank PMI also fell to 49, the lowest level in more than a year.

Not all the data has been terrible, though. New vehicle sales increased from 41783 in May to 45369 in June, but total sales for the second quarter is below that of the first quarter, largely due to an unusually sharp decline in sales in April. The latter is probably related to the shift of the Easter longweekend. Tourism arrivals from Europe and North America have reached new record high levels. And South Africa posted another trade surplus in May, The R19 billion surplus for the first five months of the year compares with a R13 billion deficit for the first five months of last year. This swing of more than R30 billion is largely due to higher export commodity prices and the lower oil price. Somewhat ironically, this positive shift in our terms of trade had a negative contribution to real GDP as export prices rose and import prices fell in the first quarter.

The annualised current account deficit of R92 billion (2.1% of GDP) in the first quarter was marginally higher that the fourth quarter of 2016, but more than half the 2014 level. A smaller current account deficit – which broadly measures the change in our current liabilities with the rest of the world – reduces a key source of vulnerability for the rand. South Africa's large 'twin deficit' (the combined fiscal and current account deficit) caused South Africa to be considered by investors as one of the 'fragile five' emerging markets (along with Turkey, Brazil, India and Indonesia). But it has declined from 10% in 2014 to 6%, removing one of the Reserve Bank's reasons for maintaining relatively high rates.

Finally, lower inflation and potentially lower rates remain the main silver lining for the domestic economy at the moment. Inflation in May was 5.4% year-on-year, marginally higher than April due to a petrol price hike in May (that was reversed again in July). Food inflation, the main recent driver of high inflation, was 6.9% compared to a peak of 12% in December. Core inflation – excluding volatile food and fuel prices – was unchanged at 4.8%, close to the mid-point of the Reserve Bank's target range. High inflation in the past two quarters was one of the key contributors to negative real consumption spending, and therefore negative GDP prints. Receding inflation implies some scope for increased real spending.

6.2 Market Commentary Synopsis

September and third quarter 2017 Market Commentary

Synopsis:

- **Strong month and quarter for global equities.**
- **Local equities negative in September, but third quarter returns still very good.**
- **Rand loses ground against major currencies during the month.**

Global

Developed equity markets had a strong month, with the MSCI World Index returning 2.3% in US dollars. This lifted the quarter's return to 5% and the twelve-month return to 19%. The US S&P 500 index returned 2% in the month on the way to breaching the 2500 index level for the first time, lifting twelve-month returns to 18.6%.

European markets benefited from a slightly weaker euro, with the Eurostoxx 600 returning 3.9% in September, lifting twelve-month euro returns to 17%. The stronger pound weighed on UK stocks in September, and the FTSE 100 was negative.

Japanese equities surged 4.3% in September, benefiting from a softer yen. Over one year, the Nikkei 225 returned 24% in yen.

After outperforming for most of the year, emerging market equities lagged developed markets in September. The MSCI Emerging Markets index was marginally negative in US dollars in September, and marginally positive in local currency. However, the index return for the quarter is still an impressive 8% in dollars, lifting 12-month returns to 23%, beating developed markets. India, South Africa and Turkey were notable negative performers in September, while Russian equities (and the rouble) benefited from the higher oil price. Over 12 months, China, Korea and Brazil have been the main contributors to the MSCI Emerging Markets index's strong run.

Global equities, represented by the broad MSCI All Countries World index (including developed and emerging markets) returned 1.9% in September, and 19.5% over twelve months, of which 17.7% was generated in 2017.

Global bonds were negative in September, with investors pricing in tighter monetary policy in the main developed markets (especially the US). The US 10-year Treasury yield increased from 2.12% to 2.32% during the month (bond yields move inversely to the price). The Citigroup World Government Bond index returned 1.8% during the third quarter, and 6.3% in 2017 (in dollars) but lost 1.1% in September.

Global listed property was flat in September in dollars, but 2017 has been a much better year. The EPRA/NAREIT Developed index returned 7% year-to-date, but returns over 12 months were -0.4%, as US retail REITS have come under enormous pressure from online shopping.

While other commodities pulled back, facing headwinds from a firmer dollar and questions over Chinese demand, the oil price benefited from the impact of successive hurricanes in the Gulf of Mexico and geopolitical concerns related to Kurdistan (in Iraq). The oil price jumped 9.8% in September and 20% in the third quarter, to $57 per barrel, close to the 2017 starting level. In contrast, the iron ore price fell by 19% in September and the copper price by 4.8%. Precious metals also came under pressure in the September, with gold losing 3% and platinum 10%. In the case of platinum, most of the year's gains have been wiped out.

Local

Local equities bucked the global trend in September, but despite the negative month, enjoyed a strong third quarter.

The FTSE/JSE All Share Index lost 0.8% during the month, but returned 8.9% in the third quarter and 12.7% year-to-date. Over 12 month, the All Share returned 10%. With inflation having declined to 4.8%, investors are finally enjoying positive real returns (though these are still below longer-term average real returns). The FTSE/JSE Shareholder Weighted index (SWIX) lost 1.7% in September, but still returned 7% in the third quarter and 10.6% year-to-date. The SWIX lagged the All Share's in September due to the smaller weight to some of the dual-listed shares that performed well during the month (including Richemont, BAT and Anglo American).

Among the broad sectors, resources had the best third quarter though it was negative in September. Resources returned 17.8% in the quarter, which pushed year-to-date and one-year returns into positive territory. In particular, it was the general mining category (including heavyweights Anglo American and BHP Billiton) that performed well, gaining 24% in the quarter. Forestry and paper (Sappi and Mondi) also had a strong month, quarter and year-to-date (3%, 7% and 25% respectively). Gold miners gained 9.9% in the quarter despite losing 7.5% in September, while the crisis-ridden platinum miners lost 11% in September, deepening the 12-month loss to 37%.

Financials lost 1.9% in September, limiting the quarter's return to 5% and the year-to-date return to 4%. Banks suffered a 4.5% loss in September but still returned 7.7% in the third quarter, which in turn pushed year-to-date returns into the black. Life insurers lost 2% in the month but gained 6% in the quarter and has had a much better year than banks with a 7.6% return.

Industrials were marginally negative in September but returned 7.5% in the third quarter and a very strong gain of 17% in 2017. Of course, much of this was due to Naspers, which is up a staggering 15% in the third quarter (despite a negative month) and 45% in 2017. Richemont has also had a fantastic year, gaining 8.4% in September, 16% in the quarter and 38% year-to-date. On the negative side, telecoms lost 6% in September, wiping out most of 2017's returns. The listed hospital groups have also had a poor year, with the 6% loss in the third quarter widening the year-to-date loss to 17%.

Steinhoff (household goods) has also battled, losing 10% in the quarter and 15% in the year.

The rand was weaker against major currencies in September as emerging markets sold off after a strong run and investors focused on the expected tightening of US monetary policy. The rand lost 4% against the US dollar in the month, and 3.4% during the third quarter. Over twelve months, the rand was only marginally stronger against the greenback. It means that exchange rate movements are no longer materially detracting from the returns South African investors are earning abroad.

The rand lost 7.7% against a resurgent British pound and 3.5% against the euro in September, and is weaker against both currencies over the past twelve months.

Despite the weaker rand, local bonds performed well in September. The All Bond index returned 1.1% in the month, taking the return for the quarter to 3.7% and for the year to date to 7.8%, ahead of cash. The 10-year South African bond yield ended the month flat at 8.52%, but hit a low of 8.4% and a high of 8.6% during September. It started the quarter at 8.8%.

Inflation-linked bonds had a strong month after struggling for most of the year, returning 1%, lifting year-to-date returns to 1.8%.

The FTSE/JSE SA Listed Property index returned 1.2% in September, lifting returns for the third quarter to 5.7% and for 2017 as a whole to 9.5%. Over 12 months, listed property only returned 8%.

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

7. Allocation of Assets

7.1 Mandate/ Asset Allocation (September 2017)

Assets are allocated to the following mandates and managers.

Risk

Investment Portfolio	Cash		Bonds		Property		Equity		Other		Total
	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"
Acsis Cash Portfolio plus current account	44.41	100.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	44.41
Coronation Medical Schemes Portfolio	5.74	32.79%	3.77	21.55%	1.64	9.40%	6.33	36.16%	0.02	0.10%	17.51
Prudential Inflation Plus 5%	1.15	5.44%	9.79	46.32%	1.81	8.58%	8.12	38.43%	0.26	1.23%	21.12
Total	**11.30**	**61.77%**	**13.56**	**16.33%**	**3.46**	**4.16%**	**14.45**	**17.40%**	**0.28**	**0.33%**	**83.04**

Savings

Investment Portfolio	Cash		Bonds		Property		Equity		Other		Total
	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"
Acsis Cash Portfolio plus current account	31.5	100%	-	-	-	-	-	-	-	-	31.5
Total	**31.5**	**100%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31.5**

8. Cashflow Analysis and Valuations

8.1 Cashflow

Cashflow (R)	3Q16	4Q16	1Q17	2Q17
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.

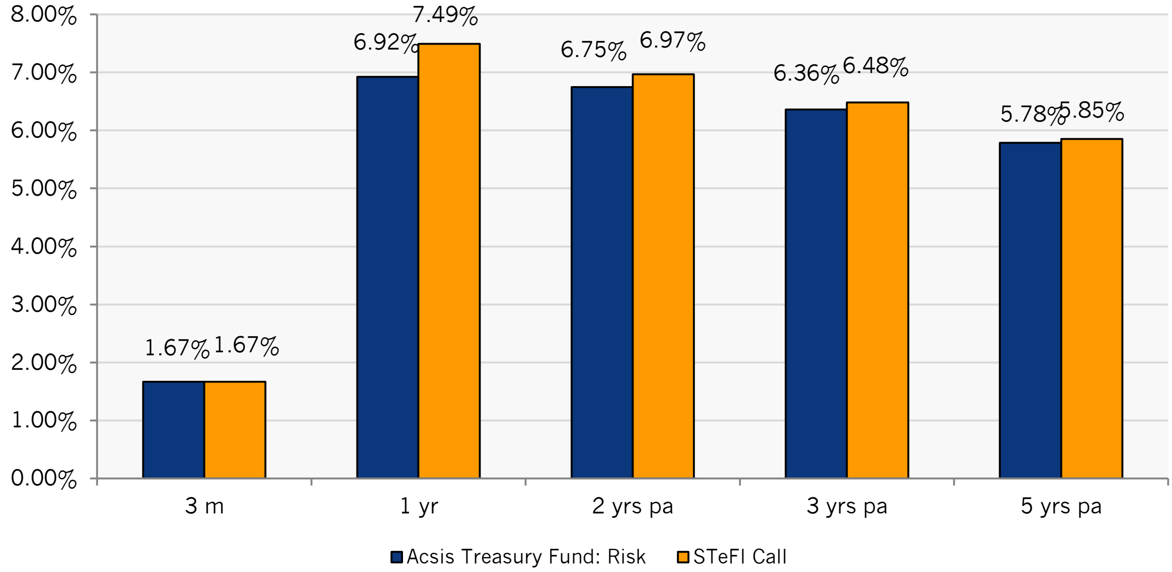
8.2 Valuation: 2017 (excluding savings)

Portfolio Name (R)	31/03/2017	30/06/2017	30/09/2017	31/12/2017
Acsis Cash Portfolio pluscurrent account	14,301,729	14,542,778	12,812,704	
Coronation Medical Schemes Portfolio	16,977,037	16,953,903	17,507,606	
Prudential Inflation Plus 5%	20,175,033	20,114,803	21,124,643	
Total	**51,453,799**	**51,611,484**	**51,444,953**	
Growth/Burn Rate	-182,143	157,685	190,989	

For the first 9 months of 2017, the asset base remained stable.

9. Return Analysis to Benchmark (after fees)

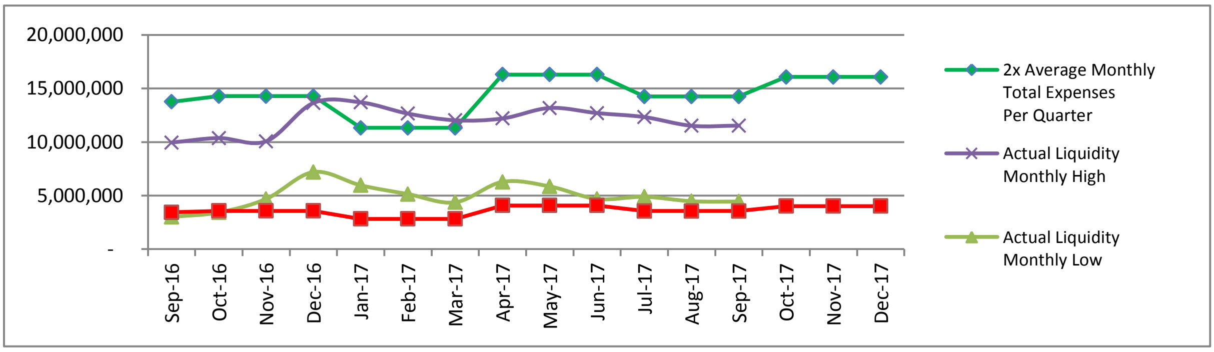
9.1 Acsis Treasury: Risk



Performance after fees as at 30 September 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”.



The graph below shows the suggested liquidity levels for the next quarter based on actual outflows experienced by the scheme in the previous quarter. The graph also shows the actual “high” and “low” for each month in relation to funds under management in the liquidity portfolio.

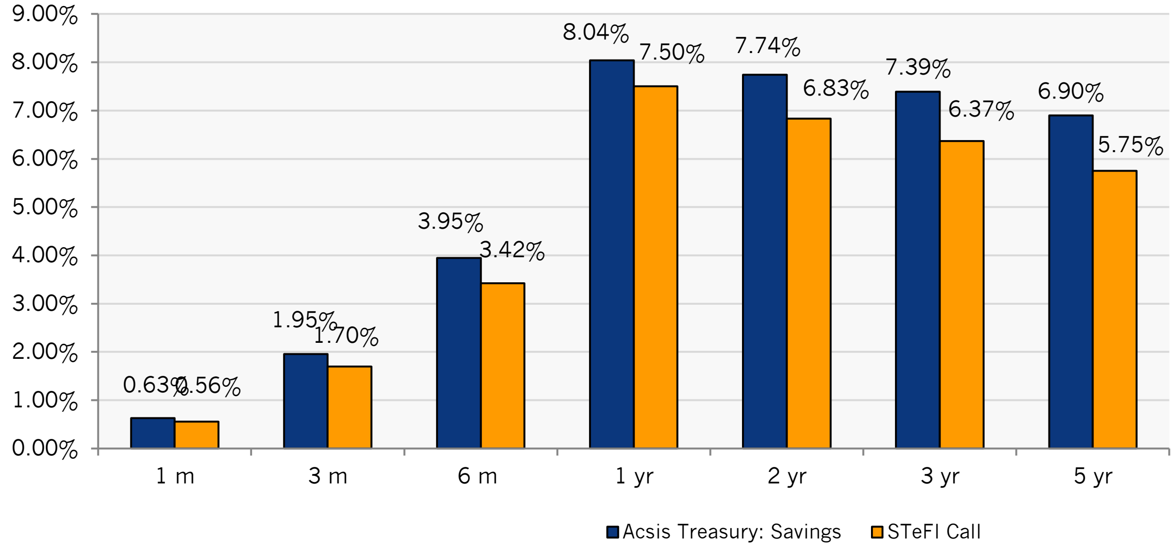
Liquidity Measurement:

The Schemes required liquidity levels for the quarter is **R14.2m/R3.6m** and the actual high/low of Sep 2017 was **R11.5m/R4.4m** with a closing balance of **R11.6m** as at 30 Sep 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 **R1.5m** as at 30 Sep 2017. This includes **R0.5m** used on 7-day fixed deposits and repo's to take advantage of the attractive rates.

Fund Manager : Leon Nel
Fund Size : R13.1 million
Average Duration : 3.1 days

9.2 Acsis Treasury: Savings:



Performance after fees as at 30 September 2017

	30/09/2016	31/12/2016	31/03/2017	30/04/2017	31/05/2017	30/06/2017	30/09/2017
Gross yield (p.a.)	7.897%	8.039%	8.068%	8.052%	8.057%	8.063%	7.970%
Fee (p.a.)	0.285%	0.285%	0.285%	0.285%	0.285%	0.285%	0.285%
Net Yield (p.a.)	7.612%	7.754%	7.779%	7.767%	7.772%	7.778%	7.685%

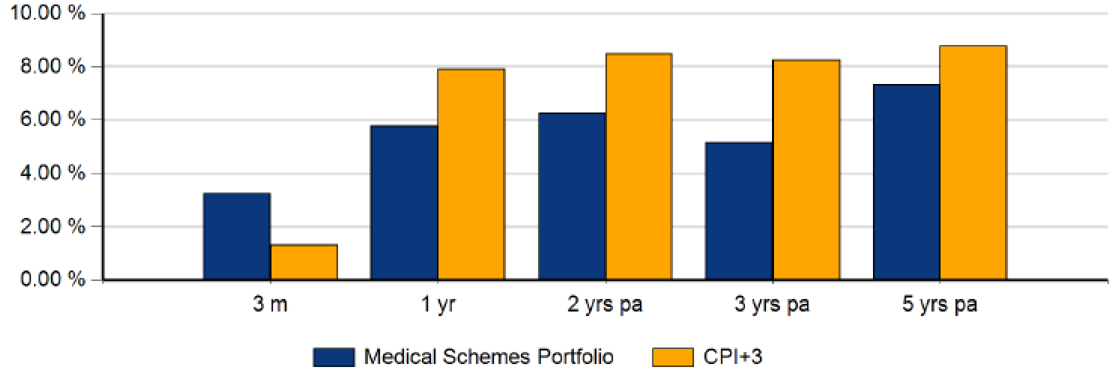
Investments in call accounts were **R5.1m** as at 30 September 2017.

Investments in fixed deposits amounted to **R26.5m** as at 30 September 2017. This includes **R0m** 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 : R31.6million
Average Duration : 154 days

9.3 Coronation Medical Schemes Portfolio (R17,507,606)

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	3.27%	5.79%	6.27%	5.16%	7.33%
CPI+3	1.33%	7.91%	8.50%	8.24%	8.79%

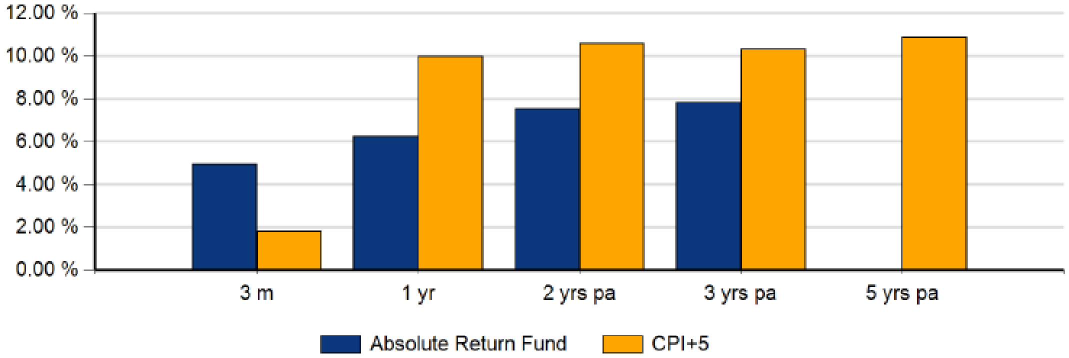
Performance as at 30 September 2017

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 (R21,114,511)

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	4.97%	6.28%	7.56%	7.85%	
CPI+5	1.82%	10.01%	10.60%	10.35%	10.90%

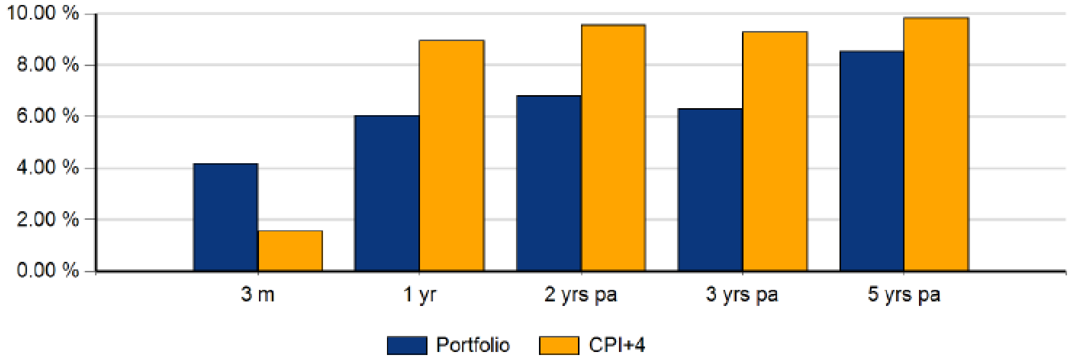
Performance as at 30 September 2017

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 37,068,705)

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	4.19%	6.06%	6.83%	6.31%	8.55%
CPI+4	1.58%	8.96%	9.55%	9.30%	9.84%

Performance as at 30 September 2017

10. Top 10 Equity Holdings as at 30 September 2017

Share Name	% of Total Investment	3 month return Sept 2017	12 month return Sept 2017
Naspers Ltd	1.98%	14.7%	22.9%
British American Tobacco	1.11%	-5.3%	-3.6%
MTN Group Ltd	0.96%	9.0%	5.9%
Anglo American Plc	0.81%	38.1%	41.4%
Standard Bank Group Ltd	0.78%	9.6%	12.2%
Old Mutual Plc	0.76%	7.2%	-2.6%
Firstrand Ltd	0.71%	9.5%	10.3%
Sasol Ltd	0.53%	1.2%	-1.3%
Aspen Pharmacare Holdings Ltd	0.52%	5.7%	-2.1%
Steinhoff International Holdings Ltd	0.47%	-10.5%	-23.6%

11. Actual vs Strategic Asset Allocation

	Actual Asset Allocation		Strategic Asset Allocation	Variance to Midpoint
	R (million)	%	%	%
Cash	51.3	41.8	30-50	+1.8
Bonds	13.6	27.4	20-40	-2.6
Equity (including property)	18.3	30.8	25-35	0.8
Total	**83.0**	**100.0**	**100.0**	**0.0**

12. Compliance Analysis and Measurement

Acsis has analysed the Scheme's investments as at 30 September 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 than10%.
Equity	No more than 40% and no more that 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 September 2017, this measured 53.48% for Alliance Midmed Medical Scheme (including savings). The Scheme is therefore compliant.

13. Considerations

Actual asset allocation vs strategy allocation

The third quarter was a very strong performer in the growth assets. The scheme's investment strategy captured a lot of this performance. Coronation (actual : 3.27% , benchmark : 1.33%) and Prudential (actual : 4.97% , benchmark : 1.82%) produced a combined performance of 4.19% in relation to a benchmark of 1.58%. The performance has been driven by strong offshore equity markets which are influencing the local markets. The currency has weakened, particularly after the Medium Term Budget speech, which has boosted the Rand Hedge shares (such as Naspers and British American Tabacco).

In terms of asset allocation, the scheme is only marginally away from the mid-points. I therefore suggest no changes at this time.

n terms of the Genesis case, medical schemes may change their policy on how much interest to pay to members and how to invest the underlying assets. Currently, the full interest is paid out and the assets are invested in a portfolio of top banks only. I await the outcome of the Board.

On the question of introducing a portfolio of 'equity only', please see some comparative risk and reward figures below. I am comparing a pooled equity fund (limited to medical schemes) to the CPI+5 Prudential Medical Schemes Portfolio (which the scheme is investing in).

With a view of 5 years, the equity only fund is likely to outperform the CPI+5 fund. In terms of the investment strategy, the equity fund can be added. The aim would be to achieve overall equity exposure of near 40% (but not more as per compliance limitations).

Comparison (July 2017)	**Equity only Fund**	**CPI+5 Fund**
3 year performance	7.0%	7.7%
5 year performance	15.4%	10.6%
Standard deviation	10.8%	4.75%
Best 1 year performance	34.5%	17.1%
Worst 1 year performance	-4.7%	3.6%

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