Alliance Midmed Medical Scheme
Quarterly Investment Management Report

Prepared by **Old Mutual Wealth Treasury and Advisory Services**

Quarterly Report – 31 March 2019

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1. Introduction

The purpose of this document is to monitor and evaluate the performance of the underlying assets of the Alliance Midmed Medical Scheme (“the Scheme”) as at 31 March 2019.

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 Old Mutual Wealth who invest the funds with the following purpose and philosophy, but not limited to, in mind:

2.1. Purpose

- Actual investments are outsourced to specialist asset managers
- Managers selected and mandates are consistent with the fund’s objectives
- Performance will be evaluated

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 paramount
- 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 2019

Investment Status

Total investments (March 2019)	R84.4m
Investment income (March 2019 YTD)	R2.5m

Cash Flow Analysis

Solvency (March 2019)	36.78%
Budget Annual contributions (2019)	R109.0m
Budget Annual claims (2019)	R101.7m
Budget Annual non-healthcare expenditure (2019)	R6.5m
Savings liability (March 2019)	R32.3m
Provision for outstanding claims (March 2019)	R2.5m

Membership Data

Number of members	1 688

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 Actual contributions for 2018, the statutory reserve requirement would be **R27.3m**.

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 **R16.4m** based on average actual expenses for 1Q19.

3.2.3. Solvency assets and surplus assets

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 2019 (R)
Required solvency	27,262,250
Savings plan liability	32,300,395
Accounts payable	1,683,452
Provision for outstanding claims	2,218,439
Legislated assets	**63,464,536**
Surplus assets	20,951,869
Total Investments including savings	**84,416,405**

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.

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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	Dec 2017	Dec 2018
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	4.7	4.5
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	5.7	5.2
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	8.7	8.5

The return objective has been consistently ahead of medical inflation.

5. Risk / Return Analysis

March 2019		Annualised Return				Volatility
Asset Class/Index	**Quarter**	**1 yr**	**3 yrs pa**	**5 yrs pa**	**10 yrs pa**	**3 yrs**
Cash / SteFi Comp	1.73%	7.26%	7.42%	7.00%	6.60%	0.12%
Bonds / ALBI	3.81%	3.46%	10.11%	8.33%	8.66%	6.85%
Property/SAPY (TR)	1.45%	-5.68%	-3.84%	5.63%	12.41%	13.90%
Equity /JSE ALSI (TR)	7.97%	5.04%	5.68%	6.50%	13.98%	10.98%
CPI (Feb 2019)	0.46%	5.2%	4.78%	5.06%	5.25%	-
Medical Inflation (Feb 2019)	2.7%	4.3%	5.6%	5.6%	-	-

Source: Statistics SA, Reuters and I-net

6. Market Overview: First Quarter 2019

Synopsis:

- **Federal Reserve affirms its patient approach, while other central banks also cancel hiking plans.**
- **SA Reserve Bank on hold, but no sign of cutting yet.**
- **Local economy posted positive growth in the fourth quarter, but 2019 outlook has worsened.**

Global

The US Federal Reserve confirmed its dovish pivot, voting to keep its policy target rate range unchanged at 2.25% to 2.5%. The market focus was on clues on the future path of interest rates since the Fed called halt on its hiking cycle at its January monetary policy meeting. Chairman Jerome Powell was at pains to emphasise that his colleagues would follow a patient approach, focusing on the incoming data, rather than following a predetermined plan. The so-called dot-plot, a summary of individual Fed officials' own views, suggest no further hikes this year, with only one more pencilled in for 2020. The Fed will also stop the shrinking of its balance sheet by September, ending up with a portfolio of $3.5 trillion bonds, much more than initially expected. US long bond yields plummeted to slightly below 3 month Treasury bill rates. When this has happened historically, it usually presaged a recession. However, the bond market is probably overreacting given that none of the other traditional recession signals are flashing red.

The Bank of Japan kept its policy interest rate at negative levels, while noting the risks of further economic weakness. Along with other countries, Japanese exports and industrial production slowed substantially in recent months. Against this backdrop, the BoJ is even less likely to meet its ever-elusive 2% inflation goal. It might have to find new ways of stimulating the economy, but has limited options

A few other central banks that were in hiking mode, notably those of Australia and Canada, are also pausing. The most recent shift has taken place at the European Central Bank. Prior to March, it was still planning on commencing with interest rate hikes later this year. This has been pushed back to next year after a substantial cut in the growth forecast for the Eurozone from 1.7% to 1.1%, while the inflation forecast was cut from 1.6% to 1.2% (compared to targeted inflation of just below 2%).

The ECB also announced a new round of cheap funding for banks. It must be said that the ECB's track record is not fantastic. It prematurely hiked rates in 2011, and was forced to reverse course, and was late to the party in launching a quantitative easing programme of its own. But its task is also much more complex than that of other central banks, in that it has to set interest rates for a number of very different countries, where there are also divergent views on the ultimate role of a central bank. The German 'hard money' view is that inflation has to be fought at all costs, while the Southern European tradition is more growth friendly.

Since early 2018 the Eurozone has experienced the sharpest slowdown of all the major economies, though from a surprisingly strong base in 2017. The Eurozone is particularly exposed to global growth, and exports make up a much larger part of its economy than is the case in the US, China or Japan. As such, European, particularly German, businesses are vulnerable to a slowdown in global trade as well as the uncertainty caused by US President Trump's trade wars and the UK's shambolic Brexit process.

But another reason behind slowing global growth is simply the impact of rising borrowing costs (and tightening financial conditions in general) across the developed world over the past year or two as central banks aimed to return interest rates to something approximating an historic norm, and as markets tried to price in how this plays out over time. That drain on growth has now halted and is being reversed somewhat and should support economic activity in the coming months. Central banks are reversing course just in time.

China's government cut the growth target to 6% to 6.5% from "around" 6.5%. These growth targets have shifted lower over the years as China's economy has matured. 2018 saw growth of 6.6%, the slowest pace since 1990. The new target suggests the authorities do not want an undue sharp deceleration and will further take steps to prop up growth.

Local

March saw Eskom implementing severe rolling black-outs. While the impact on economic activity will only be apparent a month or two later when the official data comes out, the knock to investor and business sentiment is immediate. As it is, business confidence is very weak. The RMB/BER Business Confidence Index, which has tracked sentiment in bellwether sectors since the 1970s, is a reliable leading indicator of fixed investment spending. Unfortunately, it declined further in the first quarter. A cocktail of negative factors, including load shedding, strikes and political uncertainty ahead of the May general elections (including noise around land reform and the nationalisation of the SARB), all weighed on business confidence. But the biggest factor is probably simply that firms have not seen much demand for their products and services for five years and growth forecasts are again being revised down.

Although the economy posted positive growth in the fourth quarter, with real gross domestic product rising by 1.4% on an annualised basis in the fourth quarter of last year, it remains anaemic. Growth in 2018 was 0.8%, but it was a year of two halves, with an annualised decline of -1.6% in the first two quarters and 2% growth in the final two. Growth can improve in 2019 but is unlikely to break out of the low range of the last 5 years. And if there is further sustained load shedding, even these low expectations might not be met.

According to StatsSA, the consumer price index (CPI) was 4.1% higher in the February than a year ago. This was up slightly from 4% in January and in line with expectations. Food inflation, which accounts for 15% of the total CPI basket, remains subdued at 2.3%, but is likely to rise as the impact of higher maize and wheat prices filter through. Petrol inflation, was marginally positive. However, a big 74c per litre petrol price hike in March followed by another sizable R1.35 increase in April, will contribute to somewhat higher overall inflation since petrol accounts for 4.5% of the CPI. But how much will depend on whether companies pass on higher transport costs to consumers. In the current climate, they have limited room to do so.

Both food and fuel prices are volatile, being subject to commodity price and exchange rate movements. And consumers are price-takers, as there are few substitutes. Therefore, StatsSA calculates a 'core' price index that excludes food and fuel. Core inflation was unchanged at 4.4% year-on-year. This is a better measure of underlying inflationary pressures, and it remains subdued.

Overall inflation is being held up by administered prices, such as water and electricity tariffs (6% of the basket) and insurance costs (10%). While the former are set by government and will likely continue to increase ahead of inflation, particularly electricity tariffs, the latter is subject to market competition and, while still high at 6.8% year-on-year, has declined in recent years.

The SARB's Monetary Policy Committee met again last week and kept the repo rate unchanged at 6.75% as expected. Its views are based on an inflation forecast that was largely unchanged, with an average of 4.8% expected this year and 5.3% next year. Meanwhile, it has once again trimmed its economic growth forecast and views growth risks to the downside. It cut its growth outlook for 2019 to 1.3% (from 1.7%) and for 2020 to 1.8% (from 2%). The Reserve Bank seems more or less comfortable with its inflation forecast, and noted the continued decline in surveyed inflation expectations. But it is concerned that it is still overestimating economic growth and its leading economic indicator has been declining. The MPC maintains that its rate stance is 'accommodative', but it is hard to agree with this characterisation given that the real prime borrowing rate is about 6% and households face a squeeze on their real incomes with real wage increases of less than 1% outside the public sector.

Old Mutual Multi-Managers

March 2019 Market Commentary

Synopsis:

- **A strong first quarter for global equities.**
- **Local equities also positive, depending on the benchmark.**
- **Rand weakened in March, adding to global returns for local portfolios.**

Global

The US equity benchmark S&P500 gained 1.3% in March and 13.7% in the first quarter. This lifted the return for the past year to almost 10%.

European equities returned 2% in March, and 11% in the first quarter of the year in euro terms. However, over 12 months, the MSCI Europe advanced only 3%. The Japanese Nikkei 225 was flat in the month and up 6.9% in yen so far in 2019.

Emerging market equities

The MSCI Emerging Markets equity $ index improved 1% in March in US dollars and 10% year-to-date. Over 12 months, the index is still in the red, with a -7.4% return.

The MSCI All Country World $ index, comprising developed and emerging markets returned 1.3% in March and 12.3% in the first quarter. The return over the past 12 months is 2.6%.

Global listed property has outperformed equity and bonds this year, with the FTSE EPRA/NAREIT Developed US$ index returning 14% in the first quarter.

Global bonds had a positive month in US dollar terms as bond yields plummeted on a more dovish stance from major central banks. The Barclays Global Bond index gained 1.3% in US dollars in March, which left the one-year $ return marginally into the red. A strong US$ depressed the one year US$ return. The yield on the global benchmark long bond, the US 10-year Treasury, ended March at 2.6%, having peaked at 3.25% in October 2018.

Oil has had one of the best starts to a year on record (jumping 28% in the first quarter) as OPEC output cuts and a collapse in Venezuelan supply eased fears of a global glut in the face of record US shale production. Oil rose 3% in March despite global slowdown fears. Iron ore prices remain elevated above $80 per tonne as several Brazilian mines remain closed. Palladium pushed to new record levels, while platinum is positive this year (but negative over 12 months). Despite the growing global uncertainty, gold remains lacklustre and is barely higher than a year ago.

Local

Local markets were positive in March. The FTSE/JSE All Share index returned 1.6% in March and 8% so far in 2019. The one year number is now a bit higher than inflation. However, our preferred, less concentrated benchmark, the FTSE/JSE Capped SWIX index, has lower exposure to Naspers, Anglo American and BHP, and these megacap shares have all performed well in 2019. The Capped Swix was flat in March and picked-up 3.8% in the first quarter. Its decline of 2.6% over 12 months substantially lags the All Share index. This is largely due to the disappointing financial sector performance from its elevated “Ramaphoria” peak a year ago.

Last year was an anomaly on the JSE given that non-resource rand hedge shares disappointed despite the 16% depreciation of the currency. This was largely due to company-specific issues unrelated to the macro-economy. Most notably was British American Tobacco, one of the largest shares on the local market, which lost 40% mostly due to regulatory concerns. Another was Naspers, the largest share on the JSE, whose share price largely follows the Chinese internet giant Tencent. This picture is now reversing, with BAT up 26% and Naspers up 17% in the first quarter (Naspers also announced its intention to separately list its internet businesses in Amsterdam, which should unlock value for investors but also reduce concentration risk in JSE indices. Richemont has gained 11%. Unfortunately Aspen, another large rand-hedge casualty of 2018, has continued to decline as investors question its debt-fuelled growth strategy.

But it is the resource shares that have held the JSE up this year. In general terms, commodity prices have firmed up from the bombed-out levels of late 2015 but remain well below previous peaks. There are some anomalies. The iron ore price has benefited from reduced Brazilian supply in the wake of the tailings dam disaster, but is still 40% below the 2011 peak. A shortage of palladium has seen the price hit an all-time record above $1500 per ounce. In contrast, its sister metal platinum is still depressed, and is trading at less than half its record high (set in early 2008, when electricity blackouts in South Africa caused fears of a supply crunch). South Africa is the world’s largest platinum producer, but we also produce a fair amount of palladium. Led by heavyweights Anglo American and BHP, the Resources index returned 3% in March and 14% in the first quarter.

On the other hand, the weak state of the domestic economy is very clearly reflected in the share prices of companies that primarily rely on local customers. Banks, retailers and food producers are in the red in 2019. Financials had a particularly torrid month in March, with the JSE Financials index losing 4%.

Industrials had another positive month, as non-resource rand hedges bounced back. Industrials returned 2.9% in March and 7.4% in the first quarter. However, over one year industrials are still negative. Within Industrials, sectors with a greater exposure to the domestic economy have struggled.

Financials tend to be more domestically focused, and the index it lost 4% in March and 0.5% year to date. Over 12 months financials lost -6%. Banks, life insurers and property were negative in March.

The JSE includes listed property in the Financials index, but most investors treat it as an asset class separate from equities. It suffered from an epic collapse in the first quarter of last year, while things did not fare much better in the subsequent three. It appears that things are stabilising, but the macro-environment for locally-focused property companies is still very challenging. The sector bounced strongly in January, but gave back those gains in February and March.

Local bond yields have declined since the start of the year. The All Bond index returned 3.8% in the first quarter. Over one year, the return is muted given the high base set by the ‘Ramaphoria’ rally early in 2018, and bonds lag cash over the past 12 months. Local bond yields remain attractive, with the 10-year government bond yield ending the month at 8.6%, while the latest inflation print was only 4.1%.

The yield on the 10-year government bond yield declined during the first quarter from 8.8% at the start of the year to 8.6% at the end of March. The high starting yield should more than compensate investors for capital volatility. Inflation is grinding structurally lower, and bond yields should follow eventually. Lower inflation again hurt the return from inflation-linked bonds.

The rand lost almost 3% against the US dollar in March. It reacted much more to the last week's negative emerging market sentiment, than to stage four load-shedding the previous week. Turkey and Argentina were once again at the centre of an EM sell-off. Ahead of its local government elections, the Turkish government tried to defend their currency, but it had the exact opposite effect. We expect no such shenanigans ahead of our own election in May. It also, illustrates that global factors tend to matter more than local. Year-to-date, the rand is flat against the dollar. Over one year, the rand is 22% weaker and therefore boosts the return from offshore assets.

7. Allocation of Assets

7.1. Mandate / Asset Allocation – March 2019

Assets are allocated to the following mandates and managers.

Investment Portfolio	Cash		Bonds		Property		Equity		Other		Total
	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"	%	"Rm"
OM Treasury plus current account	16.9	100%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	16.9
STANLIB Income Fund	2.6	13%	15.1	72%	3.0	14.%	0.2	1.0%	0.1	1%	21.0
Allan Gray Life Stable Medical Scheme Portfolio	6.4	27%	7.5	32%	1.2	5.%	8.4	36%	0.0	0.%	23.6
Prudential Inflation Plus 5% Medical Aid Fund	1.0	5%	11.4	50%	1.7	7.%	8.7	38%	0.1	0.%	22.9
Total	**27.1**	**32.0%**	**34.0**	**40.27%**	**5.9**	**6.94%**	**17.3**	**20.48%**	**0.3**	**0.31%**	**84.4**

8. Cashflow Analysis and Valuations

8.1. Cashflow

Cashflow (R)	4Q18	1Q19	2Q19	3Q19	4Q19
OM Treasury plus current account: Risk	+17,639,986 -17,639,986 -5,000,000 -5,000,000	-5,000,000	-	-	-
OM Treasury plus current account: Savings	-	-	-	-	-
STANLIB Income Fund	+5,000,000 +5,000,000	-	-	-	-
Coronation Medical Schemes Portfolio	-17,639,986	-	-	-	-
Allan Gray Life Stable Medical Scheme Portfolio	+17,639,986	+5,000,000	-	-	-
Prudential Medical Schemes Portfolio	-	-	-	-	-

8.2. Valuation : 2018

Portfolio Name (R)	31/03/2018	30/06/2018	30/09/2018	31/12/2018
OM Wealth Treasury: Risk	11,860,539	15,613,644	14,318,778	12,250,721
OM Wealth Treasury: Savings	33,250,979	23,478,841	16,882,023	10,670,835
STANLIB Income Fund	-	5,042,466	10,225,899	20,589,768
Coronation Medical Schemes Portfolio	17,632,831	17,936,847	17,931,926	-
Allan Gray Life Stable Medical Scheme Portfolio	-	-	-	17,813,559
Prudential Inflation Plus 5%	21,732,543	22,250,614	22,281,286	21,903,481
Total	**84,476,892**	**84,322,412**	**81,639,913**	**83,228,364**
Growth/Burn Rate (Per Quarter)	**31,863,315**	**-154,480**	**-2,682,499**	**1,588,451**

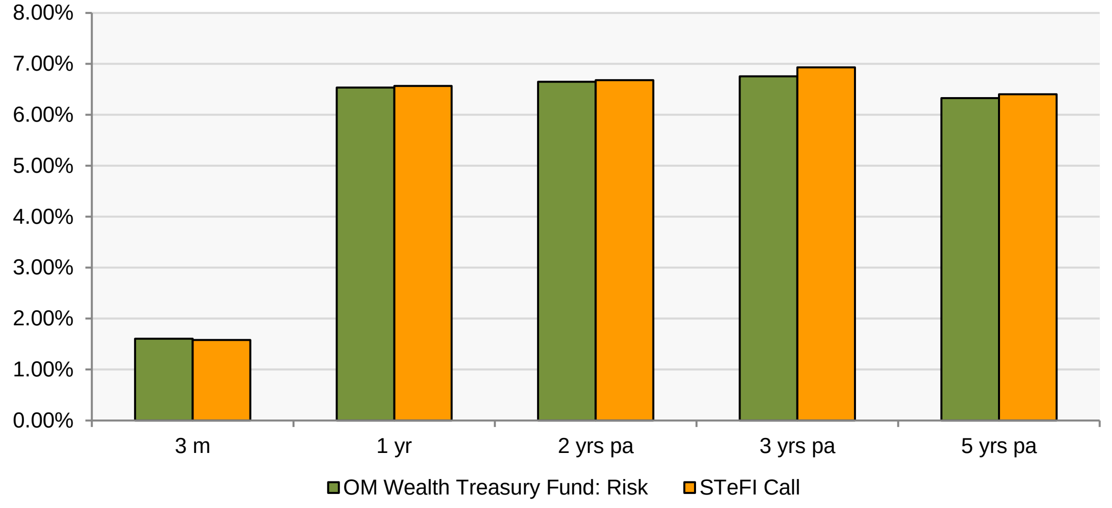
8.3. Valuation : 2019

Portfolio Name (R)	31/03/2019	30/06/2019	30/09/2019	31/12/2019
Scheme current account	1,508,066	-	-	-
OM Wealth Treasury	15,440,657			
STANLIB Income Fund	21,046,032	-	-	-
Allan Gray Life Stable Medical Scheme Portfolio	23,558,769	-	-	-
Prudential Inflation Plus 5%	22,862,882	-	-	-
Total	**84,416,405**	**-**	**-**	**-**
Growth/Burn Rate (Per Quarter)	**1,188,041**	**-**	**-**	**-**

In the first quarter of 2019. The asset base increased by R1.2m to R84.4m.

9. Return Analysis to Benchmark (after fees)

OM Wealth Treasury: Risk

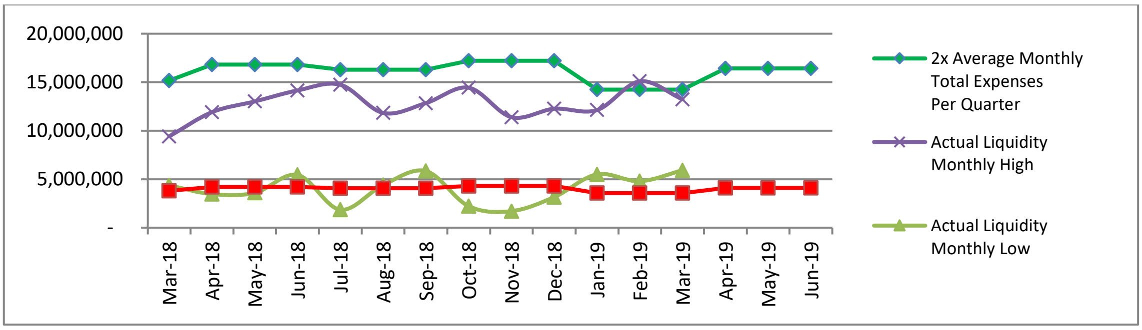


Performance as at 31 March 2019

	3 m	1 yr	2 yrs pa	3 yrs pa	5 yrs pa
OM Wealth Treasury Fund: Risk	1.61%	6.54%	6.65%	6.75%	6.33%
STeFI Call	1.58%	6.57%	6.68%	6.93%	6.41%

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 above 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 **R16.4m/R4.1m** and the actual high/low of

March 2019 was **R13.2m/R5.9m** with a closing balance of **R13.3m** as at 31 March 2019. The liquidity levels of the scheme is sufficient to cover claims and expenses, however it is running a very short duration.

Fixed Deposits

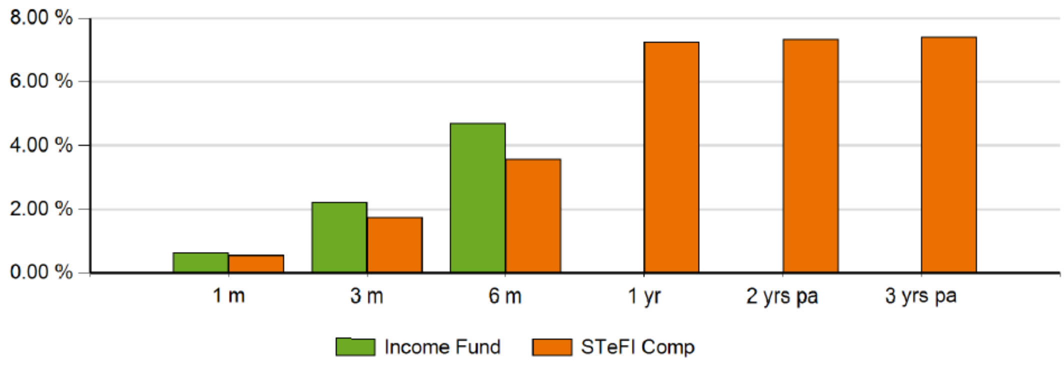
Investments in fixed deposits amounted to **R0m** as at 31 March 2019.

Fund Manager	: Tayjil Vallabh
Fund Size	: R13.3 million
Average Duration	: 1 day

OM Wealth Treasury: Savings

Fund Manager	: Tayjil Vallabh
Fund Size	: R2.2 million
Average Duration	: 9 days

9.1. STANLIB Income Fund (R21 046 032)



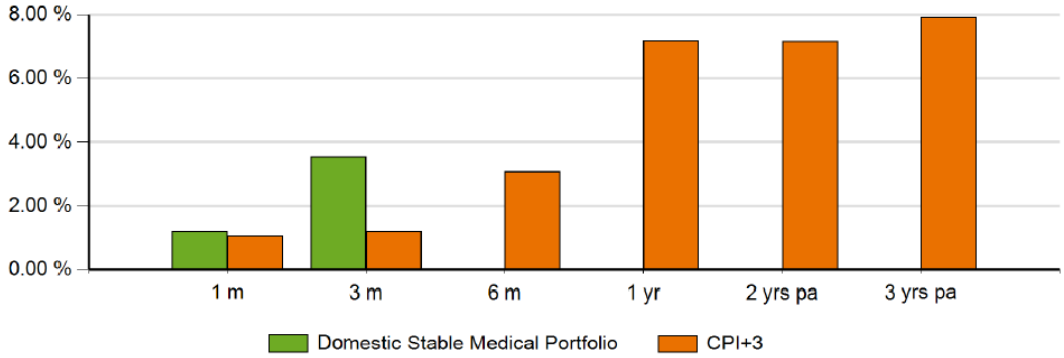
Performance as at 31 March 2019

	1 m	3 m	6 m	1 yr	2 yrs pa	3 yrs pa
Fund	0.63%	2.22%	4.69%			
STeFI Comp	0.57%	1.73%	3.59%	7.26%	7.34%	7.42%

transaction history

traded	transaction type	value (R)
21-Dec-2018	purchases	5,000,000
05-Oct-2018	purchases	5,000,000
26-Jul-2018	purchases	5,000,000
18-May-2018	purchases	5,000,000

9.2. Allan Gray Life Stable Medical Scheme Portfolio (R23 558 769)



Performance as at 31 March 2019

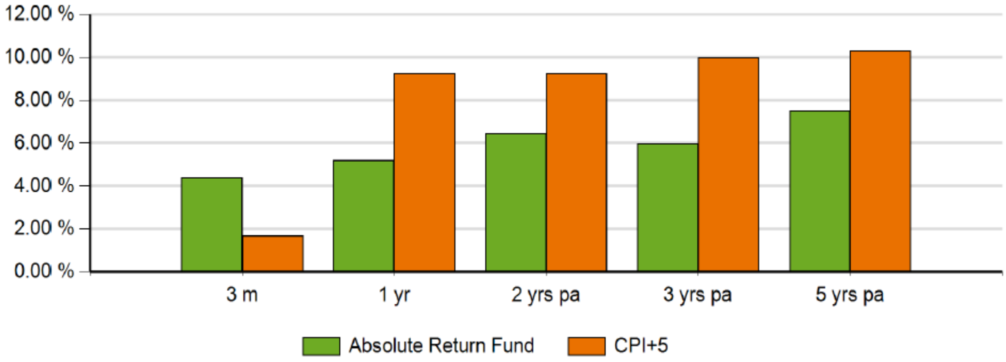
The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	1 m	3 m	6 m	1 yr	2 yrs pa	3 yrs pa
Fund	1.21%	3.55%				
CPI+3	1.07%	1.20%	3.08%	7.18%	7.16%	7.91%

transaction history

traded	transaction type	value (R)
14-Feb-2019	purchases	5,000,000
21-Dec-2018	purchases	17,639,986

9.3. Prudential Medical Schemes Portfolio (R22 851 636)



Performance as at 31 March 2019

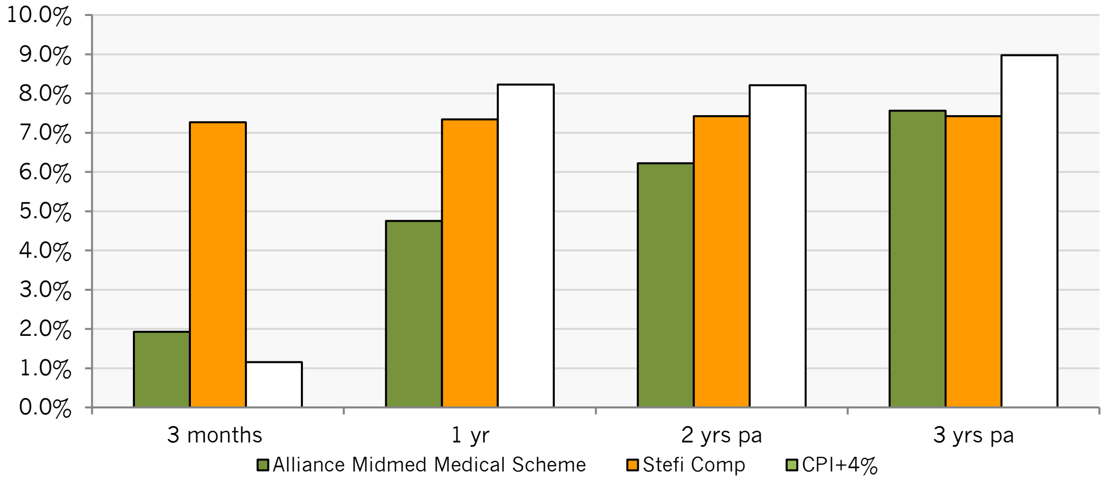
The CPI figures are lagged by one month as they were calculated before the current inflation rate was released.

	3 m	1 yr	2 yrs pa	3 yrs pa	5 yrs pa
Fund	4.38%	5.20%	6.45%	5.98%	7.48%
CPI+5	1.69%	9.25%	9.23%	10.00%	10.30%

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

9.4. Growth Assets: Actual Return vs Objective



Performance as at 31 March 2019

	3 months	1 yr	2 yr	3yr	5yr
Alliance Midmed Medical Scheme	1.92%	4.75%	6.22%	7.56%	7.30%
Stefi Comp	7.26%	7.30%	7.42%	7.42%	7.00%
Cpi +4	1.15%	8.23%	8.21%	8.97%	9.27%

10. Top 10 Equity Holdings as at 31 March 2019

Share Name	% of Total Investment	3 months returns % to Mar 2019	12 months returns % to Mar 2019
Naspers Ltd	1.9%	15.2%	15.2%
Sasol Ltd	1.3%	5.9%	11.6%
Standard Bank Group Ltd	1.3%	3.6%	15.3%
British American Tobacco	1.0%	27.4%	-14.2%
Anglo American Plc	0.7%	0.8%	26.1%
Old Mutual Limited	0.7%	-2.4%	N/A
Sappi Ltd	0.7%	-18.4%	-12.5%
Glencore Xstrata plc	0.6%	12.0%	1.3%
Remgro Ltd	0.6%	-4.9%	-16.5%
MTN Group Ltd	0.6%	-.04%	-25.5%

Total investment (including the savings component)

11. Actual vs Strategic Asset Allocation

March 2019	Actual Asset Allocation		Strategic Asset Allocation	Variance to Midpoint
	R (million)	%	%	%
Cash	27.3	32.3	30-50	-7.7
Bonds	34.0	40.3	20-40	10.3
Equity (including property)	23.1	27.4	25-35	-2.6
Total	**84.4**	**100.0**	**100.0**	**0.0**

At the meeting in February 2018, the investment strategy included changes, which will be implemented for a period of time ending in April 2019. The above table is as at the end of March 2019. There is one more movement due of R 5 million in April to complete the implementation, which will bring the Equity / Property component very close to the mid point. In terms of fixed interest, bonds have performed outperformed cash which is reflected in the manager preferring bonds to cash.

12. Compliance Analysis and Measurement

Old Mutual has analysed the Scheme's investments as at 31 December 2018 in relation to Annexure B of the Medical Schemes Act of 1998 and Circular 23. The Scheme's investments were compliant in all items.

Requirement:

Compliance to Annexure B of the Medical Schemes includes:

Cash	No more than 35% to any major bank in SA. 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

<u>Circular 23</u>

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 December 2018, this measured 27.5% for Alliance Midmed Medical Scheme (including savings). The Scheme is therefore compliant.

13. Observation / Considerations

In February 2018, the investment strategy was revised as follows:

Transfer R33 million (representing the past savings component) from the Old Mutual Wealth Trust Company Cash Portfolio to the following:

R 3 million: to be retained in the Cash portfolio
R20 million: to the STANLIB Income Fund
R 5 million: to the SIM Absolute Return Medical Portfolio
R 5 million: to the Prudential Inflation Plus 5% Fund

As fixed deposits mature in the Cash Portfolio, they will be transferred to the Cash Portfolio until complete, the STANLIB Income Fund until complete, the SIM Portfolio until complete and then to the Prudential Fund until completed.

At the last meeting 28 November 2018, I presented the opportunity to include the Allan Gray Life Stable Medical Scheme Portfolio, because they had recently reduced the minimum investment amount. At the initial meeting, this Portfolio was preferred to SIM. The decision was taken to replace the SIM Absolute Return Fund with the Allan Gray Fund.

The below table shows the remaining maturity profile of the savings portfolio and when transfers to the asset managers are planned.

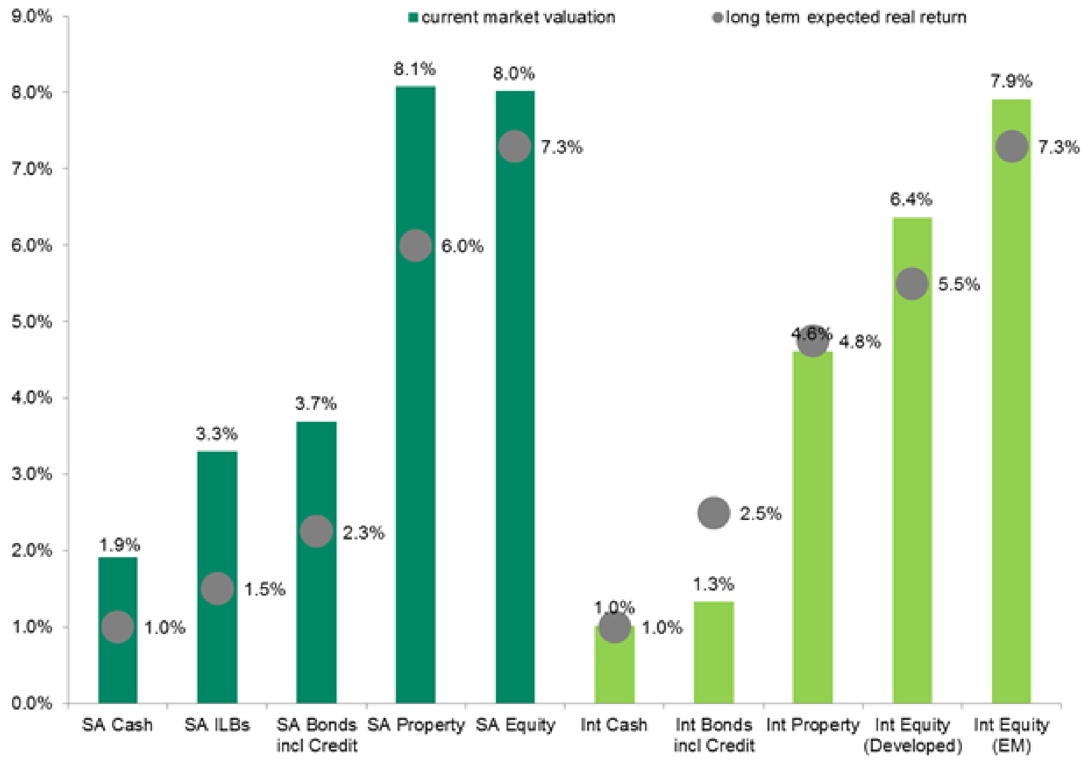
Amount (R)	Maturity Date	Amount to be transferred (R)	Asset Manager
1,041,404.11	05/10/2018	5m	STANLIB
518,865.75	25/10/2018		
508,383.56	29/10/2018		
1,037,388.36	01/11/2018		
1,032,256.16	29/11/2018		
1,028,705.48	13/12/2018		
1,026,082.19	21/12/2018	5m	STANLIB
1,021,393.15	11/01/2019		
1,021,613.70	11/01/2019		
1,524,595.89	01/02/2019		
1,015,123.29	08/02/2019		
506,667.12	15/02/2019	5m	Allan Gray
505,876.71	22/02/2019		
2,017,523.29	08/03/2019		
502,235.21	29/03/2019		
1,002,751.37	05/04/2019		
1,001,269.86	12/04/2019	5m	Prudential

As at the end of March, I can confirm that the Allan Gray portfolio was opened, the proceeds of the Coronation portfolio were transferred into the Allan Gray portfolio as well as R 5 million. The last remaining R 5 million will be transferred to the Prudential portfolio in April 2019.

Investment Performance

The first quarter of 2019 produced a strong performance from all asset classes. All of the managers captured the strong performance as follows :
StanLib Income Fund : 2.22%
Allan Gray : 3.55%
Prudential : 4.38%

The current market valuations are shown below and equity and property are very attractive.



Recommendation

Once the last transfer has taken place in April 2019, I recommend reviewing the actual asset alloctions in realtion to the strategy.

Dieter Briechle

Investment Consultant