# Alliance Midmed Medical Scheme

Monthly Consulting Report

30 April 2018

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# portfolio summary

## valuations

| month | valuation (R) |
|---|---|
| April 2018 | 40,128,015 |
| March 2018 | 39,354,467 |
| January 2018 | 39,715,699 |
| April 2017 | 37,614,998 |
| April 2016 | 32,632,442 |
| April 2015 | 31,726,030 |
| April 2013 | 25,562,951 |

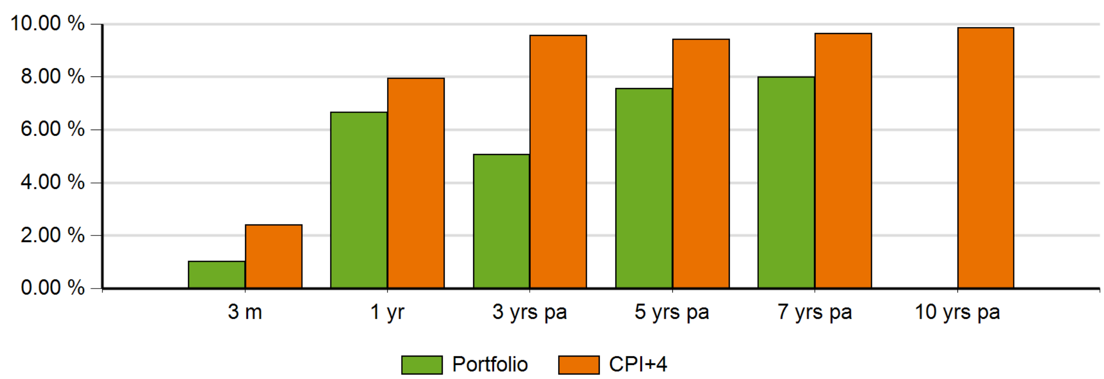
## underlying investments

| investment | valuation (R) |
|---|---|
| Medical Schemes Portfolio | 17,951,106 |
| Absolute Return Fund | 22,176,909 |
| total | 40,128,015 |

## transaction history

| traded | fund | transaction type | value (R) |
|---|---|---|---|
| 18-Oct-2016 | Prudential Portfolio Managers - Absolute Return Fund | purchases | 1,000,000 |
| 13-Sep-2016 | Prudential Portfolio Managers - Absolute Return Fund | purchases | 1,000,000 |
| 24-Aug-2016 | Prudential Portfolio Managers - Absolute Return Fund | purchases | 1,000,000 |
| 04-Dec-2015 | Prudential Portfolio Managers - Absolute Return Fund | purchases | 2,000,000 |
| 02-Dec-2015 | Coronation - Medical Schemes Portfolio | sales | 2,000,000 |
| 30-Nov-2012 | Prudential Portfolio Managers - Absolute Return Fund | purchases | 10,000,000 |
| 30-Nov-2012 | Prescient Management Co. Ltd - Positive Return Fund | sales | 13,843,861 |
| 25-Aug-2011 | Coronation - Medical Schemes Portfolio | purchases | 12,000,000 |
| 19-Aug-2011 | STANLIB - Medical Investment Fund | sales | 11,905,790 |
| 11-Jun-2008 | Prescient Management Co. Ltd - Positive Return Fund | purchases | 10,000,000 |

## 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 | 3 yrs pa | 5 yrs pa | 7 yrs pa | 10 yrs pa |
|---|---|---|---|---|---|---|
| Portfolio | 1.04% | 6.68% | 5.08% | 7.56% | 8.00% | |
| CPI+4 | 2.43% | 7.95% | 9.60% | 9.45% | 9.66% | 9.87% |

# Coronation - Medical Schemes Portfolio

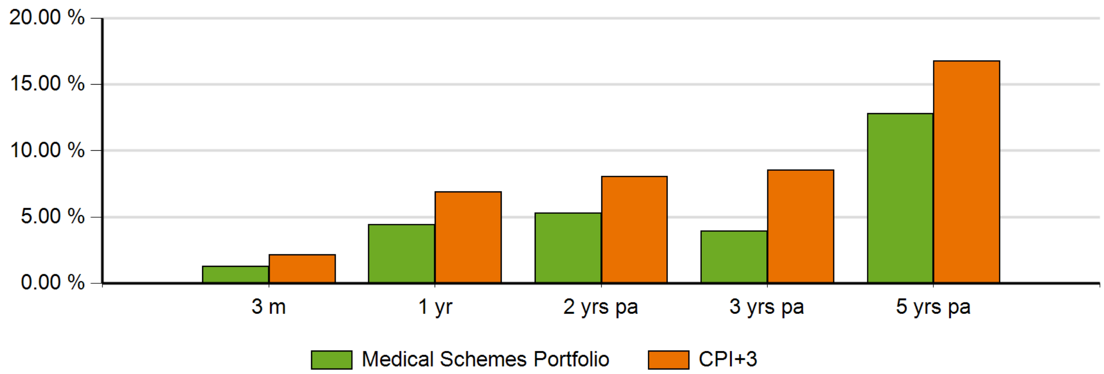
## valuations

| month | valuation (R) |
|---|---|
| April 2018 | 17,951,106 |
| March 2018 | 17,632,831 |
| January 2018 | 17,724,209 |
| April 2017 | 17,182,560 |
| April 2016 | 16,186,664 |
| April 2015 | 18,044,351 |
| April 2013 | 14,861,880 |

## transaction history

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

## 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 | 1.28% | 4.47% | 5.31% | 3.97% | 6.41% |
| CPI+3 | 2.18% | 6.92% | 8.10% | 8.55% | 8.40% |

# Prudential Portfolio Managers - Absolute Return Fund

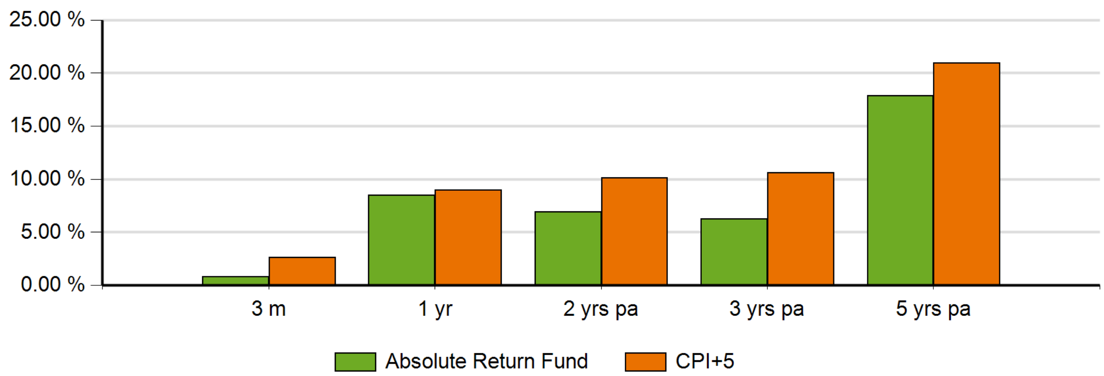
## valuations

| month | valuation (R) |
|---|---|
| April 2018 | 22,176,909 |
| March 2018 | 21,721,637 |
| January 2018 | 21,991,491 |
| April 2017 | 20,432,438 |
| April 2016 | 16,445,779 |
| April 2015 | 13,681,679 |
| April 2013 | 10,701,071 |

## 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 |

## 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 | 0.84% | 8.54% | 6.95% | 6.32% | 8.97% |
| CPI+5 | 2.67% | 8.99% | 10.19% | 10.65% | 10.50% |

# Alliance Midmed Medical Scheme

## Treasury Management Report

April 2018

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# Alliance Midmed Medical Scheme

## Portfolio Analysis

| average funds (R) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| call deposits | 5,623,873 | 6,519,968 | 6,343,019 | 6,161,738 | 6,946,520 | 7,491,178 | 7,500,234 | 7,361,131 | 7,006,579 |
| fixed deposits | 2,966,667 | 2,331,424 | 2,654,019 | 2,168,756 | 2,610,901 | 2,585,489 | 3,162,202 | 3,724,925 | 5,186,311 |
| weighted totals | 8,590,540 | 8,851,392 | 8,997,038 | 8,330,494 | 9,557,421 | 10,076,667 | 10,662,435 | 11,086,056 | 12,192,890 |

| average interest earned (R) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| call deposits | 30,364 | 35,781 | 34,466 | 33,954 | 39,317 | 42,800 | 42,988 | 40,641 | 35,494 |
| fixed deposits | 16,044 | 12,329 | 14,551 | 11,108 | 14,436 | 14,531 | 18,322 | 20,625 | 25,623 |
| weighted totals | 46,408 | 48,111 | 49,017 | 45,062 | 53,753 | 57,331 | 61,310 | 61,266 | 61,118 |

**note: weighted totals are per month**

## Performance Analysis

| average investment returns (%) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| weighted totals | 0.54 | 2.22 | 1.65 | 3.37 | 7.02 | 7.08 | 7.14 | 6.86 | 6.29 |

| industry returns (%) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| cash benchmark: STeFI Call Index | 0.57 | 2.20 | 1.60 | 3.28 | 6.84 | 6.84 | 7.14 | 6.74 | 6.08 |
| STeFI Composite | 0.62 | 2.39 | 1.74 | 3.56 | 7.47 | 7.48 | 7.53 | 7.24 | 6.64 |
| STeFI 3 Month | 0.59 | 2.29 | 1.67 | 3.41 | 7.11 | 7.11 | 7.16 | 6.87 | 6.32 |

**please note:** the 18 - 60 months returns are annualized

# Alliance Midmed Medical Scheme

## Cash flow Summary

| contribution and withdrawals | number | total rand value |
|---|---|---|
| contribution | 4 | 9,110,000 |
| withdrawal | 6 | 7,650,000 |

## Investment Summary

| call balances | call cost (R) | call accrued int (R) | call total balance (R) | rate (%) |
|---|---|---|---|---|
| ABSA Bank Ltd | 82,115 | 422 | 82,537 | 6.250 |
| FirstRand Bank Ltd | 3,449 | 18 | 3,467 | 6.250 |
| Investec Bank Ltd | 3,469,073 | 6,781 | 3,475,854 | 6.400 |
| Nedbank Ltd | 1,356,163 | 11,016 | 1,367,180 | 7.050 |
| Nedbank Ltd | 3,101,064 | 3,853 | 3,104,917 | 6.250 |
| The Standard Bank of South Africa Ltd | 3,900,340 | 8,275 | 3,908,614 | 6.300 |
| **total** | **11,912,203** | **30,364** | **11,942,568** | |

| fixed deposit maturities | instrument | purchase date | maturity date | cost (R) | maturity value (R) | interest received (R) | rate (%) |
|---|---|---|---|---|---|---|---|
| Investec Bank Ltd | 14 DAY FTD | 28/03/2018 | 11/04/2018 | 1,000,000 | 1,002,647 | 2,647 | 6.900 |
| Investec Bank Ltd | 14 DAY FTD | 04/04/2018 | 18/04/2018 | 1,000,000 | 1,002,512 | 2,512 | 6.550 |
| Investec Bank Ltd | 14 DAY FTD | 11/04/2018 | 25/04/2018 | 1,000,000 | 1,002,512 | 2,512 | 6.550 |
| The Standard Bank of South Africa Ltd | 14 DAY FTD | 28/03/2018 | 11/04/2018 | 1,000,000 | 1,002,560 | 2,560 | 6.675 |
| The Standard Bank of South Africa Ltd | 14 DAY FTD | 04/04/2018 | 18/04/2018 | 1,000,000 | 1,002,484 | 2,484 | 6.475 |
| The Standard Bank of South Africa Ltd | 14 DAY FTD | 11/04/2018 | 25/04/2018 | 1,000,000 | 1,002,484 | 2,484 | 6.475 |

| fixed deposit purchases | instrument | purchase date | maturity date | cost (R) | current value (R) | accrued interest (R) | rate (%) |
|---|---|---|---|---|---|---|---|
| Investec Bank Ltd | 14 DAY FTD | 04/04/2018 | 18/04/2018 | 1,000,000 | 1,002,512 | 2,512 | 6.55 |
| Investec Bank Ltd | 14 DAY FTD | 11/04/2018 | 25/04/2018 | 1,000,000 | 1,002,512 | 2,512 | 6.55 |
| Investec Bank Ltd | 14 DAY FTD | 18/04/2018 | 02/05/2018 | 1,000,000 | 1,002,333 | 2,333 | 6.55 |
| The Standard Bank of South Africa Ltd | 14 DAY FTD | 04/04/2018 | 18/04/2018 | 1,000,000 | 1,002,484 | 2,484 | 6.48 |
| The Standard Bank of South Africa Ltd | 14 DAY FTD | 11/04/2018 | 25/04/2018 | 1,000,000 | 1,002,484 | 2,484 | 6.48 |

| fixed deposit balances | instrument | purchase date | maturity date | cost (R) | current value (R) | accrued interest (R) | rate (%) |
|---|---|---|---|---|---|---|---|
| Investec Bank Ltd | 14 DAY FTD | 18/04/2018 | 02/05/2018 | 1,000,000 | 1,002,333 | 2,333 | 6.550 |
| total | | | | 1,000,000 | 1,002,333 | 2,333 | |

## Compliance Analysis

| | moodys rating | exposure (%) | mandate requirement (%) | market value (R) |
|---|---|---|---|---|
| Absa Bank Ltd | Aa1.za | 0.64 | 35.00 | 82,536.74 |
| FirstRand Bank Ltd | Aaa.za | 0.03 | 35.00 | 3,466.59 |
| Investec Bank Ltd | Aa1.za | 34.59 | 35.00 | 4,478,007.29 |
| Nedbank Ltd | Aa1.za | 34.55 | 35.00 | 4,472,096.49 |
| The Standard Bank of South Africa Ltd | Aa1.za | 30.19 | 35.00 | 3,908,614.23 |
| Total funds as at month end | | | | 12,944,721.34 |

# Economic Commentary

High-frequency data-prints since the start of the year reflect some easing in economic conditions (which is usually the case in the first quarter). The PMI reported a sharp decline in manufacturing activity in March 2018, after remaining above the 50-point level in the previous two months. This as business activity and new sales orders slumped. A further negative development was that sentiment for expected business conditions in six months' time fell (after reporting the best level since 2001 in February) – this was likely due to the recent negative publicity over the land reform policy. However, at 73.1 index points, this sentiment indicator is still well above recent lows, and still reflects very positive business sentiment despite recent easing. SA manufacturing production eased in tandem with the PMI, while mining output in contrast grew by a modest 3.1% yoy pace in February.

Retail sales surprised to the upside in February and have been driven by better credit extension to households (albeit at still low single-digit growth), low inflation, falling debt servicing costs, and slightly higher disposable incomes. Household consumption remains the key driver of growth – this category has shown significant improvement since September 2017, but we now need to see this being driven by actual labour market gains (as opposed to sentiment) for the positive trend to be sustained. While vehicle sales growth remains very low, it improved marginally in March, from deep contractions in the previous two months. While some improvement is envisaged in 2018, this will be dependent on labour market developments and disposable income growth.

Over the medium-term, growth is expected to improve in 2018 as a whole. In April, we saw the IMF raise its forecast for SA growth to 1.5% in 2018 and 1.7% in 2019 (previously 0.9%). We have also seen the World Bank raise its estimates to 1.4% in 2018, 1.8% in 2019, and 1.9% in 2020. The SARB's most recent estimates are 1.7%, 1.5%, and 2% respectively over the next three years. Nedbank Group forecasts GDP to grow at 1.8%, 1.9%, and 2.4% respectively until 2020. There are a myriad of downside risks to growth. The World Bank has indicated that low investment growth, weak integration into global supply chains, high inequality, and low potential growth are some of the key challenges SA needs to tackle in order to break away from the low and uncompetitive growth trajectory.

SA CPI fell to 3.8% yoy in March, from 4% prior, better than market consensus of 4.1%. Core inflation remained unchanged at 4.1% yoy. The decline in inflation to below 4% did not come as much of a surprise, particularly as we expected downside risks over the horizon – the lower print would imply a lower base (relative to consensus) particularly when evaluating the impact of the VAT hike in April. As such, where we had previously forecasted the April print to be 4.73% yoy, we now drop this to 4.66%, and our average inflation forecast for the year remains unchanged at 4.7% (due to the higher oil price recently). We continue to believe that there are still downside risks to our forecasts, should the rand remain below R13.00/$ until year-end.

Looking at the inflation subcomponents in March, goods inflation continues to benefit from very low import inflation, with goods price inflation at 2.6% yoy, from 3.2% prior. However, services inflation rose by 20bps to 5.1% yoy (but this was expected given that public transport, education, child care, and other services were surveyed in March). Administered price inflation remained very low, at 3.8% yoy in March (vs 4.3% prior).

We remain more dovish relative to consensus because of a few reasons: For as long as the SARB remains hawkish and does not lower interest rates, the rand should remain stable or strengthen further as a result of an attractive real interest rate. We have pencilled in gradual rand weakness for our CPI model, and if this does not materialise we could see inflation surprise to the downside relative to our estimates. We believe inflation expectations may come in lower over the medium-term. If inflation expectations decline and remain structurally low, it would reinforce low inflation in the economy. Goods inflation is currently at a two-year low – goods inflation may remain low as a result of a stable currency and this may cap headline price increases. Note that we believe the March 2018 print of 3.8% was the cyclical low, with inflation set to increase in April due to the VAT hike.

Inflation is expected to remain contained for the foreseeable future. With the new development of the SARB's willingness to target a 4.5% inflation rate, monetary policy becomes more cautious. However, given disinflationary drivers over the medium-term (particularly food, import costs, and the strong rand exchange rate) upside risks from the VAT hike are more or less contained in our view. We believe that if inflation expectations fall below 5% (currently at 5.2%) and if actual inflation continues to surprise to the downside, we could see a further 25bps rate cut by the SARB in 3Q18.

At its recent Monetary Policy Forum meeting, the SARB sounded more constructive on SA growth. Furthermore, there seems to be a deliberate attempt by the SARB to get inflation expectations closer to 4.5%, and to anchor expectations at that level over the medium- to longer-term. SA CPI is still higher than the EM average, implying higher borrowing costs – the SARB will now actively try to get SA CPI down to the EM average (to 'level the playing field').

The MPC members sounded very upbeat on growth over the medium-term particularly due to the fact that domestic risks have dissipated (the MPC statement indicated that the risk to growth outlook is to the upside).

The most important take-away on CPI, in our view, is the explicit communication from the MPC that "we would like a point-target on inflation with some flexibility". We think it is unlikely to happen soon (ie this year), but the SARB seems to be moving in that direction. There seems to be a sudden shift on this topic of the point target, because last year (and as recently as five months ago) the MPC vehemently stood behind and defended the 3%-6% target range as its mandate (ie opposing a point target), whereas now it is firmly backing a point-target and has indicated that this will in fact materialise eventually (it just depends when/how long). In the meantime the SARB seems set to talk down expectations at levels "closer to" the mid-point of the target band. We think there seems to be some tolerance if inflation expectations come in anywhere between 4.5% to 4.9% (which we think is possible this year).

One thing to note is that the SARB forecasted 1Q18 inflation exactly right, so it is unlikely to be surprised by the 3.8% inflation print in March. However we do believe that there is at least 20bps of 'fat' built into its full-year 2018 projection of 4.9%, and so the inflation estimates may be reduced at upcoming meetings if inflation continues to come in below consensus. Lower inflation prints this year would obviously lower the base, implying that inflation projections further out would need to be lowered as well (ceterus paribus – assuming no surprises from NERSA, wage negotiations, or the rand). So inflation surprises now would definitely have a bearing on upcoming Monetary Policy decisions (which are forward-looking out 12-18 months).

On our radar this month is the credit rating reviews/updates from S&P and Fitch. Recent commentary from S&P reflected a significant upward revision to real GDP growth estimates (to 2% for 2018, from 1% forecasted in November 2017). Better growth estimates, higher per capita GDP, and some growth in real investment may feature in the commentaries from the rating agencies. However we think it is too soon to expect any changes to the outlooks or the ratings themselves. Further evidence of structural reform implementation, policy certainty, investment growth, tax collection efficiencies, the strengthening of institutions, and an improved fiscal trajectory are needed for an outlook change to 'positive' from the current 'stable'. We believe that by the MTBPS in October, the country is likely to have compiled more evidence to support the above, and we would expect an outlook change only at the November credit rating reviews of both S&P and Fitch. We look at a few metrics to determine the relative riskiness of countries. Fiscal metrics remain the key tool to assess a country's external vulnerabilities. We also look at various country risk assessments, one being the Economist Intelligence Unit country risk score. Relative to similarly rated EM peers, SA's CDS spread lies amongst the 'high risk' countries. Should we see structural reform implementation, better growth metrics, and an improvement in the credit rating outlook then SA's CDS spread will likely compress over the medium-term. Hence we remain constructive on SA credit.

Source: Nedbank Capital



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# Alliance Midmed Medical Scheme - Savings

## Treasury Management Report

April 2018

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# Alliance Midmed Medical Scheme - Savings

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# Alliance Midmed Medical Scheme - Savings

## Portfolio Analysis

| average funds (R) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| call deposits | 4,284,368 | 4,483,425 | 4,222,622 | 4,517,771 | 4,523,639 | 5,018,244 | 5,311,669 | 5,106,255 | 4,545,232 |
| fixed deposits | 27,916,667 | 27,530,146 | 27,841,270 | 27,300,922 | 26,334,332 | 25,014,628 | 23,901,921 | 22,669,879 | 21,427,203 |
| weighted totals | 32,201,035 | 32,013,571 | 32,063,892 | 31,818,693 | 30,857,971 | 30,032,872 | 29,213,589 | 27,776,134 | 25,972,435 |

| average interest earned (R) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| call deposits | 21,485 | 23,787 | 21,930 | 24,236 | 24,844 | 27,864 | 29,789 | 27,809 | 23,100 |
| fixed deposits | 182,529 | 181,641 | 181,097 | 181,924 | 178,683 | 170,666 | 163,093 | 149,882 | 130,079 |
| weighted totals | 204,014 | 205,428 | 203,027 | 206,160 | 203,527 | 198,531 | 192,882 | 177,691 | 153,179 |

**note: weighted totals are per month**

# Alliance Midmed Medical Scheme - Savings

## Performance Analysis

| average investment returns (%) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| weighted totals | 0.64 | 2.60 | 1.91 | 3.95 | 8.22 | 8.24 | 8.22 | 7.92 | 7.21 |

| industry returns (%) | current month | ytd | 3 months | 6 months | 12 months | 18 months | 24 months | 36 months | 60 months |
|---|---|---|---|---|---|---|---|---|---|
| cash benchmark: STeFI Call Index | 0.57 | 2.20 | 1.60 | 3.28 | 6.84 | 6.84 | 7.14 | 6.74 | 6.08 |
| STeFI Composite | 0.62 | 2.39 | 1.74 | 3.56 | 7.47 | 7.48 | 7.53 | 7.24 | 6.64 |
| STeFI 3 Month | 0.59 | 2.29 | 1.67 | 3.41 | 7.11 | 7.11 | 7.16 | 6.87 | 6.32 |

**please note:** the 18 - 60 months returns are annualized

# Alliance Midmed Medical Scheme - Savings

## Cash flow Summary

| contribution and withdrawals | number | total rand value |
|---|---|---|
| withdrawal | 2 | 4,897,258 |

## Investment Summary

| fixed deposit maturities | instrument | purchase date | maturity date | cost (R) | maturity value (R) | interest received (R) | rate (%) |
|---|---|---|---|---|---|---|---|
| FirstRand Bank Ltd | 12 MONTH FTD | 07/04/2017 | 06/04/2018 | 1,000,000 | 1,084,268 | 84,268 | 8.450 |
| Investec Bank Ltd | 12 MONTH FTD | 26/04/2017 | 26/04/2018 | 500,000 | 541,750 | 41,750 | 8.350 |
| The Standard Bank of South Africa Ltd | 12 MONTH FTD | 13/04/2017 | 13/04/2018 | 1,000,000 | 1,084,250 | 84,250 | 8.425 |

| fixed deposit purchases | instrument | purchase date | maturity date | cost (R) | current value (R) | accrued interest (R) | rate (%) |
|---|---|---|---|---|---|---|---|
| FirstRand Bank Ltd | 12 MONTH FTD | 06/04/2018 | 05/04/2019 | 1,000,000 | 1,005,291 | 5,291 | 7.73 |
| The Standard Bank of South Africa Ltd | 12 MONTH FTD | 13/04/2018 | 12/04/2019 | 1,000,000 | 1,003,810 | 3,810 | 7.73 |

| fixed deposit balances | instrument | purchase date | maturity date | cost (R) | current value (R) | accrued interest (R) | rate (%) |
|---|---|---|---|---|---|---|---|
| Absa Bank Ltd | 12 MONTH FTD | 30/05/2017 | 30/05/2018 | 1,000,000 | 1,075,485 | 75,485 | 8.200 |
| Absa Bank Ltd | 12 MONTH FTD | 11/08/2017 | 10/08/2018 | 1,000,000 | 1,055,482 | 55,482 | 7.700 |
| Absa Bank Ltd | 11 MONTH FTD | 25/10/2017 | 25/09/2018 | 500,000 | 519,959 | 19,959 | 7.750 |
| Absa Bank Ltd | 8 MONTH FTD | 29/01/2018 | 28/09/2018 | 500,000 | 509,515 | 9,515 | 7.550 |
| Absa Bank Ltd | 12 MONTH FTD | 02/02/2018 | 01/02/2019 | 1,500,000 | 1,528,479 | 28,479 | 7.875 |
| Absa Bank Ltd | 12 MONTH FTD | 23/02/2018 | 22/02/2019 | 500,000 | 507,159 | 7,159 | 7.800 |
| FirstRand Bank Ltd | 12 MONTH FTD | 21/06/2017 | 21/06/2018 | 1,000,000 | 1,069,682 | 69,682 | 8.100 |
| FirstRand Bank Ltd | 12 MONTH FTD | 21/07/2017 | 20/07/2018 | 1,000,000 | 1,061,079 | 61,079 | 7.850 |
| FirstRand Bank Ltd | 12 MONTH FTD | 31/07/2017 | 31/07/2018 | 1,000,000 | 1,057,615 | 57,615 | 7.675 |

# Alliance Midmed Medical Scheme - Savings

| fixed deposit balances | instrument | purchase date | maturity date | cost (R) | current value (R) | accrued interest (R) | rate (%) |
|---|---|---|---|---|---|---|---|
| FirstRand Bank Ltd | 12 MONTH FTD | 06/10/2017 | 05/10/2018 | 1,000,000 | 1,043,952 | 43,952 | 7.750 |
| FirstRand Bank Ltd | 12 MONTH FTD | 01/11/2017 | 01/11/2018 | 1,000,000 | 1,040,043 | 40,043 | 8.075 |
| FirstRand Bank Ltd | 12 MONTH FTD | 06/04/2018 | 05/04/2019 | 1,000,000 | 1,005,291 | 5,291 | 7.725 |
| Investec Bank Ltd | 12 MONTH FTD | 18/05/2017 | 18/05/2018 | 2,000,000 | 2,158,268 | 158,268 | 8.300 |
| Investec Bank Ltd | 12 MONTH FTD | 09/06/2017 | 08/06/2018 | 1,000,000 | 1,072,792 | 72,792 | 8.150 |
| Investec Bank Ltd | 12 MONTH FTD | 28/08/2017 | 28/08/2018 | 1,000,000 | 1,051,896 | 51,896 | 7.700 |
| Investec Bank Ltd | 9 MONTH FTD | 29/01/2018 | 29/10/2018 | 500,000 | 509,641 | 9,641 | 7.650 |
| Investec Bank Ltd | 12 MONTH FTD | 29/11/2017 | 29/11/2018 | 1,000,000 | 1,035,001 | 35,001 | 8.350 |
| Investec Bank Ltd | 12 MONTH FTD | 11/01/2018 | 11/01/2019 | 1,000,000 | 1,024,260 | 24,260 | 8.050 |
| Investec Bank Ltd | 12 MONTH FTD | 12/01/2018 | 11/01/2019 | 1,000,000 | 1,024,040 | 24,040 | 8.050 |
| Investec Bank Ltd | 12 MONTH FTD | 09/02/2018 | 08/02/2019 | 1,000,000 | 1,017,753 | 17,753 | 8.000 |
| Investec Bank Ltd | 12 MONTH FTD | 29/03/2018 | 29/03/2019 | 500,000 | 503,512 | 3,512 | 7.770 |
| Nedbank Ltd | 12 MONTH FTD | 19/07/2017 | 19/07/2018 | 500,000 | 531,636 | 31,636 | 8.075 |
| Nedbank Ltd | 12 MONTH FTD | 25/10/2017 | 25/10/2018 | 500,000 | 520,152 | 20,152 | 7.825 |
| Nedbank Ltd | 12 MONTH FTD | 13/12/2017 | 13/12/2018 | 1,000,000 | 1,031,418 | 31,418 | 8.250 |
| Nedbank Ltd | 12 MONTH FTD | 09/03/2018 | 08/03/2019 | 2,000,000 | 2,022,652 | 22,652 | 7.800 |
| The Standard Bank of South Africa Ltd | 12 MONTH FTD | 22/09/2017 | 21/09/2018 | 1,000,000 | 1,046,622 | 46,622 | 7.700 |
| The Standard Bank of South Africa Ltd | 12 MONTH FTD | 21/12/2017 | 21/12/2018 | 1,000,000 | 1,028,712 | 28,712 | 8.000 |
| The Standard Bank of South Africa Ltd | 12 MONTH FTD | 16/02/2018 | 15/02/2019 | 500,000 | 507,958 | 7,958 | 7.850 |
| The Standard Bank of South Africa Ltd | 12 MONTH FTD | 13/04/2018 | 12/04/2019 | 1,000,000 | 1,003,810 | 3,810 | 7.725 |
| total | | | | 27,500,000 | 28,563,867 | 1,063,867 | |

# Alliance Midmed Medical Scheme - Savings

## Compliance Analysis

| | moodys rating | exposure (%) | mandate requirement (%) | market value (R) |
|---|---|---|---|---|
| Absa Bank Ltd | Aa1.za | 18.19 | 35.00 | 5,195,003.75 |
| FirstRand Bank Ltd | Aaa.za | 21.98 | 35.00 | 6,276,370.54 |
| Investec Bank Ltd | Aa1.za | 32.90 | 35.00 | 9,395,175.21 |
| Nedbank Ltd | Aa1.za | 14.37 | 35.00 | 4,104,986.98 |
| The Standard Bank of South Africa Ltd | Aa1.za | 12.56 | 35.00 | 3,586,352.06 |
| Total funds as at month end | | | | 28,557,888.54 |

# Economic Commentary

High-frequency data-prints since the start of the year reflect some easing in economic conditions (which is usually the case in the first quarter). The PMI reported a sharp decline in manufacturing activity in March 2018, after remaining above the 50-point level in the previous two months. This as business activity and new sales orders slumped. A further negative development was that sentiment for expected business conditions in six months' time fell (after reporting the best level since 2001 in February) – this was likely due to the recent negative publicity over the land reform policy. However, at 73.1 index points, this sentiment indicator is still well above recent lows, and still reflects very positive business sentiment despite recent easing. SA manufacturing production eased in tandem with the PMI, while mining output in contrast grew by a modest 3.1% yoy pace in February.

Retail sales surprised to the upside in February and have been driven by better credit extension to households (albeit at still low single-digit growth), low inflation, falling debt servicing costs, and slightly higher disposable incomes. Household consumption remains the key driver of growth – this category has shown significant improvement since September 2017, but we now need to see this being driven by actual labour market gains (as opposed to sentiment) for the positive trend to be sustained. While vehicle sales growth remains very low, it improved marginally in March, from deep contractions in the previous two months. While some improvement is envisaged in 2018, this will be dependent on labour market developments and disposable income growth.

Over the medium-term, growth is expected to improve in 2018 as a whole. In April, we saw the IMF raise its forecast for SA growth to 1.5% in 2018 and 1.7% in 2019 (previously 0.9%). We have also seen the World Bank raise its estimates to 1.4% in 2018, 1.8% in 2019, and 1.9% in 2020. The SARB's most recent estimates are 1.7%, 1.5%, and 2% respectively over the next three years. Nedbank Group forecasts GDP to grow at 1.8%, 1.9%, and 2.4% respectively until 2020. There are a myriad of downside risks to growth. The World Bank has indicated that low investment growth, weak integration into global supply chains, high inequality, and low potential growth are some of the key challenges SA needs to tackle in order to break away from the low and uncompetitive growth trajectory.

SA CPI fell to 3.8% yoy in March, from 4% prior, better than market consensus of 4.1%. Core inflation remained unchanged at 4.1% yoy. The decline in inflation to below 4% did not come as much of a surprise, particularly as we expected downside risks over the horizon – the lower print would imply a lower base (relative to consensus) particularly when evaluating the impact of the VAT hike in April. As such, where we had previously forecasted the April print to be 4.73% yoy, we now drop this to 4.66%, and our average inflation forecast for the year remains unchanged at 4.7% (due to the higher oil price recently). We continue to believe that there are still downside risks to our forecasts, should the rand remain below R13.00/$ until year-end.

Looking at the inflation subcomponents in March, goods inflation continues to benefit from very low import inflation, with goods price inflation at 2.6% yoy, from 3.2% prior. However, services inflation rose by 20bps to 5.1% yoy (but this was expected given that public transport, education, child care, and other services were surveyed in March). Administered price inflation remained very low, at 3.8% yoy in March (vs 4.3% prior).

We remain more dovish relative to consensus because of a few reasons: For as long as the SARB remains hawkish and does not lower interest rates, the rand should remain stable or strengthen further as a result of an attractive real interest rate. We have pencilled in gradual rand weakness for our CPI model, and if this does not materialise we could see inflation surprise to the downside relative to our estimates. We believe inflation expectations may come in lower over the medium-term. If inflation expectations decline and remain structurally low, it would reinforce low inflation in the economy. Goods inflation is currently at a two-year low – goods inflation may remain low as a result of a stable currency and this may cap headline price increases. Note that we believe the March 2018 print of 3.8% was the cyclical low, with inflation set to increase in April due to the VAT hike.

Inflation is expected to remain contained for the foreseeable future. With the new development of the SARB's willingness to target a 4.5% inflation rate, monetary policy becomes more cautious. However, given disinflationary drivers over the medium-term (particularly food, import costs, and the strong rand exchange rate) upside risks from the VAT hike are more or less contained in our view. We believe that if inflation expectations fall below 5% (currently at 5.2%) and if actual inflation continues to surprise to the downside, we could see a further 25bps rate cut by the SARB in 3Q18.

At its recent Monetary Policy Forum meeting, the SARB sounded more constructive on SA growth. Furthermore, there seems to be a deliberate attempt by the SARB to get inflation expectations closer to 4.5%, and to anchor expectations at that level over the medium- to longer-term. SA CPI is still higher than the EM average, implying higher borrowing costs – the SARB will now actively try to get SA CPI down to the EM average (to 'level the playing field').

The MPC members sounded very upbeat on growth over the medium-term particularly due to the fact that domestic risks have dissipated (the MPC statement indicated that the risk to growth outlook is to the upside).

The most important take-away on CPI, in our view, is the explicit communication from the MPC that "we would like a point-target on inflation with some flexibility". We think it is unlikely to happen soon (ie this year), but the SARB seems to be moving in that direction. There seems to be a sudden shift on this topic of the point target, because last year (and as recently as five months ago) the MPC vehemently stood behind and defended the 3%-6% target range as its mandate (ie opposing a point target), whereas now it is firmly backing a point-target and has indicated that this will in fact materialise eventually (it just depends when/how long). In the meantime the SARB seems set to talk down expectations at levels "closer to" the mid-point of the target band. We think there seems to be some tolerance if inflation expectations come in anywhere between 4.5% to 4.9% (which we think is possible this year).

One thing to note is that the SARB forecasted 1Q18 inflation exactly right, so it is unlikely to be surprised by the 3.8% inflation print in March. However we do believe that there is at least 20bps of 'fat' built into its full-year 2018 projection of 4.9%, and so the inflation estimates may be reduced at upcoming meetings if inflation continues to come in below consensus. Lower inflation prints this year would obviously lower the base, implying that inflation projections further out would need to be lowered as well (ceterus paribus – assuming no surprises from NERSA, wage negotiations, or the rand). So inflation surprises now would definitely have a bearing on upcoming Monetary Policy decisions (which are forward-looking out 12-18 months).

On our radar this month is the credit rating reviews/updates from S&P and Fitch. Recent commentary from S&P reflected a significant upward revision to real GDP growth estimates (to 2% for 2018, from 1% forecasted in November 2017). Better growth estimates, higher per capita GDP, and some growth in real investment may feature in the commentaries from the rating agencies. However we think it is too soon to expect any changes to the outlooks or the ratings themselves. Further evidence of structural reform implementation, policy certainty, investment growth, tax collection efficiencies, the strengthening of institutions, and an improved fiscal trajectory are needed for an outlook change to ‘positive’ from the current ‘stable’. We believe that by the MTBPS in October, the country is likely to have compiled more evidence to support the above, and we would expect an outlook change only at the November credit rating reviews of both S&P and Fitch. We look at a few metrics to determine the relative riskiness of countries. Fiscal metrics remain the key tool to assess a country’s external vulnerabilities. We also look at various country risk assessments, one being the Economist Intelligence Unit country risk score. Relative to similarly rated EM peers, SA’s CDS spread lies amongst the ‘high risk’ countries. Should we see structural reform implementation, better growth metrics, and an improvement in the credit rating outlook then SA’s CDS spread will likely compress over the medium-term. Hence we remain constructive on SA credit.

Source: Nedbank Capital



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