

DESTINY INVESTMENTS 2015: A YEAR IN REVIEW

Economic Overview

In 2015 the Rand depreciated significantly against the major currencies. This was as a result of emerging market jitters as well as South Africa's own internal woes. The Rand lost over 20% to the Euro and almost 34% to the US Dollar.

Fitch ratings agency downgraded South Africa's long-term sovereign debt rating but revised the outlook from a negative stance to stable indicating a lower likelihood of an imminent downgrade to non-investment grade status. Meanwhile, S&P ratings agency held off from downgrading SA's long-term sovereign debt rating but changed its outlook from stable to negative. Both agencies alluded to the likelihood of lower potential growth going forward. In addition, Fitch highlighted the extent to which policy uncertainty and investor-unfriendly proposals have weakened business confidence.

Following market-moving cabinet announcements, Moody's dropped its outlook to negative from stable, but maintained its foreign currency debt rating at one notch higher than S&P and Fitch. Moody's cited growth concerns and the rising risk of fiscal slippage as the main reasons underlying its decision. Although the appointment of Pravin Gordhan as Finance Minister, following the controversial decision to replace the widely-respected Nhlanhla Nene with unknown David Van Rooyen should see some stabilisation in investor sentiment, local and global investors will continue to question government's process of decision making which has created further ambiguity around economic policy in an already-fragile growth environment.

Key market indicators:

	2015	2014
Rand/USD	-33.8%	-10.6%
Consumer Price Index (CPI)	4.7%	5.8%
FTSE/JSE ALSI	5.1%	10.9%
FTSE/JSE SWIX	3.6%	15.4%
FTSE/JSE SWIX Top 40	7.5%	14.2%
SA Listed Property	7.9%	26.6%
Resources Index	-36.9%	-14.7%
MSCI World Index (USD)	-0.3%	5.5%

For the year ahead, we can expect to see the US Federal Reserve's normalising of monetary policy whilst the European Central Bank is likely to continue its quantitative easing in order to boost Eurozone economies. The China slowdown is expected to continue which will undoubtedly mean that emerging markets and commodity driven economies will struggle. Unfortunately, South Africa fits into both of the aforementioned categories.

Equity Markets

As can be seen in the key market indicators above, equities did not perform well in 2014. At the beginning of 2015 we commented that we don't expect much growth in 2015, and if it wasn't for the Rand depreciating as it did then the performance of local equities may very well have been negative. It must also be remembered that a large number of the biggest local stocks earn a great deal of foreign income.

For the year ahead we expect continued volatility and it is therefore the asset managers who are good stock-pickers and agile enough to impact their funds, who will succeed.

Destiny Performance

	2015 ²	3-years ² (annualised)	5-years ² (annualised)
Market Enhanced Portfolio	8.53%	15.00% ¹	n/a
Moderate Portfolio	8.66%	14.73%	14.33%
Conservative Portfolio	8.57%	13.80%	13.60%
Defensive Portfolio	7.75%	11.30%	11.37%
Money Market Portfolio	7.36%	6.60%	6.65%

¹ This portfolio commenced in May 2013 and therefore historical returns are modelled.

² All returns are gross of asset managers and GIB asset based fees.

By blending active and passive management in an innovative matrix, GIB has been able to use traditional investment market leaders but has still managed to reduce costs and increase efficiency by using active management in a cost effective way via a satellite approach.

Changes to the Destiny Portfolio Range in 2015

The allocation to Allan Gray offshore was reduced to 85%. The difference of 15% is now being allocated to an offshore index tracker called the BlackRock World Sub-Index Equity Fund. The purpose of this move was to diversify the offshore holdings, to reduce the portfolios' costs and to commence aligning the Moderate, Conservative and Defensive Portfolios with the Market Enhanced Portfolio.

Also in 2015, it was decided that new cash flows to Coronation (local equity) would cease and instead flow equally to the existing local equity managers namely, Fairtree, Foord and Dibanisa. This decision was based on Coronation's continued underperformance.

The Investment Committee

The investment committee was established to combine the intellectual capital of various stakeholders in order to provide Trustees with independent qualitative and quantitative investment research. This research ensures the decisions made are done so only after extensive debate and deliberation.

The committee includes GIB investment specialists and external, independent investment analysts. Additionally, participating employers are invited to attend and to provide input which results in an objective, member centric investment process.

Hereunder is the list of investment forums held in 2015.

Meeting Date	Meeting Type	No. of Attendees
24-March-15	Full meeting	11
16-April-15	House meeting	9
04-Jun-15	Full meeting	17
26-Aug-15	House meeting	7
30-Nov-15	House meeting	9
10-Dec-15	House meeting	8