DESTINY INVESTMENTS 2016: A YEAR IN REVIEW

Economic Overview

The year 2016 will go down as one with numerous black swan events. These are events that are rare, have an extreme impact, and are explainable and predictable - but only in hindsight.

Britain's vote to leave the European Union and Donald Trump's victory in the US presidential election had extreme impacts on markets. The sterling fell by more than 10% as it became clear that the UK had voted for exit, while the dollar swung wildly in the hours following Trump's win.

Ratings agencies Fitch and S&P have South Africa only one notch above sub-investment grade and both have a negative outlook suggesting that the next ratings move may be down. Accelerated growth is required to avoid a downgrade.

Key market indicators:

	2016	2015
Rand/USD	11.6%	-33.8%
Consumer Price Index (CPI)	6.6%	4.7%
FTSE/JSE ALSI	2.6%	5.1%
FTSE/JSE SWIX	4.1%	3.6%
FTSE/JSE SWIX Top 40	-1.6%	7.5%
SA Listed Property	10.2%	7.9%
Resources Index	34.2%	-36.9%
MSCI World Index (USD)	-6.0%	-0.3%

Equity Markets

Investors are unlikely to look back on 2016 with much enthusiasm.

The year began with a market "sell-off" that made January one of the worst starts in history. In the first ten trading days of 2016, the FTSE in London lost more than £113 billion in value. Locally, the FTSE/JSE All Share Index plunged 8.6% in three weeks before finally staging some sort of a recovery.

What is perhaps most interesting is that on analysing the Top 40 index, its returns demonstrate how uneven market performance has been. Approximately half the stocks in the index were up whilst half were down.

Hereunder are some of the year's winners and losers:

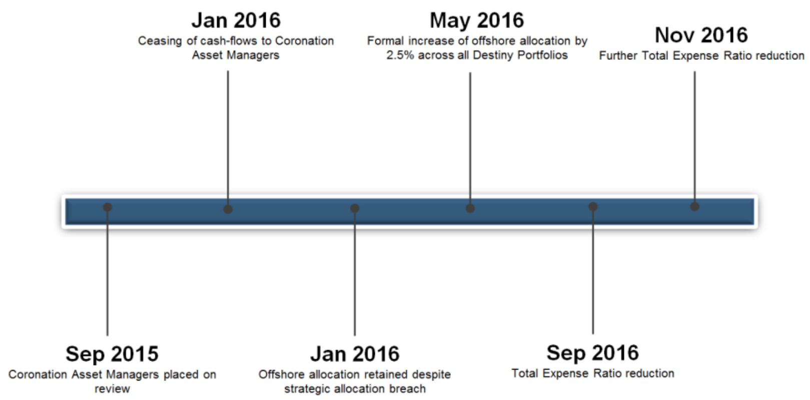
	31/12/2015	31/12/2016	Return
Brait	R165.51	R87.56	-47%
Woolworths	R100.15	R71.02	-29%
Mr Price	R200.00	R159.55	-20%
Old Mutual	R41.45	R34.44	-17%
Discovery	R132.95	R114.50	-14%
Steinhoff	R78.51	R71.28	-9%
MTN	R132.89	R126.17	-5%
Naspers	R2 120.00	R2 014.09	-5%
BHP Billition	R173.94	R218.68	26%
Impala Platinum	R25.04	R42.74	71%

Destiny Performance

	2016 [2]	3-years [2] (annualised)	5-years [2] (annualised)
Market Enhanced Portfolio	4.73%	8.70%	14.81%[1]
Moderate Portfolio	6.29%	8.82%	14.13%
Conservative Portfolio	6.94%	8.75%	13.33%
Defensive Portfolio	8.17%	8.54%	11.31%
Money Market Portfolio	8.74%	7.48%	7.76%

[1] This portfolio commenced in May 2013 and therefore this historical return is partly modelled.
[2] All returns are gross of asset managers and GIB asset based fees.

Changes to the Destiny Portfolio Range in 2016



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. Participating employers are invited to attend and provide input which results in an objective and member centric investment process.

Hereunder is the list of investment forums held in 2016:

Meeting Date	Meeting Type	No. of Attendees
24 March	House Meeting	8
7 April	Full Meeting	10
9 June	GIB Annual Investment Conference	60
31 August	House Meeting	9
26 November	Full Meeting	10
5 December	House Meeting	8

Why passive and active investing is blended in Destiny's Portfolios

By combining 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 manner via a core-satellite approach.

GIB believes that passive investments can be better in efficient sectors like the JSE's property sector or efficient markets like the New York Stock Exchange. A case in point: in 2016, listed property funds Marriott returned 8.9%, Investec 5.9% and Coronation 8% whilst Destiny's listed property fund (passive) returned 10.22%.

One of the strongest arguments in favour of passive investing is that investors in passive strategies remove stock specific risk from their portfolios and simply get the return of the market. This is a compelling argument and it applies in many of the world's more mature markets. Investors in a passive S&P 500 Fund have approximately 3% of their investment exposed to the single largest stock, while exposure to the largest 10 stocks amounts to only 18%.

The SA equity market on the other hand is highly concentrated. The largest stock in the Top 40 Index is Naspers, at an incredible 19%, while the top ten stocks in the index represents over 60%.

In recent years, passive investment products have gained significant market share across the world. There are a number of good things that passive investing brings to the market:

- Increased choice for the consumer.
- The case for a passive product is premised on low fees, which puts pressure on active managers who often charge inappropriately high fees.
- It threatens active managers who have not delivered outperformance or who do not produce truly active portfolios (that is, they construct portfolios that hug benchmarks).

Finally, what does the growth in passive assets mean for active managers?

Passive investing leverages off active investing, because active managers make markets more efficient than they would otherwise be. The two strategies are complementary. Markets function best when there is a broad universe of investors with different strategies and time horizons.

The growth in passive strategies actually increases opportunities for the genuinely active manager. It does this by increasing liquidity in the market. It also makes markets less efficient because it steers the investment process away from buying high and selling low. It systematically gives higher weights to overvalued stocks and lower weights to undervalued stocks.

Active managers cannot deliver outperformance if markets are efficient. They endeavour to buy low and sell high.