

## Pick n Pay Medical Scheme

### Annual Summary of Investments for year ended 31 December 2016

#### Mandate of the Investment Committee

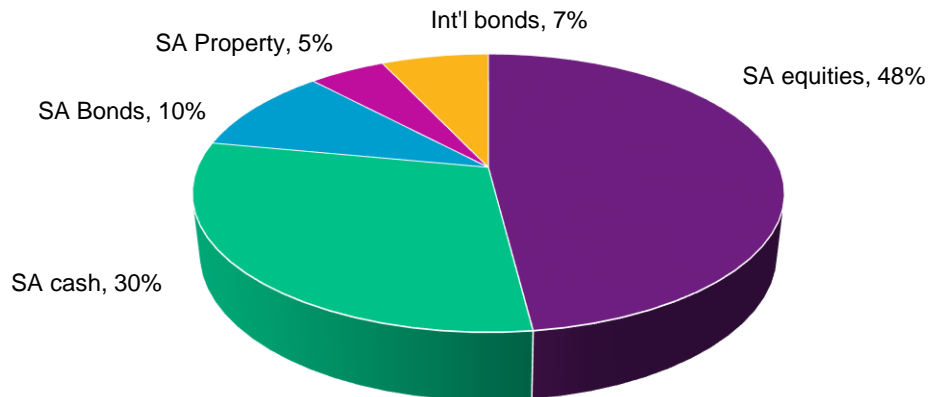
- The Board of Trustees has mandated the Investment Committee to monitor the investment performance and risk management of the Scheme's investments.
- The Board of Trustees has appointed Willis Towers Watson as their investment consultants to advise the Investment Committee and Board of Trustees on matters related to the Scheme's investments, including investment performance monitoring, asset allocation decisions and investment manager selection.
- The Investment Committee is chaired by Gary Lea and the Investment Committee meets on a quarterly basis.
- The Investment Committee receives a feedback presentation from each of the appointed investment management firms at each quarterly meeting.

#### Investment Philosophy

- The Scheme's investments consists of two broad categories:
  1. Liquidity assets – these assets are invested in cash or money market instruments and are used to meet the short term cash flow needs of the Scheme
  2. Long term assets – these assets are invested in a mixture of shares (equities), bonds and cash (both local and offshore) where the aim is to grow the investments of the Scheme by 5% per annum above inflation over the long term
- With respect to the Long-term assets, the Trustees believe that over long measurement periods (typically 5 years and longer) investment markets are efficient and so the price of a traded asset is the most accurate indication of its underlying value. However, over shorter time frames investment markets may be materially inefficient resulting in big and non-random disparities which cause the price of an asset to deviate from its underlying value.
- If markets are indeed efficient over the long term then it follows that an intelligent and patient investor can earn superior returns over the long term by exploiting these short-term mispricings. Therefore the Trustees have appointed active investment managers who primarily follow a valuation investment approach i.e. on SA equities, the investment managers look to assess the intrinsic value of a company and buy companies whose share price is well below their assessed intrinsic value.
- The Trustees believe in the benefits of diversification and that the risk of poor investment outcomes can be mitigated by allocating the investments of the Scheme's Long-term assets between different asset classes. Further diversification is also achieved within a more risky asset class by allocating the assets to more than one investment manager.

#### Strategic Asset Allocation (Long term assets)

The Strategic Asset Allocation for the Long term assets is as follows:



#### Benchmarks

- |                       |                                  |
|-----------------------|----------------------------------|
| • SA Equities         | FTSE/JSE Capped All Share Index  |
| • SA Cash             | STEFI Composite Index            |
| • SA Property         | FTSE / JSE Listed Property index |
| • SA Bonds            | BE ASSA All Bond Index           |
| • International Bonds | Barclays Global Aggregate Index  |

## Investment analysis for the year ended 31 December 2016

	Market value (R'm) 31 Dec 16	% of Long term assets	Investment Returns (R'm)	12 Month Return (%)	Index Return (%)
<b>Long term assets</b>					
<b>SA equity</b>	<b>159.7</b>	<b>45.5%</b>	<b>4.5</b>	<b>2.9%</b>	<b>3.9%</b>
Allan Gray	60.5	17.2%	6.2	11.5%	
Visio	38.1	10.9%	-0.5	-1.4%	3.9%
ABAX	61.2	17.4%	-1.1	-1.8%	
<b>SA cash</b>	<b>109.7</b>	<b>31.2%</b>	<b>8.5</b>	<b>8.4%</b>	<b>7.4%</b>
Investec Stable Money Fund	54.8	15.6%	4.2	8.4%	7.4%
Coronation Medical Cash Fund	54.9	15.6%	4.3	8.4%	
<b>SA Property</b>	<b>17.3</b>	<b>4.9%</b>	<b>1.5</b>	<b>9.6%</b>	<b>10.2%</b>
Sesfikile Property Fund	17.3	4.9%	1.5	9.6%	10.2%
<b>SA Bonds</b>	<b>38.8</b>	<b>11.0%</b>	<b>5.5</b>	<b>16.6%</b>	<b>15.5%</b>
Coronation Strategic Bond Fund	38.8	11.0%	5.5	16.6%	15.5%
<b>International Bonds</b>	<b>25.8</b>	<b>7.4%</b>	<b>-2.2</b>	<b>-7.9%</b>	<b>-9.8%</b>
Stanlib	25.8	7.4%	-2.2	-7.9%	-9.8%
<b>SUB-TOTAL (Long term assets)</b>	<b>351.3</b>	<b>100.0%</b>	<b>17.9</b>	<b>5.4%</b>	
<b>Liquidity Assets</b>	<b>47.5</b>		<b>1.4</b>	<b>4.8%</b>	
Investec Corporate Money Fund	32.6		1.2	8.1%	
Standard Bank Current	14.9		0.2	4.8%	
<b>SUB-TOTAL (Long term and Liquidity assets)</b>	<b>398.8</b>		<b>19.3</b>	<b>5.4%</b>	
Investec PMSA Fund	84.5		6.9	8.1%	
<b>TOTAL ASSETS</b>	<b>483.4</b>				

Note: Some of the figures may not add up due to rounding.

### Comments on investment performance

#### SA Equities

- The 12 month return to 31 December 2016 for each of the main SA Equity sectors was 34.2% for Resources, 5.4% for Financials and -6.6% for Industrials.
- Allan Gray** : The biggest contributors to the portfolio's return for 2016 compared to the index was an overweight position in Standard Bank Group Limited and in selected mining shares eg. Glencore and African Rainbow Minerals. The main detractors to return for the portfolio include overweights to Old Mutual and Reinnet Investments, and underweight to Bidvest
- Visio** : The main detractor to the portfolio's return for 2016 compared to the index was an underweight in Resource shares, notably gold and platinum related companies.
- ABAX** : The portfolios' underperformance relative to the index during 2016 was principally driven by two factors: underweight Resources and overweight Industrial Rand Hedges - notably British American Tobacco, Mediclinic and Steinhoff.

#### SA Property (Sesfikile Property Fund)

The main detractor to return for the portfolio compared to the index was an underweight in Growthpoint (the largest stock with a weight of 20% of the index) which delivered a return of 11.5% in 2016.

#### SA Bonds (Coronation Strategic Bond Fund)

The portfolios' top contributors to return for 2016 was exposure to long dated nominal Government bonds, and the main detractors to return for 2016 include holdings in Intu Properties and Capital & County Properties.

#### International Bonds (Stanlib Global Bond Fund)

The portfolios' contributors to return in 2016 includes exposure to emerging market currencies and bonds. The negative return in Rand terms is due to the strengthening of the Rand against the US Dollar by 11.7% for 2016. In US Dollar terms, the portfolio generated a positive return of 4.3% for 2016 compared to the benchmark return of 2.1%.

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