momentum

multi-manager smooth growth fund

1st Quarter 2012

www.momentum.co.za/EBcorporate

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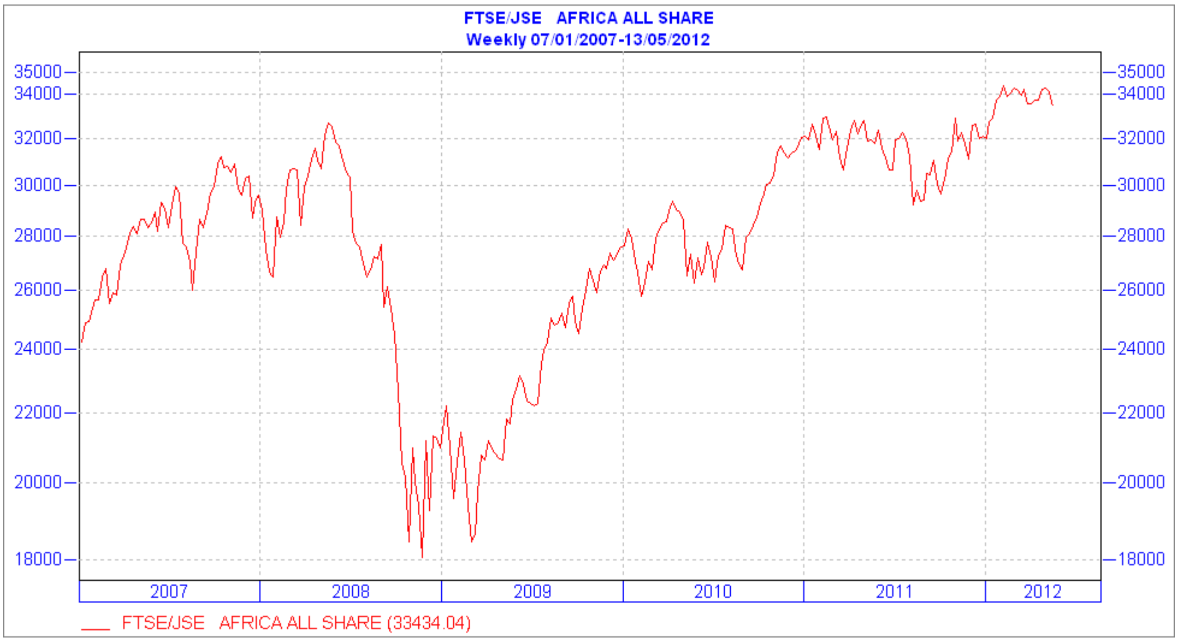
1. Introduction

All local asset classes delivered positive returns over the quarter, with equities being the best performing major asset class returning 6.0% (FTSE/JSE All-share index) over the quarter. The industrial and financial sectors were the contributors to this return with returns of 10.5% and 12.8% respectively. The resources sector detracted from the overall return with a return of -3.3% over the quarter. Foreign equities had an excellent quarter with the MSCI World Index gaining 11.7% is US Dollar terms. Part of this gain was however offset by the Rand appreciating by 4.9% against the US Dollar over the period. Global bonds had a poor quarter returning 0.9% in US Dollar terms and -4.1% in Rand terms. Economic fundamentals have improved in the United States, but Europe continues to struggle with sovereign debt problems. The equity market has been buoyed mainly by positive investor sentiment. This sentiment is however vulnerable to unexpected bad news flows.



Source: Inet

For a detailed commentary on the financial markets we have included an investment market review by Abax Investments in section 5 of this document.

2. Performance

2.1 Bonuses to 31 March 2012

Short Term Performance

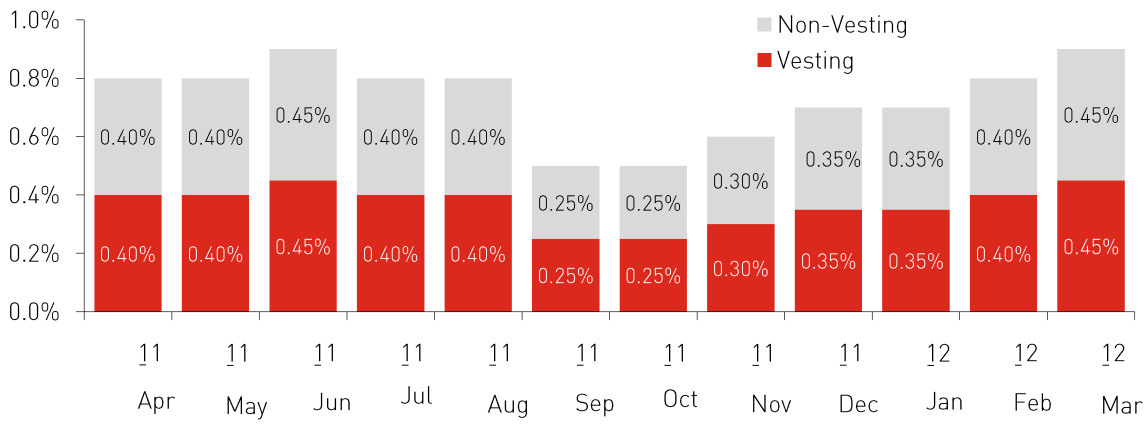
The bonuses on the Multi-manager Smooth Growth Fund Global and Local increased over the quarter to 0.90% and 1.10% per month respectively. The increase in bonuses was made possible by the continued strong performance of equity markets over the quarter. Monthly bonuses were well ahead of inflation and money market returns over the quarter.

The table below shows the total gross bonuses for the past year on the Multi-manager Smooth Growth Funds.

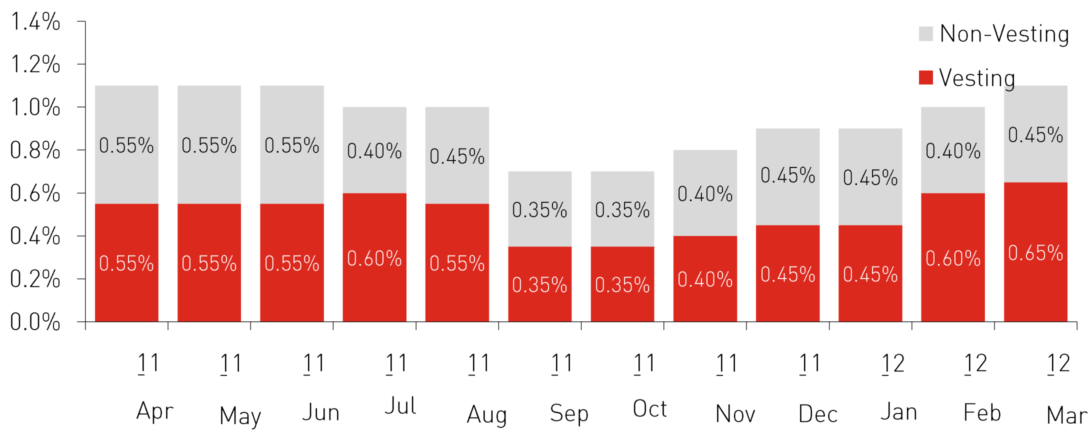
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Multi-manager Smooth Growth Fund Global	4.49%	4.67%	9.16%
Multi-manager Smooth Growth Fund Local	6.22%	5.79%	12.01%

The charts below show the monthly bonuses for the past 12 months.

Multi-manager Smooth Growth Fund Global



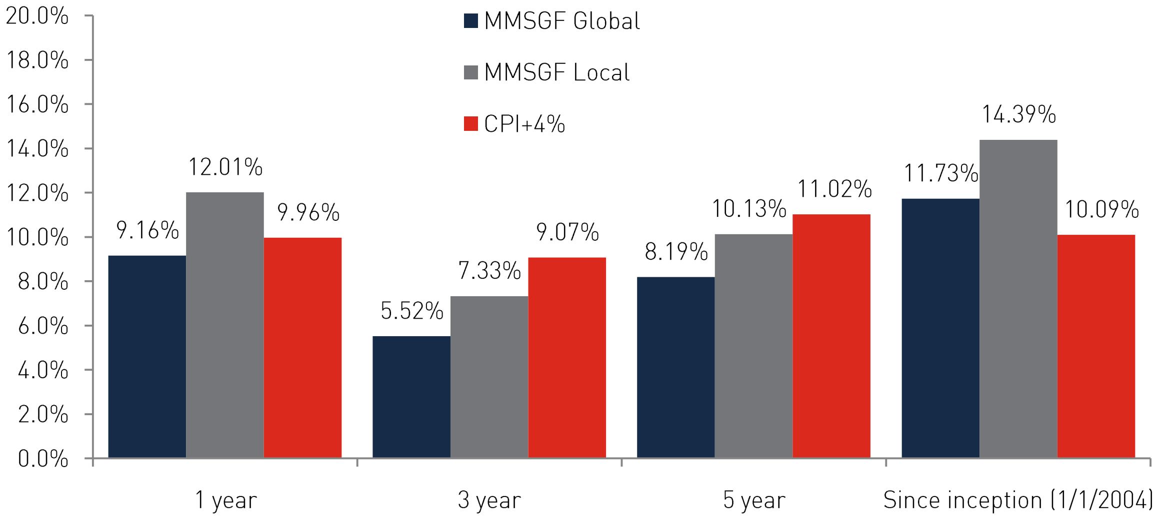
Multi-manager Smooth Growth Fund Local



Long Term Performance

The objective of the Multi-manager Smooth Growth Fund (MMSGF) portfolios is to deliver bonuses (net of fees) of inflation + 4% p.a. over the long term (defined as five years and longer). The chart below shows the gross bonuses declared in respect of the MMSGF Global and MMSGF Local over the one-, three- and five-year and since inception periods to 31 March 2012 compared with CPI + 4% p.a. Bonuses over one year have increased further over the last quarter. The MMSGF Local's one-year return is more than 2% ahead of inflation + 4% p.a. and the MMSGF Global's one-year return is only 0.80% behind inflation + 4% p.a. The 3-year bonuses are still negatively affected by the negative returns experienced by some of the underlying assets of the portfolios over 2008 and the early part of 2009. The extent of the shortfall compared to inflation + 4% pa has however decreased over the last quarter. The 5-year bonuses are also now being negatively affected by the negative returns experienced by some of the underlying assets of the portfolios over 2008 and the early part of 2009. Since inception performance is, however, still well above the return objective of the portfolios with real returns in excess of 5% p.a.

The MMSGF Local performed better than the MMSGF Global over all time periods, reflecting the better returns achieved on South African investments compared to global investments over the last few years.



The table below contains a comparison of the performance of the MMSGF Global and the median market-linked portfolio (Alexander Forbes Asset Consultants Manager Watch Survey: Global Best Investment View) over the 5 years to 31 March 2012.

	MMSGF Global	Median market-linked manager
Annualised return	8.19%	8.07%
Std deviation of monthly returns	0.59%	3.09%
% negative monthly returns	0.00%	38.33%
Max drawdown	0.00%	-21.44%

The MMSGF Global delivered a return of 0.12% p.a. ahead of the average market-linked portfolio. This return was achieved with a much lower level of volatility than the average market-linked fund. The MMSGF Global also had no negative monthly returns over this period, compared to the average portfolio which had negative monthly returns in more than 1/3rd of the months over the period and experienced a maximum drawdown of 21.44%. The MMSGF Global clearly delivered superior risk-adjusted returns over the 5 years to 31 March 2012.

2.2 Bonus Outlook

The funding levels of both the Multi-manager Smooth Growth Fund Global and Local increased over the last quarter and are well above 100% as at 31 March 2012. The higher funding levels enabled us to increase bonuses over the quarter. Although we will continue with our approach of declaring long-term sustainable bonuses rather than trying to maximise short term bonuses, the portfolios are well positioned to deliver bonuses in excess of underlying asset returns over the medium term.

3. Asset allocation

3.1 Strategic Asset and Manager Allocation

There have been a number of changes to the strategic asset and manager allocations over last quarter. These changes are:

- The allocation to global bonds was reduced to 0% and the allocation to local bonds was increased by 3%. Global developed market bonds are considered to be very expensive on a longer term view. Local bonds offer better value than global developed market bonds. The allocation to global bonds was therefore reallocated to local bonds. The increased allocation to local bonds was allocated equally to Prescient Investment Management and Prudential Portfolio Managers.
- The absolute return mandate of the MMSGF Global has been amended to allow the inclusion foreign assets. This will allow the manager to access a wider range of asset classes, and in doing so improve the risk / return profile of the portfolio. The manager can invest up to 25% of assets in this mandate in foreign assets.
- The strategic allocation of the MMSGF Global to foreign investments has been reduced from 17.5% to 15%. This change was required to keep the expected total allocation to foreign assets unchanged following the amendment of the absolute return mandate to include foreign assets. The strategic allocation to RSA Equities was also reduced by 0.50% and the allocation to Global Equities was increased by 0.50% to maintain the overall exposure to equities.
- The allocation to Brandes has been reduced. After a thorough review of Brandes, we have concluded that we have less conviction in Brandes' ability to deliver outperformance of its benchmark in future. We have therefore reduced the allocation to Brandes by 1/3rd. We will be monitoring the position closely over the next year and may reduce the allocation to Brandes further.
- Veritas Asset Management (UK) has been added as a global equity manager. Part of the allocation to Brandes was reallocated to Veritas.

The tables below set out the current strategic asset and manager allocation.

MMSGF Global

Asset Class	Manager			
RSA Equities	Allan Gray (12.33%)	Foord (12.33%)	Abax (12.33%)	
RSA Bonds	Prudential (5%)	Prescient (5%)		
Absolute Return	Coronation (20%)			
Listed Property	Catalyst (2.5%)			
RSA Cash (5%) Direct property (5%) SRI (2.5%)	Momentum (12.5%)			
Fund of Hedge Funds	Brait (3%)			
Global Equities	Orbis (5%)	Marathon (5%)	Brandes (3.33%)	Veritas (1.67%)

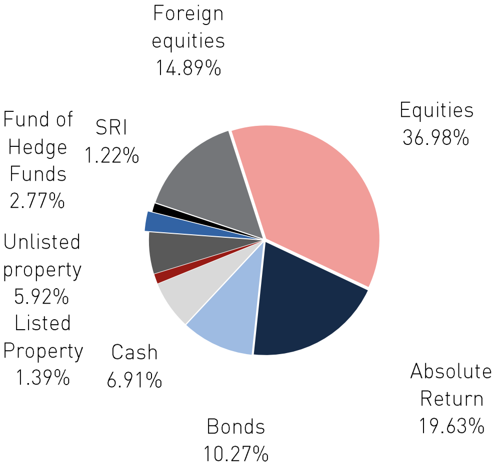
MMSGF Local

Asset Class	Manager		
RSA Equities	Allan Gray (17.33%)	Foord (17.33%)	Abax (17.33%)
Absolute Return	Coronation (20%)		
Listed Property	Catalyst (2.5%)		
RSA Bonds	Prudential (5%)	Prescient (5%)	
RSA Cash (5%) Direct Property (5%) SRI (2.5%)	Momentum (12.5%)		
Fund of Hedge Funds	Brait (3%)		

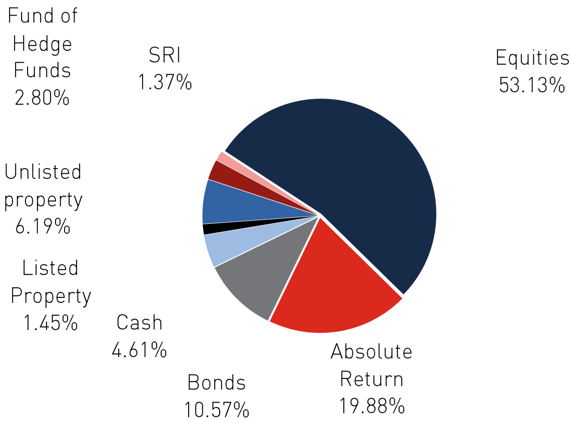
3.2 Actual Asset Allocation & Top 10 Equity Holdings

The asset allocations of the portfolios as at 31 March 2012 are shown below.

MMSGF Global



MMSGF Local



The table below contains the top 10 equity holdings as at 31 March 2012.

Top 10 Equity Holdings	% of Equity Portfolio	
	MMSGF Global	**MMSGF Local**
Sasol	6.77%	6.77%
Billiton	5.63%	5.63%
British American Tobacco	5.40%	5.40%
SABMiller	5.35%	5.35%
Anglo American	5.10%	5.10%
MTN	3.82%	3.82%
Remgro	3.23%	3.23%
Standard Bank	3.11%	3.11%
Naspers	2.42%	2.42%
Anglogold	2.36%	2.36%
Sub-Total	43.19%	43.19%
Balance of Equities	**56.81%**	**56.81%**
Total	**100.00%**	**100.00%**

4. Product updates

4.1 Product name changes

The product names have been changed from Metropolitan Multi-manager Smooth Growth Fund Global and Local to Momentum Multi-manager Smooth Growth Fund Global and Local. This change to the product names brings the product branding in line with the branding of the business. It is important to note that the products are still underwritten by Metropolitan Life Ltd.

4.2 Revised Principles and Practice of Financial Management

MMSGF Global and Local are managed in accordance with the Principles and Practices of Financial Management (PPFM) applicable to Momentum Employee Benefits' smooth bonus products underwritten by Metropolitan Life Ltd. The PPFM sets out the principles and practices that Momentum follow in exercising the discretion required in the management of these investment products. It has become necessary to revise the PPFM to incorporate certain changes to the principles described in the PPFM. In addition to this change, we have also taken the opportunity to update the PPFM to incorporate a number of other changes. The revised PPFM will become effective on 1 August 2012. The revised PPFM can be obtained from the Momentum Employee Benefits website (www.momentum.co.za/EBcorporate).

5. Review of investment markets

by Abax Investments

The ALSI recorded a total return of 6.0% for the first quarter of 2012. Given the rand appreciation (+5.4%), the US dollar return measured +11.8%. To put this into perspective, this is similar to the return of the MSCI World Index since 1 January 1999. Risk assets have rallied sharply in 2012, with several equity markets flirting with cyclical peaks, including the ALSI which reached an all-time high during the quarter. Resource stocks continued their disappointing underperformance.

There continue to be signs that the US economy is gathering momentum, driven by the lagged effects of extremely loose monetary policy and expansionary fiscal policy. The employment picture is improving (unemployment dropped to 8.2% in March) and increases in housing starts and new home sales suggest a housing market that is starting to recover. For the long run, their record sovereign borrowings at record low interest rates remain a concern.

On the other hand, growth in Europe has been slowing due to high levels of sovereign debt and increasing fiscal austerity. Dire figures on manufacturing activity and unemployment highlight the scale of the eurozone's economic problems. Eurozone Manufacturing PMI dropped to 47.7 (from 49.0 in February) and unemployment in the eurozone reached its highest level in approximately 15 years with more than 17 million people (10.8%) out of work.

China's economic fate remains closely tied to that of its export customers in Europe and the US. Surprisingly, China's official PMI numbers rebounded sharply in March, suggesting that the manufacturing sector is beginning to regain momentum. However, it should be noted that the HSBC survey (which focuses more on smaller factories than the large state-owned enterprises captured in the official data) painted a gloomier picture. Notwithstanding the conflicting data, we still expect a soft landing in China. There remains significant scope for China to act by reducing interest rates and the reserve requirement ratio. To date, policymakers have been slower to ease than we originally anticipated.

In South Africa, prospects are still heavily dependent on developments in the global economy. During the month, the South African Reserve Bank (SARB) left the policy rate unchanged at 5.5%. The SARB continues to manage the trade-off between growth and inflation - the current divergence (rising inflation and slowing growth) makes for a challenging balancing act. There is an increasing perception that interest rates may rise toward the end of the year, as opposed to only materialising in 2013. Resource stocks continue to look attractive on valuation grounds, but uncertainty over China's continued appetite for commodities is putting a damper on share prices.

Global conditions continue to be highly uncertain notwithstanding the "green shoots" in the US and signs of a soft landing in China. The eurozone economy remains extremely sluggish despite efforts to boost confidence and liquidity conditions. Despite this uncertainty, equity markets remain elevated. Thus we think it prudent to balance one's holdings between defensive and cyclical, growth stocks. We continue to prefer stocks with strong balance sheets, strong cash generation, defensive business models and exposure to Asian growth markets.

6. Contact details

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